Issue No: 145 Aviation Strategy **November 2009**

Lufthansa Group - an empire at its limits?

Lufthansa kicked off the European airline profits reporting season for the three months to end of September with a reasonable set of figures in the circumstances. But has the Lufthansa empire grown too complex and unwieldy – or is the time right for further expansion of the Lufthansa Group?

As usual, the numbers were confused by continuing changes in the group's universe and the seemingly inevitable changes in accounting standards: the nine month figures presented included just under one month's consolidation of Austrian Airlines (included from September 3rd) and just a quarter from bmi (fully consolidated from the beginning of July). The group's revenues for the nine month period fell by 13% in absolute terms to €16.2bn and traffic revenues declined by 16%. Without the first-time consolidation of bmi and Austrian, total revenues would have fallen by 16%. Total operating costs meanwhile fell by 6% to €17.8bn (and would have fallen by 8% on a like-for-like basis) – mostly influenced by a 36% drop in fuel costs – and after allowing for a 50% increase in “other operating income” the group produced an operating profit of €316m, down from €936m in the previous year. However, the published operating profit under IFRS includes what normal observers would regard as exceptional or extraordinary items. On an adjusted basis, after taking account of profits on aircraft sales, revaluations, provision movements and write-downs/write-ups (the acquisition of Austrian generated negative goodwill of around €60m), the underlying operating profits for the nine months were €226m, compared with €994m in the same period for the prior year.

Lufthansa is almost unique in having successfully (so far at least) operated as a conglomerate. The passenger airline division is by far the most important in terms of revenues, but the logistics (i.e. cargo), MRO (or maintenance), Catering and IT Services businesses are all important global businesses in their own right.

The passenger business in the nine months saw capacity up by 2%, traffic at the same level as the prior year, while (*continued on page 2*)

CONTENTS

LUFTHANSA GROUP FLEET

	LH	LX	LCAG	CLH	EN	OS	BD	EW	4U	SN	XQ	Total	Under operating lease	Orders	Options
A319/20/21	99	36				21	30		27	4		**217**	48	47	
A330	15	13				1	3			4		**36**	10	7	
A340	52	13				2						**67**	4		
A380												**0**		15	5
737	63					11	17			11	17	**119**	17		
747	30											**30**		20	20
757											3	**3**			
767						6						**6**	2		
777						4						**4**			
CS100												**0**		30	30
Embraer	11	4				3	18					**36**	8	17	50
Others	38	20	19	72	14	56		27		26		**272**	53		
Total	**308**	**86**	**19**	**72**	**14**	**104**	**68**	**27**	**27**	**45**	**20**	**790**	**142**	**136**	**105**

Sources: Lufthansa, ACAS. **Notes:** SN and XQ not consolidated. Operating lease numbers exclude SN and XQ.

yields slumped by 14% and total revenue fell by 12%. Operating profit halved to €239m. For the quarter, benefiting from bmi and one month of Austrian, capacity was up by 9%, traffic by 10% (though this does compare with a strike-affected period last year at LH) but yields down by a massive 17% and total revenues only down by 6%. The operating result for the quarter jumped by 42% to €204m (but will have been helped by the "badwill" from Austrian).

The consolidation of bmi, and to a lesser extent Austrian, causes some difficulty in interpreting the published figures. Both these companies have provided a significant boost to the operations with Europe and to the Middle East, and account for most of the strong growth in capacity seen on those route areas. For the month of September alone, Lufthansa reported a 33% increase in capacity on European routes and a 50% jump in capacity to the Middle East and Africa. Unit revenues were still consistently 10-20% down year on year for the quarter across all regions of traffic. For the three month period bmi provided Lufthansa with a mere €300m of revenue, an EBITDA loss of €14m and an operating loss of €10m – and this is in the main summer season. Austrian on the other hand generated €188m in the month of September, and Lufthansa was able to register an operating profit from its new subsidiary of €38m, albeit helped by a one-off effect of €26m.

The balance sheet at the end of September meanwhile shows deterioration. In the nine months the group generated operating cash flow nearly sufficient to cover its net capital expenditure of €1.5bn. The group is sitting with gearing currently of 80% - well above its long term target of 40-60% - although this does not take into account any capitalisation implied by the aircraft under operating lease, of which the group has 142 units in its fleet. Unsurprisingly both Moody's and S&P have downgraded their ratings on Group debt – but it is still one of the few investment grade airlines in the world.

Like all airlines at this time of the cycle Lufthansa has introduced a new cost reduction plan – this time under the name "Climb 2011" - to cut costs by €1bn by the end of 2011 and safeguard earnings and cash flow. This seems to include further capacity reductions, an accelerated phasing out of the 50-seater regional fleet, redundancies/early retirements and a further 10% reduction in personnel unit cost, a squeeze on external suppliers, and a promise to "invest in the earning capacity of aircraft" (i.e. increase seat density?) and to renegotiate the delivery of its 136 aircraft on order – including no doubt its 15 A380s. Unlike others, however, it also has to deal with restructuring at two new subsidiaries.

Meanwhile, the group restructured the responsibilities of the executive board in May and June this year, bringing in Christoph Franz as CEO of Lufthansa itself and Stefan Lauer as "Chief Officer Group Airlines". This reshuffle of responsibilities, the group states, provides the necessary organisational steps "for new airlines to be integrated into the Lufthansa airline group", and gives rise to the suggestion that it

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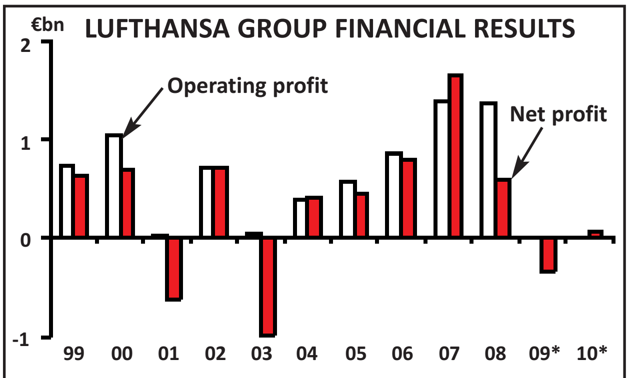
will look actively to acquire even more failing European carriers in the apparent drive towards consolidation.

Is the group too large?

Has the group managed to get its hands too full? In several senses Lufthansa is unique: it has built an aviation conglomerate that encompasses but separates operationally the passenger business, cargo, maintenance and catering operations. Within the passenger business it has segmented a product offering by retaining individual brands, without apparently cannibalising its core business. It is also unique in being a major European network carrier heavily reliant on transfer traffic without the benefits (enjoyed by British Airways at Heathrow or Air France at Paris) of a high-density local catchment area and good levels of point-to-point demand. Following the acquisitions of bmi and Austrian, and assuming that it gains a majority of SN Brussels in a couple of years, it will be in charge of a disparate portfolio of some 790 aircraft (see table, left) – substantially greater than great rival Air France-KLM's fleet of 649.

In the longer run this may provide some substantial cross- benefits of commonality and fleet rationalisation (after all it was SWISS that acquired Austrian's discarded A340s two years ago when OS rationalised its long-haul network), but in the short-run may appear unwieldy. The three Germanic-speaking carriers – Lufthansa, SWISS and Austrian – all have hubs geographically fairly close together at Frankfurt, Munich, Vienna and Zurich. bmi brings the dubious benefit of access into fortress Heathrow. Sabena provides a pincer into the attractions of the AF/KLM joint hub system between Paris and route rights and strong ethnic flows into Francophone Africa. The others in the portfolio – Eurowings and germanwings (including perhaps the Turkish charter SunExpress, 50% owned with THY) - may appear a pure Germanic solution.

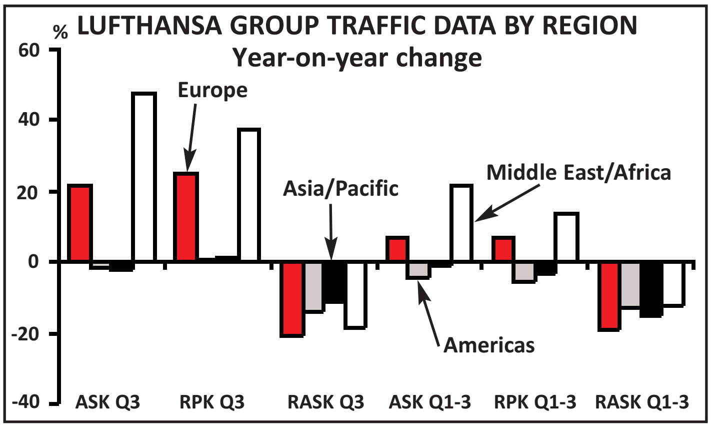
SWISS, fully consolidated since July 2008, was acquired after it had restructured itself towards profitability out of the ashes of Swissair's collapse, and after all the necessary route rights had been renegotiated. It brought Lufthansa strong operational group benefits in maintenance, cargo and presumably IT. It also brought Lufthansa's first hub outside Germany,



Note: *Reuters consensus forecasts.

having discovered from the performance of Air France-KLM that there could be strong revenue benefits, for a carrier dependent on transfer traffic, from being able to market routings over a variety of hubs (and cut out a competitor). Even though SWISS's main base at Zurich is only 300 km away from Frankfurt - and 240km from Lufthansa's second hub at Munich - there is a sufficient geographic spacing to allow the two to access incremental traffic flows. SWISS accounts for 15% of the total Lufthansa Group's passenger numbers and a slightly lower proportion of total capacity (in ASKs).

germanwings is Lufthansa's in-house LCC and operates a fleet of 27 A319s to 47 European destinations primarily from Cologne and Stuttgart, but also has small bases in Berlin, Hamburg and Dortmund. In 2008 it started negotiations with TUI to consider a merger with its LCC Hapag Lloyd Express/TUIfly, but shied away to allow Air Berlin to take over the troubled operation. There are very few full service airlines that have successfully operated an LCC, but Lufthansa obviously sees this as a matter of branding and a way of accessing the non-corporate traffic on routes that bypass its main hubs in Frankfurt and Munich (and of course fending off incursions from outside Germany); but at the same time must be very nervous of ensuring that there is no cannibalisation of its own traffic base. It appears that some rationality has returned to the domestic German airline scene following the merger activities of Air Berlin in the past few years and although germanwings has stabilised its fleet (and, unlike many other LCCs in Europe, cut capacity by 6% this year) it has carried 8% fewer passengers in the nine months to September and seen load factors drop by nearly two points.



Austrian has been a partner of Lufthansa since 2000 in the Star alliance and helpfully, like SWISS, almost speaks the same language. The company finally gave up ideas of independence and effectively invited Lufthansa to rescue it late last year: the Austrian government pumped in €500m in state aid and after handing over the ÖIAG stake and a public offer practically gave the former flag carrier to LH for nothing. There may not quite be as much synergistic benefit to come as there was from SWISS: the two companies have been operating a joint venture on all routes between Germany and Austria for the past nine years and have already been gaining some reasonable revenue benefits from cross-scheduling through their respective hubs.

However, they had also been competing against each other (from LH's case through Munich, which is only 240km away from Vienna) in what Austrian has come to see as its core niche market into central and eastern Europe. Vienna, however, does present an impressively efficient hub and has an added advantage of being the easternmost European hub, allowing some of the most efficient timings of flights to and from the Middle East. Having restructured its long-haul network in the past few years Austrian has become increasingly dependent on short-haul transfer operations: the “Focus East” strategy effectively generating niche premium feeds through Vienna but on relatively low density routes into the CEE states that others cannot afford to reach. At the same time, however, the company has been particularly badly hit by the incursion of LCCs into the Vienna market.

The two companies nevertheless appear to anticipate being able to generate some €80m in annual synergies. Apart from these, Austrian has introduced a new strategy (“Austrian Next Generation”): focus on volume routes but continue to serve niche markets; strengthen the position of Vienna as the Lufthansa group hub focussing on CEE markets; remain a network carrier; lower unit costs by removing small capacity aircraft (the 50-seaters are to go) and increase the seating density on existing aircraft.

The bmi problem

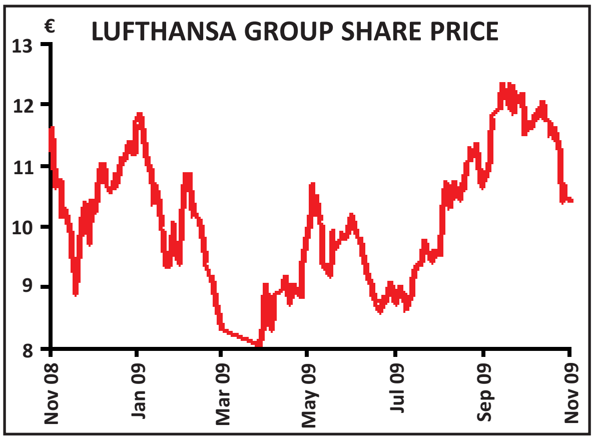
bmi is a completely different matter – apart from anything else being far more expensive an acquisition while being half the size of Austrian.

Lufthansa started consolidating the company from the beginning of July and became sole shareholder from the beginning of November. bmi’s main (and possibly sole?) asset is its position as second-largest operator at Heathrow behind BA, with 11% of the slots: but as the second largest carrier its route network appears intrinsically unprofitable. It does, however, bring in an extra 9% in passenger numbers and capacity to the group total – with a heavy focus on Europe and to a lesser extent the Middle East and Africa. Lufthansa could attempt to combine the slot portfolio with some of its own 4% (and maybe link in with SAS and United) to give the Star alliance 21% of the operations at Europe's main gateway – though it would still need to find a way to operate those slots profitably.

The group management clearly has not really decided what to do with the carrier it has acquired, and at the results' meeting in Frankfurt reiterated that it was examining all options. In the meantime it has appointed new top management: Wolfgang Prock-Schauer (formerly of Jet Airways, and before that Austrian) will take over from Nigel Turner as CEO (who is becoming deputy chairman) from December. They have already started slimming some short-haul European routes and the long-haul routes from Manchester, but this may be short-term window-dressing of the problems. easyJet's withdrawal from East Midlands nevertheless gives bmibaby (its attempt at the LCC market) some breathing space at the company's home base – even though it has just announced plans to cut the 17-strong fleet by five aircraft.

Management says that it expects to have a comprehensive restructuring plan in place for bmi by the end of November. The options clearly are not as straightforward as for either Austrian or SWISS: LHR with its significant constraints on capacity is not an easy place to run a network hub (and Lufthansa is a network carrier par excellence) and because of London's geographical position within Europe it is therefore difficult to see any real revenue benefits accruing from greater control over network route allocation and marketing without eating in to Lufthansa's own network. There should, however, be some further cost savings from joint station operation (Lufthansa itself has just moved into Terminal 1 at Heathrow), and the hub concept may improve as all the Star alliance members move into what will become Heathrow East. In the meantime it is likely that bmi will be a drain on Lufthansa's results for quite some time. One option may still be to sell the company – if it can get a reasonable price – and at least Willie Walsh, British Airway's CEO, the other day confirmed publicly that it would be in the market, and actually regarded some of bmi’s route network as attractive, whether it could afford it or not.

These are interesting times for the airline industry and Lufthansa's management is obviously taking advantage of others' weak positions and the resulting opportunities to build a unique portfolio of brands, hubs and fleet. “Interesting times” sometimes do turn out to be a curse; but it may well be that the German flag carrier indeed has the right board structure to manage an even larger portfolio. At the analysts' meeting for the nine-month results, when asked if there were other acquisition targets under consideration the response came back that “there are acquisition targets out there that we can afford but wouldn't want and those we would want but cannot afford ... but our priorities must be to be able to generate strong cash flow (to restore the balance sheet) and sustainable returns through the cycle”.



By James Halstead

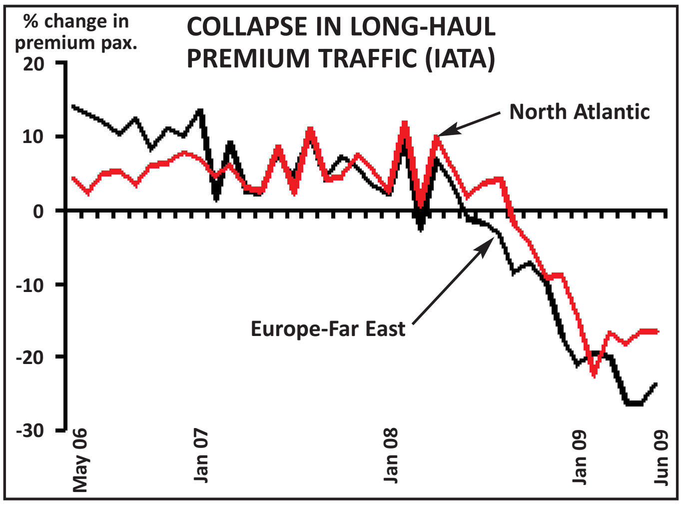
British Airways, A318s and the masters of the universe

In an attempt to stem the collapse in premium long-haul traffic, British Airways has launched a remarkable new service from London City Airport (LCY) to New York JFK using A318s. It has been given the flight number 001, re-designated from the former Concorde operation. Might it work?

Aviation Economics looked at this concept a couple of years ago for a group of potential investors in an A318 LCY-based long-haul airline and came to the conclusion that the New York route looked very promising but that prospects for an independent airline operation (as opposed to an operation within a network carrier) were questionable.

BA is aiming at a niche market - the masters of the universe who inhabit the City of London/Canary Wharf and Wall Street. The attraction for London-based high-flyers is time and convenience. LCY is 15 minutes from the City, five minutes from Canary Wharf; it’s possible to get from curbside to departure lounge in less than 15 minutes. Flying from Heathrow, one has to allow more than two hours from the City and endure rush-hour crowds on the tube or risk London traffic in a taxi. Importantly, the A318 promises to create an elite club atmosphere – the aircraft are configured with only 32 flat-lie seats and are equipped with OnAir communications.

The A318’s unit operating economics (per seat-mile) on the North Atlantic are more than three times those on a 777, but average yields will hopefully be more than



three times greater. BA is currently selling at around £2,600 one way, identical to its business-class fares on LHR-JFK. In reality the average fare achieved will be significantly lower than this, as all of the big financial institutions have loyalty deals with BA that discount published business-class fares. Even after taking the discounted average fare into consideration (say 25% on average off published rates), break-even on the route with load factors in the low 60%s (i.e. around 20 passengers per flight) looks feasible.

Technical issues

There are a couple of technical issues - the A318 cannot make the westbound trip non-stop because of a combination of weight take-off limitations at LCY and Atlantic weather conditions. The refuelling stop at Shannon is unavoidable, and gives the A318 a 1.5 hour elapsed time disadvantage over a LHR-JFK flight on this leg. But pre-US immigration and custom checks are being performed at Shannon, allowing passengers to be delivered directly into the JFK domestic terminal - and this is being turned into a selling point. Also London City airport is closed for 24 hours at the weekend as agreed with the local population, so scheduling is limited to five and a bit days per week - and if you want to arrive back in London on Saturday or early Sunday you can't.

The timing of the product might seem odd. It was conceived when corporate travel was booming but launched into a regime of cut-back budgets and downgrading of travel privileges. On the other hand, recent profit announcements from the investment banks and a resurgence of interest in M&As suggests that the launch of this service might just be propitious. British Airways itself commented on an uptick in premium travel during its November 6th analyst meeting, and even suggested that the "Open Skies" 757 operation from New York to Paris Orly was showing promising signs.

Launching the A318 service under the BA brand has clear advantages, compared with an independent start-up. Passengers add points to their BA frequent flyer programmes when using the A318 and they can visit existing executive lounges, but - more importantly - they have a fall-back if there is a technical event (as there was on one of the first A318 flights). Passengers can be transferred to a regular JFK-LHR operation, and of course will have to be compensated, but the costs involved are nowhere near the amounts that MaxJet and SilverJet incurred when they had to transfer passengers to other carriers (mainly Virgin Atlantic) when they, for whatever reason, couldn't meet their schedules.

Service limit

BA can accept the limitations of this niche operation – it is possible to envisage an operation with six A318s and 25 weekly frequencies, taking about 5% of the premium London-New York traffic, but not much more. Other long-haul destinations from LCY are not promising: Washington is government-related travel with no City of London base; Chicago is too far and without the financial demographic; Moscow is a possibility but only low frequency; Dubai requires a stop and is heavily competed from LHR. For BA this is not an issue, but it is for an independent operator striving for economies of scale, and for an exit sale story. BA's problem, however, is working out how much business it is simply cannibalising from its LHR-JFK operation.

Spain's medium-sized airlines adjust to troubled times

A weak domestic economy and fierce fare wars are prompting major restructuring among Spain's medium-sized airlines. But are they doing enough to fend off the growing threat from foreign LCCs?

While Iberia continues to be distracted by its on/off merger with British Airways, Ryanair and the other foreign LCCs continue to carve out larger portions of the Spanish domestic and international markets. Ryanair, of course, is at the forefront and is now second only to Iberia in terms of passengers carried, according to statistics from AENA, the Spanish airport authority (see chart, below). Most worryingly for everyone else, Ryanair wants to become the largest airline in Spain within the next two or three years, according to CEO Michael O'Leary.

If this wasn't bad enough for Spanish airlines, the domestic and international passenger boom of the 2000s has come crashing to a halt this year, thanks largely to the recession but also to other factors such as the popularity of the expanding high-speed train network in Spain. Alex Cruz, the former CEO of Clickair and now CEO of Vueling, says that "the drop in demand in passengers flown in Spain has been staggering" – passengers carried in the January-September 2009 period were 10% down on the same period in 2008, although the year-on-year gap is closing as 2009 progresses - see chart, page 8.

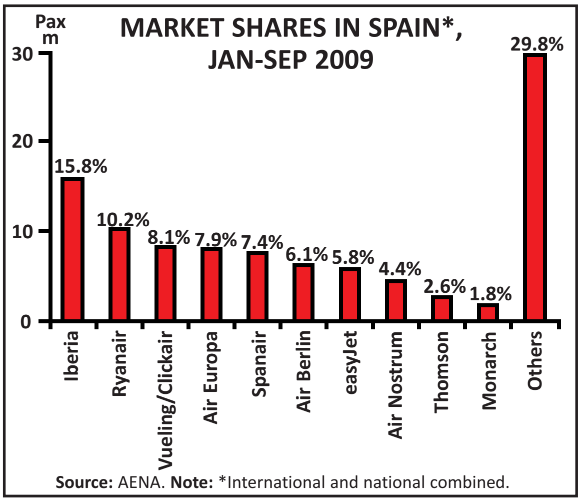
Unsurprisingly, these market developments have led to major changes at Spain's medium-sized airlines.

Spanair targets Barcelona

Spanair was established by SAS and tour operator Viajes Marsans back in 1988 as a charter operator, before expanding into long-haul services in 1991 and developing an extensive scheduled network in 1994. The long-haul services were stopped once SAS took full control of the airline, and Spanair currently operates to 18 scheduled destinations in Spain and seven in the rest of Europe, plus Algiers, Casablanca and Banjul in North Africa. 13% of its flights are charters and the rest scheduled, where it specifically targets business travellers.

SAS restructured Spanair in 2008, including a 1,000-strong reduction in the workforce, downsizing the fleet by 15 aircraft and cutting five operational bases, leaving services concentrated on Madrid and Barcelona. SAS claimed that this would reduce costs by €90m in 2009, leading to break-even for the airline in 2010.

But even with this restructuring, Spanair never fitted sensibly into the Scandinavian airline's long-term strategy, and as far back as 2007 SAS announced it would sell the Spanish carrier as it was no longer considered a core business. However, this was not completed until March this year when 80.1% of the airline was sold to a Barcelona-based private/public consortium called Empresarials Aeronautiques (IEASA), which includes Catalana d'Inciatives - a VC fund - as well as Consorci de Turisme de Barcelona, Volcat 2009 (part of FemCat foundation, which promotes the Catalan economy and culture) and trade fair company Fira de Barcelona. One of the shareholders in



Source: AENA. **Note:** *International and national combined.

SPANISH AIRLINES' FLEETS

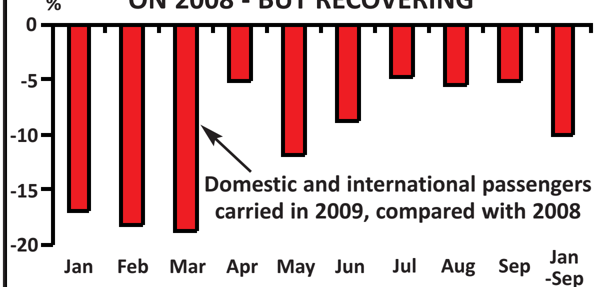
	Fleet	Orders	Options
Spanair			
A320	19		
A321	5		
717	4		
MD-80	19		
Total	47	0	0
Vueling Airlines			
A320	35	0	0
Air Comet			
A320	2		
A330	4		
A340	2		
Total	8	0	0

Catalana was the Lara family, which also had a shareholding in Vueling through Inversiones Hemisferio, and so subsequently sold its 5% stake in the VC fund to the Barcelona city council and the Instituto Catalan de Finanzas in order to avoid a conflict of interest.

IEASA initially paid a nominal €1 for its stake in Spanair, but at the same time agreed to invest a further €70m into the airline, as well as raising another €30m from non-Catalan investors, who would subsequently join the consortium. The target date for completion of this €100m fundraising is end of the year, and if successful it's likely that SAS may exit completely from its remaining 19.9% of Spanair, which it retained only through having to convert €20m of loans to Spanair into equity as part of the deal to attract new investors.

Catalana's choice as its new CEO of Spanair was Mike Szucs, previously CEO at Mexican LCC VivaAeroBus and director of operations at easyJet, who took up the position in June. Catalana has been undergoing a strategic review of the airline since it acquired control and it's an open secret in Catalonia that the airline will return to long-haul flights by 2012 at the latest. Spanair agreed codesharing with Air Canada in May (the latter operates a Toronto-Madrid service) , but the tentative plan is to operate routes to South America from Barcelona using around five aircraft initially – most likely to be A330s in the shorter-term, but potentially A350s from 2013 onwards as it builds up a long-haul fleet of more than 10 aircraft.

2009 SPANISH MARKET WELL DOWN ON 2008 - BUT RECOVERING



Source: AENA.

Sao Paulo and Buenos Aires will be the first routes to be served, and the airline is currently arranging the relevant traffic rights. At the same time as building up long-haul services, Spanair will wind down its remaining charter business, which currently stands at around 10% of all its flights. Margins are falling fast in the Spanish charter market, and it's a business that has little interest for the Catalana consortium.

The international expansion goes hand in hand with a core goal of turning Barcelona airport into an international hub. While Spanair is not publicly stating it will reduce its Madrid operations, sources suggest this is the intention in the long-term, as the key target of Catalana is to develop Barcelona airport into not just a rival to Madrid, but into the premier airport for the whole of the Iberian peninsula, and with a catchment area that extends into southern parts of France.

As part of this strategy the airline has moved its headquarters from Palma de Mallorca, to Barcelona's new Terminal 1, into which it switched its Barcelona operations in June. Not all the 380 staff in Palma chose to relocate to Barcelona; the ones that didn't received redundancy packages of 20 days pay plus €750 per year of employment, although this was agreed only after the Palma staff held a series of one-day strikes through August.

Long-haul expansion is likely to be accompanied by a trimming of domestic services (Spanair started domestic codesharing with Air Europa in March this year), although routes into the rest of Europe are likely to be unaltered in the short-term.

Spanair's fleet today stands at 47 aircraft, although in September the airline announced it would cut capacity by 10 aircraft by 2010. The four 717s will be kept, it is believed, but the current 19 MD-80s (two MD-82s, six MD-83s and 11 MD-87s) will be gradually trimmed back. Many of the MD-80s are on leases (and most of those from SAS), of which 13 will expire between now and the end of 2010. They will be replaced partly by A20 family aircraft, with either a new order placed in 2010 or through leases, depending on how the airline's finances develop over the next year or so.

Whereas Spanair made a net loss of €218m in 2008, the airline is expecting to break-even this year before posting a net profit in 2011. An EBITDA loss of around €5m is expected in 2009, prior to an EBITDA profit of €84m in 2010. But the figures depend on a lot of factors, including the successful development of international routes out of Barcelona and continued cost cutting. Ferran Soriano, the president of the airline, told Catalan media that a reduction in the overall workforce could not be ruled out in order to return the carrier to profitability in 2010; the airline currently has a workforce of approximately 3,300.

On the other hand Spanair may also take its handling operation in-house as there have been operational issues with handlers at Spanish airports, and particularly with slow turnaround times. In September Spanair became involved in a public argument with ground handler Marsans Newco, and refused to pay a 17.5% increase in its fees that Marsans imposed from January of this year. The two companies have a contract that expires in 2012 and Marsans claims it is owed at least €10m in fees. Unsurprisingly, the dispute may well end up in court.

While Spanair's routes were previously co-ordinated with the hubs of SAS and Lufthansa around Europe, in competition against Iberia, that is no longer the case, although Spanair remains a member of the Star alliance (which it joined in April 2003). Ferran Soriano says that Spanair now sees its main competition as being the other LCCs.

Vueling: still in ownership limbo?

The long awaited merger between LCCs Vueling Airlines and Clickair was completed in July this year, and the Clickair name was immediately dumped in favour of Vueling's perceived stronger brand. Alex Cruz, the CEO of Clickair since its launch in May 2006, became CEO of the merged company, with Josep Pique, chairman of the pre-merged Vueling, continuing in that position in the new company.

The enlarged carrier now operates to 45 destinations in Europe and North Africa with a fleet of 35 A320s, of which 17 were previously at Vueling and 18 at Clickair. The two airlines overlapped on 17 routes, and that saved capacity has been placed elsewhere within the network.

Vueling has been working on a three-year strategic plan, which is due to be unveiled before the end of the year, but at present the new airline has a 70:30 split between leisure and business passengers. It follows a typical LCC business model, charging for extras such as baggage, priority boarding and extra wide seats, although one of its aims is to better develop stronger ancillary revenue streams.

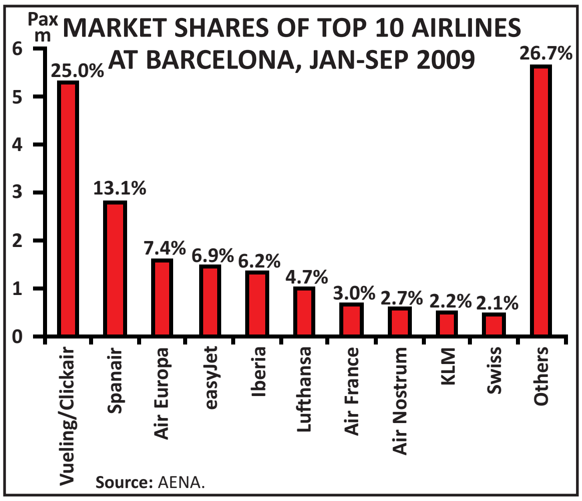
Iberia, which previously owned 20% of Clickair, had acquisition rights for the other 80% of that airline, which brought its stake in the "new" to 45.85%. The other shareholders were Inversiones Hemisferio

BARCELONA WAY BEHIND MADRID ON LATIN AMERICA ...

2008 passengers (000s) by flight country of origin/destination

	Madrid Barajas	Barcelona	Barca as % of Mad
Domestic	20,858	12,581	60.3%
Europe	17,370	13,454	77.5%
North America	1,730	639	36.9%
Latin America	6,334	1,019	16.1%
Other long-haul	4,554	2,579	56.6%
Total	**50,846**	**30,272**	**59.5%**

Source: AENA.



(owned by the Lara family) with 14.3%, Nefinsa (the owners of Air Nostrum) with 4.2% and the remainder on free float. In late October Inversiones sold its stake for €43m to a variety of institutional investors.

However, Iberia's current shareholding - just short of 50% - appears untenable in the long-term. Although Vueling "competes" against the flag carrier on a handful of routes and Iberia says Vueling is free to make its own commercial decisions, that's highly unlikely in practice. Indeed in September Vueling tried to counter growing criticism of its relationship with Iberia by launching a grand-sounding "independence commission" to ensure it is free from influence from Iberia and to make decisions on any conflicts of interest between Iberia and Vueling.

That commission has met with scepticism from many observers in Catalonia, citing the fact that Iberia's' 46% shareholding in Vueling gives it enormous influence, whether explicitly or implicitly, and that it would be illogical for Vueling's management to put any strategy in place that would be detrimental to Iberia. In August, for example, Vueling joined Iberia Plus - Iberia's FFP.

Under Spanish stock exchange rules, once Iberia's shareholding in Vueling passed 30% it should have had to launch a takeover bid for Vueling, but it has been granted an exemption to this by the financial regulator. However, should BA acquire or merge with Iberia this exemption would lapse, and Iberia would either have to seek another exemption (which would be unlikely to be granted), launch a bid for all of Vueling or reduce its shareholding significantly.

As BA's track record with LCC subsidiaries is not great (i.e. Go, which BA sold pretty quickly), if BA and Iberia do merge it would not be a surprise if Iberia reduced its shareholding in Vueling. But there is also a (stronger?) argument for acquiring all of Vueling. In September Josep Pique, the chairman of Vueling, said that a merger between Iberia and BA would benefit Vueling, as Vueling would be able to "take advantage" of Iberia's improved competitive and strategic position post-merger. More importantly perhaps, from an Iberia/BA point of view a 100%-owned Vueling would give it a real means of fighting the LCC challenge as well as preserving valuable "blocking" position at Barcelona airport (see chart, left).

Iberia withdrew a bid for Spanair in May 2008, due to "concerns" over the state of the Spanish market, and Iberia's latest strategy (as of July) is to reposition itself as a "luxury" full-service airline in competition against other flag carriers. With Vueling competing head on with Ryanair, easyJet, Air Berlin and others, one analyst describes Vueling as becoming the sacrificial lamb in Iberia's overall strategy. And yet another "paradigm shift" announced by Iberia in late October (called Plan 2012) now also puts the emphasis on building up (yet again) a long-haul network out of Madrid, with a new airline based in Madrid being set up to feed traffic via a short-haul network. This would not exactly dovetail with Vueling's emphasis on Barcelona, although - frankly - Iberia's strategy cannot be considered to be settled until the BA merger is sorted out one way or another.

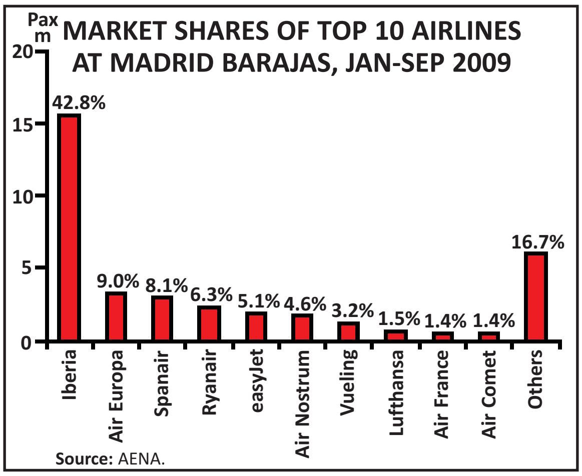
As for Barcelona, in September Vueling moved its operations there to the new Terminal 1, at which Iberia and its regional feeder, Air Nostrum, as well as all other oneworld partners are located. Terminal 1 now handles 70% of all traffic at the airport (including Spanair, Star and SkyTeam airlines) and it will enable the airport to redevelop Terminal 2 (the existing A, B and C terminals) in 2010. Terminal 1 can handle up to 30m passengers a year, which doubles the overall capacity at the airport.

Altogether Vueling has six operational bases (Barcelona plus Madrid, Seville, Bilbao, Valencia and Malaga), and will carry around 11m passengers in 2009 on 90 routes. However, it is Barcelona where Spain's key aviation battle will be fought over the next few years, given the ambitions of Spanair and others. But competition, at least domestically, also comes from AVE, the Spanish high-speed train. For example, on the key Madrid-Barcelona route the enlarged Vueling has a 25% market share, although it faces fierce competition from AVE and - at least until now - from Iberia. Vueling is increasing flights on the route to 12 a day from the winter 2009/2010 season, and what Iberia does with its capacity on the route will be a key test of how much Vueling and Iberia will compete in the future.

Unsurprisingly, the new Vueling now dominates traffic at Barcelona airport (see chart, left). The European Commission was concerned about the impact of the merger on routes between Spain and Italy and France, and allowed the deal on condition that the two airlines gave up slots at Barcelona and other airports. However, the slots given up are believed to be sufficient for just over 100 weekly flights across all these sectors, which Vueling considers acceptable.

Both Clickair and Vueling made operating losses in 2008, although Vueling just crept into a net profit of €8.5m for the first time since its launch in 2004 (though this was thanks largely to an accumulated €47m tax credit). In the first nine months of 2009 Vueling reported a €71.9m operating profit, compared with a €18.7m loss in January-September 2008, based on a 25.1% rise in revenue to €441m. In the nine month period EBITDAR rose by four times its 2008 level, to €122.8m in 2009.

The priority for the new airline is to break into profit, and it is targeting cost savings of up to €25m this year and in each of the next two years, plus an annual increase in revenue through synergies of €45m – i.e. the merger should boost the bottom line by up to €70m this year.



On merger the combined workforce of the two airlines was 1,600, but this is being trimmed to 1,300, with around 50 positions going through the merger of the airlines' headquarters and others going through the outsourcing of ground handling.

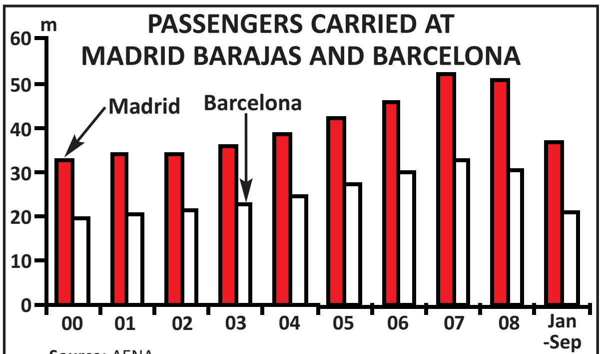
The fleets at the pre-merger airline had already come down significantly recently – from 24 at Vueling and 26 at Clickair in 2008, and Vueling had restructured significantly through 2008, cutting a number of routes as its fleet was reduced by one-third.

Overall, the cost cuts from the merged airlines have now largely been implemented, and although there will be significant merger and restructuring costs, the enlarged airline believes that will it post a pre-tax profit for 2009, based on revenue of around €800m.

Air Comet's uncertain future

With just 13 aircraft (10 of which are owned outright), Air Comet is much smaller than its main rivals in Spain, although it had once wanted to become the second largest airline in Spain.

However, the prospects for Air Comet continuing as an standalone airline brand are close to zero. The Madrid-based airline is part of Grupo Marsans transport and tourism giant (see *Aviation Strategy,* December 2007), but Marsan's aviation ambitions are now in tatters, and as a result the fate of Air Comet is uncertain.



Source: AENA.

Marsans had wanted to build up a huge air bridge between Europe and South America, connecting hubs at Madrid, Barcelona and Buenos Aires, but one of its airlines, Aerolineas Argentinas, was renationalised in July 2008, while another of its airlines, Air Comet Chile (not related to Spain's Air Comet) went bankrupt last December. This leaves Marsans holding onto a massive aircraft order backlog, based largely on a November 2007 order for 61 Airbuses at a list price of €5bn, comprising five A330-200s, 10 A350, four A380s, 12 A319s, 25 A320s and five A321s.

While Marsans is still trying to persuade the Argentine government to take 30 Airbus aircraft earmarked for Aerolineas (and has also taken the government to the World Bank over the renationalisation), even if this action is successful it will still have nowhere else to place the remainder of its huge backlog other than its sole Spanish airline, Air Comet. As part of Marsan's grand strategy that airline was supposed to turn itself into a long-haul airline competing against Iberia, but with the loss of the South American side of this plan Air Comet is an airline with no strategic purpose and no prospects of utilising the massive capacity that Marsans has on order.

A330s, for example, are arriving at the rate of one new aircraft a month through 2009, and for the moment Air Comet is using them to increase frequencies on its existing routes between Madrid and seven destinations in Latin America (having suspended routes to Santiago de Chile and San José, Costa Rica in September).

Clearly though, new destinations would have to be found for all the new long-haul capacity supposedly coming on-stream, and then there are large numbers of A320 family aircraft to place as well.

Once upon a time another ambition of Marsans was to buy Spanair, and it's likely that the ambitious orders by the group were earmarked partly for a potential acquisition. The reality now is that the aircraft have to be shoe-horned into Air Comet, disposed of in the open market, or – much more likely – cancelled. Marsans also wanted to launch a hub in Barcelona, connecting transatlantic routes with European routes, but again that idea looks dead given the Marsans' group situation and the grip that Vueling has at Barcelona.

Marsans has already been in negotiations with both Orizonia and Globalia, two rival travel industry conglomerates, about a potential merger with Marsan's remaining aviation asset, but both these companies have their own airlines (Iberworld and Air Europe respectively), so whether they would want Air Comet as part of a merger is open to doubt.

Marsans is now explicitly stating that it wants to sell Air Comet independently of other Marsans businesses, though it's difficult to see where prospective buyers may come from. Marsans held talks with Spanair in September, but the rival airline decide to back away from buying it, saying that it was instead prioritising cost-cutting at its own operations.

Although the actual figures are buried deep within Marsans' accounts, Air Comet is reported to have considerable debt and problems with bank funding, and in August further unconfirmed reports out of Spain suggested that the owners of Marsans, Gonzalo Pascual and Gerardo Diaz Ferran, had to inject personal funds into the airline. Indeed pilots at Air Comet came close to strike action in September after a dispute on conditions and unpaid salaries, although this was resolved at the last minute when management promised to pay salaries owed for July and August.

In October Air Comet's chief executive, Jose Maria Llodra, resigned, to be replaced by Eduardo Aranda, but his scope for action is limited given that the airline is up for sale.

Adapting to change - new business models for airlines?

There is much discussion of the need for new business models for airlines. “We have to find ways of doing things that have not been done before, without compromising on cost. There is no uniform low cost model like there was fifteen years ago”, says Alex Cruz, CEO of Vueling. "Hanging on in there and just hoping for old high-roller times to return is the road to oblivion,” confirms Willie Walsh, CEO of British Airways. But do new business models exist, or are so-called paradigm shifts nothing more than small changes to existing ways of running airlines?

Approximately 85 airlines have failed worldwide since January 2008 according to the ERA, and it forecasts that another 20 will cease operations by the end of April 2010. These numbers would be even larger if US airlines that have sought Chapter 11 bankruptcy protection, or those European airlines that have recently been acquired rather than closed down, are added.

Airlines have always seen a relatively high degree of failure: Richard Branson’s comment on buying an airline in order to change from being a billionaire to a millionaire is a standard joke used to prepare analysts, shareholders and staff for the warning that profitability is parlous.

It is a salutary thought that most of these failed airlines had alleged “excellent business plans”, often scrutinized by senior investment bankers and industry analysts. In reality many of these business plans were at best plausible but deeply flawed, if rigorously reviewed, and their acceptance was in part the result of the ready availability of credit along with the over-exuberance of aviation investors prior to 2008. Nevertheless, failure is explained as the result of unforeseen and uncontrollable events such as the economic recession, fuel prices, currency fluctuations, pandemics, the withdrawal of promised funds or undue regulatory interference. Some admit competition played a part but most claim that the airlines were well managed, and it was just unfortunate the way things worked out.

All of these factors are known to some degree by the airline managers, however, and most have been around for the last 50 years. They are complicated factors to manage but many airlines have survived similar shocks in the past. They are not the low probability, high impact ‘black swans’ as defined by academic Nassim Taleb, based upon the metaphor that until a black swan was seen in Australia in the 18th century then everyone thought it was inconceivable that swans would not be white.

Such ‘black swans’ are the genuinely unknown factors in a global market place and we see a hint of two of these in the thinking behind the quotations in the opening paragraph - i.e. what if the airline market of 2010 and beyond does not revert to the same number of people wishing to fly on air services, and what if within such a radically changed demography significantly fewer people are willing to pay premium fares?

Past history suggests this should not happen, that premium passengers will return, that surviving airlines will become profitable, and that growth will resume. This has happened many times before so why not this time? There is no answer to this question, but there are doubts, and the cynicism that says airline leaders are making such statements simply in order to impose draconian cuts in staffing or cost, or to influence regulation may be misplaced.

The complexity of the future

In the language of business management these questions about the future market context are complex in their nature. There are no clear answers available despite copious data sets - and airline leaders need to think in terms of a flow of events, patterns and emerging trends rather than depending upon analysis of past events as a predictor of future markets. The 'business plan' may become part of the problem unless it is constantly updated, and the management may also become part of the problem if it pursues narrow goals at the expense of adapting to an uncertain future.

"Glorified bus operations"

Airlines are relatively simple organisations to manage: to Michael O'Leary, CEO of Ryanair, they are "a glorified bus operation". Skill is certainly needed to manage them well, as the delivery of services requires the completion of many quite complicated tasks that require skill. Gordon Bethune, former CEO of Continental, reminded his managers that airline operations are like a Swiss watch, in that "every part has to work if they are to run on time".

Leadership in an airline is, however, often also complex in the nature of the problems to be addressed. In this small semantic difference, 'complicated' and 'complex' - and the ability to act differently as a result - lies one of the reasons why some airlines survive and prosper and others struggle and fail. Understanding the difference and changing leadership behaviour requires fundamental differences in the mindset of managers, and in the skills they deploy.

For complicated tasks the manager needs to be able to sense the problem, bring to bear appropriate analysis, perhaps seek expert advice and be prepared to make a decision on the relative merits of various options for action. For complex tasks the leader needs to be able to probe the uncertain nature the issue, create an environment in which alternative responses may be postulated and tried out, building upon and adapting successful lines of action and closing down the less promising.

In dealing with complicated issues clarity of thinking and decision making is important, and may lead to clear goals and accountability for execution. In dealing with complex issues dissent and a diversity of views need to be encouraged, together with a willingness to experiment. In such a potentially chaotic environment communication skills that reassure individuals and make sense of apparently disconnected or conflicting priorities become vital.

So what might this semantic difference mean in an airline context? Complicated problems may be very difficult to resolve. They may require years of training and experience and the development of high level physical or mental skills. Pilots and engineers pursue trades in which complicated tasks are routinely managed. Other roles such as system development, ground operations and human resource management also complete many complicated tasks if reservations are to be made at a good yield, aircraft loaded and despatched, and people paid the right wages and at the right time.

An added degree of complication arises when one part of the total system fails as a result of factors such as the intervention of weather, an aircraft arriving late from maintenance, check-in staff being absent through sickness or the predicted no-shows resulting from the overbooking algorithm all show up. Procedures are in place to react to these situations and in many airlines – especially the good ones – the motivation and energy among staff noticeably increases as they react to the problems that arise. The precision of a Swiss watch is to be admired but for many people a little bit of change and challenge, on occasion, reminds them (and others) that what they do, however small an activity, has a purpose.

System improvements

For managers a constant drive is to simplify the levels of complication through system improvements which translate into clear processes for every person to follow. Most airline management training therefore emphasises the importance of understanding the value and logistical chains and the need to resolve problems in the best interests of the overall system – and the delivery of the brand promise to the customers. “Do not export the problem” to the next function was a key principle when Air Canada was going the extra mile or Jan Carlson was reminding airline staff at SAS that they transported people not passengers.

For complicated problems there is usually an answer, sometimes a ‘right answer’ but always a ‘best answer,’ based on previous experience and looked at from the overall system perspective. The answer may be difficult to find, and it may take a lot of time and effort but there is an answer. Hence most passengers and cargo are transported according to the terms of the fare agreement and the expectations of the purchaser, and very nearly all aircraft take off and land safely - millions of them every day.

For complex problems, however, there is no right or even best answer. There is only a range of options, each of which may provoke new and unknowable responses which may lead to the need for more decisions to which there may not be a right answer. Welcome to the world of airline leadership.

Currently airline managers are becoming aware that their industry may need ‘new business models’ - i.e. a change of basic philosophy, market positioning or business structures – and not just more of the same in terms of cost cutting, marketing or the manipulation of yields. In fact there is some concern that cost cutting per se may lead to the failure of some current airlines because it removes the capability of the airline to compete effectively in the future. Royal Dutch Shell paid the price for a similar approach in the oil downturn of the 1990s when it saved operating costs by reducing its exploration and project management capability and then struggled to find sufficient skilled and affordable staff 10 years later when the market opened up. Shell had the financial muscle to recover; some airlines may not.

So why might ‘new business models’ be required? Or is this another convenient label to describe another of the sort of transitions regularly made by airlines over the last 50 years? There are still serving airline managers who remember IATA inspectors fining them because their sandwiches were larger than the agreed industry standard. One EU country put the sales manager of an Asian airline in prison in the late 1970s because he sold discounted tickets. Revenue accounting functions were still processing millions of ticket coupons by hand in the 1980s. ‘Hub and Spoke’ was still new fangled thinking in the Europe of the 1990s, and CRS systems were but starting their journey to the world of GDS and Web2 in a similar timeframe. Low cost airlines were still being predicted to fail at the millennium with McKinsey among others pointing out that they could only penetrate 30% of the market at most; and not so long ago ‘blue skies’ and ‘open skies’ were associated with weather reports rather than with a belief that countries would actually agree to such liberalisation.

21st century breakdown

New business models may be required because in this decade some of the forces for change are not about the industry and the way it manages itself – as all the above examples are. Some of the likely changes result from external factors such as globalisation, environmental protection and security. The new business models may therefore need to be driven by views of transportation in the 21st century, not by views of the competitive position of airlines at the moment. This is complex. Complex to look through the dark glass of the future and make reasonable predictions, and complex to communicate the emerging change of vision and sense of purpose and direction to staff who are still trying to keep aircraft flying ‘like a Swiss watch’ and with fewer resources.

Theodore Levitt’s observations on the failure of the US railroads in the 1970s may be salutary for some. Railroads did not fail because passenger and freight demand declined (demand actually increased) – they failed because they allowed others to fill the need as they concentrated on being railway companies rather than transportation companies and allowed others to enter the market with more appropriate approaches.

Current airline leaders are facing a world in which globalisation is not just about aviation markets. Three areas - from many - that illustrate what makes the current airline leadership task so complex are the new geo-political orientation, the drive to constrain further environmental pollution and the growth of the web generation. These are complex not only in themselves but because they also interrelate.

The emerging geo-political orientation is not more of the same – arguments over market access, inward investment, and fair competition. These are complicated but known issues. An example of what is not known is how a world in which some or all of the BRIIC countries (Brazil, Russia, India, Indonesia, and China) will develop and the role that may be played in these by air transport. This is not just about sheer size and local market dominance. For example will there be a replacement of current international travel nodal points by such as the Gulf states?

The development of the massive new airports and facilities in Abu Dhabi and Dubai are indicative of this. It is possible that these will become the new global hubs – replacing the under-invested, constrained and possibly increasingly ill-placed European airports. If so this will not be because of the airports and their geography – although with a resurgent Asia the history of the ancient silk-routes is a useful pattern to consider – but more to do with their aggregation of business and trading facilities, supported by infrastructure, legal and taxation systems that attract commerce and residents. Such a growth over the next 10 years could fundamentally change international air route structures, the required composition of fleets, and the role of air transport within a new global economy.

The environmental agenda may also be at a tipping point. Despite the hype it is unlikely that the December conference in Copenhagen will change the world. There is, however, a growing public perception that aviation is not a good environmental civilian through the emissions it puts into the atmosphere or through noise pollution. In this environment the planned carbon emission trading scheme, taxing airline passengers, and imposing additional night time bans are but a few of the challenges airline leaders face. In this arena airline leaders have to manage complex stakeholder issues and in multi-actor environments. Having newer aircraft and achieving higher load factors does not advance the argument against curtailing flights per se. Improved efficiency is unlikely to prove a sufficient answer to perceived pollution, as the hydro carbon industry has found to its cost in the last 10 years - and that industry has infinitely more political clout than airlines.

So airline leaders may need to radically rethink flying within the emerging environmental parameters, and recognise that in Europe the regulation may well be much tougher than the rest of the world. Whether this is ‘fair’ depends upon where you come from - it is a relative term, and as BA’s Bob Ayling found out some years ago in dealing with the European Commission, having the best argument does not necessarily mean achieving the best outcome.

The challenge of the web

Web2 (and soon Web3) raises quite different issues. Most airlines have now caught up on the transformation that genuinely web-driven distribution offers. The elements of choice and comparison have now been joined by an enhanced ability to move more tasks onto the passenger (such as completing check-in and printing boarding cards) and the concurrent ability to market and sell ancillary services. These are on the cusp of fundamentally changing many marketing and ground handling functions. Web2 also offers other opportunities, however. As companies have reduced corporate travel in response to the current recession they have also experimented with new generation tele-conference systems such as Telepresence (Cisco) and Halo (HP). These are very different to previous teleconferencing tools in look and feel. These offer companies genuine choices as to whether to fly or not. As Giovanni Bisignani, director general of IATA, said in Washington in September it is not at all certain that premium travel passengers will return in large numbers as the economic recession eases.

The “net generation” (essentially anyone under 31 years of age, although some older people also ‘get it’) is also quite different in views on travel. This generation has grown up living in virtual worlds and sees no reason not to transact all business virtually. The many entrepreneurs of China do not see the need to travel – why should they? Their businesses are operating well enough through web-enabled technique. This generation is also exceptionally demanding of web communications – they want freedom of choice, customisation, and the ability to scrutinize the quality of the goods and services they receive and corporate integrity of the companies they do business with.

Ironically Ryanair scores highly on all these dimensions – including the last – as it does “what it says on the tin”; certainly delivering no more, but crucially no less than what is offered. Legacy airlines face a more difficult challenge as they try to increase ancillary revenues at the same time as presenting higher fares as added-value to the passenger. Airlines, as with other businesses, also face the challenge of making social networking – in which feedback on all aspects of perceived service is shared instantly on the web – a positive and not a negative experience. The days of a sales representative talking a key agent or corporate account around are largely gone in many markets – the holders of these posts are likely to be under increasing pressure form direct user communication within their organisations, and on sites such as Facebook and the new phenomenon of Twitter.

Complicated versus complex

So airline leaders face a number of complicated and complex challenges. They need to address the former to keep the airlines going, but they also need to address the latter if they are to prosper in the future. The skills to deal with each are not complementary and it is not easy to learn, think and act strategically when under fire. It is also not easy to maintain clear direction and story lines for staff, especially if the implications of the story are fewer or different jobs. Not maintaining such story lines, however, is the stuff that industrial disputes are made of. Reducing cabin crew yet improving service; removing airport services but still improving capabilities to cope with unforeseen disruption; opening up more transparent distribution whilst significantly improving yields and profitability; increasing flights at the same time as reducing environmental impact and waste - all are examples of the adaptive challenges needed to progress complex problems. They are adaptive challenges because the need is to make sense of patterns and incomplete data, and to build capabilities from resources available, or to create new resources.

As Charles Darwin said “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” In an airline world it would be a mistake to follow the much later and misquoted passage about “the survival of the fittest” implying survival is about size, or financial, market, or brand strength. The key is how leaders ensure their airlines constantly adapt.

A more modern re-statement of Darwin’s theory was made to a select committee in the UK Houses of Parliament in 2005 - not a place necessarily associated with adaptability. But the quote was not from a politician. It was from a director of Tesco, a very successful supermarket chain. When asked what the strategy of the company is, she replied: “It depends upon how well we do, how our customers feel about it, and what the competitors do.” Here is a clear statement of a leadership belief that success requires constant adaptation, not a static business plan. A similar approach may well be required by the leadership of many airlines over the next few months and years.

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Jet values and lease rates

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

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

NARROWBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old
A318	26.1	17.1		
A319 (IGW)	33.1	26.1	19.9	
A320-200 (IGW)	39.0	31.5	23.9	8.9
A321-200 (LGW)	42.7	33.6	24.6	

	NEW	5 years old	10 years old	20 years old
717-200		10.3	7.7	
737-300 (LGW A)			7.4	4.1
737-400 (LGW A)			7.1	4.3
737-500 (LGW A)			6.5	
737-600 (LGW)		18.2	11.8	
737-700 (LGW)	32.5	26.3	20.2	
737-800 (LGW)	41.8	33.5	25.3	
737-900ER	45.6			
757-200 (RB 211)			17.1	10.0
757-200ER (PW 2040)			17.3	10.4
757-300 (LGW)			19.2	
MD-82				1.9
MD-83			3.9	2.4
MD-88				2.4
MD-90			5.3	

WIDEBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old
A300B4-600				4.4
A300B4-600R (HGW)				8.1
A310-300 (IGW)				5.9
A330-200			52.4	
A330-300 (IGW)		58.6	43.1	
A340-300 (LGW)			39.9	
A340-300 (HGW)			44.0	
A340-300ER			47.3	
A340-500 (IGW)		71.1		
A340-600 (IGW)		72.2		
A380-800 (LGW)	189.7			

	NEW	5 years old	10 years old	20 years old
747-400 (PW 4000)		76.6	49.9	20.4
767-200 (CF6)				4.3
767-300 (CF6)			19.5	9.1
767-300ER (LGW CF6)			29.9	14.7
777-200 (PW 4000)		53.4	40.7	
777-200ER	112.2	89.4	66.5	
777-300		77.5	52.5	
787-8	102.8			
MD-11P			27.1	

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

NARROWBODY LEASE RATES (US$000s per month)

	NEW	5 years old	10 years old	20 years old
A318	230	166		
A319 (IGW)	298	244	203	
A320-200 (IGW)	303	279	238	132
A321-200 (LGW)	352	298	246	

	NEW	5 years old	10 years old	20 years old
717-200		136	110	
737-300 (LGW A)			110	80
737-400 (LGW A)			104	80
737-500 (LGW A)			96	
737-600 (LGW)		153	120	
737-700 (LGW)	288	242	200	
737-800 (LGW)	330	283	250	
737-900ER	378			
757-200 (RB 211)			168	146
757-200ER (PW 2040)			180	153
757-300 (LGW)			187	
MD-82				61
MD-83			82	62
MD-88				67
MD-90			86	

WIDEBODY LEASE RATES (US$000s per month)

	NEW	5 years old	10 years old	20 years old
A300B4-600				108
A300B4-600R (HGW)				121
A310-300 (IGW)				122
A330-200			540	
A330-300 (IGW)		573	471	
A340-300 (LGW)			494	
A340-300 (HGW)			516	
A340-300ER			545	
A340-500 (IGW)		764		
A340-600 (IGW)		728		
A380-800 (LGW)	1,549			

	NEW	5 years old	10 years old	20 years old
747-400 (PW 4000)			492	311
767-200 (CF6)				103
767-300 (CF6)			194	142
767-300ER (LGW CF6)			333	265
777-200 (PW 4000)		497	429	
777-200ER	878	751	643	
777-300		742	583	
787-8	808			
MD-11P			271	

Source: AVAC.
Note: As assessed at end-October 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/	Jan-Mar 08	8,543	8,612	-69	-810	-0.8%	-9.5%	62,948	49,060	77.9%	17,154	
KLM Group	**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**
YE 31/03	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**
	Apr-Jun 09	7,042	7,717	-676	-580	-9.6%	-8.2%	63,578	50,467	79.4%	18,703	106,800
	Jul-Sep 09											
British Airways	Oct-Dec 07	4,142	3,774	368	247	8.9%	6.0%	37,122	27,531	74.2%	7,913	
YE 31/03	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**
	Apr-Jun 09	3,070	3,216	-146	-164	-4.7%	-5.3%	36,645	28,446	77.6%	8,446	
	Jul-Sep 09	3,479	3,507	-28	-167	-0.8%	-4.8%	37,767	31,552	83.5%	9,297	38,704
Iberia	**Year 2007**	**7,617**	**7,049**	**568**	**450**	**7.5%**	**5.9%**	**66,454**	**54,229**	**81.6%**	**26,860**	**22,515**
YE 31/12	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
	Apr-Jun 09	1,455	1,632	-177	-99	-12.1%	-6.8%	15,668	12,733	81.3%		20,760
	Jul-Sep 09											
Lufthansa	Oct-Dec 07	8,197	8,103	94	165	1.1%	2.0%	45,845	35,128	76.6%	17,106	
YE 31/12	**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
	Apr-Jun 09	7,098	7,027	71	54	1.0%	0.8%	49,939	38,076	76.2%	18,142	105,499
	Jul-Sep 09	8,484	8,061	423	272	5.0%	3.2%	56,756	46,780	82.4%	22,164	118,945
SAS	Oct-Dec 07	2,017	2,002	15	-97	0.8%	-4.8%	9,985	7,034	70.4%	7,195	25,651
YE 31/12	**Year 2007**	**7,463**	**7,264**	**199**	**94**	**2.7%**	**1.3%**	**40,030**	**29,365**	**73.4%**	**29,164**	**26,538**
	Jan-Mar 08	1,969	2,089	-120	-185	-6.1%	-9.4%	9,696	6,700	69.1%	6,803	25,477
	Apr-Jun 08	2,409	2,384	25	-71	1.0%	-2.9%	11,564	8,479	73.3%	8,260	26,916
	Jul-Sep 08	2,114	2,085	30	-316	1.4%	-14.9%	10,984	8,180	74.5%	7,325	24,298
	Oct-Dec 08	1,652	1,689	-36	-359	-2.2%	-21.7%	9,750	6,559	67.3%	6,612	23,082
	Year 2008	**8,120**	**8,277**	**-107**	**-977**	**-1.3%**	**-12.0%**	**41,994**	**29,928**	**71.3%**	**29,000**	**24,635**
	Jan-Mar 09	1,352	1,469	-118	-90	-8.7%	-6.6%	8,870	5,541	62.5%	5,748	22,133
	Apr-Jun 09	1,546	1,665	-119	-132	-7.7%	-8.6%	9,584	7,055	73.6%	6,850	18,676
	Jul-Sep 09	1,522	1,486	36	21	2.3%	1.4%	8,958	6,868	76.7%	6,245	17,825
Ryanair	Oct-Dec 07	824	760	64	68	7.7%	8.3%					
YE 31/03	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**	
	Apr-Jun 09	1,055	844	211	168	20.0%	15.9%			83.0%	16,600	
	Jul-Sep 09	1,418	992	426	358	30.0%	25.2%			88.0%	19,800	
easyJet	**Year 2005/06**	**2,917**	**2,705**	**212**	**170**	**7.3%**	**5.8%**	**37,088**	**31,621**	**84.8%**	**33,000**	**4,859**
YE 30/09	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	
	Apr-Jun 09	1,116						15,600	13,400	84.7%	11,900	
	Jul-Sep 09											

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	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
	Apr-Jun 09	844	777	67	29	7.9%	3.4%	9,418	7,428	78.9%	3,983	8,937
	Jul-Sep 09	967	807	160	88	16.5%	9.1%	9,812	8,079	82.3%	4,240	9,002
American	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
	Apr-Jun 09	4,889	5,115	-226	-390	-4.6%	-8.0%	62,064	50,796	81.8%	22,092	79,200
	Jul-Sep 09	5,126	5,320	-194	-359	-3.8%	-7.0%	62,026	52,064	83.9%	22,403	78,700
Continental	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
	Apr-Jun 09	3,126	3,280	-154	-213	-4.9%	-6.8%	45,072	37,281	82.7%	16,348	43,000
	Jul-Sep 09	3,317	3,256	61	-18	1.8%	-0.5%	46,562	39,616	85.1%	16,795	41,000
Delta	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
	Apr-Jun 09	7,000	6,999	1	-257	0.0%	-3.7%	94,995	78,941	83.1%	42,050	82,968
	Jul-Sep 09	7,574	7,370	204	-161	2.7%	-2.1%	100,115	85,904	85.8%	43,742	81,740
Northwest	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
	Apr-Jun 09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Jul-Sep 09	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Southwest	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	5,499
	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
	Apr-Jun 09	2,616	2,493	123	54	4.7%	2.1%	41,122	31,676	77.0%	26,505	35,296
	Jul-Sep 09	2,666	2,644	22	-16	0.8%	-0.6%	39,864	31,714	79.6%	26,396	34,806
United	Apr-Jun 08	5,371	8,065	-2,694	-2,729	-50.2%	-50.8%	63,600	52,433	82.4%	22,725	51,100
	Jul-Sep 08	5,565	6,056	-491	-779	-8.8%	-14.0%	63,213	52,108	82.4%	22,850	49,000
	Oct-Dec 08	4,547	5,359	-812	-1,303	-17.9%	-28.7%	56,029	44,288	79.0%		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
	Apr-Jun 09	4,018	3,911	107	28	2.7%	0.7%	57,901	47,476	82.0%	21,064	43,800
	Jul-Sep 09	4,433	4,345	88	-57	2.0%	-1.3%	59,599	50,572	84.9%	22,076	43,600
US Airways Grp.	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
	Apr-Jun 09	2,658	2,536	122	58	4.6%	2.2%	35,382	29,507	83.4%	20,491	32,393
	Jul-Sep 09	2,719	2,713	6	-80	0.2%	-2.9%	36,214	29,920	82.6%	20,284	31,592
JetBlue	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
	Apr-Jun 09	807	731	76	20	9.4%	2.5%	13,256	10,533	79.5%	5,691	10,235
	Jul-Sep 09	854	788	66	15	7.7%	1.8%	13,504	11,309	83.7%	6,011	10,246

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	Jan-Jun 06	3,473	3,201	272	225	7.8%	6.5%	43,814	34,657	79.1%	8,144	
YE 31/12	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
	Jan-Jun 09	3,988	3,725	263	119	6.6%	3.0%	55,750	43,758	78.5%	11,938	18,800
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	Year 2005/06	10,186	8,711	1,475	542	14.5%	5.3%	118,070	90,899	77.0%	34,080	34,832
YE 30/6	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
	Year 2008/09	10,855	10,733	152	92	1.4%	0.8%	124,595	99,176	79.6%	38,348	33,966
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	Apr-Jun 08	190	142	48	3	25.3%	1.5%	4,514	3,286	72.8%	2,823	
YE 31/12	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	
	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	
	Apr-Jun 09	186	94	91	39	49.1%	21.1%	5,520	4,056	73.5%	3,519	
	Jul-Sep 09											

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
Aug 09	29.0	22.0	75.6	22.3	19.9	89.0	16.0	13.6	85.2	55.5	47.6	85.8	83.8	69.3	82.7
Ann. change	-5.8%	-3.6%	1.8	-5.4%	-2.8%	2.3	-4.8%	-2.4%	2.1	-3.1%	-2.0%	0.9	-2.9%	-1.8%	0.9
Jan-Aug 09	218.1	148.3	68.0	155.8	126.5	81.2	122.0	96.5	79.1	407.8	326.2	80.0	616.7	469.6	76.2
Ann. change	-5.9%	-7.0%	-0.8	-6.4%	-6.9%	-0.4	-4.9%	-7.1%	-1.9	-4.5%	-5.9%	-1.3	-3.9%	-5.5%	-1.3

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	22 Oct	Norwegian Air Shuttle	6 x 737-800s	
Airbus	14 Oct	CIT Leasing	1 x A330-200	

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