

AIRLINES FINANCIAL MONITOR

KEY POINTS

April-May 2015

- Worldwide airline share prices were up 12% in April on a year ago, despite some recent weakness owing to the strength of the US dollar and small increases in crude oil prices;
- Crude oil prices rose slightly in May, buoyed by slowing inventory growth in the US, but are still low (-40%) compared with highs in 2014;
- Initial Q1 financial results show strong gains in the US and a positive turn-around in Asia Pacific;
- Passenger yields in the US are down 3% year-on-year 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 continue to expand robustly, while trend in FTKs flattens on weakening trade activity;
- Growth in seats accelerated in March due to fall in storage activity, but remains below expansion in volumes;
- Air freight load factors dipped sharply in April but passenger loads continue upward trend;
- Despite lower oil prices, airlines have been increasing capacity at a slower rate than growth in demand.

Financial indicators

Airline shares were up 12% year-on-year, despite downward pressure from US dollar

Airline Share Prices

US\$ based index (100 = 2007)



- Airline share prices fell 4% in May compared to April, but are still up 12% on a year ago. The weakened in airline share prices over recent months is owing to the rally in jet fuel prices as well as 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. US airline share prices fell most in May, down 7% compared to April.

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 |
| 17 | North America | 1622 | 75 | 5243 | 2975 |
| 21 | Asia-Pacific | -472 | -419 | 2154 | 954 |
| 11 | Europe | -1614 | -1949 | -734 | -147 |
| 4 | Latin America | 289 | 75 | 411 | 106 |
| 3 | Others | 883 | 914 | 1285 | 1272 |
| 56 | Sample total | 708 | -1304 | 8359 | 5160 |

Source: The Airline Analyst, IATA.

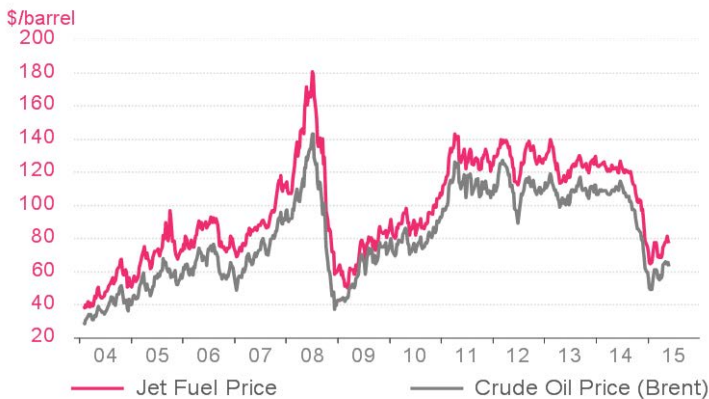
*Includes Emirates, Spring Airlines and Wizz Air annual results

- Airline financial performance is improving strongly, according to initial Q1 financial results. A sample of 56 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 rose slightly in May but remain low compared with 2014

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 small rallies; one currently underway with crude oil prices rising 15% in May compared with the most recent low in March. Importantly though, current prices are 40% lower than highs in 2014.
- 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

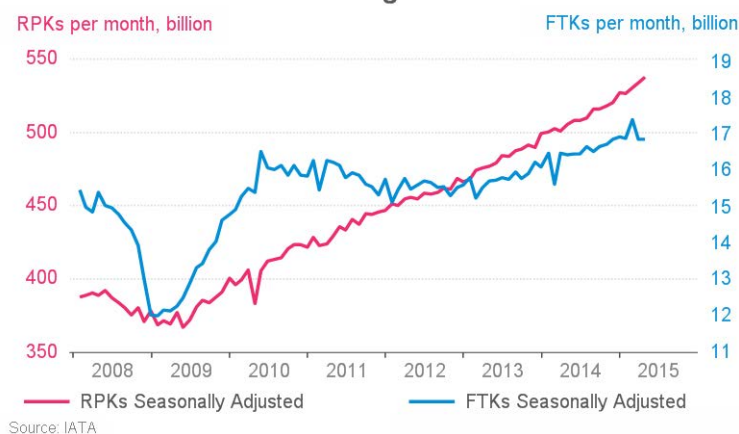


- US passenger yields have been showing gradual decline during recent months. In April, US passenger yields were down 3% compared to a year ago. This recent weakness in yields likely reflects downward pressure from earlier declines in fuel related costs.
- The downward trend in global fares in US\$ has 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 trend in FTKs flattens

Total Air Travel and Air Freight Volumes



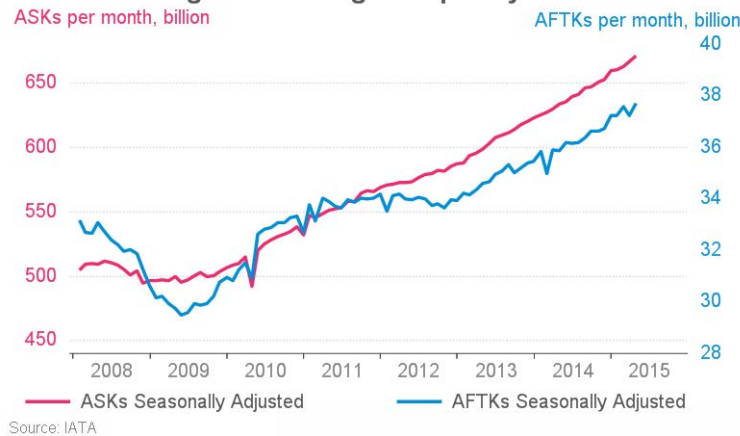
- Air transport volumes continue to expand at a robust rate. The decline in oil prices should help support economic activity and passenger demand in 2015. In addition, recent improvement in business confidence in some advanced economies should help support growth in international travel.
- Air freight volumes were broadly flat in April compared to March, and in fact there has been no acceleration in the growth trend since late 2014. This development is consistent with a trend change in world trade, particularly in emerging Asia, where volumes are down 10% compared to Q4 2014.



Capacity

Capacity increased in April in both businesses, to the detriment of freight loads

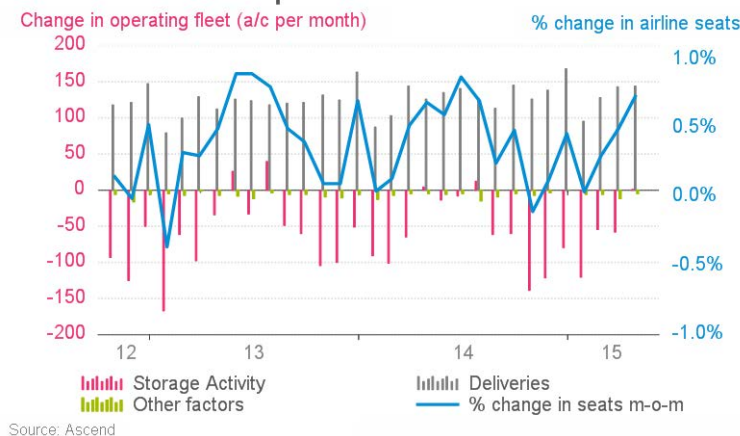
Total Passenger and Freight Capacity



- ➔ There was a robust increase in passenger capacity in April compared to March, this time mostly on international markets (0.8% month-on-month). Asia Pacific drove the expansion in ASKs, while carriers in North America tightened capacity by 0.5%. On domestic markets, India and China also increased capacity, which was consistent with strong demand in April.
- ➔ Air freight capacity also increased in April, but that was in contrast to the broadly flat trend in demand. There was a rise in capacity on both domestic and international markets.

Growth in seats accelerated in April, but still slower than the growth in demand

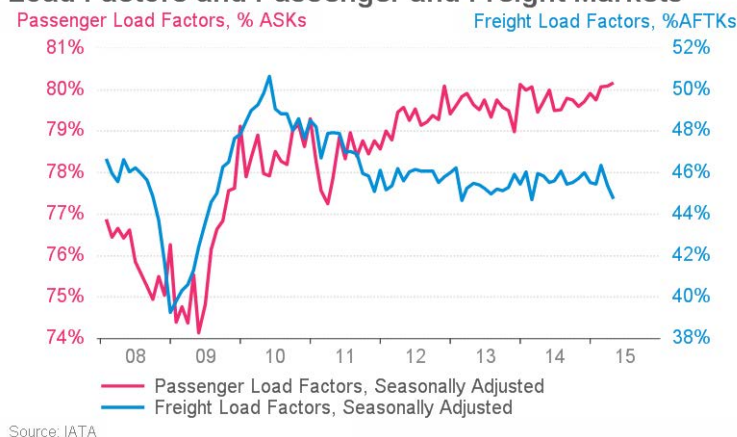
Airline Fleet Development



- ➔ Growth in available seats accelerated in April. New aircraft deliveries remained stable in April compared with May, the acceleration in seats results from a notable fall in net storage activity. In March, there were 169 aircraft doing into storage, while in April that figure fell to 109. Growth in seats accelerated to a 6% annualized rate, but still a slower rate than the growth in demand in April, which should help support aircraft utilization rates.

Air freight load factors dip sharply 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 only a slight increase in April compared to March. Domestic load factors have shown improvement since mid-2014, supported by stronger growth in volumes. International load factors are now also starting to rise, after being in a slightly declining trend during the second half of 2014.
- ➔ Cargo load factors dipped sharply in April compared to March. The growth in air freight demand over recent months has started to flatten, but in April, for example, there was a strong increase in capacity. Air freight load factors are the lowest they have been for 12 months, on a seasonally adjusted basis.

Data tables

| Year on Year Comparison | Apr 2015 vs. Apr 2014 | | | | | | YTD 2015 vs. YTD 2014 | | | | | |
|-------------------------|-----------------------|-------------|--------------|-------------|-------------|--------------|-----------------------|-------------|--------------|-------------|-------------|--------------|
| | RPK | ASK | PLF | FTK | AFTK | FLF | RPK | ASK | PLF | FTK | AFTK | FLF |
| Africa | -2.5% | -4.3% | 68.4% | -0.2% | -2.2% | 30.9% | -1.3% | -1.6% | 67.2% | 3.4% | -1.1% | 30.8% |
| Asia/Pacific | 10.8% | 7.6% | 78.4% | 4.5% | 7.0% | 53.2% | 9.5% | 7.6% | 78.4% | 7.3% | 7.1% | 53.9% |
| Europe | 3.5% | 5.0% | 79.6% | -0.3% | 5.0% | 45.4% | 4.6% | 4.0% | 78.4% | -0.7% | 3.6% | 46.7% |
| Latin America | 5.3% | 5.2% | 78.6% | -6.8% | 7.0% | 38.9% | 6.0% | 5.5% | 79.6% | -7.6% | 2.4% | 38.0% |
| Middle East | 7.7% | 12.6% | 77.5% | 14.1% | 18.5% | 42.8% | 10.9% | 13.4% | 78.1% | 12.3% | 18.7% | 42.8% |
| North America | 3.0% | 4.2% | 82.7% | 0.1% | -1.6% | 35.9% | 3.0% | 3.4% | 81.8% | 1.4% | -2.3% | 36.5% |
| Total Market | 5.9% | 6.1% | 79.4% | 3.3% | 5.5% | 44.7% | 6.3% | 5.8% | 79.0% | 4.3% | 4.9% | 45.3% |

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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 5th June 2015