

Financial Trends

Q3 / 2009

ASSOCIATION OF EUROPEAN AIRLINES

- Adria Airways
- Aegean Airlines
- Aer Lingus
- AeroSvit
- airBaltic
- Air France
- Air Malta
- Alitalia
- Austrian
- bmi
- British Airways
- brussels airlines
- Cargolux
- Croatia Airlines
- Cyprus Airways
- Czech Airlines
- DHL
- Finnair
- Iberia
- Icelandair
- Jat Airways
- KLM
- LOT
- Lufthansa
- Luxair
- Malev
- Montenegro Airlines
- Olympic Air
- SAS Scandinavian Airlines
- SWISS
- TAP Portugal
- TAROM
- TNT Airways
- Turkish Airlines
- Ukraine International Airlines
- Virgin Atlantic Airways



17 December 2009

FINANCIAL TRENDS – Q3 2009

Please find attached the first issue of a new publication from AEA. 'Financial Trends' will appear 4 times a year, and will take an in-depth look at the revenue and cost drivers for AEA airlines. 2009 saw the industry plunged into the deepest crisis it has seen in its history. Traffic volumes have plummeted and there is no immediate recovery in sight. More worryingly the fall in yields has now reached a level which puts in jeopardy the survival of the traditional business model. AEA expects its member to post an operating loss of EUR -3 bn to EUR -3.5 bn in 2009, which will require a fundamental re-trench to prepare for a sustainable future. In this and future issues of 'Financial Trends' we will quantify the impact on revenues and the development of various cost items, such as fuel costs.

In this issue, based on Q3 financial data:

- **EU27 economies halted the decline in economic growth in Q3, with some economies emerging from recession. The recession may be over, the crisis is not. EU27 economies will see GDP shrink by -4.1% in 2009, with expectation for 2010 very subdued, at +0.7%.**
- **Access to new and affordable funding is limited, as European airline stock price levels remain depressed. Smaller carrier in particular are seeing cash levels squeezed due to the financial crisis.**
- **Yields continue to show substantial and accelerating weakness, now at -14.4% over 2008, driven by slow demand and loss of premium traffic.**
- **Some cost items, notable airport charges and navigation charges as well as fuel prices continue to rise, hampering efforts to cut costs.**
- **Traditionally the most profitable quarters of the year, 2009 brought negative EBIT in both Q2 and Q3, for the very first time, in addition to a negative Q1. AEA has now revised it's financial result for 2009 down, from EUR -2.9 bn to between EUR -3 bn and EUR -3.5 bn.**

FINANCIAL TRENDS Q3-2009

Financial Trends Q3-2009

- *By third quarter 2009 France and Germany exited recession and EU27 GDP grew by 0.3% quarter-on-quarter, suggesting the first signs of economic recovery. Year-on-year GDP growth is still expected to be -4.1% over 2008.*
- *European Stock markets although improving are well below previous levels. Weak airline stock prices hamper access to, and cost of, additional capital.*
- *AEA Q3-2009 EBIT level reached EUR -29 mill on an operating margin of -0.2%, as cost cutting measures took effect.*
- *AEA revises its 2009 forecast to an EBIT of between EUR -3 bn to EUR -3.5bn.*
- *Unit revenues and unit costs fall on lower volume and prices.*
- *Yields continue to show substantial and accelerating weakness, now at -14.4% over 2008, driven by slow demand and loss of premium traffic.*
- *Operating Cost Development: Fuel costs, airport & navigation charges.*
- *AEA Balance Sheet: During the financial crisis, the cash position of larger carriers remains favorable, cash squeeze affecting small and medium-sized airlines most, with limited access to borrowing facility leaving some in a very vulnerable position.*
- *Fuel prices rose steadily throughout the year, are expected to average USD 18/barrel more in 2010 than in 2009.*
- *The euro continue to appreciate against the USD, reaching 1.49 USD per euro in November 2009. The strong euro brought some relief for USD expenses, such as fuel contracts.*

EU27 Economic decline halted in Q3 as some countries exited recession. The recession may be over , the crisis is not.

2009 has seen the worst economic recession since the 1930s. By third quarter 2009 EU27 GDP grew by 0.3%, suggesting the first signs of economic recovery, consumption levels stabilized, exports picked up slightly, whilst imports remain weak. The French and German economies, Europe's largest, grew for a second consecutive quarter, confirming they are out of recession. However, the UK, Europe's

third largest economy hard hit by the financial sector crisis, continued to contract, now for the 6th quarter in row in a series not seen since 1955. Spain also failed to post positive results. Elsewhere, following Japan's emergence from recession in Q2, the US economy also recorded a positive GDP development in Q3.

Whilst quarter-on-quarter results show signs of improvement, year-on-year EU27 GDP growth for 2009 is expected to be -4.1% below 2008, with underlying structural weaknesses and the effects of the credit and liquidity crisis likely to persist for some time yet. EU27 unemployment levels, which in October 2009 stood at 9.3% of the labor force, are not expected to peak before mid-2010, dampening potential for consumer spending and household investment and reflecting ongoing low levels of business activity and confidence.

The European Central Bank continued to hold its official interbank lending rate at 1%, well above rates in other major economies. Consequently the euro continued to appreciate, putting an increasing pressure on exports.

Meanwhile government support measures are putting increasing pressure on public debt levels which will need to be compensated from increased government earnings.

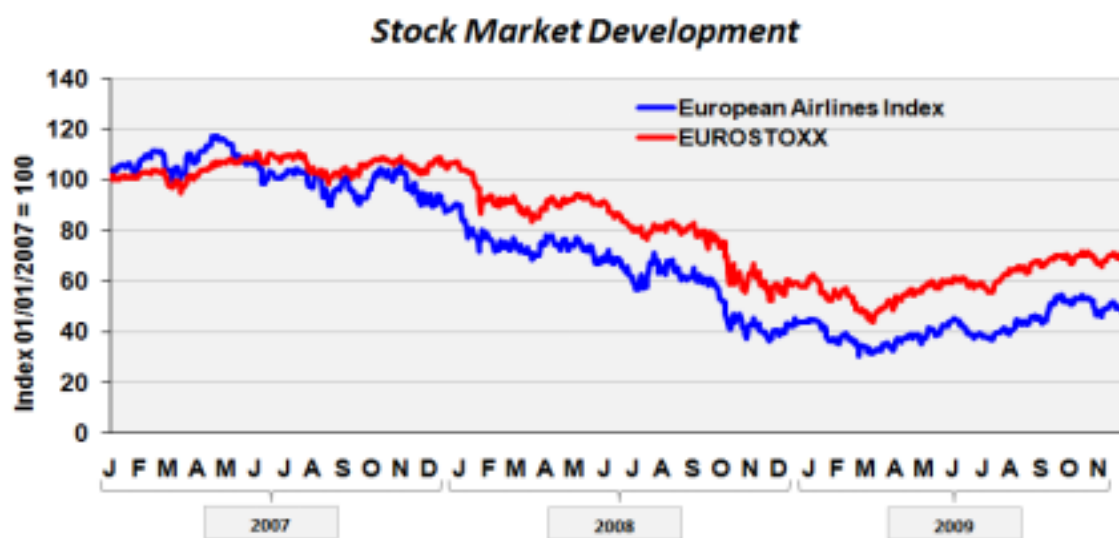
Going forward economic growth is likely to be subdued and EU27 GDP growth in 2010 is not expected to exceed +0.7%.

European Stock markets although improving are well below previous levels

The stock market is often considered as one of the primary indicators of an economy's strength and development. The Dow Jones EURO Stoxx 50, a general stock index including major companies of the Eurozone, continued to improve from the low levels seen at the start of the year. Share prices were boosted by the first encouraging macroeconomic indicators and on speculation that recovery would be full and sustained.

The development of the European airlines index has followed the same path as the EUROSTOXX. Yet today's share price levels are well below those seen just two

years ago, in 2007, the best year in terms of profitability in the European aviation history.



The stock & bond markets are one of the most important sources for publicly traded companies to raise additional capital through new share issues. Low share prices clearly hamper their ability to do so. Furthermore, in the course of 2009 individual airline credit ratings have been revised downwards, leading to difficulties in finding new funding and deterioration in funding terms for commercial credit lines.

AEA Q3-2009 EBIT level reached EUR -29 mill on an operating margin of -0.2%, as cost cutting measures took effect.

In EUR Million

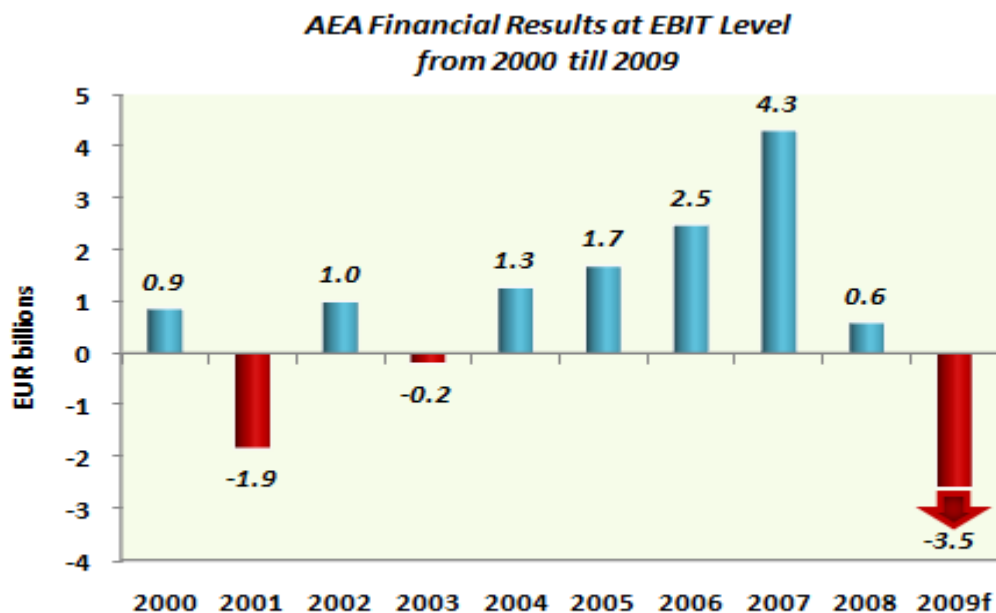
AEA	Airlines	2008		2009		(% Chng. 2009 over 2008)	
		EBIT	EBIT Margin %	EBIT	EBIT Margin %	Revenue	Oper. Expense
23	Q1	-236	-1.3	-1,806	-11.8	-15.4%	-6.6%
	Q2	523	2.5	-1,046	-6.4	-20.4%	-13.1%
	Q3	731	3.4	-29	-0.2	-16.8%	-13.7%
	Q4						
	YTD	1,019	1.7	-2,881	-5.8	-17.6%	-11.3%

Final AEA results can include Group results

The European airline industry continues to face substantial challenges from unprecedented revenue declines and volatile fuel prices. Historically, profitability is

driven by healthy results posted in the 2nd and 3rd quarters, whilst 1st and 4th quarters are usually slower.

This crisis brought about a sudden and catastrophic fall in levels of passenger and cargo demand, which saw overall load factors slip from mid-2008 onwards. Q3-2009 saw the first reversal of this trend, as with reduced number of frequencies in the face of lower demand, demand and capacity found a new balance. Besides the important loss on traffic volumes, 2009 also brought a severely weakened revenue environment. Third quarter results continued to be adversely affected by declines in high yield traffic as corporate travel policies restricted travel in general and premium travel in particular and by lower cargo yields. Total revenue for the 3rd quarter was down by -16.8% compared to the same period in 2008, due to a combination of lower levels of traffic and lower revenues per unit of production. On the cost side, the crisis response of internal cost cutting measures which airlines introduced began to take effect, fuel costs increases, the single largest cost item, were limited, although some external costs, such as airport charges and navigation charges, continued to rise. All in all AEA airlines posted an operating loss of EUR 29 million in Q3-2009. Although still negative this is the best quarterly result of 2009 so far.



Source: AEA Operating Profit before interest or taxes.
AEA results are not adjusted for member participation

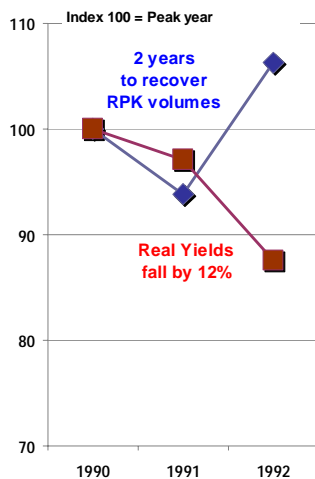
AEA revises its 2009 forecast to an EBIT of between EUR -3 bn to EUR -3.5bn.

Year-to-date earnings before interest and tax (EBIT) currently stand at EUR -2.9 bn. With the 9 month result now equaling AEA's previous forecast for the 12-months of 2009, it is clear that the annual outlook will be worse than expected. AEA has thus revised its forecast for 2009 to an EBIT result of between EUR -3 bn to EUR -3.5 bn.

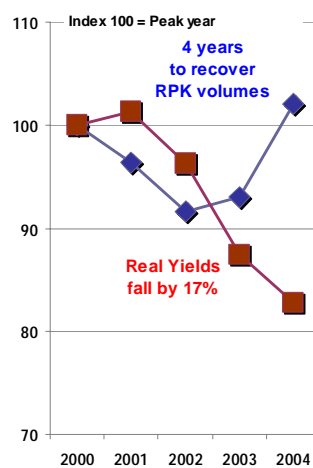
This forecast is predicated on no real improvement in the demand environment, continuing downward pressure on yields in all regions and increasing volatility in fuel prices, which are expected to move upwards as economic growth returns. Any stabilization in volume is far from making up for the significant falls in yields.

The graphics below illustrate that with each successive crisis the industry faces, it takes longer to recover passenger traffic volumes, whilst passenger yields (including surcharges) never recover.

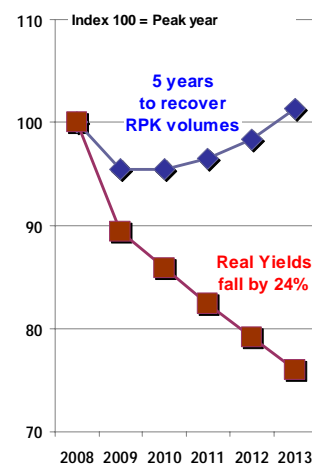
1991 Gulf War I



9/11, Gulf War II, SARS



2008/9 Economic Crisis



Unit revenues and unit costs fall on lower volume and prices

Unit Revenue in EUR Cent = TOR / ATK

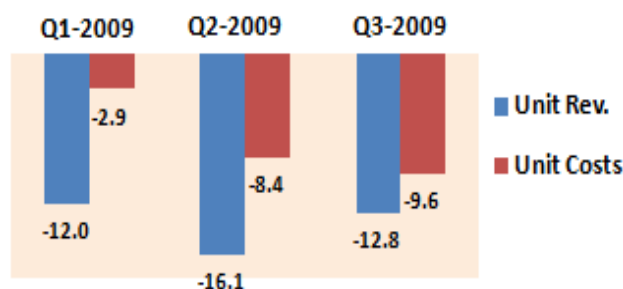
Unit Costs in EUR Cent = TOEbl / ATK

AEA	Airlines	2008		2009		(%) Chng.	
		Unit Rev.	Unit Costs	Unit Rev.	Unit Costs	Unit Rev.	Unit Costs
23	Q1	53.5	54.2	47.1	52.6	-12.0%	-2.9%
	Q2	56.7	55.2	47.5	50.6	-16.1%	-8.4%
	Q3	57.7	55.7	50.3	50.4	-12.8%	-9.6%
	Q4						
	YTD	56.0	55.1	48.3	51.1	-13.7%	-7.1%

TOR = Total Operating Revenue

TOEbl = Total Operating Expenses before Interest

% change 2009 over 2008



When oil prices dropped rapidly it looked promising on the cost side, but revenues soon began falling even faster than the price of fuel...

Q3-2009 figures show that Unit revenue per ATK was EUR cents 50.3 (-12.8%) and Unit Costs per ATK stood at EUR cents 50.4 (-9.6%).

Yields continue to show substantial and accelerating weakness, now at -14.4% over 2008, driven by slow demand and loss of premium traffic.

In all geographic route areas AEA airlines posted poor yield results in Q3-2009 as air travel demand remained weak compared to last year. More significantly, the fall in yields which has been observed through the first two quarters of the year accelerated in Q3.

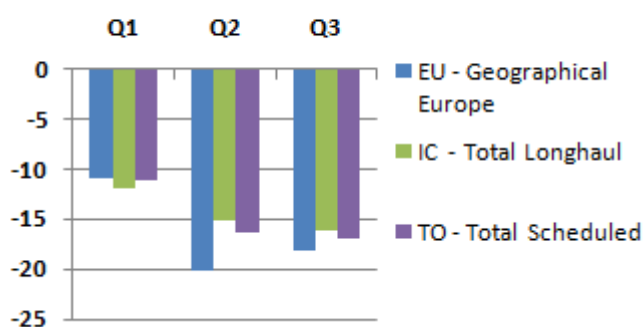
Yield for international services within Europe fell by -18.2% in Q3-2009 (year-to-date -16.7%), yields on longhaul services, including amongst others services on the North Atlantic and Far East regions, were down by -16.2% (year-to-date -14.9%), whilst overall yield results on all scheduled services fell by -16.9% (year-to-date -14.4%).

As long as air travel demand, and in particular premium traffic, remains weak, yields will continue to be under pressure. In revenue terms, premium traffic represents a significant portion of the total operating revenue.

Regions	% change 2009 over 2008				
	Q1	Q2	Q3	Q4	YTD
EU - Geographical Europe	-10.9%	-20.2%	-18.2%		-16.7%
IC - Total Longhaul	-11.9%	-15.2%	-16.2%		-14.9%
TO - Total Scheduled	-11.1%	-16.3%	-16.9%		-14.4%

AEA figures are adjusted for member participation

Yield (%) change 2009 over 2008



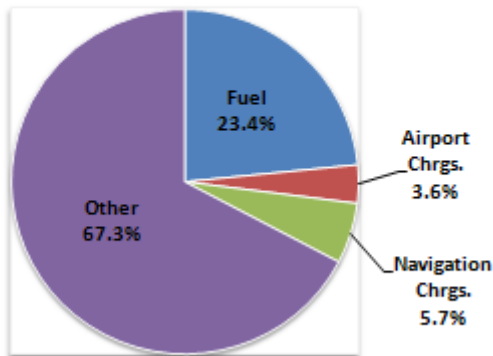
Operating Cost Development: Fuel costs, airport & navigation charges

AEA airline's the total operating expenses were down by -13.7% in Q3-2009 compared to the same period in 2008. In addition to the ongoing capacity adjustments, substantial cost-cutting measures have been introduced to deal with the challenging demand and revenue environment.

The most important cost driver was fuel expenses which decreased by 32.3%, now representing 25.1% of the operating costs in Q3-2009, The drop was mainly due to the falling oil prices, lower consumption due to lower traffic and the favorable impact of EUR/USD exchange rates. However

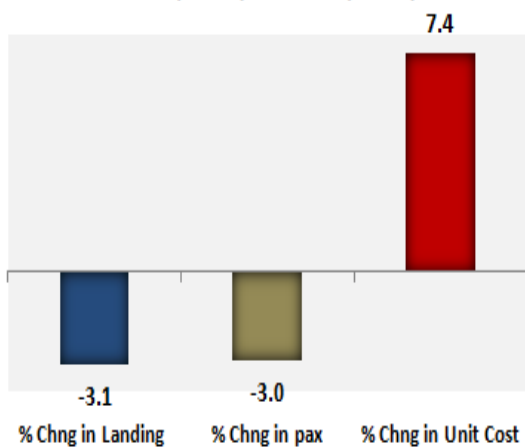
actual fuel costs as paid were still high due to the fuel hedges signed in 2008, at prices higher than current market levels, by some airlines.

**% Portion of Total Operating Expenses
YTD (Q1 till Q3) in 2009**



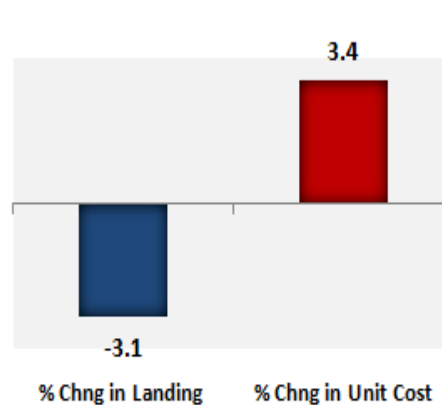
In Q3-2009, airport charges and air navigation charges represented a combined share of 9.4% of total operating expenses, a significant portion within the airlines' cost structure. Whilst airlines have reduced flights and seen passenger numbers fall, unit rates for both charges have continued to rise at most major European airports and air navigation services providers in 2009. Although some service providers have made efforts to improve their cost efficiency and reduce rates, many others have not and rates will continue to increase in 2010.

**Airport Charges: Unit Cost (%) Chng.
2009 (Q1-Q3) over 2008 (Q1-Q3)**



*Unit Cost per Pax paid by airlines

**Navigation Charges: Unit Cost (%) Chng.
2009 (Q1-Q3) over 2008 (Q1-Q3)**



*Unit Cost per Landing paid by airlines

A study of a sample of 14 AEA carriers shows the following development in airport and navigation charges. Average unit cost of airport charges paid by AEA airlines increased by 7.4% year-to-date in 2009, compared to the same period in 2008. Unit navigation charges paid by AEA airlines increased by 3.4% year-to-date in 2009. In the same period the number of landings performed dropped by -3.1% and the number of passengers fell by -3.0%.

In general, all staff cost have decreased significantly, as a result of agreements reached with staff including pay freezes and high level of job cuts implemented across the European airline industry during the year. Total AEA job losses will amount to approx. 37,866, or 9% of the workforce in 2009.

All other major operating expenses decreased in Q3-2009. The declines were primarily due to less operations and cost restructuring programs implemented in Q3-2009.

AEA Balance Sheet: Cash squeeze affecting small and medium-sized airlines most.

Large Airlines (as of Sep 30, 2009)

B/S Items	Sep 30 - 2009	Beginning of Fiscal Year
Current Ratio	0.84	0.75
Quick Ratio	0.70	0.59
Debt-to-Equity Ratio	1.25	1.02

(Data is based on 4 major airlines)

Despite unfavorable trading conditions, the large airline members of AEA have so far maintained a solid financial structure. The cash position among large airlines is still quite strong, although it is slightly negatively impacted by unfavorable exchange rates towards the end of the year compared to the beginning of fiscal year.

Both current ratio and quick ratio, which measure the company's financial ability to meet its short-term liabilities, have improved thanks to higher cash levels and a decrease of the fair value of the fuel derivatives. The still low level of current and quick ratio, which is less than 1 reflects the

adverse effects of the economic crisis on a companies' cash-generating ability. It is also partly due to reduced cash following consolidation activity which took place during the course of the year.

The large airlines have successfully issued several non-current bonded loans to raise cash, which consequently drove up debt-to-equity ratio.

Medium & Small Airlines (as of Jun 30, 2009)

B/S Items	Jun 30 - 2009	Beginning of Fiscal Year
Current Ratio	0.91	1.00
Quick Ratio	0.51	0.40
Debt-to-equity Ratio	0.83	0.78

(Data is based on 4 medium & small airlines)

The financial structures of medium & small airlines vary greatly since some airlines have performed much better than others. The high performers have been able to raise their cash level through improved financial results. The poor performers will face difficulties meeting their short-term liabilities due to lack of resources.

Overall, the medium and small airlines have more limited access to borrowing facility to raise cash than the large airlines. This leaves some airlines in a very vulnerable position during the financial crisis.

Key Terms

Current Ratio = (Current Assets / Current Liabilities). In general, current ratio of 2 or better is considered as good level.

Quick Ratio = ((Cash and Cash equivalent + Account Receivable) / Current Liabilities)). A quick ratio of 1 or better is considered as good level.

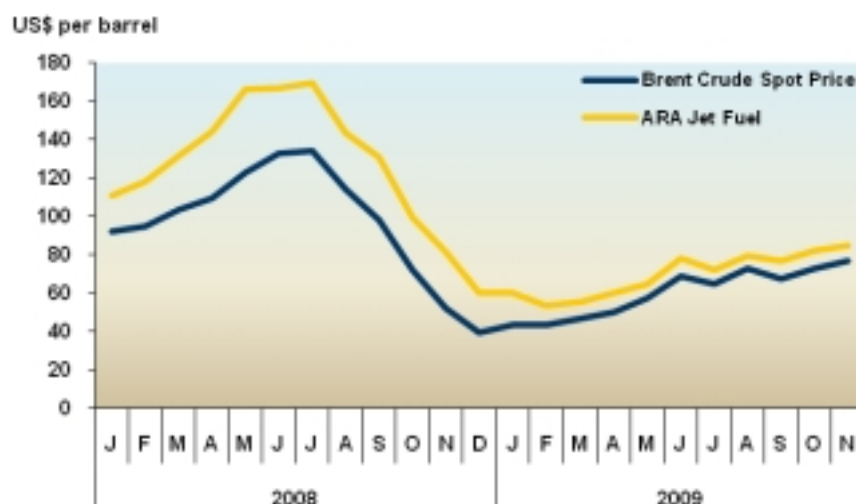
Debt-to-Equity Ratio = (Long Term Debt and borrowings / Total Shareholders' Equity). A debt to equity ratio of 1 or less is considered as good level.

Fuel prices rose steadily throughout the year now averaging USD 60.31 in 2009, with the expectation that they will continue to increase in 2010, on an average of USD 78.7.

Following the extreme volatility of fuel prices of 2008, crude oil prices displayed an altogether different development in 2009. Prices which had contracted significantly in the latter half of 2008 as economic growth evaporated have risen gently throughout the year, from a January average price for a barrel of Brent crude of USD 43.33 to a November average of USD 76.66.

In particular the reduction in the refiner's margin, the so-called crack spread, between crude oil and jet fuel was noticeable in 2009, and is explained by lower levels of demand for all middle distillates (gas oil and aviation jet fuel) as a result of the crisis and high levels of stock. This advantage is likely to dissipate as demand returns or as refiners adapt to lower demand.

Crude and Jet Fuel Price Evolution



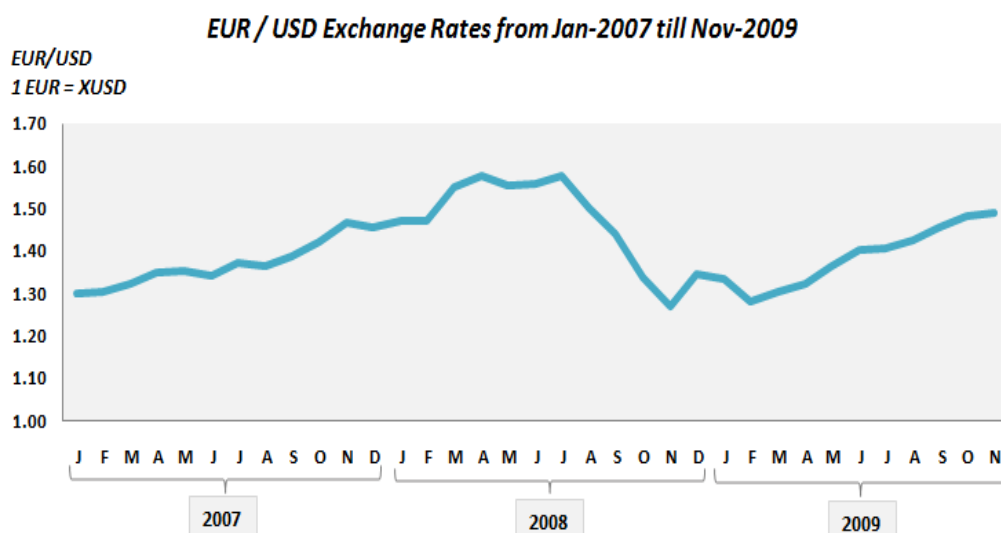
	2008		2009	
	Q3	YTD*	Q3	YTD*
Brent Crude avg. price: USD per barrel	115.14	102.27	68.20	60.31
ARA Jet Fuel avg. price: USD per barrel	147.82	132.77	76.04	69.71
Crack Spread in USD	32.68	30.50	7.84	9.40

*YTD includes months from Jan till November

Fuel prices are expected to continue on this upward path. Some market analyst are forecasting that the crude oil price would reach around USD 90 per barrel by the end of 2010, with EIA are expecting an average over the year of USD 78.7 as economic growth resumes (compared to USD 60.31 average for the 11 months to November 2009).

With the fuel cost portion of 25.11% of the Total Operating Expenses in Q3-2009, fluctuation in fuel prices have a considerable effect on airline profitability.

The euro continue to appreciate against the USD, reaching 1.49 USD per euro in November 2009. The strong euro brought some relief for USD expenses, such as fuel contracts.



Looking at exchange rate movements, until the summer of 2008 the EUR gained strength against a weakening USD. In the latter half of the year it started to loose ground, in particular following the Lehman Brothers collapse, as the USD benefited from temporary factors associated with a widespread shortage of USD liquidity in the financial markets.

Following some brief disturbance at the turn of the year, the EUR started regain its upward trend against the USD from March 2009 onwards and has continued to increase ever since. By November 2009 it reached a monthly average rate of 1.49, its highest in 2009.

The strong exchange rate fluctuations had a significant effect on individual items of the income statement. All airlines have costs in USD, the currency denomination for amongst others, fuel contracts and leasing agreements. Some carriers, in particular those with longhaul activities to the US or other dollar-denominated countries, also have revenue in USD. The impact on an airline of currency fluctuations depends on the balance of costs and revenues in the foreign currency under revenue. Euro-denominated companies with limited or no revenue but a significant cost portion in USD, benefited from the favorable EUR/USD exchange rates in Q3-2009 more than the companies with equal level of revenue and expenses, as lower USD income was offset by the lower USD expenses.

AVENUE LOUISE 350 | 1050 BRUSSELS | BELGIUM
TEL. +32 (0)2 639 89 89 | FAX. +32 (0)2 639 89 99
AEA.SECRETARIAT@AEA.BE | WWW.AEA.BE



ASSOCIATION OF EUROPEAN AIRLINES