

Traffic Trends

10 / 2009

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17 December 2009

TRAFFIC TRENDS – October 2009

Please find attached the first issue of a new publication from AEA. 'Traffic Trends' will appear 6 times a year, and will take an in-depth look at traffic and capacity trends in Europe and between Europe and other parts of the world. 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 'Traffic Trends' we will look at some of the effects of loss of passenger and cargo volumes, the ensuing market share shifts and possible modal shifts.

In this issue, based on October traffic data:

- **Passenger and freight traffic have seen a continuous decline over a protracted period of time. RTK volumes are now back at 2005 levels, with little hope for immediate relief.**
- **In passenger traffic European routes lost most, most longhaul regions were also affected. Traffic flows between Europe and North Africa, Sub-Saharan Africa and the Middle East will post positive growth in 2009, although load factor was lost as airlines added too much capacity.**
- **One in four passengers lost was a premium passenger. Yields slide by -14.4%. Any return of travel for business in 2010 is not expected to be premium traffic. Rising unemployment levels will limit leisure demand.**
- **EU27 economies will see GDP shrink by -4.1% in 2009, with expectation for 2010 very subdued, at +0.7%. Several fundamentals suggest little return of traffic demand through the early months of 2010.**
- **Even if volume returns, value is still a long way off. AEA has revised its financial result for 2009 down, from EUR -2.9 bn to between EUR -3 bn and EUR -3.5 bn.**

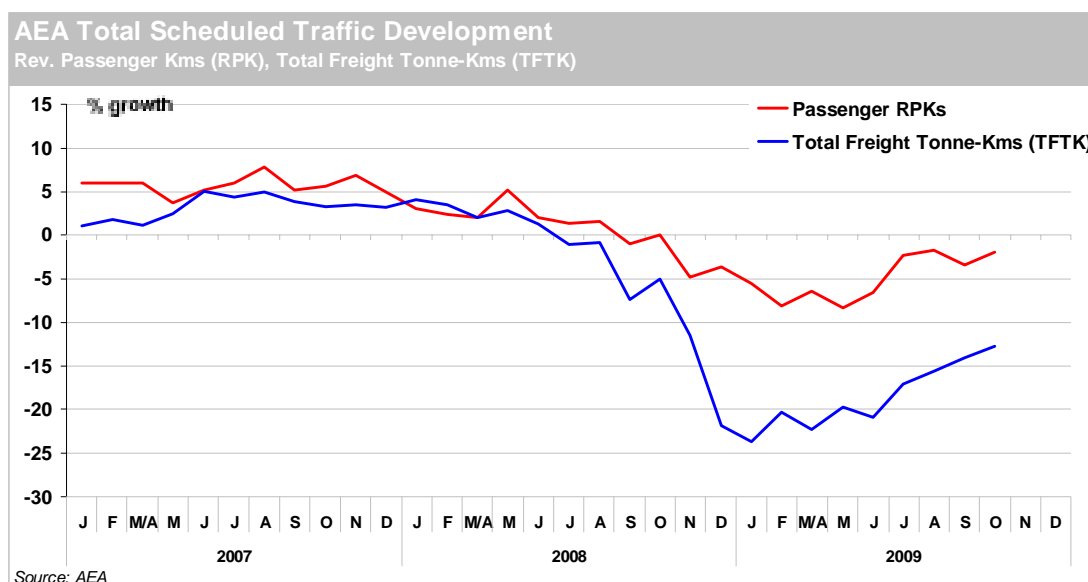
TRAFFIC TRENDS 10/2009

Traffic Trends October 2009

- *Passenger traffic (RPK): October -2.0%; January–October -5.1%.*
- *Freight Tonne-Kms (FTK): October -12.7%; January-October: -19.1%.*
- *Growth rates are now measured over an increasingly weak base year. The alleged green shoots are a consequence of statistical method rather an indication of a fundamental improvement.*
- *In terms of revenue tonne-kms (RTK), a traffic measure which combines passenger and freight traffic, traffic volume is now below that of 2005. Four years of growth have been lost.*
- *European and most longhaul services will all register significant loss in passenger traffic in 2009. Only Middle East and North & Sub-Saharan Africa will achieve positive growth. Overall passenger traffic is now expected to grow at -4% to -4.5% for the year.*
- *A similar regional pattern is observed for freight traffic as for passenger traffic, with North Africa and Middle East the only regions to show growth, with the longhaul areas significantly in the red. The annual FTK growth figure is expected to be around -19%.*
- *Premium passenger losses have been significant, with 1 in every 4 being a premium passengers. This has had an impact on yields, which are down by -14.4% in the first 9 months of the year.*
- *Given weak economic prospects in 2010, with EU27 GDP forecast at a modest +0.7%, AEA airlines are wisely further passenger capacity cuts for the Winter season, which started at the end of October 2009.*
- *AEA outlook for passenger traffic growth in 2010 is for a level on a par with that of 2009, or a zero growth rate on the expectation that travel demand will not shrink further, but will stabilise at current low levels. Freight levels will remain subdued in line with economic activity.*
- *Volume alone is no longer a good indicator of financial health of the industry. With every crisis it takes longer to recover volumes, but yields never recover. AEA is now forecasting an EBIT result for its members in the range of € -3 bn to € -3.5 bn for 2009.*

In the economic crisis AEA airlines suffered a continuous decline in traffic over a protracted period of time.

Total Scheduled passenger traffic for AEA airlines grew by -2.0% in October. This follows a fall of -3.4% in September 2009 after a lessor traffic loss in the peak Summer months of July and August. Growth is now measured over an increasingly weak baseline, with the first negative traffic results recorded in September of last year. As the crisis took hold and traffic losses deepened through the latter days of 2008, the likelihood exists that year on year growth rates may bring some seemingly better results in coming months, ending the now 14-month series of negative figures. For the 10 months of 2009, passenger traffic is showing a growth rate of -5.1%.



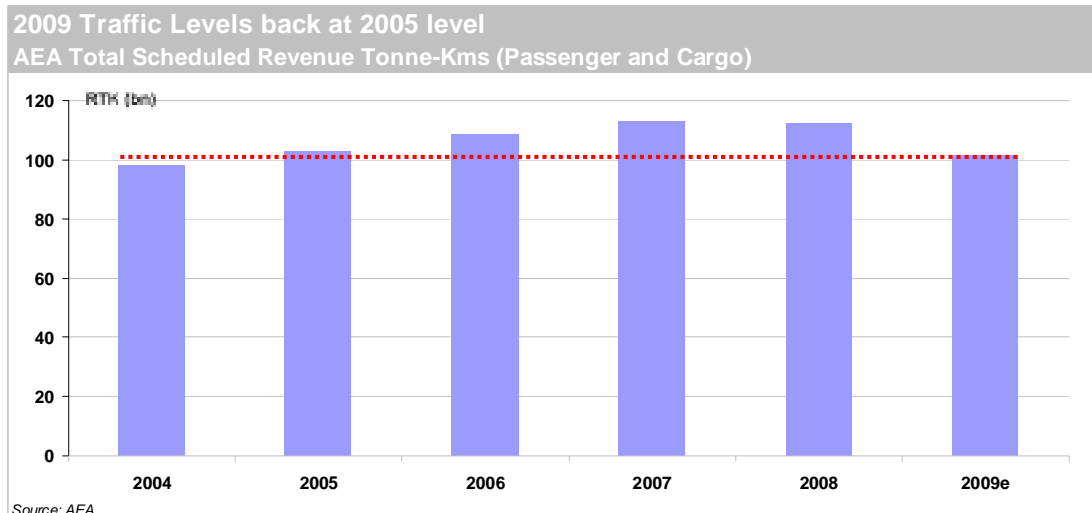
Freight traffic, measured in freight tonne-kms, grew by -12.7% in October continuing an upward progression and recovery from the sudden and devastating loss of traffic in the latter months of 2008 and early 2009. The figure hides an almost complete return to previous level of freight carried in belly-hold on passenger aircraft (-0.3% in October 2009 over October 2008), compared to a still significant -28.8% loss for freight carried on all-cargo aircraft, on top of the -7.3% recorded in October last year. Cargo tonnage to the USA, AEA's largest freight market is down both in-bound and out-bound, whilst China, Hong Kong and Japan, all major suppliers of manufacturing goods to Europe, show greater weakness on inbound services to Europe reflecting the weak economic climate and lower levels of consumer and business expenditure.

Year to date freight traffic grew by -19.1%, following a loss of -2.7% in 2008. With the annual figure likely to be not much different from year-to-date this will be by far the worst result on record. Runner up is 2001, year of the 9/11 attacks, at a modest -7.1%. Belly-hold freight accounts for 63% of all freight carried by AEA carriers, whilst freight carried on all-cargo aircraft makes up the remaining 37%. Year-to-date the former recorded a fall in tonne-kms of -10.9; the latter of -29.9%.

The economic crisis has wiped out four years of growth and will continue to leave a lasting impact on the industry in the future.

As predicted, preliminary figures from the AEA Weekly Monitor show a first positive growth rate for passenger traffic occurring in week 47, the third week of November. Far from being the 'green shoots' often cited, this is one case where a 'plus' is *not* a positive. In all months of 2009 RPK levels are below both 2008 and 2007 levels. For full year 2009 traffic growth is expected to show growth of around -4.5%, a loss of traffic attributable to an economic crisis on a scale never seen before.

The picture is even more dramatic when freight traffic developments are taken into consideration. AEA Total Scheduled Revenue Tonne-Kms – a measure of the quantity and distance of passenger and freight transported – are now back a level just below that of 2005. The economic crisis has effectively wiped out four years of traffic growth.



Passenger traffic: Europe loses most passengers, most longhaul regions also contracted. AEA traffic to North and Sub-Saharan Africa and the Middle East continued to grow.

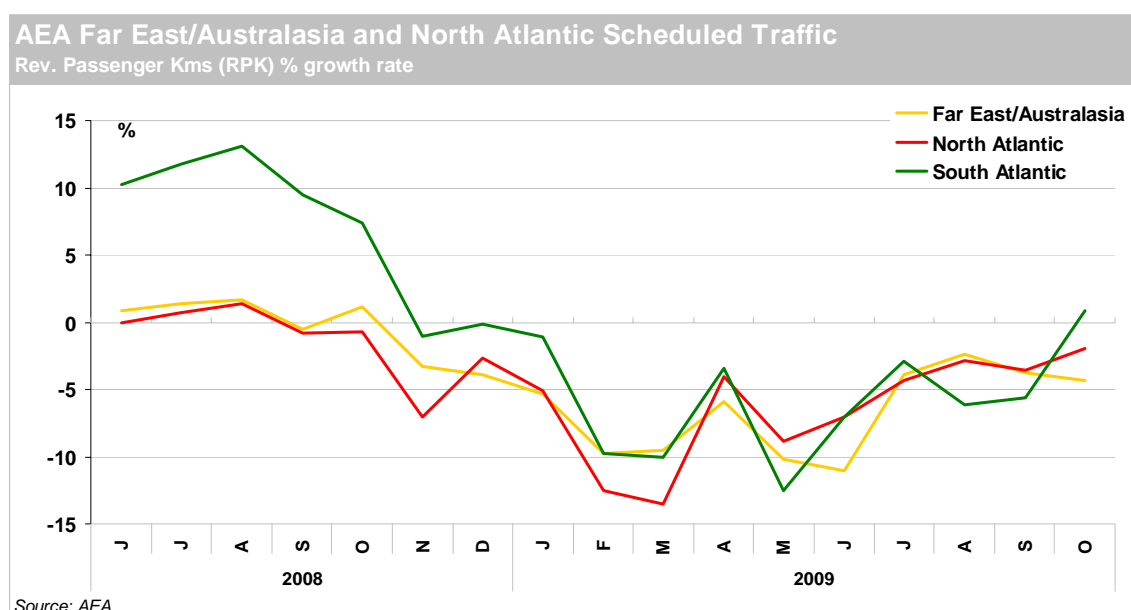
AEA traffic on Domestic routes was the area most severely affected by the crisis, followed by cross-border (international) services within **Europe**. Together these regions account for three quarters of all passengers transported by AEA carriers. Year to date traffic loss in RPK amounted to -6.3%, in passenger numbers -7.7% or 17.4 million passengers fewer transported than last year.

The trend is mirrored by scheduled regional carriers, members of ERA, which recorded a loss of passengers of -6.7% in January-July, although an upward shift in stage length means that RPK is less negative, at -1.8%. Europe's largest low cost carriers on the other hand continue to add both destinations and passengers. Ryanair and easyJet managed respectively +9.7% and +9.2% growth in passenger numbers ('earned seats') for January-October.

On the **Europe to North Atlantic** route area, the second most important region for AEA carriers, traffic remains sluggish, at -1.9% RPK in October 2009 following -3.6% in September. Passenger load factor reached a high of 87.9%, an amazing 6.4 %-pts above October 2008. This is the highest average load factor for October on record, and the fifth highest of any month for this route.

For the 10 months January-October accumulated, traffic shrunk, by -6%, a result clearly linked to the malaise in the financial services sector, with London, Frankfurt and New York important financial centers on both sides of the Atlantic -, and the low value of the dollar which deterred US visitors to Europe from as early as March 2008.

On a capacity cut of -6.9%, passenger load factor reached 82.4% for the 10 months, an increase of +0.8 %-pts over the same period last year, and it is likely to end the year at a level close to the highest annual figure of 82.6% reached in 2005. Although US carriers have carried through significant capacity cuts at home (-8.7%) on international routes, including Europe, these have been more subdued (-4.7%), such that on services on Europe-North Atlantic there was been no noticeably shift in market shares between European and other carriers.



Services between **Europe and Far East/Australasia** operated by AEA carriers recorded the largest traffic fall of all long haul areas, with a -6.5% drop in RPK in year-to-date. Although the pattern of decline generally mirrors that seen on the North Atlantic route, the Far East route has seen a slight set back to recovery with October recording a third consecutive month in which a new slowing of growth occurred: October RPK stood at -4.3%, down from -3.7% in September and -2.4% in August. Preliminary figures from the AEA weekly collection suggest that this was a temporary phenomenon which will reverse in November.

Meanwhile Asian carriers are reporting a similar trend for international services whilst domestic China services are now growing strongly.

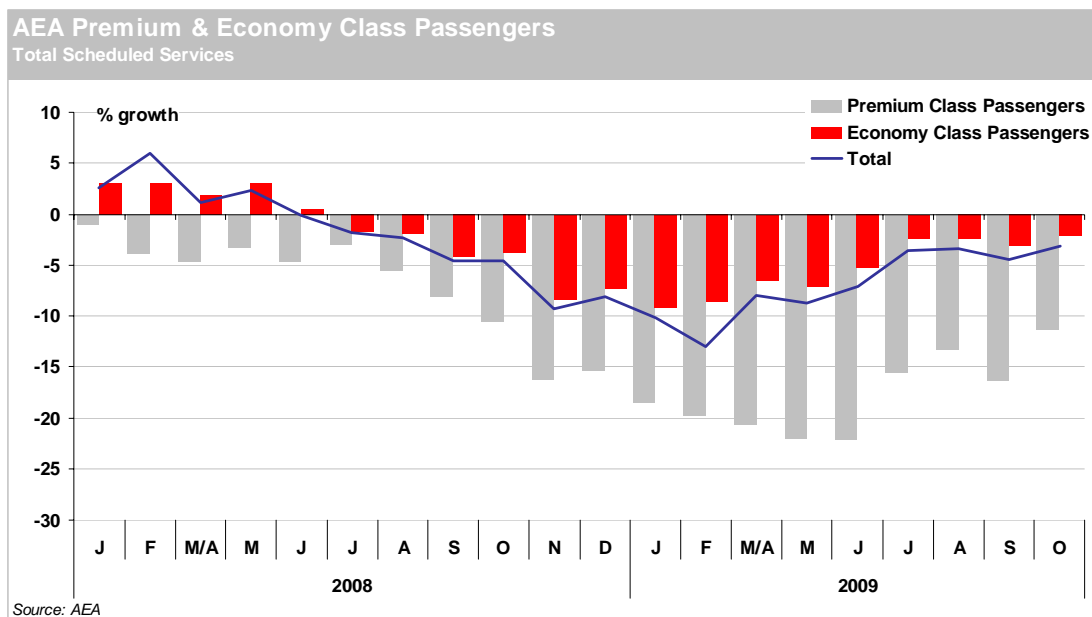
AEA Service between **Europe and the South Atlantic** region registered a traffic loss of -5.6% RPK year-to-date. Although the magnitude is similar to other long haul routes the decent has been more outspoken. The AEA South American traffic market has experienced double digit traffic growth since 2004, with 2007 still showing a +16.1% RPK growth. In 2008 this slipped to +8.1% and now to the current -5.6%. Capacity expansions remained double-digit until October 2008, softening and eventually turning negative in February 2009. Year-to-date capacity on offer (ASK) thus shows -3.3% growth with a 2 %-points fall in passenger load factors.

AEA traffic from **Europe to the Middle East** and to **North Africa** and **Sub-Saharan Africa** show quite distinct trend. All three have avoided the full impact of the economic unease, having slipped only briefly into negative growth in the early months of the crisis, and will post positive growth for the year as a whole. Moving forward into 2010, the situation with regards the Middle East region will need to be reassessed in the light of the Dubai financial crisis, news of which broke in December 2008.

Noticeable is the undeterred high rate of expansion of capacity on Middle Eastern routes by AEA carriers (+7.2%), double digit from the start of the Summer season onwards, which led to a fall of -4.7 %-pts in passenger load factor. Meanwhile the Middle East 'Big 3' (Emirates, Etihad and Qatar Airways) have not added many new European services in this period, although some frequencies on existing services have been increased. Consequently AEA carriers have increased their market share on Europe-Middle East routes, as measured in ASK and based on June OAG data, by 2 %-points to 34% in 2009.

Corporate travel policies restrict premium travel

This crisis in particular has seen a substantial shift in balance of fare classes on board, with impact on airline yields.



At Total Scheduled level, in the ten months to October the number of passengers transported fell by 6.7%, a loss of 19.8 million passengers. Of every 4 passengers lost, 1 was a premium class (first and business class) traveller. In revenue terms every business passenger is still worth 3.5 economy passengers, even at today's significantly lower fare levels.

The graphic above shows the evolution of passengers as seated by class of service, with information available up to October. The losses, which are observed through 2008, escalated in 2009.

The current crisis has led companies to shed labour and cut operating costs. The latter includes a review of company travel policies aimed at driving down travel costs and eliminating non-essential travel. In the 10 months to October AEA carriers reported a 18.3% fall in the number of premium passengers on board, or a loss of 5.5 million passengers. Published surveys of business travel decision makers suggest that in 2010 there will be a return of travel for business purposes as economic activity picks up again and to meet pent-up demand for travel. But a return of high yield passengers is unlikely to follow, with these journeys being taken in economy class instead of in business or first class. The clampdown on premium travel which was introduced at the peak of the crisis is seen as a long lasting corporate culture change

rather than a short-term crisis measure. Premium passengers now represent an 8.9 % share of passengers on board, compared to 10.1% in previous year.

AEA carriers reported a fall of -5.4% in economy passengers up to October 2009. Leisure travel demand is also linked to economic wealth, in particular access to employment and disposable income. In EU27 unemployment reached 9.3% of the labour force in October 2009, 2.0 %-points above October last year and the highest level since records began. Household investment rates (usually house purchases) are at their lowest level since 1999, also indicative of a climate of economic uncertainty. Despite, or because of this, final household expenditure is starting to pick up, although to a level just above that seen two years earlier.

The expectation is that travel demand will not shrink further, but is expected to stabilise at current low levels.

Outlook 2010: no growth over 2009 low levels

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. 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. Unemployment levels are not expected to peak before mid-2010, dampening consumer spending and household investment and reflecting low levels of business activity and confidence. 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%.

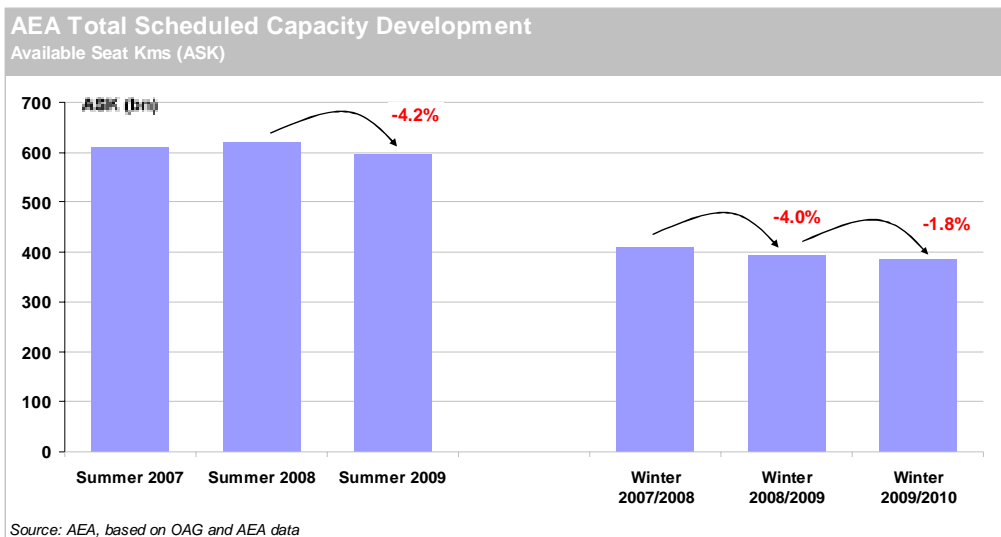
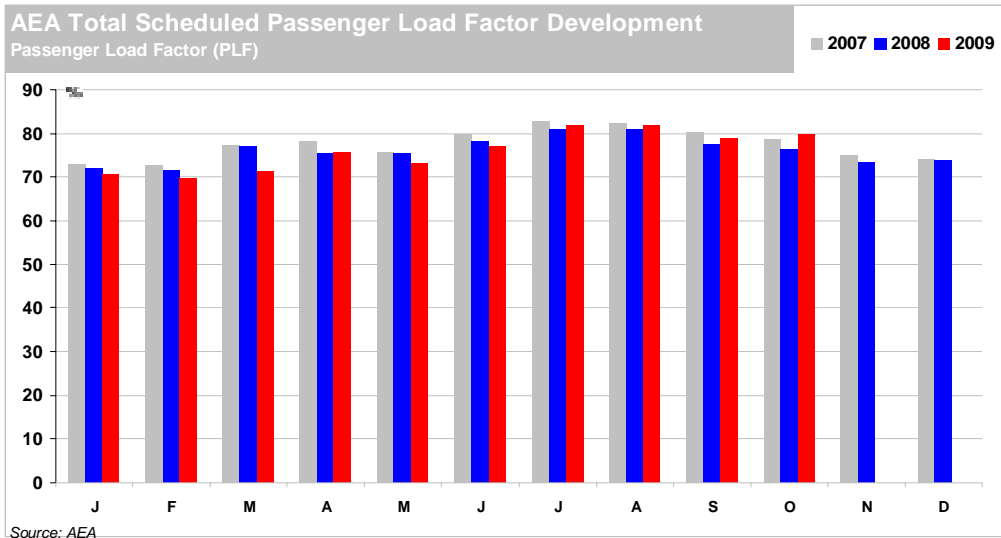
The expected traffic loss by AEA airlines in 2009 is likely to finish at around -4.5% RPK, the worst annual passenger traffic loss due to an economic crisis. Losses of this magnitude have been seen only due to external shocks: 1991 with Gulf War I saw a reduction in RPK of -6.2%; the terrorist attacks of 9/11 brought two consecutive years of traffic losses of resp. -3.6% in 2001 and -4.9% in 2002 followed by a small growth in 2003 under SARS. In both cases there was an equally strong rebound in following years, before steady growth was resumed.

Freight traffic development for the year is expected to end near the -19% (FTK) mark, following a loss of -2.7% in 2008. This will be by far the worst result on record, more than double the loss of the second worst annual result of -7.1% in 2001.

The events of 2009 are unique, and the future difficult to predict. AEA considers the most likely scenario to be a no-growth year in 2010, with traffic levels little different from those seen in 2009, with a positive trend not likely until 2011 and beyond.

Further capacity cuts for Winter 2009/2010

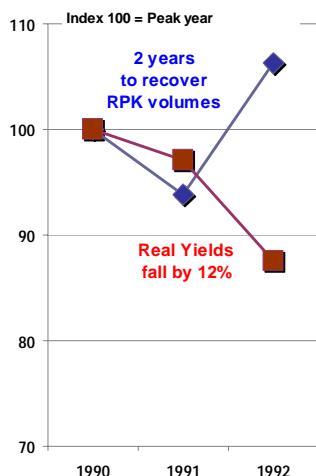
Total Scheduled seat capacity on offer for AEA airlines grew by -5.5% in October, following a -5.0% in September. With load factors reflecting a better match of capacity with traffic demand, the last 4 months have shown an improvement over 2008 load factors. At 76.2 for the year to October, a figure confirmed by AEA Weekly figures up to end of November, this is on a par with levels seen in 2006 and 2008, but still 1.4 %-points behind peak level as seen in 2007.



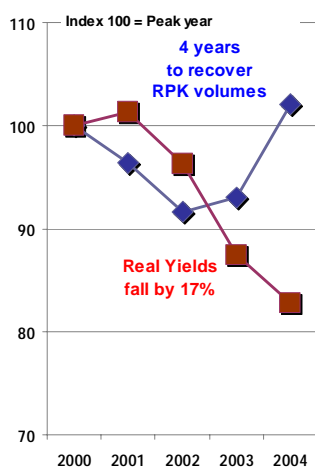
Last year at the start of the Winter season (at the end of October) AEA carriers were quick to respond to the traffic downturn, introducing a -4.0% reduction in capacity on offer. For the current Winter season more cuts are planned, with another -1.8% dropped in ASK below the already reduced level of Winter 2008/2009. Had a slot waiver had been granted for the Winter 2009/2010, airlines would have had greater flexibility in adjusting capacity levels.

Volume may return, value is still a long way off

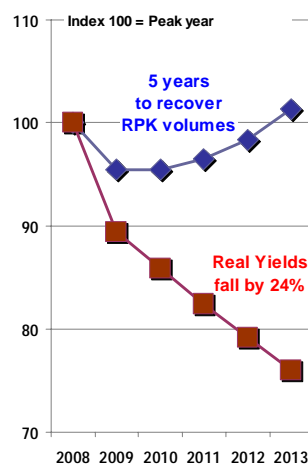
1991 Gulf War I



9/11, Gulf War II, SARS



2008/9 Economic Crisis



The volume of traffic alone is no longer a good indicator of health of the industry. Although traffic volumes could eventually recover, a return to profitability will be much more difficult to realise. AEA is forecasting an EBIT result for its members in the range of a loss of € -3 bn to € -3.5 bn. This is a deterioration from our mid-year estimate - of € -2.9 bn – as Q3 financial statements continued to bring disappointing results.

The unprecedented erosion of yields, now 14.4% below 2008 levels, precipitated by the loss of premium (business) traffic and lower levels of consumer spending on leisure travel will not recover. With each successive crisis the industry faces, it takes longer to recover traffic volumes. Passenger yields (including surcharges) never recover.

Traffic Update

Scheduled Services of AEA Member Airlines

OCTOBER 2009

REGION	PASSENGER DATA								FREIGHT DATA	
	Passengers boarded (000)	Traffic RPK (mill)	Capacity ASK (mill)	Load Factor %	Change to Previous Year				Traffic TFTK (mill)	TFTK %
					Pax %	Traffic %	Capacity %	PLF Pts		
Domestic (1)	7 595.9	4 066.1	6 073.6	66.9	-5.8	-4.0	-6.7	1.0	7.0	-25.1
Cross-border Europe (2)	14 312.0	15 443.9	21 334.3	72.4	-2.7	-2.4	-6.0	3.4	61.0	-6.2
Total Europe (1+2)	21 907.8	19 510.0	27 408.1	71.2	-3.8	-2.7	-6.9	3.0	68.0	-8.6
Europe - North Africa (3)	431.2	865.3	1 212.5	73.0	3.4	5.2	10.0	-3.0	19.9	-13.1
Europe - Middle East (4)	850.5	2 722.3	3 794.1	71.8	10.8	8.0	16.2	-5.5	103.2	30.7
Intl Short/Medium Haul (2+3+4)	15 794.1	19 051.5	26 341.0	72.3	-0.6	-0.7	-3.4	2.0	184.1	10.3
North Atlantic (5)	2 443.6	16 798.4	19 103.6	87.9	-2.2	-1.0	-0.1	6.4	819.2	-10.7
Mid Atlantic (6)	476.8	3 700.1	4 667.2	79.3	-8.4	-0.1	-4.0	-1.0	131.0	4.0
South Atlantic (7)	502.5	4 531.5	5 331.2	85.0	-0.0	0.0	-2.1	2.5	213.5	-4.1
Europe - Sub Saharan Africa (8)	711.3	4 701.2	6 089.9	77.2	2.7	2.2	2.6	-0.3	276.8	-4.0
Europe - Far East/Australasia (9)	1 578.4	12 973.1	15 224.8	85.2	-4.7	-4.3	-7.8	3.1	1 157.0	-20.0
Total Longhaul (5 to 9^{*)}	5 727.6	42 723.1	50 448.7	84.7	-2.7	-2.3	-6.3	3.5	2 597.6	-14.0
Total International (2 to 9^{*)}	21 321.3	61 774.6	76 789.6	80.4	-2.1	-1.8	-5.4	2.9	2 781.7	-12.7
Total Scheduled (1 to 9^{*)}	28 917.2	65 840.7	82 863.4	79.5	-3.1	-2.0	-5.5	2.8	2 788.7	-12.7

JANUARY - OCTOBER 2009

REGION	PASSENGER DATA								FREIGHT DATA	
	Passengers boarded (000)	Traffic RPK (mill)	Capacity ASK (mill)	Load Factor %	Change to Previous Year				Traffic TFTK (mill)	TFTK %
					Pax %	Traffic %	Capacity %	PLF Pts		
Domestic (1)	74 045.3	39 762.4	59 936.4	66.3	-0.2	-7.7	-7.5	-0.2	71.8	-20.8
Cross-border Europe (2)	135 894.6	148 585.9	213 967.1	69.4	-0.0	-5.0	-5.6	-0.3	542.9	-14.2
Total Europe (1+2)	209 939.9	188 348.3	273 903.5	68.8	-7.7	-8.3	-6.0	-0.2	614.7	-15.0
Europe - North Africa (3)	3 999.5	7 968.0	11 665.8	68.3	2.2	3.3	7.2	-2.6	185.1	20.6
Europe - Middle East (4)	7 808.9	25 440.7	36 539.0	69.6	7.7	0.0	13.2	-4.7	971.8	15.1
Intl Short/Medium Haul (2+3+4)	149 585.1	181 994.5	262 171.9	69.4	-4.8	-4.0	-2.8	-0.9	1 699.7	4.3
North Atlantic (5)	23 384.0	160 807.1	195 193.2	82.4	-0.2	-0.0	-0.0	0.8	7 305.5	-18.2
Mid Atlantic (6)	5 312.2	40 498.7	49 485.5	81.8	-7.0	-5.8	-3.7	-1.8	1 138.9	-5.2
South Atlantic (7)	4 580.0	41 104.8	51 626.6	79.6	-0.8	-5.6	-3.3	-2.0	1 832.1	-20.6
Europe - Sub Saharan Africa (8)	7 114.1	46 533.3	59 848.5	77.8	2.5	1.3	1.7	-0.3	2 607.0	-8.1
Europe - Far East/Australasia (9)	14 952.7	122 209.2	152 274.0	80.3	-0.7	-0.5	-5.3	-1.0	10 509.9	-25.5
Total Longhaul (5 to 9^{*)}	55 546.1	411 437.1	508 892.6	80.8	-5.4	-5.3	-4.8	-0.4	23 394.1	-20.4
Total International (2 to 9^{*)}	203 249.1	593 431.6	771 064.5	77.0	-5.9	-4.9	-4.2	-0.6	25 093.8	-19.1
Total Scheduled (1 to 9^{*)}	277 294.4	633 194.1	831 000.8	76.2	-6.8	-5.1	-4.4	-0.6	25 165.6	-19.1

Passenger traffic is measured in Passengers boarded (Pax), RPK (Revenue Passenger-Kms) and capacity in ASK (Available Seat-Kms).

Freight traffic is measured in TFTK (Total Freight Tonne-Kms) on passenger and all-cargo services, excluding mail.

Growth rates have been adjusted for changes in membership.

Introduced in 2004, new route area Total Europe includes 'International' or Cross-border Europe services and Domestic services.

(*) Longhaul region 'Other' is not shown above, but is included in the total.

04/12/2009

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