



Decent profits – question mark over continuation

Despite ever-rising energy prices, AEA carriers continued to improve their profits from 2004 to eventually achieve decent profits in 2006, with good expectations for 2007. Economic conditions were favourable to all, but results varied between traffic regions and carriers, demonstrating that the industry has not yet fully recovered. Further improvements are crucial but energy prices, which are likely to remain at record levels, will make the endeavour difficult, particularly in light of the other risks looming on the horizon. This article looks at how the airlines got back on track and the challenges they will face to remain there.



In 2006 the average profit margin of the AEA member airlines was 3.7%. This figure might look rather modest - compared to other industries for instance - but for the European airlines it was one of the best results for a long time and is the fruit of major cost savings and efficiency efforts in recent years. Remember that in 2001, after the 9/11 attacks and in an industry that was in a downward cycle, losses amounted to EUR -1.9 bn, representing a net margin of -5.1%. Based on the results of the first three quarters of 2007 and our estimate, this year should show a continuation of the success story of 2006. We expect the margin to climb by a further 2%-pts

to 5.7%, a pleasing figure in light of current oil prices. So, how can it be that profits grow when fuel prices are so high (they currently represent around 25% of the airlines' total operating expenses)? The explanation is threefold: 1. airlines have successfully introduced measures to alleviate their fuel bill; 2. airlines maintained the level of non-value generating cost savings, mainly in the field of ticket sales and distribution; and 3. macro-economic factors positively influenced demand, loads and class-mix. The combination of these three factors is the key to success.

A heavy fuel bill

A couple of years ago, hardly anyone would have thought that fuel costs could reach their current level. In 2002 AEA airlines spent around USD 7 bn on fuel, an amount that had tripled within four years. We estimate that fuel costs for 2007 will amount to USD 25 bn, and that they have not yet peaked. In 2007 the average price of crude oil will be slightly above 72 USD/barrel. According to the latest forecasts, this figure will be exceeded in 2008.

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Editorial

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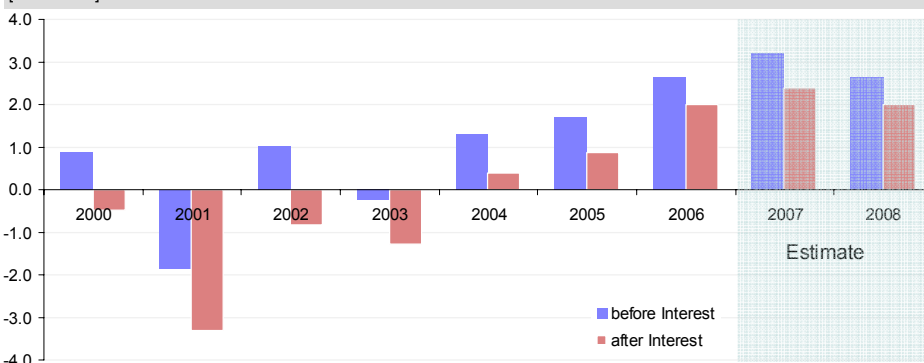
In this last issue of Source of 2007 we take a look back at the profitability of the European airline business. In 2006 AEA members managed a collective profit of EUR 2.6 bn before interest. A fourth successive year of positive results is anticipated for 2007, at EUR 3.2 bn, despite the ever-present challenge of high, and still rising oil prices. Our lead article on pages 1 to 3 explores the potential for sustaining this trend in the event of an economic slowdown from next year, which now seems increasingly probable.

From 1st January 2008 AEA welcomes two new member airlines: Ukraine International Airlines and AeroSvit Airlines. Pages 4 and 5 give an overview of air transport in Ukraine and page 6 provides profiles of the carriers.

Our guest article, by OAG, on pages 7 explores the evolution of new routes and their sustainability in Europe, often related to the development of no-frills carriers in Europe.

Fig. 1:

Operating Results, AEA Airlines
[EUR billion]



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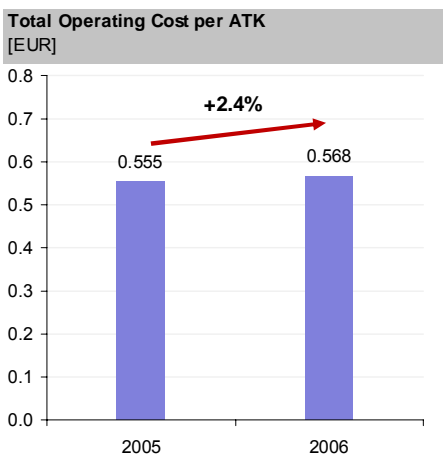


In May 2004 the price of crude oil climbed to USD 40 a barrel and led to the introduction of surcharges. Short- and Long haul surcharges initially started at the same level but very soon became more expensive for intercontinental than for European flights. Our analysis shows that surcharges could not offset all of the cost increases, one reason being that they always lagged behind the oil spot price development. Because of tougher competition and customers' price sensitivity on European routes, the necessary increases could not easily be implemented. This had a tangible impact on revenues, as Europe accounts for 78% of the total passengers transported.

Thus, other measures must complete the strategy: for example hedging and fuel savings through operational practices. For the latter, our statistics show that fuel efficiency is constantly increasing. This is due to the fact that seat load factors have increased in the last few years and 'fuel use' per passenger km came down from 15.7 US Gallon/100 RPK in 2000 to 14.3 in 2006, which represents a -8.7% cutback within 6 years. Savings achieved through 'technological improvements' (e.g. fleet renewal and more modern engines) account for the remaining efficiency gains, representing approximately 1% of savings every year.

In recent years we have observed a weakening of the USD in favour of the EURO. Oil prices and USD exchange rates tend to move in opposite directions. Since oil prices are expressed in US Dollars, Europe-based companies benefit from a discount on their oil purchases. The cost advantage can be significant and represents an additional factor that helped to contain the dramatic increase in fuel expenses.

Fig. 2:



Cost savings continued

Fuel cost now represent up to 30% of the airlines' operating cost. Since oil prices cannot be influenced (their consequences can only be mitigated as seen above), overall unit costs are rising.

In the past, higher cost of fuel could be offset by proportionally greater savings in non-fuel positions. In 2004 - Fuel prices already started to climb - unit cost could be reduced by -2.0% but in the following years further savings became impossible to achieve. Total unit cost deviations turned into an increase of +2.0% in 2005 and +2.4% in 2006.

These increases – due to the fuel price hike – actually mask the fact that carriers have continued to achieved impressive cost reductions on non-fuel items in recent operating years. Florian Raff, Manager in the Network department at SWISS, points out that these savings have materialised because "airlines have restructured their organisations and networks in the down turn after 9/11 and managed to shed a fair amount of non-value generating costs", for example through harmonising aircraft type in their fleet. "Legacy carriers have learned from their low-cost peers" he adds, referring to the achievements in more efficient processes and improved aircraft utilisation". Large savings were also achieved in 'Ticketing, Sales and Promotion' costs, which include commissions paid to agents. The sums paid to agents (e.g. travel agencies) have fallen from 6.4% of passenger revenues in the year 2000 to 1.9% currently.

On the other hand, there are now the first repercussions of the newly acquired health of the industry. Cost of 'Cabin Attendant', for example, but also for 'Flight Deck Crew', and 'Administration' moved from cost savings into cost in-

Fig. 3:

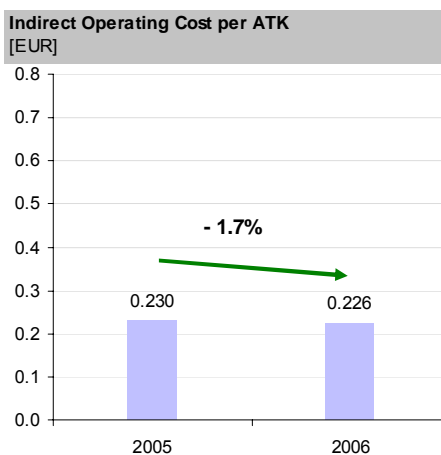
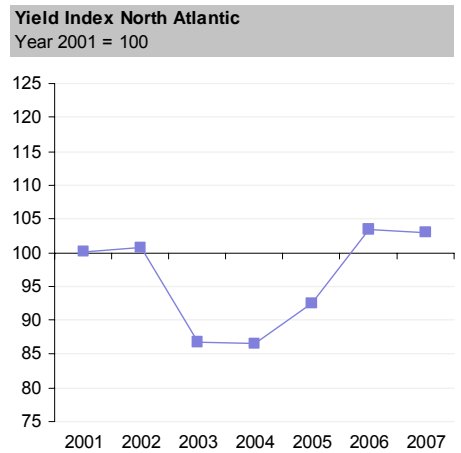
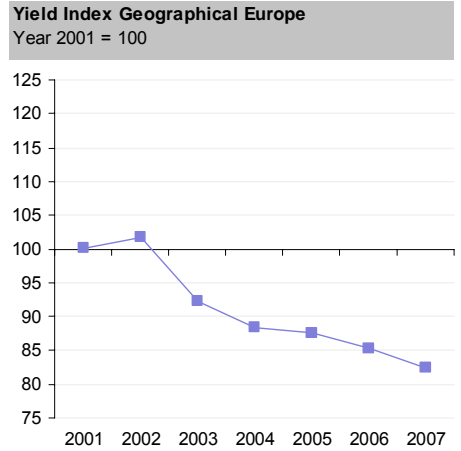


Fig. 3 and 4:



creases. An additional strain on costs, according to SWISS, is the introduction by governments of questionable security measures which have "driven up costs, increased delays and brought down service levels". All these factors, taken together, will add to the probable increase in non-fuel unit costs in 2007.

The effects of previous cost savings are gradually fading. The excellent demand environment still covers these first 'side effects' and is the main reason for the expected good profits in 2007.

Driving Demand

The excellent demand situation over the last 3 years was probably the strongest driver of the recovery and profits of the AEA airlines. In 2002, GDP growth – which determines the well-being of civil aviation – was below 2% in the European Union. The consecutive improvement of European economies and those of other world regions created demand for air services. AEA airlines added 7.7% capacity in 2004 and between 4.2% and 4.4% in 2005 and 2006. Demand was even stronger than the new capacity additions and load factors hit record lev-



els. 2007 year-to date load factors are at 77.6% and are set to beat the 2006 record by half a percentage point.

Volume and efficiency improvements were one factor driving this success; the other was yields. Declining revenues per passenger km were the rule for too long. Capacity additions that exceed the 'true' demand of the market and continued competition on short haul routes did not help to bring about a reversal of this trend. Eventually, when the pressure from fuel prices forced the airlines to introduce 'surcharges', yields started to recover. Not so much on European routes, but certainly on Intercontinental ones, where there is more scope for price adjustments.

Flights on North Atlantic benefited from the fact that capacity was carefully managed. A combination of restricted offer, high demand, surcharges and improving business traffic boosted the region into one of the most successful. In 2006, AEA carriers achieved an operating (EBIT) margin of 10.6%, well above the average for total worldwide operations (3.5%). North Atlantic accounts for half of the total AEA profits. A slowdown in this region would have an immediate impact on the AEA bottom line result because – even in these good times – other regions do not deliver comparable results. For example, operations within Europe and Domestic operations never really recovered during this period. "European routes are greatly affected by LCC competition and are also increasingly coming under pressure from high-speed trains" adds Florian Raff, who believes that legacy carriers will only be able to compete if "they have competitive cost structures and deliver additional value for the passenger".

European yields are still depressed and surcharges have not helped. There were large capacity additions, and much loss-generating capacity remains in the system. On the consolidation front, the good times have delayed the process. Expected outcomes that would ease the situation have not materialized (yet).

Tougher times ahead

The overall AEA result has seen an impressive improvement, but it should have been even better. The airline industry moves in cycles. It is only a matter of time before the next 'down cycle' arrives and as long as there are no practicable ways of 'flattening' the cycles, the only solution is to build up reserves during the 'good' times. Not everyone could do this

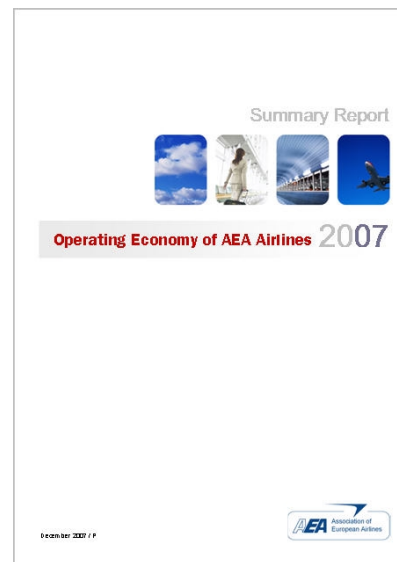
however, and the next downturn will prove a challenge for certain carriers. "Consolidation is inevitable" adds Florian Raff, referring to the capacity scheduled to join the world fleet. He expects the tide to turn in the second half of 2008. "The industry is directly related to the development of world GDP, which is as cyclical as the airline industry. I do not see any reason why that would change" he notes.

In spring of this year, AEA was already forecasting a less positive outlook for the future: 2008 will be positive but profits will be 20% lower than in 2007. This estimate is based on the assumption that GDP growth will see a slight slowdown, fuel prices will remain high and there will be capacity increases throughout the networks – for European and non-European carriers. For the moment the obvious signs that would sustain a more cautious outlook are still hard to detect, but they are nevertheless a reality: North Atlantic load factors have started to slow, possibly because of the extra capacity added by both AEA and US carriers. For 2007, we expect load factors to be around 1%-pt below the level of 2006. Unfortunately, this goes hand in hand with yields, which have started to decline after several quarters of improvement. Aggregate figures show that North Atlantic yields did not grow after Q2 2007; in fact Q3 closed down -1.8%.

European Short/Medium haul operations are crucial for the health of AEA carriers. Load factors have been maintained at their highest levels, but it is yields which are decisive for the bottom line. As on North Atlantic, the most recent figures indicate weaker results rather than the continuation of the stable yields we saw in the past. Q3 2007 yields fell by -3.3%, definitely not in line with the stabilization of one year ago.

As outlined above, the success of today's operating environment depends on the ability to optimize revenues according to a changing cost situation: markets absorb price increases because of strong demand and improved results. If economic growth slows down, revenues become less fluid, due to volume changes or declining yields. The situation will then reverse: costs would have to be adapted to the new revenue situation. The only way to maintain a positive bottom line result is to once again implement severe cost cutting measures. In that light, the economic situation as we knew it was a blessing, but it can't last forever. This should be kept in mind when planning for the years to come. ■

Operating Economy of AEA Airlines 2007 "Summary Report"



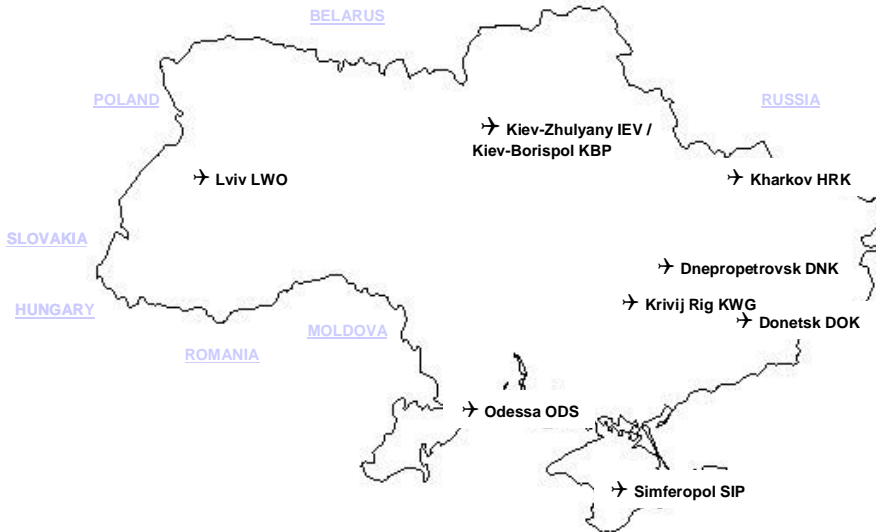
AEA has recently published its 'Operating Economy' summary report. The document contains 18 pages of graphics and explanations of the development of the AEA Airlines in 2006 and 2007. It is an easy-to-digest abstract based on the various AEA data collections. Topics covered include: Traffic & Capacity, Results, Revenues & Costs, Cost Shares, Unit cost, Profitability, Yields, Fuel, and Cargo.

The report can be downloaded free of charge in pdf format from the 'Research & Statistics' section of the AEA website. www.aea.be



Ukraine: Borderland of Europe

The Ukrainian word *Ukrayina* is thought to derive from an old East Slavic word meaning 'borderland'. Situated near the Eastern edge of Europe, the country is nevertheless making great strides in assimilating with Western Europe. No more so than in air transport. This article sketches the situation in the air transport market of Ukraine.



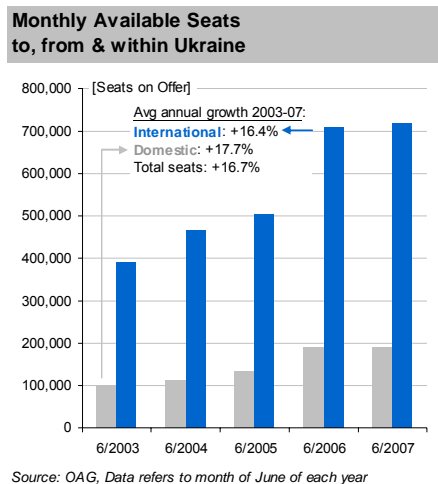
Socio-Economic Profile of a Country

Ukraine is located in Eastern Europe, bordering the Black Sea and 7 other countries, the largest of which is Russia. Territorially it is larger than France at 603,700 square kilometres. In terms of population it is the fifth largest country in Europe, with 47 million people, ranking just after Germany, France, UK and Italy. Ukraine has a multi-ethnic population, a reflection of its rich history which saw it ruled successively by Lithuania, Poland, the Austro-Hungarian authorities and the former Soviet Union. With the latter's dissolution in 1991, the country finally achieved independence, and the official declaration of the Ukraine republic as an 'independent democratic state'.

The years immediately following independence were ones of hardship as the country fell into a deep economic crisis. With eight years of sharp economic decline, coupled with hyperinflation, the standard of living for most

citizens fell by more than 50%, leading to widespread poverty. Fortunately the country succeeded in turning its fortunes around. In 1996 Ukraine introduced its currency, the 'hryvnia', which has maintained stability. In 2006, albeit with inflation still at +9.1%, economic growth reached +7.1%, amongst the highest rates of any European country. It is generally considered that with fertile farmlands, a well-developed industrial base, a highly trained labour force, and a good education system, Ukraine has the potential to become a major European economy.

Fig. 1:

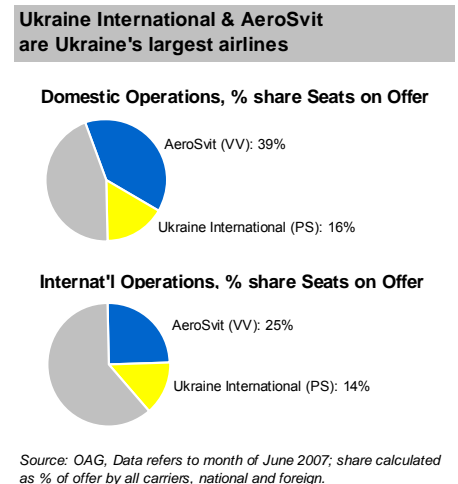


Ukraine makes no secret of its wish to become a full member of the growing European Union family. The strategic goal of the Ukrainian presidency, is to achieve EU membership by 2017. However, this goal is unlikely to be realised, as there are 7 candidate countries to the EU already under consideration as well as increasing pressure to moderate further expansion. Meanwhile, the country is eyeing the early development of a free trade agreement with the EU under the so-called European Neighbourhood Policy², a condition of which is Ukraine's membership of the World Trade Organisation, which is anticipated for the end of 2007.

Air transport: a new horizon

The Ukrainian air transport scene did not develop until the post-Soviet era. Following independence and the return to economic prosperity, air traffic took off, with the birth of several new airlines. The number of seats on offer to, from and within Ukraine grew by an average of 16.7% every year between the period we reviewed, from 2003 to 2007. (Fig.1) IATA's passenger forecast anticipates further strong growth, at 8.8% per annum through to 2011. The country already ranks 14th in terms of worldwide popularity as a tourist destination, and received 18.9 million international tourists, arriving by all modes of transport, in 2006. The majority originate from Russia (34%), Poland (21%) and other immediate neighbours, but around 10% also come from the EU. For air transport this is reflected in the country flow of seats on offer, as illustrated in Fig. 4. Almost one quarter of seats (23.7%) are flown between Ukraine and Russia, followed by Turkey (7.9%) and Germany (7.6%). Ukraine, together with its neighbour Poland, is co-hosting the

Fig. 2:



¹ The EU has 3 candidates: Croatia, Turkey, Macedonia and 4 potential candidates: Albania, Bosnia & Herzegovina, Montenegro and Serbia.
² ENP aims for 'strengthening the prosperity, stability and security of all concerned.'
³ JAA States have agreed to co-operate in developing and implementing common safety regulatory standards and procedures.



2012 UEFA football tournament, providing further incentive for the country to attain international standards in all facets of transport and hospitality infrastructure provision.

Airports and Airlines

Air transport in Ukraine is concentrated on Kiev (or Kijiv), the capital of Ukraine, where in 2007 Kiev Borispol Airport accounted for 59% of all seats on offer to, from and within Ukraine. Kiev Borispol is the principal airport for both domestic operations (44%) and international operations (63%). Simferopol and Odessa, each with 11%, are ranked 2nd and 3rd respectively (Fig. 3). This centralisation of activity is explained by the existence of a well-developed and relatively cheap rail network, an inheritance from the Soviet era, where all major cities have direct and frequent services to the capital.

Ukraine's airlines can be grouped into three categories:

Airlines of the first group principally offer domestic and/or seasonal charter flights, with limited international services. These include Lviv Airlines, an offspring of Aeroflot's Ukraine Directorate, which operates a fleet of Antonov, Ilyushin and Yaks from its hub in Lviv. Lviv Airlines' programme includes frequent services to Moscow as well as to Tbilisi, Rome, Naples, Madrid, Lisbon and Dalaman (Turkey).

A second group of airlines has operations similar to the first group, but with a higher degree of international scheduled operations. This category is more likely to operate western aircraft although features such as on-line sales and electronic ticketing are rare. Donasssaero operating out of Donetsk,

and Dniproavia out of Dnipropetrovsk fall into this category, with operations to Azerbaijan, Georgia, Germany, Russia, Turkey, Ukraine, UAE and other European and Asian destinations.

The third group contains just two airlines which are significantly more advanced compared to their national colleagues: AeroSvit Airlines (VV) and Ukraine International Airlines (PS). These two are also by far the largest carriers in Ukraine (Fig.2), together accounting for 39% of all seats on offer to and from Ukraine and 55% of domestic offer. Both operate fleets entirely composed of western aircraft out of their hubs at Kiev to a network of complementary destinations, with Ukraine International flying to Western Europe and the Middle East and AeroSvit to Eastern Europe and North America. Although the Government has on several occasions expressed the wish to create a single Ukrainian national carrier by merging the two airlines, this has been vigorously opposed and thus far has failed to materialise. Both airlines have recently been accepted into AEA and will take up their membership effective 1st January 2008.

European Integration

46.5% of all seats on offer to and from Ukraine are to EU27 countries, of which Germany is by far the largest with a 7.6% share. Only 4 EU countries are not connected to Ukraine with direct services, as recorded in OAG: Denmark, Ireland, Luxembourg and Malta. Ukraine is the second largest neighbour of the EU and Europe is also a major trade partner for Ukraine.

Ukraine is a member of the European Civil Aviation Conference (ECAC) since 1999, of Eurocontrol since 2004 and is a candidate member of the Joint Aviation

Authority (JAA). As an emerging aviation market with much growth potential, Ukraine is a natural candidate for inclusion in the EU's Common Aviation Area with neighbouring countries.

In October 2006 the two parties entered into a 'horizontal agreement' for air transport, accepting the principle of 'EU carrier' over 'national' ownership. The next step will be to arrive at a comprehensive aviation agreement which would substantially open the air transport market between EU and Ukraine. Although talks were first initiated in early 2007 and recently resumed, some European States still exercise an understandable caution. The institutions of Ukraine have not always acted in the spirit of the horizontal agreement, which has thrown up issues with respect to overnight stays, slot allocation, e-ticketing and the Bank Settlement Plan. These political obstructions need to be alleviated if there is to be any hope of reaching a vertical agreement on air transport.

The Ukrainian authorities also recognise that there will need to be a thorough overhaul of the aviation regulatory regime to bring it up to EU operational standards, and the country is working towards this goal. That this is taken seriously is illustrated by the grounding of three airlines on the grounds of infringements in the Summer of 2007, including UM Air which featured briefly on the EU's blacklist.

The EU anticipates a gradual process of harmonisation, focusing in its first phase on issues of safety (and obtaining full membership in JAA), and economics and competition (such as groundhandling). It is expected that this process, and hence the achievement of the aviation agreement, could be completed within the next three years, by 2011. ■

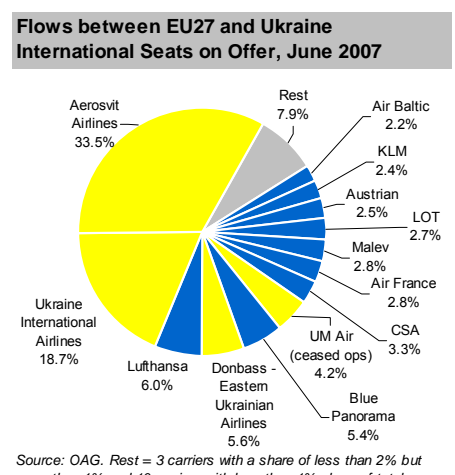
Fig. 3:



Fig. 4:



Fig. 5:





AEA Welcomes two new members

With effect from 1st January 2008 AEA has two new members, bringing total membership to 33 major European airlines. AeroSvit Airlines and Ukraine International Airlines are the Ukraine's largest airlines, accounting for 39% of international and 55% of domestic seats on offer. Below you will find a profile of the two companies.



Name: AeroSvit Airlines

IATA Code: VV

Founded in: 1994

Ownership: 40% Aerotur-Agency for Air Communications and Tourism (Ukraine); 38% Gilward Investments (Netherlands); 22% State Property Fund of the Ukraine.

Fleet: 1 Boeing 737-200; 2 Boeing 737-300; 7 Boeing 737-400; 2 Boeing 737-500 and 3 Boeing 767-300. Aircraft on order: 7 Boeing 737-800.

Network: Kiev-Borispol, Dnepropetrovsk, Lviv, Odessa, Simferopol, Donetsk, Kharkov and several destinations in Eastern Europe and Greece, Italy, Turkey, Cyprus, Sweden; Dubai and Tel Aviv in Middle East; New York JFK and Toronto in North America; Bangkok, Delhi, Beijing and Shanghai in Asia and Cairo in Africa.

Key Figures

2006

1.6 million passengers (+10.2% over '05)
3,656 million RPK (+24.2%)
36 million Freight Tonne-Kms (+16.2%)

2005

244 million USD Total Revenue
1.08 million USD Operating Result
0.20 million USD Net Result
0.08% Net Margin

Source: ATI, JP Fleet

| AEA Membership | | Year of Affiliation |
|----------------|--------------------------------|---------------------|
| AF | Air France | 1954 |
| BA | British Airways | 1954 |
| KL | KLM Royal Dutch Airlines | 1954 |
| SK | Scandinavian Airlines | 1954 |
| AZ | Alitalia | 1955 |
| LH | Lufthansa | 1955 |
| EI | Aer Lingus | 1956 |
| IB | Iberia | 1956 |
| AY | Finnair | 1957 |
| FI | Icelandair | 1957 |
| OA | Olympic Airlines | 1960 |
| TP | TAP Portugal | 1961 |
| OS | Austrian | 1964 |
| TK | Turkish Airlines | 1967 |
| JU | Jat Airways | 1971 |
| LG | Luxair | 1981 |
| MA | Malev Hungarian Airlines | 1987 |
| KM | Air Malta | 1988 |
| OK | Czech Airlines | 1991 |
| CY | Cyprus Airways | 1992 |
| BD | bmi | 1993 |
| JP | Adria Airways | 1995 |
| CV | Cargolux | 1996 |
| OU | Croatia Airlines | 1998 |
| JK | Spanair | 2000 |
| RO | TAROM | 2000 |
| LX | Swiss International Airlines | 2002 |
| LO | LOT Polish Airlines | 2002 |
| SN | Brussels Airlines | 2002 |
| VS | Virgin Atlantic Airways | 2003 |
| AP | Air One | 2006 |
| VV | AeroSvit Airlines | 2008 |
| PS | Ukraine International Airlines | 2008 |

AEA membership stands at 33 airlines



Name: Ukraine International Airlines

IATA Code: PS

Founded in: 1992

Ownership: 6% AerCap Netherlands; 22.5% Austrian; 9.9% EBRD; 61.6% State Property Fund of the Ukraine.

Fleet: 4 Boeing 737-300; 5 Boeing 737-400; 6 Boeing 737-500.

Network: Kiev-Borispol, Odessa, Lviv, Simferopol; various destinations in Europe including Netherlands, Germany, Belgium, Spain, Finland, UK, Italy, Portugal, Switzerland and Austria and Dubai in the Middle East.

Key Figures

2006

1.0 million passengers (+14.9% over '05)
1,913 million RPK (+30.8%)
7 million Freight Tonne-Kms (+23.5%)

2005

39 million USD Total Revenue
0.44 million USD Operating Result
0.17 million USD Net Result
0.42% Net Margin

Source: ATI, JP Fleet



Guest Article by David Beckerman*



New Routes across Europe: Here to Stay?

As the European Union has matured and the borders within the EU have mostly fallen, air carriers have been busy establishing new routes within the region. Since 2003, airlines added 3,064 new individual airport market pairs between non-domestic European points. While 407 of these new routes no longer had service by 2007, the net number of markets – 2,655 – is impressive. This article examines the size and rapid growth of new market additions within Europe as well as the key players and markets where the growth is taking place.

Indeed, it is the amount of capacity on new routes that is so impressive. The number of seats dedicated to new markets has risen over eight-fold. (Fig.1)

Not surprisingly, most of the capacity in the new intra-European markets has been added by the low fares carriers. As of 2007, these airlines, including the low fare divisions of traditional carriers (such as bmibaby and Iberia's Clickair) accounted for just over three quarters of the total capacity additions on such routes.¹ (Fig.2)

The leader of the pack among the low fares carriers is Ryanair. With 465 new intra-European routes introduced since 2003 and still in operation as of 2007, the airline accounts for over 17 percent of all new intra-European routes. While Ryanair's growth is generally well known, it is particularly interesting to note that just between 2006 and 2007 it added 184 new routes. This is more than its next closest competitor, easyJet, has added since 2002. (Fig. 3)

Ryanair's remarkable growth has largely resulted from the establishment of numerous new bases on both the European continent and in Britain. These include Frankfurt Hahn, Liverpool and Rome Ciampino. Thus even non-base cities, such as Grenoble, now have service to and from multiple bases. The most recent route additions demonstrate a push to the East by Ryanair; it serves 10 airports in Poland alone and now reaches

the Black Sea via service between Pisa and Constanta, Romania.

Eastern Europe is also home to several of the newer Low Fares carriers which, incidentally, also rank in the top 10 in terms of new route establishment. Wizz Air leads the group, with bases in four Eastern European capitals, with Sky Europe of Slovakia and Poland's Central Wings also in the top 10. Norwegian Air Shuttle also has a strong presence in the region thanks to its new base in Warsaw.

The traditional carriers have nonetheless been aggressive in their own right. British Airways led the pack with 59 new intra-Europe route additions, primarily between London and Southern Europe but also with a recent build-up at Gatwick of service to Eastern European points such as Sarajevo and Tirana. (Fig.4)

Other well-known flag carriers have grown as well. Austrian continues to add routes in Eastern Europe while Lufthansa has increased European destinations from its Munich hub. Smaller carriers, such as Air VIA of Bulgaria, make their way into the top 10 with just 17 new routes.

So how much competition exists on the new routes? Surprisingly, very little; only 511, about 20 percent of the new routes, have direct airport-to-airport competition and only 143 have more than two carriers in the market. The level of direct competition exceeds 30 percent if multiple airport markets are counted singly;

this is particularly true for services to and from London.

On the airport-to-airport basis, however, one sees the importance of the major leisure carriers and markets. The top new markets in terms of competition are Manchester-Palma de Majorca and Manchester-Tenerife with eight carriers each, including well-known leisure brands such as Thomsonfly and First Choice as well as the Low Fares operators bmibaby and Jet2.com.

New routes will likely continue to establish themselves in 2008 as many low fares airlines, especially those in Eastern Europe, add new aircraft. Established carriers such as easyJet and Ryanair will not only establish new destinations but will also develop new routes as they connect the dots among existing points and their ever-increasing bases. ■

Fig. 1:

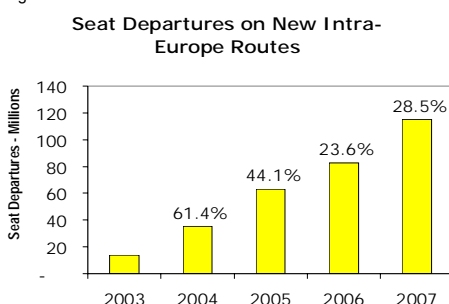


Fig. 2:

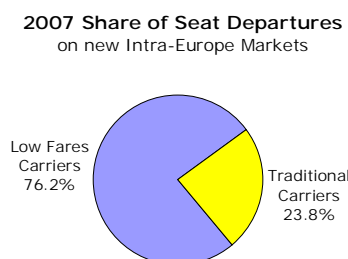


Fig. 3:

| Rank | Carrier | New Routes in Operation as of 2007 |
|------|-----------------------|------------------------------------|
| 1 | Ryanair | 465 |
| 2 | easyJet Airline | 153 |
| 3 | Hapag-Lloyd Express | 130 |
| 4 | Jet2.com | 100 |
| 5 | Wizz Air | 99 |
| 6 | Norwegian Air Shuttle | 74 |
| 7 | SkyEurope | 70 |
| 8 | Flybe | 65 |
| 9 | Air Berlin | 58 |
| 10 | Centralwings | 52 |

Fig. 4:

| Rank | Carrier | New Routes in Operation as of 2007 |
|------|-------------------|------------------------------------|
| 1 | British Airways | 47 |
| 2 | Austrian Airlines | 46 |
| 3 | Aer Lingus | 42 |
| 4 | Finnair | 36 |
| 5 | Iberia | 35 |
| 6 | Lufthansa | 35 |
| 7 | SAS | 32 |
| 8 | Aer Araan | 21 |
| 9 | Air Malta | 18 |
| 10 | Air Via | 17 |

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His specialties include route development, airport air service development and revenue management. His clients include airlines, airports, aircraft manufacturers and other entities involved in commercial air transport. Mr. Beckerman has been with the firm since 1999.

He earned his bachelors degree in international relations and French at the University of Virginia and his MBA at Emory University's Goizueta School of Business.

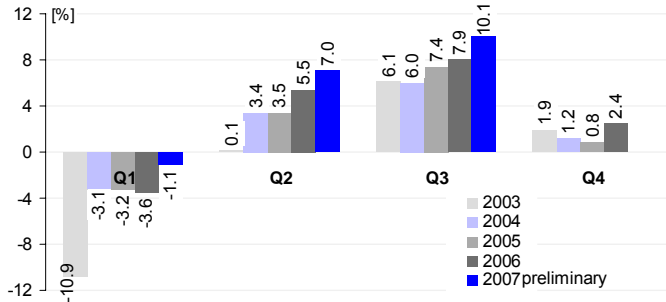
¹ Analysis is based on the published carrier rather than the operator in the case of code-sharing. Therefore British Airways Express would be counted as British Airways.



House Numbers

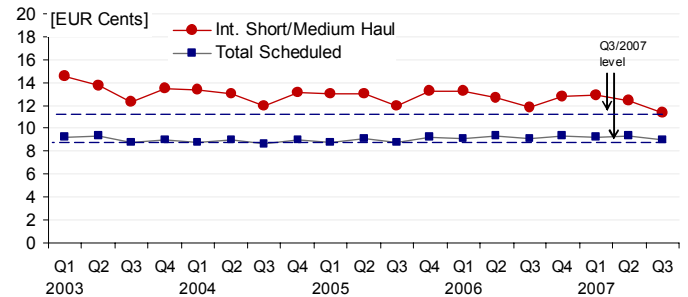
Operating Margin before interest [%]

| Year (Q1-3) | % | Δpts | Q3 | % | Δpts |
|-------------|-----|------|-------|------|------|
| 2007: | 5.7 | ↑ | 2007: | 10.1 | ↑ |
| 2006: | 3.6 | 2.1 | 2006: | 7.9 | 2.2 |



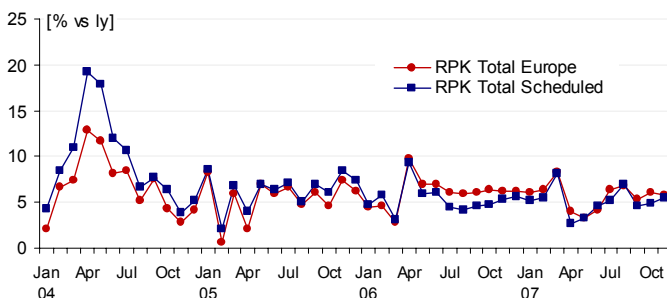
Passenger Yields (Gross Passenger Revenue per RPK)

| 2007 (Q1-3) | Δ% | Q3 | Δ% |
|------------------------|--------|--------|----|
| Int. Short/Medium Haul | -2.6 ↓ | -3.3 ↓ | |
| Total Scheduled | 0.1 ↑ | -0.5 ↓ | |



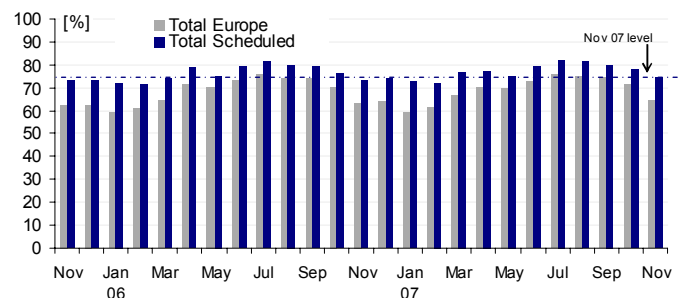
Monthly Traffic Growth [%]

| Year to date (-Nov) | Δ% | Nov | Δ% |
|---------------------|-------|-----|-------|
| Total Europe | 5.6 ↑ | yoy | 5.7 ↑ |
| Total Scheduled | 5.1 ↑ | yoy | 5.5 ↑ |



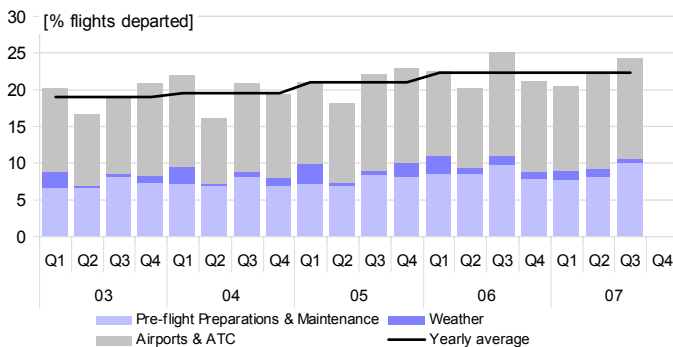
Passenger Load Factor (PLF)

| Year to date (-Nov) | Δ%pts | Nov | Δ%pts |
|---------------------|-------|-----|-------|
| Total Europe | 0.5 ↑ | yoy | 1.0 ↑ |
| Total Scheduled | 0.7 ↑ | yoy | 0.9 ↑ |



AEA Quarterly Delay Rates on Intra-European services

% Departures delayed more than 15 minutes by reason



Δ = Deviation
 ly = last year
 Q = Quarter
 RPK = Revenue Passenger Kilometres
 Total Europe = incl. Domestic

Operating Margin: Operating Result (before interest) in % of Total Operating Revenues; Submission currency = EUR

Passenger Yields: Based on constant membership; Submission currency = EUR

Monthly Traffic Growth: Based on constant membership

Passenger Load Factor: PLF = RPK/ASK

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