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Ryanair post Charleroi

So the EC has ruled on Ryanair/Charleroi, declaring illegal part of the subsidy provided by the airport and the regional government of Wallonia, mainly because it contravened private market investor principles (see *Aviation Strategy*, September 2003).

The Commission has laid down the following ground rules for airport incentive deals:

- Must be fully transparent and non-discriminatory;
- Must last no more than five years for point-to-point European routes;
- Any one-off start-up support must take account of the actual costs of opening the routes; and
- Support packages cannot exceed 50% of net start-up costs.

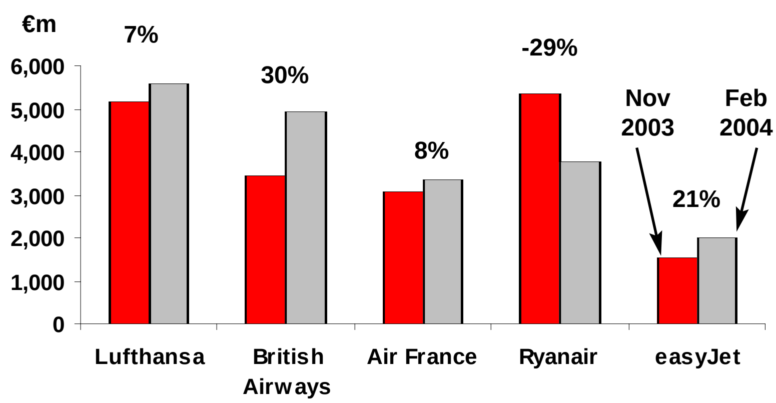
All this sounds eminently reasonable (but would that the EC had been so focused and logical in dealing with the €15bn-plus of state aid it allowed in one way or another to various flag-carriers).

Ryanair will only have to repay about €4-6m which will scarcely dent its cash balance of over €1bn. But its reaction has been vehement, over the top, forecasting the end of low fares in Europe, a claim that was immediately contradicted and undermined by easyJet.

The real issue, according to an incisive and detailed analysis by Andrew Lobbenberg of ABN Amro, is that the Ryanair model has hit a roadblock. Ryanair's expansion is taking it into the "nowhere to nowhere" markets, as opposed to the "London to nowhere" markets. Ryanair itself gave a profits warning, reducing its profit guidance from €270m to €215m for the year to March 2004, because yields were expected to deteriorate 25-30% during January-March.

Lobbenberg argues that Ryanair is overplaying the yield decline and underplaying the cost pressures on the airline post the

STOCKMARKET CAPITALISATIONS: RYANAIR DOWN, BA AND EASYJET UP



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Charleroi decision: "Ryanair enjoys a 67% unit cost advantage over bmi British Midland, a full-service, short-haul network carrier, and a 33% unit cost advantage over easyJet. At the heart of the cost advantage are the negotiated airport incentive deals, which provide low airport charges, handling charges and marketing costs".

The net result, however, is not a disaster for Ryanair; the implication is that its operating margin will reduce to a still very respectable 15% from 20-30% in the recent past, and should be sustainable at this level. Its stockmarket capitalisation seems to adjusting to this new reality.

For the flag-carriers, the market dynamics are not fundamentally changed. LCCs, especially easyJet, whose model mostly focuses on primary airports, will continue to win market share and exert yield pressure.

Could Ryanair also modify its model to allow it to attack primary European destinations? When Go was up for sale two years ago, some analysts thought that it might be a good idea for Ryanair to buy it simply to get into the primary airport business, as the secondary and tertiary airport expansion strategy appeared to have limits, which may now have been exposed.

US legacy carriers fight back

The past three years have seen low-cost carriers (LCCs) rise rapidly at the expense of the legacy airlines in the US. Many people have expected this trend to continue in 2004 and beyond, with the likes of JetBlue, AirTran and Frontier capturing an ever-increasing share of the US domestic market. After all, those carriers have healthy profits, strong balance sheets and aggressive growth plans, whereas the large network carriers continue to lose money and are handicapped by weak balance sheets and heavy debt and pension obligations.

However, it has never seemed very plausible that the legacy carrier sector would simply fade away, particularly in light of all the cost cutting and restructuring that has been accomplished or is under way. Legacy carriers still account for about three-quarters of total US domestic capacity (ASMs).

Indeed, recent weeks have seen growing evidence suggesting a change in the competitive dynamics in the industry. After three years of market share erosion, the large network carriers could (at least temporarily) recover some ground in 2004.

Three new developments support this assertion. First, the US legacy carriers are suddenly responding aggressively to the LCC threat. This is taking the form of both general capacity addition - aggregate ASMs are up significantly in 2004 - and competitive moves in specific markets.

Both the overall scale of new competitive activity by the major airlines and the scope of some of the individual actions are unprecedented. By most estimates, they will have some impact.

Second, the message coming across loud and clear from the latest round of airline earnings conference calls and other recent announcements is that, except for US Airways, the large US network carriers are in better shape financially than what many had expected. (Of course, they still face many challenges.)

In contrast to the situation last year, the legacy airlines actually look like survivors - something that may also explain their new-found aggressions. They are benefiting from strong liquidity positions and improved access to the capital markets, as well as significantly reduced cost structures in some cases (American and United). Therefore, even if they do not yet have the cost structures to sustain the most extreme pricing actions, they now have staying power.

Third, in recent months LCCs' profit margins have come under pressure from escalated competition and low yields in transcontinen-

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tal markets, where much of their recent expansion has focused. Most notably, JetBlue's fourth-quarter operating margin (13.3%) fell several percentage points short of its original forecast and the year-earlier figure.

No-one is seriously worried about small margin reductions (JetBlue's margin was still the best in the industry) but, rather, whether they are a sign of worse things to come. Will LCCs see sharper profit margin declines when they expand more in the low-yield transcontinental markets and as competition really heats up on the East Coast? Could they even be forced to curb their growth plans?

All in all, after essentially having the playing field to themselves for three years, LCCs like JetBlue, AirTran and Frontier face tough new challenges in 2004. It will be interesting to see how those airlines, known for their creativity, will respond. Will their growth strategies change?

It has to be stressed that there are no concerns about the oldest and largest LCC, Southwest, which is accelerating growth significantly this year and in 2005 (*Aviation Strategy* briefing, January 2004). Its Philadelphia expansion from May could have devastating impact on US Airways.

Southwest is almost as large as all the other US LCCs combined - last year its domestic capacity share was 11.5%, compared to 14.4% for other LCCs (including America West). Therefore rapid growth at Southwest will keep the total LCC capacity share expanding even if some of the smaller carriers needed to pause to reassess their strategies.

Of course, because the US domestic revenue environment appears to have changed permanently, all airlines - whether they fit neatly into today's "LCC" category or should perhaps be described as "reformed legacy carriers" - will need relatively low cost structures in the future.

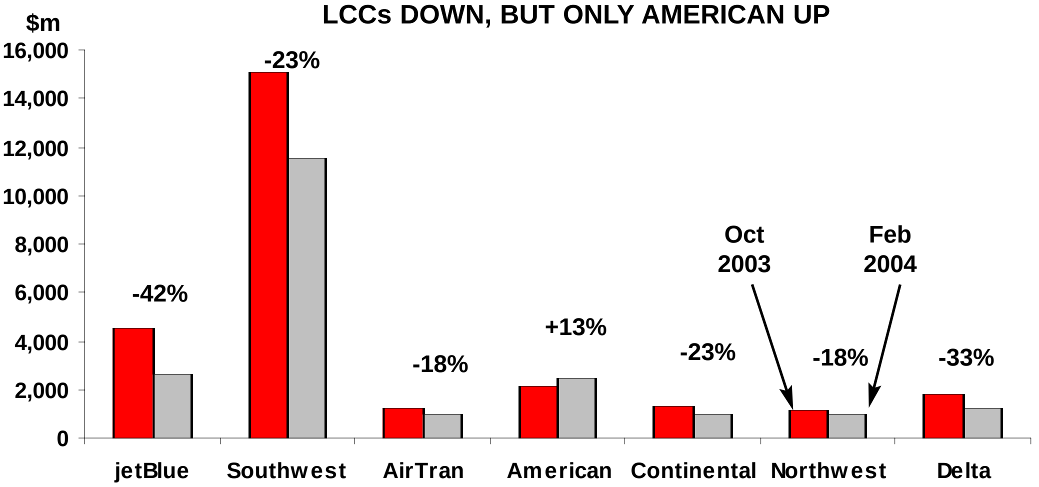
Why the legacy carriers look stronger

The legacy carriers have managed to build their cash reserves to record levels. This is as a result of the following: large federal security cost refunds in the spring of 2003, successful cost cutting and restructuring, positive or vastly improved operating cash flow (particularly in the past two quarters), "cash is king" attitudes and, above all, continued ability to raise more debt.

AMR, which had a close brush with Chapter 11 only nine months ago, has just raised well over $500m in the capital markets in two separate transactions - a $222.5m EETC-type private offering secured on aircraft spare parts and a $300m public convertible bond offering. For the latter, it was able to secure a mere 4.5% interest rate. The proceeds have bolstered AMR's already strong liquidity position ($2.6bn in unrestricted cash at year-end) and made its substantial ($1.9bn) 2004 cash obligations look perfectly manageable.

The $1.8bn annual labour concessions secured on the courthouse steps, as well as the $2.2bn-plus of other cost savings, have given American the lowest unit costs among the large network carriers. Its 4Q CASM was 9.45 cents or 12% below the year-earlier level. On an annualised basis, such a decline would

STOCKMARKET CAPITALISATIONS: LCCs DOWN, BUT ONLY AMERICAN UP



Note: Comparisons made for recent relative peak of LCCs (Oct 03) have given it CASM of 9.50 cents in 2003. But American is now targeting an even bigger 17% CASM reduction in the current quarter.

AMR remains highly leveraged, with total debt and leases of $21bn and a net lease-adjusted debt-to-capital ratio of 100%. However, it is worth noting that it has already managed to modestly pay down debt by redeeming $305m of airport bonds in the fourth quarter.

United has used the Chapter 11 process to substantially reduce its cost gap to the LCCs. Its CASM fell by 17.3% to 9.85 cents in the fourth quarter; on an annualised basis the 2003 CASM would have been 9.40 cents (similar to American's). Total cash reserves at year-end were an adequate $2.4bn, including $679m of restricted cash.

Significantly, United secured a commitment for $2bn of Chapter 11 exit financing, including $400m in non-guaranteed funding, from JPMorgan and Citigroup in mid-December. It has resubmitted its loan guarantee application to the ATSB and still hopes to emerge from bankruptcy this spring or summer. However, it is hard to predict its chances because some tough issues remain unresolved, including pension funding, retiree medical benefits, United Express strategy and municipal bond litigation.

In recent years Continental has consistently outperformed the other legacy carriers and has enjoyed the lowest CASM, mainly due to a labour productivity advantage. But it has now lost almost all of its cost lead over American and United. Nevertheless, in the short term it is adequately positioned with CASM of 9.36 cents (2003); the aim is to hold it at 9.30-9.35 cents in 2004. Year-end cash reserves were $1.6bn, of which $170m was restricted.

Delta and Northwest need to lower their labour costs to remain competitive. Both are talking to their unions but making slow progress. UBS analyst Sam Buttrick made the point recently that both airlines would almost certainly obtain the necessary savings (without the threat of bankruptcy, which was no longer an effective tool) but that he could not predict the timing.

Further delays on the labour front would mean Delta and Northwest continuing to post sizable financial losses in 2004. The other large network carriers (except US Airways) are currently expected to return to marginal or modest profitability this year - even at the current level of fuel prices.

The big positive for Northwest is that when it eventually adjusts its wage rates, its CASM is likely to be at the low end of the legacy carrier range. Its 2003 CASM of 9.76 cents (excluding special items) already reflected relatively low non-labour costs.

Northwest has raised unsecured debt on several occasions over the past year, though last month's $300m offering incorporated an unattractive 10% interest rate. The financings have helped Northwest maintain the strongest liquidity position relative to size among its peers (unrestricted cash of $2.76bn at year-end). The company will need continued access to the capital markets to meet its substantial cash obligations this year and in 2005.

Delta's financial recovery is expected to significantly lag behind its peers, which the airline blames squarely on its pilot cost disadvantage. Faced with the prospect that the talks could drag on into 2005, and with CASM of 10.48 cents in 2003 (the second-highest after US Airways), the airline continues to focus heavily on cost cutting. Substantial upcoming debt maturities and pension obligations are also a point of concern.

Nevertheless, Delta is not considered a potential Chapter 11 candidate because of its strong liquidity ($2.7bn in unrestricted cash at year-end) and continued ability to tap the capital markets. It has just raised $325m through a private placement of convertible bonds.

Of course, the "new benchmark" CASM level of low-to-mid 9s will not make the legacy carriers truly competitive with the LCCs for the longer term. The airlines are not keen to divulge their ultimate CASM targets, but Northwest executives suggested recently that low-8s was a reasonable long-term goal for the type of revenue environment that exists today.

Legacy carriers' competitive actions

American set the tone in early January with an unusually aggressive fare offensive targeted at JetBlue, to mark the latter's debut in

Boston. The major airline is offering a free return ticket anywhere in the world to AAdvantage FFP members who fly two round trips in selected Northeast-Florida or Northeast-California markets that JetBlue serves before April 15. Delta and United have more or less matched the offer.

Those deals represent unprecedented bargains for travellers, also because they can be combined with other special offers (such as $69 fares to Florida). They are in an entirely different league from the previous practice of the majors just matching LCCs' fares and maybe offering double or triple FFP miles.

American is now unleashing the power of its massive FFP and worldwide network more effectively in competition with LCCs. It will be giving away a lot of seats, but the award trips will be spread over 12 months and have fairly significant restrictions. Overall, it is probably a shrewd move in the current industry environment.

Delta's main response to LCCs has been to launch its own low-fare unit, Song, as a successor to Delta Express (April 2003). Song has targeted JetBlue directly with its East Coast network and upscale product. It has grown rapidly to a 36-aircraft operation. However, last month Delta put Song's expansion on hold subject to a "full strategic review" of all aspects of Delta's business plan, initiated by new CEO Gerald Grinstein after taking office in early January.

That said, it is also obvious that Song has not lived up to expectations. According to a recent comparative analysis of O&D data by Raymond James analyst James Parker, JetBlue has outperformed Song by a huge margin in the four JFK-Florida markets served by both airlines in 3Q03. Song's load factor was 58%, compared to JetBlue's 82%. Song's average fare ($80) was $20 lower than JetBlue's. Song had a negative 65% margin in those markets, compared to JetBlue's positive 20% margin. (The comparison did not include Song's connecting passengers at JFK or revenues from its on-board sales of food. Also, Song is now substantially larger.)

News of the hold decision on Song boosted JetBlue's share price, but it was not necessarily a favourable development from LCCs' point of view. Now Delta may well end up doing what many people have always said it should have done in the first place, namely reduce costs across its entire system.

It is also possible that, as Delta has frequently claimed, Song has helped it identify new efficiencies for the rest of the network, such as ways to shorten aircraft turnaround times. If so, the venture has not been a total failure.

Separately, in late January Delta announced plans to strengthen its JFK operations over the next eight months. Between mainline, Song and Delta Connection, there are plans to add eight new destinations and 14 additional daily flights in existing markets out of JFK, as well as invest $300m to upgrade systems and processes.

The competitive implications are twofold. First, Delta's move is a direct attack at JetBlue's JFK home base. Second, it will add a big chunk of capacity to the transcontinental market, where fierce competition among newcomer LCCs and established majors has already driven one-way fares as low as $79.

United is launching its new low-fare operation, Ted, on February 12 at its Denver hub. The unit will serve initially eight leisure destinations out of Denver, plus the West Coast from Las Vegas and Phoenix. It will be a one-class operation, with a simple fare structure. The plan is to utilise 45 A320s by the end of 2004, of which 19 would be based in Denver.

In early February United did its bit to add to the East Coast frenzy by announcing plans to bring Ted to its Washington Dulles hub in early April. It will serve three Florida cities and Las Vegas, operating 15 daily roundtrips by mid-May (22% of United's domestic mainline flying out of Dulles).

Of the LCCs, Denver-based Frontier will potentially feel the biggest impact from Ted. However, Frontier is convinced that in substance Ted does not represent anything new. United is not adding much capacity - it is replacing mainline capacity with Ted capacity, utilising slightly larger aircraft. Only one of the initial Ted markets, Ft. Lauderdale, is a new market not served by United. The major carrier has always matched Frontier's fares - as does Ted.

At Dulles Ted's role will be to defend United's position against Atlantic Coast's planned low-fare hub operation, Independence Air. ACA is still waiting to be released from its United Express feeder contract, so that it can launch independent operations with RJs and A320s later this year. Ted will have a head start of at least six months, but in the end its relatively small presence may not have much impact on ACA's plans. ACA hopes to quickly build the Independence Air operation to 350 daily flights to over 50 destinations on the East Coast, the Midwest and the West Coast.

United is reportedly claiming that Ted will achieve 15-20% lower CASM than mainline through simplified operations, higher utilisation and 18 additional seats on the A320s. However, except for the dedicated fleet, Ted will be part of United, with less of an independent brand than Song has.

It is hard to see what United could possibly accomplish with Ted that could not be done with the mainline operation (which now has relatively low CASM). Or, as James Parker put it in a recent research report: "Why do this when United's entire domestic system is already low fare?"

By Heini Nuutinen

Where's the ordering cycle trough?

In 2003 Airbus out-delivered Boeing for the first time, with 305 units against 281. Airbus also won more orders than Boeing - 254 units against 239, after taking account of cancellations.

On historical analysis 2003 should have been the trough of the order cycle (the previous trough was 1994). However, it appears that the structural changes taking place in the commercial airline sector may have distorted the cycle. Quite simply it is very difficult to see where the major orders are going to come from this year and next.

The LCCs have dominated ordering activity in recent years, and even last year some of the biggest customers were JetBlue, Ryanair, Southwest and AirTran (some of these orders recorded in 2003 being part of previously announced mega-orders).

As the LCCs in this cycle have focused solely on heavily discounted new orders there remain a large pool of second-hand narrowbodies on the market. These are starting to be vacuumed up by the large number of new entrants. But overall there is still about 14% overcapacity in the jet market, and almost 500 of the 1,300 aircraft parked in the desert are likely to return over the next two years. The lessors have their own aircraft placement challenges, not least because of the continuing bankruptcies among their lessee airlines, and will make only minor ordering forays.

Asia and the Middle East underpinned new ordering activity last year, with majors orders from CASC, China Airlines, ANA, Korean, Emirates and Qatar Airways. China may be starting to fulfil its potential as a generator of aircraft orders, but the long-awaited major order from Indian Airlines/Air India has yet to materialise. And it probably won't happen in 2004, an election year.

As for the exciting new projects: Emirates' order took the A380 backlog up to 129. With the first delivery planned for 2006, while the 7E7 has reached the "firm concept" stage and is expected to further firmed up to "authority to offer" status in the very near future.

The point-to-point versus hub-to-hub argument between Boeing and Airbus continues at an abstract level. Practical issues that need tackling include upgrading airport terminals and runways to service the A380 and getting the 7E7's operating costs down significantly below those of the A330.

See page opposite for the Airbus and Boeing net firm order tables.

AIRBUS FIRM ORDERS 2003

	A319	A320	A321	A300	A330	A340	A380	Total
Aer Lingus		7						**7**
Aeroflot	6	2						**8**
Iberia						5		**5**
European Total	**6**	**9**	**0**	**0**	**0**	**5**	**0**	**20**
CIT		4						**4**
Frontier Airlines	15							**15**
GECAS		4						**4**
JetBlue		67						**67**
US Airways					9			**9**
N.American Total	**15**	**75**	**0**	**0**	**9**	**0**	**0**	**99**
Lan Chile	3							**3**
Latin American Total	**3**							**3**
Air Caledonie Int'l		1						**1**
Air Hong Kong				6				**6**
CASC	16	10			4			**30**
China Airlines					14			**14**
Druk Air	2							**2**
Korean Airlines							5	**5**
MAS							6	**6**
Royal Thai Air Force	1							**1**
Thai Airways						8		**8**
Vietnam Airlines			5					**5**
Qantas		9						**9**
Asian Total	**19**	**20**	**5**	**6**	**18**	**8**	**11**	**87**
Air Algerie					5			**5**
Egyptair					7			**7**
Emirates						20	21	**41**
Qatar	1		2		15	2	2	**22**
Africa/M.East Total	**1**	**0**	**2**	**0**	**27**	**22**	**23**	**75**
Changes/Cancellations								-30
Net Total	**44**	**104**	**7**	**6**	**54**	**35**	**34**	**254**

Source: Airbus and Boeing

BOEING FIRM ORDERS 2003

	717	737	747	757	767	777	Total
Air Europa		4					4
Austrian Airlines		3					3
Cargolux Airlines			1				1
Luxair		3					3
Ryanair		22					22
European Total	**0**	**32**	**1**	**0**	**0**	**0**	**33**
AirTran	6	28					34
Boeing Business Jet		8					8
CIT		1					1
Continental Airlines		6					6
GE Capital Corp.						4	4
Southwest		24					24
US Navy		2					2
WestJet		2					2
N.American Total	**6**	**71**	**0**	**0**	**0**	**4**	**81**
L. American Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Air China		5					5
All Nippon Airways		45					45
Cathay Pacific			1				1
Hainan Airlines		8					8
Japan Airlines					7		7
Jet Airways		1					1
Korean Air			2			9	11
Qantas		5					5
Shandong Airlines		7					7
Shanghai Airlines				5			5
Shenzen Airlines		5					5
Turkmenistan Airlines	2				1		3
Uzbekistan Airlines					2		2
Virgin Blue		5					5
Xiamen Airlines		5		2			7
Asian Total	**2**	**86**	**3**	**7**	**10**	**9**	**117**
Air Algerie		3					3
Africa/M.East Total		**3**					**3**
Unidentified Total	**0**	**5**	**0**	**0**	**1**	**0**	**6**
Changes/cancellations							-31
Net Total							**239**

Alitalia: is KLM/Air France a solution?

2004 is a crucial year for Alitalia. Italy's national airline is likely to report a massive operating loss, over €400m, in 2003 - its fifth straight year without an operating profit. With further state aid no longer a possibility, can Alitalia survive much longer, or will a new cost-cutting plan be enough to persuade KLM and Air France to accept it into their merged operation, thus ensuring the future of an airline that launched operations back in 1947?

Struggling throughout the 1990s, Alitalia's survival was based on receiving €1.4bn in "one time, last time" state aid in 1997. But by 2001 the Alitalia Group's financial performance had deteriorated to a net loss of €907m in 2001. In 2002, Alitalia cut its operating loss by almost two-thirds and posted a net profit for the first time since 1999 (see chart opposite). However, this net figure was boosted by the sale of non-core assets and €172m compensation paid to Alitalia by KLM for the termination of a previous partnership. Also in 2002, Alitalia benefited from a controversial recapitalisation in the form of a €1.4bn rights issue - nearly €900m came from the Italian state via the Ministry of Finance, which still owns about 62% of the airline, while the rest was underwritten by a consortium of international commercial interests, including Merrill Lynch and CSFB.

With the effects of the Gulf War and SARS hitting traffic in the first half of 2003, last year was very painful for the airline. Alitalia is exposed to the Middle East market, and traffic on many routes fell substantially after the Gulf War (Malpensa-Beirut traffic fell by 72% and Malpensa-Dubai traffic by 67%). In the third quarter of 2003 Alitalia posted an operating loss of €22m - compared with a €58m operating profit in July-September 2002 - and a loss before extraordinary items and taxes of €48m, compared with a €26m loss in 3Q 2002. On top of the poor first-half of the year, this meant that Alitalia's cumulative operating loss for January-September 2003 came to €284m and cumulative loss before extraordinary items and taxes totalled €365m - compared with an operating loss of €5m and loss before extraordinary items and taxes of €93m in 1Q-3Q 2002.

Overall, while total ASKs rose by 3.3% in January-September 2003, RPKs fell by 3.7%, with revenue per ASK falling by 10.9% and yield dropping by 11.2% over the period. Domestic routes suffered a 4.4% drop in revenue per ASK and a 9% fall in yield. But international routes fared even worse, with a 12.1% drop in RASK in January-September 2003 and a 9.2% fall in yield.

In a presentation made to analysts in December 2003, Alitalia estimated that RASK would be around 9% lower in 2003 than 2002, while ongoing cost-cutting would reduce cost per ASK by just 4% - leading to a substantial worsening of the airline's operating result. When the full-year results are released in the next couple of months, they are expected to show an operating loss of at least €400m.

Underlying problems

So what is the reason for Alitalia's continuing poor performance? Poor, politically appointed management, a reliance on state aid and all-powerful unions are the obvious factors. Yet, according to Alitalia a major problem is Italy's geographical position; as it states in is 3Q 2003 report, "[Alitalia] operates in a country that lies in a peripheral position with regards to the main flows of international and intercontinental traffic … and a social/economic structure offering much lower levels of high yield traffic than its competitors".

In fact, Italy is the fourth richest EU country with a domestic market of over 15m passengers and an international market of 40m. What's fundamentally happening is that a largely unreconstructed flag-carrier is increasingly meeting low-cost competition. This is reflected in rapidly eroding yields and market shares.

According to Alitalia, in the third quarter of 2003 "yield erosion increased to a critical level…caused by even tougher competition in terms of ticket prices, essentially as a result of overcapacity on the market and the increasing penetration by LCCs". Ryanair currently operates to 14 destinations in Italy and offers flights throughout Europe from its new hubs at Rome Ciampino (launched in January 2004 and the base for four Ryanair aircraft) and at Milan Bergamo. easyJet operates to five Italian destinations from the UK, but also serves Milan Linate-Paris Orly and Naples-Berlin. Closer to home, volareweb - the LCC subsidiary of Alitalia's ex-partner Volare and based at Milan Malpensa - launched operations in March 2003 with eight A320s serving 26 destinations through Europe.

To put the yield erosion in perspective: of the €139m reduction in revenue in 1Q-3Q 2003 compared with the previous year, according to Alitalia €68m was due to falling yields (though this was partly offset by increased traffic) and €48m to the strengthening of the Euro against the Dollar and Yen.

More cost cutting

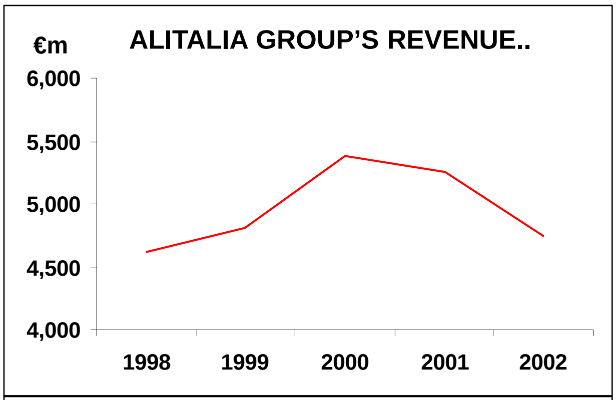
For Alitalia - as with most other European flag-carriers - the only realistic action it can take in the face of falling yields is to cut costs yet again. Measures initiated after September 11, 2001 included the sale of non-core assets (disposals brought in €300m in 2002 and 2003), renewal of the long-haul fleet and the introduction of an early-retirement programme. A total of 55 cost-cutting measures were implemented in 2002, including a trimming of 900 staff through early retirement and another 900 reduction through disposals.

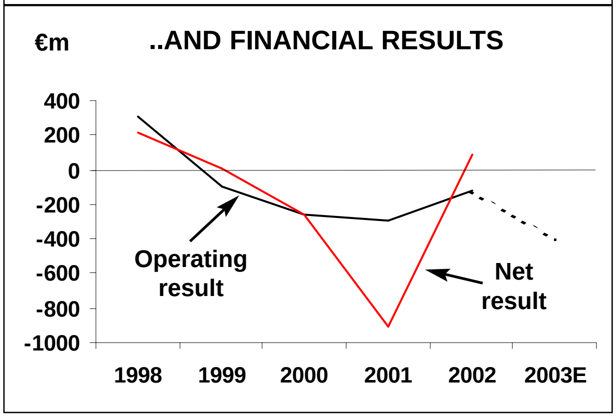
But this isn't enough, and in July 2003 Alitalia hired a US consultancy called TurnWorks - founded by Gregg Brenneman, ex-COO of Continental Airlines - to advise it on strategic matters. In the third quarter of 2003 the Group undertook a widespread analysis of its strategy and organisation that led to a new business plan for 2004-2006, formally adopted by the board in October 2003.

Soberly entitled the 2004/06 "Industrial Plan", its measures include:

- Job cuts of 1,500, with another 1,200 positions likely to go through outsourcing
- Suspension of the annual salary rise (due in January 2004)
- Investment of €1.2bn on fleet renewal through the three-year period.
- Other cost-cutting measures, in all areas of the Group
- A planned rise in ASKs of 9% per year, via increased frequencies on major routes and new destinations in key markets
- Further overhaul of the Alitalia fleet
- New commercial policies, including more direct sales and strengthening of FFPs
- Efforts to improve Alitalia's poor reputation for reliability, specifically in terms of below-average on time performance and poor baggage handling.

Altogether, cost cutting in the Industrial Plan is designed to save €535m a year by 2006 (see chart, page 10, for a breakdown). Alitalia claims these measures will cut operating losses to almost zero in 2004 and push the group into an operating profit in 2005.



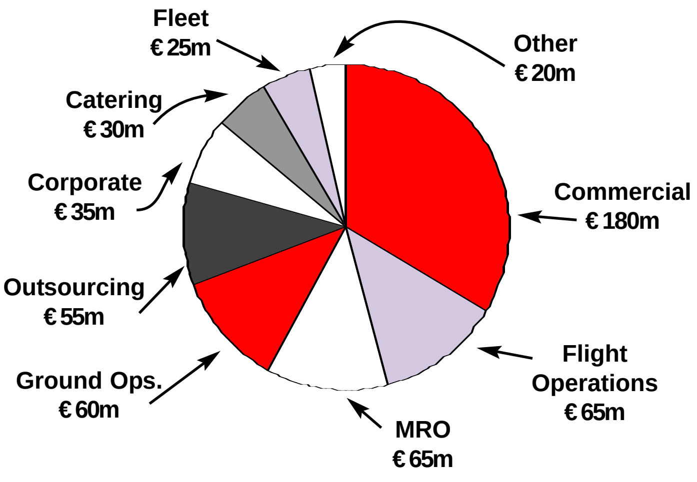


The main problem with this plan is Alitalia's unions, which are fiercely protective of its members and fearful that these announced job cuts are just the start of a deep cull of the workforce. But in both pilot and flight attendant areas, Alitalia claims it faces low utilisation levels, absenteeism and high costs from crews based at Milan Malpensa. Flight personal contracts need to be renegotiated, Alitalia states, allowing the company to "grow for free".

At the end of 3Q 2003 the group workforce stood at 20,934 - just 408 less than a year earlier and only 1,500 less than in 2001. These reductions came from early retirements and the disposal of assets such as Italiatour and Eurofly. Under the new plan, Alitalia aims to reduce group staff to 18,000 by 2006, via 1,500 redundancies, 300 retirements and 1,200 outsourced jobs. This is a staff reduction of less than 18% in five years, which is not a huge stretch in relative terms but a massive reduction given the power of the unions and management's previous reluctance to discuss plans with its workforce.

Unsurprisingly, relations between management and the unions are strained. Even before the new Industrial Plan, in May 2003 a dispute arose with cabin staff over plans to cut flight attendants from four to three on domestic routes using MD80s. After unofficial action and prompted by the government, Alitalia sat down with five unions representing cabin staff in June, and by early July an agreement was reached whereby Alitalia withdrew its plans in return for changes in working practices that saved an equivalent amount of cost.

ALITALIA COST-CUTTING TARGETS ON 2006 EBITDAR



Source: Alitalia Industrial Plan, as at December 2003

At the same time as the new Industrial Plan was unveiled, Alitalia's management said that it wanted to "involve the entire workforce in all the company major projects" - but this statement was considered as hypocritical by unions given that the new plan had barely been discussed with the workforce. Unions therefore held stoppages and walkouts in November and December as an immediate response to the business plan.

The company reacted by pointing out the consequences of not carrying out major cost cutting. In a letter send to Alitalia staff at the end of 2003, CEO Francesco Mengozzi wrote: "If this were the case, we can calculate that within the space of 18 months, based on simple projections of current performance, we would have used up all our financial resources, plunging ourselves once more into a major financial crisis."

But the unions stood firm and Silvio Berlusconi, the right-wing Italian prime minister, stepped in to force management to hold negotiations with the unions. Berlosconi's decision to intervene is likely to be related to the intense pressure the Italian PM has come under in 2003 from Italy's unions after his government tried to implement a series of controversial measures. In October there was a massive general strike against Berlosconi's plans to substantially reduce pension provisions for workers across the country (and which, incidentally, forced Alitalia to cancel hundreds of flights), and in December protests brought more than 1m people into the streets.

Whatever the motivation, Berlosconi's pressure was successful, and at the end of December management agreed a temporary compromise with unions over the implementation of the Industrial Plan. Labour measures in the plan are now temporarily delayed via a moratorium until January 31st, and a planned pay rise in January (that had been cancelled in the Industrial Plan) went ahead pending alternative ways of cutting equivalent costs that unions and management hoped to agree on during negotiations through January. But these negotiations have not gone well, and on

January 19th unions representing flight attendants and ground staff went on strike in an action that forced the cancellation of half of all Alitalia's flights that day. Further talks are scheduled for early February, ahead of planned industrial action (which this time will include the pilots' union). Worryingly, unconfirmed reports in an Italian newspapers suggest that the delay in cutting labour costs will cost Alitalia up to €60m, meaning that the airline will fail by a long way to cut its operating loss to almost zero in 2004, as was the target in the Industrial Plan.

Elsewhere, of the €230m commercial cost savings Alitalia plans to make on an annual basis by 2006 (which reduces to €180m at the operating level after €50m of "implementation costs"), €110m will come from extra direct sales, €80m from reducing commission in the domestic market and €40m from reducing commission in the international market (Alitalia had already cut travel agent commission on domestic flights from 6% to 3% in May 2003). In terms of direct selling, Alitalia plans to increase the proportion of web sales from zero in 2003 to 14% by 2006, and call centre bookings from 2% in 2003 to 9% in 2006.

Alongside the Industrial Plan there was a reorganisation of management, including the hiring of the grandly-titled Chief Production Officer - who will be in charge of operational efficiency - and a Core Business Co-ordinator. Group structure has also been improved, completing reorganisation that began in 2002. Leisure and diversified businesses have already been disposed of, leaving the group to concentrate on its core air passenger business. Three areas - logistics & cargo, ground handling and engineering & maintenance - have been singled out for possible joint ventures/partnerships (within engineering & maintenance, an engine shop joint venture with Lufthansa Technik has already been agreed, while on cargo Alitalia is in negotiations with Air France). Five other areas - administration, revenue accounting, information technology, call centres and other support activities - have been earmarked for possible outsourcing.

As part of its ongoing efforts to divest non-core assets (it sold tour operator subsidiary Italiatour and IT company Sigma in 2002/03), Alitalia sold an 80% stake in charter airline Eurofly to the management and Milan banking interests (via a financial company, Effe Luxembourg) for €10.8m in August 2003. Eurofly is based in Milan and operates six A320s and two A330s to destinations in Europe, Africa and the Middle East.

Fleet changes

Alitalia currently operates a fleet of 184 aircraft (see table, page 12), but by 2006 it plans to have a fleet of 12 777s, 16 767s, 46 Airbuses, 69 MD80s and 36 regional aircraft, making a total of 179 aircraft. The reduction in the fleet means that the ambitious ASK growth target over the next three years will come from greater utilisation as well as changes in configuration. 767 capacity is increasing from 205 to 223 seats, MD-80s from 131 to 141 seats and MD-82s from 150 to 164 seats.

In May 2003 Alitalia received the last of six 777-200s it ordered from Boeing at a cost of $540m and financed by Barclays and the US Export-Import Bank. These were a direct replacement for Alitalia's fleet of 747-200s, which have all now been disposed of. Alitalia also contracted to lease four further 777-200s from GECAS, the last of which will arrive in 2Q 2004.

Alitalia is also renewing its regional fleet with Embraer and ATR aircraft, flown by subsidiary Alitalia Express. Based in Rome, Alitalia Express was launched in 1997 from the remaining assets of Avianova. It operates 26 aircraft to scheduled and charter destinations throughout Europe and in 2002 carried 1.2m passengers.

The one remaining question is over what will replace the 89-strong MD-80 fleet. A decision has now apparently been put off until 2006, and 20 retirements will be made over the next three years, their capacity being replaced by extra seats on remaining aircraft as well as better utilisation. On cargo, Alitalia is phasing out its 747Fs, though in the interim two will remain on wet lease though 2004. Alitalia is selling two of its 747-200Fs to Russian cargo airline Volga Dnepr and converting its three MD-11s into freighters.

These fleet changes go hand in hand with a new operational strategy that sees Alitalia

ALITALIA'S FLEET

	Fleet	Orders	Options
Alitalia			
A319	9	3	
A320	10		
A321	23		
747-200F	3		
767-300ER	13		
777-200ER	8	2	
777-300ER			6
MD-11	3		
MD-80	89		
Total	**158**	**5**	**6**
Alitalia Express			
ATR-42	2		
ATR-72	10		
Emb-145	14		7
Emb-170		6	6
Total	**26**	**6**	**13**

trying to shore up its domestic position against growing competition through the defence of its dominant position at Rome Fiumicino and Milan Malpensa airports. In short-haul, the regional jet and turboprop fleets will feed these hubs, although jets may serve secondary markets as well. As well as Alitalia Express, the Alitalia Group appears keen to defend its domestic position via a strategic link-up with one of its competitors. In July 2003 AGCM - the Italian competition body - blocked codesharing between Alitalia and existing Italian partner Volare on nine domestic routes (though codesharing on five other domestic and eight international routes was allowed).

This decision was partly responsible for Alitalia ended the Volare partnership in September 2003, although anyway Alitalia had been in talks with Meridiana since March 2003 on a codesharing deal and perhaps the purchase of a majority stake. Based in Sardinia, Meridiana operates 21 MD-80s and BAe 146s to 16 scheduled destinations throughout Italy and Europe. While not a traditional LCC, in early 2003 it adopted a "low-fares" policy (with fares of €9-€49 on 1.5m seats), which boosted load factor by 9% and traffic by around one-third. Talks between Alitalia and Meridiana have not yet reached a conclusion, which may be due to worries about scrutiny from AGCM. Alitalia has approximately 50% of the Italian domestic market and Meridiana more than 15%. Outside the domestic market, Alitalia believes it has better prospects, particularly on major O&D routes to Europe served from Malpensa and Fiumicino. On medium-haul, A320-types will serve peak frequencies, the 70-seaters will serve off-peak frequencies while the MD80s will operative to "price-sensitive and leisure markets".

On long-haul routes, Alitalia's plans include greater frequency on many services in 2004 as well as the planned launch of new routes to Washington, New York, Boston, Toronto and Delhi. The airline will be helped by long-haul commonality (to just 767 and 777 models), which will be completed this year when the MD-11Cs are converted into freighters, while long-haul aircraft utilisation is planned to rise to 14 hours to 15 hours a day in 2004. But despite these moves, whether Alitalia can seriously build up profitable long-haul routes without assistance from Air France and KLM remains to be seen.

Is this enough?

Alitalia's Industrial Plan is ambitious. Management says its prime target is an EBITDAR as a percentage of revenues of 15-17% by 2006 - which is a long way off the 1.1% EBITDAR margin it achieved in the first nine month of 2003.

Can Alitalia really achieve this? Even if it comes to some arrangement with unions and hits the cost-cutting targets, it may find that the goalposts have moved even further through continuing yield erosion - the real threat to the future of Alitalia.

In the short-term, analysts will examine the full-year 2003 accounts to see what it is happening to Alitalia's debt position. As at 30 September 2003, the Group's net financial indebtedness (long-term plus short-term debt minus cash) had increased to €1.2bn, compared with €900m as 31 December 2002, largely due to the financing of six 777s. This isn't huge, but the trend is in the wrong direction, and €180m of long-term debt has to be repaid this year and €250m in 2005.

Yet cost-cutting by Alitalia's management is not just being carried out for its own sake - it is also a means to an end, and that end is entry into the proposed KLM/Air France merger, its fellow members of the SkyTeam alliance. In September 2003 Alitalia signed bilateral partnerships with both KLM and existing partner Air France, as well as a trilateral partnership agreement. These agreements set out possible future co-operation between the three airlines, including Alitalia joining the merged KLM/Air France - but this depends on improvement in Alitalia's financial performance (hence the Industrial Plan) and, equally crucially, further privatisation.

Currently, the Italian government holds 62.4% of Alitalia's equity. Berlosconi has promised his French counterpart that the privatisation of Alitalia will be accelerated and in November 2003 the Italian government started the formal legal process to further privatisation through the issue of a "draft decree" that would allow the government to reduce its stake to below 50%. This would occur through a stock market offer or trade sale, though unconfirmed reports state that the Italian government may roll its stake into a joint holding company set up by Air France and KLM. No timetable has yet been released for the privatisation, although it is likely to happen in 2Q or 3Q 2004.

AZ/AF/KL?

Once Alitalia gains full independence from the government, then it will immediately enter into negotiations with KLM and Air France on ways Alitalia can integrate itself into the other two.

In the UK's *Financial Times*, Mengozzi said: "It will be highly beneficial if we are able to catch the train at the second station. KLM and Air France could be the first station. What is important is that we take the train, and that the train arrives at the right destination." But before Alitalia can catch that train - and secure its future - not only does the Italian government have to fulfil its pledge to reduce its stake but there also has to be serious progress to cutting costs as laid out under the Industrial Plan.

These are not inconsiderable barriers, and perhaps more so because KLM and Air France may have different viewpoints about how and when Alitalia will link with them. The relationship between Alitalia and Air France is close, encouraged by a codesharing deal began in November 2001 and cemented by the completion of a long-planned deal in January 2003 when Alitalia paid €53m for a 2% stake in Air France.

In January 2004 the two airlines also announced that they would split services between Italy and France, with Alitalia operating Air France flights between Milan Malpensa and Paris CDG, and Air France taking over some of Alitalia's routes to France from regional airports.

On the other hand, KLM is wary of committing itself to an equity deal with Alitalia given that the previous partnership signed between the two in 1998 (which was also supposed to lead to a merger) was unilaterally terminated by KLM in 2000 amid rancour about the then delay in privatisation as well as problems with Milan Malpensa airport. Alitalia and KLM each wanted compensation from the other, and in the end a tribunal ordered KLM to pay Alitalia €172m compensation. Naturally, both airlines now insist this disagreement is behind them, but KLM and Air France will want to be sure that Alitalia is financially and operationally sound before they allow their SkyTeam colleague to enter the merger. Overall, it is difficult to argue against the view that Alitalia needs KLM/Air France much more than KLM/Air France needs Alitalia.

And then there are the regulators. There is already concern from other airlines at the existing partnership between Alitalia and Air France - in December 2003 Alitalia and Air France offered to release slots on seven routes between Italy and France in order to get formal European Commission approval for their partnership. The EC is concerned about competition on the major routes between the Milan, Rome and Paris hubs and, according to easyJet, Alitalia and Air France provide more than 80% of capacity on the 10 largest routes between Paris and Italy. Not surprisingly, easyJet has called for the two airlines to hand over a substantial amount of slots to reduce their dominance.

Much therefore stands between Alitalia and its long-term survival. But if Alitalia sorts out its cost base and if the Italian government divests its controlling stake and if KLM is amenable to an Alitalia entry into KLM/Air France, then Alitalia's future would be secure. Cocooned in the safety of a European mega airline, the former Alitalia's brand and assets would have to undergo drastic pruning and reorganisation - but at least "Alitalia" will survive - whereas a standalone Alitalia, jettisoned by the Italian government, would be fated to terminal decline.

The elusive qualities needed for leadership

There are a myriad of ways to lead an airline. Michael O'Leary is quoted as saying that it is just like running a bus company - do it efficiently and more cheaply than the competitors and you should prosper unless you come up against the machinations of the EC. Others, such as Jean-Cyrille Spinetta of Air France, point out that airlines are deceptively difficult to manage as a unified whole - but keep the staff motivated and supporting each other with the costs under control and big airlines can compete successfully.

Such differences are particularly relevant in today's markets. Cost is high on the management agenda, but so are delivering safe, secure and reliable operations, concluding successful international negotiations, gaining airport access and services, exploiting new and old distribution channels, and sound asset management. Staff, meanwhile might add having the tools to do their job, being recognised for what they do, and - in many major airlines - reassurance on their pensions.

Yet airline leaders have to engage with this complexity and hold to a purpose that makes sense for their airline, within the current market context. When one is facing a dangerous competitor decisions have to be made with reference to the outside market. To strategist Kenichi Ohmae author of The Mind of the Strategist, being fit is not enough, you have to be fit for the purpose of the enterprise - "it is the difference between going into battle and going on a diet".

So airlines need to provide leadership in cost reduction and simultaneously improve operational performance. They do need to outsource services whilst ensuring there is fast and joined up disaster recovery management. Current commercial relationships have to be maintained at the same time as competitive new ones are built. An unwavering bottom-line focus has to recognise that safety is never compromised. To communicate and act these complex messages, making sense of trade-offs and ambiguity, is the stuff of leadership. The environment is too dynamic for them to be managed away.

As we see the first signs of a general economic recovery in the sector, so we are also seeing an increase in staff reminding their leaders that they may not always be being well led. While many airlines face a fundamental problem with their business models that will not be resolved by a cyclical upturn, some of their staff are becoming less receptive to constant crisis management. Disputes involving pilots, cabin crew, terminal and airport staff, have all affected airlines over the last six months, and caused them great damage. In these competitive times airline leaders will need to demonstrate that cost driven measures are in response to still dangerous competitors, that success is possible, and that there will be recognition and reward for all.

Such leadership does not have to be loud and charismatic. Recent studies suggest that many very successful corporate leaders are quiet and self-effacing yet massively ambitious for the company - not themselves. Gary Hamel, a leading academic, takes this a stage further. He argues that the need to have a great leader who rescues a company from adversity is in itself an admission that the management of the company has failed - what is needed is the constant preparation of the company so that it anticipates and meets new challenges without first being disadvantaged. This means leadership throughout an airline, not just at the top.

Markets can turn nasty, and terrorism, SARS and economics have certainly affected airlines recently. But as the months of financial challenge turn into years, the willingness of staff to accept more work and change may become tempered by a growing doubt as to the management’s ability to get ahead of the game. In all airlines pilots remain one touchstone of how the leadership is perceived. They are usually intelligent and highly skilled, yet by the demands of their profession divorced from the managerial side of the airline, with minimal contact with executives and may not always understand economic models. Yet they are a often a touchstone of staff emotion and all airlines should remind themselves that when pilots take action, the root cause may actually be about perceived recognition and respect, not about money, schedules or safety. These are often the symptoms, not the causes.

In this environment airlines may look to improve their leadership. To often, however, 'leadership initiatives' produce an intellectual interest and perhaps a 'feel-good' factor, but few sustained improvements in performance. Airlines are emotional working environments and rational discussion provides poor preparation for a ramp operations room on a cold and wet day when the schedule starts to slip, or in the crew room or hangar when one demand too many is made on tired and dispirited professionals. But is here that airline leadership is demonstrated and tested.

For most airlines four basic questions provide some insight as to their current standing.

Is the top team leadership demonstrably different?

Executive management is not the same as functional management and too many airlines have had their cutting edge blunted by false teamwork. Top teams have to make difficult decisions and consensus is not always achievable. It may also take too long. At the end of the day most people are swayed by what the top people do, not by what they say. The self-presentation of constant harmony at the top rarely accords with others' views as to what is happening, or what is needed. Most airline staff expect there to be tension between pilots and scheduling, between engineers and ground operations, between finance and marketing. As long as a workable solution is provided, then knowing the issues can provide valuable guidance as to the local actions to take when plans starts to falter under the pressure of the operation and the market.

Is all training rooted in the business purpose, dealing simultaneously with group and individual actions and relationships?

Separating 'hard' business and professional skills development from 'soft' behavioural skills training may suit the trainers but may not benefit the airline. One indication of good leadership is when managers sometimes find it more effective to "follow" their subordinates. Such behaviour can feel risky, however, so any leadership discussions need to be firmly rooted in the purpose of the organisation and constantly ask 'why are we doing this and how could we improve?' dealing with group and individual issues simultaneously. The missing link is often the market and the competitor. Having lower costs is painful and begs the question why? Gaining an extra rotation out of an aircraft, thus allowing an extra frequency on a key route, and increasing the likelihood of more passengers using the airline is a compelling story; especially with the added spice of disadvantaging a competitor - but it means the trainers have to understand the business, not merely how to train.

Is there a strong link between business planning and human resource planning, with both focused on the future?

Without this it is hard to engage with staff and to ensure the both are open agenda topics, not preserved and hidden by experts. Change may be driven by amongst other factors, growth, technologies, customer demands, competitors or the impact of regulation. Leaders need to constantly assess what future skills will be needed to embrace such change, and then manage the development of these. Even low cost airlines need to ensure that there will be sufficient pilots to fly an expanding fleet, and sufficient people to handle more passengers at airports. Economic cycles do move, and people do age. If the planned airline growth in Europe is to take place in the next five years then the current demography suggests that finding qualified and skilled airline people will quickly become an issue, and will demand manpower policies that go beyond simple pay settlements.

Is there strong cross-departmental management, rooted in the commercial reality?

Leadership improves more effectively when the work is at unit level, but improved performance in one may cause new tensions elsewhere. It is in reconciling these that leadership has to live with management, and the leader's speech, behaviour and action have to be aligned. Shorter turn-rounds demand significantly greater efforts by maintenance, in the terminals and on the ramp, and problems demand resolution in the interests of the airline, not merely exporting the problem to someone else - such as angry passengers to captive cabin crew. Similarly delivering network service promises, especially those dependent upon partners and suppliers demands great attention to process and system integration and immediate commercially based decisions when problems occur. It is the sum of these tactical decisions, often by first line supervisors, that form the leadership culture of the airline, not the PowerPoint slide presentations.

As airline competition continues to intensify, success may well be dependent on the performance of every member of staff, every day, especially when things do not quite go to plan. Such performance over the longer term will not be accidental and will require many skilled, quiet, possibly even self-effacing people, all of whom are massively ambitious for their airline. They will need to found, to be well managed, and to be led.

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		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
Alaska	Oct-Dec 02	430	484	-60	-94	-14.0%	-21.9%	7,657	5,092	66.5%	3,367	
	Year 2002	**2,224**	**2,313**	**-89**	**-119**	**-4.0%**	**-5.4%**	**31,156**	**21,220**	**68.1%**	**14,154**	**10,142**
	Jan-Mar 03	519	597	-79	-56	-15.2%	-10.8%	7,577	5,058	66.7%	3,258	9,988
	Apr-Jun 03	576	581	-5	-3	-0.9%	-0.5%	7,932	5,427	68.4%	3,616	10,222
	Jul-Sep 03	702	623	79	41	11.3%	5.8%	8,380	5,911	72.5%	4,280	10,114
American	Oct-Dec 02	4,190	4,869	-679	-529	-16.2%	-12.6%	67,964	47,428	69.8%	22,857	93,500
	Year 2002	**17,299**	**20,629**	**-3,330**	**-3,511**	**-19.2%**	**-20.3%**	**277,121**	**195,927**	**70.7%**	**94,143**	**93,500**
	Jan-Mar 03	4,120	4,989	-869	-1,043	-21.1%	-25.3%	64,813	44,800	69.1%	21,021	92,200
	Apr-Jun 03	4,324	4,237	87	-75	2.0%	-1.7%	68,678	51,095	74.4%		
	Jul-Sep 03	4,605	4,440	165	1	3.6%	0.0%	69,234	52,653	76.0%		
	Oct-Dec 03	4,391	4,618	-227	-111	-5.2%	-2.5%	66,541	47,622	71.6%		90,600
America West	Oct-Dec 02	522	560	-38	-32	-7.3%	-6.1%	11,154	8,160	73.2%	4,906	
	Year 2002	**2,047**	**2,246**	**-199**	**-430**	**-9.7%**	**-21.0%**	**43,464**	**33,653**	**73.6%**	**19,454**	**13,000**
	Jan-Mar 03	523	569	-46	-62	-8.8%	-11.9%	11,027	7,841	71.1%	4,655	
	Apr-Jun 03	576	559	17	80	3.0%	13.9%	11,223	8,854	78.9%	5,185	11,309
	Jul-Sep 03	592	542	50	33	8.4%	5.6%	11,365	9,068	79.8%	5,322	11,175
	Oct-Dec 03	563	551	13	7	2.3%	1.2%	11,265	8,508	75.5%	4,888	
Continental	Oct-Dec 02	2,036	2,094	-56	-109	-2.8%	-5.4%	31,496	22,382	70.6%	9,651	40,500
	Year 2002	**8,402**	**8,714**	**-312**	**-451**	**-3.7%**	**-5.4%**	**128,940**	**95,510**	**73.3%**	**41,014**	**40,713**
	Jan-Mar 03	2,042	2,266	-224	-221	-11.0%	-10.8%	30,699	21,362	68.9%	9,245	
	Apr-Jun 03	2,216	1,978	238	79	10.7%	3.6%	30,847	24,841	75.9%	10,120	
	Jul-Sep 03	2,365	2,191	174	133	7.4%	5.6%	33,071	26,450	79.1%	10,613	
	Oct-Dec 03	2,248	2,232	16	47	0.7%	2.1%	31,528	23,789	74.9%	9,884	
Delta	Oct-Dec 02	3,308	3,670	-362	-363	-10.9%	-11.0%	56,776	40,419	71.2%	27,290	75,100
	Year 2002	**13,305**	**14,614**	**-1,309**	**-1,272**	**-9.8%**	**-9.6%**	**228,068**	**172,735**	**71.9%**	**107,048**	**75,100**
	Jan-Mar 03	3,155	3,690	-535	-466	-17.0%	-14.8%	53,435	36,827	68.9%	24,910	72,200
	Apr-Jun 03	3,307	3,111	196	184	5.9%	5.6%	51,552	38,742	75.2%	25,969	69,800
	Jul-Sep 03	3,443	3,524	-81	-164	-2.4%	-4.8%	55,535	42,704	76.9%	27,059	70,100
	Oct-Dec 03	3,398	3,764	-366	-327	-10.8%	-9.6%	55,740	40,522	72.7%	26,514	70,600
Northwest	Oct-Dec 02	2,339	2,951	-612	-488	-26.2%	-20.9%	37,115	27,611	74.4%	12,779	44,323
	Year 2002	**9,489**	**10,335**	**-846**	**-798**	**-8.9%**	**-8.4%**	**150,355**	**115,913**	**77.1%**	**52,669**	**44,323**
	Jan-Mar 03	2,250	2,576	-326	-396	-14.5%	-17.6%	36,251	26,653	73.5%	12,284	42,781
	Apr-Jun 03	2,297	2,370	-73	227	-3.2%	9.9%	34,434	26,322	76.4%	12,800	39,442
	Jul-Sep 03	2,556	2,410	146	47	5.7%	1.8%	37,476	30,491	81.4%	13,971	38,722
	Oct-Dec 03	2,407	2,419	-12	370	-0.5%	15.4%	34,413	26,732	77.7%	12,821	
Southwest	Oct-Dec 02	1,401	1,313	88	42	6.3%	3.0%	28,296	17,835	63.0%	15,554	33,705
	Year 2002	**5,522**	**5,104**	**417**	**241**	**7.6%**	**4.4%**	**110,859**	**73,049**	**65.9%**	**63,046**	**33,705**
	Jan-Mar 03	1,351	1,305	46	24	3.4%	1.8%	28,000	17,534	62.6%	15,077	33,140
	Apr-Jun 03	1,515	1,375	140	246	9.2%	16.2%	28,796	20,198	70.1%	17,063	32,902
	Jul-Sep 03	1,553	1,368	185	106	11.9%	6.8%	29,296	20,651	70.5%	17,243	32,563
	Oct-Dec 03	1,517	1,406	111	66	7.3%	4.4%	29,439	18,771	63.8%	16,290	32,847
United	Oct-Dec 02	3,468	4,462	-994	-1,473	-28.7%	-42.5%	59,988	43,158	71.9%	16,823	77,000
	Year 2002	**14,286**	**17,123**	**-2,837**	**-3,212**	**-19.9%**	**-22.5%**	**238,569**	**176,152**	**73.5%**	**68,585**	**78,700**
	Jan-Mar 03	3,184	3,997	-813	-1,343	-25.5%	-42.2%	55,751	39,980	71.7%	15,688	70,600
	Apr-Jun 03	3,109	3,540	-431	-623	-13.9%	-20.0%	51,692	39,809	77.0%	16,381	60,000
	Jul-Sep 03	3,817	3,798	19	-367	0.5%	-9.6%	56,726	45,500	80.2%	17,635	59,700
	Oct-Dec 03	3,615	3,750	-135	-476	-3.7%	-13.2%	55,709	42,823	76.9%	16,448	58,900
US Airways	Oct-Dec 02	1,614	2,217	-603	-794	-37.4%	-49.2%	20,631	14,096	68.3%	10,354	30,585
	Year 2002	**6,977**	**8,294**	**-1,317**	**-1,646**	**-18.9%**	**-23.6%**	**90,700**	**64,433**	**71.0%**	**47,155**	**30,585**
	Jan-Mar 03	1,534	1,741	-207	1,635	-13.5%	106.6%	19,579	13,249	67.7%	9,427	27,397
	Apr-Jun 03	1,777	1,710	67	13	3.8%	0.7%	20,929	15,789	75.4%	10,855	26,587
	Jul-Sep 03	1,771	1,808	-37	-90	-2.1%	-5.1%	21,615	16,611	76.9%	10,584	26,300
	Oct-Dec 03	1,764	1,838	-74	-98	-4.2%	-5.6%	23,550	16,759	71.2%	13,507	26,797
JetBlue	**Year 2002**	**635**	**530**	**105**	**55**	**16.5%**	**8.7%**	**13,261**	**11,000**	**83.0%**	**5,752**	**3,823**
	Jan-Mar 03	217	183	34	17	15.7%	7.8%	4,696	3,822	81.4%	2,011	4,005
	Apr-Jun 03	245	199	46	38	18.8%	15.5%	5,271	4,498	85.3%	2,210	4,475
	Jul-Sep 03	274	220	54	29	19.7%	10.6%	5,962	5,229	87.7%	2,414	4,650
	Oct-Dec 03	263	228	35	20	13.3%	7.6%	6,021	5,002	83.1%	2,378	4,892

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK.

	Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
Air France											
Year 2001/02	**11,234**	**11,017**	**217**	**141**	**1.9%**	**1.3%**	**123,777**	**94,828**	**76.6%**		**70,156**
Jul-Sep 02	3,264	3,122	142	57	4.4%	1.7%	33,806	26,366	78.0%		71,290
Oct-Dec 02	3,396	3,392	4	2	0.1%	0.1%	32,581	24,558	75.4%		
Jan-Mar 03	3,240	3,373	-133	-106	-4.1%	-3.3%	32,070	23,906	74.5%		
Year 2002/03	**13,702**	**13,495**	**207**	**130**	**1.5%**	**0.9%**	**131,247**	**99,960**	**76.2%**		**71,525**
Apr-Jun 03	3,442	3,453	-10	5	-0.3%	0.1%	31,888	23,736	74.4%		71,936
Jul-Sep 03	3,715	3,598	117	56	3.1%	1.5%	35,255	27,544	78.1%		
Alitalia											
Year 2001	**4,745**	**5,007**	**-262**	**-818**	-5.5%	-17.2%	**51,392**	**36,391**	**70.8%**	**24,737**	**23,667**
Jan-Jun 02	2,462	2,574	-63	-49	-2.6%	-2.0%			69.7%		21,366
Year 2002	**5,279**	**4,934**	**-89**	**101**	**-1.7%**	**1.9%**	**42,224**	**29,917**	**70.8%**	**22,041**	**22,536**
Jan-Mar 03	1,097	1,226	-187		-17.0%		10,503	6,959	66.3	4,993	21,984
BA											
Year 2001/02	**12,138**	**12,298**	**-160**	**-207**	**-1.3%**	**-1.7%**	**151,046**	**106,270**	**70.4%**	**40,004**	**57,227**
Jul-Sep 02	3,323	2,931	392	240	11.8%	7.2%	35,608	27,301	76.7%	10,607	52,116
Oct-Dec 02	3,025	2,939	86	21	2.8%	0.7%	34,815	24,693	70.9%	9,200	51,171
Jan-Mar 03	2,721	2,988	-213	-216	-7.8%	-7.9%	33,729	23,439	69.5%	8,547	50,309
Year 2002/03	**12,490**	**12,011**	**543**	**117**	**4.3%**	**0.9%**	**139,172**	**100,112**	**71.9%**	**38,019**	**51,630**
Apr-Jun 03	3,023	2,957	59	-104	2.0%	-3.4%	34,962	25,102	71.8%	9,769	49,215
Jul-Sep 03	3,306	2,980	333	163	10.1%	4.9%	35,981	27,540	76.5%	9,739	47,702
Oct-Dec 03	3,363	3,118	244	148	7.3%	4.4%	35,098	25,518	72.7%	8,453	46,952
Iberia											
Jul-Sep 02	1,229	1,103	132	104	10.7%	8.5%	14,535	11,419	78.6%	6,624	
Oct-Dec 02	1,236	1,219	18	-17	1.5%	-1.4%	13,593	9,695	71.3%	5,689	25,544
Year 2002	**5,123**	**4,852**	**272**	**174**	**5.3%**	**3.4%**	**55,633**	**40,647**	**73.0%**	**24,956**	**25,963**
Jan-Mar 03	1,128	1,183	-55	-24	-4.9%	-2.1%	13,200	9,458	71.6%	5,717	
Apr-Jun 03	1,348	1,265	83	60	6.2%	4.5%	13,516	9,982	73.8%	6,472	
Jul-Sep 03	1,434	1,301	133	93	9.3%	6.5%	14,819	11,846	79.9%	7,073	
KLM											
Year 2001/02	**5,933**	**6,018**	**-85**	**-141**	**-1.4%**	**-2.4%**	**72,228**	**56,947**	**78.7%**	**15,949**	**33,265**
Jul-Sep 02	1,844	1,523	140	86	7.6%	4.7%	19,448	16,331	82.7%		34,931
Oct-Dec 02	1,693	1,760	-68	-71	-4.0%	-4.2%	19,063	14,722	77.2%		34,850
Jan-Mar 03	1,487	1,521	-272	-483	-18.3%	-32.5%	20,390	15,444	75.7%		34,497
Year 2002/03	**7,004**	**7,147**	**-144**	**-449**	**-2.1%**	**-6.4%**	**87,647**	**69,016**	**78.7%**	**23,437**	**34,666**
Apr-Jun 03	1,621	1,483	-76	-62	-4.7%	-3.8%	17,261	13,077	75.8%		33,448
Jul-Sep 03	1,878	1,537	152	104	8.1%	5.5%	18,905	15,874	84.0%		32,853
Oct-Dec 03	1,838	1,609	36	10	2.0%	0.5%	17,969	14,378	80.0%		31,804
Lufthansa											
Year 2001	**14,966**	**14,948**	**18**	**-530**	**0.1%**	**-3.5%**	**126,400**	**90,389**	**71.5%**	**45,710**	**87,975**
Jul-Sep 02	4,431	4,254	454	369	10.2%	8.3%	32,409	25,189	71.1%	12,067	90,704
Oct-Dec 02							30,282	21,476	70.9%	10,886	
Year 2002	**17,791**	**16,122**	**1,669**	**751**	**9.4%**	**4.2%**	**119,877**	**88,570**	**73.9%**	**43,900**	**94,135**
Jan-Mar 03	4,242	4,588	-346	-411	-8.2%	-9.7%	29,251	20,618	70.5%	10,391	
Apr-Jun 03	4,423	4,214	209	-39	4.7%	-0.9%	30,597	22,315	71.7%	10,758	
Jul-Sep 03	4,923	4,783	140	-20	2.8%	-0.4%	32,895	24,882		12,020	
SAS											
Year 2001	**4,984**	**5,093**	**-109**	**-103**	-2.2%	-2.1%	**51,578**	**31,948**	**64.6%**	**23,060**	**22,656**
Jul-Sep 02	1,821	1,587	233	56	12.8%	3.1%	12,240	8,590	70.2%	5,586	21,896
Oct-Dec 02	1,984	1,826	158	-34	8.0%	-1.7%	11,689	7,308	65.6%	5,155	
Year 2002	**7,430**	**7,024**	**78**	**-15**	**1.0%**	**-0.2%**	**47,168**	**30,882**	**68.2%**	**21,866**	
Jan-Mar 03	1,608	1,654	-224	-188	-13.9%	-11.7%	11,169	6,551	60.9%	4,477	30,373
Apr-Jun 03	1,906	1,705	201	8	10.5%	0.4%	12,278	7,855	64.0%	5,128	
Jul-Sep 03	1,941	1,715	131	91	6.7%	4.7%	12,543	8,681	69.2%	8,301	34,856
Oct-Dec 03	1,910	1,797	113	-80	5.9%	-4.2%	11,931	7,344	61.6%	7,512	34,544
Ryanair											
Year 2001/02	**642**	**474**	**168**	**155**	**26.2%**	**24.1%**	**10,295**	**7,251**	**81.0%**	**11,900**	**1,547**
Jul-Sep 02	272	149	123	113	45.2%	41.5%	3,138			4,300	1,676
Oct-Dec 02	201	149	53	47	26.4%	23.4%			86.0%	3,930	1,761
Year 2002/03	**910**	**625**	**285**	**259**	**31.3%**	**28.5%**			**84.0%**	**15,740**	**1,900**
Apr-Jun 03	280	220	57	46	20.4%	16.4%			78.0%	5,100	2,135
Jul-Sep 03	407	237	170	148	41.8%	36.4%				5,571	2,200
Oct-Dec 03	320	253	67	51	20.9%	15.9%				6,100	2,356
easyJet											
Year 2000/01	**513**	**455**	**58**	**54**	**11.3%**	**10.5%**	**7,003**	**5,903**	**83.0%**	**7,115**	**1,632**
Oct-Mar 02	285	279	6	1	2.1%	0.4%	4,266		84.2%	4,300	
Year 2001/02	**864**	**656**	**111**	**77**	**12.8%**	**8.9%**	**10,769**	**9,218**	**84.8%**	**11,350**	**3,100**
Oct-Mar 03	602	676	-74	-76	-12.3%	-12.6%	9,594	7,938	82.2%	9,347	
Year 2002/03	**1,553**	**1,472**	**81**	**54**	**5.2%**	**3.5%**	**21,024**	**17,735**	**84.1%**	**20,300**	**3,372**

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK

		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
ANA												
	Apr-Sep 00	5,228	4,793	495	359	9.5%	6.9%	47,586	31,753	66.7%	24,958	
	Oct 00-Mar 01	5,376	5,186	190	-486	3.5%	-9.0%	46,278	29,168	63.0%	24,471	
	Year 2000/01	**10,914**	**10,629**	**285**	**-137**	**2.6%**	**-1.3%**	**85,994**	**58,710**	**68.3%**	**43,700**	**14,303**
	Apr-Sep 01	5,168	4,811	357	136	6.9%	2.6%	45,756	30,790	67.3%	25,876	
	Year 2001/02	**9,714**	**9,529**	**185**	**-76**	**1.9%**	**-0.8%**	**87,908**	**57,904**	**64.7%**	**49,306**	
	Apr-Sep 02	5,322	5,194	127	-69	**2.4%**	**-1.3%**	44,429	29,627	66.7%	25,341	
Cathay Pacific												
	Year 2000	**4,431**	**3,752**	**679**	**642**	**15.3%**	**14.5%**	**61,909**	**47,153**	**76.2%**	**11,860**	**14,293**
	Jan-Jun 01	2,031	1,898	133	170	6.5%	8.4%	32,419	23,309	71.9%	5,936	
	Year 2001	**3,902**	**3,795**	**107**	**84**	**2.7%**	**2.2%**	**62,790**	**44,792**	**71.3%**	**11,270**	**15,391**
	Jan-Jun 02	1,989	1,753	235	181	11.8%	9.1%	29,537		78.1%		14,300
	Year 2002	**4,243**	**3,634**	**609**	**513**	**14.4%**	**12.1%**	**63,050**		**77.8%**		**14,600**
	Jan-Jun 03	1,575	1,672	-97	-159	-6.2%	-10.1%	26,831		64.4%	4,019	14,800
JAL												
	Year 1999/00	**14,442**	**14,039**	**403**	**177**	**2.8%**	**1.2%**	**119,971**	**88,479**	**70.2%**	**37,200**	**18,974**
	Year 2000/01	**13,740**	**13,106**	**634**	**331**	**4.6%**	**2.4%**	**129,435**	**95,264**	**73.6%**	**38,700**	**17,514**
	Year 2001/02	**9,607**	**9,741**	**-135**	**-286**	**-1.4%**	**-3.0%**				**37,183**	
	Year 2002/03	**17,387**	**17,298**	**88**	**97**	**0.5%**	**0.6%**	**145,944**	**99,190**	**68.0%**	**56,022**	
Korean Air												
	Year 2000	**4,916**	**4,896**	**20**	**-409**	**0.4%**	**-8.3%**	**55,824**	**40,606**	**72.7%**	**22,070**	**16,000**
	Year 2001	**4,309**	**4,468**	**-159**	**-448**	**-3.7%**	**-10.4%**	**55,802**	**38,452**		**21638**	
	Jan - Mar 02	1,113	1,060	54	23	4.9%	2.1%	13,409	9,799	73.1%	5,399	
Malaysian												
	Year 1999/00	**2,148**	**2,120**	**28**	**-68**	**1.3%**	**-3.2%**	**48,158**	**34,930**	**71.3%**	**15,370**	**21,687**
	Year 2000/01	**2,357**	**2,178**	**179**	**-351**	**7.6%**	**-14.9%**	**52,329**	**39,142**	**74.8%**	**16,590**	**21,518**
	Year 2001/02	**2,228**	**2,518**	**-204**	**-220**	**-9.2%**	**-9.9%**	**52,595**	**34,709**	**66.0%**	**15,734**	**21,438**
Qantas												
	Year 1999/00	**5,710**	**5,162**	**548**	**324**	**9.6%**	**5.7%**	**85,033**	**64,149**	**75.4%**	**20,490**	**29,217**
	Year 2000/01	**5,473**	**5,099**	**374**	**223**	**6.8%**	**4.1%**	**92,943**	**70,540**	**75.9%**	**22,150**	**31,632**
	Year 2001/02	**6,133**	**5,785**	**348**	**232**	**5.7%**	**3.8%**	**95,944**	**75,134**	**78.3%**	**27,128**	**33,044**
	Year 2002/03	**7,588**	**7,217**	**335**	**231**	**4.4%**	**3.0%**	**99,509**	**77,225**	**77.6%**	**28,884**	**34,872**
Singapore												
	Year 2000/01	**5,729**	**4,954**	**775**	**892**	**13.5%**	**15.6%**	**92,648**	**71,118**	**76.8%**	**15,000**	
	Oct 01-Mar 02	2,807	2,508	299		10.7%		46,501	33,904			
	Year 2001/02	**5,399**	**4,837**	**562**	**395**	**10.4%**	**7.3%**	**94,559**	**69,995**	**74.0%**	**14,765**	**29,422**
	Apr 02-Sep 02	2,278	2,134	144	289	6.3%	12.7%	49,196	37,799	76.8%	7,775	
	Year 2002/03	**5,936**	**5,531**	**405**	**601**	**6.8%**	**10.1%**	**99,566**	**74,183**	**74.5%**	**15,326**	**30,243**
	Apr 03-Sep 03	2,411	2,447	-36	7	**-1.5%**	**0.3%**	39,588	27,655	69.9%	5,577	

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK.

AIRCRAFT AVAILABLE FOR SALE OR LEASE

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
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	368	188	556	291	101	392	948
2002	366	144	510	273	102	375	885
2003 - Oct	305	125	430	315	142	457	887

AIRCRAFT SOLD OR LEASED

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
1998	482	243	725	795	127	922	1,647
1999	582	230	812	989	170	1,159	1,971
2000	475	205	680	895	223	1,118	1,798
2001	286	142	428	1,055	198	1,253	1,681
2002	439	213	652	1,205	246	1,451	2,103
2003 - Oct	36	5	41	75	21	96	137

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 narrow-bodies = 737-300+, 757. A320 types, BAe 146, F100, RJ; New widebodies = 747-300+, 767, 777. A600, A310, A330, A340.*

EUROPEAN SCHEDULED TRAFFIC

	Intra-Europe			North Atlantic			Europe-Far East			Total long-haul			Total Int'l		
	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 %
1995	154.8	94.9	61.3	154.1	117.6	76.3	111.1	81.1	73	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
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
2002	197.2	129.3	65.6	181.0	144.4	79.8	129.1	104.4	80.9	447.8	355.1	79.3	679.2	507.7	74.7
Nov 03	16.9	10.2	60.1	16.6	13.0	78.6	11.5	9.2	80.4	40.8	32.4	79.6	60.5	44.4	73.3
Ann. chng	1.4%	7.5%	3.4	0.2%	7.2%	5.1	2.4%	4.8%	1.8	1.8%	6.4%	3.5	1.7%	6.9%	3.6
Jan-Nov 03	194.5	127.1	65.4	198.5	158.0	79.6	120.3	92.3	76.8	455.7	358.1	78.6	681.8	506.8	74.3
Ann. Chng	1.5%	1.4%	-0.1	4.9%	4.0%	-0.7	-2.4%	-7.6%	-4.4	2.1%	0.8%	-1.0	1.8%	0.9%	-0.7

Source: AEA

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total Int'l		
	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 %
1995	900.4	591.4	65.7	130.4	98.5	0.8	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
2002	990.0	701.6	70.9	159.0	125.7	67.2	103.0	83.0	80.5	84.1	56.8	67.5	346.1	265.5	76.7
Dec - 03	82.5	60.2	73.0	11.9	9.8	82.4	8.3	6.9	83.4	7.9	5.7	72.3	28.0	22.4	79.8
Ann. chng	0.7%	0.2%	-0.4	-3.9%	3.6%	5.9	-6.9%	-1.7%	4.4	5.6%	7.9%	1.5	-2.4%	2.9%	4.1
Jan-Dec 03	963.1	706.6	73.4	148.3	117.6	79.3	94.8	74.0	78.1	84.2	56.8	70.5	327.2	251.0	76.7
Ann. chng	-2.7%	0.7%	2.5	-6.8%	-6.5%	0.3	-8.0%	-10.8%	-2.4	0.1%	4.5%	2.9	-5.5%	-5.5%	0.0

Note: US Majors = Aloha, Alaska, American, Am. West, American Transair, Continental, Cont. Micronesia, Delta, Hawaiian JetBlue, MidWest Express, Northwest,Southwest, United and US Airways **Source**: ATA

JET ORDERS

	Date	Buyer	Order	Price	Delivery	Other information/engines
Boeing	02 Feb	Nippon Cargo A/L	3 747-400Fs		2005/06	
Airbus	29 Jan	Air Tahiti Nui	1 A340-300		06/05	CFM56-5C/P

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

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 %
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	3,390	70.8	4.9	7.2	5.6	6.0	5.3	6.5
2001							4,698	3,262	69.4					-2.4	-0.6
2002P							4,587	3,243	70.7					-1.9	0.4
***2003**							4,865	3,502	72.0					6.1	8.0
***2004**							5,145	3,730	72.5					5.8	6.5
***2005**							5,415	3,954	73.0					5.3	6.0
***2006**							5,702	4,191	73.5					5.3	6.0

Note: *=Forecast; P=Preliminary; ICAO traffic includes charters. *Source: Airline Monitor,February 2003*