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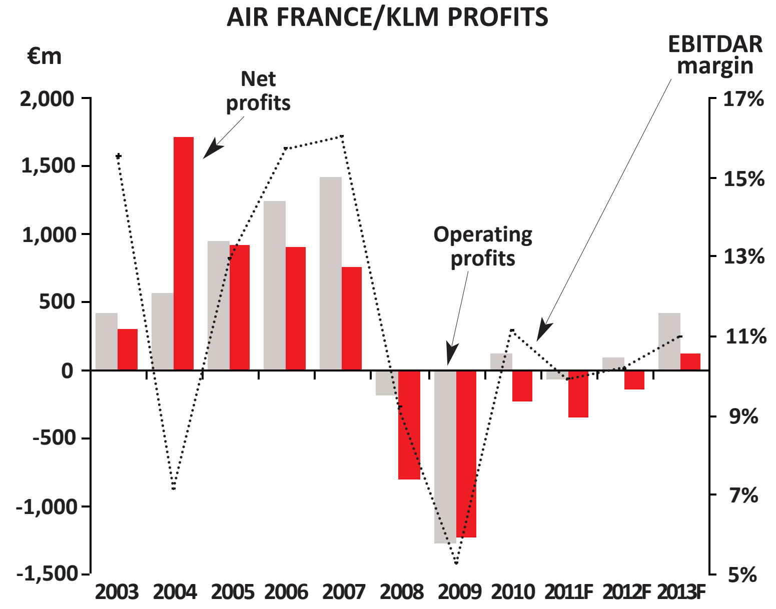
Air France-KLM: Attacking its debt mountain

Air France-KLM's short financial year had barely closed (the Group last year changed its year-end to December from March) and the new(ish) management team announced what it calls an "ambitious" three year plan to restore profitability. Since the peak of the last cycle the Group has managed to generate net losses of €2.3bn (or 3.3% of revenues) and is expected to produce another significant loss for 2011. Restructuring plans seem a normal state of affairs for all the European legacy carriers (at the time of writing Lufthansa appears to be on the brink of announcing its own new one) – and this new one from Air France-KLM may appear as normal as its last one - introduced two years ago.

Its primary aim must be to attack its seemingly unsustainable debt mountain. Net debt on balance sheet probably stood at around €6.8bn at the end of Dec 2011, a little higher than balance sheet equity; although when adjusting for intangible assets and operating leases a more realistic net debt to equity ratio would come in at 265% (albeit mitigated by the value of its stake in Amadeus). One of the stated key priorities is to reduce on-balance sheet net debt by €2bn to €4.5bn by the end of 2014 – all through internally generated net cash flow.

There are two ways to improve cash flow: increase operating



Note: 2003-10 Years ending March in following year. 2011-13 Years ending December.
Source: Company reports, Consensus forecasts

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results and cut spending. There are two main ways to improve operating results: cut costs and increase revenues, if not absolutely then in relation to costs. In the past the favoured way to improve operating results has been to grow into cost reductions – especially when, as at Air France, faced with a highly unionised and militant workforce (the Air France pilots have just gone on strike without giving notice to protest against a proposed French law prohibiting their "right" to go on strike without giving notice).

Lower capacity growth

The Group has taken what it obviously sees as a radical decision, if not to cut capacity, at least to halt growth. It used to stick to a mantra of growing at the same rate as the industry as a whole (i.e. around 5% per annum) – in the vain hope of maintaining market share. This it has abandoned. It will cut back the fleet, concentrating on higher capacity aircraft and in the anticipation of improving utilisation (introducing inter alia greater seasonally directed route capacity and yet another wave at the CDG hub). This should have the additional benefit of reducing the gross capital expenditure requirement (before some €700m income from sale and leaseback transactions) over the next three years by around €1.2bn (to €4.8bn) – the Group appears to have 35 aircraft on firm order, 19 of which are due for delivery in 2012 (see table, page 3).

They have been known to cut capacity: for this winter season they had already coordinated with the joint venture partners on the Atlantic to reduce capacity by 7-9%. For the next three years, the Group is planning to grow total capacity by no more than 5% overall – 2% in 2012 and 2013 and a mere 1% in 2014 – and will be equally borne by both Air France and KLM; although notably this plan specifically excludes the development in the provincial bases in France (see below).

In the short run the Group is intensifying cost reduction plans (on top of the current 2012 cost savings plan) aimed at reducing current expenditure by €1bn over the three year period (although as usual with these announcements you can never be sure whether these are real cuts or reductions to planned spending of what otherwise would-have-been). The measures include a freeze on general pay rises for the next two years at Air France, a policy of "wage moderation" at KLM, and a continuation of the hiring freeze introduced last Autumn, all aimed to produce half the savings. The rest, apparently identified but not spelled out specifically, include another €350m targeted from overhead reductions and network "adaptations" (closing non-performing routes?).

The Group recognises that it needs to go further to restore competitive profitability in what it refers to as a "transformation" plan in order to boost free cash flow by an extra €1bn over the three years. This it states will involve a significant improvement in productivity in all parts of the Group; and dramatically, taking an aggressive stance for a former state-owned French company, this will mean tearing up existing collective agreements and the renegotiation of conditions with the main workforce. Union negotiations, it says, will begin rapidly.

Massive losses in Europe

Air France-KLM, like many network carriers, rarely gives any indication of relative profitability across its network. This time however, it has stated that the medium-haul operations (usually Europe excluding domestic France) will have produced operating losses of some €700m in 2011. This is against annual revenues of around €4bn for the segment (24% of the Group's passenger revenues) and would represent a 17% negative margin – or on the basis of back-of-the-envelope calculations a loss of over €20 per passenger.

Two years ago, the Air France group introduced its new European "NEO" concept (also described as a transformation plan) designed to restore profitability weakened by high fuel prices, the incursion of LCCs into its home market (even though this has one of the lowest pene-

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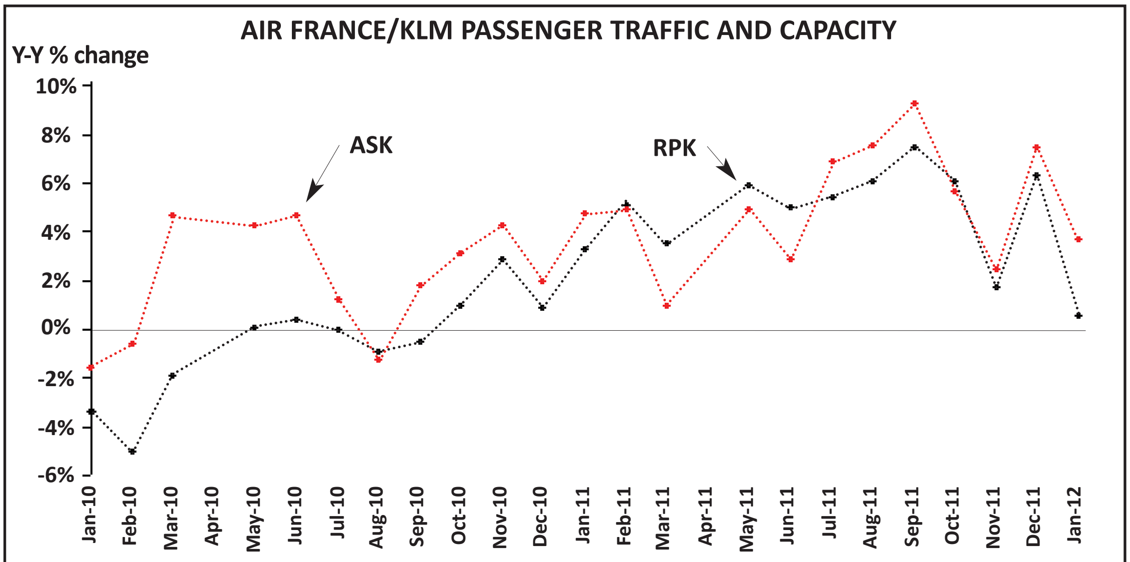
AIR FRANCE/KLM GROUP FLEET					
Operator	Type	In Service	Orders	Options/LoI	Total Result
PASSENGER					
Air France	A320	146	8	16	**170**
	A330	15		2	**17**
	A340	15			**15**
	A380	6	6	2	**14**
	747	9			**9**
	777	59	7	10	**76**
Brit Air	CRJ	39	3	2	**44**
Cityjet	RJ Avroliner	22			**22**
KLM cityhopper	E190	17	5	9	**31**
	F100	5			**5**
	F70	26			**26**
KLM	A330	11	2	18	**31**
	737 NG	46		8	**54**
	747 (pax)	5			**5**
	747 (combi)	17			**17**
	777	20	2	4	**26**
	MD-11	10			**10**
Régional	E170	11		5	**16**
	E190	10		4	**14**
	ERJ	30			**30**
Transavia Airlines	737 NG	22	2	3	**27**
Transavia France	737 NG	6			**6**
FREIGHT/CARGO					
Air France	747	3			**3**
	777	2			**2**
Martinair	747	6			**6**
	MD-11	6			**6**
TOTAL		564	35	83	682

trations by LCCs) and the new European post financial crisis operating environment. This included increased seat capacity and changes in tariff and marketing structures and had been designed to reduce manageable unit costs by 27% and generate cost savings of around €200m and revenue improvements of €300m a year. Even after such measures the Group acknowledges that there has been such a structural decline in unit revenues in the past two years that it will have to go back to the drawing board and recreate a new medium-haul offering all over again – with the hope of returning to break even by 2014.

As to how it will achieve this, apart from the usual comments on improving productivity, restructuring the network, and redefining the product, the management refer to rationalising the regional network (does this mean selling Britair, Régional and or CityJet?) and consideration of outsourcing.

Base Project

Meanwhile, excluded from the capacity strategy mentioned above, Air France appears to be continuing in its plans to develop "low cost-like" bases in the major provincial cities (see *Aviation Strategy*, December 2010) under the soubriquet of the "Base Project". France is heavily centralised on the capital and in the past Air France has concentrated on links from the regions into Paris (although it did have a go at a secondary hub in Lyons) with an emphasis on its "La Navette" shuttle services into Orly; and it has tended to ignore routes to or from other European countries to these cities. This of course left open incursion from the LCCs – and although France managed to oust Ryanair from



Note: Impact of Eyjafjallasjøkull eruption smoothed

operating a base at Marseilles, it has not been able to stop it, easyJet, Vueling or others from by-passing the capital and developing point-to-point markets.

All network carriers have the dilemma of making sure of their profitable presence in the market place to ensure that their frequent flyers choose their hub for long-haul – and some think it necessary to fly on direct routes that do not touch their hub. Air France in the past has emphasised that its métier is to provide transport links between Europe and the rest of the world – hubbing through Roissy CDG and Amsterdam Schiphol – and that the medium-haul operation fulfils two roles: feed onto the intercontinental hubs and market presence "essential" to their marketing tools.

Air France established its first such base at Marseilles last year – high utilisation, quick turnaround, locally based staff and equipment – and has plans to open similar bases at Toulouse, Nice and Bordeaux in 2012 with the idea of further extension to Orly and Lyons. The strategy is effectively to boost aircraft utilisation by up to 50% to twelve hours a day by using them on routes to non-French destinations as an in-fill between the shuttle operations. It currently operates to an eclectic group of 13 non-French destinations out of Marseilles – many on a low frequency basis (less than four times a week) – including Athens, Beirut, Copenhagen (on a Sunday), Eindhoven (on a Tuesday), Düsseldorf, Istanbul, Moscow, and Prague (Wednesday and Saturday).

Implementation delay

Many of the measures are to be implemented immediately but the management suggested that the details of the transformation plan to boost returns by a further €1bn would not be revealed until after the French presidential elections in June. These measures no doubt include the more socially contentious ideas the Group appears to be considering – and although with Spinetta back in control there may be a possibility of achieving them through negotiations with the unions, he would naturally like to be more certain of the political flavour of the President in power. This reticence has probably helped to reinforce the market's scepticism; analysts' median forecasts seem to point to the Group maintaining its EBITDAR margins at around 10% of revenues for the next couple of years, whereas to achieve the €2bn improvement in results by 2014, the Group would need to return to a margin of over 15% - last achieved at the peak of the last cycle.

By James Halstead
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US airlines: Can they now make profits across the cycles?

Recent weeks' robust fourth-quarter earnings reports and optimistic 2012 outlook commentary from US airline managements have stood in stark contrast with the dire warnings from the World Bank, the IMF and others about Europe and the global economy. Is corporate travel really on the uptick for US carriers? Have the airlines found a way to be profitable in any kind of environment?

The macroeconomic doom and gloom has intensified around the world in recent weeks as fears have grown about escalation of Europe's sovereign-debt crisis. In late January the World Bank and the IMF both cut their estimates of global growth in 2012 (IMF's new figure is 3.25%, down from 4% in September 2011). The organisations also warned of other risks that could help trigger a new global recession, including a new oil shock or a "hard landing" in one of the larger emerging economies. Even without such added calamities or the escalation of Europe's problems, the euro-zone economies are expected to go into a recession and other regions to see a slowdown in 2012. Moreover, there are fears that Europe's crisis could trigger more serious disruptions in the financial markets and spread to the financial systems on other continents.

Yet, except for modest weakness in advance leisure bookings in some international markets, US airlines have not seen adverse effects. They reported healthy earnings for both 2011 and the December quarter, despite significantly higher fuel prices. And in early 2012 they have continued to see robust demand and strong RASM growth across their networks.

US airlines have not detected any slowdown in corporate travel, even in the transatlantic market. Delta, United and US Airways have all reported continued strong premium cabin bookings to Europe (especially for US-originating travel).

US Airways, which is predominantly a domestic carrier but has been growing on the Atlantic, reported that its booked corporate revenue in January was running almost 30% above year-earlier levels. Its top executives noted that "if anything, the new year has seen a step-up in business demand from the already strong levels that we saw in the second half of 2011".

Given all the dire headlines, one might have expected US corporations to show considerable caution in their 2012 travel budgets. But United reported in late January that the majority of its global corporate accounts expected their 2012 travel volumes to be "flat-to-up" and travel spending "moderately increased".

These trends may reflect the modest economic upturn seen recently in the US, which has offered hope that the US could weather the European crisis relatively unscathed. Late-January data from the Commerce Department indicated that US GDP growth accelerated to an annualised rate of 2.8% in the fourth quarter, up from 1.8% in the third quarter. Consumer spending rose by 2%, a slightly higher rate than in the previous quarter.

Subsequently, employment data for January provided further evidence of a recovery: the US economy added 243,000 payroll jobs and unemployment fell to 8.3%, a three-year low. This followed several months of positive trends in the labour market.

Notably, the IMF did not reduce its growth forecast for the US, because it considered that the "self-sustaining" nature of economic growth in the US would offset the negative effects of a European recession and slowdown in emerging markets. As a net importer, the US would suffer less in a global recession than countries that rely heavily on exports, such as Japan, Germany and China.

IATA, in a February 1 commentary, also noted the "improving business confidence and encouraging news about the US economy" but warned that it was far too early to start predicting a soft landing in 2012. The organisation warned that 2012 is still going to be a tough year for the global airline industry.

Compared to global carriers in other regions, US airlines may be somewhat protected in times like these by their lesser international exposure. They still earn more than 60% of their revenues domestically. Their exposure to the transatlantic market is still very limited (just 17% of system revenue at both United and Delta).

In interesting contrast, Singapore Airlines, which is 100% international (and despite being in the dynamic Asia region), seemed much more concerned about its outlook when posting its December quarter results. SIA warned on February 1 that forward bookings "continue to show signs of weakness" due to "uncertainty in the global economy and the protracted euro zone debt crisis".

Of course, the US airline industry is performing well financially these days because it has gone through a thorough transformation since the mid-2000s. Fewer airlines, a domestic shrinkage, tight capacity, strict cost controls and lucrative new ancillary revenue streams have all played a part. JP Morgan analysts suggested in a research note last month that the US industry is evolving into one "increasingly in control of its own destiny, and exhibiting diminished cyclicality with every passing year and curveball thrown its way".

US airlines plan to tackle the 2012 challenges (including potentially rising fuel costs and weakening global demand) by sticking to the past two years' successful formula: fare increases, capacity discipline and non-fuel cost controls. As a result, barring major disasters, most analysts expect US airlines to produce a third consecutive year of respectable profitability in 2012.

Besides air travel demand, this year's main topic of interest will be American's restructuring and future. AMR filed for Chapter 11 bankruptcy protection in late November and over the next 18-24 months will, among other things, be downsizing modestly and seeking to renegotiate labour agreements. This is likely to result in both new market opportunities and reduced labour cost pressures for competitors.

There is already much talk of possible future bids for AMR by one of its competitors. US Airways and Delta have both retained advisors to help assess a possible AMR bid, while private equity firm TPG is also looking at AMR and has reportedly already reached out to AMR's European partner IAG for support.

Even though any bid would be quite a long way off and could come up against insurmountable regulatory hurdles, the implications would be so monumental - in terms of additional industry restructuring and shaking up the Atlantic and Pacific alliance/JV line-ups - that it is easy to understand why this has become a hot topic so early.

Impressive 4Q and 2011 profits

2011 was a second consecutive profitable year for the US airline industry. It was not quite as good as 2010 because of the high fuel prices. The eight largest carriers (excluding AMR) reported an aggregate operating profit of $6.5bn for 2011, down slightly from the $7.9bn earned in 2010. Operating margin was 5.8%, compared to the previous year's 7.7%. Net profit before special items was $3.4bn, down from $4.6bn but still a respectable 3% of revenues. Industry operating revenues were $113.1bn, up 10.8%.

American, the third largest US carrier, is not included in these totals because it has not yet reported for the year (as of February 3). AMR's results may be distorted by huge restructuring charges, but even without those it is looking at a sizable loss. In the first nine months of 2011, AMR incurred operating and net losses of $270m and $884m, respectively.

The US industry's financial performance in the fourth quarter was particularly impressive. Typically most of the carriers incur losses in what is one of their seasonally weakest periods, but this time all eight

EIGHT US AIRLINES' FOURTH QUARTER 2011 FINANCIAL RESULTS	4Q11 Operating revenue $ (m)	% change vs 4Q10	4Q11 Operating result $ (m)	Operating margin %	4Q11 Ex-item Net result $ (m)	Ex-item Net margin %
United Continental	8,928	5.5	294	3.3	109	1.2
Delta	8,399	8.0	647	7.7	379	4.5
Southwest*	4,108	9.3	167	4.1	66	1.6
US Airways Group	3,155	8.5	108	3.4	21	0.7
JetBlue	1,146	22.1	83	7.3	23	2.0
Alaska Air Group	1,044	9.0	114	10.9	37	3.6
Hawaiian	434	26.2	34	7.9	16	4.8
Allegiant	194	19.7	20	10.4	11	5.6
Total 8 airlines	**27,408**	**8.0**	**1,467**	**5.4**	**662**	**2.4**

Note: The table excludes AMR (the third largest US carrier), which is in Chapter 11 bankruptcy, and Spirit Airlines, which does not report its results until February 16.
* = Southwest's and AirTran's consolidated results in 4Q11; combined results in 4Q10.

Source: *Individual airlines*

were profitable when special items were excluded. The airlines had a combined $1.5bn operating profit and a $662m ex-item net profit in 4Q (5.4% and 2.4% of revenues), both up slightly on the year-earlier result despite a near-40% increase in fuel prices.

United Continental, now the largest US carrier, posted an impressive $1.3bn net profit before special items (or $840m including items) for 2011, its first year as a merged entity, despite a $3.4bn hike in fuel expenses. Return on invested capital (ROIC) was 11%. UAL achieved more than 25% of the anticipated merger synergies in 2011 and will be distributing $265m in profit sharing to employees in February.

Delta had a similar $1.2bn ex-item net profit in 2011, despite $3bn higher fuel expenses, and will distribute $264m to employees. The airline generated $1.6bn of free cash flow and a ROIC of 9.1%. In the fourth quarter, Delta's extremely strong revenue performance covered fully the $500m-plus hike in fuel costs. It was the most profitable December quarter in Delta's history. The airline earned operating and ex-item net margins of 7.7% and 4.5%, respectively.

While US Airways also reported its second consecutive 4Q and 2011 profits, full-year earnings were down sharply because of fuel. The 3.3% operating margin was the industry's lowest. However, while fuel costs were up by $1.2bn, profits were down by only $330m, indicating strong revenue growth and good cost controls. US Airways generated $286m of free cash flow in 2011.

Southwest reported its 39th consecutive year of profitability, though its operating margin (5%) continues to be below the industry average. The low-cost leader's revenue performance was strong but not quite sufficient to offset a $1.7bn hike in fuel costs in 2011, so profits declined. Southwest earned a modest 7% ROIC (including AirTran) and generated over $400m in free cash flow in 2011.

AirTran became Southwest's wholly-owned subsidiary in May 2011, though integration efforts will take several years. So far the merger has not affected operational performance and in November the two pilot groups ratified a seniority list integration agreement - a crucial step in the integration process. Southwest realised $80m of the anticipated $400m net annual pretax synergies from the merger in 2011 and estimated that, excluding special items, the merger was modestly accretive to 2011 earnings.

JetBlue had another solid year characterised by record revenue performance – reflecting its successful expansion in Boston and the Caribbean – and good cost controls. The airline's 2011 operating profit ($322m, 7.1% of revenues) was similar to 2010's despite a $500m-plus higher fuel expense. The $23m net profit in the fourth quarter was a new record for JetBlue in that period. The airline produced positive free cash flow for the third consecutive year.

Alaska Air Group was the operating margin leader last year, achieving 10.9% in 4Q and 11.3% in 2011. Its 12% ROIC in

2011 was also the highest among the US major carriers. Alaska has a very successful niche along the US West Coast.

Allegiant, a niche carrier with an unusual strategy of operating old MD-80s (and soon 757s), was the runner-up in the operating margin league, achieving 10.4% and 11% margins in 4Q and 2011, respectively. In 4Q Allegiant was able to successfully raise its average scheduled fare by $10, offsetting a $9-per-passenger increase in fuel costs.

Hawaiian, too, has been posting solid results. Its 4Q operating margin of 7.9% was the third strongest among the US carriers. It had the industry's fastest revenue growth in 2011 – 26% - as it, amazingly, found a way to expand profitably in the Honolulu-Japan market despite the devastating effects of the March 2011 disasters in Japan.

The common theme for US airlines in 2011 was a strong revenue environment, which has continued into 2012. Virtually all of the carriers witnessed PRASM growth in the low-double or high-single digits in the fourth quarter, with similar rates seen in January and February.

The domestic revenue environment has been strong for a couple of years now and is the result of the US industry's significant shrinkage and capacity discipline. Since 2005 the number of (mainland-based) major carriers has been reduced from 11 to seven. But mergers are only a part of the story; just as crucial have been the cut-backs by individual carriers and the slowing of growth by LCCs.

The combination of tight domestic capacity and robust demand created a strong pricing environment, facilitating a steady stream of fare increases over the past year. Just as important was the more muted fare sale activity. US airlines have thus been able to pass on a fair chunk of the historically high fuel prices to consumers.

Capacity discipline has also improved the viability of international routes. Delta's dramatic 10% capacity reduction on the transatlantic in the autumn boosted its European RASM growth to 11% in the fourth quarter, despite Europe's economic weakness. Delta was expecting its transatlantic RASM to surge by 17% in January. And, by keeping its capacity flat on the transpacific, Delta boosted its RASM growth there to 14% in 4Q.

In 2011 the three largest US carriers' combined system capacity was roughly flat – a result of a 1.8% reduction in domestic ASMs (including regional operations) and 3.3% growth in international ASMs.

UAL's plans for this year are similar: system capacity down 0-1% (domestic down 2-3% and international up 2-3%). Delta, too, intends to remain disciplined, though so far it has only disclosed that its system capacity will fall by 3-5% in the current quarter.

American's downsizing in bankruptcy, which by most estimates could be in the region of 5-10%, will be an added bonus, helping maintain a healthy domestic pricing environment.

To everyone's relief, Southwest confirmed that it will maintain flat capacity in 2012. It has no plans to grow its fleet this year – or even in subsequent years until it hits its profit targets. In fact, Southwest expects to end this year with fewer aircraft, after retiring 40 older 737s and bringing in 33 (larger) 737-800s.

JetBlue is the only one of the top six carriers that has stepped up growth. Its ASM growth accelerated to 7.2% in 2011, including a worrying 10.5% spike in 4Q, and this year's plans call for 5.5-7.5% growth. But JetBlue does have unusually good growth opportunities.

So, with flat industry capacity in 2012, the stage is set for a continued healthy revenue environment. Delta is particularly well positioned for strong RASM and margin gains. The larger route network resulting from the merger, dominant market shares at all of its hubs and solid positions in New York and on transatlantic and transpacific routes have given Delta strong momentum for attracting business traffic and gaining corporate market share.

Delta and US Airways should also reap benefits from the unique slot swap that they are finally able to implement this year. Delta secured more New York LaGuardia slots and US Airways more Washington National slots, enabling each airline to focus their assets on areas where they have some competitive advantage. US Airways will be adding 11 new cities and boosting flights on existing routes from National in March, with another expansion phase following in July. Delta is implementing a summer schedule that will give it 50% of daily departures at LGA, making it well-positioned to increase corporate share in the New York area.

JetBlue is also poised for continued strong PRASM gains as it increases its business traffic share in Boston and also grows in the Caribbean where competitors are retreating. Boston is highly lucrative for JetBlue, because nearly 30% of its customers there are travelling on business, compared to 20% in the rest of its network.

Southwest should start reaping more benefits from the AirTran merger after it secures a single operating certificate (expected this quarter), which will mark the start of deeper integration and network optimisation. Service changes at Atlanta, AirTran's withdrawal from unprofitable markets, new service to the Caribbean, a revamped FFP, the larger 737-800s and new 737-700 interiors will all boost Southwest's revenue and earnings in the next couple of years.

For United Continental, the IT/reservations systems switchover planned for early March will be a critical integration milestone, driving significant further merger synergies in 2012. Among other things, it will facilitate the free flow of aircraft across the network and the launch of a combined FFP. There is always risk of a potential disruption, but United seems to be well prepared. The other major remaining challenge is to secure a pilot seniority integration agreement.

US airlines have benefitted enormously from the new ancillary revenue streams (checked bag fees, etc.) developed since mid-2008. The lowest-hanging fruit have been picked, but airlines such as JetBlue, Delta and United still see good growth potential. Delta expects to generate $400m in incremental ancillary revenues in 2012. UAL, which earned more than $2bn in ancillary revenues in 2011, is looking to relaunch its website after the IT switchover as a "platform for innovation" for developing new ancillary products.

But non-fuel cost pressures have also been building for US airlines, especially in labour, maintenance and airport costs, aggravated by the lack of ASM growth. Consequently, many of the airlines plan fresh attempts to tackle costs and improve productivity in 2012.

The US industry's cash balances remain healthy and some of the airlines continue to make progress in deleveraging their balance sheets. Delta, which is leading the way in that area, is more than half-way through in reducing adjusted net debt from $17bn at year-end 2009 to $10bn by mid-2013. While United has much higher capital spending planned for the near-term (both aircraft and product investments) and has not set a debt reduction target, analysts expect it to prepay some of its higher-interest debt this year.

With continued profitability and generally no significant aircraft deliveries scheduled in the near-term, free cash flow generation is expected to remain strong at most US airlines in 2012.

Commentary from the airline executives indicated that the carriers are taking financial targets and shareholder returns more seriously. This may be because, for the first time ever, sustained profitability seems within reach for many US airlines (other than just Southwest).

AMR: a difficult and lengthy restructuring?

AMR's management outlined its proposals for cost cuts and other Chapter 11 moves on February 1. The company is targeting $3bn in annual financial improvements by 2017, including $2bn in cost savings and $1bn in revenue enhancements. AMR is looking for $1.25bn of annual labour cost savings, with the $750m balance coming from debt and lease restructuring, grounding of older aircraft, improved supplier contracts and suchlike.

The employee cost cuts would be across the board. Each work group would be required to reduce their total costs by 20%.

This is expected to mean a total reduction of 13,000 employees, about 15% of the workforce. AMR is also looking for work rule changes to increase productivity and the removal of restrictions on codesharing and regional flying. And it wants to outsource a portion of maintenance work.

Most controversially, AMR has decided to seek court approval to terminate all four of its underfunded defined-benefit pension plans.

To appease the workforce, AMR stressed that the labour cost cuts would be "fair and equitable", also including a 15% reduction in management. And AMR wants to put in place a profit-sharing plan that would pay 15% of all pre-tax income to employees.

The key elements of the proposed business plan are to renew and optimise the fleet, build network scale and alliances, and modernise brand, products and services. AMR wants to invest an average of $2bn annually in new aircraft. The "cornerstone" strategy would continue, with the five key markets seeing a 20% increase in departures over the next five years. There would be more international flying.

The verdict on these proposals: probably exactly what AMR needs to do to make its costs broadly competitive with those of Delta and United. The $1.25bn labour cost cuts, when added to the $1.8bn of labour concessions American secured in 2003, are roughly in line with the cuts implemented by competitors in Chapter 11.

However, it is also clear that AMR faces extremely tough hurdles in getting the proposals approved. Consensual labour agreements may not be possible and AMR may have to ask the court to terminate the existing contracts – a potentially disastrous scenario from the morale viewpoint.

Terminating the pension plans could be even more difficult. PBGC, the US agency that protects corporate pensions, has made it clear that it will fight the moves. It has stated that AMR has yet to show that defaulting on the plans is necessary. When AMR last month paid only a fraction of the $100m pension contribution that was due, PBGC filed liens against many of the airline's international assets, citing AMR's very healthy $4bn cash reserves.

AMR's proposals also will not solve the problems on the revenue side, arising from a network that is smaller and less attractive than United's and Delta's. That is where Delta, US Airways and other potential suitors will come in at some future point. Currently, however, AMR's management can use the takeover speculation to pressure the unions to cooperate. CEO Tom Horton wrote in a February 1 letter to employees: "You have likely read or heard reports that there are those who wish to shrink our airline, close hubs or acquire our company or assets" and that "the best way for us to assure that we are in control of our future is to make the necessary changes (and) complete our restructuring quickly".

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JAL: Ambitious relisting plans in an uncertain environment

Following its successful bankruptcy restructuring and spectacular financial turnaround, Japan Airlines (JAL) is now hoping to complete a $6.5bn IPO in late 2012. But can JAL present the sort of solid growth strategy and prospects that investors will be looking for?

The process of bringing JAL to the market and relisting it on the Tokyo Stock Exchange began unofficially in early January, when sources close to the airline disclosed that it was looking to raise at least ¥500bn ($6.5bn) through an IPO in the September to December 2012 timeframe.

Later in January JAL's sole shareholder, state-backed Enterprise Turnaround Initiative Corporation of Japan (ETIC), named the underwriters for the global part of the offering (Merrill Lynch Japan Securities and Morgan Stanley MUFG Securities), who will assist the lead underwriters selected last summer (Nomura Holdings and Daiwa Securities). ETIC is reportedly planning to approach trading companies and lenders about acquiring a 20% stake ahead of the public offering.

The IPO's timing will obviously depend on market conditions. The outlook for the global economy is currently so bleak and uncertain that any talk of an IPO – let alone one this large - feels premature. But this is a public offering that has to take place because ETIC needs to recoup its investment. It rescued JAL with a ¥350bn ($4.6bn) equity injection in December 2010.

The ¥500bn is regarded as a "bare minimum" needed to get a decent return on taxpayer funds. Even at that size the IPO would be the third largest in Japan. But ETIC is reportedly hoping to raise more. JAL's rival All Nippon Airways (ANA), which is now slightly larger than JAL in terms of revenues but currently much less profitable, has a market capitalisation of around ¥550bn.

A great turnaround story

JAL has a compelling turnaround story to present to potential investors. After a decade of weak financial results – resulting from chronic problems that included high labour costs, a less efficient fleet than its rivals, an uncompetitive route structure and a bureaucratic corporate structure - and many unsuccessful restructuring attempts, JAL plunged into deep losses during the 2009 recession and had to file for bankruptcy in January 2010.

The 14-month court-led restructuring tackled JAL's cost and balance sheet problems very effectively. The restructuring included closing some 49 unprofitable routes, withdrawing from 11 overseas and eight domestic destinations, shedding more than 100 aircraft, slashing its headcount by about one third, switching to smaller and more fuel-efficient aircraft and rationalising the mainline fleet from seven to four types.

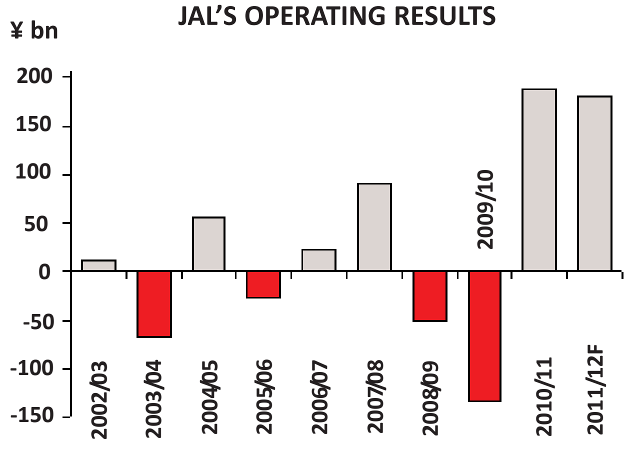
All that collectively led to a dramatic reduction in operating costs. Between 2008's and 2011's June quarters, as JAL's ASKs fell by 43%, its total operating costs more than halved, leading to a 14.3% reduction in unit costs.

Importantly, JAL's restructuring included changing from a rigid, multi-layer organisational structure to a more streamlined managerial framework. This was one of the many contributions of Kazuo Inamori, the 79-year old founder of electronics maker Kyocera who took over as chairman when JAL entered bankruptcy. Inamori trained JAL's management to better monitor cash flow and profits on a daily, weekly and monthly basis and to execute business plans more reliably. A key part of this effort was to update JAL's overly complicated and obsolete IT systems.

Inamori, who is now looking to step aside and become JAL's "honorary chairman" (shareholders will vote on new management appointments in February), has also been credited for successfully resisting government attempts to force JAL to resume unprofitable (but politically useful) domestic routes.

The restructuring resulted in an immediate spectacular financial recovery. In the year ended March 31, 2011, JAL achieved a

JAL'S OPERATING RESULTS



Note: Fiscal years ended March 31.
2011/12 forecasts are JAL's (revised Feb 2, 2012).

group operating profit of ¥188bn ($2.5bn) on revenues of ¥1,362bn ($17.7bn). The profit was almost triple that targeted in the August 2010 rehabilitation plan and represented a very strong 13.8% margin. It contrasted with a ¥134bn ($1.7bn) operating loss in the previous year.

Amazingly, JAL has been able to maintain that level of profitability in the current fiscal year despite the sharp traffic decline in the wake of the March 2011 earthquake/tsunami/nuclear crisis in north-eastern Japan. In early February JAL reported a ¥161.6bn operating profit (17.8% of revenues) for April-December 2011.

JAL now anticipates operating and net profits of ¥180bn and ¥160bn, respectively, and revenues of ¥1,190bn in the year ending March 31. The operating profit would account for 15% of revenues. It would probably be the best operating margin achieved by any global airline in the current environment.

JAL is now outperforming ANA financially. ANA's projected ¥90bn operating profit for FY 2011/12 is only half of JAL's. But ANA's results are healthy and stable: the current year's projected operating margin is 6.4%, up from 5% last year. And ANA can be expected to reduce the gap over time; this fiscal year it has been implementing a new ¥30bn ($390m) cost-cutting programme.

JAL and ANA have weathered the post-March 2011 crisis well mainly because business travel recovered quickly. In addition, the large Japan outbound travel market was not so severely affected (for obvious reasons), most regions in Japan were largely unaffected and the rebuilding efforts generated new travel. Also, the airlines have done a good job in matching capacity to demand and stimulating leisure demand with discount fares. JAL has benefited from a new revenue management system introduced in April 2011.

The Japan outbound market saw only four months of year-on-year decline; by December 2011 there were already 11.9% more Japanese tourists travelling abroad than a year earlier (a trend helped by the recent strength of the yen). But the inbound leisure market has remained weak; in December visitor numbers were still 11.7% below the year-earlier level (data from Japan Tourism Marketing Co).

But the airlines have been saying all along that they do not expect leisure travel demand to recover fully until this spring. Importantly, the business-oriented international markets have bounced back; Delta, for example, noted in January that its US-Japan traffic was "close to pre-event levels". Everything should be back to normal by the time the JAL IPO hits the market.

Can JAL grow its earnings?

Having just shrunk to profitability, JAL is not really looking to grow in the short- to medium-term. However, it needs to grow its earnings, or at least sustain the high level of profitability it has attained. How will it convince potential investors that it can do that?

JAL's operations are reasonably well balanced, with about 51% of air transport revenues coming from domestic passenger operations, 40% from international passenger operations and the remainder from cargo. But there are major challenges on both the international and domestic arenas.

Internationally, growth prospects are not promising, first, because of the slowdown expected for the global economy in 2012, which could linger on or even become a global recession. Second, JAL faces sharply escalated competition from foreign operators, both established carriers and LCCs, on both short- and long-haul routes, as more airport capacity becomes available in the Tokyo metropolitan area in the next couple of years, and as more open skies ASAs are signed. At Narita alone, total slots are slated to increase by 40% in 2013, and many of those slots will go to Asian LCCs.

Domestically, although the market is large (83m passengers), it has stagnated in terms of full fare/business travel. In recent years ANA, with its strong product offering, has been capturing premium traffic share as JAL has struggled. And now, at the leisure end of the scale, the domestic market is about to see an invasion by new-entrant LCCs, keen to test if the market can be stimulated with low fares.

As a result, the general perception is that the growth outlook for the established carriers, JAL and ANA, is poor – something that has been reflected in ANA's share price. JAL's key challenge is to convince potential investors that that is not the case.

The strongest part of JAL's post-bankruptcy strategy (and one that investors will probably like the most) is that it wants to focus on its traditional strengths: the business travel segment and the key global, regional and domestic markets that have high volumes of business traffic.

JAL intends to "maintain a global network with a focus on pivotal routes that can yield higher business demand". That means a network centred on major US and European cities and the high-growth Asian routes. JAL's long-term strategy includes major expansion of international flights at Haneda and strengthening Narita's role as a global hub between North America and Asia. JAL's domestic strategy focuses on maintaining a network centred on Haneda and operating more frequent service using smaller aircraft.

The immunised JV with American, which was launched in April 2011, has boosted JAL's competitiveness on the Pacific. Importantly, it was announced on February 8 that BA and JAL had finally agreed plans for a joint business on Japan-Europe routes and that JAL had submitted an application for antitrust immunity to the Japanese authorities. This was welcome news, especially since ANA and Lufthansa have already launched their immunised JV.

JAL will get favourable publicity this year when it becomes the second airline (after ANA) to launch passenger operations with the 787 Dreamliner. JAL has 35 firm orders, plus 20 options, for the type. The initial 787s have been slated for the lucrative business-oriented Narita-Delhi, Narita-Moscow and Haneda-Beijing markets from the end of March, and to launch Narita-Boston (a new route) on April 22. However, in early February JAL learned that there will be further delivery delays due to manufacturing glitches. The first 787 will not arrive in February as scheduled; it is not yet clear how the route plans are affected.

Perhaps the most controversial part of JAL's post-bankruptcy strategy is the planned LCC unit. The launch of Jetstar Japan, JAL's joint venture with Qantas' Jetstar and the Japanese trading house Mitsubishi Corp., has just been brought forward from "late 2012" to July 3, just so that it can beat AirAsia Japan to the market (ANA's planned Narita-based joint-venture LCC, which is slated for August launch). It was confirmed that Narita will be Jetstar's first base. The venture will begin with a network linking Tokyo, Osaka, Sapporo and Fukuoka, a fleet of three A320s (growing to 24 within a few years) and 50% lower fares on average. Jetstar's primary focus will be on the domestic market, though short-haul international services (South Korea, China) are possible from 2013.

Jetstar and AirAsia are in a "two-horse race" to set up subsidiary airlines around Asia. Regarding Japan, Jetstar CEO Bruce Buchanan was recently quoted saying that the "competition will be brutal and I don't think everyone will survive".

While Jetstar Japan will be too small to have any real impact on JAL, positive or negative, the timing is interesting. Is it possible that this could create momentum for JAL's IPO, because JAL is aggressively trying to retain leisure market share? Or would it turn off potential investors, who may be looking for profits rather than brutal competition for low-yield traffic?

By Heini Nuutinen
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Hainan Airlines: Rapid expansion plus acquisitions

Though still in the shadows of the Big Three (Air China, China Southern and China Eastern), Hainan Airlines is likely to report a substantial net profit for 2011. But can the fourth-largest airline in China by fleet size continue to carve out a profitable niche against its government-supported rivals?

Hainan Airlines was formed in 1993 following a restructuring of the former Hainan Provincial Airlines, at which time it became the first private airline in China. It was renamed as Hainan Airlines in 1997 and launched its first international service in 2001. While the Big Three benefited greatly from the government-mandated consolidation of the Chinese aviation industry through the 2000s (see *Aviation Strategy*, September 2007), Hainan Airlines steadily expanded its domestic network and gradually built up a series of international routes.

It wasn't an easy process though, and Hainan Airlines recorded an operating loss of US$145m and a net loss of $134m in 2008. However, the airline has been progressing steadily since then, both in terms of operational efficiency and financial results. Hainan Airlines has been managing capacity more effectively over the last few years, and overall load factor has risen from the low 70s as of 2004 to around the 80% mark for the last few years (see chart, page 15).

In 2010 Hainan Airlines posted a 44% rise in revenue to US$2.2bn, even though passengers carried fell 3.5% year-on-year to 11.5m. Operating profit reached $286m in 2010 (compared to exactly $0m in 2009) and net profit rose to $361m (compared with $22m a year earlier). The improved fortunes continued through last year, and in the third quarter of 2011 Hainan Airlines reported $1.3bn of operating revenue (28% up compared with July-September 2010), with operating profit increasing 31% year-on-year to $293m and net profit up 31% to $253m.

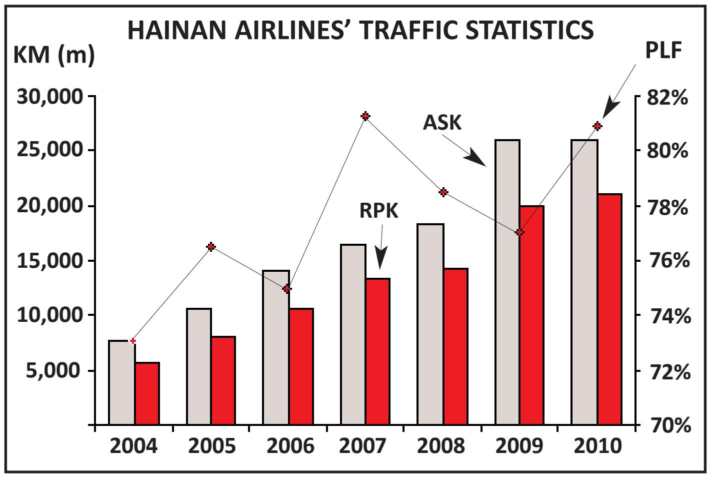
Island location

Hainan Airlines is based at Haikou in Hainan province, an island off the south coast of China. The Chinese government has designated Hainan as an "International Tourist Island" and as a result in 2010 more than 40 major infrastructure and development projects for the island were approved. These include connection to the Chinese high-speed rail network, while in 2011 Hainan was given an exemption from airport departure taxes in China.

Though, operationally Hainan Airlines is part of the China-based HNA Group, which also has substantial aviation, travel, logistics and finance businesses, and which in 2011 had total assets of more than $33bn and revenue of $15.7bn. For example, the HNA Group also controls Haikou Meilan International Airport.

Hainan Airlines is listed on the Shanghai stock exchange. Among the major shareholders there is a complex series of relationships and cross-holdings. Currently 41.6% of Hainan Airlines is owned by the Grand China Air Holding Company - a holding entity created in 2007 that is owned by the Hainan province government (48.6%), George Soros (18.6%), and the HNA group (32.8%). Other shareholders include Haikou Meilan International Airport (10.5%, and in turn owned by the NHA Group), the Hainan Provincial Development Holding Company (a holding company for the regional government - 7.2%), HNA Group (7.2%), Changjiang Leasing (an indirect subsidiary of the HNA Group, with 6.3%) and American Aviation (which is controlled by George Soros's Quantum Fund, with 2.6%).

Today Hainan Airlines operates scheduled and charter services to more than 90 destinations around the globe, although the vast majority are within the Asia/Pacific region, including 67 domestic destinations. Hainan Airlines also operates another major hub at Beijing and has smaller hubs at Xi'an, Taiyuan, Urumqi, Guangzhou, Lanzhou, Dalian and Shenzhen. In addition Hainan Airlines owns a number of stakes in various Chinese airlines, the most important of which are Chang An Airlines (an 87% shareholding) and China Xinhua Airlines (68%). Chang An Airlines operates four 737-800s domestically while China Xinhua Airlines operates out of Beijing with an assorted fleet of 11 737s models.



International focus

Like the Big Three, Hainan Airlines is facing increasing competition on domestic routes from China's high-speed rail network. It is still expanding domestically - in November it launched routes between Dalian-Nanchang-Sanya and Jinan-Dalian-Haikou, both of which use 737-800s – but it is increasingly turning its attention to international routes.

Outside of China, Hainan Airlines operates to Taipei, Seoul, Phuket and Sydney in the Asia/Pacific region, 10 destinations in Europe and Russia (Istanbul, Berlin, Brussels, Budapest, Zurich, Moscow, St. Petersburg, Novosibirsk, Krasnoyarsk and Irkutsk), plus Seattle and Toronto in North America and Luanda in Africa via Dubai. A route to Istanbul was started in July last year and to the Maldives in November, while a non-stop A330 service between Beijing and Zurich started in May last year. A route between Lanzhou on the Chinese mainland and Taipei in Taiwan was launched in January this year, although initially the flights will only run until March.

Hainan Airlines currently codeshares with 10 carriers, including Etihad Airways, Korean Air and EVA Air, and in December 2011 the carrier announced a codesharing and FFP deal with American Airlines.

Hainan Airlines operates an 89-strong fleet (see table, page 16), comprising 13 Airbus models and 75 Boeing aircraft, of which the vast majority are narrowbodies (72 737s). The rest of the fleet comprises three 767s, 10 A330s and three A340s. However, Hainan Airlines has 43 aircraft on order, including 15 A320 family models, nine 737-800s, 10 787s and nine Embraer 190-100LRs. Although rival China Eastern cancelled its order for 24 787s last year because of the delay to deliveries, Hainan Airlines says it is committed to its order for the model. The first of the 787s is scheduled to arrive in September this year, with deliveries being completed in 2014, and those 787s will signal an increased push on international services.

Acquisition speculation

As well as organic growth, Hainan Airlines is also considering acquisition as a path to secure greater revenue from international markets. The airline is helped by the deep pockets of its parent company - the HNA Group - which has been on a buying spree recently as it targets 40% of its total assets being based outside China within the next three or four years. Among its acquisitions in 2011 were GE's container leasing company SeaCo (for $1bn), but it is now believed to be specifically on the lookout for opportunities in Europe, though in December last year it pulled out of a deal to buy a 20% stake in Spanish hotel group NH Hoteles (which owns 400 hotels in Europe, Latin America and Africa) for $430m due to "volatility and uncertainty in global financial markets".

Last year HNA Group bought a 49% stake in ACT Airlines, a Turkish cargo carrier that

HAINAN AIRLINES' FLEET		
Type	In service	On order
A319-100		2
A320-200		13
A330-200	6	
A330-300	4	
A340-600	3	
737-400	6	
737-700	2	
737-800	65	9
767-300	3	
787-8		10
E190-100LR		9
TOTAL	89	43

Source: *Flightglobal*

operates a fleet of four A200-B4s. The Istanbul-based airline will be rebranded as MyCargo Airlines B4s and now plans to increase its fleet to 10-15 aircraft within the next two years.

Hard facts, however, on potential acquisitions for Hainan Airlines are much harder to ascertain. While HNA Group would like to establish a major transportation hub in Europe, rumours have swirled about deals in Germany and France. Last year Hainan Airlines was believed to be one of the potential investors that held talks with Air Berlin, with some unconfirmed reports indicating that Hainan was the preferred option for the German airline, due the perceived deeper pockets thanks to the financial strength of parent HNA Group.

And in December reports circulated in France that Hainan Airlines was negotiating to buy a stake of between 40% and 49% in French airline Aigle Azur. Aigle Azur operates 12 A320-family aircraft between France and Portugal and north Africa and is owned by entrepreneur Arezki Idjeroudiene. The deal apparently would lead to flights between France and China, it was reported, although yet again nothing further has been announced. Similarly, a potential investment in Hungary's flag carrier, Malev, by HNA Group also came to nothing.

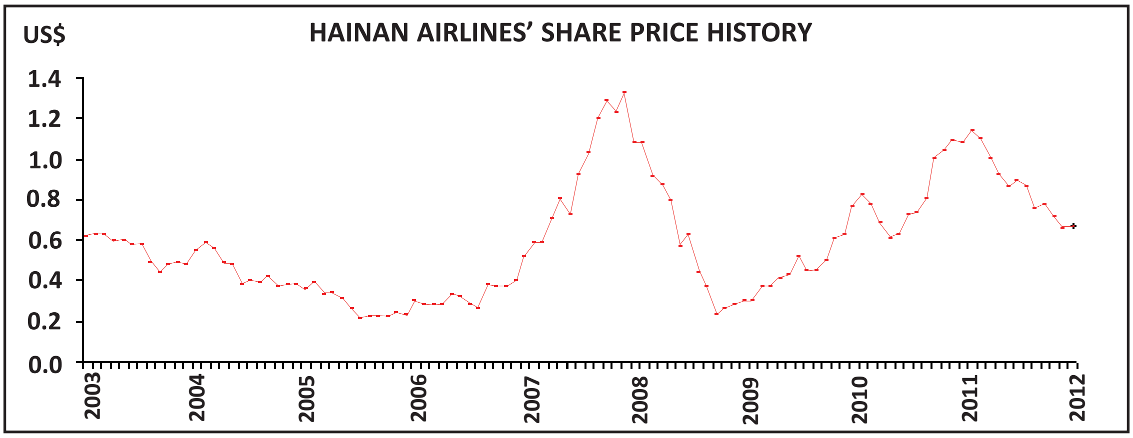
In 2011 Hainan Airlines was also linked to the acquisition of a minority stake in Manila-based Zest Air. Zest operates 13 A320-family aircraft and four Chinese-built Xian Aircraft MA60s on domestic routes and to Busan, Seoul, Incheon and Taipei. Zest was previously known as Asian Spirit before Filipino-Chinese businessman Alfredo Yao bought the airline in 2008.

Closer to home, in December 2011 Hainan Airlines announced it was buying a 19% stake in sister carrier Hong Kong Airlines for US$133m. Hong Kong Airlines operates nine A330-200s, an A320 and five 737s mostly on regional routes within the Asia/Pacific region, although it plans to launch a service to London in March and has more than 70 aircraft on order, of which eight will be delivered this year, and is controlled by Hainan's parent company, the HNA Group. Hong Kong Airlines had wanted to IPO early this year in order to raise at least $300m but in January made a decision to postpone the process until the third quarter of 2012 due to turbulent economic conditions. The carrier needs to raise funds in order to finance a significant expansion of its fleet, as in January it announced an order for 10 A380s, with the first aircraft scheduled to be delivered in 2015.

Other potential rumoured investments for Hainan Airlines include a 40% stake in Yunnan Lucky Air for $130m and a 22% stake in Tianjin Air for $107m (in which it already owns a 0.8% stake). Last summer Hainan Airlines was also reported as wanting to buy the 32% of China Xinhua Airlines it doesn't currently control from Grand China Air for $160m. But what is confirmed is that Hainan Airlines is buying the 13% of Chang An Airlines it doesn't own for $45m, thereby making it a wholly owned subsidiary.

Problems ahead

But despite improved results and the continued expansion, Hainan Airlines does face some major challenges. Debt has been rising at Hainan Airlines (it had a debt to asset ratio of 81% around this time last year), which the company said was having "an adverse effect" on its operations, and unlike Air China, China Eastern and China Southern, the independent Hainan Airlines can't raise funds from the central government. Late last year the airline issued $150bn worth of three-year



bonds with a yield of 6%, while it is currently also selling several real estate assets and projects to Grand China Air, its controlling shareholder, for US$678m in order to bolster its cash reserves.

Last summer the airline also filed a plan with the Shanghai stock exchange to raise Yuan 8bn (around US$1.2bn) in a private share placement, with at least $900m of the proceeds used to reduce bank loans and the rest going to replenish working capital. The share issuance would have diluted the shareholding of Grand China Air to around 34% and reduced the debt to asset ratio of to 72% post the share issue. However, in late January this year the airline said in a new regulatory filing that this placement would only go ahead at a share price level 35% less than originally planned, and as a result in order to raise the same $1.2bn that it needs it would be increasing the number of shares placed from 1.24bn to 1.91bn.

The news hit the airline's shares hard, but even before this announcement concern about the airline's debt was a major factor behind the recent poor performance of the share price. Since listing on the Shanghai stock exchange Hainan's share price has varied considerably (see chart, above). After hitting a peak in late 2007 the stock collapsed in 2008 before mounting a steady recovery through 2009 and 2010. However, for the last 12 months the trend has been firmly downwards, and the share price so far this year showed no signs of reversing that path – even before the shock news of the revised share placement terms.

And while Hainan Airlines is seen as being more commercially driven than the Big Three, it still operates within the political constraints of the People's Republic. The airline's annual report has profiles of the key management team, with four of them listed as "communist party members"

Another major problem facing Hainan Airlines over the coming year is just how much underlying passenger demand will hold up as the so-called "soft landing" in China's economy occurs. Growth in the Chinese economy has been slowing for the past 12 months, and official Chinese government figures claim that GDP rose by "just" 8.9% in the fourth quarter of 2011, less than the 9.1% growth rate of the third quarter and 9.5% of Q2 and 9.7% of Q1. Even though many economists consider official Chinese government statistics on its economy to be questionable - with real GDP being lower than the official figure - the fourth quarter rate was the lowest quarterly growth rate figure released by the government's statistics department in the last 10 quarters, and the cooling down trend in the economy is pretty clear.

When and how this relative economic slowdown will filter through into aviation traffic is unclear. In December 2011 (the last month for which data is available), passengers carried rose 29% to 1.8m, with an ASK increase of 23.4% lower than a 27% rise in RPKs and resulting in a 2.4 percentage rise in load factor to 83.2%. For the moment it appears a cooling economy hasn't affected Hainan Airlines' traffic, and the airline will continue on a growth path for the foreseeable future – subject to getting its debt level under control.

BOEING ORDERS IN 2011

	737	747	767	777	787	Total
Aeroflot				16		**16**
Lufthansa Cargo				5		**5**
Norwegian Air Shuttle ASA	15					**15**
Turkish Airlines	15					**15**
UTAir	40					**40**
EUROPE TOTAL	**70**	**0**	**0**	**21**	**0**	**91**
Alaska Airlines	15					**15**
Air Lease Corporation	24			5	4	**33**
American Airlines	100			6		**106**
Aviation Capital Group	20					**20**
BDS USAF			4			**4**
Continental Airlines	11					**11**
Delta Air Lines	100					**100**
FedEx			27	6		**33**
GECAS		2		18		**20**
ILFC	33					**33**
Southwest Airlines	208					**208**
US Navy	13					**13**
NORTH AMERICA TOTAL	**524**	**2**	**31**	**35**	**4**	**596**
LAN Airlines			8			**8**
TAM Airlines				2		**2**
LATIN AMERICA TOTAL	**0**	**0**	**8**	**2**	**0**	**10**
Cathay Pacific Airways				22		**22**
China Southern Airlines				6		**6**
Hong Kong Airlines				6		**6**
Korean Air	2	2		2		**6**
Malaysia Airlines	10					**10**
MIAT Mongolian Airlines	2		1			**3**
Singapore Airlines				8		**8**
Thai Airways				6		**6**
Virgin Australia	3					**3**
ASIA / PACIFIC TOTAL	**17**	**2**	**1**	**50**	**0**	**70**
Arik Air		2				**2**
Dubai Aerospave Enterprise				5		**5**
EL AL Israel Airlines	4					**4**
Emirates				50		**50**
Ethiopian Airlines				4		**4**
Etihad Airways				5	10	**15**
Oman Air					6	**6**
Qatar Airways				10		**10**
Turkmenistan Airlines				2		**2**
AFRICA / MIDDLE EAST TOTAL	**4**	**2**	**0**	**76**	**16**	**98**
Unidentified customers	7		2	18	25	**52**
Business Jet / VIP customers	3	1				**4**
Total gross orders	**625**	**7**	**42**	**202**	**45**	**921**
Changes / cancellations	-74	-8		-2	-32	-116
TOTAL NET ORDERS 2011	**551**	**-1**	**42**	**200**	**13**	**805**

AIRBUS ORDERS IN 2011

	A318/9	A320	A321	A330	A340	A350	A380	Total
Comlux			1					1
Iberia				8				8
Lufthansa		29	5	1			2	37
MTAD (EADS)				3				3
Thomas Cook Scandinavia			12					12
Scandinavian Airlines		30						30
Transaero Airlines		8						8
Tui Travel Aviation				2				2
Turkish Airlines			10	3				13
EUROPE TOTAL	0	67	28	17	0	0	2	114
Air Lease Corporation			1	7				8
Aviation Capital Group		30						30
CIT Leasing		50		2				52
GECAS		63		12				75
Hawaiian Airlines				5				5
ILFC		75	25					100
Intrepid Aviation Group				2				2
JetBlue Airways		40						40
Republic Airways	20	60						80
Spirit Airlines		45						45
Volaris		44						44
NORTH AMERICA TOTAL	20	407	26	28	0	0	0	481
Avianca				4				4
LAN Airlines		20						20
TAM Linhas Aereas		26	6					32
LATIN AMERICA TOTAL	0	46	6	4	0	0	0	56
AirAsia		200						200
AirAsia X				3				3
Air Pacific				3				3
Asiana Airlines							6	6
BOC Aviation				1				1
Cathay Pacific Airways				15				15
Cebu Pacific		7	30					37
China Aviation Supplies		46						46
Garuda Indonesia		25		4				29
Go Air		72						72
Hong Kong Airlines							10	10
ICBC Leasing		42						42
IndiGo Airlines		180						180
Korean Air				5				5
Lao Airlines		2						2
Qantas Airways		110						110
Singapore Airlines				15				15
Skymark Airlines							6	6
Star Flyer		3						3
Thai Airways		5				4		9
Tibet Airlines	2							2
TransAsia Airways			6					6
ASIA / PACIFIC TOTAL	2	692	36	46	0	4	22	802
ALAFCO		50				6		56
Qatar Airways	6	30	14				5	55
Saudi Arabian Airlines				4				4
AFRICA / M. EAST TOTAL	6	80	14	4	0	6	5	115
Unidentified customers	5	35	0	0	0	0	0	40
Total gross orders	33	1,327	110	99	0	10	29	1,608
Changes / cancellations	-13	-108	-1	-14	-2	-41	-10	-189
TOTAL NET ORDERS 2011	20	1,219	109	85	-2	-31	19	1,419

		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	
Note: FY change	Apr -Sep 11	18,600	18,240	360	-257	1.9%	-1.4%	137,282	114,846	83.7%	40,605	102,516
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	
	Oct - Dec 11	1,139	1,099	39	20	3.4%	1.8%			81.0%		
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	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%**	**44,636**	**36,758**	**82.4%**	**23,334**	**11,696**
	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
	Oct - Dec 11	1,044	930	114	64	10.9%	6.1%	11,745	9,950	84.7%	6,083	11,807
	Year 2011	**4,318**	**3,869**	**449**	**245**	**10.4%**	**5.7%**	**47,679**	**40,284**	**84.5%**	**24,790**	**11,840**
American	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
Delta	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	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
	Oct - Dec 11	4,108	3,961	147	152	3.6%	3.7%	50,368	40,524	80.5%	27,536	45,392
	Year 2011	**15,658**	**14,965**	**693**	**178**	**4.4%**	**1.1%**	**194,048**	**157,040**	**80.9%**	**103,974**	**45,392**
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
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
	Oct - Dec 11	8,928	8,883	45	-138	0.5%	-1.5%	97,707	79,610	81.5%	34,191	82,700
	Year 2011	**37,110**	**35,288**	**1,822**	**840**	**4.9%**	**2.3%**	**406,393**	**333,977**	**82.2%**	**141,799**	**81,600**
US Airways Group	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	30,871
	Year 2010	**11,908**	**11,127**	**781**	**502**	**6.6%**	**4.2%**	**138,107**	**111,996**	**81.1%**	**79,560**	**30,871**
	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
	Oct - Dec 11	3,155	3,047	108	18	3.4%	0.6%	33,393	27,352	81.9%	19,857	31,548
	Year 2011	**13,055**	**12,629**	**426**	**71**	**3.3%**	**0.5%**	**139,483**	**114,777**	**82.3%**	**80,572**	**31,548**
JetBlue	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
	Oct - Dec 11	1,146	1,063	83	23	7.2%	2.0%	15,168	12,472	82.2%	6,693	11,733
	Year 2011	**4,504**	**4,182**	**322**	**86**	**7.1%**	**1.9%**	**59,917**	**49,402**	**82.5%**	**26,370**	**11,733**

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
Nov 11	26.9	18.2	67.7	18.3	14.6	79.6	17.1	13.0	76.3	54.0	42.2	78.1	79.9	59.7	74.8
Ann. change	3.3%	4.8%	1.0	4.1%	5.9%	1.4	7.6%	1.6%	-4.5	6.8%	5.8%	-0.8	5.3%	5.0%	-0.2
Jan-Nov 11	323.5	230.1	71.4	229.7	190.0	82.7	188.0	150.1	79.9	614.8	500.1	81.3	925.9	722.8	78.1
Ann. change	6.4%	8.0%	1.1	10.2%	8.3%	-1.5	13.9%	8.7%	-3.8	11.0%	8.6%	-1.7	9.4%	8.2%	-0.9

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	25 Jan	Norwegian	100 x 737 MAX, 22 x 737-800	
	10 Jan	AirFrance/KLM	25 x 787-8	
Airbus	06 Feb	Air Namibia	2 x A319	
	01 Feb	Spirit Airlines	30 x A320	
	26 Jan	AviancaTaca	33 x A320neo, 18 x A320	
	26 Jan	Etihad Airways	2 x A330-200F	
	12 Jan	Volaris	30 x A320neo, 14 x A320	

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