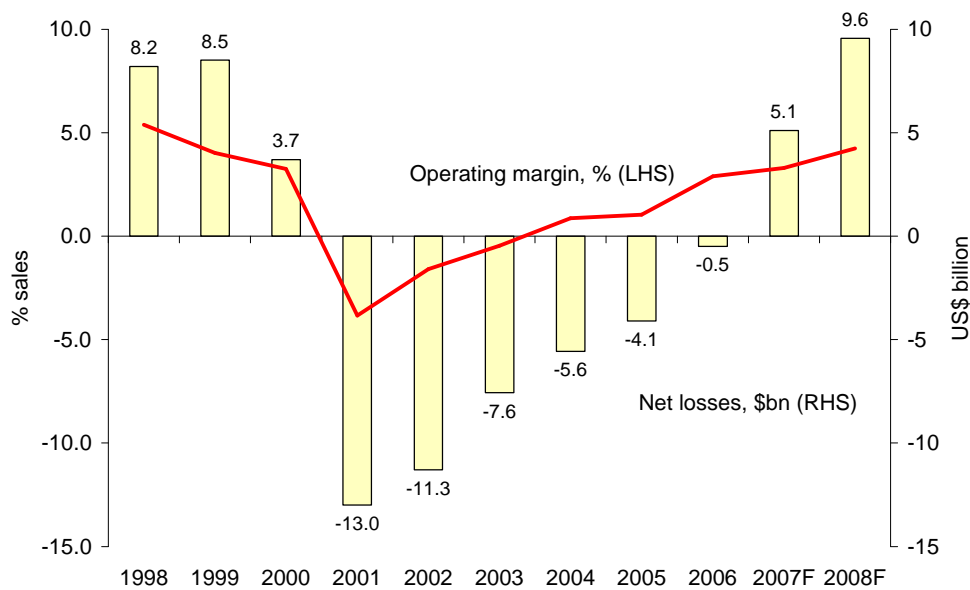


NEW FINANCIAL FORECAST

June 2007

PROFITABILITY REVISED UP ON STABLE GROWTH

➤ We have **revised up our forecast for industry profits this year from \$3.8 billion to just over \$5 billion**. The passenger business has remained particularly strong during the first quarter this year, **reflecting stronger than expected economic growth in Asia and Europe**. Passenger traffic volume and yield growth in these regions more than offset continued weakness in cargo, as shippers switch to other modes, and emerging weakness in the US domestic market, reflecting the sharp slowdown in the US economy. Fuel costs have risen once more as strong economic growth and OPEC restraint lifted oil prices to \$70 a barrel. However, careful control of capacity has allowed airlines to limit cost increases while significantly boosting unit revenues. Looking ahead to 2008 the economic environment looks benign, barring an unexpected shock, and a further improvement is forecast for net profits to \$9.6 billion and operating margins to 4.2%;



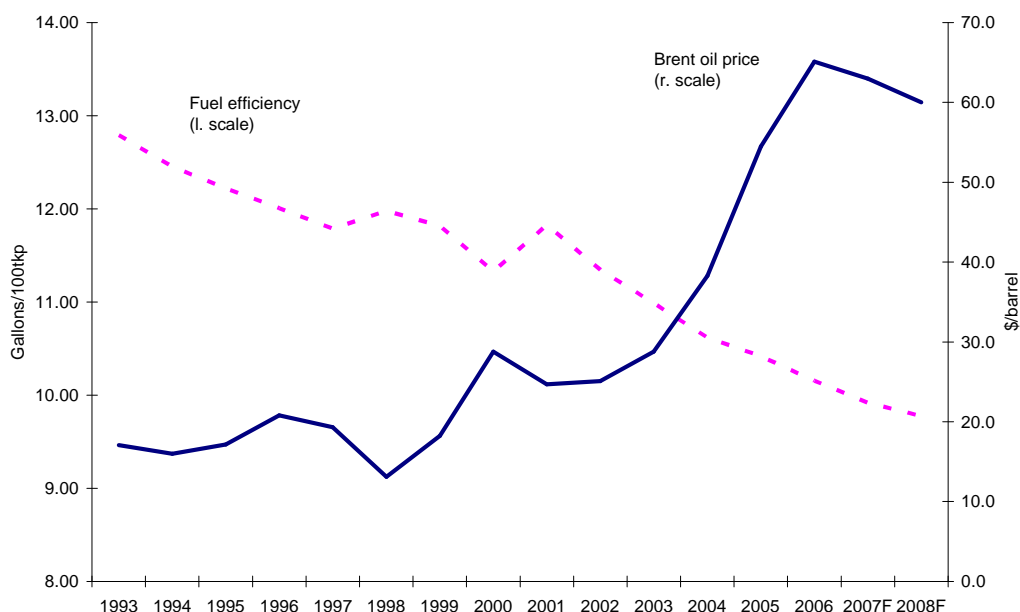
➤ This improvement is encouraging but the industry remains vulnerable to the kind of shocks that hit demand and costs in the past six years. Returns on capital are considerably higher than in the depths of 2001 but remain below the levels achieved in the late-1990s and are still several percentage points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

Industry profits, US\$ billion	2005	2006	2007f	2008f	2005	2006	2007f	2008f
	Operating profits				Net profits			
Global	4.3	13.0	15.6	21.1	-4.1	-0.5	5.1	9.6
<i>Excluding US restructuring costs</i>					-2.1	8.5	9.1	
Regions								
North America	-0.3	7.4	9.9	11.9	-7.7	-5.7	0.0	2.9
<i>Excluding US restructuring costs</i>					-5.7	3.3	4.0	
Europe	3.0	3.5	3.6	4.4	1.6	2.6	2.7	3.0
Asia-Pacific	1.5	1.6	1.6	3.2	2.1	1.9	1.7	2.5
Middle East	0.4	0.4	0.4	0.7	0.2	0.5	0.5	0.6
Latin America	0.1	0.5	0.5	0.8	-0.1	0.5	0.5	0.6
Africa	-0.4	-0.4	-0.4	0.1	-0.3	-0.3	-0.3	0.0
Markets								
Domestic (US only)	-2.1	5.9	7.0	9.1	-8.1	-6.1	-0.4	2.5
International (IATA members only)	5.1	6.1	6.4	8.2	3.1	4.1	4.3	6.0

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

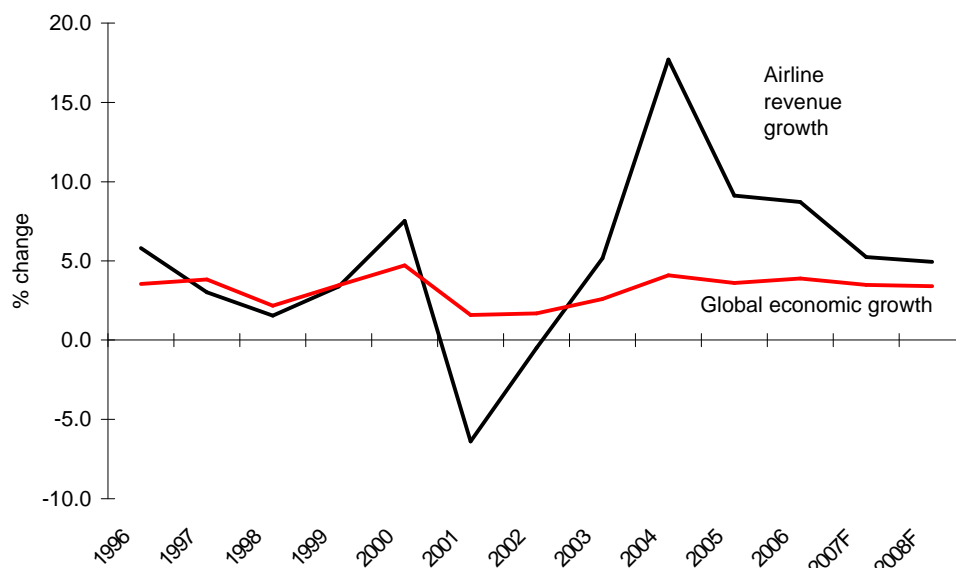
FUEL PRICES HIGH BUT EFFICIENCY IMPROVING

➤ Stronger economic growth, coupled with successful production cuts by OPEC, has pushed oil prices higher early this year. In line with the forecast consensus we have **revised up our oil price forecast from \$61 to \$63 a barrel this year**. However, the impact this is having on fuel bills is being partially offset by strong improvements in fuel efficiency. In the past three years annual improvements in fuel efficiency accelerated to an average of 2.5%, saving around \$2 billion a year. Nonetheless the industry's **fuel bill is expected to rise to \$119 billion** this year, a rise of \$8 billion, keeping it at 26% of operating expenses.



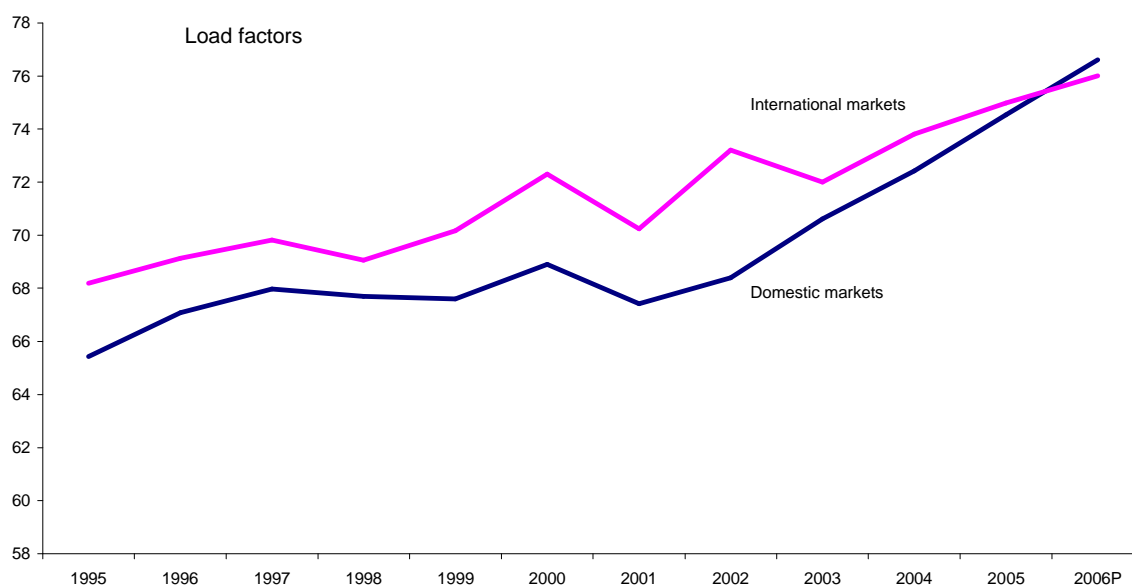
REVENUE GROWTH IS NOT SLOWING AS FAST

➤ Revenue growth for airlines has been slowing since the exceptional peak in 2004, but we now expect a more moderate slowdown this year. Freight continues to disappoint, losing share in world trade to other transport modes, but growth in passenger travel has held up more than expected in the face of the US economic slowdown. The decoupling of Asian and European economic growth suggests that the world has become much more independent of fluctuations in the fortunes of the US economy. We **no longer expect passenger volumes to slow in 2007 with the total rising 5.3% to 2.2 billion** and international volumes rising around one percentage point faster. Moreover, passenger yields are also showing more resilience than expected.



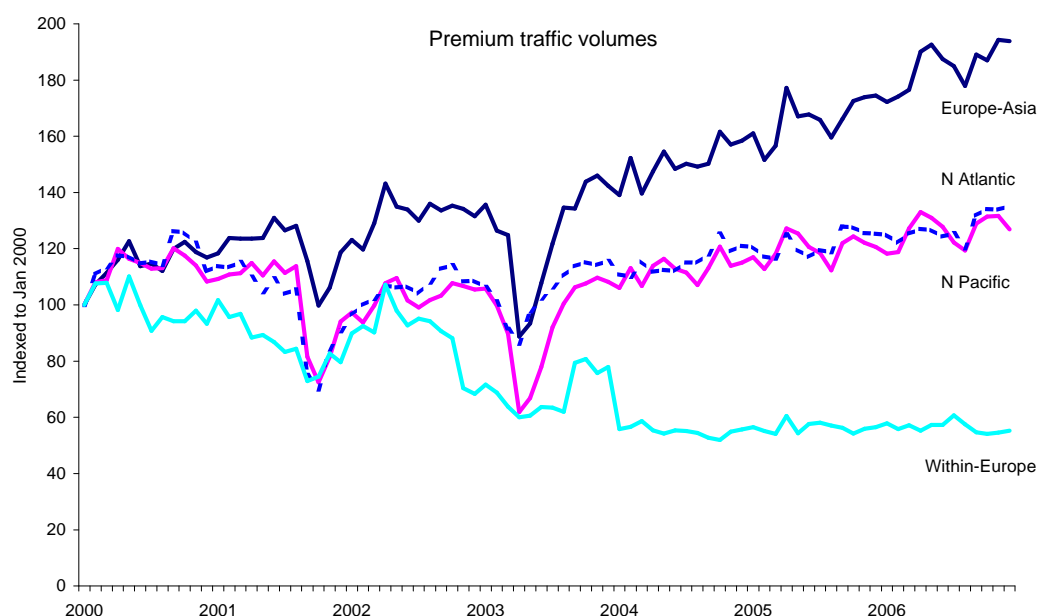
CAPACITY DISCIPLINE IMPROVES LOAD FACTORS

In the face of rising fuel costs one of the major successes of the airline industry has been to improve load factors substantially. This has been particularly marked in the US domestic market, which dominates the worldwide domestic market average below, where restructuring led to a reduction in capacity last year. On international markets there has been less opportunity to restructure, despite a surge in M&A activity, and aircraft deliveries have risen sharply. Nonetheless, load factors on international markets rose above 76%. The striking development was the shift to higher utilisation on domestic markets than on international. This has been a key factor behind the sharp recovery in the profitability of major US network airlines.



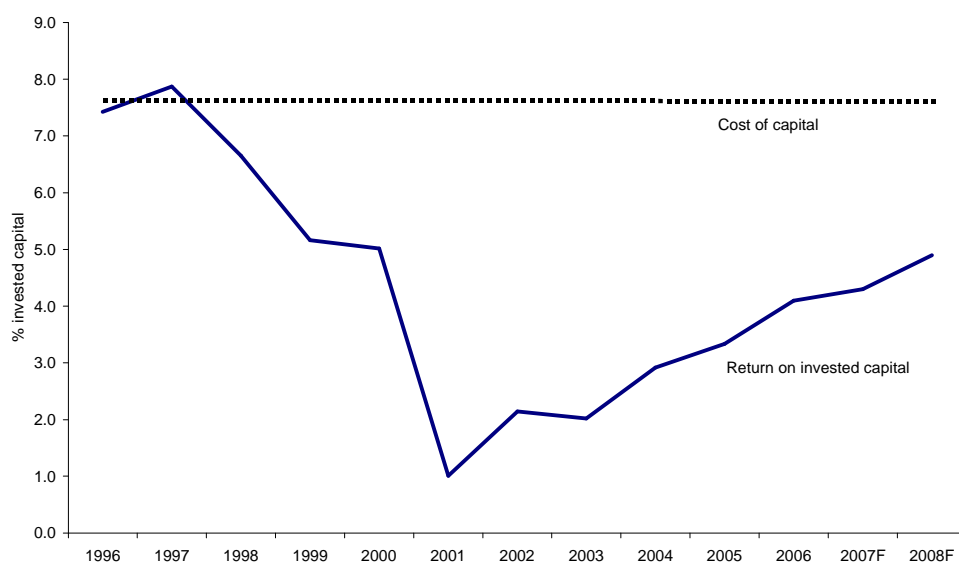
BUSINESS TRAVEL TO ASIA STRONG

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	473	496
Passenger	256	239	238	249	294	325	358	380	401
Cargo	40	39	38	40	47	50	54	56	58
Traffic volumes									
Passenger growth, tkp, %	9.6	-2.9	0.1	1.5	13.9	7.3	5.2	5.3	5.4
Passenger numbers, millions	1672	1640	1639	1691	1888	2022	2105	2216	2336
Cargo growth, tkp, %	9.2	-6.3	6.1	4.3	11.9	2.7	4.0	4.0	6.0
Freight tonnes, millions	30.4	28.8	31.4	33.5	36.7	37.7	39.2	40.8	43.2
World economic growth, %	4.7	1.6	1.7	2.6	4.1	3.6	3.9	3.5	3.4
Yield growth, %	-1.8	-2.5	-2.4	2.7	3.9	3.1	3.7	0.4	-0.6
Yield growth, inflation/ex rate adjusted %	-3.0	-2.6	-4.6	-4.9	-2.6	-1.3	1.1	-2.4	-3.1
EXPENSES, \$ billion	318	319	311	323	376	409	436	457	475
Fuel	46	43	40	44	61	90	111	119	118
% of expenses	14	13	13	14	16	22	26	26	25
Crude oil price, Brent, \$/b	28.8	24.7	25.1	28.8	38.3	54.5	65.1	63.0	60.0
Non-Fuel	272	276	271	279	314	319	325	338	358
cents per atk (non-fuel unit cost)	37.9	38.5	37.8	38.2	38.9	37.4	36.8	36.7	36.6
% change	-2.9	1.7	-1.7	1.1	1.9	-3.9	-1.7	-0.3	-0.2
% change, adjusted for ex rate	-0.9	4.4	-2.4	-4.3	-1.9	-5.0	-1.9	-1.1	-0.2
Break-even weight load factor, %	61.2	61.9	63.1	62.4	63.5	63.2	63.5	63.1	62.3
Weight load factor achieved, %	61.9	59.4	60.8	61.0	62.5	62.6	63.4	63.7	63.5
OPERATING PROFIT, \$ billion	10.7	-11.8	-4.9	-1.5	3.3	4.3	13.0	15.6	21.1
% margin	3.3	-3.8	-1.6	-0.5	0.9	1.0	2.9	3.3	4.2
NET PROFIT, \$ billion	3.7	-13.0	-11.3	-7.6	-5.6	-4.1	-0.5	5.1	9.6
% margin	1.1	-4.2	-3.7	-2.3	-1.5	-1.0	-0.1	1.1	1.9

Source: ICAO data for major categories to 2005. IATA forecasts 2006-2008.

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