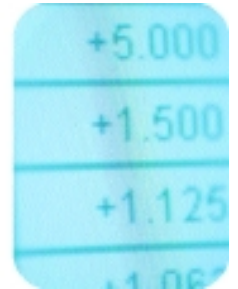


Summary Report



Operating Economy of AEA Airlines 2006

Introduction

>> Dear reader,

This is the third edition of the 'Operating Economy Summary Report'.

As the title suggests, this report contains a summary of the Traffic and Financial performance of the European Airlines, members of the AEA.

The report builds up on the four items: Traffic/Capacity, Cost, Revenue and Route Profitability.

Generally the economic data covers year 2005 and compares with the previous year. It is based on an extensive survey amongst the AEA members (see table below). Regarding Traffic and Capacity we analyse the latest available data 2006.

AEA airlines achieved an operating profit in 2005. Thanks to continued cost savings and good capacity and revenue management, the negative impact of rising oil prices was off-set.

Fuel cost will be on the agenda in the future too. Having reached almost

20% of the operating cost in 2005, this figure will increase further in 2006. Some considerations on this particular topic can be found on page 13.

The 'Operating Economy' summary report has become a fundamental part of AEA Market Research activities.

With this edition, we have decided to share the information with the public in order to give a transparent picture of the current state of the European airline industry.

You will find this document, as many others, on the 'Market Research' portal of the AEA webpage: www.aea.be

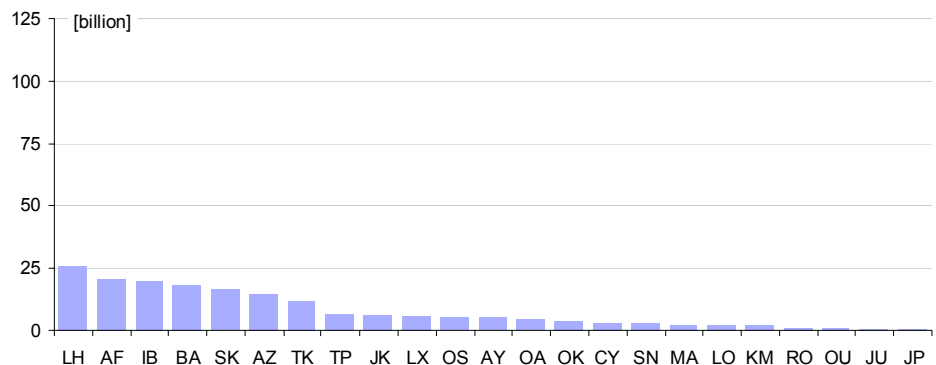
AEA Market Research

Note: Unless otherwise specified, the financial results in this report reflect the performance of 'airline operations' only for the calendar year concerned. AEA results published in other reports may vary due to different methodology regarding scope, period and reporting currency.

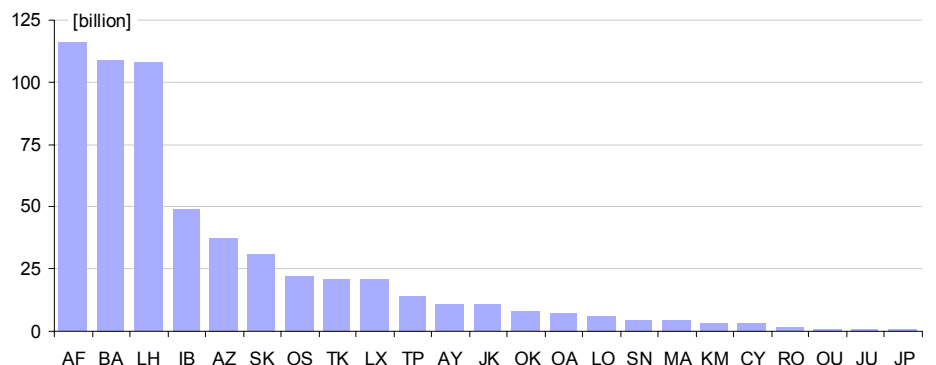
Included in Summary Report

	Yes	No
Passenger Data		
AF - Air France	Yes	No
AY - Finnair	Yes	No
AZ - Alitalia	Yes	No
BA - British Airways	Yes	No
BD - bmi	No	Yes
CV - Cargolux	n.a.	
CY - Cyprus Airways	Yes	No
EI - Aer Lingus	No	Yes
FI - Icelandair	No	Yes
IB - Iberia	Yes	No
JK - Spanair	Yes	No
JP - Adria Airways	Yes	No
JU - JAT Airways	Yes	No
KL - KLM	No	Yes
KM - Air Malta	Yes	No
LG - Luxair	No	Yes
LH - Lufthansa	Yes	No
LO - LOT Polish Airlines	Yes	No
LX - SWISS	Yes	No
MA - Malev	Yes	No
OA - Olympic Airlines	Yes	No
OK - CSA Czech Airlines	Yes	No
OS - Austrian	Yes	No
OU - Croatia Airlines	Yes	No
RO - TAROM	Yes	No
SK - SAS Scandinavian Airlines	Yes	No
TK - Turkish Airlines	Yes	No
TP - TAP Portugal	Yes	No
VS - Virgin Atlantic	No	Yes
Full Cargo Data		
AF - Air France	Yes	No
BA - British Airways	Yes	No
CV - Cargolux	Yes	No
IB - Iberia	Yes	No
KL - KLM	No	Yes
LH - Lufthansa	Yes	No
SK - SAS Scandinavian Airlines	Yes	No
TK - Turkish Airlines	Yes	No

RPK by Airline (Total European Services; 2005)



RPK by Airline (Total Systemwide Services; 2005)



Summary

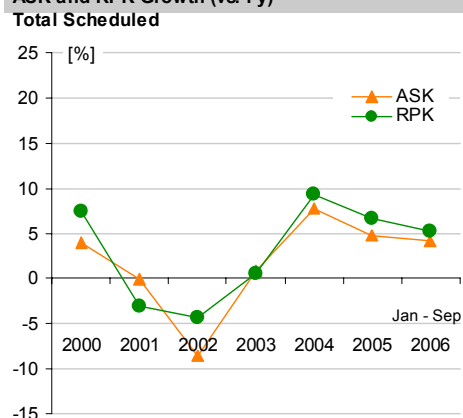
>> Traffic / Capacity

- 2006 growth weakens on all regions

>>

- Total Scheduled Traffic Growth slows down from 9.3% (2004) to 6.7% (2005)
- Jan—Sept 2006 vs previous period is at 5.2%
- All major traffic regions saw a slow-down in traffic growth, but all growth rates are positive
- Loadfactors reach 81.1% (+1%pt), an historical high

ASK and RPK Growth (vs. 1-y)



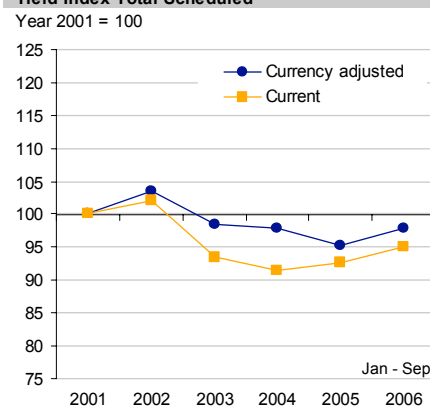
>> Yields

- Yields recover in Longhaul regions. Europe continues to be under levels of the past.

>>

- Currency adjusted Total Scheduled yields are almost back at 2001 levels
- North Atlantic reached 117 Index points (Base year: 2001 = 100)
- Longhaul yields are supported by the Fuel surcharges introduced in spring 2004
- European yields are further declining (-2 index points)

Yield Index Total Scheduled



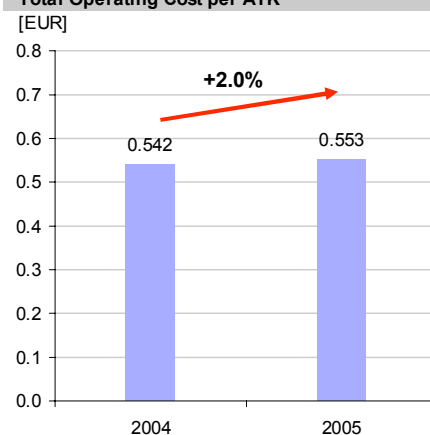
>> Cost

- Ever higher fuel prices drive up the Unit Cost by 2.0 %

>>

- Overall unit cost increase by 2.0%
- Increase is mainly due to the strong increase (+40.1%) of fuel cost in 2005
- Assuming constant fuel prices, the unit cost could be reduced by 3.0%
- Largest cost savings achieved in 'Station and Ground', 'Ticket Sales and Promotion' and 'Administration'

Total Operating Cost per ATK



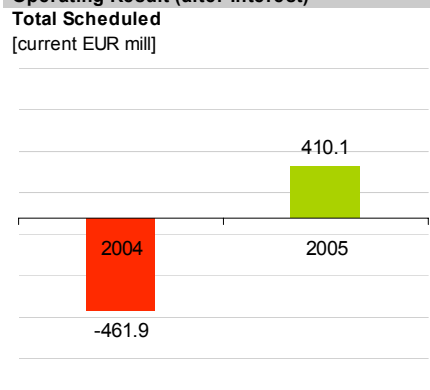
>> Operating Result

- Improvement by 872 million EUR

>>

- AEA airlines achieve a positive operating result in 2005
- Longhaul regions, especially North Atlantic, contribute to the profits
- European and Domestic are still loss making

Operating Result (after Interest)



Operating Statistics

>> Fast Facts

- **RPK growth is slowing down on all regions**
- **North Atlantic levels out at low levels**
- **European demand higher than capacity growth, resulting in higher load-factors**
- **Total Scheduled RPK growth for 2007 expected to reach 4–5 %.**

>> Europe

Year-to-date (Jan—Sep 2006) demand growth 5.6%. Corresponding capacity +2.9%. Careful capacity management and strong demand increases loadfactors further.

>> North Atlantic

Growth for a second year running is minimal. This together with strong demand environment results in full loads and increasing yields.

>> Far East/Australasia

After the impact of SARS in 2003 and 2004, the region returns to undistorted growth levels above 10%. Growth is slowing down in 2006.

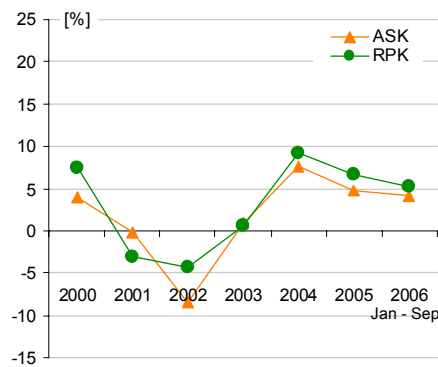
Nevertheless, Asia is still the region with the highest growth rates.

>> Weight of Regions

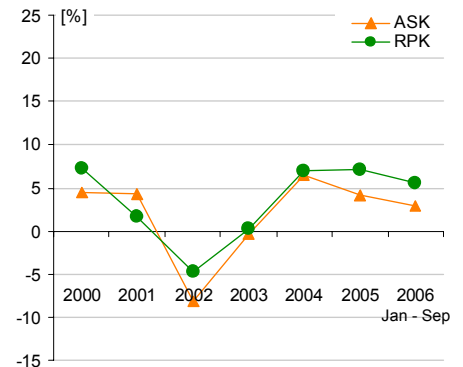
Europe accounts for more than a third of the seat offer of AEA carriers in terms of ASK.

+15 bn ASK were produced on the Far East. With growth rates of above 10%, the region approaches the importance of the North Atlantic.

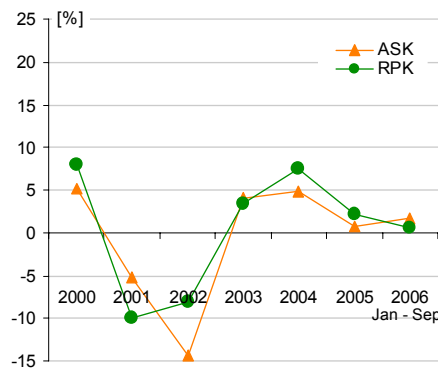
ASK and RPK Growth (vs. 1-y)
Total Scheduled



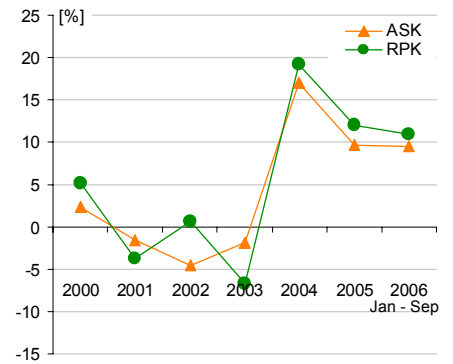
ASK and RPK Growth (vs. 1-y)
Total Europe



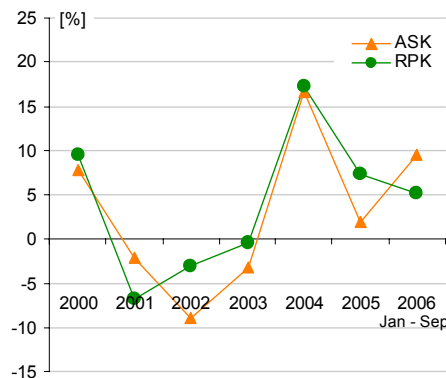
ASK and RPK Growth (vs. 1-y)
North Atlantic



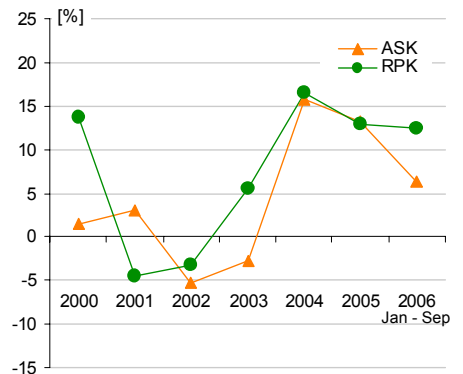
ASK and RPK Growth (vs. 1-y)
Far East/Australasia



ASK and RPK Growth (vs. 1-y)
Middle East

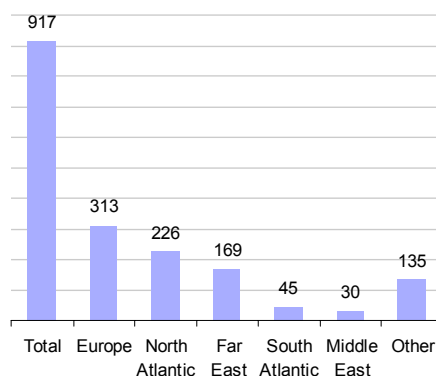


ASK and RPK Growth (vs. 1-y)
South Atlantic



Weight of Regions

AEA Members' ASK 2005; [billion]



Operating Statistics (2)

>> Fast Facts

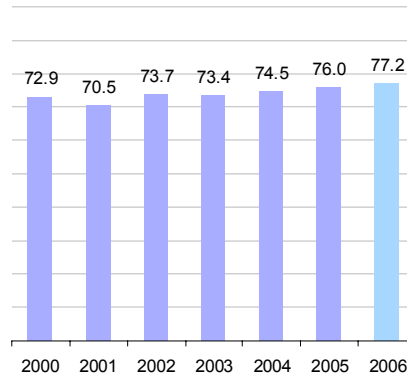
- Passenger load factors at record levels
- Highest increases on European routes
- Year-to-date: Europe: +1.7%pts
- Longhaul regions with increases in 2005 (+1.0%pt) but remain on same level in 2006

>> Comment

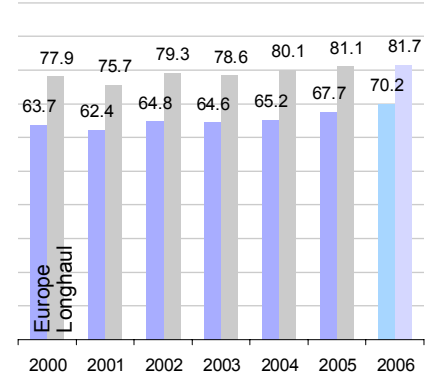
AEA carriers have increased their European load factors considerably in recent years. With an average of 67.7 in 2005 the top carriers reached levels of 70% and continue to close the gap compared to the known high loads of certain low-cost carriers.

The positive trend continued in 2006.

Passenger Load Factor [%]
Total Scheduled

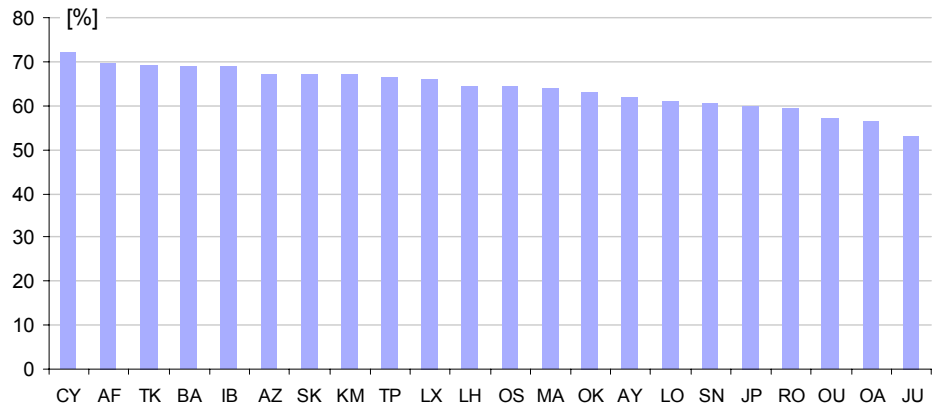


Passenger Load Factor [%]
Geographical Europe and Longhaul



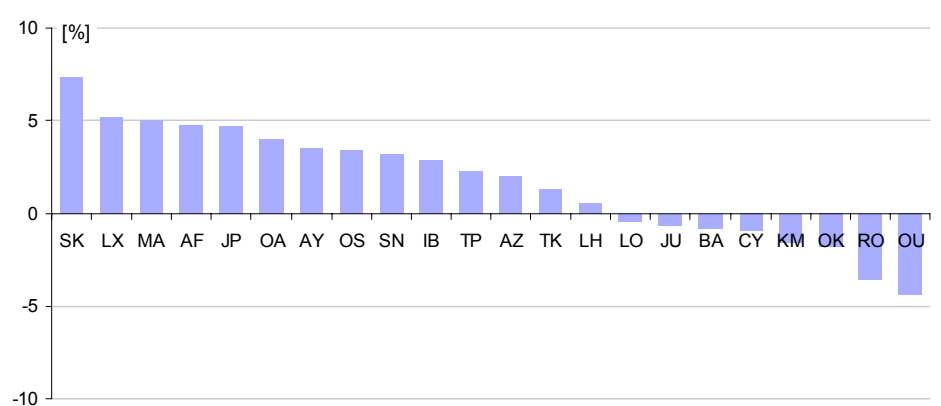
European Passenger Load Factor

Sorted by height 2005



European Passenger Loadfactor improvement

Sorted by Increase 2005 vs. 2004

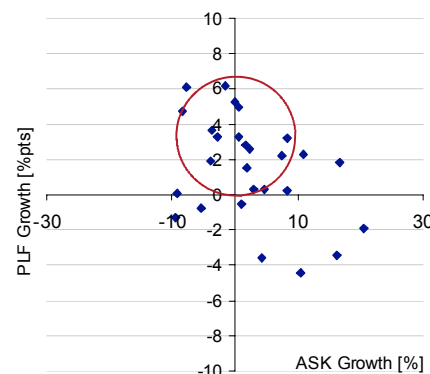


>> Growth vs. Load Factor

The graphics show the capacity development in function of the load factor development. Most airlines have added less capacity in 2005, visible through the wider spread (left graphic). The load factor growth remained positive, with a few exceptions. The general growth situation that is fully absorbed by demand is still true, but less obvious than in 2004 (right graphic).

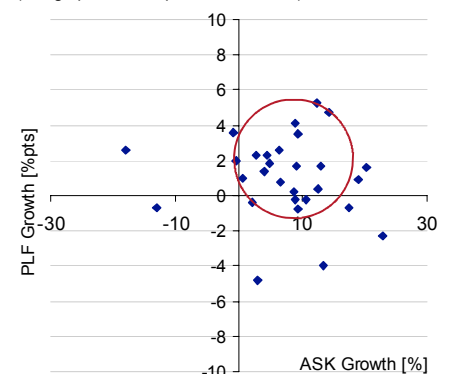
ASK vs PLF

(Geographical Europe, 2005 vs 2004)



ASK vs PLF

(Geographical Europe, 2004 vs 2003)



Operating Result

>> Fast Facts

- After 4 years of negative results, AEA airlines post a minimal positive operating margin (after interest) in 2005
- Spread amongst airlines is significant
- Operating result in EUR: **+0.4 bn**

>> Operating Ratio

Spread of operating ratios among member airlines from 78.5 to 111.6. Spread is unchanged to previous year (79.0 to 109.9).

>> In absolute terms

The Average AEA carrier posted an operating profit of +18 Mill. EUR in 2005.

Largest number of carriers achieve results of +/- 50 million EUR profit / loss.

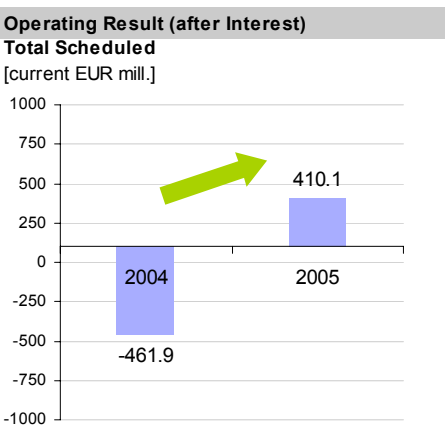
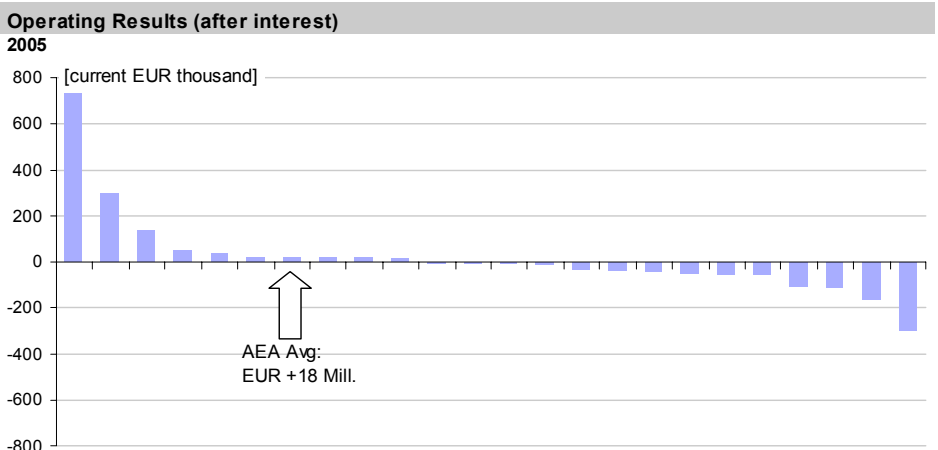
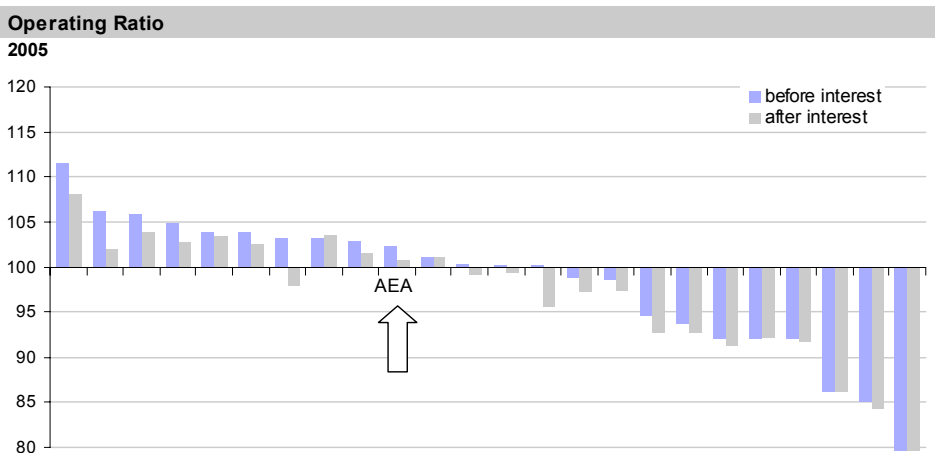
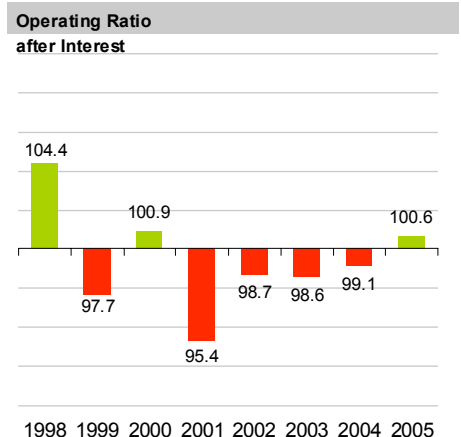
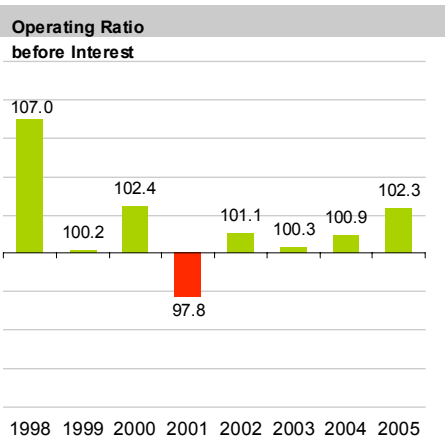
Result before interest:

+1 339 976 [EUR thousand]

Result after interest:

+410 081 [EUR thousand]

Note: this result is an 'Airline Operational' profit which may be different from company results (Group) published elsewhere. Differences also occur due to different considerations of Financial / Calendar year reporting and reporting currency.

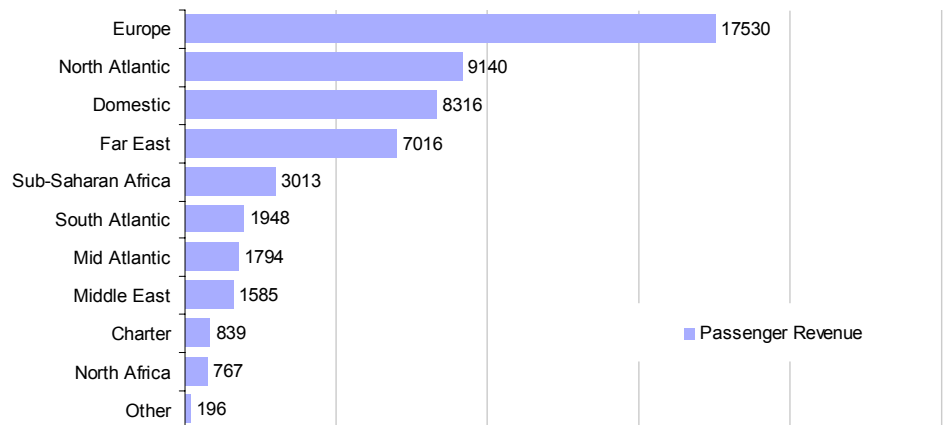


Revenues

>> Fast Facts

- Europe continues to be the most important market
- North Atlantic revenues gain considerably in volume (+982.7 Mill. EUR), due to good yield development
- Longhaul revenues further increase their share (+0.7% pt) of Total Revenues

Revenue per Region 2005
[EUR million]

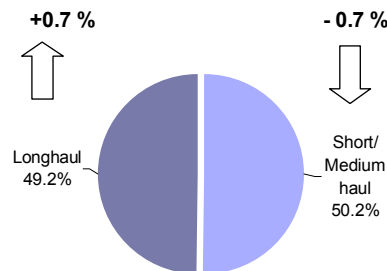


>> Revenue Distribution

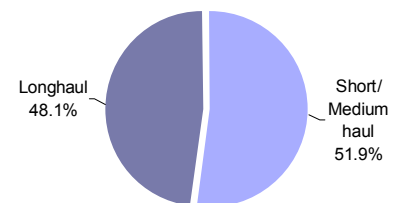
Revenues from longhaul operations increase by 0.7%pt in 2005 and account for 49.2% of the Total Operating revenues.

This trend could already be observed in the past. The comparable figure in 2003 was at 48.1%. It has to do with the positive yield development on certain longhaul regions in recent times and the comparable limited growth of the European traffic.

Revenue Distribution 2005 and Deviation vs 2004



Revenue Distribution in 2003

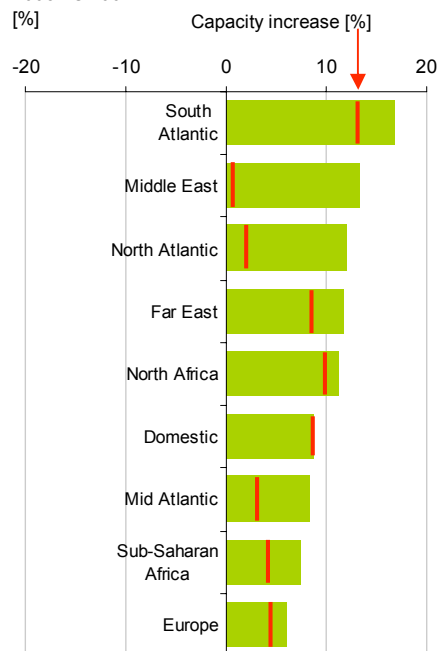


>> Revenue Development

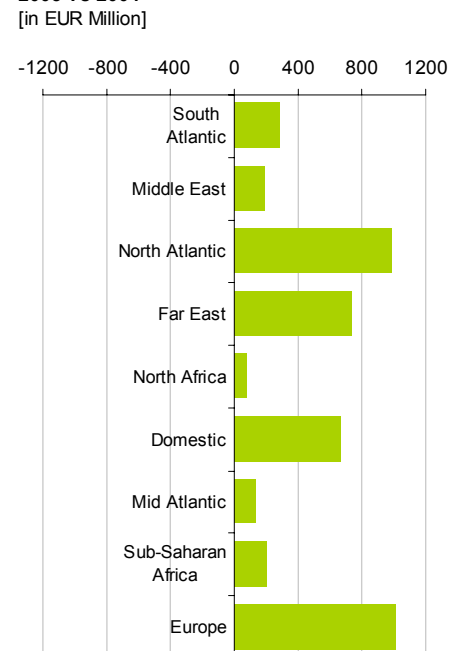
All traffic regions show a positive growth development, both in percentage and absolute terms. For the shorthaul (cross-boarder Europe and Domestic) revenue growth was achieved with capacity increases. Both regions developed in-line with the expansion. On the longhaul it is obvious that revenue increases exceed the capacity growth. Better yields, partly the result of fuel surcharges, are the reason. (see Yield Results on page 12).

'South Atlantic' and 'Middle East' the regions with the largest % growth represent 7% of total revenue.

Passenger Revenue Development 2005 vs 2004



Passenger Revenue Development 2005 vs 2004



>> Fast facts

- Fuel cost increases to 34% of 'Direct Operating Cost'
- Fuel cost represents 19.7% of 'Total Operating cost'
- Commissions fall to 1.9% of Revenue
- Further cost savings in 'Passenger' and 'Distribution' cost achieved

>> Cost Distribution

Fuel cost represented 24% of the 'Direct operating cost' in 2003, 27% in 2004 and 34% in 2005.

Fuel cost increases have massively changed the airlines cost structure: direct operating cost now represent more than 58% of the Total Cost base. Ten years ago, 'Direct' and 'Indirect' cost shares were balanced. The trend is also accelerated through the continued cost savings in positions like 'Administration'.

>> Selected cost items

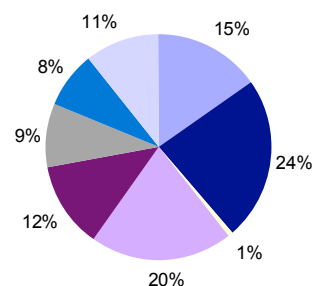
Distribution cost (Ticket, Sales and Promotion) have been on a continued downward trend for the last 10 years and reached 12.3% in 2005. Leaner sales structures, sales via the internet and changes in the commission models are the reasons for the downward trend.

Commissions reach a historic low of 1.9% of the passenger revenues. This figure came down from around 8% in the early 90s.

Passenger Service cost, which include for example 'Catering', are at their historic low too. However, it has to be taken into account that the Fuel cost has pushed up the whole cost base and therefore the share of the other cost items has become 'naturally' smaller.

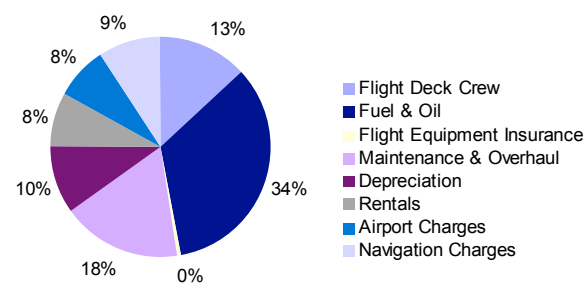
Cost Distribution 2003

% of Total Direct Cost



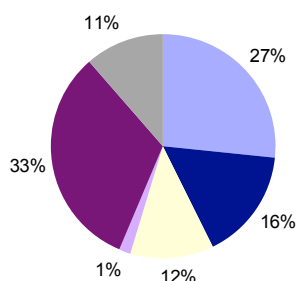
Cost Distribution 2005

% of Total Direct Cost



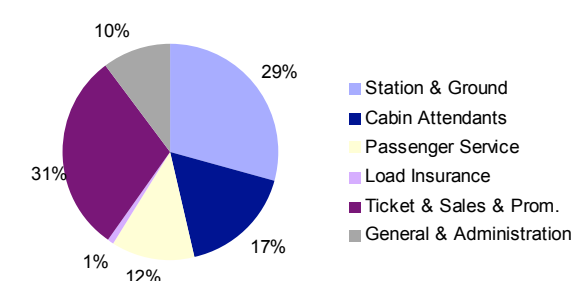
Cost Distribution 2003

% of Total Indirect Cost

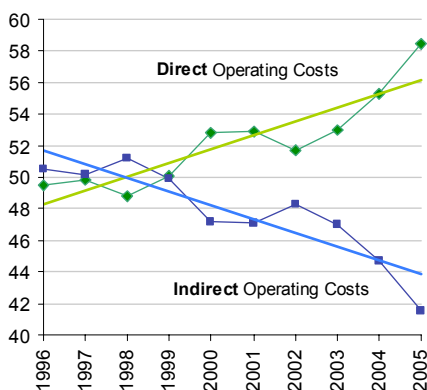


Cost Distribution 2005

% of Total Indirect Cost

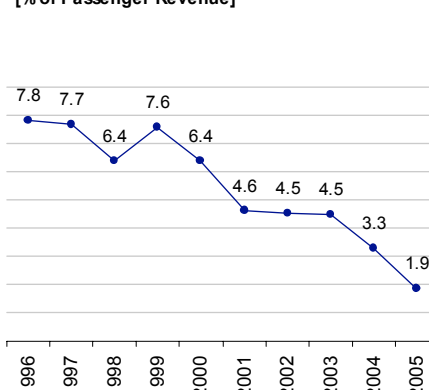


Share of Cost [%]



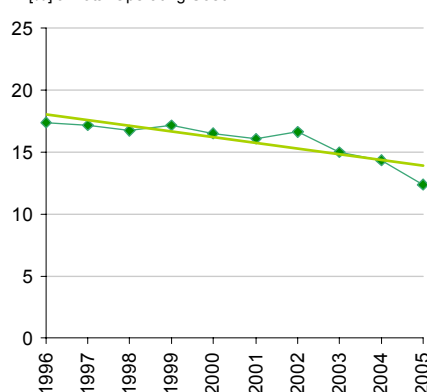
Net Commissions

[% of Passenger Revenue]



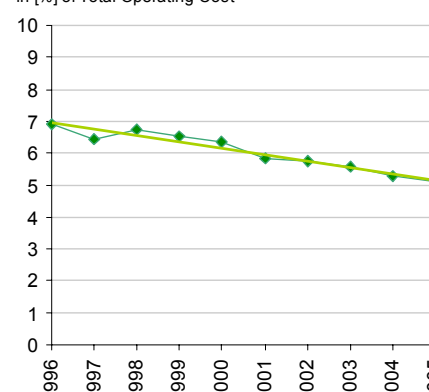
Distribution Cost

in [%] of Total Operating Cost



Passenger Service Cost

in [%] of Total Operating Cost



Cost (2)

>> Fast facts

- **Reduction or constant cost in most positions**
- **Fuel cost increase by 40.1% (30.2% the year before)**
- **Indirect cost was reduced despite 6% more passengers transported**

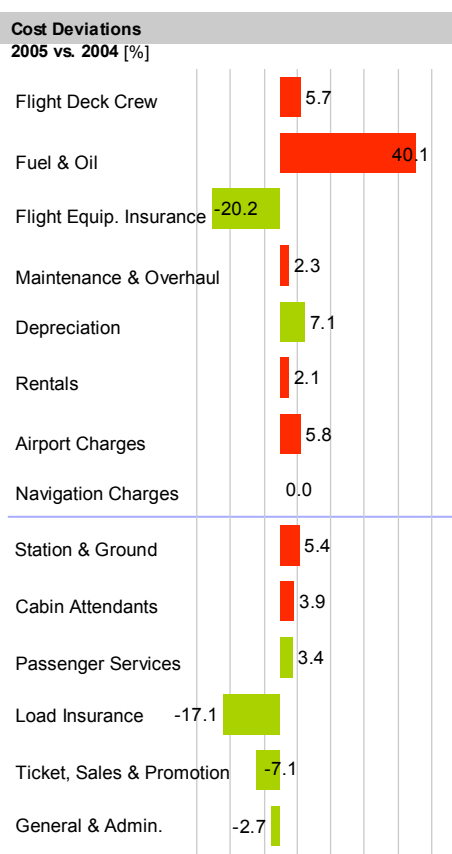
>> Cost items

Fuel cost increased by 40.1% compared to 2004. Fuel expenses total 11.1bn EUR in 2005 and represent 19.7% of the Total Expenses of AEA Airlines.

Considering a capacity increase of 5.3% savings amongst **'Indirect Cost'** is impressive (-0.2%). This suggests that the airlines have managed to reduce cost where possible.

Flight Deck Crew and Cabin attendants are in-line with the capacity development

Insurance Cost 2005 was another safe year for commercial airlines which influenced the insurance premiums. The Insurance cost (Load and Aircraft) however represent less than 1% of the airlines' total expenses.



Direct Operating Cost [EUR]

2004	29,126,979
2005	33,066,819

Deviation: **13.5 %** ↑

Indirect Operating Cost [EUR]

2004	23,541,011
2005	23,497,307

Deviation: **-0.2 %** ↓

Total Operating Cost [EUR]

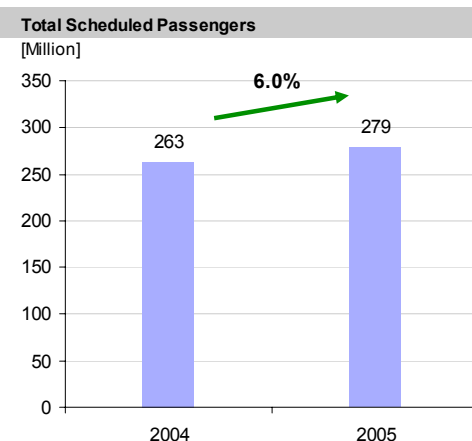
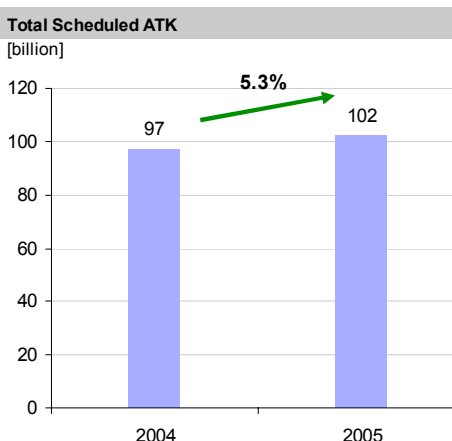
2004	52,667,990
2005	56,564,126

Deviation: **7.4 %** ↑

>> Volume increase

Volume increase of 5.3% in terms of ATK and 6.0% in terms of passengers.

Traffic and Capacity volume increases have to be taken into account when looking at above Cost figures.

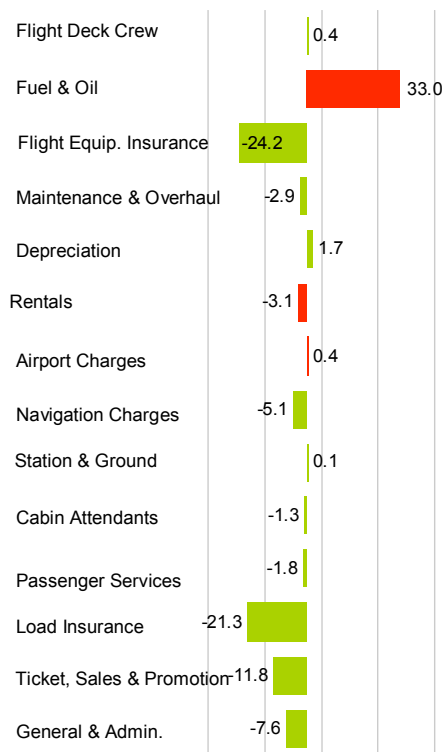


Unit Cost (Cost per ATK)

>> Fast facts

- Reduction of Unit cost on most cost items
- Overall cost increase **+2.0%**
- 'Indirect Cost' savings **-5.2%**
- General & Administration cost further reduced **-7.6%**
- Fuel cost turn the positive cost development into the red

Cost Deviations per Unit (ATK)
2005 vs. 2004 [%]



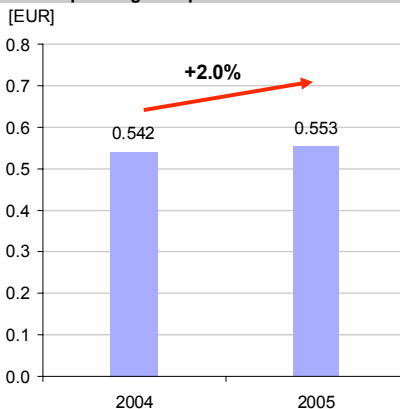
>> Comment

Total Operating Cost per ATK (Unit cost) increase by 2.0% mainly due to the strong increase of fuel cost (unit cost increase by 33.0%)

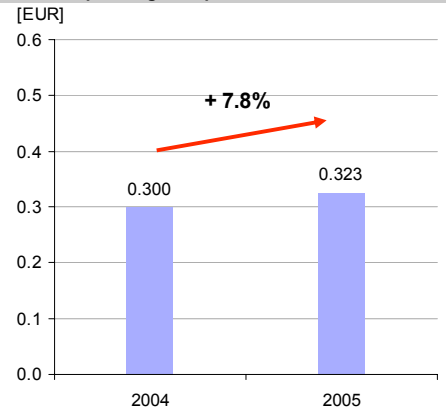
Fuel cost increase influences the +7.8% of 'Direct Operating' unit cost. Cost were at 0.293 (EUR) in 2003, 0.300 in 2004 and 0.323 in 2005. Further increase expected for 2006.

A simulation with 'constant fuel cost' (2004 level) shows that direct operating cost would have increased by 3.0% instead of +7.8%.

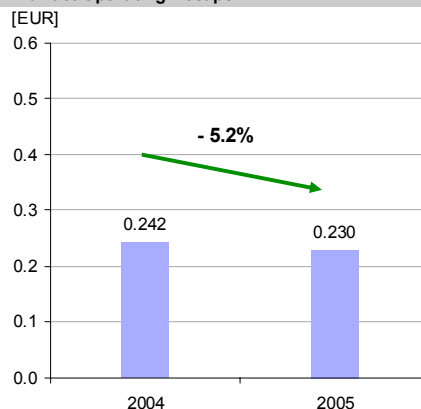
Total Operating Cost per ATK



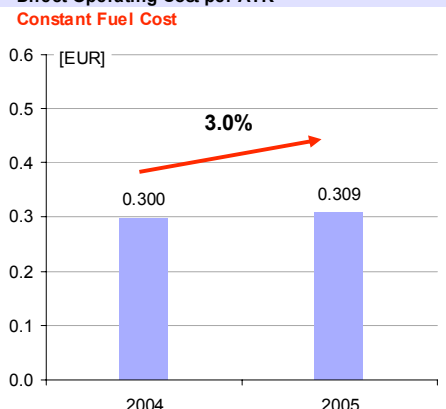
Direct Operating Cost per ATK



Indirect Operating Cost per ATK



Direct Operating Cost per ATK



Profitability

>> Fast facts

- **Geographical Europe and Domestic are not profitable**
- **Far East/Australasia suffer a significant profitability loss**
- **North Atlantic is performing well and is the most successful traffic region**
- **Average Operating Ratio is not sufficient**

>> Operating Ratio

Operating Ratio for Total Scheduled Services is 102.3 (before interest) and 100.6 (after interest)

Sub-Saharan Africa performs best, although with a loss of 1.3%pts.

Europe and Domestic continue to post negative operating margins, but both improved their performance significantly. Europe reaches an operating ratio of 97.7 (95.1 in 2004) and Domestic almost reaches profitability with a rate of 99.2 (95.8 in 2004).

Far East/Australasia drops from profitability in 2004 to a loss in 2005 of 221 Mill. EUR.

The analysis on the right shows that three of the largest traffic regions (Europe, Domestic, Far East) are not producing the expected results, whereas **North Atlantic** has sufficient profitability and contributes 665 Mill. EUR to the bottom line result.

>> In absolute figures

Unbalanced regional results:

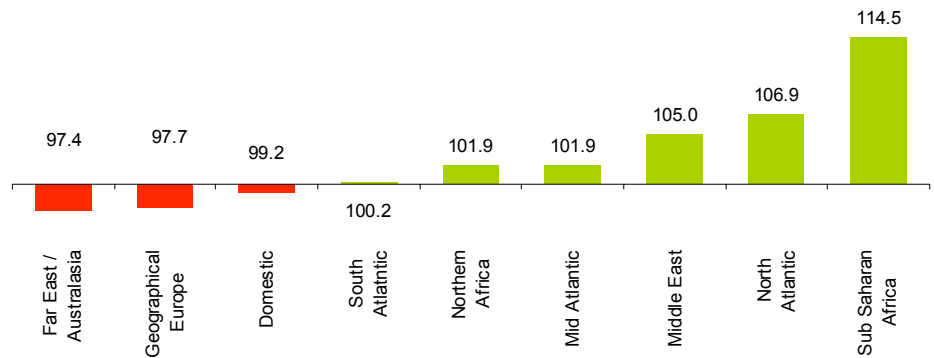
Accumulated

Positive results: 1253 Mill. EUR

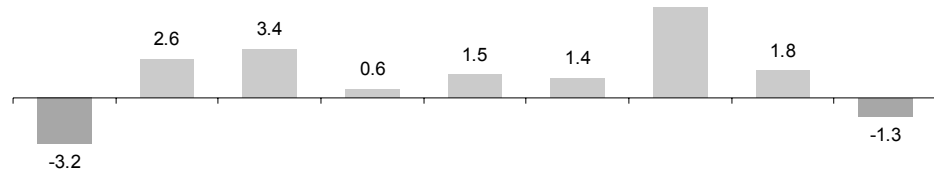
Negative results: -843 Mill. EUR

'Other Route Areas' include Routes that cannot be allocated to a specific Region.

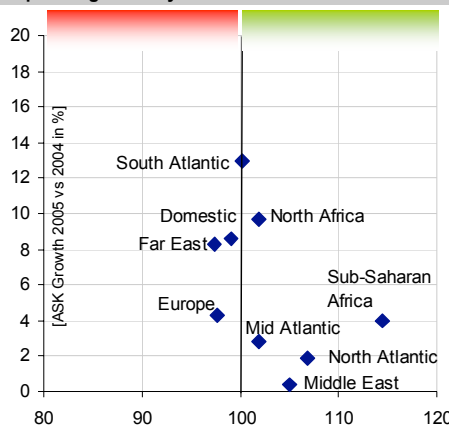
Operating Ratio, after Interest 2005 per Region



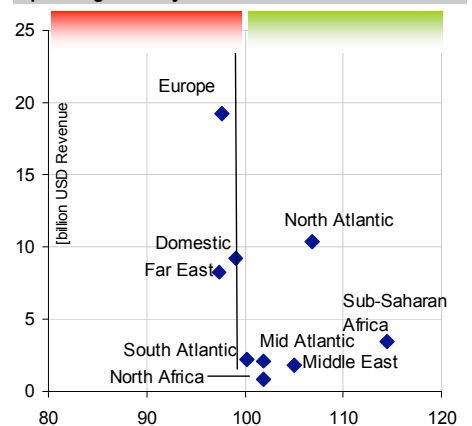
Deviation 2005 vs 2004 [%]



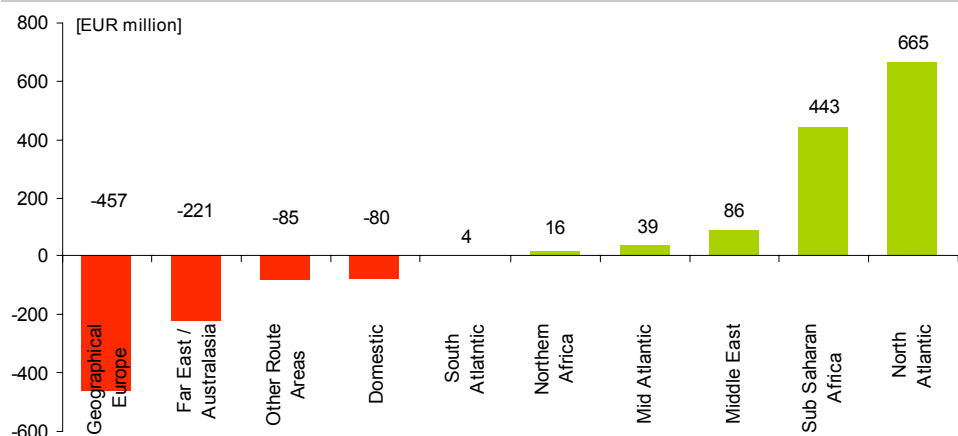
Operating Ratio by Growth



Operating Ratio by Market size



Net Result, after Interest 2005 per Region



>> Fast facts

- **Total Scheduled Yields approach 2001 levels**
- **European Yields again under pressure**
- **Longhaul yields are increasing, especially on North Atlantic**
- **Figures include 'Fuel Surcharges'**

>> Yields

Yields (Passenger Revenues / RPK) shown in the charts are expressed in EUR terms. The currency adjustment curves are based on certain assumptions regarding share of revenue in foreign currencies according to the traffic regions (please refer to the 'Appendix' to this document).

Total Scheduled yields are increasing slightly, but are still below the level of 2001. The increase can be explained by the yield gains on longhaul. The most important traffic region—Europe—posts continued yield decreases, explained by ongoing competition and low pricing power.

Currency adjusted yield developments 2006/2005 (3 Quarters):

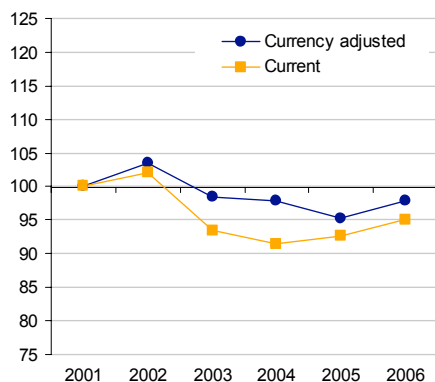
>> Total Scheduled:	+3.9%
>> Geographical Europe	-0.6%
>> North Atlantic	+12.5%
>> Middle East	+7.3%
>> Far East	+2.1%

>> Stage Length

Average Yields (Revenue per Passenger kilometre) are determined by the average stage length of the flights of AEA carriers. Comparisons among individual carriers should therefore be made on an adjusted stage length basis.

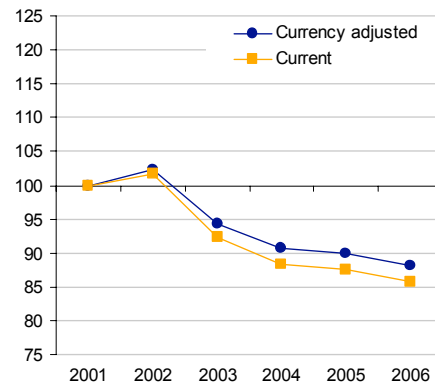
Yield Index Total Scheduled

Year 2001 = 100



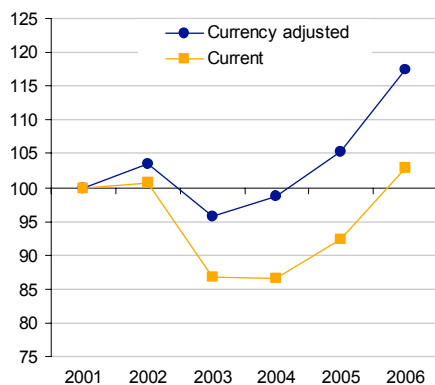
Yield Index Geographical Europe

Year 2001 = 100



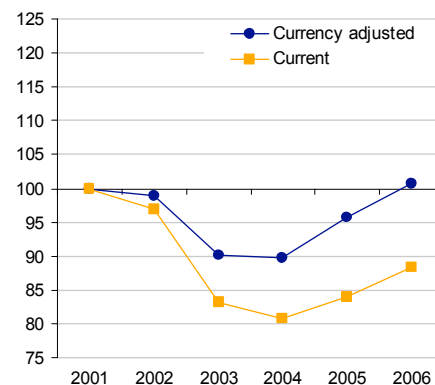
Yield Index North Atlantic

Year 2001 = 100



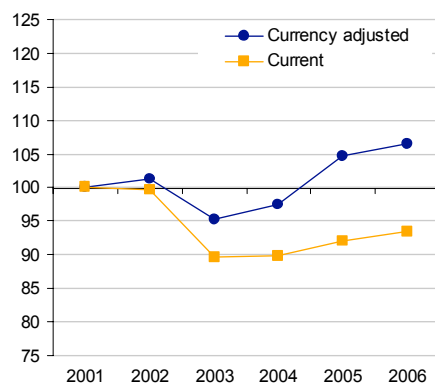
Yield Index Middle East

Year 2001 = 100

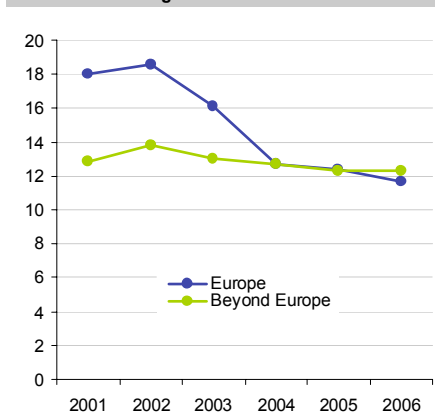


Yield Index Far East

Year 2001 = 100

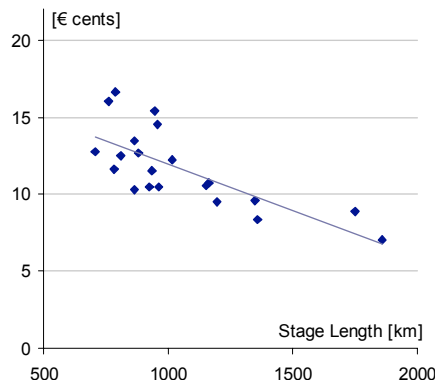


Premium Passengers as a % of Total



Passenger Yield comparison 2005

Europe



* Passenger revenues generally include Fuel Surcharges.

Focus: Fuel

>> Fast facts

- **Crude Oil price went up from 38.10 USD/barrel in 2004 to 54.42 USD/barrel in 2005**
- **AEA carriers spent 3.2 bn EUR more on Fuel than the year before**
- **Crude Oil Assumption for 2007: 65 USD/barrel**
- **Fuel expenses represent 30% on Longhaul operations**

>> Fuel Cost Share

The linear regression line shows the fuel cost share of the AEA carriers with respect to the stage length. Each data point represents a carrier's fuel cost share on a particular geographical region. It is obvious that with increasing stage length, the fuel cost weighs more. The share has moved up every year since 2003 from 15% to 20% in 2004 to 25-30% in 2005 for longhaul flights.

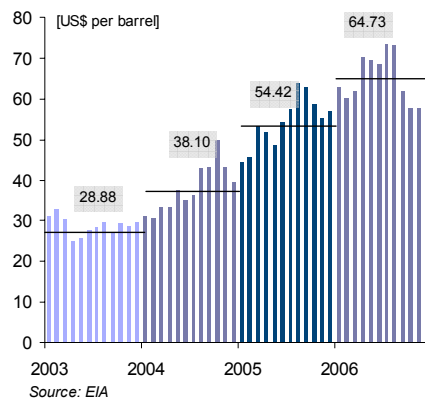
>> Efficiency gains

Fuel efficiency measured in 'Fuel Consumption per ASK or RPK' shows a slight decline for both measures. Whereas the 'Fuel consumption per RPK' is largely influenced by the increased load factor, the measure 'Fuel consumption' per ASK represents efficiency gains through 'technological' and 'operational' measures.

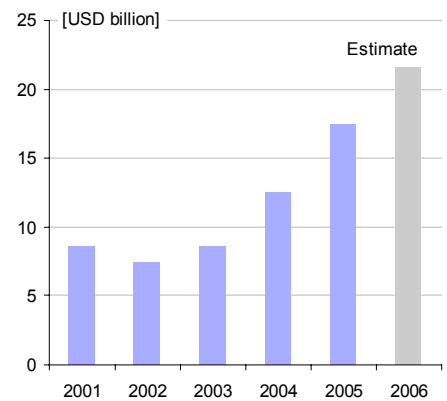
>> Consumption

Differences in fuel consumption per ASK occur through different networks, type of fleet (age of fleet) and operational measures.

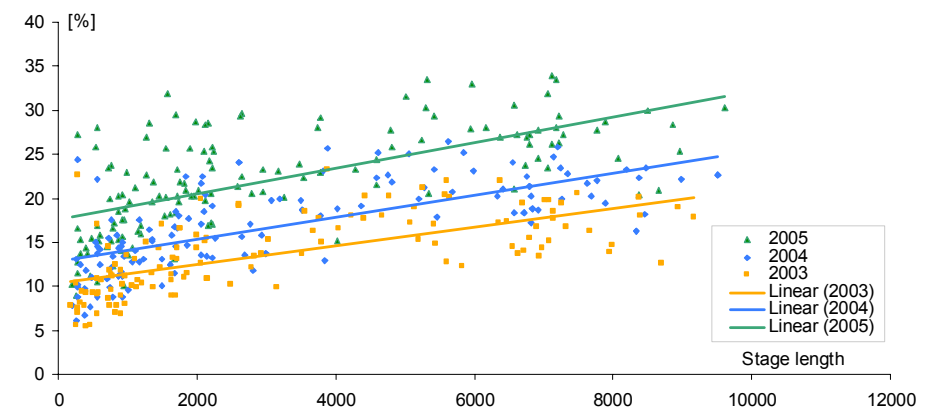
Europe Brent Spot Price



Fuel Cost for AEA Airlines

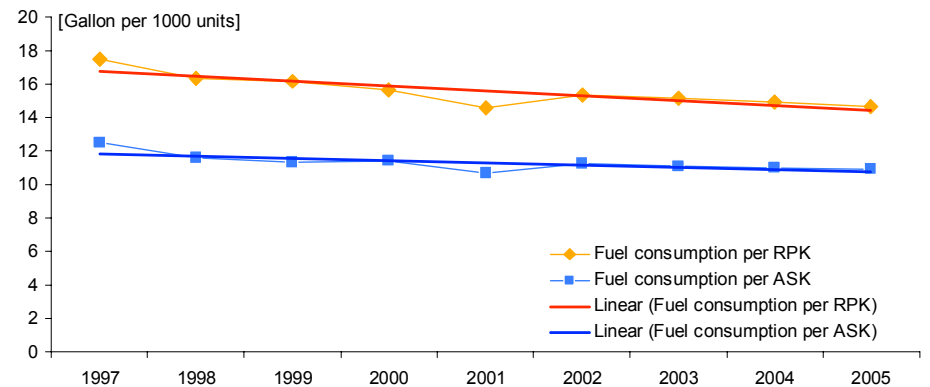


Fuel Cost in % of Total Operating Cost per Stage length



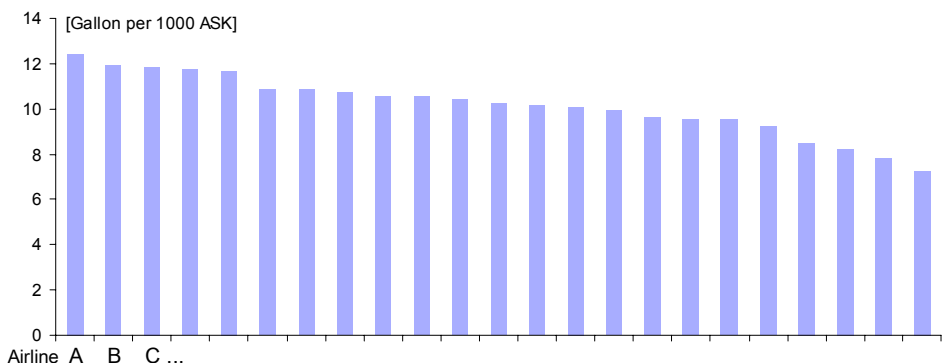
Fuel efficiency

(consumption per ASK and RPK)



Fuel consumption

Systemwide Services



>> Fast Facts

- **Expected result 2006 (after interest)**
0.8 bn USD
- **based on continued strong economic environment and demand**
- **Crude oil price assumption: 65 USD/barrel**

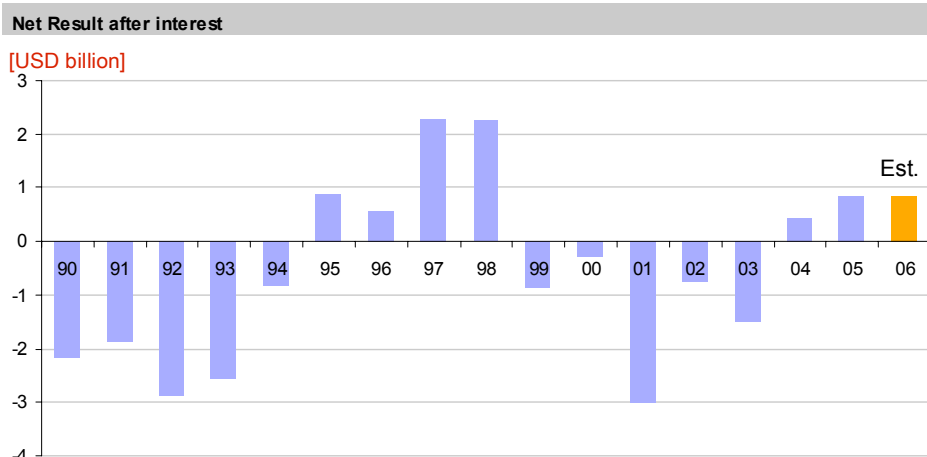
>> Growth perspectives

Projected Total Scheduled Traffic/
Capacity Growth in terms of Revenue
Passenger Kilometers (2006 over
2005):

ASK + 3.0—3.5%

RPK + 4.0—4.5%

Passenger Loadfactor 78.0% (+1%pt)



>> Currency impact

Most of the data used in this report was submitted in local currency by the participating carrier. Most carriers reported in EUR. For the non EUR carriers, the Secretariat has converted them to EUR at the rate reported by the carrier.

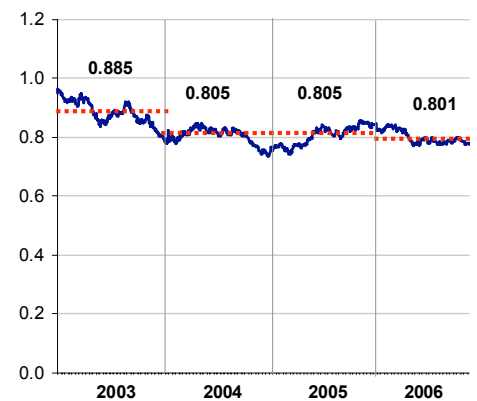
USD / EUR currency variations do not have an impact on cost comparisons since as of 2005 edition of this report, the base data is no longer converted into USD.

>> Currency adjustments

Assumptions were made of the potential revenue share in foreign currency, according to the table on the right.

Adjusted Yields were calculated based on these assumptions.

USD in EUR



Assumptions:

Share of USD as percentage of Total Revenues:

for revenues generated on...

	[%]
Europe	10
North Atlantic	50
Middle East	40
Far Est	30
Total Scheduled	25

>> Glossary

Assumptions:

ASK	Available Seat Kilometre
ATK	Available Tonne Kilometre
bn	Billion
EUR	Euro
Geographical Europe	Europe excluding Domestic
km	kilometre
Longhaul	Includes the Americas, Africa, Asia
l-y	last year
Mediumhaul	Includes North Africa and Middle East
mill.	Million
mm	month
Operating Ratio after interest	Operating profit after interest as % of Total Operating Revenues
Operation Ratio before interest	Operating profit before interest as % of Total Operating revenue
Passenger Load Factor [%]	RPK divided by ASK
PLF	Passenger Load Factor
RTK	Revenue Tonne Kilometre
Shorthaul	Includes Domestic, Europe
Total Load Factor [%]	RTK divided by ATK
Total Scheduled	excluding Charter
Total Systemwide	including Charter
Unit Cost	Operating Cost per ATK
USD	US Dollar
vs	versus
Yield	Passenger Revenue per RPK
yr	year
%pts	Percentage points