Aviation Strategy

Issue No: 137

March 2009

Industry psychology

The 23rd Conference on Aircraft Finance and Commercial Aviation in February saw the usual gathering of industry pundits. Overall attendance appeared somewhat down on previous years – as to be expected in the current environment – although there were more airline representatives there than usual, no doubt trying to find sources of increasingly elusive funding. Given the current dire economic environment, the overall mood of the presentations (and indeed the audience) was a bit subdued, with the notable exception of the manufacturers, and got progressively more depressed as the event developed.

The conference included a poll of audience responses to various questions surrounding forecasts. (Incidentally, it is an intriguing element of human psychology that the respondents in these events get to learn the tenor of the questions and appear to

GENEVA FORUM SURVEY

What percentage of short-haul fleets will be parked this year?

5-10%	33%
10-15%	57%
>15%	10%

By what percentage do you think the value of a short-haul aircraft will fall?

<=10%	19%
20%	56%
30%	21%
>=40%	5%

By 2012, how far from the 2007 peak do you expect production rates in the 150-seat segment to have fallen?

20% (or less)	63%
30%	24%
40%	13%
50% (or more)	0%

What do you now consider to be a reasonable price to pay for a new, near-term delivery 150-seat aircraft?

US$38m (or more)	18%
US$33m	48%
US$28m	29%
US$23m (or less)	5%

How do you think world passenger air traffic volumes will change in 2009?

Rise or remain flat	5%
Fall by 1%-3%	21%
Fall by 4%-6%	48%
Fall by more than 7%	26%

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adjust their responses accordingly.)

The ten questions were posed after a brief presentation highlighting current industry forecasts (e.g. from IATA) for traffic and profitability – pointing to a $1bn operating profit for 2008 rising to a $3.9bn operating profit for the industry in 2009. Admittedly this increase is predicated on a recovery anticipated in the US industry (see last month's *Aviation Strategy*) where the cuts in capacity introduced on the back of $140/bbl oil prices come into effect when demand and oil prices have slumped.

It was pointed out that the industry – like all others – is subject to the economic laws of supply and demand: supply is provided by the number of aircraft flying and the airlines available operate them; demand is represented by GDP – and on a macro basis there is no price elasticity of demand for air travel but there is elasticity of income.

Also pointed out was the historic 40% slump in aircraft production rates in previous recessions (Steve Udvar-Hazy of ILFC is suggesting a similar downturn this time – no matter what the manufacturers claim); and the level of parked aircraft in the downturn of 2001-02 when 12% of the world's fleet was resting in the desert. Interestingly recent figures from Ascend show that 12% of the world's operating aircraft fleet was once again parked at the end of 2008.

In the series of attached tables we show the results of the poll. The conclusions are that the audience was generally pessimistic but maintained some glimmer of hope. A majority believed that there would be no increase in the number of aircraft mothballed this year; that the values of short haul aircraft would only fall by 20% from the recent peak and yet that the manufacturers would continue at production rates less than 20% below the peak by 2012. Anomalously perhaps the majority also expected a fair current value of a short haul jet to have fallen by 25% by the end of the year.

On the demand side the audience appeared more pessimistic, with the majority believing that IATA was being too optimistic and that passenger demand would fall by more than 4% this year – with a sizeable minority expecting declines of over 6%. A third believed that industry revenues in 2009 would decline by more than 7.5% year on year.

It is hardly surprising therefore that industry operating profits this year were expected to fall into the red (with a reasonable minority expecting operating losses in excess of $10bn) even though this would represent an unprecedented negative operating margin (maybe they were thinking of net profits), and would put paid to any recovery in the US.

It has been widely reported that 30 airlines went bankrupt last year, mostly all relatively small carriers. The majority expected an increase in failures this year – and a

GENEVA FORUM SURVEY (cont.)

How do you think world airline revenues will change in 2009?

Rise or remain flat	3%
Fall by US$10bn (-2%)	16%
Fall by US$30bn (-5.5%)	46%
Fall by US$40bn (-7.5%) or more	35%

What level of operating profits do you think the world's airlines will make in 2009?

US$3.9bn to zero	8%
Zero to –US$1.5bn	13%
-US$1.5 bn to –US$10 bn	61%
-US$10bn or more	18%

Globally about 30 airlines failed in 2008. How many will fail in 2009?

0 - 30	30%
31 - 40	40%
41 - 50	16%
More than 50	14%

How many airlines will receive government support in 2009?

0 - 30	53%
31 - 40	23%
41 - 50	5%
More than 50	19%

When do you think the commercial aviation industry will see a return to 2008 revenue levels?

2009	0%
2010	20%
2011	53%
2012 or later	27%

Aviation Strategy
is published 10 times a year
by ***Aviation Economics***

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ISSN 1463-9254

similar number of airlines receiving government aid.

Throughout the conference there was much discussion of the possible shape of this current global recession: V-shaped, U-shaped or (as one guru stated) swimming-pool-shaped (have we dived into the deep or the shallow end?)

Economist Anatole Kaletsky pointed out that this (as every) recession is different; but truly so in that unprecedented and divergent forces are in play that make forecasts from econometric models – that rely on precedent to predict the future – virtually impossible. Some 20% of the audience seemed to believe that industry revenues would return to the 2008 peak by 2010 (the 'V's?) and a 53% majority by 2011 (the 'U's?).

The consensus appeared to be that the world and the industry is in for a long difficult period. It is almost a truism to say that the top of the cycle is marked by people saying that "this time is different" and that it is going up forever. The converse is also valid – but it always feels worse because fear is a more fundamental emotion than greed. Nevertheless at the polling session at last year's conference the audience responses were patently too optimistic. We might hope that this time they are in the opposite direction.

By James Halstead

Iberia – BA: marriage of equals

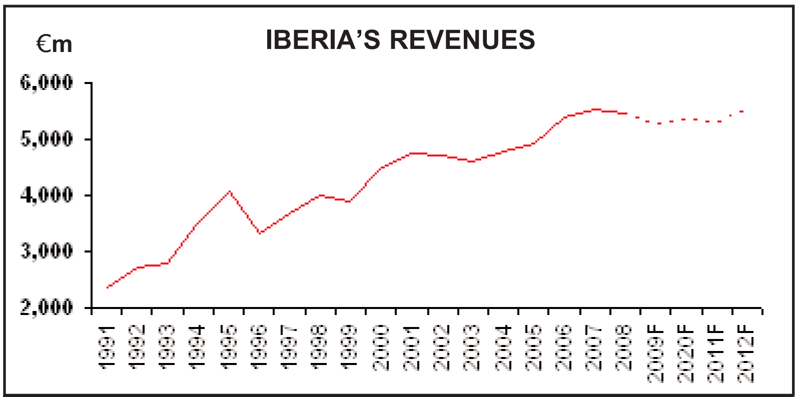
Despite Spain being one of the worst performing European economies in this current downturn, Iberia, of all the European airlines may be in one of the best positions, and worthy of an equal share in a merger with British Airways.

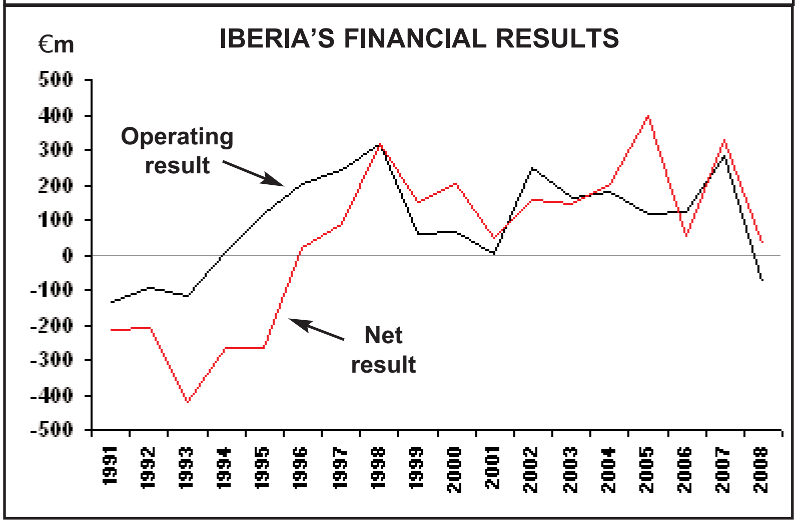
The transformation in the operations of the company has been remarkable over the past decade. Formerly heavily dependent on short haul and domestic traffic, with very little in the way of valuable long-haul operations and a disparate and aged multi-type fleet structure, it now generates more than half of its revenues from a lucrative niche long-haul operation on the South Atlantic. It links efficiently into the Hispanic markets in South America with a leading market position. The fleet now consists of only two aircraft types – the A330/340 and the A320 families. It has withdrawn from the highly competitive market to and within Spain that avoids its home base at Madrid (or at least passed those routes on to its affiliate LCC Clickair/Vueling), and helped by the new runways and terminal has been able to create a true network hub at its base in Barajas.

Through all this it has maintained an unusually cash oriented financial strategy – with the majority of aircraft off-balance sheet through leases or synthetic leases – and enters this downturn with cash balances of €2.3bn (excluding its stake in BA), equivalent to over 40% of revenues, and an enviable on-balance sheet net cash of €1.5bn.

Many airlines come up with imaginative names for their usual medium-term restructuring plans as if they glitzily need to sell them to their stakeholders. Iberia more staidly refers to its target plans as the "Director Plan". The last one was created for the period 2006-2008 and could be termed a success.

The original plan created four years ago was based on four basic strategic aims: optimising the network, improving productivity, boosting revenues and cutting costs. Over the period of the budgeted plan the group increased overall capacity by a modest 4% - slightly higher than originally envisaged - but within this group figure, domestic capacity was cut by a third, overall medium-haul operations (i.e. within Europe) grew by 4% but capacity between Madrid and other destinations jumped by 45%, and long-haul capacity (mainly to South America) grew by 19%.





The result of this network restructuring led to a sustained increase in revenues from long-haul operations: whereas in 2005 the domestic, medium haul and long-haul networks contributed roughly a third each of total revenues, by 2008 the long-haul revenues accounted for half of the total and the domestic operation a mere quarter.

Importantly, while it has continued to increase its share of the South Atlantic market – overtaking AF-KL (excluding the French and Dutch "domestic" destinations in the Caribbean), in 2004 it has built a 20% share of the market but maintained a higher 24% share of the business and premium markets on the routes. Over this three-year period total passenger numbers on long-haul grew by 19% but business passenger numbers jumped by 42% and unit revenues improved by 23%.

Meanwhile, the mainstay of improvements in productivity arose from the final stages of the fleet harmonisation programme that has been going on for the past decade. Ten years ago the group had a fleet of 10 disparate aircraft types with an average age of 12 years. In 2008 the last of the MD80s left the fleet, leaving the company with two aircraft families: the A320s for short-haul and A340s for long-haul. The average age meanwhile has fallen to seven years and utilisation has risen to 10 hours a day (and 14.5hr for long-haul) with concomitant improvements in both ownership, maintenance and fuel unit costs.

Although the passenger business accounts for 80% of revenues, there are two other relatively important divisions to the business. The MRO operation accounts for about 6% of turnover; and in the 2006-08 business plan the company had set out to increase significantly its third-party sales. The operation appears to have some unusual competitive strengths and – now that the Iberia fleet is all concentrated on the A340 and A320 families – expertise that is unrelated to the needs of the Iberia operation (inter alia they hold licenses for overhaul of RB211 engines). The third party revenues have nearly doubled to €310m in 2008 from 2005 levels.

The less successful side of the business is that of handling. Following the liberalisation of the handling business in Spain and the requirement to open up the business to other operators, Iberia has suffered the loss of a handful of ramp-handling licenses in some airports – the most significant being at Barcelona. As a result the performance of the division has been far worse than expected and third-party revenues have fallen by 15% since 2005, with the division being in loss for the last two years.

A difficult 2008

Along with the rest of the industry 2008 proved a very difficult year for Iberia – first with the extraordinary strength in the price of fuel and then, as the recession started to bite increasingly from mid-year, with an accelerating weakness in traffic. For the full year capacity fell by 0.5%, year-on-year demand was down 2.5% and the load factors dipped 1.5 points to a still respectable

80%. This was almost totally skewed towards the retrenchment in the domestic market where there was a full year 17% fall in capacity (against a 2-3% increase across the rest of the network) – principally reflecting the impact of the high speed train link between Madrid and Barcelona as well as the withdrawal from routes not touching Madrid Barajas. In the first half of the year capacity had actually increased marginally, but the group increasingly removed capacity from the system in reaction to the market conditions.

They were helped in one sense by the flexibility provided by being able to accelerate the disposal of the MD80 fleet, and the reduction accelerated in the last quarter of the year to show year-on-year declines of 5% in ASK. Given the continued switch in operations away from domestic and medium-haul routes that do not touch Madrid, and the further emphasis on the network hub operations, the new route structure generated an automatic increase in average stage length - with the resulting difficulty of being able to analyse a consistent progress in unit revenues and costs, exacerbated by the strength of the Euro against the Dollar in the period. Passenger unit revenues on the face of it fell by 3% year-on-year (but would have up on a constant currency basis) – albeit with a declining rate of fall through the year – while total revenues per ASK actually rose in the fourth quarter to end the year less than 1% down.

Unit costs excluding fuel, helped by the Euro strength and the increase in stage length, fell by a useful 5% year-on-year – but the development of the fuel price, along with ineffective hedges in the second half of the year meant that overall unit costs increased by 6%. (These hedges continue into the current year, so the company along with many others in Europe will not get the full benefit of the current low oil price). As a result, EBITDAR halved to €500m (a 9% margin) for the full year.

Given the exceptionally high level of leased aircraft in the fleet the reported operating profit is not readily comparable with other carriers, and Iberia tries to adjust the reported €79m loss to show an economic €40m profit at that level for the period. The company nevertheless even managed to report a pre-tax profit from operations of €5m (down from €415m the previous year) and a net income of €32m, decimated from the 2007 results but representing the thirteenth consecutive year of profits. Despite everything in the current environment the management even expressed the idea that 2009 would also be profitable.

Barajas hub plan for 2009-11

At the group's investor day in Madrid last month the management presented their new strategic plan and targets for the next three years. Once again there are four main planks to the strategy: recover profitability in the main passenger business; accelerate profitable growth in the maintenance business; return the handling operations to a sustainable long-term profitability; and be involved in the “consolidation” process.

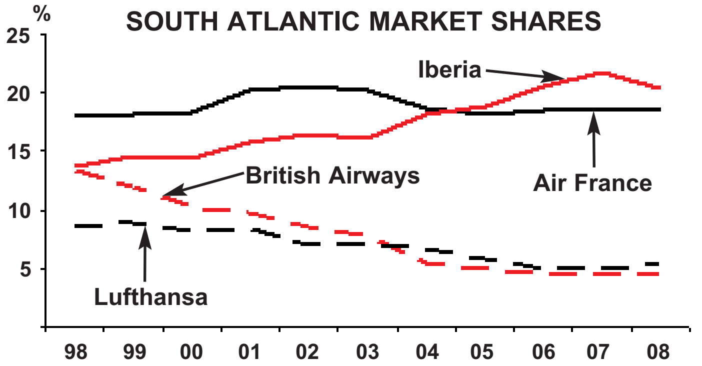
On the passenger business once again the group is concentrating on optimising the hub at Madrid Barajas and the size and structure of its route network. Without taking material measures the company foresees underlying operating losses continuing (and increasing) through to 2011, and is setting itself the target of recovering profitability to the peak achieved in 2007. This involves improving results by at least €370m over the next three years – the group has identified that it should be able to achieve half of this from further network and capacity optimisation and the remainder equally split between improving revenues and reducing costs.

On the network, it will continue to expand the relative share of the long-haul network with a modest average 3% rate of growth over the period against flat capacity on short- and medium-haul: there are only a handful of aircraft scheduled for delivery over the next few years, but the preponderance of leased equipment in the fleet provides substantial flexibility for them to adjust capacity depending on market conditions.

The transformation of Barajas into a true network hub is to be taken a stage further. Already 53% of the total passenger traffic connects through the hub; and on long-haul operations this rises to 70% - even though only 8% of domestic passengers and 20% from medium-haul operations transfer onto long-haul routes. The company currently operates three main waves at the airport and is looking to improve the connecting banks – taking advantage of the current slowdown to acquire slots where needed – aiming to increase connecting opportunities by some 12%. At the same time they are reinforcing seasonal differentiation of the yearly, and even weekly, schedule and improving the balance of North Atlantic/South Atlantic capacity across the year. At the investor day there were comments about improving and maintaining product and brand to be the "best in class" for the premium offering (including flat-beds by 2011) and "as good as the rest" for economy. But the main element for improving revenues through this planned period appears to be the implementation of a true O&D yield management system (which was initiated last September) and the application of best practices in revenue management – for others who have done this, once the system has learnt, it can provide a healthy one-off boost to yields.

On the cost side, the group is looking to generate savings of some €90m over the next few years – a third of which is expected to come from employee productivity (including crewing levels and crew/fleet operational commonality among other things). One mild danger in this may be a planned cabin crew redundancy programme – which has yet to be agreed with the unions – and maybe there could be the danger of strikes. The net impact of these measures is to retain and reinforce Iberia's apparent competitive cost advantage. Iberia structurally has traditionally held a relatively low cost position in the industry (primarily because of the historic competition from specialist tourism-carriers). The group's aim is to maintain its unit cost advantage but improve albeit modestly the revenue unit cost gap.

SOUTH ATLANTIC MARKET SHARES



AIRLINE MRO BUSINESS

	Turnover US$m	Third party %
HAECO	550	100.0
Snecma	786	100.0
British Airways	795	4.4
Continental	849	1.9
Northwest	983	2.2
Iberia	995	47.4
Iberia & BA	1,789	28.3
SR Technics	1,368	100.0
Delta	1,410	25.4
ST Aerospace	1,738	100.0
United	2,155	6.5
American	2,336	10.7
Air France	3,832	32.4
Lufthansa	4,857	60.7

On the maintenance side the aim unsurprisingly appears to be to continue further to target third party revenues – currently 45% of total volume. Of this external revenue 65% of turnover is provided by engine overhaul – primarily RB211 and CFM56 – and only 10%-15% from components and airframe maintenance. The company is looking to build on these two areas – and among other things is exploring the opportunities of its links into South America to put off-shore the more man-hour intensive airframe works (which would only really work for widebodies, and could provide upto 30% cost advantage even after transport costs) while developing a competitive maintenance base in Barcelona (helped by the captive customer of Clickair/Vueling) for narrowbody fleets across the Mediterranean.

Regarding Iberia's handling operations, the group maintains optimism that it should be able to return the division to profitability. The liberalisation of the Spanish handling market in 2006 brought in a plethora of new competitors and for Iberia a loss of some major contracts (although they have gone back into JVs with some of the license-winning bidders). After a profit of around €20m in 2007 the operation collapsed to losses of

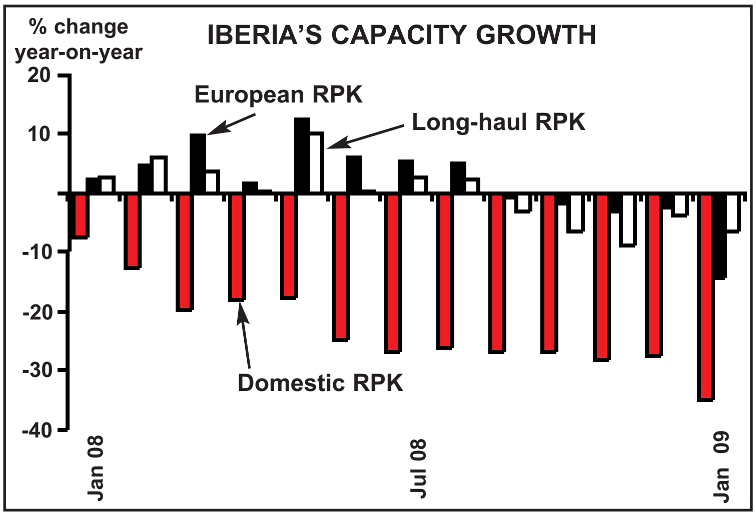
€25m in the past two years. The company's hope is that it will see a reversal of the decline in average ramp-handling charges that this increased competition brought in, while at the same time is looking to "right-size" the operation through managed redundancy programmes.

The net target of all these measures aims for a return to EBITDAR margins of over 15% within three years and a return to an RoE of over 12%.

Strategic consolidation

The past few years has seen intense competition within the Spanish domestic market – one of the largest within Europe. Not only home-grown – with a monumental fight between Spanair, Air Europa, Vueling and Iberia's own Clickair – but also from the incursion of the likes of easyJet, Ryanair and Air Berlin, and there has been some particularly intense capacity growth and yield pressure. Since 2003 the domestic market grew by over 30% (even with the introduction of the Madrid-Barcelona high speed train last year) and Iberia's share of that market fell from over 50% to 35% while the LCC share has grown from virtually nothing to 20%. In one sense the current downturn is an opportunity for a long-anticipated rationalisation of this market; the Clickair and Vueling merger should now go ahead (in which Iberia will have a stake of over 40%) providing a strong Iberia family base in the Catalonian capital of Barcelona. Spanair on the other hand particularly has some hard choices to return to profitability – although it has cut back capacity considerably after its haemorrhages of the past two years and now has new majority owners, even though SAS retains a minority stake. Air Europa meanwhile remains highly dependent on group travel.

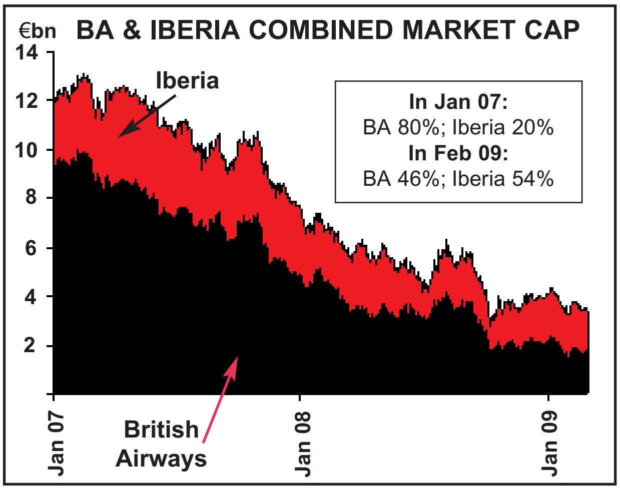
This is relatively minor compared with the plans on the Atlantic. Following the introduction of the first phase of transatlantic open skies last year, Iberia, American and British Airways started their application for ATI on all routes across the Atlantic, to include a joint business agreement (aka joint venture) between the three. If granted



this will create a business of around €6bn covering 42 routes and 10m passengers – on an equivalent base to the four-way joint venture established by AF/KL/DL/NW of the SkyTeam alliance, and the potential Star agglomeration around UA/LH.

Spain was one of the few European countries (along with the UK) that did not have an open skies agreement with the US before last year – and this had effectively previously precluded any hope of anti-trust immunity. At the British Airways investor day in March, the BA management were fairly confident that ATI for the JV would be granted by the autumn – the DoT and DoJ having recently requested a mass of additional information. Meanwhile, Iberia might look to improve penetration into its niche market in South America through link-ups with one or more of the regional players.

As it stands Iberia has a tremendous niche market position into Latin America but remains under significant pressure from new model entrants into its domestic and medium-haul markets. Niches however are always attractive to others; and the multi-hub powers of the two main European network carriers could be turned to attack (and AF/KL already have a similar share of the market to that held by Iberia). Albeit a relatively small player, Iberia naturally wants to be involved in the core of one of the developing "super" alliances. With the significant changes in the European landscape created by AF/KL and the LH grouping, the natural choice for Iberia would be a more per-



manent link with British Airways. The two have been in deep negotiations for over a year (delayed a little by BA's proposal to Qantas) while Iberia has cemented its intentions by building a cross-stake in the UK flag carrier.

The two have been connected for over a decade (with BA taking a core stake in the privatisation process) and have had joint operations between London and Madrid/Barcelona for some time. There should be considerable synergistic benefits – with various estimates pointing to joint results improvements of some €400-€500m annually (a conservative 3-4% of combined revenues). Given the geographical position of the respective hubs and the nature of the route networks, these are more likely to come from cost synergies than from revenue improvements (as realised for example by AF/KL following their merger in 2004), although there could be some surprising benefits to Iberia's MRO business from the effective merger. The plan is to establish a new holding company into which will be folded the two existing quoted groups – retaining the separate brands and market identities, and to be listed on both London and Madrid exchanges.

There have obviously been some major translation difficulties in the negotiations – and to outsiders the complications of the UK defined-benefits pension schemes and the accounting thereof (there will undoubtedly be another massive shortfall from the £1.5bn deficit to be announced after the BA pension funds' next valuation at the end of the month) must be almost incomprehensible.

By James Halstead

Relative shares?

However, both management teams at their respective investor days emphasised that the pension question is no longer an issue and that they have identified and quantified the expected synergies. Given the respective performance of the two group's share prices, and the weakness of sterling against the Euro, there has been much press comment suggesting that there would be a major problem in negotiating the relative share of the combined group. The Iberia share price has significantly outperformed the rest of the industry in the past eighteen months and whereas BA's market capitalisation would have represented 80% of the sum of the two at the beginning of 2007, at the beginning of February this year it fell below 50%. However, although Iberia's CEO Fernando Conte (slated to become the chairman of the combined group) mentioned last month that this was under negotiation, BA’s CEO Willie Walsh in early March stated that it was no longer a problem; many pundits are suggesting that the agreed ratio is likely to be 55% BA/45% Iberia.

The last remaining issue is believed to be one element of corporate governance, which Willie Walsh said in particular related to the degree of control by the holding company of the treasury and cash resources of the underlying operating companies. Given that it is Iberia that has the cash (grossly representing nearly 150% of its current market capitalisation) it is understandable that the core Iberia shareholders may fear the worst. Having come so far however it would appear very unlikely that this last remaining issue will be an irresolvable deal-breaker.

Even so if the fusion of companies takes place it will be a first for Europe: both are well-managed; both are negotiating from a position of strength; and, it is likely (despite BA's history of failed espousals) to be a marriage of equals.

JAL and ANA: contraction in 2009, expansion from 2010?

Japan's two global carriers, Japan Airlines (JAL) and All Nippon Airways (ANA), are scrambling to cut capacity and costs in response to sudden sharp declines in international passenger and freight volumes due to recession. How severe will the financial damage be in 2009? Will the airlines need government aid? And will their balance sheets be strong enough for post-2010 growth?

Until late last year it looked like the Japanese carriers would escape the worst effects of the global recession. Their international traffic had continued to grow, albeit at a slower rate in the autumn. In early November JAL and ANA still released forecasts that anticipated profits in the current fiscal year. But after that the situation deteriorated rapidly.

In recent weeks, JAL and ANA have stood out for their truly dismal monthly traffic results. They are not just seeing steep declines in international freight and premium traffic, but their leisure traffic is no longer helping to offset the impact. JAL's total international RPKs fell by 19.6% in December – the biggest monthly drop since the SARS scares in August 2003. ANA's international RPKs declined by 15% in November and December. Since capacity was down only marginally, the airlines saw load factors fall by 10-11 points in December.

Those were probably the worst passenger traffic results among global airlines in December. According to IATA statistics, Asia Pacific carriers' international RPKs fell by 9.7% that month, with North American and European carriers seeing 4.3% and 2.7% declines, respectively.

JAL and ANA are impacted so severely because Japan now has far worse economic woes than the US and Europe. Japan's real GDP shrank by 12.7% in the fourth quarter, roughly twice the US rate. The dramatic decline was caused by the collapse of exports. Amid job cuts and rising unemployment at home, consumer spending has evaporated. Inbound tourism has been hit by the yen's appreciation (caused by the global financial turmoil). Therefore the Japanese carriers are seeing sharply weaker demand in all of their segments – international, domestic, passenger, freight, business, leisure, inbound, outbound, etc.

December quarter losses

As a result, JAL and ANA posted operating and net losses for the December quarter, contrasting with profits in the year-earlier period. Both airlines will now be reporting net losses for the current fiscal years ending on March 31.

ANA expects to report a net loss of around ¥9bn (US$92m) for 2008/09, which would be its first annual loss in six years, contrasting with a net profit of ¥64.1bn (US$657m) last year. Revenues are expected to decline by 6%. Still, the net loss would be only 0.6% of revenues and the operating result is expected to be positive to the tune of ¥8bn (US$82m).

JAL expects to report operating and net losses of ¥37bn (US$379m) and ¥34bn (US$348m), respectively, for 2008/09. The losses will account for less than 2% of revenues, which are expected to fall by 11.3%. But it will be JAL's third annual net loss in four years and particularly disappointing in light of the promising recovery that the airline saw last year, just one year after embarking on a four-year restructuring effort.

At the end of February most analysts were forecasting increased losses for both airlines next year. The consensus estimate (five analysts) for ANA is a loss of ¥7.90 per share in 2009/10, up 71% from this year's Y4.62. JAL is expected to lose ¥21.49 per share in 2009/10, up 63% from this year's ¥13.21. However, not surprisingly in light of all the economic uncertainty, the range of individual analysts' estimates is rather wide.

Although there are no specific concerns about the Japanese carriers' near-term liquidity, there are potential issues if the demand slump worsens or continues for a prolonged period.

First of all, JAL and ANA have weaker cash reserves than global carriers generally and their balance sheets may not be able to withstand an extended period of cash burn. This is particularly the case with JAL, whose year-end liquidity (cash and readily-convertible securities) amounted to just ¥200bn (US$2bn) or 10% of this year's revenues. Most global carriers consider 20% to be the minimum adequate liquidity level these days.

JAL's main problem it that it has significant debt payments, bond redemptions and aircraft capital expenditures in fiscal 2009/10 that its cash flow will obviously not cover. It may not be able to raise funds through normal commercial channels if the demand environment remains weak and the credit crisis continues.

Another potential issue is that JAL and ANA have heavy new aircraft order commitments and significant growth planned from 2010. They will have some rare growth opportunities when major expansion projects are completed at Tokyo's congested Haneda and Narita airports.

In particular, the opening of a fourth runway at Haneda in October 2010 will be a watershed event, because it will mean a dramatic 40% increase in slots. Haneda will also be formally opened up for international flights. The airlines have been planning for what they call the Haneda "big bang" for many years. In the run-up to 2010, JAL was supposed to be consolidating profitability and both airlines were supposed to be building up cash reserves and strengthening their balance sheets. Will they now be able to fund post-2010 growth?

To meet its obligations in the next 12 months, JAL may have no option other than to seek state aid. The airline is reportedly considering applying for up to ¥200bn (US$2bn) in long-term low-interest loans from the Development Bank of Japan. This would be in addition to ¥50bn of cost cuts and a likely reduction in non-aircraft capital expenditures (which JAL plans to announce in its 2009/10 business plan at the end of March).

The low-interest loans would be part of an aid package that the government hopes to unveil by March 31 to help Japanese companies cope with the economic crisis. The package is expected to include capital infusions to struggling companies, which JAL might also be able to access. JAL and ANA took advantage of similar low-interest DBJ loans during the 2003 SARS outbreaks.

While ANA is in a stronger financial position than JAL, it too has significant new aircraft commitments and could therefore also opt to apply for the DBJ loans. Like JAL, ANA is looking to defer all but strategically necessary investment. As of late February, ANA and JAL were still reportedly looking at all options.

It is hard to see that tapping the DBJ low-interest loans would carry much stigma at a time like this. Capital injections from the government would, of course, be more controversial.

The airlines' main focus in recent weeks has been to adjust capacity and cut costs further for what JAL executives called a "radically different environment". There will be a near-10% reduction of international capacity at the two carriers, as well as a major new cost-cutting effort at JAL.

Demand and revenue challenges

JAL and ANA are fortunate in that they effectively have a duopoly of Japan's huge, lucrative, business-oriented domestic market – the world's third largest after the US and China. It is a mature, stable market and JAL and ANA are very good at matching capacity to demand and using pricing to stimulate demand. Both airlines have been restructuring their domestic operations for years to enhance profitability. So even though domestic demand has been soft all year and weakened further in late 2008, JAL and ANA managed to keep their domestic load factors stable and JAL even saw its domestic passenger revenues inch up by 0.6% in the

December quarter.

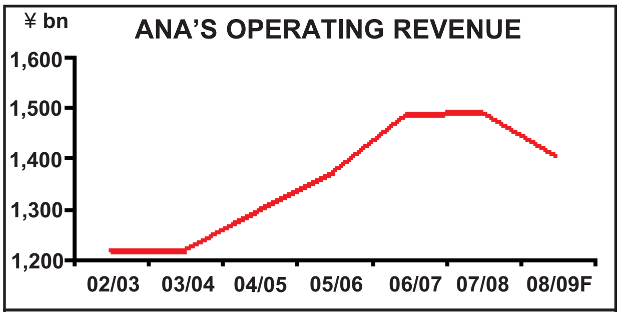
JAL said that it reduced domestic capacity slightly in the December quarter but that demand and yield were broadly unchanged. ANA saw a 5.8% decline in domestic passenger revenues, reflecting a 6% reduction in both capacity and demand.

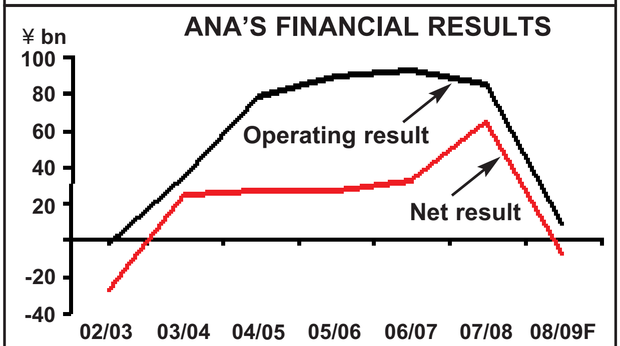
The two airlines are similarly sized in Japan, with ANA earning ¥177bn and JAL ¥168bn revenues from domestic passenger operations in the December quarter. However, ANA is better positioned for this economic crisis because it has much less exposure to the more volatile international markets. This partly explains why ANA's profits have historically been higher and more stable than JAL's. In the latest quarter, ANA's international passenger revenues (¥74bn) accounted for 24% of its total operating revenues, compared to JAL's 41% (¥176bn).

Internationally, the airlines saw weak leisure demand on China routes through much of last year (the Sichuan earthquake, food-related scares, etc) and softening leisure traffic on European and North American routes from mid-2008 due to high fuel surcharges. In late 2008, following the US financial crisis, business demand plummeted on European and US routes. In the fourth quarter, JAL's worst-affected markets were Oceania (RPKs down 37%), Europe (19.6%), China (19.5%), Southeast Asia (17.9%) and the Americas (14.9%).

JAL's international capacity has been declining for the past year, due to route restructuring and aircraft downsizing particularly on its US and China routes. Its international ASKs were down by 4.5% in April-December 2008 and by 4.4% in the fourth quarter. Of course, the capacity reductions paled in comparison with the 12.5% and 17.9% RPK declines in those periods. ANA only began tentatively reducing its total international capacity in the fourth quarter (down 1.3%) and saw RPKs decline in the low-teens.

Oddly enough, the Japanese carriers' international yields have surged in the past year. JAL's was up by 13.8% in both April-December and the fourth quarter. Around half of the increase was due to hikes in fuel





Note: FY ends 31st March. 2008/09 figures are ANA's forecasts.

surcharges. IATA fares also rose twice last year, by 10-13% in April and by 5-10% in October. The rest of the yield increase was due to the yen's appreciation and changes in route-mix.

The Japanese carriers have had fuel surcharges on international tickets since February 2005. Raising them became an almost quarterly event (for which government approval was needed) and for a long time there was seemingly little impact on demand, so the airlines benefited greatly. But the method did not work so well in the unusual circumstances seen last autumn: because of a time lag, the fuel surcharge was raised (and actually peaked) in October, just as fuel prices were falling dramatically and consumer sentiment was worsening.

The fuel surcharges are obviously now coming down. The first reduction was in January, and from April the surcharges will come down quite dramatically; for example, the Japan-US mainland routes will see a reduction from US$204 to US$34 each way. The surcharges will be removed completely when the three-month average price of Singapore kerosene falls below US$60.

As a result of the yen's appreciation and the lowering of the fuel surcharges in January, JAL reported a slight recovery in outbound leisure demand on short haul routes such as Korea, Guam and Hong Kong. The airlines are obviously hoping that the more dramatic surcharge reductions in April will have a greater positive effect.

But business demand has shown no sign of recovery, as economic indicators have continued to worsen. The current quarter is again expected to see a double-digit decline in real GDP in Japan. IATA reported that passenger and cargo traffic declines worsened in January.

JAL's cargo revenues were down by 26.8% in the fourth quarter, which was in line with what other Asian airlines reported. ANA saw only an 8.3% decline in cargo revenues in the latest period, but that was because it expanded its fleet and freight network. JAL and ANA earn 9-12% of their revenues from cargo operations, so they are not as heavily exposed to freight as some of their Asian counterparts.

Dealing with the crisis

JAL and ANA have scrambled to deal with the sudden escalation of the economic crisis. First, they have implemented what they call "emergency" measures, including some immediate route suspensions, frequency reductions and cost cuts. Second, they have outlined extensive network and service changes, resulting in sizable temporary contractions internationally, in their business plans for the fiscal years starting on April 1. Third, the airlines are planning additional cost cuts for FY 2009/10.

ANA's emergency measures have included immediate suspension of one China route (Osaka-Dalian-Shenyang) and frequency reductions on its Mumbai, Shanghai and Bangkok routes from Narita. The airline also scraped together ¥2bn (US$20bn) of extra cost cuts for the current quarter.

In fiscal 2009/10 ANA plans to cut international ASKs by 8% and domestic ASKs by 4.3%. Internationally, it is looking to reduce capacity particularly in the Japan-China market (by 11%) through route suspensions, frequency reductions and aircraft downgauging. Paris and Frankfurt flights will be switched from 747-400s to 777-300ERs and Washington from 777-300ERs to -200ERs (some of them only for 2009).

Domestically, ANA wants to allocate resources more effectively and improve profitability and its competitive position. This will mean a couple of new routes, some frequency increases, many route suspensions or service reductions and increased reliance on code share partners and seasonal flights in smaller markets.

ANA is in the process of building cargo into its "third core business" and is sticking with plans to start a cargo hub operation at Okinawa in October 2009. It will employ eight 767-300 freighters to link Seoul, Shanghai, Taipei and Hong Kong with Narita, Haneda and Kansai via Okinawa.

In March 2010 another 767-300 freighter and Tianjin will be added to the operation. In response to the slump, ANA is delaying the introduction of widebody freighters by six months and considering other measures, but its cargo ATKs are still expected to grow by 31% in 2009/10.

Cost-cutting plans

On the cost-cutting front, ANA is asking its employees to agree to a temporary 10% average pay cut from April, which would save ¥14bn (US$143m) in FY2009/10 and only apply for one year. The brunt of the cuts would be taken by upper management, with non-managerial employees only seeing a 3% reduction. Senior executives took 20-30% cuts in compensation in January. ANA has not disclosed how the unions have responded, but in late February, in an effort to boost worker morale, it announced plans to start an employee share incentive plan.

ANA now expects to receive its first 787 in February 2010 (21 months behind the original schedule) and start commercial flights the following month, initially on domestic routes for ETOPS rating and pilot training purposes (it is the type's launch customer). It would appear that not having the 787 this year has turned out to be a blessing in light of the economic crisis. ANA looks likely to have excess aircraft in 2009 anyway, with 17 deliveries (including two 787s) compared to seven retirements. The result is likely to be reduced aircraft utilisation.

JAL has pencilled in cuts adding up to a near-10% international capacity reduction in 2009/10, much of it taking place at the start of the fiscal year. The plans include suspension of Osaka/Kansai-London and some China routes, frequency reductions on the New York, Bangkok, Seoul and some China routes, and aircraft downsizing on five Asian and two US routes. However, JAL is adding a second daily flight from Tokyo to London and increasing domestic feeder flights to and from Narita.

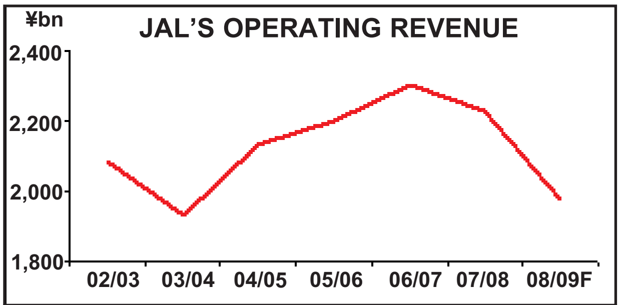
JAL is also increasing the role of two of its lower-overhead cost subsidiaries, JAL Express and J-AIR. JAL Express will launch international operations with 737-800s in May, starting with three routes to China, while J-AIR will expand domestic operations with its newly-introduced E-170s.

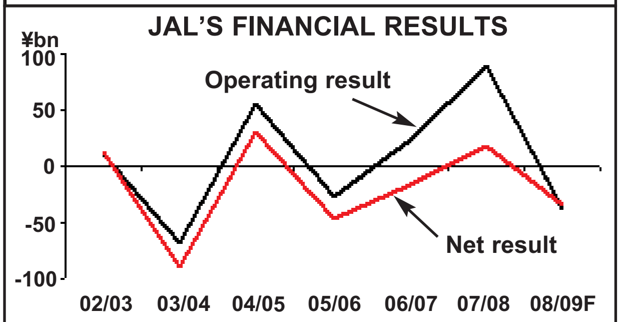
Overall, JAL's domestic capacity is expected to decline by 2-3% in 2009/10. JAL aims to improve domestic profitability through route suspensions and flight frequency increases using smaller aircraft.

On the cargo front, JAL is looking at a major pullback at the start of the fiscal year. Plans include termination of all services to Manila, suspension of seven routes worldwide, frequency cuts to Los Angeles and downsizing from 747-400Fs to 767-300Fs on several routes. But there will be new service to northern China. JAL is in talks with Nippon Cargo Airlines regarding possible code share operations.

JAL continues to renew its fleet, phasing out larger, older aircraft in favour of more small and medium-sized aircraft – a key part of its cost-cutting plan. Fiscal 2009/10 will see 19 deliveries and 20 retirements. The airline is adding 737-800s and E-170s and retiring its last 747 classics, as well as MD-81s and 737-400s.

JAL is targeting ¥50bn (US$512m) additional cost cuts in 2009/10, including ¥9bn of savings achieved ahead of schedule in the current fiscal year. The cuts, which will be outlined in detail later this month (March), are expected to come from a multitude of sources, including labour. JAL reportedly wants to eliminate 2,140 more positions in the next two years.





Note: FY ends 31st March. 2008/09 figures are JAL's forecasts.

JAL has already reduced its workforce by 4,300 or 8% in the past two years through natural attrition and early retirements. In November it implemented a 5% reduction in wages and benefits, and this year hundreds of workers have taken unpaid leave under a new programme.

Some analysts regard the ¥50bn a tough target to hit, given all the cuts already made. But, given its still-undesirable cost structure and with a severe recession likely to persist through 2009, JAL needs the additional cuts. In any case, ¥50bn is only 2.5% of this year's total operating expenses.

Major expansion from 2010?

A slide in a recent ANA presentation summarised well how the Japanese carriers see the way forward: "Respond to crisis and get ready for Haneda and Narita expansion". In other words, while contracting in 2009, JAL and ANA are determined to take advantage of the significant growth opportunities available from 2010.

The airlines' post-2010 plans have been covered in past issues of *Aviation Strategy*, most recently in July/August 2008 (JAL)

JAPAN AIRLINES' FLEET

Type	Fleet	Orders	Options
A300	22		
737-800	16	5	
737-400	8		
747-300	6		
747-400	36		
767-200	3		
767-300	20		
767-300ER	19	3	
777-200	15		
777-200ER	11		
777-300	7		
777-300ER	10	8	
787-8		35	20
MD-81	15		
MD-90-30	16		
Total	**204**	**51**	**20**

ALL NIPPON AIRWAYS' FLEET

Type	Fleet	Orders	Options
A320-200	29		
737-700	2	15	
737-800		9	
747-400	15		
767-300	33		
767-300ER	20	10	
777-200	16		
777-200ER	7		
777-300	7		
777-300ER	13	4	
787-3		30	
787-8		20	
Total	**142**	**88**	**0**

Source: *ATI*
Note: Freighters excluded

and in September 2007 (ANA). In summary, ANA wants to maximise Haneda's potential and focus on Asian growth to become "one of Asia's leading airlines". JAL, already Asia's largest carrier, also wants to build Asian international service out of Haneda, as well as strengthen Narita as a global hub.

Neither carrier released new mid-term plans at the end of January, as they often do. First, they needed to focus on the economic crisis. Second, longer-term fleet plans are currently being re-examined in light of the crisis and the latest (December) 787 delivery delays. Third, capital spending plans are under scrutiny. ANA said recently that its next mid-term plan would be for the three-year period starting in 2010/11.

In December JAL talked of a possible 25% reduction in capital spending plans in the three years to March 2011. ANA reportedly was considering cutting planned capital spending by ¥100-200bn (US$1-2bn) or 11-22% in the four years to March 2012.

In December ANA firmly shelved its long-awaited large aircraft decision. The choice had been between the A380, the 747-8 or not acquiring a new fleet at all. The obvious question now is: will there be less demand for very large aircraft?

However, there have been no changes to existing order commitments and both airlines remain firmly committed to the 787. ANA has 50 firm orders for the 787, while JAL has 35 firm orders and 20 options. In February ANA said that it had decided to speed up the rate of 787 introductions (evidently facilitated by other airlines' order cancellations or deferrals), with 20 now expected in service by March 2011.

Under September 2008 deals with Boeing, ANA agreed to take nine 767-300ERs and JAL two new 777s and nine 767s as interim aircraft in 2010-2011 fiscal years – those arrangements just might give the airlines some flexibility if the economic environment worsens.

In the event that JAL and ANA needed to slow their post-2009 growth plans, they would probably not lose major growth opportunities because other large Asian carriers would be in the same boat. JAL and ANA could lose some slots and market share to LCCs, but the government would then step in to protect them from any serious incursion.

Emirates and Etihad: merging paths?

The Middle East accounted for 20% of all aircraft orders in 2008, and approximately 17% of all outstanding Airbus orders and 12% of all Boeing orders are destined for the Middle East (see chart, page 19). A number of airlines - backed by wealthy emirate states - have ambitious expansion plans, and in the first of two articles on Middle Eastern carriers *Aviation Strategy* looks at the prospects for Emirates and Etihad.

Around 3.5bn people live within an eight-hour flight of Dubai or Abu Dhabi, and the region is a natural "pinch point" between west-ward and eastward routes. That geographical advantage - combined with deep pockets of oil-rich emirates within the UAE - has led to the emergence of a wave of long-haul airlines in the Middle East, of which the two most ambitious are Emirates and Etihad.

Emirates Airline

Emirates Airline was launched in 1985 and is a subsidiary of the Emirates Group, which is owned 100% by the Dubai government. It operates to more than 100 destinations in around 60 countries around the globe, and through the 2000s it reported steady increases in both operating and net profit (see charts, right).

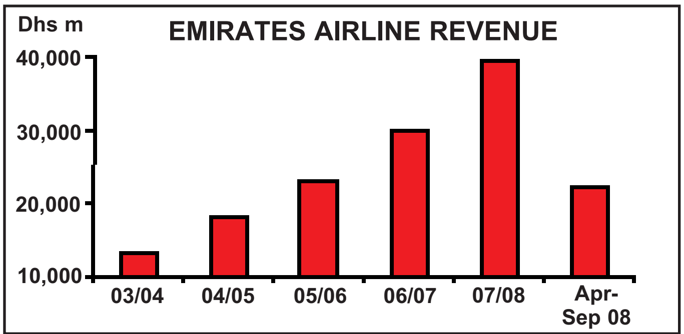
However, in the first half of the 2008/09 financial year (ending September 30th 2008), while operating revenue at the airline rose 31% to Dhs 22.1bn (US$6bn), operating profit fell 90% year-on-year to Dhs 237m (US$64m) and net profit fell 88% to Dhs 284m (US$77m).

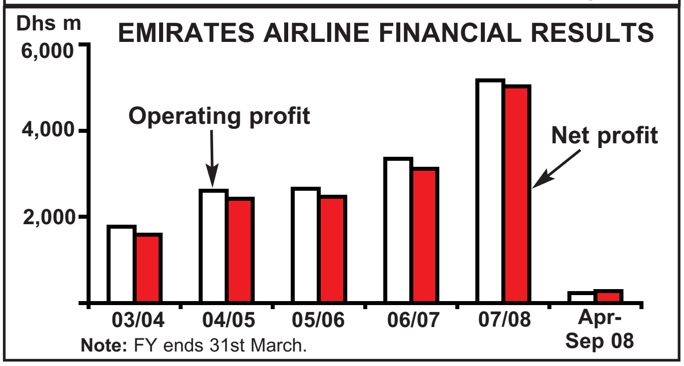
In that six-month period yield rose by 20% and unit revenue by 11%, but unit cost increased by a hefty 40%, with fuel costs more than doubling in the half-year, from Dhs 4.1bn (US$1.1bn) in H1 2007/08 to Dhs9.2bn (US$2.5bn) in H1 2008/09. Traffic rose by 11% in April-September 2008, just behind a 13% increase in capacity, leading to a 1.4 percentage point fall in load factor, to 78.3%.

Tim Clark, president of Emirates Airline, insists that the only factor holding Emirates back in the first-half of the 2008/09 financial year was fuel prices and - now that they have come down - prospects for the second half are very good, with the airline having no plans to reduce its workforce. Premium traffic on some routes has been soft (with some passengers trading down from business to economy) but in general bookings are holding up well, it is believed, and Emirates forecasts net profit of Dhs 3bn (US$0.8bn) in 2008/09, compared with Dhs5bn in 2007/08. As Clark put it, "we expect to close the full year in March 2009 with robust profit".

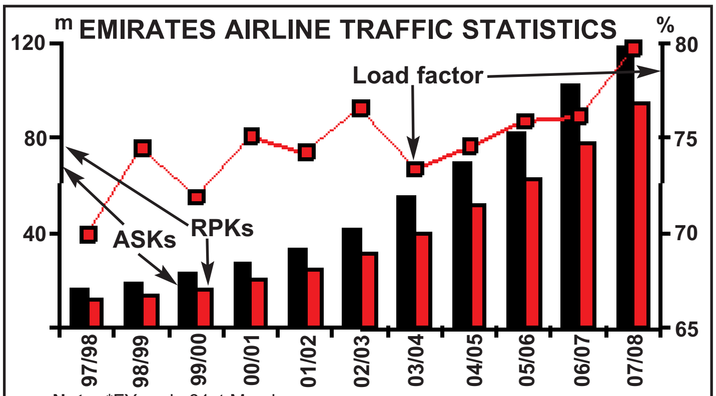
But it is not so much the short-term that Emirates may be concerned about as the long-term, as the airline currently has 182 aircraft on order as it seeks to operate a fleet of 400 aircraft by 2025. With no plans to curtail these fleet plans, Emirates has a huge amount of capacity coming in over the next few years, not least of which will be 54 A380s.

Four A380s were delivered in 2008 (the fourth of which was received on the last day of the year) and they are being used on routes from Dubai to New York JFK, London Heathrow and Sydney. The next A380 delivery has been delayed until April, but seven or eight will be delivered in the 2009/10 financial year. However, Emirates is looking to reduce the weight of future A380 deliveries in order to be





Note: FY ends 31st March.



Note: *FY ends 31st March.

able to use them on routes to the west coast of the US, to destinations such as Los Angeles and San Francisco. This is a 17-18 hour journey from Dubai that is currently not achievable with A380s unless weight can be reduced significantly, in co-operation with Airbus. Incidentally, all the A380s on order will have a three-class configuration, capping maximum passenger capacity at around 500.

The airline did launch a Dubai-San Francisco service in December 2008 using a 777-200LR on a polar route (which saved 45 minutes of flying time), after agreement with the Russian authorities. This followed a Dubai-Los Angeles route that started in October, and Emirates intends to increase frequency on both routes from the current three weekly flights to five per week in May, as long as new 777-200LRs arrive on time (there have been delivery delays). Emirates currently has eight of the model, and they are also being used on the Dubai-Beijing route.

Other new routes launched last year were to Kozhikode (Calicut), Guangzhou and Los Angeles, and altogether capacity rose by 25% at Emirates in 2008. This year, however, the expansion focus is changing, with relatively few new routes (one of which will be to Durban, starting in October, joining existing South Africa services to Cape Town and Johannesburg), with the airline instead focussing on adding capacity to existing routes. Overall, Emirates' ASKs will grow by around 14% in 2009 (compared with an average annual growth rate of 20% over the previous five years).

In the last couple of months it has increased frequencies to many of its 14 destinations in the Middle East, but with an average of one and a half to two new aircraft being delivered each month this year, Emirates' attention will soon have to focus on new routes. It has a long list of target destinations all around the world, and particularly in North America (routes to Houston and Los Angeles are operating at more than 80% load factors) and South America.

In Europe Emirates operates to more than 20 destinations. The UK (five destinations) and Germany (four) are its most important markets, but Italy is a key development target for Emirates. The airline has applied for 21 weekly slots at Rome, 21 at Milan and 14 at Venice – it currently has less than 10 slots at Italian airports, but says that demand for its existing Italian services has been high.

The Asia-Pacific region accounts for approximately 30% of Emirates' revenue and in addition to this, the "West Asia and Indian Ocean" market accounted for another 9% of Emirates' revenue in 2007/08. Emirates currently serves 10 destinations in India – making it the most important market in terms of daily flights – and they operate at an average of 75% load factor. In December 2008 Emirates started codesharing and a reciprocal FFP with India's Jet Airways, which itself also codeshares with Etihad. (Emirates currently has 10 codesharing deals, and Clark reiterates that Emirates will not join a global alliance.)

In the future Emirates could potentially use A380 equipment on the densest routes to India, though nothing is yet decided on this. Emirates also owns 44% of SriLankan Airlines, but a 10-year management contract ended in early 2008 and at the same time the two airlines ended their codesharing agreement (which SriLankan replaced with a codesharing deal with Etihad).

Indian-Dubai traffic flows have increased heavily in recent years and (until recently) have been helped by the massive construction boom in Dubai. Dubai has been determined to turn itself into the Middle East's prime business and leisure centre, and this ambition is underlined by expansion at Dubai's airports. Dubai International Airport is raising its capacity to 60m passengers a year, and last October Terminal 3 was opened, which is devoted mainly to Emirates' flights. The terminal has 26 gates, five of which are dedicated to A380 services, and can handle up to 43m passengers a year.

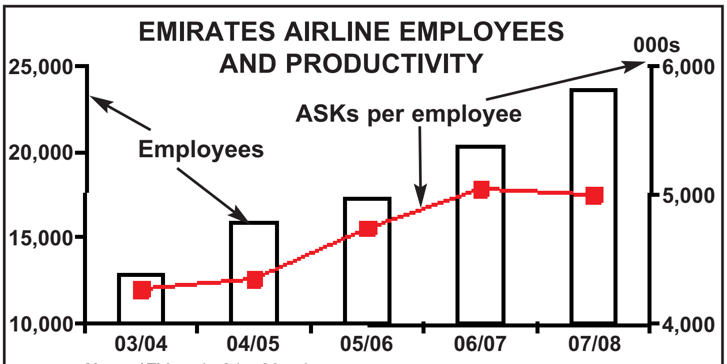
However this facility will be dwarfed by the new airport at Jebel Ali (officially called the Al-Maktoum International Airport) which will have six runways and cater for at least 120m passengers a year when it becomes fully operational in 2017. On the other hand, this new airport will cost at least US$80bn, and given the concern over rising debt levels in Dubai (see page 19) there must be a doubt as to whether this airport will be completed as planned.

Significantly perhaps, the Dubai government also has plans to launch an LCC operation called FlyDubai sometime this summer. The carrier will operate 54 189-seat 737-800s; 50 were ordered last year, for delivery from May this year until 2015, although the model can be converted into 737-900ERs. Four others are being leased from Babcock & Brown. The 737s will be used on regional routes and Emirates says that FlyDubai will operate independently from the main airline. The LCC will operate out of the new airport at Jebel Ali, but it could take passengers away from Emirates mainline, unless the route network is kept completely separate. While the destinations it will serve are yet to be announced, FlyDubai does say that it will operate to “the whole Middle Eastern region, North and East Africa, the Indian sub-continent and South-East Europe”. Incidentally, in February Emirates’ internet site started to offer its customers onward connections to a number of LCCs, including easyJet and AirAsia.

Etihad Airways

Etihad Airways operates to more than 50 destinations worldwide and is based in Abu Dhabi airport, where it has its own terminal. Launched by the Abu Dhabi government only in 2003, the airline initially flew medium-haul and longer routes before expanding onto regional routes in 2007.

Today Etihad employs a total of 7,000 staff, of which 755 are pilots and 2,900 are cabin crew. In 2008 Etihad carried 6m passengers, 34% up on 2007, and had a load factor of 75% (63% in business class, 77% in economy), compared with 68% in 2007. Last year Asia/Pacific flights saw load factor of 84% and Europe 73%.



Note: *FY ends 31st March.

Like Emirates, Etihad connects long-haul markets via its Middle Eastern hub, but has an advantage over Emirates in that it has a better developed regional network, which ensures more feed into its long-haul flights.

Etihad is targeting 25m passengers carried in 2020 (generating revenue of U$13bn), based on a network in that year of more than 100 global destinations served by a fleet of more than 150 aircraft. Underpinning that ambition is a very large order book, which totals 118 aircraft (see table, page 18). The fleet stands currently at 42 aircraft but at last year’s Farnborough show Etihad placed orders for 100 “firm” orders (as well as 105 options), which had a list price of $43bn.

However, it wasn’t until December 2008 that the Airbus order - for 25 A350-1000s, six A380s and 20 A320s (making it the largest aircraft order placed by any airline in the whole of 2008) - was confirmed. Final confirmation was held up by negotiations between Mubadala Development, the Abu Dhabi sovereign fund, and Airbus, under which Airbus finally agreed that some A350 parts could be built in Abu Dhabi itself. Eight A330s are also on order (three of them freighter versions), for delivery in 2009-2011, while in terms of Boeing aircraft 35 787s and 10 777-300ERs are on order.

Nine aircraft were delivered in 2008 and Etihad launched six routes last year, to Beijing, Minsk, Almaty, Kozhikode, Chennai and Moscow. This year Etihad is launching routes to Lagos and Abuja in Nigeria, (joining the existing African routes to Casablanca, Khartoum, Cairo and Johannesburg), and a third route to Australia (joining Sydney and Brisbane) – to Melbourne – will be launched in March.

EMIRATES AND ETIHAD MAINLINE FLEETS

	Emirates fleet	Emirates orders (options)	Etihad fleet	Etihad orders (options)
747-8F		15		
777-200	3			
777-200ER	6	(5)		
777-200LR	8	2		
777-200LRF		8		
777-300	12			
777-300ER	38	33 (39)	5	10
787-9				35
A310-300F	1			
A319			2	
A320			7	24
A330-200	29	(3)	14	2 (12)
A330-200F				3
A330-300				5
A340-300	8		1	
A340-500	10	(10)	4	
A340-600			4	4
A350-900		50 (50)		
A350-1000		20		25
A380-800	4	54 (10)		10
Total	**119**	**182 (117)**	**39**	**118 (12)**

A second US destination will also be added in September with a service between Abu Dhabi and Chicago, and an initial three-times-a-week service on A340-500s will increase to a daily service in October. Etihad also operates to New York and Toronto.

A route to Athens will begin in June, starting with a three-flights-a-week service operated with A320s, before increasing to a daily service by 2010, and in the same month a route to Istanbul will also begin. This will bring European destinations to 13. Etihad has recently increased its London Heathrow-Abu Dhabi service from 17 to 21 flights a week after leasing two pairs of Heathrow slots from Luxair in a five-year deal, and Etihad plans to increase flights further, to five-a-day over the next couple of years.

In the Asia/Pacific region an updated bilateral between the UAE and Japan will allow Etihad to launch a non-stop route between Abu Dhabi and Tokyo in March 2010, and Etihad may follow this up with routes to other destinations, such as Chubu and Kansai.

Etihad is not a member of a global alliance and - like Emirates - has no plans to join one in the medium-term, according to James Hogan, chief executive, instead preferring to rely on codesharing. Etihad signed four such deals in 2008 (Jet Airways, Yemen Airways, Saudi Arabia Airlines and Sri Lankan Airlines) and in January Etihad started codesharing with Bangkok Airways, thereby bringing its total codeshare partners to 12 (which also include Malaysia Airlines, bmi, Brussels Airlines and Philippine Airlines).

Etihad has also been considering launching an LCC of its own, although nothing concrete appears to be developing yet and it may be that Etihad will wait to see how successful FlyDubai is before committing itself - as well as monitoring the growth of Sharjah-based LCC Air Arabia.

Perhaps more of a signal of strategic intent came in late 2008 when Etihad apparently took a serious look at investing in Air Berlin. Although the deal did not come off and Etihad refuses to “comment on speculation”, Air Berlin didn’t appear to be the most logical choice for Etihad in many respects, most particularly in connections. Etihad operates into Germany at Munich and Frankfurt, whereas Air Berlin’s major bases are at Berlin and Düsseldorf, and thus feed into Etihad’s long-haul flights would have been minimal initially. Etihad has never regarded Germany as a key market, but presumably that would have changed if the Air Berlin deal had come off.

It may have been that Etihad was momentarily attracted by the perception that Air Berlin may be undervalued; its shares had fallen from more than €20 in 2007 to under €4 last year, valuing it at less that €300m. Whether the fleeting interest in Air Berlin was opportunistic or whether Etihad is serious about making a European acquisition remains to be seen, but at the very least it indicates that the airline (or more accurately its wealthy emirate owners) is looking to be proactive in the current market conditions. The Greek government also said that Etihad was a bidder for troubled Olympic Airlines, although this was denied by the Middle Eastern carrier.

While the Abu Dhabi government is spending at least US$200bn over the next five years to develop the state, including US$6.8bn in developing the main airport (which Etihad believes will drive even more passenger flows to Abu Dhabi) at the same time there may be growing pressure on the airline to turn a profit as soon as possible. Etihad had been looking to record its first profit in 2010, but that is increasingly unlikely; no financial results are published and the airline is reported to have lost at least US$1bn in 2007.

Different futures?

At the end of last year speculation mounted that Emirates Airline and Etihad Airways might co-operate more closely or even merge, but this was denied by both airlines, with Sheikh Ahmad Bin Saeed Al-Maktoum, chairman and chief executive of both Emirates Airline and the Group, saying: “This issue has never been discussed. I am sure that having more than one national carrier creates a healthier and competitive market ... competition is better because it influences the turnover of passengers.”

There seems little doubt that for the moment both Emirates and Etihad will forge ahead independently with their ambitious expansion plans. But while it’s true that the early experience of Gulf Air - initially owned by four Gulf states - was not successful, and that there would be much resistance to any kind of merger unless it is absolutely necessary, it’s not inconceivable that the two airlines might come together sometime in the future.

Naturally the deciding factor will be the financial strength of these airlines’ respective emirate owners – and at the moment the biggest vulnerability lies with the owners of the Emirates Group. To fund its expansion the Dubai state has taken on large levels of debt (estimated to be at least US$80bn) and the contrast between Dubai and Abu Dhabi could not be greater. The latter state owns more than 90% of the UAE’s oil reserves, and has been growing much more conservatively (i.e. with less debt) than its Dubai neighbour.

Some analysts believe that it’s inevitable that Abu Dhabi will have to bail out Dubai financially in the not-too-distant future, and that the only question is whether national airlines will be part of that rescue plan. Indeed in February the Dubai government announced a plan to raise US$20bn of bonds to pay down debt due this year, of which half was subscribed to by the Abu Dhabi-based UAE Central Bank.

While it can’t be said that Emirates (the airline) is vulnerable financially, cash did fall from US$3.4bn as at March 31st 2008 to US$2.3bn as at the end of September last year - thanks partly to the huge investment in aircraft - and a key test of its strength will be the cash level it declares at the end of March 2009.

BREAKDOWN OF OUTSTANDING ORDERS

	Airbus		Boeing	
Asia/Pacific	1,223	34.4%	1,109	33.1%
Europe	820	23.1%	688	20.5%
North America	624	17.6%	926	27.6%
Middle East	611	17.2%	389	11.6%
Latin America	207	5.8%	169	5.0%
Africa	69	1.9%	71	2.1%
Total	**3,554**	**100.0%**	**3,352**	**100.0%**

Note: As at end January, excluding unidentified orders.

While fuel prices have come down substantially over the last nine months, meaning that Emirates should have robust financial results for the year to March 2009, its group order book remains very large, with a staggering US$55bn of committed orders at list prices. Of course Etihad too has a huge order book, and while both airlines do directly benefit from falling oil prices, at the same time this has a negative effect for them, as much of their traffic is tied to the economic wellbeing of the Middle East, whose economy in general suffers as oil revenues reduce.

Indeed IATA forecasts losses among Middle Eastern airlines will double to $200m in 2009, saying that the “challenge for the region will be to match capacity to demand as fleets expand and traffic slows - particularly for long-haul connections”. Unless the massive order books at Emirates and Etihad are reduced, speculation about a tie-up between the two airlines will always lurk in the background. It hasn’t helped that Emirates had to cancel a planned IPO in early 2008, due to the general economic environment and, interestingly, late last year the Dubai government moved its stake in Emirates from Dnata to the Investment Corporation of Dubai (ICD). Although both entities are state-owned, this would make it easier for Emirates and Etihad to merge their equity, if they wanted to do so.

Of course an Emirates/Etihad tie-up - even if it happened by necessity - would pose an even greater threat to European and Asia airlines than the two airlines currently do on their own. For the moment though, that seems a distant prospect.

		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.
Air France/	**Apr-Jun 07**	8,011	7,486	724	566	9.0%	7.1%	63,376	51,567	81.4%	19,325	103,978
KLM Group	**Jul-Sep 07**	9,183	7,855	1,328	1041	14.5%	11.3%	67,375	57,009	84.6%	20,448	
YE 31/03	**Oct-Dec 07**	8,678	8,202	476	207	5.5%	2.4%	62,615	49,591	79.2%	17,868	104,482
	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	106,700
	Jul-Sep 08	10,071	9,462	609	44	6.0%	0.4%	69,930	58,041	83.0%	20,439	107,364
	Oct-Dec 08	7,880	8,136	-256	-666	-3.2%	-8.5%	64,457	51,255	79.5%	17,934	106,773
British Airways	**Year 2006/07**	**16,149**	**15,004**	**1,145**	**578**	**7.1%**	**3.6%**	**148,321**	**112,851**	**76.1%**	**33,068**	**43,501**
YE 31/03	**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	4,725	4,524	201	-134	4.3%	-2.8%	38,911	29,480	75.8%	8,831	42,330
	Oct-Dec 08	3,612	3,692	-80	-134	-2.2%	-3.7%	36,300	31,335	86.3%	8,835	
Iberia	**Apr-Jun 07**	1,829	1,752	75	83	4.1%	4.5%	16,458	13,307	80.9%	6,863	22,324
YE 31/12	**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	2,181	2,156	25	45	1.1%	2.1%	17,093	14,220	83.2%		21,988
	Oct-Dec 08	1,753	1,836	-83	-25	-4.7%	-1.4%	15,875	12,302	77.5%		20,956
	Year 2008	**8,019**	**8,135**	**-116**	**47**	**-1.4%**	**0.6%**	**66,098**	**52,885**	**80.0%**		**21,578**
Lufthansa	**Jan-Mar 07**	6,258	6,184	74	593	1.2%	9.5%	35,028	26,109	74.5%	12,329	95,696
YE 31/12	**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
	Oct-Dec 08							47,075	36,632	77.8%	26,150	
	Year 2008							**195,431**	**154,155**	**78.9%**	**79,543**	
SAS	**Jan-Mar 07**	1,978	2,025	-47	-7	-2.4%	-0.4%	12,844	8,543	66.5%	9,088	26,136
YE 31/12	**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**	**34,529**
	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
	Oct-Dec 08	1,665	1,706	-42	-357	-2.5%	-21.4%	9,750	6,559	67.3%	6,612	23,082
	Year 2008	**8,170**	**8,288**	**-117**	**-971**	**-1.4%**	**-11.9%**	**42,007**	**29,928**	**71.2%**	**29,007**	**24,635**
Ryanair	**Oct-Dec 06**	651	575	76	63	11.7%	9.7%			82.0%	10,300	4,209
YE 31/03	**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	
	Oct-Dec 08	798	942	-144	-157	-18.0%	-19.7%			71.3%	12,400	6,298
easyJet	**Year 2004/05 2,478**	**2,356**	**122**	**109**	**4.9%**	**4.4%**	**32,141**	**27,448**	**85.2%**	**29,600**	**4,152**	
YE 30/09	**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**	**5,674**
	Oct 07-Mar 08	1,795	1,772	22	-87	1.2%	-4.8%	23,442	19,300	82.3%	18,900	
	Apr-Sep 08	2,867	2,710	157	251	5.5%	8.7%	32,245	28,390	88.0%	24,800	
	Year 2007/08	**4,662**	**4,483**	**180**	**164**	**3.9%**	**3.5%**	**55,687**	**47,690**	**85.6%**	**43,700**	**6,107**
	Oct-Dec 08	867						13,000	10,800	83.1%	10,100	

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

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Alaska	**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
	Oct-Dec 08	827	934	-107	-75	-12.9%	-9.1%	8,996	6,923	77.0%	3,772	9,156
	Year 2008	**3,663**	**3,835**	**-172**	**-136**	**-4.7%**	**-3.7%**	**38,974**	**30,113**	**77.3%**	**16,809**	**9,628**
American	**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
	Oct-Dec 08	5,469	5,665	-196	-340	-3.6%	-6.2%	62,370	48,846	78.3%	21,444	81,100
	Year 2008	**23,766**	**25,655**	**-1,889**	**-2,071**	**-7.9%**	**-8.7%**	**263,106**	**211,993**	**80.6%**	**92,771**	**84,100**
Continental	**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
	Oct-Dec 08	3,471	3,496	-25	-266	-0.7%	-7.7%	42,563	33,514	78.7%	15,183	
	Year 2008	**15,241**	**15,555**	**-314**	**-585**	**-2.1%**	**-3.8%**	**185,892**	**149,160**	**80.2%**	**66,692**	**42,000**
Delta	**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
	Oct-Dec 08	6,713	7,810	-1,097	-1,438	-16.3%	-21.4%	93,487	75,392	80.6%	40,376	75,000
	Year 2008	**22,697**	**31,011**	**-8,314**	**-8,922**	**-36.6%**	**-39.3%**	**396,152**	**326,247**	**82.4%**	**171,572**	**75,000**
Northwest	**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
	Oct-Dec 08	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Year 2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Southwest	**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%**	**101,911**	**33,655**
	Jan-Mar 08	2,530	2,442	88	34	3.5%	1.3%	40,454	28,311	69.8%	24,709	33,895
	Apr-Jun 08	2,869	2,664	205	321	7.1%	11.2%	42,381	31,882	75.2%	27,551	34,027
	Jul-Sep 08	2,891	2,805	86	-120	3.0%	-4.2%	42,304	30,292	71.6%	25,686	34,545
	Oct-Dec 08	2,734	2,664	70	-56	2.6%	-2.0%	40,966	27,785	67.8%	23,975	35,499
	Year 2008	**11,023**	**10,574**	**449**	**178**	**4.1%**	**1.6%**	**166,194**	**118,271**	**71.2%**	**101,921**	**35,499**
United	**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
	Oct-Dec 08	4,547	5,359	-812	-1,303	-17.9%	-28.7%	56,029	44,288	79.0%	14,147	45,900
	Year 2008	**20,194**	**24,632**	**-4,438**	**-5,358**	**-22.0%**	**-26.5%**	**244,654**	**196,682**	**80.4%**	**63,149**	**49,600**
US Airways Grp.	**Oct-Dec 07**	2,776	2,850	-74	-79	-2.7%	-2.8%	34,859	26,812	76.9%	19,828	34,437
	Year 2007	**11,700**	**11,167**	**533**	**427**	**4.6%**	**3.6%**	**127,344**	**102,248**	**80.3%**	**83,619**	**34,437**
	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
	Oct-Dec 08	2,761	3,139	-378	-541	-13.7%	-19.6%	33,065	25,974	78.6%	19,156	32,671
	Year 2008	**12,118**	**13,918**	**-1,800**	**-2,210**	**-14.9%**	**-18.2%**	**143,395**	**114,944**	**80.2%**	**81,552**	**32,671**
JetBlue	**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
	Oct-Dec 08	811	762	49	-57	6.0%	-7.0%	12,086	9,501	78.6%	5,108	9,895
	Year 2008	**3,388**	**3,279**	**109**	**-76**	**3.2%**	**-2.2%**	**52,209**	**41,956**	**80.4%**	**21,920**	**9,895**

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK. All US airline financial year ends are December 31st.

		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.
ANA	**Year 2004/05**	**12,024**	**11,301**	**723**	**251**	**6.0%**	**2.1%**	**85,838**	**55,807**	**65.0%**	**48,860**	**29,098**
YE 31/03	**Year 2005/06**	**12,040**	**11,259**	**781**	**235**	**6.5%**	**2.0%**	**86,933**	**58,949**	**67.8%**	**49,920**	**30,322**
	Year 2006/07	**12,763**	**11,973**	**790**	**280**	**6.2%**	**2.2%**	**85,728**	**58,456**	**68.2%**	**49,500**	**32,460**
	Year 2007/08	**13,063**	**12,322**	**740**	**563**	**5.7%**	**4.3%**	**90,936**	**61,219**	**67.3%**	**50,384**	
Cathay Pacific	**Year 2005**	**6,548**	**6,015**	**533**	**424**	**8.1%**	**6.5%**	**82,766**	**65,110**	**78.7%**	**15,440**	**15,447**
YE 31/12	Jan-Jun 06	3,473	3,201	272	225	7.8%	6.5%	43,814	34,657	79.1%	8,144	
	Year 2006	**7,824**	**7,274**	**550**	**526**	**7.0%**	**6.7%**	**89,117**	**71,171**	**79.9%**	**16,730**	
	Jan-Jun 07	4,440	4,031	409	341	9.2%	7.7%	49,836	38,938	79.6%	8,474	19,207
	Year 2007	**9,661**	**8,670**	**991**	**900**	**10.3%**	**9.3%**	**102,462**	**81,101**	**79.8%**	**23,250**	**19,840**
	Jan-Jun 08	5,443	5,461	-18	-71	-0.3%	-1.3%	56,949	45,559	80.0%	12,463	
	Year 2008							**115,478**	**90,975**	**78.8%**	**24,959**	
JAL	**Year 2004/05**	**19,905**	**19,381**	**524**	**281**	**2.6%**	**1.4%**	**151,902**	**102,354**	**67.4%**	**59,448**	**53,962**
YE 31/03	**Year 2005/06**	**19,346**	**19,582**	**-236**	**-416**	**-1.2%**	**-2.2%**	**148,591**	**100,345**	**67.5%**	**58,040**	**53,010**
	Year 2006/07	**19,723**	**19,527**	**196**	**-139**	**1.0%**	**-0.7%**	**139,851**	**95,786**	**68.5%**	**57,510**	
	Year 2007/08	**19,583**	**18,793**	**790**	**148**	**4.0%**	**0.8%**	**134,214**	**92,173**	**68.7%**	**55,273**	
Korean Air	**Year 2004**	**6,332**	**5,994**	**338**	**414**	**5.3%**	**6.5%**	**64,533**	**45,879**	**71.1%**	**21,280**	**14,994**
YE 31/12	**Year 2005**	**7,439**	**7,016**	**423**	**198**	**5.7%**	**2.7%**	**66,658**	**49,046**	**71.4%**	**21,710**	**17,573**
	Year 2006	**8,498**	**7,975**	**523**	**363**	**6.2%**	**4.3%**	**71,895**	**52,178**	**72.6%**	**22,140**	**16,623**
	Year 2007	**9,496**	**8,809**	**687**	**12**	**7.2%**	**0.1%**	**76,181**	**55,354**	**72.7%**	**22,830**	
	Year 2008	**9,498**	**9,590**	**-92**	**-1,821**	**-1.0%**	**-19.2%**					
Malaysian	**Year 2003/04**	**3,061**	**3,012**	**49**	**86**	**1.6%**	**2.8%**	**55,692**	**37,659**	**67.6%**		**20,789**
YE 31/03	**Year 2004/05**	**3,141**	**3,555**	**-414**	**-421**	**-13.2%**	**-13.4%**	**64,115**	**44,226**	**69.0%**		**22,513**
Apr-Dec 05	2005	2,428	2,760	-332	-331	-13.7%	-13.6%	49,786	35,597	71.5%		22,835
YE 31/12	**2006**	**3,696**	**3,751**	**-55**	**-37**	**-1.5%**	**-1.0%**	**58,924**	**41,129**	**69.8%**	**15,466**	**19,596**
YE 31/12	**2007**	**4,464**	**4,208**	**256**	**248**	**5.7%**	**5.6%**	**56,104**	**40,096**	**71.5%**	**13,962**	
YE 31/12	**2008**	**4,671**	**4,579**	**92**	**74**	**2.0%**	**1.6%**	**52,868**	**35,868**	**67.8%**	**12,631**	
Qantas	**Year 2004/05**	**9,524**	**8,679**	**845**	**575**	**8.9%**	**6.0%**	**114,003**	**86,986**	**76.3%**	**32,660**	**35,520**
YE 30/06	Jul-Dec 05	4,999	4,626	373	258	7.5%	5.2%	59,074	45,794	77.5%	17,260	35,158
	Year 2005/06	**10,186**	**8,711**	**1,475**	**542**	**14.5%**	**5.3%**	**118,070**	**90,899**	**77.0%**	**34,080**	**34,832**
	Jul-Dec 06	6,099	5,588	511	283	8.4%	4.6%	61,272	49,160	80.2%	18,538	33,725
	Year 2006/07	**11,975**	**11,106**	**869**	**568**	**7.3%**	**4.7%**	**122,119**	**97,622**	**79.9%**	**36,450**	**34,267**
	Jul-Dec 07	7,061	6,323	738	537	10.5%	7.6%	63,627	52,261	82.1%	19,783	33,342
	Year 2007/08	**14,515**	**13,283**	**1,232**	**869**	**8.5%**	**6.0%**	**127,019**	**102,466**	**80.7%**	**38,621**	**33,670**
	Jul-Dec 08	6,755	6,521	234	184	3.5%	2.7%	63,853	50,889	79.7%	19,639	34,110
Singapore	**Year 2004/05**	**7,276**	**6,455**	**821**	**841**	**11.3%**	**11.6%**	**104,662**	**77,594**	**74.1%**	**15,944**	**13,572**
YE 31/03	**Year 2005/06**	**6,201**	**5,809**	**392**	**449**	**6.3%**	**7.2%**	**109,484**	**82,742**	**75.6%**	**17,000**	**13,729**
	Year 2006/07	**9,555**	**8,688**	**866**	**1,403**	**9.1%**	**14.7%**	**112,544**	**89,149**	**79.2%**	**18,346**	**13,847**
	Year 2007/08	**10,831**	**9,390**	**1,441**	**1,449**	**13.3%**	**13.4%**	**113,919**	**91,485**	**80.3%**	**19,120**	**14,071**
Air China	**Year 2004**	**4,050**	**3,508**	**542**	**288**	**13.4%**	**7.1%**	**64,894**	**46,644**	**71.9%**	**24,500**	**29,133**
YE 31/12	**Year 2005**	**4,681**	**4,232**	**449**	**294**	**9.6%**	**6.3%**	**70,670**	**52,453**	**74.2%**	**27,690**	**18,447**
	Year 2006	**5,647**	**5,331**	**316**	**338**	**5.6%**	**6.0%**	**79,383**	**60,276**	**75.9%**	**31,490**	**18,872**
	Year 2007	**6,770**	**6,264**	**506**	**558**	**7.5%**	**8.2%**	**85,257**	**66,986**	**78.6%**	**34,830**	
	Year 2008							**88,078**	**66,013**	**74.9%**	**34,249**	
China Southern	**Year 2004**	**2,897**	**2,787**	**110**	**19**	**3.8%**	**0.7%**	**53,769**	**37,196**	**69.2%**	**28,210**	**18,221**
YE 31/12	**Year 2005**	**4,682**	**4,842**	**-160**	**-226**	**-3.4%**	**-4.8%**	**88,361**	**61,923**	**70.1%**	**44,120**	**34,417**
	Year 2006	**5,808**	**5,769**	**39**	**26**	**0.7%**	**0.4%**	**97,044**	**69,575**	**71.7%**	**49,200**	**45,575**
	Year 2007	**7,188**	**6,974**	**214**	**272**	**3.0%**	**3.8%**	**109,733**	**81,172**	**74.0%**	**56,910**	
	Year 2008							**112,767**	**83,184**	**73.8%**	**58,237**	
China Eastern	**Year 2004**	**2,584**	**2,524**	**60**	**39**	**2.3%**	**1.5%**	**41,599**	**27,581**	**66.3%**	**17,710**	**20,817**
YE 31/12	**Year 2005**	**3,356**	**3,372**	**-16**	**-57**	**-0.5%**	**-1.7%**	**52,428**	**36,381**	**69.4%**	**24,290**	**29,746**
	Year 2006	**3,825**	**4,201**	**-376**	**-416**	**-9.8%**	**-10.9%**	**70,428**	**50,243**	**71.3%**	**35,020**	**35,000**
	Year 2007	**5,608**	**5,603**	**5**	**32**	**0.1%**	**0.6%**	**77,713**	**57,180**	**73.6%**	**39,160**	
	Year 2008											
Air Asia	**Year 2005/06**	**230**	**172**	**57**	**34**	**25.0%**	**14.8%**	**8,646**	**6,702**	**77.5%**	**5,720**	**2,224**
YE 30/06	**Year 2006/07**	**453**	**325**	**128**	**141**	**28.3%**	**31.1%**	**12,391**	**9,863**	**79.6%**	**8,738**	**2,924**
	Jul-Sep 07	134	91	42	52	31.6%	39.0%	3,645	2,707	74.3%	2,440	
	Oct-Dec 07	189	122	67	73	35.4%	38.9%	4,274	3,223	75.4%	2,758	
	Jan-Mar 08	166	126	40	50	24.1%	30.1%	4,364	2,970	68.1%	2,612	
	Apr-Jun 08	190	142	48	3	25.3%	1.5%	4,514	3,286	72.8%	2,823	
	Jul-Sep 08	196	168	27	-139	14.0%	-70.8%	4,833	3,429	70.9%	3,018	
	Jul-Dec 08											
YE 31/12	**Year 2008**											

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

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total International		
	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 %
1990	113.4	70.9	62.5	128.8	89.7	69.6	80.5	57.6	71.6	272.6	191.7	70.3	405.8	274.9	67.7
1991	114.8	65.2	56.8	120.9	84.3	69.7	80.0	53.1	66.4	267.6	182.0	68.0	397.8	257.9	64.7
1992	129.6	73.5	56.7	134.5	95.0	70.6	89.4	61.6	68.9	296.8	207.1	69.8	445.8	293.4	65.8
1993	137.8	79.8	57.9	145.1	102.0	70.3	96.3	68.1	70.7	319.1	223.7	70.1	479.7	318.0	66.3
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
2000	208.2	132.8	63.8	229.9	179.4	78.1	137.8	108.0	78.3	508.9	396.5	77.9	755.0	555.2	73.5
2001	212.9	133.4	62.7	217.6	161.3	74.1	131.7	100.9	76.6	492.2	372.6	75.7	743.3	530.5	71.4
2002	197.2	129.3	65.6	181.0	144.4	79.8	129.1	104.4	80.9	447.8	355.1	79.3	679.2	507.7	74.7
2003	210.7	136.7	64.9	215.0	171.3	79.7	131.7	101.2	76.8	497.2	390.8	78.6	742.6	551.3	74.2
2004	220.6	144.2	65.4	224.0	182.9	81.6	153.6	119.9	78.0	535.2	428.7	80.1	795.7	600.7	75.5
2005	309.3	207.7	67.2	225.9	186.6	82.6	168.6	134.4	79.7	562.6	456.4	81.1	830.8	639.3	76.9
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
Dec-08	25.3	15.9	62.8	17.6	14.4	81.4	15.2	11.8	77.4	50.4	39.8	79.0	74.2	55.0	74.2
Ann. change	-6.5%	-7.6%	-0.7	-3.0%	-2.7%	0.3	-3.0%	-3.7%	-0.6	-1.6%	-2.3%	-0.6	-2.1%	-2.5%	-0.3
Jan-Dec 08	354.8	241.5	68.1	244.8	199.2	81.4	191.1	153.8	80.5	634.7	512.4	80.7	955.7	735.0	76.9
Ann. change	1.4%	-0.3%	-1.2	1.0%	0.0%	-0.8	3.3%	0.6%	-2.1	3.5%	1.5%	-1.6	3.7%	2.0%	-1.3

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	21 Jan	Southwest AL	5 x 737-700s	
	5 Jan	Ryanair	13 x 737-800s	
Airbus	30 Jan	Turkish Airlines	4 x A321s	

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

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