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BA and Iberia: A merger of equals?

After a decade of flirtation and 18 months of intense negotiation, British Airways and Iberia have finally set a tentative date for the consummation of their marriage. One of the more telling comments from Willie Walsh, BA's CEO, during the conference call on the announcement was that BA "had been getting behind in the consolidation game ... and was no longer big". Size, they say, isn't everything, but for Iberia's shareholders the decline in the value of Sterling along with the development of the worldwide financial crisis has emphasised the UK carrier's shrinkage and seen BA's market value fall by half relative to that of Iberia over the period of negotiations. At the same time BA can no longer claim to be the "world's favourite airline", thanks to Ryanair. However, as a result of the relative change in values it has probably been far easier to show this as a true "merger of equals" - BA's shareholders now end up with 55% of the combined group, even though in operational and financial terms BA is more than twice the size of its Spanish bride.

A new holding company (to be registered in Madrid and under Spanish law) will be established – imaginatively for the moment called TopCo – into which will be injected the two flag carriers as separate entities. To obviate potential disputes over route rights, two separate national holding companies will be set up to own 50.1% of the voting rights (and none of the economic rights) of the respective carriers – and here BA and Iberia are following the "Air France/KLM model" developed in its pioneering cross-border merger of 2003.

The management of the new entity is being fairly spread between the two partners. Antonio Vazquez, Iberia's recently appointed chairman and CEO, becomes group chairman, with BA's chairman Broughton taking the subsidiary role as deputy chairman. Walsh steps up to be group CEO (incidentally elevating Keith Williams, BA's finance director, to chief executive of British Airways itself) while Enrique Dupuy de Lôme, Iberia's well respected (*continued on page 2*)

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CFO, becomes group CFO (although surprisingly he doesn't seem to get a seat on the group board).

They are (deviously perhaps) planning to have TopCo's main listing in London, with a secondary listing in Madrid and subject to the Spanish takeover code (and with all board and shareholder meetings to be held in Madrid). The group, however, will be managed from London. The two companies anticipate effecting the full merger by the end of 2010, allowing the usual lengthy period necessary for regulatory clearance and shareholder EGMs. As in the Air France/KLM merger the two are exchanging "assurances" for a five-year term (intriguingly enshrined in the voting structures of the subsidiary operating companies' boards of directors) as follows:

- Both airlines are to keep their main base in their home country with their own licences, certificates, codes and brands;
- Slots and destinations will be protected (for the benefit of the combined group);
- The network strategy will be developed in a way that reflects the importance of both the London and the Madrid hubs;
- There will be a balanced long-term development of the networks served from each of the Madrid and London hubs, and there will be a reasonable division of opportunities between the two networks;
- Labour relations will be handled locally;
- Neither Iberia nor the new holding company will provide any guarantee or use any cash or credit facilities to fund the BA pension schemes.

Importantly, not only are Iberia and "TopCo" relieved from any requirement to fund the black hole of BA's pension fund deficit, but Iberia also has the right to terminate the agreement if it feels that the result of BA's discussions with its pension fund trustees (due to be concluded by mid-2010) "materially impact the economic premises of the merger".

Having been "left behind" in the consolidation stakes, Walsh insists that the structure put in place is truly "scalable", and potentially it could be used as a vehicle to make more sense out of the oneworld alliance. There may be few sensible targets now left in Europe (oneworld partner Finnair would be a potential but intensely political possibility) but American may well be a candidate. The three (BA, Iberia and American) are still waiting for approval to set up their Atlantic joint venture (meant to have come through by October) – which would be part of the way towards a full merger under current rules, but which in any case nearly averts the need for any capital merger.

Meanwhile, the EU and US are meant to be negotiating Phase II of the Open Skies agreement in which it was originally planned to ensure open recourse to capital between the two blocs and get rid of the substantial ownership requirements. The original negotiations two years ago envisaged winding back all the concessions granted in Phase I (including open access to Heathrow) if the US didn't agree to abandon the 25% foreign ownership limit on US airlines (whereas the US may have the threat of rescinding all the anti-trust immunities already granted). In the unlikely event that the discussions actually bear fruit, at least BA and Iberia will have the legal structure already established. However, American has its hands full at the moment – not only eagerly awaiting approval for its joint venture with BA and Iberia, but also anticipating a joint venture on the Pacific with oneworld partner JAL in the expectation of an open skies agreement between the US and Japan. Another suggestion could be bmi; while Lufthansa has yet to decide fully what to do with the airline (see *Aviation Strategy,* November 2009), Walsh has made it clear he would be interested in acquiring it.

The new entity

The marriage of British Airways and Iberia will finally create the third largest network airline group in Europe; a fleet of 400 aircraft, revenues of nearly €15bn (although still a long way behind Air France/KLM and Lufthansa) and a pro-forma market capitalisation of €4.3bn (nearly catching up with Ryanair's current €4.5bn). As usual it is being promoted with the fallacy of being good for the consumer (surely the whole purpose of consolidation in a fragmented industry is to cut out competition?), although for BA's and Iberia's customer base there will no doubt be an improved market offer. BA's prime

strength is Heathrow – the North Atlantic gateway to Europe – and its position on routes to the US/Canada. Iberia's strength is its very successful position on the South Atlantic (and the links with Spain's former colonies). BA is severely constrained at Heathrow and its growth potential may be distinctly limited, while Madrid's Barajas at least has space. Only 42 of BA's 162 and Iberia's 81 routes are currently shared destinations (and half of these are in Europe). The prime benefit surely comes to BA through the additional 11 unique destinations in South America it cannot currently serve.

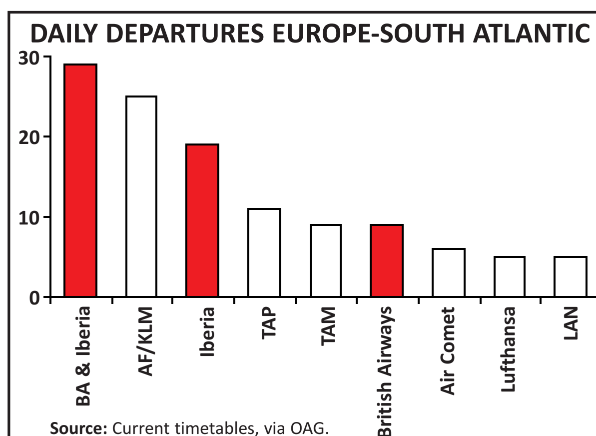
The combination of the two will certainly give the new group the strongest market position on the South Atlantic in terms of daily departures (see chart, right). And with regards to seats offered, BA and Iberia combined would have 30.5% of seats on routes to Central and South America – and when including oneworld partner LAN this gives them control over 34.4% of capacity (see table, below).

The two airlines have produced a rough estimate of future synergies: five years after implementation of the merger they anticipate improving results by some €400m annually – or a modest 3% of combined revenues (see chart, page 4). They gave few real details but suggested that a third of these synergies would come from revenue enhancements. This compares with Air France/KLM's plans in 2004 to produce operational synergies of €700m within five years (although unlike BA-Iberia at the time it never indicated the cost of implementation), and AF/KLM recently stated that it had achieved annual synergies of €790m in its last financial year ending March 2009 – or 3.5% of combined revenues – and was now aiming for the magic €1bn by 2010/11.

The Air France/KLM benefits came quickly from running a dual hub system; co-ordinating schedules and services on join destinations; directing traffic flows respectively through Roissy CDG and Amsterdam Schiphol; joint pricing initiatives and combination routings to improve market offers. It was only in the past couple of years that they started concentrating on generating cost synergies – inter alia through IT and joint station management – and implementing an integrated joint revenue management. The big advantage to AF/KLM however was the positioning of their respective hubs – centrally located within the greatest mass of western European population and only 400km apart. On the basis that as network carriers they depended on feed coming from all directions, for those who have to transfer through a hub there would be very little difference in trip timings. The same appears true of the connections provided by Lufthansa and Swiss (and now Austrian) with Lufthansa's four hubs of Frankfurt, Munich, Vienna and Zurich all in close geographical proximity.

On the face of it, it therefore appears that similar benefits may be far more difficult to achieve at BA/Iberia.

London Heathrow and Madrid Barajas are almost on the outskirts of the continent, and 1,300km apart. The most efficient traffic flows to the respective hubs for transfer traffic would come from places in between them rather than either side of them as in the case of the other two networks: and neither operates within Europe except to its own hubs.

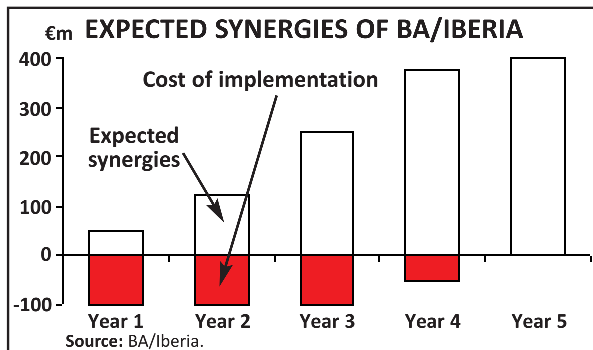


Source: Current timetables, via OAG.

ALLIANCE SHARES OF EUROPE-SOUTH ATLANTIC CAPACITY, 2009

Iberia	25.9%
British Airways	4.6%
LAN	3.9%
oneworld total	**34.4%**
AF/KLM & Alitalia	25.0%
SkyTeam total	**25.0%**
Lufthansa/Swiss	7.8%
TAP	12.1%
TAM	6.9%
Star total	**26.8%**
All others	**13.5%**

Source: Innovata.



Source: BA/Iberia.

There is a case for some improvement in joint revenues but almost solely perhaps by BA directing traffic flows from the UK through Madrid to South America, and maybe some benefit from Iberia directing traffic to North East Asia through Heathrow.

At the moment, for example, despite their long standing joint venture on UK-Spain routes, BA prefers to direct its traffic to some destinations it does not serve in South America through South American partners. For example it offers connections to Santiago de Chile (it no longer flies direct itself) by connection (onto TAM) through Sao Paolo – but with a long layover that gives a total trip time of 21 hours and makes its appearance in the booking systems look uncompetitive. BA does this of course because it gains the most economic benefit from this long-haul service. Under joint ownership the economic benefits will indeed be joint and with effectual network configurations will be in a position post-merger to offer the most effective timings to the whole of Iberia's 50 destinations in Latin America. In recognition of this, it appears that BA and Iberia are being rightly conservative in assuming less than a 1% synergistic benefit to revenues from traffic generation.

In the breakdown of sources of synergies, the two allocate a third of the benefit to the fleet and network (not necessarily the same as their statement that they expect a third to come from enhanced revenues). It looks as if they expect a quarter of the benefits to come from back office, admin and IT services; a good 15% to come from maintenance (and Iberia's MRO business is a strong, profitable niche business with some unique attributes), with the rest from joint purchasing, ancillary businesses and sales and distribution (with some substantial potential benefits accruing from co-ordinating sales teams, particularly in the UK, Spain, North America and South America). They do, however, anticipate that it will cost them €350m over four years to achieve these results: not a bad payback if true.

Both in the red

However, this merger agreement does not liberate either of them from the dire current environment. BA managed to produce operating losses of £111m for the six months to the end of September (down from a profit of £140m the year before) on revenues down by 14% (20% in constant currency terms). Traffic was flat, load factors up a little but unit revenues slumped by 12% while unit costs were up by 5%. Iberia announced operating losses for the nine months to the end of September of €246m (compared with profits of €73m in the same period last year) on revenues down by 20%. Traffic was down by 7%, capacity down by 6% while unit revenues fell by 14% and unit costs only by 6%. At least for both there are signs that the rate of decline in premium traffic and yields is dissipating on long-haul routes – and BA is starting to show real benefits from the move to T5 at Heathrow; but at the same time both airlines are suffering potentially damaging industrial unrest as they try to implement cost-saving measures. Both are heading for another year of heavy losses. although both appear to have the strength of liquidity to survive the current crisis.

What now? The two have signed the agreement but no benefits are likely to accrue (as long as the merger goes ahead that is) until well into the next upturn. They will have to circumvent the possible imposition of restrictions and to be competitive the two really need to get approval for the joint venture with American and counter the threats from the AF/KLM-Delta and Lufthansa/United joint ventures on the Atlantic.

BA desperately needs to sort out its horrendous pension fund problems and both need to ensure the right cost structure for the new environment. Presented as a “merger of equals”, it appears that while the BA professional airline managers will be at the helm, the purse may be held in Spanish hands.

By James Halstead

New entrants end regional jet and turboprop duopolies

Following the exit of several manufacturers in the 1990s, the regional jet and turboprop markets have both become duopolies: Bombardier and Embraer in the former category and ATR and Bombardier in the latter. But - at long last - the grip these companies have on the regional jet and turboprop markets is set to be broken.

The markets for regional jet and turboprop aircraft have experienced varying fortunes in recent years. At the beginning of this decade there were some in the industry predicting the demise of turboprops altogether, since the aircraft had a reputation for providing a somewhat "agricultural", noisy flight experience.

However, the rise in fuel prices since 2004/05 and the advent of an improved passenger experience aboard the likes of Bombardier's Q400 and the ATR-500 series of turboprops has led to a revival in the type. The rejuvenation of the turboprop segment over the past decade is illustrated in the chart below, where turboprop orders have increased as oil prices have risen.

As a result, the turboprop market - currently controlled by Bombardier and ATR - may be boosted by Embraer, which is contemplating re-entering a market that it vacated at the beginning of the decade following the end of the production run for the Emb-120 Brasilia.

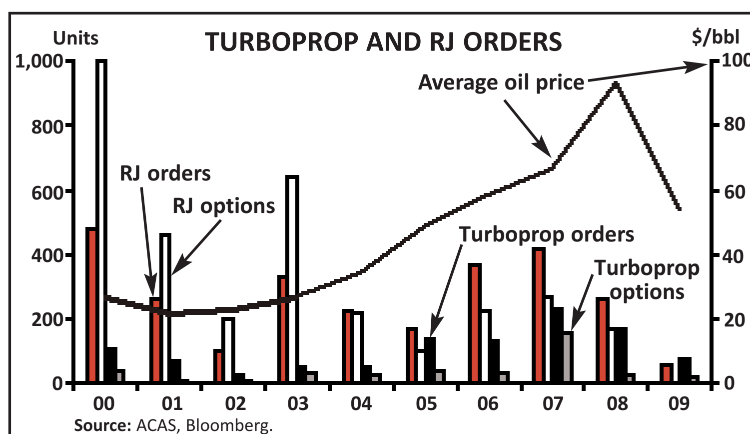
As for regional jets, the sector has evolved from the smaller 40-50 seat Embraer ERJ 135/145 and Bombardier CRJ 100-700 models into larger variants that can seat close to 90-100 passengers. For example, Embraer's ERJ-145 (which was particularly successful in the North American regional marketplace) has now been replaced by the E-Jet family, which seats between 75 and 100 passengers.

Despite this shift in focus towards larger aircraft, regional jets have largely been ignored by the key driver of growth for short-haul flights - the LCCS. Rather worryingly for RJ and, to a lesser extent, turboprop manufacturers, almost all the major LCCs around the world have opted for A320 family and 737NG aircraft rather than purchase regional models.

Southwest, JetBlue, Gol, Ryanair, easyJet, Wizz Air and AirAsia have a combined fleet of more than 1,200 aircraft and outstanding orders and options for a further 1,100 aircraft (accounting for a significant portion of the backlog for Boeing and Airbus) - yet of these only JetBlue has ordered either RJs or turboprops (see table, page 6).

Optimistic manufacturers

Yet while disappointing for the RJ manufacturers, this has not dampened their optimism since the core underlying demand for RJ aircraft from non-LCC regional airlines appears solid, and the table on page 9 shows the outstanding orders and options for the various new entrants/manufacturers in the RJ and turboprop sector. Indeed the overall market is so buoyant that the surviving RJ incumbents - Bombardier and Embraer - will soon face a situation where the number of RJ manufacturers may return to the number that existed in the 1990s, through



Source: ACAS, Bloomberg.

LCC FLEET BACKLOG				
	Fleet	Orders	Options	Types
Ryanair	197	115	102	737
easyJet	163	80	88	A319
Wizz Air	26	115	12	A320
Gol	86	93		737
Southwest	544	92	19	737
AirAsia	45	115	50	A320
JetBlue	150	90	136	A320 (30), E190 (60)
Total	**1,211**	**700**	**407**	

the emergence of up to four new RJ producers based in Russia, China, Japan and The Netherlands. With three of the new entrants (China's ACAC, Russia's Sukhoi and Japan's Mitsubishi) likely to garner significant home market support, this may leave a smaller market for the remaining competitors.

Over the next few pages *Aviation Strategy* takes a look at the prospects for the main RJ and turboprop types.

•Bombardier C-Series

Bombardier launched the C-Series at the Farnborough Air Show in 2008, during the middle of the current economic downturn and without a firm launch customer, although Lufthansa eventually confirmed a deal for 30 units of the 110-130 seat RJ, intended to replace the BAe 146 in its SWISS subsidiary. The C-Series is remarkable in that it will be the first aircraft to employ Pratt & Whitney's PW1000G geared turbofan (GTF), which P&W is hoping will replace conventional turbofan engines. The C-Series fuselage will borrow heavily on the 787 design philosophy, with advanced composites being employed on 46% of the aircraft, and this is expected to result in a 20% fuel burn advantage over current aircraft and up to a 15% improvement on operating costs.

Bombardier believes that the 100 to 149-seat segment of the market is the "cornerstone" of today's mainline fleet and represents the next large market growth opportunity for airlines. There are currently 5,600 aircraft in service in the 100-149 seat category and Bombardier believes this will rise to 8,600 over the next 20 years. This market had formerly been populated by aircraft such as the DC9/MD-80 and 737 classic families, which were replaced (in the case of the 737) with larger capacity derivatives (737NG) that are optimally engineered for the 150-190 seat segment. Despite the introduction of the 737-600 (and A318) to cater to the smaller scale of the segment, the operating economics of that aircraft type have proven to be unattractive to airlines. But with the C-series able to carry 110-130 seats in two class configuration, Bombardier will find itself competing with Airbus's highly successful A319 and Boeing's 737-700.

Bombardier's encroachment into the low end of Airbus and Boeing territory with the C-Series may be seen as a natural development considering that the president of its commercial aircraft business is Gary Scott, who was very influential in defining the 737NG family at Boeing.

Bombardier is optimistic about the future for the C-Series, and the replacement market that it is targeting is shown in the table, right. Bombardier even believes that it can still capture market share in Russia alongside the state-sponsored Sukhoi Superjet 100 (SSJ). According to Bombardier's representative in Russia, the Russian market for RJs will be close to 400 units over the next 10 years, and Bombardier is hoping that the fact it can also offer airlines a turboprop offering (Q400) in addition to RJs will be a strong selling feature. However, there is little if any type rating commonality between its RJs and turboprops, and Sukhoi - as part of the larger Russian parent company United Aircraft Corporation (UAC) - will also be able to offer customers products ranging from the Superjet through to the upcoming (2016) UAC MS-21 narrowbody aircraft designed to replace the Tupolev 154 and 204 and compete head on with the 737NG and A320 family.

•Embraer E-jets

The Embraer E-Jets series (E170-E195) entered into production in 2000, and more than 600 of the type have been manufactured to date. Embraer is already

currently considering options for a replacement model, which could consist of new engines on the current platform or a possible move upwards into the 150-seat segment (which would catapult it directly into the path of Airbus and Boeing). A decision is expected to be made in the next 12-18 months.

•Sukhoi Superjet 100

Russia's Sukhoi Civil Aircraft was the first jet manufacturer in an emerging economy to announce plans to compete in the jet market segment. The maiden flight of the Superjet 100 (SSJ), formerly known as Sukhoi Russian Regional Jet (RRJ), took place in May 2008, and following successful completion of factory flight tests in October 2008 the first delivery to launch-customer Aeroflot is expected to take place in the next few months.

Sukhoi produces both military and civil aircraft and is 99.7% owned by the Russian aerospace holding company United Aviation Corporation (UAC). The Putin administration has invested considerable political and financial capital into the merging of the disparate entities of the 'Soviet' aerospace sector into UAC, and the SSJ - like China's ACAC ARJ21 - should be seen as a first step to gaining global market traction in the build-up to the production of the Irkut MS-21 140-190 seat A320/737 competitor around 2015/2016.

The Sukhoi civil aircraft subsidiary, which manufactures the SSJs, is 25% owned by Alenia Aeronautica of Italy, while a sister entity called SuperJet International is owned 49% by Sukhoi and 51% by Alenia. Superjet International is responsible for marketing (and customising) the aircraft to Western and all other global markets, as well as providing training and worldwide after-sales support and services; these have traditionally been the areas that have prevented Russian aircraft from gaining more traction outside of home markets.

Sukhoi also aims to piggy-back on ATR's global network, and its "blue chip" supplier involvement should provide considerable credibility to the Superjet programme.

The aircraft is produced in two key variants - the smaller SSJ 100/75 (78 seats) and the larger SSJ 100/95 (98 seats) - plus VIP and cargo versions of the Superjet 100. The Superjet is expected to have a 10-15% operational cost advantage over its closest competitors from Bombardier (CRJ) and Embraer (ERJ) and an enticing list price of $28m. Currently, the SSJ has generated 143 orders and 80 options, mostly from Russian customers, and Sukhoi hopes to sell approximately 700 of the aircraft in North America, Europe, Latin America, Russia and China.

While there has been a delay in the programme of approximately one year, it is believed that the contract Sukhoi has with launch customer Aeroflot contains fairly punitive late delivery penalties as well as fines for failing to meet acceptable quality standards. Ingosstrakh Investments has estimated that the total penalties for both late delivery and failure to meet performance requirements could be up to 20% of a total contract size of approximately $800m.

Sukhoi is also contemplating whether to introduce a larger, stretched version of the SSJ 100, which would catapult them firmly into the part of the market that Bombardier is aiming at with the smaller version of its upcoming C-Series.

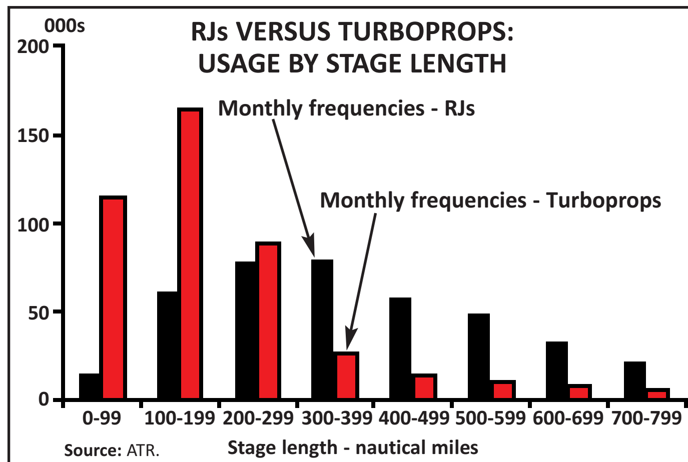
•China's ACAC ARJ21

With its ARJ21, China's AVIC I Commercial Aircraft Company (ACAC) is the second new entrant into the regional jet market. ACAC, based in Shanghai, is a consortium of six companies and aerospace research institutes formed in 2002. It includes the Shanghai Aircraft

REPLACEMENT MARKET

	No. in service	Years of production
737-300/-500	1,661	84-99
DC9, MD80, 717	1,273	65-81, 79-97, 99-06
A318/A319	1,100	96-
737-600/-700	1,016	98-
BAe-146 & Avro RJ	230	82-02
Fokker 100	223	86-97

Source: Bombardier



Source: ATR.

Research Institute, the Xian Aircraft Design and Research Institute and several aerospace companies: Chengdu Aircraft Industry Group, which is responsible for the construction of the nose; Shanghai Aircraft Company, which will carry out final assembly; Shenyang Aircraft Corporation, which is manufacturing the tail unit; and Xian Aircraft Company, which is responsible for manufacturing the wings and fuselage. General Electric is supplying CF34-10A engines for the ARJ21; the CF-34-10 has been around since 2002 and is used on Embraer's ERJ 190/195 models.

ARJ has stated that it has more than 200 orders for the ARJ21, although some are LOIs or MOUs. The launch customer is a subsidiary of Shenzhen Airlines called Kunpeng Airlines which, in December 2007, signed a firm order for 50 ARJ21s, with options for 50 more. Kunpeng is due to receive its first ARJ21 by the end of 2010.

ACAC has also signed a deal with China National Aero-Technology Import and Export Corp to help market the aircraft overseas, although it is difficult to see this aircraft gaining much traction without a parts and support network in place. The first foreign company to place an order was GECAS, with orders for five of the type and options for 20 more.

From a design standpoint the ARJ is not particularly innovative, using what will essentially be 10 year old GE engines on an airframe with a striking resemblance to the outgoing 717 (itself a derivative of the MD80/DC9 aircraft dating back to the 1960s).

However, as plans were unveiled at the Asian Aerospace Expo in Hong Kong in September 2009 for a new narrowbody aircraft called the C919 in the 130-200 seat segment, the ARJ-21 can be seen as a stepping stone for Chinese aviation. The success or failure of it should be measured not solely on numbers of units sold, but also on the lessons learned from the model that can be incorporated into other programmes such as the C919.

•Japan's Mitsubishi MRJ

Mitsubishi Heavy Industries (MHI) is entering the regional jet marketplace with its Mitsubishi Regional Jet (MRJ), which will be the first Japanese-made passenger aircraft since production of the turboprop YS-11 ended in 1973. MHI established Mitsubishi Aircraft Corp as a joint venture with Toyota, Mitsubishi Corp, Mitsui, Sumitomo Corp and the Development Bank of Japan in April 2008, with a capitalization of ¥3bn (US$30m) - with a plan to increase the capital to ¥100bn as operations develop.

The MRJ is still in the development phase, with the first aircraft likely to be delivered in 2013. MHI is aiming to make the MRJ around 20% more efficient than the currently-produced aircraft from Embraer and Bombardier, largely through the extensive use of advanced lightweight carbon fibre technology. Like the C-Series, the MRJ programme will use P&W's PW1000G geared turbofan. The MRJ recently won an order for 50 firm plus 50 options from US-based Trans States Holdings, which owns regional carriers Trans State Airlines and GoJet Airlines. Japan's All Nippon Airways Co., the first buyer of the regional jet, has placed an order for 25 aircraft, including 10 options.

•Netherlands Aerospace "Fokker100 NG"

Dutch-based "Rekkof" (Fokker spelled backwards) is part of Panta Holdings BV, previous owner of VLM Airlines prior to its sale to Air France in 2008. It is exploring a

re-launch of the Fokker F70, which ceased production back in 1996, but little concrete information has emerged from the company, and some form of Dutch government support may be necessary.

•Q400 'X'

Bombardier clearly has the most to lose in the turboprop segment with the Toronto-produced Q400 having the largest current market share, despite some recent public relation hiccups relating to landing gear mishaps. Bombardier therefore faces considerable pressure to introduce a larger variant to the current 78-seat model, and under consideration is a Q400 'X' version that will essentially be a stretch of the current platform, with a seating capacity of 90.

This will be achieved through two "plugs" that will extend the fuselage both forward and aft, while strengthened main landing gear and brakes will be added and the current PW150A engine on the Q400 would be used with an upgraded propeller. Although there is no official confirmation of this programme yet, potentially the aircraft could be in production by 2013 or 2014.

•ATR 42/72-600

In October 2009 ATR officially unveiled its first -600 series ATR turboprop, with entry into service expected for early 2011. The -600 series differs from the -500 series through new avionics in the cockpit and modified P&W 127M engines. The engines will provide an additional 5% thermodynamic power, which will allow for improved capability in hot and high conditions as well as increased payload capacity.

ATR is using the European Commission's Emissions Trading Scheme (ETS) as a means of promoting its aircraft to European operators, since from 2010 all aircraft operators flying from/to European airports will be mandated to monitor and report their CO2 emission and RTK data, with the EC soon set to announce the allowed emission threshold based on the average value of emissions for the period 2004-2006. 85% of the allowed emissions will be credited to aircraft operators according to their RTK (higher RTK will bring more emission credits) and the remaining 15% will be auctioned. ATR states that its 72-600 model burns 40% less fuel per seat mile than a comparable RJ, and ATR has already booked orders for 59 of the new aircraft (for five ATR 42-600s and 54 ATR 72-600s).

•Embraer turboprop

Embraer started life as a commercial aircraft producer with the successful EMB110 Bandeirante and EMB120 Brasilia models, the latter of which ceased production in 2001. Embraer has already completed some "pre-concept" studies on a turboprop capable of carrying 100 passengers (10 seats larger than the proposed stretched Q400X) and expects to make a decision on whether to develop such an airframe within the next 12 to 18 months. Frederico Fleury Curado, Embraer president and CEO, says: "We definitely have a much higher focus on the issue than in the past."

Part of Embraer's consideration is whether a new turboprop might prove a good substitute for 50- seat RJs (such as its own ERJ 135/145 model) when they eventually become obsolete. Luiz Sergio Chiessi, Embraer market intelligence VP, says that the location for growth in the turboprop market is "mainly in Europe" and says that a major consideration for airlines will be the aforementioned Emissions Trading Scheme, in addition to the future cost of oil.

ORDERS BY TYPE

	Orders	Options	Major clients
Sukhoi	143	80	Aeroflot (30), Malev (15), ItAli Air (10)
ACAC 21	228	20	All domestic orders excluding GECAS (5) & Lao Air (2)
MRJ	65	60	Trans States (50 - LOI), ANA (15)
C-Series	50	50	Lufthansa (30), Lease Corp (20)
ATR 42/72-500	59	10	Air Nostrum, Air Tahiti
Fokker NG	0	0	Marketing to current F70/100 operators

•AVIC MA60/MA600-700 turboprop

AVIC 1's MA60 50-seat turboprop saw its first deliveries back in 2000 and is a distant relative to Antonov's AN26 cargo aircraft. During the intervening period it has received 122 orders, of which 15 have been delivered to Africa, with Zimbabwe and Zambia among the buyers.

The MA60 is the first and only model of the MA series on sale, but the replacement MA600 is expected to be delivered to a launch customer by the end of 2012. According to AVIC, development work has already started on the MA700, an aircraft targeted mainly at markets in Europe and America..

Jet prospects

There seems to be disagreement about exactly how much demand there will be for regional jets over the next two decades. Mitsubishi sees a market for 5,000 aircraft whereas Embraer estimates demand at between 2,600 and 4,300 aircraft. Sukhoi expects demand for up to 5,500 RJs and ACAC 3,000 (with one-third coming from China itself), whereas Bombardier's market outlook forecasts a total market size of 12,100 aircraft in the 60-149 seat segment over the next 20 years.

These forecasts are key, because their accuracy (or otherwise) underpins whether there will be room for five or even six major competitors in the RJ segment in 2013, when all may be producing aircraft. If demand is not as high as some predict (or even if it is) which manufacturers will survive?

Assuming the Fokker NG project doesn't get off the ground, of all the new entrants the Mitsubishi MRJ is the most likely to fail for several reasons. First, it has a much smaller domestic market and 'sphere of influence' than either the Russians or Chinese, and therefore it has to compete for the remaining market on merit against two firmly entrenched incumbents - Embraer and Bombardier.

In addition, it would enter the market several years after both Sukhoi and ACAC, and by 2013 may face a competitive landscape that includes soon-to-be-released re-engined A320 and 737s, Bombardier's C-Series, and aircraft from Embraer, Sukhoi and ACAC. Mitsubishi has also not had a great track record in delivering large scale aerospace projects, as witnessed by the costly failure that was the F-2 fighter jet.

Conversely, the ACAC ARJ21 is the new model most likely to succeed: 'China Inc' has decided that aerospace final assembly is a key industrial project and the Chinese have shown in recent years that they are prepared to go to great lengths to back national champions. In addition, a large percentage of the overall RJ market over the next 15 to 20 years is expected to be in China – estimates vary between 20% and 30%.

And the fact that most aircraft in China are ordered by a centralised entity (the Civil Aviation Administration of China - CAAC) ensures that the domestic market will remain captive and protected from competition that is almost certainly stronger on merit. The ACAC project - up until this point - has also experienced fewer difficulties and has only been delayed by approximately six months; a snip when compared with the Sukhoi and larger 787 and A380 developments.

However, as the RJ segment becomes more competitive and ever larger types encroach on the narrowbody market currently dominated by Boeing and Airbus, the reaction of these manufacturers will go a long way in determining the fate of many of the new RJ programmes. While Boeing did not effectively replace the inherited MD80/717 design from the McDonnell Douglas acquisition, it will likely not want to cede the market occupied by its smallest 737 variants to the newcomers.

In fact, there has been increasing speculation that both Boeing and Airbus will offer a 'warmed up' version of their current narrowbody products with the newest geared turbo fan engine technology in advance of the expected all-new narrowbody replacements due sometime in the 2020 decade.

By Robert Cullemore
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Gulf LCCs search for niches

Following the success of Air Arabia, the Gulf region has seen a steady wave of LCC launches, including flydubai, Jazeera Airways, Nas Air and Sama Airlines. But can these airlines carve out a niche against the extensive regional networks of the Gulf-based full service airlines?

After Air Arabia was launched in October 2003 (see *Aviation Strategy,* April 2009), a number of LCCs have emerged across the region, aiming to take advantage of the increasing number of "open skies" signed between Gulf states and other countries, the abundance of airport capacity, the ready availability of capital (even in the teeth of recession) as well as the geographic and demographic advantages that the region enjoys.

At first sight, the business case for LCCs looks persuasive. In its recently-released forecast for 2009-2028, Airbus says that "several indicators in the Middle Eastern region show that the domestic market is about to boom". Key among these is the region's demographics, with 60% of the Middle East's population being less than 30 years old, compared with 35% in Europe (see chart, right). Undoubtedly this population will provide a steady stream of new customers for LCCs over the coming decades.

On top of that, the Gulf's geographical position gives it easy access to huge populations in other countries. Approximately 36% of the world's population and 16% of global GDP is located within 2,500nm (4,630km) of the Middle East, according to Airbus, and these figures rise to 86% and 63% respectively within a distance of 4,500nm (8,340 km).

While the rest of the world has been going through an aviation downturn, the Middle East is the only region that has actually seen demand grow this year – by a huge 9.4% in the January-September period (see chart, page 12). Additionally, Airbus forecasts that almost all Middle Eastern aviation markets will beat average global growth rates over the next 20 years (see chart, page 13).

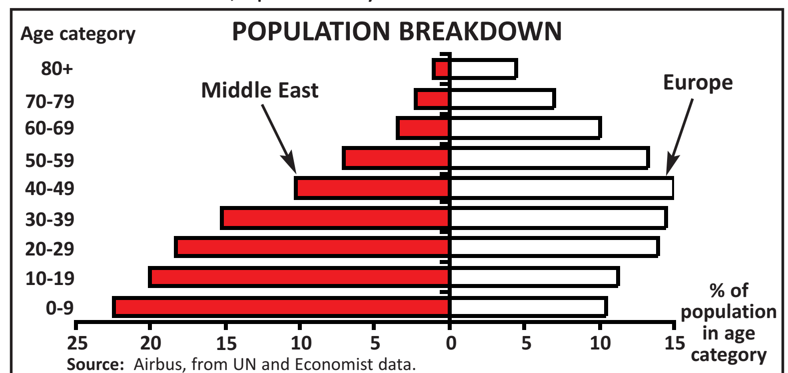
Despite all this, the penetration of LCCs into the Middle East region has been relatively slow. Even after the slug of new launches, the LCC share of the Middle Eastern market is barely touching 7%, according to *Aviation Economics'* analysis, and it is well behind the penetration of LCCs in all other markets in the world (see chart, page 15).

This year has been particualrly difficult for the LCCs, as the big network carriers in the Gulf region have shifted resources and attention closer to home, thanks to weaker business-class demand for long-haul flights. With some of the wave of LCCs that followed Air Arabia finding it difficult to break into profit, the rise of the LCCs in the Middle East appears to be more of a struggle than many had previously predicted.

Added to this is the current financial crisis in Dubai, which must be affecting business and consumer confidence in the wider Gulf region - although thanks to their fares the LCCs should suffer far less than the network carriers if the crisis deepens.

flydubai

Set up in March 2008 with AED250m (US$67m) of start-up capital from the Dubai government, the Dubai-based LCC was "officially supported" during its launch by Emirates Airlines, although it operates independently from its so-called sister company. Its CEO is Ghaith Al Ghaith, previously an EVP at

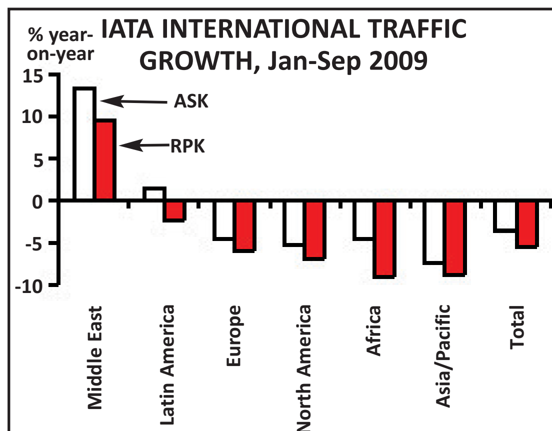


Emirates Airline, but the airline has plenty of LCC experience, with CFO Neil Mills formerly at easyJet for 12 years, while COO Kenneth Gile was previously president of US LCC Skybus Airlines and chief pilot at Southwest.

flydubai placed an order for 50 737-800s - some of which can be upgraded to the 737-900ER variant - at the Farnborough Air Show in July 2008 (worth $4bn at list prices, though costing flydubai considerably less than this). The airline started operations in June this year out of the revamped Terminal 2 at Dubai International airport with a route to Beirut, and it has grown steadily since.

The fifth aircraft of its Boeing order was delivered in October 2009, being put into service on a new route to Doha launched the same month, while in November routes were launched to Baku in Azerbaijan and to Khartoum in the Sudan. At 2,600km Khartoum is the longest sector yet in flydubai's network, which now comprises 10 destinations including Beirut, Amman, Damascus, Aleppo (in Syria), Alexandria and Djibouti.

A sixth aircraft will be delivered before the end of this year, and four of flydubai's first six aircraft have been sold to and leased back from GECAS in a financing deal for aircraft worth $320m at list prices, although financing for the other aircraft (being delivered up to 2015) is yet to be announced. The 737-800s are configured in a high-density 189-seat layout, and flydubai has a typical LCC business model, with passengers paying extra for checked-in baggage, seat selection, extra leg-room and on-board catering. Interestingly, as well as selling tickets online and via call centres, flydubai sells through the 100 outlets of the Emirates Post Office, which are linked directly to flydubai's reservations system.



While the initial focus was largely on the Middle East, flydubai also wanted to launch routes to India – to Lucknow and Chandigarh in the north and Coimbatore in the south – in July. However these plans had to be suspended due to "operational issues", thought to be a refusal by the Indian government to give permission for the routes due to concerns about the competitive impact on Air India Express, the LCC of flag carrier Air India. A reluctance to open up markets is holding back LCCs, says Al Ghaith, and he is lobbying hard for open skies in all markets. Al Ghaith is also concerned about visa requirements in Middle Eastern and Gulf states.

flydubai is looking to add routes to destinations within 4.5 hours flying time from Dubai, which the airline estimates encompasses 2bn people, and in the medium-term flydubai plans to extend its network to eastern Europe, the former Soviet Union countries and North and East Africa. It's greatly helped in this by its Dubai emirate owners, and indeed the UAE has been including flydubai as a designated airline in its latest "open skies" ASAs signed with Bulgaria and Estonia in July and Zambia in October.

Operational data is scarce, but Al Ghaith says that load factor has been "better than expected" and that the pace of expansion will increase in 2010 and again in 2011, claiming that the global recession has not had any impact on flydubai's plans. Indeed the airline is considering strengthening its fleet still further, with new orders likely to be placed sometime in 2010. However, these plans may well be affected by the current Dubai financial crisis, which may choke off new cash injections by the Dubai state. On the other hand, the crisis may encourage passengers to try or switch to LCCs like flydubai, so ironically the troubles at the Dubai state may turn out to be beneficial.

Neverthless, the airline's ambition is understandable since flydubai is part of the Dubai emirate's larger plan to attract 15m annual visitors to the state by 2015. As well as tourists and business executives the LCC

should prove immensely popular with the huge VFR market to/from Dubai, and specifically the hundreds of thousands of workers from the Middle East, Africa and Indian subcontinent who work in Dubai and neighbouring emirates at close to poverty wages, and for whom cheap air fares are of huge benefit.

LCCs and Dubai

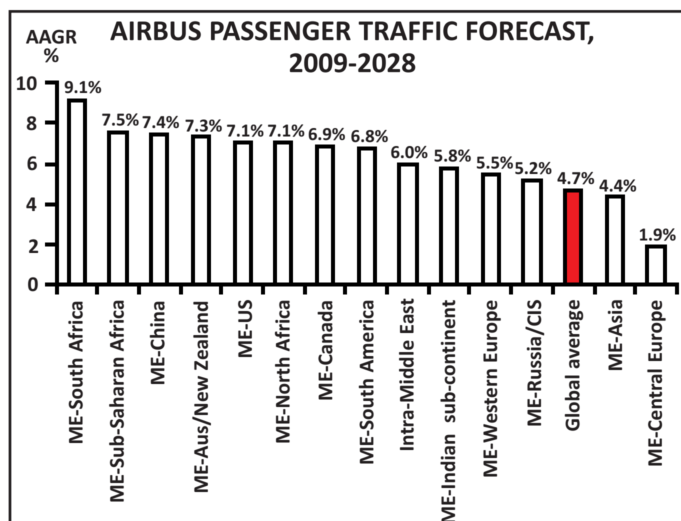
But there's also another rationale for flydubai – to keep rival LCCs out of Dubai. The success of Air Arabia has been a surprise to many executives at Emirates Group, as it has won significant amounts of passengers on the lucrative Middle East-India routes, although it was the launch of a base at Dubai airport by Jazeera Airways (only stopped when the Dubai emirate changed its fifth-freedom regulations) that was a real warning that the LCCs could not only prosper in the Gulf region in their own right and win point-to-point traffic but - much more importantly - could even take business away from the regional feed routes of Emirates Airline, due to significantly lower fares.

Emirates and the other large network carriers in the Gulf region (such as Etihad Airways and Qatar Airways) base their business models on (at least until recently) profitable long-haul routes eastwards and westwards, with substantial transfers between long-haul flights and short-haul flights at their respective hubs. But unlike in Europe, for example, many of the short-haul routes operated by Emirates and other Gulf carriers are claimed to be profitable in their own right, such is the regional demand, so the rise of LCCs poses significant challenges to these network carriers' short- and medium-haul operations. Indeed Emirates Airline itself has been expanding its regional services, and in the summer increased capacity on routes to Doha, Kuwait, Amman, Damascus and Sana'a in the Yemen through the introduction of larger A330 aircraft.

flydubai, therefore, can be seen as the lesser of two evils for the Dubai state: it's preferable for the emirate to develop its own LCC at the state's main airport (the world's 5th busiest airport for international passengers, with 120 airlines operating routes to more than 200 destinations) than allow LCCs from neighbouring emirates to grab market shares. Under the same logic, although the enforced switch of flydubai's base from the new Al Maktoum International airport at Jebel Ali to Dubai International (thanks to delays at Jebel Ali, which will now not open until the summer of 2010) may take away revenue from Emirates Airline's short-haul flights, at least flydubai passengers can easily transfer onto long-haul Emirates flights there.

flydubai is also being used by the Dubai emirate to lead a counter-attack onto other emirates' traffic flows, so as well as secondary destinations the airline is targeting primary destinations served by full service airlines. Indeed well before the Dubai-Doha route was launched in October Akbar Al Baker, the chief executive of Qatar Airways, warned Emirates that any LCC incursion into Qatar's home market would provoke the launch of the airline's own LCC in retaliation. At the Paris air show Al Baker said: "If Qatar Airways' market is eroded by a regional low-cost carrier, which seems to be the fashion, then Qatar Airways will join the fashion show." Clearly rattled by the prospect of flydubai, Al Baker went on to say: "Do not intrude on our market with your crap airline, crap product and crap yields. Otherwise, we will immediately match them with a superior product but, of course, with a crap yield like them."

Qatar Airways is clearly worried that flydubai will take significant number of



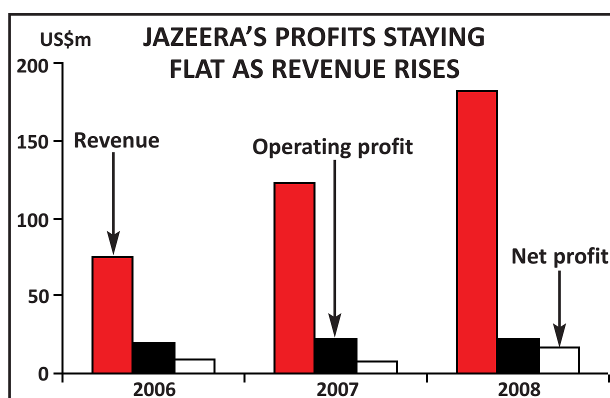
passengers away from its Doha-Dubai route, particularly with flydubai's fares between the two cities starting at AED200 (US$54). Currently flydubai operates 28 flights a week on the Dubai-Doha route, compared with 70 flights a week from Emirates and 100 from Qatar Airways.

Of course Al Ghaith says his airline is targeting a "different type of customer" to those of the network carriers, but it's clear that some Qatar Airways' passengers on the route will switch to flydubai - unless Qatar lowers its own fares significantly in response (one-way fares on Qatar were priced at QAR880/US$242 in early December). flydubai has certainly made its intentions clear – it held a launch sale in June and in September held a second sale, this time with fares on all routes discounted by 40% for a period of 10 days.

Qatar Airways claims it can launch a LCC within 90 days of making a positive decision to do so, and says it has put together a business plan for a carrier at Doha operating with A320s. However, even if it carries out this threat that's an entirely reactive strategy, whereas the Dubai government has been proactive and has taken a long-term perspective on the strategic benefit of having its own LCC, even if flydubai will erode Emirates Airline's revenues in the short-term.

Jazeera Airways

Kuwaiti LCC Jazeera Airways launched operations back in October 2005, with 30% of the airline owned by transport and media conglomerate The Boodai Group and 70% on free float following a successful IPO on the Kuwait stock exchange in June 2004.



Since June 2009 its CEO has been Stefan Pichler, who was previously chief executive at Thomas Cook and chief commercial officer at Virgin Blue. (The airline is unrelated to the Al Jazeera TV network; Jazeera is the Arabic word for the Arabian peninsula.)

Jazeera Airways is unlike other LCCs in that it offers both economy and business classes. It currently has 610 employees and a fleet of 10 A320s, with 30 more on order that will start arriving in January 2010 and all be delivered by 2014. In February 2007 Jazeera sold and leased back its entire fleet (then consisting of eight A320s) to Sahaab Leasing, a joint venture set up between Jazeera, NBK Capital - part of the National Bank of Kuwait - and German investment company DVB, in a deal that Jazeera said enabled it to be "cash rich and free of debt".

Jazeera currently operates to 27 destinations in 13 countries across the Middle East, India, North Africa and Turley and aims to serve more than 90 destinations by 2014. The airline is also adding extra frequencies on a number of existing routes in the winter timetable, including the key Dubai-Kuwait service, where it currently operates 45 flights a week.

However, Jazeera has faced a number of setbacks over the last six months. In the autumn it closed services from Dubai to Mumbai and New Delhi due to "overcapacity" on the routes, and now only serves India from Kuwait. But a bigger blow came in June when it had to abandon its multi-hub policy after the Dubai emirate changed its fifth-freedom regulations at Dubai International, its second base. Jazeera was forced to close its hub operation there, and it now operates what it calls a "virtual hub".

The restructuring of the network from a dual hub to a single hub operation hit profits hard. In 2008 Jazeera recorded revenue of U$182.1m, 48.4% up on 2007, and carried 1.4m passengers (compared with 1.2m in 2007), with operating profit of US$21.5m (4.1% down year-on-year) and a net profit of $16.6m, more than double the 2007 total.

However, for the January-September 2009 period Jazeera posted a 4.2% fall in revenue year-on-year to $125.2m. It recorded a $0.7m operating loss for the nine months

(compared with a $17.9m operating profit in 1Q-3Q 2008) and a $5.1m net loss (compared with a $5.2m net profit in 1Q-3Q 2008).

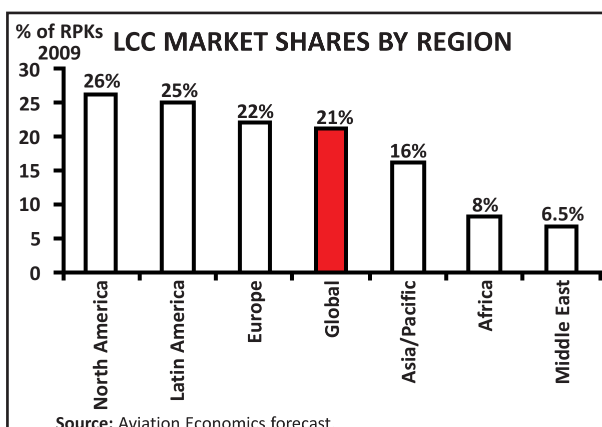
The airline says it will post a profit for full 2009, but this is likely to be at the further expense of the classic LCC business model, as Pichler says that the airline will evolve into "a multi-market segment, multi-hub and a multi-class operator". In October Jazeer relaunched its business class fare, which it says is now priced on average 35% lower than business class at rival airlines. The business product includes fully refundable and changeable tickets, dedicated check-in, access to business lounges, better seat pitch (33 inches), complimentary food, drink and in-flight entertainment, while aircraft have been reconfigured with an empty middle seat in order to offer more space to business class seats either side.

Jazeera is also committed to a multi-hub strategy, and Kuwait airport (where it is now the largest operator with an estimated 25% market share) will be joined by a second hub within the next six months - although this is likely to be outside the Gulf states and within the wider Middle East, where competition is not so strong, the airline says.

Pichler also says that his airline is looking for acquisitions, as "there will be some consolidation in the Middle East, particularly in LCCs". Hopefully Pichler will stay around longer than predecessor Andrew Cowen, who became CEO of Jazeera in February 2009 (he was previously chief executive at Sama) before resigning just a few months later, in May, due to the "role not working out".

Nas Air

Saudi Arabian LCC Nas Air is based at Riyadh airport and was launched as a domestic airline in February 2007 by the National Air Services Group and Abraaj Capital. The LCC is just one part of the NAS Group's aviation interests, which also include an executive jet company and - until it went bankrupt in April 2009 - an A320 premium-class carrier called Kayala Airline. Kingdom Holdings Company, a holding company 94% owned by Prince Alwaleed of the Saudi royal family, bought a 30% stake in Nas Air in June 2008,



Source: Aviation Economics forecast.

increasing its stake soon after to 37% after buying the 7% stake held by Abraaj Capital.

Nas Air's first international services were launched in July 2008 and today it operates to 13 domestic and 11 international destinations (all in the Middle East, the latest of which is between Jeddah and Sana'a in the Yemen, launched in September). Unlike Jazeera, Nas Air has no plans to expand into business class – with the potential exception of routes to Cairo; LCCs are not allowed to fly there, and so Nas Air is considering the addition of a business-class cabin to some of its aircraft in order to commence a route to that destination.

Nas Air has a fleet of seven A320 and four E-190s, with 20 A319s and nine E-190s on order, and is targeting a fleet of 14 A320s and 17 E-190s by 2012, and 27 A320s and 17 E-190s by 2014. However, reports suggest Nas Air has been having trouble maintaining load factor as it has expanded through this year (it originally wanted to double passengers carried this year, compared with the 0.9m carried in 2008). In 2008 it had utilisation rates of less than seven hours per aircraft per day, and the airline has been trying to increase this to nine hours a day in 2009. However, an indication of problems it faces came when it leased out two Embraer 190s delivered to it this year to a Ukrainian airline.

In fact Nas Air has been unable to break into profit since its launch, thanks to its loss-making domestic operations which account for approximately two-thirds of all passengers carried. Originally these were all Public Service Obligation (PSO) routes that were transferred to it from Saudi Arabian Airlines as a precondition for government

approval to start international services. These PSO routes consist of two types - trunk routes between Riyadh, Jeddah and Dammam (which are competed by the two Saudi LCCs and by Saudi Arabian Airlines), and other "thin" domestic routes that have to be operated under complicated routings determined by the regulator, GACA. No subsidies are paid to the airlines.

Although the Saudi government cut the PSO routes that NAS and fellow Saudi LCC Sama had to operate domestically from 20 to six each in July 2008, the key problem has been domestic fare caps. These were imposed by the government in 1998 in order to protect Saudi consumers and it was hoped that they would be removed before the launch of LCCs Nas Air and Sama in 2007. However this didn't happen, and the fare caps have been "disastrous" according to one analyst, with NAS and Sama unable to raise fares when fuel prices increased in 2007 and 2008.

Nas Air (and Sama) have lobbied hard against the fare caps and eventually - in the summer of 2009 - the Saudi Arabian government gave Nas Air and Sama each a $53m interest-free loan (repayment details are unknown) in order to compensate it for losses incurred on the PSO routes. The fare caps have still not been lifted, although this is expected imminently.

Sama Airlines

Based at King Fahad international airport in Dammam, Sama Airlines was launched in March 2007 by Investment Enterprises, a local holding company, and a variety of private and institutional companies within Saudi Arabia.

GULF LCC FLEETS

	Fleet	Orders	Options
Air Arabia			
A320	16	48	5
flydubai			
737-800	5	49	
Jazeera Airways			
A320	10	30	4
Nas Air			
A319		20	
A320	7		
E-190	4	9	
Sama Airlines			
737-300	6		
BAe Jetstream 41	1		
Total	**49**	**156**	**9**

Sama operates a fleet of six 737-300s and a single Jetstream 41 to eight domestic and seven international destinations (Amman, Aleppo, Alexandria, Assiut, Beirut, Damascus and Sharjah), as well as to a number of charter destinations.

Sama estimates that around two-thirds of its passengers are "new" travellers – i.e. people who have never previously flown with a network airline, with its core market being expatriates from the Indian sub-continent working in Saudi Arabia (there are 1.6m people of Indian descent living in Saudi Arabia) plus business executives and pilgrim traffic. Around 20% of all Sama passengers are pilgrims/religious travellers, many of them coming to the annual Hajj pilgrimage to Mecca from various destinations throughout the UAE, Jordan, Afghanistan and Nigeria.

But while the Saudi Arabian government aims to double international visitors to the country by 2020 (to 8.8m visitors a year), Sama hasn't launched a new international route (or indeed any route) since a service between Damman and Mumbai was started back in November 2008, as it has been trying to sort out its domestic flights and the problems of the PSO routes and the Saudi fare cap. Losses on the domestic routes forced the owners of the airline to invest another $50m in 2008, after the original $80m investment in working capital was spent in just a year.

CEO and founder Andrew Cowen left in December 2008 to join rival Jazeera Airways. Cowen had been unhappy about the domestic fare cap, which he said made domestic routes "chronically unprofitable". He was replaced by Bruce Ashby, previously with US Airways and then chief executive of Indian LCC IndiGo Airlines.

The airline has 600 employees and is targeting 10m passengers carried in 2011, but this looks overly ambitious even though the airline says it will soon order another 20 aircraft for delivery over the next four years, with a decision on either A320s or 737-800s likely to be finalised by the end of 2009.

LAN Airlines: How to prosper through the global recession

Chile's LAN Airlines, one of Latin America's largest carriers, has once again demonstrated its unique skills in manoeuvring through an economic slump. It has remained solidly profitable through the global recession – a remarkable feat given its extensive international footprint and heavy exposure to cargo. LAN has even found growth opportunities in the toughest of business environments, enabling it to bolster its market shares and long-term strategic position in South America.

How did LAN do it? A highly flexible business model, superior management skills, a unique multi-hub/multi-airline strategy developed over the past decade, a timely switch to LCC-style low-cost operations in the short-haul market – it all helped.

A quick recap of how the year progressed: in early 2009, the outlook was truly dismal. LAN's monthly cargo revenues had begun to plunge in the 30-40% range - a potentially dire scenario given that cargo accounted for 34% of the airline's total revenues in 2008. International passenger revenues were plummeting in the 20%-plus range - very bad news when 70% of your total ASKs are produced on international routes.

But because LAN already had passenger airline units in place in Chile, Peru, Argentina and Ecuador and cargo airlines in Chile, Brazil and Mexico, it was able to quickly find profitable new niches and growth opportunities. It grew domestic passenger operations in Chile, accelerated its entry into the Ecuadorean domestic passenger market, launched domestic cargo operations in Brazil and acquired a new cargo subsidiary in Colombia.

The most interesting question now is what LAN's next empire-building moves will be. Consolidation is heating up in Latin America, with the recent Avianca/TACA merger announcement, Aeromexico's stated interest in stock deals, etc. LAN has the resources and is in a perfect position to make further acquisitions to consolidate its leading position in the region. Will it be Brazil or the northern parts of Latin America?

Continued healthy profits

Founded in 1929 and privatised in 1989, LAN has been consistently profitable since its current majority shareholders assumed control in 1994. However, it has not been immune to the effects of downturns. Its earnings fell sharply in 1998 and remained weak in 1999-2002 because of the Asian crisis, Chilean recession, Argentine crisis and post-September 11 effects.

LAN staged a strong recovery in 2003-2004 as economic conditions improved in most of Latin America. Since 2003 its revenues have grown at a compound annual rate of 21%, almost tripling in the five-year period to $4.5bn in 2008. The past three years have seen especially strong profitability, with operating margins reaching double-digits (10-12%) for the first time in the airline's history and net margins reaching the high single digits.

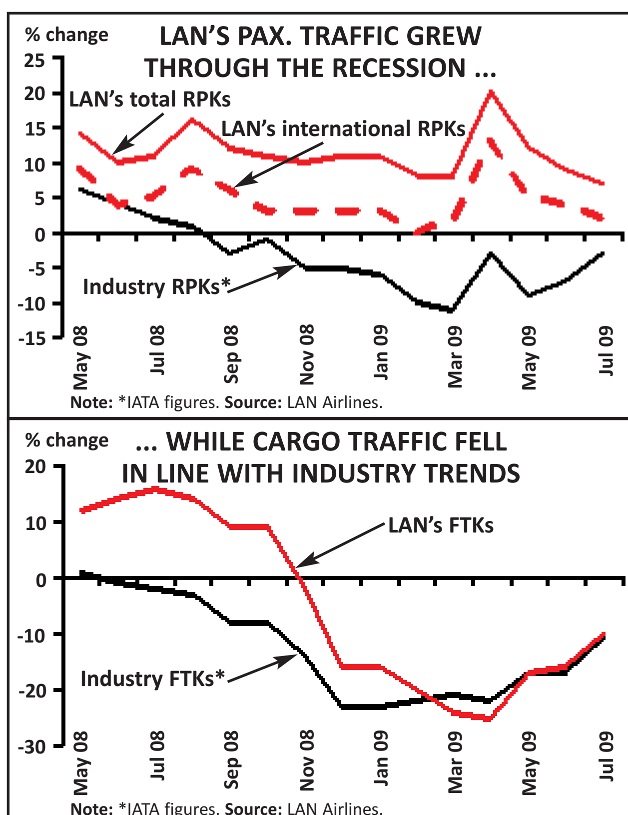
Like its peers, LAN has faced tough challenges in 2009. In addition to the recession, countries such as Argentina and Chile had severe outbreaks of the H1N1 flu in July and August, which significantly reduced travel in some key intra-Latin America routes. On the cargo side, LAN has been hit by a sharp decline in salmon exports from Chile as a result of outbreaks of the ISA virus (salmon exports accounted for 8% of the airline's cargo revenues last year).

But LAN has remained profitable throughout 2009. The only sign of weakness was in the June quarter, when operating and net margins dipped to 4.4% and 0.5%, respectively. The September quarter saw the margins recover to a very healthy 10.1% and 5.7%. The latest operating margin was

among the highest in the industry, possibly only bested in the Americas by COPA's spectacular 18.7% margin and the 16% margins achieved by US niche operators Allegiant and Alaska.

Among the Latin American carriers, LAN has always been considered less risky than Gol and TAM because its revenues are diversified across several economies and because it has a lesser degree of foreign currency mismatch between revenues and costs. Now LAN is also outperforming the Brazilian carriers on the earnings front.

What has made LAN unique this year is that even though its cargo traffic has declined in line with the industry, its passenger traffic continued growing when industry traffic declined (see charts, below). In the first nine months of 2009, LAN's FTKs fell by 15.9% while its RPKs grew by 9.8%. The net effect was a modest 4.3% decline in total traffic (RTKs). In other words, LAN has outperformed its peers this year in part because it has very successfully compensated for the collapse in cargo demand by growing its passenger segment.



However, LAN has not escaped this year's yield pressures. In the September quarter, its cargo yields plummeted by 35% and cargo revenues by 40%. Passenger yields fell by 16%, though the growth in traffic volume helped limit the decline in passenger revenues to 10%. Total revenues fell by 19%, but the impact was to a significant extent offset by a 14.3% decline in operating expenses, reflecting mainly lower fuel costs.

Most importantly, LAN has maintained its financial strength. Its liquidity position has actually improved, because in the spring the airline prudently decided to borrow $250m from local banks in Chile just to boost its cash reserves to 17-18% of annual revenues from the earlier 10%-level. It did not need extra funds because its near-term obligations were very modest. LAN has mainly long-term debt related to aircraft financings.

The balance sheet is relatively strong, with total assets of $4.9bn, long-term liabilities of $2.4bn and shareholders' equity of $1.1bn at the end of 2008. As of September 30th, LAN had $638m in cash and a lease-adjusted debt-to capital ratio of 79%. LAN is one of the few airlines in the world to benefit from investment grade credit ratings, which have been affirmed this year.

Recession-busting strategies

Based on a strategy set in place in 1994, LAN has developed a distinct business model that combines passengers and cargo, provides a comprehensive network in South America, uses airline subsidiaries to maximise coverage in the region, operates LCC-style in the short-haul, offers a strong premium product in the long-haul and relies on alliances to cover the globe. LAN benefits from a competitive cost structure, high labour productivity, significant fleet flexibility, a strong brand and one of the best management teams in the airline industry.

The key strategies that have helped LAN escape the recession so lightly include the following:

•Combining passengers and cargo

LAN is a rarity among airlines in that it treats passengers and cargo as two equally important business units. In 2008 cargo accounted for 34% of its total revenues, compared with 19-22% for SIA and Cathay and less than 7% for most US and European carriers. Having fully integrated passenger and cargo businesses helps the airline increase aircraft utilisation, maximise revenues, lower breakeven load factors and minimise risk.

The strategy has also given LAN more flexibility to adjust to market conditions. On many occasions in the past, the cargo market remained strong when passenger demand weakened, and LAN was able to maintain stable earnings by switching capacity and even aircraft orders from the passenger to the cargo business.

In this year's very unusual scenario of both cargo and passenger demand being sharply down simultaneously, LAN has still benefited from the flexible business model. This year the airline has essentially focused away from cargo in favour of growing promising pockets of its passenger business. Its cargo revenues fell to only 24% of total revenues in the September quarter. Being able to implement such a major shift so swiftly and with little adverse impact on profit margins certainly validates the business model.

On the cargo side, LAN has implemented obvious measures such as cutting back drastically the amount of wet leases provided by third parties. But LAN has also found new cargo opportunities. It has acquired a new cargo airline subsidiary in Colombia, begun domestic cargo operations in Brazil with its existing affiliate ABSA and launched 777 freighter operations to Europe.

The airline believes that the two new 777 freighters, which were delivered in the depths of the worst cargo slump in April and May, will give it a significant competitive advantage in terms of unit costs and position it well for economic recovery. LAN is the first airline in the region to operate the type, which has almost double the 767's capacity and a longer range. The 777Fs currently link Santiago and other South American points to Miami, Amsterdam and Frankfurt and also operate in key regional markets.

•Tapping domestic growth opportunities

One special characteristic of the 2008-2009 recession has been that airlines that operate mainly domestically have generally fared much better than global airlines. LAN has undertaken some serious domestic expansion this year – possible because of the multiple airline subsidiaries in place in other Latin American countries, the LCC-style business model in short-haul operations and the relatively resilient economies of the key countries in the region.

Just looking at the September quarter's figures, LAN's domestic passenger capacity (in Chile, Peru, Argentina and Ecuador) was up by 20%, compared with 5% growth for international ASKs. Domestic passenger traffic grew by 15.6%, compared with 4.5% growth in international RPKs. The biggest capacity additions were in Argentina and Chile, where ASKs rose by 36% and 19%, as well as in the Ecuadorean domestic market, which LAN entered in April.

The result was that domestic ASKs' share of LAN's total passenger capacity rose by three percentage points to 31% (Chile 13%, Peru 9%, Argentina 8% and Ecuador 1%). Long-haul international's share declined by one point to 47% and regional international's share fell by two points to 22%.

•Going LCC-style on short-haul

LAN introduced a new business model for its domestic and short-haul operations during 2007. The goal was to improve efficiency and profit margins, especially in the Chilean and Peruvian markets. One of the key objectives was to increase narrowbody aircraft utilisation to about 12 hours per day through increased point-to-point operations, overnight flights and faster turnarounds. The airline targeted a 30% reduction in its short-haul non-fuel CASK between 2006 and 2008. As part of the remodelling, LAN retired its 737-200 fleet by May 2008 in favour of focusing on

a single aircraft type, the A320-family. And the plan included reducing and simplifying fares, which the airline hoped would boost short-haul demand by 40% over the two-year period. In other words, LAN copied the key aspects of the JetBlue/Gol-style short-haul business model.

Although LAN may not have fully reached its cost-cutting targets (its daily A320 utilisation was 10.4 hours in 2008), the benefits of the remodelling have been significant. The cost cuts enabled the airline to offer much lower fares, which resulted in traffic growth that far exceeded expectations. Passenger numbers in all of the domestic markets surged between 2006 and 2008: Chile was up by 40%, Peru 76% and Argentina 150%.

The LCC-style short-haul business model came in especially handy in the depths of the recession this year. It has enabled LAN to offer special low fares to attract first-time flyers, stimulate recession-impacted travel and to profitably expand domestic operations when global demand collapsed.

•Multi-hub/multi-airline strategy

LAN's unique multi-hub/multi-airline strategy dates back to its acquisition of Chilean cargo carriers FastAir and Ladeco in the 1990s. In 2000-2001 LAN bought 100% or majority stakes in Mexican cargo carrier MasAir and Miami-based Florida West, as well as a minority stake in Brazilian cargo airline ABSA. All of those airlines have extensive Latin American and some US and global operations, enabling LAN to dominate the cargo market in Latin America. The operations are marketed primarily under the LAN Cargo brand and benefit from synergies derived, for example, through the interchange of 767-300ER freighters.

This year LAN has made two major moves to expand its cargo business (both in March). First, it acquired a new subsidiary in Colombia, the largest cargo market in Latin America in terms of exports to the US. The 100% owned venture, LANCO, currently operates the Medellin-Miami and Bogotá-Miami routes. Second, LAN began domestic cargo operations in Brazil with the help of its existing subsidiary ABSA, which had previously only operated international routes. These growth opportunities cushioned the impact of the global recession and position LAN well for economic recovery.

The multi-airline strategy in the passenger segment dates back to 1999, when LAN saw an opportunity to establish a Peru-based airline as a joint venture with local partners (LAN Peru). Other similar ventures followed: LAN Ecuador (2003), LAN Dominicana (2003) and LAN Argentina (2005). The airlines have benefited from a common brand since 2004, but it has not all been plain sailing. LAN Dominicana was not viable and it ceased operations in May 2004. Making LAN Argentina profitable has been a struggle (strict domestic fare controls, the earlier 737-200 fleet), but the LCC-style business model, re-fleeting and many authorised fare increases in recent years have helped.

The new ventures have been the key driver of LAN's growth and profitability in the past decade, because the Chilean market is relatively small - just 4.7m domestic passengers and 5m international passengers in 2008. The multi-airline strategy has enabled LAN to operate a comprehensive network and multiple hubs. The airline has intra-Latin America flights out of Chile, Peru, Ecuador and Argentina, and is developing Lima into a regional hub. Its four main hubs - Santiago, Lima, Guayaquil and Buenos Aires – all have services to the US, and the first three also have European flights. Santiago additionally has South Pacific services to Australia and New Zealand.

This strategy of blanketing the region with overlapping air service is aimed at enhancing the value proposition by offering customers more destinations and routing alternatives. There are also important synergies and economies of scale. The strategy has helped LAN maximise aircraft utilisation, increase load factors, leverage complementary seasonal patterns and optimise marketing efforts.

The strategy has been possible because of Chile's early liberalisation policies, including open skies ASAs with countries such as Peru and the US well before the rest of the region jumped on the bandwagon. LAN has also benefited from liberal laws on the foreign ownership of airlines in some countries.

The past couple of years have seen LAN consolidate its positions in the Chilean and Peruvian domestic markets. In Chile the strategy is to offer frequent service on the key routes (currently 15 destinations). In Peru operations cover all 14 main cities that can be served with the A319 and frequencies are now being built up. In Argentina operations focus on the 12 main routes that can be served profitably; the network currently includes 12 cities.

The Ecuadorian domestic opportunity came when LAN Ecuador, which had hitherto operated only internationally, was authorised to serve the country's main trunk routes linking Guayaquil, Quito and Cuenca. The routes are highly competitive, with also TAME, Aerogal and Icaro present, but are believed to be profitable. LAN entered the markets in April 2009 with two A318s and will also begin serving the Galapagos Islands in January on a codeshare basis with TAME.

As a result, LAN has consolidated its dominance of the southern cone. As of July 2009, it held 80%, 89%, 26% and 14% shares of the Chilean, Peruvian, Argentine and Ecuadorean domestic passenger markets, respectively. It also has the largest market shares of international passenger traffic to and from Chile, Peru and Ecuador: 50%, 39% and 27%, respectively, at year-end 2008 (its share of Argentine international traffic was 17%).

The network is now more balanced than a decade ago. In the late 1990s, LAN was primarily a long-haul international carrier with domestic operations only in Chile. Now its ASKs are distributed as follows: long-haul international 46%, Latin America international 24%, Chile domestic 13%, Peru/ Argentina domestic 17% and Ecuador domestic 0.2% (first-half 2009 figures).

On the long-haul front, LAN has relied increasingly on alliances. It has been a member of oneworld since 2000. Since its 1997 agreement with American, which secured antitrust immunity in the US in 1999, LAN has forged codeshare deals with global carriers such as Iberia, Qantas, BA and Korean Air. LAN Peru and American have had an immunised alliance in place since 2005.

But LAN has also done alliance-building in the largest Latin American markets. In 2004 it tackled Mexico by both expanding its existing codeshare deal with Aeromexico and forging FFP cooperation with Mexicana. In December 2007 LAN entered into a codeshare alliance with Brazil's TAM.

Where next?

With Latin America leading the way in global economic recovery, LAN has seen steadily improving demand trends in recent months, although yields have remained weak. The airline's October traffic results were highly promising: domestic passenger traffic up 14.1%, international passenger traffic up 10.8%, system passenger load factor up 3.9 points to 80.2% and cargo traffic down by only 6.2%.

On the passenger side, LAN currently expects to grow its ASKs by 10% in 2010, the same as this year. The fastest growth is likely to be in long-haul international markets, with new destinations such as San Francisco possibly coming on line; domestically, growth will continue but at a lesser rate because of tougher comparisons.

LAN is predicting a strong recovery in global cargo volumes in 2010 and expects its own cargo capacity (FTKs) to grow by

LAN'S FLEET PLAN

	Number of aircraft at year-end					
	2008	**2009**	**2010**	**2011**	**2012**	**2019**
A318/319/320	50	53	59	68	68	68
767-300ER	26	27	28	30	33	34
A340-300	5	5	5	5	5	0
787	0	0	0	0	0	32
767-300F	9	9	9	10	10	10
777-200F	0	2	2	2	3	3
Total	**90**	**96**	**103**	**115**	**119**	**147**

Source: LAN Airlines.

16-18%, after a 7-8% decline this year. Next year's capacity increase will be mainly due to the full-year impact of the two new 777Fs.

To accommodate the robust long term demand growth expected in both the passenger and cargo segments, LAN has a $5.1bn aircraft order book in place for the 2009-2019 period which will expand its fleet from the current 94 (as of September 30th) to 147 aircraft at the end of 2019.

The current fleet plan includes 15 more A320-family aircraft to be delivered in the next two years, nine more 767-300ERs by 2019 and 32 787s in 2013-2019. On the freighter side, currently there are only two new aircraft scheduled for delivery (in 2011-2012), though six of the 767 passenger aircraft due in those years may be converted into freighters.

While LAN is always keeping a close eye on potential acquisition opportunities in Latin America, this effort has probably intensified. First, LAN is in a strong buying position and wants to take advantage of the slump. Second, in October Colombia's Avianca and El Salvador's TACA announced plans to create a new regional group that could rival LAN in size. The group would bring together 13-plus airlines from multiple countries: the operators under the TACA banner, Avianca and its Brazilian unit OceanAir, Ecuadorean carriers Aerogal and VIP, plus various cargo and feeder operators.

The Avianca/TACA plans are not a threat to LAN. First, LAN is one of the largest and most successful carriers in the region. Second, the geographical areas are different: LAN dominates the southern cone; Avianca/TACA would be strong in the northern part of the continent. Third, the economic potential of the Avianca/TACA group may be limited by the fact that it includes a rather disparate group of small airlines and some questionable markets. Fourth, in a region where economic indicators are so strong, there is probably enough growth for several large players.

Perhaps the most immediate negative for LAN will be the strengthening of Aerogal, LAN Ecuador's direct competitor. The Quito-based carrier will receive more aircraft from its new partners that will allow it to expand internationally (New York from December 7th, with destinations such as Madrid and Los Angeles being considered). TACA Peru may also gain strength, though LAN Peru is well-positioned with its Lima hub and domestic service. And there is talk that Avianca may be looking to establish a new airline in Paraguay.

But at this point LAN's management does not see any obvious major negative impact from a future combined Avianca/TACA network. When asked about Aerogal's New York launch, LAN's CFO Alejandro de la Fuente said at the airline's 3Q call that Guayaquil-New York, where the two will clash head-on, is an underserved market and operating at very high load factors, so the impact should be minimal.

Therefore LAN is unlikely to feel any pressure to make major consolidation moves; rather, it will continue to search for smaller-scale merger or acquisition opportunities that will give it access to attractive new markets. Based on comments made by its top executives this year, LAN is particularly interested in two areas: the region "north of Ecuador" (Colombia, Mexico, Central America) and Brazil.

Noting that LAN already has cargo subsidiaries in Brazil and Colombia, AvGroup's Bob Booth suggests that the airline may first add LAN-branded passenger units to its existing cargo presence in those countries. There may be opportunities available in Central America and Mexico, and Booth says that he would not discount LAN doing something with TAM or Varig/Gol in Brazil.

Brazil represents a major gap in LAN's passenger network. It is the largest domestic market in Latin America. Having lost an opportunity to invest in Varig in April 2007, and with the Brazilian carriers now emerging as a major force on the continent (TAM, Varig/Gol, new-entrant Azul, revitalised OceanAir, etc), LAN needs a strategic foothold in Brazil's passenger market more than ever before.

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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.

FREIGHTER VALUES (US$m)

	New	5 years old	10 years old	20 years old
A300-B4-600				4.4
A300-F4-600R		42.4	31.9	
737-300QC			11.7	7.1
747-200F				11.2
747-400M			56.6	27.4
747-400F (CF6)	112.2	93.7	75.1	
747-400ERF	117.9	100.2		
757-200PF			23.9	14.1
767-300F	57.9	47.4	37.0	
MD-11C			29.0	
MD-11F			36.9	

FREIGHTER LEASE RATES (US$000s per month)

	New	5 years old	10 years old	20 years old
A300-B4-600				108
A300-F4-600R		348	300	
737-300QC			150	117
747-200F				245
747-400M			543	414
747-400F (CF6)	1,082	940	786	
747-400ERF	1,149	1,019		
757-200PF			197	183
767-300F	432	399	366	
MD-11C			325	
MD-11F			423	

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

AIRCRAFT AND ASSET VALUATIONS
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		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group 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	8,015	8,082	-67	-210	-0.8%	-2.6%	66,862	56,141	84.0%	19,668	105,444
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	1,667	1,744	-77	-23	-4.6%	-1.4%	16,275	13,369	82.1%		21,113
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	Oct 06-Mar 07	1,411	1,333	-47	-25	-3.3%	-1.8%	19,108	15,790	81.2%	16,400	
YE 30/09	**Year 2006/07**	**3,679**	**3,069**	**610**	**311**	**16.6%**	**8.5%**	**43,501**	**36,976**	**83.7%**	**37,200**	**5,674**
	Oct 07-Mar 08	1,795	1,772	22	-87	1.2%	-4.8%	23,442	19,300	82.3%	18,900	
	Apr-Sep 08	2,867	2,710	157	251	5.5%	8.7%	32,245	28,390	88.0%	24,800	
	Year 2007/08	**4,662**	**4,483**	**180**	**164**	**3.9%**	**3.5%**	**55,687**	**47,690**	**85.6%**	**43,700**	**6,107**
	Oct 08-Mar 09	1,557	1,731	-174	-130	-11.2%	-8.3%	24,754	21,017	84.9%	19,400	
	Apr-Sep 09	2,607	2,063	280	251	10.7%	9.6%	33,411	29,549	88.4%	25,800	
	Year 2008/09	**4,138**	**3,789**	**93**	**110**	**2.3%**	**2.7%**	**58,165**	**50,566**	**86.9%**	**45,200**	

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	211	145	66	37	31.1%	17.6%	5,449	3,769	69.2%	3,591	

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
Sep 09	28.4	20.5	72.2	20.3	17.6	86.5	15.0	12.7	84.4	50.7	42.5	84.0	77.6	62.0	80.0
Ann. change	-6.0%	-4.5%	1.1	-8.4%	-3.6%	4.4	-6.3%	-3.7%	2.2	-6.1%	-3.7%	2.1	-5.0%	-3.4%	1.4
Jan-Sep 09	246.5	168.8	68.5	176.1	144.0	81.8	137.0	109.2	79.7	458.4	368.7	80.4	694.3	531.7	76.6
Ann. change	-5.9%	-6.7%	-0.6	-6.7%	-6.5%	0.1	-5.0%	-6.8%	-1.5	-4.7%	-5.7%	-0.9	-4.0%	-5.3%	-1.0

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	19 Nov	Air Algerie	7 x 737-800s	
	26 Oct	Tassili Airlines	4 x 737-800s	
Airbus	30 Nov	Middle East Airlines	1 x A319	
	24 Nov	Turkish Airlines	2 x A330-200Fs	
	17 Nov	Air Austral	2 x A380s	
	15 Nov	Ethiopian Airlines	12 x A350-900s	
	6 Nov	Comlux	1 x A319	
	6 Nov	Turkish Airlines	3 x A330-300s	

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

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