Issue No: 170

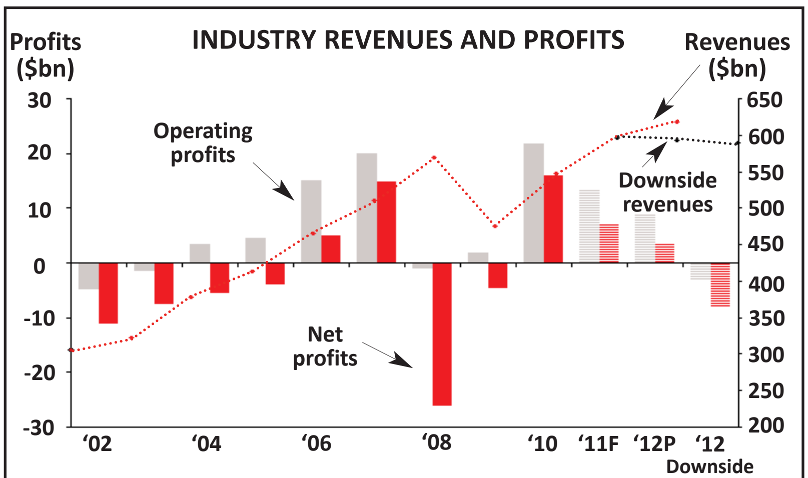
Aviation Strategy

December 2011

2012: A muddled outlook

IATA recently published its latest financial forecast for the airline industry. Unusually the trade group has not altered its forecast for industry profitability in the current year – still expecting the airlines worldwide to return net profits of some $6.9bn in 2011 (a little less than half the 2010 level). It has however reduced its forecasts for 2012 to show net profits for the industry halving again to $3.5bn. In addition, because of the uncertainties on the global economic front, it has called this its central forecast, and introduced a downside scenario under which it suggests that the industry would again slump into losses – in excess of $8bn – felt across all regions, but none more so than Europe, which would be expected to account for more than half of the total net losses.

IATA appears to base its downside case following the recent analysis and medium term outlook from the OECD. In this, the Inter-Governmental forum highlighted the extreme uncertainties in global economies, emphasising not only the current unpredictability of the possible outcomes of the crisis in the Eurozone but also those relating to fiscal policy in the United States. It has named its central economic forecast a "muddling through" projection, in which "disorderly sovereign defaults, systemic bank failures and excessive fiscal tightening are assumed to be avoided". Under this base case the Euro area may encounter a mild recession in 2012 (or might just be able to avoid one) before seeing a recovery in 2013, while the US could see reasonable 2% GDP growth in 2012 accelerating slightly in the following year; but with global growth subdued in the OECD economies and below trend in the major emerging market economies. The downside scenario from the OECD is far more pessimistic. Should the Eurozone experience a full-blown and cascading banking crisis, and this is combined with the assumption that the US retain its restrictive fiscal policies currently enshrined in



Source: ICAO/IATA

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legislation, both areas could enter another period of lasting recession and drag performance in the rest of the world down further. The OECD estimates a resulting impact of slower world economic growth in the order of 1.8% in 2012, with the US, Euro and Japanese economies showing GDP growth some 3.8%, 2.25% and 2.2% respectively below central case forecasts for 2012. It would even expect China's rate of growth to be affected – down by 1.1% and 1.7% against base case assumptions in 2012 and 2013.

Although there are distinct signs of China's economic growth rates waning, most pundits appear to believe that the country will avoid a "hard landing", with the expectation that recent fiscal easing will be followed by another round of stimuli to maintain the rate of economic growth at the 8-10% level.

If this weren't depressing enough, other risks are surfacing and there are signs appearing of protectionism and trade-war tensions: with a row developing perhaps between the US and China over the latter's introduction of taxes on the import of SUVs and other high fuel capacity motors; while closer to home there are increasing indications of intentions for tit-for-tat measures against the EU's unilateral introduction of aviation into the European ETS from January 2012 (while the result from the legal challenge before the international courts is unlikely to be decided before July next year).

IATA's central case scenario for the industry assumes a global increase in passenger traffic of some 4% in 2012, flat freight performance, no change in yields (passenger or cargo) and world economic growth of 2.1%. At the same time it assumes fuel prices through 2012 to average $99/bbl (from $112/bbl in 2011). Even on the central case for the world economy, the yield assumption appears to us to be a little optimistic – although premium traffic has been holding up in the run-up to the end of the year, there is likely to be softness in the early part of next; while current pressures on fuel stocks along with continued problems in the Middle East suggest that the fuel price assumption may be a little below possible levels (even the OECD "muddle through" case is assuming Brent crude averaging $110/bbl in 2012, while other forecasts are proposing a return to nearer $130/bbl through the year). As a result the central case from IATA may be a little optimistic.

The group's downside case is based on world economic growth of a mere 0.8%, no growth in passenger demand and a 4.7% decline in cargo, combined with a 1.5% fall in yields in both segments and a fuel price averaging $85/bbl.

This downside scenario may not cover the big risk: the shock to the system of a full blown banking crisis would surely have a greater impact on world trade (the OECD's downside case assumes a 5.5% reduction), which as in 2009 could have a substantive downward pressure on air freight volumes and premium demand; and the airlines would all be falling over themselves to pay passengers and packets to get on board. Further, IATA states that its forecast for the Asian area assumes supportive elements from strong domestic performance in China; but then this could be undermined should the Chinese economy not avoid a hard landing next year.

The OECD and IATA notes were each published before the recent summit meeting of European leaders put together to attempt to provide a credible swift resolution to the region's woes. Although the resulting "Merkozy" plan may work, and the individual Eurozone nations may be able to enshrine the fiscal rules the summit called for within primary legislation fast enough to create credibility, the ECB is steadfastly refusing to wander from its legal brief and buy sovereign bonds. It will only lend to banks to enable them to do so – i.e. increase their exposure to sovereign debt of countries facing credit rating downgrades at a time when their own balance sheets are strained and they may be forced to mark such sovereign assets to market, further increasing their need for equity. It will not do much to improve inter-bank liquidity which is what is really needed. As Fitch Ratings stated (the third largest of the ratings agencies), as it put six of the Eurozone countries' debts on negative watch, a comprehensive solution may well be "technically and politically beyond reach". This may then significantly

Aviation Strategy
is published 10 times a year by
Aviation Economics

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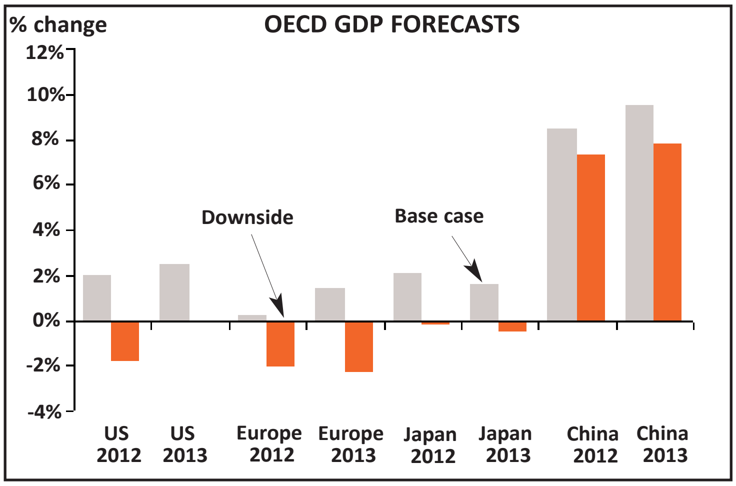
ISSN 2041-4021 (Online)



increase the likelihood of the implosion of the Euro towards the Allemano-Franco core.

The saviours for the world economy may lie in the emerging markets. The last decade has seen a continual shift in favour particularly of the BRICs, and this extended crisis in Europe, and possibly the US, is only exacerbating the trend and perhaps bringing forward the day that China becomes the world's largest economy. However, the exports of these countries need end consumers for their products; and if the developed economies cannot buy, they will have to develop domestic consumption.

Here they are helped by demographic trends in the development of their own middle class – defined broadly as those who have more than a third of their income available to spend after necessities. In 2010 it has been estimated that there were around 160 million Chinese middle class – the second largest such behind the USA but just a little over 10% of the population – and it is assumed that this group is now starting to grow exponentially. By 2020, it has been estimated that the middle class in China will account for over 40% of the population (nearly 600 million people and more than the total EU population), and rise to 70% (1 billion people) by 2030.

Some economists have argued that spending also increases exponentially once GDP per head breaches the $6,000 level (on PPP). Middle class consumption in Asia/Pacific has been expected to grow from 23% in 2009 to 43% of the world total by 2020. China reached this level of per capita GDP in 2008 and according to IMF figures is likely to see this doubled by 2015, going through the $10,000 mark in 2012 or 2013 – and for aviation propensity to travel by air increases dramatically once above this level; even after recent growth the Chinese propensity to travel by air is still only around the world average of 0.2 trips per head per year, and as long as internal and outbound travel restrictions be eased there is the opportunity for major growth in outbound tourism.

Meanwhile, the outlook for 2012 through the crystal ball is pretty opaque - but we will still have a go at some predictions:

• Greece leaves the Euro. This will escalate pressure on the other ClubMed countries in Europe to do likewise and confirm the feared banking crisis and a disorganised recession. Ryanair and easyJet and other LCCs will make a killing on supplying pent-up demand for cheap holidays.
• One of the Gulf super-connectors – in fear of maturing organic growth of their models – will buy a European airport to provide FBO fifth-freedom hub services on the Atlantic and generate squeals of protectionism from the major European legacy carriers.
• LATAM finally decides which alliance to plump for. Do they really care? Star, oneworld and SkyTeam may do - but they will have to prove their case.
• Spain restarts the privatisation of Aena. Portugal keeps the taps on TAP privatisation.
• British Midland finally gets sold to British Airways aka IAG with EU Commission collusion. Virgin left in the cold again (Etihad having preferred airberlin). Lufthansa still loses money on the deal.
• EU rescinds inclusion of aviation in the European ETS under pressure and in face of retaliatory measures from the rest of the world (OK that is perhaps a wish for a feeling of schadenfreude – but the levels of compensation would be interesting).
• China really starts buying infrastructure assets in Europe.
• The airline industry muddles along as usual.

By James Halstead
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AMR's bankruptcy: Implications of the last US Legacy restructuring

American Airlines and its parent AMR Corp filed for Chapter 11 bankruptcy on November 29 – a fate that many considered inevitable given AMR's severe cost disadvantages arising from the fact that it had never restructured in bankruptcy. Though painful for stakeholders, the reorganisation should be successful for AMR, enabling it to close the cost gap, and also beneficial for the rest of the US airline industry.

AMR's exact plans are not yet known, and in any case the Chapter 11 process can be unpredictable. But, as might be expected, speculation is rampant on the details of the restructuring and likely implications.

One interesting question is how much AMR might shrink in Chapter 11. New CEO Tom Horton has signalled only a "modest" reduction in flying; after all, American has already been demoted from the largest US airline to number three as a result of the Delta-Northwest and United-Continental mergers. But many analysts believe that AMR will shrink by as much as 10%.

But wouldn't that only widen AMR's revenue gap with competitors? After the shrinkage, will AMR then need to bulk up and increase scale in order to close the revenue gap with Delta and UAL?

Predictably, US Airways is again being touted as a merger partner for AMR as it reorganises. But what are the odds of such a merger taking place?

Another interesting question is whether AMR will be able to keep the 737 MAX orders placed in July (see *Aviation Strategy*, July/August 2011).

Most controversially, will AMR terminate all of its traditional pension plans? With the plans being underfunded to the tune of $10bn, it would be the largest pension default in US history.

Finally, how will American's difficult labour relations play out during and after Chapter 11? The unions are gearing up for a major battle, with the pilots reportedly considering hiring Wall Street investment bank Lazard to advise them in the contract talks.

Why Chapter 11?

AMR came very close to filing for Chapter 11 in the spring of 2003, averting it only when it secured $1.8bn of annual labour concessions literally on the courthouse steps. But subsequently four of its key competitors (UAL, US Airways, Delta and Northwest) achieved much greater savings in bankruptcy in 2002-2007. Those airlines slashed their labour and aircraft ownership costs and dramatically reduced their pension obligations. AMR ended up with a significant labour cost disadvantage.

Then all of AMR's concessionary labour contracts became amendable in May 2008 and the workers began to demand substantial pay increases. Although new contracts have recently been clinched with two smaller labour groups, talks with the critical pilots' union have gone nowhere.

Over the years AMR has been remarkably successful in reducing non-labour costs, leading to a significant narrowing of the overall cost gap with competitors. Nevertheless, AMR continued to be hampered by serious disadvantages that are not easy to fix outside bankruptcy: a fleet that includes 200-plus fuel-guzzling MD80s, the massive pension deficit and a heavy burden of debt and leases.

To add to the woes, in recent years AMR's key competitors have gained scale and strength through mergers, while AMR has been left out in the cold. And AMR suffered long delays in its global alliances efforts; notably, it waited a decade to secure transatlantic ATI with British Airways.

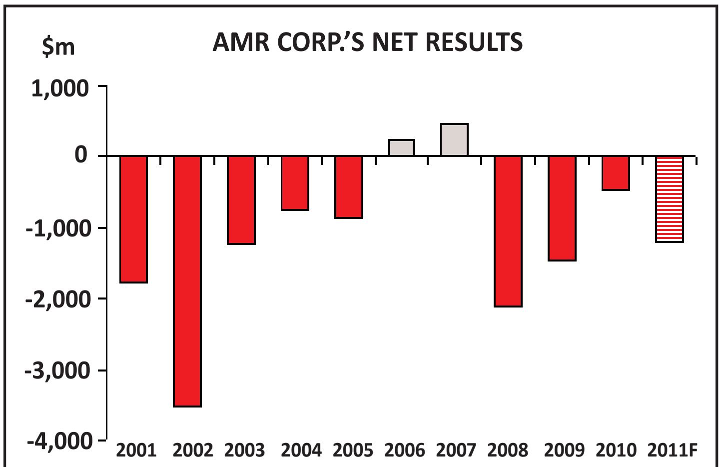
As a result, AMR has had only two profitable years in the last decade (2006 and 2007). It incurred net losses totalling $12.2bn in 2001-2010 and is headed for another $1bn-plus net loss in 2011. It is not even likely to break even on an operating basis this year (see chart, right).

Until very recently, AMR had pinned its hopes on two potential remedies (in addition to securing cost-effective contracts with its unions). On the cost side, it was counting on there being a convergence of labour costs over time, as competitors will not be able to sustain the labour rates and benefits secured in bankruptcy. On the revenue side, AMR has been engaged in an all-out effort to bolster its global and domestic presence particularly in business markets through alliances/JVs and by switching capacity to five "cornerstone" markets in the US.

The problem with those remedies was that the results were too slow to materialise. The expected convergence of labour costs will take years. The $500m in annual revenue benefits from the JVs and the cornerstone initiatives will not be realised until the end of 2012. In the meantime, AMR has continued to underperform the industry in PRASM, amid signs that it is losing corporate market share to the larger competitors.

So, AMR fought long and hard to avoid bankruptcy. The events of May 2003 had been a painful experience for both labour and management and had involved the resignation of the popular chairman/CEO Don Carty. In the subsequent years the management frequently spoke of the company being "very mindful of that experience". Gerard Arpey, who took over from Carty as CEO, was particularly determined to get new labour deals in place outside of bankruptcy. As recently as early October, the company released a statement saying that it was not its goal or preference to go into Chapter 11.

The bankruptcy filing came a few weeks after American's pilots rejected a contract proposal, though further negotiations under a federal mediator were still planned and AMR still had an ample $4.1bn in unrestricted cash reserves (18.5% of last year's revenues). It seems that AMR's board saw no early resolution to the pilot talks and concluded, also in light of the global economic turmoil and the high and volatile oil



Note: 2011F Analysts' consensus estimate as of Dec 14.

prices, that it was prudent to file now while the company still had adequate financial resources for the reorganisation. Rating agency Standard & Poor's (S&P) observed that AMR "likely would have faced cash pressures by late 2012 and had heavy debt maturities ($1.7bn) next year".

The bankruptcy filing meant a change in leadership. Despite the board's request that he stay, Gerard Arpey opted to retire. His right-hand man, president Tom Horton, was named chairman/CEO. Horton originally joined AMR in 1985, had two terms as CFO (broken by a four-year stint as CFO and vice-chairman of AT&T in 2002-2006) and was named president in 2010.

As a nice touch, Arpey has joined Emerald Creek Group, the private equity firm founded by another highly-regarded former airline leader, ex-Continental CEO Larry Kellner. As partner, Arpey will lead the Houston-based firm along with Kellner.

A week after the filing AMR announced more top management changes. With the retirement of three senior executives, the leadership team was streamlined and reduced in size. Also, AMR named its treasurer Beverley Goulet chief restructuring officer (CRO).

What kind of Chapter 11?

AMR's filing, in the federal bankruptcy court in the Southern District of New York, listed total assets of $24.7bn, total debts of $29.6bn and cash of $4.1bn.

As is typical in airline bankruptcies, general shareholders are unlikely to see any recovery in their investment. The old stock becomes worthless and is typically wiped out when the company exits Chapter 11 (and issues new shares).

Secured creditors can expect to recover close to 100% of their claims. AMR's court documents listed a substantial $10bn of secured debt. According to JP Morgan, that includes $2.1bn in EETCs, $1.7bn in other secured bonds, $1.6bn in special facility revenue bonds, $3.9bn in other types of secured debt and $694m in capital leases.

Unsecured creditors as a group typically recover only a fraction of their claims. Fitch Ratings estimated that holders of AMR's unsecured notes and debentures, which total around $845m, will likely recover 10% or less of face value.

AMR's largest trade creditors include Boeing, Rolls-Royce, Hewlett-Packard, Sky Chefs, Honeywell, CITGO Petroleum and various airport operators. The most fortunate are those designated as "critical vendors". AMR immediately sought court approval to pay $50m of the $85m claims submitted by select vendors – a group that include providers of in-flight training, aircraft parts, "essential" amenities, ground services and information technology. The other trade creditors will have to wait until secured creditors have been paid and until AMR decides which aircraft, goods, services, facilities and contracts it wishes to keep, reject or renegotiate.

The nine-member official committee of unsecured creditors includes AMR's three key unions – Allied Pilots Association (APA), TWU and AFA. This unusually high level of union representation reflects the fact that revising labour contracts will be the key component of AMR's restructuring. The committee also includes three financial institutions (Wilmington Trust, Manufacturers and Traders Trust and Bank of New York Mellon) Pension Benefit Guaranty Corp or PBGC (which could become a major creditor if AMR terminates its pension plans), Hewlett-Packard and Boeing Capital.

The unsecured creditors committee has a say in major decisions outside of normal business in Chapter 11, including shrinkage, mergers and pension plan terminations. In Delta's bankruptcy US Airways' hostile bid failed essentially because the unsecured creditors committee refused to support it.

In some respects at least, the restructuring looks relatively straightforward. The $4.1bn cash reserves will keep the airline running normally and make it unnecessary to obtain DIP financing.

There was a sense of inevitability about AMR's Chapter 11 filing – something that just may pave the way for a smoother restructuring process. There is also a consensus that the restructuring will be successful, just like the other recent US legacy Chapter 11s. AMR will also benefit from the lessons and experience of the other carriers.

AMR is expected to spend 18-24 months in Chapter 11, roughly the same as Delta and Northwest (20-21 months) but much less than UAL (three years). However, AMR's aim is to be out of Chapter 11 within 18 months (or at least submit its reorganisation plan in that timeframe), because under new bankruptcy rules passed in late 2005, outside parties can submit rival reorganisation plans after 18 months.

Bankruptcy lawyers have commented that it is quite possible for AMR to get it done in 18 months, but not being able to reach consensual agreement with various stakeholders could prolong the process. Section 1113 (rejection of collective bargaining agreements) and Section 1114 (modification of retiree benefits) are also arduous processes that could drag on.

Of course, regardless of how difficult and contentious the restructuring gets, it will be "business as usual" in airline operations. There will be no effect on oneworld or other codeshare operations.

Implications for labour

It is not clear if American's union leaders were caught totally by surprise by the Chapter 11 filing decision and it hardly matters now. But the fact is that Chapter 11 will mean deeper labour concessions than the ones unions have been turning down in negotiations. Last month APA's leadership refused to consider proposals that reportedly involved 7-9% salary increases in return for longer working hours and reduced pension contributions. (After the Chapter 11 filing one APA official was quoted being rather philosophical about it; he noted that sometimes it is easier to have things imposed on you.)

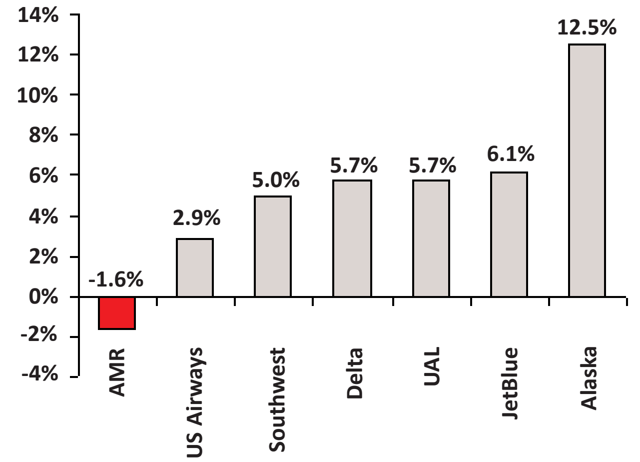
AMR has not released specific cost cutting targets but has said publicly that its annual labour costs are $800m higher than those of its large competitors. The labour cost disadvantage relates particularly to work rules, productivity and benefits, rather than pay scales. The key issue with the pilots is relaxing the uncompetitive scope clause to permit more large RJs and allowing more domestic codesharing. Under the current contract, AMR is limited to just 46 70-seat aircraft, when Delta and UAL can operate three to four times as many 70-90 seaters.

Even in Chapter 11 the preference is to reach consensual labour agreements. So, AMR will sit down with its union leaders and non-organised work groups and negotiate under the supervision of the court. But if consensual agreement is not reached in a timely manner, AMR can ask the court to terminate the contracts, after which wages and work rules would be set under federal labour laws. That would be a disastrous scenario from the morale viewpoint, making it tougher or even impossible to repair labour relations after bankruptcy.

There is always hope for innovative approaches. It has been suggested that the pilots could look for a future ownership stake in AMR in return for concessions – one possible reason why they want help from Wall Street restructuring experts.

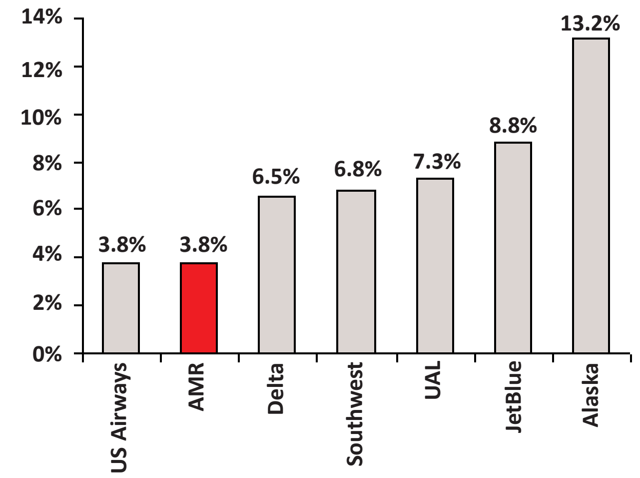
The fate of AMR's defined-benefit pension plans is potentially the most controversial part of its reorganisation. According to PBGC (the US agency created to protect private retirement benefits), American sponsors four traditional pension plans with $8.3bn in assets to cover $18.5bn in benefit obligations for 130,000

PROJECTED 2011 OPERATING MARGINS



Source: *J.P. Morgan (December 15)*

ILLUSTRATIVE POST-AMR CHAPTER 11 OPERATING MARGINS (2011)



Source: *J.P. Morgan (December 15). Assumes bankruptcy reorganisation completed by 1/1/11 and that AMR reduced capacity by 10%.*

participants. If the airline were to terminate the plans, PBGC would pay out about $17.5bn and about $1bn in benefits would be lost (because PBGC's payments are capped under federal law). Furthermore, a default by AMR would significantly worsen the agency's financial position; it already has a $26bn deficit and needs to sharply increase premiums to cover that. (PBGC does not receive taxpayer funds; its operations are financed by insurance premiums paid by companies that have defined-benefit plans and with assets and recoveries from failed plans.)

AMR has not yet decided what to do

with the pension plans or filed any pension-related documents in court. But the leadership has stated that pensions are a very big part of AMR's cost disadvantage. Also, AMR's lawyers have been saying publicly that the airline cannot sustain the current plans and must switch to defined-contribution plans.

PBGC has responded swiftly with a series of strongly-worded statements from its director, Josh Gotbaum. First, the agency has said that it will work with AMR, as it does with other companies, to "encourage American to fix its financial problems and still keep its pension plans". Second, Gotbaum has said that before AMR could back out of its retirement commitments, it would "have to prove it can't successfully reorganise if the pensions continue". PBGC is a "pension safety net, not a convenient option for companies that want to sidestep their retirement commitments".

Many companies in Chapter 11 do keep their pension plans or terminate only some of them. While UAL and US Airways shed all their traditional plans in bankruptcy (UAL had a funding gap similar to AMR's), Northwest did not terminate any plans. Delta terminated the plan covering its unionised pilots but maintained other workers' plans, though it no longer makes contributions.

AMR has kept up with its immediate pension funding commitments. It met its estimated 2011 minimum required contribution of $520m by September and expected to pay $560m in 2012 (these amounts benefit from pension relief measures introduced by legislation in 2006 and 2010). But AMR's unions will use that to argue why the pension plans should be maintained.

Morale at AMR will be weakened also by layoffs, necessary as the airline shrinks. Given that termination of all four pension plans would be disastrous for employee relations, hopefully there will be some kind of a compromise solution (perhaps somewhere between the UAL and Delta outcomes).

Of course, AMR's bankruptcy was a major blow also to other large US airlines' unions (particularly at UAL and Delta), many of which were targeting American's industry-leading pay rates in their current contract negotiations.

Expected fleet strategy

AMR is committed to modernising its aging fleet, so its fleet strategy in Chapter 11 is simple: keep all the new aircraft orders and accelerate older aircraft retirements. This strategy is an important part of gaining a competitive cost structure.

So, the $40bn of orders that American announced in July for 460 Airbus and Boeing narrowbody aircraft, which secured $13bn of attractive lease financing, would appear to be safe, with one exception: the order for 100 737 MAX aircraft, which was not yet firm. Airlines in Chapter 11 are normally allowed to keep firm orders, but it is hard to persuade the court to authorise new obligations. AMR may have to wait until it exits Chapter 11 to confirm the MAX order.

This may not affect AMR much at all. Boeing, which was fortunate to clinch a massive firm 737 MAX order from Southwest earlier this month (making Southwest the type's launch customer), has said that it will keep aircraft available for AMR (like it has done in the past). The MAX is not available until 2017 anyway, and American has plenty of 737NGs joining the fleet in the coming years (including 100 new firm 737NG orders placed in July).

As to aircraft retirements, the main focus will be to rapidly downsize the fleet of MD80s, which still total over 200 or almost a quarter of AMR's fleet. Fortunately, many of the older MD-80s are on operating leases, which can be easily rejected in bankruptcy. The first batch of such rejections (20 MD80s and four Fokker 28s) took place within a day of the Chapter 11 filing.

S&P suggested that, in addition to MD-80s, AMR is likely to retire more 757s, 767s and small regional jets – mostly domestic service aircraft. The extent would depend on how AMR wants to change its network and capacity, which in turn could depend on the extent of the scope clause relaxation. But the sheer size of the old fleet means that AMR cannot immediately retire all of the aircraft even if it wanted to.

AMR is now conducting a "tail-by-tail" review of its fleet, to see which aircraft it wishes to keep, reject or renegotiate. The airline noted in court filings that the market values and market lease rates of many of its aircraft have changed substantially since the aircraft were originally leased or financed.

The process can get complicated with debt because not all aircraft are financed individually and many EETCs have cross-collateralisation and cross-default provisions. For example, suspending payments on one aircraft may risk certificate-holders foreclosing on all the aircraft in that series. So AMR may end up having to keep some aircraft that it did not want to keep.

AMR's shrinkage and industry impact

Most analysts believe that AMR will see ASM shrinkage in the region of 10% in bankruptcy. This seems more than the "modest reduction in flying" Horton initially talked about, but it would be less than the 15-20% cuts Delta, Northwest and UAL implemented in bankruptcy.

Horton has signalled a firm commitment to the "cornerstone" strategy, in which 98% of AMR's flights begin or end in five major US cities: New York, Los Angeles, Chicago, Dallas and Miami. But many analysts argue that the strategy has been successful only in Miami and Dallas, where AMR has dominant market shares. Los Angeles, in particular, is seen as ripe for cutbacks on less profitable flying. Some analysts also call for cuts at Chicago, the hub that AMR shares with UAL.

American will probably not want to reduce service in the business travel dominated markets across the Atlantic and the Pacific, but some analysts have suggested that it may consider reversing some of its recent expansion to secondary European cities and to Tokyo. American can be expected to continue downsizing its presence in Puerto Rico and the Caribbean.

Should American wish to reduce transatlantic and transpacific flying, now at least it has greater flexibility to do that thanks to the immunised JVs with IAG and JAL. BofA Merrill Lynch's Europe-based analysts suggested that the IAG/AA JV could see some "trimming of non-core lower profitability routes".

As has been observed in previous legacy bankruptcies, AMR's contraction should have positive impact on the rest of the US airline industry. First, the capacity cuts will lead to a better domestic pricing environment, boosting revenues. Second, UAL and Delta could gain corporate market share because of the uncertainty surrounding AMR. Third, relaxation of domestic codesharing limits at AMR could lead to new connecting opportunities for JetBlue in the East and Alaska in the West. Fourth, relaxation of AMR's scope clause could lead to new opportunities for regional carriers. Fifth, with AMR's labour costs coming down, there is less wage pressure at other carriers (particularly benefiting UAL). Sixth, the AMR reorganisation could be a catalyst for further industry consolidation, which would further reduce capacity.

JP Morgan estimates that a 10% capacity reduction at AMR would divert 6% or $1.4bn revenue to competitors. This equates to a 1-3% revenue improvement per competitor in 2012. The impact would be to measurably boost other US airlines' profits next year. Airline stocks have also benefited. JP Morgan analysts noted on December 13: "There is little question that AMR's bankruptcy has served as a catalyst in significantly rekindling investor interest in the space".

BofA Merrill Lynch analysts estimated that as a result of AMR's capacity cuts (which they assumed would be 5%) the industry may need only 2.5% revenue growth to double earnings in 2012. In their view, absent a recession and a further spike in oil, some airline stocks have the potential to double over the next 12 months.

Horton's very bullish statements about AMR's longer-term potential and desire to "grow and prosper" gave the impression that, once it has closed the cost gap, AMR could leap to the top of the profit league and start behaving quite aggressively. JP Morgan analysts disputed any such suggestions, saying that no airline had emerged from Chapter 11 on the offensive and that "AMR is at best expected to emerge with cost parity, not superiority". In their prediction, AMR would have operating margins superior to those of US Airways but falling short of Delta's, Southwest's and UAL's (see chart, page 7). S&P described the post-bankruptcy AMR as a "somewhat smaller airline with more competitive labour costs and a lighter debt load".

There is considerable disagreement in the financial community about the odds of AMR being involved in a merger in the next couple of years. Proponents have argued, first, that history suggests there will be a merger. Second, bankruptcy makes AMR vulnerable to unsolicited takeover bids from rival carriers. Third, many believe that US Airways will make such an unsolicited bid; after all, it made a run for Delta, talked with UAL about a merger and continues to be a strong proponent of consolidation. Fourth, AMR may need increased scale to compete equally with Delta and UAL for corporate contracts. Fitch Ratings went as far as to say that AMR "may ultimately face the need to consider a merger with US Airways as the only path to strategic relevance in an industry where global network scale and scope is more important than ever".

But many others find it hard to see what AMR would gain from a merger with US Airways. S&P highlighted two major negatives. First, US Airways' route network, which focuses on leisure destinations or second-tier business markets and faces significant competition from Southwest, would not fit into American's current business strategy, which focuses on major business markets in the US and building closer ties with airline partners overseas. Second, there are the labour issues. US Airways has still not fully integrated its employee groups from the 2005 merger with America West; the pilot groups cannot agree on seniority list integration. Clearly, combining that with AMR's very difficult labour relations could be a recipe for disaster.

Many analysts have echoed those sentiments, some even suggesting that they would see more sense in a Delta-US Airways or UAL-US Airways combination. Others have made the point that consolidation can take different forms. AMR's strategy of forging immunised global joint ventures will certainly help it gain scale and scope. It will be the perfect candidate for an international merger (with IAG) when such deals become possible. Then again, as S&P pointed out, AMR may have less control over whether it merges, particularly if its reorganisation takes longer than 18 months.

By Heini Nuutinen
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Vueling Airlines: In the eye of a Spanish storm

It has been a tough 2011 for Vueling Airlines - rising fuel prices, a Spanish economy in deep recession, stagnant domestic demand and increasing competition from Ryanair and other LCCs has resulted in significant falls in both operating and net profit for the first three-quarters of the year. Are there better times ahead for Spain's third-largest airline?

Founded in 2004 and based in Barcelona, Vueling Airlines operates around 1,400 flights a week to 13 countries and 59 destinations, all but one of which are in Europe (the exception being Marrakech). Its domestic network covers 21 cities and it has seven bases in Spain: Barcelona, Seville, Madrid, Malaga, Bilbao, Valencia and – during the summer season only – Ibiza.

After merging with Clickair in July 2009 (see *Aviation Strategy*, November 2009), Vueling spent much of the following 18 months in what it calls a "consolidation mode". In 2010 Vueling recorded a 66% rise in net profits to €46m, based on a 32% rise in revenue to €797m and a 35% rise in passengers carried to 11 million, thanks largely to the Clickair merger. The airline started to grow again this year, with its fleet increasing from 36 aircraft in the summer of 2010 to 50 today, accompanied by an increase in the workforce through 2011 of 400.

Indeed in the first three-quarters of 2011 Vueling recorded a 9.2% rise in revenue to €687.4m, of which 89% was ticket revenue and 11% ancillary revenue. During the period capacity rose 6.8% year-on-year - driven by new routes operated for Iberia and by new international bases - but this was outpaced by a 9.3% increase in traffic, resulting in a 1.7 percentage point improvement in load factor, to 75.3%.

Profits tumble through 2011

However, operating profit for January-September 2011 totalled €29.8m, compared with €67.6m in the first three-quarters of 2010, and this was due largely to a 41% rise in fuel costs, to €195.7m. Net profit fell similarly, from €50.4m in 1Q-3Q 2010 to €21.4m in January-September 2011.

Thanks to fuel prices, Vueling is having to work very hard to just to keep its overall costs level – in the third quarter of 2011 CASK rose just to Euro cents 5.81, comparable to the Euro cents 5.80 it recorded in the second quarter of the year. But this was achieved via a steep reduction in non-fuel costs from Euro cents 4.08 in 2Q to Euro cents 3.92 in 3Q (a 4% reduction in just one quarter), which negated a steep rise in fuel CASK from Euro cents 1.72 in 2Q to Euro cents 1.88 in 3Q. Looking at a longer time frame, fuel CASK has risen steadily each and each quarter from Euro cents 1.22 in 1Q 2010 to 1.88 in 2Q 2011. If that fuel cost keeps rising Vueling will pretty soon run out of scope for further non-fuel cost savings, and improvements in the Euro/Dollar exchange rate will not be sufficient to offset a further rise in fuel prices.

The good news is that fuel costs appear to be stabilising at the moment, and Vueling's fuel hedging has had some effect in dampening down the effects of rising fuel prices through the year. As at mid-November 81% of Vueling's fuel needs for the rest of the year had been hedged at US$884 per tonne, with 43% of 2012 needs hedged at US$980 per tonne.

Of course regardless of what happens to fuel, there have been and will be continuous cost-cutting programmes at Vueling. Alex Cruz - managing director of Vueling since 2009 (he was previously CEO of Clickair) - says cost-cutting is part of the "DNA" of Vueling, with no less than 75 separate initiatives through 2011. An initial target of taking out another €13m of annual costs by the end of this year was raised to €16.7m as 2011 progressed, and 98% of this improved cost savings target has already been realised, with Vueling saying that - crucially - almost all of these new cost savings are "sustainable and will be maintained".

Stretching the business model

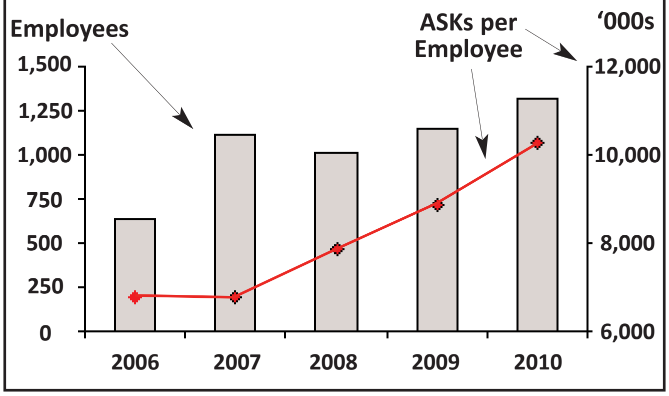
Beyond that though, how much more structural cost can be taken out is a debatable point. Although productivity has risen steadily over the last few years (see chart, right) and Vueling is a LCC, recently Cruz spoke about "breaking all the commandments of the low-cost bible," whether it's targeted services and products for business travellers, using landing bridges rather than buses to deliver passengers to aircraft, or operating mainly to primary airports.

While there is a strong leisure passenger focus, the airline has been targeting business travellers for the last few years, and Vueling's latest business product is called Duo, which includes an in-flight snack and drink, an empty middle seat and preferential boarding. This joins Vueling's go! and flex fares, which offer a more basic business product.

Vueling also has what it calls a "balanced distribution strategy", with both direct web sales and indirect sales via travel agents. Fares booked on all offline distribution methods are 40% higher than fares booked online, and although costs are higher for offline sales the net boost from offline sales (compared with online) is still significant. Against that, however, needs to be considered the loss of ancillary revenue from offline sales (since almost all ancillary revenue comes from services booked through the Vueling website, despite the best efforts of Vueling to persuade offline channels to sell ancillary services).

As part of a growing emphasis on improving average revenue and increasing the airline's attractiveness to business passengers, since 2010 Vueling has been improving its connection services for Vueling business (and leisure) passengers connecting onto other Vueling flights or to long-haul services at both Madrid and Barcelona. Naturally Barcelona is the priority, and since 2010 schedules have been adjusted to improve frequencies and connections, with a 55

VUELING EMPLOYEES AND PRODUCTIVITY



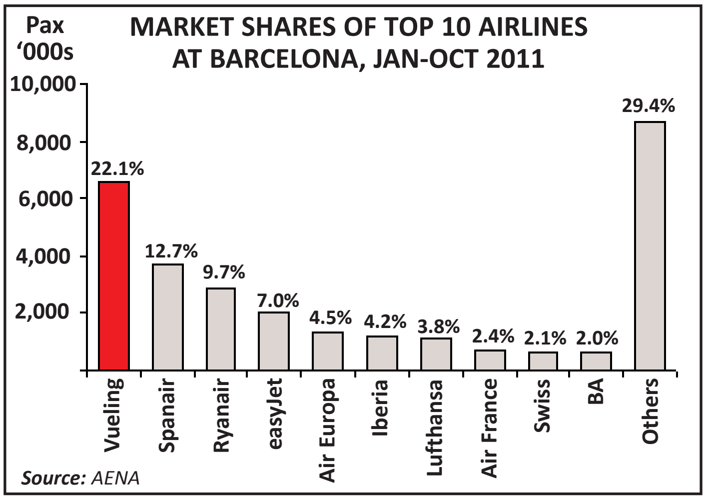
minute gap between connecting flights and with passengers being charged a €5 connecting fee. The trick of course is to do this without layering on too many additional costs, and Vueling insists that its network will continue to expand on a point-to-point network basis only.

The long-haul connections specifically derive from connection agreements with carriers such as Avianca and LAN, and Vueling says it is being approached for connection agreements by "a large number of airlines". Vueling executives admit that this is straining the core skills of the airline, and so the prospect of joining any global airline alliance is distant at the moment.

Nevertheless, the connection policy has been successful, and in the third quarter of 2011 connecting passengers rose almost fivefold compared with the same quarter in 2010, rising from 75,000 to 369,000. Of those, 224,000 were connected from one Vueling flight to another, and 145,000 were connected between a Vueling flight and a service from another airline.

Iberia deal

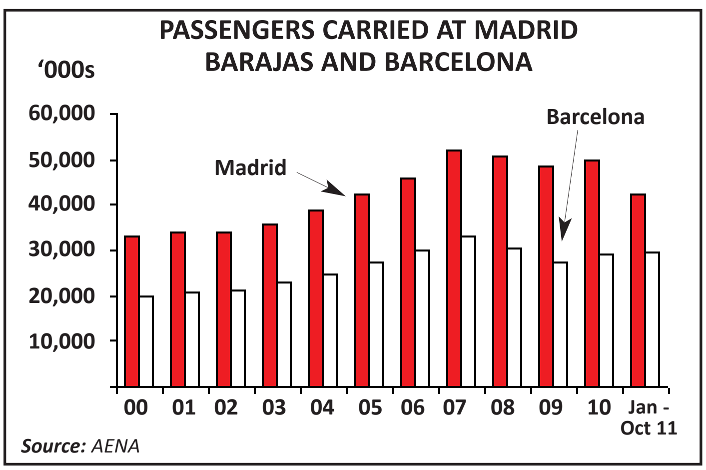
At Madrid Barajas, Vueling's presence has also been boosted by a temporary eight month contract won in April this year to operate seven Iberia routes (to Lanzarote, Fuerteventura, Malaga, Alicante, Majorca, Bucharest and Warsaw), which is part of International Airlines Group attempts to reduce the losses of Spain's flag carrier on short-haul. As part of the contract Vueling sub-leased six A320s from Iberia, which



were repainted with Vueling livery and which boosted Vueling aircraft stationed at Madrid to nine.

That deal was subsequently extended in the 2011/12 winter season, although all the original routes that Vueling operated were taken back by Iberia, with three new routes replacing them (to Amsterdam, Copenhagen and Berlin). As a result some of the aircraft borrowed by Vueling have been returned to Iberia.

However Willie Walsh, chief executive of IAG, says that using Vueling (as well as Air Nostrum) is not a "structural solution" to the challenges faced on short-haul at Iberia, as while it worked fine on routes where transfer and premium passenger numbers are relatively low, IAG is looking for a permanent solution that offers the greater "connectivity" needed by Iberia – which directly implies that attempts by Vueling to improve connections are nowhere near sufficient for the needs of the Spanish flag carrier.



Iberia has been in negotiations with SEPLA, the Spanish pilots union, during 2011 in an attempt to establish a low cost operation out of Madrid, but talks have proved problematical, and the return of all the summer routes operated by Vueling back to Iberia was seen as an attempt to placate the union and help persuade them to agree to new working practices at a low-cost offshoot. Nevertheless, in late November Iberia appointed Luis Gallego - previously chief operating officer at Vueling since 2009 - as chief executive of Iberia Express, the title of its new low cost short- and medium-haul operation based out of Madrid Barajas that will begin services in March 2012 using four A320s owned by its parent, rising to a fleet of 13 by the end of that year.

Inevitably Vueling has found it harder (i.e. more expensive) to operate out of Spain's largest airport than at Barcelona, with Cruz admitting that a hub-based operation "is a big step from all aspects frankly, from a culture perspective, IT systems, commercial, etc". The Iberia routes are in addition to the seven routes that Vueling already operates out of Madrid, including Paris and Rome. Just 3% of all Vueling passengers flew through Madrid in 2010, although that will rise to 6% or more this year thanks to the services for Iberia.

Nevertheless, Barcelona will remain the key priority for Vueling. The airline has a 22.1% market share at Barcelona El Prat (see chart, above), and Vueling's (and other airlines') growth at Barcelona means that airport is slowly but surely catching up with Madrid Barajas in terms of importance within the Spanish market. As can be seen in the bar chart, (on left), the gap in terms of passengers carried is closing, and the table, (see page 14), reveals that in just three years passengers carried through Barcelona expressed as a percentage of those flown through Madrid has leapt by 10 percentage points, from 60% to 70%. Indeed in each of the two most important markets – domestic routes and Spain-Europe – Barcelona airport has closed the gap with Madrid Barajas by 13% over the last three years. Although

Madrid has slightly widened the gap with Barcelona in terms of long-haul services, it's no exaggeration to say that the day when Barcelona becomes more important as an airport than Madrid Barajas is not impossible to contemplate.

At Barcelona, over the winter season Vueling is adding five new routes, including to Copenhagen and Aalborg. A Barcelona-Cardiff route will launch in March 2012, operating three times a week; Vueling also operates to London Heathrow and further routes into the UK are likely to be announced next year. A number of other routes have been cancelled though, including between Barcelona and Jerez, and from Seville to La Coruna and London. Overall capacity this winter will increase 8%, with international capacity up 16% and domestic just by 1%.

That imbalance comes about because it has been a difficult year for all Spanish airlines domestically given the poor Spanish economy, and Cruz has admitted that the beginning of the year was "very weak". Although the overall numbers of passengers carried in the Spanish market is recovering well in 2011 (see chart, right), the disparity between domestic and international traffic is significant, and poor domestic demand is being exacerbated by overcapacity on certain internal Spanish routes. Indeed domestic passengers carried at Vueling were up just 1% in January-September 2011, compared with a 10% rise in passengers carried on international Vueling flights.

Hence Vueling's focus on expansion of European routes. The airline's first venture into operating bases outside of Spain came in 2007, when it opened an operation at Paris Charles de Gaulle, though this was closed down the following year prior to the merger with Clickair. But it tried again by opening bases at Toulouse-Blagnac and Amsterdam Schiphol in April 2011, and in both of these markets, in the third quarter of 2011 60% of passengers originated in the foreign country (rather than Spain).Vueling is also looking to open other bases outside of Spain (Paris Orly is being considered, subject to being able to acquire sufficient slots), although all the indications are that Vueling will be relatively cautious in its overseas expansion strategy for the moment.

BARCELONA CATCHING UP WITH MADRID
(Jan-Oct 2011 pax by flight country of origin/destination)

	Madrid Barajas	Barcelona	Barca as % of Mad Jan-Oct 2011	Barca as % of Mad 2008
Domestic	14,668	10,722	73.1%	60.3%
Europe	18,397	16,694	90.7%	77.5%
North America	2,636	843	32.0%	36.9%
Latin America	4,761	211	4.4%	16.1%
Other long-haul	1,939	1,038	53.5%	56.6%
Total	**42,401**	**29,508**	**69.6%**	**59.5%**

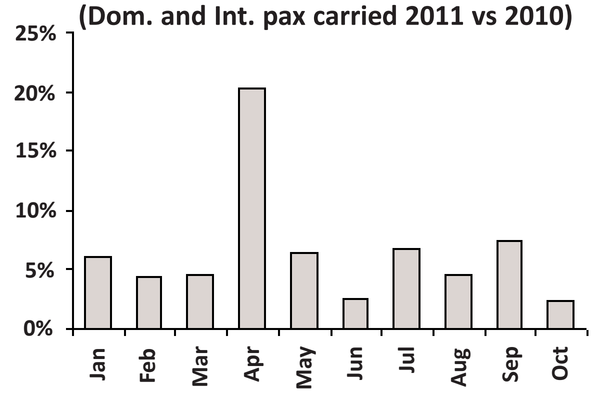
Note: Pax in '000s ***Source:*** *AENA*

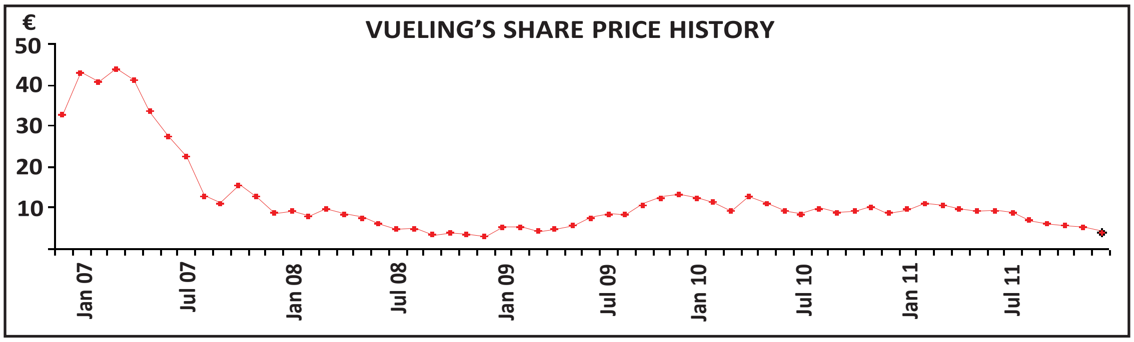
Order due soon

Vueling operates a fleet of 49 A320s and a single A319, all of which are on operating leases and which have an average age of nine years. Earlier this year Vueling said that it would continue to operate an exclusively leased fleet for another two or three years, but after then date it would gradually introduce owned aircraft.

An order for new aircraft will be placed in the first quarter of 2012, with the first aircraft arriving in 2013 or 2014 to replace aircraft as their leases expire. Although there are hints of a large order, it's also possible that the initial order may be for a smaller amount of aircraft, as Vueling may remain cautious in its outlook given its relatively poor performance in 2011. And though Boeing aircraft will be under consideration, Vueling is much more likely to place an order for Airbus models, although the Bombardier CSeries is apparently also being

SPANISH MARKET RECOVERY
(Dom. and Int. pax carried 2011 vs 2010)

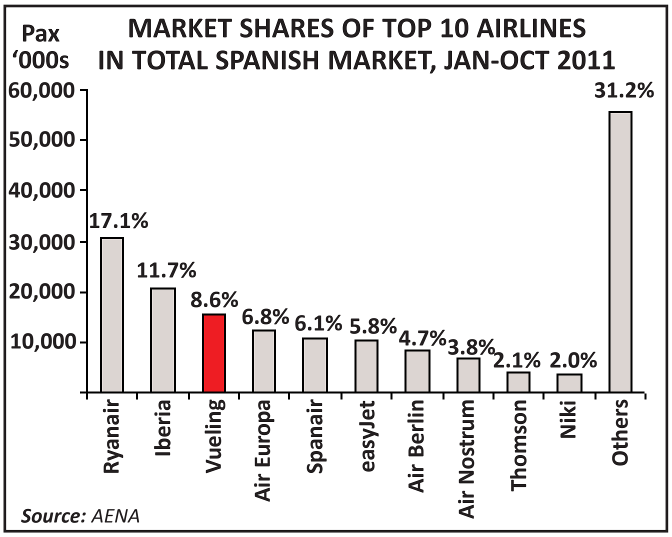




analysed. Whatever the model, those new aircraft will be acquired through finance leases and sale and leasebacks, with a target of 50% of the total fleet being under non-operating lease structures by 2018.

Looking to the future, Vueling originally said the Iberia deal would help the airline achieve a 15% rise in passengers carried this year (with most of this growth out of Madrid), but this forecast has now been revised down to 10% thanks to higher fuel prices, with a forecast 6% rise in ASKs in 2011. RASK and cost per ASK (excluding fuel) in 2011 are likely to be similar to 2010, but because of the hike in fuel costs, while Vueling is on target to make an operating profit in 2011 this will be much reduced compared with 2010.

The pressure that Vueling is under this year has continued the airline's poor run on the stock market. After an IPO on the Madrid stock exchange in December 2006, apart from a brief period at the start of 2007 the share price has been drifting steadily downwards ever since (see chart, above). During 2011 the share price has more than halved, and as at late November the price of €4 gave Vueling a market cap of €120m. That won't worry 46% shareholder Iberia too much, but perhaps what is of more significance is the fact that as at the end of September 2011 cash and cash equivalents had fallen to €28.8m, compared with €63.9m just three months earlier and €121.3m at the end of 2009. On the other hand long-term liabilities rise to €185.9m at the end of September 2011, compared with €165.1m at the end of 2Q and €127.7m at the end of 2009. The cash and liabilities figure are by no means at levels that cause undue concern, but the downwards movement in cash and the upwards trend in liabilities are unwelcome trends.



Source: AENA

The biggest challenge of all to Vueling comes from Ryanair, which opened a base at Barcelona airport in September 2010, to add to existing competition from easyJet and Spanair. Ryanair also operates from two Catalan airports – Reus (south of Barcelona) and Girona (north of the city) – but the El Prat operation has put real pressure on Vueling, with Ryanair now having built up a network of 28 routes there, of which eight are in direct competition with Vueling services. Thanks to this move, plus its many other Spanish routes, Ryanair is now the leading airline in the Spanish market (see chart, left), leaving Iberia far behind – although Vueling is in a very respectable third place in terms of passengers carried.

The long-term aim for Vueling remains to increase its revenue and passenger base substantially - and potentially be on the look-out for acquisition opportunities - but until the Spanish economy improves the airline will continue to battle through a tough period where the main focus will be to maintain profitability in the face of adverse external threats.

A delay to Qatar Airways' expansion plans?

Now that Qatar Airways has postponed its IPO due to the global economic crisis, will its aggressive plans for fleet and route growth through to the 2020s still go ahead - or will the delay force Qatar's flag carrier to scale back its ambitions?

Founded only in 1994, Qatar Airways was effectively relaunched in 1997 under a new chief executive, Akbar Al Baker - who previously worked at the Civil Aviation Directorate of Qatar - and today the Doha-based airline operates more than 100 aircraft to over 100 destinations in the Middle East, Europe, Africa, North America and the Asia/Pacific.

Qatar releases very few details about its financial results (a reluctance that will have to change when the IPO process is started); operating results are not released, for example. However, Qatar says it has been profitable for the last few years, and in the 12 months ending March 31st 2011 net profits of around US$220m are believed to have been made - similar to the net profit figures claimed in the previous two financial years – and based on revenue in 2010/11 of around US$5.4bn, 37% up on the previous financial year. The only other information known is that in the 2010/11 financial year Qatar carried 16m passengers, compared with 14m in 2009/10, and with traffic up 27.4% compared with a 26.2% rise in a capacity, passenger load factor increased by 0.7 percentage points in 2010/11, to 73.5%.

However, this April Al Baker did say that first quarter 2011 revenues had fallen by 6% compared to the planned target thanks to the so-called Arab Spring sweeping through the Middle East. Passengers carried fell 3% in the January-March period compared with the airlines' target, although both revenue and passenger numbers were higher than January-March figures in absolute terms.

Nevertheless, the substantial net profit for 2010/11 makes the delay in the IPO - announced in September - frustrating from Qatar Airways' point of view, as a base of three years' profitability would have been ideal for a float. The IPO had had been provisionally pencilled in for the end of 2011 or early 2012, with a dual listing anticipated in Doha and London. Advisory banks had already been hired, according to Al Baker, and it had been thought that strong interest from Middle Eastern and other investors would have made the IPO a success - but clearly Qatar's advisors believe differently in the current economic environment.

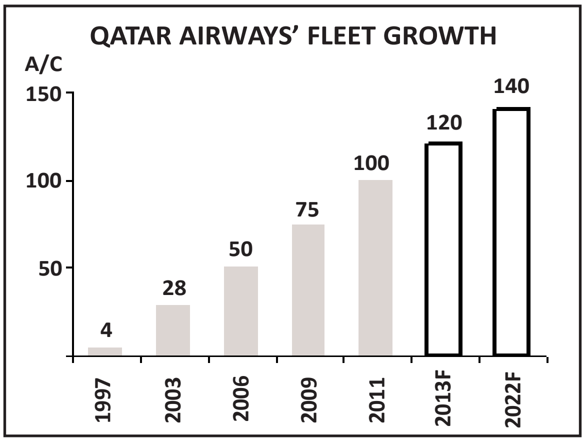
How much the postponement will delay Qatar's plans for fleet and route growth remain to be seen, but if a new IPO timetable isn't announced fairly soon then questions may start to be raised about the pace and scale of Qatar's expansion.

The growth path to 2022

The state of Qatar gained huge exposure by unexpectedly winning the rights to host the 2022 FIFA World Cup, and Qatar Airways has used that event as an impetus for its expansion plans, although these were largely in place well before the World Cup was awarded to Qatar in December 2010.

Qatar currently operates a fleet of 103 aircraft (with an average aircraft age of under four years), including 74 Airbus models and 28 777s (see table, page 18), but the scale of the airline's ambitions are shown by the 193 aircraft it has on firm order (plus options for another 25), including nine A320s, 50 A320neos, 80 A350s, 10 A380s, 14 777s and 30 787s.

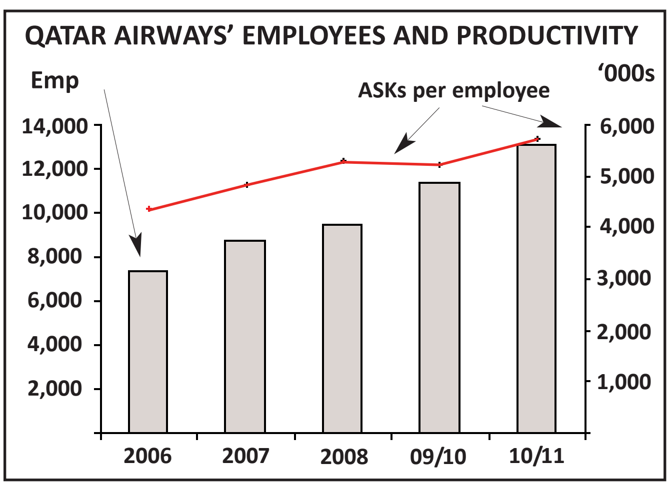
The expansion plans envisage a fleet of 140 aircraft by 2022 (see graph, page 17) serving a global network of 134 destinations, while the shorter-term goal is to have a fleet of 120-plus serving more than 120 destinations by 2013. The fleet growth will be accompanied by a huge workforce increase. The Qatar Airways group currently employs more than 19,000, but earlier this year it announced plans to add another 3,500 staff



each and every year for the next three years. Within the airline Qatar employs 13,000 people (see graph, below), with productivity as measured by ASKs per employee rising steadily over the last few years.

The airline received its 100th aircraft (a 777-200LR) in the middle of October, and it is now receiving new aircraft at the rate of at least one per month. The majority of these new aircraft will be based at Doha and - as with rivals Emirates and Etihad - Qatar Airways is investing heavily in establishing its hub as a central point linking Europe and North America in the west to Asian destinations in the east.

For long-haul, Qatar prefers smaller aircraft, and earlier this year Qatar ordered two 777-300ERs and three 777 freighters, while at the Paris Air Show in June it ordered another six 777-300ERs, and another two 777 freighters were ordered recently at the Dubai air show. It also has 30 787s on order, with



new 747s not on the agenda and with just 10 A380s on order (five of which were added at the Dubai air show) - in contrast to the 72 A380s on outstanding order by Emirates. The first of those aircraft is due to arrive in 2013.

Meanwhile the first of 80 A350 XWBs was due to be delivered at the end of 2013 – though Airbus's recent announcement of a delay in production means that the initial aircraft will not reach Qatar's fleet until 2014 at the very earliest.

Qatar also ordered 50 A320neos at Dubai, comprising six A319s, 30 A320s and 14 A321s. Qatar had an internal deadline of this summer to make a final decision on either A320neo aircraft or Bombardier C-Series models, and despite missing this deadline it finally went for the neo, even though following the order Al Baker said that he was "still interested" in the C-Series. The C-Series has the advantage that it can enter service in 2013, whereas the A320neo will probably be available from around 2016, and Qatar also apparently had concerns that the A320neo may just be a re-engined version of the current A320 family, which it believed would repeat the mistakes of the original version of the A350 – an aircraft that Al Baker dismissed contemptuously as "an old lady dressed up in new clothes".

Despite those concerns, the A320neo won the initial order race, which signals a significant push by Qatar Airways into the regional market, in order to deliver feed into its long-haul network out of Doha. There is certainly a whole series of underserved regional airports in the Middle East that have no direct connection to Doha, and - for example – in October Qatar announced it would add 31 weekly flights between Doha and Iranian cities from December onwards, including the new destination of Isfahan.

Qatar also has plans to launch a LCC that would use existing A320s in the Qatar fleet, though this very much remains a strategic option that would only be initiated if rival LCCs started to affect Qatar routes and profits significantly – which is not the case at the moment, the airline claims.

The Dubai Air Show was supposed to see an order for A330 freighters, as another of Qatar's goals is to become one of the world's leading freight airlines. It currently operates three A300-600Fs and two 777-200Fs to 30 destinations globally, and has six 777-200Fs on firm order.

In June Qatar agreed a deal to buy 35% of the Luxembourg-based cargo airline Cargolux for an undisclosed sum believed to be in the region of US$225m to US$300m, with Qatar acquiring the stake held by the Luxembourg state, which had stepped in to buy the stake previously held by SAirLines until 2009.

The state's deal was always meant to be a temporary measure; hence the sale to Qatar Airways. An accompanying commercial partnership will see connections built up between the hubs of the respective cargo operations – Doha and Luxembourg. Cargolux (in which Luxair, the Luxembourg flag carrier, remains the largest shareholder, with a 43.4% stake) is the largest all-cargo airline in Europe, employing 1,400 to operate a fleet of 16 747 freighters to more than 90 destinations across the globe. It has faced difficult times recently, being fined for price fixing in Europe (against which it is appealing), and is having to defend criminal charges in the US under an antitrust investigation. It was also the launch customer for the 747-8 freighter, with 13 of the type on order, the first two of which arrived this autumn joining the existing fleet of 747-200s and 747-400s.

The move is part of Qatar Airways' plans to become one of the world's major cargo airlines over the next few years, and Qatar also had plans to convert between 15 and 20 of its A330 passenger models into freighters, commencing in 2012 with planned completion by 2016, and part of the strategic goal to make Doha a leading global freight hub by 2015. The passenger A330s are due to be replaced by new 787s from the first quarter of 2012 and as they are taken out of the fleet and (potentially) converted they will then either go to Qatar's own cargo operation - and now Cargolux - or be leased/sold to third parties.

However, there is an ongoing dispute between Qatar and Airbus over the conversion of these aircraft to freighters. Qatar has consistently urged the European manufacturer to launch a programme to convert the -200 model. Airbus is reluctant to start such a programme, citing a lack of demand – although some analysts suspect this is more to do with fears that A330-200F sales will be cannibalised. In December Al Baker said that if Airbus didn't change its mind then he will go elsewhere, and he added that the airline would talk to Boeing about 767 freighters.

QATAR AIRWAYS' FLEET

Aircraft	In service	On order	Options
A300B4-600	3		
A319-100	2		
A320-200	24	9	6
A321-200	12		
A320neo		50	
A330-200	16		9
A330-300	13		
A340-600	4		8
A350-800		20	
A350-900		40	
A350-1000		20	
A380-800		10	
777-200/300	28	14	
787-8		30	
CL605	1		
BD-700			2
Total	103	193	25

Source: *Flightglobal*

With substantial amounts of new aircraft arriving in the next few years, Qatar is closely analysing those markets that it believes are underserved in terms of routes to/from the Gulf region – and which of course are also capable of being profitable.

Already this year routes have been launched to 12 destinations, including Brussels, Stuttgart, Aleppo, Shiraz, Venice, Medina and Kolkata. And once the Libyan civil war ended, Qatar moved quickly to add Benghazi to its route network, launching a four-times-a-week service from Doha from the 1st of November. Qatar previously flew to Tripoli, and that route is expected to be relaunched shortly.

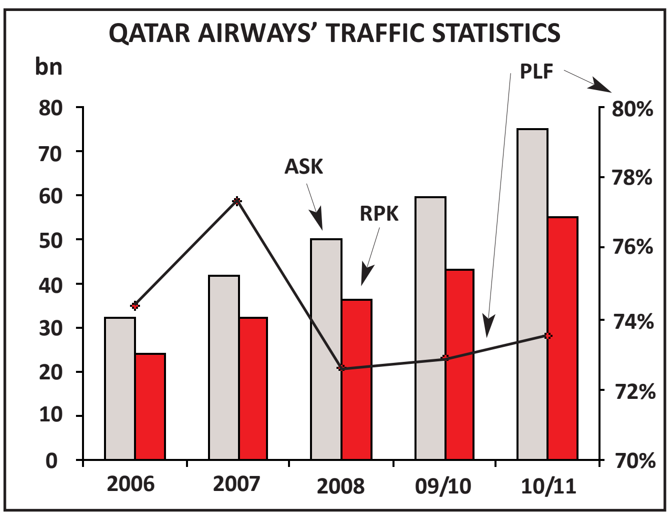
A service to Entebbe also launched in November, as well as a route from Doha to Chongqing in western China, and the three-times-a-week service using A330s became Qatar's fifth destination in that country (alongside Beijing, Hong Kong, Shanghai and Guangzhou), with 28 flight a week in total.

More routes into central and Eastern Europe are seen as a priority for Qatar, and a Sofia service – launched in September - complements routes to nearby Budapest and

Bucharest that were launched earlier in 2011. A quarter of Qatar's total network destinations is in Europe but most of them are to western Europe; though of the European routes started this year, half have been to central and eastern Europe. However, new routes to Baku and Tbilisi that were originally planned for November have been postponed until February of 2012 due to "constraints on aircraft availability", according to Al Baker.

In June Qatar also launched its first route to Canada, with a three-times-a-week service between Doha and Montreal using 777-200LRs, and it would like to build up further Canadian routes in the future, to Toronto, Vancouver and Calgary. Qatar is keen to take advantage of the row that has developed between Emirates and the Canadians, in which the rival airline has been prevented from launching new routes into Canada under a long-running row between the UAE and Canada, with the latter refusing to alter the existing bilateral and with Air Canada lobbying vociferously to maintain the current deal. The Qatar-Canada bilateral agreed late last year allows four Canadian cities to be served, although only with three flights a week on each route, which is a restriction that Qatar Airways would like to alter so as to allow daily flights - although it will endeavour to be more subtle in its lobbying than Emirates has been.

Elsewhere, South America is another market that Qatar has been analysing, and most particularly Brazil and Argentina.



Almost all of Qatar's routes originate or terminate at Doha, and earlier this year a new 2,000 square metre passenger terminal B costing $85m was unveiled at Doha International airport, which is dedicated to the more than 30 foreign airlines operating out of Doha and enables the other terminal to become an exclusive facility for Qatar Airways. However, this development, which has increased passenger capacity at the airport to 17 million a year, has an effective shelf life of just a year before the New Doha International airport (DIA) will open in 2012 with an initial capacity of 24m passengers a year. DIA is costing the Qatari state $14.5bn but will handle up to 50m passengers a year by 2015. Unsurprisingly, its busiest route is between Doha and Dubai, the hub of rival Emirates (see *Aviation Strategy*, July/August 2011). An extra three Dubai flights a day were added from August, bringing the daily frequency to 11 flights.

Critical response

With so many aircraft on order it's unsurprising that Qatar Airways reacted strongly to criticism earlier this year by Ulrich Schulte-Strathaus, secretary general Association of European Airlines, aimed at the Gulf's three main airlines – Qatar Airways, Emirates and Etihad Airways. In a speech to the International Aviation Club luncheon in Washington DC, Schulte-Strathaus said that those airlines "are owned by their respective governments, and operated as an instrument of national strategy, and they are integrated vertically across commerce, tourism and foreign policy. For them, the airlines are just a part – a tool – of this vertically integrated economic chain".

Qatar's Al Baker retorted that Schulte-Strathaus's comments were "factually incorrect and unfounded", and questioned whether he can "tell me of any country which does not consider its air transport industry, be that an individual airline or a multitude of them, as part of national interests?" Al Baker went on to question whether Schulte-Strathaus was "advocating that this policy of liberalisation should only apply when his member airlines are the beneficiaries and not vice-versa?"

But Al Baker didn't let the issue drop there. In June he interrupted the normally uncontroversial AGM of IATA in Singapore with an unprecedented and scathing attack on the way the body is run. Al Baker criticised the auditing process for airlines' accounts and said some of IATA's annual expenditure for 2010 – which included $18m for travel, $58m for data processing and IT, and $29m for consulting – needed to be justified. He also criticised fiercely the nomination of James Hogan, chief executive of rival Etihad, to the IATA board. Hogan was nominated to fill an extra seated created on the board in order to increase the representation of Middle Eastern airlines, but Al Baker said that the move was a surprise, and that "such decisions should be transparent and - if geographical representation is the basis of the composition of the board - the regional airlines involved should be informed in advance of their regional allotments so that they can coordinate who should represent them". Al Baker was backed by Tim Clark, president of Emirates Airline, who said that IATA was an entity run by the very few.

The growing war of words between the "Big Three" Gulf airlines and selected major European and US rivals, plus associated trade bodies, parallels the battle being fought between Qatar and other Middle Eastern carriers in gaining extra landing rights to long-haul destinations, from Germany to Canada. Qatar and the other Gulf airlines are justifiably concerned that criticism aimed their way over ownership and other issues will affect their expansion plans, with difficulties in winning new landing rights just one manifestation of that criticism.

At present 50% of Qatar Airways is held by the Qatar state (via the Qatar Investment Authority, which is the state's sovereign wealth fund) and the other 50% is owned by private Qatari investors, which Qatar argues makes it different to Emirates and Etihad in that it is not 100% owned by its government, and rather is a "public-private partnership". Qatar Airways also says that foreign airlines are afraid of Qatar's growth and are not willing to take financial risks to bring their standard up to those of their (Gulf) competitors.

But Qatar's fundamental argument is that it is supported, though not subsidised, by the Qatari government, and that airlines criticising have very short memories, because before they were privatised they were very heavily "supported" by their respective national governments. As a start-up, Qatar Airways argues it is just at an earlier stage of development, and in any case it will be privatised relatively soon – even if that now won't be in 2011 or the first half of 2012.

To buy or not to buy

But that delayed IPO may have one other consequence – that of derailing Qatar's plans for an acquisition. Qatar is known to be on the look-out for suitable candidates to buy, and earlier this year Al Baker talked about buying up to a 49.9% stake in a European carrier "with a strong network that would help us become an even more global player". He added that a deal "may be as early as this year". The airline insists it has enough cash and finance for such as move, though such a move is highly unlikely prior to an IPO.

Qatar Airways was one of the airlines reported to be interested in making a bid for TAP Portugal once the Portuguese government officially puts its stake up for sale (see *Aviation Strategy*, June 2010). That speculation grew following a visit by the Portuguese prime minister and other ministers to Qatar earlier in the year, in which the privatisation outline for TAP Portugal was presented to the Qatari authorities. Unsurprisingly the airline won't comment officially on this, and neither would it on speculation linking it with bmi and Virgin Atlantic. What Al Baker will say on the record is that he would be happy for one of the larger international aviation companies to take a stake in Qatar when it floats, although he has ruled out any kind of minority sale ahead of an IPO – whenever that will now be.

However, in late October reports indicated that Qatar may be negotiating to buy a 49% stake in Barcelona-based Spanair – a prospective deal that might stretch Al Baker's definition of acquiring an airline "with a strong network that would help us become an even more global player".

Freighter values and lease rates

FREIGHTER VALUES (US$m)	New	5 years old	10 years old	20 years old
A300-F4-600R		44.2	33.7	
A330-200F	99.8			
737-300QC				6.6
747-400M			49.6	25.9
747-400F (CF6)		88.2	72.6	
747-400ERF		90.5		
747-8F	178.5			
757-200PF				14.6
767-300F	59.9	49.9	39.9	
777-200LRF	158.1			
MD-11C			(1999 manuf.) 24.7	
MD-11F			(2000 manuf.) 33.2	

FREIGHTER LEASE RATES (US$000s per month)	New	5 years old	10 years old	20 years old
A300-F4-600R		355	306	
A330-200F	859			
737-300QC				118
747-400M			473	355
747-400F (CF6)		867	739	
747-400ERF		882		
787-8F	1,751			
757-200PF				176
767-300F	459	429	384	
777-200LRF	1,344			
MD-11C			(1999 manuf.) 288	
MD-11F			(2000 manuf.) 395	

Source: *AVAC*
Note: As assessed at end-October 2011; mid-range values for all types

		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/	Apr-Jun 09	7,042	7,717	-676	-580	-9.6%	-8.2%	63,578	50,467	79.4%	18,703	106,800
KLM Group	Jul-Sep 09	8,015	8,082	-67	-210	-0.8%	-2.6%	66,862	56,141	84.0%	19,668	105,444
YE 31/03	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	
	Oct-Dec 10	7,956	7,847	109	-62	1.4%	-0.8%	62,379	50,753	81.4%	17,551	101,946
	Year 2010/11	**31,219**	**19,236**	**1,171**	**810**	**3.8%**	**2.6%**	**250,836**	**204,737**	**81.6%**	**71,320**	**102,012**
	Apr-Jun 11	8,947	9,153	-206	-283	-2.3%	-3.2%	66,531	53,931	81.1%	19,653	
British Airways	**Year 2008/09**	**15,481**	**15,860**	**-379**	**-616**	**-2.4%**	**-4.0%**	**148,504**	**114,346**	**77.0%**	**33,117**	**41,473**
YE 31/03	**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	
IAG Group	Oct-Dec 10	5,124	5,116	8	121	0.2%	2.4%	50,417	39,305	78.0%		56,243
	Jan-Mar 11	4,969	5,109	-139	45	-2.8%	0.9%	51,118	37,768	73.9%	11,527	56,159
	Apr-Jun 11	5,951	5,678	273	135	4.6%	2.3%	53,425	42,635	79.8%	13,288	56,649
	Jul - Sep 11	6,356	5,842	514	401	8.1%	6.3%	55,661	47,022	84.5%	14,553	57,575
Iberia	**Year 2009**	**6,149**	**6,796**	**-647**	**-381**	**-10.5%**	**-6.2%**	**62,158**	**49,612**	**79.8%**		**20,671**
YE 31/12	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	Jan-Mar 09	6,560	6,617	-58	-335	-0.9%	-5.1%	44,179	32,681	74.0%	15,033	106,840
YE 31/12	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
	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
	Year 2010	**36,057**	**34,420**	**1,636**	**1,492**	**4.5%**	**4.1%**	**235,837**	**187,700**	**79.3%**	**91,157**	**117,019**
	Jan-Mar 11	8,792	9,031	-239	-692	-2.7%	-7.9%	60,326	43,726	72.5%	22,078	117,000
	Apr-Jun 11	10,967	10,636	331	433	3.0%	3.9%	68,763	53,603	78.0%	28,147	118,766
	Jul- Sep 11	11,430	10,616	814	699	7.1%	6.1%	73,674	60,216	81.7%	30,408	120,110
SAS	Jul-Sep 09	1,522	1,486	36	21	2.3%	1.4%	8,958	6,868	76.7%	6,245	17,825
YE 31/12	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
	Oct-Dec 10	1,556	1,606	-51	7	-3.2%	0.4%	8,761	6,389	72.9%	6,557	15,123
	Year 2010	**5,660**	**5,930**	**-270**	**-308**	**-4.8%**	**-5.4%**	**34,660**	**25,711**	**74.2%**	**25,228**	**15,559**
	Jan-Mar 11	1,336	1,395	-59	-54	-4.4%	-4.0%	8,528	5,655	66.3%	6,093	14,972
	Apr-Jun 11	1,793	1,648	145	88	8.1%	4.9%	9,848	7,494	76.1%	7,397	15,264
	Jul-Sep 11	1,642	1,565	77	33	4.7%	2.0%	9,609	7,579	78.9%	6,928	15,375
Ryanair	**Year 2008/09**	**4,191**	**3,986**	**205**	**-241**	**4.9%**	**-5.7%**			**81.0%**	**58,559**	
YE 31/03	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
	Year 2010/11	**4,797**	**4,114**	**682**	**530**	**14.2%**	**11.0%**			**83.0%**	**72,100**	
	Apr-Jun 11	1,661	1,418	245	201	14.7%	12.1%			83.0%	21,300	
	Jul-Sep 11	2,204	1,523	681	572	30.9%	25.9%			87.0%	23,000	
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	
	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**	
	Oct 10 - Mar 11	1,950	2,243	-229	-181	-11.7%	-9.3%	29,988	26,085	87.0%	23,900	
	Year 2010/11	**5,548**	**5,115**	**432**	**362**	**7.8%**	**6.5%**	**69,318**	**61,347**	**88.5%**	**54,500**	

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

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Alaska	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**
	Jan - Mar 11	965	831	134	74	13.9%	7.7%	11,445	9,419	82.3%	5,752	11,884
	Apr - Jun 11	1,110	1,052	58	29	5.2%	2.6%	12,020	10,127	84.3%	6,246	11,907
	Jul - Sep 11	1,198	1,055	143	77	11.9%	6.4%	12,469	10,787	86.5%	6,709	11,859
American	Jan - Mar 10	5,068	5,366	-298	-505	-5.9%	-10.0%	59,296	46,187	77.9%	20,168	77,800
	Apr -J un 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**
	Jan - Mar 11	5,533	5,765	-232	-436	-4.2%	-7.9%	60,912	46,935	77.1%	20,102	79,000
	Apr-Jun 11	6,114	6,192	-78	-286	-1.3%	-4.7%	63,130	52,766	83.6%	22,188	80,500
	Jul- Sep 11	6,376	6,337	39	-162	0.6%	-2.5%	64,269	54,552	84.9%	22,674	80,600
Continental	**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	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**
	Jan - Mar 11	7,747	7,839	-92	-318	-1.2%	-4.1%	90,473	69,086	76.4%	36,764	81,563
	Apr-Jun 11	9,153	8,672	481	198	5.3%	2.2%	96,785	81,054	83.7%	42,918	82,347
	Jul - Sep 11	9,816	8,956	860	549	8.8%	5.6%	101,807	87,702	86.1%	44,713	79,709
Southwest	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**
	Jan - Mar 11	3,103	2,989	114	5	3.7%	0.2%	39,438	30,892	78.3%	25,599	35,452
	Apr- Jun 11	4,136	3,929	207	161	5.0%	3.9%	50,624	41,654	82.3%	27,114	43,805
	Jul - Sep 11	4,311	4,086	225	-140	5.2%	-3.2%	53,619	43,969	82.0%	28,208	45,112
United	**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**
	Jan - Mar 11	8,202	8,168	34	-213	0.4%	-2.6%	96,835	75,579	78.0%	32,589	82,000
	Apr-Jun 11	9,809	9,001	808	538	8.2%	5.5%	104,614	87,296	83.4%	37,000	81,100
	Jul - Sep 11	10,171	9,236	935	653	9.2%	6.4%	107,236	91,494	85.3%	38,019	80,500
US Airways Group	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**	
	Jan - Mar 11	2,961	3,000	-39	-114	-1.3%	-3.9%	33,034	25,762	78.0%	18,851	30,621
	Apr-Jun 11	3,503	3,326	177	92	5.1%	2.6%	36,698	30,754	83.8%	21,209	31,321
	Jul - Sep 11	3,436	3,256	180	76	5.2%	2.2%	36,357	30,911	85.0%	20,655	31,327
JetBlue	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**
	Jan - Mar 11	1,012	967	45	3	4.4%	0.3%	13,696	11,143	81.4%	6,039	11,281
	Apr - Jun 11	1,151	1,065	86	25	7.5%	2.2%	15,193	12,379	81.5%	6,622	11,609
	Jul - Sep 11	1,195	1,087	108	35	9.0%	2.9%	15,856	13,409	84.6%	7,016	11,443

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 2006/07	12,763	11,973	790	280	6.2%	2.2%	85,728	58,456	68.2%	49,500	32,460
YE 31/03	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	
	Year 2010/11	15,889	15,093	796	269	5.0%	1.7%	85,562	59,458	69.5%	45,748	33,000
Cathay Pacific	Year 2007	9,661	8,670	991	900	10.3%	9.3%	102,462	81,101	79.8%	23,250	19,840
YE 31/12	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	
	Year 2010	11,522	10,099	1,813	1,790	15.7%	15.5%	115,748	96,548	84.0%	26,796	21,592
JAL	Year 2005/06	19,346	19,582	-236	-416	-1.2%	-2.2%	148,591	100,345	67.5%	58,040	53,010
YE 31/03	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 2006	8,498	7,975	523	363	6.2%	4.3%	71,895	52,178	72.6%	22,140	16,623
YE 31/12	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	19,178
	Year 2010	10,313	8,116	120	421	1.2%	4.1%	79,457	60,553	76.2%	22,930	
Malaysian	Year2006	3,696	3,751	-55	-37	-1.5%	-1.0%	58,924	41,129	69.8%	15,466	19,596
YE 31/12	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%	42,790	32,894	76.9%	11,950	19,147
	Year 2010	4,237	4,155	82	73	1.9%	1.7%	49,624	37,838	76.2%	13,110	
Qantas	Year 2007/08	14,515	13,283	1,232	869	8.5%	6.0%	127,019	102,466	80.7%	38,621	33,670
YE 30/6	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
	Jul - Dec 10	7,176	6,832	344	226	4.8%	3.1%	66,821	54,592	81.7%	22,948	32,369
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	
	Year 2010/11	10,911	9,956	955	863	8.8%	7.9%	108,060	81,801	75.7%	16,647	
Air China	Year 2006	5,647	5,331	316	338	5.6%	6.0%	79,383	60,276	75.9%	31,490	18,872
YE 31/12	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	23,506
	Year 2010	12,203	10,587	1,616	1,825	13.2%	15.0%	107,404	86,193	80.3%	46,420	
China Southern	Year 2006	5,808	5,769	39	26	0.7%	0.4%	97,044	69,575	71.7%	49,200	45,575
YE 31/12	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	50,412
	Year 2010	11,317	10,387	930	857	8.2%	7.6%	140,498	111,328	79.2%	76,460	
China Eastern	Year 2006	3,825	4,201	-376	-416	-9.8%	-10.9%	70,428	50,243	71.3%	35,020	38,392
YE 31/12	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	45,938
	Year 2010	11,089	10,248	841	734	7.6%	6.6%	119,451	93,153	78.0%	64,930	
Air Asia (Malaysia)	Year 2008	796	592	203	-142	25.5%	-17.9%	14,353	10,515	73.3%	9,183	4,593
YE 31/12	Year 2009	905	539	366	156	40.4%	17.3%	21,977	15,432	70.2%	14,253	
	Year 2010	1,245	887	358	333	28.8%	26.7%	24,362	18,499	75.9%	16,050	

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
Sept 11	31.7	23.9	75.6	22.6	19.5	86.3	17.6	14.6	82.8	57.8	48.8	84.4	87.9	71.7	81.5
Ann. change	6.5%	7.3%	0.6	9.6%	8.0%	-1.3	14.7%	11.2%	-2.6	11.0%	9.9%	-0.9	9.4%	8.9%	-0.3
Jan-Sept 11	265.4	190.0	71.6	188.9	156.5	82.8	152.8	122.4	80.1	502.1	409.6	81.6	757.4	592.8	78.3
Ann. change	6.9%	8.7%	1.2	11.1%	8.7%	-1.8	14.7%	9.8%	-3.6	11.6%	9.2%	-1.8	10.0%	8.8%	-0.9

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	13 Dec	Southwest Airlines	150 x 737 MAX, 58 x 737NG	
	12 Dec	Etihad	10 x 787-9, 2 x 777F	
	08 Dec	Air Lease Corp.	4 x 787-9, 4 x 737-800	
	17 Nov	Aviation Capital Group	20 x 737-800	
	15 Nov	Qatar Airways	2 x 777F	
	14 Nov	Oman Air	6 x 787-8	
	13 Nov	Emirates A/L	50 x 777-300ER	plus 20 options
Airbus	05 Dec	Transaero Airlines	8 x A320neo	
	17 Nov	Hawaiian Airlines	5 x A330-200	
	15 Nov	Qatar Airways	50 x A320neo, 5 x A380	
	15 Nov	Aviation Capital Group	30 x A320neo	
	14 Nov	ALAFCO	50 x A320neo	plus 30 options
	08 Nov	Frontier A/L	60 x A320neo, 20 x A319neo	CFM LEAP-X
	27 Oct	JetBlue	40 x A320neo	
	25 Oct	Air Pacific	3 x A330-200	
	20 Oct	TAM Airlines	22 x A320neo, 10 x A320	

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