

AIRLINES FINANCIAL MONITOR

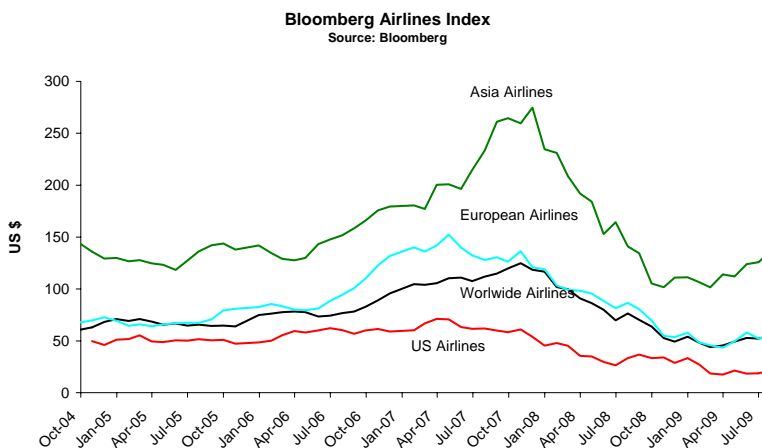
June-July 2009

KEY POINTS

- Airline share prices underperformed the market in July but airlines took opportunity to raise cash.
- First reports of Q2 airline profits show disappointingly small, H1N1 affected, improvement.
- Jet fuel prices slipped back to \$72/b by mid-July but trend rise since January still squeezing cash flows.
- Freight volumes improving slowly but stabilisation of passenger markets largely due to fare discounting.
- Capacity also stabilising in June but reductions far less than contraction seen in demand.
- Utilisation of capacity is still falling as a result, putting increasing downward pressure on fares and yields.
- In spite of need to resize capacity data suggests 68 aircraft taken out of storage and deliveries up to 124.

Financial indicators

Stronger equity markets provide an opportunity (for some) to raise cash



- Airline share prices rose 4% in July over the previous month. However, that was due to a general rise in equity markets which were up 7%. Airline stocks underperformed the market, as concerns grew that airline cash flows are being squeezed between falling yields and rising fuel prices.
- But stronger markets are providing an opportunity for some of the larger airlines to issue equity and debt to raise much needed cash.

First results for industry Q2 losses show disappointingly small improvement

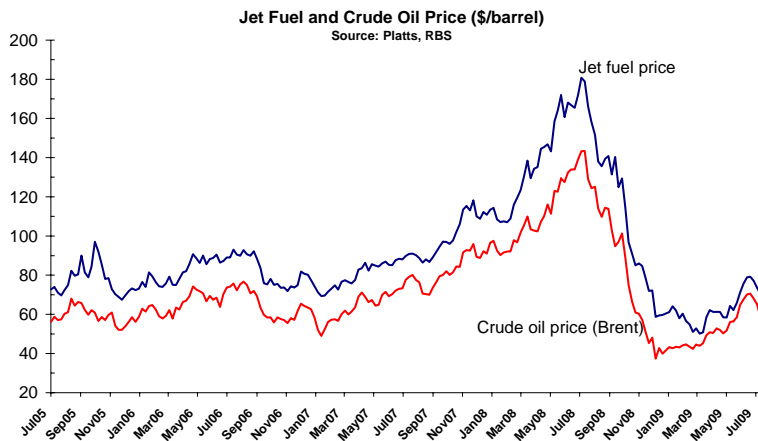
In US \$ Million

# Airlines		Q2 2008		Q2 2009	
		Operating	Net post-tax	Operating	Net post-tax
11	North America	188	(702)	825	(373)
0	Europe	-	-	-	-
0	Asia-Pacific	-	-	-	-
0	Latin America	-	-	-	-
0	Middle-East	-	-	-	-
0	Other	-	-	-	-
11	Sample total	188	(702)	825	(373)

- Looking at first US airline reported results for the second quarter shows performance which is disappointingly weak with net losses of \$373m following Q1 losses of \$574m.
- Some \$300m of the Q2 loss was due to the impact of influenza A (H1N1) but even so typically airlines will make 80% of the year's profits in Q2 and Q3. Q2 losses show H1N1 and the fall in yields have more than offset any improvements in fuel costs.

Fuel costs

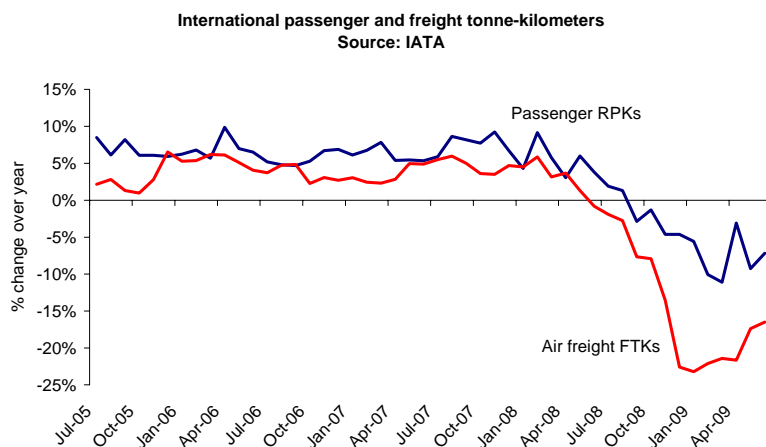
Oil and jet prices drop back a little but remain higher than earlier in year



- ↗ Jet fuel prices fell back to \$72 a barrel in mid-July, having touched \$80 the previous month. This is still less than half the \$166 a barrel prevailing the previous year but the upward trend this year is a great concern and is increasingly squeezing airline cash flows.
- ↗ OECD inventories of crude remain high at 62 days forward cover and consumption of oil is down 2.9%, so there is little fundamental pressure for higher prices.

Demand

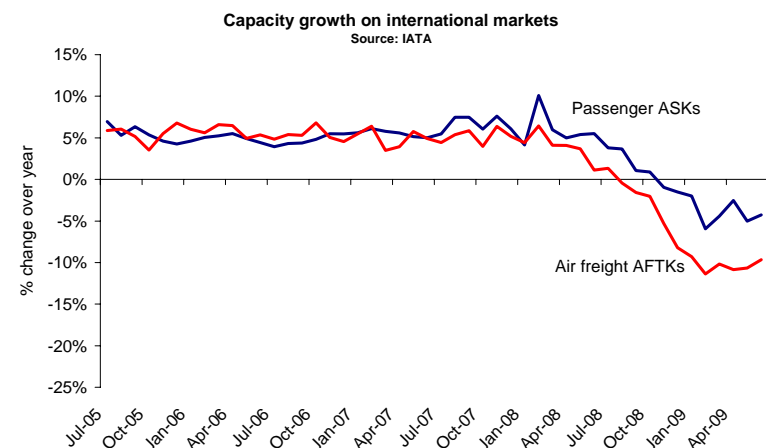
Passenger market volumes now also showing signs of stabilising



- ↗ Air freight volumes hit a low point in December last year, since then they have been slowly recovering – reflecting more stable economic conditions in many economies. However the pace of improvement is glacial and the level of FTKs was still 16.5% lower than last year.
- ↗ Passenger markets also appear to be stabilising. However, much of the success of airlines in getting passengers on seats appears due to substantial fare discounting, rather than due to economic conditions. Moreover, H1N1 remains a downside risk.

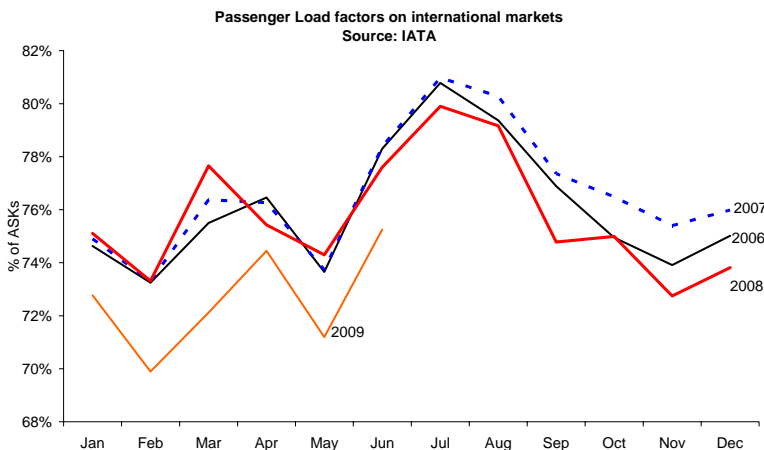
Capacity

Capacity cuts also stabilising but at rates implying growth in excess capacity



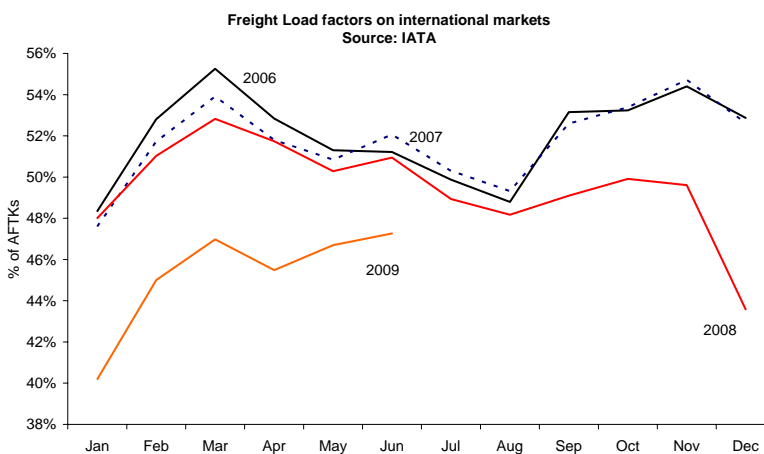
- ↗ Passenger capacity has remained 4-5% below the levels of last year for the past few months, while freight capacity has stabilised at a level 10% down.
- ↗ However, both of these are less than the fall in the respective markets as a comparison of this chart with the one above will show. As a result excess capacity is still growing.
- ↗ With fuel costs half their levels of last year the majority of aircraft costs are once again fixed, which together with slot regulation hinders capacity reduction.

Passenger load factor still falling sharply after adjusting for seasonality



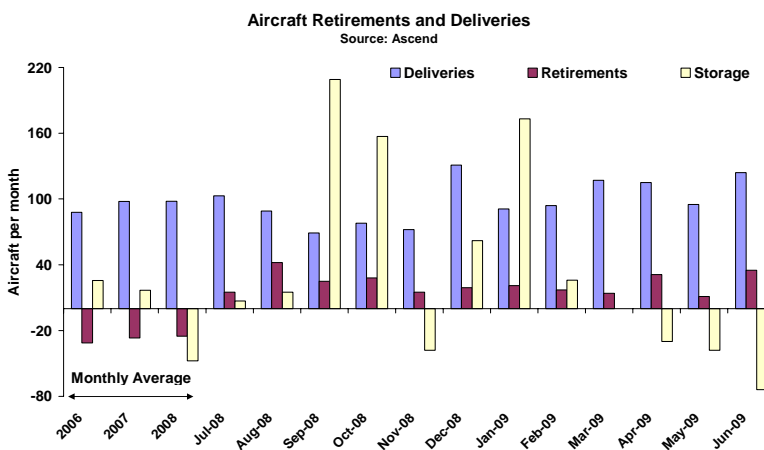
- Passenger load factors rose in June from May, but that was purely the result of a seasonal boost to travel. Compared with the past three years the utilisation of passenger capacity was significantly lower.
- This increasing excess capacity, on all international markets, is increasing the intensity of competition and putting further downward pressure on average fares.

Freight load factors starting to rise off 40% lows



- The utilisation of freight capacity is worse, though beginning to improve. Freight utilisation improved a little to 47.3% in June, before the usual mid-year lull in activity due to the holiday season.
- With less than half of freight capacity utilised compared to over three quarters of passenger capacity, the downward pressure on freight rates is even more intense. However, the slow revival in freight demand is also slowly bringing freight low factors up from their lows.

Unexpected fall of aircraft in storage adds to a significant fleet expansion in June



- The unexpected development in June was data showing that a net 68 aircraft had been taken out of storage and returned to service. Added to 124 new aircraft delivered that shows a significant increase in the size of the fleet.
- There is probably some under-reporting of 'unused' aircraft at the moment but that does not seem to explain the net withdrawals. The data in the chart suggests that the fleet has expanded by almost 2% so far this year, at a time when airlines have been trying to shrink capacity in response to the slump in demand.

Data tables

International passenger and freight markets in June

	June 09 vs. June 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	-5.9%	-1.6%	68.5	-20.2%	-13.6%	26.6	-9.2%	-5.6%	69.0	-22.5%	-19.8%	25.3
Asia/Pacific	-14.5%	-9.2%	70.1	-15.8%	-14.7%	61.4	-12.0%	-7.7%	70.6	-22.3%	-16.4%	56.8
Europe	-7.1%	-5.3%	77.3	-20.3%	-10.9%	45.6	-7.6%	-4.8%	73.5	-21.6%	-9.4%	44.5
Latin America	-4.7%	-0.9%	70.3	-14.2%	-8.0%	31.6	-3.2%	1.0%	70.4	-19.6%	-8.6%	30.1
Middle East	12.9%	15.2%	73.9	-4.2%	14.0%	40.2	7.1%	12.5%	71.1	-5.5%	11.5%	40.2
North America	-6.7%	-5.5%	82.6	-18.6%	-10.3%	35.0	-8.9%	-5.3%	76.6	-22.2%	-9.9%	33.9
Industry	-7.2%	-4.3%	75.3	-16.5%	-9.8%	47.3	-7.6%	-3.9%	72.6%	-20.6%	-10.4	45.3

IATA Economics
July 2009