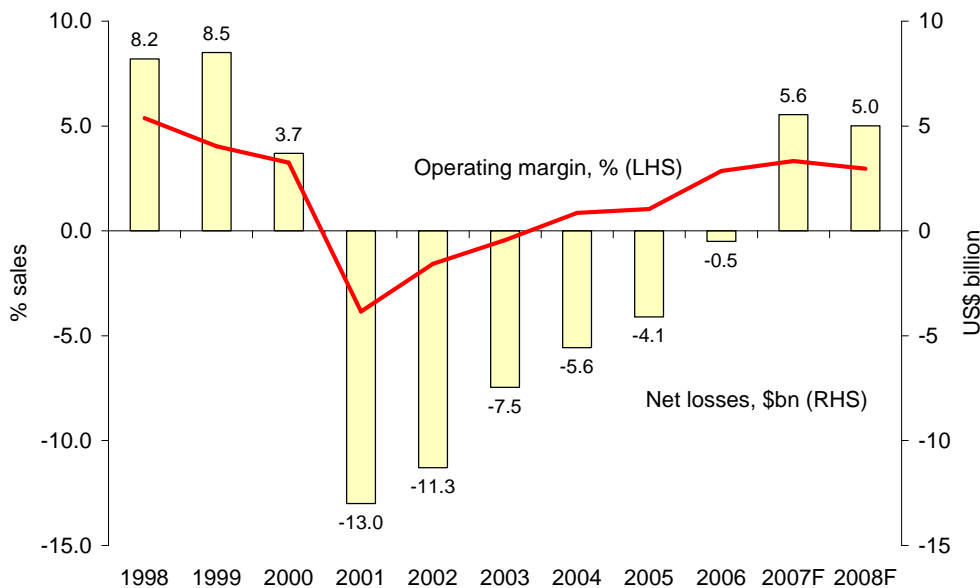


FINANCIAL FORECAST

December 2007

CYCLICAL DOWNTURN AHEAD IN 2008

- The outlook for 2008 has weakened sharply. Our forecast for industry profits in 2007 is unchanged at \$5.6 billion. But we now expect that to be the peak in this cycle. **We now expect lower profits, of \$5 billion in 2008**, down from our previous forecast of \$7.8 billion;
- This is due to two reasons: the **growing credit crunch**, and yet **higher fuel prices**. To date the industry has been able to cope with increasing fuel bills because economic growth was strong, boosting revenues, and it was possible to push load factors up significantly. Now the support of strong growth is falling away, without the relief of significantly lower fuel prices;
- We seem likely to suffer the worst of both worlds. Air traffic markets are still heavily weighted towards the US, while demand for oil is shifting towards Asia. Since the credit crunch is expected to push the US economy close to recession but leave China relatively unscathed, airline revenues will slow but the demand for oil will keep fuel prices relatively high.



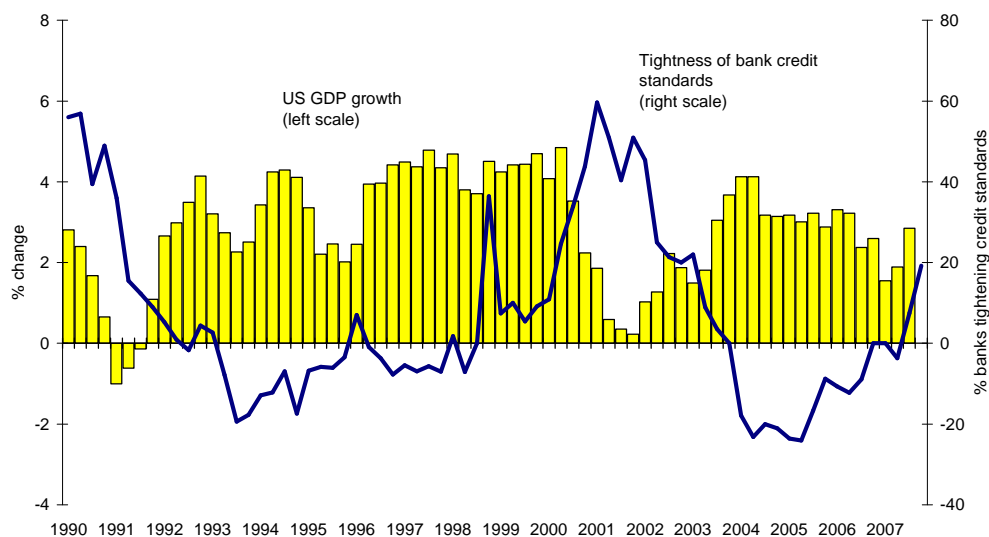
- This year we forecast that N American airlines will resume the place they had in the late-1990s as the most profitable region. We expect they will just about retain that position in 2008 as they bear the brunt of the fall in profits. Asian and European airlines will get some protection from robust traffic within and to Asia.

Industry profits, US\$ billion	2005	2006	2007f	2008f	2005	2006	2007f	2008f
	Operating profits				Net profits			
Global	4.3	12.9	16.3	15.3	-4.1	-0.5	5.6	5.0
excluding restructuring provisions	-4.1	3.1	5.6	5.0				
Regions								
North America	-0.3	7.3	9.3	8.4	-6.7	-2.7	2.7	2.2
excluding restructuring provisions	-6.7	0.9	2.7	2.2				
Europe	3.0	5.4	6.1	5.8	1.6	1.8	2.1	2.0
Asia-Pacific	1.5	0.9	0.7	0.8	1.2	0.8	0.7	0.6
Middle East	0.4	0.1	0.4	0.3	0.2	0.2	0.2	0.2
Latin America	0.1	-0.7	-0.2	-0.1	-0.1	-0.2	-0.1	0.0
Africa	-0.4	0.0	0.1	0.0	-0.4	-0.4	-0.1	-0.1

Source: ICAO data to 2006. IATA forecasts 2007-2008. Data excludes 'fresh-start' items

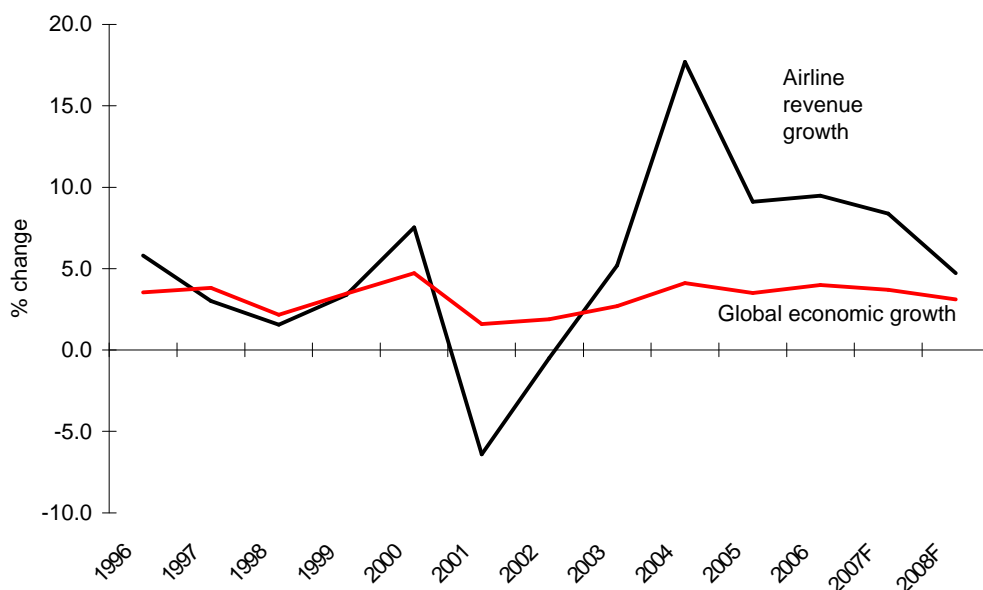
CREDIT CRUNCH WILL WEAKEN US ECONOMY

Tightening bank credit standards and US growth



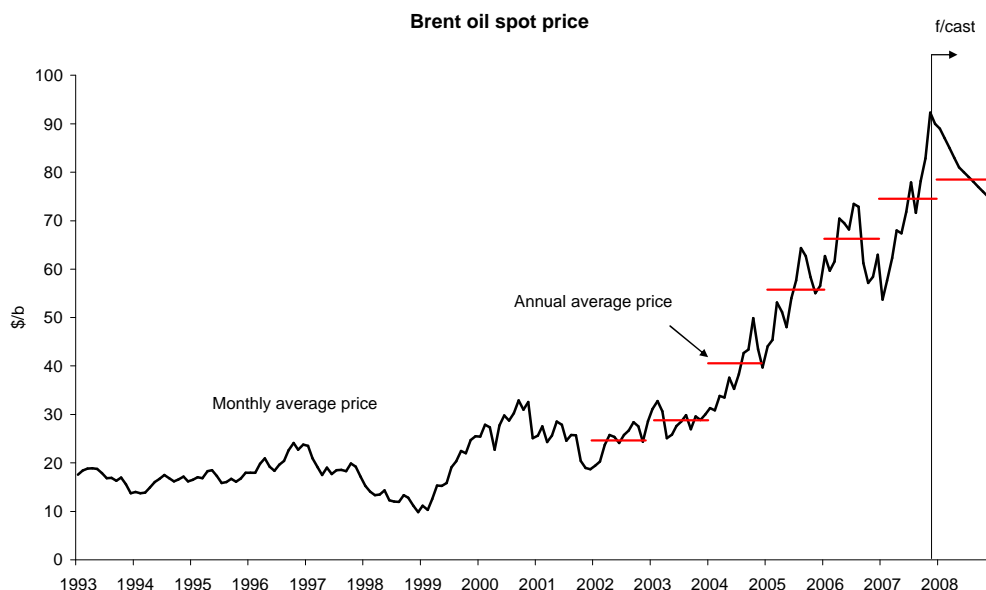
- The economic outlook has deteriorated sharply since our last forecast in August. The scale of potential losses at financial institutions now looks to be in the \$100-200 billion range, following the collapse in the US subprime mortgage market and associated credit derivative markets. Banks can either sell assets, which will put downward pressure on asset prices, or shrink balance sheets by restricting their lending. Either way it looks set to damage economic growth, particularly in the US;
- The chart shows banks already tightening credit standards. Credit standards are not as tight as they were ahead of the 1991 and 2001 recessions, but they are certainly consistent with a sharp slowdown in growth.

CAUSING A SHARP SLOWDOWN IN REVENUES



- Economic growth and airline revenues had been holding up well during 2007, helping to offset fuel costs and boost airline profitability. That revenue support will drop away during 2008 as the US economic slowdown directly restricts air travel growth and has knock-on effects on linked economies and travel markets. Asian markets are expected to continue to grow unabated, due to the largely independent Chinese economy, but overall we expected to see airline revenue growth slowing from 8.4% to just 4.7% in 2008.

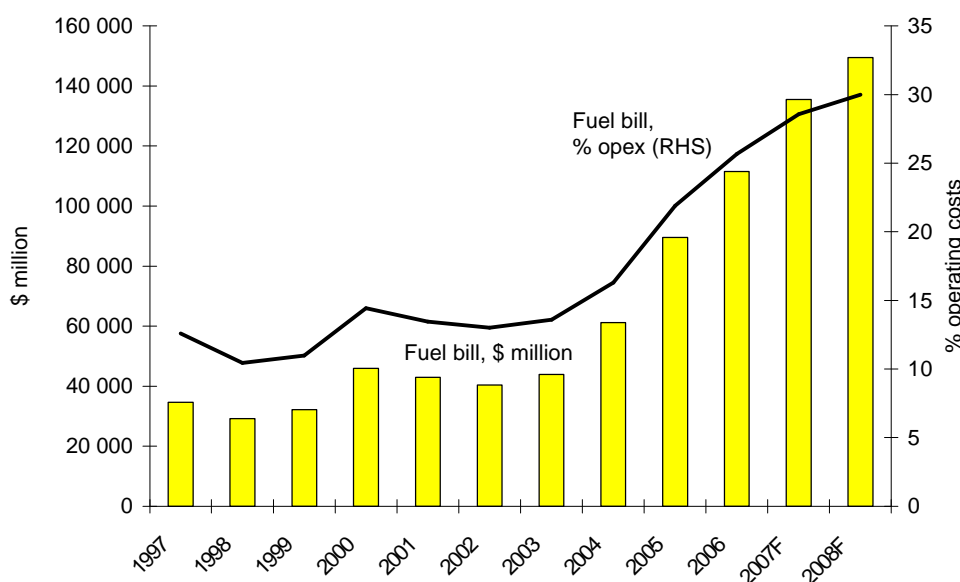
OIL PRICE FALLS BUT FROM VERY HIGH LEVEL



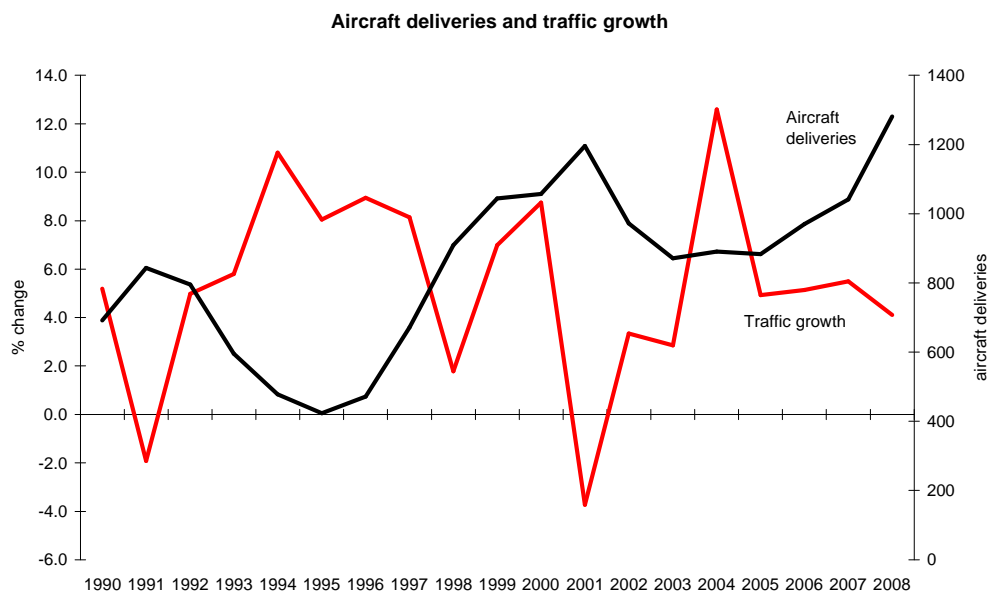
- The US economy is expected to move very close to outright recession but demand for oil is expected to be sustained by still robust economic growth in Asia and, to a lesser extent, Europe. The US domestic market still represents almost 30% of all enplanements but China and the rest of Asia make up more than 60% of incremental demand for oil. As a result the airline industry will suffer weaker travel markets without the relief of a much weaker fuel price;
- At the time of our last forecast in August the spot price of oil was \$75 a barrel and the market consensus forecast for 2008 was \$66/b. Today the spot price is \$90/b and almost hit \$100/b, as supply concerns and investment flows pushed prices up further than expected. Oil prices are expected to fall in 2008, as a result of weaker economic growth. But that fall is from a much higher level than before. The consensus forecast is for oil prices to average \$78/b in 2008, which is a much high average price than we had previously forecast and more costly than 2007.

PUSHING THE FUEL BILL UP TO 30% OF COSTS

- As a result we expect the fuel bill to continue to rise through 2008 to just below \$150 billion, some 30% of operating costs.



DELIVERIES PEAK WHEN TRAFFIC SLOWS AGAIN



- In the last few years the sharp rise in load factors on domestic and international markets has demonstrated the careful control of capacity by individual airlines, which has been key in boosting profitability. However, in the past the industry has an unfortunate record of ordering aircraft at the cyclical peak and taking delivery during the subsequent downturn. We had seemed to be avoiding a repeat of history. To some extent though history will return next year with a significant rise in aircraft deliveries at a time when traffic growth will be slowing;
- New capacity arriving at a time of slowing traffic will make it difficult to see higher fuel costs reflected in better yields. Economic strength had created a strong yield environment, allowing revenues to offset fuel costs. That is likely to disappear in 2008. Substantial efficiency improvements will be required just to limit the decline in industry profits to the \$5 billion we now forecast for 2008.

System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
REVENUES, \$ billion	329	307	306	322	379	413	452	490	514
Passenger	256	239	238	249	294	323	355	390	410
Cargo	40	39	38	40	47	48	52	52	54
Traffic volumes									
Passenger growth, tkp, %	8.6	-2.7	1.0	2.3	14.9	7.0	5.9	5.9	4.0
<i>Passenger numbers, millions</i>	1672	1640	1639	1691	1888	2022	2128	2243	2322
Cargo growth, tkp, %	9.1	-6.0	8.7	3.9	7.9	0.4	3.4	4.5	4.3
<i>Freight tonnes, millions</i>	30.4	28.8	31.4	33.5	36.7	37.6	39.5	41.3	43.0
World economic growth, %	4.7	1.6	1.9	2.7	4.1	3.5	4.0	3.7	3.1
Yield growth, %	-1.1	-2.8	-3.7	2.3	4.5	4.0	4.1	2.7	0.6
Yield growth, inflation/ex rate adjusted %	-2.3	-2.9	-5.9	-5.3	-2.0	0.1	0.6	-1.6	-3.5
EXPENSES, \$ billion	318	319	311	323	376	409	440	474	498
Fuel	46	43	40	44	61	90	111	135	149
% of expenses	14	13	13	14	16	22	26	29	30
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	73.0	78.0
Non-Fuel	272	276	270	279	314	319	328	339	349
cents per atk (non-fuel unit cost)	39.2	39.7	38.8	38.9	39.9	38.8	38.3	37.8	37.3
% change	-2.3	1.4	-2.3	0.3	2.6	-2.9	-1.2	-1.5	-1.1
% change, adjusted for ex rate	-0.2	4.1	-3.0	-5.0	-1.2	-3.5	-1.5	-3.1	-3.2
Break-even weight load factor, %	60.8	61.5	63.2	62.3	63.4	63.3	62.9	63.1	63.1
Weight load factor achieved, %	61.5	59.0	60.9	60.8	62.5	62.6	63.4	63.8	63.7
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.8	-1.4	3.3	4.3	12.9	16.3	15.3
% margin	3.3	-3.8	-1.6	-0.4	0.9	1.0	2.9	3.3	3.0
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.5	-5.6	-4.1	-0.5	5.6	5.0
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	1.1	1.0

Source: ICAO data for to 2006. IATA forecasts 2007-2008. Data excludes 'fresh-start' accounting items.

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