

AIRLINES FINANCIAL MONITOR

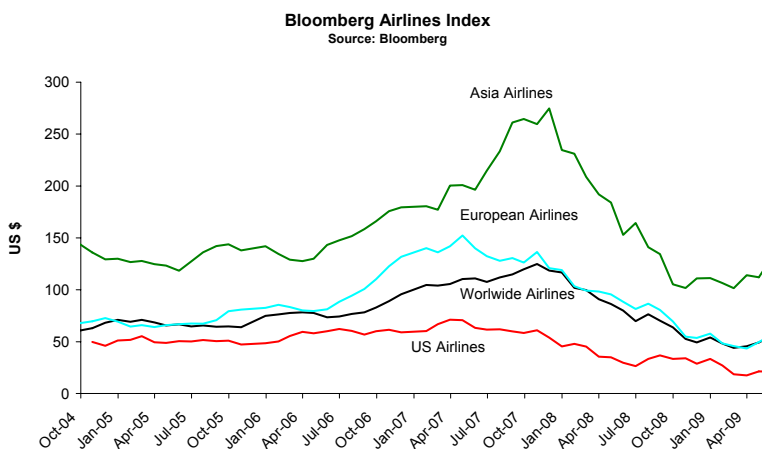
April-May 2009

KEY POINTS

- Airline stocks up 8% in May as markets anticipate an economic recovery ahead;
- However, losses were still worsening in 2009Q1 with 50 airlines reporting \$3.3 billion in net losses;
- Oil prices are still substantially down on last year but have now risen \$15/b since the start of the year;
- Traffic volumes improved in April but at the cost of lower yields, so revenues still shrinking fast;
- Capacity resizing is starting to slow but growing excess capacity was interrupted in April by bounce in air travel volumes;
- Capacity being cut by reducing block hours, further reducing profitability, as 30 aircraft return to service from storage and over 100 new aircraft delivered, with just 29 aircraft retired during April.

Financial indicators

Financial markets continue to predict a moderate recovery



- Airline share prices continued to rise as markets continued to anticipate a moderate economic recovery. The Bloomberg global airlines index is up 8% so far in May, compared with a 14% rise in the FTSE Global All-Cap Index over the same period.
- US airlines stocks were flat, whereas Asia-Pacific and European airlines were marked up 9-10% during the month. Despite this improved outlook, the markets continue to value airlines some 50-60% below their 2007 peaks.

Industry losses, reported so far, in 2009Q1 were still getting bigger

In US \$ Million

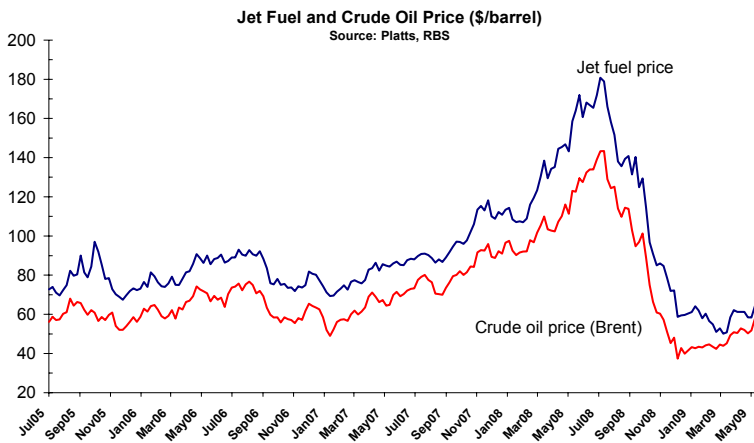
# Airlines		Q1 2008		Q1 2009*	
		Operating	Net post-tax	Operating	Net post-tax
21	North America	1,433	(377)	1,184	(592)
10	European airlines	123	(943)	(1,998)	(1,892)
11	Asia-Pacific airlines	529	(176)	(998)	(850)
8	Other	123	91	118	65
50	Sample total	2,209	(1,405)	(1,694)	(3,270)

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

- Around 50 airlines, most of which are quoted on stock markets, have now publicly released first quarter financial results. Net losses continue to deteriorate with a total so far for 2009Q1 of \$3.3 billion.
- Fuel costs have fallen substantially since last year but clearly the collapse in revenues, due to recession, is having a larger impact on financial performance.

Fuel costs

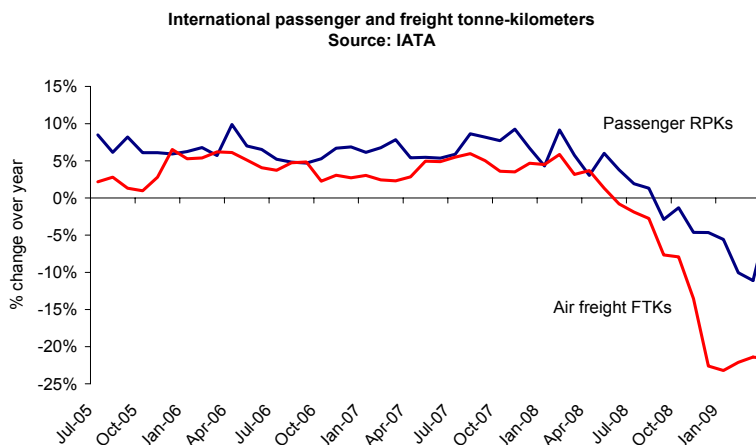
Oil prices edging higher as markets continue to anticipate economic recovery



- Oil and jet fuel prices are rising despite weak oil market fundamentals. Oil demand is down 3% on last year and OECD stocks have risen to a 16 year high of over 62 days forward cover.
- In spite of weak fundamentals markets are anticipating an economic recovery and rising futures markets have been pulling spot prices higher. Crude oil prices are up \$15/b so far this year to \$55/b. Fuel prices are also now rising but the 'crack spread' has compressed to 12-15% due to excess refinery capacity, limiting the rise in jet to \$62/b.

Demand

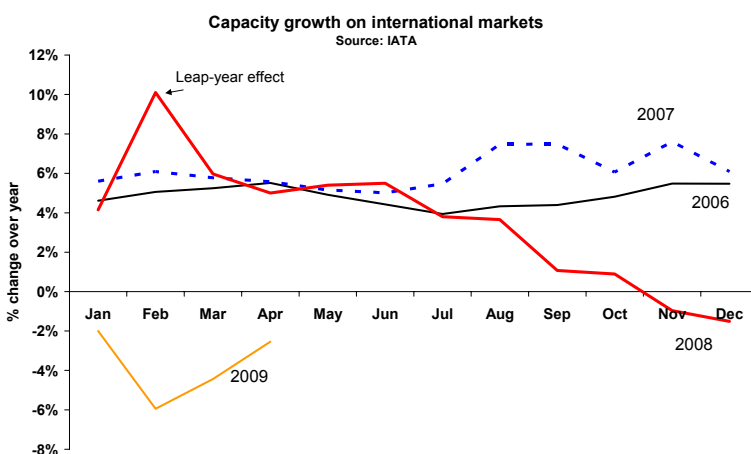
Passenger market improvement uncertain but air freight seems to have stabilised



- April marked the fourth consecutive month of stability in freight tonne kilometres, since the low point was reached in December. Comparisons to a year earlier continue to show 20%+ decline but the level of FTKs is now moving sideways.
- Passenger markets had been shrinking through March. April saw an improvement, distorted by the timing of Easter, but up even after adjustment.
- However, volumes may have been achieved at the expense of yields since there is no sign that the fall in revenues has slowed.

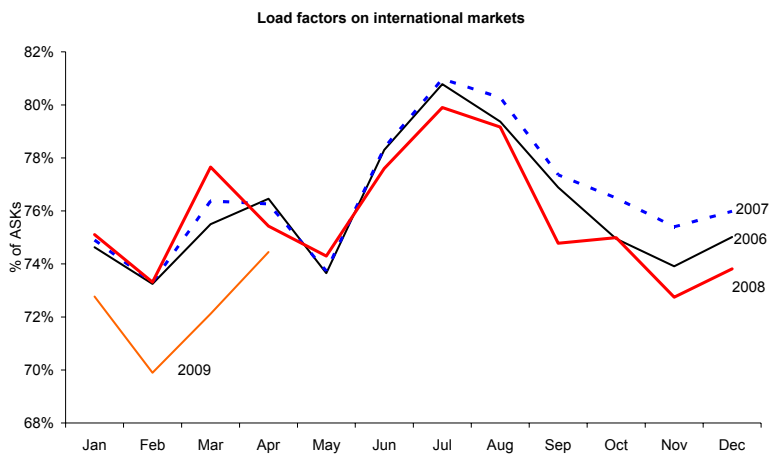
Capacity

Capacity on international markets is being resized but now at a slower rate



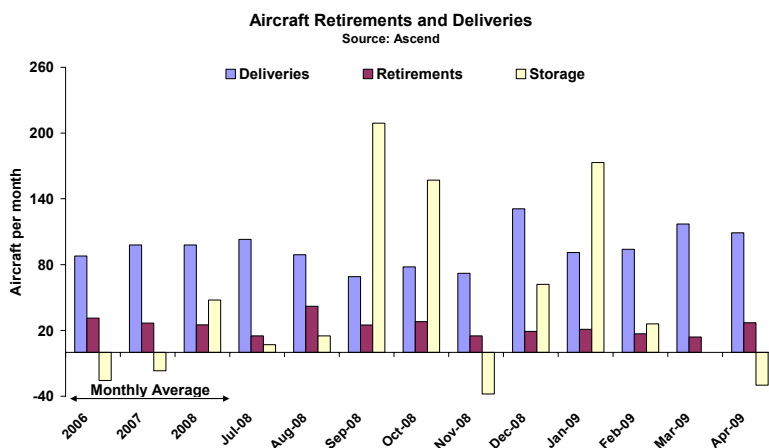
- The 6% fall in capacity in February this year was exaggerated as the comparison was with a month last year that had an extra day. Even so the last couple of months have seen a slower reduction in passenger capacity.
- In April ASKs were down 2.5%, compared with a 4.4% cut in March. The published schedules do not suggest any future acceleration in the resizing of the industry in the face of the recession.

Load factors up sharply in April but renewed falls look likely ahead



- ↗ Load factors on international markets improved sharply in April to an average of 74.4%, having been steadily worsening for over a year.
- ↗ However, this improvement was due to the bounce in air travel rather than any acceleration in the resizing of the industry. The earlier decline in load factors had put intensifying downward pressure on fares, which played some role in boosting air travel. But it is not clear how sustainable the April rebound will be.

Parking of older aircraft has halted so fleet is expanding with deliveries of new aircraft



- ↗ Whereas the commercial fleet was shrinking late last year as the parking and retirement of older aircraft exceeded new deliveries, this process moved into reverse from February.
- ↗ In April the fleet expanded by over 100 aircraft. 27 aircraft were retired but 30 were taken out of storage back into active service and 109 new aircraft were delivered.
- ↗ In fact passenger capacity was still shrinking in April, albeit at a slower pace of -2.5% a year. Airlines are continue to cut hours flown to achieve this, adding to the detrimental impact on profitability of lower load factors.

Data tables

International passenger and freight markets in April

	Apr 2009 vs. Apr 2008					YTD 2009 vs. YTD 2008				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	-7.1%	-5.0%	73.4	-18.8%	-4.8%	-9.7%	-7.2%	70.4	-23.3%	-7.7%
Asia/Pacific	-8.6%	-7.4%	71.6	-22.3%	-12.6%	-11.2%	-7.2%	71.6	-24.7%	-12.2%
Europe	-2.7%	-2.6%	75.9	-23.3%	-5.5%	-7.4%	-4.5%	72.4	-22.3%	-6.1%
Latin America	7.5%	6.0%	71.2	-24.2%	1.5%	-1.1%	1.6%	72.0	-20.6%	-0.9%
Middle East	11.2%	12.3%	73.8	-11.1%	8.2%	4.9%	11.0%	70.9	-7.5%	7.1%
North America	-4.2%	-4.0%	78.1	-22.4%	-7.4%	-9.0%	-4.9%	74.7	-22.9%	-7.2%
Industry	-3.1%	-2.5%	74.4	-21.7%	-6.8%	-7.5%	-3.7%	72.3	-22.2%	-7.0%