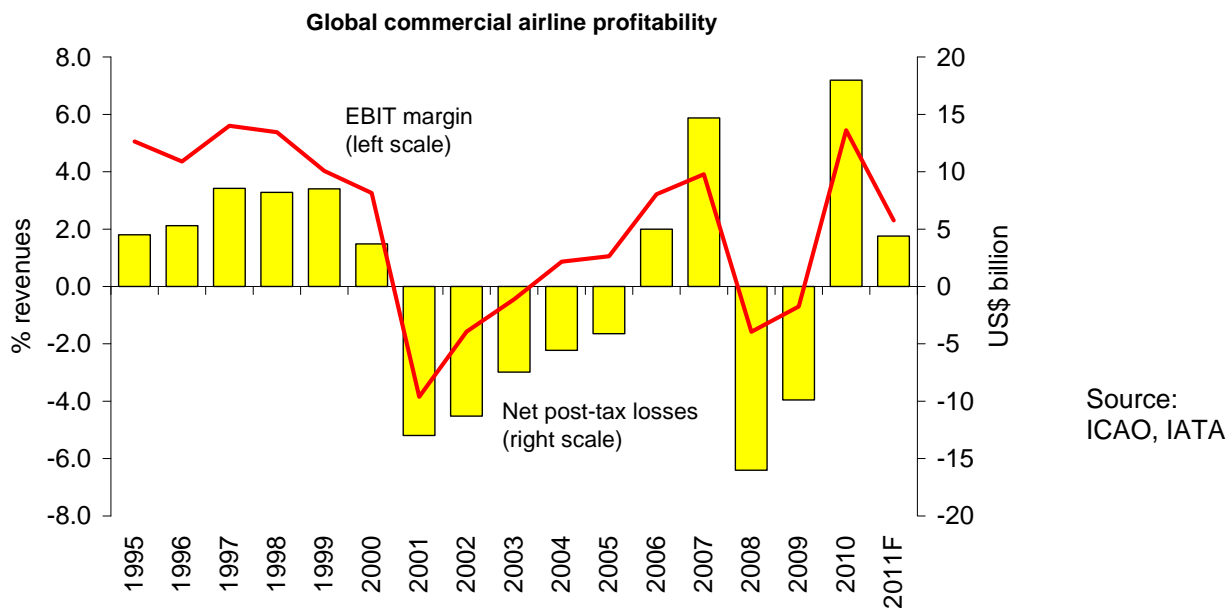


FINANCIAL FORECAST

June 2011

FORECAST PROFITS REVISED DOWN SHARPLY

➤ We have reduced our forecast for airline net post-tax profits this year to US\$4 billion, less than half the \$8.6 billion we expected for 2011 in our March forecast. Since our previous forecast, air transport markets suffered adverse demand shocks from the earthquake and tsunami in Japan, and the turmoil in a number of MENA countries. There was also an adverse shock to costs with a further \$20 a barrel rise in oil prices. In line with the new market consensus we have raised our forecast for Brent oil prices this year from \$96 to \$110 a barrel, which will add significantly to costs. Continued strong global economic expansion will be critical to generate the revenue growth that could partially offset higher fuel costs. Economic forecasts remain positive, despite the current level of energy costs. If this view proves to be correct we expect the airline industry to avoid losses, although profits this year will be less than a quarter of that achieved last year.



➤ Airlines in all regions are likely to suffer in this environment. However, those serving stronger economies and those where capacity is more closely matched to demand will be in a better position to recover higher fuel costs. Asia-Pacific airlines, supported by strong regional growth, are expected to remain the most profitable, followed by airlines in North America where capacity growth has been limited relative to demand.

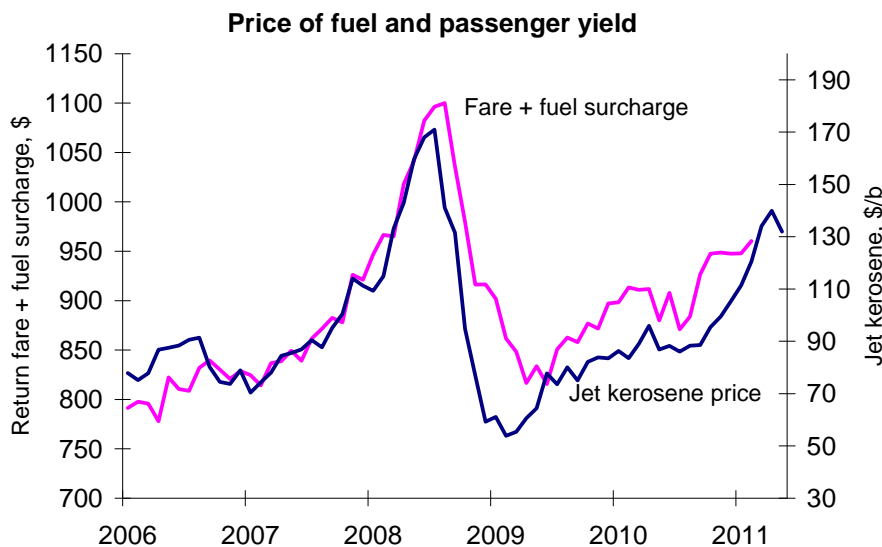
System-wide global commercial airlines	2007	2008	2009	2010	2011F	2007	2008	2009	2010	2011F
	EBIT margin, % revenues					Net profits, \$ billion				
Global	3.9%	-1.6%	-0.7%	5.4%	2.0%	14.7	-16.0	-9.9	18.0	4.0
including exceptional items						16.5	-36.1	-9.8	18.0	4.0
Regions										
North America	5.5%	-1.8%	1.2%	4.7%	2.9%	5.5	-9.6	-2.7	4.1	1.2
including exceptional items						7.3	-24.4	-2.7	4.1	1.2
Europe	4.0%	0.1%	-2.2%	2.0%	1.1%	6.4	0.0	-4.3	1.9	0.5
including exceptional items						6.4	-1.0	-4.3	1.9	0.5
Asia-Pacific	2.9%	-4.7%	-1.8%	10.9%	2.3%	3.0	-4.7	-2.7	10.0	2.1
including exceptional items						3.0	-8.7	-2.6	10.0	2.1
Middle East	0.0%	1.0%	-1.5%	3.7%	1.4%	-0.1	-0.3	-0.6	0.9	0.1
Latin America	2.0%	2.3%	2.8%	5.2%	1.6%	0.1	-1.4	0.5	0.9	0.1
including exceptional items						0.1	-1.7	0.5	0.9	0.1
Africa	1.0%	-0.9%	-0.9%	1.6%	-0.9%	-0.2	-0.1	-0.1	0.1	-0.1

Source: ICAO data to 2007-8. IATA estimates for 2009,2010 and forecast for 2011.

Exceptional items include revaluations of goodwill associated with restructuring and of 'mark to market' fuel hedging.

AIRLINES ATTEMPT TO RECOUP FUEL COSTS

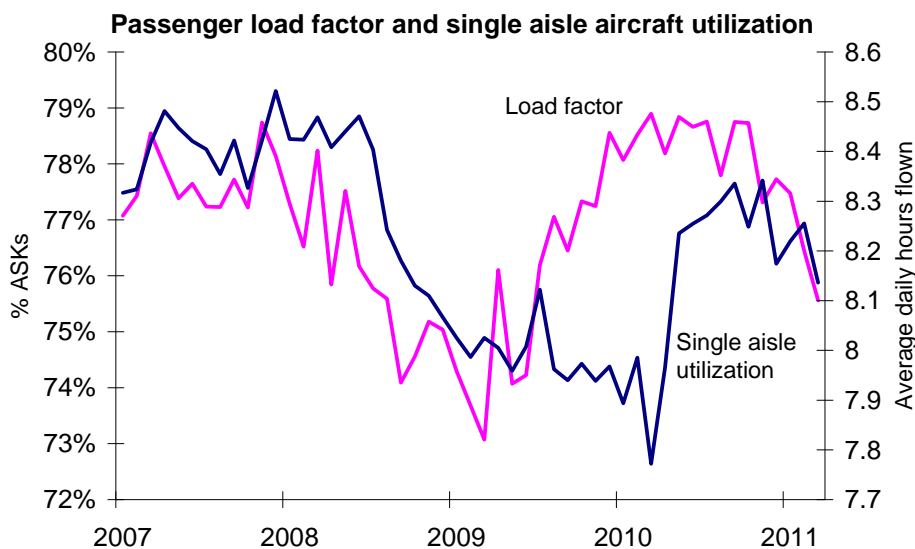
- Jet kerosene prices rose above \$140 a barrel during April, before falling back to levels that are still considerably higher than last year, and not far below the peak of 2008. The situation today does differ in some respects from 2008. Oil inventories are low again but this time OPEC has substantial spare capacity. The second difference is that the surge of financial investment in commodities has been fuelled by monetary expansion by the US and others. This expansion is ending which should limit further upside to oil prices. Futures markets and the consensus indicate some reduction in prices for the rest of this year. We have followed the consensus in upgrading our forecast for the average of oil prices in 2011 from \$96/b to \$110/b.
- Higher jet kerosene prices would add over \$20 billion to the industry's fuel bill, in the absence of hedging. We estimate that the industry has around half this year's fuel needs hedged at prices close to the second half of last year. As a result we expect the fuel bill to be \$10 billion higher than we expected in our March forecast at \$176 billion or 30% of operating costs. Recouping this cost increase would require an additional 2% in yield. In 2008 much of the rise in jet fuel costs was reflected in passenger and cargo yields.



Source: IATA,
Platts

UTILIZATION WILL BE KEY FOR PROFITABILITY

- However, profits turned into substantial loss in the second half of 2008 as asset utilization collapsed. Recouping higher fuel costs did not help in 2008 because the banking collapse and recession caused a sharp fall in demand. Cutting capacity by reducing utilization helped load factors and fuel costs but left fixed costs to be spread over a smaller business.



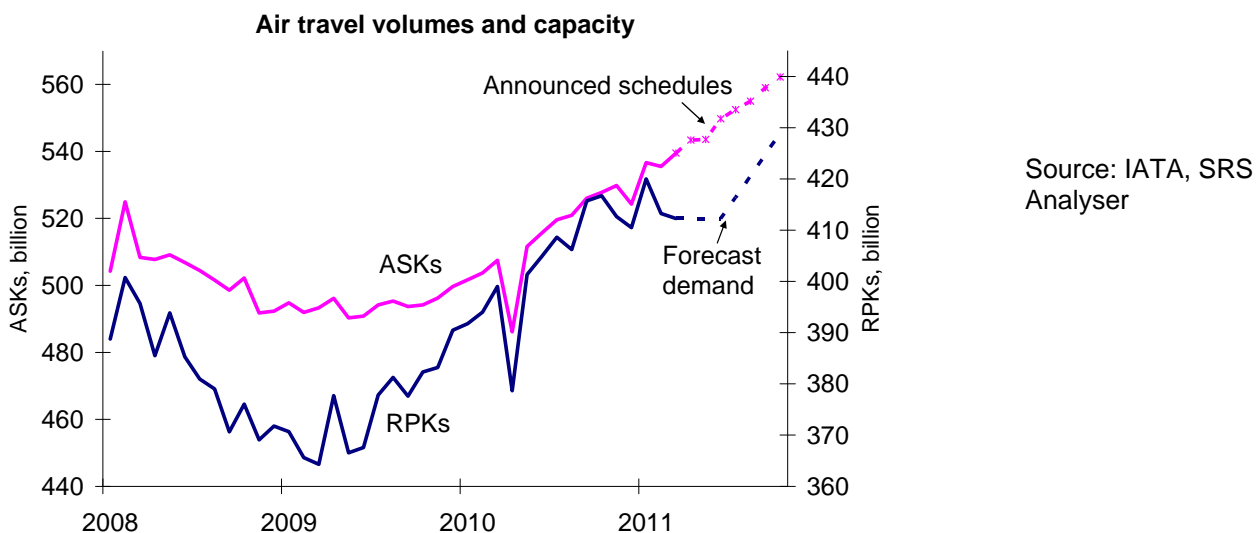
Source: IATA,
Boeing

➤ The collapse from reasonable profit in 2007 and early 2008 into large loss in the second half of the year and through 2009, before a sharp recovery in the second quarter of 2010, was mirrored by the path of aircraft utilization. Given the capital intensity of the airline industry this should not be surprising. The recovery in profitability in 2010 has been associated with the recovery in asset utilization. Profitability in 2010Q4, and so far this year, has already been squeezed by a significant decline in both load factors and aircraft utilization.

DEMAND SHOCKS LEAVE GAP WITH CAPACITY

➤ Part of the fall in load factors and aircraft utilization in February and March was due to the adverse demand shocks from the unrest in a number of MENA countries and the earthquake and tsunami in Japan. The impact of the demand shocks will certainly persist into the second quarter, but a second half rebound looks likely with reconstruction in Japan if not a calming of the situations in MENA. But a divergence of capacity from demand was becoming apparent in the fourth quarter of last year.

➤ The key risk to this outlook is economic growth. In the past high oil prices have triggered recession but modern economies today use half the energy used in the mid-1970s to produce a unit of GDP; so are less sensitive to a rise in energy costs. Moreover, the corporate sector has a lot of cash and confidence is high, leading to spending on capital and employment. World trade is expanding at a rate of around 9% a year and non-Japan Asia in particular is booming. The impact of high energy costs will slow growth. However, forecasters such as the IMF have actually raised their forecasts for world economic growth in 2011, during the past six months, in spite of a \$40/b rise in the price of oil. If this view proves to be correct, then demand for air transport is likely to recover to trend growth in the region of 5-6% during the second half of this year.



➤ Capacity on passenger markets would grow 7% this year, if announced schedules are maintained. With summer schedules largely fixed the scope for capacity reductions are limited until later in the year. Unscheduled leisure services are likely to face the largest drop off in price-sensitive demand, and are likely to see significant capacity cutbacks. But even with some trimming of capacity expansion plans we expect capacity cuts to lag the recent falls in demand. Load factors and aircraft utilization are likely to fall further.

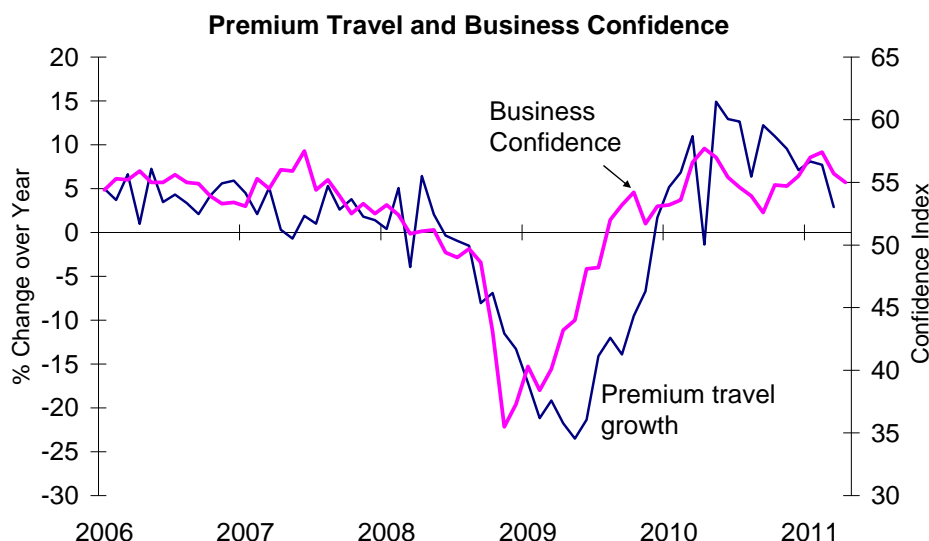
➤ Regional differences in the strength of markets will persist in 2011. Debt crises are forcing a number of European economies into recession. European airlines will offset this partially by growth on long-haul markets. The US economy is growing at a reasonable pace. Higher interest rates in emerging markets will slow growth but Asia should continue to be the fastest expanding market. Middle Eastern airlines should continue to boost their market share. Growth will also be relatively strong in South America and Africa.

System-wide global commercial airlines	2007	2008	2009	2010	2011F	2007	2008	2009	2010	2011F
	Traffic (TKP), % change over year					Capacity (ATK), % change over year				
Global	6.0	0.7	-4.3	10.3	4.7	5.8	1.1	-3.5	5.2	5.8
Regions										
North America	3.5	-2.4	-6.3	9.9	4.0	3.2	-2.8	-5.6	3.9	4.0
Europe	2.1	0.9	-7.7	5.0	3.9	3.5	2.9	-5.4	1.5	4.8
Asia-Pacific	7.8	-0.2	-2.2	12.6	6.4	6.9	0.6	-4.8	5.8	5.9
Middle East	16.4	3.6	9.5	20.0	14.6	14.5	4.7	11.1	15.8	15.5
Latin America	9.9	3.3	0.0	14.5	6.0	6.9	3.2	1.4	9.6	6.9
Africa	4.5	5.1	-5.4	15.0	6.5	5.8	7.2	-1.5	9.5	7.4

Source: ICAO data to 2008. IATA 2009-2010 estimates, 2011 forecasts. Dom. and int. traffic. Includes pax and cargo by weight.

BUSINESS TRAVEL DRIVERS STILL POSITIVE

- Price-sensitive leisure and VFR travel has been in decline since November. The \$40 a barrel rise in fuel prices and the associated increase in travel costs has been a major factor in the 3-4% fall in the number of passengers travelling on economy seats in the past five months. However, business travel and passenger numbers on premium seats has shown robust growth. There was a significant decline in March, but that was due to the impact of events in Japan. World trade is a good coincident indicator for business travel and that continues to grow strongly. A good leading indicator is business confidence in manufacturing and, although there was a dip in March and April, this remains consistent with premium travel growth of 5-6% a year.



Source: IATA, Markit/JP Morgan

- As long as economic growth does not slow substantially, business travel, cargo, yields and airline revenues should expand further, providing some offset to the rise in fuel costs. Because the industry is starting from a position of more rational capacity and load factors, and because economic growth is forecast to remain fairly strong, we expect profits in 2011 despite the level of fuel prices. If there were to be a surge of new capacity then losses may develop even with a strong economy. We do not expect this. The major risk to this outlook of sharply diminished but still positive profitability is if the economic expansion were slowed sharply, either by a further rise in oil prices or by too early a tightening of economic policy.

System-wide global commercial airlines	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F
REVENUES, \$ billion	307	306	322	379	413	465	510	564	482	554	598
% change	-6.4	-0.5	5.2	17.7	9.1	12.5	9.6	10.5	-14.4	15.0	7.9
Passenger	239	238	249	294	323	365	399	444	374	425	457
Cargo	39	38	40	47	48	53	59	63	48	66	72
Traffic volumes											
Passenger growth, tkp, %	-2.7	1.0	2.3	14.9	7.0	5.0	6.4	1.5	-2.1	7.3	4.4
Sched passenger numbers, millions	1,793	1,792	1,849	2,064	2,211	2,328	2,497	2,507	2,479	2,681	2,793
Cargo growth, tkp, %	-6.0	8.7	3.9	7.9	0.4	4.8	4.8	-1.0	-9.8	18.3	5.5
Freight tonnes, millions	32.3	35.2	37.5	41.1	42.1	44.6	46.8	45.4	40.8	45.8	48.2
World economic growth, %	2.2	2.7	2.8	4.2	3.4	4.0	3.8	1.7	-2.3	3.8	3.2
Passenger yield, %	-4.0	-1.7	2.4	2.6	2.7	7.8	2.7	9.5	-14.0	6.1	3.0
Cargo yield %	1.9	-9.5	2.0	7.4	2.4	5.9	5.5	7.4	-14.2	15.0	4.0
EXPENSES, \$ billion	319	311	323	376	409	450	490	573	486	524	586
% change	0.5	-2.7	4.0	16.2	8.9	10.1	8.8	16.9	-15.2	8.0	11.8
Fuel	43	40	44	65	91	117	135	189	125	139	176
% of expenses	13	13	14	17	22	26	28	33	26	26	30
Crude oil price, Brent, \$/b	24.7	25.1	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.4	110.0
Non-Fuel	276	270	279	311	318	333	355	384	361	386	410
cents per atk (non-fuel unit cost)	39.7	38.8	38.9	39.5	38.6	38.9	39.3	42.0	40.9	41.5	41.7
% change	1.4	-2.3	0.3	1.4	-2.1	0.8	0.8	6.9	-2.5	1.5	0.5
Break-even weight load factor, %	61.3	61.9	61.1	61.9	62.0	61.2	60.9	64.1	63.0	62.0	63.7
Weight load factor achieved, %	59.0	60.9	60.8	62.5	62.6	63.3	63.4	63.1	62.6	65.6	64.9
OPERATING PROFIT, \$ billion	-11.8	-4.8	-1.4	3.3	4.4	15.0	19.9	-8.9	-3.4	30.2	11.7
% margin	-3.8	-1.6	-0.4	0.9	1.1	3.2	3.9	-1.6	-0.7	5.4	2.0
NET PROFIT, \$ billion	-13.0	-11.3	-7.5	-5.6	-4.1	5.0	14.7	-16.0	-9.9	18.0	4.0
% margin	-4.2	-3.7	-2.3	-1.5	-1.0	1.1	2.9	-2.8	-2.1	3.2	0.7

Source: ICAO data to 2008. IATA 2009 and 2010 estimates and 2011 forecast. Excludes exceptional accounting items and mark-to-market fuel hedging losses from net profits. Passenger and freight numbers are global system-wide collected by IATA, including non-ICAO states.