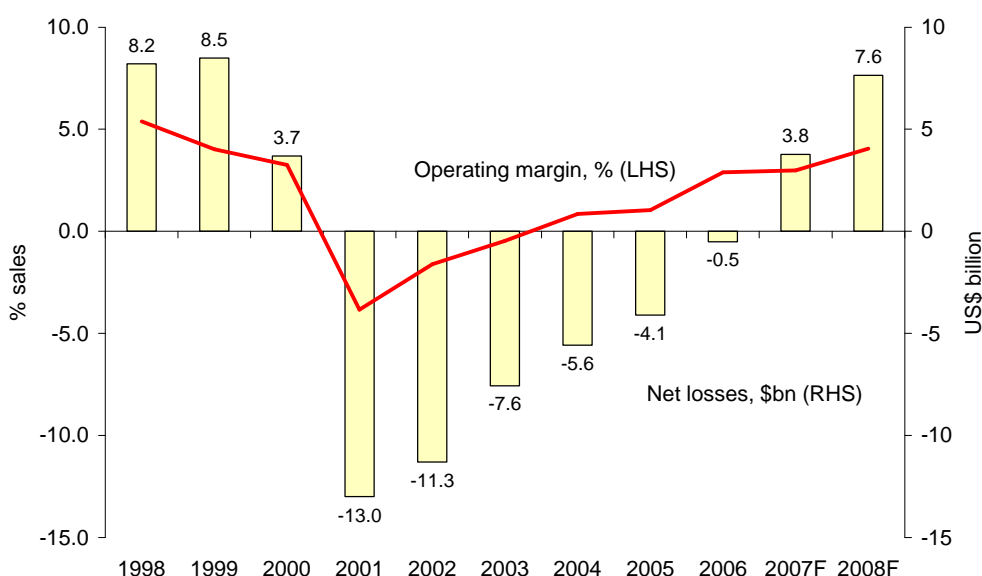


NEW FINANCIAL FORECAST

April 2007

IMPROVING PERFORMANCE BUT RISKS REMAIN

Financial performance continues to improve. Our estimate for industry net losses in 2006 remains at \$0.5 billion. However, this disguises an improvement in operating profits of \$3 billion compared with our December forecast, offset by higher restructuring costs (in the US) which were revised up from \$6 billion to \$9 billion. Improvement was driven by better than expected traffic coupled with careful control of capacity, boosting load factors significantly. This is forecast to carry over into this year **and we have raised our 2007 forecast for net profits from \$2.5 billion to \$3.8 billion**, despite the slowdown in the US economy and a rise in oil prices back above \$60 a barrel. Looking into 2008, for the first time, we anticipate faster growth in the US and slightly lower oil prices. Net profits could rise to \$7.6 billion with operating margins up to 4%;



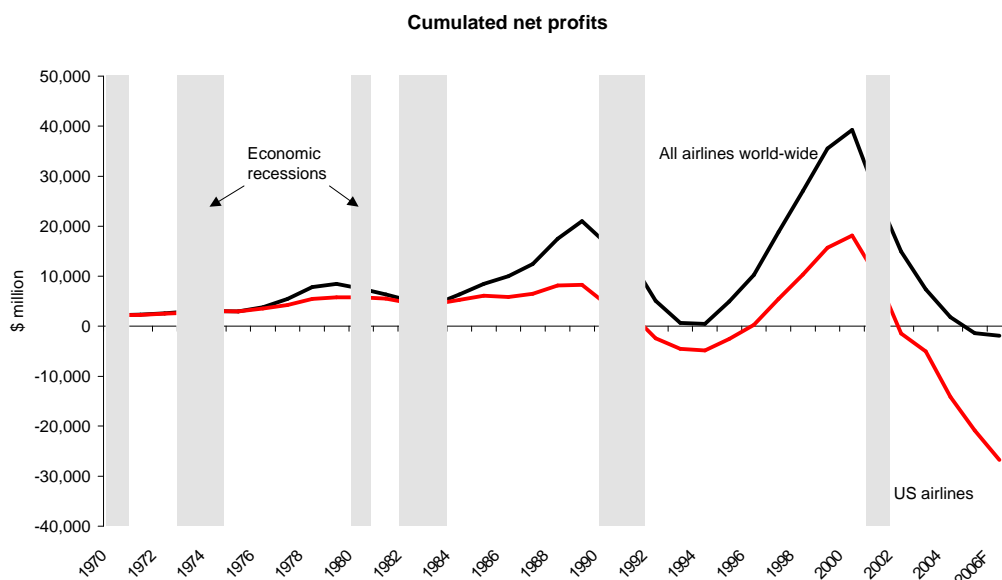
This improvement is encouraging but the industry remains vulnerable to the kind of shocks that hit demand and costs in the past six years. Returns on capital are considerably higher than in the depths of 2001 but remain below the levels achieved in the late-1990s and are still several percentage points away from matching the average 7-8% cost of capital. Not only are returns low but **balance sheets remain fragile**. Airlines have not been able to use the strength of revenues to build up a cash cushion against shocks.

Industry profits, US\$ billion	2005	2006	2007f	2008f	2005	2006	2007f	2008f
	Operating profits				Net profits			
Global	4.3	13.0	13.9	19.9	-4.1	-0.5	3.8	7.6
Excluding US restructuring costs					-2.1	8.5	8.8	
Regions								
North America	-0.3	7.4	8.6	11.4	-7.7	-5.7	-0.6	2.0
Excluding US restructuring costs					-5.7	3.3	4.4	
Europe	3.0	3.5	3.3	4.1	1.6	2.6	2.4	2.8
Asia-Pacific	1.5	1.6	1.6	3.1	2.1	1.9	1.7	2.3
Middle East	0.4	0.4	0.3	0.6	0.2	0.5	0.3	0.4
Latin America	0.1	0.5	0.3	0.7	-0.1	0.5	0.3	0.5
Africa	-0.4	-0.4	-0.2	0.0	-0.3	-0.3	-0.3	-0.4
Markets								
Domestic (US only)	-2.1	5.9	6.9	9.9	-8.1	-6.1	-1.0	1.6
International (IATA members only)	5.1	6.1	6.2	7.2	3.1	4.1	4.1	4.5

Source: ICAO data to 2005. IATA forecasts 2006-2008. US data excludes United Airlines 'fresh-start' accounting losses and gains

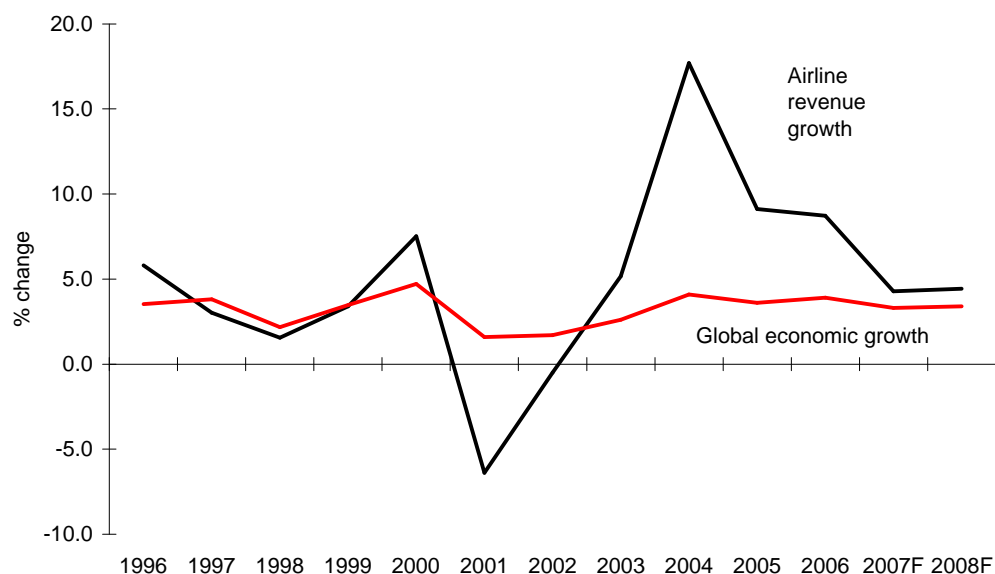
BALANCE SHEETS REMAIN FRAGILE

- Balance sheets for US airlines in particular have deteriorated significantly, because of the losses of recent years. High fuel costs prevented any accumulation of cash from the revenue boom of the past three years. An economic recession is not forecast during the next two years. Nonetheless, airline balance sheets were stronger going into the past five recessions than they are today. Outside the US balance sheets are healthier but still fragile in the face of the sort of shocks that the industry has suffered in the past decade.



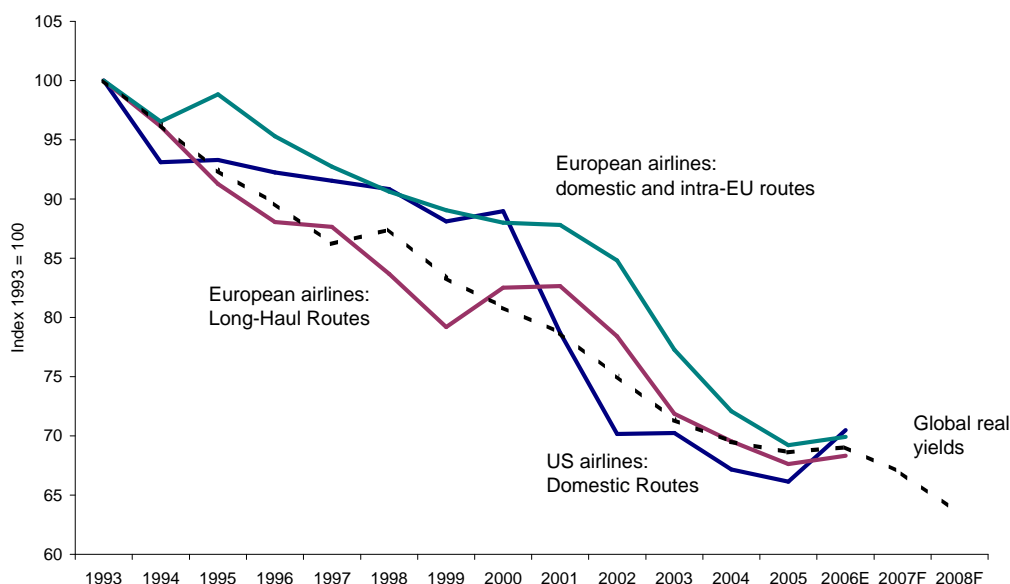
REVENUE GROWTH IS PAST ITS CYCLICAL PEAK

- Although no economic recession is expected, the airline industry is moving into a period of slower revenue growth over the next two years. Revenues are forecast to grow by around half the average 10% annual expansion enjoyed since 2004. Traffic growth slowed last year but the impact on revenue growth was offset by a significant improvement in yields. A further dip in traffic growth is likely this year as the US economy slows. Looking ahead to 2008 the US economy is expected to accelerate once more, helping to boost traffic growth. However, unit revenues are not expected to improve any further in this cycle. Yields are expected to remain flat in dollar terms and further improvement in load factors will be harder to achieve.



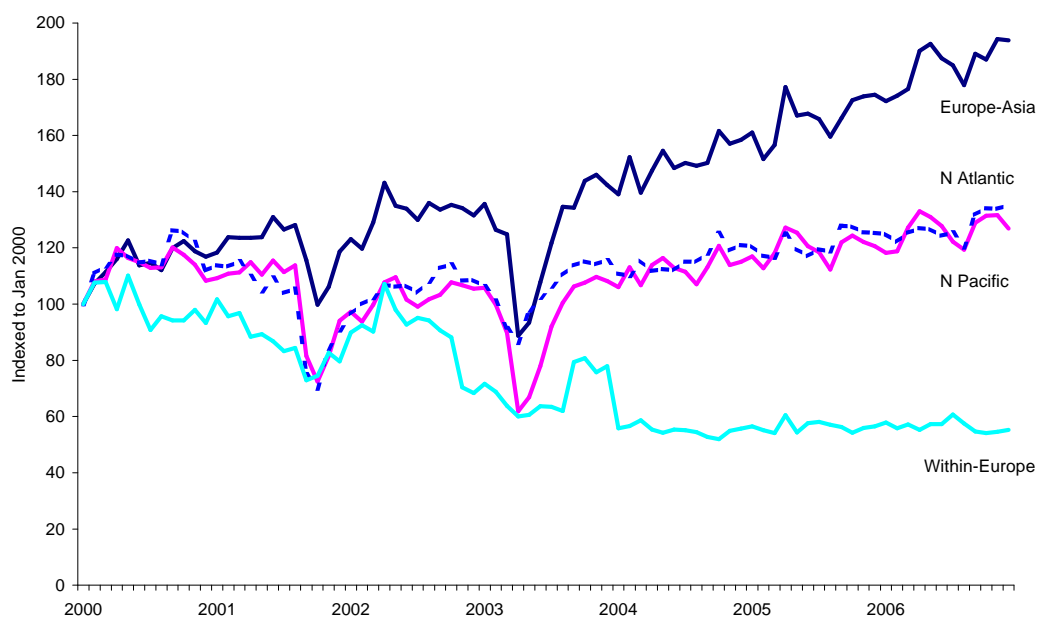
REAL YIELDS EXPECTED TO RETURN TO TREND

Stronger yields made a significant contribution to higher unit revenues and profitability in 2006, particularly in the US. However, much of that rise was due to fuel surcharges. Higher yields reflected the rise in fuel costs rather than any emergence of significant pricing power. The perspective of the past decade shows that there has been little change in the downward trend in real yields. We anticipate that trend resuming this year.



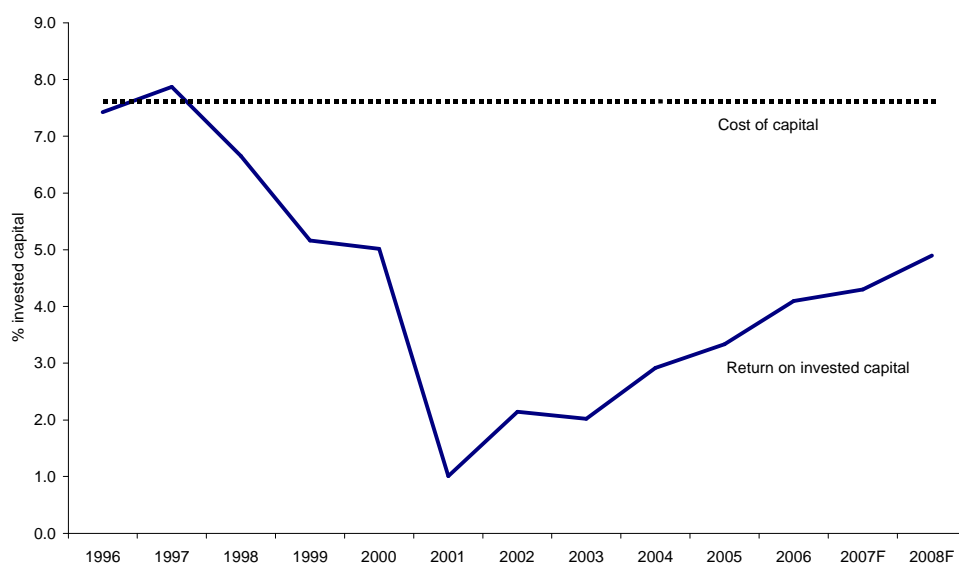
BUSINESS TRAVEL AND CARGO TO ASIA STRONG

↗ Liberalisation and the price sensitivity of passengers has meant that the majority of growth has been for economy class tickets over the past half decade. However, the profitability of network airlines has been boosted by the rapid growth of some markets for premium traffic. That should continue. Fast growth in business travel between Europe and Asia is driven by strong economic growth and trade flows as well as liberalisation. Open Skies between the US and EU and increased access to the US-China market should also boost growth on N Atlantic and Pacific premium travel markets.



COST PRESSURES STARTING TO RISE

- In the period 2001-2005 there were very substantial cuts achieved in non-fuel unit costs. Crew unit costs were cut 30% by US network airlines and 20% in Europe. Maintenance and distribution unit costs were cut by 30% in both regions. Airlines continued to achieve efficiency gains last year but shortages of skilled labour and fuel-efficient aircraft are increasing their price; a result of the extended boom in economic and traffic growth. A redoubling of efforts to improve efficiency will be necessary to overcome rising input prices and sustain the downward trend in non-fuel unit costs;



- Airlines have successfully cut costs and improved the return on capital over the past six years. However, revenue growth is slowing and shortages of key inputs are making cost reduction more challenging. There is still some way to go before returns match the industry's cost of capital and balance sheets become secure.

System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
REVENUES, \$ billion	329	308	306	322	379	413	449	469	489
Passenger	256	239	238	249	294	325	358	375	394
Cargo	40	39	38	40	47	50	54	56	59
Traffic volumes									
Passenger growth, tkp, %	9.6	-2.9	0.1	1.5	13.9	7.3	5.2	5.0	6.0
<i>Passenger numbers, millions</i>	1672	1640	1639	1691	1888	2022	2105	2209	2341
Cargo growth, tkp, %	9.2	-6.3	6.1	4.3	11.9	2.7	4.0	4.5	6.0
<i>Freight tonnes, millions</i>	30.4	28.8	31.4	33.5	36.7	37.7	39.2	41.0	43.4
World economic growth, %	4.7	1.6	1.7	2.6	4.1	3.6	3.9	3.3	3.4
Yield growth, %	-1.8	-2.5	-2.4	2.7	3.9	3.1	3.7	-0.5	-1.5
Yield growth, inflation/ex rate adjusted %	-3.0	-2.6	-4.6	-4.9	-2.6	-1.3	1.1	-3.2	-3.9
EXPENSES, \$ billion	318	319	311	323	376	409	436	455	469
Fuel	46	43	40	44	61	90	111	117	112
% of expenses	14	13	13	14	16	22	26	26	24
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	61.0	57.0
Non-Fuel	272	276	271	279	314	319	325	338	357
cents per atk (non-fuel unit cost)	37.9	38.5	37.8	38.2	38.9	37.4	36.8	36.5	36.5
% change	-2.9	1.7	-1.7	1.1	1.9	-3.9	-1.7	-0.7	-0.2
% change, adjusted for ex rate	-0.9	4.4	-2.4	-4.3	-1.9	-5.0	-1.9	-1.5	-0.2
Break-even weight load factor, %	61.2	61.9	63.1	62.4	63.5	63.2	63.5	63.0	62.5
Weight load factor achieved, %	61.9	59.4	60.8	61.0	62.5	62.6	63.4	63.5	63.5
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.9	-1.5	3.3	4.3	13.0	13.9	19.9
% margin	3.3	-3.8	-1.6	-0.5	0.9	1.0	2.9	3.0	4.1
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.6	-5.6	-4.1	-0.5	3.8	7.6
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	0.8	1.6

Source: ICAO data for major categories to 2005. IATA forecasts 2006-2007.

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