

AIRLINES FINANCIAL MONITOR

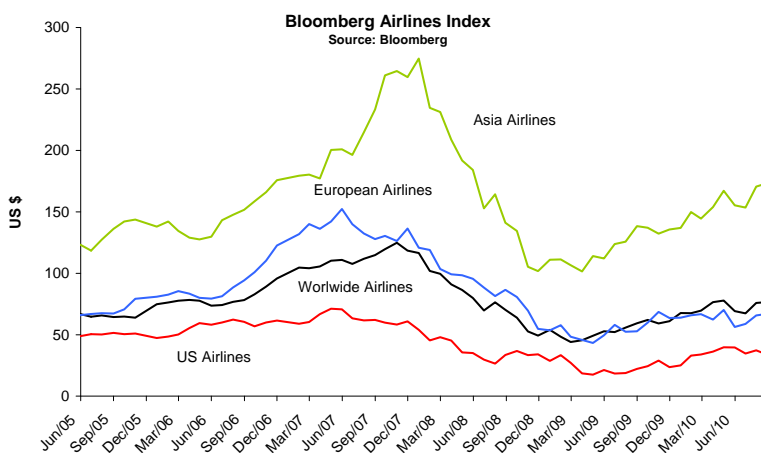
KEY POINTS

July-August 2010

- Airline share prices have now risen 73% from last year's low, outperforming the equity market twice over;
- 2010Q2 results for 47 major airlines show a US\$3.9 billion net profit, US\$4-5 billion better than 2009Q2;
- Jet fuel prices have shown little sign of moving far from \$87/b average of past twelve months;
- Air travel and freight in a slower phase of expansion but remain strong at annualized rates of 8% and 17%;
- Capacity now returning to market. Risk of excess but published schedules remain in line with demand;
- Load factors still above previous cycle high but starting to slip, slowing rise in average fares which still have 5-20% to go before back at pre-recession peaks.

Financial indicators

Airline share prices up 73% on lows of last year as profitability improves



- Since the bottom of the airline cycle in Q1 last year airline share prices, on the Bloomberg global index, have risen 73% outperforming the MSCI Global Index by a factor of two. Year to date airline shares are up 13% while the MSCI Index is down 4%. Clearly financial markets are expecting much improved financial performance from airlines in the upturn phase of this cycle. Markets are positive on Asian and US airlines but European airline share prices are lagging.

Airline net profits improving at a rate of US\$4-5 billion a quarter compared to 2009

In US \$ Million

# Airlines		Q2 2009		Q2 2010	
		Operating	Net post-tax	Operating	Net post-tax
15	North America	480	-514	3783	1740
14	Asia-Pacific	-617	-322	2576	1157
11	Europe*	-415	-548	309	1016
4	Latin America	53	509	163	-36
3	Other	-19	-6	35	16
47	Sample total	-518	-881	6866	3893

*including Amadeus asset sales gains (1272 US\$)

Op. results missing:

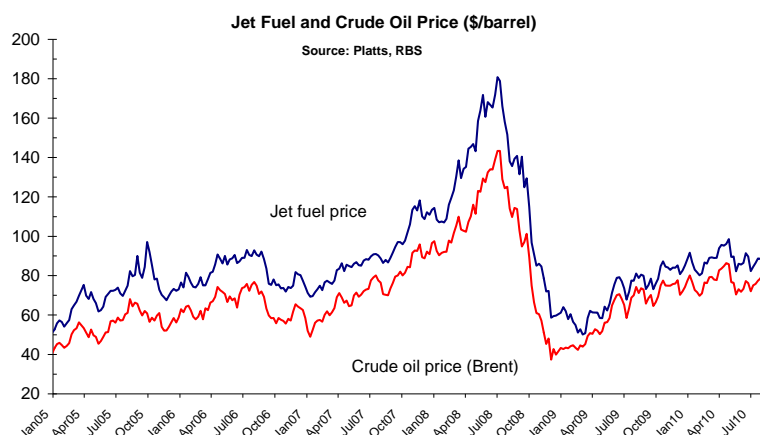
Q2 2010: EVA Air, Vueling Airlines, Kuban, Kuwait Airways

Q2 2009: Spicejet

- Second quarter results for 47 major airlines show a net profit of US\$3.9 billion, an improvement of \$4.8 billion over 09Q2. This follows 2010Q1 net losses of US\$1.9 billion (62 major airlines), which were also US\$4-5 billion better than the previous year.
- Airlines in N America and Asia-Pacific have seen the largest performance improvement. European airline net profits were boosted by an US\$1.3 billion asset sale in Q2, without which there would have been further losses.

Fuel costs

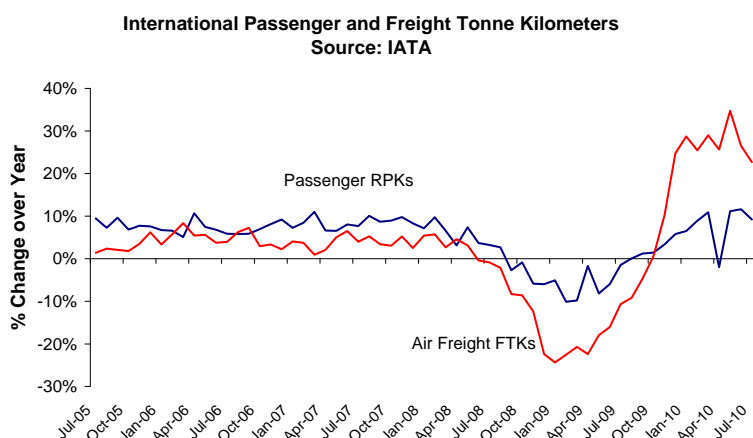
Jet fuel prices continue to fluctuate around US\$87/b average of past 12 months



- Compared to 2007H2-2009H1 the past 12 months has been unusually tranquil in oil and jet fuel markets. Crude oil prices have fluctuated around a flat trend at US\$76/b and jet fuel prices around US\$87/b. Both with a relatively low standard deviation of US4-5/b. The 'crack spread' remains historically low at 15%. Jet fuel prices are similar to the 2006-07 period.
- Forward curves and most forecasts suggest relatively little change in the next year, but the long-term trend remains upwards.

Demand

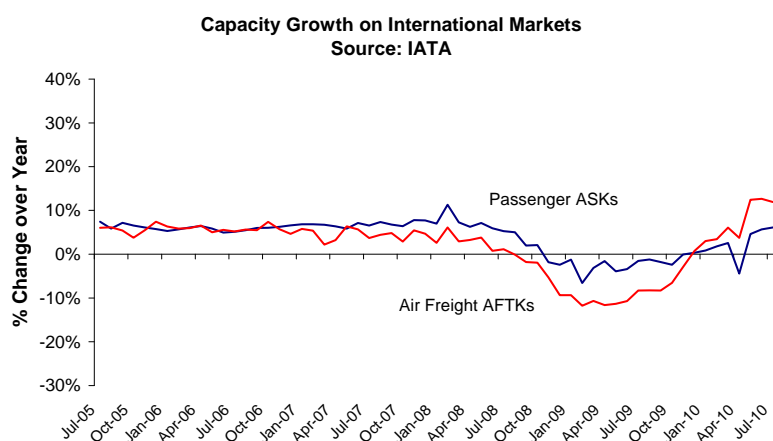
Air transport demand, like economy, enters slower growth phase but still above trend



- Year-over-year July growth in air travel markets of 9.2% and 22.7% in freight was a little slower than June but still very strong, despite the comparison with the rapid recovery period at this time last year.
- A better way of measuring the momentum of market demand is to look at annualized growth. Between December and July air travel volumes grew at an average annualized rate of 8% and freight by 17%. This is slower than the 12% and 28% 2009H2 post-recession rebound period but still well above the 6% trend.

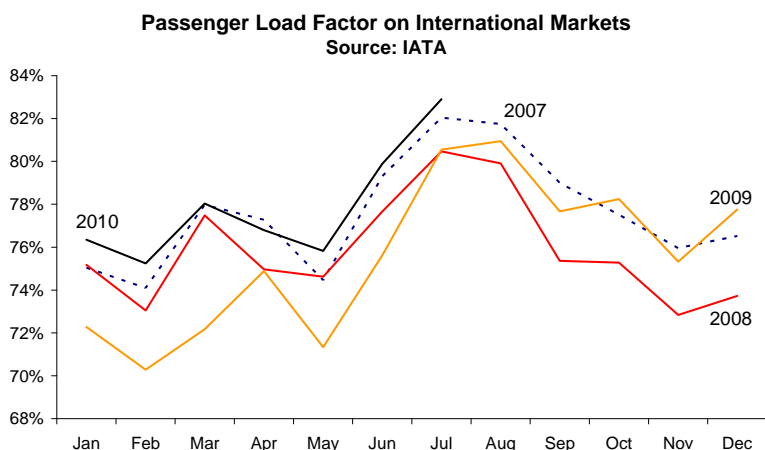
Capacity

Passenger and freight capacity returning to market at a similar pace to demand growth



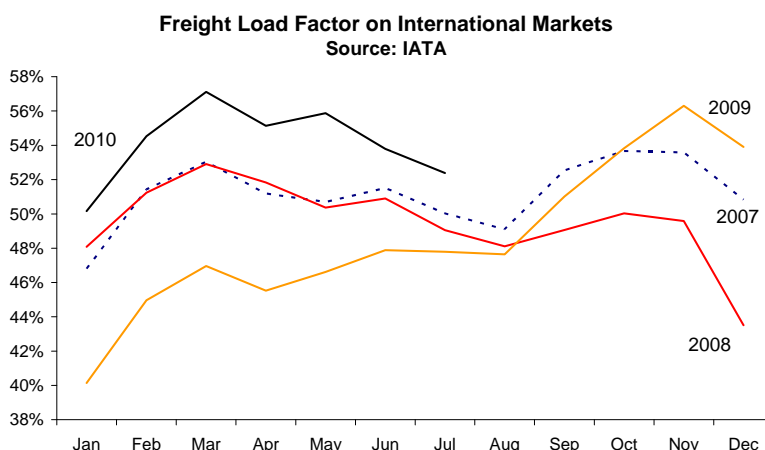
- Capacity growth looks modest by year-over-year rates but that is a distorted picture. Little capacity was added in 2009. However, since late 2009 both passenger and freight capacity has been returning to market at a similar pace to the expansion in demand.
- Lots of new aircraft have been ordered at recent air shows and aircraft are being taken out of storage. There is a threat of excess capacity. However, published schedules suggest capacity growth will remain in line with demand.

Passenger load factors remain above previous cycle highs but are starting to slide



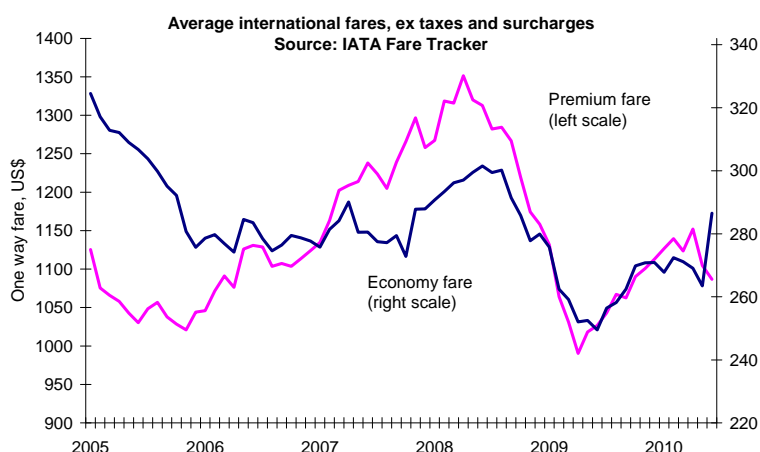
- Passenger load factors still look very good compared with previous years and the previous cycle high in 2007. July is the seasonal peak travel month of every year so this is as high as we are likely to get for some time.
- However, once adjusted for seasonality it becomes clear that passenger load factors peaked in February. Since then capacity grew by a slightly faster pace than demand, leading to a 1% point fall in load factors. Published schedules suggest 2010 growth in line with demand so load factors should stabilize from here.

Freight and freighter capacity utilization still high



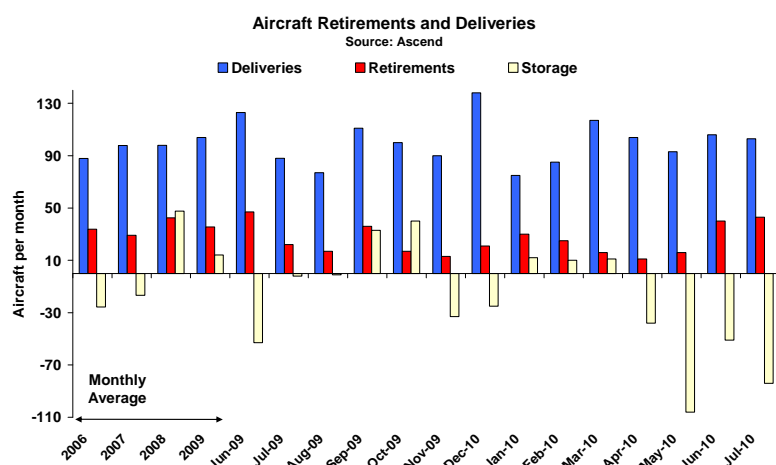
- One issue with passenger capacity is that although load factors are high, aircraft utilization is not. That is not the case in air freight, where both load factors and freighter utilization have recovered to relatively high levels.
- The seasonality in freight differs from passenger markets. Mid-year is soft but the next few months usually see stronger demand and utilization before the end-year dip. The freighter fleet has shrunk and wide body orders have fallen this year. Threats of excess capacity appear less evident in the freight sector than in the passenger business.

Average fares rising but now at a slower pace and are still down on pre-recession peak



- Average one-way economy fares are now 15% up on last year's low at US\$286. Unlike travel volumes fares are still below their early 2008 peaks, by 5% in the case of economy fares.
- Premium fares, typically 4x the price of economy seats, had risen by a lesser 10% by mid year over their 2009 lows. More importantly they remain some 20% below pre-recession highs.
- There is much volatility but also signs that stabilizing load factors, and therefore supply-demand conditions, are slowing the recent rise in fares

Many of aircraft coming out of storage being retired but in-service fleet expanding



↗ Since May there has been a notable increase in the number of aircraft being taken out of storage. In both June and July over 40 of these were being retired rather than brought back into service. But deliveries of new aircraft remain at or above 100 a month and, since the start of the year the in-service fleet has grown by 2%.

↗ Since passenger capacity (on international markets) has expanded by 5% since the start of the year and freight capacity by 9% there must have been some improvements in aircraft utilization, which is encouraging.

Data tables

Year on Year Comparison

July 2010 vs. July 2009

YTD 2010 vs. YTD 2009

	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	13.0%	10.4%	71.7	35.2%	12.9%	27.2%	13.1%	9.2%	68.3	45.2%	13.4%	28.7%
Asia/Pacific	10.9%	5.1%	80.8	25.3%	20.1%	65.2%	10.6%	1.6%	77.8	33.2%	15.6%	66.3%
Europe	6.2%	4.6%	84.5	12.1%	2.2%	50.1%	3.6%	0.2%	78.5	12.5%	-3.6%	52.5%
Latin America	14.2%	9.0%	79.9	25.3%	11.4%	41.6%	10.9%	4.6%	75.6	44.3%	22.7%	42.4%
Middle East	16.8%	12.8%	81.0	30.1%	17.1%	45.5%	19.4%	13.2%	75.9	33.2%	16.0%	46.5%
North America	7.9%	5.8%	87.2	27.1%	8.9%	41.9%	6.3%	1.0%	82.0	30.6%	2.7%	43.9%
Industry	9.2%	6.1%	82.9	22.7%	11.9%	52.4%	8.1%	2.5%	78.0	27.5%	7.7%	54.1%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; 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
30th August 2010