Contents

List of Figures ix
List of Tables xi
Preface xv

1 Industry Financial Performance 1
1.1 The Impact of the Banking Crisis, Post-2008 1
1.2 World Airline Financial Results 4
1.3 Factors Affecting Financial Results 13
1.4 Asset and Labour Efficiency 15
1.5 Financial Results of Main Airline Suppliers 17
1.6 Key Financial Issues 19
1.7 Mergers and Acquisitions (M&A) and Alliances 20

2 Airline Financial Statements 23
2.1 Introduction 23
2.2 Profit and Loss Account (Income Statement) 25
2.3 Balance Sheet 34
2.4 Balance Sheet comparison: Cathay Pacific versus US Airways 46
2.5 Cash Flow Statement 47
2.6 Value Added Statement 51
2.7 Cash Value Added 52
2.8 Progress Towards Greater Accounting Standardisation 55
Appendix 2.1: Frequent Flyer Programme Award Accounting 57
Appendix 2.2: Accounting for Finance and Operating Leases 61

3 Airline Financial Ratios 65
3.1 Performance/Earnings Ratios 66
3.2 Risk or Solvency Ratios 70
3.3 Liquidity Ratios 73
3.4 Stock Market Ratios 75
3.5 Inter-airline Comparison of Financial Ratios 81
3.6 Interpretation Problems 84

4 Airline Valuation 87
4.1 The Valuation of Intangible Assets 87
4.2 The Valuation of Tangible Assets 97
vi  

Airline Finance

4.3 The Valuation of the Airline as a Whole 98
4.4 Ratings Agencies 103

5 Sources of Finance 107
5.1 Sources of Internal Finance 110
5.2 Sources of Short-term External Finance 110
5.3 Sources of Long-term External Finance 111
5.4 Institutions Involved in Aircraft Finance 122
Appendix 5.1: Term Loan Repayment, Book Profit and Manufacturers’ Pre-payments 132

6 Equity Finance 137
6.1 Share Issues 137
6.2 Equity Finance for Start-up Airline 140
6.3 Foreign Ownership Limits 142
6.4 Share Trading and Stock Market Listings 144
6.5 Initial Public Offering (IPO) 151
6.6 Mergers and Cross-investment 154

7 Airline Privatisation 161
7.1 Full Privatisation Through Flotation – British Airways 164
7.2 Full Privatisation Through Trade Sale and Flotation – Qantas 168
7.3 Gradual Privatisation – Lufthansa 170
7.4 Partial Privatisation – Kenya Airways 173
7.5 Full Privatisation and Trade Sale – Iberia 175
7.6 Gradual Privatisation and Acquisition – Air France 176
7.7 The Results So Far 178

8 Airline Financial Planning and Appraisal 185
8.1 Budget Preparation and Control 185
8.2 Working Capital Management 190
8.3 Financial Planning 194
8.4 Start-up Airline Business Plan 205

9 Risk Management: Foreign Currency, Fuel Prices and Interest Rates 211
9.1 Exchange Rate Volatility 211
9.2 Airline Trading Exposure to Currency Movements 215
9.3 Airline Balance Sheet Exposure to Currency Movements 221
9.4 Airline Foreign Exchange Risk Management 222
9.5 Fuel Price Exposure 226
9.6 Interest Rate Exposure 236
### Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Aircraft Leasing</td>
<td>239</td>
</tr>
<tr>
<td>10.1</td>
<td>Finance Lease</td>
<td>242</td>
</tr>
<tr>
<td>10.2</td>
<td>Operating Lease</td>
<td>245</td>
</tr>
<tr>
<td>10.3</td>
<td>Japanese Operating Lease (JOL)</td>
<td>248</td>
</tr>
<tr>
<td>10.4</td>
<td>Wet Lease</td>
<td>249</td>
</tr>
<tr>
<td>10.5</td>
<td>Sale and Leaseback</td>
<td>250</td>
</tr>
<tr>
<td>Appendix 10.1: Lease Rental Calculations</td>
<td>251</td>
<td></td>
</tr>
<tr>
<td>Appendix 10.2: Lease versus Buy Decision</td>
<td>252</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Aircraft Securitisation</td>
<td>255</td>
</tr>
<tr>
<td>11.1</td>
<td>Equipment Trust Certificates (ETCs)</td>
<td>256</td>
</tr>
<tr>
<td>11.2</td>
<td>ALPS 92-1 Securitisation</td>
<td>258</td>
</tr>
<tr>
<td>11.3</td>
<td>ALPS 94-1 Securitisation</td>
<td>259</td>
</tr>
<tr>
<td>11.4</td>
<td>Airplanes 96 Securitisation</td>
<td>259</td>
</tr>
<tr>
<td>11.5</td>
<td>ALPS 96-1 Securitisation</td>
<td>261</td>
</tr>
<tr>
<td>11.6</td>
<td>More Recent Securitisations</td>
<td>261</td>
</tr>
<tr>
<td>11.7</td>
<td>Conclusions</td>
<td>263</td>
</tr>
<tr>
<td>12</td>
<td>Airline Bankruptcy</td>
<td>265</td>
</tr>
<tr>
<td>12.1</td>
<td>North America</td>
<td>266</td>
</tr>
<tr>
<td>12.2</td>
<td>Latin America</td>
<td>270</td>
</tr>
<tr>
<td>12.3</td>
<td>Europe</td>
<td>271</td>
</tr>
<tr>
<td>12.4</td>
<td>Australasia</td>
<td>273</td>
</tr>
<tr>
<td>12.5</td>
<td>Summary</td>
<td>275</td>
</tr>
<tr>
<td>13</td>
<td>Industry Financial Prospects</td>
<td>277</td>
</tr>
<tr>
<td>13.1</td>
<td>World Airline Traffic and Financial Forecasts</td>
<td>277</td>
</tr>
<tr>
<td>13.2</td>
<td>World Airline Capital Expenditure Projections</td>
<td>281</td>
</tr>
<tr>
<td>13.3</td>
<td>World Airline Financial Requirement Forecasts</td>
<td>282</td>
</tr>
<tr>
<td>13.4</td>
<td>The Prospects for Cross-border Mergers</td>
<td>285</td>
</tr>
</tbody>
</table>

**Bibliography**  287

**Glossary of Terms**  291

**Index**  303