

AIRLINES FINANCIAL MONITOR

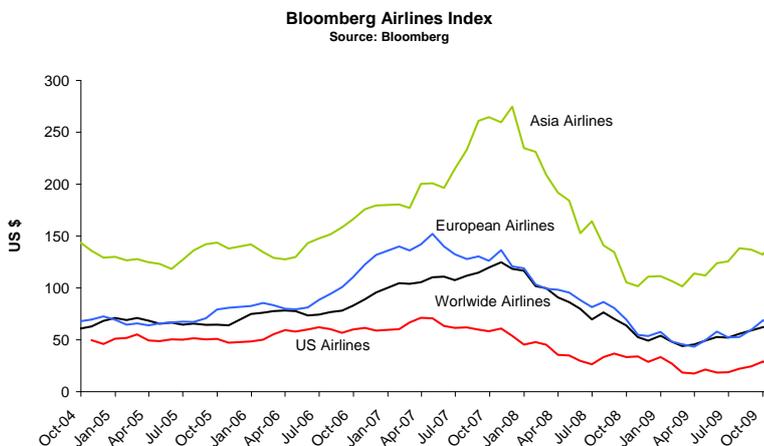
September-October 2009

KEY POINTS

- Stronger capital markets allowed airlines to raise a further \$8 billion of new cash in the past 2 months.
- Early indications show financial performance improving in Q3 but \$11 billion 2009 net loss still likely.
- Jet fuel prices hit \$85 a barrel in October, almost back to year-earlier levels, squeezing cash flows.
- Travel demand growth turns positive for first time in a year, while airline capacity cuts sustained.
- Load factors for both passenger and freight back to pre-recession levels, stabilising fares and yields – albeit still at very low levels.
- Moreover fleet has expanded 2%, aircraft utilisation is down 3%+, leaving capacity overhang threat.

Financial indicators

Stronger capital markets allow airlines to raise a further \$8 billion of new cash



- Airline equity prices moved in line with the market in October, gaining just over 2%; Asian airlines outperformed while US airline stocks underperformed.
- Airlines took further advantage of the continued revival in capital markets by raising almost \$8 billion in new funds. The industry has now raised \$4.5 billion in equity and over \$20 billion of new debt so far this year. The larger airlines now have a good cash cushion and the ability to finance much needed restructuring, if regulators allow.

Third quarter results improve on last year but still weak given seasonal boost to traffic

In US \$ Million

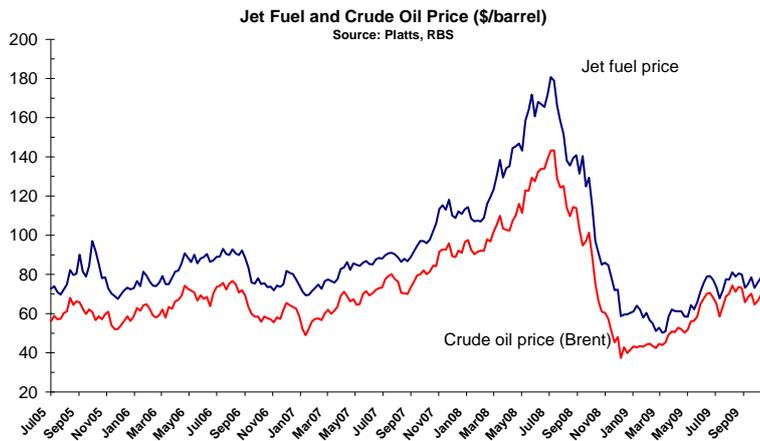
# Airlines		Q3 2008		Q3 2009	
		Operating	Net post-tax	Operating	Net post-tax
13	North America	-262	-1139	619	-405
2	Europe	608	514	638	756
7	Asia-Pacific	-317	-995	508	-23
1	Latin America	171	83	92	52
1	Other	21	10	2	11
24	Sample total	221	-1527	1860	392

UPS net post-tax is estimated, China Eastern airline, Jet Airways operating profit not included
Kenya Airways half year results included

- Results for Q3 are only out for a handful of airlines, outside the US, but early indications show an improvement in financial performance. The 24 airlines reporting Q3 results turned a \$1.5 billion loss in the same quarter last year into a \$0.4 billion profit.
- However, Q3 like Q2 benefits from seasonally strong traffic. Given that the industry lost more than \$6 billion in H1 and Q4 is usually loss making these numbers are consistent with IATA's forecast for 2009 losses of \$11 billion.

Fuel costs

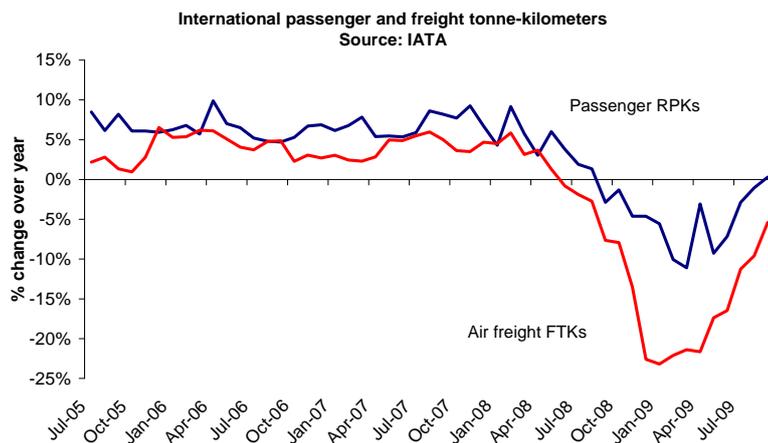
Jet prices rise to \$85/b in October, close to levels seen a year earlier



- Fuel prices have been creeping up, since hitting a low at the end of Q1, and reached \$85 a barrel in mid-October.
- During the first half of the year fuel prices were substantially lower than 2008 levels, but now the year-on-year advantage is disappearing. \$85 a barrel is now close to late-October 2008 levels. Further rises are expected by futures markets, which will continue to squeeze airline cash flows.

Demand

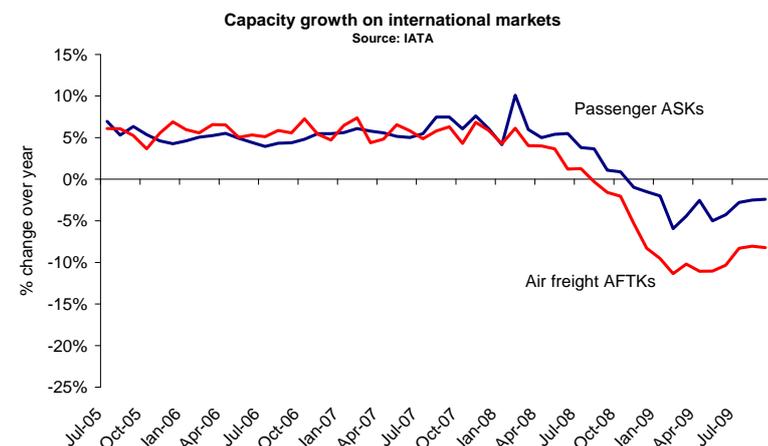
Travel growth turns positive and freight volumes rise strongly during Q3



- Travel volume growth turned positive in September, for the first time in a year, with international RPKs up 0.3%. Air freight is improving at a faster pace but has a deeper hole to climb out of; international FTKs were down 5.4%.
- Seasonally-adjusted levels of RPKs are now 5% up on their Q1 low, although still 6% down on early 2008 levels. FTKs are 12% up on their December low but remain 17% below early 2008 levels. Volumes are moving in the right direction but there is still some way to go before earlier activity levels are regained.

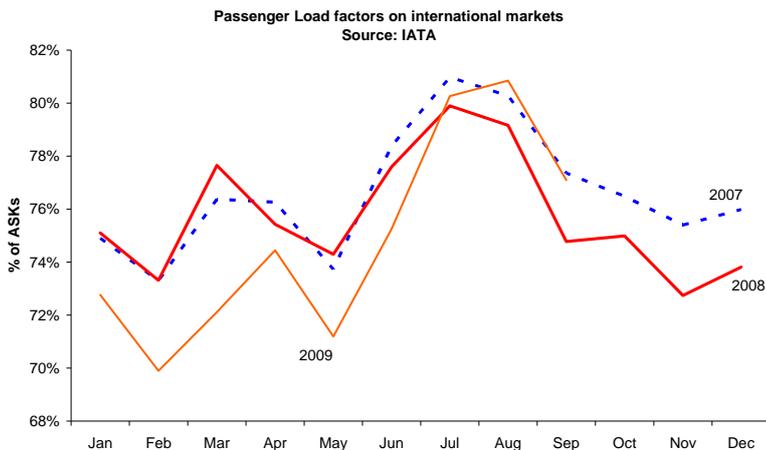
Capacity

Capacity was kept flat throughout this year but upside risks in months ahead



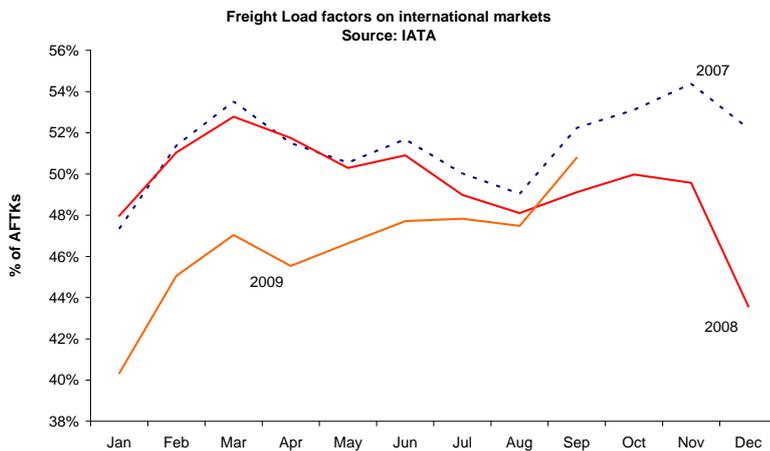
- Comparing this chart with the one above makes it clear that airlines were unable to resize sufficiently when markets collapsed in the first half of this year. However, after cuts were made capacity has been kept flat throughout this year. As a result supply-demand conditions are now improving as demand picks up.
- The key question is whether capacity restraint will continue. Many airlines have announced further cuts for the winter season, but so far the published schedules suggest some increase.

Passenger load factors improve sharply but aircraft utilisation is very low



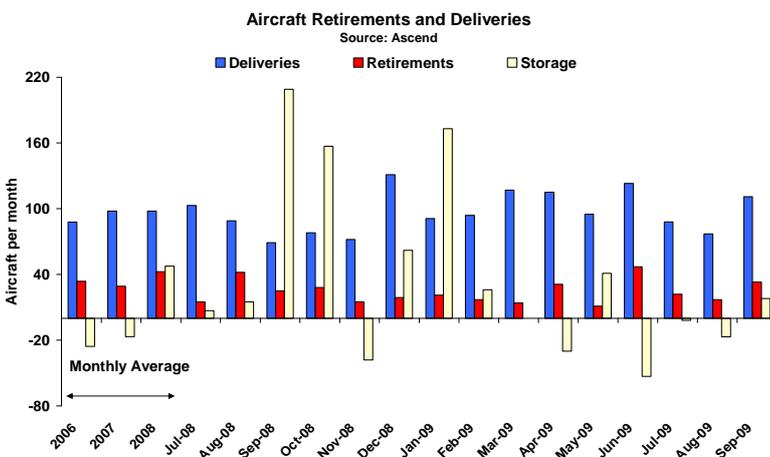
- Passenger load factors on international markets have returned to the levels and pattern of 2007 in the past three months. Seasonally-adjusted, aircraft are now as full as they were before the onset of the recession.
- Asset utilisation is normally a good indicator of profitability but in this case load factors are not a good indicator of utilisation. Airlines have been cutting capacity by reducing the average hours flown by their fleet. Aircraft utilisation is down over 3% for narrow-bodies and over 4% for wide-bodied aircraft.

Freight load factors also improving and back to pre-recession levels



- Freight load factors normally move higher in September as the holiday season ends, but this year the improvement was marked taking load factors back to pre-recession levels.
- Seasonally-adjusted, freight capacity was cut around 10% from the end of last year through to Q2. AFTKs rose a little in the past couple of months but freight demand was stronger, leading to the sharp improvement in load factors seen in September.

Deliveries of new aircraft back over 100/mth as fleet expanded more than 2% this year



- New aircraft delivered once again exceeded 100 in September, and substantially overwhelmed the number of aircraft being retired or put into storage.
- So far this year 911 new aircraft have been delivered, substantially improving fleet fuel efficiency. However, only 213 have been retired and 156 put into storage. As a result the fleet of commercial aircraft has expanded more than 2%, despite the reduction in ASKs and AFTKs. The result has been lower aircraft utilisation and upward pressure on unit costs (or reduced benefits from cost savings measures).

Average fares and yields slowly improve as supply-demand conditions tighten



- Average passenger fares were down over 18% on the year in July for premium seats and by over 14% for economy seats. This is still very weak but nonetheless it does compare favourably to their low points at the end of Q2 of -26.6% and -18.5% respectively.
- Load factors are now back to pre-recession levels, which has meant that airlines do not have to keep low fare categories open for so long, leading to a rise in the average fare paid.
- Fares are now moving in the right direction but the pace of improvement is slow and levels remain well down on last year, unlike travel volumes. Moreover, current low levels of aircraft utilisation and planned deliveries both suggest a threat to fares and yields in the months ahead. The revenue environment remains extremely challenging.

Data tables

International passenger and freight markets in September

	Sep 09 vs. Sep 08						YTD 2009 vs. YTD 2008					
	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth	FLF	RPK Growth	ASK Growth	PLF	FTK Growth	AFTK Growth	FLF
Africa	-4.2%	2.2%	68.6	-6.9%	-2.0	29.5	-8.9%	-4.5%	69.6	-19.1%	-4.6	26.0
Asia/Pacific	2.1%	-4.2%	75.5	-3.1%	-10.1	64.5	-8.8%	-7.3%	72.9	-17.0%	-14.5	59.3
Europe	-4.2%	-5.4%	79.5	-13.0%	-11.4	47.2	-5.9%	-4.4%	76.3	-19.3%	-9.6	44.8
Latin America	3.4%	3.8%	73.5	1.8%	6.2	33.9	-2.3%	1.5%	72.0	-12.7%	-2.8	30.9
Middle East	18.2%	15.2%	71.8	3.6%	5.5	43.5	9.4%	13.2%	72.9	-2.6%	5.0	40.8
North America	-2.4%	-5.1%	81.1	-5.0%	-11.2	40.6	-6.7%	-5.1%	79.2	-17.9%	-10.4	35.2
Industry	0.3%	-2.4%	77.1	-5.4%	-8.5	50.8	-5.3%	-3.4%	75.0	-16.4%	-9.8	46.6

IATA Economics
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