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EUROCONTROL

Industry Monitor

The EUROCONTROL bulletin on air transport trends

- **European air traffic increased by 3.5% in August 10, confirming the summer's strong-than-expected growth**
- **European traffic forecast revised upwards to 1.6% growth for 2010**
- **ATFCM summer delay figures worsened compared to last year**
- **Budget airline Air Berlin to join oneworld alliance**
- **Oil prices stable around $78 per barrel**

EUROCONTROL Statistics and Forecasts

European flights increased by 2.9% in July and 3.5% in August on 12 months before (see Figure 1), stronger growth than forecast. July and August have experienced severe increases in delays compared to the same months in 2009. Preliminary data shows average delay per delayed flight (for departures and from all causes) increased by: 20% on July 09 to just over 34 min and by 7% on August 09 to 29 min (Figure 2). The percentage of flights delayed on departure (>5 min) amounted to 53% in July and 47% in August, also an increase compared to 2009.

For both months, the most important change comes from ATFCM delays whose share of all delays increased by 11 percentage points (on respective same months last year) to 41% in July and 35% in August (Figure 2). In July, several industrial actions (France and Greece) contributed to this increase whereas both months experienced airspace congestion, ATC staffing issues as well as seasonal weather (EUROCONTROL, September).

Traffic outlook for Europe:

- The number of IFR flights is forecast to increase by 1.6% (±1.1%) in 2010, a progressive recovery of the traffic growth in spite of the ash-cloud episode in April (see Figure 1).
- The outlook for 2011 is a rapid 4.7% growth, explained by the bounce-back from the ash-cloud lost flights (≈1 percentage point) and the improvement of the economic situation (EUROCONTROL, 10 September).

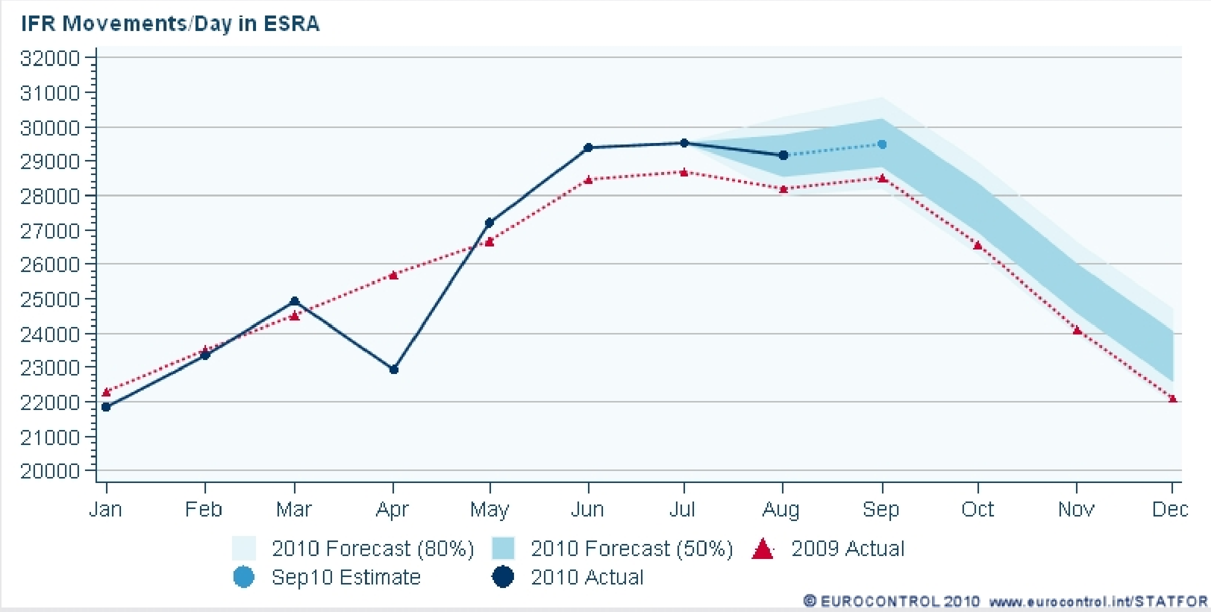


Figure 1. European Traffic. (Source: EUROCONTROL/STATFOR)

Passenger Airlines

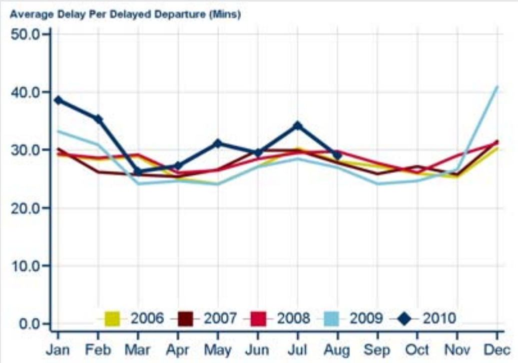
After recent code-share agreement with Air France (IM121), Flybe has been developing other cooperation possibilities and started discussions with Finnair to invest the Nordic market. Flybe, which recently put 35 firm Embraer jets in order (IM121), will base its first E175 in Guernsey to be delivered in Spring 2011 (Flybe, 5 August and 21 July).

Finnair entered in a cooperation agreement with Finncomm Airlines to serve, among other routes, Turku, Tampere and Tallinn from Helsinki during winter. Finnair plans to acquire a minority shareholding in the Finncomm Group (Finnair, 5 August and 9 September).

Lufthansa received its 3rd A380 on 20 August and now serves 3 destinations from Frankfurt on superjumbos: a daily flight to Tokyo since 4 August, a weekly service to Beijing since 1 September and a twice-weekly service to Johannesburg since 12 September (Lufthansa, 1 September).

Brussels Airlines reportedly signed a 3-year partnership agreement to operate 80% of the Club Med Belux chartered destinations from Brussels taking effect from April 2011. The airline expects this cooperation to add 50,000 passengers annually and plans to bring a couple of A320 to its fleet (De Tijd, 11 August).

Czech Airlines is starting restructuring its network (IM119) focusing more on East-West connections in Europe. It will notably phase out services to Brno, Munich, Cologne and UK (both London and Manchester) from winter (Czech Airlines, 30 August).



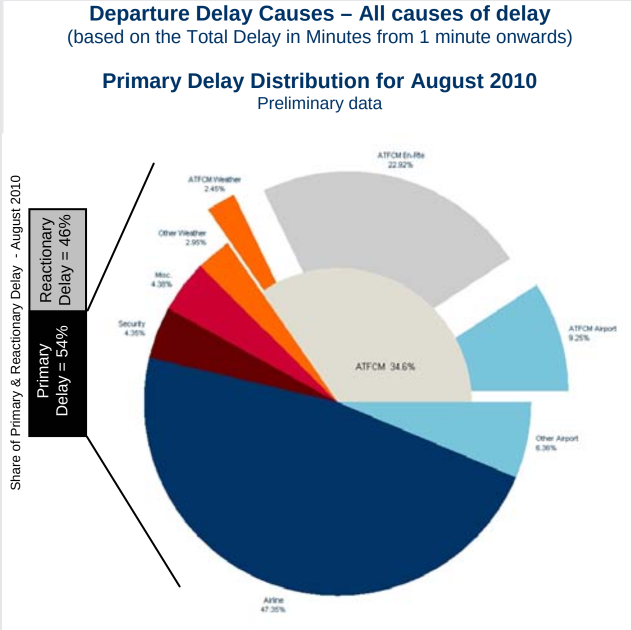


Figure 2. Delays. **(Source EUROCONTROL/CODA)**

Lufthansa Group placed a 48-aircraft order worth $3.5 billion comprising: 20 A320s and 3 A330s for Lufthansa Passenger itself, 4 A320s and 5 A330s for SWISS and 8 A319 for Germanwings and 8 E195 for Lufthansa Regional. The A330s will be deployed on long-haul routes while the remaining aircraft will be used for continental traffic. The first deliveries are expected by 2012 (Lufthansa, 22 September).

Blue Air reportedly entered its final restructuring phase (to end by November) to get over financial difficulties. The Romanian low-cost returned 5 of its 11 aircraft, removed 40% capacity and cut more than a third of its workforce (Ziaruldeias, 2 September and Mediafax, 17 September).

Norwegian which reportedly plans to serve long-hauls from Oslo and Stockholm to Bangkok and New York from the second half of 2011, is currently still unsure whether to order A350s or B787s. The low-cost airline could be forced to temporarily use older aircraft models if the above mentioned ones would suffer delivery delays (Bloomberg, 24 September).

In order to further simplify its corporate structure, SAS divested its remaining 19.9% shareholding in regional airline Skyways Holding AB. The two airlines will nevertheless continue to cooperate (SAS, 6 September).

As part of preparation for possible service to London from end 2013, Deutsche Bahn will operate a test high-speed train through the English Channel between London and Frankfurt on the 19th October. The German rail operator also plans to launch train service between Frankfurt and Lyon and Marseille as of 2012 (Deutsche Bahn, 27 July and The Guardian, 19 September).

Capacity, costs and jobs

Finnair will increase passenger capacity (ASK) by 5% during second half of 2010 compared to the same period last year (Finnair, 5 August).

Air France cost reduction programme “Challenge 12” enabled to save €131 million. The objective of this plan for the fiscal year to end March 11 has been revised upwards (+6%) to €540 million (Air France, 27 July).

Iberia’s total capacity is expected to increase by more than 5% during the second half of 2010. The Spanish carrier will expand its intercontinental offer (adding San Salvador and Panama and increasing frequency on existing links) while it will scale down its domestic capacity. The airline, which will start joint operations with American Airlines and British Airways on transatlantic flights by the end of the year, is still looking for a new operating model (see IM117) for its domestic and medium-haul traffic. Meanwhile British Airways is adding to its Central and South-American network (Iberia, 26 August, BA 21 Sep).

During the first-half, Aer Lingus’ capacity (passenger activity) was reduced by 16% and passenger numbers decreased by 11% (compared to the same period in 2009). The airline posted €19 million losses for the first half of the year, an 80% reduction compared to the same period last year. The yields on short- and long-haul have nevertheless both increased by 18% and 9% during the first half; on account of the effects of the cost reduction programme “Greenfield” (€12 million saved during the first half of the year). Airline’s medium-term strategy is to move away from “low-cost” model, coming back to network carrier business model and notably improving connectivity from Ireland. The carrier (who left oneworld in 2007) also plans to join one of the 3 worldwide alliances (Aer Lingus, 24 August).

Failures, Bail-outs

The French charter Blue Line has reportedly been placed into administration and will suspend its flights from 6 October (La Tribune, 8 September).

Irish Aer Arann, weakened amongst others by ash-cloud impact, filed for protection from its creditors though operations are continuing as normal (Aer Arann, 26 August and 8 September).

Malév reportedly received an urgent €20 million loan from the Hungarian government to pay for aircraft leases, bringing the State (95% Malév ownership) loan up to €33 million (Figyelö.hu, 1 September).

Cimber Sterling received in August a temporary loan of $50 million before a more durable financial solution could be found to save the airline from collapsing (Cimber Sterling, 3 September).

Icelandic charter Icejet suspended operations on 25 August after it failed to agree on a deal on its leased private jets fleet (mbl.is, 25 August).

Spanish CAA has reportedly withdrawn the AOC of the financially-troubled Andalus Lineas Aereas, a regional carrier based in Malaga (ch-aviation, 29 August).

Alliances, Mergers, Codeshares

Air Berlin (as well as associated Niki) is to join oneworld alliance and plans to start flying as part of the alliance from 2012 (oneworld, 27 July).

After having received the EU and the US DOT approvals, United and Continental shareholders gave the green light to the airlines to merge and become United Airlines (United, 17 September).

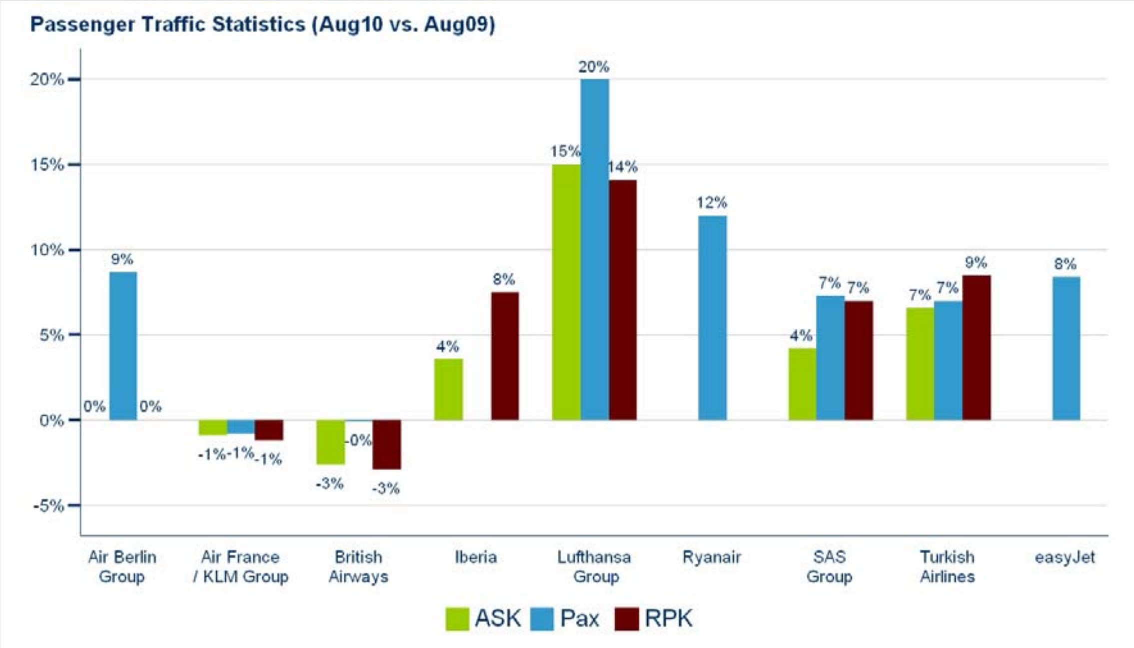


Figure 3. Main carriers' traffic statistics. **(Source: Company reports[1])**

The Taipei-based China Airlines started the process to join SkyTeam alliance, to be completed by mid-2011, which will strengthen the alliance's presence in the Asia Pacific network (SkyTeam, 14 September).

Following Air Berlin's announcement to join oneworld, the German airline plans to code-share with Finnair and with American Airlines from winter (Finnair and American Airlines, 27 July).

Aer Lingus has reportedly requested the US DoT to operate a code-share between Europe and the US with Spanair (Independent.ie, 10 August).

Iberia started a codeshare agreement with CityFlyer from Madrid and Barcelona to London City (Iberia, 31 August).

British Airways and Kingfisher started codesharing on flights from 15 September, a few weeks after the Indian airline became an elected member of oneworld. The UK airline's code will be applied on domestic Indian routes and one route to Sri Lanka and Kingfisher's code will be applied on UK and continental Europe routes (BA, 7 September).

Traffic Statistics: August update

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

[1] Lufthansa Group figures distorted owing to the consolidation effect (from Sep. 09 onwards Austrian Airlines)

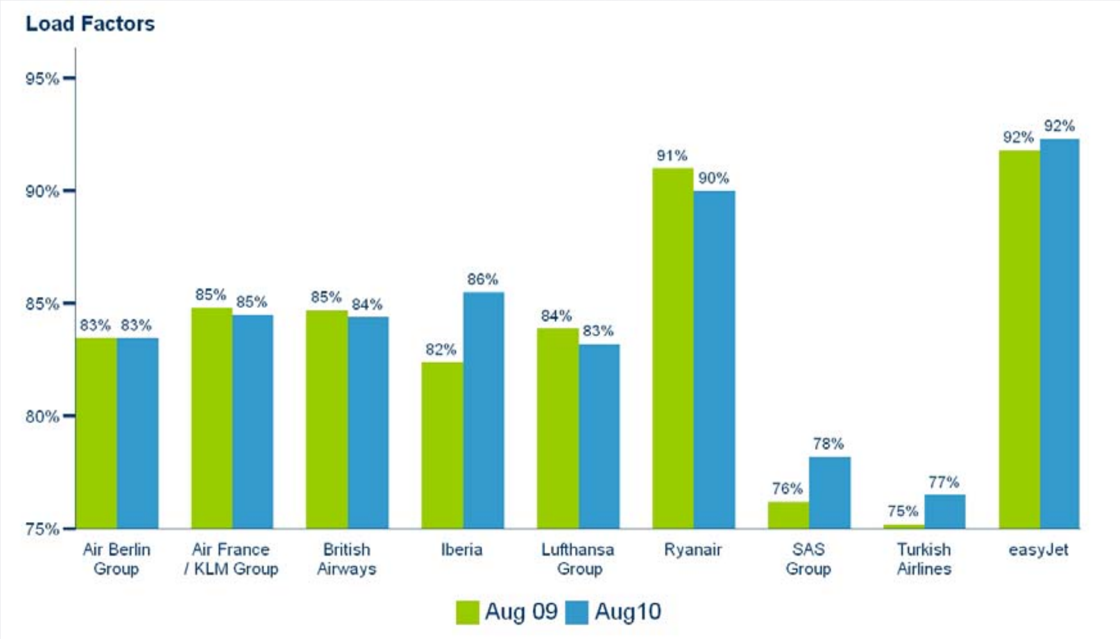


Figure 4. Main carriers' load factors. (Source: Company reports[2])

Cargo

Cargolux expanded its services to Saudi Arabia with a weekly flight to Riyadh from August on top of the existing twice-weekly service to Dammam. To meet growing demand in Asia, the Luxembourg-based airline also increased its frequency to Taipei (4 times per week) and introduce an additional service (5th service) to Hong-Kong in September (Cargolux, 4 August and 6 September).

Aircraft Manufacturing

To respond to the increasing demand for single aisle aircraft, Airbus will gradually boost its A320 productivity from 34 aircraft per month currently to 40 by 2012. Boeing echoed the news announcing it will increase its B737 production rate to 38 aircraft per month in the second quarter of 2013 while the current production rate of the jetliner had already recently been revised upwards (IM120) (Airbus, 30 July and Boeing, 16 September).

Airbus delivered 250 commercial aircraft during the first half (4 fewer aircraft than during the same period in 2009). The European manufacturer posted earnings of €241 million (EBIT) corresponding to a 2/3 reduction (compared to the first half of 2009), mainly explained by increased expenses on specific programmes (A350 and A380) and the unfavourable impact of exchange rates. The company still expects to deliver the same number of aircraft (~500) as last year (EADS, 29 July).

Boeing delivered 222 commercial aircraft during the first half, a 10% decrease compared to the first half of 2009. The manufacturer reported, for the commercial aviation segment, $1.36 billion earnings from operations (10% increase compared to the same period last year) despite a decline in profits in Q210. The company still expects to deliver 460-465 commercial aircraft this year (~20 fewer than in 2009), including first 747-8 and 787 deliveries (Boeing, 26 July).

[2] Ryanair and Easyjet report on a seats-sold basis.

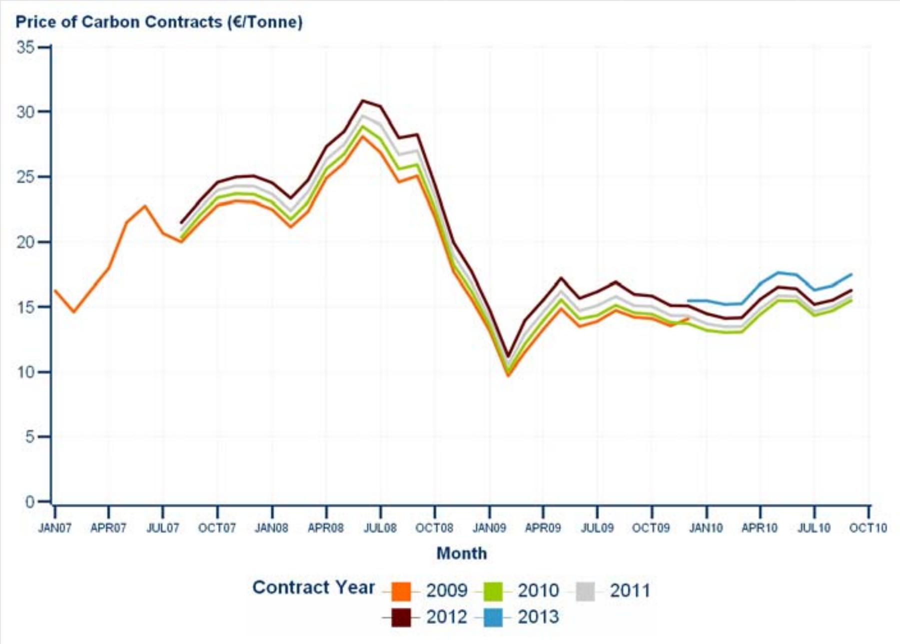


Figure 5. Carbon prices. **(Source: Point Carbon)**

Airbus started the production of its new wide-body A350 XWB airline with first delivery expected in 2013 (Airbus, 31 August).

Embraer recorded a decline of 7% in net revenues for Q210 ($1.35 billion) compared to Q209. The company recorded a higher participation of commercial and executive aviation segments in net sales during Q210 than in the other businesses (compared to Q110). The Brazilian manufacturer believes the improvement in commercial aviation market will continue. The improvement of business aviation segment is also expected to further increase during the second half as through the higher production rate of Phenom 300 and first Legacy 650 deliveries (Embraer, 2 August).

Rolls Royce posted an 18% decline in civil aerospace profits to around €246 million during the first half (compared to the same period in 2009). The manufacturer delivered 416 civil engines during the first half, 8 lower than in first half of 2009. The 2010 outlook is a decline in profits (-€25 million) on 2009 (Rolls Royce, 28 July)

Airports

Copenhagen Airport will open its new low-cost terminal ("CPH Go") on the 31st October for which passenger charge will be reduced by 35% to boost low-cost growth at the airport (Copenhagen Airport, 2 September).

Environment

An Airbus-led consortium AIRE2 (partnering Air France, NATS, Nav Canada and the FAA) will launch "Transatlantic Green Flights" to trial emission reduction procedures on an A380 between Paris and New York. These two-month trials, to start during Q410, aim at optimising the taxi-route at JFK airport as well as the en-route leg over the Atlantic and should enable to reduce CO_2 emissions by 3 tonnes compared with existing procedures (Airbus, 26 August).

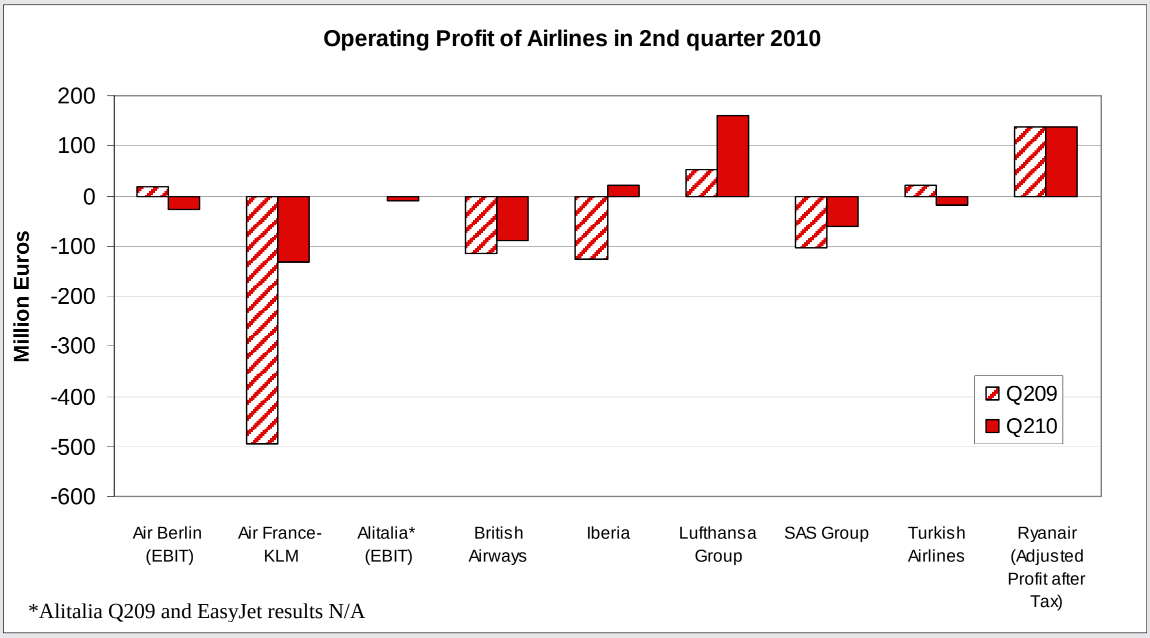


Figure 6. Main European airlines financial results. (Source: company reports)

Regulation

The EU did not raise any objection to the merger agreement between Continental Airlines and United Air Lines (Europa, 27 September).

The EU did however show concerns about the planned merger of Olympic Air and Aegean Airlines questioning the monopolistic position of the to be joined airlines on the Greek market. The Commission's in-depth investigation postpones the final decision to the beginning of December (Europa, 30 July).

The German government disclosed the tax rates to apply to commercial passenger flights (per passenger departure) from 1 January 2011: €8 for short-hauls (domestic and European flights, including Morocco, Turkey, Tunisia, Cyprus and Russia), €25 for medium-hauls (to Middle East, such as Egypt, Israel, Saudi Arabia, the United Arab Emirates and in some African countries) and €45 for long-haul flights (Regierungonline, 1 September).

Financial Results of Airlines

Most European airlines followed in this bulletin recorded recovery in demand which enable them to improve their results during Q210 and compared to same quarter last year (Figure 6).

Fares

Deflated ticket prices in Europe increased by 4.6% in August year-on-year (Eurostat, September).

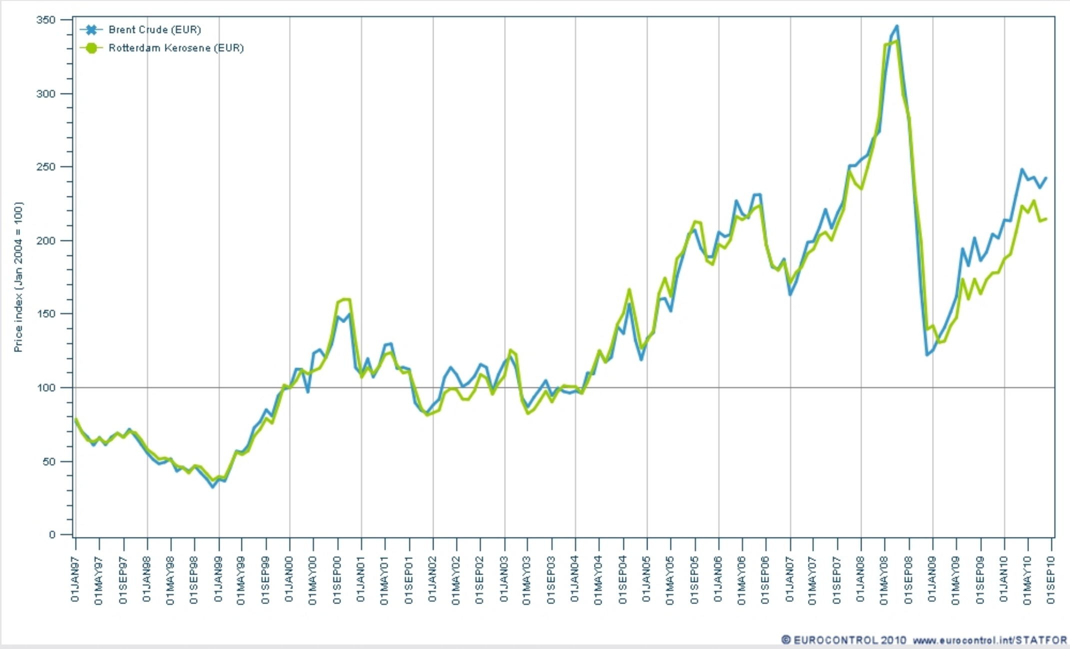


Figure 7. Brent and Kerosene prices. **(Source: Kerosene prices – EIA, Prices and exchange rates - EUROSTAT)**

Economy

Last EUROSTAT updates:

- GDP in the Euro area and EU27 both increased by 1% during Q210 (compared to Q110). During the same period, US GDP increased by 0.4% (compared to the first quarter), a slowdown after 0.9% in Q110 (compared to Q409),
- Annual inflation was 1.6% in the Euro area in August,
- Unemployment rate in the Euro area remained stable to 10% in July, compared to June (Eurostat, 31 August and 15 September).

Oil

Oil prices closed at around $78 per barrel on 24 September (Brent). Converted price indices for Kerosene and Brent up to September are shown in Figure 7 (Brent and WTI cushing). The fuel price index remains low relative to the Brent Crude index, which indicates an potential upside risk for fuel prices.

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