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Contact: Mary Beth Jarvis  
Koch Industries, Inc.  
+1 (316) 828-3756  
[jarvism@kochind.com](mailto:jarvism@kochind.com)

## **KOCH SUPPLY & TRADING COMPLETES ITS FIRST ENERGY VOLATILITY SWAP**

WICHITA, Kan. — Koch Supply & Trading LP, using its market knowledge to focus on creating innovative risk management strategies, has completed its first-ever oil price volatility swap contracts.

The company, acting as market-maker, provided two volatility swaps in October for Centaurus Energy LP, a Houston-based hedge fund. The contracts will settle off New York Mercantile Exchange futures contracts on West Texas Intermediate crude oil and heating oil.

“Virtually all energy market participants are vulnerable to future price volatility,” says Iliia Bouchoev, KS&T’s vice president of derivatives in Wichita. “This new product provides access to the volatility market and a tool to manage exposure. For example, hedge funds currently focusing on futures trading now have access to trade volatility directly, adding a new asset class with low correlation to core portfolio holdings.”

“The transaction allowed us to make a clean, relative-value bet on the future realized volatility of WTI versus heating oil,” says John Arnold, principal of Centaurus Energy. “The volatility swap lowers our transaction costs as we avoid having to gamma trade futures in order to stay delta-neutral.”

While not restricted to hedge funds, Bouchoev says that any counterparty anticipating volatility sparked by events such as OPEC meetings, elections or government statistics is a potential customer.

“Up until now, products for volatility trading, such as options, exposed contract holders to changes in underlying prices via the options’ strike levels,” says Nick Dazzo, structured products originator for KS&T in New York. “Volatility swaps, by contrast, reflect only the magnitude of daily fluctuations in prices, not the levels of those prices.

“Volatility swaps offer a convenient way to optimize entry points for strategic option hedges by locking in certain levels in advance,” Dazzo says. “In addition, option market-makers can use this new tool to rebalance the net volatility in their market-making portfolios.”

The Koch Supply & Trading group will offer these products through its derivatives team in Wichita, Houston, New York and London.

*The Koch Supply & Trading group of companies engages in global trading and risk management activities in crude oil, refined petroleum products, metals and other commodities. These companies have traders in Wichita, Houston, New York, London, Moscow, Mumbai and Singapore, and move products through hubs, ports and terminals around the world, including Oklahoma, Louisiana, New York, Europe, Singapore and the Middle East. Koch Supply & Trading, LP is a subsidiary of Koch Industries, Inc., a Wichita, Kansas-based firm that owns a diverse group of companies engaged in trading, investment and operations worldwide. More information is available at [www.ksandt.com](http://www.ksandt.com) or [www.kochind.com](http://www.kochind.com).*