

AIRLINES FINANCIAL MONITOR

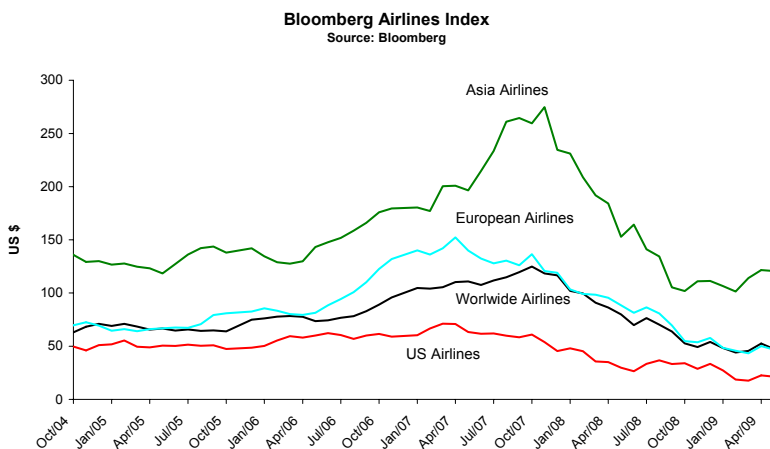
KEY POINTS

March-April 2009

- Financial markets started to anticipate recovery in April pushing airline share prices up 15%, before fears over Swine Flu in Mexico took 5-10% points off the earlier rise;
- First quarter net losses have grown to \$1 billion so far, in line with forecast for \$4.7 billion 2009 net losses;
- Fuel prices close to end-08 levels, but oil prices starting to drift above \$50/b on economy recovery hopes;
- Air freight appears to have bottomed out but passenger travel continues to shrink, particularly premium;
- Resizing capacity lags further behind demand slump, causing load factors to fall sharply by 5.4% points;
- Capacity cut by reducing utilisation, as fleet expanded by deliveries and no further parking of older aircraft.

Financial indicators

Financial markets show tentative expectations of a turning point ahead



- A degree of optimism returned to financial markets in April, at least until concerns about the outbreak of Swine Flu in Mexico hit share prices. The Bloomberg worldwide airlines index was up 15% during the month, though still below end-2008 levels. In the past couple of days fears over Swine Flu took 5-10% points off that increase.
- Airline stocks rose almost twice the increase in the FTSE Global All-Cap index, as investors look ahead to the cyclical airline sector being one of the first out of recession, when that arrives.

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

In US \$ Million

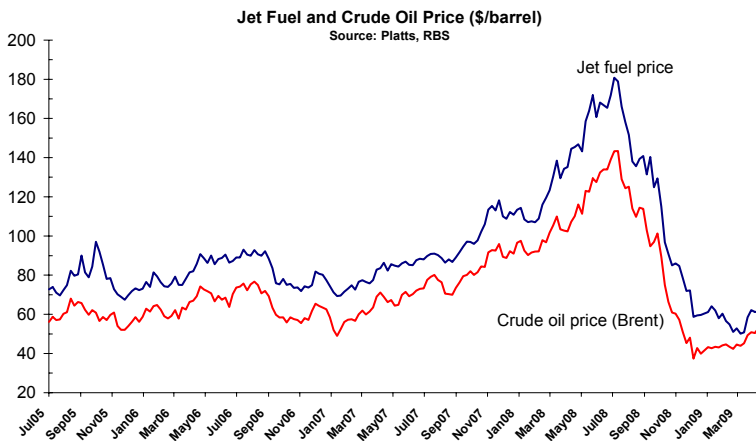
# Airlines		Q1 2008		Q1 2009*	
		Operating	Net post-tax	Operating	Net post-tax
13	US airlines	1,026	(383)	555	(577)
3	European airlines	(172)	(177)	(64)	(79)
4	Asia-Pacific airlines	3	148	(265)	(402)
	Other	-	-	-	-
20	Sample total	857	(413)	226	(1,058)

* Preliminary figures, all airlines not yet reported Q1 09 results
Vueling and Eva Airways operating results not included

- First quarter financial results are starting to be released and show, overall, some further widening of losses at the NPAT level (totalling \$1 billion so far) and a further narrowing of any remaining profits at the EBIT level.
- However performance varied. The integrators in the US saw profits narrow but US passenger airlines improved, reflecting early capacity cuts. Outside of the US most airlines are, so far, reporting larger Q1 losses.

Fuel costs

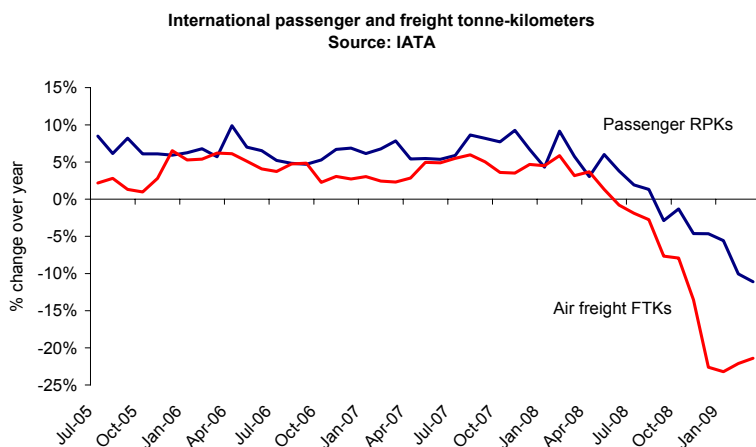
Oil prices start to edge higher as markets start to anticipate economic recovery



- December seemed to mark a low point for a number of economic indicators, including crude oil prices. Since edging just below \$40 a barrel they have since taken a step up to around \$50 a barrel, as commodity markets along with equities tentatively start to anticipate the recovery.
- Jet fuel price are close to where they started the year, as the crack spread narrowed. At 17% it remains a little below its long-term average of 25%, reflecting low refinery utilisation rates.

Demand

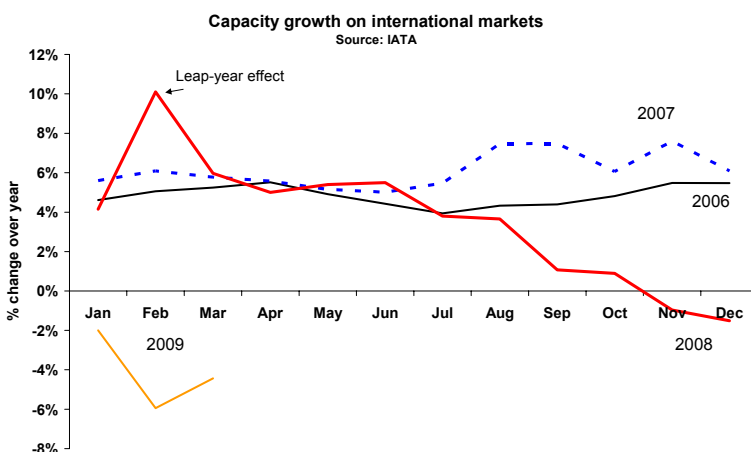
Freight volumes have stabilised but passenger markets still shrinking



- Air freight tonne kilometres have moved sideways since hitting the December low, suggesting the bottom may have been reached - at least for the downturn in manufacturing.
- However, passenger markets continued to shrink in March. Comparison with last year was distorted by the timing of Easter. Even so, passenger kilometres flown on international markets were still 9% lower, after adjustment. Moreover, premium tickets sold were over 20% down the previous month.

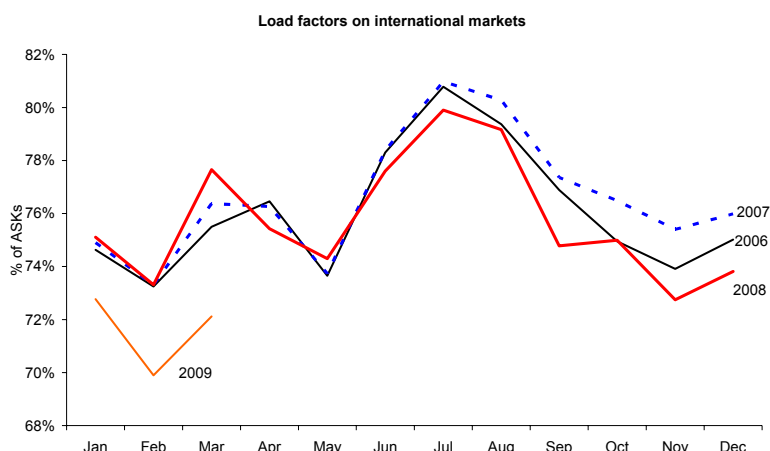
Capacity

Capacity on international markets is being resized but continues to lag demand slump



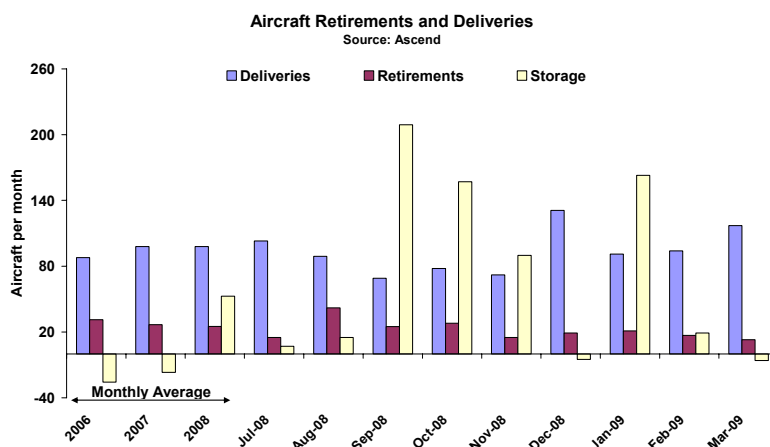
- Available seat kilometres on international markets were cut a further 4.4% during March, but that was far behind the 11.1% slump in demand, even adjusting for the timing of Easter.
- The resizing of the industry still varies hugely across different regions. US airlines have cut more than 10% of capacity on domestic markets but are lagging the fall of demand on their international markets. Airlines in Asia have cut most in the major regions. However, capacity is still being expanded by airlines in the Middle East and Latin America.

Load factors slide further despite seasonal bounce in March



- ↗ March is normally a good month for load factors, with significant holiday travel. However, compared with this time last year load factors were down a very sharp 5.4%.
- ↗ Spot fuel prices are 60% lower than a year ago but yields fell at an accelerating rate in March. As a result the breakeven load factor has not fallen much from last year, and what airlines have been able to achieve has fallen even further. First quarter losses are showing the impact of this.

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



- ↗ The fleet of jets and turboprops is growing once more, having fallen significantly between September and January as over 600 older aircraft were taken out of service.
- ↗ In February and March there were virtually no aircraft put into storage (30 were retired). However, over 210 new aircraft were delivered.
- ↗ The fleet is getting more fuel efficient as a result but fleet expansion has meant recent capacity cuts have come from lower aircraft utilisation, which is not good for airline profitability. This may also be a factor behind capacity cuts so far lagging the slump in demand.

Data tables

International passenger and freight markets in March

	Mar 2009 vs. Mar 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	-15.6%	-15.1%	72.7%	-29.4%	-15.8%	-11.2%	-9.8%	70.3	-27.4%	-10.8%
Asia/Pacific	-14.5%	-9.3%	71.2%	-24.1%	-14.4%	-12.4%	-7.6%	71.5	-25.9%	-12.7%
Europe	-11.6%	-4.4%	72.1%	-20.0%	-5.8%	-9.1%	-5.1%	71.3	-22.0%	-6.4%
Latin America	-5.9%	2.2%	69.5%	-18.0%	-0.1%	-3.7%	0.1%	72.2	-19.3%	-1.4%
Middle East	4.7%	13.1%	69.7%	-7.6%	7.8%	2.7%	10.5%	69.9	-6.2%	6.7%
North America	-13.4%	-5.7%	76.2%	-23.3%	-7.3%	-10.6%	-5.1%	73.5	-24.4%	-6.8%
Industry	-11.1%	-4.4%	72.1%	-21.4%	-7.8%	-9.1%	-4.3%	71.6	-22.8%	-7.3%