Issue No: 162

Aviation Strategy

April 2011

Latin America: Major IPO activity

Market conditions are currently favourable for airline IPOs in Latin America. In mid-April two large privately held airline groups in the region - AviancaTaca and Aeromexico – completed initial public offerings in their local stock markets. In recent weeks Mexican LCC Interjet has indicated that it too is considering launching an IPO.

The offerings were aimed at raising funds for fleet and network expansion in a region that offers attractive growth opportunities. Thanks to strong economic recoveries, surging disposable incomes and swelling ranks of middle classes in many Latin American countries, the region has continued to see rapid growth of air travel. But the airlines went to the market at this point also because they wanted to take advantage of their special accomplishments or unique industry developments.

AviancaTaca, the holding company for Colombia's Avianca and El Salvador-based Grupo TACA which completed a hugely successful $250m IPO on the Bogota stock exchange on April 15, has a full year of successful merger integration behind it, is achieving strong earnings and has promising growth potential.

At the same time, competition is heating up in the Colombian domestic market as airlines owned by heavyweights such as LAN and COPA gear up for expansion and many new LCC hopefuls – including VivaColombia and La Nueva Aerolineas – prepare to enter the market later this year or in 2012. Having extra resources at its disposal will help AviancaTaca both defend its turf and diversify into new areas (*see Briefing, page 7*).

Aeromexico, in turn, which completed a $333m IPO and began trading on the Mexican stock exchange on April 14, is seeking to take advantage of the unique expansion opportunities resulting from Mexicana's demise. Those opportunities, coupled with Aeromexico's financial turnaround in 2010, created an excellent opportunity for Citigroup and its local arm Banamex to recoup part of their late-2007 investment. The proceeds of the offering will also help fund Aeromexico's planned $1.3bn-plus fleet expansion in the next two years (*see Briefing, page 12*).

Some of the smaller Latin American carriers may well be looking to go public on the momentum generated by the larger airline offerings. According to a report from Bloomberg News, Interjet's founder/chairman Miguel Aleman Velasco disclosed in an April 6 interview that the Mexico City-based LCC would decide within two weeks whether to launch an IPO. Citing favourable market conditions, Velasco estimated that the carrier could raise $200m from the sale of a 20% stake.

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Like Aeromexico, Interjet is keen to fill some of the gaps left by Mexicana. An IPO would help it fund its plan to double passenger numbers this year. The carrier, which was founded in 2005 and is controlled by ABC Aerolineas SA, operates a fleet of over 20 A320s and recently became the launch customer for the Sukhoi Superjet SSJ-100 regional jet in the Americas, ordering 15 aircraft for delivery from the second half of 2012.

While these IPOs have given the airlines listings only in Latin America, they are likely to have seen significant participation by both local and foreign investors. The crisis in Japan, which has created some uncertainty over near-term economic growth in Asia, may have prompted many US and European investors interested in emerging markets to take a closer look at Latin America offerings in the near term.

For these airlines the local IPOs are only the first step in the process of tapping the public equity markets for funds. The offerings will pave the way for Aeromexico's and AviancaTaca's future listings in the US, where currently four Latin American carriers – LAN, COPA, TAM and Gol – list their shares on the New York Stock Exchange (NYSE).

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is published 10 times a year by
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ISSN 2041-4021 (Online)

Network/LCC contrast in Germany

Lufthansa's results for 2010 showed a strong rebound. Air Berlin's net losses escalated. So in Germany a network carrier thrives while a leading LCC (or quasi-LCC) suffers.

Lufthansa's total revenues were up by 23% to €27bn, operating profits increased seven-fold to €1.3bn (despite a 28% increase in fuel costs) and published net profits came in at €1.1bn up from a loss in the prior year of €34m – even though the net profits had been massaged by a useful €400m from restructuring of the Catering division. As normal the group was at pains to outline the impact of 2010's extraordinary events: the harsh winter at the beginning of the year and the start of an early harsh winter at the end may have reduced profits by €20m and €70m respectively; the closure of European airspace in April €200m; the pilots' strike in February €50m. The group was even able to boast a small cash value added in 2010 of €71m showing that some airlines can create value. These numbers were boosted by the first-time full-year consolidation of bmi and Austrian Airlines; but even without these, underlying group revenues would still have grown by 14% year on year.

Operating cash flow jumped by half again to a record €3.1bn, well covering the year's €2.3bn capital expenditure, and providing free cash flow of some €700m. As a result the group was able further to strengthen its balance sheet, reducing net debt to €1.6bn from €2.2bn at the end of 2009. The group's Supervisory Board was so pleased with these numbers that they have proposed a resumed dividend of €60 cents a share.

The German flag carrier may appear the closest of all airlines in its corporate structure to a diversified industrial conglomerate, but the passenger division (with two thirds of revenues) is still by far the most important. The two main traffic divisions performed exceedingly well. In the passenger division – which now encompasses Lufthansa, SWISS, bmi, Austrian and germanwings – total capacity grew by 13% year on year, traffic by 15% and, reflecting the strong recovery in long haul premium cabins, average yields by 8.4%; and this is in spite of (or because of?) the group taking a decision to reduce the proportion of premium seats in favour of the economy seats.

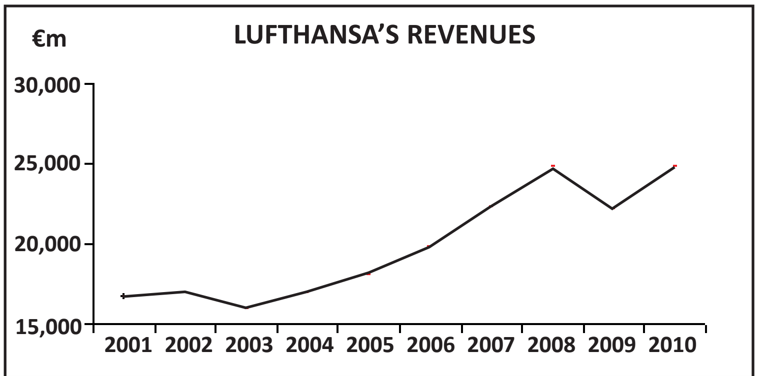
On a regional basis the performance was heavily weighted to long-haul: on routes to the Americas and Far East, capacity was up by 7% year on year but traffic revenues jumped by 27% and 31% respectively; on routes to the Middle East and Africa capacity grew by 17% and revenues by 29%. European routes show a slightly different story. Here the group has been introducing higher capacity aircraft and upgrading gauge on regional routes; total capacity increased by 20% (mostly admittedly from the newly consolidated carriers) and traffic increased by 23% but yields fell by nearly 4%.

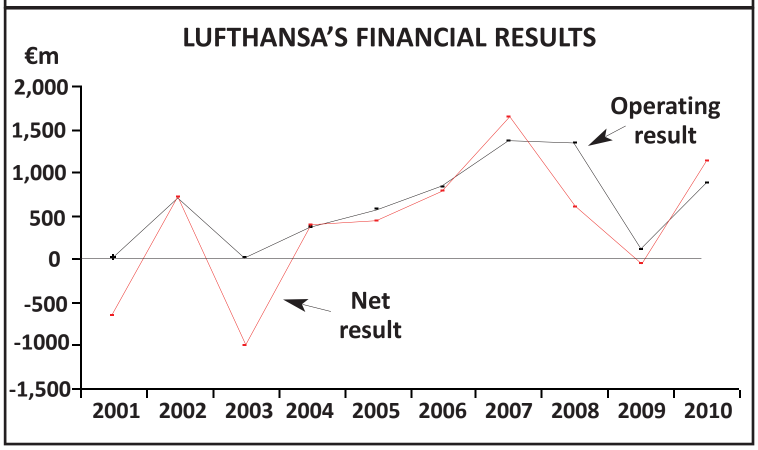
In the results meeting on March 17th the management repeatedly referred to a current very strong pressure on short-haul yields, emphasising the network carrier's dilemma. Although the group does not provide a regional profit breakdown the short-haul network – so necessary for feed through the long-haul hubs - may be seriously loss-making overall.

The group has put together a portfolio of European carriers, but has yet seriously to try to integrate them into a single operation. Lufthansa itself saw revenues up by 13% to €14bn and an operating profit of €382m up from a loss of €107m in the previous year. SWISS generated 25% improvement in revenues and an operating profit of €293m up from €93m in 2009. Austrian, consolidated from September 2009, provided revenues of €2bn and an operating loss of €66m; and bmi, consolidated from July 2009, generated revenues of €896m and an operating loss of €145m (compared with a calculated proforma loss of €225m in 2009). In contrast, germanwings (the group's attempt at low cost operations) experienced a few disasters in 2010 (including a pilots' strike) and revenues only grew by 9% to €630m and it lost €39m in the year.

Cargo operations were most badly hit by the halt to world trade in 2009 but 2010 provided a very strong rebound. This does not seem all due merely to market conditions, but also to management reaction. The group returned mothballed capacity into service very quickly as world trade started to recover – helped by the swift recovery of the German export market. Traffic increased by over 20% and revenues jumped by 43% to €2.8bn; while, having taken a surgical knife to costs in 2009, profits of €310m reversed losses of €171m in the previous year.

Meanwhile, among the other divisions,





maintenance operations at Lufthansa Technik suffered from Euro weakness as well as a "late cycle" nature of its business. Revenues only grew by 1.4% to €4bn after a fall in the first half of the year and operating profits fell by 15% to €286m. IT Services – seemingly the least sensible of the group's divisions – depends to a large extent on other airlines' willingness to spend on software development and not surprisingly revenues fell slightly and profits by 17%; it has entered its own restructuring programme. In Catering (LSG/Skychefs) there was a pleasing 7% growth in revenues (it does benefit from the gearing of passenger volume growth even if airlines downgrade their on-board catering offerings) and a 45% increase in EBITDA. (The group restructured its holding structure for the division which allowed a capitalisation of tax losses to the tune of €400m.) It managed to reduce its cashflow value added losses; and the Lufthansa Group is likely to want to see a full return to value creation before looking for buyers.

On the cost side of the equation the

LUFTHANSA GROUP FLEET

	LH	LX	OS	BD	4U	CLH	EN	EW	LH Cargo	Group fleet	Orders	Options
A310	2									2		
A319	30	7	7	11	30					85	14	
A320	46	23	8	7						84	27	10
A321	44	7	6	7						64	22	
A330	15	16	1	2						34	10	3
A340	51	13	2							66		
A380	4									4	11	5
B737	63		11	14						88		
B747	30									30	20	
B767			6							6		
B777			4							4		
MD-11F									18	18		
CRJ	24		3			40		10		77	7	
BBAD C-Series										0	30	30
BBAD Q-Series			19							19		
ATR	5						8	3		16		
Avro RJ		20				16				36		
Embraer	24	4	3	18						49	14	
F70			9							9		
F100			15							15		
Cessna Citation	4									4		
Total aircraft	**342**	**90**	**94**	**59**	**30**	**56**	**8**	**13**	**18**	**710**	**155**	**48**

group boasted success in its latest efficiency programmes. At Lufthansa it stated it achieved €230m in cost savings in 2010, expects to generate a further €350m in 2011 and says it is on target to achieve the full planned cumulative €1bn savings by 2012. At Austrian, it states it achieved €250m cost savings, managed to reduce staff numbers by the planned 20% and has identified an additional €30m potential synergy benefits. At bmi it states that it achieved the planed £60m savings through cutting capacity by 25% and staff by 20%.

On outlook the management was understandably reticent – except for the usual graph showing a possible increase in group profits. SWISS, Austrian and bmi are all due to join the integrated transatlantic joint venture (with United/Continental/Air Canada) in the summer. Lufthansa and SWISS are expected to see improvements in profitability; Austrian to produce profits; and bmi to reduce losses. In the end this year may depend on the development of oil prices: at the announcement of the results the forward curve suggested that the group fuel bill would jump by 30% (after hedging) to €6.8bn in 2011 from €5.2bn in 2010; except perhaps on short-haul operations much of this may be recaptured by fuel surcharges. One additional impact currently under doubt will be the impact on demand of the introduction of a German (and Austrian) passenger departure tax.

Air Berlin: struggling to find its way

Air Berlin by contrast showed a 15% increase in revenues for 2010 to €3.7bn, a 23% jump in EBITDAR to €620m (reflecting a 16.6% margin) but operating profits slumped from €28.5m in 2009 to a loss of €9.3m. Net losses totalled nearly €100m up from net losses in the prior year of €21.9m. As usual the annual figures contain many one-off extraordinary items and are perhaps presented with the intention to confuse.

First, they include a full year of operations of TUIFly's city routes acquired in 2009 and a half year of the operations of Austrian Niki – the group increased its shareholding to 49% and consolidated the company within the accounts from June 2010 – and on a like-for-like basis total revenues probably only increased by 1%, while if Niki had been included for a full year operating losses would have come in at €17m.

Second, Air Berlin bought back a 9% convertible loan (issued only in August 2009) for €136m, simultaneously issuing a €200m vanilla 8% five-year bond. Apparently this transaction will reduce group financing costs by a total €76m between 2010 and 2014 – but nevertheless led to an after tax write-off of €29m and a reduction in equity of €24m.

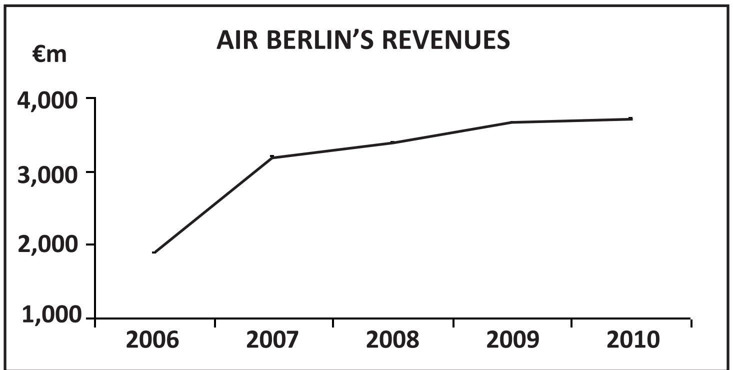
As Lufthansa did, Air Berlin complained of the harsh winters at each end of the year and the impact of the volcanic dust cloud - but also mentioned the ATC strikes in August that particularly hit its Spanish business. Excluding Niki (which seems to have added €17m at the operating line in the year), an estimated impact of €40m from the closure of European airspace in April, and an estimated €21m impact of striking controllers, the company claims that it would have produced an operating profit of some €35m for the year. However, as usual the operating line includes what used to be known as extraordinary figures of €54m which could have reduced that "what could have been" to a loss of nigh on €20m. One of the biggest impacts on the year's results was a substantial increase in both lease rentals (of nearly 50% to €535m) and net interest costs (of 160% to €133m – although €64m of this may be termed "extraordinary").

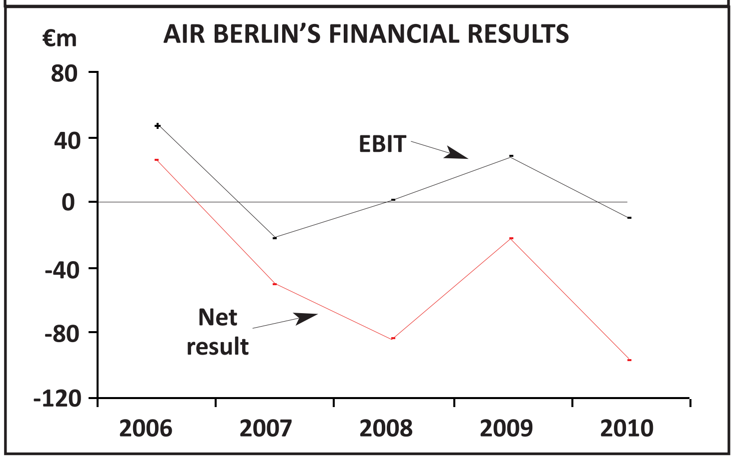
Not surprisingly operational cash flow slumped from €184m to €42m. However, gross debt fell slightly while cash increased to €411m (still an uncomfortably low 11% of revenues) and net on balance sheet debt fell by €85m to €489m. Equity as published finished the year at €505m down by €100m on the year. However this does include some €387m in intangibles (including significant amounts for route rights) – and to be a little unfair it might appear that net gearing stood at 440%. Ironically perhaps given the group's shift away from finance leases to operating leases it will have to put them back on the balance sheet under the new IFRS standards.

In operational terms last year total seat capacity increased by 21% and demand in passenger numbers was up by 20% (5% and 4% respectively on a like-for-like basis) but average revenue per passenger (as well as unit revenues) fell by 2.5%. Charter sales fell by 4% (on a proforma basis) and now make up only 34% of total ticket sales; while in-flight sales (on a per passenger basis) fell by 25% (to €1/pax) and

AIR BERLIN'S FLEET

	In service	Orders	LOI	Options
A319	13	0	0	0
A320	38	9	1	40
A321	13	0	0	0
A330	13	0	0	0
737 (NG)	26	8	15	0
737 (NG)	35	52	0	0
787	0	18	15	5
E190	6	1	0	3
Total	**144**	**88**	**31**	**48**

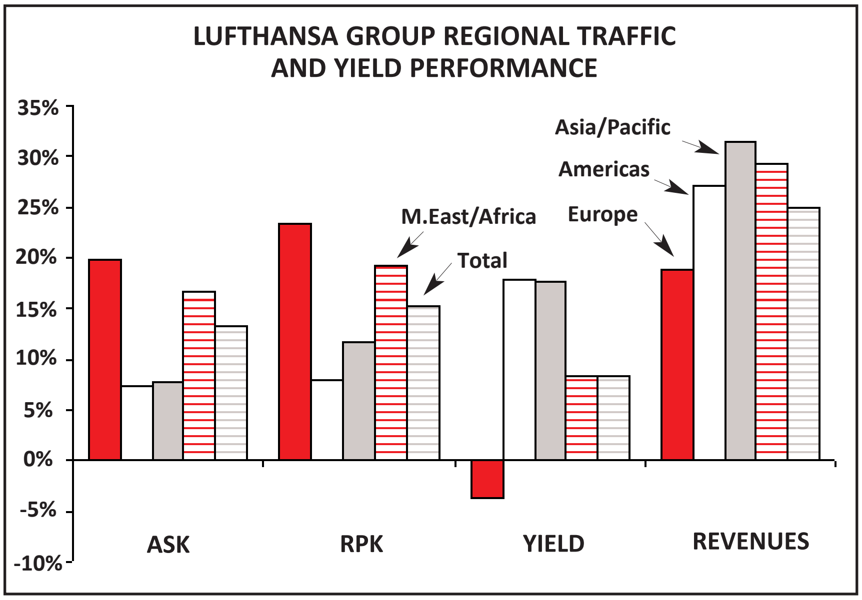




other revenues down by 1.5% to €8.28 per pax.

Air Berlin may be Germany's second largest carrier (and Europe's sixth largest by passenger numbers) but seems still to be trying to find its way. Since flotation in 2006 it has doubled it revenues and traffic – but has lost a total of €226m for shareholders; not having made a net profit since then and only achieving an accumulated operating margin of 0.3%. Meanwhile with a fleet of 144 aircraft (see table) it has orders outstanding for 88 (including 18 787s) and LOIs and options for a further 79 aircraft.

It has managed to increase its penetration of the German corporate market – with some 1,400 company agreements in place up from 330 in 2006 and may now have 2.5m members of its frequent flyer programme up by a compound annual growth of 45% over the period – but the anticipated benefits of tying in the long haul operations of LTU (which still concentrates on leisure routes) to increase the attractions to the domestic corporate mar-



ket have really yet to come through: this may change as the group finally integrates the LTU operations within the Air Berlin AOC from April this year. Meanwhile it may have built its presence as a viable intra-European alternative to Lufthansa in certain non-Frankfurt markets: having developed intra-European connecting network hubs at Berlin Tegel (no doubt in preparation for a fight with easyJet once the move to Berlin-Brandenburg International Airport takes place), Nuremberg and Dusseldorf – where it is market leader – and it also maintains that its transfer network hub at Palma makes sense. At least this has made it attractive to the oneworld alliance. Having seemingly lost its way as a low cost carrier, it has started code shares with Finnair, AA and BA (with the plan to act as a feed into BA's Gatwick leisure routes) – and it aims officially to join the alliance in 2012.

On short term outlook the management remains cautious – primarily (as with Lufthansa) because of the impact of the German departure tax. It is however taking on a couple of A330s and boosting long haul operations by some 15% while overall capacity it planned to grow by a modest 4% on a like for like basis – emphasising its network hub operations - surplus aircraft it plans to lease out. While Lufthansa's comments display worries of severe short haul yield pressure, Air Berlin hopes to be able to improve yields in the current year and pass on all fuel cost increases, with the target of a positive operating profit.

Lufthansa through its acquisitions of Austrian, SWISS (and potential acquisition of SN Brussels) confirms its leading position in German-speaking Europe (while along with its holding in bmi is the only one of the major network players to have a potential pan-European short haul network to compete with the LCC majors). All things considered it must be happy to have Air Berlin as second fiddle in what has been called a “comfortable duopoly”.

By James Halstead
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AviancaTaca: Gearing for growth after successful merger

AviancaTaca Holdings, Latin America's fourth largest airline group in terms of revenues (after LAN, TAM and Gol), used the words "extreme success" to describe its $277.6m IPO on the Colombian stock exchange, which was more than five times oversubscribed when the bidding period closed on April 15. The airline sold 100m non-voting dividend preferred shares at 5,000 COP each, raising around $250m in net proceeds, which will be used to fund fleet and network expansion. The offering represented 11.1% of the company's total shares.

This was apparently the first IPO of a foreign private entity in Colombia. AviancaTaca is controlled by Synergy Group companies owned by German Efromovich, the Bolivian-born entrepreneur with dual Brazilian and Colombian citizenship (through there are no foreign ownership restrictions on airlines in Colombia).

As a nice touch, the company encouraged its customers to buy shares. Its website invited people to "become part of AviancaTaca", provided easy access to the IPO prospectus (albeit only in Spanish) and even offered credit arrangements via the lead underwriter. The minimum investment was 5m COP ($2,700).

As a result, AviancaTaca will have 50,000-plus new shareholders. The share allocations will be made by May 6, and the shares will start trading on the Bogotá bourse on May 11. Interestingly, employees and loyalty programme members will have priority in the allocation of shares (with amounts of up to $8,000 per person). President Fabio Villegas noted: "I am not aware of any prior case where frequent travellers of an airline have had priority in obtaining shares. At AviancaTaca we wanted to recognise our clients' loyalty and are thrilled by the great response we received".

AviancaTaca's key selling points included strong earnings in the past two years, successful integration following the February 2010 merger, additional merger synergies to be realised in the next two years, benefits from Star alliance membership from 2012, a strong position in key regional markets and, above all, great growth prospects.

On the negative side, AviancaTaca faces growing LCC competition in many of its key markets. It is measurably smaller than LAN, TAM and Gol (let alone the likely future LAM/TAM combination) and has smaller hubs and many questionable markets.

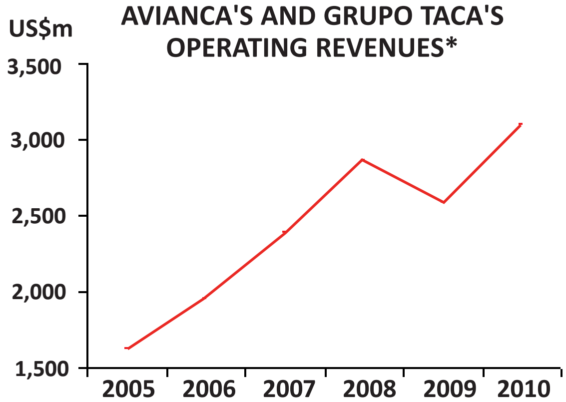
In the next few years, AviancaTaca considers its key tasks to be the following: complete fleet and technology modernisation, strengthen its route network, enter Star alliance, capture full synergies from the merger, unify cultures and management systems, and diversify operations in terms of territories and business segments.

Solid past, 2010 merger

Avianca and TACA are both old-established operators with many achievements. Tracing its roots back to 1919, Avianca is the oldest airline in the Americas and the second oldest in the world. The company lost its NYSE listing when it filed for Chapter 11 protection in 2003, but it emerged from bankruptcy the following year after it was taken over by Brazil's Synergy Group. It has been profitable ever since, thanks to a thorough revamp and investment in fleet and route expansion by its new owners.

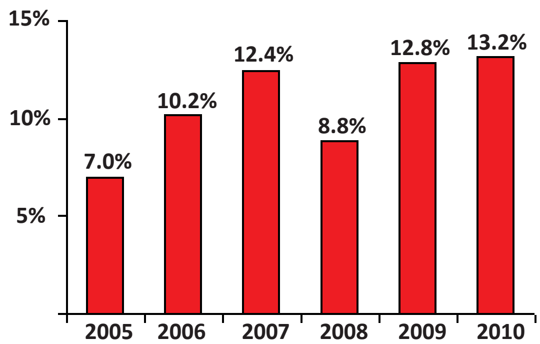
Avianca took steps to prepare for an IPO in 2007 but had to shelve those plans when market conditions deteriorated. Nevertheless, a fleet modernisation programme was launched in 2008, when Synergy also acquired Colombian carrier Tampa Cargo. In 2009 Avianca tapped the Colombian capital markets to the tune of 500bn COP ($275m) with a bond issue to

AVIANCA'S AND GRUPO TACA'S OPERATING REVENUES*



Notes: * 2005 - 2009 = Combined results (simple sum); 2010 = February-December (11 months); First year of AviancaTaca consolidated results.
Source: *AviancaTaca IPO presentation (March 2011)*

AVIANCA'S AND GRUPO TACA'S EBITDA MARGINS*



Note: * = As notes for revenue chart

finance its fleet renewal. The airline is Colombia's flagship carrier, with a hub in Bogotá, a dominant position domestically and the number one position internationally.

Grupo TACA was an early pioneer of the multi-country, multi-airline strategy in Latin America. Originally formed in 1931 in Honduras, in the 1930s and 1940s TACA set up subsidiaries or acquired airlines all around Central America. In 1961 the Kriete family bought a controlling interest in TACA. In 1983 the headquarters were relocated to El Salvador. 1989 saw a major acquisition spree: Lacsa (Costa Rica), Aviateca (Guatemala), Nica (Nicaragua), Sahsa (Honduras) and several regional operators. In the late 1990s the group's airlines were unified under a common logo and TACA also expanded to South America by forming TACA Peru with its hub operation in Lima.

Having participated in a $4bn order for Airbus aircraft in 1998, in the post-2001 period TACA implemented a transformation plan focused on fleet renewal, cost cutting, revenue-boosting and diversification. As a result, it was able to grow profitably and strengthen its position as the leading airline in Central America. TACA benefited from a strong, Harvard-educated management (personified by the Krietes and Federico Bloch, the legendary CEO who was murdered in 2004 in El Salvador) at a time when many airlines in the region had questionable managements.

TACA began expansion to the US in 2003. The airline operates through hubs in San Salvador, San Jose and Lima, serving destinations in 22 countries in the Americas and the Caribbean.

The Avianca/TACA merger, first announced in October 2009 and formalised in February 2010, was aimed at creating cost-reduction opportunities, strengthening the airlines' strategic position in the region and positioning them for growth. The merger brought together airlines that generate $3.1bn in annual revenues (2010), employ 14,000 people and currently serve over 100 destinations in 100 countries through four hubs, utilising around 150 aircraft (excluding regional carriers).

Mirroring the LAN approach, the merger created a holding company for 13 airlines from 10 countries. It combined the TACA consortium's TACA International and its holdings in Lacsa, TACA Peru, Aviateca, Sansa, La Costena, Aeroperlas and Islena (the latter five operate a combined total of 33 turboprops under the TACA Regional brand); Colombian carriers Avianca, Tampa Cargo and SAM; and Synergy Group's options to acquire Brazil's OceanAir and Ecuador's AeroGal, together with the latter's regional affiliate VIP (all of the options were exercised).

Since the merger closed OceanAir has been integrated into the holding company and rebranded as Avianca Brazil; the Sao Paulo-based carrier now focuses on the Brazilian domestic market with a 20-point network and, as of February, had captured a minute 2.6% market share. Colombian carrier SAM's operations were discontinued in October 2010. In November 2010 Synergy increased its stake in Ecuador's AeroGal from 80% to 99%; the Quito-based carrier operates an 18-strong fleet mainly to the Galapagos Islands and other domestic points but also to Bogotá, Lima and New York.

Ownership in AviancaTaca Holdings is primarily split between Synergy Aerospace Corp (the Colombia-based unit of Brazil-based Synergy Group, 67%) and Kingsland Holdings Limited (Grupo Taca's owners, 32%). However, it was portrayed as a merger of equals, with strategic decisions taken "by mutual agreement under a shared vision". The 11-member board includes six independent directors. The key figure behind this union was German Efromovich, who had long talked about creating a pan-Latin American airline group; he met a like-minded partner in ex-TACA CEO Roberto Kriete, who is now AviancaTaca's chairman.

Avianca and TACA were highly compatible: there was virtually no route overlap (only the Bogotá-San Salvador and Bogotá-Lima routes), both were traditional brands, had similar cultures focusing on customer service and had a history of profitability. Nevertheless, initially many sceptics questioned how meaningful the benefits could be given the numerous small operators, the disparate networks and many secondary markets.

But the benefits have exceeded expectations. The merger had produced $54m in synergies by year-end, compared to the original target of $35m for the first year. Furthermore, the company continues to identify new synergies, so the original projection is likely to be exceeded.

The currently projected $220m-plus in total annual synergies are expected to come from the alignment and strengthening of the passenger networks ($115m), loyalty programmes ($29m), net revenue synergies ($25m), systems ($22m), supply contracts ($7m) and cargo and others ($22m). This year will see a combined loyalty programme ("LifeMiles", 4m-plus members). AviancaTaca is also working on

AVIANCATACA BUSINESS PLAN PROJECTIONS

	Actual 2010*	2011	2012	2013	2014	2015	CAGR
Op. revenues (US$m)	3,100	3,508	4,143	4,712	5,225	5,742	13.1%
EBITDAR (US$m)	n/a	644	813	923	1,059	1,218	17.3%
Capacity (ASKs - m)	29,813	36,510	43,626	50,693	55,614	61,747	14.6%

Note: * = 11 months (February-December 2010)
Source: *AviancaTaca IPO presentation (March 2011)*

a single brand (though operating certificates will remain separate to meet regulatory requirements). And, of course, systems integration – often the toughest part in airline mergers – is yet to come.

Strong profitability

While TACA historically did not make its results public, AviancaTaca provided a five-year record of combined earnings in the IPO presentation. Operating revenues grew from $1.6bn in 2005 to $2.9bn in 2008 and then dipped 9.7% in 2009 to $2.6bn. EBITDA (operating) margin was always at least 7% and as high as 12.8% in 2009. EBITDAR margin was 19.2% in 2009. In the five-year period, scheduled ASKs had a 7.2% compound annual growth rate and load factor hovered in the 72-76% range.

The first fully consolidated results were released for the 11-month February-December 2010 period: operating and net profits of $409m and $50m, respectively, on revenues of $3.1bn. The results include a $58m provision related to the return of Avianca's Fokker 100s (which are being replaced by A318s this year). Notably, load factor improved to 78.1% last year.

Remaining profitable through the 2008-2009 industry challenges and achieving a 13% operating margin in both 2009 and 2010 were highly respectable achievements by most standards.

Last year's strong results were attributed to improved operational efficiencies and synergies from the merger. Those benefits more than offset the negative effects of increased competition in the Colombian domestic market, where fares and yields plummeted as a result of expansion by LCCs.

As of late March, the profit outlook for 2011 was promising, despite the higher fuel prices. First, the Colombian domestic

AVIANCATACA'S FIRM ORDERBOOK

	2011	2012	2013	2014	Post-2015	Total
E190	2					**2**
A319		7	3	4		**14**
A320	9	7	5	4		**25**
A330	2	3				**5**
787			4		8	**12**
Total	**13**	**17**	**12**	**8**	**8**	**58**

pricing environment has become more rational as a result of LAN's takeover of Aires late last year. Second, there will be the additional merger synergies - $166m-plus, divided roughly equally between 2011 and 2012. From next year AviancaTaca's results should also benefit from Star alliance membership.

AviancaTaca's business plan projects operating revenues growing at a 13.1% CAGR in the next five years, to reach $5.7bn in 2015. EBITDAR is forecast to more than double to $1.2bn (CAGR of 17.3%).

Fleet modernisation and streamlining

AviancaTaca has a combined fleet of around 150 aircraft, excluding the small turboprops operating under the TACA Regional brand. The combined entity is essentially maintaining the fleet renovation plans started independently by Avianca and TACA years ago.

In respect to medium-sized jets, Avianca is moving to an all-Airbus fleet, which will match TACA's. In other words, this year it will complete the process of replacing its 767s, MD-83s and Fokker 100s with A318s, A319s, A320s and A330s. TACA has also continued to take E190 deliveries, while Avianca will retain its Fokker 50s.

As a result, by the end of this year AviancaTaca will have reduced its jet fleet from nine types to four. Having previously operated A330s, A320s, 737s, 757s, 757s, MD-83s, E190s, Fokker 100s and Fokker 50s, the fleet will be streamlined on the A330, the A320-family, the E190 and the Fokker 50. (Tampa Cargo is likely to continue to operate its four 767Fs; it is not clear how long AeroGal will operate its single 757-200 and single 767-300ER).

Of course, Avianca will be operating one Boeing type - the 787-8, for which it has 12 firm orders for delivery in 2013-2018. At the end of last year, its A320-family firm orders totalled 39 (delivery in 2011-2014) plus 28 options, and its A330 firm orders totalled five (delivery in 2011-2012). The final two E190s currently on firm order are arriving this year, though the company holds 30 options for the type.

Network strategy and plans

AviancaTaca operates through four hubs: Bogotá, San Salvador, Lima and Costa Rica. Following the merger, last year an effort was made to optimise connections through the first three of those hubs, which resulted in improved load factors and increased frequencies in key markets. In March 2011 the combine's operations from Bogotá (the main hub) consisted of 1,180 weekly flights to 19 domestic and 22 international destinations (including Europe); San Salvador had 250 weekly flights to 23 destinations in the Americas; Lima had 220 weekly flights to four domestic and 21 international points; and San Jose had 163 weekly flights to destinations in the Americas.

The combine has strong positions in its key markets. It is the largest carrier in Colombia's domestic and international markets, as well as in intra-Central America operations. According to AviancaTaca, it had a 53.4% share of Colombia's domestic passengers and 45.2% of international passengers to/from Colombia in 2010.

Within the Americas, the combined passenger network is also nicely balanced. As of February, AviancaTaca served 21 cities in Colombia, 27 in South America, 16 in North America, 13 in Central America/Caribbean (plus 28 by regional units) and two in Europe. Passenger revenues were split as follows: Domestic Colombia 25%, North America 24%, South America 26%, Central America/Caribbean 15% and Europe 10%.

The five-year business plan projects a brisk 14.6% compound annual growth rate for ASKs. The plan calls for further optimisation and consolidation of the three hubs, moving towards interchangeable fleets, adding incremental routes and destinations in North and South America, and strengthening presence in the Latin America-Europe market. The latter will become a focus when Avianca's 787 deliveries commence in 2014; the routes mentioned in recent years have included London and Frankfurt (currently only Madrid and Barcelona are served in Europe).

AviancaTaca will be relying heavily on its Star partners in the international arena. It is preparing for entry to that global alliance in the first half of 2012. In recent months it has begun codesharing with Lufthansa and announced similar plans with United, Continental, COPA and COPA Colombia (COPA is also joining Star in 2012). Once in Star, AviancaTaca will terminate its current cooperation with Delta.

The Star alliance entry is well-timed, because a full US-Colombia open skies regime will take effect at the end of 2012, following agreement reached in November. This will mean even more LCC competition in a market that is perfectly suited to A320 and 737 operations from many different parts of the US. Three LCCs – Aires, Spirit and JetBlue – have already between them captured almost a third of the US-Colombia market.

AviancaTaca's planned cooperation with COPA Colombia (the number three domestically with a 15.2% passenger share in 2010) should in theory ease some of the competitive pressures in Colombia. Then again, Aires has grown aggressively (to capture a 21% passenger share in 2010) and will continue in that mode under LAN's ownership, and there seems to be a constant stream of new upstarts. The ones already operating include Satena (10.5% market share), Easyfly and Aerolinea de Antioquia (ADA). Those still in the works include VivaColombia (a new well-funded LCC spearheaded by Declan Ryan that plans to start flying in 2012) and La Nueva Aerolineas (an LCC venture led by ex-Avianca CEO Juan Emilio Posada that is targeting October 2011 launch). And then AeroOasis, which LAN started helping with the certification and start-up process last year (before it acquired Aires), is still believed to be trying to launch operations. With a population of 46m, Colombia is a potentially very attractive market and, given the new entrants, is likely to see rapid growth for many years to come.

For AviancaTaca, the main domestic opportunities appear to be in Peru and Ecuador – markets where the five-year business plan projects significant expansion. TACA Peru has hitherto been mainly an international airline, with only one domestic route. But, after receiving authorisation, it will undertake major domestic expansion this year, mainly with E190s but also A320s. In February it added three domestic routes; two new routes are due to start in May, with more following in the second half of 2011. In Ecuador, another market with great potential, AviancaTaca foresees growth through the new AeroGal unit.

Because of the opportunities in Peru and Ecuador, as well in international operations within the Andean Pact, the five-year business plan projects some major shifts in the geographical distribution of AviancaTaca's revenues. Between 2010 and 2015, Upper South America's share (which includes Peru domestic) of passenger revenues is expected to increase from 12.8% to 26.2%, while Colombia domestic's share will decline from 25.1% to 17.2% and Lower South America's from 12.9% to 9.3%. The latter, of course, is where the future LAN-TAM combine will dominate; it certainly seems that AviancaTaca's strategy is to minimise confrontation by sticking to and building on its strengths in the northern part of South America.

AviancaTaca is also looking to further diversify in terms of business segments. While total revenues are projected to increase from $3.1bn to $5.7bn in the next five years, the airline wants passenger revenues' share to fall from the current 85.5% to 81.6%. This will mainly mean stronger growth in air cargo, though also further developing ground freight, third-party services, FFP partnerships and other types of ancillary revenues.

By Heini Nuutinen
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Aeromexico: Major expansion to fill gaps left by Mexicana

Grupo Aeromexico, the fifth largest Latin American airline group in terms of revenues, raised 3.89bn pesos ($333m) in its IPO on the Mexican stock exchange. The company sold 125.5m shares to 3,000 institutional and individual investors (including an overallotment option of 16.4m). Although the shares were priced towards the lower end of the guidance range, the offering was two times oversubscribed. Both local and foreign investors participated (the latter's stake is restricted to 25% of voting shares).

In a sense, Aeromexico returned to the public domain as its previous owner Cintra (the former 60% government-owned holding company that was renamed Consorcio Aeromexico after Mexicana's privatisation in late 2005) traded on the Mexican stock exchange until its breakup in November 2007, when Aeromexico was fully privatised.

In this month's IPO, Aeromexico floated nearly 18% of its total capital, meaning that its current investors have retained control. The company debuted on the stock exchange on April 14.

The IPO proceeds will help fund Aeromexico's plans to invest 16bn pesos ($1.37bn) in the next two years in aircraft acquisitions, new technology and airport facilities. The fleet investments will include 20 new aircraft: ten 737-700/800s and ten E190s. The airport investments will include a new cargo terminal and new hangar facilities at Aeromexico's main hub at Mexico City International Airport.

In conjunction with the IPO, Aeromexico expected to obtain new loans or credit facilities with international institutions in favourable terms (similar to a recent $300m line of credit provided by Brazil's foreign trade bank). There are also likely to be further share offerings (public or private), since Aeromexico's stockholders have approved the issuance of 260.1m new shares.

Of course, the local IPO will pave the way for the company's future listing in the US. Being able to tap the much larger US capital markets for funds (debt or equity) will be helpful in Aeromexico's future expansion endeavours.

The key selling point in the IPO was that Aeromexico became the country's only large airline after Mexicana filed for bankruptcy protection and ceased operations in August 2010. The two had competed fiercely since Mexicana left the Cintra fold and particularly since 2008. The most obvious opportunities now for Aeromexico are international, since Mexicana was the prominent carrier on routes to and from Mexico. But Grupo Aeromexico has also seen its domestic market share surge by about 10 points year-on-year, to 45% in the fourth quarter. Even if Mexicana succeeds in re-launching operations, the revamped airline would be a fraction of its former size.

It should be noted that Aeromexico was not able to fill any of the numerous Mexico-US gaps left by Mexicana until the year-end, because in July the FAA downgraded Mexico to category 2 under the IASA safety assessment programme, and category 1 status was not restored until December.

It was an opportune time for Aeromexico to launch an IPO also because competition from LCCs and other upstarts in the domestic market has become less intense in the past

GRUPO AEROMEXICO'S FINANCIAL AND OPERATING RESULTS

	2008	2009	2010
Op. revenues (pesos - m)	24,282	22,348	28,080
EBITDAR (pesos - m)	1,841	2,718	6,198
EBITDAR margin	7.6%	12.2%	22.1%
Op. result (pesos -m)	(1523)	(1093)	2,704
Net result (pesos -m)	(1779)	(2320)	2,382
Net margin	(7.3%)	(10.4%)	8.5%
Cash reserves (pesos -m)	491	231	1,325
Passengers (m)	10.6	10.3	11.6
RPKs (m)	17,911	16,342	18,632
ASKs (m)	25,089	22,994	24,068
Load Factor	71.4%	71.1%	77.4%
Cost per ASK (pesos)	1.029	1.019	1.054
Ex-fuel CASK (pesos)	0.668	0.771	0.75

Source: *Aeromexico IPO prospectus (March 30, 2011)* two years as a result of many airline failures or groundings. According to the IPO documents, 10 carriers of varying sizes have ceased operations in Mexico since 2007 (Azteca, Aladia, Aerocalifornia, Avolar, Alma, Aviacsa, Nova Air, Mexicana, Click and Link).

Yet, the market obviously has much further growth potential. Mexico is Latin America's second largest domestic aviation market (after Brazil). Like Brazil, it has extensive geographic distances and large underserved cities. Resumption of strong economic growth (5.5% in 2010 and currently forecast to be 4-5% in 2011), favourable demographics and low penetration of air travel all point to continued rapid growth of air travel in Mexico. In terms of the total market (domestic and international), scheduled passengers are projected to grow from 48.7m in 2010 to 94m in 2020.

Financial turnaround

If 2010 had not happened, Aeromexico would probably not have been able to go public because of its rather poor financial record. Originally founded in 1934, in 1988 a strike forced it to file for bankruptcy. The following year it was sold to a group of investors, but the country's 1995 peso devaluation and economic crisis forced the government to rescue both Aeromexico and Mexicana, creating Cintra as part of a $100bn bank bailout. Both airlines improved initially but went on to incur heavy losses in 2001-2003.

Profits in 2004 prompted the government to try to revive long-delayed plans to sell both carriers in 2005. The sales had to be separate because antitrust regulators had rejected the initial idea of selling the airlines as a single entity in 2000. In late 2005 Mexicana was sold to hotel operator Grupo Posadas, but Aeromexico failed to attract sufficiently high bids.

Aeromexico's sale failed probably largely because of the sudden flood of new LCC entrants in Mexico after mid-2005. Up to that point Aeromexico and Mexicana had had about 80% of the domestic market, but they began to lose market share and see their yields plummet. Aeromexico posted an operating loss of 698m pesos on revenues of 21.1bn pesos for 2006.

GRUPO AEROMEXICO'S FLEET

	In fleet	On order	Delivery schedule
777	4		
767-200	2		737-700/800s: 3 each in 2012 and 2013; 2 each in 2014 and 2015
767-200	4		
737-800	10	10 (700/800)	
737-700	28		
787	0	5	787s: From 2014 (2 to be purchased, 3 leased)
Total Aeromexico	**48**		
E190	7	10	E190s: 3 each in 2011, 2012 & 2013; 1 in 2014
E145	39		
Total Aeromexico	**46**		
MD83/87	3		
Total AM Travel	**3**		
Total Grupo Aeromexico	**97**	**22**	

Note: Fleet at year-end 2010
Source: *Aeromexico IPO prospectus*

Labour costs have traditionally been a problem for Aeromexico. But a May 2007 agreement with pilots and flight attendants to keep costs in check helped restart the privatisation process, even though by then the airline was battling high fuel prices and tougher competition in the Mexico-US market.

In October 2007 a group of investors led by Citigroup and its local unit Banamex acquired the Mexican government's majority stake in Aeromexico for about $250m and have since then injected another $250m of capital into the company. Employees were granted a small stake. The new owners pledged to continue key existing strategies, including fleet modernisation and simplification and international expansion, and set the aim of making Aeromexico profitable within 12-18 months.

But the surge in fuel prices in 2008, the local H1N1 influenza outbreak in 2009 and Mexico's deep economic recession in 2009 (when its GDP contracted by 6.5%) meant two years of losses for the airline. In 2008-2009 Aeromexico lost 2.6bn pesos ($224m) on an operating basis and 4.1bn pesos ($351m) on a net basis.

But Aeromexico staged an impressive turnaround in 2010, earning an operating profit of 2.7bn pesos ($232m) and a net profit of 2.4bn pesos ($204m) on revenues of 28.1bn pesos ($2.4bn). Operating and net margins were highly respectable 9.6% and 8.5%. The airline managed to reduced its ex-fuel unit costs by 2.7% and improve its load factor by 6.3 points to 77.4%. Capacity rose by 4.7%.

Less competition (and the resulting tighter capacity and improved revenue environment), a better non-fuel cost structure and continued strong GDP growth all bode well for Aeromexico in 2011.

Fleet and network plans

Aeromexico has been modernising and simplifying its fleet since 2003. Since then it has retired its 757-200s, DC-10s, DC-9s and most MD-80s, acquired four 777s (which have replaced 767s coming off leases), built a 40-strong 737-700/800 fleet, introduced the E190 in medium-density markets and ordered five 787s for future long-haul expansion.

In recent years Aeromexico's strategy has been to focus on international expansion while covering the domestic market with its lower-cost regional unit Aeromexico Connect, which operates E145s and a growing fleet of E190s. The group also has a charter unit called AM Travel, which operates three MD83/87s.

Nevertheless, in 2010 domestic operations in Mexico (40 destinations) still accounted for 56% of Grupo Aeromexico's total revenues. North America accounted for 18%, Central/South America 13%, Europe 10% and Asia 3% of the revenues.

While Aeromexico continues to operate domestic trunk routes, using Connect elsewhere domestically, as well as on thinner Mexico-US sectors, is more profitable and has helped retain market share, particularly given the E190s. Even though many competitors have disappeared, three strong LCCs - Interjet, Volaris and VivaAerobus, which had a combined 49.5% domestic market share in 2010 – continue to provide tough competition domestically.

Internationally, Grupo Aeromexico had a pitiful 10.2% share of the total traffic to/from Mexico in 2010 (and Mexicana's was only marginally better at 12%; Volaris had 5.5%), because the markets are totally dominated by foreign airlines. Capturing much of Mexicana's share will be one of Aeromexico's key aims. However, SkyTeam had 21% of Mexico's international traffic; Aeromexico is currently the alliance's only Latin American member, though Aerolineas Argentinas will be joining in 2012.

In the next few years, Aeromexico's international expansion will focus on the Americas as more 737-700/800s are delivered. At year-end the carrier served 13 destinations in the US and Canada, but only five points in South America and three in Central America/Caribbean – markets that were Mexicana's stronghold. This year Aeromexico will be opening three new domestic routes and three new cities in Latin America/Caribbean (Caracas, Guatemala City and Panama City), as well as boosting frequencies on many US routes.

New expansion further afield will begin in earnest when the 787s start arriving. Aeromexico currently serves only three destinations in Europe (Madrid, Barcelona and Paris) and two in Asia (Tokyo and Shanghai). The most obvious potential new long-haul destination is London, which Mexicana served, though the market is now an IAG/oneworld stronghold.

By Heini Nuutinen
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Aeroflot: Advantages and disadvantages of state control

Of all of the major European airlines, Aeroflot has perhaps been the least affected by the recession of the last couple of years and is on course to report significant profits for 2011. But can the Russian flag carrier act as commercially as it wants to given continuing state control – both in terms of equity and pronouncements by the Russian prime minister on what Aeroflot should do?

Moscow-based Aeroflot operates to approximately 100 destinations in 50 countries around the globe and as can be seen in the graphs (see page 16) posted a steady rise in revenue and profits through the 2000s - and even when recession struck the airline continued to record significant operating profits and keep its net figures in the black.

In late March Aeroflot director general Vitaly Saveliev (who has been in the post since April 2009) told a government meeting that Aeroflot would report a substantial improvement in its financial results for 2010, with revenue rising 14% to $3.8bn and net profit reaching $280m, compared with $86m in 2009 (all figures under IFRS), thanks to cost-cutting, revenue growth and more stable oil prices.

Russia's Otkritie Bank considers these preliminary figures to be "neutral", since the revenue total is less than the previous Bloomberg consensus figure of $4.1bn but the net figure is higher than the Bloomberg consensus of $203m. Otkritie points out that "the reliability of the published data cannot be verified yet", particularly as the forecast 2010 figures are hardly changed from the actual results Aeroflot posted for the first nine months of 2010, when it had net income of $281m. The actual 2010 results will be released in May.

Nevertheless, the known figures for the first nine months of 2010 are impressive, and the net profit figure of $281m would have been far higher but for losses in certain parts of the Aeroflot group. Specifically, while the mainline and cargo operation made a $350m net profit in the first nine months of 2010 (with Aeroflot-Cargo reducing its losses in the first nine months of 2010 to $7m, compared with $42m in January-September 2009), the OJSC Terminal subsidiary (which operates Terminal 3 at Sheremetyevo) made a net loss of $56m.

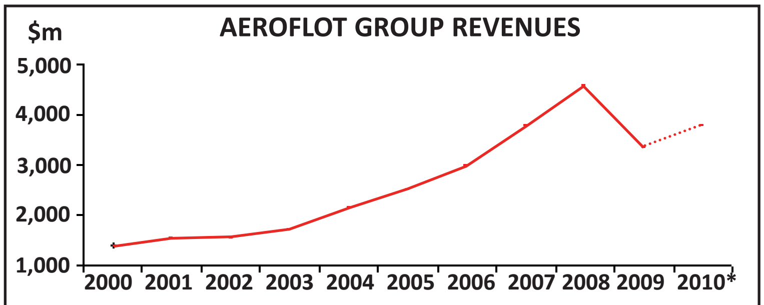
Strategic refresh

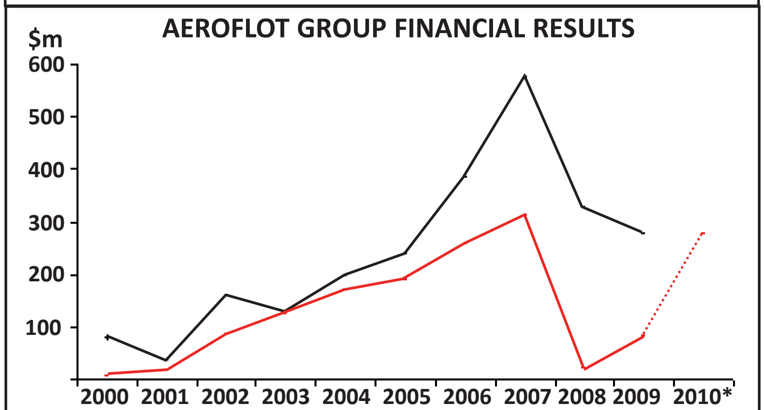
Against that background of solid financials, at the end of 2010 Aeroflot unveiled a new strategic plan for next 15 years, adopting an explicit goal to grow its share in the Russian domestic and international aviation markets to 2025. In a speech given to the Moscow aviation hub in March, Saveliev says the airline aims to carry between 70m and 74m passengers in 2025, with a quadrupling of the company's current revenues compared with today. He added that Aeroflot's goal is to have a 40% share of the international market to/from Russia in 2025 and a 60% share of the domestic market.

Those are ambitious targets. Aeroflot carried 11.3m passengers in 2010, of which 4.2m were domestic passengers and 7.1 international. Though the domestic total was up 25% on 2009, Aeroflot is keen to secure a much greater share in the large domestic market again, both in terms of being a large revenue generator in its own right as well as in terms of feeding more passengers onto international services. Or as Saveliev puts it: "We believe that Aeroflot can become a global winner only after having become a national champion."

In the first nine months of 2010, 92% of Aeroflot's revenue came from scheduled passengers, with 40% of that revenue coming from domestic passengers, 34% from European passenger traffic, 18% from Asia, 4% from North America and 4% from other regions. That split should change substantially as the emphasis kicks in on domestic expansion rather than international point-to-point.

At present Aeroflot has a clear lead in the international market, where its main competitor is Moscow-based Transaero, which operates 58 aircraft (all but two of which are Boeing models) on more than 100 routes in





Note: * = 2010 results to be confirmed.

Russia, Europe, Asia, Africa and North America. Aeroflot has also just regained a lead position in the domestic market, just ahead of the Domodedovo-based S7 Group, which has 32 aircraft (all Western models) and with 37 on order. However, Aeroflot's market share will improve dramatically once the domestic consolidation plans unveiled by the Russian government in February last year are completed.

These entail the incorporation into Aeroflot of six airlines controlled by state-owned corporation Rostekhnologii, which are: Kavminvodyavia (KMV), Orenair, Rossiya Airlines, Sakhalinskiye Aviatrassy (SAT), Saravia and Vladivostok Air. This is to done through a two stage process, with the five smallest airlines first merging into Rossiya, and then Rossiya subsequently merging into Aeroflot. Both stages are expected to be completed later this year.

Pre-absorption of the other airlines, St Petersburg-based Rossiya has a fleet of 30 aircraft, of which 15 are A320-family aircraft and nine are Boeing aircraft, and last year it carried 3m passengers. Between them the other five airlines will add 83 aircraft to the Aeroflot group fleet - of which just 15 are Western models.

This development has had an immediate implication elsewhere in that Aeroflot has just sold its northern Russian subsidiary, called Nordavia. Previously called Arkhangelsk Airlines and dating back to the 1960s, Aeroflot took a 51% stake in 2004 and renamed it as Aeroflot-Nord before another change of brand in December 2009, to Nordavia. Nordavia currently operates a fleet of 21 aircraft, the majority of which are older-model 737s, and flew 1.4 million passengers in 2010.

Aeroflot acquired the remaining 49% of the airline (held by state-controlled Aviainvest) in the third quarter of 2010 and it had been reported that Aeroflot briefly considered merging Nordavia with Rossiya, but over the last few years Aeroflot has taken considerable trouble to untangle the operations of its two main feeder airlines (one serving the north of Russia and one serving the south) from the mainline operation. Though this allowed the two airlines to develop individual brands and strategies (while still codesharing with Aeroflot) it also gave Aeroflot the option to dispose of them if needed.

That option has now been taken with Nordavia, which not only racked up reported net losses of $9m in the first nine months of 2010 but - more importantly – has $200m of debt (which includes long-term debt and all future lease payments on aircraft) that sits uncomfortably on the Aeroflot group balance sheet. Conveniently the Rossiya deal gave Aeroflot an excuse to offload Nordavia, since the two airlines compete against each other in the north-west of Russia, and so in March Aeroflot agreed a deal to sell Nordavia to Norilsk Nickel, a Russian mining conglomerate.

Though Norlisk was reportedly the only bidder for Nordavia it does already own a small airline called NordStar, which operates six 737-800s domestically but which has just received permission to operate international services to China, Azerbaijan and Tajikistan. The plan is for Nordavia to merge with NordStar, which would propel the merged carrier into the top 10 Russian airlines, and then launch a raft of new domestic services out of Norilsk. Unsurprisingly the mining company is paying just $7m for Nordavia as it comes with that $200m of debt – which will now disappear from the Aeroflot books.

For the moment Aeroflot appears more

committed to its other major subsidiary, Donavia, which is based in Rostov-on-Don in the south of Russia. Donavia has origins that date back to 1925 but was taken over by Aeroflot in 1993 under the name Donavia Airlines before becoming Aeroflot-Don in 2000, when Aeroflot acquired 100% of its shares. However, after the crash of an Aeroflot-Don aircraft in Perm in 2008 Aeroflot separated out the airline, and in 2008 the name changed backed to Donavia. It now operates a mixed fleet of 16 aircraft to Europe, Africa and the Middle East as well as domestically.

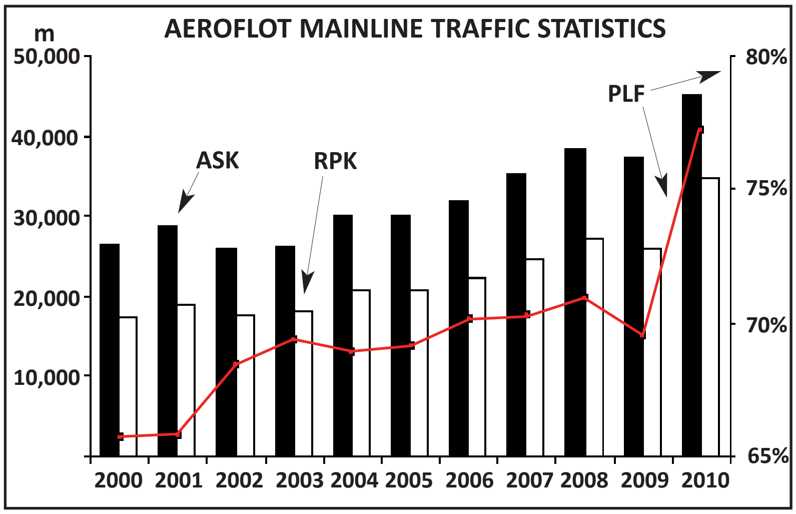
Donavia lunched routes to Istanbul from four Russian cities in its winter 2010/2011 timetable and the airline is eager to launch new international routes, while domestically Donavia has gradually withdrawn from scheduled feeder routes into Moscow and now is 100% focussed on the south Russian market.

In the first-half of 2010 Donavia broke-even at a net level, compared with a net loss of $3.2m in January-June 2009, based on revenue of $106m in the first six months of 2010. The goal is to reduce its financial dependence on Aeroflot into a position where it can order new aircraft itself. It currently operates six Russian aircraft and seven leased 737-500s and three 737-400s, but would like to phase out the Russian models; the current plan is for some 737s to be transferred to Donavia from the mainline's outstanding orders by 2013. Donavia is currently negotiating a strategic alliance with KMV, one of the regional airlines that Aeroflot is absorbing this year. Talks are ongoing between the two airlines and apparently a merger is under consideration.

The future

While the renewed emphasis on the domestic market and the new long-term strategic goals are positive signs for Aeroflot, at the same time it faces a series of challenges.

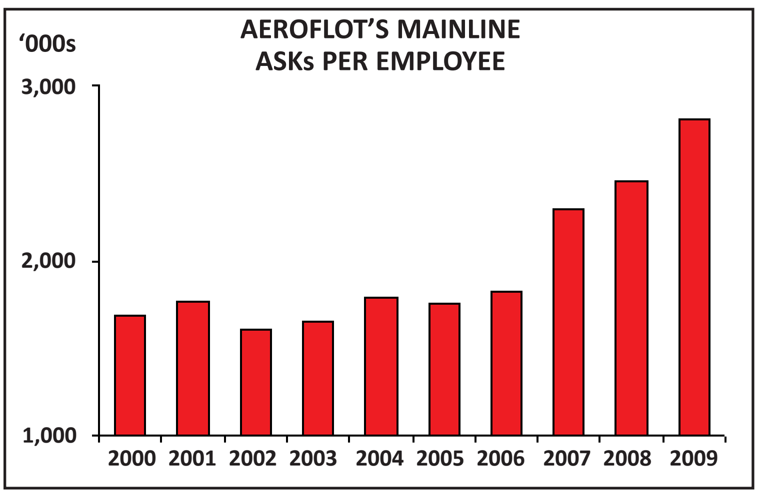
Though in relative terms Aeroflot has fared well in the recession of the last couple of years, its continuing weakness has been yield, which has remained fragile in the face of fears that increasing fares would choke off the relatively robust demand that Aeroflot has held onto (mainline load factor leapt 7.7 percentage points in 2010 – see graph, above). Indeed



passenger revenue per RPK fell from 8.6 US Cents at the mainline in the first nine months of 2009 to 8.4 US Cents in January-September 2010, while at the group level yield remained static year-on-year at 8.6 US Cents.

However, Fitch Ratings believes yield bottomed out in 2010 and forecasts that fares are set to rise through this year as business and consumer confidence returns to the Russian domestic and international markets. Fitch is also bullish about the capacity for further cost reductions at Aeroflot this year, which will be needed to offset the rising cost of fuel seen so far in 2011. Aeroflot has made substantial improvements in productivity over the last few years (see chart, below) but it needs to keep the pressure on in this area.

The debt levels also need to be managed carefully. As at the end of September 2010 the Aeroflot group had long-term debt of $2.2bn,



AEROFLOT GROUP FLEET	Fleet	Orders	Options
AEROFLOT			
A319	15		
A320	36	4	
A321	18	8	
A330	10	11	
A350		22	
737-700/800		40	
737-900ER		10	
767-300ER	10		
777		8	
787		22	
MD-11F	3		
IL-96-300	6	6	
SuperJet 100-95		30	15
Total	**98**	**161**	**15**
DONAVIA			
737-400	3		
737-500	7		
IL-86	2		
Tu-154	4		
Total	**16**	**0**	**0**
GROUP TOTAL	**114**	**161**	**15**

a significant rise on the $1.9bn of long-term debt it had at the end of 2009, and mostly derived from the raising of $389m worth of three-year debenture bonds at an annual interest rate of 7.75%.

Aeroflot also faces operational issues; for example in December last year Aeroflot moved swiftly to sack Vladimir Smirnov, its deputy chief, following "errors which led to disruption" of Aeroflot's flights out of its Moscow Sheremetyevo base following bad weather, when two-thirds of its flights were delayed in a few days after Christmas. Another problem is a lack of pilots, which has forced Aeroflot to open its own pilot training school this year, which the airline hopes will produce up to 200 new pilots a year (although the first will not graduate until 2012.

Then there are infrastructure problems. Aeroflot would like Domodedovo airport to build a third runway, which potentially could persuade the airline to move operations there in 2020 from Sheremetyevo. The current Moscow base has a number of limitations, including in inability to base the eight 777s that Aeroflot has on order. Sheremetyevo also needs a third runway according to Aeroflot and in addition has poor rail and road infrastructure. The latest airport directive from Prime Minister Putin is for a joint airport company encompassing Sheremetyevo and Vnukovo, the Moscow low-cost airport.

Aeroflot and the State

The state still owns 51.2% in Aeroflot and the state-owned Bank of Russia another 12%, while in March this year VTB Capital, owned by the state-owned VTB Bank, bought a 5.9% stake in Aeroflot.

Interestingly, in the same month Aeroflot Finance (the finance arm of Aeroflot) increased its share in Aeroflot group from 7.2% to 10.4% in a share buyback deal that was essentially forced upon Aeroflot thanks to "a major shareholder selling a large block of shares and voicing an intention to go on selling". That company was the National Reserve Corporation (NRC), which had built up a 30% stake in Aeroflot and is controlled by oligarch/entrepreneur Alexander Lebedev. He said that he would sell shares in Aeroflot in order to buy 44 Tu-44 aircraft for his airline Red Wings, which NRC bought in 2007. The charter carrier currently operates from Moscow Vnukovo airport to destinations in Europe and the Middle East with a fleet of nine ageing Russian models. NRC also owns 44% of Ilyushin, which is now part of the United Aircraft Corporation – and which produces the Tu-44 and all other Russian civilian aircraft.

Indeed from mid-December last year to the 3rd of January in 2011 the share price fell by 8%, after which Aeroflot decided to shore up the price by purchasing stock. However, Russian investment house Aton assesses this development as "neutral to negative for Aeroflot", since "we believe the stock's recent poor performance is a market reaction to rising fuel prices and a possible decline in traffic linked to political instability in Africa and the Middle East – in other words, the result of fundamental factors. We think the buyback is not fully justifiable on economic grounds and believe Aeroflot should concentrate on operational activities rather than market interventions."

That's a logical argument and begs the question: just why is Aeroflot overly concerned about a relatively small drop in its share price, given the shares rose steadily from March until December 2010, finishing some 47% up through 2010?

The answer may be related to the pressures put on Aeroflot by the Russian state, not just though its direct shareholding but also increasingly via the public "guidance" given to it by senior government officials, and most particularly by prime minister Vladimir Putin.

For example, after being heavily criticised by Putin in early 2010 for a reluctance to "buy Russian", in July Aeroflot announced a promise to buy more than 120 new Russian-built aircraft before 2020, whether Sukhoi Superjet 100s, Antonov An-140s, An 148s or MS-21s – with many of these destined for the six Russian airlines that the state is forcing Aeroflot to acquire later this year.

Aeroflot currently has an ageing fleet of 98 aircraft (almost all of which are leased) – its six Il-96s have an average age close to 20 years, while three MD-11Fs are 18 years' old and 10 767s have an average of more than 13.5 years. Only the Airbus types have average ages of less than five years.

This spring Aeroflot was due to receive the first two Sukhoi Superjet 100s from an existing order for 30 of the type, which should enter service on domestic routes in the middle of May, initially on Moscow-Nizhny Novgorod (in central Russia) before being introduced on routes from the capital to St. Petersburg, Omsk and Kazan.

The Superjets can carry up to 98 passengers and have a maximum range of 4,400km, and were originally supposed to be delivered in 2008 until technical problems arose that reportedly related to a heavier weight than expected (compared with the design spec) and which led to increased fuel consumption and higher engine thrust requirements.

Aeroflot also has options for 15 more Superjets as well as a firm order for six Il-96-300s, but the rest of its order book – some 125 aircraft – are for Western types, which is what angers Putin so much.

At Farnborough last year Aeroflot ordered 11 more A330-300s, which will start arriving this year and with delivery completion in 2013. The airline currently operates 10 A330-200s and -300s, which were originally a stop-gap before the delivery of 22 A350s. 22 787s are on order, for delivery from 2016 onwards, although Aeroflot is in talks with Boeing to receive two 787s as a "one-off" in 2014 in time for the Winter Olympics that will be held in Sochi in February of that year. Aeroflot is the official carrier for the event, and the delivery of two 787s would be seen as providing kudos for Aeroflot and, of course, for the Russian state.

In late 2010 Rostekhnologii confirmed an order for 50 737s, in -700, -800 and-900ER variants, all of which are slated for delivery to Aeroflot in the period between 2013 and 2017. The aircraft are worth £3.7bn at list prices and will be assigned to the six regional carriers that Aeroflot will acquire this year. And before 2016 six 777-300ERs and two 777-200ERs will be delivered, though this could potentially rise to 16.

This 777 order was agreed this March and Aeroflot claims it is paying just $1.2bn for the eight aircraft, which is almost half the official list price of $2.2bn. That essentially is the problem that Aeroflot faces – in today's market Airbus and Boeing are offering aircraft that are very heavily discounted, but the Russian state wants Aeroflot to buy more Russian aircraft, even though commercially they would not be the sensible choice to an airline free of political interference.

Nevertheless, Rostekhnologii is also likely to order 50 MS-21s for Aeroflot. Built by United Aircraft, the MS21 is a single-aisle twin-jet that provides an alternative to Airbus and Boeing narrowbodies, and will be available for delivery from 2016 onwards.

Aeroflot is now qualifying its promise to buy large amounts of Russian aircraft by saying that all Russian aircraft need to be very keenly priced, with Saveliev insisting the government should abolish taxes and duties on imported components for Russian aircraft. Aeroflot is also asking the government for help with reduced lease payments on the aircraft.

It shouldn't be forgotten that the state has been a huge help to Aeroflot in the last few decades, but in the ultra-competitive aviation market of the 21st century that influence may hinder more than it helps. Given a free choice, would Aeroflot's management voluntarily have agreed a deal to acquire six regional airlines (and in exchange for giving a reported 2.5% of Aeroflot's share to state-owned Rostekhnologii) whose fleet is "severely outdated", according to Saveliev? And without political prompting would Aeroflot have committed itself to a promise that will result in Russian aircraft accounting for half its fleet in a few years' time?

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		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Air France/ KLM Group YE 31/03	Oct-Dec 08	7,880	8,136	-256	-666	-3.2%	-8.5%	64,457	51,255	79.5%	17,934	106,773
	Jan-Mar 09	6,560	7,310	-751	-661	-11.4%	-10.1%	61,235	46,214	75.5%	15,727	106,895
	Year 2008/09	**34,152**	**34,335**	**-184**	**-1,160**	**-0.5%**	**-3.4%**	**262,359**	**209,060**	**79.7%**	**73,844**	**106,933**
	Apr-Jun 09	7,042	7,717	-676	-580	-9.6%	-8.2%	63,578	50,467	79.4%	18,703	106,800
	Jul-Sep 09	8,015	8,082	-67	-210	-0.8%	-2.6%	66,862	56,141	84.0%	19,668	105,444
	Oct-Dec 09	7,679	8,041	-362	-436	-4.7%	-5.7%	61,407	49,220	80.2%	17,264	105,925
	Year 2009/10	**29,096**	**31,357**	**-2,261**	**-2,162**	**-7.8%**	**-7.4%**	**251,012**	**202,453**	**80.7%**	**71,394**	**104,721**
	Apr-Jun 10	7,301	7,469	-168	939	-2.3%	12.9%	60,345	49,283	81.7%	17,623	102,918
	Jul-Sep 10	8,579	7,835	743	374	8.7%	4.4%	66,558	56,457	84.8%	19,704	
British Airways YE 31/03	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	
	Jul-Sep 10	3,908	3,332	576	365	14.7%	9.3%	37,163	31,066	83.6%	9,339	
Iberia 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
	Jul-Sep 10	1,730	1,637	93	95	5.4%	5.5%	16,834	14,404	85.6%		20,668
Lufthansa YE 31/12	**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
	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 YE 31/12	Jul-Sep 08	2,114	2,085	30	-316	1.4%	-14.9%	10,984	8,180	74.5%	7,325	24,298
	Oct-Dec 08	1,652	1,689	-36	-359	-2.2%	-21.7%	9,750	6,559	67.3%	6,612	23,082
	Year 2008	**8,120**	**8,277**	**-107**	**-977**	**-1.3%**	**-12.0%**	**41,993**	**29,916**	**71.2%**	**29,000**	**24,635**
	Jan-Mar 09	1,352	1,469	-118	-90	-8.7%	-6.6%	8,870	5,541	62.5%	5,748	22,133
	Apr-Jun 09	1,546	1,665	-119	-132	-7.7%	-8.6%	9,584	7,055	73.6%	6,850	18,676
	Jul-Sep 09	1,522	1,486	36	21	2.3%	1.4%	8,958	6,868	76.7%	6,245	17,825
	Oct-Dec 09	1,474	1,676	-202	-186	-13.7%	-12.6%	8,160	5,764	70.6%	6,055	16,510
	Year 2009	**5,914**	**6,320**	**-406**	**-388**	**-6.9%**	**-6.6%**	**35,571**	**25,228**	**70.9%**	**24,898**	**18,786**
	Jan-Mar 10	1,322	1,428	-106	-99	-8.0%	-7.5%	7,951	5,471	68.8%	5,735	15,835
	Apr-Jun 10	1,321	1,367	-46	-66	-3.5%	-5.0%	8,769	6,612	75.4%	6,282	15,709
	Jul-Sep 10	1,471	1,538	-67	-145	-4.6%	-9.8%	9,180	7,239	78.9%	6,655	15,570
Ryanair YE 31/03	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
	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 YE 30/09	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	
	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 %
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
2010	332.3	232.6	70.0	224.2	188.1	83.9	180.2	150.0	83.2	604.1	500.4	82.8	922.7	752.8	78.7
February 11	24.2	15.3	63.1	15.8	10.9	68.9	14.9	11.9	79.7	47.3	35.9	76.0	70.5	50.6	71.7
Ann. change	4.8%	6.0%	0.8	11.3%	4.3%	-4.6	14.4%	9.1%	-3.8	10.9%	6.0%	-3.5	9.0%	5.8%	-2.2
Jan-Feb 11	50.0	31.0	62.0	33.7	24.1	71.6	31.5	25.1	79.7	100.5	77.7	77.3	148.9	107.8	72.4
Ann. change	5.0%	6.5%	0.9	10.4%	4.8%	-3.8	12.3%	8.2%	-3.0	9.9%	6.1%	-2.8	8.4%	6.1%	-1.6

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	06 Apr	Qatar Airways	2 x 777-300ER, 3 x 777F	
	30 Mar	GECAS	10 x 777ER	
	31 Mar	Turkish Airlines	10 x 737-800, 5 x 737-900ER	exercised options
Airbus	15 Apr	Star Flyer	2 x A320	

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

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