Aviation Strategy

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Look on the bright side

Everyone knows that 2009 is going to be difficult, challenging, dire, and catastrophic for some … but grizzled veterans of aviation and economic cycles always manage to look on the bright side, seeking out the opportunities that arise from recession.

For example, the emergence of the successful European LCCs in the early/mid 90s, the result of a combination of deregulation and the availability of aircraft, crews, airport facilities etc. And post September 11 those airlines courageous and solid enough to negotiate massive unit discounts on mega-orders were able to lock in an unassailable cost advantage.

As always, the significant changes that will hit the aviation industry as a result of this recession are impossible to predict. Still, here are some random thoughts.

With the three European majors consolidating around five or six global hubs, and eliminating the peripheral competition from carriers like Brussels Airlines and Austrian, opportunities for long-haul, low-cost might be reconsidered for point-to-point between secondary airports, especially if fuel prices remain low. The first wave of long-haul all-business carriers failed comprehensively, but then so did the first wave of European LCCs (Air Europe, etc).

2009 might be the year when financial fortunes are reversed between the US industry and the rest of the world. Influential analysts are postulating that the combination of real capacity cutbacks plus lower fuel prices could result in a rebound in the US Legacies' financial results - a detailed review has been posted on our website.

US airports are an interesting prospect. Following the sale of Chicago Midway to a consortium led by YVR Vancouver Airport Services, and the boost to the City of Chicago's bank balance of a billion dollars, other US cities are starting to look at the privatisation process, which is well established in the UK and some other European countries.

While 2009 is going to be very painful for most of the smaller European and Asian LCC new entrants - and many are going to go out of business - the whole concept should not be thrown away. There are niche markets that can be profitably exploited by specialist carriers using the latest LCC-type techniques. One of the problems with the business models of the last wave of new entrants was that they tended to assume exponential growth - that they could somehow emulate the scale and profitability of a Ryanair or an easyJet - and investors were drawn to such stories. More modest growth plans linked to regional expertise rather than expectation of early IPO or trade sale exits might well

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have been achievable - but then many airline start-ups reflected the financial zeitgeist of recent years.

Investors in leasing companies can't be feeling too comfortable at the moment, and a shake-out looks imminent, through perhaps not quite as dramatic as in the early 90s when mega-lessor GPA went out of business. Still, those securitised products based on theoretical aircraft values and creative mixes of airline credits are coming under increased scrutiny. Industry churn could shift the geographical base of the industry to zero as opposed to 10% corporate tax zones, ie from Ireland to the UAE (and it looks as if there will be plenty of cheap office space in Dubai).

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Norwegian Air Shuttle: Unusual ways to create an LCC

There have been many hopefuls who have set up low cost carriers in the past decade hoping to create a small fortune out of running an airline. When SAS finally acquired Braathens SAFE in 2002 to create what it may have seen as its natural monopoly in one of its domestic backyards in Norway, little did it realise that it would pave the way for a successful such carrier to enter the void it created in the market place.

Norwegian Air Shuttle had originally been founded in 1993 and had acquired the regional and commuter activities of the then failing Busy Bee, which had acted as an feeder for Braathens, and continued to operate commuter routes in Western and Northern Norway as well as various flying ambulance services. By 2002, no doubt after various rows with SAS (and it still has some outstanding court cases against recent dirty tricks from the Scandinavian flag carrier), Norwegian re-established itself as a low cost carrier in direct competition with the Scandinavian flag carrier.

It was helped in this by two main factors: the desperation of the leasing companies to place equipment in the downturn following 2001, and the Norwegian government's decision to outlaw frequent flier incentive programmes on domestic routes. With an initial fleet of 4 leased 737-300s it started operations in the autumn of 2002 on the four main domestic trunk routes based in Oslo; to Stavanger, Trondheim, Bergen and Tromsø. To qualify as a potentially successful low cost carrier it also chose a particularly tasteless aircraft paint design.

In 2003, its first full year of operations, it achieved revenues of NOK800m (€80m) and carried 300,000 passengers on those four routes and, remarkably, floated on the Oslo stock exchange. Five years later it has 156 routes, 40 aircraft, 7 bases, 7m passengers (the same amount of traffic that Ryanair carried in 2000) revenues of over NOK7bn, and has picked up a 40% share of domestic traffic on the prime trunk routes. On an underlying basis it even appears profitable. It is also now probably the third largest LCC (if you don't count Air Berlin) in Europe after Ryanair and easyJet - even though its stock market capitalisation of nearly NOK1bn (€100m) is dwarfed by the other two.

One of the beauties of the operational business model is the country in which it is placed. It tends to get ignored - usually for practical reasons - but Norway is a very dynamic air travel market. The absolute population of around 4.7m may be low in relative terms, but there is a very high standard of living, the terrain is difficult and distances between population centres great. This creates a significant propensity to travel by air and there is a large element of business travel domestically; two of the main domestic trunk routes (Oslo to Bergen and Oslo to Trondheim) are the fourth and sixth busiest routes in Europe. Having built up the strength of opposition to the entrenched flag carrier, it might be said that Norwegian has built a niche base

of traffic from which to expand.

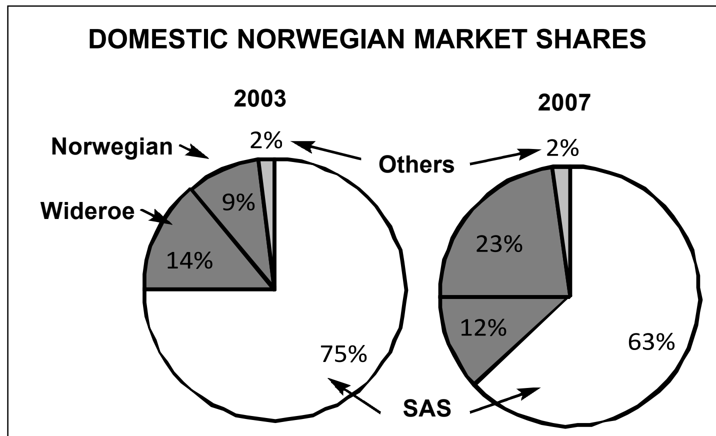
Its expansion has been rapid. In 2006 it took the daring step of establishing a base in Warsaw. It has taken a little longer than expected, but the operation there appears to be starting to produce reasonable results (despite what one would have thought would be linguistic difficulties), and has the benefit of being a far lower cost operation than the Norwegian core.

In July 2007, it reached an advantageous agreement to acquire the poorly performing Swedish carrier FlyNordic from Finnair with which it had already been operating code shared routes. This it has now rebranded as norwegian.se and, as it replaces its ageing MD80s with 737s and applies its own operating philosophy, is gradually turning round. Interestingly it also provides an entry into the Swedish charter markets, while there is also an understanding with Finnair to feed into Helsinki.

Recently, on the failure of Sterling after the financial crisis (and particularly the Icelandic crisis) - with whom it had also been operating non-competitive code share deals - it was swiftly able to move into Copenhagen to fill the void there, albeit only with a handful of routes to start with: completing its encircling attack on the flag carrier enemy at SAS on the core of that airline's intra-Scandinavian triangular capital route network.

In the past few years Norwegian, as many others, had found the acquisition of aircraft a trifle difficult, while being somewhat exposed on leasing older generation (and thirsty) equipment. This necessitated among other things the expensive wet-leasing of equipment (from such as the now failed Excel) to ensure that it could operate the routes it wanted.

Early in 2007 it signed a leasing deal for 11 NG 737-800s for delivery from 2008-10; and in late 2007, it finalised an order with Boeing to acquire 42 737-800s - with an option for a further 42 aircraft - for delivery from 2009 onwards. Quite remarkably (and no doubt luckily) it was able to raise NOK400m in August of this year through a fully underwritten rights



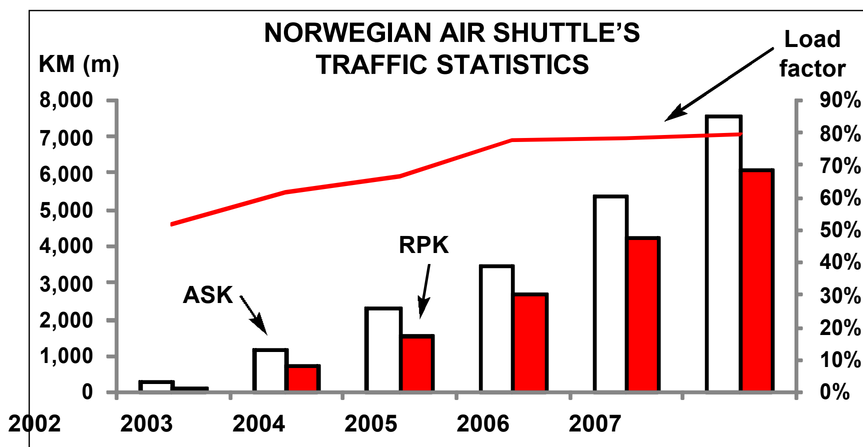
issue to fund the equity element of the aircraft acquisition.

It may be said that Norway is hardly the best place to hope to create a truly low cost operation: but this has not stopped CEO Bjørn Kjos developing unusual ways to ensure that his company does have a low cost base. Whereas, true to the norms of creating a low cost carrier, Norwegian's unit costs are about half of its main flag carrier competitor, at 54øre per ASK, they are still possibly some 40% higher than those of Ryanair. Among other things he managed to get the government to pay for part of the cost of cabin crew training - through accreditation of the training programme as vocational higher education.

More zanily perhaps, last year he set up an internet bank (in which Norwegian retains a 20% shareholding) primarily acting as a credit card issuer, and helping to reduce credit card fees, but also creating the back-bone of a loyalty programme otherwise forbidden domestically. Furthermore earlier this year the company announced plans to set up a mobile phone company - no doubt to take part in and save costs of the glorious revolution of allowing (and charging) for mobile phone operations while in flight.

Recent results

While the rest of the industry suffered badly in the September quarter - primarily because of the exceedingly high fuel price in the summer - Norwegian's results were



The load factor dipped in the quarter by six points but yields increased by 6.5% year on year and the underlying unit revenues improved modestly.

Total revenues, helped by a near doubling in ancillary revenue sales per passenger (to a still modest NOK61/pax, but influenced by baggage charges and fuel surcharges) jumped by 50% to NOK2bn. Despite the high fuel prices unit costs were on a par with prior year levels: although fuel unit costs jumped by 49% year on year (and in the quarter accounted for 40% of total unit costs), controllable non-fuel unit costs fell by 16%.

As a consequence, profits were surprisingly up in comparison with the prior year; EBITDAR by 21% to NOK321m (giving a 16% margin), EBITDA by 35% to NOK228m and EBIT by 30% to a tad under NOK200m. This was even in spite of an increase in wet lease costs as a result of delays in delivery of one 737 but was helped to a noticeable degree by support from the fair value marking to market of currency hedges. At the EBITDA level the Swedish operations still managed to provide a loss of some NOK40m while the Warsaw base virtually broke even. On a like for like basis, adjusting for currency and fuel prices, the company suggests that it could have achieved an ebitda of nearer NOK400m - although that does not take account of the fuel surcharges it imposed through the summer period.

However, this quarter's good results does not quite make up for the poor performance in the first half of the year. For the nine months to end September the company's EBITDAR fell by nearly 50%, while at the operating level the group has accumulated losses of NOK138m. In the third quarter, the company booked an additional NOK390m income because the hedge contracts it took out on the decision to buy the new 737-800s from Boeing became inefficient (as defined by our wonderfully arcane IFRS accounting rules). Consequently, the group has an accumu-

not all that bad. Total group capacity in ASK was up by 42% (up by 35% at the traditional norwegian.no operations and with production at the newly acquired Swedish operation nearly trebled - although it was only in the group for two months in the prior year period - and now accounting for nearly 35% of the group's total capacity).

The company has been gradually increasing the length of haul on its international routes (it even flies to Dubai - 7.5 hours on an LCC 737!) and as a result has further managed to increase aircraft utilisation: now over 11 hours/day at the traditional norwegian.no operations and just under 10 hours/day in Sweden.

NORWEGIAN AIR SHUTTLE'S THIRD QUARTER 2008 AND NINE-MONTH RESULTS

NOKm	2008Q3	%ch	2008 9Mos	%chg
Revenues	1,971.9	48.9%	4,611.7	49.7%
EBITDAR	321.4	21.2%	244.8	-48.4%
EBIT	228.5	35.8%	-39.4	-116.1%
EBT	193.4	29.6%	-139.0	-172.5%
Net profit	414.4	443.2%	141.5	33.4%
Pax	2,100,400	17.1%	5,623,214	19.8%
ASK	3589	53.8%	8746	60.8%
RPK	2936	46.1%	6953	57.6%
Load Factor	82%	-4%pt	79%	-2%pt
Length of haul (km)	1,398	24.8%	1,236	31.5%
Unit revenues	0.55	1.9%	0.53	-5.6%
Unit costs	0.49	-1.9%	0.53	2.0%
Avg rev per pax	938.80	27.2%	820.11	24.9%
Cost per seat	679.00	22.4%	657.56	34.1%
Rev per seat	767.99	20.9%	651.98	22.4%
Ancillary revenue per pax	53.7	85.8%	53.7	85.8%

lated net profit for the nine months of NOK140m - 40% up on last year.

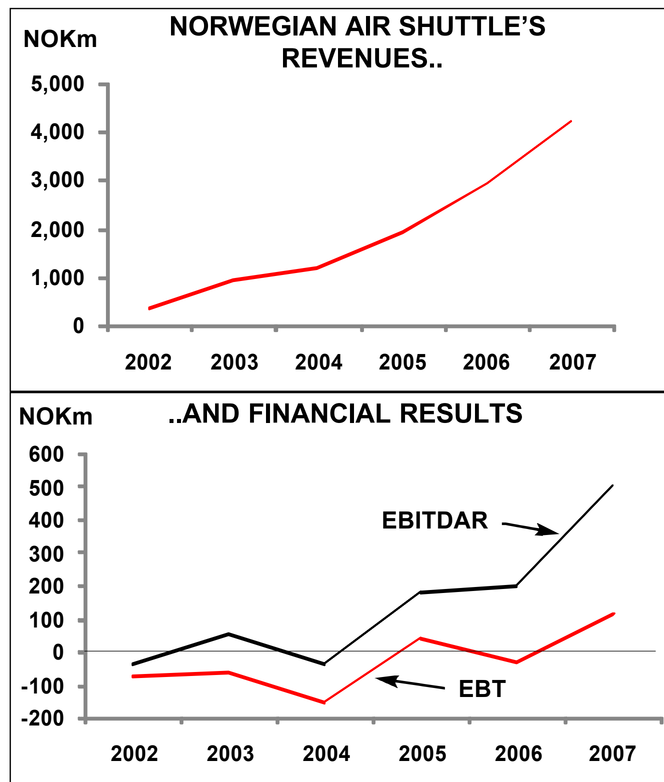
Rights Issue

While the rest of the airline world was quietly despairing and the financial markets were nervous before the fall, Norwegian quite remarkably but successfully raised NOK400m in a fully underwritten rights issue in August. This 1 for 2 issue at NOK34.80 effectively increased the outstanding share capital by half at a (then) modest discount, and the cash raised is being used to provide the equity for the acquisition of the first ten 737-800s being bought from Boeing: the first pre-delivery-payment financing on these aircraft was released in the September quarter.

At the end of the quarter the company had cash and near cash balances of NOK480m. There was actually an operational cash outflow of NOK312m in the third quarter, despite the increase in EBITDAR, mostly because of a delay in credit card processing payments and a fairly high reduction in air traffic liabilities for technical reasons. Since the quarter end the company has disposed of and restructured its dollar hedge position which will now have boosted cash by a further NOK325m to produce NOK800m balances; equivalent to just over 10% of annualised revenues this should be a reasonable cushion.

Outlook

In these tough times Norwegian Air Shuttle however is in an unusual position. At the time of the third quarter results presentation the management stated that it had not seen any deterioration in booking trends because of the financial crisis. Indeed, while others have seen severe declines in traffic in the past few months it has not been doing that badly, with reasonable performance in October and in November it saw capacity up by 29%, load factors off by a mere 1 point and a 9% increase in yields. (It must be said that it is being helped in this by SAS's 10% withdrawal of capacity).



As the new aircraft come into the fleet in 2009 (as long as it gets the deliveries in time) the company will be discarding the older leased equipment. It has signalled a marginal growth in ASKs next year - with reductions in Sweden (as it tries to get the old FlyNordic operations on a reasonable footing), a focus on shorter haul and higher yielding routes and a reduction in "typical" weekend leisure destinations.

This will have a natural knock-on effect of increasing unit costs - but the group is nevertheless guiding for static performance with costs per ASK projected at around NOK0.54 (while presumably still looking at $70/bbl oil). As usual the unknown quantity will be the yield performance - but as the lowest cost producer in a high cost (and relatively niche) area it should win through. Given the dynamic way this company reacts to the market it will leap into other opportunities created by other failing carriers. In the meantime, it may even manage to show that being a bank or mobile phone company is the real way forward for the industry.

By James Halstead

TAM: Brazil's domestic leader rises to international prominence

In late 2006, when TAM held its investor day in New York following its NYSE listing earlier that year, the management was still in the education mode: trying to explain to a somewhat sceptical audience that, domestically, TAM was effectively an LCC but that it also had extraordinary long-haul growth opportunities that could make it less risky than the typical LCC (see *Aviation Strategy*, December 2006). TAM was still little known internationally. It was very much in the shadow of two better-known Brazilian airlines: Gol, which possessed an attractive, proven low-cost business model and superior profit margins, and old-timer Varig, which had a strong global brand, had just been re-certified by ANAC (Brazil's national aviation authority) and was plotting a major comeback in international markets.

Fast forward to December 2008 and it is clear that there has been a dramatic reversal of fortunes. Varig is no longer present in long-haul international markets. Gol, struggling to integrate Varig, is incurring heavy losses and is temporarily in a contraction mode. And TAM is now Brazil's only flag carrier on intercontinental routes and has retained its position as Brazil's largest domestic airline.

TAM's share of Brazilian carriers' international traffic (RPKs) has surged from 18.8% in 2005 to 84.7% in November 2008. In the same period, its domestic market share increased from 43.5% to 51.7%. In just a couple of years, the airline has built an intercontinental network that includes five major European and three US cities, each with at least a daily service. And it has done it profitably, even achieving a 6.5% operating margin in the latest quarter.

While Gol is expected to resolve the Varig-related issues and return to profitability next year - and no-one is ruling out an eventual return by Varig to long-haul operations - TAM is clearly much better-positioned in the short-to-medium time horizon in terms of growth and financial performance.

Turbulent two years

The past couple of years have been extremely turbulent for the Brazilian airline industry. A structural crisis began in late 2006 and lasted through the first quarter of 2008, due to continued double-digit traffic growth, problems with air traffic control, lack of government investment in aviation infrastructure over several decades and airline strategies that sought to maximise market share. ATC slowdowns and worsening airport bottlenecks led to a sharp increase in flight delays and cancellations, making travel a hassle and increasing costs for airlines.

The situation was aggravated by two fatal crashes: the September 2006 collision of a Gol 737 with a Legacy executive jet over the Amazon rain forest, which killed 154 people, and the July 2007 crash of a TAM A320 while trying to land in heavy rain at Congonhas Airport in Sao Paulo, which killed 199. After the crashes the government imposed ATC and airport restrictions, which had a severe financial impact on the airlines over an 18-month period.

TAM was hit hard by the slot and flight restrictions imposed at Congonhas, its key hub. The airline had to reorganise its network and schedules, which included transferring flights to the less popular Guarulhos Airport, Sao Paulo's international gateway some 25 kilometres from the city. The changes reduced TAM's average daily aircraft utilisation by about 30 minutes. The situation improved when the Congonhas restrictions were eased in late March 2008, though real solutions in the form of additional airport and ATC capacity will take years to materialise.

One good thing that came out of the cri-

sis (other than the commitment to improve infrastructure) was that the airlines modified their strategies. They are now more cautious about adding capacity and focus more on profitability than market share. Calyon Securities, when noting the spectacular yield recovery in recent quarters, suggested in a recent report that TAM and Gol, which have a combined market share of around 93%, have "finally learned how to price as a duopoly".

The past two years have been turbulent in Brazil also because of Varig's downfall and Gol's struggle to integrate the two companies. The $320m acquisition in April 2007 caused greater problems than Gol's management ever anticipated, partly because of the delay in getting government approval to combine the companies (finally obtained in September 2008), meaning no synergies for 18 months. Varig was unable to execute its growth plan also because of the Sao Paulo airport restrictions, while Gol has posted losses for the past four quarters. Last spring and summer, Gol shut down Varig's remaining long-haul operation (Frankfurt, London, Rome, Madrid, Mexico City and Paris) in favour of focusing on serving markets within South America.

Gol completed the merger on September 30, launched its new combined network in October, has begun to integrate other processes and expects synergies from early 2009. The merger is likely to significantly strengthen Gol's position within South America. In the near term, however, the combine is in a contraction mode: its domestic capacity will remain flat in the current quarter, while international ASKs will fall by 26% in the fourth quarter and in 2009.

The crashes, infrastructure problems and Varig's downfall have been traumatic for the airlines' customers and Brazil's image abroad probably suffered. But they created an extraordinary, profitable long-haul expansion opportunity for TAM. On the negative side, TAM is likely to face much tougher competition from the Gol/Varig combine within Latin America.

Inevitably, TAM too experienced some internal turbulence. There was a leadership change in November 2007, with Marco Antonio Bologna resigning from the CEO's position and Captain David Barioni Neto, formerly VP-Operations, appointed as the new CEO. This move was seen as a shift in focus from financial to operational/service matters. Bologna, with his financial background, was just what TAM needed to launch the IPOs, but global expansion and the need to maintain a service differential with Gol in Latin America called for an operational executive.

One reassuring thing amid all the turmoil has been that demand (RPK) growth in the Brazilian domestic aviation market has continued at double-digit rates: 19% in 2005, 12% in 2006, 12% in 2007 and 10.2% in January-September 2008. These rates were two or three times Brazil's GDP growth, which so far has continued even as the US and European countries have slid into recession. October saw Brazil's domestic traffic suddenly fall by 3.9%, but that was entirely due to Gol's temporary 20% contraction as it launched an integrated network with Varig.

Financially in great shape

TAM has seen its costs surge in the past two years, first because of the infrastructure issues and more recently because of fuel and unfavourable exchange rate developments. High pre-operating costs associated with long-haul expansion have added to the burden. TAM's non-fuel CASK rose by 1.2% in the third quarter.

But there has been a spectacular domestic yield and RASK recovery. In the third quarter, TAM's scheduled domestic yield and RASK both surged by 18%, while load factor remained firm despite 16% capacity growth. International performance was also highly respectable: a modest yield improvement and a nine-point increase in load factor despite 24% ASK growth.

The domestic yield surge basically represented a recovery in nominal terms to

the 2006, pre-accident/ATC/airport crisis level (though in real terms the yield was still 10% below 2006's). It reflected strong demand, moderation of capacity growth and higher fares. While Gol also saw a strong improvement, TAM maintained a 15% yield premium (reflecting its higher business traffic content).

As a result, TAM remained nicely profitable on an operating basis. Its operating profit (R$186m) was up by 65% year-over-year despite 68% higher fuel costs, and operating margin rose by one point to 6.5% - one of the better margins among network carriers in the Americas. Revenues surged by 40%, with domestic and international passenger and cargo segments and the "other" category all recording 30%-plus growth.

So TAM has recovered fully from the 2006-2007 problems. This, the favourable yield trend and the continued GDP and air travel demand growth in Brazil make it well-positioned for a weaker economic environment in 2009.

Of course, like many of its competitors, TAM reported a huge net loss (R$475m or 16% of revenues) for the third quarter because of unrealised mark-to-market fuel hedge losses and unfavourable currency developments. Those two items added up to a staggering R$882m on the "financial expense" line.

An even higher mark-to-market fuel hedge loss is likely in the current quarter, given the much lower fuel prices. As of November 10, TAM had hedged about half of its fuel needs in the next 12 months at $105 per barrel. The policy is to protect 30-80% of projected fuel consumption in 3-24 months, and the hedges are approved and monitored monthly by several board committees. Since the other half or so (20-70%) of fuel needs remains unhedged, TAM will still benefit significantly from a decline in fuel prices.

The negative foreign currency result arose because the Real weakened against the US dollar by 18% during the quarter (or 4% year-over-year) and 50% of TAM's total costs are denominated in US dollars, compared to only 35% of its revenues. This marked the reversal of several years of favourable currency developments. TAM does not hedge for exchange rates, so currency effects will remain a very unpredictable major component on its P&L account in the near term. However, TAM hopes to have a natural hedge in place by the end of 2009 as international growth will bring its dollar and other foreign currency revenues closer to 50%.

TAM's balance sheet remains solid. Cash reserves at the end of September amounted to R$2.1bn or 21% of annual revenues, plus another R$1bn of short-term receivables. Lease-adjusted debt-to-capital ratio was 94%, but there are no near-term debt obligations. Future financings are going to be for aircraft that already have pre-committed US Ex-Im Bank guarantees or are likely to get European export-credit backing.

The long-haul opportunity

Because of Varig's shrinkage, Brazilian carriers' share of international traffic to and from Brazil fell from 42.3% in 2005 to 28.8% in 2007. Thanks to TAM, the share has now begun to recover, but there is a long way to go to reach the desired 50%. In major markets such as the US, Spain, Germany, UK and Italy, at least half of the weekly frequencies permitted by ASAs for the Brazilian side remain unused. In particular, there is much room to grow in the large Brazil-US market, because the Brazilian side currently uses only 42 of the 126 weekly frequencies permitted by the ASA (while US carriers have taken up 105 frequencies).

TAM began its long haul expansion in 2005 and has recorded 40%-plus annual growth in international traffic in each of the past four years. The airline focuses on high-density, business-oriented markets or "the main destinations sought by Brazilians" and has forged partnerships with leading airlines at the destinations served. The long-haul network, operated from Sao Paulo or Rio Janeiro, currently includes Paris, London, Milan, Frankfurt,

Madrid, Miami, New York and Orlando - the latter was added last month.

It has been a bit of a scramble to get all the needed long-haul aircraft. TAM had to even temporarily take three MD-11s, which will have been replaced by the airline's first four 777-300ERs by around year-end. The long-haul fleet also includes A330s, A340-500s and 767-300s - certainly much flexibility to suit different markets. TAM has 22 A350-800/900s on order, which will replace the A330s from 2013.

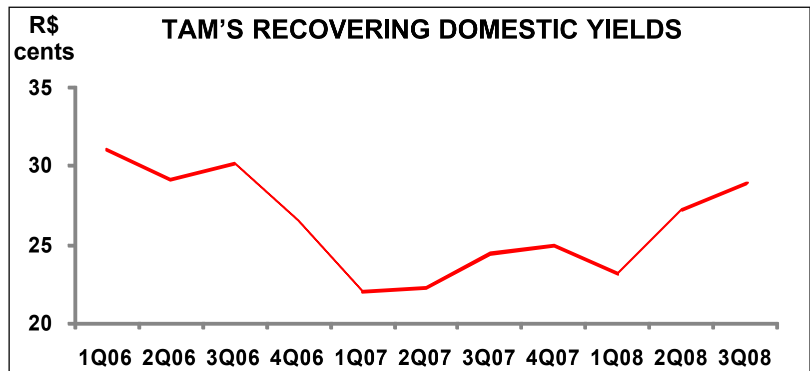
The long-haul strategy has been successful: the routes have become profitable quickly and frequencies have been steadily boosted. Each of the European routes has at least daily service (Paris has three). There are currently 28 and 18 weekly flights in the Brazil-Miami and Brazil-New York markets, respectively, in addition to the new daily Sao Paulo-Orlando service. The next new long-haul destination is likely to be South Africa, which TAM considers a natural point of distribution for the African continent and also a good connecting point to Asia.

Of course, TAM continues to intensely evaluate opportunities in the US market, all the more because of the recent relaxation of the ASA, which gave US airlines five new cities in Brazil, eliminated restrictions on the number of airlines and will increase weekly frequencies for each side to 154 by October 2010. Given that Latin America remains a rare bright spot in terms of international demand, carriers such as American and Delta have added many new routes to Brazil in recent months.

While TAM is yet to disclose its plans, two things are worth noting. First, it has been developing international service from secondary points such as Belo Horizonte, which now enjoys same-aircraft service to Paris and Miami via Rio or Sao Paulo. Second, there are some obvious points in the US that TAM could serve, including Los Angeles at some point.

Within Latin America, TAM has built a strong position in the Brazil-Buenos Aires market and has been able to add new cities (Santiago, Caracas, Montevideo and Lima) as ASAs have been relaxed. A number of secondary points are served by Paraguay-based subsidiary TAM Airlines (formerly TAM Mercosur), which has been fully integrated with TAM and has gone through a network and fleet restructuring this year. The unit has retired its F-100 fleet and now utilises three A320s, meaning that TAM now operates an all-A320 family fleet domestically and within Latin America. TAM has also had a commercial and codeshare alliance with Chile's LAN since 2007.

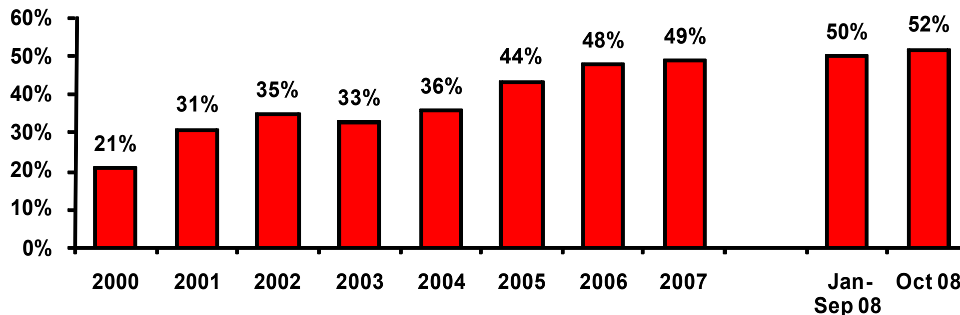
Domestically, TAM has the largest network among Brazilian carriers: currently 42 cities, plus another 37 through links with regional airlines. TAM offers more nonstop city links, more frequencies and more daytime flights than Gol, amounting to a better schedule for the business traveller. TAM also has a more up-market product, which is still the key to attracting domestic business traffic in Brazil where 70% of total traffic is business-related. Furthermore, TAM holds around 40% of the slots at

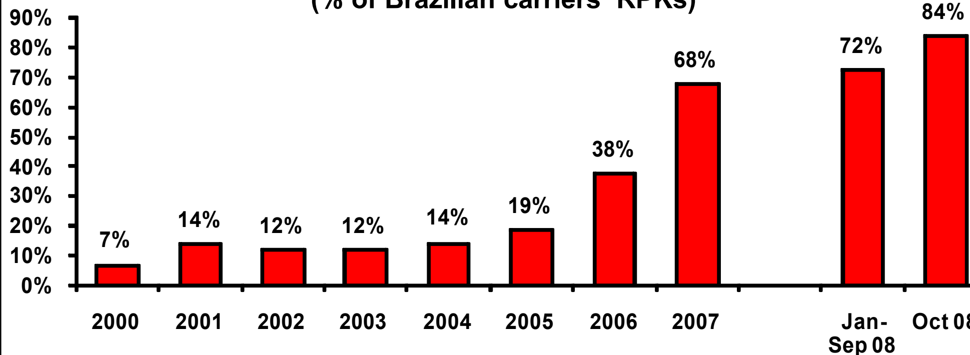


TAM'S FLEET

	In service	On order	On option	Stored
A320	17	12	1	
A321	81	33	8	
A330	3	11		
A340-500	14	6		
A340-800	2			
A340-900		12		
767-300ER		10		
777-300ER	4			
Emb 110C	2	6		
MD-11	1			1
MD-11 ER	1			
Total	**125**	**90**	**9**	**1**

Source: ACAS





Brazil's top 10 airports - an important barrier to entry for newcomers.

While Latin American international growth prospects are promising because of the liberalisation trend that is sweeping the region (for example, Brazil recently signed open skies ASAs with Uruguay and Chile), TAM will have to fight harder to maintain its market position against the Gol/Varig combine. Gol is now focusing all of its efforts on Latin America and is implementing product differentiation with the help of Varig's well-known brand. Varig's FFP and premium class, which has just been relaunched as "Comfort Class", will help attract business traffic. TAM's key challenge within Latin America will be to maintain its product/service differential with Gol.

Of course, TAM will have a powerful new weapon at its disposal to boost its position in Latin America and elsewhere: membership of the Star Alliance. It was officially announced in October, though it has been on the cards ever since Star expelled Varig in December 2006 and TAM subsequently signed MoUs with two Star founding members. Full integration will take 12-18 months. TAM already has codeshare deals in place or imminent with Lufthansa, United, TAP, Swiss and Air Canada. Interestingly, Copa and TACA have also applied to join Star, so TAM will have new codeshare partners also in Latin America. Joining Star should bring immense benefits to an airline like TAM, which is strong locally and has a great brand but is still little known internationally.

Future challenges

The key challenge in 2009 is likely to be the economy. Many analyses have suggested that Brazil, as the strongest Latin American economy and because of other special attributes, could escape the global recession and credit crisis relatively lightly. Economists presenting at Gol's and TAM's investor days on November 10-11 predicted that Brazil could see 2-3% GDP growth in 2009, down from 5-6% in the past two years. However, some analysts have considered those forecasts too optimistic, and preliminary reports have indicated that Brazil's GDP grew by only 1.8% in this year's third quarter.

TAM's current plans are based on the somewhat optimistic scenario of Brazil's GDP growing by 2.3-3.5% and domestic air travel (RPKs) by 5-9% in 2009, to be followed by resumption of double-digit RPK growth in 2010. The airline is essentially maintaining its growth plans, though 2009 ASK growth rates have been reduced by a couple of percentage points to 8% domestically and 20% internationally.

There is no change in the fleet plan, which calls for the addition of 5-8 aircraft annually in the next four years. The fleet

will increase in size from 125 at year-end 2008 to 151 at year-end 2013. The narrowbody fleet will grow from 101 to 117, Airbus widebody fleet from 16 to 22 and Boeing widebody fleet from eight to 12. TAM executives disclosed on November 10 that they had just closed aircraft financings with commercial banks at attractive rates, which gave them the courage to keep the fleet plan. Of course, there are contingency plans to postpone non-fleet capex, reduce aircraft utilisation and even ground aircraft in a lower demand scenario.

TAM's earnings are currently particularly difficult to forecast because of the exchange rate volatility on top of all the uncertainty about fuel prices and the economy. But at this point analysts expect the airline to return to healthy profitability in 2009 after a modest loss this year. TAM is quite a diversified company - something that will protect it during downturns and, in the longer term, will offer opportunities to unlock shareholder value. Future spin-off candidates include cargo operations, loyalty programme and MRO.

Longer-term challenges relate to regulatory developments, infrastructure provision and the level of competition in the Brazilian domestic market. On the regulatory front, TAM's main concern is the government's proposal to redistribute airport slots, on which public hearings were held in November; the incumbents will fight hard to retain their slots.

Having sufficient airport capacity in the Sao Paulo area will be critical for the airlines. Solutions under consideration include a new (third) airport for the city and a new runway and terminal at Viracopos Airport, at Campinas some 90 kilometres from Sao Paulo. The government is hoping for major private sector involvement and is also studying the privatisation of Viracopos, as well as Rio's Galeao Airport.

Another challenge is the emergence of potentially formidable new competition on the domestic scene. JetBlue founder David Neeleman's new venture Azul was due to begin operations on December 15, initially linking Viracopos with two regional capitals, Salvador in Brazil's northeast and Porto Allegre in the south. The fleet is projected to grow to 76 118-seat E195s at a rate of about one aircraft per month.

Azul will not be a major threat to the incumbents, because Viracopos lacks easy access to Sao Paulo and because the newcomer is likely to focus on regional markets and will not necessarily offer lower fares (if anything, it needs to have higher fares because of the smaller aircraft size). But Azul could skim off valuable premium traffic from TAM and Gol by offering frequent, nonstop flights that bypass hubs and reduce travel time, and by offering a superior in-flight service, including satellite TV. It is an interesting concept and similar to JetBlue's E-190 strategy (*see Aviation Strategy*, July/August 2003). The newcomer could have negative impact on Brazil's domestic yield environment.

Of course, Gol remains the competitor that TAM needs to watch for the most, given its lower cost structure, solid domestic market share and strengthening intra-Latin American position thanks to Varig. It seems likely that Gol will eventually take Varig back to intercontinental markets.

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Jet and Kingfisher: Fierce rivals forced together

After three years of frantic expansion in the Indian aviation industry, the combination of a weak domestic economy, market overcapacity and rising fuel prices that have forced fares to rise (and domestic demand to shift back to rail) has led to a crisis for India's airlines. In response, fierce rivals Jet Airways and Kingfisher Airlines are forging an unexpected strategic alliance - but will this be enough for these carriers to survive?

As Praful Patel, the Indian civil aviation minister says, the country's aviation industry is undergoing its "worst-ever phase", with many analysts forecasting that the country's airlines will make net losses of around US$2bn in the 2008/09 financial year (ending March 31st 2009), compared with an estimated $1bn loss in 2007/08 and a $0.5bn loss in 2006/07.

The underlying cause of the crisis is straightforward: overambitious expansion since 2004, when the government began to liberalise the aviation industry (see *Aviation Strategy*, December 2003 and June 2007). Since then, new airlines have been overly aggressive in ordering aircraft and throwing capacity into both the domestic and international markets in an attempt to win market share. Between them, Boeing and Airbus have delivered an estimated 60 new aircraft a year into India over the past three years, and additional capacity has come from a large number of leased aircraft. This extra capacity has been split between international and domestic markets, but the biggest problem is in the domestic sector, where a fleet of around 300 aircraft is estimated to be around 50 to 60 aircraft too large for current domestic demand, according to one analyst. Although both Airbus and Boeing remain - as ever - optimistic about the long-term future for Indian aviation (with forecasts of 1,000 new aircraft over the next two decades), the reality on the ground today is very different.

Naresh Goyal - the founder and chairman of Jet Airways - points out that the basic problem that virtually all Indian airlines face is that their costs are still higher than their revenues. That has been conveniently overlooked in the growth phase of the last few years (when the market share of private airlines has risen substantially - see graph, page 16) but airlines now realise that this has to change, particularly with fuel costs rising. Practically, that has meant raising

MAIN DOMESTIC ROUTES AND CAPACITY SHARES

Kingfisher

Route	Dep. seats Oct-08	Ann change	Share K'fisher	Share Jet	Share Others
Delhi -Mumbai	67,466	40%	25%	20%	55%
Mumbai -Bangalore	32,859	38%	28%	26%	47%
Delhi -Bangalore	29,660	35%	28%	28%	44%
Shamshabad -Bangalore	24,449	38%	39%	13%	48%
Bangalore -Chennai	20,390	40%	32%	40%	28%
Chennai -Mumbai	17,143	106%	18%	32%	50%
Chennai -Shamshabad	17,074	338%	34%	11%	55%
Shamshabad -Delhi	12,918	55%	17%	16%	68%
Delhi -Kolkata	12,772	54%	18%	28%	53%
Bangalore -Pune	12,750	53%	42%	22%	36%
Mumbai -Kolkata	12,258	19%	17%	45%	38%
Srinagar -Delhi	10,747	167%	40%	29%	30%
Shamshabad -Mumbai	10,582	-15%	12%	26%	62%
Shamshabad -Kolkata	10,323	-12%	32%	15%	53%
Mumbai -Goa	10,046	-19%	18%	38%	44%

Jet

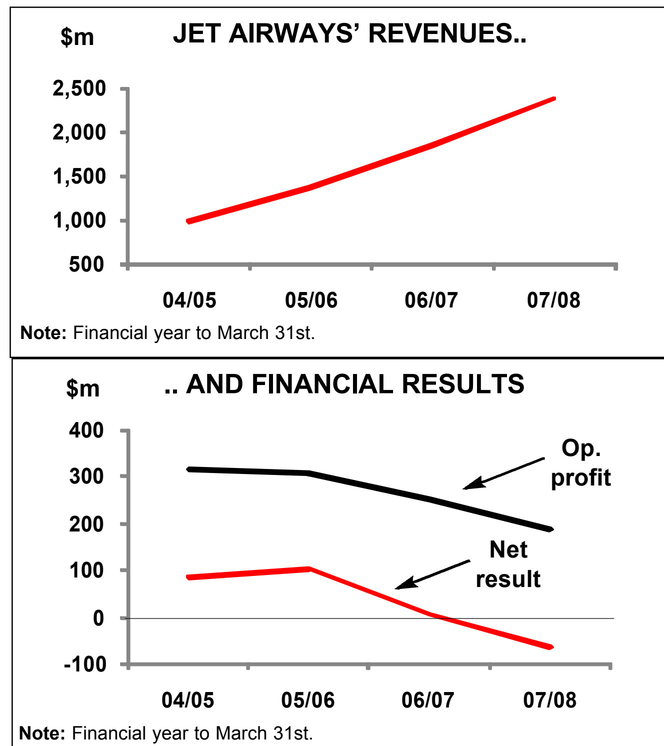
Route	Dep. seats Oct-08	Ann change	Share Jet	Share K'fisher	Share Others
Delhi -Mumbai	54,462	-26%	20%	25%	55%
Mumbai -Kolkata	32,214	2%	45%	17%	38%
Chennai -Mumbai	30,832	0%	32%	18%	50%
Mumbai -Bangalore	30,628	-25%	26%	28%	47%
Delhi -Bangalore	29,283	1%	28%	28%	44%
Bangalore -Chennai	25,486	5%	40%	32%	28%
Shamshabad -Mumbai	22,652	-13%	26%	12%	62%
Chennai -Delhi	22,150	6%	31%	12%	57%
Mumbai -Goa	21,272	-5%	38%	18%	44%
Ahmedabad -Mumbai	20,504	-15%	34%	11%	55%
Delhi -Kolkata	19,829	-33%	28%	18%	53%
Guw ahati -Kolkata	18,508	41%	38%	16%	46%
Kochi -Mumbai	15,846	7%	40%	13%	47%
Mumbai -Vadodara	13,346	2%	68%	0%	32%
Shamshabad -Delhi	12,149	-30%	16%	17%	68%

Source: *ACAS* **Note:** Capacities include subsidiaries

fares and fuel surcharges, but this has stifled demand.

According to statistics from the Airports Authority of India, in the April-September period there were 15.3m international passengers to/from India - 9.5% up on the same period in 2007 - but domestic passengers totalled 39.4m, some 6.7% down on April-September 2007 (see charts, page 17). Load factors on many domestic services are hovering around 60-65% as a substantial switch back to cheap rail travel has occurred. Ironically, the state-owned rail company has been hiring ex-airline cabin crew in order to run more service-oriented train services.

Although there has been an estimated 10% reduction in the Indian fleet over the last few months through the grounding of aircraft, that is simply not enough, and Goyal says the industry has overcapacity of 30%. With demand continuing to fall the only option left for India's airlines is to cut costs, merge and consolidate. Airline consolidation began in 2007, but the speed and depth of consolidation that has happened in 2008 has surprised many observers. But are the mergers and alliances that occurred this year a sufficient response to today's market conditions in India?



Note: Financial year to March 31st.

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The big alliance

In October 2008, Jet Airways - the biggest domestic carrier - and Kingfisher Airlines (the second-largest domestic airline) agreed a strategic alliance. The move was largely unexpected as these airlines have been fierce rivals, but it underlines the crisis that the Indian aviation industry is going through.

Jet and Kingfisher employ 19,000 between them, and they aim to save $200m a year in joint costs thanks to the alliance. The details are still being worked out, but Kingfisher and Jet are looking to save costs in almost all areas, including fuel management, ground handling, FFP, GDS, cross-utilisation of crew, codesharing, network rationalisation and cross-selling.

Together, Kingfisher and Jet have an estimated domestic market share of between 55%-60%, and while the government is holding an enquiry into the alliance, Goyal says that the airlines had no choice but to align, since if they had not done so then both carriers would "have gone bankrupt".

Jet Airways

Mumbai-based Jet Airways was launched in 1993 and is the biggest private airline in India, carrying 11.4m passengers in 2007. It operates to more than 40 domestic destinations and 19 international destinations, the latter including New York, London, Brussels and Toronto.

In the year ending March 31st 2008 Jet Airways recorded a net loss of Rs 2.5bn (US$63m), compared with a Rs280m ($6.4m) net profit in 2006/07, despite a 28% rise in revenue to Rs 94bn ($2.4bn) in 2007/08. In the first-half of the 2008/09 financial year (April-September 2008) Jet Airways made a net loss of Rs 2.4bn ($56.2m), compared with a net profit of Rs 592m ($14.9m) in the same period of 2007/08, despite a 45% rise in revenue to $1.3bn.

JET AND KINGFISHER FLEETS

	Fleet	Orders	Options
Jet Airways			
A330-200	11	6	5
737-400	4		
737-700	13		
737-800	33	28	20
737-900	2		
777-300ER	10	3	7
787-8		10	10
ATR 72-500	12	5	
Total	**85**	**52**	**42**
JetLite			
737-300	1		
737-400	2		
737-700	7		
737-800	7	10	
CRJ200	5		
Total	**22**	**10**	**0**
Jet group total	**107**	**62**	**42**
Kingfisher Airlines			
A319	3	1	
A320	34	24	20
A321	8	4	
A330-200	5	15	
A340-500		3	5
A350-800		5	
A380-800		5	
ATR 42-500	9		
ATR 72-500	28	16	
Total	**87**	**73**	**25**

That's Jet's worst half-yearly result in three years, and is due primarily to the costs of international expansion. International routes accounted for 52% of all Jet revenue in the last reported quarter (July-September 2008) - compared with 31% a year earlier - but they made a pre-tax loss of Rs 4bn ($86m) in the three month period, and 50% of that was contributed by just two routes: Amritsar-London and Mumbai-Shanghai-San Francisco.

That was a huge blow to Jet, as international strategy was central to its strategy over the next few years. Jet currently offers services to the Asia/Pacific region, Europe, the Middle East and North America (New York JFK, Newark, and Toronto), but after a Bangalore-Brussels service was launched in October this year Jet now says that it has no plans for any new international routes "in the near future".

At the same time, Jet has suspended or reduced services on several international routes. For example, Jet's Mumbai-Shanghai-San Francisco service (using 777-300ERS) will close in January 2009, just seven months after it was launched. Jet had long wanted to begin such a service, but after finally winning approval from the Chinese government it found that demand has not been sufficient to keep the service going, although it will codeshare on the route via a partnership with United. Elsewhere, Jet is also closing its Amritsar-London route.

This all means that Jet has excess long-haul capacity, and widebody deliveries have been postponed for at least 12 months - although as yet no orders have been cancelled. Jet Airways has fleet of 85 aircraft (which have an average age of less than five years) but more than 50 outstanding orders (see table, on left), including 10 787s.

Jet's international plans have undoubtedly also been hit by the postponement earlier this year (after a fall in the Indian stock market) of a $400m rights issue that would have funded international expansion.

To compensate, Jet is carrying out extensive cost cutting and network rationalisation, but in October the airline became the subject of fierce criticism after sacking and then reinstating 800 staff within just a couple of days. Jet had wanted to lay off 1,900 (out of a total workforce of 12,666), but after the first 800 (mostly cabin crew based in Mumbai) were made redundant the airline faced protest from staff and politicians alike.

The planned job losses (announced days after the alliance with Kingfisher) were quickly reinstated after Naresh Goyal claimed that he did not know of the sacking of his airline's staff. Goyal said once he found out he changed the decision, as he could not stand to "see tears in their eyes". The reinstated employees reportedly agreed to take reductions in pay or to forgo salary rises.

Jet's share price has fallen by 75% in a year, and - in an attempt to set a new direction - in October Jet Airways appointed a new group CEO: Ravi Chaturvedi, who pre-

viously spent 25 years with Proctor and Gamble across the world. But he has little option other than to keep cutting costs. Already Jet has cut capacity in its winter schedule by 15%, and while Jet believes domestic Indian market will bounce back quicker than international demand, a few weeks prior to the temporary dismissal of the Jet employees JetLite - its LCC subsidiary - had already made 800 people redundant.

Additionally, in October Jet Airways started codesharing with JetLite on domestic routes, even though the airlines target slightly different markets. Jet bought Air Sahara in April 2007 and changed its name to JetLite, thereafter giving it a low fare focus, but JetLite made a net loss of Rs2.73bn ($64m) in the July-September 2008 period.

Kingfisher Airlines

Mumbai-based Kingfisher Airlines was launched in 2005 by conglomerate United Breweries Holdings (owned by businessman Vijay Mallya), with the airline taking its name from the group's well-known beer brand.

Kingfisher carried 5.2m passengers in 2007 and operates to more than 40 domestic destinations. It targets both business and leisure passengers, and its mainline operation offers a "premium service" that includes frills such as in-flight entertainment. Its low fare unit is based on LCC Air Deccan (India's first LCC, which launched in 2003), into whose parent (Deccan Aviation) Kingfisher merged earlier this year.

Kingfisher had previously bought a 26% stake in Bangalore-based Deccan Aviation in June 2007, which was raised to 49% later that year before a merger was carried out in the summer of this year, after which the Deccan name gradually disappeared. Kingfisher was previously in private hands but Deccan was already listed on the Mumbai stock exchange, so the "new" Kingfisher (now that the Deccan brand has gone) is a quoted company.

In September the low cost operation was rebranded as Kingfisher Red, although it then started to offer some frills - such as free on-board meals" - in an effort to differentiate itself from other LCC competitors, and specifically its largest LCC rival, IndiGo Airlines.

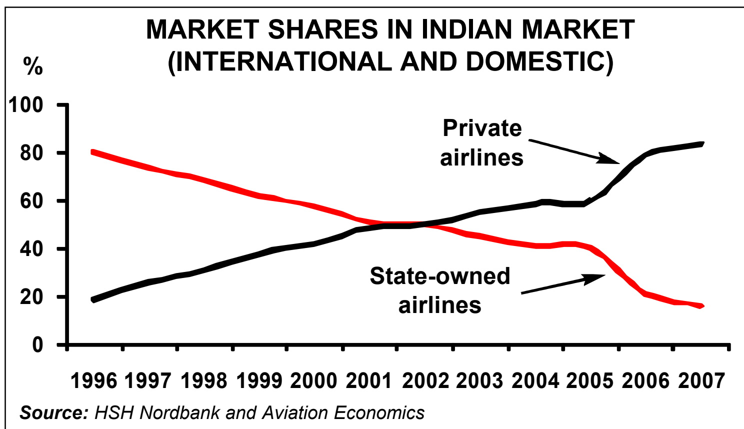
That rebranding came as Kingfisher released results for the first half of its 2008/09 financial year (April-September 2008), with net losses of Rs 6.41bn ($150m), 50% higher than the net loss recorded in the first half of 2007/08, despite a tripling of revenue to Rs 27.2bn ($637m) thanks to the merger with Deccan. Operating loss rose from Rs4.26bn ($106m) to Rs7.1bn ($166m) in the first six month of the 2008/09 financial year, thanks primarily to a massive increase in costs. Capacity fell by 4% in the period (with two aircraft returned to lessors, with negotiations continuing for the return of another eight aircraft), although this didn't stop load factor falling even further, by 6%.

Vijay Mallya, chairman and CEO of Kingfisher, says that the airline will now break even in 2010 (rather than 2009, which had been the previous target) and in September Kingfisher said it was looking to sell debt or equity in order to raise funds of up to $400m. That injection is much needed (an IPO has been planned since 2006, but has just not been possible) as Kingfisher needs to fund a hefty 73 aircraft on order, and although its conglomerate owner is wealthy it will not want to fund a cash drain for ever.

In 2005 Kingfisher placed orders for A330s, A350s and A380s in anticipation of international expansion in 2008; the airline could only operate international routes from August 26th, five years after Deccan was launched (since the Indian government rule is that international routes can only be launched after an airline has operated domestically for five years).

Kingfisher ordered five A380s in 2005, due for delivery from 2011, and the first of five A350s on order are due to arrive in 2014. There are 15 A330s on outstanding order as well as three A340-500s, with five A340-500s delivered to Kingfisher in October.

The first international route began in



Source: *HSH Nordbank and Aviation Economics*

September, with a service between Bangalore and London Heathrow, with Kingfisher claiming that as it is a "five star airline" it offers offer better service on the route than rival British Airways. It has two-class service in the route: economy and "Kingfisher First", which is a superior business service prices close to a first class product at fares "slightly higher" than standard business class services.

As the new long-haul aircraft arrived Kingfisher had been set to launch many more routes, to Europe, North America (e.g. Bangalore-San Francisco) and the Asia/Pacific region, and as recently as July Kingfisher was planning to operate routes to 13 countries by October, using A320s, A330s and A340s, with Mallya then saying that "we want to expand quickly as yields are better and tax is lower on international

However, in the new realities of the Indian aviation industry and due to the "global economic environment", Kingfisher has now postponed this massive international expansion for at least 18 months. Although the Bangalore-London Heathrow route will continue to operate, no other service is to be launched in this period other than a Mumbai-London route (which starts in January 2009) - and this has meant a frantic reshaping of the order book.

Most A320s that were due to be delivered this year and 2009 have been deferred and other aircraft - such as three recently-delivered A330s - are grounded. Two of the A340s on order have already been sold, to Nigerian airline Arik Air, and altogether Kingfisher has already reduced its capacity by 20% since the summer and will dispose of another 10 aircraft over the next year as leases expire.

Domestically, the pre-merger Kingfisher and Deccan had overlapped on 49 routes, but that has been reduced to 14 routes in the current winter schedule, mostly by Kingfisher cancelling around 100 flights a week on around 50 routes. Kingfisher is now concentrating on the Mumbai-Delhi trunk route (where Deccan flights have been reduced), and is also phasing out its fleet of nine leased 42-500s.

Kingfisher had already launched a major cost-saving programme following its integration with Deccan, and so far has trimmed $1m a month from costs, including the laying-off of 300 non-operational staff laid off in August. Other measures include Kingfisher ceasing to paying travel agents a 5% commission (along with other Indian airlines) from November.

However, redundancies of pilots and cabin crew are difficult (if not impossible) to implement, even though - for example - it has a surplus of pilots, estimated to be at least 100, who had been trained up on A330 and A340s ahead of the airline's planned international expansion, but who are now on full pay and unable to fly.

Kingfisher has therefore has to resort to other measures, including a 90% cut in the salaries of newly-trained pilots, while 30 pilots who flew A340-500s have been reassigned to fly A320s, with an accompanying downgrading of salary and seniority. And in December Jet cut salaries for all senior executives by 25%, while all other employees with salaries greater than $18,000 per annum will face gradual cuts in pay over the next 12 months.

Merger?

Given the difficulties that Jet and Kingfisher face, its no surprise that the unexpected alliance between these airlines is leading to speculation that the next step could be a merger.

That would be a logical move, since while the current state of panic in the industry may be overdone, the fundamental problem that

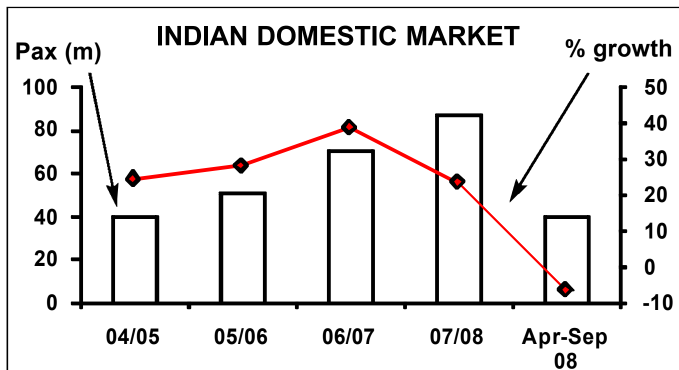
India's airlines face - that demand for air travel is very elastic (being much more price sensitive than, for example, leisure markets in Europe) - remains.

Kingfisher would like to sell a stake to foreign airlines, although currently this is not allowed by Indian law. Mallya wants the government to allow foreign airlines to hold up to 25%, and he says that he has had "expressions of interest" from carriers abroad. Meanwhile in November Jet refuted reports that it was trying to sell a 10% stake to Temasek Holdings, the investment vehicle of the Singapore state.

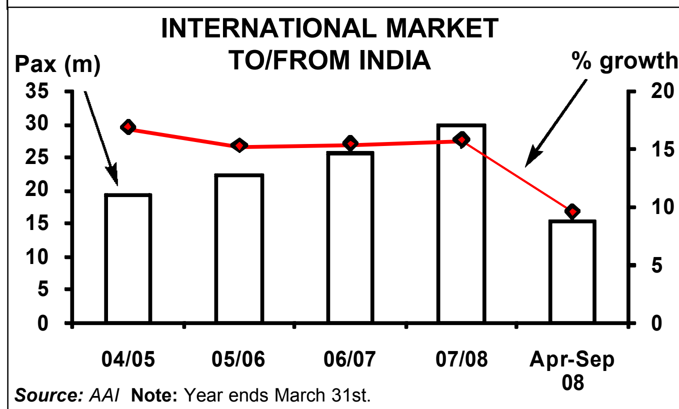
And there is another problem looming for Jet in particular. LCC Air Asia launched routes to destinations in India this December, with nine routes planned linking India with Air Asia hubs in Malaysia, Indonesia and Thailand. Fares are expected to be lower than any currently existing in the market, and this may be the final impetus that forces Jet and Kingfisher to look at even closer ties than they are currently exploring.

Substantive help from elsewhere is unlikely, although India's airlines have appealed to the government for financial assistance. In July the Indian government set up a committee to examine the financial crisis affecting the aviation industry, although so far the government has refused demands to pump $1bn into Indian airlines via an interest-free three-year loan. Praful Patel recently said that the government is examining ways of assisting Air India as it "is obliged to help" (the government owns 100%), whereas it "is not as obliged to help private carriers".

Instead, the government is concentrating on other support, such as reducing landing fees and cutting tax on fuel. Fuel costs around 50%-70% more to buy in India than in other Asian countries and it is estimated that this burdens Indian airlines with between $1bn-$2bn a year of additional costs. India's airlines owe an estimated $650m to state-owned oil companies and while an appeal by the industry for relief (via a $1bn loan) over this bill has been turned down by the Indian government, in October the government did agree that India airlines could pay outstanding fuel bills in instalments until March 2009. Additionally, after that date, future fuel bills will only have to be paid within 90 days, rather than the current 60 day period - but all these measures came with the proviso that in return airlines will not make any large-scale reductions in employees.



Source: AAI **Note:** Year ends March 31st.



Source: AAI **Note:** Year ends March 31st.

India's airlines want a similar scheme for outstanding airport duties, but this has been refused so far, although in November the Indian government also abolished the 5% import duty on jet fuel, which along with the general fall in fuel prices gives an important boost to Indian airlines.

Whether this support is enough remains to be seen, and it may well be that the only alternative to bankruptcy for many of India's airlines is a further round of consolidation. Rumours swirl about the fate of the smaller private Indian airlines - IndiGo Airlines (which has 20 aircraft), SpiceJet (12) and GoAir (eight) - and it is likely that these will be swallowed up by Jet or Kingfisher in due time. Whatever happens, it's inevitable that 2009 will see a final bout of consolidation in the troubled Indian aviation industry.

Outlook for 2009

The difficulty for aircraft values over the course of the next two years is that manufacturers are reaching record production levels at the same time, naturally, as demand slumps. Delivered aircraft will act more as replacements rather than grow capacity, so older aircraft will be displaced, leading to rising availability and lower values and lease rentals. On the other hand, the previous high price of fuel made it all but essential to acquire new aircraft, underpinning values and rentals, but a much lower fuel price will make new aircraft relatively less attractive. The better economics of the 787 are less relevant in an era of $50 a barrel pricing than $140. Therefore the application of any premium to the value of new aircraft due to greater fuel efficiency needs careful assessment.

In the widebody sector, Boeing is currently manufacturing only the 777-300ER and Airbus the A330 in any meaningful quantity, and so the focus of any potential excess is clearly on the narrowbody sector. The A320 and 737NG families are most at risk from excessive supply and the values of both types have already weakened materially. Even though the strike at Boeing has been resolved, production of Boeing aircraft during 2008 has been reduced by at least 10% from expected levels, providing some relief to the market (although not to those operators needing the lift).

Airbus has announced that a planned hike in production will be put on hold. Instead of the planned 40 A320 family members to be produced each month, this will be held at the current 36. Widebody production will remain at 10 a month rather than rising to 11. However, the combined production of Airbus and Boeing may therefore still be nearly 1,000 aircraft a year. As large numbers of older aircraft have already been retired, the 1,000 new deliveries have the potential to affect newer aircraft types by prematurely displacing existing equipment. Values of aircraft were already expected to fall in 2009 and 2010, but recent events have accelerated such declines. Residual forecasts for 2011 through to 2017 are, however, likely to remain reasonably consistent with previous predictions for those aircraft in production.

The prospects for the industry are far from promising. The fact that oil prices have halved from the levels of only a few months ago and are far removed from the speculated $200 a barrel level, combined with shift from an economic soft landing to a probable global recession of unknown duration, demonstrates the danger in extrapolating long-term trends from short-term changes. Fleet planning is a long-term commitment and making decisions based on short-term market fluctuations can be premature and costly.

The need for some major players to dispose of assets has the potential to influence values as sale prices reflect book value more than market values. Larger organisations, having previously acquired aircraft at large discounts, have written down such assets to levels that may be considerably less than current market values. With the lack of credit in the market and the need to raise cash to perhaps finance new aircraft, some companies have the potential to sell existing assets. The selling price could still achieve a book profit, but be significantly lower than current market values. While not strictly representing a distressed sale, the effective substantive discounting can then be viewed as the new benchmark for future transactions, undermining book values in general.

Basel II implications

European banks, falling under Basel II regulations (a capital adequacy framework), may then in turn be forced to dispose of some assets to reduce the perceived risk associated with aircraft financing. A further tightening of banking regulations was already being sought before the latest financial problems. In July 2008, the Basel Committee proposed an incremental risk charge that would capture price changes due to defaults as well as other sources of price risk, such as those reflecting credit migrations and significant moves of credit spreads and equity prices.

The Basel Committee also proposed improvements to the Basel II Framework concerning internal value-at-risk models. Prudent valuations for positions subject to market risk are also required. In addition, it has been clar-

ified that regulators will retain the ability to require adjustments to current values beyond those required by financial reporting standards, in particular where there is uncertainty around the current realisable value of a position due to illiquidity. Such illiquidity has yet to emerge, but with a requirement to sell aircraft within a limited timeframe, sale prices may again be less than market values, consolidating the perceived downturn in values, precipitated by the extensive discounting afforded to companies previously ordering large quantities of new aircraft. The very means of facilitating the expansion of the operator base, and therefore an improvement in values, can also be a cause of subsequent asset decline when the market faces more challenging times.

A deterioration in values has already been felt by mostly older aircraft types as a consequence of higher fuel pricing and weakening demand in some areas. However, newer aircraft are becoming increasingly vulnerable to the vagaries of the cycle. Financing for new aircraft will have been put into place some months ago but as a means of mitigating risk, advance levels have fallen from perhaps 85% to 70-80%. This has meant that not only has the remaining equity portion of any financing increased, but that the associated cost of finance has also increased. Securing the equity portion of a transaction is becoming an increasingly difficult task.

There are, however, still sources of finance emanating from the Middle East, Japan and the expanding German private investor market, and potentially China. The delay in deliveries from Boeing, due to the strike, has allowed more time for financing to be found. The Export Credit Agencies (ECAs) such as ECGD in the UK, COFACE in France, Hermes in Germany and EX-IM of the US will increasingly be used as a means of securing financing should it be forthcoming, albeit at a price that will be passed onto the operator. Transactions are still taking place for both new and nearly new aircraft, so the market is far from illiquid.

The difficulty in finding finance has been compounded by the consolidation of the banking industry. Banks previously active in aircraft financing have been acquired by other financial institutions, or even government entities, that may have little interest in such assets. Cash for planned deals may not be forthcoming and existing portfolios may be placed onto the market as prudence takes hold. Having acquired ailing or targeted financial institutions at a discount, selling the existing aircraft portfolio will also be made at an attractive price to a subsequent buyer.

Confidence and pricing

As the crisis in confidence causes further problems for the economy - and therefore airlines - the collapse of more operators will cause the remaining more conservative financial institutions to seek other investment vehicles. For operators, financing aircraft is therefore becoming more expensive, and generous sale and leaseback terms have become much more elusive. A rapidly changing financial structure is likely to fuel the migration of a decline in values of older aircraft to newer examples, even though the latter may be fuel efficient and feature an extensive, if fragile, backlog.

While both manufacturers have traditionally engaged in strategic pricing for just one or two orders each year, used values have not been impacted. Where such a policy becomes the norm rather than the exception, there exists a real possibility that the combination of higher production rates and lower pricing will also impact used values. Manufacturers are in the business of manufacturing new aircraft rather than supporting the residual values of used equipment, though to ignore used value trends can cause problems. Any cutback in production by Airbus or Boeing will only be a consequence of lesser customer interest rather than as a consequence of a move to stabilise values. If values of used equipment decline, this reduces the incentive to buy new, particularly if escalation clauses on new deliveries are exceptionally high.

As soon as the short-term shortage eases (about 900 aircraft were being actively marketed two years ago, representing nearly 6% of the world jet fleet; today availability has fallen to 500 aircraft or less than 3% of the fleet), any previous heavy discounting of new aircraft affects used values to a far greater degree, particularly if accompanied by production levels that have been generated by low pricing.

By Paul Leighton MD, AVAC - contact details
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Jet values and lease rates

The following tables reflect the current values (not "fair market") and lease rates for narrowbody and widebody jets. Figures are provided by The Aircraft Value Analysis Company (contact details opposite) are are not based exclusively on recent market transactions but more reflect AVAC's opinion of the worth of the aircraft.

These figures are not solely based on market averages. In assessing current values AVAC bases its calculations on many factors such as number of type in service, number on order and backlog, projected life span, build standard, specification etc. Lease rates are calculated independently of values and are all market based.

NARROWBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old
A318	28.3	18.4		
A319 (IGW)	37.6	30.6	23.6	
A320-200 (IGW)	45.0	36.2	27.5	
A321-200 (LGW)	50.0	39.6	29.4	

	NEW	5 years old	10 years old	20 years old
717-200		12.3		
737-300 (LGW)			9.4	5.3
737-400 (LGW)			10.5	5.7
737-500 (LGW)			8.6	
737-600		21.1	13.3	
737-700 (LGW)	38.1	31.4	24.8	
737-800 (LGW)	47.6	38.8	30.0	
737-900ER	52.0			
757-200			21.7	12.1
757-200ER			22.2	12.5
757-300		34.0	25.0	
MD-82			4.0	2.6
MD-83			5.2	3.2
MD-88			5.1	3.0
MD-90			6.9	

WIDEBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old
A300B4-600				5
A300B4-600R (HGW)			22.9	10.4
A310-300 (IGW)				6.3
A330-200		77.7	63.1	
A330-300 (IGW)		69.7	51.1	
A340-200			36.5	
A340-300 (LGW)		64.5	48.9	
A340-300ER		75.9	56.5	
A340-500 (IGW)		83.6		
A340-600 IGW)		87.1		
A380-800	195.6			

	NEW	5 years old	10 years old	20 years old
747-200B				2.2
747-400		91	70.0	
767-200				6.5
767-300			26.4	11.5
767-300ER (LGW)			40.8	19.0
767-400		50.9		
777-200		69.0	53.2	
777-200ER	125.7	102.3	78.9	
777-300		93.9	62.6	
787-800	106.7			
MD-11P			35.2	

Note: As assessed at end-October 2008. mid-range values for all types.
Source: *AVAC*

NARROWBODY LEASE RATES (US$000s per month)

	NEW	5 years old	10 years old	20 years old
A318	248	169		
A319 (IGW)	353	300	254	
A320-200 (IGW)	357	328	279	
A321-200 (LGW)	436	368	310	

	NEW	5 years old	10 years old	20 years old
717-200		163		
737-300 (LGW)			145	102
737-400 (LGW)			151	110
737-500 (LGW)			124	
737-600		178	144	
737-700	355	302	257	
737-800	392	340	305	
737-900ER	438			
757-200			218	179
757-200ER			229	177
757-300		279	248	
MD-82			98	77
MD-83			108	85
MD-88			112	81
MD-90			106	

WIDEBODY LEASE RATES (US$000s per month)

	NEW	5 years old	10 years old	20 years old
A300B4-600				120
A300B4-600R (HGW)			237	156
A310-300 (IGW)				135
A330-200		729	643	
A330-300 (IGW)		695	564	
A340-200			505	
A340-300 (LGW)		749	614	
A340-300ER		808	646	
A340-500 (IGW)		886		
A340-600 (IGW)		867		
A380-800	1,697			

	NEW	5 years old	10 years old	20 years old
747-200B				142
747-400		749	661	
767-200				115
767-300			296	191
767-300ER (LGW)			449	361
767-400		509		
777-200		606	528	
777-200ER	1,067	921	802	
777-300		898	689	
787-800	903			
MD-11P			371	

Note: As assessed at end-October 2008. mid-range values for all types.
Source: *AVAC*

AIRCRAFT AND ASSET VALUATIONS
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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 employees
Air France/ KLM Group YE 31/03	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	
	Jan-Mar 08	8,543	8,612	-69	-810	-0.8%	-9.5%	62,948	49,060	77.9%	17,154	
	Year 2007/08	**34,173**	**32,182**	**1,991**	**1,087**	**5.8%**	**3.2%**	**256,314**	**207,227**	**80.8%**	**74,795**	104,659
	Apr-Jun 08	9,830	9,464	366	266	3.7%	2.7%	66,610	53,472	80.3%	19,744	
	Jul-Sep 08											
BA YE 31/03	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
	Oct-Dec 07	4,142	3,774	368	247	8.9%	6.0%	37,122	27,531	74.2%	7,913	
	Jan-Mar 08	4,049	3,824	225	133	5.6%	3.3%	36,745	26,149	71.2%	7,394	
	Year 2007/08	**17,315**	**15,584**	**1,731**	**1,377**	**10.0%**	**8.0%**	**149,572**	**113,016**	**75.6%**	**33,161**	**41,745**
	Apr-Jun 08	4,455	4,386	69	53	1.5%	1.2%	37,815	27,757	73.4%	8,327	
	Jul-Sep 08											
Iberia YE 31/12	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
	Oct-Dec 07	1,963	1,681	279	140	14.2%	7.1%	16,773	13,471	80.3%	6,463	22,168
	Year 2007	**7,617**	**7,049**	**568**	**450**	**7.5%**	**5.9%**	**66,454**	**54,229**	**81.6%**	**26,860**	22,515
	Jan-Mar 08	1,948	1,990	-42	-661	-2.2%	-33.9%	16,360	12,990	79.4%		21,574
	Apr-Jun 08	2,142	2,148	-6	33	-0.3%	1.5%	16,771	13,372	79.7%		21,793
	Jul-Sep 08											
Lufthansa YE 31/12	Oct-Dec 06	6,316	6,062	254	529	4.0%	8.4%	36,204	27,056	74.7%	13,103	
	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	
	Oct-Dec 07*	8,197	8,103	94	165	1.1%	2.0%	45,845	35,128	76.6%	17,106	
	Year 2007	**30,682**	**28,797**	**1,885**	**2,264**	**6.1%**	**7.4%**	**169,108**	**130,893**	**77.4%**	**62,900**	**100,779**
	Jan-Mar 08*	8,368	8,086	282	85	3.4%	1.0%	45,131	34,828	77.2%	15,992	106,307
	Apr-Jun 08*	10,113	9,285	829	541	8.2%	5.3%	50,738	40,258	79.3%	18,488	108,073
	Jul-Sep 08*	9,835	9,542	293	230	3.0%	2.3%	52,487	42,437	80.9%	18,913	109,401
SAS YE 31/12	Oct-Dec 06	2,215	2,121	94	679	4.2%	30.7%	13,672	9,343	68.3%	9,705	25,534
	Year 2006	**5,270**	**5,010**	**260**	**169**	**4.9%**	**3.2%**	**54,907**	**39,247**	**71.5%**	**39,059**	**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
	Year 2007	**5,969**	**5,676**	**293**	**259**	**4.9%**	**4.3%**	**57,551**	**41,048**	**71.3%**	**41,087**	**26,538**
	Jan-Mar 08	2,046	2,185	-139	-181	-6.8%	-8.8%	10,669	7,235	67.8%	7,277	25,477
	Apr-Jun 08	2,959	2,968	-9	-69	-0.3%	-2.3%	16,465	11,851	72.0%	11,622	26,916
	Jul-Sep 08	2,604	2,869	-265	-319	-10.2%	-12.3%	14,587	10,879	74.6%	9,846	24,298
Ryanair YE 31/03	Oct-Dec 06	651	575	76	63	11.7%	9.7%			82.0%	10,300	4,209
	Jan-Mar 07	661	611	48	41	7.3%	6.2%				10,019	
	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	
	Oct-Dec 07	824	760	64	68	7.7%	8.3%					
	Jan-Mar 08	859	808	51	-85	6.0%	-9.9%					
	Year 2007/08	**3,846**	**3,085**	**761**	**554**	**19.8%**	**14.4%**			**82.0%**	**50,900**	
	Apr-Jun 08	1,215	1,202	13	-141	1.0%	-11.6%			81.0%	15,000	
	Jul-Sep 08	1,555	1,250	305	280	19.6%	18.0%			88.0%	16,600	
easyJet YE 30/09	**Year 2004/05**	**2,478**	**2,356**	**122**	**109**	**4.9%**	**4.4%**	**32,141**	**27,448**	**85.2%**	**29,600**	**4,152**
	Oct 05-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 06-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**	
	Oct 07-Mar 08	1,795	1,772	22	-87	1.2%	-4.8%	23,442	19,300	82.3%	18,900	
	Year 2007/08	**4,649**	**4,470**	**179**	**164**	**3.9%**	**3.5%**	**55,687**	**47,690**	**84.1%**		

Note: *Lufthansa group including SWISS. 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 emp.
Alaska	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
	Year 2007	**3,506**	**3,294**	**212**	**125**	**6.0%**	**3.6%**	**45,359**	**34,389**	**75.8%**	**25,110**	**13,485**
	Jan-Mar 08*	840	889	-50	-36	-5.9%	-4.3%	9,791	7,284	74.4%	4,080	9,881
	Apr-Jun 08*	931	824	107	63	11.4%	6.8%	10,039	7,841	78.1%	4,425	9,880
	Jul-Sep 08*	1,065	1,185	-120	-87	-11.3%	-8.2%	10,148	8,066	79.5%	4,532	9,594
American	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
	Oct-Dec 07	5,683	5,752	-69	-69	-1.2%	-1.2%	73,408	58,416	79.5%	24,080	85,800
	Year 2007	**22,935**	**21,970**	**965**	**504**	**4.2%**	**2.2%**	**273,307**	**222,719**	**81.5%**	**98,160**	**85,800**
	Jan-Mar 08	5,697	5,884	-187	-328	-3.3%	-5.8%	66,065	52,283	79.1%	23,048	85,500
	Apr-Jun 08	6,179	7,469	-1,290	-1,448	-20.9%	-23.4%	67,137	55,358	82.5%	24,278	85,700
	Jul-Sep 08	6,421	6,637	-216	45	-3.4%	0.7%	67,534	55,506	82.2%	24,001	84,100
Continental	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	
	Year 2007	**14,232**	**13,545**	**687**	**459**	**4.8%**	**3.2%**	**165,951**	**135,655**	**81.7%**	**50,960**	**45,000**
	Jan-Mar 08	3,570	3,636	-66	-80	-1.8%	-2.2%	45,665	35,855	78.5%	16,440	
	Apr-Jun 08	4,044	4,115	-71	-3	-1.8%	-0.1%	48,895	39,824	81.4%	17,962	46,000
	Jul-Sep 08	4,156	4,308	-152	-236	-3.7%	-5.7%	48,768	39,969	82.0%	17,108	43,000
Delta	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%	26,499	55,044
	Year 2007***	**19,154**	**18,058**	**1,096**	**1,612**	**5.7%**	**8.4%**	**244,187**	**196,403**	**80.4%**	**109,180**	**54,467**
	Jan-Mar 08	4,766	11,027	-6,261	-6,390	-131.4%	-134.1%	58,083	45,390	78.1%	25,586	55,382
	Apr-Jun 08	5,499	6,586	-1,087	-1,044	-19.8%	-19.0%	62,338	51,931	83.3%	27,459	55,397
	Jul-Sep 08	5,719	5,588	131	-50	2.3%	-0.9%	64,969	54,702	84.2%	27,716	52,386
Northwest	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
	Year 2007****	**12,528**	**11,424**	**1104**	**2,093**	**8.8%**	**16.7%**	**138,603**	**117,335**	**84.7%**	**53,680**	**29,871**
	Jan-Mar 08	3,127	7,180	-4,053	-4,139	-129.6%	-132.4%	37,592	30,921	82.3%	15,874	30,053
	Apr-Jun 08	3,576	3,876	-300	-377	-8.4%	-10.5%	39,458	33,557	85.0%	17,500	29,295
	Jul-Sep 08	3,798	4,014	-216	-317	-5.7%	-8.3%	39,568	33,858	85.6%	17,100	25,057
Southwest	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
	Year 2007	**9,861**	**9,070**	**791**	**645**	**8.0%**	**6.5%**	**160,314**	**116,361**	**72.6%**	**88,710**	**33,655**
	Jan-Mar 08	2,530	2,442	88	34	3.5%	1.3%	40,454	28,311	69.8%	21,505	33,895
	Apr-Jun 08	2,869	2,664	205	321	7.1%	11.2%	42,381	31,882	75.2%	23,993	34,027
	Jul-Sep 08	2,891	2,805	86	-120	3.0%	-4.2%	42,304	30,292	71.6%	22,243	34,545
United	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
	Year 2007	**20,143**	**19,106**	**1,037**	**403**	**5.1%**	**2.0%**	**228,200**	**188,857**	**82.8%**	**68,630**	**55,000**
	Jan-Mar 08	4,711	5,152	-441	-537	**-9.4%**	-11.4%	61,812	47,854	77.4%	15,250	52,500
	Apr-Jun 08	5,371	8,065	-2,694	-2,729	-50.2%	-50.8%	63,600	52,433	82.4%	16,994	51,100
	Jul-Sep 08	5,565	6,056	-491	-779	-8.8%	-14.0%	63,213	52,108	82.4%	16,758	49,000
US Airways Grp	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	
	Year 2007	**11,700**	**11,167**	**533**	**427**	**4.6%**	**3.6%**	**127,344**	**102,248**	**80.3%**	**66,060**	
	Jan-Mar 08	2,840	3,036	-196	-236	-6.9%	-8.3%	35,298	27,316	77.4%	19,731	34,684
	Apr-Jun 08	3,257	3,793	-536	-567	-16.5%	-17.4%	37,465	30,736	82.0%	21,481	34,359
	Jul-Sep 08	3,261	3,950	-689	-865	-21.1%	-26.5%	37,569	30,918	82.3%	21,185	32,779
JetBlue	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
	Year 2007	**2,842**	**2,673**	**169**	**18**	**5.9%**	**0.6%**	**51,334**	**41,411**	**80.7%**	**21,390**	**9,473**
	Jan-Mar 08	816	799	17	-8	2.1%	-1.0%	13,510	10,562	78.2%	5,518	10,165
	Apr-Jun 08	859	838	21	-7	2.4%	-0.8%	13,491	10,872	80.6%	5,637	9,547
	Jul-Sep 08	902	880	22	-4	2.4%	-0.4%	13,122	11,020	84.0%	5,657	8,482

Notes: 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. *Mainline stats for ASKs, RPKs, pax. and employees. ** = April to May Predecessor Company, June Successor Company; ***= Net result includes net reorganisation items of $1,215m. **** = Unaudited results Successor Company. Net result includes net reorganisation items of $1,551m.

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