AIRLINES FINANCIAL MONITOR

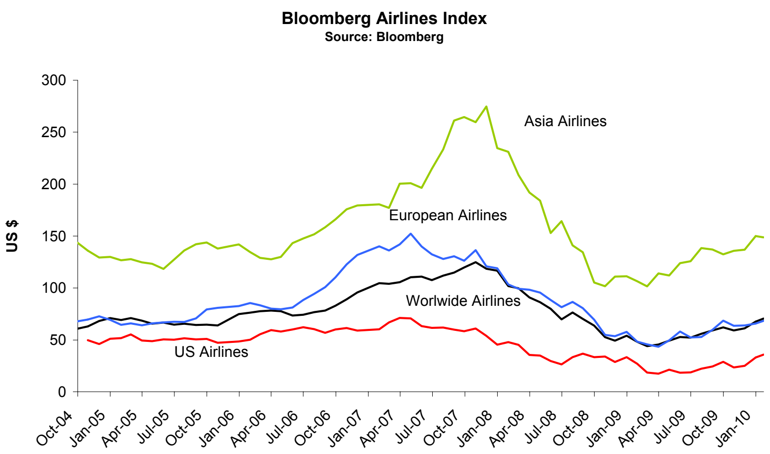
December 2009-January 2010

KEY POINTS

- Airline share prices gain 5% in January, as markets become more positive about airline performance;
- Early releases for 2009Q4 suggest the Q3 signs of improved airline financial performance continued;
- Fuel prices rise above $91/b in January but markets now expect rising trend to moderate;
- Strong upturn in air travel and air freight demand at year end, while capacity cuts remain in place;
- Passenger and freight load factors rise to record, or at least pre-recession, levels as a result;
- Fares now rising but premium revenues were still 30% down on early 2008, economy down 16%;
- Wide-body aircraft utilisation 7% down implying financial performance will lag upturn in traffic demand.

Financial indicators

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



- Financial markets began to have more confidence in the prospects for airline profitability, pushing airline share prices up almost 5% during January, outperforming most markets. This followed share price underperformance throughout 2009, despite the 25% rise in the Bloomberg global airlines index.
- In the past month another $1 billion of cash was raised by airlines in Asia and the US, including a small amount of equity in the Tiger Airways IPO; taking the total cash raised on the markets since early 2009 to over $31 billion.

Early 2009Q4 data indicates continued financial improvement through second half

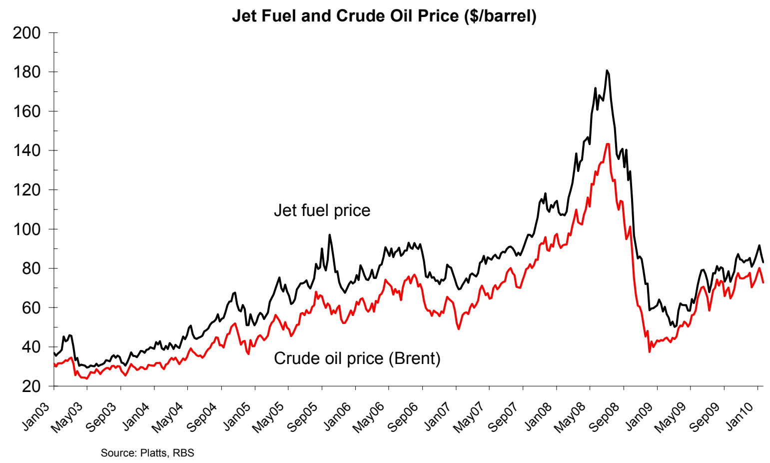
in US$ Million

# Airlines		Q4 2008		Q4 2009	
		Operating	Net post-tax	Operating	Net post-tax
11	North America	-406.7	-3522	602.1	41.5
1	Europe	-121.3	-156.8	2	-15.6
6	Asia-Pacific	-351.8	-1062.6	-168.7	-389.8
1	Latin America	231.6	117.1	190.3	109.7
	Other				
19	Sample total	-648.2	-4624.3	625.7	-254.2

- Q4 financial data has only been released by a few airlines, but so far it is quite consistently indicating a further improvement in performance during the second half of 2009, following the deterioration during the first half.
- Seasonal weakness in travel always depresses Q4 financials – and we still expect an $11bn net loss for 2009 as a whole - but the comparison with 2008Q4 shows an improvement across geographical regions.

Fuel costs

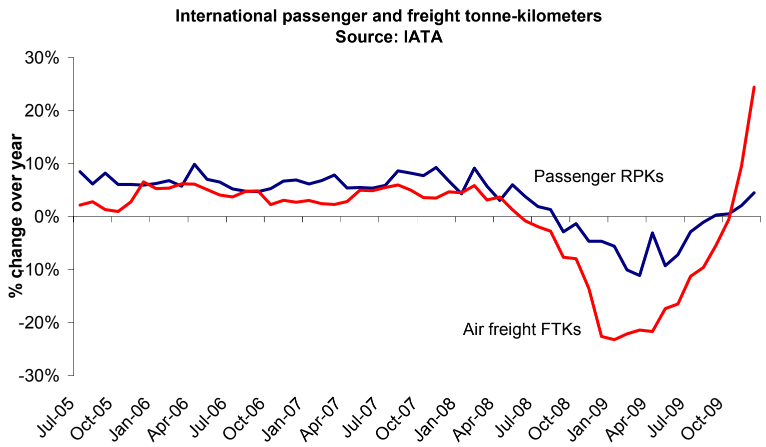
Fuel prices spike above $91/b in January but markets expecting rise to moderate



- For the past 12 months the trend in crude oil and jet fuel prices has been upwards; a trend that continued into January.
- Looking ahead the markets, on balance, expect this trend to flatten as a result of new oil supplies coming on stream coupled with flat OECD demand. The crack spread rose in January as refiners maximised production of heating oil at the expense of other middle distillates, but even at 14% this is low relative to historic norms due to excess refinery capacity.

Demand

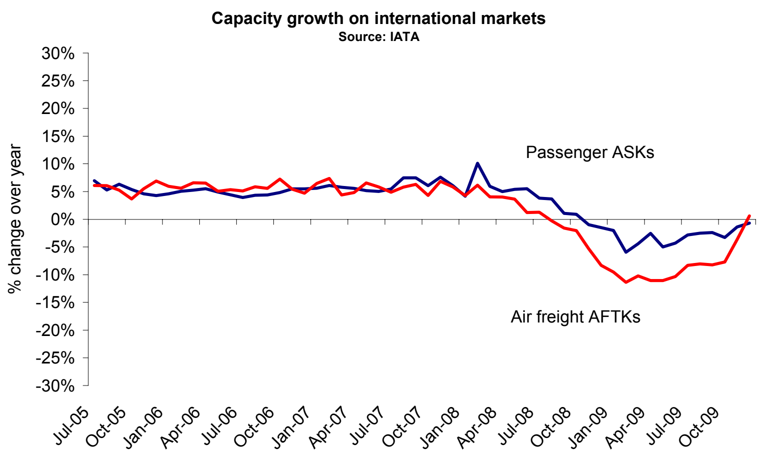
Air freight rises sharply at the end of 2009 and passenger demand growth resumes



- Demand for air transport rose sharply at the end of 2009, as the upturn in economic growth – particularly in Asia – gathered pace.
- The year-on-year comparisons are distorted by the collapse in demand at the end of 2008, which dramatically boosted the 24.4% growth rate for air freight in December. Nonetheless, air freight volumes did rise at a robust pace during Q4, compared with Q3. Air travel is also rising, albeit lagging behind the upturn in air freight.

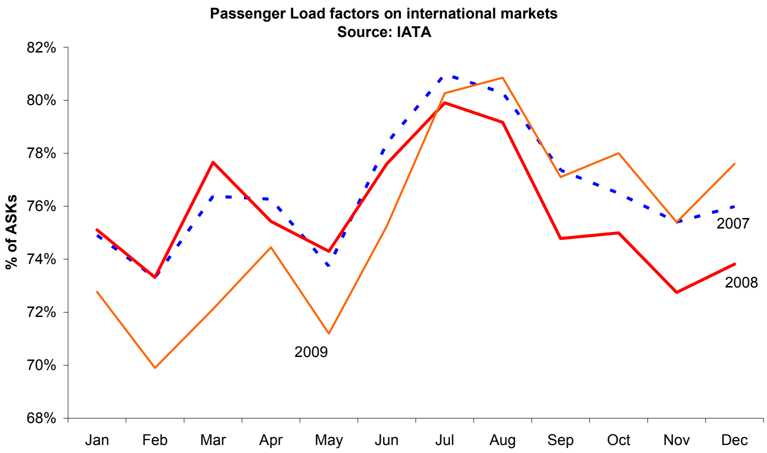
Capacity

Passenger capacity still low and freight capacity additions slower than demand



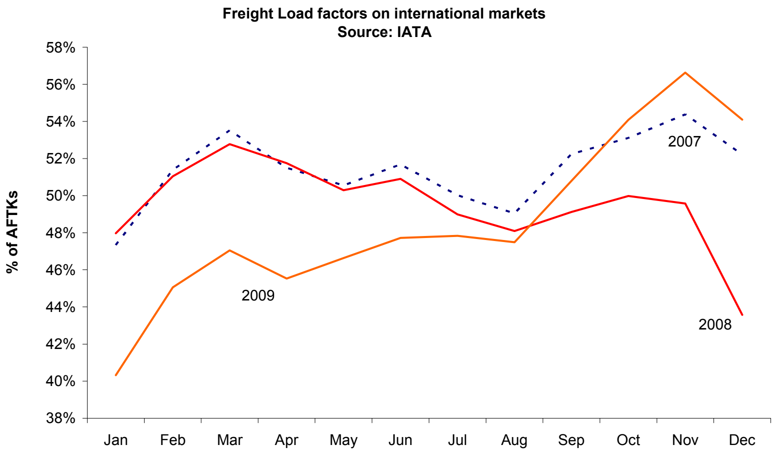
- The capacity chart opposite uses the same scale as the demand chart above, indicating the much smaller fluctuations in airline capacity compared with the volatility in demand.
- Capacity cuts on international markets took place in late 2008 and the first half of 2009, reducing passenger capacity by 7% and freight by over 10%. By the end of the year both were more or less unchanged on levels at the end of 2008. Air freight capacity had started to rise but at a much slower pace than the surge in demand.

A terrible first half for passenger load factors but improvement in the second half



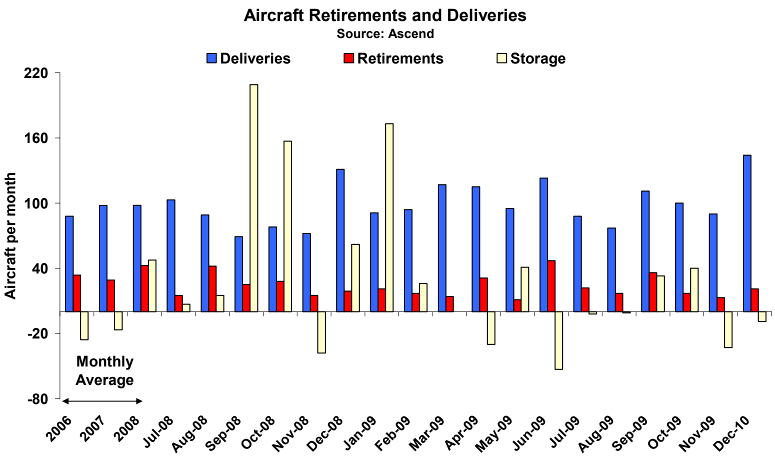
- Being such a capital intensive industry the utilisation of assets is critical for profitability. The slump in load factors during the first half of 2009 was a major factor behind the deterioration in airline financial performance.
- The improvement in 2009H2 financial performance, reported above, is partly due to the strong rebound in load factors during the second half; a combination of returning air travel demand and enduring cuts in capacity.

Sharp rise in freight capacity utilisation but freighter hours have fallen



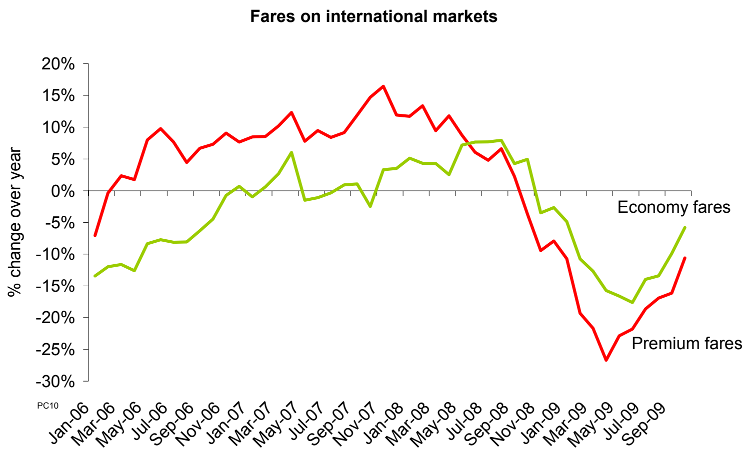
- The air freight business saw an even deeper slump in load factors early in 2009. During the second half there was a very strong improvement load factors, despite some additions to capacity, resulting from the surge in demand.
- However, the average daily hours flown by the existing fleet of wide-body and freighter aircraft is down around 7% from early 2008 levels. Airlines have reduced both seat and freight capacity partly by keeping aircraft on the ground. Although aircraft are 'full' again the airlines' assets are still underutilised.

Aircraft fleet expansion continues as deliveries exceed retirements and parking



- There was the usual end-year rush to book aircraft deliveries, which boosted the December numbers to 144 new aircraft.
- Even allowing for this, new aircraft deliveries have consistently outpaced retirements and storage for each of the past 11 months. With only 21 retirements and 9 aircraft taken out of storage, the fleet expanded by 132 or around 0.5% during December.
- During 2009 deliveries of 1245 new jets and turboprops exceeded storage and retirements by almost 800 aircraft. Despite cuts of 7% in passenger seat capacity and 10% in freight capacity during 2009, the size of the in-service fleet grew by over 3% - a combination achieved by cutting average hours flown.

Average fares on international markets rising in response to fuller aircraft



- The upturn in load factors, reaching record highs by the end of 2009, has tightened supply-demand conditions on international airline passenger markets. As a result average fares are now starting to increases, though their upturn has lagged the rise in passenger numbers. By October premium fares, which had been more than 25% down on the year at the start of Q2, had recovered to a level 10% lower. Economy fares were 5% lower than a year earlier.
- These fare comparisons are starting to be distorted by the significant declines experienced last year. Looking at the seasonally-adjusted level of fares shows premium and economy 8-9% up on early 2009 low points. However, the level of average premium fares is still 20% below where it was in early 2008 and economy fares are 10% down.
- Since premium passenger numbers are 20% down that implies revenues from premium passengers were still 30% lower at the end of 2009 than in early 2008. Economy revenues were still around 16% down. There is still some way to go – perhaps several years - before the revenue environment can be described as having ‘recovered’.

Data tables

International passenger and freight markets in November

	Dec 09 vs. Dec 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	3.1%	1.1%	71.5	33.0%	4.5%	32.8	-6.8%	-3.3%	69.9	-11.2%	-3.3%	27.9
Asia/Pacific	8.0%	-0.9%	78.2	34.4%	7.7%	65.1	-5.6%	-6.3%	73.9	-9.2%	-11.0%	61.2
Europe	-1.2%	-3.5%	76.0	5.2%	-9.5%	52.4	-5.0%	-4.4%	76.4	-16.1%	-10.7%	47.0
Latin America	7.1%	1.4%	76.0	37.4%	20.0%	48.0	0.3%	1.7%	73.0	-4.0%	1.4%	41.8
Middle East	19.1%	14.1%	76.3	32.1%	13.7%	45.3	11.2%	13.6%	73.3	3.9%	6.8%	42.4
North America	-0.4%	-5.4%	82.2	23.9%	-7.8%	43.6	-5.6%	-5.4%	79.6	-10.6%	-9.7%	37.6
Industry	4.5%	-0.7%	77.6	24.4%	0.6%	54.1	-3.5%	-3.0%	75.6	-10.1%	-8.4%	49.1

IATA Economics
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