

AIRLINES FINANCIAL MONITOR

KEY POINTS

May - June 2014

- Worldwide airline share prices fell 2% in June compared to May as a result of the recent rise in jet fuel prices;
- Jet fuel prices rose in June amid rising concerns over crude oil supply disruptions due to conflict in Iraq;
- Q1 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;
- US passenger yields are up after declines in Q1, but weakness continues in other regions;
- Air travel markets continue to expand strongly and air freight demand recorded a small improvement in May, consistent with a rise in world trade volumes and business confidence;
- Expansion in available seats stabilized in May and is now broadly in line with growth in demand;
- Passenger loads have rebounded on the back of stronger demand, but air freight load factors weakened further due to accelerating expansion in capacity.

Financial indicators

Global airline shares prices dropped slightly in June, underperforming the broader market

Airline Share Prices

US\$ based index (100 = 2007)



- Worldwide airline shares fell 2% in June compared to May, underperforming the broader market with the FTSE Global All Cap rising 3% over the same period. The fall in global airline shares is consistent with the recent increase in jet fuel prices. European airlines share prices were also hit by weakness in latest quarter financial results, resulting in a fall of almost 9% in June compared to May. Share prices of airlines in the US and Asia Pacific were more resilient, remaining broadly stable over the month.

Initial Q1 financial results positive for US carriers but weak in Asia Pacific

In US \$ Million

# Airlines	Regions	Q1 2013		Q1 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
32	North America	781	-505	1850	166
22	Asia-Pacific	427	152	-524	-412
15	Europe	-1806	-2725	-1911	-2222
5	Latin America	316	104	329	19
5	Others	441	395	831	834
79	Sample total	159	-2579	575	-1615

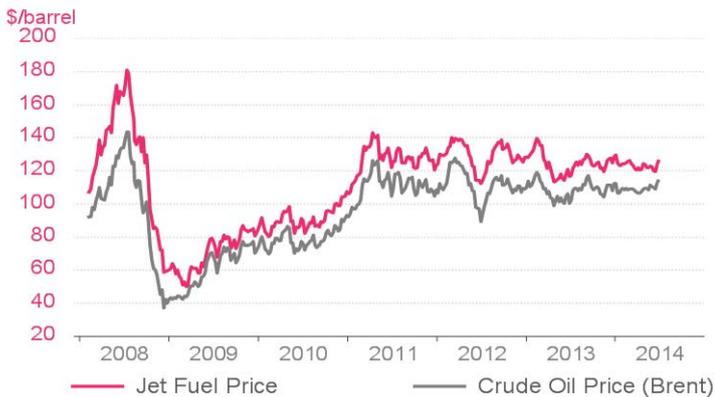
Source: The Airline Analyst, IATA.

- First quarter financial results indicate that airlines are continuing to improve financial performance, particularly at the operating level. The sample of 79 airlines shows a significant increase in operating 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

Jet fuel prices increased 4% in June, spurred by crude oil supply concerns

Jet Fuel and Crude Oil Price



- Jet fuel prices rose in June, breaking \$125/bbl after 3 months of trading in a tight band slightly below that level. Over recent months, prices have remained high due to a variety of opposing factors. Although China, the world's largest consumer of energy, has been experiencing slower growth, rising tensions in Ukraine and the potential for crude oil supply disruptions in Russia have kept prices from easing.
- During the month of June there was a 4% rise in prices. This increase is a result of disruptions in the crude oil market, with conflict in Iraq raising fears of disruption in supply.

Yields

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

Average Return Fare Worldwide & US Airlines Yields

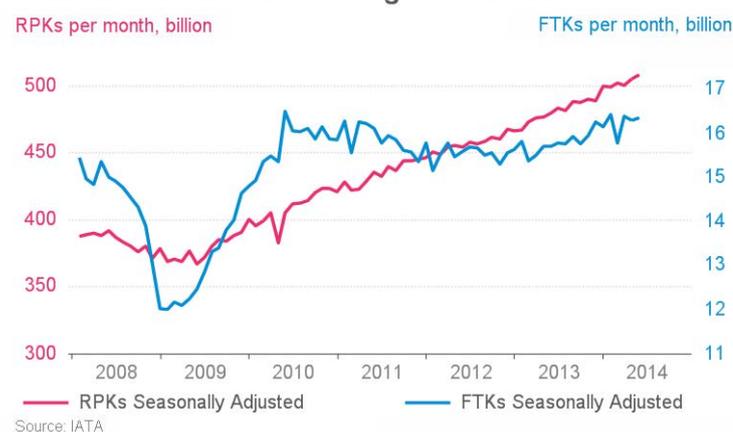


- The trend in US passenger yields has improved in the second quarter. Yields have recovered after a period of decline earlier in the year, likely as a result of the weather-related economic slowdown during the same period. Underlying demand drivers remain positive and the current trend could continue.
- By contrast, the weak trend in global fares in US\$ appears to be 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 freight markets pick-up slightly as air travel demand sustains accelerated trend

Total Air Travel and Air Freight Volumes



- Air freight volumes increased slightly in May compared to April. The improvement in demand is consistent with a pick-up in world trade volumes as well as small rise in business confidence after a broadly flat trend in prior months.
- Air travel markets have also benefitted from what appears to be a resumption of improvement in demand drivers. There was a solid 0.5% increase in air travel volumes in May compared to April, which equates to a 6% rate of growth – stronger than overall 2013 growth (5.2%).

Capacity

AFTKs increase strongly on improving demand while ASK growth broadly stable

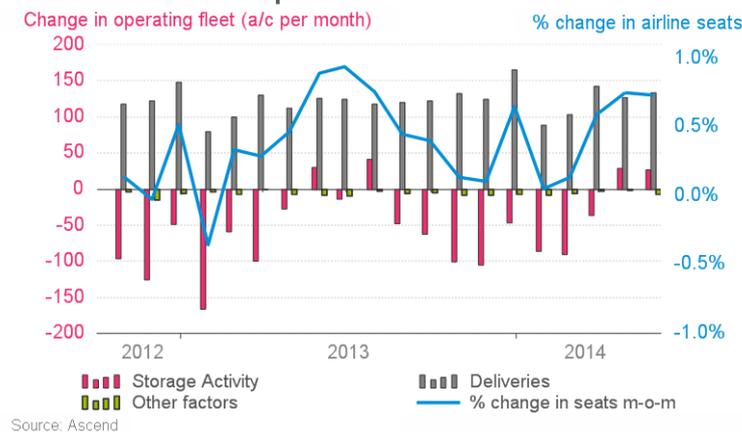
Total Passenger and Freight Capacity



→ The rise in passenger capacity came largely through international markets in May compared to April. Growth in demand, however, was stronger and supported an increase in load factors over the month. Air freight capacity appears to have broken a side-ways trend seen throughout 2014. This is consistent with renewed signs of improvement in the demand environment. But unlike passenger markets, growth in demand for air freight remains weaker than the expansion in capacity.

Growth in seats stabilized in June but the rate of increase remains solid

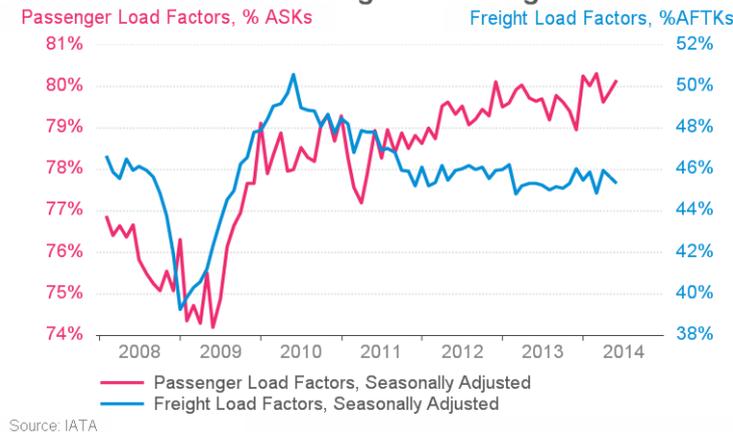
Airline Fleet Development



→ Growth in available seats stabilized in May compared to April, but the rate of increase is still strong. The acceleration over the month came from a significant increase in aircraft coming out of storage, combined with new aircraft deliveries. In May, there were 134 new aircraft delivered and a net 27 aircraft coming out of storage. Growth in seats in May was close to an annualized rate of about 6%. The pick-up in passenger demand in April closely matched the strong growth in seats, which should help ease any downward pressure on aircraft utilization rates.

Passenger loads pick-up on demand rise, but freight loads show signs of weakness

Load Factors and Passenger and Freight Markets



→ Passenger load factors increased in May compared to April, reflecting the rise in demand over the month. Despite some weakness in prior months, passenger load factors remained at high levels, close to 80% on a seasonally adjusted basis.

→ There was a 0.3% pt decline in air freight load factors in May compared to April, which has partly eroded prior improvements that were supported by stronger demand. Although there was a pick-up in demand in May compared to April, there was a much stronger (1.1%) expansion in capacity, which caused loads to fall.

Data tables

Year on Year Comparison	May 2014 vs. May 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-0.1%	3.3%	65.2%	7.2%	7.2%	29.9%	0.0%	4.0%	66.6%	2.9%	3.4%	29.7%
Asia/Pacific	7.1%	7.2%	75.3%	5.3%	6.0%	55.5%	7.2%	7.8%	76.8%	4.5%	7.0%	54.1%
Europe	6.4%	5.5%	79.6%	3.4%	4.0%	46.3%	6.2%	5.8%	78.4%	4.1%	2.4%	48.2%
Latin America	7.8%	4.0%	78.8%	4.9%	4.5%	42.1%	7.4%	3.5%	79.1%	0.5%	-1.9%	41.9%
Middle East	12.7%	6.6%	78.3%	9.3%	10.6%	43.0%	14.0%	11.3%	79.8%	10.6%	9.2%	44.8%
North America	3.2%	2.6%	84.7%	2.4%	-0.2%	34.8%	2.6%	1.8%	82.7%	1.8%	-0.2%	35.1%
Total Market	6.2%	5.2%	79.0%	4.7%	4.3%	45.1%	6.2%	5.8%	78.8%	4.4%	3.8%	45.5%

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
 9th July 2014