

Regulators still thriving, alas

Any thoughts that the airline industry is on the way to behaving like "normal" industries took a backward step in May. The industry is still hamstrung by regulation and regulators. Airline consolidation is prevented by national and international red tape. Most observers think that global deregulation/liberalisation is a good thing, but the prospect of this happening seems even further away as a result of the IATA AGM held in Madrid in May. The reason: more organisations throwing their hats into the ring to be leaders in the deregulation process. Bad news for consumers and for investment bankers looking to do cross-border M&A deals.

The IATA AGM is a staged, set-piece affair, and in truth not really a forum for progress. In some respects as a result of the speeches given at this the 57th AGM, the aviation industry has probably taken a step backwards rather than forwards. Two presentations illustrate the point.

A paper entitled "Progressive liberalisation through ICAO" was presented. ICAO strengths were laid out, namely 187 member states and the need to liberalise with "safety" as a priority. ICAO has commissioned a detailed study on airline ownership and control, and is working alongside IATA on producing an updated "airline code of conduct". ICAO also pointed to its other strengths in resolving disputes between airlines and also its understanding of product distribution issues via its code of conduct on CRSs.

So when can the industry expect progress from ICAO? Well it was announced that in March 2003 the 5th ICAO Air Transport Conference will be used to discuss liberalisation issues. The event is being touted by ICAO as a "potential pivotal milestone in aviation history". Roll on 2003.

The OECD argued its case for an involvement in the process of setting up a more liberalised regime in partnership with the World Trade Association (WTO). The idea was floated that the General Agreement on Trades and Services (GATS) could be extended to coverage various elements of the industry. However, the key OECD suggestion was the best way forward should be the "lead-sector approach". The concept is to globally liberalise the air cargo market first and at some later undefined point the passenger market can follow suit.

Meanwhile, the US and Europe continue to squabble. The US has now signed 80 "open skies" agreements, and has broken new ground with the signing of the plurilateral agreement with five Asian member states of APEC. The apparent concern for the rest of the world is that the US regulatory authorities will allow further US airline consolidation is allowed and that the world's strongest and largest airlines become even more dominant.

As for the European Union, it has tied itself to the Transatlantic Common Aviation Area (TCAA). If the EC can win the right to negotiate bilateral agreements on behalf of its member states, then persuade the Americans to go along with the TCAA approach rather than their "open skies" template, the way will be clear to extend the TCAA elsewhere. The two protagonists won't agree, however.

The sub-segment of the aviation industry that consists of regulators, lawyers and conference organisers is vibrant and expanding. It is as adept at protecting the interests of its members just as effectively (though more subtly) as the most militant pilots' union.

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Australasian rationalisation: Air NZ, Ansett, Qantas and SIA

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The Single Aviation Market (SAM) deregulated and unified the Australian and New Zealand markets. But an anomalous set of airline ownership controls were left in place which are now making an urgent rationalisation process very complicated.

To summarise briefly the situation. About two years ago SIA attempted to purchase half of Ansett but was blocked by Air New Zealand, which already owned 50% and negotiated with the Australian government to increase its stake to 100%. SIA ended up purchasing 25% of Air New Zealand. Meanwhile, two new low-cost carriers - Impulse Airlines and Virgin Blue - entered the Australian domestic market injecting fierce new price competition and undermining the profitability of Qantas and, in particular, Ansett. However, Impulse's own losses mounted to such an extent that its investors welcomed a rescue purchase by Qantas in May, a transaction now approved by the Australian Competition and Consumer Commission (ACCC).

As a consequence of the intense competition faced by Ansett, Air NZ has suffered a substantial financial loss from the transaction, which looks as if it will lead to another round of restructuring in the Australasian market. At the end of May SIA offered to buy all of Ansett from Air NZ and at the same time divest its 25% in Air NZ. Qantas says that it would like to buy this stake plus another 30% owned by the investment company Brierley.

Back to the details of Air NZ's current situation. The Ansett transaction is dragging Air NZ from a net profit of NZ\$186m (US\$

76m) in the financial year ending June 2000 to a predicted loss of between NZ\$150m and NZ\$200m for the current financial year. Air NZ had originally predicted that its profits would be enhanced to the tune of NZ\$250m through the take-over of Ansett. Its stock price has fallen 30% over the past 12 month whereas the New Zealand overall stock index has risen 6%.

The decline in its financial fortunes has caused Air NZ a major problem with regard to its planned NZ\$5bn (US\$2bn) fleet renewal programme, centred on replacing the 767s, which was to have been finalised in August or September. These plans have now been put on hold.

The most obvious source of new capital for Air NZ would have been an increase in SIA's 25% holding but this would have been illegal under New Zealand law which limits foreign airline ownership to 25%. Also 51% of its shares, the A shares, can only be held by New Zealand nationals, whereas anyone can own the other 49%, the B shares. Just to add another layer of complication, Brierley, which owns 30% of the airline in A shares has now relocated to Singapore and holds its stake under a trust fund arrangement.

Faced with the constraints imposed by the ownership stipulations, Air NZ considered raising funds by selling some NZ\$700m of securities to the government, a move which was seen as a thinly disguised bid for state aid.

Air NZ is quite sensitive about the government relationship. CEO Gary Toomey attempted to clarify the issue at the end of May: "We've given some consideration to

PROSPECTIVE FINANCIAL RESULTS (US\$m)

	Year end	Revenue	Net profit	Market Cap	Profit margin	P/E ratio
SIA	March-02	5,597	650	9,031	11.6%	13.9
Air NZ (inc. Ansett)	June-01	3,295	-82	396	-2.5%	nm
Qantas	June-01	5,148	186	2,283	3.6%	12.3

Source: Deutsche Bank

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one funding option that involves asking the Government to consider some transitional funding arrangement in the event that international attitudes towards the ownership and control issue haven't moved far enough to give us adequate equity raising ability. This very speculative internal discussion has been misinterpreted into us seeking a government cash bailout. Nothing could be further from the truth".

Selling Ansett to SIA is one solution to the fleet investment problem. The downside for Air NZ might be that the sale would crystallise the losses it has made on its airline investment strategy. For Ansett, Air NZ paid A\$1.06bn (US\$540m) made up of A\$475m for the first 50% and A\$680m for the second 50%. What Ansett's value is now is very difficult to assess as it is fully consolidated into Air NZ (though Air NZ has continued to operate Ansett as a distinct Australian brand, a condition of the purchase agreement).

However, Kevin O'Connor* of Deutsche Bank suggests that Ansett's net assets might be worth 75% of what AIR paid, but the number could be well below that. On an earnings basis, Ansett is theoretically worth much less as it is still losing money, even after the exit of Impulse.

A change in the ownership regulation to

allow Qantas to take a substantial stake in Air NZ is a sensitive political issue. The initial noises coming from Prime Minister Helen Clarke indicate that the New Zealand government does not like the idea at all. However, it would like the idea of a continuing deterioration in Air NZ's finances even less.

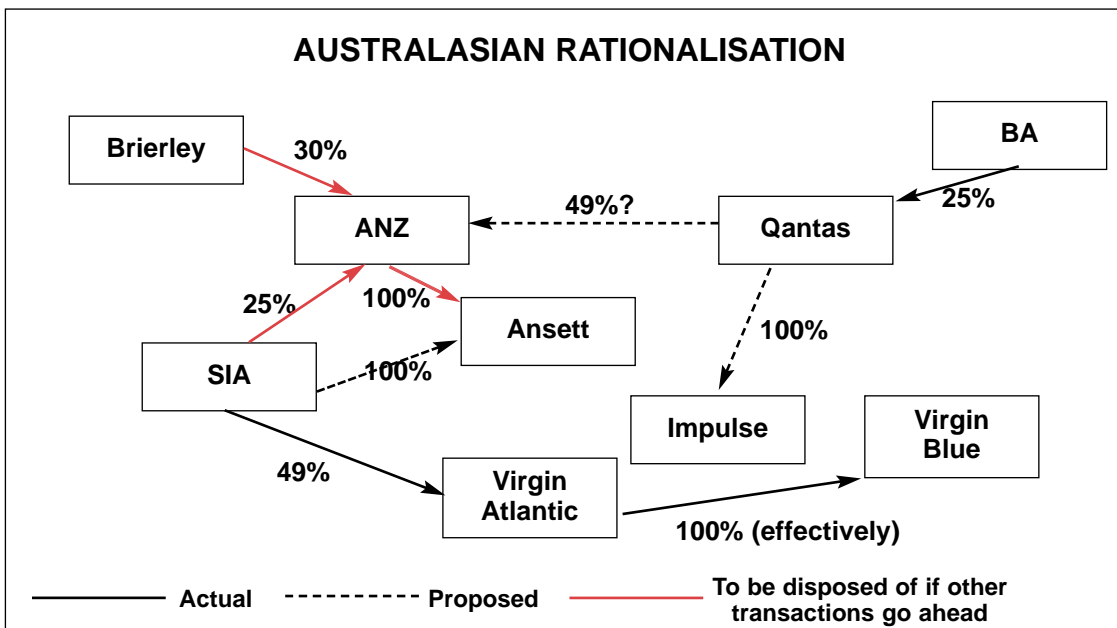
Qantas taking over Air NZ would in theory produce an absolute monopoly in the New Zealand domestic market. Qantas currently competes with Air NZ on trunk routes in that country. The main domestic competitor, Qantas NZ, a franchise operator, went bankrupt earlier this year.

Qantas's proposition

In an attempt to allay regulatory concerns in this area and also to safeguard Air NZ's international rights, Qantas has stated that the two airlines would be run independently maintaining their own brands, management and stockmarket listings; a majority stake would be left in New Zealand hands. Qantas also claims that the transaction will "create major synergies and growth".

It is not clear how these two statements can be compatible. On the other hand, given the record of the Air NZ/Ansett take-over,

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AUSTRALASIAN FLEETS

	717	737	A320	146	Narrowbodies	767	747	Widebodies	Total
Air NZ		17			17	14	8	22	39
Ansett		24	20	10	54	10	3	13	67
Qantas		37			37	36	37	73	110
Impulse	8				8			0	8
Virgin Blue		6			6			0	6
Total	8	84	20	10	122	60	48	108	230

Source: ACAS

and that of Qantas/Australian Airlines in the early 90s, not trying to merge the two entities might be the more sensible option.

From Qantas's perspective, a reconsolidation of the Australian/New Zealand domestic market, a return to the something like the old duopoly, would be the best outcome from the current state of flux. The absorption of Impulse (following on from Ansett's take-over of Hazelton, a significant regional airline, two months ago) has taken low-cost capacity out of the trunk routes. Impulse had about 8% of the Sydney-Melbourne capacity and 7% of Sydney-Brisbane.

This leaves Virgin Blue, which has about 10% of Sydney-Brisbane and 13% of Brisbane-Melbourne. The question is: will Virgin Blue continue to compete aggressively or will it seek some accommodation with the incumbents in a restructured market? Ansett and Virgin Blue had held tentative talks relating to some form of cooperation prior to Qantas' expression of interest in Air NZ, the idea being that Air NZ/Ansett and Virgin Blue would form an alliance against Qantas. If SIA takes over Ansett, then it will not appreciate immoderate competition from an airline which is ultimately owned by Virgin Atlantic which in turn is 49% owned by SIA.

The downside for Qantas is that SIA ownership of Ansett will result in a revitalisation of the carrier, creating a much more effective competitor to Qantas. Currently Qantas is benefiting from the poor image that Ansett has with the Australian travelling public, resulting from a series of safety scares with the airline's elderly 767s.

Qantas's forecast net profit for the finan-

cial year to June 2001 is 16% down on the previous year but still a very respectable A\$366m (US\$186m). Should all the proposed deals go through, Ansett and Virgin Blue would have to be allowed, indeed encouraged, to enter the New Zealand domestic and trans-Tasman markets.

SIA's opportunity

SIA finds itself presented with the opportunity of capturing 100% of the airline it wanted to buy two years months ago and probably at a substantially lower price than that paid by Air NZ. Australian domestic carriers can be 100% owned by foreign interests but only 49% of Australian international carriers (Ansett International is a 49% subsidiary of Ansett Holdings).

SIA would achieve direct access to feed from the key eastern seaboard market, plus an intro to new international markets. Before the latest round of take-over offers, Ansett announced plans to expand its international services to London, Los Angeles and Tokyo (at present it flies to Hong Kong and Osaka). SIA already has a series of codesharing agreements in place with Ansett.

SIA's governing principle in investment decisions is to gain a controlling influence (or potential controlling influence in the case of Virgin Atlantic). With the proposed Ansett investment it could have 100% ownership, but would still face restrictions imposed by the Australian regulators.

An Ansett purchase would further enhance SIA's position in the Star alliance, while Air NZ would presumably have to quit Star and join oneworld. (There is actually a

financial penalty for switching alliances - Air NZ would be obliged to pay Star about US\$25m in termination fees.)

As for the cost of the transaction, no prices have been mentioned as yet but Kevin O'Connor of Deutsche Bank has made some informed estimates of the parameters of the deal.

Assuming SIA exits from AirNZ at no premium to the current share price it would realise about S\$200m (US\$110m), though it would have made a significant loss on its

original investment. If it paid the same for Ansett as Air NZ did, the cost would be about S\$1bn (US\$552), so a net current cost to SIA of around S\$800m (US\$442m) for the whole transaction. This compares to SIA's net profit of S\$1.55bn for the year 2000/01 and a current cash balance of about S\$2.1bn.

Before all this can happen, the various regulatory and ownership control issues have to be resolved, which will be a tedious process.

Aircraft values: new regular assessments

From next month *Aviation Strategy* will contain a regular database page on current aircraft values and operating lease rates.

This will cover, on a regular basis, values and rates for widebodies, narrowbodies, freighters and turboprops.

The data will be supplied by the leading

appraiser and valuer - Aircraft Value Analysis Company (AVAC), which is headed by Paul Leighton.

Contact details for AVAC are as follows:

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WIDEBODY CURRENT VALUES (US\$ millions)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A300B4-200				8.1	747-200B				14.4
A300B4-600			26.1		747-400	148.7	121.2	79.9	
A300B4-600R (HGW)		58.7	38.6		767-200			26.9	12.4
A310-300 (IGW)			51.8	34.4	767-300		62.8	41.3	
A330-200	97.7				767-300ER (LGW)	84.0	69.4	47.6	
A330-300 (IGW)	98.1	82.0			767-400	90.9			
A340-200		78.3			777-200	110.2	91.7		
A340-300(LGW)	104.1	87.4			777-200ER	121.9	103.7		
A340-300ER	111.3	95.6			777-300	129.6			
A340-500	126.8								
A340-600	135.2				DC-10-10				3.9
					DC-10-30				13.2
					DC-10-40				4.6
					MD-11P		67.0	47.5	

Source: AVAC

Notes: As assessed at end-April 2001; mid-range values for all types

American/TWA: the integration plan

Airline mergers have been characterised by long-running industrial relations disputes, synergy targets that are never attained and major distractions to the management of the core business. The integration of TWA into American Airlines is probably the largest test case so far in the current game of airline consolidation. It will not be known for some time whether American Airlines' management will pull off a successful integration, but presented below are the targets and objectives that have been set.

American agreed to purchase all of the assets of TWA, in conjunction with its Chapter 11 bankruptcy in January 2001. The initial task of the American management is to justify the cost of the transaction which is estimated at \$2.8bn, consisting of \$600m in cash and \$2.2bn in assumed leases. Using standard financial ratios to compare this take-over to other airline transactions suggests that American would appear not to have overpaid for TWA.

The key to the success or otherwise of the transaction will be whether American can successfully integrate the selected assets that have been acquired. The benefits accruing to American are seen as:

- Increasing the scale and size of American's network, particularly in the north east

- 138 leases on gates (by far the largest being the 57 gates at St. Louis)
- 171 slots at various constrained airports including 84 at New York JFK, 51 at New York LGA, 34 at DCA, and 2 at Chicago ORD
- 173 aircraft (153 on lease, 20 purchased)
- A third hub at St. Louis, to augment its existing Dallas and Chicago hubs
- Access to TWA's substantial maintenance facilities in Kansas City, Los Angeles and St. Louis
- 18,000 line employees, many of whom have key skills in areas where there are national shortages
- 26% stake in Worldspan

Fleet

The fleet objectives for American are to minimise the number of fleet types and reduce aircraft ownership cost. Thus lease terms have been re-negotiated with lessors to reflect American's higher credit rating, and for aircraft such as the DC-9s - which is an aircraft without a long-term future in American's fleet plans - the length of the leases has been shortened.

The fleet purchased by American consists of:

- 9 767-300s, prioritised for short-term replacement as Pratt & Whitney powered, unlike American's existing 767s which have GE engines.
- 27 757-200s, which again because of different engine types have had their leases shortened and will leave the fleet between 2004 and 2007.
- 15 717-200s, which as result of a re-negotiation of terms with Boeing will be added as a new type to the American fleet. In addition American has agreed to take 15 of the 35 717s that TWA had on order from Boeing, again under revised terms.
- 103 MD-80s, which are common to American's existing fleet of MD-80s and will

FINANCIAL RATIOS IN US AIRLINE MERGERS

	EV/EBITDA	EV/Revenue
American/TWA	4.2	0.7
United/USAirways (proposed)	8.6	1.3
Continental/Northwest	6.1	1.5
British Airways/US Air	15	1.6
US Air/Piedmont	7.3	1.3
Delta/Western	13.1	1.2
Delta/Comair	8.0	3.4

Note: EV = Stockmarket value of equity plus net debt; EBITDA = Earnings before interest, taxes, depreciation and amortisation

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therefore be retained.

- 19 DC-9s, which will all be retired by 2003.

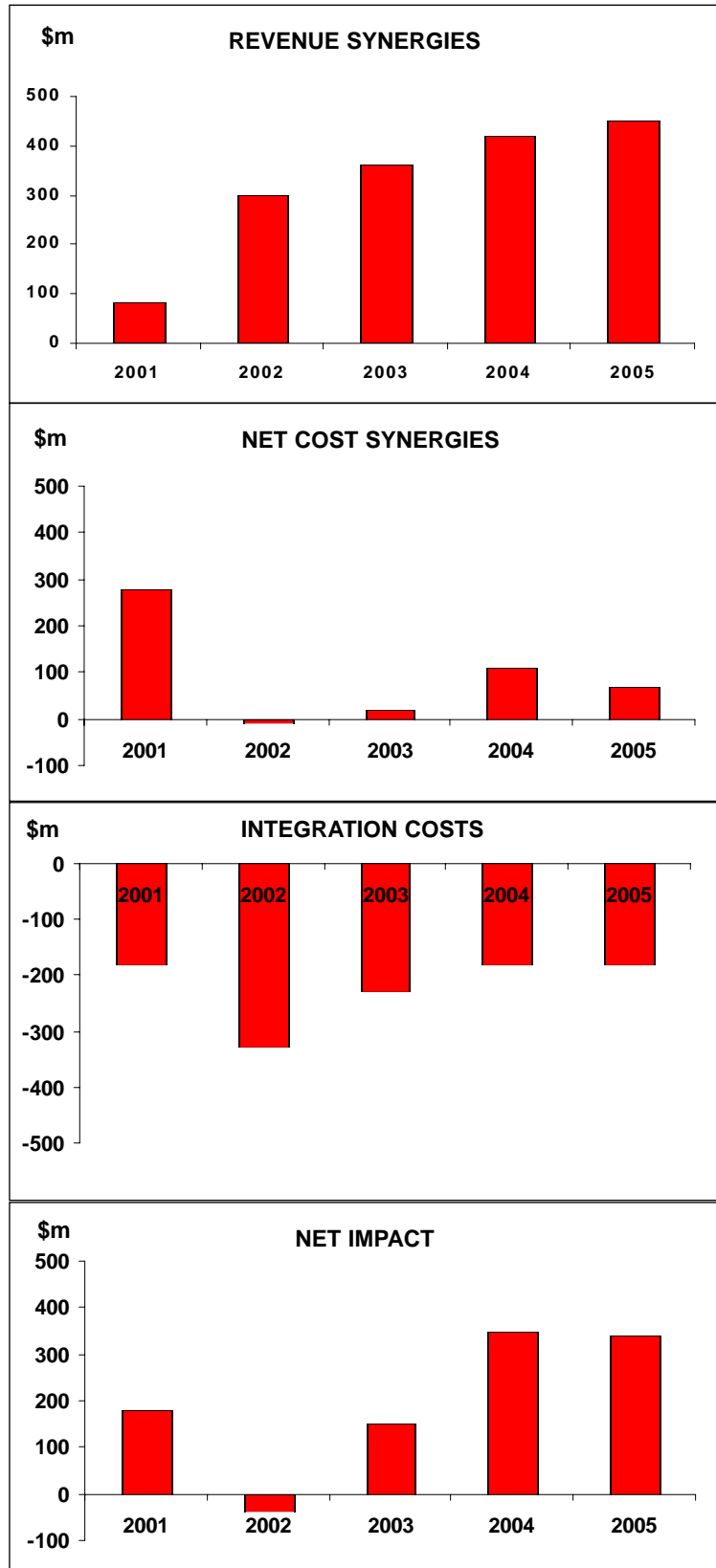
These acquisitions have had a knock-on effect on American's own fleet policy. American exercised its options on 15 767-300s, which will replace the three-class A300s on transatlantic services, thus reducing a fleet type. The Airbuses will be used for American's Caribbean services replacing both 757s and 737s, again reducing a fleet type. These aircraft, along with the 717s, will provide American with additional capacity in the US domestic arena.

Revenue synergies

American has identified TWA's lack of ability to generate strong revenues as a rectifiable problem. TWA's revenue problems, according to American, stem from its single hub, limited number of corporate contracts, lack of alliance partners, weak FFP and the Karabu ticketing agreement. American has set itself a target of annual revenue synergies of \$400-500m on a steady state basis.

The key synergy drivers are:

- Elimination of the Karabu ticketing agreement under which TWA was obliged to sell a proportion of its tickets at highly discounted rates to an agency owned by TWA's former owner, Carl Icahn; this deal, part of Icahn's settlement, was estimated to cost TWA \$80-100m a year lost revenue.
- Scheduling efficiencies - American has already announced a reduction in flying from San Juan, where the two airlines networks overlapped.
- Enhanced city presence, for example in Los Angeles where American's market share will increase from 16% to 20%, which it is claimed, because of the "S-curve" effect, will result in an even larger increase in revenue share at the airport.
- Yield improvements through a greater share of premium traffic, the AAdvantage FFP and through improved alliance relationships. Adjusted for stage length and seat configuration, American estimates that TWA's unit yield was 20% below that of American. It is forecast that "over time" this yield gap will close to 5-8%.



Cost synergies

American describes the cost impacts of the deal as a "mixed bag". On the negative side, as TWA's employees are shifted onto American's wage rates and work rules, the impact of these new contracts will cost American \$260m a year.

Offsetting this increase American has identified over \$150m of annual costs savings from areas such as:

- Elimination of duplicate overhead, which will be achieved in the short term in areas such as advertising, legal and finance, and in the longer term in areas such as computer systems maintenance and airport manning
- Reduction of facility rents which will also include better utilisation of gate facilities at airports such as Dallas DFW and New York LGA
- Improved purchasing; for example TWA had only 20% of its fuel purchasing under contract whereas American purchases some 70% under contract
- Implementing best practice in the area of fuel hedging.

Integration costs

To achieve both the revenue and costs synergies, American will be faced with what it hopes will be one-off integration costs. Whereas some of the synergy benefits accrue in the short-term, most take longer to achieve. Unfortunately in mergers, integration costs are normally up front and in the first three years of the merger will amount to some \$600m. In this case the integration costs result from:

- Fleet modifications
- Facility integration
- Training
- System conversions
- Severance and relocation costs

The integration process

By American's own admission the merger of the two airlines is "extraordinarily complex". American hopes to learn from the mistakes of the Air Canada/Canadian inte-

gration. It contends that it was a mistake for Air Canada to integrate Canadian's schedules into its own before labour issues, customer loyalty programmes and computer systems had themselves been fully integrated.

So American has adopted a three-phase approach to integration.

Phase 1 - Transition of functions to American that have only minor labour and computer system impact, such as marketing functions (passenger sales, revenue management, scheduling and advertising) and financial functions (treasury, purchasing, and auditing). American expects that these functions will have been transferred by mid-July.

Phase 2 - Airport/Reservations integration. The two key drivers in this area are the airline marketing code (easy) and CRS host conversion (difficult). Both need to be achieved if reservation agents are not to face situations where they have incomplete passenger information. Converting TWA's host system to American's Sabre will involve solving four key issues:

- Providing the infrastructure for new Sabre hardware at each TWA airport.
- Achieving an interface between Sabre and TWA's commercial systems controlling operations.
- Training TWA's operational personnel, particularly airport and reservations agents.
- Providing Sabre/Worldspan interface software to allow a phased airport conversion.

Phase 3 - Operations integration. American expects that full operational integration will not be achieved until 2004-2005. The key is the ability to modify TWA's aircraft to American's specifications, and this in turn will determine the integration of TWA's flight crew and maintenance functions.

On the marketing side American has already progress by offering reciprocal FFPs, extending American's corporate and travel agency programmes to TWA flying and giving reciprocal airport club access. By the end of this year American hopes to have made progress in re-configuring the seating in TWA's aircraft, standardising the in-flight product and co-locating at particularly hub airports.

Financial implications

Naturally, American suggest that the purchase of TWA will be earnings enhancing in the medium term. Initially it indicated that despite the up-front costs of integration that the deal would be earnings neutral in 2001. The deterioration in the US economy however has led American to be more cautious and is now talking about "some earnings risk in the near term".

Analysts and shareholders will require American to provide detailed analysis as to

how progress is being made with the integration and whether targets are being met. The problem for all parties will be what to measure and how to measure it. Airline mergers are very complex, and as integration progresses measurement of benefits and synergies becomes ever harder. Cynically, one might argue that as long as the management team at American that made the TWA acquisition remain in place then it is likely that numbers will be provided that prove that the acquisition was the right strategic move.

The New Global Cargo concept

The 2000 financial year was the best in Lufthansa Cargo's history. Ambitious targets were set and met, helped by world economic growth, more advantageous exchange rates, and a successful fuel hedging policy, which enabled the airline to largely cushion the blow of oil price increases. However, the global economic slowdown or recession will have an immediate impact on airfreight volumes. Lufthansa's strategy for managing its freight business through all the phases of the economic cycle is based on *New Global Cargo*.

New Global Cargo is a joint venture between Lufthansa Cargo, SAS Cargo and the newly formed Singapore Airlines Cargo, with the aim of building the world's leading airfreight logistics system network. First mooted in 1998, the three carriers have now formed integrated business teams, which will attempt to harmonise products, sales structures, handling processes, and the different IT systems of the partners. Analysis of existing procedures and IT systems has been completed, and the structure of a future common IT platform has also been determined. The first steps in adapting the systems have been taken.

The first concrete outcome of the alliance will be the market launch of a joint express

product in the second half of the year, although no details have yet been made available. As a second step, harmonised standard cargo products will be offered on the joint network.

Equity links are possible, with discussions centring on Lufthansa Cargo buying 49% of its Scandinavian partner. A closer tie-up has been urged by SAS management, and Jean-Peter Jansen, chairman and CEO of Lufthansa Cargo, says that it may take a stake by the end of the year. Jansen adds that other airlines could join New Global Cargo.

Another strategic alliance was formed during 2000 with Deutsche Post, under which Lufthansa Cargo established Aerologic as a vehicle to pool interests in DHL International and facilitate expansion in the express business. In addition, co-operation with Deutsche Post has been extended in the fields of e-commerce and supply chain management, with plans to create another joint company, e-logic, to merge respective activities in the business-to-business (b2b) sector. Furthermore, Lufthansa Cargo has intensified its Business Partnership Program with participating freight forwarders, and introduced new service packages under the time-definite (td) label. Lufthansa Cargo was the first to convert its entire product portfolio

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LUFTHANSA CARGO'S EQUITY INVESTMENTS

DHL International (25%)
Airmail Center Frankfurt (40%)
Traxon Worldwide (25%)
Traxon Europe (46.8%)
Lufthansa Technik LogistiK, Hamburg (49.9%)
Express Air Systems (EASY) (33.3%)
Aerologic, Bonn (49.9%)
Shanghai Pudong Cargo terminal (29%)

to time-definite services in co-operation with customers, and expects its express products to have account for about 40% of its sales by 2006.

To create an organisational structure Lufthansa Cargo has launched its *Cargo Development Programme*, which is due to be completed by the end of this year. The re-organisation aims to make its business processes more transparent, identify and control high value business, and encourage freedom of action in the various sectors. Within this framework, it has split its core business into three. *Global Cargo Net* bundles the worldwide activities in the airport-to-airport business in customer, product and network management, while *Global Cargo Handling* covers all areas of freight handling for an on behalf of Lufthansa Cargo. *Global Freighter Operations* is responsible for the operation of its 22 freighter aircraft. All three units are responsible for their respective results.

2000 financials

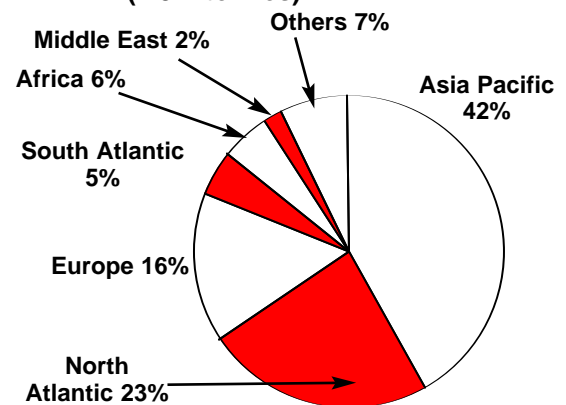
For the year 2000 the operating result came to €227.5m, more than four times that achieved in 1999, attributed not only to the favourable world economy but also to its strategic policy of offering only high-value items and its development of alliances and partnerships. Traffic revenues increased by 23.3% to €2.54bn, while other operating revenues

went up by 6.4% to €22m. Some 70% of traffic revenues were generated to and from Asia and the Americas, with the former constituting the airline's most important area of activity. Expenditure in the year rose by 22.9%, driven by a 91% increase in fuel costs, in spite of extensive fuel hedging measures and the introduction of temporary fuel surcharges at the end of 2000.

The expansion of the fleet by four new MD-11F aircraft, and the down payment for two further aircraft of this type, accounted for a capital expenditure of €320m, financed entirely from operating cash flow. Another €19m was spent on improvements to ground infrastructure and information technology, and €9m on miscellaneous investments, bringing the total to €348m. Cash value added (the difference between the cash flow target and actual cash flow achieved) was up by 67% to €157m. Since 1998, Lufthansa Cargo has increased the value of the company by an average of €74m each year. The first quarter 2001 earnings were more subdued, leading the airline to predict that "in all probability [the full year result] will not match that of the year 2000." The outlook is based on low-key economic forecasts, the continued high level of the oil price, and exchange rate worries. Operating profit dropped from €27 in the same quarter last year, to just €8m, on 8.6% higher revenues of €602.3m

Moreover, there is the possibility of restrictions on night flights being introduced at Frankfurt, which has been under pressure from local environmental groups for some

LUFTHANSA CARGO TRAFFIC BY REGION, 2000 (1.8m tonnes)



time. This would have a significant impact on the airline's activities, as some one-third of its cargo flights operate at night. The threat of a ban has forced Lufthansa Cargo to look at alternative hubs.

Halle/Leipzig has been suggested by Deutsche Post as a possible night hub for mail, but this has received a lukewarm response. Hahn, some 100km from Frankfurt also appears to have been discounted for the unsuitability of its runway, but there is a more fundamental reason for the reluctance to look beyond Frankfurt.

Jansen has made it clear that Lufthansa Cargo does not want to split hubs. The best combination, he points out, is the concentration of all-freight and bellyhold cargo in passenger aircraft in the same place. At present, a rough split of its cargo volume is 60% carried on all-freighter flights and 40% on passenger flights of Lufthansa, Lufthansa CityLine and Condor Flugdienst.

This would suggest there is no real alternative, and it is interesting to note that Munich, where the passenger side of Lufthansa has built a strong second hub, has not been mentioned for a major development of cargo. Frankfurt has the largest numbers of European and intercontinental connections and' says Jansen, it will do everything to reach an acceptable compromise with the environmental lobby.

Fleet

The Lufthansa Cargo fleet comprises eight 747-200Bs and 14 MD-11Fs, with a respective capacities of 110 tonnes and 90 tonnes. The MD-11 appears to have proved

itself as an economic freighter, generating renewed interest in the marketplace, which has pushed up prices for second-hand models. Lufthansa Cargo is looking to add more, but says it is not prepared to pay inflated prices.

There are no other options, except stepping up in capacity to the 747. It is also evaluating 50-tonne freighters, with the A300-600F the front runner, and the 767-300PF also a possibility, but this is not yet a priority. Even less emphasis is being given to a still smaller 20-40-tonne freighter. However, Lufthansa does see a need for a large-capacity 150-tonne superfreighter for a limited number of long-haul routes in the 2006-2008 timeframe, and confirms that it is in discussions with Airbus on the A380F.

With the cyclical nature of the cargo business, any potential excess capacity problem could be addressed by Lufthansa Cargo stepping into the ACMI (aircraft, crews, maintenance, insurance) leasing sector, although that is being adequately supplied at present by operators such as Atlas Air, Gemini Air Cargo and other smaller players.

Jansen believes Lufthansa Cargo has the right strategy to maintain its position as a leading company in the air cargo field. It is building a global air cargo network, developing integrated transport solutions precisely tailored to the needs of customers, and is grasping the opportunities offered by e-business. Whether the alliance enables Lufthansa to bring its unit costs down to the level needed to compete successfully against the US giants like UPS and Fedex is another matter.

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El Al: Fall-out from the intifada

The latest Palestinian intifada has set back the finances of Israel's state-owned airline El Al and raised a very serious question mark over prospects for its privatisation.

The intifada, which began last September, has sent Israeli tourism figures plummeting and with them passenger figures, revenues and profits for El Al. The company will shortly confirm a huge loss for last year while a drastic restructuring is being implemented. At the same time it is having to cope with increased competition in its domestic and international markets.

The current Israeli administration of Ariel Sharon is continuing the privatisation programme of previous governments and last month invited bids for Bank Leumi, the second largest bank in Israel, and the outstanding government holding in Zim Israel Navigation, formerly the country's national shipping line. Plans to sell an initial 49% stake in El Al via a flotation on the Tel Aviv stock exchange, however, will have to wait a little longer.

El Al has been a candidate for privatisation for at least a decade but in that period it has had to contend with both tourist-daunting outbreaks of violence and a more volatile domestic political scene, with changes in the Israeli government becoming more frequent. In previous periods of relative stability in the region El Al appears to have been profitable, but that was when it was still protected from internal and external competition. In the late 1980s, for example, it posted operating profits of \$25-30m and net profits of \$15-23m on revenues of around \$700m just before the Gulf War broke out and sent tourism figures plunging again. In 1995 it made an operating profit of \$35m and a net profit of \$15m and in 1998 an operating profit of \$38.7m and a net profit of \$22.7m when revenues were in excess of \$1.2bn.

Last year, however, the airline made a net loss of \$109m and an operating loss of \$74m on revenues of \$1.3bn, compared with

a net profit of \$16m, operating profit of \$15.6m and revenues of \$1.25bn in 1999. El Al will officially announce its results for 2000 in June when its annual report is published but the headline figures have already been leaked (no doubt for political reasons) and confirmed by El Al management. The official results are expected to confirm the sharp fall in passengers for the last three months of the year, an 80% increase in fuel expenditure despite some hedging and a \$35m loss on financial items. El Al is in the middle of an extensive fleet renewal, having committed itself to the \$330m purchase of three 777-200s from Boeing (an option for a fourth is still being considered), in addition to five 737-700s delivered in 1999. Long-term loans at the end of 1999 stood at \$627m.

Recovery plan

To deal with the intifada effect and other factors, El Al management has put in place a recovery plan which has as its main features a fleet restructuring, the closure or suspension of routes, at least 500 redundancies among its 3,500 worldwide staff and a greater emphasis on high-paying customers. It will also seek to develop more Asian routes (it has a code-sharing agreement with Thai Air) and increase cargo revenues by exploiting capacity on passenger aircraft.

The airline is also in discussions with the Israeli government on acquiring a 25% stake in Arkia, the privately-owned Israeli charter and regional airline, with a view to utilising it in conjunction with El Al subsidiary, Sun D'Or, as a low-cost arm. Arkia seems to be in favour of greater co-operation with El Al as it too has suffered badly from the slump in traffic since the intifada began.

The fleet restructuring will see El Al concentrating operations on its four fleets of 747-400s 737-700s, 777-200s and 767s. The aging fleet of 747-200s and an as-yet unspecified number of its 757s are to be sold

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or leased off. El Al sees the reduced fleet as helping reduce its fuel and maintenance bills, while a greater emphasis, including a \$15m upgrading programme, will be placed on first-class and business-class passengers rather than tourists.

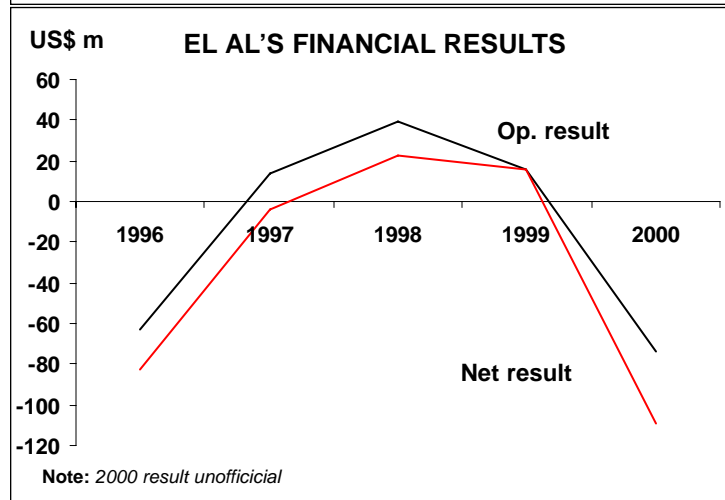
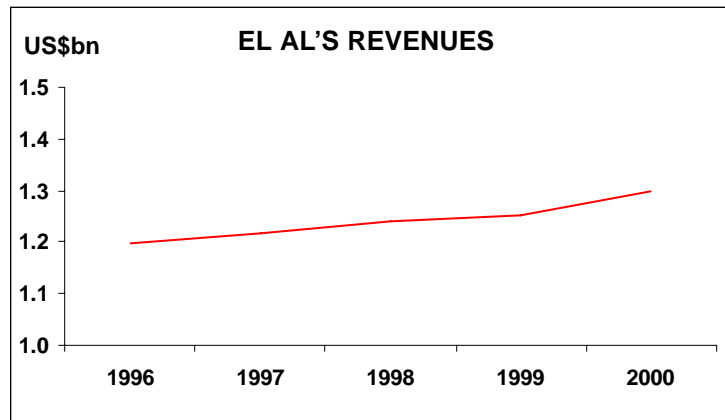
Ten routes are to be cancelled or suspended with Manchester, Copenhagen, Nairobi, Minsk, St Petersburg, Simferopol and Dnepropetrovsk being dropped this year. The last four routes are a reminder of how El Al throughout the 1990s built up an extensive network of routes throughout the Former Soviet Union, partly holiday destinations such as Simferopol on the Black Sea and partly as a result of the return to Israel of Soviet Jews.

Many of these routes were flown by El Al's charter subsidiary, Sun D'Or (sometimes in conjunction with Arkia), and subsequently converted into El Al scheduled flights. (Sun D'Or had revenues of \$25m in 1999, compared with \$31.4m in 1998 when its FSU operations were included and contributed \$1.3m to El Al's 1999 consolidated results.)

El Al's operations in the US where it is a 24.9% shareholder in North American Airlines, which operates transcontinental services connecting to El Al's flights in New York, are also to be scaled back. According to one report, within El Al's plan to reduce its overseas expenses by \$6m the biggest cut at 30% will be in the US budget, with redundancies, office closures and route restructuring. El Al has recently signed a code-share agreement with Delta in addition to an existing one with American, which could facilitate the route rationalisation.

The new competition

Before the present crisis began El Al appeared to be making progress towards the kind of profitability that would make its privatisation more likely, although there were signs it was beginning to feel the effects of greater competition. The "peace dividend" was having a beneficial effect but El Al was having to share them with both domestic privately-owned charter airlines Israil and Aeroel, as well as Arkia and foreign airlines, scheduled and charter. Increased competi-



tion in freight operations following the granting of a licence to Cargo Airlines Ltd at Ben Gurion also undermined El Al's dominant position in this sector.

Even so El Al's passenger numbers in 1999 rose to more than 3.1 million from the previous year's 2.9 million and revenue exceeded \$1.25 billion. A 17.7% increase in fuel costs, however, helped drag the operating profit down from \$38.7m in 1998 to \$15.6m, while heavy financing costs of El Al's new aircraft resulted in a loss of \$15.4m. El Al, however, raised \$25.2m from the sale of shares in Equant, which, with contributions from subsidiaries and other gains, helped to produce a net profit of \$16m.

While El Al was having to live with increased competition, this was not seen as the biggest obstacle to partial privatisation. Instead, the airline and some sympathisers in the government believed the biggest obstacle was the government-imposed ban

on El Al flying on the sabbath and other Jewish holidays, a handicap with which it has had to live since 1982.

The sabbath ban

The sabbath ban (beginning on sundown on Fridays) limits El Al to operating for only five and a half days a week. The airline says it "significantly impacts the company's competitiveness and damages its position in the market with potential partners and also materially affects its value, revenues and profitability". It estimates the ban costs it \$50m a year in revenue and Israeli analysts have been quoted as estimating the ban's effect to be to knock \$90-220m off the airline's value (a figure of \$250-300m was touted around prior to the current crisis).

Whereas in the past El Al used to make a virtue out of the ban by claiming it was still profitable despite being a "5 1/2 days-a-week carrier", the more recent approach has to be lobby for a repeal of the ban and to seek compensation for the lost revenue. A government committee was set up in 1999 to review the ban, particularly in light of the opening-up of Israel's aviation market to seven-days-a week-carriers, and last year the then prime minister, Ehud Barak, appeared to come out in favour of lifting the ban. This, however, prompted threats of resignation from cabinet ministers appointed from the ranks of less liberal minority parties in Barak's coalition. Barak was replaced in February this year by the more right-wing Ariel Sharon who is publicly less disposed to such liberal tinkering with religious laws.

One way around the ban, it has been suggested, would be for El Al to route as much of its traffic as possible through Arkia which, as a privately-owned company, is not subject to the ban and with which El Al would be merged. (Arkia, set up by El Al and the Israeli labour organisation, Histadrut, in 1949, was in 1980 the first state-owned company to be privatised and had been rapidly expanding prior to last year.)

El Al is also claiming compensation

from the government for the extra security costs it has to bear as the national carrier. In 1999 it estimated these at \$6.2m and added a further \$2.4m for revenue lost due to the carriage of security personnel. They form a minor knot in the tangled mess of claims and counter-claims between El Al and the government which has to be disentangled prior to privatisation. Chief among these are "usage fees" which stood at \$267m in 1999 and cover aircraft owned by the government and "leased" by El Al; outstanding severance pay liabilities of \$173m (as at end-1999) relating to the company's period in receivership and to be financed by the government; and El Al's accumulated losses, which had reached \$212m by the end of 1999.

Tortuous relationship with government

The burden of being the Israeli national carrier (religious observation, higher security), the pressure from increased competition created by its own government and frustration at political interference in strategic decision-making have helped to make relations between airline management and government strained, with the former accusing the latter of having no coherent aviation policy.

Last year Joel Feldschuh, El Al president and CEO, resigned after four years, a move attributed to the pressures of dealing with the then government. El Al was negotiating with Airbus for the purchase of three-to-four

EL AL'S FLEET

	In operation	On order	Notes
737-700	2		
737-800	3		
747-200	3		
747-200F	4		
747-400	4		
757-200	6		
767-200	6		
777-200ER	3	3	Not yet confirmed
Total	31	3	by Boeing

Source : ACAS

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A330-200ERs at the time but was eventually persuaded to stay with Boeing, despite the fact Airbus made, according to El Al, an "attractive offer" (El Al had paid a refundable \$700,000 deposit). Feldschuh was replaced by David Hermesh, who was recruited from the Israeli private sector.

The current financial crisis at El Al has done little to improve relations with the government, although the latter appears not to have directly interfered with the recovery plan. The privatisation minister, Yaron Jacobs, was quoted in the Israeli press claiming El Al would run out of cash by the end of the year and warning the airline may have to be placed back in receivership. El Al management has denied this extreme measure will have to be taken.

Receivership was used in 1983 as a drastic remedy for the airline's chronic labour problems of the 1970s when strikes were a regular feature and evidence of the stranglehold the then powerful Israeli trade union movement had on the airline. El Al was shut down for four months to enable the management to regain control and sign a new labour agreement. The airline resumed operations with a cost-cutting programme of redundancies and retirements. The workforce was gradually cut back from 6,000 in 1979 to 3,600 a decade later. Another decade on and with the company no longer in receivership, the El Al unions seem, in the face of the current financial crisis, to have accepted the need for further redundancies without too much resistance.

El Al's dilemma arises from its position as the high-profile symbol of the Israeli state. The influence of its unions, particularly the pilots with their links into the airforce, further complicates matters. Its role in promoting and facilitating Israeli tourism means it is always going to be vulnerable to sharp fluctuations in passenger traffic as long as the Middle East remained a volatile region. It is not surprising, then, that as part of the restructuring El Al management is focusing more on business travel than tourism.

The problem of the sabbath ban is less simple to resolve. If the Israeli government were to proceed with the 49% sale, it would have to decide whether it could afford to do so with the ban still in place. Repealing the ban, on the other hand, may involve a more considered calculation of the political risks involved, while continuation of the ban under state ownership exposes El Al to the risk of greater losses and hence the need for more government support.

The "Arkia option" then begins to have a certain attraction, although the more orthodox Jews might not be easily persuaded and Israel's other airlines may have grounds for complaint. With violence in Israel continuing at the time of writing, there seems little prospect of Israeli tourism recovering in the immediate future. How much this will continue to hurt El Al even as it upgrades itself to a business-class airline may not be as important as how many days a week it can fly.

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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
Mar 01	17.8	11.0	61.8	18.3	14.1	77.0	11.5	9.1	79.4	42.0	32.6	77.6	63.1	45.9	72.7
Ann. chng	4.7%	4.5%	-0.2	2.1%	-0.8%	-2.3	-2.4%	-2.3%	0.0	1.0%	0.1%	-0.8	2.3%	1.0%	-0.9
Jan-Mar 01	50.5	28.8	57.0	52.2	36.3	69.5	33.5	26.2	78.1	120.8	89.9	74.4	180.8	124.9	69.1
Ann. chng	3.4%	6.0%	1.4	2.0%	1.7%	-0.2	-2.3%	0.2%	1.9	0.2%	1.6%	1.0	1.3%	2.6%	0.9

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
Mar 01	88.2	64.5	73.1										32.3	24.7	76.7
Ann. chng	-0.5%	-1.2%	-0.4										6.8%	5.4%	-1.1
Jan-Mar 01	254.8	171.2	67.2										92.8	66.4	71.6
Ann. chng	0.2%	-0.3%	-0.3										6.5%	6.2%	-0.2

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	2,005	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	2,079	1,414	68.0	2,879	2,028	70.4	4,958	3,442	69.4	3.7	1.7	4.9	2.9	4.4	2.4
*2002	2,146	1,463	68.2	3,007	2,122	70.6	5,154	3,587	69.6	3.2	3.5	4.5	4.7	4.0	4.2
*2003	2,237	1,533	68.7	3,176	2,258	71.1	5,413	3,794	70.1	4.2	4.9	5.6	6.3	5.0	5.8
*2004	2,344	1,607	68.7	3,373	2,398	71.1	5,717	4,007	70.1	3.7	4.8	6.2	6.2	5.6	5.6

Note: * = Forecast; ICAO traffic includes charters. Source: Airline Monitor, January 2001.

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
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	134	121	117	119	114	198	162	174	172	153	250	164	166	153	139
*2001	138	124	121	122	116	216	173	191	188	162	272	176	179	165	148

Note: * = Forecast; Real = inflation adjusted. Source: OECD Economic Outlook, December 2000.

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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		
1993	111	109	114	108	106	1992	0.570	1.562	5.294	1.406	0.773	126.7	3.84%
1994	113	109	117	110	107	1993	0.666	1.653	5.662	1.477	0.854	111.2	3.36%
1995	117	112	119	112	107	1994	0.653	1.623	5.552	1.367	0.843	102.2	5.06%
1996	120	114	121	113	107	1995	0.634	1.433	4.991	1.182	0.765	94.1	6.12%
1997	122	117	123	114	108	1996	0.641	1.505	5.116	1.236	0.788	108.8	4.48%
1998	123	120	124	115	109	1997	0.611	1.734	5.836	1.451	0.884	121.1	5.85%
1999	125	122	126	116	108	1998	0.603	1.759	5.898	1.450	0.896	130.8	5.51%***
2000	128	124	127	117	107	1999	0.621	1.938	6.498	1.587	1.010	103.3	5.92%***
*2001	131	127	128	119	107	2000	0.603	2.119	7.108	1.658	0.923	118.1	5.36%***
						May 2001	0.704	2.283	7.656	1.781	0.857	120.7	3.70%***

Note: * = Forecast. Source: OECD Economic Outlook, December 2000. **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
2001-Jan	288	150	438	172	43	215	651
2001-Feb	298	155	453	152	46	198	651
2001-Mar	345	144	489	164	47	211	700

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	May 3	SAFAIR	3 ATR72-500s		3Q2001+	
Airbus	May 4	Cyprus Airways	2 A319s		2Q2002	V2500-A5 engines
BAE Systems	-	-	-		-	-
Boeing	May 14	Air France	2 747-400Fs (LRs)		4Q2002	Previously 'unidentified' customer
	May 10	American Airlines	15 767-300ERs		2002+	
	Apr 30	ILFC	5 747-400Fs (LRs)	\$1bn	3Q2002+	Launch order
Bombardier	May 22	Mesa Air	20 CRJ700s, 20 CRJ900s	\$1.2bn	1Q2002+	Launch customer for CRJ900
	Apr 30	Lufthansa	15 CRJ200s	\$340m	4Q2001+	Plus 30 options. For Eurowings
Embraer	-	-	-		-	-
Fairchild	-	-	-		-	-

Note: Prices in US\$. Only firm orders from identifiable airlines/lessors are included. MoUs/Lols 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	%	
Korean Air														
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														
Oct-Dec 00														
Jan-Mar 01														
Malaysian														
Jul-Sep 99	TWELVE MONTH FIGURES													
Oct-Dec 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	
Jan-Mar 00														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
Jan-Mar 01														
Singapore														
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	6.16	5.25	7,584	8,950.0	6,524.6	72.9	
Oct-Dec 00	SIX MONTH FIGURES													
Jan-Mar 01	2,635	2,317	318	209	46,170.5	34,981.8	75.8	5.71	5.02	7,416	9,084.0	6,460.4	71.1	
Thai Airways														
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	TWELVE MONTH FIGURES													
Jan-Mar 00				108	55,517.0	41,347.0	74.5			17,700	7,752.0	5,469.0	70.6	
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00														
Jan-Mar 01														
Air France														
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					
Oct-Dec 00	SIX MONTH FIGURES													
Jan-Mar 01	4,981	4,988	-7	-25	59,100.5	44,622.2	75.5	8.42	8.43					
Alitalia														
Jul-Sep 99	SIX MONTH FIGURES													
Oct-Dec 99	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	
Jan-Mar 00	SIX MONTH FIGURES													
Apr-Jun 00	2,553	2,753	-200	-209	32,735.2	24,534.2	74.9	7.80	8.41					
Jul-Sep 00														
Oct-Dec 00														
Jan-Mar 01														
BA														
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
Jan-Mar 01	3,048	3,136	-88	-111	40,018.0	26,800.0	67.0	7.62	7.84	9,721	5,883.0	3,711.0	63.1	62,425
Iberia														
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														
Oct-Dec 00														
Jan-Mar 01														
KLM														
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
Jan-Mar 01	1,360	1,422	-62	-77	18,056.0	13,805.0	76.4	7.53	7.88		3,230.0	2,471.0	76.5	26,538
Lufthansa***														
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	3,750	3,148	602	10	30,682.0	22,096.0	72.0	12.22	10.26	11,547	5,997.0	4,293.0	71.6	69,523
Jan-Mar 01														
SAS														
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	15.34	13.24	5,747				27,767
Jan-Mar 01	1,183	1,175	8	2*	8,558.0	5,286.0	61.8	13.82	13.73	5,482				29,985
Swissair**														
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	SIX MONTH FIGURES													
Oct-Dec 00	2,179	2,069	110	-1,650	23,540.0	17,677.0	75.1	9.27	8.79	5,890	4,296.2	3,007.4	70.0	
Jan-Mar 01														

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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