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Whither Lufthansa?

At its annual investor day last month Lufthansa CEO Wolfgang Mayrhuber started off with the question: where are we going?

He answered himself with a “vision”: to grow profitably; superior distinction from competitors; strong balance sheet; partnerships through alliances or consolidation; offer products in all segments; remain an Aviation Company and Airline Group; stay flexible, responsive and stable in a changing environment; maintain a leadership strategy that builds on entrepreneurship and a modular setup. Visions may be good for inspiring the troops, but are only an indication of a desired future path. However, he went to pains to emphasise that the Lufthansa Group has – unusually for a network carrier – been able to create value; with €2.1bn cash value added cumulatively generated in the past decade (and incidentally has made operating profits in each year since 1991).

He also emphasised how Lufthansa has been able to change its corporate spots – moving from the monolithic airline of the '80s to a corporate structure of separate business segments in the 1990s (the McKinsey solution of the time taken up by LH, Air France and Swissair); to a “focused aviation group” following the acquisition of SWISS five years ago; to what, following the recent rash of acquisitions, is now described as a “strategic management holding structure”. This encompasses a passenger airline division that incorporates Lufthansa core passenger operations (at Frankfurt, Munich and its direct regional services), SWISS, Austrian, SN Brussels, bmi, Lufthansa Italia, germanwings, and Eurowings; and then the old business segments of cargo/logistics, MRO, catering and IT.

This sudden raft of acquisitions by Lufthansa within Europe may give it – as the management avers - a unique multi-hub structure. The main continental competition in contrast has concentrated on intercontinental hub consolidation of major carriers – Air France and KLM joining CDG and Amsterdam; BA and Iberia joining London and Madrid; both touting the possibilities of incremental revenue generation through judicious multi-hub routings and elimination of competition. Lufthansa has gone for smaller targets and, through SWISS and

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SN Brussels, acquired operations at hub airports that had been significantly downsized following the former Swissair's and Sabena's demise. Its rescue of Austrian brings it an operation that had already severely cut back its long-haul operation. The bmi acquisition meanwhile, despite consolidating a seriously loss making short-haul operation, brings a very strong presence at London Heathrow – still the gateway to Europe and at the heart of Europe's largest aviation market. All three have a greater proportion of business directed to intra-European operations and intra-European feed.

Austrian had found it difficult to digest the poison-pill of its acquisition of Lauda Air in the early 2000s (local folk-hero Niki Lauda had set up a new low cost operation Niki in direct competition – now taken by Air Berlin) and did not quite manage to restructure its new disparate group before the fuel spike crisis of 2008. It had at least developed a new strategy of pursuing a dismantling of non-performing long-haul operations and a concentration on transfer traffic between CEE (Central and East Europe) and mainline European destinations with its "Focus East" policy (incidentally in direct competition with LH trying the same thing through Munich).

Since Lufthansa's rescue last year, the group has developed a new stand-alone strategy within the corporate empire. It is still concentrating on CEE traffic and transfers – but rather than pursuing the dubious policy of developing niche routes with low capacity (and high cost) aircraft has introduced a new market and fleet strategy. It is outsourcing CRJ and turbo operations and repositioning 737-800s from the charter fleet; and has regained a "market" share at its Schwechat base of over 50%.

With an ASK growth cap as a condition of the LH takeover, it is further reducing long-haul capacity. With the LH group now able to take over more of the administrative and back office functions it is continuing to trim staff numbers – aiming to reach total employee count of 6,000 down from 7,750 in 2008. At the same time the MRO and Cargo operations have been easy to slip into the Lufthansa Group business units. With a current cost cutting restructuring plan to generate improvements of €300m pa (on top of the emergency crisis package of €225m in 2009) the company aims to be cash generative in the current year and produce a positive operating profit by 2011.

SN Brussels is still a minority holding with the potential for a majority holding. One thing it could bring the LH portfolio is access into francophone Africa – where Air France has tended to have a monopolistic access since the demise of Swissair and Sabena. The hope is that the SN link will provide substantial inroads into the relatively unrepresented market for Lufthansa.

The point of the original stake in bmi meanwhile was to provide an inroad into Heathrow and its value lay entirely in its slot portfolio. When Michael Bishop exercised his put option against LH he provided them with a carrier in control of 13% of the slots at Europe's prime gateway (and with LH's own and its partners' presence there the second largest agglomeration of slot capacity after British Airways). However bmi was heavily loss-making. It also was a relatively small regional airline with very poor brand recognition outside the UK; had a large domestic network in one of Europe's smaller but highly competitive domestic markets; and through bmibaby had attempted to join the LCC revolution but with a fleet of old generation 737s operating on low utilisation.

Since taking control, the group has sold 18 of bmi's daily 87 slot pairs (conveniently to Lufthansa and SWISS) and leased out a further ten (to other Star Alliance members). It also had to hand three slot pairs back to BA as a consequence of change-of-ownership clauses following bmi's acquisition of British Mediterranean – and as a result now ends up with only 10% of the slot pool at Heathrow. It has disposed of ten of its group fleet of 69 aircraft, terminated loss making long- and medium-haul operations (cutting the A330 operations to Cairo and Las Vegas) and slashed mainline capacity by 25% while shifting capacity to Lufthansa destinations in continental Europe.

Lufthansa is also trying to restructure the loss-making British regional and bmibaby operations as well. Long term, the company suggested that bmi could be a key pillar within the Lufthansa+partner network; as a major connecting feed to Lufthansa and its Star

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Alliance partners at Heathrow – with 38 domestic frequencies a day feeding 29 transatlantic daily frequencies, 65 Lufthansa group European operations and 11 daily bmi operations to the Middle East and CEE. In one measure this would provide the Star Alliance with 30% of the slot capacity at Heathrow in comparison to BA/oneworld at 49%.

It is a unique portfolio of hubs: Frankfurt, Munich, Zurich, Vienna, Brussels, London Heathrow (and through LH Italia possibly Milan Malpensa) – covering the "blue banana" of European population density and in the first five of which it is the largest operator. It describes the agglomeration of the carriers as being done under a principle of "integrated autonomy" - with the local management having entrepreneurial responsibility for the local brand, operations and P&L while non front-line support functions (fuel, finance, aircraft purchasing, IT services, maintenance, station management) are being delegated to group functions to take advantage of economies of scale. The next steps will be to develop group wide strategic, network, and fleet planning; and most importantly a group sales function to agglomerate the important corporate accounts, cope with multi-brand sales, and ensure the ability to cross-sell the separate airlines' route offerings.

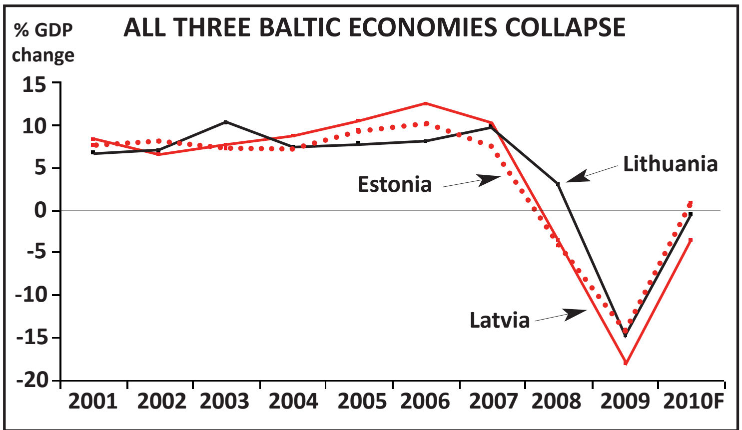
airBaltic: The Riga hub strategy

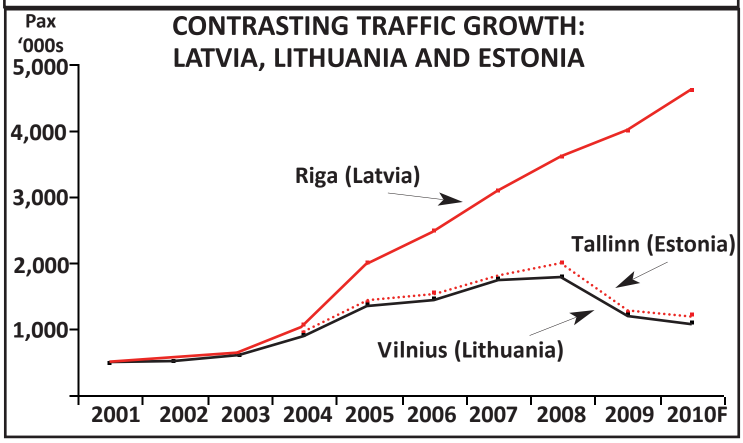
AirBaltic's strategy is to operate a low cost trans-Europe hub and spoke system at Riga, the capital of the Baltic state of Latvia, a city with 700,000 inhabitants. Remarkably, it is succeeding.

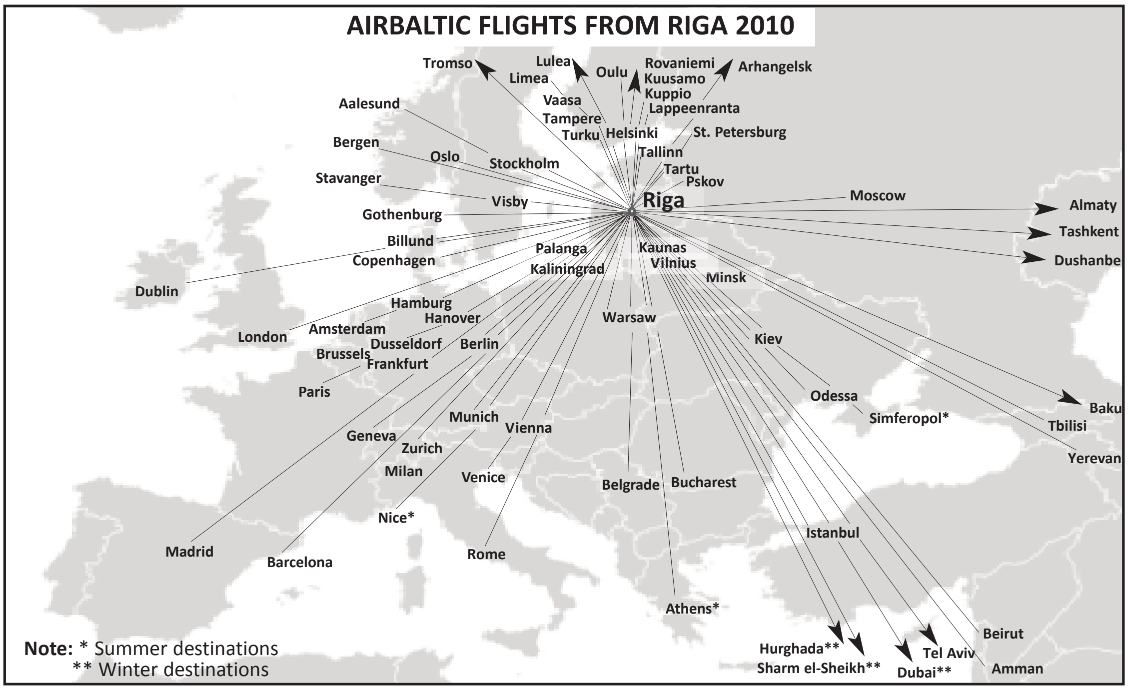
Latvia is in the middle of the three Baltic states which, along with Lithuania and Estonia, escaped from the USSR in 1991. After centuries ruled by Russians, Germans, Swedes, Poles, etc these now-independent countries are members of the EU (but not the Eurozone). They have small populations – 3.4m in Lithuania, 2.3m in Latvia and 1.4m in Estonia – and significant Russian/Ukrainian minorities – 20%, 30% and 25% respectively. Latvian and Lithuanian are related languages, and, although of Indo-European origin, very different from Scandinavian or Slavic languages. Estonian is completely different from all other European languages with the exception of Finnish.

The 2000s were characterised by rapid economic growth, with a large speculative element, which came to a crashing halt with the global credit crunch. GDP in all three countries plummeted, by 15-18% in 2009, and unemployment rose to over 25%. A return to marginally positive growth is forecast for this year.

Estonian and Lithuanian air traffic collapsed in 2009, down by about 33% in both cases; the Lithuanian flag-carrier, flyLAL, went bankrupt in January 2009 and Estonian Air, 90% owned by the state and 10% by SAS, retrenched sharply. But, as the graph below shows, Latvian traffic continued to surge ahead, continuing the divergent trend that started in 2004 (when Riga Airport intro-







duced deep discounts on its charges).

airBaltic, which was set up in 1995 as a joint venture between SAS and the Latvian state, responded to the crisis by radically changing its model from a point-to-point semi-LCC to hub and spoke hybrid carrier. The strategy was born out of necessity – O&D traffic to Riga had collapsed. Whereas connecting traffic accounted for 10% of airBaltic's business in 2008, it is expected to be at least 65% this year.

The strategy change was implemented under a new management-owned regime. Following heavy losses in 2008, SAS added the airline to its own divestment programme and sold its stake in January 2009 to BAS – the vehicles used for a management buy-out headed by CEO Bertold Flick, a German national, with a background in consultancy, not Lufthansa. Under the new structure, BAS, the MBO vehicle, owns 47.2% of the airline, the Latvian state 52.6%.

Air Baltic now operates 100 routes, carrying 2.76m passengers in 2009, with a fleet of 32 aircraft, and has reported a pre-tax profit of Ls14.0m (€10m) on revenues of Ls206m (€147m) compared to a loss of Ls30.1m on revenues of Ls203m the previous year.

The core of the network is the north-south and north-east connecting flows from secondary points in Finland and Sweden to primary points in Germany, France Italy, etc and from those Finnish and Swedish cities to points in the Caucasus. It also serves seasonal holiday destinations in Greece (summer) and Egypt (winter).

airBaltic's hub competitors are the much higher-cost SAS and Finnair. For Finland-originating passengers, Riga, offering connection times of just 25 minutes, is a more than acceptable alternative to Helsinki; similarly for passengers flying from Swedish regional cities, transferring at Riga compares favourably with Copenhagen. Interestingly, Flick places THY as one of his main competitors, along with SAS, Finnair and Ryanair. THY collects passengers from the Caucasus and funnels them through its Istanbul hub to Helsinki and Stockholm (18 weekly frequencies to SAS's two).

A key strategic question for airBaltic would be: how many of these essentially niche traffic flows can it consolidate at the Riga hub into a profitable whole? Expansion continues apace. For summer 2010, airBaltic has added 11 new routes from Riga including rather surprising points such as Beirut and Amman. It is also adding same intra-Finland routes, as well as developing secondary bases, primarily at Vilnius in Lithuania but also Tallinn in Estonia. However, the latest traffic numbers are very strong – a 32% increase for June 2010 compared to the same month of last year, which should push the average annual load factor well up from just 68% in 2009.

airBaltic faces a number of specific challenges. On routes to Russia it is currently stymied by the impasse in EC-Russia aeropolitical relations – an open skies agreement seems far away as the EC objects to exorbitant Siberian overflying charges which go to Aeroflot, which in turn is in the process of reabsorbing the fragmented airlines of the Soviet Aeroflot. In Soviet times there were nine daily flights between Moscow and Riga, a favourite resort for the Muscovite bourgeoisie; today there are three, two airBaltic, one Aeroflot, determined by the bilateral. This crowds out the connecting passengers on most Riga-Russia flights.

To the UK and Ireland airBaltic has another challenge. Its traffic consists of a mix of connecting passengers, point-to-point leisure passengers and business passengers (for whom it provides a generous business class cabin). But on London and Dublin, airBaltic comes up against Ryanair, the second largest carrier at Riga, which naturally tends to capture most of the Riga-bound leisure traffic - Riga's old town has become a favourite, Prague-like, destination for short breaks.

AirBaltic is running into a constraint at Riga in that peak hour terminal throughput is close to capacity, and to add another wave to the current two will necessitate the construction of a new terminal, which airBaltic intends to develop in a joint venture with a contractor.

AIRBALTIC'S FLEET

	In fleet	On order
737-300/500	17	
757	2	
Q400	1	7
F50	10	
Total	**30**	**7**

Allegiant Air: Venturing into the Pacific

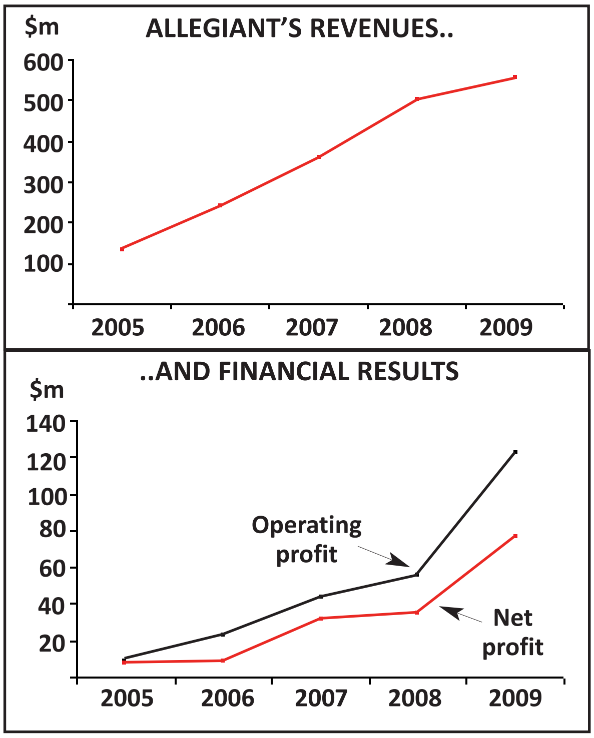
Allegiant Air, a Las Vegas-based LCC, has achieved fame for its unusual but highly profitable strategy of operating cheap fuel-guzzling MD-80s in low-frequency service between small cities and popular leisure destinations and deploying Ryanair-style revenue strategies. Now the airline wants to replicate the successful US mainland formula in the transpacific market with 757-200s.

After operating only MD-80s since March 2002, when it emerged from Chapter 11 with its current strategy, Allegiant is now doing what many LCCs contemplate but usually back away from: acquiring a second fleet type and venturing into long-haul markets.

In March Allegiant signed an agreement to acquire six used 757-200s for the purpose of serving Hawaii, which the MD-80s cannot reach. The first two aircraft arrived that same month, the next two are expected in November-January and the final two are due in late 2011. The airline is currently in the process of training and getting the FAA approvals (adding a new aircraft type to its certificate and obtaining ETOPS certification) and hopes to be able to launch service in the first half of 2011.

Allegiant intends to serve Hawaii exactly the same way as the mainland destinations: with limited frequencies from small or medium-sized cities that do not currently have nonstop service. It is likely to fly to Honolulu and Maui from cities west of the Rocky Mountains.

Many LCCs would be hesitant to make this type of move for reasons that are well documented – loss of single fleet cost efficiencies, the added complexity of long haul, the hassle of getting ETOPS, difficulty of earning satisfactory ROC, to name just a few. But the move makes much sense for Allegiant, as the carrier's presi-



dent Andrew Levy explained recently at BofA Merrill Lynch's annual transportation conference.

First, Hawaii seems to fit perfectly in Allegiant's business strategy. It is the largest US leisure market not yet served by the airline – in Levy's words, the "ultimate leisure destination, same as Las Vegas, perhaps".

Allegiant is particularly excited about the significant ancillary revenue opportunities offered by Hawaii. The longer visits (typically 7-10 days) and the longer stage lengths give the airline more opportunity to sell hotels, car hire, tours, tickets to attractions, etc. Such ancillary revenues are the highest-margin business and should make a meaningful contribution to the success of the service.

Expedia with wings

Allegiant is more than an airline: it is in the business of selling travel. In the words of its management, it is "Expedia with wings". It has the ability to access and sell inventory for hotels, cars and other third-parties at wholesale rates, sell it combined with an air seat and manage the margins as it sees fit. In Las Vegas (its first and most important destination city), Allegiant is the largest distributor of hotel rooms. Third-party activities contributed 18% of its pre-tax income in the past year.

The airline considers this to be a good time to enter the market, with airline capacity from the West Coast to Hawaii still being down on 2007 levels and hotel occupancy rates being less than desirable. Levy noted that hotels in Hawaii were "just lining up on our doorstep to help them sell their inventory".

Allegiant has also spotted gaps on the air route map that it can fill – good potential markets that have no existing service. One of the airline's defining characteristics is that it avoids competition. It wants to provide a product that nobody else is offering. It has head-to-head competition in only 10 of its current 143 routes. Where there is competition, it is invariably the other airlines that have stepped on Allegiant's turf, such as AirTran on a few routes in the East and Alaska in the West. Levy suggested that other airlines see Allegiant as an "annoyance, not a threat". Of course, as with Southwest, it is all about demand stimulation.

It seems that Allegiant got a good deal on aircraft. The ETOPS-equipped 757-200s, which the airline will operate with 215 seats, are sister ships and have been in service with a single European operator. Allegiant expects to spend just $75-90m in total, or $12.5-15m per aircraft, through 2012 acquiring and preparing this fleet for service.

Allegiant is buying the 757s for cash but expects to finance some portion of the purchase. One recent financing attempt actually failed when the company had to withdraw a $250m bond offering in May due to adverse market conditions. Those proceeds would have also funded some MD-80 acquisitions and debt due this year and next. But no doubt there will be other opportunities. In the meantime, Allegiant is sitting on a very comfortable $249m cash cushion (43% of annual revenues).

The airline believes that it committed to the 757 purchase at the right time in the market, when the asset values were at a trough. This means that should the Hawaii strategy fail, Allegiant could probably already sell the aircraft for a higher price.

A recent report from Raymond James suggested that the profitability of the Hawaii operation is likely to be as good as or better than the current network's because of the greater potential to sell higher-margin ancillaries. The analysts also made the point that it is a large domestic market opportunity with lower risk than potential new services to Mexican and Caribbean beach destinations, which would require one-stop customs clearance to return passengers to their small origin-cities in the US.

Airline within an airline

Allegiant believes that it can avoid much of the complexity that adding a new aircraft type would bring to a network carrier because of the way it isolates aircraft. The six-aircraft 757 operation, which will account for about 14% of Allegiant's total seats, will be "almost like its own little airline", with aircraft, crews and mechanics all based in Hawaii.

At this point it is not clear if crew and flight scheduling will allow the 757s to always return to their base at night – a strategy that Allegiant uses with the MD-80s that reduces maintenance and crew overnight costs – but that will certainly be the aim with the Hawaii operation.

Importantly, the airline recently reached agreement with its non-union pilots to fly all narrowbody aircraft (MD-80s and 757s) at the same pay rates (the pilots secured profit-sharing in return). Allegiant has a significant cost advantage against all other US carriers. To illustrate its lead in terms of labour efficiency, it has only 34 FTEs (full-time employees) per aircraft, compared to the runner-up AirTran's 60-plus FTEs.

Allegiant has no intention to offer connecting or through flights to Hawaii, because it does not want to get into through-pricing. However, its nationwide footprint in terms of small origin cities and seven larger destination markets (three in Florida, Los Angeles, Las Vegas, Phoenix and Myrtle Beach) should provide connecting opportunities and therefore feed to the Hawaii services.

Allegiant is both nimble and extremely profit-oriented – perhaps in part because its management owns more than 20% of the company. This means that markets that do not achieve profitability or are at below-target levels do not sit around very long.

The low acquisition cost of the 757s will make possible the same flexible capacity approach as with the MD-80s. The airline micro-manages capacity, tailoring flight frequencies to the needs of the market on a daily and seasonal basis. It has meant very low average daily aircraft utilisation and many aircraft in storage for future use, but it has been a particularly valuable attribute in an era of volatile fuel prices.

Allegiant has grown at a disciplined, steady rate since 2002, taking nine years to get to 50 aircraft. It has been consistently profitable. In its toughest year, 2008, it still had an 11% operating margin. In its best year, 2009, it had a 21.9% operating margin, while posting a $76.3m net profit on revenues of $558m. The 1Q10 operating margin was 21.4%.

The 757-200 programme will not affect Allegiant's MD-80 growth plans (and the type is not a replacement for the MD-80). The airline is in the process of purchasing another batch of 10 at an average in-service cost of $4m. This will increase the MD-80 fleet from the current 50 to 60 by the end of 2011. Levy said that the airline expects to add more MD-80s beyond 2012.

The mainland niche is showing no sign of reaching its limits. This year's system capacity growth (without Hawaii) will be 8.6-9%. Apparently new cities such as Myrtle Beach have been among the best-performing markets. Levy said that, apart from the long-term, the feeling was that the MD-80 route map could be tripled.

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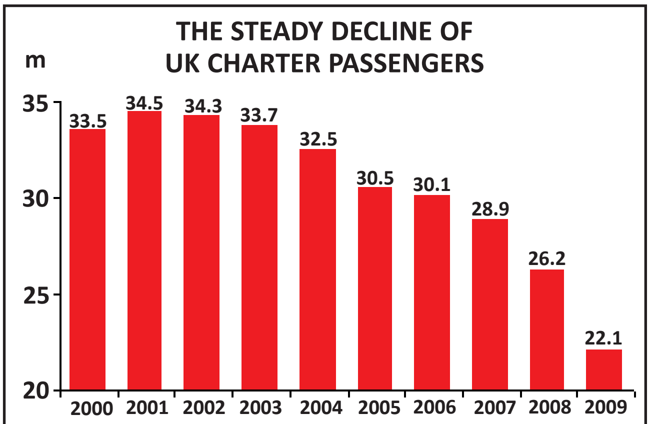
TUI Travel and Thomas Cook: Managing the declining charter sector

Europe's remaining "Big Two" tour operators - TUI Travel and the Thomas Cook Group - are adding capacity back to their summer 2010 and winter 2011 holiday programmes after years of capacity reduction. Is this the start of a recovery for Europe's charter industry, or is it merely a blip in the continuing decline of the All Inclusive Tour (AIT) market and its associated airlines?

Structural factors have been analysed in depth by *Aviation Strategy* previously (see June 2005 and December 2007 issues), and there is little or no evidence to suggest anything fundamental has changed in those trends.

Indeed looking at the UK, the largest outbound charter market in Europe, the data is clear (see charts, below and page 9). Whether in terms of capacity or by number of passengers carried, the market appears to be continuing its downwards trend – and particularly so in the last two years.

On the other hand, the European Travel Commission said in its Q1 2010 report that, "after a dismal 2008 the recovery from the great recession is underway", although there "are reasons to be cautious", and indeed analysts are getting optimistic about the medium-term prospects for both Thomas Cook and TUI Travel. Some analysts recently upgraded target prices for the Big Two due to expected improvements in revenue through this year and next, and the growing confidence of both TUI Travel and the Thomas Cook Group, which has been reflected through substantial bond issues and other refinancing over the last few months.



Source: *UK CAA*

That revenue optimism is based on better capacity management at the Big Two. They both scaled back seats and holidays sharply during the recession but now are cautiously adding back AIT capacity as consumer confidence rises.

Of course these capacity changes are much easier to make now that there are only two large players left in the charter industry; it would be reasonable for either set of management to assume that its main rival will also come to the same conclusions as it makes, and do the sensible thing in terms of capacity changes. That's a major difference with previous downturns, where at least one of the dozen or so medium-sized tour operators would always break ranks and not cut back capacity in line with others, but rather dump holidays onto the market at prices that effectively destroyed any chance of shoring up margins (and as a by-product encouraging customers into the bad habit of expecting last-minute holiday bargains every summer).

The big question is whether the tentative capacity increases at the Big Two are implemented at the expense of the improved margins that have been seen over the last year or two. Do the Big Two have a real chance of both increasing capacity and maintaining margins in the medium-term, and so preserve a profitable charter industry in Europe through the long-term – even if it is a niche industry relative to the scale of the AIT market of the 1970s and 1980s?

TUI Travel

Based in Crawley in the UK, TUI Travel arose from the merger of First Choice Holidays and the tour operating division of TUI AG in 2007. Today it carries more than

30m customers a year from 27 outbound markets, employs 50,000 people and operates a fleet of 157 aircraft.

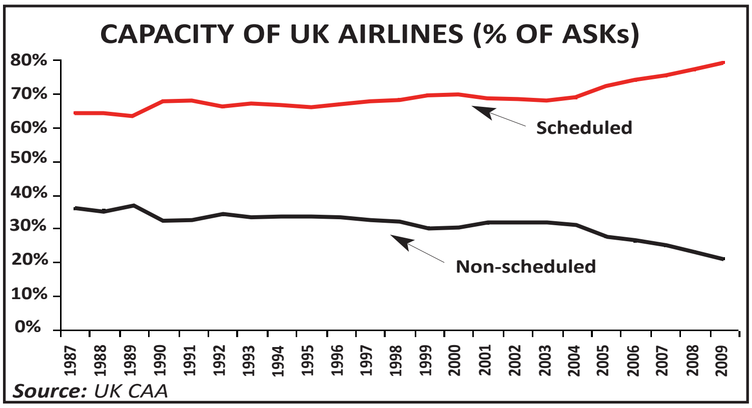
In the financial year ending September 30th 2009, TUI Travel recorded revenue of £13.9bn, 0.5% down on a year earlier, and made an operating profit of £37m, compared with an operating loss of £184m in 2007/08. However, TUI Travel made a net loss of £24m (though this was substantially better than the £267m net loss of the previous year), thanks largely to what TUI called "separately disclosed items" of £340m, which included £143m of merger costs, a £124m impairment charge on write-down of Corsairfly's 747s and £32m of costs for the sale of TUIfly's scheduled network to Air Berlin.

Air Berlin bought TUIfly's scheduled operation in October 2009, following the collapse of a proposed deal earlier that year in which each would have taken a 19.9% stake in the other (with TUIfly planning to wet lease 17 aircraft to Air Berlin for 10 years). Instead Air Berlin has now acquired the former TUIfly scheduled network of 100 routes between 45 city destinations, and as part of this deal TUI Travel agreed to either buy a 9.9% share in Air Berlin for €33.5m (which it would subsequently sell over a period of time) or pay €15m to Air Berlin (in effect paying it for taking the scheduled network off its hands). Subsequently TUI Travel decided to buy the 9.9% stake in Air Berlin.

This transaction saw 13 TUIfly aircraft transferred to Air Berlin prior to the 2009/10 winter season, leaving TUIfly with a core charter fleet of 25 aircraft for the summer 2010 season.

The rationale from TUIfly's point of view was that it was making a substantial loss on these scheduled city routes; in the year to September 2008 TUIfly made an operating loss of €35m, with the majority of this believed to be due to scheduled services.

In its latest financial report, for the six months ending March 31st 2010, TUI Travel saw revenue fall 9.2% to £4.9bn, due largely to reductions in capacity, with an operating loss of £364m compared with a £412m loss in the first-half of the 2008/09 financial year. Net losses for the half-year were £319m, 9.6% worse than a year earlier.



Source: UK CAA

However the second quarter result was much improved year-on-year, with the operating loss reduced by £47m thanks to the disposal of the scheduled flying business in Germany, merger synergies and better demand for holidays across Europe. It must also be noted that almost all western tour operators post a loss in the first-half of the year, with most profits coming in the second half - the main summer holiday season.

Management now believes that continued cuts in capacity at TUI Travel over the last four years have gone far enough, with capacity out of the key UK market rising by 5% in the winter 2010/11 season, the company says. Much of this will be from holidays starting from regional UK airports, and is largely sparked by increasing consumer confidence in the UK, Peter Long, TUI Travel's chief executive, said: "We have seen enough demand in the second half of the past winter and for the summer of 2010 that we will put back a proportion of capacity for next winter." Winter capacity out of the UK had fallen from 2m holidays in 2006/07 to 1.4m in 2009/10, and in the last winter season (2009/10) sales were down 13% (following a 13% fall in capacity, as a reaction to the recession), although average revenue per holiday was up 11%.

This summer TUI Travel is seeing recovery in demand in most markets, and as of May overall summer bookings were 7% up year-on-year, thanks to a trend for customers to book summer holidays earlier and better consumer confidence.

As of May, revenue out of the UK for the summer season was up 14% compared with the same point last year (after a capacity increase of 3%), while out of Germany rev-

TUI TRAVEL FLEET

	Thomson Airways	TUI Travel	TUIfly	Jetairfly	Corsairfly	TUIfly Nordic	ArkeFly	Jet4you	Total
A320	5								**5**
A321	2								**2**
A330					2				**2**
737-3/4/500	4			2				3	**9**
737-700		9	1	3					**13**
737-800	13	21	24	6		3	3	3	**73**
747-400					5	1			**6**
757-200	25					2			**27**
767-300ER	11			2		1	3		**17**
787-8		5 (13)							**5 (13)**
TOTAL	**60**	**35 (13)**	**25**	**13**	**7**	**7**	**6**	**6**	**157 (13)**

enue was down 2% year-on-year. Summer capacity out of the German market is down slightly, and TUI is seeing less consumer confidence in Germany than in the UK and other European markets, such as Scandinavia, so it will remain more cautious about returning capacity to the German outbound market.

Unsurprisingly, the closure of large parts of European airspace in April thanks to the Icelandic volcano eruption hurt TUI Travel hard, although trading recovered quickly once it ended. Nevertheless it resulted in 175,000 cancelled holidays and the repatriation of 180,000 holidaymakers across TUI Travel, which will cost the group an estimated £90m in the third quarter of this financial year, the company says – though it (and other tour operators) is discussing potential compensation with relevant governments.

However, the volcano crisis may be opening up an opportunity for TUI Travel. In a call with analysts after the interim results, Peter Long said that TUI Travel was now looking to market itself more aggressively to consumers in terms of the difference in booking with it (as a tour operator) as opposed to taking a flight with a LCC, a difference that he said became very clear to some holidaymakers during the volcano crisis. He said that "if you try and get behind a website of a low-cost carrier and make contact with them, it's impossible; you cannot communicate with these guys. We think we can take the moral high ground because we look after our customers better, and this is very much an opportunity for us to talk about the benefits and shout about the benefits of a package holiday".

Overall, TUI Travel's first-half performance was in line with expectations, and the interim dividend rose 7% as the company said it was on target to make profits of more than £450m in the financial year to September 30th 2010. TUI Travel is of course still attempting to drive down costs, and reports indicate that TUI's First Choice and Thomson brands have been forcing Spanish hoteliers to significantly reduce their rates for the 2011 season. The summer 2011 season also begins earlier, with package holidays starting in late April, which coincides with Easter next year.

TUI Travel's long term-debt stood at £1.9bn at March 31st 2010 (compared with £2.6bn a year earlier), although as with most tour operators it's current liabilities that are more significant, as they include trade payables (such as hoteliers for the key summer season), and they stood at £5.2bn at the end of March 2010 (compared with £5.4bn a year earlier). Cash and cash equivalents were £402m at the end of the half-year, down from £583m a year earlier.

In April TUI Travel raised £400m through a seven-year bond (with a coupon of 4.9%) that can be converted into approximately 9.4% of TUI Travel's share capital. The company also secured £150m of new banking facilities in April, which came on top of a £350m convertible bond raised in October last year (at a 6% coupon). TUI AG subscribed for half of the latest bond issue in order to prevent dilution of its 54.9% shareholding in TUI Travel.

The funds are needed as TUI Travel has to repay £600m of loans to TUI AG over the next 18 months (£450m of which is due in December), but the company is also on the look-out for higher-margin, niche acquisitions (such as in UK student holidays); since the 2007 merger TUI Travel has spent more than £200m on at least 45 acquisitions.

TUI Travel also wants to fund growth in emerging markets in eastern Europe as well as further afield (such as China, India and

Brazil). It has already set up a series of joint ventures in the Russian market, where Long says "there is an appetite for western brands". Hence a TUI Russia brand has been launched, as well as a Russian website for internet bookings - although Long says that at the moment "Russians tend to turn up and pay for their holidays with a suitcase full of cash".

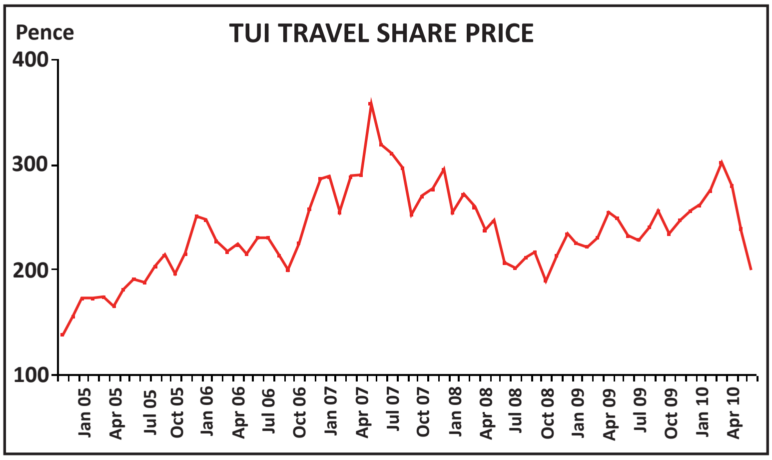
TUI Travel's fleet is split between seven separate airlines, because although carriers such as Hapagfly and Hapag-Lloyd Express have been merged into TUIfly, plans to merge all of TUI's airlines into TUIfly have not come to fruition.

Last September TUI Travel also scaled back its existing order for 23 787s down to 13 aircraft. When they eventually arrive the type will replace 17 767s currently with four of TUI Travel's airlines, although that rationalisation will take several years to complete. For short- and medium-haul, the 737-800 is the group's preferred aircraft as it has the best capacity (180 seats) for the charter market, and the group's 27 757s ("workhouses", as Long calls them) will also be phased out over time.

The key to the TUI Travel fleet is flexibility – most aircraft are on leases (it has made a major push to sell and leaseback its previously owned aircraft in the last few years), with an appreciable number ending every quarter, and Long says that the company will "never have a whole order book equivalent to our current fleet". Extra capacity - if needed - will come from leased aircraft.

The group's largest airline is based in the UK, where First Choice Airways and Thomsonfly merged to become Thomson Airways in May last year. Headquartered in Luton, Thomson Airways carried 11.2m passengers in 2009 and has a fleet of 60 assorted aircraft that operate out of 24 UK airports to a variety of holiday and city destinations around the world.

In Germany, TUIfly operates a fleet of 25 737s to more than 80 global destinations, while Zaventum-based Jetairfly has 13 Boeing aircraft and is owned by Jetair, TUI's Belgian tour operator. TUIfly Nordic is based in Stockholm and operates seven aircraft from Scandinavian airports to medium and long-haul destinations, while ArkeFly is based at Schiphol and operates six aircraft for the Dutch subsidiary of TUI. TUI Travel also part-owned Jet4you, a Moroccan LCC based in Casablanca that operates six 737s, but in a recent MoU a majority stake has now been taken over by Royal Air Maroc. Finally, the group also owns a total of 35 aircraft that appear not to be formally assigned to any of its airline brands on a permanent basis.



However, the biggest question marks for TUI Travel's fleet are over Corsairfly, based in Rungis and which operates seven aircraft to more than 60 destinations out of France. Corsairfly made an operating loss of £24m in the financial year ending September 2009, and after an urgent analysis of the business TUI Travel identified a number of issues, including the size of aircraft and an "inflexible" business model that results in large volumes needed "to achieve acceptable load factors".

Essentially the 580-seat capacity of Corsairfly's five 747-400s are too big for the charter market and forces the airline into lower frequency on its routes, which often leads to stopovers and which in turn reduces customer appeal. In addition, the 747s are ageing and the "legacy fixed cost base" of the aircraft also gives rise to substantial maintenance and fuel costs. To make matters worse the 747s operate to Caribbean destinations, which is a very competitive market out of France (for example rival Air Caraibes operates a secondary hub out of Paris Orly), and the net result of all these factors is that average selling prices on 747 seats are too low.

TUI Travel is therefore restructuring the airline in an attempt to increase yields and return the airline to break-even. In May

THOMAS COOK GROUP FLEET	Thomas Cook Airlines	MyTravel Airways Scandinavia	Th. Cook Airlines Belgium	Condor	Condor Berlin	Total
A320	9	2	7		12	30
A321	4	6				10
A330	6	4				10
757-200	17					17
757-300	2			13		15
767-300ER	3			9		12
TOTAL	41	12	7	22	12	94

Corsairfly announced it would make a quarter of its workforce redundant (around 380 positions) over a two year period, while the carrier will also reduce capacity via withdrawing three of the 747-400s and replacing them with smaller aircraft - A330s or 767s are likely candidates. The remaining 747s will be refurbished, the company adds.

Thomas Cook

Thomas Cook Group is the company that arose from the merger of Thomas Cook AG and the UK's MyTravel Group in 2007. Based in Peterborough in the UK, it employs around 31,000, has more than 3,400 own or franchised travel agencies and takes more than 22m customers a year on holiday with a fleet of 94 aircraft.

Just under 53% of Thomas Cook Group was held by Arcandor, the former owner of Thomas Cook AG, but in June 2009 Arcandor filed for bankruptcy, allowing it to reorganise before an imminent deadline to repay €710m worth of loans. Although the Thomas Cook Group accounted for almost 60% of Arcandor's revenue and almost all its profits, the holding company said the filing would not affect the travel operators' operations, and indeed that appeared to be true, with the creditor banks that effectively owned Arcandor managing to sell their stakes in Thomas Cook in the second-half of 2009, with the result that 100% of the tour operator group's stock is now freely floated on the London stock exchange.

In the last full financial year – the 12 month period to the end of September 2009 – the Thomas Cook Group saw revenue rise to £9.3bn (compared with £8.1bn in the previous financial year - only an 11 month period because of the merger), with operating profit of £164.2m (£134.7m in 2007/08) and net profit of £18.3m (£43.6m in 2007/08).

Manny Fontenla-Novoa, the CEO of the Thomas Cook Group, insists his company has adapted well to changes in demand, and that its performance "demonstrates the resilience of the package holiday". The group is looking to grow in selected markets and is apparently negotiating a potential acquisition in Russia (reported to be Intourist). It is also building up ancillary revenue streams such as financial services while at the same time continuing to focus on cost-cutting and rationalisation; for example, it has centralised all accommodation purchasing to enable greater discounts from suppliers.

In the first half of the 2009/10 financial year (the six month period ending March 31st 2010), Thomas Cook saw revenue fall 5% to £3.3bn, again due largely to reductions in capacity. Operating losses improved by 12.8% to a loss of £202.6m, while net losses totalled £252.2m (compared with a £309m in the same period in the previous financial year). In the key UK and Ireland business unit, revenue rose slightly to £1bn in the six month period, but the underlying EBIT worsened by £7m to a £116m loss.

In winter 2009/10 total group bookings fell 9%, in line with planned capacity reductions, although average selling prices rose by 7% in the UK market and by 12% in the northern Europe market.

For the summer season, out of the UK bookings were up 1% year-on-year as at May despite a 3% fall in capacity, with average selling prices up 2%. The group says this is also partly a reflection of a trend in the outbound UK market away from higher priced but lower margin long-haul package holidays to lower priced but higher margin medium-haul holidays. On the other hand the Thomas Cook Group is facing foreign exchange pressures due to the continuing weakness of sterling.

In Central Europe (which includes the key German market) bookings are up 1% but average selling prices were down 3% after a 3% rise in capacity and a decision to pass on lower flight and accommodation costs to customers. However, "margins have held firm", and the last four weeks prior to the May report had seen a 10% surge in bookings out of Central Europe.

As with TUI Travel, the volcano crisis affected Thomas Cook, with 177,000 holidaymakers stranded overseas, costing the group an estimated £70m. The group also said that the Greece situation had hit recent booking out of both the UK and Germany to that destination by at least 24%.

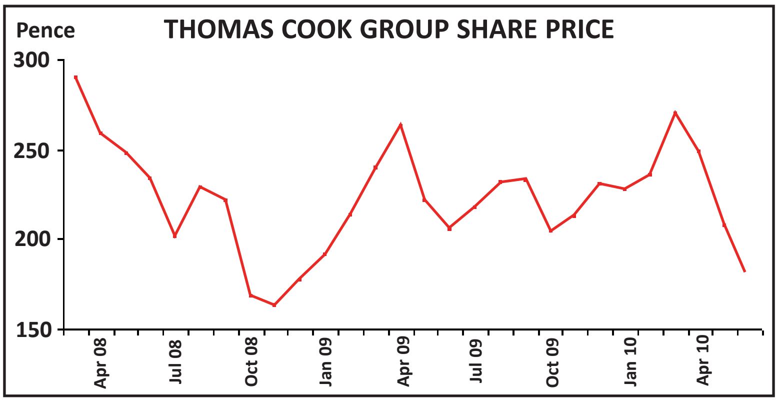
In April and May, like TUI Travel, the Thomas Cook Group took advantage of improving fundamentals to refinance around £1.7bn of funding. It raised £650m through two bond issues – one a five-year €400m issue at a coupon of 6.75% and one a seven-year £300m issue at a coupon of 7.75% (which was higher than an original target of £465m due to higher than anticipated demand from investors). In addition the group refinanced £1,050m of banking facilities through a £200m loan and a £850m revolving credit facility, both of which are at a margin of 2.75% over Libor and run for three years but which can be extended for another two years.

These sums will be used to refinance a €1.8bn syndicated loan taken in 2008 that will mature in May 2011. Cash and cash equivalents stood at £427.6m at the end of March, 11.2% higher than a year earlier. Long-term debt was £1.1bn (£1.4bn a year earlier), and the all-important current liabilities stood at £4.5bn, compared with £4.6bn in March 2009.

Altogether Thomas Cook has five airline brands operating 94 aircraft, the largest carrier being Manchester-based Thomas Cook Airlines, which incorporated MyTravel Airways after their parents merged in 2007.

Thomas Cook Airlines carried 8.2m passengers in 2009 to more than 60 holiday destinations in Europe and on long-haul, using a fleet of 41 aircraft ranging from A320/321s to A330s, 757s and 767s. With that wide range of models, the Thomas Cook Group in general appears slow in driving through fleet rationalisation.

Thomas Cook Airlines Scandinavia is based in Copenhagen and prior to 2007 was known as MyTravel Airways A/S. Today it



operates 12 Airbus aircraft, with eight on short-and medium-haul and four flying to long-haul destinations, while Thomas Cook Airlines Belgium operates seven A320s out of the Benelux market.

In Germany, Thomas Cook bought 75.1% of Condor in 2007 and acquired the remaining shares from Lufthansa in February 2009 for €77.2m after the German flag carrier exercised its put option. Based in Frankfurt, Condor operates from nine German airports to more than 60 charter destinations around the world with a fleet of 22 757s and 767s. However Condor is now selling and leasing back its 13 757-300s, which are being marketed on its behalf by BAE Systems. Sister airline Condor Berlin also operates 12 A320s out of Schönefeld airport.

The Condor operations are reported in the Thomas Cook Group as the "Airlines Germany" business unit, and in the six months to the end of March this year it recorded revenue of £444.3m, 5.9% lower than a year earlier. Underlying operating loss was £8.5m, compared with £3.6m in the same period a year earlier. In "anticipation of a tough winter", seat capacity was reduced by 6.6% out of Germany, most of that on long-haul. But seats sold fell just 4.4%, thanks to a 2.3% increase in load factor, although average yield was down 5% in the period. Thomas Cook talks of "pressure in the market place to reduce prices", following the fall in fuel prices, but summer 2010 bookings on Condor were up 4% year-on-year as of May, helped by a rebound in demand for long-haul flights – although competition has led to an overall 3% fall in yields.

By Nick Moreno
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Hawaiian Airlines: Asian expansion

Hawaiian Airlines, an old-established niche carrier, is entering an international growth era that will take it to Japan and South Korea in the next six months and could eventually mean it operating nonstop A330/A350 services to Hawaii from all around Asia. Will the airline succeed in the highly competitive Tokyo-Honolulu market? Will it successfully defend its market shares from aggressive new entrants on Hawaii-US mainland routes? And, most importantly, will it manage to keep costs in check?

Hawaiian has had an eventful five years since emerging from a two-year Chapter 11 reorganisation in June 2005. In the words of its CEO Mark Dunkerley, the airline has had to deal with significant “competitive gyrations” affecting virtually all of its markets.

First of all, Hawaiian had to deal with sharply increased industry capacity on Hawaii-US mainland routes, which account for the bulk of its revenues (currently about 60%). Those markets saw a 34% increase in total seats between 2000 and 2005, as all of the large network carriers added capacity and new entrants such as ATA and US Airways joined the fray. The long-haul routes to Hawaii proved an attractive place where to put the capacity removed from mainland domestic service.

Next, the Hawaii inter-island markets, which had had a relatively stable competitive situation for some 60 years (having essentially been a duopoly between Hawaiian and Aloha Airlines), were thrown into turmoil by Mesa’s entry with its new low-fare subsidiary “go!” in June 2006.

Even though go! only operated regional jets, it caused havoc with its aggressive capacity addition and price cutting. To add to the dramas in the two turbulent years that followed, Hawaiian sued Mesa for misuse of confidential information that Mesa had obtained during Hawaiian’s bankruptcy process and eventually received a $52.5m cash payment from Mesa.

In the spring of 2008 Hawaiian’s competitive environment improved dramatically when two of its key rivals, Aloha and ATA, filed for bankruptcy and ceased operations. The result was elimination of overcapacity, a better pricing environment and an opportunity for Hawaiian to recapture market share.

But later that year another (lesser) challenge emerged: Mokulele Airlines, hitherto a single-engine turboprop operator, introduced regional jets and began expanding into Hawaiian’s primary inter-island markets with the help of an investment from Indianapolis-based Republic Holdings (converted to a controlling ownership in March 2009). 2009 saw resumption of price wars as go! and Mokulele jockeyed for the number two position in inter-island markets.

In late 2009 Mesa and Republic decided to combine their Hawaii units into a 75%/25% joint venture (“go! Mokulele”), forming the state’s second-largest inter-island airline. This restored an airline duopoly and a reasonable supply-demand balance in the inter-island market.

The escalated competition in 2005-2007 meant that Hawaiian’s unit revenues and profit margins came under pressure just as trends on the US mainland had turned positive. The constant turmoil also meant that Hawaiian did not attract any mainstream Wall Street equity coverage following its successful Chapter 11 reorganisation; until very recently, the stock was only covered by smaller brokerages or boutique investment banks.

But things have changed in 2010. In recent months several leading brokerages, including BofA Merrill Lynch and

Deutsche Bank, have initiated coverage of Hawaiian. The key positives are the easing of competitive pressures and the recent award of Tokyo Haneda rights, but Hawaiian seems rather well positioned for the future for a large number of reasons.

First, Hawaiian emerged from the turbulent period with significantly improved market shares. It is now the clear leader in the inter-island market, with about 85% of the seats (up from 40% pre-2008).

Second, Hawaiian remained profitable through the 2008 oil price surge and the subsequent global recession – testament to the success of the Chapter 11 restructuring and the resilience of the business model. Including the June quarter, the airline has nine consecutive quarters of profitability under its belt.

Third, Hawaiian has top operational performance, great customer service and a strong brand. It has been the nation's most punctual airline for six years.

Fourth, the airline has promising long-term growth prospects, particularly in Asian international markets. Having won one of only four daily slot-pairs available to US airlines at Tokyo Haneda this year, Hawaiian will launch its first-ever scheduled flights to Japan in October.

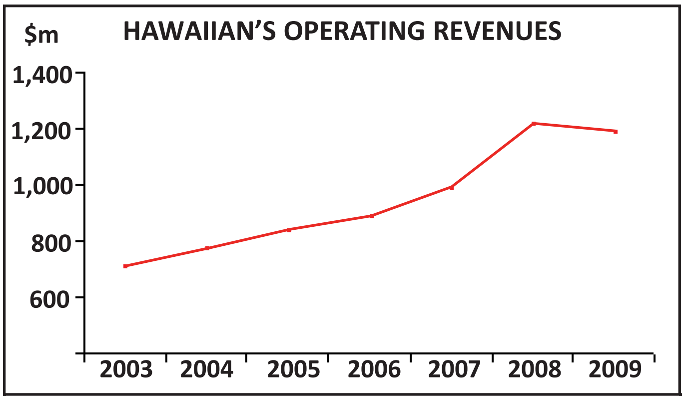
Fifth, the long haul fleet plan is in place. Hawaiian is acquiring up to 27 A330/A350s over the next decade.

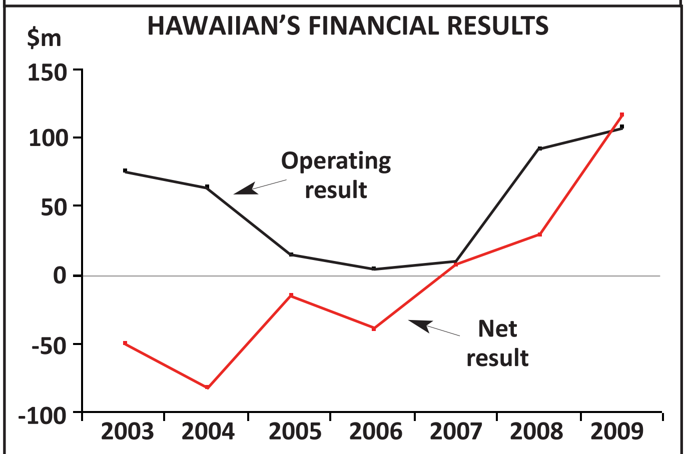
Sixth, Hawaiian has one of the strongest balance sheets in the industry, making it well positioned to meet the cost of the fleet transition.

Finally, in contrast with much of the rest of the US airline industry, Hawaiian has clinched new contracts with all of its unions in the past 18 months and is therefore into a period of relative labour stability.

But there continues to be a question mark over Hawaiian's cost structure, which the Chapter 11 process did not adequately address. The past couple of quarters have seen an alarming surge in non-fuel costs.

Also, Hawaii-US mainland routes are again seeing capacity pressures. Next year is likely to see Allegiant, an aggressive mainland LCC, entering the market with 757s.





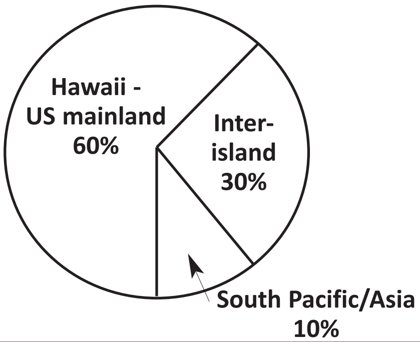
Notes: The 2003 and 2004 net results included net reorganisation charges of $114m and $130m, respectively.
The 2006 net results included $35m of losses related to debt and lease restructuring.
The 2008 operating and net results include a $52.5m litigation settlement.

The business model

Hawaiian is one of the oldest US airlines, having operated continuously since 1929, when it was founded as Inter-Island Airways. The present name was adopted in 1941. The airline is currently the 13th largest US domestic carrier in terms of RPMs and operates a primarily-leased fleet of 35 aircraft – 15 717-200s (inter-island), 18 767-300/300ERs and two A330-200s.

Neither a network carrier nor an LCC, Hawaiian describes itself as a "destination carrier". The focus is exclusively on the Hawaii state – to bring tourists to the islands and cater for the air travel needs of residents – with little ambition to become more broadly based. The strategy is to "leverage Hawaii's culture as a competitive advantage".

HAWAIIAN'S REVENUES BY SEGMENT



In addition to its Hawaii-US mainland and inter-island operations, Hawaiian has a modest South Pacific network (American Samoa, Tahiti and Australia) and has served Manila since 2008. This budding South Pacific/Asian operation currently accounts for less than 10% of its revenues.

Like the legacy carriers, Hawaiian has full capabilities in terms of reservations systems and ability to codeshare. It has codeshares in place with a number of airlines, including Island Air, Continental, American Eagle and Korean Air. In addition, numerous airlines place their codes on Hawaiian's inter-island flights.

As a leisure-oriented carrier, Hawaiian has always had strong load factors but limited pricing power. The inter-island market has been a struggle even in the best of times due to the price sensitivity of the traffic. Because of that and cost issues, up to and including 2002 Hawaiian was a chronically unprofitable airline.

In the long-haul markets, Hawaiian's key competitive strength is that its business is designed for the niche that it caters for. Its product, services and schedules are all tailored specifically to serve leisure customers coming to Hawaii. The airline also selects only markets where it believes it can have a distinct competitive advantage.

Inter-island: stability returns

After several years of being in a constant flux and evidently producing losses for all carriers, the inter-island markets have seen a return to more rational conditions in 2010. As a result of the go!/Mokulele merger and Hawaiian's own cuts, industry capacity is well below last year's level. Although there is still promotional activity, fare levels have risen dramatically. Hawaiian has seen a strong improvement in the financial performance of its inter-island business; PRASM in that market surged by 25% in the March quarter.

This bodes well for Hawaiian as the inter-island business represents about one third of its revenues. The airline has a dominant market share. It offers the most comprehensive schedule and, through interline and codeshare relationships, captures much of the connecting traffic arriving in Hawaii on other carriers.

However, it is a shrinking market. Inter-island traffic has declined steadily over the past decade or so. The decline is structural and permanent and has two main causes. First, an increase in direct flights from the US mainland to Oahu's neighbour islands by competitors has meant that fewer people today need to change aircraft at Honolulu. Second, improved infrastructure in the neighbour islands has reduced the need to travel to Honolulu.

This year's reduced service and higher fares have undoubtedly contributed to the traffic decline. Hawaiian does not separately publish its inter-island statistics, but by some estimates industry traffic may be down as much as 20% this year.

But air travel is now the only means of public transportation between the islands. There has been no inter-island ferry system since the March 2009 demise of SuperFerry.

There is also some uncertainty about go! Mokulele's future as long as its operator and 75%-owner Mesa is in bankruptcy. Mesa filed for Chapter 11 in January 2010 mainly to shed numerous unwanted 50-seat RJs. Although the JV was not part of the Chapter 11 filing, can Mesa justify retaining what is believed to be a loss-making venture?

Another development probably in Hawaiian's favour is that after Aloha's sudden demise - described as a "seismic" event in Hawaii because the carrier had moved about 40% of the inter-island market – the Hawaiian legislature proposed new tighter regulations on the inter-island market. If enacted, there could be tighter controls on airline entry, fares, schedules and ownership transactions.

After Aloha's demise, Hawaiian worked hard to "prevent a meltdown" in the state's transportation system. It immediately stepped up operations by utilising a spare 767-300 and leasing four additional 717s. It hired many former Aloha workers, while its own employees worked overtime for five months.

Adding all of this up, Hawaiian may have secured a dominant "hometown airline" role in the inter-island markets for the longer-term – a good position to have for supporting expansion in long-haul markets.

Transpacific challenges

The Hawaii-US mainland routes have remained highly competitive, seeing new entrants (such as Alaska in 2007) and continued capacity addition by the network carriers. One of the attractions has been the absence of mainland LCCs – they do not have the aircraft with sufficient range.

However, Hawaiian has been able to gradually increase its market share, and in 2007 it overtook United as the largest carrier in the market. It currently has 28% of the seats, with United being a close second with a 25% share. Three other carriers – Delta, American and Alaska – have 10-15% shares each.

Hawaiian has been able to take advantage of voids that have appeared in the marketplace. When American vacated San Jose-Honolulu, Hawaiian quickly stepped in. And when Oakland lost both of its carriers to Honolulu (ATA and Aloha), Hawaiian swifthly launched a daily service on that route.

The two bankruptcies had a major, albeit temporary, impact on the transpacific market. Before its closure, ATA had 12% of the seats, with service to Hawaii from four points on the mainland. Aloha had provided about 6% of the Hawaii-US mainland capacity, operating scheduled service to multiple mainland cities.

In addition to having the largest market share, Hawaiian also has the most comprehensive set of US West Coast gateways to Hawaii: currently 10 - San Diego, Phoenix, Los Angeles, Las Vegas, San Jose, San Francisco, Oakland, Sacramento, Portland and Seattle. All of those cities are linked to Honolulu and some also to Kahului.

The large network carriers have many competitive advantages. They generate traffic from throughout the US mainland. They operate from hubs, which can provide a built-in market for passengers; for example, United flows sufficient passengers from all around the mainland to schedule up to nine daily San Francisco-Hawaii flights (depending on the season), whereas Hawaiian only has one. In addition, the point of sale is mostly on the US mainland, not Hawaii.

But Hawaiian has its own unique competitive advantages, namely a higher level of customer service and a product and operation that are specifically tailored for the Hawaii-bound leisure customer.

One interesting example: Hawaiian schedules its transpacific flights for the local customer on the West Coast, rather than to connect with any feeder flights (because it does not have any). Its flights depart the West Coast much earlier in the day than the legacy carriers' flights, giving its customers an extra afternoon on Hawaii. This is somewhat of a creating a virtue out of necessity, but the West Coast is a very important generator of leisure traffic to Hawaii and local traffic tends to be higher-yield.

The A330-200s will enable Hawaiian to further enhance its transpacific product offering. The first two aircraft were deployed in June on the Los Angeles route and to launch new seasonal service from Maui to Oakland and San Diego. The third aircraft, due to arrive in November, is currently earmarked for the Las Vegas market.

Hawaii-US mainland routes did see a dip in travel demand due to recession last year, but it was much less pronounced than in other markets. Consequently, this year's recovery trends are not as spectacular as elsewhere. In 2010 visitor arrivals in Hawaii from the mainland remain comparable to 2008 levels but well below 2007's peak.

Hawaiian currently projects industry capacity on Hawaii-US mainland routes to increase by 9% in 2010 – a higher rate than even in most international markets, though this year's capacity to Hawaii would still be 9% below 2007's level.

The additional capacity is coming from a number of carriers, including Alaska and Continental. Alaska operates directly to the smaller islands with 737-800 ETOPS, avoiding all the widebody competition on the Honolulu routes. Its latest addition was Sacramento-Kahului in March, and planned service to Kauai from San Jose and Oakland from March 2011 will bring the Hawaii service to 100-plus weekly flights to four islands. The services are supported by Alaska's vacations unit and also make much sense from the FFP point of view.

But the most notable new development is Allegiant's plan to enter the US mainland-Hawaii market, most likely in the first half of 2011. The Las Vegas-based LCC, which currently operates MD-80s, is acquiring six 757-200 ETOPS and hopes to extend to Hawaii its hugely successful mainland strategy of serving large leisure destinations from smaller cities with no existing nonstop service (see article, pages 5-7).

Allegiant is to be taken seriously because it has grown aggressively, is highly profitable and has a significant cost advantage against all other US airlines. It will also compete in a slightly different way: it is in the business of selling "travel" (also hotels, car hire, show tickets, attractions) – something that may prompt Hawaiian to accelerate its own efforts to generate ancillary revenues.

Then again, Allegiant is very much a niche operator. It avoids competition and will be operating from the type of medium-sized cities that Hawaiian is not interested in (the likes of Bellingham, Stockton and Fresno are believed to be on the short list).

Hawaiian is used to dealing with competition from all comers. Furthermore, since Allegiant is likely to operate to Honolulu and Maui (rather than to the outer islands), there could even be an upside, namely that Allegiant's transpacific services could bring incremental passengers to Hawaiian's inter-island network. The same is true for the other transpacific competitors. CEO Mark Dunkerley commented recently: "We compete with all the airlines tooth and nail over the Pacific and at the same time we do carry a lot of their connecting customers inter-island".

Given its success on the West Coast and the capabilities of the future long-range fleet, does Eastern US feature at all in Hawaiian's expansion plans? CFO Peter Ingram explained at a recent conference that Hawaiian is not interested in the large population centres in the middle of the country, because they are generally other airlines' hubs, but that large East Coast cities such as New York or Boston are a possibility because they are generally spoke cities. But Ingram noted that the East Coast cities already have plenty of connecting service to Hawaii. Since the traffic is primarily leisure customers who are paying with their own money, they are not prepared to pay a significant premium for the convenience of nonstop service.

Asian opportunities

Hawaiian's leadership considers the international markets in Asia "probably the number one opportunity for us in the years ahead". After dipping its toe in with Sydney (2005) and Manila (2008), the airline is now gearing for the launch of Tokyo on October 31 and Seoul in January 2011.

The launch of Tokyo is a watershed event for the company because Japan is the second most important source of visitors for Hawaii (after the Western US). Japan-Hawaii is a very large market with intense competition. However, it is also a very mature market and has been declining in the past 10-15 years, so Hawaiian was previously concerned about the prospect of coming in as a marginal competitor. Securing rights to Haneda, which is much closer to downtown Tokyo than Narita and offers full access to JAL's and ANA's domestic networks, has made all the difference. Calling Haneda a "premium piece of network real estate", Hawaiian's management believes that Haneda offers a "terrific way to not only get our foot in the door but gain a very strong position to Japan".

Hawaiian does have plenty of broader Japan experience. In the 1980s and 1990s it operated the largest charter programme between the US and Japan. It already has a Japanese language web site and has had a sales presence in Tokyo since 1973.

Hawaiian got rights to only one daily frequency to Tokyo but hopes to secure a second flight in the future. However, the airline believes that it can make money with only one daily flight. It will initially utilise 264-seat 767-300ERs and later 294-seat A330s. In terms of CASM, in some respects it will be very efficient flying, but infrastructure costs will be high. Similar to its US West Coast strategy, Hawaiian hopes to capture market share with its distinctive "Hawaii Starts Here" onboard service and by timing its flights from Tokyo to allow visitors to maximise their time in Hawaii.

The Seoul-Honolulu service, to be launched in January initially with four 767-300ER flights per week, will tap into the important South Korea visitor market, which offers potential for growth also because of its recent addition to the US visa waiver programme. Seoul's Incheon, one of Asia's largest hubs, can also feed traffic to Hawaiian's flights from all over the region. This is a fairly risk-free move also because it is done in the context of an existing codeshare relationship with Korean Air, which has already operated Seoul-Honolulu for some time.

It is widely believed that a route between Hawaii and mainland China is also in the works. Also, Hawaiian will be looking at other opportunities in Japan, which is by far the most mature market in Asia for travel to Hawaii.

Hawaiian's management believes that people in Asia's developing economies, such as Korea and China, will have the same affinity for travel to Hawaii as the Japanese do. The islands offer a unique mix of Asian and American culture and much natural beauty and wonder that are very attractive to people from that part of the world. But in some countries there may be a need to build awareness of Hawaii as a destination, so Hawaiian's Asian expansion will not be an all-at-once type of phenomenon.

One interesting question is whether Hawaiian might in the future carry Asia-US mainland connecting traffic. It could market Hawaii as a vacation stopover for both US mainland and Asia-originating passengers.

The A330s and A350s will replace the current 767 fleet over a decade, provide for growth at a "responsible" rate and enable the airline to serve virtually any major visitor market in the world. With many of the deliveries timed to coincide with 767 lease expirations, there is much flexibility to scale growth to market conditions. In addition to the three leased A330-200s taken this year, Hawaiian has seven more of that type on firm order from Airbus, for delivery in 2011-2014, plus five purchase options. It also has six A350XWB-800s on firm order, for delivery in 2017-2020, plus six purchase options.

Two years of pretax profits and cash generation have put Hawaiian in a good position to meet the higher capex associated with the fleet plan. However, this year is likely to see its earnings dip, contrasting with the improvements reported by the rest of the industry. This is in part because Hawaiian suffered less than its peers in 2009; in fact, it had a highly profitable year, helped by its leisure focus and very low fuel costs in the first half. In 2010 it is seeing higher fuel prices and significant cost inflation in many non-fuel items. So, in addition to managing new international expansion, Hawaiian has to tighten cost controls and get some unit revenue improvements at least in the more stable inter-island market.

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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/ KLM Group YE 31/03	Apr-Jun 08	9,830	9,464	366	266	3.7%	2.7%	66,610	53,472	80.3%	19,744	106,700
	Jul-Sep 08	10,071	9,462	609	44	6.0%	0.4%	69,930	58,041	83.0%	20,439	107,364
	Oct-Dec 08	7,880	8,136	-256	-666	-3.2%	-8.5%	64,457	51,255	79.5%	17,934	106,773
	Jan-Mar 09	6,560	7,310	-751	-661	-11.4%	-10.1%	61,235	46,214	75.5%	15,727	106,895
	Year 2008/09	**34,152**	**34,335**	**-184**	**-1,160**	**-0.5%**	**-3.4%**	**262,359**	**209,060**	**79.7%**	**73,844**	**106,933**
	Apr-Jun 09	7,042	7,717	-676	-580	-9.6%	-8.2%	63,578	50,467	79.4%	18,703	106,800
	Jul-Sep 09	8,015	8,082	-67	-210	-0.8%	-2.6%	66,862	56,141	84.0%	19,668	105,444
	Oct-Dec 09	7,679	8,041	-362	-436	-4.7%	-5.7%	61,407	49,220	80.2%	17,264	105,925
	Year 2009/10	**29,096**	**31,357**	**-2,261**	**-2,162**	**-7.8%**	**-7.4%**	**251,012**	**202,453**	**80.7%**	**71,394**	**104,721**
British Airways 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	
	Year 2009/10	**12,761**	**13,130**	**-369**	**-678**	**-2.9%**	**-5.3%**	**141,178**	**110,851**	**78.5%**	**31,825**	**37,595**
Iberia 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**
	Jan-Mar 10	1,453	1,552	-98	-72	-6.8%	-5.0%	14,360	11,605	80.8%		19,643
Lufthansa 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	8,237	7,715	522	-5	6.3%	-0.1%	47,075	36,632	77.8%	17,150	108,711
	Year 2008	**36,551**	**34,625**	**1,926**	**812**	**5.3%**	**2.2%**	**195,431**	**154,155**	**78.9%**	**70,543**	**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	9,041	9,090	-49	-109	-0.5%	-1.2%	55,395	43,110	77.8%	21,204	117,521
	Year 2009	**31,077**	**30,699**	**378**	**-139**	**1.2%**	**-0.4%**	**206,269**	**160,647**	**77.9%**	**76,543**	**112,320**
	Jan-Mar 10	7,978	8,435	-457	-413	-5.7%	-5.2%	52,292	39,181	74.9%	19,031	117,732
SAS 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**
	Jan-Mar 10	1,322	1,428	-106	-99	-8.0%	-7.5%	7,951	5,471	68.8%	5,735	15,835
Ryanair 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	
	Year 2009/10	**4,244**	**3,656**	**568**	**431**	**13.5%**	**10.2%**			**82.0%**	**66,500**	
easyJet 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**	
	Oct 09-Mar10	1,871	1,995	-106	-94	-5.6%	-5.0	27,077	23,633	87.3%	21,500	

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation.

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Alaska	Oct-Dec 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**
	Jan-Mar 10	830	804	26	5	3.1%	0.6%	8,917	7,197	80.7%	3,641	8,537
American	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**
	Jan-Mar 10	5,068	5,366	-298	-505	-5.9%	-10.0%	59,296	46,187	77.9%	20,168	77,800
Continental	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**
	Jan-Mar 10	3,169	3,220	-51	-146	-1.6%	-4.6%	42,350	33,665	79.5%	14,535	39,365
Delta	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**
	Jan-Mar 10	6,848	6,780	68	-256	1.0%	-3.7%	85,777	68,181	79.5%	36,553	81,096
Southwest	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**
	Jan-Mar 10	2,630	2,576	54	11	2.1%	0.4%	36,401	27,618	75.9%	23,694	34,637
United	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**
	Jan-Mar 10	4,241	4,172	69	-82	1.6%	-1.9%	53,023	42,614	80.4%	18,818	42,800
US Airways Group	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**
	Jan-Mar 10	2,651	2,661	-10	-45	-0.4%	-1.7%	31,957	24,659	77.2%	17,931	30,439
JetBlue	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**
	Jan-Mar 10	870	828	42	-1	4.8%	-0.1%	13,557	10,412	76.8%	5,528	11,084

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	18,992
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	8,640	7,901	740	627	8.6%	7.3%	111,167	96,382	86.7%	24,558	18,511
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	8,022	7,811	211	48	2.6%	0.6%	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	5,896	5,629	267	25	4.5%	0.4%	84,422	60,918	72.2%	44,030	
Air Asia	Year 2008	796	592	203	-142	25.5%	-17.9%	18,717	13,485	72.0%	11,795	
YE 31/12	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	263	169	95	23	35.9%	8.6%	5,863	4,410	75.2%	3,995	
	Year 2009	905	539	366	156	40.4%	17.3%	21,977	15,432	70.2%	14,253	
	Jan-Mar 10	260	159	89	66	34.2%	25.4%	5,929	4,090	68.9%	3,700	7,500

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 %
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
May 10	29.5	20.9	70.8	20.0	16.9	84.5	15.1	11.8	78.1	50.9	40.9	80.3	79.1	60.7	76.8
Ann. change	-0.6%	3.1%	2.5	-2.5%	1.3%	3.2	-0.6%	5.5%	4.5	0.6%	4.9%	3.3	0.3%	4.6%	3.2
Jan-May 10	129.2	84.8	65.6	83.9	67.6	80.6	70.9	57.9	81.7	234.9	189.7	80.8	358.3	271.9	75.9
Ann. change	-4.6%	-1.7%	1.9	-6.7%	-1.8%	4.0	-6.3%	-1.0%	4.4	-4.6%	-0.1%	3.6	-4.3%	-0.2%	3.1

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	01 July	Air China	20 x 737-800	
Airbus	15 June	Turkish Airlines	1 x A330-200	2011 delivery
Bombardier	02 July	Lufthansa	8 x CRJ900	

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