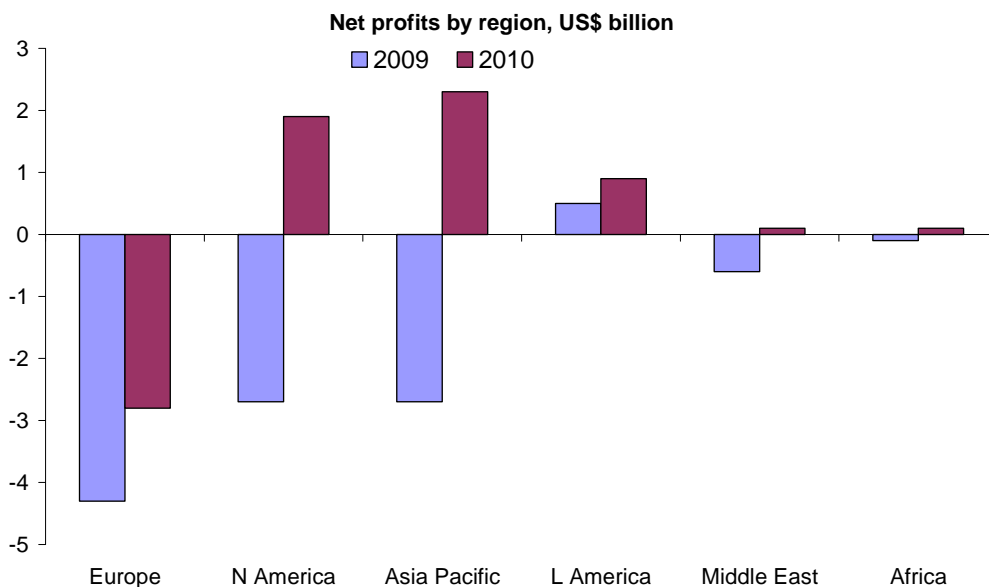


# FINANCIAL FORECAST

June 2010

## BACK INTO PROFIT EXCEPT FOR EUROPE

➤ We are upgrading our 2010 forecast to a small net profit of US\$2.5 billion for the commercial airline industry, up from the net loss of US\$2.8 billion projected in our March forecast. The exception to this improved outlook is Europe, where the situation has deteriorated and we now forecast slightly larger net losses than before. European airlines have suffered from weak regional economic growth and airspace closures due to the Eyjafjallajökull volcanic ash plume. Elsewhere economic growth and its boost to air travel and cargo continued to surprise on the upside. On the assumption that there is no further major disruption from the ash plume we have significantly revised up our forecasts for air travel and air cargo growth, to 7.1% and 18.5% respectively. Load factors have reached record levels as capacity returns to the market at a slower pace than the revival in transport demand. As a result the revenue environment, outside Europe, has improved significantly. We estimate a 2.8% return on capital this year, still half peak levels and far below capital costs.



Source: IATA

➤ Risks to the outlook remain. The Greek debt crisis may trigger faster fiscal tightening in Western economies, slower growth and new taxes. New capacity may threaten the rise in yields. Oil prices remain uncertain.

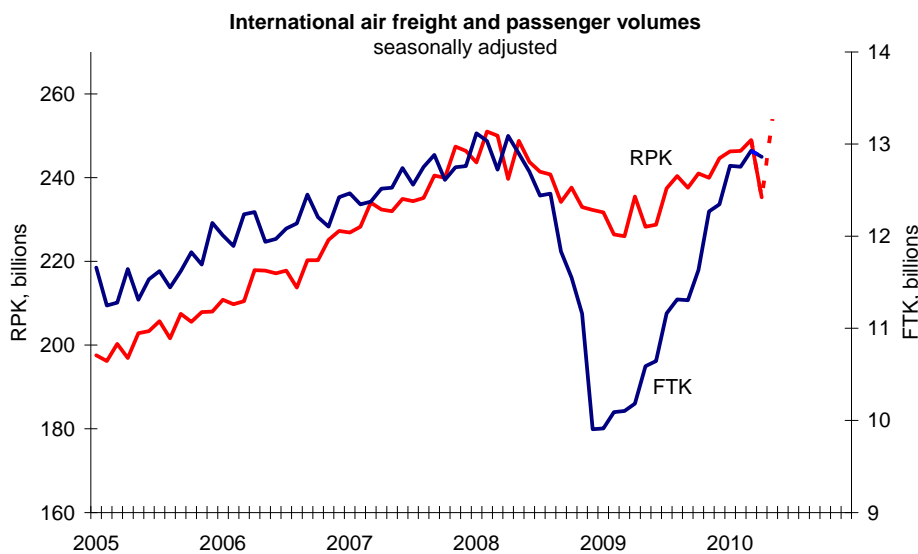
System-wide global commercial airlines	2007	2008	2009E	2010F	2007	2008	2009E	2010F
	<b>EBIT margin, % revenues</b>				<b>Net profits, \$ billion</b>			
<b>Global</b>	<b>3.9%</b>	<b>-1.6%</b>	<b>-0.3%</b>	<b>2.3%</b>	<b>12.9</b>	<b>-16.0</b>	<b>-9.9</b>	<b>2.5</b>
including exceptional items					14.7	-36.1	-9.8	2.5
<b>Regions</b>								
North America	5.5%	-1.8%	1.2%	3.4%	3.7	-9.6	-2.7	1.9
including exceptional items					5.5	-24.4	-2.7	1.9
Europe	4.0%	0.1%	-2.2%	-1.1%	6.4	0.0	-4.3	-2.8
including exceptional items					6.4	-1.0	-4.3	-2.8
Asia-Pacific	2.9%	-4.7%	0.0%	4.7%	3.0	-4.7	-2.7	2.2
including exceptional items					3.0	-8.7	-2.6	2.2
Middle East	0.0%	1.0%	-1.5%	1.6%	-0.1	-0.3	-0.6	0.1
Latin America	2.0%	2.3%	2.7%	4.5%	0.1	-1.4	0.5	0.9
including exceptional items					0.1	-1.7	0.5	0.9
Africa	1.0%	-0.9%	-0.9%	0.9%	-0.2	-0.1	-0.1	0.1

Source: ICAO data to 2007-8. IATA estimates for 2009 and forecasts for 2010.

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

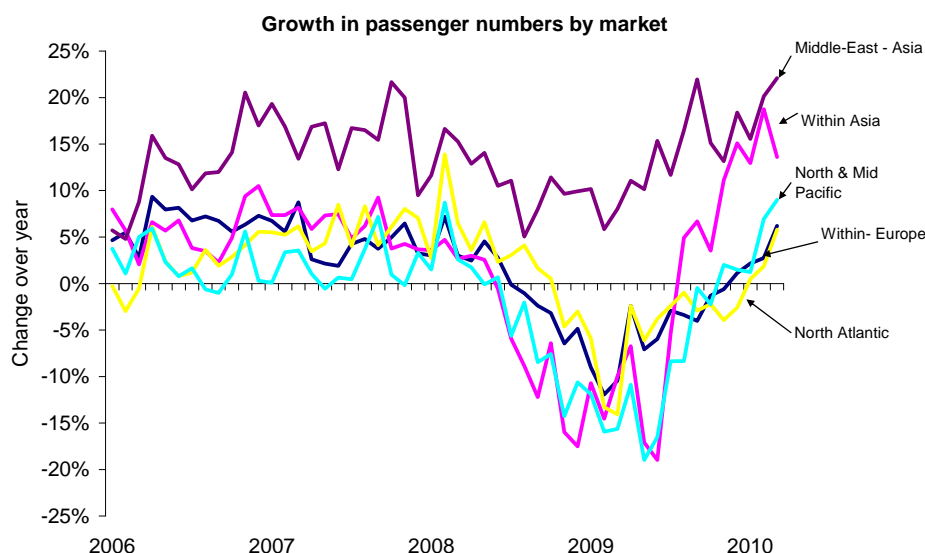
## ASH PLUME DENTS STRONG DEMAND REBOUND

➤ Air travel volumes were growing at an annualized pace of 9% in the first quarter. Air freight was growing at a pace of 26%. As the chart shows there has been a strong rebound from the depths of the 'Great Recession' in early 2009. That demand rebound was dented in April by the grounding of almost 30% of global passenger capacity for a week as European airspace was closed by the ash plume from the Eyjafjallajokull volcano. There was some further, but lesser disruption in May. However, early indications from the first three weeks of May suggest that air travel has bounced back, as shown below. But we expect the pace of freight expansion to slow, since business inventory-sales ratios are back to normal. In the second half of this year air shipments will depend more on the pace of consumer spending growth, which will be less of an impetus than the business inventory cycle. Even so, we have significantly revised up 2010 forecasts for system-wide volume growth, from 5.6% to 7.1% for passenger markets and 12% to 18.5% for cargo markets.



## GEOGRAPHICAL MARKETS REMAIN MULTI-SPEED

➤ The overall cyclical upturn is strong but there are large variations by geographical markets. Non-Japan Asia has seen the strongest economic upturn, along with other so-called 'emerging' economies. Measured by industrial production emerging economies are 10% up on pre-recession levels, whereas the large developed economies are still 10% down. This is clearly reflected in travel and freight markets. Current geographical multi-speed patterns are expected to continue throughout this year, judging by economic forecasts of divergent economies. Asian, S American and Middle Eastern markets will continue to see strong growth, while the more developed markets in Europe and across the North Atlantic are likely to remain sluggish.



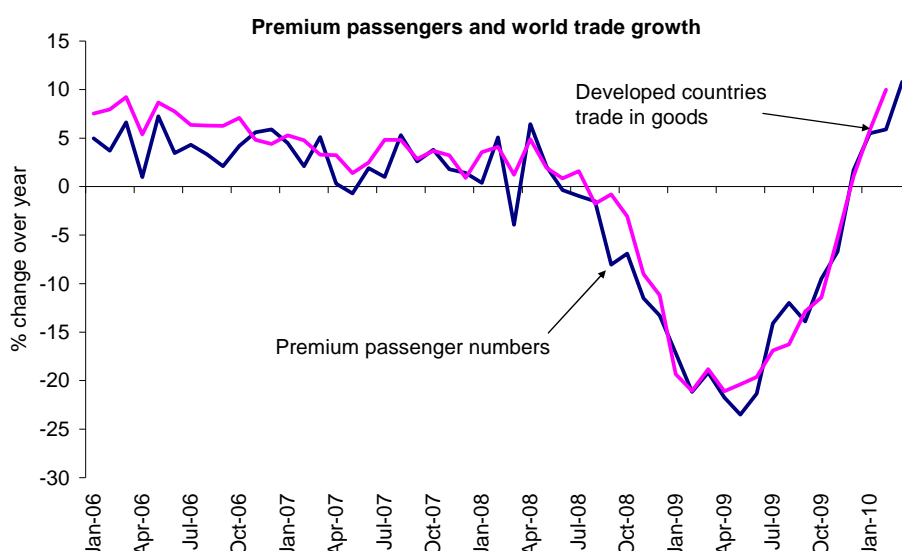
➤ We now expect overall market volumes to rise by more than 10% for the commercial airline industry this year, aggregating passenger and cargo together in a common tonne-kilometer metric, a similar expansion to the 1994 recovery after the early-1990s recession but less than the 13.8% rise seen in 2004. Double figure expansions are spread across the emerging world, but North America and, especially, Europe lag behind. Capacity is now being brought back into the market. The wide-body fleet is still several percentage points below its normal utilization, and there are some 1,340 new jets and turboprops on the books to be delivered this year. We expect this to add 5.4% to overall capacity – more for freight, less for passengers – in 2010, allowing some further improvement in load factors.

System-wide global commercial airlines	2007	2008	2009E	2010F	2007	2008	2009E	2010F
<b>Global</b>	<b>Traffic (TKP), % change over year</b>				<b>Capacity (ATK), % change over year</b>			
	5.2	-0.1	-4.3	10.2	5.2	0.7	-4.9	5.4
<b>Regions</b>								
North America	3.5	-2.4	-7.3	8.2	3.2	-2.8	-6.5	4.0
Europe	2.1	0.9	-8.7	2.9	3.5	2.9	-5.7	0.0
Asia-Pacific	7.8	-0.2	-3.2	16.2	6.9	0.6	-7.5	8.3
Middle East	16.4	3.6	8.5	19.5	14.5	4.7	11.1	15.9
Latin America	9.9	3.3	0.0	13.9	6.9	3.2	1.3	9.6
Africa	4.5	5.1	-5.4	13.5	5.8	7.2	-1.5	9.5

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

## CYCLICAL UPTURN FOR BUSINESS TRAVEL

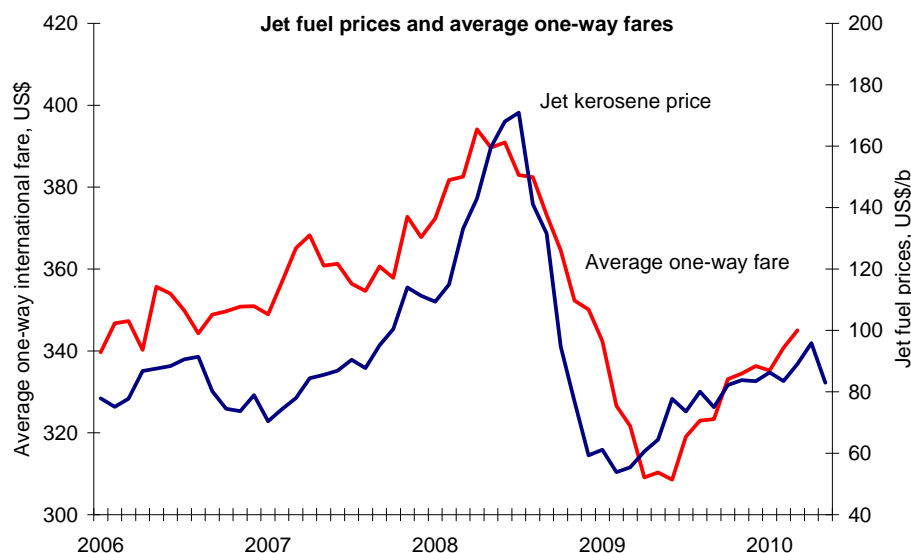
➤ There has been a sharp rebound in business travel, which is why the number of passengers travelling on premium class seats has risen strongly. It does look as though the downturn in premium travel was cyclical and not permanent. World trade is still rising sharply and surveys show business confidence, outside Europe, has regained pre-recession levels. Premium travel volumes were rebounding at an exceptionally strong annualized pace of over 20% in the first quarter. The ash plume will dent the expansion but further gains in the second half of this year are still expected. However, improvements in consumer confidence have stalled as unemployment has risen sharply in many developed economies, limiting the rebound of leisure travel. But economy travel has recovered to pre-recession levels despite the relative lack of improvement in leisure markets. Clearly business travel is also driving the economy segment and that suggests it may be difficult to get the same rebound in premium yields as in premium passenger numbers.



Source: IATA, Netherlands CPB

➤ Notwithstanding the corporate buying pressure on premium yields, the average level of fares and cargo rates has been rising since mid-2009 as record load factors tighten supply-demand conditions. As with volumes there are significant differences in yield trends between geographical markets. For example rates for cargo shipped out of Asia are back to pre-recession levels, whereas for cargo being shipped into Asia from Europe there has been very little rise at all. On average we are now forecasting a 4.5% improvement in yields this year, which should allow a 13% rise in revenues. This is a much more positive revenue outlook than we expected three months ago. Despite this improvement the forecast level of revenues in 2010 remains 4% lower than the size of the market in 2008.

- Yields and revenues are rising but so are fuel prices. Following the Greek debt crisis jet kerosene prices slipped back almost US\$10/b but prior to that had risen US\$40/b from a low in early 2009 to a range of US\$80-100/b. Clearly part of the rise in average fares during the past 12 months has been an attempt to recoup rising fuel costs. With over 90 days forward cover of oil and products in the OECD there is little fundamental justification for the scale of the price rise in the past year. Many analysts forecast oil prices to remain within a range for the rest of this year. As we saw in 2008 prices do not always follow fundamentals.



Source: IATA, Platts

## BALANCE OF RISKS SHIFTING

- Six months ago the major risk was that the cyclical recovery would not be 'V-shaped' but an 'L' or worse. In the event the cycle is still surprising on the upside. However, downside risks to demand remain as the ash plume and the Greek sovereign debt crisis remind us. The latter certainly raises the risk of a 'double-dip' in developed economies in 2011, though the 2010 outturn seems less at risk. The improved outlook we project here could however be undermined by cost pressures arising from labor disputes, oil or a much faster resurgence of capacity and the resulting damage to the nascent yield revival.

System-wide global commercial airlines	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010F
<b>REVENUES, \$ billion</b>	307	306	322	379	413	465	510	564	483	545
% change	-6.4	-0.5	5.2	17.7	9.1	12.6	9.6	10.5	-14.3	12.9
Passenger	239	238	249	294	323	365	398	439	369	414
Cargo	39	38	40	47	48	53	59	64	49	61
Traffic volumes										
Passenger growth, tkp, %	-2.3	-1.0	1.4	16.7	7.0	5.4	5.7	0.4	-2.1	7.1
Passenger numbers, millions	1640	1639	1691	1888	2022	2124	2281	2271	2224	2382
Cargo growth, tkp, %	-6.0	8.7	3.9	7.9	0.4	3.9	4.0	-1.2	-9.8	18.5
Freight tonnes, millions	28.8	31.4	33.5	36.7	37.6	39.8	41.8	40.5	36.5	43.3
World economic growth, %	2.2	2.7	2.8	4.2	3.4	4.0	3.8	1.7	-2.2	3.1
Passenger yield, %	-4.4	0.3	3.3	1.0	2.7	7.4	3.0	9.9	-14.0	4.5
Cargo yield %	1.9	-9.5	2.0	7.4	2.4	6.9	5.9	10.2	-14.2	4.5
<b>EXPENSES, \$ billion</b>	319	311	323	376	409	450	490	573	484	533
% change	0.5	-2.7	4.0	16.2	8.9	10.1	8.8	16.9	-15.4	10.0
Fuel	43	40	44	65	91	107	134	189	113	140
% of expenses	13	13	14	17	22	24	27	33	23	26
Crude oil price, Brent, \$/b	24.7	25.1	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.0
Non-Fuel	276	270	279	311	318	343	356	384	371	393
cents per atk (non-fuel unit cost)	39.4	39.0	39.2	39.5	38.6	40.1	39.6	42.4	43.1	43.3
% change	0.9	-1.0	0.7	0.6	-2.1	3.9	-1.4	7.2	1.6	0.5
Break-even weight load factor, %	61.3	61.9	60.9	61.9	62.0	61.3	60.8	63.8	63.4	64.5
Weight load factor achieved, %	59.0	60.9	60.7	62.5	62.6	63.3	63.3	62.8	63.2	66.1
<b>OPERATING PROFIT, \$ billion</b>	-11.8	-4.8	-1.4	3.3	4.3	15.0	19.9	-8.9	-1.2	12.7
% margin	-3.8	-1.6	-0.4	0.9	1.0	3.2	3.9	-1.6	-0.3	2.3
<b>NET PROFIT, \$ billion</b>	-13.0	-11.3	-7.5	-5.6	-4.1	3.6	12.9	-16.0	-9.9	2.5
% margin	-4.2	-3.7	-2.3	-1.5	-1.0	0.8	2.5	-2.8	-2.1	0.5

Source: ICAO data to 2008. IATA 2009 estimates and 2010 forecasts. Excludes exceptional accounting items and mark-to-market fuel hedging losses from net profits