

CEO BRIEF December 2006

As we make strong progress on IOSA and Simplifying the Business, environment issues are emerging as a new important challenge. While airlines contribute only 2% of carbon emissions, as a responsible industry we are doing everything possible to improve fuel efficiency and limit the emissions.

The results are real. In 2006 our fuel campaign saved up to 15 million tonnes of CO₂. Governments equally have a role to provide efficient infrastructure. A Single European Sky is the most obvious of many much needed improvements.

We are working with ICAO on guidelines for emissions trading which, if properly designed, could be an effective tool. While recent European Commission proposals to include aviation in an emissions trading scheme have been modified to bring them closer to a more workable model, problems remain, including any planned application outside Europe. The whole industry will be carefully monitoring these developments.

All the best for 2007!



Giovanni Bisignani
Director General & CEO

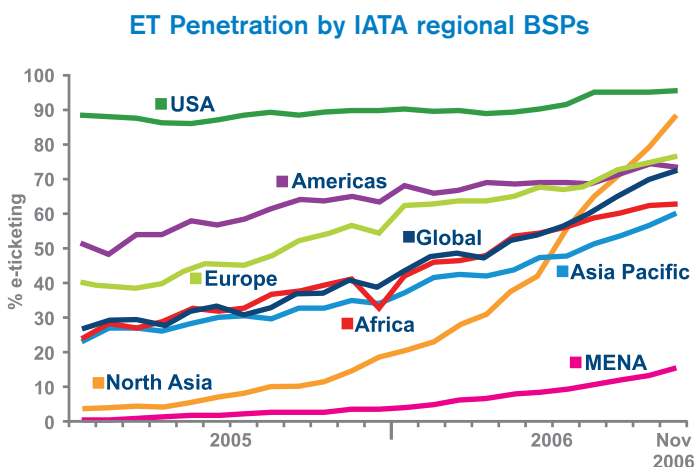


HIGHLIGHTS – IATA BOARD OF GOVERNORS

The IATA Board of Governors met for its 184th meeting in Geneva on 8 December 2006 under the Chairmanship of Choon Seng Chew of Singapore Airlines.

Simplifying the Business

e-ticketing: In November, the BSPs issued 72% of all tickets as ET – surpassing the end-2006 target of 70%. ET by Chinese carriers has exploded, rising from 11% a year ago to 90% in November. Distribution of paper tickets for domestic travel has now stopped.



The Board reaffirmed the end 2007 deadline for 100% ET in IATA BSPs. It will review the situation at its meeting in June 2007.

Challenges remain:

- Low penetration rate in certain regions - the Middle East (13%).
- Slow progress in e-enabling interline ET agreements - only 568 have been concluded (2500 cover 80% of journeys).

BCBP: 30 airlines will be using bar coded boarding passes by year-end, beating the 2006 target. The 2007 goal is 80 airlines.

CUSS: 45 airports are CUSS enabled; the 2007 target is 70 airports. The Board emphasized that airlines should retain the right to use dedicated self-service kiosks when CUSS is introduced.

RFID: The Board agreed that IATA re-double efforts to develop a business case for RFID implementation for baggage. A more positive vision is required, with respect to cargo, catering, spare parts and airport ground handling equipment.

e-freight: The Board approved the launch of 5 e-freight pilot projects in 2007 (UK, Canada, Singapore, Hong Kong and the Netherlands).

Safety

- The industry is on track to meet the 2006 safety goals. The Board endorsed a new 2008 target for western-built jets of 0.49 hull losses per million sectors flown - a further 25% reduction over 2006.
- The Board approved procedures for terminating Membership of carriers that failed to meet IOSA-related requirements. Over 230 of IATA's 250 members have made firm commitments to IOSA by the end of the year.

Environment

- The Board endorsed continued action by IATA to ensure that the European Commission proposals for an emissions trading scheme is workable and non-discriminatory.
- The Board also endorsed IATA's communications campaign, to be launched initially in Europe.

Fuel efficiency campaign

- IATA beat its 2006 fuel efficiency campaign target, with total savings of over US\$1.8 billion. A major element was airline savings from improved operational procedures – driven by the IATA best practices guidelines and the Fuel 'Go' teams.
- The Board welcomed news from the Chinese Military ATC that three new flexible entry points and a new route for the Pearl River Delta would soon be formalized.

External cost campaign

- The 2006 external cost campaign has generated total savings of over US\$1.7 billion, surpassing the year-end target. Further savings of US\$300 million can be expected when the PINS/CONFINS tax in Brazil is removed early in 2007.
- The Board endorsed IATA's actions to strengthen the EU Commission's draft Airport Charges Directive.

Security

- Security issues are likely to become more difficult in 2007 following the mid-term elections in the USA. The Board endorsed IATA's work, in coordination with ATA, to ensure that the new Democratic Congress takes a fair and reasonable approach to cargo security.
- It also called on IATA to re-double its efforts to ensure a harmonised US-EU approach on security issues.

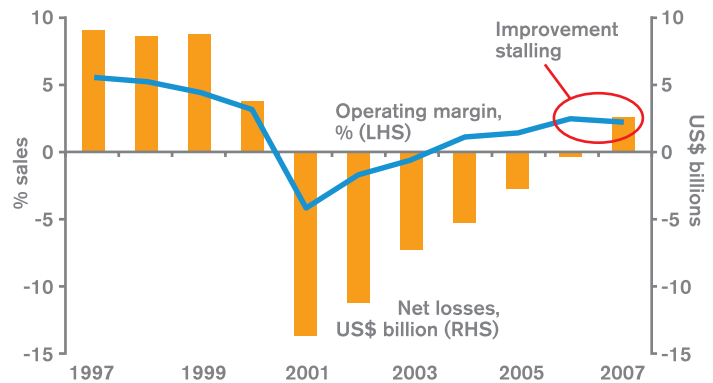
Managing IATA's performance

- The Board assessed IATA's performance against the industry priorities established for 2006. The Board approved a score of 89%.

INDUSTRY FINANCIAL OUTLOOK

Profitability improvements pause

- Forecast industry losses in 2006 have been revised downwards from US\$1.7 billion to just US\$0.5 billion.



- Considering restructuring costs in the US market and expected average oil prices of US\$66 per barrel, this is quite an achievement.
- Airlines are expected to report a profit of US\$2.5 billion in 2007, assuming much reduced restructuring costs.
- Strong revenues have been a major cause of improving profitability in the face of high fuel costs.
- Improvements in operating profitability seem set to pause as the industry enters a slower revenue growth environment in 2007.

Airline revenue growth is now slowing



- While the US economy has now decelerated, economic growth in Europe and Asia is still expanding, thus preparing the industry for a 'soft landing' for the slowdown in revenue growth.

Fuel prices

- The fuel bill for 2006 will total US\$112 billion, an increase of 23% over last year.
- Crude oil prices forecast at US\$61 p.b. in 2007; fuel costs expected to remain at 25% of airlines' operating costs.
- From a peak of US\$93 per barrel, jet fuel prices fell by US\$20 in August. However, the fundamental situation of limited spare capacity in either oil supply or refining suggest there is little scope for further significant reductions during 2007.

IATA INDUSTRY PRIORITIES 2007

Safety:

- 95% of Member airlines IOSA audited by 31 December 2007.

Simplifying the Business:

- 100% ET in IATA BSPs by end 2007.
- 80 airlines 2D bar-code enabled by end 2007.
- 70 airports to offer CUSS facilities by end 2007.
- 5 e-freight pilot projects to be launched and completed.

Financial:

- Save US\$1.5 billion in taxes, charges and fuel fees (US\$800 million real cost reductions).
- Secure draft EC Directive on airport charges that meets key IATA requirements.
- Launch 8 new BSPs/CASSs.
- Launch 4 new cost-saving and service improvement initiatives.

Operations:

- Save US\$1.5 billion through operational efficiencies, new routes and infrastructure enhancements.
- Harmonise PNR requirements; measure and improve effectiveness of passenger security processes.

Environment:

- Ensure ICAO Assembly support for industry positions on climate change.
- Launch a major communications campaign, initially in Europe, to strengthen aviation's public position.