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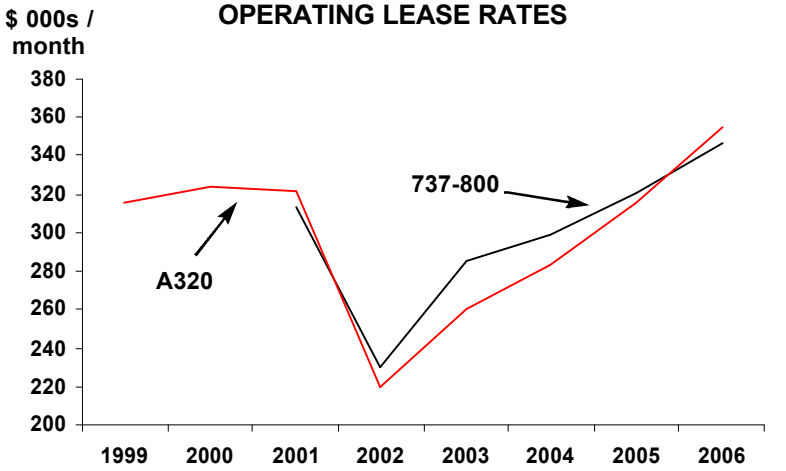
Implications of aircraft lease escalation

From the evidence of operating lease rates, the narrowbody aircraft market has now made a full recovery from the post-September 11 slump. Rates for A320s and 737NGs are above 2000 levels and availability of modern second-hand types is very tight. The manufacturers' backlogs are full, with the earliest delivery slots for orders placed today being about three years away.

Partly at least the strength of the leasing market reflects the actions of the leading lessors in supporting the legacy carriers in the US in recent years, in the process preventing a deluge of aircraft coming on to the market. The problem now is that the current high lease rates may choke off demand from the emergent aviation markets - China and India in particular - where the many start-up carriers are now facing a rapid escalation in leasing costs. And this is compounded by persistently high fuel prices, plus inflation in pilot, engineer and management costs as demand for key skills starts to outstrip supply.

It might make sense for some of the start-up airlines that have placed substantial orders with the manufacturers but which have not actually started flying to convert themselves into leasing companies. There is some speculation about this development in the Indian market at present.

Meanwhile, the operating lease escalation has locked in a permanent advantage for those LCCs which were able to place mega-orders in the depth of the recession - Ryanair, easyJet and Air Asia especially. The latest wave of low-cost start-ups can expect to face aircraft leasing and/or ownership costs roughly twice those of the first wave, which makes head-to-head competition extremely difficult.



Notes: Models are 737-800LGW and A320-200IGW, both three years old
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Recent months have witnessed a stunning development on the US aviation scene: JetBlue, the LCC high-flyer with a powerful brand and previously industry-leading profits, is stumbling. The New York-based airline has posted sizable losses for the past two quarters and is likely to see one of the worst 2006 loss rates among the solvent US carriers.

Consequently, JetBlue too now has a "Return to Profitability" (RPT) plan. The airline announced the plan in conjunction with its first-quarter results on April 25, and its top executives have discussed the measures further at industry conferences and at the company's AGM on May 18.

In the first place, JetBlue is slowing growth through fleet reductions - it has deferred 12 A320 deliveries that were previously scheduled for 2007-2009 and is seeking to sell at least two currently operated A320s. Like its legacy counterparts, the airline has identified a hotchpotch of revenue enhancements and cost reductions. But the plan also includes interesting strategy changes, notably a shift away from transcontinental to short and medium-haul markets and major changes to revenue strategy.

JetBlue's problems are all the more surprising given that much of the rest of the US airline industry is finally seeing light at the end of the tunnel. The best of the lot, US Airways, has even turned profitable, following its Chapter 11 restructuring and merger with America West.

So what went wrong at JetBlue? Will the RPT plan succeed in restoring healthy profitability? To what extent will the airline's business model change?

From best to worst

One industry expert noted at a recent conference that an airline knows that it is growing too rapidly when its returns go to the bottom and it moves from the best to the worst ranking in the DoT's operational metrics league table. Both of those things have happened at JetBlue.

JetBlue's financial results have deteriorated steadily since early 2004. Its operating margin declined from a spectacular 17% in 2002 and 2003 to 8.8% in 2004 and 2.8% in 2005. Last year saw a $20m net loss on $1.7bn revenues - JetBlue's first annual loss since it began operations in 2000. 4Q05 and 1Q06 saw net losses of $42m and $32m, respectively. In the latest period, JetBlue trailed the other solvent carriers with a 5.2% negative operating margin.

The losses, of course, reflect a mixture of external/industry developments, over which JetBlue has little or no control, and self-inflicted damage.

Like most other US airlines, and unlike Southwest, JetBlue has not had significant fuel hedges in place. Its average per-gallon fuel price rose from 85 cents at the end of 2003 to $1.86 in 1Q06. And like the legacies, JetBlue has not been able to raise fares sufficiently to compensate for fuel - its average fare has remained unchanged at about $105 in the past two years.

There are several reasons why LCCs have found it harder than the legacies to raise their fares even as the pricing environment has improved. First, they need to maintain a low-fare image. Second, their simple pricing models mean that they have fewer fare buckets to play with. Third, many LCCs have aggressive expansion plans that require them to focus on filling aircraft rather than pricing for profitability.

JetBlue's ASMs were up by 27.2% in the first quarter - the fastest growth rate among the US non-regional airlines; yet, its average load factor was an excellent 84.2%. But its unit revenues (RASM) rose by only 3.3% - a far cry from the double-digit increases achieved by the legacies and totally insufficient to compensate for the 16.3% surge in unit costs. 1Q CASM was 7.84 cents, up from 6.84 cents a year earlier, while RASM was 7.46 cents.

Another reason why LCCs have found it hard to raise fares - and this is a very recent development - is that they have lost some of the pricing power that they captured earlier. For example, US Airways actually blocked a fare increase initiated by JetBlue in early May. JP Morgan analyst Jamie

Baker noted that he could not recall a previous time a legacy blocked a broad increase initiated by a discounter.

Such actions reflect the legacies' superior yield and seat inventory management, as well as a bolder attitude by the carriers that have restructured successfully. Analysts have used phrases such as "tables are turned" and "the revenge of the legacy carriers" to describe this phenomenon.

Importantly, though, JetBlue does not have a demand problem. Its traffic (RPMs) rose by 25% and operating revenues by 31% in the first quarter.

But the airline is seeing unfavourable non-fuel cost trends; its ex-fuel CASM was up by 6.7% in the first quarter. Among other things, there were new ground lease payments for the terminal JetBlue has under construction at JFK, higher maintenance costs following the initial "maintenance holiday" associated with the new fleet and tougher than anticipated integration issues with the 100-seat Embraer E190. The aircraft, which entered revenue service in November 2005, had initially poor dispatch reliability, though most of the problems have now been solved.

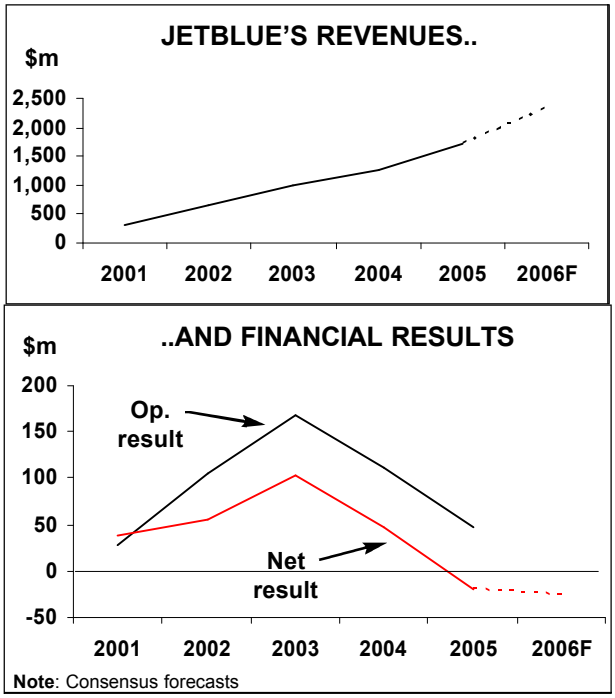
As an added concern - and a key factor behind the decision to scale back growth, JetBlue's lease-adjusted debt-to-capital ratio has again risen to the 75% ceiling imposed by the company.

JetBlue's credit and debt ratings have seen a steady string of downgrades by rating agencies, which has raised borrowing costs. Most recently, in mid-April Moody's lowered the corporate debt rating from Ba3 to B2, citing the unexpectedly poor first-quarter results and "long-term challenges to profitability".

All of that has taken a toll on JetBlue's stock performance. The share price has fallen from a peak of about $30 in late 2003 to the $10 level in recent weeks.

In a mid-April research note, Jamie Baker rather insultingly noted that JetBlue's actions resembled those of an old-style legacy carrier. "Over-aggressive expansion, unrelenting competition, multiple fleet types, deteriorating operational integrity, earnings disappointment and shareholder value destruction…are we describing JetBlue or United in the late 1990s?" he asked.

However, JetBlue has two great strengths that make it a long-term survivor. First, it continues to be extremely highly rated by customers, as illustrated by a steady stream of "best airline" type awards. As Neeleman noted recently, JetBlue has created true brand loyalty in a commodity business.



Note: Consensus forecasts

Second, with a cash position of $491m at the end of March, representing 29% of 2005 revenues, JetBlue has ample resources to weather a period of losses.

Return to Profitability plan

JetBlue has funded its aggressive expansion, which has seen capacity grow at a compounded annual rate of 54% since 2000, through earnings cash flow, long-term debt and occasional equity offerings. The problem this year has been that, with another $2bn of aircraft funding required in the next two years, the traditional funding sources have either disappeared (earnings) or look difficult (debt or equity issues). An equity offering is still possible but not desirable as the stock is close to its 52-week low.

Therefore JetBlue was left with basically three options: raising revenues, reducing costs or cutting capital spending. The airline is having a serious crack at the first two, but there are limits to how much an already-lean low-fare operator can achieve. Therefore aircraft sales and order deferrals seem not just a prudent move but

a necessity.

Nevertheless, by "reassessing everything we've ever done" and with the help of five cross-functional teams led by senior leadership, JetBlue has identified revenue and cost initiatives that are expected to improve this year's financial results by $60-80m. Half of the improvements will come from revenues and half from costs. Specific initiatives will be rolled out throughout 2006.

JetBlue's leadership insists that the airline's basic franchise is sound. Rather, as Neeleman put it, "we haven't done a good job in managing our business for fuel prices that are over $2 a gallon, primarily in the way we price our product, schedule our flights and how we control our costs".

A320 sales and deferrals

JetBlue is looking to sell at least two, but up to five if necessary, of the A320s it currently has in revenue service. This is a relatively easy option, given the need to right-size capacity in certain markets and the strength of demand for A320s in other world regions. The aircraft to be sold will be the oldest in the fleet, which will have the added benefit of reducing maintenance costs.

The impact will be to reduce this year's ASM growth from the previously planned 28-30% to 20-22%. The growth rate will still be high, but at least it will not be the industry's highest - AirTran, another large East Coast LCC, is planning 24% growth in 2006. JetBlue wants to preserve its ability to take advantage of market opportunities, particularly if the cost and revenue measures are successful.

JetBlue's deal with Airbus deferred 12 A320 deliveries from 2007-2009 to 2011-2012. The airline will now take five fewer A320s in both 2007 and 2008 (12 instead of 17) and two fewer A320s in 2009. JetBlue opted for more deferrals than sales partly because deferrals were "a sure thing" in light of its relationship with Airbus. However, the airline has taken options for four additional A320s in 2009-2010. At the end of March, its fleet included 88 A320s, with 95 A320s on firm order.

But JetBlue will need to restore profitability to meet the still-substantial A320 funding requirements. Even after the deferrals, aggregate A320 spending commitments as of March 31 were $890m in the rest of 2006, $975m in 2007, $1bn in 2008, $1.15bn in 2009, $1.18bn in 2010 and $1.09bn thereafter.

E190 to play key role

There are no regrets about going for a second aircraft type; to the contrary, JetBlue is extremely pleased with the E190 decision. The E190 delivery schedule remains unchanged as the 100-seater will play a key role in the RTP plan. At the end of March, there were 11 E190s in the fleet, with another 90 on firm order. There are no near-term funding issues because the first 30 E190s have committed sale/leaseback financing with GE Capital, covering deliveries through April 2007.

Aside from the dispatch reliability problems, initial market trends have been encouraging. Customer acceptance has been high, fuel burn better than anticipated and RASM trends extremely strong. By mid-year the E190 utilisation is expected to be in the 11-hour range, which will bring costs to where anticipated. Had the E190s had "normalised" costs in March, they would have already been profitable.

In addition to major markets such as the initial New York-Boston route, the E190 will also be targeted at less competitive medium-density routes that currently have 50-seat or 70-seat regional jet service with high walk-up fares. While JetBlue will offer fares that are substantially below what other carriers are offering, the E190 is expected to have a yield premium over the A320 on comparable stage lengths.

The E190 will also provide feed and develop new markets for future A320 operation. JetBlue has said that it is comfortable with the revised A320 growth rate in part because of the promising E190 market trends in those respects.

Shift to short and medium haul

The RPT plan spells out a shift in flying away from transcontinental to shorter-haul markets. This is in response to higher fuel prices, which are affecting long-haul operations the hardest. There is a need to right-size capacity in certain east-west markets, particularly in off-peak times, and to increase the average fare.

In some way JetBlue is going back to its roots. Its original plan included 44 mainly short and medium haul routes out of JFK. Most of those cities (in the Mid-Atlantic, Midwest, etc.) never

materialised as the airline instead focused on developing Northeast-Florida and transcontinental services, which now account for 38% and 47% of its ASMs, respectively (Caribbean accounts for 8%, short-haul 5% and medium-haul 2%). The east-west services helped JetBlue reduce seasonal variation and gave it industry-leading aircraft utilisation, but due to competition the routes have produced losses in the past couple of years. Of course, JetBlue has already been refocusing on short and medium-haul markets with the E190s.

The airline still believes that it has an excellent franchise in the transcontinental business, with significant volumes of loyal customers out of Long Beach (its West Coast hub, which is offered as an alternative to crowded Los Angeles) and increasingly also out of Burbank, but that it needs to manage the business differently. With summer transcontinental bookings looking strong, the main capacity pull-down will come in the autumn with the shift of some A320s to short haul routes.

JetBlue executives described the RTP plan changes as "somewhere between a tinkering and a major overhaul". The immediate result will be to change the ratio of long-haul to all other flying, as measured by number of flights, from 1.5 to 1 last summer to 1.2 to 1 this summer.

Since the beginning of this year, JetBlue has added numerous short and medium haul routes, including Boston-Washington, JFK and Boston to Richmond (Virginia), JFK and Boston to Austin (Texas), Boston-Nassau (Bahamas), JFK-Bermuda, Long Beach-Sacramento, and Orlando to San Juan and Aquadilla (Puerto Rico). Over the next couple of months, the airline will add service from one or both of its Northeast hubs to Portland (Maine), Jacksonville, Pittsburg, Buffalo, Charlotte and Raleigh-Durham, as well as Burbank to Las Vegas. However, JetBlue said that it would remain flexible and responsive to long-haul opportunities, such as the recently introduced Boston-Phoenix and the upcoming Burbank-Orlando routes.

There is no shortage of opportunities. The shift from long haul to short and medium haul will mean the addition of more new cities this year than the 8-10 that JetBlue had previously planned on. As of mid-May, the airline served 36 cities.

New revenue strategies

The most significant changes to JetBlue's business model will be on the revenue side; in Neeleman's words, fuel has simply changed the way the airline looks at the world. The premise of the previous model, which worked well when crude oil was at $20-30 a barrel, was to keep costs and prices low and make substantial profits on volume and growth. Now the airline must sacrifice some load factor to the yield.

The key thing, in JetBlue's analysis, will be to get the system average fare of $105 up by "a few more dollars" - apparently that is all that is needed to cover the increase in fuel prices. Just $110 or $115 would have made a significant difference to the 1Q results.

However, JetBlue does not anticipate changing its low fare structure; rather, it aims to improve the fare mix. For example, in the Florida markets, it needs to sell fewer $69 fares and more $79 and $89 fares.

This means that JetBlue is moving towards conventional yield management and more complexity in its pricing model - strategies that European LCCs like Ryanair have used successfully since their inception.

To emphasise the new focus, JetBlue has moved its revenue management team from Salt Lake City to its New York/Queens headquarters. It also recently hired an experienced revenue manager from US Airways, Rick Zeni, who as VP of revenue management, reporting directly to Neeleman, will oversee the transition.

Neeleman said that there has been a mindset change and that he is optimistic of what the revamped revenue management team can achieve. Also, there is unlikely to be adverse reaction from JetBlue's loyal customers - many of them have been mailing $5 and $10 bills and checks to the airline to demonstrate that their tickets were unnecessarily cheap.

JetBlue has at least 15 different revenue initiatives under way, including selective capacity cuts, scheduling adjustments to maximise revenue, adjustments to fare buckets to obtain a better fare mix, fine-tuning the overall fare structure (with possible elimination of some of the cheapest fares) and new corporate booking tools. The airline also hopes to maximise opportunities in the "other revenue" category, including its co-branded credit card and membership rewards programme with American Express and its own online "Getaway" travel package programme. The latter could grow to a $100m business within a year or two (currently $20m in annual sales).

JetBlue is not following the legacy route of charging extra for everything. However, the airline is now imposing its $25 ticket-change fees more stringently. And there are plans to add some amenities to generate more revenues on flights, such as better-quality wine. While LiveTV is seen as part of the "JetBlue experience" and remains free, last year the airline started selling upgraded headsets for a small fee.

Cost reductions

The cost reduction plan focuses on labour efficiency, fuel conservation and more rigorous supply chain management. On the labour front, the aim is to reduce the number of employees per aircraft from the current 93 to perhaps 80. There will be no layoffs, just reduced hiring. JetBlue has also reduced management costs by eliminating or reassigning some jobs and cutting unnecessary perks such as Blackberries.

Surprisingly, JetBlue also believes that it can further reduce aircraft ground time. It hopes to accomplish that by becoming more standardised in the boarding process. The A320s are currently turned around in 30-40 minutes and the E190s in 20-35 minutes.

The growth of E190 operations and the reduction in the average stage length will have the impact of increasing JetBlue's CASM, but the airline expects RASM improvements to more than compensate for that.

Maintaining culture and brand

While seeking cost reductions, JetBlue is very mindful of the need to maintain and even improve its internal culture and brand equity. This will be even more important as it moves to shorter-haul, more business oriented markets. Among other things, the airline is making its TrueBlue FFP awards easier to redeem and more flexible.

JetBlue also recently reshuffled some top management positions, moving John Owen from CFO's position to "EVP - supply chain and information technology", a newly created position, and promoting John Harvey from SVP finance/treasurer to CFO. An expert on business technology, Virginia Gambale, has also been brought in as a new board director. The airline said that these strategic changes will help attain the efficiency and productivity aims of the RTP plan.

Future codesharing?

The mind-set is changing also in respect of codesharing. Neeleman disclosed at the AGM that the company is open to the idea - and attracted by the revenue potential - of trading customers with other airlines particularly at JFK. There have been preliminary talks with some of the 51 airlines that operate out of Terminal 4, which JetBlue uses for its San Juan flights (otherwise it operates from Terminal 6) on feeding traffic to international services. The aim is to move quickly, with one or two deals possible "in the not-too-distant future". JetBlue also sees potential for links with smaller domestic carriers.

LCCs have warmed to the idea of codesharing because the technology is now available to do it relatively easily. At least that has been the experience of Southwest, which has codeshared successfully with ATA for a couple of years and has continued to expand that linkage.

Financial outlook

JetBlue believes that the RTP plan initiatives will lead to operating profits in the second, third and fourth quarters of 2006, culminating in a full-year operating margin of 3-5%, based on a reasonable fuel cost assumption of $2.10 per gallon net of hedges. But a net loss is still expected for 2006 - the current consensus estimate is a loss of 15 cents per share or about $26m. The consensus estimate for 2007 is a net profit of 17 cents per share, though individual analysts' forecasts range from a loss of 20 cents to a profit of 40 cents.

Much will depend on whether JetBlue achieves its relatively ambitious unit revenue targets. The airline expects RASM growth to accelerate from 3% in 1Q to the "low teens" in 2Q, with further improvements in the second half of the year.

Among the analysts who take an optimistic view of JetBlue, Raymond James' Jim Parker suggested in a mid-May research note that Delta's substantial Northeast-Florida capacity cuts effective May 1, together with JetBlue's efforts to reinvigorate its revenue management system, will allow the airline to meaningfully

improve average fares and RASM. Parker raised his recommendation on the stock to "outperform", predicting that the RTP plan efforts "will begin shifting investor psychology in a new and positive direction".

At the other extreme, Merrill Lynch analyst Mike Linenberg, who has maintained a "sell" rating on the stock, has expressed concern about execution risk and questioned whether the aircraft deferrals and two sales were enough. Linenberg expressed the view that after the initial excitement generated by the RTP plan, "the stock will be range-bound until the company can deliver results".

Former UBS analyst Sam Buttrick (now in the bank's Fundamental Investment Group) expressed a similar sentiment at a conference in early May. He cautioned that JetBlue may still be taking on too much debt, which, in the event of any adverse development, would give the company less room to maneuver.

Calyon Securities analyst Ray Neidl maintained a "neutral" rating on the stock in mid-May, noting that there is substantial uncertainty as to when JetBlue will return to profitability.

In a late-April research note, JP Morgan analyst Jamie Baker mentioned the nagging concern in the minds of many investors that JetBlue may have become "just another airline". In other words, its profitability and growth may simply align with that of the industry and it will no longer maintain a growth stock valuation.

By
Heini Nuutinen

Air Berlin's IPO: Just bad timing?

Air Berlin may be Europe's third largest LCC and the second largest airline in Germany, but investors were less than enthusiastic about the airline's May 11 IPO. Was the relative lack of interest merely down to bad timing due to high fuel prices, or was it indicative of serious doubts about the strategy of Air Berlin?

Tegel-based Air Berlin was launched in 1978 as a charter carrier (see *Aviation Strategy*, December 2004), but today is both a charter and a low cost/low fare airline, with a fleet of 56 aircraft operating 350 flights a day on 135 routes between 18 German and 56 foreign airports, primarily in Mediterranean destinations such as Spain, Greece, Turkey and North Africa. Air Berlin has a staff of around 2,700, including 500 pilots and 1,000 flight attendants.

The carrier is a hybrid business of an LCC that focuses on business travellers (with 56% of revenue coming from single seat sales) combined with a charter operation that operates flights on behalf of German tour operators (44% of revenue).

Although the dependence on charter sales is lessening, the volume of business is still substantial, and in 2005 37% of all Air Berlin's revenue came from bulk sales to just four tour operators - Alltours (13%), TUI (9%), ITS (8%) and Thomas Cook (7%). Air Berlin is still Germany's leading charter passenger airline in terms of passengers carried (4.7m in 2004), with Condor and Hapag Lloyd in second and third place (3.5m and 3.4m charter passengers respectively in 2004). However, the structural problem for Air Berlin in the long term is that the European charter market is continuing to decline gradually (with total European charter seats falling at a CAGR of 4% between 2000 and 2004, according to Air Berlin's IPO prospectus).

The gradual shift in focus, therefore, to non-charter/seat-only business is logical. This began in 1998 with the Mallorca Shuttle service, which links the island with German cities and whose success led to the formation of the City Shuttle in 2002, which extended seat-only services throughout the rest of Europe. Today Air Berlin operates all city-to-city routes under the low fare brand Euro Shuttle, a name that was formed in 2005 from the combination of the City Shuttle and Mallorca Shuttle brands.

However, Air Berlin's LCC strategy is slightly different to the standard LCC business model - instead, it places itself "in the upper end of the low fare carrier segment by serving both primary and secondary airports, and by offering passengers extra services at no extra cost". Or, as Joachim Hunold, the CEO of Air Berlin, puts it, it is "a low-cost airline with frills".

Air Berlin's LCC operations are also different in that they are based both on point-to-point traffic and (to a lesser extent) on hub-and-spoke operations at Palma de Mallorca, Nuremberg, and - since December 2005 - London Stansted. The Palma hub connects through to 14 Iberian destinations and the airline carried 4.5m passengers to, from or through the airport in 2005. Air Berlin is now the largest airline at the Balearic airport, accounting for approximately 25% of all passengers carried. At Nuremberg, which connects through to the other airports served in Germany, Air Berlin carried 1.5m passengers in 2005.

The newest hub is London Stansted, which Air Berlin plans to build up fast. In December 2005 Air Berlin began domestic UK flights with routes from London Stansted to Glasgow and Manchester, which it says is in great demand from UK corporates. A service from London Stansted to Belfast was added in May, and according to Air Berlin's forecasts, 30%-50% of passengers on the UK flights are expected to be travelling point-point, with 50%-70% of passengers being connecting traffic from Germany and other destinations. The hub also serves Berlin, Dusseldorf, Hannover, Leipzig, Munster-Osnabruck, Nuremberg, Paderborn, Vienna and Palma de Mallorca, with Alicante added in May in order to serve the UK second home market. Further routes from London to Spain are expected.

Air Berlin is targeting 150,000 passengers in its first year of operation on Stansted-Glasgow and 100,000 on Stansted-Manchester, with a break-even load factor of around 70%. If the domestic routes are a success Air Berlin is likely to expand onto other UK airports, although the airline claims that its domestic operations in the UK and Spain are "one-off" businesses, and will not alter the airline's prime strategy, of European point-to-point routes. On point-to-point, the key origination point is Berlin, accounting for 2m passengers (of which 93% flew to/from Tegel, and 7% to/from Schonefeld), closely followed by Dusseldorf, with 1.8m passengers.

This low-fare, with-frills strategy, based on a network of both point-to-point routes and three hubs, has won Air Berlin has an estimated 8%-10% market share of the European LCC market in terms of passengers carried, compared with 25-27% for both Ryanair and easyJet. This success led the airline to believe that 2006 was the right time for an IPO. However, the flotation hasn't turned out as planned

IPO blues

The IPO has been on the agenda for a while, with the rationale of enabling the original German investors in Air Berlin to make a partial exit as well as raising capital that will allow Air Berlin to expand at a faster pace than previously. In preparation, in January 2006 Air Berlin changed from being a German limited liability company to a UK public limited company. Not only did this make a listing possible but it also enabled the adoption of different depreciation standards, which in effect "improved" its results in time for the IPO.

The IPO was unveiled in March and, with the assistance of Commerzbank and Morgan Stanley, Air Berlin planned to float on the Frankfurt stock exchange on May 5, with shares representing approximately 75% of the airline's equity being sold for around €750m-€870m.

Pre-IPO, the airline was held 100% by local investors, including CEO Joachim Hunold (5%), Ringerike GmbH - which holds the shareholding of former Pan Am pilot Kim Lundgren, who founded the airline (26%), Severin and Rudolf Schulte (25% between them), Hans Joachim Knieps (25%), Werner Huehn (15%) and Johannes Zurnieden (4%).

Hunold does not intend to sell his stake until 2008 at the earliest, but the other shareholders planned to dispose of 20m-26.5m shares (with the upper amount being available if the shares were oversubscribed) at a price of between €15-€17.50. Another 23.3m shares were to be offered as part of a capital increase for the airline. The offer period would close on May 4, the final price announced the same day, and trading would begin on May 5.

The IPO prospectus was released on April 19 - for the first time revealing detailed financial data about the airline - and the expectation was that demand would be led by non-German institutional investors keen to buy into a growing LCC. However, book-building during the investor roadshows was not particularly positive, and in early May it was apparent there was no demand for the shares at the top of the indicative price range, which led to the expectation that the airline would settle on a price of around €16 per share, just

beneath the mid-range of the indicative spread of €15-€17.50.

But this judgement was overoptimistic, and the day before the May 5 stock market debut, the "grey market" share price dropped below €14. Although the airline insisted the float would go on as planned, just hours later the IPO was unexpectedly postponed, with the offer period extended until May 10. The reason was simple - the banks couldn't get the shares away even at the bottom of the price range (€15). On May 5 a new price range was announced - €11.50 to €14.50 - and at the same time the number of shares to be sold was reduced from a maximum of 49.8m down to 42.5m, with 17.4m from existing shareholders, plus another 5.5m under a greenshoe option, and 19.6m for the capital increase (3.7m less shares than under the original plan).

At the very top of the original price range, a successful IPO would have given €464m to the original investors and raised €408m for the airline via the capital increase (before costs in the region of €40m-€60m for bank fees and other expenses). However, under the adjusted IPO investors would receive a maximum of €332m and Air Berlin would raise no more than €284m if all the shares were sold at €14.50, at the top of the new indicative range.

That's a long way short of the "minimum" €350m that the airline said it needed to raise from the IPO to fund aircraft purchases (50% of net proceeds), debt repayment (10%), and route expansion and other purposes (40%).

But worse was to come, for demand was still so weak that the shares were sold not towards the top of the revised price range, but towards the bottom - at €12 each (almost one-third lower than the top of the original price range). And on the opening day of trading (May 11), the shares even plunged below €11, before closing at €11.25. The rapid fall from the opening price was described by one analyst as "astonishing", but the downward trend has continued since, and as at May 25, the shares were at €9.93 - a painful sight for those brave investors who bought at €12. Although stock markets in general have softened, Air Berlin's fall was over twice that of easyJet and Ryanair.

The new shareholding structure is: Free float - 62.1%; Ringerike GmbH - 9.44%; Severin and Rudolf Schulte - 9.08%; Hans Joachim Knieps - 9.08%; Werner Huehn - 5.45%; Joachim Hunold - 3.4%; and Johannes Zurnieden (appointed chairman of its supervisory board once the IPO was completed) - 1.45%.

EUROPEAN LCC SHARE PRICES

	Air Berlin	Ryanair	easyJet
May-11	11.25	6.81	3.58
May-25	9.93	6.53	3.41
Change	-11.7%	-4.1%	-4.7%

Note: Air Berlin and Ryanair price is in Euros, easyJet price in GBP

However, while the €12 price level earned €274.8m for the original investors, it raised just €235.2m for the airline, and after estimated costs of at least €40m, the IPO raised less than €200m for Air Berlin - a substantial €150m less than the "minimum" €350m hoped for/expected at the start of the process.

What went wrong?

While the airline and its advisers are closing ranks and claiming the IPO was a success, the overly optimistic pricing must be embarrassing for Commerzbank and Morgan Stanley, and in particular Ulf Huttmeyer, a former executive at Commerzbank who became CFO at Air Berlin in February 2006.

There has been criticism that existing shareholders were being greedy in the amount they were pocketing compared to what was being raised for the airline. However, in December 2005 the existing investors injected €130m into the airline via a capital increase; the money was loaned to them by Commerzbank, repayable on successful completion of the IPO, this reducing their "profit" on their partial exits.

But putting the issue aside of whether the original investors were greedy or not, why were potential investors less than enthusiastic about the prospects for Air Berlin? Undoubtedly, the timing of the IPO was not ideal, as floating an airline during a period of high fuel prices was always going to be tricky. But Air Berlin didn't help itself by posting a set of financial results for 2005 that were poor - and poor not only because of rising fuel costs.

While Air Berlin had previously only released revenue data, the prospectus revealed a large operating loss in 2003 (there were still no figures pre-2003), although the airline almost broke even

AIR BERLIN'S FINANCIAL RESULTS

€m	Revenue	Operating result	Net result
2003	867	-52.8	36.7
2004	1,047	-0.7	-2.9
2005	1,220	-5.5	-116

at the operating level in 2004 (see table, above). But while passengers carried rose 12.5% last year to 13.5m and revenue grew 16.5% in 2005 to €1.2bn, Air Berlin still couldn't achieve an operating profit last year, posting an operating loss of €5.5m (compared with a €0.7m loss in 2004). And at the net level, results were even less encouraging, with a net profit of €37m in 2003 dropping to a loss of €3m in 2004 and a substantial net loss of €116m in 2005. Air Berlin blames this on rising fuel prices (Air Berlin originally introduced a fuel surcharge in 2004, raising it for the latest time this May), a net foreign exchange loss of €49.2m and a one-time effect from becoming a public limited company (which cost Air Berlin €59.5m for the "first-time application of the corporate income tax rate").

But, crucially, the 2005 results were less than has previously been forecast by Hunold in March 2005 (when he said the airline was targeting 13.7m passengers carried and a 20% increase in revenue to €1.27bn.

The missing of the target could be put down to rising fuel prices, but while worries about fuel costs have hit the price of both Ryanair and easyJet shares this year, both these airlines have more sophisticated hedging policies than Air Berlin. At Air Berlin, fuel costs rose 39.7% to €240m in 2005, well ahead of the 10.5% rise in ASKs. On average, Air Berlin paid US$1.83 per US gallon of fuel last year, compared with US$1.24 in 2004, but this was partly due to the fact that for some reason Air Berlin hedged less of its fuel needs in 2005 than in 2004. In fact - and very surprisingly - Air Berlin hedged just 5% of its actual fuel usage in 2005, and this lack of foresight/expertise may have been a concern to prospective investors.

Air Berlin is attempting to correct this oversight and is believed to have hedged at least 85% of its fuel needs for 2006 as at end of May 2006, but it's a reasonable assumption that many of the contracts signed have been highly priced, since the prospectus states that only 25% of 2006 needs had been hedged as at the end of December, so a lot of hedges have been entered into during the first five months of 2006, when future prices have been high.

The airline is not making an overt profit forecast for 2006, although it "hopes" to return to profit, and according to the roadshow presentation is it is targeting a 20% rise in revenue in 2006, driven by a combination of higher fares, cost-cutting and greater proportion of business travellers.

Commerzbank is more bullish, forecasting net profits of €51m in 2006 (and €86m in 2007), based on increasing revenue per passenger and sustained cost-cutting, the latter to include part of a 38% reduction in food and drink expenses per passenger over the 2005-2008 period (see cost section below).

Some German analysts, however, are not convinced by the Commerzbank figures. One analyst believes that the airline will do well to break even this year, while another - Jurgen Pieper, an analyst with Frankfurt-based Bankhaus Metzler - believes the airline will post a net loss approaching €0.25m in 2006 due largely to higher fuel costs (which he forecasts will rise to 23% of revenue, compared with 19.7% in 2005, 16.6% in 2004 and 15.4% in 2003) and tougher competition. He is also concerned about the long-term prospects for the airline, with the airline having to fund high capex due to the substantial amount of aircraft on outstanding order.

AIR BERLIN'S FLEET

	Fleet	Orders (options)
737-400	5	
737-700	5	
737-800	35	(2)
A319	3	
A320	5	55 (40)
F100	3	
Total	**56**	**55 (42)**

Fleet

Air Berlin's fleet has grown steadily through the 2000s and currently stands at 56, of which 45 are 737s and eight are A320 family aircraft. However, the airline has 55 A320s on firm order and for delivery by 2011 (with six of those being delivered in 2006, 13 in 2007, eight in 2008, nine in 2009, nine in 2010 and 10 in 2011), with anoth-

er 40 on option, for delivery by 2012. An order for 60 737-800s was placed in November 2004 as part of a 70-strong joint deal with Austrian partner Niki, with the first aircraft arriving in September last year. The aircraft in Air Berlin's chosen configuration (including engines) have a list price of US$65.7m, but Air Berlin won "substantial confidential price and payment term concessions", which may be as high as a 40%-50% reduction on the list price, bringing the actual price down to around $36m.

Currently 31 of Air Berlin's fleet are on operating leases, including eight from Aviation Capital Group, five from GECAS and four from GATX. On average these leases have just three years to run, so part of the A320 order will be replacement capacity. Air Berlin's aircraft have an average age of less than six years, and the fleet will expand to 79 aircraft by the end of 2009 as the new 737s arrive.

According to the prospectus, Air Berlin has arranged financing for only 13 or so of the 60 aircraft ordered in November 2004, and the IPO proceeds were needed as the basis for funding of the majority of the rest. How the €150m shortfall in anticipated IPO proceeds will affect fleet financing is hard to quantify at this stage, but if the "lost" flotation proceeds are replaced by commercial borrowing, this will have a financial cost, as well as increasing debt on a balance sheet that already carried long-term liabilities of €478m as at the end of 2005, compared with €433m a year earlier. And whether Air Berlin still plans to pay off approximately €29m of debt (according to the earlier, overoptimistic plan) with the proceeds of the capital increase remains to be seen. Whatever happens, Air Berlin will remain more leveraged that either Ryanair or easyJet in at least the short-term.

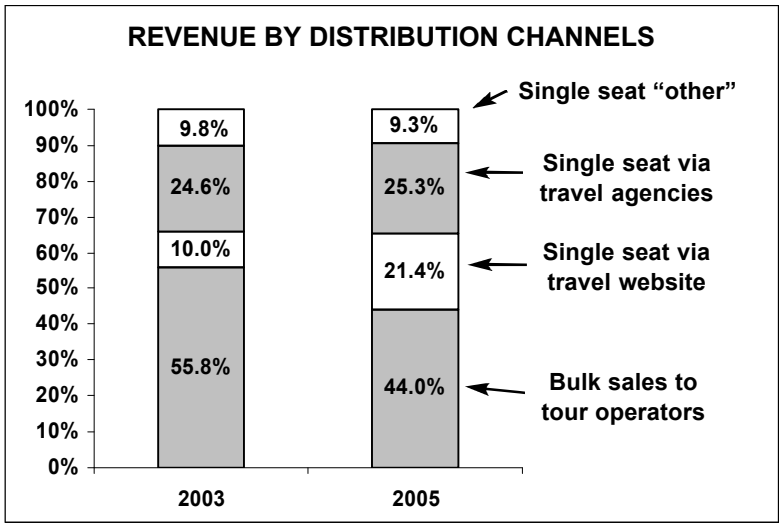
Cost analysis

Being an LCC with frills, the airline inevitably has higher costs than a pure LCC. Those frills are substantial, and Air Berlin's non-charter flights include free in-flight food and drink, in-flight entertainment, pre-assigned seating and an FFP called Top Bonus. Add to this three types of aircraft, the use of connecting hubs and the serving of both primary and secondary airports (with the former including high-cost Berlin, Dusseldorf and Hamburg), and it's no surprise that in cost terms Air Berlin is positioned between legacy carriers and the true LCCs.

AIR BERLIN 2005 COST BREAKDOWN

	€m	%
Airport charges	€ 333.4	27.2%
Fuel	€ 239.5	19.5%
Labour	€ 116.9	9.5%
Navigation charges	€ 109.0	8.9%
Aircraft leasing	€ 96.2	7.8%
Other expenses	€ 64.0	5.2%
Depreciation	€ 62.6	5.1%
Catering	€ 48.2	3.9%
Agent commissions	€ 37.2	3.0%
Technical expenses	€ 35.9	2.9%
Advertising	€ 29.2	2.4%
Other services	€ 27.5	2.2%
Insurance	€ 15.6	1.3%
In-flight material	€ 10.3	0.8%
	€ 1,225.5	**100.0%**

Air Berlin's single biggest cost is airport charges, which totalled more than €333m in 2005, equivalent to 27.2% of all costs. Airport charges rose 18% in 2005, well ahead of the 12% increase in passengers carried, which as Air Berlin admits is "largely due to expansion of the route network to airports in or close to major cities … which tend to have higher airport charges than other airports". Naturally Air Berlin is attempting to cut airport and handling costs - stating that "as our importance at a number of airports continues to grow, we expect to be able to negotiate more favourable terms with both airport operators and ground service providers" - but it is unlikely to



achieve any major savings without a switch in emphasis from primary to secondary airports.

More cost cutting is possible in the areas of travel agency commissions (which totalled €37.2m in 2005). In keeping with its hybrid strategy, Air Berlin has a multi-channel distribution channel (see chart, page 11), but although web sales are increasing, the airline is actually increasing its dependence on sales via travel agents - which although they provide the majority of single seat sales (most of them being business customers), are an expensive distribution channel.

The non-unionised workforce accounted for just €116.9m - or 19.5% - of total costs in 2005. Interestingly, becoming a "UK company" now enables Air Berlin to avoid German corporate regulations that requires companies to appoint staff representatives on a supervisory board. This is a continuation of Air Berlin's aggressive anti-union stance, which previously included organising the airline into small business units, each of which were too small to be regulated by Germany's union laws.

Relations between pilot union Vereinigung Cockpit (which officially cannot organise at Air Berlin) and Hunold have been strained, and the union claims that the pilots at Air Berlin are unhappy with pay and conditions. VC organised an indicative vote among Air Berlin pilots at the end of 2005, and claims that 94% of the 231 pilots that took part said they wanted a staff representation body. Hunold counters that there is no need for representation among pilots, but sources indicate that one-third of the 500 pilots have "secretly" joined VC, and the union may be close to formally calling for a negotiated pay and conditions agreement with the airline

Revenue moves

Air Berlin's two main revenue initiatives for business travellers are:

• Air Berlin Corporate, which allows employees at participating corporate to buy fully-refundable tickets at fixed fares for each of four different "destination zones", with prices fixed irrespective of when the booking is made; and

• YFlex fares, which are fully refundable tickets available to both business and leisure passengers at fixed fares, again irrespective of time of booking.

In addition, many business travellers fly with Air Berlin on standard tickets and fares. Air Berlin aims to win more business passengers by increasing the range of its frills, and in May Air Berlin started to offer "gourmet menus" on flights with meals served on porcelain flights, with a charge of between €10-€20 per meal for passengers who prefer this menu to the free in-flight meal

Another key part of the revenue strategy is increasing ancillary revenues - for comparison, at Ryanair ancillaries account for 16% of revenue whereas they total just 2.8% at Air Berlin (and a proportion that has declined since 2003). Part of that difference is due to the sales of in-flight food and drink, which are provided free of charge by Air Berlin. Out of total Air Berlin ancillary sales of €34m in 2005, the three most importance revenue streams were in-flight sales (€15m in revenue), excess baggage (€5.2m) and subsidies from the Spanish government for local flights (€4.6m). Air Berlin plans to increase ancillary revenue per passenger from €2.51 in 2005 to €3.46 in 2008, but it is believed this 38% rise will come largely from the introduction of a fee for bookings via credit card.

Revenue will also come from route expansion, although if the less-than-expected IPO proceeds are going to impact anywhere, it may be on the pace of what is an ambitious route expansion, the speed of which according to some analysts was one of the reasons why potential investors were put off the airline. But if route expansion is affected by a lack of funds, the anticipated "bulk discounts" on airport fees will be harder to achieve.

Air Berlin is looking to expand routes to the UK, Swiss, Dutch and Italian markets, but in particular the airline wants to increase its network to northern and eastern Europe in an effort to reduce its dependence on its main two markets - Germany and Spain - where competition is growing. Looking eastwards, Air Berlin's partnership with Austrian LCC Niki (in which it owns 24%), will be important. Together with Niki, Air Berlin is the second largest airline at Vienna airport in terms of passengers carried, and the two airlines believe they have substantial "first-mover" LCC advantage in selected east European markets, which will allow them to pick up a large slice of growing budget and business travel to the region over the

next few years.

Air Berlin is also expanding operations at its highest cost base - Zurich. Despite (or because of) rivals such as easyJet and SkyEurope withdrawing from Zurich, Air Berlin is planning to base extra aircraft there (it only has one 737 at Zurich at present), with expansion of a route network that currently serves more than 30 destinations across Europe.

While Air Berlin says that "it has no current acquisition plans", increasing competition in the German market may lead to consolidation sooner rather than later. At the end of 2005 Air Berlin agreed an internet partnership with rival LCC DBA, in which each airline's flights are searchable on the other airline's web site. The airlines' networks are complementary in that DBA focuses on domestic flights while Air Berlin has a much larger European network, and this initial co-operation is fuelling speculation that closer ties are currently being negotiated, including everything from joint maintenance and ground services to a codeshare agreement.

Air Berlin also codeshares with Hapagfly, a charter airline subsidiary of TUI, but a another potential merger or acquisition candidate may be Berlin-based Germania, where in November last year Air Berlin agreed to become responsible for its management after the death of its owner and chairman, Hinrich Bischoff. Germania operates a fleet of more than 40 aircraft, most of which are on wet or dry lease to German airlines such as DBA and Hapag-Lloyd Express, and had been a fierce competitor with Air Berlin through the 1990s until Air Berlin agreed to lease Fokker 100s from its rival and Germania agreed to withdraw from some contentious routes. Hunold and Bischoff then developed a friendship, which led to the wish by Bischoff shortly before his death that Air Berlin took over Germania operations via a management contract; Hunold has since become Germania's managing director. Germania Express (Gexx), Germania's former LCC subsidiary, was taken over by fellow LCC DBA in 2005, which raises the intriguing - albeit unlikely - possibility of some kind of three-way tie-up.

The future

Altogether, Air Berlin's operating cost (excluding fuel) per ASK was 3.78 € cents in 2005, and this figure has risen by 4.1% over the previous two years (the only years that the prospectus gives historical information for), thanks largely to rising airport charges. But add to this the cost of fuel, and Air Berlin's total cost per ASK for 2005 was 4.70 € cents in 2005, compared with 4.44 €cents in 2004. So although passenger revenue per ASK rose from 4.11 € cents in 2004 to 4.33 € cents in 2005, the negative gap between costs and revenue per ASK increased from 0.33 € cents in 2004 to 0.37 € cents last year.

Although Hunold - who recently signed a five-year management contract - believes there is "significant savings potential", it is unlikely that Air Berlin can really cut costs deeply given its "LCC with frills" strategy". Air Berlin insists that the extra costs of selected frills is more than made up by increased demand from business travellers, but if costs keep rising - or are flat at best - then much depends on Air Berlin's revenue growth, and in particular in squeezing out of extra ancillary revenue.

The problem is that even if it is successful on ancillaries, core yields are under increasing pressure attack from intensifying competition from German and foreign airlines, both LCC and mainline. There's little doubt that fare wars within and to Germany are hotting up, and not only does Air Berlin face increasing competition from Ryanair (which has a major base at Frankfurt Hahn) and easyJet (with a hub at Berlin Schonefeld) - see *Aviation Strategy*, December 2004 - but also from other German LCCs/budget carriers such as DBA and TUI's HLX, and German charter companies such as Condor. Perhaps most challenging of all, full service airlines such as Lufthansa and BA are constructing more aggressive strategies against the LCCs, including (but not only) lower fares. Lufthansa also owns 49% of Eurowings, which owns budget carrier Germanwings.

According to Hunold, the airline's "minimum" goal over the next three years is to maintain its position as the number three European LCC. However, as Air Berlin's prospectus itself points out, "as growth rates in the LCC segment are generally expected to be lower in the future, this segment is expected to suffer from overcapacity and increased competition … In addition, competition is expected to increase between LCCs and charter and legacy carriers that plan to reduce their cost base and implement low-cost strategies".

Jet values and lease rates

The following tables reflect the current values (not "fair market") and lease rates for narrowbody and widebody jets. The figures are from The Aircraft Value Analysis Company (contact details opposite) and reflect AVAC's opinion of the worth of the aircraft.

These figures are not solely based on market averages, but also such factors as remarketing value, number in service, number on order and backlog, projected life span, etc. As can be seen from the tables, values have improved well over the past six months.

NARROWBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A318	29.3				**717-200**	18.7	14.4		
A319 (IGW)	39.1	29.7	23.4		**737-200Adv**				0.7
A320-200 (IGW)	45.7	34.7	27.3		**737-300 (LGW)**			11.3	6.0
A321-200 (LGW)	51.7	38.6	29.9		**737-400 (LGW)**			12.0	
					737-500			9.9	
					737-600	30.6	22.1		
					737-700	39.3	31.9		
					737-800	49.0	39.5		
					737-900		33.5		
					757-200		26.5	20.9	9.5
					757-200ER		29.9	23.8	
					757-300		36.6		
					MD-82			6.2	3.9
					MD-83			7.1	4.7
					MD-88			7.4	
					MD-90			9.4	

WIDEBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
					747-200B				4.5
A300B4-600				6.3	**747-400**		93.1	67.4	
A300B4-600R (HGW)			27.0		**767-200**				6.6
A310-300 (IGW)			20.4	6.8	**767-300**			30.3	10.5
A330-200		76.8			**767-300ER (LGW)**		52.8	39.9	
A330-300 (IGW)		67.3	51.0		**767-400**		55.7		
A340-200			41.9		**777-200**		70.3	49.6	
A340-300 (LGW)		71.5	55.8		**777-200ER**	130.6	105.5	80.5	
A340-300ER		85.7	62.5		**777-300**	129.6	97.1		
A340-500 (IGW)	125.4								
A340-600 (LGW)	127.5				**MD-11P**			36.8	

Note: As assessed at end April 2006
Source: AVAC

NARROWBODY LEASE RATES (US$000's per month)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A318	241				**717-200**	178	158		
A319 (IGW)	347	286	255		**737-200Adv**				44
A320-200 (IGW)	359	319	276		**737-300 (LGW)**			148	108
A321-200 (LGW)	430	356	317		**737-400 (LGW)**			151	
					737-500			130	
					737-600	221	184		
					737-700	338	288		
					737-800	379	332		
					737-900		275		
					757-200		227	219	157
					757-200ER		279	256	
					757-300		36.6		
					MD-82			98	71
					MD-83			97	76
					MD-88			99	
					MD-90			113	

WIDEBODY LEASE RATES (US$000's per month)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
					747-200B				170
A300B4-600				143	**747-400**		813	673	
A300B4-600R (HGW)			245		**767-200**				116
A310-300 (IGW)			233	132	**767-300**		296	191	
A330-200		674			**767-300ER (LGW)**		479	426	
A330-300 (IGW)		621	513		**767-400**		510		
A340-200			501		**777-200**		589	499	
A340-300 (LGW)		704	584		**777-200ER**	1043	904	789	
A340-300ER		793	638		**777-300**	1001	843		
A340-500	1027								
A340-600	1026				**MD-11P**		399		

Note: As assessed at end April 2006
Source: AVAC

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
Alaska	Oct-Dec 04	656	714	-58	-45	-8.8%	-6.9%	8,774	6,399	72.9%	3,998	9,433
	Year 2004	**2,724**	**2,804**	**-80**	**-15**	**-2.9%**	**-0.6%**	**35,849**	**26,121**	**72.9%**	**16,295**	**9,968**
	Jan-Mar 05	643	723	-81	-80	-12.6%	-12.4%	8,642	6,271	72.6%	3,851	9,219
	Apr-Jun 05	756	747	9	17	1.2%	2.2%	8,920	6,947	77.9%	4,232	9,144
	Jul-Sep 05	689	609	80	82	11.6%	11.9%	9,369	7,399	79.0%	4,632	8,961
	Year 2005	**2,975**	**2,983**	**-8**	**-6**	**-0.3%**	**-0.2%**	**35,875**	**27,221**	**75.9%**	**16,759**	**9,065**
American	**Year 2004**	**18,645**	**18,789**	**-144**	**-761**	**-0.8%**	**-4.1%**	**280,042**	**209,473**	**74.8%**		**90,700**
	Jan-Mar 05	4,750	4,727	23	-162	0.5%	-3.4%	68,965	52,024	75.4%		88,500
	Apr-Jun 05	5,309	5,080	229	58	4.3%	1.1%	72,447	57,605	79.5%		88,500
	Jul-Sep 05	5,485	5,446	39	-153	0.7%	-2.8%	73,405	59,584	81.2%		88,500
	Oct-Dec 05	5,168	5,552	-384	-604	-7.4%	-11.7%	68,599	53,471	77.9%		87,200
	Year 2005	**20,657**	**21,008**	**-351**	**-892**	**-1.7%**	**-4.3%**	**283,417**	**222,685**	**78.6%**		**87,200**
	Jan-Mar 06	5,344	5,229	115	-92	2.2%	-1.7%	68,801	53,131	77.2%		86,600
America West	**Year 2004**	**2,339**	**2,357**	**-18**	**-90**	**-0.8%**	**-3.8%**	**48,525**	**37,550**	**77.4%**	**21,132**	**11,904**
	Jan-Mar 05	723	673	50	34	6.9%	4.7%	11,749	9,126	77.7%	5,172	11,869
	Apr-Jun 05	833	803	30	14	3.6%	1.7%	12,480	10,277	82.3%	5,752	12,200
	Jul-Sep 05	846	904	-58	-71	-6.9%	-8.4%	12,673	10,192	80.4%	5,802	12,179
	Oct-Dec 05	833	944	-111	-139	-13.3%	-16.7%	12,184	9,447	77.5%	5,404	12,003
	Year 2005	**3,254**	**3,374**	**-120**	**-195**	**-3.7%**	**-6.0%**	**49,088**	**39,042**	**79.5%**	**22,130**	**12,100**
Continental	**Year 2004**	**9,744**	**9,973**	**-229**	**-363**	**-2.4%**	**-3.7%**	**153,015**	**117,722**	**77.6%**	**42,743**	**38,255**
	Jan-Mar 05	2,505	2,676	-171	-184	-6.8%	-7.3%	37,955	29,148	76.8%	14,122	
	Apr-Jun 05	2,857	2,738	119	100	4.2%	3.5%	36,138	29,041	80.4%	11,465	
	Jul-Sep 05	3,001	2,892	109	61	3.6%	2.0%	37,450	31,185	81.7%	11,642	
	Oct-Dec 05	2,845	2,939	-94	-43	-3.3%	-1.5%	36,410	28,449	78.1%	15,447	
	Year 2005	**11,208**	**11,247**	**-39**	**-68**	**-0.3%**	**-0.6%**	**163,537**	**129,064**	**78.9%**	**61,015**	
Delta	**Year 2004**	**15,002**	**18,310**	**-3,308**	**-5,198**	**-22.1%**	**-34.6%**	**244,097**	**182,351**	**74.7%**	**110,000**	**69,150**
	Jan-Mar 05	3,647	4,604	-957	-1,071	-26.2%	-29.4%	60,955	45,344	74.4%	29,230	66,500
	Apr-Jun 05	4,185	4,314	-120	-382	-2.9%	-9.1%	65,136	50,957	78.2%	31,582	65,300
	Jul-Sep 05	4,216	4,456	-240	-1,130	-5.7%	-26.8%	66,054	52,323	79.2%	30,870	58,000
	Year 2005	**16,191**	**18,192**	**-2,001**	**-3,818**	**-12.4%**	**-23.6%**	**252,327**	**193,042**	**76.5%**	**118,853**	
Northwest	**Year 2004**	**11,279**	**11,784**	**-505**	**-848**	**-4.5%**	**-7.5%**	**147,055**	**117,981**	**80.2%**	**55,374**	**39,342**
	Jan-Mar 05	2,798	3,090	-292	-450	-10.4%	-16.1%	36,636	29,238	79.8%	13,502	39,105
	Apr-Jun 05	3,195	3,375	-180	-217	-5.6%	-6.8%	38,256	32,218	84.2%	15,145	38,348
	Jul-Sep 05	3,378	3,545	-167	-469	-4.9%	-13.9%	38,881	32,889	84.6%	14,984	33,755
	Oct-Dec 05	2,915	3,176	-261	-1,309	-9.0%	-44.9%	33,921	27,672	81.6%	12,839	32,460
	Year 2005	**12,286**	**13,205**	**-919**	**-2,533**	**-7.5%**	**-20.6%**	**147,694**	**122,017**	**82.6%**	**56,470**	**32,460**
Southwest	**Year 2004**	**6,530**	**5,976**	**554**	**313**	**8.5%**	**4.8%**	**123,693**	**85,966**	**69.5%**	**70,903**	**31,011**
	Jan-Mar 05	1,663	1,557	106	76	6.4%	4.6%	32,559	21,304	65.4%	17,474	30,974
	Apr-Jun 05	1,944	1,667	277	159	14.2%	8.2%	34,341	24,912	72.5%	20,098	31,366
	Jul-Sep 05	1,989	1,716	273	227	13.7%	11.4%	35,170	26,336	74.9%	20,638	31,382
	Oct-Dec 05	1,987	1,824	163	86	8.2%	4.3%	35,000	24,364	69.6%	19,485	31,729
	Year 2005	**7,584**	**6,764**	**820**	**548**	**10.8%**	**7.2%**	**137,069**	**96,917**	**70.7%**	**77,693**	**31,729**
United	**Year 2004**	**16,391**	**17,168**	**-777**	**-1,644**	**-4.7%**	**-10.0%**	**233,929**	**185,388**	**79.2%**	**70,914**	**58,900**
	Jan-Mar 05	**3,915**	4,165	-250	-1,070	-6.4%	-27.3%	55,133	43,103	78.2%	15,667	56,300
	Apr-Jun 05	4,423	4,375	48	-1,430	1.1%	-32.3%	56,538	47,156	83.4%	17,150	55,600
	Jul-Sep 05	4,655	4,490	165	-1,172	3.5%	-25.2%	58,123	48,771	83.9%	17,448	54,600
	Oct-Dec 05	4,386	4,568	-182	-17	-4.1%	-0.4%	55,991	44,869	80.1%	16,498	53,200
	Year 2005	**17,379**	**17,598**	**-219**	**-21,176**	**-1.3%**	**-121.8%**	**225,785**	**183,898**	**81.4%**	**67,000**	
US Airways	**Year 2004**	**7,117**	**7,495**	**-378**	**-611**	**-5.3%**	**-8.6%**	**98,735**	**72,559**	**73.5%**	**55,954**	**24,628**
	Jan-Mar 05	1,628	1,829	-201	-191	-12.3%	-11.7%	24,976	17,779	71.2%	14,068	23,696
	Apr-Jun 05	1,945	1,904	41	-62	2.1%	-3.2%	26,547	20,165	76.0%	15,826	21,396
	Jul-Sep 05	926	997	-71	-87	-7.7%	-9.4%	21,281	16,503	77.5%	10,109	
	Oct-Dec 05*	1,756	1,827	-71	-120	-4.0%	-6.8%	22,493	16,048	71.3%	12,961	19,669
	Year 2005**	**7,212**	**7,425**	**-213**	**160**	**-3.0%**	**2.2%**	**82,908**	**62,594**	**75.5%**	**39,977**	**21,486**
JetBlue	**Year 2004**	**1,266**	**1,153**	**113**	**47**	**8.9%**	**3.7%**	**30,434**	**25,315**	**83.2%**	**11,783**	**6,413**
	Jan-Mar 05	374	349	26	7	7.0%	1.9%	8,318	7,136	85.8%	3,400	6,797
	Apr-Jun 05	430	390	39	12	9.1%	2.8%	9,408	8,247	87.7%	3,695	7,284
	Jul-Sep 05	453	439	14	3	3.1%	0.7%	10,190	8,825	86.6%	3,782	7,452
	Oct-Dec 05	446	478	-32	-42	-7.2%	-9.4%	10,229	8,229	81.1%	3,851	8,326
	Year 2005	**1,701**	**1,653**	**48**	**-20**	**2.8%**	**-1.2%**	**38,145**	**32,508**	**85.2%**	**14,729**	**8,326**

* = US Airways from 27/09/05

** = Predecessor company, 9 months to 30/09/05; Successor company, 3 months to 31/12/05

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK. All US airline Financial Year Ends are 31/12.

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
Air France/												
KLM Group	Apr-Jun 04	5,394	5,205	189	115	3.5%	2.1%	48,944	38,025	77.7%		
YE 31/03	Jul-Sep 04	6,328	5,964	364	248	5.8%	3.9%	57,668	46,767	81.1%		
	Oct-Dec 04	6,628	5,745	883	83	13.3%	1.3%	54,144	42,042	77.6%	15,934	
	Year 2004/05	**24,641**	**21,744**	**641**	**453**	**2.6%**	**1.8%**	**214,606**	**168,998**	**78.7%**	**64,075**	**102,077**
	Apr-Jun 05	6,257	5,982	275	135	4.4%	2.2%	57,936	46,041	79.5%	17,948	101,886
	Jul-Sep 05	6,790	6,154	636	864	9.4%	12.7%	60,472	50,961	84.2%	18,705	
	Oct-Dec 05	6,430	6,205	225	91	3.5%	1.4%	58,266	46,644	80.0%	17,120	102,291
BA	Jan-Mar 04	3,386	3,327	164	22	4.8%	0.6%	35,232	24,932	70.8%	8,142	46,551
YE 31/03	**Year 2003/04**	**13,806**	**13,067**	**739**	**237**	**5.4%**	**1.7%**	**141,273**	**103,092**	**73.0%**	**36,103**	**49,072**
	Apr-Jun 04	3,479	3,208	271	127	7.8%	3.7%	36,150	27,083	74.9%	9,288	46,280
	Jul-Sep 04	3,645	3,213	432	221	11.9%	6.1%	36,639	28,749	78.5%	9,822	46,179
	Oct-Dec 04	3,801	3,589	212	94	5.6%	2.5%	35,723	25,999	72.8%	8,428	45,888
	Jan-Mar 05	3,549	3,474	96	17	2.7%	0.5%	35,677	26,062	73.0%	8,178	45,914
	Year 2004/05	**14,681**	**13,666**	**1,015**	**472**	**6.9%**	**3.2%**	**144,189**	**107,892**	**74.8%**	**35,717**	**46,065**
	Apr-Jun 05	3,716	3,398	318	162	8.6%	4.4%	36,706	27,768	75.6%	9,177	46,079
	Jul-Sep 05	3,887	3,427	460	301	11.8%	7.7%	37,452	29,812	79.6%	9,767	46,144
	Oct-Dec 05	3,664	3,362	301	212	8.2%	5.8%	37,119	27,499	74.1%	8,530	45,624
Iberia	Jan-Mar 04	1,325	1,356	-32	-1	-2.4%	-0.1%	14,563	10,721	73.6%	6,136	
YE 31/12	Apr-Jun 04	1,461	1,371	90	95	6.2%	6.5%	14,743	11,106	75.3%	6,913	
	Jul-Sep 04	1,593	1,452	141	110	8.9%	6.9%	16,053	12,699	79.1%	7,314	25,839
	Oct-Dec 04	1,660	1,605	55	74	3.3%	4.5%	15,700	11,398	72.6%	6,329	24,783
	Year 2004	**5,895**	**5,663**	**232**	**230**	**3.9%**	**3.9%**	**61,058**	**45,924**	**75.2%**	**26,692**	**24,993**
	Jan-Mar 05	1,531	1,571	-40	-21	-2.6%	-1.4%	15,261	11,421	74.8%	6,181	24,044
	Apr-Jun 05	1,466	1,392	74	54	5.0%	3.7%	15,843	11,939	75.4%	7,242	24,435
	Jul-Sep 05	1,439	1,368	71	53	4.9%	3.7%	16,659	13,619	81.8%	7,656	25,069
	Oct-Dec 05	1,451	1,504	-53	-7	-3.7%	-0.5%	15,864	12,082	76.2%	6,596	23,845
Lufthansa												
YE 31/12	**Year 2003**	**20,037**	**20,222**	**-185**	**-1,236**	**-0.9%**	**-6.2%**	**124,000**	**90,700**	**73.1%**	**45,440**	**94,798**
	Jan-Mar 04	4,742	4,883	-141	76	-3.0%	1.6%	31,787	23,030	72.5%	11,414	93,479
	Apr-Jun 04	5,269	5,045	224	-28	4.3%	-0.5%	36,440	26,959	74.0%	13,336	
	Jul-Sep 04	5,511	5,164	347	154	6.3%	2.8%	38,115	28,883	75.8%	14,053	92,718
	Year 2004	**25,655**	**24,285**	**1370**	**551**	**5.3%**	**2.1%**	**140,648**	**104,064**	**74.0%**	**50,300**	**90,763**
	Jan-Mar 05	5,041	5,079	-38	-150	-0.8%	-3.0%	32,477	23,793	73.3%	11,190	89,939
	Apr-Jun 05	5,487	5,138	349	140	6.4%	2.6%	37,700	28,178	74.7%	13,583	90,373
	Jul-Sep 05	5,798	5,411	387	501	6.7%	8.6%	38,967	30,466	78.2%	14,203	91,433
SAS												
YE 31/12	Jan-Mar 04	1,652	1,823	-171	-184	-10.4%	-11.1%	11,852	7,031	59.3%	7,238	
	Apr-Jun 04	2,007	1,979	27	13	1.3%	0.6%	13,456	8,960	66.6%	8,879	
	Jul-Sep 04	2,099	1,860	239	9	11.4%	0.4%	13,557	9,198	67.8%	8,591	
	Oct-Dec 04	2,271	2,293	-22	-96	-1.0%	-4.2%	12,667	7,649	60.4%	7,645	32,600
	Year 2004	**8,830**	**8,967**	**-137**	**-283**	**-1.6%**	**-3.2%**	**43,077**	**28,576**	**64.0%**	**32,354**	**32,481**
	Jan-Mar 05	1,842	1,990	-148	-137	-8.0%	-7.4%	12,465	7,342	58.9%	7,299	31,797
	Apr-Jun 05	2,046	1,925	121	64	5.9%	3.1%	13,810	9,259	67.0%	9,357	32,285
	Jul-Sep 05	2,140	2,036	104	68	4.9%	3.2%	13,599	9,838	72.3%	9,325	
	Oct-Dec 05	2,050	1,966	84	25	4.1%	1.2%	12,880	8,646	67.1%	8,945	
	Year 2005	**7,789**	**7,717**	**173**	**32**	**2.2%**	**0.4%**	**38,454**	**26,487**	**68.9%**	**23,799**	**32,363**
Ryanair												
YE 31/03	**Year 2002/03**	**910**	**625**	**285**	**259**	**31.3%**	**28.5%**	**14,072**		**84.0%**	**15,740**	**1,900**
	Year 2003/04	**1,308**	**978**	**330**	**252**	**25.2%**	**19.3%**	**22,524**		**81.0%**	**23,133**	**2,300**
	Apr-Jun 04	366	288	78	64	21.3%	17.5%			83.0%	6,600	2,444
	Jul-Sep 04	516	305	211	181	40.9%	35.1%			90.0%	7,400	2,531
	Oct-Dec 04	402	335	68	47	16.9%	11.7%			84.0%	6,900	2,671
	Year 2004/05	**1,727**	**1,301**	**426**	**345**	**24.7%**	**20.0%**	**28,665**		**84.0%**	**27,593**	
	Apr-Jun 05	488	392	96	84	19.7%	17.2%			83.4%	8,500	2,764
	Jul-Sep 05	652	409	244	208	37.4%	31.9%				9,500	2,987
	Oct-Dec 05	439	381	58	44	13.2%	10.0%			83.0%	8,600	2,963
easyJet												
YE 30/09	**Year 2001/02**	**864**	**656**	**111**	**77**	**12.8%**	**8.9%**	**10,769**	**9,218**	**84.8%**	**11,350**	**3,100**
	Oct-Mar 03	602	676	-74	-76	-12.3%	-12.6%	9,594	7,938	82.2%	9,347	
	Year 2002/03	**1,553**	**1,472**	**81**	**54**	**5.2%**	**3.5%**	**21,024**	**17,735**	**84.1%**	**20,300**	**3,372**
	Oct-Mar 04	803	861	-58	-36	-7.2%	-4.5%	10,991	9,175	83.3%	10,800	
	Year 2003/04	**1,963**	**1,871**	**92**	**74**	**4.7%**	**3.8%**	**25,448**	**21,566**	**84.5%**	**24,300**	**3,727**
	Oct-Mar 05	1,039	1,116	-77	-41	-7.4%	-3.9%	14,526	12,150	83.8%	13,500	
	Year 2004/05	**2,364**	**2,278**	**86**	**76**	**3.6%**	**3.2%**	**32,141**	**27,448**	**85.2%**	**29,600**	**4,152**

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation.

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
ANA												
YE 31/03	**Year 2001/02**	**9,714**	**9,529**	**185**	**-76**	**1.9%**	**-0.8%**	**87,908**	**57,904**	**64.7%**	**49,306**	**29095**
	Year 2002/03	**10,116**	**10,137**	**-22**	**-235**	**-0.2%**	**-2.3%**	**88,539**	**59,107**	**66.7%**	**50,916**	**28,907**
	Year 2003/04	**11,529**	**11,204**	**325**	**234**	**2.8%**	**2.0%**	**87,772**	**55,807**	**63.6%**	**44,800**	**28,870**
	Year 2004/05	**12,024**	**11,301**	**723**	**251**	**6.0%**	**2.1%**	**85,838**	**55,807**	**65.0%**		**29,098**
Cathay Pacific												
YE 31/12	**Year 2002**	**4,243**	**3,634**	**609**	**513**	**14.4%**	**12.1%**	**63,050**		**77.8%**		**14,600**
	Jan-Jun 03	1,575	1,672	-97	-159	-6.2%	-10.1%	26,831		64.4%	4,019	14,800
	Year 2003	**3,810**	**3,523**	**287**	**168**	**7.5%**	**4.4%**	**59,280**	**42,774**	**72.2%**	**12,322**	**14,673**
	Jan-Jun 04	2,331	2,046	285	233	12.2%	10.0%	35,250		76.1%	6,404	
	Year 2004	**5,024**	**4,350**	**674**	**581**	**13.4%**	**11.6%**	**74,062**	**57,283**	**77.3%**	**13,664**	**15,054**
	Jan-Jun 05	3,074	2,799	275	225	8.9%	7.3%	39,535		78.1%	7,333	15,400
JAL												
YE 31/03	**Year 2001/02**	**9,607**	**9,741**	**-135**	**-286**	**-1.4%**	**-3.0%**				**37,183**	
	Year 2002/03	**17,387**	**17,298**	**88**	**97**	**0.5%**	**0.6%**	**145,944**	**99,190**	**68.0%**	**56,022**	
	Year 2003/04	**18,398**	**19,042**	**-644**	**-844**	**-3.5%**	**-4.6%**	**145,900**	**93,847**	**64.3%**	**58,241**	
	Year 2004/05	**19,905**	**19,381**	**524**	**281**	**2.6%**	**1.4%**		**102,354**	**67.4%**	**59,448**	
Korean Air												
YE 31/12	**Year 2001**	**4,309**	**4,468**	**-159**	**-448**	**-3.7%**	**-10.4%**	**55,802**	**38,452**	**68.9%**	**21,638**	**15,127**
	Year 2002	**5,047**	**4,679**	**368**	**366**	**7.3%**	**7.3%**	**58,310**	**41,818**	**71.7%**	**22,160**	**15,309**
	Year 2003	**5,172**	**4,911**	**261**	**-202**	**5.0%**	**-3.9%**	**59,074**	**40,507**	**68.6%**	**21,811**	**15,352**
	Year 2004	**6,332**	**5,994**	**338**	**414**	**5.3%**	**6.5%**	**64,533**	**45,879**	**71.1%**	**21,280**	**14,994**
Malaysian												
YE 31/03	**Year 2001/02**	**2,228**	**2,518**	**-204**	**-220**	**-9.2%**	**-9.9%**	**52,595**	**34,709**	**66.0%**	**15,734**	**21,438**
	Year 2002/03	**2,350**	**2,343**	**7**	**89**	**0.3%**	**3.8%**	**54,266**	**37,653**	**69.4%**		**21,916**
	Year 2003/04	**2,308**	**2,258**	**50**	**121**	**2.2%**	**5.2%**	**55,692**	**37,659**	**67.6%**	**15,375**	**20,789**
Qantas												
YE 30/06	**Year 2001/02**	**6,133**	**5,785**	**348**	**232**	**5.7%**	**3.8%**	**95,944**	**75,134**	**78.3%**	**27,128**	**33,044**
	Jul-Dec 02	3,429	3,126	303	200	8.8%	5.8%	50,948	40,743	80.0%	15,161	34,770
	Year 2002/03	**7,588**	**7,217**	**335**	**231**	**4.4%**	**3.0%**	**99,509**	**77,225**	**77.6%**	**28,884**	**34,872**
	Jul-Dec 03	4,348	3,898	450	269	10.3%	6.2%	50,685	40,419	79.7%	15,107	33,552
	Year 2003/04	**7,838**	**7,079**	**759**	**448**	**9.7%**	**5.7%**	**104,200**	**81,276**	**78.0%**	**30,076**	**33,862**
	Jul-Dec 04	5,017	4,493	524	358	10.4%	7.1%	57,402	43,907	76.5%	16,548	35,310
	Year 2004/05	**9,524**	**8,679**	**845**	**575**	**8.9%**	**6.0%**	**114,003**	**86,986**	**76.3%**	**32,660**	
Singapore												
YE 31/03	**Year 2001/02**	**5,399**	**4,837**	**562**	**395**	**10.4%**	**7.3%**	**94,559**	**69,995**	**74.0%**	**14,765**	**29,422**
	Year 2002/03	**5,936**	**5,531**	**405**	**601**	**6.8%**	**10.1%**	**99,566**	**74,183**	**74.5%**	**15,326**	**30,243**
	Year 2003/04	**5,732**	**5,332**	**400**	**525**	**7.0%**	**9.2%**	**88,253**	**64,685**	**73.3%**	**13,278**	**29,734**

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK

AIRCRAFT AVAILABLE FOR SALE OR LEASE - MONTH END

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
Dec-2000	302	172	474	160	42	202	676
Dec-2001	368	188	556	291	101	392	948
Dec-2002	366	144	510	273	102	375	885
Dec-2003	275	117	392	274	131	405	797
Dec-2004	185	56	241	194	48	242	483
Dec-2005	145	51	196	258	45	303	499
Feb-06	167	55	222	272	47	319	541

AIRCRAFT SOLD OR LEASED

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
2000	475	205	680	895	223	1,118	1,798
2001	286	142	428	1,055	198	1,253	1,681
2002	439	213	652	1,205	246	1,451	2,103
2003	408	94	502	1,119	212	1,331	1,833
2004	321	177	498	1,815	325	2,140	2,638
2005	321	114	435	1,653	346	1,999	2,434
Feb-06	18	8	26	141	30	171	197

Source: *BACK* **Notes:** *As at end year; Old narrowbodies = 707, DC8, DC9, 727,737-100/200, F28, BAC 1-11, Caravelle; Old widebodies = L1011, DC10, 747-100/200, A300B4; New narrowbodies = 737-300+, 757. A320 types, BAe 146, F100, RJ; New widebodies = 747-300+, 767, 777. A600, A310, A330, A340.*

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total Int'l		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
2000	208.2	132.8	63.8	229.9	179.4	78.1	137.8	108.0	78.3	508.9	396.5	77.9	755.0	555.2	73.5
2001	212.9	133.4	62.7	217.6	161.3	74.1	131.7	100.9	76.6	492.2	372.6	75.7	743.3	530.5	71.4
2002	197.2	129.3	65.6	181.0	144.4	79.8	129.1	104.4	80.9	447.8	355.1	79.3	679.2	507.7	74.7
2003	210.7	136.7	64.9	215.0	171.3	79.7	131.7	101.2	76.8	497.2	390.8	78.6	742.6	551.3	74.2
2004	220.6	144.2	65.4	224.0	182.9	81.6	153.6	119.9	78.0	535.2	428.7	80.1	795.7	600.7	75.5
2005	309.3	207.7	67.2	225.9	186.6	82.6	168.6	134.4	79.7	562.6	456.4	81.1	830.8	639.3	76.9
Mar-06	25.6	16.5	64.6	17.5	14.3	81.4	15.3	12.1	79.0	47.9	38.4	80.2	70.3	53.1	75.5
Ann. change	4.2%	2.9%	-0.8	0.1%	-2.3%	-2.0	11.0%	10.5%	-0.3	5.2%	3.4%	-1.4	4.9%	3.2%	-1.3
Jan-Mar 06	71.7	44.1	61.5	49.4	37.9	76.5	44.1	35.1	79.6	137.5	109.1	79.4	200.3	148.4	74.1
Ann. Change	2.8%	3.9%	0.7	0.1%	-1.5%	-1.2	11.5%	13.3%	1.3	5.2%	4.9%	-0.2	4.6%	4.7%	0.1

Source: AEA

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total Int'l		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1998	960.8	678.8	70.7	150.5	117.8	78.3	112.7	82.5	73.2	83.5	52.4	62.8	346.7	252.7	72.9
1999	1,007.3	707.5	70.2	164.2	128.2	78.1	113.2	84.7	74.8	81.3	54.3	66.8	358.7	267.2	74.5
2000	1,033.5	740.1	71.6	178.9	141.4	79.0	127.7	97.7	76.5	83.0	57.6	69.4	380.9	289.9	76.1
2001	1,025.4	712.2	69.5	173.7	128.8	74.2	120.1	88.0	73.3	83.4	56.9	68.2	377.2	273.7	72.6
2002	990.0	701.6	70.9	159.0	125.7	67.2	103.0	83.0	80.5	84.1	56.8	67.5	346.1	265.5	76.7
2003	963.1	706.6	73.4	148.3	117.6	79.3	94.8	74.0	80.5	84.2	59.3	70.5	327.2	251.0	76.7
2004	1,014.5	763.6	75.3	164.2	134.4	81.8	105.1	87.6	83.4	96.4	68.0	70.5	365.6	289.8	79.3
2005	1,004.4	783.7	78.0	174.6	143.3	82.1	116.8	96.0	82.2	105.0	76.6	72.9	396.4	315.9	79.7
Mar 06	84.3	69.0	81.9	14.4	11.7	81.1	9.8	8.5	86.6	9.9	7.7	77.3	34.2	27.8	81.6
Ann change	-3.3%	-1.7%	1.3	7.4%	2.5%	-3.9	2.1%	4.6%	2.1	3.0%	4.2%	0.9	4.5%	3.6%	-0.7
Jan-Mar 06	237.2	184.0	77.6	39.6	29.7	74.9	28.3	23.4	82.7	28.5	21.4	75.1	96.4	74.4	77.3
Ann change	-3.5%	0.0%	2.7	3.9%	1.1%	-2.1	1.7%	3.3%	1.3	2.2%	3.8%	1.1	2.7%	2.5%	-0.2

Note: US Majors = Aloha, Alaska, American, Am. West, American Transair, Continental, Cont. Micronesia, Delta, Hawaiian JetBlue, MidWest Express, Northwest,Southwest, United and US Airways **Source**: ATA

JET ORDERS

	Date	Buyer	Order	Delivery	Other information/engines
Boeing	25 April	SALE	10 x 737-800	2009-10	plus 10 options and 10 purchase rights
	26 April	Air Pacific	5 x 787-9		plus 3 purchase rights
	28 April	AirTran	14 x 737-700	2008	converted options
			10 x 737-700	2010	
Airbus	06 Apr	Frontier A/L	6 x A320		
	20 Apr	NIKI	1 x A320		
Embraer					
Bombardier					

Note: Only firm orders from identifiable airlines/lessors are included. *Source: Manufacturers*

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