Energy outlook-Spring 2009

BERGEN ENERGI

A LEADING INTERNATIONAL ENERGY BROKER

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EXECUTIVE SUMMARY

Output and inflation have fallen drastically around the world. Global GDP growth in 2009 is projected to be below -1.0%, the weakest annual growth rate since 1970s. The consensus view seems to be that the recession will run at least through the end of the year, which would make it the longest and deepest since the 1930s. Although we cannot rule out the risks of a deeper global downturn, we believe, large policy stimulus programs will help improve the outlook and shorten the recession's duration. We believe the global recovery will likely be relatively modest. The debt overhang and the state of the financial system in some key economies imply this is not a typical business cycle, and the growth reversal will not be sharp as in the past. Output growth is unlikely to go back to the pre-crisis levels.

Oil

Oil prices are likely to fluctuate within their recent range in the short-term, at least until there are signs that current very bearish US oil inventory dynamics have turned. We expect the market to be volatile into 2Q/3Q 09, but its direction will be higher. 2H09 fundamentals will be stronger, supporting firmer prices later this year. We believe OPEC's measures have more than compensated for the fall in demand

Gas

In the European gas market, a weak macroeconomic environment in 2009 makes it difficult to argue for much upside when it comes to price. Support for spot prices will not likely come from demand, as gas use begins its seasonal drop towards a low point over the next six months in a year when demand losses seems to be the norm. Our forecast of European supply and demand balance in 2009 suggests we could see periods of oversupply this year. We also see a global LNG market that is on the verge of oversupply.

Coal

The global coal markets have also been hit by the sell-off in commodity prices and the economic downturn, with industrial electricity demand showing weakness. With global demand for manufactured products falling off sharply and large scale steel production cuts, coal demand in China and other rapid growing economies have declined.

Power markets

The focus in the power market has in the recent period, in addition to the dramatic drop in fuel prices, been the reduced demand for electricity. We expect that the weak economy in Europe will keep demand for electricity low at least throughout this year. Levels on all fossil fuels and CO_2 allowances were roughly twice as high in Q1-2008 which has reduced marginal costs for power generation this year dramatically and pushed spot prices to lower levels. The forward markets continued down in the first part of Q1 but has recovered again in the second part. With expectations of fuel markets bottoming out and demand staying low, we expect the European forward markets to stay range bound within the remains of the second quarter.

Bergen harbour

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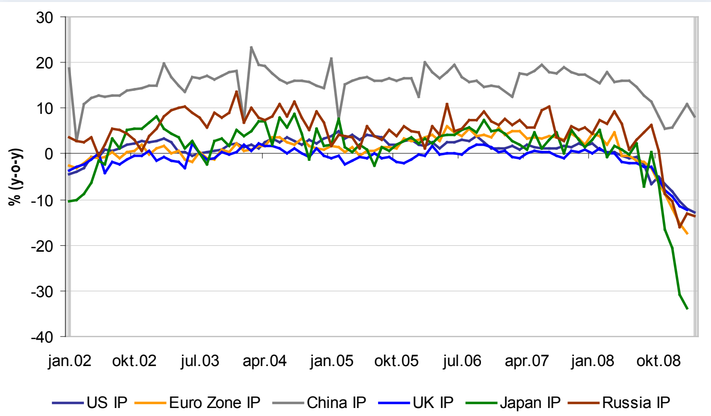
Economic Outlook and Strategy

Output and inflation have fallen drastically around the world. Global GDP growth in 2009 is projected to be below -1.0%, the weakest annual growth rate since 1970s. The consensus view seems to be that the recession will run at least through the end of the year, which would make it the longest and deepest since the 1930s. A severe recession in the OECD and sharp deceleration in the emerging markets are expected for H1 2009. With lower path of expected future output, expected future inflation expectations is also dropping. Output gaps — the differences between potential and actual output — are widening almost universally. We expect further widening through the first half of this year. In the face of these large and widening output gaps, and with money multipliers falling across a wide range of countries, concerns about inflation should be fading. The market, though, remains concerned about inflation in the longer term, as evidenced by high implied nominal forward yields at the long end of some countries yield curves.

INDUSTRIAL PRODUCTION (Y-O-Y %



The outlook for the global economy is very dependent on developments in the credit markets. We assume a gradual improvement in the credit markets, with spreads and activity returning to "pre-Lehman" levels by Q3-2009. Developments in the past months have been moderately encouraging. Economic news will likely continue to be adverse through most of 1H2009. However, markets typically bottom out ahead of the economy bottoming out. While returns in equity markets 3-6 months after a bottom are sharp. In our view, investors will flock to the countries who can achieve any growth. The weakest growth is expected in the United States, Japan and Europe. The strongest is forecasted in Qatar, China, India, Nigeria, Peru and Indonesia. China alone contributes 80% to 2009 global growth.

Although we cannot rule out the risks of a deeper global downturn, we believe, large policy stimulus programs will help improve the outlook and shorten the recession's duration. But expansionary fiscal policies, like monetary policy, take awhile to become effective. There has been a further expansion of central bank and government policy initiatives aimed at resolving the financial crisis, unblocking lending markets and supporting the global economy. Signs of stability have begun to appear in credit markets. So far this year, new issuance has been strong and demand from investors has been robust. LIBOR spreads continue to narrow. Equity volatility is lower, with emerging markets and many cyclical sectors outperforming. Measures in high frequency economic data — industrial production (IP), exports, PMIs (Purchasing Management Index) and consumption — are becoming less uniformly negative, implying that, barring new shocks, we are likely near the bottom of deteriorating economic forecasts. There are other signs that existing policy measures are beginning to cut into the crisis. In the United States, for example, mortgage refinancing has picked up in the wake of falling mortgage rates, while assetbacked security spreads are responding to the broader programs of asset purchases announced by the Fed and the Treasury. In China, the Q1 IP also rebounded sharply, to 11.7% q-o-q seasonally adjusted annual rate (saar) from -8.8% in Q4. Indeed, most indicators suggest that economic activity in China has already started to pick up: money and credit growth have accelerated and purchasing managers surveys have reversed more than half their declines. The most recent production and sales data in Korea also hint that the period of severe destocking may have passed. A rebound in the rest of emerging Asia seems to have begun a bit later and evidence is still quite tentative, but given the high levels of trade and industrial integration among the Asian economies, we believe that recovery is now underway in emerging Asia generally and growth will be solid in the coming months. It is revealing that the non-Japan Asian equity markets have massively outperformed thus far this year; it shows that in the current environment of extreme investor pessimism, better-than-expected economic data can have a major market impact.

We believe the global recovery will likely be relatively modest. The debt overhang and the state of the financial system in some key economies imply this is not a typical business cycle, and the growth reversal will not be sharp as in the past. Output growth is unlikely to go back to the pre-crisis levels.

Policy Interventions and Quantitative Easing

The weak economic outlook has triggered policy responses in a number of countries. This includes both traditional fiscal and monetary measures, but also unconventional monetary measures and direct efforts at stabilizing banks and credit markets. We have seen policy rate cuts and programs of fiscal expansion in both industrialized and emerging countries. The IMF estimates that for the period 2008-2010, the world's nine largest economies have announced fiscal expansions of 3.4% of their GDP.

Less conventional fiscal and monetary moves are also used. With policy rates already effectively at zero in the United States, Japan, Switzerland and the United Kingdom, these countries have begun quantitative easing. The Fed's announcement in March 2009 to spend US$300 million on the purchase of U.S. Treasuries, 19% of expected issuance in the 2-10 year maturities, and raise its purchases of agency mortgage-backed securities to $1.25trn (from $750bn) and of agency debt to $200bn (from $100bn) is just the most recent example of unconventional monetary moves. Japan and the United Kingdom are also money financing fiscal expansions. In the case of Japan, the central bank has increased its planned purchases by ¥4.8 trillion, to a total of 15% of expected issuance. And the Bank of England's announced purchases are about a quarter of expected issuance.

CENTRAL BANK RATES		START OF CYCLE		
OFFICIAL RATE % PER ANNUM	CURRENT	DATE	LEVEL	LAST MOVE
Fed funds rate	0-0.25	Easing: 17 Sep 07	5,25	Dec 08 (-75-100)
BoJ overnight rate	0,1	Easing: 30 Oct 08	0,5	Dec 08 (-20)
ECB repo rate	1,25	Easing: 8 Oct 08	4,25	Apr 09 (-25)
BOE bank rate	0,5	Easing: 6 Dec 07	5,75	Mar 09 (-50)
Swiss National Bank	0-0.75	Easing: 8 Oct 08	2,75	Mar 09 (-25)
Norges Bank	2	Easing: 16 Oct 08	5,75	Mar 09 (-50)
Riksbank	1	Easing: 14 Oct 08	4,75	Feb 09 (-100)
Bank of Canada	0,5	Easing: 4 Dec 07	4,5	Mar 09 (-50)
China: Working capital rate	5,31	Easing: 12 Sep 08	7,47	Dec 08 (-27)
Hong Kong: Base rate	0,5	Easing: 19 Sep 07	6,75	Dec 08 (-100)
India: Repo rate	5	Easing: 1 Oct 08	9	Mar 09 (-50)
Korea O/N call rate	2	Easing: 8 Oct 08	5,25	Feb 09 (-50)
Poland: 2w repo rate	3,75	Easing: 26 Nov 08	6	Mar (-25)
Russia: refi rate	13	Tightening: 2 Feb 08	10	Nov 08 (+100)
South Africa: repo rate	9,5	Easing: 11 Dec 08	12	Mar (-100)
Turkey: CBT rate	10,5	Easing: 20 Nov 08	16,75	Mar (-100)
Brazil: SELIC rate	11,25	Easing: 21 Jan 09	13,75	Mar 09 (-150)
Chile: Monetary policy rate	2,25	Easing: 8 Jan 09	8,25	Mar 09 (-250)
Mexico: Overnight rate	6,75	Easing: 16 Jan 09	8,25	Mar 09 (-75)

Besides money-financed fiscal expansions, central banks are also acquiring claims on the private sector in their efforts to bolster either capital markets and or bank balance sheets. These expanding central bank balance sheets are raising concerns that the efforts will ultimately be inflationary.

Our baseline forecast does not see a big narrowing of output gaps or bounce in inflation through the end of 2010, and there is a risk that deflation will be the problem rather than inflation if the current set of policies fails to restore confidence and growth.

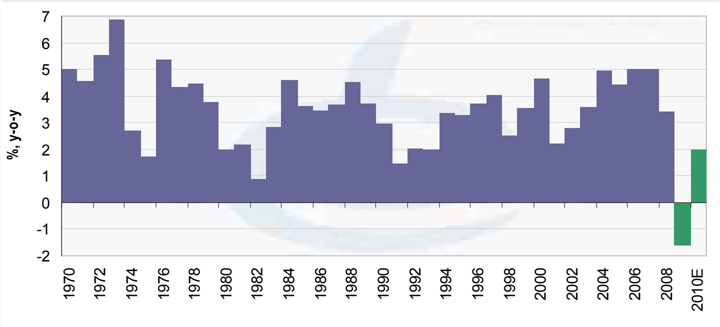
SUMMARY OF KEY FISCAL STIMULI FOR 2009			
	TOTAL STIMULI		
	($ BN)	% GDP	REMARKS
US	245	1,7	25% infrastructure spending
China	170	3,5	75% infrastructure spending
Euro area	180	1,5	40% is in the form of tax cuts
Japan	111	2	30% direct transfers
Russia	60-64	5,3	Strong short-term stimulus
India	9	1	Fiscal deficit 09 ~ 10% of GDP

In the aftermath of the present financial crisis the governments will face a dramatically different fiscal position. The fiscal deficits needed to stimulate demand in the short run will result in higher debt in the long run, in many cases by significant amounts. Consequently, post crisis the government will be significantly leveraged, and will require the adoption of a more flexible fiscal policy stance. Second, in several countries, the financial landscape will look dramatically different, comprising a significantly consolidated financial sector, with a large public presence. Governments will face a number of questions about how to manage their presence in the financial sector. The challenge here could be how to maintain a level playing field with privately owned institutions. A subsequent challenge would be to determine 'if' and 'when' allow the return of the financial sector to private hands.

Economic outlook

Amongst the major economies, the outlook for export-oriented Japan looks especially weak. The Japanese economy will likely to contract by 5%-5.5%. Despite being the source of many of the problems, we expect the US to outperform the other developed economies, partly as a result of a more aggressive policy response. The prospects for Europe look grim. Sharply falling exports and declining domestic demand are the main drivers of deep recession. Tighter financing conditions contribute to the expected plunge in capital expenditures and large cuts in employment. A huge loss in net wealth will slow consumption. The Euro Area will probably drop by around 3%-3.4% this year. As expected, unemployment is increasing sharply, particularly in Ireland and Spain. The U.K. economy continues to contract at an alarming speed. We now expect GDP to fall by around 3.5%-4% this year, led down by sharp declines in consumer spending and investment. As for China, we believe that fiscal stimulus will support growth and improving financial conditions should limit downside risks. We expect the Chinese economy to grow by 7%-7.2% in 2009. We believe zero interest rates will continue. Fed funds are already just 0.25%. Euro rates have been cut to 1.25%, but are expected to drop to 1.0% over the rest of the year. Japanese call money of just 0.1% is forecast in 1H09. UK rates are 0.5% and expected to stay there for the foreseeable future. And we do not expect rates to turn up until 2H10 at the earliest. In fact, with most central banks having already cut rates to negligible levels, they have turned to other policy measures to ease financial distress.

GLOBAL REAL GDP GROWTH, FORECASTS



We believe that emerging economies in Asia will lead a recovery. Given the high levels of trade and industrial integration among the Asian economies, we believe emerging Asia generally will grow together and growth will be better than expected in 2H2009. The massive stimulus provided by the Chinese government will help. Premier Wen has assured that more stimuli can be added whenever necessary. So, despite uncertainties, keeping growth near 8% this year appears reasonable. There are many differences between emerging Asia and the rest of the world, and all economies will not recover on the same time schedule. That said, global financial and commercial integration is high, and it is worth noting the striking coincidence of the start of the downturn across almost all countries, despite very different domestic demand conditions. Putting it together, we expect regional economic activity to stabilize near the middle of the year, with a recovery in year-on-year growth rates in H209.

FX outlook

As for FX markets, we expect some further short-term weakness for the US$ against the euro. A further loosening of already expansionary US monetary policy is likely to leave the USD vulnerable, as foreign appetite for US Treasuries could drop. Foreign buying has accounted for 30-40% of Treasury issuance over the past few years, and the US is still running a current account deficit that will not improve further. However, we see limited further USD downside against the EUR in the short term, as we would expect to see more rate cuts from the ECB reversing that trend later in the year. This will push short-term and long-term interest rate differentials in favour of the USD. We forecast a year-end EUR/USD of 1.40. GBP is weak

EUR/USD

relative to the EUR. Drivers of GBP weakness is partly due to a high risk premium, illiquidity (the EUR is perceived as a safer currency to hold), a fall in the interest rate differential, structural worries facing the UK and increasing concerns about public finances and other policy issues. We think that GBP appreciation is not likely to be rapid over the next few months, as risk appetite is unlikely to come flooding back into the market and UK data will likely remain fairly grim. We expect EUR/GBP at around 0.85 over six months.

Commodities

After the Wild Ride of 2008, commodity prices will probably be range bound for a while in 2009. The stunning rise and fall of commodities during 2008 would support this range bound view. We think a year like 2008 will be hard to replicate. Weak global economic growth will work to restrain energy prices but possibly at the long run expense of taming the investment impetus for energy sources. As always, geopolitical risk events can supersede economics. There is also a long-lead time for new supply to arrive to market. The hypothetical new oil field won't be at full production for another 2-3 years, at which point oil demand in China and India will be booming again.

RJ/CRB COMMODITY INDEX

We believe a return of investor interest for commodities is only likely with a recovery in the economy which is not expected until late 2009. By then, inflationary pressures can emerge, given growth oriented central bank policy, prompting a return of inflation hedge trades in commodities and in turn a recovery in the interest for commodities. We believe production cuts will help drive oil, oil-indexed gas contracts and metals back up towards the end of 2009. Weakening demand, coupled with a rapid speculative unwind in commodities and increasing shorts has driven the price collapse in commodities. Production is being curtailed more rapidly than in previous downturns. Production cuts should eventually minimize the building of inventories, allowing a rapid price response when demand rebounds. Projects are also being cancelled. A lack of incentives to bring on oil and metal production and reduced funding availability has seen many projects sidelined. Supply cuts have helped stabilized prices, notably in the oil markets.

In Q1 2009, several commodity markets have broken the strong correlation that persisted with the downturn in global growth. Perhaps the most significant is copper.

ECONOMIC OUTLOOK AND STRATEGY Q2 2009

While lagging data on copper demand have continued to worsen this year, copper has been one of the biggest commodity gainers of the year so far, with prices up 40% YTD. Fundamentally, Chinese imports have supported copper. But there is a large degree of uncertainty as to how much is due to temporary consumer restocking (perhaps boosted by buying for state reserves) and how much reflects a contraction in supply due to the drop in prices and lower levels of generation. Copper cathode imports have surged exceeding the early 2007 peak but total copper imports are up more modestly as scrap and concentrate imports fall. Latest data for February shows US copper demand is plummeting still further. Copper shipments are down 40% y-o-y, 20% m-o-m. Japanese February copper shipments fell 45% y-o-y, 12% m-o-m.

The current rally in global equities and commodities has been the biggest since the bear market began. Global equity indices are up by more than 20%. But we believe that a recovery in credit markets is a necessary pre-requisite for a sustainable recovery in commodities and equity markets. Such conditions are not yet present in credit markets this cycle. Spreads remain at extremely high levels, while default rates are still rising. GDP will likely contract for the rest of the year in most regions, but we think we could be past the most intense period of the recession.

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Oil demand

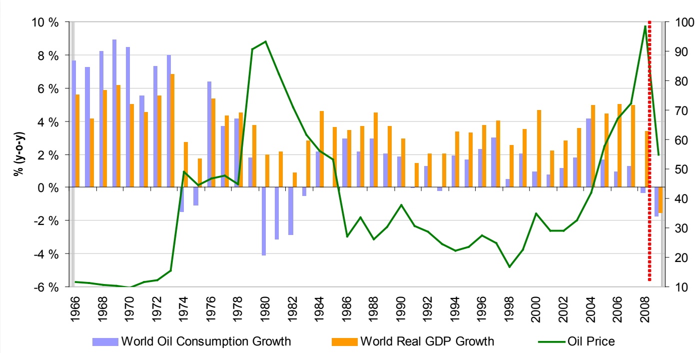
We expect oil demand will fall by 1.5mb/d in 2009. 2008 was the first year of falling demand since 1992 and prior to that 1983. The IEA's data show a clearly deteriorating demand trend through last year, with a 0.5mb/d fall in 3Q followed by the 2.2mb/d fall in 4Q. For the year as a whole, demand fell 400k b/d (0.5%). We expect we will not see 2007 absolute demand levels again until we are moving through 2011.

The precedent of the last pronounced economic downturn, from 1980-83, was four years of falling demand, with a loss of 6.5mb/d. Yet, global GDP growth over the same period was positive. The EIA global oil demand forecasts for 2009 shows a year-on-year contraction of 1.4mb/d. In IEA recently released monthly oil market report global oil demand is expected to fall by 2.4mb/d in 2009. The latest OPEC monthly oil report shows a decline of 1.4mb/d year-on-year.

BE ESTIMATES

M b/d	2007	2008	2009
Global Oil Demand	86,1	85,7	84,2
Non-OPEC Supply	50,2	50,1	50
OPEC Supply	35,4	35,9	33,3
Stockbuild	-0,5	0,3	-0,9

WORLD OIL CONSUMPTION AND GDP GROWTH AND REAL OIL PRICE



OPEC production

Almost all OPEC members reduced output in March; a quota compliance rate of more than 90% and other factors confirmed that members cut aggressively. However, OPEC is not expected to implement further production cuts in the near term and supply-side catalysts thus appear unlikely. Meanwhile, crude oil prices have recovered from February's lows as OPEC cuts have stabilized balances and as interest by the investment community starts to return.

Brent bottomed on February 18 and rose for eight straight weeks, to \$53/bbl from \$39.50/bbl. However, we believe the rate of increase started to slow thereafter in reaction to forecasts that OPEC would not implement further production cutbacks.

OPEC OUTPUT AND PRODUCTION PLANS

	PRODUCTION			QUOTA		OVER PRODUCTION
M b/d	FEB-09	MAR-09	M-O-M		FEB-09	MAR-09
Saudi Arabia	7,86	7,79	-0,07	8,05	-0,19	-0,26
Iran	3,69	3,62	-0,07	3,34	0,35	0,28
Iraq	2,39	2,34	-0,05	n.a	n.a	n.a
UAE	2,21	2,2	-0,01	2,22	-0,01	-0,02
Kuwait	2,14	2,12	-0,02	2,22	-0,08	-0,11
Qatar	0,7	0,7	0	0,73	-0,04	-0,04
Nigeria	1,79	1,79	0,01	1,67	0,11	0,12
Libya	1,55	1,52	-0,04	1,47	0,08	0,05
Algeria	1,25	1,23	-0,02	1,2	0,04	0,02
Venezuela	2,07	2,05	-0,02	1,99	0,08	0,06
Angola	1,67	1,62	-0,05	1,52	0,15	0,1
Ecuador	0,45	0,44	-0,01	0,43	0,01	0,01
Total(ex Iraq)	25,36	25,06	-0,29	24,85	0,51	0,22

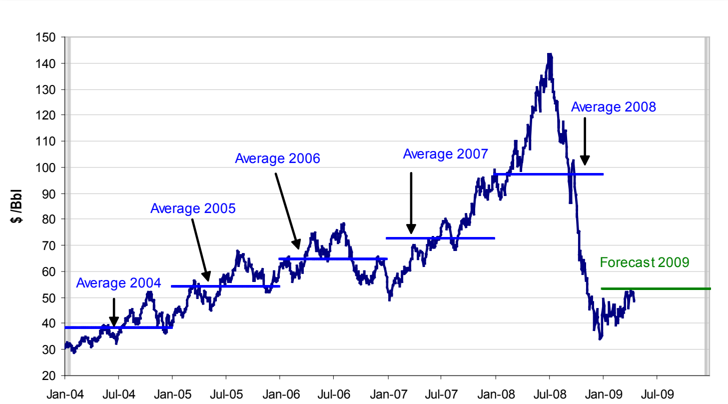
Oil price outlook

The oil market has ignored the bearish EIA inventory reports lately showing a large builds in crude oil inventories, at the highest level since June 2007. Oil's move up came despite the IMF's revision of world GDP growth to between -0.5% and -1%, but that said, the IMF is, to an extent, playing catch-up to the consensus view of a 2009 GDP growth rate of about -1.5%. Oil prices are likely to fluctuate within their recent range in the short-term, at least until there are signs that current very bearish US oil inventory dynamics have turned. We expect the market to be volatile into 2Q/3Q 09, but its direction will be higher. 2H09 fundamentals will be stronger, supporting firmer prices later this year. We believe OPEC's measures have more than compensated for the fall in demand; crude oil could rise to around $60/bbl late this year. Our Brent crude forecast, in nominal dollars: $53.50/bbl in 2009 and $65/bbl in 2010. We have a 60% level of confidence in this forecast. We judge it more likely that realized prices will exceed (25% probability) rather than fall short of (15%) our forecast.

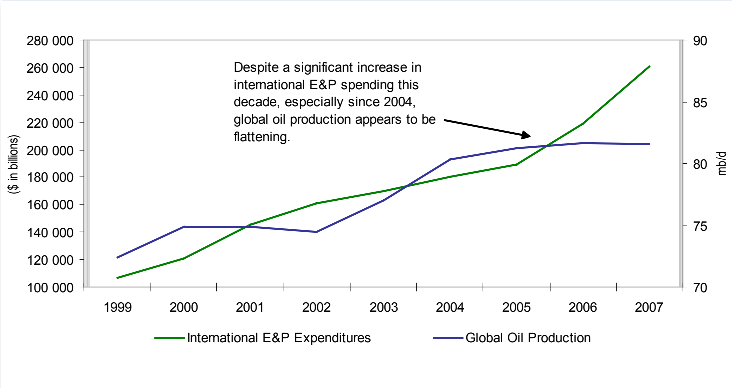
Long-term outlook

As for the long-term outlook, widespread project delays, resource protectionism and higher oil consumption in many oil producing countries point to a widening demand-supply gap. Investment in 2009 is poised to fall in many areas of the world including the United States, Canada, Russia, the North Sea, Venezuela and Argentina. The way that National Oil Companies (NOCs) adjust their investment strategies to lower oil prices will also significantly impact the future oil outlook since NOCs account for 60% of current oil production and 85% of proven global oil reserves. This downturn in investment will, in our view, exacerbate supply-side challenges. Coupled with accelerating depletion at existing fields, where output is dropping at an annual rate above 3mb/d, the decline in oil production may come as the global economies begin to recover – possibly causing a very sharp recovery in oil prices.

BRENT CRUDE SPOT



GLOBAL OIL PRODUCTION COMPARED TO INTERNATIONAL E&P EXPENDITURES, 1999 TO 2007



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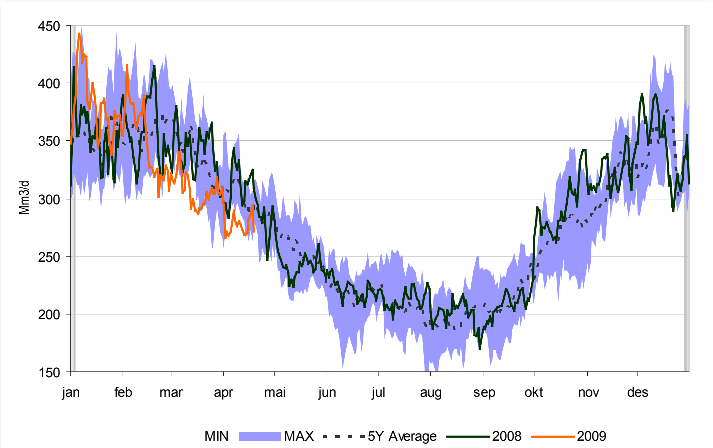
UK Gas Market

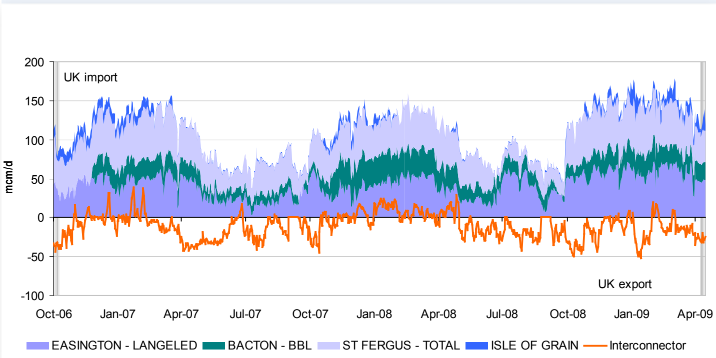
UK natural gas prices have averaged 46.75p/th in the first quarter, down over 6p/th compared to Q1 2008 and 3p/th below our forecast. Cold weather and Russian supply cuts supported prices early this year. But above average temperatures in February and March, and weaker demand as a result of the economic down-turn, pushed prices down. U.K. fossil fuel requirements moved sharply lower in March 2009, with gas-fired generation dropping by about 2.7TWh year on year. The weak macroeconomic environment in 2009 makes it difficult to argue for much upside when it comes to prices. Support for spot prices will not likely come from demand, as gas use begins its seasonal drop towards a low point over the next months.

UK GAS DEMAND



On the supply side, Langeled volumes have been somewhat volatile in Q1. But average flow was 60Mm in Q1, up from 56Mm in Q4 2008 and 50Mm in Q1 2008. BBL flows averaged around 26Mm in the quarter, up 5Mm from Q4 2008. The Interconnector has been in export mode 74 days out of 90 days. The average flow through the pipeline has been 14.5Mm in Q1 (export). LNG arrivals into UK in Q1 were 14.1 Mm /d, up over 450% from last year.

UK GAS IMPORTS AND EXPORTS

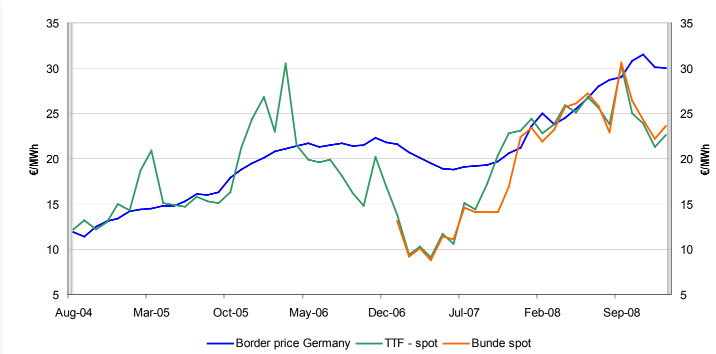


Since the onset of the economic downturn and expectation for increased level of LNG arrivals into UK this summer, the near summer contracts have fallen sharply. In March we also saw the first LNG cargo arrive at the South Hook LNG terminal in Milford Haven, Wales. The terminal adds to the UK's LNG import capacity, with the ability to deliver up to 55Mm /d into the system when it reaches full operational capacity later in 2009.

Continental Gas Market

Dutch natural gas prices at TTF have averaged at €17.20/MWh in Q1 2008, down over €6.50/MWh compared to Q1 2008 and 4 euro below our forecast. The Euro area will likely to contract by 3% in 2009. The bearish macroeconomic outlook will limit industrial demand for gas and for power generation. We expect European gas demand to fall by around 10bcm (-2%) in 2009. Our forecast of European supply and demand balance in 2009 suggests we could see periods of oversupply this year. We also see a global LNG market that is on the verge of oversupply. Pressured by the slowing global economy, consumers around the world are paring down LNG takes just as liquefaction capacity is set to grow by a record amount in 2009 as a result of projects planned years ago. Asia lacks storage capacity, which means volumes will be pushed into the Atlantic Basin.

GERMAN BORDER PRICE (OIL-INDEXED) VS. TTF SPOT AND BUNDE SPOT



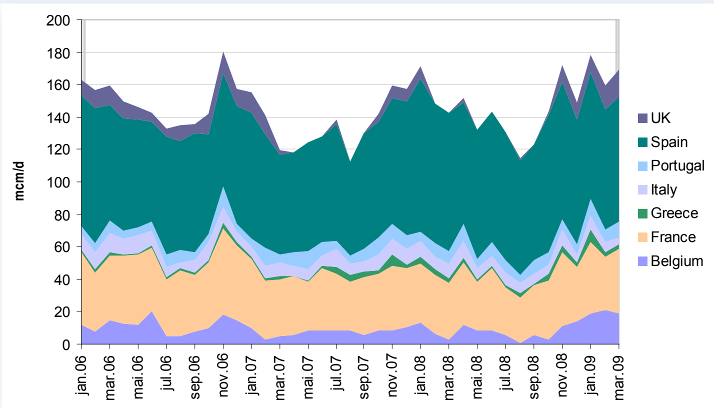
TTF SPOT

Liquefied Natural Gas Outlook

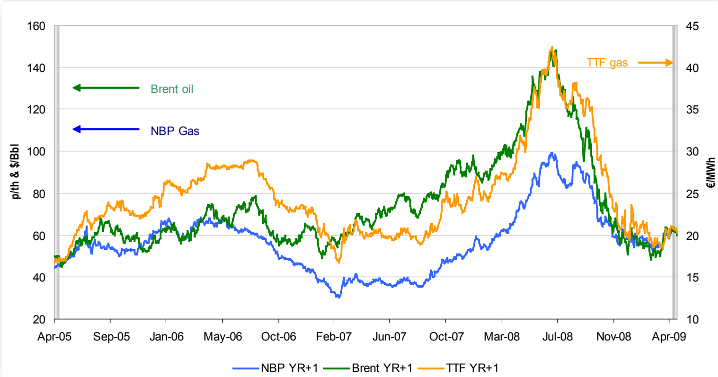
LNG flows for Q1 2009 is now nearly complete for Europe and shows European imports at 190Mm /d, compared to 177Mm /d imported in Q1 2008. Asian imports were at 446Mm /d, compared to Q1 2008 of 476Mm /d. Asian data may not have been finalized yet. While we do not think we will see outright shut in of liquefaction plants, we expect utilization rates to trend down as maintenance is brought forward and start-ups are slowed. Total has already indicated that it may cut production at its Mahakam block in Indonesia by 5% this year from its initial target of 72Mm /d due to weakness in LNG demand. Total LNG supply in January was also down due to lower production from Indonesia and Malaysia. Moreover, there were outages in Nigeria, Algeria and Qatar.

For NBP, we have reduced our 2009 assumption to 43,5p/therm to reflect a slowing in demand over 1H2009. We expect prices to increase in late 2H 2009 reflecting both stronger demand as the economy recovers. As many European gas contracts are indexed to oil products and the UK market is dependent on continental gas imports, factors which impact oil prices invariably affect the UK natural gas price. We continue to believe that the link between oil and gas prices will persist in 2009 and in the coming years. TTF spot prices are clearly closely correlated to the NBP and Dutch natural gas prices at TTF have averaged €25.10/MWh in 2008, up over €10/MWh compared to 2007. Our 2009 price forecast for TTF spot is an average of €20.30/MWh.

EUROPEAN LNG IMPORTS

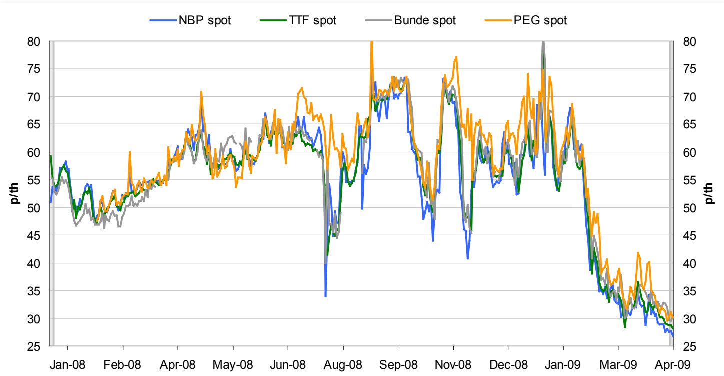


YEAR-AHEAD GAS AND OIL



Gas Price Outlook

The weak macroeconomic environment in 2009 makes it difficult to argue for much upside when it comes to price. Support for spot prices will not likely come from demand, as gas use begins its seasonal drop towards a low point over the next six months. However, we do not expect a complete collapse in European gas prices, as this oversupply could be mitigated by reduce output by all major suppliers and low storage levels coming out of winter suggests that their will be some price support. We do not expect prices to drop below €10/MWh this summer. Oil-indexed contracts will probably be range-bound during Q2/Q3 2009, but we believe the next significant directional change in prices will be to the upside as oil will likely trade higher in 2H 2009.



Written by
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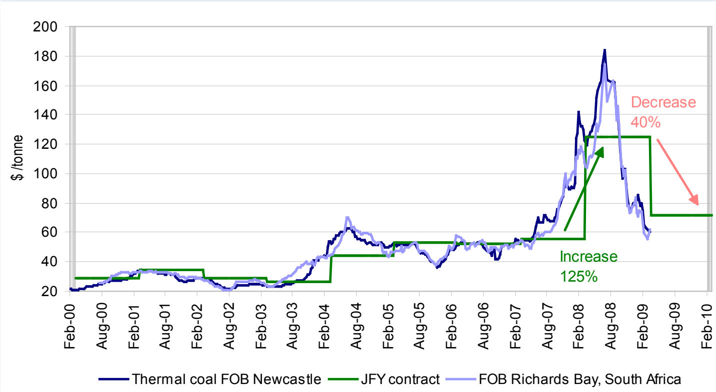
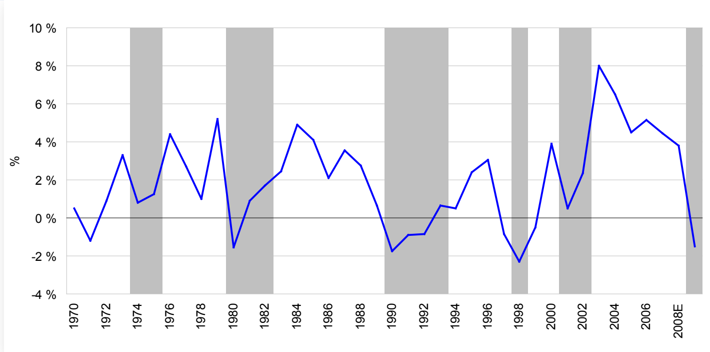
The global coal markets have also been hit by the sell-off in commodity prices and the economic downturn, with industrial electricity demand showing weakness. With global demand for manufactured products falling off sharply and large scale steel production cuts, coal demand in China and other rapid growing economies have declined. Rising inventories are a key indicator that shows that at least in the near term demand has slowed. Large amounts of coal are now piled up at ports and utilities. JFY09 thermal coal prices have been settled at $US70-72/t between Australian thermal coal producers and Japanese utilities. Given the weakness in demand we expected seaborne thermal coal prices to settle towards these levels. However, recently lower inventory in China is likely due to increased demand amid recovering economic activities. While Russian and U.S. exports have begun to decline, European coal stocks should be ample throughout the year, limiting buying activity. We expect Pacific Basin demand and pricing will rebound before the Atlantic Basin due to the lack of competition with natural gas. Hence, coal prices in Europe may fluctuate at bottom levels for a relatively long period. Front-month coal swaps, API 4, will likely trade below $75/t during 2009.

AUSTRALIAN AND SOUTH AFRICAN THERMAL COAL PRICES VS. JFY CONTRACT PRICES



We expect that the global economy will contract by 1.5% in 2009. While we still expect modest GDP growth in Asia ex Japan, the backdrop for growth in emerging markets has worsened considerably in recent months. During the past years, the growth in global coal consumption was entirely generated by emerging markets as OECD demand remained relatively steady. We expect that demand in Asia-Pacific will still expand by 2% in 2009, relative to 7% in 2008. However, with a sharp contraction in the Atlantic Basin of 4%, we estimate global demand growth to -1.4% in 2009, compared to an annual rate of 5.7% from 2002 to 2007. This will lead to a healthy balance between supply and demand, in the market for internationally traded thermal coal.

GLOBAL COAL CONSUMPTION GROWTH % (YEAR-ON-YEAR) AND GLOBAL RECESSIONS

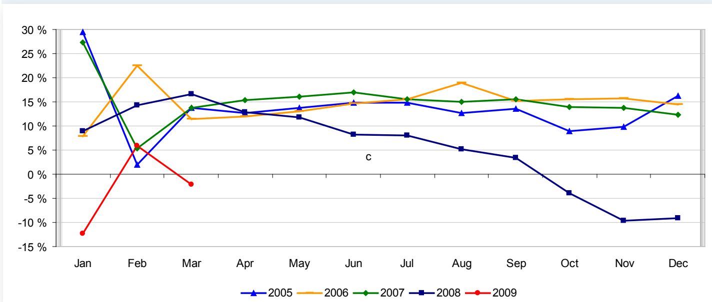


NOTE: Colored band is global recessions

Chinese power generation and consumption were -4.4% y-o-y to 760TWh and -4.0% y-o-y to 781TWh respectively in Q1 2009, according to China Electricity Council. The manufacturing sector accounted for 51% of national power demand in Q1 2009; demand was -9.3% y-o-y to 400TWh in the first 3 months. Among those heavy power consuming industries, the sharpest declines came from non ferrous metal (-17% y-o-y), chemical (-13% y-o-y) and steel (-10% y-o-y). Negative generation growth should persist for the rest of 1H09E, but benefits from lower coal prices will help and China's stimulus efforts are improving manufacturing activity. Manufacturing activity in China expanded in March, consistent with a pick up in production and investment, which should become more apparent in upcoming macro data.

The Chinese Government has announced massive economic stimulus package to boost the domestic market during the global economic crisis. Rmb 4tn ($680bn) will be spent in two years to finance programs in 10 major areas, such as low-income housing, rural infrastructure, water, transportation, the environment, innovation and earthquake rebuilding. We believe that the stimulus package will help prevent a severe decline in economic growth in China and help drive up bulk commodity demand.

MONTHLY POWER GENERATION GROWTH IN CHINA (Y-O-Y)

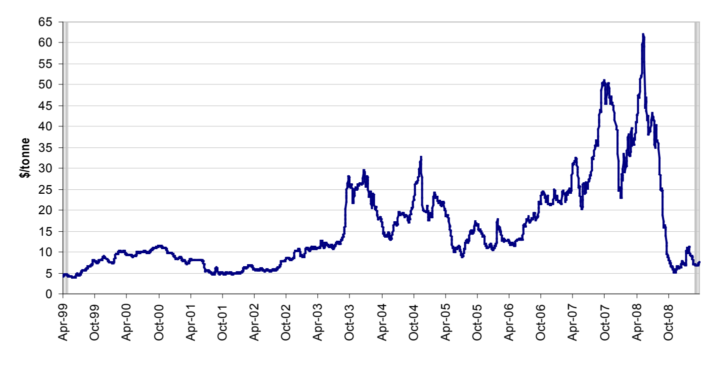


COAL MARKETS

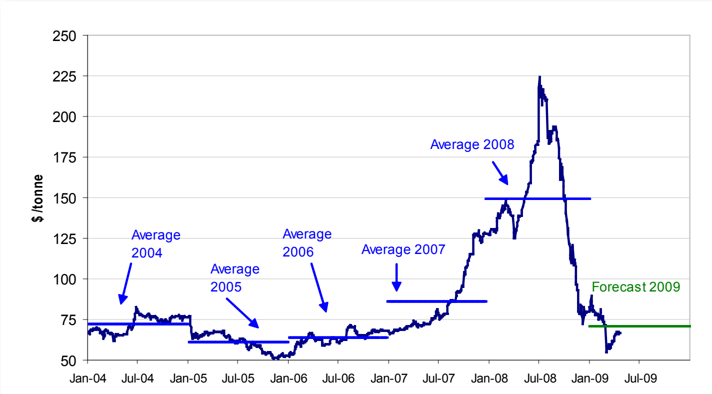
In the medium term, the seaborne coal demand is expected to remain strong globally, especially driven by demand from India and South Korea. South Korea opened a number of coal-fired power stations in 2008 and a strong and broad rebound in growth momentum in the February industrial activity data was surprising, which we view as a bottoming in Korea's growth momentum. Industrial production in South Korea rose by 6.8% m-o-m, with a 12.6% bounce in the tech sector, an 18.9% jump in auto production and a 4.4% jump in non-tech, non-auto sectors.

We forecast that Russia will be the marginal (cost) producer in 2009 and view $50-55/tonne as a floor in fob coal prices. In Q1 2009, Russian coal production is down by 16.0Mt year-on-year. Lackluster demand for exports, sharply contracting domestic electricity and coal demand has pressured coal producers to cut supplies this year. We expect that Capesize freight rates from Richards Bay to Rotterdam to average $10/tonne in 2009. We believe that delivered European coal will average at $70.75/t in 2009.

COAL FREIGHT SPOT - R BAY/RDM



COAL (CIF ARA MONTH-AHEAD)



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Dramatic price drop

The impact from the financial crisis and the economic downturn has been severe in terms of prices changes in the EU ETS; prices on EUAs dropped to almost of the levels seen in July last year during February. The December 2009 contract reached €8/tonne at the 12th of February which was the lowest ever on the contract. The drop can be justified both by lower coal-to-gas substitution prices, as gas prices have dropped more than coal prices (the implied EUA switching price for summer 2009 recently fell below zero for the most efficient gas plant over the least efficient coal), and by expectations of lower emissions of CO2 due to lower industrial production as well as power generation.

Industry output and power generation reductions

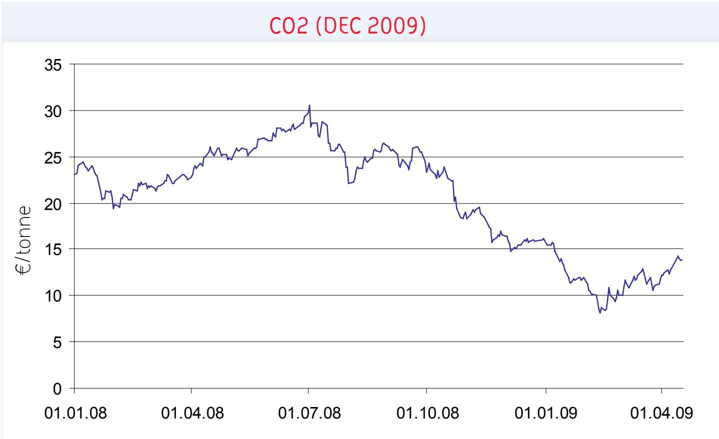
Within the manufacturing industry, the biggest output reductions has so far been in the cement and base metals sectors, with the European steel output falling 25% year on year in Q4. Within the power sector, particularly high hydro production in the Nordics and strongly growing wind power production offset a huge chunk of the thermal generation which reduced emissions compared to 2007. Fuel switching from coal to gas, both on a short term and long term perspective, in addition to generally lower power consumption also contributed in reducing emissions in the power and heat sector by roughly as much as the manufacturing industry in 2008.

2008 emission data

The recent publication of the 2008 data for EU ETS emissions has confirmed the consequences of the demand reduction that is a direct consequence of the current economic down turn. Estimates were more or less inline with expectations prior to the publication which were in the interval from 4 to 6% reduction from 2007. Keeping in mind that most of the reductions in the industry came at the very end of the year this is signalising low emissions for 2009. Even though the levels likely will be below the cap the interesting question is of course what the status of the entire phase 2 will be, particularly when evaluating the power market in a longer perspective. Even though emission during 2009 likely will below the cap, estimates still point to CERs as needed supply for balancing the emission market during phase 2 of EU ETS.

Future prices

Currently the market is trending up but we expect the resistance in the area €15-17 to limit the upside in the medium term. Trading in range between €10 and €17 seems plausible in the second quarter and our estimate for 2009 is €13/tonne.



POWER MARKETS - NETHERLANDS

Written by
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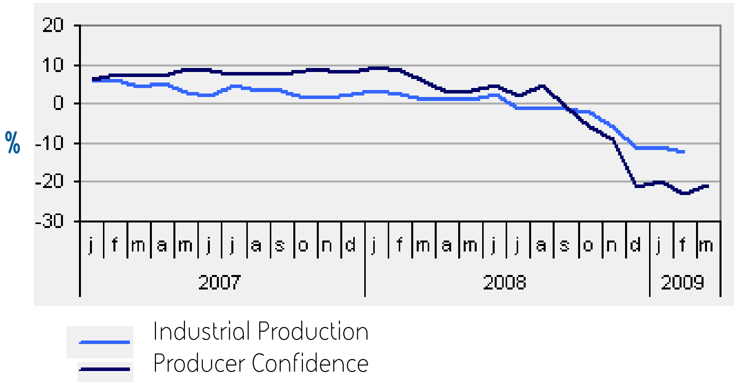
KEY FIGURES	Q1-2008	Q1-2009	DIRECTION
Day-ahead price	63,31	47,67	↓
Coal price $/tonne	137,5	71,6	↓
Brent crude oil price $/Bbl	97,31	44,56	↓
Gas price TTF, €/MWh	23,65	17,17	↓
CO2 price €/tonne	21,96	11,52	↓
Marginal cost coal €/MWh	53,85	33	↓
Marginal cost CCGT €/MWh	53,43	40	↓

PERIOD	FRONT YEAR	SPOT	PERIOD	FRONT YEAR	SPOT
Jan '09	55,25	57,53	Jan '08	64,84	65,22
Feb '09	49,24	48,63	Feb '08	66,2	62,77
Mar '09	48,91	36,96	Mar '08	67,62	62,7
Apr '09	53,71	33,66	Apr '08	71,12	73,84

The previous table shows the year-on-year difference per month (with April being provisional data for '09). The depreciation is profound. The effects of the financial crisis on commodity prices, and the lower industrial demand caused by low consumption have send the markets spiralling down.



It is interesting to note that producer confidence has ticked up slightly in March, signalling a slightly more positive outlook on the future by the Dutch industry. The February reading was in effect the lowest value on record since measurement began in 1985. However, actual production is still at low levels, and is expected to remain depressed for some time to come. In February, producers experienced a 27% decrease in turnover, the largest decline since the early nineties. According to the Dutch statistics office CBS, the industry's share of GDP has decreased by 5,9% compared to last year. (Note that 2008 had 1 day extra in February due to the leap year)

It was the 3rd of March that possibly can serve as a turning and referential point to describe how traders perceived the economical reality in the first quarter of '09. On the 3rd, the year ahead base load hit its all time low at €44,67. January and February showed a rapid depreciation for virtually all forward contracts. Interestingly, the spot market and the forward market diverged significantly, indicating recovery expectations in the power markets in the mid-long term. As the spot market continued to deteriorate throughout the quarter, the forward market started to recover, backed by stronger oil, CO2, coal and gas, as well as expectations of growing demand.

Spot Market

The spot market behaved in line with expectations, and trended down from the beginning of the year. Both January and February showed severe up and down swings. As high as 82,28 was paid for the base load on January 8th, and as low as 40,52 on January 23rd. The year-on-year changes tell the story of the decline in demand, especially industrial.

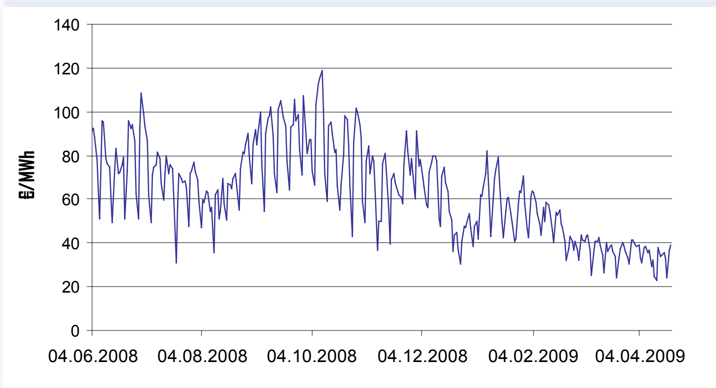
Interestingly enough, Electricity production has increased compared to last year, with approximately an increase of 6,8% comparing Jan '08 with Jan '09. The production surplus clearly pushed down prices. This is clearly visible on the trade data, which indicates a decrease of ca. 872 GWh, or 26,3%. This, combined with a plummeting in industrial production, which in February stood at a staggering 11,266% y-o-y decline, illustrates the Netherlands aren't invulnerable to the global economic decline. Actual consumption in the quarter retreated, as q1 2008 had an average MWh usage per PTE of 3272 MWh and q1 2009 a mere 3067 MWh. Data regarding capacity utilization suggests utilization has dropped from 83,4% at the beginning of the 2008, to 76,7 and below throughout the quarter.

The spot market trended heavily down throughout the quarter, mostly due to oversupply.

Given the influence of gas prices on the Dutch power prices, it should be no surprise that from late February on the downward trend eased and averaged at around €36. Price movements and momentum remained close to those of the TTF Gas spot, with a short surge in the cold spell during early January (allowing a short price spike of €31,38 on Jan. 9th) but falling from there on to initially as low as €19,34/MWh on the 21st of January. During early February gas prices saw a significant rebound, backed by cold weather and firmer oil, prices stayed well above the €20 level for the period until February 11th. From there on, the spot price for TTF gas declined to hover around the €12 mark, averaging out at €12,29 for March and averaging at €11,62 for the first 3 weeks of April. In general one could say the west-European gas markets have been oversupplied, with LNG shipments arriving in the UK on a weekly basis.

We expect lower demand for energy to keep the spot subdued, which in turn will have a gravitational effect on the forward curve.

SPOT PRICES APX



TTF GAS 2010

Forward Markets

In tight correlation with the surrounding countries, the main forward contract, the front year, has seen a heavy sell-off throughout the first quarter, as more and more bad economic data, a further weakening of oil, gas and coal, and CO2 contracts guided the contract down, from about €60 at the beginning of the year to 44,67 on February 25th. This correlated heavily with tremendous downward pressure form the oil markets, as North Sea Brent oil traded in the low $40 range at the time. Since then, oil has gained about $50 regardless of poor fundamentals.

The first quarter showed a rebound in the Cal's. After February's lows, the contract, although amidst less liquidity, appreciated through the early half of March to settle above €50 March 23rd for the first time since February 11th. Since then, the contract remained above this important psychological barrier, trading at an average price of €52,64. Especially towards the end of March and the beginning of April saw significant positive revaluation for the front year contract. The matching Coal contract (CIF ARA) remained virtually flat, but upward momentum in the oil, and noticeably the CO2 markets allowed the contract to trade at the €55 level as of mid April.

The contango that can be observed on the Dutch forward market for the moment seems to imply a rather flat outlook for the long term. The front Month contract (May, at publication date) trade at €33,25/MWh, much more resembling the current spot levels than the front year, especially when we see the Q3 '09 contract currently trading at €39,25 and Q4 at €51,10. It is only on the far end of the curve, Cal 13 and 14 where we see more robust price levels, at €66,99 and €67,98 respectively. In our opinion, the forward market is still trading at a significant premium compared to the depressed spot levels. The spot, the measurement of actual demand/consumption simply indicates that the depressed demand has not yet fully been priced into the forward curve under the present economic conditions. It is exactly here where, in terms of forecasting, the greatest obstacle lies. Rather mixed market sentiment emerges out of 'conflicting' economical data, as trader-behaviour illustrates. We believe that the front year contracts still have some downward risk incorporated, as we do not see demand pick up significantly in the rest of 2009, and only marginally in the first half of 2010. Possibly speculators may keep the prices further out on the curve on an inflated level, we suspect that as those contracts move closer to maturity, they will decrease in value. For the Cal '10 contract we consider an average price level of €48-€53

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Much however will depend on developments in the global economy, where events in the financial and industrial segments can and will have a decisive impact on price settings.
Key figures to watch will be industrial production, oil & the dollar, and news from the financial/credit markets....all of which are extremely hard to pin down on specific levels.

2010 BASELOAD

POWER MARKETS -UK

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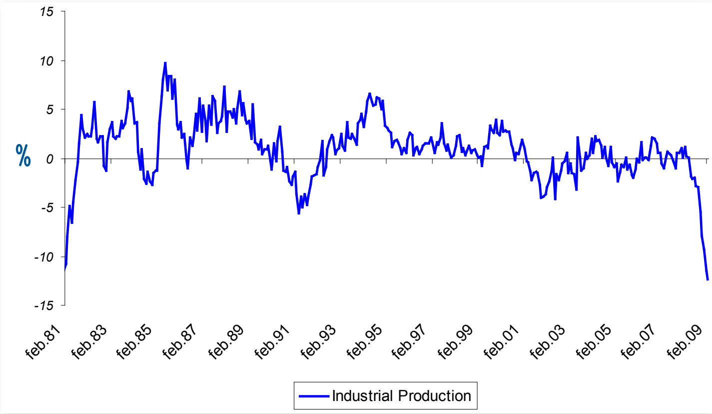
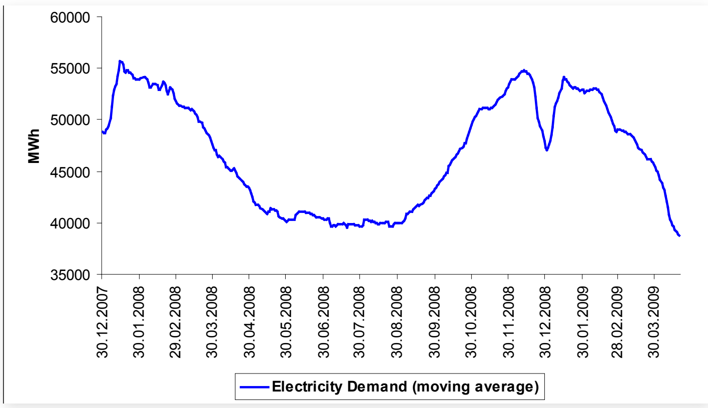
KEY FIGURES	Q1-2008	Q1-2009	DIRECTION
Day-ahead price	54,52	46,15	↘
Coal price $/tonne	137,5	71,6	↘
Brent crude oil price $/Bbl	97,31	44,56	↘
Gas price NBP, p/th	53	46,76	↘
CO2 price €/tonne	21,96	11,52	↘
Marginal cost coal £/MWh	40,74	25,23	↘
Marginal cost CCGT £/MWh	45,7	40,45	↘

Mixed blessings in the UK as the coldest winter in 12 years arrived. Although the sudden snow and matching sub zero temperatures seemed extreme at the time, historically the cold spell was neither extraordinary long, nor cold. The severe winter weather combined with the Ukraine-Russian gas conflict inspired high price spikes in the early part of the year with a short renaissance later on, as the conflict over unsettled deliveries reignited. Overall, the UK industry took a severe blow by the global deterioration in demand. Industrial production fell of a cliff, moving to levels lower than the early 80's recession. March would show that as inflation continued to drop, retail prices declined for the first time in almost 50 years.

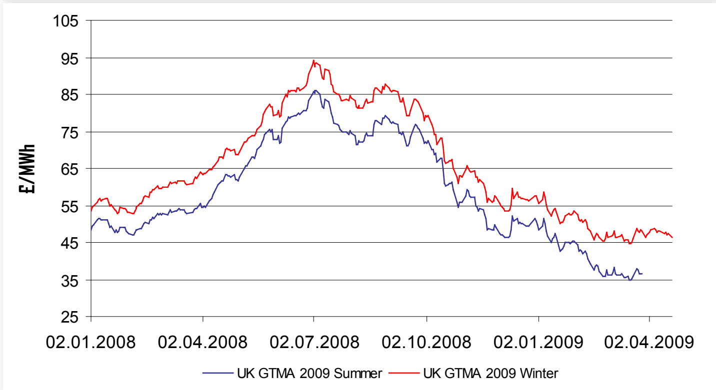


Electricity demand for the UK dropped to an average of 50361,84 MWh, down 1735,9 MWh from the same period in '08 (52097,74 MWh). This indicates that the effects of the economic decline out weighted the colder than usual winter. From a global point of view, this should come as no surprise, as the UK's (financial) industry is heavily intertwined with the US markets. Ironically, as demand plunged, more generation capacity became available early in the quarter, with nuclear plants Hartlepool, Heysham, and Dungeness returning to service.



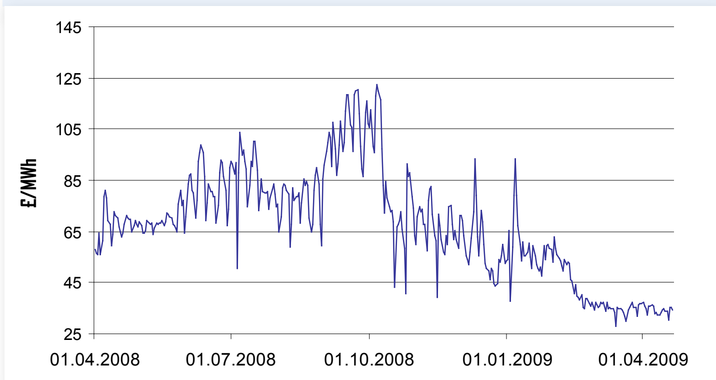
Supply of both electricity and gas coped well with the cold weather in January and the Russian-Ukrainian conflict that affected Eastern Europe. Weakening demand allowed for prices to drop(signalled by a decrease in industrial orders). The UK's heavy correlation between gas and electricity prices(40% of the UK supply comes from gas fired plants), allowed for electricity prices to track movements in oil and correlated gas markets. As the weather turned milder in February, demand erosion became more apparent, as the cold weather was able to mask some of the waning consumption. Gas contracts were under increasingly higher pressure, as the Summer '09 contract showed, shedding a little over 28% in February compared to January. The rise of oil in late February could barely prevent prices to retreat, and it mostly ended up backing winter contracts. It wouldn't be before March that bullish oil started to provide some support for the eroded price levels. However, economic data currently available does not seem to warrant an near term economical recovery, and matching increase in demand. Given the over-supply situation for power and gas, downside price risk persists for the coming quarter.

SEASONAL CONTRACTS ELECTRICITY



Tracking the power curve shows a severe decline in price levels in q1 '09 compared to the same period the previous year. The Winter '08 contract averaged out at 59,16. Compared to the current average of the Winter '09 contract which average is at 49,17, the altered sentiment among traders is evident. The same goes for the Summer contracts, which for 2008 averaged out at 52,36 whereas the average for 2009 ended up at 40,81. Considering our bearish view on gas and the state of the UK economy, we expect the forward curve to remain at these levels (on average) for the rest of the year. Furthermore, the spot market is likely to weigh on the curve, possibly allowing for some more downward momentum. The price difference on the day-ahead gives possibly the clearest picture of the demand destruction that emerged over the last months. Currently the base load y-t-d on average stands at 43,92. Compare this with last years 54,74. Considering the rather cold winter and the Russian-Ukrainian gas conflict it should be clear that demand in the UK is still, and arguably will remain for the foreseeable future, in a dire state.

DAY - AHEAD PRICES ELECTRICITY



POWER MARKETS - NORD POOL AREA

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KEY FIGURES	Q1-2008	Q1-2009	DIRECTION
System price	37,99	38,23	→
Coal price $/tonne	137,5	71,6	↓
Brent crude oil price $/Bbl	97,31	44,56	↓
CO2 price €/tonne	21,96	11,52	↓
Marginal cost coal €/MWh	53,85	33	↓
Marginal cost CCGT €/MWh	53,43	40	↓
Precipitation, deviation from normal, TWh	+15	-2	↓

Demand in focus

The focus in the power market has in addition to the dramatic drop in fuel prices have also been the electricity consumption.. Comparing to the Nordic average consumption in the recent years (2004-2008) the actual consumption this year has dropped by around 3 TWh or 3 % in the first quarter. Taking into account that temperatures has been considerably lower than in the recent winters, the drop could have been even stronger under average weather conditions, roughly 5-6%. Prolonging this consumption trend is obviously affecting the market in terms pricing; less costly productions units are needed to cover the Nordic consumption which is lowering the general price level. Currently, this is compensating for a weak hydro situation which has kept spot prices quite low.

The spot market stable from last year

The average System price during the first quarter settled at €38,23/MWh. This was €12,53 down from Q4-2008 and almost exactly the same as in Q1-2008!(€37,97). The fundamental setting was totally different at the at that time; fossil fuel prices and CO2 prices were twice as high, the winter was mild and the hydro balance was at 10 TWh above normal compared to 15 TWh below normal this year.

Low hydro stocks

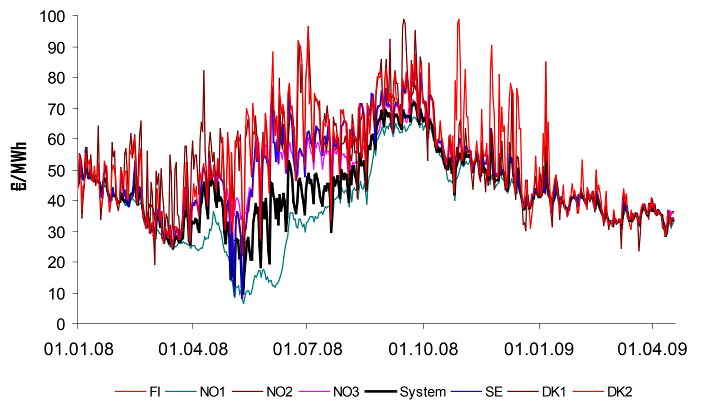
Even though water reservoirs have been very low compared to normal, particularly in Sweden, we have passed the critical point without squeeze in supplies and thus without major climb in spot prices. There is of course a risk of further weakening of the hydro balance which definitely would mean pricing both spot and forwards considerably higher than today. Given the current fundamental status and normal weather conditions we however view a System price around €32 for the second quarter as a fair price. The risk of diverging area prices are less than last year due to lower hydro reservoirs and higher transfer capacity but there is still possibilities for period with NO1 prices under bearish pressure.

Forwards moved down and up again

The price drop in the forward market that started for real in the 4th quarter last year continued until the beginning of February when the 2010 contract was quoted at a new all time low at €27/MWh. After that, prices have slowly climbed and the 2010 contract ended at €33,35, down €4,55 from the end of Q4. Just recently, the 2010 contract has continued strongly up above €39/MWh. We expect that the 2010 contract could range roughly between €30 and €40 in the second quarter given fairly normal weather conditions.

2010 CONTRACT NORD POOL

NORD POOL SPOT PRICES



POWER MARKETS - GERMANY

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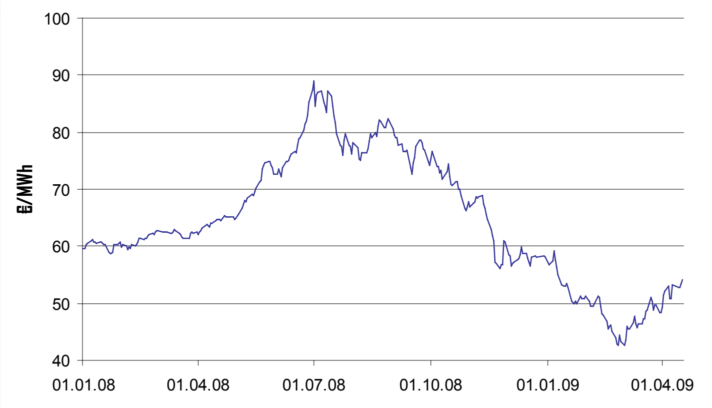
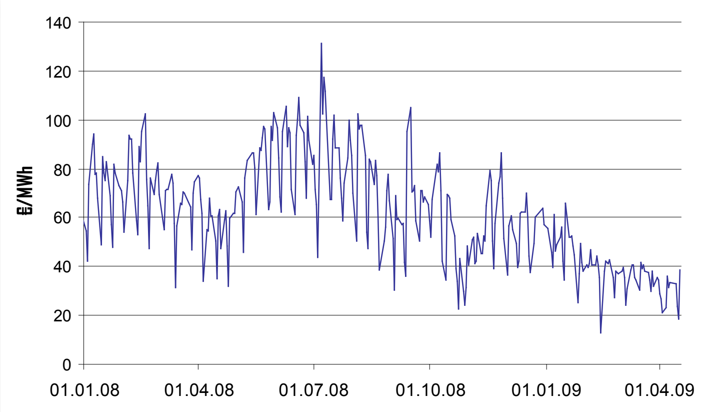
KEY FIGURES	Q1-2008	Q1-2009	DIRECTION
Day-ahead price	56,2	47,35	↓
Coal price $/tonne	137,5	71,6	↓
Brent crude oil price $/Bbl	23,65	17,17	↓
Gas price TTF, €/MWh	97,31	44,56	↓
CO2 price €/tonne	21,96	11,52	↓
Marginal cost coal €/MWh	53,85	33	↓
Marginal cost CCGT €/MWh	53,43	40	↓

2010 BASELOAD POWER GERMANY



EEX BASELOAD DAY-AHEAD



Spot prices drop in first quarter

In the first quarter, the average EEX day-ahead price settled €20,67 down from Q4-08 at €47,35/MWh. During Q1-2008 the average day-ahead price ended at €56,83/MWh. Weather conditions have to some extent reduced the price drop from the corresponding quarter last year when both fossil fuel prices and CO2 prices were twice as high. Average temperatures in Germany were 0,7 degrees below normal compared to 2,2 degrees above normal last year. Wind power out put has in addition been lower than Q1 last year with an average level at 4600 MW compared to 7500 MW last year. Marginal costs for coal plants had an average level at €33/MWh during Q1-2009 whereas CCGT plants have had an average cost at €40/MWh.

Consumption down in 2009

Spot prices have been under bearish pressure both by crashing fuel markets which have reduced marginal costs for thermal power plants and a stronger power balance due to lower power consumption inducing the use of production sources further down the merit order curve. Power consumption in 2009 is expected to drop back by roughly 3% due to the economic downturn with reduced industrial output and general reductions in power demand. Some of the reductions may be permanent, as relocating for instance steel production from Europe seems plausible due to plentiful spare capacity in the sector lower energy cost in other parts of the world. However German steel production only accounts for moderate power consumption and we believe that this power demand will return as major steel demand picks up along with automobile manufacturing and steel construction. Although we estimate a slight year on year growth in power consumption already in 2010 we don't expect to reach 2007 levels until 2011.

Forward market

After the turn of the year, forwards continued down until the 25th of February when the 2010 contract reached the lowest level in over 3 year when closing at 42,65/MWh. Prices have rebounded after that and has recently moved above €54. 2010 baseload prices ranging between €45 and €60 seems plausible in the second quarter but in terms of a fair price based on spot market expectations we are closer to the bottom of this interval than the top.

POWER MARKETS - FRANCE

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KEY FIGURES	Q1-2008	Q1-2009	DIRECTION
Day-ahead price	63,5	49,96	↘
Coal price $/tonne	137,5	71,6	↘
Brent crude oil price $/Bbl	97,31	44,56	↘
Gas price TTF, €/MWh	23,65	17,17	↘
CO2 price €/tonne	21,96	11,52	↘
Marginal cost coal €/MWh	53,85	33	↘
Marginal cost CCGT €/MWh	53,43	40	↘

Peak consumption record in January

Even though the weather generally have been much cooler this year the spot market has stayed clear of high price spikes in the winter period. Electricity consumption reached new record levels in January with levels above 92,000 MW when temperatures dipped to around 9 degrees below normal. Average temperatures for the first quarter settled at 0,9 degrees below normal compared to 1,4 above normal in Q1-2008. Average Powenext day-ahead price ended at €49,96, down almost €14 from Q1 last year.

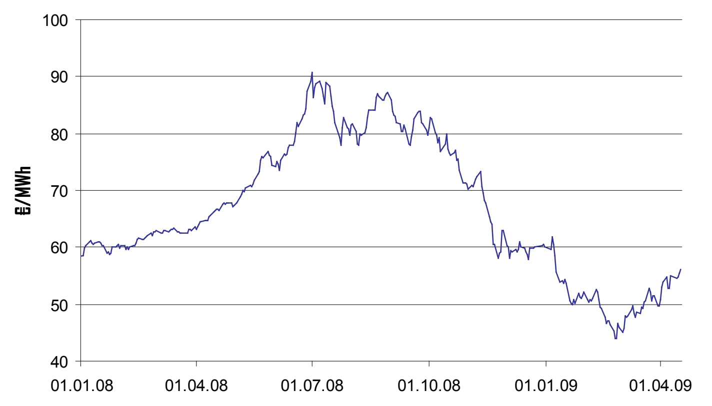
Weak electricity consumption trend

Despite consumption peaking at records levels, the general trend for the consumption is however weak, particularly in the industry where power consumption has dropped by 12-16% year on year in the first three months. Chemical production, which accounted for almost 20% the French industrial power demand in 2008, fell by 30% year on year in the first quarter of 2009. Both paper and steel productions have in addition displayed massive drops in output from late last year adding to the weak trend in French power consumption. Total electricity consumption in Q1 was however up by 2,7% year on year but the weather impact, as mentioned above, has induced higher consumption than last year due to increased heating demand. Adjusted for temperatures, the total consumption is down by 2,4% year on year according to numbers from RTE.

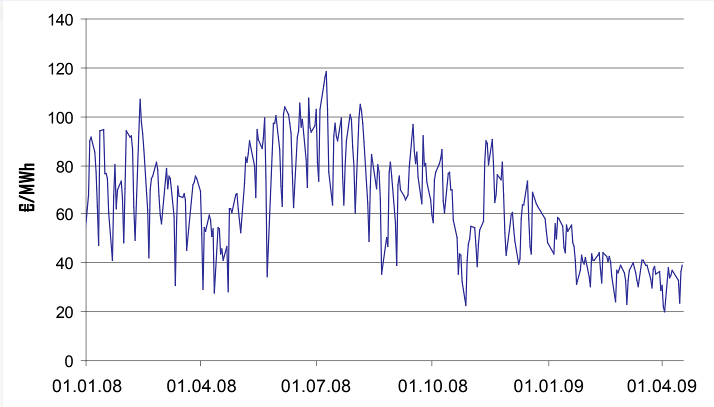
Forward market

After the turn of the year, forwards continued down until the 25th of February when the 2010 contract reached 43,90/MWh on closing. Prices have rebounded after that and have recently moved above €56. 2010 baseload prices ranging between €50 and €62 seems plausible in the second quarter but in terms of a fair price based on spot market expectations we are closer to the bottom of this interval than the top.

2010 BASELOAD POWER FRANCE



POWERNEXT DAY-AHEAD



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