

MANAGING COST RISK

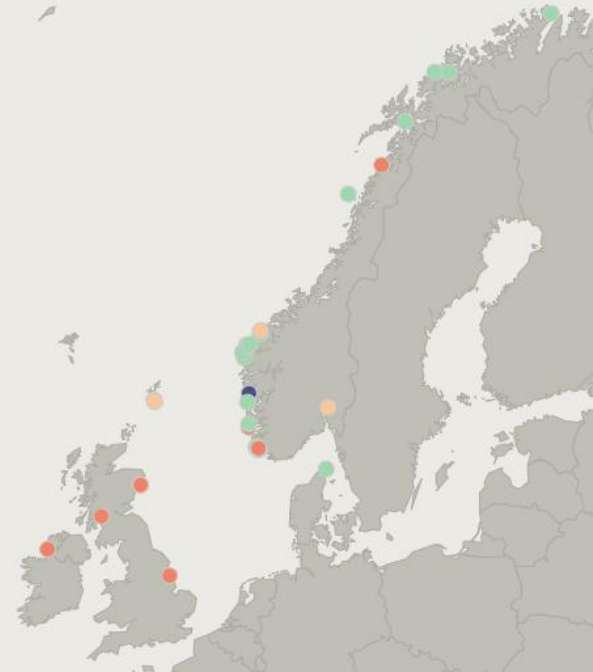
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Pelagia – who are we?



- Leading fish processor – 26 factories
- Norway, UK, Ireland, Denmark
- Ca 150 000 M³ freezing store capacity
- 765 000 tons raw material (2017 Auction)
- We need to produce in the fishing seasons
- High energy consumption, especially winter and autumn when energy prices are high



Hedging – what do we mean?



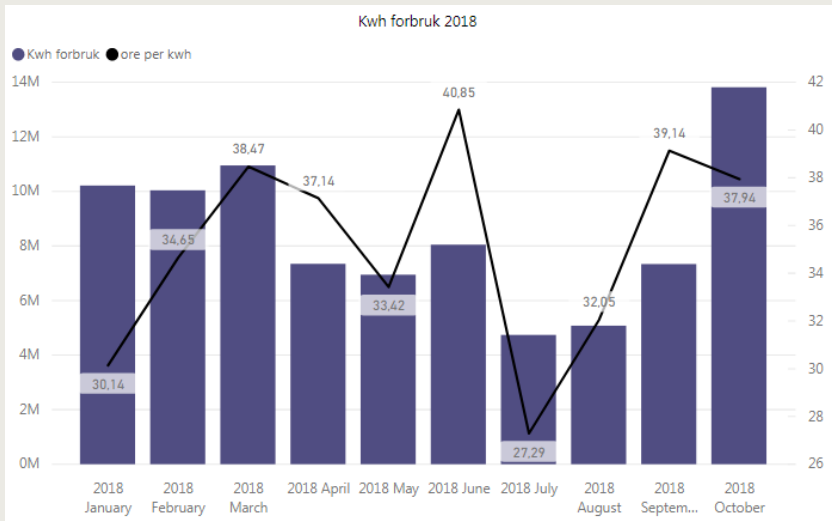
Hedging is all the things we do
when we buy OR sell

AS LONG AS we stay within my
needed physical volume

Pelagia – our energy strategy

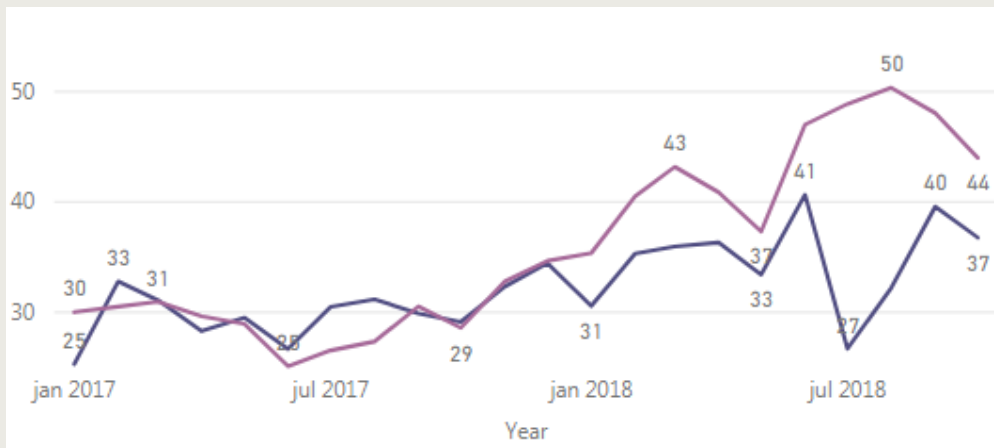


- We need predictability – but also flexibility to follow the market when prices fall
- We now hedge up until 80% of our consumption, up from 60%



Pelagia – status active hedging

- We decided active hedging – buying and selling
- We benchmark against spot prices
- 2017 – low spot, our cost was close to spot
- 2018 – rising spot, our cost not rising
- 2018 so far: Our cost is ca 8,2 øre/kwh lower than spot



Do you need a hedging strategy



1. The more volatile the market – the more need for hedge
2. A flat market – no need to hedge or ?
3. Hedge against increasing prices and decreasing prices

Why do we sell when we are buyer ??



- We expect that active hedging gives us lower cost and more control
- Easier to take decision, when we know we can change position
- Market is clearly trending:
 - We want to be protected in a rising trend
 - We want to follow spot in a falling trend
- We change position to follow the trends
- We recommend to start with 20-30% of your cost in active hedging, and increase when you have experience

~10 years experience in managing electricity cost



Why do we hedge?

1. To reduce ups and downs in the electricity price
2. Know more about the cost in the future
3. Reduce the cost

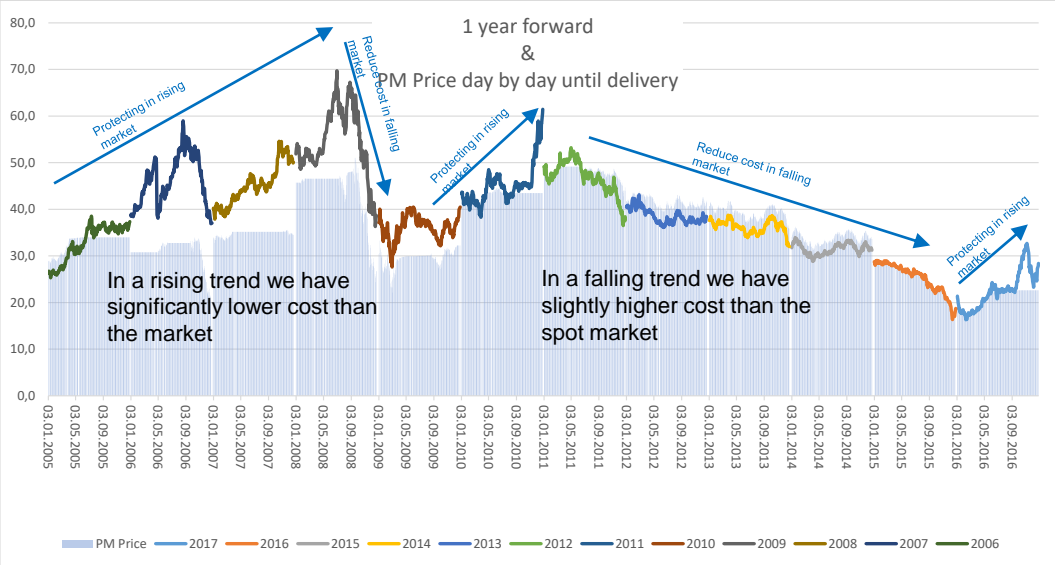
How do we hedge?

1. Buy when the price increase
2. Sell when the price is falling



= 90 % hedged

**IF THE CONTRACT
PRICE INCREASES OR
DECREASES FOR FIVE
WEEKS IN A ROW:
– WE DO SOMETHING!**



Gasoil – Yes a volatile market as well!



How we start with Gasoil hedging:



- We start carefully
- Basis: No hedge on 80% of the cost
- Challenge Strategy: 20% active hedging
- If the challenge strategy beat the basis
Increase from 20 to 40%

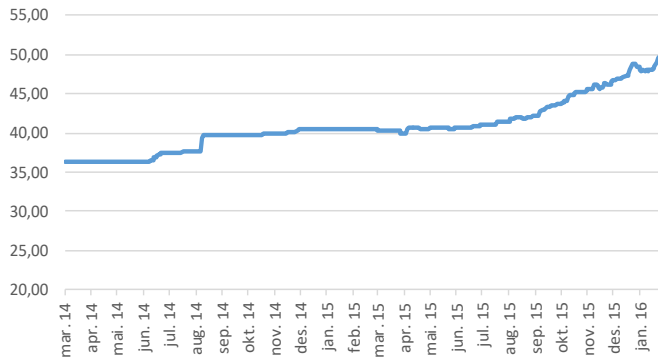
Salmon – very trending market



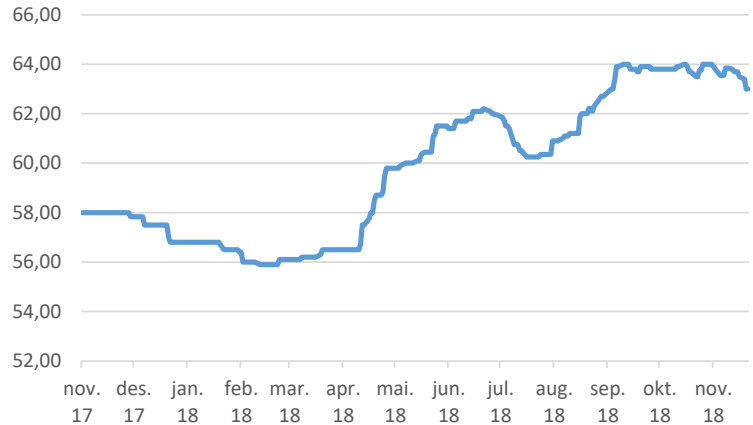
Y-2012 contract



Y-2016 contract



Y-2019 contract



Concluding remarks

- We started sceptical:
 - Spot was good, or is there a better strategy?
 - Why should we both buy and sell?
- We sought advice and made a strategy
 - and got buy-in from management
- We started conservatively with only a part of our volume
- You know the market!
 - Teamwork
 - Defined rules
 - Patience, loyal to the strategy
 - Budget security
- We do not need to make many decisions
- 1-5 decisions a year is probably more than enough in salmon!

Last, but not least...

... remember the
glass of water!

This glass of water illustrates that buying and selling are both two sides of the same strategy.

The glass is the boundry

- The filling level is a function of the market





THANK YOU!