Issue No: 77

Aviation Strategy

March 2004

The post September 11 generation

The post September 11 period has seen an unprecedented wave of new airlines emerge - 53 airlines worldwide are identified on page 4 - and there are doubtless others with "blue", "fly" or "sky" as part of their name. Moreover, there are at least as many start-up business plans currently seeking financial backing.

To some extent this is a cyclical phenomenon: previous waves of new entrants appeared in the early 80s in the US and in the mid-90s in the UK, in both cases the result of a combination of deregulation that opened up new possibilities and industry recession that made factors of production (aircraft, pilots, slots) relatively cheap and attainable. For investors with an appetite for risk, a start-up airline project at such times can be an attractive proposition.

The grim reality is, however, that most start-up projects either never get off the ground or fail in the early years of operation. It has been estimated that the US failure rate for start-ups was around 97%.

This time around the start-ups have mostly emerged in Europe and Asia, while in the US, most of the activity has centred around the spin-off of low cost subsidiaries of the network carriers. There are numerous types of start-ups:

• LCC models, for example Air Asia, based at Kuala Lumpur using a Ryanair-type model, VBird, based at Neiderrhein, attempting to introduce a jetBlue-type operation to Europe; Air Arabia, based in Sharjah, UAE, adapting an easyJet model to the Middle East and becoming the first flag-carrier designed on LCC principles.

• Independent charter airlines, like Astraeus in the UK, Air Finland, and Blue Wings in Germany, or new tour company-owned charters like Canada-based Zoom.

•Low cost scheduled subsidiaries of existing full service carriers - Song (Delta), Ted (UAL), bmibaby (bmi), snowflake (SAS).

• Pre-existing airlines evolving from regional into LCC types, for example, Norwegian Airlines.

• Niche carriers, for instance Air Bourbon linking Paris to the island of Réunion.

There have been few start-ups in the scheduled long haul market, which is natural given that market access is far more restricted by bilateral air service agreements. However, entrepreneurs see opportunities here: BlueFox, a London-based business-class transatlantic airline project, continues to seek funding, while a 747 start-up in Australia has reportedly just signed a capital funding agreement with an experienced airline investment fund.

The post September 11 environment in the US has been hostile towards new entrants, though Richard Branson is now being

www.aviationeconomics.com

CONTENTS

PUBLISHER

Aviation Economics
James House, LG,
22/24 Corsham Street
London N1 6DR

Tel: +44 (0) 20 7490 5215
Fax: +44 (0) 20 7490 5218

e-mail: info@aviationeconomics.com

ardently wooed by many US cities that want to be the base for Virgin USA when or if it materialises. Overall traffic volumes in the domestic market remain depressed, the existing LCCs (Southwest, jetBlue and AirTran) have grown strongly, and there have been opportunities for investors in airline restructurings (whether successful like Frontier and Alaska or inadequate like US Airways). The one innovation in this region which has yet to spread to Europe or Asia is the attempted conversion of regional carriers to LCC models using Regional Jets - ACA's Independence Air venture is the leading example.

Other major carriers such as Qantas and SIA intend to launch their own versions of the LCC model, and in the process avoid the problems that befell BA with Go, Continental with Continental Lite, Air Canada with Tango, etc. SIA's subsidiary, Tiger Airways, is due to be launched this summer, given additional credibility by the presence of highly experienced private investors David Bonderman/Bill Frankie and the Ryan family who are backing the project. Qantas claims that its subsidiary, JetStar, will have much lower unit costs than Virgin Blue, and has imported ex-Ryanair management expertise to ensure this.

So what are the underlying reasons for the start-up phenomenon?

Cyclical features

Aircraft availability In the past two years this has been the lifeblood of liquidity to many of the new carriers (albeit that ventures such as Ted and Song are a mechanism for incumbents to utilise excess capacity). A global over-supply of new generation equipment (A320 family and 737NGs) and older but good quality types (737-300s and -400s) has provided a ready source of equipment. And this surplus has not been mopped up by the fast-expanding existing LCCs such as easyJet, Ryanair and JetBlue, which have placed mega-orders for new aircraft.

We estimate that just under 200 aircraft (including some widebodies) have gone to post September 11 carriers. But there are still around 500 units currently parked that could come back into commercial service, as well as widespread availability from the lessors.

What is remarkable is that completely new businesses with no trading track record have access to assets of such high capital value, and in relative terms, for minimal collateral (usually three months lease deposits). Furthermore, these new customers in some instances appear to have negotiated lease rates even more advantageous than big-name airlines. BA and Air France have started urging providers of finance to take a stricter view of airline credit in order, in their view, to help stabilise the industry.

Market opening As full service network carriers have adjusted capacity and network size in response to falling demand, niche carriers have taken advantage of the window created. In the extreme case a failure of the incumbent carrier has led to multiple start-ups trying to fill perceived gaps in the market - VBird, Birdy, Helvetic and Fly Baboo were to some extent products of the Swissair and Sabena bankruptcies.

Customer expectations Travellers have always been price sensitive but the LCCs have stimulated a whole new market for leisure and VFR passengers, who have now come to expect low fares (if booked well in advance) and minimum frills. And following the excesses of the dotcom boom, LCC travel for business passengers has become very widely accepted, even favoured against network carriers in many cases.

Lower costs Availability of labour (cockpit, cabin crew, engineering), has clearly assisted start-ups in some markets. Start-up airlines have also found it easier to negotiate with ground handling suppliers who have been affected by volume downturn and whose own sector has been deregulated, and consequently become more competitive.

Structural features

Barriers to entry are also lower than they have been in previous industry downturns for structural reasons.

Direct selling and distribution The

Aviation Strategy
is published 11 times a year
by *Aviation Economics*
at the beginning of
the month

Editor:
Keith McMullan
kgm@aviationeconomics.com

Contributing Editor
Heini Nuutinen

Subscription enquiries:
Julian Longin
jil@aviationeconomics.com

Tel: +44 (0)20 7490 5215

Aviation Economics
Registered No: 2967706
(England)

Registered Office: James House, LG 22/24 Corsham St
London N1 6DR
VAT No: 701780947

ISSN 1463-9254

internet and use of direct selling mechanisms on travel distribution is a critical factor. A web-based booking engine and user-friendly website has been exploited by the successful LCCs to produce a massive reduction in distribution costs. The new distribution channels have all but eliminated the old barriers to competition enjoyed by established airlines, through their hold over travel agents and the use of GDSs.

	START-UP PHASE	SECOND PHASE	THIRD PHASE
Air Asia	• December 2001 • TuneAir Dsn Bhd	• June 2003 • Islamic Development Bank(10%)/Crescent Venture Partners (9%)/ Deucalion Capital (7%) • Invested US$26m	• IPO?
Go	• May 1998 • British Airways • Invested c. £25m	• June 2001 • 3i purchased 100% • £100m + earn-out	• May 2002 • EasyJet purchased • £374m (£116m cash)
jetBlue	• February 2000 • George Soros, Weston Presidio, Chase Capital • Invested US$130m	• September 2000 • Existing shareholders • Invested c. US$35m Average price per share US$ 5	• April 2002, IPO • Shareholders diluted to c. 53% • Average price per share at IPO US$ 27
Virgin Blue	• August 2000 • Virgin Group	• March 2002 • Patrick Corporation acquired 50% • Aus $ 500m	• Dec 2003, IPO • Market Cap. Aus $2.3bn

IT systems Today software covering booking and reservations, yield management, operations and control is available in packages from suppliers like Navitaire and Intellysis. A start-up operation can acquire a functioning system for a commitment of less than US$1 million and be operational within months - without the need to invest heavily in people or bespoke development.

Outsourcing Key production areas such as ground handling (ramp, passenger and cargo) and, if the product requires, catering can be outsourced at base and outstations. All heavy engineering and, in some cases, line engineering functions can be outsourced to specialist contractors.

New supplier relationships New entrants do not have to be price takers from their suppliers. Most strikingly the traditional relationship between airlines and airports has been shaken up. Many airport operators, from BAA to the owners of previously pretty much unheard of or un-utilised airports now have a much more commercial outlook on this relationship. Start-up airlines can receive significant route development and marketing support as well as (now subject to EU state aid conditions) discounts on landing fees and other charges.

Successful business plans?

Our survey of start-ups has been taken from a September 11 baseline. Extending the timeline just a few years back, the list would include some high profile growth stories such as jetBlue, Virgin Blue and Go as new entrants who had attracted private equity into the market. Along with at least one post September 11 example, Air Asia, these airlines demonstrate the main attraction of the start-up. If the business plan works, higher growth and profits can be achieved than by the incumbents. Even better, the original investors can realise value very rapidly through attracting second stage investors to fund growth (see table, above). Air Asia attracted three investors within 18 months and Virgin Blue sold a 50% stake to Patrick Corporation within two years and achieved a rapid capital market exit through an IPO within four years.

Of course, the number of the current wave of start-ups that will achieve such returns will be very limited. Success is dependent upon various factors which are rarely in alignment together:

• **Highly experienced management** with experience relevant for the particulars of the business plan. Trying to match LCC experience with the understanding of particular regional markets is a major challenge.
• The majority of the start-ups have small fleets, usually below five aircraft. To achieve the types of return of the industry lead examples, the model must be able to achieve significant topline growth. **Scaleability** of the business model is the central success factor
• Success is dependent upon both creating **a low cost base** relative to the competition and sustaining it as the business grows. Experience so far suggests that this is not

easy to achieve in practice and requires continual, dogged and single-minded focus.

• In a cyclical industry there is no substitute for **timing**. For example, Virgin Blue's success coincided with and benefited directly from the failure of Ansett. Air Asia's appearance in Southeast Asia as the first LCC style operator has given it a significant "first mover advantage". Much of the timing issue derives from exploiting greater market access - the reason why so much start-up activity is occurring in Asia.

NEW CARRIERS OPERATING POST SEPTEMBER 11, 2001

Airline	Country	Base	Fleet	Backers/Owner	Concept	Ops start
Adam Air	Indonesia	Jakarta	2x737, 1x737	Adam Suherman 100%	Sched. domestic	Dec-03
Aero Mongolia	Mongolia	Ulaanbaatar	2xF50	Undisclosed	Sched. domestic	May-03
Air Arabia	Sharjah	Sharjah	3xA320	Sharjah CAA 60%, Kanoo Travel	Middle East LCC	Oct-03
Air Asia	Malaysia	Kuala Lumpur	12x737	Tune Air Holding 73.41%	LCC Ryanair model	Jan-02
Air Bourbon	France	Reunion Island	1xA340	Undisclosed	Scheduled int'l	Jun-03
Air Deccan	India	Bangalore	4xATR	Deccan Aviation 100%	Regional to LCC	Aug-03
Air Finland	Finland	Helsinki	2x757	Jussi Salonoja plus 7 investors	Int'l charter	Mar-03
Air Paradise	Indonesia	Bali	1x737,A300,A310	Bounty Group 100% (Kadek Wiranatha)	Scheduled int'l	Feb-03
Air Polonia	Poland	Warsaw	2x737, 4xLET410	Undisclosed	Regional LCC	Dec-03
Air Southwest	UK	Plymouth	2xDash8	Sutton Harbour Holdings 100%	Regional	Oct-03
Astraeus	UK	Gatwick	4x737	Management and Aberdeen Private Equity	Int'l charter	Apr-02
AV8Air	UK	Manchester	1x757, 1x767	CT2 100%	Int'l charter	2004
Birdy	Belgium	Brussels	3xA330	G.Gutelmann, V.Hasson	Scheduled int'l	Apr-02
Blue Wings	Germany	Dusseldorf	1xA320, 1xA321	Jorn Hellwig and others	Int'l charter	Jun-03
bmibaby	UK	E.Midlands	15x737	BMI	Scheduled int'l	Mar-02
Bonair Exel	Netherlands	Antilles	2xATR	Bonaire Holding 100%	Sched. reg/dom.	Sep-03
CanJet	Canada	Halifax	6x737	IMP Group International, Inc.	Sched. domestic	Jun-02
Denim Airways	Netherlands	Augsburg	14xF50/F27, 5xDash8	Airton BV, EDW Beheer BV	Sched. charter	Jun-03
Duo	UK	Birmingham	9xCRJ	MBO June 2003 100% Maersk UK	Scheduled int'l	Jun-03
Etihad	UAE	Abu Dhabi	2xA330, 1xA340	Abu Dhabi Government	Sched. int'l/reg	Nov-03
Fly Baboo	Switzerland	Geneva	Dash 8	Undisclosed	Scheduled int'l	Nov-03
Fly Jet	UK	LGW/MAN	2x757	Undisclosed	Int'l charter	Jun-03
Fly Niki	Austria	Vienna	1xA320, 2xA321	Air Berlin 24%, Niki Lauda	Int'l charter	Nov-03
Germania	Germany	Berlin	17xF100	Germania	Sched. charter	Jun-03
Hapag Lloyd	Germany	Cologne	4x737	TUI	Sched. charter	Dec-02
Hellas Jet	Greece	Athens	3xA320	Cyprus A/W 49%	Sched. int'l-LCC	Jun-03
Helvetic	Switzerland	Zurich	5xF100	Undisclosed	Scheduled int'l	Feb-02
Hooters Air	USA	Atlanta	4x737	Bob Brooks	Sched. domestic	Jun-03
Iceland Express	Iceland	Reykjavik	1x737	4 private investors	Scheduled int'l	Feb-03
Jet 2	UK	Leeds	6x737	Dart Group	Sched. int'l-LCC	Feb-03
LAFE	Argentina	Buenos Aires	6x737	Brazil Govt. 80%, Intercargo 20%	Sched. int'l/dom	Oct-03
Lagun Air	Spain	Leon	4xSaab340	Regional Govt. aid €5.8m	Sched. domestic	Sep-03
Livingston	Italy	Milan	3xA321	Livingston Aviation Group	Int'l charter	May-03
Norwegian	Norway	Oslo	8x737, 6xF50	9 private investors	LCC dom/int'l	Sep-02
Quebecair	Canada	Quebec	2xSaab340	Undisclosed	Sched. regional	Apr-03
SkyEurope	Slovakia	Bratislava	2x737, 6xEmb120	Private + EBRD, ABN Amro and EU funding	LCC	Feb-02
SkyNet	Ireland	Shannon	2x737	6 private investors own 75%	Scheduled int'l	Jun-02
SkyNet Asia	Japan	Fukuoka	4x737	Hiro Hattori 100%	Sched. domestic	Jul-02
snowflake	Sweden	Stockholm	4x737	SAS	Scheduled int'l	Mar-03
Song	USA	NorthEast	36x757	Delta Airlines	Sched. domestic	Apr-03
Styrian Spirit	Austria	Graz	3xCRJ	Local private investors	Sched. regional	Mar-03
Ted	USA	Denver	5xA320	UAL	Sched. domestic	Feb-04
Thai Jet	Thailand	Bangkok	2x757	Owned by AtlasJet	Int'l charter	Dec-03
Thomas Cook	Belgium	Brussels	4xA320	Thomas Cook, Germany	Int'l charter	Mar-02
U Air	Uruguay	Montevideo	2xF100	Undisclosed	Sched. regional	2003
ValuAir	Singapore	Singapore	2xA320	Lim Chin Beng 89%, AsiaTravel.com 11%	LCC JetBlue model	2004
VBird	Germany	Niederrhein	4xA320	Niederrhein Airport, R.Stinga + others	LCC JetBlue model	Oct-03
Viking	Sweden	Heraklion	2xMD80	Undisclosed private investor	Int'l charter	May-03
Wind Jet	Italy	Sicily	4xA320	Finaria Group 100%	Domestic LCC	Jun-03
Wizz Air	Poland	Katowice	A320s	Undisclosed	LCC	May-04
Zoom	Canada	Ontario	2x767	Go Travel Direct 100%	Int'l charter	Dec-02

CSA, Malev and LOT: the EU opportunity/threat

The European Union's expansion on May 1, 2004 brings in 10 new members, eight of which are from central and east Europe. The three largest airlines from these new entrants - CSA, Malev and LOT - face both opportunity and danger from their countries' membership of the EU and the European Common Aviation Area (ECAA). Having already been through one major change - from operating in Soviet command economies to the western capitalist model - how will they now cope with the liberal aviation regime of the EU and the LCC threat?

CSA Czech Airlines

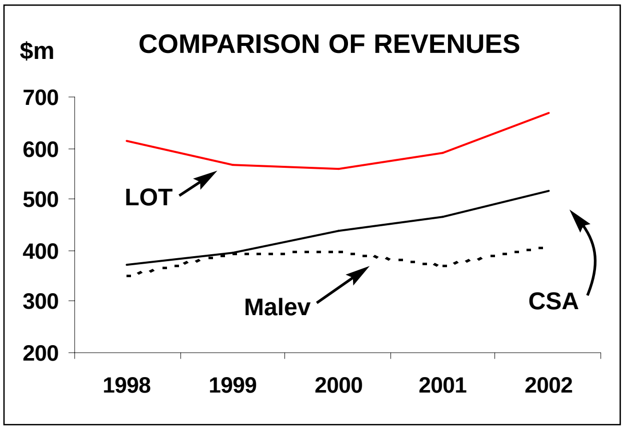
Following the peaceful partition of Czechoslovakia into the Czech and Slovak Republics in 1992, CSA has emerged as one of the stronger airlines in Eastern Europe. As the Czech Republic already has a relatively liberal air services regime and a small domestic market, CSA could also benefit by gaining access to the eastern and central European markets it has previously found difficult to penetrate - Poland and the Baltic countries.

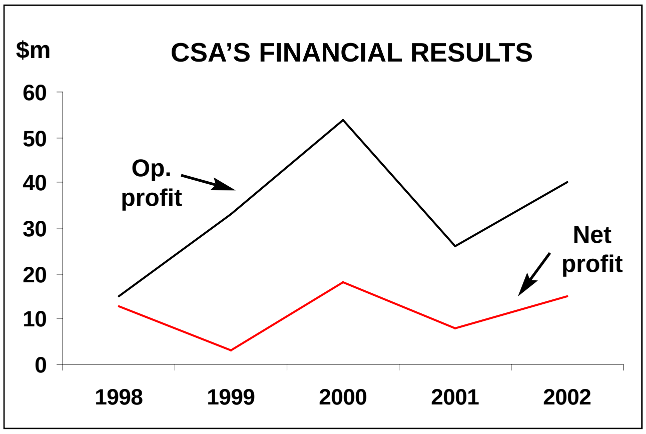
Access to nearby markets would be of particular benefit to CSA's declared strategy of developing Prague as a key hub, particularly for SkyTeam traffic into eastern and central Europe. Since joining the SkyTeam alliance in 2001, CSA has experienced significant increases in traffic, and the airline wants to keep developing Prague as SkyTeam's gateway to the east.

In 2002 CSA posted an operating profit of $40m and a net profit of $15m, both substantially up on the results for 2001, despite severe flooding in Prague in August 2002 that affected both leisure and business traffic. In the first half of 2003 CSA made a net profit of $4.1m, based on a 6% rise in passengers flown (although load factor fell by 2% due to an increase in capacity through fleet additions). For full year 2003 CSA saw a 17% increase in passengers carried to 3.6m, though CSA will do well to beat its 2002 net profit figure.

CSA's fleet comprises three A310s, 23 737-400/500s and nine ATR-42/72s, and the airline is considering renewal options for its Boeing and Airbus aircraft at the moment. On long-haul, the likely replacements for the A310s are A330s or 767s, which would be used primarily on routes to the hubs of SkyTeam alliance partners.

For medium-haul, the 737 300/400s will be replaced by an order for up to 40 737NGs or A320 family aircraft over the next decade, with the first deliveries needed in 2005. Given Boeing's existing close relationship with CSA, the 737NGs should be the hot favourite. However in the defence sector, Boeing has left a strategic partnership after a rocky six-year collaboration with fighter manufacturer Aero Vodochody amid accusations by Czech politicians that it "failed to deliver". Perhaps of more significance is the Czech Republic's imminent entry into the EU. What better way to ingratiate yourself with your new political and economic partners than by encouraging your national airline to place a major aircraft order with the continent's sole manufacturer? CSA is giving nothing away at the moment - a tender was issued to both Airbus and Boeing at the end of last year, and CSA is reportedly in detailed discussions the manufacturers





over an initial order for 15-20 leased aircraft.

On short-haul, CSA operates nine ATR42s and ATR 72s, and has another seven ATR 42-500s on order - three due for delivery this year and the others in 2005. The ATRs provide regional feed into the Prague hub, which is becoming a key battleground for CSA as it tries to fend off increasing attention from low cost carriers. LCCs such as easyJet and bmibaby are eager to capitalise on the growing demand for leisure travel into Prague, largely from western European countries such as the UK and Germany.

CSA is keen to develop low-cost operations of its own, particularly eastwards and in line with its gateway strategy at Prague. Initially CSA considered buying a LCC, but in February 2004 CSA suspended longstanding talks with potential acquisition Travel Servis, a Prague-based charter airline with a fleet of five 737s. Negotiations were halted as Travel Servis announced its own plans - it will launch operations in May under the brand SmartWings. Unless another acquisition candidate is found, CSA will launch its own LCC sometime in 2004, it is believed.

Privatisation?

The Czech state owns or controls more than 90% of CSA, and privatisation has been on the agenda for a number of years. However, most observers believe it will be 2005 at the very earliest before an IPO is carried out. The government will be keen to avoid the fiasco of the early 1990s when the European Bank for Reconstruction and Development became a shareholder in CSA and the airline signed a strategic alliance with Air France. Just two years later, the "grand alliance" collapsed, and the two external stakes were resold to Czech state interests.

Privatisation largely depends on another couple of years' strong financial results at CSA, and to this end the Czech government replaced Miroslav Kula as CSA CEO with former Czech defence minister Jaroslav Tvrdik in September 2003. Though Kula had been CEO for four years and had done well, he faced major problems last year with the airline's staff. In 2003 CSA attempted to impose a single collective working agreement on its workforce, a move strongly resisted by the unions. Pilot union CZALPA threatened strike action, but at the last moment - in June 2003 - a compromise was reached under which it was agreed a collective agreement on broad terms and conditions would be accompanied by separate agreements with the seven main unions at CSA on specific details that affected their members.

But just a month later management became embroiled in yet another clash with workers after making four mechanics redundant - a move that mechanics union OOLM said was intimidating given the ongoing talks over the collective and separate working agreements. Until these agreements are completed, relations between the management and unions will continue to be strained.

But Kula's departure may also partly be due to the government wanting a new face in charge as the country prepared for EU membership in 2004. The Czech press reported that the government wants CSA to become more "dynamic" in the face of increasing competition from the LCCs.

Kula wasn't the only person to go - the entire board went as well, to be replaced by a new nine-person strong senior management team. It is now looking at CSA's strategic options, and a new plan for 2004-06 was presented internally at the end of February, though it will not be unveiled formally until the summer.

It is reported that the new management is looking closely at CSA's costs - which it believes are too high for an airline of its size - as well as labour productivity. Though costs are lower in the Czech Republic (and other eastern European countries) than western Europe, the legacy of command economies is a raft of business regulations that ramp up the cost base. Steps have already been taken - in November 2003 CSA reduced travel agent commission from 7% to 4%, giving agents less than two weeks' notice. As for labour costs, the Czech Republic's entry into the EU is raising wage expectations among many sections of the economy, and this will provide a real test to CSA's new management.

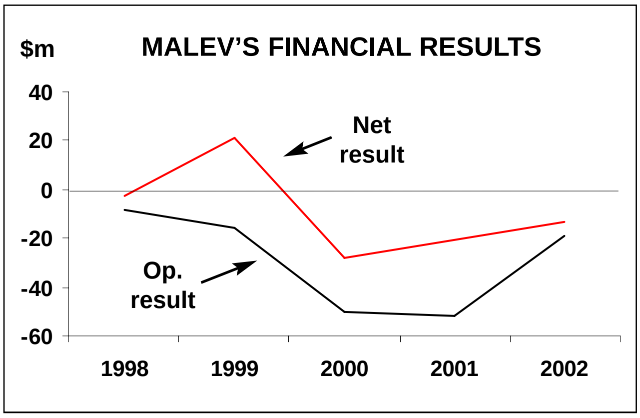
Malev Hungarian Airlines

Like CSA, Malev underwent a change of leadership in 2003 at the instigation of its government owner, with Laszlo Sandor taking over as CEO and chairman in May. Sandor came from the state water company and became Malev's fourth CEO in as many years - an indication of the problems facing Hungary's national airline.

The Hungarian government acted despite Malev managing to reduce its net loss to \$12.8m in 2002 from a \$21m loss in 2001 following a major restructuring and route expansion programme carried out by Sandor's predecessors, CEO Jozsef Varadi and chairman Andras Huszty.

Indeed at the end of 2002 management forecast a profit for 2003, based on a 5% rise in fares, increases in capacity and the implementation of a five-year strategic plan based around the airline joining a global alliance, obtaining a capital injection and becoming "commercial". Management was optimistic following a 2002 that saw Malev carry 2.2m scheduled passengers - 1% up on 2001 - and with a 3.6 point rise in load factor to 63.1%. But the strategic plan soon ran into trouble, and the Gulf War led to a 20% drop in passengers carried. A cost-cutting programme was introduced with the aim of saving more than \$4m a year, but the government decided more urgent action was needed and management was replaced.

Allegations of an improper audit tendering process at Malev played a part in the decision, it is believed, but the government was also keen to get a new management team in



place ahead of another attempt at privatisation. Through the privatisation agency APV, the Hungarian state owns 97% of Malev, but it is keen to offload a majority stake. A previous privatisation attempt in 2001 failed after little enthusiasm from potential investors was found.

Like CSA, Malev attempted an equity alliance with a western carrier following Hungary's emergence from the Soviet Bloc in the early 1990s. Then Alitalia purchased a 35% stake but - like CSA/Air France - the link-up was entirely unsuccessful, and Alitalia divested its stake in 2000 as a minor condition of its state aid injection. This time around a successful IPO or the finding of a potential acquirer will depend on a significant improvement in financial results, a task made harder by the fact that net losses are expected to increase to around \$30m in 2003.

The continuing losses are due partly to Malev's extensive route network, which includes North America, Asia, Africa and the Middle East - indeed Malev's exposure to the latter market was a serious disadvantage during the Gulf War. Few of these long haul routes are thought to be profitable, and to make matters worse some of Malev's regional routes in

FLEET COMPARISON

	CSA	Malev	LOT
A310	3		
737-300		5	2
737-400	11	3	5
737-500	12		10
737-600		5 (1)	
737-700		3 (4)	
737-800		2 (3)	(2)
767-200ER		2	2
767-300ER			2
ATR-42	5 (7)		
ATR-72	4		
Fokker 70		6	
ERJ-145			14
Emb-170			1 (9)
Total	**35 (7)**	**26 (8)**	**36 (11)**

Europe struggle to make a profit as well. Despite this, Malev launched four new routes out of its Budapest hub in 2002 (to Odessa, Timisoara, Bologna and Venice) and three more in 2003 (to Pristina, Split and Geneva).

However, there is expectation that some of the loss-making routes will become profitable as new equipment is introduced. Malev operates a fleet of 26 aircraft, and in January 2003 Malev received the first of 18 737NGs it is leasing from ILFC to replace earlier 737 models and Fokker 70s, whose leases expire in 2003 and 2004. Eight aircraft are outstanding, and they will arrive over the next two years, which will then give the airline one of the youngest fleets in Europe. On long-haul, Malev has just two 767-200ERs, and the airline has begun the process of finding replacements.

For short-haul, the government provided loan guarantees to the European Investment Bank for Malev's purchase of four Bombardier CRJ-200ERs that were delivered in 2003. Six more CRJ-200s or -700s are on option. The CRJs are flown by Malev Express, which was launched in July 2002 as an operator of regional routes and a feeder carrier into Budapest. Budapest appears key to the future of Malev, though the airline's attempts to turn the airport into an east-west hub may be difficult to achieve given similar ambitions for Prague by CSA. And competition will grow at Budapest anyway. The first LCC in the region - Bratislava-based SkyEurope has established itself as Eastern Europe's first genuine LCC, operating a fleet of three 737-500s and six Emb 120s from its main base in Bratislava, Slovakia. With aggressive and competent management, under Chairman Alain Skowronek and CEO Christian Mandl, SkyEurope has expanded by setting up a second base in Budapest, flying to London, Paris, Amsterdam and Rome and is now targeting Poland.

Alliance need

Malev feels the need to sign up with a global alliance, as do all the Eastern European airlines, though whether this is in expectation of real commercial benefits or simply a desire to have a Western stamp of approval is unclear.

Malev is the only one of the three major central/east European carriers not to be part of a major aviation alliance. Indeed part of the reason CSA joined SkyTeam in 2001 may have been due to concern that SkyTeam might link up with Malev instead. LOT is part of the Star alliance, which also includes Austrian Airlines, a carrier with large network in eastern and central Europe. Oneworld also appears happy with Finnair and Swiss's coverage in the region, leaving little option for Malev but SkyTeam. Malev has close ties with SkyTeam's KLM, with which it started code-sharing in 2001, and in early 2001 talks between Malev and CSA on general co-operation led to speculation about the intriguing possibility that Malev could also join SkyTeam as well. This was confirmed in January 2004 when CSA became an official "sponsor" of Malev in negotiations to join SkyTeam. Whether Malev would join as an associate or full member of SkyTeam is unknown, but a formal link appears probable unless there is last-minute interest from oneworld.

Strategically, having two central/east European members of SkyTeam is rather difficult to justify, even though Malev is stronger towards the southern part of Eastern Europe and CSA has a larger route network to the north. A tough decision may have to be made about whether two east-west hubs - Prague and Budapest - are sustainable.

Sacrificing Budapest in favour of a SkyTeam east-west hub at Prague would be a hard decision for Malev, but probably a price worth paying in exchange for the passenger uplift and security that joining SkyTeam would bring. And membership of a major alliance would be a timely boost ahead of a renewed privatisation attempt.

In order to improve both its privatisation prospects and attractiveness to SkyTeam, Malev's new management unveiled a major restructuring plan in December 2003, designed to cut costs by $37m a year and put Malev back into the black for 2004.

The programme includes reduced capex (now that the medium-haul fleet renewal is almost complete), greater use of direct distribution and staff redundancies.

The latter may be particularly difficult to achieve given the difficulties caused by earlier redundancies, made in 2001. There was serious strike action in February 2002, and action by flight attendants over daily allowances was narrowly avoided just over a year ago only after the airline agreed to a 15% rise in allowances in return for a similar increase in hours flown.

But management's ability to avoid union trouble may be strengthened by redundancy payments derived from the final cash injection by the Hungarian government that will accompany the current cost-cutting. The state is giving F10bn ($46m) as a final handout before the country's entry into the EU in May. It's unlikely that this will be the last major cash injection that Malev will need - but once the airline is privatised this burden will then rest with the private sector.

LOT Polish Airlines

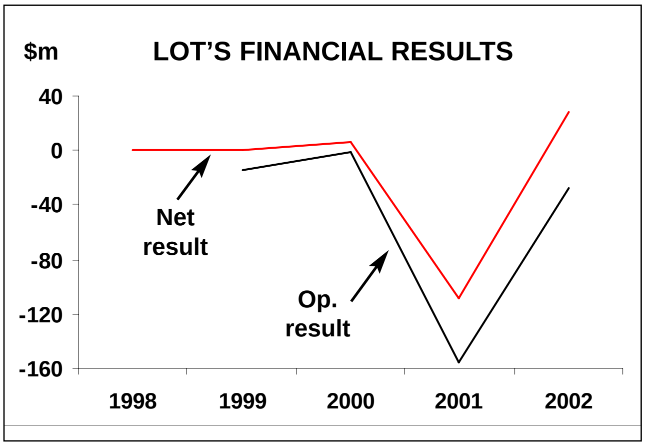
LOT underwent a traumatic period in 2003 after CEO and president Jan Litwinski resigned suddenly in March following media speculation that LOT board members had been paid "extra salaries" by shareholder Swissair. Litwinski had been CEO since 1992, but his departure was followed by the other board members in April as the Polish government decided to appoint a fresh management team.

Marek Grabarek, an executive from the Polish state treasury, replaced Litwinski on an interim basis but this appointment was met with dismay by LOT's unions, who threatened to strike if someone so closely associated with the Polish government was appointed as CEO. The Polish government ignored the unions and in June appointed Grabarek permanently, with a remit to cut costs and establish the airline as a consistently profitable airline ahead of a further sell-off of the state's shareholding.

LOT racked up a substantial operating loss of $155m in 2001, which resulted in a raft of cost-cutting measures that reduced the loss to $27m in 2002, helped by a 5% rise in passengers carried to 3.9m, with load factor rising by eight points to 70%. In the first-half of 2003 LOT made an operating profit of $2.3m, and for full-year 2003 LOT is expected to report a small operating profit. During 2003 LOT experienced sluggish long-haul traffic, though short- and medium-haul traffic is believed to have been much better.

Although the trend is in the right direction, the improvement appears not to be enough for the government, which recently announced that a float or trade sale is not on the agenda for LOT for the next two or three years. The Polish government sold a 10% stake in LOT to the SAirGroup in 1999, which increased its share to 38% in 2000, though was diluted down to 25% following a capital injection by the state in 2001. The government now owns 68%, with employees holding the remaining 7%.

Further privatisation is complicated by the fact that LOT is more than just an airline - it owns stakes in many other diverse companies, such as a casino company and a horseracing concern - but the Polish government would like to reduce its stake to 51%. But before a 17% tranche is sold, not only do LOT's results have to improve but also the fate of Swissair Group's 25% shareholding has to be resolved. This stake is currently with Swissair's administrators, and one airline reportedly interested in acquiring it is SAS, which is keen to extends southwards its dominance in Scandinavia and the Baltic region (SAS owns 47% of Air Baltic and 49% of Estonian Air). As SAS and LOT are both Star alliance members, the deal would make sense, though there are other contenders for Swissair's stake in LOT, including Lufthansa, which also codeshares with LOT and was the prime mover behind LOT's membership of the Star alliance.



Star move

LOT's entry into Star in October 2003 gave the Polish airline a psychological uplift, and LOT predicts that the combination of Poland's EU entry and the admittance of LOT into Star will boost business traffic 10%, and developing high margin business traffic is a key priority for LOT over the coming year. LOT hopes that Warsaw will be developed within Star as an east-west hub, though whether this is a realistic prospect long-term is open to doubt. Instead, LOT may become no more or less than a north European feed airline into Lufthansa's hubs, a prospect that LOT's management is keen to dismiss.

Star entry didn't come cheap for LOT. The airline had to abandon codeshare deals with oneworld members British Airways and American, but these were replaced by deals with BMI British Midland and United, the latter giving LOT codesharing on flights to 29 beyond-gateway destinations in the US. Interestingly, this is a one-way deal at present, as United codeshares to Poland with other Star members.

Currently LOT operates a 36-strong fleet. For long-haul, LOT uses two 767-200ERs and two 767-300ERs, and for medium-haul it has 17 737-3/4/500s. A decision on replacements for both categories is expected soon, and LOT is likely to choose a single manufacturer. The choice is between 737NGs/767-400s/7E7s and A320/330s, and again, like CSA, Boeing's track record with LOT may be balanced by the Polish government's wish to appear at the heart of the EU - although Poland's political ties with the US administration should not be discounted (and Chicago, Boeing's management HQ has a very strong Polish influence). Negotiations with manufacturers are due to begin any time now.

In May 2003 LOT ordered 10 Embraer 170s, the first of which was delivered in January 2004, with the order due for completion in 2005. Some of these will be used for new routes, such as from Warsaw to Dublin and Venice. Eleven other aircraft are on option, though these can be 170s or 190/195s.

Regional feed is provided by subsidiary EuroLOT, which was launched in 1997 and now operates a fleet of eight ATR 72-200s and five ATR-42s on mostly loss-making domestic routes.

This fleet renewal is part of the strategy to improve the Warsaw hub. Domestic passengers account for 20% of all passengers flown by LOT, intra-European 55% and transatlantic 13%. However, approximately 60% of domestic LOT passengers transfer onto international services, and LOT has a 50-55% market share of international traffic out of Warsaw. That's a market position that other airlines are keen to erode. Poland is the largest of the 10 countries joining the EU in May, and with a population of 39m the country is a key target for both LCCs and other national European airlines.

At present, the foremost LCC threat comes from Air Polonia, which under ex-LOT CEO Jan Litwinski has turned itself into a low cost operator. The airline operates two 737-400s, but has plans for further aircraft after launching routes in December 2003 between London Stansted and Warsaw, Poznan and Katowice and domestically on Warsaw-Wroclaw and Warsaw-Gdansk.

SkyEurope, as mentioned above, intends to add Poland (Warsaw and maybe Katowice) to its Slovakian and Hungarian-based operations. Another Polish LCC is GetJet, a subsidiary of Silesian Air that started operations in February 2004. Also Wizz Air, headed by Joszef Varadi, ex-CEO of Malev, has ambitious plans for an A320 operation based at Katowice, flying from Krakow and also Budapest in the future.

After initially dismissing the threat of Air Polonia and the LCCs, in December 2003 LOT reacted by introducing a raft of low fares on domestic routes out of Warsaw - a signal that it is facing up to the reality of the LCCs.

What a long-lasting fare war will do to 2004's financial results can't be judged yet, but the imperative for LOT's new management is to keep the airline in profit. Despite the boost of joining Star, finances are tight. In July 2003, LOT took out a $70m loan from a consortium of eight Polish and East European banks in order to refinance an earlier share issue but, like its east European neighbours, LOT would greatly benefit from a substantial injection of fresh equity.

US Airways: another 25% cost cut needed

Despite its apparently successful Chapter 11 reorganisation only a year ago, US Airways again faces serious survival challenges. First, it may find it difficult to meet the financial covenants on its $1bn government-guaranteed loan in the next quarter - the reason it is considering asset sales. Second, its longer-term survival prospects again look poor because its costs remain too high for the East Coast environment - hence a new aim to cut unit costs by "at least 25%".

Since cost cuts of that nature would almost certainly require a new round of labour concessions (the third since mid-2002), US Airways has spent the past month explaining its problems to its workforce. What went wrong? Why is the company in trouble again so soon?

The current troubles are surprising in light of the impressive Chapter 11 restructuring carried out in the toughest economic environment the industry had ever faced. Under the guidance of its new CEO, David Siegel, US Airways accomplished an enormous amount in terms of restructuring and strategic initiatives in a short period of time.

First, in June-July 2002, US Airways quickly negotiated concessions from its pilots and flight attendants and obtained conditional approval from the ATSB for federal loan guarantees to cover 90% of a $1bn private sector loan.

The bankruptcy filing followed in mid-August 2002 because US Airways wanted to quickly restructure aircraft-related liabilities. The airline completed its "fast-track" restructuring in a record 7.5 months, emerging from Chapter 11 on March 31, 2003.

The restructuring achieved all the key objectives in improving US Airways' cost structure, reducing its debt and lease burden and strengthening its liquidity position. Cost savings were expected to average $1.9bn annually over 6-7 years. Of that, $1bn came from labour, which exceeded the original target and meant a 30% reduction in labour costs. Lessor, lender and supplier concessions reduced annual aircraft ownership costs by $500m, substantially exceeding the $150m target.

US Airways estimated last year that the $1.9bn cost cuts gave it unit costs at the bottom of the range for the large network carriers on a stage length-adjusted basis.

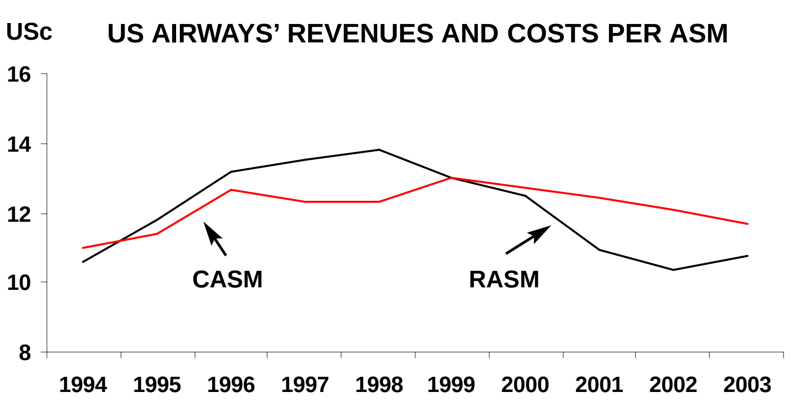
The Chapter 11 process reduced US Airways' total debt and leases by 30%. The airline restructured finance agreements related to 200 aircraft. It was also able to terminate its pilots' pension plan and replace it with a less costly version, reducing pension-funding requirements by about 25%.

When emerging from Chapter 11, US Airways had an adequate $1.3bn in cash and bank credit facilities, $240m in new equity from Retirement Systems of Alabama (RSA), the $1bn ATSB-backed loan and a $360m credit facility from GE Capital. It also secured a solid "B" credit rating from S&P (the same as Continental's and Northwest's).

Last summer US Airways staged what it described as an "orderly return to the capital markets" by selling $34m shares to three institutional investors (including Goldman Sachs) at the RSA purchase price. This was an important vote of confidence in the company's prospects from sophisticated investors. In late October, US Airways began trading on the Nasdaq under the symbol UAIR. However, that coincided with the initial warnings that recovery was stalling, so the shares have performed poorly and there is no analyst coverage.

The Chapter 11 process contributed to US Airways' downsizing. The fleet size declined rather dramatically: from 421 in August 2001 to 280 at the end of 2002 (since then it has remained roughly at that level). Mainline ASMs fell by 23% between 2001 and 2003.

However, within two months of emerging from Chapter 11, US Airways put in place two key components on the revenue side of its business plan. First, after earlier obtaining



permission from its pilots to operate up to 465 RJs, in May 2003 it placed orders for 170 RJs from Bombardier and Embraer and arranged financing for 90% of the aircraft. Second, it took the first step towards joining the Star alliance by signing a codeshare agreement with Lufthansa (it is due to formally join Star in the second quarter of this year).

Since emerging from Chapter 11 US Airways has reduced its financial losses significantly and maintained strong liquidity. In the fourth quarter of 2003, its pretax loss excluding special items narrowed to $129m (7.3% of revenues) from $352m a year earlier. However, the past two quarters' results have been disappointing relative to competitors' performance and in light of the heavy Chapter 11 restructuring. Admitting that it was behind its original plans, US Airways announced further restructuring measures in the fourth quarter.

First, it initiated measures to cut non-labour operating costs by an additional $200-300m in 2004. The savings would come from maintenance efficiencies, flight operations, human resources initiatives, insurance costs and Express operations.

Second, it went back to its key unions to sound out about further cost reductions. The initial reaction from union leaders in mid-December was extremely negative, with ALPA calling for the removal of Siegel and CFO Neal Cohen for mismanaging the airline.

Third, US Airways hired Morgan Stanley to explore the possibility of selling various assets. This action was prompted by concerns about potential debt covenant issues and the ability to maintain RJ financing.

In early January, US Airways suffered the blow of seeing its corporate credit rating (along with debt ratings) downgraded from "B" to "B-minus" by S&P. Citing increased LCC competition and the debt covenant issues, the agency also warned of a further possible downgrade.

What happened?

US Airways has blamed its current troubles mainly on significantly escalated LCC competition on the East Coast and "dramatic and fundamental changes in corporate travel practices". The magnitude and the rate of change of the LCC threat have increased since the Chapter 11 restructuring, and consequently the original cost cuts are no longer sufficient.

While few could have foreseen this year's competitive frenzy on the East Coast, LCCs have been such a serious threat to US Airways for such a long time that it is surprising that the airline did not take into account more competitive scenarios when setting its CASM targets.

Some in the industry believe that US Airways simply committed the classic mistake of rushing into short-term labour deals in its eagerness to complete the restructuring process. Delta's CEO Gerald Grinstein, who is under considerable pressure to secure a lower-cost pilot contract, remarked recently that he would not "cripple" the company for the long-term in order to achieve a short-term deal, noting that "the current situation at US Airways is a cautionary tale that we'll all heed well".

US Airways' post-Chapter 11 revenue performance has not yet reflected the increased LCC threat. This is because industry RASM recovered slightly in 2003, following a sharp decline since 2000. Also, US Airways' RASM has recovered at a greater rate because the year-earlier levels were depressed by the Chapter 11 status. Its system PRASM surged by 10% and 7.4% in the third and fourth quarters, respectively. System RASM in 2003 rose by 3.6% to

10.75 cents - the first annual improvement in five years.

However, 10.75 cents is low by historical standards - some 22% below the peak of 13.80 cents seen in 1998, when LCC expansion began to gather pace. Furthermore, RASM pressure is now expected to build rapidly with the accelerated LCC expansion on the East Coast this year.

Much of the current upheaval at US Airways is the result of Southwest's plans to start building service on May 9 out of Philadelphia - US Airways' primary hub and international gateway that accounts for a quarter of its total revenues. Southwest will begin with 14 daily flights to six cities and one-way fares starting at $29. Two weeks later, Frontier will introduce low-cost transcontinental services to Philadelphia from Denver and Los Angeles.

US Airways believes that Southwest's initial service will not have much detrimental impact on its revenues, because most of the routes chosen already have low fares (Southwest is targeting other LCCs). But the airline knows that this will change as Southwest grows in Philadelphia.

US Airways' management claimed late last year that the airline had reduced its unit costs (CASM) by 15-17% since the restructuring process began in early 2002. However, there have been no statistics to support such a decline (though it is possible that some of the cost savings only showed up in special items last year). In the third and fourth quarters of 2003, mainline CASM before fuel and special items (but including aircraft ownership costs, since there was a major shift from debt financings to operating leases) declined by 8.5% and 9.2% respectively.

Looking at the annual unit cost figures, the progress made seems rather pitiful. Last year's mainline CASM excluding unusual items was 11.70 cents. This was only 3.3% below 2002's 12.10 cents, 6.1% below 2001's 12.46 cents and 8% below 2000's 12.72 cents. It would seem that the cost reductions were mainly due to increases in average sector length resulting from international expansion. US Airways' average stage length rose by 11.1% in 2003 and by 20% between 2000 and 2003 (from 633 to 761 miles).

Debt covenant issues

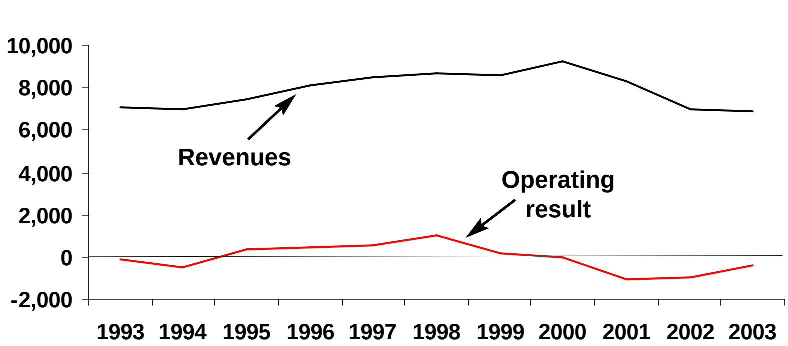
The ATSB loan covenants require US Airways, first of all, to maintain at least $1bn of unrestricted cash through the second quarter of 2004 (only $376m thereafter). Second, it must have fixed-charge coverage of at least 1.0 (first measured on June 30). Third, it must have seven times adjusted debt to EBITDAR (also from June 30). In an early January report, S&P suggested that the latter two covenants may be difficult to meet, depending on operating performance in the first half of this year.

With the ATSB loan being a lifeline, US Airways intends to take "the necessary actions to remain in compliance". It is considering the sale of assets, which could include gates and slots at East Coast airports, routes, aircraft, aircraft delivery positions, some RJ operations and the Boston-New York-Washington shuttle. As of March 5, it had not taken any decisions.

If it turned out to be necessary to sell any assets, US Airways should be able to find the buyers and raise enough cash to solve any covenant problems. Of course, any asset sales would have to be approved by the ATSB and the proceeds would have to be used to reduce the size of the government-guaranteed loan.

US Airways has been in discussions with

US AIRWAYS' REVENUES AND OPERATING RESULT



Note: Operating result excludes exceptional items the ATSB and is expected to obtain covenant waivers (at some price). As many analysts have pointed out, the ATSB is unlikely to force the airline back into Chapter 11 in an election year. Such a scenario could mean the ATSB taking a loss on the deal since the 7.6m stock warrants that it received as added security are currently worthless, with US Airways' share price languishing at some 30% below the $7.42 warrant purchase price.

The other current concern is that any further credit rating downgrade by S&P could jeopardise US Airways' RJ financings. The deals negotiated last year with GE Capital, manufacturers and others (on 90% of the 170 RJs ordered) require US Airways to maintain a minimum credit rating of "B-minus" or "B3". The problem now is that when S&P downgraded the rating to "B-minus" in January, it kept the rating on review for a further downgrade.

US Airways is not expected to lose the RJ financing commitments. In a worst-case scenario, it could probably transfer some of the RJ orders to an affiliate like Mesa, which has publicly expressed strong interest in acquiring assets that could be operated in partnership between the two airlines.

Getting these issues resolved would buy time for US Airways to get its cost structure in line, because there are no other pressing balance sheet issues. The company had $1.84bn in total cash at year-end, of which $1.29bn was unrestricted. This is considered to be adequate, given modest near-term debt maturities (just $132.4m in 2004). Total debt and capital lease obligations amounted to $2.98bn at year-end.

The survival plan

US Airways presented the key ingredients of a revised business plan to its ALPA leaders on February 19. According to the pilots, the plan, which was still very much a work in progress, called for more point-to-point services (to create a "hybrid" of hub-and-spoke and point-to-point flying, like some LCCs have done) and promised an aggressive response to LCCs in the markets affected. However, the main focus would be on cutting costs by "at least 25%" - a subject already discussed in the earnings conference call two weeks earlier.

The airline chose the 25% figure after noting that consistently profitable carriers have "established a new benchmark with cost levels at least 25% lower than ours". In other words, it now wisely compares itself to LCCs rather than other legacy carriers.

Siegel explained that there is roughly a 4-cent ex-fuel CASM gap between US Airways and the lowest-cost LCCs (10 versus 6 cents, excluding fuel and special items). US Airways believes that it will be able to sustain a RASM premium in the 10-15% range, given its stronger network and hub-and-spoke system. In its calculations, that would leave a 25% cost premium to be eliminated.

This is broadly in line with Delta CEO Grinstein's recent estimate that the RASM premium for his airline is currently 15%, compared to 35-50% in the past.

US Airways estimates that 2.5 cents of the 4-cent ex-fuel CASM gap is labour costs. Its mainline labour costs accounted for 42% of total revenue in the fourth quarter, compared to an average of 33% for LCCs. Consequently, getting labour cost reductions will be critical. Amazingly, US Airways' ALPA-represented pilots appear to have had a complete change of heart. In late February they agreed to negotiations on a comprehensive package of new concessions, which could include wage and benefit reductions.

Many people view it as an example of new labour attitudes in a drastically changed environment. When survival is genuinely at stake, management and labour have common objectives. Merrill Lynch analyst Mike Linenberg, referring to the pilots' earlier hard stance, noted that "that was before Southwest had announced its Philadelphia markets and fares". It has also been suggested that the pilots have been promised a key role in the design of the revised business plan.

The other unions have so far taken a harder line, which may reflect poor morale at least in the case of the flight attendants. Late last year the company inexplicably violated their contract with some involuntary furloughs, which led to the union filing a lawsuit in January.

This year's non-labour cost initiatives focus particularly on the distribution side. They include a major effort to improve the functionality of the airline's own web site. US Airways feels that, after what it calls "UAL merger and Chapter 11 limbo", it is behind competition in technology initiatives.

The labour dealings will be helped by the fact that US Airways is resuming growth this year (after "right-sizing" itself) and that it intends to respond aggressively to LCC challenges. System ASMs are expected to increase by 6-8% in 2004. Half of that will be mainline growth, mainly internationally.

US Airways regards both the Caribbean and the transatlantic as important assets that really leverage its East Coast network. The Caribbean has seen 40% growth in the past year and US Airways is now the second largest US carrier there after American. The operations are profitable. The transatlantic "niche position" will also grow, with Philadelphia-Glasgow being the next addition in May.

Mainline aircraft deliveries are due to resume next year. US Airways has currently 19 A320-family aircraft on firm order for delivery in 2005-2009, plus 35 purchase rights, though it has indicated that it may not take all of them. There are also firm orders for ten A330-200s, plus ten options, for 2007-2009 delivery.

US Airways has responded to the Philadelphia challenges by matching the new entrants' fares and announcing increased service in five of the six markets initially planned by Southwest. The news release also mentioned: great airport facilities, first class cabins, assigned seating, a broad array of US and international service and an outstanding FFP. The airline does not intend to retreat or cede market share.

RJs are a key part of US Airways' revenue-boosting strategy, in that they will help penetrate new markets and strengthen hubs. The group had 103 RJs in its fleet at year-end and has seen some very encouraging early financial benefits when substituting RJs for larger jets. The RJ fleet will triple over the next two years. The strategy is to grow both internally and with regional partners.

Can US Airways make it?

In early March, according to a filing with the SEC, US Airways was still in the process of having general discussions about its problems with the leaders of its unions and work groups. But it is early days yet - the leadership has talked about 12-18 months as the time frame for getting the right cost structure in place.

However, although there is reason to be optimistic about the pilot talks and labour concessions generally, getting CASM down by another 25% in the wake of a Chapter 11 restructuring would be an unbelievable feat for any airline.

Competitive pressure will intensify further as ACA launches its Independence Air operation at Washington Dulles later this year and as JetBlue and AirTran continue to grow rapidly. JetBlue's EMB-190 expansion in low-to-medium density markets in the East from mid-2005 could also hurt US Airways' RJ strategy. US Airways can expect to be pummelled from all sides by aggressive new LCC entrants and lower-cost legacy carriers.

S&P's Philip Baggaley suggested in a recent research note that "acquisition by another airline or some other form of close integration into a broader alliance remains the best ultimate solution for US Airways". CEO David Siegel acknowledged that possibility in a late-February speech, arguing that "it is incumbent on US Airways to achieve a competitive cost structure, in order to be a profitable stand-alone company, or an attractive partner, should consolidation occur".

By Heini Nuutinen

		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	**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
	Year 2003	**17,440**	**18,284**	**-844**	**-1,128**	**-4.8%**	**-6.5%**	**279,706**	**202,521**	**72.4%**		**96,400**
America West	**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	
	Year 2003	**2,255**	**2,222**	**33**	**57**	**1.5%**	**2.5%**	**44,880**	**34,270**	**76.4%**	**20,050**	**11,326**
Continental	**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	
	Year 2003	**8,870**	**8,667**	**203**	**38**	**2.3%**	**0.4%**	**139,703**	**104,498**	**74.8%**	**39,861**	**37,680**
Delta	**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
	Year 2003	**13,303**	**14,089**	**-786**	**-773**	**-5.9%**	**-5.8%**	**216,263**	**158,796**	**73.4%**	**104,452**	**70,600**
Northwest	**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	
	Year 2003	**9,510**	**9,775**	**-265**	**248**	**-2.8%**	**2.6%**	**142,573**	**110,198**	**77.3%**	**51,900**	**39,100**
Southwest	**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
	Year 2003	**5,937**	**5,454**	**483**	**442**	**8.1%**	**7.4%**	**115,532**	**77,155**	**66.8%**	**65,674**	**32,847**
United	**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
	Year 2003	**13,274**	**15,084**	**-1,360**	**-2,808**	**-10.2%**	**-21.2%**	**219,878**	**168,114**	**76.5%**	**66,000**	**58,900**
US Airways	**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
	Year 2003	**998**	**830**	**168**	**104**	**16.8%**	**10.4%**	**21,950**	**18,550**	**84.5%**	**9,012**	**4,892**

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. 1 ASM = 1.6093 ASK. All US airline Financial Year Ends are 31/12.

		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												
YE 31/03	**Year 2001/02**	**11,234**	**11,017**	**217**	**141**	**1.9%**	**1.3%**	**123,777**	**94,828**	**76.6%**		**70,156**
	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%		
	Oct-Dec 03	3,933	3,855	78	35	2.0%	0.9%	33,380	25,329	75.9%		71,900
Alitalia												
YE 31/12	**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												
YE 31/03	**Year 2001/02**	**12,138**	**12,298**	**-160**	**-207**	**-1.3%**	**-1.7%**	**151,046**	**106,270**	**70.4%**	**40,004**	**57,227**
	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												
YE 31/12	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												
YE 31/03	**Year 2001/02**	**5,933**	**6,018**	**-85**	**-141**	**-1.4%**	**-2.4%**	**72,228**	**56,947**	**78.7%**	**15,949**	**33,265**
	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												
YE 31/12	**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												
YE 31/12	**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												
YE 31/03	**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												
YE 30/09	**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												
YE 31/03	**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	
	Year 2002/03	**10,116**	**10,137**	**-22**	**-235**	**-0.2%**	**-2.3%**	**88,539**	**59,107**	**66.7%**	**50,916**	**14,506**
	Apr-Sep 03	5,493	5,362	131	186	2.4%	3.4%	32,494	19,838	61.1%	22,866	
Cathay Pacific												
YE 31/12	**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												
YE 31/03	**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												
YE 31/12	**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**	
	Year 2002	**5,206**	**4,960**	**246**	**93**	**4.7%**	**1.8%**	**58,310**	**41,818**	**71.7%**		
Malaysian												
YE 31/03	**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**
	Year 2002/03	**2,350**	**2,343**	**7**	**89**	**0.3%**	**3.8%**	**54,266**	**37,653**	**69.4%**		**21,916**
Qantas												
YE 30/06	**Year 2001/02**	**6,133**	**5,785**	**348**	**232**	**5.7%**	**3.8%**	**95,944**	**75,134**	**78.3%**	**27,128**	**33,044**
	Jul-Dec 02	3,429	3,126	303	200	8.8%	5.8%	50,948	40,743	80.0%	15,161	34,770
	Year 2002/03	**7,588**	**7,217**	**335**	**231**	**4.4%**	**3.0%**	**99,509**	**77,225**	**77.6%**	**28,884**	**34,872**
	Jul-Dec 03	4,348	3,898	450	269	10.3%	6.2%	50,685	40,419	79.7%	15,107	33,552
Singapore												
YE 31/03	**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%	25,091	19,600	78.1%	3,972	
	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%**	22,380	17,773	79.4%	3,644	
	Oct-Dec 03	1,623	1,345	278	222	17.1%	13.7%	24,088	18,349	76.2%	3,875	

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
Jan 04	16.2	8.9	54.7	16.7	12.5	74.9	11.9	9.3	78.0	42.4	32.9	77.5	61.7	43.9	71.2
Ann. chng	-0.1%	3.2%	1.7	1.6%	5.0%	2.4	3.5%	2.0%	-1.1	3.6%	4.6%	0.8	2.7%	4.7%	1.4

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
2003	963.1	706.6	73.4	148.3	117.6	79.3	94.8	74.0	80.5	84.2	59.3	70.5	327.2	251.0	76.7
Jan - 04	81.9	54.1	66.0	11.9	8.7	73.5	8.4	7.0	84.3	8.2	6.0	72.4	28.5	21.7	76.3
Ann. chng	1.2%	2.0%	0.5	-2.8%	4.0%	4.8	-6.4%	-1.9%	3.9	10.5%	12.2%	1.1	-0.5%	4.1%	3.3

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	Delivery	Other information/engines
Boeing					
Airbus	25 Feb	Air Deccan	2 A320s	09/05	plus 2 options/IAE V2500

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,March 2003*

SUBSCRIPTION FORM

☐ **Please enter my Aviation Strategy subscription for:**
1 year (11 issues-Jul/Aug combined) @ £390 / € 625 / US$625, starting with the ____________ issue

(Discounts available for multiple subscriptions - please call for details)

Delivery address

Name ____________

Position ____________

Company ____________

Address ____________

____

____

Country ____________ **Postcode** ____________

Tel ____________ **Fax** ____________

e-mail ____________

DATA PROTECTION ACT

The information you provide will be held on our database and may be used to keep you informed of our products and services or for selected third party mailings

☐ **I enclose a Sterling, Euro or US Dollar cheque, made payable to: Aviation Economics**

☐ **Please invoice me**

☐ **Please charge my AMEX/Mastercard/Visa credit card**

Card number ____________

Name on card ____________ Expiry date ____________

☐ **I am sending a direct bank transfer of £390 net of all charges to Aviation Economics' account:** HSBC Bank
Sort code: 40 04 37 Account no: 91256904

Invoice address (if different from delivery address)

Name ____________

Position ____________

Company ____________

Address ____________

____

____

Country ____________ Postcode ____________

PLEASE RETURN THIS FORM TO:

Aviation Economics
James House, LG
22/24 Corsham Street
London N1 6DR
Fax: +44 (0)20 7490 5218