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Aviation Strategy

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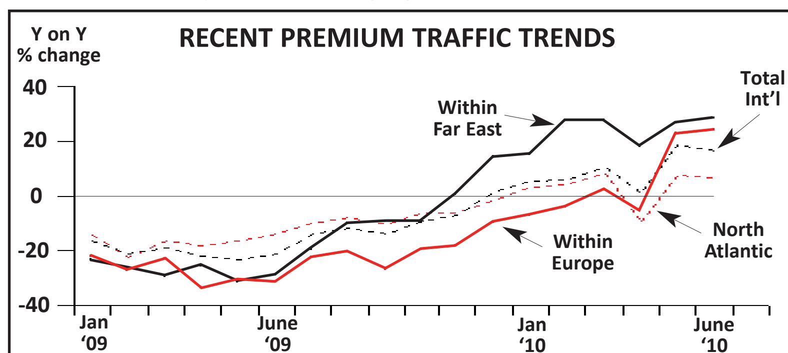
Up, up and ...?

The air transport industry is remarkably resilient. It can get knocked off its long term growth path by extraneous events, but bounces back. The global recession sparked off by the collapse of Lehman Bros two years ago had a dramatic impact on the industry: 2009 saw a decline in overall traffic volumes of 3-4%, with a slightly higher rate of decline in international traffic, to mark only the second year in the industry's history that traffic had actually fallen. Yields however collapsed by an astonishing 13% - the largest annual decline experienced in the industry's history, although partly because fuel prices also fell in the period – and it is estimated that the industry generated an operating loss of $1.2bn and a net loss of nearly $10bn for the year.

We are now surely in the upturn of the cycle. Since the beginning of 2010 the year-on-year rate of growth has been far better than many might have expected – with the exception of the disruption caused by the closure of European air-space in April following the eruption of an unpronounceable Icelandic volcano. IATA has reported an average growth in RPKs of 8% on international traffic since January against a relatively muted growth in capacity. Load factors rebounded to over 80% in July, three points higher than the previous year, while the average improvement in load factors so far this year has averaged five percentage points. These increases of course are in light of a comparative period of severe declines but June traffic appeared to have had regained the peak levels of 2008.

Premium passengers have been coming back in droves as the world economy and business confidence has improved and annual growth in premium cabins this year is estimated at over 10% (although at times in 2009 the rate of decline in some areas was approaching 35%). Intriguingly, premium traffic within Asia has been exhibiting average growth of over 20% since December last year. However, even after these increases, total premium traffic volumes appear to be some 7% below the peak levels in 2007 – and in Europe particularly (where business-class travel has been in decline for many a year as the LCC revolution has developed) still a hefty 25% below the levels in that year.

Within this global data however, there are some increasing signs of the disparity in economic performance in differing regions. In the Far East the OAPA reports an average growth in traffic of over 15% since



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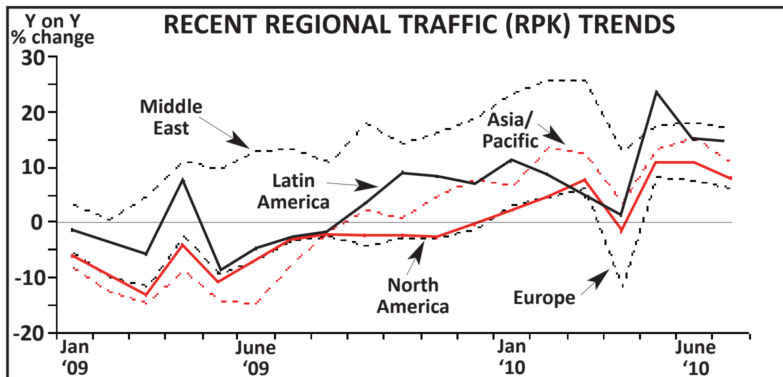
the end of 2009 (and 25% growth in premium traffic) highlighting that the powerhouse of China and developing economies in Asia are ignoring the plight of the budget deficits of the developed economies. At the same time, carriers in the Middle East continue to pursue their high growth strategy to develop the Gulf region as competing international hubs.

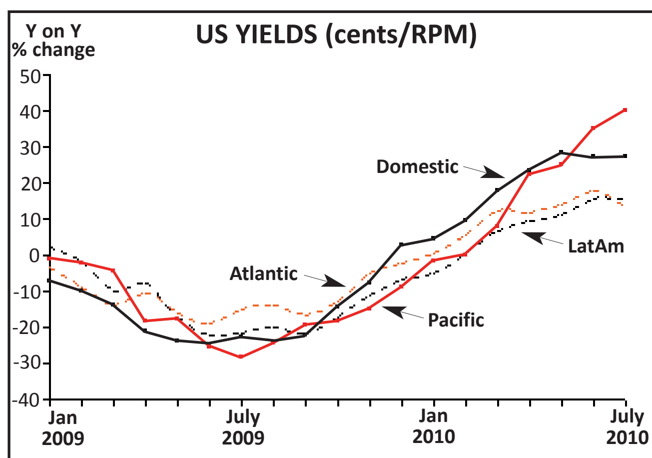


ATA is the only body to publish timely data on yields – although the data only relates to a sample of the top US airlines. As the chart below shows, after the disastrous performance of 2009, all route areas operated by the US carriers selected have shown accelerating improvements in traffic yields – highlighted by a near 40% increase in July data on the Pacific routes. Of course the yield data is somewhat obscured by the movements in fuel prices over the past three years and these rates of growth appear high – but Domestic, Atlantic and LatAm routes still display average yields 5-8% below those achieved in 2008, with only the highly marginal Pacific routes showing a recovery in yields to pre-crisis levels.

The airline industry displays various different cycles of its own – and apart from traffic demand related data one of the more important is that of the aircraft orders and delivery cycle; and if we wanted any other evidence it is here too that there are distinct signs of the upturn.

Farnborough this year allowed the major manufacturers to boast a boost to their order books – and gave rise to Airbus comments that it was doubling its full year forecast of new net orders. Indeed by the middle of the year the two majors had notched up new orders for 530 aircraft – equivalent to the total net new orders achieved in 2009. Boeing used the occasion to publicise its Current Market Outlook in which it uprated average annual traffic growth forecasts for the next 20 years to over 5% in RPK terms (upgraded mainly because of the dip in 2009). Both manufacturers now seem set to increase production levels – particularly of the 737/A320 industry workhorses – over the next two years to help cover the backlog of orders in this segment. Intriguingly at Farnborough, the major orders announced were from leasing companies – and in particular Steve Udvar-Hazy's new ILFC look-alike vehicle – hinting that whereas some airlines may not yet have the confidence, the finance professionals believe in the future demand potential (see page 13).

There are distinct signs that the economic recovery is two-toned; that the performance of the developing economies may well accelerate the creation of a consumer base independent of the developed nations – particularly in Europe and the US - which are likely to be held back by the after effects of the budget deficits following the financial crisis. (IATA indeed is forecasting strong recovery in profit potential this year in all areas except Europe). It is almost certain that from now on that the high growth rates will reduce as the year-on-year effects dissipate. It is also possible that the developed nations will avoid the dreaded double-dip recession and the airline industry indeed return to profitability.



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Leasing market: Rapid adjustment to credit crisis

The post-Lehman market has been very difficult for the leasing industry but the expected funding gap for new deliveries was not as large or problematical as some analysts feared, thanks to a number of factors that include extra finance from the US Export Import Bank, the European export credit agencies and the manufacturers themselves. In addition, the debt and equity markets were not as depressed as many had feared.

In fact, Steve Hannahs, chief executive of Aviation Capital Group, says the impact of the downturn has been "very minor", as while lease rates have dropped by up to 25% over the last 18 months, the fall in interest rates has enabled yield to remain stable. AWAS too says 2009 was, financially at least, its best ever year, and it had few repossession or credit problems. But these lessors, along with the ever-expanding BOC Aviation had one thing some others lessors didn't – financially stable owners/parents.

There has been a flurry of asset exchanges. While Macquarie's purchase of 53 aircraft for $2bn from ILFC in March was sparked by the need of the lessor's troubled parent AIG to sell assets in order to repay part of the multi-billion dollar bailout from the US taxpayer since being rescued in September 2008, it also reflects the confidence (and financial strength) of a growing number of companies willing to purchase assets. It's probably a good time to buy assets or even entire lessors, although the window of opportunity to pick up bargains may be small as the market continues to improve.

As for individual lessors, among those for sale last year were ILFC, RBS Aviation Capital and CIT Aerospace but while no buyers could be found for them, all of these companies appear to have stabilised – although this has the drawback for the industry that orders by these lessors (almost 300 in total) will now be delivered, which means less slack in the production backlog than would have been the case if one of more or these lessors had gone under or scaled back drastically.

The more stable of the established lessors have started to place orders again (with a flurry of activity at Farnborough), and they are being joined by private equity investors and others looking to enter the industry. New entrants included Sky Holding and Greenstone Aviation, but the biggest new entrant of all is Air Lease (see page 13), launched by ILFC founder Steven Udvar-Hazy, and to which John Plueger and other ILFC executives have joined.

Greater long-term challenges to existing lessors may come from new, Chinese leasing entities. In a recent speech Wang Changshun, vice minister of the Civil Aviation Administration of China (CAAC), said that by 2025 China will require a fleet of 3,000 civil aircraft, of which around 60% will likely be leased. While this is encouraging many Western lessors to beef up their presence in the country, Chinese government policy will inevitably favour home-grown lessors, and a flurry of new companies backed by Chinese banks and industrial conglomerates is likely to emerge over the next few years.

However, the threat may be exaggerated as these companies will need to partner experienced Western lessors if they are to stand any chance of securing business outside of their domestic market. More of a problem may be the development of new Chinese (and Russian) narrowbody models, which will displace Western aircraft in the home fleets.

Aviation Strategy's annual survey of the leasing industry (see table, pages 6-7) shows that despite the downturn the overall fleet has grown year-on-year, from 6,877 a year ago to 7,308 aircraft today. And thanks to large orders from GECAS, RBS and Air Lease over the summer, lessors currently have 1,189 outstanding orders, slightly up on the 1,142 total as of a year ago (see *Aviation Strategy*, September 2009).

GECAS

With 25 offices around the world and a fleet of more than 1,800 aircraft, General Electric Capital Aviation Services (GECAS) remains the world's largest lessor by a very long way. In the second quarter of 2010 GECAS reported a 1% rise in net profit, to $288m, with higher underlying

profit being offset by around $30m of impairment charges. As at June 30th GECAS's assets were valued at $48.6bn (compared with $47.2bn 12 months' earlier).

Despite the sale of a portfolio of 15 aircraft to CDB Leasing, a subsidiary of China Development Bank, for around $830m in December 2009, the fleet has grown slightly year-on-year, with 1,530 owned aircraft as well as another 300 aircraft managed on behalf of others.

As of July 98% of this fleet was placed through 2010 and 73% in 2011. 32% of the current placed fleet is with US clients, although that's significantly down from the 47% placed there in 2005. The next most important market is the EU/Canada (25%), followed by Asia (20%), the Middle East and Africa (16%) and Latin America (7%). Altogether the portfolio is placed with 245 airlines in 75 countries around the world.

More than 70% of GECAS's fleet is in 737NGs/A320 family aircraft/777/A330s, but GECAS explicitly states that it needs to "restock narrowbody orders", and indeed at Farnborough GECAS announced an order for 40 737-800s, worth $3bn at list prices, as well as 60 A320 family aircraft. However GECAS also says that it is currently underweight on widebodies – 21% of its fleet are widebodies, compared with 36% in the global fleet (with 56% of GECAS's fleet being narrowbodies, 14% RJs and 9% cargo models).

GECAS's current order book now stands at 211 aircraft, comprising 113 Boeing aircraft (102 737s and 11 777s) and 98 Airbus aircraft, all of which are A320s. That's a significantly higher figure than the 145 on order a year ago, and a sign that GECAS and its parent GE are financially much stronger than their closest rival.

ILFC

AIG's hoped-for sale of International Lease Finance Corporation (ILFC) just didn't happen, as even at the bottom of the cycle the portfolio was just too large for any one company or consortium to buy at an acceptable price.

In January AIG formally took ILFC off the market, thus forcing the lessor to raise further debt from AIG and the markets, as well as selling off a number of aircraft. In March ILFC raised $2.75bn in unsecured debt, and altogether it has raised $4.4bn in debt during the first-half of the year, which will help pay off some of the debt maturing this year.

AIG says it will continue to support ILFC through to February 2011, but ILFC insists that any further extension of support from AIG will not be necessary and that it aims to repay at least part of the $3.9bn in current loans from AIG in the near-term – although that will only come about thanks to more debt issuance and the sale of assets.

The extent of ILFC's continuing predicament was confirmed in results for the first six months of 2010, when it revealed revenue of $2.1bn – some 17.5% ($0.5bn) lower than January-June 2009. Net profit plunged from $439m in the first half of 2009 to just $48m in January-June 2010, which the lessor says was due to "impairment and other lease related charges taken on aircraft we have agreed to sell to generate liquidity to repay maturing debt obligations, and the increasing costs of borrowing".

ILFC has already sold or earmarked for sale 59 aircraft this year, which should generate around $2.1bn of gross proceeds – but this is before impairment charges of more than $400m on these assets (which went into the first-half results). Of these the 53 aircraft being sold to Macquarie Aerospace for $2bn are among the youngest aircraft in the ILFC fleet, and the lessor has admitted the average age of its remaining aircraft will rise from 7.4 to 7.6 years once the Macquarie transaction is completed.

ILFC's current funding woes are particularly untimely as they preclude the lessor from its traditional practice of buying aircraft at the bottom of the cycle. From a high in its order book of 360 aircraft in 2004, the total has fallen steadily since, and now stands at 115 (compared with 125 a year ago), comprising 10 737s, 74 787s, one A320, 20 A250s and 10 A380s. ILFC claims its "historic low" order book enables it to be ready to take advantage of the market upturn, but the simple fact remains that if it could afford to, it would be ordering new aircraft now.

The 115 aircraft that are on order are scheduled for delivery through to 2019 at an estimated cost of $13.5bn, and will have to be financed by more borrowing or further asset sales. Thankfully none is scheduled to be delivered this year, and just six are due in 2011, which will cost $248m. The 787s will begin arriving in June 2012, and so far Los Angeles-based ILFC has placed 24 of these aircraft with clients.

Further bad news came for ILFC in August this

year when Mexicana - at which the lessor has placed 12 aircraft - filed for bankruptcy protection. It's undoubtedly a testing period for Henri Courpron, previously an EVP at Airbus and most recently president at the Seabury Group, who became CEO at ILFC in May after the sudden departure of interim CEO John Plueger (who left just a month after he replaced former CEO and ILFC founder Steven Udvar-Hazy). Plueger reportedly was unhappy at pay caps imposed on AIG as a condition of its federal bail-out, which no doubt will not be a constraint at Air Lease.

Boeing Capital Corporation

The Boeing Capital Corporation (BCC) provides "last resort" finance for Boeing aircraft (as well as for space and defence products), and its 160 employees are based at its main office in Renton, Washington, as well as at Los Angeles, St. Louis, Moscow and Hong Kong.

In January BCC installed a new president - Mike Cave, previously a SVP at Boeing - and for the first-half of 2010 BCC had $324m of revenue, slightly down on the $330m of revenue recorded in January-June 2009, although net profit rose 48% to $62m. As at the end of June, BCC owned 267 aircraft (280 a year ago) and had partial ownership or interest in another 42 (49 a year ago), with the portfolio worth $5.3bn, compared with $5.7bn as of six months' earlier and $6.4bn a year ago.

In its latest 10Q report BCC stated that "to the extent capital market conditions continue to improve, we believe the overall aircraft financing market should improve as well - and lessen the need for us to provide financing".

As a lender of last resort BCC is heavily exposed to older models – 717s account for 42% of its entire portfolio by value, with the next largest categories being 757s (16%) and 737s (9%). Again by value, 25% of its aircraft are more than 11 years old, and just 11% were manufactured in 2005 or later. 69% of the fleet is with US airlines, and 60% is with just five customers: AirTran, American, Hawaiian, Continental and - unfortunately - Mexicana.

AerCap

In March this year Dutch-based AerCap merged with Genesis Lease, which was listed on the NYSE but based in Shannon, Ireland (with its aircraft managed on its behalf by GECAS). The previous owners of Genesis took a 29% stake in the merged company, which now has a portfolio of 301 owned and managed aircraft worth around $7bn.

The enlarged lessor also has offices in the US, UK, Ireland, China and Singapore. Thanks to the merger, in the first six months of 2010, AerCap saw revenue almost double to $959m, although net profit fell 4% to $83m. Its portfolio is placed with 114 airlines in 49 countries, the majority of which are in Europe (45 customers), followed by North and South America (24) and the Asia/Pacific region (24).

AerCap's fleet had an asset value of $9.1bn as at the end of June 2010, a 48% increase compared with June 2009 – although of the increase only half ($1.5bn) came from the Genesis transaction, which added 53 aircraft; the other $1.5bn increase in assets came primarily from the purchase of 39 aircraft (although in the first half of the year AerCap also sold 10 aircraft). The average age of the fleet is now 5.5 years, and 79% of aircraft are narrowbodies, including 154 A320 family aircraft and 43 737NGs.

The lessor has just 12 A330s on order, and Klaus Heinemann, CEO at AerCap, says there is "no urgent need" to order new aircraft - although he hints that they make consider placing orders for delivery in 2013 to 2015.

CIT Aerospace

CIT Aerospace is part of the CIT Group, a bank holding company quoted on the NYSE that went into Chapter 11 bankruptcy protection in November last year, although it emerged from this one month later after reorganising its capital structure substantially. The leasing arm was put up for sale, but no buyers were found and the group has reportedly decided to keep the lessor as it is now regarded as a "core business".

CIT Aerospace has a portfolio of 300 narrowbody and widebody aircraft - approximately the same as a year ago - that are fully placed with 100 airlines in 55 countries and valued at $7bn. The lessor has 86 aircraft on order, including 10 787s, 14 737s, 44 A320 family aircraft, 11 A330s and seven A350s, with 19 due in the next 12 months, all of which have been placed with clients.

The lessor is based in New York and its executives are located at seven other CIT offices around the globe, including three in the US, one

THE LESSOR FLEET						
Company	Owned*	Managed/Part-owned*	Total	Boeing orders	Airbus orders	Total orders
GECAS	1,530	300	**1,830**	113	98	**211**
ILFC	946	103	**1,049**	84	31	**115**
BCC	267	42	**309**			
AerCap	256	45	**301**		12	**12**
CIT			**300**	24	62	**86**
BBAM			**290**	20		**20**
ACG			**241**	72	66	**138**
RBS			**240**	42	52	**94**
AWAS			**207**	33	83	**116**
BAe Systems Asset Management			**148**			
BOC Aviation	118	24	**142**	12	27	**39**
Aircastle	129		**129**		10	**10**
Macquarie AirFinance	86	37	**123**			
Pembroke	35	76	**111**			
Airplanes Group			**101**			
Al Waha Capital			**100**			
ORIX			**100**			
MCAP			**100**	1		**1**
Aergo Capital			**100**			
Sky Holding			**90**			
Sumisho			**70**			
Allco Finance/HNA			**68**			
Dubai Aero Capital	43	24	**67**	91	75	**166**
Jetran			**50**			
World Star Aviation			**50**			
CDB Financial Leasing			**50**			
GAAM			**50**			
BCI Aircraft Leasing			**45**			
Guggenheim			**42**	7	3	**10**
Compass Capital			**40**			
RPK Capital Management			**35**			
Alafco			**34**	28	17	**45**
Amentum Capital		32	**32**			
AAR	5	27	**32**			
Bavaria			**30**			
GA Telesis			**30**			
SkyWorks Leasing		30	**30**			
VGS Aircraft Holding			**29**			
Avolon	26	2	**28**	12		**12**
Aircraft Leasing and Management		25	**25**			
Aircorp			**25**			
First Greenwich Kahala			**25**			
GMT Global			**24**			
Jetscape			**23**			
Goal			**22**			
AerVenture	22		**22**		9	**9**
Doric Asset Finance			**21**			
Sojitz Aircraft Leasing			**20**			
GKL			**20**			

THE LESSOR FLEET

Company	Owned*	Managed/Part-owned*	Total	Boeing orders	Airbus orders	Total orders
ICBC Leasing			20			
Vx Capital Partners			20			
Novus Aviation			20			
Automatic			20			
Aldus Aviation			16			
Skytech-AIC			15			
Airbus Asset Management			15			
Itochu Airlease			15			
Global Aviation Leasing			15			
Q Aviation			15			
Deutsche Bank Equipment Leasing			14			
Veling			13			
Avation			11			
Tombo Aviation			10			
Lease Corporation International			10			
Phoenix Aircraft Leasing			10			
Deutsche Structured Finance			10			
AerDragon Aviation Partners			9		4	4
Air Lease Corporation					51	51
Intrepid Aviation					20	20
Alphastream					15	15
MatlinPatterson					6	6
LCAL					5	5
Deucalion Capital					2	2
Oak Hill Capital Partners					2	2
Total	**3,463**	**767**	**7,308**	**548**	**641**	**1,189**

Note: This table includes jet lessors with at least nine owned or managed aircraft. We exclude entities set up solely to manage the leasing activities of a specific airline. *Where known.

in Canada and three in Europe (in Toulouse, London and Dublin).

BBAM

BBAM is essentially a reincarnation of Babcock & Brown Aircraft Management (with most of its senior executives), the lessor that was part of the operating lease division of Babcock & Brown, the Australian investment bank and asset management group that went into bankruptcy in 2009.

BBAM was formed in April 2010 from the assets of Babcock & Brown Aircraft Management by a partnership between the lessor's management and Babcock & Brown Air, the owners of a portfolio of 62 aircraft that Babcock & Brown Aircraft Management formerly managed on its behalf (and which the newly-formed BBAM now manages). Babcock & Brown Air now owns 15% of BBAM, and 85% is owned by its management, led by Steve Zissis, the president of BBAM (and chairman of Babcock & Brown Air).

Based in San Francisco, BBAM has a fleet of 290 aircraft worth approximately $8bn, and has outstanding orders for 20 737s.

Aviation Capital Group

Based in Newport Beach, California, and with offices in London, Santiago, Seattle, Shanghai, Singapore and Stamford, Aviation Capital Group (ACG) is owned by insurance giant

Pacific LifeCorp. In 2009 ACG saw revenue drop 3% to $592m, although its portfolio asset value rose 13% to $6.1bn.

ACG's portfolio of 241 owned or managed aircraft (most of which are narrowbodies) is placed with 94 airlines in 39 countries around the world. That portfolio has increased by just eight aircraft in the last 12 months, but ACG is now on the look-out for acquisitions and plans to add another 20 or so aircraft through 2010, with a medium-term goal of 360 aircraft by 2013 or 2014 as it has "excess capital", according to chief executive Steve Hannahs.

ACG already has the third-largest order book of any lessor, which currently stands at 138 aircraft (67 737s, five 787s, seven A319s, 55 A320s and four A321s).

RBS Aviation Capital

RBS Aviation Capital suffered a blow in January when seven executives resigned to join former founder Domhal Slattery at his new leasing company Avolon.

That development undoubtedly complicated the much-delayed sale of RBS Aviation Capital, which has been expected ever since the UK government stepped in to bail out troubled parent RBS in 2008 (the government now owns 84% of RBS).

The banking group has been disposing of non-core assets since then, but a buyer for the leasing arm has not been found, hampered initially by the cancellation of orders for 20 787s last year and now by the resignation of the key executives. Reports now indicate that RBS may formally take its leasing business off the market for a while, and at least wait until the cycle peak is reached so that it can achieve a preferable price. For the moment though, it is still for sale.

Based in Dublin, RBS Aviation Capital owns or manages 240 aircraft, worth an estimated $8.1bn and placed with 53 customers, with the two most important markets being Europe (18 airlines) and the Asia/Pacific region (17 airlines).

Its order book was apparently empty, however, until this summer when at Farnborough it revealed previous orders for 43 737s and 52 A320s (which were placed with manufacturers as far back as 2008, but not previously disclosed) that are worth more than $7.5bn, and which presumably have been revealed now in order to make it appear more of a "going concern" for a potential buyer.

AWAS

Headquartered in Dublin, AWAS employs 124 and has offices in New York, Miami and Singapore. The lessor is owned by Terra Firma, which is likely to be waiting until the new cycle reaches a peak before it secures a profitable exit.

For the last financial year (the 12 month period ending November 30th 2009), AWAS reported lease revenue of $763m, 9% down on the previous year due to lower lease rates and aircraft sales. However, the operating result improved from a $138m loss in 2007/08 to a $118m profit in 2008/09, while net loss improved from $369m in 2007/08 to just a $4m loss in 2008/09.

AWAS called 2009 a "challenging" year, and said its strategy has been "an aggressive focus on the minimisation of the costs of default and operating cash flow", although it adds that it started experiencing an improvement in the leasing market in the last few months of 2009.

AWAS bought five aircraft and sold 12 in 2009, and its portfolio now stands at 207 aircraft (valued at $5bn) leased to 95 airlines in 45 countries. The lessor is relatively unexposed to a few key clients – the top five customers (SIA, Cargolux, Asiana Airlines, Kingfisher US Airways) accounted for just 17% of total revenues in that last financial year. The Asia/Pacific region is its most important market, with 38% of the fleet by value leased to clients there, followed by 28% in Europe, 22% in North America, 9% in Latin America and 3% in the Middle East and Africa.

The average age of the fleet is more than eight years, with 56% of the fleet by value being narrowbodies, and 44% widebodies. AWAS has 116 aircraft on order, including 33 737s, 79 A320 family aircraft, two A330s and two A350s.

In March AWAS announced that CEO and president Franklin Pray would be leaving the lessor, and his replacement in August was Raymond Sisson, previously CCO at SR Technics Switzerland, although before that he was with GECAS for 13 years.

BOC Aviation

Owned by the Bank of China, BOC Aviation (formerly known as Singapore Aircraft Leasing

Enterprise – SALE) has continued its aggressive expansion over the last 12 months, under a so-called “counter-cyclical strategy” that was planned back in 2007, and with the lessor becoming a net buyer of aircraft from early 2009 onwards. The Bank of China is one of the world’s ten largest banks by market capitalisation, and pumped in another $100m in equity into BOC Aviation last year.

The lessor added 19 aircraft in the last 12 months, and the portfolio now stands at 118 owned and 24 managed aircraft with an asset value of $5.8bn and an average age of four years. The portfolio consists mostly of 737NGs and A320 family aircraft, which are placed with around 40 airlines worldwide.

Based in Singapore, BOC also has offices in Dublin, London and Seattle, and in 2009 its net profits rose by 28% to $137m. There are 39 aircraft on order, including 12 737s, 22 A320s, and five A330-200Fs, and the fleet is likely to grow by another 20 or 30 aircraft this year.

Aircastle

With 75 employees, Aircastle is based in Connecticut and has other offices in Dublin and Singapore. It does not manage aircraft for others and its focus is 5-10 year old new generation narrowbodies, “top quality” widebodies, freighters and new aircraft with ECA/Exim backed debt.

It currently has a fleet of 129 owned aircraft with a net book value of $3.7bn and an average age of around 11.5 years. They are placed with 63 clients in 36 countries, with the top five lessees accounting for 34% of revenue. By value 47% of the portfolio is placed with European airlines, 19% is in the Asia/Pacific region, 12% in each of North America and the Middle East/Africa, 9% is in Latin America and 1% are unplaced.

By value 36% of the fleet is in new generation narrowbodies, 25% is in mid-bodies, 29% are freighters, 8% older model narrowbodies and just 2% are widebodies, (with 71% of aircraft by value being passenger aircraft and 21% freighters).

Aircastle has a lease expiration spike in 2012 when almost 30 aircraft will come off leases, but this should coincide with a period approaching the peak of the next cycle. In the first-half of 2010 Aircastle’s revenue fell 3% to $261m, and net profit fell to $37m, compared with $46m in the January-June 2009 period.

Aircastle has 10 A330s on order, which will cost around $870m. In the second half of this year two A330s are scheduled to be delivered, and these have been placed to an affiliate of Hainan Airlines. Seven A330s are due to be delivered in 2011, and again these have been placed with clients (with six aircraft going to South African Airways).

Macquarie AirFinance

In April Macquarie Bank (which owns 37.5% of Macquarie AirFinance) announced a deal to buy a portfolio of 47 aircraft from ILFC for $1,671m in cash, as well as purchase rights for a further six aircraft (which would cost another $316m). The 47 aircraft are leased to 35 airlines in 27 countries (with an average lease term of five years) and currently have an average age of around four years. More than 70% of the portfolio consists of A320 family and 737NG aircraft, with the remainder being “in-production” widebodies.

Macquarie AirFinance is based in Dublin, with offices in London, Singapore and San Francisco, and prior to the ILFC deal the lessor has a fleet of 86 owned and 37 managed aircraft. The ILFC deal will occur in stages over the remainder of 2010, but when completed (assuming that the purchase rights to the other six aircraft are taken up) this will bring the lessor’s portfolio bring up to 176.

The majority of the current portfolio comprises modern narrowbodies - 44 A320 family aircraft and 35 737NGs. They are placed with 60 customers, the majority of which are in Europe (34%), the Asia/Pacific region (21%) and Central and South America (15%). Macquarie currently doesn’t have any aircraft on order.

Pembroke

Pembroke has seen its fleet increase slightly over the last year, to 111 owned and managed aircraft at present. The portfolio is placed with more than 20 customers around the globe, including United, SIA and Emirates.

The majority of the portfolio is narrowbodies, including 43 A320 family aircraft and 20 737s,

although it also has seven 777s and five A330s. The lessor is owned by Standard Chartered and is based in Dublin, with another office in Limerick.

Airplanes Group

Delaware-based Airplanes Group had a tough 2009, due to its portfolio of “older, less fuel efficient aircraft” which resulted in lower lease rates and aircraft values, and which led to a 13% fall in revenue during its 2009/10 financial year (ending March 31st), to $210m.

Airplanes Group currently has a portfolio of 101 aircraft (down from 116 a year ago), all but six of which were on lease to 42 customers in 30 countries as of March 31st. The single largest category of aircraft is 20 737-400s, and the Airplanes Group also has 12 A320s, 11 737-500s and 11 MD-83s, with just five widebodies in its portfolio, all of which are 767s.

As of March 31st the most important market is Latin America, where it has placed 27 aircraft, of which 11 are with MexicanaClick, its single largest customer and whose parent is now in bankruptcy protection. The next important market is Europe (excluding the CIS) where 17 aircraft are on lease, the Asia/Pacific region (15) and North America (12).

Al Waha Capital

Al Waha Capital is based in Abu Dhabi and is a holding company for a variety of businesses, including an aircraft leasing operation that has ambitious growth plans. Its portfolio of owned and managed aircraft has now broken the 100 barrier (almost double the 53 aircraft it had 12 months ago), and they are valued at $4.2bn. Its focus is mostly on 737NGs and younger A320 family aircraft, although it also has widebodies in its portfolio.

They are leased to a variety of customers that include Etihad Airways, Emirates and Qatar Airways in the Middle East, as well as Aeroflot, Air Canada and Malaysia Airlines. Al Waha also has a 50% stake in lessor AerVenture, which it bought last year for a reported equity commitment of $135m.

Dubai Aerospace Enterprise

Severe troubles within the Dubai economy has meant the deep pockets of the Dubai government are not as deep as they once were, and this has cascaded down to aerospace group Dubai Aerospace Enterprise (DAE) and its leasing operation, run by its DAE Capital division.

This has forced the cancellation of 50 aircraft (split equally between Airbus and Boeing), worth some $8bn, from its previous order book of 216 aircraft, and the 186 remaining are for 52 A320s, 23 A350-900s, 70 737NGs, 15 747s and six 777s.

The portfolio stands at 67 aircraft, which includes 11 A330s, 15 A320 family aircraft and 13 737NGs. 43 of these are fully-owned by DAE Capital, and the overall portfolio is placed with a variety of airlines around the globe, including China Southern, easyJet, Emirates, Turkish Airlines and Air New Zealand. The majority of aircraft - 35% - are placed in the Asia/Pacific region, with the next most important markets being the Middle East and Europe, each with a 25% share.

Alafco

Kuwait-based lessor Alafco has 34 owned and managed aircraft (compared with 29 a year ago), comprising 18 A320 family aircraft, nine 737-800s, four 777s, two 737-900ERS, and an A310. The current asset value is $1.7bn and the lessor is targeting to reach the 50-aircraft level by the end of 2010.

Alafco is majority-owned by the Kuwait Finance House and also has a listing on the Kuwait stock exchange. In the first half of the 2009/10 financial year (the six months ending March 31st 2010) Alafco recorded an operating profit of S$32.1m and a net profit of $17.4m.

The fleet is placed with 14 customers, with 13 aircraft in Europe, 12 in the Middle East, eight in the Asia/Pacific region and one in Africa. The two most important customers are Saudi Arabian Airlines, with six A320s, and Turkish Airlines, which is leasing five 737-800s.

Alafco has orders outstanding for 45 aircraft – six 737s, 22 787s, five A320s and 12 A350-900s.The A350 orders were originally placed back in 2007 for the 800 model, but this summer the lessor changed them to the larger capacity 900s (which will seat 314, compared with the 270 seat capacity of the A350-800).

Avolon

In May AerCap sold six A320s to Avolon, a Dublin-based leasing company that was launched

earlier this year after raising an initial $1.4bn in debt and equity, including $750m from three private equity funds – Cinven, CVC Capital Partners and Oak Hill Capital Partners, all of which have other aviation or aircraft investments.

Avolon also has offices in New York, Shanghai and Hong Kong and is reported to already have 26 aircraft, with a number of other deals believed to be under negotiation as the lessor attempts to buy assets before the cycle improves.

Avolon wants to build up its portfolio to more than 130 aircraft over the next four years so that it becomes a medium-sized player, and according to CEO Domhal Slattery (previously founder and head of RBS Aviation Capital until 2004) its "primary focus will be on A320 and 737NG family aircraft". However, this summer Avolon also signed a joint venture deal with AerCap, in which AerCap will manage three A330s that are on long-terms leases with Aeroflot.

Avalon is also looking to place orders for new aircraft, and at Farnborough this summer Boeing announced that 12 737-800s previously counted as unidentified (but actually ordered in December 2009) were destined for Avolon.

Other lessors

The UK's **BAe Systems Asset Management** also has offices in Germany, the US and Malaysia, and currently has a portfolio of 148 jets of all types, including MD-80s, 737s, 757s and RJs. **ORIX Aviation** has a portfolio of 100 aircraft (down from 115 a year ago), and worth an estimated $2.1bn. Based in Dublin, it is owned by the Orix Corporation, a Japanese financial services group.

MC Aviation Partners (MCAP) is based in Tokyo and with offices in Los Angeles and Dublin, and is a subsidiary of the Mitsubishi Corporation. It has a portfolio of 100 owned and managed aircraft - down by 20 units over the past year - of which 73 are narrowbodies (with 38 737NGs and 28 A320 family aircraft) and 23 widebodies. Nearly half of the aircraft are placed with Asian/Pacific clients, with the next largest market being Europe and Africa, where 33 aircraft are leased. MCAP has one 737 on order.

Aergo Capital is a Dublin-based lessor that has a portfolio of 100 aircraft leased to 23 airlines in 20 countries. It specialises in older narrowbodies, with MD-82s and 737-2/3/400s accounting for the majority of its fleet. Two subsidiaries – Aergo Leasing (which leased 15 MD-80s to Alitalia) and Safair (a Johannesburg-based lessor acquired in December 2008) – are being wound up, but this is apparently not affecting ongoing business at Aergo Capital.

Based in San Francisco, new lessor **Sky Holding** has 90 owned and managed aircraft in its portfolio. Many of its management team previously worked at Pegasus, and the company has been backed by a $0.5bn investment from Oaktree Capital Management. It also has offices in Miami, Seattle and Buenos Aires, and will launch an office in Europe sometime this year. New orders are apparently not on the horizon, but it will continue to add to the fleet from sale and leasebacks.

Sumisho Aircraft Asset Management, a subsidiary of Japan's Sumitomo Corporation, has been pursuing an expansion strategy and its fleet stands at 70 owned and managed aircraft, valued at approximately $2.5bn. Based in Amsterdam, the majority of the lessor's fleet is 737 and A320 family aircraft.

The finance group parent of Sydney-based Allco Finance went into administration at the end of 2008, but the lessor's long-awaited sale to the **HNA Group**, a Chinese state-owned transport and logistics group, was not completed until January this year (for a reported US$150m), after creditors finally gave the go-ahead. Its portfolio of 68 aircraft are valued at $2.7bn, and are leased mainly with Asia/Pacific airlines such as Qantas, Asiana and SIA, although it does have customers outside the region, such as Ryanair and Emirates. HNA also has stakes in a number of Chinese airlines and according to reports is looking to acquire other aircraft leasing assets.

Texan lessor **Jetran International** has an estimated fleet of 50 aircraft, while based in San Francisco are World Star Aviation, which manages an estimated 50 cargo and narrowbody aircraft, and Compass Capital, an asset finance and management company with around 40 owned or managed aircraft.

CDB Financial Leasing is part of the state-owned China Development Bank and in December 2009 bought a bundle of 15 aircraft from GECAS for $830m. It now has an estimated 50 aircraft in its portfolio, but this will grow strongly over the next few years. A sign of its ambition was revealed in January this year

when it signed an MoU with Airbus to co-operate in a variety of leasing and financing projects over the next five years.

Based in Sydney, **Global Aviation Asset Management (GAAM**) also has offices in London and Dublin and has a portfolio of 50 aircraft that are placed with 25 airlines, including Air China, BA, South African Airways and Air France. The portfolio comprises 23 A320 family aircraft, three A340s, six 717s, one classic 737 and 17 737NGs.

BCI Aircraft Leasing operates out of Chicago and has a portfolio of 45 aircraft, up from 33 as of a year ago. They are valued at approximately $700m, and include a range of models, from 737s to 747s and A340s. In March Brian Hollnagel, the owner and chief executive of the lessor was indicted in the US on two bribery charges, one of which relates to an alleged bribe paid to an executive of AAR Corp in the mid 2000s to induce that company to buy two aircraft from BCI and then lease them to US Airways. Separately Hollnagel faces charges related to investments of $82m in BCI from various people, which the US SEC alleges was a so-called “Ponzi scheme”.

Guggenheim Aviation Partners is based in the US and has a portfolio of 42 passenger and cargo aircraft, with $2.7bn of assets under management. GAP is owned by Guggenheim Partners, a diversified financial services company that has 20 offices around the world. GAP has 10 aircraft on order, including two 747s, five 777s and three A330s.

RPK Capital Management is based in Chicago and has approximately 35 aircraft in its portfolio, but in April announced a partnership with the Carlyle Group for $600m in new equity, which will be leveraged up to $1bn with debt. This will be used to buy a range of aviation assets, include aircraft, which will then be leased out, and in particular RPK is believed to be targeting older aircraft, whose value have fallen the most in the last couple of years. Most of these are likely to be acquired in Europe, it is believed, and then leased out to expanding markets in the Asia/Pacific region and the Middle East.

Based in Dublin, **Amentum Capital** is owned by the HSH Nordbank and has 32 aircraft in its managed fleet, comprising a mix of narrowbodies and widebodies. They are on lease to 14 airlines in 11 countries, and the largest customers are Air France/KLM, which has four E190s, and Lion Air.

AAR is an Illinois-based aviation support group with offices in London and Singapore, and has a portfolio of 32 aircraft (of which five are wholly-owned) worth more than $300m. Munich-based **Bavaria International Aircraft Leasing** is owned by German corporate group Schorghuber, and has increased its fleet over the last 12 months from 20 to 30 aircraft, all of which are narrowbodies.

GA Telesis is a Florida-based aerospace support and maintenance company with a portfolio of approximately 30 aircraft of all types, while operating out of Connecticut is SkyWorks Leasing, which manages 30 aircraft for financial institutions, a figure that has remained static in the last year.

VGS Aircraft Holding is located in Dublin and its portfolio has eased back by three over the last year, to 29 aircraft valued at $490m. The UK’s **Aircraft Leasing and Management** manages an estimated 25 aircraft for clients, and Dallas-based **Aircorp** has a fleet of 25 aircraft, all of which are 727s and 737s.

In January US lessor **First Greenwich Kahala** bought 10 MD-80s on lease to Delta Airlines, its first acquisition in two years and a deal that brings its portfolio up to an estimated 25 aircraft. **GMT Global Republic Aviation** (GMT Global) is based in Dublin and also has an office in Colorado. It has 24 aircraft (worth approximately $500m), including narrowbodies and widebodies.

Fort Lauderdale-based **Jetscape** owns or manages 23 aircraft (a decrease of three in the last year), which are placed with 16 customers in 12 countries. They include two A319s at Volaris, two 737-500s at Rossiya and three E1902 at AeroMexico. **Goal**, a Munich-based lessor that is owned by Lufthansa (40%) and KG Allgemeine Leasing (60%), has eased back its portfolio from 26 to 22 jet aircraft over the last year. It includes four 737s, three A310s and 11 CRJs.

AerVenture, (owned 50% by Waha Capital and 50% by AerCap), has a fleet of 22 A320 family aircraft and outstanding orders for another nine of the model. **Doric Asset Finance** is based in Frankfurt and also has offices in London and New York. Its portfolio has risen by 50% in a

year, and today stands at 21 aircraft, most of which are widebodies, and which collectively have a value of $2.2bn.

Sojitz Aircraft Leasing is based in Amsterdam and has 20 Boeing aircraft worth an estimated $490m, while Israel-based **Global Knafaim Leasing** (GKL) has 20 aircraft worth $250m. **ICBC Leasing** is owned by the Industrial and Commercial Bank of China, and has an estimated 20 aircraft in its portfolio. Unconfirmed reports say it is negotiating to acquire a package of aircraft from GECAS.

In San Francisco **Vx Capital Partners** has approximately 20 aircraft, while **Novus Aviation** is a Swiss lessor with an estimated 20 aircraft. **Automatic** is based in Orlando (with offices also in Hamburg and Santiago, Chile) and has a portfolio of around 20 aircraft. In December 2009 it bought and leased back five 747-400s to KLM.

Aldus Aviation operates out of Shannon and has a portfolio of 16 E-170s and E-190s, valued at $0.4bn, while based in the UK is **Skytech-AIC**, which owns or manages an estimated fleet of 15 aircraft. **Airbus Asset Management** sells and leases aircraft for its manufacturer parent and has an estimated 15 aircraft in its portfolio, the same number as **Itochu Airlease**, which is based in Seattle but owned by Japan's Itochu Corporation and whose portfolio is worth around $350m.

Working out of Gibraltar, **Global Aviation Leasing** has a fleet of 15 DC-9/10s and MD-80s, while **Q Aviation** is based in Texas and Dublin, and has a fleet of 15 aircraft worth an estimated $325m. New York-based **Deutsche Bank Equipment Leasing** has 14 older narrowbodies in its portfolio while headquartered in Mauritius is **Veling**, which has 13 aircraft, including four A340s on lease to Sri Lankan and two A310s that are with Air India.

In Singapore Aviation has 11 aircraft; California's **Tombo Aviation** is owned by Japan's Matsui & Co and has an estimated portfolio of 10 narrowbody and widebody aircraft; while **Lease Corporation International** is owned by the private Libra Group and is based in Dublin, with other offices in London and Singapore. It has a fleet of 10 aircraft, including A320s, 737s and A330s.

In Singapore **Phoenix Aircraft Leasing** has an estimated 10 aircraft, and Frankfurt-based **Deutsche Structured Finance**, owned by Aareal Bank, has an estimated 10 aircraft. **AerDragon Aviation Partners** is based in Ireland and is a joint venture owned 50% by the China Aviation Supplies Import & Export Group Corporation, 25% by AerCap and 25% by Caylon AirFinance. It has received nine aircraft from an order for 13 A320s.

Upcoming entrants

At the Farnborough air show **Air Lease Corporation** - the new lessor launched by ILFC founder Steven Udvar-Hazy - placed orders for 31 A320s and 20 A321s, which will begin arriving in 2012. At the same time an order for 54 737-800s was also "announced", although Boeing released a statement saying that the deal had not yet been finalised, and at the time of going to press the order had still not appeared in Boeing's official order book. These orders follow the securing of $1.3bn in equity funding and $2bn in debt financing earlier this year. Udvar-Hazy is targeting a fleet of 100 aircraft within the next 12 months, and the Los Angeles-based lessor has already agreed sale and leaseback deals for five aircraft with Air France and six aircraft with Air Berlin.

John Slattery – brother of Avolon's Domhal Slattery – has set up his own lessor called **Greenstone Aviation**. Based in Dublin, Greenstone was launched in June 2009 and had ambitious plans to buy 737s and A320s at the bottom of the cycle and open offices in New York, Beijing, Singapore and Dubai, but little has been heard of it since as it has tried to raise €0.5bn in equity funding. At the start of the year Slattery stated that its first aircraft transactions were expected by April, and that Greenstone aimed to have a portfolio worth some £3bn by the end of 2012.

US freighter leasing specialist **Intrepid Aviation** has ordered 20 A330-200 freighters, while Swiss-based **AlphaStream Capital Management** has an outstanding order for 15 A320 family aircraft. **Deucalion Capital**, part of Germany's DVB Bank group, has two 777Fs on order, while two US private equity companies - MatlinPatterson and Oak Hill Capital Partners - respectively have six A330-200Fs and two 777s on order. Dubai-based **LCAL** (Low-Cost Aircraft Leasing) has five 787s on order.

By Nick Moreno
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LAN-TAM merger: Two local leaders become global LATAM

Chile's LAN and Brazil's TAM, Latin America's two largest airlines, made a surprise announcement in August that they had agreed to merge to create LATAM Airlines, the region's first "world-class global airline group". What are the potential benefits, risks and industry implications?

LAN and TAM signed a non-binding MoU on August 13 to work towards what would essentially be a European (AF-KLM, BA-Iberia) style merger, though Avianca-TACA also used that model last year. The all-stock transaction would consolidate the economic interests of LAN and TAM under a single parent entity, allow LAN and TAM to continue to operate as distinct airlines with independent brands, and keep the voting stock of the carriers in the hands of nationals to satisfy foreign ownership rules.

The new parent entity, LATAM Airlines Group, would include Lan Airlines and its affiliates in Peru, Argentina and Ecuador; Lan Cargo and its affiliates; TAM Lineas Aereas and TAM Mercosur; and all other holdings of LAN and TAM. The combination would have pro-forma combined revenues of $8.5bn (2009) and rank as the world's 11th largest airline in terms of passenger traffic.

It would work as follows: The parent company would coordinate and align activities for all group holdings, so that the combination could integrate, capture full synergies and offer "seamless passenger and cargo service across the continent and around the world". But the CEOs of the airline units would also have "real autonomy to run the business". LAN and TAM would maintain their existing operating certificates, headquarters, governance structures, values and culture.

The deal has been structured to comply with the existing foreign ownership regulations, namely Brazil's laws that limit foreign ownership in airlines to 20% of the voting shares (which may be raised to 49% as early as 2011). There will not be a change of control at either airline as a result of the merger. The Amaro family of Brazil would retain 80% of TAM's voting stock.

The relations between the two companies and the controlling shareholders would be governed by shareholder agreements. The LATAM documents explained that "the controlling shareholders of LAN and TAM have agreed to a governance model to jointly manage all strategic decisions" relating to the alignment of LATAM activity.

The airline executives called it a merger of equals but, in essence, LAN will be acquiring TAM. The Chilean carrier would be the holding vehicle of the combined operations; it would change its name to LATAM and retain its listings on the Santiago stock exchange and on the NYSE, whereas TAM's stock would be delisted in Sao Paulo and New York. TAM shareholders would be offered 0.90 shares of LATAM common stock for each share of TAM they own. This would be in the form of newly issued Brazilian Depositary Receipts (BDRs), following LATAM's listing on the Bovespa.

Also, LATAM would be headed by LAN's current CEO, Enrique Cueto, as CEO. TAM's current vice-chairman Mauricio Rolim Amaro would serve as the new entity's chairman. Furthermore, the Cueto family, which control LAN, would have a larger stake in LATAM (24.1%) than the Amaro family (13.5%).

The combination is expected to generate annual synergies to the tune of $400m, which the airlines say is in line with other recent industry transactions (around 4% of combined annual revenues).

Contrary to initial speculation, there has not been much political opposition to the deal in Brazil, even though it would involve giving up economic ownership of TAM, a key domestic player and the country's only flag carrier on intercontinental routes. In early September Brazil's finance minister confirmed that the deal satisfies the country's foreign ownership rules.

If a definitive agreement is signed - which the airlines hope to accomplish within 2-3

months - and shareholder and regulatory approvals are obtained, LAN and TAM envisage completing their merger in 6-9 months, i.e. sometime during the first half of 2011.

One of the key questions about this merger is how the unusual backdrop (two sovereign nations, both airlines being family-controlled) and the resulting complicated ownership structure might affect the ability to reach a binding agreement, smoothly execute the merger and determine the group's strategy in the future. If there are disagreements between the controlling families, which side has final say? Would LATAM actually not have control?

Another important question is what impact the merger will have on other Latin American carriers, especially GOL and Copa. How might GOL respond?

And then there is the thorny question of which global alliance LATAM would join. With LAN being in oneworld and TAM in Star, the battle lines are being drawn for a mighty clash between the three global alliances.

Why the merger?

LAN and TAM are both very successful companies with good growth prospects. They already are the leading carriers in Latin America. Why merge now?

First of all, LATAM is a response to the many large airline mergers and immunised alliances that have been completed recently or are under development around the world (BA-Iberia, United-Continental, Delta's transatlantic anti-trust immunity, etc.), as well as the Avianca-TACA merger closer to home. The LATAM documents noted that "these airlines are looking at Latin America for growth" and that "regional consolidation creates the opportunity for a Latin American carrier to enter on an equal footing with the world leaders". The airlines did not mention this, but there is also growing competition from discount carriers within the region (particularly affecting TAM).

Second, LAN and TAM feel that a merger right now would enable them to take full advantage of the strong economic recovery that is taking place in many Latin American countries, which has led to surging disposable incomes and swelling ranks of middle classes (and hence rapid growth of air travel).

Enrique Cueto noted at the LATAM investor call: "We are at a critical time. Airline consolidation is happening across the globe and our industry is better for it. Emerging markets, particularly the Latin America region, are seeing increasing demand at a rapid pace. Now is our time to capitalise on this trend."

Third - and this may be the key reason for LAN, the merger enables the Chilean carrier to realise its long-held dream of gaining entry into the vast and rapidly growing Brazilian market.

Fourth, the airlines consider it important that they can combine from positions of strength. Both are in great financial shape, with healthy balance sheets. LAN is one of the few airlines in the world with an investment-grade credit rating. A recent research note from Raymond James noted that LAN has an "excellent track record of relatively high profitability" and has had "consistently strong growth in both revenue and earnings", although TAM (having long been profitable) has incurred losses in six of the last seven quarters.

Fifth, LAN and TAM are very compatible in many respects. They have a long history of collaboration, in codesharing, maintenance and aircraft purchasing. They share the same values and strategic vision. LAN executives noted that the two share a passion for service and integrity and "belief in the great potential of the Latin American market".

Both are aggressive growth companies. Over the past decade, LAN has used a unique multi-hub, multi-airline strategy to grow much larger than would have been possible had it just focused on the relatively small Chilean market, which had only 5m international passengers in 2008. Because it already had passenger airline units in place in Chile, Peru, Argentina and Ecuador and cargo airlines in Chile, Brazil and Mexico, it was even able to find profitable growth opportunities in the depths of the recession (see *Aviation Strategy* briefing, December 2009). In a letter to employees last month, Cueto mentioned that one of LAN's aims was to become "one

WORLD'S TOP 15 AIRLINES IN 2009

By passenger (m)		By revenue (US$bn)	
Delta	161	Lufthansa Group	31
United-CO	102	AF-KLM Group	30
Southwest	86	UAL-CO	29
American	86	Delta	28
AF-KLM	71	AMR	20
Lufthansa	70	BA-Iberia	19
China S	66	JAL	16
Ryanair	65	ANA Group	13
BA-Iberia	52	Qantas	11
US Airways	51	US Airways	10
LATAM	**46**	Southwest	10
China E	44	SIA Group	9
JAL	41	Cathay	9
Air China	40	Air Canada	9
Qantas	38	**LATAM**	**9**

Source: *LAN/TAM investor presentation*

among the top ten [airlines] in the world".

TAM, in turn, has taken full advantage of the extraordinary, profitable long-haul expansion opportunity that resulted from Varig's downfall. In just a few years TAM has built a sizable network to Europe and the US, while retaining a 42% share (same as GOL's) of Brazil's domestic market (TAM's rapid rise to prominence was discussed in the December 2008 issue of *Aviation Strategy*).

TAM's leadership sees the proposed merger with LAN as the "completion of the vision of our founder", Captain Rolim, who bought TAM in 1972 when it was a small cargo operator and over three decades turned it into a major airline, and who was killed in a helicopter crash in 2001. Mauricio Rolim Amaro noted in the investor call that his father "believed that the only way to compete was through the creation of a large Latin American airline".

Of course, LAN and TAM are different where it matters: their networks are highly complementary, with little overlap. LAN has a strong presence in a number of South American countries and a formidable cargo operation. TAM offers the prime European routes and a solid position in the large Brazilian domestic market. The airlines are a reasonable fit in terms of their fleets: both operate the A320 and A340 family aircraft, in addition to the 767.

LATAM's size and market reach

The combined airline will provide passenger services to some 115 destinations in 23 countries and cargo service throughout Latin America and around the world. It would have a fleet of 220-plus aircraft and some 40,000 employees. In 2009 LAN and TAM had combined revenues of $8.5bn and carried 45m passengers and 832,000 tonnes of cargo.

These statistics would make LATAM the first Latin American carrier to reach the world's "top 15" rankings, to rival in size leading airlines in Europe, the US and Asia. According to LATAM's investor presentation, the combine would rank as the world's 15th largest airline in terms of 2009 revenues, similar in size to SIA, Cathay and Air Canada.

In the Latin American context, the merger would certainly create a dominant player. In terms of 2009 revenues, LATAM would be more than twice as large as the second-ranked GOL. In terms of both revenues and passenger numbers, LATAM would be slightly larger than GOL, Avianca-TACA and Copa combined (see table, opposite).

LATAM would have about 45% of the current (July 2010) seat capacity on intra-South America international nonstop segments. On South America-US/Canada routes it would have the second-largest capacity share – about 18%, compared to American's 32%. On South America-Europe routes it would be the fourth largest player with about 14% of the seats (after BA-Iberia's 22%, Air France-KLM's 18% and TAP's 15%).

One of the key benefits would be that both LAN and TAM are leaders in their respective markets. On the passenger side, between them and their subsidiaries, they have effectively conquered most of the key domestic markets in South America. According to Routesonline.com, LAN has 69% and 67% seat shares of the Chilean and Peruvian domestic markets, while TAM has 41% and 60% of the Brazilian and Paraguayan domestic markets. LAN also has a growing

presence in Ecuador and Argentina (23% and 21% seat shares, respectively).

On the cargo side, LAN will bring to the union the extensive and lucrative cargo business that sets it apart from most of its global peers. LATAM will have "the most comprehensive cargo network in Latin America". Combining LAN's global network and expertise with TAM's Brazilian market presence (Brazil is the largest domestic cargo market on the continent) should mean some very attractive growth opportunities.

The airlines expect the solid domestic market positions to lead to real growth opportunities in the passenger segment, in terms of increased frequencies, connecting the dots and new destinations. In particular, the combine will strive to offer more appealing options for business travellers.

LATAM has identified four initial primary growth areas. First, there will be new services to Europe and Africa from Brazil, supported by increased feed from the Southern cone. Second, there will be new services to the US and Mexico from Lima (Peru), supported by increased feed from Brazil. Third, the airlines see potential for new hubs that could connect to Europe and the US. Fourth, there will be cargo growth.

While much of the detail is yet to be worked out, LAN and TAM have indicated that their subsidiaries should benefit significantly, because intra-regional flying is expected to grow substantially. Existing projects such as LAN's cooperation with AeroOasis in Colombia and TAM's efforts to expand its regional unit Pantanal would not be impacted by the merger transaction.

AeroOasis, a Colombian start-up that hopes to launch operations later this year with A320s, is a potential future addition to the LATAM family. LAN is currently helping it with the certification and start-up process. In a recent letter to employees, LAN said that if regulatory approval were granted, it would like to acquire AeroOasis and make it part of the company. LAN has long sought a passenger airline in Colombia, where it already has a cargo subsidiary. The acquisition would fill a gap in the northern part of South America where LATAM would be relatively weak.

Given all these plans and the fact that the airlines have promised to maintain all of their existing routes, this merger would undoubtedly be a growth vehicle. It seems likely that LAN and TAM would have to start placing additional aircraft orders to supplement the 200-plus aircraft they currently have scheduled for future delivery.

Projected synergies

Like other airline mergers, the proposed LAN-TAM union is portrayed as a win-win for all parties. The scale and diversity would provide more stability and greater financial strength, benefiting customers, employees and all other stakeholders.

From the financial perspective, LAN and TAM see three main benefits. First, there would be faster revenue growth (ability to launch new flights, market share gains resulting from being able to offer more alternatives for passengers and cargo customers). Second, cost competitiveness would improve (leveraging economies of scale, "best practice" sharing, aligning operations in international markets). Third, there would be benefits from enhanced strategic positioning (leading Latin American carrier, improved ability to compete with other global carriers).

The projected $400m in annual synergies are expected to come broadly in equal proportion from alignment of the passenger networks, growth in the cargo network (both internationally and in Brazil) and reduced costs (see chart, page 18).

The $170m annual passenger revenue synergies would come from the following: Improved access to joint hubs and combined network appeal – especially to high-yield customers ($50m); new and increased connectivity ($40m); new flights ($35m); other passenger revenue, including consoli-

LATAM AIRLINES IN THE REGIONAL CONTEXT

	LAN-TAM	GOL	Avianaca/Taca	Copa
2009 Revenue (US$bn)	**8.5**	3.5	2.6	1.3
2009 EBITDAR (US$m)	**1,505**	690	400	320
2009 Passengers (m)	**45.8**	28.4	11.3	5.6
Destinations (today)	**116**	62	58	51

Source: *LAN/TAM Investor presentation*

LATAM - PROJECTED ANNUAL SYNERGIES OF US$400m *	
Cargo revenue US$110m	• New service • Sharing of best practices
Pax revenue US$170m	• Network relevance $50m • New/increased connectivity $40m • New flights $35m • Partner airlines, increased utilisation $35m • FFPs $10m
Cost savings US$120m	• Airports $25m • Procurement $25m • Corporate $20m • IT $20m • Maintenance $15m • Sales $15m

Note: * = One third to be realised within one year; remainder by the end of third year

dation of partner airline contracts and increased utilisation ($35m); and FFPs – consolidation of the programmes and sharing of best practices ($10m).

Regarding the FFPs, combining Multiplus Fidelidade and LANPASS, which had seven million and four million members, respectively, at year-end 2009, would create a powerful FFP. The airlines noted that it would provide a "strong starting position to gain further scale in the region", but at this point they were not able to offer any thoughts on how the programmes might be consolidated. BofA Merrill Lynch analysts said in a research note that they saw a positive bias for Fidelidade, which is so much larger and has actually been a listed company in Brazil since TAM spun it off last year.

The $120m annual cost savings, which the airlines believe is a conservative estimate, would come from the following: consolidation of functions in overlapping stations ($25m); leveraging economies of scale in contracts ($25m); streamlining of corporate overhead and some functions ($20m); efficiencies of common IT platforms ($20m); leveraging economies and efficiencies of scale in maintenance ($15m); and efficiency of combined sales efforts ($15m).

The airlines noted that the synergy figures do not include other potential benefits, such as expansion of domestic cargo and the sharing of best practices in domestic passenger business units. As a result, as some analysts have pointed out, there may be upside potential in the $400m figure.

The airlines are confident that a third of the synergies will be captured within year one, largely offsetting one-time costs, and that all of the synergies will be realised by the end of the third year.

The deal has been generally well-received in the financial community. Raymond James analysts, noting that "LAN, we believe, will make TAM a more competitive airline by lowering its costs and improving its revenue generation", forecast LAN's (or LATAM's) EPS to grow by 24% in 2011 and by another 32% in 2012. And these projections assume a slower build-up of the synergies (25% in 2011 and 75% in 2012) because "it usually takes airlines longer to achieve synergies than anticipated".

BofA Merrill Lynch forecasts LATAM's total revenue to grow from $10.8bn this year (pre-synergies) to $13.8bn in 2012. In the same period, its operating margin would rise from 9.8% to 12.1% and net margin from 3.8% to 6.1%. If the 2012 results were "normalised" to include full synergies, ML calculates that the operating margin would be 14.7% and the net margin 8.2%.

The LAN management takeover is widely regarded as a big positive – not because there is anything wrong with TAM's management (which very successfully guided the airline through an unprecedented growth phase) but simply because LAN's management team is considered so outstanding, the very best in the industry.

Integration risks?

These types of mergers pose generally minimal integration risk because the companies are not integrating contentious areas such as workforces. In LATAM's case, there would be no changes to union contracts or representation, and pilots and flight attendants would continue to be based in their respective countries. LAN and TAM might end up combining functions such as operations control, reservations, flight training and some maintenance facilities, but such integrations have not posed

too many problems in other mergers. LAN and TAM executives argued that potential integration risks should be further mitigated by the complementary nature of the networks and the fact that the companies and the two families know each other well.

But some analysts have been concerned about potential execution risk arising from the unusual ownership structure, which would mean LATAM holding substantially all of TAM's total stock (economic interest) and the Amaros holding 80% of TAM's voting stock. The latter is sufficient to comply with Brazilian law, but will it facilitate smooth decision-making and governance?

Many analysts asked about this at the investor call. The airline executives said that the agreement on a partnership between the families "to create a global champion" would mean that "all the economic benefits from all the airlines will flow through LATAM". In other words, shareholder agreements might keep the peace and, in any case, the economic interests of the two families would be aligned. But the latter may only be true in a growth environment; what if there is a recession and a need for painful measures?

This may turn out to be a non-issue, but it was enough to prompt Morgan Stanley analysts to warn, in an August 16 note to clients, that "a management structure requiring close cooperation may experience growing pains on the path to realising strategic success".

Industry implications

Like other mergers, a LAN-TAM combination would have both positive and negative impact on competitors. A reduction in the number of players could ease price competition, benefiting everybody. But the creation of a larger and stronger carrier could result in market share losses for competitors.

The worst-affected airline would clearly be GOL, TAM's closest competitor. BofA Merrill Lynch analysts observed that GOL could lose business traffic shares and find it tougher to grow its cargo operations in Brazil. Raymond James suggested that since LAN would probably make TAM more competitive, "GOL will have to pick up the pace and lower its Brazil-leading low costs even further".

But the consensus is that Copa would not suffer many ill-effects because of its niche strategy, focus on lower-density Latin American markets and because its Panama hub is located some 3,000 miles north of Sao Paulo and Santiago.

In the near term, LAN's and TAM's competitors in other parts of the world will probably mainly ponder the upheaval that the merger would cause on the global alliance scene. LAN and TAM are a long way from being able to focus on it, though they recognise that it will be an important issue at some point if the merger is consummated.

LAN is a longtime member of oneworld, while TAM joined Star this year (and ratified its membership earlier this month). A combined airline would probably have to choose one or the other, or defect to SkyTeam. This is a very worrying development for oneworld, which has already been weakened by Mexicana's recent bankruptcy. LAN and TAM are currently the only carriers in South America that belong to global alliances, so their merger should ensure a fight as fierce as the one for JAL last year.

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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	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**
	Apr-Jun 10	7,301	7,469	-168	939	-2.3%	12.9%	60,345	49,283	81.7%	17,623	102,918
British Airways YE 31/03	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**
	Apr-Jun 10	3,092	3,207	-115	-195	-3.7%	-6.3%	32,496	24,192	74.4%	7,013	
Iberia YE 31/12	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
	Apr-Jun 10	1,502	1,498	27	40	1.8%	2.6%	15,324	12,648	82.5%		20,045
Lufthansa YE 31/12	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
	Apr-Jun 10	8,763	8,560	203	248	2.3%	2.8%	57,565	45,788	79.5%	22,713	116,844
SAS YE 31/12	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
	Apr-Jun 10	1,321	1,367	-46	-66	-3.5%	-5.0%	8,769	6,612	75.4%	6,282	15,709
Ryanair YE 31/03	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**	
	Apr-Jun 10	1,145	992	152	120	13.3%	10.5%			83.0%	18,000	7,828
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	**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
	Apr-Jun 10	976	866	110	59	11.3%	6.0%	9,836	8,162	83.0%	4,170	8,621
American	**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
	Apr-Jun 10	5,674	5478	196	-11	3.5%	-0.2%	61,788	51,821	83.9%	22,166	78,300
Continental	**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
	Apr-Jun 10	3,708	3,380	328	233	8.8%	6.3%	39,893	33,910	85.0%	16,300	38,800
Delta	**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
	Apr-Jun 10	8,168	7,316	852	467	10.4%	5.7%	94,463	80,294	85.0%	42,207	81,916
Southwest	**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
	Apr-Jun 10	3,168	2,805	363	112	11.5%	3.5%	40,992	32,517	79.3%	22,883	34,636
United	**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
	Apr-Jun 10	5,161	4,727	434	273	8.4%	5.3%	58,522	49,319	84.3%	21,234	42,600
US Airways Group	**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
	Apr-Jun 10	3,171	2,800	371	279	11.7%	8.7%	35,517	29,461	82.9%	20,642	30,860
JetBlue	**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
	Apr-Jun 10	939	845	94	30	10.0%	3.2%	13,981	11,468	82.0%	6,114	10,906

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 2005/06	12,040	11,259	781	235	6.5%	2.0%	86,933	58,949	67.8%	49,920	30,322
YE 31/03	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	
	Year 2009/10	13,238	13,831	-582	-614	-4.4%	-4.6%	83,827	55,617	66.3%	44,560	
Cathay Pacific	Jan-Jun 07	4,440	4,031	409	341	9.2%	7.7%	49,836	38,938	79.6%	8,474	19,207
YE 31/12	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
	Jan-Jun 10	5,320	4,681	917	892	17.2%	16.8%	55,681	46,784	84.0%	12,954	
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	Year 2006/07	11,975	11,106	869	568	7.3%	4.7%	122,119	97,622	79.9%	36,450	34,267
YE 30/6	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
	Year 2009/10	12,150	11,926	223	102	1.8%	0.8%	124,717	100,727	80.8%	41,428	32,490
Singapore	Year 2005/06	6,201	5,809	392	449	6.3%	7.2%	109,484	82,742	75.6%	17,000	13,729
YE 31/03	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
	Year 2009/10	8,908	8,864	44	196	0.5%	2.2%	105,674	82,882	78.4%	16,480	
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	7,523	6,718	805	710	10.7%	9.4%	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	Jan-Mar 09	198	84	114	56	57.6%	28.4%	5,207	3,487	67.0%	3,147	
YE 31/12	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	22 July	Alaska Airlines	2 x 737-800	exercised options
	21 July	Air Austral	2 x 777-200LR	
		Okay Airways	10 x 737-800	
		Qatar Airways	2 x 777-200LR	
		American Airlines	35 x 737-800	exercised options
	20 July	Royal Jordanian	3 x 737-800	
		ILFC	54 x 737-800	plus 6 options
	19 July	Emirates Airlines	30 x 777-300ER	
		GECAS	40 x 737-800	
		Norwegian Air Shuttle	15 x 737-800	exercised purchase rights
Airbus	11 Aug	Thai Airways	7 x A330-300	
	28 July	TAM	20 x A320 family, 5 x A350-900	
	21 July	ALAFCO	12 x A350-900	converted from -800s
		Garuda Indonesia	6 x A330-200	
		Germania	5 x A319	
	19 July	GECAS	60 x A320 family	
		Air Lease Corporation	20 x A321, 31 x A320	
	15 July	Turkish Airlines	1 x A330-200	

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

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