Wholesale Beer & Wine Association of Ohio
Representing beer and wine distributors in Ohio for over 75 years

Presentation to

Wholesale Beer and Wine Association of Ohio

Commodity Risk Management

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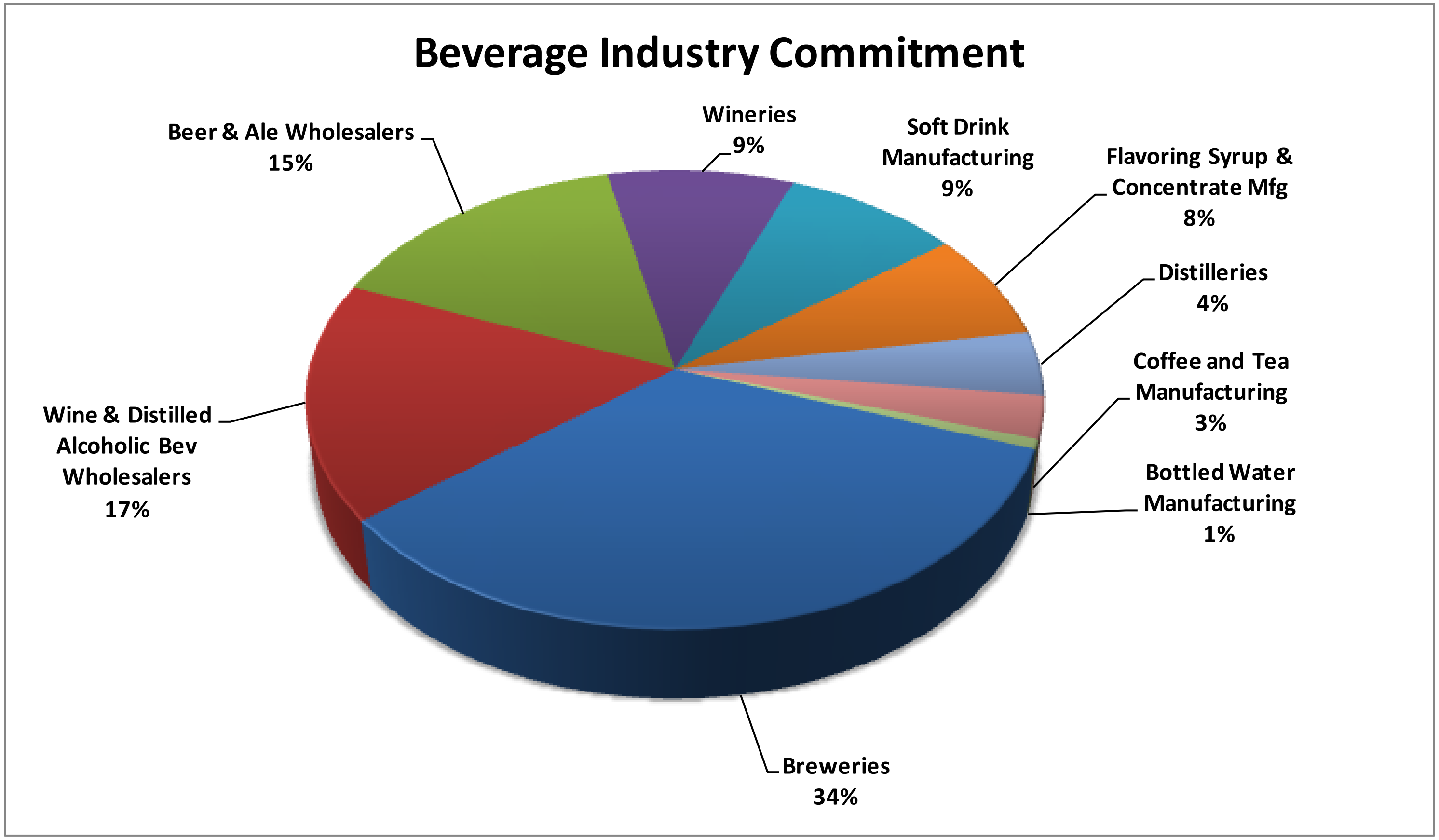
Capital Commitment to the Beverage Industry

Bank of America Merrill Lynch Leadership

Bank of America has over $12 Billion in capital committed to the Beverage Industry [1]

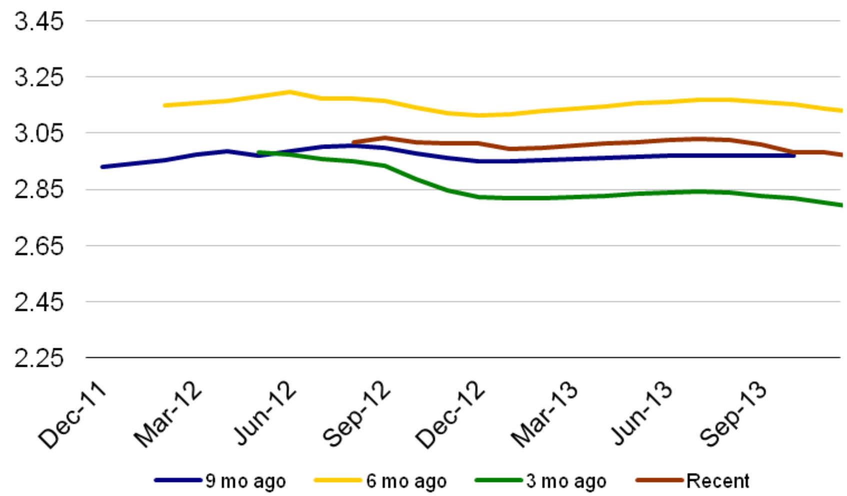


Footnotes:
(1) As of July 30, 2012

Diesel Market Update

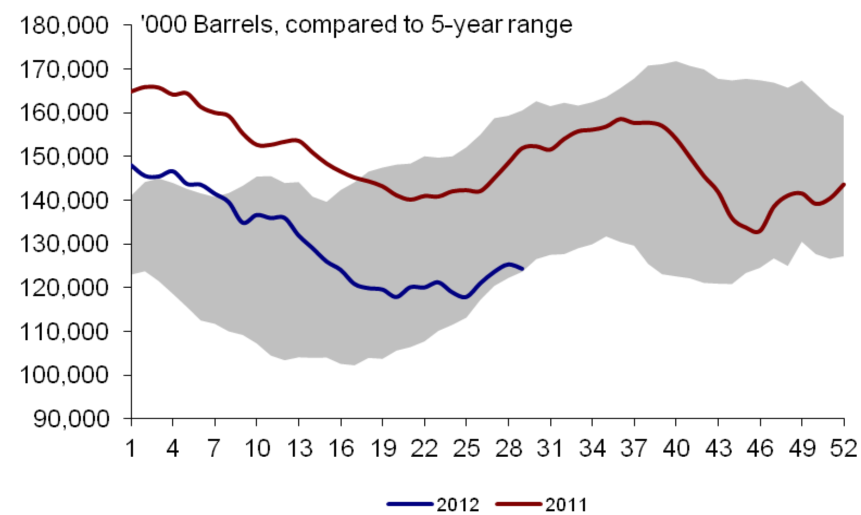
- The Eurozone sovereign and bank debt crisis has impacted demand, as banking woes have spread to economic growth expectations. BofAML expects 2012 GDP growth of 3.4%, with Europe undergoing a mild recession and the rest of the world mostly shrugging it off.
- Weakening demand in Europe, softer growth in IMs and the US, plus stronger-than-expected supply growth suggest a bearish outlook for crude prices.
- BofAML sees Brent oil prices hovering around $100/bbl for 2H12 and averaging $110/bbl for 2013. Despite expectations of QE2, without some degree of banking integration and ECB easing, downside risks to oil will keep growing.

Ultra-Low Sulfur Diesel Forward Curves



Ultra-Low Sulfur Diesel Prices

DOE Distillate Fuel Storage



Source: Bloomberg

Commodity Hedging Alternatives

Physical Hedging

Advantages

- Basis risk is minimized because hedge price and your physical price are equal
- No additional documentation because a fixed price can usually be added to a supply contract

Disadvantages

- The company would be exposed to the credit risk of its physical counterparty
- Buyers cannot separate price decisions from the supplier they choose – the supplier chosen for the service, reliability and quality may not offer the best price
- Buyers may not be interested in the hedge terms the supplier is willing to accept at the same time
- Physical contracts lack flexibility – may be difficult to lock in prices with a supplier beyond a few months or to tailor risk management strategies. Also, should you decide you no longer want the price protection, but still need the physical supply, it may be difficult to unwind just the fixed-price component of an existing physical contract
- Physical contracts are not portable, where an OTC financial hedge is leaving a buyer the ability to change suppliers as frequently as needed

Exchange-Traded Hedging

Advantages

- Prices are transparent
- The exchanges provide a guaranteed credit clearing mechanism because all trading participants post initial and maintenance margin money
- Futures contracts usually exhibit good short-term liquidity

Disadvantages

- Futures contracts are not generally liquid beyond six months
- Futures trading is subject to commissions, fees, and exchange initial/maintenance margining
- Trading futures contracts entails ongoing administration of your position and generally the attention of a full-time trader. Futures need to be offset before the delivery process
- Given NYMEX exchange information flow, client confidentiality cannot be assured

Over-the-counter Hedging

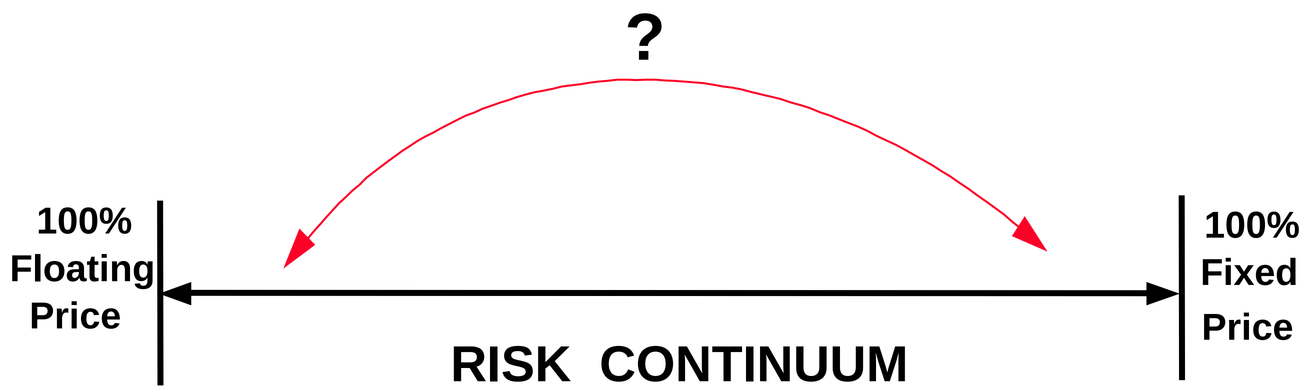
Advantages

- OTC transactions are highly tailored (basis, volume and price shaping, settlement style)
- Once the counterparty is set up to trade, OTC transactions often require little lead-time to execute or fully/partially unwind
- OTC indexes often enable the customer to access optionality in the marketplace where it otherwise doesn't exist
- Longer trading maturities are available in the OTC markets than are available on the futures market
- The financial benchmarks available include dozens of energy indices, about ten metals indices and about 15 agricultural indices.
- The OTC market may offer better liquidity in the medium and long term (beyond six months)
- Confidentiality can be assured
- Management of an OTC program can be much easier than an exchange-traded program

Disadvantages

- You would be exposed to the credit quality of your counterparties
- There is little price transparency (no screen)

The Risk Spectrum
How Much Do You Hedge?

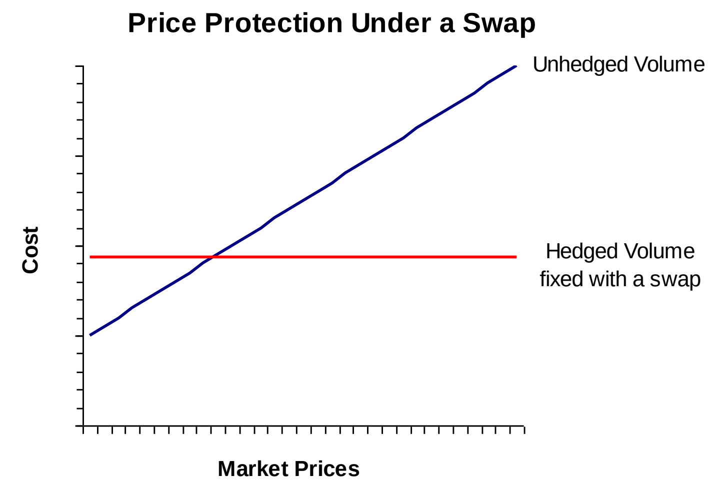


In considering how much to hedge, many begin at 50% fixed /50% floating and adjust up or down according to additional risks or risk mitigants they find in their business.

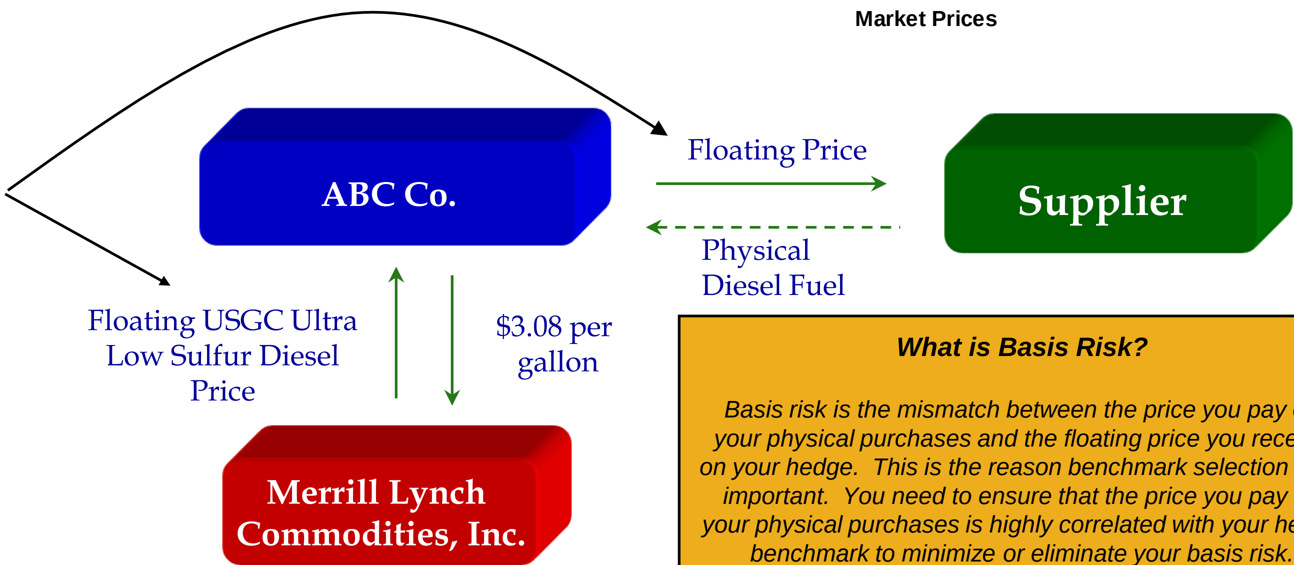
- **Leverage – Higher leverage implies greater sensitivity to costs and less margin for error.**
- **Ability to pass on prices – The less you can pass prices fluctuations through, the more you need risk management.**
- **Budget performance – Past budget surprises may make protection against similar occurrences more important.**
- **Margins – Thin margins mean less room for price movement.**
- **Price Outlook – What is your outlook for prices? Are you appropriately positioned?**

Swap

- **USGC Ultra Low Sulfur Diesel Swap**
  - This enables ABC Co. to lock in a price for diesel fuel.
  - There is no up-front premium.
  - ABC Co. is protected from prices above the swap price, however, ABC Co. will not benefit from prices below the swap price.
  - Physical sales price must be strongly correlated to the hedge benchmark.



Basis Risk is the degree to which these are not correlated.



What is Basis Risk?

Basis risk is the mismatch between the price you pay on your physical purchases and the floating price you receive on your hedge. This is the reason benchmark selection is so important. You need to ensure that the price you pay on your physical purchases is highly correlated with your hedge benchmark to minimize or eliminate your basis risk.

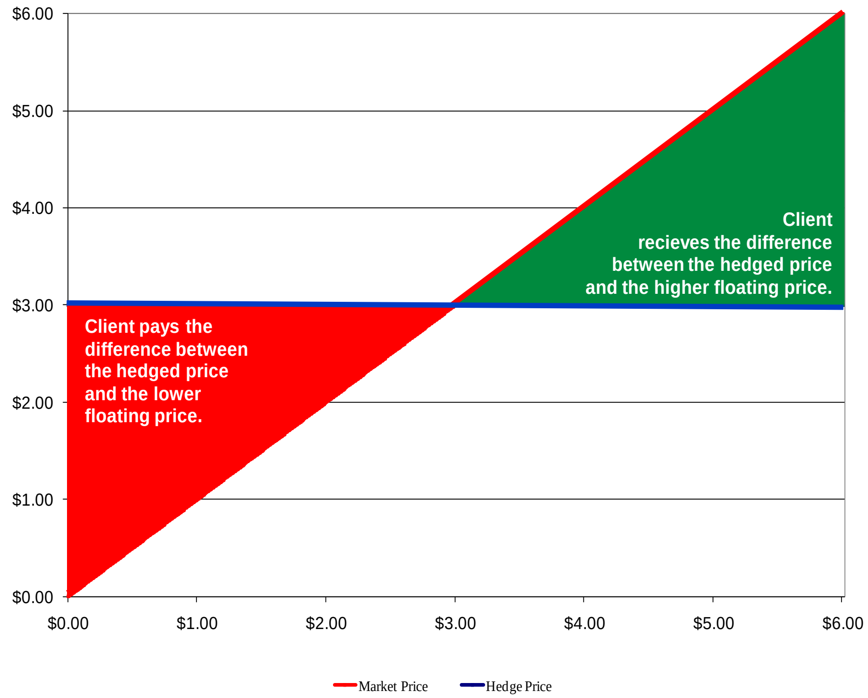
Note: Prices used throughout this presentation are for illustrative purposes only and may not be indicative of current market pricing.

US Gulf Coast Ultra Low Sulfur Diesel Swap

Fixed Price Payer:	ABC Co.
Floating Price Payer:	Merrill Lynch Commodities, Inc.
Fixed Price Payment:	$3.08 per gallon x volume
Floating Price Payment:	The arithmetic average of the daily mean price (the average of the high and low price) per gallon for the Gulf Coast Ultra Low Sulfur diesel fuel as quoted by Platt's times the Monthly Volume.
Monthly Volume:	50,000 gallons/month *(For example purposes)*
Term:	October 2012 – September 2013 *(For example purposes)*
Payments:	Five Business Days following each settlement period, if the Floating Price Payment exceeds the Fixed Price Payment, Merrill Lynch Commodities, Inc. will pay ABC Co. the net difference times the Monthly Volume. If the Fixed Price Payment exceeds the Floating Price Payment, ABC Co. will pay Merrill Lynch Commodities, Inc. the net difference times the Monthly Volume.

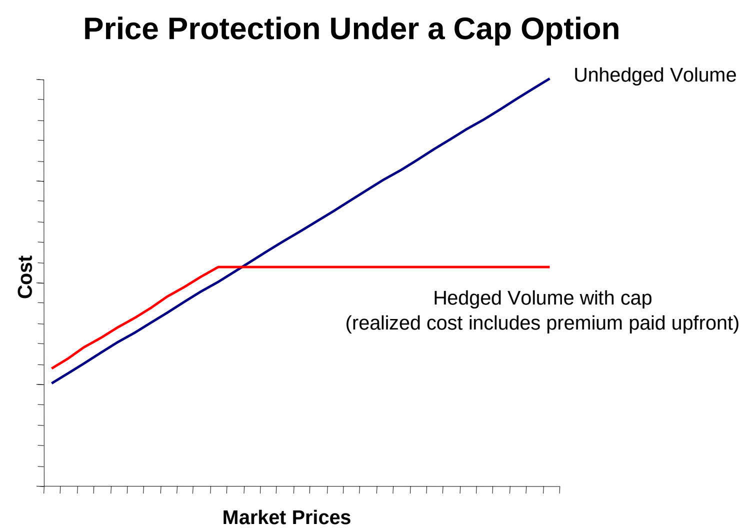
Winning or Losing?

- If you are looking at hedging as winning or losing, you are missing the point. Hedges are not bets. They are valuable budgeting and forecasting tools. What a hedge does is define a price, lending certainty where there is none.
- Assume you hedge 50% of your consumption at $3.00
  - If the floating price rises to $6.00, you feel happy that your hedge is in the money and will gain you $3.00 that month. Your average cost is $4.50.
  - If the price falls to $0.00, you feel upset that your hedge is out of the money and will cost you $3.00 that month. Your average cost is $1.50.
- The point to take away from this is that, whatever happens in the market, you have hedged 50% of your consumption at $3.00.



Cap Option

- **USGC Ultra Low Sulfur Diesel Cap Option**
  - ABC Co. pays an upfront premium for protection against prices above a cap strike price.
  - If prices rise above the cap strike price, payments are made to ABC Co. equal to the difference times the monthly volume.
  - ABC Co. will make no more payments after the upfront premium is paid.
  - ABC Co. is able to retain 100% of the downside if market prices decline (minus premium paid for cap).



Term	Cap Strike Price	Monthly Volume	Settlement Price	Differential	Settlement Payment
Oct12-Sep13	$3.3700	50,000	$3.2700	-$0.10	No Payment
Oct12-Sep13	$3.3700	50,000	$3.3700	$0.00	$0.00
Oct12-Sep13	$3.3700	50,000	$3.4700	$0.10	$5,000.00

Option premium paid upfront and not taken into account for the payments shown.

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US Gulf Coast Ultra Low Sulfur Diesel Cap Option

Cap Option Buyer:	ABC Co.	
Cap Option Seller:	Merrill Lynch Commodities, Inc.	
Cap Strike Price:	$3.37 per gallon	
Premium:	$0.13 per gallon	
Price Benchmark:	The arithmetic average of the daily mean price (the average of the high and low price) per gallon for the Gulf Coast Ultra Low Sulfur diesel fuel as quoted by Platt's times the Monthly Volume.	
Monthly Volume:	50,000 gallons/month	*(For example purposes)*
Term:	October 2012 – September 2013	*(For example purposes)*
Payments:	Five Business Days following each settlement period, if the Price Benchmark exceeds the Cap Strike Price, Merrill Lynch Commodities, Inc. will pay ABC Co. the net difference times the Monthly Volume. If the Price Benchmark is less than the Cap Strike Price, no payments are made.	

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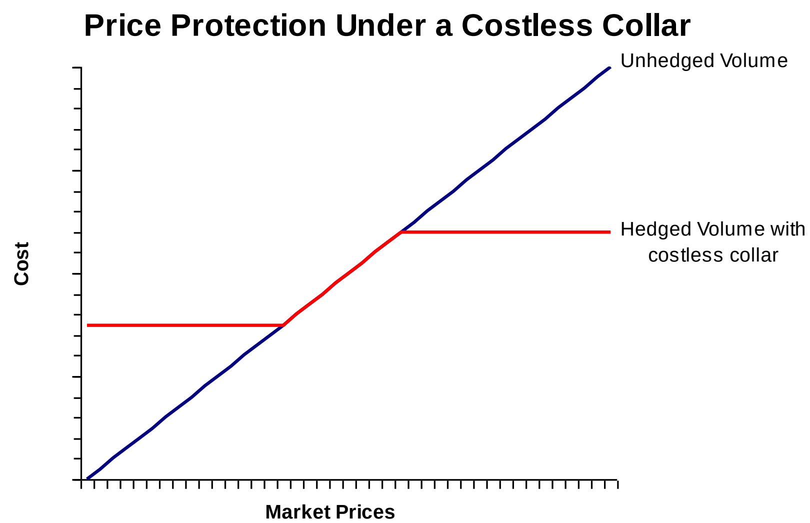
Costless Collar

- **USGC Ultra Low Sulfur Diesel Costless Collar**
  - Collars involve buying a cap option and selling a floor option.
  - ABC Co. receives the same protection as a cap option provides. However, instead of paying an upfront premium, ABC Co. "pays" for this cap option by selling a floor option.
  - ABC Co. loses the benefit of falling prices below the floor option strike price.
  - Most collars are *costless*, meaning the upfront premium owed for the cap option is offset by the upfront premium received for the floor option.



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US Gulf Coast Ultra Low Sulfur Diesel Costless Collar

Cap Buyer/Floor Seller:	ABC Co.	
Cap Seller/Floor Buyer:	Merrill Lynch Commodities, Inc.	
Floor Strike Price:	$2.82 per gallon	
Cap Strike Price:	$3.37 per gallon	
Premium:	$0 per gallon	
Monthly Volume:	50,000 gallons/month	*(For example purposes)*
Term:	October 2012 – September 2013	*(For example purposes)*
Price Benchmark:	The arithmetic average of the daily mean price (the average of the high and low price) per gallon for the Gulf Coast Ultra Low Sulfur diesel fuel as quoted by Platt's times the Monthly Volume.	
Payments:	Five Business Days following the settlement period, if the Price Benchmark is above the Cap Strike Price, Merrill Lynch Commodities, Inc. will pay Golden Alaska the net difference times the Monthly Volume. If the Price Benchmark is between the Floor Strike Price and the Cap Strike Price, no payments are made. If the Price Benchmark is below the Floor Strike Price, ABC Co. will pay Merrill Lynch Commodities, Inc. the net difference times the Monthly Volume.	

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Early Termination

Upon mutual agreement of the parties, OTC Trades may be unwound prior to maturity of the transaction. The value of the transaction is determined as the current market value for the remaining term of the transaction multiplied by the remaining notional volume. For a pay fixed swap transaction, for example, the current market value of the swap is calculated by comparing the original fixed rate with the current market rate for the remaining term of the swap multiplied by the remaining volume. If the current market rate is less than the original swap rate, the customer would make a payment to Merrill Lynch Commodities, Inc. for the difference times the remaining notional volume. If the current market rate is greater than the original swap rate, Merrill Lynch Commodities, Inc. would make a payment to the customer for the difference times the remaining notional volume.

Accounting Considerations

- FAS 133 Accounting Standards
  - FAS 133 requires all derivatives to be shown on the balance sheet at fair value.
    - Changes in fair value will go through earnings unless the transaction qualifies for special "hedge" accounting.
    - Companies must document hedge strategies and "test" the effectiveness of hedges to qualify for "hedge" accounting.
    - Even with "hedge" accounting, any ineffective portion of the hedge will be charged to earnings immediately.
  - The two types of hedges qualifying for special accounting are Cash Flow hedges and Fair Value hedges.
    - With respect to interest rate risk management, a cash flow hedge converts a floating rate exposure on an existing asset or liability to a fixed rate. Hedges of anticipated issuance are also cash flow hedges. An example is a pay-fixed swap used to convert a LIBOR-based bank loan to a fixed-rate liability.
    - A fair value hedge converts a fixed-rate exposure to a floating-rate basis. An example is a receive-fixed swap used to convert a fixed-rate bond to a floating-rate LIBOR-indexed liability.

Note – BAC is not an accounting or tax advisor. Please consult with your auditors to determine the appropriate treatment for your company.

Documentation

- Energy hedging transactions are principally documented under the International Swap Dealer's Association ("ISDA") Master Agreement and Schedule. The documentation associated with most energy hedging transactions consists of the following:
- ISDA Master Agreement: The ISDA Master Agreement is an industry standard document which governs all energy hedging transactions. The Master Agreement addresses the following:
  - Netting benefits: exposure, payments, multiple transaction termination
  - Events of Default: termination mechanics
  - Bilateral provisions: industry standard document
- Schedule to the ISDA Master Agreement: The Schedule is utilized to tailor the standard documentation in order to address the individual Company. The schedule will include the specifics on credit support and structure.
- Confirmation: The Confirmation presents all the details of the transaction including prices, volume and time period covered.
- Combination of Master Agreement, Schedule and Confirmations form a single agreement. Negotiation and execution of Master Agreements is the responsibility of the Merrill Lynch Commodities, Inc.'s Derivatives Documentation Unit.

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