Agenda

- Dutch oil sector in perspective
- Short overview of COVA
- General overview of impact of oil price on a Compulsory Stockholding Entity (CSE)
- Examples of handling oil price volatility
Oil price history: never a dull moment
A European context: oil important part of energy mix

Source: Eurostat, nrg_100a, 2016
Dutch energy balance: an oil throughput country

Source: Eurostat, nrg_100a, 2016
Oil storage capacity continues to grow in and around NL

Storage capacity Amsterdam, Rotterdam, Antwerp (ARA)

Source: Odfjell, 2016
Rotterdam: oil conversion and throughput centre

Source: Port of Rotterdam
COVA: Dutch Stockholding agency

- Oil crisis 1973 -> IEA 1974, 90 days of net import
- (I)COVA 1978, based in Rotterdam
  - Holding of oil stocks at lowest possible costs
  - Institute with legal task, non-profit foundation
  - (Law) Wva 2012, yearly obligation by Ministry Economic Affairs
  - National obligation: 80% COVA, 20% oil sector
  - Independent supervisory board appointed by Ministry
  - Stocks management by managing director and staff (8)
- Stock withdrawal; Gulf war (1991), Hurricane Catrina (2005), Libya (2011)
- Cost covered through excise duty fee
COVA: stocks and obligation

<table>
<thead>
<tr>
<th>Year</th>
<th>Total obligation (kt c.o.e.)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2.971</td>
<td>3.831</td>
<td>3.564</td>
<td>2.847</td>
<td>3.048</td>
<td>3.364</td>
</tr>
</tbody>
</table>

Obligation per product (kt)

- **Gasoline**: 239, 320, 303, 225, 259, 265
- **Gasoil**: 458, 643, 578, 437, 452, 512
- **Kerosine**: 9, 29, 31, 50, 52, 54

Source: COVA

Business process

- Only selected suppliers
- Tender procedures for
  - Purchasing
  - Selling
  - Refreshment
- The oil price is based on Platt’s monthly average
  - Oil is traded in dollars ($)
  - COVA in Euro’s (€)
  - Tickets are in both, dollars and Euro’s
Impact of oil price on stockholding agencies

- Oil price in general has a limited impact for a CSE

- However the following attention points:
  - Oil price volatility might require **hedging** of transactional price risks to minimize cash flow risks (see next slide)
  - Oil price volatility can impact market price structures; market price structures can be used to **optimize the timing of refreshments and/or storage contract renewals** (see next slide)
  - Financial impact on costs is limited; however some cost components typically vary with oil price (e.g. insurance fees)
  - Rapid oil price decline has an impact on **stock valuation**, assuming accounting rules require lowest of acquisition costs or market price
  - And stock build in a historical high oil price market can be a risk, especially when a CSE is **highly leveraged with debt** (increased leverage can lead to high priced debt, assuming financing comes from commercial markets)
Using hedging to mitigate transactional cash flow risks

Example transactional risk

Purchase

Title transfer

Purchase or sale transactions are typically set at average future Platts prices in USD.

An uncertain future price leads to 2-types of cash flow risks:
- Product price
- Currency

Risks can be mitigated through a hedge strategy (see table below)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
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<tbody>
<tr>
<td>Product price</td>
<td>Swap of variable price to fixed price</td>
</tr>
<tr>
<td>Currency</td>
<td>Forward purchase or sale of USD</td>
</tr>
</tbody>
</table>

SWAP: from variable to fixed price
When fixed price at the moment of title transfer is lower than the average market price (Platts average month), the SWAP will lead to a payment.
Making use of market conditions in 2015-18

- Markets moved to backwardation since second half 2017
- Backwardated markets are a good moment for refreshments: sell high, buy low
- Moreover, market structure has an impact of storage and ticket prices

<table>
<thead>
<tr>
<th>Market structure</th>
<th>Contango</th>
<th>Backwardated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storage costs unit price</td>
<td><img src="source" alt="Graph" /></td>
<td><img src="source" alt="Graph" /></td>
</tr>
<tr>
<td>Ticket unit price</td>
<td><img src="source" alt="Graph" /></td>
<td><img src="source" alt="Graph" /></td>
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</table>

Source: Reuters – Platts future price quotations
Conclusions

• Oil price has a limited impact on compulsory stock entities (CSE’s)

• However good to have a clear strategy on:
  – Hedging
  – Balance sheet structure and impacts on debt

• And follow the markets closely to plan your operational transactions!
Thank you.