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Funding gap enigma

As the economic outlook continues to deteriorate into the worst post-WW2 recession, airlines in most regions and industry sectors are retrenching, cutting capacity by 5-10% this year. This leaves the tricky problem of the volumes of aircraft to be delivered this year.

For the remainder of 2009 over 800 commercial jets are officially scheduled for delivery, about 4% of the global fleet. As the table below indicates, the manufacturers are quite heavily exposed to the Chinese carriers and in the widebody sector to Emirates. Of the carriers listed, only Ryanair (plus perhaps easyJet and Air Asia) is fully committed to growing throughout the recession.

Financiers have identified a funding gap, variously estimated at $10bn to over $20bn, between funding requirements this year and available commercial lending. This is the result of the general contraction of credit and the relative attractiveness of other industries or of refinancing existing airline clients rather than new deliveries.

The gap will be filled in various ways, the most obvious being the cancellation or deferral of orders, especially as the risk premium now being demanded by the commercial banks significantly outweighs any benefits that might have come from the cut-backs in interest rates. Both Boeing and Airbus appear remarkably sanguine about the robustness of their customers, but cancellations exceeded new orders by 32 to 28 in the first quarter of this year, and both manufacturers are negotiating on 2010/11 postponements.

Guarantees from the export credit agencies are also being stretched to the limit, which might imply resorting to manufacturer-supplied credit. But both Airbus and Boeing state that they will only provide about $1bn each of financing this year, which may prove inadequate.

2009 JET AIRCRAFT DELIVERIES

Customer	Widebody	Narrowbody	Total
CASGC		48	48
China Southern Airlines	6	25	31
Delta Air Lines	6	20	26
American Airlines		23	23
CASC		21	21
GECAS	3	16	19
Ryanair		19	19
easyJet		18	18
ILFC	3	15	18
US Airways	4	14	18
Continental Airlines		14	14
SALE		14	14
Gol Transportes Aereos		13	13
Indian Airlines		13	13
QANTAS	4	9	13
AirAsia		12	12
Emirates	12		12
Lufthansa	2	10	12
TAM Linhas Aereas		12	12
Air Berlin		11	11
Other	144	316	460
TOTAL	**184**	**643**	**827**

Source: ACAS

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Another go at German consolidation

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It is an often-quoted mantra that the airline industry will and should consolidate - and a widely held belief that this would be a good idea. There is also a tendency to regard European aviation as a homogeneous market - ignoring the significant national and cultural differences between the individual states (and sometimes even within those countries). The recent strategic moves by the German carriers should really be viewed in context of their own country's historical background and physical geography, but these moves in the short-run should at least pave the way for some reasonable consolidation in the German market place - and may even generate some reasonable returns in the domestic scene through this downturn.

A little over a year ago, Air Berlin tried to push the German domestic industry into the latter stages of consolidation. Having already acquired two weak competitors (dba and LTU), it had arranged a tie-up with Arcandor (aka Thomas Cook) to acquire Condor in return for a shareholding stake from the conglomerate. This in itself spurred Lufthansa to start negotiations with TUI (the other major charter player in the German market, and one trying ineffectively to operate low cost scheduled services) with the idea of merging the TUIFly scheduled operations with Eurowings and germanwings. Air Berlin's Condor deal was indigestible – partly because of regulatory issues and partly because of the crash in Air Belin's share price – and the Lufthansa/TUI tie up likewise fell apart, probably because of what was seen as an unsustainable model at TUIfly.

In late March, meanwhile, Air Berlin announced a second attempt to consolidate the industry further with a strategic tie up with TUI Travel. The travel group will take a near 20% stake in Air Berlin for €65m (helpfully boosting the equity position on the balance sheet) while Air Berlin from October will acquire a 20% stake (for €36m cash) in HLF, the parent company of TUIfly.com and Hapag Lloyd Express (HLX). As a result Air Berlin will take over the scheduled European route network of the disruptive competitor (with 17 aircraft wet-leased from HLF) while TUI Travel will finally be able to exit a segment of the market that really does not fit its (new UK-managed) business model.

The deal is being structured to ensure that there are neither objections from the German Cartel Office (nor Brussels) nor create difficulties from among the group's pilots. The Air Berlin management stated that it had persuaded TUI to take the brunt of restructuring the loss-making scheduled route network (TUI separately stated that TUIfly scheduled operations provided an operating loss of €35m in the year to October 2008) - which carried 5.3m passengers last year - and that when it takes over the slimmed-down operations the remaining routes will all be breaking-even at worst. There will be an element of overlap, but the prime benefit for Air Berlin (and Lufthansa for the matter) will be the removal of a struggling competitor that had had a severe impact on yields.

Lufthansa, meanwhile, after making the successful acquisition of SWISS, in the past year announced plans for the gradual acquisition of SN Brussels (with an initial 45% stake and an option to build to a majority) and found that Michael Bishop finally exercised the put option to them of his controlling 50%-plus stake in British Midland. Lufthansa also started using its wholly-owned subsidiary Air Dolomiti to start a base of operations at Malpensa (in the wake of the withdrawal by Alitalia from the Milan hub and the "new improved" Italian flag carrier's retrenchment to Rome) and found that its suggestion to take over the Austrian government's stake in Austrian Airlines for less than nothing was to be accepted.

Both these carriers' acquisition streams could be said to stem from the same underlying fundamentals. Germany is a federation of states with a plethora of important commercial and business links between respective main cities. Despite the density of population in the

North Rhein/Westphalia region and the industrial concentration in the Ruhrgebiet, there is no prime conurbation that generates a strong underlying level of O&D demand. The commercial links have led to a preponderance of commercial arrangements for domestic and international air travel – ones that Air Berlin through its acquisition of dba and LTU has tried to wrest from Lufthansa; while the lack of very strong O&D demand for Lufthansa at its main hub in Frankfurt (in contrast to that enjoyed by BA in London or Air France in Paris), combined with the capacity constraints there, has led it to try to develop a wider multi-hub approach.

All of these planned acquisitions are naturally subject to approval by the competition authorities. The proposed Air Berlin deal, despite an element of overlap, is unlikely to create the regulatory opposition it encountered on the Condor deal. Although there is a conspiracy theory that suggests that Brussels really wants to encourage consolidation of the European legacy carriers into two (AF/LH) or three groups (+ BA), *Aviation Strategy* understands that the initial discussions suggest an unacceptable imposition of conditions (particularly in Brussels), and there are some increasing doubts on the Viennese deal - but Lufthansa is quite capable of walking away from either to let one flail and the other fail.

However, the acquisition of the bmi stake has been delayed – it was meant to take place by the end of January – while at the Lufthansa results meeting management seemed to suggest that there may be another protocol in the original agreement that is still under discussion.

Meanwhile in the past month both the German quoted carriers have released results for the last year, along with the usual attempts to explain their respective performances.

Lufthansa

Lufthansa's performance in 2008 appears to have been a game of three halves. The year started off fairly well, despite substantial increases in fuel costs, and the group appeared well hedged against increases in the price of oil, helped by the strength of the Euro. But traffic growth started weakening from mid-year as fuel prices peaked and the world economy came to a halt in September.

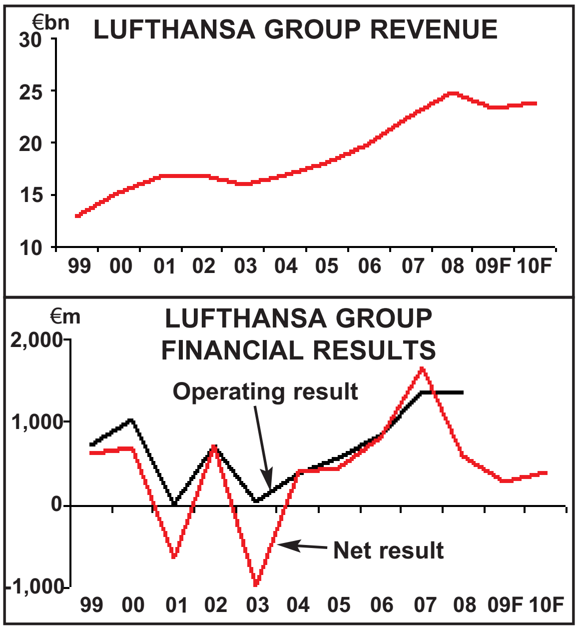
GERMAN SINGLE AISLE JET FLEET

	Total	%
Lufthansa	196	47.6
Air Berlin	109	26.5
TUI	45	10.9
Condor	25	6.1
Other	37	9.0
Total	**412**	**100.0**

One saving grace for the German flag carrier was that this was the first full year consolidation of SWISS (prior to July 2007 the rump of Swissair had been treated as an associate item) and it could finally publish operating profits little changed from the prior year period – which in turn had been its best ever. Another ironic benefit (just) was that one of its counterparties to its hedging transactions failed so dramatically in September that it removed a substantial number of (even by then) out-of-the-money contracts.

Total group revenues in the year grew by 11% to €24.9bn, costs by 13% and underlying operating profits fell by only 2% to €1,354m. Net profits – in the absence of the capital gain in the previous year from the sale of its stake in Thomas Cook – dropped by 64% to €599m, and the group has proposed a dividend of €0.70. Lufthansa has the most highly developed conglomerate structures of any of the majors in Europe (fashion is not necessarily one of its attributes) but for it, the holding company structure appears to work well.

The passenger business naturally is by far the largest component – accounting for more than 70% of revenues and 53% of operating profit in 2008. Total RPK grew by 15.6% while capacity increased by 14.2% for the year. This includes the full year consolidation of SWISS, which accounts for 22% of the total output. Lufthansa's underlying traffic grew by a more modest 3.5%, slightly behind a 5% increase in capacity, while the Swiss national carrier increased both demand and capacity by 12%. The company reacted quite quickly to the changing environment through the year and started reducing capacity growth as demand started to evaporate. At least until the full financial crisis hit in September, the underlying rate of growth in premium traffic maintained a reasonably positive impact on yields – helped by the fuel surcharges, particularly on long-haul



operations.

With a modest increase in the stage length, underlying unit revenues appear to have grown by 1.5% - although the strength in the Euro reduced this in published terms to a 1.3% decline. Lufthansa retains a certain traditional impenetrability when presenting its numbers and delving into the passenger division costs is no mean task. Overall costs were up by 17.8% and published unit costs by 2.2%. Underlying unit costs excluding currency movements probably grew by nearer 5% year on year – suggesting that unit costs excluding fuel and currency may have fallen by up to 5%. This suggests there really is an element of cost control and flexibility in the business model (something the management has been saying that it has put in place since the 2001 downturn) that had not been there in previous cycles.

The passenger division operating result fell by a modest 12% to €722m. SWISS provided some €314m of this (against €127m for half of 2007) without which Lufthansa would have reported at least a 40% decline in the division's profitability. The cargo division ironically had a good year – despite the significant slowdown from the middle of the year and the disastrous traffic performance since September. Traffic was down by 2% for the year while capacity (which of course includes belly-hold capacity) grew by 2.8%. Yields benefited from the mechanistic fuel surcharges for most of the year and underlying cargo unit revenues excluding currency probably rose by 5% year on year. Total divisional revenues were up by 6% to €2.9bn while operating results jumped by 20% to €164m. The maintenance operation of Lufthansa Technik – the world's largest MRO business (see the table in last month's issue of *Aviation Strategy*) – despite Euro strength also saw revenues grow by 4% and profits up by 2% to €299m. In the other operating divisions, Catering – again hit by the dollar movement in the year but also by the increase in food prices – saw profits fall by 30% to €70m (but at least it is profitable) while IT services (which only accounts for 3% of the total) brought in profits of €40m.

Fuel of course was the killer in the year. Total group fuel costs jumped by 40% to €5.5bn – and could have been some €1bn higher without the benefit of the hedge portfolio and the Euro strength. In the fourth quarter the hedges went into reverse, and the fuel bill was some €20m higher than it would have been had the company not hedged – what appears to be technically known as an "inefficient" hedge. These will continue – it appears that the current average hedging price sits around the $90/bbl equivalent – and that at $50/bbl the company's net fuel purchase price will be some 10% over market spot rates. Lufthansa is not alone in this, but probably retains some benefit from Lehman's collapse. Management has presented its expectations for the 2009 full year fuel bill – at the then current forward rates they expect fuel costs to fall by 60% to €3.2bn (even below the 2006 level) with a reduced exposure to the volatile commodity – a 10% movement in the price having a 5% impact on total fuel costs.

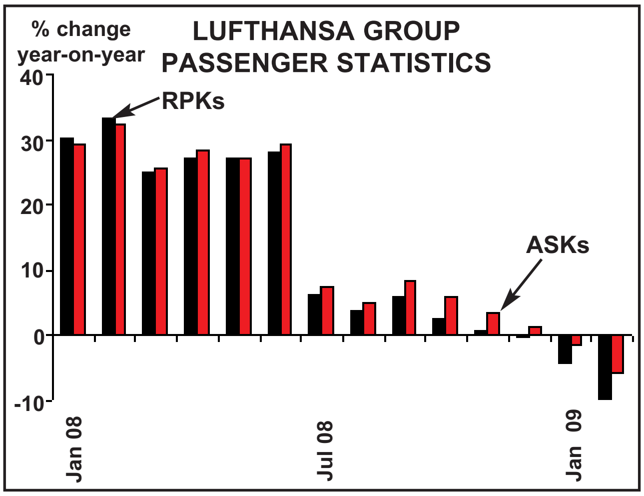
Management was fairly adamant that the group would remain "significantly" profitable in the current year – although at the moment there is naturally very little visibility. In the cargo division LH will be parking a handful of its full-cargo MD11Fs and looking to cut capacity by 20% for the year, while by putting employees on short time working (one of the real advantages of the union negotiations of the past few years) it aims to cut employee costs by some 30% and overheads by some 20%. In the passenger division it has been manipulating capacity down in terms of frequency, although stating that it will be reconfiguring some of the long-haul aircraft to reduce the J-class capacity and increase Y-class seating so that underlying seat-kilometre capacity would only be falling by around 1-2%.

This, however, is being negated by the growth in capacity presented by the opening of a base at Milan's Malpensa (using Air Dolomiti) – taking advantage of Alitalia's retrenchment to Rome, and to fight easyJet's establishment as the largest north Italian carrier – and at the results meeting management seemed to suggest that overall capacity would only be flat to slightly down. The airline may adjust this further. The company boasts of its diverse holding company structure, but in all honesty the profitability is primarily driven by the passenger operations, and these will no doubt be suffering a severe downturn this year; the only question being by how much.

Meanwhile, the balance sheet is in good health – even though in the current environment along with everyone else at the moment they are probably haemorrhaging cash. Capital expenditure in 2008 was fully funded from cash flow. In the current year the group expects deliveries of some eight A330/340s, 14 A320s and a handful of regional jets that will lift capital spending towards the €2bn mark. Although it is likely that operational cash flow will be hit, the group still had more than €4.2bn in cash at the year end (against €3.6bn in debt) – and more importantly has been able to tap the debt markets even in these troubled times (with among other things a successful €600m private placement in February) – and aims to maintain a minimum cash balance of €2bn.

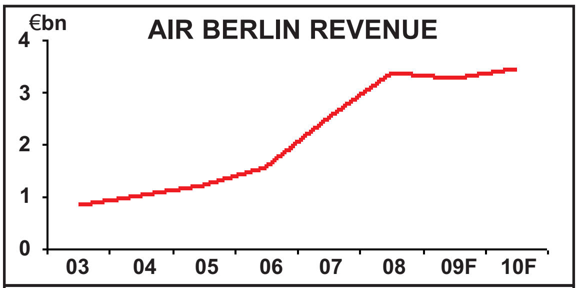
Air Berlin

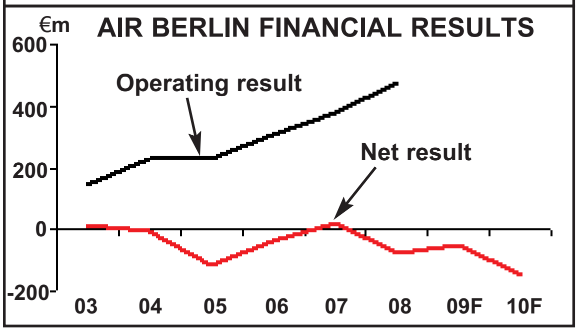
Air Berlin's full year 2008 results show the first full year of the integration of LTU (although in 2007 they produced proforma figures for what the numbers would have been had LTU been integrated for the full year at that time). In 2008 total revenues grew by 34% to €3.4bn, EBITDAR by 26% to €476m (producing a margin of only 14%) while net losses came in at €75m, down from a profit of €21m last (or what could have been a proforma loss of €40m, depending on how you look at it). On a like-for-like basis revenues and EBITDAR were up by 7% and 12% respectively.



The company had already started reducing its growth rate as it came into 2008 (from what was for it a dire 2007) with the aim to improve underlying profitability, before the damage created by the significant increase in fuel costs. This it intensified in the middle of the year, through the introduction of its “Jump” earnings improvement plan. The company tightened up its route network, withdrawing from various loss-making routes and realigning capacity (including running down its operations at Stansted and closing down the recently opened Düsseldorf-China routes). It cut back use of wet-leased capacity and disposed of the F100 fleet earlier than originally anticipated (replaced with leased turboprops – pushing it even further away from the low cost model).

Full year capacity in ASKs fell by 4.9% year-on-year, while demand in RPKs fell by only 3.8% and it managed to push up unit revenues by a significant 12% year on year – although part of this was due to a drop in stage length. Average income per passenger came in at €108.70, up by more than 6% year on year (at more than twice that of Ryanair, which is hardly low-cost?). As one of the few former charter carriers to have transferred to scheduled operations, charter remains an important element of the group, but now only accounts for 40% of revenues (down from 43% in 2007), while of the remaining seat sale business, Air Berlin has been actively chasing corporate and travel agency distribution – with





internet sales falling to 42% of the total in 2008 (down from 46% in 2007). Company travel agreements are key to accessing German corporate travel, and Air Berlin has been able to increase the number of such agreements fourfold in the past five years – with revenues from that source growing by 2.5 times to more than €600m p.a. – equivalent to a third of its scheduled seat sales.

Unit costs were up by 12% on a like for like basis – with total DoCs up by 8%. Naturally a large part of this was the fuel bill – up by nearly 20% to €874m (after hedging gains of around €180m – and, like many, although Air Berlin had a good hedge position for most of the year the final quarter would have seen out-of-the-money contract losses). However, even without this fuel increase, underlying unit costs were still up by around 7%; the biggest contributor being a 6% increase in wage costs, reflecting union wage agreements a year ago. There was a noticeably high jump in consultancy fees – presumably reflecting the time and effort in trying to pursue the aborted Thomas Cook/Condor deal last year.

Naturally at the moment Air Berlin has little visibility for full 2009. The management stated its intention to be able to produce an improved operating profit for the full year while warning that there would be heavy negative effects weighing on the first quarter. The company has cut back capacity significantly. On domestic routes it is increasing capacity by around 2%, increasing gauge on the denser routes and phasing in more Dash-8s for secondary routes. It will be cutting further (or, as they say, optimising) its intra-European scheduled business with an anticipated 3% decline in capacity, although it did suggest that it will be strengthening the domestic Spanish feed into the Palma hub (it is still difficult to believe that an intra-European hub can really work, low-cost or not). The charter operations are being cut back by around 8% - apparently in line with tour operator expectations. On the former LTU long-haul network the company is slashing capacity by around 27%.

By James Halstead

To accommodate the lower growth expectations the company has a reasonable level of flexibility in the number of existing fleet of 125 aircraft coming off lease, but there are another eight A320s and six 737s due for delivery this year along with eight Dash 8-Q400s, and it will have to find lessees to take on some of the spare aircraft (and Air Berlin still has 108 A320/737s on order up to 2014 and a further 25 787s from then on). Meanwhile, the deal with TUI will be bringing in another 17 aircraft along with the routes that the former HLX operated in competition - but at least cutting out a competitor, and having persuaded TUI to encompass the majority of any restructuring prior to the deal, should mean that it is not dilutive. Meanwhile with €270m cash in hand at the year-end (€200m down on a year ago) against balance sheet debt of €1bn and equity of €390m (unless you want to knock off the €310m intangible assets on the balance sheet), the modest cash injection from TUI for a 20% stake should come in useful.

Germany is a unique domestic market in Europe: the two major players may hope that this latest round of consolidation will continue to help keep out the encroachment of true low cost competition. Air Berlin has at least appeared to cut back its long-haul ambitions (at least until CEO Hunold manages to get the LTU employees to succumb to his wishes for integration as he did at dba), which could mean, as the Air Berlin management has suggested in the past, that there can be a “comfortable” duopoly domestically while Lufthansa continues to build its side of the Maginot line in its fight against its franco-hollandaise rival.

Gulf Air battles on; Qatar Airways still very ambitious; Air Arabia grows solidly

In the second part of a series of articles about Middle Eastern airlines, *Aviation Strategy* takes a look at the prospects for Gulf Air, Qatar Airways and the largest LCC in the region – Air Arabia.

Gulf Air

Bahrain-based Gulf Air was launched back in 1950 and was originally owned by five countries or emirate states. One-by-one, however, all but one have withdrawn to develop their own airlines – Dubai in 1985 (to start Emirates), Qatar in 2002 (to concentrate on Qatar Airways), Abu Dhabi in 2005 (to develop Etihad Airways) and Oman in May 2007 (in order to build Oman Air).

This now leaves the government of Bahrain with a 100% ownership stake of an airline that is continuing to make losses and which is now competing against aggressive rivals in the other Gulf states or emirates.

In 2007 Gulf Air was losing a reported US$1m a day and various emergency measures were introduced, including a contraction of the fleet and route network as well as the redundancy of 1,500 positions (representing 25% of the workforce at that time). However, these measures could only be temporary and in July that year a new chief executive – Bjorn Naf – adopted a strategy of fleet renewal and growth. The previous route network was heavily biased towards regional routes (now under threat by Air Arabia – see pages 10-11) but the new strategy emphasises long-haul travel. Bahrain (like Dubai for Emirates) is being developed as a connector between long-haul and regional flights, and approximately 75% of Gulf Air's traffic comes from connecting passengers.

Today Gulf Air operates to more than 40 destinations, although the network is still overly weighted towards Middle Eastern, Indian and Asian destinations, with just five routes to Europe and three to Africa – with North America available to Gulf Air customers only via a codeshare with American.

Gulf Air had targeted 6m passengers carried in 2008, although Naf said late last year that the airline could slightly miss this target due to "unexpected" maintenance downtime for its aircraft. Although no figures have yet been released for 2008, Gulf Air hints that it recorded its highest ever revenue last year (and that in the 2008 summer season it achieved a 12% rise in yield and a 16% increase in unit revenue). However, it's unlikely that the airline will have come close to breaking even in 2008, and this delay in turning a profit is prompting unease about the airline's performance among some observers. In January a group of MPs in Bahrain demanded the sacking of Bjorn Naf and that he was replaced by a "new chief executive who has the qualifications and experience necessary for a commercial airline". The MPs also called for Bahrain nationals to replace senior foreign executives throughout the airline.

Naf, a Swedish national, was appointed in mid-2007 and replaced a previous incumbent - André Dosé - who lasted just three months in the position. Naf started what was a three year restructuring and expansion plan that aimed to eliminate what had previously been substantial

FLEETS

	Gulf Air		Qatar Airways		Air Arabia	
	fleet	orders (options)	fleet	orders (options)	fleet	orders (options)
777-200LR			2	6		
777-200LRF				2		
777-300ER			5	12		
787-8		16 (8)		30		
A300-600F			3			
A319	2		2	1		
A320	11	18	11	1 (6)	16	48 (5)
A321	2		8			
A330-200	6		16	(9)		
A330-300		20	13			
A340-300	9					
A340-600			4	(8)		
A350-800				20		
A350-900				40		
A350-1000				20		
A380-800				5		
Total	**30**	**54 (8)**	**64**	**137 (23)**	**16**	**48 (5)**

losses and return the airline to break-even by 2010. But that target year has now been put back to 2011, and this is what is concerning some Bahraini members of parliament - particularly as Gulf Air officially became Bahrain's flag carrier in 2007 (after Oman withdrew its investment) and the Bahrain state is keen to improve its profile (and perhaps take advantage of the difficulties that Dubai is facing – see *Aviation Strategy,* March 2009).

Naf's situation hasn't been helped by the fact that last year Gulf Air didn't have any fuel hedging in place (although that policy has now, belatedly, been changed) with Naf admitting that the absence of hedging has proved costly for the airline.

Although Naf insists that "Gulf Air can't compete with Emirates – and we don't want to", he has taken the airline upmarket since his arrival, with a budget subsidiary called Gulf Traveller closed in 2007 and Gulf Air since marketing itself as a "five star airline". As part of this drive it will announce a new brand identity later this year, at the same time as unveiling a series of service developments, such as a new lounge at London Heathrow and new menus.

Naf's core strategy rests on completing a restructuring programme (including fleet renewal and operational "realignment") this year, before the airline gears up for sustained expansion afterwards. Gulf Air has a fleet of 30 aircraft (see table, page seven), and last summer ordered 16 787s, 20 A330-300s and 14 A320s, bringing its total order book up to 54 aircraft (and which are scheduled for delivery over the next 10 years).

The last of 20 767-300ERs was phased out last year and while waiting for new orders Gulf Air has had to lease aircraft, with two A319s and two A321s arriving late in 2008. This year Gulf Air is scheduled to receive 13 new or leased aircraft, most of which will replace existing aircraft. Five A320s and four A330s will arrive in 2009, as well as four 777-300ERs (the first arrived in March) leased on three-and-a-half year contracts from Jet Airways (the first six months will be on wet lease; the remaining period on dry lease). The 777s are replacing A340-300s that are all at least 12 years' old and which are being phased out due to high fuel costs per passenger. The first of the 20 A330s on order will be delivered in the second half of 2010, although this schedule may be brought forward. Gulf Air is unlikely to order any 747-8s or A380s in the medium-term, it is believed.

As these aircraft arrive Gulf Air is planning to increase its destinations by three or four a year, and although up to 100 cities are under consideration the priorities for expansion are Europe and selected Asian countries.

The routes to Europe are believed to have performed particularly well in 2008, and Spain and Italy are possible new markets as well as new routes to France and Germany (and in particular Munich). Eastern Europe is another market being considered, with Russia towards the top of the target list.

In Asia the key target market is the Indian sub–continent, including both Pakistan and India. Gulf Air currently operates to eight Indian and four Pakistani destinations, though India-Middle East business traffic flows have eased off in the current recession and Gulf Air is looking to sign codesharing deals with Indian airlines to boost traffic flows.

In December Gulf Air expanded its codesharing deal with American to include 40 beyond destinations in the US, reached via Gulf Air's "hubs" in Europe – London Heathrow (where Gulf Air offers three flights a day to/from Bahrain), Frankfurt (nine flights a day) and Paris CDG (nine).

Currently Gulf Air is not part of a global alliance, although Naf says that it would consider joining one if the circumstances were right. Gulf Air previously held talks with Star and oneworld, but nothing concrete emerged and instead it now codeshares with a variety of airlines, including bmi and Thai of Star as well as American of oneworld.

Whether Naf will be around to guide Gulf Air into a future alliance is open to some doubt,

AIRPORT DEVELOPMENT IN THE UAE

New airport/terminal	Extra capacity (Pax per year)	Replaces
Abu Dhabi International Airport Terminal Three	5m in 2009	N/A
New Doha International Airport	24m in 2010; 50m by 2015	Doha Int. Airport (12m capacity)
Abu Dhabi International Airport "Midfield" Terminal	20m in 2012	N/A
Dubai International Airport expansion	15m in 2012	N/A
Al Maktoum International Airport	120m in 2017	N/A

given the increasing scrutiny he appears to be under. Naf admits that there is growing pressure to break-even and this has not been made easier by the global recession, which has forced adjustments to Naf's plans. The focus this year has veered more towards cost cutting (particularly in areas of ground-handling and catering) with just two or three new routes being added and with most extra capacity going to increasing frequency on existing routes. Overall, Gulf Air is looking for an 8% increase in passengers carried in 2009.

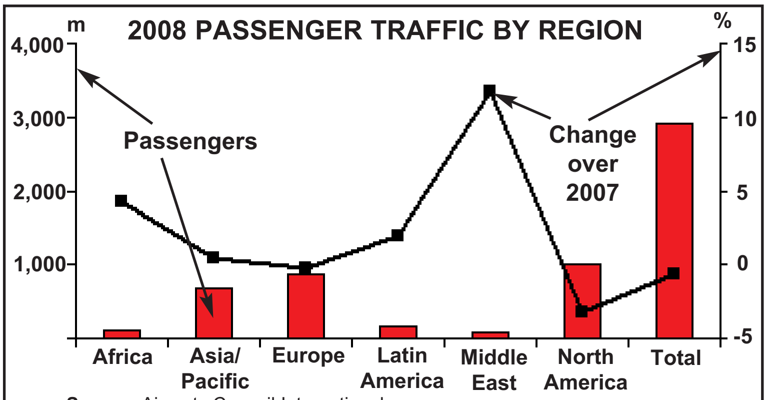
Qatar Airways

Qatar Airways is based in Doha and operates to more than 80 destinations in Europe, the Middle East, North America, Africa and the Asia/Pacific region. It was started as a regional carrier in 1994 but in 1997 was relaunched into an international carrier, with the Qatari government owning 50% of the airline and private shareholders the other 50%.

Qatar operates a fleet of 64 aircraft, but this will increase to 110 by 2013 thanks to a substantial order book of 137 aircraft. Fifty Boeing aircraft are on order, including 23 777s. A fifth 777-300ER was delivered in December and put into service on the route to Manila, while the first of eight 777-200LRs (which can operate routes of up to 17 hours duration) was received by Qatar in February. Thirty 787s are on order but, with their delivery being delayed repeatedly by Boeing, Qatar is negotiating with the manufacturer over confirmed dates for their receipt (as none is currently available, according to the airline), as well as over compensation for late delivery.

The biggest single order is for A350s; Qatar Airways became the launch customer for what was then the A350XWB in 2007, and the first A350-900 out of a total order of 40 is currently scheduled to be delivered in 2013. Twenty A350-800s and 20 A350-1000s are also on order, and five A380s will be delivered from 2012 onwards.

The A380s will arrive after Qatar Airways moves its base to the New Doha International Airport (NDIA) which started construction in 2004 and is now on target to open in 2010 (it was originally scheduled to open this year). With 40 gates, the airport will be able to handle



Source: Airports Council International.

up to 24m passengers a year in 2010, rising to 50m a year by 2015 as further facilities are built. Within the UAE this increase in capacity is beaten only by the new Al Maktoum International Airport (see table, left), and will no dount contribute to the ongoing aggressive traffic growth in the Middle East region (see chart, above).

Qatar Airways had been considering an order for Bombardier CSeries aircraft, which are due to be available from 2013 onwards with a capacity of 110-130 seats. As many as 20 aircraft were under consideration by Qatar, according to Akbar Al Baker, the chief executive of the airline, although negotiations apprently were broken off in March after disagreements on price, it is believed.

Altogether the aircraft on order at Qatar are worth more than US$40bn at list prices, and the usual questions have to be asked – can the airline afford such a vast investment, and will it find viable routes to put all this capacity onto?

In an interview reported by Reuters, Ali Al Rais - a vice president at Qatar - said that the airline “wouldn't be telling the truth if I said we weren't having trouble financing ... planes”. However, Qatar subsequently complained that the quote was “misleading” and said that the airline has a very sound financial backing – which it needs to have in order to be able to finance such a huge order book. In December the airline took out a US$500m loan from international banks to finance the purchase of three 777s, but whether future financing will be as easy remains to be seen. Interestingly Qatar has recently had to implement a new cost-cutting drive that includes the closing of first-class seating in its A340-600s that “are not being used efficiently”, replacing them with 44 economy seats.

As to the capacity question, on average Qatar will receive one new aircraft each month for the next few years and its growth appears not to have been scaled back by the global recession. Indeed Qatar is hiring another 250 pilots for its expansion and in February held a recruitment day in Delhi in order to attract pilots that are being laid off by Indian airlines.

Qatar wants to increase its destinations served to between 120 and 150, and North America is a particular target for growth. A 17-hour Doha-Houston route (linking what has been termed the "energy capitals" of the world) was launched in March, although this was postponed from December last year thanks to the strike at Boeing, which delayed delivery of a 259-seat 777-200LR due in November that had been earmarked for the route. Houston will be Qatar's third US route, joining Washington DC and New York JFK. The latter was launched in October last year after Qatar switched its New York service from Newark "in response to passenger demand".

Qatar also wants to open routes to areas not yet covered – Australia and South America – in order to make Qatar truly into a global airline, though in doing so it will no doubt expose itself to aggressive competition from its fellow Middle Eastern long-haul carriers. Nevertheless, services to Sydney and Melbourne (using 777-200LRs) will begin in October, and also being launched this year will be two (so far undisclosed) routes to Europe, as well as routes to Amritsar and Goa.

Last year Qatar made aggressive noises that it would start an LCC of its own within three months if any rival LCC was launched in Doha. Its aggressive message is likely to have been prompted by FlyDubai's order for 52 737-800s last summer, as well as from activity from other LCCs, such as NAS Air, Sama and Jazeera Airways and Air Arabia.

Air Arabia

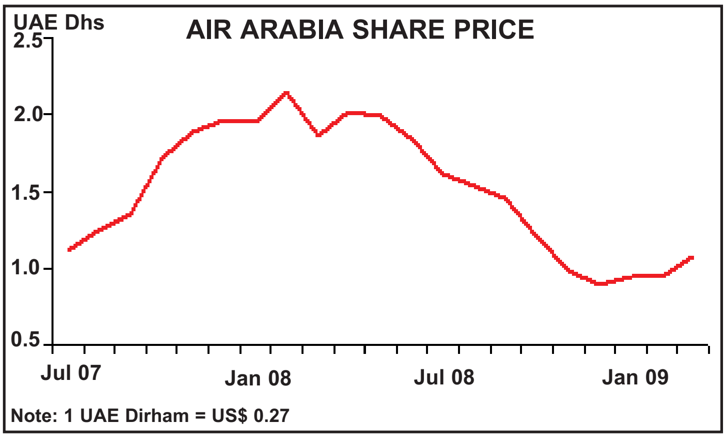
Air Arabia is based at Sharjah airport and was launched by the Sharjah emirate in October 2003. Today it operates to 44 destinations in the Middle East, North Africa, Indian sub-continent, Eastern Europe and Asian regions with a fleet of 16 A320s.

In 2008 Air Arabia recorded a 61% increase in revenue, to Dhs 2.1bn (US$0.6bn) - see charts, right - based on a 33% rise in passengers carried to 3.6m. Net profit rose 36% to Dhs 510m (US$138m), and the airline has declared a 10% cash dividend to shareholders for 2008.

Although it didn't separate out ancillary items in its financials, Air Arabia is keen to increase ancillary revenue and in October last year offered insurance to passengers, an initiative that followed others such as fees for early check-in or pre-assigned seat selection. And during the summer of 2008 Air Arabia also announced it was building a 300-room budget hotel at Sharjah airport, which is due to open in January 2010.

Load factor reached 85% in 2008, and in that year Air Arabia launched seven new destinations, including Shiraz in Iran, Kiev in the Ukraine, Hyderabad and Nairobi. Demand was particularly strong last year in intra-Middle Eastern flights and on routes to India, Egypt and Syria.

Air Arabia has 48 A320s on order (34 were ordered in November 2007 and options for 10 more aircraft were exercised in October last year) for delivery from the middle of 2010 to 2016. With leased aircraft, the fleet will grow to 80 aircraft by 2018 and Adel Ali, CEO of Air Arabia, says that the airline's expansion will not be affected or slowed by the global recession whatsoever.



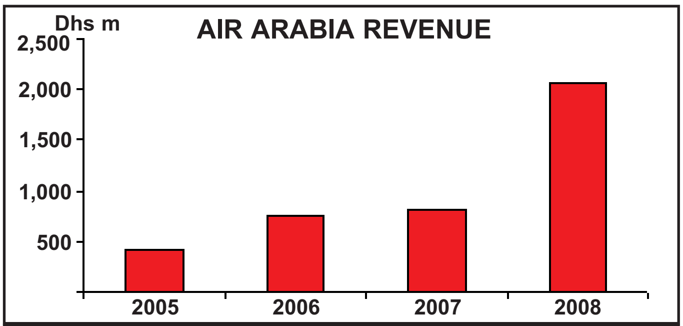
Passenger bookings in the first few months of the year have been very good, according to the airline, and the fleet will grow to 22 aircraft by the end of 2009, with four or five aircraft arriving each year after that. New routes in 2009 will include Athens and Goa (both starting in April), and - most importantly - this year Air Arabia will also be launching a new "hub" in Casablanca, Morocco. Air Arabia has been looking to open up a base outside Sharjah since early 2007 and later that year signed an agreement to manage Regional Air Lines, a Casablanca-based airline that has 10 aircraft and operates to a handful of destinations in the Iberian peninsula and Morocco.

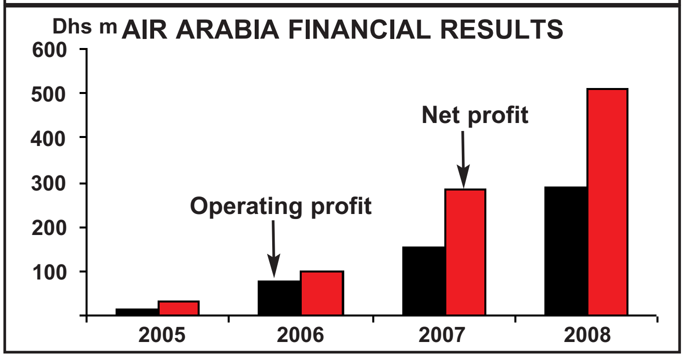
With investment provided by the Bahrain-based Ithmaar Bank, Air Arabia is now setting up a LCC called Air Arabia Maroc (due to launch in May) that will operate both domestic and international routes, initially with two or three A320s but then growing into a fleet of 25 within five years. It will exploit what Air Arabia believes is untapped demand for routes to southern Europe and north Africa, with passengers connecting through Casablanca to up to 50 destinations by 2014.

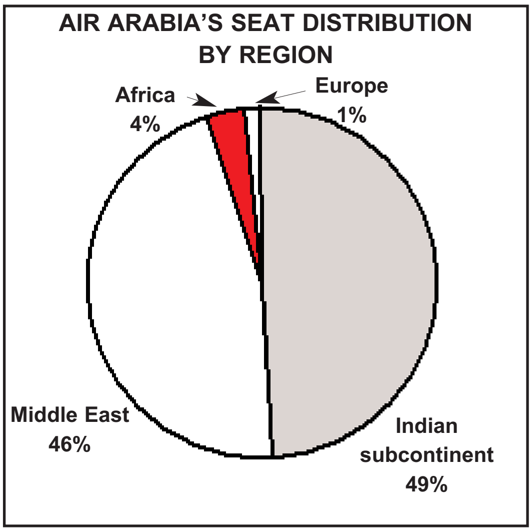
Air Arabia will hope the venture is more successful than an earlier foray overseas, when in January 2008 it launched flyyeti.com, an LCC that was set up in partnership with Yeti Airlines, a domestic Nepalese airline. Air Arabia provided aircraft and crew for the Kathmandu-based airline, which promptly shut down not long afterwards, in July.

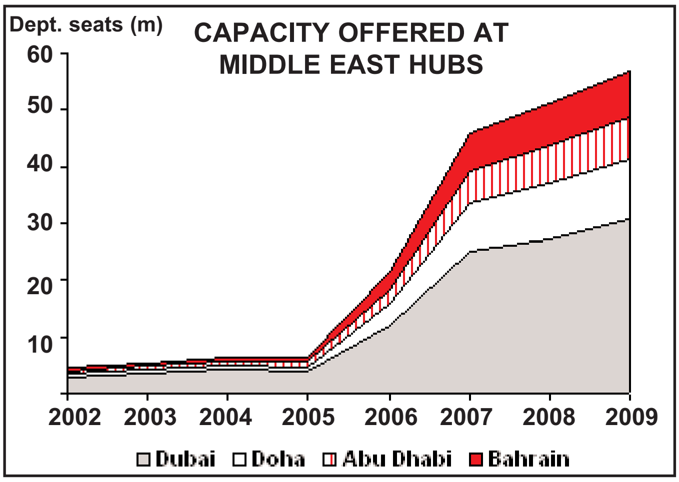
But Air Arabia is strong financially. It IPOed on the Dubai stock exchange in 2007, with 55% of equity floating (with a 50% over-subscription) and following this IPO Air Arabia ring-fenced a fund of more than US$400m for "acquisitions". The shares listed at Dhs 1.07 and steadily rose to a high of Dhs 2.22 in early 2008 before beginning a steady fall all the way to Dhs 0.95 at the start of 2009 (see chart, left). In early April the shares were trading as at Dhs 0.95, giving the airline a market cap of Dhs 4.4bn (US$1.2bn).

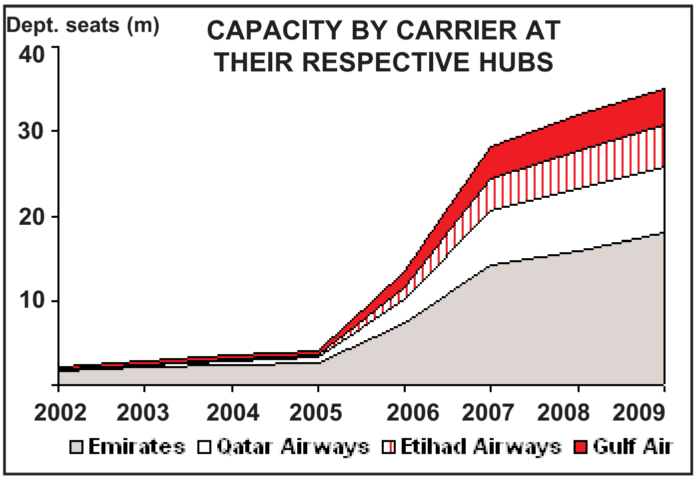
While the 44 aircraft on order have a list price of Dhs 13bn (US$3.5n) - with 20% of the purchase price payable over the next five years and the balance due on delivery - Air Arabia has a strong balance sheet, with no debt and the ability to sustain dividends for the foreseeable future. In late February Dubai-based HC Securities issued a buy note for the airline and a target price of Dhs 1.28 for the shares, saying that it expected "Air Arabia to post passenger traffic growth of 17% in 2009, but a tamer increase in revenue of 9% as we expect yields to fall on lower fares". It added that "the carrier will not need any debt before 2013. Any financing needs before that can be provided internally, supported by its large cash balance of Dhs 1.8bn and investments of Dhs 1.5 bn".

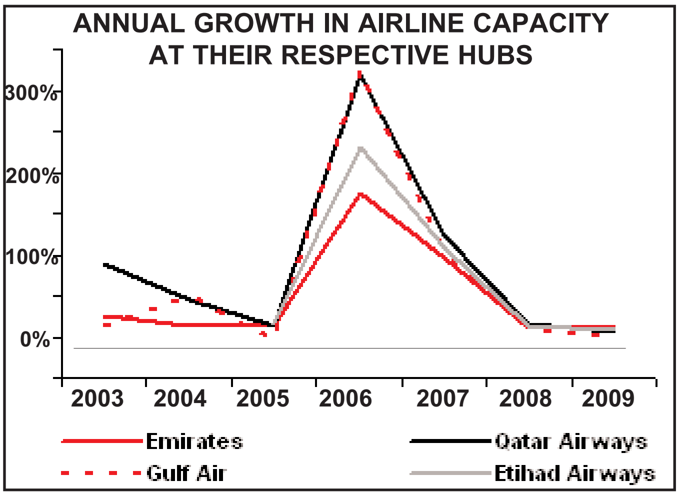


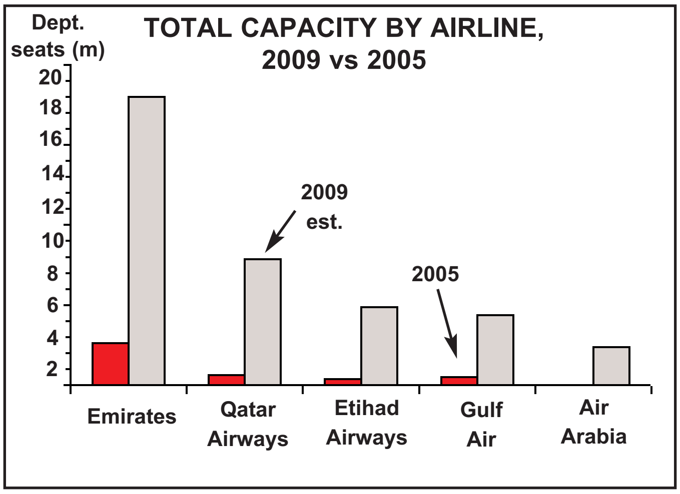










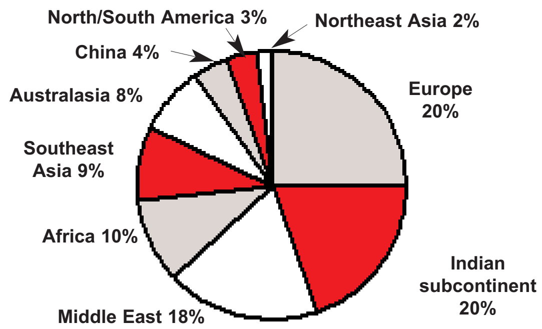


Having covered the strategies of the four Middle East super-connectors (Emirates and Etihad in the previous issue, Gulf Air and Qatar Airways on pages seven to ten), these graphs and tables, generated from RDC's Captstat's product, illustrate the relative positions of the carriers.

Most evident is the fact that the massive capacity growth, both by the carriers themselves and at their hub airports, has come to a sudden halt in 2009. Emirates remains the dominant carrier though Qatar and Etihad combined are now roughly 70% of the size of Emirates. Gulf Air's apparent growth reflects its retrenchment at Bahrain. Air Arabia, with a completely different operating model, is shown for comparison.

In terms of capacity distribution, Emirates is by far the carrier with the greatest global reach, and the dominant carrier to/from the major European hubs, while at the other extreme Gulf Air's capacity is concentrated in the Middle East and the Indian subcontinent.

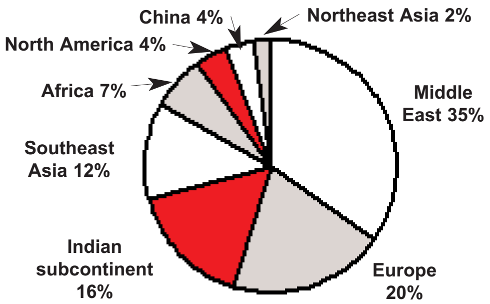
EMIRATES' SEAT DISTRIBUTION BY REGION



EMIRATES' TOP 20 DESTINATIONS, 2009 EST.

City	'000s of seats	City	'000s of seats
London - LHR	696.1	Colombo	311.8
Singapore	457.5	New York	296.3
Mumbai	452.7	Bahrain	288.5
Karachi	412.1	Manchester	276.4
Johannesburg	410	Paris	272.7
Doha	385.3	Tehran	259.1
Auckland	371.4	Dhaka	254.6
Kuwait	364.3	Delhi	253.7
Bangkok	362.8	Melbourne	238.1
London - LGW	348.2	Sydney	232.6

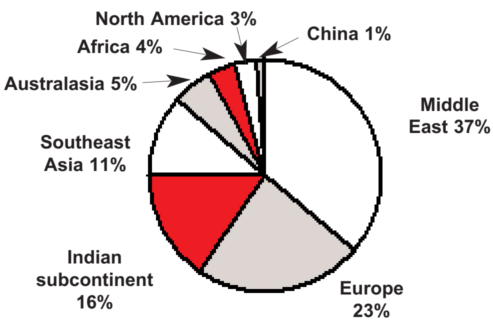
QATAR AIRWAYS' SEAT DISTRIBUTION BY REGION



QATAR AIRWAYS' TOP 20 DESTINATIONS, 2009 EST.

City	'000s of seats	City	'000s of seats
Dubai	415.9	Frankfurt	104.1
London	296.9	Kathmandu	94.8
Bahrain	292.9	New York	91.5
Abu Dhabi	272.7	Washington	91.5
Kuwait	179.2	Mumbai	90.2
Bangkok	166.0	Kuala Lumpur	89.0
Manila	158.8	Jakarta	86.5
Paris	114.4	Singapore	86.5
Muscat	112.5	Beirut	86.0
Colombo	110.2	Khartoum	85.8

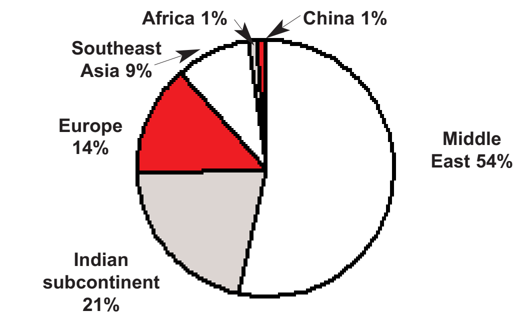
ETIHAD'S SEAT DISTRIBUTION BY REGION



ETIHAD'S TOP 20 DESTINATIONS, 2009 EST.

City	'000s of seats	City	'000s of seats
London	226.9	Jeddah	101.7
Bangkok	206.4	Paris	101.3
Bahrain	161.0	Kuwait	99.8
Doha Airport	157.4	Jakarta	97.5
Dammam	132.5	Cairo	85.9
Muscat	123.9	Damascus	80.4
Riyadh	117.6	Karachi	78.9
Sydney	114.6	Johannesburg	71.8
Manila	103.2	Dublin	71.5
Frankfurt	102.2	Manchester	71.5

GULF AIR'S SEAT DISTRIBUTION BY REGION



GULF AIR'S TOP 20 DESTINATIONS, 2009 EST.

City	'000s of seats	City	'000s of seats
Dubai	357.6	Manila	105.8
Doha	239.7	Delhi	100.0
London	217.0	Dammam	99.7
Kuwait	156.7	Jeddah	95.9
Riyadh	143.1	Cairo	93.9
Abu Dhabi	141.6	Dhaka	92.2
Muscat	134.9	Frankfurt	88.0
Bangkok	129.8	Paris	75.8
Mumbai	109.8	Kuala Lumpur	70.4
Kathmandu	109.7	Beirut	61.0

Note: Departing seats, annual estimates based on Jan - Sept data. Flights from base airport only
Source: Capstats

Southwest: Low-cost pioneer tackles new challenges

In past recessions Southwest Airlines, the low-cost pioneer and the largest US carrier in terms of domestic passengers, could always be counted on to grow and capture market share, financially outperform its competitors and provide a safe haven for investors. But this time around Southwest is losing money, has suspended its fleet growth and is cutting capacity by 5% in 2009. Are the struggles only temporary? Has Southwest lost some of its key competitive advantages?

Southwest has reported net losses for three consecutive quarters. The losses in the second half of 2008 were entirely due to large mark-to-market unrealised losses on fuel hedge contracts and therefore not that surprising. But the result for the first quarter of 2009 was negative even when special items were excluded – Southwest's first ex-item quarterly loss since 1Q 1991. The ex-item net loss was small – only $20m or 0.8% of revenues – and the operating margin was still positive (1.3%), but the other two large US LCCs, JetBlue and AirTran, both achieved 9% operating margins in the latest period.

Southwest faces challenges on several fronts. First, it has lost its fuel hedge advantage. After reaping savings from fuel hedges to the tune of $4.5bn in 2000-2008, the airline saw its hedges turn into a huge liability when the price of oil collapsed late last year. Having neutralised the hedge positions, Southwest has now begun to hedge again, but it is starting from the same position as the rest of the industry.

Second, Southwest faces challenges related to its decision to suspend growth. This year will see the airline's first-even annual contraction. How much will unit costs rise as a result? Can employee morale be maintained during a period of contraction? Would Southwest have to forgo good market opportunities that might arise from a pullback by competitors?

Third, Southwest faces significant cost pressures even without the reduction in ASMs, particularly in the airport, maintenance and labour cost categories. New labour contracts negotiated in recent months all grant pay increases, ensuring that Southwest's workers remain among the best-paid in the industry.

Not surprisingly, Southwest has announced new measures aimed at offsetting the cost increases, including a new voluntary early-retirement programme. But will the workers be interested in light of the lack of alternative employment opportunities in the current economic environment?

Southwest's share price has fallen sharply in recent months. Its market capitalisation has roughly halved since July 2008. Many analysts have a "sell" recommendation on the stock, arguing that the "premium multiple" previously enjoyed by Southwest is no longer justified in light of the "no growth, little hedging" strategy.

Several analysts have suggested that Southwest is now "just like anyone else" from the earnings power point of view. A mid-April research note from Bank of America/Merrill Lynch made the point that Southwest's net margin gap vis-à-vis the industry has narrowed to the point that the gap could all but disappear in 2009 and 2010. Historically, Southwest's net margin has typically led the industry by 5-6 percentage points, but during recessions the lead has been at least 10 points. If the margins were to converge, in ML's view Southwest would face a "much more challenging competitive backdrop than it has ever experienced".

However, it is also possible that Southwest is responding appropriately to the economic crisis and will emerge from it as strong as before. Brokerages such as Raymond James remain very bullish on the carrier, arguing that it provides "lower-risk exposure to an early cyclical recovery in airlines", given its higher leisure revenue mix, substantially lower leverage and likely continued access to capital.

Southwest's CEO Gary Kelly argued very effectively at a recent conference why his airline still stands out from the crowd. First, all of Southwest's traditional strengths remain intact. The airline remains a low-cost producer, with an unbeatable culture, staff morale and brand. It has one of the industry's strongest balance sheets and $8bn worth of unencumbered assets. As the only US airline with an investment-grade credit rating, Southwest is better placed than any other airline to access the credit markets, should it become necessary.

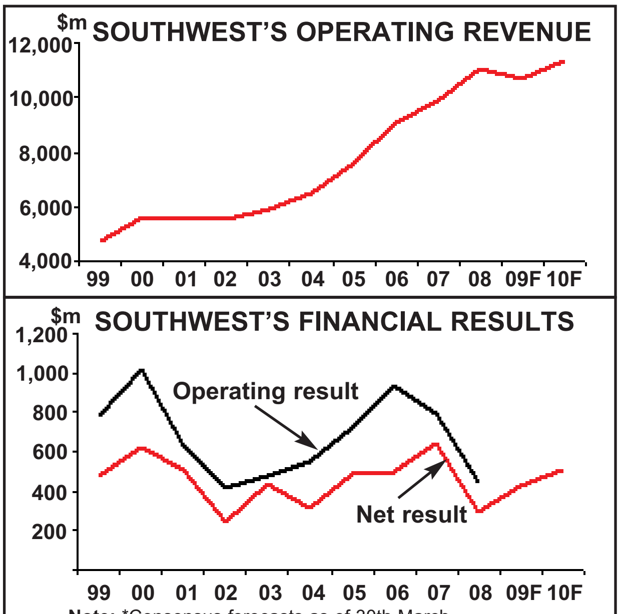
Second, despite this year's ASM decline, Southwest will still be able to add three major cities to its network, thanks to new flight schedule optimisation tools. According to Kelly, the airline is also prepared to "take advantage of opportunities if some of our competitors falter".

Third, Southwest has developed new strengths and capabilities as it has adapted its business model to a changing competitive environment. There are new products aimed at bringing in extra revenues and further strengthening the brand. Also, the past few years' technology development drive is finally bearing fruit, giving Southwest new capabilities to manage revenues, optimise its network and codeshare internationally.

Southwest has continued to outperform the industry on the revenue front, reflecting its higher concentration of leisure traffic and lack of international exposure. Its passenger unit revenues fell by only 2.8% in the first quarter, compared to a roughly 10% average domestic industry decline. As recession bites, more travellers (both leisure and business) are likely to switch to LCCs. That and the legacy carriers' much greater capacity cuts should mean that LCCs will continue to gain market share.

The fuel hedge issue

Overall, Southwest gained enormously from its post-2001 fuel hedging strategy. In the wake of September 11, Southwest was the only US airline with the cash (and the foresight) to take on extensive new hedges at crude oil prices in the $20s and $30s (per barrel). Those hedges paid off handsomely when oil prices subsequently surged, saving the airline $3.2bn in 2000-2007 and enabling it to continue reporting healthy 8-10% operating margins even in the toughest years. By 2007 the hedges were wearing off, but when oil prices surged to new heights last year, Southwest still had the best hedge position in the industry (by a wide margin) and reaped another $1.3bn in savings in 2008.



Note: *Consensus forecasts as of 30th March.

The collapse in oil prices in the second half of 2008 meant large mark-to-market unrealised losses on hedge contracts and the first quarterly net losses in 17 years. However, thanks to $1.3bn of savings from fuel hedges in the first half of 2008, Southwest achieved its 36th consecutive year of profitability. The $178m net profit and 5.8% operating margin in 2008 were excellent results in an extremely difficult year.

Southwest acted quickly to reduce its hedge exposure. After having 75% of its 2009 fuel needs hedged at an average crude equivalent price of $73, plus further significant hedges in 2010-2012, in November-December the airline reduced its net hedge position to only 10% of fuel needs each year between 2009 and 2013. It was done by selling swaps against the existing out-of-money fuel hedge positions, effectively capping the mark-to-market losses at around $1bn. Southwest paid no additional premiums, avoided having to fork out an additional $500m in cash collateral and will realise the $1bn in losses as future fuel is consumed.

The cash collateral requirements on the fuel hedges had caused Southwest's unrestricted cash holdings to dip as low as $1.3bn (11.8% of last year's revenues) late last year – quite a deterioration from the $5.8bn held six months earlier (which included cash deposits received from hedge counterparties). By revising deals with hedge counterparties and raising more than $1bn in cash through credit lines, a public debt offering and aircraft sale-leasebacks, Southwest raised its unrestricted cash position to $1.8bn at year-end.

Further sale-leasebacks on 737-700s helped raise unrestricted cash to $2.1bn by March 31. Southwest also has $200m available under its unsecured revolving credit line. In April another $105m was raised through sale-leasebacks, with a similar amount expected from a second tranche later this quarter. It all adds up to a perfectly healthy liquidity position.

The management has obviously had to work extremely hard to stabilise the situation arising from the out-of-money fuel hedges, but they could not have managed it any better. It is also worth bearing in mind that Southwest never had a fuel hedge advantage before 1999, and it had a significant advantage only in 2008.

With the slight increase in oil prices in recent months, Southwest has started to rebuild its hedge position using call options, which provide upside protection while allowing the airline to benefit from lower fuel prices. As of April 16, Southwest had 50% of its 2Q needs capped at $66, 40% of second-half 2009 needs at $71 and 30% of 2010 needs at $77.

SOUTHWEST'S 737-700 DELIVERY SCHEDULE*

	Firm orders	Options	Purchase rights	Total
2009	13			13**
2010	10			10
2011	10	10		20
2012	13	10		23
2013	19	4		23
2014	13	7		20
2015	14	3		17
2016	12	11		23
2017		17		17
Through 2018			54	54
TOTAL	**104**	**62**	**54**	**220**

Notes: * As revised in January 2009. **The current plan is to return or retire 15 older 737s in 2009, to reduce the fleet by two aircraft to 535 at year-end.

The "no-growth" strategy

After long growing at a brisk 8-10% annual rate, Southwest began to slow down in 2007 and last year grew its ASMs by only 3.6%. In October the airline deferred some of its 2009 deliveries, and in January it further revised its aircraft delivery schedule and indicated that its ASMs would decline by 4% in 2009. In mid-April the ASM decline was revised to 5%.

Southwest is still taking 13 new 737-700s in 2009, but because it is retiring or returning to lessors 15 older 737s, the size of the fleet will decrease by two aircraft to 535. Under the revised deal with Boeing, Southwest deferred 737-700 deliveries from 2010-2012 to 2013-2016. It now has only 10 firm deliveries in 2010 and 10 in 2011. These and the earlier deferrals reduced capital spending from its peak in 2009-2010 by $1.4bn.

Of course, the fleet growth suspension is only temporary. According to local newspaper reports in Dallas, Southwest has made a commitment to its pilots to begin growing the fleet again in 2011. The new tentative pilot contract reportedly stipulates that the airline must have 541 aircraft by year-end 2011 and 568 by year-end 2012. There is obviously flexibility to accelerate growth at any point. Total firm orders, options and purchase rights through 2018 remain at 220.

Southwest is finding it easier to temporarily suspend fleet growth because it has new schedule optimisation technology at its disposal which it did not have before 2004. The new tools have allowed it to trim less popular flights and reallocate the capacity to promising new markets.

The ASM reduction will come from reduced aircraft utilisation. The schedule optimisation effort often involves eliminating early-morning or late-evening flights, which would not be any more popular elsewhere in the network.

It is hard to imagine that employee morale would be seriously dented by the temporary shrinkage. But is interesting how the retrenchment and gloomy industry prospects have helped bring to conclusion difficult contract talks. Since January four of Southwest's key unions – mechanics, ground workers, flight attendants and pilots - have reached agreement or ratified new 3-5 year contracts. Some of those deals incorporate job security protections, including no-furlough clauses and limits to maintenance outsourcing and domestic codesharing.

Cost pressures

There is a perception that Southwest's cost advantage over competitors has narrowed, especially because of the legacy carriers' deep cost cuts earlier this decade. Also, AirTran now has slightly lower ex-fuel CASM than Southwest on a stage length-adjusted basis. But Kelly estimated in early March that Southwest retains a cost advantage over the legacy carriers "ranging from 50% to near-100%" on a stage length-adjusted basis – that is now, without the fuel hedges.

Southwest has remained among the low-cost leaders despite being 38 years old with a senior workforce and industry-leading wages. It has the highest-paid pilots for narrowbody aircraft in the US industry. The airline has held its non-fuel CASM at around 6.5 cents for the past eight years, thanks to continued productivity improvements.

But keeping costs under control will be a major challenge as the ASM base shrinks. The pressures were already evident in last year's fourth quarter, when ex-fuel CASM rose by 6.9%, reflecting increased airport and maintenance costs and ASM growth grinding to a halt. In the first quarter, ex-fuel CASM rose by 8.4% as capacity contracted by 4.1%. By most estimates, Southwest will see its ex-fuel CASM surge by 8-10% this year.

The maintenance cost pressures, evident since mid-2008, reflect a sharp increase in the number of engines coming up for major overhaul. On the airport front, as a domestic carrier, Southwest is heavily exposed to the cost increases resulting from sharp declines in airline service at US airports.

The new labour deals also guarantee continued cost pressures. The tentative five-year pilot contract, which was endorsed by the union's board in late March, includes 2% annual pay increases for the first three years (two of which are retroactive), further pay rises in 2010 and 2011 depending on profitability and improved retirement benefits. The new tentative four-year flight attendant contract provides pay increases and improvements in retirement and other benefits. The mechanics' new four-year contract grants 3% pay increases in most years, plus 7% in possible bonuses, while the ground workers' three-year deal also provides 3% annual pay increases.

As in the past, the aim is to try to offset pay increases with productivity improvements. The contracts incorporate work rule changes, flexibility provisions and some were even described as "cost neutral". But, with ASMs declining, it will be an uphill battle to maintain productivity. A recent report from JP Morgan noted that Southwest's efficiency, as measured by daily departures per aircraft and employees per aircraft departure, already deteriorated sharply in the first quarter.

On the positive side, Southwest got the contract negotiating process out of the way (for all unionised employees except for customer service and reservations agents) and the workers seem happy with the new contracts. The latter is particularly important for a company that regards its culture as its greatest strength.

But Southwest will need to find some cost savings. To that effect, the airline announced in mid-April that it hopes to trim staff numbers through a new voluntary early retirement programme covering nearly all of its workers (decisions required by June). There is also a salary freeze in place for senior management, and CEO Kelly has voluntarily cut his 2009 base salary by 10%.

Although the two previous voluntary early-out programmes since 2004 were successful, such a programme may be less popular in the current economic environment. Southwest has never had a furlough or pay or benefit cut and would use those strategies only as a last resource, but some analysts now question how long the no-furlough strategy can last.

New revenue strategies

Since mid-2007 Southwest's primary focus has been on boosting revenues. Originally the purpose was to compensate for the waning of the advantageous fuel hedges. The airline also realised that, as the largest domestic carrier, it was uniquely well positioned to develop ancillary revenues and capitalise on southwest.com. It wanted to improve its customer experience and go past the "one size fits all" approach it had used in the past, in particular to appeal even more to the business customer.

The result has been a batch of revenue initiatives, including a new "Business Select" product and a new boarding method, both introduced in late 2007. Business Select is a modest premium product even by LCC standards, and Southwest never adopted assigned seating. However, Southwest did not need to go further than that, because it already carried large volumes of business customers and had a business model that its customers loved. After one full year, customer response to the new offerings has been "overwhelmingly favourable", and Business Select brought in $75m extra revenues last year. It will take Southwest another year or two to complete all of its planned revenue initiatives, many of which are technology-enabled and include a new FFP and a new southwest.com.

While developing new products aimed particularly at business travellers, Southwest maintains a commitment to low-fare leadership and what it calls a "no hidden fees" policy (meaning no fees on items that previously were included in the ticket price, such as checked bags). Some analysts have questioned the wisdom of the no-fees policy, arguing that, now that every other US airline charges extra for items such as checked bags, Southwest is just leaving large amounts of money on the table. But Southwest's management feels that "no hidden fees" is a key element of the low-fare leadership, helping to reinforce the brand and maybe even being a positive contributor on the revenue side.

Growth opportunities

In recent years Southwest has become more strategic with its growth efforts. It has pulled back in less profitable markets, focused expansion on selected key cities and grown aggressive at those locations. After long flying mainly to cheaper and less congested secondary airports, the airline is now adding service at big legacy hubs or highly competitive major airports. There is no desire to depart from the point-to-point strategy, though at many of its focus cities Southwest has effective hub operations. At present Southwest is determined to continue flying just one aircraft type, to retain simplicity and low costs.

Southwest's initial experiments with the "major hub" strategy, at Philadelphia (US Airways' hub) since 2004 and at Denver (United's hub) since 2006, have been huge successes. Denver has been Southwest's fastest-growing city; after only three years, the operation has grown to 115 daily departures to 32 destinations. After several "route alignments" since August 2007, which have eliminated some 10% of daily flights from its schedule, Southwest is stepping up the new expansion strategy this year with three important city additions: Minneapolis, New York LaGuardia and Boston Logan.

Minneapolis is a classic overpriced and underserved market, but it represents a bold move for Southwest since it is the home base for Northwest (now part of Delta). Southwest started cautiously with service only to Chicago Midway, where it has a hub operation, but demand has exceeded expectations and a second route, to the

Denver stronghold, will be added in May. With fares initially as low as $49, there is potential for the famous “Southwest effect”.

LaGuardia, which will be added on June 28, is a very big move for Southwest, which has so far served the New York area only via Islip on Long Island. Southwest is gaining access to this congested hub by acquiring ATA’s 14 daily slots at LGA for $7.5m (as part of its former partner’s liquidation process). Southwest will connect LGA to two of its key markets, Chicago Midway and Baltimore-Washington, with a total of eight daily flights (the ATA slots plus one return flight outside the slot control hours). The LGA operation will be too modest to have real competitive impact, and slot restrictions will prevent rapid expansion. But Southwest’s customers have wanted LGA service for a long time. It will be an interesting experiment for the airline.

Southwest is looking to add Boston Logan to its network this autumn. The airline already serves the Boston region through Manchester (New Hampshire) in the north and Providence (Rhode Island) in the south, but it is not drawing many customers from downtown Boston, so Logan represents an opportunity to draw new traffic. Since there are no slot or space constraints, Southwest sees tremendous growth possibilities.

Southwest has shifted its focus from secondary to major airports for a number of reasons. First, it is now more able to deal with congestion and delays at large East Coast hubs after gaining experience with ATA and now that it has more sophisticated scheduling tools to help minimise the impact of any delays at LGA.

Second, Southwest is responding to changes in the competitive environment. In the old days it could go to a region like Boston, pick an alternative airport and people were happy to drive long distances to get cheap fares. That was when Southwest was the only low-fare airline. Now that there is low-fare competition throughout the US, including JetBlue with a major presence at Logan, the strategy no longer works.

Third, Southwest’s large size and nationwide presence probably obligates it to serve the nation’s largest city, New York, as well as the main gateway airports to cities such as Boston. Fourth, focusing on the main airports obviously helps cater better for the business segment.

While Southwest clearly still has good opportunities to develop its network in the US, it has taken the first concrete steps to go international: signing codeshare deals with Canada’s WestJet and Mexico’s Volaris, and seeking US-Canada route authority from the DoT (even though it does not currently have plans to operate to Canada with its own aircraft). The Canada and Mexico codeshares, to be flown by partners’ aircraft, are expected to start in late 2009 and early 2010, respectively, when Southwest will have the systems in place to sell international itineraries. The next stage could be similar deals to Europe and Asia, though that may be a couple of years away.

At some point in the next few years, Southwest is expected to begin its own flying to “near international” destinations. There is considerable pressure from the pilots, who have questioned why Southwest is not launching its own service to Mexico, Canada or the Caribbean, like JetBlue, AirTran, Frontier, WestJet and other LCCs are. The new pilot deal limits near international codesharing to 6% of the flying done by Southwest’s pilots.

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		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
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	8,274	7,693	582	70	7.0%	0.9%	47,075	36,632	77.8%	17,107	108,711
	Year 2008	**36,592**	**34,600**	**1,992**	**896**	**5.4%**	**2.4%**	**195,431**	**154,155**	**78.9%**	**70,500**	**108,123**
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	11,119	12,138	-1,018	-1,070	-9.2%	-9.6%	115,478	90,975	78.8%	24,959	18,718
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	16,825
	Year 2008	9,498	9,590	-92	-1,821	-1.0%	-19.2%	77,139	55,054	72.7%		
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	19,334
	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	45,000
	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	29,301
	Year 2006	3,825	4,201	-376	-416	-9.8%	-10.9%	70,428	50,243	71.3%	35,020	38,392
	Year 2007	5,608	5,603	5	32	0.1%	0.6%	77,713	57,180	73.6%	39,160	40,477
	Year 2008							75,919	53,754	70.8%	27,220	
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	
	Oct-Dec 08	237	152	84	-50	35.7%	-21.1%	5,006	3,800	75.9%	3,342	
YE 31/12	Year 2008	796	592	203	-142	25.5%	-17.9%	18,717	13,485	72.0%	11,795	

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
2008	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
Feb 09	21.6	13.1	60.6	14.5	10.1	69.7	13.7	10.7	78.3	43.2	32.7	75.7	64.0	45.4	71.0
Ann. change	-7.4%	-10.8%	-2.3	-10.1%	-11.8%	-1.4	-7.9%	-8.5%	-0.6	-7.5%	-8.4%	-0.8	-6.8%	-8.5%	-1.3
Jan-Feb 09	44.5	26.4	59.3	31.1	22.5	72.5	28.9	22.9	78.9	92.2	71.2	77.2	135.5	97.2	71.7
Ann. change	-6.6%	-9.6%	-2.0	-7.0%	-7.9%	-0.7	-4.6%	-6.0%	-1.2	-4.4%	-5.4%	-0.8	-4.3%	-5.7%	-1.1

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	27 Feb	Air New Zealand	1 x 777-300ER	
	11 Feb	Alaska Airlines	1 x 737-800	
Airbus	3 Feb	Korean Air	2 x A380s	
	27 Feb	Korean Air	6 x A330-200	From 2010
Bombardier	30 Mar	Lease Corp. Int'l	3 x CS100, 17 x CS300	Plus 20 CSeries options
	11 Mar	Lufthansa	30 x CS100	Plus 30 options

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

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