

AIRLINES FINANCIAL MONITOR

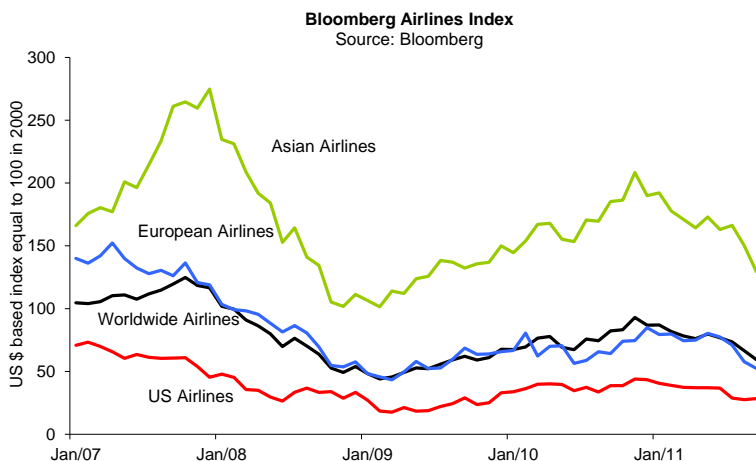
KEY POINTS

August-September 2011

- Bearish financial markets push airline share prices down by one third so far this year;
- Airline profits come under downward pressure with \$2.3 billion Q2 total so far 40% down on last year;
- Jet fuel price at \$122/b is down on April peak but still 36% up on last year, squeezing profit margins;
- August saw a fall in both air travel and freight volumes, as economic conditions deteriorated;
- Capacity on passenger markets reasonably matched demand, yields sustaining breakeven load factors;
- Freight market situation materially worse with rising breakeven but falling actual load factors;
- Seats being added by in service fleet movements at 8% rate, which may challenge capacity control.

Financial indicators

Airline share prices down a third this year as financial markets get even more bearish



- September saw equity markets fall worldwide, but airline stocks were marked down more than other sectors, as financial markets judged airline profits would be hit hardest by deteriorating economic conditions.
- The Bloomberg global airlines index is now down 32% so far this year, compared to a 14% fall in the FTSE Global All-Cap index. Asia-Pacific airlines were hit hardest in September. US airline stocks were least affected.

Q2 results confirm first year-on-year fall in airline profits in 8 quarters with 40% decline

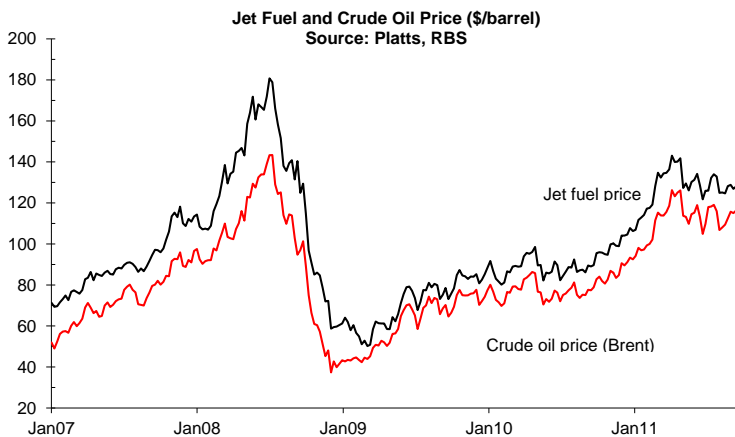
In US \$ Million

# Airlines		Q2 2010		Q2 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
14	North America	3114	1263	1937	682
16	Asia-Pacific	3249	1488	507	648
15	Europe	353	1022	1278	1118
5	Latin America	156	-104	145	-133
4	Middle East	80	43	74	13
54	Sample total	6952	3712	3941	2327

- Airline profits declined in Q2, with the exception of Europe, for the first time in eight quarters. With a larger sample of airlines now having reported, the picture is clearer. The largest decline, particularly at the EBIT level, has been for the Asia-Pacific airlines, hit hardest by cargo weakness. North American airlines have also seen a significant squeeze on margins. By contrast profits improved for European airlines. Good performance on passenger markets has helped. But also the comparison is with the depressed volcanic-ash-affected Q2 of 2010.

Fuel costs

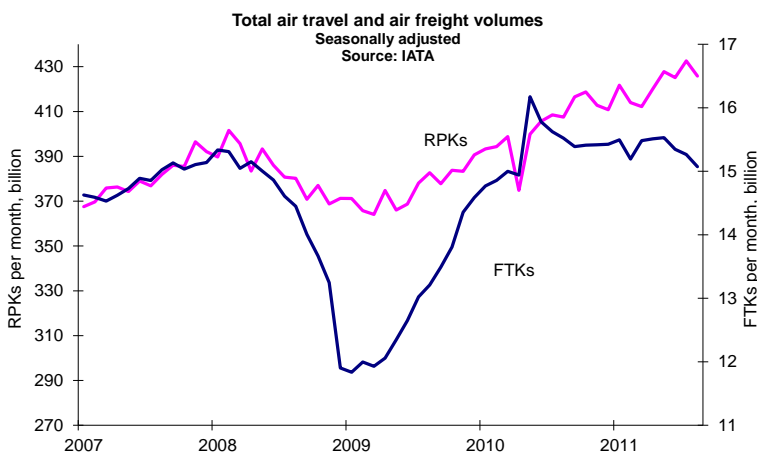
Jet fuel prices trending downwards on weaker growth but still 36% up on last year



- Crude oil and jet fuel prices continued to trend lower over the past month. Average jet kerosene prices are now just over \$120 a barrel. This is \$20/b down on the April high but still \$30/b or more than one third higher than this time last year. Without hedging this would add around 10% to airline unit costs.
- Weaker economic conditions are reducing oil demand but supply issues and financial investor demand for commodities are preventing a more significant decline in the price of oil.

Demand

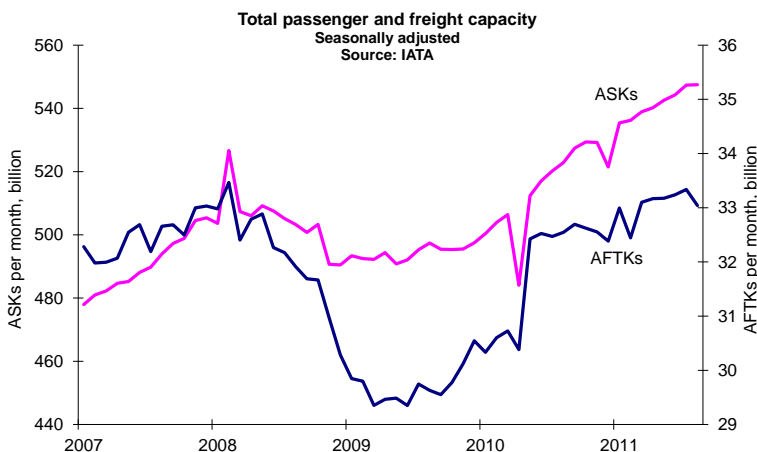
Air travel shifted downwards in August and freight markets are clearly in decline



- Air travel continued to expand close to its 20 year trend growth rate of 6% through July. The fall in August may mark the start of a weaker period of travel growth, since business and consumer confidence have fallen sharply in recent months.
- Air freight markets have shown a very different picture for the past year, with no growth at all in the year to the middle of the year. During the first two months of the third quarter volumes declined significantly; a sign of falling world trade and deteriorating economic conditions.

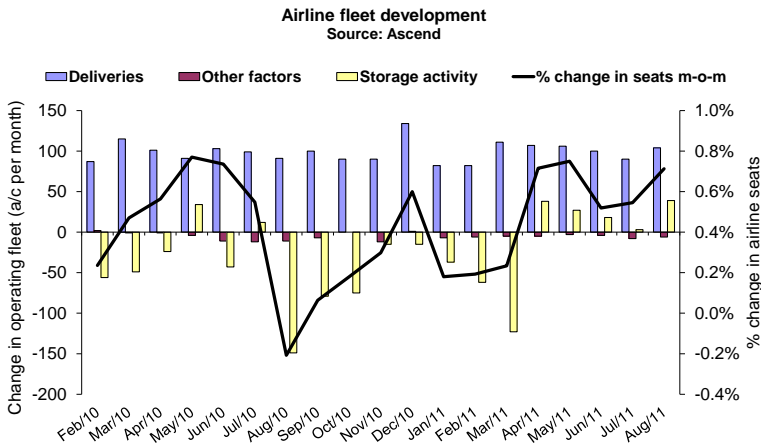
Capacity

Passenger and freight capacity moderate in August but getting out of line with demand



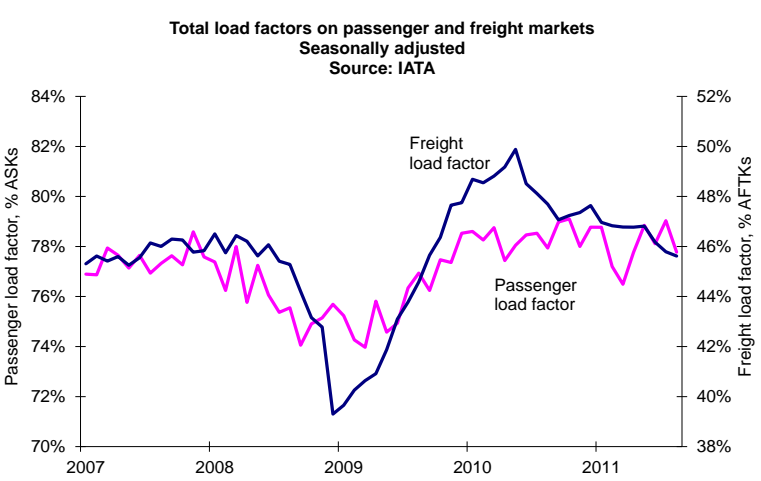
- On passenger markets airlines have done a good job keeping capacity additions in line with the expansion of demand on average. Capacity was held flat in August while demand fell. If demand stays down, in line with deteriorating economic conditions, then a capacity gap may start to emerge.
- The freighter fleet has been shrunk but the expanding twin aisle passenger fleet has led to more freight capacity. This has grown at a much slower pace than passenger capacity, but remains out of line with freight demand.

In-service fleet expanding seat numbers at 8% pace as new capacity is delivered



- Additional deliveries of new aircraft (104) and aircraft brought out of service (net 39) added 137 to the in-service fleet. More importantly this added 0.7% to the number of seats in the fleet. If continued at this pace all year this would expand seats by over 8%.
- Partly the recent expansion is catch-up from earlier weakness, in particular when aircraft were parked following the Japan and MENA events. However, there are signs of a potential capacity issue in the recent decline of twin-aisle aircraft utilization.

Load factors dipped on passenger markets and continued to fall on freight markets



- Load factors slipped in August on most markets in the face of weaker demand. However, on passenger markets seat utilization is still close to the highs of 2010 as capacity has been kept in line with demand. The slippage in August and declining twin-aisle aircraft utilization suggests the challenges of maintaining favourable supply-demand conditions are growing.
- On freight markets the deterioration in asset utilization continues. In fact load factors are still close to pre-recession levels, but are 4 percentage points down on the situation in Q2 2010.

Yields

Passenger yields still strong in the US but international fares softer



- Freight markets are increasingly challenging with falling yields and still high fuel costs increasing break-even load factors. Falling actual load factors will be putting significant downward pressure on profitability.
- The situation is better on passenger markets. US airlines in particular have been able to raise passenger yields on international markets by around 9% so far this year. Breakeven load factors have probably been kept stable for these airlines. Outside the US yields are not so strong.

Data tables

Year on Year Comparison	July 2011 vs. July 2010						YTD 2011 vs. YTD 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	2.9%	3.8%	69.8%	2.2%	6.7%	23.5%	0.2%	2.7%	66.9%	-2.0%	2.6%	25.7%
Asia/Pacific	4.2%	4.0%	79.4%	-5.4%	-2.3%	56.4%	4.5%	4.8%	77.0%	-3.6%	1.2%	57.9%
Europe	7.4%	7.8%	82.8%	-1.8%	2.8%	45.2%	9.7%	10.3%	78.0%	3.3%	7.7%	48.7%
Latin America	6.8%	8.3%	73.8%	5.4%	-1.1%	43.4%	13.2%	9.2%	75.3%	7.0%	1.2%	41.9%
Middle East	7.0%	7.6%	76.3%	3.7%	12.8%	41.2%	8.1%	8.8%	75.5%	8.7%	13.4%	43.8%
North America	0.9%	0.6%	85.9%	-7.0%	1.2%	31.0%	3.2%	3.6%	82.3%	0.5%	5.4%	33.8%
Total Market	4.5%	4.6%	81.4%	-3.8%	1.5%	43.3%	6.1%	6.5%	78.2%	0.2%	5.0%	45.8%

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
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