

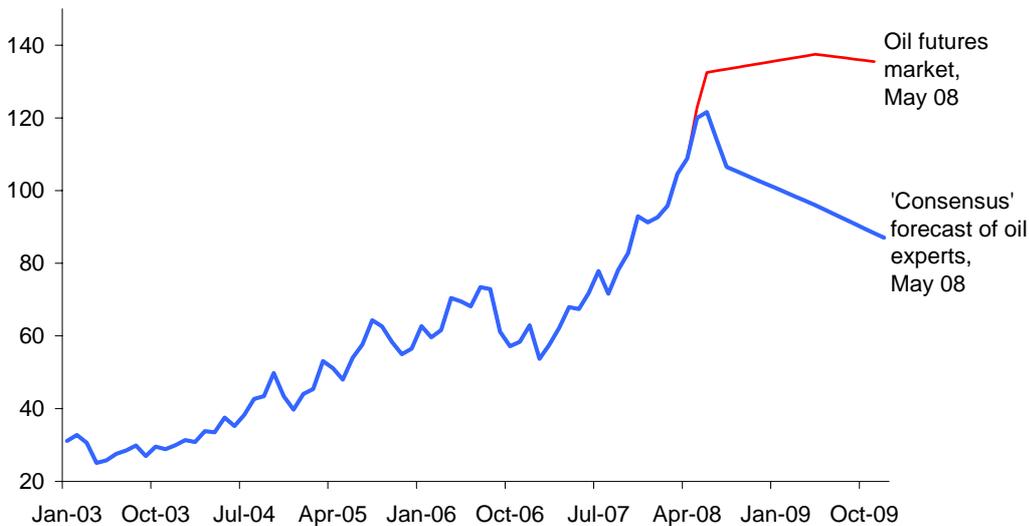
# FINANCIAL FORECAST

June 2008

## SIGNIFICANT NET LOSSES FORECAST

- The outlook for airline profitability has deteriorated substantially since our last forecast at the end of March. We now expect significant net losses in 2008 of between \$2.3 and \$6.1 billion, depending on the level of oil prices. Due to the extreme uncertainty over the future path of oil prices we have made two forecasts; one based on a 'consensus' of over 60 oil experts which predicts some decline of oil prices and another based on the oil futures market, which sees prices remaining near current highs.
- Spot prices for oil rose from \$100/b to \$130/b by late-May in just two months. Futures prices for delivery in 18 months went further from \$96/b to \$136/b. Clearly fuel costs will be considerably higher as a result. At the same time the economic situation has deteriorated, not just in the US but also in parts of Europe and Asia. Business travel growth turned negative in March. The revenue cushion that allowed the fuel cost surge to be absorbed in the four years to 2007 has gone.

Brent crude oil price, US\$ per barrel



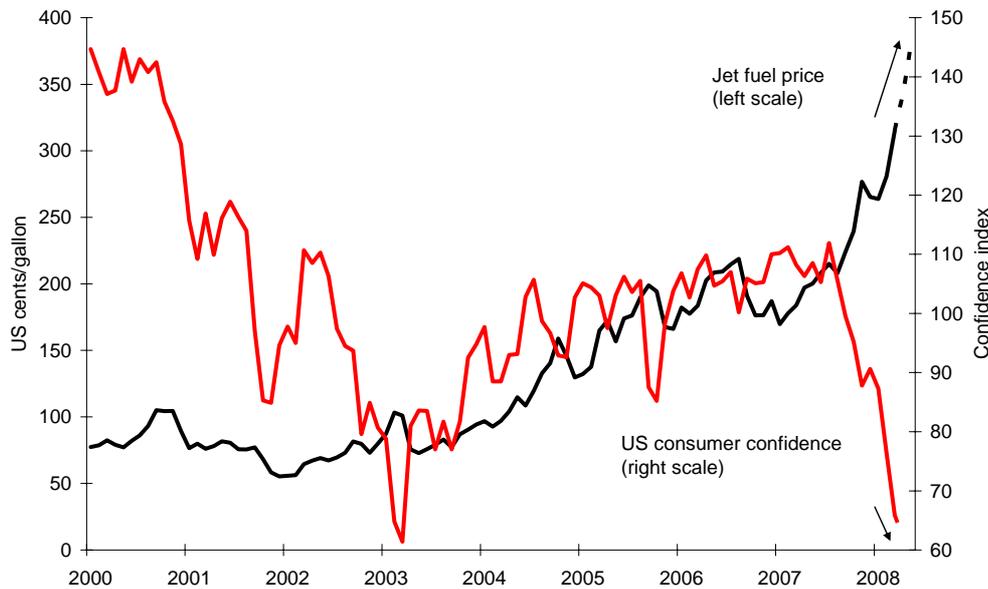
Source:  
RBS,  
Consensus  
Economics,  
Thompson  
First Call

- As a result capacity will be taken out in some markets, particularly the US, and further efficiencies sought. We do not expect that to do more than limit the losses in the US and the reduction in profitability elsewhere. Recovery of profitability is not expected to be achieved until 2010 or later. Even if oil prices fall under \$100 per barrel, as in the 'consensus' view, the US economic recovery is expected to be very limited in 2009.

Industry net profits, US\$ billion	2005	2006	2007	2008F	2005	2006	2007	2008F
	<b>Consensus view on oil</b>				<b>Futures market view on oil</b>			
<b>Global</b>	-4.1	-0.5	5.6	-2.3	-4.1	-0.5	5.6	-6.1
excluding restructuring costs	-4.1	3.1	5.6	-2.3	-4.1	3.1	5.6	-6.1
<b>Regions</b>								
North America	-6.7	-2.6	2.8	-2.8	-6.7	-2.6	2.8	-4.2
excluding restructuring costs	-6.7	0.9	2.8	-2.8	-6.7	0.9	2.8	-4.2
Europe	1.6	1.8	2.1	0.6	1.6	1.8	2.1	-0.4
Asia-Pacific	1.2	0.8	0.9	0.4	1.2	0.8	0.9	-0.3
Middle East	0.2	0.2	0.3	0.2	0.2	0.2	0.3	-0.1
Latin America	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	-0.3
Africa	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4	-0.4	-0.7

Source: ICAO data for operating profits to 2007. IATA estimate for 2006-07 net profits and 2008-09 forecasts. Excludes 'fresh-start' items.

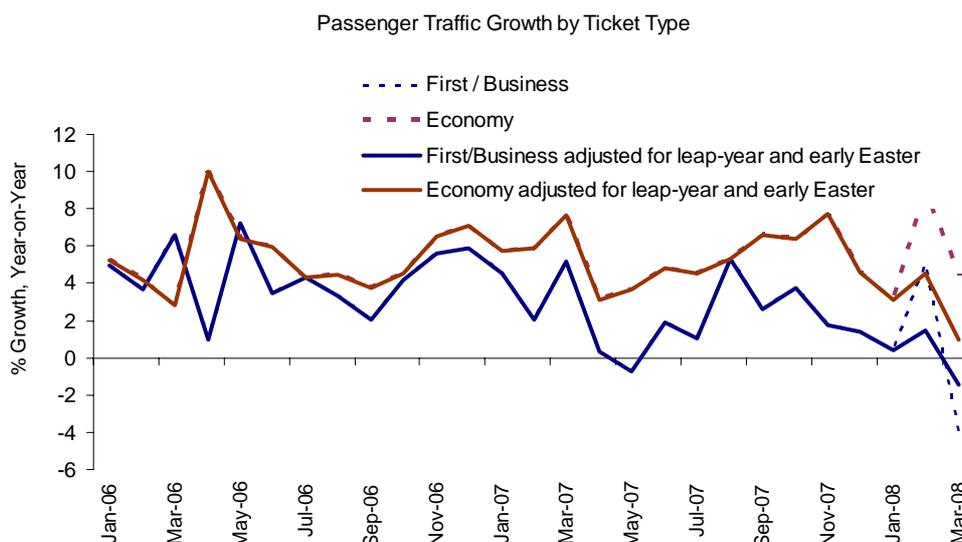
## RECENT DEVELOPMENTS HAVE WORSENERD



Source:  
Haver,  
Platts

- This disturbing chart sums up the seeds of the current crisis facing the airline industry. The cost of jet fuel has risen to new heights. Fuel prices have risen more than \$30/b in the two months since the last forecast. May fuel prices are 80% higher than a year ago, a rise that would add over \$99 billion to the year's fuel bill if not offset by hedging or other factors.
- The 2.5x rise in fuel prices from 2003 to 2007 was survived by the industry because during that same period consumer confidence rose, the world economy experienced exceptionally strong growth, and airline revenues boomed. Consumer confidence in the US has now collapsed to levels consistent with shrinking air travel in US markets. Outside the US the economic situation is not as bad. However, the impact of the US economic downturn is spreading more widely through its negative impact on financial markets and trade.

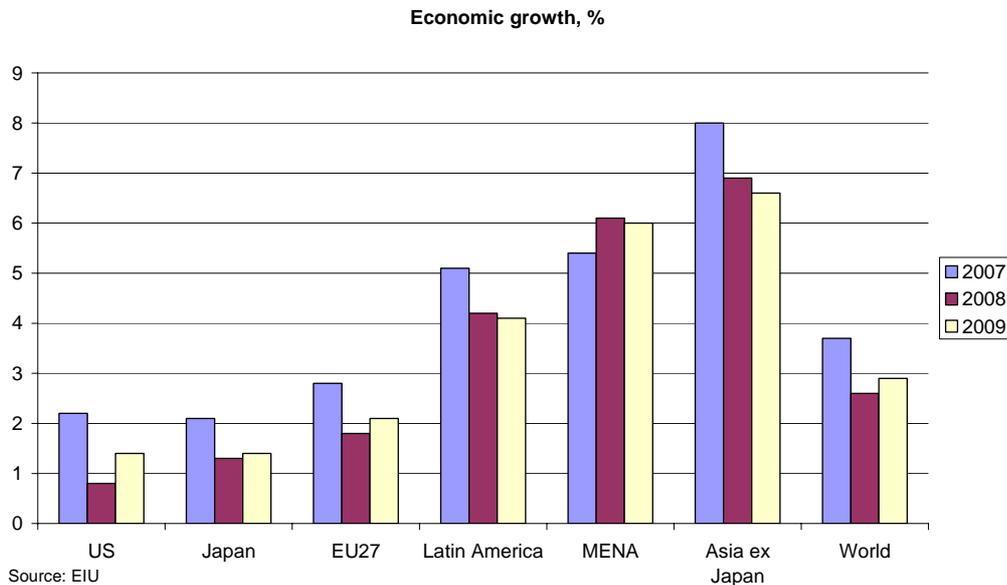
## BUSINESS TRAVEL HAS TURNED DOWN SHARPLY



Source:  
IATA

- Already the impact has been felt on international passenger growth. In March, business travel contracted by the largest amount seen since 2003, a passenger segment critical for revenues and profitability. Economy travel has slowed from growth of over 6% late last year to less than 1% growth at the end of the first quarter.

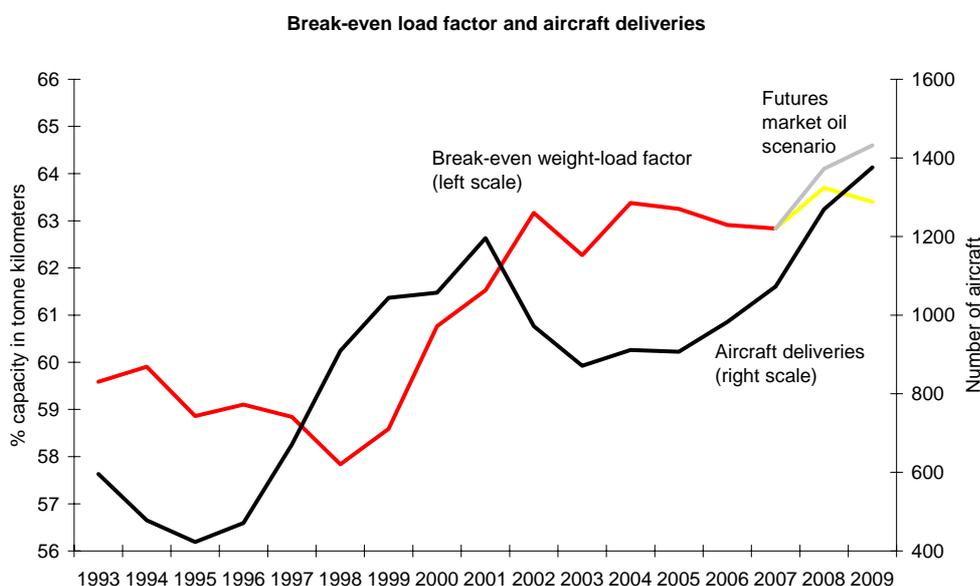
## THE ECONOMIC OUTLOOK HAS WEAKENED



Source:  
EIU

- The US economy may avoid a 'technical' recession but it certainly feels like one at present, judging by the collapse in consumer and business confidence. Growth in the US economy is forecast to slow from above 2% last year to less than 1% in 2008. The Federal Reserve Bank has slashed the cost of borrowing but banks are unwilling to lend until they rebuild their balance sheets damaged by the losses resulting from the sub-prime mortgage crisis. As a result a protracted period of economic weakness is expected, leading to a relatively weak recovery of economic growth in 2009.
- Europe is now looking less able to escape the impact of US weakness and economic growth in Japan is slowing towards very weak growth over the next two years. However, this economic cycle will differ from the downturns in 1991 and 2001 when air travel shrank worldwide. Continued robust growth averaging 4-7% in Latin America, MENA and Asia will provide some strong travel markets to offset weakness originating in the US. Nonetheless, passenger travel (TKPs) is forecast to slow from 5.9% to 3.1-3.9% in 2008.

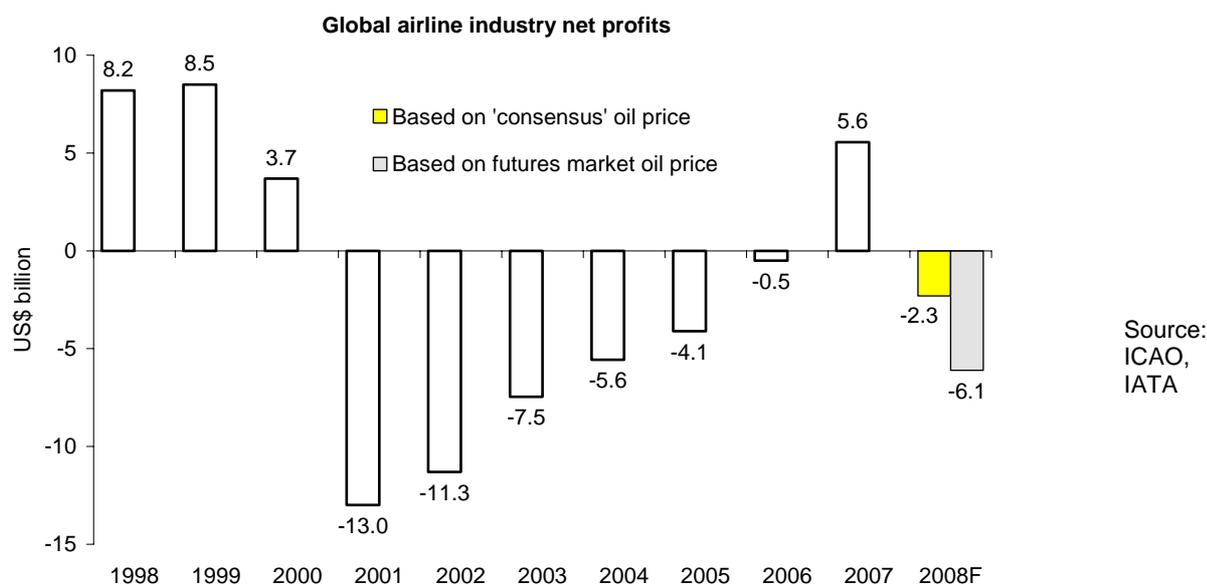
## BREAK-EVEN LOAD FACTOR RISES FURTHER



- The combination of weak economies and surging oil prices means that airline unit costs are expected to rise sharply and yields, in real terms, to fall. This means the load factor at which the industry would break-even

will rise a further 1-2% points on top of the 4% points seen in the past ten years. The chances of the industry achieving this increase in utilisation look slim. Not only is traffic growth softening as a result of the economic downturn, but aircraft deliveries are scheduled to rise to a new peak creating a significant risk of over-capacity on some markets. Only a more liberal regulatory regime allowing more extensive consolidation and restructuring of capacity could ease the pressures now facing the industry this year.

## LOSSES COULD BE WORSE THAN AFTER 9/11



↗ The rise in oil prices from \$73 a barrel in 2007 to recent levels of \$135 could add \$99 billion to the airline industry's fuel bill. Fuel hedging will delay that impact. The inevitable reduction in traffic and capacity will reduce the impact. New fuel efficient aircraft arriving this year will also reduce fuel use. However, with revenues under pressure from the US slowdown, if not recession, the impact on profitability will be severe unless oil prices fall back. The scale of the shock to costs is larger than the shock to demand and revenues from the 9/11 terrorist attacks and is more comparable to the impact of the late-1970s oil price shock.

System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007	2008F	2008F
									Consensus oil	Futures market oil
<b>REVENUES, \$ billion</b>	329	307	306	322	379	413	452	485	514	523
Passenger	256	239	238	249	294	323	355	384	407	415
Cargo	40	39	38	40	47	48	52	54	57	59
Traffic volumes										
Passenger growth, tkp, %	8.6	-2.7	1.0	2.3	14.9	7.0	5.9	5.9	3.9	3.1
Passenger numbers, millions	1672	1640	1639	1691	1888	2022	2124	2251	2328	2310
Cargo growth, tkp, %	9.1	-6.0	8.7	3.9	7.9	0.4	3.9	4.1	3.9	3.1
Freight tonnes, millions	30.4	28.8	31.4	33.5	36.7	37.6	39.9	41.3	42.9	42.6
World economic growth, %	4.7	1.6	1.9	2.7	4.1	3.5	4.0	3.6	2.6	2.4
Yield growth, %	-1.1	-2.8	-3.7	2.3	4.5	4.0	4.0	1.7	2.0	5.0
Yield growth, inflation/ex rate adjusted %	-2.3	-2.9	-5.9	-5.3	-2.0	0.1	0.5	-3.2	-3.1	-0.5
<b>EXPENSES, \$ billion</b>	318	319	311	323	376	409	440	468	509	523
Fuel	46	43	40	44	61	90	111	136	176	189
% of expenses	14	13	13	14	16	22	26	29	34	36
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	73.0	106.5	122.0
Non-Fuel	272	276	270	279	314	319	328	332	334	334
cents per atk (non-fuel unit cost)	39.2	39.7	38.8	38.9	39.9	38.8	38.3	36.9	35.6	35.8
% change	-2.3	1.4	-2.3	0.3	2.6	-2.9	-1.3	-3.5	-3.5	-3.0
% change, adjusted for ex rate	-0.2	4.1	-3.0	-5.0	-1.2	-3.5	-1.7	-5.5	-5.6	-5.2
Break-even weight load factor, %	60.8	61.5	63.2	62.3	63.4	63.3	62.9	62.8	63.7	64.1
Weight load factor achieved, %	61.5	59.0	60.9	60.8	62.5	62.6	63.3	63.6	63.4	63.3
<b>OPERATING PROFIT, \$ billion</b>	10.7	-11.8	-4.8	-1.4	3.3	4.3	12.9	16.3	4.4	0.8
% margin	3.3	-3.8	-1.6	-0.4	0.9	1.0	2.9	3.4	0.9	0.1
<b>NET PROFIT, \$ billion</b>	3.7	-13.0	-11.3	-7.5	-5.6	-4.1	-0.5	5.6	-2.3	-6.1
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	1.1	-0.4	-1.2

Source: ICAO data for key items to 2007. IATA estimate 2006-7 net profits and 2008-9 forecasts. Excludes 'fresh-start' accounting items.