

AIRLINES FINANCIAL MONITOR

KEY POINTS

March-April 2015

- Worldwide airline share prices fell 1.5% in April, responding to the strength of the US dollar, but are still up 23% on a year ago;
- Crude oil prices rallied in April/May, up 20% on the March low, as growth in inventories slows in the US;
- Initial Q1 financial results show continued gains in the US and a positive turn-around in Asia Pacific;
- Passenger yields in the US have started to weaken and fares in other regions fell further, reflecting downward pressure from earlier declines in fuel related costs as well as exchange rate distortions;
- Air transport volumes continued to expand robustly, as FTKs volumes moderate after February spike;
- Growth in seats rebounded in March, but remains below expansion in volumes;
- Air freight load factors continued sideways trend in March as passenger loads start to improve;
- Despite lower oil prices, airlines have been increasing capacity at a slower rate than growth in demand.

Financial indicators

Worldwide airline shares weakened on the back of the strengthening US dollar

Airline Share Prices

US\$ based index (100 = 2007)



- Airlines share prices fell 1.5% in April compared to March, but are still up 23% on a year ago. underperforming the broader market. The FTSE Global All Cap rose 2.5%. Declines in fuel costs, which had provided a boost to airline share prices in late 2014, are being offset by the strengthening US dollar. For US carriers, the strengthening dollar could hamper international air travel, while for non-US carriers, there could be an increases in US-dollar denominated costs. The only region to see an increase in share values was Asia Pacific (+7%), driven by improvements in Chinese carrier financial performance.

Q1 financial results show strong profit improvement in North America and Asia Pacific

In US \$ Million

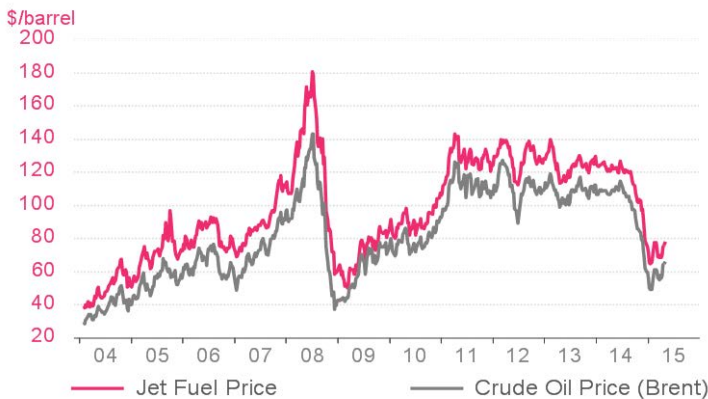
# Airlines	Regions	Q1 2014		Q1 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
12	North America	1598	356	4974	3218
6	Asia-Pacific	-6	230	1463	863
5	Europe	-1301	-1558	-750	-187
2	Latin America	-35	-35	57	33
0	Others	0	0	0	0
25	Sample total	256	-1007	5744	3927

- Airline financial performance is improving strongly, according to initial Q1 financial results. A sample of 25 airlines shows that the industry financial performance improved significantly on the year ago period at the operating and net profit level. The increase was driven by North American airlines, where consolidation and cost cutting has resulted in a significant boost to profitability and lower fuel costs. Asia Pacific airlines have also improved on a year ago. Chinese carriers have recorded solid Q1 2015 profit results, owing to strong demand and improved operational efficiency.

Fuel costs

Crude oil price prices up 20% in May compared to March low

Jet Fuel and Crude Oil Price



- Crude oil prices had fallen below \$50/bbl in January, the lowest price seen for the past 6 years. Since then, there have been two rallies, one currently underway with crude oil prices rising 20% in May compared the most recent low in March.
- The recent increase in oil prices has largely come as a result of changes in supply conditions. Data show that growth in inventories has slowed, particularly in the US. Moreover, risks of supply shocks have increased due to geo-political developments in Yemen and Libya.

Yields

Passenger yields are weakening worldwide, reflecting the lower fuel related costs

Average Return Fare Worldwide & US Airlines Yields

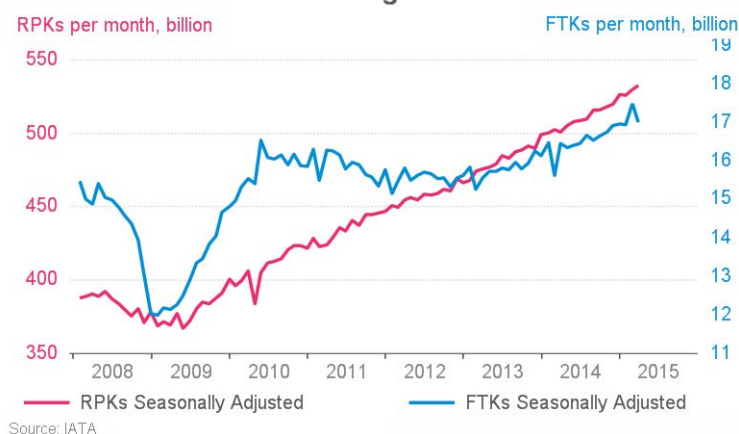


- US passenger yields have started to decline after signs of a pick-up in Q4 2014. The trend in US passenger yields had been broadly flat for the past 12 months. The recent weakness in yields likely reflects downward pressure from earlier declines in fuel related costs.
- The downward trend in global fares in US\$ has continued. The fare data excludes fuel surcharges and ancillary revenues. The trend in global fares is reflecting exchange rate distortions, namely the appreciation of the US dollar.

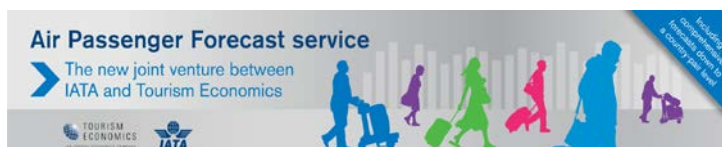
Demand

RPKs continue to expand at trend as FTKs moderate after February spike

Total Air Travel and Air Freight Volumes



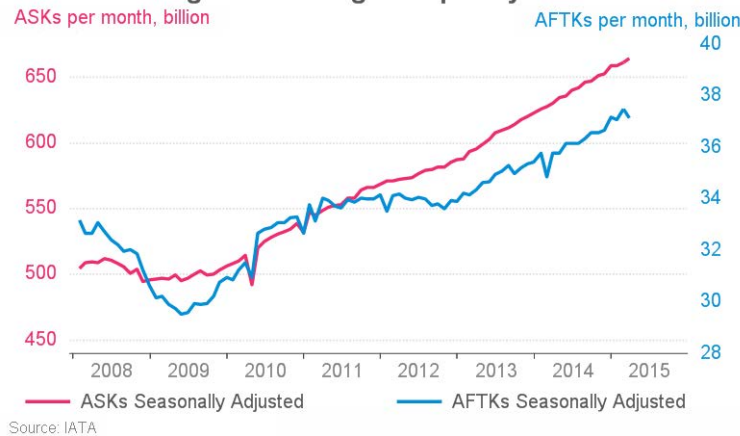
- Air transport volumes continue to expand at a robust rate. The decline in oil prices should help support economic activity and passenger demand in 2015. In addition, recent improvement in business confidence in some advanced economies should help support growth in international travel.
- There was a correction in air freight volumes in March, after an unusually strong February spike due to temporary factors. Despite the fall in volumes in March, FTK levels are still above those in January, and the positive growth trend in air cargo continues.



Capacity

Trend in AFTKs moderates as ASKs expand strongly on domestic markets

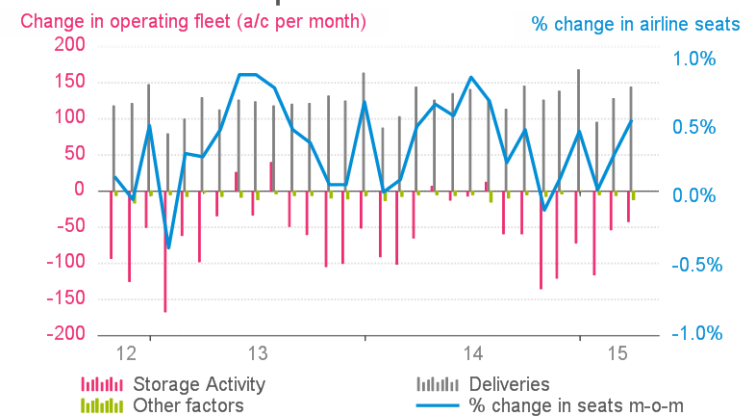
Total Passenger and Freight Capacity



- The positive growth trend in ASKs has moderated in 2015. Most of the increase in ASKs in March compared to February was on domestic markets (1.1%) – with several markets responding to strong increases in demand. International markets experienced a small 0.2% increase in capacity in March compared to February.
- By contrast, air freight capacity decreased in March, consistent with the moderation in FTK volumes. The fall in capacity came mostly from a contraction in FTKs on international markets.

Growth in seats accelerated in March, but still a slower rate than expansion in volumes

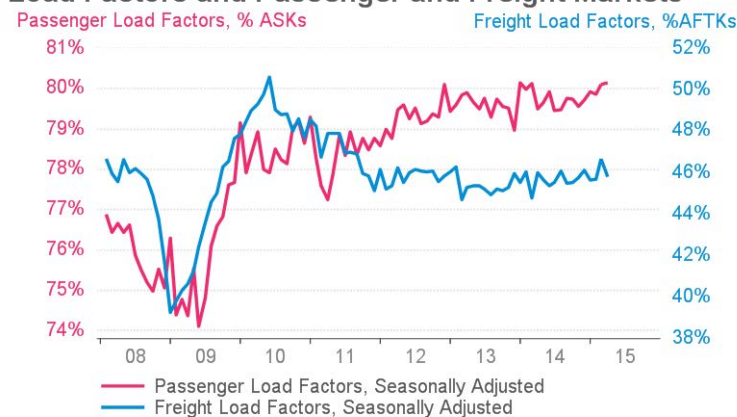
Airline Fleet Development



- Growth in available seats rebounded in March. The acceleration in growth in seats resulted from a rise in new aircraft deliveries and a fall in net storage activity. In February there were 128 new aircraft delivered compared with 144 new deliveries in March. In addition, on net 53 aircraft went into storage in February, compared to 42 in March. Growth in seats accelerated to a 5-6% annualized rate, but still a slower rate than the growth in demand.

Air freight load factors continue sideways trend as passenger loads show upward trend

Load Factors and Passenger and Freight Markets



- Air passenger load factors are showing an upward trend, even though there was no change in March compared to February. Domestic load factors have shown improvement since mid-2014, supported by stronger growth in volumes. International load factors are only now starting to rise, after being in a slightly declining trend during the second half of 2014.
- Cargo load factors continue to trend sideways, with a reversal in March after a notable spike in February. The growth in air freight demand over recent months has helped sustain load factors, but continued expansion in capacity through the passenger business has kept rates low at just over 45%.

Data tables

Year on Year Comparison	Mar 2015 vs. Mar 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-0.1%	-2.1%	67.1%	2.4%	0.5%	31.8%	-0.9%	-0.9%	66.9%	4.4%	0.2%	30.4%
Asia/Pacific	13.5%	8.9%	79.4%	2.0%	3.9%	57.3%	9.0%	7.4%	78.5%	8.4%	6.8%	54.4%
Europe	5.2%	3.4%	79.8%	-2.4%	2.3%	49.6%	5.0%	3.6%	78.0%	-0.4%	3.2%	47.4%
Latin America	4.4%	5.1%	77.5%	-6.4%	3.3%	40.3%	6.2%	5.5%	79.9%	-7.8%	0.9%	37.7%
Middle East	9.2%	11.3%	77.4%	10.6%	17.1%	46.0%	8.6%	10.7%	78.3%	13.8%	17.2%	44.2%
North America	2.9%	2.5%	84.1%	0.8%	-3.1%	37.4%	3.0%	3.2%	81.4%	2.9%	-1.5%	36.7%
Total Market	7.4%	5.6%	80.0%	1.6%	3.2%	47.9%	6.1%	5.4%	78.8%	5.3%	4.7%	45.8%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;

All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.

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