

# AIRLINES FINANCIAL HEALTH MONITOR

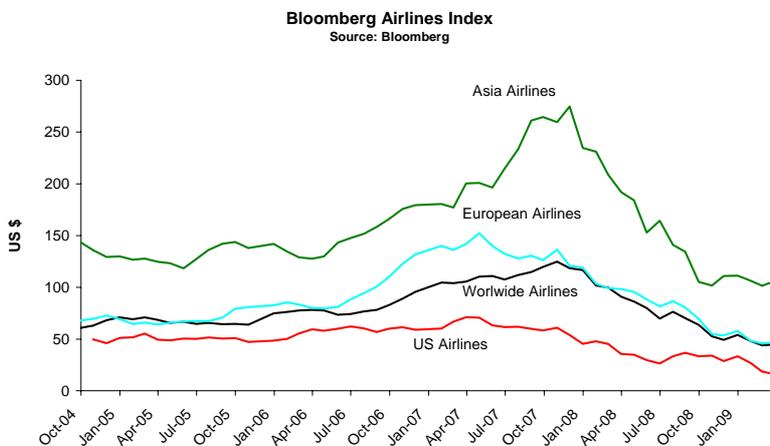
## KEY POINTS

February-March 2009

- Airline share prices moved sideways over the past month but remain 18% down so far this year.
- Fourth quarter airline losses were much higher than expected due to in large part to fuel hedging losses.
- Oil prices have been relatively stable this year and a narrowing 'crack spread' is reducing fuel prices.
- Air freight now appears to be stabilising but passenger travel fell at an accelerating rate in February.
- Airlines responded to the demand slump with capacity cuts but load factors still fell 3.2% points.
- Older aircraft are no longer being parked and over 90 new aircraft were delivered, expanding the fleet in February. The 5.9% cut in capacity was achieved through lower aircraft utilisation; not good for profits.

## Financial indicators

### Financial markets show tentative floor or pause in profits outlook deterioration



- Airline stock market values moved sideways over the past month, on average. However, they remain 18% lower than where they started the year and 64% lower than their late-07 peak.
- This suggests much of the recent bad news on Q4 profits and slumping traffic is now 'in the price'.
- However, there is much regional variation. US airline stocks fell 9% over the month, as analysts revised earlier optimistic views on US profits, offset by rises in Europe and Asia.

### Industry losses in 08Q4 more than expected due to fuel hedging losses and recession

Q4 2008 versus Q4 2007 Profits, \$ Million

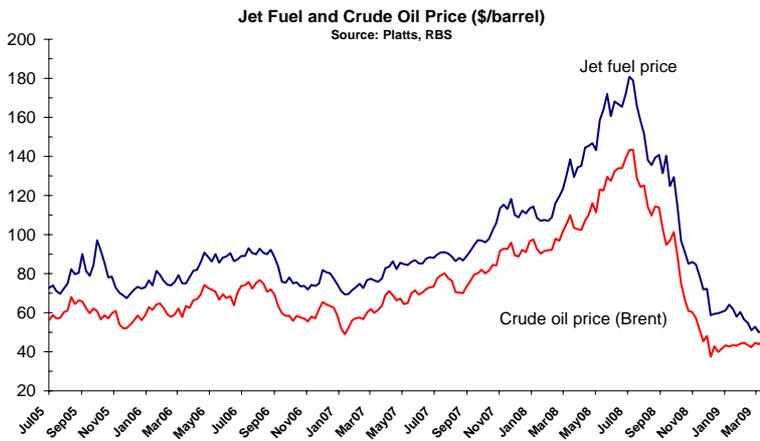
# Airlines	\$ Million	Q4 2007		Q4 2008	
		Operating	Net post-tax	Operating	Net post-tax
14	North American airlines	499	235	(1,699)	(2,081)
11	European airlines	1607	828	(149)	(1,463)
9	Asia-Pacific airlines*	2,287	1,808	(1,032)	(1,139)
2	Other	174	135	316	169
36	<b>Industry total</b>	4,567	3,006	(2,563)	(4,514)

\* Including Qantas and Cathay Pacific reporting half year results

- Airline financial performance during 08Q4 was much worse than had been expected. A loss of around \$1 billion had been expected but, due to the sudden collapse in air freight and also cash losses on fuel hedges, major airlines reported losses in excess of \$4.5 billion.
- As a result our recent forecast briefing revised our earlier forecast for 2008 industry net profits of \$5 billion to a first estimate of \$8.5 billion.

## Fuel costs

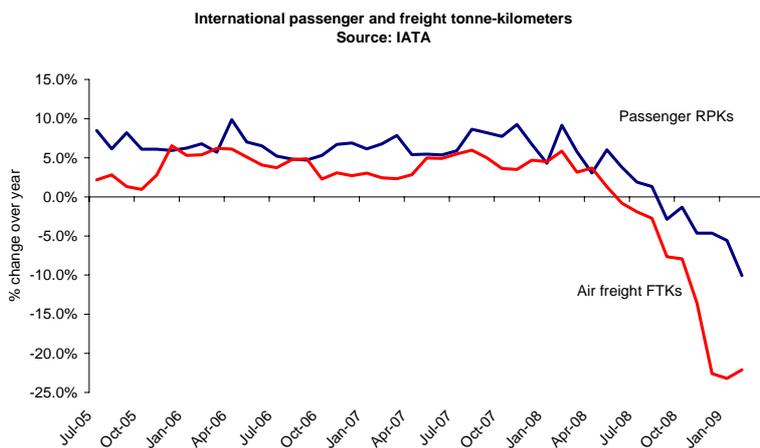
### Oil prices find floor, due to output cuts and bailouts, and ‘crack spread’ narrows



- Crude oil prices have been relative stable so far this year, although a further downward leg cannot be ruled out until a firm economic recovery is in sight. Markets are anticipating at least no further deterioration, following OPEC cuts and all the economic stimulus packages.
- In addition, recession has eased pressure on refinery capacity and the ‘crack spread’ has narrowed sharply bringing spot jet fuel prices down further than crude oil prices.

## Demand

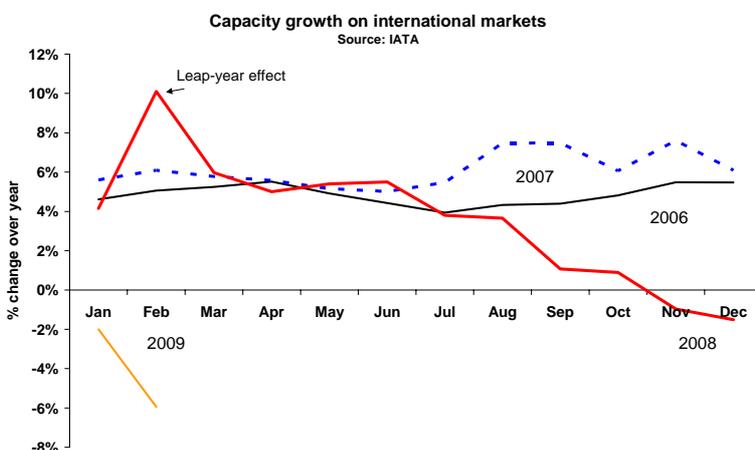
### Freight volumes also appear to stabilise but air travel still shrinking fast



- Air freight volumes are exceptionally low, down over 22% in February, but the level has moved sideways since collapsing in November and December. A possible floor appears to have been found but, like oil, a further downward leg cannot yet be ruled out until economic recovery is in sight.
- Passenger travel has not found a floor and is now declining at a faster rate. The comparison with February last year is distorted by the Leap and Chinese New Year, but even so there was an accelerated decline in air travel.

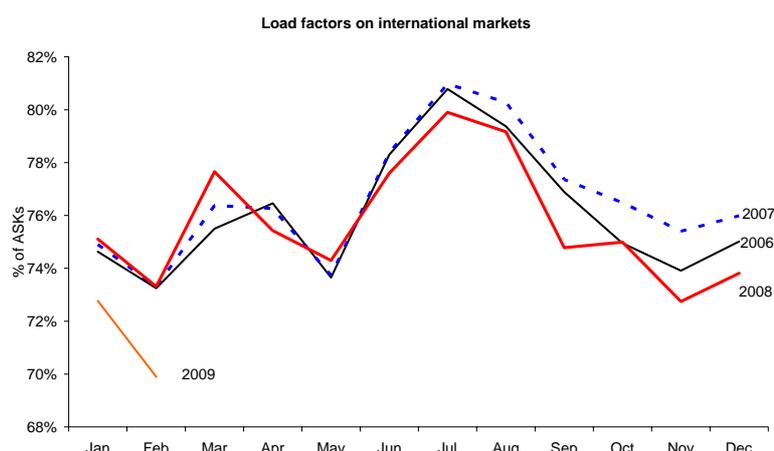
## Capacity

### Capacity on international markets now shrinking rapidly



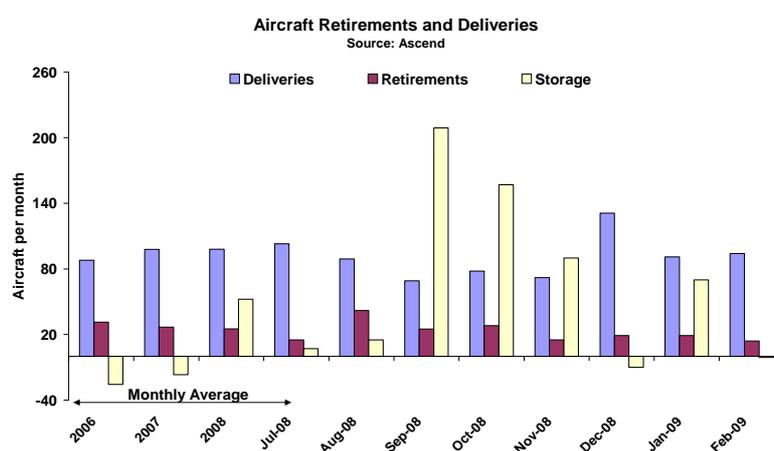
- Airlines are responding to the collapse in demand by cutting capacity at an increasing rate. US airlines were quick to cut domestic capacity following the oil price spike last year, but it was in November that capacity started to be cut on international markets and not until February that significant cuts were made, reducing capacity by 5.9%.
- Further and larger cuts are planned but it remains difficult to do this quickly enough to keep up with the slump in demand; reducing the fleet takes out a lot of cost if depreciated and when fuel prices are high. This is less so today.

## Load factors continue to decline substantially despite capacity cuts



- ↗ Passenger load factors had been declining since the middle of last year but took a marked turn for the worse in the first two months of this year, despite accelerated capacity cuts.
- ↗ Load factors have fallen so fast because the deepening recession has cut away the foundations for travel demand, but in addition yields are now falling as well as volumes.
- ↗ Shrinking load factors means that unit revenues are now falling at a faster rate than yields.

## Parking of older aircraft appears to have come to a halt with lower fuel prices



- ↗ The surge in the parking of older, less fuel-efficient, aircraft from September to November, following the earlier spike in fuel prices, appears to have come to an end. In both December and February aircraft were taken out of storage. Now that fuel prices have fallen, relative to mid-2008 levels, the option of parking less fuel-efficient aircraft is not so clear cut.
- ↗ More than 90 new aircraft were delivered and only a handful retired so the fleet expanded in February. The 5.9% fall of international ASKs was achieved through lower utilisation of the fleet, another negative for profitability.

## Data tables

### International passenger and freight markets in February

	Feb 2009 vs. Feb 2008					YTD 2009 vs. YTD 2008				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
<b>Africa</b>	-13.7%	-11.8%	66.9	-30.7	-13.6	-9.2%	-6.9%	68.8	-25.8%	-8.5%
<b>Asia/Pacific</b>	-12.8%	-7.8%	70.2	-24.7	-11.6	-10.8%	-5.6%	71.4	-26.7%	-10.9%
<b>Europe</b>	-10.1%	-7.6%	70.2	-23.1	-8.5	-7.7%	-5.5%	70.9	-23.1%	-6.7%
<b>Latin America</b>	-3.8%	-2.4%	72.1	-22.8	-4.0	-2.5%	-0.9%	73.6	-20.0%	-2.0%
<b>Middle East</b>	0.4%	7.3%	68.1	-4.8	5.4	1.7%	9.1%	70.0	-5.3%	6.4%
<b>North America</b>	-12.0%	-7.1%	69.8	-21.8	-7.1	-8.9%	-4.7%	72.2	-21.6%	-4.9%
<b>Industry</b>	-10.1%	-5.9%	69.9	-22.1	-7.9	-7.8%	-3.8%	71.3	-23.0%	-6.4%