Aviation Strategy

Issue No: 140 June 2009

Will the Chinese aircraft order backlog survive?

More than 300 new aircraft have been delivered to Chinese airlines over the past three years, and 500 more are scheduled for delivery by 2014. But with China's "Big Three" racking up losses of US$4.2bn in 2008, is it realistic to expect that this huge backlog of orders will be delivered?

Encouraged by soaring air traffic demand before the global recession, the Civil Aviation Administration of China (CAAC) and Chinese airlines intended to expand fleets at an annual growth rate of 13% over the next few years, with the total Chinese fleet planned to reach 1,550 units by 2010.

Indeed China's "Big Three" - Air China, China Eastern and China Southern - have outstanding orders for 139, 64 and 150 aircraft respectively to be delivered within the next five years. Three medium-sized carriers - Hainan Airlines, Shanghai Airlines and Shenzhen Airlines - also have 113, 27 and 41 aircraft respectively being delivered over the same period. That's 534 aircraft that are due to be delivered by the end of 2014 (the majority of which will arrive in the next three years), even without counting orders for smaller Chinese airlines. Most of the incoming aircraft are narrowbodies (a result of most Chinese airlines' focus on the domestic market, and CAAC's attempt to phase out aircraft more than 15 years old), but just how many of these 500+ aircraft will actually arrive at Chinese airlines?

Cancellation or deferral?

The majority of these aircraft were ordered between 2005 and 2007, in a period when China's air traffic volume recorded annual growth rates of around 15% (see *Aviation Strategy,* May 2008). But in 2008 the growth rate tumbled to 2.2 % and in the same year Chinese airlines suffered significant financial losses. Last year the CAAC publicly urged Chinese airlines to renegotiate with Airbus and Boeing in order to cancel or defer aircraft deliveries, although at that time - when airlines did talk with the manufacturers - the focus was much more on deferral rather than cancellation.

A key complication is the fact that most Chinese orders are placed collectively by China Aviation Supplies Holding Company, a state-owned company, and this turns potential cancellations into an issue that affects the Chinese government's credibility. The only major cancellation announced so far has been from Hainan Airlines, which in May cut its order for 50 ERJ 145s to 25 units. *(Continued on page 2).*

www.aviationeconomics.com

CONTENTS

Analysis

Will the Chinese aircraft order backlog survive? 1-3

GECAS retains high margins despite the recession 4-5

Ryanair's unrelenting expansion 6-7

Briefing

British Airways and Air France/KLM: Different prospects? 8-13

JetBlue: Recession? What recession? 14-18

Databases 19-23

Freighter values and lease rates

European, US and Asian airline traffic and financials

Regional trends

Orders

PUBLISHER

Aviation Economics
James House, 1st Floor
22/24 Corsham Street
London N1 6DR
Tel: +44 (0) 20 7490 5215
Fax: +44 (0) 20 7490 5218
e-mail: info@aviationeconomics.com

The deferral situation varies airline by airline and model by model, but there's little option other than deferral for the 787s, of which Chinese airlines ordered 72 units in 2005. The aircraft's increased maximum empty weight (which will now be five to eight tons higher than the original design specification) makes operating the model on many Chinese routes uneconomic, and a number of the orders placed by Chinese airlines have now been taken by Japanese airlines. Indeed the 787 economics look so bad in China that China Eastern - which reported a record financial loss of US$2.2bn in 2008 and had to be rescued by the Chinese government - recently announced that it was considering cancelling its entire order of 15 787-8s.

But given that cancellation is not a realistic option for most Chinese airlines (China Southern, for example, has parked two 777-200LRFs in the Arizona desert, after they were delivered only in February this year, rather than cancel the order before delivery) the emphasis in ongoing negotiations with manufacturers remains on deferrals - although carriers are finding it difficult to make meaningful adjustments to schedules.

For example, with CAAC's "coordination", delivered aircraft in 2008 were eight fewer than originally planned, and thanks to deferrals and cancellations this difference between planned and delivered aircraft is expected to rise to 33 units this year. But given that the Chinese air traffic growth rate was just 1.7 % in the first four months of 2009 (compared with the same period in 2008), there will still be significant overcapacity even despite this adjusted delivery total for 2009.

The other options

With cancellations and even deferrals proving difficult (given the CAAC's involvement), the realistic alternatives for Chinese airlines are to return leased aircraft to lessors and/or to accelerate the withdrawal of ageing/uneconomic aircraft from service.

China Eastern, for example, has already returned seven leased aircraft this year and, after a handful of deferrals, the airline's fleet will rise by only 13 aircraft this year – 10 units fewer than planned. Airlines are also attempting to renegotiate lease rates with lessors, as most existing contracts were signed before 2008, at a period when aircraft lease rates were close to their peak (and very approximately 25% higher than they are at the moment).

Whether Chinese airlines achieve lower rates depends largely on how severe their own financial situation is (the more trouble they are in the greater leverage they seem to have with the lessors) and - more importantly - just who their owners are. The smaller and/or privately-owned airlines are making the hardest efforts to cut rates, but the outcomes so far have not been encouraging, and lessors are reluctant to renegotiate agreed contracts except in exceptional cases.

What is in the airlines' own hands is the withdrawal of uneconomic aircraft from service. China Southern is the frontrunner here: it has already sold 12 MD-80s and is now disposing of four 777-200s, six A300-600s and 13 MD-90s. The six A300-600s were scheduled to be converted to freighters, but the airline has stopped this programme due to a severe fall in China's air cargo business and the indefinite deferral of a proposed cargo joint venture between China Southern and Air France/KLM.

Finance problems

There is another factor in determining how many aircraft will be delivered to China over the next few years – the availability of finance. Fortunately for them, Chinese airlines are supported strongly by central government and a host of provincial governments that have deep pockets, as well as the Chinese banking industry, and together these entities continue (for the moment at least) to ensure both the survival of the major airlines and the financing of their aircraft orders.

Aviation Strategy
is published 10 times a year by
Aviation Economics

Publisher:
Keith McMullan
kgm@aviationeconomics.com

Editor:
Nick Moreno
nm@aviationeconomics.com

Contributing Editor:
Heini Nuutinen

Sub-editor:
Julian Longin
jil@aviationeconomics.com

Subscriptions:
info@aviationeconomics.com

Tel: +44 (0)20 7490 5215

Copyright:
Aviation Economics
All rights reserved

Aviation Economics
Registered No: 2967706
(England)

Registered Office:
James House, 1st Floor
22/24 Corsham St
London N1 6DR
VAT No: 701780947

ISSN 2041-4021 (Online)

The opinions expressed in this publication do not necessarily reflect the opinions of the editors, publisher or contributors. Every effort is made to ensure that the information contained in this publication is accurate, but no legal reponsibility is accepted for any errors or omissions.

The contents of this publication, either in whole or in part, may not be copied, stored or reproduced in any format, printed or electronic, without the written consent of the publisher.

The Chinese government has already injected RMB 3bn (US$439m) into both China Eastern and China Southern respectively. This rescued China Eastern from bankruptcy and helped China Southern to pay back maturing debt of RMB 2.3bn incurred from aircraft purchases. At a regional level, the Hainan provincial government followed the central government's lead by injecting RMB 1.5bn (US$219m) into Hainan Airlines, while the Shanghai government gave RMB 1bn (US$146m) to Shanghai Airlines.

The central and regional governments' financial commitments are crucial in helping Chinese airlines through the current recession, but in some cases the local governments are going further, via a wave of subsidiaries being set up with local airlines. For example, Grand China Express - the country's largest regional carrier with 46 aircraft - has been transformed into Tianjin Airlines, a joint venture subsidiary between the Tianjin municipal government (which provided RMB 200m of equity) and the Hainan Airlines Group, which owned the airline.

And Shenzhen Airlines is aiming to transform regional subsidiary Kunpeng Airlines into a joint venture with the Henan provincial government (again with funds provided by the local government). The airline - which is likely to be renamed Henan Airlines - ordered 100+ Chinese-built ARJ21s in 2006.

As well as providing capital, regional governments are also helping their local airlines by reducing airport charges and local taxes (which are completely within the powers of the local government).

But perhaps the most important boost from the involvement of national and local governments in Chinese airlines is that it increases the confidence of creditors and aircraft lessors, reassuring them that in the event of financial difficulties the national and local government shareholders will act to rescue the airlines. With expectations such as that, commercial loans, finance leasing and sale and leaseback deals are much more easily concluded.

On top of government support comes the Chinese banks, and most particularly the Industrial and Commercial Bank of China, China Construction Bank and Bank of China. These banks have long been "silently" financing Chinese airlines' aircraft deliveries with commercial loans, counter-guarantees, finance leases or tax leases, and (unlike Western banks) Chinese banks have relatively low equity and margin requirements – again justified by the fact that most airlines are controlled by governments, which ultimately take all default risks.

Outlook

Undoubtedly the biggest influence on how many aircraft will be delivered to China's fleet is just when China's economy will pick up substantially from the slowdown. The consensus appears to be that the economy has passed the worst point, but some fears remain that the recovery could be a so-called "W" shape. That's because the current acceleration in the growth rate is being driven by massive government investment which, while stimulating domestic consumption, is not sustainable in the long-term.

And government investment can't stimulate overseas demand, with the harsh reality for the aviation industry being that demand for exports from China - which has long served as an engine of economic growth - has tumbled.

The first four months of 2009 saw China's international air cargo volume decline by 21.9 %, which will surely affect the Big Three's plans for new and converted freighters. Similarly, international passenger traffic shrank by 17.3 % over the January-April 2009 period, and Chinese airlines are now struggling to deploy existing and incoming widebodied aircraft on domestic routes in the short-term.

The airlines hope that this will be a temporary measure until international traffic rebounds, but until that occurs the manufacturers will be keeping a nervous eye on the huge backlogs at Chinese airlines.

By Yong Qiu,
yongq@3oac.com

GECAS retains high margins despite the recession

As AIG and the US government struggle to get a decent price for ILFC (see *Aviation Strategy,* May 2009), how is fellow mega-lessor GECAS faring as the aviation downturn rages though 2009?

In 2008 GE Commercial Aviation Services (GECAS) recorded revenue of $4.9bn, 1.3% higher than in 2007, and made a net profit of $1,194m, 1.4% lower than the previous year. It placed 232 aircraft in 2008 (146 from the current fleet, 42 new aircraft and 44 extensions of existing leases), which was a 10% increase on leasing activity in 2007. Although the 2008 figures also included an impairment loss of $72m for a downward adjustment of the fair value of the fleet ($110m in 2007), this was an excellent set of results for the full year.

Whether GECAS can continue that profitability into 2009 is the key question, and Henry Hubschman, president and CEO of GECAS (until July this year), warned that “the first quarter of the year proved to be as challenging as any we’ve faced”.

Good start to the year?

However, financial results for the January-March period show that the lessor appears to be weathering the storm of the global recession reasonably well. In the first quarter of 2009 GECAS reported revenue of $1,140m - some 9% lower than the first quarter of 2008 - while net profits of $268m in January-March 2009 were 31% lower than in January-March 2008. While not as good as a year ago, this still gave GECAS a net margin of 24% in the first quarter of 2009 (compared with the 31% of a year earlier).

In the first quarter of 2009 GECAS placed 33 aircraft, extended the leases on nine aircraft currently with clients, and sold three aircraft. Of those 33 placed on new leases, 12 were in the “growth” markets (according to GECAS) of the Middle East, Africa, Russia and Asia. Of its total portfolio, as of the end of March just one was not placed with a client, although GECAS signed a letter of intent with an airline to lease this aircraft out soon afterwards.

Of course GECAS has faced a very tricky market over the past 12 months or so, as lease rates have fallen and some airlines have faced severe financial problems. For example, GECAS is in an ongoing dispute with India’s Deccan Aviation, after it terminated a number of A320 leases following the merger between Air Deccan and Kingfisher Airlines. Kingfisher says that there has been “a disagreement” with the lessor on terms and conditions for returning the aircraft, but the whole issue has now gone to the courts.

In early January GECAS rescinded six contracts covering 14 aircraft leased to SkyEurope Airlines after the Bratislava-based LCC faced financial problems at the end of 2008. SkyEurope had defaulted on lease payments for the 737-700s, and GECAS appears to have acted ruthlessly in recovering the aircraft. SkyEurope has since continued to operate normally and the airline was very critical of GECAS’s actions, saying that it caused operational problems, but GECAS countered by saying that it held a series of negotiations with SkyEurope that did not resolve the situation.

Elsewhere, in March this year the Civil Aviation Administration of China (CAAC) grounded private airline East Star Airlines after the Wuhan-based carrier missed lease payments to GECAS. East Star had a fleet of nine A320 family aircraft, all of which were leased from GECAS, and its routes have been taken over by other Chinese airlines.

Overall, however, GECAS is coping well with difficult market conditions and (like most lessors) appears to have avoided the need to renegotiate existing lease contracts - although that is not to say the situation won’t change through 2009.

GECAS also does a significant amount of engine leasing (a business that became wholly part of GECAS in 2005) and leased 120 units in 2008 out of a total portfolio of 350

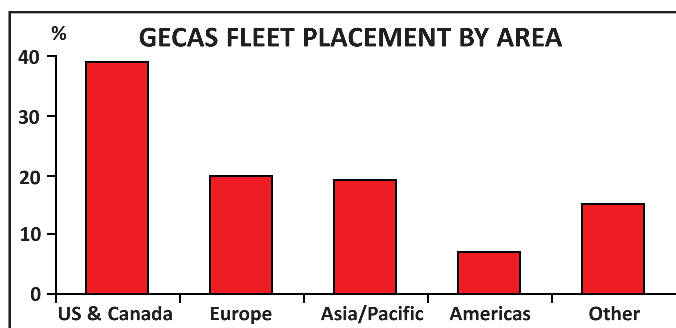
owned and managed engines. The business is naturally counter-cyclical to the aviation industry, with Julie Dickerson, general manager of GECAS Engine Leasing, saying: "Despite challenging economic conditions, we expect airlines will lease more of their spare engines in 2009 instead of choosing the more capital-intensive ownership option."

Financially, GECAS has very deep pockets in that it is a subsidiary of GE Capital, which itself is part of the massive GE conglomerate – a series of companies that has around 300,000 employees in more than 100 countries worldwide, with revenue of $182bn in 2008. Unlike ILFC's parent AIG, GE has not got itself into funding problems over the last 12 months, and as a result the future of both it and GECAS appears solid – which means that the lessor's management team can concentrate solely on placing its aircraft and financing its asset base, rather than have the distraction and uncertainty of a sales process, as is occurring at ILFC (and a number of medium-size lessors).

GECAS (which has 24 offices around the world) currently has a portfolio of 1,520 owned aircraft, placed with 250 airlines in 78 countries, and with an average age of seven years. 55% of the fleet are narrowbodies (and 88% of those are A320s and 737NGs), with 20% being widebodies (of which 91% are 767s, 777s or A330s), 16% regional jets and 9% cargo aircraft. GECAS also manages another 325 aircraft for clients, and the value of GECAS's assets rose from $49.5bn as at the end of 2008 to $50.3bn as at March 31st 2009.

Asset sale

However, in April Irish lessor Pembroke Group agreed to buy 13 737-800s and a single A320 from GECAS. The aircraft have an average age of just over one year, and all are currently placed with clients in the Asia/Pacific and Africa regions. It's possible that selling such a tranche of young aircraft indicates that GECAS is coming under pressure on lease revenue though the year, and wants to boost 2009 results with sales – although a downside of the deal is that it will increase its traditional dependence on the US market even further (see chart, above).



In the January-May period GECAS received 18 new aircraft from Boeing and nine from Airbus, and though GECAS hasn't placed any major orders with the manufacturers for a considerable time, as of end-May GECAS had outstanding orders for 85 737s and 18 777s, and for 51 Airbus aircraft (11 A319s and 40 A320s), which are worth around $17bn.

In November last year GECAS also placed a firm order for five ARJ21-700 regional jets produced by the Commercial Aircraft Corporation of China (Comac). The ARJ21 programme has suffered delays over the last few years but these aircraft will be delivered from 2013 onwards, and GECAS also has options for up to 20 more of the model. It's likely that the aircraft will appeal mostly to Chinese airlines, and other firm orders for the regional model have come from Shanghai Airlines and Shandong Airlines. GECAS's order was probably linked to GE's production of the engines that will power the ARJ21, but state-owned Comac is also responsible for China's anticipated larger commercial aircraft development programme, and GECAS's regional jet order can be seen as a strategic move to cement its place at the heart of the Chinese manufacturing industry.

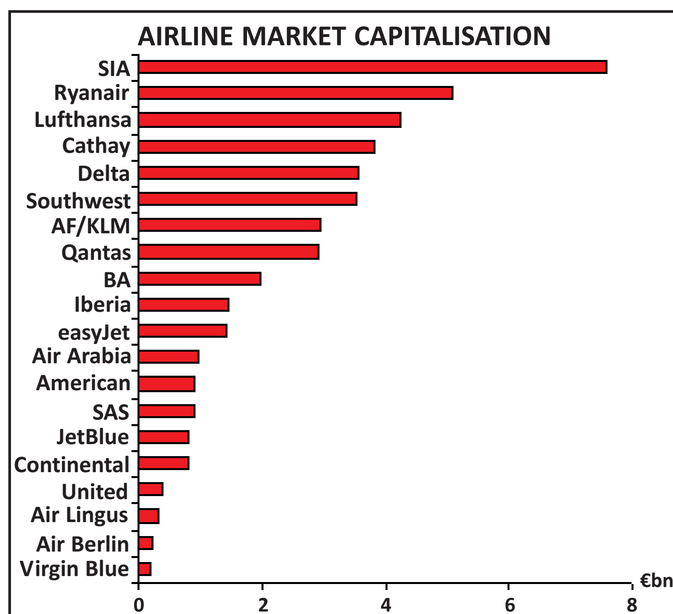
As for the rest of 2009, with lease rates softening further it's inevitable that GECAS's margin will come down through the year, which will be a challenge for Norman Liu, the new CEO of GECAS from July 1st (Liu is currently executive vice president). On the other hand GECAS (and other lessors) are benefiting from lower interest rates on the debt that they are carrying, and it looks well placed to take full advantage of the upturn in the industry, whenever that may be.

Ryanair's unrelenting expansion

In the past decade what was a small regional Irish airline on the periphery of Europe - Ryanair - has grown to become one of the largest European carriers by paying attention to the simple fact that the airline industry is a commodity business. And in a commodity business the lowest cost producer should - all things being equal - win out.

In the year to end March 2009 it sold tickets for 58.5m seats - more than either Lufthansa/Swiss (54m) or Air France/KLM (50m) on their respective intra-European operations. It now operates from 32 bases throughout Europe to 146 airports in 26 countries on more than 800 route pairs with 186 aircraft (all 737-800s).

It is by far the lowest cost producer: on a per passenger basis its operating costs of €47.78/pax are some 30% below its nearest large competitor – easyJet – and 60% below Irish rival Aer Lingus. At the same time, with unbeatable average fares of €40 per passenger (and total revenues of €50/passenger) the operations still made a profit even in a year when it was caught out by extreme oil price volatility. In the year ended March 2009 it reported underlying net profits of €105m (before what used to be known as extraordinary charges) on revenues of €2.9bn, compared with €480m net profits and €2.7bn in the previous year. It is also now the largest European carrier by market capitalisation (see chart, below) and even 45% larger than the company that provided the inspiration for its operational model, Southwest.



A few years ago, Ryanair set itself the target to double both passenger numbers and profits between 2007 and 2012 – to enable it to show passenger carryings of 80m and profits of over €800m for the year to end March 2012. Even after this last year's upset to the profit figures, in the recent full year's results' presentation it reaffirmed its commitment to this target.

Time to expand ...

The largest player in any market must surely pay attention to the underlying level of demand for its product – particularly in a commodity market. Consequently in the current exceedingly weak economic environment for the airline industry, as almost every one of its competitors hurriedly reduces capacity to try to be able to match the falling demand, one might expect Ryanair to follow suit. However Ryanair is doing no such thing. It has 186 aircraft in operation at the moment, and has 126 aircraft on order with options for a further 102. By the end of March 2012, on the assumption that it exercises its options, it plans to have a fleet of 301 737-800s.

It is currently also apparently having discussions with both manufacturers, trying to use this downturn (as it did in 2002) to negotiate another massive aircraft order at exceedingly cheap prices to minimise its fleet ownership costs even further. In the next 15 months it will be taking delivery of 80 new 737s (and plans to dispose of three) – almost all of which have been financed. It has conse-

quently planned to increase seat capacity by some 11% in the current summer season (whereas easyJet is growing by only 2%, Lufthansa, BA and Air France are cutting capacity by 2-6%, Iberia and SAS by 8-9%, and the "new improved" Alitalia by 28%) and aims to increase total passenger numbers carried (or, more accurately, seats sold) in the current year ending March 2010 by 15%. In a weak demand environment in a commodity market, a strong increase in capacity will inevitably lead to a severe pressure on prices; and the company, with little real visibility on anything beyond the next couple of months, gave guidance that it expects full year average yields (average revenue per passenger) to fall by 15%-20% year-on-year.

Ryanair also sees a strong opportunity in Spain. The Spanish economy and market has been one of the worst hit in this economic turmoil: figures from AENA show that total passenger numbers through its airports fell by 14% year-on-year in the first five months of this year. At the same time, (despite withdrawing in a huff from a base in Valencia, apparently because promised marketing support was paid to someone else), Ryanair carried 16% more passengers than the year before. Furthermore the only one of the top 20 airports in Spain to register any increase was that of Reus (see chart, above), which Ryanair uses as a base and an alternative to Barcelona – and there traffic grew by 58% year-on-year. Of the top 12 airlines serving Spain (which account for 73% of total passenger traffic), Ryanair was the only one to register growth in numbers for the four months to April; and the 4.9m passengers it carried to, from and within Spain in that period account for more than 25% of its total traffic.

Nevertheless, this puts it firmly in the position of the second largest individual carrier behind Iberia (9.5m pax in the period, down 19%) and just ahead of Iberia's newly-merged low-cost affiliate Vueling/Clickair (4.4m pax, down 16%), Air Europe (4.15m down 16%) and the troubled Spanair (3.85m down 34%).

Another element of the Ryanair model is the airline runs its services for its operational convenience and not the passengers'. This may frustrate some customers – but

merely brings an airline operation into line with all other forms of public transport. Having introduced charges for checking in baggage – with the clearly stated intent to dissuade passengers from doing so – the company has been remarkably successful at changing customer behaviour and the proportion of passengers using airport check-in has fallen to 35%. It now wants to remove check-in desks at airports (only allowing a bag-drop) and has imposed a mandatory policy of online check-in.

Even with the plans to grow while all around are shrinking, Ryanair is one of the few airlines to provide guidance on current year profits – with the prognosis of a doubling in net underlying profits to between €200m and €300m (having at least locked in fuel for the first half of the year at very competitive hedged rates) and the expectation of that 15%-20% yield decline.

However much resentment Ryanair's attitude may generate, it does provide a reliable service - Michael O'Leary claims that Ryanair is the best performer in Europe for flight reliability, punctuality and lost baggage - and passengers patently choose to travel with it. By growing aggressively even into this recession, it seems quite probable that it will help to accelerate more airline failures and as the economy recovers be able to achieve its 2012 target.

British Airways and Air France/KLM: Different prospects?

In the past month both British Airways and Air France/KLM have published their annual results for the year to the end of March – and they were as dire as expected. So what are the prospects for these two European giants?

Air France/KLM reported full year net losses of €814m, down from a restated €756m profit in 2007/08, and BA revealed net losses of £358m in 2008/09, down from profits of a restated £726m in the previous financial year. These results showed the disastrous impact of an external shock to the fragile economics of running an airline – and neither company was willing (or even able) to provide the markets with guidance for profitability in the current financial year; quite reasonably the management of each have very little visibility of economic performance in the medium-term.

There are many similarities between the two airlines' performances. Both companies displayed disastrous revenue performance in the weak fourth quarter of their financial years, with double digit unit revenue declines and extraordinary weakness in the important premium passenger segments. Both registered significant losses on fuel hedges as well as recording losses as a result of the mark-to-market rules. Both airlines had to suffer the apparent negative consequences on the balance sheet of the ridiculous new accounting rules for frequent flyer liabilities (albeit positive to the P&L). Both emphasised further reductions in capacity plans for the short run, deferrals of aircraft orders and acceleration of aircraft disposals in an attempt to bring the supply of capacity closer into line with the recent drop in demand. Finally, both highlighted their plans to emphasise cost reductions.

The differences between the airlines probably reflect national characteristics. AF/KLM appeared to be more optimistic in expecting a recovery in traffic demand towards the end of this year. In contrast, BA appeared to believe that the economic doldrums will last some while longer – and even emphasised the oft-held view (and arguably mistaken because it all depends on how you draw the trend lines) that industry growth never returns to previous trends after a major shock to the system, and that a year or two's growth has been permanently removed from the trend by this recession. Both companies, however, show the extreme difficulty of running an airline when the revenue base disappears, and are likely to find it exceedingly hard to avoid further significant losses in the current year.

Air France/KLM

Air France/KLM reported fourth quarter revenues some 12% down on the prior year period at €5bn, and an operating loss of €574m, down from losses of a restated €37m last time. This includes the first-time full consolidation of Martinair from January 2009 (after decades of trying, KLM finally managed to get agreement to buy in the 50% it did not own), which added 3% to total group revenues and losses in the quarter.

In the passenger division, capacity in the period was down by 2.7% year-on-year while traffic in RPKs fell by nearly 6% and unit revenues fell by 9% (with European short-haul particularly badly hit, registering an underlying 18% drop in unit revenues). Total passenger revenues fell by 14% to €3.7bn. Operating losses came in at €402m, down from profits of €8m last time. Cargo operations were even worse hit, but the interpretation of the results is a little confused by the inclusion of Martinair, which added some 10% to total group cargo capacity and some 20% to traffic in RTK. Total capacity (which includes the passenger division's belly-hold capacity) was up by 11.5%, while cargo traffic was on a par with prior year levels. Excluding Martinair, however,

capacity was down by 10% and traffic demand by a whopping 21%.

Unit revenues – somewhat affected by the removal of fuel surcharges from the end of calendar 2008 – fell by nearly 30% and total divisional revenues (after including the results from Martinair) fell by 19% to €550m. Operating losses came in at €165m, down from a near breakeven last time. The maintenance business meanwhile reported a modest 1% improvement in revenues and recorded a €47m profit after a small loss last time – helped no doubt by the strength of the dollar in the period.

For the full year, total group revenues were little changed on 2007/08 at €24bn while the group achieved operating losses of €129m, down from peak profits of €1.4bn. In the passenger division, full year capacity was up by 2%, demand down by 1% and unit revenues down by 4% (or 2% excluding currency movements). Total divisional revenues fell by 1% and the previous year's record €1.3bn profit turned into a €21m loss. Cargo operations for the full year showed capacity up by 2%, demand down by 5% and unit revenues down by 4.7% (or 4% excluding currency), with modest operating profits in the previous year of €40m turned to a €200m loss. Total group operating losses came in at €193m, down from profits of €1.3bn. Finance charges were little changed from the previous year, but the real financial killer for the year was a book entry charge for currency losses and the mark-to-market of fuel and currency hedges of a massive €894m (against a mere €6m last time), while associate company losses doubled to €42m (even though the company stated that their 25% stake in the "new improved" Alitalia had no impact on the 2008-09 results). Altogether, the previous year's peak profit of €750m turned into a loss of €814m.

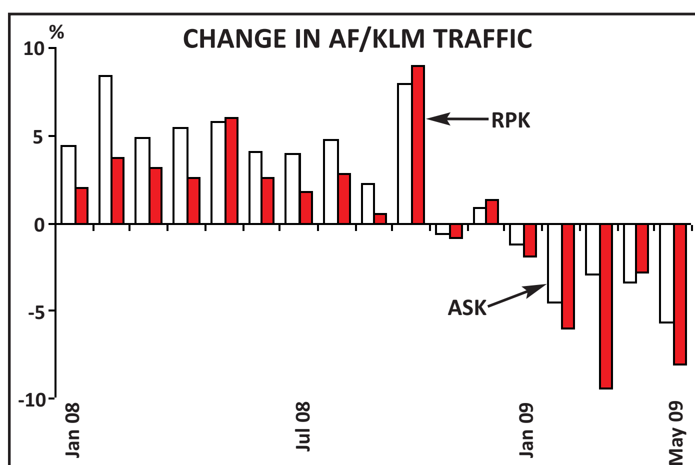
While overall group revenues were at a similar level to the previous year, unit costs grew by 3% and total costs rose by 6%; with fuel costs up by 25% year-on-year to €5.7bn (or 23% of total operating costs). In the fourth quarter there was an underlying 9% reduction in the cost of fuel (excluding Martinair) and a near 5% decline in unit costs. Air France/KLM had started earlier in the year to accelerate cost savings as part of the "Challenge 10" targets (see *Aviation Strategy,* November 2008) and the management stated that it had achieved a full year target of €675m against initial plans of €430m – with €185m additional savings achieved in the fourth quarter alone.

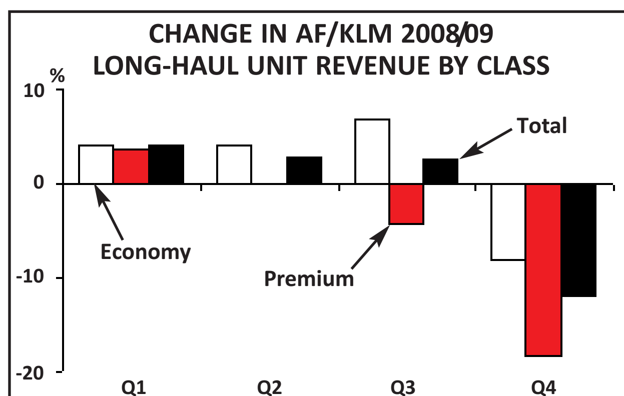
Operating cash flow for the year consequently slumped to €798m from €2.6bn in the previous year (after allowing for the €225m cargo pricing cartel fine), while capital expenditure was only 15% lower at €2bn. There was a net cash outflow of €1.1bn for the full year, but this still left the group with cash of €4.3bn (still a reasonable 17% of revenues), although net debt of €4.5bn was up

AIR FRANCE/KLM FLEET

	Fleet	Orders	Options
A380		12	2
A330	25	2	21
A340	19		
747*	35		
767**	6		
777	69	21	3
MD-11	13		
A320***	150	16	16
737 Classic	22		
737NG	68	16	4
Regional aircraft	203	29	31
Passenger total	**610**	**96**	**77**
747F	10		
777F	2	3	3
MD-11F	4		
Freighter total	**16**	**3**	**3**

Note: *Including 20 Combi aircraft. **Including three Combi aircraft. ***Including six A319LRs.





from €2.7bn last time. The group's shareholders' funds, however, fell sharply; the implementation of IFRIC 13 removed some €640m but there was also a massive €3.3bn swing from the mark-to-market in the value of hedging derivatives. Published shareholders' funds slipped to €5.7bn, producing gearing levels around 70%.

In its presentation management highlighted its strategic focus as "adapting to the current environment while maintaining a platform for future growth". In the passenger division the group has cut further its capacity plans; with an overall 4.5% reduction in ASKs for the summer season; this includes an 8% reduction on the North Atlantic, 7% on Asian routes, 5% on European, 6% on French domestic routes, 4% on the DomTom routes to the Caribbean and Indian Ocean, 3% on the Middle East, a 1% reduction on the south Atlantic (although this may be reduced further after the tragic loss of an A330) and a 5% increase in capacity on African routes.

Lower exposure to premium

Almost for the first time, the company took delight in emphasising that the group has a far lower exposure to premium traffic (or at least that its long-haul premium cabins are far smaller) than the other main network carriers – although it will be installing a premium economy cabin, with all its 777s refitted by March 2010. In the cargo division it is parking six freighters (out of its total fleet of 16) providing an overall 11% reduction in capacity. The acquisition of Martinair in this context may appear a little bit of bad timing: nine of its 13 aircraft are full freighters and 75% of its annual €700m revenues (last year at least) came from cargo operations. However, being merged in with Transavia there should be some long term synergies, while there are seen to be strong operational benefits at Schiphol.

Air France/KLM doesn't exactly have the same flexibility on staffing levels as British Airways may appear to have, but it has reacted as best it can. Last year it halted recruitment and encouraged early retirement; this and natural wastage provided a 2.5% reduction in headcount (and 3.6% reduction since September 2008) and an underlying fall of 2% in employee costs in the fourth quarter. Recent wage agreements with the unions provide a modest salary uplift of only 1% (slightly less at AF), while the group is trying to encourage early retirement, furloughs and part-time working. The aim is a further 3% manpower reduction in the current year and an underlying reduction in full-year staff costs. Meanwhile, depending on volatility, although fuel has been creeping up again, there should be a near $2bn reduction in total fuel costs in the current year.

In the longer run the group will be trying to reinforce its "Challenge 12" cost reduction plan as it continues to try to achieve the cost synergies from the merger with KLM. Cumulative annual savings so far have been identified at some €1.2bn, with an additional €600m targeted for the year to March 2010. By the year ended March 2012, the group hopes to have achieved total cumulative savings of €2.6bn.

Management would not be drawn on the plans for the coming winter capacity (although it seems to suggest that the current suspension of the 80/20 rule - allowing it to reduce frequencies into London and Frankfurt this summer - may well be extended into the off-season and allow a greater level of flexibility). In the medium-term, helped by the flexibility in the fleet ownership mix, the group has reduced its fleet plans; through renegotiation and deferral of delivery slots and non-renewal of expiring leases it now plans no growth in its 180-

strong long-haul fleet in the next two years (although the A380s will be creating seat capacity increases), with the number of aircraft some 14 below original plans. This will have a useful impact of deferring capital expenditure with an anticipated spend of €1.4bn in the current year and €1.8bn in 2010-11 compared with original plans of €2.9bn in each year.

One distinct competitive advantage for Air France/KLM is the start of the full joint venture on the Atlantic with Delta from April 2009. Signed for an initial 10 year contract (as the original KLM-Northwest joint venture was 20 years ago), this encompasses a fully-integrated cooperation on all routes between North America and Europe, and close coordination on routes between Europe and South America and between North America and Middle East, Africa and India.

The fully immunised joint venture (although Brussels is still not really sure how to treat these ATI alliances) claims a 25% share of the Atlantic market and an operation of $12bn in revenues involving a network linking six main hubs of CDG, AMS, ATL, MSP, DTW and JFK. Of course they miss out on access to London - still the principal gateway on the Atlantic - but incidentally the SkyTeam partners will all be moving into Heathrow's Terminal 4 in the autumn. Management conservatively expects to be able to generate additional annual network benefits from the joint venture on the order of €145m. Coincidentally the management also stated that it expects to extract some €160m in synergies from its 25% stake in the reborn Alitalia by 2012.

BA: opaque quarter

BA meanwhile reported its fourth quarter revenues down by 8% to £1.9bn and an operating loss for the period of £309m, down from a profit of £134m last time. Since the move to reporting "interim management statements" and the withdrawal from the NYSE, BA's quarterly reporting is somewhat more opaque than some of its competitors, and even more than usual the interpretation of the individual quarters through the year requires more head-scratching, or at least some decent spreadsheet modelling.

However it looks as if the company also fell into an EBITDAR loss of over £100m in the quarter. In the three months capacity fell by 3%, demand by 5.6% and unit revenues by 6%. In this it was helped significantly by the weakness in the exchange rate (particularly against the Euro) and excluding currency effects unit revenues probably fell by nearer 20%. Cargo plays a smaller part in BA's operations. Cargo demand fell by 15% year-on-year although - helped by currency - yields were only down a couple of points and total cargo revenues were down by around 17%.

For the full year, seat capacity was only 1% down on the prior year period, passenger traffic down by 3.4% and unit revenues up by 3.3%. Total passenger revenues consequently for the year grew by 3% to £7.6bn. Full year cargo operations meanwhile experienced a 9% growth in revenues – mainly because of fuel surcharges to £673m. Below the operating line the company only had a £106m book entry charge for the idiocies of current accounting rules. Pre-tax losses for the year came in at £401m (including £75m restructuring costs), down from a restated peak £922m profit for 2007/08.

BA had the additional burden of the transfer to Terminal 5 at Heathrow, with a particular impact in the first half of the year. Total unit costs (per ATK) excluding fuel were up by nearly 10% year on year – although when accounting for the decline

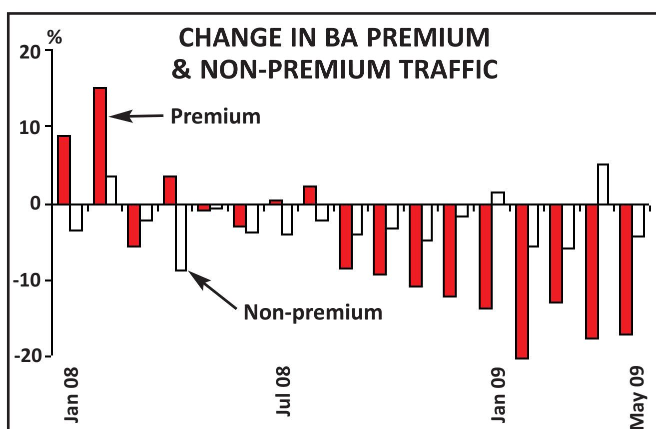
BRITISH AIRWAYS' FLEET

	Fleet	Orders	Options
A380		12	7
747	55		
777	42	7	8
787		24	18
A320	80	12	136
737	22		
757*	9		
767	21		
Total	**229**	**55**	**169**

Note: *Sold for freight conversion; to depart fleet in 2010/2011.

in Sterling this comes down to an underlying 3% increase. Having built manning levels at Heathrow in anticipation of the move to the new terminal, the company was able gradually to improve efficiencies through the year, while the improvements in operational performance provided by the new facility helped significantly reduce avoidable costs (particularly relating to baggage). In the fourth quarter of the financial year underlying unit costs (excluding fuel and exchange) were actually down marginally year-on-year. Fuel costs in the fourth quarter were still up by more than a third and for the full year by 45% to £3bn – an uncomfortable 32% of operating costs – with the hedging gains in the first half of the year offset by similar losses in the second. With 55% of the current year fuel burn covered (at a break-even of $75/bbl equivalent, and heavily weighted to the first half of the year) the company expects the total fuel bill in 2009/10 to be some £400m lower.

Gross operating cash flow in the year fell to £474m from £1.5bn, while capital expenditure fell by 10% to £550m and cash and cash equivalents ended the year at £1.4bn (or 17% of annual revenues), down from £1.8bn at the end of March 2008. As at Air France, BA ended the year with a significant reduction in equity on its balance sheet: the introduction of IFRIC 13 - the new accounting rules for FFPs - had the impact of reducing shareholders' funds by £206m, but ironically this was more than offset by a boost of £235m for the adoption of IFRIC 14 (accounting for employee benefits).



However, BA also suffered a reversal in the fair value of derivatives of some £988m and balance sheet equity more than halved to £1.4bn from £3.1bn. As a result net gearing at the year end had risen to 125% from 40% a year ago.

An additional idiosyncrasy (in the European market) is BA's pension fund position, and it is hardly surprising that the Iberia board has found it difficult to understand. At the end of March it appears on the balance sheet that BA has a surplus of benefit assets to obligations: this reflects the oddities of the accounting treatment which among other things discounts the liabilities according to corporate bond rates (which through the financial crisis have been unusually high in real terms); if the full accounting deficit were shown the balance sheet equity position would be significantly worse. The actuarial valuation (which determines the annual payments into the funds) is likely to show a significant further increase in deficit - meaning that the company will have tough negotiations with the trustees to keep payments into the fund at affordable levels. Although management naturally would say nothing, this gives rise to the question of whether the company will need to raise equity through a rights issue.

Survival short-term, competitiveness long-term

Somewhat similar to its French rivals, the BA management in its presentation emphasised a dual focus but managed to express it more pithily: short-term survival, long-term competitiveness. Not unfairly stating that this current environment reflects the “toughest economic climate” in its history, the company outlined its medium-term plans – but would not be drawn on giving any forecasts.

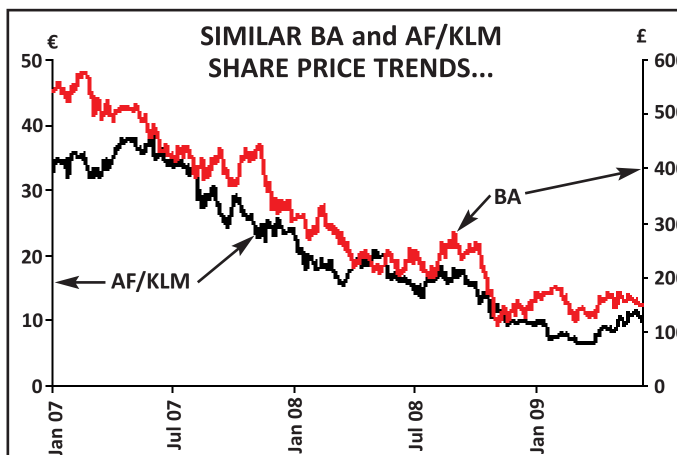
Capacity this summer has been trimmed back again by an additional half a point, showing a reduction of 2.5% - taking advantage of the suspension of the “use it or lose it” rules. For the winter season the company has decided to ground an additional eight 747s and eight 757s (and recently announced the sale of the whole of the 757

fleet, for disposal into the cargo markets next year), providing a preliminary 4% reduction in capacity (having originally planned a 5% growth).

Unlike AF/KLM, however, the BA team deems it unlikely that Brussels will allow the suspension of the 80/20 rule to continue into the winter season: if it does expect BA to reduce short-haul capacity even more aggressively. In the medium to longer term BA retains flexibility to reduce capacity further as more of the older 747s achieve their 20th birthdays, while it has also deferred the replacement of its aging 737 Classic fleet at Gatwick, originally slated for 2012/13. As always, cash is king and the company is reviewing all its fleet plans, and no doubt is in negotiation with both manufacturers to defer deliveries (and address the resulting timing mismatch between capex and arranged financing).

In hand with this, the company is clamping down on non-essential capital spending and is taking an extreme focus on all costs, aiming for a significant cut in its annual £5bn external supplier spend (CEO Willie Walsh even apologised for banning the hiring of consultants). BA has apparently had reasonable success in negotiations with most unions (with the exception of the cabin crew) to address pay, productivity and working practices, while emphasising a pay freeze and offering furloughs and part-time working. At least with the move to Terminal 5 there is now a substantial improvement in the underlying efficiency of the BA base of operations – not least of which is the improvement in the baggage handling performance (down from more than 80 missed bags per 1,000 passengers in 2007/08 to under 50, and a current year target of 35/1,000; the company expects to save some £12m annually in compensation payments).

One additional benefit is that BA's transfer offer through Heathrow becomes significantly more competitive, ironically helped by the weakness in Sterling, and noticeably since November last year BA has been targeting connecting traffic (particularly attacking flows in strong currency markets) – with significant increases in the proportion of its traffic using Heathrow as a transfer.



Meanwhile, the management said very little about its industry consolidation moves – hardly surprising in the circumstances. The application for anti-trust immunity with American has now been finalised and before the regulators. Both BA and AA appear fairly confident that approval will be granted on both sides of the Atlantic and expect a result by the end of October. The deal with Iberia meanwhile appears to have stagnated – Willie Walsh stated that the two sides are still discussing corporate governance issues. No doubt the Iberia board is also still confused by the whole issue of the pension deficit.

The future

This current worldwide recession and cyclical industry downturn has been swift and deep. But BA and AF/KLM (and Lufthansa) are substantially better prepared than many, and have possibly introduced a greater level of flexibility into their operations (notwithstanding the natural cultural differences) than many others have been able to do. They had succeeded in developing sound balance sheets before the crisis hit, while this very crisis should help to allow them each to go even further. There should at some time be an economic recovery, businesses will at some point start travelling again, trade will start to flow and consumers at some point will regain confidence. When that happens, both airlines should be able to bounce back stronger than before.

By James Halstead

JetBlue: Recession? What recession?

Many LCCs are currently performing better than legacy carriers, thanks to their more recession-resistant business models. In the US, with leading LCC Southwest facing some near-term challenges (see *Aviation Strategy,* April 2009), this year's star performer is likely to be JetBlue Airways. New York's hometown airline reported its first profitable March quarter in four years and is expected to return to 10%-plus operating margins in 2009 and 2010. Why is JetBlue suddenly outperforming its peers? How has its growth strategy changed?

Now in its tenth year of operation, JetBlue has entered what seems like a new chapter of its development: a maturing carrier, with sustained profit-earning potential and growing international ambitions.

JetBlue had perfect credentials when it commenced operations from New York JFK in February 2000: ample start-up funds, a strong management team and a promising growth niche. It quickly attained Southwest's efficiency levels, became profitable after only six months and went on to achieve spectacular 17% operating margins in 2002 and 2003. With its new A320 fleet, state-of-the-art technology and superior in-flight product, JetBlue set new standards in airline service quality in the US, which enabled it to attract price premiums and considerable customer loyalty. It also grew extremely rapidly, achieving "major carrier" status (with $1bn-plus annual revenues) in its fifth year of operation.

But after the spectacular start JetBlue stumbled financially, seeing its operating margin plummet to the low single-digits and net results turn negative in 2005 and 2006. The airline was struck by a host of negative factors, including higher fuel prices, a weakened domestic revenue environment, lack of international operations, an over-simplified pricing model and an over-aggressive growth plan. Furthermore, an operational meltdown in February 2007 highlighted serious shortcomings in its ability to deal with operational issues.

JetBlue tackled its problems with great gusto, spending two years restructuring and refining its strategy with the help of a "return to profitability" plan, introduced in April 2006. Most significantly, it drastically slowed growth through fleet reductions, improved revenue generation through a multitude of initiatives and enhanced profitability through network changes. The February 2007 crisis also led to a leadership change, with president Dave Barger taking over as CEO from the visionary founder David Neeleman.

As a result, JetBlue returned to what was essentially "mainstream" profitability, achieving 6% and 3.2% operating margins in 2007 and 2008. Last year's modest $23m pre-tax loss before special items was no mean feat in one of the toughest years in the industry's history.

But now the signs are that JetBlue could return to substantial profitability – operating margins in the 10%-plus range – in 2009 and 2010, as long as there is no major spike in fuel prices. The airline reported its first profitable March quarter since 2005, earning a 9.3% operating margin in its seasonally weakest period. It was one of only a few sizable US carriers to post a profit for the latest quarter.

In investor guidance dated May 21st, JetBlue predicted that it would achieve operating and pre-tax margins of 9-11% and 3-5%, respectively, in 2009. Current consensus forecasts expect even higher margins in 2010. Importantly, the company is on track to meet its 2009 goal of generating positive free cash flow (operating income less capex) for the first time in its history.

Why is it outperforming?

JetBlue is well-positioned for a number of reasons. First, it has benefited enormously from the decline in fuel prices. Having restructured its out-of-money hedges late last year, JetBlue is now only 7% hedged for the remainder of 2009 and is therefore pay-

ing close-to market prices for fuel this year. Based on the forward curve in mid-April, JetBlue predicted that the lower prices would save it $475m in 2009 - roughly equal to 15% of its 2008 passenger revenue (the price of oil is currently somewhat higher, so the benefit could be less).

Second, JetBlue is benefiting because it has put its capacity growth on hold and significantly reduced capital spending through aircraft sales and order deferrals. It acted early to make the necessary adjustments (rather than leaving it till the last minute, like Southwest).

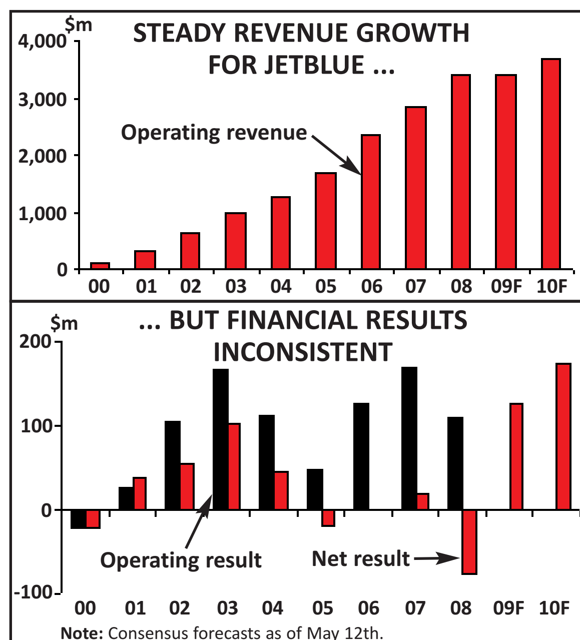
Third, JetBlue has been very successful in developing ancillary revenues to offset some of the fare weakness. Key initiatives such as "Even More Legroom" (a new "front cabin" product introduced on the A320s in March 2008), second checked bag fees and increases in change fees helped almost double ancillary revenues to $350m last year (10% of total revenues). In the March quarter, when JetBlue's average fare fell by 1.7% to $133, ancillary revenues per passenger rose from $12 to $19.

Many of the ancillary initiatives have shown less sensitivity to the weakened economic environment. There is further potential to develop those revenue sources; in particular, adding a first checked bag fee could be lucrative (JetBlue and Southwest are the only holdouts). JetBlue expects its ancillary revenues to grow by 20% in 2009.

Fourth, in the past 18 months JetBlue has also produced industry-leading passenger revenue performance. Its PRASM rose by a stunning 14% in 2008, reflecting a 13% increase in the average fare. When the recession began to bite in the March quarter, JetBlue's PRASM remained flat.

As a result, JetBlue has led the industry in monthly year-over-year unit revenue growth in the past 12 months. In the March quarter, its RASM was up by 2.7% (thanks to ancillary revenues), compared to the domestic industry average decline of 10%. The current (May 21) expectation is that RASM will fall by 2-5% in 2009. With load factors holding up, especially in peak travel periods, JetBlue's revenue outlook is clearly not that dire.

Like other LCCs, JetBlue is avoiding the worst effects of the recession because of its



Note: Consensus forecasts as of May 12th.

lack of exposure to global markets and premium traffic generally. Some 84% of its operations are in the domestic market, which is seeing the benefits of large industry capacity reductions. The remaining 16% of its capacity is in the US-Caribbean/Latin America markets, where PRASM growth has remained strong despite capacity addition. Those markets also have significant VFR traffic.

But JetBlue is also attracting new business customers looking for value in a tough environment. It is seeing anecdotal evidence of especially small and medium-sized businesses switching over from the legacies.

JetBlue is well-positioned to attract business traffic because it is probably the most upscale of the US LCCs. It offers a unique value proposition, strong brand and great customer service. The basic value proposition, as stated in JetBlue's annual reports, is that "low fares and quality air travel need not be mutually exclusive".

In the past two years, JetBlue has moved aggressively to cater for the higher-yield segment with strategies such as Even More Legroom, offering refundable fares and listing fares in all four major GDSs. At the same time, JetBlue continues to aggressively woo the leisure segment with fare sales and gimmicky offers aimed at stimulating demand and attracting new customers. Recent efforts

have included a "Promise" programme that guarantees a full refund to anyone who loses their job prior to their trip and one-day "sample sales" that offer transcon flights for only $14 each way or "less than what other airlines charge for a single bag".

Promotions like that have minimal negative impact on yield – certainly much less than the extensive fare sales initiated by other airlines in recent months; rather, they encourage product trial and awareness. The offers are based on the premise that the product is so attractive that people only need to try it once and they become loyal customers.

Of course, the key factor behind JetBlue's improved revenue performance is that it now has much more flexibility in yield management and revenue generation, having upgraded its systems and revamped its revenue management team three years ago.

But JetBlue faces significant non-fuel cost pressures. Its ex-fuel CASM surged by 9% in the March quarter and is projected to be up by 9-11% in 2009. This could well be the industry's worst cost performance in 2009.

In the current circumstances that does not really matter, because total CASM is likely to fall significantly in 2009 due to lower fuel prices (which would offset by a wide margin the expected RASM decline). But non-fuel costs could become an issue at JetBlue if oil prices surge without a corresponding improvement in the demand/revenue environment.

The hike in ex-fuel CASM in the first quarter was attributed to two factors: the shrinking ASM base (down 5%) and a shorter average stage length (down 6%, as JetBlue shifted capacity from the transcon to shorter haul markets). Maintenance unit costs were up by a substantial 19%, due mainly to the first of the E190 fleet entering heavy maintenance checks.

JetBlue is seeing cost pressures also because of its no-furlough policy. Like Southwest, JetBlue wants to protect its brand and culture, as well as keep making investments in the infrastructure necessary for growth.

The management is particularly mindful of these issues at the moment because of a recent unionisation threat. JetBlue has no unions, but this past winter its pilots sought to organise, not because they had any problem with the current leadership but because they wanted to ensure a strong position with a future management that may be less friendly to labour. The effort failed, with only 33% of the pilots voting for union representation. The management noted recently that a direct relationship with workers is a huge competitive advantage and that important lessons had been learned from the pilot campaign.

Disciplined growth and spending

Slower growth has been the key factor behind JetBlue's financial recovery. The airline reduced its ASM growth from an annual average of 25% in 2003-2006 (when it was one of the fastest growing US LCCs) to 12% in 2007 and only 1.7% last year. The current plan envisages flat capacity in 2009.

The ASM growth reduction has been achieved through a combination of older aircraft sales, lease terminations, order deferrals with Airbus and Embraer, reduced utilisation and aircraft gauge reductions (substituting E190s for the A320s). JetBlue is fortunate to have one of the industry's highest A320 utilisation rates, still averaging 12 hours daily in the first quarter (down from 12.9 hours a year ago).

JetBlue initially focused on aircraft sales – a tactic that also raised useful extra liquidity in 2006 and 2007. As the A320 resale market softened last year, the focus shifted to order deferrals. Having already rescheduled some near-term deliveries in 2007, during the first half of 2008 JetBlue deferred the delivery of 37 A320s and 10 E190s from 2009-2011 to 2012 and beyond. Recent months have seen a further modest trimming of the E190 commitments – some delivery deferrals and the sale of a few E190s to Azul.

Overall, JetBlue has managed the rapid capacity pull-down rather well in a tough environment, selling lots of aircraft when the market was strong and taking advantage of its special relationships with Airbus, Embraer and Azul. JetBlue's top executives commented in late April that they were happy with the current size and composition of the fleet – 110 A320s and 37 E190s, totalling 147 aircraft, as of March 31st. Further aircraft sales will be considered if opportunities arise, but

any such sales would probably be offset by option conversions.

JetBlue now has extremely modest firm order commitments for 2009 and 2010. After adding three A320s and two E190s in the first quarter, the airline is taking four E190s in the current quarter and has no further deliveries in 2009. One A320 lease return is scheduled for November. Next year JetBlue is committed to taking only three A320s; with one lease return and assuming no aircraft sales, the fleet will grow by only two aircraft in 2010. Commitments for 2011 are also modest: five A320s and four E190s.

All of that means a significant reduction in aircraft capital spending: only $315m in 2009, $215m in 2010 and $470m in 2011. By comparison, JetBlue had aircraft capex of $1.1-1.3bn annually in 2005-2006.

Of course, JetBlue retains a significant aircraft order book that will facilitate growth in the longer term. Currently, firm deliveries are picking up sharply in 2012 and will average around 25 aircraft (evenly split between the A320 and the E190) and $1bn spending annually in 2012-2014. At the end of March, the total firm order book consisted of 55 A320s and 64 E190s for delivery through 2016, plus 21 A320 options and 83 E190 options for delivery in 2010-2015.

However, as a maturing carrier, JetBlue is not likely to return to double-digit annual ASM growth. The management suggested recently that 5-10% might be a sustainable future growth rate.

Like other LCCs, JetBlue wants to maintain the flexibility to respond to market opportunities that might crop up during this recession. At the other extreme, if economic conditions worsen significantly, the high aircraft utilisation rates give JetBlue flexibility to further reduce capacity.

In addition to the goal of achieving free cash flow this year, JetBlue is focused on maintaining a strong balance sheet. The past 18 months have seen an impressive liquidity-raising spree. First, JetBlue found a unique solution to the cash concerns it had in late 2007: selling a 19% ownership stake to Lufthansa for $300m. That transaction restored JetBlue's cash reserves to a very comfortable 20%-plus of annual revenues.

After the Lufthansa investment, JetBlue continued to take actions to bolster liquidity and strengthen its financial position. Among other things, it raised $201m through a public convertible offering, obtained a new $110m secured bank credit line, refinanced debt and repaid as much as $500m in debt last year.

Those actions, first of all, significantly reduced this year's debt maturities. JetBlue expects its scheduled principal payments for debt and capital leases to be only $160m in 2009, down from $700m last year.

Second, JetBlue has maintained a solid liquidity position. It had $634m in cash at the end of March – 18.7% of last year's revenues, which was slightly better than the legacy carriers' and Southwest's positions.

With lower fuel prices, extremely modest capex and financial obligations, this year's aircraft fully financed and only three deliveries scheduled in 2010, JetBlue seems well positioned to weather this recession.

Network and alliance plans

JetBlue has been optimising its network and expanding strategically. The past year has seen three broad themes. First, the pace of Caribbean/Latin America expansion has intensified. Second, last winter JetBlue removed a significant chunk of its transcontinental capacity. Third, JetBlue is growing in selected focus cities, including Boston, Orlando and Los Angeles.

The Caribbean, which JetBlue has called "a natural out of New York", has been a brilliant move for the carrier. The markets have year-round demand, have matured quickly, generally require minimal up-front capital, generate higher revenue than domestic flights of comparable distance and, in spite of limited daily frequencies, are relatively low-cost. Those markets have continued to see strong RASM improvements.

The past six months have seen significant new Caribbean/Latin America expansion. JetBlue has added Bogota (Colombia) as its first South American city, San Jose (Costa Rica) and Montego Bay (Jamaica). It has also been "connecting the dots", giving focus cities such as Ft. Lauderdale, Orlando and

Boston numerous new Caribbean connections. The 100-seat E190 has played a key role in facilitating service in some of the Florida-Caribbean markets.

Although JetBlue has had to temporarily reduce its Cancun (Mexico) schedule this summer because of swine flu, its rapid expansion in that market gives an indication of the success of the Caribbean operations. The JFK-Cancun service was launched in late 2006; now, with Ft. Lauderdale getting its connection in June, JetBlue will be operating to Cancun on a nonstop basis from six US cities.

JetBlue is adding Barbados and Saint Lucia to its network this autumn, bringing its international destinations to 13. By year-end the Caribbean/Latin America region is expected to account for more than 20% of JetBlue's ASMs, up from 10% two years earlier.

In contrast, transcontinental markets have been particularly weak because of aggressive fare sales. JetBlue stepped up capacity cutting on those routes in mid-2008, even though it had already significantly reduced its exposure to transcon in the previous two years. East-West services had accounted for 55% of its ASMs at the end of 2005, but by late last year the percentage had fallen to the mid-30s. The removal of a big chunk of capacity in the first quarter brought East-West's share down to 27%, though it is expected to be around 30% at year-end. The management feels that 27-30% is "in the right range".

It would seem that the recession has helped JetBlue achieve a more balanced network, with East-West accounting for 30%, Caribbean/Latin America 20%, Northeast-Florida around 32% and other/short-haul the remaining 18% of ASMs.

Of course, transcon remains a core part of JetBlue's network, a market that it is going to defend. JetBlue is actually launching two very high-profile transcon routes this month. It will start serving Los Angeles International Airport (LAX) from JFK and Boston on June 17 to complement its existing transcon operations to Long Beach, Burbank, Ontario and San Diego in Southern California. The new services were originally due to start last summer but were postponed due to fuel costs.

By Heini Nuutinen
hnuutinen@nyct.net

The move is partly a response to Virgin America, which began operations out of San Francisco in August 2007, and is aimed at maintaining JetBlue's position as the leading LCC in the key transcon markets.

The decision to serve all three LA Basin airports (LAX, Long Beach and Burbank) is an interesting one. It partly reflects the fact that LA customers have strong preferences for particular airports because of severe congestion on the roads. Then again, JetBlue has a similar strategy for the New York area, where its operations cover JFK, LaGuardia, Newark, Newburgh and Westchester airports. This "multiple airport area" strategy may sound unusual for an LCC, but it is probably very effective in protecting market share from inroads by new entrants.

Of course, JetBlue's greatest strength is its dominant position in New York, the world's largest air travel market. The airline intends to continue to leverage its presence at JFK, which accounts for 60% of its operations. The key development on that front was the opening of JetBlue's new Terminal 5 in October 2008.

The JFK base makes JetBlue perfectly positioned to develop alliances with international carriers. The airline has not commented much on this subject in recent months, but back in January it provided an update on the two existing relationships. The internet booking partnership implemented with Aer Lingus in April 2008, which currently covers JFK and Boston, is meeting expectations and may be extended to Orlando this year. Commercial cooperation with Lufthansa, JetBlue's largest investor, is expected to start in the second half of 2009.

The basic message coming from the leadership is that JetBlue is open to alliances with more international carriers. Like Southwest, JetBlue has needed time to develop the technology to handle multiple international partnerships and possible codeshares. One important new development is that over the next year JetBlue will be switching from Open Skies to the more sophisticated Sabre reservation system – a move that reflects its growing presence in near-international markets and a serious intent to forge global partnerships.

Freighter values and lease rates

The following tables reflect the current values (not "fair market") and lease rates for freighters. Figures are provided by The Aircraft Value Analysis Company (contact details in *Aviation Strategy,* May 2009) and are not based exclusively on recent market transactions, but more reflect AVAC's opinion of the worth of the aircraft.

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

FREIGHTER VALUES (US$m)

	New	5 years old	10 years old	20 years old
A300F4-200				9.9
A300-600RF	70.7	54.9	39.0	
737-300QC			15.1	
747-200M				7.7
747-400M		94.3	68.0	
747-400F	146.4	116.5	86.7	
747-400ERF	155.5			
757-200PF		38.1	30.0	13.8
767-300F		57.8	40.0	
MD-11C			40.3	
MD-11F		57.3	46.3	

FREIGHTER LEASE RATES (US$000s per month)

	New	5 years old	10 years old	20 years old
A300F4-200				144
A300-600RF	487	411	350	
737-300QC			176	
747-200M				175
747-400M		768	626	
747-400F	1,573	1,095	872	
747-400ERF	1,416			
757-200PF		289	266	179
767-300F		474	412	
MD-11C			432	
MD-11F		604	523	

Source: AVAC.
Note: As assessed at end-April 2009; mid-range values for all types.

		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/	Jul-Sep 07	9,183	7,855	1,328	1,041	14.5%	11.3%	67,375	57,009	84.6%	20,448	
KLM Group	Oct-Dec 07	8,678	8,202	476	207	5.5%	2.4%	62,615	49,591	79.2%	17,868	104,482
YE 31/03	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
	Jan-Mar 09	6,560	7,310	-751	-661	-11.4%	-10.1%	61,235	46,214	75.5%	15,727	106,895
	Year 2008/09	**34,152**	**34,335**	**-184**	**-1,160**	**-0.5%**	**-3.4%**	**262,359**	**209,060**	**79.7%**	**73,844**	**106,933**
BA	Apr-Jun 07	4,395	3,868	527	539	12.0%	12.3%	37,514	28,836	76.9%	8,648	
YE 31/03	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	
	Jan-Mar 09	2,689	3,257	-568	-402	-21.1%	-14.9%	35,478	25,774	72.6%	7,124	
	Year 2008/09	**15,481**	**15,860**	**-379**	**-616**	**-2.4%**	**-4.0%**	**148,504**	**114,346**	**77.0%**	**33,117**	**41,473**
Iberia	Jul-Sep 07	2,080	1,882	198	211	9.5%	10.1%	17,119	14,653	85.6%	7,216	22,803
YE 31/12	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**
	Jan-Mar 09	1,436	1,629	-193	-121	-13.4%	-8.4%	15,369	11,752	76.5%		20,715
Lufthansa	Apr-Jun 07	7,267	6,506	761	663	10.5%	9.1%	39,573	30,544	77.2%	14,629	97,067
YE 31/12	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%	0.8%	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**
	Jan-Mar 09	6,560	6,617	-58	-335	-0.9%	-5.1%	44,179	32,681	74.0%	15,033	106,840
SAS	Apr-Jun 07	2,383	2,247	136	89	5.7%	3.7%	10,281	7,677	74.7%	7,696	26,916
YE 31/12	Jul-Sep 07	2,612	2,518	94	109	3.6%	4.2%	10,452	8,228	78.7%	7,523	27,447
	Oct-Dec 07	2,041	2,039	2	-96	0.1%	-4.7%	9,985	7,034	70.4%	7,195	25,651
	Year 2007	**5,969**	**5,676**	**293**	**259**	**4.9%**	**4.3%**	**40,030**	**29,365**	**73.4%**	**29,164**	**26,538**
	Jan-Mar 08	2,046	2,185	-139	-181	-6.8%	-8.8%	9,696	6,700	69.1%	6,803	25,477
	Apr-Jun 08	2,959	2,968	-9	-69	-0.3%	-2.3%	11,564	11,851	102.5%	8,260	26,916
	Jul-Sep 08	2,604	2,869	-265	-319	-10.2%	-12.3%	10,984	10,879	99.0%	7,325	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%**	**41,994**	**29,928**	**71.3%**	**29,000**	**24,635**
	Jan-Mar 09	1,359	1,482	-123	-90	-9.0%	-6.6%	8,870	5,541	62.5%	5,748	22,133
Ryanair	Apr-Jun 07	934	722	212	187	22.7%	20.0%			82.0%	12,600	
YE 31/03	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	792	67	-85	7.8%	-9.9%					
	Year 2007/08	**3,846**	**3,070**	**777**	**554**	**20.2%**	**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
	Jan-Mar 09	623	592	31	-223	5.0%	-35.8%			74.6%	14,500	
	Year 2008/09	**4,191**	**3,986**	**205**	**-241**	**4.9%**	**-5.7%**			**81.0%**	**58,500**	
easyJet	Oct 05-Mar 06	1,095	1,177	-82	-50	-7.5%	-4.6%	16,672	13,642	81.8%	14,900	
YE 30/09	**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	
	Oct 08-Mar 09	1,557	1,731	-174	-130	-11.2%	-8.3%	24,754	21,017	84.9%	19,400	

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	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	892	-52	-37	-6.2%	-4.4%	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
	Jan-Mar 09	742	754	-12	-19	-1.6%	-2.6%	8,883	6,725	75.7%	3,573	9,021
American	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	-341	-3.3%	-6.0%	66,065	52,283	79.1%	23,051	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
	Jan-Mar 09	4,839	5,033	-194	-375	-4.0%	-7.7%	60,804	46,015	75.7%	20,331	79,500
Continental	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	-82	-1.8%	-2.3%	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
	Jan-Mar 09	2,962	3,017	-55	-136	-1.9%	-4.6%	42,362	31,848	75.2%	14,408	43,000
Delta	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
	Jan-Mar 09	6,684	7,167	-483	-794	-7.2%	-11.9%	89,702	69,136	77.1%	37,310	83,822
Northwest	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
	Jan-Mar 09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Southwest	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	34,793
	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
	Jan-Mar 09	2,357	2,407	-50	-91	-2.1%	-3.9%	38,899	27,184	69.9%	23,050	35,512
United	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%	20,981	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
	Jan-Mar 09	3,691	3,973	-282	-382	-7.6%	-10.3%	54,834	41,533	75.7%	18,668	44,800
US Airways Group	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
	Jan-Mar 09	2,455	2,480	-25	-103	-1.0%	-4.2%	32,884	25,239	76.7%	18,387	32,245
JetBlue	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	-10	2.1%	-1.2%	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
	Jan-Mar 09	793	720	73	12	9.2%	1.5%	12,781	9,720	76.0%	5,291	10,047

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**	
	Year 2008/09	**13,925**	**13,849**	**75**	**-42**	**0.5%**	**-0.3%**	**87,127**	**56,957**	**65.4%**	**47,185**	
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**	
	Year 2008/09	**19,512**	**20,020**	**-508**	**-632**	**-2.6%**	**-3.2%**	**128,744**	**83,487**	**64.8%**	**52,858**	
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**	**55054**	**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	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**
	2007	**4,464**	**4,208**	**256**	**248**	**5.7%**	**5.6%**	**56,104**	**40,096**	**71.5%**	**13,962**	
	2008	**4,671**	**4,579**	**92**	**74**	**2.0%**	**1.6%**					
Qantas	Jul-Dec 05	4,999	4,626	373	258	7.5%	5.2%	59,074	45,794	77.5%	17,260	35,158
YE 30/6	**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**
	Year 2008/09	**11,135**	**10,506**	**629**	**798**	**5.6%**	**7.2%**	**117,789**	**90,128**	**76.5%**	**18,293**	**14,343**
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	**7,627**	**7,902**	**-275**	**-1,350**	**-3.6%**	**-17.7%**	**91,810**	**68,747**	**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	**7,970**	**8,912**	**-942**	**-690**	**-11.8%**	**-8.7%**	**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	**6,018**	**8,192**	**-2,174**	**-2,201**	**-36.1%**	**-36.6%**	**75,919**	**53,754**	**70.8%**	**27,220**	**44,153**
Air Asia	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**	
	Jan-Mar 09	198	84	114	56	57.6%	28.4%	5,207	3,487	67.0%	3,147	

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
Apr 09	25.9	18.1	69.9	18.3	15.0	81.8	14.8	11.7	78.9	48.2	38.6	79.9	73.7	56.7	76.9
Ann. change	-4.5%	-2.3%	1.5	-6.4%	-4.2%	1.9	-2.2%	-6.0%	-3.2	-3.5%	-3.6%	-0.1	-2.3%	-2.0%	0.2
Jan-Apr 09	95.4	60.3	63.2	66.6	50.5	75.8	59.0	46.4	78.7	189.3	147.7	77.8	282.3	207.0	73.3
Ann. change	-4.8%	-7.6%	-1.9	-6.0%	-8.1%	-1.8	-3.1%	-6.7%	-3.0	-3.7%	-6.0%	-1.9	-3.1%	-5.7%	-2.0

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	15 May	Aerolineas Argentinas	1 x 737-700	
Airbus	18 May	ILFC	1 x A330-200	
	6 May	Asiawide	1 x A320	

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

Aviation Economics

The Principals and Associates of *Aviation Economics* apply a problem-solving, creative and pragmatic approach to commercial aviation projects.

Our expertise is in strategic and financial consulting in Europe, the Americas, Asia, Africa and the Middle East, covering:

- Start-up business plans
- Antitrust investigations
- Credit analysis
- Privatisation projects
- Asset valuations
- Turnaround strategies
- Merger/takeover proposals
- Corporate strategy reviews
- IPO prospectuses
- E&M processes
- State aid applications
- Competitor analyses
- Market forecasts
- Cash flow forecasts
- Distribution policy

For further information please contact:
Tim Coombs or Keith McMullan
Aviation Economics
James House, 1st Floor, 22/24 Corsham Street, London N1 6DR
Tel: + 44 (0)20 7490 5215 Fax: +44 (0)20 7490 5218
e-mail:kgm@aviationeconomics.com

SUBSCRIPTION FORM

☐ **Please enter my Aviation Strategy subscription for:**
1 year (10 issues - Jan/Feb, Jul/Aug combined)
@ £420 / €600 / US$650,
starting with the ________ issue

Delivery address

Name ________
Position ________
Company ________
Address ________
____
____
Country ________ Postcode ________
Tel ________ Fax ________
e-mail ________

DATA PROTECTION ACT
The information you provide will be held on our database and may be used to keep you informed of our products and services or for selected third party mailings

☐ **I enclose a Sterling, Euro or US Dollar cheque, made payable to: Aviation Economics**

☐ **Please invoice me**

☐ **Please charge my AMEX/Mastercard/Visa credit card the sum of £420**

Card number ________
Name on card ________ Expiry date ________

☐ **I am sending a direct bank transfer of £420 net of all charges to Aviation Economics' account:**
HSBC Bank
Sort code: 40 04 37 Account no: 91256904

Invoice address (if different from delivery address)

Name ________
Position ________
Company ________
Address ________
____
____
Country ________ Postcode ________

PLEASE RETURN THIS FORM TO:
Aviation Economics
James House, 1st Floor
22/24 Corsham Street
London N1 6DR
Fax: +44 (0)20 7490 5218