



Latin America and the Caribbean

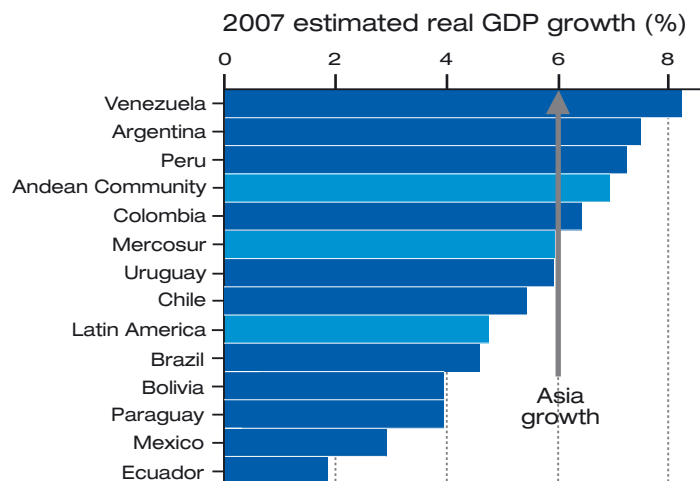
Brighter than ever



Latin America's prospects are brighter than at any time in the past century. However, today's boom period is unlikely to be followed by the usual significant negative swing, as Latin American countries are progressively succeeding in implementing and combining economic policies, political stability and social development.

Gross Domestic Product (GDP) in the region is projected to grow by 4.9% in 2007, which although slightly below the 5.4% seen in 2006, is still characterised as strong. While this growth might seem modest compared to that experienced in China or India in recent years, it contrasts sharply with that witnessed in Latin America during the past 25 years, when the region's economy barely grew at 2%. However, with a real GDP of US\$ 3 trillion in 2006, the region is equal to China and is three times as big as India, with Andean and Mercosur countries growing much faster than the other countries in the region.

Strong economic growth in Latin America

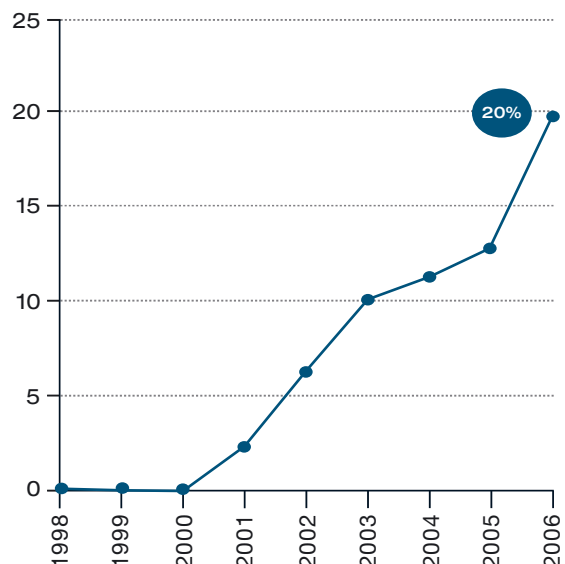


Andean Community: Bolivia, Colombia, Ecuador, Peru & Venezuela
 Mercosur: Argentina, Brazil, Paraguay, Uruguay, Venezuela, Bolivia, Chile, Colombia, Ecuador & Peru

Source: Global Insight, Airbus

20% of intra-Latin America scheduled traffic is now carried by LCCs

% intra-regional scheduled seats offered by LCC carriers



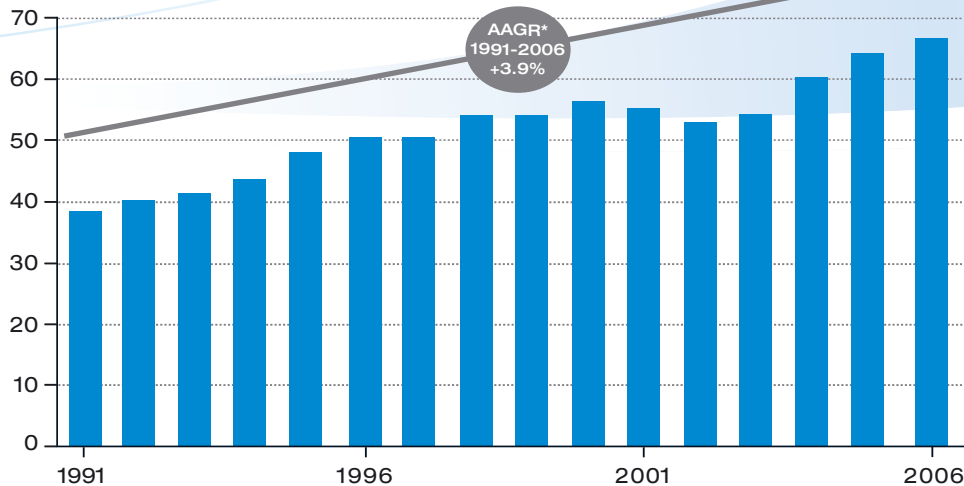
Source: OAG, Airbus



Fast growing tourism demand to Latin America...

Latin America inbound tourism

Tourists (millions)



*AAGR: Average Annual Growth Rate
Source: World Tourism Organisation, Airbus

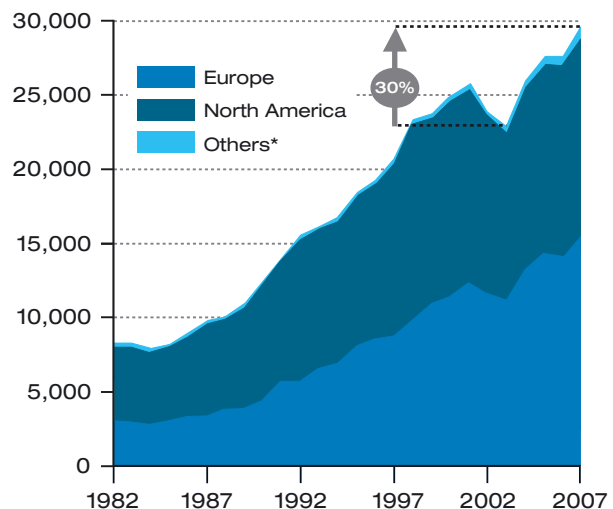
As Latin American countries continue to address market liberalisation, infrastructure and productivity, there is no reason why the region should not reach Asian-style growth in the near future. Chile is the perfect example of this unleashed potential. Faster growth, inflation at a 40-year low, expanding credit and increasing trade liberalisation are already producing a wave of new middle class consumers, similar to the one in Asia. While this trend is further advanced in Chile, it is most dramatic in Brazil and Mexico, which together account for more than half of Latin America's population of 560 million. As wealth increases in the region, new consumers typically start by purchasing cars and durable goods, then take out mortgages for property, before quickly moving on to more discretionary spending such as consumer electronics and air transport. In turn, this creates a new pool of first time flyers. In Mexico for example, almost 50% of Low Cost Carriers' (LCC's) passengers have never flown before. In addition to the better income being enjoyed by people in the region, the introduction of LCCs has greatly accelerated their propensity for air travel.

As in other developing regions, the gradual liberalisation of the Latin American market has continued. Such moves, although not as rapid and wide ranging as in some other regions, will nevertheless encourage further growth in Latin America. Eventual liberalisation agreements are expected to boost the relatively untapped, but potentially large, trans-border markets within the region.

These measures have also coincided with increased tourism in and out of the region. Inbound tourism has increased 3.9% a year for the last 15 years, growing 80% between 1991 and 2006.

... met by 30% increased capacity on international market since 2003

Capacity from/to Latin America (million ASKs)



* includes Asia-Pacific, Africa, Middle East & CIS
Source: OAG September 2007, Airbus

Over the last four years, the Latin American international market has increased the number of Available Seat Kilometres (ASKs) offered by 30%, with as much as 63% of these additional ASKs added to the European market. The high demand, driven by international tourism from and to Latin America, has also caught the attention of European carriers who have been returning capacity to this lucrative market for the last four years following a period where they were reducing it. In fact, the Europe - Latin America market has been one of the world's most



Latin America's modern aircraft fleet helping productivity and profitability

dynamic inter-continental markets since 2004. As much as 8.3% capacity has been added every year in the last four years with more to come, as demand still far exceeds supply. Europe is the destination of choice for international travel from the region, representing 53% of the total Latin American international market.

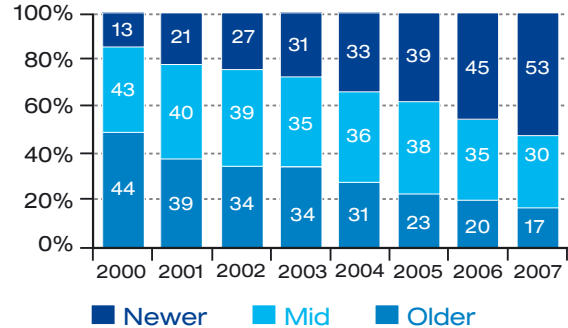
Load factors on the Europe - South Atlantic flow are now well above 85%, a level never seen before in Latin America or on most international markets. This is clearly unsustainable as more and more passengers are turned-away, requiring onerous payments to compensate these passengers, thereby reducing potential revenues. Larger aircraft and, when possible, more frequency, are necessary to meet the high demand.

Clear way towards consolidation creating large and profitable airline groups



- Lan Group in Chile, Ecuador, Peru, Argentina
- TACA Group + Volaris in Mexico
- Gol with new Varig
- Synergy in Colombia, Brazil and Ecuador
- COPA + Aerorepublica in Colombia
- Aerolineas, part of Grupo Marsans (Spain)
- Still big independents: MXA, AMX, TAM

Fleet by share of aircraft generation



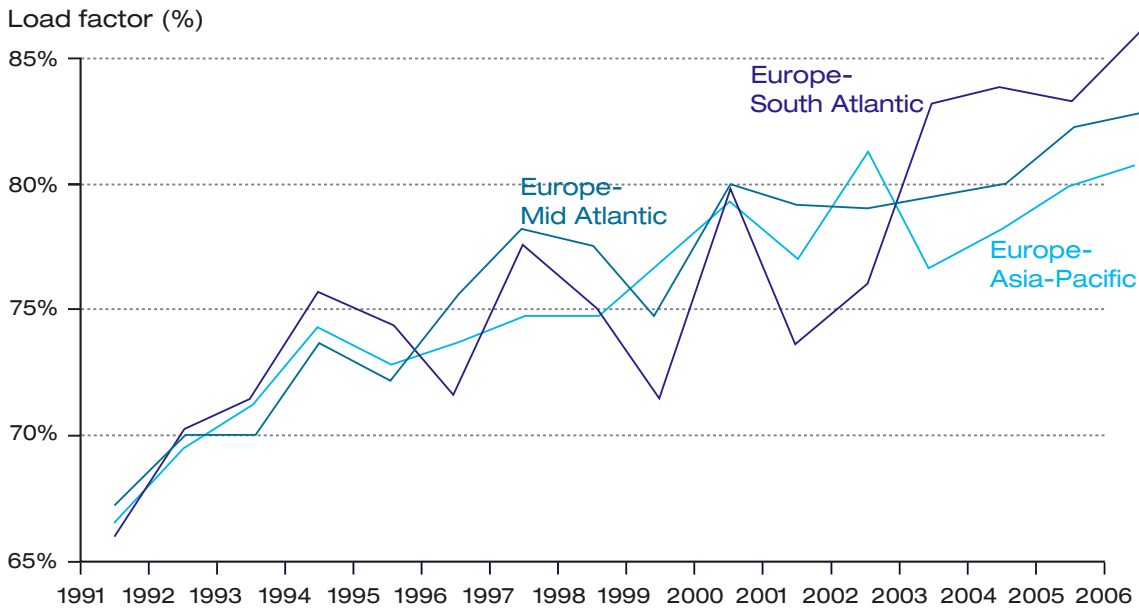
The Latin American carriers have been increasingly effective in competing with the increased European capacity offered and are quickly recovering market share. The main enablers of this recovery have been (1) some airline consolidation and (2) the introduction of new more eco-efficient aircraft into the Latin American airline fleets. The region's economic development and the increasing capital markets have resulted in significant opportunities for shrewd Latin American airline leaders to create value by consolidating, restructuring or evolving their business models. The airline industry could be seen as the precursor for a more general industrial consolidation and restructuring of other fragmented industries within the region. Airlines in Latin America have not only shown that such progress helps profitability, but also positively drives economic development in the region, a further step towards the greater well-being of the population.

With this growth and a number of the region's countries recovering from recession in recent years, the airlines have continued to build their fleets and networks. Tangible evidence of the growing strength of the region can be seen in the average age of the fleet, now 12.5 years, some three years younger than it was a decade ago. This has been achieved through the introduction of numerous new single and twin-aisle aircraft by an increasing number of trendsetting airlines in recent years. This younger fleet has helped bring greater profitability with 20% better aircraft utilisation and US\$1.4 billion operating profit for the top 55 airlines of the region.

At 5.3% per annum, traffic growth in Latin America during the next 20 years is forecast to exceed the world average. New and emerging markets to Africa and the Commonwealth of Independent States (CIS) are expected to exhibit the strongest growth, with 8.0% and



Europe-South Atlantic load factors at historic highs



Source: Association of European Airlines, Airbus

8.5% respectively. Traffic within the region is also expected to grow strongly, at an average annual rate of 6.2%. However, depending on the pace of economic policies, social development, innovation and consolidation of its industries, the region could experience Asian growth levels in the future. There is much more potential in reserve for Latin American air travel.

As a result of the forecast traffic growth and deliveries, new and used, Airbus predicts that the fleet of passenger aircraft with over 100 seats in Latin America will more than double from 865 aircraft to 2,019 over the next 20 years.

Latin American air transport demand summary

Latin American Traffic (yearly growth)	2007-2016	2007-2026
Total passenger traffic	5.9%	5.3%
Domestic & intra regional traffic	6.2%	5.5%
International traffic	5.9%	5.2%
Total freight traffic	6.4%	5.6%

Latin American Fleet in service	2006	2026
Passenger (< 100 seats)	562	625
Passenger (≥ 100 seats)	865	2,019
Freighter	79	132
Total	1,506	2,776

Latin America

RPKs growth: annual average 2007-2016

