

AIRLINES FINANCIAL MONITOR

KEY POINTS

October - November 2014

- Worldwide airline share prices rose 14% in November, supported by continued decline in the price of crude oil and jet fuel;
- Crude oil prices are down 36% since the mid-year peak, reflecting appreciation of the US dollar as well as continued growth in supply, particularly in the US;
- Q3 financial results show improvements in the US being partially offset by weakness in other regions;
- US passenger yields remain up on a year ago, but weakness continues in other regions;
- Air freight volumes continue to expand and the trend in air travel growth remains positive, supported by improving economic conditions in the US and strong trade growth in Asia Pacific;
- Growth in available seats fell to an annualized rate of 1%, well below the pace of growth in demand, which should support aircraft utilization rates;
- Passenger load factors weakened slightly in October, but air freight load factors continue to show steady improvement on the back of growth in demand.

Financial indicators

Global airline shares rose 14% in November, supported by further falls in crude oil prices

Airline Share Prices

US\$ based index (100 = 2007)



Source: Thomson Reuters Datastream

- Worldwide airline shares were up 14% in November compared to October. Airline shares outperformed the broader market by a significant rate, with the FTSE Global All Cap gaining just 1% in November compared to October. Growth in airline share prices had weakened in Q3 due to a combination of economic slowdown in key regions like the Eurozone and concerns over the spread of the Ebola virus. The rise in airline share prices over the past two months reflects continued decline in crude oil and jet fuel prices.

Initial Q3 financial results show US improvement partially offset by weakness elsewhere

In US \$ Million

# Airlines	Regions	Q3 2013		Q3 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
12	North America	4295	2864	5667	3019
15	Asia-Pacific	2428	2116	2196	1380
11	Europe	3422	2175	3244	2641
5	Latin America	368	123	317	20
4	Others	83	93	124	104
47	Sample total	10596	7371	11548	7164

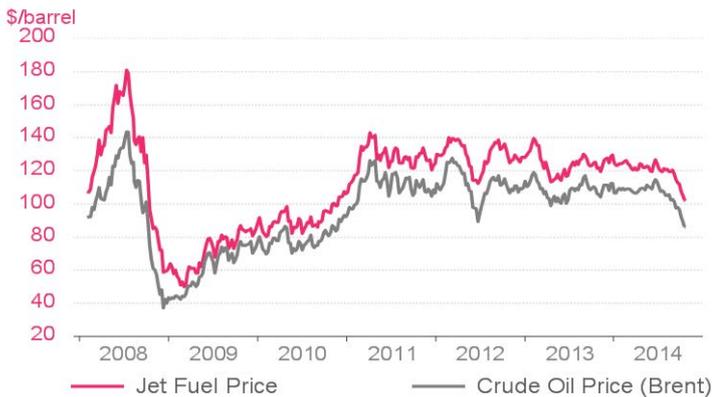
Source: The Airline Analyst, IATA.

- Airlines earn a majority of revenues in Q2 and Q3, so the expectation is for solid results at this time of year. Initial Q3 results are positive so far. Our sample of 47 airlines shows that the industry improved financial performance on the year ago period at the operating level. The improvement was driven by the performance of North American airlines. By contrast, a combination of weakness in cargo revenues as well as rising cost pressures for Chinese carriers due to a depreciating local currency weighed on regional financial performance in Asia Pacific.

Fuel costs

Crude oil prices continue to fall, slipping 14% in November compared to October

Jet Fuel and Crude Oil Price



- Crude oil prices continue to fall and are now down 36% compared to the most recent peak in June 2014. Jet fuel prices are now at \$92/bbl, a level not seen since September 2010.
- The declines in crude oil prices over recent weeks come from a combination of factors. The strengthening of the US dollar against other major currencies has been one reason; the price of crude oil typically moves inversely to the US dollar. Moreover, concerns over several geopolitical threats to crude oil supplies have been more than offset by increases in supply in other regions, including the US.

Yields

Passenger yields in the US still up on a year ago, but remain weak in other regions

Average Return Fare Worldwide & US Airlines Yields

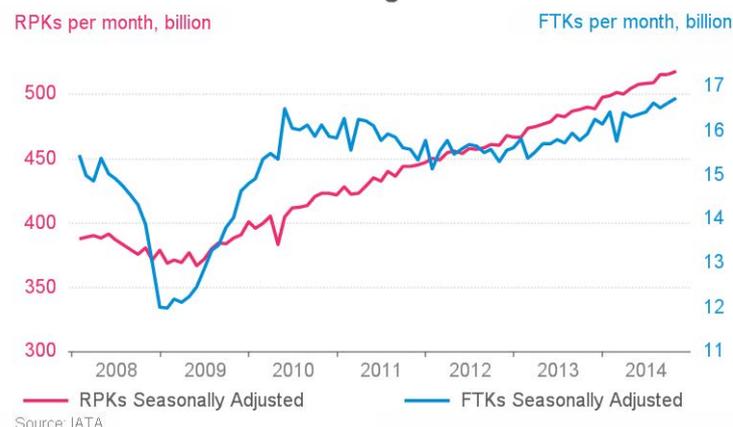


- The trend in US passenger yields improved in the second quarter and although there has been no further increase over recent months, levels in October are still almost 2% higher compared to a year ago. Underlying demand drivers remain positive and this trend is likely to continue.
- By contrast, the weak trend in global fares in US\$ is largely 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 passenger volumes increase strongly and air freight demand continues positive trend

Total Air Travel and Air Freight Volumes

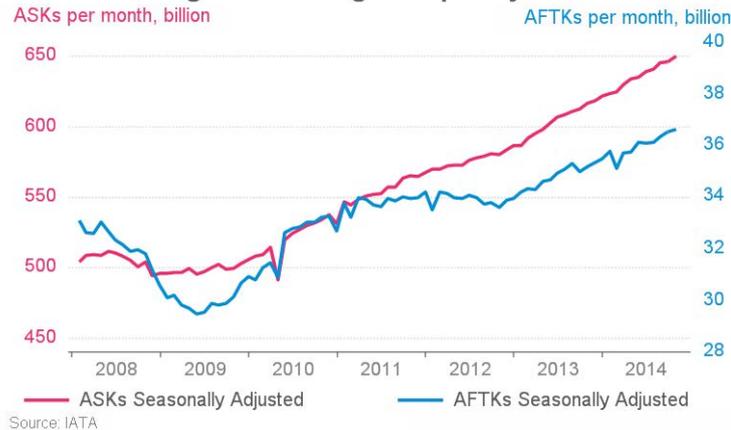


- Air freight volumes increased in October compared to September. Gains in world trade and business activity paused in Q1, but the latest data show improvement in some regions. Recent air freight improvements have been driven by Asia Pacific and North America, where trade volumes have been expanding solidly after a period of weakness earlier in the year.
- Air passenger volumes expanded in October compared to September, continuing the positive growth trend. Recent deterioration in the Eurozone economy, however, presents a downside risk to regional air travel growth.

Capacity

Air freight capacity picks up in October as expansion in ASKs moderates

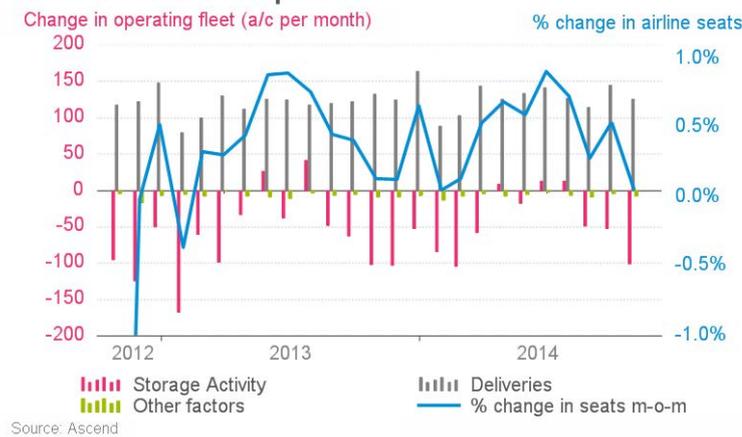
Total Passenger and Freight Capacity



- The strong positive growth in trend in ASKs resumed in October with solid expansion in capacity compared to September. Growth in ASKs was particularly strong on international markets, including Asia Pacific.
- Air freight capacity increased in October compared to September. The increase in AFTKs is consistent with renewed signs of improvement in the demand environment for air freight markets.

Growth in seats falls sharply, well below expansion in demand

Airline Fleet Development



- Growth in available seats plunged in October compared to September. The fall to almost no growth resulted from a notable increase in net storage activity, as well as a reduction in new aircraft deliveries. In October there were 126 new aircraft delivered compared with 145 new deliveries in September. In addition, 101 aircraft went into storage in October, compared to 52 in September. Growth in seats slipped to an annualized rate of about 1%. This rate of expansion is now well below the growth in demand, and should provide a boost to aircraft utilization.

Passenger loads fell slightly in October but air freight loads continue to improve slowly

Load Factors and Passenger and Freight Markets



- Industry load factors weakened in October compared to September. Domestic load factors are starting to recover some of the ground lost in the first half of 2014, following solid expansion in volumes in October. International load factors, however, fell in October, continuing a slightly negative trend that has developed during the year.
- Cargo load factors improved slightly in October, both compared to the previous month and on a year ago. The growth in air freight demand over recent months has supported some improvement in loads, but continued expansion in capacity through the passenger business has kept load factors low at 45%.



Data tables

Year on Year Comparison	Oct 2014 vs. Oct 2013						YTD 2014 vs. YTD 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-1.3%	0.2%	68.0%	9.6%	-2.4%	32.2%	0.7%	3.3%	68.6%	5.4%	1.3%	29.8%
Asia/Pacific	6.8%	7.1%	76.9%	6.7%	5.7%	56.6%	6.8%	7.6%	77.4%	5.4%	5.8%	54.9%
Europe	5.6%	4.5%	81.2%	1.4%	4.4%	47.1%	5.9%	5.3%	81.5%	2.0%	2.9%	46.3%
Latin America	7.3%	5.2%	80.4%	4.1%	2.3%	46.0%	6.4%	3.7%	79.8%	0.7%	0.5%	41.4%
Middle East	9.9%	13.0%	73.8%	13.0%	15.8%	44.5%	12.6%	11.0%	79.3%	10.4%	9.8%	44.2%
North America	3.2%	2.5%	82.8%	3.1%	-1.2%	37.6%	2.7%	2.3%	84.0%	2.7%	-0.3%	34.9%
Total Market	5.7%	5.5%	79.1%	5.4%	4.4%	47.0%	5.8%	5.6%	80.2%	4.5%	3.6%	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.

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5th December 2014