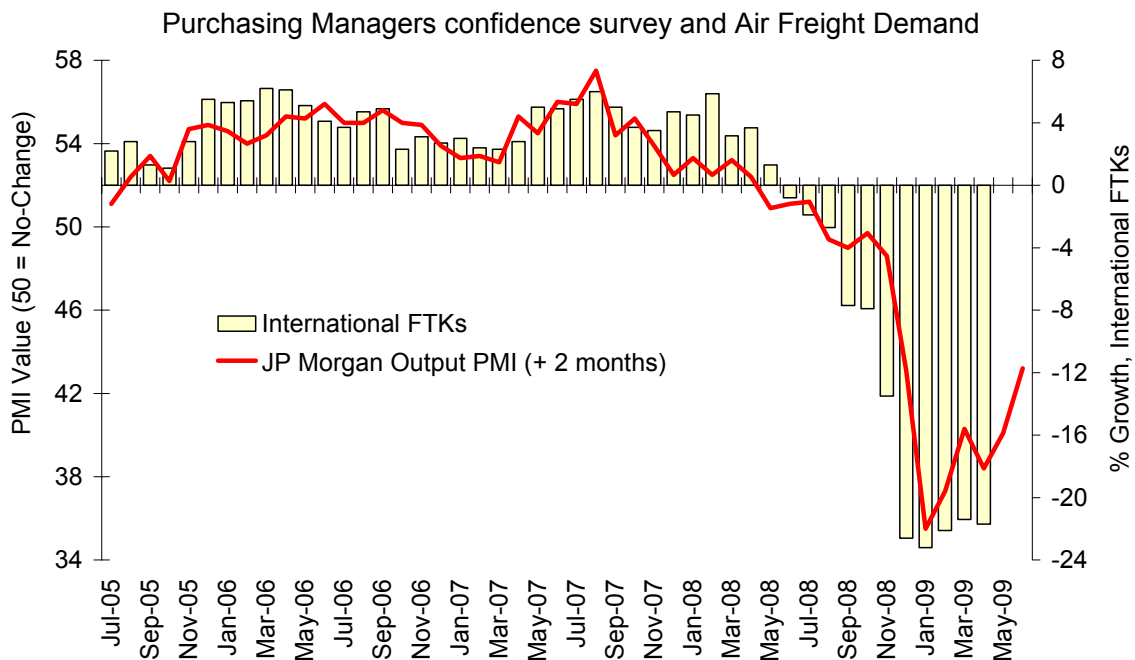


FINANCIAL FORECAST

June 2009

GREEN SHOOTS FACE SEVERE HEADWINDS

- There have been two key developments over the past few months, since our last forecast in March. First, there have been growing signs of a bottoming out of the recession. But second it has become apparent that the airline industry was suffering more than expected during the first quarter; in particular yields and revenues slumped very sharply. Moreover any traffic recovery ahead faces several severe headwinds.
- Air freight volumes have always been a timely indicator of economic turning points and a low point was reached for international FTKs in December, since when volumes have moved sideways. Business confidence surveys point to a modest rise in air freight during the next few months.



Source: IATA, JP Morgan

- However any future recovery, particularly for passenger markets, faces severe headwinds from consumer indebtedness and high business inventories, pointing to revenue weakness persisting well into 2010. Airline losses have already been worse than expected in the first quarter. Oil prices have also started to rise, as markets anticipate economic recovery. As a result we now forecast industry net losses remaining high at \$9 billion during 2009, which is twice as big as the \$4.7 billion loss we were forecasting in March.

Industry profits, US\$ billion	2006	2007	2008E	2009F	2006	2007	2008E	2009F
	Operating profits				Net profits			
Global	15.0	19.7	1.5	-1.7	-0.1	12.9	-10.4	-9.0
excluding restructuring costs					3.6	12.9	-10.4	-9.0
Regions								
North America	7.3	9.3	0.5	1.3	-2.6	5.3	-5.1	-1.0
excluding restructuring costs					1.0	5.3	-5.1	-1.0
Europe	5.2	6.4	3.7	0.2	1.8	5.4	0.4	-1.8
Asia-Pacific	1.8	3.5	-2.3	-1.4	0.9	2.1	-3.9	-3.3
Middle East	0.0	0.0	-0.8	-1.4	-0.1	-0.1	-1.0	-1.5
Latin America	0.5	0.4	0.2	-0.3	0.1	0.1	-0.7	-0.9
Africa	0.1	0.1	0.2	-0.2	-0.2	0.1	-0.2	-0.5

Source: ICAO data to 2007. IATA 2008-09 forecasts. Excludes exceptional items and 'mark-to-market' fuel hedging losses.

FIRST QUARTER LOSSES EXCEED \$3 BILLION

- With 50 airlines having reported first quarter results at the time of writing it is clear that the deterioration in financial performance early this year was worse than expected. Airlines in Europe and Asia-Pacific have suffered disproportionately. Although airlines in N. America have also seen a deterioration this is concentrated with the cargo airlines. Some passenger airlines have seen some improvement in performance, reflecting the early cuts in capacity on US domestic markets.

First quarter financial results

# Airlines	In US \$ Million	Q1 2008		Q1 2009*	
		Operating	Net post-tax	Operating	Net post-tax
21	North America	1,433	(377)	1,184	(592)
10	European airlines	123	(943)	(1,998)	(1,892)
11	Asia-Pacific airlines	529	(176)	(998)	(850)
8	Other	123	91	118	65
50	Sample total	2,209	(1,405)	(1,694)	(3,270)

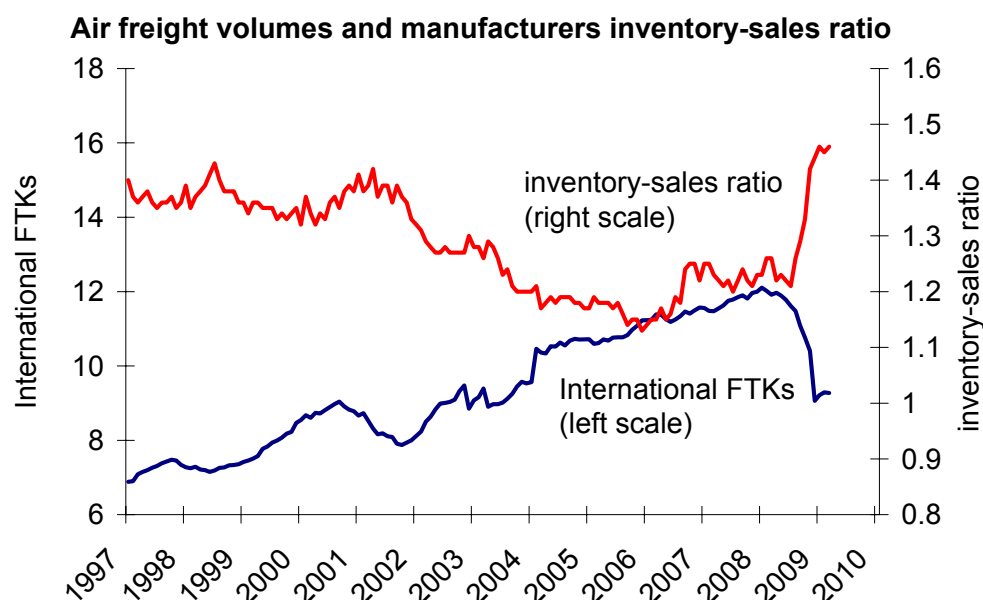
Source:
Airline reports

*Jazeera Airways, Royal Jordanian operating profit not included
Emirates, half year results included

- Note that we exclude unrealised mark-to-market fuel hedging losses from 2008 net profits, as they distort underlying profitability. As these losses are realised in cash terms we include them in 2009 net losses.

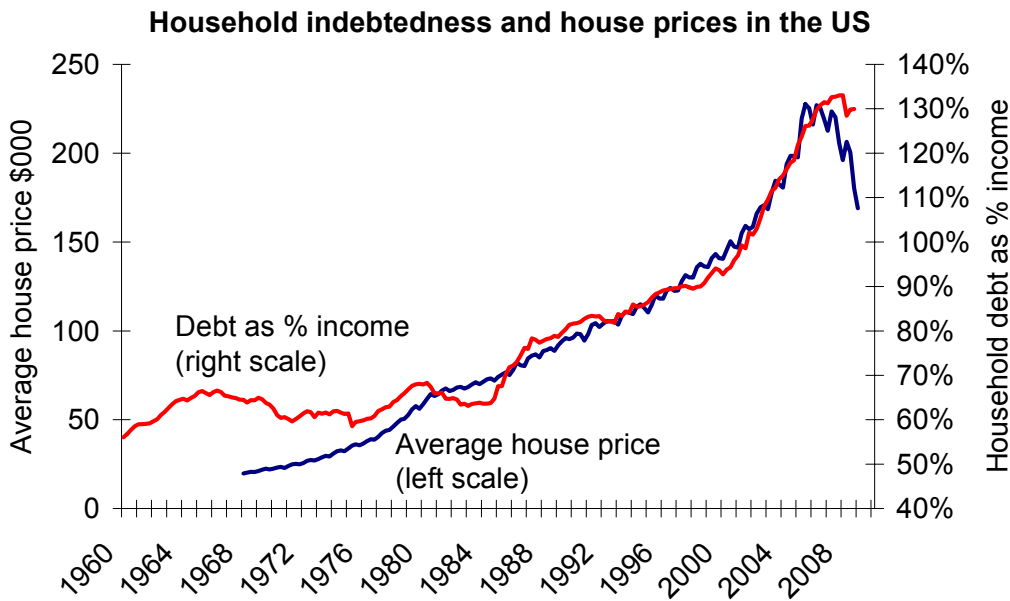
SEVERE HEADWINDS TO THE RECOVERY

- The encouraging green shoots of recovery now face some pretty severe headwinds, to mix metaphors. Air freight is an early indicator of a turning point in the economic cycle. However, the stabilisation of FTKs reflects only a topping out of the massive rise in business inventory-sales ratios. Business inventories remain far too high. Warehouses are still full. Until inventories fall to more comfortable levels, shipments by air of components and finished products will not rebound substantially.



Source: IATA,
Haver

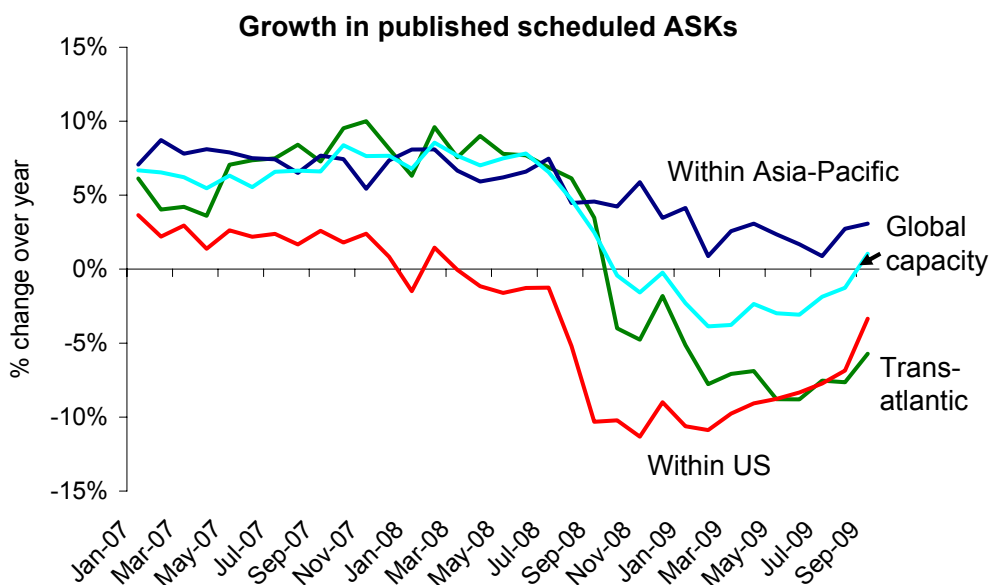
- The more important headwind for the passenger markets, and the economic recovery generally, is the build up of debt with consumers in the US and many other major economies. The legacy of the credit boom years, which generated the strongest four years of economic growth and correspondingly strong travel markets, is that consumer debt in the US rose from 100% of annual income in 2000 to 130% by the end of last year.
- Now that asset prices are 30% or more lower and job security is weak there is a strong incentive for households to deleverage their balance sheets. A significant portion of existing income or any new cash could be used to pay down debt rather than to spend and travel. This process will take time to complete during which the economic and travel recovery could be delayed and weakened.



➤ Air freight volumes were down 24% on international markets and 20% overall in the first quarter. The improvement in business confidence will help lift air freight but the inventory overhang will limit that to an average decline in 2009 of 17%. Passenger numbers were down 10% on international markets and 8% overall during the first quarter. In fact once adjusted for the leap year in 2008 and the timing of Easter the underlying fall was closer to 6%. We are anticipating some further deterioration before a solid floor is reached in passenger markets. For 2009 we forecast an average decline of 8% and little growth in 2010.

RESIZING AND RESTRUCTURING TAKING PLACE

➤ Capacity is being resized in response to the slump in demand, particularly on US domestic markets but also on major long-haul route areas across the Atlantic and the Pacific. However, in other regions such as Asia and the Middle East capacity continues to grow. In fact, excluding the US domestic markets, global scheduled ASKs on average are flat compared to last year.

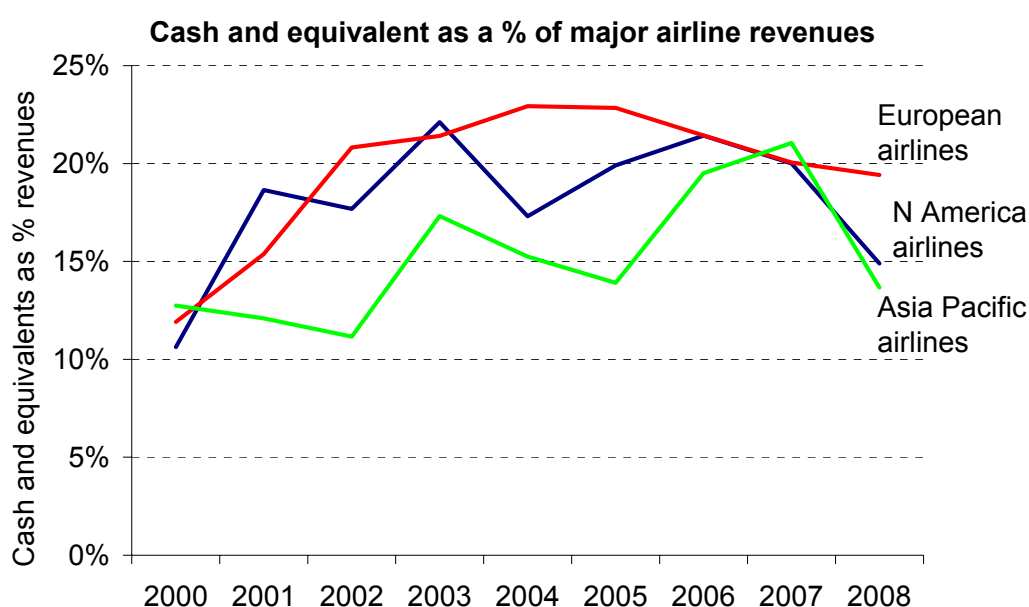


➤ As a result, with the exception of US domestic markets, load factors have fallen very sharply and growing excess capacity is causing fares and cargo rates to decline at a rapid pace. Ancillary unit revenues are growing as airlines unbundle their product but we expect passenger yields to fall 7% this year and cargo yields to decline 11%. As a result we now forecast that airline revenues will shrink 15% in 2009.

➤ Aside from capacity changes, airlines are actively restructuring operations in many regions through closer alliance relationships, joint ventures and mergers. Benefits to both yield and cost should result. But even adding a forecast \$59 billion fall in fuel costs to the cost savings resulting from resizing and restructuring this is insufficient to more than just offset the forecast \$80 billion fall in revenues. With over 800 western-built jet aircraft being delivered to airlines this year, requiring capital expenditure estimated at around \$25 billion, on our forecasts this means the industry will be using up cash for a second year running.

CASH BALANCES ARE STRONGER BUT AT RISK

➤ The good news is that major airlines have stronger cash balances – by around 5% of revenues – than before the 2001 downturn and new cash has been raised this year; \$4 billion on capital market and \$4 billion on aircraft sales and leaseback transactions so far. The problem is that many mid-size and small airlines have less of a cash cushion. The longer the recovery is delayed the greater is the risk posed by the drain on cash.



System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009F
REVENUES, \$ billion	329	307	306	322	379	413	465	508	528	448
Passenger	256	239	238	249	294	323	365	398	413	353
Cargo	40	39	38	40	47	48	53	59	59	44
Traffic volumes										
Passenger growth, tkp, %	8.6	-2.7	1.0	2.3	14.9	7.0	5.9	5.9	-0.1	-8.0
Passenger numbers, millions	1672	1640	1639	1691	1888	2022	2124	2260	2242	2062
Cargo growth, tkp, %	9.1	-6.0	8.7	3.9	7.9	0.4	3.9	4.0	-3.5	-17.0
Freight tonnes, millions	30.4	28.8	31.4	33.5	36.7	37.6	39.8	41.6	40.1	33.3
World economic growth, %	4.5	2.2	2.7	2.8	4.2	3.4	4.0	3.8	2.1	-3.0
Passenger yield, %	-0.7	-4.0	-1.7	2.4	2.6	2.7	6.9	2.8	4.0	-7.0
Cargo yield %	-2.4	1.9	-9.5	2.0	7.4	2.4	6.9	5.9	4.5	-11.0
EXPENSES, \$ billion	318	319	311	323	376	409	450	488	526	450
Fuel	46	43	40	44	65	91	107	134	165	106
% of expenses	14	13	13	14	17	22	24	27	31	23
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	73.0	99.0	56.0
Non-Fuel	272	276	270	279	311	318	343	354	361	344
cents per atk (non-fuel unit cost)	39.2	39.7	38.8	38.9	39.5	38.7	40.1	39.4	39.9	40.0
% change	-2.3	1.4	-2.3	0.3	1.4	-2.1	3.6	-1.7	1.4	0.0
% change, adjusted for ex rate	-0.2	4.1	-3.0	-5.0	-2.4	-2.7	3.3	-3.7	-0.1	1.7
Break-even weight load factor, %	60.8	61.5	63.2	62.3	63.4	63.3	63.4	61.9	63.8	59.9
Weight load factor achieved, %	61.5	59.0	60.9	60.8	62.5	62.6	63.3	63.6	62.6	58.7
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.8	-1.4	3.3	4.3	15.0	19.7	1.5	-1.7
% margin	3.3	-3.8	-1.6	-0.4	0.9	1.0	3.2	3.9	0.3	-0.4
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.5	-5.6	-4.1	-0.1	12.9	-10.4	-9.0
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	0.0	2.5	-2.0	-2.0

Source: ICAO data to 2007. IATA 2008-9 forecasts. Excludes exceptional accounting items and mark-to-market fuel hedging losses.