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Semi Annual Market Report

November 2008

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1. Airfreight Market Trends (The Airfreight Industry Overview)

a) Air carriers & routes

OAG forecasts capacity fall between Oct-Dec 2008
The latest figures from the OAG (Official Airline Guide) reveal a dip in the number of flights for October, November and December 2008 compared with the same period last year, plus a warning that the world may be facing a far more severe global downturn than it has experienced before. The U.S. domestic market will account for 33 per cent of the global decline in capacity, in what could potentially be the most widespread crisis to hit the aviation industry in recent memory, according to the OAG analysis which takes into account all future schedules filed by the airlines to date.

New Iata forecast - International Air Traffic Plunges
The International Air Transport Association (Iata) has published its latest forecast of airline industry profitability, which foresees significant net losses in 2008/2009, with a recovery of profitability not expected until 2010. This year losses could be betw [illegible] USD 6.1 billion, depe [illegible] situation is the worst [illegible] impact of fuel prices [illegible] economic weakness i [illegible] regions (Asia excluding Japan, as well as the Middle East and Latin America) offer some offset in economic growth. If fuel prices do not go down, which is likely, the industry will face a cost shock similar to the oil crisis of the late 1970s.
Global air traffic dropped at an alarmingly fast pace in September, said the International Air Transport Association on Oct. 24.
Cargo traffic dropped 7.7 percent compared to the same month in 2007. International load factors tumbled 4.4 percentage points from August to 74.8 percent in September, IATA said. Also, the Association of European Airlines said cargo traffic for its carriers fell 7.2 percent in September.
This is the worst decline in cargo traffic since the technology bubble burst in 2001, said IATA.

IATA severely criticises European Parliament vote on European Emissions Trading Scheme
The International Air Transport Association (IATA) severely criticised European Parliament vote to bring aviation into the European Emissions Trading Scheme (ETS).
Europe has taken the wrong approach, with the wrong conditions at the wrong time, Iata said.
<u>The Wrong Approach:</u> Europe's unilateral and extra-territorial approach will apply ETS to all aircraft flying to or from Europe. Without international agreement this will only spark international legal battles.
<u>The Wrong Conditions:</u> In its first year of operation, the ETS will add EUR3.5 billion to industry costs and this will rise year-on-year. There is no guarantee that any of the funds generated will be earmarked for environmental purposes.
<u>The Wrong Time:</u> With oil trading above US$140 a barrel and jet fuel above US$170 per [illegible] el bill for 2008 will be at [illegible] 'Airlines are struggling to [illegible] urvive. Adding an extra [illegible] ustry costs will not pro- [illegible] ts.
IATA's four-pillar strategy to address climate change is now an industry commitment that does just that. Emissions trading is one small part of a comprehensive strategy that includes investing in technology, improving operations, building efficient infrastructure and using positive economic measures.

b) Forwarders & Shippers

Dachser and Seacon Logistics establish JV

Dachser and Seacon Logistics have formed a 50:50 joint company within the framework of a joint venture - Dachser Netherlands Air & Sea Logistics, to focus on air cargo development at Maastricht Airport in the Netherlands.
Further offices will be established in the Netherlands' most important trade destinations. The newly founded JV will initially focus on intercontinental air cargo services, but will also develop sea cargo services for the worldwide Dachser network.
Dachser's European Logistics business segment has been active in the Netherlands since 1975. The company operates two branches based in Waddinxveen and Zevenaar, both of which are connected with Dachser's Europe-wide road cargo services network.
The Netherlands is growing in importance as a transhipment centre within Europe. The JV gives Dachser direct access to the Dutch intercontinental market and the benefit of existing local know-how, and gives Seacon Logistics the advantages of the worldwide Dachser network.

CEVA introduces new Air-Sea Service from USA to Australia

CEVA Logistics, one of the leading supply chain companies in the world, has introduced a new Air-Sea Service that provides an alternative, cost effective and quicker mode for shipments of freight from the United States to Australia.
Managing Director of CEVA Australia, Mr Howard Critchley says that the Aussie Super Saver Service is common rated from all major US gateways including Los Angeles, Chicago, New York, Atlanta and Dallas.
“Freight will fly from the United States to Singapore three times per week linking then with CEVA’s service by sea into Australia”.
“The new service provides a cost effective and flexible freight option to customers with lower rates than direct airfreight and faster transit times than by sea”, said Mr Critchley.
Transit times from the Midwest and East Coast of the United States to Australia currently range from 25-35 days. The new Air-Sea service significantly reduces this time to between 10-20 days.
“Importantly, this service is linked with global information systems that provide customers with full shipment tracking and transit visibility throughout the distribution process”.
“The new Aussie Super Saver Service is another example of how CEVA is delivering high quality and reliable end-to-end air and sea logistic solutions to meet all customers supply cycle needs”, said Mr Critchley.

Agility Expands in China

Kuwait-based Agility's second major acquisition in China this year further extends the logistics provider's domestic reach in that country's long-haul transportation for the chemical, automotive and fast moving consumer goods sectors.
Terms of the deal to buy Baisui United Logistics of Shanghai were not disclosed. The company has 15 offices with more than 300 employees managing eight logistics centers totaling 1.4 million-plus square feet of warehousing space throughout China.
Baisui also brings its own fleet of trucks to the deal, along with a network of 75 trucking companies to meet regional distribution demand.
"Baisui Logistics complements our growing service offering in China, both vertically in specialist sectors and by providing improved connectivity through the company's extensive domestic transport network," said James Gagne, Agility's CEO for the Greater China Area. "We will continue to grow organically and through acquisition in order to provide our customers with an integrated logistics solution throughout China."
Agility in June bought Cosa Freight, an ocean freight forwarder with six offices and 200 employees in China, for an undisclosed sum. Agility now has 1,500 employees at 40 offices in 27 locations throughout China.
With more than $6 billion in revenue, Agility has 32,000-plus employees in more than 550 offices in 100 countries.

K+N Operates Saudi Subsidiary

Swiss forwarder Kuehne & Nagel announced it has become the first global logistics provider to operate a wholly-owned national subsidiary in Saudi Arabia. The company entered Saudi Arabia in 1976 in a joint venture. In 2007 it

c) Integrators

Federal Express at Guangzhou
FedEx Asian-Pacific Hub at South China’s Guangzhou Baiyun Airport has passed the completion acceptance on July 9th, marking an important step towards its scheduled opening on December 26th.
As FedEx’s largest base outside the U.S., the Hub at Baiyun Airport covers a total area of 82,000 square meters and is capable of handling 179,000 express packages, or more than 1,800 tons per day by the year 2010.
In accordance with the standards of both China and the U.S. FM, main building of this hub and its automation degree has reached the top level of international express.
An important supporting facility to the hub is the third runway at Baiyun Airport.
The Third runway is now in busy preparation. Construction is expected to start at the beginning of next year and complete before 2010. The third runway will mainly serve FedEx’s hub, but not exclusively; it will be available also for passenger flights as it is needed.

TNT expands international express network in China
TNT will add eight new branches to its international express network in China by the end of the year. The expansion, which forms part of TNT's investment in China to strengthen its international express network, will bring the total number of TNT International Express branches in China to 34. Through its Tiandi-Hoau subsidiary, TNT also operates China's largest private domestic road network, which consists of 1,250 depots. The majority of the eight new branches will be located in the Pearl River Delta and Yangtze River Delta areas - China's key manufacturing and export hubs.
The TNT International Express branches in Dongguan, Zhongshan, Foshan, Shunde are already opened, another four TNT International Express branches will be set up in Nanning, Wenzhou, Kunshan and Shanghai Pudong by the end of the year.

UPS Takes Control in Korea
UPS is acquiring the interest of its partner in an express joint venture in Korea.
Terms of the deal with The Korea Express Co. were not disclosed. The transformation of the joint venture to a wholly-owned subsidiary will allow UPS to expand its business in Korea, the company said.
"UPS and KEC have had a successful partnership in Korea for more than 10 years, but UPS has arrived at a point where we need greater flexibility to match our commitment to this important market," said Derek Woodward, president of UPS's Asia-Pacific Region.
The two companies also signed a cooperation agreement for continued collaboration between UPS's global network and infrastructure and KEC's local network and customs brokerage operations.
UPS said it will begin integrating its Supply Chain Solutions operation with the newly-formed package express entity to offer a single UPS branded portfolio.
UPS began operating in Korea in 1988. The company operates 31 weekly flights to and from Incheon Airport.

UPS begins construction of intra-Asia hub in Shenzen
UPS began construction of its new intra-Asia air hub at Shenzhen International Airport in the heart of China’s Pearl River Delta.
Once completed, the Shenzhen facility will replace UPS’s current intra-Asia hub located at the former Clark Air Base in the Philippines and serve as UPS’s primary transit hub in Asia. The facility is expected to open in 2010.
The repositioning of the air hub will slash at least a day off shipment times-in-transit for Asian customers while offering a new level of service to the manufacturing region located just north of Shenzhen, not far from Hong Kong.
“There are enormous growth opportunities in this dynamic region,” said Daniel Brutto, president of UPS International, who joined a host of Chinese government and UPS officials at the official groundbreaking. “UPS intends to capitalize on this growth by offering superior service. The strategic location of UPS’s Shenzhen Intra-Asia Hub is going to strengthen our position in Asia.”
Currently, the markets of China, Hong Kong, Japan, Korea and Taiwan account for more than half of UPS’s total intra-Asia volume. Of this, a sizeable proportion of Asia package export volume now originates in southeast China and Hong Kong.

d) Airports, Infrastructure & Aircraft manufacturers

Chennai Airport expansion work to begin in September

Construction work on an expansion of the Indian city of Chennai's airport is due to begin in September after the country's Public Investment Board (PIB) gave its approval.

The Indian Government announced last year that an infrastructure committee had approved an upgrade of the city's airport, which will be carried out by state-run Airports Authority of India (AAI) rather than by private companies, as has been done through partial privatisations at some of the country's other major airports.

It says today that with PIB approval in place, only final Cabinet approval is needed and this is expected soon, allowing for construction work to begin in September.

The expansion will include the construction of a second runway for which land has already been handed over to AAI by the state government and defence authorities.

It will also include an expansion of the airport's international terminal to increase its annual handling capacity to seven million passengers from three million. In addition, a new domestic terminal will be built that will be able to handle 10 million passengers annually, increasing the airport's total domestic handling capacity to 16 million passengers per year.

Air traffic has been growing rapidly in India over the past five years, resulting in congestion at many of the country's major airports.

The Government says that based on current growth projections, the upgraded Chennai airport international terminal will be saturated in the 2017/18 financial year and the domestic passenger terminals will be saturated in 2012/13.

Indian goverment may plan a third airport in Mumbai

With the existing airports in Mumbai running at full passenger capacity, the government is looking at building a third airport in Navi Mumbai. The investment in the new airport is estimated at around Rs 9,000 crore. In the next two years at least one runway should be ready.

Pearson Slashes Cargo Landing Fee

Cargo landing fees at Toronto's Lester B. Pearson International Airport will drop 25 percent, effective Jan. 1, said the Greater Toronto Airports Authority. The move comes as the Authority pushes to keep the airport competitive as a cargo hub.

The cargo landing fee will fall from $34 per ton to $25.50 per ton. Fees for passenger flights will remain at $34. Only 45 miles away, the smaller Hamilton International Airport charges approximately $10.61 per ton for passenger and cargo planes.

Almost 50 percent of the GTA cargo market is being trucked to competing regional airports for international or North American destinations because of the high cost of operating at Toronto Pearson. The "leaked" cargo costs an estimated $496 million in lost wages and $260 million in lost taxes. It also puts an estimated 22,000 truckloads of cargo on the highways.

Pearson currently handles approximately 500,000 tonnes of cargo per year with a value of $32 billion. Cargo is about 5 percent of Pearson's traffic. It is 45 percent of Canada's air cargo.

BAA to sell Gatwick in response to competition concerns – Potential bidders eye Gatwick

BAA put London Gatwick up for sale, a move it described as a "realistic response" to the UK Competition Commission's provisional report, that raised concerns over the company's ownership of seven UK airports including three serving London. Though BAA said it does not agree with the CC's provisional findings, a precursor to a final decision expected early next year on whether BAA's airport holdings should be broken up, it conceded that it needs to take measures to resolve "current uncertainty" over future ownership of London's airports. It is unclear whether selling LGW will satisfy the CC, which in last month's report leaned toward recommending that BAA sell two of the three London airports as well as either Edinburgh or Glasgow.

The airport operator, a subsidiary of Grupo Ferrovial, indicated that it would like to retain both London Heathrow and Stansted, saying that "a change of ownership [at Stansted] would interfere with the process of securing planning approval for a second runway, which remains a key feature of [UK] air transport policy."

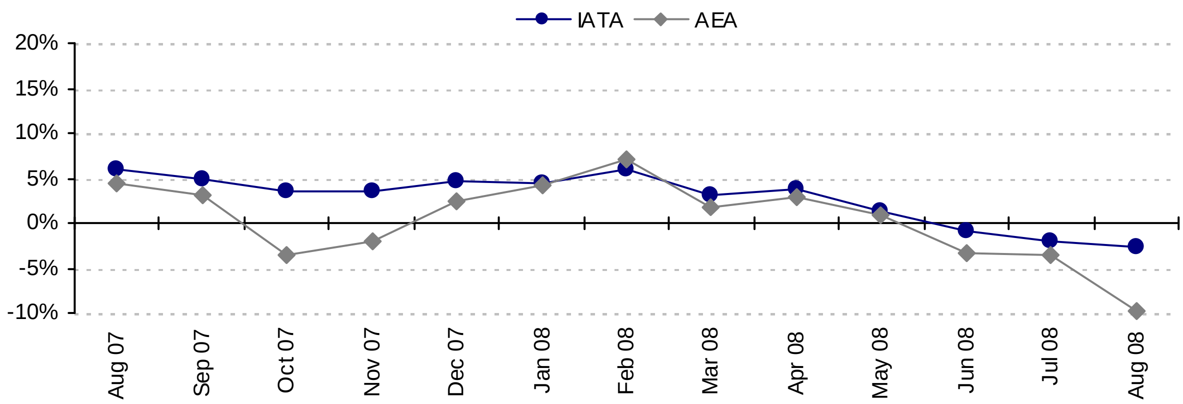
2. Cargo Growth, Jet Fuel & Airfreight Rates Interaction

Airlines distinguish between freight performance offered (FTKO, freight ton kilometers offered) as part of its total performance offered and its sold freight performance (FTKT, freight ton kilometers transported) as part of its total performance sold.

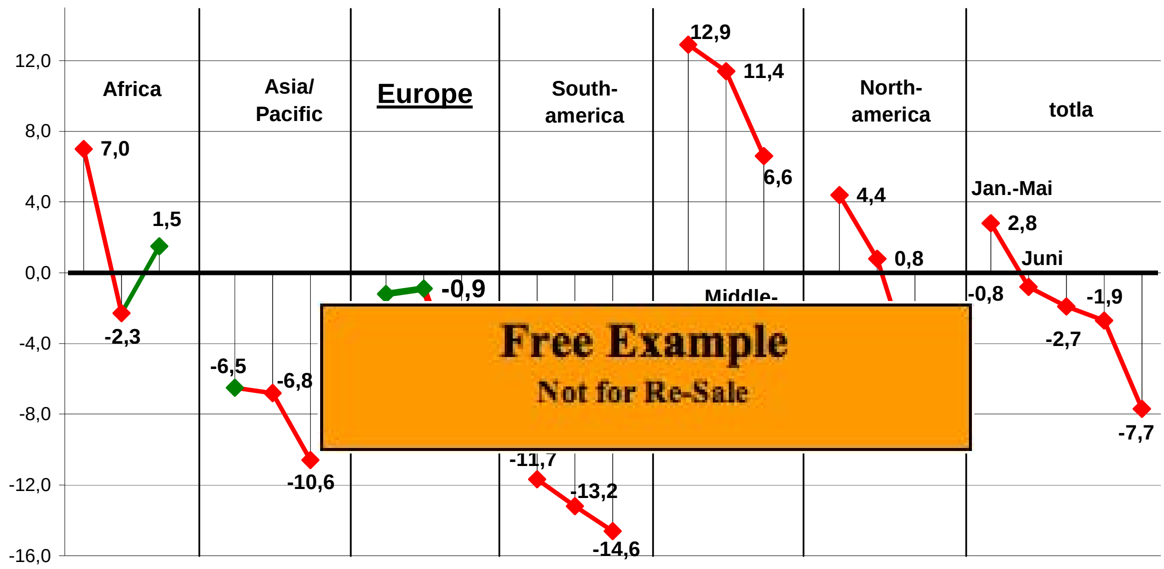
The below chart describes the trend of the worldwide cargo segment growth. For example in October 2007 the European cargo market has loss over 3 per cent while worldwide the cargo market had a growth of 5.0 per cent.

But it is obvious, that the peak in growth rates with +5.9 per cent IATA and +7.2 per cent AEA was in February 2008. Since that month the growth rates decline in parallel for IATA and AEA. In May the last positive growth rates for IATA and AEA were reported and turn in negative growth rates since June 2008. The negative growth rate for European airlines is stronger compared to the global statistics of Iata.

Monthly FTKT Change vs PYM (%)



World air cargo traffic
FTKT Change (%) July – September 2008



Source: IATA

3. Market Overview

Airfreight worldwide

The incidence in the second half of 2008 with the bankruptcies of major American banks and the resulting steppe fire in the global financial industry caused a domino effect. This had a deep impact of the worldwide economy and self-evident effects for the global air cargo industry. The cargo industry is currently suffering from both operations-related issues as well as from the onset of a worldwide recession. The operating environment has worsened significantly and there is no relief in sight.

Chief among the world-wide recession are high fuel prices, excess capacities, tighter security requirements, labour costs and severe directional imbalances.
High fuel prices, increasing consolidation among the carriers, a significant capacity growth leads to a pressure on yields. Almost all airlines get currently in turbulence. Since the beginning of 2008 about 30 companies are broke down under the burden of rising oil prices and a flattening of in the global economy growth. Normally, the number of airline bankruptcies is 6 to 8 per year.

In the beginning of 2008 IATA forecast an industry net profit of $4.5 billion based on an average price of $86 a barrel for Brent. This was reduced from a December forecast of $5 billion. The industry earned $5.6 billion in 2007, its first net profit since 2000. Now the association feared a cumulative loss of $5.2 billion this year. Cargo traffic dropped in September by 7.7 percent compared to the same month in 2007. At this rate, losses may be deeper than the forecast of $5.2 billion for this year even that the oil price has fallen to half its July peak which is not enough to offset the impact of the drop in demand.

This is the worst decline in cargo traffic since the technology bubble burst in 2001. Declines in air freight have slowed year-to-date growth to 0.1 percent, with all regions except the Middle East and Africa reporting negative results. The most alarming drop was with Asia Pacific carriers - the largest players in the market. The region's carriers reported a 10.6 percent decline.

Europe and North American carriers, which had seen flat growth through August saw cargo traffic fall 6.8 percent and 6 percent respectively.

Obviously Europe is heading for a deeper recession than the US as it lacks the necessary flexibility to really react to the worsening economic situation. Companies across Europe, from Daimler and Siemens to KPMG and Unicredit are bracing themselves for the slowdown by cutting jobs, production and recruitment. This comes as growth in Europe has plummeted after a strong first quarter to lead us analysts to think several continental economies are already close to recession.

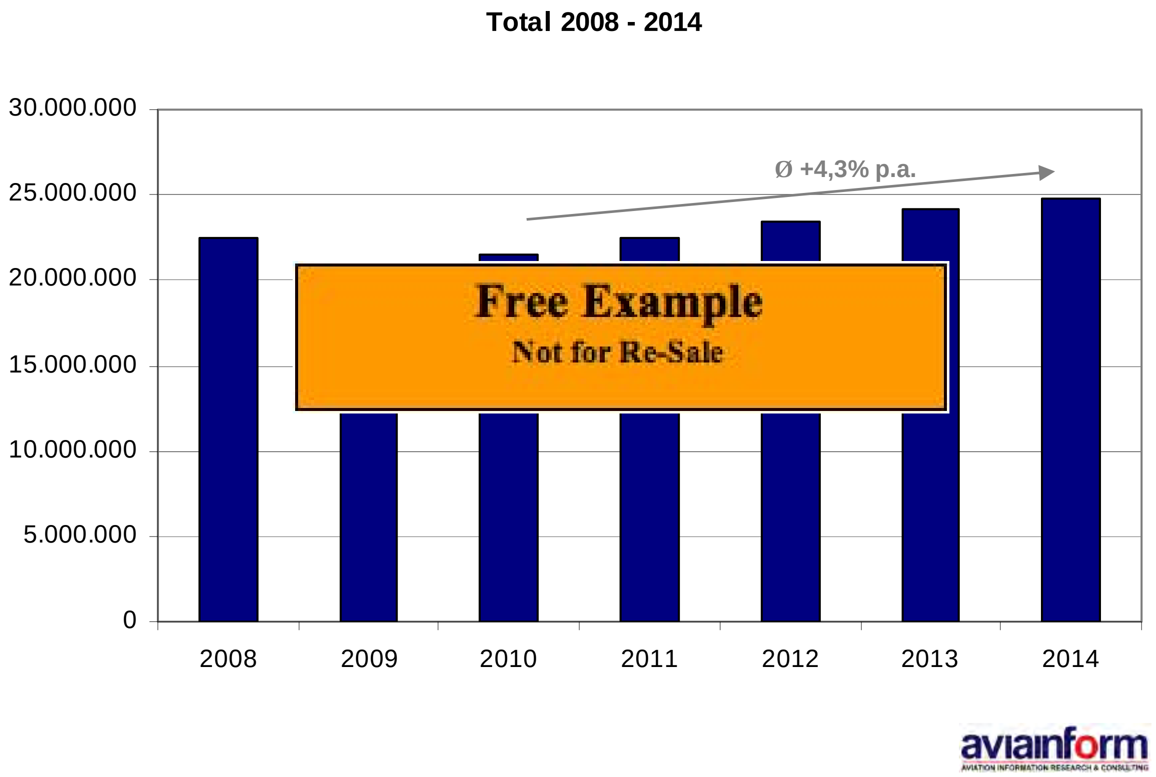
The current credit crisis is likely to depress cargo demand for the US and European markets and make it even more difficult for the air cargo industry as trade and investment will be affected to a significant degree. To the extent that economic growth in China is able to be sustained, it may be able to offset slackened demand in the US and Europe.

Asia and especially China and India will continue to be the main driver of air freight demand for the next years. Most Asian economies were forecast to grow at an average of five percent in 2009, with China down from double-digit to the region's highest at nine percent. This means there will continue to be growth in the regional economies, while most if not all European economies will show a contraction.

The following forecast covers the development of International Airfreight until 2014. Domestic traffic, in particular the large US market, is not reflected in the data. More information about the individual market segments can be found on the following pages.

Due to the recent developments in world economic we consider at the moment, that the total amount of transported air cargo may be the baseline in the downturn slump. But regarding the rising number of announcements (e.g. automotive sector in USA and Europe, High Tech sector in Asia) the bottom may be not reached yet.

We indicate that the cargo market is uncertain now. The most recent happenings will not allow us to seriously forecast the impact of the global financial crises to the manufacturing industry, and therefore to adjust properly the impact to the global air logistics markets.



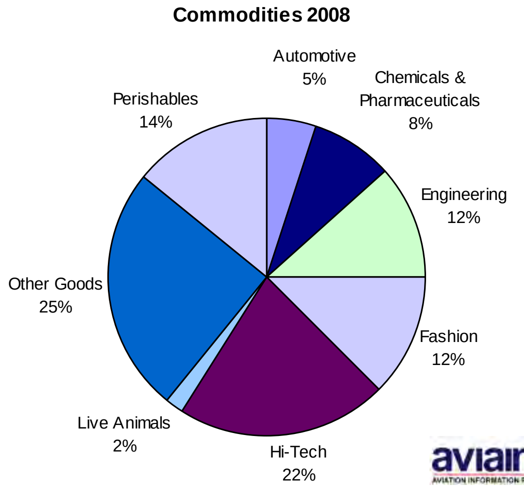
Positive Long Term Trend

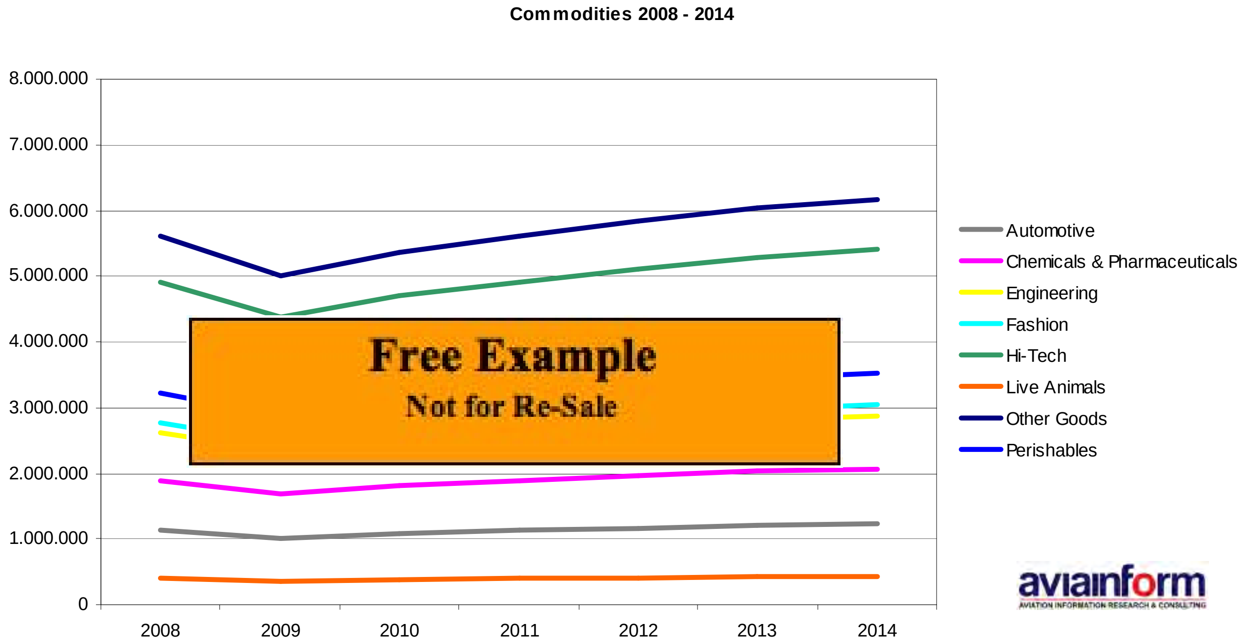
China's economy will experience a slight cooling in the near term, although China's future economic growth will be still positive. Although it might not necessarily maintain the current double-digit growth, sustained growth is still foreseeable. In the next a few decades, the Chinese economy will continue to maintain an 8 - 10 per cent growth rate. China and India, as well as the steady upswing in other markets contributes substantially to the development in international airfreight. An average annual growth rate of 4.3 per cent is expected in the period between 2010 and 2014.

Approximately 23 million tons will be transported worldwide this year. By the end of 2014, the volume of airfreight will have increased to approximately 29 million tons. This represents a growth rate of 23 per cent within 5 years.

The Hi-Tech segment keeps its pole position in 2008 with a market share of 22 percent (4.6 million tons). This will continue to be the case over the next coming years. Until the year 20143 we predict a two digit growth rate for all here mentioned commodity types.

The second important commodity is Perishables with a volume of 3 million tons followed by the fashion segment with a volume of 2.6 million tons.





4. Rates

Rates have been taken into consideration on an overall regional basis and are not based on specific airports. Hereby only the net rates (shipper rates) are considered (excluding any surcharges).

For Intra Latin America, Intra Middle East and Inter APAC/Latin America, APAC/Middle East and Europe/Middle East Traffic no forecast can be done due to insufficient data.

The ongoing decline of rates ex Asia/Pacific is partly due to two factors: overcapacity and decline in demand. The capacity offer results in the extreme pricing politics of various vendors trying to fill up existing capacities at any rate, even though capacities have been taken out off the market due to high fuel prices. For example: only 1 of 5 jumbo freighters from China to Europe will return to its origin with an acceptable load factor.
The logical outcome of this situation (a further reduction of prices) does not automatically lead to an increase of demand also with the eye on the global economy downturn.
Also there will be alternative modes of transport available in the future which will be competitors for airfreight and have an influence and put pressure on the rates. In January DB Schenker starts with its scheduled rail project Trans Eurasia Express from China to Germany. In 2012 the Carex-Project will start with the concept airfreight by rail in Europe on the Highspeed tracks with special converted TGV-Trains senders will be pushed to look for alternative solutions such as integrators or the much cheaper sea traffic or rail/intermodal (e.g. Trans Eurasia Express) option.

At the same time we observe more important growth of the worldwide transport volume versus the gross net product resulting from a continuous international work share and the consequently longer transport routes. Thus, we can expect an over proportional growth of rates up to 12 per cent in air- and seafreight, but also for road- and rail traffic and especially in the field of contract logistics until 2014.

To From	APAC	Europe	North America	Latin America	Middle East
APAC	→	↘	[illegible]	[illegible]	[illegible]
Europe	↘	→	[illegible]	[illegible]	[illegible]
North America	→	→	↘	→	↘
Latin America	?	?	↘	→	?
Middle East	↘	→	→	?	?

↑ = strong increase
↗ = slight increase
→ = unchanged
↘ = slight decrease
↓ = strong decrease
? = not available

5. Miscellaneous

Worldwide Financial Crises and there is no relief in sight: Are Alliances the formula to survive?

The crisis is everywhere: at sea, on land or in the air. She meets producers across all sectors: food, chemicals, metal, electrical, automotive, consumer goods. Especially the winners of globalization now feel the doldrums. Long time, economists have fueled the notion, that the real economy gets off lightly in the crisis and alone the financial economy get bigger problems. Even the industry associations were still optimistic long. But that hope has dissolved into thin air. The opposite has occurred, it is bad for everyone.

The black week on Wall Street had two effects: the ordinary people and many companies began to save money. They delayed their orders. They cancelled existing orders. at the end these effects globally passed through and effect all. This is the consequence of global supply chains. There is hardly any storage, less production in the American car factory so that the supply chain of the supplier from Mexico stops.

The financial crisis with which it all began, smoldering since mid-2007, without that global demand collapse. From this moment all the problems, associate with global growth financed by credits, were recognizable. But the real economy still produced more. There was a damper in growth rate, but the mood in the company remained stable positive. But then September 15th 2008 happened. At this day with the bankruptcy of Lehman Brothers the principal actors began, to consider anew the risks in the economy.

The American government, the later hedged the insurance giant AIG, Lehman refused protection,. The U.S. government underestimated the systemic risk. The Lehman-bust was the signal that the crisis does not come over by itself and not remains limited on Wall Street.

There was only one day witnessed at least the airline industry met with similar force. That was September 11th 2001. Afterwards, many airlines only with government guarantees continue to fly and only survive after tough rehabilitation cuts.

However, with the economic uncertainties and slowing down of trade it is time for airlines to talk to each other and see how they could work together and weather the storm.

This will force the airline concentration, various merger talks were held in 2008 but stopped but the uncertain development will force them to look for alternatives e.g. alliances for security and to survive. Best examples are the alliance between Jet and Kingfisher in India, the merger between British Airways and Iberia with the joint business agreement of American Airlines and maybe other will follow in the next time.