Energy Option Contract

Product Disclosure Statement

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Important information about this Product Disclosure Statement (PDS)

A PDS is an information document. Its purpose is to provide you with enough information so that you can decide if the product will meet your needs. A PDS is also a tool for comparing the features of other products you may be considering.

This PDS relates to Energy Option Contracts. An Energy Option Contract is a sophisticated financial product requiring a good understanding of the way commodity contracts and markets work. You should read and consider all sections of this PDS, as well as the actual trade documentation carefully before making a decision about the suitability of this product for you. You may also wish to obtain independent expert advice about this. If you have any questions about this product, please contact us on any of the numbers listed on the last page of this PDS.

If you decide to enter into an Energy Option Contract, you should keep a copy of this PDS and any associated documentation. You should also promptly tell us if at any time you experience any financial difficulty.

The information set out in this PDS is general in nature. It has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should consider its appropriateness having regard to your objectives, financial situation and needs. By providing this PDS, Westpac does not intend to provide financial advice or any financial recommendations.

The information in this PDS is subject to change. Westpac will provide updated information by issuing a supplementary or replacement PDS (if this were required, such as if the change were materially adverse to you) or by posting the information on our web site. You can get a paper copy of any updated information without charge by calling us.

This PDS is intended for retail clients in Australia only. Distribution of it in jurisdictions outside Australia may be restricted by law and persons who come into possession of it, who are not in Australia, should seek advice. If you are in Australia and have received it electronically, we will give you a paper copy on request, without charge. To obtain a copy, refer to the contact details listed on the last page of this PDS.

Entry into an Energy Option Contract does not represent a deposit or other liability of Westpac. Westpac does not, in any way, stand behind or guarantee the value and/or performance of the commodities or currencies referenced by any Energy Option Contract.

Energy Option Contract Summary

Overview	An Energy Option Contract (EOC) is designed to assist you in reducing your commodity price risk. It may also help you to manage your currency risk where you elect to transact your option in Australian dollars (AUD).
Costs	A premium is payable up-front. See "What are the costs?" on page 6.
Significant Benefits	An EOC may provide you with greater cash-flow certainty by protecting you against unfavourable commodity price movements (and exchange rate movements where you elect to transact in AUD). At the same time it allows you to take advantage of favourable price movements that may occur. See "What are the significant benefits of an EOC?" on page 6.
Significant Disadvantages	The premium payable is a cost to you. It will offset any benefit you may receive from favourable commodity price movements (or exchange rate movements where you elect to transact in AUD). See "What are the significant disadvantages of an EOC?" on page 6. See also "What are the significant risks of an EOC?" on page 6.
Minimum Transaction Amount	Gasoil – 1,000 Barrels/Quarter Crude Oil – 1,000 Barrels/Month (smaller amounts and other commodities may be available on request)
Term	1 week to 3 years (longer terms may be available on request)
Settlement	An EOC is cash settled at maturity. No physical delivery of the underlying commodity occurs. Any amounts owing to you will be paid on the settlement date.
Early Termination	You can terminate an EOC early but there may be a cost to you if you do. The amount you receive may be less than the original premium you paid. See "Can I terminate an EOC before maturity?" on page 8.

What is an Energy Option Contract (EOC)?

An EOC is an agreement between you and Westpac that protects you against unfavourable commodity price movements while still allowing you to benefit from any favourable commodity price movements that may occur.

An EOC may be useful for producers looking to protect their revenue against declining energy prices, for consumers in the agricultural, mining and transport industries looking to protect their costs against increasing energy prices and for other customers with exposure to energy price movements.

How does an Energy Option Contract work?

In exchange for the payment of a premium up front, an EOC effectively provides you with the right but not the obligation to sell (or buy) a specified amount of a commodity at a specified price on a specified date in the future. An EOC, however, does not require the actual physical delivery of the commodity at maturity as it is cash settled.

When you enter into an EOC, you nominate the commodity and the currency that you want your contract denominated in and whether you are seeking protection against rising commodity prices or falling commodity prices.

You also nominate the **maturity date**, the **notional volume** of the commodity, a **strike price** and the **floating reference price** you wish to settle against. Westpac will then determine the **premium** you must pay up-front for the EOC based on the details nominated by you.

The **strike price** is your level of commodity price protection. It will be denominated in the currency nominated by you.

The **floating reference price** is the variable price of your underlying commodity which moves in accordance with market prices. The **floating reference price** may rise, fall or move sideways over a given period of time. It will be based on an agreed futures contract on an agreed futures exchange or a published index price established in the market through a defined price setting process. Appendix A provides examples of these.

While the reference price can be a single reference price on a nominated date, it is generally defined to be the average of the closing prices of an agreed futures contract, or published index, over a number of business days. This period over which the **floating reference price** is determined is known as the **price reference period**.

If an average price is required you will need to specify the **price reference period** up front. Where the agreed **floating reference price** is not denominated in the currency you nominate, it will be converted into that currency using a **reference exchange rate**. Appendix B provides a full description of how this occurs.

All EOCs are automatically cash settled at maturity. No physical delivery occurs.

There are two types of EOCs: a **Put** or a **Call**, both of which achieve different financial outcomes.

Where you are seeking to manage the risk of a fall in commodity prices you will purchase a **Put.** This effectively provides you with the right, but not the obligation, to sell a specified amount of the commodity at the strike price at maturity.

On the maturity date there are two possible outcomes:

- If the **strike price** is greater than the **floating reference price**, Westpac will make a cash payment to you based on the difference between these prices.
- If the **strike price** is less than or equal to the **floating reference price**, you and Westpac will have no obligations to each other with respect to the Put contract. In this case you should achieve a commodity price that is higher than or equal to your strike price when you sell your commodity in the physical market.

Where you are seeking to manage the risk of a rise in commodity prices you will purchase a **Call**. This effectively provides you with the right, but not the obligation, to buy a specified amount of the commodity at the strike price at maturity.

On the maturity date there are two possible outcomes:

- If the **strike price** is greater than or equal to the **floating reference price**, you and Westpac will have no obligations to each other with respect to the Call. In this case you should achieve a commodity price that is lower than or equal to your strike price when you purchase your commodity in the physical market.
- if the **strike price** is less than the **floating reference price**, Westpac will make a cash payment to you based on the difference between these prices.

How does Westpac determine the premium for my EOC?

When determining the premium payable Westpac takes several factors into account including:

- the commodity and the time zone you choose to trade in;
- the maturity date set by you;
- the transaction type – Put or Call;
- the futures price on the agreed futures exchange or the forward price of the agreed published index;
- the forward exchange rate of the relevant currency pair required to convert the futures price into the currency nominated by you;
- market price volatility;
- the transaction amount;
- the price reference period you choose where settlement is requested against an average price; and
- Westpac's margin.

You will be advised of the amount of premium payable immediately prior to your entry into the specified EOC.

When is the premium payable?

The full amount of the premium is payable two business days after the trade date. It will be denominated in the currency nominated by you. All currencies must be provided in clear funds. Where you are paying foreign currency you can provide it either by telegraphic transfer or by transferring funds from a foreign currency account/deposit.

Are there any Westpac credit requirements before dealing?

Before entering into an EOC, Westpac will assess your financial position to determine whether or not your situation satisfies our normal credit requirements. This assessment is to determine your creditworthiness: we do not consider the suitability of this product for you as part of this process. Westpac will advise you of the outcome of its review as soon as possible.

If your application is successful, you will need to sign Westpac's standard finance documentation. This documentation sets out the terms of the credit approval and other matters relevant to your application. If you do not understand any part of Westpac's standard finance documentation you should obtain independent advice ***before*** signing.

What are the costs?

There are no direct fees associated with an EOC except for the premium. The price of an EOC is simply the premium payable up-front. This premium is determined by Westpac (see "How does Westpac determine the premium payable for my EOC?" above) and will be quoted to you immediately prior to your entry into the specified EOC.

While there are no additional direct fees associated with an EOC, Westpac still derives a financial benefit. Westpac obtains that benefit by incorporating a margin into the premium it sets.

What are the significant benefits of an EOC?

- EOCs provide you with protection against unfavourable commodity price movements between the time you deal and the maturity date. This can assist you in managing your commodity exposure and assist you with cash flow planning/forecasting.
- EOCs allow you to participate in any favourable commodity price movements as they do not oblige you to deal on the maturity date. Where commodity prices move favourably you should benefit when you sell (or purchase) your underlying commodity requirement in the physical market.
- Where the EOC is denominated in your local currency it eliminates the need to manage your foreign exchange risk separately.
- EOCs are flexible. The maturity date, the strike price and the notional volume can be tailored to meet your particular requirements.

What are the significant disadvantages of an EOC?

- The premium must be paid to Westpac up-front.
- While EOCs can be cancelled, there may be a cost to you in doing so (see "Can I terminate an EOC before maturity?" below for further details).
- There is no cooling off period.

What are the significant risks of an EOC?

As is the case with most financial markets products we enter into, we have performance obligations under an EOC. If we are unable to perform our obligations under your EOC, you may be exposed to commodity price fluctuations (and in some cases exchange rate fluctuations) as if you had not entered into an EOC.

Westpac's ability to fulfil its obligations is linked to our financial wellbeing and to the effectiveness of our internal systems, processes and procedures. The first type of risk (our financial wellbeing) is commonly referred to as credit or counterparty risk. The second type of risk (the effectiveness of our internal systems, processes and procedures) is commonly referred to as operational risk.

You must make your own assessment of our ability to meet our obligations. However, as a regulated Australian bank we are subject to prudential regulation which is intended to reduce the risk of us failing to perform our obligations.

In addition, all EOCs are priced with reference to a specific published price which may itself be referenced to a location other than Australia. As a result if your exposure does not match exactly the **floating reference price** defined in your EOC, this may result in variations between the price you pay/receive under an EOC and what you may pay/receive in the physical market.

This difference is referred to as **basis** risk and it explains the situation where actual exposure does not match hedged exposure.

Sources of basis risk other than location include grade, transportation expenses, taxation and insurance. An EOC will not protect you against any price risk which exists when the **floating reference price** does not match the actual commodity price you pay or receive in the physical market.

What happens at maturity?

On the **maturity date**, the **floating reference price** will be identified and where applicable will be converted into the currency you nominated using the agreed reference exchange.

Westpac will then calculate the cash settlement amount, if any, that is payable to you. This will be paid on the settlement date of the EOC (usually 5 business days after the maturity date).

In the case of a Put, if the specified strike price is greater than the floating reference price you will receive a cash payment. The cash settlement amount will be calculated as follows:

notional volume

x

(strike price – floating reference price)

If, however, the strike price is less than or equal to the floating reference price no settlement occurs.

In the case of a Call, if the strike price is less than the floating reference price you will receive a cash payment. The cash settlement amount will be calculated as follows:

notional volume

x

(floating reference price – strike price)

If, however, the strike price is higher than or equal to the floating reference price no settlement occurs.

The above process will apply whether the floating reference price is based on a single reference price or the average of the reference prices over a number of specified dates.

Where Westpac is required to make a payment to you, we will deposit the calculated amount into a Westpac bank account (in your name), denominated in the relevant currency. Alternative arrangements can be made with Westpac's consent.

Can I leave orders?

Westpac may accept and execute orders on your behalf. However, we are not obliged to do so.

An order is a request that you leave with the bank to establish or terminate an EOC on your behalf at a specified premium. Requests for orders can be placed on any Sydney business day between 9 a.m. and 7 p.m. Sydney time.

The minimum amount for an order is the same as that applying for any transaction with us (see "Minimum Transaction Amount" in the "EOC Summary" on page 4). All requests for orders will be subject to our normal credit approval process.

If market conditions allow we will execute your order at the premium nominated by you. All orders are accepted on a best endeavours basis. It may not always be possible for us to complete your order at the nominated premium. This may be due to a large jump in the market price of the commodity (and where applicable the relevant exchange rate) or a lack of liquidity in the underlying market at the time the level is reached. Similarly, this may result in your order being partly completed. Unless specified at the time the order is placed orders will be partially completed if nominated levels are reached.

Orders will be in place until executed or until you advise us to cancel them.

You will be advised as soon as practical if an order is executed.

Can I terminate an EOC before maturity?

You may ask us to terminate an EOC at any time prior to the maturity date. We will provide you with a quote for cancelling the EOC at the time of your request.

What will be the value of an EOC on early termination?

Our quote will incorporate the same variables (the type of option, the strike price, the floating reference price, notional volume, currency and maturity date) used when pricing your original EOC.

At the time of termination, we will need to consider the cost of reversing or offsetting your original transaction. When doing this we will take into account the prevailing market rates that apply to any offsetting transactions.

What happens if I accept the termination quote?

If you accept the quote, we will cancel the EOC.

The termination amount will be payable to you two business days after the termination date.

If you elect not to accept the quote provided by Westpac and terminate your EOC, the EOC will continue until the maturity date at which point Westpac will calculate the cash settlement amount, if any, payable to you (see "What happens at maturity?").

What documentation is required?

You will need to sign a standard master dealing agreement if you want to enter into an EOC. There are two types of master dealing agreements that we commonly use to document commodity transactions:

- A Westpac Master Agreement for Commodity Transactions. This is a simple agreement and is used only for commodity transactions.

- An International Swaps and Derivatives Association, Inc. Master Agreement. This is a more complicated agreement and is generally used where a person intends to enter into a variety of other derivative transactions as well as commodity transactions.

Each of these master dealing agreements governs the dealing relationship between you and us and sets out the terms and conditions that will apply to all transactions that we enter into with you that are covered by the agreement. In particular, they document the situations where those transactions can be terminated and the way the amount to be paid following termination is calculated.

You can ask for a copy of these master dealing agreements and we strongly recommend that you fully consider their terms before signing. You should obtain independent advice if you do not understand any aspect of the document.

What about confirmations?

The commercial terms of a particular EOC are agreed verbally over the phone. Once we reach an agreement, both you and Westpac are bound by the terms of the EOC.

Shortly after entering into an EOC, Westpac will send you a **confirmation** outlining the commercial terms of the transaction. You will need to sign this confirmation and return it to Westpac. This confirmation will include:

- the agreed notional volume on which calculations will be based;
- the strike price;
- the type of option – Put or Call;
- the basis for determining the floating reference price;
- the maturity date – this is the date on which the floating reference price is determined and the cash settlement amount is calculated;
- the settlement date – this is the date on which the amount owing will be payable under the EOC. It will generally be stated as five Sydney business days after the maturity date;
- the premium payable; and
- the premium payment date.

The confirmation will also specify that any cash payment to you will be settled under advice to you through your Westpac transactional account.

The confirmation will form part of the master agreement you enter into with us.

It is extremely important that you check the confirmation to make sure that it accurately records the terms of the transaction. If there is a discrepancy between your understanding and the confirmation, you will need to raise it with your Westpac representative as a matter of urgency.

In addition, Westpac will send you a **settlement advice** on the settlement date detailing the calculations of all cash settlement flows and advising you of any payments due to you under your EOC.

Examples

The examples below are indicative only and use rates and figures that we have selected to demonstrate how the product works. In order to assess the merits of any particular EOC, you would need to use the actual rates and figures quoted to you at the time. Note that the calculations below include rounding of decimal places.

Scenario 1 Commodity Consumer (Purchaser of Diesel: Buy Gasoil Call option)

You are an energy consumer looking for protection from increasing Singapore Gasoil prices (as your diesel costs are linked directly to Gasoil prices). Given your consumption level, you decide you want to hedge the price of 1,000 barrels of Gasoil per month over a 6 month period from January - June. You decide that you also want to protect yourself against adverse exchange rate movements and hence wish to hedge your Gasoil price risk with an AUD denominated option.

If I do nothing, what commodity price risk do I face?

If you did not elect to enter into a hedge contract, the amount of AUD you will pay each month when you buy your diesel will depend on both the market price for Gasoil and the AUD-USD market foreign exchange rate for the relevant period (as specified in the terms of your agreement with the supplier).

If the Gasoil price denominated in AUD falls, you will pay fewer AUD when you buy the diesel from your supplier. Alternatively, if the Gasoil price denominated in AUD rises, you will pay more AUD when you buy your diesel.

How will an EOC change this?

You purchase a strip of Gasoil call options with a notional volume of 1,000 barrels per month for a six month period starting in January. The **floating reference price** is specified as the average of the daily reference prices for Singapore Gasoil 0.5% as published by PLATTS for each month converted into AUD at the average of the daily Hedge Settlement Rates (as displayed on Reuters page "HSRA") for each corresponding month**.** (This is the second currency conversion methodology displayed on page 19.)

You set the strike at AUD 170.00 per barrel which is AUD 20.00 above the current floating reference price of AUD 150.00 per barrel. Based on these details Westpac determines the premium for your strip of call options to be AUD 5.65 per barrel.

The total premium of AUD 33,900.00 (=6 x 1,000 x 5.65) is payable in two day's time.

On the maturity date of each Call option Westpac will calculate the cash settlement amount, if any, based on the difference between the strike price and the floating reference price.

There are two possible scenarios on each maturity date. These are:

a) if the AUD 170 per barrel strike price is less than the floating reference price Westpac will pay you the difference in AUD on the Settlement Date.

   For example if the floating reference price is AUD187.50/barrel (based on an average Gasoil price of USD 168.75 and an average HSRA of 0.9000) the cash settlement amount will be:

   AUD 17,500.00
   (= 1,000 x (AUD 187.50 – AUD 170.00))

   This amount will be paid to you by Westpac on the settlement date. It should compensate you for the higher price you will pay when you buy your diesel.

   When you buy your diesel from your supplier, the market linked component of the price you pay will be based on the floating reference price for Gasoil of AUD187.50. Accordingly, this component will cost you AUD187,500.00. Subtracting from this the AUD amount you receive from the option settlement (AUD 17,500.00) and adding to it the premium you paid for your Call option (AUD 5,650.00 for this particular month) you have effectively paid AUD 175,650.00 for the market linked component of your diesel purchase.

   This is equivalent to a price of AUD 175.65 per Barrel (AUD 175,650.00/1000) i.e. the strike price plus the premium.

b) if the AUD 170.00 per barrel strike price is greater than or equal to the floating reference price no settlement occurs. However, in this case, the market linked component of your diesel purchase will be lower when you purchase your diesel in the physical market as it will be based on the floating reference price.

   For example, if the floating reference price is AUD 125.00 per barrel, (based on an average Gasoil price of USD 108.75 and an average HSRA rate of 0.8700) the market linked component of your diesel purchases will cost you AUD 125,000.00. Adding to this the premium you paid for your call option (AUD

5,650.00 for this particular month) you have effectively paid AUD 130,650.00 for the market linked component of your diesel purchase.

This is equivalent to a price of AUD 130.65 per barrel (AUD130,650.00/1000) i.e. the floating price plus the applicable premium.

How can I change the range of outcomes ?

You can change the range of possible outcomes by changing the strike price and as a result the corresponding premium. Once all these details are agreed the possible outcomes on the maturity date can be determined.

When setting the strike price, the maturity date and agreeing to the premium you need to consider that:

- The strike price, adjusted by the premium, corresponds to the maximum amount of AUD you will pay for the market linked component of your diesel purchases provided your supply contract is based on the floating commodity reference price.
- A lower strike price will reduce your exposure to a rising Gasoil price. However, it will result in a higher premium.
- A higher strike price rate will increase your exposure to a rising Gasoil price. However, it will result in a lower premium.
- The longer the maturity the higher the premium. However, a longer maturity will mean you have protection against adverse Gasoil price movements and the ability to benefit from favourable price movements over a longer period of time.
- The shorter the maturity the lower the premium. However, a shorter maturity means you will have protection against adverse Gasoil price movements and the ability to benefit from favourable price movements over a shorter period of time.

What is not covered with an EOC?

In the above example, by entering into an EOC you have reduced the risk of adverse commodity price moves over the next 6 months. Provided the market linked component of your supply contract is based on the floating reference price your worst case situation will be based on a Gasoil price of AUD 175.65 per barrel. Over the same period, should Gasoil prices fall you will benefit from the favourable move.

However, you need to remember that the price you pay under the contract for the physical purchase of your diesel may not be an exact reflection of the floating reference price under your EOC. This could occur, for example, because the price that you pay for the physical purchase of your diesel factors in freight costs, insurances, taxes and/or sales margins that may be incurred as the diesel is transported to and/or around Australia. For example, in the case of Singapore Gasoil the benchmark pricing under the EOC is specified as a free on board rate for a barrel of Gasoil (0.5%) in Singapore.

The fluctuation between the price you pay your supplier and the floating price of an EOC is referred to as the “**basis**” and is not covered by an EOC. Any slippage between the price you pay in the physical market under your supply contract and the **floating reference price** may increase the fixed price you effectively pay.

Scenario 2 Commodity Consumer (Purchaser of Crude Oil: Buy WTI Call option)

You are an energy consumer looking for protection from increasing West Texas Intermediate Crude Oil (WTI) prices. Given your consumption level, you decide you want to hedge the price of 1,000 barrels of crude oil per month for the three month period from July-September. You decide to only protect the USD price of your consumption, choosing to manage your AUD/USD exchange rate risk separately.

If I do nothing, what commodity price risk do I face?

If you did not elect to enter into a hedge contract, the amount of USD you pay each month when you buy your crude oil will depend on the market price for crude oil (as specified by the terms of your agreement with the supplier).

If the crude oil price falls, you pay fewer USD when you buy the crude oil from your supplier. Alternatively, if the crude oil price rises, you will pay more USD when you buy your crude oil.

How will an EOC change this?

You purchase a strip of WTI call options with a notional volume of 1,000 barrels per month for a three month period starting in July. The floating reference price is specified as the average of the daily closing prices for the front month of the WTI futures contract on the NYMEX exchange for each price reference period (in this case each calendar month).

You set the strike at USD 130.00.00 per barrel which is USD 15.00 above the current floating reference price of USD 115.00 per barrel. Based on these details Westpac determines the premium for your strip of call options to be USD 3.20 per barrel.

The total premium of USD 9,600.00 (=3 x 1,000 x 3.20) is payable in two day’s time.

On the maturity date of each Call option Westpac will calculate the cash settlement amount, if any, based on the difference between the strike price and the floating reference price.

There are two possible scenarios on each maturity date. These are:

a) if the USD 130.00 per barrel strike price is less than the floating reference price Westpac will pay you the difference in USD on the Settlement Date.

For example if the floating reference price is USD 145.00 per barrel the cash settlement amount will be:

USD15,000.00
(= 1,000 x (USD 145.00 - USD 130.00))

This amount will be paid to you by Westpac on the settlement date. It should compensate you for the higher price you will pay when you buy your crude oil.

When you buy your crude oil from your supplier, the market linked component of the price you pay will be based on the **floating reference price** for WTI of USD145.00. Accordingly, this component will cost you USD145,000.00. Subtracting from this the USD amount you receive from the option settlement (USD 15,000.00) and adding to it the premium you paid for your Call option (USD 3,200.00 for this particular month) you have effectively paid USD 133,200.00 for the market linked component of your crude oil purchase.

This is equivalent to a price of USD 133.20 per Barrel (USD 133,200.00/1000) i.e. the strike price plus the premium.

b) if the USD 130.00 per barrel strike price is greater than or equal to the floating reference price no settlement occurs. However, in this case, the market linked component of your crude oil purchase will be lower when you purchase your crude oil in the physical market as it will be based on the floating reference price.

For example, if the floating reference price is USD 100.00 per barrel, the market linked component of your crude oil purchases will cost you USD 100,000.00. Adding to this the premium you paid for your call option (USD 3,200.00 for this particular month) you have effectively paid USD 103,200.00 for the market linked component of your crude oil purchase.

This is equivalent to a price of USD 103.20 per barrel (USD103,200.00/1000) i.e. the strike price plus the applicable premium.

How can I change the range of outcomes ?

You can change the range of possible outcomes by changing the strike price and as a result the corresponding premium. Once all these details are agreed the possible outcomes on the maturity date can be determined.

When setting the strike price, the maturity date and agreeing to the premium you need to consider that:

- The strike price, adjusted by the premium, corresponds to the maximum amount of USD you will pay for the market linked component of your crude oil purchases provided your supply contract is based on the floating commodity reference price.
- A lower strike price will reduce your exposure to a rising crude oil price. However, it will result in a higher premium.
- A higher strike price rate will increase your exposure to a rising crude oil price. However, it will result in a lower premium.
- The longer the maturity the higher the premium. However, a longer maturity will mean you have protection against adverse crude oil price movements and the ability to benefit from favourable price movements over a longer period of time.
- The shorter the maturity the lower the premium. However, a shorter maturity means you will have protection against adverse crude oil price movements and the ability to benefit from favourable price movements over a shorter period of time.

What is not covered with an EOC?

In the above example, by entering into an EOC you have reduced the risk of adverse commodity price moves over the specified 3 month period. Provided the market linked component of your supply contract is based on the floating reference price your worst case situation will be based on a crude oil price of USD 133.20 per barrel. Over the same period, should WTI prices fall you will benefit from the favourable move.

However, you need to remember that the price you pay under the contract for the physical purchase of your crude oil may not be an exact reflection of the floating reference price under your EOC. This could occur, for example, because the price that you pay for the physical purchase of your crude oil takes into account matters such as freight costs, insurances, taxes and/or sales margins that may be incurred as the crude oil is transported to and/or around Australia. For example, in the case of WTI the benchmark pricing used under the ESC is specified as a free on board rate for a barrel of crude oil from Cushing, Oklahoma in the USA.

The fluctuation between the price you pay your supplier and the floating price of an ESC is referred to as the "**basis**" and is not covered by an ESC. Any slippage between the price you pay in the physical market under your supply contract and the floating reference price will increase the fixed price you actually pay.

Scenario 3 Commodity Producer (Seller of Crude Oil: Buy WTI Put option)

You are an energy producer looking for protection from falling West Texas Intermediate Crude Oil (WTI) prices. Given your production, you decide you want to hedge the price of 2,000 barrels of crude oil per month for the six month period from July-December. You decide to only protect the USD price of your consumption, choosing to manage your AUD/USD exchange rate risk separately.

If I do nothing, what commodity price risk do I face?

If you did not elect to enter into a hedge contract, the amount of USD you receive each month when you buy sell your crude oil will depend on the market price for crude oil (as specified by the terms of your agreement with your customers).

If the crude oil price falls, you receive fewer USD when you sell the crude oil to your customer. Alternatively, if the crude oil price rises, you will receive more USD when you sell your crude oil.

How will an EOC change this?

You purchase a strip of WTI put options with a notional volume of 2,000 barrels per month for a six month period starting in July. The floating reference price is specified as the average of the daily closing prices for the front month of the WTI futures contract on the NYMEX exchange for each price reference period (in this case each calendar month).

You set the strike at USD 106.00 per barrel which is USD 9.00 below the current floating reference price of USD 115.00 per barrel. Based on these details Westpac determines the premium for your strip of call options to be USD 4.90 per barrel.

The total premium of USD 58,800.00 (=6 x 2,000 x 4.90) is payable in two day's time.

On the maturity date of each Call option Westpac will calculate the cash settlement amount, if any, based on the difference between the strike price and the floating reference price.

There are two possible scenarios on each maturity date. These are:

a) if the USD 106.00 per barrel strike price is greater than the floating reference price Westpac will pay you the difference in USD on the Settlement Date.

For example if the floating reference price is USD 90.00 per barrel the cash settlement amount will be:

USD32,000.00
(= 2,000 x (USD 106.00 – USD 90.00))

This amount will be paid to you by Westpac on the settlement date. It should compensate you for the lower price you will receive when you sell your crude oil.

When you sell your crude oil to your customer, the market linked component of the price you receive will be based on the **floating reference price** for WTI of USD90.00. Accordingly, you will receive USD 180,000.00 for this component of the contracted price. Adding to this the USD amount you receive from the option settlement (USD 32,000.00) and subtracting from it the premium you paid for your Put option (USD 9,800.00 for this particular month) you have effectively received USD 202,200.00 for the market linked component of your crude oil purchase.

This is equivalent to a price of USD 101.100 per Barrel (USD 202,200.00/2000) i.e. the strike price minus the premium.

b) if the USD 106.00 per barrel strike price is less than or equal to the floating reference price no settlement occurs. However, in this case, the market linked component of your crude oil sale will be higher when you sell your crude oil in the physical market as it will be based on the floating reference price.

For example, if the floating reference price is USD 125.00 per barrel, you will receive USD 250,000 for the market linked component of your crude oil sales. Subtracting from this the premium you paid for your Put option (USD 9,800.00 for this particular month) you have effectively received USD 240,200.00 for the market linked component of your crude oil sale.

This is equivalent to a price of USD 120.10 per barrel (USD240,200.00/2000) i.e. the strike price minus the applicable premium.

How can I change the range of outcomes ?

You can change the range of possible outcomes by changing the strike price and as a result the corresponding premium. Once all these details are agreed the possible outcomes on the maturity date can be determined.

When setting the strike price, the maturity date and agreeing to the premium you need to consider that:

- The strike price, adjusted by the premium, corresponds to the minimum amount of USD you will receive for the market linked component of your crude oil purchases provided your sale contract is based on the floating commodity reference price.
- A higher strike price will reduce your exposure to a falling crude oil price. However, it will result in a higher premium.
- A lower strike price will increase your exposure to a falling crude oil price. However, it will result in a lower premium.
- The longer the maturity the higher the premium. However, a longer maturity will mean you have protection against adverse crude oil price movements and the ability to benefit from favourable price movements over a longer period of time.
- The shorter the maturity the lower the premium. However, a shorter maturity means you will have protection against adverse crude oil price movements and the ability to benefit from favourable price movements over a shorter period of time.

What is not covered with an EOC?

In the above example, by entering into an EOC you have reduced the risk of adverse commodity price moves over the specified 3 month period. Provided the market linked component of your supply contract is based on the floating reference price your worst case situation will be based on a crude oil price of USD 101.10 per barrel. Over the same period, should WTI prices rise you will benefit from the favourable move.

However, you need to remember that the price you receive under the contract for the physical sale of your crude oil may not be an exact reflection of the floating reference price under your EOC. This could occur, for example, because the price that you receive for the physical sale of your crude oil takes into account matters such as freight costs, insurances, taxes and/or sales margins that may be incurred as the crude oil is transported to and/or around Australia. For example, in the case of WTI the benchmark pricing used under the ESC is specified as a free on board rate for a barrel of crude oil from Cushing, Oklahoma in the USA.

The fluctuation between the price you receive from your customer and the floating price of an EOC is referred to as the “basis” and is not covered by an EOC. Any slippage between the price you receive in the physical market under your sale contract and the floating reference price will reduce the fixed price you actually receive.

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Other things you should know

Taxation

Taxation law is complex and its application to this product will depend on your particular circumstances. We make no claim that this product will provide a beneficial or appropriate tax outcome for you. When determining whether this product is suitable for your circumstances, you should consider the impact it will have on your own taxation position and seek professional advice if needed. We note that the Australian government is currently in the process of reforming the taxation treatment of certain financial arrangements and therefore you should also consider how those reforms may impact your taxation treatment of this product in the future.

Telephone conversations

The terms of an EOC are agreed verbally over the telephone. Once we have reached an agreement, both you and Westpac are bound by the terms of the EOC.

Conversations with our dealing room and settlement departments are taped. This is standard market practice. We do this to make sure that we have complete records of the details of all transactions. Taped conversations are retained for a limited period and are usually used where there is a dispute and for staff training and monitoring purposes.

You will need to advise our dealer if you do not wish to be recorded. However, we will not enter into any transaction over the telephone unless the conversation is recorded.

Factors that may influence our advice

This document has been designed to help you choose the right product for your needs. When you ask for a recommendation, please be assured that our staff members will always explain your choices and suggest a suitable product (please refer to the enclosed Financial Services Guide).

Sometimes our staff may be eligible for incentives, including cash incentives, for achieving or exceeding sales targets.

Communications with you

From time to time, members of the Westpac Group may contact you with or send you information about other Westpac products and services that we feel might be of relevance or benefit. (Westpac Group refers to Westpac Banking Corporation and its related bodies corporate).

Although we encourage you to receive this information, it is not compulsory. If you do not wish to receive it, please advise us in one of these three ways:

- Call Telephone Banking on 132 032
- Write to us at GPO Box 3433, Sydney NSW 2001
- Visit any of our branches.

You don't need to do this if you have already told us you do not want to receive this sort of information.

Code of Banking Practice Compliance

The Code of Banking Practice is a self regulatory Code adopted by us and other banks. Its purpose is to set standards of good banking practice for banks to follow when dealing with persons who are, or who may become, individual and small business customers and their guarantors.

If you are an individual or small business customer, each relevant provision of the Code applies to the product described in this PDS. The general descriptive information referred to in the Code (other than information in relation to bank cheques and account opening procedures) is set out in this PDS. This includes information about:

- Our obligations regarding the confidentiality of your information
- Complaint handling procedures
- The advisability of you informing us promptly when you are in financial difficulty
- The advisability of you reading the terms and conditions applying to an EOC.

If you would like to discuss whether or not the Code will apply to you, please contact us on the numbers set out at the back of this document.

Privacy and confidentiality compliance

Westpac's Privacy Policy explains our commitment to the protection of your personal information. You may obtain a copy of our Privacy Policy by:

- Calling Telephone Banking (on 132 032)
- Contacting any of our branches
- Visiting our web site at www.westpac.com.au

In addition to Westpac's duties under legislation, it has a general duty of confidentiality towards you, except:

- Where disclosure is compelled by law
- Where there is a duty to the public to disclose
- Where the interests of Westpac require disclosure
- Where disclosure is made with your express or implied consent.

What to do if you have a problem or dispute

Getting your complaint heard

Sometimes you may want to talk about problems you are having with us. Fixing these problems is very important to us.

We've put in place ways of dealing with your issues quickly and fairly.

Please talk to us first

We aim to resolve your complaint at your first point of contact with us in a timeframe agreed with you. This is our 'Ask Once' promise. So please raise your complaint with any of the people handling your banking.

You can contact us 24 hours a day, 7 days a week from anywhere in Australia, by:

Phone: 1300 130 467
Email: Go to our website – www.westpac.com.au and click on 'Contact Us'
Fax: 02 9220 4177
Mail: GPO Box 5265, Sydney NSW 2001.

Contact our National Customer Relations Unit

If we can't resolve your complaint at your first point of contact with us, we will escalate it to our National Customer Relations Unit. They will aim to resolve your complaint in a timeframe agreed with you.

You can also contact our National Customer Relations Unit:

Telephone: 1300 130 206
Email: Go to our website – www.westpac.com.au and click on 'Contact Us' and then click on 'Complaints and Compliments'
Fax: 02 9220 4177
Mail: NCRU, GPO Box 5265, Sydney NSW 2001.

Contact our Customer Advocate

If you feel we did not act fairly in the way we handled your complaint or in the way we resolved your complaint, you can ask our Customer Advocate to review the matter for you.

The Customer Advocate's role is to act as independently as possible to make sure that Westpac has treated you fairly.

You can contact our Customer Advocate on:

Telephone: 1300 301 977
Mail: Customer Advocate,
GPO Box 5265
Sydney NSW 2001

What to do if you are still unhappy

If we haven't been able to deal with your issues to your satisfaction, there are a number of other bodies you can go to. You may be able to refer your complaint to either of the external organisations listed below:

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007
Phone 1300 780 808
Fax: (03) 9621 2291
Internet: www.fics.asn.au

Banking and Financial Services Ombudsman Limited
GPO Box 3, Melbourne VIC 3001.
Phone: 1300 780 808
Fax: (03) 9613 7345
Internet: www.bfso.org.au

You can also contact the Australian Securities & Investments Commission (ASIC) to make a complaint and to obtain further information about your rights. They also have a freecall Infoline – 1300 300 630 and e-mail contact address – infoline@asic.gov.au

Financial Crimes Monitoring

Please be advised that in order for Westpac to meet its regulatory and compliance obligations relating to anti-money laundering and counter financing of terrorism, we will be increasing the levels of control and monitoring we perform.

You should be aware that:

- transactions may be delayed, blocked or refused where we have reasonable grounds to believe that they breach Australian law or the law of any other country;
- where legally obliged to do so, we may disclose the information gathered to regulatory and/or law enforcement agencies.

Upon entering into any Energy Option Contract with Westpac, you agree:

- you are not and will not enter into any agreement with Westpac under an assumed name;
- any funds used by you to enter into an agreement with Westpac has not been derived from or related to any criminal activities;
- any payments received from Westpac will not be used in relation to any criminal activities;
- if we ask, you will provide us with additional information we reasonably require from you; and
- we may obtain information about you or any beneficial owner of an interest in an agreement with Westpac from third parties if we believe this is necessary to comply with any law.

Labour standards or environmental, social and ethical considerations

Westpac does not take into account labour standards or environmental, social or ethical considerations when entering into Energy Option Contracts.

To learn more about Westpac's commitment to sustainability (including our latest Stakeholder Impact Report), go to www.westpac.com.au.

Glossary

To help you to understand this PDS, the meanings of some words used in this PDS are set out below.

AUD means Australian dollars.

basis means the difference between the price achieved in the physical market (which will reflect quality, transport costs and other factors) and the **floating reference price**.

Call means an EOC that provides the owner with protection against rising commodity prices.

Code means the Code of Banking Practice adopted by us and other banks.

confirmation means a letter confirming the terms of a particular EOC.

currency pair means, where applicable, the two currencies applying in respect of an EOC. The currency pair will be the relevant currency pair required to convert the futures price from one currency to another nominated by you.

EOC and Energy Option Contract means the product which is the subject of this PDS.

floating reference price means the floating ("non-fixed") component of the EOC. It is the variable price of your underlying commodity and will be based on an agreed futures contract on an agreed futures exchange. Where applicable it will be converted into your nominated currency using an agreed reference exchange rate.

forward exchange rate means the price of one currency in terms of another currency for delivery on a specified date in the future taking into account Westpac's costs and its profit margin. This is the rate that Westpac will use when the futures price is denominated in a different currency to the one you nominate.

futures contract means a legally binding agreement, made on a trading floor of a futures exchange, to buy or sell a commodity or financial instrument sometime in the future.

HSRA means the AUD/USD spot Hedge Settlement rate set each Sydney business day at approximately 9.45 a.m. and displayed on Reuters page HSRA. The hedge settlement rate is calculated from the mid-rates of the last update from a defined number of market participants between 9.45 a.m. and 9.48 a.m. The contributors to the process are determined semi-annually, and provided to the Australian Financial Markets Association by the Reserve bank of Australia.

ICE means the Intercontinental Exchange, a Futures and Options on Futures Exchange based in London.

market foreign exchange rate means the price of one currency in terms of another currency for a specified delivery date after taking into account Westpac's costs and its profit margin. This is the rate that Westpac would make available to you at the relevant time.

maturity date means the date on which the **floating reference price** is set and the outcome of the EOC is determined.

notional volume means the agreed quantity of the underlying commodity of the EOC.

NYMEX means New York Mercantile Exchange, a Futures and Options on Futures Exchange, based in New York NY., USA.

physical delivery means the actual delivery of the underlying commodity in exchange for cash. Under the terms of an EOC no physical delivery takes place.

PLATTS means the Singapore based organisation that is used as a price reference source for specified fuel types.

PLATTS Asia-Pacific means a trade journal published by Platts containing prices for regional fuels.

PLATTS Oilgram means a trade journal published by Platts containing prices for various fuels.

premium means the amount paid by the buyer of the EOC to the seller for the right to effectively buy (sell) a specified amount of the underlying commodity at the agreed strike price on the agreed maturity date.

price reference period means the period between which the published **floating reference price**s will be used to determine the floating price of the EOC. This period is specified by the Customer before entering into an EOC.

pricing date means each date within the price reference period the **floating reference price** is sourced.

Put means an EOC that provides the owner with protection against falling commodity prices.

reference exchange rate means the exchange rate source agreed up front that will be used to convert the **floating reference price** into the currency nominated by you (for example, HSRA).

Reuters means Reuters Group PLC.

Saudi Aramco means the state based oil company for Saudi Arabia that is responsible for network of refining and distribution facilities that fuel Saudi Arabia's industrial sector.

settlement advice means a letter detailing the calculation of the **cash settlement amount** as determined by Westpac on the **maturity date.**

settlement date means the date on which the **cash settlement amount** is paid. The date, 5 business days after the **maturity date** or such date as shown in the confirmation.

strike price means the agreed price at which you have the right to buy (sell) the underlying commodity.

USD means United States dollars.

Westpac, we or us means Westpac Banking Corporation.

you, your means the customer entering into an EOC.

Appendix A – Examples of Floating Reference Price Sources

Commodity	Reference price	Reference Price Source	Reference Price Methodology
Gasoil	Gas Oil-0.5 Singapore-PLATTS Asia-Pacific	PLATTS Asia-Pacific	The index price as determined by PLATTS from the prevailing market prices over a 30 minute window which closes at 4:30pm Singapore time.
Fuel Oil: Sing 180	Fuel Oil-180 CST Singapore-PLATTS Oilgram	PLATTS Oilgram	Please refer to Gasoil
Fuel Oil: Sing 380	Fuel Oil-380 CST Singapore (Cargoes)-PLATTS Asia Pacific	PLATTS Asia Pacific	Please refer to Gasoil
Jet Fuel/Kerosene	Jet Fuel-Asia-Pacific (Kero)-PLATTS Asia Pacific	PLATTS Asia-Pacific	Please refer to Gasoil
WTI Crude Oil	Oil-WTI-NYMEX	NYMEX Futures Exchange	The official settlement price, taken to be the closing price of the open outcry session on the exchange at 2:30pm EST time.
Brent Crude Oil	Oil-Brent-IPE	Intercontinental Exchange (ICE)	The official settlement price, based on the weighted average price of all trades during a 3 minute period from 7:27pm London time.
LPG	Saudi Aramco Contract Price	Saudi Aramco	The index price as determined by the Saudi Arabian National Oil Company and published on the first day of each month.

Appendix B – Currency conversion of the Floating Reference Price

Where the reference price is calculated on a single date, the **floating reference price** will simply be converted at the reference exchange rate for that specific date.

If the reference price is calculated over a price reference period there are two main ways currency conversion is done.

1. Conversion can occur on each day. Under this method the **floating reference price** will be converted into the currency nominated by you using the **reference exchange rate** for that day.

   In the hypothetical example set out below, the **floating reference price** for the month is equal to the average of Column C (that is, AUD 121.21).

2. Conversion can occur at the end of the **price reference period**, by converting the average closing reference price at the average **reference exchange rate** (determined over the same **price reference period)**.

   In the hypothetical example below, the **floating reference price** for the month is calculated by dividing the average of Column A by the average of column B (that is, AUD121.44 = USD 106.49 / 0.8769).

In each hypothetical example, the Australia Day Holiday is excluded. Which method you require must be specified upfront. The **price reference period** and the basis for determining the business days to be used are agreed upfront. The source of the reference exchange rate will also be agreed up-front.

Example	**Column A**	**Column B**	**Column C**
Fixing Date	**Gasoil/USD**	**AUD fixing (USD per AUD)**	**Gasoil/AUD**
Wed 2-Jan-08	102.72	0.8587	119.62
Thu 3-Jan-08	102.92	0.8587	119.86
Fri 4-Jan-08	102.52	0.868	118.11
Mon 7-Jan-08	100.39	0.874	114.86
Tue 8-Jan-08	102.68	0.8764	117.16
Wed 9-Jan-08	100.98	0.8764	115.22
Thu 10-Jan-08	101.73	0.8763	116.09
Fri 11-Jan-08	103.79	0.8839	117.42
Mon 14-Jan-08	107.68	0.8801	122.35
Tue 15-Jan-08	108.29	0.8713	124.29
Wed 16-Jan-08	108.76	0.8726	124.64
Thu 17-Jan-08	107.95	0.8801	122.66
Fri 18-Jan-08	106.88	0.883	121.04
Mon 21-Jan-08	107.54	0.8946	120.21
Tue 22-Jan-08	108.16	0.8908	121.42
Wed 23-Jan-08	108.85	0.8993	121.04
Thu 24-Jan-08	109.02	0.8805	123.82
Fri 25-Jan-08	109.57	0.879	124.65
Mon 28-Jan-08	110.71	Australia Day Holiday	Australia Day Holiday
Tue 29-Jan-08	110.61	0.8805	125.62
Wed 30-Jan-08	110.8	0.8598	128.87
Thu 31-Jan-08	110.2	0.8717	126.42
Average	**106.49**	**0.8769**	**121.21**

Contact Details

Queensland and Northern Territory:

Level 14, 260 Queen Street
Brisbane QLD 4000
Telephone (07) 3227 2155

Western Australia:

Level 16, 109 St Georges Terrace
Perth WA 6000
Telephone (08) 9426 2522

New South Wales and ACT:

Level 2, 275 Kent Street
Sydney NSW 2000
Telephone (02) 8204 2822

Victoria, South Australia and Tasmania:

Level 9, 360 Collins Street
Melbourne VIC 3000
Telephone (03) 9608 3950