

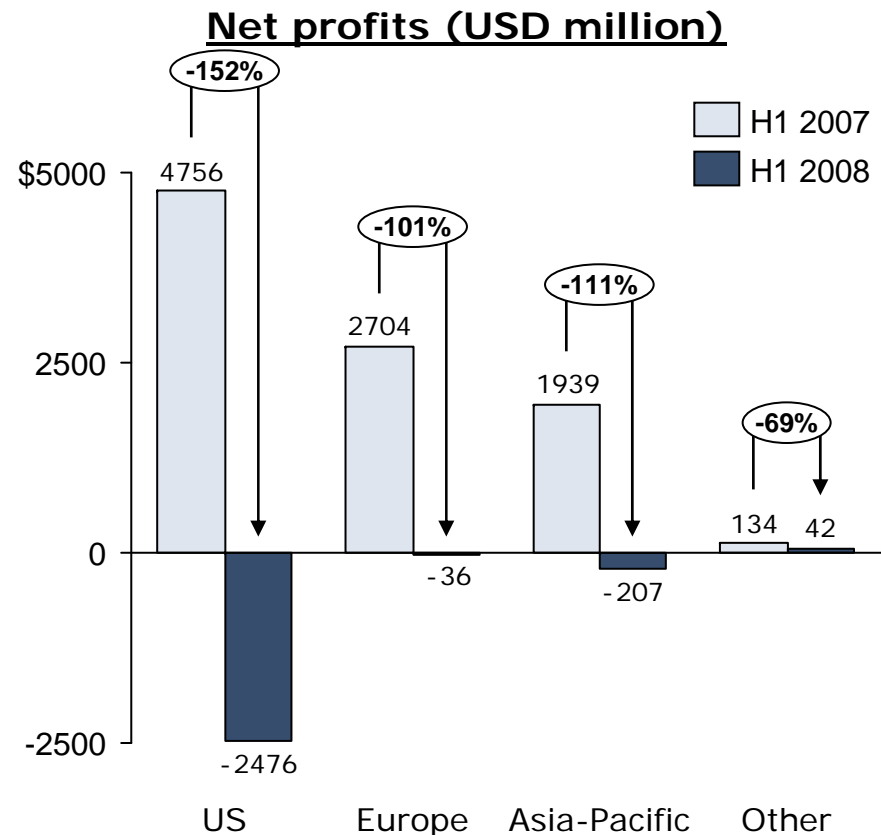
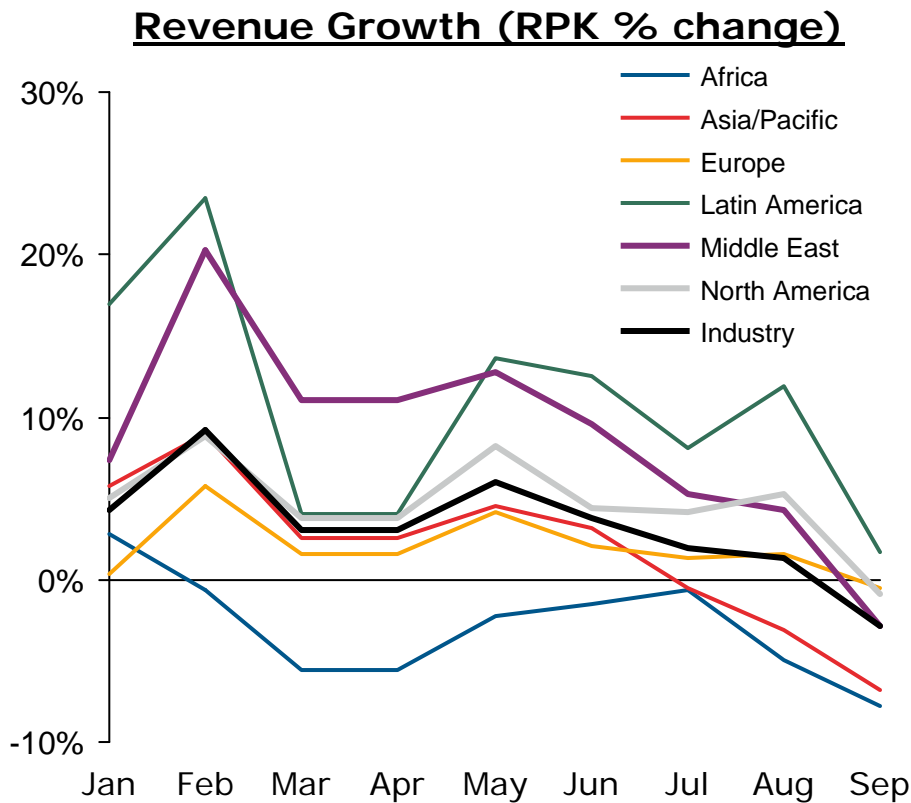
AACO Aviation Summit

Privatization Working Session

16th November 2008, Sharm el Sheikh

Effect of crisis on airline economics

Impending recessions, jet fuel prices, and the global economic downturn have led to a sharp fall in passenger revenues and therefore airline profits



Seabury believes this global reduction in demand will be one of the largest on record

Source: IATA economics, Seabury analysis

Reaction: consolidation

Financial crisis and falling demand has led to accelerated pursuit of alliances, strategic partnerships and M&A activity in the rest of the world

Alliances



Mergers and Acquisitions



Consolidation perspectives



Global aviation leaders have commented on pressing need to overcome regulatory hurdles and the benefits of consolidation

"Consolidation of the airline industry is inevitable...Regulators are tired of hearing airlines say they need more help. One way for airlines to help themselves is to be able to consolidate."

W.Douglas Parker, President and CEO America West

"There must be freedom to consolidation. We've got to be able to move beyond artificial restriction,"

Willie Walsh, CEO British Airways

"Cross-border ownership at the Arab level is an important first step to allow the possibility of consolidation"

Abdul-Wahab Teffaha, AACO Secretary General

"In this environment, Jet Airways and Kingfisher alliance represents a completely new industrial model for aviation in India. There will be huge cost saving and revenue enhancement opportunities."

Naresh Goyal, CEO Jet Airways

(On consolidation) "In Asia, we will also have to make sure that we are part of what's happening around the world, the strengthening of airlines,"

Chew Choon Seng, CEO Singapore

International ownership rules

US and EU regulations provide relatively more relaxed ownership rules

	European Union	United States	AACO area
Foreign ownership	<ul style="list-style-type: none"> 49% voting stock may be owned by foreign entities No ownership restrictions on EU entities 	<ul style="list-style-type: none"> 25% voting stock may be owned by foreign entities 	<ul style="list-style-type: none"> Foreign ownership generally not permissible (varies by country)
State ownership	<ul style="list-style-type: none"> Trends to full or partial privatizations emerged in 1990s Many medium and small carriers still state-owned ~80% of EU majors listed on stock exchanges 	<ul style="list-style-type: none"> All carriers are privately owned 100% of US majors listed on stock exchanges 	<ul style="list-style-type: none"> Predominantly state owned, not private Main exceptions are new LCCs (e.g., Jazeera Airways and Air Arabia) and Royal Jordanian
State support	<ul style="list-style-type: none"> Strict EU rules on permissible state aid generally observed If aid is found to be illegal carriers are obliged to return the full amount 	<ul style="list-style-type: none"> Indirect low-level state aid (for example: "fly America": all government business travel on US carriers/ charters) 	<ul style="list-style-type: none"> Tourism as part of national economic strategy has lead to State investment in aviation in some countries

Issues for consideration

As the industry consolidates on a global basis, AACO member airlines will face pressure to participate

- Is the regulatory environment allowing the region's carriers the opportunity to realise their market potential?
 - Lack of scale leads to above-average cost structure
- Is privatization a necessary first step to support the transformation of an airline into a commercially-oriented entity?
 - The process is lengthy and in current environment there is limited interest from investors
- Is there currently a balance in the hub-mix to attract non-regional partners?
 - Prospective partners will be looking for carriers that can "deliver the MENA region"
- Has organic growth been slowed by the global credit crisis by resulting in fewer providers of debt and lease financing?
 - Trend will likely be "back to basics" in credit decisions
- What sources of capital can be developed to encourage and finance privatization and recapitalization of state-owned airlines?
 - Heightening the focus on profitability