Presentation to

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Business Advisory Committee Meeting

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Overview
Introduction to Merrill Lynch Commodities
Global Presence

Integrated Offering

MLC is positioned to create value for customers on a global basis, offering both physical and financial trading capabilities and risk management services.
Merrill Lynch Commodities
Complete Range of Products and Services

Leading Commodities Platform

Natural Gas
- First trade in 1998 as Entergy-Koch Trading
- Extensive N. American and European transportation and storage portfolio and asset management expertise
- Physical forwards, futures and options
- Durations from real-time to multi-year
- Trade in US, UK, Belgium, The Netherlands and France

Power
- First power trade in 1998 as Entergy-Koch Trading
- Physical swaps, forwards and options
- Durations from real-time to multi-year
- 24-hour trading desk
- Trade 1,000 TWh per year worldwide
- Energy management services provider

Coal
- Active physical and financial trader
- First investment bank to enter the physical coal market in 2005
- Global coverage in trading and operations with long-term physical coal contracts from Asia
- Physical and paper freight trading

LNG
- Expertise in global physical cargo movement and physical gas flow optimization
- Direct marketing relationships with large downstream industrial end users

Indices
- GSCI, DJIAIG, RICI and all sub-indices
- MLCX
- Customized indices
- Structured notes

Metals
- LME market-making and execution of futures in the major non-ferrous metals
- Physical and financial OTC trading of precious metals, base metals and cross-commodity products

Emissions
- Active participant in global carbon
- Active in North American and global emissions markets
- Capabilities in North American NO2, SO2
- Participant in North American carbon, RGGI/California

Crude & Refined Products
- Financial forwards and exchange traded futures and options
- Durations from front month to multi-year
- Trades in Brent, WTI, Gasoil, Jet Fuel and other oil products
- Building global physical capabilities

Merrill Lynch Commodities (“MLC”) combines the risk management expertise of a well-established marketing and trading platform with the financial strength and extensive product offerings of Bank of America Merrill Lynch.
Introduction to Merrill Lynch Commodities
Global Products & Capabilities

Global Commodities

Natural Gas
- US Complete Coverage
- UK Complete Coverage
- Zeebrugge Belgium
- TTF (Netherlands/Germany)
- US & Canadian Basis
- Physical Transport
- Physical Storage
- Asset Optimization
- Liquefied Natural Gas

Electricity
- US Complete Coverage
- Canada
- UK Complete Coverage
- Germany
- Nordic
- Netherlands
- France
- Spain
- Eastern Europe
- Heat Rates/Spark Spreads
- Energy Management Agreements
- 24 Hour Trading & Scheduling

Oil & Products
- Crude Oil
- Distillates
- Domestic Grades
- Fuel oil
- Naphtha
- NGL
- Tanker Freight
- Physical Storage

Coal, Freight
- Physical & Financial
- API 2
- API 4
- PRB

Metals
- Gold
- Silver
- Platinum
- Palladium
- Copper
- Aluminium
- Lead
- Zinc
- HRC Steel

Commodity Indices
- GSCI, DJAIG, RICI
- All sub-indices
- MLCX
- Customized Indices
- Baskets
- Hybrids
- Structured Notes

Structured Transactions
- VPP’s
- Pre-pays
- Credit sleeves
- Unit contingent power
- Off-take agreements

Emissions
- EUA
- CER
- VER
Global physical trading house capability packaged with a leading financial institution

- A leading dealer of crude oil and oil products, trading in all major markets with the ability to trade on a financial and physical basis as well as cross-commodity products
- 550-600 trades (physical and financial combined) per day by mid/back office, trading 24hrs/day
- 34 million barrels per day in trades (physical and financial combined)
- Track record of executing large transactions with aggressive pricing across all markets and products
- 15 professionals supporting the commercial activity
- Global market coverage: desks in USA (covers only USA), London, Singapore and China (all cover Europe, Asia and Australia)

Crude Oil Seaborn trade
Award Winning Commodities Research

- Led by Francisco Blanch, the team is a leader across fundamental and quantitative commodity research
  - #1 NYMEX Henry Hub price forecaster for 2011 and 2010 as ranked by Bloomberg
  - #2 ranked commodities research group by Institutional Investor EM Equity and Fixed Income 2011 survey
- Regularly published research reports
  - **Global Energy Weekly**: Covers the most up-to-date factors in the energy markets
  - **Commodity, Energy, and Metals Strategist**: Quarterly comprehensive review of the commodity markets fundamentals and trends
  - **Commodity Derivatives Insights**: Monthly publication on volatility and derivatives
  - **Commodity Portfolio Monthly**: update on commodities within an asset allocation focus
  - **Global Commodity Papers**: Strategic papers and primers such as commodities as an asset class
Market Update
Overview:
Commodities in a two-tier global economy

- We see the world economy grow by 3.8% in 2011 and 4.2% in 2012, down from 5.1% in 2010.
- Commodities are the tug of war of a two-tiered global economy: DMs struggle with high debt and disinflation as EMs experience fast economic growth and inflation. In the long-term, any commodity demand drop in DMs will likely be picked up by EMs. But there are downside risks to growth near-term, and the EM/DM growth imbalance is exacerbating them.
- We believe oil prices will head lower in 2H11 due to seasonal factors and the ongoing mid-cycle deceleration. With the first signs of demand destruction and with credit risks on the rise, we see Brent averaging $102/bbl in 4Q11.
- On our estimates, the global economy can sustain a maximum average level of Brent crude oil prices of $115/bbl this year and $130/bbl next year.
- For the next five years, we remain very positive on oil prices. In almost every scenario, limited global supply growth will likely mean higher-for-longer oil prices.
- Light-heavy petroleum product spreads should continue to widen modestly, with middle distillate prices appreciating against residual fuels as refining capacity tightens moderately.
- We do not expect the weakness in US natural gas prices to dissipate any time soon, and we are forecasting $4.21/MMBtu in 2011 and $4.70/MMBtu in 12 for NYMEX natural gas prices.
- In the metals space, we see copper average $9,514/MT, but aluminium prices will fail to appreciate much in 2011. Gold hit our $1,500/oz 3-year target set in 2008 and we revise our 12-month gold target to $2,000/oz on deterioration in credit quality in Europe and the US coupled with an increased probability of QE3.
- The commodity super-cycle is not over. Volatility in commodity prices will remain high compared to historical averages due to structural supply & demand imbalances.
Energy Market Overview
Crude Market Update: Macro Trends, S&D Balance to Drive Price

Summary

- Amongst ongoing turmoil surrounding European debt, disappointing macro data and economic outlook, our economists have reduced GDP projections to 3.8% in 2011 and 4.2% in 2012.

- In a mild global recession, we could see Brent briefly fall below $80/bbl, then gain back those levels as OPEC turns off the taps. For WTI, we believe prices could fall to $50/bbl, then recover towards $60/bbl as shale oil output is scaled back.

- Still, a pullback in prices driven by recession concerns could be short-lived as policymakers respond with monetary policy.

- BAML expects demand growth to decelerate to 1.5mm b/d in 2012.
  - While emerging markets maintain relatively strong growth rates, OECD countries show substantial demand deceleration.
  - However, plentiful liquidity prevents an immediate demand collapse and provides a support floor.

- Inventories are now more balanced after several months of draws, and oil inventories sit near the five year average. This will likely provide a cushion against price volatility in the months ahead.

- The supply picture has improved – North Sea fields coming back, Saudi production near 30-year highs, Russian supplies ramping up, and Libyan oil coming back to the market sooner than expected.
  - We remain concerned that a broader Syrian conflict could rattle MENA region.

- With OECD leading indicators heading south, limited demand and a brighter supply picture, we see limited upside to prices in near-term and remain cautious.

- However, for 2012, we remain bullish as global oil markets remain undersupplied relative to the expected pace in economic growth. BAML forecasts average Brent crude oil prices of $114/bbl in 2012, and $102/bbl for WTI.
  - Brent prices will likely stay firm relative to WTI given higher foreign fuel dependence.

Source: BAML Commodity Research, IEA.
Energy Market Overview
Crude Market Update: Brent / WTI Differential to Remain Strong

Summary
- US and Canada are about to embark on a phenomenal shale oil output ramp up
  - Shale oil production in the US should increase above 2.5 mm b/d by 2015
    - Figures could be much higher if current growth rates were to be maintained, potentially even reaching 5.5mm b/d by the middle of the decade
  - Total Canadian oil production could reach 4.1mm b/d by 2015
- Shale and sands output will continue to increase faster than pipeline transportation capacity in the Midwest, keeping landlocked WTI and Western Canadian Select crude oil prices well below seaborne Brent and Light Louisiana Sweet for several years
  - Other modes of transportation will grow at a very fast rate, and a higher cost. BAML believes high transportation costs will prevent full convergence of the differentials until 2015
- The opposite demand scenario has played out in Brent, with strong demand and a string of supply shocks. Some of the recent supply losses will reverse in the next few months, but only a double-dip recession will remove the medium term tightness of seaborne crude oil
  - Brent backwardation has remained strong reflecting tightness along the curve
  - Brent-WTI spreads should trade at or above $12/bbl until new pipeline, capacity comes online to ease the imbalance in late 2013
    - Situation could persist to 2015 if the 800 k b/d Wrangler pipeline does not happen
    - BAML sees the ability for Brent-WTI spreads to occasionally bounce up to $25/bbl to match trucking costs if rail capacity is exhausted or drop down below $5/bbl as new pipelines briefly force rail to idle

Source: BAML Commodity Research, IEA, Bloomberg
Energy Market Overview
RBOB Market Update

Summary
- BAML sees substantial growth in new refining capacity in 2012
  - Growth of 2mn b/d outpacing 1.5mn b/d of demand
  - Asia Pacific to drive growth, with China adding 730k b/d alone
- Upgrading capacity also expanding, changing mix to lighter petroleum
- Margins will remain low, forcing closures and keeping crude runs low
  - Refiners likely to close 1mn b/d in 2012
- Gas remains most oversupplied crude product market. Utilization rates to drop further, painting a negative picture for crack spreads
- Demand picture in EMs vs. DM paint two different pictures
  - In EMs, demand for transportation fuels is projected to expand strongly, +580k b/d of diesel and +380k b/d gasoline in 2012
  - US demand for transportation fuel has collapsed, Europe has been in steady decline. Additionally, expect more supply to hit market in 2012
    - Production strong and inventories high

Non-OECD Oil Demand Growth


Source: BAML Commodity Research, IEA.
BAML’s near-term outlook for US natural gas prices is further weakening as the US rough patch continues. While domestic supply growth is increasing, demand is set to slow down cyclically, in line with the economy.

- If the US economy falls into recession, gas consumption could contract by 0.1 bcf/d in 2012 compared to our base case of a 2.3 bcf/d expansion.
- If a recession does not materialize, the market could move towards a gradual albeit tightening path in 2012 as demand outpaces supply growth.

The pace of injections has picked up.

- In the middle of the summer (late July and early August), nuclear outages and higher air conditioning use due to hot weather lead to surprisingly low natural gas inventory builds.
- Since then, however, the pace of injections has picked up and the storage gap versus last year has narrowed to 1.6%. We are also now 2.0% above the 5-year average.
- Going forward, we still believe that inventories at the end of the injection season will rise to 3.69 bcf, in spitting distance of last year’s record.

Future domestic demand growth for gas remains largely captive to the power market dynamics and gas/coal switching.

- In the power generation sector, natural gas continues to increase market share from coal. BAML estimates coal-to-gas switching has created about 4.1 bcf/d of gas demand this year, relative to 2.1 bcf/d last year.
- Assuming the US does not fall into a recession, there is scope for prices to rise from current levels as new projects become more costly relative the forward curve and regulatory/environmental actions spur demand.
- Volatility is historically low as a result which has made option strategies more attractive for consumers. ATM volatility below 35% is historically low for Natural Gas (see chart).
### BofAML Commodity Price Forecasts

<table>
<thead>
<tr>
<th>Unit</th>
<th>3Q11F</th>
<th>4Q11F</th>
<th>2011F</th>
<th>1Q12F</th>
<th>2Q12F</th>
<th>3Q12F</th>
<th>4Q12F</th>
<th>2012F</th>
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<tbody>
<tr>
<td>WTI Crude Oil</td>
<td>$/bbl</td>
<td></td>
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<tr>
<td>Brent Crude Oil</td>
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<tr>
<td>USGC No. 2 HO crack spread</td>
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<tr>
<td>USGC 1% Residual crack spread</td>
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<tr>
<td>US Natural Gas</td>
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<tr>
<td>Aluminium</td>
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<tr>
<td>Copper</td>
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<tr>
<td>Nickel</td>
<td>$/t</td>
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<td>Zinc</td>
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<td>Lead</td>
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<tr>
<td>Gold</td>
<td>$/oz</td>
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<tr>
<td>Silver</td>
<td>$/oz</td>
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<td>Platinum</td>
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<tr>
<td>Palladium</td>
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<tr>
<td>Thermal Coal, Pacific spot</td>
<td>US$/t</td>
<td></td>
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<tr>
<td>Iron ore, spot fines, CIF</td>
<td>$/t</td>
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Source: BofA Merrill Lynch Global Commodity Research
Commodity Hedging Alternatives
Commodity Hedging Alternatives

Physical Hedging

**Advantages**
- Basis risk is minimized because hedge price and your physical price are equal
- No additional documentation because a fixed price can usually be added to a supply contract

**Disadvantages**
- The company would be exposed to the credit risk of its physical counterparty
- Buyers cannot separate price decisions from the supplier they choose—the supplier chosen for the service, reliability and quality may not offer the best price
- Buyers may not be interested in the hedge terms the supplier is willing to accept at the same time
- Physical contracts lack flexibility—it may be difficult to lock in prices with a supplier beyond a few months or to tailor risk management strategies. Also, should you decide you no longer want the price protection, but still need the physical supply, it may be difficult to unwind just the fixed-price component of an existing physical contract
- Physical contracts are not portable, where an OTC financial hedge is leaving a buyer the ability to change suppliers as frequently as needed

Exchange-Traded Hedging

**Advantages**
- Prices are transparent
- The exchanges provide a guaranteed credit clearing mechanism because all trading participants post initial and maintenance margin money
- Futures contracts usually exhibit good short-term liquidity

**Disadvantages**
- Futures contracts are not generally liquid beyond six months
- Futures trading is subject to commissions, fees, and exchange initial/maintenance margining
- Trading futures contracts entails ongoing administration of your position and generally the attention of a full-time trader. Futures need to be offset before the delivery process
- Given NYMEX exchange information flow, client confidentiality cannot be assured

Over-the-counter Hedging

**Advantages**
- OTC transactions are highly tailored (basis, volume and price shaping, settlement style)
- Once the counterparty is set up to trade, OTC transactions often require little lead-time to execute or fully/partially unwind
- OTC indexes often enable the customer to access optionality in the marketplace where it otherwise doesn’t exist
- Longer trading maturities are available in the OTC markets than are available on the futures market
- The financial benchmarks available include dozens of energy indices, about ten metals indices and about 15 agricultural indices.
- The OTC market may offer better liquidity in the medium and long term (beyond six months)
- Confidentiality can be assured
- Management of an OTC program can be much easier than an exchange-traded program

**Disadvantages**
- You would be exposed to the credit quality of your counterparties
- There is little price transparency (no screen)
In considering how much to hedge, many begin at 50% fixed /50% floating and adjust up or down according to additional risks or risk mitigants they find in their business.

◆ Leverage – Higher leverage implies greater sensitivity to costs and less margin for error.

◆ Ability to pass on prices – The less you can pass prices fluctuations through, the more you need risk management.

◆ Budget performance – Past budget surprises may make protection against similar occurrences more important.

◆ Margins – Thin margins mean less room for price movement.

◆ Price Outlook – What is your outlook for prices? Are you appropriately positioned?
### NYMEX #2 Heating Oil Swap

- This enables Client to lock in a price for fuel.
- There is no up-front premium.
- Client is protected from prices above the swap price, however, Client will not benefit from prices below the swap price.
- Physical sales price must be strongly correlated to the hedge benchmark.

#### Basis Risk

Basis Risk is the degree to which these are not correlated.

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**What is Basis Risk?**

*Basis risk is the mismatch between the price you pay on your physical purchases and the floating price you receive on your hedge. This is the reason benchmark selection is so important. You need to ensure that the price you pay on your physical purchases is highly correlated with your hedge benchmark to minimize or eliminate your basis risk.*

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Note: Prices used throughout this presentation are for illustrative purposes only and may not be indicative of current market pricing.
NYMEX #2 Heating Oil Swap

**Fixed Price Payer:** The Client

**Floating Price Payer:** Merrill Lynch Commodities, Inc.

**Fixed Price Payment:** $2.67 per gallon x volume

**Floating Price Payment:** The average over the calendar month of the daily settlement price for the prompt No. 2 heating oil futures contract as traded on the New York Mercantile Exchange times the Monthly Volume.

**Monthly Volume:** 100,000 gallons/month

**Term:** January 2012 – December 2012

**Payments:** Five Business Days following each settlement period, if the Floating Price Payment exceeds the Fixed Price Payment, Merrill Lynch Commodities, Inc. will pay the Client the net difference times the Monthly Volume. If the Fixed Price Payment exceeds the Floating Price Payment, the Client will pay Merrill Lynch Commodities, Inc. the net difference times the Monthly Volume.
### NYMEX #2 Heating Oil Cap Option

- The Client pays an upfront premium for protection against prices above a cap strike price.
- If prices rise above the cap strike price, payments are made to the Client equal to the difference times the monthly volume.
- The Client will make no more payments after the upfront premium is paid.
- The Client is able to retain 100% of the downside if market prices decline (minus premium paid for cap).

#### Price Protection Under a Cap Option

<table>
<thead>
<tr>
<th>Term</th>
<th>Cap Strike Price</th>
<th>Monthly Volume</th>
<th>Settlement Price</th>
<th>Differential</th>
<th>Settlement Payment</th>
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</thead>
<tbody>
<tr>
<td>Jan12-Dec12</td>
<td>$2.9400</td>
<td>100,000</td>
<td>$2.6900</td>
<td>-$0.25</td>
<td>No Payment</td>
</tr>
<tr>
<td>Jan12-Dec12</td>
<td>$2.9400</td>
<td>100,000</td>
<td>$2.9400</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Jan12-Dec12</td>
<td>$2.9400</td>
<td>100,000</td>
<td>$3.1900</td>
<td>$0.25</td>
<td>$25,000.00</td>
</tr>
</tbody>
</table>

Option premium paid upfront and not taken into account for the payments shown.
### NYMEX #2 Heating Oil Cap Option

<table>
<thead>
<tr>
<th><strong>Cap Option Buyer:</strong></th>
<th>The Client</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cap Option Seller:</strong></td>
<td>Merrill Lynch Commodities, Inc.</td>
</tr>
<tr>
<td><strong>Cap Strike Price:</strong></td>
<td>$2.94 per gallon</td>
</tr>
<tr>
<td><strong>Premium:</strong></td>
<td>$0.23 per gallon</td>
</tr>
<tr>
<td><strong>Price Benchmark:</strong></td>
<td>The average over the calendar month of the official daily settlement price for the prompt No. 2 heating oil futures contract as traded on the New York Mercantile Exchange times the Monthly Volume.</td>
</tr>
<tr>
<td><strong>Monthly Volume:</strong></td>
<td>100,000 gallons/month</td>
</tr>
<tr>
<td><strong>Term:</strong></td>
<td>January 2012 – December 2012</td>
</tr>
<tr>
<td><strong>Payments:</strong></td>
<td>Five Business Days following each settlement period, if the Price Benchmark exceeds the Cap Strike Price, Merrill Lynch Commodities, Inc. will pay the Client the net difference times the Monthly Volume. If the Price Benchmark is less than the Cap Strike Price, no payments are made.</td>
</tr>
</tbody>
</table>
NYMEX #2 Heating Oil Costless Collar

- Collars involve buying a cap option and selling a floor option.

- The Client receives the same protection as a cap option provides. However, instead of paying an upfront premium, the Client “pays” for this cap option by selling a floor option.

- The Client loses the benefit of falling prices below the floor option strike price.

- Most collars are costless, meaning the upfront premium owed for the cap option is offset by the upfront premium received for the floor option.

![Price Protection Under a Costless Collar](image-url)
### NYMEX #2 Heating Oil Costless Collar

<table>
<thead>
<tr>
<th>Cap Buyer/Floor Seller:</th>
<th>The Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Seller/Floor Buyer:</td>
<td>Merrill Lynch Commodities, Inc.</td>
</tr>
<tr>
<td>Floor Strike Price:</td>
<td>$2.44 per gallon</td>
</tr>
<tr>
<td>Cap Strike Price:</td>
<td>$2.94 per gallon</td>
</tr>
<tr>
<td>Premium:</td>
<td>$0 per gallon</td>
</tr>
<tr>
<td>Monthly Volume:</td>
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</tr>
<tr>
<td>Payments:</td>
<td>Five Business Days following the settlement period, if the Price Benchmark is above the Cap Strike Price, Merrill Lynch Commodities, Inc. will pay the Client the net difference times the Monthly Volume. If the Price Benchmark is between the Floor Strike Price and the Cap Strike Price, no payments are made. If the Price Benchmark is below the Floor Strike Price, the Client will pay Merrill Lynch Commodities, Inc. the net difference times the Monthly Volume.</td>
</tr>
</tbody>
</table>
Available Indexes for Financial Fuel Hedges

**NYMEX #2 heating oil**
- Trades settle against the monthly average of the daily settlement price of the first listed futures contract.

**Platt's USGC #2 heating oil**
- Trades settle against the monthly average of the daily mean price [average of low and high] for US Gulf Coast Pipeline #2 as quoted by Platt's Oilgram Price Report.

**Platt's USGC #2 heating oil, low sulfur**
- Trades settle against the monthly average of the daily mean price [average of low and high] for US Gulf Coast Pipeline #2, low sulfur, as quoted by Platt's Oilgram Price Report.

**Department of Energy On Road Diesel**
- Trades settle against the monthly average of the weekly mean price [average of low and high] for Retail On-Highway Diesel Fuel, as published by the Energy Information Agency (statistical price agency for the U.S. Department of Energy) under the column, ‘National – U.S. AVG.’

**Platt's USGC Diesel Fuel, Ultra Low Sulfur**
- Trades settle against the monthly average of the daily mean price [average of low and high] for US Gulf Coast Ultra Low Sulfur Diesel Fuel, as quoted by Platt’s Oilgram Price Report.

**NYMEX RBOB gasoline**
- Trades settle against the monthly average of the daily settlement price of the first listed futures contract.

**Platt's USGC unleaded**
- Trades settle against the monthly average of the daily mean price [average of low and high] for US Gulf Coast Unl 87 [lowest RVP] as quoted by Platt's Oilgram Price Report.

**LA CARB Diesel**
- Trades settle against the arithmetic average of the daily “Mean” price per gallon for Los Angeles – Physical Prices - CARB No. 2 found under the heading “Today’s West Coast Prompt Spot Pipeline Prices and Basis Differentials (cts/gal)” (or any successor heading) in the issue of OPIS West Coast Spot Market Report (or any successor report) that reports pricing effective on that Pricing Date.

**LA CARBOB Gasoline**
- Trades settle against the arithmetic average of the daily “Mean” price per gallon for Los Angeles – Physical Prices – CARBOB-R found under the heading “Today’s West Coast Prompt Spot Pipeline Prices and Basis Differentials (cts/gal)” (or any successor heading) in the issue of OPIS West Coast Spot Market Report (or any successor report) that reports pricing effective on that Pricing Date.
Early Termination

Upon mutual agreement of the parties, OTC Trades may be unwound prior to maturity of the transaction. The value of the transaction is determined as the current market value for the remaining term of the transaction multiplied by the remaining notional volume. For a pay fixed swap transaction, for example, the current market value of the swap is calculated by comparing the original fixed rate with the current market rate for the remaining term of the swap multiplied by the remaining volume. If the current market rate is less than the original swap rate, the customer would make a payment to Merrill Lynch Commodities, Inc. for the difference times the remaining notional volume. If the current market rate is greater than the original swap rate, Merrill Lynch Commodities, Inc. would make a payment to the customer for the difference times the remaining notional volume.
Accounting Considerations

- FAS 133 Accounting Standards
  - FAS 133 requires all derivatives to be shown on the balance sheet at fair value.
    - Changes in fair value will go through earnings unless the transaction qualifies for special “hedge” accounting.
    - Companies must document hedge strategies and “test” the effectiveness of hedges to qualify for “hedge” accounting.
    - Even with “hedge” accounting, any ineffective portion of the hedge will be charged to earnings immediately.
  - The two types of hedges qualifying for special accounting are Cash Flow hedges and Fair Value hedges.
    - With respect to interest rate risk management, a cash flow hedge converts a floating rate exposure on an existing asset or liability to a fixed rate. Hedges of anticipated issuance are also cash flow hedges. An example is a pay-fixed swap used to convert a LIBOR-based bank loan to a fixed-rate liability.
    - A fair value hedge converts a fixed-rate exposure to a floating-rate basis. An example is a receive-fixed swap used to convert a fixed-rate bond to a floating-rate LIBOR-indexed liability.

Note – BAC is not an accounting or tax advisor. Please consult with your auditors to determine the appropriate treatment for your company.
Documentation

- Energy hedging transactions are principally documented under the International Swap Dealer’s Association (“ISDA”) Master Agreement and Schedule. The documentation associated with most energy hedging transactions consists of the following:

- ISDA Master Agreement: The ISDA Master Agreement is an industry standard document which governs all energy hedging transactions. The Master Agreement addresses the following:
  - Netting benefits: exposure, payments, multiple transaction termination
  - Events of Default: termination mechanics
  - Bilateral provisions: industry standard document

- Schedule to the ISDA Master Agreement: The Schedule is utilized to tailor the standard documentation in order to address the individual Company. The schedule will include the specifics on credit support and structure.

- Confirmation: The Confirmation presents all the details of the transaction including prices, volume and time period covered.

- Combination of Master Agreement, Schedule and Confirmations form a single agreement. Negotiation and execution of Master Agreements is the responsibility of the Merrill Lynch Commodities, Inc.’s Derivatives Documentation Unit.