

Koch Industries, Inc.

Environmental, Health and Safety Progress Report 2003






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Koch companies strive for continuous improvement, especially in the environmental, health and safety performance of their operations. Koch Industries Inc., its subsidiaries, and those of its sister company, Koch Holdings, LLC all share the same goal. We call it our 10,000 percent goal. It seeks 100 percent compliance, 100 percent of the time.

To meet that commitment, these companies are guided by Koch's unique business philosophy, Market Based Management™. MBM is a value system and framework for action. It empowers employees to think like owners. MBM promotes integrity, protection of the environment, and health and safety excellence. It's foundation is the commitment to add long-term value to the marketplace and society.

Because of this philosophy, Koch has developed strong policies, principles and commitment statements. These drive specific expectations for continuous improvement and performance excellence. Those expectations become reality as Koch companies implement EH&S management systems in their daily operations.

Koch companies regularly measure their progress toward EH&S excellence. They are also committed to communicating that performance to shareholders, employees, regulators and neighbors. As you read this report, you will see Koch's policy, principles and management systems in action. A  denotes a specific commitment made in the pursuit of long-term success. And you will see stories that update the progress Koch companies have made toward our 10,000 percent goal.

Charles G. Koch,
chairman and chief executive officer, Koch Industries, Inc., July 2003

Environmental, Health and Safety Policy

Koch companies worldwide will manage operations in a manner that protects the environment and the health and safety of employees, customers, contractors and the public, while fully complying with applicable laws and regulations. Koch companies will continuously improve EH&S performance with a goal of zero incidents.

Guiding Principles:

- EH&S excellence is mandatory for our long-term success.
- EH&S excellence requires the commitment and personal involvement of all levels of management and all employees.
- Protection of human health and safety and the environment must come first, no matter how urgent the job, project or commercial interest.
- Employees have the obligation and the ability to prevent incidents.
- Incidents, unauthorized releases and non-compliance are unacceptable.
- All employees and contractors are responsible and accountable for understanding and complying with all regulations, requirements and procedures relating to their job performance.

For additional information about Koch affiliates' EH&S progress, awards and news, please see www.kochehs.com.

Improving EH&S compliance and performance

Koch companies operate under individual EH&S management systems that provide a road map for ever-improving performance. The management systems encompass specific elements that define the focus areas of effective EH&S management:

- Leadership and management commitment
- Employee ownership
- Compliance and risk assessment
- Compliance and risk management
- Training
- Change management
- Sustainability and improvement

Auditing assets and processes regularly

Koch Industries has a mature EH&S audit program in place that seeks to ensure Koch companies are in compliance today, and to measure how well they are preparing for the future. These regular third-party audits evaluate facilities' EH&S compliance efforts. Koch companies also regularly conduct company self-assessments as required by the EH&S Management System. The companies use these self-assessments to drive continuous improvement and promote intracompany sharing of best practices.



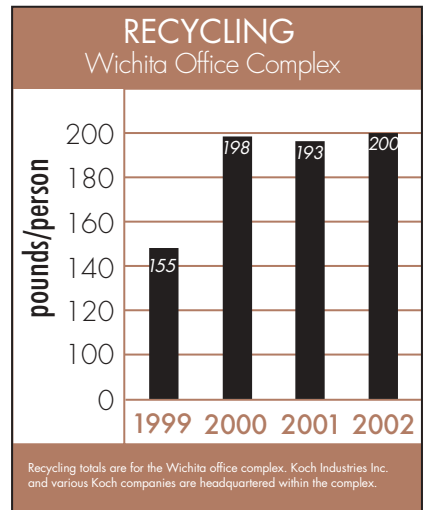
"This partnership with Koch companies allows OSHA to reach out and address safety and health issues alongside a company with a worldwide presence in diverse industries. The lessons learned from the participation of the pilot worksites in this partnership will be useful across many industries." OSHA Administrator John L. Henshaw, left, who signed the agreement in Wichita with Charles G. Koch, right.

Koch companies are **COMMITTED** to continuing to **improve** EH&S compliance and performance through the ongoing implementation of **EH&S management systems.**

Koch companies are **COMMITTED** to **auditing** assets and operating practices regularly and taking the appropriate corrective **actions.**

Integrating safety and health management systems

Several Koch companies, through a ground-breaking public-private relationship with the U.S. Occupational Safety and Health Administration, are working to reduce workplace injuries and illnesses at sites around the nation. The “strategic partnership” defines how OSHA officials and Koch company managers and operations staff will use their expertise to develop stronger safety and health management systems. The participating companies’ H&S systems, which emphasize management commitment and employee involvement, are consistent with OSHA’s Voluntary Protection Program. Koch companies anticipate they will enhance participation in VPP under this partnership. Participating companies include Koch Materials Company, Koch Business Holdings, Koch Hydrocarbon Southwest, Koch Hydrocarbon, Koch Mineral Services Company, Koch Carbon, The C. Reiss Coal Company and Koch Nitrogen Company.



The Wichita, Kan. headquarters is home to about a dozen Koch companies and 1,600-plus employees. In 2002, they recycled more than 330,000 pounds of paper, newspapers, cardboard and magazines. Koch companies also recycle aluminum cans, fluorescent lamps and batteries.

K Koch companies
are **COMMITTED**
to **working** proactively with
legislators, regulators,
concerned groups and industry
peers to develop and advance
effective approaches to
human health and safety
and environmental protection.

Communicating EH&S issues with the public

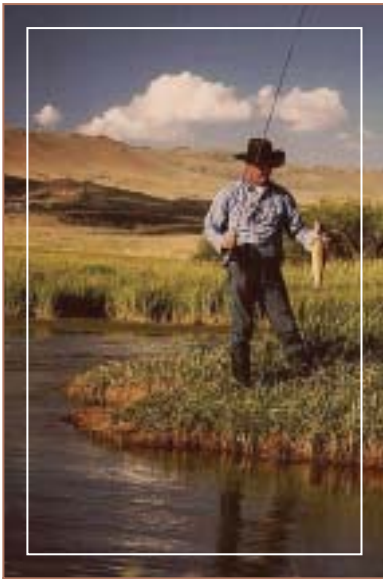
Koch Pipeline Company, along with Wildlife Rehab & Education, Inc., helps sponsor Texas Gulf Coast workshops to train wildlife rehabilitators, government specialists, industry representatives and veterinarians how to handle animals following an oil release. Participants wishing to serve on response teams must receive this safety and health training, and learn how to handle, examine and clean wildlife exposed to an oil spill.



Noted nature conservationist Chad Pegracke led a weeklong cleanup last year to remove trash from a 40-mile stretch of the Mississippi River near the Twin Cities and the Flint Hills Resources Pine Bend Refinery. Through Pegracke’s Living Lands and Waters program, an energetic team of 100 Flint Hills Resources employees joined 1,000 other volunteers to remove 92 tons of garbage, including refrigerators, bicycles, tractor tires and even a sunken houseboat. Flint Hills was one of the sponsors of the cleanup.

Working proactively with concerned groups

After a central Iowa fire-fighting group ran out of fire-suppressing foam while responding to an accident, leaders recognized the need to increase the stockpile of products to fight petroleum-based fires. Koch Pipeline Company donated \$1,000 to ensure that area fire departments would not face that shortage in the future. The foam, stored at the Mason City Municipal Airport, is available for use by local fire departments responding to emergencies.



Beaverhead Ranch Manager Ray Marxer and his staff have worked with the U.S. Bureau of Land Management to re-establish habitat for the pure Westslope cutthroat trout. Recent U.S. Fish and Wildlife Services surveys indicate an improvement in stream quality and function. The ranch also has a healthy population of other fish species, including German brown trout (shown).

Utilizing natural resources efficiently

Matador Cattle Company's Beaverhead Ranch in Montana became the first ranch to achieve national Wildlife Habitat Council certification for its natural resources stewardship. Market Based Management™ has provided the catalyst for the ranch's success in increasing operational efficiency while improving the ranch's pastures, streams and other water resources.

Working proactively with concerned groups

Flint Hills Resources has worked hand-in-hand with local organizations in two of its business communities to ensure that school-children, parents and teachers have access to nature-based classrooms. In Wichita, Kan., a donation is funding a teacher who designs and leads field trips at the Great Plains Nature Center, which welcomed more than 150,000 visitors in 2002. In Corpus Christi, Texas, a donation will enable the Texas State Aquarium to build an Environmental Discovery Center that will provide environmental education resources, tools and related technology for students, parents and educators.

K Koch companies are **COMMITTED** to continuing to **integrate** EH&S concerns into all business and operational **planning** and **decision-making**.

K Koch companies are **COMMITTED** to **utilizing** materials, natural resources and energy efficiently to produce our **products** and **services**.

Requiring commitment from contractors

In 2002, Koch Supply & Trading, LP bought and sold more than 900 million barrels of products; the majority flowed through third-party terminals for storage, blending, loading and unloading before reaching final destinations. To ensure that these third-party-owned terminals and marine vessels meet expectations, including EH&S standards, KS&T has an ongoing program to vet them similarly to its own facilities. This approach may include physical inspections, a performance history review, an assessment of the contractor's ability to comply with regulations and mitigate risks, and an evaluation of the contractor's community reputation.



As a result of the company's hard work, this site is now stable, well-vegetated and a benefit to the local wildlife and community, says Eddie Ditty, Kentucky Department for Surface Mining Reclamation and Enforcement.

Working with regulators to advance environmental protection

A vibrant landscape graces a former refuse disposal facility near Martin, Ky., owned by Koch Victory, a division of The C. Reiss Coal Company. In 1993, Koch Victory discontinued disposing of mine refuse on the 56-acre site, and began reclaiming the property. The area was stabilized, covered with two feet of topsoil, planted with trees, grasses and wildflowers - all to attract wildlife. Governmental and trade organizations have recognized Koch Victory's outstanding reclamation work.

K Koch companies are **COMMITTED** to **requiring** the same level of **commitment** and **performance** for contractors that work in our facilities as we do from our employees.



"I commend Koch Materials for its outstanding work-place safety record which is a direct result of implementing effective systems which include training and employee involvement. The Saginaw facility is exemplary of systems and employees working together to create a safer workplace." John Miles Jr., OSHA regional administrator

Developing effective health and safety protection

Koch Materials Company's Saginaw, Texas site became the first asphalt facility in the nation to achieve STAR status, the U.S. Occupational Safety and Health Administration Voluntary Protection Program's most prestigious designation. OSHA's designation recognizes sites that distinguish themselves with the highest level of safety and health excellence; it requires an in-depth review of a facility's safety and health programs, operations performance and safety record.

◀ Koch companies are **COMMITTED** to **achieving** upper quartile performance in all **key EH&S metrics** for the industries in which they operate.

Implementing EH&S management systems

KoSa B.V.'s European sites use a single, integrated management system as a framework for continuous improvement across their quality, environmental, health and safety, and compliance programs. The company, which makes products that become home furnishings, clothing, automobile interiors and tires, food packaging, outdoor gear and much more, uses the KoSa Integrated Management System, which meets ISO 9001 and ISO 14001 standards. All six European sites have earned both of these international certifications. KIMS also meets European regulatory expectations for corrective and preventive systems to assure EH&S compliance. The system was developed more than 10 years ago to address product and service quality improvements and was expanded to cover EH&S and compliance.

Integrating EH&S concerns into operations

In the past five years, Flint Hills Resources has reduced refinery flaring time by 94 percent, keeping its pledge to reduce emissions. In 2002, the Texas refinery flared 2.6 percent of the time (down from 47 percent in 1998), while the Minnesota refinery used the flare 0.6 percent of the time (versus 11 percent in 1998). Using technologically advanced equipment and ensuring that maintenance activities do not trigger a need to flare have made these achievements possible and resulted in new records for consecutive days - 48 in Texas and 62 in Minnesota - with no flaring.

Achieving upper quartile performance

Flint Hills Resources' Corpus Christi Refinery earned the National Petrochemical & Refiners Association's highest accolade for its 2002 safety performance. Employees at the Corpus Christi refinery, which earned OSHA VPP Star status in 2000, completed 2002 with only three OSHA recordable incidents, the lowest in plant history. The 0.28 incident rate is 80 percent lower than the average for all U.S. refiners. The Minnesota and Corpus Christi facilities also earned Gold Awards for reducing their total OSHA recordable incident rate by more than 25 percent compared to the previous three-year-average, and Meritorious Achievement awards for achieving an OSHA recordable incident rate below 1.5.



Not only have Flint Hills Resources refineries reduced time in flare, they have installed high-tech flares such as this one manufactured by John Zink Company, a Koch Chemical Technology Group subsidiary. This combination has allowed the refineries to significantly reduce sulfur dioxide, nitrous oxide and volatile organic compound emissions.



"We want motorists to know a simple choice on the gasoline they buy can have a big impact on protecting Minnesota air quality and the health of our families. Our testing shows low-sulfur gasoline is a real benefit and a very easy choice every Twin Cities driver can make." Tim Gerlach, ALAM outdoor air programs director.

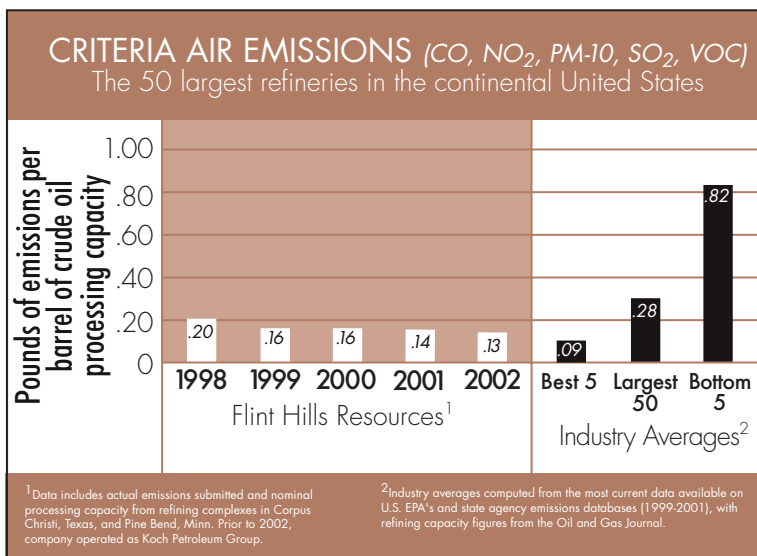
Koch companies are **COMMITTED** to **communicating** regularly on EH&S **issues** and **performance** with employees, contractors, customers, regulators and the public.

Communicating EH&S performance with the public

A scientific comparison indicates that low-sulfur fuels dramatically reduce air pollutants in automobile emissions. Those tests show that Holiday Stationstores' low-sulfur Blue Planet[®] gasoline - produced exclusively at Flint Hills Resources' Pine Bend Refinery - contains 65 percent less sulfur than other leading brands. The American Lung Association of Minnesota study predicts that more than 700 tons of ozone-forming hydrocarbons and nitrogen oxide emissions would be prevented if all late-model, low-emission vehicles in the Twin Cities used Blue Planet. Flint Hills Resources introduced Blue Planet in 1999, six years ahead of federal low-sulfur gasoline mandates.

Developing effective approaches to environmental protection

A leader in producing cleaner fuels for its Texas customers, Flint Hills Resources has upgraded its facility to offer fuels with sulfur levels 80 percent lower than the current industry average. With \$400 million spent - including \$145 million for a new sulfur-processing unit and other construction projects in 2002 - the company will meet the 2005 federal clean fuels deadline for reducing sulfur in gasoline.



Flint Hills Resources is committed to implementing model programs to reduce emissions as a part of its 2001 Clean Air Agreement with the U.S. Environmental Protection Agency. The company's 2002 refining operations' criteria air emissions per barrel in 2002 were 54 percent lower than the average among peer refiners (latest comparable data available).

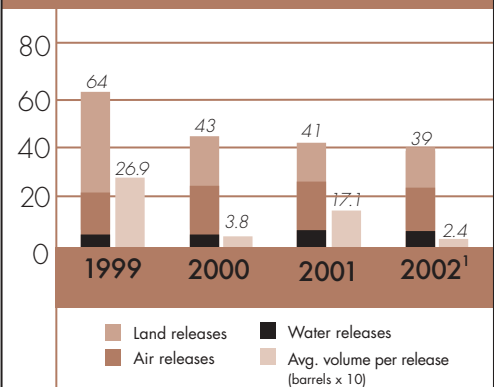


Koch-Otto York employees custom-designed and crafted many of the safety devices that protect workers during the manufacturing process.

Providing a safe work environment

Koch-Otto York employees custom-make wire mesh products used for customers in the petrochemical and pharmaceutical industries, as well as for submarines and zoo aviaries. With limited commercially available safety products, it's no surprise that these employees designed and built many of the safety devices used with their specialized machines. That employee ownership of safety performance is showing: the Houston facility has worked more than four years without a lost-time incident and the Parsippany, N.J., plant has worked more than two years without a recordable incident.

AGENCY REPORTABLE RELEASES Koch Pipeline Company



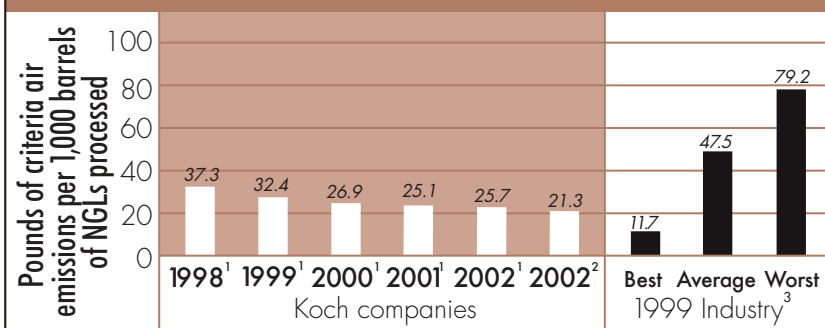
Data for all Koch Pipeline Company-operated assets in the United States (pipelines, terminals and other facilities).

Agency reportable releases are those that exceed federal/state regulatory thresholds.
¹ In 2002, KPL began using American Petroleum Institute and U.S. Department of Transportation thresholds for reporting releases, which are lower than previous years.

Koch Pipeline Company's system integrity program includes formalized procedures to inspect and repair lines. In 2002, the company moved about 1.5 million barrels of liquids daily through the 8,000 miles of pipelines it operated. From 1995 to 2002, releases on Koch Pipeline Company-operated pipelines, which transported crude oil, natural gas liquids and refined products, have been reduced by 80 percent.

Koch companies are **COMMITTED** to **providing** a safe work **environment** and **training** for all employees.

CRITERIA AIR EMISSIONS Natural Gas Liquids Processing



¹ Data for Koch Hydrocarbon LP facilities. ² Data for Mont Belvieu 1, owned and operated by a subsidiary of Koch Holdings, LLC, a sister company of Koch Industries.

³ Latest comparative data available. Computed from U.S. Environmental Protection Agency data, with processing capacity figures from the NGL Supply Yearbook for United States NGL fractionators that process more than 10 million barrels per year. Includes facilities that process NGLs only.

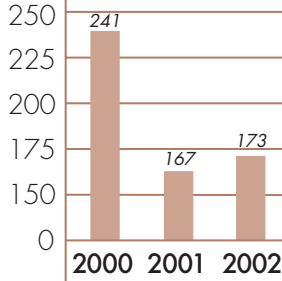


Employees at Koch Hydrocarbon, LP's processing facility in McPherson, Kan. have operated for more than 17 years with no lost-time incidents and nearly a decade with no recordable safety incidents. Since the plant's last lost-time incident, the staff has worked almost 500,000 hours. Steady safety performance has consistently earned this team recognition from the Gas Processors Association as leaders in their industry.

Koch Hydrocarbon, LP and other Koch Industries and Koch Holdings subsidiaries are not only among the nation's largest natural gas liquids processors, they are also among the cleanest. In 2002, operations included facilities in Kansas, Oklahoma and Texas.

AGENCY REPORTABLE RELEASES

Koch companies



Agency reportable releases are those that exceed federal/state regulatory thresholds.

Data reported to Koch Industries by subsidiaries of Koch Industries Inc. and Koch Holdings LLC.

Koch companies involved in chemical technology, asphalt, natural gas liquids, plastics and fibers, minerals and fertilizer, pipelines and petroleum refining had these reportable environmental releases. These companies operated more than 200 facilities including terminals, refineries and manufacturing plants, as well as about 8,000 miles of pipelines in 2002.

Koch companies are **COMMITTED** to **responding** in a timely and appropriate manner if an **incident resulting** from operations does occur.

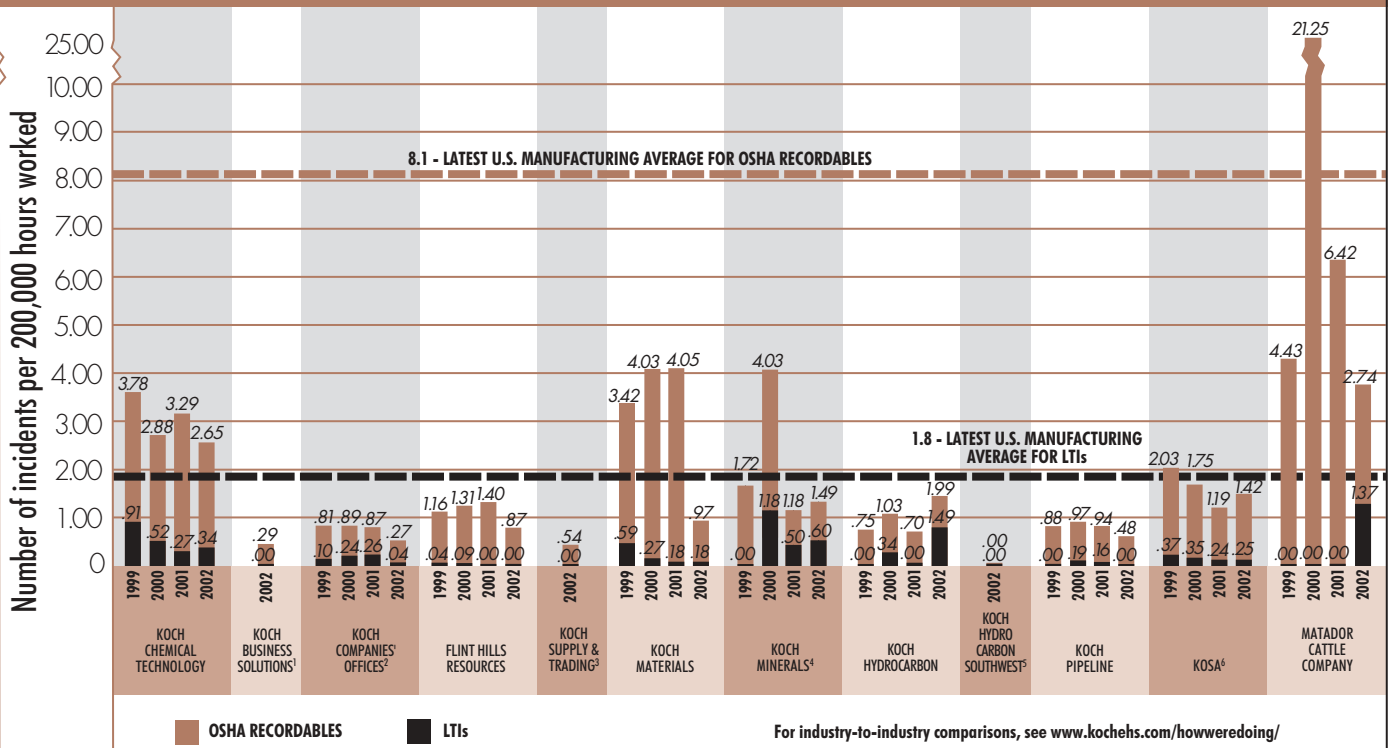


Koch Nitrogen's Sterlington anhydrous ammonia facility surpassed 1 million hours without a lost-time incident in 2002.

Requiring commitment from contractors and employees

Koch companies are committed to continuously improving safety performance. In 2002, two companies, Koch Hydrocarbon, LP and KoSa B.V., each experienced a fatality at a facility. These tragic incidents underscore the importance of Koch companies' long-standing commitment and ongoing efforts to provide a safe work environment for all contractors and employees.

OSHA RECORDABLE & LOST-TIME INCIDENT RATE 1999-2002



For industry-to-industry comparisons, see www.kochehs.com/howweredoing/

Data reported to Koch Industries by company. Latest industry comparison data obtained from the U.S. Bureau of Labor Statistics. ¹Koch Business Solutions, LP, a subsidiary of Koch Holdings, LLC, became a separate entity in 2002. ²Includes data from Koch Industries Inc., Koch Capital Markets, Koch Financial Corporation and Koch Ventures LLC. ³Koch Supply & Trading began operating as a separate entity in 2002. ⁴Koch Mineral Services data include Koch Nitrogen, Koch Carbon, Koch Sulfur Products, Koch Hydrocarbon, Koch Fertilizer Storage and Terminal and Koch Exploration and Production. ⁵Koch Hydrocarbon Southwest is a subsidiary of Koch Holdings, which owns and operates a natural gas liquids fractionator at Mont Belvieu, Texas. ⁶KoSa OSHA recordable rate is for U.S. facilities only; KoSa LTI rate for global facilities.

Earning recognition for superior EH&S performance

Koch companies received these awards and recognition for safety and environmental performance in 2002:

Koch Pipeline Company, L.P.

Outstanding Achievement Certificates for Safety Excellence (Wisconsin Division), *Wisconsin Council of Safety and Department of Workforce Development*

Industry Leader and Perfect Safety Record Award (Ammonia Division), *National Safety Council*

Certificate of Appreciation (Jennifer Sweney, public awareness coordinator), *Minnesota Office of Pipeline Safety*

Certificate of Merit (Arkansas, Louisiana, Missouri, Iowa, Indiana, Illinois, Nebraska ammonia terminals), *National Safety Council*

Award of Excellence (Nebraska ammonia terminal), *Nebraska Safety Council*

Flint Hills Resources, LLC

Distinguished Safety Award (Texas Refinery), *National Petrochemical & Refiners Association*

Gold and Meritorious Achievement awards (Minnesota and Texas refineries), *National Petrochemical & Refiners Association*

Governor's Award of Honor (Minnesota Refinery), *Minnesota Safety Council*

Wastewater Treatment Plant Operations Award (Minnesota Refinery), *Minnesota Pollution Control Agency*

Star among STARS (Texas refinery), *Region 6 Voluntary Protection Program Participants Association*

Matador Cattle Company

Natural Resource Certification (Beaverhead Ranch), *Wildlife Habitat Council*

Koch Materials Company

Product Stewardship Award, *Burlington Northern and Santa Fe Railway Company* (also honored Koch Sulfur Products Company)

STAR Status (Saginaw, Texas plant), *U.S. Occupational Safety and Health Administration Voluntary Protection Program*

Koch Mineral Services, LLC

Commissioner's Award of Excellence in Reclamation (Koch Victory Division, The C. Reiss Coal Company), *Kentucky Department for Surface Mining Reclamation and Enforcement*

Reclamation Award (Koch Victory Division), *Kentucky Coal Association and KDSMRE*

Thoroughbred Chemical Safety Award (Koch Sulfur Products and Koch Nitrogen Company), *Norfolk Southern* (Also Koch Materials and Flint Hills Resources)

Chemical Safety Excellence Award (Koch Sulfur Products), *CSX Transportation Inc.* (Also KoSa)

KoSa B.V.

Clean Industry Certificate (Ocotlán, Mexico), *Procuraduria Federal de Proteccion al ambiente*

Certificate of Safety Achievement (Spartanburg, S.C. plant), *South Carolina Department of Labor, Licensing and Regulation*

Gold Annual Safety Award (Salisbury, Shelby and Wilmington, N.C. plants), *North Carolina Department of Labor*



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