

AIRLINES FINANCIAL MONITOR

KEY POINTS

June - July 2014

- Worldwide airline share prices fell 2% in July compared to June, but in line with performance of the broader market;
- Initial Q2 financial results show strong gains for US airlines' performance, but declines in Asia Pacific due to cargo weakness and cost pressures for Chinese carriers from the depreciating Yuan;
- Jet fuel prices eased slightly in July as improving crude oil supply conditions in some regions countered concerns over conflict in the Middle East and Ukraine;
- US passenger yields are up after declines in Q1, but weakness continues in other regions;
- Air travel markets continue to expand and air freight demand recorded a small improvement in June, consistent with a rise in business confidence and stronger world trade activity;
- Expansion in available seats showed a seasonal spike in June, stronger than growth in demand;
- Passenger load factors fell on the back of strong capacity expansion, but air freight load factors improved slightly due to a contraction AFTKs.

Financial indicators

Global airline shares prices fell further in July, but in line with the broader market

Airline Share Prices

US\$ based index (100 = 2007)



- Worldwide airline shares fell 2% in July compared to June, but this is largely in line with a fall in the market, with the FTSE Global All Cap declining 3%. Markets have been negatively impacted by a combination of factors, including political tension in various parts of the world. European airline share prices fell the most (9%) in July compared to June. In addition to overall market weakness, performance of European airlines' share prices reflects weakness in financial performance of some major carriers, which either declined on a year ago or fell short of meeting investor expectations.

Initial Q2 financial results show continued improvement, driven by US carriers

In US \$ Million

# Airlines	Regions	Q2 2013		Q2 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
8	North America	2763	1607	3860	2393
5	Asia-Pacific	254	213	150	107
7	Europe	1312	389	1680	927
2	Latin America	69	40	8	-13
0	Others	0	0	0	0
22	Sample total	4398	2249	5698	3414

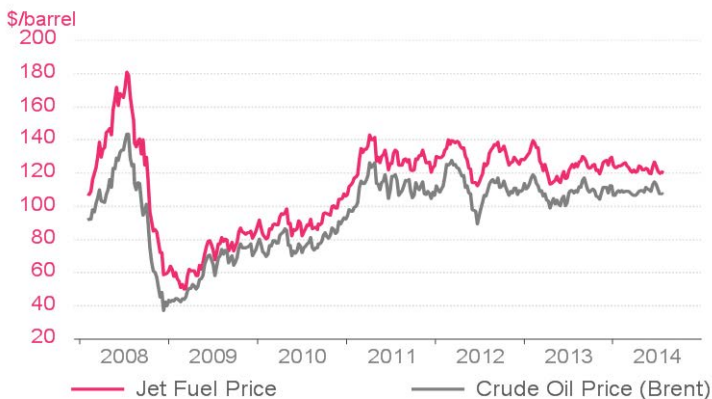
Source: The Airline Analyst, IATA.

- Initial second quarter results indicate that airlines are continuing to improve financial performance. The sample of 22 airlines shows a significant increase in operating profits and net profits, driven by the performance of North American airlines. By contrast, in Asia Pacific, a combination of weakness in cargo revenues as well as rising cost pressures for Chinese carriers due to a depreciating local currency have had negative impacts on regional financial performance.

Fuel costs

Crude oil prices fell 4% in July compared to June, reflecting improved supply conditions

Jet Fuel and Crude Oil Price



- ➔ Jet fuel prices eased slightly in July, falling 4% compared to June. Price levels remain high and close to \$122/bbl, and that is in-line with the average seen so far this year.
- ➔ The decline in jet fuel prices followed a fall in crude oil prices. Supply concerns due to the conflicts in the Middle East and Ukraine have kept upward pressure on prices, but recent buildup of supply in West Africa, Europe and Asia has allowed prices to ease slightly.

Yields

Passenger yields rebound in Q2 in the US, but remain weak in other regions

Average Return Fare Worldwide & US Airlines Yields

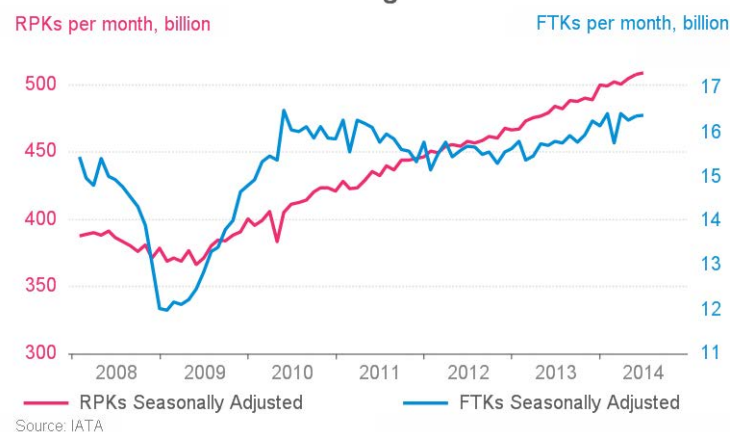


- ➔ The trend in US passenger yields has improved in the second quarter. Yields have recovered after a period of decline earlier in the year, likely as a result of the weather-related economic slowdown during the same period. Underlying demand drivers remain positive and the current trend could continue.
- ➔ By contrast, the weak trend in global fares in US\$ is largely continuing. The trend in global fares reflects weakness in Asia as well as exchange rate distortions. The fare data excludes fuel surcharges and ancillary revenues, which provide some offset to the decline in core fare yields.

Demand

Air transport volumes continue to increase, but at a slightly slower pace in June

Total Air Travel and Air Freight Volumes

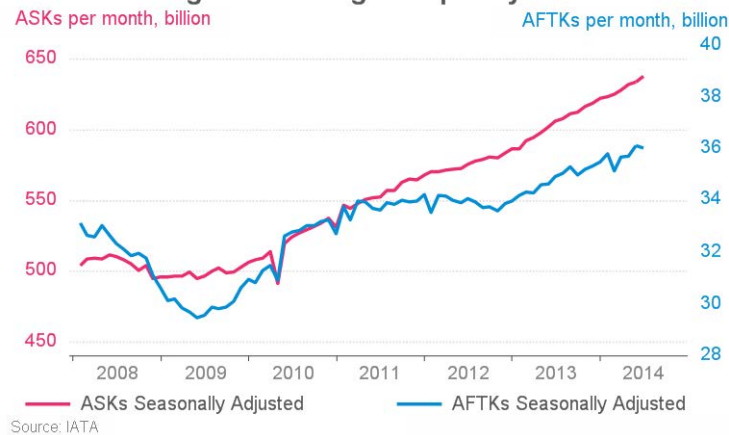


- ➔ Air freight volumes increased slightly in June compared to May. The improvement in demand is consistent with resumption in improvements in key demand drivers. Increases in world trade and business activity flattened in Q1 after solid gains at the end of 2013, but latest data suggest there is a renewal in the upturn.
- ➔ Similarly, air travel volumes have also benefitted from an improving demand environment. The rise in volumes in June compared to May was slightly slower than the previous month, but the outlook is of solid growth ahead.

Capacity

Air freight capacity stabilizes while passenger capacity continues to expand

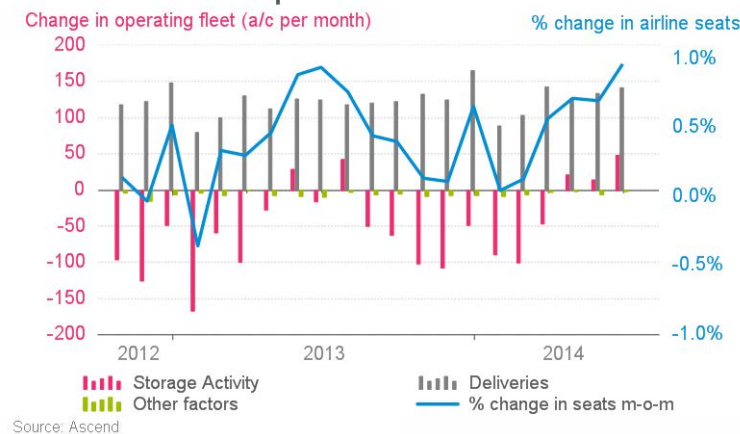
Total Passenger and Freight Capacity



→ The rise in passenger capacity came mostly through a strong increase in ASKs on international markets in June compared to May. Growth in demand was weaker and resulted in a fall in load factors over the month. Air freight capacity stabilized in June with a slight decline compared to May. But the trend over recent months has shown resumption in growth in AFTKs, which is consistent with renewed signs of improvement in the demand environment.

Growth in seats spiked in July, far exceeding expansion in demand

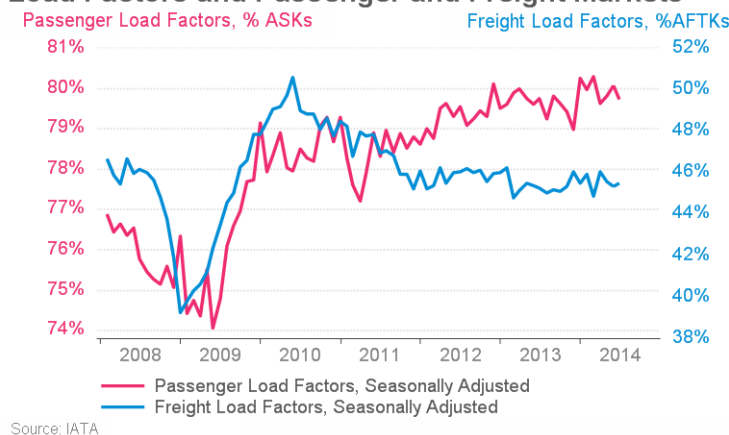
Airline Fleet Development



→ Growth in available seats spiked in June compared to May, after signs of stabilizing in May. The acceleration over the month came from a significant increase in aircraft coming out of storage, combined with new aircraft deliveries. In June, there were 141 new aircraft delivered and a net 45 aircraft coming out of storage. Growth in seats in June was close to an annualized rate of about 12%. Although growth in demand remains solid, it is far weaker than growth in seats. This is unlikely to continue, however, at the spike in growth in seats is seasonal.

Passenger loads slip on strong growth in capacity while freight loads stabilize

Load Factors and Passenger and Freight Markets



→ Passenger load factors decreased in June compared to May, reflecting the strong rise in capacity over the month. Passenger load factors remain strong and close to 80% on a seasonally adjusted basis, but the trend has been broadly flat throughout most of 2014. Even though RPKs have expanded solidly, ASKs have been growing at a similar rate.

→ There was a 0.3% pt increase in air freight load factors in June compared to May, which has at least halted the declining trend seen during the recent past months. The small pick-up in demand in June compared to May was met with a contraction (0.3%) in capacity, which caused loads to increase slightly.

Data tables

Year on Year Comparison	Jun 2014 vs. Jun 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-3.1%	1.4%	68.1%	4.8%	0.3%	31.5%	-0.6%	3.7%	66.8%	3.1%	2.1%	30.2%
Asia/Pacific	4.8%	6.5%	77.4%	4.9%	4.3%	56.6%	6.9%	7.8%	76.9%	4.6%	6.5%	54.5%
Europe	5.9%	5.5%	83.3%	-1.5%	2.1%	45.2%	6.1%	5.7%	79.3%	3.2%	2.4%	47.7%
Latin America	4.5%	3.1%	79.1%	-3.4%	1.6%	39.5%	6.9%	3.5%	79.1%	-0.1%	-1.3%	41.5%
Middle East	10.5%	5.8%	82.3%	7.0%	8.6%	44.0%	13.4%	10.3%	80.2%	10.0%	9.1%	44.7%
North America	2.4%	3.4%	86.1%	-0.1%	-1.0%	33.5%	2.6%	2.1%	83.4%	1.6%	-0.2%	34.8%
Total Market	4.7%	5.0%	81.5%	2.3%	2.6%	44.9%	5.9%	5.6%	79.3%	4.1%	3.6%	45.4%

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.

AIRLINE INDUSTRY FORECAST 2013 - 2017
 Predict demand patterns & minimize investment risk

www.iata.org/forecast



IATA Economics
 7th August 2014