

DELIVERING PREDICTABILITY

CARRIER EDITION

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NOTEWORTHY

“Perhaps the most significant innovation has been the development of financial instruments that enable risk to be reallocated to the parties most willing and able to bear that risk.”

**Alan Greenspan,
US Federal Reserve Board Chairman**

Roadmap to Predictability

Large Shippers have been feeling a great deal of pressure in recent years. They have exhausted traditional ways to control costs, and are now looking for more systemic ways they can take cost out of Logistics. Developments over the last 20 years in financial engineering now allow these companies to dynamically shift risks through the transportation chain (see quote from Alan Greenspan). These new ways of using technology and information will make the lives of Shippers, Airlines and Forwarders more predictable and cost effective. FutureFreight, in coopera-

tion with many Shippers, Airlines and Forwarders has created a framework to help run a more predictable business. Better demand and pricing predictions are the two core benefits of this framework. Demand prediction comes in the form of risk-rated Shipper forecasts (see next article). Discovering future prices and locking in good deals is accomplished by creating an exchange for Freight Futures and Options—similar to what exists with bulk ocean shipping and in many industries world-wide. These Futures and Options contracts have third party

guarantees to prevent the risk of default.

FutureFreight is about to launch a Pilot designed for its partners to experiment with these concepts, optimize the mechanics around Futures trading, and learn how to optimize the use of forecasts.

This issue of our newsletter is intended to help you understand how you can benefit from more predictability (see articles on page 2) and update you on our direction and progress.

Major Shippers Develop Risk-Rated Forecast Standard

FutureFreight, Intel, Limited Brands Logistics Services, and several other large international Shippers have agreed on a standard to securely and privately distribute risk-rated Logistics forecasts to selected supply chain partners. Risk-rated forecasts allow Manufacturer’s Forwarders and Airlines to understand the

level of uncertainty associated with a given forecast and act on it. With this information they can now better plan ahead and optimize the risks of capacity starvation, no-shows and changes in price. This is an important first step towards optimizing and reducing the cost of financial and procurement risks in the industry.

The creation of the forecast

standard was the first act of the newly created Shipper Consortium, a forum for Shippers to discuss and promote industry level techniques to better manage and optimize transportation risks.

The standard is currently in draft form, open for review and comments. To participate e-mail info@futurefreight.com

SECURING THE SUPPLY CHAIN.

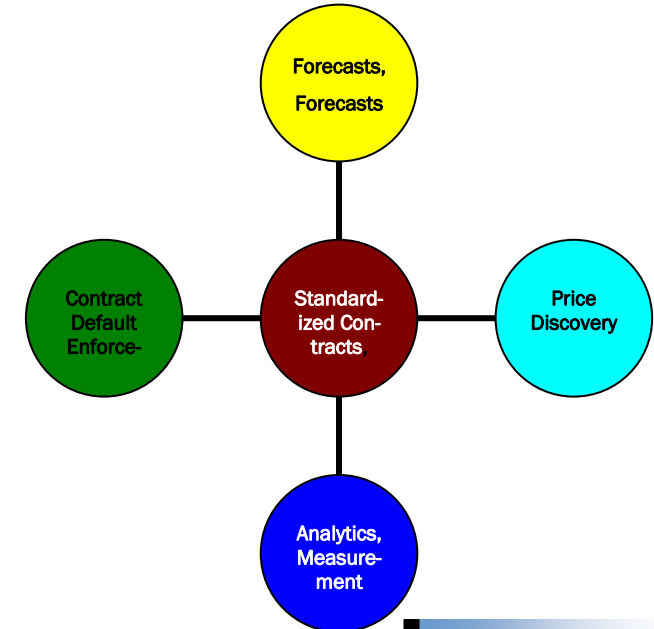
Mark J, Director of Freight at a large Airline knew all too well because he had been there before.

He had received a request from one of his large Forwarders to reserve the whole lower belly of several flights for the launch of a new product by a well known international Shipper next quarter. During low season, such an opportunity was not to be missed he thought. He wondered how to get assurance that the space would really be used. In the past, he had to face flying with an almost empty load when at the last minute freight did not materialize. During low season, it was hard to get a Forwarder to actually pay any penalty for not using committed space. Mark wasn't really sure how to price future space so early. What will the

market be like in three months? There is talk of a possible attendant strike at other airlines, could this cause prices to go up in the middle of low season? Ultimately, there wasn't much Mark could do, with little information and no real options to back-out, his choices were limited. He finally decided to take the risk of a no-show and price the freight with the little information he had, hoping that the Shipper was right about his new product launch date. Somehow Mark also knew there was a better way with more structured information, communication, and a mechanism for the various players to deal with the uncertainty.

Anticipating market changes

Providing for the uninterrupted and cost effective flow of goods is one of the underpinnings of a good supply chain. Regrettably not every-



thing can be completely planned and unpredictable events such as Shipper delays, changes in oil prices or changes in demand create uncertainty that is costly for an Airline. Private contracts that require a Forwarder's commitment are a double-edged sword, they do help but are difficult to price, commitments are sometimes hard to enforce, and their lack of granularity limits their

“Procurement and Logistics risks can create earning surprises.”

Market

Cont	Orig	Dest	Service	Expires	Type	Class	Bid	Ask	Bid Wt.	Ask Wt.
Future	JKT	SEA	Direct	6/1/2005	LIPPER	A	\$1.25	\$1.30	90	50

appeal to Forwarders. They are also expensive to sell, requiring a well trained sales force. To an Airline, uncertainty about future demand and future price levels are the greatest impediment to good planning and consistent profits.

There is no need to live with the uncertainties of a

last minute crunch! *Future-Freight* is working with several Shippers, Forwarders and Airlines to create the infrastructure that allows the industry to more cost effectively provide guarantees that act like insurance against disruptions from changes in demand, supply, or prices.

Airlines receive real, measurable commitments in the form of Futures an Op-

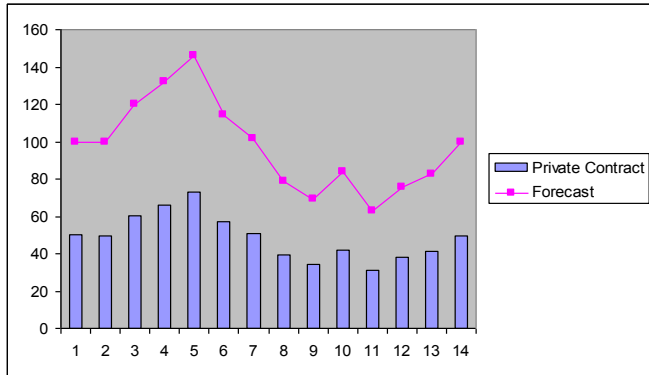
tions. They can then use the market to better estimate future spot prices and demand. All this allows an Airline to better plan investments and decide how much to commit on contracts now, and how much to keep for the spot market.

Forwarders use enhanced analytical tools and real time market data that

allows them to plan ahead and provide a vital service to their Shippers - that of uninterrupted service at a more predictable cost.

Shippers can effectively make sure they will have access to the space they need when they need it at a known cost. They make their supply chain costs more predictable and decrease the cost variability associated with the uncertainties of the

SECURING THE SUPPLY CHAIN (CONTINUED)



Graph 1 – Procurement against a traditional forecast

transportation market..

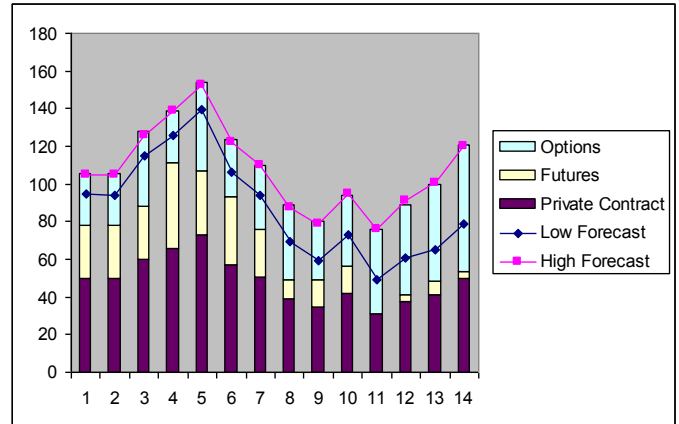
PRACTICAL GUIDE

In today's battle to decide the optimal amount of capacity to allocate to contracts and how much to leave for last minute purchases, Airlines have used Revenue Management systems (RM). Yet, RM is not optimal if a Forwarder's commitments are not met, Shippers' need for flexibility are not measured, and future spot prices are poorly estimated. This is what happens when Forwarders do not have the tools and the information to optimize their long-term

purchases (see Graph 1). Using FutureFreight's easy to use tools, Airlines and Forwarders can now find the answer that gives them assurance of capacity at a predictable cost - while maintaining a reasonable risk position and margins for their business.

This is accomplished by first (1) understanding and measuring the risks associated with aggregated Shippers' forecasts, then (2) looking at current market prices and open Futures and Options orders to decide how much to sell as Futures or Options or on private long term contracts (see Graph 2). Futures are standardized contracts

which have 3rd party guarantees, thus, eliminating the risk of no-show and making sure



Graph 2 – Using a risk-rated forecast enables more options

that a shipment not showing up will still be paid in full. Selling Options allows an Airline to better gauge how much flexibility is required by Shippers.

BACK TO MARK

With techniques like these, Mark and his Forwarders could have measured and tracked changes

(Continued on back)

THE EXAMPLE OF POWER IN EUROPE

The Electrical power industry shares many similarities with air freight. They are both "perishable" services with relatively inflexible supply. Airlines and electricity suppliers both make large financial commitments ahead of time to build their capacity, yet they

tend to have a more limited view on firmly committed revenues. For electricity suppliers, power failures are just as bad for product delivery as failure to receive expected freight on time in our industry. In the mid 1990's a group of energy producers located in northern

Europe started trading Power Futures and Options. Since then power companies that used futures and options to reduce risk saw their operating margin double compared to the industry average.

Sources: Euro Power, Annual reports

"Power companies in Europe that used futures and options to reduce risks saw their operating margin double."

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SECURING THE SUPPLY CHAIN (CONTINUED)

in the amount and variability of the forecasted product launch along with any possible freight market changes. He and his Forwarders would have been able to create a flexible contractual arrangement with clear, unbreakable commitment thanks to freight Futures and Options. Futures would cover the more certain part of the forecast and Options would cover the upside possibilities, allowing Mark to anticipate future demand and market price changes. Mark would now be able to adjust his Futures and Options positions to best plan ahead and meet his goal of increased yield.

FUTURE -
FREIGHT™

Mission Statement

FutureFreight is the neutral trading platform for Freight Futures. Our goal is to increase business predictability and profit and enable organizational efficiency for Carriers, Forwarders, Shippers. We bring futures trading, forecast information exchange, commitments, and price discovery.



About the Founders

Pierre Laurent: Strong track record for giving live to new markets with Microsoft (9 Years) and Intel (3 years), 15 years experience in marketing (new products), large account sales, consulted with transportation companies (air, rail and truck), deep knowledge of economics and the principles of risk management, BS Computer Science & Math, MBA (Kellogg/ Northwestern)

Petere Miner: Pioneered the value of logistics information and forecasting, first in HP to address logistics risk management, used trading platforms for freight auctions and bidding, 20 years Hewlett-Packard, High-Tech Consortium, Supply Chain & Logistics, passion for Logistics and Transportation, BS Electrical Engineering

FUTUREFREIGHT™
We deliver predictability



You too can get involved:

As an Airline you can learn how to use Future Trading to decrease your risks and make your business profits more predictable. Or you can get involved with reviewing the forecast standard.

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