Aviation Strategy

Issue No: 173

March 2012

EC competition policy: Contradictions

The European Commission's airline competition policy is coming under increasing scrutiny with regard to the apparent contradiction between its apparent support for mergers and deep alliances among intercontinental network carriers and its opposition to mergers between intra-European point-to-point operators.

The EC's approach to analysing the competitive implications of mergers concentrates on direct city-pairs (rather than wider markets or networks). So when it conditions a merger it normally demands the surrender of slots on main routes on which the merging carriers operate. Have these forced slot sales to new or existing competitors restored competition on consolidated routes?

The answer in a study by the Dutch consultancy Airneth is that only 36% of all slot surrenders result in new entry and just over half of these new entrants managed to operate the routes for more than two years after entry (20% of the initial slot surrender demands). The slot remedies required for approval of the Vueling-Clickair merger have had the highest rate of new entry, at 68%, due to Ryanair's entry into the Barcelona and Valencia markets. New entry is substantially lower on hub-to-hub routes than on other city-pairs, and on long-haul compared to short-haul. Airneth's analysis showed that competition didn't return to the levels that existed pre-merger on any of the seven intra-Europe remedy routes affected from five mergers (Air France-KLM, Lufthansa-Austrian, Lufthansa-Swiss, Lufthansa-Brussels and Iberia-Vueling-Clickair).

The ineffectiveness of remedies on short-haul routes is because these slot surrenders largely do not relate to the needs of the European LCCs. The timings of the slot pairs divested by network carriers tend to be incompatible with LCC operations. Most LCCs operate 25-35 minute turnaround times (TATs) while many of the short-haul slot sales by network carriers were for slot pairs with much longer TATs.

Also, the EC often requires the acquiring airline to commit to operate the particular route for a minimum of four seasons (two years), and in some cases eight seasons have been required. This introduces a risk of significant losses for several years on the part of the new entrant. In the case of a slot-constrained airport, a new entrant or one without a "viable presence" must assess the prospects of being able to grow to a viable size at that airport and the extent to which the incumbent network carrier will be able to sustain a price war to fend off the new entrant. The weakness of airline merger policy from the perspective of an LCC is that it doesn't take account of the barriers to entry in many markets.

Chris Gadsden, Regulatory Affairs Manager at easyJet, suggests

www.aviationeconomics.com

CONTENTS

Analysis

EC competition policy 1-2

Mexico: End to the good times? 3-5

Briefing

Air Berlin: Overcomplicated business model? 6-10

JetBlue: Balancing growth, margins and ROIC 11-16

Databases 17-20

European, US and Asian airline traffic and financials

Regional trends

Orders

PUBLISHER

Aviation Economics

James House, 1st Floor
22/24, Corsham Street
London N1 6DR

Tel: +44 (0)20 7490 5215
Fax: +44 (0)20 7490 5218

email: info@aviationeconomics.com

the EC authorities should simply address the following two issues:
• Can a new carrier enter airports affected by a merger (and obtain peak slots)?
• Can a new carrier compete in a meaningful way - what is the risk that the merged entity would "destroy" the new competition?

Meanwhile, Alexander Italianer, the Director General for the EC's Competition Directorate, has been explaining some of the methodology behind the EC's two prohibition decisions. In the case of Aer Lingus/Ryanair, he argued that the wealth of data on competing routes provided by the two parties allowed for a relatively sophisticated econometric analysis of the effects of a merger on passengers and that this analysis indicated that it would "not have been a good deal" for the affected passengers.

In the case of Olympic/Aegean, by contrast, the data provided was not sufficient to carry out the relevant analysis; there was also a lack of detailed historical data, owing in part to Olympic's privatisation in October 2009. Curiously, the EC has yet to officially publish its reasons for blocking the Olympic/Aegean merger in January 2011. There are suggestions that the EC sought one or both of these remedies: divestment of part of the joint fleet and/or the transfer of one of the two brands to a third carrier. It is difficult to comprehend the logic behind the former remedy as the only way such an asset sale could be successful to a new entrant would be in the event of a fire sale. The second remedy pre-supposes the existence of a candidate for new entry into a Greek market.

One crucial factor that may have not been given adequate attention in the Greek case is the "failing firm" argument which allows for otherwise anti-competitive mergers when one or both of the merging parties face possible liquidation, which has become a distinct possibility in the backdrop of the ever worsening Greek economic situation.

In any case, Olympic and Aegean appear to have agreed on a virtual merger; Olympic has withdrawn from western European cities (selling its Heathrow slots to Aegean), Aegean has withdrawn from eastern European points, pricing by the two airlines the domestic market is remarkably close, and they share business lounges. There are of course no cost benefits from rationalising the two managements, as should have happened in an actual merger.

The fact that the only airline mergers that have been blocked by the EC since 2004 are Aer Lingus/Ryanair and Olympic/Aegean would add weight to those such as Hubert Horan, a US analyst, who argues that the EU is wedded to its O&D approach to analysing markets, largely ignoring network effects on competition when it suits its wider objectives, and rubber stamping the various North Atlantic anti-trust immunity (ATI) applications. In 1991, Hubert Horan's analysis indicates that the top three market leaders on the North Atlantic accounted for 51% of the market, with 15 other competitors having market shares of over 2%. By 2001, this had changed slightly to 47% and 11 respectively. However, by 2012, the top three, which he terms the "LH-led, AF-led and BA-led collusive alliances, accounted for 98% of the market. He lambasts the US Department of Transport (DOT) which has effectively decided that "every reduction of competition reduces fares". But Horan's analysis of DOT data shows that average fares on North Atlantic routes have risen three times faster than US domestic fares since consolidation via mergers and granting of ATI gained pace after 2004.

Part of the motivation to consolidate now comes from the inexorable rise of the Gulf-based super-connectors - Emirates, Etihad and Qatar Airways. Some of the European network carriers have been lobbying the EC through various industry associations, mainly the AEA, claiming unfair competition – the inevitable "level playing field" argument.

However, there seems to be a lack of robust evidence against the Gulf carriers to date. EU Regulation 868 regarding state aid to non-ECAA carriers has never been invoked despite the fact that many airlines around the world that compete with European carriers receive some form of state subsidy. Using it against the Gulf carriers might appear to be being selectively targeting those airlines who are a competitive threat to the EU incumbents.

Article partly based on The European Aviation Club conference on Competition, Concentration and Consolidation and Charles River Associates annual conference, both held in Brussels in December 2011.

Aviation Strategy
is published 10 times a year by
Aviation Economics

Publisher:
Keith McMullan
kgm@aviationeconomics.com

Contributing Editor:
Heini Nuutinen

Production Editor:
Julian Longin
jil@aviationeconomics.com

Subscriptions:
jil@aviationeconomics.com

Tel: +44 (0)20 7490 5215

Copyright:
Aviation Economics
All rights reserved

Aviation Economics
Registered No: 2967706
(England)

Registered Office:
James House, 1st Floor
22/24 Corsham St
London N1 6DR
VAT No: 701780947

ISSN 2041-4021 (Online)

The opinions expressed in this publication do not necessarily reflect the opinions of the editors, publisher or contributors. Every effort is made to ensure that the information contained in this publication is accurate, but no legal reponsibility is accepted for any errors or omissions.

The contents of this publication, either in whole or in part, may not be copied, stored or reproduced in any format, printed or electronic, without the written consent of the publisher.

Mexico: Are the good times coming to an end?

After 18 months of healthy industry conditions, Mexico's airlines face a triple whammy of challenges – rising fuel costs, an expanded Mexico travel warning from the US State Department and a possible return of Mexicana.

Airline industry conditions in Mexico have improved dramatically since Mexicana, formerly the country's second-largest carrier, filed for bankruptcy and ceased operations in August 2010. The shutdown of Mexicana and its low-cost and regional units Click and Link removed a large chunk of the overcapacity that had developed as a result of five years of intense start-up LCC activity. The many smaller-airline failures since 2007 (Azteca, Aladia, Aerocalifornia, Avolar, Alma, Aviacsa, Nova Air) have also helped create a more rational domestic pricing environment.

As a result, Aeromexico, the country's only surviving large airline, was able to stage a financial turnaround in 2010 and complete an IPO on the Mexican stock exchange in early 2011 (see *Aviation Strategy*, April 2011). Aeromexico recently reported strong results also for 2011: an operating profit of 3.4bn pesos ($271m) and a net profit of 2.1bn ($165m). Its operating margin was 9.6% in both 2010 and 2011, contrasting with losses in previous years.

The strongest new-entrant LCCs have been able to gain a firm foothold in the domestic market. As they raced to fill the gaps left by Mexicana, the three leading LCCs – Interjet, Volaris and VivaAerobus – increased their combined share of domestic passengers from 40% in 2010 to 55% in 2011. (Aeromexico improved its domestic market share from 36% to 40%; the remaining 5% was accounted for by Magnicharters and Aeromar.)

Mexicana's shutdown also made it easier for the top three LCCs to realise their international ambitions. Each has entered or added new service to the US. Two of the LCCs have placed major new aircraft orders. In January Volaris finalised a $3.9bn order from Airbus for 44 A320s, including 30 A320neos.

The gaps left by Mexicana have been almost totally been filled in the domestic market, but not so internationally. Mexicana had relatively strong North, Central and South American operations, as well as some services to Europe. Only 10 of its 48 US routes (albeit 10 of the most important/lucrative US routes) and some of its Central American routes have been temporarily assigned to Interjet, Volaris or Aeromexico. However, total international flights from Mexico are actually up from the level 18 months ago; explanation: US carriers have been the main beneficiaries of Mexicana's demise in the short term.

While overall demand in the domestic market is still below the 2008 peak, growth has accelerated in recent months thanks to the numerous new services. Statistics from the Ministry of Transport and Communications (SCT) show that domestic scheduled passengers, which surged from 19.8m in 2005 to 27.6m in 2008 when LCCs entered the scene and then fell to the 24.4m level in 2009-2010 (recession, Mexicana's shutdown), grew by a promising 4% to 25.5m in 2011. January's growth was a spectacular 13.3%.

All in all, it would seem that Mexico now has, for the first time, a healthy and vibrant airline sector - not unlike the situation in the US after all the restructurings and consolidation. The surviving airlines are financially stronger, yet there are enough of them to provide tough competition domestically.

Mexicana's possible return

That equilibrium may be disrupted soon if Mexicana's latest rescue plans are successful. In February the judge overseeing

Mexicana's bankruptcy authorised Med Atlantica, a private company led by Spanish businessman Christian Cadenas, to invest $300m to acquire the holding company for Mexicana, Click and Link. The plans reportedly also call for a $300m investment in hotels that can be packaged with air travel. But no details have yet been released about Mexican investors, which by law must provide 80% of the capital.

According to Dow Jones Newswires, Mexicana hopes to start flying again in April, initially with seven aircraft but with ambitious plans to grow the fleet to 44 by year-end. The airline has all the labour deals in place and the flight and ground crews ready to start working.

If it receives the capitalisation, Mexicana will then have to finalise its bankruptcy restructuring agreement with creditors, obtain an operating certificate and try to recover the necessary airport slots and route authorities. The bankruptcy judge set the ball rolling in mid-February by asking for the return of all the route licences that were temporarily granted to other Mexican carriers. In the first place, Mexicana wants back the routes linking Mexico City to Guatemala, Havana, San Salvador, Los Angeles, Las Vegas, and Bogotá; Monterrey-Chicago and Cancun-Bogotá, all of which operate under temporary licences that expire in May. The next batch would be Guadalajara-Las Vegas and Cancun-Lima in June and July.

Interjet and Volaris would both be materially affected. Interjet, which has been the largest beneficiary of Mexicana's shutdown domestically (and before that Aerocalifornia's shutdown) and operates its San Antonio and Miami routes under temporary licences, has chosen to fight the matter in the courts. While Volaris' leadership has indicated that they would cede the Los Angeles, Las Vegas and Chicago temporary licences if required to do so, they have warned that it would have a "negative impact" on the $3.9bn Airbus order. The LCCs have clearly been counting on the unused Mexicana route licences keeping them in the growth trajectory.

Interjet only went international in July 2011. San Antonio and Miami are its only US destinations, both launched in the past three months. It would be left with just two international points (Guatemala City and Havana), though it does have a 26-point domestic network.

Something like this could further delay Interjet's IPO plans, which it had to shelve in the spring of 2011. The airline has aggressive expansion plans and firm orders for 15 Sukhoi Superjet 100s, which will start arriving in the second half of 2012 (in addition to this year's six A320 deliveries).

Like Interjet, Volaris has been able to expand significantly at Mexico City and in the domestic market. It has also added seven US gateways since 2009 and now serves many of those from multiple points in Mexico. The network focuses heavily on the West Coast and benefits from a commercial partnership with Southwest, which allows the carriers to book passengers to each others' flights. Volaris is keen to continue growing both domestically and to the US, facilitated by its substantial A320 orderbook.

Although VivaAerobus has served the US market since 2008 (operating from Monterrey to Houston and Las Vegas), after Mexicana's demise it initially focused on the domestic market and only began adding new US service in 4Q11 (Chicago, San Antonio, Miami and Orlando). VivaAerobus has a more no-frills business model than the other LCCs and continues to add 737-300s to its fleet. It has plans to grow capacity by 18% and add three new US cities in 2012.

Aeromexico has been able to significantly expand its Mexico-US (as well as domestic) services since Mexicana's demise. It is now much larger, with a network covering 73 cities in 17 countries, and financially stronger, so even if it has to give up a couple of markets (at least Guadalajara-Las Vegas and Zacatecas-Chicago are on temporary licences), it should not feel too much impact from a slimmed-down version of Mexicana.

According to CEO Andres Conesa,

Aeromexico will focus on the domestic market this year, as it has many E190s and E170s scheduled for delivery in the coming months. Domestic ASMs are slated to grow by 14.5% and international ASMs by 6.4% in 2012. Plans include two new US destinations - Atlanta and Washington DC – and increasing capacity to South America.

Expansion further afield will begin in earnest when the 787s start arriving in the summer of 2013. Aeromexico currently expects to take seven 787s (two from Airbus, five leased), which will replace 767s and will be deployed to places such as Buenos Aires, Santiago, Paris, Barcelona and Tokyo. In a recent speech, Conesa also mentioned Rome and London as possible later destinations (Mexicana operated to London, but any resurrected version is unlikely to be interested in intercontinental routes.)

There would obviously be a risk of overcapacity returning to Mexico's domestic market if Mexicana stages a comeback and the LCCs and Aeromexico continue on their rapid growth trajectory. This risk would be even greater if economic growth slows or demand for air travel weakens for other reasons.

On the economic front, the latest news is encouraging. Better than expected January data in Mexico and the improving US economy (Mexico's main export market) have suggested that Mexico's GDP growth in 2012 could be 4% (similar to last year's 3.9%), rather than in the 3-3.2% range anticipated earlier.

Drug violence and tourism

Potentially more worrying (not mentioned by any of the airlines) is the US State Department's decision in early February to issue a greatly expanded Mexico travel warning to Americans, who are now advised to avoid "all but essential travel to all or parts of 14 of 31 Mexican states". The reason is the drug-related crime, violence, kidnappings and killings that have plagued the country since the Mexican government stepped up its drug war in 2006. The warning covers the northern states, where the problem is worst, but also central and western states where cartels have also been warring.

Oddly enough, Mexican LCCs have so far mainly benefited from the surge of drug-related violence in Northern Mexico. As people have become increasingly afraid to take longer road trips, demand for cross-border flights for shopping trips and vacations has surged. This explains why in recent months Interjet, VivaAerobus and Aeromar have all launched service to San Antonio, Texas (a popular destination for Mexican tourists). A similar trend is likely with longer-haul domestic travel, with people increasingly preferring flying for security reasons.

But Mexico has so far also been able to minimise the adverse effects on inbound tourism. One strategy has been to diversify the sources of visitors, specifically targeting emerging markets with promotions, easing of the visa process, etc. As a result, while visitors from the US (the largest market) fell by 3% in 2011, those from Brazil rose by 66%, Russia 55%, China 30% etc. Overall Mexico attracted a record 22.67m international visitors in 2011, up 2%.

Another strategy is to focus on marketing the southeastern parts of the country that are generally considered to be safe. Fortunately the US travel warning does not cover the traditional tourist areas on the Yucatan Peninsula or Mexico City. Much of the tourist board's efforts in 2012 will go to promoting those resorts – Cancun, Cozumel and Playa del Carmen, as well as the Mayan cultural destinations. Specifically, Mexico intends to "capitalise on, celebrate and promote the start of the new Mayan calendar" (December 21, 2012).

Mexican authorities are anticipating another record-breaking tourism year in 2012. However, they can continue to deflect the effects of the drug violence on the tourism and airline sectors only for so long; concrete solutions (at the political level) are desperately needed.

By Heini Nuutinen
hnuutinen@nyct.net

Air Berlin: Overcomplicated business model?

After poor financial results in the first half of 2011, Air Berlin replaced its CEO and launched a major cost-cutting and revenue-boosting programme. Can the second largest airline in Germany return to the black, or will its hybrid LCC/full-service/charter business model prove to be too complicated to manage profitably?

Air Berlin dates back to 1978, but as noted a few years ago (see *Aviation Strategy,* November 2007), the rapid expansion of the carrier in the late 2000s and its purchase of dba and LTU led to a complicated strategy of competing in both leisure and business markets on both medium- and long-haul.

Calling itself a "hybrid" airline, Air Berlin attempts to combine elements of a low fare/LCC while operating as a full-service network airline in most other aspects (via an FFP, serving primary airports etc) - as well as having a substantial charter business in Germany and other markets.

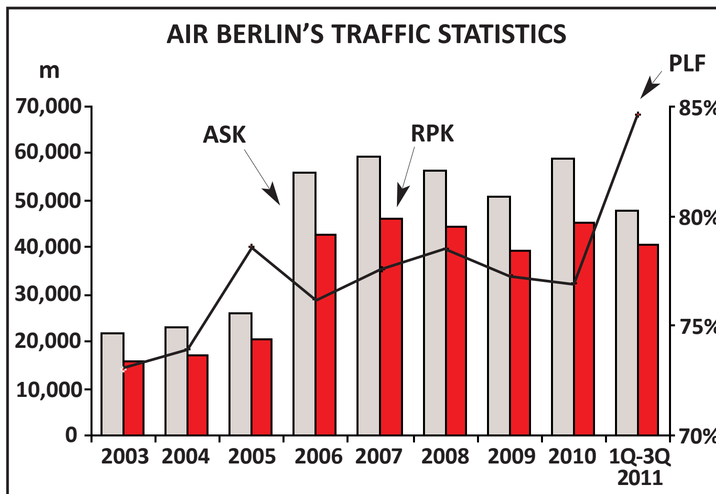
Today the Air Berlin group (which includes Air Berlin, NIKI and Belair) operates to more than 170 cities and leisure destinations in 40 countries throughout Europe, Africa, Asia/Pacific and the Americas from four hubs – Berlin, Dusseldorf, Vienna and Palma de Mallorca.

Air Berlin's recent financial performance has been poor. In fact Air Berlin hasn't recorded a net profit since 2007, and in 2010 - while revenue rose 15% to €3.8bn and traffic rose 16% (see chart, page 7) - it dipped into an operating loss of €9m. That was the first operating loss since 2005 – though in the four years between 2005 and 2010 cumulative operating profit had only been €114m in any case. Most worryingly for Air Berlin, the net loss in 2010 worsened from €9m in 2009 to €97m in 2010. However, Air Berlin was hit hard by the Icelandic volcano eruption of 2010 and it was hoped the carrier would bounce back strongly in 2011.

That wasn't to be. In the first nine months of 2011, Air Berlin recorded a 11.5% rise in revenue to €3.3bn (with passengers carried up 4% to 27.7m) but the operating loss came to a hefty €124m. Though an operating profit of €97m was recorded in the third quarter of 2011, this is traditionally the best quarter for Air Berlin and was substantially down on the €171m operating profit recorded in the third quarter of 2010. In any case the third quarter profit was wiped out by the losses accumulated in the second quarter (€32m) and - most disastrously - in the first quarter, where Air Berlin made a €188m operating loss, almost double that of the corresponding period a year earlier. The cumulative 2011 results at a net level were equally grim, with the net loss for 1Q-3Q coming in at €134m, compared with a €15m net loss in January to September 2010.

Air Berlin blamed the poor 1Q-3Q results result on a host of reasons ranging from the German aviation tax to reduced demand for North African destinations. Air Berlin claims that without the tax, which was levied from January 2011, it would have reported a pre-tax profit in the first nine months of 2011. The tax will cost Air Berlin an estimated €170m in 2011, the airline says, and although it is due to be reviewed by the German government this year it is "is impossible to pass on to customers due to tough competition", according to Hartmut Mehdorn, the new chief executive of Air Berlin.

Air Berlin is heavily dependent on the leisure sector – in 2010 more than 31% of all revenue came from bulk ticket sales to charter and package tour operators, and there's little doubt that it has been hit significantly by the "Arab Spring" of 2011, and specifically political unrest in Egypt and Tunisia. According to the World Travel & Tourism Council, tourist arrivals to Egypt fell by 45% in the first quarter of 2011, while the World Tourism Organization says that international tourism arrivals fell by 12% in North Africa during the whole of 2011, to 16.4 million - equivalent to 2.3 million fewer tourists - while by compari-



son tourist arrivals to the Middle East dropped by 7.9% to 55.4 million.

Cost problems

However, Air Berlin's complaints against the aviation tax mask more fundamental cost issues for the carrier. Taking 3Q 2011 (traditionally Air Berlin's strongest quarter), and ignoring extraordinary items, costs per ASK rose to €cents 6.90 from 5.99 in the third quarter of 2010 – a 15.2% rise. But if the aviation tax is stripped out, CASK would have still risen 10.5% in Q3, from €cents 5.99 in 3Q 2010 to 6.22 in 2011. And even after ignoring fuel costs and the aviation tax, CASK rose from €cents 4.6 in 3Q 2010 to 4.89 in 3Q 2011 – representing a 4.5% increase in underlying non-fuel, non-tax costs.

And looking at the cumulative January-September 2011 bridge figures (i.e. where financials varied year-on-year) the picture is even clearer. EBIT worsened by a staggering €161m in 1Q-3Q 2011 compared with 1Q-3Q 2010, and costs became higher in virtually every part of the cost stack. So while the German aviation tax added €126m of costs and fuel an extra €176m of cost, all other costs at the airline rose by a considerable €197m.

Clearly the underlying cost base at Air Berlin was still rising last year, even though in early summer the (soon to be ex) chief executive Joachim Hunold insisted that: "I maintain that we can achieve a positive operating result despite the difficult first quarter of 2011." That prediction soon proved to be wrong, and immediately after reporting a second quarter loss Air Berlin launched a new "Shape & Size" restructuring and cost-cutting programme, in August 2011. Just a month later Hunold – chief executive since 1990 – resigned and was replaced by Mehdorn, who was previously chairman of Deutsche Airbus. In November, Air Berlin also appointed a new chief operating officer- Helmut Himmelreich (formerly the airline's chief maintenance officer), who replaced Christoph Debus.

Mehdorn has made Air Berlin's new priorities abundantly clear, saying that "in recent years Air Berlin has been concerned primarily with gaining market share. Now we are securing our achievements, and it is essential that we return to profitability for this to be possible".

"Shape & Size"

The "Shape & Size" programme includes no less than 30 separate work streams to either cut costs or improve efficiency in order to improve the bottom line by at least €200m in 2012. Of that €200m, around €100m is to come from increased yield and load factor, €50m will come from enhanced network and €50m from cost-cutting (to come from back office/admin costs, increased automation of processes, and better crew efficiency planning).

Air Berlin currently employs 9,200 but as the chart (see page 8) shows, the airline has been struggling to increase productivity as measured by ASK per employee over the last few years.

In terms of the group fleet, this will fall from 171 (with an average age of five years) to just over 150 by the summer season of 2012 (see table, page 8), with a number of leased aircraft having their leases cut short, before nudging up to more than 160 by the end of 2014. All but 15 aircraft in the current fleet are narrowbodies, including 72 A320 family aircraft and 67 737NGs. The widebodies are A330s.

There are 64 aircraft on firm order (with another 45 on option), comprising seven 737-700s, 39 737-800s and 18 787-8s. In October last year Air Berlin deferred the delivery of 11 A320 and eight 737 aircraft due to be deliv-

ered in 2012 and 2013 until 2015-2016, leaving 31 aircraft to be delivered in 2012 to 2014. This year Air Berlin will receive 11 737-800s and a number of A320s. The key effect of this is to reduce capex requirements by $0.5bn in 2012 and €1.1bn in 2013.

However, Air Berlin adds that its fleet plans – particularly in 2013 and 2014 – will retain an element of flexibility dependent on operational need. Helping will this flexibility is Air Berlin's current reliance on leasing, with 80% of its fleet leased, including all its A330s and the majority of its Airbus and Boeing narrowbodies.

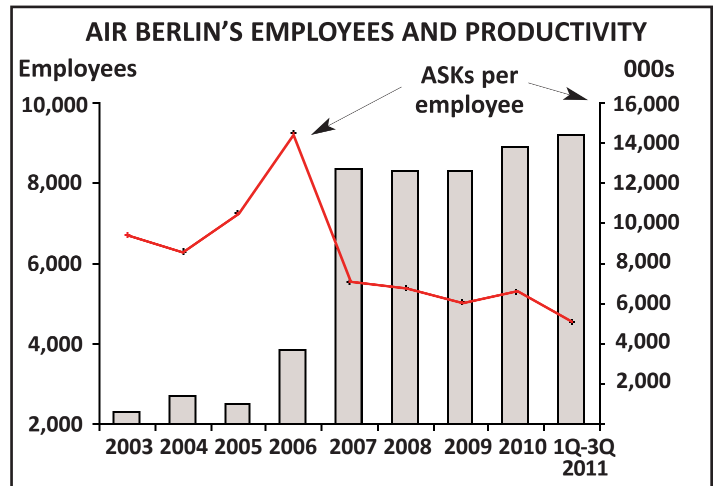
Total available capacity has already been reduced by more than one million seats in the second half of 2011, as last summer - as soon as "Shape & Size" commenced - a number of international and domestic routes that were loss-making or of no "strategic importance" were immediately cancelled, including the key trunk route between Hamburg and Frankfurt, which faced fierce competition from Lufthansa.

The prime focus of the route-cutting though has been on intra-European routes from regional German airports, while a secondary priority has been to reduce the capacity imbalances between the summer and winter seasons. Later this year, in November, Air Berlin will close its operations at Dortmund and Erfurt – although the carrier has less than 80 staff members based at Dortmund and Erfurt combined, and only one aircraft stationed at Dortmund (with none at Erfurt). Altogether capacity in the 11/12 winter programme fell by 1.5 million seats (equivalent to 7.6%) and the summer 2012 capacity will drop by 0.8 million seats (3.1%) year-on-year.

The network priority for Air Berlin is now to build up feeder traffic into its four hubs. Of these, Palma de Mallorca is the centre for Air Berlin's charter business; Air Berlin finally

AIR BERLIN FLEET DEVELOPMENT PLANS

	Old plan	New "Shape & Size" plan
Dec 2011	171	164
Dec 2012	178	152
Dec 2013	186	154
Dec 2014	190	162



completed integration with LTU International Airways (which it bought back in August 2007) in April last year, and that long length of time clearly indicates that all has not gone well in integrating the airline with the rest of Air Berlin's business.

Closer to home, NIKI and its base at Vienna is seen as a key gateway into eastern Europe, and last October the two airlines announced a tighter co-ordination of their schedules between German cities, Vienna and onto Bucharest, Sofia and Belgrade. Air Berlin also increased its flights to Moscow and St Petersburg from four German and two Austrian cities to 50 flights a week.

A new Berlin

At the third hub, Dusseldorf, a route to Las Vegas will start in May this year, with A330s operating twice a week; no other carrier currently operates on the route. However, it is Berlin that remains the prime hub for the airline, and Air Berlin will get a major boost when Berlin Brandenburg International (BER) airport opens in June 2012. BER is located 18km south of Berlin in Schoenefeld (to the south of the current airport there) and replaces three Berlin airports - Tempelhof (which closed in 2008), Tegel (which will close in June) and the current Schoenefeld, whose terminal will close, although its runway and much of its infrastructure will be incorporated into BER. At a cost of €2.5bn BBI will have an initial capacity of 27 million passengers a year, which will be expanded gradually to 45 million a year.

Air Berlin says that the new airport will increase the number of connections that Air Berlin can offer in the city from 1,500 to 10,500 a week, and it plans to make extensive use of BBI to increase the number of passengers it carries through Berlin airports from just over 8 million in 2011 to between 12 million and 13 million by 2020. Air Berlin (and other oneworld airlines) will have exclusive use of one of two piers at BER. Air Berlin officially became a member of oneworld on March 20th (with NIKI becoming an affiliate member of the alliance on the same date too). Since agreeing to join in the summer of 2010, Air Berlin commenced codesharing with BA in the summer of 2011 and now has codeshares with seven of the 12 oneworld carriers, including American Airlines and Iberia.

In terms of BER, Air Berlin wants to develop the facility into a truly international hub, for both European and intercontinental services. Later this year new routes will be launched from Berlin to Gdansk and Los Angeles, while at the same time the Berlin-New York service will increase from four services a week to daily flights.

However, Air Berlin faces a substantial challenge to its plans to increase passengers out of Berlin by Lufthansa, which has announced it wants to become the leading airline in the Berlin market by 2015 at the latest. This year the flag carrier is increasing its aircraft based in Berlin from 9 to 15, alongside a large increase in staff based there, from 500 to 4,000. And then there is the challenge of the LCCs – while Ryanair currently operates only six routes from Schoenefeld, easyJet has 37 routes out of there, and is a major competitor. Incidentally Air Berlin (as well as Lufthansa, though in a separate legal action) has just been granted permission by a German federal court to sue the airports of Frankfurt Hahn and Lubeck for allegedly giving Ryanair "illegal subsidies" via reduced airport charges – a charge that the airports concerned (and Ryanair obviously) deny.

The Etihad link

Air Berlin's plans for its main hub are also being affected by its new largest shareholder; in January the German regulators approved Etihad Airways' purchase of just over a 26% stake in Air Berlin, bringing its share up to 29.2% (it originally bought a 3% shareholding in early 2011). The move was achieved via the issue of 31.6m new shares in Air Berlin at a price of €2.3 each, for which Etihad paid €73m in total. Etihad also gains two seats on the Air Berlin board. Previously the largest shareholder was Turkish-based ESAS Holdings (which is the parent company of Pegasus Airlines), whose stake has now been diluted down to 12%.

The two airlines have announced a widespread codesharing agreement, closely linked FFPs, and common maintenance at Dusseldorf and Abu Dhabi; for example Air Berlin's 787s, which arrive in the middle of the decade, will be maintained for Air Berlin by Etihad Airways, which has 41 787s on firm order.

Undoubtedly the two networks are complementary – Air Berlin's 170-plus destinations being primarily in Europe and the Americas, and Etihad's 80-plus destinations being largely in Africa, the Middle East and the Asia/Pacific region. Adjustments are already being made. In January Air Berlin switched its Middle Eastern operation to Abu Dhabi from Dubai, where from January it now operates four flights a week from Berlin. Altogether Air Berlin and Etihad operate 29 flights a week from Abu Dhabi to Berlin and three other German cities – Dusseldorf, Frankfurt and Munich – and this will rise to 42 weekly flights by the end of April, including daily Air Berlin flights from Berlin and Dusseldorf to the UAE capital. This will be complemented by Etihad Airways' own Abu Dhabi-Dusseldorf service, which will increase to daily frequency from April (its other existing service to Germany operates to Frankfurt). Meanwhile Air Berlin's direct service between Berlin and Bangkok has been dropped, with Air Berlin passengers being able to transfer onto Etihad's services to Bangkok from Abu Dhabi. However, Air Berlin has also applied for approval to launch a new route between Abu Dhabi and Phuket, which although primarily a leisure destination will be operated all year round.

Etihad estimates that closer ties with Air Berlin will generate $50m for the Middle Eastern carrier in extra revenue in the first 12 months of operation. Etihad says it has no

plans to increase its share further, and it has given undertakings not to dispose of its shares for at least two years.

From Air Berlin's point of view, it is forecasting that closer ties between the airlines will generate an annual EBIT impact of €66m, of which €38m will come from revenue synergies (€20m from network benefits and €18m from commercial) and €28m from cost savings (with €13m from financial savings, €10m from joint procurement and €5m from IT savings). Of that total annual benefit of €66m, between €35m and €40m is expected to be realised in 2012, though Air Berlin makes what may be slightly unrealistic assumptions that all those synergies will be realised without any "material implementation costs".

Importantly for Air Berlin, Abu Dhabi-based Etihad is to provide the German airline with a debt financing facility of more than $250m, which will last to the end of 2015. That financing will help Air Berlin with the cost of funding its extensive fleet renewal, which despite the recent order postponements will still be significant. Air Berlin issued €100m of bonds in November 2011 but the interest warrant was a hefty 11.5%, which is indicative of the higher risk now associated with the airline.

At September 30th 2011 Air Berlin's total long term debt had risen to €1bn, 3% higher than at the start of the year, but most worrying of all net debt rose to €644m, an increase of €155m in just nine months and due to "financing of on balance aircraft", according to Air Berlin.

The decline in Air Berlin's finances has given little respite to the downwards share price. Air Berlin carried out an IPO on the Frankfurt stock exchange in 2006, but after hitting more than €20 in 2007 the shares have slumped since and today they are struggling to reach the €2.40 level.

Despite the restructuring programme, it appears unlikely that Air Berlin will return to profitability in 2011 (results are due to be released towards the end of March), and one German analyst predicts that losses for last year will top at least €100m, with break-even now not expected to be seen until 2013. The traffic figures are not encouraging - in 2011 Air Berlin carried 35.3 million passengers – just 1.2% up on 2010.

A confused strategy

While the support of Etihad Airways will shore up Air Berlin's finances, at least in the short-term, the major question on Air Berlin still needs to be addressed – is its strategy right? While being a combination of a LCC/low fare airline plus a charter airline plus a full-service scheduled carrier gives the airline certain strengths, such as the ability to utilise aircraft through the peak leisure season and in winter scheduled services, it also has inherent weaknesses - such as an unfocussed management and exposure to the volatile AIT market, which is in long-term decline even despite Air Berlin's partial success in consolidating the industry in Germany. Air Berlin also owns 49% of Zurich-based Belair, which operates a fleet of 10 A320 family aircraft between German cities and leisure destinations around the Mediterranean and north Africa, and 50% of Air Berlin Turkey, a charter airline launched in November last year as a joint venture with Pegasus Airlines, though it was essentially a rebranding of former airline Izair.

In terms of operational emphasis Air Berlin had been trying to become more of a full service carrier, a move that the oneworld tie-up was supposed to help. However, the new closer links with Etihad means that development of that alliance will now surely have to be curtailed - plans to closely integrate Air Berlin's schedules with those of BA will have to be cut back, if not dropped altogether, in favour of schedule integration with Etihad. On the other hand, through connecting at Abu Dhabi with Etihad's onward network into the Asia/Pacific region, the Indian subcontinent and the Middle East, Air Berlin will become much more attractive to business passengers.

Nevertheless Mehdorn continues to insist that Air Berlin will persevere with its hybrid strategy. The key question remains: is that hybrid strategy a unique market positioning that will help Air Berlin be successful in the long-term once it returns to profitability – or is that strategy the very reason why it's struggling to make a profit in the first place?

JetBlue: Balancing growth, margins and ROIC

JetBlue is the only one of the top six US carriers that has stepped up growth in the past two years: its ASMs rose by 6.7% in 2010 and by 7.2% in 2011. This year's plans call for similar 5.5-7.5% growth, which contrasts with the flat capacity or 2-3% reductions projected by other large US carriers.

The reason is simple: JetBlue has had "once in a lifetime" type growth opportunities as a result of legacy carrier withdrawal from many of its core markets. American has contracted sharply in Boston and the Caribbean as it has shifted capacity to its five "cornerstone" markets (New York, Chicago, Los Angeles, Dallas and Miami). Delta and US Airways, too, have retreated in the Caribbean to focus on business markets. Some of the Caribbean flags, including Air Jamaica, have also reduced capacity in competitive JetBlue markets.

According to JetBlue, since 2007 other airlines' capacity has declined by 70% or more in 21 markets out of Boston and in 14 US-Caribbean markets. The past year has also seen significant service cuts by competitors in the Puerto Rico market.

JetBlue has also benefited from continued capacity restraint in the transcontinental market, which still account for 32% of its ASMs. And now capacity is even coming down in JetBlue's traditional NE-Florida stronghold (also 32% of its ASMs).

So, JetBlue has enjoyed a rare respite on the competitive front. And it has been able to grow aggressively in Boston and in the Caribbean without adding to industry capacity.

But, as it has tapped the growth opportunities, JetBlue has gone a step further: it has aggressively sought to capture business traffic in Boston. This is a new strategy for the carrier. It is one thing for an LCC to attract business travellers because they like your product and service. It is an entirely different thing to go out there and adopt legacy strategies, as JetBlue has done: try to clinch corporate contracts (since 2009), participate fully in GDSs (since 2010) and, above all, provide the network, frequencies and schedules demanded by the business traveller.

This strategy is interesting, first, because it is limited to the Boston market. Everywhere else JetBlue remains "primarily a leisure player". In New York, its home base which accounts for most of its revenues, the airline has made a "conscious decision not to focus on the business traveller" (as one of its top executives put it). So JetBlue is New York's hometown leisure airline, but 190 miles northeast it is positioning itself as Boston's hometown business airline.

The Boston business strategy is also controversial for an LCC from the viewpoint of keeping costs low. Will JetBlue be able to execute the strategy without ending up with a legacy-style cost structure?

The Boston strategy, together with JetBlue's other notable recent activities – aggressive Caribbean expansion, international alliance building and new up-market ancillary offerings – are certainly paying dividends in terms of revenue generation. JetBlue has outperformed the industry in terms of RASM growth since 2007.

JetBlue's operating margins have also remained healthy: 8.7% in 2009, when much of the rest of the US industry lost money, followed by 8.8% and 7.1% margins in 2010 and 2011.

But JetBlue has lagged behind its peers in terms of net margins (a meagre 2.6% in 2010, followed by 1.9% last year) and ROIC (4% in 2011). With many US airlines now focusing on ROIC, JetBlue has taken much criticism from analysts and investors for continuing to focus on growth and for incurring relatively high capital spending in the face of low returns.

Some analysts have also questioned why JetBlue has not been able to cash in more quickly on the Boston opportunities and the easier competitive environment. They have

asked: if it cannot produce decent ROIC at a time like this, what hope is there for the future?

Not surprisingly, JetBlue's management decided that this was a good time to explain the network and financial strategies in greater depth and hopefully allay any investor fears. The airline held an analyst day on February 15 - for the first time since 2008 – and indicated that from now on it would be an annual event.

The key messages conveyed by the management at the New York event were, first, that JetBlue is still a growth company but that it is committed to sustainable growth. ASM growth is now moderating slightly and should average in the "mid single-digits" over the longer term.

Second, JetBlue continues to focus on financial discipline. It has now set actual targets for ROIC improvement and intends to be "laser-focused" on ex-fuel CASM. It has one of the highest cash balances in the industry (28% of annual revenues). Its debt load is high, but it is pursuing opportunities to prepay debt and wants to continue funding expansion with operating cash.

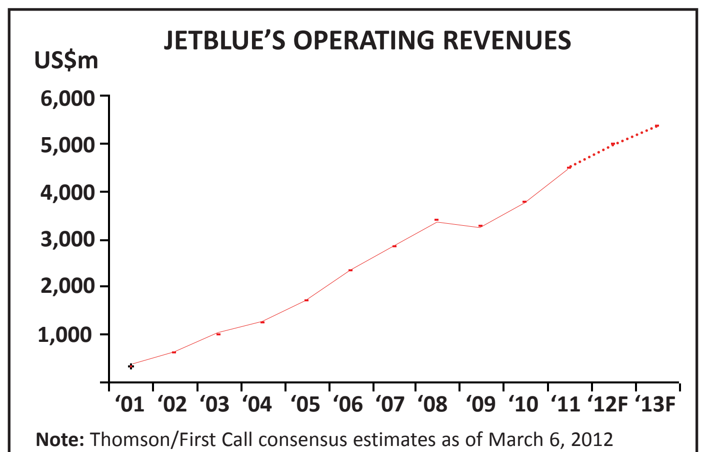
The third important message was that the Boston network is now reaching a certain level of maturation, enabling JetBlue to start reaping financial benefits. The executives stated: "We really are reaching a tipping point in some of the network investments we made".

The management went to some lengths to explain why the Boston business strategy makes great sense to JetBlue. Among other things, it has enabled the airline to reduce the severe seasonality associated with its leisure-oriented network.

Of course, the Boston investments are for the longer term – a concept analysts and investors do not always appreciate. Amazingly, it takes 2-3 years to make a typical Boston business market profitable, whereas many of the Caribbean leisure/VFR markets are profitable almost immediately.

The management also sought to "lift the cloaks of secrecy about partnerships a bit" (though no earth-shattering secrets were revealed).

One of the most interesting parts was the discussion on culture and the value of a highly engaged workforce – often the only thing that differentiates airlines from the customer viewpoint. JetBlue goes to great lengths to maintain its culture and is using highly sophisticated techniques to measure it and how it builds customer loyalty.

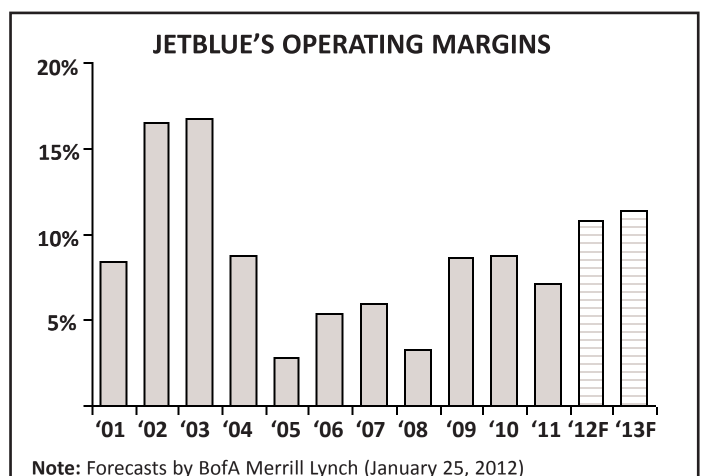


Note: Thomson/First Call consensus estimates as of March 6, 2012

From high growth to ROIC

The management came up with a catchy phrase to summarise JetBlue's evolution in its 12-year history: "From growing fast, to growing up, to growing profitably".

Initially, it was all about fast growth. JetBlue, which began operations in February 2000, made the most of its ample start-up funds and promising niche at JFK by growing extremely rapidly. It went public after only two years, earned spectacular 17% operat-



Note: Forecasts by BofA Merrill Lynch (January 25, 2012)

ing margins in 2002 and 2003 and achieved "major carrier" status (with $1bn-plus annual revenues) in its fifth year.

But JetBlue then stumbled financially, seeing its operating margin plummet to the low single-digits and net results turn negative in 2005 and 2006. Much of it was blamed on over-aggressive expansion. In 2006 JetBlue took delivery of an aircraft every 10 days and added 16 new cities to its network. In the previous year it launched a new aircraft type (the E190).

Consequently, in 2007-2008 JetBlue shifted its focus from growth to liquidity. It acted quickly to curtail capacity growth and brought capital spending to relatively modest levels through aircraft sales, lease terminations and order deferrals.

However, JetBlue continued to invest in critical areas. For example, it realised that to make it as New York's hometown airline, it needed the right infrastructure – hence JFK's Terminal 5, a world-class modern facility that opened in 2008. Another example was the transition to Sabre in 2010.

Also, in 2008-2009, when its total ASMs remained relatively flat, JetBlue was able to expand quite rapidly in the Caribbean by reallocating capacity from less profitable markets, such as the transcon.

The focus on liquidity and other new strategies were facilitated by a leadership change, which resulted from an operational meltdown JetBlue suffered in early 2007. President Dave Barger took over as CEO from the visionary founder David Neeleman. In the subsequent two years the remaining slate of top officers also changed.

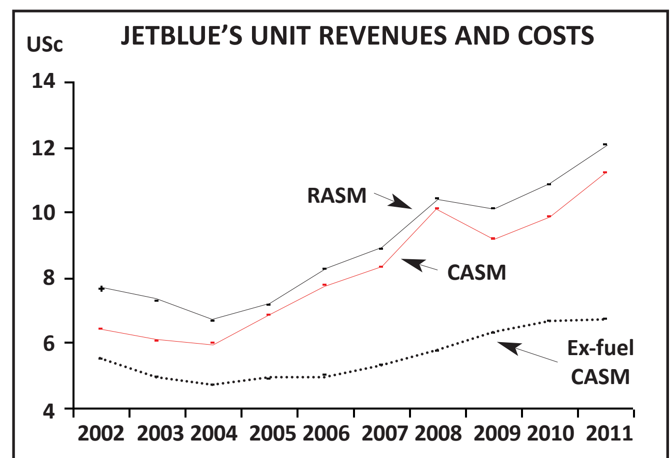
As a result, JetBlue returned to "mainstream" operating margins in 2007 and 2008. It outperformed the industry in 2009, when its legacy peers were hit hard by the global recession. And JetBlue has now generated positive free cash flow (FCF) for three consecutive years (2009, 2010 and 2011).

Now the focus has shifted to ROIC, reflecting what the executives described as an "industry-wide return to ROIC metrics". For JetBlue this will mean slightly lower ASM growth and striving to improve the ROIC by "at least a point per year" (to 5% in 2012, 6% in 2013 and so on). The ROIC target is very modest by legacy standards, but the executives noted that JetBlue is younger and has a different business model.

But it was also reassuring to hear that JetBlue remains a "contrarian airline". It has always done things a little differently. Originally many people argued that an LCC could never be successful at JFK because of the ATC congestion, harsh winter weather, high cost levels and difficulty of recruiting the right kind of employees in the Northeast. Many people also regarded leather seats, LiveTV at altitude and a second fleet type as crazy ideas for an LCC. But JetBlue proved wrong all the sceptics and many of its ideas have been copied by other airlines.

On the cost front, though, JetBlue faces significant challenges, particularly with maintenance costs due to the gradual aging of the fleet. Its aircraft utilisation has also declined due to increased shorter-haul flying in Boston and San Juan. On the positive side, it has retained a non-unionised, highly flexible and productive workforce (helped by a strict no-furlough policy).

JetBlue is monitoring its narrowing ex-fuel CASM advantage over the legacy carriers, though it still has a very competitive cost position today. Trying to be a growing airline with essential infrastructure projects to complete is a tough comparison with those that have gone through a restructuring or are getting synergies through mergers. JetBlue is also more up-market than other LCCs and has Northeast cost levels. But JetBlue knows that it has to maintain its cost advantage, so it is in the process of evaluating almost



everything it does for potential cost savings. To set an example, there is a management hiring and salary freeze currently in place.

The Boston opportunity

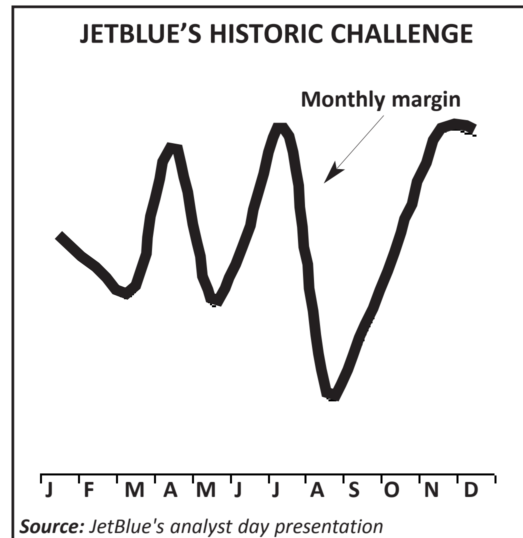
JetBlue was founded on a core leisure market (Northeast-Florida and transcon), which meant strong peak performance but terrible seasonal troughs. The network performed well initially, but with growth the problem with the troughs became worse and JetBlue knew that it had to start reducing seasonality both in terms of where it flew and, more importantly, the type of customer.

The solution has been twofold. First, about three years ago JetBlue began tapping the business market in Boston, a city it had served since 2004. Second, as it has grown in the US-Caribbean leisure market, JetBlue has sought markets with a high VFR traffic component, which is slightly less seasonal and more recession-resistant than pure leisure traffic.

Much of the discussion at the analyst day focused on the Boston business market. The opportunity came about because of the across-the-board contraction of legacy carriers in Boston – a trend that apparently continues in 2012 with competitor capacity declining in the Boston-Orlando market this summer. JetBlue executives also noted that Boston had been a “fragmented” market for a long time; it never had a dominant carrier, which for a newcomer meant a “relatively low cost of entry going in and growing it”.

So JetBlue spotted an opportunity and seized it. Since 2007 it has entered or doubled capacity in 27 markets out of Boston (17 US and 10 Caribbean cities). It now serves 45 points from Boston on a nonstop basis, both business and leisure markets, with the 46th destination (Dallas) being added in May.

JetBlue is already the largest airline at Boston Logan, having grown its seat share from 12% in 2Q07 to 23% in 2Q12. In the same period, Delta’s seat share declined from 22% to 15%, American’s from 16% to 11% and US Airways’ from 18% to 15%. Moreover, the legacy carriers serve a much more limited number of destinations than JetBlue.



Source: *JetBlue's analyst day presentation*

Despite the rapid growth, JetBlue has outperformed competitors on a unit revenue basis in Boston. Between 2007 and 2011, its RASM increased by 14%, compared to a 9% increase for other carriers, even as JetBlue’s seats in those markets grew by 83% and other carriers’ declined by 10%. Such a performance is a major feat; JetBlue executives put it down to the “power of our brand in the Boston area”. It should also be noted that total industry seats in the Boston market grew by just 2% in that period, so JetBlue was not really adding incremental capacity to the market.

The RASM trends reflect JetBlue’s growing premium traffic market share in Boston. The airline estimates that nearly 30% of its customers in Boston are travelling on business, compared to 20% in the rest of its network. In top business markets, such as Boston-Newark, business customers account for almost half of total traffic and up to 66% of revenues (JetBlue defines business travel as purchase within seven days of travel and no Saturday nights).

In order to be truly attractive to the corporate traveller in the Boston area, JetBlue realised that it needed to build a sizable network, covering all the key business destinations, and a competitive schedule throughout the day. Even though its overall growth in Boston has been rapid, JetBlue has only been adding 1-2 business markets per year, so that there is not too much of a drain on

profitability. The management feels that it was only really last year that, for the first time, JetBlue had the schedule and the network in Boston that would be of interest to the vast majority of its corporate customers.

Another challenge is that many of the corporate contracts are on 2-3 year cycles, so if JetBlue now has a product of interest, it can take up to three more years to clinch those contracts.

Maintaining low costs is a very important consideration. As one example, JetBlue has only one account manager in Boston to oversee a large number of corporate contracts; one of its former (smaller) competitors had five.

But JetBlue is spending where it matters, be it system upgrades, additional gates or remodelling facilities to make them more acceptable to business customers. Participating in GDSs has made a big difference. The yields that JetBlue gets through that channel are on average $35-40 higher than what it gets through its website.

JetBlue also has attractive basic offerings to the business customer, some of which provide additional revenue streams. The mantra is to "keep it simple" and provide only the products and services that customers really value. JetBlue offers free LiveTV and "the most legroom in coach of any US airline". One of its most successful ancillary offerings is "Even more Space", a "front cabin" product introduced in 2008 that costs hardly anything to deliver but it generated $120m in 2011. JetBlue is currently rolling out "Even More Speed", a priority security lane at airports. Two years ago JetBlue revamped its TrueBlue loyalty programme.

In its dealings with corporations in Boston, JetBlue takes pride in being "easy to negotiate with". It does want to negotiate the right price, but it is not bound by rules on corporate deals and so can be more flexible.

On the negative side, JetBlue has found that the Boston business markets take quite a bit longer to mature than its traditional leisure/VFR markets. In a typical Boston business market, the first year is lossmaking, the second year roughly breakeven and the third year profitable.

Of course, JetBlue has also continued to grow in the Caribbean/Latin America region; since 2007 it has entered or doubled capacity in 17 markets. The region will account for 27% of JetBlue's ASMs in 2012, up from 6.4% in 2005. JetBlue has taken a "hedged position" in that region in terms of seeking exposure to both VFR and package holiday markets. The routes are profitable almost immediately and reach maturity quickly. JetBlue's RASM outperformance in that region has been even stronger than in Boston: between 2007 and 2011, its RASM was up by 41% (versus competitors' 28%), even as its seats surged by 210%, compared to other airlines' 12% reduction in JetBlue markets.

The good news is that the new network strategies, especially the growth in Boston, are having the desired impact in terms of reducing seasonality. In the four years to 2011, JetBlue's PRASM in its four traditional shoulder months (January, May, September and October) was up in the 36-45% range, compared to 25-32% growth seen in the other eight months.

Also, as JetBlue slows growth, it is seeing the benefits of having most markets in the "mature" phase, which equates better profitability. In 2012, 86% of JetBlue's ASMs are in markets where it has been for three years or more, compared to 55% in 2007. And only 5% of its ASMs are now in "new" markets (less than one year), compared to 17% in 2007.

Profit margins especially from the Boston operations should start to accelerate now that the initial business markets are entering years two or three. Chief commercial officer Robin Hayes predicted: "I think we'll look back [at Boston] and say: that was one of the most important strategic moves that JetBlue ever made".

Where next?

JetBlue's management sees considerable further potential to expand in Boston, in terms of adding more Caribbean points and large business markets that customers have asked for. The airline is looking to grow from the 100 or so daily flights it will operate there this summer to 150 flights a day by mid-2015, which would make Boston almost

as big as the JFK home base, which currently has about 160 flights a day.

However, the executives stressed that New York remains JetBlue's core and that it will find ways to grow there. JetBlue serves all New York area airports and was recently pleased to be able to pick up additional slots at LGA. JetBlue's dominant position and state-of-the-art terminal at JFK, as well as its strong brand, leisure franchise and conscious decision not to go after business traffic in New York, all mean that it is unlikely to be affected by Delta's aggressive service build-up at LGA this year and the ensuing legacy market share battles in the New York area.

JetBlue has also proved that it can continue to prune its network where necessary. Most recently, as it expands service from Washington DCA, it has decided to significantly downsize Washington Dulles.

On the Latin America side, JetBlue still sees significant opportunities on the northern rim of South America and in Central America. The airline will begin serving Bogotá (Colombia) from Ft. Lauderdale in May, to supplement its successful Orlando-Bogotá route.

In the Caribbean, there are major growth opportunities in the Puerto Rico market, where JetBlue is now the largest carrier following American's 35% contraction last year. JetBlue is likely to designate San Juan as a focus city (similar in status to JFK, Boston, Ft. Lauderdale, Orlando and the LA basin).

On the question of where the next Boston might be, JetBlue executives stressed that they are "not looking to make an investment in a new Boston market anytime soon". However, JetBlue will be on the lookout for any interesting opportunities that may unfold as a result of further industry consolidation or right-sizing.

Unusual alliance strategy

The management described airline partnerships as "another area of explosive growth for us". In the past two years or so JetBlue has expanded the original roster of three, made up of regional carrier Cape Air, Aer Lingus and Lufthansa (also its largest shareholder), to include American, South African Airways, El Al, Emirates, LAN, Virgin Atlantic, TAM, Qatar Airways, SIA, Jet Airways, Icelandair, JAL, Hawaiian and Korean (the latter three were announced in January-February). JetBlue has said that it could announce another 2-4 partnerships in 2012.

JetBlue's strategy is somewhat unusual in that these are mainly interline agreements, which are so common that airlines do not usually announce them or describe them as alliances. But JetBlue looks at interline as "first base", and a couple of the relationships have progressed to "second-base", which is typically one-way codeshares (other carriers placing their codes on JetBlue flights).

JetBlue executives indicated that they are very interested in building more of the interline partnerships into one-way codeshares. However, although the technology is in place for full codesharing, they are hesitant to take that step for fear of it creating additional complexity (having to train airport workers, maybe set up dedicated teams, disclosure requirements, potential for fines, etc.). JetBlue is not ruling it out but currently is not convinced of the benefits of full codesharing.

But it is the results that matter. JetBlue feels that it is benefiting significantly from the existing deals, which now connect customers at eight airports (though JFK still accounts for most of it). In addition to providing incremental customers, some of the partnerships have complementary traffic profiles and help balance JetBlue's off-peak travel periods.

Some analysts have suggested that JetBlue could gain significantly from American's plans to expand codesharing (if ever implemented) and have even speculated about closer ties between the two companies. But, as JetBlue's management again indicated, JetBlue clearly has the most to gain from the "open architecture" strategy that allows it to freely partner with multiple airlines, whoever can feed its network.

By Heini Nuutinen
hnuutinen@nyct.net

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group emp.
Air France/	Jul-Sep 09	8,015	8,082	-67	-210	-0.8%	-2.6%	66,862	56,141	84.0%	19,668	105,444
KLM Group	Oct-Dec 09	7,679	8,041	-362	-436	-4.7%	-5.7%	61,407	49,220	80.2%	17,264	105,925
YE 31/03	**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 31/12	Apr -Sep 11	18,600	18,240	360	-257	1.9%	-1.4%	137,282	114,846	83.7%	40,605	102,516
Proforma	**Year 2011**	**34,109**	**34,602**	**-493**	**-1,131**	**-1.4%**	**-3.3%**	**264,895**	**217,169**	**81.8%**		**102,012**
British Airways	**Year 2009/10**	**12,761**	**13,130**	**-369**	**-678**	**-2.9%**	**-5.3%**	**141,178**	**110,851**	**78.5%**	**31,825**	**37,595**
YE 31/03	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
YE 31/12	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
	Year 2011	**22,781**	**22,105**	**676**	**735**	**3.0%**	**3.2%**	**213,193**	**168,617**	**79.1%**	**51,687**	**56,791**
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	**Year 2009**	**31,077**	**30,699**	**378**	**-139**	**1.2%**	**-0.4%**	**206,269**	**160,647**	**77.9%**	**76,543**	**112,320**
YE 31/12	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
	Year 2011	**40,064**	**38,920**	**1,143**	**-18**	**2.9%**	**0.0%**	**268,939**	**207,536**	**77.2%**	**106,335**	**120,055**
SAS	**Year 2009**	**5,914**	**6,320**	**-406**	**-388**	**-6.9%**	**-6.6%**	**35,571**	**25,228**	**70.9%**	**24,898**	**18,786**
YE 31/12	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
	Oct-Dec 11	1,507	1,559	-51	-308	-3.4%	-20.5%	9,019	6,446	71.5%	6,788	14,958
	Year 2011	**6,386**	**6,286**	**100**	**-260**	**1.6%**	**-4.1%**	**37,003**	**27,174**	**73.4%**	**27,206**	**15,142**
Ryanair	**Year 2009/10**	**4,244**	**3,656**	**568**	**431**	**13.5%**	**10.2%**			**82.0%**	**66,500**	
YE 31/03	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	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
	Year 2011	**35,115**	**33,140**	**1,975**	**854**	**5.6%**	**2.4%**	**377,642**	**310,228**	**82.1%**	**163,838**	**78,392**
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	Year 2008	11,119	12,138	-1,018	-1,070	-9.2%	-9.6%	115,478	90,975	78.8%	24,959	18,718
	Year 2009	8,640	7,901	740	627	8.6%	7.3%	111,167	96,382	86.7%	24,558	18,511
	Year 2010	11,522	10,099	1,813	1,790	15.7%	15.5%	115,748	96,548	84.0%	26,796	21,592
	Year 2011	12,635	11,929	706	706	5.6%	5.6%	126,340	101,535	79.3%	27,581	
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	
	Year 2011	11,094	10,678	416	-89	3.7%	-0.8%	84,285	64,483	76.9%	22,934	
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	
	Year 2011	4,549	5,300	-751	-825	-16.5%	-18.1%	52,998	39,731	75.0%	13,301	
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	Year 2008/09	10,855	10,733	152	92	1.4%	0.8%	124,595	99,176	79.6%	38,348	33,966
	Year 2009/10	12,150	11,926	223	102	1.8%	0.8%	124,717	100,727	80.8%	41,428	32,490
	Year 2010/11	14,842	14,200	642	249	4.3%	1.7%	133,281	106,759	80.1%	44,456	32,629
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	
	Year 2011	1,464	1,072	392	185	26.8%	12.6%	26,074	21,307	81.7%	17,986	

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 %
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
2011	349.6	248.8	71.2	248.5	205.4	82.7	204.9	163.3	79.7	670.3	544.9	81.3	1,006.8	785.0	78.0
Jan 12	25.5	16.4	64.5	18.1	13.9	76.8	17.0	13.4	78.6	54.9	43.9	79.9	79.8	59.9	75.2
Ann. change	-0.3%	5.7%	3.6	0.1%	3.8%	2.8	2.7%	1.3%	-1.1	3.2%	4.8%	1.2	2.1%	5.0%	2.0

Source: AEA.

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	02 Mar	Air Astana	4 x 767-300ER, 3 x 787-8	
	20 Feb	Pakistan Int'l Airways	5 x 777-300ER	
	14 Feb	Lion Air	201 x 737 MAX, 29 x 737-900ER	
Airbus	14 Feb	ALAFCO	35 x A320neo	

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

Aviation Strategy Online

Aviation Strategy is distributed electronically –
via email and by downloading from our website: www.aviationeconomics.com
Please email your e-delivery details to Julian Longin: jil@aviationeconomics.com

Aviation Economics

The Principals and Associates of *Aviation Economics* apply a problem-solving, creative and pragmatic approach to commercial aviation projects.

Our expertise is in strategic and financial consulting in Europe, the Americas, Asia, Africa and the Middle East, covering:

- Start-up business plans
- Due diligence
- Antitrust investigations
- Credit analysis
- IPO prospectuses
- Turnaround strategies
- Privatisation projects
- Merger/takeover proposals
- Corporate strategy reviews
- Antitrust investigations
- State aid applications
- Asset valuations
- Competitor analyses
- Market analyses
- Traffic/revenue forecasts

For further information please contact:
Tim Coombs or Keith McMullan
Aviation Economics
James House, 1st Floor, 22/24 Corsham Street, London N1 6DR
Tel: + 44 (0)20 7490 5215 Fax: +44 (0)20 7490 5218. e-mail: kgm@aviationeconomics.com

SUBSCRIPTION FORM

Enter my Aviation Strategy subscription for:

☐ **1 year (10 issues - January/February and July/August are combined)**
- **UK: £450 + VAT @20% (Fully reclaimable if VAT-registered)**
- **EU: €550 (Tax-free, intra-Community supply, but VAT Registration No. needed)**
- **US and RoW: US$750 (Tax free)**

starting with the ________ **issue**

Delivery address

Name ________
Position ________
Company ________
e-mail ________
VAT No. ________

DATA PROTECTION ACT
The information you provide will be held on our database and may be used to keep you informed of our products and services or for selected third party mailings

☐ **I enclose a Sterling, Euro or US Dollar cheque, made payable to: Aviation Economics**

☐ **Please invoice me**

☐ **Please charge my AMEX/Mastercard/Visa credit card the relevant sum as per VAT rules**

Card number ________
Name on card ________ Expiry date ________

☐ **I am sending a direct bank transfer of the relevant sum, net of all charges to Aviation Economics' account:** HSBC Bank,
IBAN: GB33MIDL40043791256904
Sort code: 40 04 37 Account no: 91256904

Invoice address (if different from delivery address)

Name ________
Position ________
Company ________
Address ________

Country ________ Postcode ________

PLEASE RETURN THIS FORM TO:
Aviation Economics Ltd.
James House, 22/24 Corsham Street
London N1 6DR
Fax: +44 (0)20 7490 5218
VAT Registration No. 701 7809 47