Issue No: 156

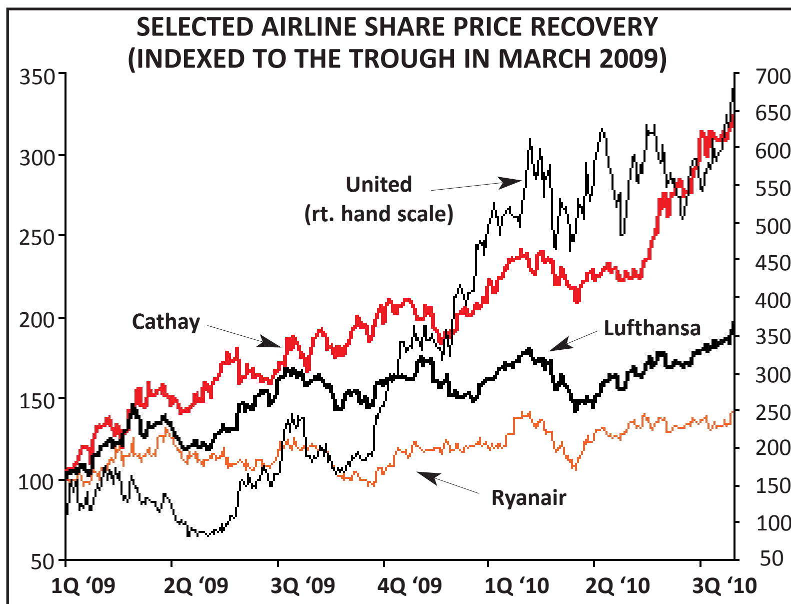
Aviation Strategy

October 2010

What the stockmarkets are saying

The airline industry is in recovery from the worst recession in its history. It must be so. The data from individual airlines and from the industry associations shows very strong improvements in traffic and yields (see last month's *Aviation Strategy*). Global traffic levels have returned to the peak levels seen in 2008. Premium cabins – the bedrock of long-haul profitability – have, according to IATA, seen year-on-year percentage growth in passenger numbers (at least on long-haul services) sufficient to suggest that the demand is really recovering from the halt in the world economy that appeared after the collapse of Lehman Bros at the tail end of 2008. In 2009 the global industry saw passenger yields slump by an unprecedented 13% - so it should hardly be surprising that individual airlines are reporting substantial improvements in traffic yields and total revenues as we go through the rebound. IATA keeps on upgrading its forecasts for the global industry profitability. We are definitely on an uptrend and the consensus seems to suggest a recovery leading to a peak of the current cycle by 2013/14 at least.

Have the financial markets taken this totally on board? Airlines are not a "must-have" sector for most investors. Accounting for less than 2% of global market equity capitalisation (albeit accounting for a far higher overall proportion of global GDP), one can perhaps understand that any airline investment may be treated as a marginal choice by most professional investors. The airline indus-



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try encompasses two basic seemingly incompatible economic fundamentals – it is highly capital intensive and the product itself has a very short shelf life. Revenue is a function of demand and price; in the upturn demand is sufficient to absorb almost any price increase; in the downturn the price is never sufficient to catch the falling demand. Given this operational gearing it may hardly be surprising to see that the airline share prices have high betas and display significant volatility in comparison with the underlying stock markets.

The operational peak of the last industry cycle appears to have occurred in the first half of 2008. Stock markets, with their usual prescience, provided peak share prices during the first half of 2007 (and not just for airlines). The old rule of thumb had been that in the downturn of the airline industry share prices would halve (only to double again in the upturn): but in this financial crisis and global recession, stock markets also halved in value and the airlines were hit even harder (almost as hard as the banks themselves). In the sample of carriers shown in the table on page 3 these declines averaged 75% from peak - although the share prices of those such as American, United and GOL fell by more than 90%; BA, Air France and Delta by more than 80%; and even easyJet, Ryanair and Southwest, let alone Lufthansa and Iberia, by around 70%.

The markets touched their nadir in March 2009 at the depths of the level of economic confidence and have at least bounced back reasonably strongly. The London market as a whole – beset even by the woes in the UK economy and despite the weakness in sterling – has recovered (albeit as if on a roller-coaster through the summer) to a point where the FTSE 100 index stands a mere 16% below the peak of 2007. This sample of airlines have seen their shares recover strongly – on averaging trebling from the trough. Some of those that were particularly badly hit in the downturn have recovered faster as one might expect – with United's share price in particular increasing eightfold (alright – it did do the long awaited deal with Continental) and that of GOL by six-fold.

Some of the recovery euphoria did not quite last the full year 2009 results season and the likes of American, Delta, Air Berlin and Vueling have seen their share prices fall by around 35% from peaks achieved in spring of this year. Most of the others are now only a few points below the early year peaks – while four notable exceptions (Cathay, United, Lufthansa and Ryanair, see graph on page 1) are at their highs of this recovery period. Most are still at half the value they achieved in the peak of the last cycle; the two major exceptions being Cathay and Air Asia - respectively 2% and 3% above the highs achieved in 2007.

Those two may be the anomalies; but reflect the current euphoric trading conditions in China and the Far East in comparison with the continuing slow and haltering developments in economies in Europe and the US – pointing if anything to the two-tone nature of the economic recovery with the developing nations leading the way - (although interestingly SIA is still 20% below the 2007 peak). In addition there are still doubts of the shape of this recovery in the developed economies; and with the need of many governments to unwind their fiscal deficits there are fears that too rapid a reduction in government spending will stifle the potential growth and bring on a double-dip recession in 2011.

The table opposite attempts to tabulate this and shows the share price performance of a select group of quoted airlines (all data in local currency units). The first column picks up the high value achieved in the last cycle – the timing for which varies for each individual carrier but generally took place during 2007. The second column shows the low point achieved (mostly in March 2009) at the bottom of the market dive; the third shows the percentage change from the high in 2007 to the low in 2009 (P-T). The fourth and subsequent columns pertain to data since that low point; the recent peak refers to highest share price level achieved since the low in 2009 and the fifth column is the absolute percentage increase from the low point (T-P). The sixth column reflects the closing share price on Oct 8 and the seventh (P-C) shows the percentage fall from that recent peak. A value of zero in that column

Aviation Strategy
is published 10 times a year by
Aviation Economics

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ISSN 2041-4021 (Online)

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means that the current share price is at the high. The final column shows how far below (or, rarely, above) the peak share price in the last cycle shown in column 2. For market comparison we include the same data for the FTSE, Hang Seng and S&P 500 indices in the last three rows.

There has been strong airline share price performance since the depths of the recession (some brave investors could have made a small fortune) and there may appear to be further good upside as we move through this new airline cycle; but, as it says on the packet, shares can go down as well as up.

SELECTED AIRLINE SHARE PRICE PERFORMANCE (LCU)

	LAST CYCLE			RECOVERY - CURRENT CYCLE				
	Peak (2007)	Trough (late'08/ early '09)	P-T	Recent Peak	T-P	Current (8/10/10)	P-C	Current/ Last Cycle Peak
Air Berlin	20.42	2.63	-87%	4.49	71%	3.1	-31%	-85%
Air France/KLM	38.3	6.36	-83%	12.88	103%	11.84	-8%	-69%
AirAsia	2.11	0.79	-63%	2.25	185%	2.17	-4%	3%
American	40.66	2.54	-94%	10.16	300%	6.35	-38%	-84%
British Airways	577.5	109.9	-81%	266.1	142%	264.2	-1%	-54%
Cathay	21.73	6.82	-69%	22.1	224%	22.1	0%	2%
Delta	22.79	3.93	-83%	14.93	280%	11.4	-24%	-50%
easyJet	732	220.25	-70%	496.5	125%	451.6	-9%	-38%
GOL	38.3	2.79	-93%	17.23	518%	17.23	0%	-55%
Iberia	4.11	1.25	-70%	3.06	145%	3.04	-1%	-26%
Lufthansa	22.62	7.3	-68%	14.33	96%	14.33	0%	-37%
Qantas	6.05	1.42	-77%	3.02	113%	2.9	-4%	-52%
Ryanair	6.33	1.97	-69%	4.11	109%	4.11	0%	-35%
SIA	20.1	9.38	-53%	16.5	76%	16.18	-2%	-20%
Southwest	18.15	4.99	-73%	13.95	180%	13.04	-7%	-28%
United	51.49	3.13	-94%	26.44	745%	26.44	0%	-49%
Vueling	46.7	3.08	-93%	14	355%	9.32	-33%	-80%
FTSE	6732.4	3512.1	-48%	5825	66%	5661.6	-3%	-16%
Hang Seng	31638.22	11015.84	-65%	23207.31	111%	23121.7	0%	-27%
S&P 500	1565.15	676.53	-57%	1217.28	80%	1169.77	-4%	-25%

Ryanair in zero-growth mode

Ryanair, after a decade of phenomenal expansion, will officially go ex-growth from 2013. Passenger growth for FY2010 (to March31st) was 14%, this year it will be 11%, 9% in FY2012, 6% in FY 2013, then two years of zero growth maybe resuming at around 4% thereafter. As CEO Michael O'Leary puts it, the "land grab" is over.

While the fundamental adherence to strict cost disciple will remain, the revenue focus will be on pushing up yields. Ryanair's yield performance, usually declining in recent years, is largely the result of its rapid growth: it has to generate the traffic to fill its additional capacity, at least in the early stages of new route development.

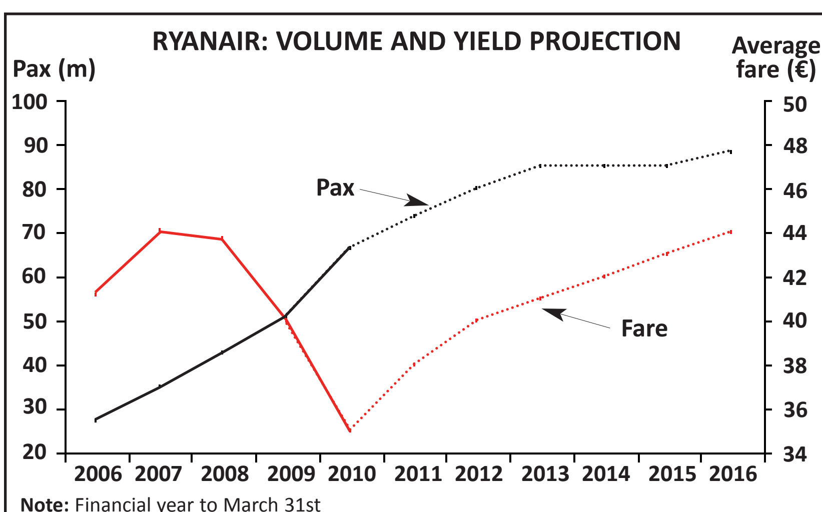
This year yield growth will be in the order of 5-7% and the aim by 2013 is to push the average fare (excluding ancillaries) up from €35 to €45. This should be eminently doable: apart from cutting out ultra-low incentive fares on new routes Ryanair will be focusing on higher yielding markets. Its recent move into primary airports, notably Barcelona El Prat, is according to the airline not the result of any change in

RYANAIR'S SHORT TERM PLANS		
Financial Year (to March 31)	Fleet	Passengers (m)
2010	232	66.5
2011	272	73.5
2012	294	80.0
2013	299	85.0

its own strategy but a change in the strategy of some primary airports which are desperate to re-establish growth. Unlikely as it sounds, Ryanair will start promoting the quality of its service - it does have a case in that it is Europe's top performer in terms of punctuality, despatch reliability and mislaid baggage.

The issue for Ryanair then becomes: how to stop its costs rising in a zero-growth world?

Airports represent the key variable in Ryanair's cost structure. Ryanair had achieved amazingly low (or even negative) airport charges in the early part of this decade as the result of signing long term contracts guaranteeing traffic volumes at underutilised airports. Now it has switched to short term contracts and the strategy becomes focused on airport churn. For example, by 2013 the Ryanair network will have reached around 50 airport bases; thereafter no net additions are planned.



Note: Financial year to March 31st

Ryanair will switch capacity from its poorer performing bases to its higher yielding bases unless it is compensated by a reduction in charges (and/or an increase in subsidies from, say, the local tourism authority). No one doubts Ryanair's determination to act swiftly and brutally when it is baulked at an airport – the recent closure of the Marseilles base, for instance. But for this strategy to work consistently, airports have to be genuinely starved of alternative growth opportunities; Ryanair is convinced that it is the only airline that can guarantee traffic volumes, others are not so sure – Flybe quickly moved into Belfast City when Ryanair exited because plans for a runway extension stalled.

Ryanair will still need to place a substantial new aircraft order just for replacement. Ryanair's current fleet age is around three years but in order to minimise maintenance costs it adheres to a maximum aircraft age of seven years. Without a growth story, will it be able to achieve the type of bulk discounts that it locked into during the early 2000s, placing mega-orders at a time when the manufacturers were desperate? Ryanair points out that the reason for the termination last December of its 737NG negotiations with Boeing was not about price but about warranties. It also makes clear that the re-engined A320 is a genuine alternative.

On personnel costs Ryanair contends that cost pressure will be contained by its pay structure which provides very strong incentives for productivity. Its remuneration package is designed to be competitive, and its effectiveness is measured by crew turn-over and absence days – which Ryanair claims are very low.

However, Ryanair does at least have a major diplomacy challenge. In October it will pay a one-off dividend of €500m to shareholders, and such is its cash generative power, especially with no new capex, another such dividend becomes likely around 2013. Ryanair staff have minimal stock ownership in the airline so they will required to exercise pay restraint at the same time as huge sums are being returned to shareholders, which they will not appreciate.

Monarch Airlines: Last of the large independents

Outside of the TUI Travel and Thomas Cook Group airlines, the largest of the remaining independent charter airlines is the UK's Monarch Airlines - but after reporting its worst-ever set of financial results (which has prompted a major reorganisation across the group), the question has to be asked - is the future of Monarch as an independent company assured?

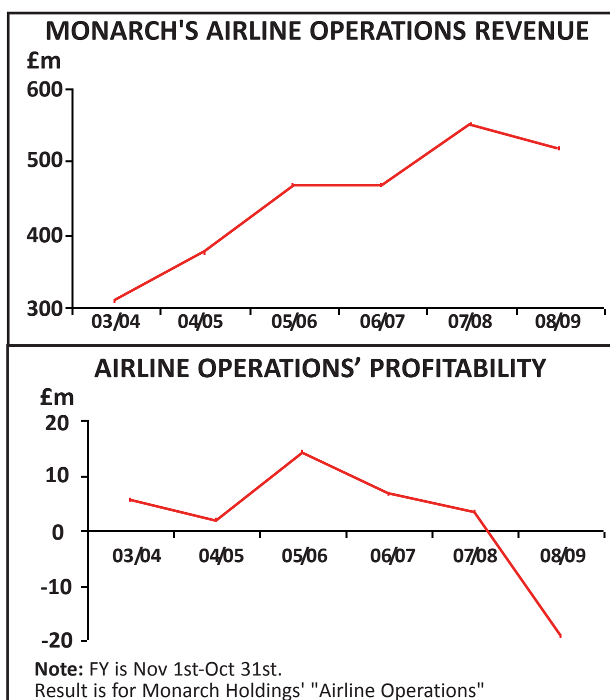
Based at Luton airport, Monarch dates back to the 1960s and in 2009 its 30-strong fleet carried 6.3 million passengers to more than 100 destinations across Europe, the US, Caribbean, Africa and India at a load factor of 84.2%.

Monarch is a private company owned by the Globus Travel Group, which in turn is controlled by the billionaire Swiss-based Mantegazza family. Until recently the last filed accounts for Monarch Holdings (which owns the airline and related businesses such as the Cosmos tour operator and Avro seat-only operation), were for the year ending October 31st 2008. However, figures filed this summer at Companies House in the UK for the 12-month period ending October 2009, show revenue at Monarch Holdings fell to £790.8m compared with £813.3m in the 2007/08 financial year, while the group made a hefty operating loss of £24.2m, compared with a £8.5m operating profit in 2007/08. At the net level, Monarch Holdings made a loss of £26.8m in the 12 months ending October 31st 2009, compared with a £5m net profit in the previous year.

This is the group's first loss in its history and more worrying was the revelation that as at the end of October last year, cash and cash equivalents had fallen to £11.8m compared with £26.1m as of 12 months earlier, despite a shareholder loan of £15m in the year. Of most concern was that net assets (i.e. all assets minus all liabilities) excluding pension liabilities totalled £58.4m at October 2010, compared with a net asset value of £94.1m a year previously – but when a huge pension liability of £98.1m is taken into account, net assets were negative to the sum of £39.7m.

The impact of airline pension deficits in the UK has been highlighted by the BA situation, but a couple of points should be borne in mind. Pension accounting rules are very conservative – a relatively minor change to the modest rate of return assumption and or the inflation index used in the calculation can turn a deficit into a surplus. Perhaps more importantly, a pension deficit normally will not affect the company's cash flow – UK corporate law only allows company pension contributions to be made out of retained profits, so if the company is unprofitable no payments can be made to the fund.

Revenue at "airline operations" (which include both the charter and scheduled businesses) fell 6.1% year-on-year to



Note: FY is Nov 1st-Oct 31st.
Result is for Monarch Holdings' "Airline Operations"

MONARCH HOLDINGS RESULTS 2008/09	Turnover	Pre-tax profit	Margin
Airline operations	517.7	-19.1	-3.7%
Sale of airline seats	103.1	-5.2	-5.1%
Engineering services	21.6	2.5	11.5%
Tour operations	148.3	-12.5	-8.4%
Group adjustments		4.0	N/A
TOTAL (£m)	**790.8**	**-30.4**	**-3.8%**

Note: FY is Nov 1st - Oct 31st.

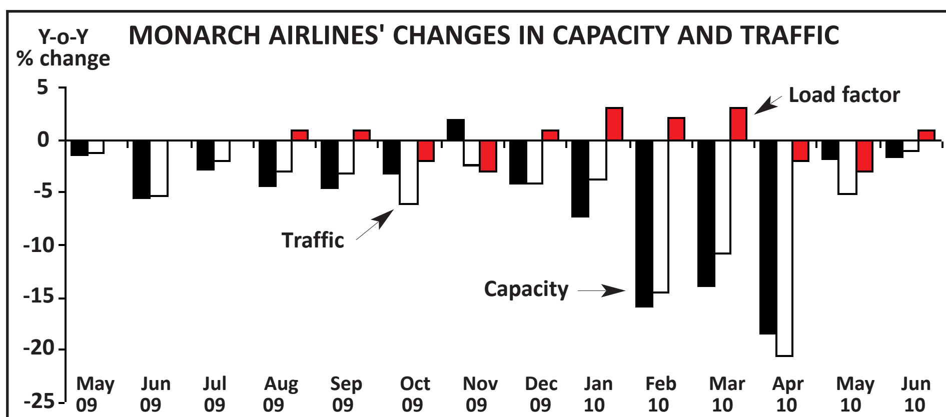
£517.7m in the last financial year, and a £3.3m profit before tax in 2007/08 turned into a £19.1m pre-tax loss in 2008/09.

As can be seen in the table (above), the "airline operations" provided the majority of group revenue (65%) in the 12 months to October 31st 2009 but contributed a £19m pre-tax loss to the group result. In contrast, the engineering business unit had revenue of just £22m in 2008/09 but reported a £2.5m pre-tax profit, representing a pre-tax margin of 11.5%.

In its brief report filed with the UK's Companies House, Monarch Holdings says that it encountered "exceptionally challenging market conditions" during the year, driven "primarily by a combination of high fuel costs and the inability to pass on these costs to passengers due to a suppressed marketplace". However, the report adds that after the financial year-end the group "drew down on a further shareholder facility of £25m" from an entity called Transcontinental Aviation, controlled by the Mantegazza family, as well as revising the terms of a previous loan of £15m from Transcontinental so that it did not become due in the 2009/10 financial year, as was previously the case.

While it's undoubtedly true that the Mantegazza family can well afford to keep funding Monarch Holdings in troubled times, they will not want that burden indefinitely, particularly as there have been rumours swirling around the City that Monarch had been set for a sale or float. Whatever the long-term plans of the Mantegazza family for Monarch, the company has undergone a period of instability through 2010.

In February it was unexpectedly announced that Peter Brown, the chief executive of Monarch Airlines, was leaving the company with immediate effect after eight years in the position. More significantly, over the summer the group began extensive restructuring, aimed at bringing all its activities into six divisions – the scheduled airline, charter airline, "airline operations", tour operations, engineering and retail. This is designed to allow the group to more easily manage products and services across these divisions - which is an implicit acknowledgement that the various parts of Monarch have operated in silos until now – or what Jeans calls "fairly separate lives". Of course whether customers ever realised – or cared – that Monarch Airlines, Cosmos and Avro are part of the same group is open to doubt, but the reorganisation should mean better operational control and alignment between the divisions.



The group promises there will not be any redundancies under the reorganisation. Currently Monarch employs more than 3,000, with "airline operations" having 1,935 staff, aircraft engineering 409, tour operations 154 and "administrative" 547. Whether the airline operation needs that many staff is open to debate, as the group trimmed its fleet by three aircraft in the last financial year, and as can be seen in the chart (left), capacity and traffic has been down year-on-year at the airline over the

last 12 months, with very large reductions to capacity through February, March and April this year.

Monarch has a multitude of types for a fleet that is just 30-strong, with A300s, A320s, A321s, A330s and 757s. They have an average age of 12.9 years, which means that a renewal programme has to be carried out pretty soon. Currently there are six 787s on order, and options for four more aircraft, but delivery has been pushed back from this year to 2013 at the very earliest. When they eventually arrive the 787s will replace the four ageing A300s (with an average age of more than 20 years) and be used for long-haul charters and potentially transatlantic scheduled services.

Within the overall Monarch fleet is a low cost, low fare scheduled business called Monarch Scheduled that dates back to 1986. This operates out of Luton, Gatwick, Manchester (where is it the leading international scheduled airline) and Birmingham to approximately 20 airports in Spain, Gibraltar, Portugal, Cyprus and Turkey, all of which are primarily leisure destinations. It launched eight scheduled routes last year and this May added new scheduled routes to three Turkish destinations. The scheduled service includes a FFP called the Vantage Club as well as optional paid-for frills such as meals, pre-booked seat and extra legroom.

The scheduled business is coming under increasing pressure from the LCCs; for example Ryanair's scouring of Europe for routes to base its aircraft in the last few years has led it to the traditional holiday destinations (such as Malaga and Palma) that used to be the fiefdom of the charter operators - and that is forcing Monarch to look at ancillary revenue as average fares come down.

However, the majority of Monarch's airline business remains in the charter segment, and it's this that is suffering most at the moment. How Monarch will be affected by the decision of the Big Two tour operators (TUI Travel and the Thomas Cook Group) and their associated airlines to cut late summer holiday prices in an effort to shift spare capacity has yet to be seen, but that move may contradict the hope of Tim Jeans back in April when he said that "the race to the bottom has run its course because customers eventually recognise that there are differences in providers … they recognise there is a difference between a Monarch flight and a Ryanair flight, between a Goldtrail flight and a Kuoni flight - and that has a value". That's a long-held wish in the seat-only market, but history has always proved that the lure of the lowest fare always trumps any other factor, and the decision of the Big Two to cut prices will make that ambition even harder.

The future?

"Further optimisation" of the Monarch group is promised, but quite what is left to reorganise is not clear at this moment. The managing directors of each of the new divisions will report into a "group executive committee" headed by a new post of group chief operating officer, who is Richard Mintern, also the managing director of the engineering business. Over the summer there were further reshuffles of management, including the appointment of Simon Tucker as group finance director, Kevin George as the managing director of the "airline operations" division, with Tim Jeans also put in charge of internal marketing (in addition to his day job, which is running Monarch Airlines). And in late September Monarch announced that Conrad Clifford – previously vice president for the UK and Ireland at Emirates and a former CEO of Virgin Nigeria – would become group CEO from December 1st.

Despite this new structure and management the group has declined to forecast it will return to profit this financial year, and all Rawlinson has said is that the group is seeking "steady improvement in financial performance over the next two to three years". Whether that will be sufficient for the Mantegazza family remains to be seen. Combining the last six financial years together, Monarch's airlines have made just £13m of pre-tax profit on £2.7bn of turnover, at a margin of less than 0.5%.

By Nick Moreno
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Southwest's acquisition of AirTran: What will really happen at Atlanta?

Southwest's planned acquisition of AirTran seems like a smart strategic move for both carriers. But can the world's leading LCC really generate the famous "Southwest effect" at Atlanta, where AirTran has already given Delta a run for its money? Will the take-over enable Southwest to resume organic growth?

Southwest, the fourth largest US carrier in terms of system RPMs, announced on September 27 that it had entered into a definitive agreement to acquire AirTran Holdings, the parent company of AirTran Airways, in a $1.4bn cash and stock deal (or $3.4bn including AirTran's net debt and capitalised aircraft leases). AirTran is the eighth largest US carrier, about a quarter of Southwest's size; it began life as ValuJet in 1993 and in the past decade has positioned itself as a high-quality LCC with the lowest unit costs in the industry.

The deal has been unanimously approved by the boards of both companies. It is expected to close in the first half of 2011, subject to the approval of AirTran shareholders and regulatory clearances. The deal is not contingent on any union approval.

Under the terms of the agreement, AirTran shareholders will receive a combination of Southwest stock and cash valued between $7.25 and $7.75 per share, depending on the average trading price of Southwest stock in a 20-day period ending three days prior to the closing of the deal. At least $3.75 of it will be in cash. Based on share prices on September 24, the transaction values AirTran's stock at $7.69 (or $1.4bn in the aggregate), representing a premium of 69%. AirTran shareholders would receive around 57m Southwest common shares, or 7% of its total on a pro-forma basis, as well as $670m in cash.

Law firms scrutinising the transaction on behalf of AirTran shareholders have suggested that the offer may undervalue the company, noting that at least one analyst had a price target for AirTran as high as $11 per share. However, analysts consider alternative bids unlikely. There are normal provisions to deal with superior proposals, including a timeframe for Southwest to respond and a break-up fee of $39m.

This would be a straight acquisition, anticipating the full commercial and operating integration of AirTran into Southwest over a two-year period. AirTran will lose its brand and identity, and its fleet will be transitioned to Southwest logo, colours and configuration. Corporate functions will be consolidated into Southwest's Dallas headquarters. The plan is to eventually operate under a single operating certificate.

The deal is significant in that it would be the first combination between major US LCCs, bringing together airlines that generated $11.2bn and $2.5bn revenues in the 12 months ended June 30. It is also a rare move Southwest, which likes to grow organically – only its second large acquisition (following Morris Air in 1993).

The acquisition would reinforce Southwest's position as the largest US carrier in terms of domestic passengers and its solid "number four" ranking in terms of system RPMs. With the closing of the UAL-Continental merger in the same week as the Southwest-AirTran deal was announced, it is amazing to think that US airline industry consolidation has got to the point where there are just four clear leaders: the "big three" legacies and Southwest.

AirTran will give Southwest some exciting new opportunities in eastern US, especially access to Atlanta - the world's busiest airport where it has hitherto not been able to establish even a foothold – and a modest near-international network. But those opportunities also pose unique challenges for a carrier whose hallmark is simplicity. How will Southwest handle the Atlanta market? When integration is completed, how much will its business model have changed?

Southwest can certainly afford the AirTran acquisition. It plans to fund the $670m cash payment out of cash reserves. As of late September, Southwest had $3.3bn of cash, a fully available $600m unsecured credit line and over $7bn in unencumbered assets (primarily owned 737s). After the AirTran acquisition liquidity would remain very strong, with unrestricted cash exceeding $3bn or 20% of combined 2010 revenues.

Furthermore, there may not be any negative impact on Southwest's industry-leading credit profile. While assuming about $983m of balance sheet debt and $1.7bn of capitalised aircraft leases from AirTran, Southwest is sticking to its plans to pay down debt in 2011 and 2012. Fitch has actually affirmed Southwest's "BBB" ratings and "stable" outlook, though S&P placed the ratings on "creditwatch negative".

The deal seems to be universally liked by analysts, because it will enable Southwest to resume growth without acquiring aircraft in the near-term. Many in the financial community feel that risk is minimised by acquiring another successful LCC with similar values and strategies. JP Morgan analysts pondered in a late-September research note that "integration challenges" were preferable to "more capital-intensive outcomes (new planes and organic growth)". The verdict of BofA Merrill Lynch analysts was very clear from the heading of their research note: "Right price, right time, right target".

SOUTHWEST AND AIRTRAN AT A GLANCE

	LUV	AAI
Number of passengers (2009)	101.3m	24m
Nonstop routes (current)	461	177
Cities served (current)	69	69
Active fleet (as of Sept 27)	547	138
FTE employees (as of June 30)	34,636	8,083
12 months ended June 30, 2010:		
Total operating revenues	$11.2bn	$2.5bn
Operating income	$843m	$128m
ASMs	96.4bn	23.9bn
RPMs	75.2bn	19.3bn
Passenger load factor	78.0%	80.8%
Cash & short-term investments	$3.1bn	$445m
Cash as % of LTM revenues	27.7%	17.8%
Cash flow from operations	$1.5bn	$163m
Capital spending	$611m	$89m

Source: *Company reports*

Why now?

The curious thing about the Southwest-AirTran combination is that it has been on the cards for a long time, but the two parties never got together to talk about it until recently. Many analysts have suggested it over the years. AirTran's leadership has frequently gone on record saying that they were open to being acquired. And Southwest's CEO Gary Kelly conceded in the investor call on September 27 that "it has been a good idea for a long time". Then why did it take so long? Why now?

The first thing to note is that Southwest's move has nothing to do with the acceleration of the legacy-airline consolidation process. It is in no way a response to Delta-Northwest, United-Continental or any of the smaller-carrier mergers or international deals.

The short explanation for the delay given by Kelly: "We weren't ready. It wasn't the right time for us."

Southwest is fiscally an extremely responsible company. Even though it has earned profits for 37 consecutive years, 2008 and 2009 turned out to be financially rather challenging, in the first place because of the waning of the airline's advantageous fuel hedges and subsequently the recession. As a result, Southwest has had a few extremely busy years trying to find solutions. The numerous projects tackled by the airline have been discussed at depth in *Aviation Strategy* briefings (see January/February 2008 and April 2009 issues); here is a quick summary.

First, to compensate for the substantial hike in costs after losing the fuel hedge advantage, in mid-2007 Southwest embarked on an all-consuming drive to boost revenues by $2bn-plus annually. It was a major challenge for an airline that had hitherto focused mainly on keeping costs low. The effort has been highly successful, leading to lucrative new ancillary revenue streams, refinements to the business model and new products aimed at attracting more business traffic.

Second, there has been a major drive to

get the technology and systems in place to support the new revenue activities – another formidable challenge because Southwest was built on simplicity and had some serious "catching up" to do on the technological front.

Third, after reporting its first quarterly net losses in memory in late 2008, Southwest suspended ASM growth and began to defer aircraft deliveries – another first for the carrier. Contrary to large LCCs in other world regions, which continued growing through the recession, Southwest's total capacity fell by 5.1% in 2009 and by another 3.3% in first-half 2010.

Fourth, to enhance the profitability of its network and maintain staff morale, Southwest embarked on a "network optimisation" drive. This meant eliminating flights in less profitable markets, while venturing into high-profile new cities, including Minneapolis, New York LaGuardia and Boston Logan in 2009.

With all of that to manage, and given Southwest's conservative nature, it was hardly surprising that the airline did not want to take on a major merger or acquisition. That said, in the summer of 2009 Southwest did seek to buy another LCC, Frontier, through the Denver-based carrier's bankruptcy auction process. The deal made much sense but was scuppered by Southwest pilots' refusal to endorse it.

But the environment is now very different. In the past 12 months or so, Southwest has led the industry in demand, yield and profit margin recovery. In this year's June quarter its operating margin was an excellent 13%. With continued extremely modest capital spending, Southwest should continue to grow its cash flow and reduce debt in 2011. CFO Laura Wright noted: "This puts us in an excellent position to structure a transaction in a manner that preserves our strong balance sheet but which also allows an opportunity to provide superior returns on the investment to our shareholders".

Kelly noted that since Southwest is currently not growing its route system organically, now is an opportune time to manage a major acquisition. Furthermore, Southwest is now more confident in its capabilities on the revenue side. Since the merger may not produce any net cost savings, "it all hinges on whether we can make the networks work".

What AirTran offers

Southwest wants AirTran for the profitable growth opportunity that it offers. Southwest's growth opportunities have diminished as its network has grown nationwide. It has also been unable to access some major markets or build up frequencies due to unavailability of slots. It is indicative that Southwest is now seriously considering converting some of its 737-700 orders to the larger 737-800 (an option that it has always had) to help it grow at slot-restricted airports.

The growth opportunity through AirTran arises because the networks are complementary. AirTran would give Southwest 30 new destinations. Although the two overlap on 20 nonstop routes, which is more than United-Continental's 14 and Delta-Northwest's 12 (JP Morgan figures), there is significant overlap at only two airports: Baltimore/Washington and, to a lesser extent, Orlando. The consensus among analysts and industry observers is that, given the lack of competitive constraints at those two airports and Southwest's pro-consumer reputation, there are not likely to be any DoJ-mandated divestitures.

But the most important reason Southwest is acquiring AirTran is that it offers access to Atlanta, the largest US city Southwest does not serve. AirTran is the second largest carrier at Atlanta, with a 22% market share (compared to Delta's 62%) and a sizable hub operation covering 57 cities. CEO Kelly likens Atlanta to the "big pools of growth opportunities" that Southwest had in the 1990s (particularly California), as well as the Chicago and Denver opportunities in the last decade. "In terms of us filling our network gap, the major market that we don't touch domestically that our business customers particularly want is Atlanta. So this is clearly a strategic move for us to fill that gap."

Southwest will also gain improved access to the three most important

Northeast business markets: New York, Boston and Washington. It will gain more slots at LaGuardia and Boston Logan and, for the first time, be able to operate to Washington Reagan.

Southwest will also gain access to many smaller domestic cities that it does not serve today (because it is primarily a point-to-point carrier). Southwest executives commented: "That will also fit in very well with our desire to continue growing our route map domestically".

And, significantly, Southwest will gain access to key near-international leisure markets in the Caribbean and Mexico, accelerating its own plans to go international. AirTran operates at least weekly, and in some cases daily, scheduled flights from Atlanta, Orlando and Baltimore/Washington to Aruba, Cancun, Montego Bay, San Juan, Nassau and (from February 2011) Punta Cana.

Southwest has long contemplated near-international service. Codesharing on WestJet flights to Canada and on Volaris flights to Mexico was supposed to be the first step in the process, with own-account international operations following after a few years. But the WestJet deal fell through last year (after the Canadian carrier forged a similar relationship with Delta), and the Volaris deal has been delayed by Southwest's struggles to upgrade its reservations technology to handle international codeshares (now expected to be implemented in 2011).

Kelly confirmed in the late-September investor call that Southwest has taken the decision to replace its reservations technology and has narrowed the search down to two systems. That will bring the necessary capability, at least on the commercial side, to offer international service. In the meantime, Southwest would keep AirTran's international service and learn from it, before eventually moving those operations under its own roof when it has the capability. While additional international expansion is probably several years away, one thing is clear: long-haul expansion to Europe is not on the cards; the furthest place that Southwest is likely to go is South America.

The AirTran acquisition would contribute to the gradual "eastward march" that Southwest began more than a decade ago, after its 1990s growth spurt in California. It would result in an approximate eight percentage-point decline in the West's share of seats offered and a corresponding increase in the East's share of seats. Specifically, the West coast and Southwest regions would account for about half of the combination's total seats (51.4%, compared to 59.7% previously), while the Eastern half of the country would account for about a third of the seats (32.7%, up from 25.1%). Midwest's share would remain roughly unchanged at 15-16%. International and Puerto Rico would account for 0.2% of the seats.

The two airlines' fleets are compatible in that they include only Boeing aircraft and large numbers of 737-700s. However, AirTran does bring in a different fleet type,

THE WEST-TO-EAST SHIFT: Seat distribution by region

	Southwest currently	After AirTran acquisition
West	39.0%	33.4%
Southwest	17.2%	15.0%
Northwest	3.5%	3.0%
Total West	**59.7%**	**51.4%**
Midwest	**15.2%**	**15.6%**
Southeast	11.9%	17.9%
East	13.2%	14.8%
Total East	**25.1%**	**32.7%**
Int'l / Puerto Rico	**0%**	**0.2%**

SOUTHWEST / AIRTRAN'S TOP TEN CITIES BY DAILY DEPARTURE

City	Daily departures
Las Vegas	230
Chicago Midway	228
Baltimore / Washington	222
Atlanta	202
Phoenix	180
Denver	148
Houston Hobby	135
Orlando	132
Dallas Love Field	128
Los Angeles	121

the 717-200, and in significant numbers too (86). Although Gary Kelly sportily described the 717 as "very cost-effective" and "an airplane that we think we can manage well", it will be interesting to see if Southwest could actually get rid of the type, and if not, how it would operate the 717 and what the impact on costs would be.

Importantly, like Southwest, AirTran is a high-quality, low-cost operation with a very solid low-fare brand. Both have employee-centric cultures and dedicated workers with "kindred warrior spirits who care about serving customers". AirTran is a profitable operation, though its margins have been lower and much more variable than Southwest's.

But there are some differences. AirTran uses a hybrid hub-and-spoke network, whereas Southwest is point-to-point. AirTran is actually much more upmarket: it offers two classes and advance seat selection, contrasting with Southwest's very basic approach (even after the past two years' new product offerings). AirTran sells through GDSs, Southwest does not.

Synergies and dis-synergies

Southwest expects the AirTran acquisition to produce "at least $400m" of net annual synergies by 2013. This would be about 3% of the $13.7bn combined annual revenues in the 12 months to June 30 – in line with other recent airline combinations. One-time costs related to the acquisition and integration, to be incurred from close to 2013, are projected to be $300-500m.

The synergies will be driven mainly by the expanded and diversified network. The stronger joint network will facilitate hundreds of new itineraries to the combination's 100m-plus existing customers. There would be incremental revenue from new Atlanta markets. The increased customer base would support the addition of brand new destinations. The combined company would have a more powerful FFP, providing a significant revenue opportunity (strengthening the new FFP that Southwest is scheduled to launch next year). And Southwest believes that, as the networks are combined, it will be able to capitalise on joint marketing, its schedule optimisation and revenue management capabilities, its "BusinessSelect" and "EarlyBird" products and, of course, its popular "Bags Fly Free" programme.

Interestingly, Southwest is counting on producing the famous "Southwest effect" at Atlanta, even though it is replacing an existing low-fare carrier there. A study by Campbell-Hill Aviation Group, which was retained by Southwest to evaluate the consumer benefits of the transaction, found that more expansive low-fare service at Atlanta alone has the potential to stimulate over two million new passengers and $200m-plus in consumer savings annually.

On the cost side, there are potential savings in advertising and distribution, facilities, corporate overheads, duplicative information technology, scale efficiencies and reduced financing rates thanks to the larger scale. The cost synergies are expected to "substantially offset" the dis-synergies of the deal, principally higher labour costs.

S&P noted in a late-September communiqué that Southwest's labour costs are among the highest in the industry for the 737s it flies, while AirTran's are among the lowest. "When two merging airlines have different levels of compensation, the pattern has been for the lower-paid employees' compensation to rise to match that of the airline with higher pay." The rating agency considered the labour dis-synergies to be "the greatest risk in this merger".

BofA Merrill Lynch estimated that AirTran's wage rates are 30% below Southwest's, which would imply more than $150m of labour dis-synergies. Southwest has not released its own estimate, though it is apparently included in the $400m net synergy figure. In other words, the anticipated revenue synergies dwarf the cost issues.

CFO Laura Wright stated that the AirTran transaction should allow Southwest to meet its overall ROI and profitability targets sooner. The value created for shareholders fully supports the significant premium to be paid to AirTran shareholders. When the $400m net synergies are fully realised, Southwest expects to exceed its 15% pretax return on invested

capital target and produce a healthy return on equity of over 20%. Including the net synergies but excluding one-time costs, the deal is expected to be accretive to Southwest's pro-forma EPS in year one and "strongly accretive" in subsequent years.

Integration risks

Southwest is embarking on a challenging undertaking, but it is not new to mergers and its recent track record of moving very slowly and methodically with difficult projects to ensure a successful outcome gives much cause for optimism. With the AirTran deal, there are integration risks essentially in two areas.

First, technology integration, which has caused problems in many airline mergers, is a particular concern given Southwest's difficulties in that area in recent years and because Southwest plans to move to an entirely new reservations platform in the middle of the AirTran integration.

Second, as Fitch put it, labour force integration is always a wild card in airline combinations. While the AirTran deal is not contingent on any union approval, successful integration will not be possible if labour does not cooperate or if there are serious disputes. Integration of pilot seniority lists, which affects future pay, promotions and flying assignments and has to be determined by the two pilot groups, is typically the toughest issue - it has still not been achieved at US Airways following its 2005 merger with AWA.

In this deal one potential problem is that Southwest's pilots are more senior than AirTran's, because Southwest has a longer operating history. If the unions merge the lists on the strict order of seniority, AirTran's pilots would find themselves at the bottom of the list, which would probably cause a lot of friction. Southwest's management hopes that the pilots will find a "fair and equitable" way of merging their seniority lists.

Southwest's pilots have adopted very hard line positions in the past. Their insistence of putting Frontier pilots at the bottom of the list helped scuttle that deal last year. In their initial statement on the AirTran acquisition, the pilots said that "no stone will be left unturned to protect SWAPA pilots' interests".

On the positive side, the potential growth opportunity associated with this deal may reduce the stakes of seniority integration. AirTran's pilots can also look forward to much higher pay, greater job security and a better relationship with their management.

SOUTHWEST'S AND AIRTRAN'S FLEETS

	LUV	AAI	Combined
737-300	173	0	173
737-500	25	0	25
737-700	349	52	401
717-200	0	86	86
Active Fleet	**547**	**138**	**685**
Average age (June 30)	10.9 years	6.5 years	10.2 years
Firm orders (LOI/options)			
737-700	107 (98/37)	51 (0)	

Note: Fleets as at September 27, 2010

Fleet considerations

Even though Southwest will be happy to continue operating the 717-200s, which are well suited to AirTran's smaller markets, it really does not need another aircraft type. All but six of the 86 717s are leased, which makes it harder to manage changes to the fleet. But Southwest is likely to have already approached Boeing Capital about potential solutions such as early termination of leases.

If Southwest has to continue operating the 717s, it has already said that it would not want to cross-train crews and have them switching back and forth between the 717s and 737s. The 717s would probably be fenced off within the network until the leases expire or agreement is reached with Boeing on their transition. Southwest may also seek lease rate reductions, given its stronger balance sheet and credit profile.

Some analysts have suggested that Southwest might delay any plans to switch to the larger 189-seat 737-800s, given the added complexity of the 717s. But Kelly refuted such ideas, saying that the two types are not mutually exclusive but complementary and that the 737-800 might fit in well in Southwest's broader strategy for

the next decade. Kelly stated: "In my opinion, we have a better fleet plan going forward contemplating the 737-800 as a component. It can be more cost-effective on current routes. Clearly we'll have more growth opportunities if we can bring the -800 to the property. There are just some routes that we won't fly if we don't have the -800." Southwest was previously expected to decide on the 737-800 by year-end. It recently won approval from its flight attendants to add the type, though it is still discussing the plans with its pilots.

What will happen at Atlanta?

Southwest has made it very clear that Atlanta is where the big numbers are. Kelly stated: "It is about bringing more competition, bringing more low fares. We see a number of city-pair opportunities to go in with lower fares and stimulate traffic in classic Southwest fashion." Kelly also reminded that Southwest likes "markets that are overpriced, and the icing on the cake is if they are also underserved". It would be a reversal of the retrenchment that AirTran has been on in the last few years at Atlanta.

But some industry observers have questioned if Southwest can really stimulate traffic at a hub that has already been a battleground between a legacy and an LCC for more than a decade.

A study released on October 4 by Boyd Group International suggested that Southwest is likely to have a material effect in only two of the top 25 O&D Atlanta markets: Salt Lake City and Newark. Southwest is replacing an existing low-fare airline, not introducing low fares to Atlanta. The report called "ridiculous" projections of hundreds more flights per week or hundreds of millions in fare savings, pointing out that "the major demand markets at Atlanta are already stimulated" and that "every local O&D market at Atlanta is wildly overserved".

The Boyd report made the point that AirTran's Atlanta flights depend on flow traffic for around two thirds of the passengers. Southwest too depends on flow traffic at many locations these days; at Chicago Midway, 43% of its passengers are not local O&D. Nevertheless, the report argued, more reliance on "banking" schedules will be critical at Atlanta. "The extent to which Southwest will need to stimulate Atlanta as a hub goes far beyond anything it has done in this regard before."

It is not at all clear what the impact on Delta might be. Some analysts have downgraded Delta merely on the basis that it will face a tougher LCC competitor at its main hub, but others believe that Delta is not uniquely threatened. JP Morgan analysts are in the latter camp, noting that Southwest is probably a more rational competitor than AirTran (because it has higher costs and is more profit-oriented) and that the 37 cities unique to Southwest (which it could link to Atlanta) represent less than 1% of Delta's system revenue.

The Boyd report noted that Delta has succeeded in Atlanta in all three counts that matter: carrying more flow traffic than AirTran, maintaining a strong yield premium, and maintaining high load factors. "There are no indications that this situation will change when Southwest's Red Bellied Warriors pull up to the gate."

But Atlanta may one day make an interesting case study of airline brand loyalty. On the one hand, Delta may gain business traffic if AirTran's passengers do not like Southwest's open-seating policy and more basic product. On the other hand, Southwest's "Bags Fly Free" policy may prove so popular that Delta will have to reverse its strategy for competitive reasons and lose a major revenue stream. With such considerations in mind, Southwest's executives have stressed that they want to use the integration as an opportunity to learn from AirTran and are not ruling out future changes to the brand.

The transaction is widely regarded as a near-term positive for the US airline industry. By eliminating the lowest-cost, lowest-yield producer, it is likely to enhance capacity and pricing discipline. Of course, the longer-term implications are less favourable since the acquisition is likely to encourage Southwest to start growing its fleet again.

By Heini Nuutinen
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Operational management: the aim is "unremarkable service"

When a flight is on time, with OK cabin service, and your luggage arrives when you do, most passengers do not notice. This is how it is supposed to be. If, however, the flight is delayed, especially if this starts to be a pattern with an airline, then this is not OK.

As has been extensively researched since the 1980s one delayed or otherwise dissatisfied passenger tells at least nine other people – a passenger whose flight was reasonably on time and with adequate service will probably just answer a direct question with "yes, it was OK". For most airline passengers unremarkable service is as good as it gets.

Unremarkable service, however, is the product of skilled operational managers who constantly integrate and adapt the outcomes of many different functions from within and outside an airline. They in turn are often regarded as unremarkable in terms of the role they perform and their visibility compared to the powerhouse functions of corporate strategy, international relations, finance, marketing and systems development. They usually only come to notice when the operation suffers serious disruption or when further cost savings need to be made, since they often control large numbers of direct or contracted staff susceptible to culling when additional savings are looked for.

Now, however, airlines are looking with a renewed focus on operational performance as a competitive differentiator. Not least because the web-enabled world creates fast and uncontrollable customer feedback, and is seen to be increasingly influencing buying behaviour. Also as global recession eases European airspace is also likely to be increasingly constrained by minimal new airport expansion and a delayed Single Sky air traffic management system while at the same time pan-European train operations are likely to become faster and more reliable.

So unremarkable service may have to get a whole lot better if it is to stay unremarkable and the talent management required to sustain competent multi-skilled operational managers may also need to be reviewed.

Unremarkable service requires the combination of many elements: serviceable aircraft, fueled, cleaned, loaded and catered; briefed crew with logged flight plans; an available airport gate, ground transport, appropriate terminal facilities; processed joining and transit passengers, all ready within slot departure time and not just once but repeated many times during a day. This demands a careful allocation of resources between competing demands, involves dealing with variations and the unexpected, but it rarely involves facing totally new or previously unknown situations. So the managerial task may be stressful, with peaks and troughs, but for people who have worked in airlines it does not require remarkable skills, but competence and judgement.

Judgement within boundaries

Another complication faced by managers is that many ground operations functions are now outsourced. In larger airports the airline manager may well have to trade upon maintaining a good relationship so that additional staff or equipment is provided without recourse to the small print of a contract and also manage the internal hierarchy so that action to enable service recovery is not then criticised for coming in over budget or not following the rules. Ryanair has simplified this, no customers receive any extra service and if they do everyone gets the same. For other airlines distinctions between fare types, complicated by loyalty schemes, do not always lead to easy conversations at the customer service desk if one person is told they may receive more than another within earshot.

Does judgement matter or should the

rule book not always be the arbiter? Many airport staff will remark that when dealing with passengers who are disabled, bereaved, frequent flyers, or who may have expectations generated by partner airlines, travel agents or corporate accounts, the rule book does not always fit, especially if the espoused mission and values are about treating customers with respect and selling the next ticket.

Setting targets within the integrated world of operations is fraught with danger as meeting one may well disadvantage the system. A major airline had to shampoo its carpets most weeks because purchasing had saved money by buying thinner waste bags which frequently split. Cabin crew constantly struggle to reseat families on boarding when the terminal staff have assured the passengers this can be done – thus meeting check-in targets and dumping the problem on someone else. So an operations manager has to know the details of the work required, ensure compliance, especially of safety even if punctuality is threatened,and then have the energy to fight for resources, especially those that are required on occasion rather than all the time.

Is operations management important?

Is the management of airline operations of great significance in an economic climate where the financial survival of many airlines, issues of fleet selection, leasing, fuel cost, market access, yield management, product differentiation and the creation of viable alliances currently occupy most executive attention?

The answer is probably 'yes'. It is not more important but to many airlines it is as important. Although the issues of managing a regular, reliable and punctual performance have not changed much since the advent of the big jets some fifty years ago and indeed have to an extent become much simpler because of automated and integrated systems, four largely external factors now have a growing significance.

These four factors are: the impact of a sustained period of cost—cutting, the growth of ancillary revenues, the importance of global networks, and the socially networked markets in which airlines compete for customers. The first may ease as with economic recovery but it may leave a longer term legacy that constrains the ability of airlines to remount more ambitious schedules. The latter two may well become very significant in increasingly competitive markets. Whatever the interaction, all four factors are combining to render today's airlines more vulnerable to perceived poor operational performance than before (in turn impacting marketing propositions and the bottom line).

Relentless cost-cutting One result of the seemingly endless cost cutting of the last three years has been a reduction in operational management and staff. As a result, in a crisis there is no additional available resource to commit – this has been ruthlessly pruned. There are fewer people and often distorted age and length of service demographics. If training has also been reduced then the front-line competence may be thin, and with no reserves in terms of bodies or skill. At the same time a loss of collective experience as job levels are removed and experienced – and more costly staff outplaced - may result in a greater dependence upon the operating manual when the exercise of judgement and empathy with passengers may be more important.

Increase in ancillary revenues The pursuit of ancillary revenues is also starting to impact upon airline passengers and their perception of what is good operational performance. The days of acceptance of long delays at airports when an 'all-inclusive' price for a holiday had been paid, or when a company was funding business travel are fast disappearing. If passengers pay more for the carriage of their bag it had better arrive and quickly; if they pay more for a pre-ordered meal or on-board snack it had better be available and edible; if they pay more for preferential boarding and seat allocation it had better take place and produce a preferred seat etc.

The customer at the check-in desk or kiosk is very aware of how much they have

paid for a service. Unbundling provides revenue streams but also exposes front-line staff to transactional expectations that were previously opaque. Corporate travellers also have a heightened awareness of the components that make up the value of the service they expect and may have to justify to their own bosses.

The importance of global networks One attraction of offering global networks is the connections they offer through single or multiple hubs, with seamless service and compatible products. These expectations at airport level provide multiple challenges: from privileged lounge access, baggage allowances, carry-on baggage size, upgrading policies through to language skills and an ability to meet growing requests to respect diversity. As the sophistication of the alliance marketing increases so will the complexity of delivering the promise in physically congested and time-constrained facilities.

It is also likely that operations control of networks will be influenced by the yield profiles on loads on inbound aircraft with a consequent pressure to hold some departing connections – yet maintain operational integrity across the terminal.

This is not new. Major European airlines have protected certain high profile commercial connections for years. What is new is the multiplicity of partners and increasing knowledge of corporate customers. The scale and the visibility of the demands are likely to increase and quite often junior staff are on the front-line.

Significance of social networking The chaotic world of social networking continues to develop in unexpected ways. Think of the numbers that football stars, film stars and other celebrities have "following" them virtually and then think of them starting to twitter while delayed at airports; at airports waiting for their bags and hoping they will come and after flights describing their experience. Possibly, they will also soon be twittering on flights. If Stephen Fry can twitter in a slow lift, or a trade union official during negotiations then airline passengers, especially if aggravated, will certainly find the time. The only slightly slower world (before the advent of the iPad and iPhone) of PC- based chat rooms and blogs has long been a source of informed feedback on flights. A troll through recent comments on the larger European LCC sites is very informative as to what matters to some paying customers. More interestingly, what matters seems to align with the comments made by other customers on blogs about the major network airlines, i.e. arriving on time with one's baggage and not being 'ripped off' on price – whether as booked, or through ancillary revenues - matters.

Recent research shows that in this networked world it is another online person who is believed rather than an airline or an official statement. Social networks are probably not a passing phase and the views expressed on Facebook about current airline operations do not always make for pleasant reading.

Demanding leadership

Historically, operational management has not been held in the highest esteem in airlines. Elements of it being regarded as a bit technical, and sometimes physically dirty still remain. A key determinant of reliable, regular and punctual services is the management of the operation. But operational management, if one discounts pilot management, has rarely been prized either in terms of relative salary or as a route to the executive suite. In today's environment the professional skills of piloting, engineering, finance or the law, or wider commercial experience and skills in marketing or IT tend to be favoured more.

Operational managers tend to love their work, however, and their career choice. Most quote the satisfaction that comes from delivering a high quality product and on occasion rescuing the operation from the problems that extreme weather, technical, infrastructure failure and major geopolitical issues are always liable to cause. They also tend to enjoy leading people, as individuals and as organised in unions. These problems go with the territory and it is often what distinguishes the

managers as people who regularly reflect on previous experience and adapt accordingly.

A role, not a profession

Crucially, operational managers need to be generalists. As Professor Richard Barker of Cambridge University's Judge Business School argues in a recent *Harvard Business Review* article, management is not a profession pursued like accountancy, the law or medicine, piloting or engineering in the airline world. His argument is that much of our business education no longer equips managers for critical roles. An MBA is a useful qualification but it does not necessarily equip managers for a world in which peer relationships, team working, thoughtfulness, and flexible and adaptive attributes are more important than technical knowledge. This list of competence is from research compiled as to what organisations prize, not what business schools think they should deliver.

Back in the world of airline operations one characteristic of a manager stands out. The manager is responsible for bringing together many inputs and exercising judgement to affect the outcomes. At an operational level the manager, for some brief moments, is responsible for the combined value generated by all the inputs to the company. On her watch the value generated by marketing initiatives and brands are combined with the technical expertise from engineers, pilots, operations control, ground handling, passenger services, catering come together - or not. On her watch the value generated by the inputs from the company are enabled by the value of the inputs from alliance partner airlines, code-sharing partners, service partners, hotels, and transport services come together – or not. On her watch the value generated by the inputs from the company are enabled by the value of the inputs from parallel agencies responsible for airport infrastructure, terminal facilities, security, immigration, and air traffic control are enabled – or not.

The very definition of an operational manager is that she works across functions, influencing and adapting the outputs and approaches of numerous silos to a common purpose: delivering to each and every passenger an operation that is timely, reliable, and to the expected standard. From these trade-offs and recognition of the best course to steer through conflicting demands comes added value on the day, and longer term added value - if the learning from the inevitable problems is translated back into future decisions.

Learning, not blaming

At most airlines the blame allocation meetings about why a flight departure was late are a thing of the past. Trying to pin the blame on whether the aircraft was late out of the hangar, denied a gate when required, or was awaiting crew or cargo, which in turn impacted on whether cleaning, loading and dispatch could take place in time is probably one of the most fruitless pastimes invented by airline managers. Add to this local context concerning access to de-icing when required, stand allocation, security procedures, concourse congestion, or waiting on valuable transfer passengers and the complexities of the blame game are clear.

As Gordon Bethune mused when turning around Continental Airlines; "There are a lot of parallels between what we're doing and an expensive watch. It's very complex, has a lot of parts and it only has value when it's predictable and reliable." A watchmaker exercises judgment to make the entire system balanced and reliable, and is not just assembler of parts.

So in today's environment, discussions on patterns and wave theories tend to yield more value than looking at targets and blame. Only recently has analysis of traffic congestion, especially on major motorways identified the phenomena of waves of build up and congestion. There comes a point at which the system becomes overloaded and resolution comes from de-stressing the system by enhancing small additional capabilities throughout the system, rather than at the point of impact. In airline operations the same skill is deployed in a myriad of tasks throughout a shift to de-stress the

system. In the control centre through making minimal changes and accepting an occasional bad delay rather than ending up with too many crew and aircraft in the wrong places, and through careful stewardship of reserves of people and capacity rather than reacting in the moment.

Despite is name and 24 hour role this is not a theatre for histrionics. Both in the control centre and at airports many issues are resolved by listening to the staff at the sharp end and thinking system rather than activity. At airport level there are countless options to stop a wobbling system before it falls over: opening an extra check-in desk, deploying a dispatcher early, sending a loading team to a remote gate in advance of final allocation, requesting additional catering on standby, deploying additional hi-loaders, alerting immigration and security to potential additional peak throughput etc.

The key to good management in both arenas is that the important decisions are taken in advance and in the light of emerging and ambiguous patterns – hence experience and accessing the experience of specialist colleagues is important. This is second nature to the operational manager, it is what makes the job worthwhile, provided they understand the bigger system.

It is possible, however, that one product of the constant cost cutting of the last three years is now impacting upon the capability of airlines to manage the disparate function known as 'operations'. There are fewer managers, and fewer staff, and amongst these there may be a reduced collective experience of how to avoid disruption, anticipate passenger reactions, and recover airline operations with a minimum of fuss, all in the quickest possible time.

Outside world judges

Brand values are built on emotion and as more people speak of their disappointment instantly and uncontrollably through social networks then the level of emotional reaction intensifies. But the challenge is not unique to LCCs. Maintaining premium pricing demands maintaining premium service, including punctuality.

Recently the bar has been raised on airline punctuality and reliability. Some people, especially travel agents looking after corporate accounts, do look at the government published punctuality reports. Ever since Bob Crandall effectively declared war on Frank Lorenzo's Continental Airlines by lobbying the US Department of Transport to publish data, punctuality has been a market force.

Ryanair has consistently surprised other European airlines by beating them on regularity, reliability and punctuality and customers are aware of this. There may be other reasons why Ryanair is not an automatic first choice for many customers but punctuality is not usually one of them.

Underneath the hype that surrounds the Continental Airlines turnaround of the 1990s (which was not "new" - it built upon experiences from British Airways in the 1980s, Lufthansa in the early 1990s, and Southwest Airlines amongst others) three messages from that turnaround team to their managerial colleagues stand out.

First, what most people expect from an airline is getting them where they want to go, on time, safely and with their baggage. Second, the only way to deliver such a service is by ensuring all the staff want to provide it. Third, delivering good operations demands recognition of it as an interactive system, not a sum of the parts: exporting the problem down the line to someone else is not acceptable.

The role of the operations manager is to maintain these perspectives and to work continuously on both the inside world of the airline that delivers the outputs required and the outside world of passengers and customers. As UK high street banks have started to put executives back into branches to experience the whole system at point of impact; as supermarkets and retailers insist that executives manage outlets as a necessary experience; perhaps some airlines might benefit in a return to the wisdom of a few years back and ensure that some in the executive suite and those on the way there know what the term 'operations' actually entails.

By Roger Niven
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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/	Jul-Sep 08	10,071	9,462	609	44	6.0%	0.4%	69,930	58,041	83.0%	20,439	107,364
KLM Group	Oct-Dec 08	7,880	8,136	-256	-666	-3.2%	-8.5%	64,457	51,255	79.5%	17,934	106,773
YE 31/03	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	Apr-Jun 08	4,455	4,386	69	53	1.5%	1.2%	37,815	27,757	73.4%	8,327	
YE 31/03	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	Oct-Dec 08	1,753	1,836	-83	-25	-4.7%	-1.4%	15,875	12,302	77.5%		20,956
YE 31/12	**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	Jul-Sep 08	9,835	9,542	293	230	3.0%	2.3%	52,487	42,437	80.9%	18,913	109,401
YE 31/12	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	Jul-Sep 08	2,114	2,085	30	-316	1.4%	-14.9%	10,984	8,180	74.5%	7,325	24,298
YE 31/12	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	Apr-Jun 08	1,215	1,202	13	-141	1.0%	-11.6%			81.0%	14,953	
YE 31/03	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	**Year 2006/07**	**3,679**	**3,069**	**610**	**311**	**16.6%**	**8.5%**	**43,501**	**36,976**	**83.7%**	**37,200**	**5,674**
YE 30/09	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	01 Oct	Luxair	1 x 737-800	
	22 Sep	Cathay Pacific	6 x 777-300ER	exercised purchase rights
Airbus	20 Sep	Malaysia Airlines	2 x A330-200F	PW4000
	16 Sep	Cathay Pacific	30 x A350 XWB	

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

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