State of the Industry

Brussels, 29 May 2008

Association of European Airlines

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1 Financial results and key figures:

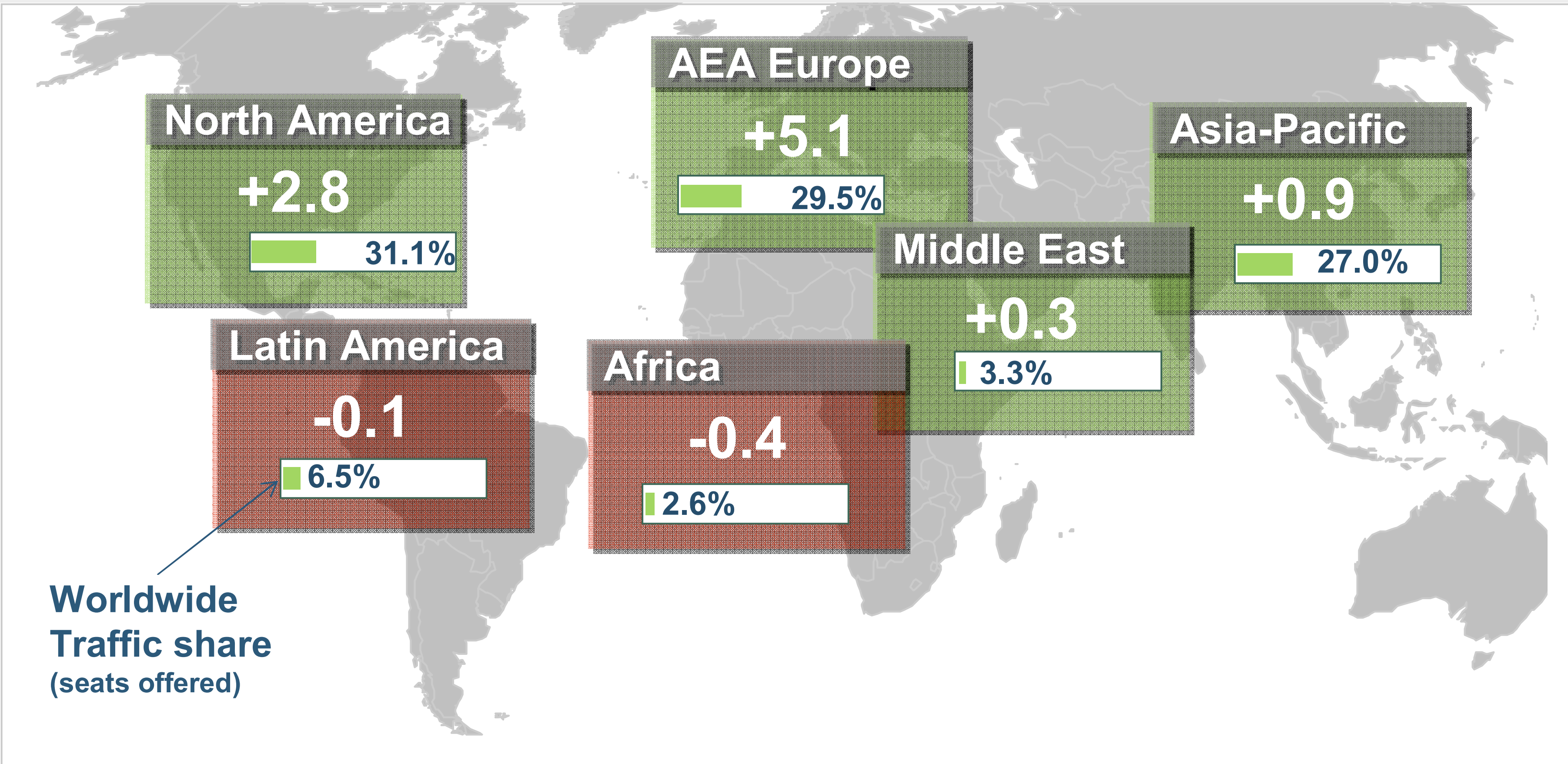
“ Vibrant customer demand and further cost efficiency improvements offset high fuel cost in 2007.

As a consequence, the industry achieved its best financial results for years.

Continuation is crucial - but latest indications suggest a fundamental change for the worse. “

2007: A good year for European Air Transport

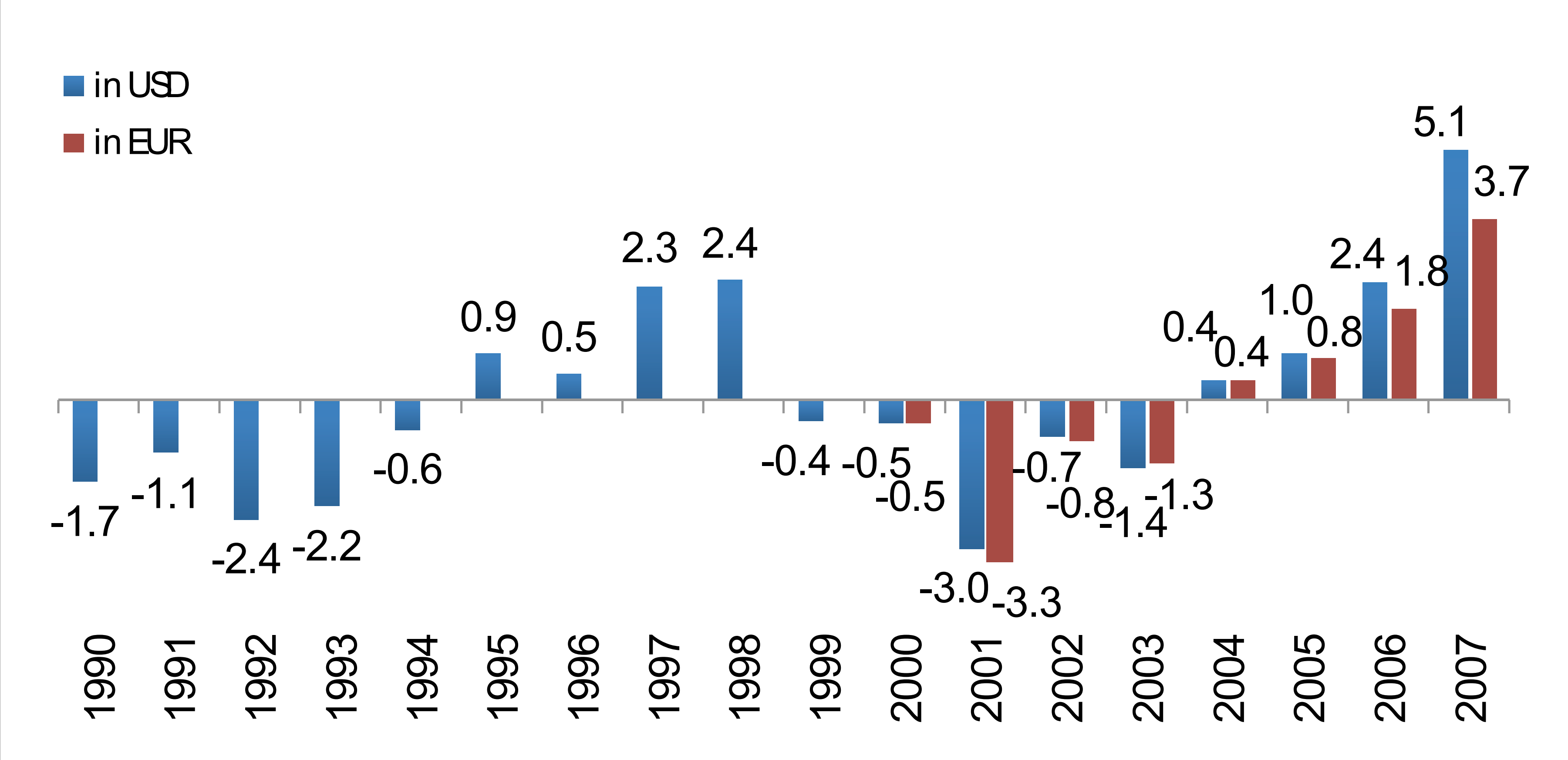
Aggregate Net Profits by nationality of carrier [USD bn]



Source: AEA / OAG / IATA

For AEA, the best result in a long time

Operating Profits[1], 1990 - 2007

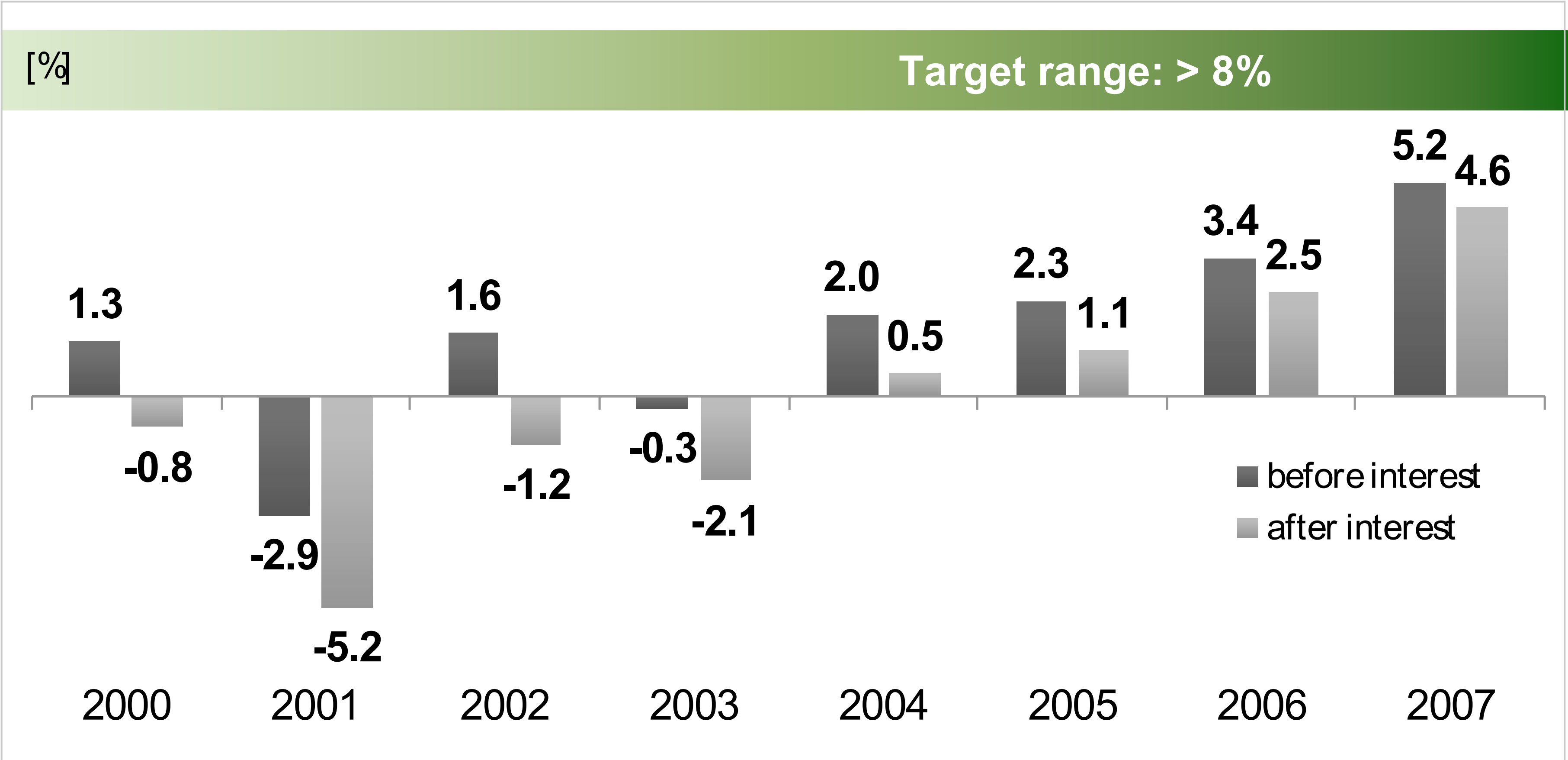


1) **Profits after Interest**

Source: AEA

However, average AEA margin is still below target

Operating Margins, 2000 - 2007



Source: AEA

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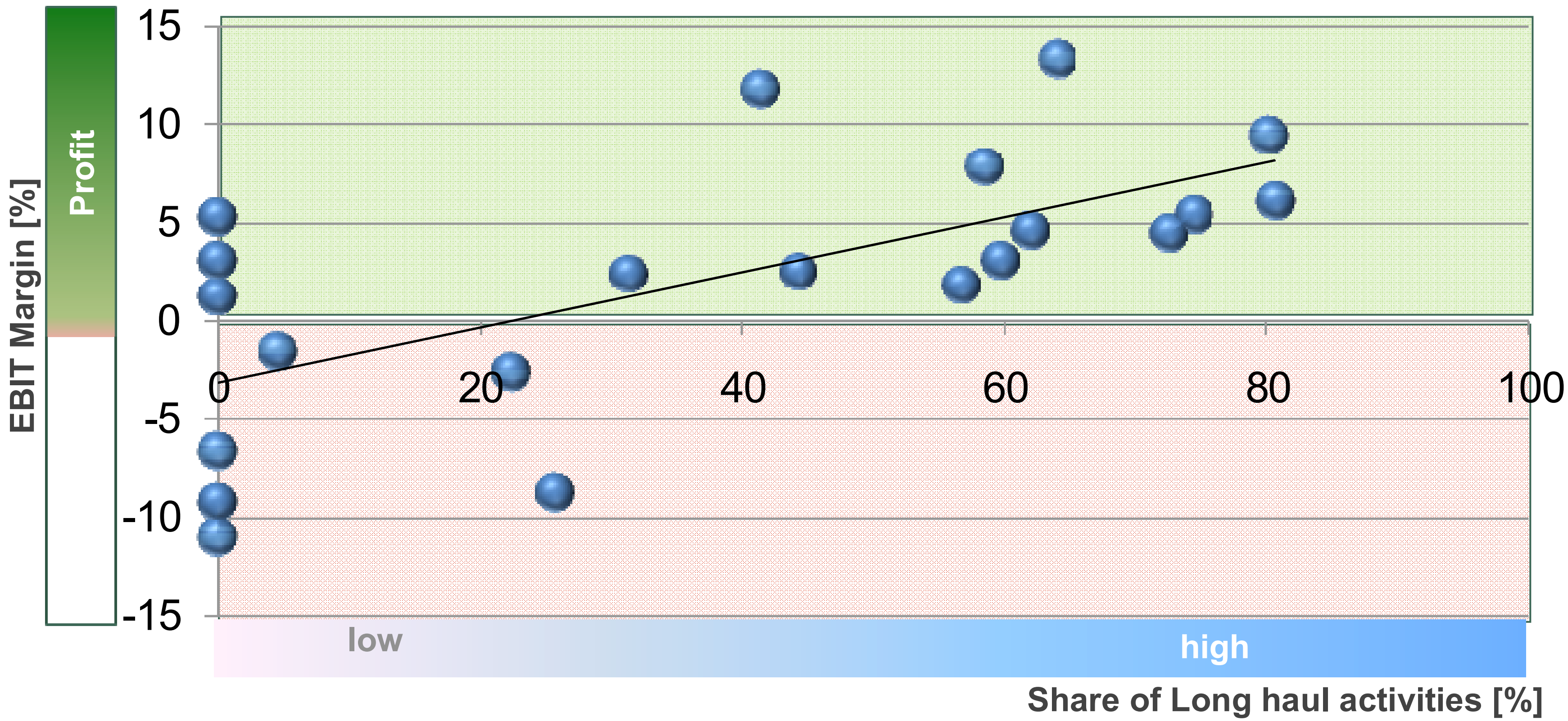
Long haul operations contribute most

Operating Margins vs. Business Model (2007 data)



Source: AEA

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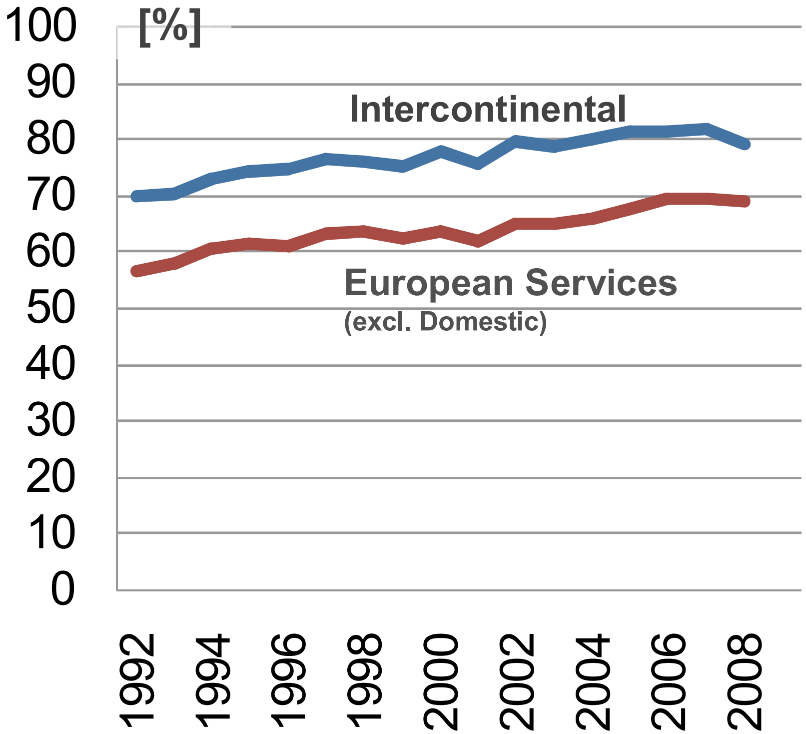
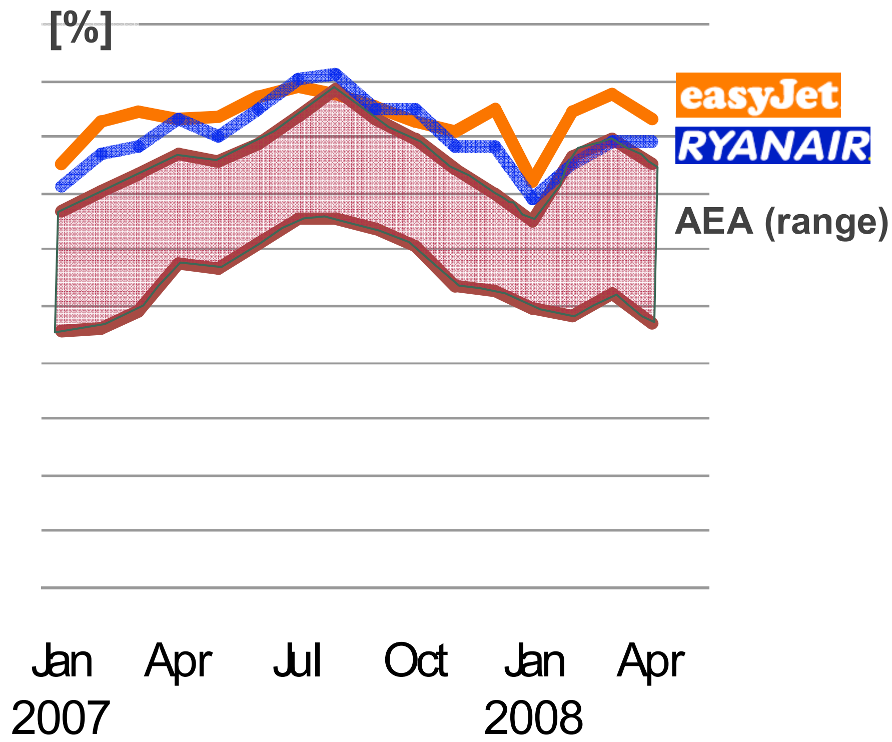
Load factors peak, approach no-frill carriers

Seat Load Factors

Yearly 1992-2008 [1)]



Monthly 2007-2008



1) 2008: Jan - April

Source: AEA / company webpages

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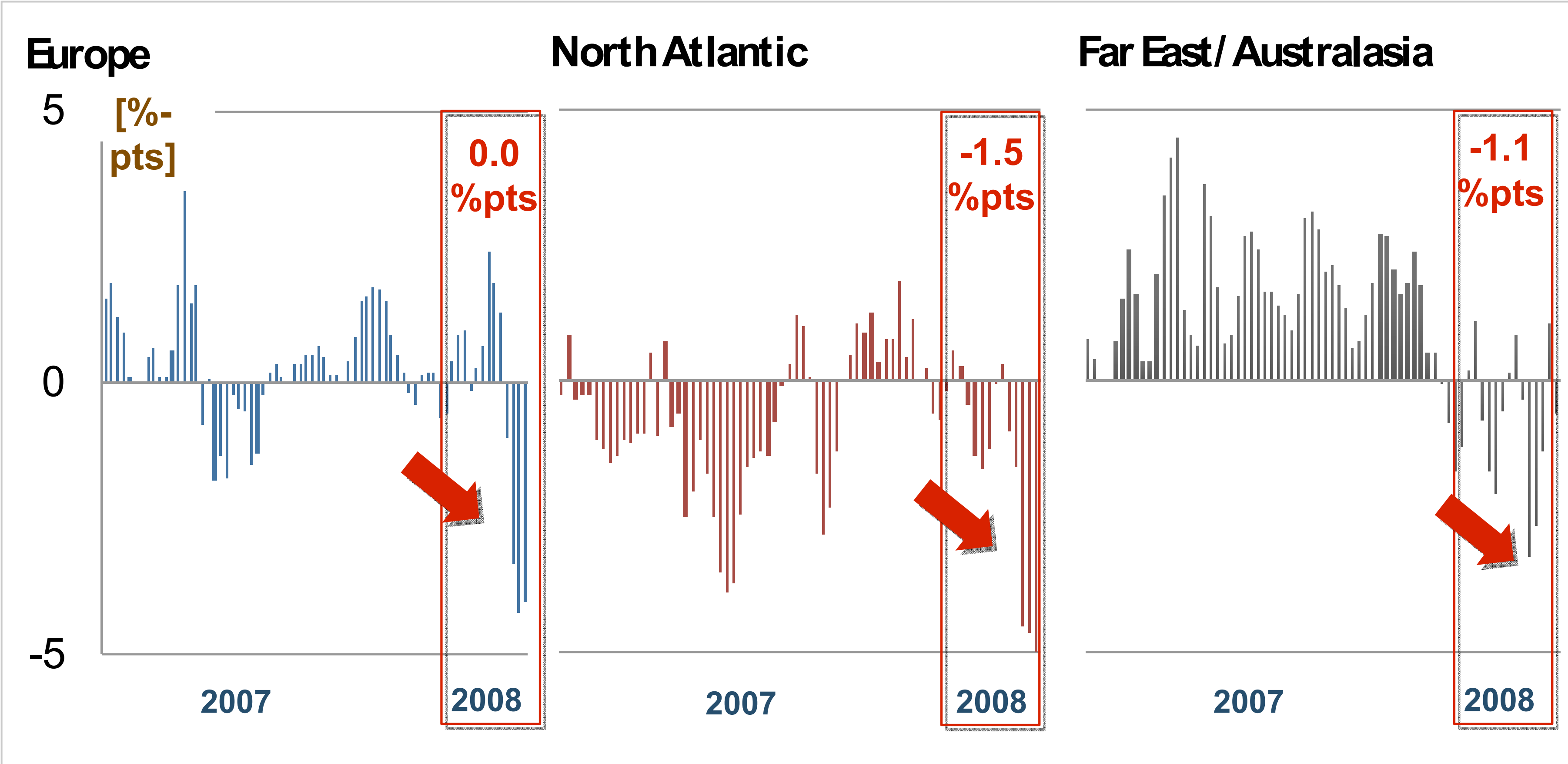
…but are deteriorating in 2008

Weekly Seat Load Factors (year-on-year comparison) **[%pts-deviation]**



20Weeks of 2008:

- Domestic: 64.5% -1.0%pts
- Middle East: 73.3% -0.6%pts
- North Africa: 70.4%
- Sub Saharan Africa: 75.8% -1.2%pts
- Mid Atlantic: 84.4% -1.7%pts
- South Atlantic: 79.1% -6.9%pts

Source: AEA
Note: Moving average, 3 weeks

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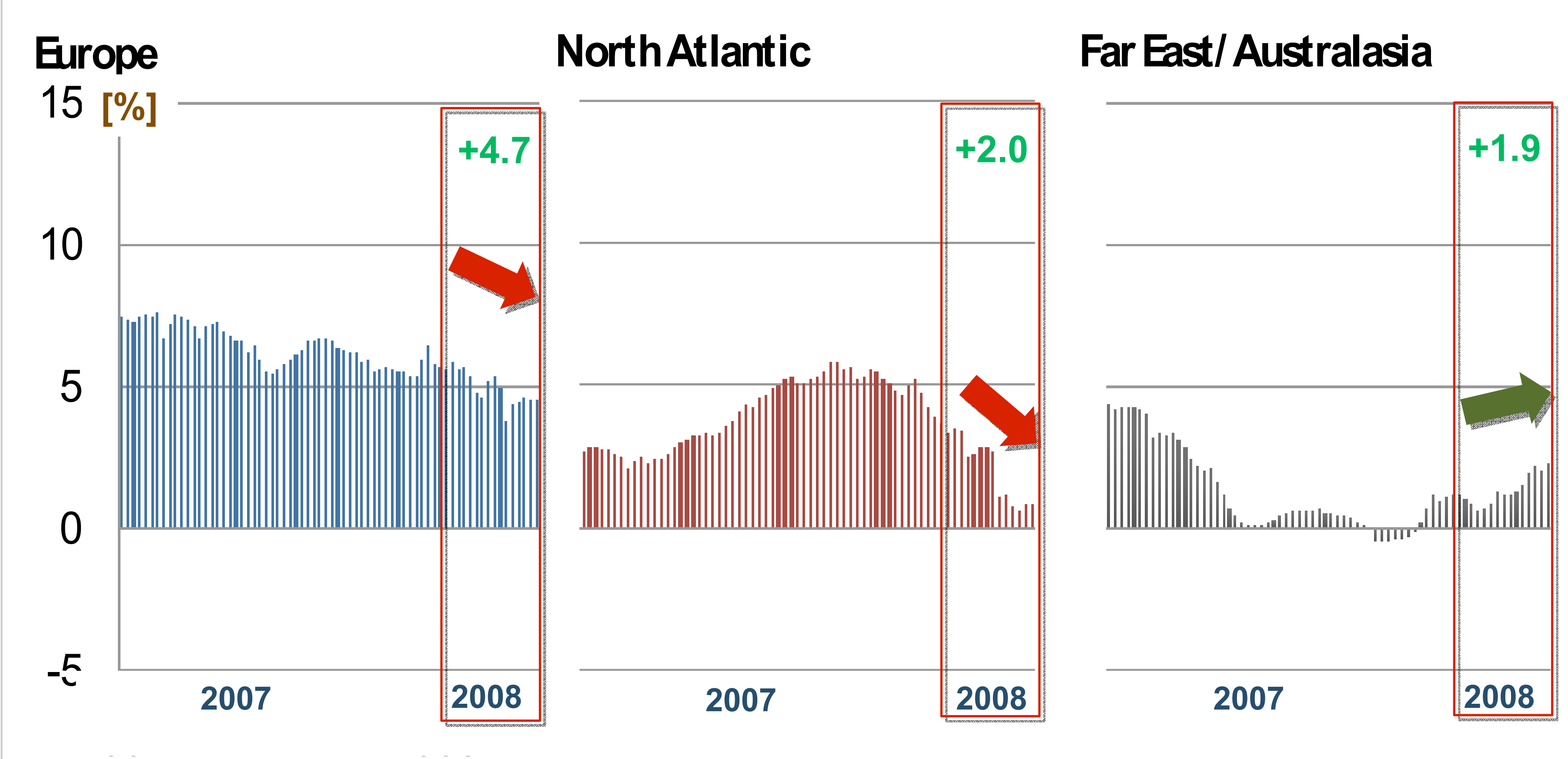
Capacity growth is decreasing

Weekly Capacity development (year-on-year comparison) **[% ASK growth]**



20Weeks of 2008:

- Domestic: -1.5%
- Middle East: +4.8 %
- North Africa: +1.0%
- Sub Saharan Africa: +4.3%
- Mid Atlantic: +3.0%
- South Atlantic: +16.3%

Source: AEA
Note: Moving average, 9 weeks

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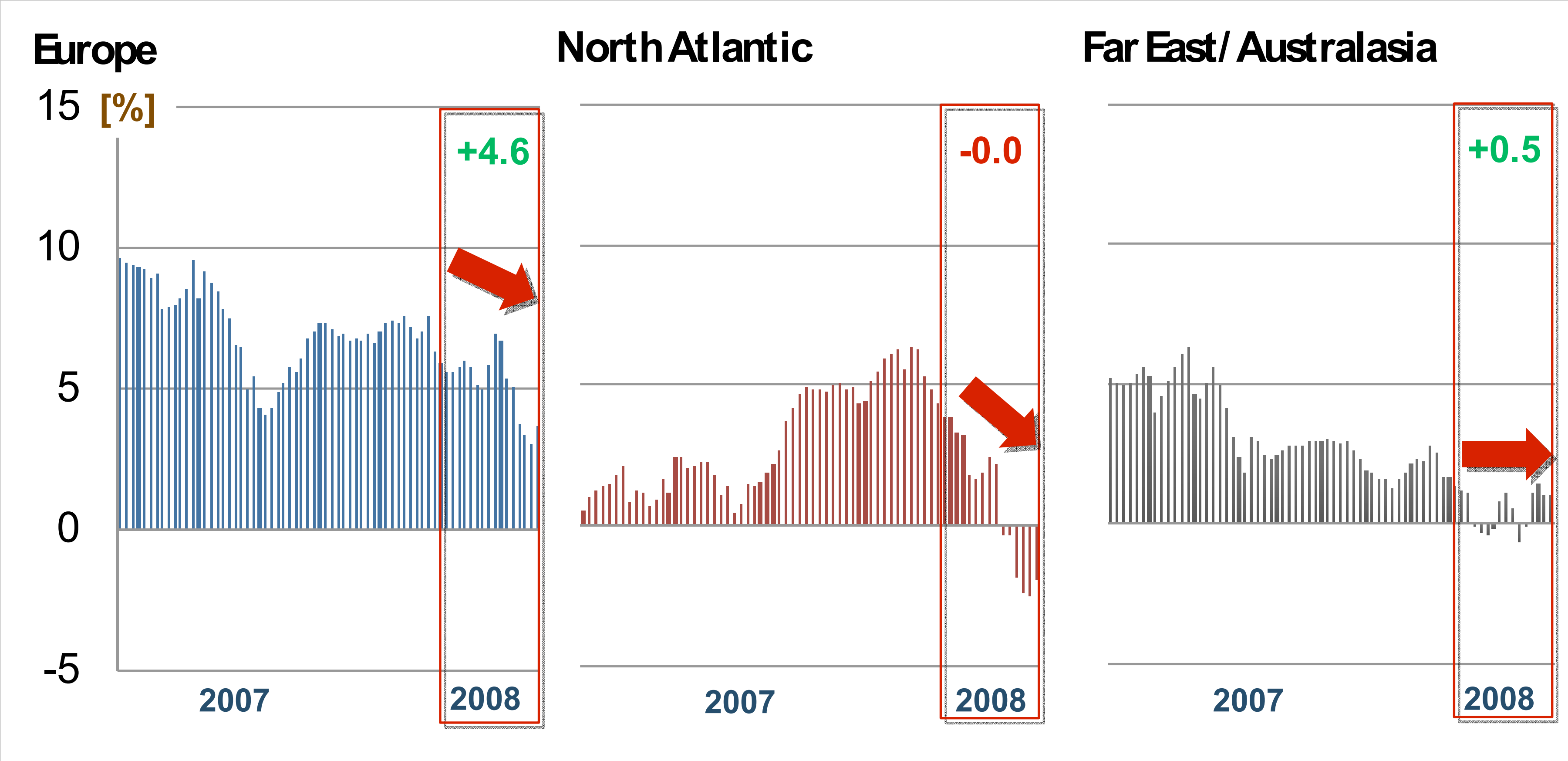
…but demand growth even more so

Weekly Traffic development (year-on-year comparison) [% RPK growth]



20Weeks of 2008:

- Domestic: -2.9 %
- Middle East: +3.9 %
- North Africa: +5.5%
- Sub Saharan Africa: +2.7%
- Mid Atlantic: +0.9%
- South Atlantic: +7.0%

Source: AEA
Note: Moving average, 9 weeks

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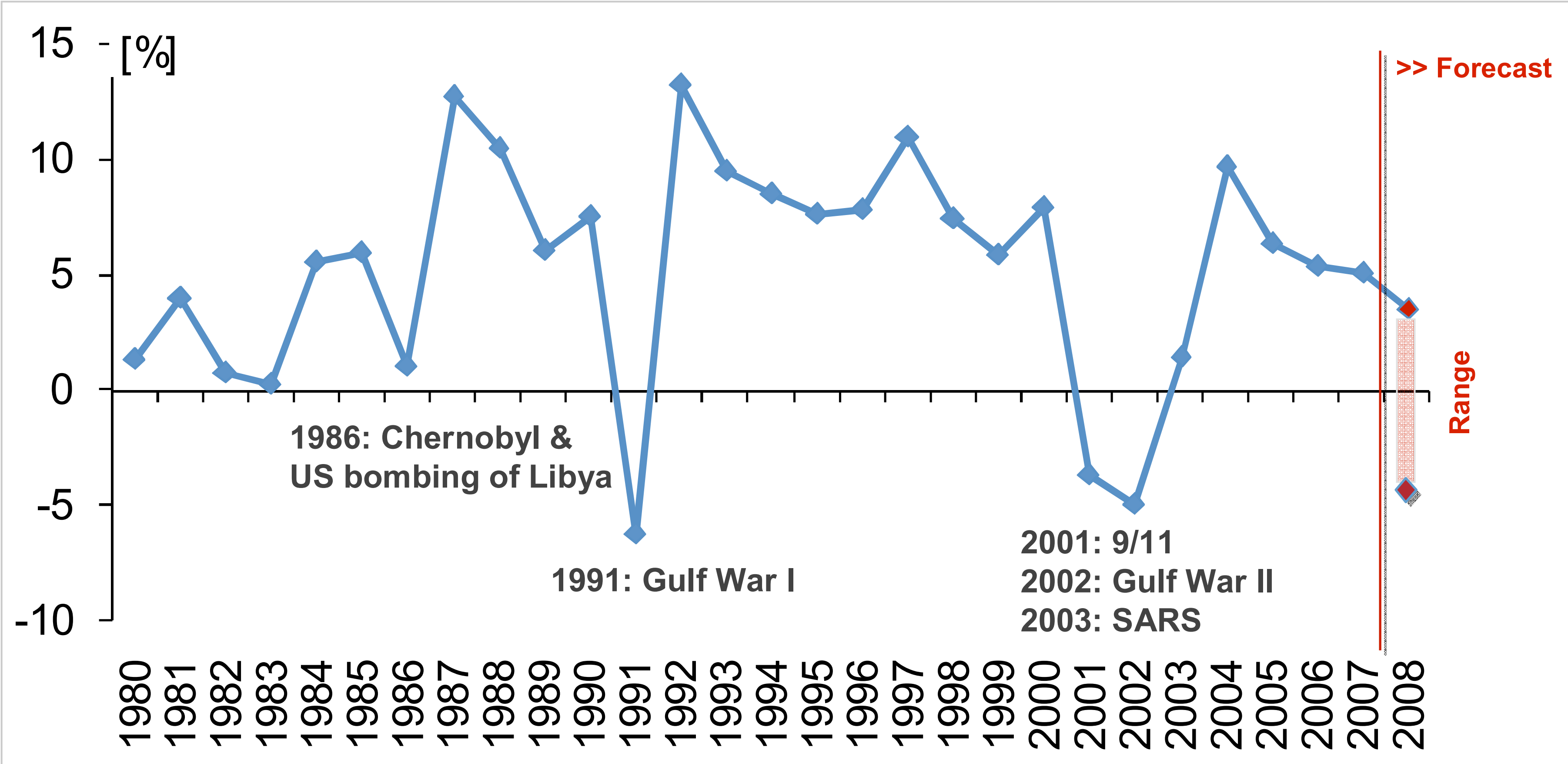
2008: Definitely not as good as 2007

AEA RPK development (year-on-year % deviation)



Source: AEA

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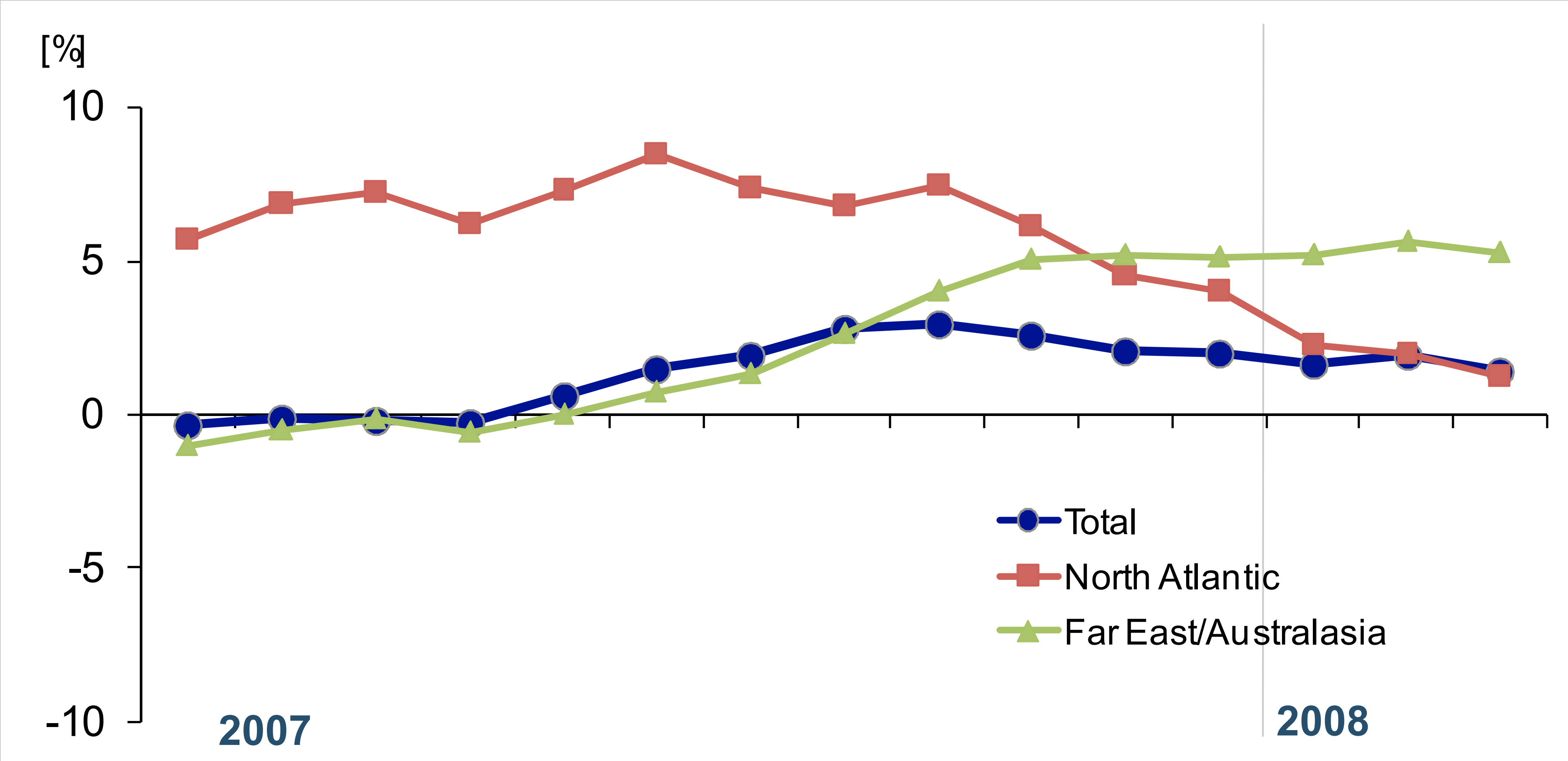
Slowdown originating in the US, Asia is strong

Cargo (Year-on-year % Freight Tonne km*)

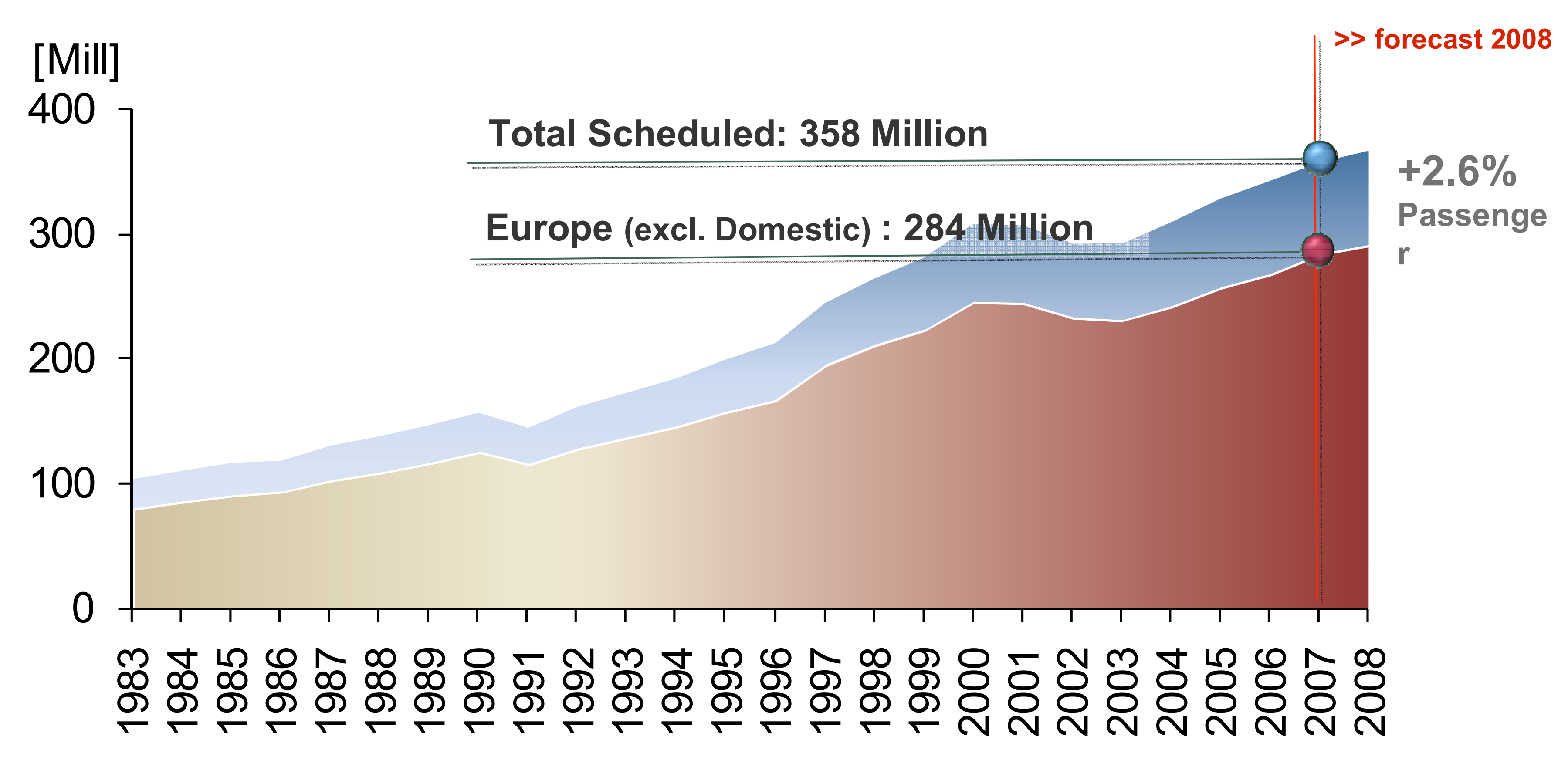


Source: AEA

* Full Freighter only

Passenger numbers expected to grow slower

Passenger numbers 1983 - 2008



Source: AEA

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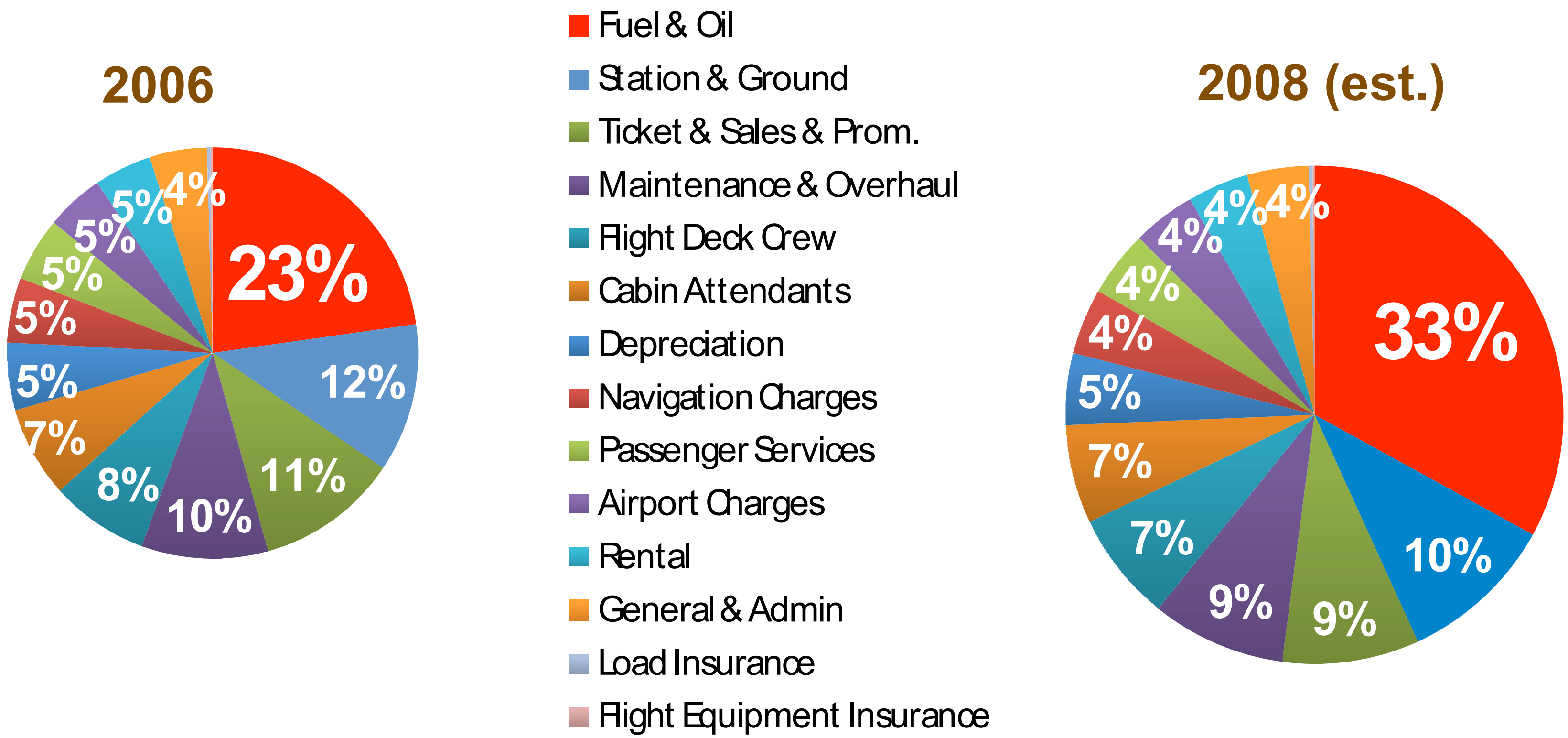
The big fuel increase comes in 2008

Cost share in % of Total Operating cost



2008 Assumption: Avg. Oil price 109.53 USD/barrel*
***Forecast: EIA**

Source: AEA, RB8

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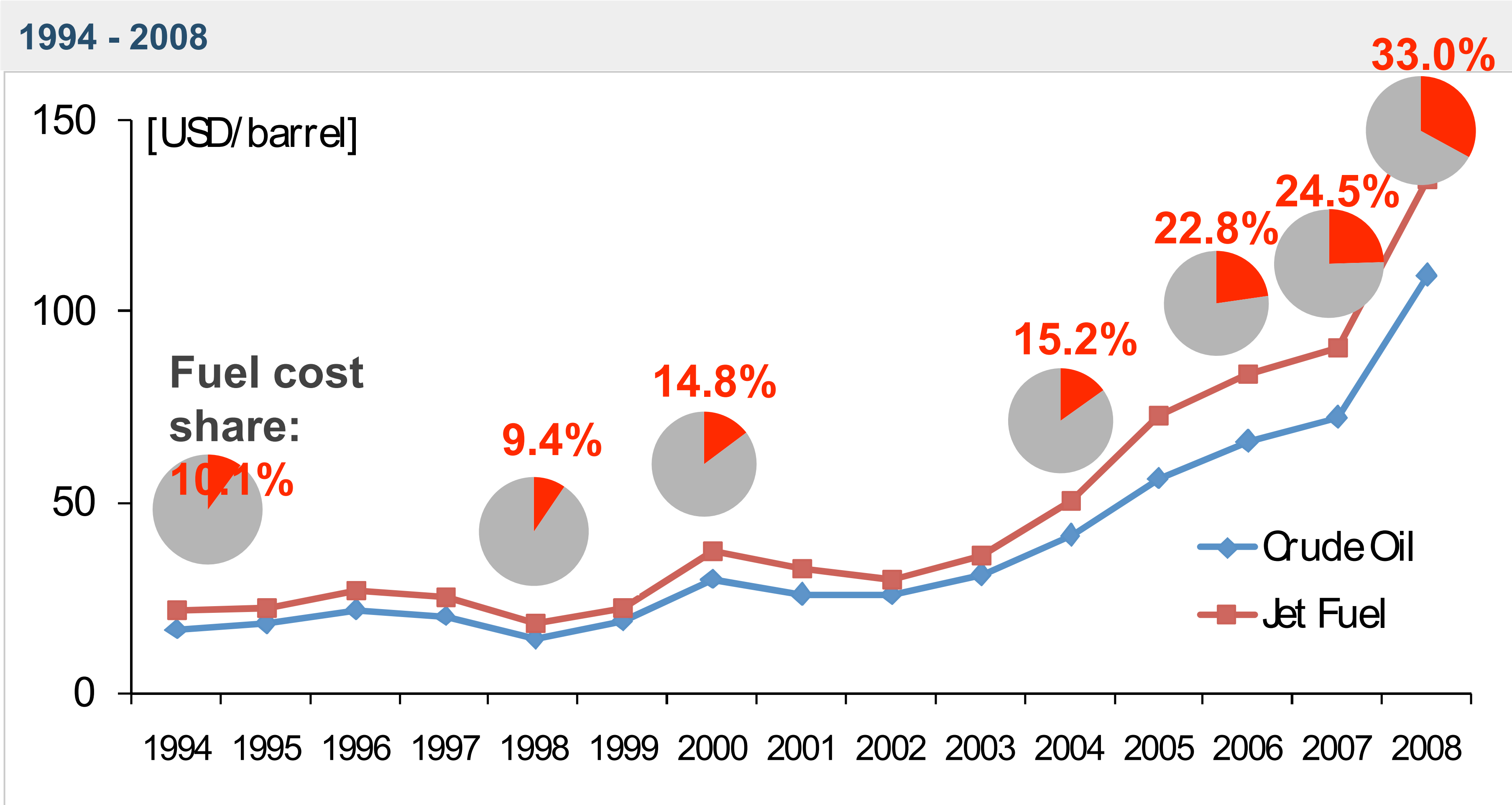
Oil Price and Fuel Cost share



Source: EIA / AEA

2008 Assumption: Avg. Oil price 109.53 USD/barrel*
***Forecast: EIA**

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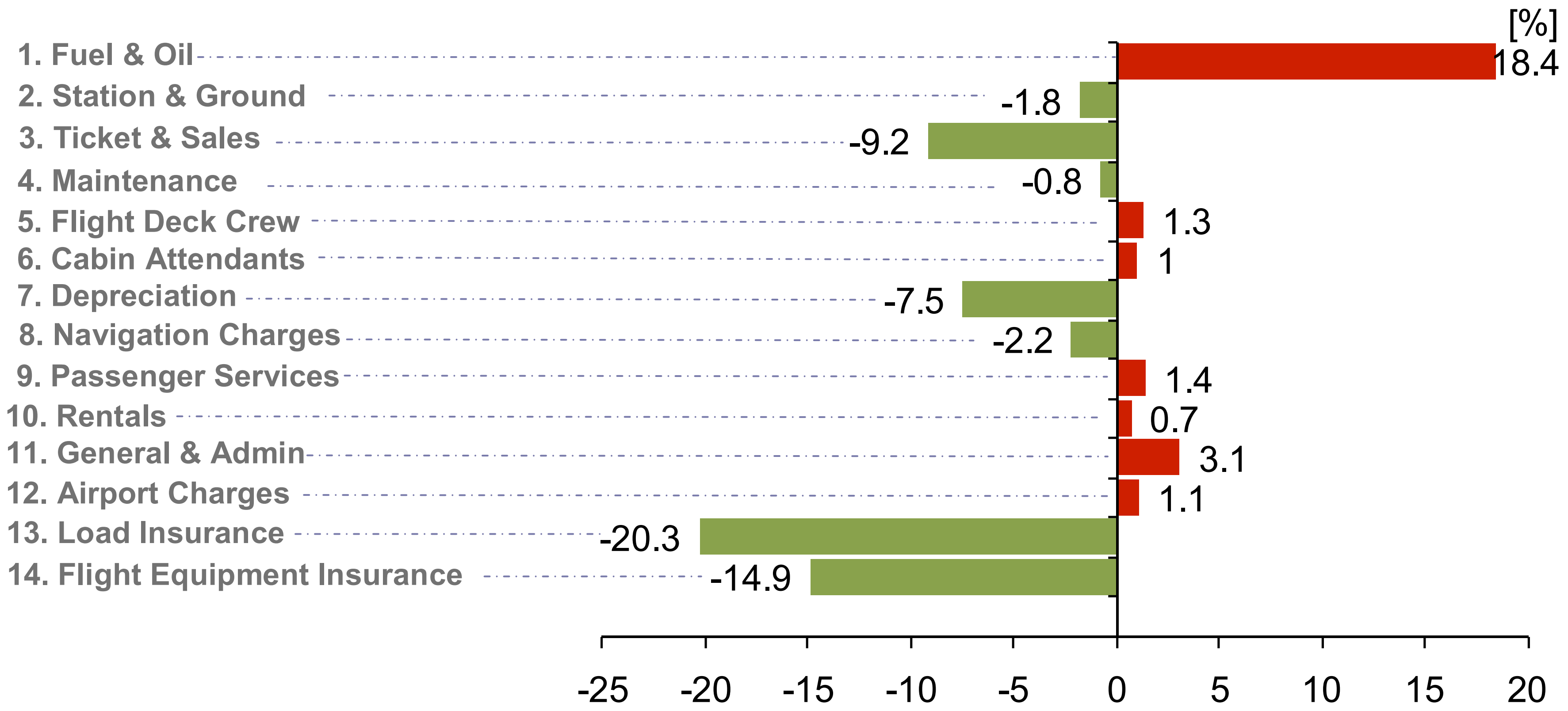
Unit cost of non-fuel items are under control

Unit Cost, changes in % 2006 vs. 2005



Source: AEA/RB8

Cost positions ranked by size

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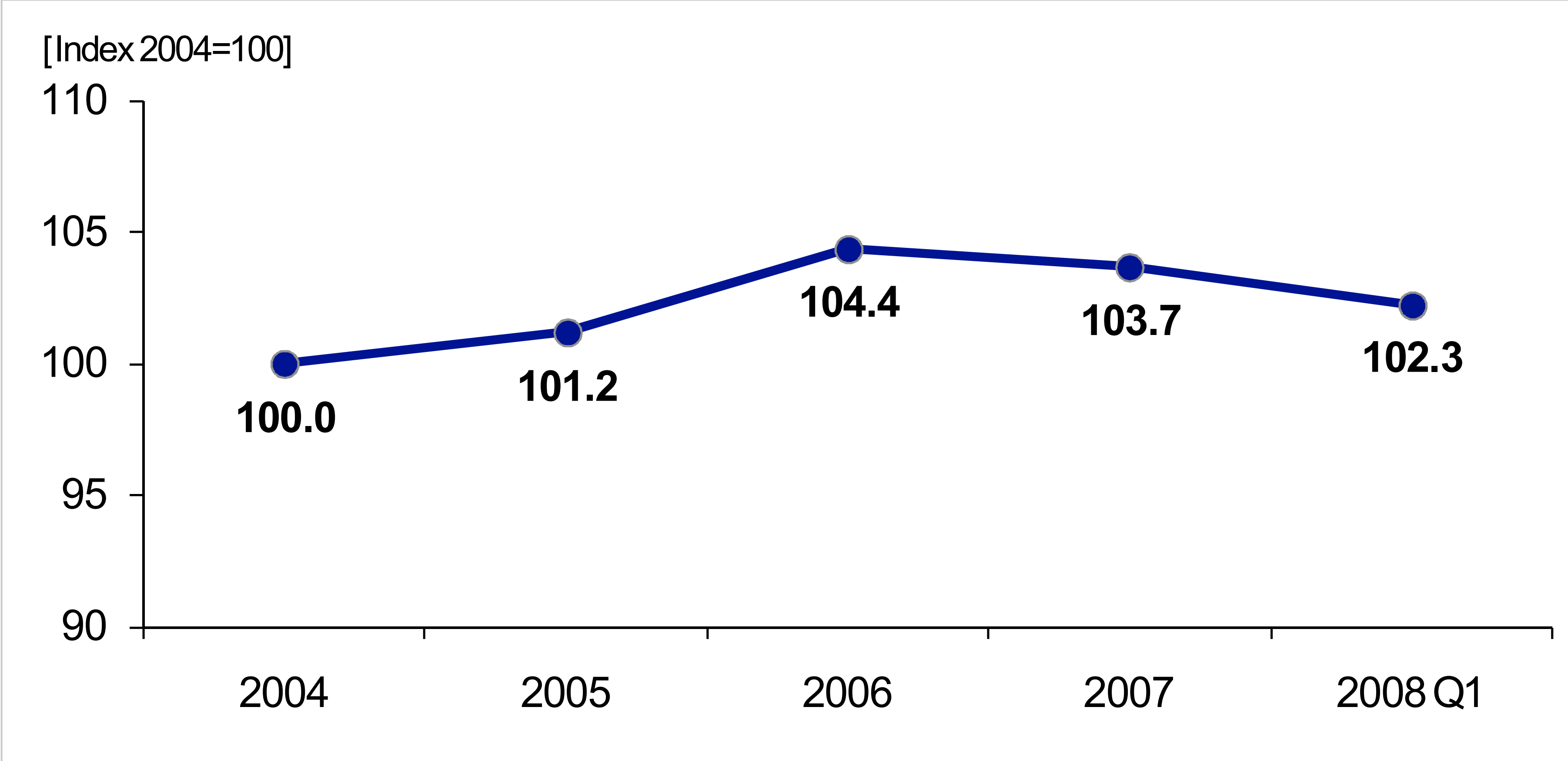
Yields tend downwards

Yield development, 2004 – 2008



Source: AEA, RB12

Jan – Mar **2008:** ▪ **Short/Medium haul: -4.6 %** ▪ **Long haul: +1.1%**

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2 Macroeconomic environment and outlook

"Macroeconomic indicators change for the worse.

Energy cost becomes the key issue, now coinciding with weakening economies.

The mix of negative factors is a challenge for further improvement and requires an adequate response."

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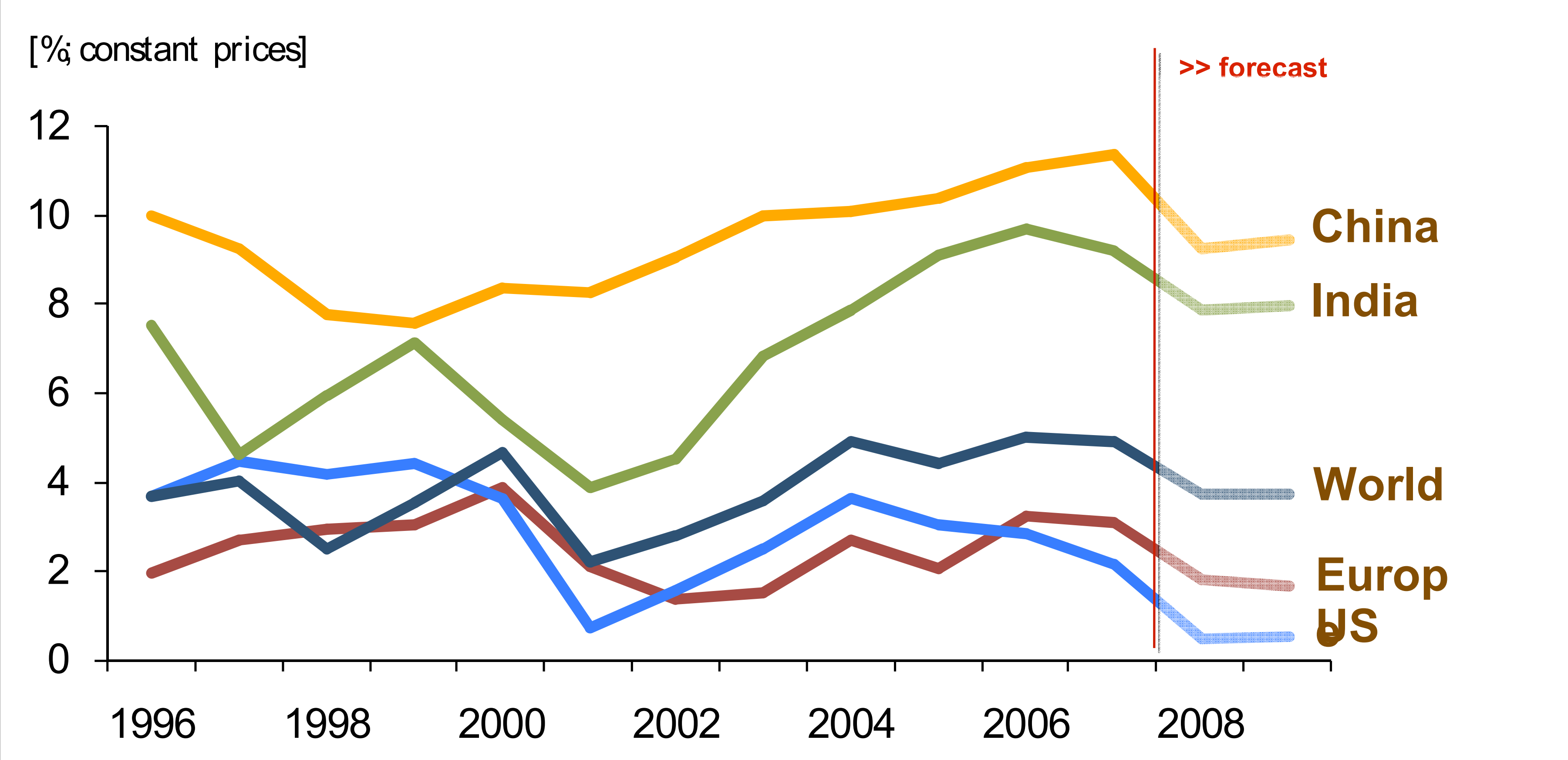
Economic cycle peak has passed

GDP Growth



Source: IMF

IMF: Balance of risk tilted to the downside. 25% chance of a global recession in 2008 and 2009. (Global recession = <3% growth)

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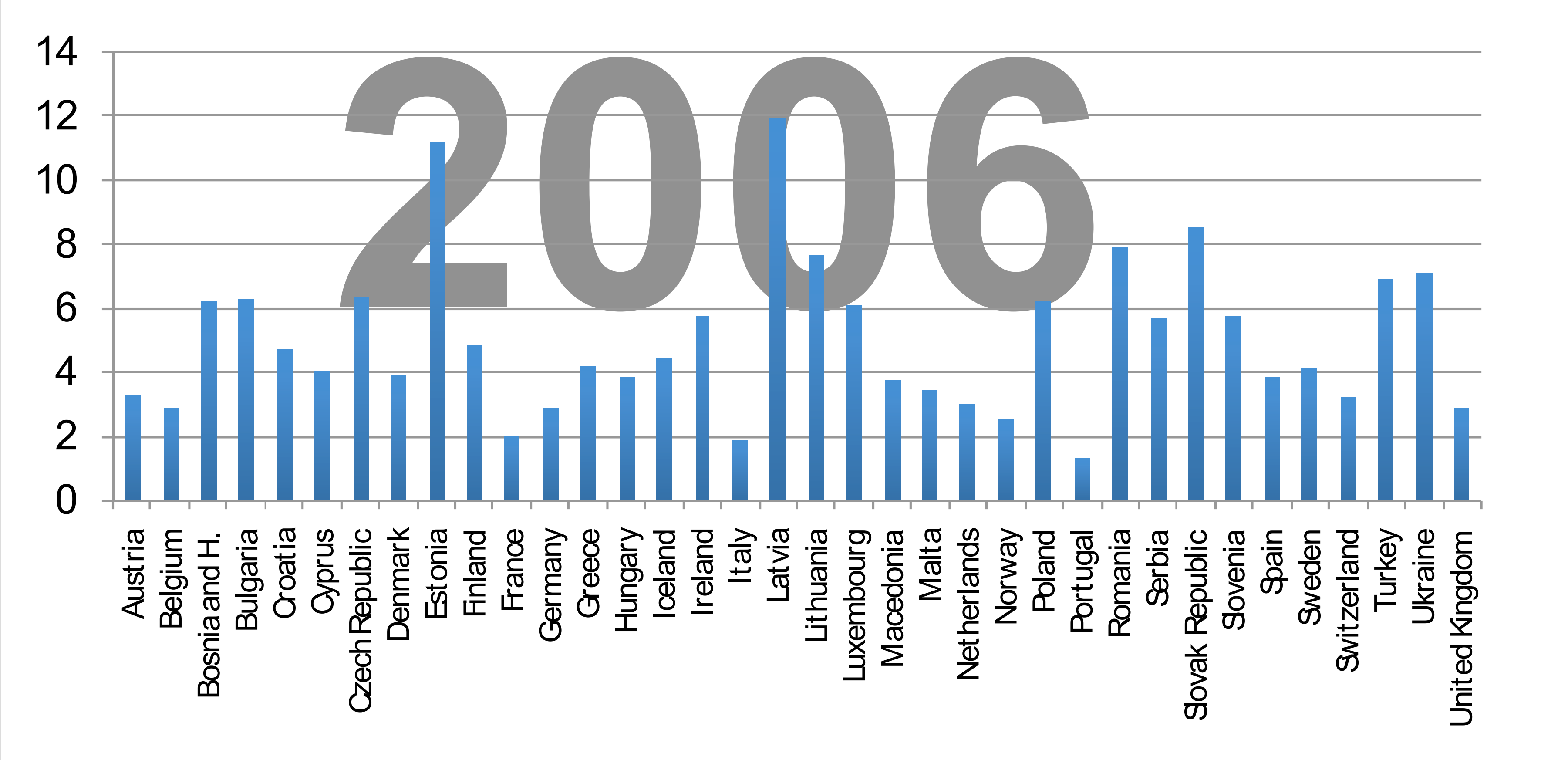
Home markets have different perspectives

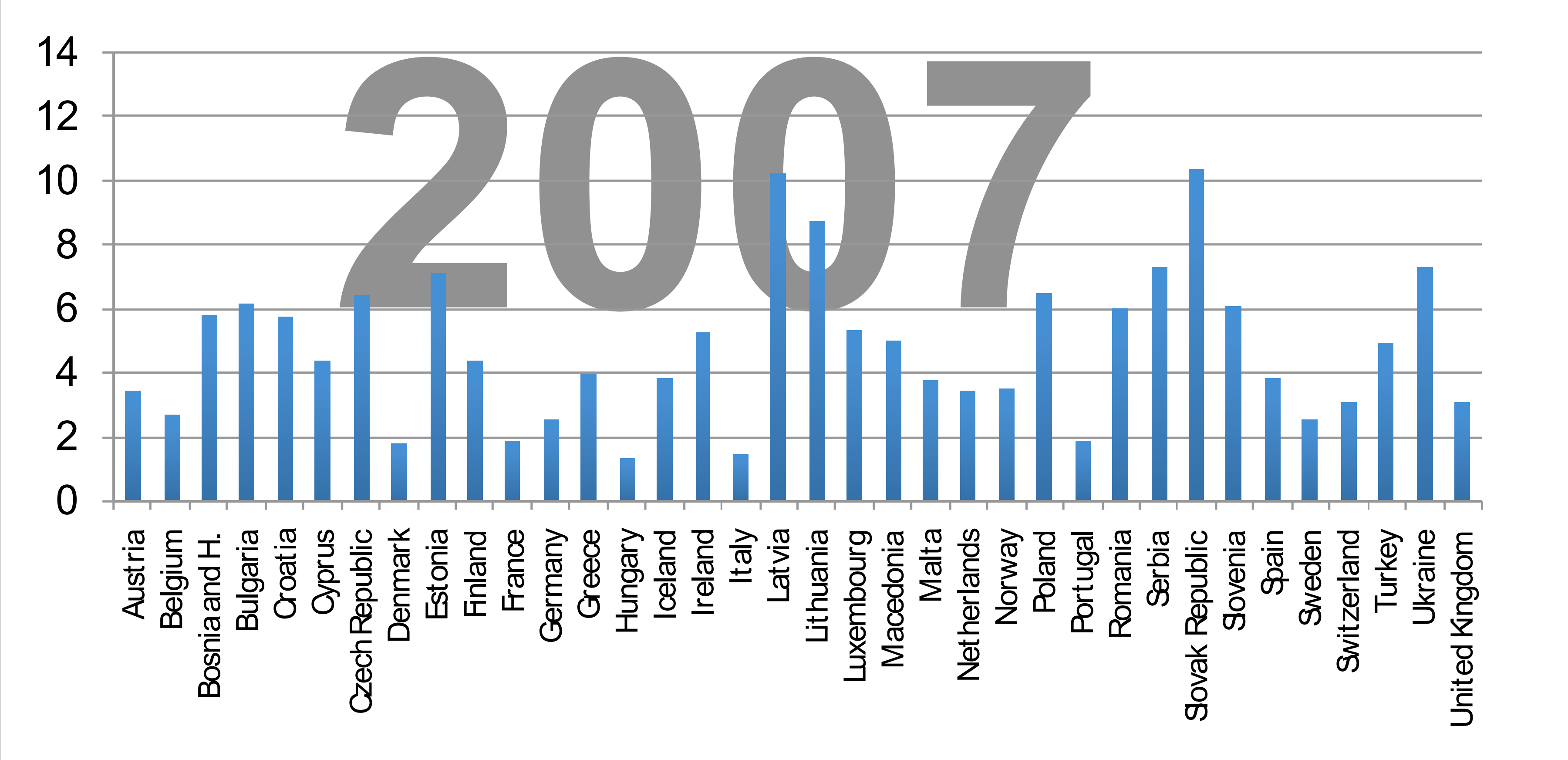
GDP growth per country



Source: IMF

Home markets have different perspectives

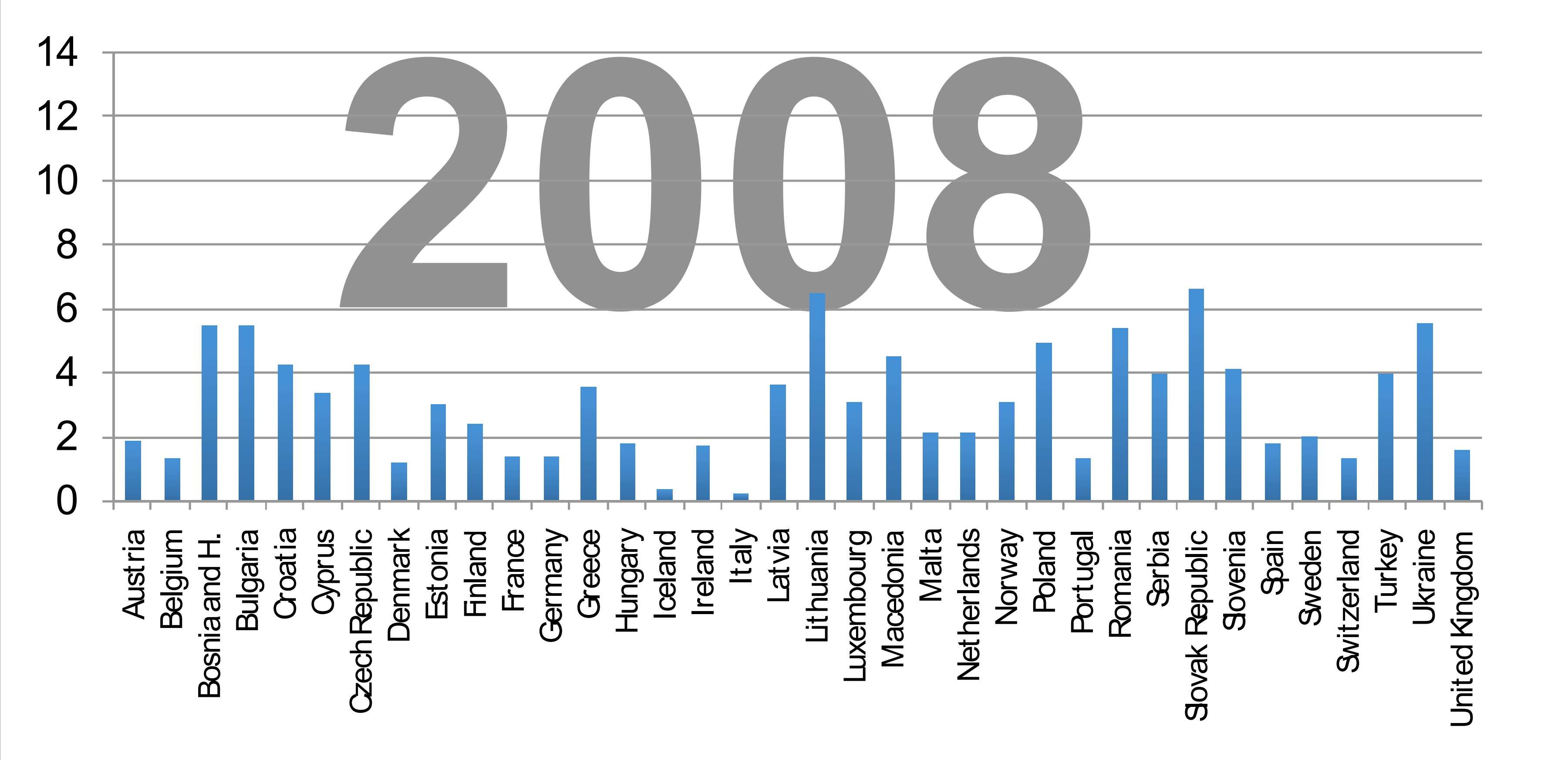
GDP growth per country



Source: IMF

Home markets have different perspectives

GDP growth per country



Source: IMF

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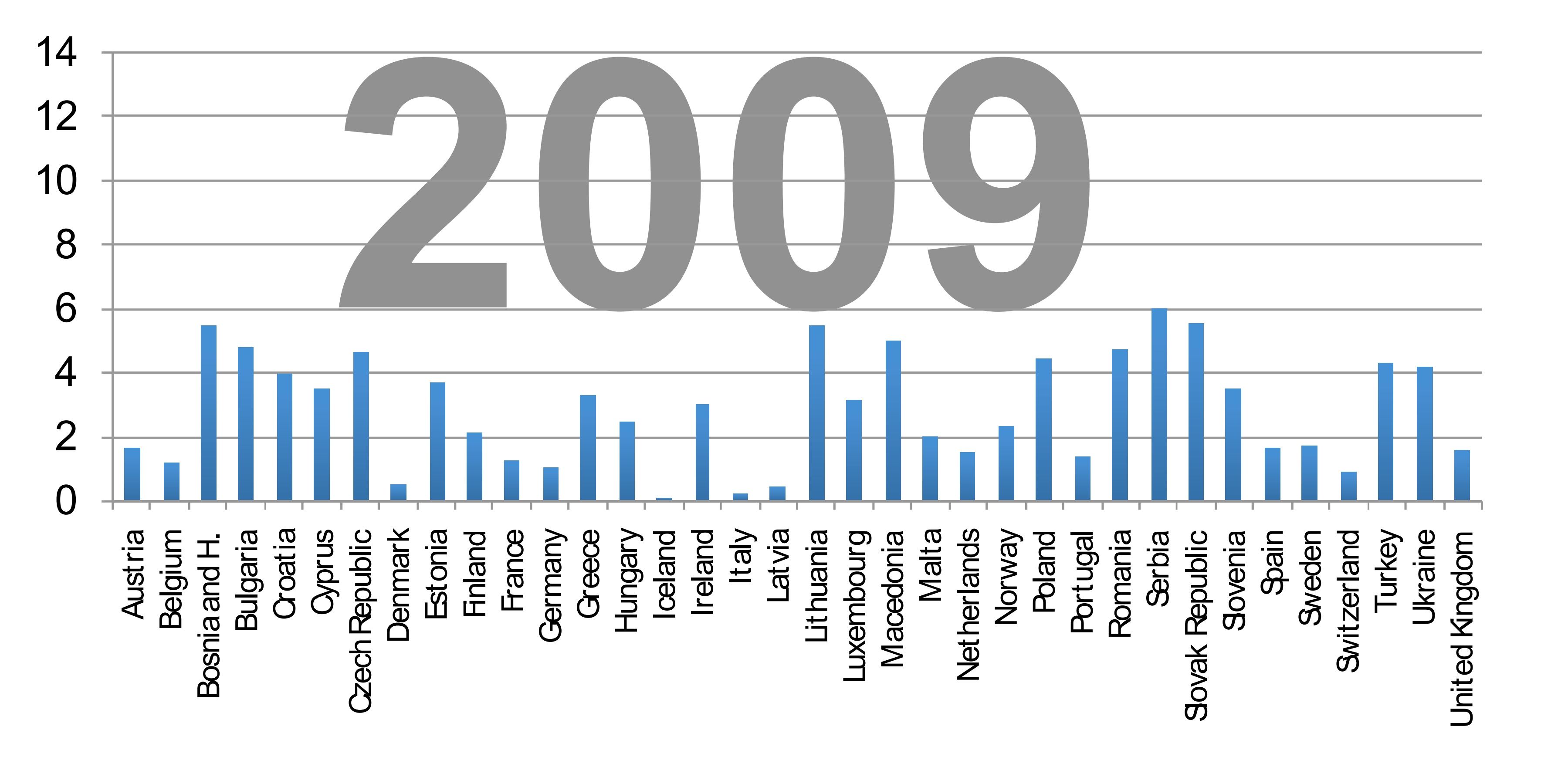
Home markets have different perspectives

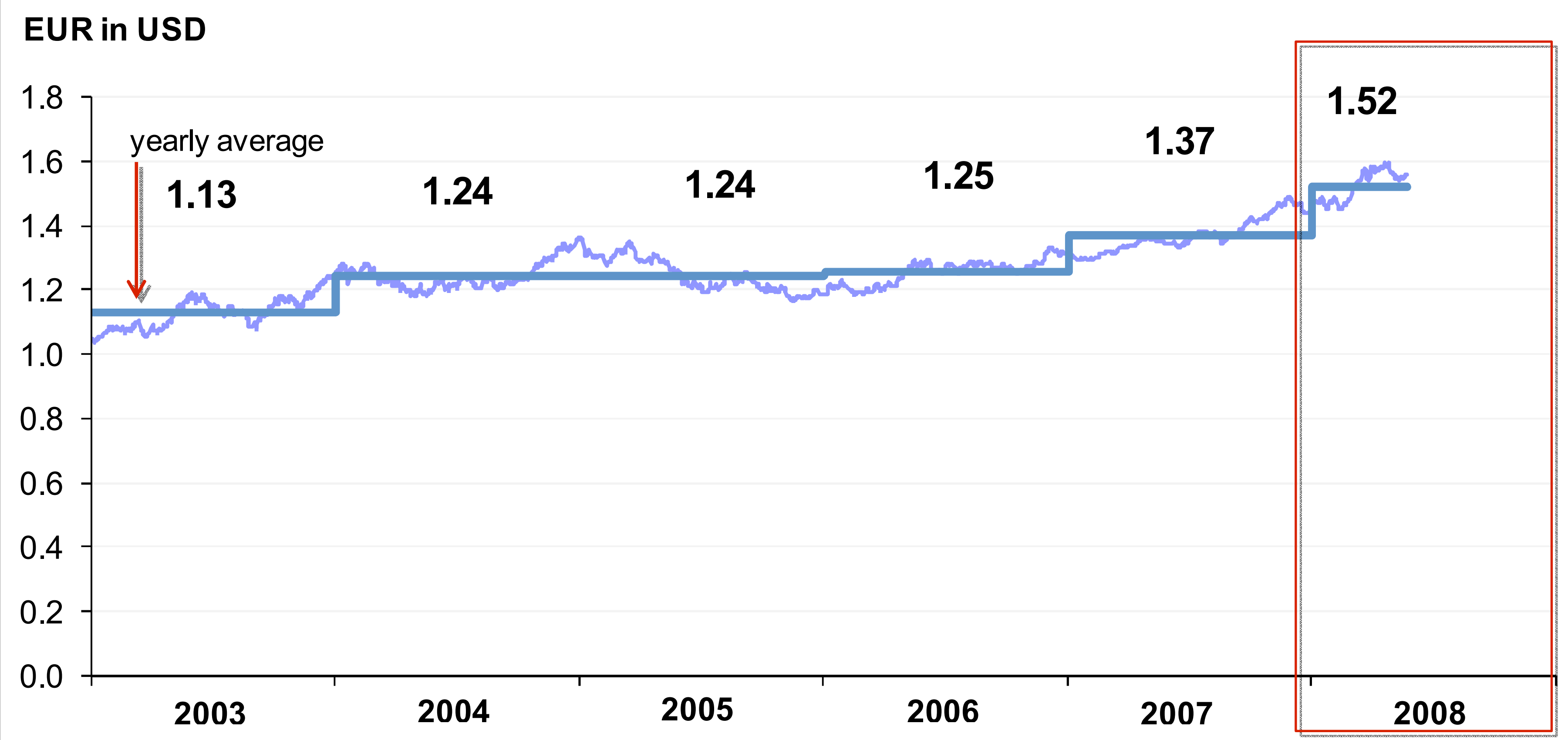
GDP growth per country



Source: IMF

For now, favorable USD exchange rate persists

Exchange rate development



Source: Oanda.com

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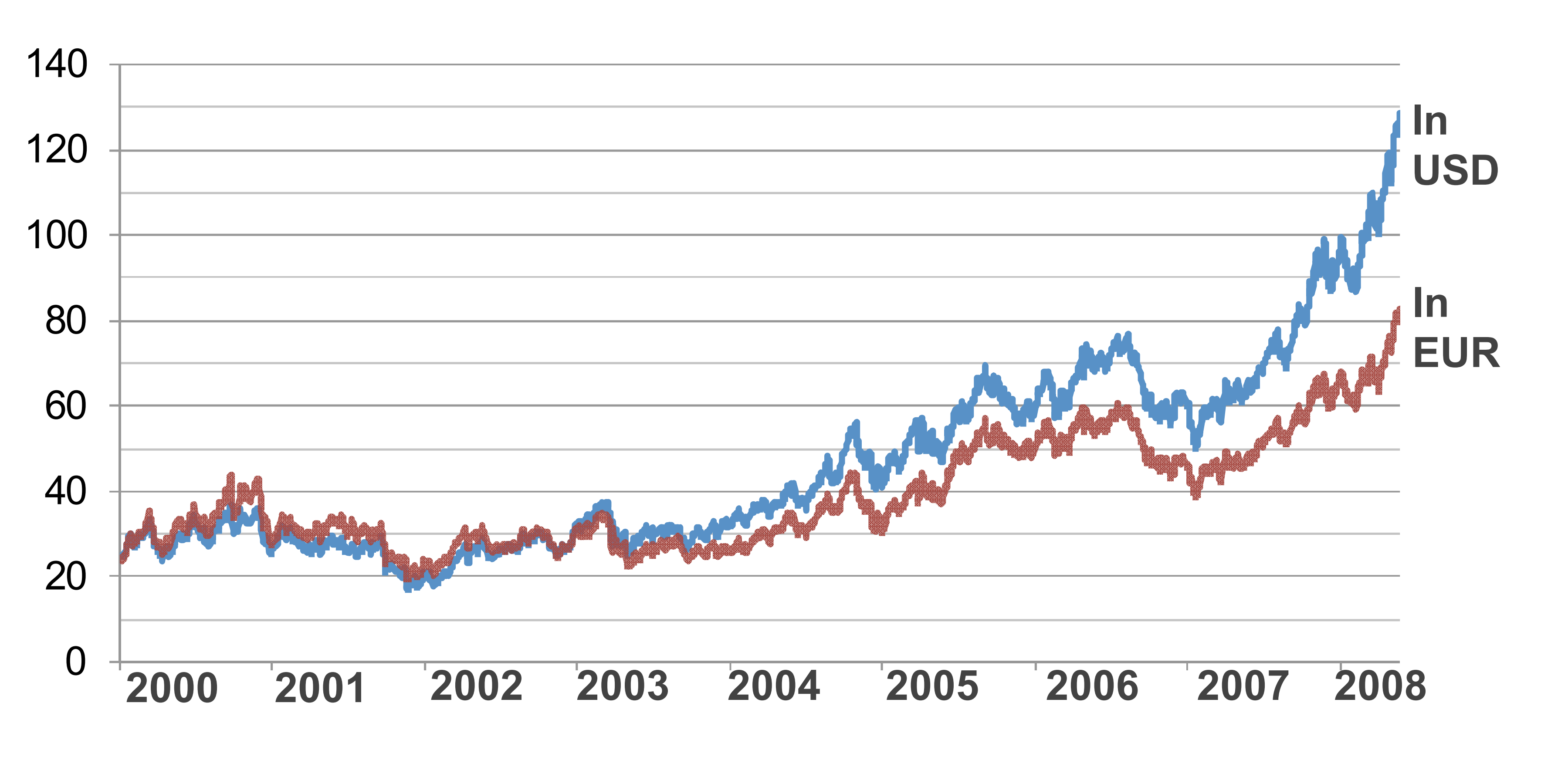
…thus likely to soften the blow of Fuel Prices

Crude Oil Spotprice (WTI) 1.1.2000 – 20.05.2008



Source: EIA /Oanda.com

Causing first victims, mainly in the US

Airline Shutdowns since end of 2007

United States	Date
MaxJet	12/07
BigSky	01/08
Aloha Airlines	03/08
ATA Airlines	04/08
Skybus Airlines	04/08
Eos Airlines	04/08
Champion Air	05/08

Asia	Date
OASIS	04/08

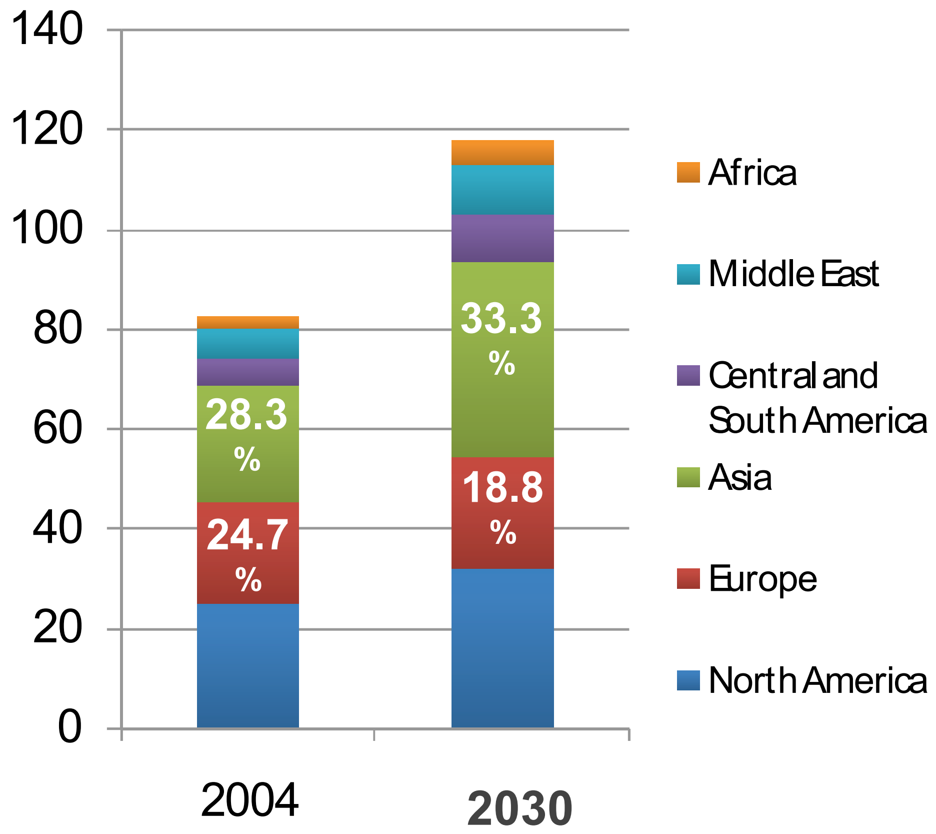
Europe	Date
Euromanx	05/08

Source: AEA/ATA/Company websites

- **All airlines quoted Fuel Prices to be (one of) the reason(s) for demise**

World Oil demand remains strong, keeps prices up

World Oil Consumption [barrel per day]



Oil Price forecast 2008	Avg. per barrel
EIA (Energy Information Admin.)	$ 109
UBS	$ 115
Societe Generale	$ 115
Credit Suisse	$ 120
Goldman Sachs	$ 150 - 200*

*next 24 to 48 months as of May 08

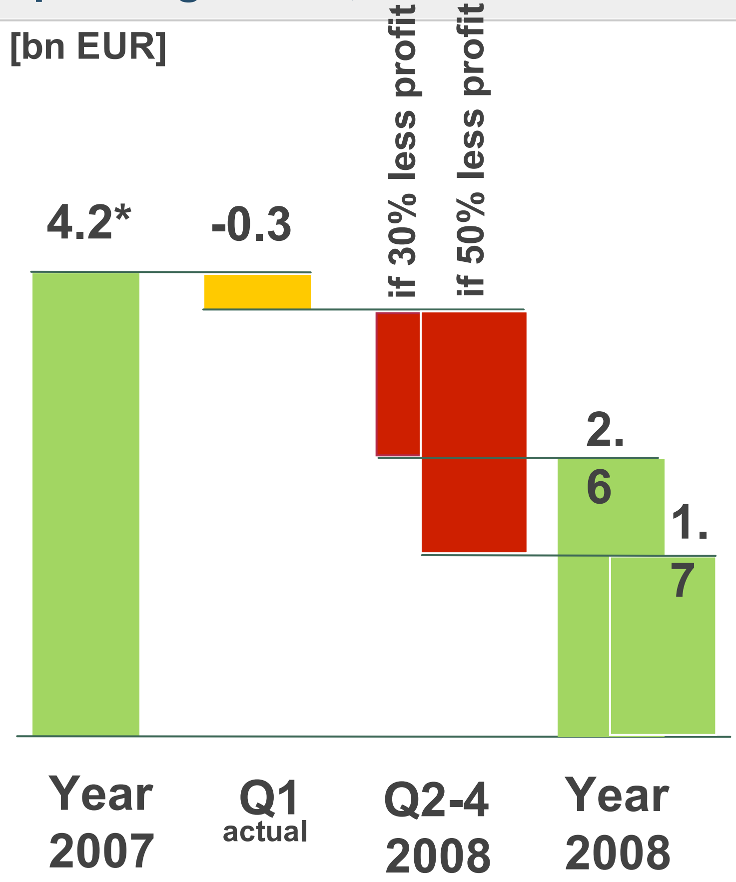
Forecasts date from May 2008

Source: EIA / companies

- 2008 oil consumption is expected to reach 89 Millions of barrels per day

Q1 2008 suggest lower profits for the year

Operating Profits, before interest



Influence factors

Negative

- Demand slowing and SLF fall is evident
- Oil price is not expected to ease
- Limited scope for non-fuel cost savings

Positive

- Relatively good Q1 results
- Exchange rate so far mitigate impact, hedges still in place offer some respite
- Capacity adjustments

***Operating Profit 2007 be EUR 4.2bn <u>before interest</u> or EUR 3.7bn <u>after interest</u>** Source: AEA

Op. Profit 2008 will range from EUR 1.7 bn to 2.6 bn, with interest still to be deducted

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Mid 2008 marks the beginning of a new era

Key figures	2007	2008
Demand (RPK)	+5.1%	+3.1% ▼
Capacity (ASK)	+4.2%	+5.0%
Seat Load Factor	77.1%	75.8% ▼

- Fuel: the single biggest cost factor (1994: 10% of total, now 33)
- Fuel price trend: long-term upward
- Aviation’s exposure to fuel: significant
- Means to further compensate are limited:
  - Hedging? Prices fluctuate upwards
  - Surcharges? Economic Downturn
- New measures are needed

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Mid 2008 marks the beginning of a new era

- **Today's answers:**
  - Costs:
    - Further cost 'trimming' of non-fuel goods & service where possible, although potential limited;
  - Revenues:
    - Several airlines (incl. SK, BA, OA) suggest ticket prices will need to go up to cover rising fuel costs;
    - Product differentiation;
    - Search for ancilliary services, e.g. checked-baggage charge;
  - Capacity:
    - Imminent grounding of aircraft to reduce capacity;
    - Unprofitable or marginally profiitable routes to be cut faster;
    - Structural capacity cuts planned, in particular from Winter timetable;

'We are in unchartered territory'

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