

AIRLINES FINANCIAL MONITOR

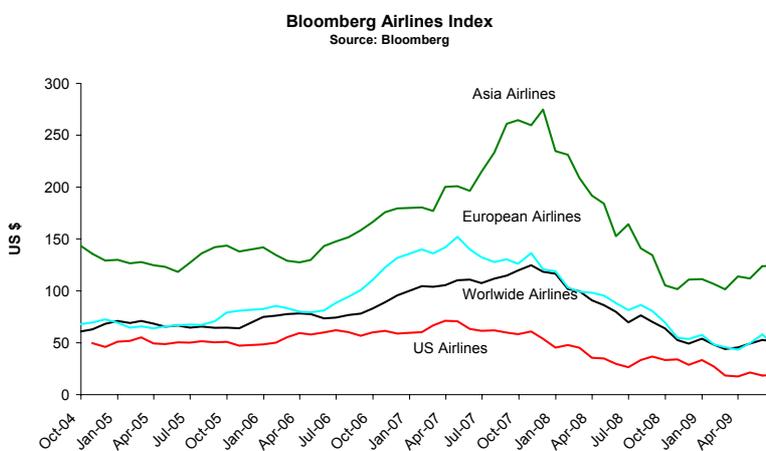
May-June 2009

KEY POINTS

- ↗ Airline stock prices fall 2% in June as equity markets now worried about cash squeeze on sector.
- ↗ Net losses exceeded \$3 billion in Q1, consistent with our forecast for 2009 total net losses of \$9 billion.
- ↗ Oil and jet fuel prices rose over 30% or \$20 a barrel since early May, squeezing airline cash flows.
- ↗ Air travel volumes seemed to hit a floor in April and May, while air freight rose moderately in May.
- ↗ The industry continues to resize with further capacity cuts in May but lagging demand slump.
- ↗ Excess capacity rising as result, forcing both transport prices and yields down at faster pace.
- ↗ New aircraft deliveries slowed a little to 96 in May but few retirements so fleet continues to expand.

Financial indicators

Financial markets worried about cash flow squeeze on airlines



- ↗ Equity markets became more cautious on the airline sector during June, with the Bloomberg global airlines index falling 2% from May levels, compared to a 0.9% rise in the FTSE Global All-Cap. The airline sector index is now 4% down since the end of last year; the market as a whole is up 7%.
- ↗ Market concerns are rising about the squeeze on airline cash flows being brought about by the substantial rise in jet fuel prices and the equally sharp fall in yields.

Industry losses, reported so far, show 2009Q1 net loss of more than \$3 billion

In US \$ Million

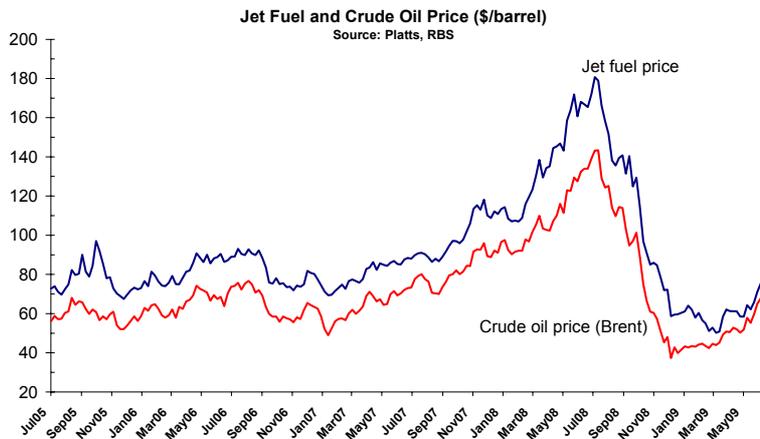
# Airlines		Q1 2008		Q1 2009*	
		Operating	Net post-tax	Operating	Net post-tax
22	North America	1,439	(375)	1,201	(574)
16	Europe	199	(954)	(2,082)	(2,081)
14	Asia-Pacific	483	(145)	(974)	(822)
4	Latin America	213	120	283	139
5	Middle-East	1,794	1,687	389	291
2	Other	13	72	30	(39)
63	Sample total	4,143	405	(1,155)	(3,088)

*Jazeera Airways, Royal Jordanian, Aeroflot operating profit not included
Emirates, Kenya Airways half year results included

- ↗ Over 60 airlines have now published first quarter results. Total net losses remain just over \$3 billion, which is a significant deterioration from last year.
- ↗ This deterioration was before the recent rise in fuel prices and was due mostly to the fall in revenues, as a sharp fall in yields added to the impact of weak travel and freight volumes.
- ↗ Regional performance varied but the largest three regions all saw losses increase.

Fuel costs

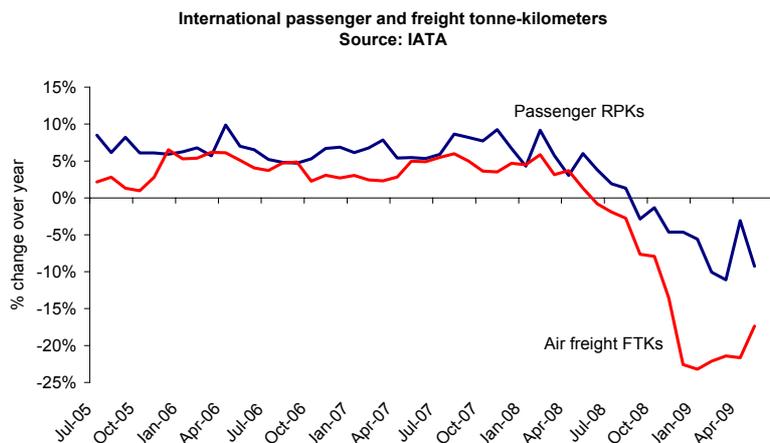
Oil and jet prices significantly higher as markets anticipate economic recovery



- ↗ Both crude oil and jet fuel prices rose almost \$20 a barrel or more than 30% since early May. At \$70 a barrel oil prices are 75% higher than their low point at the end of last year. The cause of this surge is hotly debated. OECD inventories of oil rose suggesting over-supply and user demand remains weak, but the oil futures market has risen sharply as investor demand for commodities rises in anticipation of economic recovery.
- ↗ In fact airlines have not yet felt the full impact of this oil price rise as low refinery utilisation has compressed the 'crack spread' to around 15%.

Demand

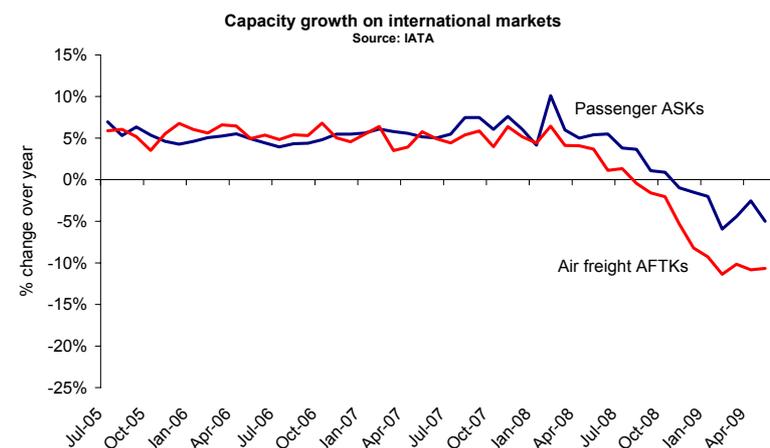
Passenger market volumes now also showing signs of stabilising



- ↗ Air travel market volumes have shown signs of hitting a floor during April and May. The market remains volatile but, even after some decline from April levels, passenger kilometres flown remained higher than in March.
- ↗ Air freight volumes have been stable since hitting a low point in December. In fact there was a moderate rise in air freight during May, as manufacturers added to inventories in anticipation of an economic recovery. However, a significant recovery is not yet visible.

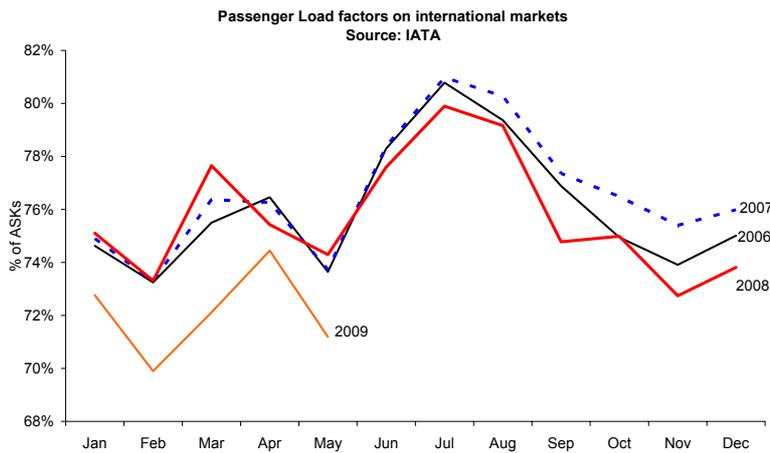
Capacity

Capacity continues to be cut on international markets but still lagging demand slump



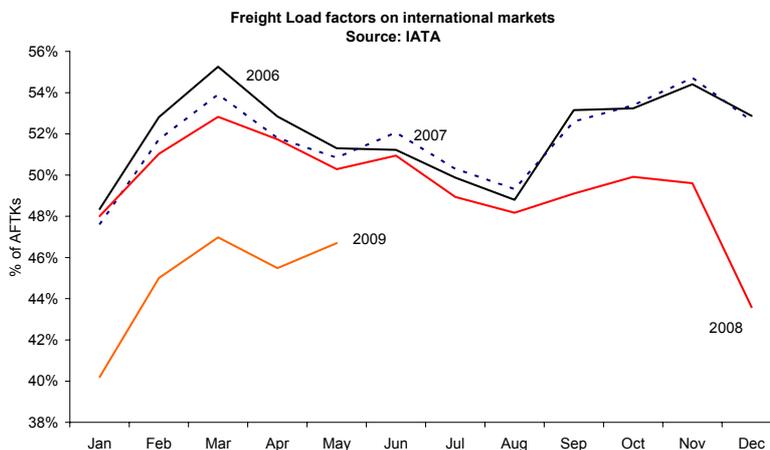
- ↗ Airlines are continuing to cut capacity with available seat kilometres down 5% in May and available freight tonne kilometres down almost 10%.
- ↗ However, a simple visual comparison with the chart above shows that the resizing of the industry has not yet kept pace with the shrinkage of demand for air transport. Capacity cuts so far this year in both passenger and freight markets have been roughly half the decline in volumes flown.

Passenger load factor continue to fall at 3% point plus rate



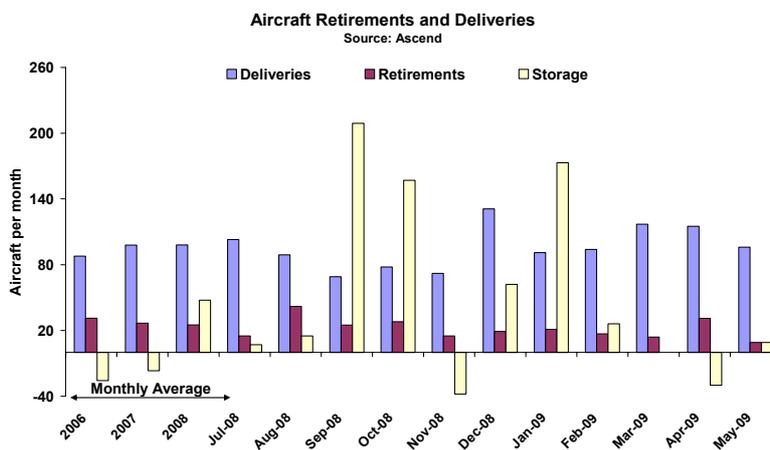
- After a brief respite in April, utilisation rates of aircraft passenger capacity resumed a 3% point pace of decline.
- Load factors take a seasonal dip in May, as it is the ‘shoulder’ season in between the spring and summer holiday travel periods in the Northern Hemisphere. Even so the pace of decline in May was similar to March as capacity cuts lag lower demand.
- The impact of this growing excess capacity is evident in the sharp fall in both fares and yields during the past couple of months.

Freight load factors starting to rise off 40% lows



- Even with the parking of a number of freighters, substantial marginal freight capacity in the bellies of passenger aircraft mean that overall freight load factors are low and have fallen even more sharply than passenger load factors.
- At the start of the year, following the dramatic slump in freight demand, freight load factors were down 8% points. Capacity has been taken out – with both reduced wide-body passenger aircraft capacity and freighters – and the stabilisation of air freight demand has kept load factors broadly unchanged in April and May, a time of year when utilisation usually declines.

Deliveries slowed a little in May but fleet is continuing to expand



- Airlines are continuing to take delivery of new aircraft, though the pace moderated a little to 96 in May. Given the severe business environment the number of cancellations and deferrals of aircraft orders is growing. Current deliveries reflect past commitments, as well as ongoing needs to replace old fleet.
- However, old fleet is not being retired or taken out of service at the moment so the size of the fleet is expanding, despite the on-going efforts to cut capacity.

Data tables

International passenger and freight markets in June

	May 09 vs. May 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>
Africa	-6.0%	-4.8%	69.3	-20.0%	-15.7%	26.6	-8.8%	-6.4%	70.0%	-23.1%	-21.0%	25.1
Asia/Pacific	-14.3%	-9.3%	66.8	-18.1%	-15.9%	59.5	-11.5%	-7.5%	70.7%	-23.5%	-16.6%	56.0
Europe	-9.4%	-6.5%	73.6	-19.2%	-10.9%	45.2	-7.8%	-4.8%	72.7%	-21.9%	-9.2%	44.3
Latin America	-9.2%	0.2%	64.7	-21.0%	-7.5%	30.4	-2.6%	1.3%	70.6%	-20.7%	-8.7%	29.8
Middle East	9.5%	14.5%	69.4	-3.7%	14.1%	39.3	6.0%	11.8%	70.6%	-6.6%	11.4%	39.7
North America	-10.9%	-6.6%	77.3	-18.8%	-11.9%	35.8	-9.4%	-5.2%	75.2%	-22.2%	-9.8%	33.9
Industry	-9.3%	-5.0%	71.2	-17.4%	-9.7%	46.7	-7.7%	-3.9%	72.1%	-21.3%	-10.4%	44.9

IATA Economics
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