

CEO BRIEF June 2007

Our revised forecast puts 2007 industry profits at US\$5.1 billion. This is good news. But we must also be realistic. Airlines are a US\$470 billion industry. Profitability at this level is peanuts. Many challenges remain before airlines reach financial sustainability.

None-the-less, our 63rd Annual General Meeting and World Air Transport Summit was an opportunity to celebrate our successes—and prepare for future challenges. Among the successes are safety and Simplifying the Business. IOSA is on track and a five-month extension to our e-ticketing deadline will ensure that all our members will be on board by the time we meet in Istanbul next year.

Many challenges were on the agenda—security, infrastructure costs and liberalization among them. But finding a strategic industry approach for the environment was clearly the most pressing. I tabled an agenda to rally our industry, stakeholders and suppliers around a long-term vision for zero carbon emissions. Moving from vision to reality requires an effective combination of operations, infrastructure and technology initiatives, possibly economic incentives, and a much stronger communications effort by all of us. Next stop is the ICAO Assembly in September where we will seek government commitment to global standards for a global issue.



Giovanni Bisignani

Giovanni Bisignani
Director General & CEO

Passenger name record

The U.S. and EU have reached a tentative agreement on the sharing of Passenger Name Record (PNR) data with U.S. authorities.

While the agreement itself has not been made public, we understand that it will allow airlines to push data to government authorities without fear of legal challenge by data privacy authorities.

We will continue to work with both authorities to ensure that member airlines are protected as the agreement proceeds to final approval (expected the week of July 2).

Chinese infrastructure

After a series of high-level negotiations with the Chinese authorities, two major infrastructure improvements will be implemented this year:

- Effective 4 July, the choice of entry/exit points and their connecting routes for the cross-polar operations to/from North America will increase from a choice of three options (SIMLI, ARGUK, POLHO) to five with the addition of MORIT and SADLI.
- The implementation of Reduced Vertical Separation Minima (RVSM) is scheduled for 21 November 2007. RVSM will provide six additional cruise flight levels that will not only increase airspace capacity, but also will reduce ground delays and allow flights to operate at more efficient altitudes.

Both infrastructure improvements were announced on 1 June and are a big step forward in reducing flight time, fuel consumption and CO₂.

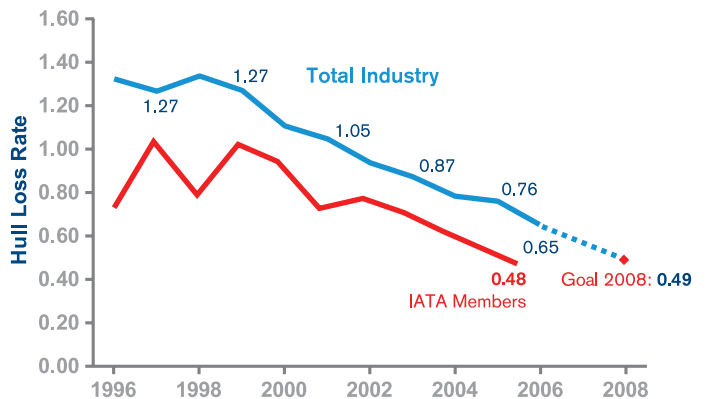
185th Board of Governors - 3 June 2007

The Board of Governors met in Vancouver and reported on 4 June to the AGM on a number of key issues.

Safety

2006 was safest year on record. IATA members continue to outperform the industry as a whole.

- As of April 2007, over 150 airlines were on the IOSA Registry, and 250 audits are planned for 2007.
- IATA is developing a new Safety Audit for Ground Operations – ISAGO. The first audits will start early 2008.



Environment

With noise reduced by 75% and fuel efficiency increased by 70% in less than four decades, the industry has a good track record.

- Airlines were urged to join the industry campaign to improve environmental communication.
- The Board approved a new target of increasing the industry's fuel efficiency by a minimum of 25% by 2020.
- Additionally, IATA new "Green Teams" will be established to help member airlines adopt best environmental practices in operating areas

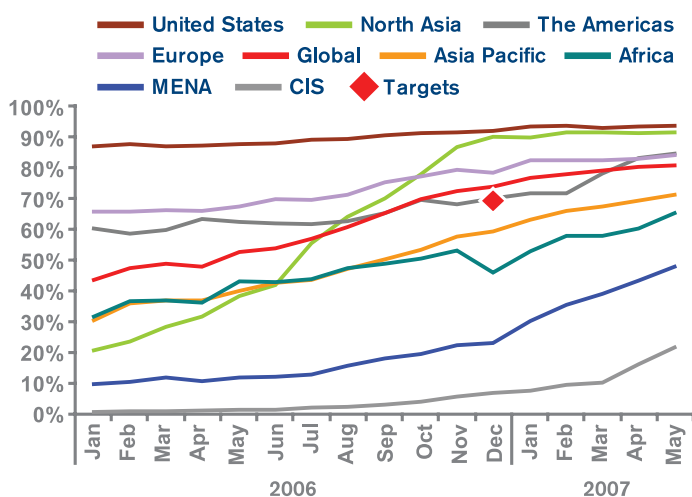
E-Ticketing

As members have been informed, the AGM adopted a Board resolution to extend the deadline from 31 December 2007 to 31 May 2008. Several elements came into play:

- A survey of 279 airlines representing 98% of BSP volume pointing to 96.6% ET by end 2007. IATA's assessment: 92%.
- External factors such as: legal restrictions on ET only recently removed in Russia; ground handling organizations late in adapting their systems; system providers not providing timely attention to some carriers.
- The interlining challenge:
 - Out of 8,000 active interline agreements, airlines will migrate to ET only 2,300, covering 80% of interline traffic.
 - 1,100 agreements have been e-enabled.
 - IATA believes that only 2,100 will be converted by Dec. 2007.
 - The Board agreed it was important for all airlines to communicate their future interlining plans to all their partners.

IATA management was asked to continue to assist all airlines. For those which still want to eliminate paper by end of 2007, IATA will be meeting in early July with GDSs to establish how this can be done.

ET Penetration in BSPs by Region - 81% in May 2007



Other Board decisions

IATA Clearing House: The Board approved a number of minor amendments to the regulations aimed at further enhancing operational control in the event of potential default.

Membership Dues: The Board agreed that the dues assessment be reduced 11% from US\$15.75 million to US\$14 million.

Governance: Fernando Pinto of TAP was elected Chairman of the Board of Governors for 2007-2008 and Wolfgang Mayrhofer of Lufthansa SPC Chairman. Fernando Conte of Iberia remains Chairman for the Audit Committee.

Looking at the numbers

New financial forecast

We have revised up our forecast for industry net profits this year from \$3.8 billion to \$5.1 billion. The improvement is encouraging but, at only just over 1% of forecast revenues of \$473 billion, is far from adequate.

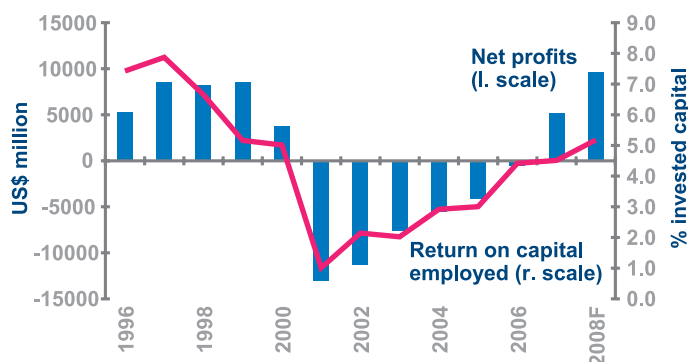
The strength of revenues has been a key element to the improvement in profitability.

- The decoupling of Asian and European economic growth from the US slowdown means that we no longer expect passenger volumes to slow in 2007, with the total rising 5.3% to 2.2 billion.
- Moreover, passenger yields are showing more resilience than expected.

Profits have improved but returns on invested capital of 4-5% remain below the levels reached at the peak of the last cycle in 1997, and well below the industry's 7-8% cost of capital.

Balance sheets remain weaker than during the last cycle and additional efficiency achievements will be critical to improve financial performance over the next couple of years.

Airline industry profitability



Fuel

Fuel costs have risen once more to \$70 a barrel and we have revised up our oil price forecast from \$61 to \$63 a barrel this year.

However, the impact of this on fuel bills is 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, keeping it at 26% of operating expenses.

Input "squeeze"

The extended economic boom has created shortages of key inputs, such as skilled labour and fuel efficient aircraft. In 2001-2005 substantial cuts were achieved in non-fuel 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.

Efficiency gains continued last year but shortages are now raising costs and causing non-fuel unit costs to increase. A redoubling of efforts to improve efficiency will be necessary to overcome rising input prices and sustain the downward trend in non-fuel unit cost.

AGM/64 – Mark your calendar 1-3 June 2008 - Istanbul.