

# AIRLINES FINANCIAL MONITOR

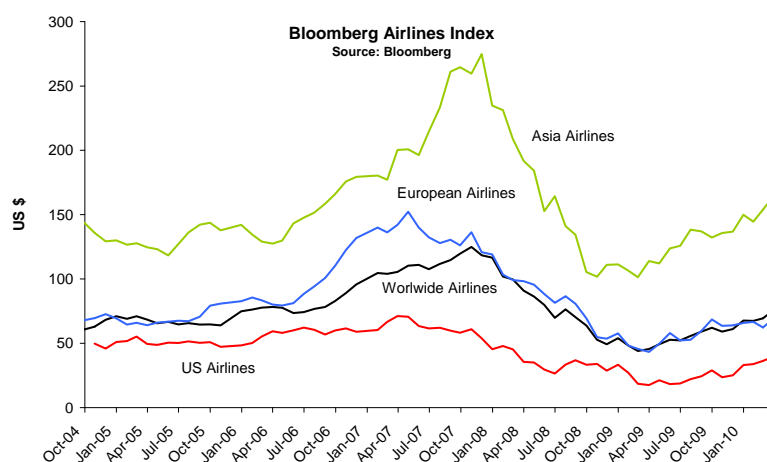
## KEY POINTS

February – March 2010

- Financial markets signal confidence in upturn as airline share prices rise 10% so far this year;
- End-2009 airline financial performance better than expected, except for the industry in Europe;
- Fuel price averages US\$86/b in Q1 but markets point to a rise over US\$94/b by year end;
- Demand for air travel and freight continues to rise strongly above trend growth rates so far this year;
- Capacity being reintroduced at a cautious pace producing record load factors in February;
- As a result fares are 10-11% above mid-2009 lows, although premium fares still 18% less than early 2008;
- Capacity restraint partly achieved by reducing aircraft utilization, slowing recovery of profits.

## Financial indicators

### Financial markets signal confidence in upturn as airline share prices rise 10% this year



- Financial markets are signalling their belief in further improvements in the financial performance of airlines. The Bloomberg worldwide airlines equity price index was up 7% in March over February, 10% so far this year, and 69% above its early 2009 low. Europe is lagging with prices up 56%, but US airlines have performed best with a 122% rise in share prices above the low point early last year.
- However, a return to 2007 earnings is not expected as all airlines indices remain 40-50% under late-2007 peaks. Nonetheless, stronger markets have enabled airlines to raise an extra US\$1 billion in equity as well as a similar amount in debt so far this year.

### End-2009 financial performance better than expected, except for airlines in Europe

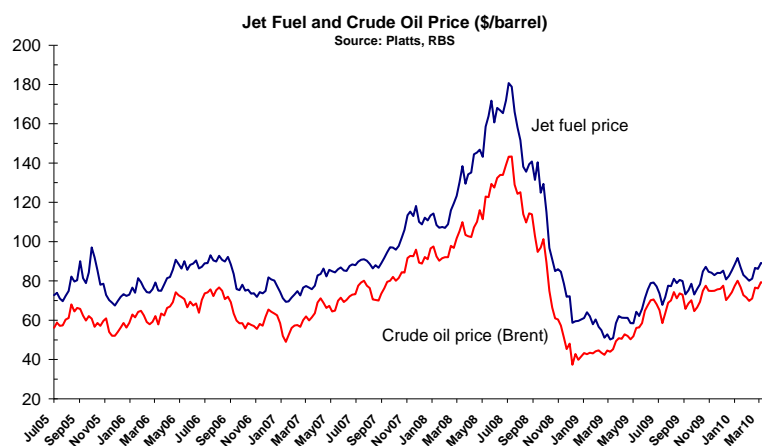
In US\$ Million

# Airlines		Q4 2008		Q4 2009	
		Operating	Net Post-Tax	Operating	Net Post-Tax
18	North America	-465	-4601	722	-6
16	Europe	249	-1501	-1414	-948
20	Asia-Pacific	-1385	-1495	1097	850
3	Latin America	339	-61	353	441
3	Other	44	54	37	48
60	Sample Total	-1219	-7604	795	386

- Fourth quarter financial performance was better than expected in most regions, except Europe where markets lagged the economic upturn elsewhere.
- Asia-Pacific and Latin American airlines reported the strongest profits in Q4, but the largest improvement was seen for North American airlines.

## Fuel costs

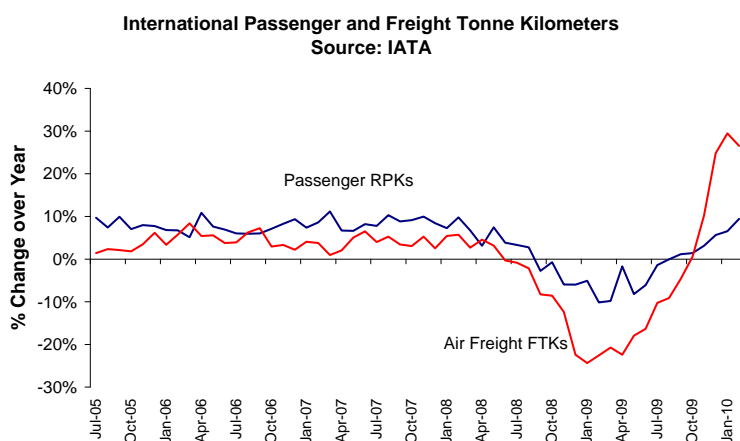
**Fuel price averages US\$86/b in Q1 but markets point to rise over US\$94 by year end**



- Oil prices continued to creep higher in recent months, averaging just over US\$75 a barrel in the first quarter, but reaching US\$79 by March. Futures markets expect oil prices to be above US\$83 by year end.
- Jet kerosene prices rose marginally less as the crack spread narrowed to 13% from 15% at the end of last year. Jet prices averaged US\$86 in Q1 and US\$89 by March. If futures markets are right and crack spreads remain unchanged spot fuel prices will be above US\$94 a barrel by year end.

## Demand

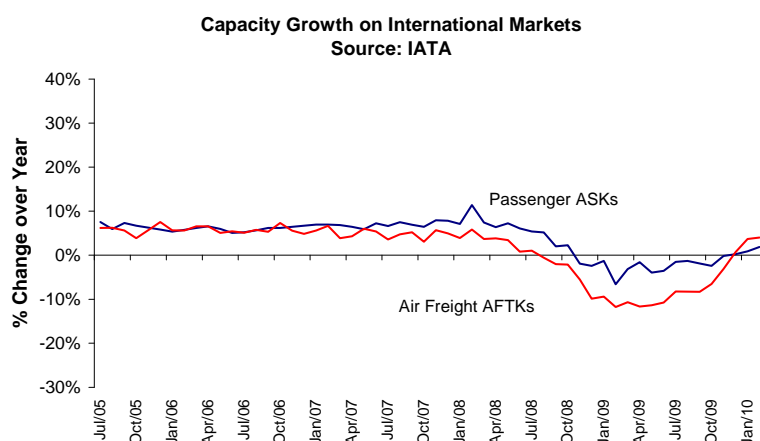
**Demand for air travel and air freight continue to rise strongly so far this year**



- Air travel and freight strengthened further in February. There are no signs of the upturn slowing as yet. In fact during the first two months of this year air travel volumes (RPKs) expanded at an annualised rate of over 10%, and air freight at over 20% - both well above their 6-7% trend rates of growth.
- The 'square root'-shaped (coined by Jim Billing at Boeing) recovery in air freight growth has taken the level of FTKs within 3% of the previous peak in early 2008. The 'W'-shaped recovery in air travel growth has taken RPKs within 1-2% of its previous peak level.

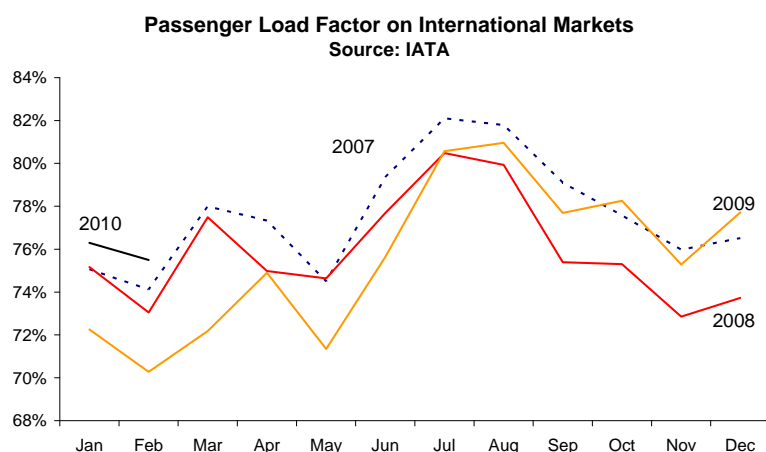
## Capacity

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



- A casual inspection of this graph and the one above shows that the capacity cycle has been much less pronounced than the demand cycle. Capacity was not cut as much as demand during the depths of the recession, but now in the upturn airlines are putting capacity back into the market at a cautious rate.
- Compared with this time last year passenger capacity is up a little less than 2%, freight capacity is up just 4%. However, aircraft deliveries and low long-haul utilization could threaten this.

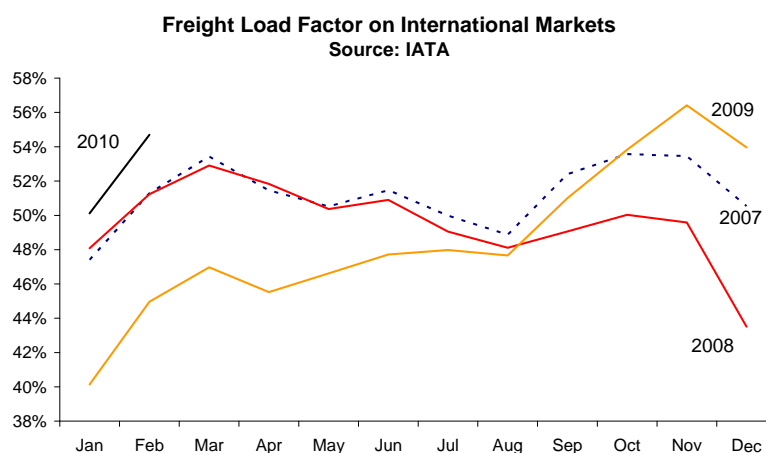
## New record high passenger load factor reached in February – allowing for seasonality



➤ As this chart shows February is always the lowest point in the year for passenger load factors.

➤ But comparing this February's outturn with the past three years shows how strong the improvement has been since this time last year. The combination of a strong demand upturn and a cautious addition of capacity have filled aircraft. Moreover, if the seasonality is removed February's passenger load factor was a record high.

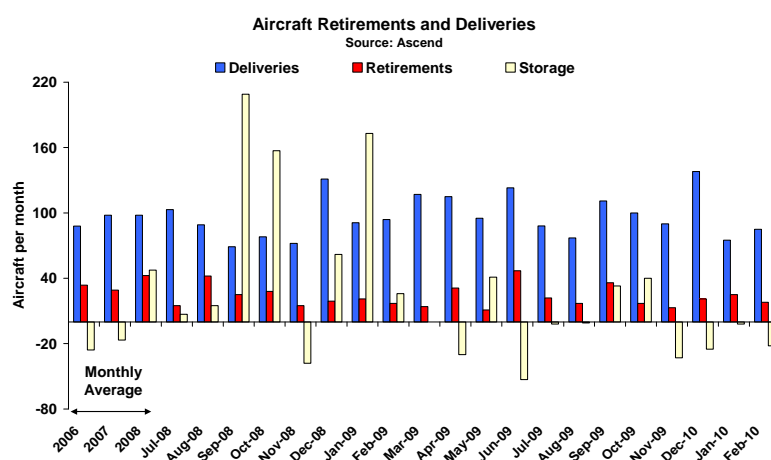
## Sharp rise in freight capacity utilization but freighter hours have fallen



➤ Air freight follows a very different seasonal pattern to air travel. The first and last months of the year are the seasonal low points. February usually marks a period of stronger activity. This year freight load factors (by weight rather than volume) rose above 54%, which is almost 10% points better last year and significantly better than two years ago.

➤ However, both wide body passenger and freighter utilization were down over 8% by the end of last year. Some of the available tonne kilometer capacity cuts have been achieved by keeping aircraft on the ground for longer, which is clearly not good for profitability.

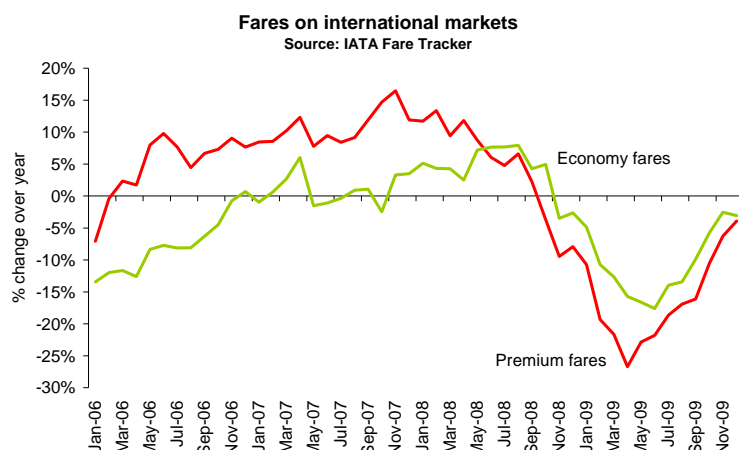
## Aircraft fleet expansion continues as deliveries exceed retirements and parking



➤ Changes in the fleet of passenger aircraft show that, despite the cuts in 'capacity' the number of in-service aircraft has continued to grow throughout the deepest recession experienced since the 1930s.

➤ The number of new aircraft delivered in January and February has slowed to less than 100, but that is a normal seasonal slowdown. More importantly older aircraft are still being brought out of storage, and retirements remain low at just 18 aircraft in February. The in-service fleet expanded by almost 90 aircraft during February, after a 3% rise in 2009. Airlines have combined this with achieving capacity reductions by reducing aircraft utilization.

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



- Utilization rates may be low and hampering unit cost reductions, but high load factors have certainly tightened supply-demand conditions. The results are being seen in rising fares for both economy and premium seats.
- Fare levels – excluding fuel surcharges and taxes - were still lower than a year earlier in December, by 3.9% for premium seats and 3.1% for economy. However, both classes are now around 10% higher than their low points in mid-2009.
- Despite this fares are clearly lagging far behind the volume upturn. Premium fares in particular are still around 18% lower than in early 2008.

## Data tables

## International passenger and freight markets in February

Year on Year Comparison	Feb 10 vs. Feb 09						YTD 10 vs. YTD 09					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	9.8%	9.2%	65.3	36.5%	7.8%	28.5	9.3%	7.0%	66.9	28.2%	6.2%	24.6
Asia/Pacific	13.5%	2.1%	78.5	34.5%	11.0%	65.2	10.0%	0.0%	78.6	37.2%	10.2%	64.0
Europe	4.3%	-0.5%	74.6	7.2%	-8.2%	53.9	3.5%	-0.5%	74.5	9.3%	-7.5%	51.1
Latin America	8.5%	1.2%	77.2	41.9%	21.2%	41.3	9.9%	2.5%	78.9	36.2%	20.9%	39.2
Middle East	25.8%	15.5%	73.8	33.1%	17.2%	48.1	24.5%	16.3%	74.5	33.1%	18.1%	45.3
North America	4.4%	-3.0%	75.2	34.1%	-0.8%	46.3	3.5%	-2.6%	76.7	32.9%	-1.5%	43.0
Industry	9.5%	1.9%	75.5	26.5%	4.0%	54.7	7.9%	1.4%	75.9	28.0%	3.8%	52.3

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  
31 March 2010