Aviation Strategy

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A new Big Three scenario

The odds are lengthening against a United/US Airways merger. This summer has been a bit of a nightmare for US travellers who have faced long delays and cancellations caused partly by a "work to rule" on the part of United's pilots. This has evoked a fear of big labour - if limited action on the part of one of the Big Six network carriers causes such distress, what would be the impact if one of the propose Big Three went on strike?

This anxiety has been added to almost universal popular concerns about the anti-competitive effects of mergers, to the extent that the only way that United/USAirways will conceivably get through is if US Airways claims to a failing company. There are repercussions in Europe, where the BA/KLM talk continue, as the argument to the EC for allowing this merger would have been stronger had the US carriers embarked on another round of their consolidation process.

Ironically, at least some of the low-cost carriers would appear to welcome mergers among the Majors. For instance, Ryanair (see pages 10-13) sees more opportunities arising from a European consolidation trend.

Moreover, an "informal examination" of the impact of US consolidation (UA/US, DL/CO and AA/NW) by Darryl Jenkins of George Washington University (www.gwu.edu) has questioned the conventional wisdom that consolidation inevitably leads to less competition. He suggests the opposite, noting that when the Majors enter new markets against other majors, there is always bloodletting. One of the more likely of nine post-consolidation scenarios he considered goes as follows.

As the three network carriers emerge and stimulate traffic in small and mid-size communities, new competitors - most notably Southwest - begin to discover new sources of growth. Because Southwest has the most immediately-available resources, it moves into these markets rapidly. Southwest's crowns in the Midwest become Minneapolis and St. Louis.

Southwest, already the number-two carrier of domestic air passengers, uses its St. Louis and Chicago-Midway hubs for east-west connecting routes and its new quasi-hub in Allentown, PA, to capture a large share of short-haul traffic on the East Coast. It becomes possible to reach virtually any metropolitan area in the US on Southwest with only one connection - and, lo and behold, Southwest has become the fourth network carrier.

This creates enormous competitive pressures as the Big Three fight to protect their existing territories on one hand, and to fend off Southwest.

At the same time, a full-fledged fare war emerges between the other three big network carriers and lasts for three months (by coincidence, the length of the last all-out fare war, back in 1991). After each airline has lost millions, fares finally stabilise at a lower level, providing some profits, and an uneasy cease-fire takes hold.

The fare war is bad news for some small airlines. Those with high costs fade into the sunset; others survive because their costs are low enough to operate in a low-fare environment. These smaller carriers begin their own consolidation, primarily for defensive purposes. The result is more competition from big airlines, Southwest is more powerful than ever, and once-small airlines that have metamorphosed into larger airlines.

It's a possible consequence - conventional wisdom rarely predicts the right outcome.

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E-distribution launches into Orbitz

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Where is the e-distribution revolution taking the airline industry?

The chart opposite contains the main players in the airline internet game. Starting on the right are the airlines themselves, the market leaders being the low-cost carriers. Southwest currently books more tickets sales on its website than any of the Majors or indeed any of the specialist online travel agents. In Europe, easyJet and Ryanair are way ahead of the opposition in e-distribution; for the first week of August easyJet reported that 80% of its sales were made through the Internet.

The traditional airlines are responding by diversifying their use of the net. For instance, BA seems to be adopting a three-pronged strategy.

Its website, BA.com, focuses on premium traffic, offering personalised sales messages to Executive Club members and providing incentives to book online through additional frequent flyer miles.

Then BA is developing another website designed just for corporate customers. It will be accessed directly by internal travel agents of major corporate clients, and will display specially discounted flights as negotiated on an individual client basis, though customers will also have the opportunity of booking seats on other airlines.

This looks as if it infringes on the traditional business of the travel agents. Not only will they be losing out on transaction fees, as BA continues to press for reductions in commissions, but also they will also their management fees charged to corporate clients will be undermined by this direct customised link between airline and corporate traveller.

Most recently, BA has announced that it will participate in the multi-airline portal being developed by a wide group of European scheduled carriers (BA, Air France, Lufthansa, Alitalia, KLM, Iberia, SAS, Aer Lingus, Austrian, British Midland and Finnair). This is intended to provide passengers with direct mass access to fares, including airlines' lowest branded fares, plus additional products (hotels hire cars, etc.). It will be managed independently of the airlines, and the participants will not share pricing or proprietary information among themselves.

A similar project is underway in Asia led by JAL and ANA ,with Travelocity providing the technology. A joint holding company will be formed which will also include United, Northwest, Air NZ, Ansett, Asiana, Cathay, China Airlines, Malaysia Airlines, Qantas, Royal Brunei and SIA.

In the US there are two main multi-airline portals under development. These are: Hotwire, which is in the early stages of development but which has impressive backers in the form of venture capitalists Pacific-Texas, and Orbitz, about which much more later in this article.

It is interesting to note that these multi-airline portals are all regionally based rather than being built around the global alliance groups. Nor are the portals based on the ownership structure of the CRSs.

The CRS challenge

These CRSs are now facing a formidable challenge. All-powerful in the 80s and 90s, their technology is now beginning to look dated and their markets are no longer guaranteed to expand as air travel grows. To combat the threat from the internet, they are having to invest in new electronic products (on the left of the chart).

Sabre owns 85% of Travelocity, the world's leading online travel agency, which has just take over another important leisure-travel site, Preview.com. It is also in the process of concluding the take-over of GetThere.com, the leading specialist corporate travel channel. In addition, Sabre is also reported to be the supplier of CRS services to Hotwire.

Expedia, which is 85% owned by Microsoft, has an alliance with Worldspan. Expedia seems to be moving away from the travel agency model to what its describes as a "merchant model", essentially buying services wholesale and selling them retail.

Websites like Priceline.com, originally backed by Delta, Lastminute.com, E-bookers, etc. all claim to have unique niches in the market and strong supplier relationships. Visits to their sites are certainly escalating, but commercial break-even is still far off in the future, and investors are increasingly disillusioned.

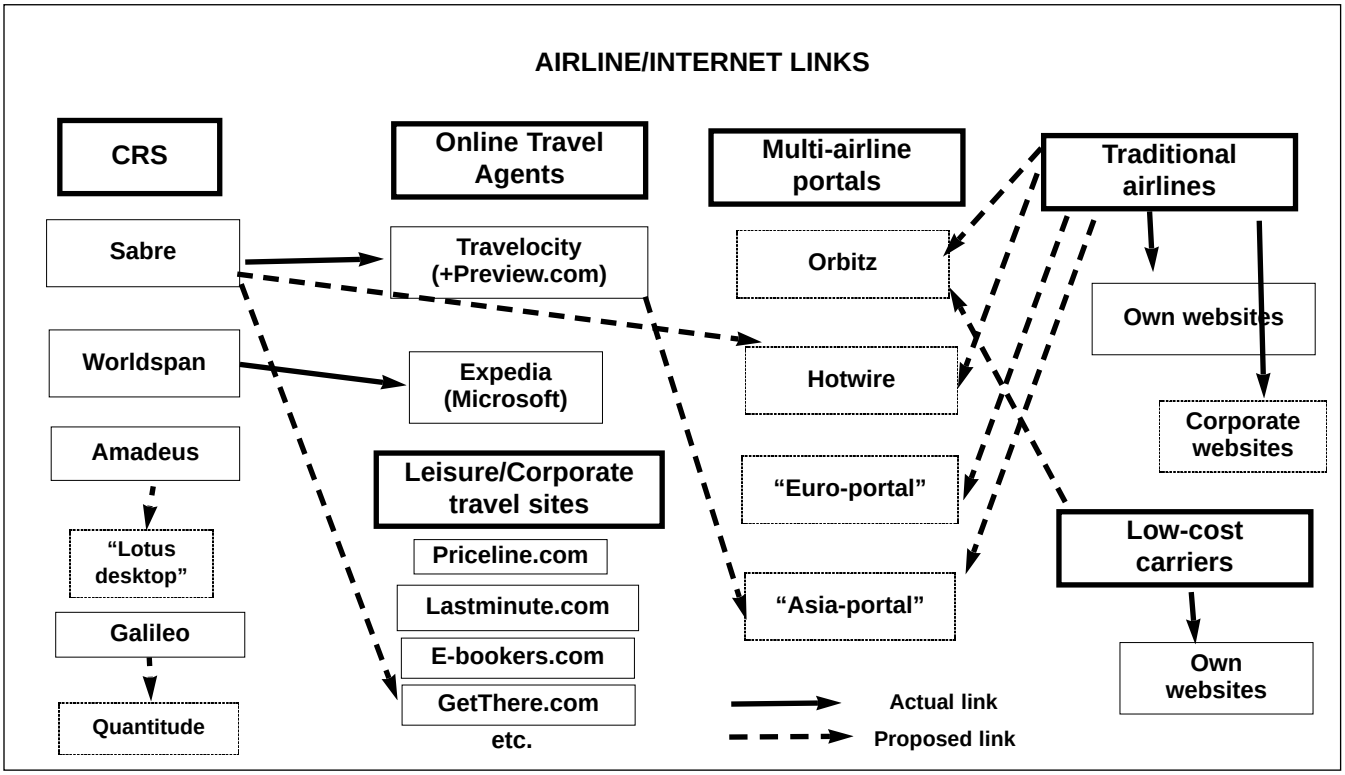
The other two main CRSs - Galileo and Amadeus - have, perhaps surprisingly, not yet linked up with any of the online travel agents or multi-airline portals. They do have their own e-commerce projects, however; Galileo is working on a very ambitious but obscure telecoms product called "Quantitude" while Amadeus has a joint venture with Lotus to supply desk-top travel services.

The portal paradox

Orbitz threatens to revolutionise the world of airline distribution. Founded a couple of months ago, it is financed by five US Majors (American, Continental, Delta, Northwest and United) and has lured Jeff Katz from Swissair, where he was President/Chief Executive, to be its CEO and Chairman.

Orbitz looks in some ways to be a typical under-resourced and speculative internet start-up: at the end of July it employed 15 people and it is not due to launch its services until the autumn. Yet it has succeeded in frightening both the traditional CRSs and the CRS-linked online travel agents who have complained about the antitrust implications of having the US's largest airlines potentially controlling a large part of the internet distribution market. Orbitz, on the contrary, presents itself a major new competitive force, which will break what it describes as the monopoly power of the CRSs.

So what's new about Orbitz? According to Katz, comprehensiveness and objectivity: "[We will] provide absolutely unbiased display of every airline's flights and fares, whether they are investors in Orbitz or not, whether they are associates of Orbitz or not



… we want every airline to be fully and equally displayed in Orbitz, and we want Orbitz to treat every airline the same".

This is an interesting strategy which directly attacks a key weakness of a CRS-based website like Travelocity. Ask Travelocity for the cheapest available service, and in many cases you will not find it because Travelocity does not include the schedules of airlines like Southwest or easyJet because they do no provide schedules to Sabre. If Orbitz is going to be genuinely comprehensive, it's going to provide a great marketing boost for the low-cost carriers.

Orbitz also claims to be making a quantum leap from CRS-based computerisation onto a new technological plane. Currently when you ask a CRS for airline, schedule and fare options on a US city-pair, it will search 5,000 to 10,000 options in about one second. This sounds pretty impressive but in fact the CRS has prescreened out 99.99999% of the possible billion or so options before evaluating on price and timing. Orbitz's new technology will allow it to evaluate all billion possibilities within one second. The expectation, or sales message, is that, while the huge majority of extra searches will be fruitless, Orbitz will regularly come up with hidden gems.

The promised technology holds the key to Orbitz's success. It will have to deliver the widest range of schedules, identify the best fares, plus be user-friendly and reliable. E-customers now have enough experience to judge the real value of airline websites, and are becoming increasing suspicious of e-marketing hype. Similarly, investors have started to apply realistic valuations to new technology stocks - in the airline-related sector, Travelocity's share price is down 53% since the beginning of the year, Expedia is down by 68% and Priceline by 50%.

US COMMISSIONS (Q2 2000)

	% of rev.	Chng from 99 (%pts)
AMR	5.4%	-1.1
Delta	4.0%	-1.5
Continental	5.5%	-1.0
Northwest	6.0%	-1.3
USAir	4.1%	-1.6
UAL	4.9%	-1.5
Southwest	2.8%	-0.5

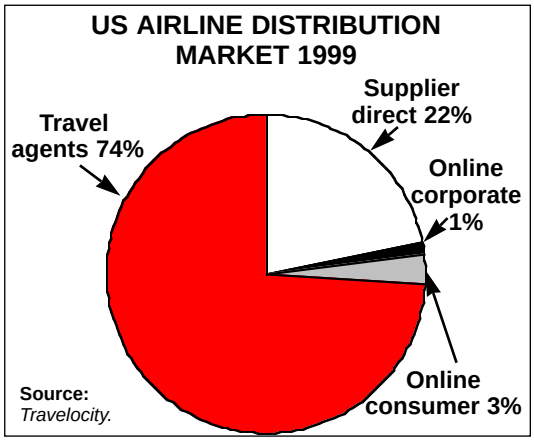
Against this background, why have these US Majors invested in a product which, eventually, may benefit the low-cost carriers more than themselves?

There are compelling reasons for Orbitz, according to Katz in his testimony to a US Senate Committee in July, and none of them have to do with altruism on the part of the US Majors.

First, Orbitz represents the means for airlines to attack CRS fees and so further reduce distribution costs. Orbitz, in fact, will use one of the smaller CRSs to make the actual airline bookings and that CRS will charge normal booking fees, but Orbitz will then rebate part of the fee to the airline on which the seat was booked. In effect, it will offset part of what it sees as excessive CRS fees to the airlines, with no discrimination between the type of airline.

The idea is to undermine the CRS pricing structure and hence cut the booking costs to travel agents, both traditional and online types, which in turn should allow airlines to further reduce their commission costs. As Orbitz will derive most of its income from commissions (just like a travel agent), it needs to make its attack on CRSs effective for it to succeed itself. No timescale for profitability has been announced.

A second reason is that the airlines have recognised that their own websites will never meet the needs of all passengers using the internet. They need a mass marketing site to complement focused marketing sites.



The third reason is that airlines feel that the CRS-based online travel agents are beginning to exercise too much control over the airlines. For example, Katz points to the practice of "swinging market share", whereby airlines pay for the internet sites to display proportionately more of their flights. There are dark suspicions that such practices have led to the mysterious non-appearance of rival services and fares on the website.

Consumer power

It should be recognised that e-distribution at the moment only accounts for about 4% of bookings in the US, the most advanced market. Travel agents still dominate with 74% of the business.

How fast the electronic share will increase is anyone's guess, but it will inevitably increase, and at some point in the surprisingly close future most bookings will be made in this way.

The type of electronic market envisaged by Orbitz is going to give customers a new degree of power. They will be able to access sites without the help of agents, to make speedy comparisons, to read reviews, to make informed choices. Sites will be under scrutiny by techie consumer groups who will find airlines' yield management systems an interesting challenge.

Can Air Canada leverage its virtual monopoly?

Shareholders in Air Canada have reason to be happy - shares in the airline are up 80% this year. Moreover, the CEO, Robert Milton, has promised shareholders that "as the huge benefits of the [Air Canada/Canadian] restructuring roll in, they will accrue to you." Could Air Canada possibly avoid all the usual dire problems that befall the vast majority of airline mergers? And can it consolidate what is a virtual monopoly and turn short-term returns into a longer-term profit profile?

It now appears that the pilot contract conflict will be resolved through arbitration. So Air Canada will avoid a disastrous strike, and the government will not have to carry out its threat of imposing a solution on the national carrier. Also, as the summer traffic peak winds down, customer service and operations staff will have a period of respite to try and repair the significant customer relationship damage done over the last four or five months. The airline has publicly given itself 180 days to solve all its customer service problems.

Air Canada has publicly talked about several spin-offs that could be floated as IPOs, so bringing in additional cash while retaining effective decision-making control. These include: Aeroplan, (the customer loyalty unit); a low cost carrier based at Hamilton (near Toronto); the regional airline subsidiaries; a leisure airline, the cargo operation; and the maintenance division. Apart from the obvious financial implications in terms of cash infusions, there are several possible benefits to Air Canada of following this SBU (Strategic Business Unit) strategy which a number of Euro-majors have adopted.

First, creating a separate low cost subsidiary is a good way to match most of the new entrants' products, although whether Air Canada's component cost structures can be truly segregated is questionable (Continental Lite all over again?). Air Canada now owns the rights to many domestic airline brands, including the former Canadian regionals, and so may be able to exploit local loyalties to dilute the impact of the new entrants. Similarly, the new SBU-based structure may defuse customer dissatisfaction with the airline and head off any government attempts of re-regulate the market and control Air Canada's pricing policies.

Second, the splintering of Air Canada into various operating and non-operating units should allow for the use of less expensive labour and serve to dilute union influence. Pilots, technical staff and other in-flight staff could be split into several units at different wage rates and on dif-

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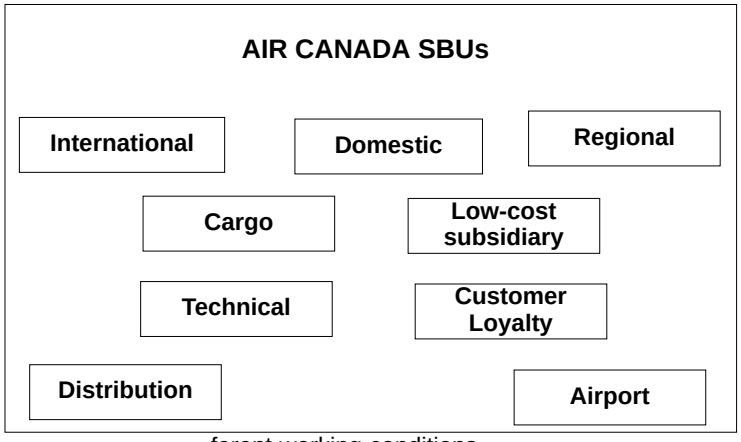


ferent working conditions.

Third, the main benefit of the Air Canada/Canadian merger was the creation of a single Canadian-based international carrier. The additional leverage on transborder and intercontinental markets is the main reason for the strong financial projections. Isolating the international operations from any domestic market turmoil should allow them to grow impeded only by market growth rate and competitive constraints.

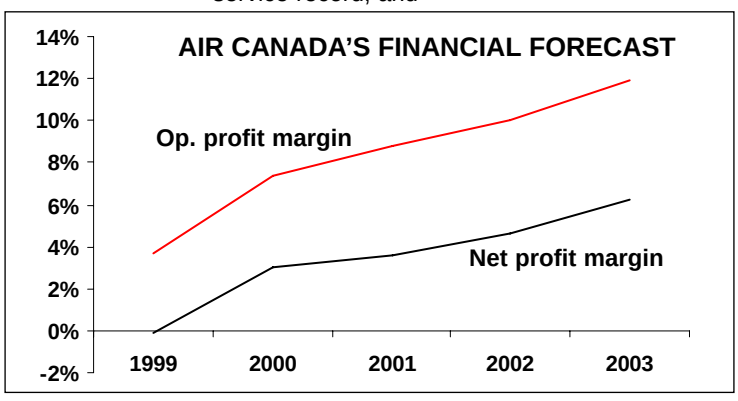
The possible downside of the SBU strategy includes these threats.

• Managerial cost overlap created by having multiple fixed cost bases at each SBU;

• Intra-company cannibalism if the various domestic SBUs compete against each other for the same revenue;

• The cost reduction potential of the SBU being undermined by the new agreement with the pilots which gives them, among other things, protection from lay-offs for four years and restraints on hiring for the new Air Canada units;

• The reaction of other labour groups to the various re-organisations - inter-union cultural issues will, as always, be significant and have the potential to wreak havoc with an already poor customer service record; and



• The IT consequences of supporting all of the Air Canada pieces on one or multiple systems - the power of data acquisition, usage and leverage will play a large role in deciding how many benefits shareholders will see from the merger.

Simultaneous threats

The huge worry is that most or all of these threats will materialise simultaneously in the cyclical downturn that will probably occur in 18 months or so. If international, transborder and domestic markets slow or contract simultaneously then previous downturns have taught us that the bigger the airlines are, the more money they lose. The more pieces of an SBU-based corporation that follow the same cyclical imperatives, the worse the financial damage.

In the depths of the last recession the old Air Canada had no trouble losing C$500-600m/year. Adding in the old Canadian losses easily pushes the total over C$1bn. Assuming that the current Air Canada management can bridge the gap with its claimed C$700m of net cost efficiencies and revenue synergies, then one comes back to a loss figure of C$300-$400m. The acid test of the SBU strategy is whether it can minimise Air Canada's traditional vulnerability to cyclical shocks. But there is limited evidence to date that substantiates this thesis

There is also the risk of another hostile incursion into the Canadian market by American/Oneworld (some analysts still contend that once Air Canada has cleaned up the messiest bits of its merger re-structuring, it will attract the attentions of an Onex version two). If Air Canada fails to deliver on its "180 days to perfect service" promise, many currently captive customers could be very receptive to alternative, oneworld-linked competitors.

On the transborder front, any merger between US Majors would be a cause for concern - in particular if the merger involves US Airways, which has a lot of Canada-US service. If the United/US Airways proposed merger goes ahead, the pressure would be on Air Canada to prove to United that it would be better off using AC-coded joint services than what it would be using US Airways capacity on transborder sectors. If US Airways links up with any of the other Majors, Air Canada/United duo will be faced with much more formidable competition than they have had to

date.

On an intercontinental basis no significant new threats are emerging from either Canadian start-ups or incursions from other international carriers.

This leaves the threat from new entrants in the domestic marketplace. If one takes the fleet and route system projections of the known players including WestJet, Canjet, Royal Air (scheduled), Roots Air, Canada 3000 (scheduled), Air Transat (scheduled) one sees a combined addition of around 35-40 aircraft in the 120-150 seat range 18 months from now. Also, there will probably at least two more new entrants who have not yet announced their intentions. Air Canada itself says it will offload 30-35 DC-9s (ex-Air Canada) and/or 737-200s (ex-Canadian) to the Hamilton start-up carrier.

The implication is that Air Canada will probably lose a 10-15% share of the domestic market but this will not be materially different from the share of market that Air Canada/Canadian combo held in the last downturn. If the new Air Canada can retain at least 75% of domestic share, then its overall network strategy will not be derailed. Also, most of the domestic new entrants will still feed connecting international traffic revenue to Air Canada.

In isolation none of these factors should present any insurmountable obstacles. However, the combination of internal re-structuring, the implementation of the SBU structure, the domestic new entrant threat, and the brand damage caused by poor customer service makes the achievement of Air Canada's own five-year profit margins projections somewhat questionable.

Regional Jets: their European mission

Regional Jets have enjoyed unprecedented commercial success in the US. Indeed, in the next 18 months, these aircraft will produce the majority of US regional airline capacity. A similar rate of growth is expected is the European market, but the type of RJ operations is different.

In the US 96% of RJ operations are into hubs, although the recent grant of new slots to RJ operations at slot-constrained airports (including La Guardia, Washington National and Chicago O' Hare) is encouraging airlines to operate direct flights into these airports from secondary points, by-passing hubs. RJ missions in the US include:

New hub routes

RJs operate new long routes into hubs serving small markets that could not support the operation of a larger jet. These new non-stop services stimulate traffic growth, but typically are insufficient to provoke competitive entry by other airlines, in particular, by low-cost airlines. Carrying predominantly business traffic, strong yields can be generated.

Hinterland poaching

One particular mission has been to deploy RJs into small cities that lie in the immediate hinterland of another carrier's hub. This is proving to be a successful way to poach traffic from the local hub carrier. For example, United added RJ service from its Denver and Chicago hubs to Fargo, previously exclusively linked by Northwest, to its nearby hub of Minneapolis.

Replacing unprofitable mainline flying

Operating smaller aircraft maintains a presence in a market and maintains the revenue from connecting sectors. This allows mainline capacity to be redeployed into more profitable markets. In communities facing a withdrawal of service, replacement by RJ service is more politically acceptable than an outright withdrawal from the route, or replacement by turboprop services.

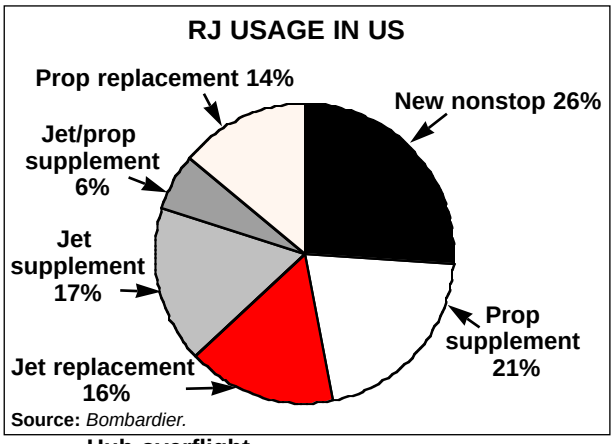
Additional frequencies in mainline markets

Flying higher frequencies on successful existing routes makes the airline's overall schedule more attractive to business travellers, improving the yields, and hence profitability, of all services.

Replacing turboprops

Improved speed and product perception boost both traffic and yields as business traffic is drawn to the superior product.

By Andrew Lobbenberg, Robert Fleming & Co. andrew.lobbenberg@flemings.com



Source: *Bombardier.*

Hub overflight

New non-stop services that overfly hubs are used in the US as a defence against other carriers poaching traffic from hinterland cities. For example, Delta is launching non-stop RJ flights to New York in order to defend its mainline market position in Savannah, a city which lies in the catchment area of Delta's Atlanta hub, and is vulnerable to competition from the other carrier's RJs.

European features

Lufthansa is the established leader in RJs in Europe today, but will be challenged by Air France as its new subsidiary Regional Airlines takes delivery of its new Embraers. Air France has the greatest potential to benefit from RJs, but will need to skillfully rationalise its domestic partners. BA's overall regional strategy will depend on its discussions with KLM, but notwithstanding, it has a good opportunity to simplify the structure of its regional partners SAir and its various associates have a considerable fleet of RJs which are being used to build secondary hubs and defend domestic non-hubs.

The differences between the European airline industry and the US can be exaggerated, but nevertheless they do exist.

• Airport and airspace congestion is considerably worse in Europe than in the US.

• Slot allocation in the US protects RJ access to congested airports, secured through a ring-fenced portfolio of regional slots. In Europe, existing and proposed slot allocation mechanisms contain no such protection

• Costs are higher in Europe for ATC, ground handling fees and fuel. At some airports, such as BAA's London airports, regional operators are disadvantaged by flat-rate landing fees, which charge the same amount fo a 50-seat RJ as for a full 747.

• High-speed mainline train services offer competitive travel options unavailable in the US.

• With the notable exception of the UK, many European markets do not experience similar levels of competition to the US domestic market.

• Within Europe, geographically remote regions - Eastern Europe, parts of the British Isles and islands in the Mediterranean - constitute potential RJ routes with small passenger volumes, inadequately served by surface transport.

Limited hub feed

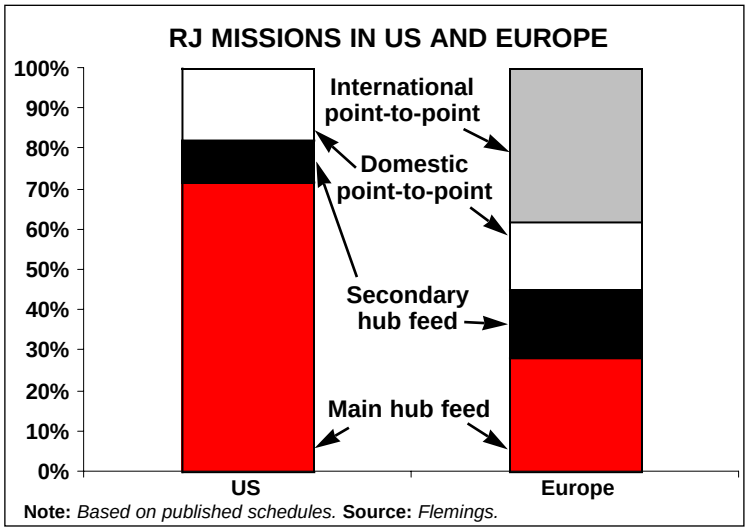
RJ missions to major hubs are very limited; BA and Lufthansa slots at London and Frankfurt are too precious to be used by 50-seat aircraft. However , Air France, operating from the relatively unconstrained CDG hub, can afford to utilise RJs in its main hub.

Building secondary hubs

RJs are particularly effective in building up secondary hubs, where slots are freely available. Lufthansa and Air France utilise RJs extensively at Munich and Lyon respectively.

Replacing unprofitable mainline flying

This strategy is less attractive in Europe than in the US. BA has transferred some weak Gatwick routes to 80-100-seat Avro aircraft, operated by its franchisees, Cityflyer and British Regional Airlines (BRAL), but the new RJs are too small for this role.



Note: *Based on published schedules.* **Source:** *Flemings.*

Additional frequencies in mainline market

This is a viable role for RJs in secondary hubs, where they can fulfill, for example, midday rotations. Lufthansa mixes RJ services at off-peak times on domestic routes also served by mainline aircraft.

Turboprop replacement

This remains a potential role for RJs in Europe, but at the major hubs turboprops have already been mostly squeezed out.

Hub overflight

This plays a far more important role in Europe. RJs are used by airlines to offer point-to-point flights from non-hub cities, such as BA from Manchester, Glasgow and Birmingham, Lufthansa from Berlin, Stuttgart and Dusseldorf and Air France from Nice and Bordeaux.

EUROMAJORS' REGIONAL FLEETS

		Ownership %		Regional jets	100-seat jets	Turbo-props
British Airways						
Citiflyer	UK	100	BA code - all flights		10	12
Brymon	UK	100	BA code - all flights	5		19
Maersk	UK	0	BA franchise - all flights	10		
BRAL	UK	0	BA franchise - all flights	15	2	25
SunAir	Denmark	0	BA franchise - all flights			10
TOTAL				**30**	**12**	**66**
Air France						
Brit Air	France	100	AF franchise - all flights	20	5	12
Proteus	France	100	AF franchise - all flights	5	1	20
Flandre Air	France	100	AF franchise - all flights	3		11
Regional	France	100	AF franchise - all flights	19		16
Cityjet	Ireland	100	AF franchise - all flights		6	2
Jersey European	UK	0	Limited AF franchise	2	16	12
Eurowings	Germany	0	Limited AF franchise		10	27
TOTAL				**49**	**38**	**100**
Lufthansa						
Cityline	Germany	100	LH code - all flights	37	18	11
Augsburg	Germany	0	Team Lufthansa			16
Contact	Germany	0	Team Lufthansa			11
Cirrus	Germany	0	Team Lufthansa			6
Rheintalflug	Austria	0	Team Lufthansa	1		3
Cimber Air	Denmark	0	Team Lufthansa	2		15
Air Domimiti	Italy	15	LH codeshare - some flights			17
British Mid. Commuter	UK	20*	Limited LH wet-lease	4	8	9
Austrian Airlines	Austria	0	Austrian Airlines Group		6	
Lauda	Austria	20	Austrian Airlines Group	8		
Tyrolian	Austria	0	Austrian Airlines Group	10	6	18
TOTAL				**62**	**38**	**106**
Swissair/Sabena						
Crossair	Switzerland	71	Mix of wet-lease, code share & independent flying	6	20	47
Crossair Europe	France	40 Crossair	Crossair codeshare			2
Air Liberte	France	49	Under integration into AMP		15	
Air Littoral	France	49	Under integration into AMP	19	6	14
DAT	Belgium	100 SN	SN franchise - all flights		32	
Schreiner	Netherlands	0	Limited SN franchise			12
TOTAL				**25**	**73**	**75**
KLM						
KLM Cityhopper	Netherlands	100	KL code - all flights		14	13
KLMuk	UK	100	KL code on non-Buzz flights		25	14
KLM exel	Netherlands	0	KL franchise - all flights	2		
KLM Alps	Switz/Austria	0	KL franchise - all flights			9
Eurowings	Germany	0	KL codeshare - some flights		10	27
TOTAL				**2**	**39**	**36**

Source: *Flemings, JP, ERAA.* **Note:** *Pending.

Ryanair: a Southwest-type quasi-hub strategy for the long term?

Under chief executive Michael O'Leary, Ryanair has explicitly copied the Southwest formula for success. This has resulted in Southwest-type profit margins and a stockmarket rating that is actually higher than Southwest's (and well above all the other quoted European airlines). The clear message is that Ryanair will be the Southwest of Europe. But, in reality, it has some way to go before it achieves that status. In this article we draw on some parallels with Southwest in order to speculate on how Ryanair might grow over the next ten years.

For its financial year 1999/2000 Ryanair Holdings Plc again produced very impressive results Total revenues grew by 25% to € 370.1m, reflecting a 13% increase in passenger volumes to 5.6m, an increase in average fares due to a longer sector length, and the increased strength of Sterling to the Euro. Operating expenses increased by 26% which, as expected, was fractionally ahead of revenue growth reflecting the increased costs (primarily staff and, airport and handling costs) associated with the growth of the airline, and the launch of eight new routes. As a result profits increased by 26% to a new record of € 72.5m for the year.

For the first quarter of 2000/01 Ryanair again pleased the stockmarkets - passengers up 32%, revenues by 37%, pre-tax profit by 24%. Its stockmarket capitalisation has risen to € 3.2bn, equating to a prospective p/e ratio of around 33 (twice that of BA).

RYANAIR'S FLEET PLANS

	In service	On order	Options	Remarks
737-200	21			Aged between 17 and 21 years
737-800	10	15	20	3 in 2000, 5 in 01, 5 in 02 and 2 in 03
TOTAL	31	15	20	

Source: ACAS

Ryanair has faithfully followed all the main elements of Southwest's strategy - point-to-point operations, use of secondary airports, homogenous fleet, direct marketing, payment for frills, reliance of low fares to stimulate markets, effective application of its yield management system, charismatic leadership from O'Leary, and (mostly) good labour relations. Its success looks as if will be reinforced by the impact of its low fares website, ryanair.com, which has reduced commissions from 7.5% to 5%.

Where in 2010?

Currently, Ryanair accounts for about 2.5% of intra-European mainline scheduled passengers (estimated at about 230m passengers in 1999) . Assuming that Ryanair achieves a 20% a year growth rate and the AEA carriers' growth slows to 3% a year, then by 2010 Ryanair would be carrying about 35m passengers and would command about 10% of the market, which will probably put it close to the top three carriers (Lufthansa, which today the largest intra-European carrier, has about 14% of the total market).

For comparison, Southwest increased its share of the US Majors' domestic market (about 353m passengers in 1999) from 5% to 16% in the 1990s by growing at an average of about 15% a year, having grown at an average of 20% during the 1980s. Southwest is now second only to Delta in terms of US domestic traffic volumes, and will almost certainly overtake Delta in the near future.

So there is a clear precedent for Ryanair, though there are myriad uncertainties about the development of the European market, including:

• A possible collapse in the Euro-Majors' intra-European traffic volumes as they withdraw more and more from unprofitable routes to concentrate of high yielding sectors

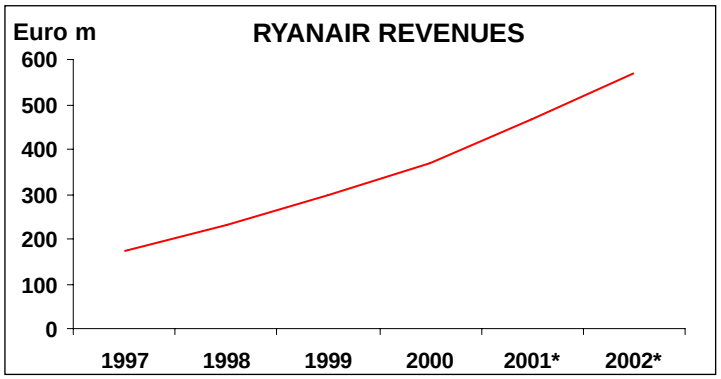
and long-haul feed
• The now inevitable disappearance or disintegration of some of the weaker flag-carriers;
• Further incursions by Ryanair into charter airlines' market which currently totals about 80m passengers a year intra-Europe;
• Increased competition from other new entrants (Ryanair tends to dismiss the strategies of most of the other new entrants, believes that the low-cost subsidiaries - go, Buzz, etc. - will be re-absorbed into their parents, but accepts that easyJet has also an effective low-cost strategy and will play a key role in the European market); and
• Increased competition from (subsidised) high-speed trains.

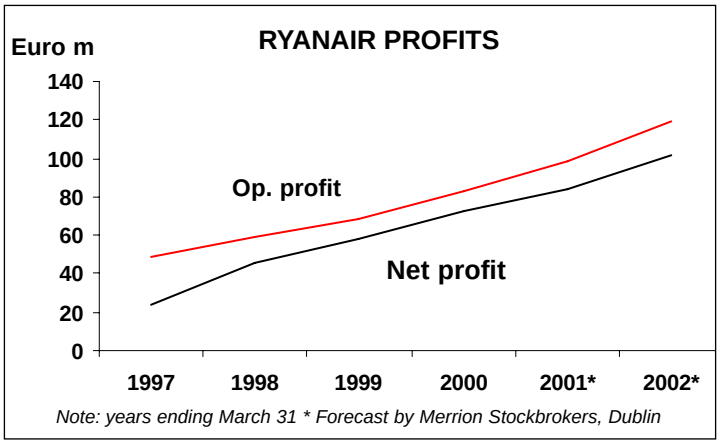
In order to emulate the Southwest strategy, Ryanair will not only have to achieve a 20% a year growth rate (Ryanair itself regularly refers to a 25% growth), it will also have to keep pushing up yields, as Southwest has managed to do, by an annual average of 2.1% since 1990. Before speculating about how Ryanair might achieve these aims, it would be useful to review its current route network and the traffic characteristics (see summary table on page 12).

Current routes

Although the Dublin-London route is now the busiest in Europe, Ryanair's expansion from **Dublin** seems to have been halted. An increasingly acrimonious dispute with Aer Rianta has meant that Ryanair has looked to expand at airports where it can achieve lower landing and passenger charges.

In 1999, Ryanair proposed financing the construction of a pier as an extension to an existing terminal building at Dublin. Aer Rianta would operate the pier and Ryanair would recover its financing costs through a heavily discounted passenger service charge over an extended period of years. Under the arrangement Ryanair would also guarantee a minimum level of additional passengers at Dublin on new routes. This plan has made no progress partly because of the issues it raises over the policy of non-discriminatory charges and partly because Aer Rianta is being prepared for privatisation.





*Note: years ending March 31 * Forecast by Merrion Stockbrokers, Dublin*

So the Dublin network remains heavily skewed towards the UK, with a strong year round VFR traffic base and growing economic links between the UK and Ireland. Ryanair operates only two non-UK services from Dublin, to Paris (Beauvais) and Brussels (Charleroi). Given that the former is 35 miles north-west of Paris and the latter 37 miles south of Paris it is unlikely that Ryanair diverts too much business traffic away from the full-service carriers.

Ryanair operates two services from **Shannon** airport. The Frankfurt Hahn service probably benefits from the number of Germans who have bought holiday homes on the Irish west coast in general and in particular in Conemarra. The Shannon-Stansted service competes directly with Virgin Express, which may harbour ambitions to make Shannon a second hub (after Brussels).

Like Shannon, **Glasgow Prestwick** has only a limited number of services at present, to Frankfurt Hahn, Dublin and to Paris Beauvais.

London Stansted is by far the most important airport in terms of destinations

served. Ryanair was the first of the low cost airlines to form a base there, go and Buzz being relative latecomers. Stansted offers a substantial catchment area and room for growth.

Ryanair's route network is very different to that of go and Buzz. Whereas they serve usually mainline primary airports with a strong business content, very few of Ryanair's routes fall into this category.

Ryanair serves six points in Ireland (north and south) from Stansted, with perhaps only Dublin offering the prospect of substantial business traffic. Most of the continental European routes served from Stansted are either leisure or VFR (the southern Italian points, for example). The exceptions are Glasgow, Hamburg, St. Etienne, Turin and Genoa, which should have reasonable business content. Also the use of secondary airports at Frankfurt, Oslo and Stockholm means that they are not likely to be used by time-sensitive business travellers- Frankfurt Hahn is 60 miles west of Frankfurt, Oslo Torp 65 miles south of Oslo and Stockholm Skavsta 55 miles south of Stockholm.

Many of the routes are therefore being developed on VFR traffic, with Ireland-UK being probably the biggest VFR market in Europe, supplemented by leisure travel, in particular that associated with ownership of secondary homes. the city break market and price-conscious business travellers.

RYANAIR NETWORK: ROUTE CHARACTERISTICS

Dublin to		**London Stansted to**	
UK		*Ireland*	
Glasgow (Prestwick)	B+V+L	Derry	V+L
Teeside	V+L	Knock	V+L
Leeds/Bradford	V+L	Shannon	V+L+B
Manchester	B+V+L	Dublin	B+V+L
Liverpool	V+L	Cork	V+L
Birmingham	B+V+L	Kerry	V+L
Luton	V+L		
Bristol	V+L	*UK*	
Cardiff	V+L	Glasgow	B+V+L
Bournemouth	V+L		
Gatwick	B+V+L	*Scandinavia*	
Stansted	B+V+L	Oslo Torp	V+L
		Stockholm Skavsta	V+L
Continental Europe		Kristianstad	V+L
Brussels (Charleroi)	V+L	Malmo	V+L
Paris (Beauvais)	V+L	Aarhus	V+L
		Germany	
Shannon to		Hamburg (Lubeck)	V+B
Stansted	V+L+B	Frankfurt Hahn	V+B
Frankfurt Hahn	V		
		France	
		Dinard	L
Glasgow to		Biarritz	L
Frankfurt Hahn	V	Carcassone	L
Paris (Beauvais)	V+L	Perpignan	L
Dublin	B+V+L	Nimes	L
		St. Etienne	L+B
		Italy	
		Turin	B+V+L
		Genoa	B+V+L
		Brescia	L+V
		Venice (Treviso)	L+V
		Rimini	L+V
		Pisa	L+V
		Ancona	L+V
		Alghero	L+V
		Lamezia	L+V

Key
B = Business
L = Leisure/City Break
V = VFR

Route/network possibilities

Ryanair claims that all the eight new routes it opened out of the UK last year have already turned profitable, but to achieve the 20%-plus growth target, Ryanair surely cannot rely just on traffic to/from the UK or Ireland. Other important VFR flows within Europe or Europe plus Mediterranean countries include: Germany-Turkey, Germany-Greece, France-North Africa, France-Portugal, Belgium-Italy, Switzerland-Spain. These are of course also important leisure routes.

To grow at Southwest-type rates, Ryanair will at some point have to find a way to exploit these mostly north-south flows,. This implies building connecting points linking in with its current west-east/southeast services. Frankfurt and Paris would appear to be obvious points.

But doesn't this mean that Ryanair would be building a hub network, which is anathema to a low-cost point-to-point operator?

Again a parallel with Southwest is useful. It is true that Southwest does not operate a typical US hub operation, with for instance 500 flights a day from the hub and 10-15 from the spokes; it operates numerous services out of many cities. Currently, seven of the airports on its network have over 100 flights a day, and is becoming more like a quasi-hub carrier .

Southwest will never say this explicitly, partly because it needs to differentiate itself politically from the network carriers which are causing such misery in the US this summer and partly for investor relations reasons to differentiate from the other low-margin Majors. Nevertheless, Southwest, as it has built up the number of points served, has begun to depend more and more on flow traffic. For example, Phoenix is a classic “rolling hub”, Chicago Midway is used to connect east-west routes, and Baltimore connects traffic on its new services on the East coast to the rest of the network. The cities now served by Soouthwest now enable the airline to offer service to over 90% of the population.

What Southwest does *not* do is schedule its flights for connections - there are no waves of Southwest 737s arriving at roughly the same time and taking off together an hour later. Passengers simply have to wait for the next available flight to their destination, having collected and re-checked their baggage.

This works when there is a high frequency on the routes, which Southwest has achieved in many cases - eight round-trips a day minimum on business orientated routes. But Ryanair at present has only one route with that type of frequency - Dublin-Stansted.

Southwest, in effect, schedules for the aircraft not for the passenger. Connecting passengers generally have a longer wait than at a traditional hub, but the aircraft can be turned round very rapidly (15-20 minutes usually). This is essential for Southwest's cost structure as it enable the carrier to maximise utilisation and simplify crew rostering.

The implications for Ryanair are that, if it to follow the Southwest model, it not only has to continue building up frequencies from its British and Irish points, but also it has to start operating from continental European bases to non-UK destinations. It will then have the opportunity of selling connecting tickets (but not building hub operations). EasyJet has already started along this route in its efforts to build up services from Geneva and Amsterdam.

Establishing bases in the continental European markets is a huge opportunity and a huge challenge for Ryanair. There is practically no low-cost airline competition based in Germany, and in France the alternative to the Air France Group is Swissair's amalgam of Air Liberté/Air Litoral/ AOM, which shouldn't be a frightening prospect for Ryanair.

On the other hand, there are barriers to entry - competition from the train service, resistance to credit card sales, but these are problems that can be tackled; less tangible is the traditional ability of certain flag-carriers to repulse through matching prices regardless of their own cost structure, flooding sectors with new capacity blocking access etc.

But as the US majors have found, it is now futile to try to resist a concerted attack by Southwest. And the EC competition authorities will surely have some role to play - Ryanair and go both have lodged unfair competition complaints against Lufthansa.

So by 2010, if Ryanair has translated the Southwest strategy into a European context, one might expect to see maybe five continental bases in addition to those in the British Isles. The carrier will have built up high frequencies on the key routes, which should allow it to overcome many of the perceived disadvantages of operating to secondary airports, and so it should be able to win over more business travellers. It will have effective coverage of most of the main European conglomerations. It will continue to schedule its aircraft like a point-to-point operator but will rely more and more on connecting traffic attracted by its low fares and high frequencies.

From a secondary airport perspective, the possibility of evolving from an obscure aerodrome to a Ryanair hub should be seen as a major opportunity. This prospect will strengthen even further Ryanair's negotiating position on fees and facilities.

To operate this future network Ryanair will need a fleet of at least 120 737-800s and 737-700s (replacing the hushkitted 737-200s). This means orders for an additional 75 737-types to be delivered before 2010 in addition to existing orders and options. Not quite in Southwest's class - with a current backlog of 167 737s, it is the largest airline customer in the world in terms of units ordered - but a worthy Euro-equivalent.

Mesa Air Group: this year's turn-around story

Mesa Air Group, the largest independent regional carrier in the US, has virtually reinvented itself with a new management, route structure and fleet mix since the loss of its United Express feeder contracts in 1997 and 1998. After three years of losses, the company has staged an impressive financial recovery this year. It has restored operational performance and won back the confidence of its codeshare partners. Will Mesa's planned aggressive RJ expansion pay off?

The loss of the United Express work three years ago was a devastating blow to Mesa as those services accounted for 45% of its total capacity. It was left saddled with some 90 surplus aircraft and revenues plummeted by 40%. United terminated the codeshare relationship mainly because of Mesa's operational problems and below-par service quality, while disagreements about compensation and service levels in smaller markets also played a part.

This led to a sharp contraction and net losses totalling $124m in 1997-1998. Up to then Mesa had had an unbroken profit record going back to 1979, its initial year of operation. In the early 1990s it earned operating margins of 12% and net margins of 7-7.5%, despite extremely rapid growth through acquisitions and feeder agreements with the major carriers.

By 1999 the company was very much in a recovery mode as a result of successful restructuring efforts, but a net loss of $13.3m was still reported for the latest financial year ended September 30. This was mainly due to a $29m writeoff for the planned disposal of 30 surplus Beechcraft/Raytheon 1900s, as well as loss of business due to US Airways' problems.

This year has seen a dramatic turnaround. Mesa reported a $21.1m net profit on revenues of $346.6m for the nine months ended June 30. Strong revenues have more than compensated for a hike in operating costs associated with the introduction of a new aircraft type, the ERJ-145, to the fleet in April.

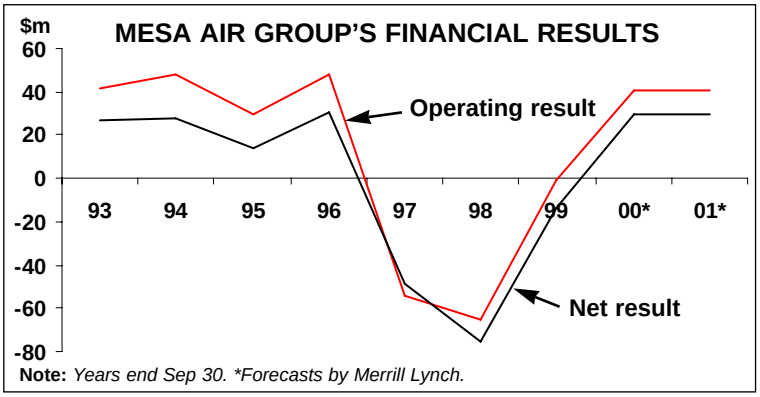
Mesa is now expected to report an operating profit of around $40m and a net profit of just under $30m for the current financial year ending September 30. It is likely to exceed its goal of an 8% operating margin.

While revenues have now more or less recovered to the mid-1990s level, there is some way to go to restore the former level of profitability. Also, the company has recovered only about one third of its mid-1990s market capitalisation.

After a significant improvement in cash position last year, cash reserves halved from $56.2m a year ago to $28.2m at the end of June because of capital spending on expanding the RJ fleet. However, total liabilities have also fallen, to $301m from $375m two years ago.

In early 1999 Mesa temporarily reverted back to its former acquisition mode when it bought fellow US Airways Express operator CCAIR for around $53m. It was a strategic move as Mesa was building its already extensive US Airways Express operations with the help of the regional jet.

In an (unsuccessful) effort to boost its flagging share price, at the end of last year Mesa launched a programme to repurchase up to 10% of its oustanding shares. So far it has acquired some 1.8m shares at an aggregate cost of about $10m, but the pro-



Note: *Years end Sep 30. *Forecasts by Merrill Lynch.*

gramme has slowed because of the need to fund RJ purchases.

Improved operations

Mesa has tackled its previously dismal on-time performance and flight completion rates so successfully that it has been able to claim industry leadership in those areas. Its completion factor has risen from 92% in the summer of 1998 to almost 98% over the past year. Recent Bombardier studies of CRJ and Dash 8 operators show Mesa consistently on top in that category.

At a recent Merrill Lynch conference, the company's leadership attributed the improvements to two areas in particular. First, over the past 18 months there has been a major technology drive, which has included the installation of new computer systems for crew and flight tracking, weather radar and other key functions. Second, this year has seen a major effort to improve internal communication - a special challenge for a group that is made up of many different airlines serving local markets in different parts of the country and brought together through acquisition.

According to Mesa's top executives, the key has been to get management more involved in the daily operations. The initiatives include weekly "hotlines" for the presidents of the various airlines, daily "operations call" for senior and middle managers throughout the group and lots of employee get-togethers (including parties and barbecues where senior management do the cooking).

These strategies were facilitated by a restructured, more independent board and a new top management team. The biggest initial changes were the departure of founder, chairman and CEO Larry Risley and his wife Janie, and the arrival of former Mesa executive VP and WestAir president Jonathan Ornstein as a major new investor, chairman and CEO in 1998. Ornstein has built a strong team consisting of many of his former Continental and Virgin Express colleagues, including Michael Lotz as president and COO.

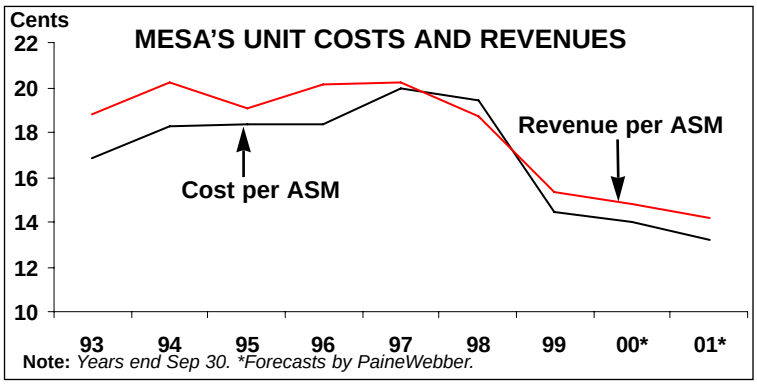
All of that has had a favourable impact on Mesa's relationships with its two codeshare partners - America West in the Southwest and US Airways in the East and Midwest. Those contracts account for 90%-plus of the company's revenues (the balance is generated by Mesa Airlines' independent operations in New Mexico and Colorado).

Mesa is the largest of two US Airways Express RJ operators, having been the first to introduce the regional jet there in January 1998. But US Airways has nine regional partners, all clamouring for growth opportunities, so restoring service standards was critical. A welcome show of confidence came in December 1999 when US Airways agreed to raise the number of RJs in Mesa's contract from 15 to "a minimum of 28" and extend the term from 2003 to 2007.

In April US Airways' pilots agreed to raise the cap on RJs in all Express operations from 35 to 70, and Mesa is now expected to be the main beneficiary of the relaxation of the scope clause. In June the carrier put its first 50-seat ERJ-145 into US Airways Express service at Washington National.

Since RJs currently account for just 20% of US Airways Express' total capacity (compared to 50% or more for the regional operations of most other major carriers), there are considerable growth opportunities for Mesa if it can maintain its service standards. US Airways management envisages 300-400 RJs in Express operation, though getting pilot approval for those numbers will take time.

The America West contract has always worked relatively well, though there was some uncertainty in the past as to whether the contract would be renewed or expanded. Recently AWA increased the number of RJs



Note: *Years end Sep 30. *Forecasts by PaineWebber.*

MESA'S FLEET PLANS

	In service	On order	Remarks
Emb 120	4		
Emb 145	7	32	Delivery 2000-02, 64 options
Beech 1900	69		
Shorts 360	1		
CRJ-200	32		
DHC-200/300	13		
Total	**126**	**32**	

Source:ACAS

(Mesa is its sole RJ operator) from 19 to 22 and extended the contract from 2004 to 2009.

One major benefit of the AWA work is that all of it is on a fee-per-departure basis, which protects Mesa from fuel price volatility and makes its earnings more steady. All the RJ flying for US Airways is also on that basis, while turboprop operation is under prorate agreements. (The benefits of contract versus prorate remuneration were discussed at length in the February 2000 issue of *Aviation Strategy*, page 17.)

Another potential benefit associated with the America West relationship is that AWA is the only major carrier without a scope clause in its pilot contract limiting the use of RJs. Mesa is in discussions to further expand the agreement, and the talks include proposals to acquire 70 and 90-seat RJs.

Fleet restructuring

Probably the single most important new strategy has been to reduce unprofitable 19-seat Beechcraft 1900 turboprop flying and make a serious effort to focus on the RJs. Over the next two years, the fleet will not grow much in terms of number of units but the composition will change dramatically. In 1998 turboprops accounted for 73% of Mesa's ASMs, but by 2002 that same percentage will be on jets.

Mesa has been the largest independent operator of the Beechcraft 1900, which still accounts for about one third of its capacity. But new government regulation, in particular a transition to FAR Part 121 standards, and increased taxation have made especially the smaller turboprops much costlier to operate. The 1900s, most of which are on the balance sheet and many have been idle since the loss of the United Express work, have been a drain on Mesa's resources.

Consequently, after disposing of eight 1900s last year, Mesa (somewhat belatedly) announced at year-end that it would dispose up to 30 more 1900s. Last month (August) it was in the process of finalising an agreement with Beechcraft/Raytheon to return 20 idle aircraft. According to a Merrill Lynch report, this would remove $55m of debt from Mesa's balance sheet and eliminate around $1.2m in quarterly interest payments.

This will mark the start of a process that will improve the profitability of Mesa's turboprop operation and allow it to focus on the RJs. The 1900 fleet reduction has been accompanied by withdrawal from many unprofitable thin markets, including all 19-seat routes out of Boston and Washington-Dulles, and further such moves are anticipated.

Mesa received its last 50-seat CRJ in December, bringing its RJ fleet to 32 (evenly split between AWA and US Airways). In January it placed a long-awaited firm order for 36 50-seat Embraer ERJ-145s. The first of those aircraft arrived in April, so far seven have been delivered and the remainder are due by late 2002, by which time Mesa will operate 82 RJs. The January order included 64 options, which can be converted to the 37-seat ERJ-135.

The carrier is already considering exercising some of the options and accelerating delivery positions. Also, some analysts believe that by year-end Mesa will have announced another RJ order, this time for 70-seaters for America West operation.

The introduction of the ERJ to the fleet has had a severe negative cost effect - an estimated $1m in training, proving runs and suchlike, much of which was borne in the June quarter. But, with those effects now lessening, Mesa can look forward to operating cost savings offered by the larger, new

aircraft and the elimination of more turboprops.

Growth plans and prospects

The focus now is very much on growth. With just the aircraft currently on firm order for delivery in 2000-2002, Mesa's capacity will rise by around 20% annually over the next couple of years. Unlike many other regional carriers, Mesa may actually sustain those rates well beyond 2002 because of the growth potential offered by US Airways' still relatively underdeveloped RJ operation and the possibility to utilise larger RJs at America West Express.

Continued expansion of fee-per-departure flying will provide financial stability, removing risk and ensuring a stable and predictable earnings stream. In the first half of this year such contracts represented 55% of Mesa's revenues, but the share was expected to rise to 60% by the end of September and to at least 70% by the end of 2002.

Mesa already claims to be the lowest-cost US regional carrier, with unit costs of 14.5 cents per ASM in the nine months to June 30. Savings from fleet and route restructuring will help it retain that position, while revenue growth will be boosted by RJ expansion. There appear to be be no significant labour issues or key contracts becoming amendable in the near term.

The company expects to be able to maintain operating profit margins in the 8-12% range and "hopefully closer to 10-12%" in the next few years. Merrill Lynch more cautiously suggests that the margins will "stabilise in the high single digits".

While recommending Mesa shares as a "strong buy" based on low price and good growth prospects, analysts regard it as risky investment because of uncertainty in several respects.

A May research note from PaineWebber (before the UAL/US Airways merger announcement) listed four areas in particular - financial functions, US Airways' prospects, franchise risk and the execution of the growth plan.

Over the past year, Mesa has been restructuring its financial department - the last major area that needed tackling after the thorough FAA-imposed corporate restructuring undertaken a couple of years ago. One of the aims has been to introduce proper bookkeeping and reporting practices but, judging by the fact that the current CFO is the third to be appointed over the past year, the process has not been smooth. Also, external auditors, KPMG, were recently dismissed and replaced with Deloitte & Touche. This and the fact that an entirely new financial department is in place obviously create some uncertainty.

Even though Mesa appears to have more or less completed its turnaround, its growth plan seems rather ambitious in light of its recent volatile earnings track record. Analysts say that the timing and extent of the anticipated cost savings are hard to predict.

Mesa would suffer if US Airways stumbles in its recovery efforts - it already had a taste of that in the summer of 1999. And there is always the risk that US Airways will suddenly start favouring its other regional partners in the allocation of new RJ flying opportunities.

The company's share price has remained weak also because of concern over the impact of a possible UAL/US Airways merger. There are fears that the merger would lead to a rationalisation of the two carriers' regional operations. Mesa does not exactly have a good track record with UAL, and their earlier breakup had a devastating financial impact.

However, analysts dismiss such merger-related concerns, in part because they regard a UAL/US Airways combine as unlikely but also because they believe Mesa would fare well under such a scenario. This is because RJs are desirable assets. "Mesa, with its 100 RJ order, is now a very desirable company", proclaimed a January research note from Merrill Lynch.

The RJ commitment will obviously open up other options, should things go wrong with existing partners. Mesa's leadership has indicated that while the focus is on building on the two good existing relationships, the company does not at this stage rule out opportunities to put those jets elsewhere.

By Heini Nuutinen

Investor relations - why they are so important

When operating a company in the comfortable environment of state ownership or under a single owner, it takes very little effort to keep the shareholder informed. In these circumstances investor relations is a simple process. However, as soon as a company comes to the markets through an IPO, with a resulting explosion in the number of outside shareholders, keeping investors informed and happy becomes far more complicated. This is no more so relevant than in reference to airlines. Why should the development of good investor relations be that important and does it really make a difference?

There is an example from a few years ago. The then CFO of Lufthansa, Dr Schlede, said over lunch with analysts that he saw no real reason to waste management time on analyst briefings and meetings since Lufthansa would never need to raise capital again. That was towards the top of the cycle after the successful full privatisation of the German flag-carrier.

Only a few years later CEO, Jürgen Weber, was saying publicly at the time of the publication of a set of results that the value of the shares should be € 30 when they were trading at only € 20. The two comments may appear incompatible, but are directly related.

Airlines are complicated beasts: management spends much time in the juggling many outside variables with the (sometimes forlorn) hope of making a profit. When they do manage to make a series of profits, some even fail to remember basic economics ("The industry is no longer cyclical", Gordon Dunlop, former CFO of BA, 1987).

In running an airline you are managing a long term asset (the route network and aircraft) attempting to match it to the short-term vagaries of demand and cost movements. Sometimes it is difficult to see beyond the end of the week. However, it is very important to remember why you are running the business.

Basic Principle: the company is owned by the shareholders. Under some non Anglo-Saxon regimes, it is sometimes thought that there are other stakeholders in the business - such as employees and debt providers - although these too can be shareholders.

All in any case can feel happier with a rising share price value. That should be the carrot to the management. The stick is the fear of higher funding rates, higher cost of capital and in a normal world the fear of takeover should the share price languish.

Who are the investors to which the relational programme should be directed, and for whom it would be important? Private investors are not that demanding. It is the professional institutional investors who will have the ability to invest sums sizeable enough to have an influence on the share price movements.

While the airline industry is one of the truly global industries, it accounts for less that 2% of total world equity market capitalisation. Outside the US and UK, there tends also to be only one airline quoted on any one stock market. Outside the US also, because of the regulation of international route rights, it is virtually impossible to envisage mergers or acquisitions - not withstanding the current negotiations between KLM and British Airways.

Even a global investment manager can only afford to spend 90 seconds a day considering this complicated industry; and very few investment companies can afford the luxury of an airline specialist. As a result of this, many new shareholders may have misconceptions, a lack of understanding of the minutiae of the business, and be confused by aviation's every day jargon.

As it is such a public service business, passions fly in the press particularly about the flag carrier - and quite often such stories carry their own misconceptions that can have an impact on share price movements. The investors also fly themselves. They will

want a focal point for contact with the company, they will demand answers to their questions, and get very annoyed if the answers are not available immediately.

You cannot afford to stand still and merely relate with existing investors. Share price performance reacts to the balance of buyers over sellers - and you have to try to ensure that you will attract new investors to keep the momentum in the right direction.

Dealing effectively with the middlemen - the "sell-side" investment analysts - is essential. These, a small select group, distil the complications of the industry and the company into a single word (buy or sell) and then attempt their salesmen and clients to act on the recommendation.

Each of these, the buy- and sell-side of the investment community are important for investor relations. So how does a newly quoted airline go about tackling the thorny problem of investor relations?

Solutions

• Investor relations becomes the Finance Director's responsibility. However, his priority should be to make sure the airline is making money and he can ill-afford diversions. The investor community will always prefer to talk to the CFO, but he will have access to certain information at board level that should not be disclosable. Although the CFO has a full working knowledge of the budgets, management accounts and accounting principles, he will easily get bored defining an RPK for the umpteenth time.

• The CFO designates a colleague - the treasurers, controller, for instance. However, he is likely to be too involved with the minutiae of the business.

• A PR/Media Communications expert is appointed. Here the problem is that they will tend to be good at only giving a positive slant on a story. They are unlikely to be able to cope with the financial details. In addition, they would have to understand the requirements and accounting principles across all markets in order to be able to make valid comparison's between your airline's performance and that of rivals.

• Use someone from the operational departments is used - pilot, for instance. Generally not a good idea; there is one at the moment at a major European carrier who is distinctly off-putting.

• Hire an analyst from the buy or sell side to act as investor relations advisor. However, an airline would likely balk at the salaries demanded by the best analysts.

Whoever is put in place to respond to investor queries has to have a full understanding of analysts' and fund managers' requirements across all accounting backgrounds and all cultural differences.

So a final choice might be to involve *Aviation Economics* - a consultancy whose team has a combined 40 years of multicultural investor communication!

By James Halstead

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1992	129.6	73.5	56.7	134.5	95.0	70.6	89.4	61.6	68.9	296.8	207.1	69.8	445.8	293.4	65.8
1993	137.8	79.8	57.9	145.1	102.0	70.3	96.3	68.1	70.7	319.1	223.7	70.1	479.7	318.0	66.3
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72.0
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
Jun 00	17.8	12.2	68.8	20.2	17.8	88.2	11.3	8.8	77.7	43.0	35.1	81.7	64.0	49.5	77.4
Ann. chng	4.2%	8.3%	2.6	2.2%	9.9%	6.2	2.4%	4.7%	1.7	2.3%	8.1%	4.4	3.2%	8.3%	3.6
Jan-Jun 00	101.3	62.4	61.6	110.8	85.2	76.9	68.5	52.5	76.6	249.4	190.3	76.3	369.3	265.3	71.8
Ann. chng	6.3%	8.1%	1.0	7.3%	10.0%	1.9	3.2%	5.9%	2.0	4.7%	8.7%	2.8	5.5%	8.9%	2.2

Source: AEA.

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1992	857.8	536.9	62.6	134.4	92.4	68.7	123.1	85.0	69.0	48.0	27.4	57.0	305.4	204.7	67.0
1993	867.7	538.5	62.1	140.3	97.0	69.2	112.5	79.7	70.8	55.8	32.5	58.2	308.7	209.2	67.8
1994	886.9	575.6	64.9	136.1	99.5	73.0	107.3	78.2	72.9	56.8	35.2	62.0	300.3	212.9	70.9
1995	900.4	591.4	65.7	130.4	98.5	75.6	114.3	83.7	73.2	62.1	39.1	63.0	306.7	221.3	72.1
1996	925.7	634.4	68.5	132.6	101.9	76.8	118.0	89.2	75.6	66.1	42.3	64.0	316.7	233.3	73.7
1997	953.3	663.7	69.6	138.1	108.9	78.9	122.0	91.2	74.7	71.3	46.4	65.1	331.2	246.5	74.4
1998	960.8	678.8	70.7	150.5	117.8	78.3	112.7	82.5	73.2	83.5	52.4	62.8	346.7	252.7	72.9
1999	1,007.3	707.5	70.2	164.2	128.2	78.1	113.2	84.7	74.8	81.3	54.3	66.8	358.7	267.2	74.5
Jun 00	85.6	67.8	79.2										33.1	27.4	82.7
Ann. chng	1.3%	7.4%	4.7										6.7%	11.8%	3.6
Jan-Jun 00	511.4	365.8	71.5										183.5	138.6	75.5
Ann. chng	4.3%	6.5%	1.4										5.5%	9.1%	2.5

Note: US Majors = American, Alaska, Am. West, Continental, Delta, NWA, Southwest, TWA, United, USAir. **Source:** Airlines, ESG.

ICAO WORLD TRAFFIC AND ESG FORECAST

	Domestic			International			Total			Domestic growth rate		International growth rate		Total growth rate	
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK %	RPK %	ASK %	RPK %	ASK %	RPK %
1993	1,349	855	63.3	1,785	1,205	67.5	3,135	2,060	65.7	3.4	2.0	4.4	4.8	3.9	3.6
1994	1,410	922	65.3	1,909	1,320	69.1	3,318	2,240	67.5	4.6	7.9	6.9	9.4	5.9	8.8
1995	1,468	970	66.1	2,070	1,444	69.8	3,537	2,414	68.3	4.1	5.4	8.5	9.4	6.6	7.8
1996	1,540	1,043	67.7	2,211	1,559	70.5	3,751	2,602	79.4	4.9	7.4	6.8	8.0	6.0	7.8
1997	1,584	1,089	68.8	2,346	1,672	71.3	3,930	2,763	70.3	2.9	4.5	6.1	7.2	4.8	6.1
1998	1,638	1,147	70.0	2,428	1,709	70.4	4,067	2,856	70.3	3.4	5.2	3.5	2.2	3.4	3.4
1999	1,911	1,297	67.9	2,600	1,858	71.5	4,512	3,157	70.0	5.4	5.0	5.7	7.4	5.6	6.4
***2000**	2,004	1,392	69.4	2,745	1,969	71.8	4,750	3,361	70.8	4.9	7.2	5.6	6.0	5.3	6.5
***2001**	2,100	1,440	68.5	2,907	2,063	70.9	5,009	3,503	69.9	4.7	3.5	5.9	4.7	5.4	4.2
***2002**	2,161	1,463	67.7	3,022	2,119	70.1	5,182	3,582	69.1	2.8	1.6	3.9	2.7	3.5	2.2
***2003**	2,233	1,533	68.7	3,170	2,253	71.1	5,403	3,788	70.1	3.4	4.9	4.9	6.3	4.3	5.8
***2004**	2,317	1,607	69.4	3,332	2,393	71.8	5,651	4,000	70.8	3.7	4.8	5.2	6.2	4.6	5.6

Note: * = Forecast; ICAO traffic includes charters. **Source:** Airline Monitor, July 2000.

DEMAND TRENDS (1990=100)

	Real GDP					Real exports					Real imports				
	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan	US	UK	Germany	France	Japan
1992	102	98	102	102	105	113	103	112	109	110	107	101	115	104	96
1993	105	100	100	101	105	117	107	106	109	112	117	104	108	101	96
1994	109	103	103	104	106	126	117	115	115	117	131	110	117	107	104
1995	111	106	105	106	107	137	126	122	123	123	141	115	124	113	119
1996	114	108	107	107	111	152	135	128	128	126	155	124	127	116	132
1997	118	112	110	109	112	172	146	142	142	138	177	135	136	123	132
1998	122	115	113	112	109	173	150	152	150	135	196	144	147	133	121
1999	127	117	114	115	111	179	150	155	153	135	220	151	152	136	122
***2000**	131	120	117	118	112	191	156	164	162	142	239	158	159	143	126

Note: * = Forecast; Real = inflation adjusted. **Source:** OECD Economic Outlook, December 1999.

FINANCIAL TRENDS (1990=100)

	Inflation (1990=100)					Exchange rates (against US$)						LIBOR
	US	UK	Germany	France	Japan		UK	Germ.	France	Switz.	Euro**	Japan	6 month Euro-$
1991	104	106	104	103	103	**1991**	0.567	1.659	5.641	1.434	0.809	134.5	5.91%
1992	107	107	109	106	105	**1992**	0.570	1.562	5.294	1.406	0.773	126.7	3.84%
1993	111	109	114	108	106	**1993**	0.666	1.653	5.662	1.477	0.854	111.2	3.36%
1994	113	109	117	110	107	**1994**	0.653	1.623	5.552	1.367	0.843	102.2	5.06%
1995	117	112	119	112	107	**1995**	0.634	1.433	4.991	1.182	0.765	94.1	6.12%
1996	120	114	121	113	107	**1996**	0.641	1.505	5.116	1.236	0.788	108.8	4.48%
1997	122	117	123	114	108	**1997**	0.611	1.734	5.836	1.451	0.884	121.1	5.85%
1998	123	120	124	115	109	**1998**	0.603	1.759	5.898	1.450	0.896	130.8	5.51%***
1999	125	122	126	116	108	**1999**	0.621	1.938	6.498	1.587	1.010	103.3	5.92%***
***2000**	127	126	127	117	108	**Aug 2000**	0.679	2.175	7.295	1.715	0.899	106.5	6.65%***

Note: * = Forecast. **Source:** OECD Economic Outlook, December 1999. **Euro rate quoted from January 1999 onwards. 1990-1998 historical rates quote ECU. *** = $ LIBOR BBA London interbank fixing six month rate.

TURBOPROP OPERATING LEASE RATES ($/month)

	Age	Rate		Age	Rate		Age	Rate
ATR42-300	1985-90	50,000	**D8-200A**	1992-96	79,000	**Emb 110**	1980-89	18,000
ATR 42-500	1995-95	71,000	**D8-Q200**	1997-99	86,000	**Emb 120**	1985-93	37,000
ATR72-200	1989-96	84,000	**D8-300**	1988-91	79,000		1994-99	50,000
ATR72-500	1998-99	116,000	**D8-Q300**	1997-99	99,000	**Metro II**	1975-81	15,000
B1900C	1983-87	28,000	**BAe J32**	1988-93	25,000	**Metro III**	1981-91	28,000
B1900D	1991-99	42,000	**BAe J41**	1992-97	35,000	**Metro 23**	1992-99	36,000
DHC6-300	1969-75	15,000	**ATP**	1988-93	65,000	**F27-200**	1959-70	20,000
	1976-88	20,000	**CN235**	1986-92	40,000	**F50**	1987-96	66,000
DHC7	1977-82	30,000		1993-99	58,000	**Saab 340 A**	1984-89	39,000
	1983-88	41,000	**Do228-200**	1988-98	32,000	**Saab 340 B**	1989-96	50,000
D8-100B	1992-96	71,000	**Do328**	1992-99	77,000	**Saab 340B+**	1995-99	64,000
D8-Q100	1997-99	81,000				**Saab 2000**	1994-99	90,000

Source: Aircraft Value Journal, January/February 2000

JET AND TURBOPROP ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
Airbus	Aug 17	United	6 A319s, 6 A320s		2002	
Boeing	Aug 9	American	6 777-200ERs 3 737-800s			
	Aug 23	WestJet	6 737-700s			+ 18 options
	Aug 29	Virgin Atlantic	2 747-400			
Bombardier	Aug	Atlantic Coast	3 CRJ-200s			+ 27 optional orders

Note: Prices in US$. Only firm orders from identifiable airlines/lessors are included. MoUs/LoIs are excluded.
Source: Manufacturers.

	Group revenue	Group costs	Group operating profit	Group net profit	Total ASK	Total RPK	Load factor	Group rev. per total ASK	Group costs per total ASK	Total pax.	Total ATK	Total RTK	Load factor	Group employees
	US$m	US$m	US$m	US$m	m	m	%	Cents	Cents	000s	m	m	%	
American*														
Oct-Dec 98	4,152	3,857	295	182	64,317.3	43,811.6	68.1	6.46	6.00	19,805	9,526.7	5,060.1	53.1	90,460
Jan-Mar 99	3,991	3,954	37	158	62,624.3	41,835.4	66.8	6.37	6.31					
Apr-Jun 99	4,528	4,120	408	268	67,313.8	47,945.9	71.2	6.73	6.12					
Jul-Sep 99	4,629	4,603	547	279	67,972.2	48,792.9	71.8	6.88	6.26					
Oct-Dec 99	4,477	4,206	271	280	65,751.2	44,328.2	67.4	6.81	6.41					98,700
Jan-Mar 00	4,577	4,365	212	132	64,392.8	43,478.4	67.5	7.11	6.78					104,500
Apr-Jun 00	5,011	4,494	517	321	67,000.4	50,538.7	75.4	7.48	6.71					105,900
America West														
Oct-Dec 98	507	470	37	20	10,037.2	6,491.9	64.7	5.05	4.68	4,335	1,261.2	688.1	54.6	11,687
Jan-Mar 99	520	469	51	26	10,135.4	6,485.5	64.0	5.13	4.63	4,263				
Apr-Jun 99	570	494	76	42	10,446.0	7,204.8	69.0	5.46	4.73	4,724				
Jul-Sep 99	553	511	41	22	10,522.9	7,502.8	71.3	5.26	4.86	4,896				
Oct-Dec 99	569	532	37	29	10,594.0	7,307.8	69.0	5.37	5.02	4,822				11,575
Jan-Mar 00	563	552	11	15	10,440.8	6,960.5	66.7	5.39	5.29	4,612				12,024
Apr-Jun 00	618	570	48	33	10,979.8	8,091.7	73.7	5.63	5.19	5,206				12,158
Continental														
Oct-Dec 98	1,945	1,817	128	66	30,557.4	21,273.3	69.6	6.37	5.95	10,637	3,664.5	2,339.0	63.8	41,118
Jan-Mar 99	2,056	1,896	160	84	30,938.8	22,107.0	71.5	6.65	6.13	12,174				
Apr-Jun 99	2,198	1,942	256	137	32,448.3	24,009.1	74.0	6.77	5.98	11,493				
Jul-Sep 99	2,283	2,071	21	110	34,711.0	26,380.3	76.0	6.58	5.97	11,922				
Oct-Dec 99	2,158	2,073	85	33	33,771.2	24,094.4	71.3	6.39	6.14	11,347				
Jan-Mar 00	2,277	2,223	54	14	33,710.2	24,143.0	71.6	6.75	6.59	11,201				
Apr-Jun 00	2,571	2,292	279	149	34,406.9	26,534.0	77.1	7.47	6.66	12,084				
Delta														
Oct-Dec 98	3,448	3,128	320	194	57,810.9	39,947.7	69.1	5.96	5.41	25,531	8,244.1	4,699.3	57.0	76,649
Jan-Mar 99	3,504	3,148	356	216	56,050.3	39,163.9	69.9	6.25	5.62					
Apr-Jun 99	3,957	3,315	642	364	57,957.3	43,422.1	74.9	6.83	5.72	27,438				
Jul-Sep 99	3,877	3,527	350	352	60,710.8	45,528.3	75.0	6.39	5.81	27,183		5,258.2		72,300
Oct-Dec 99	3,713	3,705	8	352	58,265.1	40,495.3	69.5	6.37	6.36	25,739				
Jan-Mar 00	3,960	3,605	355	223	57,093.8	39,404.4	69.0	6.94	6.31	25,093				72,300
Apr-Jun 00	4,439	3,863	606	460	59,753.4	46,509.8	77.8	7.48	6.46	28,333				73,800
Northwest														
Oct-Dec 98	2,212	2,404	-192	-181	37,947.0	26,534.3	69.9	5.83	6.34	12,962	6,125.2	3,588.9	58.6	50,503
Jan-Mar 99	2,281	2,295	-14	-29	37,041.3	26,271.8	70.9	6.16	6.20					
Apr-Jun 99	2,597	2,333	264	120	40,541.5	30,900.2	76.2	6.41	5.75					
Jul-Sep 99	2,843	2,472	370	180	43,194.5	33,562.1	77.7	6.58	5.73					
Oct-Dec 99	2,555	2,461	94	29	39,228.3	28,618.2	73.0	6.51	6.27					
Jan-Mar 00	2,570	2,573	-3	3	39,486.0	28,627.4	72.5	6.51	6.52					
Apr-Jun 00	2,927	2,675	252	115	42,049.6	33,523.5	79.7	6.96	6.36					
Southwest														
Oct-Dec 98	1,047	888	159	100	19,763.0	12,603.4	63.8	5.30	4.49	13,291	2,504.1	1,317.4	52.6	26,296
Jan-Mar 99	1,076	909	167	96	19,944.0	12,949.2	64.9	5.40	4.56	12,934				
Apr-Jun 99	1,220	966	254	158	20,836.9	15,241.7	73.1	5.85	4.64	14,817				
Jul-Sep 99	1,235	1,029	206	127	21,903.8	15,464.0	70.6	5.64	4.70	14,932				
Oct-Dec 99	1,204	1,050	154	94	22,360.7	15,047.8	67.3	5.38	4.70	14,818				27,653
Jan-Mar 00	1,243	1,057	155	74	22,773.8	15,210.2	66.8	5.46	4.77	14,389				27,911
Apr-Jun 00	1,461	1,146	315	191	23,724.3	17,624.9	74.3	6.16	4.83	16,501				
TWA														
Oct-Dec 98	747	813	-66	-79	13,452.4	8,731.6	64.9	5.55	6.04	5,574	1,863.7	982.8	52.7	21,321
Jan-Mar 99	764	802	-38	-22	13,352.4	9,205.2	68.9	5.72	6.01					
Apr-Jun 99	866	848	18	-6	14,274.4	11,130.9	78.0	6.07	5.94					
Jul-Sep 99	876	935	-59	-54	15,188.0	11,524.3	75.9	5.76	6.16	6,928	1,957.0	1,248.6	63.8	20,982
Oct-Dec 99	809	913	-104	-76	14,501.6	9,687.1	66.8	5.58	6.30	6,038				
Jan-Mar 00	954	939	15	-4	15,465.4	11,607.0	75.1	6.17	6.07	7,020				
Apr-Jun 00														
United														
Oct-Dec 98	4,281	4,090	191	54	70,620.9	49,484.4	70.1	6.06	5.79	21,616	10,774.4	6,182.8	57.4	94,903
Jan-Mar 99	4,160	4,014	146	78	67,994.5	46,899.8	69.0	6.12	5.90					
Apr-Jun 99	4,541	4,108	433	669	71,573.6	50,198.9	70.1	6.34	5.74					
Jul-Sep 99	4,845	4,226	619	359	74,043.0	55,628.0	75.1	6.54	5.71	23,765				96,700
Oct-Dec 99	4,480	4,286	194	129	70,715.9	49,172.2	69.5	6.34	6.06	21,536				96,600
Jan-Mar 00	4,546	4,294	252	-99	68,421.1	46,683.5	68.2	6.64	6.28	20,141				96,100
Apr-Jun 00	5,109	4,504	605	408	70,913.5	53,624.8	75.6	7.20	6.35	22,412				98,300
US Airways														
Oct-Dec 98	2,121	1,943	178	104	23,318.8	16,112.3	69.1	9.10	8.33	14,202	3,171.1	1,754.5	55.3	40,664
Jan-Mar 99	2,072	1,983	89	46	22,745.8	15,405.8	67.7	9.11	8.72					
Apr-Jun 99	2,286	2,007	279	317	23,891.7	17,557.5	73.5	9.57	8.40					
Jul-Sep 99	2,102	2,213	-111	-85	23,006.6	17,205.6	71.7	8.76	9.22	13,984				40,613
Oct-Dec 99	2,135	2,256	-121	-81	24,705.9	16,714.2	67.6	8.64	9.13	14,075				41,636
Jan-Mar 00	2,098	2,237	-139	-218	24,250.3	15,568.7	64.2	8.65	9.22	12,804				42,727
Apr-Jun 00	2,433	2,265	168	80	26,171.9	19,557.4	74.7	9.30	8.65	15,554				42,653
ANA														
Oct-Dec 98														
Jan-Mar 99														
Apr-Jun 99	SIX MONTH FIGURES													
Jul-Sep 99	4,541	4,329	212	146	44,156.0	29,032.0	65.7	10.28	9.80	21,970				
Oct-Dec 99	SIX MONTH FIGURES													
Jan-Mar 00	5,591	5,842	-251	6	49,646.9	31,844.9	64.1	11.26	11.77	27,430				
Apr-Jun 00														
Cathay Pacific														
Oct-Dec 98	1,769	1,713	56	-45	31,367.0	21,173.0	67.5	5.64	5.46		5,649.0	3,847.0	68.1	
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	1,695	1,664	31	17	28,801.0	19,325.5	67.1	5.89	5.78		5,267.0	3,581.6	68.0	
Jul-Sep 99	SIX MONTH FIGURES													
Oct-Dec 99	1,989	1,658	331	133	29,313.0	22,167.9	75.6	6.79	5.66		5,600.0			
Jan-Mar 00	SIX MONTH FIGURES													
Apr-Jun 00	2,070	1,765	305	285	29,839.0	22,588.1	75.7	6.94	5.92		5,483.0			
JAL														
Oct-Dec 98	TWELVE MONTH FIGURES													
Jan-Mar 99	14,555	14,249	305	249	123,097.8	84,092.9	68.3	11.82	11.58	35,492	18,405.3	11,890.4	64.6	
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99	TWELVE MONTH FIGURES													
Jan-Mar 00	14,665	14,254	411	181	126,282.4	88,478.5	70.1	11.61	11.29	37,247	18,856.7	12,738.0	67.6	
Apr-Jun 00														

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Airline group only.

	Group revenue	Group costs	Group operating profit	Group net profit	Total ASK	Total RPK	Load factor	Group rev. per total ASK	Group costs per total ASK	Total pax.	Total ATK	Total RTK	Load factor	Group employees
	US$m	US$m	US$m	US$m	m	m	%	Cents	Cents	000s	m	m	%	
Korean Air														
Oct-Dec 98	4,109	3,834	275	266	47,931.0	32,276.0	67.0	8.57	8.00	19,714	6,682	5,225	76.6	
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99	TWELVE MONTH FIGURES													
Oct-Dec 99	4,340	4,177	163	232	49,516.0	36,693.0	74.0	8.76	8.44	20,564	7,827	5,995	78.2	
Jan-Mar 00														
Apr-Jun 00														
Malaysian														
Oct-Dec 98	TWELVE MONTH FIGURES													
Jan-Mar 99	1,966	1,556	410	-183	45,442.3	30,592.9	67.3	4.33	4.97	13,709	6,649.0	4,030.0	60.6	
Apr-Jun 99														
Jul-Sep 99														
Oct-Dec 99	TWELVE MONTH FIGURES													
Jan-Mar 00	2,148	1,652	496	-67	48,906.0	34,930.0	71.4	4.39	3.38		7,531.5	4,853.4	64.4	
Apr-Jun 00														
Singapore														
Oct-Dec 98	SIX MONTH FIGURES													
Jan-Mar 99	2,421	2,130	291	341	41,725.5	30,843.7	74.9	5.80	5.10	6,537	7,958.5	5,540.3	69.6	
Apr-Jun 99	SIX MONTH FIGURES													
Jul-Sep 99	2,577	2,259	317	346	43,145.7	32,288.3	74.8	5.97	5.24	6,752	8,251.9	5,852.7	70.9	
Oct-Dec 99	SIX MONTH FIGURES													
Jan-Mar 00	2,459	2,203	256	439	44,582.6	33,430.1	75.0	5.51	4.94	7,030	8,665.8	6,185.7	71.4	
Apr-Jun 00														
Thai Airways														
Oct-Dec 98														
Jan-Mar 99														
Apr-Jun 99	TWELVE MONTH FIGURES													
Jul-Sep 99	2,858	2,695	163	136	51,788.0	37,642.0	72.7	5.52	5.20	16,331	7,309.0	5,097.0	69.7	
Oct-Dec 99														
Jan-Mar 00														
Apr-Jun 00														
Air France														
Oct-Dec 98	SIX MONTH FIGURES													
Jan-Mar 99	5,550	5,552	-2	56	51,394.0	38,242.0	74.4	10.80	10.80					
Apr-Jun 99	SIX MONTH FIGURES													
Jul-Sep 99	5,249	4,889	360	316	56,934.0	43,896.0	77.1	9.22	8.59	20,600				
Oct-Dec 99	SIX MONTH FIGURES													
Jan-Mar 00	4,831	4,430	401	41	55,508.0	41,650.0	75.0	8.70	7.98	19,200				
Apr-Jun 00														
Alitalia														
Oct-Dec 98	5,152	4,432	720	235	51,638.4	35,427.2	68.8	9.98	6.86	24,103			18,825	
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	2,074	2,132	-58	-14										
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00														
Apr-Jun 00														
BA														
Oct-Dec 98	3,585	3,431	154	-114	44,454.0	29,736.0	66.9	8.06	7.72	10,747	6,277.0	4,111.0	65.5	64,608
Jan-Mar 99	3,343	3,481	-138	-119	43,544.0	29,537.8	67.8	7.68	7.99	10,285	6,130.0	3,933.0	64.2	64,366
Apr-Jun 99	3,527	3,378	149	302	45,813.0	32,032.0	69.9	7.70	7.37	11,733	6,437.0	4,215.0	65.5	65,179
Jul-Sep 99	3,933	3,742	191	49	47,465.0	35,873.0	75.6	8.29	7.88	12,983	6,690.0	4,689.0	70.1	65,607
Oct-Dec 99	3,473	3,476	-3	-112	45,347.0	30,192.0	66.6	7.66	7.67	11,084	6,469.0	4,270.0	66.1	65.800
Jan-Mar 00	3,097	3,281	-184	-247	44,533.0	29,328.0	65.9	6.95	7.37	10,778	6,253.0	4,041.0	64.6	64,874
Apr-Jun 00	3,488	3,342	146	-85	44,826.0	32,295.0	72.0	7.78	7.46	11,633	6,475.0	4,407.0	68.1	61,411
Iberia														
Oct-Dec 98	4,451	4,100	351	356	45,041.6	32,520.0	72.2	9.88	9.10	21,753		3,740.0		22,065
Jan-Mar 99														
Apr-Jun 99														
Jul-Sep 99	TWELVE MONTH FIGURES													
Oct-Dec 99	3,712	3,659	53	179	50,227.6	34,606.8	68.9	7.39	7.28	21,877				
Jan-Mar 00														
Apr-Jun 00														
KLM														
Oct-Dec 98	1,673	1,661	12	-15	18,476.0	13,767.0	74.5	9.05	8.99		3,214.0	2,415.0	75.1	33,761
Jan-Mar 99	1,550	1,670	-120	-45	17,716.0	13,294.0	75.0	8.75	9.43		3,088.0	2,284.0	74.0	33,892
Apr-Jun 99	1,626	1,547	79	37	18,778.0	14,302.0	76.2	8.66	8.24		3,253.0	2,427.0	74.6	34,980
Jul-Sep 99	1,731	1,596	135	32	19,630.0	16,083.0	81.9	8.81	8.13		3,352.0	2,640.0	78.8	35,226
Oct-Dec 99	1,450	1,479	-29	-17	19,014.0	14,434.0	75.9	7.63	7.78		3,280.0	2,550.0	77.7	35,128
Jan-Mar 00	1,361	1,436	-75	-142	18,627.0	14,084.0	75.6	7.31	7.71		3,238.0	2,453.0	75.8	35,348
Apr-Jun 00	1,600	1,509	91	39	18,730.0	15,149.0	80.9	8.54	8.06		3,276.0	2,549.0	77.8	27,267
Lufthansa* **														
Oct-Dec 98	2,929	2,106	823	96	25,530.0	18,259.0	71.5	11.47	8.25	9,819	5,204.0	3,676.0	70.6	55,368
Jan-Mar 99	3,301	3,210	91	64	25,445.0	17,942.0	70.5	12.97	12.62	9,658	4,972.0	3,435.0	69.1	56,420
Apr-Jun 99	3,322	3,012	310	97	30,500.0	22,279.0	73.0	10.89	9.86	11,444	5,626.0	3,993	71.0	53,854
Jul-Sep 99	4,049	3,677	382	184	31,335.0	23,866.0	76.2	12.92	11.73	11,891	5,699.0	4,142.0	72.7	
Oct-Dec 99	3,398	2,964	434	378	29,120.0	20,313.0	69.8	11.67	10.18	10,807	5,503.0	3,930.0	71.4	66,207
Jan-Mar 00	2,831	2,742	89	11	28,599.0	19,781.0	69.2	9.90	9.59	10,355	5,422.0	3,751.0	69.2	
Apr-Jun 00	4,159	3,935	223	400	31,865.0	24,405.0	76.6	13.05	12.35	12,249	5,988.0	4,338.0	72.4	
SAS														
Oct-Dec 98	1,368	1,266	102	46*	8,116.0	5,089.0	62.7	16.86	15.60	5,431				27,071
Jan-Mar 99	1,203	1,227	-24	-3*	8,062.0	4,713.0	58.5	14.92	15.22	5,017				27,110
Apr-Jun 99	1,357	1,294	63	60*	8,466.0	5,571.0	65.8	16.03	15.28	5,580				27,706
Jul-Sep 99	1,173	1,150	23	12*	8,450.0	5,667.0	67.1	13.88	13.61	5,589				27,589
Oct-Dec 99	1,210	1,083	127	138*	8,227.0	5,210.0	63.3	14.71	13.16	5,536				
Jan-Mar 00	1,145	1,179	-34	-33*	8,253.0	4,992.0	60.5	13.87	14.24	5,314				28,060
Apr-Jun 00	1,289	1,176	113	112*	8,492.0	70.7	15.18	13.85	13.85	6,236				28,295
Swissair**														
Oct-Dec 98	2,187	2,070	117	165	20,476.8	15,391.3	75.2	10.68	10.11	5,277				10,396
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	1,932	1,877	55	57	23,411.0	16,130.0	68.9	8.25	8.02	7,784				10,715
Jul-Sep 99	SIX MONTH FIGURES													
Oct-Dec 99	2,344	2,272	72	125	21,934.0	16,839.0	76.8	10.69	10.36	6,081				
Jan-Mar 00	SIX MONTH FIGURES													
Apr-Jun 00	1,916	2,006	-90	2	26,501.0	19,240.0	72.6	7.23	7.57		3,972.8	2,719.6	68.5	

Note: Figures may not add up due to rounding. 1 ASM = 1.6093 ASK. *Pre-tax. **SAirLines' figures apart from net profit, which is SAirGroup. ***Excludes Condor from 1998 onwards. 4Q+ data are on IAS basis.

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