

AIRLINES FINANCIAL MONITOR

KEY POINTS

September-October 2015

- Worldwide airline share prices were up 9% in October compared to September, supported by low jet fuel prices and strong Q3 profit results. Airline shares outperformed the broader market, which was up 7% over the month;
- The financial performance of the airline industry has remained solid, with initial Q3 results showing large profit improvements in all major regions;
- Crude oil prices stayed below \$50/bbl in October, kept down by expectations of supply increases from Iran and the US as well as a softer demand outlook;
- 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, by 6% on a year ago;
- Weakness in the currency-adjusted yields and fares reflects downward pressure from factors including the decline in fuel costs and stronger growth in capacity relative to demand in some regions;
- RPK volumes expanded further in September and FTKs increased after months of decline, but the pick-up was narrowly based;
- Growth in the number of seats slowed in September, well below expansion in demand, which should help support aircraft utilization rates;
- Passenger loads fell slightly in September, but remain very close to the record high achieved in August (80.6%, seasonally adjusted). By contrast, freight load factors remain at low levels not seen since mid-2009.

Financial indicators

Worldwide airline shares rose 9% in October, with all major regions seeing gains

Airline Share Prices

US\$ based index (100 = 2007)



- Airline share prices were up 9% in October compared to September. Broader equity markets were also up, supported by the low interest rate environment and rebounds in the Chinese stock market. But airline shares outperformed the broader market, with the FTSE Global All Cap rising 7% over the same period. The strong rise in airline share prices was supported by robust Q3 financial results as well as continued low fuel prices. Airline share prices in all major regions were up in October, but rose most in the US, with an increase of 12% over the month.

Initial Q3 financial results show profit gains in all major regions, especially in the US

In US \$ Million

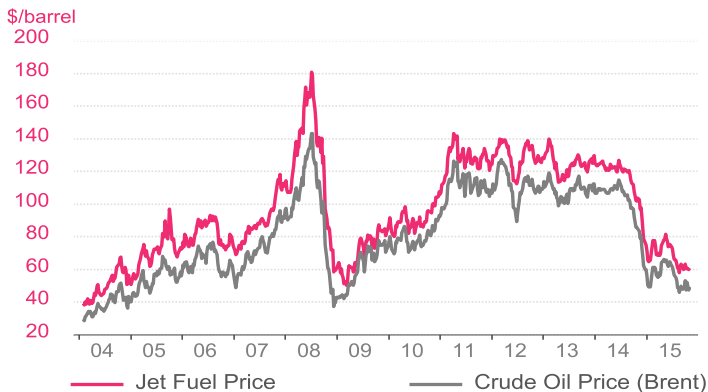
# Airlines*	Regions	Q3 2014		Q3 2015	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
8	North America	5493	2748	8053	8817
6	Asia-Pacific	1190	786	1296	984
7	Europe	3646	2617	5082	3894
2	Latin America	37	-33	70	21
23	Sample total	10366	6118	14501	13716

- Airline financial performance has been improving overall so far this year. An initial sample of 23 airlines shows that the industry financial performance improved significantly on the year ago period in Q3 2015. The increase was driven by North American airlines, where consolidation and lower fuel costs have resulted in a significant boost to profitability. But airlines in Asia Pacific and Europe were also up on a year ago, supported by cost cutting measures and easing fuel cost pressure.

Fuel costs

Crude oil price prices remain below \$50/bbl on expectations of supply increases

Jet Fuel and Crude Oil Price

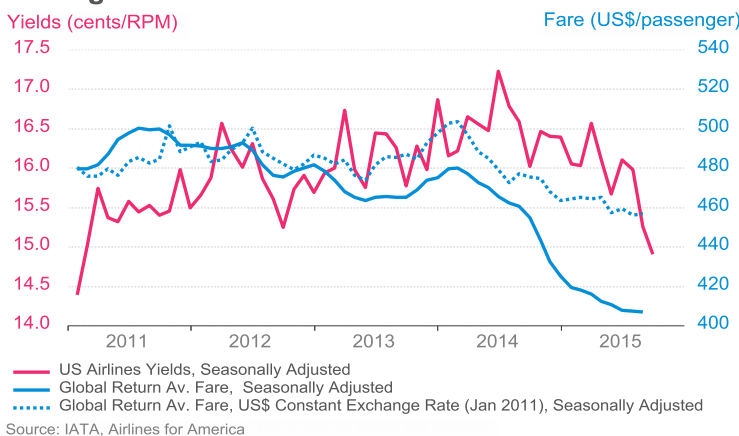


- Crude oil prices have been averaging just below \$50/bbl level since the most recent rally in July, when the price rose to \$65/bbl. The recent weakness in crude oil prices has brought the average so far in 2015 down to \$56/bbl.
- The recent lows in crude oil prices reflect expectations of supply increases from Iran and the US. In addition, the demand outlook has weakened with 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

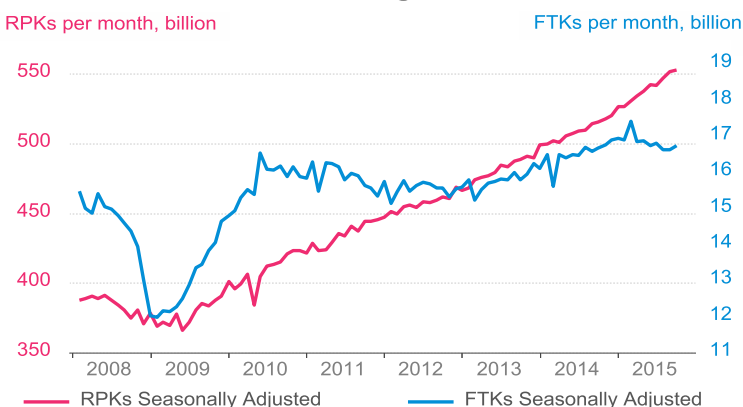


- In September, US passenger yields were down 4% year-to-date. The weakness in yields likely reflects downward pressure from declines in fuel costs.
- In US\$-terms average global fares were down 13% in the first 8 months of this year, compared with the year ago period. However, if we hold exchange rates 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.

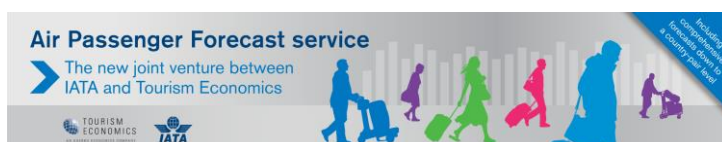
Demand

RPK volumes continue to increase and there was a welcome rise in FTKs in September

Total Air Travel and Air Freight Volumes



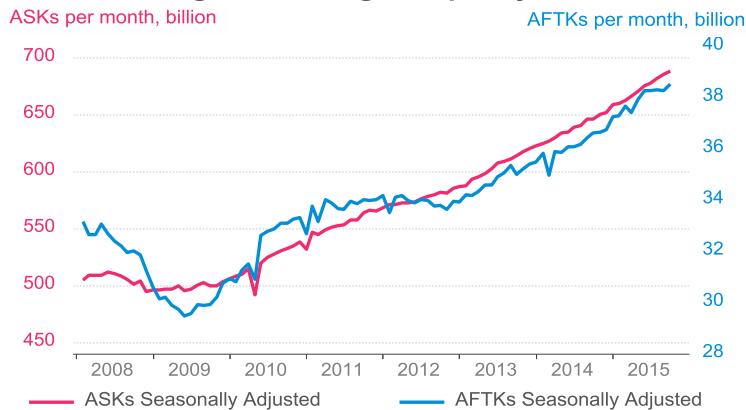
- Air transport volumes increased again in September, sustaining the robust growth trend after a moderation mid-year. Weakness in some emerging markets, including China, has been placing downward pressure on global economic growth. However, growth in RPKs, particularly the more price sensitive economy class leisure travel, has received some help from lower fares.
- Air freight volumes expanded in September compared to August. The pick-up is a welcome change after months of decline throughout 2015. That said, the improvement was narrowly based – driven mostly by European airlines – and the demand backdrop remains fragile due to weakness in emerging markets.



Capacity

ASKs continue to expand as do AFTKs, despite weakness in air cargo markets

Total Passenger and Freight Capacity

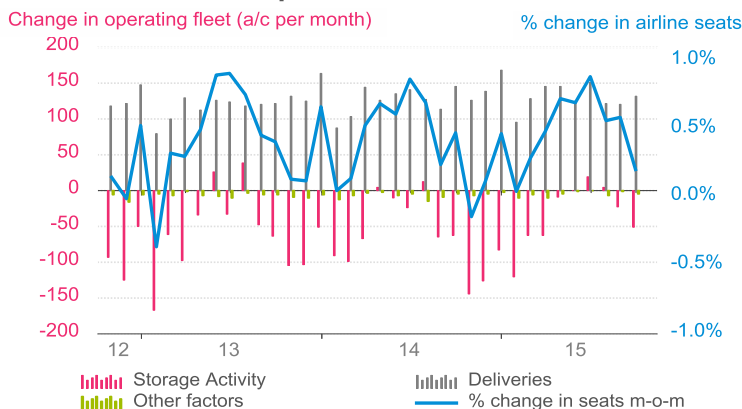


Source: IATA

- ➔ There was a slight 0.2% increase in passenger capacity in September compared to August. Carriers in all regions experienced capacity expansion on international markets, while on domestic markets there was some contraction in ASKs in Brazil, US and Australia.
- ➔ Air freight capacity growth ticked up in September compared to August, expanding 0.6%. But looking over the past several months, the trend in AFTK growth has been strongly positive for much of 2015, in contrast to developments in demand volumes.

Growth in seats slowed in September, well below growth in demand

Airline Fleet Development

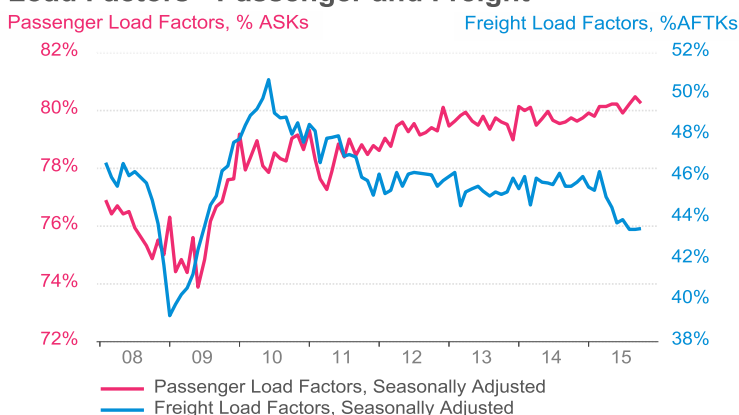


Source: Ascend

- ➔ Growth in available seats slowed considerably in September, down to a 0.2% rate of increase compared to August. Although new aircraft deliveries went up in September (132), compared to August (120), there was a net increase in storage activity over the period, from 23 in August to 51 in September. Growth in the number of seats slowed to a 2.5% annualized rate in September, which is well below the current growth in demand and should help boost loads and aircraft utilization rates.

Passenger loads dipped slightly but still high while freight loads remain at 6-year lows

Load Factors - Passenger and Freight



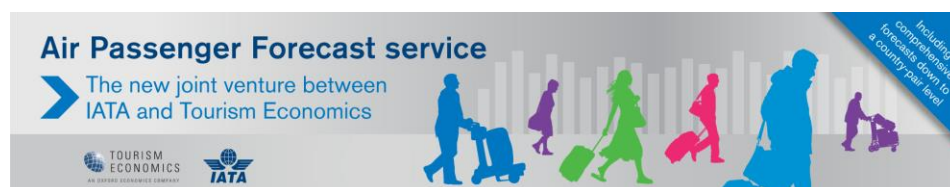
Source: IATA

- ➔ Passenger load factors slipped slightly in September after reaching a record high in August – 80.6% on a seasonally adjusted basis. The small decline in seasonally adjusted load factors resulted from a stronger pick-up in capacity compared to demand. But generally, over the past several months, load factors have been improving due to gains on domestic markets.
- ➔ Cargo load factors were broadly stable in September, supported by the expansion in FTKs. Air freight load factors have been in decline since Q1 2015, down to levels not seen since mid-2009, on a seasonally adjusted basis.

Data tables

Year on Year Comparison	Sep 2015 vs. Sep 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	4.5%	3.0%	72.1%	2.5%	8.1%	28.5%	-0.1%	-0.5%	69.0%	4.0%	3.5%	29.7%
Asia/Pacific	8.0%	6.6%	78.0%	0.3%	2.1%	54.3%	9.0%	7.0%	78.7%	3.2%	5.2%	53.7%
Europe	7.5%	7.0%	84.3%	2.8%	7.7%	42.4%	5.5%	4.5%	82.3%	0.0%	4.3%	44.4%
Latin America	5.8%	5.8%	79.4%	-6.4%	2.1%	38.3%	6.3%	5.9%	80.0%	-6.8%	2.6%	37.4%
Middle East	9.5%	12.4%	76.0%	7.5%	12.6%	42.6%	12.2%	14.7%	78.1%	13.0%	17.7%	42.4%
North America	5.8%	4.4%	83.3%	-3.3%	4.8%	32.8%	3.9%	4.0%	84.1%	-2.0%	1.6%	33.4%
Total Market	7.3%	6.6%	80.7%	1.0%	5.6%	43.2%	6.7%	6.0%	80.7%	2.4%	5.5%	43.6%

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, and not seasonally adjusted



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