



Aircraft industry takes off while air transport remains grounded

Ludovic Subran, Chief Economist
Yann Lacroix, Sector Research Manager
Bruno Goutard, Sector Analyst

Press Conference – Paris, 31 January 2012

A company of Allianz 

 EULER HERMES

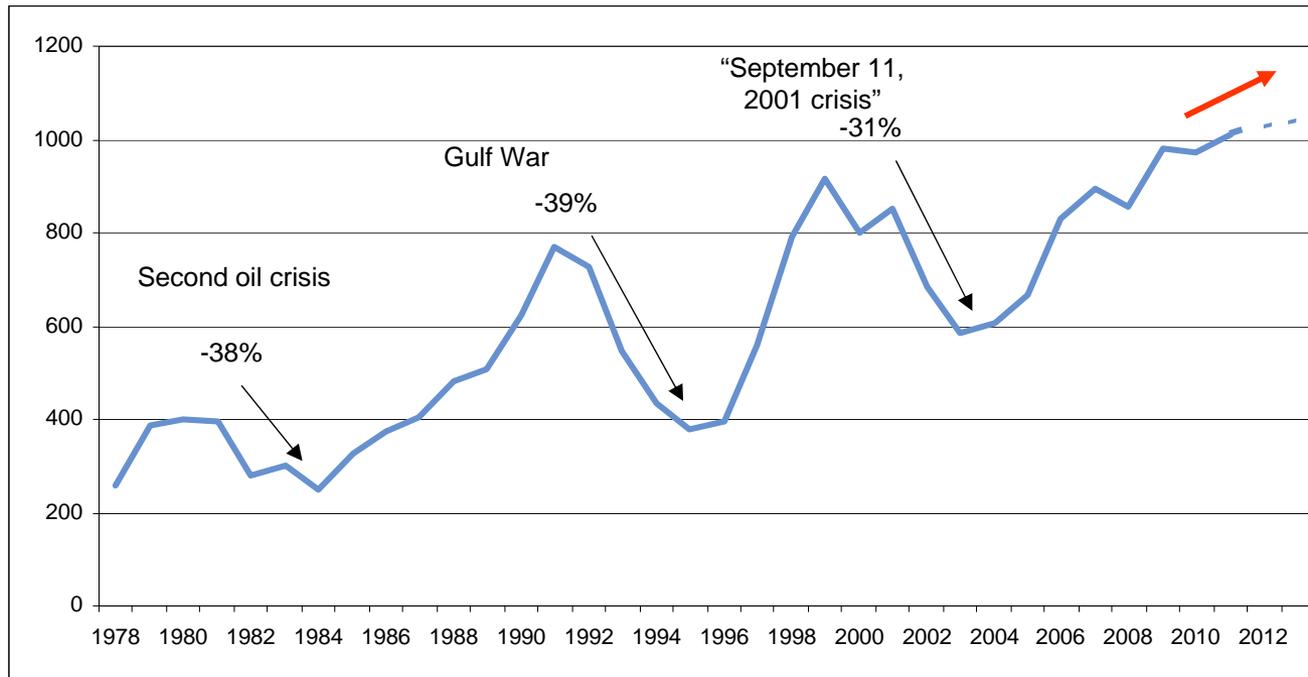
Aircraft industry takes off while air transport remains grounded

- 1 The aeronautics industry has been spared by the economic crisis, a trend that will continue for a certain amount of time
- 2 2011 saw a slump for the air transport sector
- 3 In 2012, European airlines will be facing a “forced landing”

In 2011, deliveries exceeded 1,000 units p.a.

For commercial planes: the 2008-9 crisis and the 2011 economic slowdown did not have a major impact on demand

Global deliveries of commercial aircrafts (by unit)



➤ 1,011 units delivered in 2011

Sources: Aircraft Manufacturers – estimates by Euler Hermes

➤ 12% growth in deliveries in 2012, rising to 1,130 units

2011, a year that also saw commercial success

Net orders of commercial planes doubled

Aircraft Manufacturers' production data (by unit)

	2008	2009	2010	2011	2012 (p)
Deliveries	858	979	972	1011	1130
Net orders	1433	413	1104	2224	1200
Order books	7400	6850	7000	8200	8300

➤ The new Airbus single aisle aircrafts, A320NEO, accounts for 55% of new orders

➤ In 2011, order books improved (they represent 7-8 years of production); they will stabilize at a high level in 2012

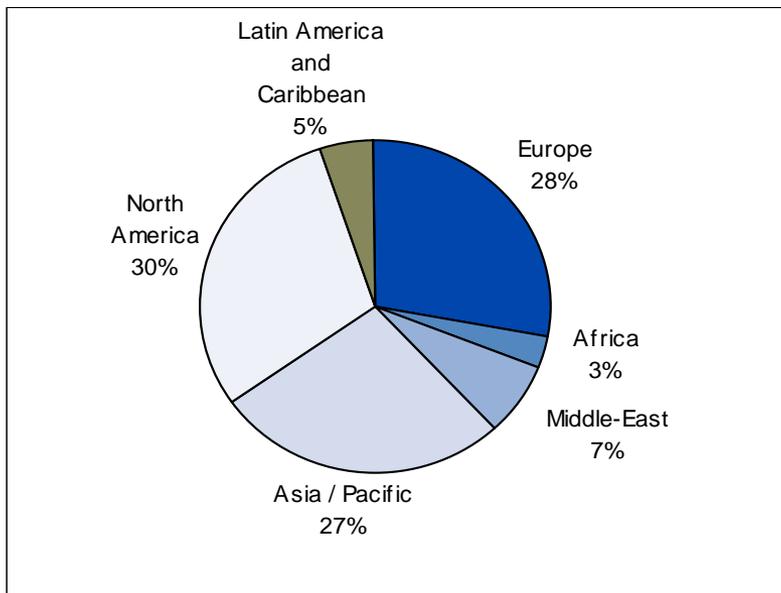
Sources: Aircraft manufacturers – forecast by Euler Hermes

▶ Aircraft manufacturers have excellent visibility over the upcoming years

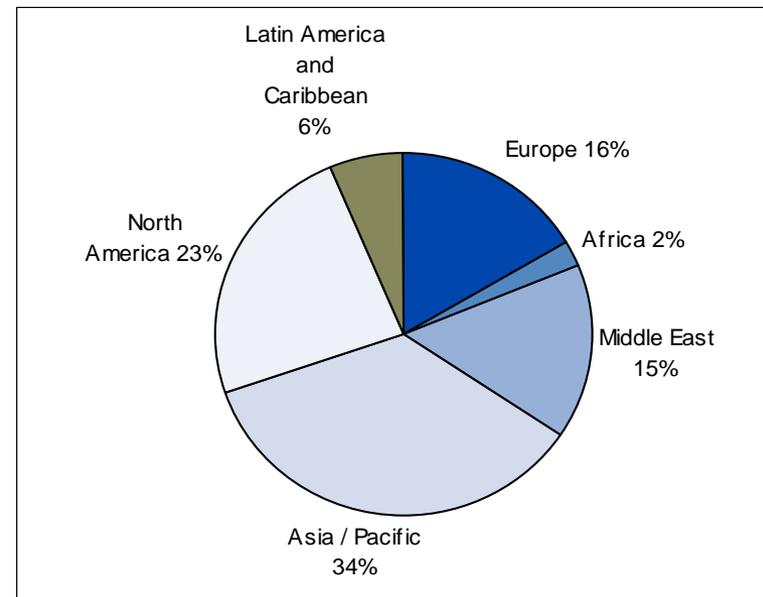
An industry that's benefiting from the vitality of Asian, Middle Eastern, and low cost airlines

Asian and Middle Eastern airlines account for 34% of global air traffic and represent nearly 50% of order books

Distribution of global air traffic in 2010



Distribution of order books*



Sources: OACI – Aircraft Manufacturers

* In value / 4% of unidentified origin as of Sept. 30, 2011



Aircraft manufacturers are benefiting from both growth drivers

Profitability: in 2012, Airbus saw its situation start to improve, and Boeing's situation stabilised

The operating statements of aircraft manufacturers are negatively affected by costs related to the development and the industrial ramping up of the new programs

Aircraft makers' operating profitability* (% of revenue)

	2009	2010	2011 (e)	2012 (p)
Commercial Airbus	1.5%	1.1%	1.5%	2.5%
Boeing Commercial Airplanes	-1.7%	9.4%	9.7%	9.0%

➤ In 2012, Airbus' profitability will benefit from higher performance production of the A380 but will also be affected by R&D expenses related to the A350

➤ Boeing will smooth profits, amortizing the overrun costs of the B787 program over its entire projected production

Sources: Aircraft manufacturers – forecast by Euler Hermes

* Operational profitability: operating income / turnover

▶ Operational profitability is dependent on new programs

Aircraft manufacturers without financing needs

Their healthy accounts (which are in part thanks to advances from their clients) protect them from the volatile financial markets

Aircraft manufacturers' cash on hand as of September 30, 2011 (in billions of dollars)

	EADS*	BOEING
Advances from clients (gross)	36.9	38.8
Cash on hand (gross)	13.9	9.2
Percentage that gross cash in hand plays in total balance sheet	11.2%	12.4%

Sources: Aircraft manufacturers

* 1 Euro = \$1.41

▶ Aircraft makers' cash on hand comes from advances from their clients

Airlines, however, are financed by financial intermediaries

Risk is partially transferred from commercial banks to public guarantees

Financing of delivered commercial and regional aircrafts
(% of total annual financing)

	2009	2011(e)
Credit export agencies	26%	30%
Commercial banks	31%	25%
Leasers	21%	10%
Financial markets	1%	5%
Cash	13%	25%
Other	8%	5%



Over 70% of the financing of new aircraft is provided by financial intermediaries, with a partial transfer of the banking risk to public guarantees (which henceforth will be increasingly costly)

Source: Boeing Capital Corporation

▶ In 2012, airlines will see a rise in the cost of financing new aircraft

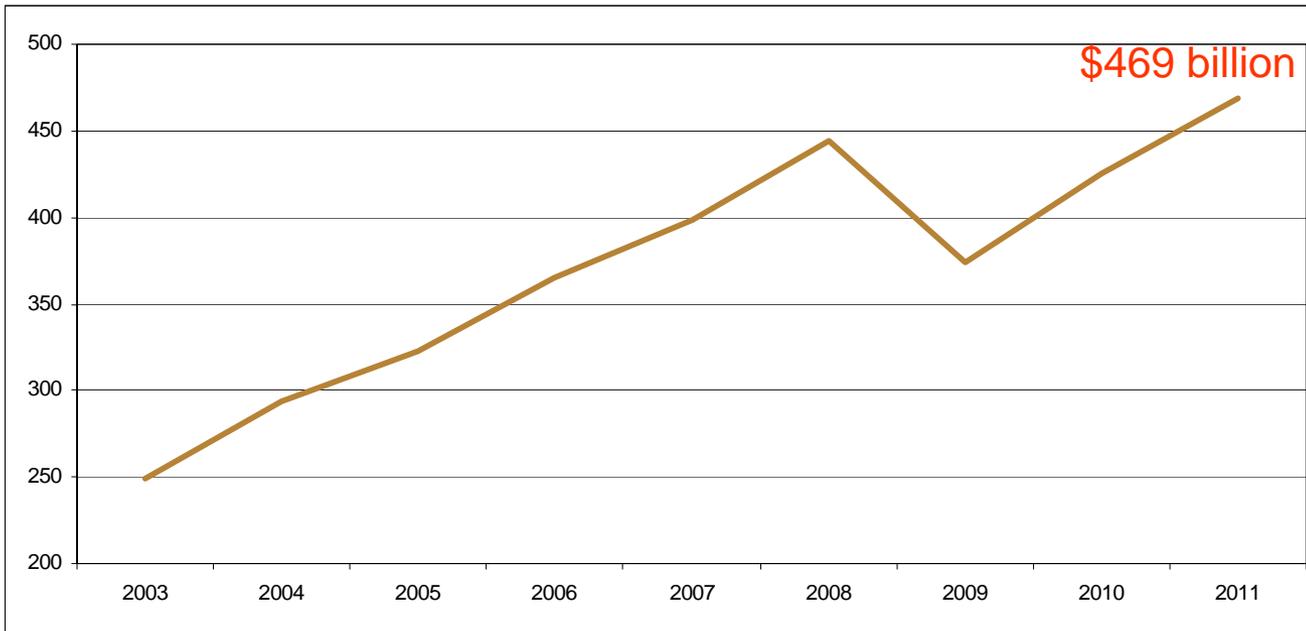
Aircraft industry takes off while air transport remains grounded

- 1 The aeronautics industry has been spared by the economic crisis, a trend that will continue for a certain amount of time
- 2 2011 saw a slump for the air transport sector
- 3 In 2012, European airlines will be facing a “forced landing”

The passenger air transport sector saw revenue increase by 10% in 2011

Turnover of close to \$500 billion made up for the effects of the 2008-9 crisis, at least in part

Revenue of the global passenger air transport sector (in billions of \$)



➤ The role of volume: +6.1% in 2011 (+11.5% compared to 2008)

➤ The role of prices: +4% in 2011 (but -5% compared to 2008)

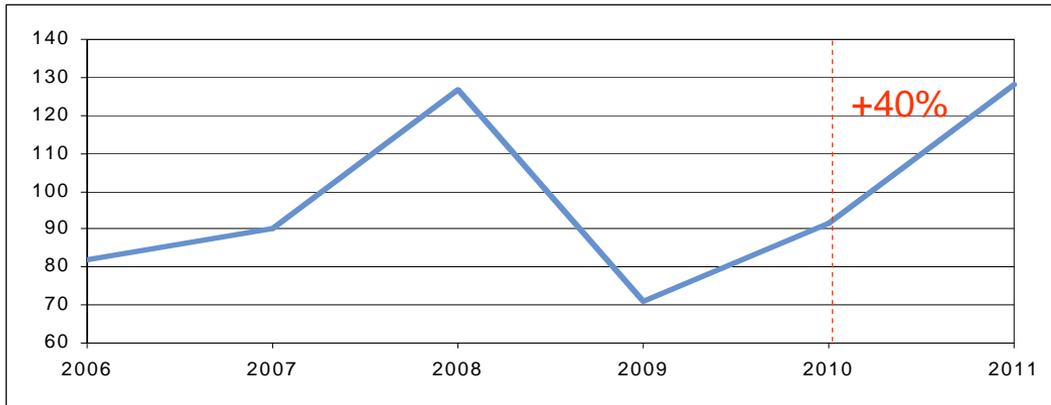
Source: IATA

▶ This growth can be explained by an increase in traffic (+6%) and in prices (+4%)

A global fuel cost increase of \$31 billion, leading to a 5% increase in operating costs across the sector

An increase of +\$1 in the price per barrel leads to + \$1 billion in additional costs

Jet fuel prices annually (in \$ / barrel)



Source: IATA

➤ U.S. airlines are more sensitive to rises in the price of oil than their European counterparts are

	2011/2010 evolution of the cost of kerosene per unit**	Percentage that fuel played in the overall unit cost in 2010	Percentage that fuel played in the overall unit cost in 2011
European airlines*	+13%	25%	28%
U.S. airlines*	+33%	27%	32%

* Euler Hermes panel

** Unit: available seat-kilometre - except for Air France-KLM, *equivalent* available seat-kilometre

▶ The rising oil prices have affected each region differently

The U.S. air transport sector saw its profitability drop by half in 2011

The domestic market is tightly controlled, via management of overall capacity

	2009	2010	2011 (e)
Net profitability* of the U.S. air transport sector	-4.4%	+1.3%	+0.6%

Sources: consensus – Euler Hermes estimates

* Net profitability: net income / turnover

Progression of passenger data, as of September 30, between 2010 and 2011

Total traffic of U.S. carriers*	+1.4%
Prices*	+8.4%
Revenue*	+9.8%

- The domestic market accounts for 2/3 of the traffic of U.S. airlines
- Raising prices has played a strong leveraging role

* Euler Hermes panel: Delta Airlines, United Continental (on a comparable basis), AMR and US Airways, during the first 3 trimesters

Significant price increases were the main factor in maintaining profitability in 2011

In 2011, European legacy airlines saw their profitability divided in 3

A major player when it comes to international flights, traditional European airlines face stiff competition from Middle Eastern airlines

	2009	2010	2011 (e)
Net profitability* of European air transport sector	-4.0%	+1.1%**	+0.3%

Sources: consensus –Euler Hermes estimates

* Net profitability: net income / turnover

** Barring unusual circumstances

Progression of passenger data, as of September 30, between 2010 and 2011

Total traffic of European carriers*	+8.1%
Prices*	+1.9%
Revenue*	+10.0%

➤ International flights (outside of Europe) account for 75% of the traffic of traditional European carriers (EH panel)

➤ Prices don't have much of a leveraging effect

* Panel Euler Hermes: looking at the first 3 quarters for Lufthansa and IAG, and the first 2 for Air France - KLM

Reducing costs and improving productivity are the factors that allow for profitability to be maintained

Asia's air transport sector saw its profitability drop by 30% in 2011

Despite growth that was balanced between the effects of volume and of pricing, profit margins dropped

	2009	2010	2011 (e)
Net profitability* of Asian air transport	+0.8%	+6.3%**	+4.0%

Sources: consensus – Euler Hermes estimates

* Net profitability: net income / turnover

** Barring unusual circumstances

Progression of passenger data, as of September 30, between 2010 and 2011

Total traffic on Asian carriers*	+3.3%
Prices*	+6.6%
Revenue*	+9.9%

- Impact of the drop in traffic following the Japanese tsunami
- Price increases played a strong leveraging role

* Euler Hermes panel: for the first 2 trimesters for Singapore Airlines, Cathay Pacific and ANA and the first 3 trimesters for Korean Airlines

▶ An high level of profitability, in a more vibrant economic climate

Significant drop in profitability of Middle Eastern airlines

Despite having developed their overall capacity and increased their share of the market, they were not sheltered from the effects of the spike in oil prices

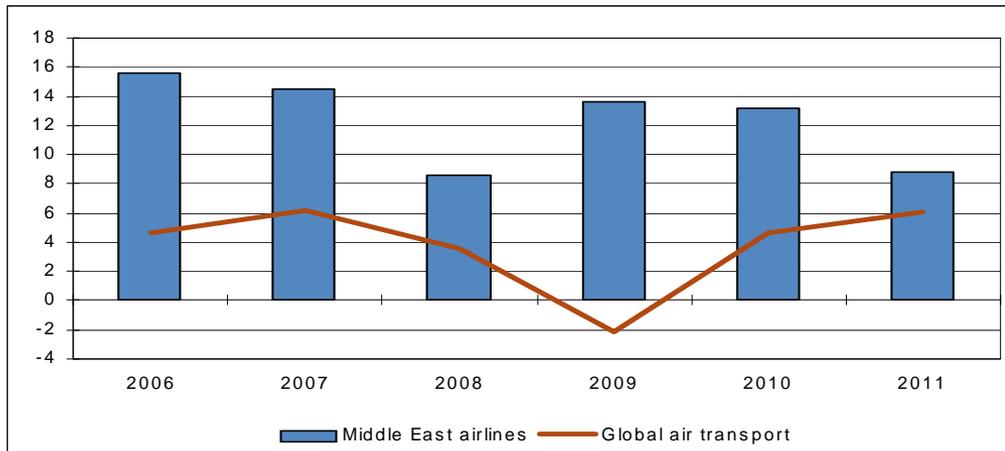
	2009	2010	2011 (e)
Net profitability* of Middle Eastern transport	+8.5%**	+10.3%**	+3.0%**

Source: consensus – Euler Hermes estimates

* Net profitability: net income / turnover

** Euler Hermes panel: Emirates

Annual growth rate of passenger capacity (in %)



➤ Continued massive investments in their fleet, in proportions even higher than the global growth rate of passenger capacity

Source: IATA

▶ A push to grow – “whatever it takes”

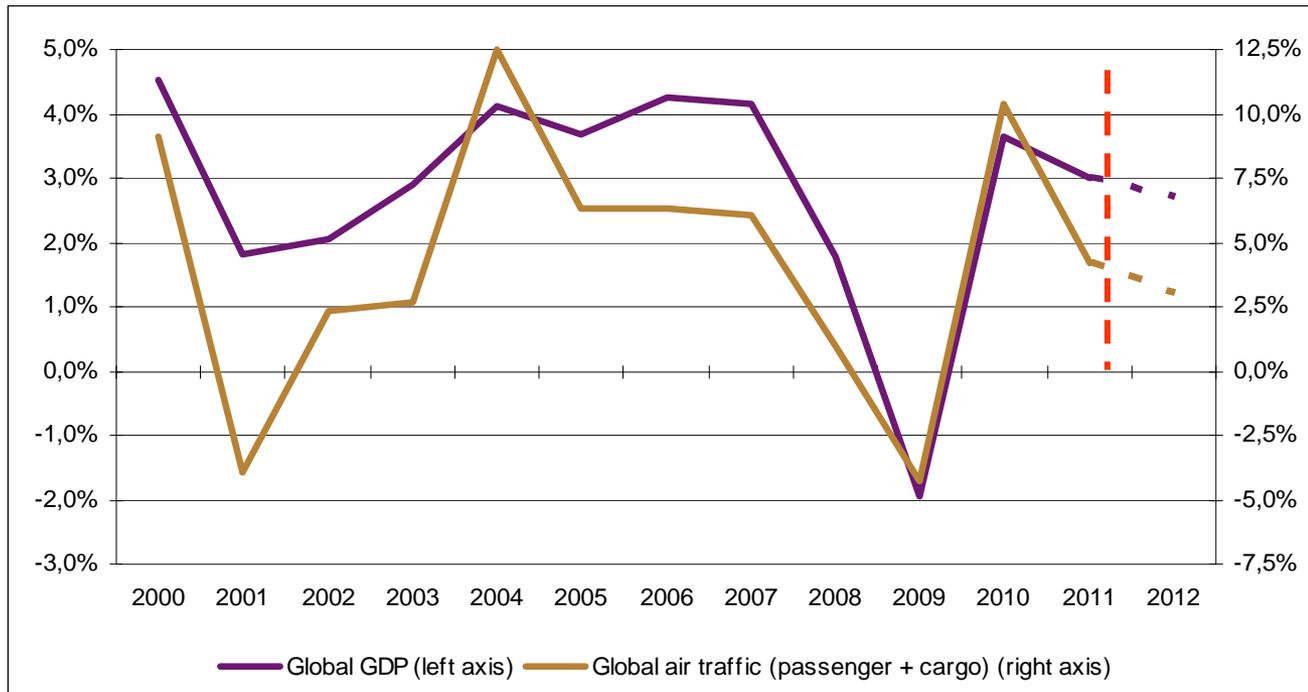
Aircraft industry takes off while air transport remains grounded

- 1 The aeronautics industry has been spared by the economic crisis, a trend that will continue for a certain amount of time
- 2 2011 saw a slump for the air transport sector
- 3 In 2012, European airlines will be facing a “forced landing”

Global air traffic growth expected to slow down by 25% in 2012

As a corollary effect of the global economic climate, air traffic is forecast to not increase by more than 3% in 2012

Annual evolution of global air traffic and global GDP (in %)



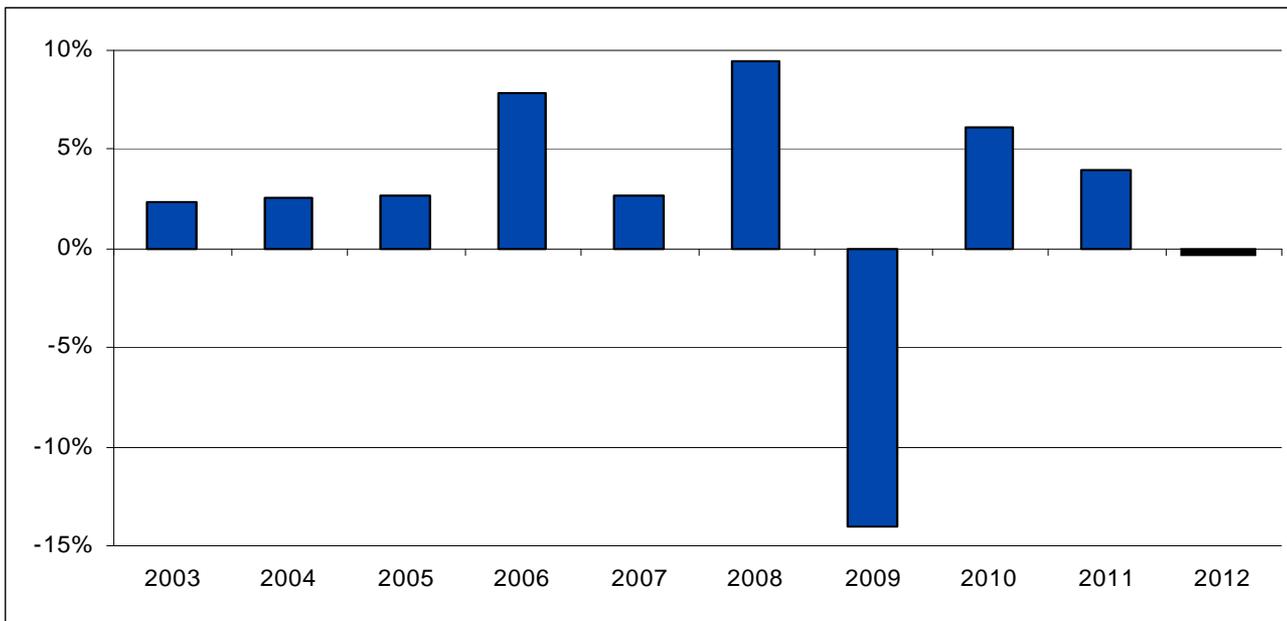
Sources: IATA –Euler Hermes estimates

This slowdown can be explained by the drop in global commerce to emerging countries and the sluggish consumption in debt-ridden countries

Passenger prices unlikely to increase in 2012

Weakened demand, an increase in supply, and stable oil prices will put an end to the “catching-up” that prices were doing in 2010 and 2011

Annual evolution of global passenger air traffic prices (in %)



Sources: IATA – Euler Hermes estimates

Airlines' balance sheets will be strongly affected by weak growth of traffic, and prices that have come to a standstill

U.S. air transport will be profitable again in 2012

Sticking to their strict strategy, U.S. airlines seem able to deal with the declining economic climate

▶ What will not change in 2012

- the push to control prices
- the search for additional revenues
- retiring older, less fuel-efficient aircraft
- strengthening of partnerships

▶ What will increase in 2012

- overall consolidation of the industry

▶ A stable net profitability of +0.5% in 2012 (+0.6% in 2011) for U.S. airlines

In 2012, Europe's traditional carriers will once again be in the red

Sensitive to fluctuations in traffic, European carriers are suffering in this dismal economic climate

▶ What will increase in 2012

- internal reorganisation, and efforts to increase productivity
- limits on investments

▶ What will be new in 2012

- new restructuring projects
- limits on increasing capacity
- the application of European carbon emissions quotas

▶ Net profitability down by -0.5% in 2012 (vs. +0.3% en 2011) for Europe's traditional carriers

Conclusion

- After a record 2011, and despite the slowdown in the global economy, in 2012 the aeronautics industry will continue to grow – thanks to the strength of its order books
- In 2011, the overall profitability of air transport was dealt a blow by the rising cost of fuel. The profit gap separating Asian airlines from American airlines, and above all from European airlines, did not budge
- Keeping in line with the global economic climate, the air transport market will weaken in 2012 – and the main victim will be the European air transport sector, which will show losses and may need to undergo more intensive restructuring
- Future uncertainty: the possible modalities and consequences of the application of European carbon emissions quotas

Thank you
for your attention.

www.eulerhermes.com