

# AIRLINES FINANCIAL MONITOR

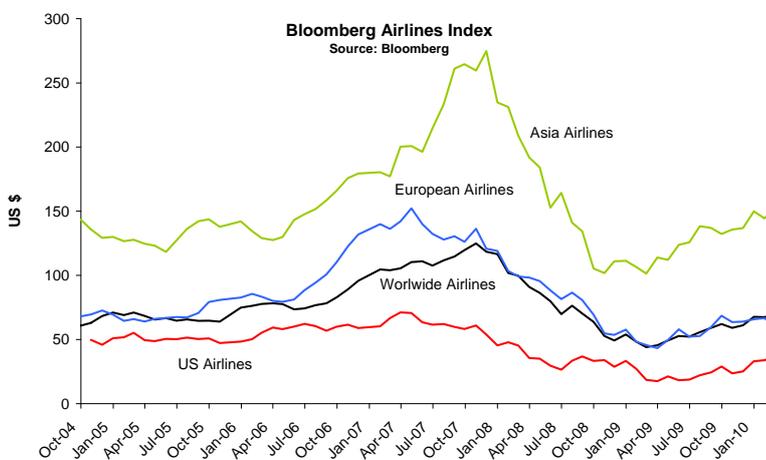
January 2010 – February 2010

## KEY POINTS

- Airline share prices continue to outperform the market as investors favour this highly cyclical sector;
- Stronger airline financial performance emerging more clearly in 2009Q4 results, though Europe lagging;
- Ability to turn stronger demand into profit hampered by rising trend in jet fuel prices, now at US\$85/b;
- Travel and freight demand turning up strongly at start of 2010 but very large geographical differences;
- Capacity starting to return but at a very cautious rate, so load factors reached record levels in January;
- Tighter supply-demand conditions raising fares and cargo rates but both still far below early 2008 levels;
- Deliveries continue to expand the fleet - resulting low asset utilization also hampering return to profitability.

## Financial indicators

### Airline share prices outperform the market as confidence rises early in 2010



- Airline equity prices are up 1-2% so far this year and over 50% above February 2009 lows. Airlines have outperformed the market so far this year and, in Europe and Asia-Pacific, have kept pace with the market in the upturn of the past 12 months. In the US airline stock prices doubled over the year, far in excess of the market.
- Investors see airlines as a cyclical play and the industry has benefited as the economic recovery continues. This allowed another US\$1 billion of cash to be raised from debt so far this year and some equity from Tiger Airways IPO.

### 2009Q4 data indicates continued financial improvement through second half

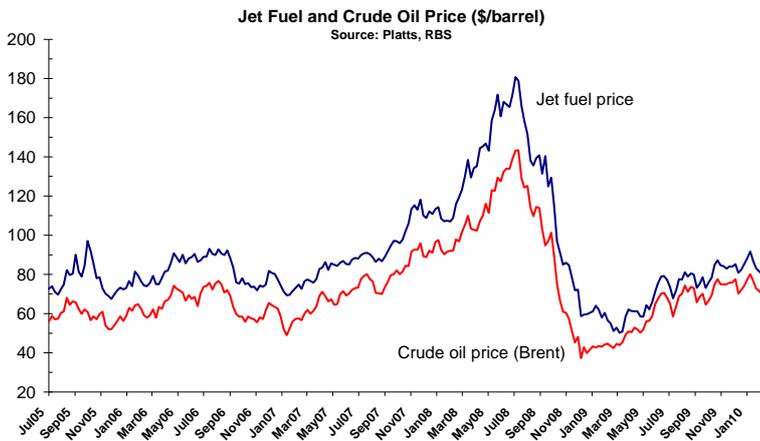
In US\$ Million

# Airlines		Q4 2008		Q4 2009	
		Operating	Net Post-Tax	Operating	Net Post-Tax
17	North America	-528	-4620	610	-26
7	Europe	-382	-1407	-928	-596
15	Asia-Pacific	-664	-1109	370	208
2	Latin America	316	169	262	180
3	Other	44	54	37	48
44	Sample Total	-1214	-6913	351	-186

- There was further improvement in airline financial performance during the fourth quarter of 2009. As expected, due to seasonal travel weakness, there was a net loss. However, that loss was significantly down on the previous year.
- US airlines improved most in the past year, though still showing a small net loss. Asia-Pacific also saw substantial improvement. By contrast European airlines saw much less progress.

## Fuel costs

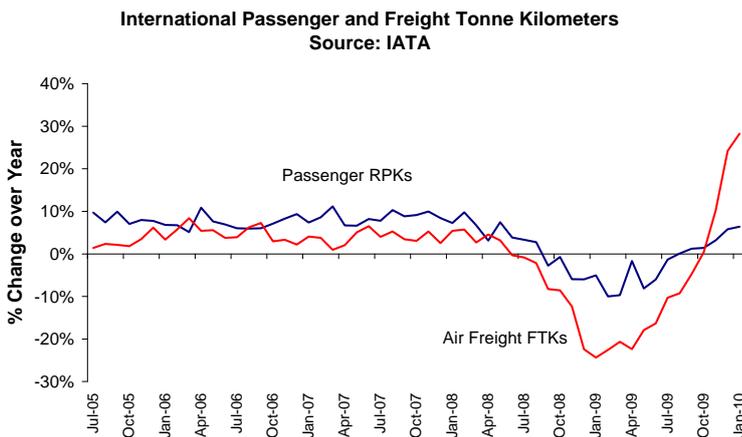
**Fuel prices average US\$85 a barrel so far this year and markets expect a rise to US\$90**



- Excess refinery capacity has helped compress the 'crack' spread to 10-15%, down from its normal 25%. However, upward pressures on crude oil have pushed jet kerosene prices up from around US\$60 early last year to average US\$85 so far this year.
- Economic recovery is expected to modestly tighten oil supply-demand conditions further and so future markets are pointing to oil prices rising slowly to US\$80 by year end. This would be consistent with a jet price of US\$90 a barrel – a 20%+ rise in costs.

## Demand

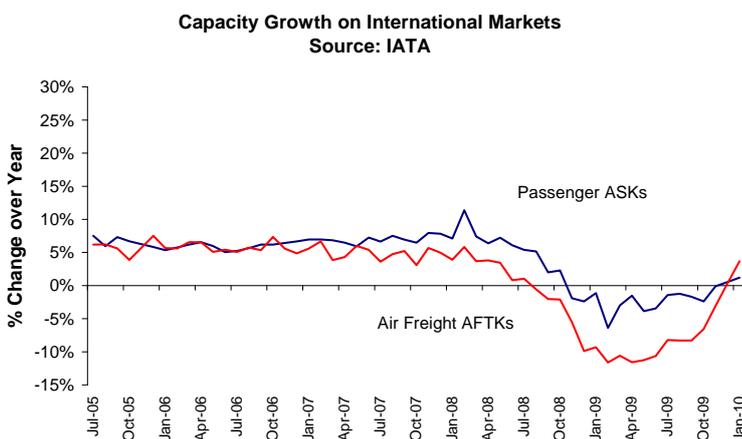
**Air freight surge continues into early 2010 and air travel upturn strengthens**



- Air freight volume growth of over 28% year-on-year in January looks remarkable – but so was the decline last year. But there has been a strong rebound in world trade, and air freight has gained market share. However, the level of the market is still 3-4% below where it was in early 2008. Air travel has also risen, at a more modest pace of just over 6% in January.
- This is a solid post-recession upturn in demand but it remains very uneven geographically, with strong emerging market growth but sluggish developed economy markets.

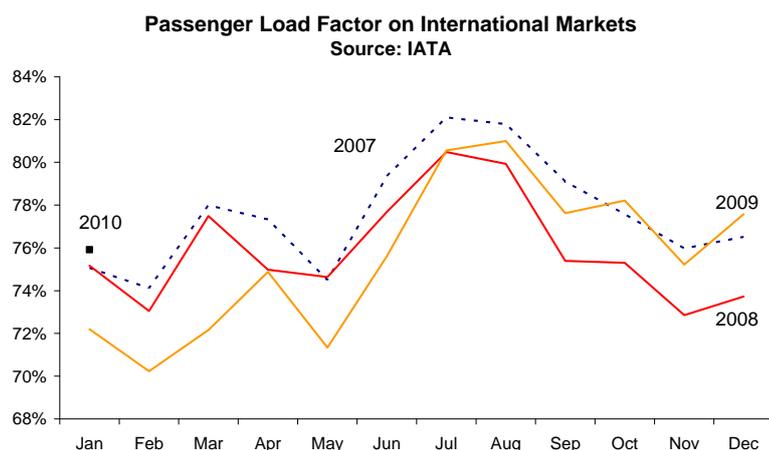
## Capacity

**Capacity being reintroduced to cargo and passenger markets at a cautious pace**



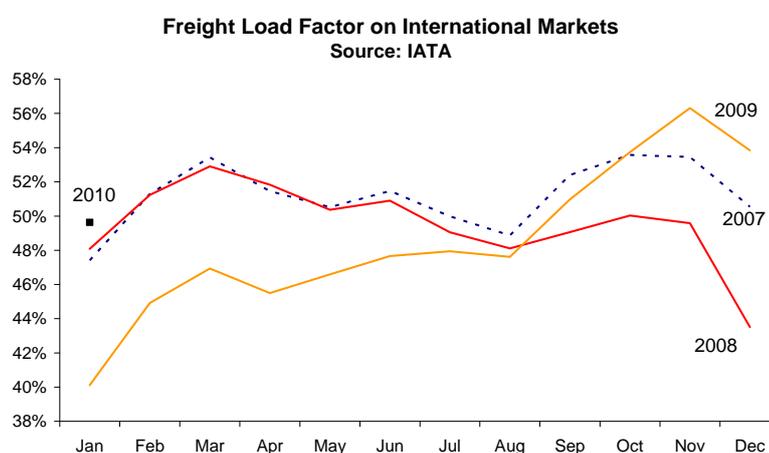
- Both passenger and freight capacity are now growing once more, having shrunk substantially since mid-2008. By January freight capacity was up 3.7% on the year and passenger capacity was up 1.2% - with increases concentrated in Asia-Pacific, Middle East and Latin America.
- After these increases the size of passenger capacity on international markets is still 4% below early 2008 levels, while freight capacity is 8% smaller.

## Record passenger load factors reached in January – allowing for seasonality



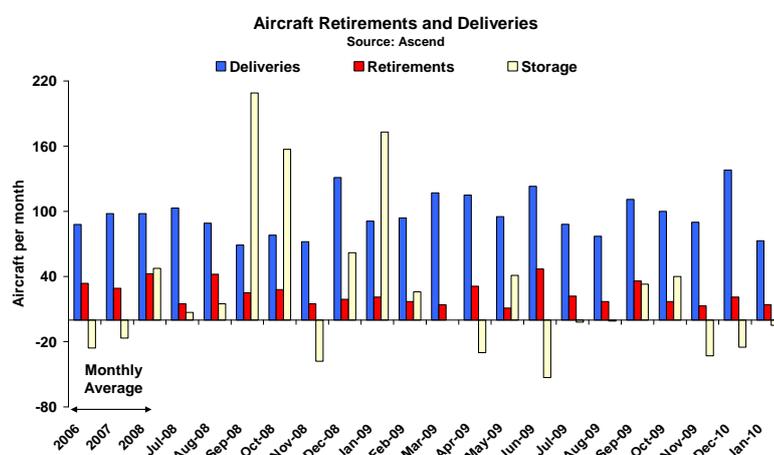
- Aircraft are not quite as full as they are mid-year, but if you allow for that seasonality airlines have managed to push passenger load factors to record levels by December 2009, which was continued into January 2010.
- The contrast with the exceptionally low load factors in the first half of 2009 is stark, and reflects the impact of the travel upturn combined with unusually cautious additions of capacity. All regions, except Africa, have seen a 5-10% point improvement since the lows of early 2009.

## Sharp rise in freight capacity utilization but freighter hours have fallen



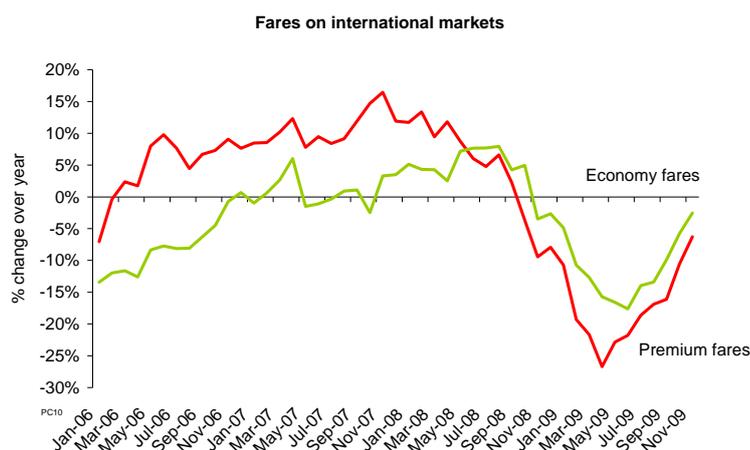
- Freight load factors, by weight, have always been much lower than the utilization of passenger seats – partly due to the marginal nature of freight capacity in the bellies of passenger aircraft. Nonetheless, air freight load factors reached record levels during the seasonally weak months at the turn of the year. Adjusted for seasonality freight load factors reached 54%.
- The freight fleet is 160 down on early 2008 but at least part of the reduction in AFTK capacity has been achieved by reducing the average hours in the air of both freighters and wide-body aircraft.

## Aircraft fleet expansion continues as deliveries exceed retirements and parking



- A large number of older passenger aircraft were taken out of service in late 2008 and then a large number of freighters early last year. Since then the number of aircraft going in and out of storage has fluctuated around zero. The number of aircraft retired has averaged 20 a month. Since an average of 100 new aircraft has been delivered each month, the fleet has expanded by around 4% over the past year.
- There was the normal January slowdown in deliveries. There was no change in the present situation of capacity being constrained partly by cutting asset utilization.

## Average fares on international markets rising in response to fuller aircraft



- Record load factors have tightened supply-demand conditions and so both passenger fares and cargo rates have been rising since mid-2009. However, the upturn in yields has been much slower than the upturn in travel and air freight volumes.
- Average economy fares have risen 10% from mid-2009 lows but are some 9% lower than average fares in early 2008. Premium fares are still some 20% below early 2008 levels, such was the scale of decline in yields for this key seat class.
- There is also a significant geographical difference. Revenues, particularly for cargo, are picking up much more strongly for travel and freight coming out of Asia, than they are on developed markets such as transatlantic. This is being reflected in the divergent financial results of airlines based in different regions.

## Data tables

### International passenger and freight markets in November

Year on Year Comparison	Jan 10 vs. Jan 09						2009 vs. 2008					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	6.3%	5.5%	66.1	30.4%	9.2%	21.8	-2.0%	1.5%	66.7	-9.2%	2.0%	24.0%
Asia/Pacific	6.5%	-1.4%	77.8	38.4%	10.3%	61.9	-4.6%	-5.3%	73.7	-9.1%	-11.1%	60.8%
Europe	3.1%	-0.2%	74.5	11.6%	-6.9%	48.5	-3.3%	-2.9%	77.5	-16.1%	-10.8%	47.3%
Latin America	11.0%	3.4%	80.3	30.9%	20.7%	37.3	0.0%	1.4%	72.9	-4.0%	1.2%	38.6%
Middle East	23.6%	17.2%	75.3	33.0%	19.3%	42.6	11.2%	13.6%	73.0	3.9%	6.8%	42.7%
North America	2.1%	-2.2%	77.6	27.3%	-4.3%	39.6	-5.2%	-5.0%	79.6	-10.8%	-9.7%	37.7%
Industry	6.4%	1.2%	75.9	28.3%	3.7%	49.6	-2.5%	-2.1%	75.7	-10.1%	-8.3%	48.6%

IATA Economics  
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