

AIRLINES FINANCIAL MONITOR

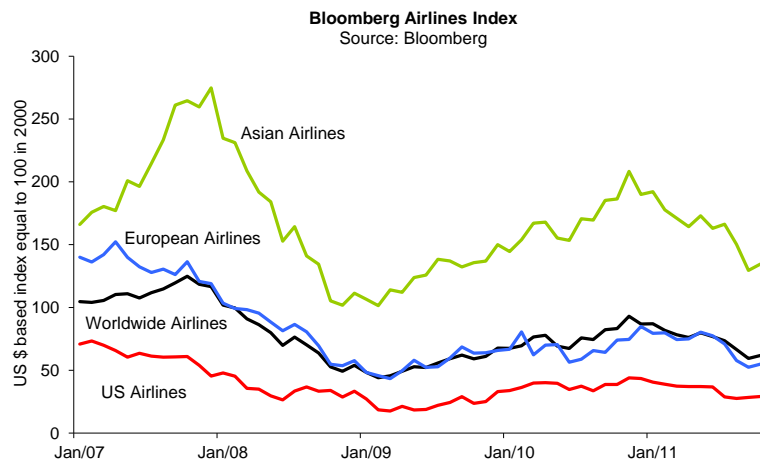
KEY POINTS

September-October 2011

- Airline share prices are still down almost 30% so far this year on gloomy financial market view of profits;
- However, there was a marked improvement in Q3 with profits at EBIT level slightly above last year;
- This is consistent with IATA's September upgrade of its 2011 industry profits forecast to \$6.9 billion;
- Air travel rose significantly in September producing a strong third quarter and load factors were high;
- The deterioration in air freight during the third quarter was insufficient to offset better passenger markets;
- There were 98 new jets and turboprops delivered in September but seat additions slowed to a 4-5% rate;
- Jet kerosene prices were back to \$128 a barrel, up 35% on last year, adding around 5% to costs in Q3;
- Tight conditions in passenger markets allowed further yield gains, offsetting fuel costs, helping Q3 EBIT.

Financial indicators

Airline share prices still down almost 30% so far this year on market pessimism



- Share prices rallied at the end of October after a new package had been agreed to resolve the Eurozone crisis, but then fell back as the Greek Government put the resolution to a national referendum. The chart does not show the subsequent fallback in airline share prices.
- Even with a small bounce in October airline share prices are still almost 30% down on the year, representing a large downward revision in financial market expectations for airline profits.

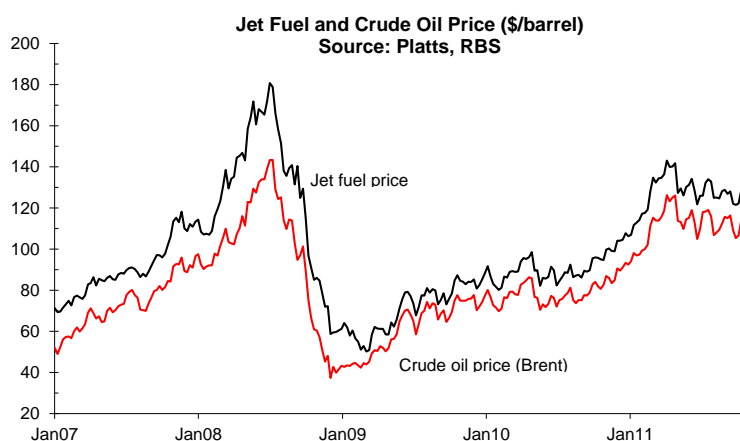
Q3 results show much better performance with a rebound at the EBIT level

# Airlines		Q3 2010		Q3 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
10	North America	2277	1630	2826	986
10	Asia-Pacific	3533	2998	3549	1977
4	Europe	1452	1001	1148	889
1	Latin America	157	106	161	95
25	Sample total	7419	5735	7684	3947

- Airline profits were significantly better in the third quarter. Profits started to be squeezed by high fuel prices in Q4 last year, and were 60% down on a year ago by the second quarter. In the third quarter operating profits were back up to last year's performance.
- Better performance was widespread across the regions, reflecting the rebound in passenger revenues from Q2 and better asset utilization. However, the outlook continues to look more challenging.

Fuel costs

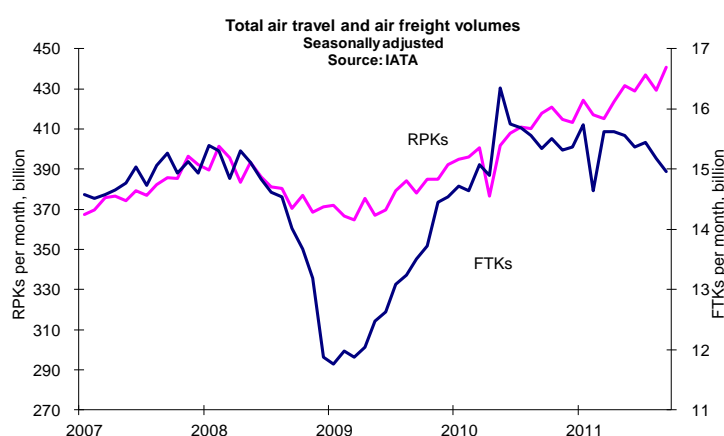
Jet fuel price downward trend slows almost to a halt with prices 35% up on last year



- Jet kerosene prices rose back to \$128 a barrel in late October, still 35% higher than last year. Without hedging this fuel cost increase would add 10% to airline operating costs. The actual impact is estimated to be half that.
- Part of the reason for the rise in oil prices was financial market optimism that the Eurozone threat to global growth had been resolved. Oil demand also remains underpinned by robust developing economy demand. The Eurozone situation could still reverse but, that apart, there appear few downward pressures on fuel prices.

Demand

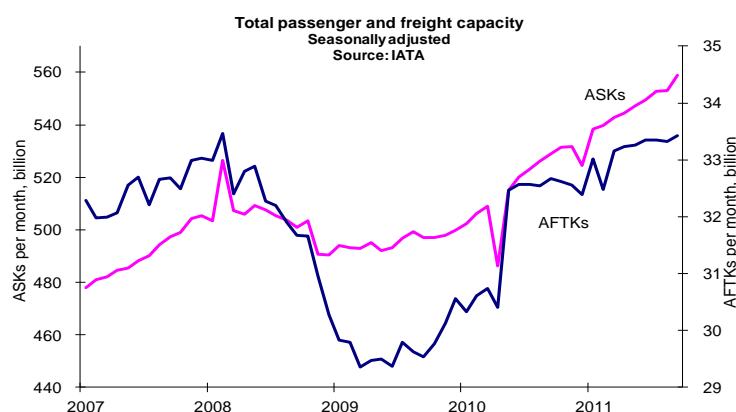
Air freight is weakening significantly but air travel continues to expand close to trend



- Air freight markets shrank by several percentage points during the third quarter. Overall world trade appears to be stable, so this looks like shippers changing transport mode. This is likely to reflect expectations of an economic slowdown.
- However, none of this shows in air travel which rose strongly in September and contributed to good EBIT results in Q3. With consumer and business confidence down in the US and EU some weakening should be expected in the months ahead.

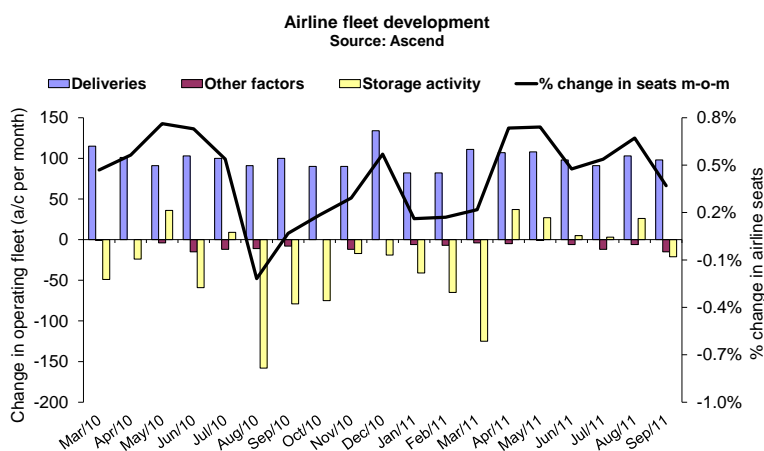
Capacity

Passenger and freight capacity expand unabated, so far, despite demand uncertainties



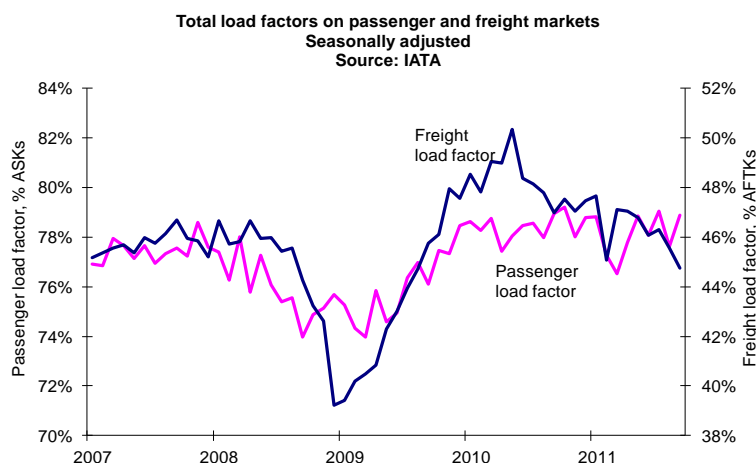
- Airlines continue to expand passenger capacity at a fairly steady pace close to 6%. There have been a number of announcements of cuts and planned cuts but so far there has been no slowdown in the pace of ASK increases.
- Air freight capacity is increasing at a slower pace, largely because the freighter fleet has been stable. Growth is from belly capacity in twin aisle passenger aircraft.

In-service fleet expanding seat numbers at a slightly slower 4-5% pace in September



- Aircraft deliveries at a pace of around 100 a month coupled with aircraft being taken out of storage had been increasing the number of seats in the fleet at an annualized pace of 6-7%.
- During September some modest increase in storage and retirements partially offset the impact of the 98 new jets and turboprops delivered. This cut the increase in seats to an annualized increase of 4-5%.

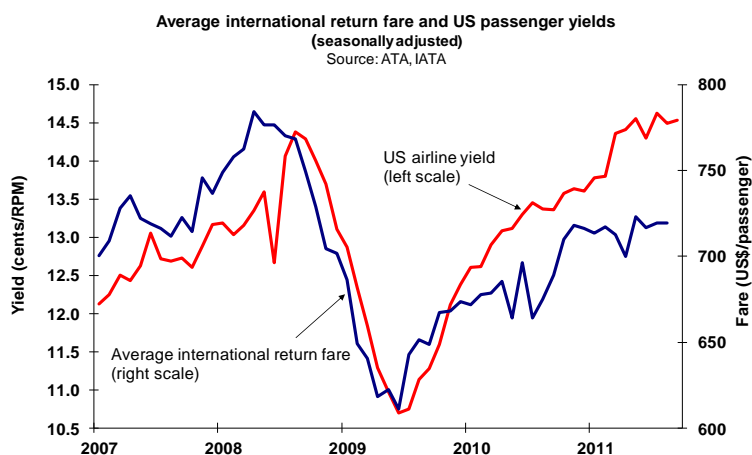
Load factors are still high in passenger markets but slipping in freight



- Passenger load factors rebounded to earlier highs in September, producing a high average for the third quarter and contributing to the improved EBIT performance in this quarter.
- Air freight load factors fell sharply. If the freight business were larger in comparison with the passenger business then the improvement in the latter would have been offset. Freight utilization is being undermined by falling demand and new belly capacity from the passenger aircraft fleet.

Yields

Passenger yields still trending higher, but at a slower pace



- The pace of passenger yield improvements has slowed but was still moving upwards during September. High load factors supported tight supply-demand conditions despite the economic gloom in Europe.
- US airlines are in a relatively strong position to improve yields with very little capacity additions and the highest load factors. Average international fares are rising at a slower pace. Nonetheless both were around 7% higher in Q3 than a year ago, comfortably above the estimated rise in fuel costs and a further factor helping Q3 airline profits.

Data tables

Year on Year Comparison	September 2011 vs. September 2010						YTD 2011 vs. YTD 2010					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	2.3%	2.9%	70.5%	-2.5%	-1.1%	24.2%	0.7%	2.8%	67.4%	-3.1%	2.1%	25.2%
Asia/Pacific	5.1%	5.8%	77.1%	-6.3%	-2.2%	57.4%	5.5%	5.7%	77.1%	-3.9%	0.9%	57.8%
Europe	9.0%	9.0%	81.3%	-2.4%	3.9%	46.3%	9.6%	10.1%	78.4%	2.6%	7.2%	48.5%
Latin America	8.3%	11.6%	73.8%	4.8%	3.5%	41.8%	12.6%	9.6%	75.1%	6.4%	3.8%	40.4%
Middle East	9.0%	8.2%	77.1%	4.2%	11.4%	42.4%	8.1%	8.7%	75.6%	8.4%	13.1%	43.7%
North America	1.4%	0.6%	82.0%	0.0%	3.6%	34.5%	3.0%	3.3%	82.3%	1.3%	5.2%	34.1%
Total Market	5.6%	5.8%	79.2%	-2.7%	2.4%	45.1%	6.3%	6.6%	78.4%	0.1%	4.8%	45.7%

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
3rd November 2011