

AIRLINES FINANCIAL MONITOR

KEY POINTS

July-August 2015

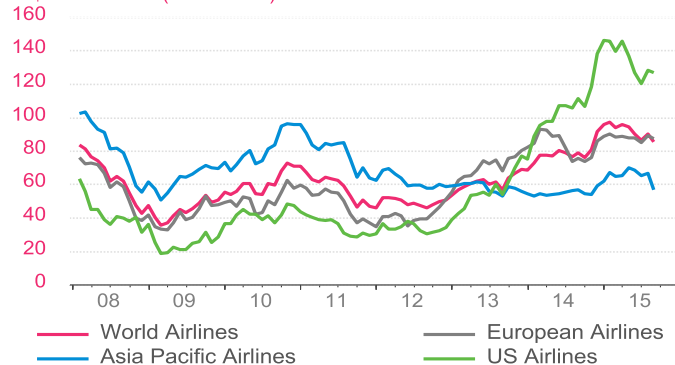
- ➔ Airline share prices fell 5% in August compared to July, dragged down by the fall in the broader market, which was down 6% over the month;
- ➔ The financial performance of the airline industry has been mostly solid up to the middle of the year though, with Q2 results showing large profit improvements in the US and Asia Pacific, but down in Latin America;
- ➔ Crude oil prices fell further in August, pushed down by expectations of supply increases from Iran and the US as well as a softer demand outlook – levels are down 58% on 2014 highs;
- ➔ Passenger yields in the US continue to fall and although the US\$ appreciation has exaggerated declines in global fares, currency adjusted levels are also down, 6% on a year ago;
- ➔ Weakness in yields and fares reflects downward pressure from declines in fuel costs and stronger growth in capacity relative to demand in some regions;
- ➔ Air transport volume growth was strong in July and the trend for 2015 remains robust – by contrast, air freight volumes fell further on weak trade activity;
- ➔ Growth in seats moderated in July as new aircraft deliveries decreased, lagging expansion in demand;
- ➔ Passenger loads improved slightly as growth in demand outstripped the moderation in capacity, but air freight load factors fell further to levels not seen since mid-2009.

Financial indicators

Airline shares fell 5% in August, by slightly less than the broader stock market

Airline Share Prices

US\$ based index (100 = 2007)



- ➔ Airline share prices fell 5% in August compared to July. The FTSE Global All Cap fell further, down 6% compared to July. Globally, markets were impacted by developments in the Chinese economy. China's stock market experiencing its largest one-day fall in August since 2007 has increased concerns about further slowdown in the economy. Airlines in Asia Pacific were most impacted, with a fall of 15% in August compared to July. In the previous month, airline share prices rallied in response to a fall in fuel prices.

Q2 financial results show strong profit gains in the US and Asia but down in Latin America

In US \$ Million

# Airlines*	Regions	Q2 2014		Q2 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
13	North America	5607	3550	7321	5647
23	Asia-Pacific	880	-31	2942	1843
13	Europe	1946	1023	1983	1396
7	Latin America	216	-57	27	-105
2	Others	17	7	21	7
58	Sample total	8666	4492	12294	8788

Source: The Airline Analyst, IATA.

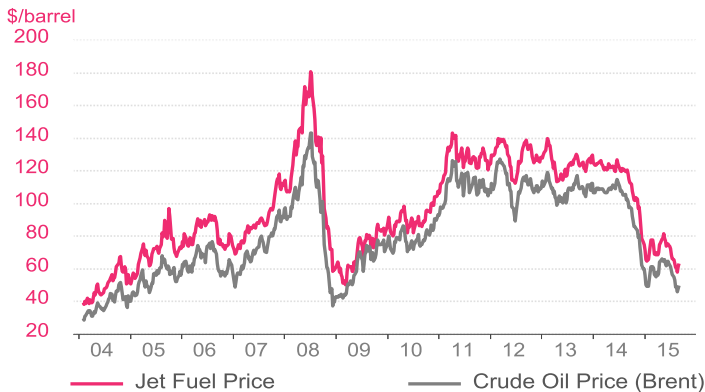
*Includes Aer Lingus, Air New Zealand, Cathay Pacific Airways, Juneyao Airlines & Qantas Airways half-year results

- ➔ Airline financial performance has been improving strongly up to the middle of the year. A sample of 58 airlines shows that the industry financial performance improved significantly on the year ago period in Q2 2015. The increase was driven by North American airlines, where consolidation and lower fuel costs have resulted in a significant boost to profitability. Airlines in Asia Pacific were also up on a year ago supported by cost cutting measures and easing fuel cost pressure. Airlines in Latin America, by contrast, struggled with falling yields and recession in major economy Brazil.

Fuel costs

Crude oil price prices weaken on expectations of supply increases in the US and Iran

Jet Fuel and Crude Oil Price

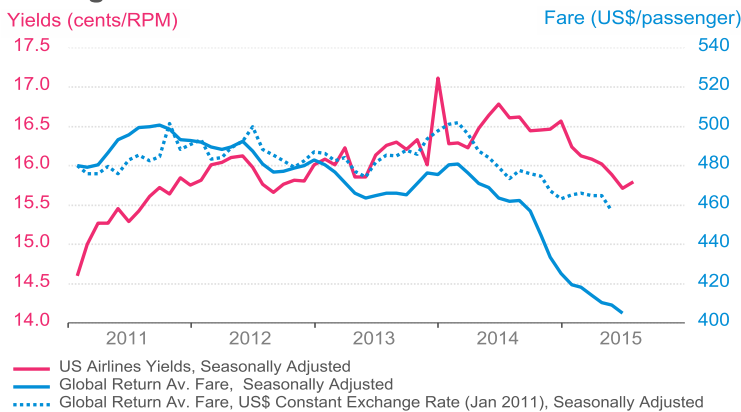


- ➔ Crude oil prices fell below \$50/bbl in January, the lowest price seen for the past 6 years. Since then, there have been two small rallies; the most recent was a 15% increase in May compared with the prior low in March.
- ➔ August saw further decline in oil prices, by 25% compared to July. Crude oil prices are now \$47/bbl, or 58% down on the 2014 mid-year high. The recent weakness reflects expectations of supply increases from Iran and the US. In addition, the demand outlook has weakened with a slower than expected global economic growth, especially in key economies like China.

Yields

Passenger yields remain weak worldwide, reflecting lower fuel related costs

Average Return Fare Worldwide & US Airlines Yields

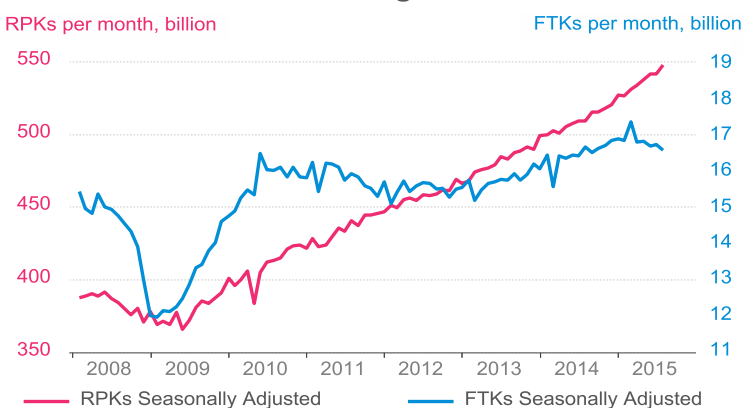


- ➔ In July, US passenger yields were down 5% year-on-year. The weakness in yields likely reflects downward pressure from declines in fuel costs.
- ➔ In US\$-terms average global fares were down 13% in the first five months of this year, compared with the year ago period. However, if we hold exchange rates constant to eliminate the translation effect of the stronger US dollar, global fares were down 6% over the same period. The US dollar appreciation is exaggerating the downward pressure on fares, but there is still some underlying downward pressure evident.

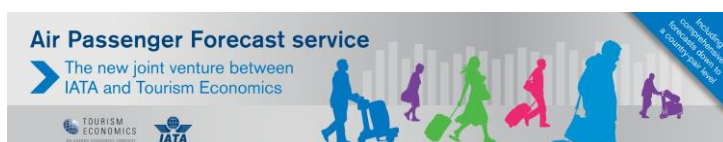
Demand

RPK volumes increased in July as global FTK volumes continue to decline

Total Air Travel and Air Freight Volumes



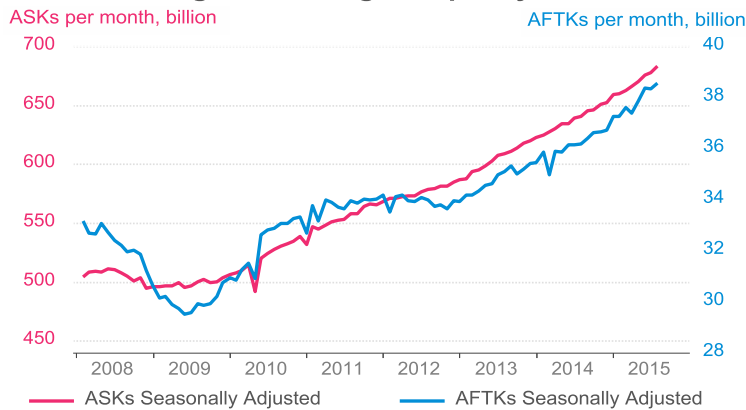
- ➔ Air transport volumes picked-up in July, resuming the robust growth trend after a moderation in June. Weakness in some emerging markets, including China, has placed downward on RPK volumes. However, growth in air travel, particularly the more price sensitive economy class leisure travel, has been given a boost by lower fares.
- ➔ Air freight volumes fell by 0.4% in July compared to June, further entrenching the weakness that has been developing in 2015. Air freight performance is consistent with a trend change in world trade, particularly in emerging Asia, where trade has been in notable decline throughout much of H1 2015.



Capacity

ASKs continue to expand and AFTKs rise despite declines in demand volumes

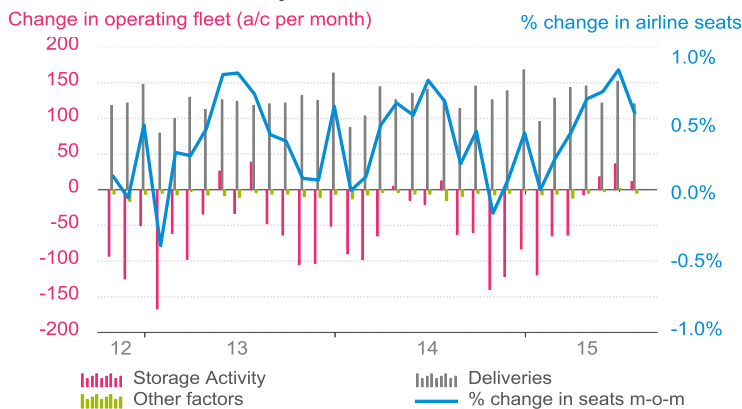
Total Passenger and Freight Capacity



- ➔ There was a slight 0.8% increase in passenger capacity in July compared to June; once again mostly on international markets. Carriers in all regions experienced capacity expansion, and on both international and domestic markets.
- ➔ Air freight capacity growth picked-up in July compared to June, expanding 0.6%. Aside from a moderation in May and June, the trend in AFTK growth has been strongly positive for much of 2015, in contrast to developments in demand volumes.

Growth in seats continued in July, but at a slower rate than growth in demand

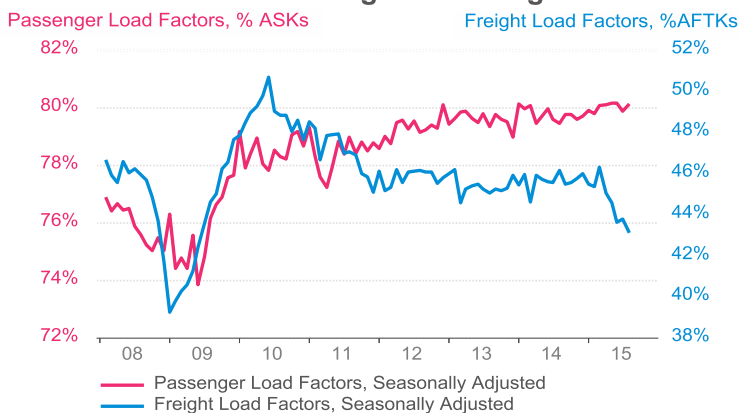
Airline Fleet Development



- ➔ Growth in available seats slowed slightly in July, but still expanded at a rate of 0.6% compared to June. There was a decrease in new aircraft deliveries to the operating fleet in July (121), compared to June (121). In addition, there were fewer (100) aircraft re-entering the fleet from storage compared to June (125). Growth in seats slowed to a 7% annualized rate in July, which is slower than the current growth in demand and should help sustain loads and aircraft utilization rates if it continues.

Passenger loads dipped slightly while air freight stabilized after recent declines

Load Factors and Passenger and Freight Markets



- ➔ Industry load factors rebounded in July, after a few months of weakness. The increase in seasonally adjusted load factors resulted from a strong pick-up in volumes that outstripped growth in capacity. The pick-up in load factors was seen across both domestic and international markets.
- ➔ Cargo load factors fell in July compared to June. The decline in volumes in July was met with a strong increase in capacity. Air freight load factors were pushed down even further in July, down to levels not seen since mid-2009, on a seasonally adjusted basis.

Data tables

Year on Year Comparison	Jul 2015 vs. Jul 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	4.3%	3.7%	71.2%	3.6%	11.4%	27.8%	-1.3%	-1.3%	67.3%	4.8%	2.6%	30.4%
Asia/Pacific	9.2%	7.0%	79.8%	-1.9%	5.3%	52.1%	9.1%	7.2%	78.3%	4.2%	6.2%	53.7%
Europe	6.7%	4.4%	86.7%	-1.5%	3.9%	41.5%	5.1%	4.0%	81.0%	-0.7%	3.3%	45.2%
Latin America	8.7%	7.8%	82.8%	-5.1%	3.2%	36.0%	6.4%	5.9%	79.9%	-6.7%	2.9%	37.5%
Middle East	19.3%	17.2%	79.8%	10.8%	18.3%	40.4%	12.4%	15.5%	77.5%	13.8%	18.8%	42.6%
North America	5.5%	4.6%	87.6%	-3.7%	5.4%	30.9%	3.6%	3.8%	83.8%	-1.1%	1.3%	33.9%
Total Market	8.2%	6.5%	83.6%	-0.6%	6.7%	41.2%	6.5%	6.0%	80.1%	2.9%	5.7%	44.0%

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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