

# AIRLINES FINANCIAL MONITOR

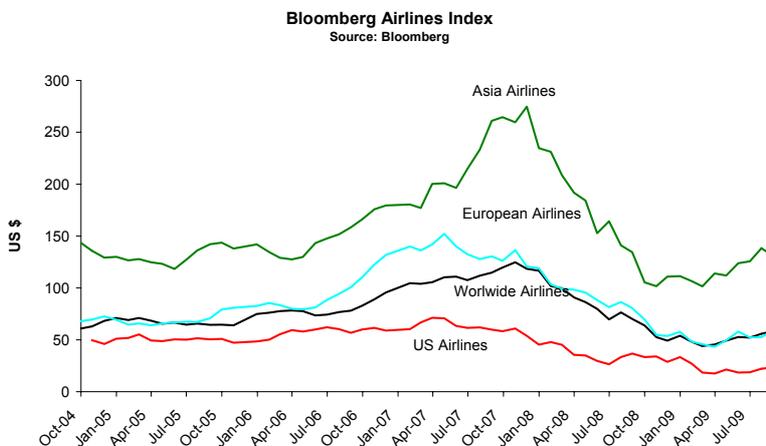
July-August 2009

## KEY POINTS

- Airlines take advantage of stronger equity markets to raise \$15 billion to help cushion operating cash burn;
- Net losses continue to expand in Q2, with some exceptions in North and South America. Net losses so far this year for sample of 50+ airlines in excess of \$6 billion, excluding 'mark to market' fuel hedging gains;
- Jet fuel prices, pushed higher by crude oil, move above \$80 a barrel, intensifying airline cash burn;
- Passenger and freight volumes are now starting to improve, but on very fragile foundations so far;
- Moreover, better volumes partly at expense of lower yields as excess capacity drives fares lower;
- Fleet expansion continued in July, hindering capacity resizing but boosting fuel efficiency savings.

## Financial indicators

### Stronger equity markets provide an opportunity to raise \$15 billion of new cash



- Airline share prices rose a further 3.6% in August over the previous month to a level 7.4% up on the start of the year. However, the sector underperformed the market which is up 23% so far this year as investors took a more cautious view of companies heavily exposed to the rise in oil prices.
- Nonetheless, stronger equity markets gave airlines an opportunity to raise more, much needed, cash. Since the start of the year airlines have raised \$3 billion of equity and \$12 billion from new debt issues.

### Second quarter losses continue first quarter deterioration in financial performance

In US \$ Million

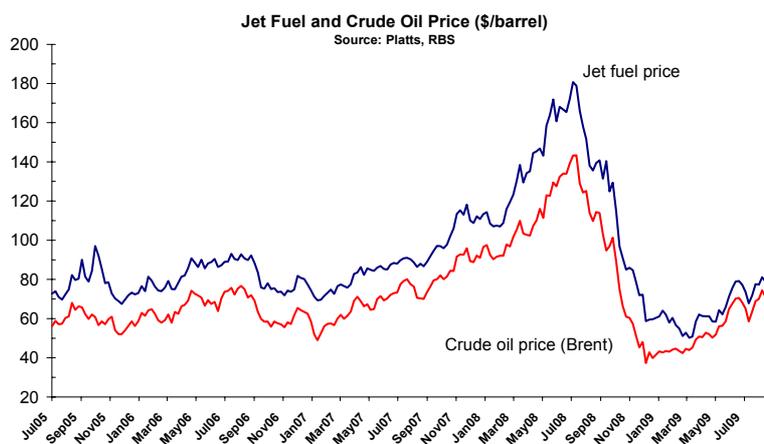
# Airlines		Q2 2008		Q2 2009	
		Operating	Net post-tax	Operating	Net post-tax
20	North America	513	(419)	1,018	(134)
12	Europe	1,327	439	(788)	(1,101)
16	Asia-Pacific	536	(958)	(723)	(1,290)
4	Latin America	(73)	5	31	485
2	Middle-East	0	7	(6)	20
54	<b>Sample total</b>	2,303	(926)	(468)	(2,021)

Eva Airways, Thai Airways, Jazeera Airways, Royal Jordanian Op. Profit not included.  
Air China, China Eastern half year results included

- The airlines that have so far reported on Q2 results reveal a further deterioration, with a few exceptions in the Americas. Airlines made a loss in Q2 2008 but would usually make 50% of their profits in this seasonally strong quarter. This year Q2 losses of \$2 billion follow Q1 losses of \$4 billion.
- Since this sample of airlines is incomplete, total industry losses in the first half of 2009 are likely to have been in excess of the reported \$6 billion.

## Fuel costs

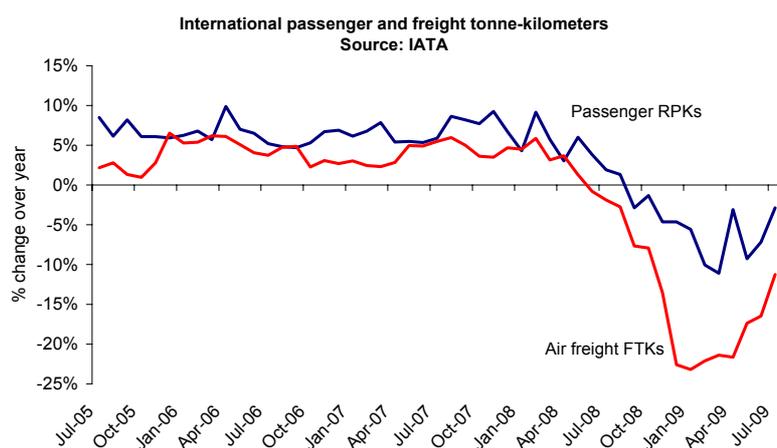
### Jet prices move back up above \$80 a barrel, further squeezing cash flows



- The increasing signs of economic recovery, albeit uneven and hesitant, added to the upward pressures from financial investors (though not so far from commercial buyers) on both oil and jet fuel prices in August. Jet fuel prices rose back above \$80 a barrel.
- Some airlines have been reporting 'mark to market' fuel hedging gains as a result. However, cash flows tell another story. The cash impact of higher fuel prices remains negative, and particularly damaging given declines in passenger and cargo yields.

## Demand

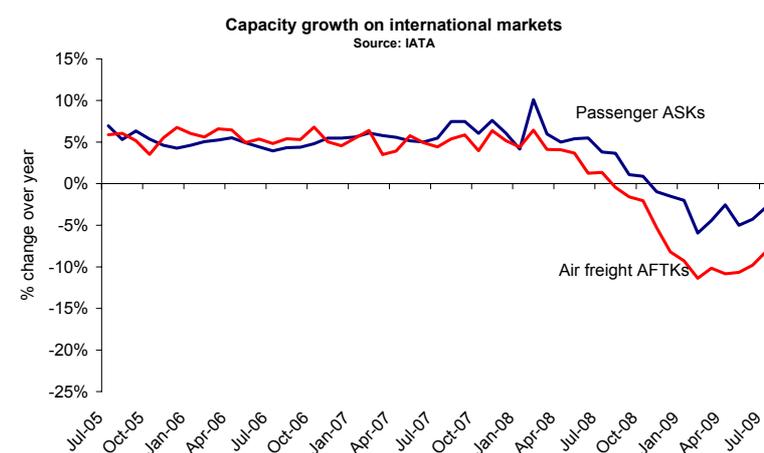
### Travel and freight volumes now beginning to improve, albeit from depressed levels



- Both air freight tonnes and passenger numbers are now starting to improve. Both rose more than 3% in July from the previous month, though both remain well below levels seen the same time last year.
- Freight is being driven by the inventory cycle, which stabilised in Q1 and then destocking began to fall in Q2, leading to some recovery in shipments.
- Travel only began to stabilise at the end of the first quarter. There was a material improvement in July but the future path is likely to be volatile and weaker than normal recoveries.

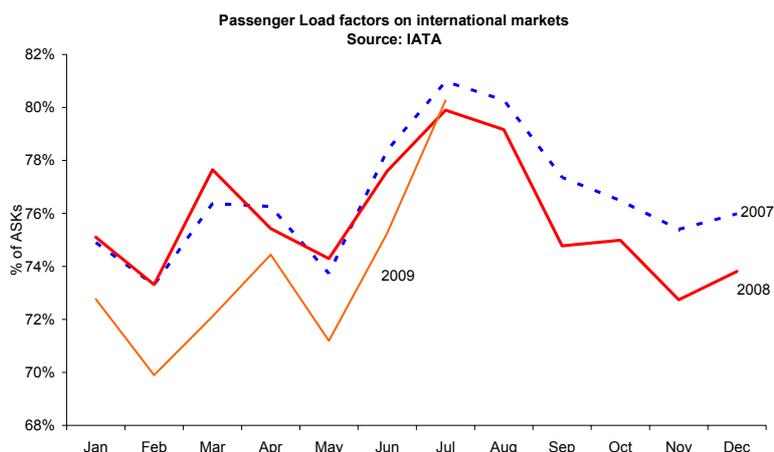
## Capacity

### Capacity cuts are also diminishing



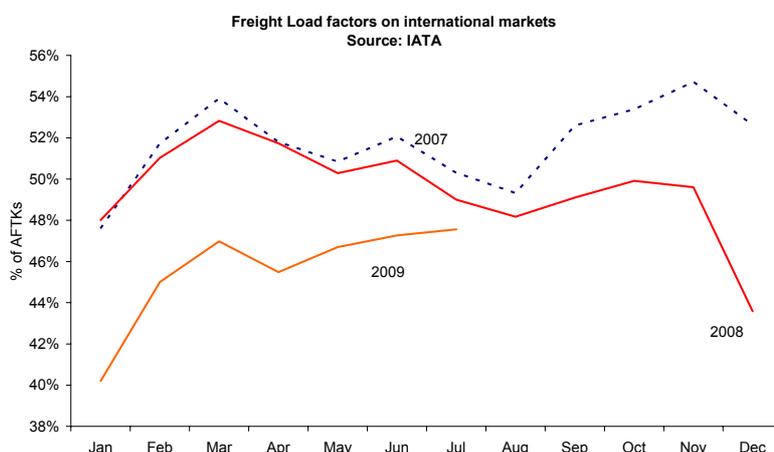
- Passenger capacity on international markets has been cut, with the exception of the Middle East, but at rates considerably less than the slump in travel demand. Now the scale of capacity cuts is slowing and published schedule plans suggests future growth.
- The parking of a number of freighters and the reduction in wide body capacity has reduced air freight capacity to a larger extent than passenger capacity. However, cuts have still lagged the slump in demand for freight services.

## Passenger load factor stabilises for the first time for over a year



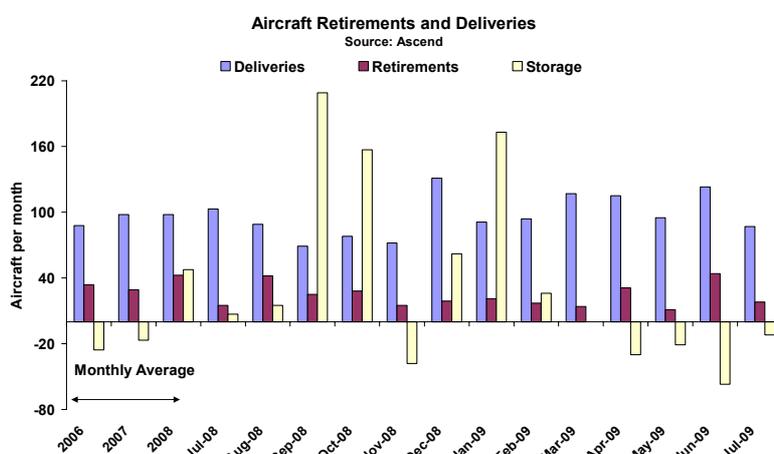
- July marked the first month in over a year when the average passenger load factor on international markets did not fall below year earlier levels.
- However, 80.3% could mark the high point for capacity utilisation this year as the industry both moves into a seasonally weak period and published schedules suggest some capacity growth ahead.
- Elimination of excess capacity will be the key to stopping the decline in fares and stabilising revenues as well as volumes.

## Freight load factors starting to rise off 40% lows



- Due to the larger decline in air freight demand, the 8.1% cut in air freight capacity in July was still insufficient to stabilise load factors.
- Seasonally weakness for air freight is seen in January, when this year utilisation fell to just 40% of capacity. Since then there has been some recovery to 47.6% but that remains several % points below last year.
- With excess capacity continuing through Q2 it was not surprising that freight rates were down more than 20% over the year.

## Fleet expansion slows a little in July but fleet fuel efficiency gains continue



- Airlines continued to expand the in-service fleet in July with 87 new aircraft delivered, 12 taken out of service and only 18 retired. So far this year there have been net additions of 487 aircraft, expanding the fleet by around 2%.
- To some extent deliveries have continued as many airlines have been locked into previous commitments. However, this replacement and expansion of the fleet has delivered significant fuel efficiency savings.
- At the start of the year almost 1,500 jets and turboprops were scheduled for delivery in 2009. So far 722 have been delivered. At current rates the total for 2009 will turn out 20-25% less than expected.

## Data tables

## International passenger and freight markets in July

	July 09 vs. July 08						YTD 2009 vs. YTD 2008					
	<i>RPK Growth</i>	<i>ASK Growth</i>	<i>PLF</i>	<i>FTK Growth</i>	<i>AFTK Growth</i>	<i>FLF</i>	<i>RPK Growth</i>	<i>ASK Growth</i>	<i>PLF</i>	<i>FTK Growth</i>	<i>AFTK Growth</i>	<i>FLF</i>
<b>Africa</b>	-5.5%	0.9%	72.0	-25.9%	-9.4%	24.2	-8.6%	-4.3%	69.5	-22.9%	-34.6%	25.2
<b>Asia/Pacific</b>	-7.6%	-7.6%	76.3	-9.5%	-12.9%	62.6	-11.3%	-7.9%	71.6	-20.5%	-21.0%	57.8
<b>Europe</b>	-3.1%	-3.7%	82.3	-16.2%	-9.6%	45.1	-6.9%	-4.6%	74.9	-20.8%	-20.8%	44.6
<b>Latin America</b>	-3.5%	1.3%	76.4	-1.2%	2.9%	32.0	-3.0%	1.2%	71.3	-17.0%	-17.1%	30.4
<b>Middle East</b>	13.2%	15.3%	78.8	1.0%	16.2%	40.5	8.2%	13.0%	72.3	-4.5%	8.2%	40.2
<b>North America</b>	-3.2%	-4.4%	85.5	-14.6%	-10.2%	35.4	-8.0%	-5.2%	78.0	-21.2%	-21.3%	34.2
<b>Industry</b>	-2.9%	-2.8%	80.3	-11.3%	-8.1%	47.6	-6.8%	-3.8%	73.9	-19.3%	-18.9%	45.7

IATA Economics  
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