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Perfect storm or squalls?

With over 7,000 narrowbodies and widebodies on order, the manufacturing backlog has reached epic proportions. At the same time airline economic prospects appear to be deteriorating and the subprime crisis is filtering throughout the global financial structure. This may not represent the "perfect storm" that Michael O'Leary of Ryanair has predicted, but it does presage some violent squalls.

The European LCC sector, which accounts for most of narrowbody backlog, is going to go through an interesting phase. Ryanair has left itself exposed to continued high fuel prices through not having hedged - in contrast to easyJet. Some of the smaller newcomers have more fundamental problems - Vueling and SkyEurope appear to have failed to find a sustainable operating model and their attempts to expand beyond their base airports - Barcelona and Bratislava/Budapest - have proved to be very cash-draining.

Indian LCCs have transformed the domestic market - from 14m passengers five years ago to over 40m in 2007 - but multi-LCC competition on the main routes is just unsustainable (LCCs in Europe avoided direct competition in their developmental stages and even today avoid it wherever possible). There is a possibility that some of the Indian airline backlog will be used for leasing ventures.

The leasing companies themselves have some worries. Financing through securitisation products is becoming more difficult as lenders begin to worry about the underlying credit risk of the airline customers and the accuracy of residual aircraft value predictions. There could be some attractively priced portfolios for sale over the next year.

In the widebody sector, the perpetual question is whether the Middle Eastern super-connectors' massive orderbooks can really be justified. The question remains unanswerable as long as they are underpinned by the oil wealth and political ambitions of their state owners. One concern might be that a tail-off in the construction boom starts to deflate the volume of point-to-point traffic to the region.

In any case, the scale of the competitive threat on Europe-Asia routes means that the European network carriers have to get their North Atlantic strategies right. A major comfort is that the US Legacies, although they have emphasised their international plans, have not yet made the investment commitment in new widebodies for this market. A longer-tem concern is that the "perfect storm", that O'Leary says he would welcome, will provide the supply of widebodies at the price required to start a transatlantic operation.

GLOBAL BACKLOG BY CUSTOMER

Narrowbodies		Widebodies	
Europe	1,145	Asia	507
North America	874	Middle East	412
Leasing companies	684	Europe	365
China	626	Leasing companies	352
Asia	547	North America	226
Central/ South America	332	India	127
India	288	China	111
Middle East	159	Central/South America	109
Others/Undisclosed	373	Others/Undisclosed	106
	5,028		**2,315**

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Europe's charter industry consolidates into two giants

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Following the continued structural decline of the western European package holiday market, four large tour operators consolidated into two giants in 2007: Thomas Cook/MyTravel and TUI/First Choice. In the second part of our analysis of the European charter industry, *Aviation Strategy* looks at the new TUI Travel group and the handful of other charter airlines in Europe.

TUI Travel

In the mid-1990s the European Commission didn't allow Airtours (now known as MyTravel) to acquire First Choice, but the EC now says that market conditions have changed substantially since that decision, and so permission was given for TUI and First Choice to merge in early September 2007, when TUI Travel made a debut on the London stock exchange.

Now based in London, TUI Travel is owned 51% by TUI and 49% by former First Choice shareholders. If the Thomas Cook Group is big, then TUI Travel is even bigger, with the group employing 48,000 staff worldwide, owning 3,600 travel agency outlets and having revenue of €18bn, generated from 30m customers a year in 20 markets, who travel to more than 180 countries around the globe. But as with TCG, TUI Travel's merging companies - TUI AG and First Choice Holidays - had different AIT strategies, and again in the short-term the new group is having to navigate tensions between the two former managements. Peter Long, CEO of First Choice prior to the merger and now CEO of TUI Travel, is adamant that the AIT market is changing rapidly through the rise of the LCCs and a reduction in demand for fixed duration package holidays, and that this attitude will have to spread through managements at the various former TUI AG assets.

But given that First Choice had wanted to sell off its mainstream business to Thomas Cook or MyTravel as late as January 2007, the merger with TUI can be seen as a very poor Plan B for First Choice. While it could be said that the largely mainstream businesses of TUI are complemented by the specialist holidays and long-haul business that First Choice has been building up, a more critical assessment is that TUI brings a huge overhang of vulnerable, low margin mainstream holidays to the new business. Pre-merger, TUI's margin of 2% contrasted markedly with the 5% at First Choice, and having to deal once again with a wider portfolio of AIT businesses is probably the last thing that First Choice's executives want to do. So while First Choice has halved the number of short-haul holidays over the last few years, suddenly the new TUI Travel group has added a whole raft of mainstream package holiday businesses, such as the UK's Thomson brand.

Thomson is the market leader in the UK, with around a 25% market share in AIT packages, but has been sluggish to respond the new realities of the AIT industry. Thomson has now, belatedly, started to change itself from a mainstream tour operator into a company that is a "one-stop-shop" for self-assembling holidaymakers, and a €10m advertising campaign was launched in the autumn of 2007 that promoted a variety of properties and the Thomson website - but the difference in approach between Thomson and First Choice is stark.

Again, this has direct consequences on the group's airlines. TUI Travel now has a combined fleet of 141 aircraft (see table, opposite) - the 27 of First Choice Airways and 114 of TUI, the latter split between TUIfly (46 aircraft), Dutch carrier ArkeFly (five), French carrier Corsairfly (six), Belgian airline Jetairfly (10), Thomsonfly (42) and Swedish-based TUIfly Nordic (five). TUI also leases three ATR 42/72s and a single CRJ 900, and owns 40% of Moroccan LCC Jet4you. The largest former TUI AG airline in the UK is Thomsonfly, which dates back to the 1960s but which was relaunched as a "low cost leisure airline" by TUI in 2004 before incorporating Britannia Airways in 2005. It currently operates a fleet of 42 aircraft out of Coventry, Doncaster and Bournemouth, and carries around 8m passengers a year, but its future is in some doubt (see below).

From the start of 2007 TUI had already begun to integrate all its airlines under a single brand - TUIfly - initially via the combining of charter carrier Hapagfly (previously called Hapag-Lloyd until 2005) and LCC Hapag-Lloyd Express (also known as HLX), which was completed in April 2007.

The current TUIfly has a fleet of 46 aircraft and increased capacity by 25% in summer 2007 compared with the previous year, with 13.5m passengers expected to be carried in the whole of 2007 (compared with 11.5m in 2006). TUIfly benefits from the marketing experience of HLX to target 60% of revenue via direct bookings, with the other 40% coming from traditional charters. The other five airlines owned by TUI (Thomsonfly, Corsair in France, Arkefly, Jetair and TUIfly Nordic) are scheduled to be rebranded as TUIfly in 2008, and the integration of the former TUI airlines into a single branding and operation is forecast to benefit TUI by at least €50m.

However, there is a major question mark over TUI Travel's airline strategy, since it's still not clear if TUIfly and First Choice Airways will remain separate or be merged into one airline. And if they are merged, it's also uncertain as to which brand the combined airline will adopt, since there have been hints that TUIfly may be axed as a brand. At the end of 2007 reports came out of Germany suggesting that TUI Travel was in advanced negotiations with Lufthansa over a potential merger of TUIfly with Germanwings, the flag carrier's low-fare subsidiary (which is owned by Eurowings, in which Lufthansa owns 49% and businessman Dr Albrecht Knauf 51%). Germanwings is based at Cologne/Bonn airport and operates a fleet of 26 A320-family aircraft from German airports to more than 70 European destinations (see *Aviation Strategy*, January/February 2007), carrying 8m passengers in 2007.

This rumour was confirmed at the end of January when TUI announced it has signed

TUI TRAVEL GROUP FLEET

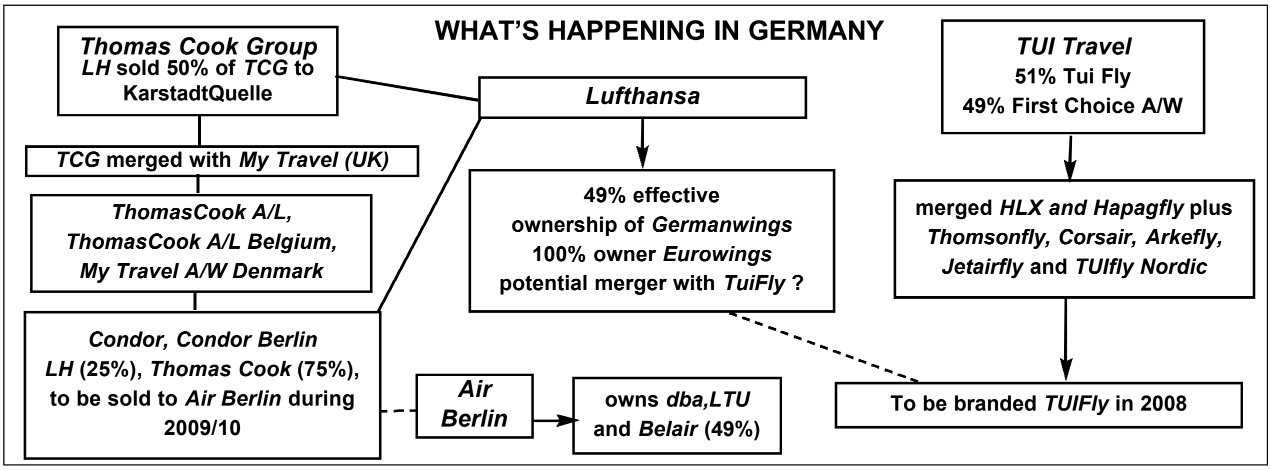
	First Choice Airways	Thomsonfly	TUIfly	Jetairfly	Corsairfly	TUIfly Nordic	ArkeFly
F.100				1			
A320-200	4						
A321-200	3						
A330					2		
737-300		10	2				
737-400				4			
737-500		2		1			
737-700			8 (20)				
737-800		7	36 (26)	3		3	1
747-400					4		
757-200	13	17				2	
767-200ER	1	1					
767-300ER	6	5		1			4
787-8	(12)		(11)				
Total	**27 (12)**	**42**	**46 (57)***	**10**	**6**	**5**	**5**

Note: *Ordered by TUI AG

an MoU with Lufthansa and Knauf to explore the merger of TUIfly, Germanwings and Eurowings (Lufthansa's Dortmund-based regional operator, which has a fleet of 32 CRJs and BAe 146s), although it was stressed that negotiations were at an early stage, and any agreement would be subject to regulatory approval. A combined group would have more than 100 aircraft, but if it does happen, there is no indication as yet as to whether the airlines will keep their own brands or come together under one of the three existing identities - and whether any of the other TUI airlines would be included.

James Halstead of Dawnay, Day Lockhart says that: "If this deal comes to fruition it should be viewed as a very positive move for both Lufthansa and Air Berlin; and virtually confirms what may be described as a 'comfortable' duopoly in the German market". He adds that TUIfly has tended to be the "price maverick in the domestic market - putting much pressure on yields (particularly damaging for Air Berlin) in the attempt to gain scheduled market presence".

For the moment, the airline currently known as First Choice Airways is based at Manchester airport and operates 27 aircraft to more than 60 leisure destinations from 15 airports in the UK and Ireland. The carrier was launched as Air 2000 and swallowed Leisure International Airways before being renamed as First Choice Airways in 2004. It carried 5.5m passengers in 2006 for First



Choice Holidays and other UK tour operators.

First Choice Airways also has 12 787s on order, which will significantly increase its long-haul capacity. The airline first ordered 787s back in 2004 (it is the European launch customer for the model) and the first two aircraft will be delivered in 2009, with the rest arriving by 2013. The order signalled the shift to long-haul holidays for First Choice, and joins the 11 787s on order by TUI AG, which the pre-merged company placed in December 2006, the same time as it ordered 50 next generation 737s, for delivery through to the end of the decade.

Recently-announced delays in the delivery dates for the 787 model should not impact operations, says TUI Travel, with 18 of the 23 787s arriving by 2012. Altogether the new TUI Travel has 69 aircraft on order, and what has been stated clearly is that the combined fleet will be reduced - although details are sketchy as to how this will happen. What is known is that the group will reduce its fleet in Germany for the summer 2008 season by eight aircraft, from 55 to 47 aircraft (all coming off leases), and although these are largely on city-pair, scheduled (seat-only) flights, there will be some impact on charter capacity, largely due to a reduction in demand of business from third-party tour operators. Five more aircraft are coming out of the UK fleet (representing 12% of UK capacity) and two from the continental fleet outside of Germany this summer, bringing to 15 the number of aircraft that will be taken out of the fleet in 2008. Eight further aircraft will go in 2009 and another 18 in 2009, but an unknown number of these aircraft will be replaced by the outstanding orders for 46 737s. Paul Bowtell, CFO of TUI Travel says that: "we have got some flexibility around when those aircraft come in, so there are significant opportunities to build in flexibility into the fleets, which is clearly of significant importance if we are going to start rebuilding some of the margins".

Overseeing the fleet strategy going forwards is Christoph Mueller, previously CEO of Hapag-Lloyd and then head of TUIfly, who became responsible for all TUI Travel's airlines in September (and in turn being replaced at TUIfly by Roland Keppler, who was previously head of HLX). However, his hands will be tied by the overall strategy of TUI Travel, whose new emphasis is copying the First Choice strategy by building up "asset-light" non-mainstream holiday business such as independent travel and financial services, where the group sees significant growth opportunities. This means that TUI Travel has to reposition itself strategically in Germany and try to overcome its dependence on low margin mainstream products there. For the TUI Travel fleet, in the medium- and long-term this will mean a greater emphasis on long-haul capacity, with much more flexibility in the short-haul fleet as it gradually cuts mainstream capacity in order to increase average prices and margins.

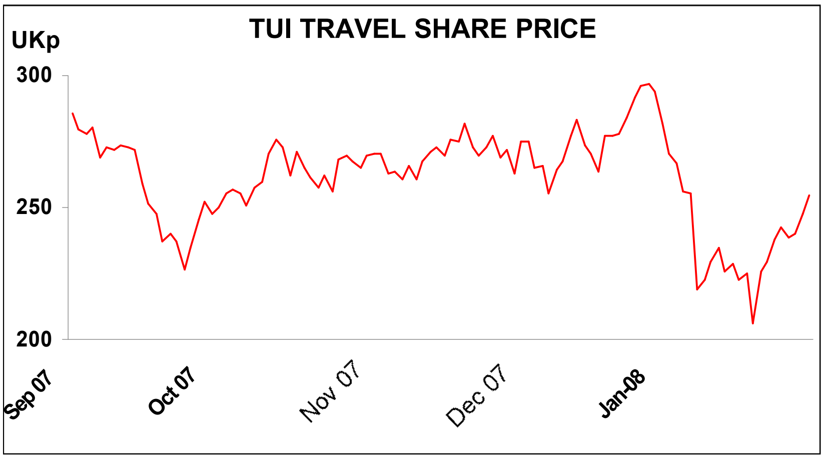
Peter Long, CEO of TUI Travel, says that the German business is doing well and does not need to be changed (structurally at least, although not in terms of strategy), but that the

UK businesses need to be restructured. Pre-merger, at the end of 2006, TUI announced the cutting of 3,600 jobs (including 2,600 in the UK and 400 in Germany) in an effort to save €250m. But the merger is leading to additional cuts in the combined UK operation, with TUI Travel initially targeting €134m in annual synergies over a three-year period, most of which will come through savings in the UK market. This figure was upgraded to €205m at the end of January 2008, with TUI Travel stating that the integration process was doing better than expected. Against this, however, TUI Travel will take a one-off restructuring cost of up to €240m. Any savings from the potential merger of TUIfly with Germanwings and Eurowings are not included in these forecasts.

However, all group businesses outside Germany and the UK underwent a so-called "100 day review" that was completed on January 29th, and although details have not yet been released, the future of some of them must be open to doubt. For example, Nouvelles Frontières, the famous French tour operator that was established back in the 1960s, is still making a net and operating loss, and TUI Travel will want to switch investment from traditional tour operations into other areas. TUI Travel made around a dozen acquisitions in 2007, including asiarooms.com (an online B2C retailer of Asian room capacity) as well as four different activity holiday companies, an online car broker and an online package holiday review site.

Mixed 2007 results

Unaudited, pro-forma results for TUI Travel for the year to the end of September 2007 were released last December, but are somewhat complicated by the fact that First Choice's financial year previously ended on October 31st, while TUI's year-end was formerly December 31st. In the "new" 2006/07 financial year, TUI Travel provisionally reported a 5.4% rise in revenue to £12.8bn, with operating profit up 4.7% to £287m. The provisional net profit for 2006/07 is £7m, compared with a net loss of £381m in 2005/06, and the net figure was arrived at after a huge £174m extraordinary charge in 2006/07,



largely comprising restructuring costs, provisions and advisor fees. Staying at the operating profit level, TUI Travel's overall figure for 2006/07 disguises wide variations in the various parts of the TUI Travel empire. As can be seen in the table below, TUI Travel's mainstream holiday business is dragging group results down significantly, with two out of the three parts of this business seeing their margins being reduced in the 2006/07 financial year compared with 2005/06, while the third only broke even. It should be noted that TUI Travel's Northern Europe division includes the results from First Choice Airways, Thomsonfly and TUIfly Nordic, while TUIfly is in the Central Europe segment.

Alongside other factors, TUI Travel partly blames the poor showing of the key Northern Europe segment to £27m of losses incurred in the scheduled flying operation of Thomsonfly. Ominously, in its profits statement TUI Travel immediately adds that it has "recently stated that we intend, where possible and within certain time constraints, to exit

TUI TRAVEL FINANCIAL RESULTS BY SEGMENT

	Operating profit (£m)		Operating margin	
	2006/07	Change on 2005/06	2006/07	2005/06
Mainstream holidays				
Northern Europe	113.2	-19%	2.4%	3.1%
Central Europe	47.8	-21%	1.1%	1.5%
Western Europe	0.6	103%	0.0%	-0.9%
Total mainstream	161.6	-12%	1.5%	1.8%
Specialist holidays	47.2	32%	4.5%	3.5%
Activity holidays	32.3	44%	7.7%	6.3%
Online businesses	49.1	35%	10.8%	10.2%
Other	-3.2	-3%	N/A	N/A
TOTAL	**287.0**	**4.7%**	**2.2%**	**2.3%**

TUI TRAVEL SUMMER 2008 BOOKINGS

	Change on summer 2007		
	Capacity	Customers*	Revenue*
Mainstream holidays			
Northern Europe	-11%	4%	11%
Central Europe	-14%	9%	8%
Western Europe	5%	29%	23%
Specialist holidays		21%	13%
Activity holidays			11%
Online businesses		53%	63%

Note: * As at mid-Dec 2007. Customers and booking figures are compared with figures at the same date a year earlier.

unprofitable lines of business and therefore expect these losses to be eliminated over a period of time" - which may be a none-too-subtle hint that Thomsonfly has no future within TUI Travel. In a conference call with analysts, Paul Bowtell, CFO of TUI Travel, said that it would be a "three-year project to get Thomsonfly back to zero", but whether TUI Travel will be that patient remains to be seen.

In Central Europe, TUI Travel states that profitability was "primarily impacted by the competitive environment within the German flying sector", with excess capacity in the market being compounded by "the impact of the TUIfly rebranding on a number of the airline's customers". This resulted in many third-party tour operators becoming unhappy at putting their customers into TUI-branded aircraft, so they simply handed back a significant number of seats during the peak of the summer 2007 season. Paul Bowtell admits that TUI Travel "scored some own goals" in Central Europe in 2007. As mentioned earlier, the TUIfly brand may go anyway if the merger with Germanwings and Eurowings goes ahead.

In contrast, TUI Travel's non-mainstream businesses all increased what were already healthy operating margins in 2006/07. It's interesting to note that if TUI Travel purely focussed on non-mainstream holidays, while its operating profit would fall to £128.6m, its operating margin would leap to 6.7%, a percentage that is almost unheard of for any major tour operator. Of course this is a theoretical exercise, because - as much as it may want to - TUI Travel simply cannot exit from its mainstream businesses overnight. As First Choice's fruitless attempt to offload its mainstream business at the end of 2006/start of 2007 proved, there are simply no buyers in the market for low-margin mainstream holiday businesses that have little or no long-term future. Of course TUI Travel is cutting costs hard at its mainstream business, and says that mainstream sales have been "particularly strong in the period following the Christmas holiday", with mainstream margins expected to improve in 2007/08. However, it may be that TUI Travel's only realistic long-term strategic option is to build up non-mainstream businesses as fast as it can (which may lead to a bidding war with the Thomas Cook Group for non-mainstream companies that come onto the market), and gradually wind down its mainstream business, while shoring up the margins there in the short-term as best as possible.

Looking forward to the summer 2008 season, TUI Travel is furiously "exiting unprofitable lines of business, particularly in the short-haul segment in the UK and Germany". Though it is still relatively early in the selling season for 2008, TUI Travel is "pleased with trading to date", and is optimistic given that 2008 bookings are being helped both by the UK's poor summer in 2007 and a strengthening economy in Germany. As the table, above, shows, the latest detailed trading statement released by TUI Travel (in mid-December) reveals that the group has executed massive cuts in capacity out of the UK and Germany for the upcoming summer season (note that TUI includes the UK market in its definition of Northern Europe, while Germany is within Central Europe). In Northern Europe for example, TUI Travel has knocked 11% from its summer 2008 capacity for TUI mainstream holidays sold in the UK. Frustratingly, TUI Travel does not break down its 14% capacity cut in its Central Europe segment, but the group is likely to be making double-digit cuts in capacity out of Germany too.

Although there has been a recent revival, the TUI Travel share price has been volatile (see graph, page 5) since a debut in which the issue price of 300p fell to 293p at the end of the first day's trading (September 3rd). It reached a low of 222p before recovering to above 240p towards the end of January. TUI Travel was admitted to the FTSE 100 index on Christmas Eve 2007 (along with Thomas Cook Group), but Paul Bowtell, CFO of TUI Travel, says that "concern in the markets about a number of issues …is partly rumour, speculation and outright scare mongering". That's a slightly patronising attitude to shareholders, which have genuine concerns about what will happen to TUI Travel over the next few years given the structural changes in the AIT market.

As for the others…

There are still a handful of charter airlines outside the ownership of TCG and TUI Travel, but almost all of these are now owned by tour operators. Due to the structural decline of the AIT market, independent charter airlines have to find specialist niches. The consolidation of the large tour operators into two giants will only exacerbate the difficulties for the last few independent charter airlines. The largest airline not aligned with either TCG or TUI Travel is Monarch Airlines, which operates to more than 90 destinations for UK tour operators with a fleet of 31 Airbus and Boeing aircraft. However, Luton-based Monarch has been switching its emphasis away from charter flights, and today around 60% of capacity is provided as scheduled services, with the company promoting direct seat sales via its website. The airline also has six 787-8s on order (placed in August 2006) for delivery in the early 2010s. Monarch Airlines is owned by the Monarch Group, which employs 2,800 staff and also owns a number of tour operators, including Cosmos. Significantly perhaps, Tim Jeans - previously managing director of Monarch's scheduled division - became managing director of the entire airline from the start of February 2008.

Gatwick-based XL Airways UK operates a fleet of 12 aircraft, carrying 3.2m passengers in 2006 from 12 UK airports to more than 50 destinations in Europe, North Africa, North America and the Caribbean. Its parent is XL Leisure Group, the third largest tour operator in the UK, which employs 2,000 and has an annual turnover of around €1.4bn. The carrier has had a varied history, starting life as Sabre Airways back in 1994 but being rebranded as Excel Airways in 2001 after Cypriot tour operator Libra Holidays took a majority stake. Air Atlanta Atlantic acquired 40.5% of the airline in 2004, before the Avion Group - Air Atlanta's holding company and an investment company that specialised in transport - acquired the company in 2005. Only a year later the airline and associated tour operator (now known as XL Leisure Group) underwent an MBO, and the new owners rebranded the airline as XL Airways UK in December 2006.

The airline expects to carry 5m passengers in 2007 and aims to have 26 aircraft by the summer of 2008. Six 737-800s arrived on eight-year leases in 2007, while two leased 737-900ERs are being delivered in May 2008. XL Leisure Group also rebranded its other airlines in December 2006, with French-based Star Airlines and Germany's Star Europe becoming XL Airways France and XL Airways Germany. The French airline was launched in 1995 and today operates three A320s, a single 737-800 and four A330s, while the German airline started in early 2006 after Avion acquired the assets and air operator's certificate of German charter airline Aero Flight, which ceased operations in November 2005 (and was itself formed from the assets of charter airline Aero Lloyd, which collapsed in 2003). XL Airways Germany operates an A320 out of Frankfurt, Cologne, Düsseldorf and Stuttgart to European destinations for a variety of

OTHER MAJOR GERMAN AND UK CHARTER AIRLINES

	LTU	Germania	XL Airways Germany	XL Airways UK	Monarch Airlines
A300-600					4
A320-200	10		1	2	6
A321-200	4				11
A330	12				2
737-300		1			
737-700		4			
737-800				6	
737-900				(2)	
757-200				2	7
767-300ER				2	1
787-8					(6)
Total	**26**	**5**	**1**	**12 (2)**	**31 (6)**

German tour operators, and aims to expand to eight aircraft by the summer of 2008.

Düsseldorf-based LTU International Airways operates 26 aircraft to more than 20 destinations, but the future of the charter airline as a standalone brand is bleak now that it is part of Air Berlin. The airline was founded in the 1950s and survived ownership by the SAirGroup in the early 2000s until being bought by an investment company, which then sold the airline on to Air Berlin in August 2007 for €140m plus the assumption of €200m in debt. Air Berlin has announced that the LTU name will disappear on all services other than long-haul leisure flights (see *Aviation Strategy*, November 2007), with medium- and short-haul flights being operated under the Air Berlin brand.

Other charter carriers include Germania, based at Berlin Tegel airport. Following the death of owner Hinrich Bischoff in 2005 most of its business is now wet and dry leasing of its five 737s to other airlines, although there is still a rump of charter flights operating to a handful of destinations in the Mediterranean and North Africa.

In October Aer Lingus sold its remaining 20% share in Futura, a Spanish charter airline, for €11.3m to the airline's management and a UK private equity company called Hutton Collins. The Palma-based airline operates a fleet of 11 737s aircraft and carried 3m passengers in 2006.

In November 2007 the Icelandair Group was cleared by the local regulatory authority body to buy 50% of Czech charter airline Smart Wings and its parent tour operator Travel Service (with an option to buy at least another 30% from private investors over the following 12 months). Smart Wings operates 10 737s and carried 1.8m passengers in 2006, with revenue of just under €200m. Icelandair Group has been steadily accumulating charter assets in central and eastern Europe, and in 2006 bought Latvian-based Latcharter, which operates two A320s on charter routes, as well as two 767-300ERs on behalf of Virgin Nigeria Airways on a London-Lagos-Johannesburg route.

UK business airline Silverjet (see *Aviation Strategy,* July/August 2007) bought charter airline Flyjet in October 2005, primarily in order to acquire immediate access to (leased) aircraft, but when it closed down Flyjet's charter business a year later it stated that there were "insufficient returns" in the charter airline industry, and that the market was facing a challenging time due to "ongoing consolidation of the big four tour operators, the decline of the traditional package holiday market and excess capacity from the low cost carriers".

Despite that assessment, there are a handful of new charter airlines starting up. Orbest is a new Portuguese charter carrier that was launched last summer by Spain's Orizonia Group, which also owns Spanish charter carrier Iberworld Airlines. Orbest uses an A330 borrowed from Iberworld and operates out of Lisbon to long-haul destinations in the Caribbean and South America, while Iberworld operates nine A320s and A330s for charter flights out of Spain. And last summer a new charter airline called Transavia France launched routes out of Orly with four 737-800s to a range of Mediterranean and North African destinations. Air France owns 60% of the carrier, with the remainder owned by Transavia, the LCC airline in turn owned by KLM. The airline will add another three 737-800s to its fleet this summer, when the number of destinations served will rise to 12.

Perhaps the only hope for the charter industry is eastern Europe, which may provide a few years of AIT demand before it too becomes more sophisticated in its holiday needs. However, AIT revenues in eastern European countries are far more likely to be won by local companies than by western European tour operators, although that may not stop TUI Travel and the Thomas Cook Group from at least trying to establish their brands in these emerging markets. In April 2007 Russian airline S7 ordered 10 737-800s (and took another 10 options) for delivery from 2010 for a new charter business called S7 Charter. The carrier operates out of Moscow's Domodedovo airport with 12 leased 737-400s and 737-500s transferred across from its parent. The mainline S7 carried 1m passengers on charter services in 2006, and the group believes there is lots of growth potential in the Russian holiday market, in which the other main charter carriers are VIM-Avia and Atlant-Soyuz.

Southwest: Low-cost pioneer in transition

Faced with cost pressures, low-cost pioneer Southwest Airlines has slowed ASM growth this year and is aggressively pursuing a "transformation plan" that focuses on the business traveller and aims to boost revenues by $1.5bn in the next two years. What revenue initiatives are in store, and to what extent will the business model change? How is Southwest positioned in respect of potential airline consolidation?

While Southwest continues to be among the most profitable US airlines - and its long term prospects remain bright - its earnings growth has ground to a halt over the past year. After stellar rises in 2005 and 2006, last year net profit before special items fell by 18.5% to $471m (on $9.86bn revenues). Fourth-quarter net profit before items was down by 13%, though per-share earnings were flat thanks to a reduced share count. Currently, flattish earnings are expected in 2008.

Southwest's profits are falling mainly because its fuel hedges are wearing off. In the wake of September 11, Southwest was the only US airline with the cash (and the foresight) to take on extensive new fuel hedges at crude oil prices in the $20s and $30s (per barrel). Those hedges paid off handsomely when oil prices subsequently surged, saving the airline a staggering $2.5bn in 2000-2006. Now that the hedges are diminishing, Southwest has to pay more for fuel year-over-year even when there is no change in oil prices.

On the positive side, however, Southwest still has the best fuel hedges in the industry (by a wide margin). Also, the hedges will wear off gradually over several years, giving the airline time to adjust.

But Southwest also faces some structural issues, and those issues have worsened in recent years - additional reasons why the airline is now taking extensive action.

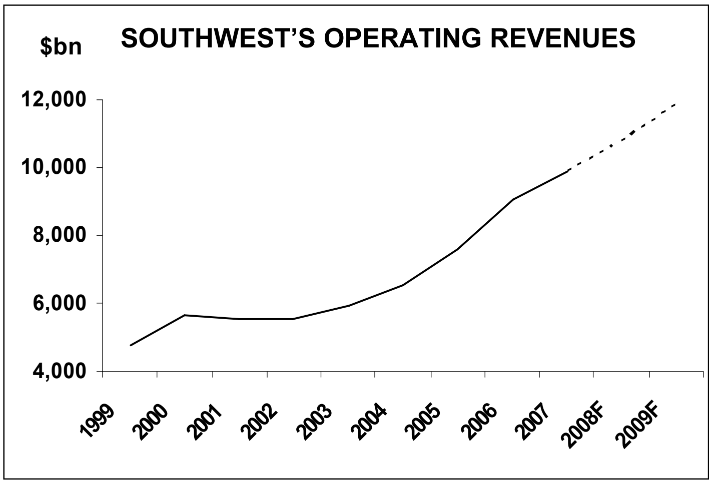
Because it is based on low costs, the Southwest model is very recession resistant, always coming into its own in hard times. By contrast, the legacy model comes on its own in boom times when the emphasis shifts to revenue generation. The legacies have more fare buckets to play with and international markets to turn to when the going gets tough domestically.

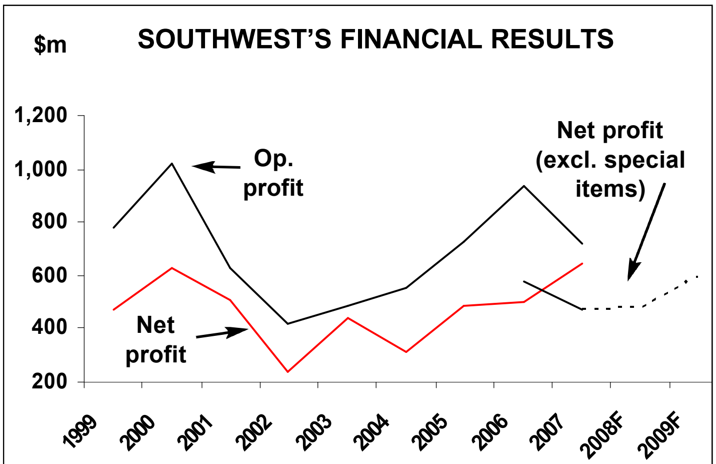
However, the legacy carriers' deep cost cuts in recent years, in or out of Chapter 11, have narrowed Southwest's cost advantage, particularly on the labour front. Southwest now has the highest-paid pilots for narrowbody aircraft in the industry. Although it continues to have excellent labour relations, it has been in contract negotiations with its pilots for 18 months. On the non-labour front, Southwest may simply be running out of cost-cutting options.

The other major structural change, of course, is the surge in competition, both from the revitalised legacies and LCC copycats. In particular, there is progressively more direct competition from other LCCs. Virgin America took to the air in August; although it currently has a very small footprint relative to Southwest's, it is a serious competitor worth watching. JetBlue has just announced plans to serve Los Angeles and various intra-West markets from May, which will bring it into direct confrontation with both Southwest and Virgin America.

In recent months Southwest has begun implementing an aggressive "transformation plan" that was first announced in June 2007. The plan includes elements that depart quite radically from the airline's past strategies. First, to get the $1.5bn in incremental revenue needed to offset higher fuel costs and reach its financial targets, Southwest will focus heavily on the business traveller with product enhancements. Second, Southwest plans to go international from early 2009 with the help of multiple codeshare partners. Third, Southwest wants to aggressively take advantage of its 100m passenger base to sell travel-related services through its website. Fourth, Southwest is exhibiting uncharacteristic capacity discipline: it has dramatically slashed fleet and ASM growth plans this year in order to boost RASM.

In periods of turmoil in the US airline industry, Southwest has traditionally provided equity investors a safe option; after all, it has proved that it can prosper in any kind of environment. That still holds true, but the share price has fallen





Note: Consensus forecasts as of February 5

some 30% from its high in 2007 (after effectively going nowhere for several years) and yet the average recommendation on the stock is only "hold".

There seems to be considerable investor fatigue about Southwest. Some analysts have lost confidence in its prospects, no longer viewing it as a growth story. Others simply do not see any catalysts for a share price rally. Some in the financial community feel that Southwest took too long to reduce its planned ASM growth and that it is moving rather slowly with the transformation plan. Some are not convinced that Southwest will get the $1.5bn extra revenues, because it has not provided the financial breakdown.

Of course, there are analysts, including at least Jim Parker of Raymond James and Michael Linenberg of Merrill Lynch, who are able to take a longer-term view. They recommend Southwest as a "buy" based on its proven ability to strengthen its competitive position in tough times. Those analysts are essentially focusing on 2009, when Southwest could return to strong earnings growth

The shares could benefit this year if Southwest finds some good, low-risk growth opportunities resulting from legacy carrier consolidation.

Still highly profitable

To keep things in perspective, Southwest continues to be a highly profitable airline, with industry-leading margins. Its fourth-quarter operating margin (excluding special items) of 7.2% was the highest in the industry, exceeding Allegiant's 6%, JetBlue's 4.1% and AirTran's 2.6%; all other carriers posted either losses or marginal operating profits for that extremely challenging period.

Last year was Southwest's 67th consecutive quarterly profit and 35th consecutive year of profitability - both unprecedented in the airline industry. Southwest's full-year 2007 ex-item operating margin of 8.7% was the second-highest in the industry (after Allegiant's 12.2%); most of the other carriers had operating margins in the 4.5% to 6% range.

This is going to be challenging year for Southwest because of severe cost headwinds; in addition to the diminishing fuel hedges, maintenance, engine overhaul and airport costs are set to rise. A loss in the current quarter is possible, though it is unlikely because revenue trends have been encouraging. The management is certainly hoping that the lower ASM growth rate, competitors' capacity cuts and recently launched product enhancements will boost RASM in 2008 to more than offset the cost hikes.

The current consensus estimate (as of February 5) is flat earnings in 2008, or up 5% on a per-share basis (from 61 to 64 cents). But the range of individual analysts' forecasts for that year is rather wide, from a 26% decline (45 cents) to a 30% increase (79 cents). Southwest's management is confident the company will achieve its 15% EPS growth target in 2009 with the help of the planned $1.5bn revenue initiatives.

Post-2001, Southwest's operating margins improved steadily from 7.6% in 2002 to 10.7% in 2006. Last year saw the margin dip to 8.7%. The current consensus estimates suggest a slight further dip to around 8% this year - something that could well be industry-leading performance.

At Raymond James' growth airline conference at the end of January, Southwest's CEO Gary Kelly noted that "this has been the toughest decade in what is one of the toughest industries out there" and that "Southwest has always been a maverick", one that enjoys some "enduring strength". The airline's special attributes that give it a competitive advantage include the following:

• Industry-leading fuel hedges

In the fourth quarter of 2007, Southwest still had some 90% of its fuel requirements hedged at a crude-equivalent price of $51 per barrel - an excellent position in a period when market prices climbed to the $90-$100 range. The hedges saved the airline $300m in the fourth quarter and $727m in 2007. Without those gains, Southwest would not have made money in the fourth quarter.

The airline still has excellent fuel hedges in place for 2008: about 70% of its needs at $51. Currently, the hedges diminish to 55% at $51 in 2009, 25-30% at $63 in 2010 and 15% at $63-64 in 2011-2012. These positions give Southwest a significant competitive advantage, given that oil prices are likely to remain high (at least exceeding the high-$60s/$70 level) and because no other US carrier except Alaska has meaningful hedges in place beyond the current quarter.

Significantly, Southwest's good near-term hedge position will give it time to build new revenue initiatives and, in general, adjust to a higher operating cost model.

The management's goal is to go into a new year with at least 80% hedged, so that they can build a business plan around a known cost structure. That goal is obviously not always achieved; for example, entering into new hedges at current prices does not make sense. However, Southwest has proved very adept in taking advantage of brief dips in crude oil prices, so it could add to its hedge positions if oil prices spike down this year due to recession.

• Lowest unit costs

Southwest remains a low-cost producer, with industry-leading CASM and incredible efficiency levels. Despite labour and other cost pressures, the airline has held its non-fuel CASM at around 6.5 cents for the past seven years. This has been accomplished through continued productivity improvements; for example, headcount per aircraft declined from 86 in 2003 to 66 in 2007.

However, in recent years AirTran has effectively caught up with Southwest in the CASM league, as its unit costs have declined steadily in part because of an increasing mix of larger aircraft in its fleet (737s, versus 717s). On a non-fuel, stage length-adjusted basis, by most estimates AirTran overtook Southwest in 2006 as the lowest-cost carrier in the US.

A unit cost analysis by R&S Airline Consultancy, summarised in a recent Raymond James report, found that Southwest still had the lowest total stage length-adjusted CASM in 3Q07: 7.1 cents at 1,000-mile stage length, compared to AirTran's 7.4, Allegiant's 8.2 and JetBlue's 8.7 cents. However, when the impact of Southwest's superior fuel hedging programme was eliminated, two airlines overtook Southwest in the CASM league. Allegiant and AirTran were now the lowest-cost carriers, with CASM of 6.7 and 6.8 cents, compared to Southwest's 7.1 cents and JetBlue's 8 cents.

• Strong balance sheet

Southwest has one of the strongest balance sheets in the industry, with total assets of $16.8bn, shareholders' equity of $6.9bn and long-term debt of $2.1bn at the end of 2007. The liquidity position is excellent, with cash and short-term investments of $2.8bn (28% of last year's revenues) and an unused $600m revolving credit line. The lease-adjusted debt-to-capital ratio was 36% at year-end - some 20 points below the leverage seen in the mid-1990s.

The strong balance sheet has enabled Southwest to maintain investment-grade credit ratings (minimising borrowing costs and maximising flexibility), hedge for fuel, continue to pay dividends (now for some 126 consecutive quarters) and undertake aggressive share repurchasing. In the past two years, the airline has spent a staggering $1.8bn to repurchase stock, and a new $500m programme was launched in January. The shares are either retired or used to fund the company's employee stock plan.

• Unbeatable culture, morale and brand

Southwest's operational integrity and service quality remain rock-solid. Its culture, staff morale, popularity and brand (low fares and great service) are as strong as ever. The airline has never laid off staff or cut pay. CEO Gary Kelly noted recently that those things are "never more important than at a time like this, when the industry and Southwest are going through change".

Southwest has a solid management team. The airline has staged a very smooth and successful leadership transition since 2001, with

Gary Kelly taking over from Herb Kelleher.

• Large passenger base

Southwest has been the largest US airline in terms of domestic passengers uplifted for some years, but the management has only recently started mentioning that because the airline now wants to tap the 100m customer base to sell ancillary products through the web site.

Another positive is that, over the past decade, the route system has become more balanced and accessible as Southwest has expanded in the East, added transcontinental service and built significant operations at major hub airports such as Philadelphia and Denver (rather than focusing totally on secondary airports). While the western half of the country still accounts for about 70% of Southwest's capacity (West 36%, Midwest 17%, Southwest 14% and Northwest 4%), East and Southeast now account for 14% and 15%, respectively.

Slower growth in 2008, acceleration in 2009?

Southwest has long had a strategy of growing at a brisk pace - 8% annual ASM growth has been the target in recent years - and resisting fare increases so as not to drive away traffic. The management always insisted that any retrenchment could embolden competitors. But in June 2007, after pressure from the investment community concerned about domestic demand weakness, Southwest reduced its planned ASM growth in 4Q07 and 2008 from 8% to 6%. Then in December, after fuel prices had surged and in anticipation of a slowing US economy, Southwest further reduced its 2008 ASM growth to 4-5%.

The ASM growth reduction is accompanied by a shift of capacity to more profitable markets. In the initial phase, implemented in October-November, Southwest eliminated 39 roundtrip flights, including long sectors such as Philadelphia-Los Angeles and Baltimore-Oakland, while adding 45 new flights in growth markets such as Denver and New Orleans. This helped boost unit revenues in the fourth quarter.

There will be another major schedule refinement in May, aimed at improving this year's profits and giving the company time to focus on revenue initiatives. Southwest has not yet released the details but has said that there are no plans to drop any existing city pairs or new routes planned for 2008 and that there will be continued growth at Denver.

The 2008 ASM growth reduction has meant a surprisingly drastic scaling back of fleet growth. A year ago, Southwest expected to take 34 new 737-700 deliveries in 2008, followed by 39 aircraft in 2007. In June the 2008 net addition was revised to 19 aircraft. The latest figure is only seven.

Also surprisingly, Southwest has deferred only five aircraft with Boeing (to 2013). The plan is to take 29 new deliveries this year and retire 22 aircraft, resulting in a net addition of seven. Of the 22 retirements, 12 will be returned to lessors and ten will be sold during the first three quarters of this year.

Selling the 737s should not be a problem as global demand for narrowbody aircraft remains strong. Southwest expects to generate significant gains from the sales, which could reduce this year's net aircraft capex by $200-300m. Excluding such gains, this year's aircraft spending is expected to total $1.3bn, similar to last year's.

While slowing overall ASM growth and focusing on more profitable markets, Southwest has clearly become more strategic with its growth efforts and is behaving even more aggressively than before at key locations. Denver is a prime example. After entering the market in January 2006 with 12-13 daily departures, Southwest built up the service at its typical pace to around 55 daily departures by 4Q07. One analyst suggested that Southwest had largely achieved critical mass in Denver. However, in January Southwest announced plans to boost the Denver daily departures to 79 with the May schedule.

In recent presentations Kelly has spoken enthusiastically about demand and revenue growth at Denver, calling the city a "remarkable expansion opportunity". Southwest spotted an opportunity in Denver because United has been downsizing there and the encumbent LCC, Frontier, has never really got its act together and continues to struggle financially. Southwest's May growth spurt is potentially very bad news for Frontier; in JPMorgan analyst Jamie Baker's analysis, it would result in Southwest being present in markets that account for over 40% of Frontier's revenues.

There may be strategic thinking also behind the decision to return to San Francisco. Southwest recommenced service there in August - the same month as Virgin America began operations with San Francisco as its base. Southwest started out with a record number of flights for a new market and has had a "tremendous" response, achieving near-system average load factors there already in the fourth quarter. From March San Francisco will have 35 daily departures.

Raymond James' Jim Parker made the point in a late-January research note that even though Southwest is slowing its ASM growth to 4-5% this year, it is still likely to significantly increase its market position. This is because the legacy carriers, which account for 55% of industry revenue, will collectively reduce their capacity by something like 4% in 2008 (by current estimates). Furthermore (though this will not have much impact on market shares), the other major LCCs have also moderated their growth plans for 2008; for example, JetBlue will grow its ASMs by 6-9%, compared to 12% last year, and AirTran will grow by about 10%, roughly half of last year's rate.

Parker also made the point that LCCs' aircraft deliveries are expected to pick up again in 2009 and 2010, "depending on economic conditions and potential consolidation of legacy carriers, which could cause LCC aircraft growth to accelerate".

Southwest's management has repeatedly stressed that they continue to see "tremendous long-term growth opportunities", provided that RASM improves and costs are under control. Currently, Southwest has 21 firm-order deliveries plus seven options scheduled for 2009. The 2010-2014 schedule includes 59 firm orders, 76 options and 54 purchase rights.

The management has also emphasised that, despite this year's cutbacks, Southwest remains well-positioned to respond quickly to favourable market opportunities. Instead of selling or returning to lessors the 22 aircraft, the airline would like nothing more than to put some or all of them to profitable use.

Interestingly, in response to a question at Southwest's fourth-quarter earnings conference call in January, Kelly disclosed that the airline is considering going into the aircraft leasing business. It would be a way to retain flexibility in the current economic environment and if the consolidation process gets under way.

Otherwise, there are no new developments on the fleet front. All of the new aircraft on order are 737-700s, which the management says is so well suited to Southwest's strategy that they do not even anticipate any -800s in the mix. Having looked at smaller jets many times in the past 15-20 years, Southwest says that at this point it is very much focused on just the 737. Southwest is working with Boeing and engine manufacturers on the next-generation 737, but Kelly noted that that type is unlikely to be in the market for at least five years.

New revenue initiatives

Southwest's primary focus this year is to bring its revenues in line with its higher cost structure. The goal is to increase RASM by 10-15% in 2008-2009 (over the current level), which is roughly equal to $1.5bn of incremental revenue. This target is higher than the $1bn Southwest talked about in June because of the sharp hike in fuel prices in the autumn.

The $1.5bn target covers revenue from all sources - fare increases, schedule enhancement, ancillary revenues, etc. However, fare hikes and schedule changes can realistically bring only a fraction of the needed amount, so Southwest is focusing heavily on product initiatives aimed at the business travel segment and developing different types of ancillary revenues.

Incidentally, it may seem surprising that Southwest does not support industry fare increases, given its new revenue focus. Having the key player join in would make all the difference in getting domestic fare hikes to stick. But Southwest still sees it as a low-fare environment for leisure travel and is concerned about economic trends. As a short-haul carrier, it has to worry more about elasticity of demand than many of its competitors. Therefore, in revenue generation efforts as in other areas, Southwest marches to its own beat.

The first batch of revenue initiatives, launched in early November, included a new "Business Select" product, enhancements to the FFP, a new boarding method and an "extreme gate makeover". The latter consisted of improvements to gate areas to include, among other things, lots of power points for customers' laptops.

Business Select, which costs $10-$30 more one-way and offers preferential boarding, a free cocktail and bonus frequent-flyer points, is a very modest (and low-cost) premium product even by LCC standards. But Southwest is unique and its business customers have evidently enthusiastically embraced the new offering. The airline expects Business Select to bring in $100m of extra revenues annually.

After years of analysis, Southwest decided not to adopt assigned seating to replace the open-boarding system that was disliked by its business customers. Instead, the airline modified the process: it now issues passengers numbers dictating their boarding order, which effectively eliminates the need to stand in line to ensure a good seat.

These adjustments seem relatively minor, evolutionary rather than revolutionary. But Southwest has to tread carefully so as not to alienate its core leisure customer base. An important part of its appeal has always been its "low-fare, egalitarian reputation" (as the Wall Street Journal recently put it). But Southwest has also always been attractive to the business traveller, thanks to its excellent service quality and on-time performance, expansive network and frequent flights. In the words of CFO Laura Wright, "we have an airline that's built for the business traveller".

Southwest has a great business model that its customers love. Wright said that extensive market research indicated that most of the customers did not want major changes to the product. The airline wants to "remain the low fare leader and, at the same time, improve our customer experience". When launching the product changes, Southwest reassured its leisure customers that it is merely transitioning from a "one-size-fits-all airline to the airline that fits your life".

That said, the product enhancements launched in the fourth quarter were just initial steps, with much more change coming this year and especially in 2009. This summer Southwest will begin testing satellite-delivered broadband internet access on several aircraft. It is in the process of implementing Galileo and Worldspan. Future initiatives will include further FFP enhancements, international codeshares, improved revenue management, major web site improvements and selling travel-related products and services through southwest.com.

Many of these initiatives reflect a realisation on Southwest's part that it makes sense to take advantage of its unique position as the largest US carrier in terms of domestic passengers. The airline now recognises that it has huge opportunities to capitalise on southwest.com, which consistently ranks among the top travel sites in the world.

Southwest is relatively late in tapping ancillary revenue opportunities, and it has also been criticised for moving rather slowly since announcing the plans. Why did it not do this earlier, and why now the snail's pace?

First, there was simply no pressing reason to do this earlier, whereas now the imperative is there due to the surge in energy prices. Second, Southwest was built very differently from other airlines and, as a result, it has had some serious "catching up" to do on the technological front.

As the management explained recently, Southwest was built to do one thing and do it well: carry passengers from A to B domestically. There was a lot of beauty in simplicity (such as the lowest costs in the industry), but as the times changed, Southwest did not have the flexibility in its systems to exploit other opportunities. Its reservation system was built for its unique needs as a domestic carrier; developing international capability (to handle foreign currency, taxes, interlining, etc.) now is taking 24 months. Likewise, the web site was designed solely to sell Southwest flights.

Consequently, much of this year's effort focuses on getting the technology in place to support the planned activities. Southwest will be replacing its point of sale system at the airport (including boarding and baggage systems), its back-office ticketing system and revenue accounting system. New software will provide international codeshare capability with multiple partners. Construction work is also under way to enhance Southwest's cargo capabilities.

While Southwest is excited about the potential for hotel, car hire and other travel-related ancillary revenues, those activities are not a top priority and probably will not come about before 2009. This is partly because significant improvements to the web site are needed to generate the kinds of ancillary revenues that Southwest wants, but also because the airline wants to make sure that it gets the 4Q07 product initiatives right.

One reason there has not been more enthusiasm in the investment community about the $1.5bn incremental revenue goal is that Southwest has not provided the breakdown, except for the estimate that Business Select will contribute $100m. Kelly said recently that the airline does not really know but that it has "ideas of the ranges of potential" for each component and that the aggregate opportunities are "well in excess of $1.5bn". Kelly also made the point that much of it will be very high-margin business.

Southwest's management have said that they see "hundreds of millions of dollars" revenue potential from expanded codesharing. The codeshares with ATA, which began in 2005 and include ATA-operated flights to Mexico and Hawaii, have been highly successful, generating $50m to Southwest in year one at minimal marketing cost. The plan is to initially expand codesharing with ATA in near-international markets - Mexico, Caribbean and Canada - from early 2009. Later Southwest will look for additional partners to fly to Europe and Asia, using the partners' widebody aircraft.

Southwest will be attractive as a potential partner for many European carriers, thanks to its vast domestic network, 100m passenger base and great brand. Such deals should also be extremely beneficial to Southwest, enabling it to boost its load factors (which never exceed the low-70s) and offer overseas destinations to its own customers. However, the potential transatlantic partners would probably have to operate to Baltimore or Philadelphia, and it may not be easy to get workable connections because Southwest is very much a point-to-point carrier. Kelly recently explained it as follows: "We don't want to begin banking, because that would impair our productivity. We don't schedule for connections at all today. That is one of the things we need to be mindful of as we look for codeshare partners. We're going to have to fit those relationships in a way that we don't radically change our scheduling practices."

Southwest is not contemplating own-account international operations any time soon - even West Coast-Hawaii flights are currently not possible because its 737-700s are not ETOPs. But Kelly noted recently that once the ticketing systems are built to handle the codeshares, Southwest would be able to offer the (near-international) product itself, should it decide to do that. "It is clearly something we have out there as a possibility."

Raymond James' Jim Parker has argued for quite some time that Southwest has enormous potential to generate incremental revenue and earnings because of its broad reach of over 100m passengers and the high degree of trust in the Southwest brand. Southwest is mainly talking about selling "very straightforward travel-related products" - hotels, rental cars, vacation packages and suchlike. But it is also taking some steps towards unbundling the airline product, as indicated by its recent decision to start charging customers $25 for their third checked bag (which was previously free).

Well-positioned for consolidation

Southwest's balance sheet and other special attributes make it well positioned to benefit from whatever legacy airline consolidation or capacity reduction may take place this year.

A more rational capacity and pricing environment would make it easier for Southwest to reach its RASM targets. Capacity cuts by the legacies in specific markets or secondary hub closures would create potential new market opportunities for LCCs. Large merger transactions could create opportunities for LCCs to acquire assets such as gates and slots at capacity constrained airports. And there could even be an opportunity for a financially strong LCC like Southwest to acquire another airline.

There is always speculation about what Southwest might or might not do. It is often argued, for example, that Southwest would not be interested in acquiring another airline that does not have 737s. But the message coming from Southwest's management is that anything is possible.

At the end of January, Kelly explained Southwest's intentions as follows: "I can see our participation ranging from doing nothing and benefiting from reduced capacity by our competitors, which is what happened with the US Airways/America West transaction (they shrunk by 15% and we gained market share), all the way to us potentially combining with another carrier." Kelly also indicated that a different fleet would not necessarily be a "deal-killer" in an acquisition, because there are ways to deal with that.

Southwest has not been very acquisitive historically, but it has completed some very successful transactions, including a merger with Morris Air in 1993 and the ATA rescue deal in late 2004. It has also gained great growth opportunities through legacy hub closures (San Jose, Raleigh/Durham). Southwest will be actively evaluating opportunities that may arise this year and will be prepared to move quickly.

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		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 emp.
Alaska	Jul-Sep 06	760	789	-29	-20	-3.8%	-2.6%	9,895	7,842	79.3%	4,710	9,467
	Oct-Dec 06	790	808	-18	-12	-2.3%	-1.5%	9,261	6,828	73.7%	4,107	9,485
	Year 2006	**3,334**	**3,422**	**-87**	**-53**	**-2.6%**	**-1.6%**	**43,306**	**33,012**	**76.2%**	**24,025**	**12,933**
	Jan-Mar 07	759	778	-18	-10	-2.4%	-1.3%	10,652	7,552	71.0%	5,471	13,236
	Apr-Jun 07	904	827	78	46	8.6%	5.1%	10,448	8,196	78.5%	5,329	9,748
	Jul-Sep 07	995	852	143	86	14.4%	8.6%	10,225	8,154	79.7%	4,878	9,753
	Oct-Dec 07	747	730	17	7	2.3%	0.9%	9,688	7,239	74.7%	4,191	9,672
American	Jul-Sep 06	5,830	5,610	220	1	3.8%	0.0%	71,641	58,526	81.7%	24,977	86,400
	Oct-Dec 06	5,397	5,212	185	17	3.4%	0.3%	67,813	53,430	78.8%	23,606	85,200
	Year 2006	**22,563**	**21,503**	**1,060**	**231**	**4.7%**	**1.0%**	**280,052**	**224,423**	**80.1%**	**98,139**	**86,600**
	Jan-Mar 07	5,427	5,179	248	81	4.6%	1.5%	72,362	56,063	77.5%	23,299	85,100
	Apr-Jun 07	5,879	5,412	467	317	7.9%	5.4%	68,632	57,402	83.6%	25,301	85,500
	Jul-Sep 07	5,946	5,627	319	175	5.4%	2.9%	69,636	58,401	83.9%	25,448	85,800
Continental	Jul-Sep 06	3,518	3,326	192	237	5.5%	6.7%	47,091	38,691	82.2%	17,328	41,500
	Oct-Dec 06	3,157	3,137	20	-26	0.6%	-0.8%	43,903	35,036	79.8%	16,603	
	Year 2006	**13,128**	**12,660**	**468**	**343**	**3.6%**	**2.6%**	**178,500**	**144,060**	**80.7%**	**67,119**	**44,000**
	Jan-Mar 07	3,179	3,115	64	22	2.0%	0.7%	43,853	34,519	78.7%	16,176	
	Apr-Jun 07	3,710	3,447	263	228	7.1%	6.1%	47,622	39,626	83.2%	18,120	45,000
	Jul-Sep 07	3,820	3,540	280	241	7.3%	6.3%	48,836	40,912	83.8%	17,901	
	Oct-Dec 07	3,523	3,443	80	71	2.3%	2.0%	45,947	36,483	79.4%	16,732	
Delta	Jul-Sep 06	4,659	4,491	168	52	3.6%	1.1%	63,797	51,150	80.2%	27,556	51,000
	Year 2006	**17,171**	**17,113**	**58**	**-6,203**	**0.3%**	**-36.1%**	**238,168**	**186,892**	**78.5%**	**106,649**	**51,300**
	Jan-Mar 07	4,144	3,989	155	-130	3.7%	-3.1%	56,774	43,794	77.1%	25,325	52,260
	Apr-Jun 07***	5,003	4,513	490	1,592	nm	nm	61,358	50,818	82.8%	28,305	55,542
	Jul-Sep 07	5,227	4,774	453	220	8.7%	4.2%	65,889	54,774	83.1%	28,987	55,022
	Oct-Dec 07	4,683	4,685	-2	-70	0.0%	-1.5%	60,210	47,052	78.1%		55,044
Northwest	Jul-Sep 06	3,407	3,041	366	-1,179	10.7%	-34.6%	38,741	33,024	85.2%	17,600	32,760
	Oct-Dec 06	2,980	2,886	94	-267	3.2%	-9.0%	37,386	30,564	81.8%	16,600	30,484
	Year 2006	**12,568**	**11,828**	**740**	**-2,835**	**5.9%**	**-22.6%**	**149,575**	**125,596**	**84.0%**	**67,600**	**30,484**
	Jan-Mar 07	2,873	2,672	201	-292	7.0%	-10.2%	36,845	29,964	81.3%	15,600	30,008
	Apr-Jun 07**	3,181	2,824	357	2,149	nm	nm	38,070	32,495	85.9%	17,400	29,589
	Jul-Sep 07	3,378	2,919	459	244	13.6%	7.2%	38,445	33,222	86.4%	17,300	29,579
	Oct-Dec 07	3,096	3,009	87	-8	2.8%	-0.3%	36,836	30,361	82.4%	16,100	30,306
Southwest	Jul-Sep 06	2,342	2,081	261	48	11.1%	2.0%	38,276	28,592	74.7%	21,559	32,144
	Oct-Dec 06	2,276	2,102	174	57	7.6%	2.5%	38,486	27,036	70.2%	21,057	32,664
	Year 2006	**9,086**	**8,152**	**934**	**499**	**10.3%**	**5.5%**	**149,123**	**108,936**	**73.1%**	**96,277**	**32,664**
	Jan-Mar 07	2,198	2,114	84	93	3.8%	4.2%	38,105	25,924	68.0%	19,960	33,195
	Apr-Jun 07	2,583	2,255	328	278	12.7%	10.8%	40,204	30,606	76.1%	23,442	33,261
	Jul-Sep 07	2,588	2,337	251	162	9.7%	6.3%	41,385	31,680	76.5%	23,533	33,787
	Oct-Dec 07	2,492	2,366	126	111	5.1%	4.5%	40,649	28,171	69.3%	24,876	34,378
United	Jul-Sep 06	5,176	4,841	335	190	6.5%	3.7%	66,377	55,165	83.1%	18,099	
	Oct-Dec 06	4,586	4,563	23	-61	0.5%	-1.3%	63,226	50,324	79.6%	16,704	51,700
	Year 2006	**19,340**	**18,893**	**447**	**22,876**	**2.3%**	**118.3%**	**255,613**	**208,769**	**81.7%**	**69,325**	**53,000**
	Jan-Mar 07	4,373	4,465	-92	-152	-2.1%	-3.5%	61,900	49,415	79.8%	16,350	51,500
	Apr-Jun 07	5,213	4,676	537	274	10.3%	5.3%	64,451	55,049	85.4%	18,190	51,400
	Jul-Sep 07	5,527	4,871	656	334	11.9%	6.0%	65,547	55,089	84.0%	17,804	51,800
	Oct-Dec 07	5,030	5,094	-64	-53	-1.3%	-1.1%	62,679	49,732	79.3%	16,042	51,700
US Airways Group												
	Year 2006	**11,557**	**10,999**	**558**	**304**	**4.8%**	**2.6%**	**123,889**	**97,667**	**78.8%**	**57,345**	**32,459**
	Jan-Mar 07	2,732	2,616	116	66	4.2%	2.4%	35,411	27,039	76.4%	19,935	36,000
	Apr-Jun 07	3,155	2,866	289	263	9.2%	8.3%	37,144	30,631	82.5%	22,232	35,485
	Jul-Sep 07	3,036	2,834	202	177	6.7%	5.8%	31,653	26,385	83.4%	14,965	34,321
	Oct-Dec 07	2,776	2,850	-74	-79	-2.7%	-2.8%	34,859	26,812	76.9%	19,828	
JetBlue	Jul-Sep 06	628	587	41	-0.5	6.5%	-0.1%	12,129	9,756	80.4%	4,773	9,223
	Oct-Dec 06	633	569	64	17	10.1%	2.7%	11,712	9,331	79.7%	4,932	9,265
	Year 2006	**2,363**	**2,236**	**127**	**-1**	**5.4%**	**0.0%**	**46,016**	**37,522**	**81.6%**	**18,565**	**9,265**
	Jan-Mar 07	608	621	-13	-22	-2.1%	-3.6%	11,861	9,562	80.6%	5,091	9,260
	Apr-Jun 07	730	657	73	21	10.0%	2.9%	12,981	10,840	83.5%	5,587	9,421
	Jul-Sep 07	765	686	79	23	10.3%	3.0%	13,446	11,020	82.0%	5,528	9,301
	Oct-Dec 07	739	709	30	-4	4.1%	-0.5%	13,056	9,995	76.6%	5,181	9,909

Notes: ** = April to May Predecessor Company, June Successor Company; ***= April Predecessor Company, May to June Successor Company - During Q2, Delta and United were emerging from Chapter 11

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 YE 31/03	**Year 2005/06**	**25,901**	**24,771**	**1,136**	**1108**	**4.4%**	**4.3%**	**234,669**	**189,253**	**80.6%**	**70,020**	**102,422**
	Apr-Jun 06	7,282	6,766	516	306	7.1%	4.2%	60,839	49,596	81.5%	19,049	
	Jul-Sep 06	7,779	7,058	721	475	9.3%	6.1%	63,616	53,611	84.2%	19,600	
	Oct-Dec 06	7,593	7,260	333	302	4.4%	4.0%	60,999	48,663	79.8%	17,829	
	Year 2006/07	**30,773**	**29,129**	**1,644**	**1183**	**5.3%**	**3.8%**	**245,066**	**199,510**	**81.4%**	**73,484**	**103,050**
	Apr-Jun 07	8,011	7,486	724	566	9.0%	7.1%	63,376	51,567	81.4%	19,325	103,978
	Jul-Sep 07	9,183	7,855	1,328	1041	14.5%	11.3%	67,375	57,009	84.6%	20,448	
	Oct-Dec 07	8,678	8,202	476	207	5.5%	2.4%	62,615	49,591	79.2%	17,868	
BA YE 31/03	Jan-Mar 06	3,692	3,530	162	144	4.4%	3.9%	36,657	26,780	73.1%	8,160	45,171
	Year 2005/06	**14,585**	**13,352**	**1,233**	**829**	**8.5%**	**5.7%**	**144,194**	**109,713**	**76.1%**	**35,634**	**47,012**
	Apr-Jun 06	4,208	3,825	383	280	9.1%	6.7%	38,222	29,909	78.3%	9,569	45,100
	Jul-Sep 06	4,331	4,080	251	315	5.8%	7.3%	38,727	30,872	79.7%	9,935	45,058
	Oct-Dec 06	4,051	3,798	253	210	6.2%	5.2%	36,563	27,073	74.0%	7,878	42,197
	Jan-Mar 07	3,792	3,731	61	-140	1.6%	-3.7%	36,405	26,003	71.4%	7,269	42,073
	Year 2006/07	**16,149**	**15,004**	**1,145**	**578**	**7.1%**	**3.6%**	**148,321**	**112,851**	**76.1%**	**33,068**	**43,501**
	Apr-Jun 07	4,395	3,868	527	539	12.0%	12.3%	37,514	28,836	76.9%	8,648	
	Jul-Sep 07	4,729	4,118	611	458	12.9%	9.7%	38,191	30,500	79.9%	9,206	42,024
Iberia YE 31/12	Apr-Jun 06	1,816	1,753	63	44	3.5%	2.4%	16,809	13,420	79.8%	7,461	24,109
	Jul-Sep 06	1,825	1,700	125	96	6.8%	5.3%	16,846	14,065	83.5%	7,354	22,721
	Oct-Dec 06	1,811	1,750	61	-12	3.4%	-0.7%	16,458	13,132	79.8%	6,682	
	Year 2006	**6,545**	**6,391**	**154**	**72**	**2.4%**	**1.1%**	**65,802**	**52,493**	**79.8%**	**27,799**	**23,901**
	Jan-Mar 07	1,745	1,734	16	16	0.9%	0.9%	16,104	12,798	79.5%	6,318	22,661
	Apr-Jun 07	1,829	1,752	75	83	4.1%	4.5%	16,458	13,307	80.9%	6,863	22,324
	Jul-Sep 07	2,080	1,882	198	211	9.5%	10.1%	17,119	14,653	85.6%	7,216	22,803
Lufthansa YE 31/12	**Year 2005**	**22,371**	**21,656**	**715**	**561**	**3.2%**	**2.5%**	**144,182**	**108,185**	**75.0%**	**51,260**	**90,811**
	Jan-Mar 06	5,369	5,460	-91	-118	-1.7%	-2.2%	33,494	24,044	71.8%	11,442	
	Apr-Jun 06	6,529	6,203	326	142	5.0%	2.2%	37,797	28,603	75.7%	14,106	
	Jul-Sep 06	6,765	6,188	577	461	8.5%	6.8%	39,225	30,627	78.1%	14,781	
	Year 2006	**24,979**	**23,913**	**1,066**	**1,014**	**4.3%**	**4.1%**	**146,720**	**110,330**	**75.2%**	**53,432**	**93,541**
	Jan-Mar 07	6,258	6,184	74	593	1.2%	9.5%	35,028	26,109	74.5%	12,329	95,696
	Apr-Jun 07	7,267	6,506	761	663	10.5%	9.1%	39,573	30,544	77.2%	14,629	97,067
	Jul-Sep 07 *	8,960	8,004	956	843	10.7%	9.4%	48,662	39,112	80.4%	18,836	
SAS YE 31/12	Apr-Jun 06	2,439	2,319	120	75	4.9%	3.1%	14,005	10,325	74.0%	10,325	32,622
	Jul-Sep 06	2,476	2,318	158	83	6.4%	3.4%	14,086	10,745	76.3%	10,141	32,772
	Oct-Dec 06	2,215	2,121	94	679	4.2%	30.7%	13,405	9,162	68.4%	9,611	25,534
	Year 2006	**5,270**	**5,010**	**260**	**169**	**4.9%**	**3.2%**	**36,971**	**27,506**	**74.4%**	**25,100**	**31,965**
	Jan-Mar 07	1,978	2,025	-47	-7	-2.4%	-0.4%	12,844	8,543	66.5%	9,088	26,136
	Apr-Jun 07	2,383	2,247	136	89	5.7%	3.7%	15,091	10,915	72.3%	11,045	26,916
	Jul-Sep 07	2,612	2,518	94	109	3.6%	4.2%	15,352	11,890	77.4%	11,031	27,447
	Oct-Dec 07	2,041	2,039	2	-96	0.1%	-4.7%	14,263	9,701	68.0%	9,923	25,651
Ryanair YE 31/03	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
	Year 2005/06	**2,096**	**1,639**	**457**	**380**	**21.8%**	**18.1%**	**39,070**	**30,302**	**83.0%**	**34,768**	**3,063**
	Apr-Jun 06	711	539	172	146	24.2%	20.5%				10,700	
	Jul-Sep 06	864	553	313	268	36.2%	31.0%				11,481	3,881
	Oct-Dec 06	651	575	76	63	11.7%	9.7%			82.0%	10,300	4,209
	Year 2006/07	**2,887**	**2,278**	**609**	**518**	**21.1%**	**17.9%**	**48,924**	**40,118**	**82.0%**	**42,500**	
	Apr-Jun 07	934	722	212	187	22.7%	20.0%			82.0%	12,600	
	Jul-Sep 07	1,229	795	434	384	35.3%	31.2%			86.0%	13,952	
easyJet YE 30/09	Oct-Mar 05	1,039	1,116	-77	-41	-7.4%	-3.9%	14,526	12,150	83.8%	13,500	
	Year 2004/05	**2,478**	**2,356**	**122**	**109**	**4.9%**	**4.4%**	**32,141**	**27,448**	**85.2%**	**29,600**	**4,152**
	Oct-Mar 06	1,095	1,177	-82	-50	-7.5%	-4.6%	16,672	13,642	81.8%	14,900	
	Year 2005/06	**2,917**	**2,705**	**212**	**170**	**7.3%**	**5.8%**	**37,088**	**31,621**	**84.8%**	**33,000**	**4,859**
	Oct-Mar 07	1,411	1,333	-47	-25	-3.3%	-1.8%	19,108	15,790	81.2%	16,400	
	Year 2006/07	**3,679**	**3,069**	**610**	**311**	**16.6%**	**8.5%**	**43,501**	**36,976**	**83.7%**	**37,200**	

Note: * Lufthansa Group including SWISS

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 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%	48,860	29,098
	Year 2005/06	12,040	11,259	781	235	6.5%	2.0%	86,933	58,949	67.8%	49,920	30,322
	Year 2006/07	12,763	11,973	790	280	6.2%	2.2%	85,728	58,456	68.2%	49,500	32,460
Cathay Pacific	Year 2004	5,024	4,350	674	581	13.4%	11.6%	74,062	57,283	77.3%	13,664	15,054
YE 31/12	Jan-Jun 05	3,074	2,799	275	225	8.9%	7.3%	39,535	30,877	78.1%	7,333	15,400
	Year 2005	6,548	6,015	533	424	8.1%	6.5%	82,766	65,110	78.7%	15,440	15,447
	Jan-Jun 06	3,473	3,201	272	225	7.8%	6.5%	43,814	34,657	79.1%	8,144	
	Year 2006	7,824	7,274	550	526	7.0%	6.7%	89,117	71,171	79.9%	16,730	
	Jan-Jun 07	4,440	4,031	409	341	9.2%	7.7%	49,836	38,938	79.6%	8,474	19,207
JAL												
YE 31/03	Year 2003/04	18,398	19,042	-644	-844	-3.5%	-4.6%	145,900	93,847	64.3%	58,241	21,197
	Year 2004/05	19,905	19,381	524	281	2.6%	1.4%	151,902	102,354	67.4%	59,448	53,962
	Year 2005/06	19,346	19,582	-236	-416	-1.2%	-2.2%	148,591	100,345	67.5%	58,040	53,010
Korean Air												
YE 31/12	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
	Year 2005	7,439	7,016	423	198	5.7%	2.7%	66,658	49,046	71.4%	21,710	17,573
	Year 2006	8,498	7,975	523	363	6.2%	4.3%	71,895	52,178	72.6%	22,140	16,623
Malaysian												
YE 31/03	Year 2003/04	3,061	3,012	49	86	1.6%	2.8%	55,692	37,659	67.6%	15,375	20,789
	Year 2004/05	3,141	3,555	-414	-421	-13.2%	-13.4%	64,115	44,226	69.0%	17,536	22,513
	Year 2005/06	3,602	3,685	-83	-37	-2.3%	-1.0%	65,099	46,122	70.8%	17,910	20,324
Qantas	Year 2003/04	7,838	7,079	759	448	9.7%	5.7%	104,200	81,276	78.0%	30,076	33,862
YE 30/06	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	35,520
	Jul-Dec 05	4,999	4,626	373	258	7.5%	5.2%	59,074	45,794	77.5%	17,260	35,158
	Year 2005/06	10,186	8,711	1,475	542	14.5%	5.3%	118,070	90,899	77.0%	34,080	34,832
	Jul-Dec 06	6,099	5,588	511	283	8.4%	4.6%	61,272	49,160	80.2%	18,538	33,725
	Year 2006/07	11,975	11,106	869	568	7.3%	4.7%	112,119	97,622	80.0%	36,450	34,267
Singapore												
YE 31/03	Year 2003/04	5,732	5,332	400	525	7.0%	9.2%	88,253	64,685	73.3%	13,278	14,010
	Year 2004/05	7,276	6,455	821	841	11.3%	11.6%	104,662	77,594	74.1%	15,944	13,572
	Year 2005/06	6,201	5,809	392	449	6.3%	7.2%	109,484	82,742	75.6%	17,000	13,729
	Year 2006/07	9,555	8,688	866	1,403	9.1%	14.7%	112,544	89,149	79.2%	18,346	13,847
Air China												
YE 31/03	Year 2004	4,050	3,508	542	288	13.4%	7.1%	64,894	46,644	71.9%	24,500	29,133
	Year 2005	4,681	4,232	449	294	9.6%	6.3%	70,670	52,453	74.2%	27,690	18,447
	Year 2006	5,647	5,331	316	338	5.6%	6.0%	79,383	60,276	75.9%	31,490	18,872
China Southern												
YE 31/03	Year 2004	2,897	2,787	110	19	3.8%	0.7%	53,769	37,196	69.2%	28,210	18,221
	Year 2005	4,682	4,842	-160	-226	-3.4%	-4.8%	88,361	61,923	70.1%	44,120	34,417
	Year 2006	5,808	5,769	39	26	0.7%	0.4%	97,044	69,575	71.7%	49,200	45,000
China Eastern												
YE 31/03	Year 2004	2,584	2,524	60	39	2.3%	1.5%	41,599	27,581	66.3%	17,710	20,817
	Year 2005	3,356	3,372	-16	-57	-0.5%	-1.7%	52,428	36,381	69.4%	24,290	29,746
	Year 2006	3,825	4,201	-376	-416	-9.8%	-10.9%	70,428	50,243	71.3%	35,020	35,000
Air Asia												
YE 30/06	Year 2005	152	122	30	25	19.7%	16.4%	6,525	4,881	74.8%	4,410	2,016
	Year 2006	230	173	57	34	24.8%	14.8%	8,646	6,702	77.5%	5,720	2,224

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

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 %
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
2006	329.9	226.6	68.7	230.5	188.0	81.5	182.7	147.5	80.7	588.2	478.4	81.3	874.6	677.3	77.4
Dec 07	26.6	16.9	63.6	18.1	14.5	80.3	15.6	12.2	78.2	50.9	40.5	79.5	75.1	55.9	74.6
Ann. change	3.8%	3.5%	-0.2	4.0%	6.0%	1.5	2.0%	1.2%	-0.6	4.6%	4.4%	-0.2	5.4%	4.9%	-0.4
Jan-Dec 07	346.6	239.9	69.2	241.4	196.1	81.2	184.2	152.1	82.6	610.6	500.4	81.9	915.2	713.9	78.0
Ann. change	4.7%	5.4%	0.5	4.8%	4.4%	-0.3	0.8%	3.1%	1.9	3.8%	4.6%	0.6	4.7%	5.4%	0.6

Source: AEA

EIGHT LARGEST US PASSENGER AIRLINES' 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 %
Q3	239.1	192.4	80.4	49.5	42.2	85.3	28.9	24.2	83.7	25.0	18.8	75.2	103.4	85.2	82.4
Q4	225.1	172.2	76.4	41.9	33.2	79.2	27.4	22.3	81.4	24.2	17.2	71.1	93.5	72.7	77.8
2005	**464.2**	**364.6**	**77.8**	**91.4**	**75.4**	**82.1**	**56.3**	**46.5**	**82.7**	**49.2**	**36.0**	**72.7**	**196.9**	**157.9**	**79.8**
2006 Q1	219.2	169.3	77.2	39.6	29.7	75.0	26.1	21.7	83.2	28.2	21.1	74.8	93.9	72.5	77.2
Q2	228.1	188.3	82.6	49.7	42.1	84.7	28.2	23.9	84.7	26.3	20.4	77.6	104.2	86.4	82.9
Q3	232.2	187.9	80.9	54.0	45.3	83.9	28.7	24.4	85.0	26.3	20.4	77.6	109.0	90.1	82.7
Q4	223.2	174.3	78.1	46.0	36.1	78.5	27.8	22.8	81.9	25.8	19.2	74.2	99.6	78.1	78.4
2006	**902.7**	**719.7**	**79.7**	**189.2**	**153.2**	**81.0**	**110.8**	**92.8**	**83.7**	**106.6**	**81.1**	**75.7**	**406.7**	**327.1**	**80.4**
2007 Q1	217.4	169.6	77.5	42.9	32.5	75.5	27.0	22.5	83.4	29.5	22.7	76.8	99.4	77.7	78.2
Q2	226.6	189.9	83.8	53.7	44.9	83.6	28.1	23.5	83.8	27.1	20.8	76.8	108.9	89.2	81.9

Note: Legacy airlines plus Alaska and Southwest.

JET ORDERS

	Date	Buyer	Order	Delivery	Other information/engines
Boeing	05 Feb	Blue Air	2 x 737-800		plus 2 purchase rights
	22 Jan	Air Europa	8 x 787-8		
	17 Jan	PrivatAir	1 x 787-8		purchase-right exercised
	14 Jan	Air Pacific	3 x 787-9		
	02 Jan	GOL	40 x 737NG		
	02 Jan	Dubai AE	70 x 737, 15 x 787, 10 x 777300ER, 5 x 787-8F		
	02 Jan	Vietnam A/L	4 x 787-8		
	02 Jan	Vietnam A/C Lease	8 x 787-8		
Airbus	18 Feb	Korean A/L	3 x A380		
	04 Feb	Hawaiian A/L	6 x A350-800, 6 x A330-200		
	28 Jan	Matlin Patterson	6 x A330-200F		
	24 Jan	TACA	12 x A320, 3 x A319		
	24 Jan	Hamburg Int'l	2 x A319		
	22 Jan	China A/L	14 x A350-900		plus 6 options
	21 Jan	TAM	22 x A350XWB, 4 x A330-200		
Embraer	17 Jan	LOT Polish A/L	12 x E175		plus 2 options
Bombardier	03 Jan	Libyan A/L	2 x CRJ900		

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

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