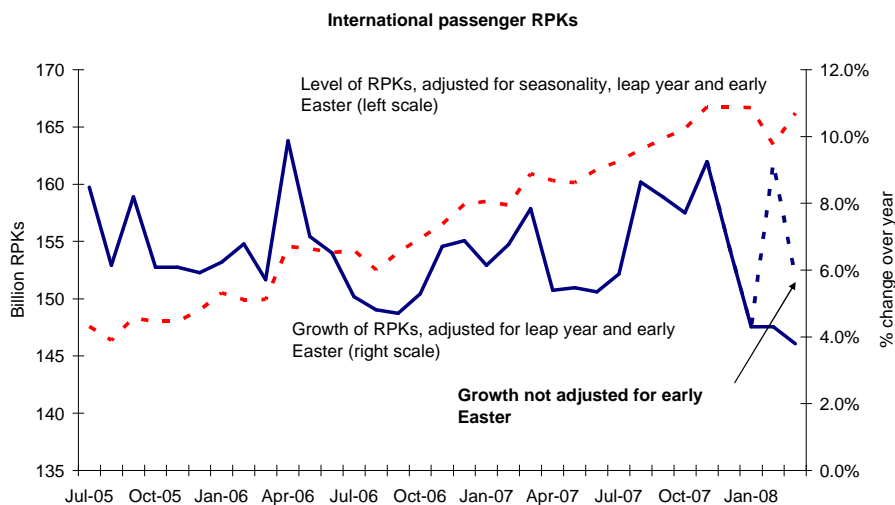


MONTHLY TRAFFIC ANALYSIS

MARCH 2008

KEY POINTS

- Passenger traffic and freight growth both slowed in March. Passenger kilometers flown slowed from 9.2% growth in February to 5.8% in March, while freight tonne kilometers slowed from 5.9% to 3.2% growth. However, the data in February were distorted by the leap-year while the March data were distorted by an early Easter.
- The chart below shows that the extra Friday in February this year added almost 4% points to the growth rate, while the early Easter added around 2% points to the March growth rate in passenger traffic. Underlying passenger growth, adjusting for these distortions, is estimated to have slowed a little further in March to just under 4% from just above 4% in January and February. This is around half the pace seen in late 2007.
- A slowdown in air travel demand is consistent with the sharp deterioration in the economies of the United States and some southern European nations, though the regional performance of airlines in the table below is also a reflection of changes in market share due to competitive and capacity shifts. The fall in load factors for the second month running is a clear indication that air travel demand is now slowing faster than expected.



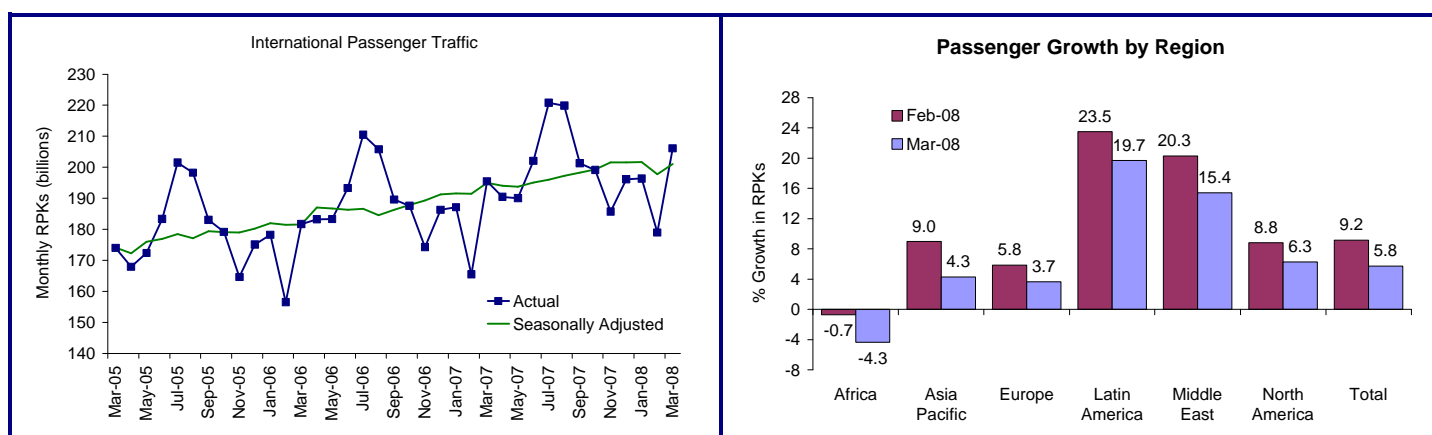
- Freight growth of 3.2% in March represents a slight pick up from the 2-3% growth seen in February, after adjusting for the leap-year. Air freight was not distorted by the early Easter in March, though the February data were boosted 3-4% points by the leap-year. The slowdown since last year reflects less buoyant world trade.

	Mar 2008 vs. Mar 2007					YTD 2008 vs. YTD 2007				
	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth	RPK Growth	ASK Growth	PLF	FTK Growth	ATK Growth
Africa	-4.3%	-6.0%	70.1	-22.6%	-10.8%	-0.3%	-2.5%	69.6	-11.9%	-4.7%
Asia/Pacific	4.3%	4.9%	76.5	1.7%	2.1%	5.9%	5.5%	76.5	2.6%	-0.3%
Europe	3.7%	4.0%	77.5	1.9%	3.7%	4.2%	5.4%	74.0	4.7%	5.5%
Latin America	19.7%	16.8%	75.3	-15.2%	13.5%	21.9%	19.6%	74.9	-10.8%	12.8%
Middle East	15.4%	16.3%	74.9	15.2%	17.3%	14.3%	15.0%	74.8	15.8%	15.0%
North America	6.3%	6.1%	82.8	8.8%	3.5%	6.5%	6.8%	78.0	7.8%	4.7%
Industry	5.8%	6.0%	77.7	3.2%	4.2%	6.6%	6.9%	75.6	4.4%	4.1%

Note: The data in this table have not been adjusted for the Easter effect

PASSENGER GROWTH SLOWING

- Passenger traffic slowed in March. Passenger kilometers flown slowed from 9.2% growth in February to 5.8% in March. However, the data in February were distorted by the leap-year while the March data were distorted by an early Easter.
- The extra Friday in February this year added almost 4% points to the growth rate, while the early Easter added around 2% points to the March growth rate in passenger traffic. Underlying passenger growth, adjusting for these distortions, is estimated to have slowed a little further in March to just under 4% from just above 4% in January and February. This is around half the pace seen in late 2007.
- In spite of economic weakness being concentrated in the US, the largest falls in passenger traffic were for airlines in Africa, Asia-Pacific and the Middle East. The big fall in Africa reflected a big rise in the early part of last year as new capacity and routes were established to the Middle East and Asia. The slowdown in the Middle East is a similar distortion caused by a surge of capacity and traffic growth in March last year. Slower growth in the passengers carried by Asia-Pacific airlines is more of a concern, since this is the region where travel demand is expected to continue to grow even in the face of a US recession.
- In fact the US airlines have done relatively well in recent months, reflecting both a shift of capacity from domestic to international markets and a strong competitive position due to the fall in the US dollar. This is particularly apparent with traffic carried across the North Atlantic by US airlines growing by over 10% in March, whereas European airlines saw that market shrinking by 2%.
- Next month's data will reflect the new transatlantic services established from London Heathrow, Madrid and other markets liberalised under EU-US Open Skies. The number of seats offered in April is up 13% on a year earlier in these markets. However, that is not much more than the 9% growth in capacity in the already liberalised transatlantic markets. There will be an Open Skies boost to the April data but it might not be much.



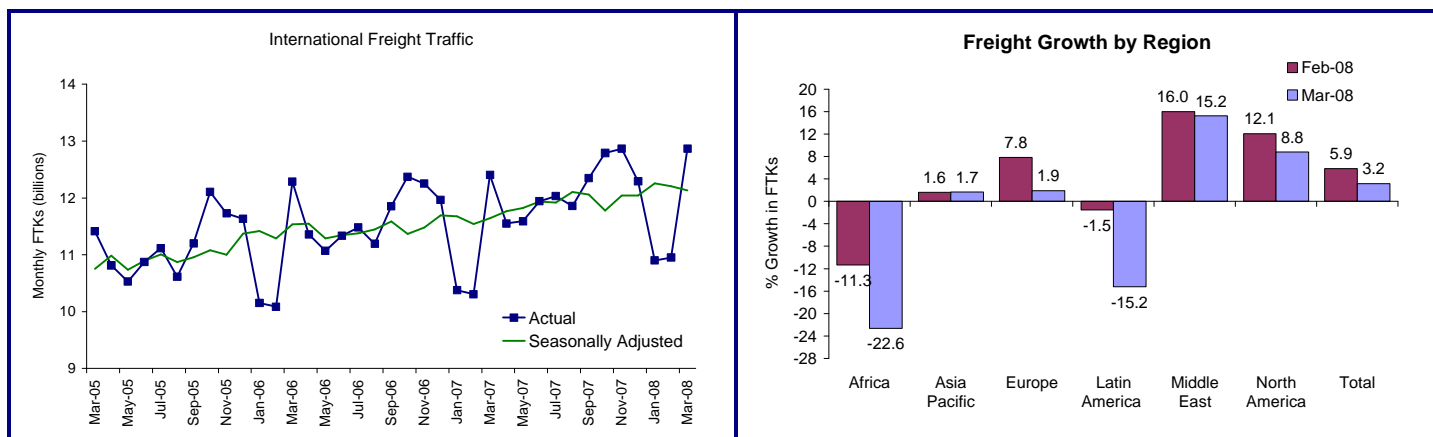
- The April data will be distorted downwards because the comparison will be against the same month last year, when Easter was in April rather than March. This will reduce underlying growth by around 2% points. If there is no further underlying deterioration in travel demand that suggests an outturn for passenger kilometre growth in April of around 2%. Anything lower than this would suggest that underlying growth for air travel demand has slipped further below 4%.

FREIGHT GROWTH ALSO REFLECTING ECONOMIC SLOWDOWN

- Freight growth slowed in March, with freight tonne kilometres growing by 3.2% down from 5.9% in February. However, the data in February was distorted by the leap-year. Freight growth of 3.2% in March represents a slight pick-up from the 2-3% growth seen in February, after adjusting for the leap year.
- This slowdown from growth of 4.3% in 2007 reflects the slowdown in the US economy and world trade, but looks a comparatively modest slowdown. There could be two explanations for this. First, air freight markets have a similar exposure to the US as passenger markets, but air freight has a much larger share in the more buoyant Asian market. Stronger trade and air freight in Asia is providing some offset to US weakness. Second, air

freight appeared to be gaining market share compared with containerised ocean freight at the end of last year, as residual fuel oil prices rose relative to jet kerosene, a shift which may have continued into early 2008.

- The regional pattern reflects structural shifts and the performance of airlines from the region, as well as trade flows. Falls in Africa and Latin America reflect a reduction in capacity available for air freight as airlines in the region refocus capacity. The sluggish growth in Asia Pacific is more of a puzzle since economic activity and trade in this region is booming, outside of Japan. This may be more a reflection of the fortunes of particular industries. Commodities trade is booming, which mainly uses shipping. However, industries producing low weight, high value items such as semi-conductors are growing at a relatively subdued pace at present as customers run down inventories.



LOAD FACTORS TRENDS

- The second consecutive monthly decline in the load factor, to 77.7% in March, is the clearest indication that airlines are facing a significant unanticipated decline in air travel demand. Because of the seasonality of travel demand load factor fluctuate markedly from month to month, so the comparison with the same month a year ago gives the best indication of any underlying change. The contrast of the past two months with the substantial improvement in load factors last year, a significant help to profitability, is stark.
- Rising load factors reported by airlines in Africa and Latin America are encouraging signs that new route development and the restructuring of capacity is leading to improved asset utilisation. Unfortunately, the sharp rise in fuel prices recently will have pushed the level of the load factor required to break-even up even higher too.

