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EUROCONTROL

Industry Monitor

The EUROCONTROL bulletin on air transport trends

- **European air traffic decreased by 11% in April due to ash cloud crisis, with more than 100,000 flights fewer than expected**
- **New joint European cell to deal with future air traffic crises**
- **Global recovery in premium traffic not yet visible in European market**
- **Aircraft manufacturers announce unchanged or reduced deliveries compared to last year**
- **Mostly small improvements in 2010Q1 operating losses for major European airlines**
- **Oil prices now down to around $70 per barrel**

EUROCONTROL Statistics and Forecasts

European traffic decreased by 11% in April on the same month of last year. The volcanic eruption significantly affected European traffic (see Figure 1) due to the airspace closures. Between 15 and 22 April, there were more than 100,000 flights fewer than expected. Worst affected were Ireland, UK and Finland with more than 80% reduction of traffic in 5 days. Despite a longer-disruption period, Iceland traffic was not the worst-affected State in Europe as it managed to maintain some traffic with North-America. Santa Maria (airspace of the Azores) was the only region with a net increase in flights (13 % in April, year-on-year). All other States saw at least a 15% decline in traffic over the period (EUROCONTROL STATFOR, ash cloud report to be published).

Traffic outlook for 2010/2011 in Europe:

- The number of IFR flights is predicted to remain quite stable: 0.8% (±2%) in 2010,
- The outlook for 2011 is expected to be strongest: growth is forecast to be between 1.5% and 5.7%; with most likely case 3.7% (EUROCONTROL, 31 May)

Preliminary data shows that the average delay per delayed flight (for departures) increased to 28 min in April up from 25 min in April 09 (see Figure 2). The April delay figure is stable compared to March figure. In April, 36% of the flights were delayed on departure (>5 min), a 3 percentage point increase compared to April 09 (EUROCONTROL, May).

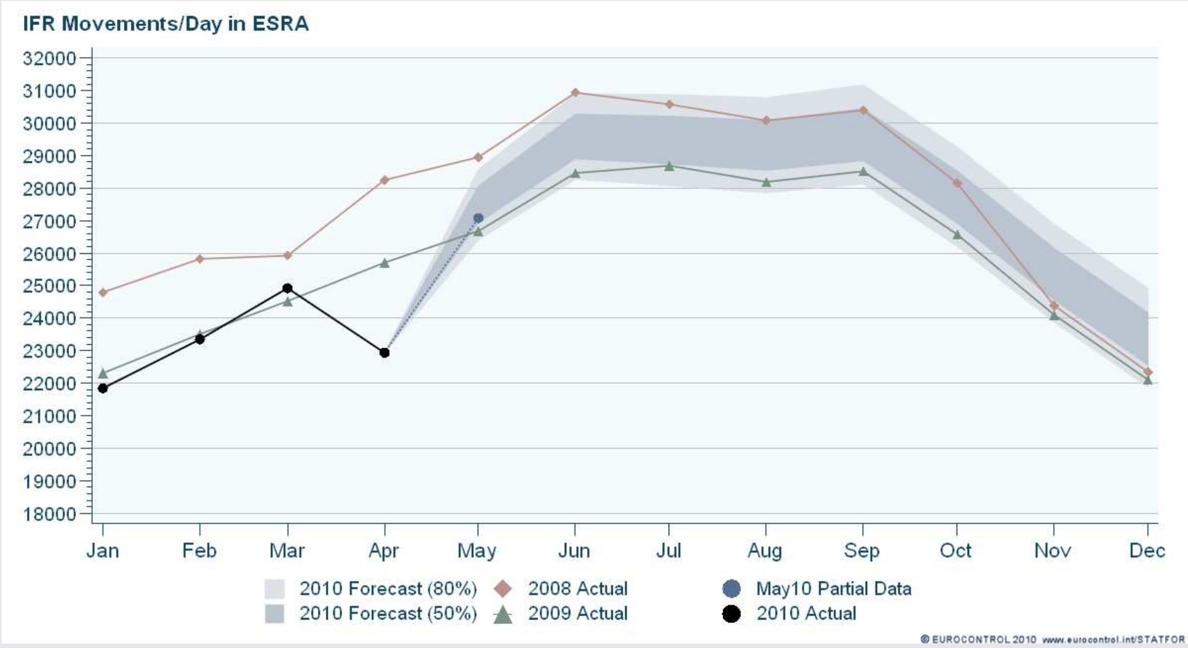


Figure 1

Source : EUROCONTROL/STATFOR

Other Statistics

Oxford Economics Ltd estimated the economic impacts of ash cloud crisis:

- around $4.7 billion on global GDP (out of which $2.6 billion for Europe), as airlines, airports, hotels, conventions centres and other sectors lost business during and after the airspace closures,
- around $2.2 billion on global aviation sector, out of which $1.4 billion for European aviation sector (OEF, 27 May).

IATA reported an 11% increase in passengers travelling in premium seats in March (year-on-year), but premium travel volumes are still below pre-recession levels of early 2008. Asia remains the most dynamic market in premium travel in Q110 (+24% growth on Within Far East route) whereas North Atlantic and Within Europe markets are lagging behind with 5.5% and -3.1% respectively (compared to Q109) (IATA, 14 May).

Passenger Airlines

Following last year's state aid to Czech Airlines (a loan of around €100 million), Czech government approved the restructuring plan presented by the airline. Over the next three years, the carrier will move to a holding company, targeting profits in 2012. Refocusing on core business (scheduled flights), the fleet and route network could be cut up to 30% over the restructuring period. The carrier will progressively sell its Boeing fleet by 2012, focusing on A320-family aircraft (Czech Airlines, 03 May).

Turkish Airlines continues its fleet expansion (see IM 117) by leasing 3 A320-200s. The additional passenger aircraft to be delivered in May will bring the carrier's fleet up to 137 (Turkish Airlines, 06 May).

The German and Austrian competition authorities approved the indirect increase of Air Berlin shares in budget carrier Niki from 24% to 49.9%. The German budget carrier might also be likely to acquire the remaining 50.1% shares in the Austrian carrier (Air Berlin, 26 April and 07 May).

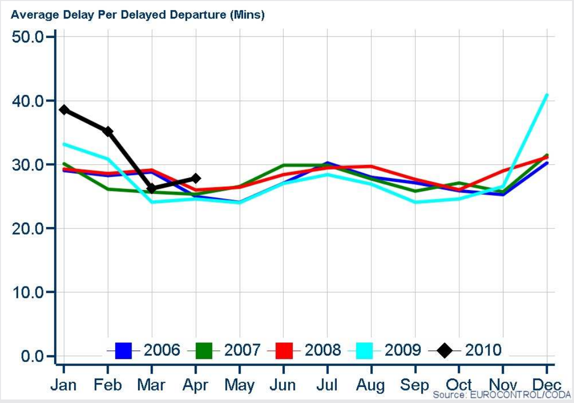
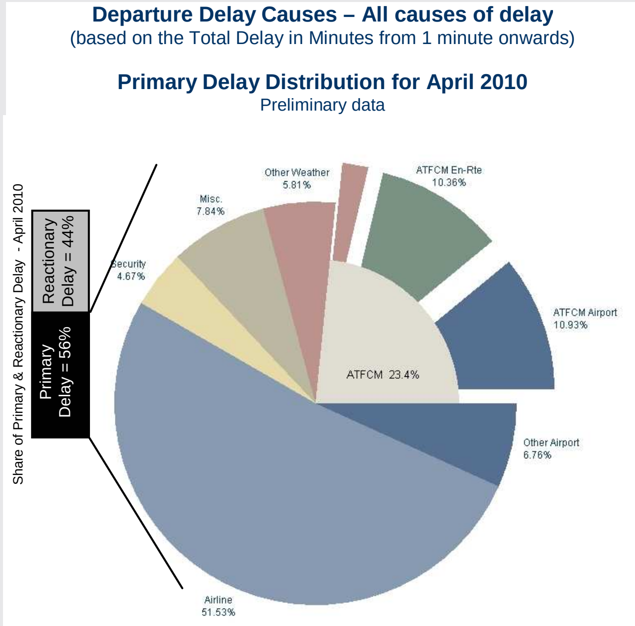


Figure 2



Source : EUROCONTROL/CODA

For summer, easyJet targets a growth of 15% on routes in mainland Europe and has added 73 new routes while dropping 24 (including 10 unprofitable ones in East Midlands airport). The budget carrier, owning 189 aircraft at the end of FY09/10, plans to expand its fleet to 208 aircraft by the end of September 2012. By this date, the carrier will have exited current leases for Boeing aircraft, becoming an all-Airbus fleet operator (easyJet, 11 May).

British Airways faces a new wave of industrial actions in May after previous disruption in March . The flight attendants protest, amongst other things, against the cost-cutting measures aiming at reducing the number of cabin crew on long-haul flights as well as the freeze on wages (The Guardian, May).

Lufthansa will increase its passenger airline capacity by 3.6% during summer, enabled by the A380's entry into service in June and the fleet renewal programme (replacing smaller aircraft with larger models) initiated in the Climb 2011 programme (Lufthansa, 11 May).

Air France-KLM will adapt its capacity for summer: 0.8% on long-haul and -4% on medium-haul. The carrier will operate an A380 Paris CDG-London Heathrow service on week-ends during summer months and daily in July (Air France, 12 and 20 May).

Turkish Airlines reportedly expressed its growing interest in investing in LOT and in JAT Airways. The Turkish carrier is currently in negotiation talks with both airlines shareholders. The Polish airline is 68% State-owned whereas the Serbian one is wholly-owned by the State (Rzeczpospolita, 18 May and Politika, 17 May)

New routes, codeshare

Air Berlin will offer 3 new long-haul services from Berlin to Dubai (3 flights/week), Miami (2 flights/week) and Mombasa (1 flight/week) from winter (Air Berlin, 06 May).

Lufthansa will add a 4th Turkish destination to its network opening a thrice-weekly service between Munich and Bursa (located in the sea of Marmara region) from August (Lufthansa, 14 May).

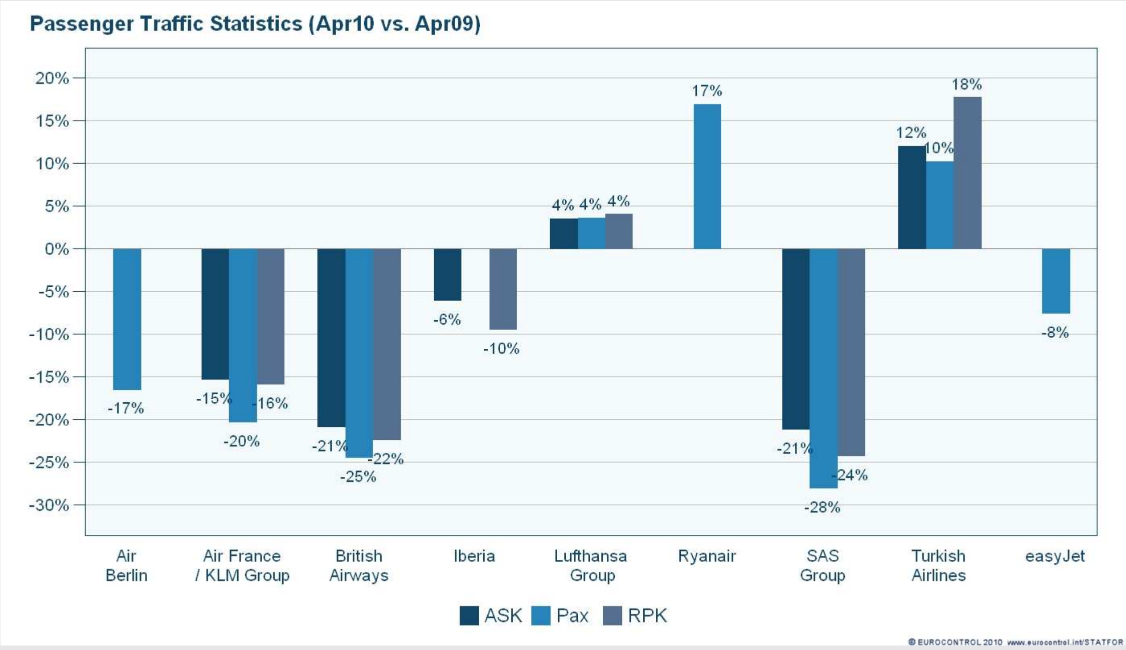


Figure 3

Source : Company reports

Ryanair announced its 42nd base in Barcelona El Prat with 5 aircraft based and 20 new routes from September (Ryanair, 26 May).

LOT will bring back 3 abandoned services from Warsaw: a daily flight to Tallin and 6 flights a week to Bratislava from May as well as 6 flights a week to Kaliningrad from the end of June (LOT, 27 April, 10 and 17 May).

Olympic Air and Etihad Airways entered into a code-share agreement, offering their customers an enhanced choice of destinations from Athens (to Rhodes and Thessaloniki, Bucharest and Sofia) and Abu Dhabi (to Johannesburg, Cape Town, Sydney and Melbourne) (Etihad, 13 May).

Singapore Airlines and Spanair signed a code-sharing agreement to increase the network connection between 3 Spanish cities (Madrid, Palma and Bilbao) through Barcelona and Singapore (SIA, 17 May)

Alliances, Mergers

The two Star Alliance members United and Continental announced their merger agreement to be completed by the end of the year after respective shareholders' approval and US Senate anti-trust examination. The new airline, to be called United Airlines, would serve 370 destinations in 59 countries with 10 hubs worldwide, and be the 1st largest airline by revenues: $29 billion annual revenues, based on 2009 results (United, 03 May).

Failures

Flyglinjen, a newly born Swedish carrier weakened by the ash crisis, decided to take some time out and will re-start operation from mid-August (Flyglingen, 03 May).

Traffic Statistics: April update

Figure 3 and Figure 4 compare April 10 figures with April 09. Passenger capacity is measured in available seats kilometres (ASK) and traffic is measured in revenue passenger kilometres (RPK).

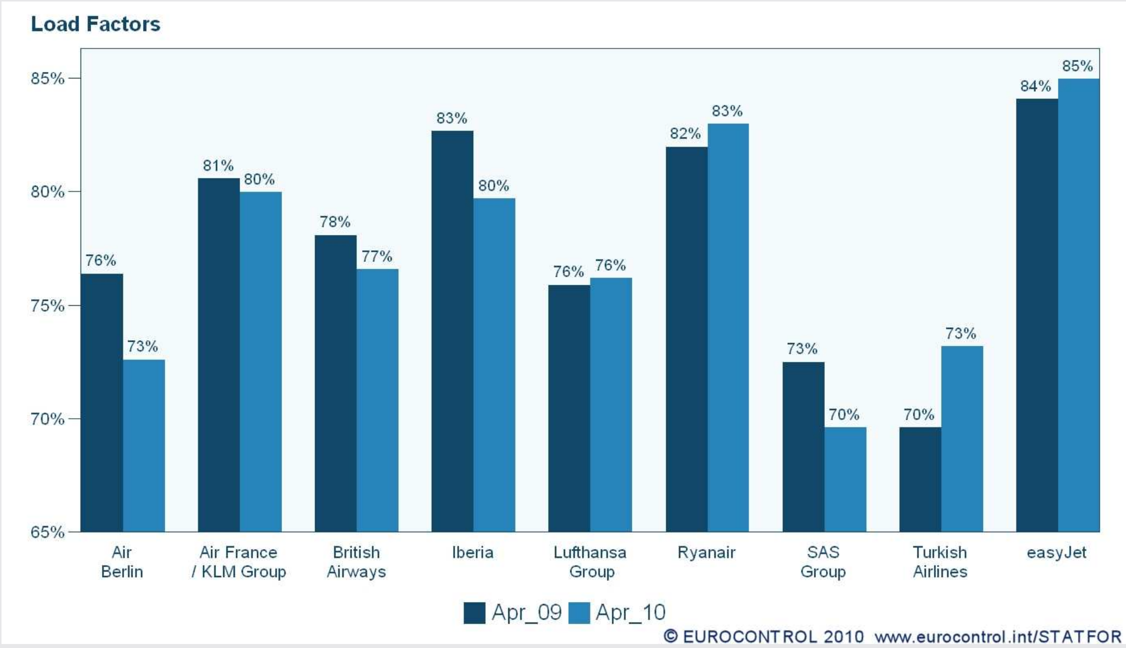


Figure 4

Source : Company reports

Manufacturer

Embraer delivered 40 commercial and executive jets in Q110, an unchanged figure compared to Q109. The product mix sold was nevertheless different from last year as Q110 executive aviation deliveries (19) doubled compared to Q109 ones. The Brazilian manufacturer recorded a 14% fall in net revenues for Q110 to $990 million, compared to Q109 (Embraer, 29 April).

Airbus delivered 122 commercial aircraft in Q110, 6 more than in Q109. The manufacturer recorded 60 orders during the first quarter. The number of deliveries in 2010 is predicted to remain unchanged (498) from 2009. The planemaker has reportedly doubled its A380 sales target to 20 for 2010 (EADS, 14 May and Reuters, 10 May).

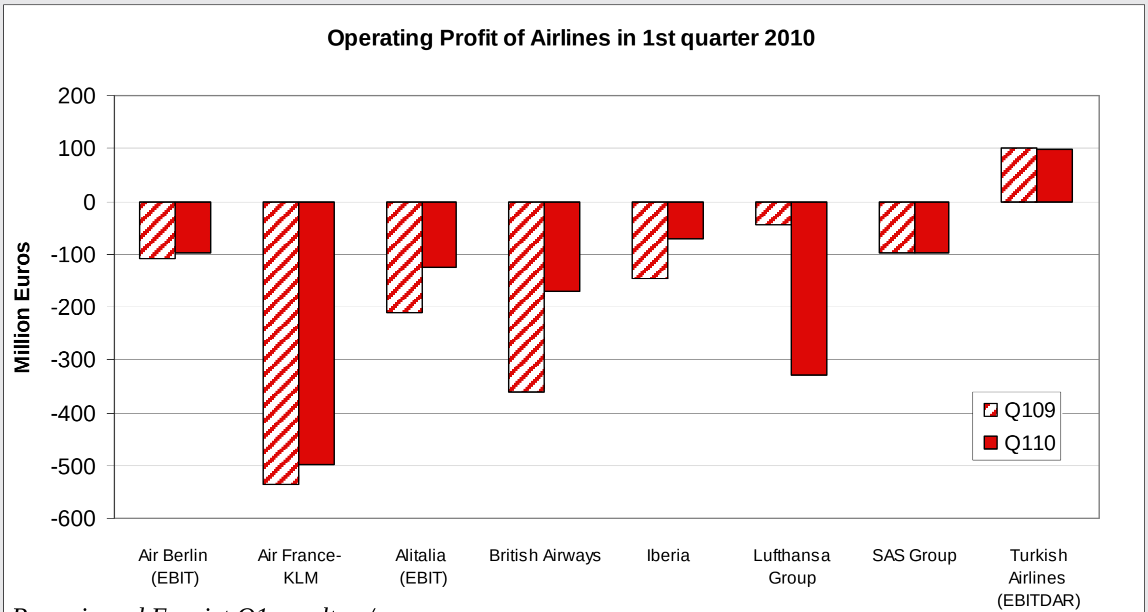
Boeing reported 108 commercial deliveries in Q110 (against 121 in Q109). The manufacturer recorded 83 net orders during the first quarter and targets 460-465 deliveries in 2010 (481 in 2009). The manufacturer intends to increase 777 and 747 production rates and is still on track for first 787 deliveries at the end of the year (Boeing, 20 May).

Airports

BAA halted Heathrow's third runway planning application following the change of Government in the UK. The British airport operator has also withdrawn its application to build a second runway at Stansted (BAA, 24 May).

Frankfurt Hahn has been selected as the Ryanair location for its next maintenance hangar and crew training facility. The budget carrier will invest €25 million in building a two bay aircraft maintenance hangar including two aircraft simulators and a 16 room cabin crew training centre (Ryanair, 20 May).

UK's North Somerset local authorities approved Bristol Airport's expansion plan for the next decade. Amongst other developments, the airport plans to handle 10 million passengers per annum by 2019/20 and to double the size of its current terminal (Bristol Airport, 24 May).



Ryanair and Easyjet Q1 results n/a

Source : Company reports, Reuters

Figure 5

Cargo

Finnair Cargo started its dedicated freighter operations from Helsinki with handling a twice weekly MD11 on both Seoul and Hong-Kong routes (Finnair Cargo, 29 April).

Air France-KLM Cargo business reported losses for FY09/10 to -€436 million, doubling on last year's results. The unit, under restructuration process since the end of 2009, nevertheless recorded improvements in the last quarter (Air France Cargo, 19 May).

Regulation

The EU security measures originally put in place in 2002 after Sept. 11 attacks have been revised and simplified. The new framework plans to end the current restriction on liquid carriage in cabin baggage at all EU airports from end April 2013. By this time, all EU airports shall be equipped with new screening equipments for liquids. The framework would also allow the recognition of equivalence of security measures of third countries which could lead to faster connections for passengers with a unique stop security arrangement between EU and non-EU countries. (Europa, 29 April).

The EU and Latin America officials agreed to enhance cooperation in civil aviation and to develop a joint action plan before the end of the year. The EU and Brazil have also finalised agreements on air services with a horizontal agreement and an agreement on aviation safety to be signed by the two partners in July (Europa, 25 May).

European Aviation Crisis Coordination Cell (EACCC) enabling the Member States to get coordinated answers in the event of future pan-European crisis severely affecting aviation has been created on the EU and EUROCONTROL's initiatives (Europa, 21 May).

Financial Results of Airlines

Air France-KLM and British Airways posted the consolidated financial statements for FY09/10:

- Air France-KLM recorded €1.3 billion operating losses (down from -€186 million in the previous year), largely attributed to fuel hedging impact, a negative effect which could extend until FY12/13, the end of the pre-2008 long period hedges (Air France, 19 May)

- British Airways reported € 231 million operating losses, a 5% decrease on last year's results despite the issues around strike hampering last quarter (British Airways, 20 May).

Most of major carriers results reported in this bulletin show slight improvements during Q110 (compared to the same period last year). Lufthansa recorded widening losses which are notably burdened to the inclusion for the first-time of Austrian Airlines and bmi results as well as to the industrial dispute in early 2010. As Ryanair and Easyjet financial data were not available, Turkish Airlines is the only carrier displaying positive results (see Figure 5).

Economy

Euro area and EU27 economy indicators updates:

- GDP in the Euro area and EU27 both increased by +0.2% during Q110 (compared with Q409),
- Annual inflation in the Euro area (resp. EU27) was up to 1.5% (resp. 2.0%) in April up from 1.4% in March (resp. 1.9%),
- Industrial production in the Euro area increased by 1.3% in March (compared with February), a 6.9% rise compared with March 09 results (Eurostat, May).

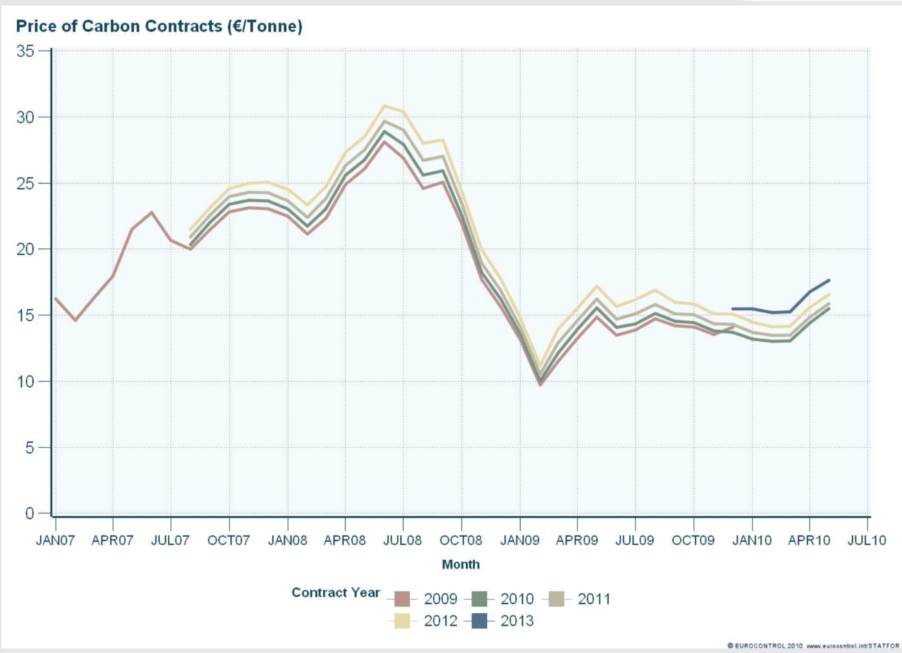


Figure 6

Source : Point Carbon

Figure 7

Source : Kerosene prices – EIA ; Prices&Exchange Rates -- EUROSTAT

Fares

Deflated ticket prices in Europe decreased by 1.8% in April year-on-year, based on preliminary values. Some of this decrease might be due to Easter effect (Eurostat, May).

Oil

Oil prices closed at around $70 per barrel on 25 May (Brent). Converted price indices for Kerosene and Brent up to April are shown in Figure 7.

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