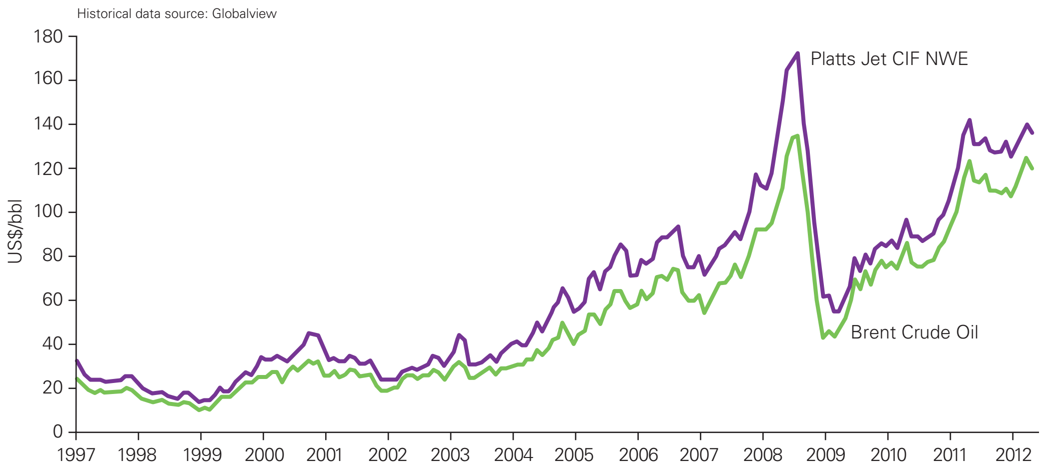
Air bp
Managed price physical supply

Global expert, local partner.

Making progress against price headwinds

Oil markets can be volatile. Even minor changes in world events can cause large and sudden fluctuations in the price and availability of oil and oil products. Increasingly energy resources are the focus of international competition, as the balance in supply and demand shifts.



We understand the price of Jet fuel is at the core of your business. Jet fuel price volatility can have a fundamental impact on your profitability, your cash flows, your competitiveness and your overall ability to do business.

Managing your exposure to the price of Jet fuel can be a daunting challenge. It requires an in-depth knowledge of the complexities of the physical and financial markets, an understanding of the available tools in addition to access to the right, real time, information.

bp has over 100 years experience in the energy markets, and for the last 20 years has been helping customers apply this knowledge when managing their fuel price risk. With our combination of financial trading and physical market expertise we can help you understand the types of risk management tools available, and to help put in place the most suitable risk management programme for your business.

What can be achieved with a Risk Management programme

- Stabilise **cash flows**
- Provide protection against **extreme price changes**
- Help determine and achieve **budget** targets
- Help to secure the company's **competitiveness**
- Provide **profit margin** protection
- Reduce the **risk** of financial distress

What type of risk management product is right for me?

- What risk management tools can be easily understood and monitored by your organisation?
- What type of risk are you actually looking to manage?
- Are you willing to give away some potential gains as well as protecting against potential losses?
- How active do you want to be in managing a risk management programme?
- What exactly is the nature of your fuel price exposure?

Considering all of these questions is an important part of defining your risk management programme. We can help you understand the importance and consequences of these questions and assist you with making the best decision for your company.

As one of the world's leading oil trading and marketing companies, bp has the scale and the expertise to provide 24hr market coverage, and offer some of the most competitive and comprehensive risk management products available.

Being active in both the physical and financial markets enables bp to offer risk management solutions as part of your physical supply (managed price physical) or as a standalone financial product.

Managed price physical supply

Air bp’s commitment to our customers is a simple one: to deliver quality products consistently with outstanding levels of service throughout our global network of over 600 airport locations.

With a managed price physical supply agreement we are able to combine this quality of supply with greater control for you over the price you pay.

A managed price physical can be as simple as purchasing your physical fuel at a fixed price from as little as one month, or for more than a year. Other options include capping the maximum price that you will pay for your Jet fuel, while being able to benefit from lower prices if the published market rate were to move lower.

Managed price physicals can remove or reduce the uncertainty of your future costs but in a way that is simple, with a single invoice from one supplier. In most circumstances you do not need complicated hedge accounting.

It is important to note that for any managed price physical supply you are fixing or capping the commodity (Platts, Argus etc.) element of your Jet fuel costs. The final price you pay would be this commodity element plus the relevant Air bp differential.

Fixed price physical supply

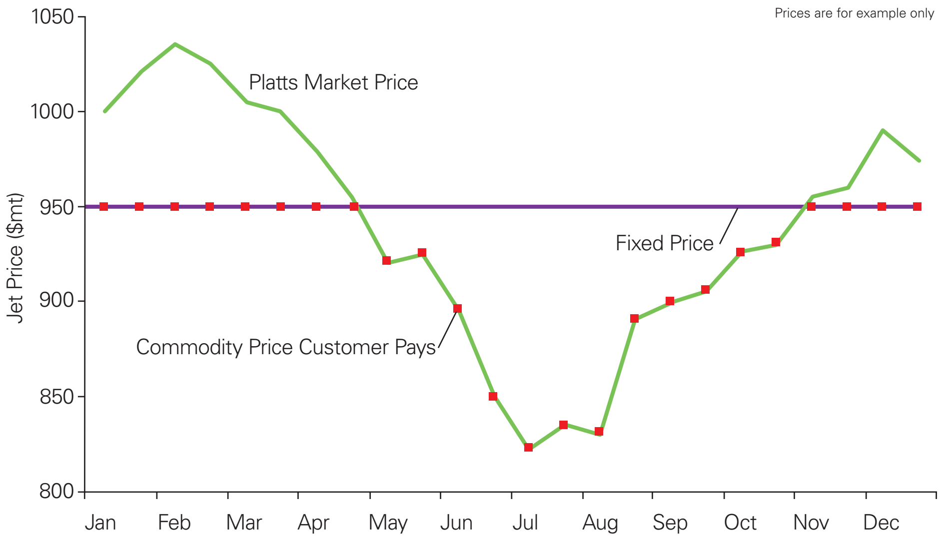
With a fixed price physical supply it doesn't matter what happens to the underlying published price. The price you pay for your Jet fuel will remain fixed.

Managed price physical supply

Capped price physical supply

With a capped price physical supply, whenever the published price moves above the Cap level you will only pay the Capped price for your Jet fuel. However, should the published price fall below the Cap level, you will continue to pay the published market price.

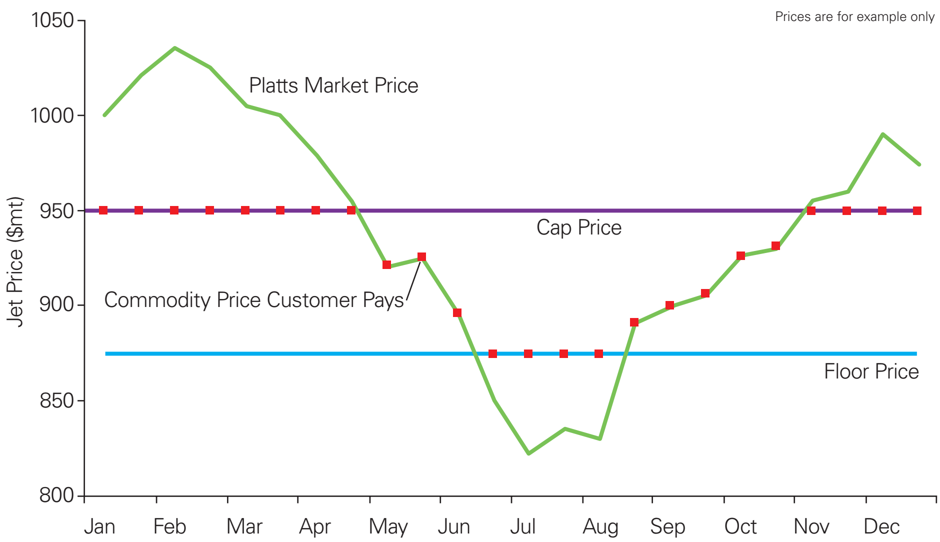
Volumes supplied under a Capped price supply are subject to an increased Air bp differential.



Collared price physical supply

With a collared price physical supply, whenever the published price moves above the Cap level you will only pay this Cap price for your Jet fuel. However, should the published price fall below the Cap level, you will continue to pay the published market price down to the Floor level. If the published price falls below the Floor level you will continue to pay the Floor level.

Volumes supplied under a Collared price supply may be subject to an increased Air bp differential.

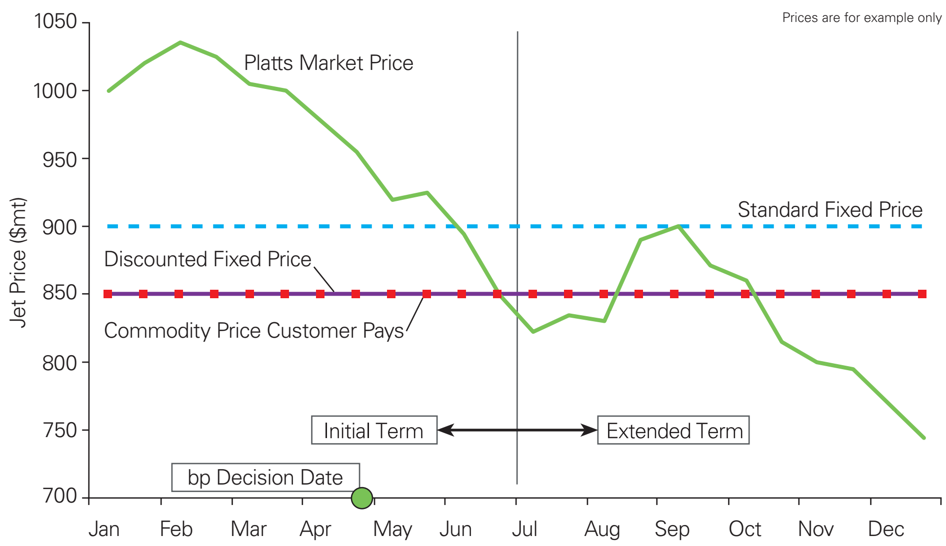


Discounted fixed price supply

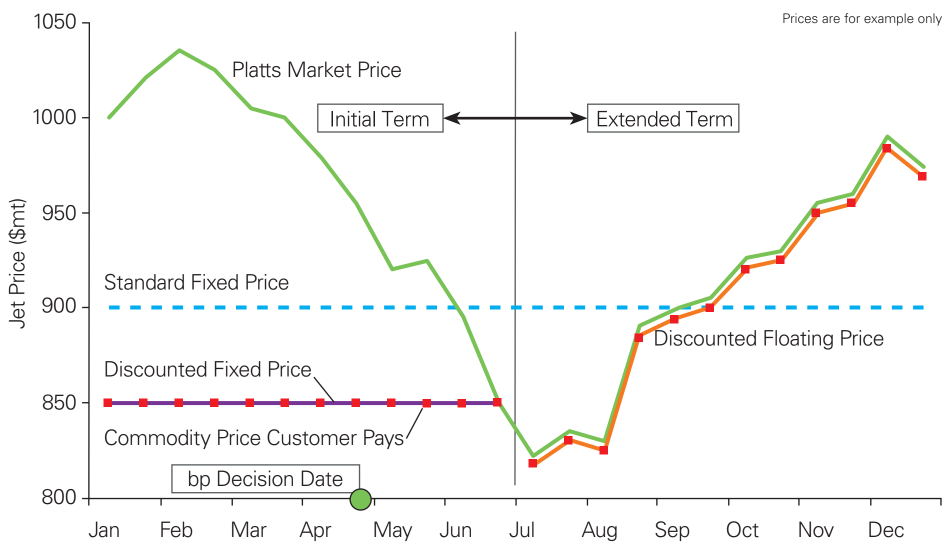
A discounted fixed price supply allows you to fix the price of a Jet fuel supply contract at a level that is below the standard fixed price offer. Typically this would be for a term of six or twelve months.

Part way through the initial fixed price term, on a predetermined decision date, bp has the right to choose to either extend the fixed price term for a pre-agreed period, or to revert to a regular published floating price supply but with a discount applied for a pre-agreed period.

1. bp extends discounted fixed price



2. bp switches to discounted floating price



Frequently asked questions

How would I enter into a managed price physical?

Contact your Air bp account manager to discuss potential locations, volumes and prices. This might be as part of your normal tender process or could be mid term if you have an interest in converting some of your existing floating rate supply to a managed price. Your Air bp account manager will be able to give you details of exactly what we are able to offer for the locations that you are interested in.

Do I have to fix the price at the same time that I enter into a physical supply contract with Air bp?

No. You can enter into a standard floating price supply agreement with Air bp as you normally would, agreeing locations, volumes and differentials as normal. At any point in the lifetime of that supply contract you can contact your Air bp account manager to discuss converting all or some of your volumes to a managed price.

Can I have a managed price physical that covers more than one location?

Yes. A managed price physical can cover multiple locations as long as the underlying reference price index is the same at each one and the locations are all supplied by the same Air bp supply associate company. Although we would require you to specify a volume for each location covered by the managed price contract we would consider the total volume when calculating any over or under lift charges. This can help reduce the risk of operational disruption causing a significant over or under lift as any unexpected variation at one location can be balanced by the volumes at the others covered by the same contract.

Can I manage the price of 100% of my volume at one location?

You can, although this could increase your chance of under lifting. Normally customers will choose to manage less than 100% of their forecast volumes at any location to allow for any unexpected drop in physical volumes (operational disruption for example). It is easier with into tank deliveries where Air bp can transfer periodically the exact quantity of fuel.

If I enter into a managed price physical for less than 100% of my volume at a location, how is the remaining volume priced?

During each delivery period (normally a calendar month, but could be a week or half-month) the first volumes lifted will be priced at the managed price. Once the agreed managed price volume has been lifted any additional volumes will be priced at your normal floating price rate. This would normally coincide with the delivery period (prior month for monthly period, prior week for weekly period, etc.). Fuel delivery receipts will be processed in the order in which they reach Air bp. This may not be in exact chronological order.

What happens if I lift more than my agreed managed price physical volumes?

If you lift more than your agreed managed price volumes but less than your total contracted volume at that location the additional volume will be priced at the floating rate specified in your supply agreement. This would normally be a prior week, prior half-month or prior month, Platts related basis.

What happens if I lift less than my agreed managed price physical volume?

When you enter into a managed price physical supply contract you do this for an agreed volume each delivery period. If you lift less than this agreed volume, Air bp may charge a penalty fee to recover any losses associated with the underlifted volume.

What contract would I have to sign to enter into a managed price physical?

The standard Air bp supply contract covers fixed, capped and collared price physical supply. At the time you fix the price for a managed price physical a new contract confirmation will be issued that confirms the details of the managed price deal.

Would a managed price physical use my current credit line?

Yes, a managed price physical would use your existing Air bp credit line. Some types of managed price supply are significantly more credit intensive than a normal floating rate supply. For this reason, any request to convert supply to a managed price will be referred to the Air bp credit manager. The credit manager's approval would be required before entering into any managed price physical and may require the provision of additional security by the customer, a bank guarantee for example.

How would I be invoiced for my managed price physical volume?

Your invoicing schedule will not be affected by the managed price contract with the exception of one reconciliation invoice each delivery period to ensure that the fixed, capped or collared volume is used in full. This is due to the fact that a delivery receipt cannot be split. This reconciliation corrects the delivery receipt where the volume changes from the fixed, capped or collared volume to the floating volume.

Does bp offer standalone financial hedging?

Yes. Please ask your Air bp account manager for the contact details for bp's Structured Products team.

For more information please contact your Air bp account manager or e-mail Airbp2@uk.bp.com

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