Koch Supply & Trading, LP

Fuel Surcharge Exposure and Risk Management

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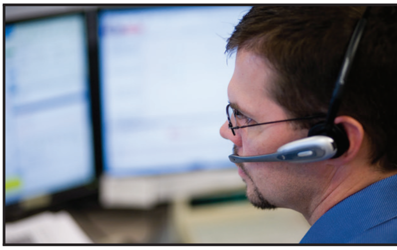


THE STING OF FUEL SURCHARGES

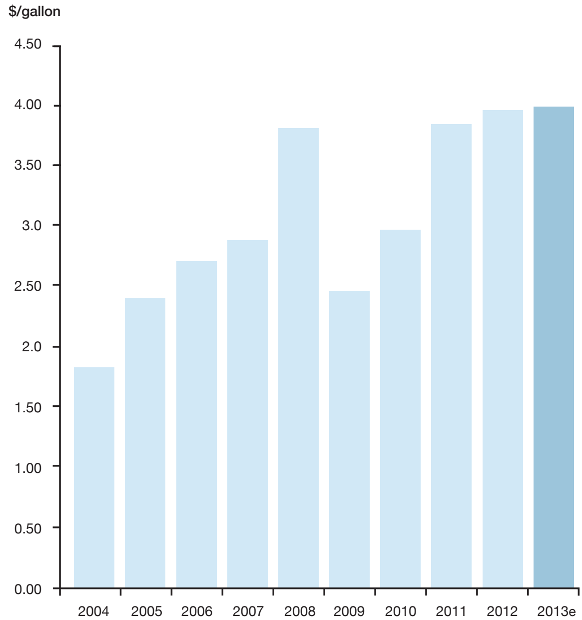
Over the past several years, freight carriers have successfully passed fuel surcharges on to their customers. Presently, most on-land and waterborne freight providers in North America, Latin America and Europe have implemented multi-tier rates based on their cost of fuel.

While surcharges vary among carriers and their customers, the intent is the same: to transfer the burden of volatile fuel costs from carrier to shipper. As a result, fuel surcharges have become a significant variable expense for many corporations whose primary business has little or nothing to do with trading oil. The recent past has redefined market volatility, and future pricing seems more unclear than ever.

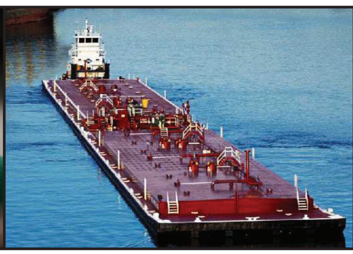
Facing such uncertainty, manufacturers and others often wish to replace the variability of unknown future fuel prices with the predictability of a known fixed cost. Or, at a minimum, purchase protection so that fuel surcharges are capped at some level. However, transportation companies generally have been unwilling to provide such certainty to their customers.

There is an alternative. A significant number of companies have found that by entering into a financial contract – on similar but opposing terms to their freight surcharge – they can largely offset the cost variability.

U.S. AVERAGE RETAIL DIESEL PRICE



2004 through 2012 values include actual average price of diesel fuel as provided by the DOE. 2013 value is an estimate based on data provided by DOE in the year 2013.






RISK MANAGEMENT PRODUCTS

The energy derivatives group of the Koch Supply & Trading companies is a leading provider of such financial contracts and can offer various forms of price protection to shippers, potentially allowing them to effectively lock in forward surcharges at a given level; cap them at a particular level; or establish some other tailored solution. By replacing an unknown with a known value, the uncertainty of future cost structures can be reduced and the impact of a sudden or prolonged price rally can be mitigated.

These solutions vary, but most often are based on highly conventional indices. Most fuel surcharges in the U.S. are tied to a national diesel fuel (or, in some cases, gasoline) index published each Monday by the U.S. Department of Energy's Energy Information Administration. This is why fuel surcharges are often referred to as "DOE surcharges," or "EIA surcharges." Fuel surcharges elsewhere in the world also tend to be tied to national or regional retail diesel or gasoline
price indices.

Freight carriers can use these products themselves to offer their clients a similar hedge against future surcharges. This capability would provide their customers with shipping cost certainty and eliminate the need for separate agreements. Such a program can be a significant competitive advantage.

WHY KOCH SUPPLY & TRADING?

Competitive pricing – Our affiliated companies own refineries and other physical assets and thus are naturally long refined products such as diesel fuel. This enables the energy derivatives group of the Koch Supply & Trading companies to offer competitive pricing on products that may not be available among financial institutions.

A long history of financial solutions – A Koch company traded the first crude oil swap in history. Our organization has been a pioneer in many aspects of the energy trading world, and Koch Supply & Trading companies continue to be leaders in physical and financially settled energy contracts. The energy derivatives group of the Koch Supply & Trading companies was an early entrant to the DOE surcharge business and can put that experience to work for others.

Credit diversification – Unfortunately, the world has seen significant corporate hardship in recent years. One lesson from this is the value of credit diversification. Corporate risk managers hedging freight surcharges may therefore want to consider the value of having at least one non-bank counterparty in their stable. Koch Supply & Trading is an indirect subsidiary of Koch Industries, Inc., one of the largest private companies in America, according to *Forbes*. The owner of KS&T, Koch Resources, LLC, maintains long-term credit ratings of AA- from S&P and Aa3 from Moody's, a credit rating higher than 98 percent of rated energy companies.

To learn more about freight surcharges and the risk-mitigation solutions Koch Supply & Trading companies may be able to offer, please contact:

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NOTE: These forecasts/data/analysis are based upon a number of estimates and assumptions. Actual results may vary significantly. No assurance or guarantee is made that these forecasts will be achieved.

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