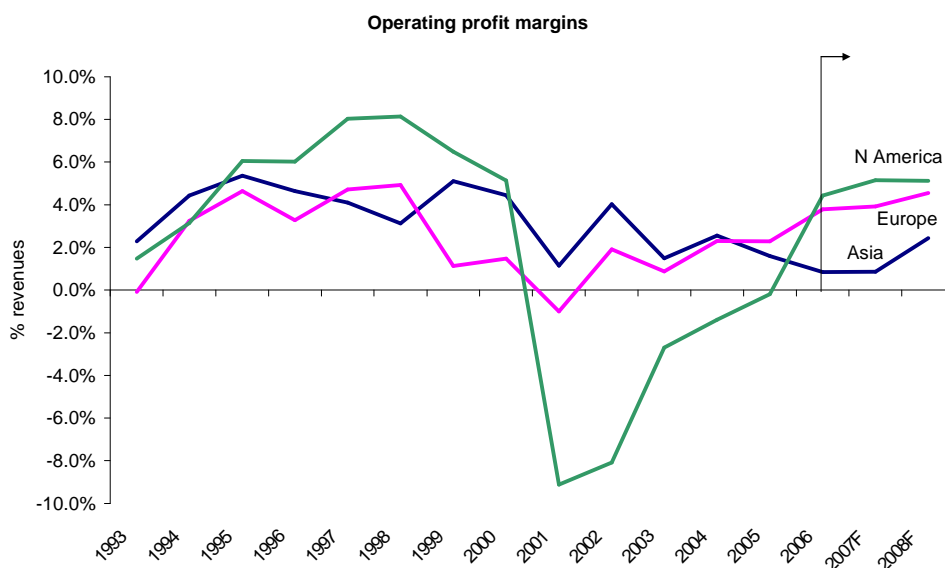


NEW FINANCIAL FORECAST

September 2007

MORE CAUTIOUS OUTLOOK FOR 2008

- Airline financial performance improved strongly during the first half of this year and **we have revised up our forecast of 2007 net profits from \$5.1 billion to \$5.6 billion**. However, the potential impact of higher oil prices or the turmoil in credit markets have led us to take a more cautious view of prospects for 2008. **We have revised down our forecast for 2008 net profits from \$9.6 billion to \$7.8 billion**;
- The aggregate world-wide performance of the airline industry disguises **substantial shifts in the relative performance of different regions**. Airlines in North America faced substantial restructuring and debt interest costs last year. However, at the operating level they became the most profitable region in 2006 as restructuring efforts delivered efficiencies and better unit revenues. European airlines extended their steady, if less spectacular, improvement in profitability built partly on the continuing strength of the long-haul business travel market. Having been the most profitable region from 2001-2004, Asia-Pacific airlines as a group saw their profitability slip, partly as a result of substantial additions of capacity to domestic Indian and Chinese markets but also because of the unexpected weakness of the air cargo market;



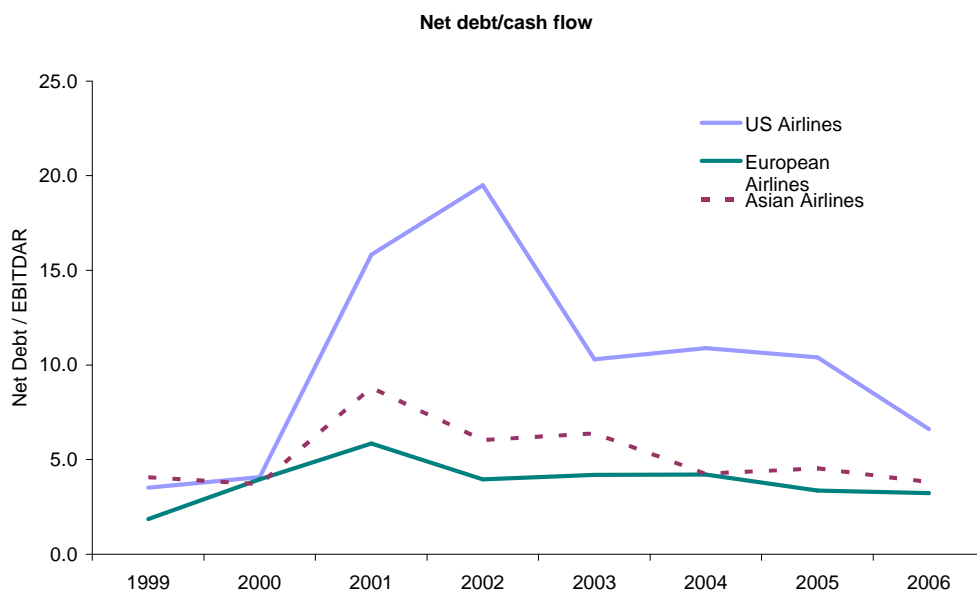
- **The outlook is still for further improvement but risks have increased with the turmoil in credit markets.** Oil and jet fuel prices have also increased since the previous forecast in June. As a result we have revised up our forecast for oil prices this year from \$63 to \$67 a barrel. Stronger traffic growth and an improvement in financial performance already this year more than offsets the adverse impact on profits from higher fuel costs this year. However, the impact in 2008 has been to reduce the forecast for airline profits.

Industry profits, US\$ billion	2005	2006	2007f	2008f	2005	2006	2007f	2008f
	Operating profits				Net profits			
Global	4.3	12.9	16.0	20.2	-4.1	-0.5	5.6	7.8
excluding restructuring provisions					-4.1	3.1	5.6	7.8
Regions								
North America	-0.3	7.3	9.0	9.4	-6.7	-2.7	2.7	2.5
excluding restructuring provisions					-6.7	0.9	2.7	2.5
Europe	3.0	5.4	6.0	7.4	1.6	1.8	2.1	3.0
Asia-Pacific	1.5	0.9	0.7	2.6	1.2	0.8	0.7	2.0
Middle East	0.4	0.1	0.4	0.4	0.2	0.2	0.2	0.3
Latin America	0.1	-0.7	-0.2	0.2	-0.1	-0.2	-0.1	0.1
Africa	-0.4	0.0	0.1	0.2	-0.4	-0.4	-0.1	0.0

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

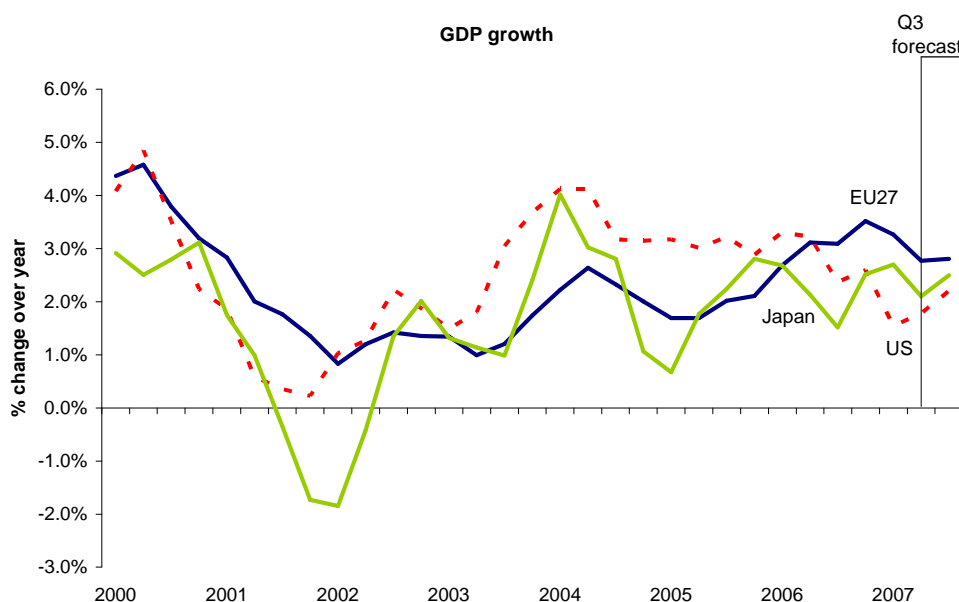
BALANCE SHEETS HAVE IMPROVED

- Given the increase in risk to the outlook it is important to assess **how financially robust the airline industry is** at present. The nature of the risks differ. If the credit crunch leads to real economic weakness this would damage airline market growth, but it would also reduce fuel and labour costs. If central banks prevent the wider economy suffering from the credit market problems then fuel and labour costs could rise more than we forecast. **Airline balance sheets have improved** since the depths of the post-9/11 crisis. Outside the US, net debt/cash flow ratios are back to 'normal' and cash flows are a very comfortable multiple of debt interest payments, particularly in Europe. Although US airlines now have the highest operating profits their still high debt servicing costs means that their interest cover is still low and vulnerable to shocks;



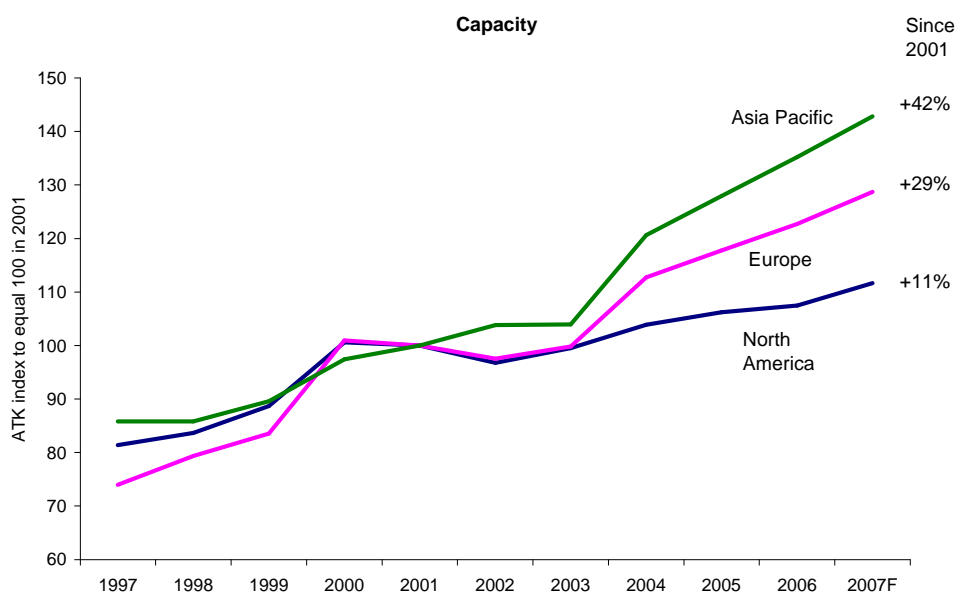
CREDIT CRUNCH THREATENS ROBUST GROWTH

- Fortunately the US housing and credit market weakness comes at a time when **economic growth is strong**, unlike the collapse of LTCM in the late 1990s which accentuated an already weak situation. The **US economy slowed sharply last year**, but picked up in the second quarter. More importantly economies in Europe and Asia have decoupled from the US and are expanding at a robust pace, helping travel markets. If the credit problems result in major losses at financial institutions there could still be significant damage to the outlook, particularly in the US. **Strong momentum in Europe and Asia** offers some protection against this;



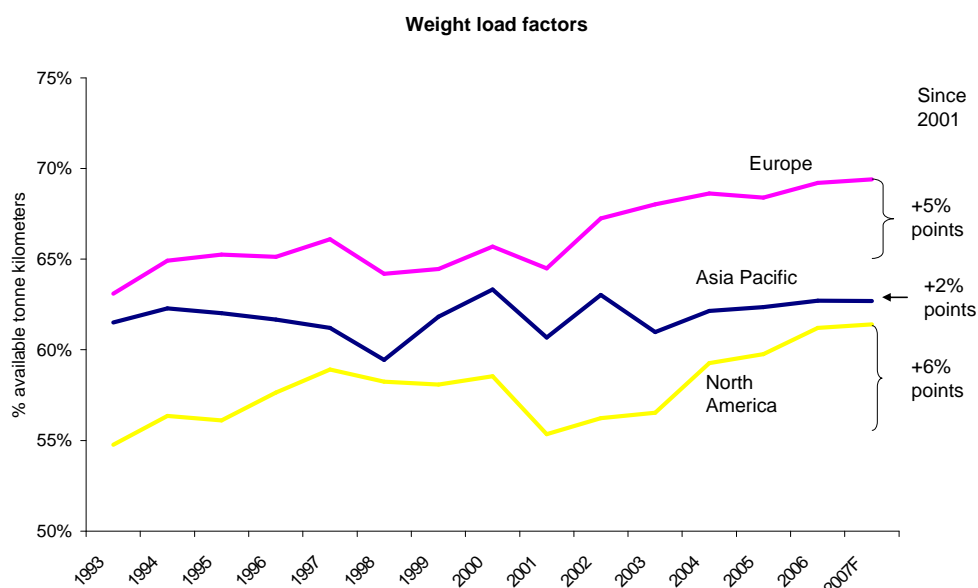
CAPACITY MANAGEMENT HAS DRIVEN RESULTS

The recovery in airline financial performance in N America has followed the substantial restructuring that has taken place, largely under Chapter 11 bankruptcy procedures. At an aggregate level this has been reflected in **shrinking capacity on US domestic markets**, with some transfer onto more profitable international markets. As a result capacity additions by N American airlines have been the lowest among the major regions, with average annual growth since 2001 of less than 2%. **By contrast capacity has been expanding at an average pace of 6% a year among the Asia-Pacific airlines**, who have been gearing up to serve the massive potential markets in China and India;



BOOSTING LOAD FACTORS SHARPLY

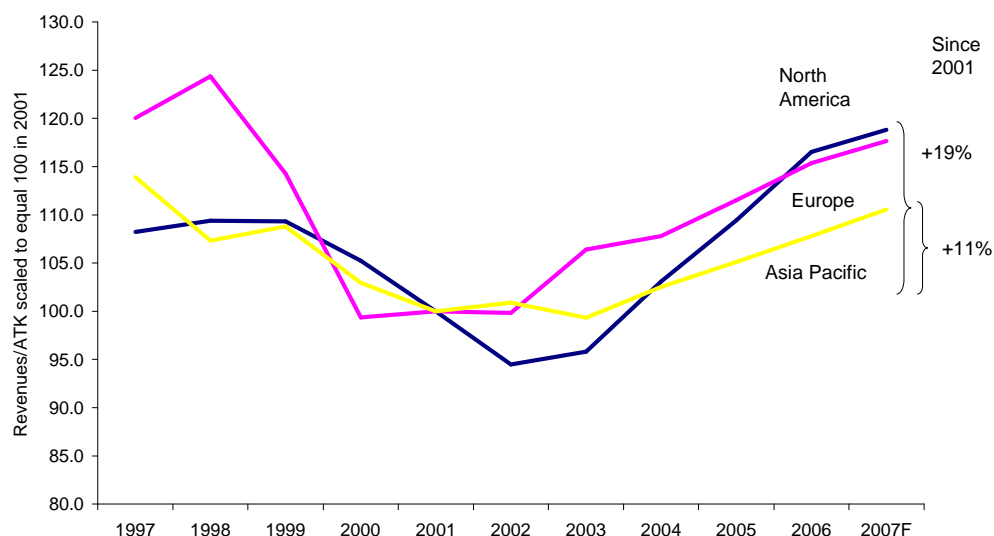
➤ Capacity expansion in Asia-Pacific, though very strong, has in fact been exceeded by actual growth in the markets. As a result **load factors have improved**, but only by 2% points compared with 2001. Whereas N American airlines have restructured their capacity in the face of rather less buoyant markets, but have succeeded in raising load factors by 6% points to record levels. European airlines are only just behind in their improved performance and, on a weight load basis taking cargo and passengers into account, remains the region with the highest utilisation of its aircraft. These gains have **substantially raised unit revenues**;



YIELDS REFLECT CAPACITY AND BUSINESS MIX

- The pricing power of airlines remains weak because of easy entry and low marginal costs. Adjusting for inflation, real yields were 25% lower in 2006 than 10 years earlier. However, in nominal terms there has been some recovery in the past three years, partly reflecting the strength of economic growth over that period. However, the regional divergence in yield performance reflects both capacity developments and business mix. Yields in N America have risen most reflecting the restructuring of capacity, while the relative weakness of yields for Asia-Pacific airlines has followed the large rise in capacity, particularly in Chinese and Indian markets. The improvement in Europe also reflects the strength of the long-haul business market;

Regional yields



- The revenue outlook is threatened by credit market turmoil. However, there is another threat to profitability, from the **increasing shortages of key inputs** like skilled labour and fuel-efficient aircraft, which are raising their cost. **Success in driving further efficiency gains will be critical to sustain better profits.**

System-wide global commercial aviation	2000	2001	2002	2003	2004	2005	2006	2007f	2008f
REVENUES, \$ billion	329	307	306	322	379	413	452	489	521
Passenger	256	239	238	249	294	323	355	389	416
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	6.0
<i>Passenger numbers, millions</i>	1672	1640	1639	1691	1888	2022	2128	2243	2365
Cargo growth, tkp, %	9.1	-6.0	8.7	3.9	7.9	0.4	3.4	4.4	5.5
<i>Freight tonnes, millions</i>	30.4	28.8	31.4	33.5	36.7	37.6	39.5	41.2	43.5
World economic growth, %	4.7	1.6	1.9	2.7	4.1	3.5	4.1	3.5	3.5
Yield growth, %	-1.1	-2.8	-3.7	2.3	4.5	4.0	4.1	2.4	0.6
Yield growth, inflation/ex rate adjusted %	-2.3	-2.9	-5.9	-5.3	-2.0	0.1	0.6	-1.6	-2.9
EXPENSES, \$ billion	318	319	311	323	376	409	440	473	500
Fuel	46	43	40	44	61	90	111	132	137
% of expenses	14	13	13	14	16	22	26	28	27
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	67.0	66.0
Non-Fuel	272	276	270	279	314	319	328	341	363
cents per atk (non-fuel unit cost)	39.2	39.7	38.8	38.9	39.9	38.8	38.3	37.9	38.2
% change	-2.3	1.4	-2.3	0.3	2.6	-2.9	-1.2	-1.2	0.8
% change, adjusted for ex rate	-0.2	4.1	-3.0	-5.0	-1.2	-3.5	-1.5	-2.5	-0.1
Break-even weight load factor, %	60.8	61.5	63.2	62.3	63.4	63.3	62.9	62.9	62.6
Weight load factor achieved, %	61.5	59.0	60.9	60.8	62.5	62.6	63.4	63.6	63.6
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.8	-1.4	3.3	4.3	12.9	16.0	20.2
% margin	3.3	-3.8	-1.6	-0.4	0.9	1.0	2.9	3.3	3.9
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.5	-5.6	-4.1	-0.5	5.6	7.8
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	1.1	1.5

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

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