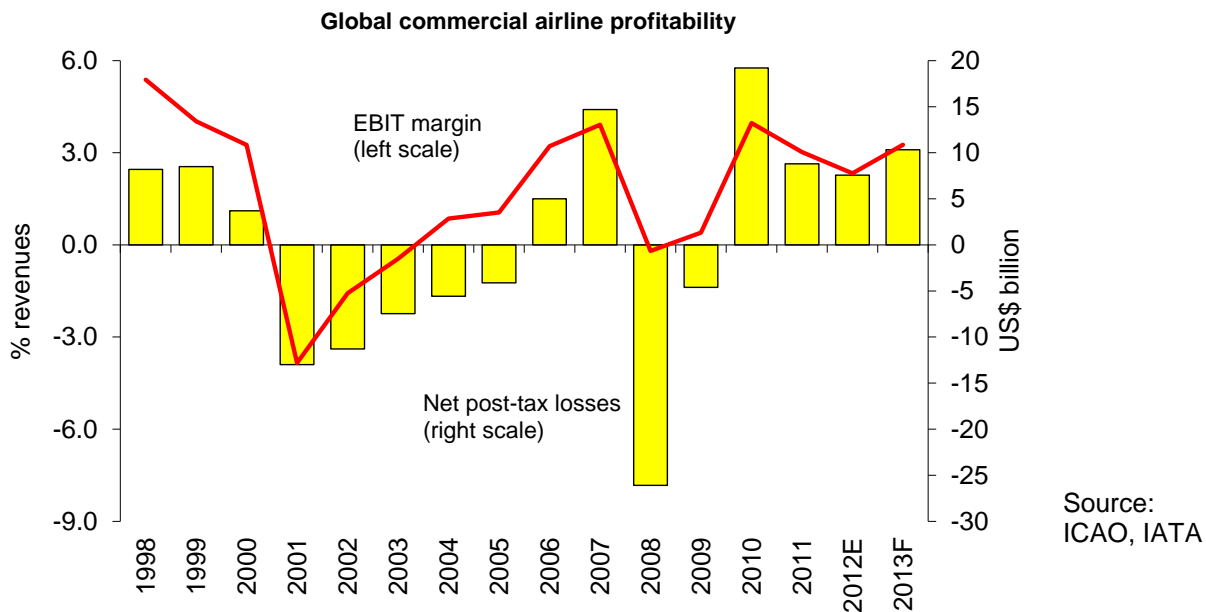


FINANCIAL FORECAST

March 2013

OUTLOOK IMPROVING - BUT RISK FROM EUROZONE

➤ Confidence in the outlook for both the global economy and the airline industry has improved during the first quarter of 2013. Not by a lot, but the direction is up. Airline share prices are up 7% so far this year, outperforming equity markets generally – and that is despite a 5% rise in the price of jet fuel. The view of financial markets, which we share, is that there has been a structural improvement in the financial performance of airlines. But at the time of writing the Cyprus situation is risking a renewed Eurozone crisis. This forecast is conditional on the Eurozone remaining stable. On this basis we have upgraded our projection for airline industry net post-tax profits in 2013 to US\$10.6 billion, up from \$8.4 billion in December.



- Stronger revenues are the main reason for this upgrade, due mostly to higher air travel volumes and a return to (modest) growth in air freight, but also because yields are no longer expected to fall. However, slightly better yields are mostly the impact of an increase in forecast jet fuel prices from \$124/b to \$130/b, pushed higher by the improved economic outlook. A \$9-10 billion increase in forecast operating costs offsets a large part of the \$12 billion upgrade to forecast 2013 airline revenues.
- Asia-Pacific airlines will be the main beneficiary of the modest upturn in cargo markets and are forecast to generate the highest profits in margins and absolute dollars this year. North American airlines are expected to be the second most profitable region, due to consolidation and efficiency gains. Europe continues to lag, largely as a result of the ongoing recession in home markets. Among the smaller regions, airlines from the Middle East are expected to produce the highest margins and profits in \$ terms. African airlines are expected to move from loss to small profit, as strong growth continues in this region.

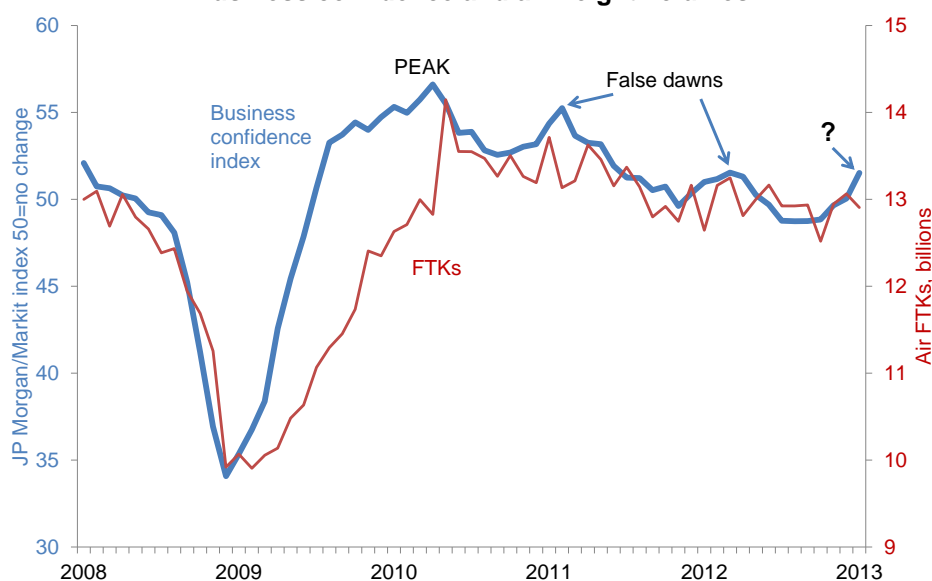
System-wide global commercial airlines	EBIT margin, % revenues					Net profits, \$ billion				
	2009	2010	2011	2012E	2013F	2009	2010	2011	2012E	2013F
Global	0.4%	4.0%	2.9%	Central forecast		-4.6	19.2	8.8	Central forecast	
				2.3%	3.3%				7.6	10.6
Regions										
North America	1.2%	4.7%	3.0%	3.3%	4.1%	-2.7	4.1	1.7	2.3	3.6
Europe	-2.2%	1.9%	0.8%	0.7%	1.0%	-4.3	1.9	0.4	0.3	0.8
Asia-Pacific	2.8%	6.0%	5.4%	4.1%	5.3%	2.6	11.4	5.5	3.9	4.2
Middle East	-1.5%	3.6%	3.3%	2.9%	3.4%	-0.6	0.9	1.0	0.9	1.4
Latin America	2.8%	5.0%	2.1%	2.1%	2.8%	0.5	0.9	0.3	0.3	0.6
Africa	-1.2%	1.6%	0.8%	-0.4%	1.0%	-0.1	0.1	0.0	-0.1	0.1

Source: ICAO revised data 2009-11. IATA estimates for regions in 2011. IATA estimate for 2012 and forecast for 2013.
Note: bankruptcy reorganization costs are excluded.

UPTURN OF CYCLE DEPENDS ON STABLE €-ZONE

↗ Upgrades to global air travel (RPKs) growth in 2013 from 4.5% to 5.4% and air freight (FTKs) from 1.4% to 2.7% have been made because we believe the low point in the global industrial production cycle has been passed – in the third quarter of last year. There have now been six months of improving output and business confidence. We had two ‘false dawns’ in early 2011 and 2012. Both of those were reversed after the Eurozone crisis intensified. Europe’s underlying problems remain but, after the ECB promised to be the lender of last resort to governments, the risk of a repeat of the 2011 and 2012 disappointments appeared to diminish. The Cyprus situation puts that in doubt. If resolved we think business confidence will grow further. Headwinds mean that economic growth will be relatively slow but, Eurozone crisis excepted, the balance of evidence now points to that growth being faster this year rather than a repeat of earlier reversals.

Business confidence and air freight volumes

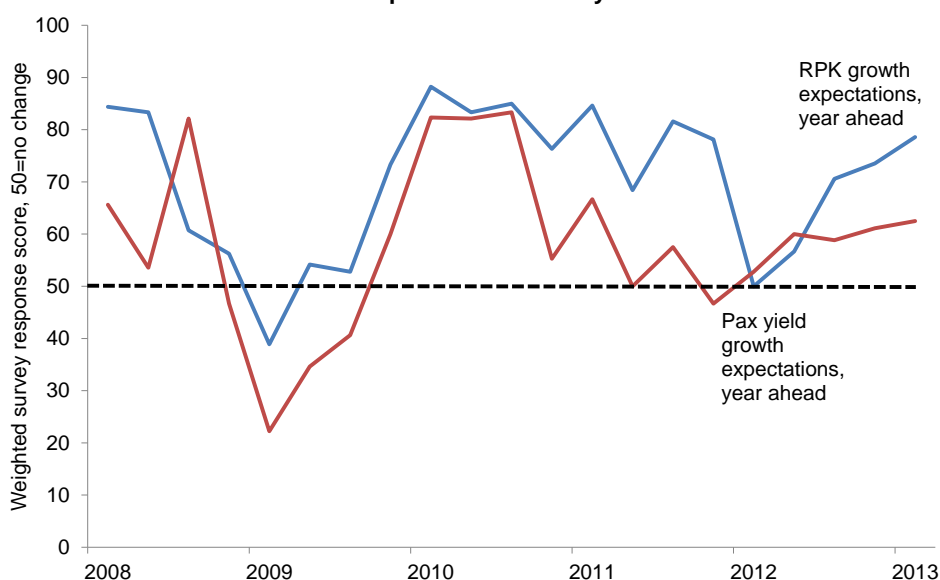


Source: IATA, JP Morgan/Markit

AIRLINE REVENUE OUTLOOK IS BETTER

↗ We expect moderately stronger cargo revenues this year but three-quarters of the upgrade to airline revenues are expected to come from the passenger business. When surveyed by IATA in January airline CFOs expressed more optimism over air travel volumes and, to a lesser extent, over passenger yields. In our forecast, stronger growth comes partly from higher GDP growth but also the pattern of that growth, with more coming from emerging markets where the impact on travel is higher than in developed markets.

Airline CFO expectations for the year ahead



Source: IATA quarterly survey

➤ Emerging markets are expected to continue to be the main source of growth in demand from originating passengers. However, by region of registration the long-haul operations of airlines may offset, to some extent, weakness in home markets. For example, we forecast stronger growth in the traffic carried by European airlines compared to those in North America, despite recession in Europe and moderate growth in the US economy. Very little growth in North America partly reflects the maturity of the US domestic market but also the limited capacity expansion by the US airlines. The fastest growing region will once again be the Middle East where expansion has recently accelerated back to double figures, benefiting from continuing gains on long-haul markets. Latin American growth has slowed, partly in reaction to earlier losses on domestic markets. In Africa the pace of expansion has picked up and is expected to continue.

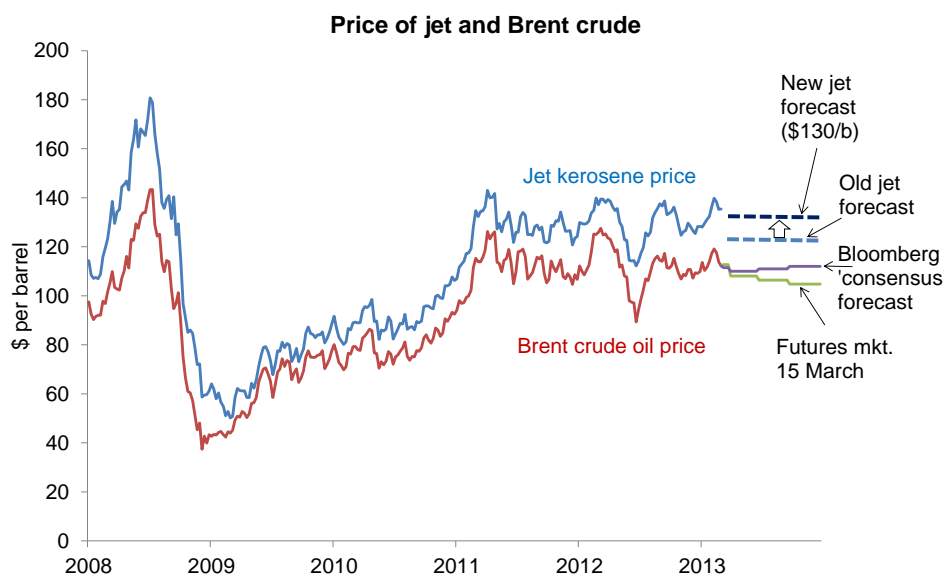
System-wide global commercial airlines	Traffic (RTK), % change over year					Capacity (ATK), % change over year				
	2009	2010	2011	2012E	2013F	2009	2010	2011	2012E	2013F
Global	-4.3	10.4	4.1	3.2	4.7	-3.5	5.2	5.3	3.0	4.0
Regions				Central forecast					Central forecast	
North America	-6.3	9.9	1.7	0.7	1.3	-5.6	3.9	2.8	-0.3	1.1
Europe	-7.7	5.0	6.7	2.7	2.6	-5.4	1.5	8.5	2.3	2.5
Asia-Pacific	-2.2	12.6	2.4	2.6	4.9	-4.8	5.8	4.3	3.0	5.0
Middle East	9.5	20.0	8.4	15.1	13.7	11.1	15.8	10.3	12.1	12.8
Latin America	0.0	14.5	9.8	6.4	8.1	1.4	9.6	8.2	6.9	6.7
Africa	-5.4	15.0	-0.5	6.9	6.5	-1.5	9.5	2.6	7.4	6.4

Source: ICAO data to 2010. IATA 2011-12 estimates, 2013 forecast. Dom. and int. traffic. Includes pax and cargo by weight.

➤ One important development in the past year has been that, despite the further slowdown in traffic growth, airlines increased capacity by less than the increase in traffic – boosting load factors and underpinning supply-demand conditions. An important part of our forecast for a further improvement in profitability this year is that we expect capacity growth to be similarly subdued in 2013.

HIGH COST ENVIRONMENT TO CONTINUE

➤ High load factors and aircraft utilization, at least in the passenger business, will be critical if the airline industry is to improve profits this year in the face of a continuing high cost environment. In fact the slightly better economic outlook has led to an increase in our forecast for jet fuel prices in 2013 from \$124/b to \$130/b. The crack spread has widened a little but this revision is mainly the result of a change in sentiment in the crude oil market, which previously had expected a decline in the Brent crude oil price to \$104/b. Futures markets are still expecting some decline during the year, but now average \$109/b. The Bloomberg consensus of forecasters expects little decline below \$110/b. We now expect the fuel bill to rise to \$216 billion this year, which represents 33% of operating costs.



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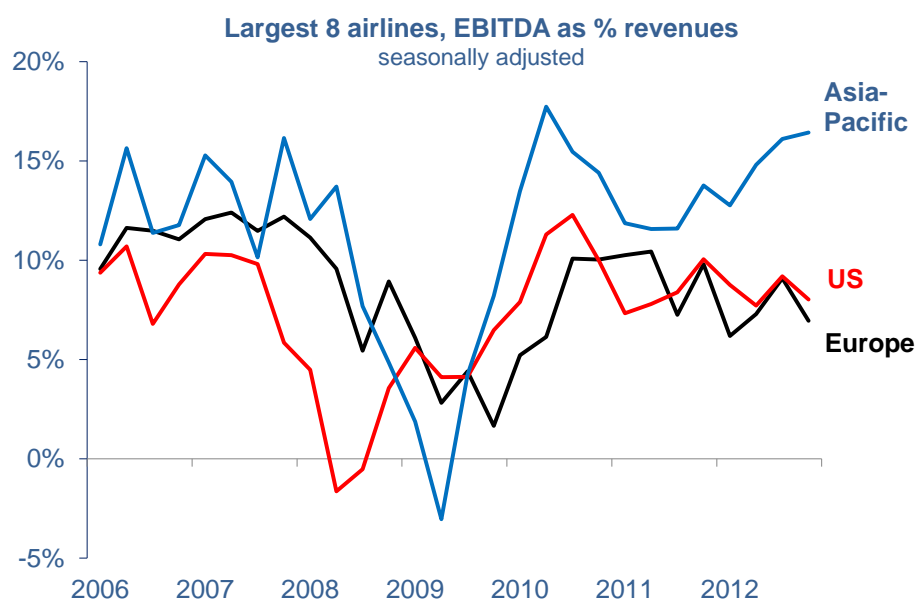
Source: IATA, Platts

➤ A measure of the improved financial performance of the airline industry is that profitability in 2013 is forecast to be similar to 2006, yet oil prices are \$40/b higher and global economic growth is half as strong. But passenger load factors are expected to be around 4% points higher. Consolidation through mergers on

domestic markets and joint ventures on some long-haul markets has been a key factor allowing efficiency improvements to sustainably boost financial performance. Returns on capital are still a long way below the cost of capital, considered a minimum by investors in most industries, but the change is in the right direction.

CASH FLOWS STRONGER THAN EXPECTED

- Airline cash flows, at least for the major airlines, are already showing better than expected performance given the high cost and relatively weak growth environment. European airlines are struggling to sustain profitability and cash flows, but that's not a bad performance given recession in home markets. US airlines have seen cash flows on a flat trend over the past year and a half, but at levels not far off late-2000s peaks. Asian markets are mixed but large Asian airlines have seen an improvement, reflected in this latest forecast which projects airlines from this region to generate the largest margins and profits in \$ terms during 2013.



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Source: Bloomberg, IATA

System-wide global commercial airlines	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012E	2013F
										Central forecast	
REVENUES, \$ billion	322	379	413	465	510	570	476	547	597	638	671
% change	5.2	17.7	9.1	12.5	9.6	11.7	-16.5	14.9	9.3	6.8	5.1
Passenger	249	294	323	365	399	444	374	425	469	509	539
Cargo	40	47	48	53	59	63	48	66	69	66	68
Traffic volumes											
Passenger growth, tkp, %	2.3	14.9	7.0	5.0	6.4	1.5	-2.1	7.3	6.2	5.3	5.4
Sched passenger numbers, millions	1,776	1,982	2,123	2,233	2,418	2,485	2,479	2,681	2,830	2,973	3,128
Cargo growth, tkp, %	3.9	7.9	0.4	4.8	4.8	-1.0	-9.8	18.7	-0.7	-2.0	2.7
Freight tonnes, millions	33.5	36.7	37.6	40.0	42.0	41.0	40.7	48.0	47.6	46.5	47.7
World economic growth, %	2.8	4.2	3.4	4.0	3.8	1.7	-2.3	3.9	2.6	2.1	2.4
Passenger yield, %	2.4	2.6	2.7	7.8	2.7	9.5	-14.0	6.1	4.0	3.0	0.4
Cargo yield %	2.0	7.4	2.4	5.9	5.5	7.4	-14.2	15.0	5.5	-2.0	0.0
EXPENSES, \$ billion	323	376	409	450	490	571	474	525	580	623	649
% change	4.0	16.2	8.9	10.1	8.8	16.5	-16.9	10.7	10.6	7.4	4.1
Fuel	44	65	91	117	135	189	125	139	176	209	216
% of expenses	14	17	22	26	28	33	26	26	30	33	33
Crude oil price, Brent, \$/b	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.4	111.2	111.8	109.5
Jet kerosene price, \$/b	34.7	49.7	71.0	81.9	90.0	126.7	71.1	91.4	127.5	129.5	130.0
Non-Fuel	279	311	318	333	355	382	349	386	404	415	433
cents per atk (non-fuel unit cost)	38.9	39.5	38.6	38.9	39.3	41.8	39.6	41.6	41.4	41.2	41.3
% change	0.3	1.4	-2.1	0.8	0.8	6.4	-5.2	5.1	-0.5	-0.5	0.4
Break-even weight load factor, %	61.1	61.9	62.0	61.2	60.9	63.2	62.3	63.1	63.1	63.6	63.3
Weight load factor achieved, %	60.8	62.5	62.6	63.3	63.4	63.1	62.6	65.7	65.0	65.1	65.5
Passenger load factor achieved, %	71.5	73.4	74.9	76.1	77.7	76.0	76.0	78.4	78.1	79.1	79.8
OPERATING PROFIT, \$ billion	-1.4	3.3	4.4	15.0	19.9	-1.1	1.9	21.7	17.0	14.9	22.3
% margin	-0.4	0.9	1.1	3.2	3.9	-0.2	0.4	4.0	2.9	2.3	3.3
NET PROFIT, \$ billion	-7.5	-5.6	-4.1	5.0	14.7	-26.1	-4.6	19.2	8.8	7.6	10.6
% margin	-2.3	-1.5	-1.0	1.1	2.9	-4.6	-1.0	3.5	1.5	1.2	1.6

Source: ICAO data to 2009-11 (note revisions to 2009 and 2010 data). IATA estimate for 2012 and forecast for 2013. Passenger and freight numbers are global system-wide collected by IATA, including some non-ICAO states. Bankruptcy reorganization charges excluded.