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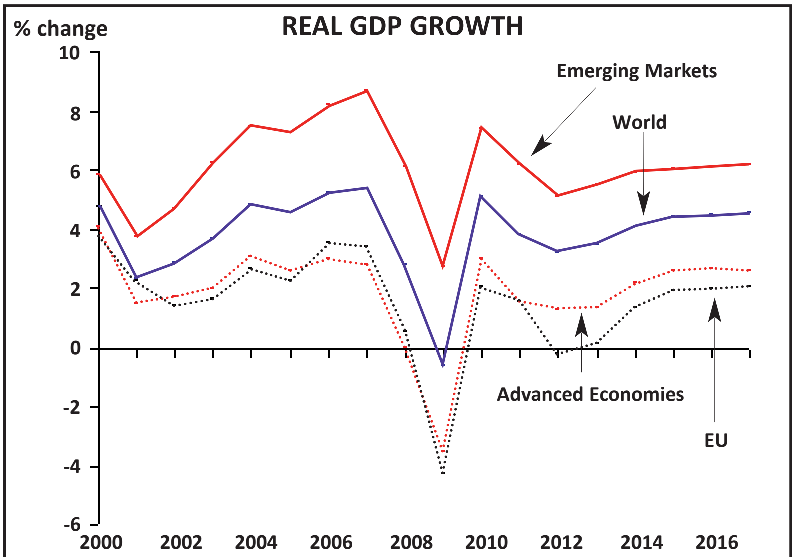
Economic cycles and new industry outlook

Four years on from the collapse of Lehman Bros and the following global recession we are still far from sure of the shape of this cycle. It appears that any hoped for recovery is turning out to be far more gradual, taking far longer, and is still subject to significant risks.

In its latest update to its World Economic Outlook the IMF pointed out that the world's economy probably grew by 3.2% in real terms in 2012, slightly lower than the 3.9% recorded in 2011 and significantly lower than earlier projections - even if they published the data just before the US announced a fourth quarter contraction in GDP. There remains a significant disparity among regions - with Euroland and the UK in recession; the US growing by a modest 2%; advanced economies showing growth of 1.4% overall; and emerging markets dipping to a 5% rate of growth from above 6% in the previous year.

At the same time the IMF further reduced its forecasts for economic growth over the next two years - on average by 10 basis points - pointing to global real GDP growth of 3.5% and 4.1% in 2013 and 2014 respectively. At least some of the risks that might have been realised have been pushed back a few months: the lemmings in Washington came to a last minute agreement to avoid running over what had become known as the "fiscal cliff". However, the risks are still there that the US could come to a grinding halt in 2013 if severe austerity measures are introduced; the legislature and executive still have to agree a budget, and will need to remove the ceiling on government debt, to allow the underlying strength of the economy to return.



Source: *IMF WEO*

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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

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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

Aviation Economics
Registered No: 2967706
(England)

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

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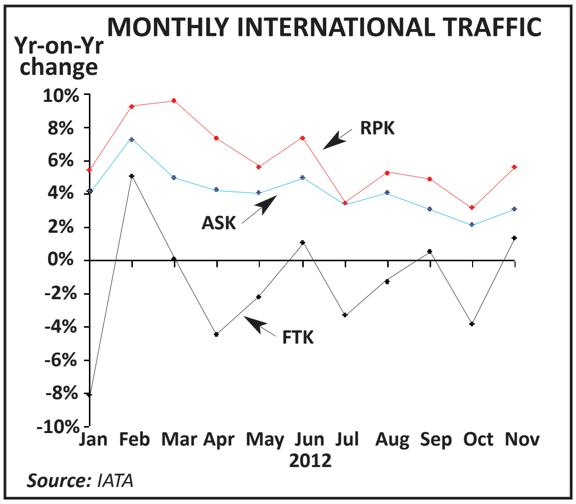
The Euro Area also continues to add significant risks to the world outlook; the weakness in the "PIGS" periphery seems to be having an increasing spillover to the centre and to other nations; and the Euro crisis is yet far from over. The IMF is forecasting another year of recession (a contraction of around 0.2%) for the Euro Area before a resumption of growth in 2014, although for the EU as a whole is expects growth of the same magnitude this year (helped by a possible 1% growth in the UK).

Among the emerging markets it is also assuming a slight increase in growth rates. Although China's GDP growth probably dipped to 7.8% in 2012 down from 9.3% in the previous year, the IMF is forecasting a rise of 8.2% and 8.5% in the next two years respectively - one of the few forecasts unchanged from those it made in October last year. Overall emerging markets are expected to grow by around 5.5% to 5.9% in 2013 and 2014 - benefiting from the expected (or hoped-for) recovery in Europe from 2014 - still far from the heady pre-collapse rates of growth.

Meanwhile, according to IATA, the airline industry looks as if it will have ended 2012 with passenger demand growth (in RPK) of around 5.3% down from the 5.9% achieved in 2011, while capacity (in ASK) has remained in reasonable control growing by around 4% overall. Through the year, the year on year rates of growth in demand had been slowing - with Economy demand growing faster than Premium demand, reflecting weak business confidence in many areas. Freight demand remains very weak - with a likely 2% decline in total freight tonne kilometres - and IATA points to a continuing shift in freight mode from air to sea.

In December IATA published an update to its financial forecasts for the industry; actually raising its expectations for the outcome for 2012. The industry is being a little more disciplined in its capacity expansion and is successfully recovering through yield growth the step change in fuel costs experienced in the past few years (although it is noticeable that the growth in yields experienced in the first half of 2012 dissipated particularly among the US carriers domestically and on the Atlantic). IATA is assuming a 3% growth in passenger yield in 2012 and a further 5% fall in freight yields.

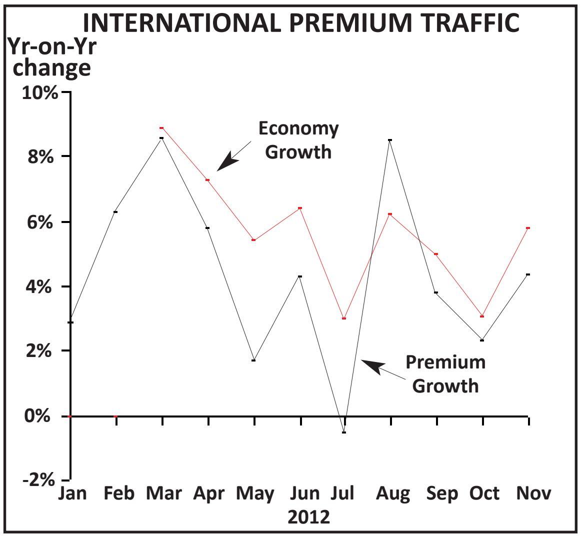
This has no doubt been helped by distinct declines in establishment of new carriers and the failures of others: the association in its accompanying presentation shows that the number of new entrants fell below 30 worldwide in 2012 from an average of 100-140 a year before the 2008 peak.

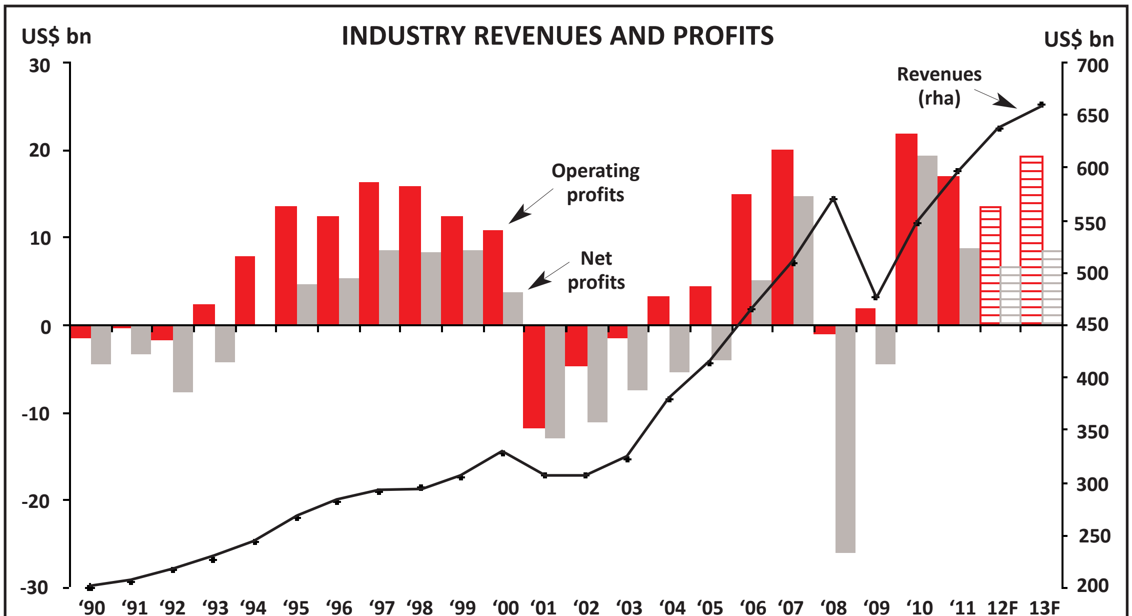


Source: IATA

IATA is now looking for industry operating profits worldwide of $13.6bn in 2012 (down from $17bn in 2011) and projects profits of $19.2bn for 2013 (compared with its previous forecasts made in September of $9.9bn and $17.3bn for last and this year respectively). The 2013 forecast appears predicated on a 4.5% growth in passenger demand and modest decline in passenger yields, a 1% up-tick in freight demand and a further 1.5% fall in cargo yields along with jet kerosene prices virtually flat at around $1.25/US gallon.

Net profits are projected to come in at $6.7bn and $8.4bn (compared with $8.8bn in 2011 and up from previous forecasts of $4.1bn and $7.5bn). These figures would





Source: ICAO / IATA

reflect industry operating margins of 2.1% and 2.9%, and net profit margins of 1% and 1.3%, for 2012 and 2013 respectively. As with the economic data from the IMF, these forecasts point to a slow, gradual (and risky?) recovery.

Meanwhile the third industry cycle - that of the equipment orders and deliveries - are showing continued positive signs. Total industry deliveries in 2012 are likely to have reached 1,295 units up from 1,164 in the prior year. Of these the Boeing / Airbus duopoly accounted for 1,176 units, up from 1,008; the traditional race ended as a dead-heat with each having a 50% share. According to Ed Greenslet's *Airline Monitor* this level of deliveries accounted for 6% of the fleet at the year end, slightly below the 6.4% average of the past 20 years. Net orders for the industry as a whole reached 2,551 units down slightly from the 2,830 in 2011, and the order backlog (however valid that measurement really is) according to his figures grew to 10,549 aircraft. This level reflects a possible 8.1 years of production: up slightly from the previous year but still the highest ever.

There have been some well voiced concerns that the industry (ie Airbus and Boeing) have been expanding production capacity too fast and that the projected deliveries over the next few years would start to lead to overcapacity. The Airline Monitor's base forecasts suggest that the rate of deliveries would run at the rate of 1500-1600 aircraft in the next three years to build to 6.8% of the fleet by 2015. This renewal rate is above the long range average - but as always the difficulties in these forecasts is anticipating the retirement rate; the industry is in general re-evaluating effective economic lives of older equipment in the face of fuel at $100+/bbl. Meanwhile the problems of batteries in the 787, and the subsequent fleet grounding by the FAA, may help to delay actual deliveries in 2013 and prolong the in-service use of older 747s, 777s and 767s.

There are positives and negatives in the outlook as always. There continue to be some significant risks on the downside from the need for fiscal consolidation in the established economies, the continuing Euro-crisis, an intensification of risk-avoidance as banks head for Basel III compliance. There should be some upside as China moves towards a consumption-led economy, and as the immense fiscal stimuli used since 2009 start to work as the central banks want. The airline industry is showing a remarkable discipline in capacity growth that has been allowing yields to recover, even though as a whole the premium markets are not recovering as fast as the leisure markets, while the impact of consolidation in the mature aviation markets may also be aiding constraints on capacity expansion.

In the end 2013 looks to be another year of bumping along the bottom - what is annoyingly becoming known as "the new normal".

Trading airports - value indicators

In January Heathrow Airport Holdings (formerly BAA) announced agreement to sell Stansted Airport to Manchester Airports Group for £1.5bn. This was the last of the disposals required by the UK's Competition Commission (formerly the Monopolies and Mergers Commission) following its report into BAA's ownership of UK airports in 2009, and now leaves the UK with three main groups in charge of nearly 70% of the country's airport passenger business (compared with BAA's control of 63% of traffic prior to the break-up).

The achieved price must have been pleasing to Heathrow and its Ferrovial-led consortium of owners, in that it reflects a 15% premium to the airport's regulated asset base (RAB) in spite of Stansted's reliance on Ryanair (about 73% of passenger throughput).

At the reported price it reflects over 17x enterprise value to earnings before interest tax and depreciation (EV/EBITDA) - a little above the valuation that the Ferrrovial consortium had placed on BAA itself when it acquired the airports group in its £10bn hostile take-over in 2006. It was also not far from the valuation achieved in the sale of Edinburgh last year and significantly higher than the valuation on the forced sale of Gatwick in 2009 (when BAA then had to recognise a £130m loss on the sale).

The other losing consortia in the bid for Stansted – led by HRL Morrison (the New Zealand-based investment fund), TPG, Macquarie and Malaysia Airports - by all reports were not willing to pay above the RAB. In the end it appears that MAG was the only bidder. MAG had perhaps been seen as the favourite but the fact that it was willing to pay the premium suggests that it really wanted to acquire London's third airport.

The MAG bid is somewhat unusual. Its partner is Industry Funds Management - an Australian based fund manager with over A$11bn in infrastructure investments worldwide (including inter alia Brisbane, Melbourne, Adelaide and Northern Territory airports in Australia along with Anglian Water in the UK). Following the successful bid for Stansted, IFM will acquire a 35% stake in Manchester Airports Group (giving it 50% voting rights alongside Manchester City Council's 35% equity stake, the other local authority holdings of 30% effectively disenfranchised) supposedly putting up all the cash required for the bid for Stansted. It is more unusual in that last year MAG hired as Chief Commercial Officer Ryanair's former Route Development Director Ken O'Toole; possibly in anticipation of its bid for Stansted.

Following the completion of the sale of Stansted (possibly by March) the UK's airports will be dominated by three groups: Heathrow Airport Holdings (London Heathrow, Southampton, Aberdeen and Glasgow) with 31% of traffic; Global Infrastructure Partners, GIP, (London Gatwick, London City and Edinburgh) with 20% of traffic; and Manchester Airports Group (Manchester, East Midlands, Bournemouth and London Stansted) with 18%. The next largest groups are the former TBI, owned by Albertis and AENA, (Belfast, Cardiff, London Luton) with 6%, and Birmingham with 4%. Given the change of name from BAA to Heathrow Holdings (following the sale of Stansted, Heathrow will make up 95% of the business), and the de-emphasis of the holdings in Glasgow and Aberdeen there is speculation over whether the other non-Heathrow assets may also be being considered for sale.

The Ferrovial consortium originally acquired BAA in 2006 for £10bn reflecting an EV/EBITDA ratio of over 16 times. The consortium at the time consisted of Ferrovial with 55%, Caisse de dépôt et placement du Québec with 26% and Singapore's GIC with 18%. By the time the sale of Stansted is completed next month, the consortium will have disposed of assets to the tune of £6.4bn. Ferrovial sold a stake in the ultimate BAA holding company to US based Alinda Capital to reduce its holding below 50% at the end of

THE BAA BREAK-UP		£m	£m
Jun 2006	BAA Acquisition		£10,000
	Select Asset Disposals		
May 2007	Budapest	-£1,309	
Nov 2007	Australian airports	-£347	
Mar 2008	WDF	-£547	
Mar 2008	APP Lynton properties	-£133	
Oct 2009	Gatwick	-£1,500	
Apr 2010	APP Lynton	-£244	
Apr 2012	Edinburgh	-£807	
Jan 2013	Stansted	-£1,500	-£6,386
	Net purchase price ?		£3,614

Source: *Ferrovial, BAA, Press reports.*

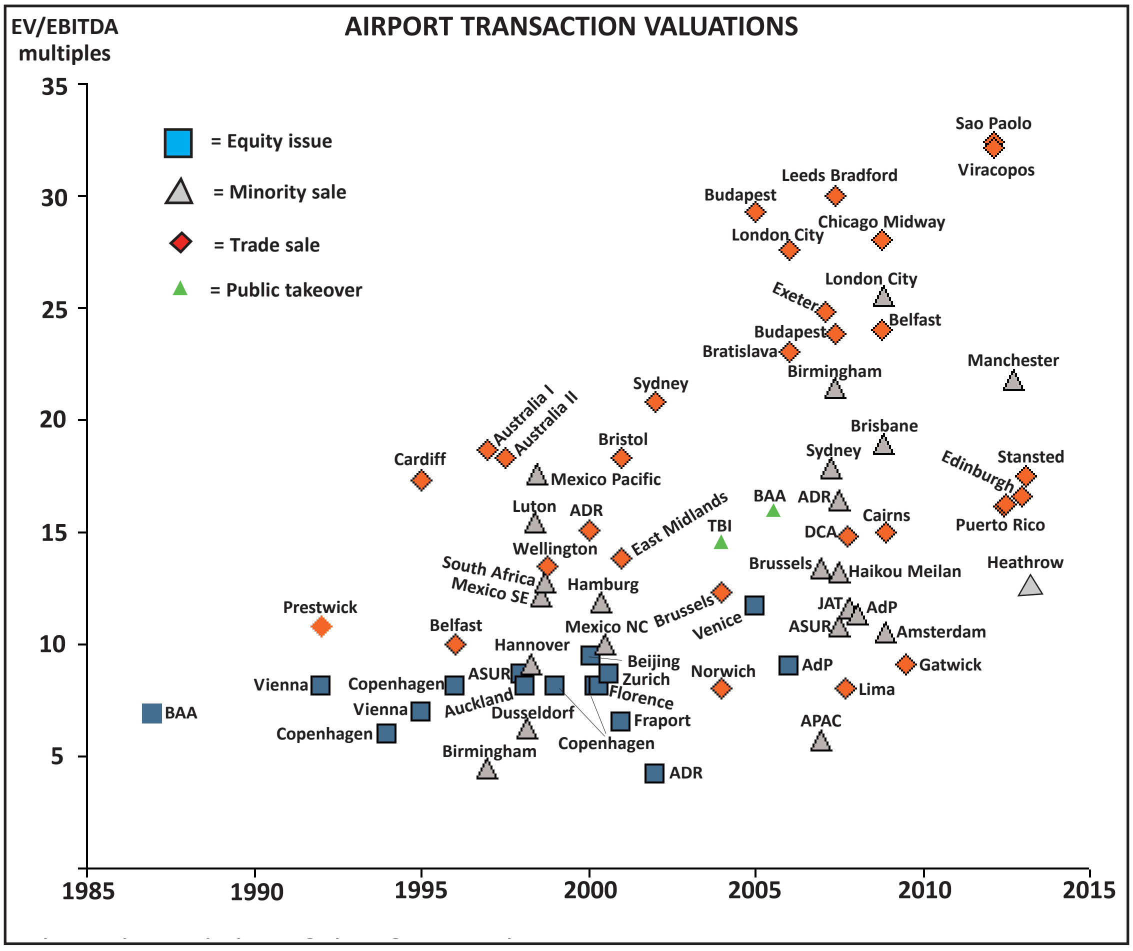
2011 (allowing it to deconsolidate BAA from its accounts, and paving the way for BAA to pay a dividend of £240m in 2012 to the ultimate shareholders). At the end of 2012 the consortium realigned shareholdings further. As a result Ferrovial reduced its stake to 33%, CDPQ to 13%, and GIC to 12% by selling shares to Alinda (now 11%), a 20% stake to Qatar Holdings and 10% to Stable Investment Corp (part of China's sovereign wealth fund). The transactions apparently implicitly value Heathrow Holdings at £4.5bn and possibly on an EV/EBITDA multiple of 13.3 times (taking into account LHR's £11.4bn debt).

GIP also, shortly after completing the acquisition of Gatwick at the end of 2009, started selling stakes in the airport as part of a policy of equity syndication and debt refinancing of the original purchase price. It now owns a minority 42% (but retains management control); Abu Dhabi (ADIA) 15%, National Pension Service of South Korea 12%, Californian State Pension Fund (CalPERS) 13% and Future Fund (Australia's sovereign wealth fund) 17.2%.

The change of ownership that put the three main London airports in separate hands is likely to intensify the debate of the possible expansion of runway capacity in the South East of England (see *Aviation Strategy,* November 2012). The Department for Transport published its latest air passenger forecasts in January. In this it further reduced its long range forecasts of demand to between 1% and 3% a year on a constrained basis (i.e. assuming no additional new runway capacity) compared with historic rates of growth nearer 5% a year. Heathrow is already full: its two runways are already operating at capacity and ACL reports show that there is substantial demand for access in excess of capacity limits.

Under the central scenario the DfT assumes that Gatwick with its single runway will be operating at full capacity by 2020; and by 2030 all of the London airports will be full - even including London Southend. The impacts of the lack of runway capacity intensify through the period of the DfT forecasts so that by 2040 its central scenario shows UK air passenger demand some 10% below what it would otherwise forecast on an unconstrained basis. Inherent within the DfT forecasts is an assumption of spill away from London's South East to other regional airports. This it no doubt feels would be greatly helped should the UK's High Speed rail line to Birmingham and Manchester (HS2) actually be built and start operating in the mid 2020s; Birmingham Airport would become closer to London in travel time than Stansted currently - even though the DfT in its central constrained scenario forecasts that Birmingham also will be operating at capacity sometime during the 2030s.

Meanwhile in January the Westminster Energy, Environment & Transport Forum held a seminar subtitled “time for a third runway at Heathrow?” Unsurprisingly there were a lot of vested interests represented in the audience; but in contrast to attitudes only a few years ago less than half the audience on a show of hands were in favour of the question (although that was more than twice the number in favour of a new estuary airport). In the end it will be for the Davies Commission to propose a remedy, and the next UK Government to decide; but if the proposal were to suggest a new runway at one of the existing London airports, it will be these three groups competing against each other to spend the billions necessary. Stewart Wingate (CEO of Gatwick) mentioned at the forum seminar that the investment for a second runway at Gatwick could run to £10bn - a substantial multiple of the company's current size - and would not be likely to come into operation until the mid-2020s. The cost may be similar at Heathrow, although closer to that airport's RAB, and perhaps nearer £5bn for Stansted, more than three times that airport's current asset base. Only one group, he said, would be able to afford the investment.



The chart above shows an updated view from our database of airport transactions which we last published in *Aviation Strategy* August 2009. After the fire sale of Gatwick in 2009 (which seemed to have brought airport transaction values down from the bubble of valuations prior to the financial crisis) there was a dearth of transactions (at least with publicly available transaction prices) until 2012.

At the beginning of last year Brazil kicked off a privatisation plan with the sale of three airports: São Paolo, Viracopos and Brasilia. The first two of these seem to have attracted successful bids at values of over 30 times EV/EBITDA (Brasilia's ratio was off the chart at over 70x) - and the state achieved a total sale price of over $14bn (more than three times the minimum asking price). These sales however were somewhat unusual - and the prices involve payments over the concession periods while in partnership with the state-owned operator Infraero - and the valuations achieved may have far more to do with the state of the Brazilian economy (along with euphoria over the Football World Cup and the next Summer Olympics) than the real world.

The other major trade sale transactions in 2012 have had far more respectable achieved values, well down from the pre financial crisis bubble and closer to the averages seen for trade sales in the previous decade. Edinburgh was sold to GIP in early 2012 on a multiple of 16.2x; Puerto Rico was sold (although still subject to FAA approval under the FAA privatisation program) at a similar multiple to Aerostar (a consortium of Mexican Airport ASUR and Highstar Capital); the Portuguese group ANA went to Vinci airports for just under 16x, despite continuing question marks over the future of Air Portugal; and now Stansted at 17x to Manchester Airport Group despite Ryanair. A good price but perhaps not overvalued.

By James Halstead
jch@aviationeconomics.com

Airbus and Boeing: 2012 orders

Much as Airbus broke sales records with its A320neo in 2011, Boeing re-wrote its own sales records with the 737MAX in 2012. Net orders for the 737NG and the new MAX totalled 1,124 aircraft, beating the previous single year record of 846 orders set in 2007.

The beleaguered 787 recorded net sales of minus 12, the result of 50 new orders and 62 cancellations.

AIRBUS ORDERS IN 2012

	A318/9	A320	A321	A330	A340	A350	A380	Total
Aircraft Purchase Fleet		2						2
AJW Capital Partners					2			2
Avolon		20						20
Norwegian		100						100
Pegasus Airlines		57	18					75
Transaero Airlines							4	4
Turkish Airlines				15				15
UT Air			20					20
EUROPE TOTAL	0	179	38	15	2	0	4	238
Air Lease Corporation		36		3				39
CIT Leasing				10				10
Spirit Airlines		30						30
NORTH AMERICA TOTAL	0	66	0	13	0	0	0	79
Aviancataca Holding SA	27	20	4					51
Interjet		40						40
Synergy Aerospace				9				9
LATIN AMERICA TOTAL	27	60	4	9	0	0	0	100
AirAsia		100						100
BOC Aviation		28	25					53
Cathay Pacific Airways						16		16
China Aviation Leasing Co.		28	8					36
Citilink		25						25
Druk Air	1							1
Garuda Indonesia				11				11
ICBC Leasing		50						50
Philippine Airlines			44	20				64
Singapore Airlines						20	5	25
Tibet Airlines	4							4
TransAsia Airways			6					6
ASIA / PACIFIC TOTAL	5	231	83	31	0	36	5	391
Afriqiyah Airways				3		4		7
Air Namibia	2							2
Arkia Israeli Airlines			4					4
Etihad Airways				4				4
Iraqi Min. of Transport.				1				1
Middle East Airlines		5	5					10
AFRICA / M. EAST TOTAL	2	5	9	8	0	4	0	28
Unidentified customers	16	26	32	4	0	0	0	78
Total gross orders	50	567	166	80	2	40	9	914
Changes / cancellations	-2	-39	-3	-22	-2	-13	0	-81
TOTAL NET ORDERS 2012	48	528	163	58	0	27	9	833

BOEING ORDERS IN 2012

	737	747	767	777	787	Total
Avolon	25					25
Norwegian	122					122
Transaero Airlines					4	4
Turkish Airlines				15		15
EUROPE TOTAL	147	0	0	15	4	166
Alaska Airlines	53					53
Air Canada				3		3
Air Lease Corporation	75					75
American Airlines				3		3
Aviation Capital Group	60					60
FedEx			19			19
GECAS	89					89
United Airlines	150					150
US Navy	13					13
NORTH AMERICA TOTAL	440	0	19	6	0	465
Aeromexico	60				6	66
Avianca					3	3
GOL Airlines	60					60
LATIN AMERICA TOTAL	120	0	0	0	9	129
Air Astana			3		3	6
Air China		5				5
Air New Zealand					2	2
All Nippon Airways					11	11
China Airlines				6		6
China Eastern Airlines	45					45
EVA Air				3		3
Japan Airlines					10	10
Jet Airways	17					17
Korean Air				2		2
Lion Air	230				5	235
Pakistan International Airlines				5		5
Silk Air	54					54
Turkmenistan Airlines	1					1
Virgin Australia	24					24
ASIA / PACIFIC TOTAL	371	5	3	16	31	426
ALAFCO	20					20
EL AL Israel Airlines	2					2
Ethiopian Airlines				1		1
Republic of Iraq				1		1
TAAG (Angola Airlines)				3		3
AFRICA / MIDDLE EAST TOTAL	22	2	0	5	0	27
Unidentified customers	83	2		33	5	123
Business Jet / VIP customers	1				1	2
Total gross orders	1,184	7	22	75	50	1,338
Changes / cancellations	-60	-6		-7	-62	-135
TOTAL NET ORDERS 2012	1,124	1	22	68	-12	1,203

The US Big Three: Contrasting priorities in 2013

US airlines' recent round of fourth-quarter earnings calls showcased an industry that is doing amazingly well financially and has a promising earnings outlook for 2013, despite the tough global economic environment and fuel cost headwinds. US airlines may even, in the words of one analyst, have evolved from what once was a "boom-and-bust industry" into a "viable, long-term business where adequate returns on invested capital can confidently be anticipated".

But 2013 will certainly not be boring in the US. There will be plenty of fireworks, dramas, dazzle and pop as the post-2001 Chapter 11 and consolidation cycles draw to a spectacular finish.

Also, there will be a variety of issues to follow and digest, because the top three US legacy carriers are currently in very different situations, each with different priorities in 2013.

2013 will be a pivotal year for American, which is looking to exit Chapter 11 and also has to focus on the challenging task of executing a merger with US Airways.

United, in turn, has to prove that the 2010 merger with Continental will work, following an operationally disastrous 2012. United's priorities in 2013 are to win back business customers that it lost due to last year's IT and other integration issues, achieve the promised merger synergies and to start narrowing the profit margin gap with competitors.

Delta, which has a two-year head-start over United on the merger front, with the integration of the successful 2008 merger with Northwest long behind it, and having achieved stellar financial results, has to keep costs in check, attain its debt reduction goal and keep its promise of returning capital to shareholders. It also has to manage new strategic investments, which have included an oil refinery and equity stakes in Aeromexico, Gol and Virgin Atlantic.

Healthy profits, promising outlook

2012 was the third consecutive year of healthy profitability for the US airline industry. According to JP Morgan data, the seven largest carriers earned an aggregate operating profit of $7.1bn (5.1% of revenues) last year. The combined net profit before special items was $3.4bn, 2.5% of revenues.

IATA noted late last year that North America-based airlines would see the greatest profit improvement among the major regions in 2012, even beating their Asian counterparts for the first time. IATA expected North American airlines to post an aggregate $1.9bn net profit for 2012, up from $1.3bn in 2011.

The reasons for the US legacies' current financial strength are well documented: a decade of restructuring, many Chapter 11 visits, an intensive new consolidation phase, years of tight capacity discipline, repeated domestic fare increases, lucrative new ancillary revenue streams and smarter managements that are more profit and return oriented.

At this point all the indications are that 2013 will be another strong year for US airlines. US GDP is expected to grow at a modest rate, business travel bookings continue to rebound, domestic capacity remains tight and fuel costs are "behaving" (as one analyst put it). Analysts expect even bigger gains in profits in 2013.

A permanent structural revolution?

Two years ago industry visionaries like US Airways' CEO Doug Parker began arguing, to a mostly sceptical audience, that US

US AIRLINES' 2012 FINANCIAL RESULTS

	Operating revenue $ (m)	Operating result $ (m)	Operating margin %	Ex-item Net result $ (m)	Ex-item Net margin %
United	37,152	1,360	3.7	588	1.6
Delta	36,670	2,596	7.1	1,548	4.2
American	24,855	494	2.0	-130	-0.5
Southwest	17,089	839	4.9	426	2.5
US Airways	13,831	894	6.5	537	3.9
JetBlue	4,982	376	7.5	128	2.6
Alaska	4,657	570	12.2	339	7.3
Total top 7 airlines	**139,236**	**7,129**	**5.1**	**3,436**	**2.5**
Hawaiian	1,962	129	6.6	56	2.8
Spirit	1,131E				
Allegiant	909	132	14.5	79	8.6

Note: Spirit Airlines results announced Feb 19
Source: *JP Morgan and individual airlines*

airlines could soon start generating the kinds of returns other industries do. Now, after three years of healthy earnings in a tough economic climate and with ROIC goals being achieved, the idea that things have changed permanently is becoming more widely accepted (though investors still worry that LCCs could ruin things).

JP Morgan's Jamie Baker has argued in recent research notes that "things truly are different this time". Factors such as cost convergence, consolidation, fare unbundling, lack of new entrants and return-oriented management teams are driving the "oligopolization of the sector" and have turned the US airline industry into a viable business where 6%-11% operating margins become the norm. Baker also suggested that, given that balance sheets are also being attended to, and assuming that oil prices decline in future economic downturns, the next US recession would not produce material losses or bankruptcies in the airline industry.

As a result, Baker foresees an eventual "broadening of the shareholder base and gradual expansion of multiples". "Airline equities are sorely under-owned by larger institutional investors", he observed, noting that about 25% of the aggregate equity of Alaska, Delta, JetBlue, US Airways and United is held by hedge funds, which is three times the hedge fund ownership of the Dow Jones Transportation Index and eight times that of Southwest (3.2%).

A broadening of the shareholder base would obviously be a healthy development for the industry. But Baker and others acknowledge that it could be a slow process. Investors in the US continue to worry about re-acceleration of capacity growth by large LCCs, such as Southwest or JetBlue, or future new entrants – something that could force an end to the profit cycle of the legacies.

Delta executives were asked in the airline's fourth-quarter call: "How can investors be confident that your financials are more insulated from this threat than they have been in the past?" The executives thought that the combination of high fuel prices and poor availability of substantial start-up capital effectively barred new entrants from the market.

It must also be noted that, even though analysts have confidence in the industry's ability to deleverage and Delta's accomplishments on that front are encouraging, US airlines remain extremely highly leveraged. Even if deleveraging becomes a top priority, there is a long way to go.

American: Chapter 11 exit and merger with US Airways

About a year ago, a few months after filing for Chapter 11 in November 2011, AMR's management put forward a standalone business plan that was widely criticised as weak and uninspiring. That misstep gave US Airways' ambitious CEO Doug Parker an opportunity to win support from AMR's deeply unhappy workforce and many of AMR's unsecured creditors for a potential merger between the two carriers.

Despite that rather inauspicious beginning, the all-stock merger that AMR and US Airways announced on February 14 and hope to complete in 3Q does look reasonably promising. The deal, which is subject to regulatory approvals and customary conditions, will retain American's name, brand and DFW headquarters. At this stage the airlines expect to maintain their eight hubs and service to all destinations. But there will be upheaval in the form of a leadership change: Parker will take over as CEO, while AMR's CEO Tom Horton is demoted to chairman – a temporary role he will relinquish in 2014.

The merger will restore American to a roughly equal size with United and Delta and will strengthen its East Coast presence – all important for recapturing the corporate market share lost in recent years. As US Airways will leave Star and join oneworld, the merger will be a major boost to oneworld.

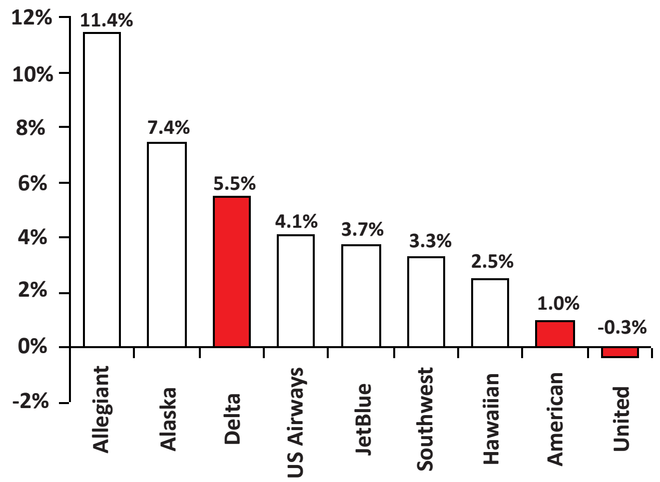
Describing the merger as "extremely complementary", Parker said that there are only 12 overlapping routes out of the total of 900. American serves 130 cities that US Airways does not, while US Airways flies to 62 unique cities. Nevertheless, while regulatory approval is likely, antitrust experts say that the airlines will probably be required to concede slots at Washington Reagan, Charlotte and DFW.

The new American will be well positioned on the fleet front, given its massive firm orderbook of more than 600 aircraft (517 narrowbodies and 90 widebodies), resulting in large part from AMR's large Boeing and Airbus orders in 2011. AMR also has much flexibility to rationalise its older fleet while in Chapter 11.

The airlines expect annual synergies of "more than $1bn" in 2015, mostly on the revenue side. S&P suggested that even though the combine's pro forma revenues and RPKs would make it the largest US airline, the network would not be "quite as strong or balanced" as UAL's or Delta's. This is because the merger will not help American in Asia, where it is relatively weak, and it will only "mitigate somewhat" American's disadvantage to UAL at Chicago O'Hare.

The deal is highly unusual in that it has the support of both airlines' unions. Many of the contracts are signed and ratified. This means significantly lower labour risk (though the pilot groups must still agree on seniority list integration).

US AIRLINES' 4Q 2012 OPERATING MARGINS



However, the downside is a risk of much higher labour costs. US Airways reportedly suggested to AMR's unions that the labour concessions under the merger plan need not be as steep as under the standalone plan. Also, US Airways' labour cost advantage could narrow significantly as its workers' pay is brought up to AMR's levels.

Of course, the new American's biggest challenge is to integrate operations smoothly in the next couple of years. The terrible IT/technology integration glitches experienced by United and others do not offer much hope on this front.

The merger deal is expected to take AMR out of Chapter 11. Significantly, AMR won the support of major unsecured creditors holding some $1.2bn of unsecured claims, helping ensure the deal's approval in bankruptcy court.

Creditors liked the deal because it offers "enhanced recoveries" for stakeholders. Many unsecured creditors will be made whole on their claims in the form of stock in the merged company. Even existing shareholders, who usually recover nothing in Chapter 11 cases, will get at least a 3.5% ownership stake.

Importantly, the AMR-US Airways merger would be done from positions of relative financial strength. US Airways is now one of the nation's most profitable carriers. AMR, too, is now profitable, having accomplished what by all accounts has been a very effective restructuring. AMR has not only slashed costs but has significantly improved its RASM performance.

United: Recovery from 2012 issues

Although UAL remained profitable on an ex-item basis in 2012, its margins lagged those of its peers. Its pretax margin was only 1.6%. United also disappointed by posting bigger losses for the fourth quarter. Hefty special charges pushed 4Q and full-year net losses to $620m and $723m, respectively.

United's underperformance was due to the extensive and prolonged operational and service issues it suffered as a result of an over-ambitious IT/reservations systems switchover in March 2012. Dubbed the largest-ever aviation technology migration, it was a critical integration milestone that was supposed to drive significant merger synergies; instead, when things went wrong, UAL lost valuable premium market share, weakening its revenue performance. Fixing the woes (increasing airport and maintenance staffing levels, making more spare aircraft available, etc.) then caused costs to soar. UAL was already feeling CASM pressures because of the harmonisation of labour costs and the lack of ASM growth.

When presenting the below-par 4Q/2012 results, the management sought to reassure the financial community that UAL had addressed the issues and was ready to recapture premium market share and start closing the profit margin gap. However, UAL is still predicting a sizable loss for 1Q. The management sees recovery accelerating as the year progresses, culminating in a healthy full-year 2013 profit.

With much of the merger integration accomplished, the management believes that UAL is now in a position to "go forward as a single carrier and compete effectively on a global scale". CFO John Rainey stated: "2013 will be an important year for us as we take the necessary steps to create economic value and achieve a sufficient level of profitability."

United's operational performance indeed improved dramatically in the fourth quarter (triggering two on-time bonus awards for employees). The combine's January on-time performance was the best in 10 years. To ensure that things stay that way, United will maintain the higher than normal airport staffing and spare aircraft levels for the next few quarters.

Customer satisfaction scores apparently continue to improve, as does feedback from corporate customers. UAL is investing heavily in the "tools, training, equipment, inventory and procedures" that will help maintain consistent operational performance and service. Many product improvements are rolling out. United claims to be ahead of its peers in terms of the number of flatbeds offered in international premium cabins, and 90%-plus of its mainline aircraft now offer the popular "Economy Plus" seating.

UAL is likely to recapture its premium traffic share eventually because, as its executives noted, while operational reliability, customer service and a competitive product all mattered, route network and schedule convenience may be the most important factors when business customers choose an airline. UAL's industry-leading global network and hubs at six of the eight largest metropolitan areas in the US position it well to win back corporate customers and attract new accounts.

United certainly hopes to close the gap in revenue performance with competitors this year. That gap accounted for the bulk of the profit margin underperformance in 2012. As one analyst noted, it is just a matter of execution; there is nothing structurally wrong with UAL's franchise.

Reducing costs will be harder, though the management sees opportunity to increase efficiency. A number of initiatives are planned for 2013 that aim to mitigate some of the cost pressures, including a 7% officer headcount reduction and 6% cut in the management ranks. Later this year UAL hopes to start removing the temporary costs associated with fixing last year's operational woes.

United expects its system capacity to decline by 0.5% in 2013 – something that will maintain pressure on unit costs. Ex-fuel

CASM is projected to rise by up to 5.5%, of which about half will be the result of new labour agreements.

In December UAL's two ALPA-represented pilot groups (ex-United and ex-Continental aviators) finally ratified a joint contract - an important step forward on the integration front. The next goal, which UAL hopes to accomplish this year, is a deal on seniority list integration – a contentious subject, but the two pilot groups have agreed to binding arbitration if they cannot agree on a list. The flight attendant and IAM-represented groups, in turn, have made good progress in their talks in recent months. UAL is committed to reaching joint contracts with all of its work groups.

Getting a single pilot seniority list is crucial, because United will then be able to freely allocate aircraft and crews across the combined network – important for achieving the full anticipated $1.1bn merger synergies. Because of the revenue shortfall, United did not achieve the projected 75% of the synergies last year, and attaining the full synergies may now slip into 2014.

United's strategy in all the labour talks has been to agree to restore pay to industry standards in return for meaningful productivity improvements and increased flexibility. JP Morgan analysts described the pilot deal as "expensive, but in line". The four-year deal, which came in the wake of Delta's industry-leading contract last summer, compensates for the concessions that both pilot groups made in the last decade and is believed to be "on par with Delta from a pay-rate perspective". But the deal includes important productivity enhancements and a significant relaxation of the pilot scope clause; among other things, it will allow United to increase its large-RJ fleet to 255 by 2016 (subject to certain conditions) and to add new small narrowbody aircraft.

UAL is actively renewing and rationalising its fleet. Last year it took delivery of 25 aircraft, including its first six 787-8s and 19 737-900ERs, while disposing of 23 older types and 37 parked aircraft. This year's schedule includes 26 deliveries - 24 737-900ERs and two more 787s in the second half of the year. The mainline fleet is expected to shrink by ten units to 692 by year-end.

UAL placed a long-awaited $14.5bn, 150-aircraft narrowbody order last year. The 50 737-900ERs (plus 60 options) are due for delivery from late 2013 and the 100 737 MAX9s (plus 100 options) from 2018. The airline's 270-plus firm orders also include 44 787s and 25 A350XWBs.

The grounding of the 787s for safety reasons since January 16 is an unfortunate development for the type's North American launch customer. As of late January, analysts did not believe the impact to be financially material in the short term. This is the low season for United, so re-accommodating traffic with other aircraft is less of a problem. According to JP Morgan, at the end of March 787s will account for at most 2% of UAL's mainline capacity.

Whether United will be able to add all the new international service it was planning in 2013 will obviously depend on how long the 787s remain grounded. As of January 23, the list included Taipei, Shannon, Paris, Denver-Tokyo and three cities in Canada.

Analysts have been somewhat divided on United's prospects this year. Many responded to the 4Q/2012 results by downgrading their recommendations on the stock. BofA Merrill Lynch noted that United had had five consecutive quarters of margin underperformance, that the PRASM guidance suggested that it was not recapturing market share quickly and that labour costs would pressure CASM – reasons why "UAL's recovery will continue to disappoint". But others were more optimistic. "We expect big things from UAL this year, including industry-topping margin improvement (ex-AMR)", wrote JP Morgan, which projects UAL's per-share earnings to almost triple this year.

UAL has actually been meeting its ROIC targets. In the past three years, its average ROIC was 10.7%, above the company's goal of a 10% return over the business cycle. Last year's ROIC was 8%.

United's capital spending has been running at a relatively high level since the merger, because fluctuating earnings and liquidity issues in earlier years resulted in chronic underinvestment. Almost half of the $1.4bn net capex planned for 2013 is for items that are more one-time in nature, such as a new data centre and new maintenance hangars. Once merger integration is completed, the airline will adopt a more balanced approach to cash flow allocation.

United executives feel that one of the best immediate opportunities to provide value to shareholders is to pay down debt, especially higher-interest non-aircraft debt. Efforts in that area have already produced tangible benefits: interest costs fell by $122m in 2012. Last year UAL paid off around $340m of debt that had an average coupon of over 11%, while tapping the capital markets for low-interest funding for aircraft and other long-term investments. There is potential for further savings, because a significant amount of high-interest debt is coming due in the next few years.

In summary, United's cash flow priorities are to get operational integrity firmly restored, fully complete merger integration, catch up with necessary long-term investments in the business and pay down higher-interest debt. Only after that will United be ready to have a "healthy discussion about returning cash to shareholders".

Delta: "Balanced" capital deployment

By contrast, Delta has been under growing pressure to start returning capital to shareholders. At its December investor day the airline finally announced that it intended to disclose new plans for capital deployment in June 2013, with any new programmes commencing in early 2014.

Delta is under such pressure because it has posted solid profits for three years, is earning significant free cash flow and because it is on the verge of reaching its debt reduction goal.

Delta's 5.5% and 7.1% operating margins in 4Q and 2012, respectively, were among the best in the industry. In 2012 Delta earned a very impressive $1.6bn net profit before special items (up 30%), which included $372m in profit sharing. Including special items, the net profit was $1bn. In the fourth quarter, despite a $100m negative impact from Superstorm Sandy and refinery operations, Delta still managed a $238m ex-item net profit.

Since 2010 Delta has generated $4bn of free cash flow and earned a 10% ROIC – within its targeted return of "10-12% over the long run". Last year's ROIC was 11%. In the past three years Delta has also reduced its lease-adjusted net debt by $5.3bn, from $17bn at year-end 2009 to $11.7bn at the end of 2012. The airline is now on the home stretch in reaching its $10bn goal by mid-2013.

The strong profits reflect unit revenue outperformance for seven consecutive quarters. In 4Q Delta outperformed its peers in all regions except the Pacific, which was weighed down by the Japanese routes, which have suffered from rising capacity, a weaker yen and Japan's economic slowdown (Delta is trying to diversify into non-Japan markets, particularly China).

The PRASM outperformance has been the result of customer-focused initiatives, corporate share gains and capacity actions. A prime example of the latter was Delta's bold 7% capacity reduction on the transatlantic in 4Q, which resulted in an 8% increase in unit revenues for the region.

In recent years Delta has made many investments that it believes have driven its PRASM gains or are critical for maintaining the long-term PRASM premium. It has launched Economy Comfort, invested in flatbeds (over 85% of the international fleet by end-2013), revamped two terminals at LaGuardia, opened a new international terminal at Atlanta, launched a new website, bought equity stakes in three foreign carriers and invested heavily in pricing, yield management and business intelligence tools.

There is no doubt that Delta has been capturing corporate market share (also because of United's and American's operational problems last year). The gains have apparently been the largest in the financial services and banking sectors; in the past six months Delta signed a "very big bank corporate deal" out of New York, which contributed to a 31% increase in revenues from the banking sector in 4Q.

Delta continues to enjoy strong revenue momentum in 2013, as it further strengthens its position in New York. Its new terminal at JFK will open in May, which the executives suggested will address "one of the largest drivers of our traditional underperformance in New York". The planned cooperation with Virgin Atlantic will further enhance Delta's position in New York, especially in the JFK-LHR market where the banks travel the most.

The price paid for the investments in the business has been a steady erosion of Delta's CASM advantage. According to BofA Merrill Lynch, Delta's 2012 non-fuel costs were about 10% higher than in 2010, a six-point greater increase than the industry's. To reverse that trend, Delta is targeting $1bn of structural cost savings in 2013-2014. Key measures include a domestic fleet restructuring , which will see a dramatic reduction in 50-seat RJs in favour of operating more cost-effective and customer-preferred 717s, MD-90s, 737-900s and CRJ-900s. Delta is also redesigning its maintenance programme and buying 23 MD-80s "at very low prices" to use as spare parts for MD-88s and MD-90s.

Delta expects to start benefiting from the $1bn programme in the second half of 2013, with continued ramp-up through 2014. Although non-fuel CASM is still projected to rise by 4-6% in 2013, the worst will be in the current quarter and cost pressures will ease as the year progresses.

So, strong revenue momentum should enable Delta to improve its profit margins in the current quarter, and later on cost savings will kick in to maintain healthy earnings growth in 2013 and 2014. All of that is making Wall Street very happy, and Delta continues to be analysts' favourite by a wide margin.

But Delta will have to keeps its promise of returning capital to shareholders. Investing in the business and deleveraging the balance sheet are great uses for cash flow, but shareholders have felt left out and have called for a more balanced approach. Delta is in the process of evaluating the options and expects to announce something before its annual meeting in June. BofA ML expects Delta to implement a $500m share buyback programme.

Some investors have wondered if Delta might be "under-investing" in aircraft and living on borrowed time, given its relatively old fleet and a much smaller orderbook than its peers. Delta executives explained in the 4Q call that the strategy is to get returns on day one on fleet investment. The airline is always working to calibrate the right mix of new and used deliveries and believes that it has the right mix going forward. The average age of the widebody fleet is 13-14 years. The domestic fleet will see significant new deliveries beginning this year. Delta is taking advantage of the current glut in narrowbody aircraft and believes that there are significant further opportunities as residual values on 8-10 year old aircraft are on a downward slide. Besides, Delta's operational performance is at the very top of the industry.

Delta takes pride in "being the most creative at deploying business strategies". In addition to the interesting fleet strategy, this has so far meant buying an oil refinery and minority equity stakes in three foreign airlines.

The Trainer refinery (see *Aviation Strategy*, October 2012) did not become profitable in 4Q as expected, because of production issues caused by Sandy (damage to regional pipelines), but Delta expects a "modest profit" from that investment in 1Q.

The Aeromexico and Gol stakes are long-term strategic investments aimed at strengthening Delta's position in Latin America, as well as facilitating cost reductions (in the first place, through joint MRO facilities).

Delta's purchase of SIA's 49% stake in Virgin Atlantic (for $360m in December) was grudgingly approved by Wall Street, amid concerns that there might be less capital available for share buybacks or dividends. But the financial community appreciates that the deal will fix Delta's Heathrow access problem and make it a credible player in the important New York-London market. Delta and Virgin Atlantic target at least €150m in synergies by FY15. The airlines hope to win the necessary regulatory approvals within a six-month timeframe and have FFP reciprocity and codesharing in place by the start of the next winter season.

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/	**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
KLM Group	Apr-Jun 10	7,301	7,469	-168	939	-2.3%	12.9%	60,345	49,283	81.7%	17,623	102,918
YE 31/03	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
	Jan - Mar 12	7,400	8,058	-658	-482	-8.9%	-6.5%	63,391	51,733	81.6%	17,463	101,222
	Apr - Jun 12	8,351	8,920	-569	-1,150	-6.8%	-13.8%	67,456	55,820	82.8%	19,980	
	Jul - Sep 12	8,989	8,356	633	383	7.0%	4.3%	72,246	62,098	86.0%	21,279	
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
	Jan - Mar 12	5,136	5,463	-326	-240	-6.4%	-4.7%	51,425	39,140	76.1%	11,384	56,532
	Apr - Jun 12	5,926	5,931	-5	-72	-0.1%	-1.2%	55,851	45,421	81.3%	14,347	60,418
	Jul - Sep 12	6,326	5,988	338	304	5.3%	4.8%	58,260	49,343	84.7%	15,760	61,340
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	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
	Jan - Mar 12	8,675	9,174	-499	-520	-5.8%	-6.0%	59,648	44,242	74.2%	21,867	120,898
	Apr - Jun 12	10,136	9,673	464	294	4.6%	2.9%	69,228	53,384	77.1%	27,483	117,416
	Jul - Sep 12	10,400	9,538	862	803	8.3%	7.7%	71,197	59,410	83.4%	29,433	114,022
SAS	**Year 2010**	5,660	5,930	-270	-308	-4.8%	-5.4%	34,660	25,711	74.2%	25,228	15,559
YE 31/12	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
	Jan - Mar 12	1,419	1,548	-128	-108	-9.0%	-7.6%	8,701	5,943	68.3%	6,416	14,836
	Apr - Jun 12	1,642	1,551	91	46	5.5%	2.8%	10,300	7,936	77.0%	7,625	14,985
	Jul - Sep 12	1,644	1,517	128	64	7.8%	3.9%	10,154	8,158	80.3%	7,243	14,969
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%		
	Year 2011/12	6,053	5,112	942	772	15.6%	12.8%			82.0%	75,800	
	Apr - Jun 12	1,648	1,480	170	127	10.3%	7.7%			82.0%	22,500	
	Jul - Sep 12	2,280	1,554	727	622	31.9%	23.7%			87.0%	25,460	
easyJet	**Year 2007/08**	4,662	4,483	180	164	3.9%	3.5%	55,687	47,690	85.6%	43,700	6,107
YE 30/09	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	
	Oct 11 - Mar 12	2,302	2,458	-156	-141	-6.8%	-6.1%	30,785	27,329	88.8%	25,200	
	Year 2011/12	6,076	5,554	522	402	8.6%	6.6%	72,182	65,227	88.7%	58,400	

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	Year 2010	3,832	3,361	472	251	12.3%	6.6%	44,636	36,758	82.4%	23,334	11,696
	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
	Jan - Mar 12	1,039	967	72	41	6.9%	3.9%	11,819	10,029	84.9%	5,995	11,832
	Apr- Jun 12	1,213	1,087	116	68	9.6%	5.6%	12,776	11,054	86.5%	6,565	11,965
	Jul - Sep 12	1,272	1,003	269	163	21.1%	12.8%	13,315	11,654	87.5%	6,950	12,035
	Oct - Dec 12	1,132	1,058	74	44	6.5%	3.9%	12,665	10,814	85.4%	6,387	11,984
	Year 2012	4,657	4,125	532	316	11.4%	6.8%	50,577	43,462	85.9%	25,896	11,955
American	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
Chapt. 11 from Nov 29	Year 2011	23,957	25,127	-1,170	-1,965	-4.9%	-8.2%	248,349	203,562	83.9%		
	Jan - Mar 12	6,037	6,126	-89	-1,660	-1.5%	-27.5%	61,021	50,722	83.1%		
	Apr - Jun 12	6,452	6,310	142	-241	2.2%	-3.7%	61,618	52,441	85.1%		78,100
	Jul - Sep 12	6,429	6,378	51	-238	0.8%	-3.7%	62,690	53,593	85.5%		77,900
Delta	Year 2010	31,755	29,538	2,217	593	7.0%	1.9%	374,458	310,867	83.0%	162,620	79,684
	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
	Jan - Mar 12	8,413	8,031	382	124	4.5%	1.5%	87,559	69,765	79.7%	37,557	78,761
	Apr - Jun 12	9,732	9,598	134	-164	1.4%	-1.7%	95,563	80,497	84.2%		80,646
	Jul - Sep 12	9,923	8,615	1,308	1,047	13.2%	10.6%	100,232	86,625	86.4%		76,626
	Oct - Dec 12	8,602	8,250	352	7	4.1%	0.1%	87,453	72,861	83.3%		73,561
	Year 2012	36,670	34,495	2,175	1,009	5.9%	2.8%	370,807	310,533	83.7%		
Southwest	Year 2010	12,104	11,116	988	459	8.2%	3.8%	158,415	125,601	79.3%	88,191	34,901
	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
	Jan - Mar 12	3,991	3,969	22	98	0.6%	2.5%	49,298	38,116	77.3%	25,561	46,227
	Apr - Jun 12	4,616	4,156	460	228	10.0%	4.9%	53,623	43,783	81.6%	28,859	46,128
	Jul - Sep 12	4,309	4,258	51	16	1.2%	0.4%	53,237	43,713	82.1%	28,319	46,048
	Oct - Dec 12	4,173	4,082	91	78	2.2%	1.9%	50,199	39,944	79.6%	26,607	45,861
	Year 2012	17,088	16,465	623	421	3.6%	2.5%	206,211	165,555	80.3%	109,346	45,861
United/Continental	Year 2010	34,013	32,195	1,818	854	5.3%	2.5%	407,304	338,824	83.2%	145,550	81,500
	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
	Jan - Mar 12	8,602	8,873	-271	-448	-3.2%	-5.2%	97,112	75,809	78.1%	32,527	83,700
	Apr - Jun 12	9,939	9,364	575	339	5.8%	3.4%	103,986	87,692	84.3%	37,071	84,500
	Jul - Sep 12	9,909	9,709	200	6	2.0%	0.1%	105,786	90,155	85.2%	37,588	85,400
	Oct - Dec 12	8,702	9,167	-465	-620	-5.3%	-7.1%	93,606	77,031	82.3%	33,255	84,500
(including special charges)	Year 2012	37,152	37,113	39	-723	0.1%	-1.9%	400,490	330,687	82.6%	140,441	84,600
US Airways Group	Year 2010	11,908	11,127	781	502	6.6%	4.2%	138,107	111,996	81.1%	79,560	30,871
	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
	Jan - Mar 12	3,266	3,207	59	48	1.8%	1.5%	34,032	26,970	79.2%	19,822	31,186
	Apr - Jun 12	3,754	3,350	404	306	10.8%	8.2%	37,072	30,908	83.4%	21,206	31,467
	Jul - Sep 12	3,533	3,265	268	245	7.6%	6.9%	37,342	31,719	84.9%	21,065	30,845
	Oct - Dec 12	3,278	3,153	125	37	3.8%	1.1%	33,856	28,390	83.9%	20,453	31,236
	Year 2012	13,831	12,975	856	637	6.2%	4.6%	143,302	117,991	82.3%	82,546	31,236
JetBlue	Year 2010	3,779	3,446	333	97	8.8%	2.6%	55,914	45,509	81.4%	24,254	11,121
	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
	Jan - Mar 12	1,203	1,114	89	30	7.4%	2.5%	15,346	12,726	82.9%	6,853	11,965
	Apr - Jun 12	1,277	1,147	130	52	10.2%	4.1%	16,030	13,674	85.3%	7,338	12,308
	Jul - Sep 12	1,308	1,195	113	45	8.6%	3.4%	17,226	14,604	84.8%	7,747	11,797
	Oct - Dec 12	1,194	1,150	44	1	3.7%	0.1%	15,890	13,008	81.9%	7,018	12,070
	Year 2012	4,982	4,606	376	209	7.5%	4.2%	64,493	54,013	83.8%	28,956	12,070

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 2007/08	13,063	12,322	740	563	5.7%	4.3%	90,936	61,219	67.3%	50,384	
YE 31/03	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
	Year 2011/12	16,008	14,887	1,121	347	7.0%	2.2%	91,162	59,940	65.8%	44,903	
Cathay Pacific	Year 2008	11,119	12,138	-1,018	-1,070	-9.2%	-9.6%	115,478	90,975	78.8%	24,959	18,718
YE 31/12	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	
	Year 2010/11	16,018	13,802	2,216		13.8%		86,690	59,740	68.9%	34,795	
	Year 2011/12	14,166	12,117	2,049	2,194	14.5%	15.5%	71,202	48,217	67.7%	25,441	32,000
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
	Year 2011/12	16,232	16,410	-179	-252	-1.1%	-1.6%	139,423	111,692	80.1%	46,707	33,584
Singapore	Year 2006/07	9,555	8,688	866	1,403	9.1%	14.7%	112,544	89,149	79.2%	18,346	13,847
YE 31/03	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	
	Year 2011/12	9,664	9,519	145	270	1.5%	2.8%	113,410	87,824	77.4%	17,155	13,893
Air China	Year 2007	6,770	6,264	506	558	7.5%	8.2%	85,257	66,986	78.6%	34,830	19,334
YE 31/12	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	
	Year 2011	15,260	14,289	971	1,095	6.4%	7.2%	113,987	93,185	81.8%	48,671	
China Southern	Year 2007	7,188	6,974	214	272	3.0%	3.8%	109,733	81,172	74.0%	56,910	45,474
YE 31/12	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	
	Year 2011	14,017	13,342	675	944	4.8%	6.7%	151,074	122,342	81.0%	80,674	
China Eastern	Year 2007	5,608	5,603	5	32	0.1%	0.6%	77,713	57,180	73.6%	39,160	40,477
YE 31/12	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	
	Year 2011	12,943	12,296	647	689	5.0%	5.3%	127,700	100,744	78.9%	68,681	57,096
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..

	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
Dec '12	25.2	17.3	68.8	18.3	15.2	83.0	17.1	13.6	79.9	55.2	45.0	81.7	80.0	62.2	77.8
Ann. change	-2.0%	-0.7%	0.9	-0.8%	1.5%	1.9	0.9%	4.0%	2.4	-0.2%	1.9%	1.7	-0.5%	1.7%	1.6
Jan - Dec '12	348.9	254.6	73.0	249.4	211.6	84.8	211.8	172.2	81.3	686.9	569.3	82.9	1,024.2	817.2	79.8
Ann. change	0.5%	2.9%	1.7	0.9%	3.6%	2.2	3.3%	5.4%	1.6	2.6%	4.6%	1.6	2.1%	4.4%	1.8

JET ORDERS

	Date	Buyer	Order	Delivery/other information
Boeing	13 Feb	Icelandair	16 x 737MAX	plus 8 purchase rights
	02 Jan	Aviation Capital Group	50 x 737MAX8, 10 x 737MAX9	
Airbus	04 Feb	Turkish Airlines	5 x A330-300	plus 3 options
	04 Feb	Air Lease Corp.	20 x A350-900, 5 x A350-1000	plus 5 x A350-1000 options
	15 Jan	BOC Aviation	25 x A320neo, 23 x A320 family	
	14 Jan	Citilink	25 x A320neo	
	11 Jan	SIA	5 x A380, 20 x A350-900	
	10 Jan	Avolon	20 x A320neo	
	09 Jan	Middle East A/L	5 x A320neo, 5 x A321neo	
	03 Jan	CIT	10 x A350-900	

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