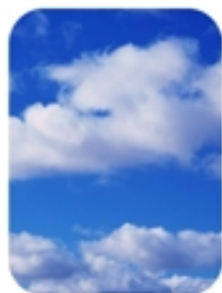


# Summary Report



## Operating Economy of AEA Airlines 2007

# Introduction

## >> Dear reader,

In 2006 the 31 member airlines of AEA realised a collective profit of EUR 1.85 billion. Although this is clearly an improvement on the previous year's result it represents an operating margin of just 3.5%, well below that of other partners in the industry's value chain, and well below a level considered necessary in a healthy, sustainable industry.

The result was achieved in particular thanks to a good traffic performance, a 5.1% increase in passenger-kilometres, and a yield increase on longhaul routes. But there were still inherent market weaknesses and cost challenges, not least the high and rising cost of fuel. With the average price for 2006 up 20% to US\$ 65 a barrel, fuel now accounts for 23% of the total cost base, rising to 35% on longhaul flights. The coming years are unlikely to bring relief from further increases in the single largest cost item for AEA carriers.

Our outlook suggests a further modest improvement in profitability in 2007, before a cooling down in 2008. It remains to be seen whether this is achievable, with increasing indications of an economic slowdown on the horizon.

In the longer-term European airlines also face the additional cost of the inclusion of aviation in the European Emissions Trading Scheme, which could come into effect in 2011 and has the potential to adversely affect the competitiveness of the region's carriers operating in a global business.

You will find this document, and many others on the 'Research & Statistics' section of the AEA website: [www.aea.be/research](http://www.aea.be/research)

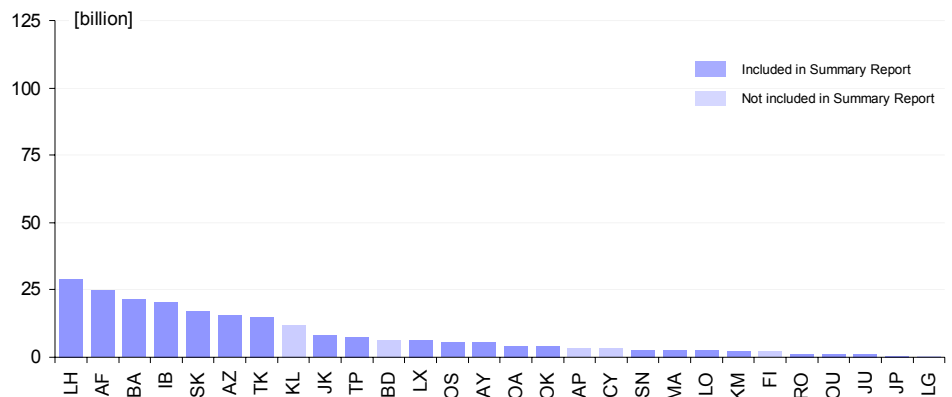
Best regards,

**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.

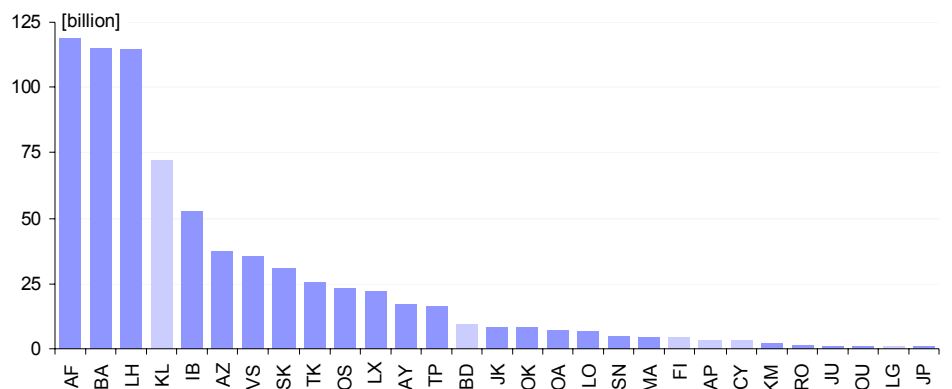
### Included in Summary Report

	Yes	No
<b>Passenger Data</b>		
AF - Air France	Yes	No
AP - Air One	No	Yes
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
SN - Brussels Airlines	Yes	No
TK - Turkish Airlines	Yes	No
TP - TAP Portugal	Yes	No
VS - Virgin Atlantic	No	Yes
<b>Full Cargo Data</b>		
AF - Air France	Yes	No
BA - British Airways	Yes	No
CV - Cargolux	Yes	No
IB - Iberia	Yes	No
TK - Turkish Airlines	Yes	No

### RPK by Airline (Total European Services; 2006)



### RPK by Airline (Total Systemwide Services; 2006)



# Summary

## >> Traffic / Capacity

- **ASK and RPK growth stable at 4.2% and 5.1%.**

## >>

- 2007 Jan—Sep traffic growth little changed at 5.1% (5.3% in 2006)
- Capacity lags at 4.2% and pushes load factors up
- Far East region slows towards zero-growth while North Atlantic picks up after low growth in 2005 and 2006
- Load factors continue to improve on both short- and longhaul, reaching 76.6% (2006)

## >> Yields

- **Further recovery of yields on longhaul regions. Short/medium haul yields continue to erode.**

## >>

- European yields fall to 85 index points (2001=100)
- Weak premium traffic in Europe is one of the reasons
- Longhaul yields recover due to the introduction of surcharges
- Currency adjusted yields on North Atlantic reach 118 index points
- Overall yields remain below year 2001 levels

## >> Cost

- **Fuel and Labour costs drive Unit Cost up by 2.4%**

## >>

- Rising fuel costs represent the biggest concern on the cost side
- Direct Operating unit cost increased by 5.2% due to higher energy prices
- Indirect unit cost reduced by a further -1.7%
- Overall increase +2.4%
- Largest savings were achieved in 'Ticket, Sales & Promotion' costs

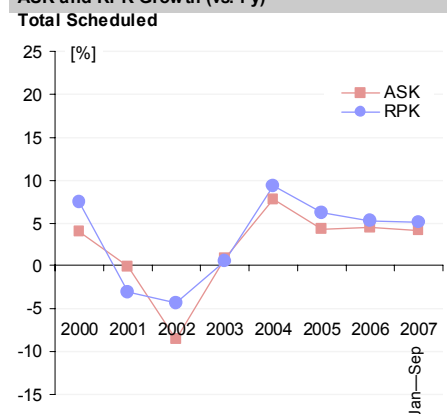
## >> Operating Result

- **Favourable demand environment coupled with continued efficiency gains lead to an improvement of 1.4%pts in margin.**

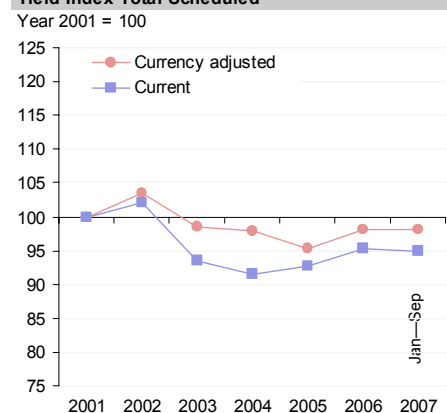
## >>

- Operating margin improves slightly from 2.1% to 3.5% (Profit over Revenues)
- 2006 is the 3rd year of profits for AEA carriers
- North Atlantic represents the most important contributor to the positive result.
- European Services remain loss-making

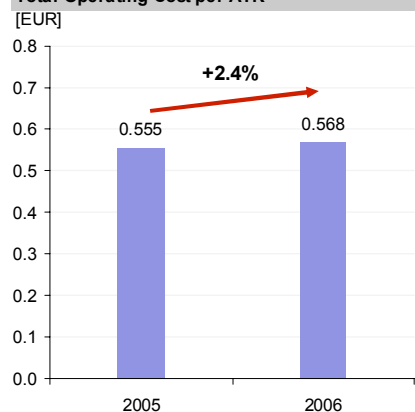
**ASK and RPK Growth (vs. I-y)**



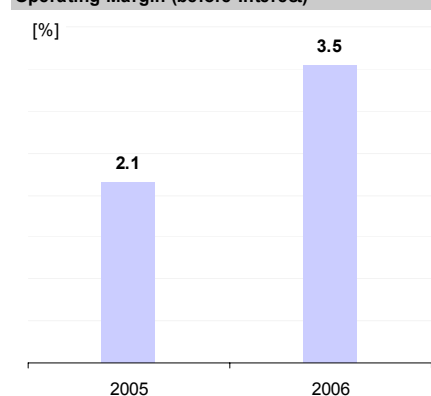
**Yield Index Total Scheduled**



**Total Operating Cost per ATK**



**Operating Margin (before Interest)**



# Operating Statistics

## >> Fast Facts

- Mixed results from the different Operating regions
- Europe grows at 5%, more than certain longhaul regions
- Almost no growth in Far-East/Australasia anymore
- North Atlantic expands again after two years of low growth
- Total industry growth remains stable at close to 5%

## >> Europe

Year-to-date (Jan-Sep 2007) demand at 5.6%. Capacity increases to 5%. Load factor gains are lower than the years before but reach record highs of 70.0% (+0.4%pts)

## >> North Atlantic

The region sees a large expansion of capacity that is not fully matched by demand (4.9% to 3.8%). Load factors are decreasing and historically strong yields soften.

## >> Far East/Australasia

Traffic and capacity come down from peak 2004 levels. The region moves out of the double-digit growth and becomes a low-growth region. Financial results may explain the cautious capacity additions (see page 11, profitability)

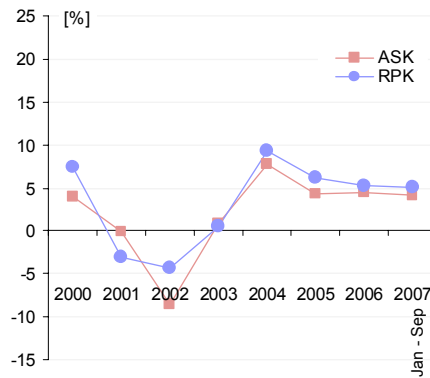
## >> Weight of Regions

Europe remains the single most important traffic region for AEA carriers. With North Atlantic growing again and Far East stagnating, the second and third ranks are undisputed.

'Other' includes Mid-Atlantic, North- and Sub Saharan Africa.

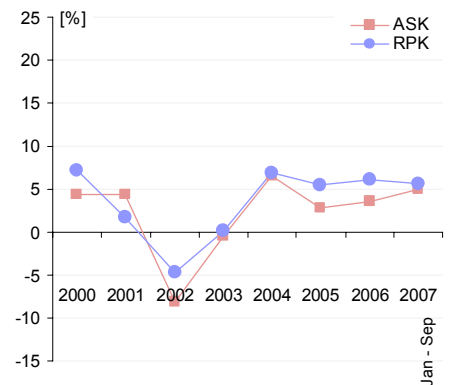
ASK and RPK Growth (vs. 1-y)

Total Scheduled



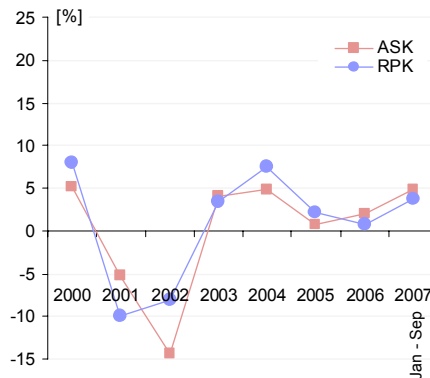
ASK and RPK Growth (vs. 1-y)

Total Europe



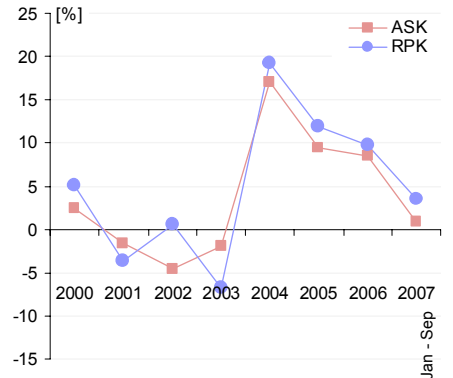
ASK and RPK Growth (vs. 1-y)

North Atlantic



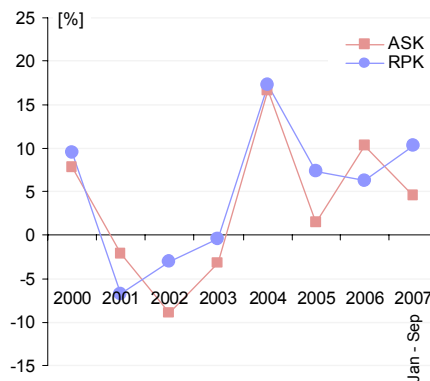
ASK and RPK Growth (vs. 1-y)

Far East/Australasia



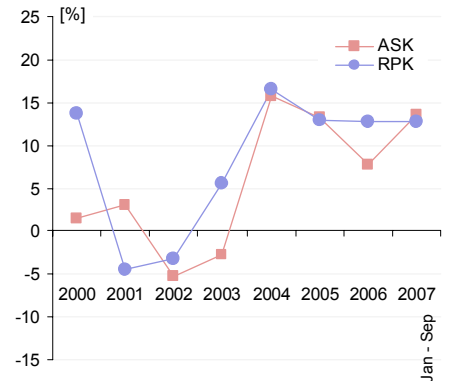
ASK and RPK Growth (vs. 1-y)

Middle East



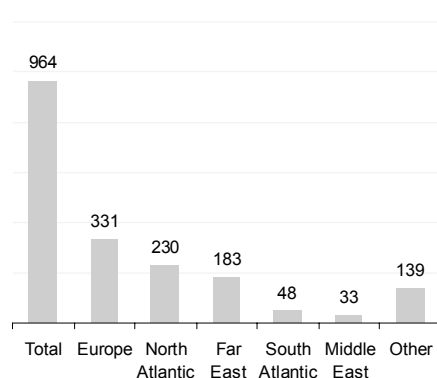
ASK and RPK Growth (vs. 1-y)

South Atlantic



Weight of Regions

AEA Members' ASK 2006; [billion]



# Operating Statistics (2)

## >> Fast Facts

- Overall load factors improved in 2006 and likewise in 2007:
- Middle East (+3.9%pts) and Far East (+2.1%pts) see highest improvements
- 2007 Europe Load factor growth slows down to +0.2%pts
- Best AEA airlines reach Load factors of above 70% on European Routes

## >> Comment

Improvement of load factors continued in 2006, exceeding that already seen in 2005. Almost all AEA carriers achieved higher load efficiency. Reaching 69.3% (2006) the average improvement is 1.6pts.

2007 load factors are set to improve again but at a significantly slower rate. This suggests that the peak might have been reached.

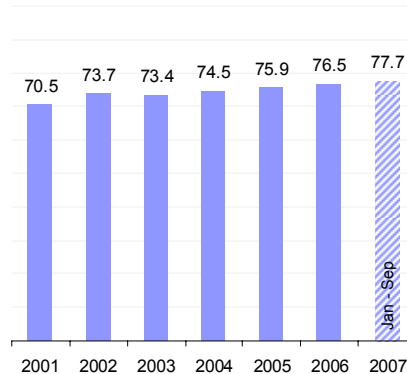
Load factors on North Atlantic seem to have peaked as well. 2007 is not expected to exceed 2006 figures. Jan—Sep 2007 load factors are at 81.6%.

Far East, together with Middle East, is the region that gained most in 2007. The load factor improved by 2.1%pts and reached the highest level ever. Satisfactory loads together with good yields have helped airlines to improve bottom line results.

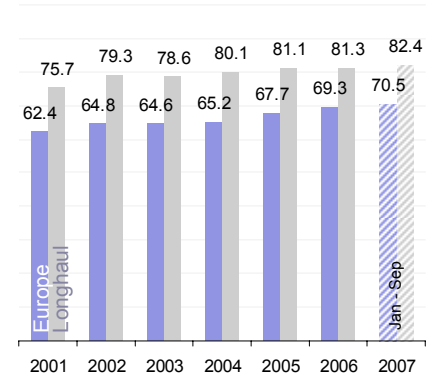
## >> Growth vs. Load Factor

The graphics show the capacity development in function of the load factor development. Airlines have been more cautious in their capacity expansion in 2006. A concentration is visible. The offer was again absorbed by the demand, which shows in the improved load factors for almost all airlines. The situation in 2005 was more widespread—growth was less concentrated and more airlines suffered from a PLF deterioration.

Passenger Load Factor [%]  
Total Scheduled

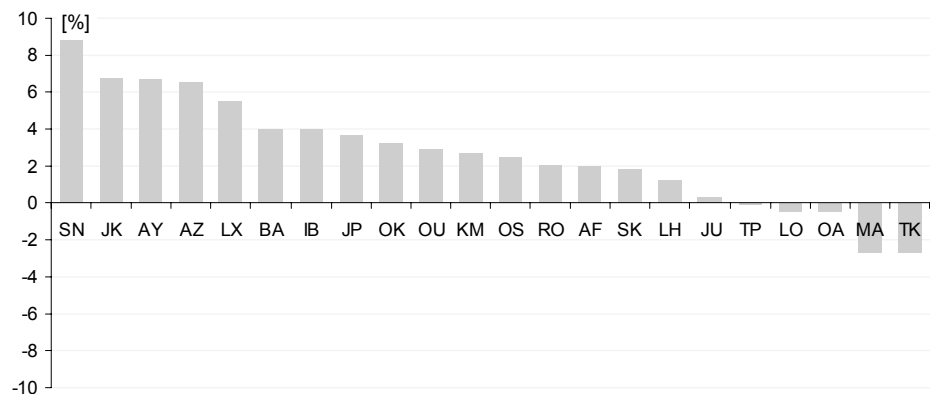


Passenger Load Factor [%]  
Geographical Europe and Longhaul

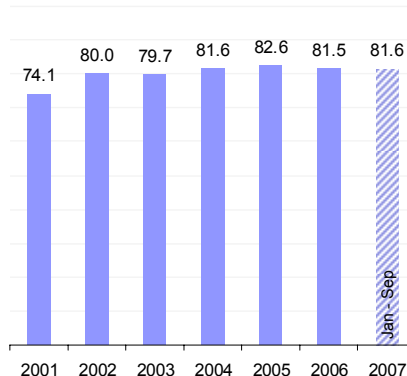


European Passenger Loadfactor improvement

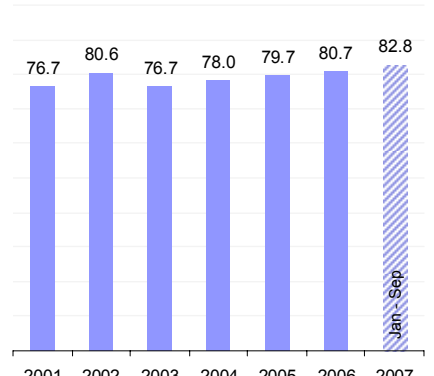
Sorted by Increase 2006 vs. 2005



Passenger Load Factor [%]  
North Atlantic

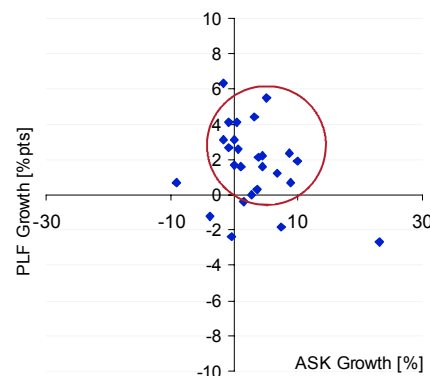


Passenger Load Factor [%]  
Far East / Australasia



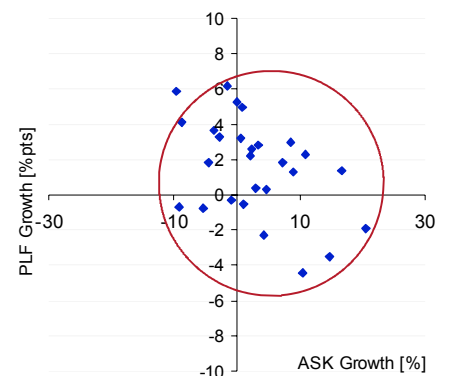
ASK vs PLF

(Geographical Europe, 2006 vs 2005)



ASK vs PLF

(Geographical Europe, 2005 vs 2004)



# Operating Result

## >> Fast Facts

- **Second year of positive operating ratio (after interest), after years of losses**
- **Margins are still too low for a sustainable recovery**
- **Spread of airlines remains significant**
- **Operating result in EUR: 1.5bn**

## >> Operating Ratio

Spread of operating ratios among member airlines goes from 87.6 to 110.5. Lower end airlines managed to reduce losses compared to the previous year (2005: lowest Operating margin = 78.5). Number of profit making airlines increased from 10 to 13.

## >> In absolute terms

The average AEA carrier posted an operating profit of +67.4 Mill EUR in 2006. Four carriers reach results higher than 200 Mill EUR (+2 carriers compared to 2005).

2006 result before interest:

**+2 216 143 [EUR thousand]**

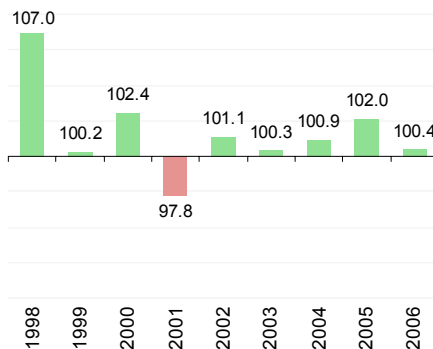
Result after interest:

**+1 482 329 [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.

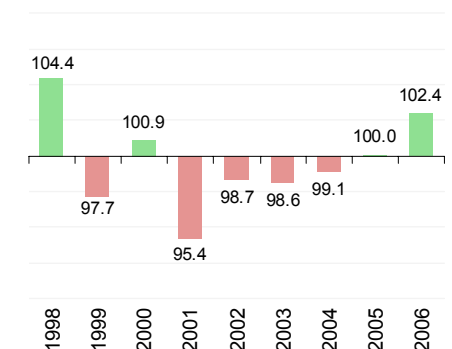
### Operating Ratio (before Interest)

Total Systemwide



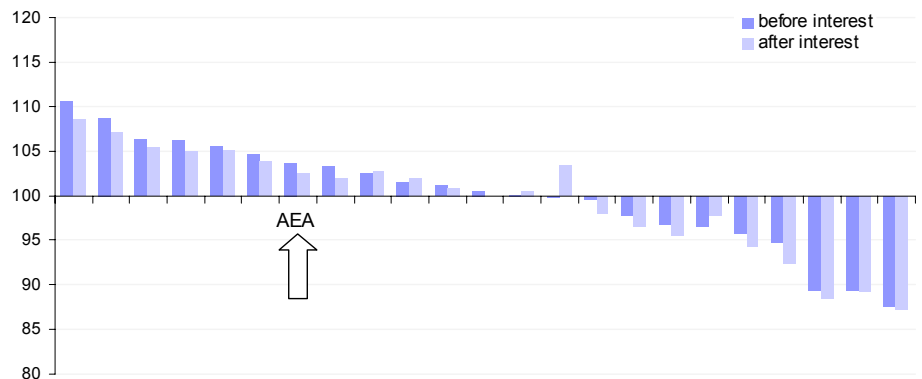
### Operating Ratio (after interest)

Total Systemwide



### Operating Ratio, 2006

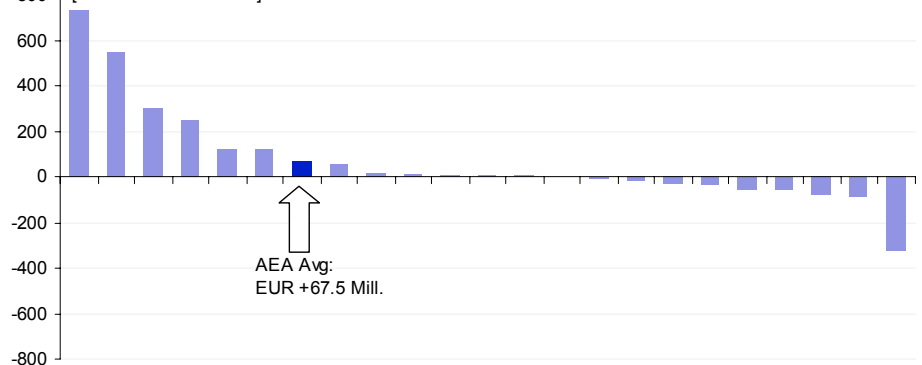
Total Scheduled



### Operating Results (after interest), 2006

Total Scheduled

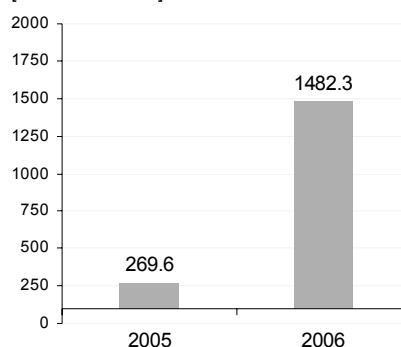
[current EUR thousand]



### Operating Result (after Interest)

Total Scheduled

[current EUR mill.]



# Revenues

## >> Fast Facts

- Revenues from operations within Europe account for largest share
- North Atlantic as second most important market
- Longhaul markets gain further importance (+1.2%pts of Total Revenue share compared to 2005)
- Revenue increased on Longhaul thanks to higher yields and more volume.

## >> Revenue Distribution

Revenues from short- and medium haul flights decline another -1.2%pts (vs. -0.7% in 2005). At the current rate of European decline, longhaul revenues will account for more than half in 2007. The trend has to do with the ability of the carriers to pass on increased cost of energy to the longhaul passenger and hence focus activities on those regions. Also, certain carriers shift capacity away from the less profitable European region.

## >> Revenue Development

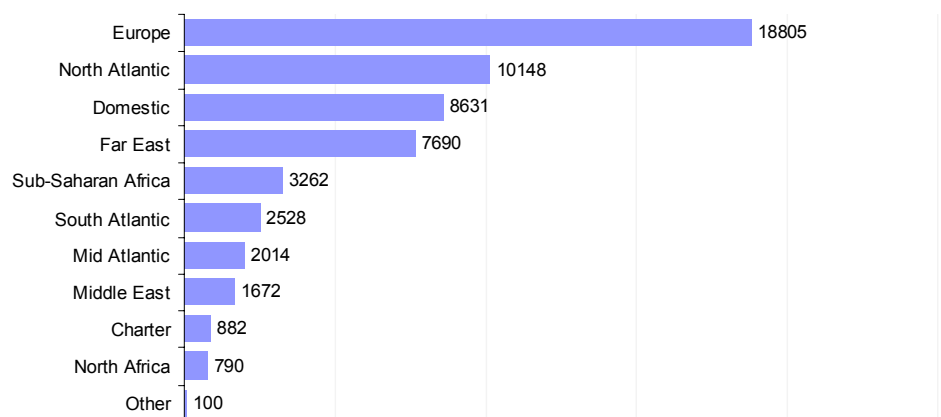
All traffic regions show a positive growth development, both in percentage and absolute terms. Short- and medium haul revenue increases were exclusively the result of volume increases whereas longhaul regions benefited from better yields, thus generating more revenue.

Yields on routes from/to the Americas achieved the highest increases. But the South and Mid-Atlantic regions only account for 8% of the total revenues.

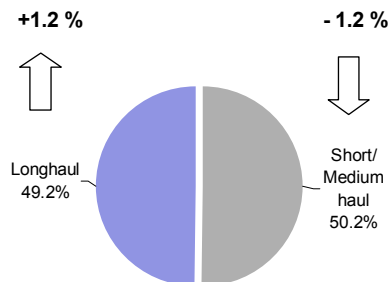
Far East revenue increase falls unexpectedly below 10% due to lower capacity and volume growth than the year before.

Passenger Revenue per Region 2006

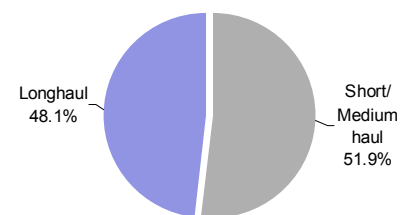
[EUR million]



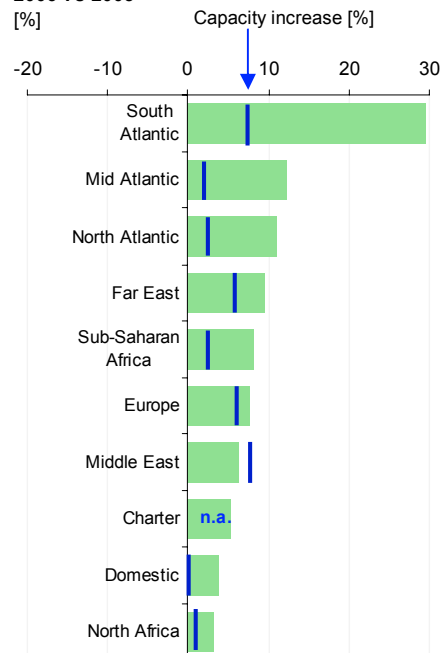
Revenue Distribution 2006 and Deviation vs 2005



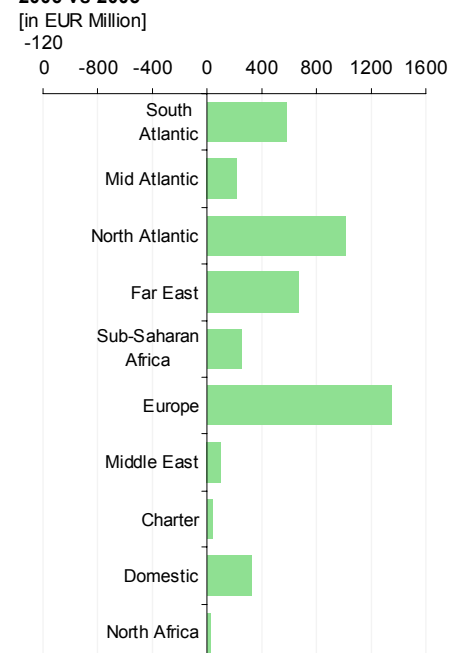
Revenue Distribution in 2003



Passenger Revenue Development 2006 vs 2005



Passenger Revenue Development 2006 vs 2005

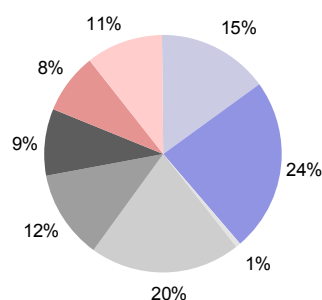


## >> Fast facts

- **Fuel Cost becomes the most important cost item**
- **Fuel represents 37% of 'Direct Operating Cost' and 23% of 'Total Operating Cost'**
- **Commissions fall to the lowest level ever**
- **Further reduction of 'Non-Fuel cost' achieved**

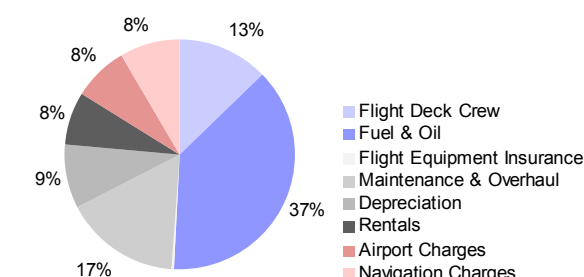
Cost Distribution 2003

% of Total Direct Cost



Cost Distribution 2006

% of Total Direct Cost



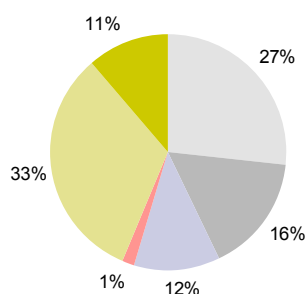
## >> Cost Distribution

With the ever increasing cost of oil, the airlines' expenses for 'Fuel & oil' reach 22.7% of their total operating expenses. This figure is constantly rising: 12.3% (2003); 15.1% (2004), 19.7% (2005).

As a consequence, indirect operating cost declined as a share of the total expenses. In 1996 they were in a balance with the Indirect costs.

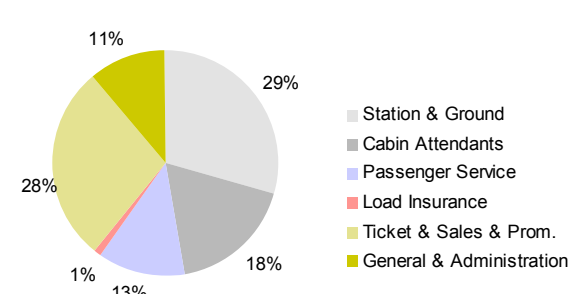
Cost Distribution 2003

% of Total Indirect Cost



Cost Distribution 2006

% of Total Indirect Cost



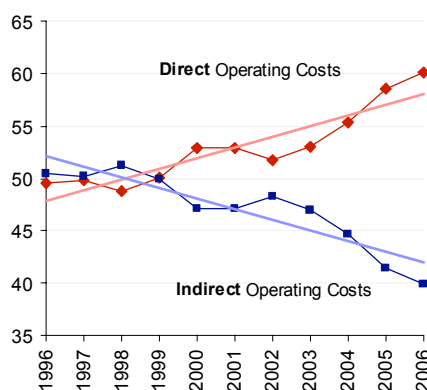
## >> Selected cost items

Commissions reach the lowest level ever. They fell another 0.3%pts from 2005 (measured in % of passenger revenue).

Less dramatic, but describing a similar curve, distribution cost (Ticket, Sales and Promotion) was reduced to 11.2% of the Total Operating cost. The development illustrates the efforts undertaken by the airlines to organise ticket distribution in a leaner and more cost efficient way, for example by increasing sales through internet channels.

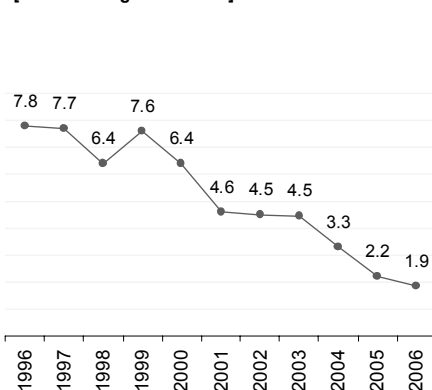
On the other hand it also shows how other cost items (e.g. Fuel) have gained in importance and pushed up the cost base so that these cost items get 'inherently' smaller.

Share of Cost [%]



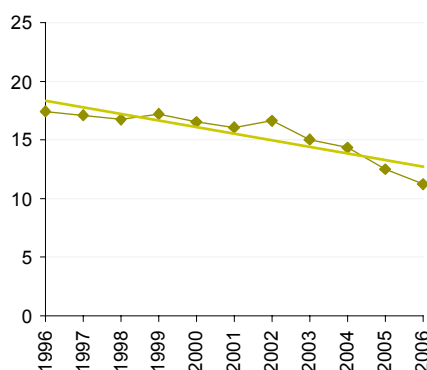
Net Commissions

[% of Passenger Revenue]



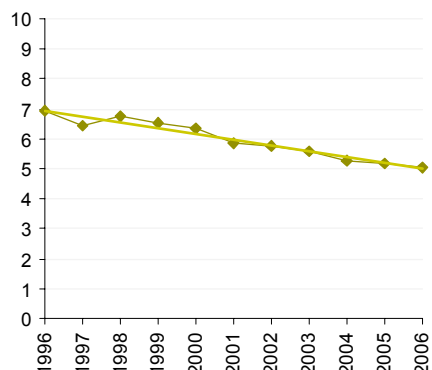
Distribution Cost

in [%] of Total Operating Cost



Passenger Service Cost

in [%] of Total Operating Cost



# Cost (2)

## >> Fast facts

- **Rising cost due to higher traffic volumes**
- **But cost increases are higher than volume increases**
- **Fuel costs soar by 23.5%**
- **AEA carriers spend EUR 3.8 bn more than in 2005**

## >> Cost items

Flight Deck and Cabin Crew cost increased almost in line with the capacity increase.

Fuel and Oil cost increased by 23.5% which means a slowdown from the record +40.1% in the 2004/2005 period, due to a drop in oil prices in the 2nd half of 2006. Absolute expenses for fuel are at EUR 13.7bn — almost double that in 2004.

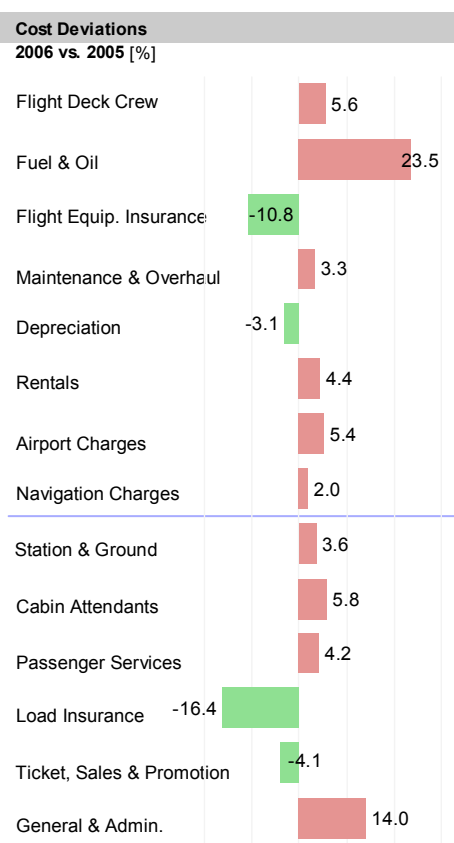
Flight Equipment and Load Insurance cost declined in the double digit range thanks to another safe year for civil aviation that influenced the insurance premium accordingly. In absolute terms, insurance expenses are however insignificant and represent only 0.5% of the airlines' total operating expenses.

General and Administration cost saw an increase of 14% due to special reporting practices by one carrier. Taking out this distorting effect, there would still have been a cost increase.

## >> Volume increase

Volumes expanded by 4.4% in terms of Available Tonne Km (ATK) and 5.9% in terms of passengers.

Total Operating cost rose by 6.8% - above the increase of capacity and passengers carried.



### Direct Operating Cost [EUR]

2005	33,013,672
2006	36,255,009

Deviation: **9.8** % 

### Indirect Operating Cost [EUR]

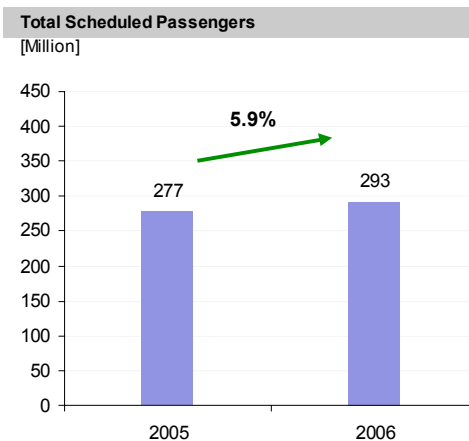
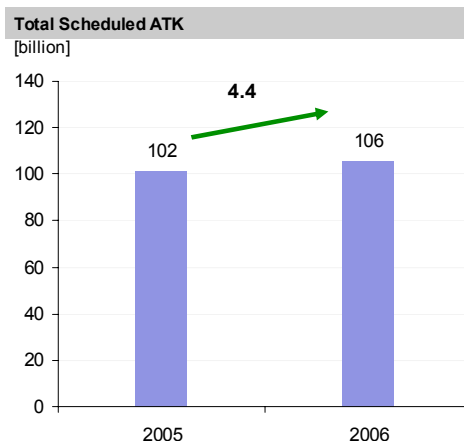
2005	23,406,709
2006	24,005,595

Deviation: **2.6** % 

### Total Operating Cost [EUR]

2005	56,420,381
2006	60,260,604

Deviation: **6.8** % 

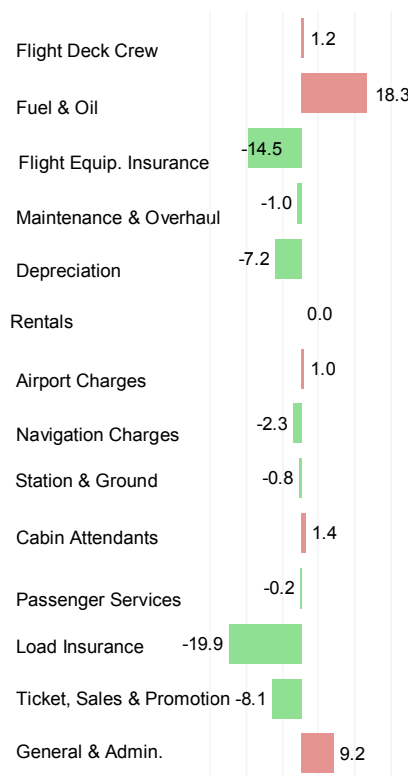


# Unit Cost (Cost per ATK)

## >> Fast facts

- **Overall unit cost increase: 2.4%**
- **Cost reduction achieved on many items, but soaring fuel costs make overall savings impossible.**
- **Labour cost also on the rise: Still moderate at <1.2%**
- **Assuming Fuel cost at 2005-prices, airlines would have been able to reduce overall unit cost**

Cost Deviations per Unit (ATK)  
2006 vs. 2005 [%]



## >> Comment

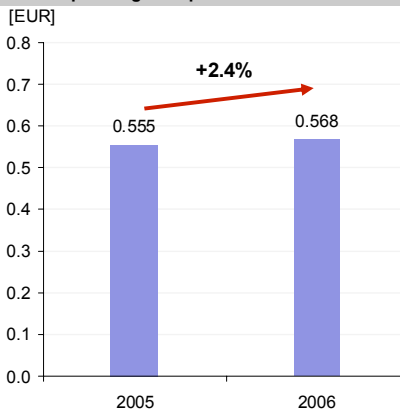
Total Operating Cost per ATK grew by +2.4%. This was fully influenced by the increase in Fuel unit cost. (+18.3%).

In the 'Direct Operating Cost' category, only Flight Deck Crew cost saw a unit cost increase, although limited: +1.2%.

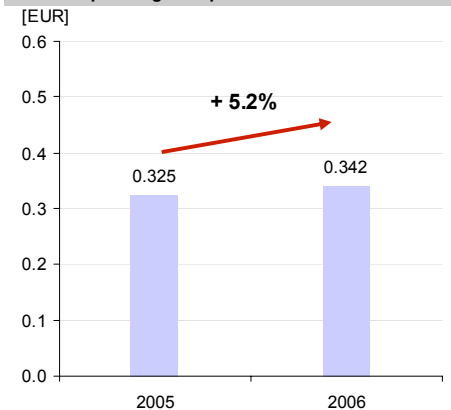
Airlines managed to reduce 'Indirect Operating cost' by -1.7%. Ticketing, Sales and Promotion cost decreased by -8.1%. Given their important size (see page 8), they were the main contributors on the cost saving side.

Assuming 'constant' fuel cost in 2006, the 'Direct Operating Cost' would have declined by -0.8% leading to a hypothetical overall unit cost reduction of more than -1%.

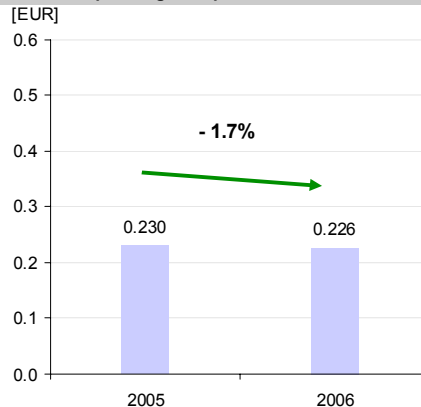
Total Operating Cost per ATK



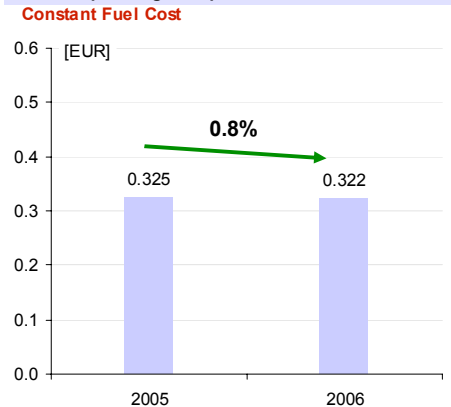
Direct Operating Cost per ATK



Indirect Operating Cost per ATK



Direct Operating Cost per ATK



# Profitability

## >> Fast facts

- Domestic and European routes continue to be unprofitable
- Far East improves but remains in the red
- Other longhaul regions generally with good results
- Overall profitability is not yet sufficient for full recovery of the industry

## >> Operating Ratio

Average Operating ratio is 103.6 (before interest) and 102.4 (after interest).

Sub Saharan Africa leads the ranking of the regions with 114.8, almost unchanged from previous year.

South Atlantic is the biggest winner with an improvement of 11.3%pts versus 2005.

The most important longhaul region in terms of volume is North Atlantic. Airlines managed to increase profitability further. This region is the largest contributor to the good AEA result in 2006.

Domestic and Europe operations remain in the red despite a slight improvement of the latter.

Far East operations also improved but not sufficiently to move into the profit zone. The region saw relatively high traffic and capacity growth which did not translate into financial success.

## >> In absolute figures

Regional results [million EUR):

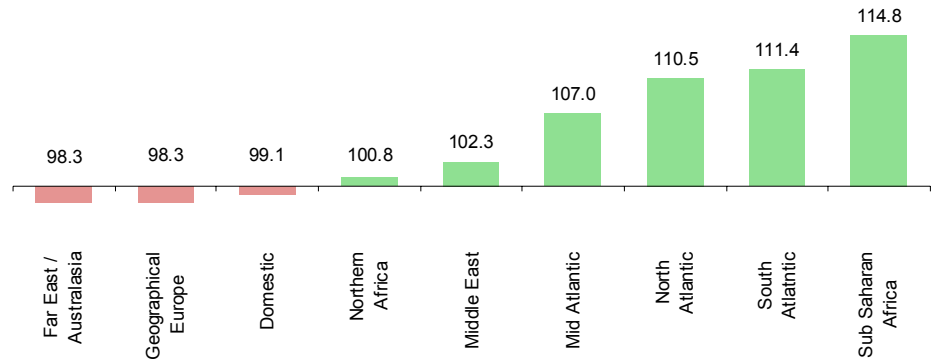
Accumulated

Positive results: +2083

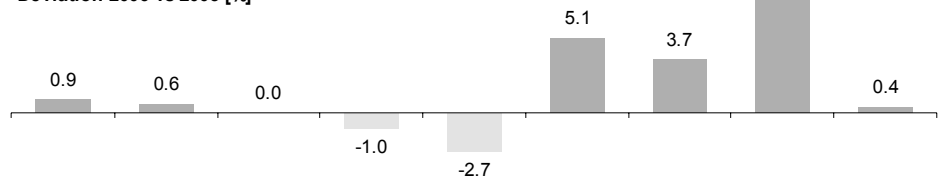
Negative results: - 600

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

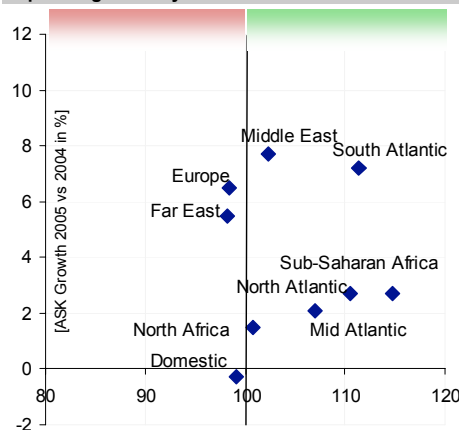
Operating Ratio, after Interest 2006 per Region



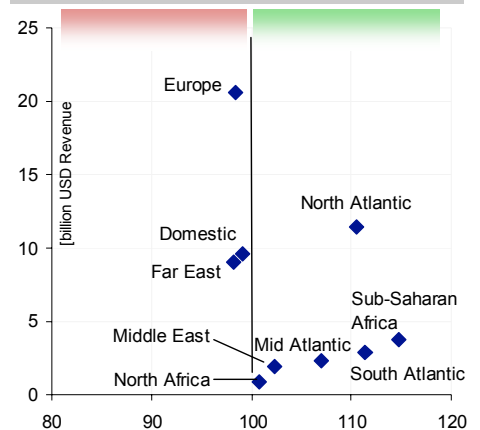
Deviation 2006 vs 2005 [%]



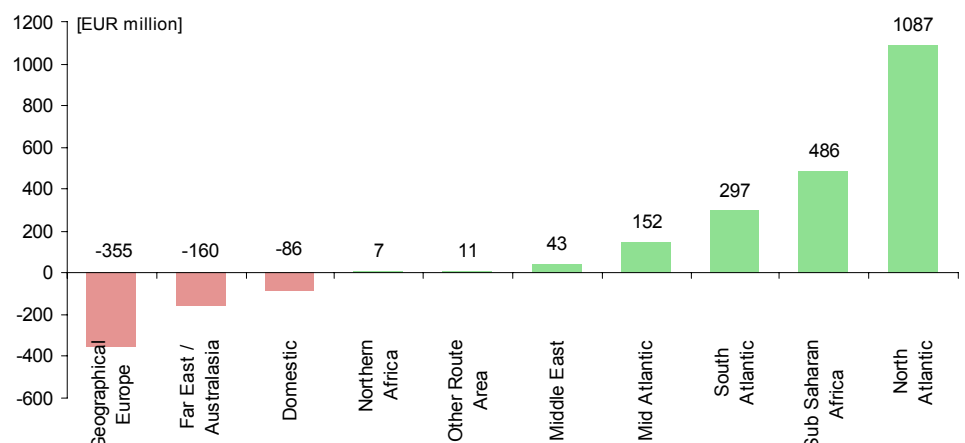
Operating Ratio by Growth



Operating Ratio by Market size



Net Result, after Interest 2006 per Region



## >> Fast facts

- **Total Scheduled yields stabilise, below 2001 levels**
- **Longhaul yields are up but growth has slowed down**
- **Currency influence has an impact, especially on Longhaul regions**

## >> Yields

Yield (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 page 18 of this document)

**Total Scheduled** yields stabilise at low level but regions show different yield development: Europe is depressed because of yield decline partly due to a loss of premium traffic and the inability to introduce further fuel surcharges. On longhaul, surcharges have boosted yields. Currency adjusted, they are now well above 2001 levels.

Currency adjusted yield developments 2007/2006 (3 Quarters):

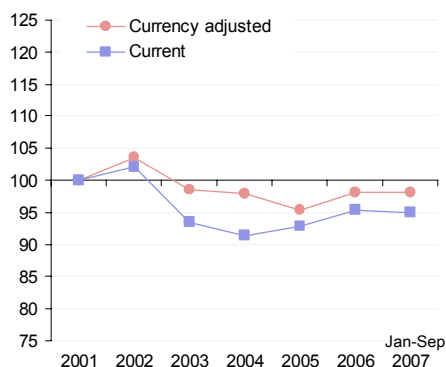
- >> Total Scheduled: +0.6%
- >> Geographical Europe - 2.2%
- >> North Atlantic +2.5%
- >> Middle East +2.1%
- >> Far East +5.6%

## >> 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.

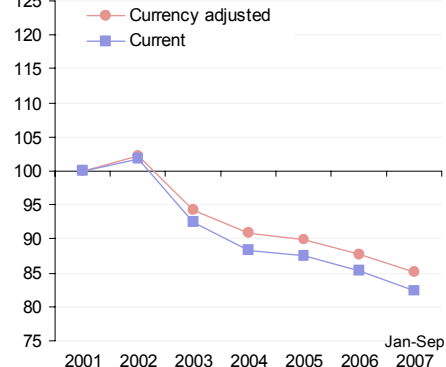
**Yield Index Total Scheduled**

Year 2001 = 100



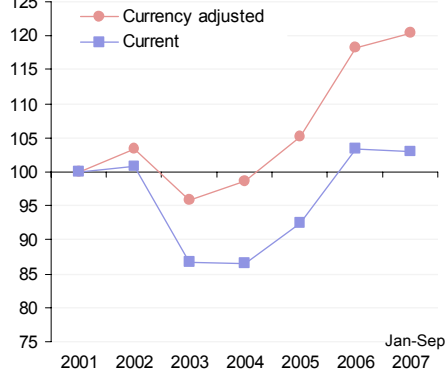
**Yield Index Geographical Europe**

Year 2001 = 100



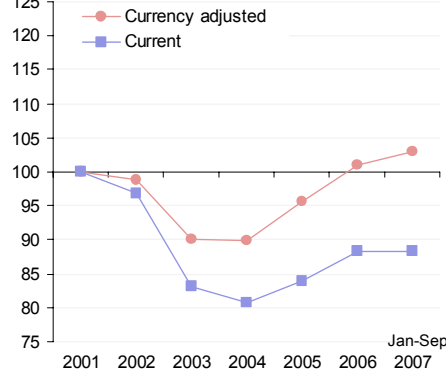
**Yield Index North Atlantic**

Year 2001 = 100



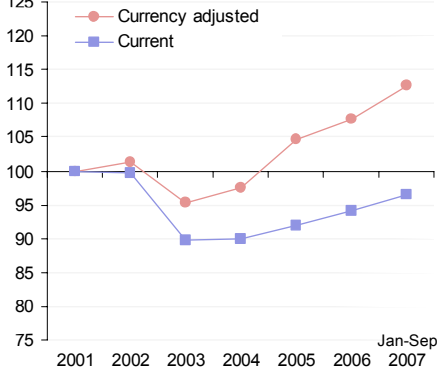
**Yield Index Middle East**

Year 2001 = 100

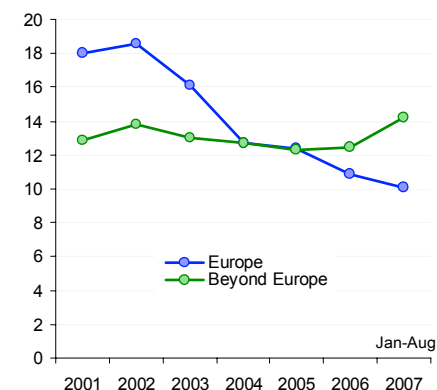


**Yield Index Far East**

Year 2001 = 100

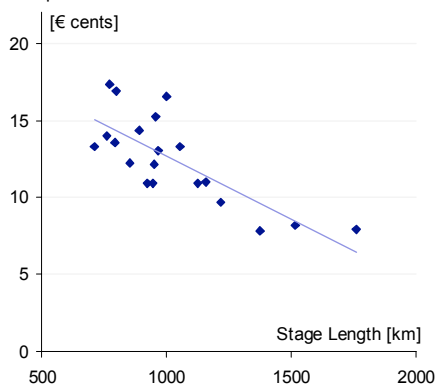


**Premium Passengers as a % of Total**



**Passenger Yield comparison 2006**

Europe

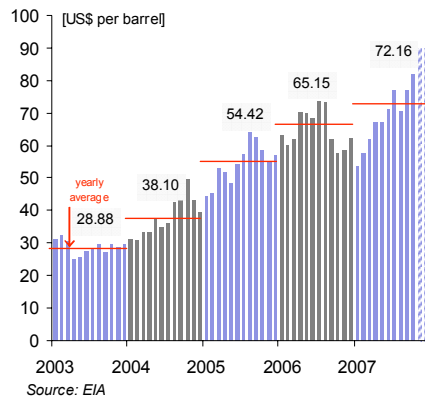


\* Passenger revenues generally include Fuel Surcharges.

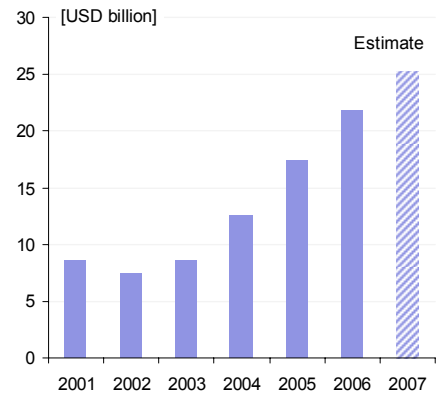
## >> Fast facts

- Crude oil price increased by another 19.7% in 2006
- 2007 prices will again be higher, estimated at USD 72.16 (+10.8%)
- In 2006 AEA carriers spent an estimated EUR 4.4 bn more on Fuel than in 2005
- Fuel expenses on longhaul account for up to 35% of total expenses

Europe Brent Spot Price



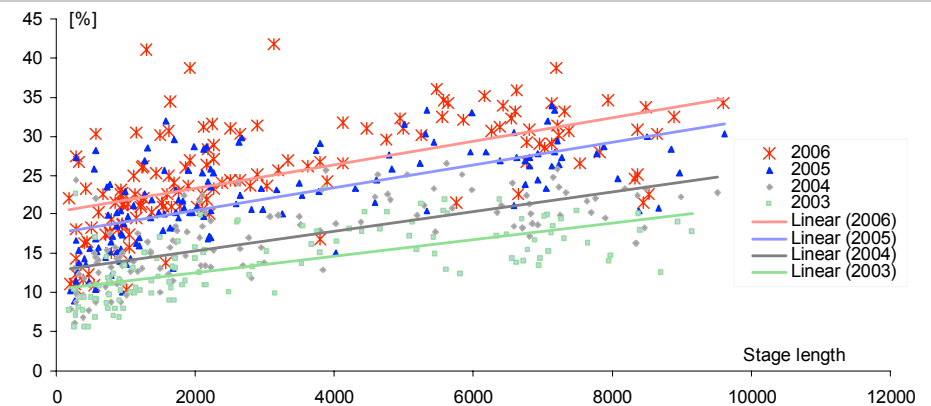
Fuel Cost for AEA Airlines



## >> Fuel Cost Share

The linear regression line shows the average fuel cost share of the AEA carriers with respect to the stage length. It is drawn from the data points that represent each 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 increased significantly every year since 2003.

Fuel Cost in % of Total Operating Cost per Stage length

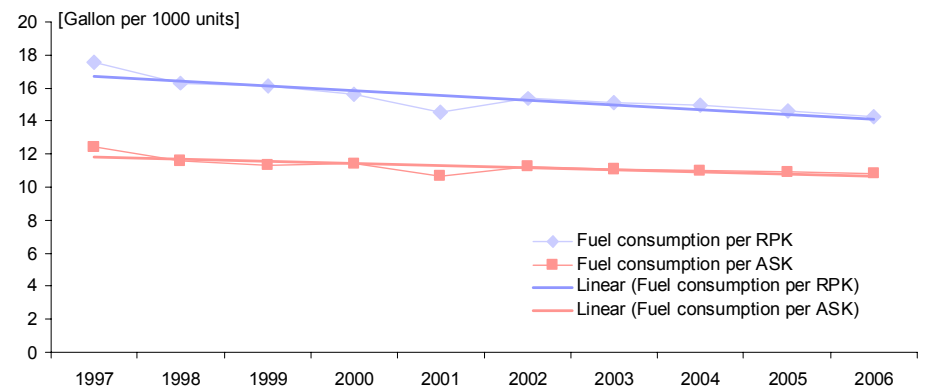


## >> Efficiency gains

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.

Fuel efficiency

(consumption per ASK and RPK)

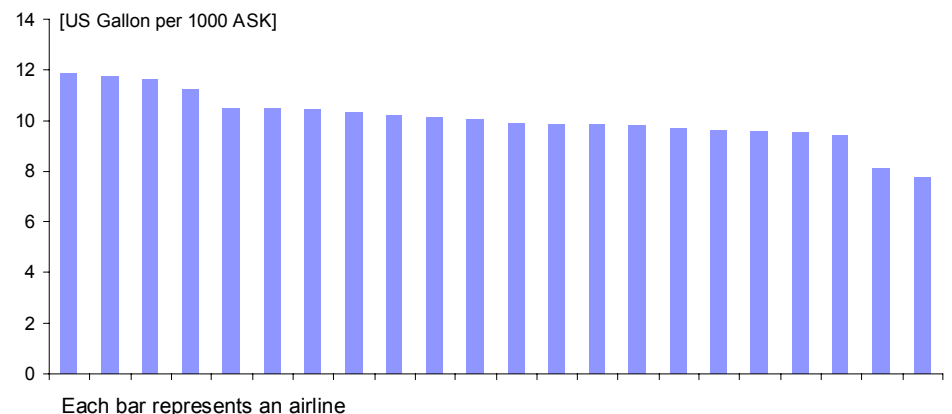


## >> Consumption

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

Fuel consumption

Systemwide Services



## >> Fast facts

- **Total Freight Tonne km grew by +2.9% in 2006**
- **The two largest regions (Far East and North America) grew by 3.0% and 3.2% respectively**
- **Cargo Revenue share is unchanged at 5.2% of airlines' Total Operating Revenues**

## >> Longhaul regions

Cargo within Europe only accounts for 12.8% of the Total Cargo Revenues;

Far East and North Atlantic with combined revenue share of 57.2%

Europe and Domestic are the only regions in the AEA carrier networks not to post a cargo revenue increase.

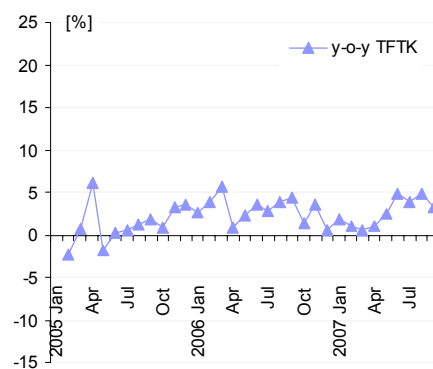
## >> Cargo Share

In 2006, cargo generated EUR 3.0 bn revenue, which represents a share of 5.4% of the AEA's total operating revenues. Longhaul accounted for more than three quarters (79%) while short- and medium haul regions represent the remaining 21%.

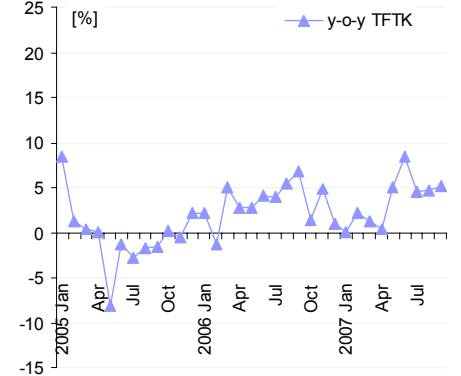
## >> Passenger and Full Freighter aircraft

Cargo is transported in the belly hold of passenger aircraft but also in full freighter or all-cargo aircraft. Car-golux (CV) is the only AEA member with an exclusively all-cargo fleet. Other members also have significant cargo sections, LH being the biggest. Smaller airlines with small or non-existent longhaul networks do not generate significant cargo volumes since their aircraft only provide limited cargo space.

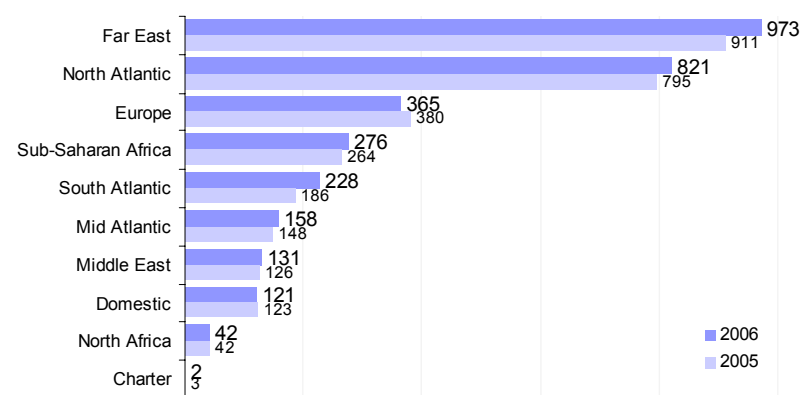
**Total Freight Tonne km (TFTK)**  
Total Scheduled



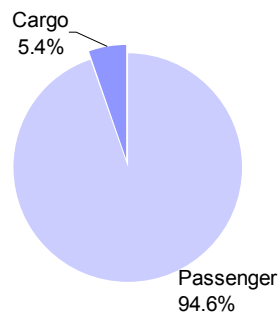
**Total Freight Tonne km (TFTK)**  
North Atlantic



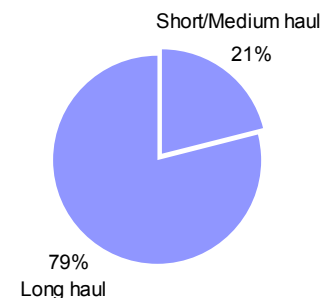
**Cargo Revenue on Scheduled Services, 2006**  
[EUR million]



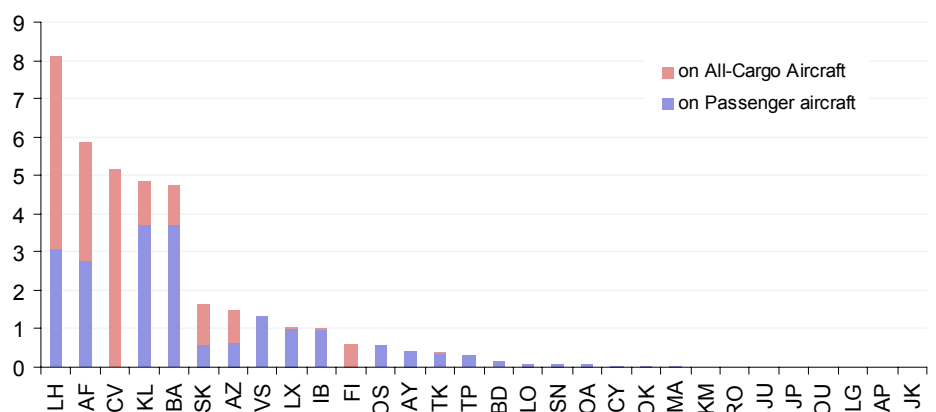
**Revenue Distribution 2006**  
Passenger and Cargo



**Cargo Revenue Distribution in 2006**



**Freight Tonne-kms on Passenger and All-Cargo Aircraft, 2006**  
[FTK billion]



# Low Cost Airlines

## >> Fast Facts

- **Low Cost Airlines (LCC) continue to gain market share within Europe**
- **AEA airlines had 53% of the European Market**
- **Load factor gap between AEA airlines and LCC shrinks**
- **LCC profitability is widespread, many carriers operate with insufficient margins**

## >> Seat offer

Because of stronger growth than the AEA airlines, the LCC are constantly moving up the ranking of the Europe's largest airlines. Ryanair (FR) offers more seats than Air France due to growth rates above 20%. Air Berlin (AB) has improved its ranking thanks to acquisitions and British Airways lost volume after the sell-off of its regional subsidiaries. The 15 biggest airlines account for 59.7% of the total Intra European offer.

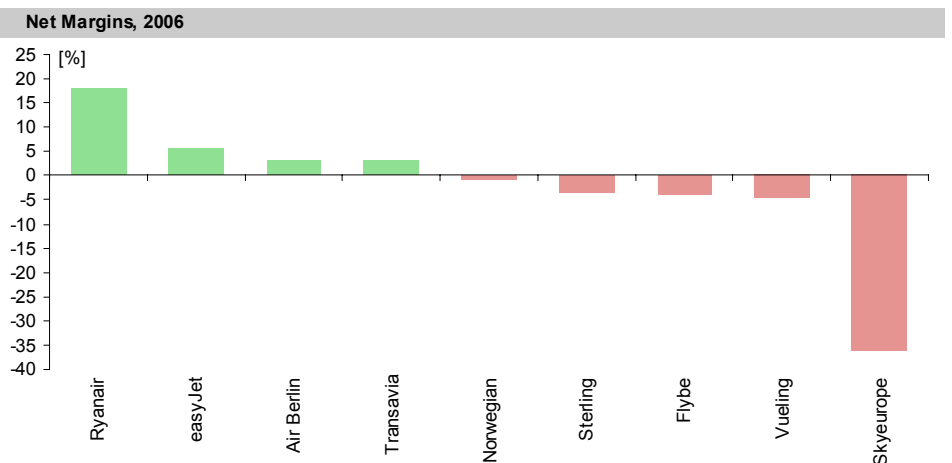
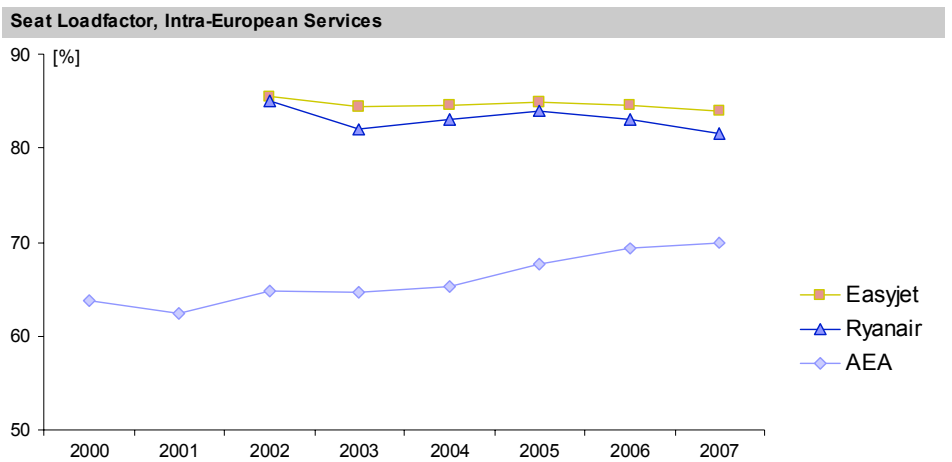
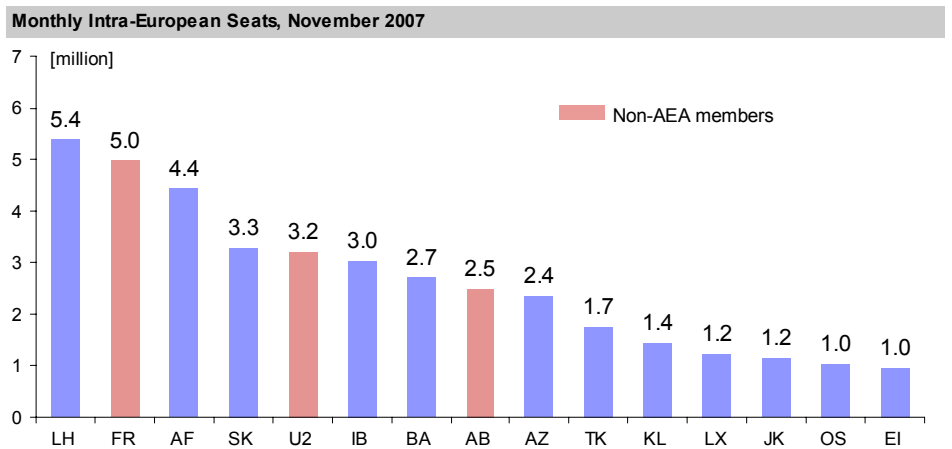
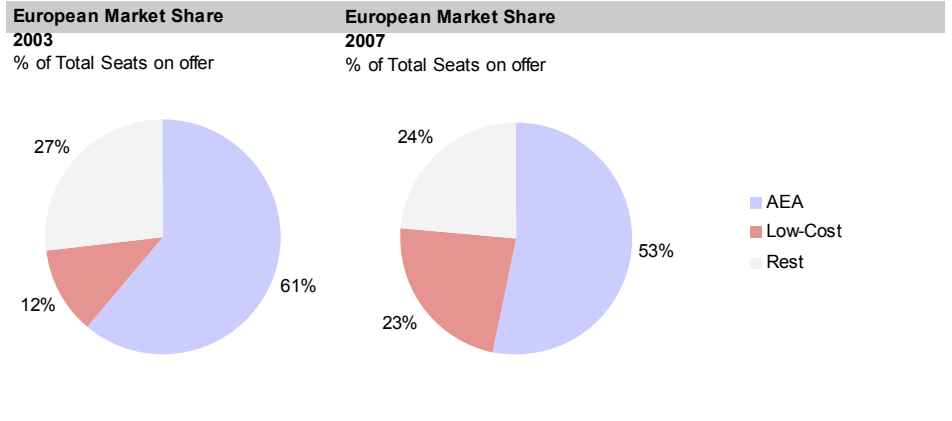
## >> Load factor

Seat Load Factors (SLF) of the two largest LCC carriers have been stable since 2003. A slight decrease was observed from 2006. Ryanair's load factor for 2006 stood at 83%, Easyjet at 84.6%.

AEA airlines performed on intra-European routes (excl. Domestic) with load factors of 69.3%. The improvement is obvious in the last years and the SLF-gap is getting ever smaller.

## >> LCC profitability

LCC net Margins are widespread. Only a few carriers reach sustainable margins, amongst them Ryanair and easyJet, which are also the biggest players in Europe. Despite low margins, most of the LCC are on a steep expansion track. Many carriers have aircraft on order.



# Macroeconomics / Energy

## >> Macroeconomics

The latest world economy forecast shows slight decline of GDP growth for 2008. Airlines' business cycle is strongly influenced by global market demand. As a result, we forecast reduced profits for AEA airlines in 2008. (see graphic page 17).

Interest rates have recently (31 Oct and 11 Dec 2007) been lowered in the US as a reaction to the credit crisis and to face the consecutive threat of a slowing economy. To date, the turmoil does not seem to have influenced the financial performance of the European airline industry.

The weak US Dollar (1.36 cumulative average 1 Jan — 12 Dec 2007) has two effects on AEA airlines: Purchases priced in USD, such as oil and leasing contracts, are discounted because of the strong EUR. This resulting benefit is offset by revenues in USD (North American market as the most important) that are worth less in the European home currency. The currency situation is however assumed to be in favour of AEA carriers since cost in US exceed revenues in the same currency.

## >> Energy

World Oil demand is set to grow from 83.7 Mill barrels/day (2005) to 119.2 Mill barrels /day in 2025. This translates into an annual growth rate of 1.48%. Oil demand of **Emerging Asian** countries will grow by an estimated 2.96% and hence enlarge their share of total world demand from its current 20.0% to 28.2% in 2025.

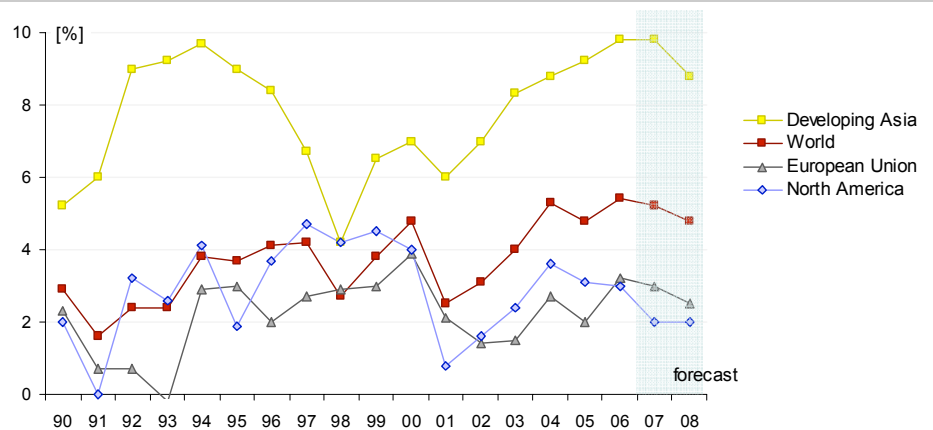
**Western European** oil demand is forecast to decline slightly.

Strong demand growth prospects coupled with supply at capacity limits suggest further price increases for the future. Energy provision will become the key challenge for all oil-dependent industries.

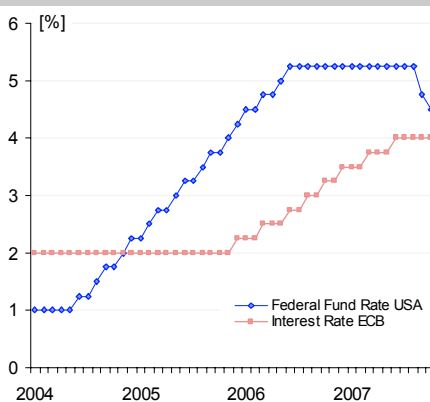
Latest available figures from 2004 show that aviation accounted for 9% of the total oil product consumption through their use of Jet Kerosene.

The transportation sector as a whole accounts for 34.8% of European oil consumption.

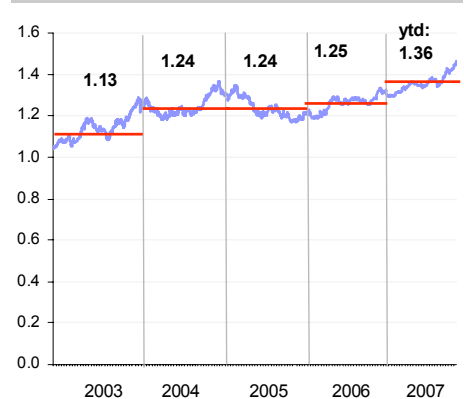
GDP Growth (real)



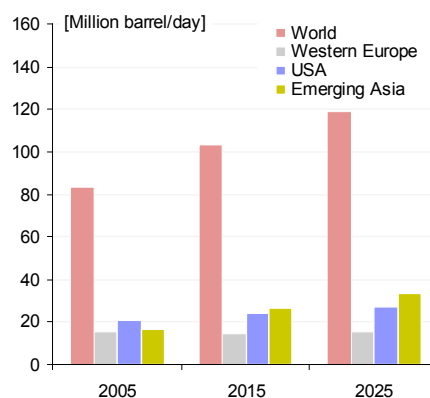
Interest Rates



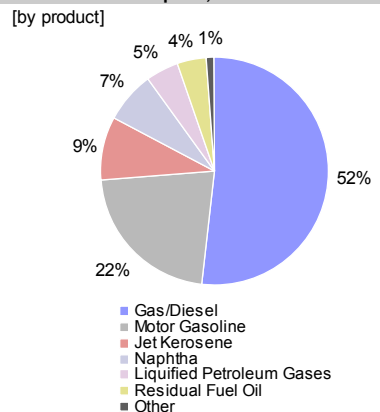
EUR in USD



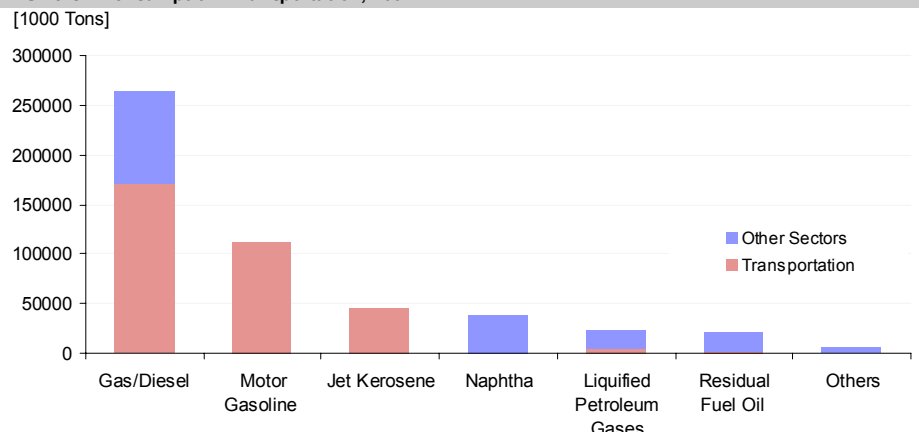
World Oil demand



EU-25 Oil Consumption, 2004



EU-25 Oil Consumption Transportation, 2004



# Key Figures

## >> Geographical Europe

Unit	2003	2004	2005	2006
Operating Ratio (before Interest)	95.5	96.8	98.7	99.5
Interest Rate	1.8	1.8	1.6	1.2
Operating Ratio (after Interest)	93.8	95.1	97.1	98.3
Passenger Load Factor	% 64.4	64.4	66.0	68.2
Overall Load Factor	% 57.6	57.4	58.7	61.4
Breakeven Load Factor (before Interest)	% 60.4	59.3	59.5	61.7
Breakeven Load Factor (after Interest)	% 61.4	60.4	60.4	62.5
Passenger Yield	€cent 13.9	13.5	13.3	13.2
Overall Yield	€cent 153.1	147.3	146.5	144.5
Unit cost	€cent 92.4	87.3	87.1	89.1
Average Fuel price per Gallon	€cent 82.4	100.6	136.7	163.1
Average Number of Seats per Flight	unit 123.8	122.5	121.3	123.1
Average Distance/ Flight	kms 911.5	934.1	953.3	959.3

## >> Longhaul

Unit	2003	2004	2005	2006
Operating Ratio (before Interest)	105.9	105.6	105.0	108.1
Interest Rate	1.8	1.8	1.6	1.2
Operating Ratio (after Interest)	104.1	103.7	103.3	106.8
Passenger Load Factor	% 78.1	79.0	80.3	80.5
Overall Load Factor	% 73.1	73.4	73.4	73.7
Breakeven Load Factor (before Interest)	% 69.0	69.5	70.0	68.2
Breakeven Load Factor (after Interest)	% 70.2	70.8	71.1	69.0
Passenger Yield	€cent 5.9	6.0	6.2	6.7
Overall Yield	€cent 51.2	52.0	54.2	57.4
Unit cost	€cent 35.3	36.1	37.9	39.1
Average Fuel price per Gallon	€cent 80.5	97.4	131.1	156.2
Average Number of Seats per Flight	unit 278.4	284.5	274.7	272.4
Average Distance/ Flight	kms 6150.0	6267.2	6620.6	6648.8

## >> Total Scheduled

Unit	2003	2004	2005	2006
Operating Ratio (before Interest)	100.4	100.9	102.1	103.7
Interest Rate	1.8	1.8	1.6	1.2
Operating Ratio (after Interest)	98.7	99.1	100.5	102.4
Passenger Load Factor	% 73.2	73.5	74.8	75.6
Overall Load Factor	% 68.6	68.4	68.9	69.7
Breakeven Load Factor (before Interest)	% 68.3	67.8	67.4	67.3
Breakeven Load Factor (after Interest)	% 69.5	69.0	68.5	68.1
Passenger Yield	€cent 8.7	8.7	8.9	9.2
Overall Yield	€cent 79.1	80.0	82.2	84.5
Unit cost	€cent 54.0	54.2	55.5	56.9
Average Fuel price per Gallon	€cent 81.2	98.5	133.0	158.8
Average Number of Seats per Flight	unit 195.6	194.3	192.8	191.3
Average Distance/ Flight	kms 1287.7	1251.1	1243.2	1283.4

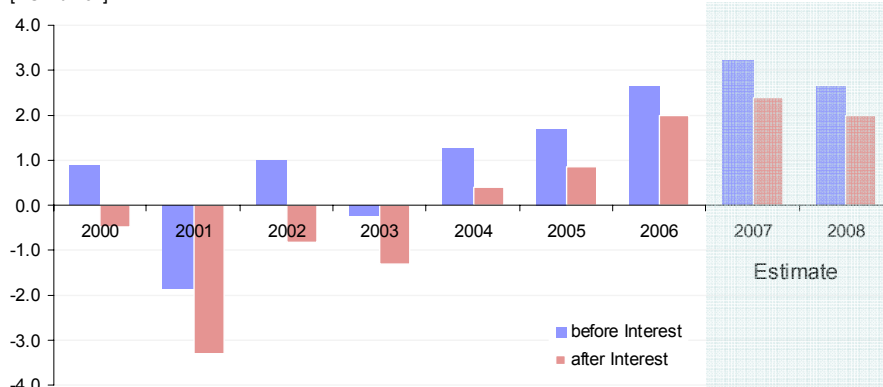
## >> Outlook

Recovery has been constant since 2003 thanks to strong demand and large scale cost savings in non-fuel cost items. Fuel surcharges—widely absorbed by the customer—helped to stabilise yields.

In the light of a continued favourable economic environment and cost discipline by the airlines, we expect 2007 results to exceed 2006. Long-term however, we see high energy costs, slowing economies and large capacity additions as the main risks to further improvement.

Operating Results, AEA Airlines

[EUR billion]



## >> Currency Adjustments

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.

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

Adjusted Yields were calculated based on the following assumptions:

### Assumptions:

Share of USD as percentage of Total Revenues:  
for revenues generated on...

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

## >> Sources

All data from AEA collections: RB1, RB3, RB8 A,C and RB12 except:

- Page 13: "Europe Brent Spot Price"; Source: EIA
- Page 15: "Monthly Intra-European Seats"; Source: OAG
- Page 15: "Seat Load Factor"; Source Ryanair, easyJet website
- Page 15: "Net Margins"; Source: ATI, company websites
- Page 16: "GDP Growth": Source: IMF
- Page 16: "Interest Rates": Source: US Federal Reserve, ECB
- Page 16: "EUR in USD": Source: www.oanda.com
- Page 16: all energy charts: Source: International Energy Agency (IEA)

## >> Glossary

### Definitions:

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