

AIRLINES FINANCIAL MONITOR

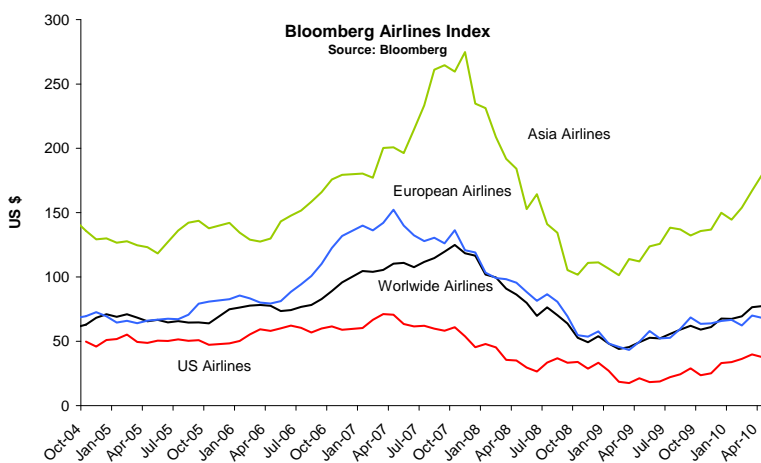
KEY POINTS

March-April 2010

- Even after the damage caused by the volcanic ash plume, airline shares were still 15% up so far in 2010;
- This bullish view from financial markets was given support from improved Q1 US airline financial results;
- However, fuel prices have moved up US\$10/b from Q1 averages to over US\$96/b raising cost pressures;
- Average fares are also rising, providing some offset, as supply-demand conditions tighten further;
- Demand continued to rise strongly in Q1, with air travel up an annualized 9% and freight by 26%;
- Capacity is also returning but at a much slower rate so load factors are still at record or near-record highs;
- Deliveries of new aircraft were up to 116 in March with 8 taken out of storage and only 12 aircraft retired.

Financial indicators

Financial markets signal confidence in upturn as airline share prices rise 15% this year



- Even after Iceland's volcanic ash plume airline share prices stood 15% up so far this year, compared to a 6% rise in the FTSE Global All Cap Index. Financial markets remain bullish over future airline financial performance.
- However, European airline shares were hit by the ash plume and were already the weakest region. Here share prices are up just 4% on the year and only 57% above 2009 lows, compared to the 76% rise in the Bloomberg global airlines index.

First quarter results continue to improve for US airlines

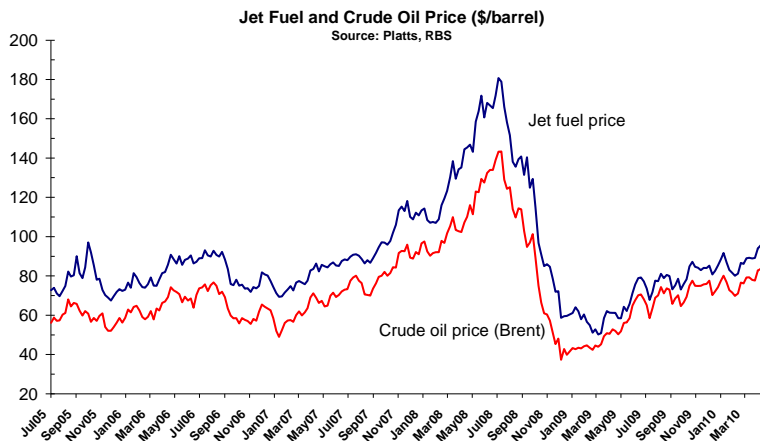
In US \$ Million

# Airlines		Q1 2009		Q1 2010	
		Operating	Net post-tax	Operating	Net post-tax
10	North America	-706	-1712	289	-752
3	Europe	-152	-114	-189	-142
-	Asia-Pacific	-	-	-	-
-	Latin America	-	-	-	-
-	Other	-	-	-	-
13	Sample total	-858	-1826	100	-894

- First quarter results are starting to be published, although only the US results are representative enough to draw any conclusions. These show that the pace of improvement in operating profits slowed from an average 1.8% EBIT margin in Q4 to 0.8% in Q1. Much of that was seasonal weakness, but some is the impact of rising fuel costs.
- Nevertheless, positive Q1 operating profits in the US is a good sign for the expected improvement in airline financial performance during 2010.

Fuel costs

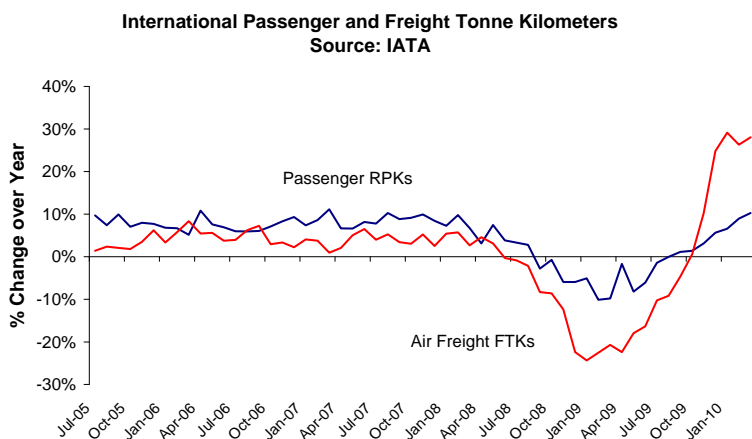
Fuel price rises above US\$96/b in April for first time since October 2008



- ↗ Oil and jet fuel prices rose US\$10/b above first quarter levels in April. Jet kerosene prices moved above US\$96/b for the first time since October 2008, as markets revised up their expectations for oil demand as economies continue to strength (outside Europe).
- ↗ Already oil prices have averaged US\$78/b in 2010 which is only a little below the US\$79/b we are currently forecasting for 2010 to average. If today's prices continued, average 2010 prices (and fuel costs) would be some US\$5/b higher than forecast.

Demand

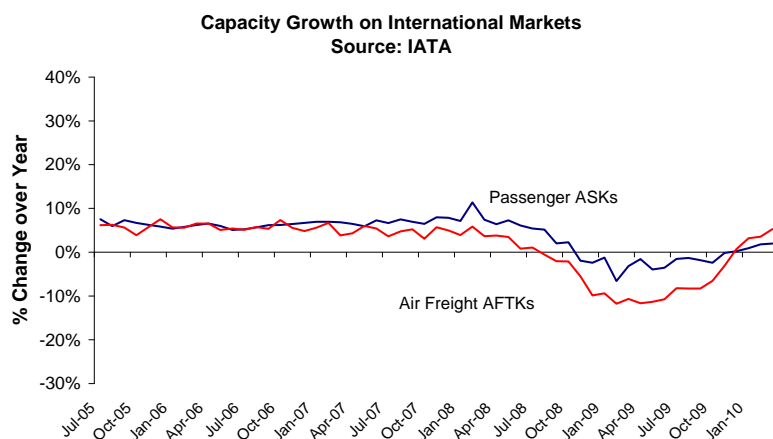
Demand for air travel and air freight continue to rise very strongly in 2010Q1



- ↗ Current air travel and air freight growth rates are not being flattered by the weakness of transport markets at this time last year, despite that being the recession low point. During the first quarter of this year international air travel volumes were expanding at an annualised rate of 9%, while air freight was expanding at a rate of 26%.
- ↗ These growth rates are very different across markets – weak in Europe – and they will also slow as the business inventory cycle comes to an end. The ash plume will also knock 4%, temporarily, from volumes in April

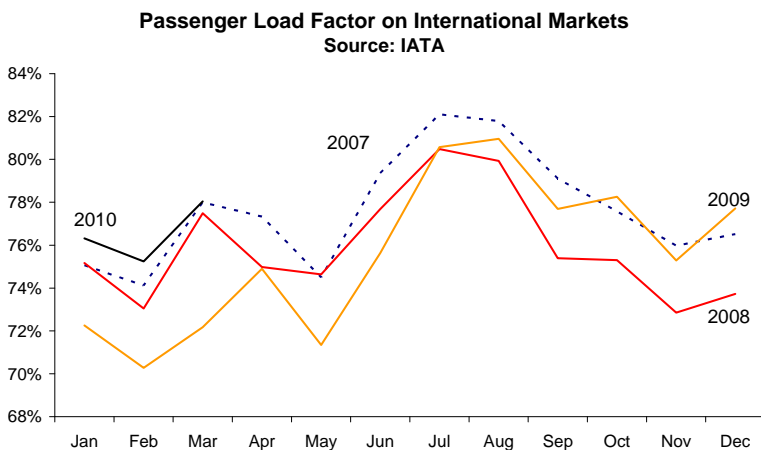
Capacity

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



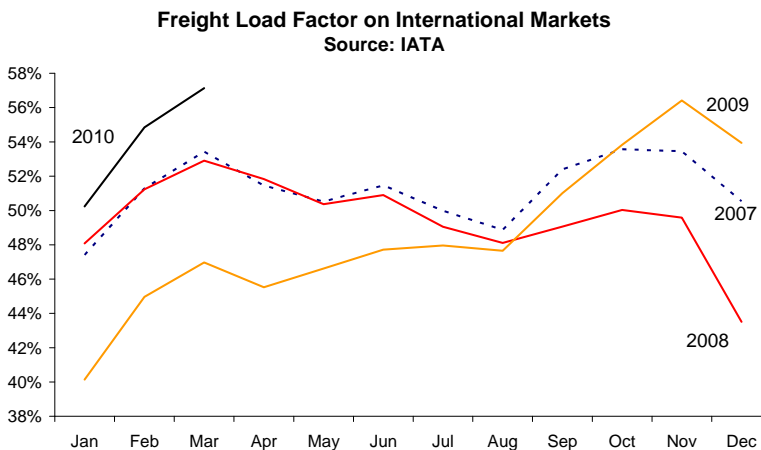
- ↗ Airlines are bringing capacity back into international air travel and air freight markets, but still at a much slower pace than the expansion in demand. In March passenger capacity was up 2%, compared to a travel expansion of over 10%. Freight capacity was up over 5% compared to a demand rise of 28%.
- ↗ Schedules announced for the rest of 2010 point to a 5% increase this year. Given underutilized long-haul capacity and 1,400 deliveries planned the risk is that this could be higher.

Passenger load factor levelling off but at all time high seat utilization rate



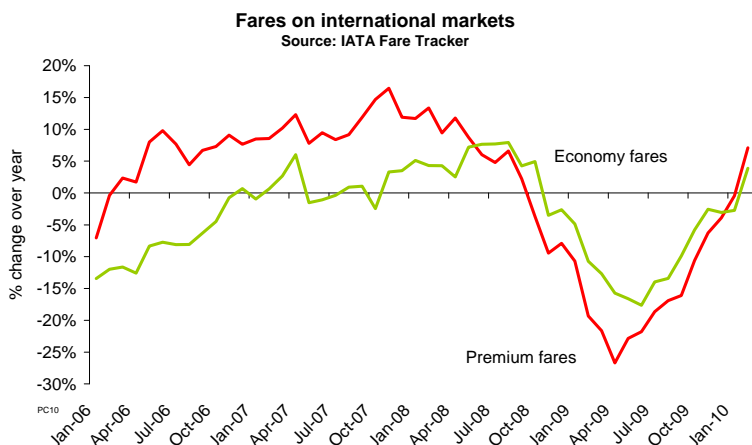
- Passenger load factors usually rise in March, as half-term holidays boost travel for seasonal reasons. Even allowing for this the average international load factor was strong in March, at a seasonally-adjusted 78.7%.
- The improvement has slowed markedly in the past few months as capacity started to be re-introduced. However, announced schedules suggest new capacity will not exceed the rise in demand. If correct then load factors should stay high, but there are downside risks from the scale of new deliveries and low aircraft utilization.

Sharper rise in freight capacity utilization but freighter hours had fallen



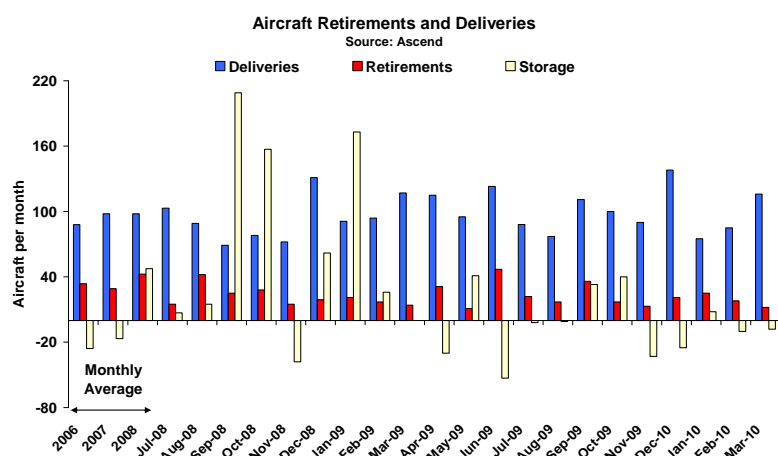
- Freight capacity utilization – on both passenger aircraft and freighters – is always much lower on a weight basis than passenger load factors. It was also higher than today back at the end of the late-1990s upturn. Nonetheless, freight load factors have risen strongly since the middle of last year and continued to do so through the first quarter of 2010.
- Towards the end of last year freighter utilization remained much lower than normal. Unless that has changed in recent months it suggests that load factors are exaggerating the degree of asset utilization and therefore improvement in profitability.

Average fares on international markets rising in response to fuller aircraft



- Average air fares, adjusted for seasonality, have risen significantly since they hit a low in the middle of last year. Tighter supply-demand conditions, as load factors rise, have pulled average fares (and cargo rates) up.
- Average economy fares are now 10% above their lows, while premium fares have risen 15%. However, both are only half-way to regain the levels achieved in early 2008.

Aircraft fleet expansion continues as deliveries exceed retirements and parking



↗ The January/February seasonal lull in aircraft deliveries is over and, in March, there were 116 new aircraft delivered. A further 8 were taken out of storage back into the active fleet. Only 12 were retired.

↗ With 1,400 or more aircraft due to be delivered this year, March looks likely to be a typical month for 2010. New deliveries, together with a normal 400 or so retirements, could boost the in-service fleet 4%. Bringing the wide-body fleet up to more normal average daily hours utilization rate could add rather more to capacity than the 5% currently announced in the schedules.

Data tables

International passenger and freight markets in March

Year on Year Comparison	Mar 10 vs. Mar 09						YTD 10 vs. YTD 09					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	13.6%	11.0%	67.4	45.8%	8.9%	32.1%	10.4%	8.2%	67.0	34.6%	7.4%	27.0%
Asia/Pacific	12.6%	1.3%	79.1	34.1%	12.5%	68.6%	10.5%	0.3%	78.6	35.9%	11.1%	65.6%
Europe	6.0%	-0.8%	78.1	11.7%	-5.2%	55.2%	4.3%	-0.6%	75.7	10.3%	-6.6%	52.6%
Latin America	4.6%	-0.7%	73.3	47.9%	24.6%	43.4%	8.2%	1.4%	77.0	40.3%	22.2%	40.7%
Middle East	25.9%	14.8%	76.2	35.5%	15.0%	50.0%	25.0%	15.8%	75.1	34.0%	17.0%	46.9%
North America	7.8%	0.6%	81.6	32.2%	-1.1%	47.5%	5.0%	-1.5%	78.4	31.6%	-3.0%	44.9%
Industry	10.3%	2.0%	78.0	28.1%	5.3%	57.1%	8.6%	1.6%	76.6	27.8%	4.0%	54.1%

RPK: Revenue-Passenger-Kilometres; ASK: Available-Seat-Kilometres; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometres; AFTK: Available Freight Tonne Kilometres; FLF: Freight Load Factor;

All figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

IATA Economics
3rd May 2010

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