A VERY HAPPY AND PROSPEROUS 2001 TO ALL OUR READERS

Aviation Strategy

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GAO: no seasonal cheer for UAL/US

As the Justice Department's antitrust review of the proposed UAL/US Airways merger looked like entering the home stretch, on December 20 US General Accounting Office (GAO) released a mostly negative report on the competitive merits of the deal. What are GAO's views on the matter and how is the DoJ likely to rule?

The GAO report, titled "Issues related to the proposed United Airlines-US Airways merger", was requested by two members of Congress, James Oberstar and Louise Slaughter, and carries political weight. However, its focus was naturally much narrower than that of the DoJ investigation, which is currently anticipated to be concluded in January.

The report did not examine in detail the impact of the proposed merger on airline concentration at particular cities or effects on new market entry - subjects that the DoJ is interested in. Nor did it evaluate US Airways' long term financial viability - something that United and US Airways hope that the DoJ will give some weight to.

The GAO report, first, looked at how the merger would alter the US domestic industry using common measures of market strength. Second, it assessed effects on consumers by analysing data in specific markets. Third, it compared DC Air's plans with the service scheduled by competitors by analysing frequencies and types of aircraft operated.

GAO agreed with the view held by analysts and industry observers that the proposed merger, even with the divestiture of assets to DC Air, "would create an airline so large and with dominance in so many markets" that it would "spur further industry consolidation". That has been a major concern for politicians and federal regulators.

The deal would "significantly alter the current state of competition in the domestic airline industry". The "new United" would account for 25.6% of domestic passenger enplanements, compared to Delta's 19.3%, American's 13.5% and Southwest's 13.4%. It would take in almost $9bn more in total annual revenue than the next largest carrier - $26.6bn compared to American's $17.7bn.

GAO also pointed out that the combine would have far more impact than the previous industry deal in the works, namely Northwest acquiring control of Continental. New United would increase dominance in five times as many markets and affect nearly three times as many passengers. That was a cheeky reminder that the DoJ was determined to press on with an antitrust lawsuit over a much lesser deal, effectively forcing Northwest to sharply reduce its stake in Continental in an out-of-court settlement.

GAO concluded that the proposed merger could reduce competition in 290 of the top 5,000 US markets, in which 16m (5% of the total) passengers travelled in 1999. In 43 of those, affecting 4.1m people and including important markets like Washington to Boston and Tampa, competition would be eliminated.

In another 102 markets, affecting 5.7m passengers, the number of com-

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petitors would be reduced from three to two. The largest of those are Baltimore-Chicago, Chicago-Washington, Washington-Orlando, Baltimore-Los Angeles and Miami-Washington.

While United and US Airways already individually dominate 1,030 of the top 5,000 domestic markets, the combine would dominate another 126 of those markets, bringing the total affected passengers to 61.1m. GAO pointed out that the domination in terms of the number of markets would be 35% higher than Delta's or, in terms of affected passengers, 25% higher than Southwest's.

In 1999 the US major carriers in aggregate dominated about two-thirds of the top 5,000 domestic markets, affecting 200m passengers. Delta's domination in terms of markets was the largest (849), but the 289 markets that Southwest dominated carried more passengers (48.8m).

The merger would allow the combine to dominate nonstop travel in all hub markets. At present, the two individually already dominate 26 of 28 hub markets. The merger would lead to domination of markets connecting US Airways' Philadelphia hub with United's at Chicago and San Francisco.

GAO also warned that, in combination with the increase in the number of dominated markets, various operating and marketing barriers resulting from the merger would "make potential entry by new airlines in key markets more difficult".

Meagre benefits

The benefits listed seem rather meagre in comparison. By combining operations in markets where the two had a relatively limited presence, an effective competitor could be created in 65 markets, affecting just 2.9m passengers. Also, competition could increase in another 256 relatively small markets that accounted for less than 1m passengers. The public would gain from more nonstop and direct service and expansion of available FFP destinations.

GAO's analysis of DC Air's planned markets and service basically implied that the new entrant may not make an effective competitor, because it proposes operating fewer flights and smaller aircraft than other airlines in competitive markets. It would face direct competition in nine of the 43 planned nonstop markets out of Reagan National and indirect competition (from service at other Washington area airports) in 28 of its markets.

GAO noted DC Air's plans to emerge as a low-cost carrier offering low fares, which it considered a critical factor for enabling the new entrant to compete successfully in the markets that it hopes to inherit from US Airways. However, "because DC Air would not share its proprietary business information with us, we cannot evaluate the airline's potential to offer lower prices".

The release of the report and an accompanying statement by Congressman Oberstar provoked an angry response from US Airways. The carrier alleged that Oberstar, who represents Northwest's home base in Minneapolis, "stretched the GAO report to serve his own agenda". The company also pointed out that the report, on its own terms, failed to take into account US Airways' financial position.

In his testimony to GAO, US Airways chairman Stephen Wolf characterised the company as "the last of the mature-cost midsized carriers", most of which (Braniff, Pan Am, Eastern) have gone bankrupt and two of which (Continental and TWA) have reduced their costs through bankruptcy. High unit costs "make it increasingly difficult to achieve profitability". The percentage of routes profitable on a fully allocated basis has declined steadily since 1998, while market share in the East Coast is falling.

DoJ's demands

In line with expectations, the DoJ, in its private meetings with United and US Airways, has already asked for far more divestitures than what the airlines offered. Those are believed to involve a wider sale of assets but possibly not any of the eight hubs. If so, the key question is: will the lucrative US Airways Shuttle be involved? Sam Buttrick, analyst with UBS Warburg, believes that the focus is on market positions (gates and slots) in Boston, New York LaGuardia and Philadelphia.

Whether or not a settlement is possible will depend on the extent that the required divestitures and associated loss of revenue synergies reduce the worth of doing the deal. Buttrick suggests that prospects for the original $60 per share deal are increasingly remote, but that US Airways' management is unlikely to go below $45-$50.

Will India finally fulfill its potential?

The Vajpayee government plans to part-privatise Air India and Indian Airlines, and sell long-term leases to four gateway airports, as the first steps towards the delivery of a long standing plan to increase private investment in India's aviation sector.

A revitalised Indian airline industry - tapping a massive potential domestic market - could shift the balance of power in the region. India's domestic and international passenger markets of 12m and 6.4m passengers a year respectively are very modest for a nation with a population of over a billion.

But, first of all, investors need a predictable regulatory environment and a coherent government aviation policy. The central government unveiled an array of expansion plans and policy innovations, including the following:

• Long term airport leases;
• Enhancing non-aeronautical airport revenues;
• Disinvesting government holdings in all aviation companies, including Air India and Indian Airlines to below 50%, with the exception of the Airports Authority of India;
• Expanding the number of designated international airlines and airports;
• Establishing a new aviation regulatory body to replace Director General of Civil Aviation;
• Privatising most aviation infrastructure, including ground handling, training and support services; and
• Allowing up to 100% foreign equity in local aircraft manufacturing.

The government has confirmed plans to divest up to 60% in Air India and 51% in Indian Airlines. Advisers to the sale, JM Morgan Stanley for Air India and the ANZ Grindleys Bank consortium for Indian Airlines, are currently reviewing technical bids submitted in late November. The sale is due to be finalised in the current financial year ending March 2001. However, the government has indicated the selection of strategic partners is unlikely to occur before May 2001, due to a long list of clearance procedures to be undertaken.

The final sale price will to a large extent be determined by the value that bidders place on both carriers' bilateral rights. For example, Air India has rights to 96 international destinations - but currently only operates to 19. At present, the Indian carriers utilise just 39% of the capacity entitlements available under the country's ASAs.

However, a complicated set of restrictions have been attached to the airline privatisations (see table, page 4). The sale of Air India requires a minimum of 74% of the company to be held by Indian interests, to appease opponents to the sale within the government and the airline's powerful union groups. But management control will be offered to the strategic partner.

Foreign and domestic airlines are precluded from bidding for Indian Airlines' 26% "strategic partner" holding. Bidders must be majority owned and effectively controlled by Indian nationals and have a combined net worth in excess of Rs10billion ($210m). This rules out all but the major conglomerates such as the Tata Group, ITC, Hindujas and Reliance, which may delay the sale. By June 2001, the government plans to issue equity to employees and domestic financial institutions.

Air India

In its present condition, Air India offers investors an unattractive mix of high costs and contracting international and domestic operations.

In the latest financial year ended 31 March 2000, Air India reported its first operating profit in five years - Rs760m ($16m). The airline's net loss was reduced to Rs376m from Rs1.8bn in the previous year.

The airline's turn-around strategy is based on withdrawing unprofitable services and selling loss-making subsidiaries, including hotel arm, Hotel Corporation of India. Over the past 18 months, Air India has withdrawn services to several European points, including Frankfurt, Geneva, Manchester, Rome and Paris. The airline's network has been cut by 40% since 1992-93, its last profitable year.

This analysis was researched and written by By Derek Sabudin and Peter Harbison of the Australian-based **Centre for Asia Pacific Aviation**

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EQUITY SHARES POST-PRIVATISATION

Air India	
Government	40%
Foreign strategic partner*	26%
Local strategic partner	14%
Employees	10%
Domestic investors	10%
Total	**100%**
Indian Airlines	
Government	49%
Strategic partner	26%
Domestic investors & employees**	25%
Total	**100%**

Note: *Includes foreign airline.
**Excludes foreign & domestic airlines.

Air India has consequently switched focus on to short-haul international services. It recently announced plans to dry lease five A310s to expand its services to the Gulf region - where traffic volume is strong but yields are low, due to the migrant worker nature of the traffic and extensive competition.

Air India is developing a network of codeshare and blockspace partnerships with Virgin Atlantic, SIA, SAS, Air France, etc.. The airline claims Rs630m ($13m) of benefits from these agreements in 1999/2000, rising to Rs940m in 2000/01, roughly 2% of total revenues.

Air India currently has 17,500 staff - or 760 per aircraft - which is more than three times the industry average. The airline's latest Voluntary Retirement Scheme, which aims at reducing the workforce by 1,000, is currently before the government for approval. But domestic labour laws do not permit the airline to outsource non-core activities, which would otherwise enable the airline to reduce its staff numbers by a further 6,000.

Air India has suffered years of government delays to the carrier's much needed fleet renewal programme. For example, the Disinvestment Commission, in an August 1998 report, recommended fresh government investment of Rs10bn ($220m) to assist Air India renew its fleet prior to privatisation. This did not happen. Air India operates 26 aircraft, including seven ageing 747-200s and eight A310-300s. One third of its fleet is over 20 years old and approaching retirement age.

Indian Airlines

The state-owned domestic operator also has high costs, but is performing better financially than Air India. The airline reported a Rs790m ($17m) net profit in the year ended March 2000, a marked improvement on the previous year. However, rising fuel costs and increased competition domestically and on its Gulf routes are impacting on the airline's bottom line in the current financial year. Indian Airlines reportedly suffered a loss of Rs1.1bn in the six months to end-September.

Indian Airlines recently approved a new voluntary retirement scheme, which aims to reduce its 22,000 strong workforce by up to 9,000 employees.

Indian Airlines has been constrained by delays to its fleet renewal programme, which involves the acquisition of up to 40 mid-sized jet aircraft. In May 1999, the Government announced plans to invest Rs3.3bn in new aircraft prior to the airline's privatisation. The funds have not been forthcoming.

The airline has been progressively granted international rights, and now accounts for 10% of India's international market, operating to 16 international points in the Middle East and Southeast Asia.

Traffic fundamentals

International traffic growth has been weak - 3.2% in 1999 to 6.4m passengers, slightly up on this figure in the early months of 2000. The sluggish growth is largely a supply problem attributable to Air India's lack of capacity growth, service reductions and limits on foreign capacity due to India's previously restrictive bilateral regime.

In the past 12 months, however, India's more relaxed stance towards its bilateral arrangements has stimulated traffic growth somewhat. Bilateral negotiations with 16 countries, notably the UK and the UAE, have been concluded. The government has also agreed to future discussions with the US on an open skies agreement, although it may be some time in the future an agreement on that issue is reached.

Unfortunately, the new agreements have also increased competition for India's carriers, reducing their ability to cover rising costs. Fuel price increases are set to punish both state carriers and private airlines indiscriminately in the current financial year, due partly to a government ban on fuel price hedging.

Until this year, domestic passenger traffic growth has languished well behind India's GDP growth. However, following four years of static volumes, India's domestic market recorded 15% year-on-year growth in the first half of 2000, to 8.1m passengers. The growth is attributed to recent strong economic conditions and relative stability in the airline market.

Air India currently serves only 11 domestic cities and holds just over 5% of the Indian domestic market, making it necessary for any foreign partner either to expand in its own right, or to find another domestic partner.

Indian Airlines, meanwhile, has over 50% of the domestic market and operates to 59 domestic destinations, but has lost market share to private operators, Sahara Airlines and Jet Airways in the past two years. Jet is targeting a domestic market share of 38% this year from its route network of 30 destinations. Sahara Airlines, recently relaunched as Air Sahara, operates to 14 domestic destinations from its hubs at Calcutta, Delhi and Mumbai.

Up to four other airlines plan to launch domestic operations in the next 12 months, the most significant being Royal Airlines and Crown Express. Royal is a resurrected version of Modiluft, which will fly five 737s, subject to government approval. Crown plans to start up with six 737-400s.

The investors’ strategic aims

SIA has confirmed that it will bid for the Air India equity with longstanding local partner, Tata Group. As recently as mid-September, Star partner, Lufthansa stated it too was looking closely at the holding and earlier suggested it would jointly bid with SIA for the 26% equity on offer. However, SIA, fresh from its 25% investment in Air New Zealand/Ansett, has asserted its dominant Asian position within Star to bid for the Air India holding in its own right. Virgin Atlantic, 49% owned by SIA, has also been persuaded not to bid. The consolation for Lufthansa is its apparently exclusive run at a share in Thai, with SIA not now a bidder.

If both carriers are successful in their respective bids, it would be difficult to see them working side by side in the Star alliance in the longer term, given the competitive tensions which would arise.

A successful bid for Air India by SIA will enhance further its global ambitions. Its associate Virgin Atlantic is an established force on the North Atlantic; SIA has established a supporting "domestic" market through its acquisition of Air New Zealand/Ansett. Gaining direct access to India - long a goal - will provide helpful negotiating power to complement its powerful financial position. The next step could be a close, probably equity, link with a major US airline.

SIA's main competition comes from a joint bid by Air France and its Skyteam partner, Delta. Skyteam is seeking to expand in Asia and Air India would provide a platform for its expansion plans. Recently established codeshare links illustrate the respective value each sees in the other.

The Skyteam combination began as an outsider in India, but clearly has strong credentials, particularly with the attraction of access to Europe through the CDG hub. Acquiring a position in Air India would be a boost to the alliance's global role. Although Korean Air has been brought into the partnership, Skyteam's Asian presence is yet to be fulfilled. An Indian role would be a major step in that direction for the alliance, and would also change the competitive relationship with the Star Alliance.

Meanwhile, BA is offering technical expertise along with Qantas, but not equity, to the LNM Group/Kotak Mahindra consortium. BA has indicated it may acquire equity in the airline at a later date if the bid is successful, in return for providing technical expertise.

Oneworld has been sending out mixed signals in recent months. In the Asia/Pacific region, Qantas and Cathay Pacific can really only be temporary bedfellows, given their mutually exclusive interests, so rearrangement of some sort is probable, most likely in 2001.

Emirates in conjunction with local conglomerates, Hindujas and LNM Group, are also in contention, but it would appear to be more attractive for India to see its major airlines linked to one or other major global alliance.

Despite its unaligned status, the Emirates consortium, with its association with strong local forces and the relative additional strength which Air India would have in a relationship with Emirates, could well make it a force to be reckoned with.

BA in 2001

If the feared recession in the US spreads to the UK economy, an acceleration of BA's intra-European downsizing strategy can be expected. Firstly, a deterioration in economic conditions generally makes travellers more price-sensitive and hence more likely to switch to the low-cost competition.

Secondly, because the UK economy is out of sync with the main continental economies, Air France and Lufthansa may well be able to continue their rapid traffic growth in the process keeping their unit costs well under control and further eroding BA's once dominant position.

The most visible sign of BA's European downsizing strategy is its decision to sell off Go. BA is unlikely to dispose of the airline to a major rival so KLM/Buzz would probably be ruled out. Ryanair, the main low-cost carrier at Go's Stansted base, has stated that it isn't interested. That leaves in terms of airlines BA's oneworld partner Iberia. Iberia's interest in Go is twofold. It sees a Go purchase as a possible means of controlling low-cost scheduled competition to Spain (Go has won important market shares on routes to Spain's secondary points). There is also the possibility of integrating Go with its other potential purchase, Air Europa. The commercial logic behind Iberia's interest is, it must be admitted, a little strained.

2001 will certainly see a reconcentration on developing coherent long haul alliance strategies with Qantas and American. A relaunch of oneworld is a distinct possibility. But this time round BA and American will have properly prepared the ground by pre-negotiations on the regulatory implications of its alliance structures with all the relevant government bodies.

Review: *The airline business in the 21st century*

When Rigas Doganis published his standard textbook, "Flying off course; The Economics of International Airlines", in 1991, the European airline world as a very different place. Still extensively regulated, the state protection of flag-carriers was still largely accepted, the future for scheduled low-cost carriers seen as marginal at best, liberalisation was viewed as an inevitable but controllable regulatory change. In Doganis's new book, published in November, he describes a radically changed aviation environment, one in which deregulation is the norm, markets are inherently unstable, and globalisation is the driving force for change.

"The airline business in the 21st century" is much more than a textbook, it is an important analysis of the key strategic issues facing the industry - the movement beyond open skies to true global markets through the erosion of nationality rules; the future of alliances; the low-cost revolution; the implications of e-commerce; and new airline business models.

Doganis succeeds in pulling together disparate underlying economic and regulatory trends to explain the recent evolution of the industry. There are also many pragmatic observations - to take one example, that managers at smaller carriers sometimes push their companies into alliances in order to be seen to be taking action, even if it is not necessarily the right action.

This is a very balanced work. The merits are demerits of different airline models - virtual versus total aviation, for instance - are coolly appraised. Low-cost carriers are assessed individually rather than in generic terms. So when a bold assertion is made - that the airline business will consolidate into six to eight very large, albeit unstable, transnational airlines once ownership barriers are removed - it seems oddly out of place. A possible outcome, of course, but it has not just been regulatory opposition that has prevented the further, widely predicted, consolidation of the US industry. Nor is it clear that drawing parallels between a service business like airlines and the oil industry is entirely justifiable.

Overall though, this is an essential read for those interested in the economic and strategic direction of the global airline business.

"The airline business in the 21st century" by Rigas Doganis, Nov 2000, £60 hardback, £19.99 paperback, Routledge publishers,
Tele: +44(0)8700 768853
Email: book.orders@routledge.co.uk

Russian airlines: the first alliance and other developments

As expected, Russian traffic continued to decline in 1999, by about 4% to 21.4m. More alarmingly, the decline accelerated in 2000 - traffic was down by 8% in the first half of the year. This was despite an improvement in the country's economy due to higher oil revenues.

However, some airlines, notably Aeroflot, Transaero and Sibir, are now waking up to the need for change. Words like "alliance" and "partnership" are coming into use, not necessarily in their accepted Western senses, but in ways relevant to the particular problems of Russia.

August 2000 saw yet another change in the country's reulatory body, the sixth since the Soviet Union ended in December 1991. Now termed the "State Service of Civil Aviation" (GSGA, to use its Russian initials), it has been amalgamated back into the Ministry of Transport. It is not yet clear what effect this may have on its budgets for safety oversight.

Government plans to set a legal basis for aviation leasing, and long- promised budgetary support for a lease industry, have not yet been realised. The matter is still before the national parliament (the Duma). Funding has been promised, but not enacted, for a lessor called "Ilyushin Finance" to purchase seven long-range Il-96-300s (for lease to Aeroflot) and ten Tu-204/214s (for lease to Transaero and its partners).

This reform is now critical. In the very difficult financial climate of the cvountry, only five new airliners were delivered in 1999, and six in 2000. Fleets are now beginning to shrink, with few airlines having enough money to pay for major overhauls, and their aircraft consequently been withdrawn and scrapped. About 20% of the current fleet of passenger aircraft are grounded awaiting overhaul.

As of December 2000, there were 321 registered airlines in Russia, with 115 of these licensed to carry passengers (the others are mainly cargo and aerial work companies). The top 10 airlines carried some 52% of the 1999 passengers, and the top 45 carried just over 92%. A few are growing; most are just holding on.

The Russian government continues to ensure that taxes owed by airlines are extracted with maximum force, and state debts to airlines are delayed as long as possible, often for three or four years. There is no right of offset.

Two Ukrainian airlines are included for the first time in this report. In the nine years since the end of the Soviet Union, traffic in the country has collapsed from 15m passengers annually to just 1.25m in 1999. The country's economy has been in steady decline throughout the 1990s, but a growth of some 5% is expected for 2000.

Ukrainian government policy on air transport has been indecisive, and continually changing. The national airline, Air Ukraine, has been divided and divided again, and now most cities of the country have their own part of the carrier. Unfortunately, each break-up has resulted in the Kiev-based section retaining the debts of the latest breakaway units, with the result that Air Ukraine is in a very difficult situation today.

Aeroflot - Russian Airlines

The country's national carrier changed its title by dropping "International" in June, to reflect its focus on domestic services. . In 1999, it carried a total of 4.6m passengers or some 22% of the country's total, an increase of 4% on 1998. International volumes were down from 3.7m to 3.4m, while domesttic traffic grew from 0.7m to nearly 1.2m.

Aeroflot recorded an operating loss by Western accounting standards, and engaged McKinsey & Co. to review its strategy. The result was a route-by-route analysis and a resultant reduction in the numbers of destinations it serves. An improvement of $100m-plus is targetted for 2001.

The airline's management has expressed considerable concern about its facilities at Moscow's major airport, Sheremetyevo, and is working with the local regional government to build a new terminal to cater for the airline and its partners.

By Paul Duffy

Aeroflot hopes to join the Delta/Air France SkyTeam alliance by 2003, and has developed partnerships with several Russian domestic airlines to feed its international services from Moscow. It is expected to announce an order for up to 30 A320/319s to replace its Tu-154s on European, Middle East and domestic services. The Il-96T remains undelivered, and Aeroflot has expressed concern and disappointment at the continuing delays, and threatened to go for additional DC-10-30Fs if the matter is not speedily resolved.

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Pulkovo Aviation Enterprise

The St. Petersburg-based airline carried 1.5m passengers in 1999, an 8% increase on 1998, and rose to second place on Russia's airline list. Like Aeroflot, the growth was domestic, as international traffic fell by from 0.7m to 0.6m. It has continued its policy of improving Soviet equipment by, for example, refurbishing aircraft interiors and revamping St. Petersburg airport. It has also begun cooperating more closely with Aeroflot.

Early in 2000, it was asked by the regional government of Murmansk to take over Murmansk Avia. This carrier had achieved the highest losses of any Russian airline in 1998, mainly due to expenditure on inproving two airports in its region, and was technically bankrupt. Its fleet included four relatively new Tu-154Ms.

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Vnukovo Airlines

The airline's prediction in late 1999 that it would carry 1.3m passengers in the year turned out to be wildly optimistic: the total came to just over 0.9m. When Alexander Krasnenker took on the CEO position in Setember 1999, the once major domestic airline in Russia was carrying just 600 passengers per day. He set about an intensive campaign to restore staff morale and passenger confidence, and by June 2000, traffic had grown ten fold, with an average of over 6,000 daily. He then resigned in September, with no public explanation, and the airline was soon back in crisis.

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Kras Air

New management, brought in at the end of 1998, succeeded in boosting business - traffic grew by 28% in 1999 to just under 0.8m - and building partnerships to control costs. CEO Boris Abramovich has also concentrated on restructuring the fleet. Early in 2000, he added the first medium-range Tu-134s, a 72-seat aircraft suitable for the off-peak seasons, and also available for executive charters. At last, Kras Air has taken delivery of a new Tu-204, and the airline has joined a partnership with Transaero to acquire, operate, maintain and train crews and technical staff on the type. It is also looking at some smaller western aircraft, although no decisions have yet been taken.

Kras is code sharing with Transaero on the Moscow-Krasnoyarsk route, and has recently become a founder member of the as yet unnamed "first Russian aviation alliance". This is a group of four airlines working to rationalise schedules and connections, and to market their flights jointly. They will also permit members to utilise each other's aircraft in certain circumstances, and they will attempt to rationalise spares and maintenance facilities.

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Sibir

This airline continues to improve its reputation. 1999 saw passenger traffic grow by 20% to over 0.7m, and a $2m after-tax profit on revenues of $106m was reported. Healthy traffic has also been evident this year.

Two notable firsts were achieved in 2000. Sibir became the first Russian airline to enter a comprehensive interline agreement with a major international carrier, agreeing with Lufthansa to jointly market the other's services and to interline passengers at Frankfurt and other German airports. Equally important, it became the first Russian airline to secure funding for a new generation aircraft from a Russian bank. Other airlines had obtained two or three million dollars for older aircraft, but the $16.8m advance from Sberbank for the purchase of a two year old Tu-204 marked a new stage in financing Russian aircraft. Sibir bought the aircraft from a lease company, and the deal requires the lessor to use the funds to complete two other Tu-204s currently on the production line and to lease them to Sibir.

The airline has continued to improve its interiors and maintenance facilities, and is close to announcing further major developments.

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Transaero

Of all the Russian airlines, Transaero took the hardest hit following the Rouble collapse in 1998, as most of its costs were in hard currency. But it has responded well, completely restructuring its operations. In 1999, it carried under 0.6m passengers, a drop of 58% on 1998 levels. But it was able to its first-ever operating profit and a marginal net profit.

Transaero has focused on reducing costs by entering partnerships with other airlines. Apart from the Kras Air codeshare mentioned above, it has agreed to take 10 Tu-204/214s on lease from the new Russian aviation lessor, Ilyushin Finance. These will be shared between Transaero and three partner airlines, including Kras Air, Air Kazakhstan and Air Moldova. Ural Airlines may also join the group.

In November 2000, it took delivery of a leased A310 in order to begin to serve its long-range routes again. This will be used on routes to western Europe and Israel, and a second will be added in time for the 2001 summer season.

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Domodedovo Airlines

Domodedovo's management has taken several steps to turning the airline's decline. They have improved marketing, and opened the route to Macau. At the end of 2000, they instigated the "first Russian Aviation Alliance", linking Kras Air, ChelAl (Chelyabinsk Airlines) and Aviaexpresskruiz together to develop their marketing and schedules at Domodedovo Airport, and for fleet rationalisation. Together, the four airlines have 97 aircraft of 12 types, and carried 1.3m passengers in the first nine months of 2000. Alexander Akimov, the CEO, expects the alliance to add value and revenue to each of the members, and he anticipates that more airlines operating onto the newly rebuilt airport will join.

In 1999, the airline carried 0.55m passengers, a 14% increase on 1998.

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Kolavia - Kogalym Airlines

In 1999, Kolavia saw its traffic fall for the first time in its history due to a severe reduction in its holiday flights following the Rouble collapse. It carried just under 0.5m passengers, 11% down on its 1998 loads.

With its major customer, the oil industry, switching its western Siberia base to Surgut, some 300km from Kogalym, the airline relocated its main base to the new oil capital.

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Tyumenaviatrans (TAT)

Although TAT actually came tenth on the 1999 list, some recent developments make it newsworthy (the one ahead of it was Ural Airlines, with 0.48m passengers). TAT's traffic fell by 1.5%, in 1999 to 0.47m, turning in a figure of 474,300/. But early in 2000, its management changed, and the results were soon evident. The first nine months saw traffic increase by 56% and revenues by 66% allowing the airline to claim the fourth position in Russia for the period.

TAT was originally the aerial work section of Aeroflot's Tyumen region, and it retains a very large helicopter fleet. It added some Tu-154Ms bought new from the factory, and held onto some regional turboprops and Yak 40s. With these, it began to build its own passenger services, and quickly outpaced the other Tyumen-based passenger carrier.

Its helicopter fleet principally serves the oil industry in western Siberia, and it has also moved its headquarters to Surgut (as has Kolavia) at the time the oil and gas industries made the move. Two major contracts with the United Nations (one in East Timor, the other in Sierra Leone) have added some $22m revenues to this years results, and TAT has now opened an office in New York to seek further UN work.

TAT has secured increased capital through the issue of ADRs (American Depository Receipts), traded on the Berlin and New York stock exchanges.

Chief Executive: Andrei Martirosov
Tel/ Fax: (3462) 280057, (3462) 280116
Address: 624600 Tyumen Region, Surgut Airport

Volga Dnepr Airlines

Russia's largest cargo operator, Volga Dnepr specialises in the outsize cargo market. It operates world-wide, in partnership with the British company, Heavylift Cargo Airlines. Founded in 1990, Volga Dnepr has been consistently profitable since then. Unusually for a Russian company, it has invested its profits in improving the engineering and operational characteristics of it fleet, mainly the Antonov An-124, the world's largest production aircraft. Customers include Boeing and Lockheed Martin. It now holds over 50% of the world market for outsize cargo work, and has recently added its tenth 124 to its fleet.

On revenues of $120m for 1999, it achieved a net profit of $6m.

Chief Executive: Alexei I. Isaikin
Tel/ Fax: (8422) 202671, (8422) 204997
Address: 432062 Ulyanovsk, Karbyshev Street, 14

FLEET SUMMARY

	Soviet pax.	Soviet freighter	Western	Total
Aeroflot	64	11	28	103
Pulkovo	44	0	0	44
Vnukovo	45	3	0	48
KrasAir	39	14	0	53
Sibir	32	0	0	32
Transaero	1	0	8	9
Domodedovo	18	4	0	22
Kolavia	11	0	0	11
TyumenAT	37	2	0	39
Volga Dnepr	4	2	0	6
Aerosvit	0	0	4	4
UIA	0	0	5	5

Aerosvit

"Air World" in Ukrainian, Aerosvit was founded in 1994, flying mainly charter services at first. It began operations with 737s later, but was almost destroyed when a Yak 42, chartered from a section of Air Ukraine, crashed in Greece. Although not flown by Aerosvit, the airline has been involved in a running battle with the Greek authorities. A detailed inspection of the airline by the Greek aviation authority found it to be well run, and operating standards to be high, but the problem is not yet resolved.

After the accident, a new management team was brought in. Led by Gregori Gurtovoi, the founding commercial director of Russia's Transaero, the team swung the company around, and today it is the leader in terms of passenger volumes in the Ukraine.

In 2000, the airline carried just under 250,000 passengers and earned revenues of $42m. A small net profit (under $100,000) was achieved.

Chief Executive: Gregory A. Gurtovoi
Tel/ Fax: (38 044) 235 8710, (38 044) 246 5184
Address: 58A, T. Shevchenka Bulvard, Kiev 01032, Ukraine

Ukraine International Airlines (UIA)

Founded in 1992 as a partnership between the Ukraine government and the (then) mega-lessor GPA, UIA was planned to bring western airline standards to the Ukrainian market. This it has succeeded in doing, and its success can be measured by the fact it now has four western investors - Debis Finance, Swissair, Austrian , and, from December 2000, the EBRD (European Bank of Reconstruction and Development). It also code shares with KLM, and is expected to do the same with TWA shortly.

In 1999, it carried 0.2m passengers and achieved revenues of $55m; 2000 results are predicted to be 0.24m passengers and $59m revenues, and a small net profit. It was the first airline in the former Soviet Union to earn JAR145 (European aircraft maintenance) approval.

Chief Executive: Vadim Potiomski
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Continental: cashing in on the positives

Continental enters 2001 with one unique advantage over its competitors - no union contracts coming up for renewal this year. The company expects to complete a $450m share buyback from Northwest on or soon after January 22, which will give it freedom from the influence of a major shareholder for the first time in eight years. How will Continental cash in on these positives?

Since emerging from its second Chapter 11 visit in April 1993 and staging an impressive financial turnaround in 1995, Continental has achieved its target of a 10% operating margin every year. The profits have not been the industry's highest, but they have been remarkably consistent in light of rapid international growth and a process of bringing wages to industry standards.

The results for the latest period - an operating profit of $254m (up 26%) and a net profit of $135m (up 30%) for the quarter ended September 30 - represented 9.7% and 5.1% margins - among the industry's best in a very challenging operating environment.

One of the most impressive things about Continental has been its ability to grow rapidly without adverse impact on the bottom line. In 1997-1999 its capacity surged by around 10% annually as it started building its "underdeveloped" hubs at Houston, Newark and Cleveland, which had spare capacity and a large potential local traffic base.

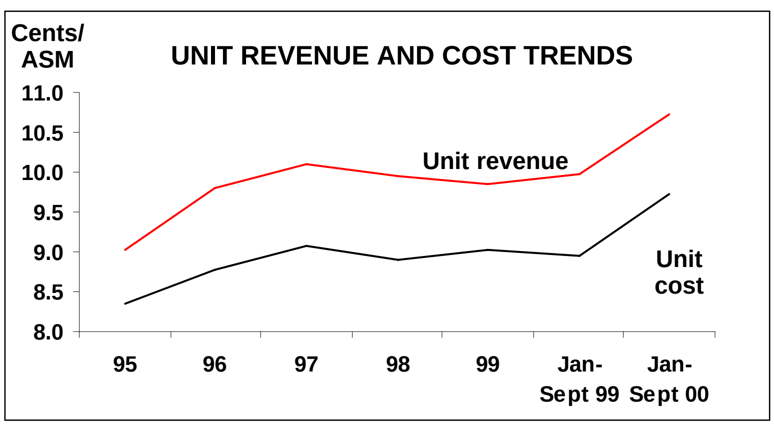
However, growth slowed down progressively in 2000 to average a little over 5%. This year's is expected to be around 4.8% - or 3.2% if the impact of a new Hong Kong route is excluded. The lower rates in part reflect earlier-than-planned DC-10 retirements, though pressure on operating margins must have been a factor. The company has repeatedly assured the investment community that growth would continue only if the 10% operating margin can be maintained.

Another unique aspect about Continental is its continuously improving business mix - something that helped compensate for the adverse effects of rapid expansion. The business traveller content of its total traffic has risen steadily, from 37% of domestic passenger revenues in 1995 to 46.2% at present. The ultimate target is 55-60%, leaving another $100m or so upside potential.

This trend manifests itself in large increases in average fares - for example, in the September quarter, Continental's average fare rose by 8.8% despite a 77.5% load factor. Unit revenue growth was the industry's second highest at 11%.

The rise in the business traffic content has reflected excellent customer service and continued high on-time performance and flight completion rankings. The fact that Continental led the industry by a large margin in on-time performance last summer could only be attributed to its stable labor relations.

Unit costs have been kept in check despite considerable wage pressure. This has resulted from fleet renewal, non-value added cost reductions, productivity improvements and - like the rest of the industry - significant distribution cost savings. Internet sales accounted for 7% of passenger revenues in the September quarter and continue to grow rapidly. Distribution costs are expected to decline from the current 14.5%



of revenues to 7-10% by 2005, the aim being simply to keep up with the industry trend.

Total unit costs rose by 9.3% in the latest quarter, or by 2.5% if fuel is excluded - both pretty much in line with the industry trend. Cost per ASM were 9.65 cents - considerably below United's and American's but higher than Northwest's and Delta's. However, in light of the expensive labour disruptions experienced or now brewing at all of those carriers, Continental, with its stable labour situation, is much better positioned financially for the coming year than the other large network carriers.

The company benefits from a management team that is regarded as the best in the US airline industry. Gordon Bethune, the current chairman and CEO, has been named one of the 50 best CEOs in America for two years running by Worth magazine's survey of Wall Street analysts. His right-hand man Greg Brenneman, president and COO, has been a highly sought-after candidate for CEO position at large US corporations. CFO Larry Kellner has won "CFO Excellence Award" for three years running.

Highly leveraged balance sheet

Continental has what stockmarket analysts describe as an "aggressive" financial policy - a reference to its high level of debt and continued substantial share repurchases. Because of that, its credit ratings are lower than AMR's, UAL's and Delta's. However, despite continued heavy capital spending, there are no real concerns about the situation.

Long term debt and capital leases rose from $2.2bn in 1995 to $3.9bn at the end of September 2000, giving Continental a relatively high mid-80s debt-to-capital ratio. This has been the result of substantial fleet renewal, as well as aggressive share repurchasing, which has left less cash available to prepay debt. Nevertheless, the company insists that it has a "balanced" strategy, having prepaid about the same amount of debt as was used for share repurchases last year. It has also generally exceeded its cash target of $1bn - at the end of September cash reserves were $1.16bn.

Unlike its competitors, Continental continued extensive share repurchasing last year. By mid-October it had repurchased $1.19bn of stock under a programme authorised in 1998, with another $260m remaining. The policy is to repurchase amounts equal to half of its adjusted net income, all net proceeds from the sale of non-strategic assets and (since September) all cash proceeds to the company from employee equity incentive plans.

None of that, of course, has had much impact on the share price; rather, it has helped constrain potential upgrades in credit ratings. However, the resulting decline in Continental's share count (also impacted by the share repurchase from Northwest) will mean strong growth in per-share earnings in both 2000 and 2001.

The current consensus estimates are a net profit, excluding special items, of $5.64 per share in 2000 and $6.65 in 2001, which would represent 15% and 18% annual increases. The actual earnings are expected to be flat for 2000 and decline this year (depending on fuel prices and the extent of the economic and business travel slowdown).

Continental's general share repurchasing will now slow down because of the $450m buyback from Northwest, which is being partially funded through new debt, and because of another $1bn of aircraft financings completed in recent months.

Fleet renewal and simplification

The company is in the process of rationalising and modernising its fleet, which in 1998 included nine different aircraft types covering virtually the full range of jets offered by Boeing. The number of types has now been reduced to six and is planned to go down to just four by 2003. Average fleet age has already declined from 13.4 years in 1994 to 8.5 years at the end of 1999.

This process is obviously leading to substantial cost savings. Continental, which is very poorly hedged for fuel this year (like much of the rest of the industry), is "putting a long term fuel hedge in the fleet", as Larry Kellner recently expressed it.

The plan has much flexibility built in to allow Continental to regularly review the growth rate, based on profit margins. Currently the expectation is that the fleet will grow from 371 at year-end 2000 to 415 by the end of 2002, though anywhere between 370 and 437 is permissible in the plan.

In two years' time, 70% of the fleet is expected to be common-rated 737s (300, 500, 700, 800 and 900 series). There are 15 737-900s on order for delivery from May. Continental also recently ordered 15 757-300s, mainly for domestic service to supplement its 41-strong 757-200 fleet. The last of the 65 MD-80s currently in the fleet will retire in 2005.

The 777, introduced two years ago, is utilised in the key Asian nonstop markets and on some transatlantic sectors previously served with the DC-10-30. Deliveries of the 767-200ER and 767-400ER, which began in 2000, will enable the DC-10 retirement process to be completed in 2003.

Regional subsidiary Continental Express is expanding rapidly and moving towards an all-jet fleet over the next few years. It launched the 50-seat ERJ-145 in 1997 and the 137-seat ERJ-135 in 1999.

CONTINENTAL'S FLEET PLANS

	In operation	On order	Remarks
737-300	65		
737-500	66		
737-700	36	20	Delivery 2001-02
737-800	58		
757-200	41		
767-200ER	3		
767-400ER	4	30	Delivery 2001-03
777-200	16		
DC-10-30	17		All to be sold
MD-80	65		45 to be sold
Total	**371**		

Source: *ACAS*

Stable labour situation

Continental continues to enjoy excellent labour relations, in part because of the ongoing process or restoring wages to industry standards. In June 1998 it essentially gave in on economic issues in difficult contract talks with the pilots. It also pays generous amounts in profit sharing and takes care to treat unionised and non-unionised employees equally. As a result, it has avoided further unionisation (still around 40%).

Not having any contracts amendable in 2001 is an enormous advantage in light of the contentious negotiations and associated labour disruptions many other US carriers currently have to deal with. The next contract to come up for renewal is one with the mechanics (IBT) in January 2002, followed by the pilots (IACP) in October 2002, dispatchers (TWU) in October 2003 and flight attendants (IAM) in October 2004.

That said, Continental's management has agreed to open the pilot contract talks nine months earlier than planned - a full 12 months before the due date. IACP wanted an early start to make absolutely sure that a deal could be secured by October 2002 that matches or exceeds the large rises recently granted to United's pilots and promised to Delta's.

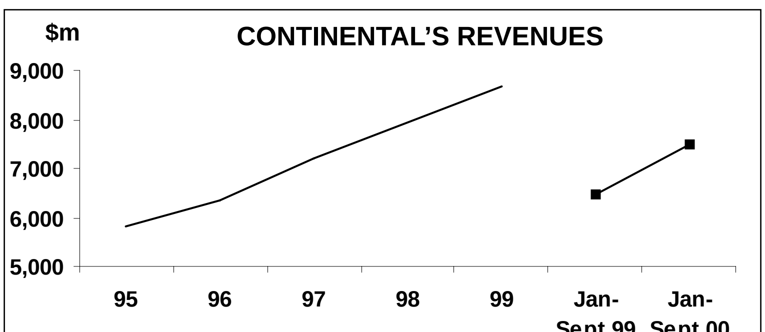
Getting the process and the timeline sorted out early was obviously a good idea. Since the initial months will only see an exchange of proposals and the proper talks will not start until January 2002, there should be time to complete the mechanics talks.

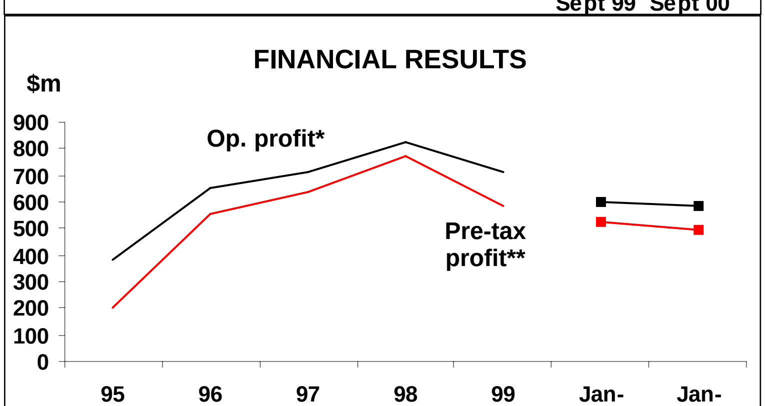
The pilots have claimed that they are still substantially behind the rest of the industry in pay and benefits and that by October 2002 their pay will be as much as 62% below the industry's top levels. They will seek to fully close the gap and will be in a better position to do so following the recent signing of a merger agreement between the boards of IACP and ALPA, which will be voted on by the pilots in March or April. While closing that gap will be a small price to pay if it means avoiding expensive work disruptions, a substantial hike in labour costs will obviously be the toughest issue facing Continental in the long term. However, it is not alone in facing that issue and, thanks to its good labour relations, may be able to maintain a productivity advantage.

Impact of the Northwest share buyback

Continental is in the process of buying back most of the Class A shares Northwest acquired from Air Partners in 1998. The earlier deal gave Northwest a board seat, 59.6% of the voting power (limited for an initial 10-year period) and rights to take full control of Continental in 2008 (with some of the limitations expiring in 2004). The two signed a definitive agreement on the repurchase in mid-November and the deal was subsequently approved by their boards.

The buyback and a subsequent recapitalisation will still have to be approved by Continental's shareholders (January 22), but this will be a mere formality because Northwest holds majority voting power and is contractually committed to vote for the deal. Barring any delays in completing the paperwork, the transactions are expected to close by early February.





*Notes: * Excludes losses on fleet retirements*
*** Excludes special charges & gains*

Despite some criticism that the deal is not good for other Continental shareholders, it is generally thought to represent a fair and reasonable compromise on a contentious governance issue. Northwest will receive $450m in cash, fully recovering its investment plus interest (Continental is paying a 29% premium over the previous day's share price - virtually the same that Northwest paid).

The immediate benefit was to avert a prolonged court battle with the Justice Department, which could have had adverse effects on Continental's highly profitable commercial alliance with Northwest. The DoJ has promised to drop the antitrust lawsuit against the airlines once the restructuring, which will reduce Northwest's voting stake in Continental to 7%, is completed.

Significantly, the deal made it possible to extend the alliance by ten years to 2025. Now the two carriers can focus all attention on their commercial cooperation, which is expected to generate around $225m in pre-tax profits to Continental this year.

The deal will remove much of the uncertainty regarding Continental's independence and future, which the company says has hurt morale. Continental had been keen to buy back the stake for at least a year. Now, for the first time since it emerged from Chapter 11 in April 1993, it will have no major shareholder whose interests might clash with those of its own. Resolving this issue "increases the likelihood that our very successful management team will remain in place", the company said in an SEC filing.

It is worth bearing in mind the highly positive effects of a similar situation a few years ago, when Northwest repurchased a stake held by KLM. Severing the equity link rescued the two carriers' relationship and enabled them to extend and further develop their successful transatlantic alliance.

Just about the only possible concern about the deal is that Northwest will retain veto powers over any merger or change of control transaction involving Continental and another major carrier. It will be issued one share of a special series of B preferred stock for $100 for that purpose.

However, the deal does have provisions to ensure that Continental will have flexibility to respond if there is a new consolidation phase in the US industry. Northwest will lose the veto powers the minute it signs a merger deal (or any kind of transaction that involves buying or selling 25% or more of capital stock or voting power) with another major carrier. Also, there are new provisions in the alliance agreement allowing termination with six months' notice in the event of a change of control at either carrier.

Consequently, the blocking rights should not impede Continental's progress. The Northwest alliance will give it most of the network benefits of mergers without the risk of expensive labour disruptions. And, since the veto powers only apply to airline mergers, the company will be able to consider any good offers from investor groups.

It could have been much worse. According to the SEC filing, the issue was apparently one of the main sticking points in the negotiations that lasted almost 12 months. Northwest had wanted blocking rights on a broad range of corporate transactions, as well as a "liquidated damages provision". This was not because it wanted to ever control Continental but because it feared making a long-term commitment to an alliance that, like the AMR-US Airways relationship, would unravel if someone else acquires Continental.

The recapitalisation, which will involve reclassifying each Class A share (carrying ten votes each) into 1.32 Class B shares (one vote), will abolish the two-tier voting structure - one of the most visible reminders of Continental's Chapter 11 past.

Strong market position

The codeshare/FFP alliance between Northwest and Continental creates a combined domestic network approaching those of the top three - American, United and Delta. In Continental's words, it has "rounded out" a network that was already strong thanks to rapid growth at the hubs. Continental is the primary carrier at each of its four main hubs, accounting for 77% and 55% of average daily jet departures (including RJs) at Houston and Newark, 49% at Cleveland and 70% at Guam.

Growth at Newark has increased Continental's share of the New York City market from 16% in 1993 to around 26% in 2000 - largely at the expense of American, which has seen its share fall from 25% to 19%. Its position as the only major carrier to operate a hub for New York City, the world's largest business travel market, gives it an important strategic advantage, though depending heavily on such a competitive market poses risks. JetBlue's aggressive future growth plans from JFK are a point of concern.

Significantly, there is still potential to grow the main hubs when profit margins allow. And Continental is in a prime position to gain from any UAL/US Airways asset divestitures, having boldly made an early $215m bid for the Washington National assets that US Airways hopes to sell to DC Air.

Another positive is a relatively diversified international network by US carrier standards, which reduces the risk of being too badly affected by problems in any particular region. An already strong competitive position in Europe will be enhanced with more services from Newark and a gradual integration into the Northwest-KLM alliance. Latin America, where Continental is already the second-largest US carrier, will see continued expansion, as allowed by ASAs, and further development of alliances (currently with 49%-owned COPA, Aserca and Air Aruba). Asia will be boosted by the new New York-Hong Kong service this year, following the introduction of Tokyo routes a year ago.

Continental's leadership has continued to repeat the argument that, because of the New York hub, the airline does not really need a European partner. This, of course, reflects a desire to operate nonstop services to as many cities as possible.

The current worldwide alliance network is considered to be essentially complete. The airline envisages the addition of just two more partners, to bring the total to 20 by 2005. However, there is still "a lot of systems work to do" to optimise the network and realise all the benefits.

By Heini Nuutinen

The IPO process - lessons learned

Unlike other major projects that a company undertakes, an IPO (Initial Public Offering) is very likely to be the first where the drivers of the deadlines, requirements and management commitments are subject to advisers and forces substantially outside the organisation's control. The CEO's catchphrase "I've got a business to run" gets severely strained by tasks that put great strains on senior and middle management. The gathering, preparation and checking of information for an IPO - long-form, legal due diligence and prospectus and so on - is, put simply, a huge exercise and one that the company will generally not have experienced previously.

The purpose of this article is to give some hints as to how, during an IPO (or any major financial transaction for that matter), a company might be able to improve the time available and ability of management to focus on the day-to-day business and protect ongoing performance. It is based on intensive experience gained over the past 18 months by David Stewart, a partner in *Aviation Economics.*

By way of background, here is a brief outline of the typical players and steps in an IPO process. (It should be noted that this article refers generally to a UK-based IPO.)

What this article omits - and maybe this will be a future topic - is a critique of an accepted traditional IPO process that is ripe for re-invention. It's a potential quagmire of duplication, paperwork and unnecessary cost. The problem would be getting buy-in from the regulatory authorities and/or those that make their daily bread from the unnecessary hours burnt up by the existing process - the lawyers and the accountants.

The players

The process needs:

• **Lead bank(s)**, variously called offer coordinator, bookrunner, co-lead managers, global coordinators etc. whose ultimate and most value-added roles are as the "IPO sponsor", consultants on the sales pitch, organisers of the roadshow and builder of the investor book. They should also be the guardian and adviser on the financial regulatory process, acting as the interface with the appropriate authorities.

• **Company legal advisers**, whose primary role is to conduct the legal due diligence, take ownership of the prospectus preparation and verification, give corporate advice and ensure that the huge "bible" of legal documentation is properly completed and managed.

• **Accountants**, whose primary roles are to audit and present the financials, prepare the short- and long-forms, and the working capital review. Their work culminates in a series of "comfort" letters about the company that are effectively provide just that.

• **Bank's legal advisers**, whose primary role is to conduct legal due diligence of the company and verification of the prospectus on the bank's behalf. Additionally, they will negotiate and help prepare the various agreements and engagement letters that exist between the players.

In addition, a **Financial PR** adviser might be appointed. For a floating company new to the demands of a public financial profile, such an adviser can help establish the links into the financial press and editorial community. If the company has a small or inactive public relations function, then this support will be critical.

The process

The first task is player selection. This is a significant activity within itself, in terms of both scale and importance to success. As in so many such exercises, the selection criteria should include cost, previous and relevant experience (credibility), resources/size and the fit of the personal/corporate personalities involved. Other factors come into play for particular selections (e.g., bank's distribution strengths).

The one selection that is out of the company's control is that of the bank's legal advisers. Somewhat curiously, the selection is down to the bank(s) and the bill has to be paid by the company floating. Some duty of due care and attention to costs in this selection process should be emphasised as part of selecting the bank(s). A fee cap is well advised.

The biggest load on a company is the time required to help generate the necessary legal documentation, even if these are mostly prepared by external advisers. The underlying information is after all invariably sourced from the company. With lots of advisers, lots of documents and information and only one management team, the potential pressures are obvious!

For even a relatively small IPO, upwards of sixty legal documents will require completion and signature. Many of these are procedural. However, a few drive significant effort and cost, and as such are critical to the process. These include:

• Long form (the financial report written by accountants detailing all aspects of the business accounts, and which also describes how the company's key systems - reservations, IT, etc. - work);
• Legal due diligence (the report written by the lawyers as a requirement of the stock exchange to satisfy all parties concerned of the legal standing of the company);
• Prospectus/listing particulars (the sales document prepared on behalf of the company, the information in which is subject to legal and stockmarket regulations);
• Verification notes (documentary evidence supporting claims made in the prospectus);
• Accounts/short-form (abbreviated version of the company's accounts); and
• Working capital memorandum (review of working capital requirements by the accountants, which has the function of ensuring that the business is sustainable in the medium term).

The nature of the beast means that all information has to be up-to-date and current as at floatation day. That is, however early one plans and effectively completes core documents, then they all need last minute updates and the last month inevitably becomes a feat of information coordination.

Despite this, the process also requires that the long form, working capital and legal due diligence reports all need to be available relatively early in the process. This provides the bank(s) with the information to assess the company, its strategy, financial performance and weaknesses, to:

• Help determine the offer structure;
• Help plan and prepare IPO marketing strategy; and
• Ensure early identification of potential barriers to fund-raising success (to enable rectification or pre-planning of how to handle the issue).

In addition, there are areas of activity that do not result in a legal document but absorb management resource and tend to require continuous attention throughout the process. The most important are: publicity, share option schemes, project management, governance compliance and IPO marketing presentations.

The extent, scope and dynamic nature of the task requires an effective and centralised project management structure. There is little chance otherwise of staying in control of deadlines, resource allocation and information integrity across documents.

IPO management - success factors

Experience has indicated that there are many steps that senior management can take to manage an IPO effectively. It is assumed here that the goals are to:

• Minimise the impact of the IPO on the company management, enabling a continuing focus on the business and its performance;
• Reduce duplication of adviser and management effort and therefore cost;
• Ensure necessary decisions get addressed in a timely and effective manner; and
• Procedural elements of the process get done on time.

The goal of "successful marketing and raising of the funds" belongs to the bank(s) and the roadshow team.

To achieve these stated goals, major success factors include (in no particular order of

importance):
• Avoid duplication of effort. For example, the long-form and prospectus will include very similar pieces of information on items such as the market, competition, fleet, the network or the regulatory framework. Don't let separate (expensive) advisers gather and write the necessary information independently - do it once. Be assured, there are many further examples.
• Establish an effective project governance structure. Such a dynamic process raises a host of issues that need to resolved. Some need immediate attention, some need company and adviser buy-in. A project governance process consisting of a core project management team plus a small yet representative steering group (meeting approximately once every two weeks), has been shown to work very effectively.
• Commit dedicated internal resource and interface. The bank(s), lawyers and accountants will all want to get information and responses from the company throughout the process. If a single interface point ("IPO Project Manager") is created within the company, then it is possible to:

- Minimise duplication of information requests and streamline/ensure consistency of responses
- Simplify communications
- Help advisers get to the right source of information first time
- Centralise the planning and coordination of internal effort

Note that this Project Management role can be fulfilled internally or by using an external "interim" project manager appointed specifically and temporarily for the IPO
• Create early and clear accountability for the "difficult to resolve" or high intensity items. Certain tasks are invariably difficult, are important to the company and the process, need specific skills and continue throughout. The two most significant are share options and public relations. The company and the advisers should establish a mini-team or project manager that will focus and take accountability for such aspects.
• Clarify the external communications rules and processes early. Publicity guidelines and the processes for controlling external communications need to be clearly understood, to avoid mistakes and potential friction among the players. Get the advisers to sit with the company's public interfaces, discuss the potential questions/situations and agree the right tactics for answers
• Get the players on the same side early on. There are important agreements to negotiate and agree between the players, who ultimately need all to be on the same side and working together well. The most important are the bank(s) and Accountant's engagement letter, and the underwriting agreement. The earlier these are signed and out of the way, the better and earlier the players can focus on the task of marketing and supporting the IPO process.
• Think early about the building blocks. Before a company sets out on the road of an IPO, there are critical items - that may have long-lead times - that need to be thought through and work potentially initiated. In particular:

- Ensuring some level of experience at Board level of the IPO process
- Completeness, organisation and accessibility of corporate documents (company secretarial records, contracts, Board papers and minutes et al)
- Corporate governance and the potential need to recruit additional non-executives or company secretarial resources to satisfy code requirements
- Risk management process adequacy
- Size, expertise and experience of the Finance team (see point below)

• Ensure adequate financial team resourcing. The one function that will invariably suffer the most (in terms of workload) in an IPO is the Finance team. Their expertise and knowledge is critical to generating many of the key documents - and the team has to continue to do month-end reporting. Make sure this group is large enough, has the right skills, and ideally consists of players with IPO experience.

An IPO is an intensive and new experience for most companies and their management teams. Cost and the pain of the experience can be reduced, and the probability of success increased, by careful advance planning and effective project management. The lessons above were learned the hard way.

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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
Oct 00	18.0	12.1	67.1	20.3	15.8	77.4	11.8	9.6	81.4	43.9	34.6	78.9	65.1	48.9	75.1
Ann. chng	3.3%	6.4%	1.9	2.5%	3.0%	0.4	1.7%	2.3%	0.5	1.8%	3.4%	1.2	2.4%	3.9%	1.1
Jan-Oct 00	175.2	113.9	65.0	193.6	153.9	79.5	115.2	91.0	79.0	426.8	336.3	78.8	633.7	472.4	74.5
Ann. chng	5.4%	7.8%	1.5	5.0%	8.0%	2.2	2.7%	4.8%	1.6	3.5%	7.2%	2.7	4.4%	7.6%	2.3

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
Oct 00	88.9	61.3	69.0										32.9	24.6	74.7
Ann. chng	1.7%	1.3%	-0.2										6.1%	4.3%	-1.1
Jan-Oct 00	865.4	622.7	72.0										318.4	245.8	77.2
Ann. chng	3.1%	5.0%	1.3										5.9%	8.4%	1.8

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	**Dec 2000**	0.678	2.179	7.309	1.680	0.898	112.4	6.20%***

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.

US DOMESTIC YIELDS

	Actual yield Cents/ RPM	Annual change	Real yield 1980 C/RPM	Annual change		Actual yield Cents/ RPM	Annual change	Real yield 1980 C/RPM	Annual change
1980	11.31		11.31		**1990**	13.18	1.4%	8.39	-3.1%
1981	12.85	13.6%	11.80	4.3%	**1991**	13.07	-0.8%	8.04	-4.2%
1982	12.06	-6.1%	10.47	-11.3%	**1992**	12.71	-2.8%	7.61	-5.3%
1983	12.09	0.2%	10.03	-4.2%	**1993**	13.65	7.4%	7.96	4.6%
1984	13.25	9.6%	10.58	5.5%	**1994**	13.1	-4.0%	7.49	-5.9%
1985	12.48	-5.8%	9.61	-9.2%	**1995**	13.39	2.2%	7.49	0.0%
1986	11.32	-9.3%	8.50	-11.6%	**1996**	13.67	2.1%	7.50	0.1%
1987	11.66	3.0%	8.42	-0.9%	**1997**	13.72	0.4%	7.40	-1.3%
1988	12.45	6.8%	8.66	2.8%	**1998**	13.8	0.6%	7.38	-0.3%
1989	13	4.4%	8.66	0.0%	**1999**	13.82	0.1%	7.27	-1.4%
					2000	14.35	3.8%	7.38	1.5%

Source: *ESG.* **Note:** *Includes US Majors, except for Southwest. Real = deflated by US CPI.*

JET AND TURBOPROP ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
ATR	-					
Airbus	Dec 15	Virgin Atlantic	5 A380s		2006	50 orders now placed. New name
	Dec 14	Iberia	3 A340-300s		1Q2002+	CFM56-5C4 engines
	Dec 8	Aero Serv. Exec	1 Corporate Jetliner		3Q2001	IAE V2527M-A5 engines
	Dec 5	Brit. Mediterranean	2 A321-200s, 2 737-700s		1Q2002	
BAE Systems	-					
Bombardier	Dec 11	Maersk Air	2 CRJ700s	$53.6m	2Q2002	
	Nov 29	Atlantic Coast AL	25 CRJ family	$594m		Conversion of conditional orders
Boeing	Dec 11	Safair	2 737-700s			
	Nov 30	ILFC	8 777LRs, 25 777-200ERs			
			7 737NGs	$5.6bn	2002-2009	
	Dec ?	Air France	4 747-400Fs			
	Dec ?	American Airlines	4 737-800s, 2 757-200s,			
			2 777-200ERS		2002-2003	
Embraer	-					
Fairchild	-					

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

	Group revenue US$m	Group costs US$m	Group operating profit US$m	Group net profit US$m	Total ASK m	Total RPK m	Load factor %	Group rev. per total ASK Cents	Group costs per total ASK Cents	Total pax. 000s	Total ATK m	Total RTK m	Load factor %	Group employees
American*														
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
Jul-Sep 00	5,256	4,684	572	313	66,654.0	50,828.1	76.3	7.89	7.03					107,500
America West														
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
Jul-Sep 00	591	591	0	1	11,079.9	8,088.3	73.0	5.33	5.33	5,178				
Continental														
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				
Jul-Sep 00	2,622	2,368	254	135	35,978.0	27881.1	77.5	7.29	6.58	12,155				
Delta														
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
Jul-Sep 00														
Northwest														
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					
Jul-Sep 00	3,178	2,824	354	207	44,379.9	35,353.1	79.7	7.16	6.36					
Southwest														
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				
Jul-Sep 00	1,479	1,179	300	184	24,638	17,650.8	71.6	6.00	4.79	16,501				
TWA														
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														
Jul-Sep 00	973	984	-11	-35	15,928.0	12,316.3	77.3	6.00	4.79	7,211				
United														
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
Jul-Sep 00	4,905	4,946	-41	-116	72,495.7	54,049.9	74.6	6.77	6.82	21,458				99,700
US Airways														
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
Jul-Sep 00	2,381	2,376	5	-30	28,452.4	20,726.2	72.8	8.37	8.35	15,809				44,026
ANA														
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														
Jul-Sep 00														
Cathay Pacific														
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			
Jul-Sep 00														
JAL														
Jan-Mar 99														
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														
Jul-Sep 00														

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

Micro-trends

	Group revenue US$m	Group costs US$m	Group operating profit US$m	Group net profit US$m	Total ASK m	Total RPK m	Load factor %	Group rev. per total ASK Cents	Group costs per total ASK Cents	Total pax. 000s	Total ATK m	Total RTK m	Load factor %	Group employees
Korean Air														
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														
Jul-Sep 00														
Malaysian														
Jan-Mar 99														
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														
Jul-Sep 00														
Singapore														
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	SIX MONTH FIGURES													
Jul-Sep 00	2,864	2,438	426	668	46,477.5	36,136.6	77.8	61.6	5.25	7,584	8,950.0	6,524.6	72.9	
Thai Airways														
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														
Jul-Sep 00														
Air France														
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	SIX MONTH FIGURES													
Jul-Sep 00	5,506	5,132	374	385	60,088.0	48,464.0	80.7	9.16	8.54		4,125.0	4,689.0	65.2	
Alitalia														
Jan-Mar 99	SIX MONTH FIGURES													
Apr-Jun 99	1,937	1,990	-53	1	26,227.2	16,805.2	64.1	7.39	7.59	11,318	3,749.3	2,434.3	64.9	
Jul-Sep 99														
Oct-Dec 99														
Jan-Mar 00	SIX MONTH FIGURES													
Apr-Jun 00	2,225	2,254	-29	-15	24,747.8	16,898.8	68.3	8.99	9.11	11,693	3,464.8	2,404.5	69.4	
Jul-Sep 00														
BA														
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
Jul-Sep 00	3,673	3,293	380	197	45,333.0	35,093.0	77.4	8.10	7.26	12,615	6,608.0	4,741.0	71.7	62,793
Iberia														
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														
Jul-Sep 00														
KLM														
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
Jul-Sep 00	1,615	1,445	170	100	19,386.0	16,378.0	84.5	8.33	7.45		3,359.0	2,703.0	80.5	26,447
Lufthansa* **														
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	3,346	3,123	223	400	31,865.0	24,405.0	76.6	10.50	9.80	12,249	5,988.0	4,338.0	72.4	
Jul-Sep 00	3,375	2,993	382	182	32,654.0	25,878.0	79.2	10.33	9.17	12,849	6,156.0	4,536.0	73.7	
SAS														
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	6,004.0	70.7	15.18	13.85	6,236				28,295
Jul-Sep 00	1,122	1,070	52	33*	8,496.0	6,155.0	72.4	13.21	12.59	5,943				28,485
Swissair**														
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	25,476.0	18,241.0	71.6	7.52	7.87	9,162	3,972.8	2,719.6	68.5	
Jul-Sep 00														

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.