

IATA ECONOMIC BRIEFING

JUNE 2007

AIRLINE PROFITABILITY - 2006

- Global airline profitability improved significantly in 2006 as airlines benefited from a strong revenue growth, further cost efficiencies and careful capacity management. Industry-wide operating profit is estimated to have increased from \$4.3 billion in 2005 to \$13.0 billion in 2006 (a 2.9% operating profit margin). A \$36 billion increase in industry revenues more than offset the additional \$21 billion in fuel costs faced by airlines in 2006 due to high fuel prices.
- Operating profitability improved across a range of individual airlines. A sample of 92 leading airlines – who account for 88% of global passenger traffic and the vast majority of global freight volumes – shows that:
 - Fifteen airlines made operating profits of more than US\$ 500 million (compared to 8 in 2005), with five earning over US\$1 billion (3 in 2005). Eighteen airlines made operating losses (20 in 2005), with five losing more than US\$100 million (9 in 2005).
 - US airlines saw the strongest improvement in operating profitability. Twelve US airlines made operating profits of more than \$100 million (5 in 2005), while only four US airlines made operating losses (9 in 2005). Elsewhere, a depreciation in the US dollar provided a slight boost to the US\$ value of several non-US airlines' profits. Nevertheless, local currency profits also increased at several European and Asia-Pacific network airlines, who remain among the highest profit generators.
 - Sixteen airlines enjoyed an operating profit margin (profit as a percentage of revenues) of over 10%. Several no-frills operators are among those with the highest margins, with Ryanair having the highest margin. But some saw relatively low margins while numerous other no-frills airlines, not included in this sample, are loss-making.
 - High profit margins can be obtained across a range of business models, not just no-frills operations. Large network airlines, smaller network airlines, regional feeder airlines and cargo airlines all appear among the top 30 airlines. Each major geographical region has at least one airline with a profit margin of more than 10%.
- There is a slight positive correlation between the size of an airline and the level of profit (see Chart 1). However, several exceptions ensure that the correlation of size with absolute profits is not a rule. There is no correlation at all between size and profit margins (see Chart 2). The divergence of operating profit margins demonstrates the influence of a wide range of strategic, cost and management factors on profits, but no clear link with size.
- Future consolidation in the industry can help to improve efficiency and profitability, but the lack of correlation between size and profitability shows it will not do it through scale alone. The strategic focus of such consolidation needs to be on identifying ways to boost margins rather than just on capturing revenue and traffic market share.

Chart 1: Revenues and Operating Profit

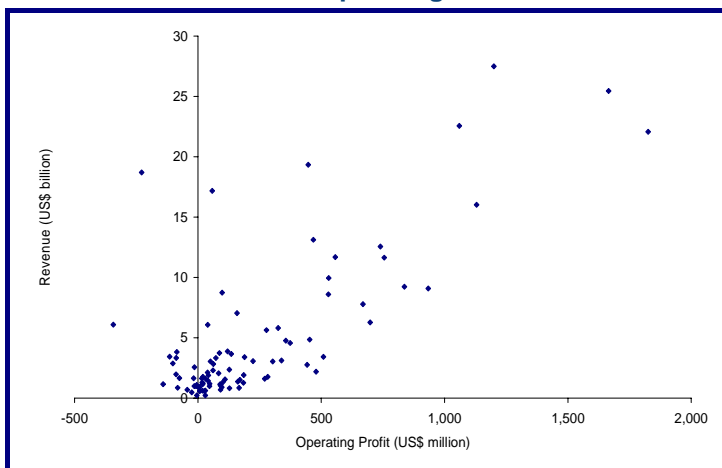
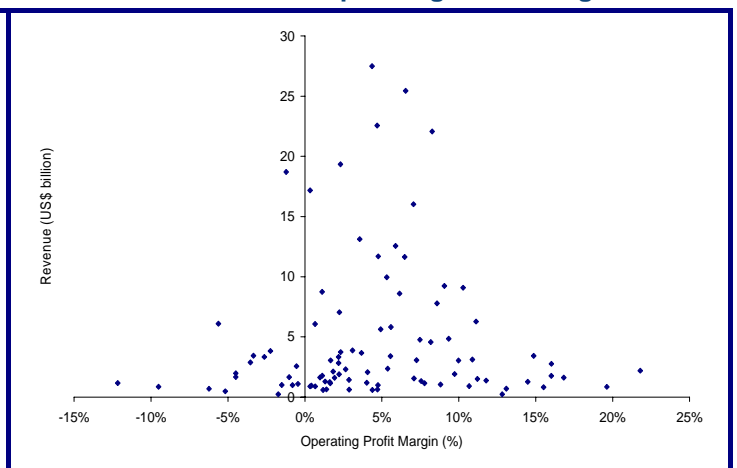


Chart 2: Revenues and Operating Profit Margin



OPERATING PROFITS BY AIRLINE

Table 1: Top 30 Airlines by Operating Profitability (2006 unless otherwise stated)*

By Total Operating Profit			By Operating Profit Margin		
Rank	Airline	US\$ m	Rank	Airline	%
1	FedEx (Year to May 2006)	1,825	1	Ryanair (Year to Mar 07)	21.1
2	Air France-KLM (Year to Mar 07)	1,591	2	COPA Airlines	19.6
3	British Airways (Year to Mar 07)	1,130	3	Hainan Airlines	16.8
4	Lufthansa Group	1,083	4	Aeroflot	16.0
5	American Airlines	1,060	5	Gol Linhas Aereas	16.0
6	Emirates (Year to Mar 07)	960	6	Pinnacle Airlines	15.5
7	Southwest	934	7	TAM Linhas Aereas	14.9
8	Singapore Airlines (Year to Mar 07)	837	8	Shanghai Airlines	14.5
9	All Nippon Airlines (Year to Mar 07)	787	9	Kenya Airways (Year to Mar 06)	13.1
10	Northwest Airlines	740	10	Air Asia (Year to Jun 06)	12.8
11	Cathay Pacific	659	11	Jet Airways (Year to Mar 06)	11.8
12	Ryanair (Year to Mar 07)	605	12	Emirates (Year to Mar 07)	11.3
13	US Airways (incl. America West)	557	13	Westjet	11.2
14	Qantas (Year to Jun 06)	530	14	Skywest Airlines	10.9
15	Korean Airlines	529	15	Southwest Airlines	10.3
16	TAM Linhas Aereas	509	16	Lan Airlines	10.0
17	Continental Airlines	468	17	American Eagle	9.7
18	Thai Airways (Year to Sep 06)	453	18	Thai Airways (Year to Sep 06)	9.3
19	United Airlines	447	19	Singapore Airlines (Year to Mar 07)	9.1
20	Aeroflot	443	20	Virgin Blue (Year to Jun 06)	8.8
21	UPS Airlines	374	21	Cathay Pacific	8.6
22	China Eastern	356	22	FedEx (Year to May 06)	8.3
23	Skywest Airlines	339	23	UPS Airlines	8.2
24	Air China	325	24	Philippine Airlines (Year to Mar 06)	8.2
25	Lan Airlines	303	25	Avianca	7.8
26	Gol Linhas Aereas	283	26	Mesa Airlines	7.6
27	SAS	278	27	China Eastern	7.5
28	Hainan Airlines	271	28	Easyjet (Year to Sep 06)	7.3
29	Easyjet (Year to Sep 06)	223	29	Cargolux	7.1
30	Swiss	189	30	British Airways (Year to Mar 07)	7.1

Source: Ascend Financial Database, IATA

* Note: The figures are taken from published accounts and refer to operating profits. There will be slight differences in accounting policies across different countries. In addition, in some cases (e.g. Lufthansa Group) the Earnings Before Interest and Taxes (EBIT) will be significantly higher than operating profit, largely reflecting income from investments in subsidiary and associate companies.

IATA Economics
June 2007

E-Mail: economics@iata.org