



SEM Annual Capacity Exchange Rate

Version	Date	Author	Comment
1.0	26 Aug 2008	SEMO	Issued to Regulatory Authorities

Recommendations

SEMO recommends a Euro/GBP exchange rate of 0.7944 for the period 1 January 2009 to 31 December 2009. The derivation of this exchange rate is provided below by the SEM Bank: Danske Bank.

SEMO - EUR / GBP Annual Rate

Forecasts v Forwards

- The most suitable gauge for 'predicting' future FX rates is to use the current market forward FX rates for the period in question. While we could use forecasts, these are very much the view of one person/institution at a point in time and will differ from institution to institution. However, the current market rate is the collective bargaining of the market to reach this (spot) price and the forward points are determined by the markets forecast for interest rates, relative to the period involved. This is described below.
- There is no question that the applicable rate over the course of the year will not equal the rates described below, however it does provide the best guess-timate for the period.

Forward FX Rate

- The forward FX rate is simply the rate at which one currency can be exchanged for another currency, at any given date in the future, as at/agreed today. It is calculated using the current spot FX rate (current market price for delivery in 2 business days), and then adding or subtracting any relevant 'forward points' that may apply to the rate.
- Forward points are a measure of the difference in the underlying interest rates for both currencies, expressed as a proportion of the underlying exchange rate/price. Forward points are used to account for any benefit/disadvantage from the difference in these underlying interest rates (ie EUR interest rates are less than comparative GBP interest rates, and so there is an advantage from holding GBP until the maturity of the forward contract.)
- Generally the spot rate is far more volatile than the forward points, and as such is the key driver/determinant of the overall forward rate

EUR / GBP Forward Points & Pricing

Maturity	Fwd Points	Outright Fwd Rate
SPOT	0.0000	0.7910
02-Jan-09	0.0017	0.7927
02-Feb-09	0.0021	0.7931
02-Mar-09	0.0024	0.7934
01-Apr-09	0.0027	0.7937
05-May-09	0.0031	0.7941
01-Jun-09	0.0033	0.7943
01-Jul-09	0.0036	0.7946
03-Aug-09	0.0040	0.7950
01-Sep-09	0.0043	0.7953
01-Oct-09	0.0044	0.7954
02-Nov-09	0.0045	0.7955
01-Dec-09	0.0046	0.7956

Current Spot = 0.79100

2009 Average = 0.79439