

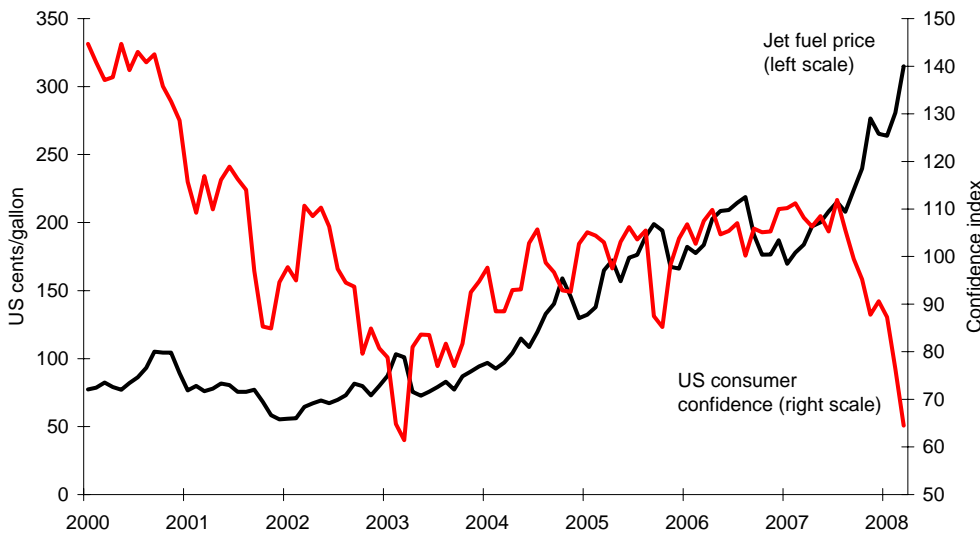
FINANCIAL FORECAST

March 2008

STAGFLATION THREATENS THE OUTLOOK

- Our previous forecast in December projected a downturn in traffic and profitability for the airline industry this year. Since then the situation in the US economy has deteriorated and jet fuel prices have risen sharply. Stagflation has returned, a damaging combination of forces to which the airline industry is highly exposed over the year ahead.
- The uncertainties facing us are far greater than usual. If central banks fail to reverse the credit crunch the outlook, particularly for the US industry, could be far worse. Our next forecast in June will be able to take a clearer view on the extent of the economic difficulties. In this forecast we have taken a conservative approach to cutting our profits forecast. We now project net profits of just \$4.5 billion this year.
- US consumer confidence slumped in March to levels consistent with a serious recession. The bursting of the housing market bubble leading to falling house prices and sub-prime mortgage defaults has led to a deepening crisis in the financial sector. The resulting credit crunch is now damaging the wider economy.

Consumer demand and fuel costs diverge abruptly breaking 5-year trend

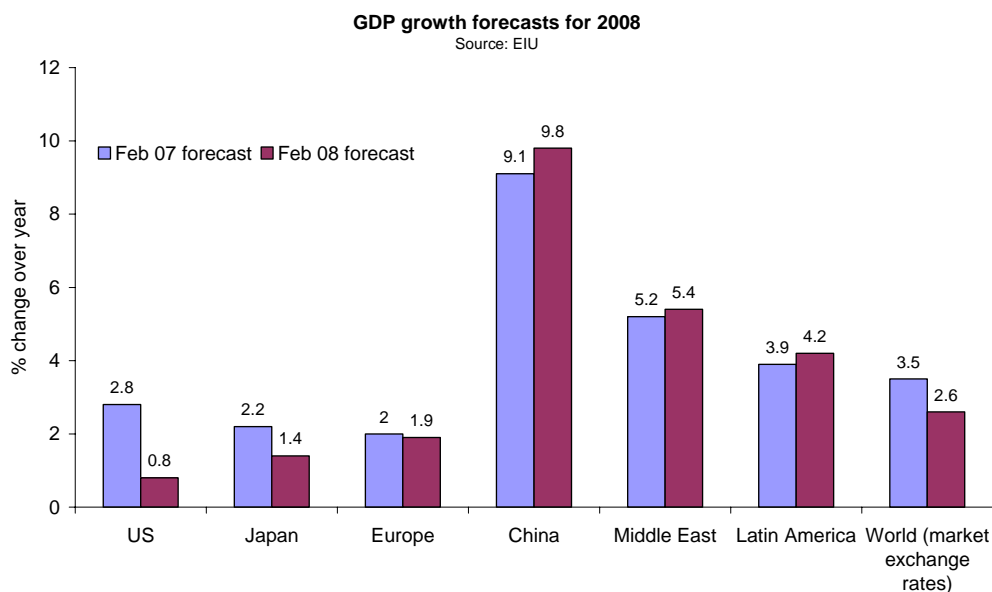


- At the same time jet fuel prices have been driven up to new record highs as growing demand outside the US has collided with oil supply problems. The offset to rising oil prices during 2004-2007 provided by rising US consumer confidence and travel demand has come to an abrupt end in 2008.

Industry profits, US\$ billion	2005	2006	2007	2008f	2005	2006	2007e	2008f
	Operating profits				Net profits			
Global	4.3	12.9	16.3	12.1	-4.1	-0.5	5.6	4.5
excluding restructuring costs					-4.1	3.1	5.6	4.5
Regions								
North America	-0.3	7.3	9.9	6.2	-6.7	-2.7	2.8	1.8
excluding restructuring costs					-6.7	0.9	2.8	1.8
Europe	3.0	5.4	6.1	5.4	1.6	1.8	2.1	1.8
Asia-Pacific	1.5	0.9	0.7	0.7	1.2	0.8	0.9	0.9
Middle East	0.4	0.1	0.3	0.2	0.2	0.2	0.3	0.2
Latin America	0.1	-0.7	-0.3	-0.2	-0.1	-0.2	-0.1	0.0
Africa	-0.4	0.0	-0.1	-0.2	-0.4	-0.4	-0.4	-0.3

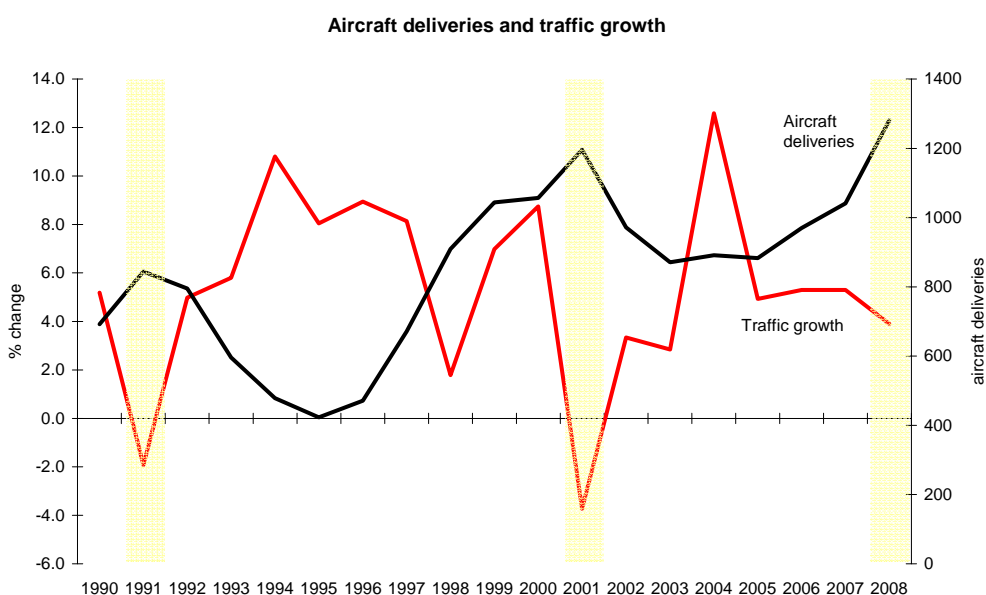
Source: ICAO data for operating profits to 2007. IATA estimate for 2007 net profits and 2008 forecast. Data excludes 'fresh-start' items.

BUT AREAS OF STRONGER GROWTH REMAIN



- This business cycle is different to the 1991 and the 2001 recessions, when all major economies and travel markets fell together. Today we have some major economies and travel markets close to, or in, recession but others are expanding fast.
- Forecasts for economic growth in 2008 were reduced over the past 12 months for the US from strong growth to, almost, recession. Japan is also now expected to show much weaker growth. Europe is holding up so far. However, the outlook for China, the Middle East and Latin America has been revised higher, despite the problems originating in the US. Airlines with operations diversified across these regions will face much stronger market conditions than those with operations concentrated on US markets.

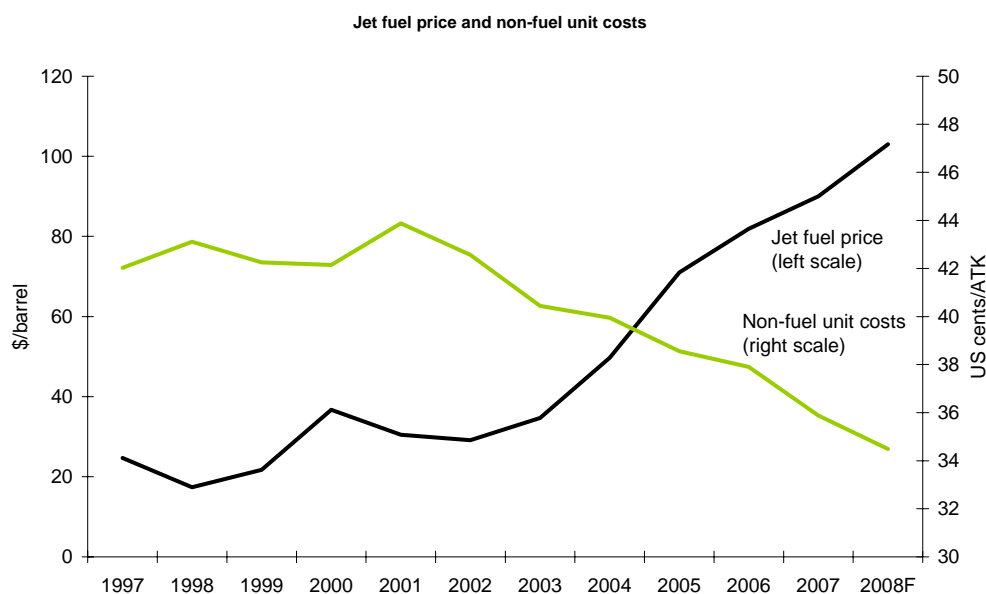
HOWEVER COMPETITION IS INCREASING



- At the same time competition, in this already highly competitive industry, is intensifying. The aircraft deliveries cycle is out of synch with traffic growth once more, which will lead to some excess capacity and downward pressure on yields; though not as severe as in the previous two industry downturns.

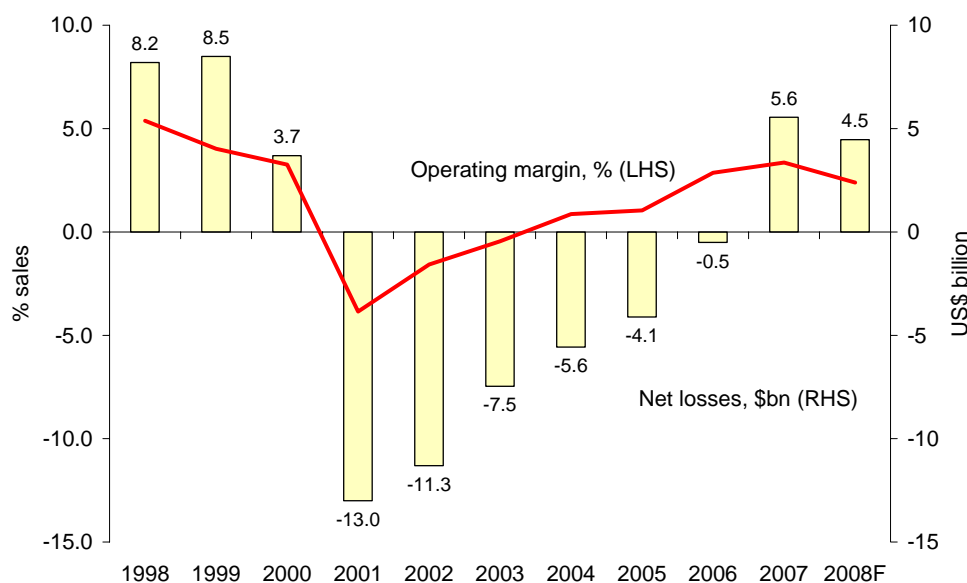
➤ In addition market liberalisation across the N Atlantic and in parts of Asia and the Middle East will add to the competitive pressures resulting from the delivery of new aircraft capacity. Even though London Heathrow airport is slot constrained there are still 25% more flights across the Atlantic planned from April this year compared to last. Spain, also liberalised, shows a similar planned increased in services. This compares to a 6% rise in capacity at Paris, a 9% rise at Frankfurt but transatlantic traffic growth of only around 6% a year.

MAKING FURTHER EFFICIENCY GAINS CRITICAL



➤ With fuel costs rising, the US market in recession and competition intensifying, the only way to limit the damage to profitability will be to take out capacity or squeeze out further efficiency gains. Non-fuel unit costs have been slashed in recent years with gains in labour, aircraft and distribution efficiencies. Airlines already run lean operations so further efficiency improvements will be challenging, but nonetheless critical.

AIRLINE BUSINESS PROFITS WILL FALL

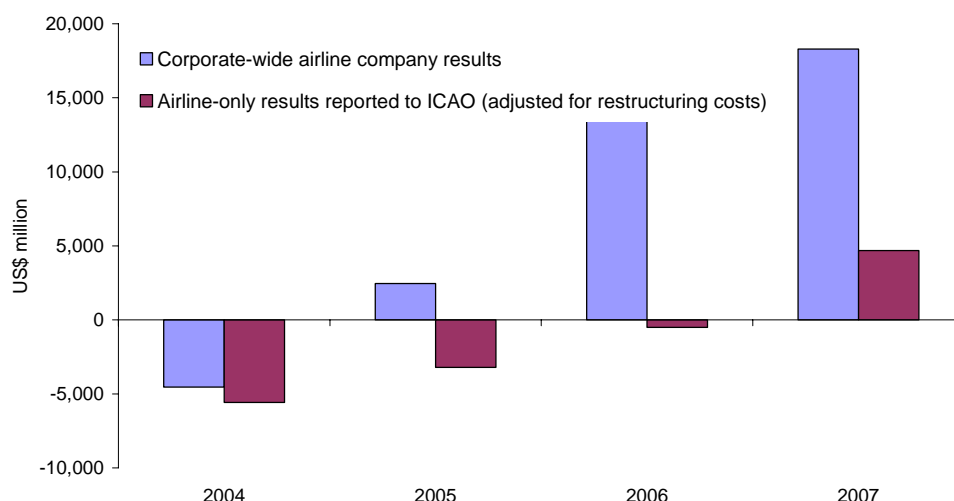


➤ The headwinds facing airlines look too severe to be overcome by squeezing out further efficiency gains. As a result we expect net profits to fall to \$4.5 billion. The risks to this number are clearly on the downside.

- The US airlines are most exposed to the risks in the business environment. We have cut our forecast for the net profits of US airlines to \$1.8 billion this year. This could easily turn into a net loss should the current economic environment deteriorate further. Both European and Asian airlines have seen the weak US dollar offset part of the rise in fuel prices. Stronger economies in Asia should also provide some support for revenues and profitability. However, competition from new aircraft and services will intensify in both regions.

CAN NON-CORE ASSETS PROVIDE A CUSHION?

Global airline net profits - corporate wide vs airline business only



- The profits we report and forecast show the financial performance of the airline business only of commercial airlines, as reported to ICAO. Airline companies also own assets in other sectors which have been more profitable than the pure airline businesses. In the past two years these profits plus some major hotel and other asset sales have provided a cushion to the poor profitability of the airline business. However, this source of cash may diminish this year as the financial market crisis makes asset sales more difficult.

System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007e	2008f
REVENUES, \$ billion	329	307	306	322	379	413	452	485	508
Passenger	256	239	238	249	294	323	355	384	403
Cargo	40	39	38	40	47	48	52	54	56
Traffic volumes									
Passenger growth, tkp, %	8.6	-2.7	1.0	2.3	14.9	7.0	5.9	5.9	3.9
Passenger numbers, millions	1672	1640	1639	1691	1888	2022	2124	2251	2328
Cargo growth, tkp, %	9.1	-6.0	8.7	3.9	7.9	0.4	3.9	4.1	3.9
Freight tonnes, millions	30.4	28.8	31.4	33.5	36.7	37.6	39.9	41.3	42.9
World economic growth, %	4.7	1.6	1.9	2.7	4.1	3.5	4.0	3.6	2.6
Yield growth, %	-1.1	-2.8	-3.7	2.3	4.5	4.0	4.0	1.7	0.9
Yield growth, inflation/ex rate adjusted %	-2.3	-2.9	-5.9	-5.3	-2.0	0.1	0.5	-3.2	-4.1
EXPENSES, \$ billion	318	319	311	323	376	409	440	468	496
Fuel	46	43	40	44	61	90	111	136	156
% of expenses	14	13	13	14	16	22	26	29	32
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	73.0	86.0
Non-Fuel	272	276	270	279	314	319	328	333	339
cents per atk (non-fuel unit cost)	39.2	39.7	38.8	38.9	39.9	38.8	38.3	37.0	36.3
% change	-2.3	1.4	-2.3	0.3	2.6	-2.9	-1.3	-3.4	-1.7
% change, adjusted for ex rate	-0.2	4.1	-3.0	-5.0	-1.2	-3.5	-1.7	-5.3	-3.9
Break-even weight load factor, %	60.8	61.5	63.2	62.3	63.4	63.3	62.9	62.8	63.1
Weight load factor achieved, %	61.5	59.0	60.9	60.8	62.5	62.6	63.3	63.6	63.6
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.8	-1.4	3.3	4.3	12.9	16.3	12.1
% margin	3.3	-3.8	-1.6	-0.4	0.9	1.0	2.9	3.4	2.4
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.5	-5.6	-4.1	-0.5	5.6	4.5
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	1.1	0.9

Source: ICAO data for key items to 2007. IATA estimate 2007 net profits and 2008 forecasts. Data excludes 'fresh-start' accounting items.