

CEO BRIEF

june 2006

Our 62nd Annual General Meeting in Paris was the most successful ever, with nearly 800 participants. It was an opportunity to reflect upon our industry's achievements and look towards the future with measured optimism.

Safety is the top priority and our six-point safety strategy is yielding impressive results. In 2005, IATA Members had one accident for every 2.9 million flights. The AGM decision to make IOSA a condition of IATA membership shows our commitment to drive the rate even lower.

The 2006 industry fuel bill will be US\$112 billion - US\$21 billion over 2005. Despite efficiency gains and strong revenue, the industry will still lose US\$3 billion in 2006. Governments, infrastructure providers and industry partners must work with us - the case for change remains strong.

The remarkable 5% improvement in fuel efficiency over the past two years makes for an important environment debate leading up to the 2007 ICAO Assembly. We need ICAO to define a global approach to aviation and the environment.

Safety. Efficiency. Simplifying the Business. Environment. A full agenda for our industry.



Iris Liu-Mingway

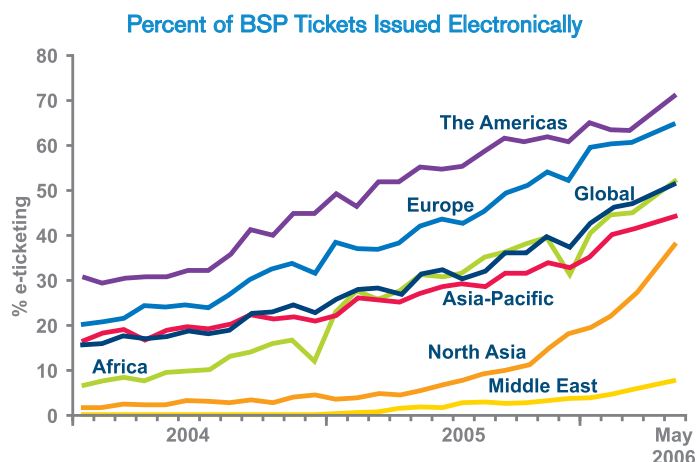
183rd Board of Governors - Paris, 4 June 2006

The Board of Governors met on the eve of the AGM and reported to the AGM on a number of key issues.

Simplifying the Business

e-ticketing

- The December 2007 deadline for 100% ET in IATA BSPs was reaffirmed.
- Standards are in place, vendors are aligned and most regulatory hurdles have been overcome. However, some ground handlers need to be more pro-active in becoming e-enabled.
- e-ticketing in IATA's BSPs reached over 52% in May 2006. But more speed is needed.
 - 170+ airlines have yet to issue an ET; many still have no plan. The 98 carriers with an implementation plan must move.
 - ET-enabled airlines issue only 52% of their tickets electronically; this must accelerate.
 - A campaign is to be launched to increase the number of e-enabled interline agreements; only 3% so far.



CUSS

- Strong interest; issue of 'vendor compatibility' resolved. However, charges issues remain in some areas.
- The Board agreed that common interface should be pursued only as market requires.

Bar Coded Boarding Passes

- Good progress led Board to agree implementation targets.
 - All airlines should be BCBP capable by end 2008.
 - 100% BCBP by end 2010.
- Services Conference to define one format for BCBP standard.

e-freight

- Airlines, forwarders aligned on goals; technology and standards issues resolved.
- Problem: no country is ready! Major lobbying campaign to be launched.
- Objectives for e-freight re-focused.

IOSA

- The AGM adopted a resolution making IOSA a requirement for IATA membership. All members must:
 - Schedule an IOSA audit by the end 2006.
 - Conduct an audit by end 2007.
 - Be IOSA-registered by end 2008.
- The Board is mandated to develop the detailed procedures to implement the resolution.
- As of May 2006, 51% of Member airlines - representing over 70% of international passenger traffic - have completed or have contracted for an IOSA audit and 26% are in preparation.
- The 'Partnership for Safety' programme - aimed at helping Members prepare for IOSA - has been expanded from Africa to Latin America and, later this year, to the CIS.

Fuel and Charges Update

- The 2006 fuel efficiency campaign is targeting US\$1.5 billion in savings. In Q1 2006:
 - Air route improvements and the 'Save One Minute' campaign have generated US\$259 million in savings.
 - IATA's 'Go Teams' of fuel efficiency experts have helped airlines save US\$218 million in more efficient operations.
- IATA's 2006 Cost Campaign is targeting US\$1.3 billion in savings from landing, air navigation & fuel fees and taxes. Through May, savings of US\$775 million were achieved.
- The Board noted with satisfaction that Commissioner Barrot has committed to introducing a draft EC Directive on Airport Charges before the end of this year. IATA and its Member airlines will support this European framework setting out the requirements for national economic regulation provided it has the teeth to be effective.
- The Board also emphasized the importance of effectively communicating the industry's strong record of improving its environmental performance over time.

Financial Issues

The Board reviewed the adequacy of current procedures to handle travel agent defaults in light of changing distribution patterns. While current 'bad-debt' losses amount to less than 4 cents for every US\$100 of BSP sales, the Board requested IATA remain vigilant in light of the risk of 'electronic bust outs'.

Settlement Systems Restructuring

The T2 project, which aims at consolidating BSP/CASS operations, is progressing well. As a first step towards a Euro BSP, the opening of a customer service centre in Madrid in May 2006 aims at merging 11 countries operations, representing 85% of the total European volume. This hub currently provides services for Spain, Portugal, France, Belgium, Luxemburg and The Netherlands, and will cover all Western Europe by mid 2007.

A second milestone involves the successful renegotiation of a contract with ADP, the largest provider of BSP data processing. This will mean a US\$190 million reduction in airlines' costs over the next 8 years. ADP will be consolidating its data processing activity in its Madrid hub.

Governance

- C.S. Chew of Singapore Airlines has taken over as Chairman of the Board of Governors for 2006/2007.
- Leo van Wijk and Fernando Conte remain Chairmen for the Strategy & Policy Committee and the Audit Committee.

AGMs - mark your calendar

➤ June 4-5 2007 - Vancouver

'Sharing quality audit services'

The Board reacted very positively to a new range of 'shared services' that are being provided by IATA. The goal is to make the quality oversight of outsourced services more cost effective. Participating airlines define agreed standards against which audits in a particular area are conducted. The results are shared among the 101 airlines currently participating.

- Fuel Quality Pool:** the technical requirements for jet fuel at airport fuel installations are tested regularly.
- Catering:** these audits ensure that caterers prepare food according to standards that protect the health of passengers and crew, and deliver the quality airlines pay for.
- De-icing:** the technical and environment service levels of de-icing facilities are tracked.

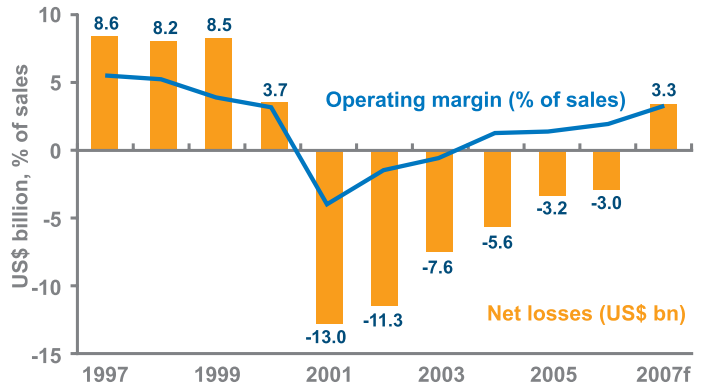
The Board encourages airlines to make use of these services. More information is available at www.iata.org

Looking at the Numbers

Profitability: does size matter?

Airline operating profitability has been improving, and net losses reducing, in spite of the additional 20% rise in oil prices so far this year. Non-fuel cost efficiencies and strong revenues have just kept ahead of the rise in fuel costs. However, even if exceptional revenue strength continues, we forecast industry net profits of US\$3.3 billion and an average operating margin of only 3% by 2007, which remains unsustainably low. This is based on an average oil price of US\$66 p.b. for 2006 and US\$60 for 2007.

Chart 1: Profitability is improving but unable to meet cost of capital

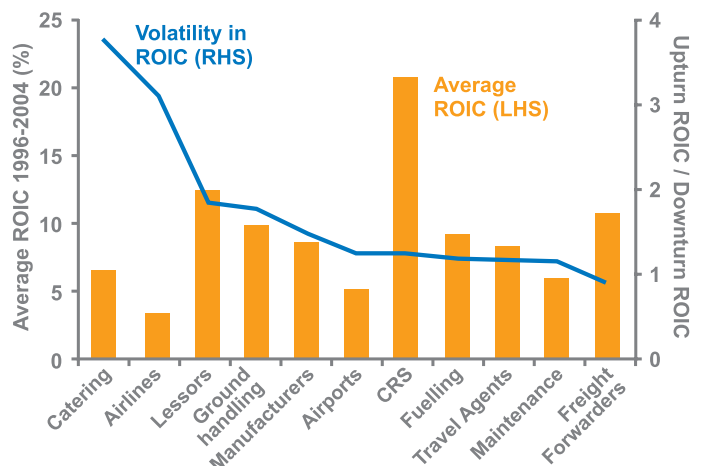


Source: IATA Economics Briefing, New Financial Forecast - June 2006

A competitive industry is defined by returns not exceeding the cost of capital. For airlines that means an average operating margin of 9-10% and we are far from this, which shows the scale of the structural challenges we face as an industry.

Part of the problem lies in the value chain with unregulated market power and inefficiencies. Our new study, *'Value Chain Profitability'*, shows airlines earning the lowest returns in the industry yet bearing the highest risk.

Chart 2: Airlines earn the lowest returns yet bear the highest risk



Source: IATA Economics Briefing, Value Chain Profitability

Government interference is another major part of the problem. Regulatory restrictions prevent any sort of rational restructuring in the industry and major progress is required to give airlines the freedom to operate like businesses in other global industries. Consolidation is necessary.

However, our recent assessment of 2005 results, *'Profitability: does size matter?'*, underlines the point that restructuring may not focus primarily on economies of scale and scope but on a more differentiated profitability-focused approach.