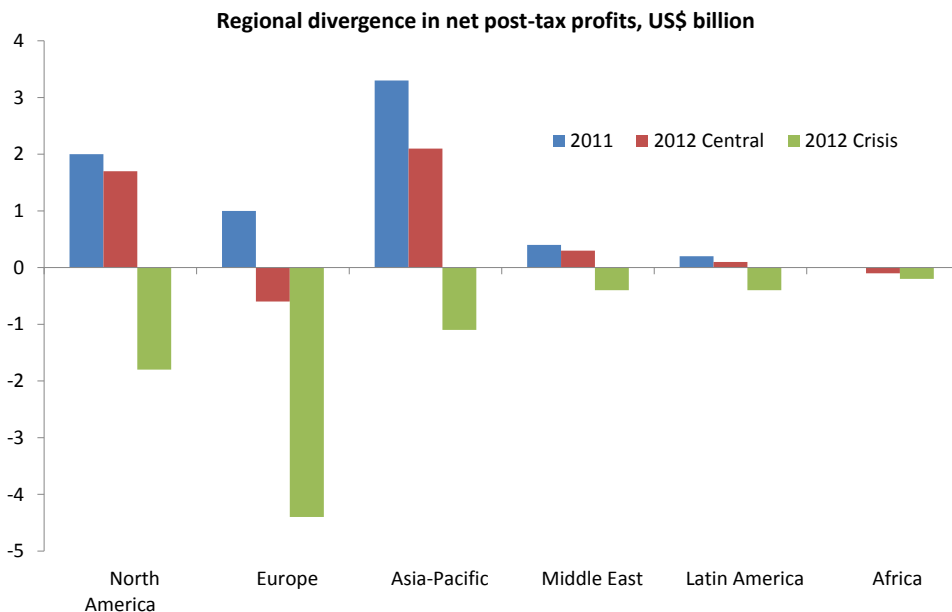


FINANCIAL FORECAST

December 2011

EURO CRISIS OUTCOME KEY FOR AIRLINES

- The biggest risk facing airline profitability over the next year is the economic turmoil that would result from a failure of governments to resolve the Eurozone sovereign debt crisis. At the time of writing, actions were being taken by central banks to avert a credit crunch. Our central forecast for the airline industry is based on further measures being taken to avert the financing problems now facing Italy and Spain, which may include support from the IMF. Even this relatively benign outcome will fail to prevent a short-lived recession in Europe, and we have revised down our forecast for industry profits in 2012 from \$4.9 billion to \$3.5 billion.
- Our forecast for 2012 also shows a marked divergence of financial performance between regions. European airlines are likely to be hardest hit by recession in their home markets, and we now expect to see small losses in this region. Contrasting performances are shown by North American airlines, where capacity cuts are providing some protection to profitability, and in Asia where, in particular, we expect significant profits generated by high load factors on China's expanding domestic market.



Source: IATA

- There remains a very significant risk that the sovereign debt crisis in the Eurozone could spiral out of control, generating a banking crisis and more widespread economic weakness. The OECD has recently published an assessment of this risk. Based on the OECD's analysis we estimate that industry wide losses could reach \$8.3 billion. Europe would be worst affected but we doubt any region will be able to escape losses.

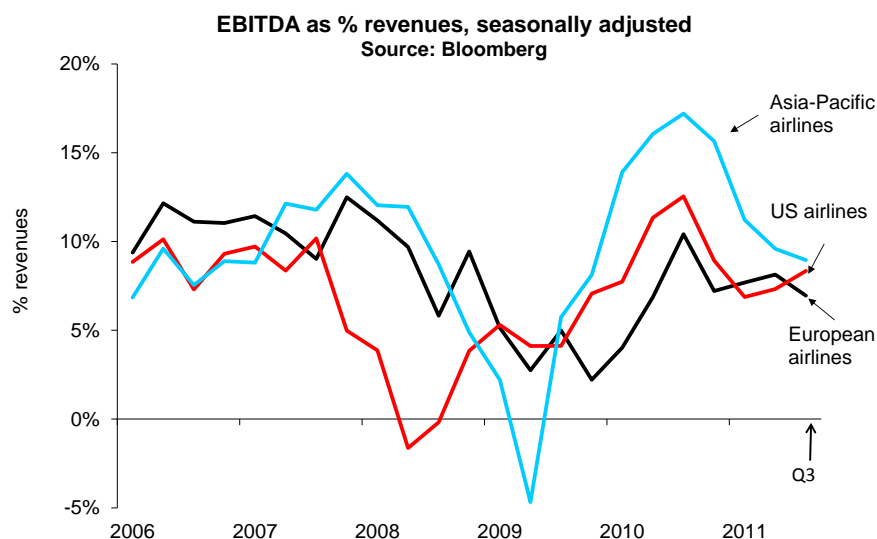
System-wide global commercial airlines	EBIT margin, % revenues					Net profits, \$ billion				
	2009	2010	2011F	2012F		2009	2010	2011F	2012F	
				Central forecast	Banking crisis				Central forecast	Banking crisis
Global	0.4%	4.0%	2.2%	1.4%	-0.5%	-4.6	15.8	6.9	3.5	-8.3
Regions										
North America	1.2%	4.7%	3.2%	2.4%	0.3%	-2.7	4.1	2.0	1.7	-1.8
Europe	-2.2%	1.9%	1.2%	0.3%	-1.7%	-4.3	1.9	1.0	-0.6	-4.4
Asia-Pacific	2.8%	6.0%	2.4%	2.1%	0.2%	2.6	8.0	3.3	2.1	-1.1
Middle East	-1.5%	3.6%	2.0%	1.6%	-0.4%	-0.6	0.9	0.4	0.3	-0.4
Latin America	2.8%	5.0%	2.0%	1.8%	-0.1%	0.5	0.9	0.2	0.1	-0.4
Africa	-1.2%	1.6%	0.8%	0.3%	-0.6%	-0.1	0.1	0.0	-0.1	-0.2

Source: ICAO data 2009-10. IATA estimates for regions in 2010 and forecast for 2011-12.

Note: ICAO have substantially revised 2008 and 2009 data. Their recently released 2010 global data replaces IATA's estimate.

PERFORMANCE SO FAR THIS YEAR IS GOOD

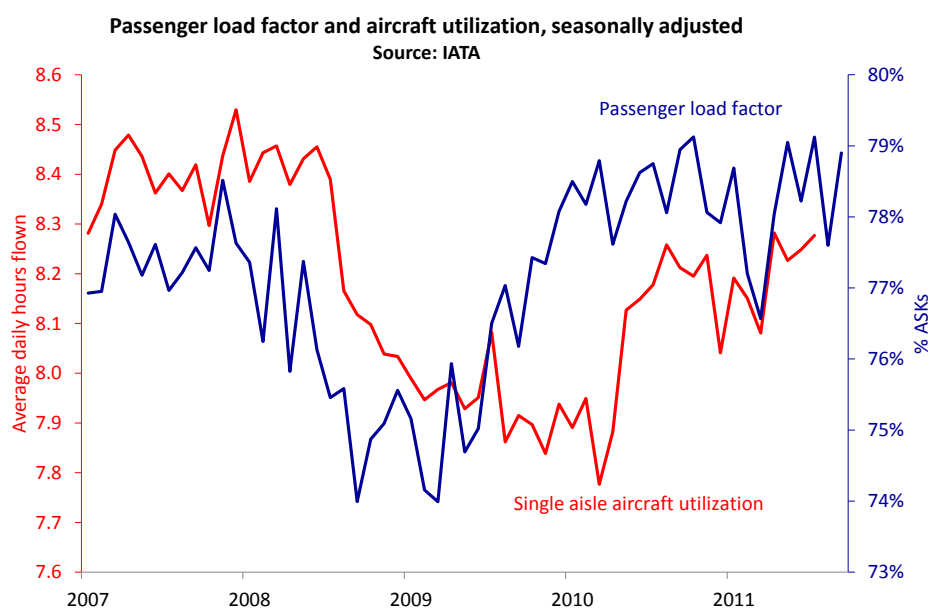
- Airline profits around the world peaked in the third quarter of 2010. As oil and fuel prices surged profit margins were squeezed. However, performance by the third quarter of 2011 was still reasonably good, with EBITDA in the three largest regions of between 5% and 10% of revenues. The most intense squeeze on cash flows and margins was in the fourth quarter of 2010 and the first quarter of 2011. Cash flows more or less stabilized in the second and third quarters.



Source:
Bloomberg

ASSET UTILIZATION SUSTAINED AT HIGH LEVELS

- Airlines managed to generate this stable financial performance, while business confidence in most of the industrial economies slumped and jet fuel prices stayed relative high. There were several reasons for this good performance. First, airlines were able to prevent fuel costs from pushing break-even load factors higher, by generating better yields and cutting non-fuel unit costs. The extent to which this was achieved on passenger markets was able to offset a deterioration on air freight markets.



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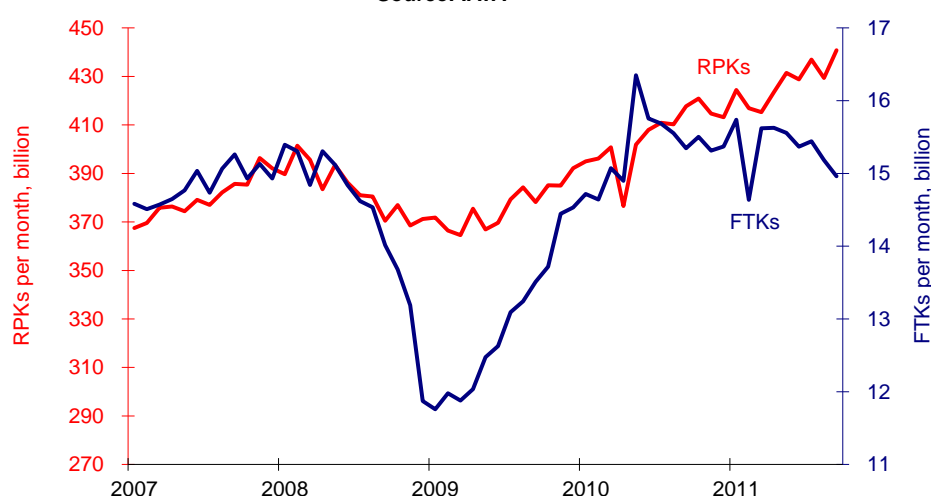
Source: IATA, Boeing

- As well as stabilizing break-even load factors on passenger markets, up to the third quarter at least, airlines managed to keep aircraft utilization high. Seat load factors were sustained close to the highs of the past eighteen months, and aircraft utilization remained close to the levels reached in mid-2010. Careful yield and capacity management played an important part in keeping airline cash flows stable, despite still high fuel prices and slumping business confidence.

BUT FREIGHT MARKETS ALREADY SHRINKING

- Robust air travel demand was also an important support to airline cash flows and profitability through to the third quarter. Despite the slump of business confidence in most major economies and a decline in consumer confidence in Europe and the US, air travel volumes continued to trend upwards, at a pace close to trend, through to the end of the third quarter. The outlook however looks much weaker.
- Freight markets had already begun to decline by the middle of the year. Between May and October worldwide air freight markets shrank by 5%. Over the same period world trade also began to decline, but so far only by 1%. Air freight is suffering more than other transport modes as the slump in business confidence has led shippers to switch to cheaper and less timely modes, as they anticipate a build-up of inventory. This air freight decline has been a good indicator of wider economic weakness in the past, and we think that is what is being signaled by the data today.

Total air travel and air freight volumes, seasonally adjusted
Source: IATA



Source: IATA

- The outlook for freight and travel markets depends on how policy-makers address the problems of debt and competitiveness in the Eurozone. Our central forecast is based upon a resolution of the Greek default and back-stop financing for other European governments provided by the IMF and/or the ECB. This may allow Europe to muddle through for another year, at the cost of a mild recession. This would allow growth to continue in emerging market regions, albeit at a slower pace than the past two years. The world would remain 'two-speed' and this would lead to a divergence of financial performance between airlines in Europe, exposed to weak home markets, and those in other regions, with a greater exposure to growth markets.

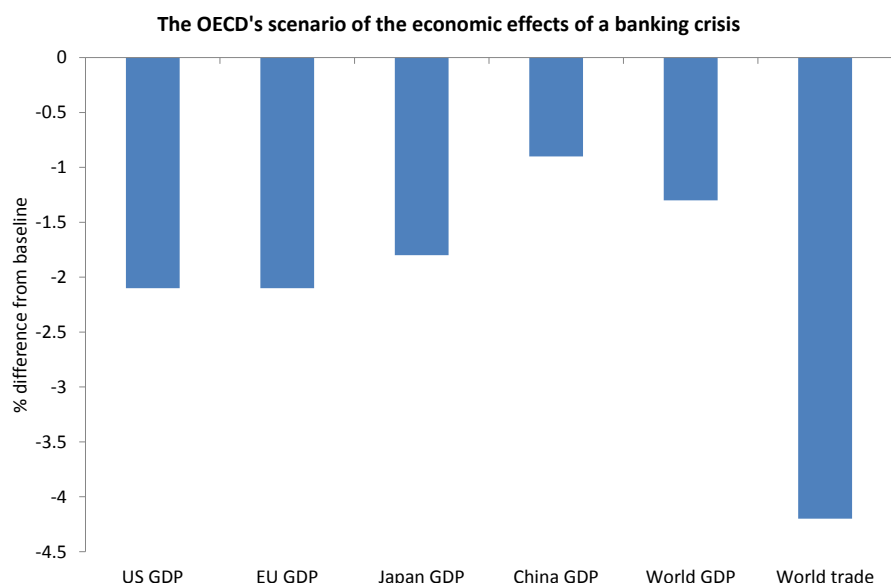
System-wide global commercial airlines	Traffic (TKP), % change over year					Capacity (ATK), % change over year				
	2009	2010	2011F	2012F		2009	2010	2011F	2012F	
				Central forecast	Banking crisis				Central forecast	Banking crisis
Global	-4.3	10.4	4.2	2.9	-1.3	-3.5	5.2	6.0	3.1	0.0
Regions										
North America	-6.3	9.9	2.0	2.2	-1.0	-5.6	3.9	3.4	2.0	-0.5
Europe	-7.7	5.0	7.5	2.5	-3.7	-5.4	1.5	9.2	2.9	-0.1
Asia-Pacific	-2.2	12.6	2.1	2.0	-0.2	-4.8	5.8	4.6	2.9	0.1
Middle East	9.5	20.0	7.9	5.7	4.5	11.1	15.8	10.8	5.8	4.8
Latin America	0.0	14.5	10.6	8.5	2.3	1.4	9.6	8.0	8.3	3.3
Africa	-5.4	15.0	0.8	3.5	0.3	-1.5	9.5	2.9	3.7	0.7

Source: ICAO data to 2009. IATA 2010 estimates, 2011-12 forecasts. Dom. and int. traffic. Includes pax and cargo by weight.

- However, there are significant risks that attempts to shore up the Eurozone fail. Politicians have been clear that there is no appetite for fiscal union, Europe-wide bond issuance or the ECB acting as lender of last resort. Since peripheral Eurozone economies need to restore 20-30% of lost competitiveness against Germany, in order to generate sustainable economic growth, the choice is either deep austerity in those countries or an acceptance of higher inflation in Germany. Both look very difficult paths and it is this that leaves open the chance of the situation deteriorating into a banking crisis. If that happened then the European recession would be much deeper as bank credit dried up and asset markets slumped. Economic weakness would also spread more widely around the world. It is obviously very hard to put numbers on such a scenario, and those in the table for the 'banking crisis' should be taken as indicative.

DOWNSIDE RISK ASSESSED BY THE OECD

- In their latest economic outlook, the Organisation for Economic Co-operation and Development warn that 'A large negative event would...most likely send the OECD area as a whole into recession, with marked declines in the US and Japan, and prolonged and deep recession in the euro area'. Even the so-called emerging markets would suffer. It is clearly impossible to be certain about the impact of such an outcome, but the OECD explores such a scenario that starts from a disorderly sovereign default in the Eurozone, damaging confidence and, via contagion, other sovereigns and financial institutions. We use the OECD scenario economic impacts to estimate the financial effect of the consequent loss of air travel and cargo to the airline industry. We estimate this has the potential to cause airline losses of over \$8 billion in 2012.



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Source: OECD

System-wide global commercial airlines	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F	
										Central forecast	Banking crisis
REVENUES, \$ billion	322	379	413	465	510	570	476	547	596	618	589
% change	5.2	17.7	9.1	12.5	9.6	11.7	-16.5	14.9	9.1	3.7	-1.3
Passenger	249	294	323	365	399	444	374	425	469	488	462
Cargo	40	47	48	53	59	63	48	66	66	66	62
Traffic volumes											
Passenger growth, tkp, %	2.3	14.9	7.0	5.0	6.4	1.5	-2.1	7.3	6.1	4.0	0.0
Sched passenger numbers, millions	1,849	2,064	2,211	2,325	2,518	2,507	2,479	2,681	2,840	2,948	2,834
Cargo growth, tkp, %	3.9	7.9	0.4	4.8	4.8	-1.0	-9.8	18.7	-0.5	0.0	-4.7
Freight tonnes, millions	37.5	41.1	42.1	44.8	47.0	45.4	40.8	45.8	45.5	45.4	45.3
World economic growth, %	2.8	4.2	3.4	4.0	3.8	1.7	-2.3	3.9	2.5	2.1	0.8
Passenger yield, %	2.4	2.6	2.7	7.8	2.7	9.5	-14.0	6.1	4.0	0.0	-1.5
Cargo yield %	2.0	7.4	2.4	5.9	5.5	7.4	-14.2	15.0	0.0	0.0	-1.5
EXPENSES, \$ billion	323	376	409	450	490	571	474	525	583	609	592
% change	4.0	16.2	8.9	10.1	8.8	16.5	-16.9	10.7	11.1	4.5	1.9
Fuel	44	65	91	117	135	189	125	139	178	198	183
% of expenses	14	17	22	26	28	33	26	26	30	32	31
Crude oil price, Brent, \$/b	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.4	112.0	99.0	85.0
Jet kerosene price, \$/b	34.7	49.7	71.0	81.9	90.0	126.7	71.1	91.4	128.0	113.1	102.0
Non-Fuel	279	311	318	333	355	382	349	386	405	412	409
cents per atk (non-fuel unit cost)	38.9	39.5	38.6	38.9	39.3	41.8	39.6	41.6	41.2	40.6	41.6
% change	0.3	1.4	-2.1	0.8	0.8	6.4	-5.2	5.1	-1.0	-1.5	1.5
Break-even weight load factor, %	61.1	61.9	62.0	61.2	60.9	63.2	62.3	63.1	63.1	63.5	64.0
Weight load factor achieved, %	60.8	62.5	62.6	63.3	63.4	63.1	62.6	65.7	64.5	64.4	63.7
Passenger load factor achieved, %	71.5	73.4	74.9	76.1	77.7	76.0	76.0	78.4	78.2	78.0	77.9
OPERATING PROFIT, \$ billion	-1.4	3.3	4.4	15.0	19.9	-1.1	1.9	21.7	13.2	8.7	-3.1
% margin	-0.4	0.9	1.1	3.2	3.9	-0.2	0.4	4.0	2.2	1.4	-0.5
NET PROFIT, \$ billion	-7.5	-5.6	-4.1	5.0	14.7	-26.1	-4.6	15.8	6.9	3.5	-8.3
% margin	-2.3	-1.5	-1.0	1.1	2.9	-4.6	-1.0	2.9	1.2	0.6	-1.4

Source: ICAO data to 2009-10. IATA some 2010 estimates and 2010-11 forecasts. Passenger and freight numbers are global system-wide collected by IATA, including some non-ICAO states. Note ICAO has substantially revised their 2008-09 financial data. Their recent release of 2010 financial data replaces IATA's estimate.