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BA/IB: Inspiration from AF/KL and LH/LX

So, British Airways has finally taken the plunge. It and Iberia announced their engagement: a new company, to be listed on the London and Madrid stock exchanges, will be formed to acquire the whole share capital of each existing airline in a full share swap. Each of the current companies it is envisaged will retain their separate brands and identities while, with regulatory approval, the two operations will be able to coordinate schedules and fares across their whole networks. The two companies expect that the prenuptial negotiations will take several months. The agreement appears unanimously backed by the respective company boards of directors.

BA has come close to the altar on many occasions, notably shying away from KLM in the 1990s and Swiss in the '00s - and other deals have faltered even before they became public. It also had its fingers badly burnt in attempts to spread its wings into non-UK European markets - specifically dba and Air Littoral. Meanwhile, Iberia has intimated for some time that it did not envisage an independent future. Last year comments such as these led to an approach by TPG - joined by BA with its 10% stake - only to be rebuffed very successfully by one of Iberia's other core shareholders. Since then much has changed: Spanish elections over; fuel prices doubling; credit crunch; weakening economies.

The two companies have been closely linked for a decade. BA acquired its core 10% holding and two seats on the board as part of the privatisation process of IB eight years ago. Iberia is a core member of the oneworld alliance. BA and IB have operated a successful joint venture on UK-Spain routes and created a plethora of code shares. As joint members of oneworld their FFPs are fully linked.

But it may be a surprise that BA - which after all tends to suffer a perception of corporate arrogance - is willing to present this deal as a merger of equals rather than a takeover. However, life has changed for BA too. While it has concentrated on getting its finances in order after the damages of September 11, SARS, and its UK pension crisis, it has seen arch-rivals Air France make a success of stealing KLM while being able to expand healthily into lower costs at the four-runway Roissy-CDG and Lufthansa expand profitably both organically (with the help of capacity at its successful secondary hub in Munich) and through its subsequent acquisition of Swiss. At the same time it has suffered extreme constraints at its Heathrow base and has shed destinations and routes, while - unlike its main competitors - being denied anti-trust immunity on

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the Atlantic. It has been at a significant operational disadvantage albeit somewhat mitigated by the protection provided by fortress Heathrow. However now, with the introduction of transatlantic open skies, it is faced with increasing pressure on its core routes: and London is by far the most attractive destination in Europe - not merely the European gateway on the Atlantic, but also by far the largest point-to-point O&D traffic of any airport system in Europe and therefore having the highest density of premium yielding routes.

What appears to have changed BA management's views is a realisation that it had underestimated the revenue enhancing benefits of a European merger - effectively intimated by a comment by the company's CEO Willie Walsh earlier this year. This suggests that in the past they may only really have looked at cost savings to evaluate potential deals - and is in effect a back-handed compliment to Air France's Spinetta and Lufthansa's Mayrhuber. To understand this it is worth looking at the respective experience of Air France-KLM and Lufthansa-Swiss.

Air France opportunistically acquired KLM in 2004. This was the first true major cross-border airline acquisition in the EU deregulated era - and the first among flag carriers since the formation of SAS in 1956. At the time the two companies were suffering from the effects of the aftermath of the September 11 attacks on the United States, the SARS epidemic and the Second Gulf War. KLM in addition had been particularly damaged following its withdrawal from its alliance with Alitalia (what irony!) - and strategically appeared to be floundering.

Removing competition

The net effect of the AF/KL "merger" was to remove competition - surely one of the prime reasons behind consolidation. The regulatory penalty was minor: to allow entrants on the Paris-Amsterdam route (which really has nothing to do with the competitive changes inherent in the deal). Whereas Air France had the advantages of a good hub at Roissy-CDG, Paris being the only destination in Europe after London with a reasonably strong point-to-point market - it had over the years been competing directly with KLM. The combined group was now effectively able to coordinate schedules and fares, cut head-to-head flying, expand attractive frequencies through judicious flight timing, and redirect weak routes through only one hub and network. As a result the AF/KL group created very strong revenue synergies from directing traffic through its now double-hub system. As these revenues are incremental (possibly initially accounting for only 1.5% of group revenues), the underlying costs are minimal, and the net impact on the group's total profitability have probably lain in excess of 15% of total operating profits.

At the time of the merger there was much cynicism of the ability to generate returns - but the incremental revenues from the double-hub operations appear to have been far in excess of the group's own expectations. At the same time the group's presentations suggest strong cost synergies - but many of these cost savings have come from cost reduction programmes introduced by the respective carriers and put in place before the merger. It is only now that the group has started to look at joint cost savings; and has now implemented a new joint management structure to help ensure that the two continue to minimise costs to continue to create shareholder value - and the group's presentations show that they are on track to achieve €1bn in combined synergistic benefits by 2011.

The Lufthansa acquisition of Swiss has a slightly different history. Swiss (the rump of the failed Swissair) had a dire legacy. It too (like KLM) in its previous incarnation had built a route network designed around a hub transfer operation at Zurich unsupportable by local traffic. In an ill-advised attempt to gain mass, it had built minority stakes in other airlines for cash only to be hit by a severe cash crisis following the September 11 attacks on the US. Lufthansa only agreed to acquire the company on the condition that it had put its own house in order and effected its own restructuring plan - and on condition that the Swiss government rene-

gotiated all the bilateral air service agreements to allow non-Swiss ownership of the company operating under Swiss nomination. Like Air France, Lufthansa has kept the independent brand and has avoided the age old industry mistake of trying to merge operations and personnel. Unlike Air France, however, Lufthansa was able to slot SWISS into its existing matrix of a portfolio of airline brands and types under the group ownership umbrella. It too has apparently generated significant revenue and cost synergies - although according to its presentations not yet as important to total group profitability as achieved by its French rivals. Neither Lufthansa nor Swiss have good natural point-to-point O&D markets at their respective base cities - but they do have very efficient hubs at those airports. Lufthansa is heavily constrained at its home base at Frankfurt (at least until the fourth runway is built in ?2011) but Swiss has a long way to go. In this perhaps, Lufthansa and SWISS have a greater opportunity than the AF/KL operation to generate more multi-hub route markets.

Both the AF/KL and the LH/LX deals have a key advantage - and this may be the only reason that they have been able to generate such apparent returns. Their respective hubs are all within the area of the greatest density of population in Europe - the "blue banana" that stretches in a graceful curve from London along the Rhine through Switzerland to Milan, within which lies half of the European population. In one sense this means that the respective hub airports can claim superior catchment areas in themselves - although this does not always transfer into actual traffic. Importantly the hubs are respectively close together. As a result the opportunity to market to a passenger who has to transfer at some hub or other, will - so long as the schedules are timed to permit it - generate flight timings at the top of the first screen of any flight request enquiry.

Expectations

BA/IB may expect to gain the same sort of revenue and cost benefits. However, in total contrast to the other two examples, London and Madrid are on two extremes of geographical Europe, possibly limiting the potential for multi-hub flight routings. In addition the two companies have been in the same global alliance for the past decade and as a result their FFPs have been fully linked, leaving less room for incremental benefits. However, it is fair to say that there is much less of an overlap than there was for either AF/KL or LH/LX and the two carriers do not really compete head on for transfer traffic. BA's strengths are primarily on the North Atlantic and to former British imperial destinations - but it also benefits from London's pre-eminent position. One could not yet describe Heathrow as an efficient hub, even though BA should now be able to start to restore its competitive positioning against Paris Amsterdam and Frankfurt as Terminal 5 is now operating smoothly.

Iberia's niche strength is on routes on the South Atlantic - reflecting the very strong cultural links with Latin America - while it has also been efficiently building capacity into Africa, and has no operations to the Middle or Far East. Furthermore, (notwithstanding the current problems surrounding the cost of fuel) both are in reasonable financial health. Iberia in particular has been very successfully restructuring its operations - helped to a great extent by the new runways and terminal at Barajas. It has significantly cut back on domestic operations that do not touch Madrid (some being passed on to affiliate Clickair) while emphasising its hub wave system at Barajas and at the same time expanding strongly on the Latin American routes.

Nevertheless, revenue and cost saving initiatives will no doubt be made - and the two companies are obviously discussing the integration plan in detail before they launch the merger. Strategically it does at least put the group at a similar size to the other two major European legacy carriers and provides further consolidation in the European industry. Of far more importance, financially and strategically, will be the outcome of the attempts to gain anti-trust immunity on the north Atlantic and the potential through establishing a joint venture with American to recover further from competitive disadvantages.

By James Halstead

Central/Eastern European aviation trends

The process of liberalising and rejuvenating the aviation industries of the countries in central and eastern Europe has taken place at varying rates.

In the case of the former Soviet-controlled states, the new administrations found themselves in charge of a somewhat decrepit system. While many of the countries had airports with long runways, plus many other airfields that were used for military purposes, the national airlines often had old fleets of Russian aircraft for which there was little in the way of logistical support should the aircraft go technical in 'non-Soviet' countries. The former Yugoslavia was different. With a domestic market of nearly 22m, the former JAT Yugoslav Airlines was among the top 10 largest airlines in Europe, with a fleet of then-modern DC-10s and 737-300s, for which JAT was the European launch customer. The break-up of the Soviet Union coincided with the violent break-up of Yugoslavia and years of war and bloodshed. *Aviation Strategy* will look at several markets in the region that are in the process of change or evolution as a result of privatisations and/or market liberalisations.

Balkans

Air traffic in the Balkan region is now growing rapidly, albeit from a low base. In the western Balkans air traffic growth was severely dampened by the break-up of the former Yugoslavia. The air transport sector has now resumed growth and, according to the European Commission, traffic between the EU and south east Europe (including Bulgaria and Romania, which are now part of the EU) rose by 121% between 2000 and 2005. The number of weekly departures from south eastern Europe (SEE) to France, for instance, doubled from 41 to 86 between 2001 and 2005, while the number of weekly flights to Italy grew from 65 to 345.

There are few high volume routes, and no single route accounts for more than 2% of regional traffic. The six busiest routes between the western Balkans and western Europe are:

- Zagreb to Frankfurt, Vienna and Munich;
- Belgrade to Zurich and Paris; and
- Tirana to Milan.

Most countries of the western Balkans are too small for domestic flights and thus the vast majority of traffic in the region flows across national borders. Some countries, such as Albania, have only one airport. The exceptions in the western Balkans are Croatia (which has a domestic public service subsidy) and the eastern Balkans - Romania and Bulgaria - which have a number of domestic services.

Much of the traffic flow from SEE countries is to countries in western Europe that have particularly strong migration and trade linkages with the Balkans; Germany, Italy and Austria, together account for 60% of the routes from the EU to south east Europe. Business travel and air cargo remain small market segments.

Zagreb and Belgrade are the main airports outside the liberalised markets of Romania and Bulgaria, but the region has no central hub. While the route network in the western Balkans has grown denser in recent years, no pre-eminent hub has yet emerged among the 19 commercial airports. This is likely to remain the case for the foreseeable future as it has become increasingly difficult to compete against the Star alliance hub airports at Munich, Frankfurt and - to a lesser extent - Vienna, where Austrian has exploited its historical connections to operate a mini-hub for the region. Paris, Amsterdam and, to a lesser extent, Istanbul also serve the region with onward connections to inter-continental flights. The main airports offering connecting flights are Zagreb and Belgrade.

Levels of connecting traffic remain low; in 2007 the percentage of transfer passengers at Belgrade Airport was just 3%. Frequent regional connections are limited to the two airports in neighbouring Montenegro (Podgorica and Tivat). Belgrade's hub status was much reduced following the closure of JAT's long-haul

network and retirement of their DC-10 fleet. The table, right, shows the largest airports serving the Balkan region.

Network structures

Key determinants of regional network structures are code-sharing agreements and airline alliances. Of the world's three major alliances, Star is the dominant player in the region. Its members include Austrian Airlines, Lufthansa, Croatia Airlines and Slovenia's Adria Airways.

Many new airlines have emerged in the region, but they are small scale. The break-up of Yugoslavia led to a proliferation of 'national' airlines. Jat emerged as the successor of Yugoslav Airlines, while Slovenia, Croatia, FYR Macedonia and Montenegro developed their own flag carriers that will be discussed individually later in this article.

Most of the new regional airlines are state-owned and loss-making. Perhaps the most successful regional carrier is Croatia Airlines, with a fleet of 11 aircraft and 1.4m passengers in 2006 and a stable operating environment over the past eight to 10 years. In the 1990s, Jat carried a total of 5m passengers per annum; today it carries just over 1.3m passengers per annum, making it the second largest airline in the western Balkans.

The few private airlines that have been established in the western Balkans remain small. The establishment of the European Common Aviation Area (ECAA) should provide opportunities for growth but will also attract EU airlines - particularly low cost carriers (LCCs) - into the region and put pressure on smaller airlines to either seek critical size through mergers or to exit the market.

As countries in the CEE become full members of the ECAA, the more liberalised environment will stimulate competition and reduce prices. According to a study on regional air traffic for the European Commission, more than two-thirds of routes between city-pairs to and from south east Europe are served by one airline only. Most of the remaining routes are operated on a duopoly basis. Where the most competition exists is on routes to the Croatian tourism destinations of Split and Dubrovnik that are well served by network carriers, LCCs and charters.

Up until recently, competition from LCCs has remained limited, with high market barriers to entry. However, this is now changing and LCCs are pivotal in the stimulation of competition and market development. In the table on page six, we show the countries in the region most impacted by LCCs.

Reasons why LCCs have grown rapidly in liberalised markets in the region include:

- The main drivers of passenger traffic in the region are tourism and the migrant communities, which are both more price-sensitive than business travellers;
- Much of the passenger traffic between the EU and the western Balkans is currently land-based. Hence, the opening of additional routes (accessibility) and lower prices (affordability) in air traffic should lead to modal substitution;
- Bulgaria and Romania have joined the EU, thus eliminating visa requirements for its citizens for intra-EU travel. Croatia joined the so-called "White Schengen" list that abolished many of the previous onerous visa requirements for local citizens. This allowed greater ability for travelling and fostered the entry of LCCs that stimulated demand through lower air fares. Serbia is expected to join the White Schengen list before the end of 2008.

As well as liberalisation-induced traffic expansion, air transport in the western Balkans is likely to be driven by GDP growth and the exponential relationship between per capita income and the propensity to fly. Countries that have already joined the EU are likely to achieve strong economic growth as a result, at least in the short term, and there will be a beneficial spill-

BALKAN AIRPORTS (000 pax)

Country	Airport	2006	2005	2004
Romania	Bucharest	3,514	3,036	2,644
Serbia	Belgrade	2,225	2,035	2,067
Bulgaria	Sofia	2,209	1,874	1,614
Bulgaria	Bourgas	1,816	1,574	1,361
Croatia	Zagreb	1,728	1,552	1,408
Bulgaria	Varna	1,533	1,559	1,339
Slovenia	Ljubljana	1,328	1,212	1,041
Croatia	Dubrovnik	1,120	1,083	881
Croatia	Split	1,086	927	789
Romania	Timisoara	755	371	304
Macedonia	Skopje	547	526	497
Moldova	Chisinau	547	481	419
Bosnia/Herzegovina	Sarajevo	456	433	400
Montenegro	Tivat	451	377	335
Montenegro	Podorica	384	323	328

Source: *ATI.*

LCC DEPARTING SEAT CAPACITY BY COUNTRY RANKING

Country	2005	2006	% change
Romania	123,410	531,076	330.3%
Croatia	185,151	441,508	138.5%
Bulgaria	35,386	146,884	315.1%
Slovenia	106,149	104,967	-1.1%
Macedonia	36,800	26,100	-29.1%
Serbia and Montenegro	51,400	24,382	-52.6%

Source: *RDC Low Cost Airline Monitor.*

over effect for neighbouring states. In the chart below right, we show the average annual forecast growth rates for 2006-2017 by country.

Ex-Yugoslavia

Yugoslavia consisted of one of the largest domestic markets in Europe, with the former JAT Yugoslavian Airlines and Aviogenex serving a domestic market of 22m. Following the start of the break-up of Yugoslavia in 1991, Croatia Airlines and Adria (Slovenia) started operations to serve their new domestic markets that were no longer allowed to be served by JAT. Zagreb had been one of JAT's two main hubs (along with Belgrade).

Serbia

Serbian aviation was dealt a serious blow during the civil war and subsequent NATO bombings in 1999. During two separate periods, economic and United Nations sanctions (ironically numbered '757' - May 1992) prevented the operation of any commercial flights in or out of the country and many people had to travel by land to neighbouring Hungary or Romania to board a flight. At the time, the majority of Jat's fleet was grounded in Belgrade and subsequently used for domestic services to Montenegro (which was part of Serbia at the time). Two 737-300s and two 727-200s were grounded in Tunisia between 1992-1995 and two 737-300s were grounded in Turkey between 1992-1996 - one in Istanbul while the other had been undergoing a C-check at Aer Lingus' facility in Northern Ireland after which it returned to Turkey.

Following the removal of former Serbian president Slobodan Milosevic in 2000, the country has experienced a period of rapid and sustained economic growth. The government-owned JAT Yugoslav Airlines, now renamed Jat, is in the middle of a privatisation process that started in September 2007 and is part funded by the World Bank. The tender was launched at the end of July with deadlines for submissions of interest on 26th September. Speculation in the press since the outset of the process last year has centred on Aeroflot, Icelandair and even Italy's Air One as likely acquirers. The timing of the privatisation coincides with the more highly publicised privatisations of both Austrian and CSA Czech Airlines, which are considered to be more strategic in nature.

Jat operates a fleet of 16 aircraft, 10 of which are 737-300s (for which Jat was the European launch customer for the type in 1985), one 737-400 and five ATR 72s. While the average age of the aircraft is approaching 20 years, they have abnormally low levels of usage due to the aforementioned sanctions and subsequent low levels of usage.

As in other parts of the former Yugoslavia, US aid is helping to provide funds for the development of tourism and related infrastructure, such as the conversion of military air bases to civilian use and even greenfield development, due to the fact that the mountainous nature of some of the region (Bosnia in particular) makes travel times to relatively nearby airports lengthy and problematic.

Another issue facing Serbia is the fact that its current status as an FAA IASA category 2 country prohibits the operation of direct commercial flights between Serbia and the US. Serbia has two international airports, Belgrade's Nikola Tesla and Nis International Airport, some 180 miles (285km) south of Belgrade. Nis currently offers limited scheduled services to Zurich (Jat) and Montenegro (Jat and Montenegro Airlines). There is speculation that Ryanair had attempted to establish operations there, an offer that apparently was firmly rebuffed.

Croatia

Croatia Airlines was originally established as Zagal (Zagreb Airlines), operating a Cessna 402C as part of the UPS network. Following the break-up of the former Yugoslavia in 1991, Zagal was rebranded as Croatia Airlines and in May of that year started the first domestic service from Zagreb to Split using a MD-82 wet-leased from

Adria Airways. In 1992 the company acquired three 737-200s from Lufthansa. Later that year the company became a member of IATA. The first of three 48-seat ATR42 turboprops arrived in 1993. A320s started to replace the 737 classics in 1997 and the first A319 entered the fleet in 1998. Croatia Airlines currently operates four A319s and four A320s. The three ATRs have recently been sold and the airline is in the process of replacing them with four new Bombardier Q400s to compliment the fleet of eight A319/A320 aircraft.

While Croatia Airlines has yet to exploit potential long haul markets, its membership as a regional affiliate of the Star alliance allows it to co-ordinate schedules with Lufthansa, Swiss and Zurich. Croatia operates a PSO (Public Service Obligation) domestic route system of which Croatia Airlines is a major benefactor.

The airline joined Star alliance as a regional member (along with Slovenia's Adria Airways) in September 2004. Lufthansa acted as sponsors for the two carriers' application, which represented the second and third airlines to ascend to the 'Regional' level of membership within the alliance following Finland's Blue1.

Bosnia

B&H Airlines, the Sarajevo-based national flag carrier, was established as Air Bosna in August 1994 by the government of Bosnia and Herzegovina and re-branded from its original name in October 2006. The carrier, which employed 89 staff as of the end of last year, has more than doubled revenues since 2005 to reach KM24.2m (€12.1m) in 2007.

The airline is undergoing its own privatisation process that was formally launched on 30th June 2008. Bosnia and Herzegovina's privatisation agency (PA) is aiming to find a strategic investor for B&H Airlines through a tender for 49% of the airline, and was seeking to receive bids by the end of July. The Bosnian PA has introduced an investment programme as part of the minimum conditions that need to be met by any potential acquirer. Any bidder must "introduce jet aircraft for company use with the capacity of at least 100 seats". The bidder may satisfy this condition in one of several ways:

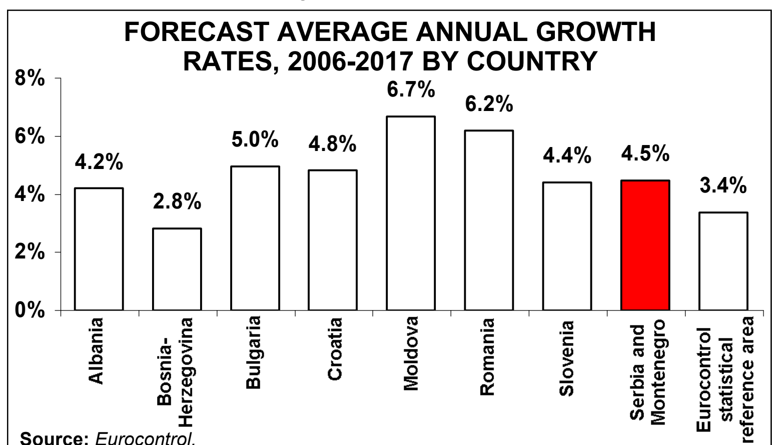
- Procurement of the new A319 (which was a contract signed in 2000 by the Bosnian government through which some US$2.9m of pre-delivery payments - PDPs - have already been made);
- Procurement of used aircraft that should not be more than 10 years old;
- Introduction of the acquirer's own used aircraft that should not be more than 10 years old.

It will be interesting to see what degree of flexibility exists with the Airbus contract, in particular if a potential acquirer could use the PDPs towards other aircraft types at prices that would undoubtedly be better than those which the Bosnian government was able to negotiate back in 2000. Earlier this year Turkish Airlines was reported to have held initial talks on taking a stake in B&H Airlines and recent media reports have indicated that they remain interested.

Elsewhere in Bosnia, the government of the semi-autonomous Serbian Republic (capital city: Banja Luka) is contemplating the development of greenfield airport sites, including the possibility of a new airport in Trebinje in the south west of the country (across the border from Dubrovnik, Croatia).

Montenegro

Montenegro Airlines was founded in 1994 and in June added a new leased Embraer 195 from GECAS to compliment a fleet of four 115-seat Fokker 100s. The E195 will be used to serve its new route from the coastal city of Tivat to London Gatwick, which commenced on 15th June. Service will initially be on a twice weekly basis, moving to thrice weekly by the end of the summer. A second E195 is to be added before the end of the year. Montenegro's flag-carrier provides scheduled flights to Budapest,



Source: *Eurocontrol.*

PRAGUE RUZYNE (PRG) MARKET SHARE (2007 pax)		
Carrier	2007 pax	Market share
CSA	5,238,199	42.1%
easyJet	977,002	7.9%
Travel Service	871,495	7.0%
Skyeurope	576,983	4.6%
Lufthansa	565,511	4.5%
British Airways	302,936	2.4%

Frankfurt, Ljubljana, Paris, Rome, Skopje, Vienna, London and Zurich, in addition to charter flights throughout Europe and the Middle East.

The Montenegro government announced in September 2007 that it was planning to sell a 30% stake in the airline, with local press reports indicating that the European Bank for Reconstruction and Development had expressed an interest in taking a 20% stake.

As Montenegro is a mountainous country with poor road access from its neighbouring countries, air access is key to developing the country's ambitious plans to increase tourism. Significant capex spend on tourist infrastructure is taking place with substantial numbers of resorts and hotels being constructed in the attractive coastal towns of Budva, Kotor and others - all of which are within 30 minutes drive of Tivat. Podgorica is the commercial centre of the country and its relatively new terminal facility is capable of handling significantly more capacity than the dozen or so daily flights at present (four of which are to Belgrade). Montenegro is an ECAA (European Common Aviation Area) signatory but has yet to ratify the agreement, which would effectively liberalise air traffic access to a country that currently operates a series of bilateral agreements.

By Robert Cullemore

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Czech Republic

The Czech government is at the early stages in the privatisation of both Ruzyne airport in Prague and the main carrier, CSA Czech Airlines. The original plan was to privatise the airport prior to CSA, but ever-increasing fuel costs and the prospect of a liquidity shortage earlier than expected have forced the government's hand in light of the so-called 'one-time' rule on state aid applied by the European Commission. The Czech government is believed to have selected sell-side advisors at the end of August. Aeroflot and Air France/KLM are the leading contenders to acquire the Czech flag carrier. It will be intriguing to see how the privatisation processes of both CSA and its main hub, Prague Ruzyne, are able to run in parallel. The future shape and stability of each entity represent a key variable in the valuation prospects for one another.

Both privatisation processes are further complicated by the potential development of a second airport in Prague (Vodochody). Unusually for a 'secondary airport', Vodochody is actually closer to the city centre of Prague than Ruzyne. The potential of a new lower cost facility opening in the short-medium term (using existing runway facilities adjacent to the Aero Vodochody aircraft and helicopter assembly facility) is likely to have a significant impact on the value of Ruzyne. Market shares at Ruzyne are shown in the table above.

Prague has become the most developed mini-hub in central/eastern Europe with connecting passengers accounting for approximately 24% of its 2007 total of 12.4m passengers. CSA has built up a strong network serving the central and eastbound markets in a similar fashion to Austrian Airlines. Ruzyne is a more modern and easier to navigate facility and this undoubtedly contributes to the attractiveness of Prague as a transfer point, in addition to the language commonality with the various Slavic speaking counties to the north, south and east.

Poland

The Polish government is in the early phases of a privatisation/IPO process for state owned flag carrier LOT. Competition from LCCs has been intense and relentless as Ryanair, Wizz and easyJet have all established themselves as major players in the country. LOT, unlike its Hungarian and Czech counterparts (Malev and CSA respectively), is further advanced strategically with the development of long-haul services following its 2005 order for eight 787s, which should now arrive in 2010. New routes being contemplated include Beijing and/or Shanghai, and most of the 787s should be used as replacements for the six 767s that are currently serving the Toronto, New York and Chicago routes, where there are large numbers of Polish Diaspora.

Leasing market past its peak - but still robust

As *Aviation Strategy* predicted last year (see *Aviation Strategy,* October 2007), the leasing industry is past its peak, but - as GECAS puts it - "the glass is still half full".

With rising fuel prices and many airlines (particularly in the US) cutting back capacity, at first sight the macro outlook for the leasing industry appears dire. Yet these factors are countered by the lack of spare production slots at Boeing and Airbus until the end of 2011 and a continuing shortage of in-demand aircraft types - which means that lease rates on many aircraft types (e.g. five-year old A320s and 737-800s) are still rising in 2008 compared with 2007.

Most of the lessor fleet is leased out through this year and next, and - crucially - a large chunk of older, less fuel-efficient aircraft will have to be retired by airlines over the next few years. For example, according to GECAS, of the 1,000 MD-80s/90s in the current world fleet, at least one-third is more than 20 years old. Similarly, around 25% of the 1,700 737 classics in operation are also more than 20 years old, while Babcock & Brown estimates that around 50% of all passenger aircraft in North America and Europe are more than 10 years old.

Practically, the robustness of individual lessors depends largely on how exposed they are to the weaker markets, and specifically North American airlines, but most lessors are too experienced to be overexposed on any one market.

Aviation Strategy's annual survey of the leasing industry (see table, pages 10-11) shows that the overall fleet has grown from 6,356 as of a year ago to 6,881 today (although the figures are not strictly comparable as we have included a handful of smaller lessors in the 2008 table that were not included in the 2007 table). More tellingly, lessors have 1,277 outstanding orders today, compared with 844 12 months ago (see *Aviation Strategy,* October 2007).

The "Big Two" - GECAS and ILFC - have a combined fleet of 2,830 aircraft, but no longer dominate the outstanding order book. They have 195 and 157 aircraft on order respectively, but have now been overtaken (in terms of outstanding orders) by the Dubai Aerospace Enterprise, which over the last year has ordered a staggering 200 aircraft, split evenly between Airbus and Boeing. While it is way too early to start talking about a Big Three (as DAE has just 49 aircraft in its portfolio at the moment, and will be more than happy to become one of the second-tier lessors in the short-term) it will be interesting to see if the aggressive growth strategy of DAE will be maintained over the next few years, because if so, it will surely take business away from the Big Two in the buoyant Middle Eastern leasing market.

GECAS

GECAS is still the world's largest lessor, owning 1,475 aircraft (worth around $44bn) and managing another 300 units for others. In 2007 GECAS signed contracts for 208 leases, comprised of 90 aircraft from the existing fleet, extensions on 34 leases already leased to customers, and 84 aircraft yet to be delivered from Airbus or Boeing. But unlike the 150+ increase in the fleet over the 2006 to mid-2007 period, in the 12 months to the summer of 2008 GECAS has increased its fleet by just 25 aircraft, which clearly indicates its cautious view of the market.

GECAS's fleet is placed with 230 customers in 70 countries, and risk is relatively evenly spread, with a third of the portfolio being placed with clients in the US, 20% in the Asia/Pacific region, 20% in Europe and 14% in the Middle East and Russia. Part of General Electric, GECAS (which has 490 employees) has a vast sales network, with 27 offices around the world. Of these, 20 offices have been opened since 2001 and GECAS is putting particular emphasis on expanding into "emerging markets", with particular interest in China, India, the Middle East, Latin America and Russia.

GECAS's fleet is split between narrowbodies (55%), widebodies (22%), cargo aircraft (7%) and RJs (17%). The average age of the fleet at mid-2008 was six years, and GECAS says that 83% of its narrowbody fleet is in "attractive" A320 family and 737NG aircraft,

THE LESSOR FLEET

Company	Owned*	Managed/ part-owned*	Total	Boeing orders	Airbus orders	Total orders
GECAS	1,475	300	**1,775**	129	66	**195**
ILFC	947	108	**1,055**	103	54	**157**
BCC			**335**			
AWAS	223	94	**317**	39	83	**122**
AerCap			**314**		30	**30**
CIT			**295**	25	89	**114**
BBAM			**280**	20		**20**
ACG			**234**	77	68	**145**
RBS			**200**		11	**11**
Aircastle			**135**		15	**15**
Macquarie AirFinance	80	50	**130**			
ORIX			**112**			
GA Telesis			**90**			
BOC Aviation			**83**	31	25	**56**
Pembroke	10	67	**77**			
Allco Finance			**66**			
SAFAIR			**65**			
Aergo Capital			**60**			
Jetran			**60**			
BCI Aircraft Leasing			**55**			
Al Waha Capital			**55**			
World Star Aviation			**54**			
Genesis			**54**			
GAAM			**53**			
Sumisho			**50**			
Dubai Aerospace Enterprise			**49**	100	100	**200**
Compass Capital			**45**			
VGS			**45**			
Magellan Air			**40**			
Guggenheim			**40**	10	6	**16**
Vx Capital Partners			**40**			
SkyWorks Leasing			**36**			
RPK Capital Management			**35**			
Aircorp			**30**			
AAR			**30**			
Avia Consult			**30**			
Deutsche Bank Equipment Leasing			**30**			
Goal			**28**			
Alafco	17	10	**27**	28	32	**60**
Avion Aircraft Trading			**26**		8	**8**
Itochu Airlease			**24**			
Q Aviation			**23**			
Aircraft Leasing and Management		22	**22**			
Sojitz Aircraft Leasing			**22**			
GMT Global			**22**			
Aircraft Financing & Trading			**20**			

THE LESSOR FLEET

Company	Owned*	Managed/ part-owned*	Total	Boeing orders	Airbus orders	Total orders
Novus Aviation			20			
First Greenwich Kahala			20			
Automatic			20			
Bavaria			19			
Jetscape	14	4	18			
Airbus Asset Management			15			
Airfleet Credit Corporation			15			
Deutsche Structured Finance			15			
Global Aviation Leasing			14			
Veling			10			
Phoenix Aircraft Leasing			10			
Universal Asset Management			10			
CDB Financial Leasing			9			
Tombo Aviation			9			
Skytech-AIC			9			
AerVenture					54	54
LCAL				21		21
Intrepid Aviation					20	20
AerDragon Aviation Partners					13	13
Deucalion Capital				8		8
MatlinPatterson					6	6
Oak Hill Capital Partners				6		6
Total	2,766	655	6,881	597	680	1,277

Note: *This table includes jet lessors with at least nine owned or managed aircraft. We exclude entities set up solely to manage the leasing activities of a specific airline. *Where known.*

while 90% of its widebodies are in "high demand" 767s, 777s and A330s.

In 2007 GECAS's revenue rose by 10.2% to $4.6bn, with a "segment profit" of $1.2bn, 4.2% up on the 2006 result. However, in the first half of 2008 revenues remained flat, at $2.3bn, with segment profit falling 2% to $639m.

GECAS's current order book stands at 129 Boeing aircraft (104 737s and 25 777s) and 66 Airbus aircraft (12 A319s and 54 A320s). In January GECAS ordered 15 777s (both passenger and cargo variants) and 24 737-800s, all for delivery by 2010, the latter of which signifies that all the 737NGs ordered back in 2006 have been successfully placed, and that more 737 capacity is needed.

Of the total order book, GECAS has 75 aircraft scheduled for 2008 delivery, all of which have already been placed with customers, as are all orders through to 2010. Additionally, all leases on roll-off in 2008 have been replaced with clients, as have 70% of 2009 roll-off, so overall GECAS is well prepared for a more pronounced downturn in the leasing market over the next couple of years, if it occurs.

ILFC

Based in California, ILFC is a subsidiary of US financial services giant AIG, and its portfolio currently stands at 1,055 aircraft (compared with 1,007 a year ago), of which 947 are fully owned by the lessor.

In the first six months of 2008 ILFC saw revenue increase by 12.5% to $2.5bn, with net profits leaping by 48.7% to $364m in January-June 2008. ILFC is partly exposed to troubled US airlines, and ATA, Eos and Aloha Airlines returned 16 aircraft to ILFC in the first half of 2008 - although all those aircraft have subsequently been placed with other clients. In total these airlines cost ILFC more than $22m in "rental adjustments" and lost revenue in the January-June 2008 period.

However, approximately 90% of ILFC's aircraft is placed with airlines outside of the US, and ILFC's strategy is to "maximize lease placements in regions where the airline industry is performing better on a relative scale - such as in the Middle East, Russia and Eastern Europe, and parts of Asia, Western Europe, and South America - and to minimize placements in regions that are under stress".

ILFC's current order book stands at 157 aircraft, including 54 Airbus models (11 A319s, five A320s, five A321s, three A330s, 20 A350s and 10 A380s) and 103 Boeing aircraft (25 737s, four 777-300ERs and 74 787s). The order book has steadily been scaled back since a high of 360 back in 2004 and has now been overtaken (as has GECAS) by the huge orders placed by Dubai Aerospace Enterprise. ILFC says that its future orders are "at historic lows", but says that not only does this mean that it is well positioned for the industry downturn but that it will be able "to reap benefits from any opportunities a down market may present". All deliveries to the end of 2009 have already been placed with airlines.

Boeing Capital Corporation

Based at Renton, Washington, BCC finances aircraft sold by Boeing that cannot be financed elsewhere. BCC's portfolio has fallen significantly in the last year, from 500 aircraft down to 335, and worth approximately $6.2bn as at the end of June 2008.

Unsurprisingly, BCC is particularly exposed to a handful of US airlines, with 56% of BCC's portfolio by value placed with just five airlines - AirTran, American, Midwest, Hawaiian and Continental (and AirTran alone accounts for 24% of BCC's portfolio). Altogether 71% of BCC's portfolio is with US airlines, followed by Europe (17%) and the Asia/Pacific region (7%). And almost 40% of BCC's portfolio by value is in 717s - although as BCC points out, its risk "is mitigated in part by guarantees from [its parent] Boeing with respect to certain assets - which primarily relates to 717s".

BCC has two divisions: Space & Defence, and Aircraft Financial Services, although most of BCC's assets and business are in the aviation sector. In the first six months of 2008 BCC reported revenue of $364m, down from $422m in January-June 2007, and net profit of $73m, compared with $95m in the first half of 2007.

BCC has trimmed its staff over the last year, from 200 down to 170, and they are based at four offices in the US as well as in Brussels, Moscow and Hong Kong (a Stockholm office has been closed in the last year).

AWAS

Dublin-based AWAS now incorporates Pegasus Aviation, which was merged after Terra Forma - a European private equity group - bought the former in March 2006 and the latter in June 2007. The merged company has 85 employees (and a new senior management team) and is now headquartered in Dublin, with other offices in New York, Miami and Singapore (while offices in Sydney, Seattle - the previous HQ - and London were closed in 2007).

Pre-merger, AWAS and Pegasus had a combined fleet of more than 300 owned and managed aircraft, but the merged fleet now stands at 317 aircraft, with 223 owned aircraft placed with 99 customers in 45 countries, most of which are split equally between three areas - Europe, the Asia/Pacific region and the Americas. AWAS also manages 94 aircraft for others.

AWAS's strategy is to maintain a diversified portfolio, whether by age, model, lessor credit quality or client geography. In 2007 AWAS bought 11 aircraft and sold 25, and its current portfolio comprises 52 Airbus aircraft (including 42 A320 family aircraft and six A330s) and 170 Boeing aircraft (including 93 737s, 15 757s and 28 767s). In the 12 month period ending November 30th 2007 AWAS's lease revenue grew 90% to US$577m, with operating profit rising from $174m in 2006 to $239m in 2007.

In December 2007 AWAS ordered 31 737NGs (plus purchase rights for another 19 aircraft), and in January this year AWAS placed an order for 75 A320s family aircraft (plus 25 options), all to be delivered over the next seven years. Altogether the lessor has 122 aircraft on order, including 33 737s, six 787s, 75 A320s, six A330-200s and two A350s.

AerCap

Dutch-based AerCap has a portfolio of 314 owned and managed aircraft, slightly down on

the 2007 figure (340 aircraft), and worth around $4.3bn. The fleet includes narrowbodies (A320 family, A300s, MD-80s, 737s and 757s), widebodies (A330s, A340s, 767s and MD-11s) and regional jets (F100s, F70s). These are currently placed with approximately 95 customers in 45 countries, the largest part of which are based in Europe (40 clients), North and South America (24), and the Asia/Pacific region (22).

AerCap is listed on the NYSE and in the first-half of 2008 recorded a 13% rise in revenue to $627.8m, with net income increasing by 26% to $119.5m. In Q2 2008 AerCap bought a portfolio of 19 aircraft from TUI Travel, including 11 737-800s, six 757s and two 767-300ERs. These aircraft have since been leased back to TUI. AerCap also sold 10 older model aircraft from its portfolio in the April-June 2008 period.

AerCap has not placed an order for new aircraft since May 2007 (when it ordered 10 A330-200s), and it has 30 aircraft on outstanding order, all of which are A330 models. However, this June AerCap closed a $1bn securitisation of 30 A320s, part of an order for 70 aircraft placed back in January 2006 by a joint venture company called AerVenture.

CIT Aerospace

New York-based CIT Aerospace has a portfolio of 295 aircraft, of which 161 are Boeing models and 133 are Airbus aircraft. Most of the fleet are narrowbodies (235 aircraft), with the total portfolio value estimated at $8.3bn (with CIT's Boeing aircraft valued at $3.6bn and the Airbuses at $4.7bn). CIT's aircraft have an average age of six years, and they are placed with 114 customers around the world, of which the most important markets are Europe (92 aircraft), the Asia/Pacific region (83), North America (67) and Latin America (42).

CIT is part of the CIT Group, a NYSE-quoted commercial and consumer finance group, and the leasing arm also has offices in Dallas, Ft. Lauderdale, Los Angeles and Dublin. Although CIT has not placed any major orders since the summer of 2007, the lessor has 114 aircraft on order (25 Boeing and 89 Airbus models), of which 10 are due to be delivered in the remainder of 2008 and 14 in 2009 (with all of these already placed with customers), and with 60 coming in 2010-2012 and 30 in 2013+.

Babcock & Brown AM

Babcock & Brown Aircraft Management is based in San Francisco and has a portfolio of 280 aircraft, which has increased by more than 60 units in 12 months. The aircraft are placed with more than 70 customers in 31 countries and they have an average age of approximately eight years. In December 2007 BBAM ordered 20 737-800s, which are its only outstanding orders.

BBAM is part of the operating lease division of Babcock & Brown, the Australian investment bank and asset management group, and no financial results are separated out for the aircraft management business. In September 2007 BBAM IPOed on the NYSE a Dublin-based entity called "Babcock & Brown Air", which today has more than 60 aircraft, all managed by BBAM.

Aviation Capital Group

Aviation Capital Group (ACG) currently has a portfolio of 234 owned or managed aircraft (compared with 228 a year ago), worth an estimated $5.3bn and placed with 93 clients in more than 40 countries. ACG is primarily a narrowbody specialist, although it does also have widebodies in its portfolio.

ACG is owned by US insurance giant Pacific LifeCorp and is based in Newport Beach, California, with other offices in Seattle, Connecticut, London, Shanghai, Singapore (opened last year) and Santiago in Chile. In 2007 ACG had revenue of $611m, 8.5% up on 2006. Unlike some of its peers, ACG is bullish about the market, and in July this year ACG ordered 23 A320 family aircraft for delivery from 2011 (bringing total orders for the type to 68), as well as 17 737-700s. The total order book now stands at 145 aircraft (68 Airbus models and 77 Boeing), compared with outstanding orders of 69 as of 12 months ago. All orders through to 2010 have already been placed with customers.

RBS Aviation Capital

RBS Aviation Capital is based in Dublin and has offices in London, Connecticut, Hong Kong, Shanghai, Toulouse, Dubai and Tokyo. It employs 90 staff and offers a variety of commercial aviation finance solutions, with total lending and owned assets of around $13bn.

The company was launched by the Royal Bank of Scotland in 2001 and today has an estimated portfolio of 200 aircraft that are placed with 66 customers. Most of these are based in Europe (28 clients), the Asia/Pacific region (18, including seven airlines in China) and the Americas (16). RBS Aviation Capital currently has a A319 and 10 A320s on order.

Aircastle

Aircastle has a portfolio of 135 aircraft (up from 100 a year ago) with an average age of less than six years and a value of $4.1bn. They are placed with 58 customers in 30 countries, and of these around 9% are placed with the more vulnerable US market (with most of those at US Airways). Most of the fleet is placed in Europe (45%), with the next most important market being the Asia/Pacific region (25%).Three-quarters of the fleet (by value) are passenger aircraft and the rest freighters. As with other lessors, Aircastle makes "opportunistic" sales - it sold three 737-500s in May 2008. The lessor also has 15 A330-200Fs on order.

Aircastle employs 72 and is based in Connecticut, with other offices in Dublin and Singapore. In the first-half of 2008 Aircastle recorded revenue of $280m, compared with $155m in the January-June 2007 period, and net income of $67m ($60m in H1 2007).

Macquarie AirFinance

Previously known as Macquarie Aircraft Leasing Limited (MALL), Macquarie AirFinance (in which Macquarie owns a 34% share) is based in Dublin and also has offices in San Francisco and London.

Macquarie AirFinance owns 80 aircraft (including 41 A320 family aircraft and 32 737NGs) and manages 50 more (compared with 39 owned and 49 managed as of a year ago). The fleet is placed with 57 customers in 32 countries, including airlines such as bmi, easyJet, SIA, Tiger Airways and United.

In February the lessor closed a $1bn credit facility with a group of European banks, and John Willingham, CEO, says that this financing gives Macquarie AirFinance "significant flexibility to acquire modern in-demand aircraft".

ORIX Aviation

ORIX Aviation is based in Dublin and has a fleet of 112 aircraft (trimmed from 120 a year ago), worth an estimated $3.35bn (including engines). It has sold a handful of aircraft over the last year and another three 737s are currently available for sale, although ORIX intends to increase the fleet to 150 within the next few years. The increase will come not from new orders but via acquiring second-hand aircraft from lessors and other sources.

The current portfolio is placed with 35 customers, most of which are European and North American airlines, with the odd customer in Africa, China and elsewhere. The vast majority of the portfolio is narrowbody aircraft, including 31 A320 family aircraft and 41 737s. ORIX Aviation is owned by the Japanese financial services group Orix Corporation, which in February this year took a 10% stake in AirAsiaX.

BOC Aviation

Formerly known as Singapore Aircraft Leasing Enterprise, the renamed BOC Aviation - now owned by the Bank of China - has 83 owned and managed aircraft, with an average age of just four years. They are largely A320 family and 737NGs, although BOC also has a handful of A330s and 777s. They are placed with 30 customers worldwide, and BOC has 56 aircraft on order, for delivery through to 2013, including 31 737s, 20 A320s and five A330-200Fs.

Singapore-based BOC also has offices in London, Washington DC, Seattle and San Diego and in 2007 recorded record net profits of US$81.4m, 67.8% up on 2006. BOC has also been expanding into other areas of aviation finance, and its London office has arranged debt financing for four A321s owned by British Airways. Last year BOC strengthened its balance sheet and reduced its debt-to-equity ratio, and with an unused US$1bn debt facility is well positioned "to take advantages of opportunities which may arise" this year, according to Robert Martin, CEO of BOC Aviation.

Pembroke

In Q4 2007 Dublin-based Pembroke was bought by Standard Chartered from previous

owners Medulla Asset Managers for an undisclosed sum. Pembroke was launched back in 1993 and was owned 50% by GATX Capital and 50% by Rolls-Royce before being sold to its management team in 2006, via an investment vehicle called Medulla Asset Managers.

Pembroke has a portfolio of 10 owned and 67 managed aircraft (compared with 20 and 59 respectively as of a year ago), placed with 30 airlines around the globe. It is a narrowbody specialist, with its owned and managed fleet including 16 A320 family aircraft, four 717s, a single MD-82, 22 737s three 767-300ERs, 17 Fokker 100s, 12 CRJs and two DHC8s.

Al Waha Capital

Abu Dhabi-based Al Waha Capital was founded as Oasis International Leasing back in 1997 by the Abu Dhabi Investment Company, BAe and the Gulf Investment Corporation, before changing its name to Waha in the first quarter of 2008. Now listed on the Abu Dhabi stock exchange, today Al Waha is a holding company for a variety of infrastructure and finance businesses, but its aircraft portfolio numbers an estimated 55 aircraft.

Genesis Lease

Genesis Lease is based in Shannon, Ireland and has a portfolio of 54 aircraft (up from 43 a year ago) - 23 737s, 23 A320 family aircraft, one A330, two 747s, three 767s and two ERJs. Its portfolio has an average age of 6.6 years and is placed with 35 customers in 19 countries (including Air China, American and United). The fleet is managed on its behalf by GECAS, and in the first six months of 2008 Genesis reported a 25% rise in revenue to $107.1m, although net profit fell 16% to $18.8m, thanks to an increase in depreciation and a $3.2m charge for the early termination of two aircraft leased with Aloha Airlines (though these aircraft have been placed with VRG in Brazil from the third quarter of 2008).

Genesis is listed on the NYSE and intends to add to its fleet over the next 12 months, believing that with GECAS managing its portfolio this will enable Genesis management to "focus on aircraft acquisitions", with narrowbodies likely to be the main area of attention.

GAAM

Global Aviation Asset Management (GAAM) is a Sydney-based lessor with a portfolio of 53 aircraft, including 23 A320 family aircraft, three A340s, six 717s, 18 737s and three 757s. They are placed with 25 airlines globally, including Air China, BA, Qantas and Air France. GAAM also has offices in London and Dublin, and is looking to expand its portfolio significantly over the next few years; late last year it acquired 20 aircraft from Lease Corporation International.

Dubai Aerospace Enterprise

The biggest development in the leasing industry this year has been the ambitious plans of Dubai Aerospace Enterprise (DAE) - the UAE government-backed aerospace group - to become a "world-class" leasing company over the next few years. From November 2007 onwards its DAE Capital division has been rapidly assembling a substantial portfolio, with the latest deal being the acquisition of 10 747-8Fs and eight 777F from Emirates this summer, bringing DAE's total portfolio to 49 aircraft. However, at the Dubai air show in November 2007 DAE announced LOIs (since converted into firm orders) for a massive $27bn worth of aircraft (at list prices), including 70 A320 family aircraft and 30 A350-900s, for delivery in 2013-2022, as well as 70 737NGs, five 747s, 10 777s, and 5 787s, for delivery from 2010 onwards.

Guggenheim Aviation Partners

US-based GAP is owned by Guggenheim Partners, a diversified financial services company that has 15 offices around the world. The lessor's strategy is to "acquire assets at discounts to base values, lease the aircraft … and then sell those assets on an opportunistic basis". GAP specialises in acquiring passenger aircraft and then converting hem into freighters, a market that GAP says "is expected to benefit from near-term industry trends".

GAP's portfolio of around 40 aircraft - with an asset value of $1bn - is the same as a year ago, although in October 2007 GAP closed a $737m investment fund that will help finance its portfolio expansion, with the medium-term target being a fleet of around 100-125 aircraft

with an asset value of more than $3bn. GAP currently has 16 aircraft on order, including four 747s, six 777s and six A330-200Fs.

Alafco

Alafco is a specialist in Sharia-based leasing and is owned by the Kuwait Finance House. It has a portfolio of 27 owned and managed aircraft and the owned fleet comprises nine 737-800s, three A320 family aircraft, four 777s and a single A310.

These are placed with 15 customers in the Middle East, Asia/Pacific region and Europe, with the largest customer being Turkish Airlines, which leases five 737-800s, followed by China Eastern, with three aircraft. This is slightly down on the 33 aircraft Alafco owned or managed a year ago but nevertheless Alafco aims to increase its portfolio to around 100 aircraft over the next few years, and it currently has 60 outstanding orders (28 Boeing and 32 Airbus aircraft), for delivery in 2009-2017.

In June Alafco signed a deal with Saudi Arabian Airlines for the sale or lease of 17 of its aircraft on order, including the sale of eight 787s (being delivered in 2014 and 2015) and the lease of another four 787s being delivered in 2009 and five A320s being delivered in 2009.

Other lessors

Florida-based **GA Telesis** is a maintenance and aviation finance company that also has a portfolio of 90 aircraft, including Boeing, Airbus, Bombardier and Embraer types, while Sydney-based **Allco Finance** has a portfolio of 66 aircraft (up from 41 a year ago), of which 45 are narrowbodies (including 26 A320s and 10 737s). Most of its aircraft are leased with Asia/Pacific airlines, including Qantas and SIA.

SAFAIR is a South African lessor with a portfolio of 65 mixed aircraft (compared with 44 a year ago), of which 19 are 737s and eight are MD-80s. Dublin-based **Aergo Capital** is an older model narrowbody specialist and has a fleet of 60 owned aircraft (36 a year ago), most of which are 737s or MD80s. They are leased to more than 20 airlines worldwide, and Aergo also has offices in Nairobi, Santiago (Chile) and Jakarta.

Texas-based **Jetran International** has a "significant inventory of 737, DC-9, and MD80 aircraft" which *Aviation Strategy* estimates at 60 aircraft, while **BCI Aircraft Leasing** is based in Chicago and has offices in Los Angeles, Buenos Aires, Lille and Istanbul. It has an estimated 55-strong fleet of mostly narrowbody models, and customers include Air France, BA, Delta, KLM and Southwest.

World Star Aviation is based in San Francisco and manages a fleet of 54 aircraft for 30 airlines in 20 countries. It specialises in cargo aircraft and late-model narrowbodies. **Sumisho Aircraft Asset Management** is located in Amsterdam and is a subsidiary of Japan's Sumitomo Corporation. It has a fleet of 50 owned and managed A320 family aircraft, A330s, A340s, 737NGs and 767s. **Compass Capital** is a San Francisco-headquartered asset finance and management company that currently owns or manages 45 aircraft.

VGS is based in Dublin and was formed in 2007 by combining the former aviation assets of Volito Aviation and Goldman Sachs Special Situations Group. It has a mixed portfolio of 45 aircraft. **Magellan Air** is a Shannon-based company that manages a fleet of 40 aircraft, while **Vx Capital Partners** is based in San Francisco and has an estimated 40 aircraft in its portfolio.

SkyWorks Leasing (which changed its name from JetWorks Leasing in January) is based in Connecticut and has a portfolio of 36 aircraft, including freighters, narrowbodies and widebodies. **RPK Capital Management** is a Chicago lessor with approximately 35 aircraft in its portfolio, while **Aircorp** is based in Dallas and has a fleet of 30 727s and 737s. **AAR** is an Illinois-based aviation group with a leasing subsidiary that has an estimated 30-strong portfolio. Austria's **Avia Consult** manages an estimated 30 aircraft, while New York-based **Deutsche Bank Equipment Leasing** has approximately 30 older model 737 and A320 aircraft in its portfolio.

Munich-based **Goal** is owned by Lufthansa (40%) and KG Allgemeine Leasing (60%), and has a portfolio of 28 aircraft, including eight 737s, four 757s and four A310s placed largely with European airlines. **Avion Aircraft Trading** is based in Iceland and has a portfolio of 26 freighters with eight A330-200Fs on order, while Seattle-based **Itochu Airlease** - part of Japan's Itochu Corporation - has increased its fleet to 24 aircraft (from 10) over the last year.

Q Aviation is located in Texas and has a fleet of 23 aircraft. In February this year Q placed an order for the conversion of 10 767-300ERs from passenger to cargo variants. Q Aviation also placed options for 10 further aircraft and the first of the firm orders will be delivered in 2010. Q was put up for sale in 2006, but was taken off the market in 2007 as a suitable buyer - at the right price - could not be found.

In the UK, Gatwick-based **Aircraft Leasing and Management** manages 22 aircraft on behalf of clients, while Amsterdam-based **Sojitz Aircraft Leasing** is a subsidiary of Japan's Nissho Iwai Corporation and has a fleet of 22 Boeing aircraft. **GMT Global** is a Dublin lessor with 22 aircraft (16 widebodies and six narrowbodies) that was launched to operate the portfolio of aircraft previously owned by the Republic Financial Corporation. GMT bought four A320s for $68m from Aercap in July 2008, and also has offices in Colorado and Virginia in the US.

Aircraft Financing & Trading is an Amsterdam lessor with an estimated fleet of 20 jets, while **Novus Aviation** is a Swiss lessor with an estimated 20-strong portfolio worth $1bn that is placed with clients around the world, including Emirates, China Eastern and bmi.

US lessor **First Greenwich Kahala** has approximately 20 aircraft on its books, while **Automatic,** based in Orlando, has doubled its portfolio in a year, to 20 aircraft.

Bavaria International Aircraft Leasing is based in Munich and owned by German corporate group Schorghuber. Its fleet of 19 narrowbody aircraft, including 717s, 737s and A320s, are placed around the world with clients that include SAS, China Southern and Qantas.

Jetscape is based in Fort Lauderdale, Florida, and currently has a fleet of 18 aircraft (14 owned and four managed) - the majority of which are 737s or A320 family aircraft - that are leased to 11 airlines. In February Jetscape ordered 19 Emb-190LRs, to be delivered in 2009-2012. **Airbus Asset Management** remarkets used aircraft for Airbus, and has an estimated 15 aircraft in its portfolio (compared with 30 a year ago).

Airfleet Credit Corporation is registered in Liechtenstein and owns an estimated 15 aircraft, while Frankfurt-based **Deutsche Structured Finance** has approximately 15 aircraft in its portfolio, including 737s and 767s.

Global Aviation Leasing, based in Gibraltar, has a fleet of 14 DC-9/10s and MD-80s, while with approximately 10 aircraft in their portfolios each are **Phoenix Aircraft Leasing,** a Singaporean company, **Veling** - based in the Mauritius - and US lessor **Universal Asset Management.**

CDB Financial Leasing was previously known as Shenzhen Financial Leasing until the acquisition of a 95% stake in the lessor by the China Development Bank earlier this year (other minority shareholders include Hainan Airlines). It has an estimated portfolio of nine 737s that are all leased to Chinese airlines.

Tombo Aviation is based in California and is owned by Japan's Matsui & Co. It has a portfolio of nine narrowbody and widebody aircraft worth more than $400m. **Skytech-AIC** is based in the UK and has a fleet of nine aircraft (including 747s and 777s) valued at $500m.

AerVenture, an Irish joint venture between AerCap and Kuwait-based LoadAir, has orders for 54 A320 family aircraft, while Dubai-based **LCAL** (Low-Cost Aircraft Leasing) has outstanding orders for 21 787-8s and 787-9s, the first of which will be delivered in 2009. **Intrepid Aviation** is a US freighter leasing company that has outstanding orders for 20 A330-200 freighters, with delivery from 2010 onwards, while Shannon-based **AerDragon Aviation Partners** - a joint venture company owned 50% by the China Aviation Supplies Import & Export Group Corporation, 25% by AerCap and 25% by Caylon AirFinance - has an outstanding order for 13 A320s.

Deucalion Capital is part of Germany's DVB Bank group and in November 2007 ordered eight 777Fs. Four of these aircraft (to be delivered in 2009 and 2010) have subsequently been sold on to Munich-based DCM Deutsche Capital Management, which will lease them to cargo airline AeroLogic.

Two US private equity companies have placed orders - **MatlinPatterson** has six A330-200Fs on order, while **Hill Capital Partners** (which last year bought US cargo airline Southern Air) has six 777s on order.

Delta/Northwest merger: now looking more promising

Delta and Northwest, the third and fifth largest US airlines, are hoping to complete their planned merger in the next few months, to create what they call "America's premier global airline". The deal that initially offered little in revenue benefits and cost savings now suddenly looks rather promising, with a joint pilot agreement in place and no follow-up mergers in the pipeline. But what will be the impact on labour costs? And how sustainable are the revenue synergies in the longer run, given the shifting alliance landscape?

The all-stock transaction, announced on April 14th, was the first, and so far the only, merger deal between large US airlines since the US Airways/America West linkup in 2005. The combination, which will retain the Delta name, will be led by Delta's CEO Richard Anderson. It will be headquartered in Atlanta, with some operations and staff functions in Northwest's Eagan (Minnesota) base. The new Delta will have $35bn annual revenues and will be the world's largest airline by passenger traffic.

The merger looks likely to secure stockholder and DOJ approvals. Shareholders will vote on the transaction on September 25 at special meetings to be held in Atlanta and New York. The deal received unconditional clearance from the EU Commission in early August. The DOJ is expected to follow suit this autumn - after all, there is minimal market overlap, Delta and Northwest already cooperate on some domestic routes, and the DOJ has already granted them permission to strengthen ties with their European SkyTeam partners. The airlines and the DOJ recently agreed on a timeline for the remainder of the antitrust review, which effectively guarantees a DOJ decision this calendar year. The airlines expect to be able to close the transaction by year-end.

Back in April, the merger plan was not at all well received by investors because of its lack of synergies and capacity cuts. The initially projected $1bn annual synergies in later years seemed pitiful in light of the $3.5bn additional fuel bill that Delta and Northwest suddenly faced in 2008, and the initially projected $1bn merger-related expenses seemed reckless at a time when the focus needed to be on cash preservation. Investors aggressively voiced their disappointment, and Delta's and Northwest's shares plummeted.

Grounds for optimism

However, while significant execution risks obviously remain, in the past couple of months the Delta/Northwest merger plan has begun to look promising for a number of reasons - or, at least, it now seems like a reasonable strategy to deploy in the current industry environment.

The deal looks good, first because there are no other large-airline mergers on the horizon. Initially it was thought that there would be at least one follow-up merger, while some Washington lawmakers feared a "cascade of mergers". But soaring fuel prices, tightening credit and a slowing economy prompted other key players to reassess their priorities. Continental pulled out of merger talks with United at the end of April, and a month later United decided not to pursue a merger with US Airways.

Instead of industry consolidation, there will now be alliances. Continental and United have announced plans for a wide-ranging marketing partnership, which will involve Continental switching from SkyTeam to the Star alliance, while American hopes to tighten links with BA through an immunised transatlantic alliance.

There will not be other mergers in the current round, because the other airlines have missed the regulatory window. US airlines needed antitrust reviews for mergers before the current Administration, which is considered pro-merger, leaves office in January. Furthermore, the alliances will be a long time coming. The main threat, Continental/United, will not kick in until late 2009 at the earliest, because Continental has first to extract itself from SkyTeam and apply for regulatory approvals. Consequently, Delta and Northwest

will have a significant advantage in the initial years as they consolidate.

Second, the Delta/Northwest plan now looks stronger because merger-related capacity cuts are no longer necessary. This is because the airlines, like their peers, have cut capacity sharply in response to the fuel and economic trends and will reduce capacity further if necessary.

Third, the Delta/Northwest plan looks good because the airlines have already achieved several milestones that should make the implementation of the merger smoother and the benefits likely to be realised earlier.

Most importantly, the critical pilot deal is in place. The airlines reached a pre-merger contract with both pilot groups in late June (ratified on August 11th), which also established the process for achieving seniority integration by the closing of the transaction (the pilots have agreed to submit to binding arbitration if necessary). This is believed to be the first time that a labour agreement has been reached in advance of a merger. It has removed one of the biggest hurdles, as pilot seniority has been a difficult issue in previous airline mergers (still unresolved at US Airways/America West).

The joint pilot deal, Delta's mostly non-union workforce and relatively good labour relations and strong support among Northwest pilots for the contract (an amazing shift from their earlier position) all bode well for a peaceful integration process.

Another major positive is that Delta and Northwest already have some connectivity between their reservations systems through SkyTeam. A recent report from Calyon Securities noted that labour and reservations systems usually account for over half of merger-related problems.

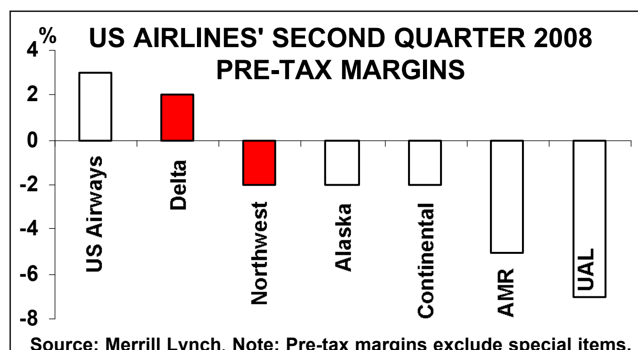
Delta and Northwest have already sorted out the post-merger organisational structure and named the entire executive team, in order to retain talent and "immediately begin capturing and exceeding the merger synergies following closing". The top 60 executives were named in mid-July. The top nine executives include five from Delta and four from Northwest. The 13-member board will have seven directors from Delta, five from Northwest and one from ALPA. During a 12-24 month transition period, Northwest will be a Delta subsidiary and run by Delta's president/CFO Ed Bastian as CEO. Northwest's current CEO, Doug Steenland, will step down once the merger closes and will take a seat on the new Delta's board.

Fourth, the merger looks stronger now because it is expected to generate more synergies and be less costly to implement than initially estimated. Delta and Northwest have revised their financial forecasts - among other things, doubling the synergy estimates - as a result of a more detailed bottom-up analysis and after identifying substantial new opportunities.

Fifth, the merger should provide a good opportunity to raise substantial funding. While US airlines have continued to be able to raise cash from various sources, including the capital markets, and oil prices have fallen from the early-July peak, 2009 could still see a cash crunch if the economy slows significantly and oil prices remain at a high level. Merger-related financings - for example, equity injections or new credit facilities - would give the new Delta added financial flexibility in a tough industry environment.

Delta and Northwest are probably the best-positioned of the US network carriers to meet the costs associated with mergers because of their successful recent Chapter 11 restructurings, which gave them strong balance sheets and competitive unit costs. Both airlines have transformed their business models and enhanced their networks, resulting in industry-leading revenue performance. In contrast with most of their peers, both Delta and Northwest earned profits before special items in the June quarter and are expected to continue to outperform the industry.

But outperforming peers does not ensure survival in the sort of economic environment



Source: Merrill Lynch. Note: Pre-tax margins exclude special items.

that may materialise next year. The timing of the merger-related costs and benefits will be critical. Has the new Delta got a water-tight plan in that respect?

The other thing to watch for is labour expenses. Will the new joint pilot contract, which will increase Northwest pilots' pay by at least 30% over four years, be a financial burden? And what about all the other employee groups at both airlines that made deep sacrifices in bankruptcy?

Merger synergies and costs

Delta and Northwest now expect the merger to generate $2bn in annual synergies by 2012, compared with $1bn when the deal was announced in April. Cash integration costs are expected to be around $600m over three years, compared with the initial estimate of "no more than $1bn".

The synergies are now expected to comfortably exceed merger-related costs even in the initial year. This is important in light of the need to preserve liquidity and it apparently reflects a promise made to shareholders to tie the cost of the integration to the value received. 2009 synergies (year one) are projected to be around $500m, compared with costs of $300m. 2010 and 2011 synergies are estimated at $1.1bn and $1.6bn, respectively, compared with costs of $200m and $100m. The full $2bn synergy run-rate, consisting of $1.4bn of network synergies and $600m of cost savings, is expected in 2012.

Roughly half of the $1bn increase in total annual synergies since the deal was announced came from refining earlier estimates. Better information was available about overhead reduction opportunities, technology, facilities overlap and improved efficiencies possible in airport operations and in selling costs. The station overlap synergy alone is well over $100m. Also, the joint pilot deal will make it possible to fully realise network and fleet synergies from day one, accelerating revenue capture. The remainder of the increase in synergies came from identifying structural opportunities, including the value of realigning affinity card strategies, optimising the RJ portfolio and creating a single powerful FFP.

The first-year synergies will be largely revenue play, resulting from the linking up of the networks and fleets. Being able fully to flow the fleet back and forth between the two networks was one of the rationales for why the airlines wanted the unified pilot deal and integrated seniority list done prior to closing.

In other words, Delta and Northwest hope that this merger will be different in that it will produce immediate revenue benefits. Linking up the networks will enable the airlines to compete more effectively and capture some market share from competitors.

The guiding principle in integration will be to focus on activities that generate a return on investment. Initial priorities will be to transition technology systems fully to a single platform, move to a single operating certificate and deliver a consistent customer experience by standardising the brand, employee training, uniforms, aircraft interiors and liveries. Some 26 integration teams have been hard at work and have made significant progress in a number of key areas.

Delta and Northwest have nicely complementary networks, both domestically and internationally. Of the 1,000-plus routes that the two airlines combined fly, only about 12 are the same. In addition, at airports where one or both are dominant, such as Atlanta or Detroit, there is no shortage of gates or slots and LCCs are already established, making it less likely that slot or gate divestitures are required. The merger combines Delta's strengths in the South, Mountain West, Northeast, Europe and Latin America with Northwest's leading positions in the Midwest, Canada and Asia. The plan is to maintain all hubs: Atlanta, Cincinnati, Detroit, Memphis, Minneapolis/St. Paul, New York JFK, Salt Lake City, Amsterdam and Tokyo Narita. There will be no specific capacity cuts as a direct result of the merger.

The downside is that the merger offers no cost savings from route and hub rationalisation. However, as many analysts have pointed out, industry conditions will determine the necessity for hub closures or further network restructuring. Both Delta and Northwest have already cut domestic capacity sharply and are prepared to cut more if necessary. There will be nothing stopping them from, say, closing a small hub in

the future, regardless of promises made at the time of the merger.

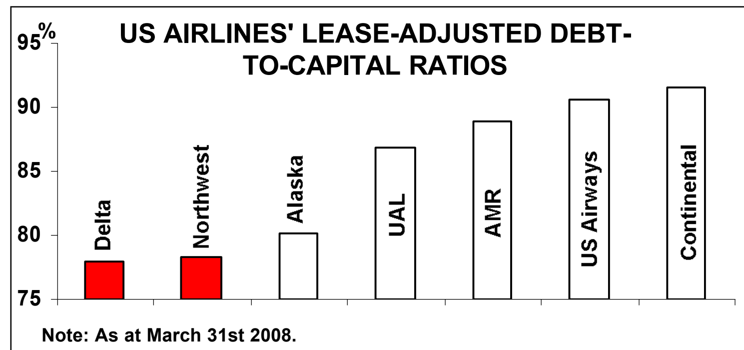
Though not a priority, Delta and Northwest see significant opportunities to rationalise their RJ fleets and achieve cost synergies in regional operations. Between three owned regionals (Comair, Mesaba and Compass) and various contract operators, the new Delta will account for 40% of the current 50-seat RJ fleet in the US. There are likely to be additional reductions to the 100 RJs Delta is grounding this year. Although the three owned regionals will continue as separate companies, there are clear cost efficiency opportunities in terms of duplicated overheads and fleet commonality.

The biggest revenue gains are likely to be in international markets, where the large size and geographic diversity of the combination will boost business traffic. The new Delta will be the largest or second largest airline by traffic in all international markets out of the US. About 40% of its business will be international - expected to grow to 50% within a few years.

However, the merger will not really change the competitive landscape because the international market is so fragmented. A recent S&P report noted that the two largest participants, Air France-KLM and American, have less than 5% of the total market. But the merger will strengthen the transatlantic JV with Air France-KLM, which recently received antitrust immunity, and the SkyTeam alliance.

The synergy estimates include Delta's and Northwest's best estimates of the impact of the various changes on the alliance scene, including the loss of revenue associated with Continental leaving SkyTeam (the latter was described as "not material"). There appears to be upside to the figures, because the forecasts assumed that there would be one immediate follow-up merger. Also, the airlines believe that they have not included the full benefit of having 30% of the transatlantic market through the immunised AF/KLM/NW/DL alliance.

The projections include no impact from AA/BA, first because Delta's and Northwest's transatlantic operations focus on continental Europe. Paris will be the new Delta's main European hub. Second, the airlines argue that the ten-year experience with the Northwest/KLM JV has shown that many of the benefits in such alliances build gradually as the



parties get to learn to trust each other, find out what works, etc.

Otherwise the Northwest/KLM alliance has been a huge success. Delta executives noted in a recent conference call that Northwest's profit margins across the North Atlantic are among the highest of any airline anywhere in the world. "Think about being able to leverage that across a network three times as big - it is a significant opportunity."

Sceptics would argue that the revenue synergies are not sustainable in the longer term, because demand is a zero-sum game. "One airline's synergy is another airline's lost share", observed JP Morgan analyst Jamie Baker in a recent report, adding that those losing share can be trusted to respond in kind.

One aspect of the deal that troubled many observers initially is that there will not be fleet synergies. Delta and Northwest have quite different fleets, including both Airbus and Boeing models and eight broad families of aircraft. It will be the largest and most complex mainline fleet in the US: nearly 800 aircraft, including everything from ancient DC-9s and MD-88s to highly attractive orders for A330s and 787s (for which Northwest is the US launch customer). Since the airlines are no longer in Chapter 11, they will not be able to rationalise the fleet very effectively.

Delta and Northwest have tried to put a positive spin on it by talking about the flexibility that they will have in being able to better match aircraft to routes, but that argument is not very convincing. The financial community appears to be in a "wait and see" mode in that respect, with some analysts suggesting that there may be some flexibility to pare the number of fleet types. Northwest has made useful headway in recent months in reducing its DC-

9 fleet as part of the paring down of unprofitable flying; that fleet will decline from 94 at year-end 2007 to 61 by the end of 2008.

Delta executives say that the joint pilot agreement provides substantial financial and operational benefits that will far outweigh the cost of the contract. "It accelerates our ability to realise network synergies, expands our ability to codeshare and, importantly, gets our pilot group behind the merger during this critical integration period."

The four-year contract, which runs through 2012, calls for pilot pay to be harmonised from day one, though retirement benefits will not be harmonised until the end of the contract. Delta successfully deployed a two-part approach. It first negotiated a deal with its own pilots: essentially a revision of an existing contract, which was extended through 2012, with the pilots agreeing to more flexibility (to facilitate the merger) in return for increased pay and a 3.5% equity stake in the combined company. Delta pilots will get pay increases of roughly 4% annually, meaning an incremental cost of about three points a year when previously contracted increases are included. The second part involved persuading Northwest pilots to come on board. Northwest pilots, who are more senior but lower paid, will receive at least a 30% pay increase over four years, as well as a 2.4% equity stake. The big concession that both pilot groups made was to agree to binding arbitration, if necessary, on the seniority issue prior to the closing of the merger.

The new Delta is providing all US-based employees with an equity stake amounting to around 13.4%. The company has promised that the merger will result in fewer than 1,000 job cuts, affecting only management positions. There will be no involuntary layoffs for frontline employees. Delta has shed at least 3,000 employees this year through a voluntary programme.

Balance sheet considerations and financial prospects

By Heini Nuutinen
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Even before any merger-related fund-raising, the new Delta will have one of the strongest balance sheets in the industry. Thanks to their Chapter 11 restructurings, Delta and Northwest have the lowest leverage among the US network carriers. According to a July 25th report by Merrill Lynch, Delta and Northwest had lease-adjusted debt-to-capitalisation ratios of 77.9% and 78.3% at the end of March - similar to JetBlue's but lower than the 87%-92% ratios of UAL, AMR, US Airways and Continental.

Both airlines also have strong cash positions, which translates into better survival prospects. As of June 30, Delta had total liquidity of $4.3bn and Northwest had $3.7bn. The latest estimate, provided by Delta on August 25th, is that the combined cash position at year-end will be around $6bn. The airline said that it was comfortable with that position; however, it accounts for only 17% of annual revenues, so either some further pre-merger fund-raising is on the cards or there will be bigger merger-related transactions in the fourth quarter

Delta recently tapped a $1bn loan that was part of a credit line available upon Chapter 11 exit and also renegotiated its credit card agreements, to avoid any credit card holdbacks and ensure "full financial flexibility" to move forward with the merger. Northwest, in turn, issued $180m in new debt and drew down a credit facility. One of the most promising fund-raising avenues for the combined entity will be to do a forward sale of FFP miles, similar to - but on a much bigger scale - than the sale Continental completed in June. Of course, Air France-KLM may still be interested in investing $750m in an equity stake.

One of the key challenges that the new Delta will face in the longer term is financing significant re-fleeting, given the large numbers of old types in the fleet. In that respect the larger size - and hopefully stability - provided by the merger may be a positive move for the two airlines.

Restoring profitability will obviously be the key. Delta and Northwest are ahead of the pack also in that respect. They had the second-best pre-tax margins among the network carriers in the second quarter, 2% and -2% respectively (US Airways led the pack with a 3% margin). Excluding special items, both airlines actually reported small profits. They benefit from best-in-class cost structures and are now also achieving revenue premiums to the industry.

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
2007	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
Jun-08	29.4	21.0	71.4	22.7	19.2	84.5	15.3	12.0	78.4	53.6	43.5	81.2	80.0	62.5	78.1
Ann. change	2.8%	0.8%	-1.4	1.7%	-0.2%	-1.7	5.8%	0.5%	-4.1	4.7%	1.7%	-2.4	4.7%	2.3%	-1.9
Jan-Jun 08	174.6	116.2	66.6	118.8	93.7	78.8	94.0	74.6	79.4	311.7	246.3	79.0	468.1	351.9	75.2
Ann. change	4.1%	3.6%	-0.3	3.2%	1.3%	-1.4	3.9%	1.6%	-1.8	5.2%	2.8%	-1.9	5.6%	3.7%	-1.4

Source: AEA

EIGHT LARGEST US PASSENGER AIRLINES' SCHEDULED TRAFFIC

	Domestic			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 %
2005	**225.1**	**172.2**	**77.8**	**41.9**	**33.2**	**82.1**	**27.4**	**22.3**	**82.7**	**24.2**	**17.2**	**72.7**	**93.5**	**72.7**	**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
Q3	229.9	191.8	83.4	59.6	49.9	83.8	28.9	24.7	85.2	26.2	21.1	80.8	114.7	95.7	83.4
Q4	221.3	172.8	78.1	51.3	40.9	79.7	28.3	22.8	80.7	26.1	20.2	77.4	105.7	83.9	79.4
2007	**896.9**	**724.2**	**80.7**	**207.6**	**168.2**	**81.0**	**112.3**	**93.5**	**83.3**	**109.0**	**84.9**	**77.9**	**428.7**	**346.5**	**80.8**

Note: *Legacy airlines plus Alaska and Southwest.*

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	31 Jul	Delta AL	2 x 777-200LRs	
	29 Jul	American	1 x 737-800	
	14 Jul	ACG	15 x 737-700s	
	14 Jul	GECAS	2 x 777-300ERs	
	11 Jul	FlyDubai	50 x 737-800s	
	30 Jun	Air France	3 x 777-300ERs	
	30 Jun	American	2 x 737-800s	
	30 Jun	COPA Airlines	2 x 737-800s	
	25 Jun	Arik Air	7 x 737-800s	
	23 Jun	WestJet	4 x 737-700s	
	13 Jun	Korean Air	1 x 777-300ER	
	9 Jun	Malaysia Airlines	35 x 737-800s	
	3 Jun	Biman B AL	2 x 737-800s	
	3 Jun	Ryanair	3 x 737-800s	
	29 May	American	2 x 737-800s	
	27 May	Air China	30 x 737-800s	
Airbus	17 Jul	Synergy AS	10 x A350-800s	
	16 Jul	Asiana Airlines	10 x A350-800s, 10 x A350-900s, 10 x A350-1000s	
	15 Jul	Aeroflot	5 x A321s	
	15 Jul	ACG	23 x A320s	
	15 Jul	Tunis Air	10 x A320s, 3 x A330-200s, 3 x A350-800s	
	15 Jul	DAE Capital	70 x A320s, 30 x A350-900s	
	14 Jul	Saudi Arabian AL	8 x A330-300s	
	7 Jul	Gulf Air	15 x A320s, 20 x A330-300s	
	7 Jul	Petters Group	1 x A318	
	27 Jun	Air China	20 x A330-200s	
	11 Jun	Air Astana	6 x A319s	
	4 Jun	Air One	5 x A320s, 12 x A330-200s, 12 x A350-800s	
	27 May	British Airways	2 x A320s	

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

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