

CEO BRIEF March 2007

The year 2007 will mark the return of the industry to net profitability. This is an amazing achievement given that the industry fuel bill has tripled to USD120 billion in four short years. Fuel is now fully a quarter of our costs and airlines completely and quickly re-engineered their cost structure to survive.

Unfortunately, governments do not move with the same speed. The US-EU agreement is a case in point. It is an important step in the right direction - but it took five years. We will be challenging both sides to shoulder their responsibility in this new relationship and move forward more quickly with the next stage, liberalisation of ownership rules and greater harmonisation, especially for security measures.

These issues will feature prominently in the discussions at the 63rd IATA Annual General Meeting and World Air Transport Summit. Air Canada will be hosting our industry's most important gathering in Vancouver, Canada, from 3-5 June. Also on the agenda will be the environment, safety and Simplifying the Business. In a rapidly changing business world, this year's event promises to be one of our most important meetings ever.

I look forward to welcoming you personally in Vancouver.



Giovanni Bisignani

Giovanni Bisignani
Director General & CEO

ENVIRONMENT

Spreading the message

- To respond to the negative image of aviation in the media, IATA is working with ATAG on an industry-wide communications campaign on environmental issues, involving airports, manufacturers and other stakeholders. The campaign was launched this month in Geneva with over 100 industry communications experts.
- The primary message focuses on the practical measures taken by the industry to limit its 2% share of global CO2 emissions, notably by investing in new, more fuel-efficient aircraft and pushing for shorter routes and improved air traffic control.
- As part of this campaign, IATA is making available to airlines' communications experts a series of advertisements on aviation and the environment for in-flight magazines.

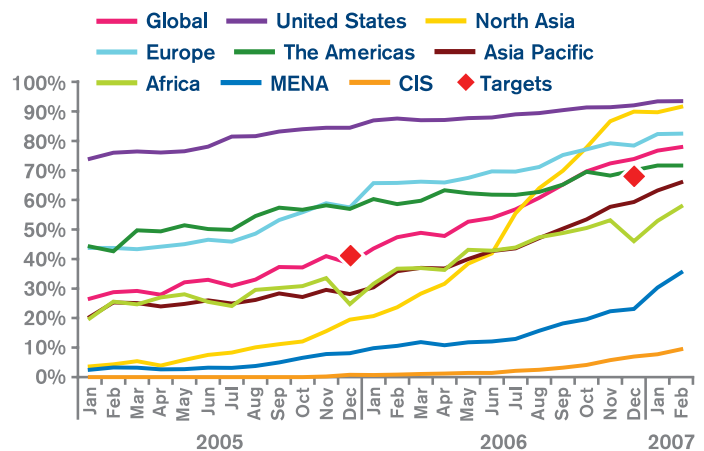
Emissions Trading

- In February, ICAO's Committee on Aviation Environmental Protection (CAEP) reached consensus on guidance for States to use if they are planning to incorporate international aviation into emissions trading schemes.
- This guidance, endorsed by the ICAO Council in March, will go to the ICAO Assembly for approval in September.

ET UPDATE

- Penetration in IATA BSPs reached 78% in February. A total of 204 airlines are issuing ET through IATA BSPs, representing 94% of tickets issued through BSPs.
- 68 airlines are now issuing more than 90% of their tickets as ET.

- To reach the 100% end of year target, IATA is providing airlines with continuous support through workshops and the StB Extranet, with specific on-line tools to advance Interline ET, such as the GBR Generator, IET Matchmaker and the Buddy scheme which provides one-on-one consulting.



CARGO UPDATE

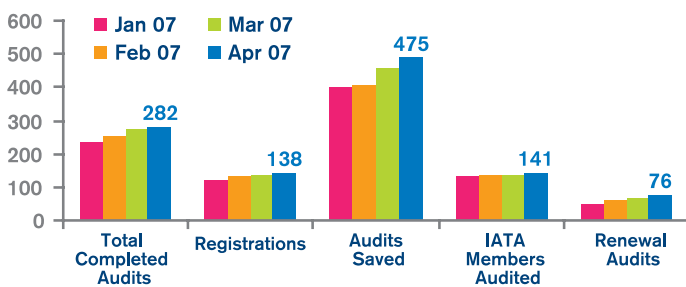
- Cargo is taking on a new momentum, judging by the success of the first IATA World Cargo Symposium in Mexico City in March 2007. This brought together 800 air cargo professionals from all over the world, with the main theme "Focusing on Simplicity".

- E-freight is the key element. By the end of the year, it will be piloted in 5 locations: Canada, Hong Kong, The Netherlands, Singapore and the UK.
- Linked to e-freight is the Message Improvement Programme which is aimed at radically improving the poor quality of Electronic Data Exchange (EDI) data within the industry.
- Other aspects of IATA's cargo agenda include:
 - Re-engineering the Cargo 2000 programme for a simpler quality management system for the air cargo supply chain.
 - Opening of 12 new CASSes in 2007.
 - Adoption of a clear position on Cargo Security based on the principle of a united approach of the air cargo supply chain.

IOSA UPDATE

- On 31 December all IATA members but six were committed to an IOSA audit, thus successfully meeting the first IOSA deadline.
- Since IOSA was launched, 282 audits have been conducted. IATA has forecast over 250 audits for 2007. This represents more than the total number of audits conducted over the past three years.
- There are currently 138 airlines on the IOSA Registry, and 25% of audits continue to be on non-IATA members.

IOSA Programme Status as of 30 March 2007



EXTERNAL COST CAMPAIGN

- In the first two months of 2007, the campaign has yielded cost savings of USD 169 million, of which USD 125 million in real cost reductions.
- But increases of USD 210 million have already been incurred so far this year.
- New aviation taxes are emerging, particularly in Europe, most of which claim to be for environmental reasons. Some of these initiatives have however been defeated, most recently in Belgium.

Regional charges developments

ASPAC: IATA has offered its assistance to the Prime Minister of Thailand to remedy the deficiencies at the new Suvarnabhumi Airport. The Thai Government was urged to ensure the Airport of Thailand Company works closely with IATA and airlines to achieve a long-term, best practices charges agreement.

Europe: The draft EU Airport Charges Directive has now been released by the European Commission for review by the European Parliament and Council. IATA is actively lobbying to strengthen the future Directive with cost efficiency targets for airports and more "teeth" for the regulators.

LatAm: Under the pressure of IATA's campaign, the Congress of Argentina came to agreement on the AA2000 airport renegotiation contract. The airlines are working with the authorities on a set of recommendations to remove monopolistic blockages to the development of air transport in Argentina.

Economic regulation of airports

- The case for independent economic regulation of airports is clear. In a new Economics Briefing (www.iata.org/economics) we show that well-designed economic regulation improves efficiency and productivity, while encouraging timely and cost effective new investment. It is shown that there are benefits to all stakeholders, from the regulated airports to passengers, other users and the wider economy.

Fuel Efficiency Campaign

- Savings for the first three months of 2007 total USD521 million, specifically USD473 million savings for operational efficiency and USD48 million realised in route restructuring.

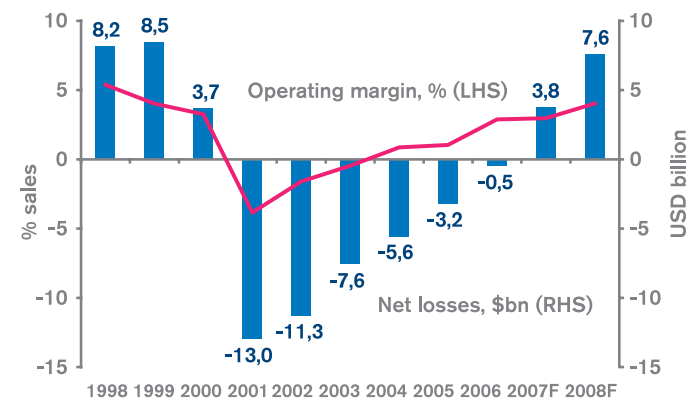
LOOKING AT THE NUMBERS

Financial performance

2006 saw profitability improve in spite of higher fuel costs

Last year marked the return of the airline industry to net profit, if the restructuring costs of US airlines are excluded. The industry generated USD8 billion of "underlying" net profits last year, the first world-wide result in the black since 2000.

Considering that the spot price of jet fuel rose 15% from USD71 to USD82 a barrel that is still quite an achievement. Success has come from the industry's control of capacity and non-fuel costs, and from the boom in revenues.



The outlook is positive but challenges remain

The US economy has slowed but economic growth has picked up in Europe and continues at a robust pace in Asia. With fuel surcharges falling there is little further upside expected for yields. Revenue growth will slow as a result but is expected to remain ahead of cost increases. Net profits of USD3.8 billion are forecast this year.

Looking ahead into 2008, the US economy is expected to accelerate once more and industry net profits improve to USD7.6 billion.

But returns remain well below the cost of capital and balance sheets are fragile. The industry has more to achieve before it is no longer financially vulnerable to shocks.

Efforts need to be intensified, as a recent IATA study of airline cost performance (www.iata.org/economics) showed that while efficiency gains continued in 2006, pressure increased on non-fuel unit costs because of shortages of skilled-labour and fuel-efficient aircraft.

MARK YOUR DIARY → Ops Forum 2007

Being held in Montreal from 16-18 April 2007, the 2nd IATA Operations Forum will cover our top priorities: Safety, Security, Operations, Infrastructure, Integrated Fuel, Risk & Insurance Management and Environment.