

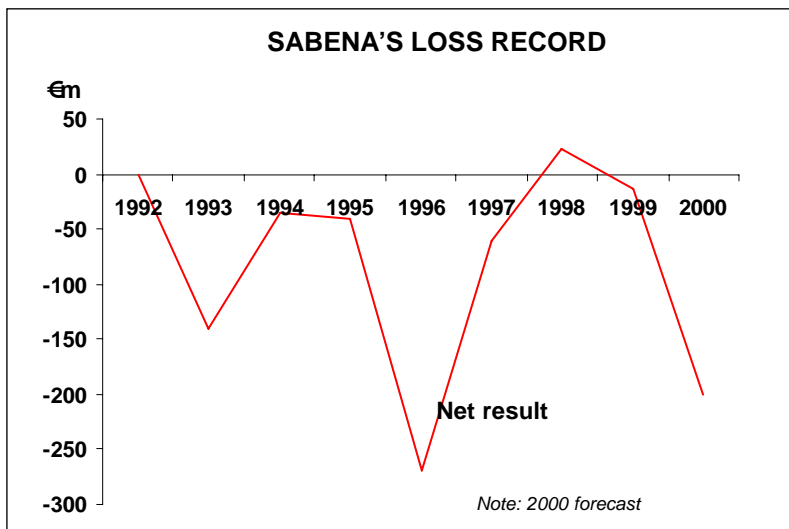
Sabena: blue skies turning very stormy

The €250m capital injection received last month from the Belgian state and SAirGroup may not prevent Sabena from becoming the first European flag-carrier to disappear. The capital injection is just intended as a first step towards full recovery. It was only made after yet another ambitious restructuring programme, which aims to improve EBIT by €354m a year, was agreed to by the trade unions after frantic and acrimonious negotiations. The annual savings on direct labour costs alone are targeted at €52m.

The Belgian state purchased new non-voting share certificates valued at €100m through its financial arm Zephyr Fin and SAir acquired more share certificates at a cost of €150m. While the Belgian state contribution has been roundly criticised by the airline's competitors, it is not expected that it will be disapproved by the European Commission (whether SAir is happy or not with the Commission's stance is difficult to tell).

For now, Sabena has just pulled back from the brink. Under Belgian company law, once the company's net worth sank to less than 25% of nominal equity in early December, the shareholders were to either come up fast with a capital injection to redress the balance sheet and meet the legal criteria, or liquidate the company.

Meanwhile the "Blue Sky" recovery plan has started. Newly acquired aircraft were grounded and put up for sale. Prestigious long-haul Brussels-Newark and Brussels-Johannesburg services were eliminated. Sabena-owned properties in New York and elsewhere will be sold.



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Compounding its problems, Sabena no longer enjoys the unconditional support of the Belgian political and business elite. Only the French-speaking Socialist Party seems to still stand by Sabena. One former political supporter noted: "the airline played with fire. It renewed its entire fleet much too fast. It launched loss-making new routes and continued to price fares below cost."

There is widespread exasperation with the unions. When at the end of August 2000 CEO Christoph Müller came up with Blue Sky, labour leaders were not pleased. "The problem is not with us, but with management, the board and the government," complain the pilots.

Because they suspected that Swissair would cherry pick the best of Sabena's routes and other assets, the pilots and other unions demanded an independent audit by IPSC, affiliated to ALPA. There is general disagreement on the audit's findings: still, staff productivity is not the problem claim the unions. Management is to blame, and the Belgian state failed to provide enough capital. The airline's management reads that financial resources were insufficient to renew the fleet and at the same time grow so fast. Former managers are blamed; Paul Reutlinger, who was in charge between 1996 and 2000, is directly blamed.

A typical tale of an unreconstructed and unrealistic flag-carrier.

Sabena's hub development and its alliance with American had huge potential. But its strategy appears to be largely based on aggressive pricing to increase traffic volumes between European city pairs, via Brussels, and little feed to long-haul services. Even if the numbers look good for Brussels airport, Sabena's the bottom line is not there. Connecting passengers always contribute less unit revenue than O&D traffic, and Sabena has not adapted its unit cost base to a hub operation.

Indeed, in recent years, Sabena has clearly opted for growth at almost any price.

SABENA'S FLEET

	In operation	On order
737	17	
A319	12	16
A320	2	1
A321	3	
A330	10	
A340	2	4
MD-11	2	
Total	48	21

Source: ACAS, Dec 2000

While turnover grew at a fast clip - €1.8bn in 1997, €2.1bn in 1998, €2.3bn in 99, losses mounted just as fast. No stranger to annual losses (Sabena turned up a profit only twice in four decades), the airline earned at long last a net profit of €22m in 98 but went back to lose €14m the following year. And then came 2000 for which a loss of €200m is expected.

The reaction of some local observers has been bewilderment. "Accounts do not seem to reflect reality, said a professor of economics at Brussels Catholic University. "It is impossible to lose so much money in so short a time."

Meanwhile, SAirGroup's plan to increase its stake in Sabena to 85% is on hold. The main interest of the SAir is in increasing its existing stake into the catering, cargo handling and ground handling activities, rather than in the main airline business. This would be impossible to accept by the Belgian Government and a complete break-up of the relationship between the two main shareholders would be more likely.

This would leave Sabena at the mercy of larger predators. Lufthansa and British Airways are rumoured to circle around the Belgian airline, both interested in the possibilities of gaining an additional hub. Spring will be hot in Brussels.

Correction: SAA

In the previous issue we stated that SAA does not operate to Germany. Of course, it flies to Frankfurt. Also we may have been too pessimistic in opining that "break-even is probably the best [financial] result that can be expected for 2000/01".

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RJs on a steep climb up their S-curve

The Regional Jet phenomenon seem unstoppable. According to our estimates RJ orders accounted for 41% of a record total of 1,917 jets (see last issue for Boeing/Airbus analysis).

Our total of 786 identified orders for Embraer, Bombardier, Fairchild Dornier and BAE Systems do not quite tie in with the manufacturers' official total of 778 gross orders. But, given the number of switches between RJ types and between turboprops and RJs, the difference is not significant.

Embraer has emerged as the dominant manufacturer taking 56% of the orders against 31% for Bombardier. Fairchild Dornier represents a third force with 11% while BAE now just has a peripheral role.

Given the experience of consolidation in the large jet sector, will a similar merger process take place in the RJ industry? Already Fairchild Dornier is cutting back on its product range by discontinuing the

428JET, and is being discounted as a competitor by Bombardier though not yet by Embraer.

What seems to be happening is that the RJs industry is somewhere on the steep slope of an S-curve. Ed Greenslet of ESG draws an interesting parallel between the RJ phenomenon and the jet revolution that occurred between 1958 and 1970. Over that 13-year period the proportion of jets in the world commercial fleet rose from zero to 75% (it is now 89%). Deliveries rose sharply in the period 1966-70 driven by combination of replacement of piston-engined aircraft and traffic growth; after 1970, however, deliveries halved as demand was driven almost entirely by traffic growth.

In the RJ sphere the first significant delivery year was 1993, and production really took off in 1998. So if the 13-year S-curve principle holds, the industry can expect another five years of high output (which is

BAE AND FAIRCHILD/DORNIER ORDERS 2000

	Avro RJ RJ	BAE total	328 JET	428 JET	728 JET	928 JET	Fairchild Dornier total
European airlines							
Air Adriatic		0	2				2
Air Botnia	5	5					0
CityFlyer Express	6	6					0
Gandalf		0	5				5
Grossman AS		0	1				1
KLM Alps		0	3	4			7
Shell Petroleum		0	2				2
European total	11	11	13	4	0	0	17
North American airlines							
Skyway		0	5	5			10
North American total	0	0	5	5	0	0	10
Asian airlines							
Druk Air	2	2					0
Asian total	2	2	0	0	0	0	0
Lessors							
Bavaria Leasing		0			2	5	7
GECAS		0			50		50
Lessors total	0	0	0	0	52	5	57
TOTAL ORDERS	13	13	18	9	52	5	84

Aviation Strategy

Analysis

almost assured by the current level of the manufacturers' backlogs) followed by a marked decline as maturity is reached.

ESG's forecast for the period 2001-2020 envisages 5,000 RJ deliveries plus 1,120 in the 110-seats category (A318, 717 and 737-600); the small jet total of 6,120 is equivalent to 26% of the total jet deliveries. Two other US consultants, AvStat and Stanford Transportation, have just come up with a forecast of 8,578 small jets for the same

period, equivalent to 35% of the delivery total. (It is worth recalling, however, that the proportion of world ASKs generated by RJs rises to only 4% from today's 2% over the forecast period.)

The factors behind the RJ S-curve are more complex than simply a shift from turbo-props to jets. Indeed, according to Embraer, turboprop replacement itself accounts for only 9% of RJ demand, and turboprop complement for another 12%. Jet replacement

EMBRAER AND BOMBARDIER FIRM ORDERS 2000

	ERJ -135	ERJ -140	ERJ -145	ERJ -170	ERJ -190	Embraer total	CRJ -200	CRJ -700	CRJ -900	Bombardier total
European airlines										
Air Dolomiti						0	3			3
Air Moldova			2			2				0
Air Nostrum						0	12			12
Axon			4			4				0
Brit Air						0		8		8
City Airlines AB	1					1				0
LOT			9			9				0
Lufthansa CityLine						0		10		10
Maersk						0		2		2
Pan Europeenne	1					1				0
Regional	5					5				0
Rheintalflug			1			1				0
European total	7	0	16	0	0	23	15	20	0	35
North American airlines										
American Eagle		130	6			136				0
Atlantic Coast						0	28			28
Chatauqua			15			15				0
Continental Express25			86			111				0
Delta Connection						0	79	25		104
Horizon						0		5		5
Mesa			36			36				0
N. American total	25	130	143	0	0	298	107	30	0	137
Asian airlines										
China Yunnan						0	6			6
Japan Air Lines						0	2			2
J-Air						0	2			2
Shandong						0		10		10
Shanghai						0	3			3
Sichuan			5			5				0
Asian total	0	0	5	0	0	5	13	10	0	23
Other										
Air Caraibes			2	2		4				0
Regourd			4			4				0
SA Airlink	30					30				0
Other total	30	0	6	2	0	38	0	0	0	0
Lessors										
GECAS				50		50	15	25	10	50
Wexford			30			30				0
Lessors total	0	0	30	50	0	80	15	25	10	50
TOTAL ORDERS	62	130	200	52	0	444	150	85	10	245

(25%) and jet complement (25%) are the key drivers of RJ demand; this includes capacity rightsizing and increasing frequencies. New point-to-point routes, including hub overflight, and the development of new RJ hubs account for the remaining 29% of RJ demand.

Bombardier sees the RJ market in a similar way, but puts more emphasis on the turboprop replacement role - 14% plus 21% for turboprop supplement. Jet replacement and supplement accounts for 39% and new routes for 26%.

Last year North American carriers placed 57% of the RJs orders, including mega-orders from Continental Express and

American Eagle. The only outstanding mega-order might be from Mesa.

Attention will then switch to Europe where the size of the individual orders will not be of the same size but the focus will be on the larger RJs. This is because European airlines are not as constrained as their US counterparts by scope agreements. According to Embraer, North American airlines will continue to dominate orders for 30-60 seater category over the next ten years, taking 66% of orders as against 18% for European airlines, but in the 61-90 seat category European airlines are expected to place 49% of the orders against 26% for the North Americans.

Ryanair: role of its secondary airport policy

Ryanair has produced yet another excellent set of financial results (pre tax profits of €21.3m for the fourth quarter of 2000, 33% up on 1999), has embarked on another network expansion and announced its continental hub. What role does its secondary airport strategy play in its sustained traffic and profit growth?

Ryanair has adopted a consistent policy of flying to previously unknown airports often located some way (100km-plus in some instances) from the centre of the nearest major town. There are a surprising number of such airports in the EU - 200 according to one estimate - and Ryanair claims to be talking to up to 30 new candidates at any one point. In late February it announced another six new points, two in Italy, one in Austria, one in Denmark and two in Sweden.

Usually owned by local governments or Chambers of Commerce, the secondary airports have high fixed costs, are regarded as a key tool for development of local industry and tourism, and are ignored by the major carriers. So, an approach from Ryanair or another low cost carrier is warmly welcomed, and generous terms are available when it comes to negotiating a contract.

Indeed, it would appear that Ryanair in return for guaranteeing a certain level of passengers is able to negotiate minimal or

zero passenger and aircraft handling charges, and even an annual payment (from the airport) for providing flights there. In addition, the airport may have to ensure a dedicated bus link to the town centre. Parallel agreements are often signed with local tourism offices, which provide free marketing and advertising of the route at both the origin and the destination.

There are limits to the secondary airport strategy in that in some countries, Spain and Greece for example, secondary airports come under a central authority making it extremely difficult to negotiate typical low cost deals. In France, the Chambers of Commerce, which own and operate the secondary airports, are prime targets for Ryanair, yet there are still significant markets closed off to the airline because there is no suitable secondary airport - Nice/Cote d'Azur, for example.

The concern for Ryanair is that the secondary airports will, once the routes are established, push for a more commercial charging structure in the same way as the main hub airports have with their low cost airline clients.

But Ryanair by dint of its dominance at the secondary airports - accounting for over 80% of the traffic at Paris Beauvais, for example - remains very powerful, exercising

in some cases monopsonistic control.

Also, most of the secondary airports are not strictly profit-making entities; they are funded by local taxes, regional subsidies, etc funneled through the regional authority or local Chamber of Commerce. And as budgets tend to be increased in line with traffic increases, there may not be an obvious incentive to battle Ryanair on charges. Consequently, Ryanair seem to be able to push through extensions on its existing contracts of up to 20 years.

Nevertheless, there are limits to what Ryanair can demand of the secondary airports and what they can provide. The process of establishing a new continental hub (more precisely a platform at which Ryanair will position 737s) illustrates this.

The hub choice

Brussels Charleroi, now served from Dublin and London, has now been chosen, with Ryanair planning to position two 737s there and operate to up to seven cities from the airport.

Ryanair states that it plans to invest €100m at Charleroi, a rather depressed former coal-mining town, and guarantee 100 local jobs.

What this investment will consist of is unclear. It was only last year that the local government rejected a Ryanair request for support of flight crew overnight costs in return for positioning a 737 there, the politi-

cal argument being that although Ryanair landed a lot of passengers in Wallonie (French-speaking southern Belgium) they spent their money in Brussels City (a different administration). Evidently, Ryanair succeeded in the changing the political viewpoint.

Stockholm was probably the closest competitor. But this city has limited potential to develop into a European version of a Southwest-type hub (see *Briefing*, Sept. 2000 for a discussion of this concept) as it is located too far north. Pisa probably suffered from a similar disadvantage, being too far south in Ryanair's network.

Frankfurt Hahn was some observers' favourite, but it comes under the authority of FAG, which operates Frankfurt Main (50m passengers a year), and on past experience does not welcome any additional competition.

A Paris hub might have been thought of as ideal for a continental expansion. But Paris Beauvais is situated just too far out from the centre of Paris, and its terminal capacity is limited at present (extension work is being carried out). Ryanair operates there from Dublin and Glasgow but a London Stansted service would be very difficult partly because of competition from Eurostar. The airport's management have also apparently balked at the length of the extension of the current contract Ryanair had suggested.

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Labour costs spiral in the US

Last year the main concern was rising fuel prices. Now everybody is worried about potential strikes, as labour contract negotiations are breaking down all around, and about the adverse effects of a slowing economy on demand and unit revenues. Yet, the biggest threat facing the US airline industry is rising labour expenses.

When fuel prices reached their recent peak late last year, Standard & Poor's analyst Philip Baggaley put the situation in perspective when he pointed out that fuel prices were still not that high by historical standards. His main concern on the cost side was rising labour expenses - a bigger and more permanent threat than fuel.

Labour is the single largest cost category for airlines, usually accounting for at least one third of operating costs. Unlike fuel, labour costs have been rising faster than inflation since the early 1990s, and the trend accelerated last year with extremely expensive contracts like United's new deal with its pilots.

The United standard

United was in an unusual situation in that all of its labour contracts became amendable with the ending of the ESOP last year. Its pilots were determined to restore their 1994-level wages to industry-leading rates, and in order to avoid further costly work slowdowns United basically gave them what they wanted. They secured immediate pay rises of 21.5-28.5%, followed by four annual 4% increases. This raised their pay 2-19% (depending on aircraft type) over the highest rates currently paid in the industry.

The deal, ratified in October, raised the bar for the rest of the industry, not just for pilots but right across employee groups. Suddenly, even the leaders of other major airlines began talking about "industry-leading" contracts, which would be indexed to pay at leading competitors. "Each airline's

contract is expected to establish a new benchmark that will subsequently be surpassed by others in a leap-frog progression of ever-higher pay", observed Baggaley.

The first concrete indication that this is indeed happening came in early February, when Delta offered its pilots wages that exceed those of United's. The proposal included initial 7-17.5% rises and subsequent annual increases that would add up to 23-34% higher pay over the four-year contract. Delta Express pilots would be paid more than their counterparts at Southwest. Delta also dropped its earlier controversial proposal to link pay increases to pilot productivity and company performance.

However, the pilots merely called the proposal "a step in the right direction", as there remained disagreement over issues such as retroactive pay, job protection, use of regional jets and elimination of a lower pay scale at Delta Express. The two sides failed to reach agreement by their self-imposed February 28 deadline and were expected to ask to be released from federal mediation, which would start a 30-day countdown to a possible strike.

Not even Southwest appears immune to these new labour attitudes. Its pilots union is believed to have asked for an early renegotiation of its current labour contract, which will not become amendable until September 2004. One analyst suggested this was a direct consequence of the United pilot deal and Delta's latest offer to Delta Express pilots.

The United pilot deal obviously also raised the expectations of other labour groups at United. Its mechanics, who have been staging work slowdowns, are talking about "zooming right past the highest contracts in the industry", while its flight attendants, who are seeking substantial mid-term pay increases, now want "industry-leading-plus" wages.

United will pay a heavy price for the new

contracts. Its labour costs are currently expected to surge by at least 20% in 2001. The latest estimate from Merrill Lynch is that the US industry's labour costs will rise by 12% this year.

UAL's CFO Douglas Hacker recently predicted that, as has often happened in the past, revenue gains would soon offset the labour cost increases. However, that seems very unlikely if the economy slows further. Reduced demand and higher domestic capacity growth will diminish the industry's ability to raise fares. Merrill Lynch analyst Michael Linenberg suggested recently that there may not be any systemwide fare increases for at least the next two or three quarters.

The only bright spot is that fuel prices have declined a little in recent months. American, for example, expects paying 6.4% less per gallon of fuel in the current quarter than in the December quarter. But any fuel savings will, of course, be overwhelmingly offset by labour cost hikes.

While the US industry's aggregate earnings are expected to decline in 2001, United currently estimates that it will only break even this year if the US Airways acquisition goes through.

The current labour situation in the US is highly unusual in that the four largest carriers - United, American, Delta and Northwest - are all involved in contract negotiations with key unions. The talks are difficult as workers' expectations are high (in the wake of the United pilot deal) while managements are concerned about a slowing economy. All are experiencing some type of job actions or overtime refusals, which have led to flight delays and cancellations, and may face strikes.

However, UBS Warburg analyst Sam Buttrick reassured investors in a recent research note that overlapping strikes, or any strikes for that matter, are extremely unlikely. First, the National Mediation Board controls the timing of a potential strike and is unlikely to allow overlapping cooling-off periods. Second, President Bush has signalled his intent to intervene if necessary. A Presidential Emergency Board could delay any strike by 60 days.

Of course, none of that would solve anything. The past year has demonstrated how a key labour group's mere refusal to work overtime, if over a period of several months, can inflict almost as severe financial damage as a typical short airline strike.

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New Air Canada: its real prospects

Last summer the management of Air Canada assured stockmarket analysts that the merged Air Canada /Canadian, with its near-monopoly domestically, would rapidly produce positive financial results. In the event the net result for 2000 was a loss of C\$82m against a forecast profit of C\$286m. What's gone wrong, and what are the real prospects for New Air Canada (NAC)?

In reality, the Air Canada / Canadian integration was going to be tough even in positive market conditions. Rationalising heavy route system overlaps while merging the remnants of the eight airline cultures that go to make up NAC was an enormous challenge, which should have been a red flag even to the most bullish. The re-alignment of Toronto operations (Terminals 1, 2 and 3) proved not only complicated but expensive. Serious customer dissatisfaction remains, which existing competitors and ever multiplying new entrants are hoping to leverage to their advantage. Also, the loss of oneworld feed to/from Canadian has diluted the value of that carrier to NAC.

Since the mid-'90s Air Canada had out-competed Canadian on newly liberalised Canada-US route sectors. Now the NAC faces a situation where US domestic growth is slowing while competitive intensity increases, with many US carriers rapidly adding RJs to their US-Canada operations. The United/US Airways deal, if it goes ahead, will cause a Star problem for NAC, as United will want to leverage the extensive transborder network it would gain from US Airways.

Meanwhile, NAC has begun cutting capacity, frequencies, routes and people. It has announced 3,500 voluntary layoffs but it now seems that about 10,000 total cuts will be necessary. Internally, union seniority arbitration will be difficult, especially in an environment of looming cutbacks. NAC is also being hit by the same things plaguing other

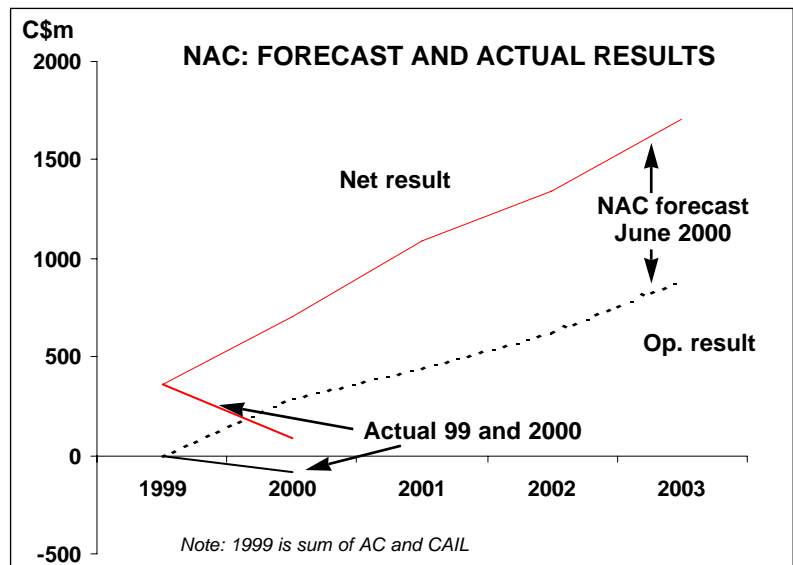
carriers - fuel costs, slower than hoped Asian market recovery and a decline in US economic growth so steep even the US Fed seems to have been caught off guard.

NAC management still seems intent on its strategic business unit (SBU) approach that will break-up the company into smaller more manageable chunks. So far limited tangible action has taken place on the SBU thrust, and the incremental costs of infrastructure duplication remain a real concern.

An alternative perspective

Nevertheless, the standard political view of NAC is that it has been allowed to gain a monopoly situation in the Canadian market, and the integration costs are essentially teething problems. There is a pressing need therefore to protect the smaller Canadian airlines through the Commissioner of Competition's special powers in the aviation sector - described in the following article.

An alternative perspective is that NAC is far from being in a potentially strong position; indeed, the political complications resulting from the take-over of Canadian may mean that NAC will find itself where



Canadian was 12 months after its own acquisition of Ward Air (1991) - short of cash, in a recession, and saddled with a non-competitive cost profile.

Back in 1999 the government (both federal and some provincial) finally decided that it was unwilling to bail out Canadian again. Instead, it opted for a radical policy rethink, abandoning the key concept of maintaining a lopsided duopoly. By providing antitrust exemptions for merger talks and questioning the protective covenants on shareholder control contained in the Air Canada Privatization Act, the government signaled its willingness for others to bid for both Canadian and Air Canada. In the fall of 1999 air traffic growth was still strong and it seemed that nothing but synergies would emerge from some form of a merger or forced amalgamation of Air Canada and Canadian. Importantly, the government would be spared the embarrassment of mass redundancies should Canadian go out of business.

Onex Corp., backed by American Airlines and politically well-connected, could have provided the ideal suitor for both airlines, as well as alleviating some political difficulties. Government could always claim that a market solution had prevailed over the traditional political subsidy alternative. A new crop of vigorous new entrants would, in the fullness of time, be counted upon to provide the newly merged beast with customer pleasing competition. Airline customers (voters) would see that this was the right solution and government would be happy to provide those competitive safeguards that would make the whole restructuring work.

However, Air Canada, backed by its Star partner Lufthansa, launched its own successful bid to take over Canadian, adding debt and a very weak operating brand to its own ineffective cost structure. Had Canadian been allowed to fail, which it was close to doing in late fall of 99, Air Canada would have been a strong contender for the few valuable Canadian assets remaining.

Canadian's political legacy

But, distracted by the heat of the Onex

battle, Air Canada was not only forced to buy all of Canadian but also to agree to a series of social commitments with the government. These undertakings sought to calm both public and employee fears over massive lay-offs, abandonment of thinner domestic route, unbridled price rises, etc.

Meanwhile, the government increasingly presented itself as a white knight who would ensure the new Air Canada would honour its commitments to employees and the public. By winter 2000 the problems of merging Air Canada and Canadian were causing an uproar thereby fortifying the government's role in defending the monopolistically-impaired traveller. The summer of 2000 is remembered as one of the worst in terms of service quality that Canadian air travellers have ever seen. The government now decided to create an airline complaints ombudsman post, appointing a former National Hockey League referee as its first office holder.

In late 2000 NAC decided to respond to new entrant Canjet by using the usual tools. Canjet complained and the government decided to restrict NAC from playing with fares or capacity too much lest they be considered predatory. So the deregulated market is now somewhat re-regulated, with a policy objective of increasing competition - a re-balancing of Canadian domestic market share to about 60% for NAC and 40% for the rest.

Finding itself in this situation, NAC, the highest cost player in the market, has to cut routes, jobs and airplanes, but its ability to do so is curtailed by its public commitments to government. Thus voluntary job cuts and route capacity contractions, mostly internationally, are all NAC is allowed to do to get to a recession-survivable position.

What gives?

Soon something will have to give. Most likely will be a re-negotiation of some of those government commitments. Otherwise NAC will spill copious incremental amounts of red ink. In fact, in 12 months from now if no major internal synergies (C\$700m was initially mentioned by NAC management),

are allowed, and markets continue to slow, and competition continues to escalate, and fuel continued to rise, and Canadian debt continues to weigh heavily on NAC, then things look decidedly bleak. At that point NAC will be where Canadian was by mid-1999 except this time there will be no other major Canadian carrier to merge or absorb NAC. So what then?

Some interesting options present themselves. By the fall of 2002 NAC will have the justification to do all the cost-cutting and structural synergising it can muster. Other lower cost domestic market carriers (WestJet, Canjet, Canada 3000, etc.) will have grown, and could conceivably have garnered 30%-plus of domestic point-to-point traffic, thus making things seem less monopolistic.

With markets either at or close to their cyclical low it is not a major leap to posit that NAC financials would be precarious by the end of 2002. NAC's need for further debt support or cash infusion could then possibly put the carrier in play once again.

Enter the government, which would pre-

sumably be searching for another market solution, so avoiding unnecessary government fiscal involvement. And the startling opportunity to repeat the events of the fall of 1999 emerges.

Onex or some other Canadian venture capital firm could step forward with the assurance of either formal or tacit government approval. To the acquirer the transaction would seem much easier to accomplish than the original Canadian buyout by Air Canada.

By fall 2002, domestic monopoly is no longer a hot potato, much of NAC's cost re-alignment is done, markets are flat or turning up, customers' memories of the terrible summer of 2000 are fading, and union integration issues are at least partly resolved.

If anything resembling this scenario were to materialise, then NAC shareholders would consider the merger a failure, but Onex or another VC firm might consider the longer term result a success. Time will tell as it always does.

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The tricky question of avoidable costs

As mentioned in the previous article, Canada's Commissioner of Competition has now issued draft guidelines on "The Abuse of Dominance in the Airline Industry". Comments are requested by May 18, 2001.

One of the most important features granted under the Competition Act and enshrined in these guidelines is that Commissioner of Competition has special powers "to intervene to prevent injury to competition". The idea is that the Commissioner will be able to prevent predation rather than just investigating actions which may already have proved fatal to its victim.

Anti-competitive Acts are defined as predatory, exclusionary and other conducts carried out by a dominant carrier in four main areas:

- Pre-empting airport facilities, services or

slots that are required by another carrier for the operation of its business, with the object of withholding the airport facilities or services from a market;

- Using commissions, incentives or other inducements (including the use of FFPs) to sell or purchase flights for the purpose of disciplining or eliminating a competitor or impeding or preventing a competitor's entry into, or expansion in, a market;

- Altering schedules, networks, or infrastructure for the purpose of disciplining or eliminating a competitor; and

- Operating or increasing capacity (or using a low-cost second brand carrier) on a route at fares that do not cover the "avoidable cost" of providing service.

The last point is the most problematic when defining anti-competitive behaviour. In

ALLOWABLE COST DEFINITIONS		
Cost category	Examples	Comment
'Outright avoidable'	Travel agent commissions Fuel and oil Navigation fees Landing fees	These costs are not incurred if a flight is cancelled, but are incurred when a flight is added
'Avoidable through redeployment'	Flight crew labour Cabin crew labour Aircraft costs	Such costs are avoidable in the sense that an airline is likely to redeploy a flight rather than cancel outright
'Potentially avoidable'	Maintenance labour Ticketing agent labour Baggage handling labour Reservation labour	These costs are specific to a flight and can either be avoided outright or are avoidable through redeployment
'Unavoidable'	Executive salaries Building expenses General overhead	Such costs are non-flight specific and are therefore unavoidable in the case that a flight is cancelled

essence, the Bureau proposes an "avoidable cost test".

The Bureau will attempt to assess whether the revenues earned from passenger fares, cargo services and other sources are sufficient to cover the avoidable costs of the dominant carrier in providing the service. The Bureau's definition of "avoidable costs" is summarised below - they range from the clearly avoidable like commissions, fuel and landing fees to much greyer areas like maintenance and ticketing.

The Bureau recognises that even price matching can be anti-competitive, given that the larger carrier probably has a superior FFP (and perhaps in-flight service). In the case of alleged anti-competitive behaviour, the Bureau intends to look at a city pair route, and examine flights at identical or similar times. The period of examination will be a minimum of one month.

The Bureau may also investigate situations where capacity appears to have increased or schedules changed in anticipation, perhaps by months, of a new airline entering a market. Again the Bureau will apply the avoidable cost principle.

Very difficult questions

The treatment of revenues by the Bureau is also going to call for strong analytical skills. The Bureau has recognised the need to examine revenue generated from cargo and in-flight sales as well as passenger revenues. It has also recognised the argument,

used successfully by KLM for example, that as a carrier reliant on connecting traffic, fares on an individual flight segment should be seen in the context of the total revenue earned from the passenger, who for example may be connecting onto a long-haul flight.

While the intention of the Bureau's approach is clear, it is highly questionable how practical this approach will prove. Two immediate problems spring to mind. First, the examination will require significant manpower resources depending on the number of cases that arise. Second, the methodology relies very much on information provided by the carriers themselves.

Thus Air Canada may well be tempted to re-assess how its management accounts reflect fixed versus variable costs. The Bureau also proposes to use the carriers' own prorated formulas to allocate revenue generated by through and connecting passengers, which again can become a murky and ill-defined area. Establishing whether BA has been subsidising go has proved almost impossible in the UK, and the situation will probably be little different in Canada.

The success or otherwise of promoting fair and healthy competition will depend on how the government chooses to interpret these guidelines. The Competition Bureau will face a difficult balancing act in this respect, restricting the actions of the dominant carrier but not over-protecting Canada's fledgling carriers from the real world of competition.

AirTran: impressive recovery leveraged on 717 assets

AirTran Airways, the second largest (after Frontier) of the early 1990s generation of US low-fare airlines, has staged an impressive financial recovery over the past two years, but until recently its prospects were marred by a \$230m balloon debt payment due this April. In late January the carrier secured a binding agreement with Boeing Capital Corporation (BCC) to refinance that debt. With the major obstacle removed, AirTran can now focus its efforts on growth, fleet renewal and consolidating profitability.

The debt being refinanced consists of two lots of junk bonds issued by AirTran's predecessor ValuJet, \$150m in April 1996 and \$80m in August 1997. Those proceeds, together with ValuJet's large cash reserves, enabled the company to sustain operations through three years of heavy losses as it rebuilt operations and restructured itself after the 1996 crash and three-month grounding.

However, the need to repay the \$230m debt in April 2001 increasingly clouded AirTran's prospects and kept its share price low. It would not be able to generate enough cash flow from operations to repay the debt, and refinancing it in a weak bond market was quite a challenge for a small airline with relatively weak credit ratings.

As on other occasions in the past, Boeing came to the rescue. In a deal reached in principle in November and finalised in late January, BCC agreed to provide \$220m in debt and equity instruments, with the remaining \$10m coming from internally generated funds. At current interest rates, the all-in financing cost over the seven-year term of the loan will be 11.25-11.75%, which is probably less than what AirTran would have paid in the current public junk bond market.

AirTran will now retire the existing \$230m of debt in mid-April. Clearly, as many analysts point out, eliminating the refinancing risk far outweighs the negative effects, namely common stock dilution of up to 8% (which will reduce EPS growth) and higher interest costs.

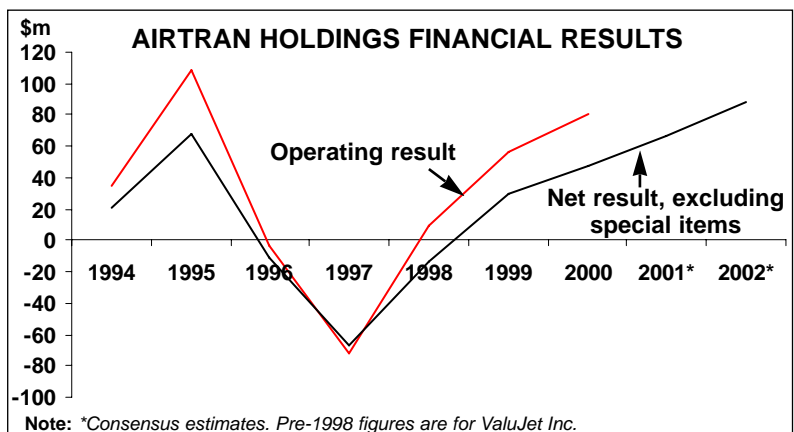
The company's share price has recovered strongly since the Boeing deal was announced. Also, Standard & Poor's recently raised AirTran's credit ratings by one notch, citing the refinancing and improved earnings and cash flow.

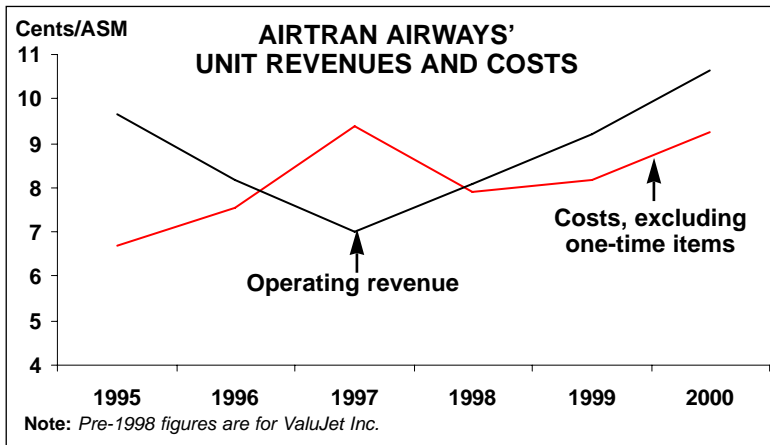
Boeing's involvement was hardly surprising in light of AirTran's 717 launch customer status and substantial order commitment (originally ValuJet's \$1bn 50-aircraft launch order for the MD-95 in 1995). In May 2000, as AirTran began to feel the burden of high interest expenses following the purchase of the initial ten 717s, Boeing agreed to provide lease financing for the next 20 717s on highly favourable terms, covering deliveries up to February 2002.

Strong financial recovery

AirTran returned to profitability in 1999, when a \$147.7m DC-9 fleet disposition charge is excluded. This followed three years of losses totalling \$91m excluding restructuring charges (or \$179m if charges are included), as predecessor ValuJet, under the guidance of former CEO Joseph Corr, rebuilt operations, acquired and merged with AirTran, changed its name and put in place strategies to improve its image.

The current chairman/CEO Joseph Leonard, who took office in January 1999,





focused on cost controls and refining revenue strategies. Profitability was restored as unit costs were reduced and yields and load factors recovered substantially. Leonard and his management team are highly regarded by Wall Street.

AirTran reported a \$47.4m net profit on revenues of \$624.1m for 2000, up 63% and 24% respectively on the 1999 results. Operating profit rose by 45% to \$81.2m, representing a 13% margin - the second highest in the US industry after Southwest's 18.1%.

The results were impressive in light of the extremely challenging operating environment. AirTran's own fuel expenses more than doubled last year. The carrier also talked of a significant slowdown in ATC efficiency at its Atlanta hub and at critical Northeast airports, which it estimated reduced average speed over its entire system by 30 miles per hour.

Like Frontier, AirTran has posted double-digit unit revenue growth in the past two years, largely thanks to success in attracting business traffic. Operating revenue per ASM surged from 8.1 cents in 1998 to 10.65 cents last year. Business class load factor rose from just 35% in 1998 to 60% last year, while system load factor improved from 60% to 70%.

The carrier attributed last year's strong revenue growth, first, to more aggressive marketing and having a better knowledge of its customer base and booking patterns. Second, competition eased up in key East Coast markets, as MetroJet pulled out of several markets and United slowed capacity growth at Washington Dulles.

In recent months AirTran may also have

benefited from increased flight delays and cancellations at Delta, whose pilots have sporadically been refusing to work overtime during the ongoing difficult contract negotiations. However, the benefit, if any, has been nowhere near the level experienced by Frontier last year because of United's operational problems.

AirTran's unit costs fell from 9.40 cents in 1997 to 8.19 cents in 1999, which was a real achievement given its switch to a more conventional organisational structure, maintenance and compensation methods. Inevitably, unit costs surged last year because of fuel (to 9.27 cents), but non-fuel unit costs actually declined by 1%.

Like other airlines, AirTran has benefited from lower distribution costs. Internet sales have risen rapidly to account for 37% of total sales (29% through its own web site). The carrier estimates that the cost of booking a passenger on the Internet is just 50 cents, compared to \$8.50 via a travel agency.

Against earlier expectations, AirTran has retained a low cost culture despite becoming a more up-market and conventional type of operator. It appears to continue to enjoy a substantial cost advantage over its main competitors - by its own estimates, at its average stage length of 537 miles, Delta, United and US Airways have 30%, 50% and 90% higher unit costs respectively.

AirTran's balance sheet, which was earlier weakened by substantial restructuring charges related to ValuJet's shutdown, rebranding and accelerated aircraft retirements, has also begun to recover, led by a dramatic improvement in cash position. The company had \$103.8m in cash at year-end, compared to just \$10.8m at the end of 1998. Stockholders' equity, which plunged to a deficit of \$40m at the end of 1999 as a result of the DC-9 fleet write-down, recovered to \$7.9m positive at the end of last year.

While total liabilities have remained relatively constant (\$450m at year-end, including the \$230m debt that was reclassified from current to long term last year), this year may see a modest reduction. CFO Robert Fornaro indicated recently that if excess cash is generated this year, it would probably be used to pay down debt early.

Impact of the Boeing 717

AirTran may have paid as little as \$20m per aircraft - and it got a major say in the 717's design specifications. The aircraft, introduced to service in October 1999, is ideally suited to AirTran's short haul, high-frequency East Coast markets. The airline operates it in 117-seat, two-class configuration, gaining a useful 11 extra seats or 8% more capacity over the DC-9.

Moving to a brand new fleet will obviously improve operational reliability and enhance image. The average age of AirTran's aircraft is projected to almost halve in three years, from 22 years at the end of 2000 to 12 years at the end of 2003, as the 717s replace the carrier's DC-9s and 737s.

But, most importantly, the 717 offers a major reduction in maintenance and fuel costs over the late 1960s and early 1970s-vintage DC-9s. The aircraft has achieved a 24% better fuel burn over the DC-9, compared to 18% guaranteed by Boeing. It will help AirTran maintain its unit cost advantage over competitors.

The fleet currently includes 17 717-200s, 33 DC-9-30s and four 737-200s. The 33 717s currently on firm order will arrive at a rate of one aircraft per month through October 2003. There are also 25 options, 20 purchase rights and five rolling options for additional 717s for delivery before October 2005.

The 737 retirement process may begin in the second half of this year. The current plan is to reduce the DC-9/737 fleet by about five aircraft a year to 23 at the end of 2003. However, there is obviously flexibility to slow down or accelerate retirements to suit market conditions. Also, AirTran's top executives have indicated that the company would be happy to pick up additional 717s if any of the TWA orders are cancelled. Now that the debt refinancing issue is out of the way and fuel prices look likely to remain high, the company is leaning in favour of accelerating DC-9 retirements.

The large 717 orderbook, which not so long ago seemed rather extravagant for a struggling low fare carrier, is now one of AirTran's greatest assets. However, financing such a large commitment will be a continued challenge for a small company with a relatively highly lever-

AIRTRAN'S FLEET

	In operation	On order	Options
717-200	17	25	50
737-200	4	0	0
DC-9-30	33	0	0
TOTAL	54	25	50

aged balance sheet and weak credit ratings.

Stable labour relations

Like most other US airlines, AirTran remains under pressure on the labour cost front. Last year its labour costs rose by 13.8%, due to contractual and seniority pay increases, increased block hours and more pilots moving to the 717 training programme. New contracts signed in recent years have included competitive wages and annual pay increases.

But labour relations appear to be stable. Last year AirTran's customer service, ramp and reservation agents rejected union representation. In October the mechanics, represented by Teamsters, ratified a new five-year contract. And, most importantly, in late January tentative agreement on a new five-year contract was reached with the pilots, represented by NPA, two months before the amendable date.

Winning higher yield traffic

AirTran describes its product strategy, which focuses on both leisure and business travellers, as offering "key attributes of major airlines at affordable prices". While its walk-up fares are generally 60% below those of high-cost competitors, it has also developed a very successful business class product, which is offered for only \$25 extra per segment, and an innovative "A-Plus Rewards" FFP.

These strategies have been instrumental in pulling in higher-yield traffic. AirTran has virtually reversed its former 40%/60% business/leisure revenue mix in just two years. Its business class fares now account for 56-58% of its total revenues.

AirTran focuses on short haul markets in Eastern US, where it enjoys the greatest cost

differential over competitors. The strategy is to serve large primary business centres and develop underserved secondary markets, particularly those that suffer from high fares.

The airline has established a successful hubbing operation at Hartsfield Atlanta, where it has a 22-gate single concourse facility and room for growth. Atlanta has a large local traffic base and is ideally located for attracting connecting passengers. Traffic growth there has averaged 8-9% annually since the early 1990s, compared to 4% nationally, and is projected to grow by 6% annually over the next few years. Of course, the market is overwhelmingly dominated by Delta, but AirTran is the second largest carrier with 9% and 12% passenger and departure shares.

Atlanta accounts for 90% of AirTran's passenger flows, but in recent years the carrier has developed point-to-point services elsewhere in the East. These include Chicago/Midway-Minneapolis, Pittsburgh to Chicago and LaGuardia and Philadelphia to three Florida cities.

While AirTran intends to continue strengthening its position in Atlanta, it also sees some great market opportunities in the Northeast, given "big cities, short distances, high fares". It appears to have chosen Pittsburgh as a new focus city and is also keen to grow from Philadelphia and LaGuardia. Also, the airline would like to have a substantial hub operation at Washington National.

The main problem, of course, is lack of slots and gates at many of those airports. Consequently, AirTran has taken a very aggressive stance in respect of the divestiture of slots that is likely to take place if the United-US Airways merger is allowed by the regulators.

In late February the carrier filed formal complaints with the DoT about a potential United-American "monopolisation" of the Washington National market. It is asking the DoT to order the reallocation of slots at National to new-entrant or limited incumbent carriers, regardless of the outcome of the pending airline mergers. AirTran argues that, if the proposed deals go through, United and American would control 66% and 80% of the National and Dulles markets respectively.

It is possible that the DoT may not want to complicate the already extremely complex regu-

latory issues associated with a major airline merger scenario with new-entrant issues. AirTran is certainly not counting on it for growth opportunities.

Prospects

After two years of marginal growth and consolidation, AirTran has entered a new growth phase. Its ASMs are projected to increase by about 20% both this year and in 2002. But the favourable unit revenue trend is expected to continue, as more 717s are added and a new revenue management system, introduced in December, kicks in fully.

AirTran expects its non-fuel unit costs to go up by 2-4% in 2001, mainly due to contractual wage increases, automation expenses and aircraft rents. While the growth of the 717 fleet will have a favourable impact on fuel and maintenance costs, analysts believe that those savings will be offset by considerably higher ownership costs (rental expenses).

The carrier has budgeted for fuel at around \$1 per gallon, net of fuel hedge benefits. It has hedged 50% of its first-quarter needs at \$29 per barrel and 30% of its needs in the remainder of the year at \$24.

The current consensus forecast is a profit of 97 cents per share for 2001, which would represent a 35% increase, and a profit of \$1.27 per share for 2002 (including the dilutive impact of the Boeing transaction).

Now that the debt repayment risk has been eliminated, the main risk factor mentioned by analysts is AirTran's presence in the congested and fiercely competitive East Coast market. However, the carrier is expected to retain its cost advantage and may even face a reduced threat from its number one competitor, Delta.

Atlanta-based James Parker, analyst with Raymond James, believes that AirTran can continue to profitably coexist with Delta, first, because its costs are so much lower. Second, it will probably expand capacity only modestly above market growth in Atlanta so as not to threaten Delta. Third, there is now greater scrutiny by the regulators regarding predatory practices. Fourth, business travellers are resisting the high and rising fares of the major carriers. This will even more be the case if the economy slows further.

By Heini Nuutinen

Who is responsible for revenue?

Revenue on a plane is influenced by many different functions: network planning, which sets the schedule and assigns the fleet type; the salesforce at each end of the route and in all the feeder markets, which negotiates contracts and launch promotions; the pricing function, which defines and monitors fares and restrictions; and finally revenue management, which controls capacity by allocating the right number of seats to each fare in each market for every flight every day.

If we look at how these functions have developed at major airlines over the last decade, they all have generally become highly sophisticated:

- **Network planning** has access to detailed data on origin/destination (O/D) and market share, receives timely and accurate route profitability reports, has network profitability tools that can simulate and assess different network scenarios, and has intelligent tools that enable the most profitable assignment of fleet types.
- **Revenue management** has been continuously improving forecasting techniques, and now uses advanced segmentation techniques, and has access to high-performance IT systems allowing the control of space at network level.
- **Pricing** can monitor competitors' prices in a timely way, and can simulate the impact of pricing decisions (own and competitors') and promotion campaigns.
- **Marketing and Sales** have detailed market share data for each O/D for every point of sale, possess timely and detailed advanced booking information, use segmentation to tailor performance-oriented contracts, and have a real multi-channel distribution network in place.

All this sounds great and it does represent a real advance. However, it seems that the price for this very high level of specialisation is that these functions tend to work as "silos" and that cross-functional manage-

ment has lost ground. It is not uncommon to hear people from one functional department blaming other functions for lack of performance or for lack of understanding of "how things work".

Nor is easy for a CEO to point to one specific person if revenue performance is below expectations, as so many people and functions influence it. If more revenue is needed, most people will look only to Marketing and Sales, not recognising that this is a cross-functional challenge. And Marketing and Sales will typically react by using pricing and promotions in a quite undifferentiated way.

Managing and measuring revenue

So how can we manage revenue performance better? The first step is to be able to measure revenue performance.

Airlines typically use two basic tools to measure revenue performance:

- **Route profitability reports** Although these help to show where money is made or lost in a network, they do not provide any particular insight into revenue performance - defined as the impact of all operational levers that can influence revenue. Thus, one route could be highly unprofitable even though its revenue performance is excellent. And such reports give no information whatsoever on the revenue improvement potential of a route.
- **Revenue index** This is the typical incremental approach, where target revenue indexes are set on the basis of previous years' revenues. Most airline salesforces are measured and rewarded on achieving or beating the index. However, even if production increases and other factors are taken into account, an index will not say anything about absolute revenue performance and will not give any insight on possible performance gaps.

If new insights on revenue performance

are to be gained, new metrics and processes are needed. Especially in a network environment, with a high share of connecting passengers, it becomes difficult to isolate parts of the network and find out whether they are doing well and, if not, what are the improvement levers.

A possible approach is to define new performance metrics that would make routes or markets comparable with each other - an internal benchmarking process. The different nature of competition in non-stop and connecting markets (markets are defined as O/D flows), means that two different metrics are needed:

- **Non-stop markets** Revenue per ASK is the most appropriate performance indicator, as it reflects both yields and load factors. However, to make different markets comparable, two corrections need to be made. In a network environment, a significant share of the capacity on a route is "reserved" for connecting passengers, so that the "real" capacities (or "real" ASK) are smaller. Secondly, yields decrease with increasing stage length, an effect that can be filtered out with a regression curve.

- **Connecting markets** Yield-adjusted traffic share of accessible market is one possible performance indicator. The accessible market is defined as the total O/D traffic minus the traffic flying non-stop. This might seem quite conservative, but reflects the fact that passengers flying non-stop can be diverted to a hub only by offering a substantial discount (if at all).

There is no "capacity" element in the metric, as there is no meaningful definition of capacity for connecting passengers. This case also needs two corrections. Yield deviation from the average yield should be used to correct the performance metric, so that the quality of the revenue is captured (as it is quite easy to "buy" market share in connecting markets). Secondly, here too, yields should be adjusted for different stage lengths.

These metrics can be constructed by combining data sources that are normally used in isolation, such as OAG schedule data, MIDT and revenue/traffic/yield information.

How to compare revenue performance across markets

Assuming that the performance metrics have been calculated for the most important O/D markets, the next question is how these data should be used to identify revenue-enhancing actions. The first step is to compare markets that are in fact comparable - comparing strong markets with other strong markets, and weak markets with other weak markets. There are two main ways of segmenting the markets - by type of link, and by the "richness" of the traffic flow:

- **Type of link** This reflects the structural competitive position in serving a specific O/D market. Possible segments are hub-to-hub, hub-to-strong spoke, hub-to-weak spoke, hub-to-competitor's hub, spoke-to-spoke, and spoke-to-competitor's hub. The slot position or the overall market share in a specific city will determine whether a spoke is strong or weak.

- **"Richness" of the traffic flow:** It is easier to achieve better yields in markets which by their nature have a high share of premium passengers, i.e. less price-sensitive business travellers.

Apart from these two factors, any other difference in revenue performance can only be executional, i.e. something that can be improved by managerial decisions to act on one or several revenue drivers (pricing, schedule, capacity, etc.). In other words, comparing revenue performance and its drivers between comparable markets can reveal the reasons for any difference in performance, which can then be acted upon. The beauty of this approach is that quantitative targets can be set for each market.

How to manage revenue cross-functionally

To move from the traditional approach to a cross-functional means that key executives must adopt a new mindset on managing revenue performance. Instead of a marketing and sales-driven approach, they must adopt an O/D performance improvement approach. This requires a shift in focus:

- From local markets and accounts to the

best balance between local markets

- From pure sales/pricing levers to a broader range of revenue-enhancing actions
- From incremental performance (the "index" approach) to the idea of absolute achievable performance (given the structural conditions).

In other words, it is necessary to take a more differentiated approach to increasing revenue performance, rather than pushing sales everywhere with the same intensity and methods. The full spectrum of actions should be considered, using the O/D performance metrics and their drivers as a platform for discussion, and to cut across organisational and functional boundaries.

Four-step process

A four-step process to manage revenue performance on an ongoing basis might look like this:

1. Identify and segment key markets This is a one-off effort to select the markets to be included, and to define the performance metrics and the segmentation method (as described above).

2. Analyse performance drivers At given intervals the performance metrics and their drivers are calculated and made available to cross-functional teams for a detailed analysis. It is important not to stop at the performance metric level, which is the benchmark, but to gain transparency on the different drivers as well (e.g., adjusted load factors, adjusted yields, traffic shares, shares of premium passenger traffic, frequency shares, shares of traffic sold in hub, etc.) and to look at the performance of every single flight

serving a specific O/D market. This way, some potential issues can be identified, like weak flights within one route, directional imbalances in traffic or capacity, directional imbalances in yield, the effect of seasonality on load factors and yields, spill effects, etc.

3. Diagnose and set targets The analysis enables the cross-functional teams to identify best performance through internal, or if possible external, benchmarking. Then the key drivers of the performance gap can be identified and targets set for each underperforming market.

4. Develop market-specific revenue enhancement measures In this step actions are developed by brainstorming, formulating hypotheses on improvement levers, doing the appropriate validations and finally defining an action plan with all measures and responsibilities. Obviously, some actions will have to be traded off against each other - for example, price changes in a local market might trigger changes in the capacity allocated by the revenue management system, improving a specific high-potential connection might negatively affect other connections, etc. This is where functional expertise and IT tools can help make the best trade-offs, once that the full picture is clear.

This market-by-market cross-functional process for revenue performance management is not a substitute for functional excellence, but rather a way to complement it. It can contribute significantly to improving profitability, especially if an airline operates a large network with many markets served and significant connecting traffic.

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AIRCRAFT AND ASSET VALUATIONS

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Aviation Strategy

Macro-trends

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total international		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
1993	137.8	79.8	57.9	145.1	102.0	70.3	96.3	68.1	70.7	319.1	223.7	70.1	479.7	318.0	66.3
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72.0
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
2000	208.2	132.8	63.8	229.9	179.4	78.1	137.8	108.0	78.3	508.9	396.5	77.9	755.0	555.2	73.5
Dec 00	16.3	9.2	56.4	17.9	12.4	69.5	11.4	8.4	73.7	41.3	29.9	72.5	60.6	40.9	67.5
Ann. chng	4.1%	9.9%	3.0	5.6%	12.3%	4.1	0.5%	9.1%	5.9	3.5%	11.1%	5.0	3.7%	10.4%	4.1
Jan-Dec 00	208.2	132.8	63.8	229.9	179.4	78.1	137.8	108.0	78.3	508.9	396.5	77.9	755.0	555.2	73.5
Ann. chng	5.2%	7.9%	1.6	5.2%	8.1%	2.1	2.4%	4.8%	1.8	3.5%	7.1%	2.7	4.2%	7.5%	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 %
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
2000	1,033.5	740.1	71.6										380.9	289.9	76.1
Dec 00	84.5	58.1	68.7										31.7	22.4	70.6
Ann. chng	-0.2%	1.9%	2.7										8.4%	15.0%	3.8
Jan-Dec 00	1,033.5	740.1	71.6										380.9	289.9	76.1
Ann. chng	2.6%	4.6%	1.4										6.2%	8.5%	1.6

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	70.9	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.

Aviation Strategy

Macro-trends

FINANCIAL TRENDS (1990=100)

	Inflation (1990=100)					Exchange rates (against US\$)						LIBOR 6 month Euro-\$	
	US	UK	Germany	France	Japan	UK	Germ.	France	Switz.	Euro**	Japan		
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	2000	0.603	2.119	7.108	1.658	0.923	118.1	5.36%***
						Feb 2001	0.694	2.150	7.211	1.688	0.910	116.7	4.70%***

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.

AIRCRAFT AVAILABLE FOR SALE OR LEASE

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	TOTAL
1988	126	34	160	16	1	17	177
1989	216	38	254	42	2	44	298
1990	380	77	457	74	14	88	545
1991	457	129	586	114	27	141	727
1992	433	138	571	75	15	90	661
1993	370	195	565	103	37	140	705
1994	267	182	449	61	23	84	533
1995	238	157	395	49	29	78	473
1996	124	101	225	32	22	54	279
1997	162	104	266	54	13	67	333
1998	187	125	312	67	55	122	434
1999	243	134	377	101	53	154	531
2000	302	172	474	160	42	202	676

Source: BACK Notes: As at end year; Old narrowbodies = 707, DC8, DC9, 727, 737-100/200, F28, BAC 1-11, Caravelle; Old widebodies = L1011, DC10, 747-100/200, A300B4; New narrowbodies = 737-300+, 757, A320 types, BAe 146, F100, RJ; New widebodies = 747-300+, 767, 777, A600, A310, A330, A340.

JET AND TURBOPROP ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
ATR	Feb 2	Vietnam Airlines	3 ATR72-500s		4Q2001+	
Airbus	Feb 21	Kuwait Fin. House	4 A320-200s	\$200m	2003+	New customer
BAE Systems	-	-	-			
Bombardier	Feb 14	Japan C.A.B.	1 Global Express			
	Feb 16	Cameroon Airlines	1 CRJ200, 1 CRJ700		4Q01+1Q02	
	Feb 19	Yunnan Airlines	8 CRJ200s	\$184m	4Q01-4Q02	
Boeing	Feb 1	Pembroke Capital	2 717-200s		2002+	In addition to 25 717-200s on order
	Feb 5	Oman Air	2 737-700s	\$96m	4Q2001+	Plus 2 options
	Feb 26	Azteca Airlines	2 737-700s	\$94m	2001	First operator of type in Mexico
Embraer	?	Axon Airlines	4 ERJ-145s			Plus 4 options
	?	Reg. AL (Morocco)	5 ERJ-135s			
	Feb 1	American Eagle	6 ERJ-140s		2Q2001	Conversion of options
	Feb 5	British Midland	2 ERJ-135s		1Q2002+	Conversion of options
Fairchild	-	-	-			

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

Aviation Strategy

Micro-trends

	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*														
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
Oct-Dec 00	4,859	4,779	80	47	63,562.5	44,318.5	69.7	7.64	7.52					107,500
America West														
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				
Oct-Dec 00	573	654	-81	-47	11,133.1	7,616.8	68.4	5.15	5.87	4,958				
Continental														
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	27,881.1	77.5	7.29	6.58	12,155				
Oct-Dec 00	2,429	2,332	97	44	34,454.0	24,685.1	71.6	7.05	6.77	11,456				
Delta														
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	4,325	3,827	498	127	61,319.9	47,076.5	76.8	7.05	6.24	27,378				
Oct-Dec 00	4,017	3,839	178	18	58,655.8	40,527.0	69.1	6.85	6.54	24,919				
Northwest														
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					
Oct-Dec 00	2,740	2,774	-34	-69	40,417.6	29,850.1	73.9	6.78	6.86					
Southwest														
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	24,638.0	17,650.8	71.6	6.00	4.79	16,501				
Oct-Dec 00	1,467	1,216	251	155	25,267.5	17,443.2	69.0	5.81	4.81	16,287				
TWA														
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	973	984	-11	-35	15,928.0	12,316.3	77.3	6.00	4.79	7,211				
Jul-Sep 00														
Oct-Dec 00														
United														
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
Oct-Dec 00	4,792	4,955	-163	-71	70,550.1	49,897.9	70.7	6.79	7.02	20,509				99,100
US Airways														
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
Oct-Dec 00	2,347	2,428	-81	-98	28,275.4	19,590.0	69.3	8.30	8.59	15,605				43,467
ANA														
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	SIX MONTH FIGURES													
Jul-Sep 00	SIX MONTH FIGURES													
Oct-Dec 00	SIX MONTH FIGURES													
Cathay Pacific														
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	SIX MONTH FIGURES													
Oct-Dec 00	SIX MONTH FIGURES													
JAL														
Apr-Jun 99	TWELVE MONTH FIGURES													
Jul-Sep 99	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	
Oct-Dec 99	TWELVE MONTH FIGURES													
Jan-Mar 00	TWELVE MONTH FIGURES													
Apr-Jun 00	TWELVE MONTH FIGURES													
Jul-Sep 00	TWELVE MONTH FIGURES													
Oct-Dec 00	TWELVE MONTH FIGURES													

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

Aviation Strategy

Micro-trends

	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														
Apr-Jun 99	TWELVE MONTH FIGURES													
Jul-Sep 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	
Oct-Dec 99														
Jan-Mar 00														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
Malaysian														
Apr-Jun 99	TWELVE MONTH FIGURES													
Jul-Sep 99	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	
Oct-Dec 99														
Jan-Mar 00														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
Singapore														
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	
Oct-Dec 00														
Thai Airways														
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														
Oct-Dec 00														
Air France														
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	
Oct-Dec 00														
Alitalia														
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	SIX MONTH FIGURES													
Jan-Mar 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	
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
BA														
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
Oct-Dec 00	3,328	3,212	116	84	42,347.0	29,008.0	68.5	7.86	7.58	10,493	6,230.0	4,128.0	66.3	62,831
Iberia														
Apr-Jun 99	TWELVE MONTH FIGURES													
Jul-Sep 99	3,712	3,659	53	179	50,227.6	34,606.8	68.9	7.39	7.28	21,877				
Oct-Dec 99														
Jan-Mar 00														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
KLM														
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
Oct-Dec 00	1,617	1,574	43	4	19,050.0	14,715.0	77.2	8.49	8.26		3,316.0	2,618.0	78.9	26,349
Lufthansa***														
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	
Oct-Dec 00														
SAS														
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				27,201
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
Oct-Dec 00	1,310	1,131	179	174*	8,541.0	5,492.0	64.3			5,747				27,767
Swissair**														
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														
Oct-Dec 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.

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