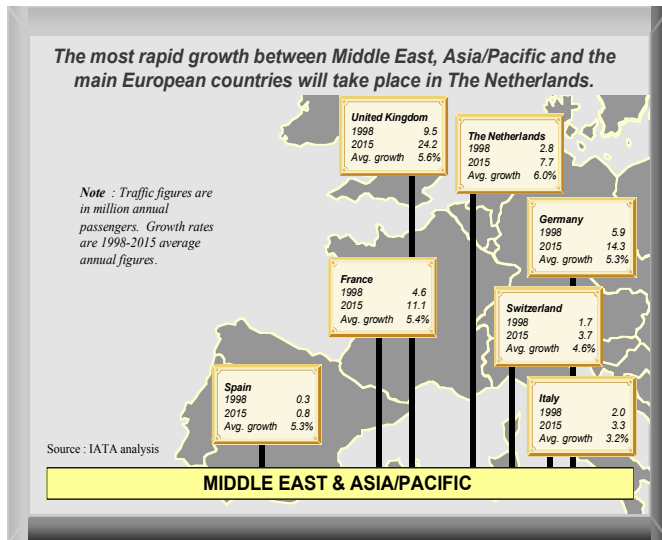




Forecast of scheduled passengers between the main European countries and the Middle East,

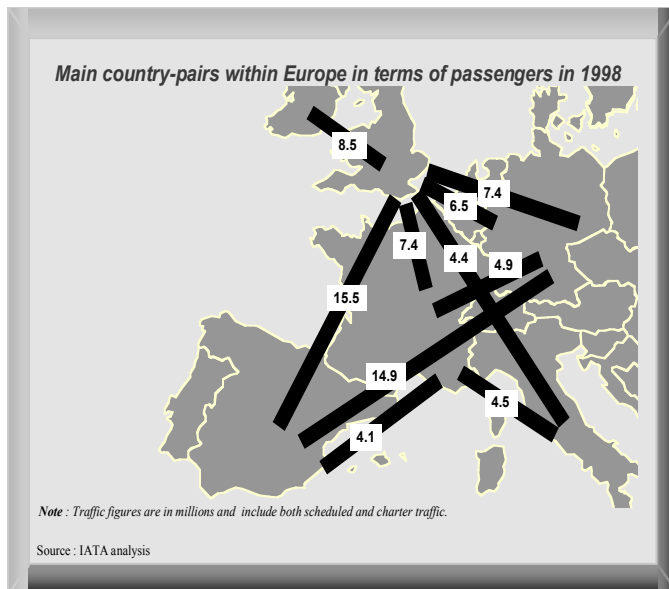


Asia/Pacific

- ✈ **The most important market :** The UK was and will remain the largest market, followed by Germany and France.
- ✈ **New airport development :** In Hong Kong, Kuala Lumpur and Korea indicate potential for future growth in Asia.



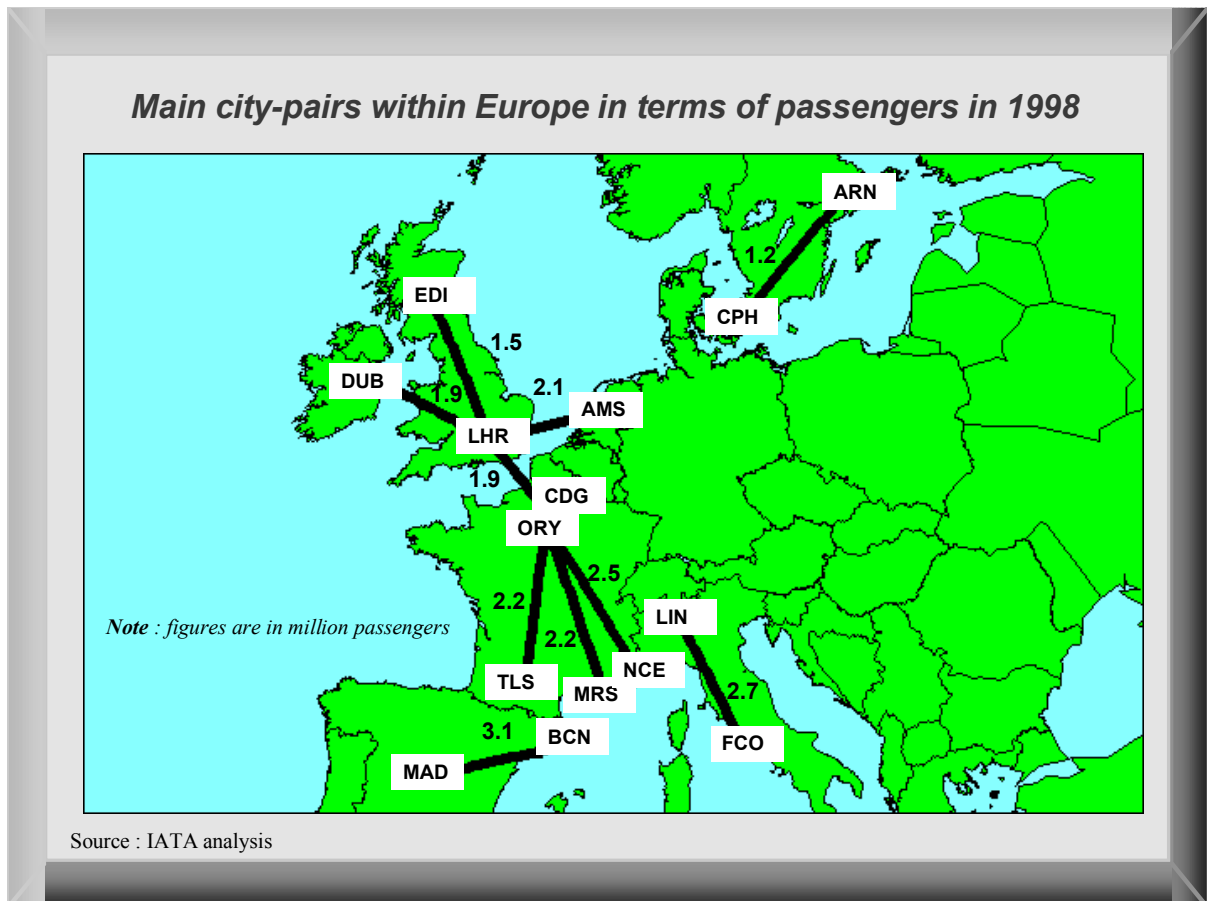
Main country-pairs within Europe in 1998



- ✈ **UK-Spain was the largest country-pair in 1998** : Closely followed by Germany-Spain. Both of these markets have a high percentage of leisure traffic.
- ✈ **UK-France and UK-Germany were the next largest country-pairs** : Traffic between UK and France has been negatively impacted by increased usage of the Channel Tunnel.



Main city-pairs within Europe in 1998

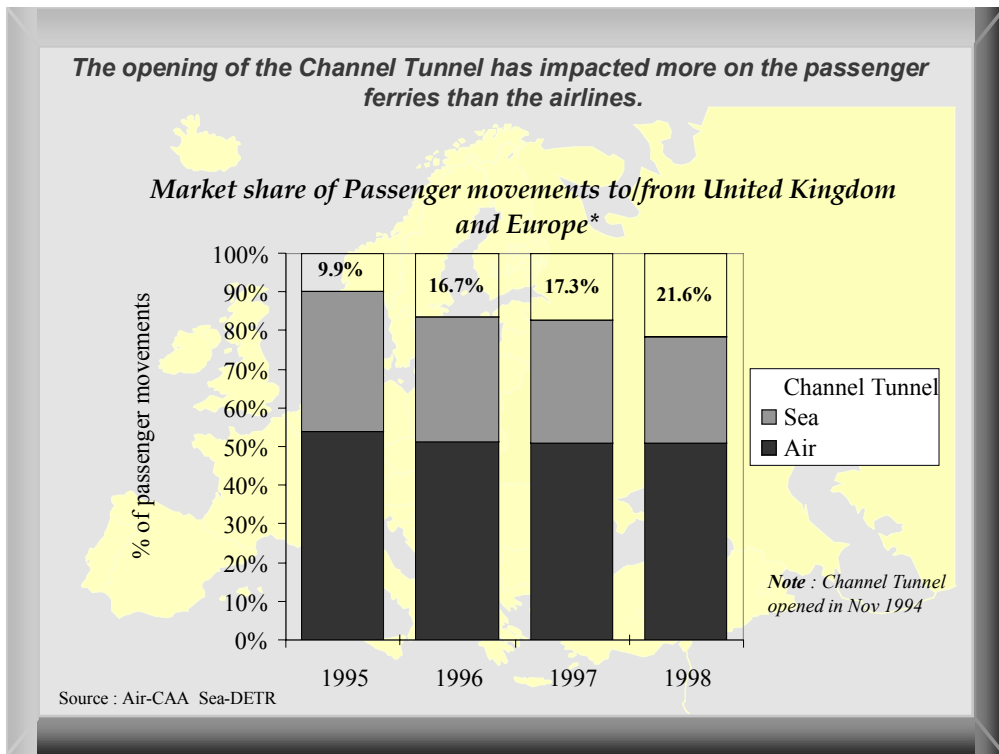


✈ **The largest city-pair is between Madrid and Barcelona :** This route represents annually 3.1 million passengers. Over the past 5 years it has experienced an annual growth of 7.1%. The second largest route is between Milan (LIN) and Rome (FCO) with a 1.2% annual growth over the past five years.

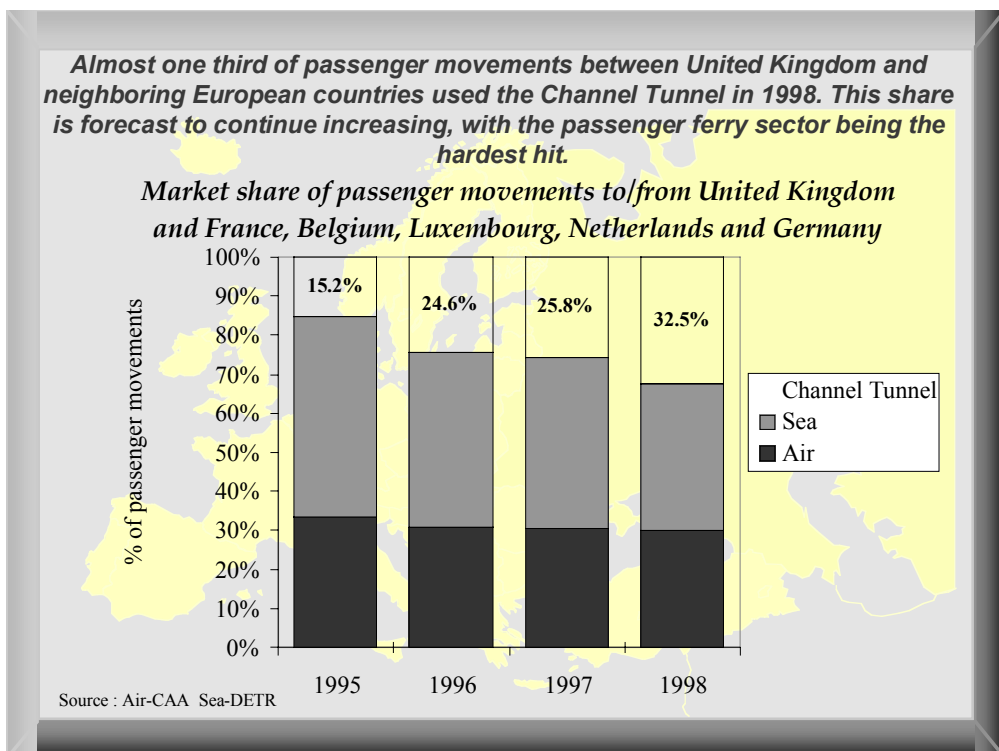
✈ **The main city-pair from the previous forecast was London-Paris :** This route has been negatively impacted by the opening of the Channel Tunnel. The number of passengers has reduced from 2.9 million in 1996 to 1.9 million in 1998.



The impact of the Channel Tunnel on intra-European air services

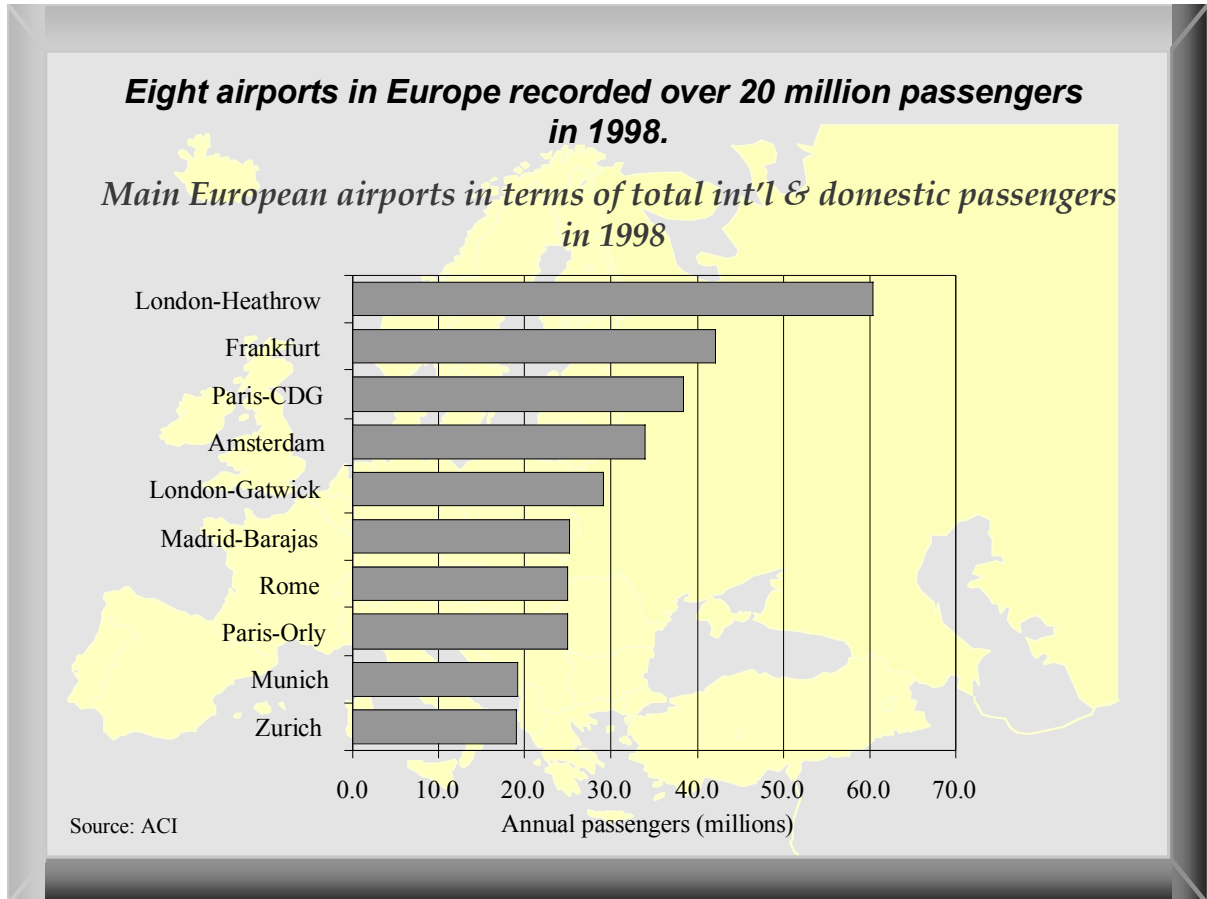


* Europe in this context includes the countries France, Belgium, Netherlands, Germany, Denmark, Spain, Portugal, Austria, Italy, Switzerland, Other Scandinavia.





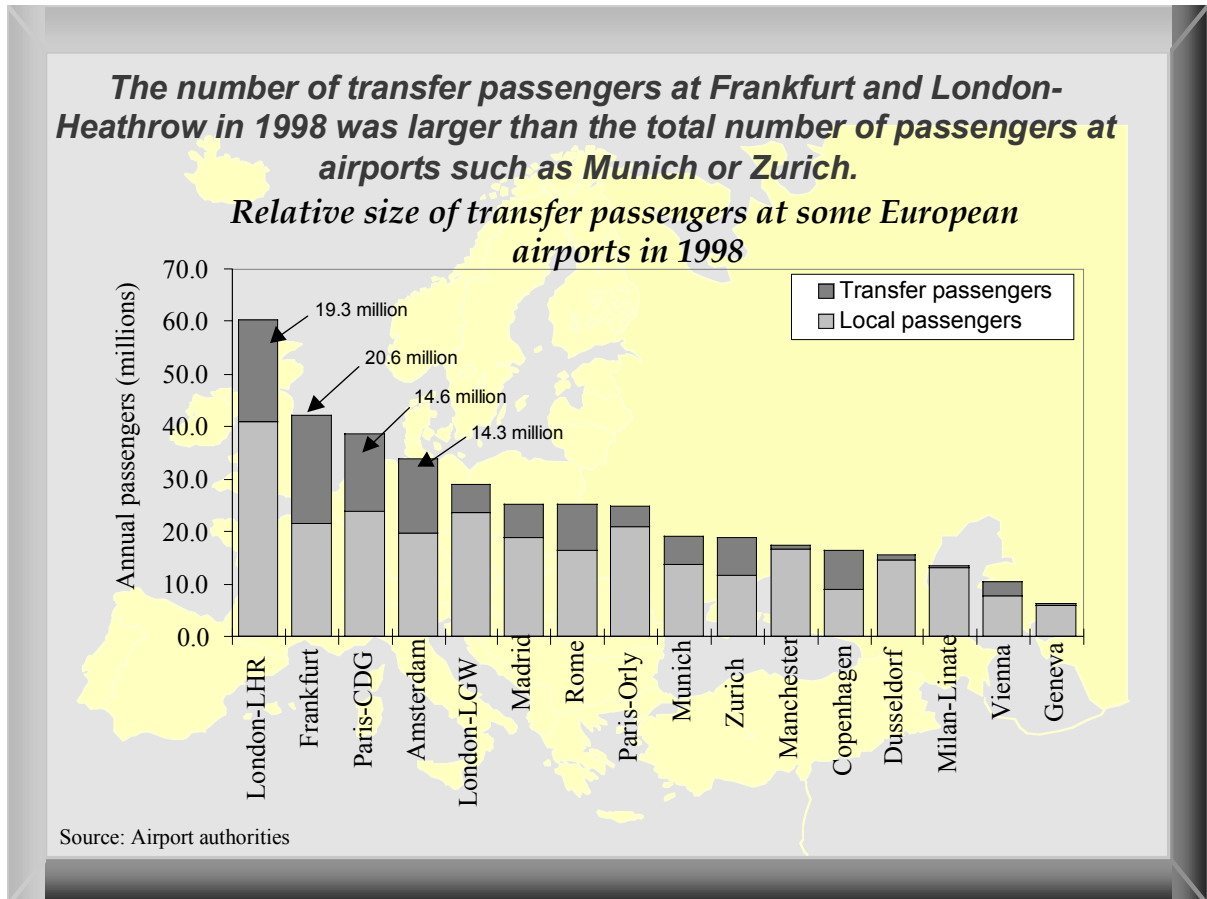
Main European airports in 1998



- ✈ **The largest European airport is London-Heathrow (LHR) :** Both London-Heathrow and Frankfurt are technically full, with little potential for further growth (subject to Terminal 5 inquiry at LHR).
- ✈ **Over the next few years it is expected that passenger traffic at Paris-Charles de Gaulle (CDG) will significantly increase :** In contrast to LHR and Frankfurt, CDG does not have capacity constraints.
- ✈ **Due to capacity constraints at Hamburg :** Lufthansa are developing Munich as a secondary hub. Alitalia are also developing Milan Malpensa as a secondary European hub.
- ✈ **Air Traffic Control congestion :** This is the most critical problem facing European airlines over the forecast period. The underlying problem remains the continuing lack of a uniform, co-ordinated European air traffic control system. As a result, the upward trend in the number of delayed flights, and the length of flight delays, seems certain to continue.



The importance of transfer passengers at the main European airports in 1998

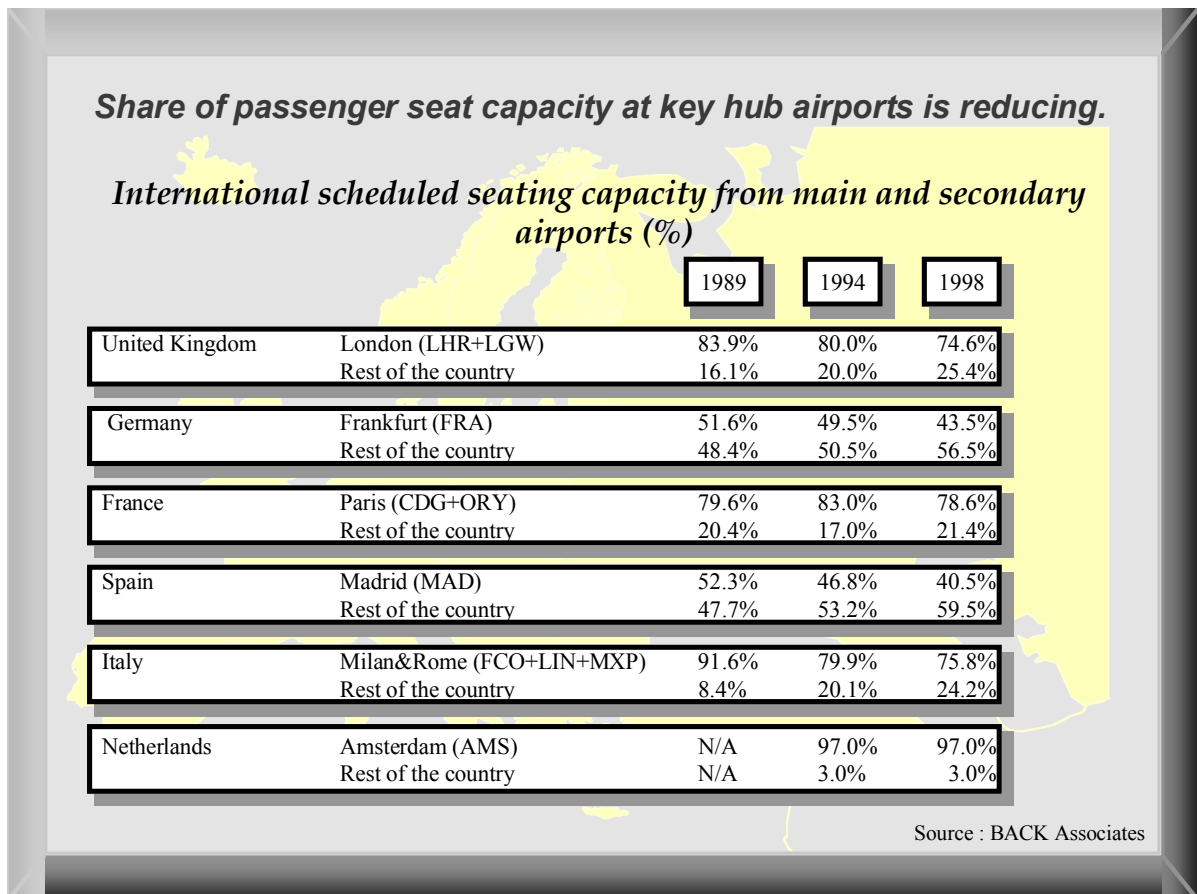


✈ **Transfer passengers** : Represent close to 50% of total passenger traffic at airports such as Frankfurt and Amsterdam. This percentage is much lower for secondary airports such as Geneva and Milan-Linate.

✈ **Airports such as Munich, are showing a steady increase in the number of transfer passengers** : In 1993 transfer passengers represented 18% of total traffic. In 1998 transfer passengers represented 28%. This is a direct consequence of Lufthansa developing a secondary hub in Munich, as a response to the capacity constraints at Frankfurt.



Growth at large airports versus secondary airports in selected European countries



- ✈ *The share of passenger seat capacity at the main hub airports has decreased in all of the main European countries between 1994 and 1998, except in the Netherlands where share of seat capacity at Amsterdam remained at 97%.*
- ✈ *The capacity constraints : Several main airports/hubs are experiencing severe capacity constraints which has forced flag carriers to develop secondary hubs. For example, Air France has developed two secondary hubs (Lyon and Marseilles) and as previously mentioned Lufthansa has developed Munich.*
- ✈ *Direct Routes : Several new direct services are now being offered from secondary airports. Flag carriers effectively deploy mid-size aircraft to avoid congested hubs and provide better frequency service.*



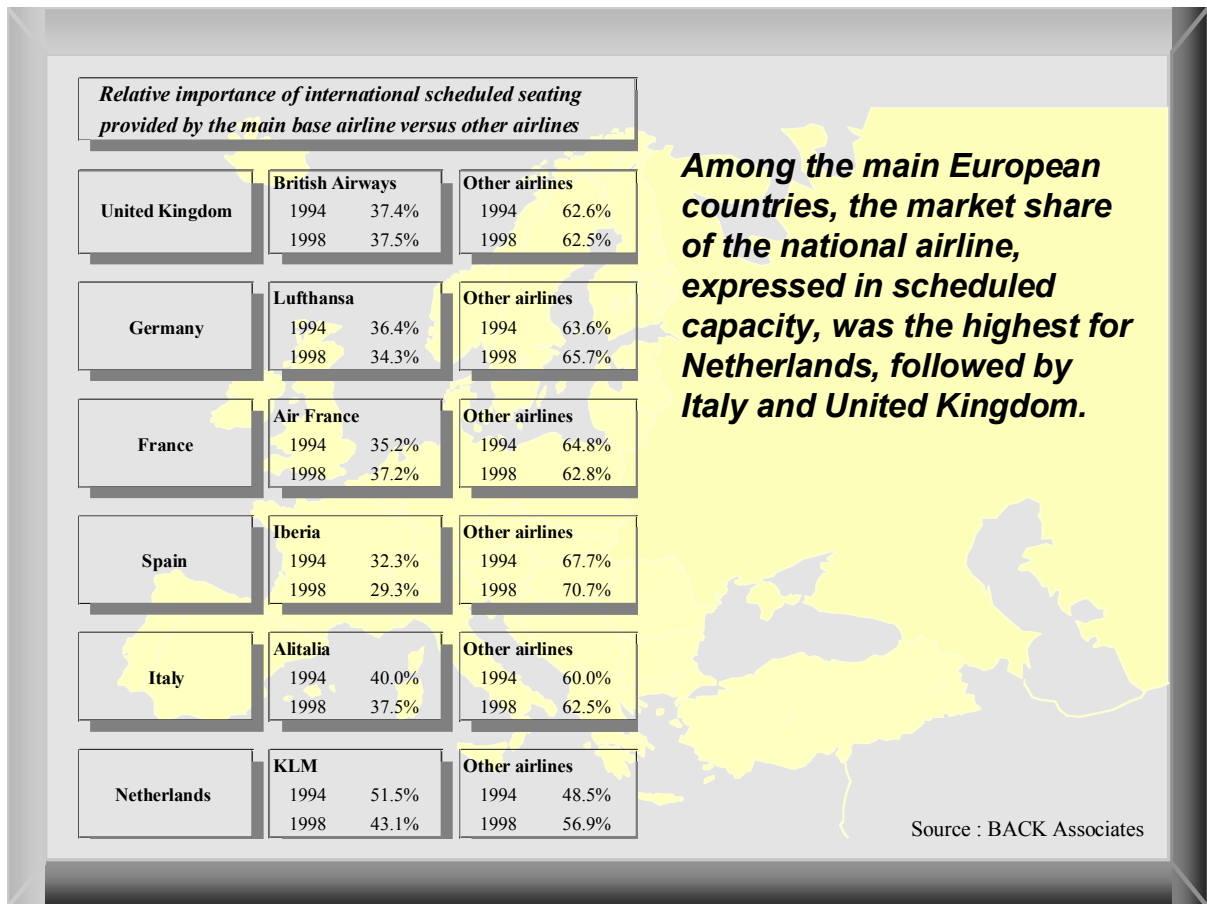
Main European airlines in 1998



- ✈ **Lufthansa and British Airways** : Remain Europe's two largest carriers. Of the large carriers, Air France has shown the strongest growth. In 1993, it was ranked seventh in the list of main European airlines and is third in 1998. (Air Inter was acquired by Air France in 1997).
- ✈ **Sabena** : Is now one of the top ten European airlines. An important part of Sabena's growth is due to the development of Brussels airport as a key European hub.
- ✈ **Britannia Airways maintained its top ten position in 1998** : The airline relies upon carrying inclusive tour traffic and leisure passengers whereas other carriers in the top ten transport a mix of business and leisure.



Growth for national airlines versus other airlines at main European countries

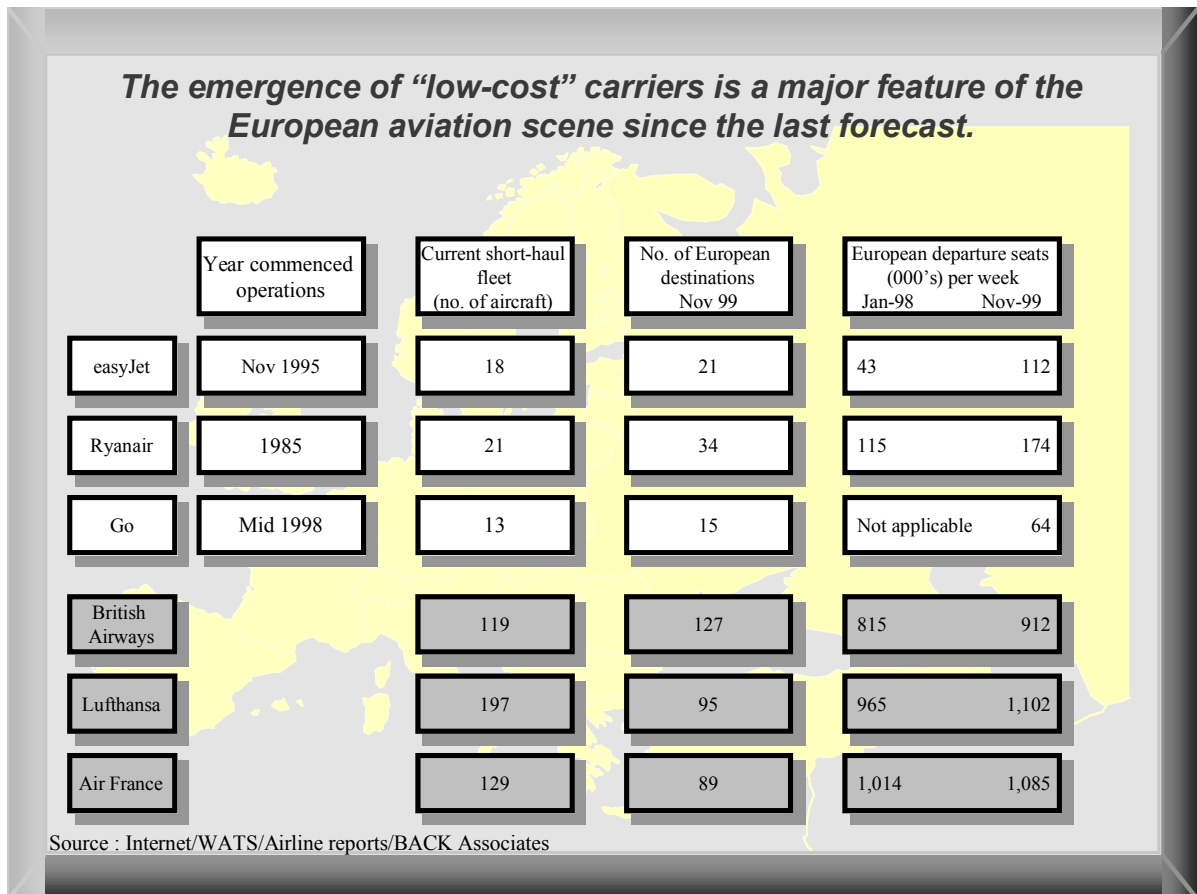


✈ **Except for Air France and British Airways :** All flag carriers have seen a decline in market share. This is due in part to deregulation, which has encouraged the growth of regional carriers.

✈ **KLM saw a considerable decrease in market share :** This confirms Amsterdam as a major transfer airport for airlines other than KLM, e.g KLM's major alliance partner Northwest Airlines.



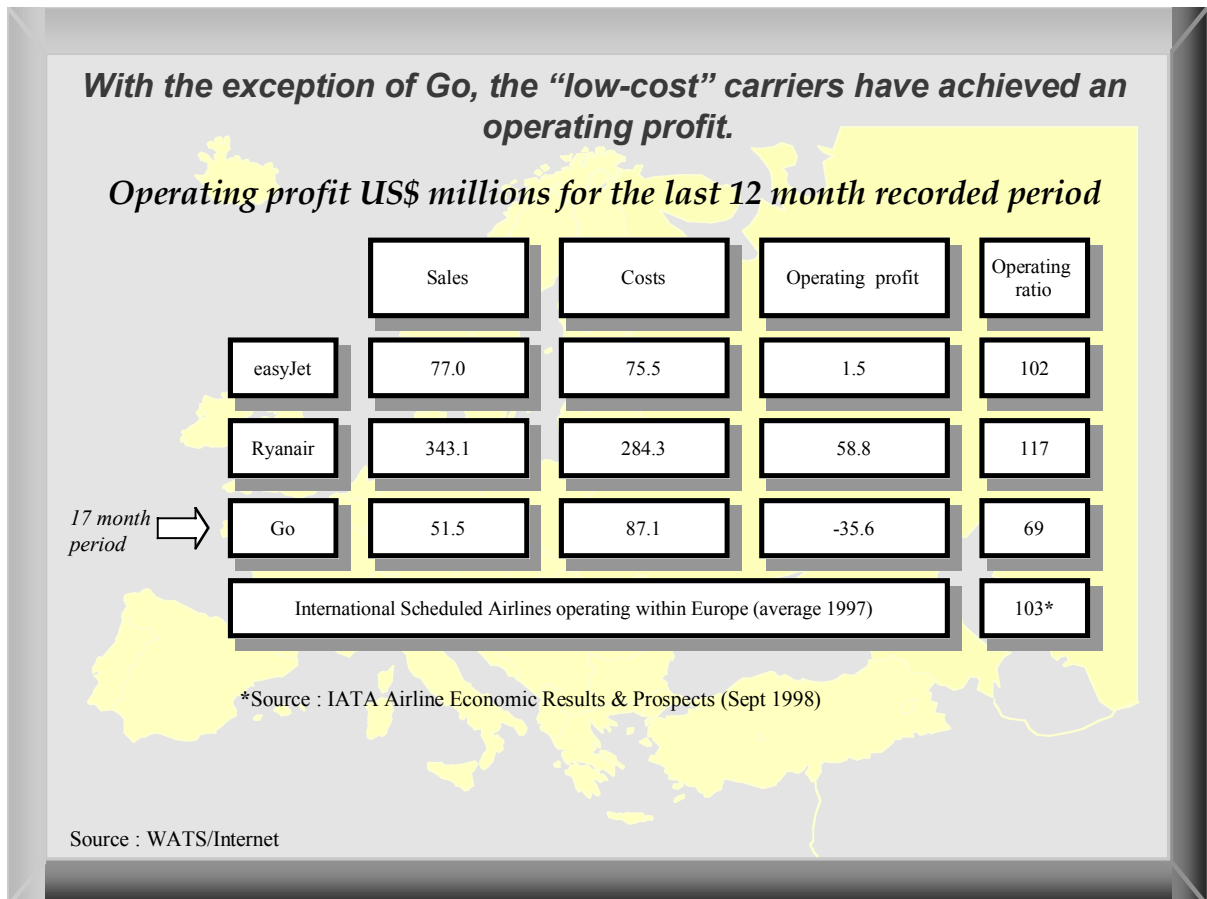
Impact of “low-cost” carriers in Europe



- ➔ **Full liberalisation of air services in Europe implemented in 1997, provided a significant boost for the development of ‘low-cost’ services.** Liberalisation created new route opportunities and the ability to significantly reduce fares. The result has been the stimulation of new demand, rather than taking shares from the major carriers.
- ➔ **The ‘low-cost’ sector originally comprised new airlines offering low cost, no frills services.** Some major European flag carriers have already reacted to the challenge presented by the new carriers through the introduction of their own ‘low-cost’ airline subsidiaries, e.g. British Airways / Go; KLMuk / Buzz.
- ➔ **It is estimated that around 25% of passengers on US domestic services use ‘low-cost’ airlines.** The same percentage within Europe is around 5%, indicating that the ‘low-cost’ market has considerable growth potential. Both Ryanair and easyJet have placed orders for significant numbers of additional aircraft to almost double capacity over the next four years to meet this demand.



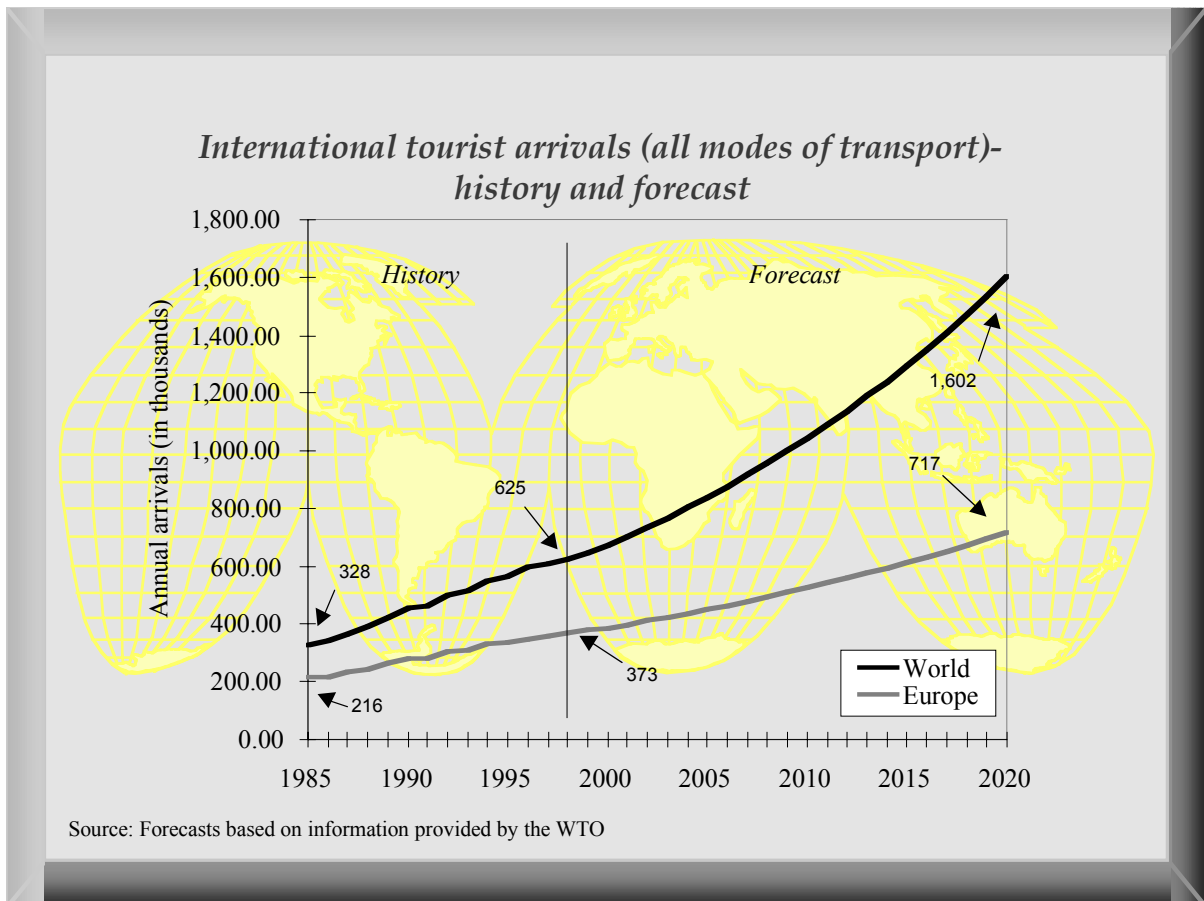
Impact of "low-cost" carriers in Europe (cont'd)



- ✈ *To be successful 'low-cost' carriers must achieve the right balance between maintaining low costs, low prices and high aircraft utilisation. The net margins for the segment are low, making it vulnerable, particularly to the high costs of operating within Europe and increasing air traffic delays.*
- ✈ *easyJet and Ryanair are both profitable but there have already been casualties in this segment, such as Debonair.*
- ✈ *In order to flourish the 'low-cost' carriers must seek to establish presence at airports throughout Europe to emulate the success of their counterparts in the US.*
- ✈ *A further development of the concept of the 'low-cost' airline sector has been the advent of 'seat-only' sales on charter airline flights, rather than as part of a package holiday. This has resulted, for example, in the formation of the European Leisure Group, an alliance of European charter/scheduled airlines.*



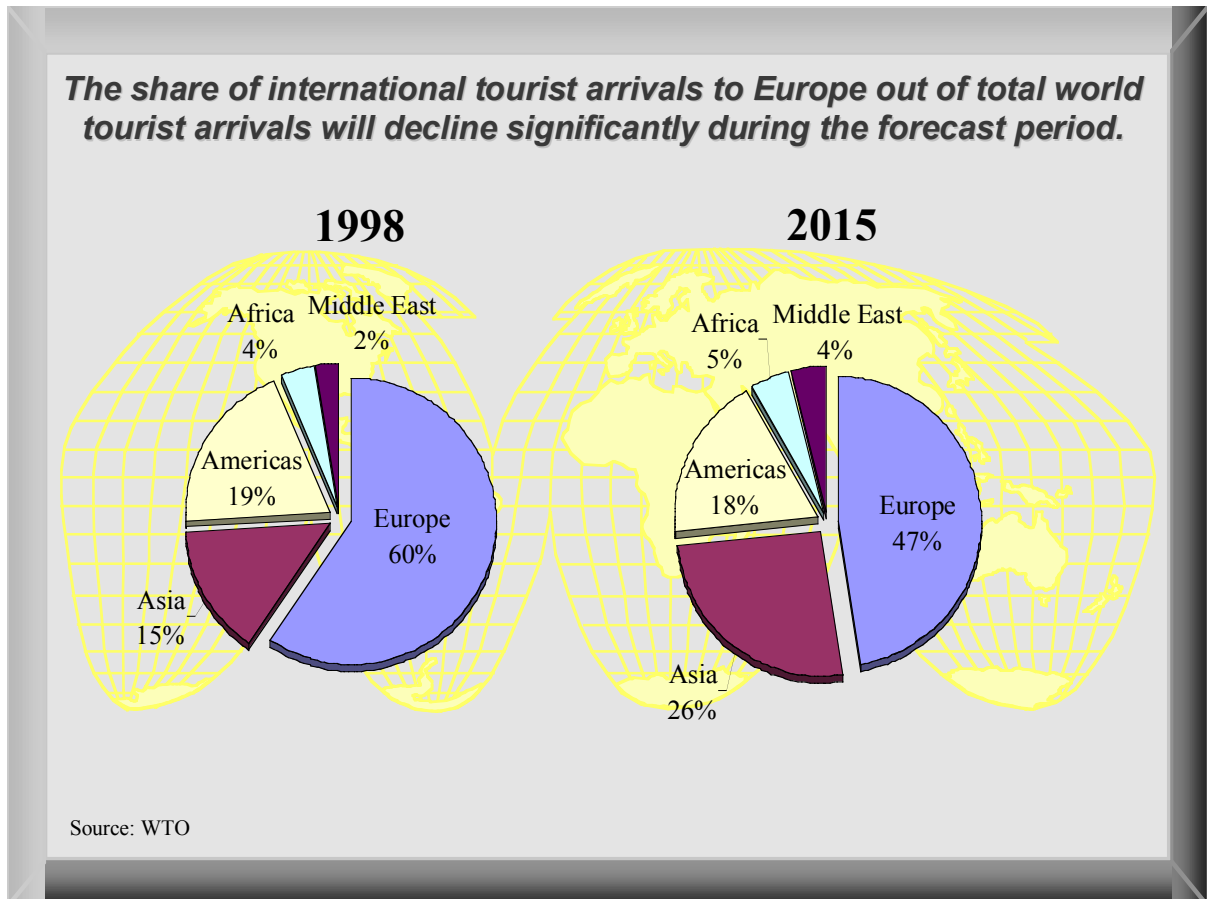
International tourist arrivals – Total world versus Europe



- ✈ **Visitors to Europe** : Though its share has diminished over the years, the number of international visitors to Europe accounted for 60% of total world visitors in 1998. It's worth noting that the bulk of travellers travelled by surface modes not by air.
- ✈ **Forecast growth by world region** : Europe has a fairly low forecast growth rate in international tourism. However, with high base volumes of inbound tourism, 1% growth is equivalent to almost 4 million arrivals in Europe (based on 1998 figure).



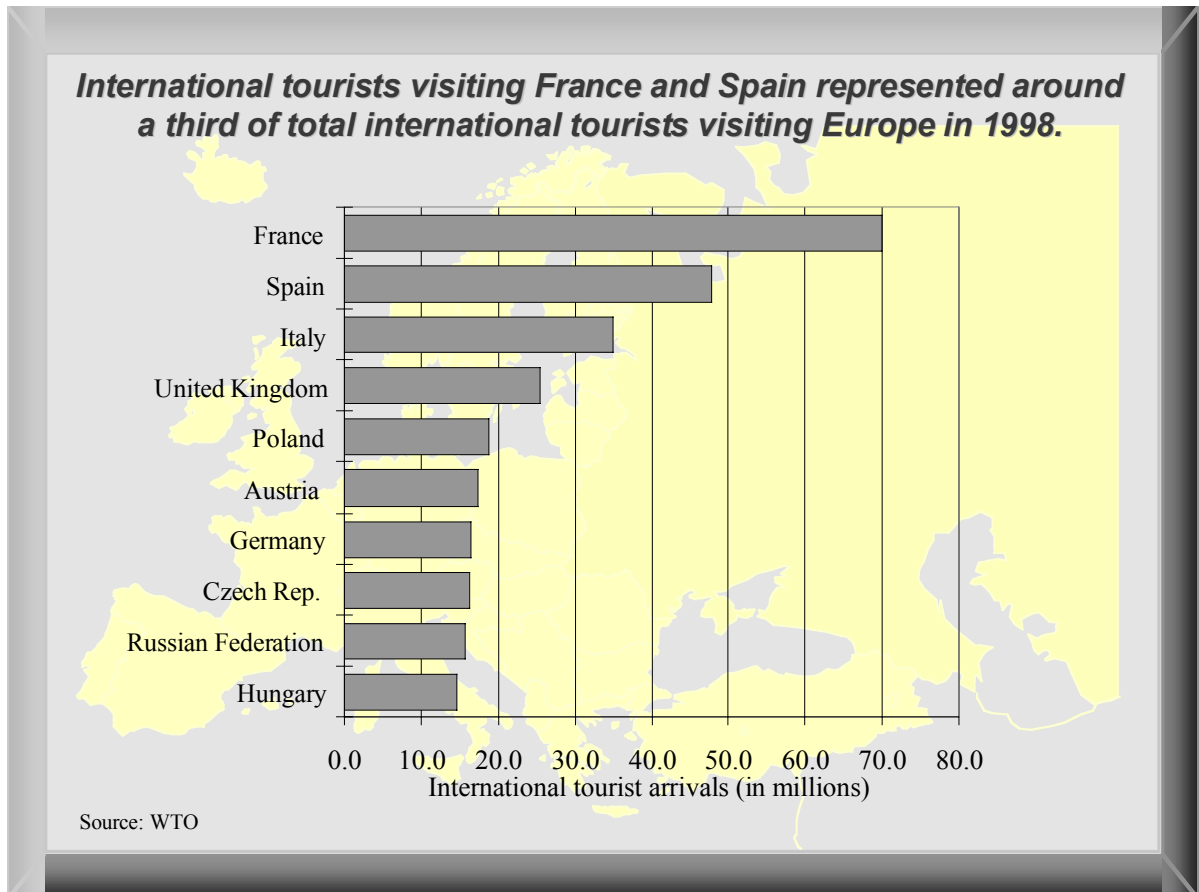
Relative distribution of international tourist arrivals by world region



- ✈ **Europe was and will remain the major world destination for international tourists :** However, growth in tourism is expected to be stronger in other regions, particularly in Asia. Coupled with the fact that Europe is considered a mature market, this indicates that it's share of the total market will decline.
- ✈ **A strong gain in market share is expected for Asia :** An increase of 11 points of market share is expected between 1998 and 2015.
- ✈ **Other developing markets :** Africa and the Middle East will see an increase in market share while the Americas, another mature market, will experience a slight decline.



Top ten European countries in terms of international visitor arrivals in 1998



✈ **France** : Is the largest travel destination in Europe for international tourists, and this will remain true throughout the forecast period. In 1998 France received 70 million international visitors. This is about 45% more than Spain, the second largest travel destination.

✈ **Within Eastern and Central Europe** : There are four countries in the European top ten. Poland received the most international tourists with nearly 20 million in 1998. The Czech Republic was the next most visited country.