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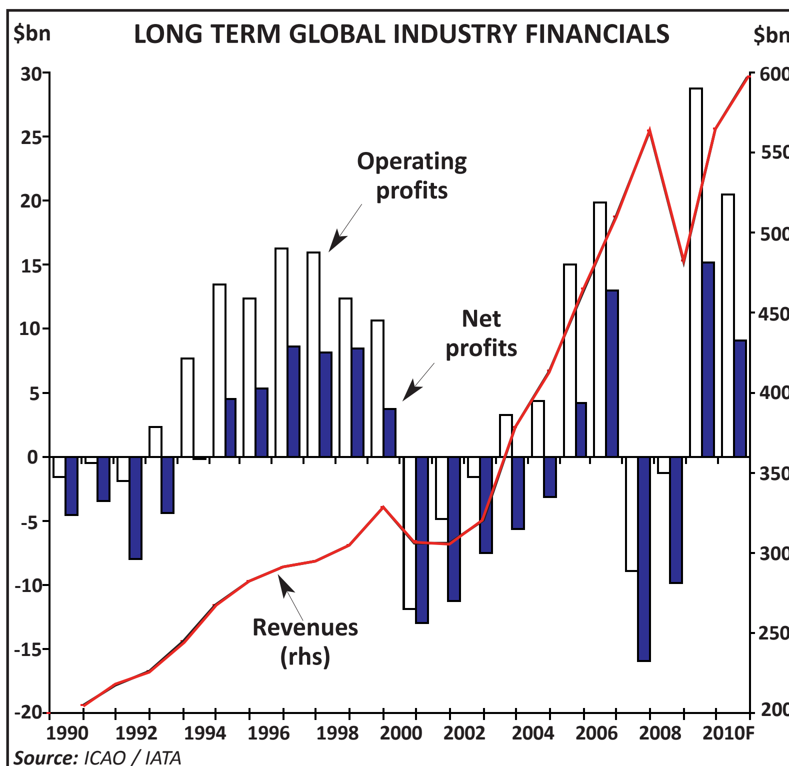
Financial recovery - up in the air?

This time last year we were looking at the potential of recovery in 2010 in the hope of an emergence from the worst recession for a generation: the IMF was projecting global economic growth of 4% (and 2.5% in the developed world); IATA predicting a 5% increase in airline traffic but worldwide losses of $5.6bn. In the event, the bounce back has as usual (and as expected) been far stronger than anticipated – at least in most areas.

It now looks as if world GDP may have grown by 5% in 2010, with a near 3% growth in the advanced economies; the airline industry has seen total passenger traffic up by some 6% and freight traffic up by 18% and, with continued restraint on capacity (up by a possible 3% overall), been able to achieve significant improvements in yields – almost back to pre-crisis levels; for December 2010, ATA figures suggest that domestic yields had finally risen above the 2008 levels. Of course, these growth figures would have been even higher for the full year had European airspace not been closed for a week following the eruption of Eyjafjallajökull in April last year. IATA is now predicting in its December financial forecast that total airline traffic (in RTK) will



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have grown by 12% in 2010 (against a 6% growth in capacity) with a 5% hike in overall yields producing an annual growth in revenues of 17% to some $565bn – the same level of global airline revenues achieved in 2008. At the same time it is now expecting operating profits for 2010 of nearly $30bn (a margin of 5.5%, similar to previous peaks of the cycle) and net profits of $15bn.

Although we have seen this strong rebound in 2010, there remain many doubts in the immediate potential for the world's economies and airlines' fortunes. In many ways the economic recovery has been and remains two-speed. The developing nations have been racing ahead – with both China and India immune from the global recession and registering some 10% GDP growth in 2010. ASEAN and Brazil grew by 7%, and Russia by 4.5%. The IMF continues to project Chinese growth of 9.5% a year for the next two years; and that for India and Brazil of 8% and 4% respectively. Among the developed world the US, Canada, Germany and Japan have not done too badly with growth of 2-4%; but other major developed nations have had very lacklustre performance – with the UK, France and Italy showing growth of only 1% at best.

At the same time the IMF has upgraded its global forecasts marginally for 2011. Citing fiscal packages in the US and Japan, stronger than expected private consumption in Germany, and lauding policy reactions in the Euro-zone in response to the crises in Greece and Ireland, the institution is now looking to a growth in the developed nations of an almost "normal" 2.5% - while emphasising that this is a dismal level of recovery from the recessionary period and hardly sufficient to counter the rise in unemployment resulting from the recession. Equally it notes worrying inflationary pressures not least of all in the developing nations, notably commodity - and especially fuel and food – prices; it envisages further upside risk to basic commodity prices as a consequence of the poor harvests at the end of 2010 let alone the strength of the developing nations' economies. It quotes as a central forecast its assumption of $90/bbl fuel price – while current spot prices once again have exceeded the $110 level.

Meanwhile, it suggests that financial conditions may be expected to improve with a further gradual easing of lending conditions – even though it expects that financial stress will remain elevated in the peripheral Euro-zone where market participants remain concerned about sovereign and banking risk. Of more concern is evidence of early overheating in some economies; rapid growth in emerging and developing economies has narrowed or in some cases closed output gaps, with resultant severe pressures on inflation – with inflation forecasts for these countries averaging 6%. In the developed world in contrast, with continued economic "slack" and "well-anchored" inflation expectations should keep inflation low at around the 1-2% level. This should in all fairness lead to much needed forex balancing – but in the absence of some exchange rate floats could perhaps lead to increased trade tensions.

As with all economic forecasts the IMF adds caveats. There are downside risks: the pressures in the periphery of Europe could spread back to the centre and dissolve the Euro pact; inflationary pressures on the developing nations could create a traditional boom and bust. On the other hand there may be upside potential; investment within the developed economies could rebound. Reading between the lines the IMF seems to consider that the downside risk may outweigh the upside – with particular concern that financial institutions would tighten credit conditions even further and provide an additional halt to global economic performance.

Aircraft order cycle

Meanwhile the aircraft order cycle also saw a strong improvement last year. There appear to have been a total 1,600 net new jet orders up from the nadir of 785 in 2009, while new jet aircraft deliveries have been steady at around 1,110 units – or a fairly

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normal 5% of the fleet. The order backlog meanwhile has expanded to over 8,000 aircraft (exceeding even the 2008 peak) equivalent -- despite recent increases in production rates -- to 7.5 years. Ed Greenslet, in his latest forecast update in January, is suggesting that 2010 saw the peak of aircraft surplus to supply requirements at nearly 14% of the world inventory (its highest ever peak) and that with a forecast of 5.5%-7.5% growth in traffic and capacity over the next few years even the build up in anticipated production and deliveries (perhaps towards 1,500 units a year) over the period will be absorbed allowing the supply/demand balance – at least globally - possibly to continue to improve further.

All other things being equal, a reasonably positive forecast of GDP growth should be reasonably positive for air transport; but the recovery here too may be somewhat two-speed. While traffic performance in the Far East is pulsating, there still appears to be a long way to go before the levels of global premium traffic return to the previous peaks – in the latest figures from IATA for November 2010, the numbers of passengers travelling in the front cabins had shown consistent recovery from the depths of the despair in the first quarter of 2009 following the collapse of Lehman Bros – but in absolute numbers have only just returned to levels seen at the back end of 2004, and still some 15% below the peak.

This represents an opportunity – as long as long-haul capacity growth remains relatively constrained – for continued improvements in yields through the upturn. In addition, on the one side the consolidation in the US domestic market following the mergers of Delta/Northwest and United/Continental, and on the other side the increased effective operational consolidation on the Atlantic (the largest international route area in the world) with three alliance-based ATI joint ventures of oneworld (BA/AA/IB), SkyTeam (AF/KL/DL) and Star (UA/CO/LH et al) effectively controlling two-thirds of capacity, appear to be giving some observers some hope for a rationality in the capacity and pricing environment to hope for sustained improved returns.

IMF ECONOMIC PROJECTIONS (% change, year-on-year)

	2008	2009	2010	2011	2012
GDP					
World Output	3.0	-0.6	5.0	4.4	4.5
Advanced economies	0.5	-3.4	3.0	2.5	2.5
United States	0.4	-2.6	2.8	3.0	2.7
Euro area	0.6	-4.1	1.8	1.5	1.7
Japan	-1.2	-6.3	4.3	1.6	1.8
United Kingdom	0.5	-4.9	1.7	2.0	2.3
Canada	0.4	-2.5	2.9	2.3	2.7
Other advanced economies	1.7	-1.2	5.6	3.8	3.7
Newly industrialised Asian economies	1.7	-0.9	8.2	4.7	4.3
Emerging and developing economies	6.1	2.6	7.1	6.5	6.5
BRIC					
Russia	5.6	-7.9	3.7	4.5	4.4
China	9.6	9.2	10.3	9.6	9.5
India	7.3	5.7	9.7	8.4	8.0
Brazil	5.1	-0.6	7.5	4.5	4.1
World trade volume (goods/services)	2.8	-10.7	12.0	7.1	6.8

Echoing IMF comments, IATA sees the European region as being in the weakest position in the medium term – with some major countries reining back on stimulus packages to implement more austere financial plans - even those who have not been forced to. In addition, the introduction of fairly high air passenger taxes in Germany (and Austria) along with the increases in air passenger duty in the UK, will have a further dampener on demand adding some 3-5% to air fares as a whole (while looking further out to 2012 there is the spectre of the introduction of the European Emissions Trading Scheme to aviation).

In December IATA was projecting global industry net profits of US$9bn for 2011, (down from the forecast $15bn for 2010) with slippages in margins through all regions; but for European carriers as a whole it expected operating profit margins to come in below 1% of revenues, with substantially all the industry's net profits to be achieved by North American and Asian carriers. Upsetting all these forecasts however will be the direction of fuel prices and with spot prices currently some 25% above those at the end of last year, the risks could once again be on the downside. We have seen some recovery, but, as usual in this industry, the outlook is as uncertain as ever.

Virgin Atlantic: Isolated in a world of consolidation?

In an unusual departure Virgin Atlantic in December announced that it had appointed Deutsche Bank to carry out a strategic "review of the aviation market on its behalf" and (as a seeming non-sequitur) "had received a number of lines of enquiry". As a private company there would have been no need to rush out a statement in response to press comments - but what better way to suggest that you are putting a company up for sale than get the press interested in potential tie-ups?

The UK media immediately started speculating – with an immediate suggestion of approaches by Delta and/or Emirates expanding rapidly to any airline with (or even without any) cash (even including AirAsia) – culminating in January with an article in the UK's Sunday Times purporting to suggest in the usual manner of informed weekend gossip that the marriage partner could be Etihad. All the proposed partners have of course denied interest. Meanwhile Singapore Airlines' new CEO Goh Choon Phong has been reported to be relieved to hear that there could at last be an exit potential for SIA's poorly-performing 49% stake in the UK's second largest scheduled long-haul carrier – even before he got his legs under his new desk.

Virgin is unique; no other country in Europe has allowed a second home-based long-haul carrier to compete with the flag at its base. But then perhaps London is the only destination in Europe with the quality of direct point-to-point services to be able to support such competition. Since its startup in 1984 it has tended to target the prime O&D long-haul routes out of London in direct competition with BA and put natural emphasis on the high density and business routes to the US along with high value leisure routes. Eight of its 32 destinations account for 60% of its seat capacity: New York, Orlando, Los Angeles, Hong Kong, Barbados, Las Vegas, San Francisco and Miami. A further six, Johannesburg, Lagos, Sydney, Boston, Dubai and Tokyo account for an further 20%.

The North Atlantic accounted for 50% of total revenues in the year to February 2010 (down from 52% in the previous year) and the Caribbean a further 11%. Virgin Atlantic is a long-haul only airline and lacks short-haul feed – except that provided by code share partners; and it has had a long standing arrangement with British Midland at Heathrow. It relies heavily on UK-based originating traffic with some 60-65% of annual revenues ticketed in the UK. Incidentally it had reportedly had its eyes on acquiring British Midland for some time – or at least developing a more concrete feeder arrangement – although this probably does not quite fit in with Lufthansa's strategy for its new baby, at least not yet. Virgin meanwhile has consistently avoided joining in with the alliance game, and has so far shunned opportunities for getting into bed with one of the three global alliances; although it is worth noting that of the code share agreements it has signed, the majority of its partners are part of the Star Alliance.

Singapore Airlines bought its 49% stake in 2000 at the tail end of the 1990s wave of airline cross shareholding spree – for what was then thought a stomping £600m – to help boost the balance sheet as Virgin was entering a period of aircraft acquisition; and the original plan for a stock market IPO within three years was scuppered by the events of 2001. It was also perhaps from Virgin's point of view a rearguard action in anticipation that the British Airways and American Airlines deal would then go ahead, while commentators at the time hunting for a rationale suggested that it might help SIA in developing trans-Atlantic operations (for which it already had traffic rights); although it is still difficult to see what synergies either side could really have extracted from the shareholding. In the end it has taken a further ten years for the BA/AA deal to be permitted by the regulators and the shape of aviation world in the intervening years has

changed significantly.

Virgin, and Branson in particular, has unsurprisingly been vociferous in opposition to the proposed ATI and joint venture on the Atlantic between BA and AA for many years. As BA and AA increasingly combine schedules, networks and pricing on the most important long-haul route network for all three carriers, the link up will certainly severely impact Virgin Atlantic's competitive position.

What are the options? Virgin Atlantic, as a European airline, has to remain substantially owned and operated by European nationals – interpreted by the EU as 51% equity participation. There could be various ways round the legal niceties for a non-EU backer to take an effective majority stake but this could probably only be actively pursued with significant political backing; and the airline's route rights could even then be endangered. Consequently, a new partner from outside the EU would have to acquire all or a portion of SIA's stake (and at a price acceptable by SIA), or the Virgin Group would have to maintain its 51% shareholding through new equity issuance. Even then it would still be dubious use of airline equity to take a minority involvement in another airline where control and influence is officially forbidden – and SIA insiders could certainly tell you of the difficulties of trying to influence a majority shareholder.

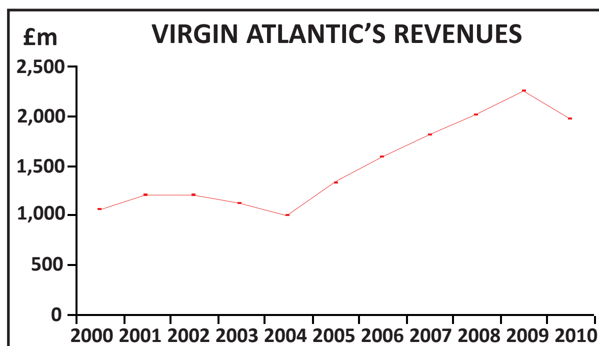
Of greater potential perhaps would be a partner from within the EU. Virgin already has links with a handful of the many Star Alliance members – and it could well be that Lufthansa may be interested. LH is in the process of trying to turn around the loss making British Midland it was forced to acquire; and a link up between BD and VS at Heathrow may perhaps make a viable network carrier, albeit second fiddle to British Airways as the market leader. However, it is not certain that the Lufthansa board would regard that as a good enough rationale for putting a large amount of cash into an airline, recognising that the second fiddle will automatically forego yield premium to the leader of the orchestra. Air France-KLM may also be a potential partner; the management recognises the distinct market differences that Heathrow presents – particularly on the Atlantic – in contrast to the other disparate European hubs and although it does, with its join venture partner Delta, have a fair share of slots at Europe's prime international gateway it does not (unlike Lufthansa) have a base carrier there. But it would not be in a position to generate the network feed and it too may not be that inspired at coming head to head with BA on BA's home ground.

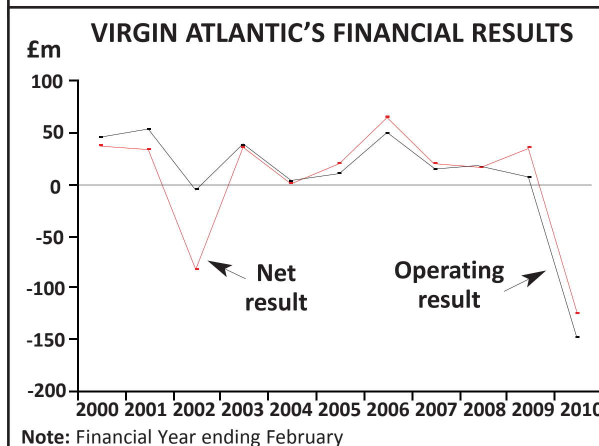
On the other hand it may be difficult to understand why any of the high growth Gulf carriers - or for that matter any US carrier - should be seriously interested in acquiring a stake. Each of the Middle East carriers is concentrating on developing their home bases as new transfer hubs to access flows between the Far East, Europe and Africa; and the only perceivable benefit to Virgin would be long-haul to long-haul transfer which would be as beneficial as the current link with SIA at best. In addition the Gulf carriers are regarded as a serious threat by the two main European network players – and they will do anything in their political power (and they each have a lot of political power) to halt further incursion into what they regard as their natural purview. The natural bidder perhaps in all irony should be the newly created International Airlines Group – although that would be a definite regulatory no-no, even ignoring the history of dirty-tricks and whistle-blowing.

Of course in raising these suggestions we are falling into the trap of creating serious conventional errors – and Richard Branson is by no means conventional. In the public statements from Virgin it is important to note that there has not been any suggestion that he would be looking to change the share ownership of Virgin Atlantic – and one should not perhaps read anything into the fact that CEO Steve Ridgway has been ele-

VIRGIN ATLANTIC FLEET

	Fleet	Orders	Options
A330-300		10	
A340-300	6		
A340-600	19		
A380-800		6	6
747-400	12		
787-9		15	8
Total	**37**	**31**	**14**





Note: Financial Year ending February

vated to the position of chairman of the AEA. Comments relating to the fact that Virgin Atlantic is the only airline in the Virgin Group in which it retains a majority stake - and therefore one which it would look to sell down - conveniently ignore the ownership rules enshrined in the Chicago Convention. So, speculating that another airline may be interested in buying a stake is possibly based on the false assumption that there really is a willing seller of a majority holding. Secondly, and possibly more importantly, Virgin Atlantic will look to do what it can from this strategic review as it deems best for the benefit of Virgin Atlantic and the Virgin Group as major shareholder; and should surely only consider a tie-up with another carrier if there were patent and significant synergistic benefits.

Virgin Atlantic in the past has oft spurned the thoughts of joining an alliance for so many years. Perhaps this is fairly based on an underlying feeling that being a junior and small member of a large group dominated by a handful of very large carriers can actually achieve very little in the way of marginal margin improvement beyond that provided by code share and reciprocal FFP agreements (and it already has a plethora of deals with existing Star Alliance members). At the same time the Virgin Group is the only international brand to have created a series of airlines round the world under a truly global brand name (forgetting conveniently the disaster that was Virgin Express – now merged into Brussels Airlines). Perhaps half jokingly, Branson last year stated that he may look to create a fourth global alliance based on the Virgin Group airlines – Virgin Atlantic, Virgin Blue, V Australia and Virgin America – as a counter to the emergence of the BA/AA transatlantic ATI joint venture. The combined route networks would create a semblance of a global network but fall well short of the expanse available to the three others. That move is certainly possible – but he can be no stranger to the idea that the alliances rely on volume to maximise market penetration and that the Virgin Group carriers even combined are relative small beer – between them accounting for only 30 million passengers a year. To counter that he would certainly need to get some more of the non-aligned carriers interested (those that account for the remaining third of world traffic not currently linked to an alliance) – and here it may be worth noting that the fast growing Gulf carriers have notably remained outside the alliance trend.

Having said all this, the prime decision will rest with the Virgin Group. As a private company its financial health is obscured from public scrutiny; and as a holding company with minority stakes in a lot of pies, whereas publicly published accounts may seem reasonable on paper, there could always be underlying cashflow difficulties. Virgin Atlantic's last published results (for the year ended February 2010) are not brilliant – in line with the rest of the industry. In that year, which covered the worst of the recession, revenues fell by 12% to £1.98bn and the airline made an operating loss of £148m (down from an operating profit of £6m in the prior year period) and a net loss of £125m down from a profit of £36m. The balance sheet figures as part of a privately held holding group are meaningless. During 2010 it appears that the airline has been reducing capacity but improving traffic and will no doubt also have been benefiting from the general recovery in yields as premium traffic has returned (and also benefiting strongly from the strike threats at BA). In all fairness a pure guess should be that it would have been able to return to some level of profitability in the current financial year to February 2011.

To put a crude value on Virgin Atlantic: its 3% share of the slots at Heathrow may be worth some £400m; its £2bn revenues should be worth £400m; the brand may have some goodwill value. But SIA paid £600m for its stake in 2000. What is certain is the uncertainty of direction; which is what may actually explain the hiring of Deutsche Bank to provide a strategic review. Virgin sees that it will be squeezed by the granting of ATI to BA and AA, and is possibly right to question its direction and position as a non-aligned carrier in a seemingly increasingly consolidating aviation market.

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Virgin America's bold growth move

San Francisco-based LCC Virgin America started the year with a bang: a firm order for 60 A320s, valued at $5.1bn and including 30 "eco-efficient" A320neos (for which it became the launch customer), for delivery from 2013. This spectacular order and aircraft from other sources will more than triple its current 34-strong fleet to 111 aircraft by 2019.

A few days later, Virgin America made another bold announcement: it would triple its daily flights from the West Coast to Dallas Fort Worth, American's stronghold, in April. The airline is also terminating its service to Toronto, which only began last June, in favour of focusing on immediate opportunities in markets such as Dallas.

Subsequently, on January 26, Virgin America announced that it would switch to the Sabre reservations platform from late 2011 – a move that will help build a robust and integrated systems infrastructure for the "significant growth" it forecasts. The airline also renewed its Sabre GDS agreement.

Clearly, Virgin America has ambitions to become a much bigger player in the US market. But its actions also hint of a new sense of urgency to grow and become profitable, after its slow and frustrating start. Its launch was delayed by two years due to questions about its ownership and control structure. Not long after it started flying in August 2007 there was the historic run-up in oil prices, followed by the global recession. Then in 2009 one of its founding investors exercised an option to sell their stake back to the UK-based Virgin Group, which led to complaints from other US airlines (primarily Alaska) and an almost year-long DOT enquiry about the airline's US citizenship status. During that enquiry Virgin America was unable to obtain any aircraft financing, so it lost about a year of growth. It also had to scramble to find new US investors.

After a successful recapitalisation, Virgin America received DOT clearance for its second "take-off" in January 2010. With the help of an additional $68.4m in unsecured debt obtained from shareholders, the airline began rounding up aircraft and announcing network expansion.

Since then the network has expanded from the previous transcon/West Coast focus (LAX, SFO, JFK, Washington DC, Boston, Ft. Lauderdale, Seattle, Las Vegas and San Diego) to include Orlando, Dallas Fort Worth, Toronto and two points in Mexico. The latest new city, Cancun, was added in January. The new destinations are typically linked to both LAX and SFO and have daily flights.

But difficulties in obtaining gates and slots at desirable airports have impeded Virgin America's growth. In particular, the airline has long unsuccessfully sought access to Chicago O'Hare and Newark. In early February, however, there were reports that the city of Chicago was close to a deal to acquire several gates from Delta, which would open O'Hare to Virgin America and other new entrants.

The late-2009 recapitalisation brought back one of Virgin America's original US investors, Cyrus Capital, in a bigger role (through a related entity), while some of the airline's directors also put money in. One Virgin America executive said last year that the airline does not expect further shareholder funds until it reaches profitability. All of that would seem to suggest that Virgin America feels pressure to become profitable and complete an IPO at the earliest opportunity. Also, the airline will want to access the public markets (equity or debt) to fund the substantial orderbook.

After running up substantial losses since

its launch, Virgin America achieved its first quarterly operating profit in 3Q09 and its first net profit in 3Q10. Operating margin in 3Q10 was a healthy 10.4%, reflecting strong RASM performance. The airline expected to post an operating profit for 2010.

Among LCCs, Virgin America is closest to industry-average RASM because of its full GDS participation, three-class service, upmarket product, extensive use of alliances and legacy-style revenue management. However, its cost and efficiency levels are also impressive: the 3Q10 ex-fuel CASM was 6.25 cents and daily aircraft utilisation 12.9 hours.

In addition to increasing fleet size, perhaps what is needed is to tweak the route structure, which is what the airline seems to be doing now. Like many other US LCCs, Virgin America, with its unique combination of low fares, upscale service and fresh and fun approach, may do best in large primary markets, such as West Coast to Dallas or Atlanta, where it can take on a high-cost legacy.

By Heini Nuutinen
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Air Astana: Kazakhstan's dynamic airline

Air Astana JSC is a joint venture between Samruk Kazyna JSC, Kazakhstan's Sovereign Wealth Fund and BAE Systems PLC, the British defence and aerospace company, with shareholdings of 51% and 49% respectively. It is one of the few examples of an operationally and financially successful airline to have merged from the break-up of the former USSR.

Currently, Air Astana operates a network of 24 domestic and 27 international destinations from its hubs at Almaty, Astana and Atyrau. Air Astana flies an all-Western fleet comprising two 767s, four 757s, ten A320 family and six Fokker 50 aircraft.

The history of the airline is unusual. In mid-2000, Sir Richard Evans, then Chairman of BAE Systems, was asked by Nursultan Nazarbayev, independent Kazakhstan's founding president, to help start a new national airline for the fledgling state. The request resulted in a number of BAE managers being dispatched to Almaty. At that time BAE Systems were bidding for a defence contract, though one that failed to materialise. Both investors provided the airline with start-up capital of US$8.5m, and have never had to make further investments in the airline.

The presence of BAE Systems as a shareholder in effect frees Air Astana from political interference as the corporation requires a 66% majority for major investment and operational decisions. This, the airline says, is a major reason for its strong financial performance.

The country's civil aviation establishment had a short but inglorious history of failed airlines, a poor safety record, creaking infrastructure, and the remnants of a Soviet regulatory set-up totally unsuited to a new nation dragging itself into the modern world and striving to meet the needs of an increasingly prosperous and sophisticated population. There was huge resistance to the start-up Air Astana from the incumbent Air Kazakhstan, with its byzantine ownership structure, political patronage and Soviet-type inefficiency.

Had it not been for the critical support of President Nazarbayev and some of his closest advisors, including Karim Massimov, now Prime Minister, plus the persistence and resilience of BAE and the founding employees of the new airline, Air Astana could never have survived.

The brief was to set up an international airline to international standards. The airline's first flight was on May 15th 2002, and Air Astana grew rapidly to become the leading domestic carrier. When in February 2004 Air Kazakhstan became the third national airline since independence to fail, Air Astana emerged as the national carrier after the Government transferred all route authorities to the new joint venture.

Having quickly filled the void on key international routes to Moscow, Istanbul, Beijing and Dubai, the Air Astana fleet had expanded to 10 aircraft by 2005.

Management claim the joint venture has been a success as a result of three factors:

• A comprehensive shareholder agreement giving virtually equal powers to both shareholders and a legal requirement for consensus with equal veto powers, and with a liquidation clause in the event of irreconcilable differences.

• A very clear and simply articulated vision, understood by both sides, of what is to be achieved.

• The development of strong relationships between the two parties at all key levels, not just at the very top.

Balancing these relationships is crucial given that there are still influential voices in Kazakhstan who argue that the national airline should be a state-run agency operated by the Government, and that foreigners should have no part in it - but so far the strength of the key relationships and resulting success of the airline have withstood such pressures.

Air Astana has been able to cherry-pick the most able pilots and engineers from the other Russian and CIS airlines to make up the core technical cadre. The airline has supplemented this by “damp lease” agreements with western personnel suppliers to facilitate on-the-job training. The airline currently employs 90 foreign pilots to supplement the 230 locals.

In 2008, the airline introduced a cadet pilot training programme for young Kazakhstanis at the Pilot Training Centre of the Florida Institute of Technology, and the first eight cadets recently graduated and are now undergoing line training.

In terms of local managers, the approach has been to hire young, western-educated, bright but inexperienced staff who could be trained from a “blank page”. These people, together with experienced foreign managers, such as the airline’s president Peter Foster, formerly of Cathay Pacific, have forged an effective combination. The hiring policy has been greatly assisted by Kazakhstan’s “Bolashak” programme - sending its best and brightest students to foreign universities, mostly in the US and the UK, on government scholarships. As of October 2010, the airline had a total of 3,103 employees of which 222 are pilots, 840 cabin crew and 203 engineers.

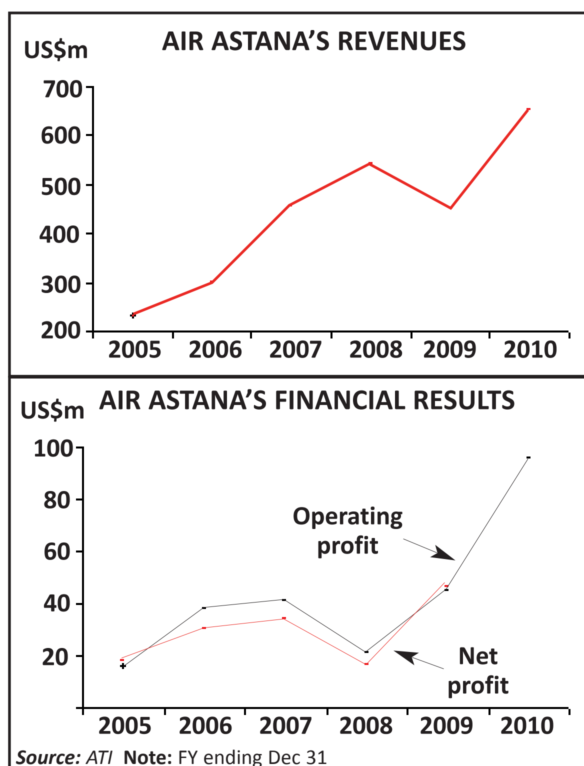
Air Astana differs from the approach taken by recent LCC start-ups. The LCC approach of minimising fixed costs and outsourcing as much activity as possible to competitive suppliers is not possible in Kazakhstan. Almost all service providers are monopolies and in most cases do not provide an acceptable level of efficiency or competence. Therefore Air Astana has built its own comprehensive infrastructure, which has not only improved safety and reliability but also reinforced Air Astana’s position in the country.

There are 52 licensed airlines holding AOCs in Kazakhstan, many of which have ambitions to challenge Air Astana, but the airline’s high quality infrastructure has proved a barrier to successful competition even for the most ambitious and well-connected challengers.

One of the recent challenges faced by the airline occurred in April 2009, when an ICAO audit of Kazakhstan’s Civil Aviation Committee revealed significant deficiencies in the regulatory oversight structure. This resulted in a blanket ban of all Kazakhstan airlines by the European Union, with the exception of Air Astana. The airline was exempted on account of its track record, IOSA accreditation, and multi-state regulatory set-up, including registration of all aircraft with the DCA of Aruba, and an EASA part 145 licence. However, the airline remains on the EU’s Annex B list, which restricts it from further European expansion.

This restriction means that some of the airlines’ plans to expand operations to western Europe are on hold for now. Given a free hand the airline would probably like to increase frequencies to Heathrow (currently two flights per week) and start operating to new destinations such as Munich and Prague.

Air Astana has been working with the CAC to address the ICAO findings, but there



remains the risk that if key safety concerns are inadequately addressed, Air Astana itself may be swept up in the ban. This would be serious for Air Astana, for Kazakhstan aviation in general and indeed for the reputation of the country as a whole.

In August last year, Standard & Poor's published the results of its audit of Air Astana JSC. S&P raised the level of corporate governance rating of the carrier to GAMMA 6, one of the highest ratings possible in an emergent market, and the highest rating of any company in Kazakhstan.

Caspian Basin opportunities

New opportunities for Air Astana are strong. Kazakhstan is rich in natural and mineral resources and as the global economy recovers, so demand for those resources will grow. Locally, the airline is looking further than Kazakhstan, with its small population of 16 million, for future expansion; 80 million people live within a 200 mile radius of Kazakhstan's borders, in south eastern Russia, western China, the neighbouring "Stans" and the Caspian basin. Not withstanding the present political and social turmoil in Iran, the overall economic potential, again driven largely by natural resources, is enormous. Because of its unique structure and strong reputation, Air Astana is looking to consolidate its position in what it refers to as "surrogate home markets".

After a series of independent service delivery audits by the official World Airline Star Rating Programme, Skytrax Research, Air Astana was ranked third amongst carriers for the "Best Airline: Eastern Europe" award. No other carriers in the top three came from Russia/CIS. Average on-time performance for the period January to October 2010 was 84.1%, impressive given Almaty airport's foggy and harsh winter conditions.

Record profits announced

Air Astana has made a profit every year since 2003, with no subsidies and no additional equity beyond the initial start-up capital of $17m. In 2009 Air Astana recorded pre-tax profits of $48m from revenues of $553m. 2010 has proved to be a record year with the company recently announcing an unaudited pre-tax profit of $96m, up 59% over 2009, on revenues of $656m. Total capacity increased by 8% and Air Astana carried 2.6 million passengers in 2010 on domestic and international flights, an increase of 13% from 2009.

The $96m represents a 15% EBT margin, with the airline debt free. This profit for the airline is attributed to tight cost control, improved revenues, lower fuel costs, and economic recovery in Kazakhstan. However, the airline expects harder trading conditions in 2011.

In 2010 Air Astana increased frequencies on domestic routes from Astana and Almaty, as well as international connections to Frankfurt, Baku, Istanbul, Beijing and Kuala Lumpur. Air Astana already flies to Bishkek in Kyrgyzstan, Baku in Azerbaijan, Novosibirsk in Russian Siberia and Urumchi in western China. Delivery of the first (of two) leased Embraer 190LRs is scheduled

SWOT ANALYSIS FROM AIR ASTANA STRATEGIC PLAN 2011-2020

STRENGTHS	WEAKNESSES
• Domestic network	• Poor domestic airport infrastructure, particularly at Almaty
• Distribution channels	• No strategic coordination with the hub airports
• Government support for traffic rights issues	• Slow modernisation of the Kazakhstan air traffic control system
• Revenue management system	• Insufficient frequency on some domestic and int'l routes
• Highly qualified staff and know how	• Inability to change domestic fare structure
• Brand and in-flight product	
• Good safety record	• Airline's traffic demand is driven mainly by Kazakhstan nationals
• Frequent flier programme	
• Special Prorate agreements	• No integration of FFP into a major alliance
• Maintenance capability and facilities	
• Highly committed management team and excellent and highly motivated staff	• Monopoly suppliers and poor supply chain in RK

OPPORTUNITIES	THREATS
• Increased regional presence by launching new routes in southern Russia and CIS	• Extension of the EU ban
• Linking FFP with a major alliance	• EU Horizontal agreement
• Enhancing PR campaigns	• International competition on routes on which Air Astana has a monopoly
• Introduction of new and high technology aircraft	• Open Skies agreements with other countries inc. Customs Union zone
• Improved customer engagement through new communications technologies	• Slow implementation of ICAO/EASA standards by CAC RK
• Sole use of terminal at Almaty	• Inability of Almaty airport to grow with Air Astana
• Development of 6th freedom traffic	• Domestic carrier becoming a serious competitor
	• Green issues giving rise to increased costs

Source: *Air Astana*

for April 2011, the RJs will be servicing flights to Tashkent in Uzbekistan, Dushanbe in Tajikistan, Ekaterinburg, Samara, and Omsk in Russia this year, increasing the airline's footprint in the region.

Air Astana has ordered six A320s from Airbus, delivery beginning in 2012. The airline says it plans to spend $500m by 2015 on fleet expansion. Air Astana is also reportedly in talks to acquire three 787-8 aircraft, which would replace existing 767s. The airline will probably be able to pay PDPs from internal cash flow, and may finance the aircraft through ECA funding.

The airline is in the process of building up its in-house maintenance capabilities. It already provides line maintenance for KLM, Cargolux and Etihad, and sees third party work as a potentially strong new revenue source. The airline is hoping to be able to offer lower C checks for 767s in Almaty in the future.

There are no plans to join one of the major alliance groups, with the airline stating that such a move would be an unnecessary cost. The carrier has partnership agreements with carriers including Lufthansa, KLM and Austrian Airlines. Air Astana would like to join one of the frequent flier programmes, with the 'Miles and More' programme the most likely candidate. There is the possibility of the airline investing in airlines in the region, in the style of Air Asia, to gain footholds in markets it currently can't access.

Air Astana describes its relationship with the airport at its primary base at Almaty as "difficult". The airport is privately owned and does not offer a business class lounge service that the airline would like for its passengers. The airline is considering other options, the possibility to develop a former military airfield near Almaty being one.

The table above illustrates the management's SWOT analysis for the airline's Strategic Plan for the 2011-2020 period.

Southwest Airlines: Return to growth mode

After a modest two-year contraction, Southwest Airlines, the largest US carrier in terms of domestic passengers, is looking to take advantage of significant new revenue and growth opportunities in 2011 and 2012. When will the low-cost pioneer attain its profit and ROIC targets and resume fleet growth?

Southwest, which turns 40 this year, has gone through quite a transformation in the last few years and is now clearly on the verge of another important phase in its development. It was indicative that the airline chose New York as the venue for its annual investor day on December 16 (the event is usually held in Dallas).

The previous time the investor day was held in New York, in 2007, Southwest had outlined what it felt was a three-year strategic plan. The aim was to boost revenues by $1bn annually, to compensate for a substantial hike in costs resulting from the waning of the carrier's advantageous fuel hedges (which saved it $4.5bn in 2000-2008). However, the oil price surge in 2008 and the subsequent economic recession meant that Southwest ended up doing much more in terms of revenue-building and restructuring.

Southwest's management came to New York, first of all, to present their analysis of how the airline performed against the 2007 plan and how it weathered the 2008-2009 industry challenges. Second, the management wanted to explain in depth what Southwest intends to accomplish in the next 3-5 years as part of its new strategic plan for 2011-2015.

The results of the three-year post-mortem are pretty impressive. Southwest has boosted its annual revenues by more than $2bn – double the target set in 2007. It has outperformed the industry in RASM and almost closed the load factor gap with the legacies. It has grown its market share, improved its customer experience, kept its culture intact, remained profitable and preserved its strong balance sheet. Its cumulative earnings have grown by 87% since 2007. 2010 was Southwest's 38th consecutive profitable year, when it achieved a highly respectable 10% ROIC and a 10% operating margin. The only negative development has been that Southwest has lost some of its cost advantage.

In other words, Southwest has once again proved its ability to successfully manage change and weather a recession. It has emerged from the toughest couple of years in aviation history looking very strong.

Southwest is enjoying great momentum as it prepares to tackle four demanding strategic projects in the next few years. Most importantly, there will be the AirTran acquisition, which Southwest hopes to close in the June quarter.

Second, Southwest will be adding the larger 737-800 to its fleet from March 2012. To start with, the airline has substituted 20 of its 737-700 orders for the -800s.

Third, Southwest will be rolling out a new FFP this March. The programme should make it more attractive to business travellers in long-haul markets and potentially contribute "several hundred million dollars a year" in extra revenue.

Fourth, Southwest is looking to implement a new reservations platform "sometime after 2012". This will give it the capabilities to add international destinations, along with other customer service and revenue enhancements.

Southwest hopes that these and other projects will help it attain its 15% ROIC and other financial targets by 2012, which would enable it to resume fleet growth. The projects will certainly mean many exciting network expansion opportunities. BofA Merrill Lynch analyst Glenn Engel suggested in a January 20 research note that Southwest has the "brightest organic growth outlook in years". Engel noted in particular the following opportunities:

• New opportunities in the Southeast, particularly the Atlanta business markets, through the AirTran acquisition;

• Caribbean routes brought by AirTran, which should boost the attractiveness of Southwest's network in the eastern US;

• Potential to serve many new long-haul destinations, including Hawaii, with the longer-range, ETOPS certified 737-800s;

• Attractive longer-term growth opportunities from Southwest's Dallas home base, facilitated by the full expiration of the Wright Amendment in 2014, coupled with a new terminal at Dallas Fort Worth (the Wright Amendment prohibits nonstop long-haul service from Dallas Love Field, though it was partially relaxed in 2006);

• Immediate access to Newark, a primary hub for business traffic, thanks to the recent award of 36 slots (as part of United Continental's merger-related slot divestitures).

Southwest continues to confound critics who argue that its domestic growth opportunities are very limited. It is adding three new cities to its network in March (Newark, Charleston and Greenville-Spartanburg) and has further growth planned from Newark and Denver this summer.

It will be interesting to see if the emergence of multiple promising growth opportunities will start helping Southwest's share price, which, despite the carrier's success, has gone nowhere in the last decade. The price is currently in the same $11-12 range it was in early 2000. One of the key reasons has been Southwest's focus on the mature domestic market, which has created a perception that it lacks growth opportunities.

Stifel Nicolaus analyst Hunter Keay expressed it as follows in a recent Bloomberg TV interview: "Southwest is probably the closest we have in the airline industry to a real business. They deliver steady ROIC. They make money consistently. They own a bunch of their planes. Their debt burden is very limited. But the growth catalysts that they have are, let's just say, not very sexy compared to some of the other international airlines."

How to weather a recession

Southwest has proved many times in the past that it can prosper in any kind of environment. Its business model is very recession resistant, always coming into its own in hard times. However, the LCC model in general is not well suited to a high oil-price environment, because LCCs carry more price sensitive leisure traffic and because fuel constitutes a larger percentage of their total costs. Southwest was fortunate that when oil prices surged in 2008, it was already focused on the waning fuel hedges issue and well on its way to adjusting to what it saw as permanently higher cost levels. Also, some of its new revenue initiatives were already producing dividends. In many respects, when the recession hit the industry, the efforts to adjust the business model merely had to be moved into higher gear.

What exactly did Southwest do to cope with the 2008-2009 challenges? First of all, it stopped growing. The plan had been to grow ASMs by 5-6% each year in 2008-2010; instead, ASMs rose by only 3.6% in 2008, declined by 5.1% in 2009 and remained flat in 2010. By deferring deliveries and accelerating retirements, Southwest was able to end 2010 with 54 fewer aircraft than projected in 2007 (546, rather than 600).

Second, Southwest made further network adjustments. Its December 2010 schedule consisted of 8% fewer flights than its summer 2007 schedule. It pulled back in less profitable markets and redeployed capacity to open a number of new cities (Minneapolis, LaGuardia, Boston, Milwaukee, Panama City) and to grow aggressively in key markets such as Denver. This "schedule optimisation" strategy enhanced the profitability of the network and maintained employee morale.

Third, Southwest reduced capital spending. In June 2007 it had anticipated spending $1.3bn in 2008 and $1.5bn in 2009, but cumulative capex in those years

was cut by $1.3bn. Last year's capex was only $493m and this year's is expected to be $800-900m.

Fourth, Southwest took advantage of competitors' unbundling by adopting and heavily advertising a "Bags Fly Free" policy. Many in the financial community argued that the airline was just leaving large amounts of money on the table, but Southwest saw it as a "strategic opportunity". It built a brand promise out of "Bags Fly Free" and believes that the strategy has been instrumental in helping it gain market share.

Fifth, Southwest deferred work on its "International Connect" project (codesharing with Mexico's Volaris) in favour of accelerating to 2009 other initiatives that would bring in revenues much faster. Those initiatives included "Early Bird", "Pet Fares" and Unaccompanied Minors' charges, which were basically instant contributors to the bottom line. (The Volaris codeshares were finally launched in November 2010.)

Southwest was encouraged by the success of its early revenue initiatives, which included a new "Business Select" product and a new boarding method, both introduced in late 2007. In addition to generating ancillary revenues, Southwest sought to improve its customer experience and go past the "one size fits all" approach it had used in the past, in particular to appeal even more to the business customer (these strategies were discussed in detail in the Jan/Feb 2008 and April 2009 issues of *Aviation Strategy*.)

In the past three years, Southwest also continued its intense technology development drive – necessary to support the new activities. Work on upgrading e-ticketing, front-line point-of-sales and revenue accounting systems was completed in 2009, and an enhanced website was launched last year.

In short, Southwest had a great, flexible plan and implemented it well. As a result, despite the recession, it grew its annual revenues by $2.2bn or 23% between 2007 and 2010. Its RASM rose by 24%. In the same period, capacity was down by 1.6%. Of the $2.2bn increase in revenues, around half came from improved yields, one third from carrying more passengers (higher load factors) and the rest from Business Select and other new revenue initiatives.

In each quarter in the past three years, Southwest outperformed the industry in terms of domestic PRASM. It has also almost closed its historical load factor gap with the legacies. Its load factor improved from 72.6% in 2007 to 79.3% last year, when ATA carriers' average domestic load factor remained at the 83-84% level. Point-to-point carriers typically have lower load factors, but the schedule optimisation efforts and strong growth in connecting traffic in the past five years (to 40% of the total) have enabled Southwest to raise its load factors.

Southwest has also grown its market share in the past five years. Its O&D passenger share of the US domestic market rose from 16.8% in 2Q05 to 21% in 2Q10. The next largest in 2Q10 was Delta (19.5%), which Southwest overtook in 2007.

The market share shifts have obviously been the strongest in the new cities that Southwest has entered. At Denver, the airline built a 26% market share (equalling United's 27% share) in just four years, with much of the gain coming from United. In the Boston area, Southwest is now the largest carrier with a 17.7% share, up 13-14 points in the past five years. At Chicago, Southwest's share is up by 6-7 points to 25.5%, to virtually equal American's and United's 26-27% shares.

Southwest's latest biannual "brand survey" indicated that it continues to "gain significant strength in our brand health across a range of metrics". The "brand commitment" findings were particularly gratifying: 58% of the respondents said that they would go out of their way to fly Southwest, up from 42% in 2006. Much of the increase was accounted for by business travellers.

Although Southwest has obviously not achieved all the financial goals set in 2007, its performance has nevertheless been impressive. In 2010, despite a $350m negative impact from fuel hedges, it staged a very strong earnings recovery, posting ex-item operating and net profits of $1.2bn and $550m, respectively. The ex-item operating margin was 9.9%, up from 5.2% in 2009. The

goal (in 2007 and today) is to grow its annual earnings by 15%. Southwest earned a 10% pretax ROIC for 2010, which was short of the 15% goal laid in 2007 but represented significant progress. The airline hopes to achieve the 15% goal in 2012.

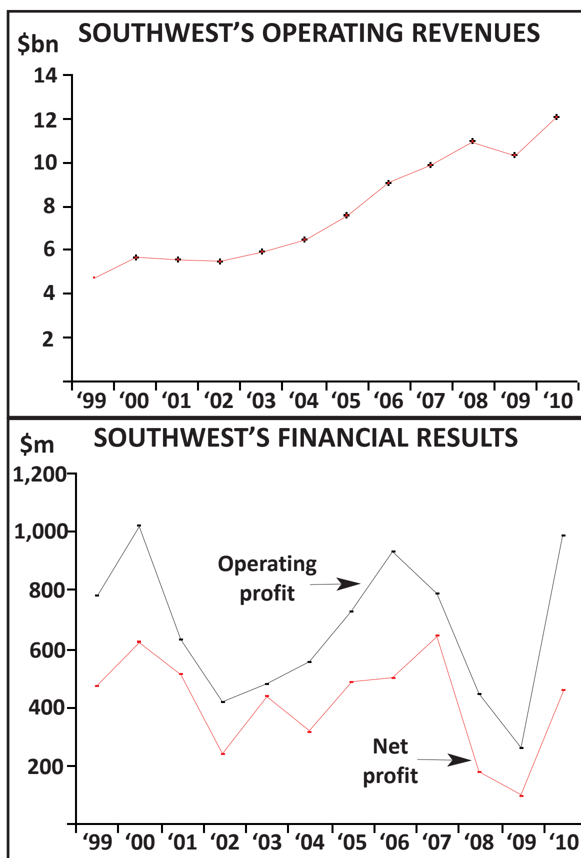
But Southwest has managed to protect its capital structure, maintain lease-adjusted leverage at around 40%, maintain strong liquidity and preserve its investment-grade credit rating by all three main agencies. At the end of January, it had an ample $3.9bn in cash, plus a fully available $600m credit facility and unencumbered aircraft worth in excess of $7bn.

Southwest has not succeeded in controlling non-fuel unit costs as well as it would have liked. BofA Merrill Lynch's Engel calculated recently that the 14% increase in its non-fuel CASM in the past two years was 10 points higher than the industry's. Lack of ASM growth, wage increases, higher airport fees and lower aircraft utilisation were all to blame. As a result, Southwest's cost advantage over the legacy carriers has continued to narrow.

The good news is that the cost advantage is still substantial: in Southwest's estimates, its ex-fuel CASM in 2Q10 was about 35% below the legacy carriers' stage length-adjusted average. The differential is all the more impressive when considering that Southwest has retained it without pay cuts or furloughs and while continuing to pay industry-leading wages. Furthermore, Southwest's cost pressures are expected to ease as it resumes ASM growth and adds the larger 737-800s.

The AirTran acquisition

Southwest's most important strategic project in the 2011-2015 plan period will be the acquisition and integration of AirTran, the eighth largest US carrier. The $1.4bn cash and stock deal (or $3.4bn including AirTran's net debt and capitalised aircraft leases) is still awaiting regulatory clearances and approval by AirTran shareholders (a meeting has been scheduled for March 23). The deal was covered in detail in the October 2010 issue of *Aviation Strategy*, but here is a summary and an update.



Southwest wants AirTran for the profitable growth opportunity that it offers. The networks are complementary. AirTran would give Southwest 38 new destinations, including access to Atlanta, the largest US city Southwest does not serve. Further, the airline believes that connecting the two networks will create "hundreds, maybe 1,000" new itineraries that will drive hundreds of millions of dollars in new O&D traffic to boost load factors on existing flights. All that can be done without raising fares or adding aircraft.

The combination would have a 25%-plus share of the US domestic market. The larger network and the addition of Atlanta would enhance Southwest's ability to attract business traffic.

Southwest expects the acquisition to generate net synergies of "at least $400m" by 2013. Putting that into perspective, to achieve that would require adding just four new passengers per day in each of the

1,000 new connecting markets. By comparison, Southwest averaged 25 connecting passengers per day in its 1,700 connecting markets in 2009.

Southwest believes that it can offset the cost impact from having to bring AirTran's employees to its higher wage levels. In BofA Merrill Lynch's estimates, its unit labour costs are more than one cent per mile higher than AirTran's, but all of its other costs are lower.

AirTran will be operated as a subsidiary for some period of time. The transition to one brand is expected to take 2-3 years. Since its successful Atlanta operation is very different from what Southwest does, connecting the networks there will be a slow process. But to get revenue benefits quickly, Southwest anticipates implementing codesharing with AirTran soon after the deal closes.

One of the biggest challenges may be technology integration, all the more so because it would have to be done while Southwest is also transitioning to a new FFP and a new reservations platform. But the management is not overly concerned, because (in typical Southwest fashion) they plan to be well prepared and work through it at a reasoned pace.

The management have also said that they need to be "very humble" about the integration. AirTran is a very successful and profitable airline that does many things differently, and Southwest wants to learn from it. "So, with Atlanta, we need to make sure that we understand how that works before we start tinkering with it", Southwest's CEO Gary Kelly said recently. However, certain service aspects, such as "Bags Fly Free" at Atlanta, are probably non-negotiable.

Revenue and technology projects

This winter is seeing Southwest roll out two new offerings aimed at business travellers. On March 1 the airline will launch an all-new "Rapid Rewards" FFP – the number one improvement its business customers have been asking for. The other new offering is satellite-based WiFi, which has been unveiled on some 50 aircraft and will be available fleet-wide by 2013.

The new FFP, which took many years to develop at a cost of around $100m, addresses the key weaknesses of Southwest's existing programme. It is dollar-based (rather than trip-based) and allows members to redeem their points for international flights for the first time. It should make Southwest more attractive to business travellers on long-haul routes and make it easier to sell miles to credit card and other partners. CEO Gary Kelly has called the programme Southwest's single largest opportunity to boost ancillary revenues.

It seems likely that the new FFP and inflight internet will complete Southwest's range of special offerings for the business traveller, at least for the time being. Southwest knows its customers, having surveyed them extensively in the past five years. The products introduced so far have vastly improved the customer experience, and the airline is apparently not getting requests for additional things such first class cabins, bigger seats or assigned seating. Rather, in the future Southwest plans to do more to generate non-ticket sales (hotels, car hire, etc) through its website.

On the technology side, the main project will be to replace the aging reservations system, which has served Southwest well for 20 years but does not have the capabilities it now wants in terms of accommodating additional fare rules, facilitating full codeshare alliances and enabling it to launch its own international flights. The management indicated recently that they had narrowed the choice to two systems (Amadeus or Sabre) but did not give a timeline for a decision. Implementation will be a multi-year process "sometime after 2012".

Fleet strategy in transition

The other major strategic project is the introduction of the 737-800. Southwest announced the long-awaited decision after both its pilots' and flight attendants' unions had ratified agreements to add the

type to their current contracts. In the first place, Southwest substituted 20 of its 737-700 orders for -800s, meaning that all of its 2012 deliveries will be -800s. The airline continues to evaluate and work with Boeing about converting its remaining 71 firm 737-700 orders scheduled for 2013-2016 delivery into -800s.

The 737-800, which has 38 more seats than the -700 and requires a fourth flight attendant, will lower unit operating costs, enhance customer comfort, enable Southwest to boost flying from high-demand, slot-controlled or gate-restricted airports, and open up many potential new long-haul destinations, including near-international markets.

Since the aircraft will be ETOPS certified, Hawaii service is a strong possibility. Southwest noted that it is a west-of-the-Mississippi principal leisure market and being able to offer it as a frequent-flyer destination would be highly desirable (in the same way as being able to offer the Caribbean, thanks to AirTran, to east-of-the-Mississippi customers will significantly enhance the appeal of the FFP).

Southwest is very fortunate in that there are no labour issues to complicate matters. The airline will be able to bring in a larger aircraft and fly it at the same pay rates as the 737-700, at a time when the pilots are worried about the issue of seniority integration associated with the AirTran acquisition.

It looks like Southwest would be stuck with AirTran's 717-200s (most of which are leased from Boeing Capital), but the airline is happy to operate them if the deal goes through. First, the aircraft are well suited to AirTran's smaller markets. Second, Southwest believes that a fleet of 86-plus 717s is large enough to allow it to operate that sub-fleet efficiently in its network. Third, Southwest's management are reconciled to the fact that at some point, when the 737 replacement process gets under way, the airline is going to be operating multiple fleet types for a long period of time anyway. (Boeing is expected to make a decision by mid-2011 on whether to develop an all-new aircraft for 737 replacement

SOUTHWEST'S REVISED 737 DELIVERY SCHEDULE

	Firm -700s	Firm -800s	Options	Purchase rights	Used -700s	Total
2011	17				2	**19**
2012		20				**20**
2013	19*		6			**25**
2014	21*		6			**27**
2015	14*		1			**15**
2016	17*		7			**24**
2017			17			**17**
2018-21				98		**98**
TOTAL	**88***	**20**	**37**	**98**	**2**	**245**

Notes: Delivery schedule as of January 19, 2011
* = Southwest is evaluating substituting 737-800s for its 737-700 firm orders currently scheduled for 2013-2016.

or go for an interim step of re-engining the 737. Southwest said that it would then have to evaluate its options.)

Capacity and fleet growth plans

Southwest is currently looking to grow its ASMs by 5-6% in 2011 (excluding any potential impact from the AirTran acquisition). The schedule optimisation strategy and increased aircraft utilisation will make it possible to launch the three new cities in March with essentially a flat fleet. Although Southwest is taking 19 737-700s this year (including two leased aircraft), there are likely to be double-digit 737-300 retirements.

The airline said on January 20 that it continued to evaluate the 737 classic retirement schedule for 2011 and beyond. Absent AirTran, Southwest currently has no intention to grow the fleet significantly until it reaches its profit and ROIC targets.

In late January the management described the financial outlook for 2011 as "quite good", except for fuel, of course. Strong revenue trends are expected to continue, with domestic capacity remaining tight and amid concrete signs that business travel is finally recovering in short-haul markets.

Southwest has substantial fuel hedges in place through 2014 that protect against $100-plus oil prices, giving it ample time to adjust. And it has more "revenue offsets" (the FFP and the like) coming up in 2011.

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Airbus and Boeing: Orders 2010

Both Airbus and Boeing saw their net order totals at least double last year as airlines showed increasing confidence that the recession was behind them. Speaking

AIRBUS ORDERS 2010

	A319	A320	A321	A330	A340	A350	A380	Total
AerCap		5						5
Aeroflot				11				11
Aircraft Purchase Fleet		1						1
Avolon		8						8
easyJet		15						15
Finnair			5					5
Germania	5							5
Germanwings	8							8
Iberia		10						10
Lufthansa		19	1	3				23
Swiss Int'l Air Lines		2	2	5				9
Turkish Airlines				1				1
EUROPE TOTAL	13	60	8	20	0	0	0	101
Air Lease Corporation		31	20					51
CIT Leasing				8				8
GECAS		60						60
Hawaiian Airlines				7				7
United Airlines						25		25
Virgin America		60						60
NORTH AMERICA TOTAL	0	151	20	15	0	25	0	211
LAN Airlines	6	34	10					50
TAM Linhas Aereas	6	7	7			5		25
LATIN AMERICA TOTAL	12	41	17	0	0	5	0	75
Air China						10		10
BOC Aviation		30						30
Cathay Pacific Airways						30		30
Cebu Pacific		7						7
China Aviation Supplies		50		6				56
Garuda Indonesia				3				3
Hong Kong Airlines				16				16
Malaysia Airlines				19				19
Thai Airways				7				7
Tibet Airlines	3							3
TransAsia Airways			6	2				8
ASIA / PACIFIC TOTAL	3	87	6	53	0	40	0	189
Emirates							32	32
Qatar Airways		2						2
South African Airways		5						5
Yemenia Airlines		10						10
AFRICA / M. EAST TOTAL	0	17	0	0	0	0	32	49
Unidentified customers	16	1			2			19
Total gross orders	44	357	51	88	2	70	32	644
Changes / cancellations	-10	-26		-26	-1	-7		-70
TOTAL NET ORDERS 2010	34	331	51	62	1	63	32	574

recently at an industry conference, Richard Aboulafia of the Teal Group said that he could see as many as 1,500 orders this year (the 2010 gross order total was 1,269).

Delivery output in 2010 was almost identical to 2009 with just seven aircraft less at 972 delivered (the second-highest total of the decade), Airbus outperformed Boeing with 509 deliveries.

BOEING ORDERS 2010

	737	747	767	777	787	Total
AerCap	10					10
Luxair	2					2
Norwegian Air Shuttle ASA	15					15
Turkish Airlines	20					20
EUROPE TOTAL	47	0	0	0	0	47
Alaska Airlines	2					2
Air Lease Corporation	54					54
American Airlines	35					35
CIT Leasing Corporation	38					38
Continental Airlines	7					7
FedEx				8		8
GECAS	40					40
Midwest Airlines	1					1
Southwest Airlines	25					25
United Airlines					25	25
NORTH AMERICA TOTAL	202	0	0	8	25	235
COPA Airlines	22					22
GOL Airlines	20					20
LAN Airlines				1		1
LATIN AMERICA TOTAL	42	0	0	1	0	43
Air China	20			4		24
Azerbaijan Airlines			3			3
BOC Aviation				8		8
Cathay Pacific Airways				6		6
Okay Airways Company Ltd	10					10
Russian Technologies	50					50
Somon Air	2					2
SpiceJet	30					30
Virgin Blue Airlines	41					41
Xiamen Airlines	10					10
ASIA / PACIFIC TOTAL	163	0	3	18	0	184
Air Austral				2		2
Emirates				30		30
Ethiopian Airlines	10					10
Qatar Airways				2		2
Royal Jordanian					3	3
Saudi Arabian Airlines				12	8	20
AFRICA / MIDDLE EAST TOTAL	10	0	0	46	11	67
Unidentified customers	41			3	1	45
Business Jet / VIP customers	3	1				4
Total gross orders	508	1	3	76	37	625
Changes / cancellations	-22	-2		-30	-41	-95
TOTAL NET ORDERS 2010	486	-1	3	46	-4	530

		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/	Oct-Dec 08	7,880	8,136	-256	-666	-3.2%	-8.5%	64,457	51,255	79.5%	17,934	106,773
KLM Group	Jan-Mar 09	6,560	7,310	-751	-661	-11.4%	-10.1%	61,235	46,214	75.5%	15,727	106,895
YE 31/03	**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
	Jul-Sep 10	8,579	7,835	743	374	8.7%	4.4%	66,558	56,457	84.8%	19,704	
British Airways	Oct-Dec 08	3,612	3,692	-80	-134	-2.2%	-3.7%	36,300	31,335	86.3%	8,835	
YE 31/03	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	
	Jul-Sep 10	3,908	3,332	576	365	14.7%	9.3%	37,163	31,066	83.6%	9,339	
Iberia	**Year 2008**	**8,019**	**8,135**	**-116**	**47**	**-1.4%**	**0.6%**	**66,098**	**52,885**	**80.0%**		**21,578**
YE 31/12	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
	Jul-Sep 10	1,730	1,637	93	95	5.4%	5.5%	16,834	14,404	85.6%		20,668
Lufthansa	**Year 2008**	**36,551**	**34,625**	**1,926**	**812**	**5.3%**	**2.2%**	**195,431**	**154,155**	**78.9%**	**70,543**	**108,123**
YE 31/12	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
	Jul-Sep 10	9,764	8,754	1,010	810	10.3%	8.3%	63,883	53,355	83.5%	26,089	116,838
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
	Jul-Sep 10	1,471	1,538	-67	-145	-4.6%	-9.8%	9,180	7,239	78.9%	6,655	15,570
Ryanair	Oct-Dec 08	798	942	-144	-157	-18.0%	-19.7%			71.3%	14,029	6,298
YE 31/03	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
	Jul-Sep 10	1,658	1,150	508	426	30.7%	25.7%			85.0%	22,000	8,100
	Oct-Dec 10	1,015	1,016	-1	-14	-0.1%	-1.3%			85.0%	17,060	8,045
easyJet	Apr-Sep 08	2,867	2,710	157	251	5.5%	8.7%	32,245	28,390	88.0%	24,800	
YE 30/09	**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	
	Year 2009/10	**4,635**	**4,364**	**271**	**240**	**5.9%**	**5.2%**	**62,945**	**56,128**	**87.0%**	**48,800**	

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

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Alaska	Jul-Sep 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
	Jul - Sep 10	1,068	851	216	122	20.2%	11.4%	10,531	8,980	85.3%	4,562	8,737
	Oct-Dec 10	959	839	119	65	12.4%	6.8%	10,037	8,410	83.8%	4,141	8,711
	Year 2010	**3,832**	**3,361**	**472**	**251**	**12.3%**	**6.6%**	**39,322**	**32,749**	**83.3%**	**16,514**	**8,651**
American	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
	Jul-Sep 10	5,842	5,500	342	143	5.9%	2.4%	64,277	53,985	84.0%	22,468	78,600
	Oct-Dec 10	5,586	5,518	68	-97	1.2%	-1.7%	61,219	49,927	81.6%	21,299	78,300
	Year 2010	**22,170**	**21,862**	**308**	**-471**	**1.4%**	**-2.1%**	**246,611**	**201,945**	**81.9%**	**86,130**	**78,250**
Continental	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
	Jul-Sep 10	3,953	3,512	441	354	11.2%	9.0%	46,844	40,257	85.9%	16,587	38,900
Delta	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
	Jul-Sep 10	8,950	7,947	1,003	363	11.2%	4.1%	102,445	87,644	85.6%	44,165	79,005
	Oct-Dec 10	7,789	7,495	294	19	3.8%	0.2%	91,774	74,403	81.1%	39,695	79,684
	Year 2010	**31,755**	**29,538**	**2,217**	**593**	**7.0%**	**1.9%**	**374,458**	**310,867**	**83.0%**	**162,620**	**79,684**
Southwest	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%**	**86,310**	**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
	Jul-Sep 10	3,192	2,837	355	205	11.1%	6.4%	41,130	33,269	80.9%	22,879	34,836
	Oct-Dec 10	3,114	2,898	216	131	6.9%	4.2%	38,891	32,196	80.7%	22,452	34,901
	Year 2010	**12,104**	**11,116**	**988**	**459**	**8.2%**	**3.8%**	**158,415**	**125,601**	**79.3%**	**88,191**	**34,901**
United	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
	Jul-Sep 10	5,394	4,859	535	387	9.9%	7.2%	61,134	52,534	85.9%	22,253	42,700
United/Continental	Oct-Dec 10	8,433	8,515	-82	-325	-1.0%	-3.9%	100,201	82,214	82.0%	35,733	80,800
Pro-forma FY 2010	**Year 2010**	**34,013**	**32,195**	**1,818**	**854**	**5.3%**	**2.5%**	**407,304**	**338,824**	**83.2%**	**145,550**	**81,500**
US Airways Group	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
	Jul-Sep 10	3,179	2,864	315	240	9.9%	7.5%	36,808	30.604	83.1%	20,868	30,445
	Oct-Dec 10	2,907	2,802	105	28	3.6%	1.0%	33,823	27,271	80.6%	20,118	
	Year 2010	**11,908**	**11,127**	**781**	**502**	**6.6%**	**4.2%**	**138,107**	**111,996**	**81.1%**	**79,560**	
JetBlue	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
	Jul-Sep 10	1,039	890	140	59	13.5%	5.7%	14,648	12,390	84.6%	6,573	10,669
	Oct-Dec 10	940	883	57	9	6.1%	1.0%	13,727	11,239	81.9%	6,039	11,121
	Year 2010	**3,779**	**3,446**	**333**	**97**	**8.8%**	**2.6%**	**55,914**	**45,509**	**81.4%**	**24,254**	**11,121**

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
October 10	30.0	21.9	73.1	20.5	17.6	85.6	15.9	13.8	86.6	53.4	45.3	84.8	82.2	66.5	80.9
Ann. change	5.9%	8.7%	1.9	7.3%	4.6%	-2.3	4.4%	6.2%	1.4	5.8%	5.9%	0.1	5.9%	6.7%	0.6
Jan-Oct 10	281.7	198.9	70.6	189.7	160.6	84.7	149.1	125.1	83.9	503.5	420.3	83.5	773.1	612.8	79.3
Ann. change	-0.5%	2.3%	1.9	-2.8%	-0.1%	2.3	-2.4%	2.1%	3.7	-1.1%	2.1%	2.6	-0.8%	2.4%	2.4

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	02 Feb	Comair (kulula.com)	8 x 737-800	
	25 Jan	Alaska Airlines	13 x 737-900ER, 2 x 737-800	
	19 Jan	American Airlines	2 x 777-300ER	exercised options
	04 Jan	CIT Aerospace	38 x 737NG	plus purchase rights for 7 x 737NG
Airbus	27 Jan	TUI Travel plc	2 x A330-300	
	25 Jan	Thomas Cook Group	12 x A321	
	24 Jan	GECAS	12 x A330-300	
	06 Jan	Asiana Airlines	6 x A380	2014 onwards
	04 Jan	easyJet	15 x A320	plus 20 conversions from A319 to A320
	21 Dec	LAN Airlines	50 x A320	2013 onwards
	16 Dec	Avolon	8 x A320	

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

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