

CEO BRIEF October 2009

Just weeks before the UN Framework Convention on Climate Change (UNFCCC) meets in Copenhagen, environment tops the industry's agenda. Airlines, airports, air navigation service providers and manufacturers stand united on a common position backed by challenging targets. No other global industry has committed to achieve carbon-neutral growth from 2020, let alone cut their emissions in half by 2050 compared to 2005.

This month I had the honor of presenting this great story to the UN Secretary-General and the Chairman of the Intergovernmental Panel on Climate Change (IPCC). They commended our efforts as a role model for others to follow.

How to make Copenhagen a success? Our message must be heard far more broadly. Ministers of transport know our story but they are not driving the agenda. Heads of state and environment ministers are the target audience.

IATA cannot be the lone campaigner. I need your help to ensure that our industry's track record, vision and commitment are known by every UNFCCC delegate. Our industry's future depends on your action and I am confident I can rely on your support.



Giovanni Bisignani

Giovanni Bisignani
Director General & CEO

ENVIRONMENT

ICAO High-Level Meeting

- Giovanni Bisignani addressed ICAO's recent High-level Meeting on International Aviation & Climate Change (HLM) and presented aviation's proactive and united approach to reducing carbon emissions.
- Speaking for the entire industry (ACI, CANSO, IATA and ICCAIA), he highlighted the need for a global sectoral approach, underpinned by the targets adopted in June by the IATA AGM:
 - > Improving fuel efficiency by an average of 1.5% annually to 2020
 - > Stabilizing carbon emissions from 2020 with carbon-neutral growth
 - > An aspirational goal of a 50% reduction in net carbon emissions by 2050 compared to 2005
- In the final HLM declaration, states called for a fuel efficiency improvement of 2% average p.a. to 2020, continuing as an aspirational goal to 2050. Consideration of more ambitious goals was deferred to the 2010 ICAO Assembly.
- The declaration reaffirms ICAO as the lead UN agency on aviation and environment. It notes the industry targets and invites the industry to further elaborate on their implementation.
- Some countries were concerned that the global sectoral approach might undermine the UNFCCC principle of common but differentiated responsibilities.
- However, ICAO is experienced in assisting developing country airlines meet targets while adhering to the principle of free and equal opportunity embedded in the Chicago Convention.

- For example, developing country airlines were given additional time to meet the Chapter 4 noise standards and benefitted from special assistance to meet the universal safety standards.

The Road to Copenhagen

- As IATA's campaign intensifies in the run-up to the UNFCCC meeting in December, Giovanni Bisignani met with UN Secretary-General, Ban Ki-moon and Chairman of the IPCC, Dr Rajendra Pachauri.
- The UN Sec.-Gen. commended IATA's four-pillar strategy and industry targets as "strong support from a very important industry," adding that they should serve as a role model for other sectors.
- IATA also promoted the industry's commitment to tackling climate change at the recent Hong Kong Greener Skies conference and the UN Secretary-General's Summit on Climate Change in New York.

AGENDA FOR FREEDOM II

- So far, seven countries and the European Commission have agreed to sign a 'Multilateral Statement of Policy Principles' on air transport liberalization:
- More states are expected to show their support for the statement due to be signed in November at the second Agenda for Freedom summit, in Montebello, Canada.
- IATA facilitated the drafting process, recognizing that foreign ownership and control of an airline should not jeopardize its traffic rights.

EXTERNAL COST CAMPAIGN

- As at end September, total 2009 savings amounted to US\$2.9 billion, including real reductions of \$2.5 billion.
- Increases year-to-date total \$1.7 billion, of which \$1.5 billion at airports. Two significant developments in October were:
 - Narita airport has reduced landing charges until March 2011, saving airlines \$60 million.
 - The Greater Toronto Airport Authority has announced a 10% reduction in landing charges, the third successive reduction.
- IATA campaigns continue to focus on mitigating the impact of the global economic crisis.

FEGA/INFRASTRUCTURE SAVINGS

- Savings from fuel gap analyses (FEGA) and infrastructure improvements as at 1 October 2009 stood at:
 - FEGA: 6.68 million tonnes of CO₂; US\$ 1,437 million
 - Infrastructure: 2.70 million tonnes of CO₂; US\$ 437 million

FINANCIAL MATTERS

- IATA handled \$350 billion of airline funds last year and ensures these funds are protected to the maximum extent possible.
- With the advice of the Financial Committee and Agency Conferences, IATA is constantly reviewing processes and procedures.
- So far this year, 13 airlines have had to be suspended from the settlement systems but this has not resulted in any losses to other airlines in the system.
- The travel agency bad debt ratio is at 0.032%, slightly below last year's level.

IN BRIEF

Hull Loss Rate

- The year-to-date accident rate decreased 38% to 0.61 western-built jet hull losses by end September, compared to 0.98 for the same period in 2008.
- However, the fatality rate for Western-built jet aircraft increased to 0.24 per million passengers by end September, compared to 0.19 for the same period last year.

Runway Excursion Risk Reduction (RERR) Toolkit

- In collaboration with the Flight Safety Foundation, IATA has developed the Runway Excursion Risk Reduction Toolkit, providing airlines with tools needed to prevent runway excursions.
- Fully endorsed by the IATA Safety Group, some 2,500 toolkits were distributed in the third quarter of 2009.
- Five regional safety workshops are scheduled this year and more are planned for 2010.

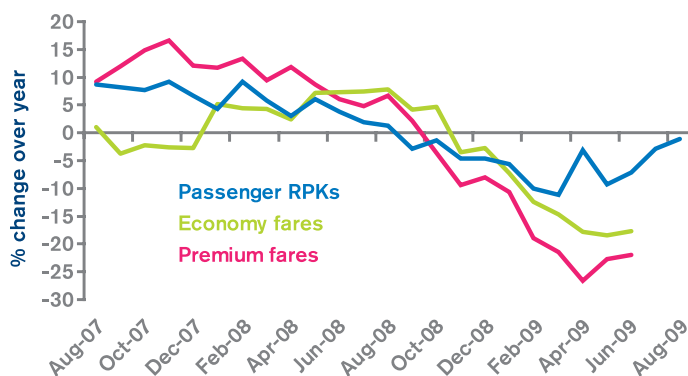
Baggage Improvement Program (BIP)

- To mitigate the possible introduction of punitive measures against airlines that mishandle their passengers' luggage in the EU, IATA's BIP team met with the European Commission to explain their work.
- The Commission recognized airlines' action on the issue and requested to attend the next baggage task force meeting. Talks continue.

LOOKING AT THE NUMBERS

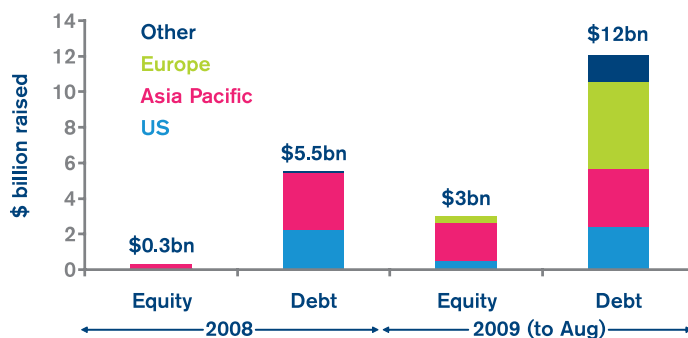
- Losses from commercial airline operations worldwide in 2009 are now expected to reach \$11 billion, up from our previous forecast of \$9 billion. Preliminary indications suggest that losses will persist in 2010, although at a lower level of \$3.8 billion.
- Yields will remain weak and a return to net profit looks unlikely until 2011.
- The first impact of stabilizing economies was seen in flat air freight volumes during the first quarter 2009, followed by a rise in the second. August air freight tonne-kilometers flown were some 12% up on the December low point, although still well below year earlier levels.
- Unless major economies go into a further down-leg of recession, the passenger market appears to have reached a floor in the second quarter. By July-August, there were some early signs of an upturn in travel volumes.
- However, airlines face exceptionally weak yields on both passenger and freight markets. Second quarter freight yields were down over 20% and international freight load factors are still below 50%.

Fares and passenger kilometers flown on international markets



- Premium and economy passenger fares were down 22% and 18%, respectively in June, indicating that the recovery in passenger load factors to early-2008 levels has done little more than arrest the fall in fares.
- Although load factors have risen, this has been partly achieved by cutting aircraft utilization. Spreading fixed aircraft costs over fewer hours in the air means that, even if higher load factors enable a firming in fares, unit costs have increased.
- Oil prices are projected to average \$61/b this year and \$72/b in 2010. The rising fuel bill will therefore further squeeze airline operating cash flows.

Capital market cash raising by airlines, \$ billion



- Major airlines have raised over \$15 billion of cash on capital markets so far this year. However, banks' continued reluctance to lend freely and ownership restrictions on equity finance mean that many smaller and medium-sized airlines remain in a much more fragile financial condition.