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# ATI: Consumer benefits versus airline profits

BA and American have moved close to their long-sought integrated alliance following the US DoT's decision to tentatively award antitrust immunity (ATI) for the two carriers, plus Iberia, to operate an integrated joint venture on the North Atlantic.

The DoT identified a "wide range of valuable benefits" arising from the oneworld alliance, including:

- Lower fares on more itineraries between city-pairs,
- Accelerated introduction of new routes,
- Additional flights on existing routes,
- Improved schedules,
- Reduced travel and connection times,
- Product and service enhancements that can provide full reciprocal access to their networks,
- Efficiency improvements, and
- Fully reciprocal FFPs.

These are essentially consumer benefits. From a company perspective the main benefit from a merger or, in this case, a virtual merger - with the alliance airlines being granted permission to co-ordinate schedules, capacity and fares without having to worry about US antitrust legislation (or, assuming the EC agrees, European competition rules) - would be the prospect of gaining market share, scheduling domination and pushing up fares. However, it would be totally counter-productive from a regulatory perspective for an airline to admit any such effect, though this is the type of yield enhancement that equity analysts, for example, would be looking for.

The DoT's role in investigating an immunised alliance is to treat it like a merger, which means assessing whether it is likely "to substantially reduce competition and facilitate *(continued on page 2)*

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the exercise of market power". The DoT, having looked at competition at network, country-pair and city-pair levels, and at the new regulatory conditions under the EU-US open skies agreement and the opening up of Heathrow, decided that any anti-competitive impact of ATI for BA/AA would be mitigated by the compulsory divestiture of just four slot-pairs at Heathrow, with the London-Boston slot being a particular concern. The US DoJ was much more concerned about the competitive impact on the UK-US market - and Virgin Atlantic fundamentally disagreed with this assessment.

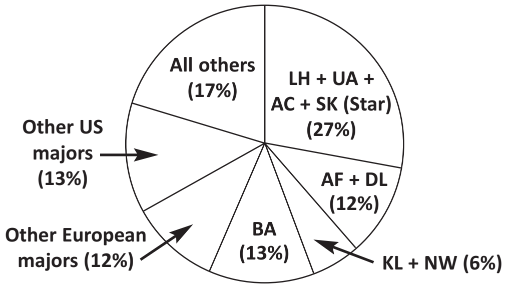
Further, the DoT decided that the BA/AA alliance was "likely to significantly reduce fares on interline routes". This non-intuitive conclusion arises from an academic study of "double marginalisation" – the theory that in a standard interline agreement both airlines will try to maximise their revenue in their respective segments of a flight, rather than maximising the whole revenue of the flight, which they would do under an immunised agreement, and this would lead to the joint fare being higher in the standard interline case than under an ATI alliance set-up. This is a challenging concept whose basis appears to lie in a regression analysis of fares carried out some 10 years ago, and which has been vigorously attacked by ATI opponents.

More understandably, the DoT found that the BA/AA alliance would facilitate a third strategic alliance along with SkyTeam and Star. oneworld would become more competitive in key markets and offer increased choice, which as a result would exert "competitive discipline on fares". In short, an immunised transatlantic oneworld was in the public interest.

## Alliance results disappoint

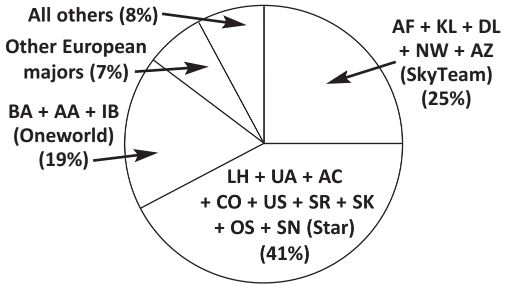
The conclusion that immunised alliances bring major benefits to consumers is comforting for regulators. Shareholders and financiers might prefer to see evidence that immunised alliances produce benefits on the bottom lines of battered Legacy balance sheets. The cynical view of expanding alliances is that this strategy is a variation on

**ALLIANCES 2003: STAR IN LEADING POSITION ON NORTH ATLANTIC**




**Source:** Aviation Economics/Capstats. Analysis of scheduled seats.

**ALLIANCES 2010: SKYTEAM NOW HAS 25% OF MARKET; STAR STILL LEADS ON THE NORTH ATLANTIC MARKET**




**Source:** Aviation Economics/Capstats. Analysis of scheduled seats.

the market share game, which historically has failed to translate size into profits.

The table on page 4 summarises the latest operating results (2008 or 2009) of the global alliances (or rather the airlines adhering to these alliances). The results were not impressive even allowing for the severe cyclical downturn. As yet unimmunised oneworld lost $12.3 per passenger. Star was marginally unprofitable, losing $0.9 per passenger, with airline acquisitions by Lufthansa (Austrian, bmi) depressing the average, and semi-detached carriers like SIA and THY boosting it. SkyTeam's results are disconcerting as it is regarded as the most fully integrated alliance – an average operating loss per passenger of $8.3 with KL/AF itself losing $26 per passenger (and KL/AF claims that it has achieved $16 per passenger annual synergy gains from the merger).

US carriers helpfully report their Atlantic division results to the DoT. Again the results are disappointing: none of the big three alliance partners - America, United and Delta - got close to break-even on the Atlantic in 2008, despite pushing up yields in response to the fuel price rises. Indeed margins have been thin despite consolidation: from 2004 to the first half of 2009, American produced a cumulative operating profit of $700m (4.5% of revenue), United $608m (4.7%), and Delta (including Northwest from 2008) a loss of $1.17bn (-6.5%).

One tentative suggestion for the poor performance of SkyTeam relates to complexity - that the commercial benefits of alliances dissipate beyond a certain point and may reverse because the alliance becomes too unwieldy.

## SkyTeam evolution

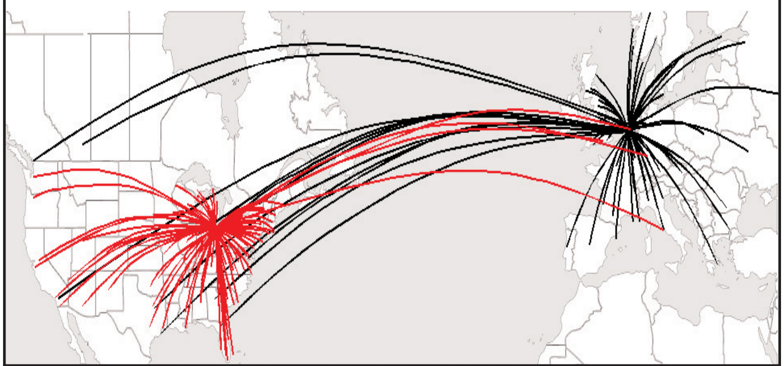
KLM was the great innovator in building alliances and discovering the legal potential of ATI, starting with a ground breaking alliance with Northwest in 1989, merging with Air France in 2004 and consummating the Delta/Northwest transatlantic joint venture in 2009. The maps opposite illustrate in a simplified version (excluding the secondary hubs and the Alitalia connection) the evolution of SkyTeam on the North Atlantic.

Linking Amsterdam and the main Northwest hub at Detroit enabled KLM to grow to connect hundreds of small city-pairs, funnelling traffic across the Atlantic via double connections at the two hubs (see top map). KLM was able to grow exponentially along its then-famous S-curve, adding new services and building its wave pattern at Schiphol. To achieve maximum operating efficiency, the joint venture implemented "metal neutrality" – the strategy whereby the alliance members were indifferent as to whose aircraft were used, as the revenue and cost sharing formulae in the agreement distributed the benefits equally between the alliance members. This was a highly effective way of achieving the full benefits of an integrated operation without an actual merger; but it worked because the two carriers had similar cost structures, similar products and the same complementary transatlantic strategy – consolidating thin Europe-US city-pair traffic into profitable volumes by hubbing at Amsterdam and Detroit (and Minneapolis).

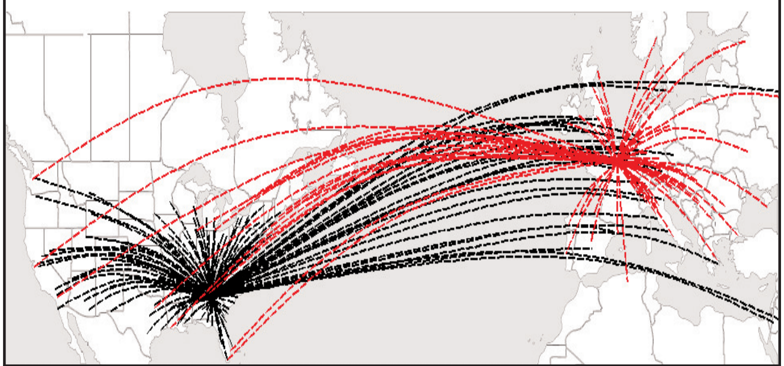
However, by the early 2000s the alliance appeared to have run out of steam; in the post-September 11 market, it became increasing difficult to add new services across the Atlantic, revenues slipped and costs escalated.

The Air France merger was the solution, and by 2009 the two airlines were one, though considerable management autonomy and distinct brands have been retained. With ATI in place AF/KL are in effect also operating with their US partners, DL/NW, as one airline across the Atlantic. Delta and Northwest themselves completed their full merger last year.

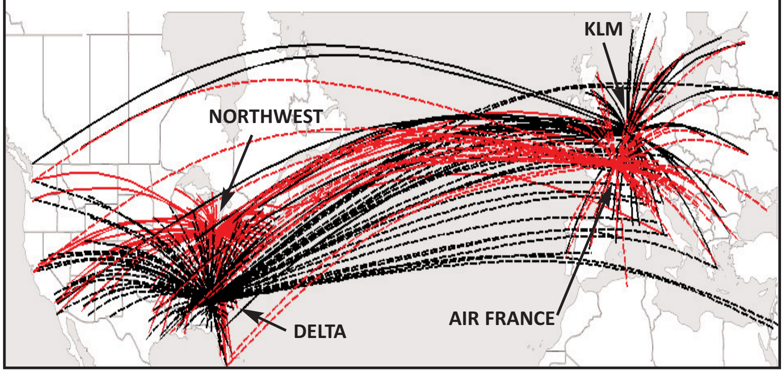
KLM AND NORTHWEST ROUTE MAP



AIR FRANCE AND DELTA ROUTE MAP



AIR FRANCE, KLM, NORTHWEST AND DELTA ROUTE MAP



By the bottom map the essential simplicity of KL/NW has been replaced by the complexity of AF/KL/DL/NW. SkyTeam adheres to the principle of metal neutrality as being essential to drive connectivity and efficiencies. But it must have become much more difficult to arrive at mutually acceptable revenue/cost sharing formulae given the potential for intra-alliance competition between differing hub systems. There is now the original KL/NW hub system concentrating on double connections; the Air France global hub at Charles de Gaulle adding mass and a new range of connections but which now also provides a competing one-stop operation to KL/NW and which has a different passenger profile with more higher-yielding business travellers; the Delta mega-hub at Atlanta provides extensive coverage of the US domestic market but its transatlantic 757s frequently overfly the two European hubs to secondary cities. If Continental had remained in SkyTeam, rather than defecting to Star last year, the picture would have been even more complex.

AIRLINE RESULTS

| Airline | Operating profit /pax (US$) | Operating margin |
|---|---|---|
| Swiss (08) | 34.4 | 9.6% |
| Singapore Airlines (09) | 34.4 | 5.6% |
| Turkish Airlines (08) | 19.9 | 9.6% |
| Air New Zealand (09) | 3.8 | 1.7% |
| Lufthansa (09) | 2.3 | 0.6% |
| ANA (09) | 1.6 | 0.5% |
| US Airways (09) | 1.5 | 1.1% |
| Adria (08) | 1.4 | 0.6% |
| Brussels Airlines (08) | 0.4 | 0.2% |
| Air Canada (08) | -1.1 | -0.4% |
| United (09) | -2.0 | -1.0% |
| Continental Airlines (09) | -2.3 | -1.2% |
| Croatia Airlines (08) | -3.3 | -1.9% |
| Asiana Airlines (08) | -3.4 | -1.2% |
| Air China (08) | -8.0 | -3.6% |
| Thai (08) | -11.1 | -3.3% |
| LOT Polish (08) | -11.4 | -3.8% |
| SAS (09) | -16.3 | -6.9% |
| Spanair (08) | -17.6 | -11.5% |
| Blue1 (09) | -18.4 | -11.3% |
| TAP Portugal (08) | -26.2 | -7.2% |
| bmi (08) | -30.2 | -15.2% |
| Austrian (08) | -42.8 | -12.3% |
| **STAR Total** | **-0.9** | **-0.4%** |
| **LH- UA** | **0.1** | **0.0%** |
| Aeroflot (08) | 28.2 | 6.9% |
| Czech Airlines (08) | 7.3 | 3.1% |
| Korean Air (09) | 5.1 | 1.4% |
| Delta (09) | -2.0 | -1.2% |
| China Southern (08) | -16.2 | -11.8% |
| Air France/KLM (09) | -26.0 | -6.3% |
| **SkyTeam Total** | **-8.3** | **-3.5%** |
| **KL-AF-DL-NW** | **-9.4** | **-3.8%** |
| LAN (09) | 28.3 | 11.8% |
| Royal Jordanian (09) | 27.6 | 8.7% |
| Qantas (09) | 4.0 | 1.4% |
| JAL (09) | -9.6 | -2.6% |
| American Airlines (09) | -11.7 | -5.0% |
| British Airways (09) | -21.7 | -5.6% |
| Iberia (09) | -30.5 | -10.4% |
| Finnair (09) | -33.8 | -9.5% |
| Cathay Pacific (08) | -40.8 | -9.2% |
| **oneworld Total** | **-12.3** | **-4.0%** |
| **BA-AA** | **-14.4** | **-5.2%** |

For KL/AF there is a particular issue: the five year agreement guaranteeing “balanced development” between the Amsterdam and Paris hubs expired at the end of last year. If the merged entity continues to produce losses at the rate of the last two years, some very difficult route rationalisation questions will have to be addressed: which hub will bear the brunt of any cutbacks?

## Alliance dilemmas

For other alliances the idea of metal neutrality is a non-starter. BA, for instance, considers that its premium long-haul product is somewhat superior to that of American, and would presumably not agree to equal revenue sharing and/or selling the AA product as its own brand.

Airline alliances have been compared to the internet – they offer an amazing range of connecting opportunities, plus perks like integrated FFPs, which consumers/passengers have come to value and eventually to take for granted. The problem in both cases is finding a business model that extracts profits from the network. And alliance airlines face a similar dilemma to that of Microsoft (not that any of them have got remotely close to Microsoft’s financial performance) – if they start to make substantial profits out of an ATI network, they will attract the disapproval of the US and European regulators.

# Aer Lingus – kissing goodbye to simplicity?

Aer Lingus has arguably been the hardest hit of all the legacy carriers by the rise of the new generation LCC business model – not the least of its problems being Ryanair's very existence as an Irish airline and its inexorable expansion in its home base. Indeed Aer Lingus is probably unique among the European flag carriers in finding that it no longer has the largest share of traffic in its home market. So what does the future hold for Ireland's flag carrier?

Under the stewardship of Willie Walsh as CEO the airline went through a strategic restructuring in the early 2000s designed to recover profitability after the 2001 downturn and reorient itself as a new generation low cost carrier – on the rationale that as its main competitor was Ryanair, and as it could not hope to beat its main competitor as a full service legacy carrier, it should try to reinvent itself as benchmarked against the new generation business model.

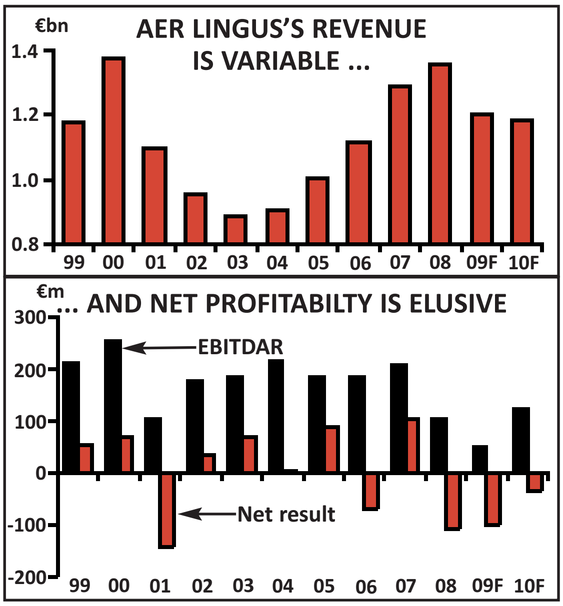
This restructuring at least was able to bring the cost structure a little closer to the "keep it simple" principle of its major competitor and to some extent it has been able to hold its own against Ryanair. And it was at last able to float on the stock exchange in 2006 – even if it was to be lumbered immediately with an audacious and unwanted bid from its cash-rich arch-rival.

The LCC restructuring under Walsh established Aer Lingus as an unusual hybrid: a legacy carrier with very low operating costs. In the process the company removed some €350m from its cost base (30% of its costs in 2001) and although Walsh was not quite able to achieve his target of a 15% operating margin by the time he left in 2005, he had achieved the remarkable result of reducing unit costs to what would normally be a highly competitive €5.5 cents/ASK (and that with a relatively short stage length) – albeit still 60% higher than those at Ryanair.

Taking the simplicity principle to heart he turned the airline into two: on the one side being a point-to-point low fare short-haul operator by unbundling the product, simplifying procedures, outsourcing non-essentials, adopting a single class short-haul operation, significantly improving employee productivity, distributing via the internet only, implementing a load-factor static/yield active low fare revenue management system and pursuing further reductions in unit costs. On the other side was a point-to-point transatlantic carrier to those few major Irish destinations in the US it could operate to – although still then stymied by the restrictive Irish-US bilateral – but one starting to look at expanding in other directions.

In the process Aer Lingus also withdrew from its previous alliance partnership in oneworld, although retaining major code-share agreements (e.g. with British Airways on the Irish-UK routes) while seemingly dis-owning pretentions to act as a traditional network carrier.

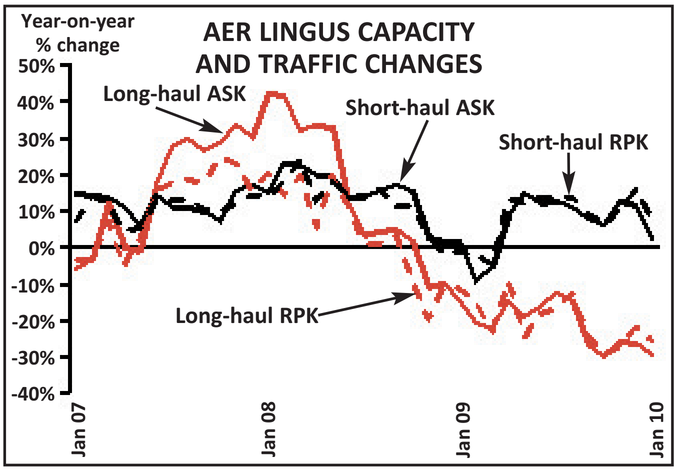
Having seemingly nearly sorted its cost structure the company grew strongly in the upturn in the cycle; between 2005 and 2008 it expanded capacity by an annual average 10%-



13% on long-haul and 15% on short-haul - while demand could not keep pace with the increase in capacity and load factors fell by 15 points to a disappointing 71% on long-haul operations (which included some questionable but short-lived services to the Middle East) and by three points to 74% on short-haul.

Of course when the financial crisis and the collapse of Lehman Bros arrived at the back end of 2008 the world changed. Ireland was particularly badly hit. The Irish economy had benefited substantially from its adoption of the Euro in 1999 and the eurozone's low interest rates, and had overheated in the subsequent eight years. This overheating naturally led to an inverse reaction in the downturn: Irish GDP probably fell by more than 7% in 2009 and is expected to decline by an additional 2.5% in 2010. All airlines have been hit badly – but Aer Lingus more than most. Traffic to/from Eire slumped by 25%, exacerbated by the weak economy and the strength of the Euro against the Dollar and Sterling (the UK being its largest trading partner) and not helped by the introduction of a “tourist tax”.

In the first half of 2009 the company posted a substantial operating loss of €93m (almost twice the operating loss it suffered for the full disastrous year of 2001) on revenues of €555m that were down 12% year-on-year - compared with an operating loss of €23m in the same period of the previous year. It even achieved the ignominy of an EBITDAR loss of €25m. Net cash balances fell to €440m, prompting Ryanair to suggest that the Irish flag carrier would soon run out of cash.




## All change

A year ago Aer Lingus appointed a new chairman – Colm Barrington (another former sparring partner of O'Leary's from GPA days) while in October Christophe Müller (formerly of TUI and Sabena) took over as the new CEO. In January the company held an 'investor day' in London to introduce the CEO and explain the company’s new strategy to the investment community. He started off by outlining his first impressions:

• Assets: a strong balance sheet, with €825m in gross cash; a modern streamlined fleet – slightly more than half owned outright; a valuable route network; and strategic slots (particularly at Heathrow).

• Operating business: a very competitive cost base; high quality maintenance; and good asset utilisation.

• Markets: a strong brand in core markets; a high market share on core routes; and underutilised route connectivity.

• People: high calibre staff; excellent customer satisfaction; and positive staff attitudes.

However, against this was a business that needed immediate short-term remedial action to halt losses and preserve cash - through capacity reductions, yield improvements and cost reductions. In the longer term he stated that the company needed a clear and coherent direction to drive profitable growth when the world finally returns to some form of normality. This meant reassessing:

• Market positioning,
• Network design,
• Partnerships and alliances,
• Yield management,
• Distribution, and
• An antiquated IT infrastructure.

As for many airlines, 2009 was a year of mixed fortunes for Aer Lingus. In the first six months the company continued to increase capacity and maintained an over-aggressive expansion of the network – including an attempt to break into easyJet's increasingly monopolistic position at London Gatwick. Not helped by Ryanair's aggressive pricing initiatives it found yields under extreme pressure – exacerbated by the focus on maintaining load factors at all costs. Added to which Müller stated that he believed they were in a "vertical section" of the demand curve where price manipulation would not stimulate traffic. At the same time the cost base - not helped by the prior year fuel hedging programme bringing in fuel costs well above market rates - was "too high for market conditions and the scale of the business". The result was a massive €94m loss – or 17% of revenues.

## Short-term actions

In the second half of 2009 (which includes the all-important main summer season) he stated that the company anticipates a small profit before exceptional items. This has been achieved by a reduction in long-haul capacity, including the cutting of the dubious Middle East routes and others (such as San Francisco), along with frequency reductions across the board. The initial foray into Gatwick had been cut back significantly by reducing the number of aircraft based there from five to three and concentrating on core routes to Dublin, Cork, Knock and Malaga. The result was a near 20% reduction in capacity in the final quarter of the year. Importantly on yield, the company started to refocus its capacity management policy towards the traditional aim of maximising unit revenues per flight (or seat) rather than concentrating on load factor maintenance.

Along with the rest of the world Aer Lingus has rescheduled its future aircraft deliveries. In 2009 it ended with a fleet of 44 aircraft (and outstanding orders for 14), with an average age of six years. There are 36 A320/321s on short-haul operations and eight A330-200/300s on long-haul (and of the total fleet 48% are leased and 52% fully owned). Two additional A320s originally due for delivery in October this year have been deferred by six months. Three further A330s (which could be converted to A350s) have been deferred from 2010/2011 by three years while four A350s scheduled for 2014 have been pushed back a year. This will help capital outlay plans significantly (apparently having been done without any penalty from Airbus), bringing capex down towards €50m by 2012 from the €170m anticipated in 2010 – although from 2015 it appears Aer Lingus will suffer an average annual capital cost on equipment of more than €200m a year.

At the same time the company has introduced the necessary restructuring/cost saving plan – imaginatively called "Greenfield" and designed to save a further €97m from the cost base as well as realigning the company to prepare for "the next stage of growth". It is a bit surprising that Willie Walsh had left something to slash further after his time in the driving seat, but apparently there is additional room to cut management overheads, by reducing management levels from six to three. This will result in reducing staffing levels by 500, including a 40% reduction in management positions, reductions in pay and an anticipated cut in total staff costs from €310m to €240m by 2011. Uniquely it appears that the company has managed to get the pilots to agree to a suspension of the seniority list to enable the retirement of the older and more expensive on the roster.

## Medium-term options

The CEO's presentation highlights his aim of profitable growth once markets recover. Underpinning this strategic thinking is an investment in underlying IT platforms to bring old systems up to date (some of which go back decades). This will possibly allow the company to turn its yield (or capacity) management model towards the network carriers' modern norm of a true O&D system. Inherently this means turning the operating philosophy away from the LCC model back towards the greater complexity of a network carrier. Aer Lingus aims to "seek access to latent demand" through "network enhancement", partnerships and once again accessing other distribution channels apart from just the internet (and tailored to each originating market).

However, a key problem remains that the demand profile for Aer Lingus (with its base in a small nation on the periphery of Europe) is weak.

Eire is one of the smallest countries in Europe by population – although to its 4.5m inhabitants should probably be added the

| THE IRISH MARKET, 2008 | |
|---|---|
| **Visitors by reason for travel** | |
| **Business** | 13% |
| **VFR** | 28% |
| **Leisure** | 53% |
| **Other** | 6% |
| **Total** | **100%** |
| **Vistors by region of travel** | |
| **North America** | 7% |
| **UK-Air** | 39% |
| **UK-Sea** | 8% |
| **Europe** | 46% |
| **Total** | **100%** |

**Source:** CSO.

1.8m living in the six counties north of the border as part of a natural catchment area. However, it does have a huge diaspora: 10% of the English population (or 6m people) have at least one Irish born grandparent, while 25% (or 15m) claim Irish descent; while in the US it is estimated that more than 40m people are of Irish descent. As a result, although the underlying population of Ireland does not give rise to a strong natural base for point-to-point O&D traffic, there is a substantial potential for VFR and leisure travel, and a huge advantage for air travel is that Ireland is an island. But as the figures in the table (above) show, the country has an unusually low level of business traffic – accounting for only 13% of total visitor arrivals – and a high proportion of leisure and VFR arrivals at 53% and 28% respectively.

It is a truism in the travel business that these latter two categories are the most price and income sensitive and least time-sensitive – although Ryanair's O'Leary recently quipped that VFR traffic was some of the most lucrative for his airline, especially when the passenger just had to get to a funeral – and the least loyal.

The company further highlighted that as a result of this it has a relatively low proportion of demand for high-frequency time-sensitive services – and with that demand concentrated on a very few routes (principally the UK-Ireland routes, the most important of which is the Dublin-Heathrow route).

Strategically it may well be that the pure LCC model as an experiment for a legacy carrier such as Aer Lingus does not fit well – and Müller was at pains to point out that he believed that it was no longer a sustainable model for anyone; with a lack of any further opportunities for acquiring deeply discounted aircraft in the way that Ryanair and easyJet fuelled their aggressive growth in the 2000s (although have Boeing and Airbus really become rational?).

At the same time it is now impossible for Aer Lingus to revert to the full service legacy model; the low fares created by the Ryanair phenomenon are ingrained in the Irish market place, there is a very low proportion of business travel in its markets, and it is on the periphery of Europe.

The new aim is therefore to re-emphasise a market position as a hybrid midway between the full service flag carriers and the ultra-low cost carriers. As a result the company will effectively attempt to take least onerous of the complexities of the network model and combine it with the unbundling of the product inherent in the LCC model:

- Central airport locations,
- Business and leisure products,
- “Quality” core product with select à la carte paid options,
- Standalone FFP with reciprocity with partners,
- “Medium customer expectations,”
- Distribution through the internet as a priority, but multi-channel depending on market, and
- Specific network connections at selected hubs.

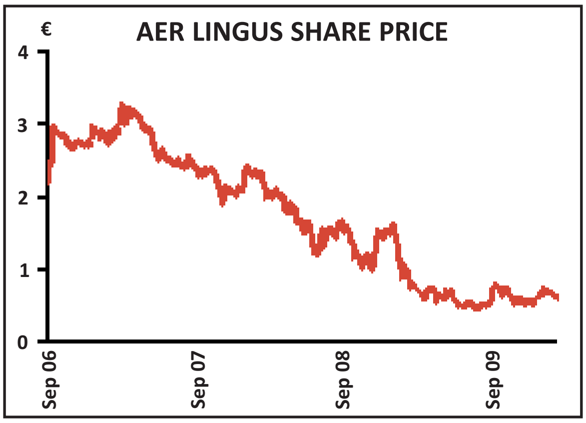
Having turned its back on the seeming impossibility of operating its network as a connecting hub, while at the same time having a very low level of high value point-to-point demand for its long-haul services, Aer Lingus has now announced a codeshare agreement with troubled regional carrier Aer Arann. Müller identified that for certain regions in the UK there is reasonable - albeit not substantial - demand for services on the Atlantic that are currently better served through London's “third” airport at Amsterdam than through either Heathrow or Gatwick.

In addition, although the company had turned its back on promoting network connectivity through its hub, Aer Lingus still has a natural fit between short-haul arrivals and long-haul departures to allow it to market shortest total trip times - e.g. between Glasgow and Boston in both directions. Although it does not matter for internet bookings necessarily, offering such connections makes it appear higher up the list for total trip times in the GDS engines. An additional marketing advantage not offered by any other hub in Europe is the US immigration and customs pre-clearance available at Shannon and Dublin T2. Admittedly Aer Lingus would only be able to offer connections on New York, Boston, Chicago and Orlando – but it has ambitions to promote additional connections on partners (such as JetBlue through JFK or United at ORD) to onward points in the US. Surprisingly perhaps, it appears that the only long-haul route the company operates that "works" as a point-point service is that to New York; the others would have to generate additional traffic from transfer at either end to survive.

## Partnerships/alliances

Aer Lingus has a long standing close relationship with British Airways (although it withdrew from the oneworld alliance during its restructuring towards an LCC business model), now principally as a codeshare partner for Irish routes to and through London and delivering 150,000 sectors a year. (With the low fares inherent in the Irish market place even BA could not compete on the routes, while Aer Lingus's 20 slot pairs at London's constrained airport are probably the most valuable assets not on its balance sheet). It also has a similarly strong codeshare partnership with KLM through Amsterdam to the Far East and Africa. Two years ago Aer Lingus set up a codeshare partnership with JetBlue through JFK and Boston to some 40 beyond destinations, and following the introduction of the first stage of the EU-US Open Skies agreement set up codeshares on 35 domestic destinations with United. As a result Aer Lingus is effectively gaining network benefits from all three global alliances, and there may appear to be more downside to Aer Lingus from being more closely related to just one of them.

On top of these relationships, and apparently described in Washington as "the most




intelligent use of Open Skies", Aer Lingus and United have set up a unique joint venture on the Atlantic that helps to solve a part of each carrier's deep-seated problems. Aer Lingus has too many long-haul aircraft and finds it exceedingly difficult for its long haul-routes to make economic sense: UA has a lack of long haul lift (although it has some 777s on option it has none on current order). Under this "extended code share" Aer Lingus will initially introduce a service (to start in March this year) between Washington and Madrid under its own colours as an effective wet-lease, being responsible for the operational aspects while United will be responsible for revenue generation (with the service being offered under both carriers' codes). Both airlines equally share the economic benefits and risks, and depending on the outcome may expand the agreement into a broader joint venture.

Müller may well be right in his conclusions - that Aer Lingus is fundamentally an attractive airline, that the short-term measures taken will stop the cash haemorrhage, and that the Greenfield restructuring will dramatically alter the cost base and provide opportunities for profitable long-term growth once market conditions improve. Certainly it helps to have a cash pile of €825m (93% of which is unrestricted). It definitely helps that on its core London Heathrow routes its other competitor, bmi, is retrenching. And it may well help that Aer Lingus's aggressive Irish competitor has decided to slow growth and not take any more aircraft. But all this does not solve the fundamental issue of the restriction and embarrassment of having Ryanair sitting vulture-like as a 30% shareholder.

By James Halstead

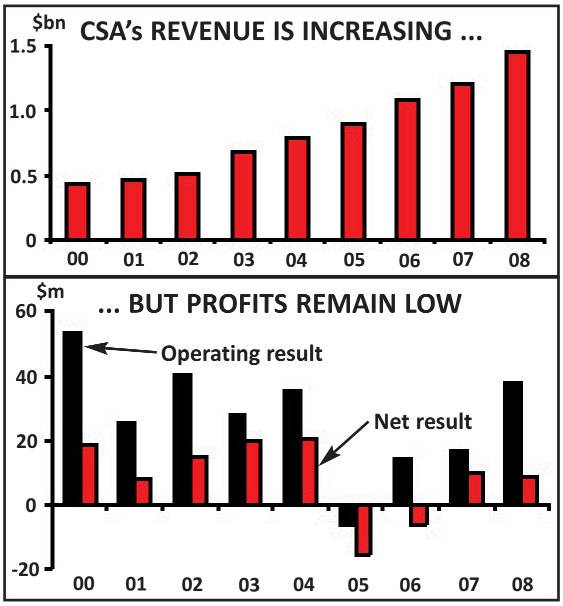
# A regional future for CSA Czech Airlines?

Following CSA Czech Airlines' disastrous attempt at privatisation in 2009, key questions remain over the future of the Czech flag carrier. Can it remain a niche network carrier, or does its future lie as a regional feeder airline?

Prague-based CSA operates to more than 60 destinations in Europe, the Middle East and North Africa, and has been profitable through the 2000s - albeit at relatively low levels (see charts, below).

Theoretically CSA is ideally located to take advantage of long-term growth from central and eastern Europe to other markets, and Airbus's latest market forecast is bullish about growth rates for the central European region (which in its definition includes eastern Europe) over the 2009-2028 period, as shown opposite.

The Czech state, led by the finance ministry, launched a process to sell its 91.5% stake in CSA in February last year, with a winning bidder scheduled to be chosen by the middle of July. The ministry wanted to raise more than $270m, but from the start imposed a number of conditions on potential buyers, including a requirement that CSA retains its "national airline status" and that it keeps its base at Prague airport for at least five years. To make matters worse, the process itself verged on shambolic - almost inevitably the initial timeline was extended not once but twice (until the end of September), with the ministry's justification for this being that it would "provide enough time to bidders for valuing the company".




In fact four serious bidders came forward over the first few months of 2009, including Air France/KLM, Aeroflot and Odien - a regional private equity fund that owns Cedok, the largest travel agency in the Czech Republic. The fourth expression of interest came from a consortium between Unimex, a Czech financial company (with a 51% interest in the consortium) and Czech charter airline Travel Service (which had a 49% share). Travel Service, of which Icelandair Group owns 30% and Unimex 20%, was the subject of a failed takeover by CSA in 2005, but since then it has expanded into low-cost scheduled services though subsidiary Smart Wings.

## A hasty shortlist?

In April the Czech finance ministry narrowed these potential bidders down to a shortlist of just two – Air France/KLM and Unimex/Travel Service. This was a decision that puzzled some analysts at the time, as with just two entities on the shortlist this didn't give the ministry much room for manoeuvre if one of the bidders fell away (and indeed that was a mistake that would come back to haunt the process).

Additionally, the decision to exclude Aeroflot from the shortlist also appeared short-sighted, as it is arguable that of all the potential bidders Aeroflot would have been the best strategic fit for CSA, bolstering the Russian airline's position against Lufthansa in central and eastern Europe and allowing CSA to have a strong partner/owner eastwards.

Aeroflot suspected that the hasty decision to exclude it was at least partly due to a perception among Czech politicians that Aeroflot ownership of CSA would have presented "a security threat for the Czech Republic". Indeed the finance ministry had said that it needed to check whether "any of the bidders is directly or indirectly owned by state-owned entities of countries whose foreign and internal policies pose security risks for the Czech Republic", although it subsequently never mentioned this as an explicit rationale for omitting Aeroflot from the shortlist.

Aeroflot quickly put out a statement that following "a thorough examination of CSA's financial and operational situation, Aeroflot detected considerable risks in the bid, which would have entailed serious financial obligations at a time of a global financial crisis". That's partly an attempt to save some face for the airline, but may also reflect concern from the National Reserve Corporation, which owns a substantial minority of Aeroflot, that an Aeroflot purchase of CSA would not be sensible given that the Czech carrier would subsequently need substantial investment.

Nevertheless, there's no doubt that Aeroflot's management was disappointed not to get onto the shortlist, and it had started to look for a local Czech partner for its bid, given that as a non-EU airline Aeroflot would have been capped at a 49% shareholding.

## Down to just one...

Question marks over the ministry's decision to rule out Aeroflot were underlined in August when Air France/KLM withdrew its interest, apparently due to the downturn in the global economy in general but more likely as the result of a reassessment following an in-depth examination of the finances of CSA – even though CSA's route network was considered to be "highly complementary" to AF/KLM's and would have enabled the French/Dutch group to expand significantly in central and eastern Europe.

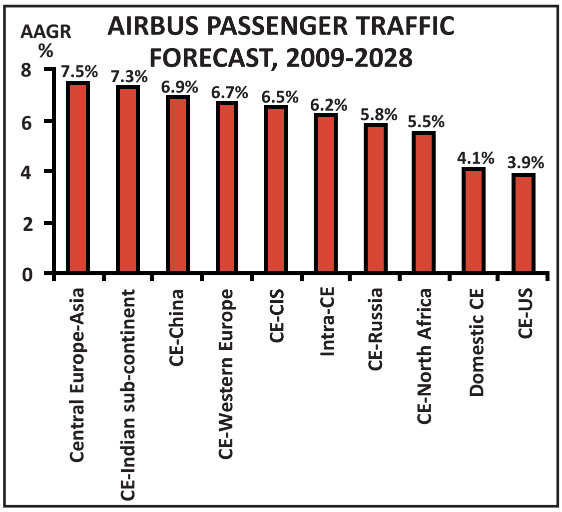
Rather unhelpfully for the last remaining bidder, AF/KLM said that: "Under such circumstances, Air France/KLM believes CSA might focus on developing and implementing a standalone recovery plan aimed at restoring its profitability."

**CSA FLEET**

| | Fleet | Orders | Options |
|---|---|---|---|
| **A310** | 2 | | |
| **A319** | 7 | 9 | |
| **A320** | 8 | | 4 |
| **A321** | 2 | | |
| **737-400** | 7 | | |
| **737-500** | 10 | | |
| **ATR-42** | 8 | | |
| **ATR-72** | 4 | | |
| **Saab 340B** | 1 | | |
| **TOTAL** | **49** | **9** | **4** |

That last bidder was Unimex/Travel Service, which - with no rivals in the picture - went on to bid a reported CZK1bn ($58m) for the state's share. Incidentally the advisor to CSA, Deloitte Advisory, had indicated that CSA's minority shareholders would be approached so that the purchaser of the state's 91.5% might be able to win 100% control; the other shareholders are insurance company Ceska Pojistovna (4.3%), the city of Prague (2.9%), the city of Bratislava (1%) and the Slovak Republic National Property Fund (0.2%)

But in late October the ministry rejected this bid due to a number of so-called "unacceptable" conditions requested by Unimex/Travel Service, including an injection of funds (believed to be many billions of koruna) by the ministry so that there was "no negative equity" when CSA was taken over.



The low price must also have been a consideration for the ministry, although the consortium pointed out that "in the context of billions in annual losses at CSA, billions in loans due in the next 10 years and more than 14 billion koruna in leasing payments, our bid was above standard".

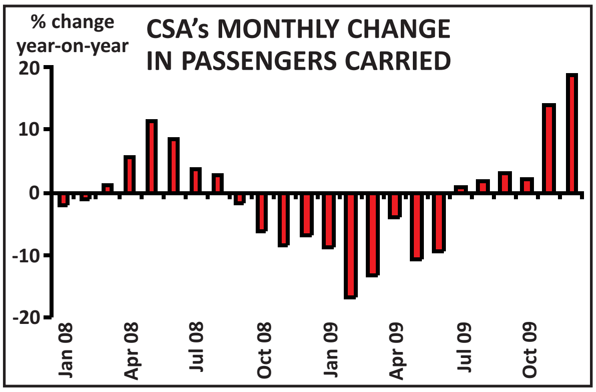
This effectively brought to an end the 2009 privatisation attempt, with the government saying that instead the airline would continue with restructuring. Those efforts have been ongoing for some time - in 2008 pay for all managers was frozen (with board members taking a 15% salary cut) and cost-cutting was intensified after poor financial results for the first-half of 2009. In that period CSA reported a £100m net loss, its worst-ever performance for the first six months of a year. In the half-year revenue fell thanks to a 9.6% drop in passengers carried and - most worryingly of all - CSA said that as a result of "a shift in passengers to lower booking classes … yield dropped significantly".

Following this set of results and the slump in demand over the first part of 2009 (see chart, below), CSA CEO Radomir Lasak said the airline needed to accelerate cost-cutting and take "drastic" actions, including staff reductions, the cutting of routes and the disposal of aircraft in order to return CSA to profitability in 2010.

The fleet of 50 aircraft (as of last year) is being cut by 10% this year (see table, page 11). Three 737s are to be sold and two A310s will be returned to lessors on expiry of operating leases in spring this year. Over the summer of 2009 CSA decided to remove its two A310s from scheduled service and close the route between Prague and New York (SkyTeam partner Delta maintains a service on the sector). While CSA insisted that it would remain a long-haul airline (with routes continuing to central Asian destinations such as Tashkent), these are flown with narrowbody aircraft and cannot be considered as long-haul by any realistic definition. And though late last year CSA said it was following up a codeshare with China Eastern on the Frankfurt-Shanghai route from March this year with talks with the Chinese airline about a Prague-Shanghai route from 2011, this would be operated by China Eastern. There appears to be no realistic prospect of CSA returning to true long-haul routes.

Indeed in August the Czech pilots unions CZALPA wrote a letter to the Czech prime minister criticising the airline's management and in particular its decision to cancel long-haul routes, which the union believes relegates the airline to being a regional carrier only.

In terms of staff, in August CSA told unions that it wanted to make 860 redundancies at the airline (out of 4,600), to be implemented in all parts of the airline (including 140 pilots, out of the total 560, and 240 cabin crew) between September and March 2010. But that ambition ran into substantial opposition, and so in October the company said it wanted to cut salaries substantially, with the board promising to resign as soon as unions signed new collective agreements with cuts of 30% on pilot salaries, a 15% reduction in other salaries and a freeze on all other employee benefits until at least the end of 2010.




## All change at the top

This deal was agreed in October (just a week before the finance ministry rejected the last remaining bid for CSA) with chairman Vaclav Novak, CEO Radomir Lasak and six other board members resigning in the same month. Miroslav Zamecnik took over as chairman and Miroslav Dvorak, head of Prague airport, became CSA's new CEO. However, Dvorak has kept his position at Prague airport, which has inevitably led to charges of a conflict of interest – although as both the airline and airport are owned by the government, CSA denies this accusation. But in November CSA then replaced chairman Miroslav Zamecnik with Michal Mejstrik, and also cut the management board from nine to five members and the supervisory board from 12 to six members.

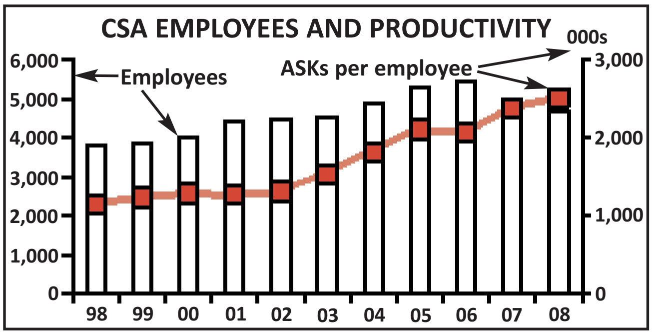
Although Dvorak says that the airline is not under pressure to sell assets to raise cash and should be able to raise finance through commercial debt, it's clear that the airline is disposing of as many non-core assets as possible in order to raise cash. After selling its headquarters in Prague to the operator of Prague airport, in December last year CSA agreed to sell its duty-free business (which has 80 employees and earns annual revenue of more than $30m) to a company called Aelia Czech Republic, a joint venture between two companies owned by Lagadere Services, a French retail and distribution group. The sale raised $42m, which will be used for "implementation of further stabilisation measures", according to the airline.

In January CSA also created a subsidiary called CSA Support into which it placed all its handling operations. The unit has more than 800 employees and with profit and loss accountability, this leaves the possibility open in the future of a sell-off by CSA.

## Sixth-freedom strategy

In terms of its route network, CSA's new strategy appears to be focused on sixth-freedom routes. After the last bidder was rejected in October, the finance ministry's future for the airline relied on deeper restructuring, along with a route strategy that is explicitly based not on point-to-point routes from Prague (in which there is fierce competition and which has a "self-destructive price war") but rather on building up sixth-freedom routes in Europe as well as increasing charter operations (with the A310s taken off long-haul being used for charter operations prior to their disposal).

The airline believes the market potential of sixth freedom routes though Prague - connecting its destinations in Europe, the Middle East and central Asia - is three times larger than the point-to-point market out of Prague. That may be an overgenerous assessment of the potential, because transiting through Prague is unlikely to be an optimal solution for many of the city-pairs in CSA's route network.




Nevertheless this is what CSA intends to do, and in order to build up this revenue late last year CSA introduced a new fare management system called "Origin & Destination", which can generate fares for almost 4,000 connections in its network through Prague. At the same time, in the winter 2009/10 timetable CSA began to close "financially inefficient" point-to-point routes, including services to Manchester, halted its long-haul flights to New York JFK, and reduced frequencies to destinations such as London, Riga, Hamburg and Ostrava. However, frequencies were raised on some routes to eastern Europe, including Moscow, Tbilisi and Minsk.

Overall, the prospects for CSA's survival as a standalone network carrier are poor. The finance ministry believes CSA can return to profitability without the need for outside help, but that seems a very optimistic assessment. The sale of non-core assets will reach a limit at some point, and the new strategy of a sixth-freedom network via Prague looks risky. Already the expected date for a return to profitability has been shifted from 2010 to 2011, and with the long-haul routes now gone the danger is that CSA is slowly turning itself into a regional carrier. That may make the carrier much less attractive to a potential buyer if the finance ministry resurrects a sale - which it surely will do at some point.

# US LCCs: When will they resume growth?

Investor interest in the US is currently intensely focused on the legacy airline sector, which is likely to see the strongest improvement in revenue and earnings as economic recovery gathers pace. But US low-cost carriers also deserve attention because of their remarkable capacity discipline, strong profit performance in 2009 and arguably better long-term prospects.

The leading LCCs outperformed the legacy carriers financially through the recession. Some of the LCCs switched quickly from aggressive growth to a no-growth mode. They found profitable new markets, reduced dependence on their traditional bases and tapped new ancillary revenue sources. They improved revenue management and invested heavily in new technology, which will enable them to fully develop ancillary revenues and codeshare internationally. And, of course, they emerged from the recession with exceptionally healthy cash balances.

As a result, there is now a very interesting confluence of a group of strong LCCs, a massive domestic contraction by the legacy carriers (which many feel is permanent) and a budding economic recovery.

Raymond James's optimistically titled "Growth Airline Conference", held on February 4th in New York (actually an annual event and always called that), shed much useful light on the leading LCCs' post-recession growth strategies. When will they start growing again and where will they go?

## Gradually increasing market share

Back in 2004 it was widely predicted that the LCCs' then-25% passenger share would grow to 40% or more within five years (see *Aviation Strategy,* June 2004). That has not happened. In fact, the LCCs have not seen their aggregate market share change very much at all since 2004. According to Raymond James's late-January "2010 Growth Airline Outlook" report (published in conjunction with the conference), the LCCs grew their share of domestic passengers by only two percentage points between 2003 and 2007, from 25% to 27%. The share dipped to 25% in 2008, before recovering back to 27% in January-September 2009.

The predictions did not materialise because of structural changes in the industry, as well as some notable exits from the LCC sector. The surviving LCCs, especially the leading ones - Southwest, JetBlue and AirTran - have all steadily increased their market shares.

The legacy carriers' domestic mainline operations have contracted sharply in the post-2001 period, but most of that capacity has been passed to regional partners. Since 2003, while the legacies' domestic passenger share has fallen from 57% to 48%, regional carriers' share has surged from 18% to 25%. This was another example of how the legacy sector really got its act together in the post-2001 days, in many cases with the help of Chapter 11.

The biggest change in the LCC sector has been the exit of America West, following its merger and integration with US Airways.

The US LCC sector has seen its share of turmoil due to the past two years' economic challenges. Of the two significant new entrants that began operations in 2007, one is still here (Virgin America) but the other has disappeared (Skybus). Of the two established LCCs that went into Chapter 11 in 2008, one has been revived (Frontier) but the other was liquidated (ATA).

ATA, Frontier and Skybus succumbed to the slowing economy and mini-credit crisis that hit the industry in the spring of 2008.

ATA shut down after losing a key military contract (it was an oddball among LCCs in that it depended heavily on charters). Skybus, which had tried to test a Ryanair-style business model in the US after raising a record $160m in start-up capital, failed due to a host of reasons, including Columbus being too small to support a low-cost carrier hub.

Denver-based Frontier, which was forced into bankruptcy by credit card processor demands, emerged from a successful Chapter 11 restructuring in October 2009 as a wholly owned subsidiary of Republic Airways Holdings, the parent company for several regional carriers. Republic bought Frontier for $109m plus debt assumption of $330m via an auction process last summer, after Southwest withdrew its bid after failing to secure approval from its unions.

Frontier is now a new type of LCC model in the making. It has retained its brand, identity, fleet and markets, but its back-office functions are being consolidated with those of Milwaukee-based niche operator Midwest Airlines (another recent Republic acquisition). The acquisitions stemmed from Republic's desire to diversify away from the regional sector, where growth prospects are still very uncertain.

Instead of trying to morph into an LCC (a task where others have failed), Republic opted to buy two established airlines with strong brands and loyal customer bases and drive additional operational and cost efficiencies from the combined operations.

This downturn saw the first-ever aggregate capacity reduction by the US LCCs. After growing at double-digit annual rates up to and including 2007, the LCC sector cut capacity by 1% in 2008 and 4% in 2009. This was instrumental in creating a rational pricing environment because, even with a 25-27% market share (or a 22% revenue share), the US LCCs have controlled pricing in the domestic market since the early part of the last decade.

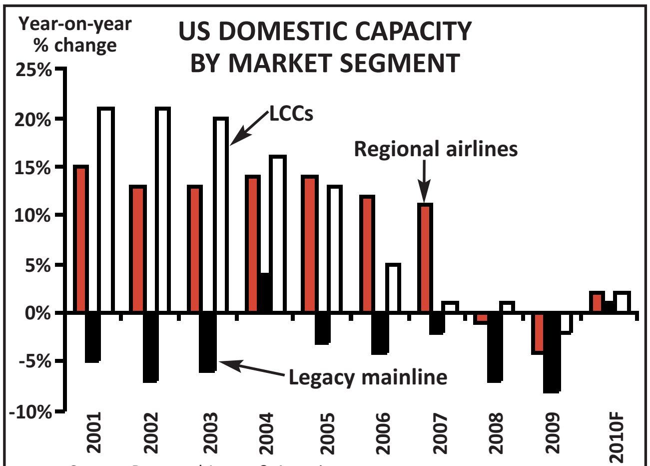
Last year all three of the main domestic segments saw capacity declines. However, because the legacies cut so much deeper (8% mainline), and with regional capacity being curtailed by 2%, the LCCs gained market share. Southwest's CEO Gary Kelly estimated at the conference that the airline's share of the domestic market rose by "at least 1%" in 2009, worth $800m on an annualised basis.

## Prospering through recession

Right across the spectrum, the US LCCs appeared to be profitable last year. The four listed LCCs outperformed their legacy counterparts in terms of revenues, RASM and profit margins. Allegiant had an operating margin of 21.9%, JetBlue 8.5%, AirTran 7.4% and Southwest 5.2% in 2009.

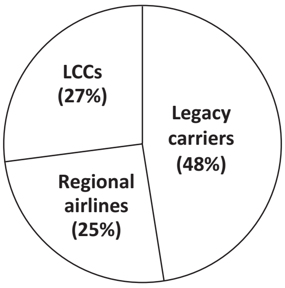
Frontier was earning lofty 8%-15% pre-tax margins last summer, when it was still in bankruptcy, and is believed to have posted a profit for 2009. Even Virgin America, which has run up substantial losses since its launch in 2007, recently reported its first quarterly operating profit, a modest $5.1m on revenues of $157.9m for the September quarter.

Furthermore, Southwest is now leading the industry out of recession with a spectacular traffic and revenue momentum. The airline's PRASM surged by 14-15% in January. Passenger traffic rose by almost 9% despite a 7% capacity reduction. And Southwest is not discounting heavily.



**Source:** Raymond James & Associates.

US DOMESTIC PASSENGERS BY MARKET SEGMENT (Jan-Sep 2009)




**Source:** Raymond James & Associates.

The 2009 profits were all the more gratifying because each of the top three LCCs had some issues in the preceding years. Southwest's main challenges were its waning fuel hedges and cost pressures generally, which caused it to report its first quarterly net losses in 17 years in 2008. JetBlue and AirTran had a multitude of issues in the mid-2000s, including over-aggressive growth, and were hit hard by the fuel price hikes. JetBlue had net losses in 2005, 2006 and 2008. AirTran had many years of marginal or fluctuating profits and a sizable loss in 2008. Periodically there were concerns about both airlines' cash positions, and in late 2007 JetBlue even resorted to selling a 19% ownership stake to Lufthansa for $300m.

Probably the single most important factor that helped the top three LCCs back to solid profitability was that they all acted early to bring capacity growth to a halt. And they did it properly by cancelling or deferring aircraft orders or retiring older aircraft.

However, the LCCs were still able to undertake new expansion. In other words, they redeployed capacity from weak parts of their networks to promising new markets. Examples were Southwest's venture into four major new cities in 2009 and JetBlue's continued Caribbean expansion.

Of course, the LCCs weathered the recession well because their primary focus is on leisure traffic. But there was also much anecdotal evidence of business travellers trading down from the legacies to the LCCs – a phenomenon aided by the fact that in many cases US LCCs provide a higher-quality product and better service than the legacies.

The airlines have showed considerable restraint on the pricing front (helped by the capacity cuts). They also now have better yield management systems and have aggressively tapped new ancillary revenue sources.

According to the Raymond James report, Southwest, JetBlue, AirTran and Allegiant escaped with a mere 8% aggregate decline in passenger revenue in the first three quarters of 2009, compared with a 21% decline for the domestic industry (ATA mainline). The fact that the LCCs now participate in both the leisure and business markets means that they too should benefit from economic recovery.

## Southwest lessons

Southwest was able to turn in a respectable $143m net profit before special items for 2009 (its 37th consecutive profitable year), in the first place, because of capacity restraint. After long growing at a brisk 8-10% annual rate, the airline began to slow growth in 2007, grew by only 3.6% in 2008 and contracted by 5.1% in 2009. The wind-down has been achieved through 737-700 order deferrals and accelerated retirement of older 737s.

Second, Southwest is seeing the fruits of a major three-year remodelling effort launched in June 2007, which was aimed at adapting to a higher fuel-cost environment and increased competition from other LCCs, strengthening the brand and attracting more business traffic. The result has been a growing range of new products, programmes and processes that have brought in significant extra revenues.

Third, Southwest has been extremely aggressive with route optimisation efforts. Last year it eliminated so many unprofitable flights that it was able to add Minneapolis/St. Paul, New York LaGuardia, Boston Logan and Milwaukee to its network, while also cutting overall capacity. The new cities have been strong revenue contributors almost from day one.

JetBlue had a bumper year, generating a $58m net profit (its highest since 2003) and positive free cash flow for the first time in its history. The airline ended the year with industry-leading cash reserves ($1.1bn or 35% of annual revenues).

Capacity discipline has been the key factor behind JetBlue's strong results in the past two years. The airline reduced its ASM growth from an annual average of 25% in 2003-2006 to 12% in 2007, 1.7% in 2008 and 0.4% in 2009. In the past three years JetBlue has rescheduled almost 100 aircraft and sold 19; it took only nine new aircraft in 2009, compared to the originally scheduled 36.

JetBlue has also been optimising its network. One of its smartest moves has been to switch significant capacity from the fiercely competitive transcontinental market to the Caribbean. The Caribbean markets are strong, have year-round demand and have matured quickly. The VFR/leisure traffic held up well through the recession. By mid-2010 the Caribbean will account for about 25% of JetBlue's total capacity, up from 12% in 2007, while transcon's share is now down to 30%. The Boston market has been another success story. JetBlue's results also benefited from strong ancillary revenue growth.

AirTran had its best year ever in 2009, following a very difficult 2008. The airline earned a $135m net profit (5.8% of revenues), contrasting with a year-earlier $266m loss. The turnaround was attributed, first, to quick action in late 2008 to curtail ASM growth, which had exceeded 20% annually for five years. AirTran deferred or sold 47 aircraft from its 2008-2011 fleet plan, enabling it to reduce ASM growth to 4.9% in 2008 and to cut capacity by 2.2% last year.

Second, AirTran's special blend of high quality (a well-established business class for a small extra fee and other perks) and the lowest cost structure in the industry was a good combination to have in a steep recession.

Third, AirTran continued to diversify its network away from Atlanta, expanding in key markets like Baltimore, Milwaukee and Orlando, as well as the Caribbean. Atlanta's share of AirTran's ASMs has declined from 91% in 2000 to 47% in 2010.

## CASM gap still significant

The unit cost gap between the US legacies and LCCs has narrowed in the post-2001 era, largely because of the impressive cost cuts achieved by the legacies in or out of Chapter 11. However, LCCs still enjoy a significant cost advantage.

An analysis conducted by consulting firm Oliver Wyman for Raymond James found that, on a stage-length and aircraft-size adjusted basis, the average Legacy carrier unit costs are 36% higher than the LCC unit costs.

According to the analysis, which was based on third-quarter 2009 data, LCC unit costs ranged between 6.6 and 9 cents and legacy unit costs between 9.2 and 11.7 cents per ASM (at 1,000 mile stage length). AirTran had a one-point lead as the lowest-cost carrier (6.6 cents), while Spirit, a Florida-based privately held LCC, was the second-lowest cost carrier (7.6 cents), followed by Southwest, Allegiant and JetBlue (7.8, 7.9 and 9 cents, respectively).

Frontier was not in those comparisons, but Chapter 11 gave it one of the lowest unit costs in the industry. According to Republic, on a stage-length adjusted basis it has a slight disadvantage to AirTran but a fairly significant advantage to Southwest.

The Oliver Wyman analysis also found that, on a reported basis, the legacy-LCC cost gap narrowed significantly last year. This was attributed to the disappearance of Southwest's fuel hedge advantage and the greater non-fuel unit cost pressures experienced by LCCs. The latter probably mainly reflected the LCCs' no-furlough policies. Carriers like Southwest and JetBlue want to protect their brand and culture, which they view as service differentiators in the long run.

Also, many LCCs in the US continue to view themselves as growth companies. Therefore they continue to make investments in the infrastructure necessary for growth. One good example is JetBlue's switchover to the Sabre reservation system in the current quarter.

## Ancillary revenue strategies

While ancillary revenues generally have helped all US airlines, with "unbundling" (charging extra fees for services that were previously included in the air ticket price) there is an interesting contrast between Europe and the US. In Europe, unbundling was pioneered by the leading LCCs like Ryanair, and the Euro-majors are now reluctantly following. In the US, it was the legacies that led the way with unbundling in 2008; the main LCCs have followed, but somewhat hesitantly. (Of course, small niche LCCs like Allegiant, Spirit and now-defunct Skybus have long had Ryanair-style strategies.)

The bag fees are a case in point. The legacies introduced fees to cover all checked bags on domestic flights in 2008. Many LCCs followed suit, but JetBlue has not added a first checked bag fee and Southwest has not introduced any bag fees at all.

Being a lone holdout gave Southwest a unique opportunity to differentiate itself, which it did with the help of an advertising campaign called "Bags Fly Free". While sceptics argued that the airline was just turning away revenue, Southwest believes that the strategy has paid off handsomely, bringing in "hundreds" of millions of extra revenue in 2009.

JetBlue and Southwest have focused on developing ancillary activities that enhance their brands. In the past two years they have especially strived to cater for premium passengers. Southwest's "Business Select" product, its new boarding method and "EarlyBird" check-in (introduced since late 2007) have brought in significant extra revenues. JetBlue's "Even More Legroom" front-cabin offering (introduced in March 2008) made a useful $70m revenue contribution in 2009.

Southwest and JetBlue are in the process of putting in place the technology that will enable them to fully develop ancillary revenues. Southwest is in the middle of a multi-year technology drive that, among other things, will facilitate a new FFP from late 2010 (offering enormous potential) and a new revenue management system from 2011. Sabre will give JetBlue powerful new tools to maximise ancillary revenues. Some analysts have speculated that a first bag fee could be among the initiatives JetBlue will be launching in late 2010, but recent management comments suggest that the airline continues to have serious reservations about such a move.

## Growth plans and outlook

The argument put forward frequently is that since the legacy carriers continue to lose money domestically, they will continue to reduce capacity in the domestic market and will focus on international expansion. The Raymond James report suggested that the US legacies could eventually follow the direction of the top-three European flag carriers, which derive only 25% of their capacity from intra-European flying.

This would bode well for the US LCCs in the long term. However, with economic recovery being uncertain and aircraft deliveries remaining modest, 2010 is likely to see extremely limited domestic capacity growth by all industry segments. In Raymond James' mid-January estimates, legacy, regional and LCC capacity will inch up by 1%, 2% and 2%, respectively, this year. But the analysts did suggest that higher aircraft utilisation could lift LCC capacity growth 6-10% higher this year without any incremental aircraft.

The report estimated that Southwest, JetBlue and AirTran maintain aircraft orders and options that could expand their combined capacity at a 6% CAGR range through 2012.

But what do the airlines think? Southwest currently does intend to grow capacity in 2010 and expects to end the year with the same number of aircraft (537) that it had at year-ends 2008 and 2009. CEO Kelly remarked at the conference: "When we start hitting our profit targets and our return on invested capital targets, I think that will be the time we get serious about growing the airline again".

But Southwest will still be able to open new cities and grow in strong markets, thanks to its route optimisation efforts. It will start serving the new $318m Panama City Beach (Florida) airport when it opens in May – not a typical Southwest market in that it is completely undeveloped, but the risk will be minimal because a local real estate development company is underwriting the new services. Southwest will also continue to grow in important existing markets like St. Louis and Denver.

## JetBlue expansion

JetBlue is looking to grow its ASMs by 5-7% this year, but the growth will mainly come from increased aircraft utilisation and will be totally driven by its Boston and Caribbean markets; capacity in the rest of the network will decrease. The plan is to get back to the 2007 utilisation rate on the A320s, which was an industry-leading 12.8 hours daily (last year's was 11.5 hours).

JetBlue was previously expected not to take additional aircraft in 2010, but a new deal with Embraer in January (which will further smooth the delivery schedule) accelerated the delivery of four E190s to this year. But these aircraft will not be a significant factor in capacity growth.

This year's plans include adding Punta Cana in the Dominican Republic as the 15th international destination in May, growing Boston departures by 30% and "connecting the dots" between the core cities (New York, Boston and Orlando) and the Caribbean. JetBlue is being helped by legacy carrier contraction in Boston.

CEO Dave Barger suggested recently that an appropriate longer-term growth rate for JetBlue might be 5% annually, with higher rates possible when there are extra opportunities. However, "every route, every aircraft, every new city has to earn its way". JetBlue's A320 deliveries currently go up sharply in 2011-2012, but the airline indicated that it could again work with the manufacturers to smooth out the schedule.

**US LCCS' FLEET GROWTH**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010F | 2011F |
|---|---|---|---|---|---|---|---|---|
| **AirTran** | 87 | 108 | 127 | 137 | 136 | 138 | 138 | 145 |
| **Allegiant** | na | na | 26 | 35 | 38 | 46 | 52 | 60 |
| **JetBlue** | 69 | 92 | 119 | 134 | 142 | 151 | 155 | 163 |
| **Southwest** | 417 | 445 | 481 | 520 | 537 | 537 | 537 | 547 |
| **Total** | **573** | **645** | **753** | **826** | **853** | **872** | **882** | **915** |
| **Growth** | **11%** | **13%** | **13%** | **9%** | **3%** | **2%** | **1%** | **4%** |

**Source:** Raymond James & Associates.

Both Southwest and JetBlue will be relying more on codeshares in the future. Southwest expects to have the technology in place by late 2010 to launch the long-awaited codeshares with Canada's WestJet and Mexico's Volaris. JetBlue began codesharing with Lufthansa in November (to complement its codeshares with Aer Lingus); the shift to Sabre will facilitate more airline partnerships in the future.

AirTran expects its ASMs to increase by 3-4% in 2010, largely because a planned sale of two aircraft delivered in the fourth quarter fell through, as well as through increased utilisation. Otherwise AirTran has no aircraft deliveries until March 2011.

One third of this year's growth will be in Milwaukee and the other two-thirds in Florida and the Caribbean. Milwaukee is AirTran's latest focus city. Having failed to buy Midwest Airlines there in 2007, AirTran has built up its own service in Milwaukee, which it sees as the third Chicago airport. It is already present in 18 of the top 20 markets. Milwaukee is currently quite a battleground between AirTran, Southwest and Midwest.

For the longer term, AirTran is looking for moderate growth, earning its cost to capital. Aircraft deliveries will resume in 2011, with seven scheduled for that year and eight for 2012, which CEO Bob Fornaro calls a "sensible fleet plan for the new normal".

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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/** | **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** |
| **KLM Group** | Apr-Jun 08 | 9,830 | 9,464 | 366 | 266 | 3.7% | 2.7% | 66,610 | 53,472 | 80.3% | 19,744 | 106,700 |
| **YE 31/03** | 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 |
| | Oct-Dec 09 | 7,679 | 8,041 | -362 | -436 | -4.7% | -5.7% | 61,407 | 49,220 | 80.2% | 17,264 | 105,925 |
| **British Airways** | Jan-Mar 08 | 4,049 | 3,824 | 225 | 133 | 5.6% | 3.3% | 36,745 | 26,149 | 71.2% | 7,394 | |
| **YE 31/03** | **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 |
| | Oct-Dec 09 | 3,328 | 3,287 | 41 | -60 | 1.2% | -1.8% | 34,248 | 26,667 | 77.9% | 7,502 | |
| **Iberia** | Apr-Jun 08 | 2,142 | 2,148 | -6 | 33 | -0.3% | 1.5% | 16,771 | 13,372 | 79.7% | | 21,793 |
| **YE 31/12** | 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 |
| | Oct-Dec 09 | 1,589 | 1,784 | -195 | -134 | -12.3% | -8.5% | 14,846 | 11,759 | 79.2% | | 20,096 |
| | **Year 2009** | **6,149** | **6,796** | **-647** | **-381** | **-10.5%** | **-6.2%** | **62,158** | **49,612** | **79.8%** | | **20,671** |
| **Lufthansa** | Jan-Mar 08 | 8,368 | 8,086 | 282 | 85 | 3.4% | 1.0% | 45,131 | 34,828 | 77.2% | 15,992 | 106,307 |
| **YE 31/12** | 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 |
| | Oct-Dec 09 | | | | | | | | | | | |
| | **Year 2009** | | | | | | | | | | | |
| **SAS** | Jan-Mar 08 | 1,969 | 2,089 | -120 | -185 | -6.1% | -9.4% | 9,696 | 6,700 | 69.1% | 6,803 | 25,477 |
| **YE 31/12** | 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%** | **41,993** | **29,916** | **71.2%** | **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 |
| | Oct-Dec 09 | 1,474 | 1,676 | -202 | -186 | -13.7% | -12.6% | 8,160 | 5,764 | 70.6% | 6,055 | 16,510 |
| | **Year 2009** | **5,914** | **6,320** | **-406** | **-388** | **-6.9%** | **-6.6%** | **35,571** | **25,228** | **70.9%** | **24,898** | **18,786** |
| **Ryanair** | Jan-Mar 08 | 859 | 792 | 67 | -85 | 7.8% | -9.9% | | | | | |
| **YE 31/03** | **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% | 14,953 | |
| | Jul-Sep 08 | 1,555 | 1,250 | 305 | 280 | 19.6% | 18.0% | | | 88.0% | 16,675 | |
| | Oct-Dec 08 | 798 | 942 | -144 | -157 | -18.0% | -19.7% | | | 71.3% | 14,029 | 6,298 |
| | Jan-Mar 09 | 623 | 592 | 31 | -223 | 5.0% | -35.8% | | | 74.6% | 12,902 | |
| | **Year 2008/09** | **4,191** | **3,986** | **205** | **-241** | **4.9%** | **-5.7%** | | | **81.0%** | **58,559** | |
| | 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 | |
| | Oct-Dec 09 | 904 | 902 | 2 | -16 | 0.2% | -1.8% | | | 82.0% | 16,021 | |
| **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** | 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 |
| | Oct-Dec 09 | 846 | 793 | 53 | 24 | 6.3% | 2.8% | 9,133 | 7,322 | 80.2% | 3,765 | 8,701 |
| | **Year 2009** | **3,399** | **3,132** | **267** | **122** | **7.9%** | **3.6%** | **37,246** | **29,550** | **79.3%** | **15,561** | **8,915** |
| **American** | 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 | -347 | -3.6% | -6.3% | 62,370 | 48,846 | 78.3% | 21,444 | 81,100 |
| | **Year 2008** | **23,766** | **25,655** | **-1,889** | **-2,118** | **-7.9%** | **-8.9%** | **263,106** | **211,993** | **80.6%** | **92,772** | **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 |
| | Oct-Dec 09 | 5,063 | 5,453 | -390 | -344 | -7.7% | -6.8% | 59,356 | 48,131 | 81.1% | 20,893 | 78,000 |
| | **Year 2009** | **19,917** | **20,921** | **-1,004** | **-1,468** | **-5.0%** | **-7.4%** | **244,250** | **197,007** | **80.7%** | **85,719** | **78,900** |
| **Continental** | 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 | -269 | -0.7% | -7.7% | 42,563 | 33,514 | 78.7% | 15,183 | |
| | **Year 2008** | **15,241** | **15,555** | **-314** | **-586** | **-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 |
| | Oct-Dec 09 | 3,182 | 3,181 | 1 | 85 | 0.0% | 2.7% | 42,308 | 34,700 | 82.0% | 15,258 | 41,000 |
| | **Year 2009** | **12,586** | **12,732** | **-146** | **-282** | **-1.2%** | **-2.2%** | **176,305** | **143,447** | **81.4%** | **62,809** | **41,000** |
| **Delta** | 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 |
| | Oct-Dec 09 | 6,805 | 6,851 | -46 | -25 | -0.7% | -0.4% | 85,814 | 70,099 | 81.7% | 37,947 | 81,106 |
| | **Year 2009** | **28,063** | **28,387** | **-324** | **-1,237** | **-1.2%** | **-4.4%** | **370,672** | **304,066** | **82.0%** | **161,049** | **81,106** |
| **Southwest** | Jul-Sep 08 | 2,891 | 2,805 | 86 | -120 | 3.0% | -4.2% | 42,304 | 30,292 | 71.6% | 25,686 | 34,545 |
| | Oct-Dec 08 | 2,734 | 2,664 | 70 | -56 | 2.6% | -2.0% | 40,966 | 27,785 | 67.8% | 23,975 | 35,506 |
| | **Year 2008** | **11,023** | **10,574** | **449** | **178** | **4.1%** | **1.6%** | **166,194** | **118,271** | **71.2%** | **101,921** | **35,506** |
| | 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 |
| | Oct-Dec 09 | 2,712 | 2,545 | 167 | 116 | 6.2% | 4.3% | 37,828 | 29,249 | 77.3% | 25,386 | 34,726 |
| | **Year 2009** | **10,350** | **10,088** | **262** | **99** | **2.5%** | **1.0%** | **157,714** | **119,823** | **76.0%** | **101,338** | **34,726** |
| **United** | 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 | -1,315 | -17.9% | -28.9% | 56,029 | 44,288 | 79.0% | 19,871 | 45,900 |
| | **Year 2008** | **20,194** | **24,632** | **-4,438** | **-5,396** | **-22.0%** | **-26.7%** | **244,654** | **196,682** | **80.4%** | **86,427** | **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 |
| | Oct-Dec 09 | 4,193 | 4,267 | -74 | -240 | -1.8% | -5.7% | 54,121 | 44,273 | 81.8% | 19,618 | 42,700 |
| | **Year 2009** | **16,335** | **16,496** | **-161** | **-651** | **-1.0%** | **-4.0%** | **226,454** | **183,854** | **81.2%** | **81,246** | **43,600** |
| **US Airways Group** | 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 | -543 | -13.7% | -19.7% | 33,065 | 25,974 | 78.6% | 19,156 | 32,671 |
| | **Year 2008** | **12,118** | **13,918** | **-1,800** | **-2,215** | **-14.9%** | **-18.3%** | **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 |
| | Oct-Dec 09 | 2,626 | 2,612 | 14 | -79 | 0.5% | -3.0% | 32,456 | 25,509 | 78.6% | 18,801 | 31,333 |
| | **Year 2009** | **10,458** | **10.340** | **118** | **-205** | **1.1%** | **-2.0%** | **136,939** | **110,171** | **80.5%** | **77,965** | **31,333** |
| **JetBlue** | 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 | -58 | 6.0% | -7.2% | 12,086 | 9,501 | 78.6% | 5,108 | 9,895 |
| | **Year 2008** | **3,388** | **3,279** | **109** | **-85** | **3.2%** | **-2.5%** | **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 |
| | Oct-Dec 09 | 832 | 768 | 64 | 11 | 7.7% | 1.3% | 12,855 | 10,208 | 79.4% | 5,457 | 10,704 |
| | **Year 2009** | **3,286** | **3,007** | **279** | **58** | **8.5%** | **1.8%** | **52,396** | **41,769** | **79.7%** | **22,450** | **10,704** |

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

| | | Group revenue US$m | Group costs US$m | Group op. profit US$m | Group net profit US$m | Operating margin | Net margin | Total ASK m | Total RPK m | Load factor | Total pax. 000s | Group emp. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ANA | Year 2004/05 | 12,024 | 11,301 | 723 | 251 | 6.0% | 2.1% | 85,838 | 55,807 | 65.0% | 48,860 | 29,098 |
| YE 31/03 | Year 2005/06 | 12,040 | 11,259 | 781 | 235 | 6.5% | 2.0% | 86,933 | 58,949 | 67.8% | 49,920 | 30,322 |
| | Year 2006/07 | 12,763 | 11,973 | 790 | 280 | 6.2% | 2.2% | 85,728 | 58,456 | 68.2% | 49,500 | 32,460 |
| | Year 2007/08 | 13,063 | 12,322 | 740 | 563 | 5.7% | 4.3% | 90,936 | 61,219 | 67.3% | 50,384 | |
| | Year 2008/09 | 13,925 | 13,849 | 75 | -42 | 0.5% | -0.3% | 87,127 | 56,957 | 65.4% | 47,185 | |
| Cathay Pacific | Year 2006 | 7,824 | 7,274 | 550 | 526 | 7.0% | 6.7% | 89,117 | 71,171 | 79.9% | 16,730 | |
| YE 31/12 | 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 |
| | Year 2009 | | | | | | | | | | | |
| 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 2005 | 7,439 | 7,016 | 423 | 198 | 5.7% | 2.7% | 66,658 | 49,046 | 73.6% | 21,710 | 17,573 |
| YE 31/12 | 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 | -1,806 | -1.0% | -19.0% | 77,139 | 55,054 | 71.4% | 21,960 | 18,600 |
| | Year 2009 | 7,421 | 7,316 | 105 | -49 | 1.4% | -0.7% | 80,139 | 55,138 | 68.8% | 20,750 | |
| Malaysian | Year 2004/05 | 3,141 | 3,555 | -414 | -421 | -13.2% | -13.4% | 64,115 | 44,226 | 69.0% | | 22,513 |
| YE 31/03 | Apr-Dec 05 | 2,428 | 2,760 | -332 | -331 | -13.7% | -13.6% | 49,786 | 35,597 | 71.5% | | 22,835 |
| YE 31/12 | Year2006 | 3,696 | 3,751 | -55 | -37 | -1.5% | -1.0% | 58,924 | 41,129 | 69.8% | 15,466 | 19,596 |
| | Year 2007 | 4,464 | 4,208 | 256 | 248 | 5.7% | 5.6% | 56,104 | 40,096 | 71.5% | 13,962 | 19,423 |
| | Year2008 | 4,671 | 4,579 | 92 | 74 | 2.0% | 1.6% | 52,868 | 35,868 | 67.8% | 12,630 | 19,094 |
| | Year 2009 | 3,296 | 3,475 | -179 | 140 | -5.4% | 4.3% | | | | 12,000 | |
| Qantas | Jul-Dec 06 | 6,099 | 5,588 | 511 | 283 | 8.4% | 4.6% | 61,272 | 49,160 | 80.2% | 18,538 | 33,725 |
| YE 30/6 | 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 |
| | Jul-Dec 09 | 6,014 | 5,889 | 124 | 52 | 2.1% | 0.9% | 62,476 | 51,494 | 82.4% | 21,038 | 32,386 |
| 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 2005 | 4,681 | 4,232 | 449 | 294 | 9.6% | 6.3% | 70,670 | 52,453 | 74.2% | 27,690 | 18,447 |
| YE 31/12 | 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% | 88,078 | 66,013 | 74.9% | 34,250 | 19,972 |
| | Year 2009 | | | | | | | 95,489 | 73,374 | 76.8% | 39,840 | |
| China Southern | Year 2005 | 4,682 | 4,842 | -160 | -226 | -3.4% | -4.8% | 88,361 | 61,923 | 70.1% | 44,120 | 34,417 |
| YE 31/12 | 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 | 45,474 |
| | Year 2008 | 7,970 | 8,912 | -942 | -690 | -11.8% | -8.7% | 112,767 | 83,184 | 73.8% | 58,240 | 46,209 |
| | Year 2009 | | | | | | | 123,440 | 93,000 | 75.3% | 66,280 | |
| China Eastern | Year 2005 | 3,356 | 3,372 | -16 | -57 | -0.5% | -1.7% | 52,428 | 36,381 | 69.4% | 24,290 | 29,301 |
| YE 31/12 | 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% | 37,220 | 44,153 |
| | Year 2009 | | | | | | | 84,422 | 60,918 | 72.2% | 44,030 | |
| Air Asia | Oct-Dec 08 | 237 | 152 | 84 | -50 | 35.7% | -21.1% | 5,006 | 3,800 | 75.9% | 3,342 | |
| YE 31/12 | Year 2008 | 796 | 592 | 203 | -142 | 25.5% | -17.9% | 18,717 | 13,485 | 72.0% | 11,795 | |
| | Jan-Mar 09 | 198 | 84 | 114 | 56 | 57.6% | 28.4% | 5,207 | 3,487 | 67.0% | 3,147 | |
| | 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 | |
| | Oct-Dec 09 | | | | | | | | | | | |
| | Year 2009 | | | | | | | | | | | |

**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 | 72.0 |
| **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 |
| **2009** | 322.1 | 219.3 | 68.1 | 227.8 | 187.7 | 82.4 | 181.2 | 145.8 | 80.5 | 603.8 | 488.7 | 80.9 | 912.7 | 701.1 | 76.8 |
| **Dec 09** | 23.6 | 15.3 | 64.6 | 16.5 | 13.8 | 83.8 | 14.5 | 11.8 | 81.1 | 48.1 | 39.5 | 82.1 | 71.2 | 54.7 | 76.8 |
| **Ann. change** | -2.1% | 0.6% | 1.7 | -5.6% | -3.0% | 2.3 | -4.8% | -1.0% | 3.2 | -4.0% | -0.9% | 2.6 | -2.9% | -0.2% | 2.1 |
| **Jan-Dec 09** | 322.1 | 219.3 | 68.1 | 227.8 | 187.7 | 82.4 | 181.2 | 145.8 | 80.5 | 603.8 | 488.7 | 80.9 | 912.7 | 701.1 | 76.8 |
| **Ann. change** | -5.4% | -5.5% | 0.0 | -6.7% | -5.6% | 1.0 | -5.5% | -5.9% | -0.4 | -4.7% | -4.8% | 0.0 | -4.0% | -4.4% | -0.3 |

**Source:** AEA.

## JET ORDERS

| | Date | Buyer | Order | Delivery/other information |
|---|---|---|---|---|
| **Boeing** | 12 Jan | Ethiopian Airlines | 10 x 737-800s | |
| **Airbus** | 10 Jan | Yemenia Airlines | 10 x A320s | |

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