

AIRLINES FINANCIAL MONITOR

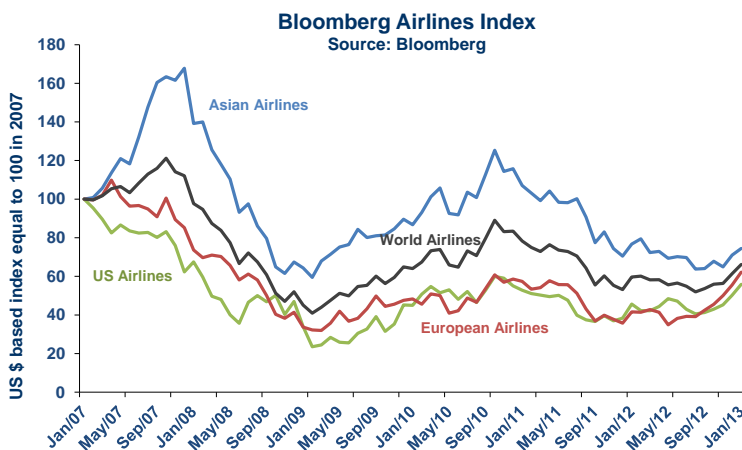
KEY POINTS

December-January 2013

- Airline share prices continue to outperform as financial markets upgrade their outlook on airline profits;
- Early Q4 profit results show a pause in the recent improvement, with US results below year ago levels, but the majority of indicators moved in a positive direction in Q4;
- In the new year, jet fuel prices rose back above \$130/bbl, after OPEC cut crude oil production in December;
- Passenger and freight markets finished 2012 strongly, supported by a further increase in business confidence;
- Airlines kept capacity growth below the increase in demand, despite an acceleration in the growth of the in-service fleet;
- As a result, freight load factors improved in December and passenger loads moved up to record levels;
- Passenger yields have leveled out but remain up on last year after adjusting for exchange rate effects.

Financial indicators

Airline share prices outperform as market optimism on airline profits increases



- Financial markets continue to improve their outlook for the airline industry, with the Bloomberg Airlines Index up 7% in January compared to December, outperforming the 5% rise in the FTSE Global All Cap Index. Improved efficiency measures and restructuring efforts helped airlines achieve better than expected financial performance in the second half of 2012. As a result, markets continue to upgrade their valuation of airline shares, particularly in Europe and North America, where prices rose 10% in January compared to December.

Initial Q4 profits data show a pause in the improvement of airline profits

In US \$ Million

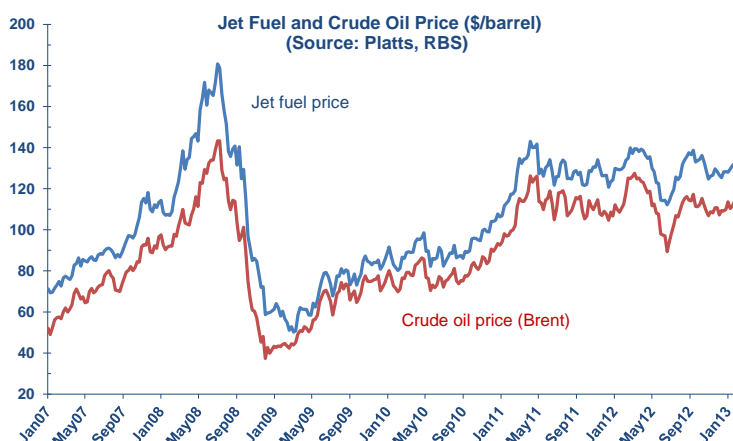
# Airlines	Region	Q4 2011		Q4 2012	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
9	North America	1453	367	845	-181
4	Asia-Pacific	549	134	468	198
2	Europe	25	2	32	19
0	Latin America	0	0	0	0
0	Others	0	0	0	0
15	Sample total	2027	503	1345	36

- Initial Q4 2012 financial results show positive airline industry profits, but a decline on the year ago period. The sample of 15 airlines shows the improvement in the US stalling across most airlines in the region, and little further improvement in Asia-Pacific. Despite these results most indicators of profitability, described below, were moving in a positive direction in Q4.

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Fuel costs

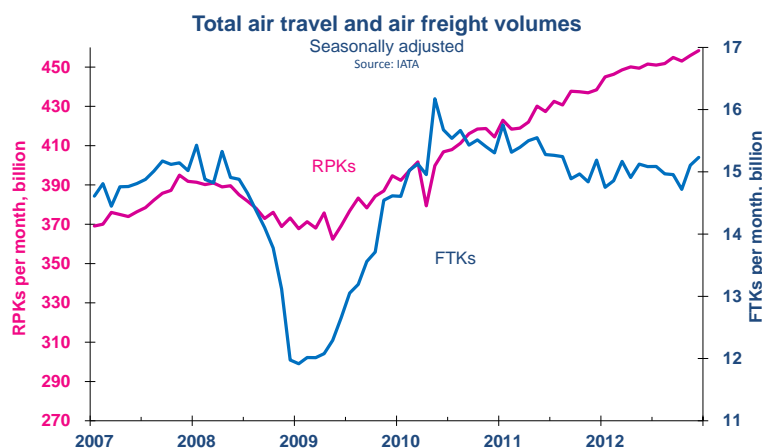
Jet fuel prices rise back above \$130/bbl in January



- Upward pressure on jet fuel prices eased at the end of 2012 but has once again started to rise. Compared to the recent low in November, jet fuel prices have risen 5% in January, edging toward the higher-end of the price range seen over the past 2 years.
- Increasing oil supplies from non-OPEC nations helped stabilize prices at the end of 2012. But this has been countered by Saudi Arabia's cut in crude oil production in December, leading to rising oil prices in January.

Demand

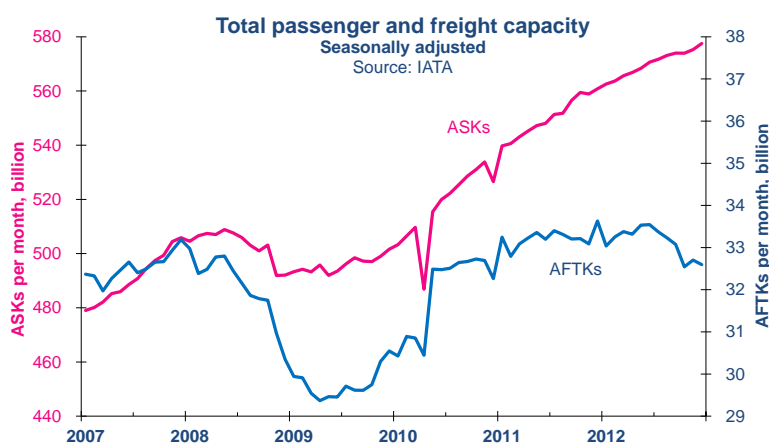
Air freight markets rebound as passenger volumes continue to increase steadily



- Global air travel markets started to improve at the end of 2012, helped by business confidence continuing to increase throughout Q4. Although downward pressure on demand from the Eurozone crisis saw a slowdown in the high growth rates seen at the start of 2012, air travel expanded by 5.3%, only slightly down on 2011 growth of 5.9%.
- Air freight markets contracted 1.5% overall in 2012, but a more supportive business environment and stronger US consumer confidence at the end of 2012 has helped volumes recover to mid-2011 levels.

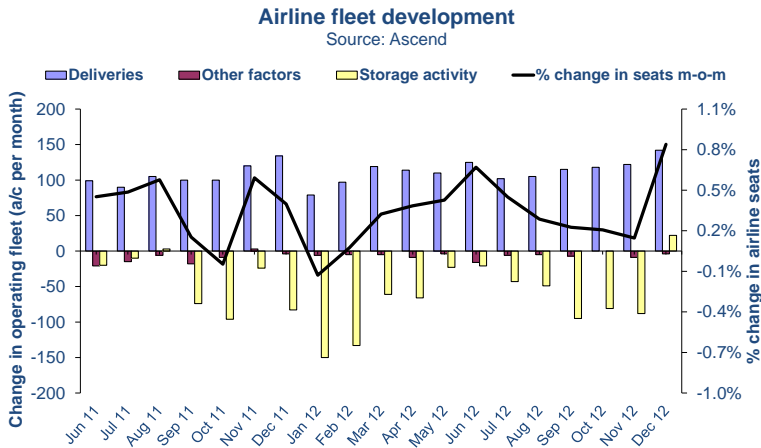
Capacity

Passenger and freight capacity growth kept slower than expansion in demand



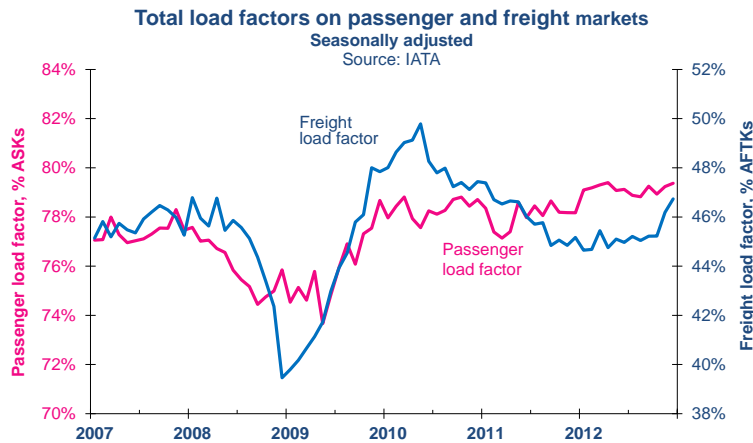
- Passenger capacity increased again in December. But airlines are still keeping the expansion at a slightly slower rate than the increase in demand. And this is being done despite the number of new aircraft deliveries remaining strong.
- Air freight capacity contracted slightly in December compared to November, despite airlines seeing further growth in air freight volumes over the month. This continues the declining trend in air freight capacity started in mid-2012.

Growth in seats spikes as aircraft come out of storage



- Growth in seats increased significantly in December with 142 new aircraft being delivered and a net 22 aircraft coming out of storage. This has brought the rate of new seats added to the fleet to a 10% annualized growth rate, a significant increase on previous months when the same measure was in the range of 2-4%.
- Growth in new seats added to the fleet is now above the highs seen in mid-2012, and also above the current expansion in ASKs. A continuation in the trend could see asset utilization rates come under downward pressure.

Air freight load factors rebound as passenger loads reach record-high levels



- Airline capacity management continues to provide support to passenger load factors, which increased again in December over the prior month. In fact, throughout 2012, load factors have been kept near record-high levels.
- In December, air freight load factors rose further as demand increased and capacity contracted. In line with the rebound in air freight volumes, load factors have also risen back to mid-2011 levels.

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Yields

Passenger yields have stabilized but remain up on a year ago in local currency terms



- Passenger yields appear to have stabilized. In the US yields have been trending sideways since the second quarter of 2012, after experiencing an increase for more than 2 years.
- Globally, average passenger fares have diverged from US yields since early 2011, but this has been a result of the translation effect of the strengthening US dollar. In local currency terms, global passenger yields have been increasing and are above year ago levels.

Data tables

Year on Year Comparison	Dec 2012 vs. Dec 2011						2012 vs. 2011					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	6.3%	3.7%	69.0%	10.9%	5.5%	25.4%	7.2%	6.5%	67.7%	7.1%	9.2%	24.7%
Asia/Pacific	6.3%	4.6%	76.6%	-3.8%	-2.9%	58.4%	6.0%	5.2%	77.5%	-5.5%	-2.4%	56.1%
Europe	1.6%	-0.2%	77.4%	-1.8%	-7.7%	52.6%	5.1%	2.9%	79.6%	-2.9%	0.3%	47.2%
Latin America	7.7%	4.4%	76.2%	3.0%	4.4%	38.6%	9.5%	7.5%	76.1%	-1.2%	4.9%	38.3%
Middle East	12.6%	11.8%	77.3%	15.7%	10.7%	45.8%	15.2%	12.4%	77.5%	14.7%	11.4%	44.8%
North America	1.0%	0.2%	81.5%	-0.7%	-2.8%	35.6%	1.1%	0.1%	82.9%	-0.5%	-2.0%	35.0%
Total Market	4.2%	2.7%	77.9%	-0.3%	-1.9%	47.0%	5.3%	3.9%	79.1%	-1.5%	0.2%	45.2%

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.

IATA Economics
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