



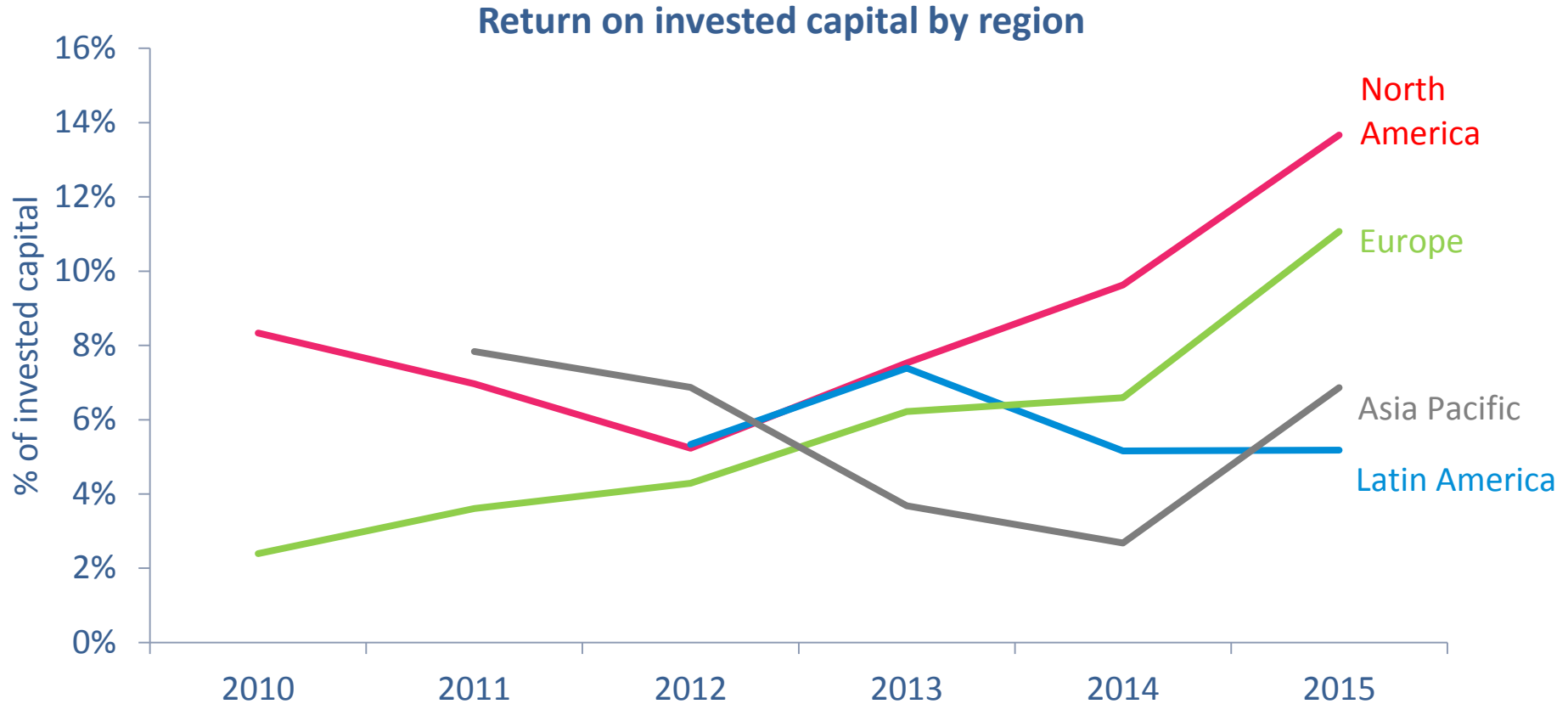
Strong financial performance today...but will it last?

April 2016

Brian Pearce
Chief Economist
International Air Transport Association

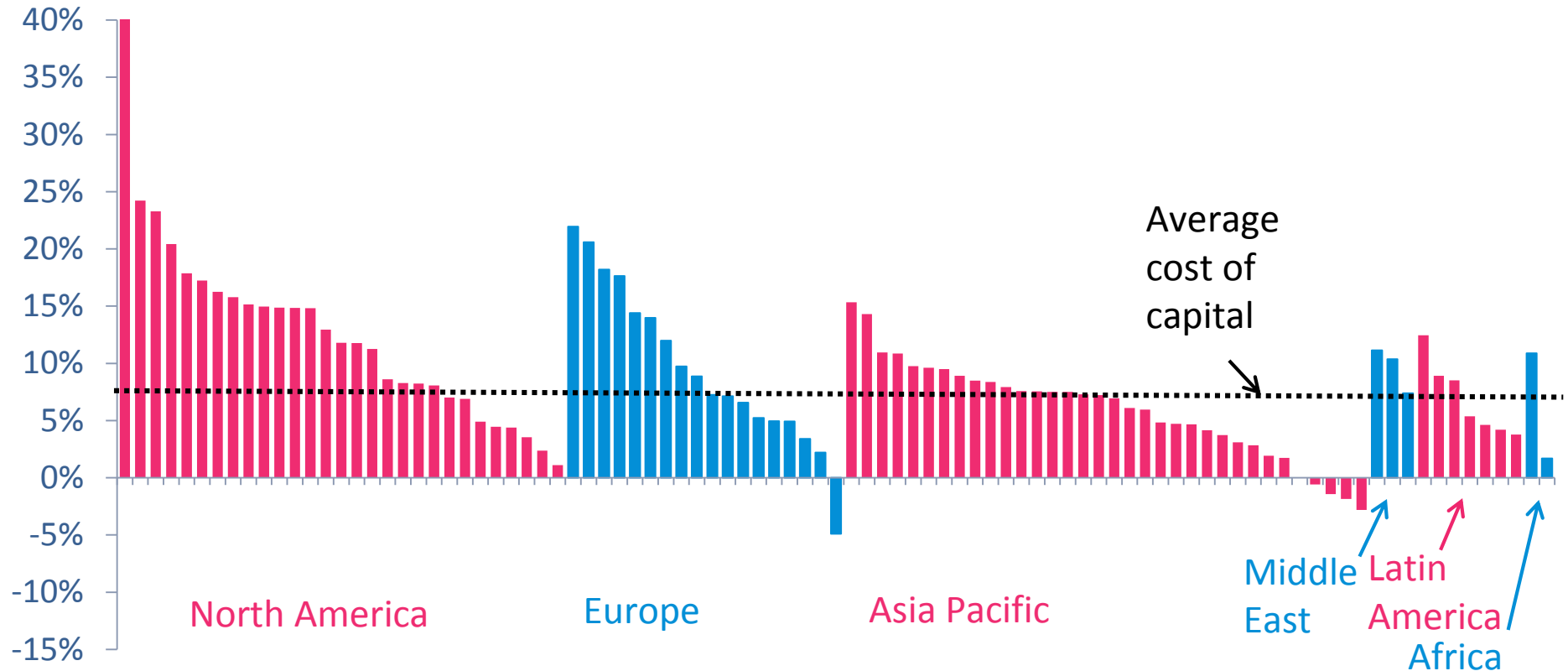


Return on capital now rising in most regions



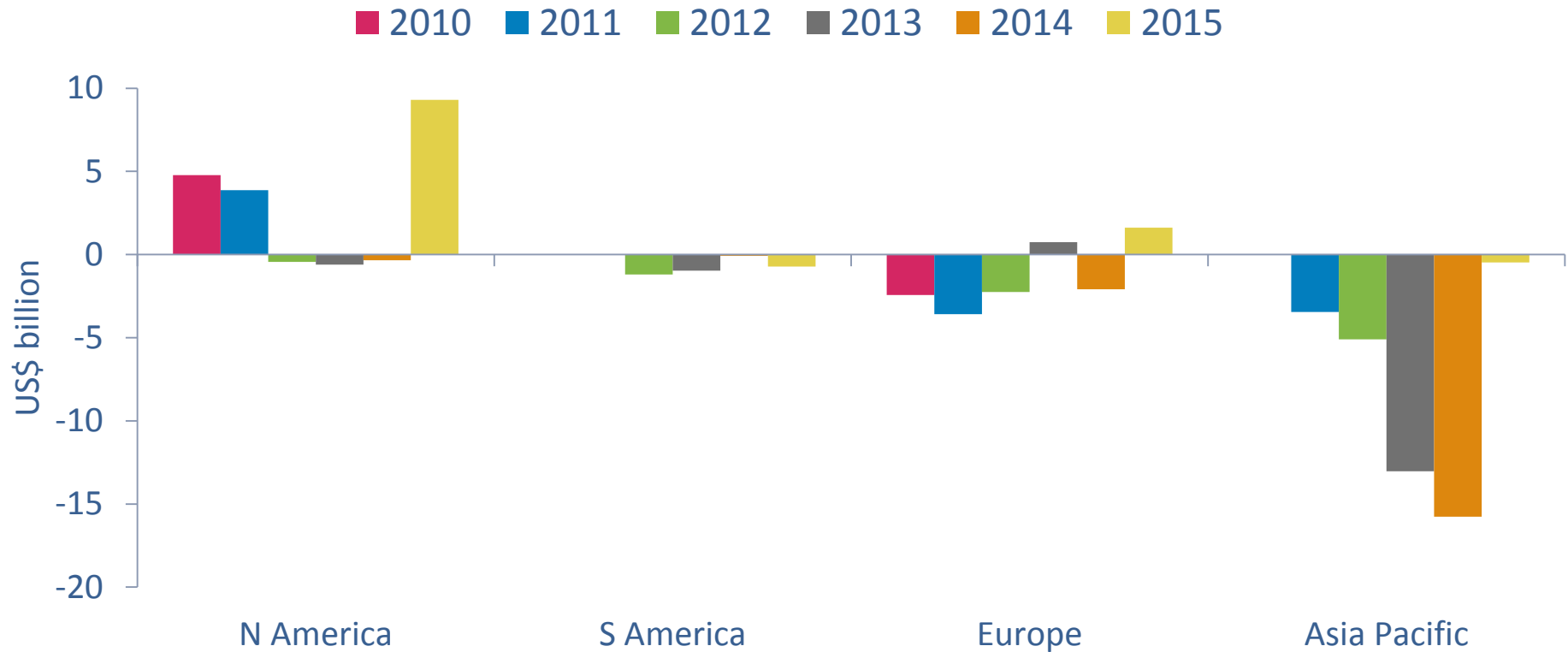
Many airlines now generating above WACC returns

ROIC in 2015 by region and airline



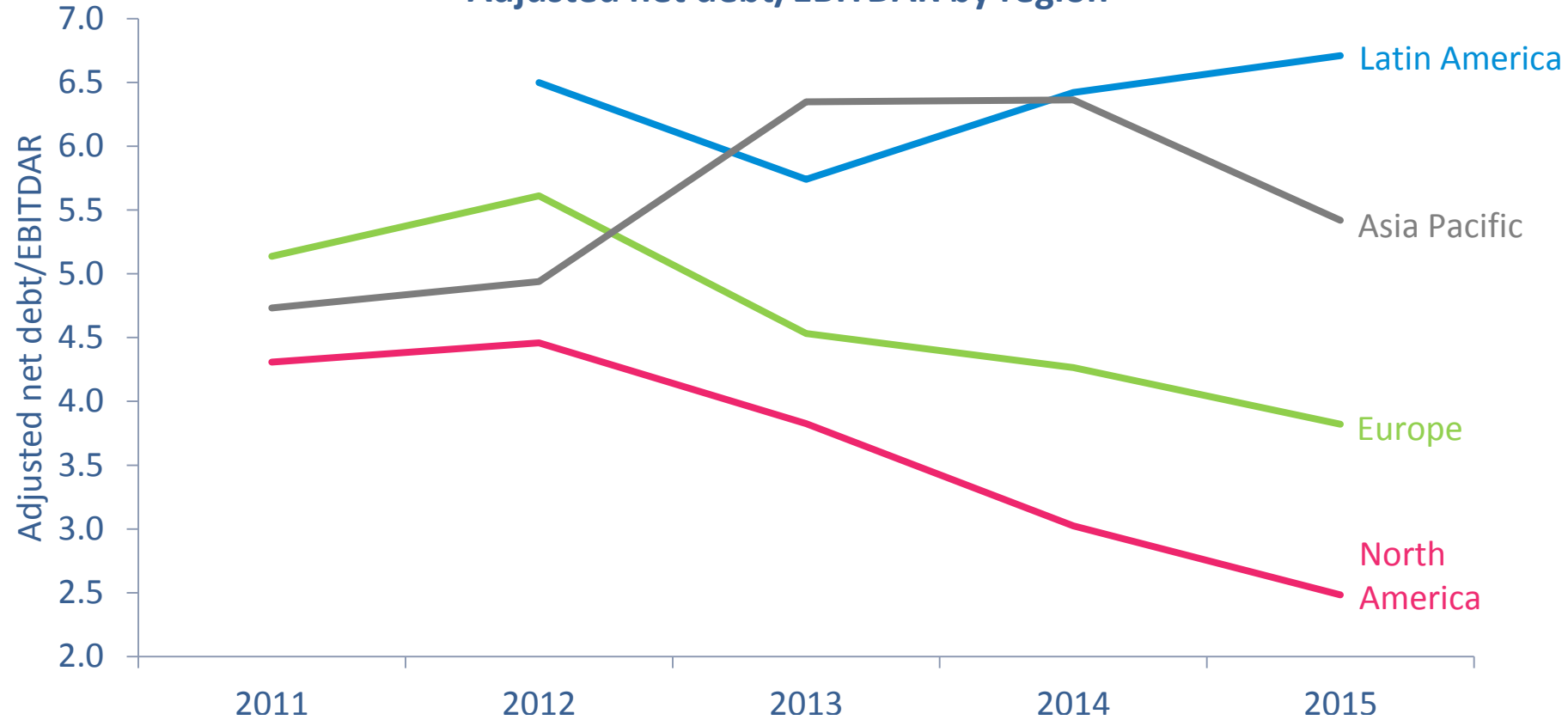
N American airlines generating large free cash flow

Free cash flow by region

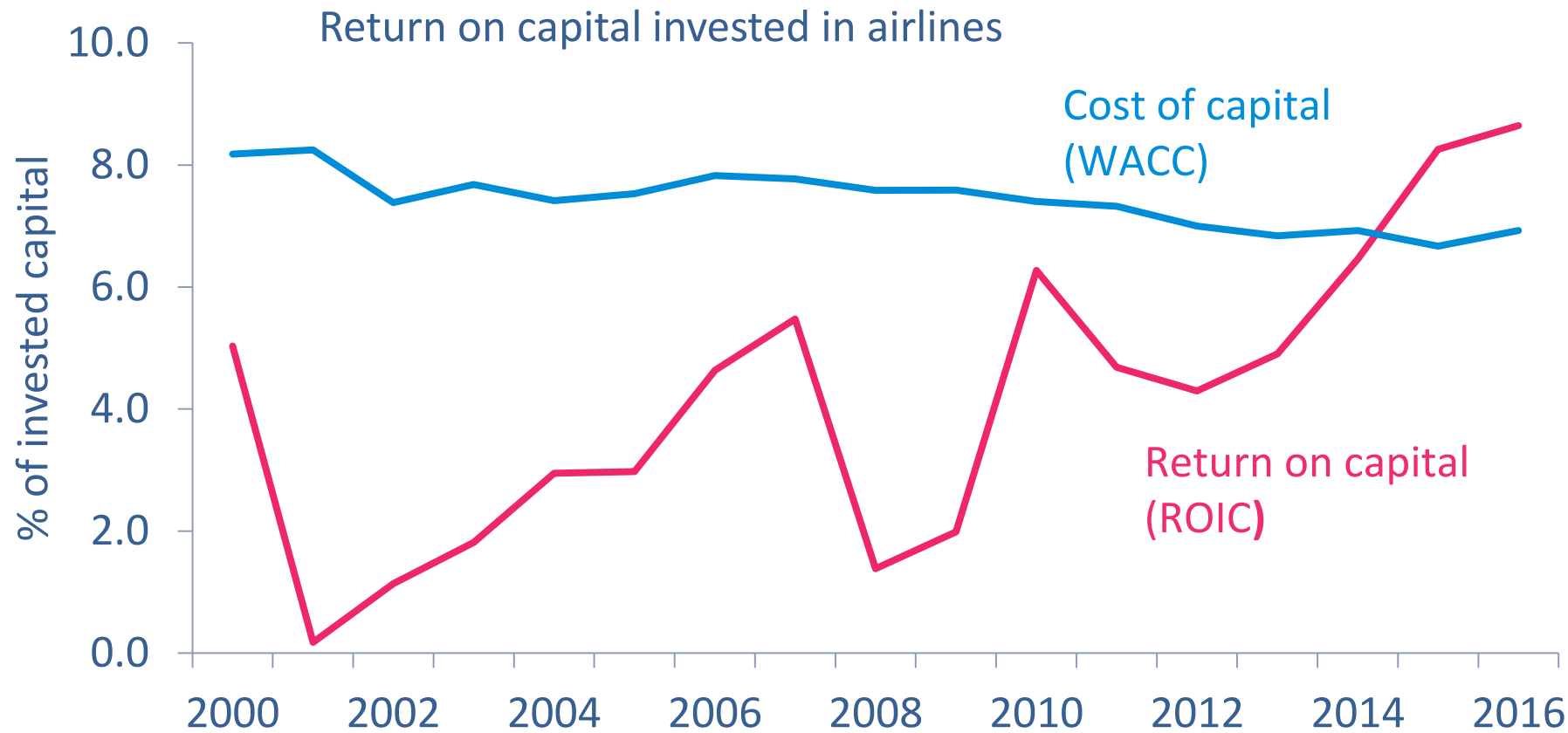


Balance sheets improved except in L America

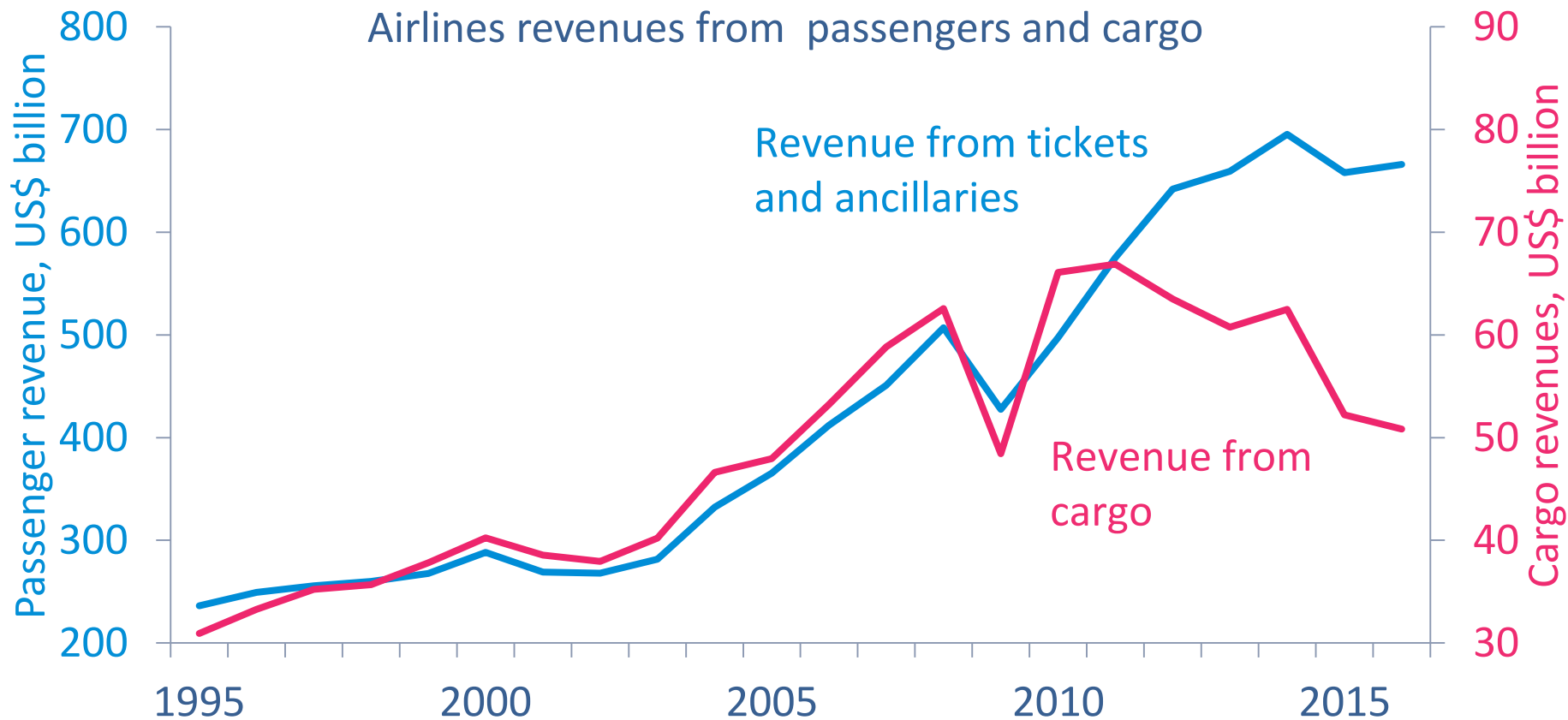
Adjusted net debt/EBITDAR by region



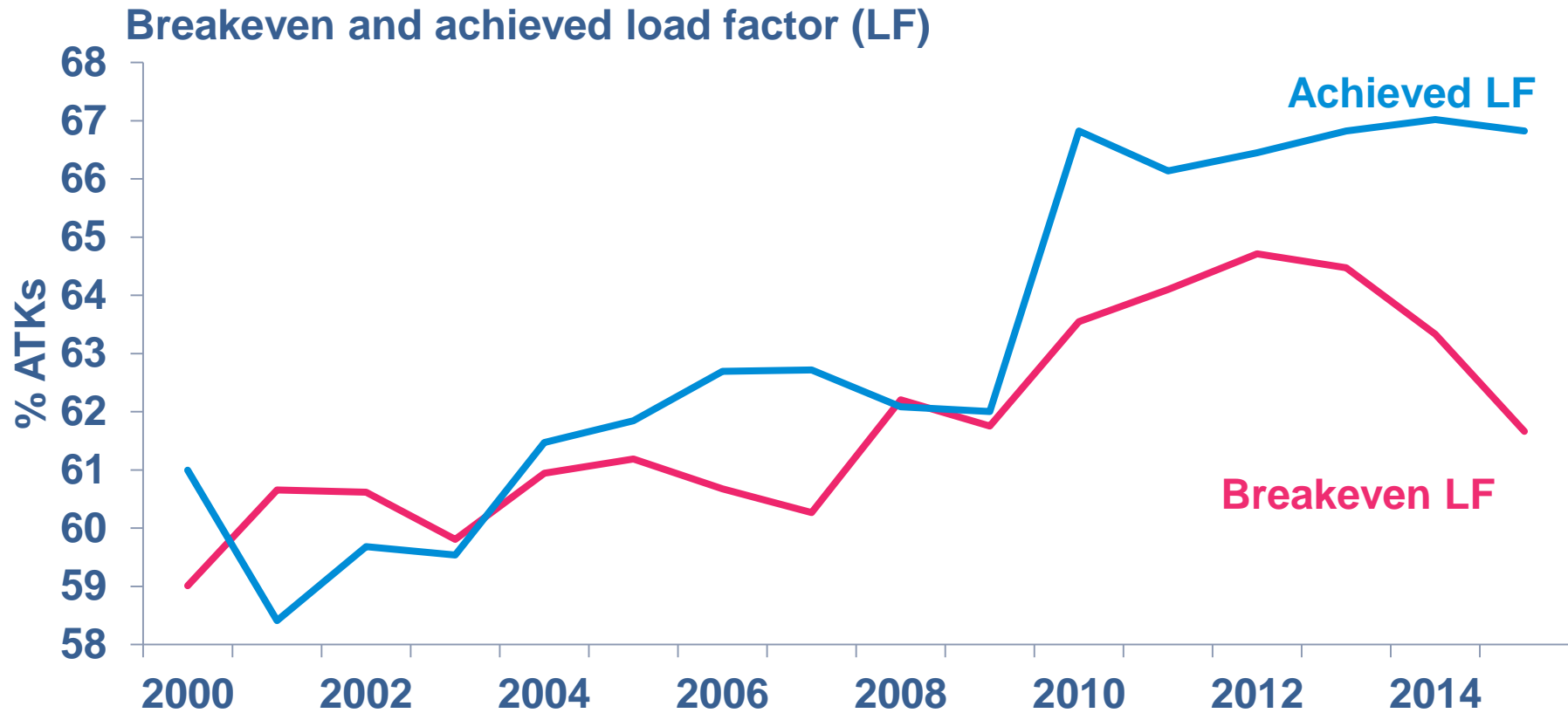
We forecast a 2nd year of above WACC returns



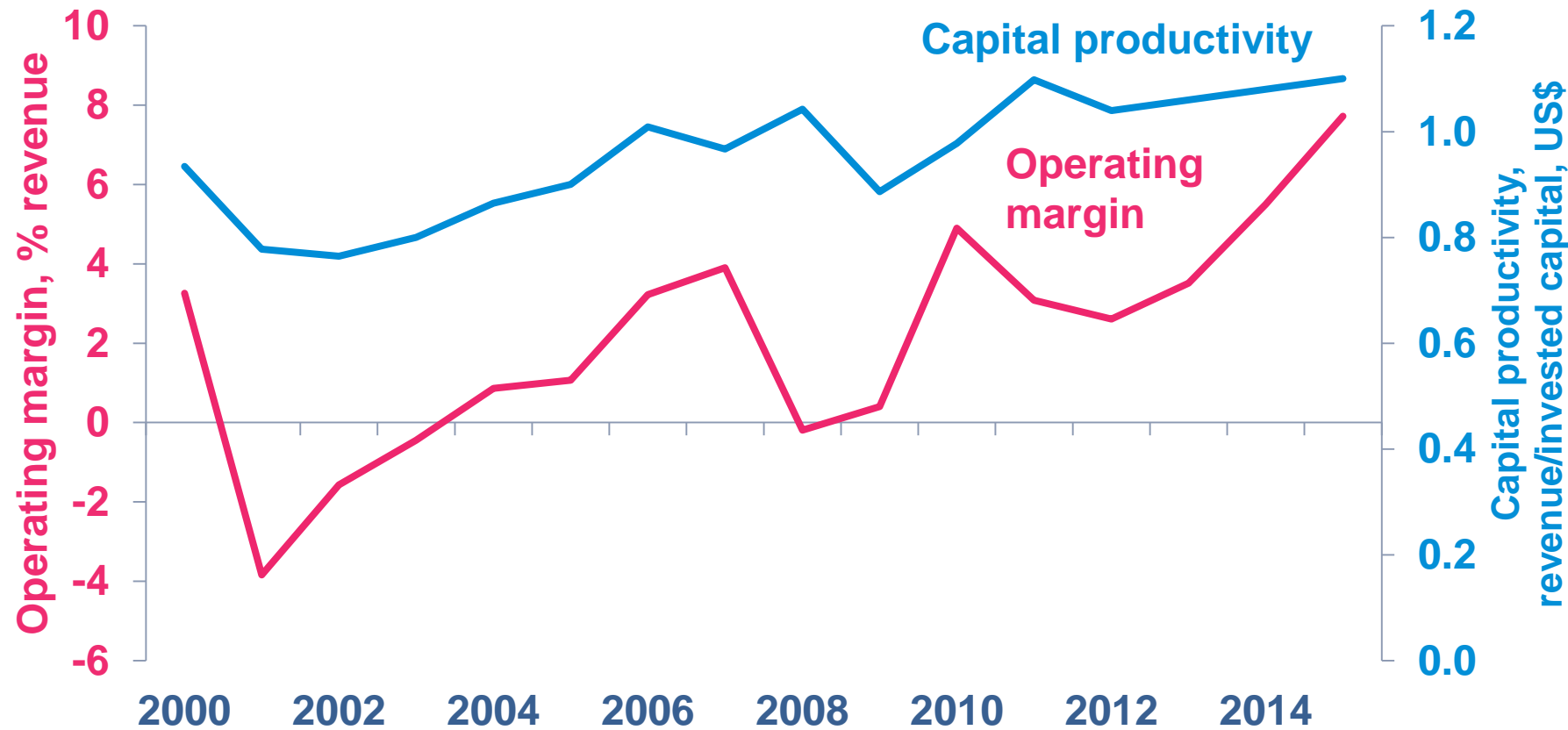
Travel remains strong this year, but cargo is weak



Airlines are now better utilizing their assets

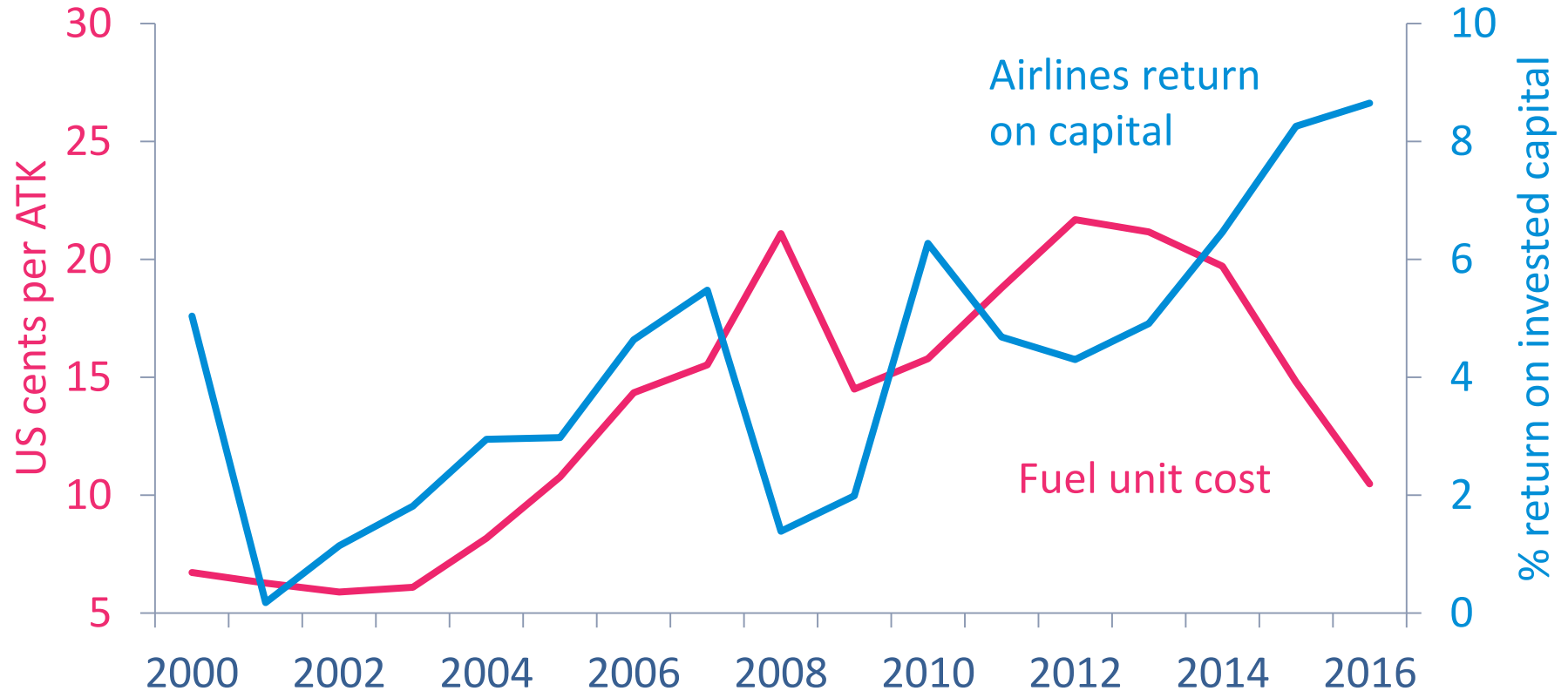


Airlines are improving the productivity of capital



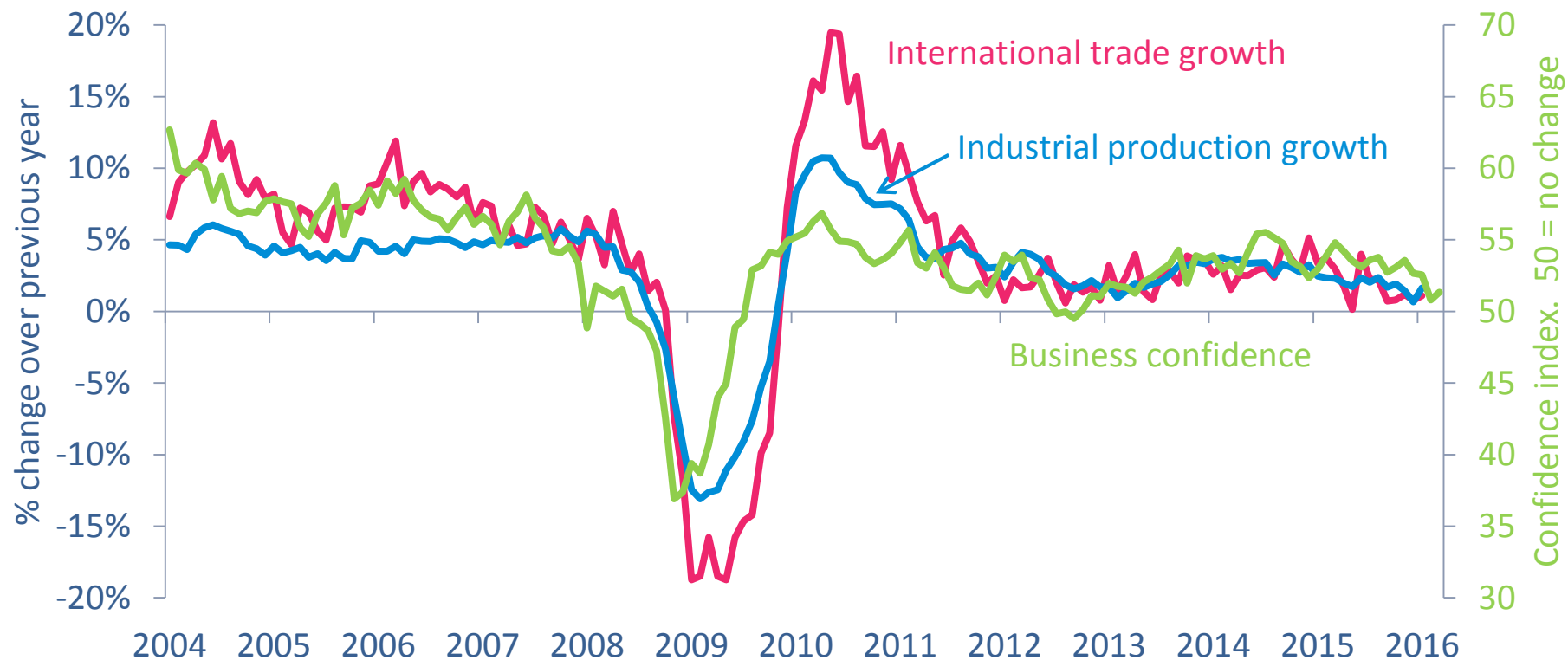
But the role of low fuel prices is not clear-cut

Fuel unit costs and airline return on capital



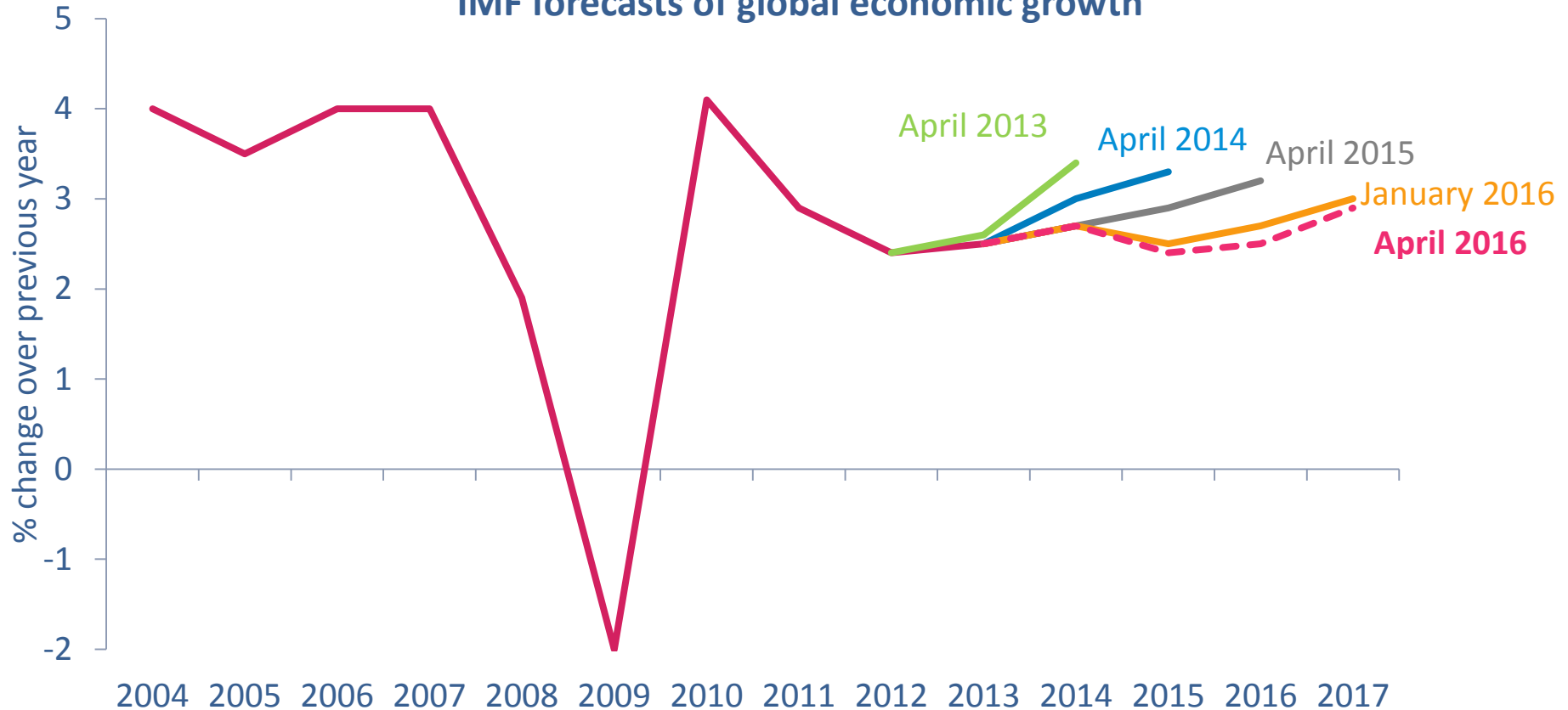
While the already weak economic cycle is slowing

Global economic cycle indicators

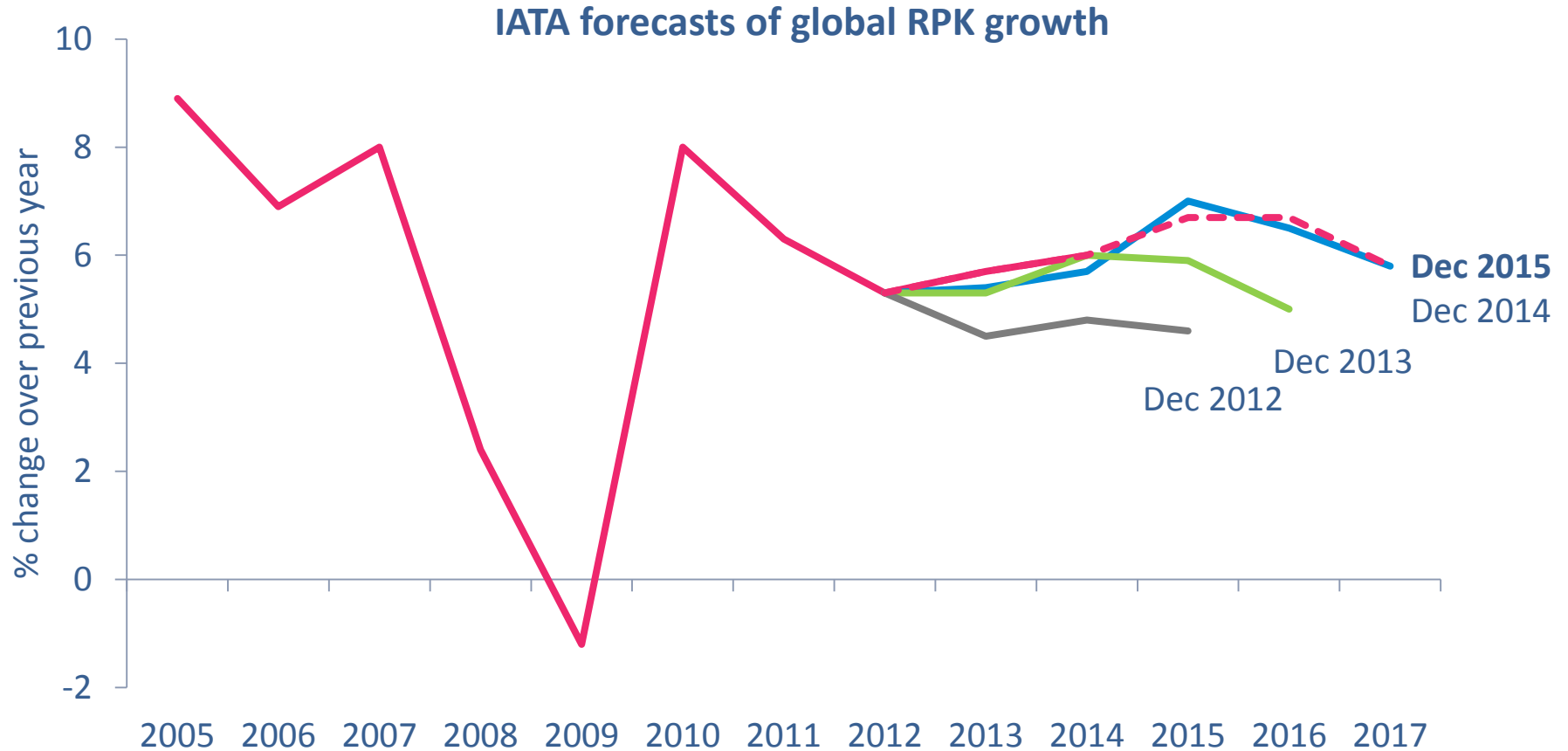


World is stuck in a low economic growth path

IMF forecasts of global economic growth

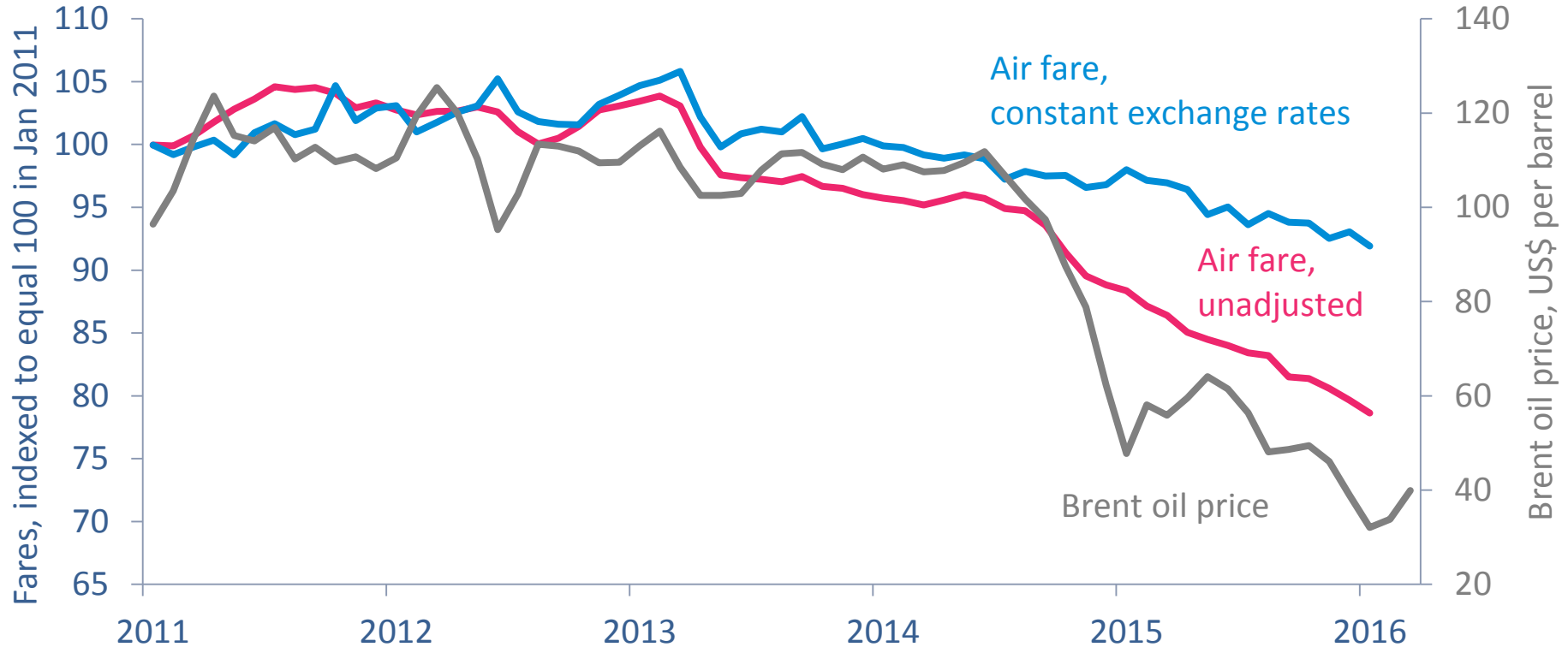


Yet air travel growth is defying economic gravity



Boosted temporarily by the fall in fuel prices

Worldwide average air fare and oil prices



This is an opportunity to create resilience

- Investors need to be paid to risk their capital
- Balance sheets take longer to repair than P&L
- Improvement due to more than low fuel prices
- Structural gains in asset utilization and capital productivity
- Better asset utilization dependent on network cooperation
- Better capital productivity dependent on ancillaries development
- But boost to traffic and profits from low fuel prices one-off
- Economic outlook weak and fragile
- Financial market volatility to continue
- FCF opportunity to create more resilient business models and finances