REVIEW OF 2011

Although the year 2011 began with a lot of hope for an economic recovery, it was primarily characterized as a year of full scale uncertainty. The grim operating environment faced by the carriers at the start of the global recession that revolutionized how they operate today also helped the industry cope with this uncertainty. Consequently, U.S. airlines made a profit for the second consecutive year. A view held by some industry professionals is that recent carrier initiatives will provide traction towards profitability, even during future periods of uncertainty, and this appears to have borne fruit in 2011. One recent initiative by the passenger carriers is a shift in focus from increasing market share to one of boosting shareholder return on investment. The U.S. airline industry has become more nimble; that is, adjusting capacity to seize opportunities or contracting in times of economic distress. As a result, it expanded its capacity by 2.0 percent in 2011 while positioning itself for a reduction of 0.8 percent this year in anticipation of the uncertain economic environment. Even during times of economic instability and distress, the industry has found ways to increase revenue. For example, air carriers are charging fees for services that used to be included in airfare (e.g. meal service), as well as for services that were not previously available (e.g. premium boarding and fare lock fees). The impact from these recent initiatives gives reason for optimism. After posting net losses for eight consecutive quarters, the industry (passenger and cargo carriers combined) posted profits in both 2010 and 2011.

Demand for air travel in 2011 grew slowly following a dismal 2010 that was marked by fading consumer confidence, tightening credit, surging unemployment, eroding corporate travel budgets, and the pressure of debt restructuring in Europe and the U.S. In 2011[2] system revenue passenger miles increased 3.5 percent as enplanements increased 2.5 percent. Commercial air carrier domestic enplanements were up 2.3 percent while international enplanements were up 4.4 percent. The system-wide load factor continued to rise to 82.0 percent (up 0.1 points from 2010). Domestic enplanement market share continued to rise for low-cost carriers in 2011 while network and “other” carrier and regional carrier share decreased. Domestic low cost carrier enplanement share increased by 1.1 points to 28.4 percent while the share of network and “other” carriers fell by 0.4 points to 46.8 percent and regional carrier share dropped by 0.6 points to 24.8 percent.

Capacity restraint by the carriers as passenger demand returned helped the system wide real yield to increase by 6.4 percent in 2011. Data for FY 2011 show that the reporting passenger carriers had a combined operating profit of $5.8 billion (compared to a $7.3 billion operating profit for FY 2010). The network carriers reported combined operating profits of $4.23 billion while the low cost carriers reported combined operating profits of $1.1 billion, with four out of the five network carriers and five of the nine low cost carriers posting profits.

The general aviation market continued its decline in calendar year (CY) 2011, although at a slower rate. U.S. manufacturer shipments declined for the fourth year in a row, down an

[2] All stated years and quarters for U.S. economic and U.S. air carrier traffic and financial data and forecasts are on a fiscal year (FY) basis (October 1 through September 30). All stated years and quarters for international economic and world traffic and financial data are on a calendar year (CY) basis, unless otherwise stated.

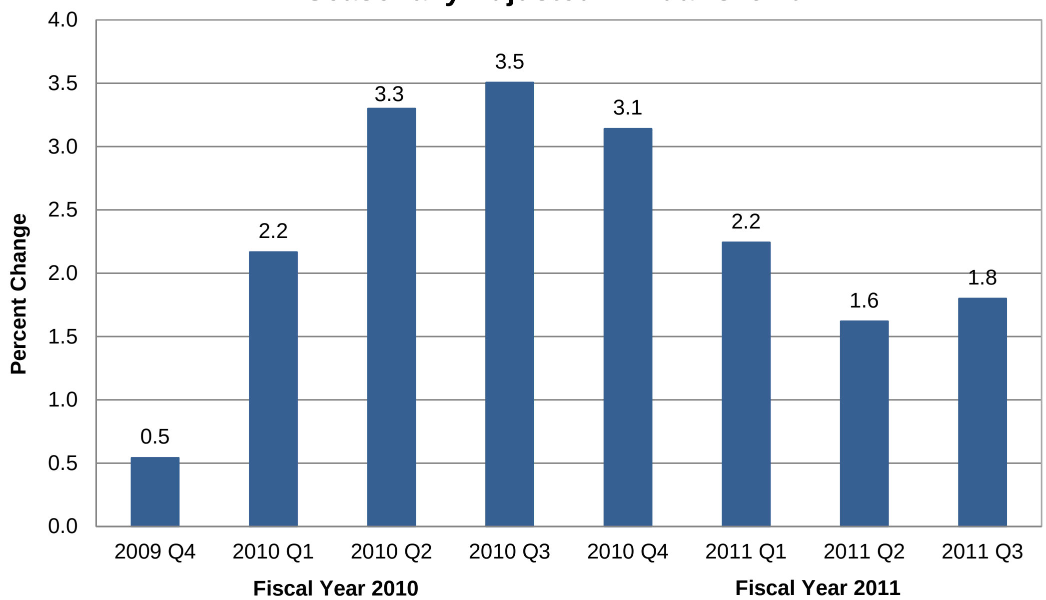
estimated 8.9 percent, even though U.S. billings are estimated to have increased 6.7 percent than their CY 2010 levels. Piston aircraft shipments by U.S. manufacturers fell an estimated 10.5 percent, and turbine aircraft shipments (turboprop and business jets) by U.S. manufacturers declined by 7.0 percent in CY 2011 compared to CY 2010. While continuing decreases in U.S. shipments reflected the fragile nature of the economic recovery, the pace of the decline has slowed. The 7.0 percent decrease for the turbines compared favorably to the 24.9 percent decline recorded in 2010 and 39.2 percent decline posted in 2009 in turbine aircraft shipments by U.S. manufacturers. The business jet segment showed even more reason for optimism as shipments fell by only 2.7 percent in CY 2011 versus decreases of 29.2 percent and 46.2 percent, respectively in CY 2010 and CY 2009. Along with the fall in shipments, general aviation activity at FAA and contract tower airports fell 2.3 percent in 2011.

Total operations at FAA and contract towers decreased for the 4^{th} consecutive year, falling 1.0 percent, as activity declines in the air taxi and general aviation categories offset increases in air carrier and military activity. Although the overall number of flights fell, FAA's workload did not. As the fleet mix changes with increasing numbers of regional and business jets in the nation's skies, along with carriers consolidating operations in their large hubs, the complexity of activity in the airspace continues to grow, increasing controllers' workload.

U.S. ECONOMIC ACTIVITY

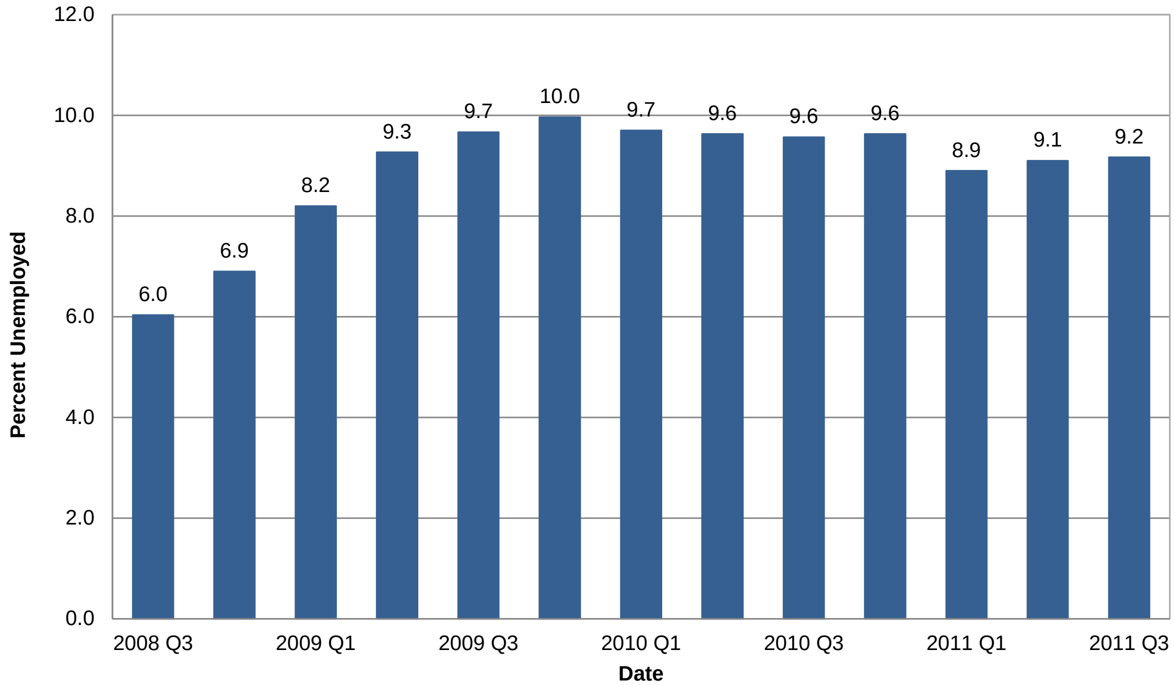
Following an unprecedented fiscal stimulus (i.e., American Recovery and Reinvestment Act or ARRA) of over $800 billion that took place in 2009, with over half of it being spent during 2010, the U.S. economy was left to its own fundamentals in the latter part of 2010 and 2011. The economy grew at an average annual rate of 2.1 percent in fiscal year (FY) 2010 and 2.1 percent in FY 2011. Given the uncertainty that characterized 2011, the economic growth that occurred without a contraction or double-dip recession was reassuring. Towards the end of the fiscal year and beginning with FY 2012, there were signs of pent-up demand coming back as consumer spending continued to grow, the housing market appeared to be finally turning around and the labor market gained traction. Overall, business spending continues growing, perhaps partly influenced by tax incentives and a cautious environment that has kept inventories to a minimum.

U.S. Gross Domestic Product
Seasonally Adjusted Annual Growth



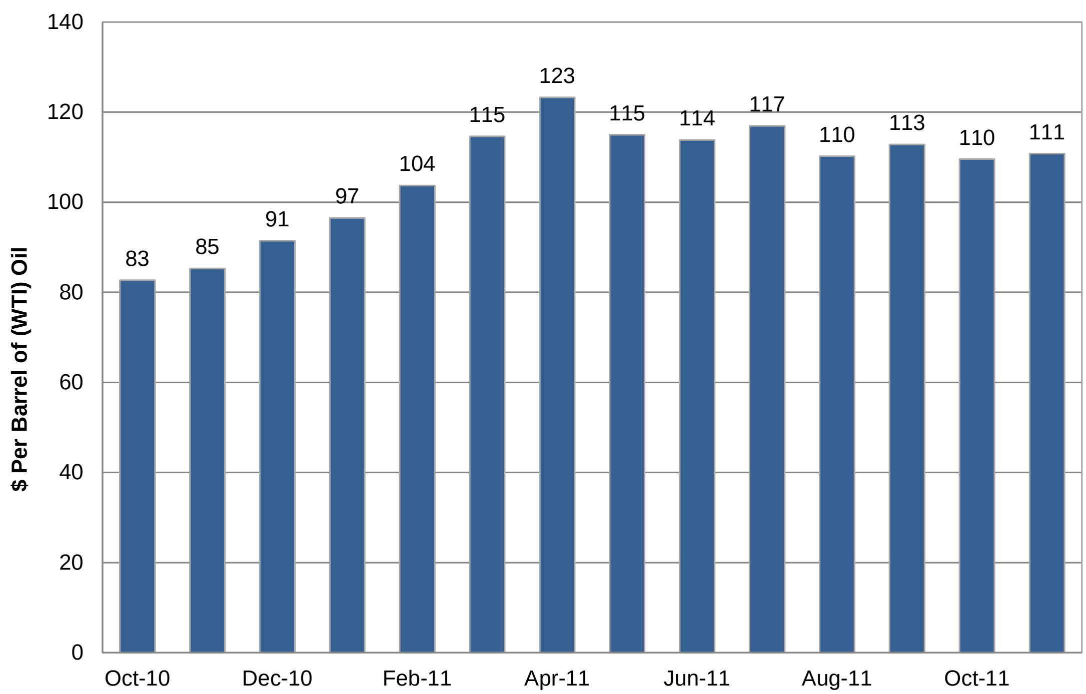
The nation's unemployment rate has been greatly affected by the recession. When the recession began in December 2007 the unemployment rate was 5.0 percent. Unemployment climbed throughout 2008, intensified during 2009, and reached its pinnacle during the first quarter of FY 2010 (10.0 percent). The unemployment rate is gradually falling, from an average of 9.7 percent in FY 2010 to 9.2 percent in FY 2011; this rate of decline is relatively slow compared to past recessions.

U.S. Unemployment Rate



The price of oil, as measured by the U.S. Refiners' Acquisition Cost (for West Texas Intermediate, or WTI), was $96.05 in FY 2011, an increase of 29 percent from FY 2010. This is on top of the last year's increase of 36 percent. The fuel price volatility that characterized 2008-2009 has diminished considerably but a rising trend appears to be settling in throughout the last two years.

U.S. Refiners' Acquisition Cost

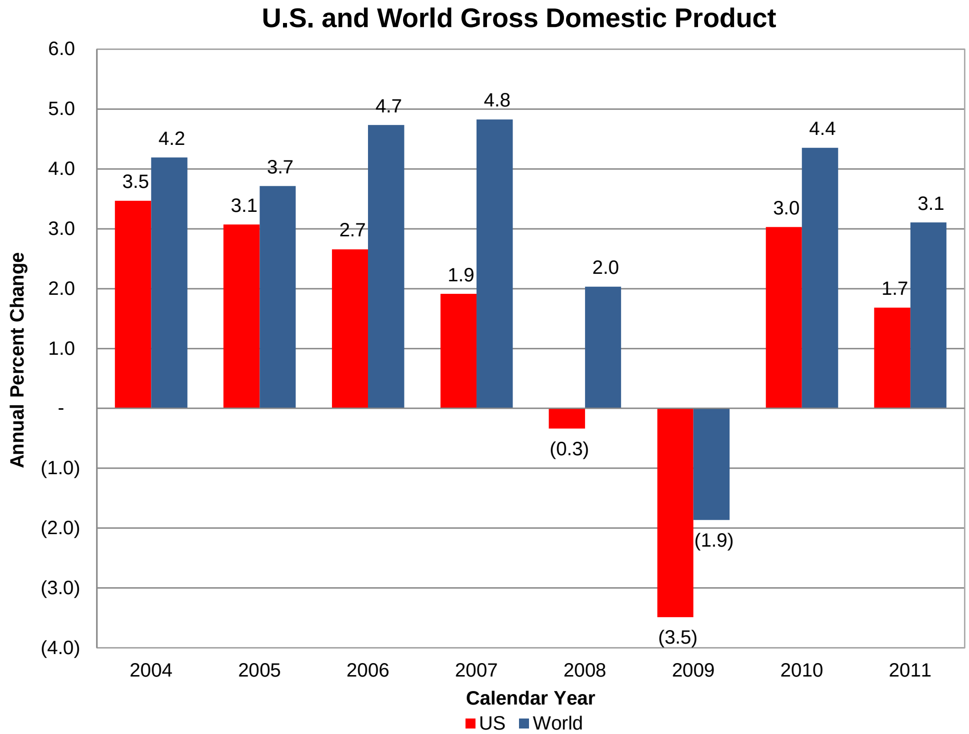


Source: IHS Global Insight

Finally, consumer prices continued to increase in 2011. Core inflation (excluding gas and food) was moderate (2.2 percent); while headline inflation was up a modest 2.6 percent due to an increase in oil and gasoline prices.

WORLD ECONOMIC ACTIVITY

Based on preliminary figures, according to IHS Global Insight, the U.S. and rest of the world economies grew 1.7 and 3.1 percent, respectively, in 2011. The advanced economies (U.S., Western Europe, Japan, Australia, New Zealand, and Canada) expanded 1.3 percent overall. All world regions saw their economies grow, except Japan which was impacted by the devastation wrought by the March earthquake and tsunami. Data coming out at the year's end suggest that the recovery in Europe is continuing to lag that of other world regions.



Source: Global Insight website, GDP Components Tables (Interim Forecast, Monthly), Release date 14 OCT 2011

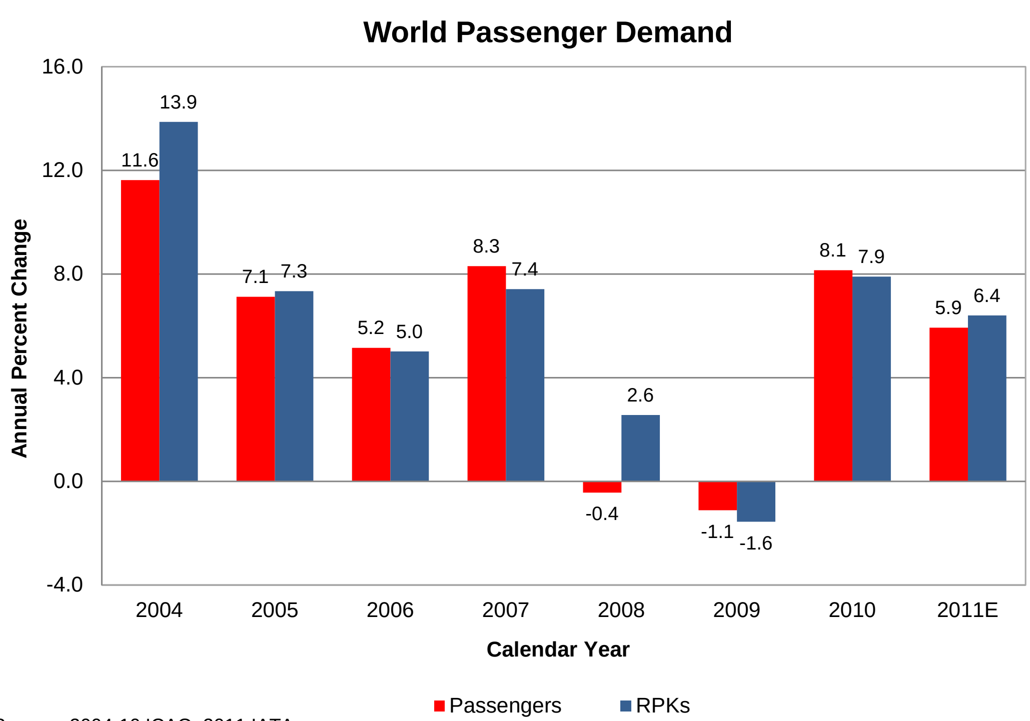
On a calendar year basis, gross domestic product (GDP) in Canada expanded at a faster pace (up 2.2 percent) than the U.S. in 2011 (up 1.7 percent). The combined economies of the Asian and Far East nations grew 4.2 percent in 2011, down from 6.8 percent a year earlier. This region includes the world's second largest economy, Japan (down 0.6 percent), and the world's most vibrant economy, China (up 9.3 percent). The combined economies of Europe rebounded more slowly, with Western Europe up 1.6 percent and the combined economies of Central Europe and the former Soviet Union up 4.4 percent. GDP in Latin America (including the Caribbean) expanded by 4.0 percent with Brazil up 3.6 percent and Mexico up 3.9 percent.

COMMERCIAL AVIATION

Commercial aviation continued a slow recovery in 2011 despite rising jet fuel prices and a shaky global economy. The U.S. industry posted a net profit in 2011, with a similar outcome predicted for foreign carriers. After posting net profits of $15.8 billion in 2010, global industry net profits for calendar year 2011 are expected to be $6.9 billion.[3] All global regions are projected to see a drop in profits as fuel costs increased by $40 billion worldwide.

World Travel Demand

Based on data compiled by the International Civil Aviation Organization (ICAO), world air carriers are expected to post another solid performance in CY 2011 as demand for air travel continues to rebound from the depressed levels recorded during 2009. Although traffic results are not available for full year 2011 at the time of this printing, ICAO predicts that worldwide revenue passenger kilometers (RPKs) will increase 6.4 percent following an increase of 7.9 percent in 2010.[4]

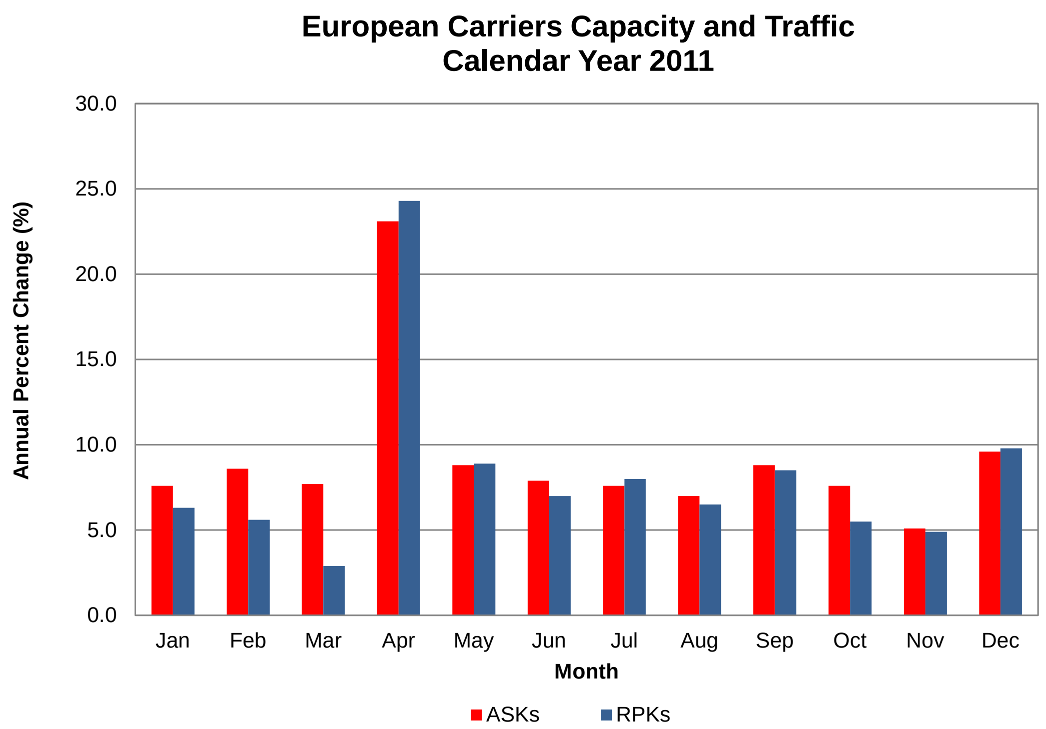


Source: 2004-10 ICAO; 2011 IATA

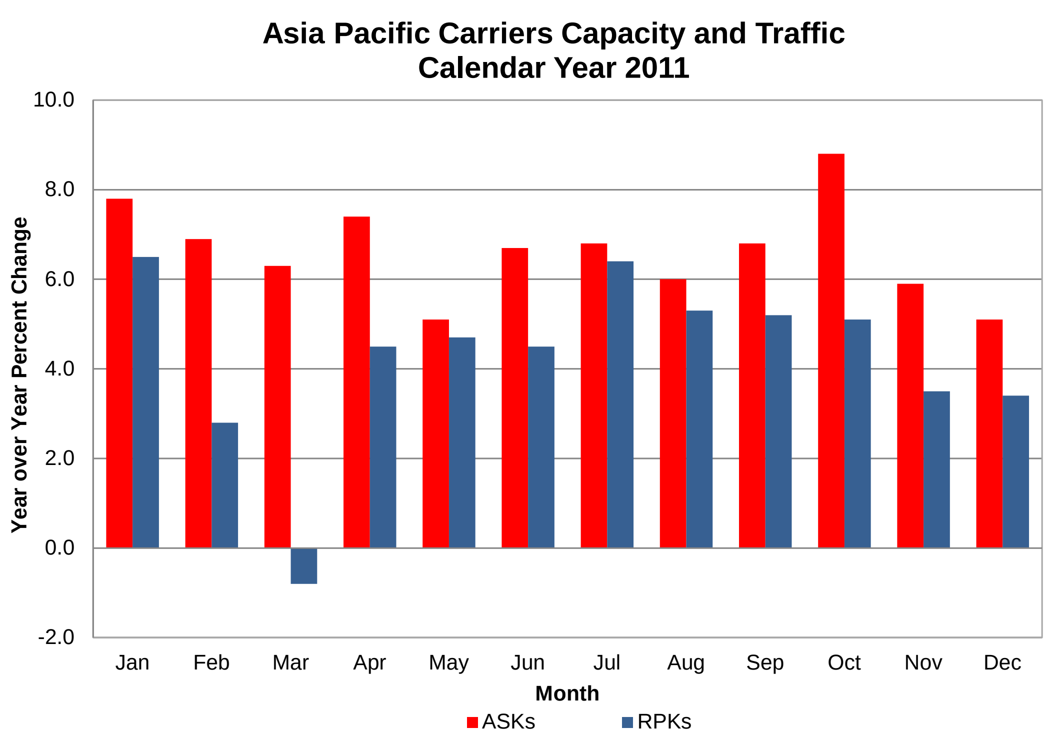
Statistics from the Association of European Airlines (AEA) available for calendar year 2011 show passengers are up 7.1 percent over calendar year 2010. Data for the same period shows capacity, as measured by available seat kilometers (ASKs), to be up 8.9 percent and

[3] IATA Financial Forecast, December 2011.
[4] ICAO press release dated January 6, 2012.

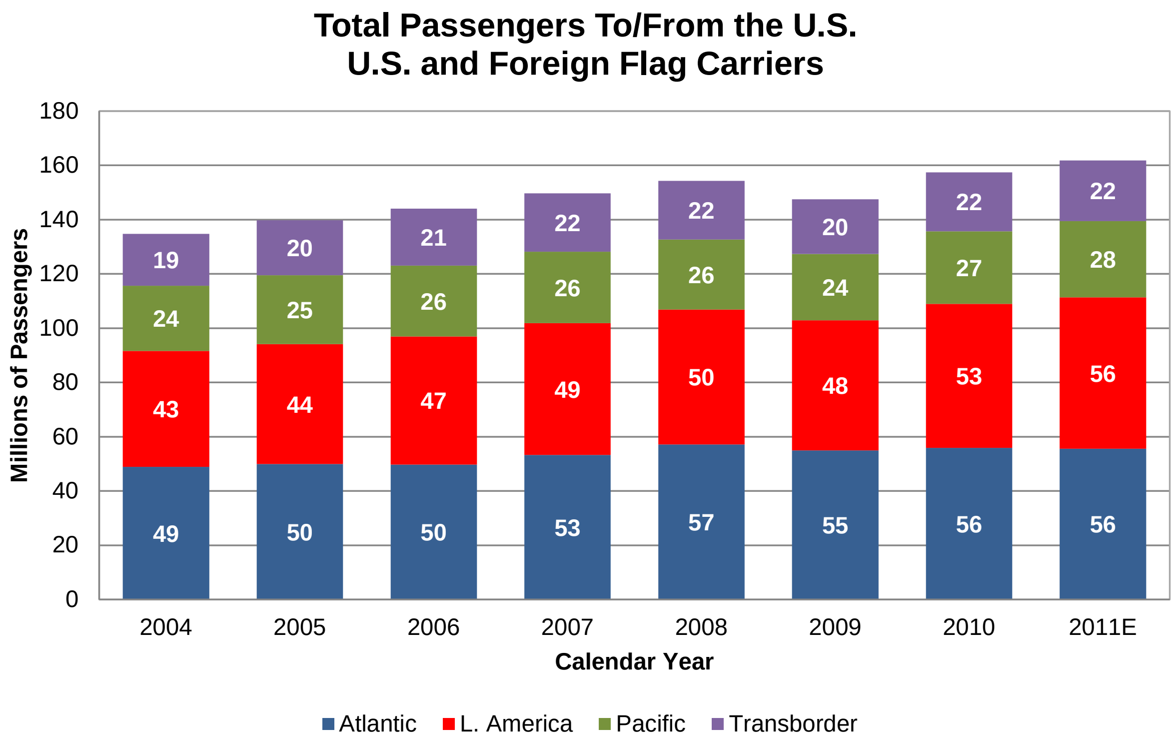
RPKs to be up 8.0 percent. Results for April 2011 show a resurgence of traffic followed by airspace closures stemming from volcanic ash clouds that took place in April, 2010.



The Association of Asia Pacific Airlines (AAPA) reported an increase of 3.7 percent in international RPKs and a 6.3 percent increase in international ASKs; international passengers were up 3.5 percent during the same period.

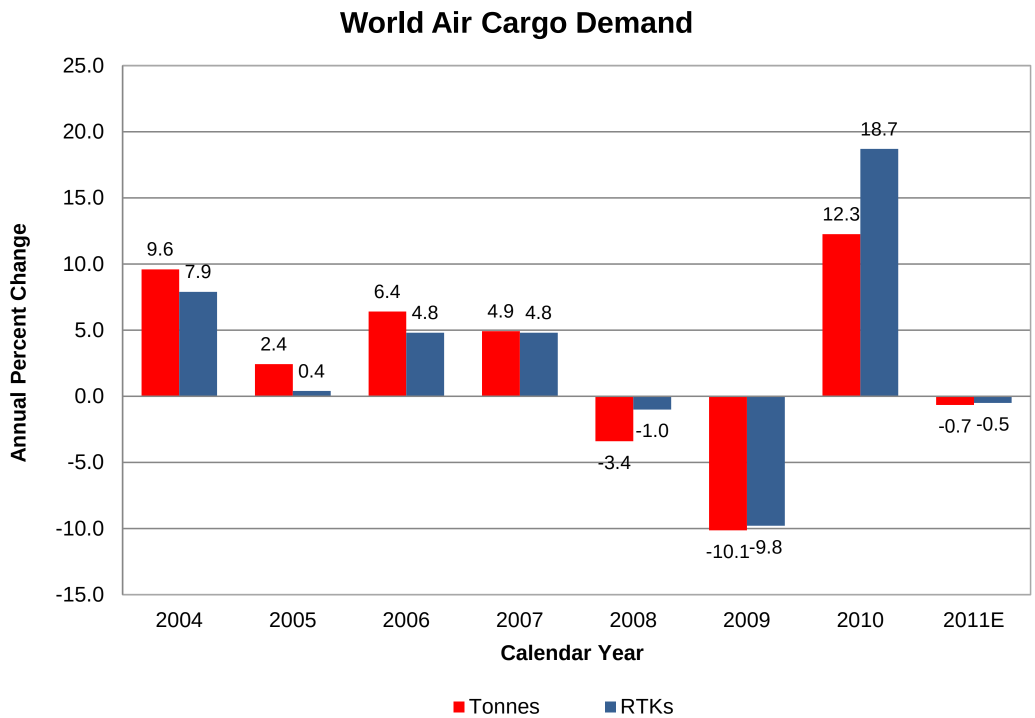


In CY 2011, U.S. and foreign flag carriers transported an estimated 161.8 million passengers between the United States and the rest of the world, a 2.8 percent increase from 2010. Year-over-year growth increased in the Transborder, Pacific and Latin markets (up 2.2 percent, 5.7 percent and 5.0 percent, respectively). Passengers decreased in the Atlantic market (down 0.6 percent) due to repercussions from the debt crisis in Europe, which is slowing the recovery of that region's economy, and from the worldwide economic slowdown.



Worldwide air cargo demand contracted slightly in 2011 following a sharp rebound in 2010.[5] According to IATA, worldwide freight ton kilometers were estimated to decline 0.5 percent in calendar year 2011 compared to 2010. Freight ton kilometers (FTKs) of AEA member carriers were up 2.1 percent in calendar year 2011 whereas FTKs of AAPA member carriers fell 4.8 percent during the same period.

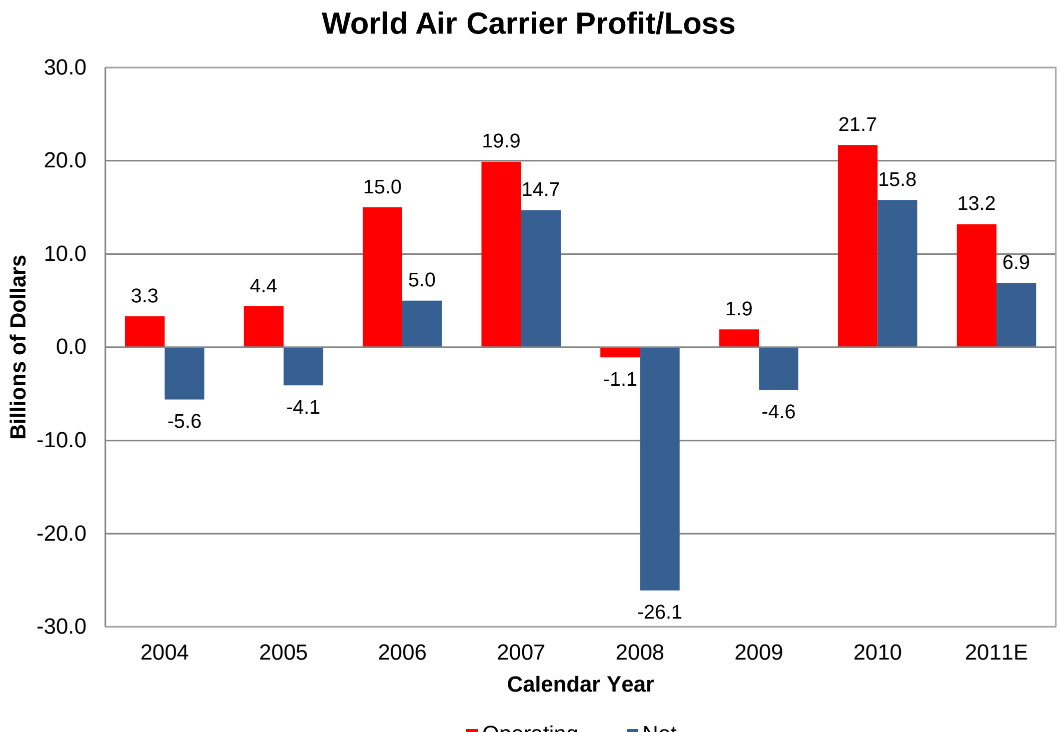
[5] IATA News Release, January 2012.



Source: 2004-10 ICAO; 2011 IATA

The International Air Transport Association (IATA) reports that world air carriers (including U.S. airlines) are expected to register an operating profit of $13.2 billion for 2011. IATA estimates global airline industry net profits to be $6.9 billion for the same period with all regions expected to be in the black. Based on financial data compiled by ICAO and IATA, between 2003 and 2011 world airlines produced cumulative operating profits of $76.9 billion (with seven years out of nine posting gains) and net losses of $5.5 billion (with four years out of nine posting gains).[6]

[6] IATA Financial Forecast, December 2011.



Source: 2004-10 ICAO; 2011 IATA

U.S. Travel Demand

By year end of FY 2011, the U.S. commercial aviation industry consisted of 16 scheduled mainline air carriers that used large passenger jets (over 90 seats) and 68 regional carriers that used smaller piston, turboprop, and regional jet aircraft (up to 90 seats) to provide connecting passengers to the larger carriers. Mainline and regional carriers offer domestic and international passenger service between the U.S. and foreign destinations, although regional carrier international service is confined to the border markets in Canada, Mexico, and the Caribbean. Twenty-six all-cargo carriers were providing domestic and/or international air cargo service at the end 2011.

Shaping today's commercial air carrier industry are three distinct trends: (1) convergence of the network and low cost carrier business models and unit costs; (2) continuing industry consolidation and restructuring, and (3) the proliferation of ancillary revenues.

A sign that the business models for the low cost and network carriers groups are converging is the narrowing share of capacity flown between these two groups and the fares they charge. After losing market share in 2008, partially due to the cessation of operations by two low cost carriers during that year,[7] low cost carrier capacity share has been on the rise (up 0.9 points in 2009, up 0.4 points in 2010, and up 1.6 points in 2011). Since 2000, the share of capacity flown by the low cost carrier group has almost doubled, going from a 17.0 percent market share in 2000 to over 32.0 percent share in 2011. Another narrowing gap is the average

[7] American Trans Air and Skybus Airlines.

domestic yield (a proxy for airfare) reported by the low cost and network carrier groups. In 2000, average domestic yield for the low cost carrier group was 12.4 cents versus 14.5 cents for the network carrier group. By 2011, they were virtually identical on average; however, this does not show the variations in market premiums that each airline may command due to its unique market position.

Industry restructuring and consolidation continued in 2011. Operations at Northwest Airlines were folded into Delta Airlines, while operations at Midwest Airlines were folded into Frontier Airlines. For the regional carriers, Delta Airlines sold its subsidiaries, Compass and Mesaba, to Trans States and Pinnacle, respectively, and Arctic Circle Air merged with ERA Aviation. Soon after FY 2011 ended, American Airlines declared bankruptcy at the end of November 2011. As a result of industry restructuring and consolidation, far fewer carriers now report traffic to the Bureau of Transportation Statistics when compared to 2001. Subsequently, 7.0 percent fewer domestic ASMs were flown but almost 3.0 percent more passengers were carried domestically in 2011 when compared to 2001. This has had clear implications on the size of the aircraft being used and the load factors, topics which will be discussed later in this document.

The 7.0 percent reduction in domestic capacity since 2001 has not been shared equally between the mainline carriers and their regional counterparts. In 2011, the mainline carrier group provided 16 percent less capacity than it did in 2001 (and carried 12 percent fewer passengers). Conversely, capacity flown by the regional group increased 153 percent over the same ten year period (with passengers carried up 113 percent).

The shift in capacity from the mainline carrier group to the regional carrier group emerged from several factors. One factor was the type of aircraft flown by the regional carriers, which has been transformed from one of predominantly turboprop and piston aircraft to that of 50-90 seat regional jets. This fleet transformation has permitted the regional carriers to fly longer haul routes that were not previously accessible with smaller turboprop aircraft. Another factor leading to the shift in capacity was the external operating environment. Air travel demand was reduced by the terror attacks of September 11, the record breaking fuel prices of 2008, and the global recession that followed. To better match demand to capacity, the mainline carriers contracted out “thin” routes to their regional counterparts because they could provide lift at a lower cost. Over the past few years, however, this trend has slowed down considerably.

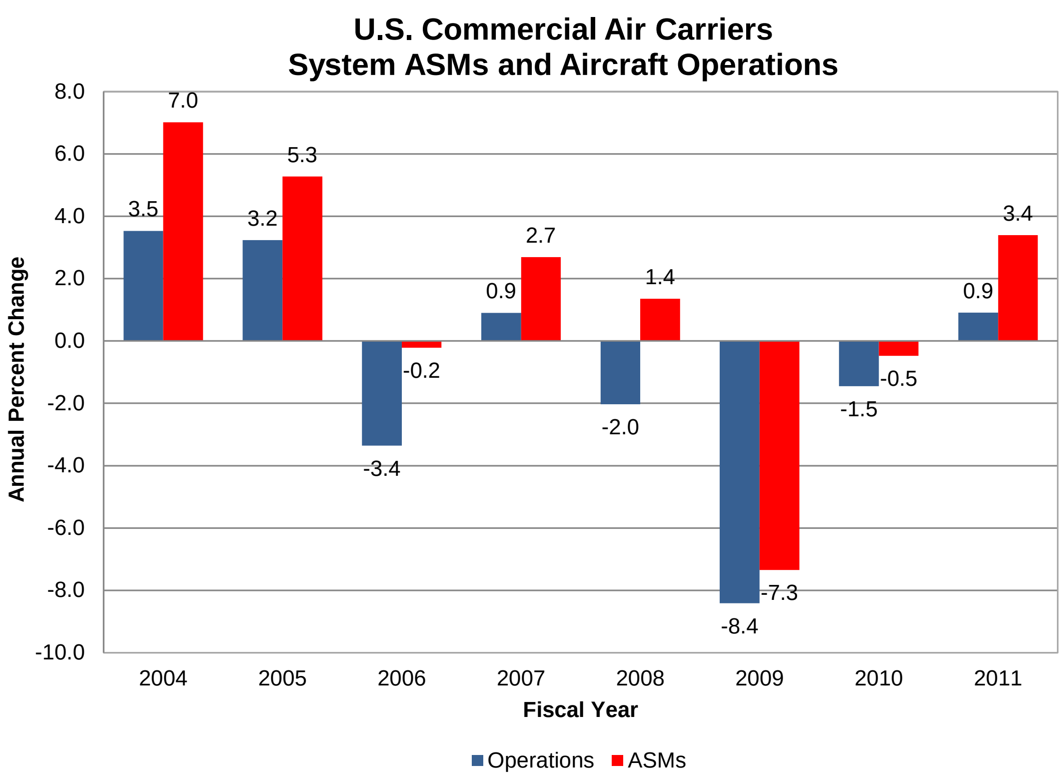
The most recent trend to take hold is that of ancillary revenues. Carriers generate ancillary revenues by selling products and services beyond that of an airplane ticket to customers. As noted earlier, U.S. passenger carriers posted net profits for the second consecutive year in 2011 with ancillary revenues a contributing factor to the favorable outcome.

Commercial Air Carriers – Passenger

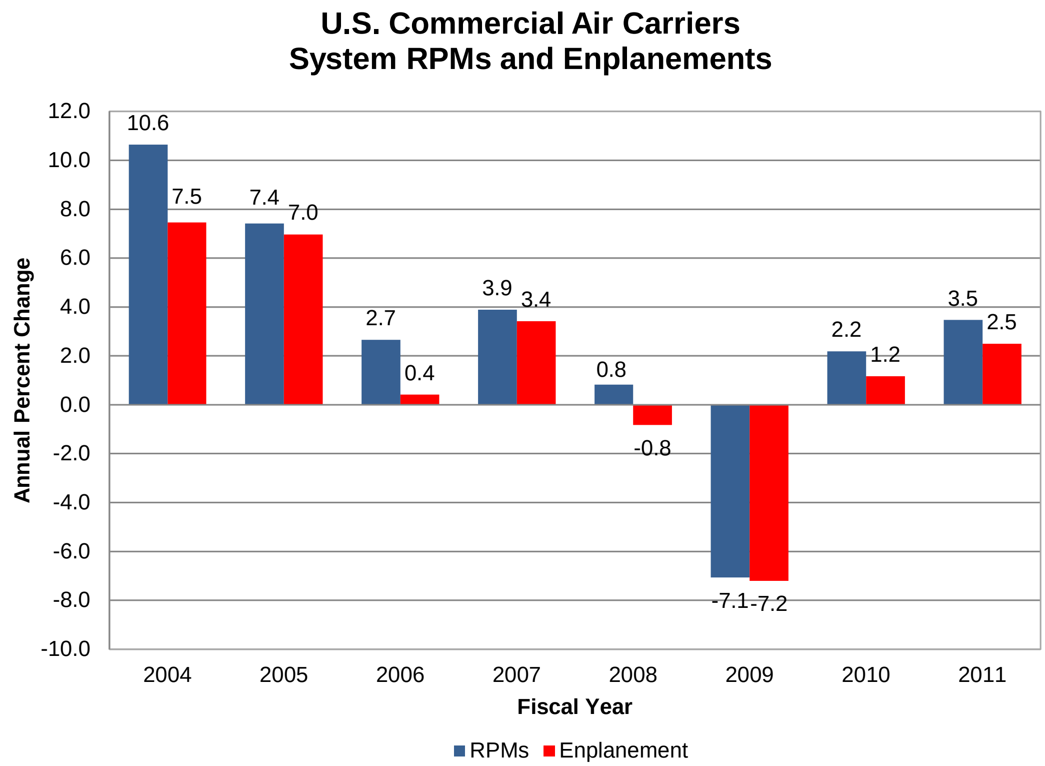
Coming off of a formidable 2010 brought on by the continuing global economic slowdown and debt restructuring issues plaguing the financial recovery, U.S. commercial air carriers’ traffic and capacity results in 2011 showed a modest increase in both. System (the sum of domestic plus international) capacity increased 3.4 percent to 993.9 billion ASMs while RPMs increased 3.5 percent to 814.6 billion. During the same period system-wide passengers increased 2.5 percent to 730.7 million; U.S. mainline carrier passenger growth was 3.4 percent while regional carrier passengers declined by 0.4 percent to 163.6 million. In the domestic market, mainline passengers saw an increase of 3.1 percent following a three year consecutive decline prior to 2011. Mainline passengers in international markets posted strong growth for the second year in a row (up 4.7 percent).

Even though the recession was officially over in June 2009,[8] carriers continued to face economic uncertainty in 2011 as corporate travel budgets remained strained and double-digit unemployment persisted accompanied by uncertainty surrounding debt restructuring and the payroll tax break. Despite this, the industry expanded capacity, after three consecutive years of capacity reductions that were instituted in the latter part of 2008 to counter skyrocketing fuel prices and reduced demand. Counter intuitively, with a slight increase in seats available to the travelling public, carriers were still able to raise airfares as demand returned. Combining this new found pricing power with ancillary revenues, U.S. carriers finished 2011 with a net profit.

System load factor and trip length climbed in 2011, as seats per aircraft mile increased. The average load factor reached a record-breaking 82.0 points, up 0.1 points from 2010. Trip length increased by 10.9 miles to 1,114.9 miles. This marks the ninth consecutive annual increase in trip length. Seats per aircraft mile increased to 141.0 seats (up 1.3 seats per aircraft mile).



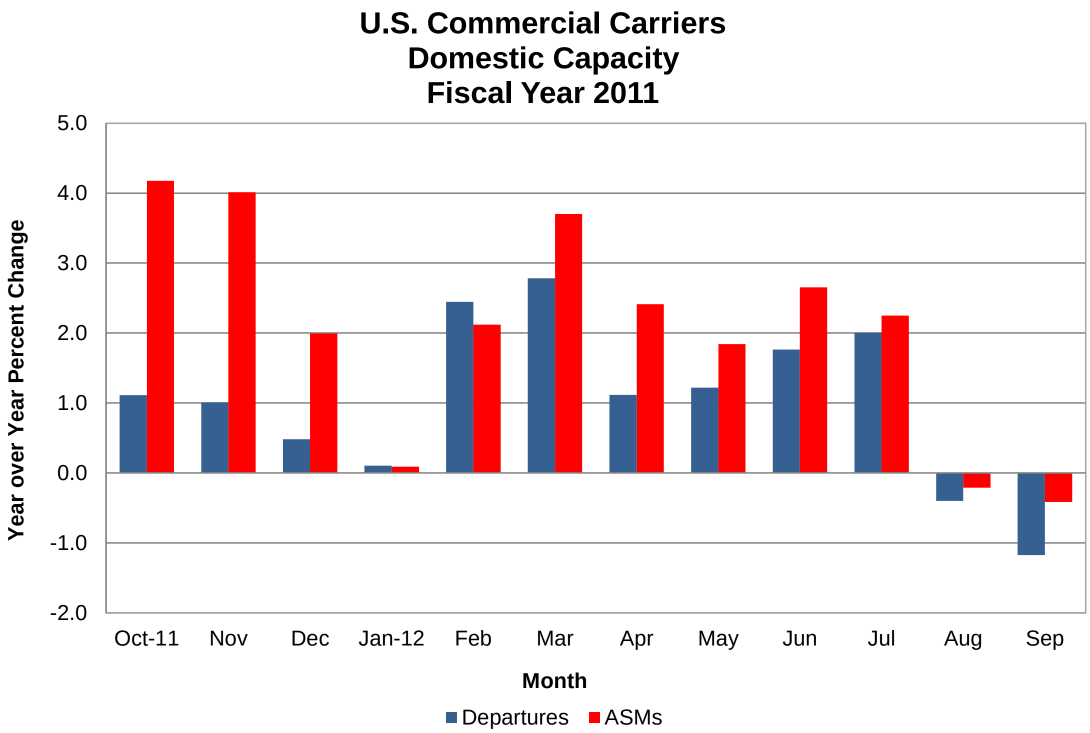
[8] According to the National Bureau of Economic Research.



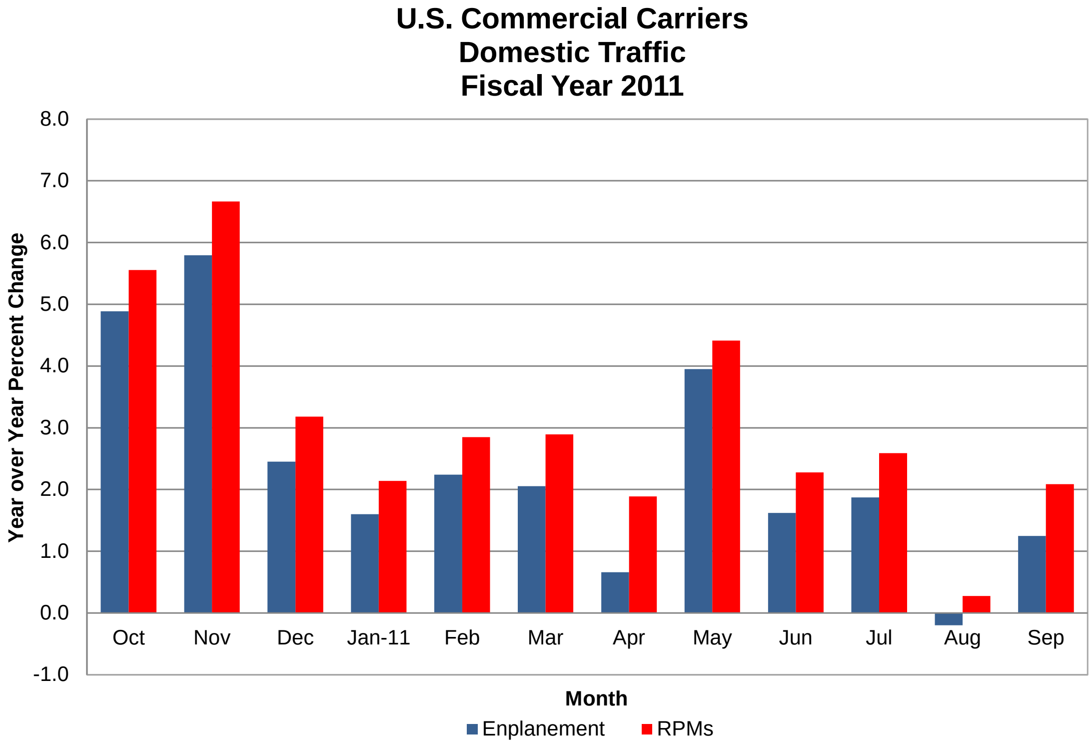
Domestic Passenger Markets

Domestic capacity[9] was up 2.0 percent in 2011 after a decline of 0.4 percent in 2010. This was preceded by the steepest decline (in 2009 of 9.0 percent) ever recorded since deregulation of the industry in 1978. Departures were flat for the year after falling 1.8 percent in FY 2010. A year-over-year increase in capacity was posted for the first seven months of 2011 with the first quarter up 2.9 percent and the second and third quarters up by 2.2 and 1.9 percent, respectively. Capacity declined 0.3 percent year-over-year in the fourth quarter. Mainline carrier capacity was up 2.3 percent for the year, while regional carrier capacity was up 0.6 percent. Despite this increase, domestic ASMs were still 7.8 percent below pre-recession levels (2007) with departures down 12.1 percent at the end of 2011.

[9] The 50 states, Puerto Rico, and the U.S. Virgin Islands.



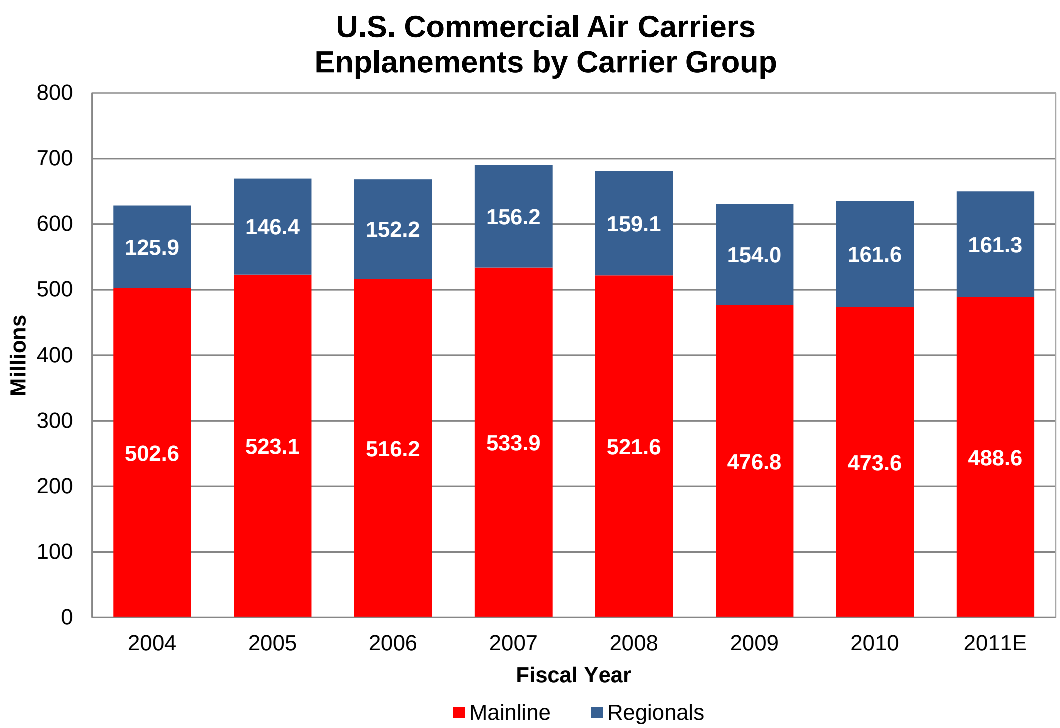
Domestic passenger enplanements grew at a faster rate than ASMs in 2011 up 2.3 percent. In the first half of the year, domestic passengers were up 3.2 percent but growth slowed in the second half of the year with passengers up just 1.5 percent. On a year-over-year basis, mainline carrier enplanements were up 3.1 percent for the year while regional carrier enplanements fell 0.2 percent, posting the second decline in three years for this segment of the industry.



Similar to passenger counts, domestic RPMs grew faster than ASMs with domestic RPMs up 3.0 percent in FY 2011. Growth slowed during the year with the first quarter up 5.1 percent, the second quarter up 2.6 percent, and the last half of the year up 2.2 percent. For the year, mainline carrier RPM growth was 3.3 percent, while regional carrier growth was just 0.6 percent.

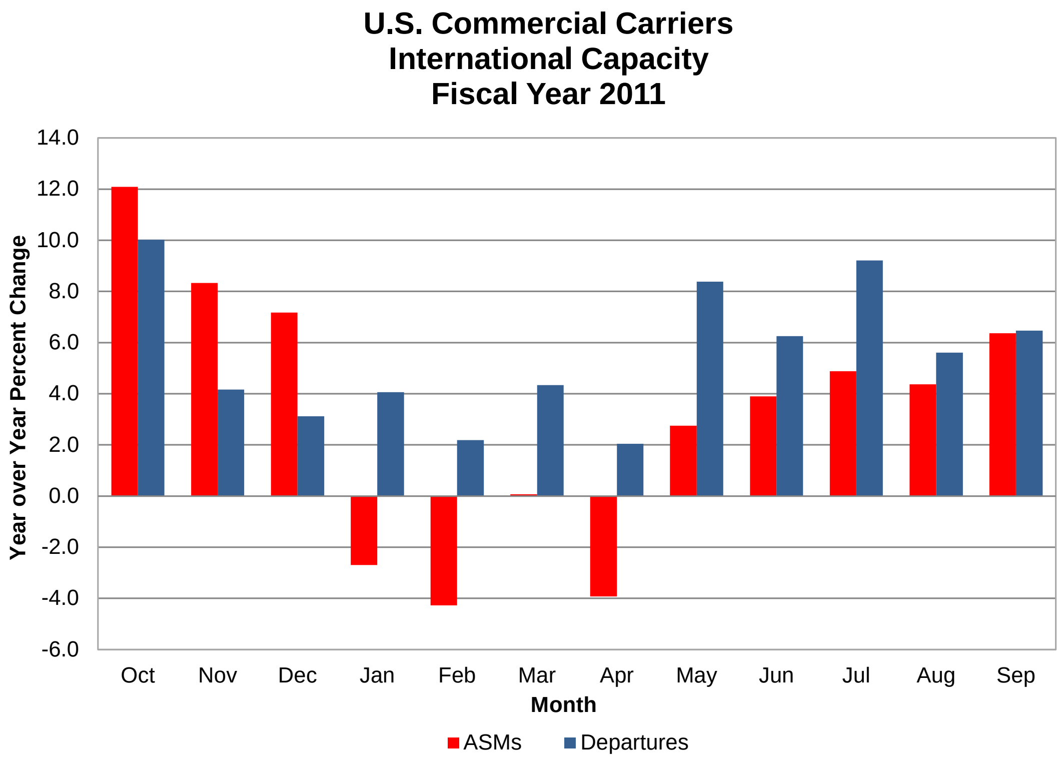
Domestic carrier load factor increased 0.8 points to 82.5 percent, with both the mainline and regional carriers groups posting record high loads. Mainline carrier load factor increased 0.9 points from FY 2010 to 83.6 percent, while regional carrier load factor remained constant at 76.2 percent.

Since FY 2000, total domestic capacity has decreased by 4.5 percent. Mainline carriers have reduced their domestic capacity by 13.6 percent with cutbacks by network carriers more than offsetting the growth of low-cost carriers. Making up some of the shortfall from network carrier capacity cuts during this time are the regional carriers. This segment of the industry has greatly expanded capacity (up 158.4 percent from 2000). During the same period, mainline carrier RPMs have increased 1.4 percent, while enplanements have fallen 13.0 percent. In comparison, regional carrier RPMs and enplanements have increased 230.8 percent and 102.4 percent, respectively. As a result, mainline carrier domestic capacity share has fallen from 94.7 percent in 2000 to 85.7 percent in 2011, with the share of domestic RPMs flown by mainline carriers dropping from 95.5 percent to 86.8 percent during the same period. Regional carriers now fly one in every four passengers, up from one in eight in 2000.

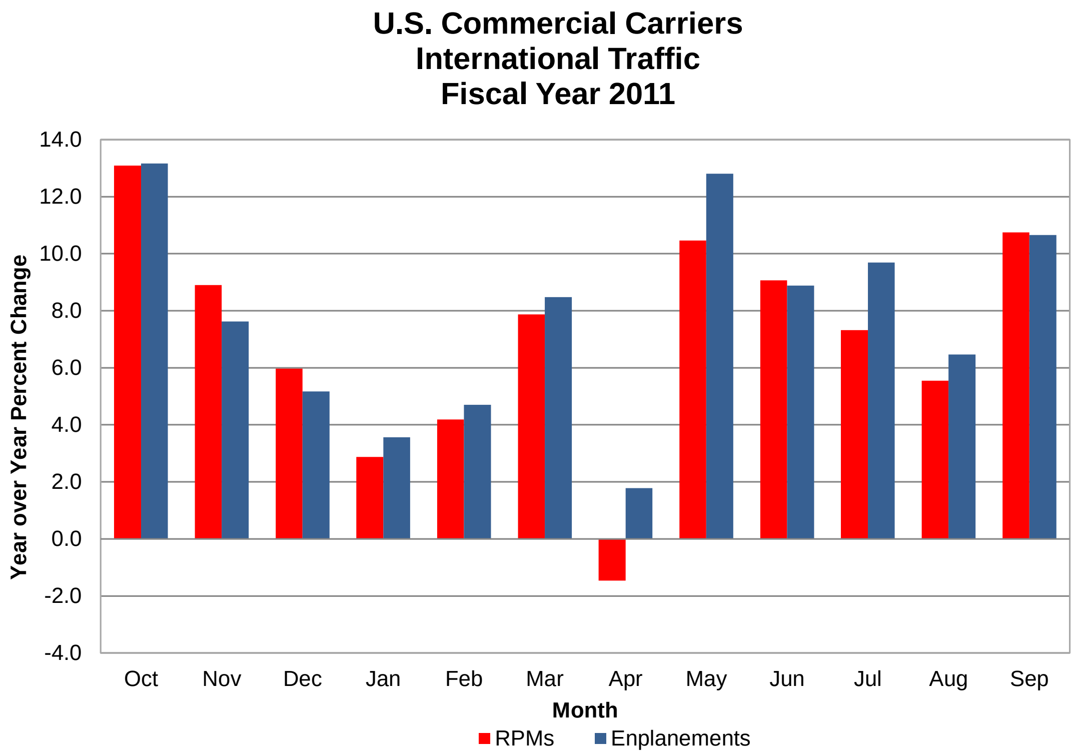


International Passenger Markets

U.S. carrier ASMs were up 6.7 percent and departures were up 3.9 percent in 2011. ASMs increased in all three regions with the Atlantic, Latin, and Pacific markets, up 5.6, 5.3 and 10.4 percent, respectively.



International RPMs were up 4.8 percent and passenger enplanements were up 4.4 percent in 2011. The Atlantic market posted an increase, with RPMs up 2.8 percent and enplanements up 3.2 percent. RPMs and enplanements increased 5.9 and 4.9 percent, respectively, in the Latin American market, while RPMs and enplanements increased 7.4 and 4.7 percent, respectively, in the Pacific market.



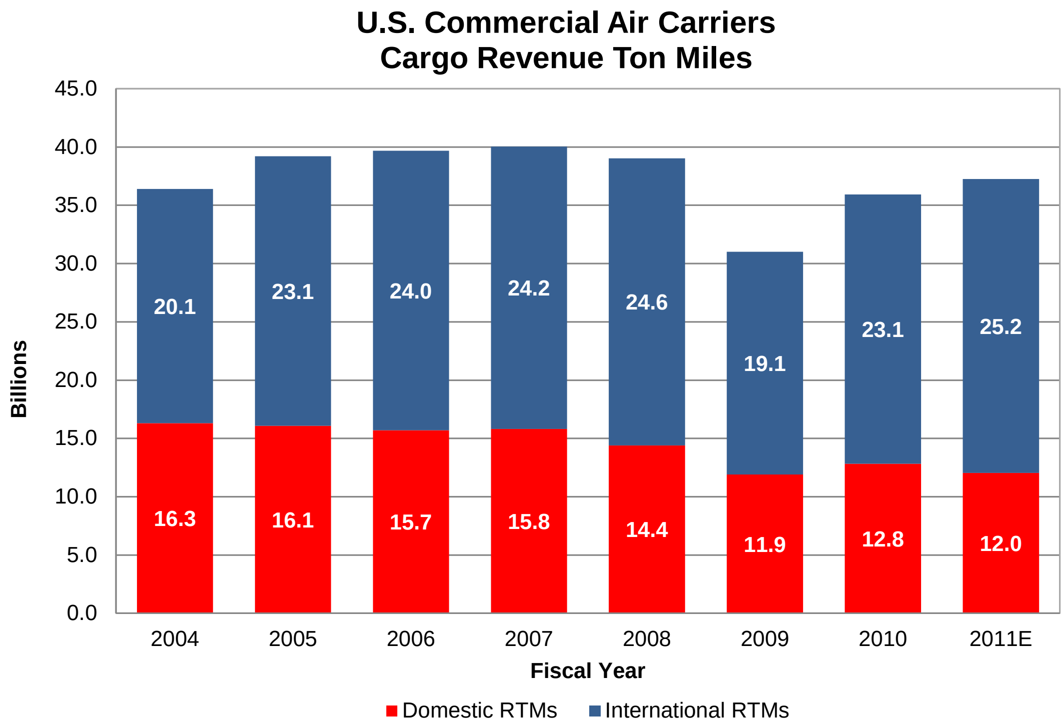
The international load factor dropped 1.4 percentage points overall in 2011 to 80.7 percent. Load factor decreased in all markets except Latin America: in the Pacific market load factor was down 3.0 points to 81.5 percent; in the North Atlantic market load factor was down 2.7 points to 80.7 percent; and in the Latin America market the load factor increased by 0.6 points to 79.7 percent.

In 2011, 51.9 percent of the passengers flying abroad on U.S. flag carriers traveled to the Latin America market. The remaining 48.1 percent of international passengers was split between the Atlantic market (31.3 percent) and the Pacific market (16.7 percent).

Commercial Air Carriers – Cargo

Air cargo traffic contains both domestic and international freight/express and mail. The demand for air cargo is a derived demand resulting from economic activity. Cargo moves in the bellies of passenger aircraft and in dedicated all-cargo aircraft on both scheduled and nonscheduled service. Cargo carriers face price competition from alternative shipping modes such as trucks, container ships, and rail cars.

U.S. air carriers flew 37.3 billion revenue ton miles (RTMs) in 2011, up 3.7 percent from 2010. Domestic cargo revenue ton miles (RTMs) fell by 6.1 percent to 12.0 billion. However, international RTMs increased by 9.1 percent to 25.2 billion, more than offsetting the decline in domestic RTMs. The strong growth in international RTMs reflects a rebound from the recession and the global financial crisis, with international air cargo RTMs now exceeding the pre-crisis (FY 2007) levels by 4.1 percent.



Air cargo RTMs flown by all-cargo carriers were 75.1 percent of total RTMs in 2011, with passenger carriers flying the rest, or 24.9 percent. Total RTMs flown by the all-cargo carriers increased 3.0 percent in 2011 from 27.2 billion to 28.0 billion. Total RTMs flown by passenger carriers were 9.3 billion in 2011, 5.9 percent higher than in 2010.

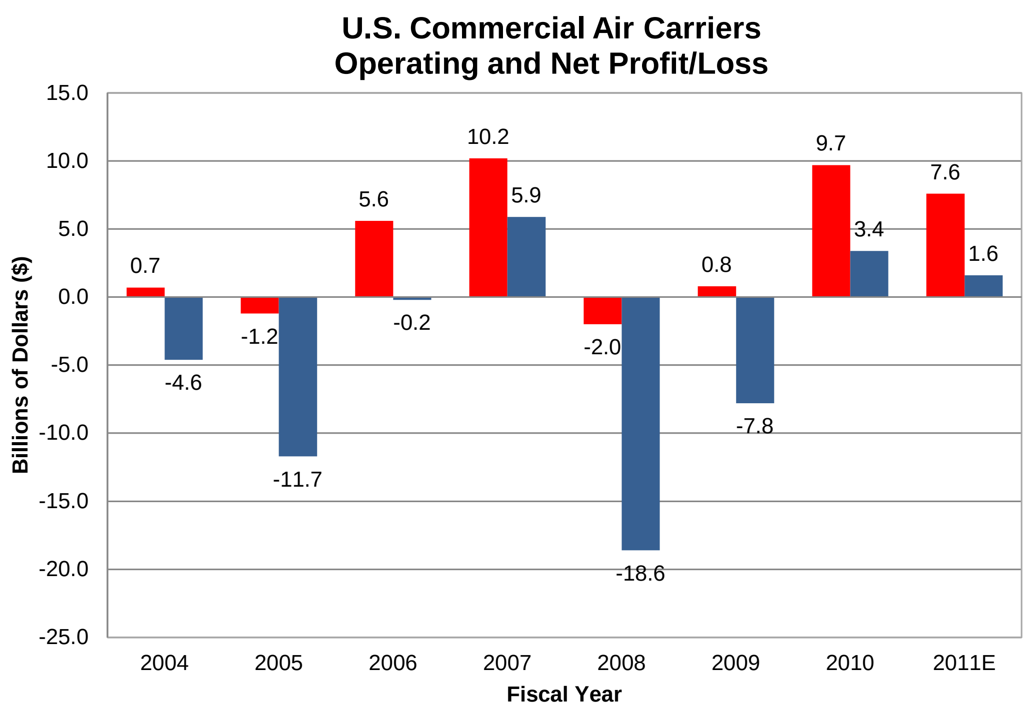
On August 3, 2007, “Recommendations of the 9/11 Commission Act of 2007” was signed into law. Section 1602 of this Act states that air cargo placed on passenger aircraft will receive the same level of screening as passenger-checked baggage. The legislation went into effect on August 1, 2010, and requires 100 percent inspection of cargo transported on passenger aircraft at the piece level. The legislation did not apply to cargo on U.S. bound passenger flights from overseas or on cargo-only aircraft. However, following the discovery of a bomb on an all-cargo plane bound for the U.S., the Air Cargo Security Act was introduced on November 16, 2010. The purpose of the Act is to expand the 100 percent cargo screening mandate of passenger aircraft to cargo only aircraft. The bill didn’t become a law and TSA is currently negotiating screening agreements with 20 countries where approximately 80 percent of U.S. bound international cargo originates.

International Air Cargo Revenue Ton Miles by Region

International air cargo traffic can be divided into four components consisting of Atlantic, Latin, Pacific, and 'Other International.' While total international RTMs increased, not all regions experienced growth in 2011. Latin cargo fell from 1.9 billion RTMs to 1.8 billion RTMs, a 9.3 percent decline. However, Atlantic RTMs rose 5.4 percent, from 6.9 to 7.2 billion and the Pacific region enjoyed even more expansion, a 9.1 percent increase from 8.4 to 9.1 billion. The 'Other International' category experienced the most growth. RTMs in that 'region' expanded from 5.9 billion to 7.1 billion, growing by 20.4 percent.

U.S. Commercial Air Carriers 2011 Financial Results

U.S. commercial air carriers posted a net profit of $1.6 billion during FY 2011 after reporting a net profit of $3.4 billion one year earlier.



Source: DOT Form 41 & 298C

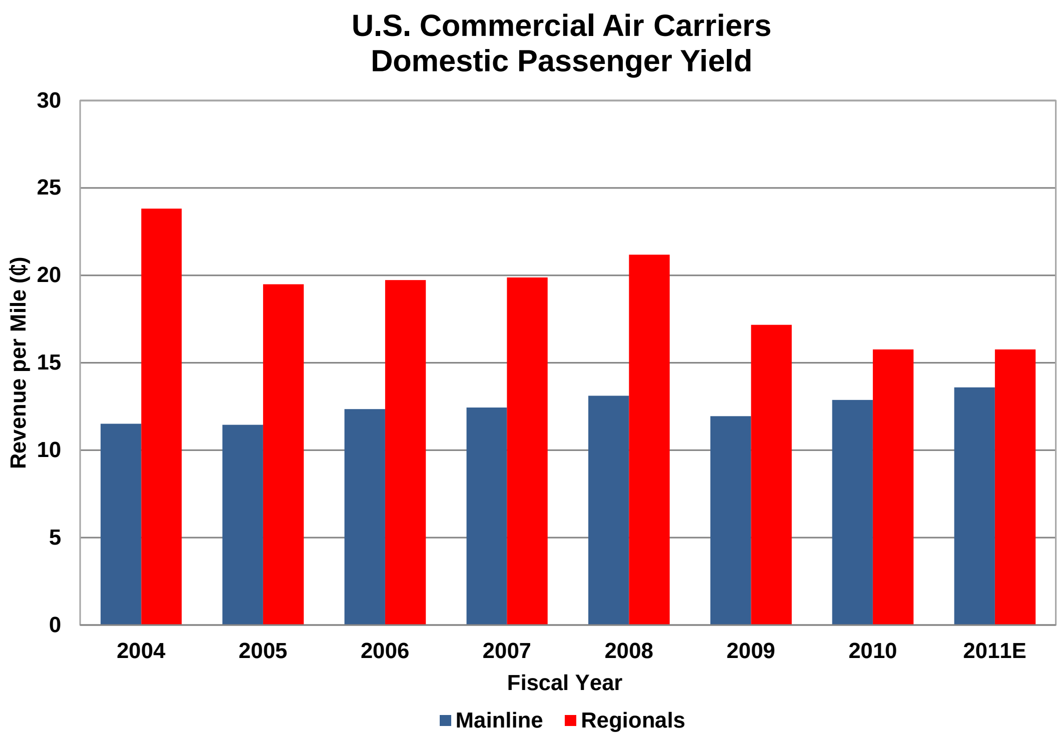
Operating revenues (passenger and cargo) for FY 2011 were up 10.4 percent from FY 2010. The increase in revenue underscored the ability of passenger carriers to push through fare increases and to offer value-added services that leisure and business passengers were willing to buy. The increase in revenues for cargo carriers followed a rebound from the global financial crisis that strengthened demand for air cargo services.

During the same period, operating expenses increased 12.3 percent. The increase in operating expenses during FY 2011 was driven by a 24.6 percent rise in the price of fuel for the year, as well as an increase in variable costs resulting from increased demand for passenger and cargo services.

In FY 2011, passenger carriers reported operating income of $5.8 billion and net profits of $540 million, while air cargo carriers reported an operating profit of $1.9 billion and a net income of $1.1 billion. In the domestic market, passenger carriers generated an operating profit of $3.8 billion but posted a net loss of $152 million. In the international market, this carrier group posted operating and net profits of $1.9 billion and $0.7 billion, respectively. Cargo carriers posted an operating profit of $2.6 billion and a net income of $1.5 billion in domestic markets. In international markets, the cargo carriers reported an operating loss of $0.7 billion and net loss of $0.5 billion.

The industry's financial boost is largely due to a turnaround in the performance of the network carriers. After two consecutive years (FY 2008-2009) of net losses totaling $27.3 billion, this carrier group has now recorded back to back profitable years in FY 2010-2011. In FY 2011 the network carriers posted net profits of $766 million and operating profits of $4.2 billion. For the nine reporting low-cost carriers, operating profits totaled $1.1 billion and net income totaled $179 million for the full year.

An upswing in leisure and business demand along with ongoing capacity discipline led to a rebound in mainline carrier passenger yield for the year. Domestic mainline carrier passenger yield increased 5.6 percent in 2011.



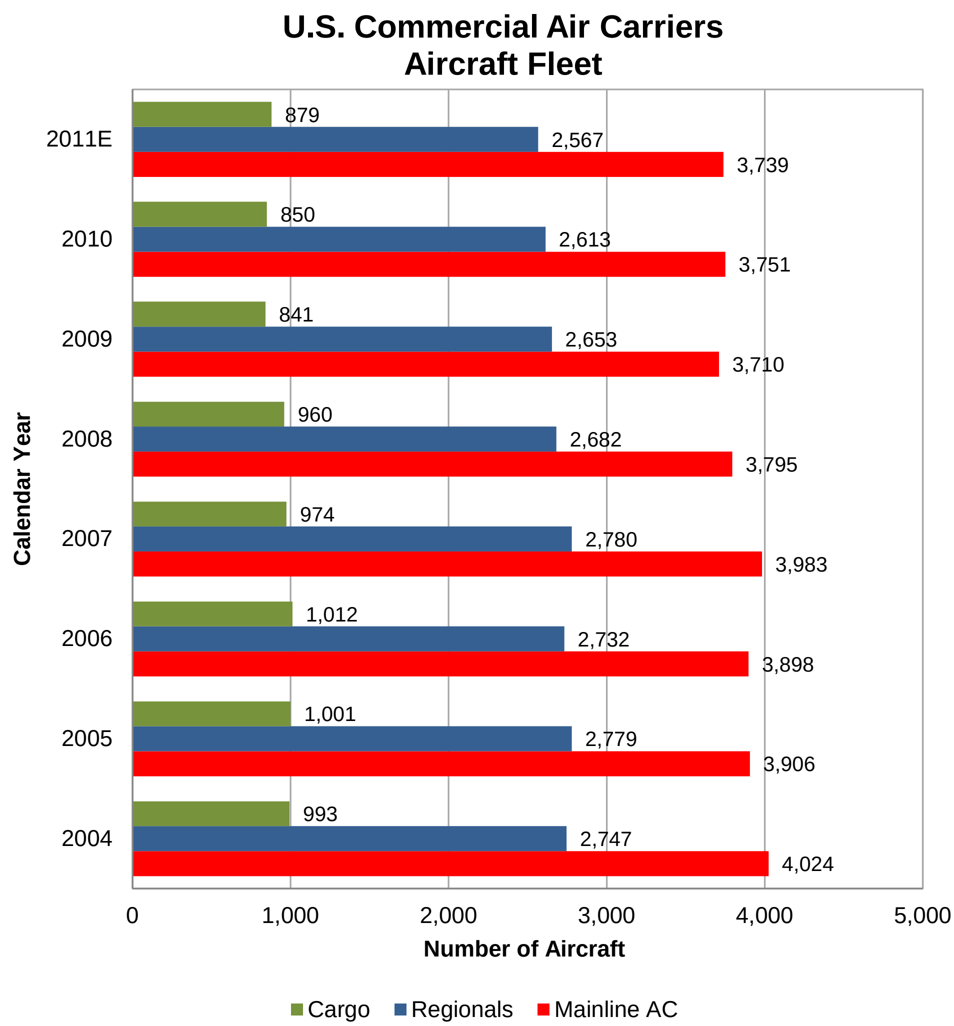
Of the reporting regional carriers, operating profits totaled $0.5 billion and net losses totaled $0.5 billion for FY 2011. During the same period, regional domestic yield was unchanged.[10] Reflecting the changing nature of the industry the network carriers are putting the squeeze on their regional partners by negotiating fee-for-departure contracts that shift more of the financial risk of contract flying to the regional carriers. Since 2000, regional carrier yield is down 59.8 percent in real terms (compared to a drop of 25.8 percent in mainline carrier yield for the same period). The drop in regional carrier yield can be attributed to longer trip lengths (due to a growing number of larger and faster regional jet aircraft entering the fleet) and rising load factors. All other things being equal, an increase in either the trip length or the load factor results in drop in yield since fee-for-departure revenues are spread over a broader base of RPMs.

U.S. Commercial Air Carriers 2011 Aircraft Fleets

The commercial passenger carrier fleet is undergoing transformation. The mainline carriers are retiring older, less fuel efficient aircraft (e.g. 737-300/400/500 and MD-80) and replacing them with more technologically advanced A320 and 737-700/800/900 aircraft. The regional carriers are growing their fleet of 70 to 90 seat regional jet aircraft and reducing their fleet of 50-seat jet aircraft.

The total number of aircraft in the U.S. commercial fleet (including regional carriers) is estimated at 7,185 for 2011, a decrease of 29 aircraft from 2010. This includes 3,739 mainline air carrier passenger aircraft (over 90 seats), 879 mainline air carrier cargo aircraft, and 2,567 regional carrier aircraft (jets, turboprops, and pistons).

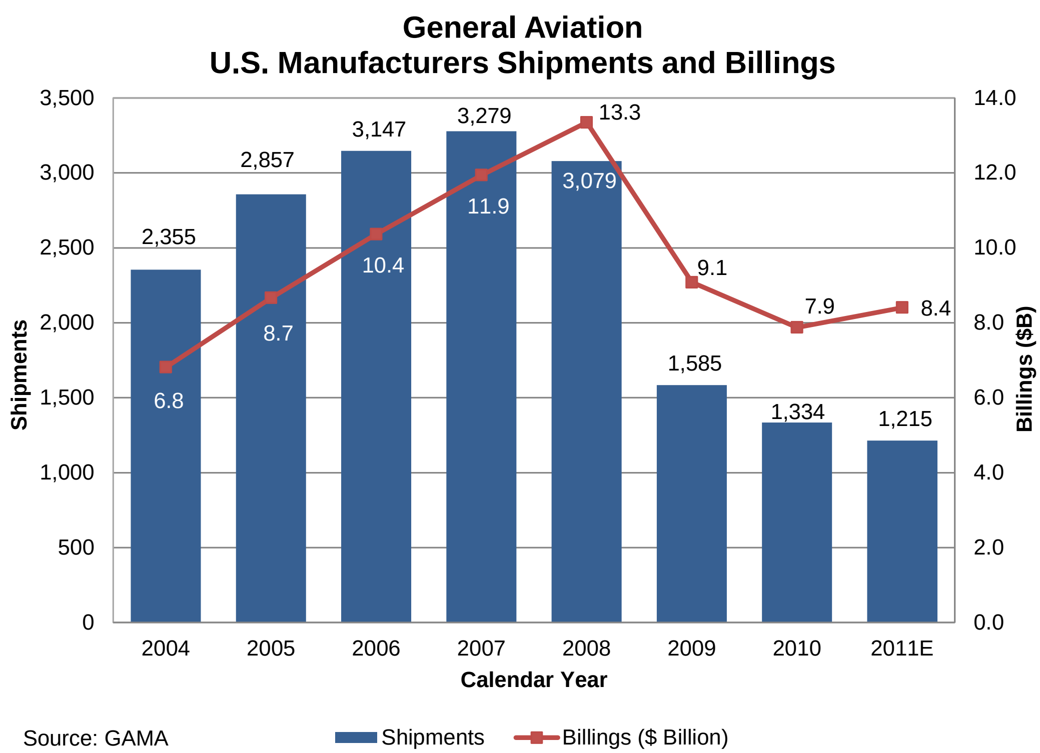
[10] Passenger revenues include payments received by regionals from mainline partners for contractual flying.



The mainline carriers' passenger jet fleet shrunk by 12 aircraft in 2011, following a 41 unit increase in 2010. The decrease was driven by a 61 unit decrease by the remaining network carriers as they continued to prune their fleets in the face of uncertain economic growth and rising fuel prices. With the decline of the fleet in 2011, the mainline carrier fleet now stands at 16.7 percent below (749 aircraft) the level it was in 2000. The regional carrier fleet was also reduced in 2011, falling by 46 units, and now stands at its lowest level since 2003. Regional carriers continue to retire 50 seat and smaller regional jets as the operating economics of these aircraft get worse as fuel prices continue to climb.

GENERAL AVIATION

While the signs of a slow economic recovery have been observed, difficulties in the general aviation industry continued in 2011. Based on figures released by the General Aviation Manufacturers Association (GAMA), U.S. manufacturers of general aviation aircraft delivered an estimated 1,215 aircraft in CY 2011, 8.9 percent fewer than CY 2010. This translates into a fourth consecutive year of decline in shipments, although at a slower rate. Overall piston deliveries declined 10.5 percent, with single-engine deliveries down 9.1 percent and the much smaller multi-engine category down 23.9 percent. In the turbine categories, turbojet deliveries were only slightly lower than that of last year, by 2.7 percent, while turboprops were down an estimated 13.8 percent. U.S. billings in CY 2011 are estimated to have totaled $8.4 billion, up 6.7 percent compared with 2010.



General aviation activity at FAA air traffic facilities posted mixed results in 2011. Operations at combined FAA and contract towers declined 2.3 percent in 2011, continuing a decade long trend. General aviation activity at consolidated traffic facilities (FAA TRACONs) fell 2.6 percent, while the number of general aviation aircraft handled at FAA en-route centers was essentially flat, up a scant 0.1 percent.

The FAA uses estimates of fleet size, hours flown and utilization from the General Aviation and Part 135 Activity Survey (GA Survey) as baseline figures upon which assumed growth rates are applied. This survey has been conducted annually since 1977. Beginning with the CY 2004 Survey there were significant improvements to the survey methodology. These improvements included conducting 100 percent samples for turboprops and turbojets, all rotorcraft, all aircraft in Alaska and all aircraft operating on-demand under Part 135. In addition, the sample design was revised to stratify by aircraft type (19 categories), FAA region (9 categories), and whether the aircraft was owned by an entity certified to fly Part 135 operations (2 categories). Furthermore, a large fleet reporting form was incorporated to allow owners/operators of multiple aircraft to report aggregated data for their entire fleet on a single form. In 2005 an additional aircraft category (light sport aircraft) was added. The result of these changes was the sample size nearly doubled. Between 2003 and 2005 large changes in both the number of aircraft (turbojets up by 22.8 percent, total rotorcraft up by 33.7 percent) and hours (single-engine piston down by 17.6 percent) in many categories occurred. The results of the 2010 Survey, the latest one available, are consistent with the results of past surveys since 2004. This reinforces our belief that methodological improvements have resulted in superior estimates relative to those in the past and these are used as the basis for our forecast.

Based on the latest FAA assumptions about fleet attrition and aircraft utilization along with General Aircraft Manufacturer's Association (GAMA) aircraft shipment statistics, the active general aviation fleet is estimated to have decreased 0.4 percent in 2011 to 222,520. With the decrease in the active fleet, general aviation flight hours are estimated to have decreased 1.6 percent in 2011 to 24.4 million.

Student pilots are important to general aviation and the aviation industry as a whole. Student pilot numbers had been in decline for many years but in 2010 the FAA issued a rule that increased the duration of validity for student pilot certificates for pilots under the age of 40 from 36 months to 60 months. As a result, according to statistics compiled by the FAA's Mike Monroney Aeronautical Center, the number of student pilots at the end of 2010 increased by 64.8 percent, or approximately 47,000 pilots, compared to calendar year end 2009. While the impact of the new rule on the long term trend in student pilots has yet to be fully determined, by the end of 2011, the number of student pilots decreased by 0.4 percent from its 2010 level to 118,657. The average age of a U.S. pilot in 2011 was 44.4 years old.

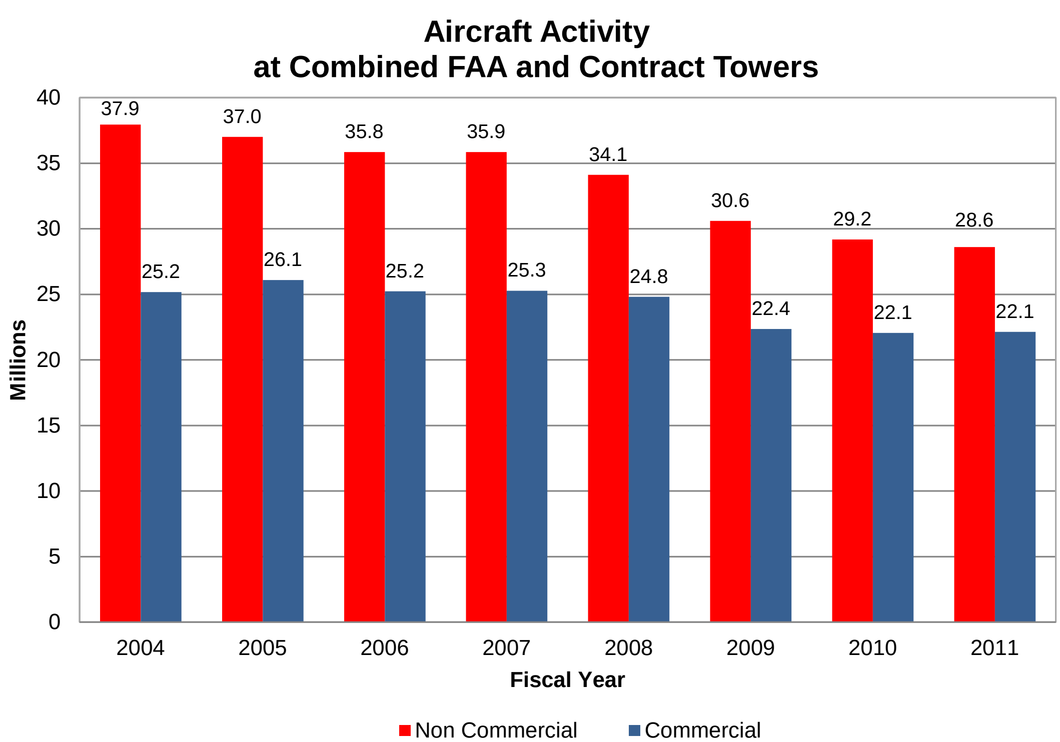
FAA WORKLOAD

In 2011, FAA facilities experienced their fourth year of decline in activity. Commercial air traffic activity increased for the first time since 2007 as increases in air carrier activity offset declines in air taxi activity. Growth was higher during the first half of the year as carriers increased capacity in response to strengthening demand. The decline in noncommercial activity is attributed to a lackluster economy and rising fuel prices.

Total activity at combined FAA and contract tower airports was 50.7 million operations in 2011, down 1.0 percent from 2010 and 26.1 percent below the peak activity level recorded in 2000. Commercial activity (the sum of air carrier and commuter/air taxi) at combined FAA and contract towers rose by 0.3 percent in 2011. Air carrier operations were up 1.6 percent while commuter/air taxi operations declined 1.4 percent. Commercial operations in 2011 were 15.1 percent lower than their peak in 2005.

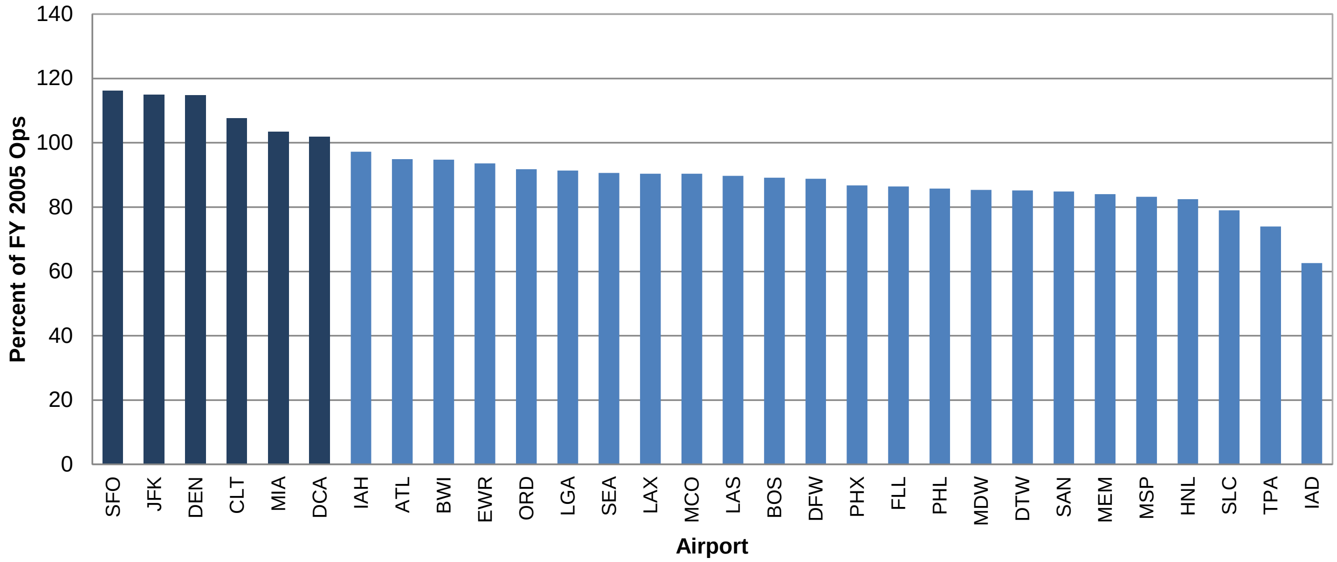
Non-commercial activity (the sum of general aviation and military) at combined FAA and contract towers fell by 2.0 percent in 2011, the smallest decrease in four years. General aviation activity (26.0 million) was down 2.3 percent while military activity (2.6 million) was up 0.9 percent. Since 1999, general aviation activity has increased only once (2007).

At the end of 2011, non-commercial aircraft activity was 33.1 percent below the activity in 2000.



The FAA pays close attention to the trends occurring at the “Core 30” airports. These airports represent the top 30 airports in the country in terms of passenger activity (except Memphis which is a major freight hub) and account for about 70 percent of commercial passengers. Commercial activity at the Core 30 airports peaked in 2005, but subsequent industry restructuring has resulted in a drop in combined commercial activity at these airports since then. In 2011, commercial activity at the Core 30 airports rose by 1.5 percent from the previous year but was 8.3 percent below 2005 activity levels. Of the Core 30 airports, 23 recorded increases in activity from 2010 with the largest increases occurring at Miami (up 6.3 percent) and Reagan National in Washington, DC (up 6.1 percent). The largest decreases in activity occurred at Memphis (down 4.9 percent), and Salt Lake City (down 3.9 percent). Only six of the Core 30 airports exceeded 2005 peak activity levels during fiscal year 2011, up from four airports in both 2009 and 2010.

Only Six of Core 30 Airports
are above 2005 Activity Levels
FY 2011 VS. FY 2005 Commercial Activity



Since 2005 there has been a pronounced shift in demand which is reflected in the relative growth of commercial operations across the Core 30 airports. Commercial operations at San Francisco (up 16.2 percent), New York-Kennedy (up 14.9 percent), and Denver (up 14.9 percent) have increased the most relative to their 2005 activity levels. Commercial operations at Dulles (down 37.4 percent), and Tampa (down 26.0 percent) show the largest declines from 2005 levels. These activity level shifts reflect the impact of airline industry restructuring. The demise of Indy Air and United's continuing restructuring of its network resulted in a dramatic reduction of operations at Dulles, while the bankruptcy of Delta and its subsequent merger with Northwest along with Continental's continuing restructuring of its network has led to a dramatic shrinking of operations in Tampa.

In 2011, total activity at FAA en-route centers (41.2 million) increased 1.8 percent from the previous year, the fastest growth since 2005. Commercial activity was up sharply (4.8 percent) with air carrier operations up 4.9 percent and commuter/air taxi operations up 4.5 percent. Non-commercial activity was down 7.8 percent for the year as general aviation activity was flat (up only 0.1 percent) while military activity decreased 25.3 percent. In 2011, air carrier operations were 6.2 percent below their 2000 activity levels and air taxi/commuter operations were 11.2

percent above activity levels for 2000. Operations for the general aviation and military user groups were 25.0 and 46.9 percent below their 2000 activity levels, respectively.

Aircraft Handled at FAA En Route Centers