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Investors focus on low-costs and regionals

Immediately after September 11 there was widespread concern that the airline industry had become unfinanceable. In fact, investors have shown themselves more than willing to support specific types of airlines, the potential winners in a restructured business.

In Europe the stockmarket valuation of the low-cost carriers has soared. According to a review by Merrill Lynch, Ryanair's share price rose 36% between September 10 2001 and March 6 this year; easyJet recorded a 38% increase in its share price. Analysts and investors are evidently convinced that the low-cost, point-to-point model is the one that will come to dominate the intra-European market.

The slight worry is that the current ratings implicitly assume that the UK/Irish operations can be successfully transferred onto the continent. In other words, Ryanair will be able to build its hubs at Brussels Charleroi and Frankfurt Hahn and easyJet its hubs at Paris Orly and Geneva in order to develop continent-wide Southwest-type networks.

In the US, JetBlue issued an IPO prospectus in February, aiming to raise some $150m to fund the expansion of its A320 fleet. JetBlue, which started service in February 2000, has adapted the classic low-cost formula to include some frills and an operation based at a major international airport - New York JFK. It achieved an operating income of $26.8m (before $18.7m of government aid under the Stabilization Act) in 2001. Its operating margin, 8.4%, was only bettered by one US airline - Southwest.

The other area of investor interest is the regional airlines. No less than three IPOs are planned. Chautauqua Airlines aims to raise up to $85m to partly finance the purchase of 37 more Emb 145s. Chautauqua, which reported a net profit in 2001, albeit of only $2m, is fully owned by the venture capitalist, Wexford Capital.

More controversially, two US Majors have filed IPOs for their regional subsidiaries: Northwest has filed an IPO for what used to be known as Express One, calling it Pinnacle Airlines, and Continental for ExpressJet (formerly Continental Express).

The concern here is that the Majors may be using their regional subsidiaries as vehicles for raising capital on better terms than their parents could hope for. There is the possibility that certain costs and revenues could be transferred between the parent and subsidiary airlines in order to enhance the IPO sales message. This is a difficult proposition to gauge at the moment as there is no real history of public equity financing of regional operations.

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British Airways - Future Size and Shape (or Keep It Simple, Stupid)

BA's "new" plan, entitled "Future Size and Shape", extends the earlier recovery strategy in place now for the last three years. It encompasses four main targets: 10% operating margins within three years; simplify the fleet structure and product proposal; compete with the no frills operators; resize staffing levels to a realistic level for the new environment. It also contains one promise "We will deliver".

It is in all appearance a continuation of the earlier strategy, with a full realisation that BA cannot operate its bases of operations at either Heathrow or Gatwick as a full transfer hub-and-spoke network operator. It must concentrate on maximising frequencies on core business routes and minimizing low performing routes. Although the strategy had highlighted the requirement to chase premium and business traffic and reduce exposure to leisure transfer passengers, the media had latched on to the idea that BA was spurning leisure passengers and cheap tickets. As for any full service carrier BA can never afford to turn away from a segment of the market: and that publicity at the time probably had a deleterious effect on the appearance in the market of BA's leisure product. The main difference in this plan are the proposals to target the budget conscious passenger effectively once more.

Once the plan is fully in effect it should result in a 9% reduction in overall capacity (52% lower capacity at Gatwick), 10% higher short haul utilisation, 15% fewer destinations, 49 fewer aircraft, 40% fewer aircraft subtypes, and a total manpower reduction of 13,000. It may even result in an operating profit nearer the £1bn mark.

One main message came from the meeting. BA has finally taken on board a lesson from the no frills operators: KISS (keep it simple, stupid).

Fleet strategy

Fleet strategy is mainly unchanged, but implementation has been somewhat accelerated.

The company has spent the last five years on its long haul fleet re-equipment programme involving the disposal of all the older 747-200s and the acquisition of 777s. It has now embarked on its short haul re-equipment programme involving the acquisition of the A320 family to replace its older short haul Boeings. It has so far taken delivery of 31 and has a further 40 on firm order and options for an additional 129.

Once the renewal programme is finalised it will significantly reduce the number of aircraft types and cockpit types. However, the company had large number of sub-types. In the long haul fleet this party depended on the stage of embodiment of the new flying bed club class seat and product. BA will now be accelerating the simplification of the fleet structure through the elimination of different configurations.

For example, at Heathrow last year, BA was operating five different configurations of 747 and four of 777s. Among these there was one 747 that had been configured with 102-club capacity while Concorde had been grounded. The elimination of aircraft sub types will help significantly in improving utilisation and turnaround times.

The de-hubbing of the Gatwick operation is being accelerated and the downsizing will

PRODUCT RATIONALISATION

Type	Club product	Club seats	2001	2003
747-400	New	102	*	
	New	70	*	*
	New	38	*	*
	Old	55	*	
747-200	Old	76	*	
777	New	48	*	*
	Old	56	*	
	Old	70	*	
777ER	New	48	*	*
767	Old	36		*
Total sub types			**9**	**5**

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NUMBER OF FLEET SUB-TYPES BY BASE

	Summer 2001	Future	Change
LHR Long haul	9	5	-44%
LGW Long haul	6	3	-50%
LHR Short haul	5	4	-20%
LGW Short haul	4	2	-50%
UK Regions	9	6	-33%
Total	**33**	**20**	**-39%**

be deeper. The new role of Gatwick within the BA portfolio will be to concentrate on local point-to-point services, only operate profitable services that do not fit in to Heathrow and achieve a return. The company has suspended 14 routes overall since September - including 8 short haul and one long haul at Gatwick. It has plans for a further 10 route suspensions for Winter 2002. It will also be moving 8 routes from Gatwick to Heathrow this summer. This also implies the transfer of aircraft to the Heathrow base. At the moment the company operates 6 different aircraft types at Gatwick - ATR, 737, 757, 767, 777 and 747. By Summer 2003 the fleet will consist of 777s for long haul and 737s for short haul. By the same time, the number of destinations served from the airport will have fallen to 34 short haul and 15 long haul from 54 and 47 respectively last summer. Half of the reductions relate to transfers to Heathrow, half to elimination of duplications. The result is planned to be a cut in ASK capacity by some 60% from the peak and a cut in slots of some 30%.

A significant knock on effect of the fleet and network simplification should be to improve utilisation. This will come almost automatically with the removal of fleet subtypes. In addition, the company is targeting a 10% improvement in short haul fleet utilisation partly through improved turnaround times. There is admittedly no hope at all that BA at Heathrow could target the 20 minute turnaround achieved by some no frills carriers. However it is planning to be able to cut five minutes from the current 45 minutes on short haul European and 10 minutes from domestic flights - partially for example by double loading catering supplies.

AIRCRAFT FLEET

Summer:	1999	2000	2001	2002	2003	Change 03/01
Long haul	118	122	126	114	112	-14%
Short haul:						
London	138	140	142	129	122	-20%
Regions			93	82	78	-15%
Short haul total			235	211	200	-35%

Competing with low-cost carriers

Basic problem: how can a full service network carrier possibly compete with the no frills, low cost, point-to-point operator. It is noticeable that in the US none of the majors have found an effective way to compete head to head with Southwest. BA first thought that rather than beat it would join - and found that Go was cannibalising its own traffic.

The real problem lies in the depths of aviation history: in the days of fares fully regulated by IATA, the tariffs for particular routes would all be laid down on a point-to-point basis and the pro-rate would be established on a mileage basis. Given that short-haul routes are intrinsically higher cost per kilometre to operate compared with long haul, a passenger connecting from short haul to long haul would provide the operator of the short haul leg with a very low net contribution. This could work out to be the very deepest discount that would be available on the short haul flight - but because it was a pro-rate would not be a publicly published fare. The no frills carriers not only have an intrinsic cost advantage through not being network carriers and not having the baggage of history trailing along behind them, but also effectively have the freedom of pricing to use the deepest discounts they may want to generate the traffic.

In addition the traditional way of looking at demand was to assume that the passenger knew where he wanted to go and when he wanted to go and then to offer him a price. With the electronic distribution revolution, there is a major step change that the no-frills carriers have been able to address: booking on the Internet avoids having to pay the travel agent.

DESTINATIONS

Summer:	1999	2000	2001	2002	2003	Change 03/01
Long haul	92	84	82	76	71	-11%
Short haul:						
London	74	77	74	67	62	-12%
Regions			51	48	48	-3%
Short haul total			125	115	110	-15%

Furthermore, the low cost product has a very simple message - fly because it's cheap and the earlier you book the cheaper it is - which allows the marketing and advertising of routes through the best supermarket lead-in pricing campaigns to get the passenger to walk in through the (electronic) door.

The growth of the no frills competition has been dramatic for BA. Low-cost operators compete on over 60% of BA's short haul routes from London. They have grown by more than 300% in the last three years - and from the UK they currently operate 5,550 frequencies a month compared with BA's 8,000. Importantly (and probably not surprisingly) nearly a third of BA's low fares are sold through business travel agencies - just to show that the business passenger can also be a leisure passenger and that BA cannot afford to ignore that segment.

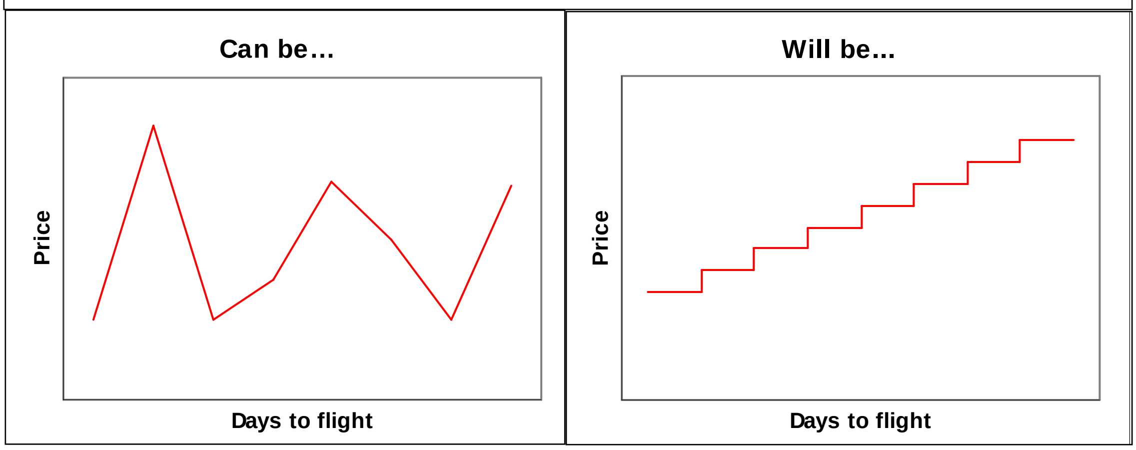
The result of the strategic review emphasises that BA needs to remain a full service network carrier. To maintain its unit margin it needs to strengthen and maintain its business market product premium. In addition it has to fill up its aircraft with the cheaper fares and to do that has to regain some momentum against the low cost competition. To do this, and hopefully to return short haul operations towards profitability, it has to adapt its short haul economy product to the current environment and aim to move it further towards the no frills model.

The new short haul economy

BA is turning the traditional system on its head. From June, when the new system comes on line, it will start a major publicity campaign to get across the message that it too offers "fares to XXX from £yy", that these fares are competitive with the low cost carriers although it does fly to and from more convenient airports and that BA's lowest fares are only available on line.

It is completely changing its online booking model. The new system, currently under test, will be based on the idea that the passenger knows where he wants to go but is flexible about the date of travel but wants to find the best available fare. Consequently when he logs online he will have the choice in the economy cabin to specify a departure and return date plus or minus a fortnight. The next screen will show the chosen date range for the outbound flight with the cheapest available fare on each day. The next screen will highlight the return date range with a similar choice. The following screens will specify the times of the outward and then return flights specifying against each departure the cheapest fares available. At each occasion the passenger will be offered what is available -

SHORT HAUL ECONOMY MANAGEMENT



rather than at the given moment what may be available.

This new model requires a change in the inventory management system. At the moment BA, as traditionally, adjusts the capacity available in any discounted fare class according to the absolute and historic booking patterns on a daily basis. Consequently a £150 fare that may be available today for a particular flight may be quoted at £200 the following day and £120 the next.

This can be confusing for the customer. The new message will be that the cheapest available fare will rise on a ladder the closer you get to departure date. This does not mean that the whole yield management model needs changing but that the visibility of the cheapest offerings will be more transparent.

These cheapest fares will only be available online. BA will charge an extra £10 per booking for call centre and own shop sales. (At the moment it offers a £10 reduction for booking online). In addition where eTickets are available, they will impose a further £10 charge for paper tickets.

Short haul economy yield management

• Distribution Costs

In line with this BA is once again attacking distribution costs. From June it plans to cut travel agency commissions to a mere £2.50 from £6 per segment for discount economy short haul fares and £5 from £11 for short haul flexible fares.

• Staff cuts

In August the group employed some 56,700 (in man-power equivalents). In the aftermath of September it announced reductions in staff numbers of 7,200 (5,800 of which had gone by the end of December). In February it announced a further cut of 5,800 positions. The resulting 13,000 equates with 23% of the pre-September workforce. Since privatisation we have been waiting for BA to slim down its managerial and non-operational staff. The current plans include the disposal of 4,200 of these positions - or 36% of the total. Only 20% of the online jobs will go - in line with the current downturn in business. It is hoped that the company will be able to get away with voluntary redundancies and early retirement plans - although it says that these will not be as generous as historically. The company aims to have completed 10,000 of these job reductions by the end of March 2003, and to have completed the 13,000 by end March 2004.

DISTRIBUTION CHARGES - UK TRAVEL TRADE

Routing/Ticket type *Per Sector*	Was	Will be	Change (from June 02)
Short haul flexible	£11.00	£5.00	-55%
Short haul restricted	£6.00	£2.50	-58%
Long haul Premium	£20.00	£20.00	nc
Long haul Non-Premium	£11.00	£11.00	nc

One oddity is the plan to get rid of 1,500 engineering posts. This in fact is part of the move to more simplicity: in the past (as a legacy perhaps of being the Comet operator?) the BA engineering operation had apparently a department dedicated to writing and specifying the maintenance procedures on all aircraft in the fleet. This process has continued even though the rest of the world has readily accepted the Boeing- or Airbus-approved maintenance 'B', 'C', and 'D' check schedules.

Financial implications

In the year to March 2001 BA made an operating profit of £380m on revenues of £9.3bn. In the 12 months to December 2001 it produced an operating loss of £126m on revenues of £8.6bn and has been burning cash - with £1bn outflow in the quarter alone. The measures it put in place in September helped reduce operating costs by 8.5% in the quarter ended December - but not fast enough to off-

MANPOWER REDUCTION BY AREA

Cabin Services	3,400
Heathrow customer services	800
Gatwick customer services	550
Flight operations	400
Engineering	1,500
Cargo	800
World sales	2,600
Other areas	2,950
Total	**13,000**

set the 20% reduction in revenues. The plan implicitly targets a 10% operating margin within three years. The company is not however budgeting for any material increase in turnover. Consequently, on their plans it appears that they are aiming to save cash costs of some £650m and generate some £350m from productivity improvements. In the past BA has successfully delivered its cost cutting plans. It should be able to do it this time - even if this is one of the severest shocks it has ever suffered in its history.

An operating margin target does not actually mean much - but the company is currently using this internally because it finds that it is the easiest number for its operational staff to understand. The more meaningful internal targets are for a debt equity ratio nearer 50% from the current 66.5% and a return to positive cash flow - which has been negative since 1996.

Currently the only part of the network that is positively profitable is the long haul. It is naturally difficult for a network carrier in Europe to generate positive returns from its short haul or domestic network. It will be an uphill struggle for BA to fulfil its avowed aim to turn its European and regional networks back into profits.

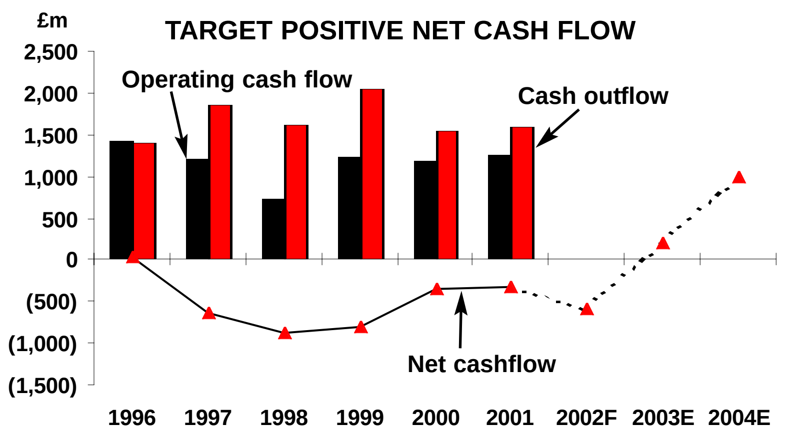
Fundamentally, on financial grounds despite the lack of revenues at the moment, BA is not in that bad a position. It can boast current liquidity of £3.4bn in cash, committed facilities investments and other assets. Its debt profile is all long term and contains no upcoming repayment spikes - with an average repayment requirement of £550m a year over the next seven years. Only 11% of its debt is unsecured. It has a very flexible fleet finance structure - 44 of its 367 aircraft fleet are unencumbered and 98 are financed on operating leases (of which 63 can be returned in the next five years).

Most importantly, the long haul fleet re-equipment programme is nearly over. In the three years to March 2000 BA was spending an average £2bn a year on aircraft. The long haul deliveries started tailing off in FY2001 and will be completed at the end of the current financial year. Over the next five years the company plans to spend an average of only £240m on the short haul deliveries. The current year is going to show dire results - and the company is sure to throw as much bad news as it can into the full year results. It seems highly likely that BA will move back into positive cash flow territory by Summer 2003 at the latest.

MARGIN IMPROVEMENT TARGETS

Operating profit	£m	Margin points
YE Mar 2001	380	4.1%
Year to Dec 2001	-126	-1.5%
Margin improvement	**£m**	**implied**
Market recovery	238	2.6%
Network changes/Utilisation	238	2.6%
Pricing & distribution	156	1.7%
Service delivery & productivity	174	1.9%
Reduced overhead levels	174	1.9%
Procurement & IT	73	0.8%
Target operating margin	928	10.0%

TARGET POSITIVE NET CASH FLOW



Outlook

The strategic review has re-emphasised and accelerated the plans put forward in the existing strategy. The usual cyclical cost cuts are being implemented and finally some new management reprocessing is being done as the new CEO Rod Eddington makes his mark. The beast is still the marketing beast - but now it may have started to understand a way to compete with the feared low-cost operators. Above all BA still has "fortress" Heathrow and undoubtedly will become highly profitable again.

FedEx and UPS: prospects for the cargo majors

The two leading cargo airlines - FedEx and UPS - are recovering well. Indeed, they may even have benefitted from the fall-out from September 11.

In February, FedEx favourably revised its earnings outlook for the third quarter (ending on February 28th). Strong revenue and profit growth at FedEx Ground and continued focus on FedEx Express costs, were deciding factors in the upgrade. Second quarter (three months to end Nov 30) results for FedEx Express were better than expected, driving a $245m net income at its parent company. FedEx Express (the airline) moved an extra 27% of mail per day and fuel costs shrank by 10%, despite an increase in flying. FedEx Express reported a $309m operating profit compared to $271m in the same quarter a year ago. At present FedEx's share price has seen a 53% rise from September 2001 and is now at around the $60 mark.

UPS' full year results for 2001 showed a revenue rise of 2.9% over the prior year to $30.6bn. Operating profit fell 12.2% to $4bn and net income decreased from $2.9bn to $2.4bn. UPS reported a 5% rise in international package traffic in 2001, with the last quarter showing an 8% surge in international export volume. This included a 15% increase in packages from Europe and a 7% gain in Asian packages. On the home front, US package volume fell by 1% for 2001. Operations in the US account for 80% of UPS revenue. The UPS share price has risen from a September 2001 low of $47 to $61.

Both carriers were affected by September 11, but they weren't hit as hard as the passenger airlines. In its fourth quarter conference call, UPS said it had picked up substantial cargo from passenger airlines, which for security reasons were unable to fly their usual cargo shipments. Similarly, FedEx Express is carrying more US Postal Service packages.

The US business traveller has been flying to fewer meetings, with the side-effect that priority business documentation and packages were being flown at an increased volume.

Volumes were approaching pre-September 11 levels within a week on some routes. Package volumes over Christmas and the holiday season were a boost to both carriers. UPS reported seeing large gains in e-commerce shipping and deliveries on the busiest day of the period surged past 19 million packages. UPS received $37m and FedEx $116m from the US government as part of the Air Transportation Safety and System Stabilisation Act. The Act compensated both carriers for the grounding of the fleets post-September 11 as well as for expected losses.

Strategic developments

Key developments for the two carriers are as follows.

FedEx signed an extensive agreement with the US Postal Service in January 2001 that began operating on August 31. Domestic postal express shipments, a.k.a. US Priority Mail, are being transported by FedEx. Over a period of seven years the

LATEST FINANCIAL RESULTS ($m)

	UPS			FedEx		
	Q4 (31/12/01)	Q4 (31/12/00)	% change	Q2 (30/11/01)	Q2 (30/11/00)	% change
Revenues	8,100	7,900	2.5%	5,140	4,900	4.9%
Operating profits	1,000	1,100	-10.0%	433	345	25.5%
Net income	645	724	-10.9%	245	194	26.3%

agreement should bring in $7bn of revenue. The alliance means 500 pilots, 200 aircraft mechanics, and 800 package and ramp handlers are joining the staff at FedEx. Growth in US domestic package volume was only 3% for 2001 and volumes are expected to decline for 2002. The US Postal Service contract is boosting revenue and also increases FedEx Ground's US coverage, with a new network of FedEx drop boxes at US Post Offices.

FedEx saw an 11% rise in International Priority package revenue for year ending May 31 2001, and expects the same growth for 2002. This higher-yield growth was especially strong in Asia and Europe, where FedEx experienced a 12% and 24% average daily volume growth rate for 2001.

UPS has embarked on a strategy to create more revenue from abroad. Experts on tariffs, custom regulations and quota requirements from UPS will aid delivery of not only packages but produce shipments as well. For example, a UK company, Eurofrut, imports fresh fruit from South Africa. UPS finances the orders in advance and deals with customs administration as well as shipping the produce. Corporate strategists at UPS believe this newest initiative is also "changing the way we perceive a parcel carrier".

These new moves to extend the UPS brand internationally are important for its Asian expansion plans as FedEx is by far the more recognised company in that part of the world. UPS will be opening a new hub at Clark International Airport in the Philippines on April 1. Routing five aircraft through the hub is expected to boost UPS's capability to compete in the Asian express cargo market. With Clark in action UPS will not have to rely on buying as much belly space and will be catching up with FedEx, who already have a Philippines hub in action.

Ideally, both carriers would prefer Hong Kong as a hub. At the moment, FedEx is allowed only five flights a week from Hong Kong to destinations outside of America and UPS none. However, if Hong Kong grants the US more third-country rights, UPS would seem to be the likely recipient.

Market balance: lessors squeezed

Listed opposite are the 1,274 jets officially scheduled for delivery this year, according to ACAS. This is about 300-400 more than is needed to retain the current state of imbalance in the aircraft market, according to *Aviation Strategy*'s analysis (in the February 2002 issue, we estimated the 2001 average surplus at 11% in 2001, rising to 14% average this year).

The delivery schedule is dominated by US carriers, both Majors and their regional affiliates, and the lessors. The lessors - ILFC, Gecas, CIT/Tyco, Pembroke, etc.- account for 220 of the aircraft to be delivered, about half of which have confirmed lessees.

The lessors may be facing a painful squeeze at the moment. The manufacturers are pushing them to take the scheduled aircraft in order to keep their production lines open. But the lessors are failing to win business from the fast-expanding low-cost sector. Ryanair, having trawled the second-hand market for suitable 737s, finally opted for a very acceptable deal with Boeing. EasyJet, Go and JetBlue are also going mostly directly to the manufacturers.

Marketing to the European flag-carriers or the US Majors is an equally difficult proposition at the moment.

Traffic is coming back quite well with the effect that load factors based on the post-September 11 reduced capacity are looking rather strong. For example, AEA intra-European load factors were up 2.1 points in January, the North Atlantic was up 6.1 points and the Europe-Far East was up 2.4 points. For the US airlines, load factors were up 0.7 points domestically in January, while North Atlantic was up 2.3 points and the Pacific 6.9 points.

But these carriers have plenty of surplus capacity

There is already talk of parked aircraft being recommissioned, aircraft that were available for sale or lease being taken off the market and of postponed deliveries from 2001 now being accepted. The current depressed level of yield affords little possibility of a return to profitability for most carriers, but marketing departments are promoting the traditional idea of market share gains.

All this means that the lessors will be left holding surplus inventories of aircraft throughout 2002 and into 2003. And lease rates will remaim at bargain levels - around $200,000/month for a modern A320, around $100,000/month for a 737-400.

SCHEDULED 2002 DELIVERIES

Customer	717	737	747	757	767	777	A600	A319	A320	A321	A330	A340	CRJ	135	140	145	328JET	Total
ILFC		24	2	1	1	15		12	18	10	14	2						**99**
Northwest			2	7				22	1		0		34					**66**
GECAS		19	1		4	0		13	7	1	4		13					**62**
Continental Express														12		39		**51**
Atlantic Coast Airlines													20				26	**46**
American		17		8	4	6												**35**
Comair													33					**33**
Continental		14		12	4	1												**31**
Skywest													31					**31**
American Eagle													9		19			**28**
Delta		25			2	1												**28**
CASC		22	1	0						2								**25**
Mesa Air Group													10			15		**25**
Air Wisconsin													21					**21**
Southwest		21																**21**
CIT Leasing		5		0				5	2	2	5							**19**
Qantas		15	2								1							**18**
American Trans Air		12		5														**17**
Atlantic Southeast													17					**17**
JetBlue									16									**16**
ANA					7	5			3			0						**15**
Air France			1			3			2	5	3							**14**
Asiana			3			5				2	4							**14**
British Airways								1	11	2								**14**
LanChile									12			2						**14**
UPS							14											**14**
Pembroke Capital	13																	**13**
SAS		3								5	2	3						**13**
Korean Air		4	3			2					3							**12**
Lufthansa			1									0	11					**12**
Ryanair		12																**12**
Varig		6			4	2												**12**
Lufthansa Cityline													10					**10**
Others/undisclosed (94)	11	107	18	3	10	24	3	28	56	21	12	6	33	32	13	25	14	**416**
Grand total	**24**	**306**	**34**	**36**	**36**	**64**	**17**	**81**	**128**	**50**	**48**	**13**	**242**	**44**	**32**	**79**	**40**	**1,274**

Source: ACAS

MAS: is the Newco approach really a solution?

MAS has failed to recover from the two-year Asian crisis that began in mid 1997. Struggling under the private ownership of entrepreneur Tajudin Ramli, MAS was bought back by the Malaysian government early in 2001. The deal was controversial, with Ramli offered Ringgit 8 per share when the shares quoted on the Malaysian stockmarket were trading at a third of this amount. Also, a police investigation has been launched into alleged financial irregularities at MAS while under Ramli's control.

The re-nationalisation has left various government agencies with 54% of the airline, while 29% is owned by the Ministry of Finance, and the remaining 17% is in private investor hands through its quotation on the Kuala Lumpur exchange.

At the end of January 2002, the MAS Group was re-organised, although full details of the new structure have yet to be announced. What is known is that the airline has been split in two. "Newco" will operate international passenger and cargo operations. The government has assumed all of the airline's assets (aircraft, property and equipment) and liabilities, and will be responsible for operating domestic routes, which are believed to be chronically loss making. The liabilities include Ringgit 9.2bn ($2.4bn) of debt.

Newco has been granted a 30-year concession to operate the international passenger and cargo operations. Somewhat confusingly, Newco will also operate the domestic services for a fixed fee but will not include these operations on its balance sheet.

The government has set up a number of special purpose vehicles (SPVs), which will lease back the assets to Newco (for example, the sale and leaseback of eight widebodies has just been agreed). What is not known is whether the lease rates that the SPVs are giving Newco are market-orientated; the government states that the rates will reflect market conditions.

Moreover, the government suggests that in time it will seek foreign investment in some of the SPVs. MAS itself looking to sell its catering division to a consortium led by LSG SkyChefs.

The airline's shares rose about 26% to Ringgit 3.8 on the announcement of he restructuring plan, despite its lack of clarity. What private investors are largely relying on is the statement from Nor Mohamed, advisor to Prime Minister Mahathir Mohamed, who said that "looking after the interests of minority shareholders was one of our prime considerations when we decided on the re-organisation exercise".

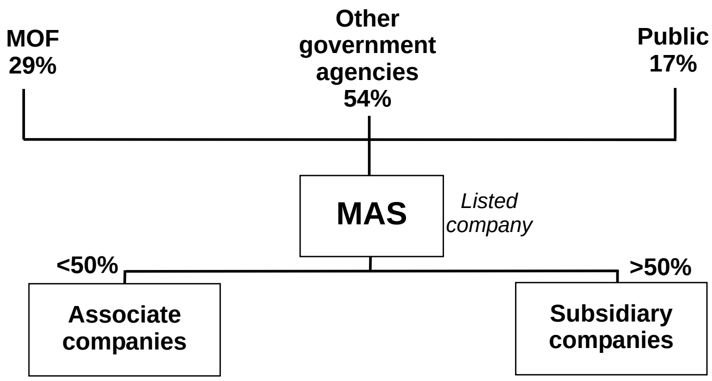
Analysts reckon that the airline remains 35% overstaffed and that the government does not have the political will to change this. At the time of the announcement of the re-organisation, it was stated that "Malaysia always pursues socio-economic goals, and we are mindful of social responsibility." This means that the over-staffing problem will continue.

However, the government has endorsed a 52% fare increase on domestic routes in August 2001, which it is estimated could reduce domestic losses in the future from Ringgit 360m a year to Ringgit 150m per year. The carrier's third quarter results for the three months to December 31, 2001, showed a net loss of Ringgit 340m, which is an improvement on the Ringgit 452m net loss recorded for the same period in 2000.

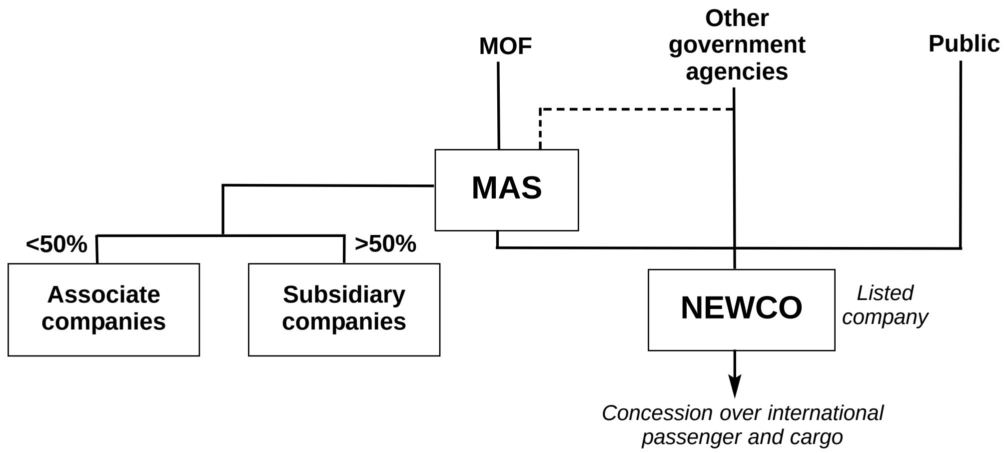
MAS has said that it will be 2004 before it envisages becomes profitable once again. Deutsche Bank are forecasting a Ringgit 625m net loss for the current financial year, a Ringgit 34m net loss for the year ending March 31 2003, and a net profit of Ringgit 358m for 2004. It seems that the new organisational structure would appear to be a first in the industry.

The official line from MAS is that: "while there will be a clear demarcation of role and function between the two companies, an essential connectivity will be preserved by way of centralised planning on policy and strategy, supported by regular consultation. We hope to enjoy the dual benefit of a more competitive, efficient organisation, without sacrificing the potential for synergy by sharing resources and personnel towards a common objective. In fact, the new set up may be seen in the light of a smart partnership - a mutually reinforcing win-win deal."

MAS CORPORATE STRUCTURE BEFORE PROPOSED REORGANISATION



MAS CORPORATE STRUCTURE AFTER PROPOSED REORGANISATION

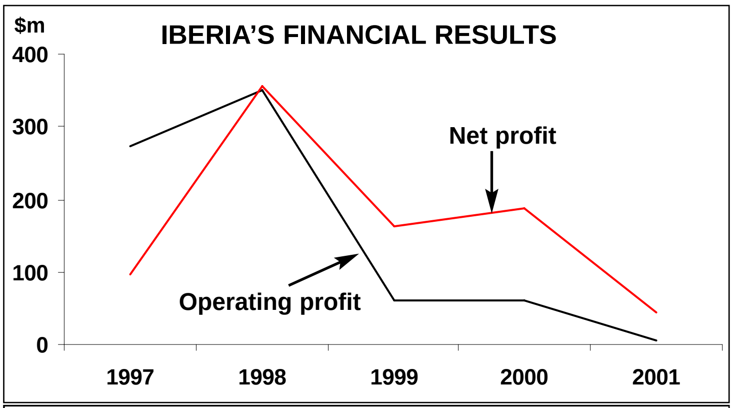


Note: *The actual shareholdings of MAS and Newco can only be determined upon finalisation of the terms and conditions of the proposed reorganisation.*

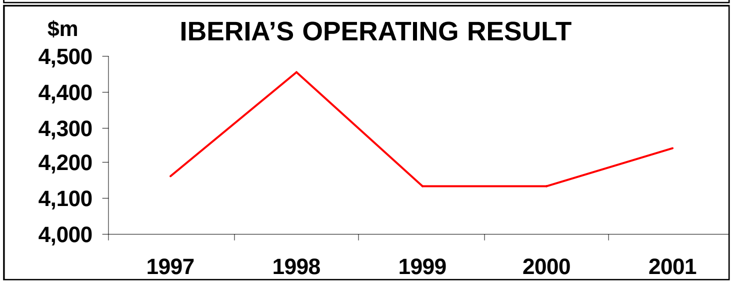
Iberia - time for management to deliver

It has been an interesting 12 months for Iberia and its management. Iberia's IPO in April last year just about succeeded, but this was quickly followed by another damaging confrontation with the pilots' union - and then came September 11. Despite all this, has Iberia has finally turned the corner in its struggle to become one of the long-term survivors among European airlines?

Through the early to mid-1990s the heavily subsidised and sluggish Iberia struggled to stay afloat, and it was only towards the end of the decade that it started cutting costs and adopting any kind of coherent long-term strategy (see *Aviation Strategy,* April 1998). But those measures were enough to encourage Spanish state holding company Sociedad Estatal de Participaciones (SEPI) to start offloading its stake in Iberia, initially to "industrial partners" - British Airways and American Airlines - and then to institutional investors, thus giving its management a freer rein to run the airline on a properly commercial basis.



IBERIA'S FINANCIAL RESULTS



IBERIA'S OPERATING RESULT

At last - the IPO

In April 2001, SEPI finally disposed of its remaining 53.9% in Iberia, although this being Iberia the IPO was anything but smooth. Merrill Lynch and Spanish bank BSCH handled the IPO, and the indicative price range given in March 2001 was €1.71-2.14 per share, valuing the company at €1.6-2 bn. This was well down on the price paid by British Airways and others during Iberia's restructuring in March 2000, which implied a value of €2.7 bn.

Even at the lowered price, however, the airline's roadshow to European institutions was not particularly well received. At the time the plan was to sell 49.9% of the shares on offer to private investors, which was a high proportion anyway. But it soon became clear that institutional demand was weak, so the retail share was increased even further. In the end, of SEPI's 53.9% stake, 61.8% went to retail investors, 17% to Spanish institutions, 15.6% to non-Spanish institutions, and 5.6% to employees.

The issue was only successful after the share price was finally fixed at €1.19, well over a whole Euro down on the top end of the price range announced just a couple of weeks previously. There was probably an element of mispricing here, but many other factors had an effect, including general unease about the world economic climate, a difficulty in making non-Spanish investors understand the strategic benefits of Iberia's access to Latin American markets, and concern about management's continuing uneasy relationship with its unions. Nevertheless, SEPI was fortunate to get its stake away before the obviously unforeseeable events of September 11.

BA, American and other bank investors were able to invoke previously-negotiated clauses, giving them compensation on the difference between the value of the shares at IPO and the price they paid a year previously.

Yet before Angel Mullor, Iberia's newly-appointed CEO, and chairman Xabier de

Irala could fully focus on planning for the future, two devastating blows hit the airline - one foreseeable and one not.

Pilot anger …

Ongoing talks with the Spanish pilots' union SEPLA over pay and conditions had already led to a work to rule early in 2001, but a truce was called prior to the IPO process. Once the IPO was completed, however, matters rapidly escalated.

The details of the dispute were complex - and exacerbated by historically bad relations between unions and management - but the union's basic position was that in the current pay and conditions round it wanted rewarding for Clause 104, the 1995 deal whereby employees agreed to a 15% salary cut in order to help Iberia escape from bankruptcy.

Ground workers agreed to a new deal with Iberia in May 2001, but the pilots held out for better terms. Management refused to budge on its offer, which many saw as reasonable, and consequently SEPLA called 10 one-day strikes over the summer - which Iberia claimed would cost it Ptas 10bn ($51m) and force it to cut routes.

After the first three one-day strikes the government stepped in and imposed an arbitration process on the two sides, much to the annoyance of SEPLA. With both sides under enormous pressure to settle, a complex four-year deal was struck in July covering January 2001 to December 2004. Pilots received a 2.5% inflation-based raise for 2001, plus 0.5%, and pay will rise by inflation in 2002-04. Another 5% pay rise was agreed for 2003 and 2004, related to net profits in those years, and the Clause 104 problem was solved via a productivity-based rise over four years. A small "IPO bonus" of Ptas 1,013m ($5.3m) was also given to the pilots. Management hopes that this deal will secure peaceful relations with unions over this period, solving what has always been one of Iberia's key weaknesses.

… and September 11

But just as the future started to look bright for Iberia, September 11 hit. Initial management forecasts were grim - extra insurance costs alone would take €18m from the bottom line to the end of 2001, and overall passenger numbers dropped 8% in October compared with October 2000, with business traffic down 25%. Action needed to be taken, and in November 2001 Iberia announced it would cut 2,516 jobs from its airline workforce of 25,000 over 2002 and 2003, of which ground personnel would account for 1,857 and pilots 181. These will all occur through voluntary processes such as early retirement and voluntary redundancy, and will save Iberia an estimated €54m in 2002 and €108m in 2003. Encouragingly, management didn't fudge this difficult issue, and indeed the unions agreed to the cuts in principle - perhaps the first real indication of a new understanding between the workforce and management. But the situation is helped by the fact that in Spain approved redundancy schemes mean that the government itself pays three years' worth of salaries and pensions of those made redundant, so the Spanish taxpayer bears the financial burden of most of these cuts.

In parallel, Iberia announced plans to cut 11% of its seat capacity, largely via reducing short-haul frequencies. This was done partly by termination of Iberia's wet lease contracts for six 737-400s with Air Europa and two 747-400s with Air Atlanta, vindicating management's earlier decision to keep marginal capacity in wet leases. Being Spain, Air Europa is suing Iberia over the "irregular" termination of its contract, although this action should be seen in the context of a bitter relationship between the two airlines following the collapse of merger talks early in 2001.

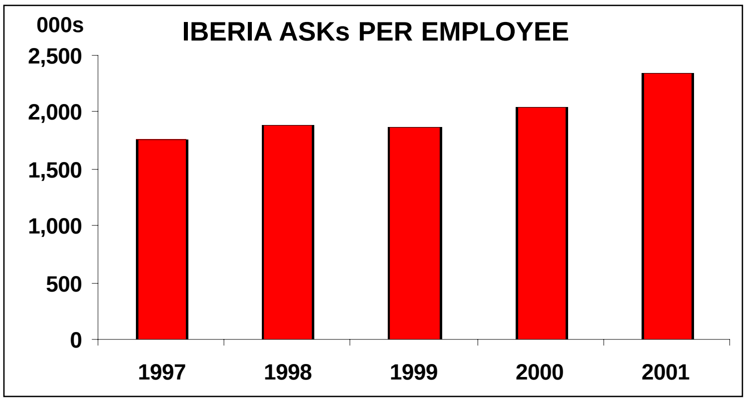
IBERIA FLEET

	Fleet	Orders	Options
A300	5		
A319	4	5	9
A320	52	19	4
A321	4	12	11
A340	15	3	1
747	8		
757	18		
MD87	24		
MD88	13		
TOTAL	**143**	**39**	**25**

By the time of the fourth-quarter crisis Iberia had already retired its fleet of DC-9s and 727s, replaced by an extra 10 A320s and two A321s in 2001. Three A340s were also delivered in 2001, and another 17 A320s and A321s were scheduled to be delivered in 2002. In the wake of September 11 these were postponed, along with the planned issue of Iberbond IIs, which would have financed these acquisitions. Last year Iberia was also due to announce replacement for its 747 fleet, used largely on its Spain-Latin America routes, but the choice between 777-300s and A340-600s will now be made some time in 2002. Two A340s scheduled for delivery in 2002 have not been postponed, but until the replacement for the 747s is decided Iberia's fleet renewal is not complete. The current fleet stands at 143 aircraft (see chart, page 13), down from 153 in October 2001. By the end of 2002 Iberia's fleet will be around the 140 mark - considerably less than the 173 it was forecasting pre-September 11.

Traffic figures since October 2001 indicate Iberia is recovering relatively fast. Although RPKs fell 7.5% in October 2001 compared to a year earlier, there was steady improvement through the end of the year, and in January 2002 RPKs had risen by 1.9% compared with a year earlier. The recovery was largely due to the fact that North-American routes account for a much smaller proportion of Iberia's passengers (and profits) than Latin American routes, which were much less affected by the September 11 fall-out. Overall, passengers carried in 2001 rose by 2% to 25m.

This passenger recovery helped the airline to post a small €4.9m ($4.4m) operating profit for 2001, and a €50m ($45m) net profit in 2001 - both substantially down on 2000 but given the pilot strike and September 11 still a remarkable result. (Pre-September 11, many analysts were expecting around a €70m net profit.) But this figure included substantial tax credits that Iberia had originally planned to include over several years, but which have now all been brought into financial year 2001.



No excuses in 2002

2002 will thus be a critical year for the airline, as the leaner, more efficient Iberia seeks to change from a focus on crisis fire-fighting to the positive pursuit of long-term strategy.

Key to this strategy will be Iberia's large domestic market and its geographical position, making it the natural gateway to/from Latin America. The domestic market accounts for more than 60% of Iberia's flights, and with a strong summer season forecast as Europeans return to Spain in large numbers, passenger numbers will be strong. In the Latin America-Europe market Iberia's market share is estimated at approximately 15%, and these long-haul operations account for the majority of Iberia's profitability. Spanish business and leisure travel to Latin America continues to grow, while increased emigration from Latin America to Spain also benefits the airline.

Yet Iberia's continues to suffer from poor service levels to passengers, both leisure and business. Although this is improving, it is not fast enough for the large numbers of travellers who prefer to fly any airline but Iberia when given a choice. The mass redundancies are hardly likely to help matters here, since inevitably the generous terms on offer (paid for by the government) are likely to encourage the most able members of staff to leave, while "less-flexible" people are able to stay if they want to. Already 2,700 staff have applied for voluntary redundancy or early retirement, even though Iberia was looking for just 2,500 candidates.

A focus on higher productivity needs to be maintained (see chart, left), although the job reductions and cut in short-haul frequencies should improve the ASK per employee figure significantly in 2002.

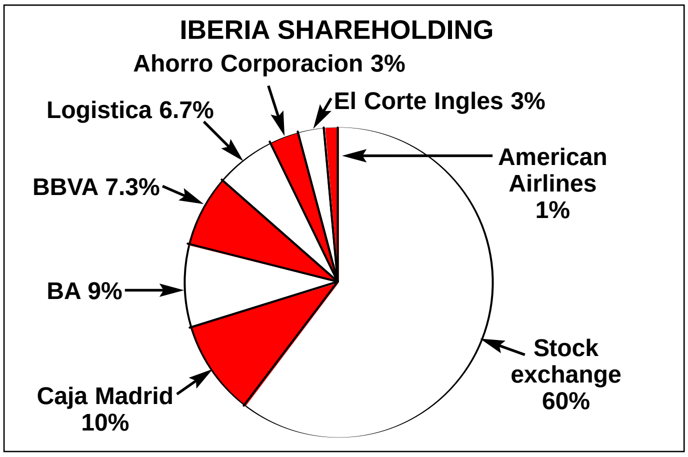
Iberia's sales and marketing effort continues to lag behind most of its rivals - for example, its confusing website is probably the worst among the main European carriers. Feedback from some BA sources who have seen how Iberia operates on the ground is that the Spanish airline has a long way to go in adapting from a state-controlled environment to a fully-privatised mentality where the customer is king. These so-called soft issues may seem irrelevant compared with fleet or cost matters, but without a massive leap in professionalism Iberia cannot hope to compete long-term against other airlines.

All change in alliances?

Iberia appears to be prepared to re-examine its alliance strategy in the wake of BA and American's seemingly losing struggle to strengthen their transatlantic alliance.

“Iberia has to be part of one of the major alliances," said Enrique Dupuy, Iberia Financial Director. "Until now we have believed in oneworld ... and from now we have to see how far it serves Iberia's interests and how far Iberia serves the interests of oneworld."

The oneworld partners met at the end of February to discuss the future of the alliance, but no details of what was decided have been made public. The official line is that Iberia is not "excluding any possibilities", but is the new Iberia genuinely looking at all the alternatives to oneworld, or were its latest statements just designed to put pressure on the oneworld members (i.e. American) ahead of the Ferbruary meeting? BA and American's shareholding will not restrict Iberia's strategic thinking, Iberia insists, and the airline has a variety of mini-alliances with non-oneworld airlines. The alternatives are clear: Lufthansa and United's Star Alliance and Air France and Delta's Sky Team, although Iberia sources hint Star might be more attractive for Iberia, particularly when looking at Star's perceived need for more access to Latin America.



Yet it could be easy to read too much into Iberia's threat to leave oneworld - realistically, Iberia is going nowhere alliance-wise. Only last December Iberia expanded its codesharing with America to Washington D.C. and BA sources indicate they are keen to expand codesharing on Europe-South America routes. And the reality is that BA and American hold a 10% share in Iberia, so if Iberia breaks away from oneworld these two airlines will have no strategic reason too hold a stake in the Spanish carrier. Since BA and American should have no interest in being pure financial investors in other airlines (shareholders are free to diversify directly if they want to), this would mean a sale of their stakes sooner or later - with resulting further downward pressure on the Iberia share price - although an Iberia exit may be what BA and American want anyway, given their own troubles.

So can de Irala and Mullor really make Iberia a profitable European airline long-term? For the moment, investors need convincing, and the share price, at the time around € 1.50, is moving up and seems to be regarded much as the same as Air France’s. Iberia has been briefing analysts to expect flattish revenue and modest profits in 2002, but expectations may be greater than that. The excuses Iberia has always put forward for poor results in the past (union intransigence and the shadow of SEPI) have disappeared and it's now time for management to deliver results to investors - investors who are likely to be much unforgiving of further poor performance than SEPI ever was.

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 %
1994	144.7	87.7	60.6	150.3	108.8	72.4	102.8	76.1	74.0	334.0	243.6	72.9	503.7	346.7	68.8
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73.0	362.6	269.5	74.3	532.8	373.7	70.1
1996	165.1	100.8	61.1	163.9	126.4	77.1	121.1	88.8	73.3	391.9	292.8	74.7	583.5	410.9	70.4
1997	174.8	110.9	63.4	176.5	138.2	78.3	130.4	96.9	74.3	419.0	320.5	76.5	621.9	450.2	72.4
1998	188.3	120.3	63.9	194.2	149.7	77.1	135.4	100.6	74.3	453.6	344.2	75.9	673.2	484.8	72.0
1999	200.0	124.9	62.5	218.9	166.5	76.1	134.5	103.1	76.7	492.3	371.0	75.4	727.2	519.5	71.4
2000	208.2	132.8	63.8	229.9	179.4	78.1	137.8	108.0	78.3	508.9	396.5	77.9	755.0	555.2	73.5
2001	212.9	133.4	62.7	217.6	161.3	74.1	131.7	100.9	76.6	492.2	372.6	75.7	743.3	530.5	71.4
Jan 02	14.7	7.9	54.1	13.7	9.8	72.0	10.6	8.4	79.2	36.5	27.6	75.6	53.8	37.2	69.3
Ann. chng	-15.6%	-13.7%	2.0	-24.5%	-17.6%	6.1	-11.0%	-8.2%	2.4	-13.8%	-10.3%	3.0	-14.6%	-11.2%	2.8

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 %
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	178.9	141.4	79.0	127.7	97.7	76.5	83.0	57.6	69.4	380.9	289.9	76.1
2001	1,025.4	712.2	69.5	173.7	128.8	74.2	120.1	88.0	73.3	83.4	56.9	68.2	377.2	273.7	72.6
Jan 02	77.6	49.2	63.2	11.6	7.8	67.3	8.0	6.6	82.5	7.2	5.1	71.4	26.9	19.6	73.0
Ann. chng	-13.7%	-12.8%	0.7	-19.2%	-16.3%	2.3	-23.1%	-16.0%	6.9	-3.6%	-4.6%	-0.7	-16.8%	-13.4%	2.9

Note: US Majors = American, Alaska, Aloha, ATA, Am. West, Continental, Delta, Hawaiian, Midwest Express, NWA, Southwest, United, US Airways. **Source:** Airlines, ATA.

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**							4,713	3,205	68.0					-1.1	-6.0
***2002**							4,737	3,270	69.0					0.5	2.0
***2003**							5,066	3,596	70.9					6.9	10.0
***2004**							5,320	3,830	72.0					5.0	6.5

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

FINANCIAL TRENDS (1990=100)

	Inflation (1990=100)						Exchange rates (against US$)			LIBOR
	US	UK	Germany	France	Japan		UK	Euro**	Japan	6 month Euro-$
1994	113	109	117	110	107	**1993**	0.666	0.854	111.2	3.36%
1995	117	112	119	112	107	**1994**	0.653	0.843	102.2	5.06%
1996	120	114	121	113	107	**1995**	0.634	0.765	94.1	6.12%
1997	122	117	123	114	108	**1996**	0.641	0.788	108.8	4.48%
1998	123	120	124	115	109	**1997**	0.611	0.884	121.1	5.85%
1999	125	122	126	116	108	**1998**	0.603	0.896	130.8	5.51%***
2000	128	124	127	117	107	**1999**	0.621	0.991	103.3	5.92%***
***2001**	131	127	128	119	107	**2000**	0.603	1.086	118.1	5.36%***
						2001	0.693	1.122	117.6	3.35%***
						Feb 2002	0.704	1.136	128.5	3.50%***

Note: * = Forecast. **Source:** OECD Economic Outlook, July 2001. **Euro rate quoted from January 1999 onwards. 1990-1998 historical rates quoted in 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
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
2001-Apr	326	130	456	184	61	245	701
2001-May	371	140	511	210	61	271	782
2001-Jun	353	150	513	222	67	289	802
2001-Jul	352	145	497	179	64	243	740
2001-Aug	373	157	530	218	80	298	828
2001-Sep	388	173	561	251	95	346	907
2001-Oct	378	180	558	263	97	360	918
2001-Nov	382	177	559	265	97	362	921
2001-Dec	368	188	556	291	101	392	948

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
Airbus	Feb 8	Quatar AW	1 A320			
	Feb 8	Frontier	1 A319			
Boeing	Feb 14	Transavia	4 737-700		2003	CFM56-7B
	Feb 25	Air Kazakstan	1 767-200EREM			CF6-802 B47
	Feb 25	Vietnam AL	4 777-200ER		Aug 2003	PW 408D
	Feb 25	Unknown	2 737-800			
Embraer	Feb 25	Proteus	1 Emb145			Converted option

	Group revenue US$m	Group costs US$m	Group operating profit US$m	Group net profit US$m	Total ASK m	Total RPK m	Load factor %	Group rev. per total ASK Cents	Group costs per total ASK Cents	Total pax. 000s	Total ATK m	Total RTK m	Load factor %	Group employees
American*														
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
Jan-Mar 01	4,760	4,743	17	-43	62,725.7	42,590.7	67.9	7.59	7.56					108,900
Apr-Jun 01	4,838	5,586	-748	-494	66,007.0	47,484.0	71.9	7.33	8.46					128,300
Jul-Sep 01	4,816	5,374	-558	-414	62,675.9	45,314.7	72.3	7.68	8.57					127,200
Oct-Dec 01	3,804	4,952	-1148	-798	54,907.4	35,580.0	64.8	6.93	9.02					109,300
America West														
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				
Jan-Mar 01	587	612	-25	-13	11,355.2	7,857.8	69.2	5.17	5.39	5,104				
Apr-Jun 01	587	641	-54	-42	11,097.7	8,367.4	75.5	5.29	5.78	5,294				
Jul-Sep 01	491	590	-99	-32	10,774.3	7,973.0	74.0	4.57	5.48	5,034				
Oct-Dec 01	400	538	-138	-61	9,477.2	6,492.0	68.5	4.22	5.68	4,144				
Continental														
Apr-Jun 00	2,571	2,292	279	149	34,406.9	26,534.0	77.1	7.47	6.66	12,084				
Jul-Sep 00	2,622	2,368	254	135	35,978.0	27881.1	77.5	7.29	6.58	12,155				
Oct-Dec 00	2,429	2,332	97	44	34,454.0	24,685.1	71.6	7.05	6.77	11,456				
Jan-Mar 01	2,451	2,375	76	9	34,533.9	24,322.9	70.4	7.10	6.88	11,220				
Apr-Jun 01	2,556	2,419	137	42	36,712.9	27,443.4	74.8	6.96	6.59	12,256				
Jul-Sep 01	2,223	2,136	87	3	35,394.9	26,086.1	73.7	6.28	6.03	11,254				
Oct-Dec 01	1,738	1,895	-157	-149	29,321.4	20,554.3	70.1	5.93	6.46	9,508				
Delta														
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				
Jan-Mar 01	3,842	3,957	-115	-133	60,714.1	40,690.6	67.0	6.33	6.52	26,932				
Apr-Jun 01	3,776	3,890	-114	-90	61,538.0	44,783.6	72.8	6.14	6.32	28,130				82,500
Jul-Sep 01	3,398	3,649	-251	-259	60,718.9	43,259.6	71.3	5.60	6.01	26,441				83,500
Oct-Dec 01														
Northwest														
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					
Jan-Mar 01	2,611	2,847	-236	-171	40,211.6	29,394.7	73.1	6.49	7.08					
Apr-Jun 01	2,715	2,751	-36	-55	42,216.8	32,886.9	77.9	6.43	6.52					
Jul-Sep 01	2,594	2,749	-155	19	41,870.8	31,753.1	75.8	6.20	6.57					
Oct-Dec 01	1,985	2,426	-441	-216	33,985.2	23,619.7	69.5	5.84	7.14					
Southwest														
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				
Jan-Mar 01	1,429	1,218	210	121	25,512.2	17,169.7	67.3	5.60	4.77	15,716				29,563
Apr-Jun 01	1,554	1,263	291	176	26,430.0	18,970.4	71.8	5.88	4.78	17,527				30,369
Jul-Sep 01	1,335	1,242	93	151	26,216.8	18,120.7	69.1	5.09	4.74	16,208				30,946
Oct-Dec 01	1,238	1,201	37	64	26,887.7	17,342.6	64.5	4.60	4.47	14,996				31,580
TWA														
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														
Jan-Mar 01														
Apr-Jun 01														
Jul-Sep 01														
Oct-Dec 01														
United														
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
Jan-Mar 01	4,424	4,815	-391	-313	67,741.4	46,267.7	68.3	6.53	7.11	18,860				98,600
Apr-Jun 01	4,658	5,011	-353	-292	71,928.2	52,651.5	73.2	6.48	6.97	21,331				98,000
Jul-Sep 01	4,107	4,819	-712	-542	69,232.9	50,609.3	73.1	5.93	6.96	19,815				95,900
Oct-Dec 01	2,949	3,835	-886	-308	56,420.7	38,140.4	67.6	5.23	6.80	15,450				79,300
US Airways														
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
Jan-Mar 01	2,241	2,469	-228	-171	27,752.4	18,372.1	66.2	8.07	8.90	14,193				44,077
Apr-Jun 01	2,493	2,473	20	-24	29,394.8	21,693.4	73.8	8.48	8.41	16,582				44,673
Jul-Sep 01	1,989	2,739	-750	-766	27,609.2	19,618.9	71.1	7.20	9.92	14,188				42,723
Oct-Dec 01	1,554	2,101	-547	-906	22,639.6	14,308.2	63.2	6.86	9.28	11,151				35,232
ANA														
Apr-Jun 00	SIX MONTH FIGURES													
Jul-Sep 00	5,288	4,793	495	359	47,586.3	31,753.1	66.7	11.11	10.07	24,958				
Oct-Dec 00	SIX MONTH FIGURES													
Jan-Mar 01	5,376	5,186	190	-486	46,278.4	29,168.4	63.0	11.61	11.21	24,471				
Apr-Jun 01	SIX MONTH FIGURES													
Jul-Sep 01	5,168	4,811	357	136	45,756.4	30,790.3	67.3	11.29	10.51	25,876				
Oct-Dec 01														
Cathay Pacific														
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	2,356	1,983	373	382	32,070.0	24,586.6	76.7	7.35	6.13		6,147.0			
Jan-Mar 01	SIX MONTH FIGURES													
Apr-Jun 01	2,031	1,898	133	170	32,419.0	23,309.3	71.9	6.26	5.85		5,936.0			
Jul-Sep 01														
Oct-Dec 01														
JAL														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00	TWELVE MONTH FIGURES													
Jan-Mar 01	14,198	13,542	656	342										
Apr-Jun 01														
Jul-Sep 01														
Oct-Dec 01														

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

	Group revenue US$m	Group costs US$m	Group operating profit US$m	Group net profit US$m	Total ASK m	Total RPK m	Load factor %	Group rev. per total ASK Cents	Group costs per total ASK Cents	Total pax. 000s	Total ATK m	Total RTK m	Load factor %	Group employees
Korean Air														
Apr-Jun 00														
Jul-Sep 00	TWELVE MONTH FIGURES													
Oct-Dec 00	4,916	4,896	20	-409	55,824.0	40,606.0	72.7	8.81	8.77	22,070		10,407		16,000
Jan-Mar 01														
Apr-Jun 01														
Jul-Sep 01	TWELVE MONTH FIGURES													
Oct-Dec 01	4,309	4,468	-159	-448										
Malaysian														
Apr-Jun 00														
Jul-Sep 00														
Oct-Dec 00	TWELVE MONTH FIGURES													
Jan-Mar 01	2,357	2,178	179	-351	52,329.0	39,142.4	74.8	4.50	4.16		8,055.0	5,379.0	66.8	21,518
Apr-Jun 01														
Jul-Sep 01														
Oct-Dec 01														
Singapore														
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	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	
Apr-Jun 01	SIX MONTH FIGURES													
Jul-Sep 01	2,592	2,329	263	90	48,057.7	36,091.4	75.1	5.39	4.85					
Oct-Dec 01														
Thai Airways														
Apr-Jun 00	TWELVE MONTH FIGURES													
Jul-Sep 00	3,111	2,732	379	121	55,517.0	41,347.0	74.5	5.60	4.92	17,700	7,752.0	5,469.0	70.6	
Oct-Dec 00														
Jan-Mar 01														
Apr-Jun 01	TWELVE MONTH FIGURES													
Jul-Sep 01	2,936	2,658	278	44	60,459.0	45,167.0	74.7	4.86	4.40	18,600	8,490.0	5,818.0	68.5	
Oct-Dec 01														
Air France														
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					
Apr-Jun 01	SIX MONTH FIGURES													
Jul-Sep 01	5,798	5,511	287	250	64,474.4	50,984.1	79.1	8.99						
Oct-Dec 01														
Alitalia														
Apr-Jun 00	2,225	2,254	-29	-15	24,747.8	16,898.8	68.3	8.99	9.11	11,693	3,464.8	2,404.5	69.4	
Jul-Sep 00	SIX MONTH FIGURES													
Oct-Dec 00	2,553	2,753	-200	-209	32,735.2	24,534.2	74.9	7.80	8.41					
Jan-Mar 01	SIX MONTH FIGURES													
Apr-Jun 01	2,348	2,504	-156	-228	26,436.6	18,952.9	71.7	8.88	9.47	12,565	2,617.2	1,876.3	71.7	24,023
Jul-Sep 01														
Oct-Dec 01														
BA														
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
Apr-Jun 01	3,277	3,206	71	37	40,980.0	28,646.0	69.9	8.00	7.82	11,293	6,124.0	3,915.0	63.9	58,989
Jul-Sep 01	3,219	3,116	103	33	39,629.0	29,297.0	73.9	8.12	7.86	11,306	5,969.0	3,868.0	64.8	59,902
Oct-Dec 01	2,616	2,882	-266	-205	35,449.0	23,106.0	65.2	7.38	8.13	8,574	5,436.0	3,341.0	61.5	55,758
Iberia														
Apr-Jun 00														
Jul-Sep 00	TWELVE MONTH FIGURES													
Oct-Dec 00	4,136	4,075	61	188	54,120.0	40,049.0	74.0	7.64	7.53	24,500		4,382		26,814
Jan-Mar 01														
Apr-Jun 01														
Jul-Sep 01														
Oct-Dec 01														
KLM														
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
Apr-Jun 01	1,507	1,487	20	17	19,231.0	15,200.0	79.0	7.84	7.73		3,322.0	2,526.0	76.0	27,211
Jul-Sep 01	1,679	1,596	83	24	19,554.0	16,049.0	82.1	8.59	8.16		3,328.0	2,559.0	76.9	28,911
Oct-Dec 01	1,291	1,358	-67	-82	17,030.0	12,483.0	73.3	7.58	7.97		3,063.0	2,323.0	75.8	27,738
Lufthansa* **														
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	68,000
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	3,222	3,202	20	-80	30,223.0	21,232.0	70.3	10.66	10.59	10,903	5,781.0	3,953.0	68.4	72,279
Apr-Jun 01	4,119	4,045	74	41	30,658.0	22,930.0	74.8	13.44	13.19	12,236	6,371.0	4,239.0	66.5	85,771
Jul-Sep 01	4,188	4,027	161	96	32,454.0	24,546.0	75.6	12.90	12.41	12,692	6,271.0	4,282.0	68.3	83,447
Oct-Dec 01														
SAS														
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
Apr-Jun 01	1,345	1,329	16	18*	9,144.0	6,227.0	68.1	14.71	14.53	6,279				30,499
Jul-Sep 01	1,199	1,220	-21	-20*	9,629.0	6,498.0	67.5	12.45	12.67	6,463				30,896
Oct-Dec 01	1,208	1,316	-108	-108*	8,509.0	5,097.0	59.9	14.20	15.47	5,300				
Swissair**														
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														
Apr-Jun 01														
Jul-Sep 01														
Oct-Dec 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.