



الاتحاد العربي للنقل الجوي
ARAB AIR CARRIERS ORGANIZATION

World **Fuel**
Services®

The objective of fuel hedging

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Content

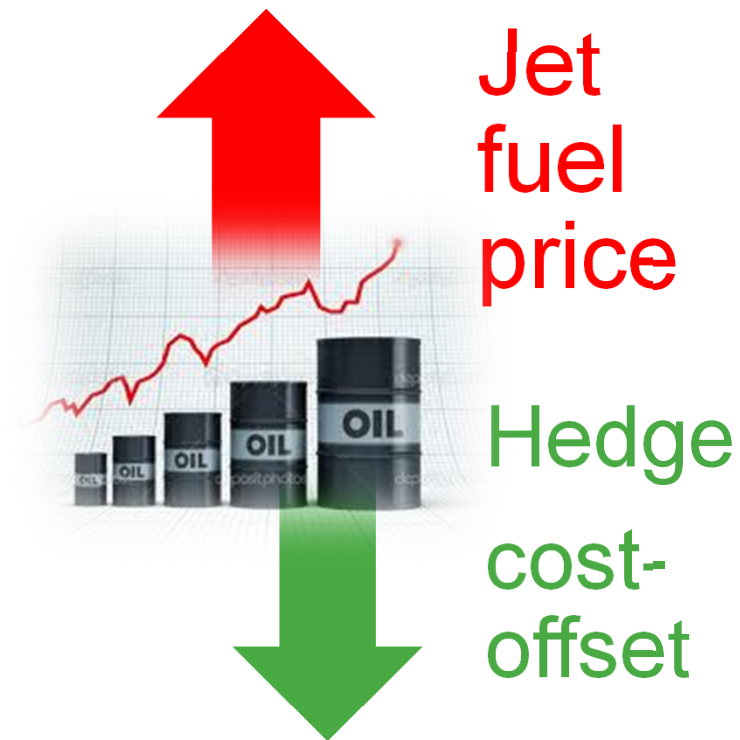
- **Definition**
- **Overview - Energy Hedgers**
- **A reported jet hedge position - Lufthansa**
- **List of basic hedge objectives**
- **Standard airline hedge profiles**
- **Hedge tools – physical and financial**
- **Some basic comparisons**
- **Summary**

Hedging – WFS Definition

‘Contractual investment to reduce the risk of adverse price movements in jet cost, by establishing a known future cost now’

Airline X - Consumer Hedge:

- ‘Short’ jet, need to buy
- So agree a price now for future jet expenditure



Corporates that energy hedge?

Airlines

Factories

Goods manufacturers

Beverage manufacturers

Power producers

Shipping

Hauliers

Agricultural

Oil refineries

Oil suppliers

Oil producers

Government bodies -
Hospitals/trains/buses/military

Miners

Importers

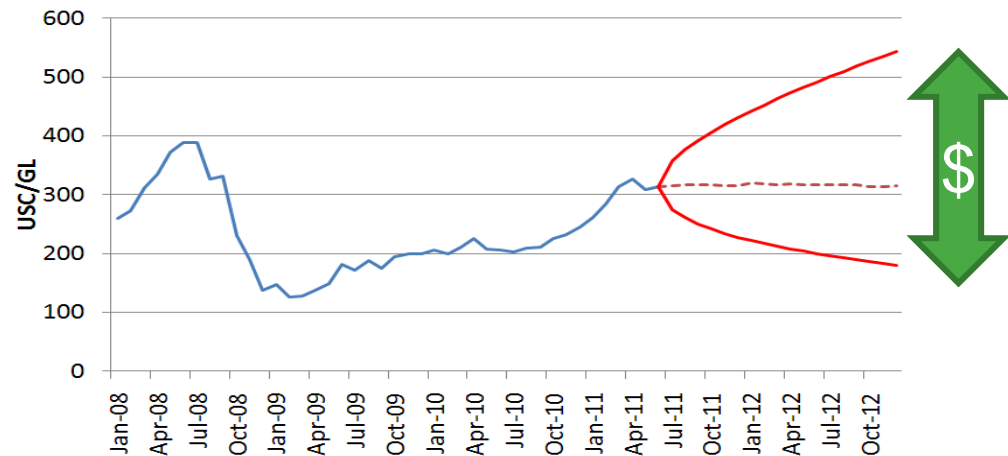
Oil service companies

Water companies

Wind farms

Ferries

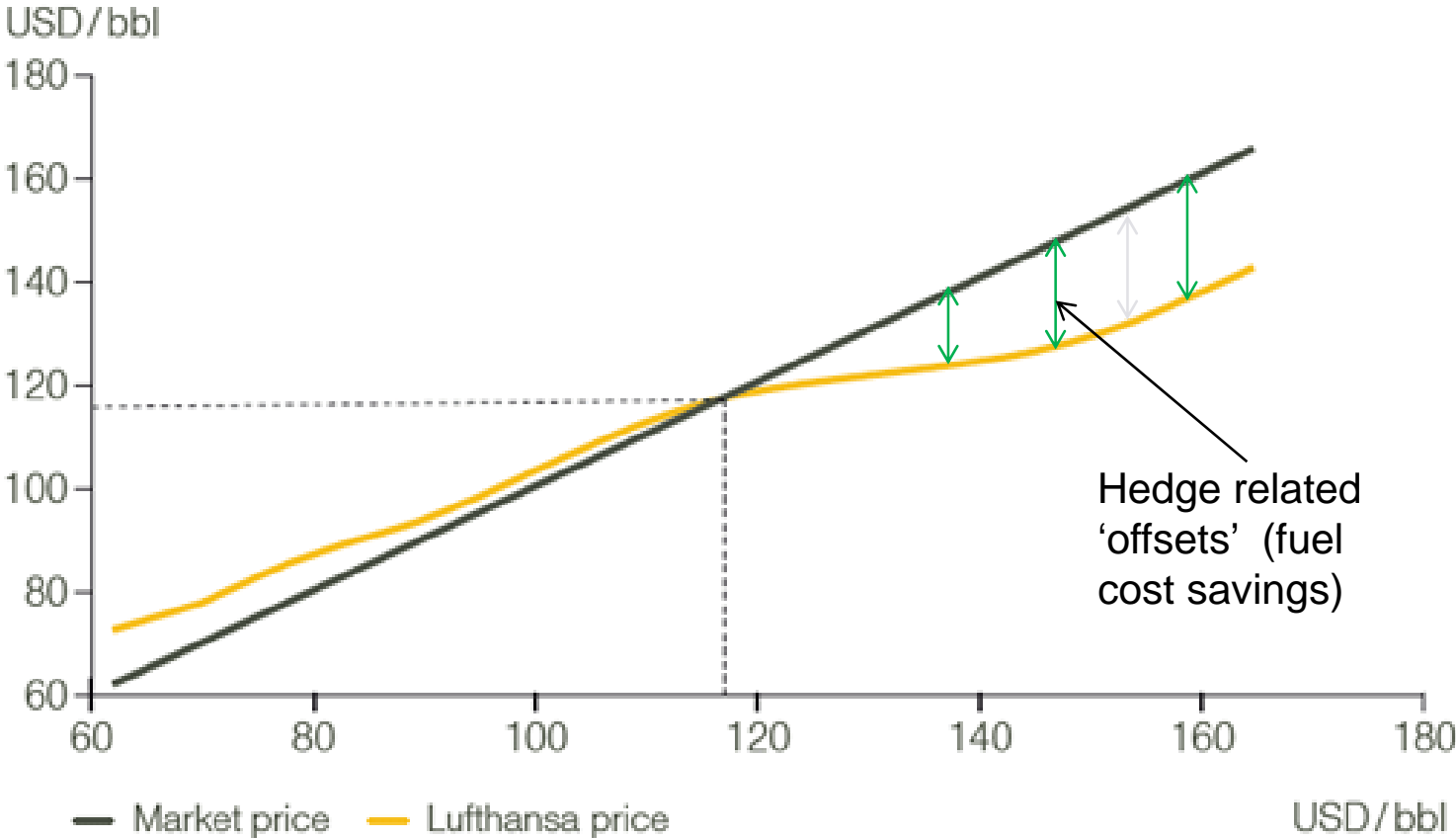
Paper manufacturers



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Lufthansa Financial Report 2013

- Their jet hedging program impact:



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Jet fuel hedging objectives?

Primary:

Cost control defend future *jet* fuel budget

Stabilising margin seat sale/fixed income, then fix *jet* fuel cost

Secondary:

Reduce future financial strain

Forecasting budget

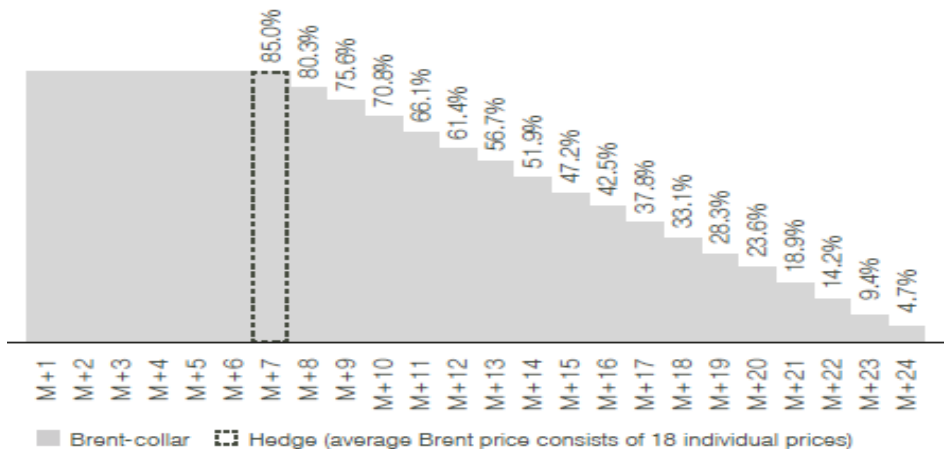
Understanding 'basis-risk' (any price variation between hedge and physical jet cost)

A Consumer Jet Hedge

Examples:

Scheduled Airline – often proportionally fix future fuel costs in sloping % tranche

Lufthansa's hedging policy Medium-term crude oil hedging



Charter Airline - sells a tranche of flights/seats so hedges majority of associated jet consumption at time of tranche seat sale

Physical and Financial hedge choices....

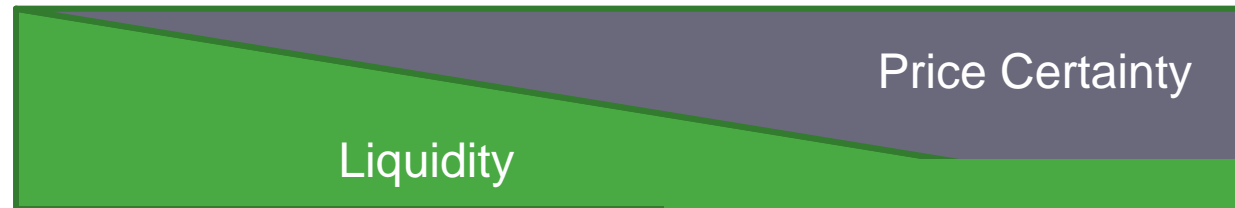
Physical Fuel Hedging

- Also known as “embedded” products – integrated into physical supply contracts
- Includes:
 1. Fixed Forward Prices (FFP);
 2. Flexible Supply Contracts;
 3. Capped Supply
 4. Alternate Price Formulae (APF)
- Easy to administer
- Effective – future cost known
- Generally suitable for ratable monthly volumes

Financial Derivatives

- Also known as “paper” hedges
- Separate from physical supply contracts
- Includes
 1. Swaps,
 2. Caps/Collars;
 3. Basis swaps
- Financial settlement of derivatives offsets price movements on physical fuel
- Basis risks
- ‘Margin call’ sensitivity & accounting considerations
- Regulatory considerations

Hedging Tools – quick comparison



	Crude Swap (financial)	Jet Swap (financial)	Multi-Airport APF (physical)	Multi-Airport FFP (physical)
Financial only	2 nd choice	1 st choice	✗	✗
Combination	2 nd choice	1 st choice	1 st choice	1 st choice
Physical only	✗	✗	✗	Only choice



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Summary

Need for prudent jet fuel hedging, ideally controlling jet price, is an airline fact of life

Tools are varied, combinations will likely be needed

Hedging policy ideally aligns corporate budget goals with corporate limitations

Ideally simple hedging should provide a future paid price or maximum paid price for jet fuel, ideally avoiding non-jet index/commodity eg brent.



About WFS...

Offers physical tailored hedging and financial too

Own in-house derivative trading systems

**26th September - Supply + Risk management
Seminar London.**

- 2012 Revenue **\$38.9 billion**
- Market capitalization **\$3 billion**
- Stock symbol **NYSE: INT**
- Fortune 500 Ranking* **74**
- Global headquarters **Miami, Florida, USA**
- Founded **1984**
- Number of employees** **2,500**

All figures, except employee count, are as of 12/31/12

* Source: Fortune 500 Ranking Issue Date May 6, 2013

** As of February 2013

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Q&A

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