Issue No: 79

Aviation Strategy

May 2004

Inter-LCC competition

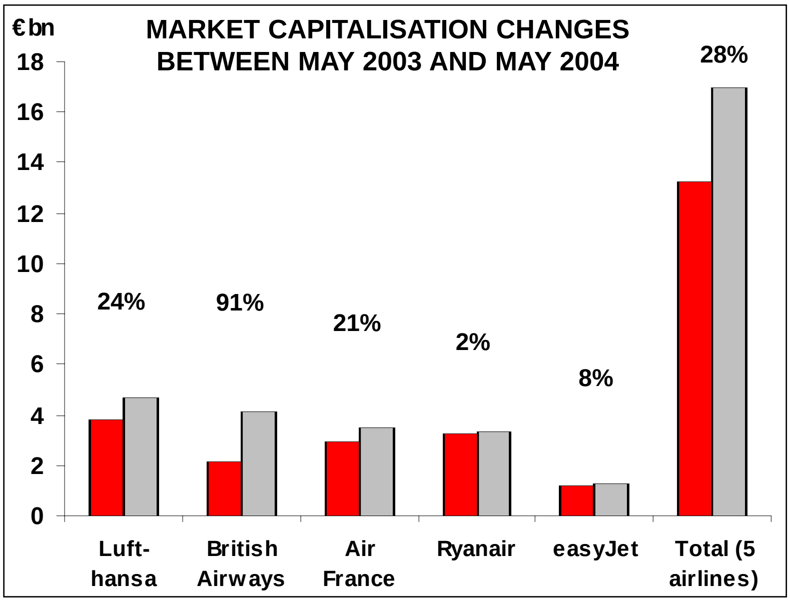
Investors in Europe's leading LCCs have been getting nervous because easyJet's and Ryanair's success has generated a complex competitive reaction.

After announcing its six month results to March 2004 - revenues up 18% to £440m, operating loss of £31.7m, a 31% improvement on the previous year's result (easyJet has always made a loss in the winter season), yields and load factor both up - easyJet's share price dived 24% in one day. Following on from Ryanair's crisis in January when it lost 30% of its stockmarket value, the media reported a major loss of investor confidence in LCCs and started questioning the whole LCC concept.

It's really a matter of perspective. As the graph below indicates, both easyJet and Ryanair have marginally increased their market capitalisation from this time a year ago, but their share of the market value of the mainstream quoted airlines has declined - mainly because British Airways' share price has nearly doubled, and Lufthansa and Air France (now incorporating KLM) have seen their valuations increase by 20-25%.

What has happened is that the network carriers have regained ground while LCC valuations are no longer based on the unlikely combination of year on year exponential growth in traffic volume while maintaining high operating margins. Having said that, Andrew Lobbenberg, the ABN Amro analyst who has read the airline stockmarket most accurately, now reckons that easyJet is well undervalued. And the 2004 net profit margins predicted for easyJet and Ryanair - 9% and 24% respectively - compare well with those of Air France and Lufthansa - 1% and 3% respectively.

The catalyst for easyJet's recent share slip was CEO Ray Webster's comment that he was "cautious" about the full-year performance because of "unprofitable and unrealistic" pricing by LCCs and full-service competitors. This is a genuine concern - *Aviation Strategy* highlighted the plethora of start-ups in the April issue, many of which have fragile business plans.



www.aviationeconomics.com

CONTENTS

PUBLISHER

Aviation Economics
James House, LG2,
22/24 Corsham Street
London N1 6DR
Tel: +44 (0) 20 7490 5215
Fax: +44 (0) 20 7490 5218
e-mail: info@aviationeconomics.com

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

One of the problems for easyJet and Ryanair is that European LCC start-ups tend to include London in their network because it is the densest city-pair from wherever they are based. However, it is usually also the most competitive city-pair with yields that reflect that competition.

While some of the flimsier LCC competition will soon disappear, the German market poses some difficult challenges. In addition to its recently opened Berlin Schoenefeld base, easyJet plans another base at Dortmund in July. It will also start flights between Cologne-Bonn and the UK in June. In Germany, the second biggest LCC-market, easyJet will be competing not only with Lufthansa but also with Air Berlin, Hapag-Lloyd Express, Germania and Germanwings.

easyJet and Ryanair are confident that their operating models provide them with a substantial cost advantage over the German carriers which are encumbered by local labour costs and conditions. But all easyJet and Ryanair can see are the fares being sold - the finances of German LCCs remain opaque, as Germanwings is 50% owned by Lufthansa while Hapag-Lloyd Express is part of the TUI conglomerate.

easyJet and Ryanair have largely avoided competing directly against each other (Ryanair quickly abandoned an advertising campaign comparing its fares to easyJet's), but the second tier of UK LCCs have intensified inter-LCC competition.

For example, both easyJet and bmibaby operate out of Nottingham East Midlands airport, overlapping on eight routes. FlyBe promotes itself as a regional LCC and competes with easyJet on city-pairs rather than airport-pairs - for instance, easyJet operates 737-700s on Bristol-Belfast International while FlyBe operates BAe146s and Dash 8s on Britsol-Belfast City.

Precisely how bmibaby and FlyBe are doing financially is not revealed although their parents, bmi and Walker Aviation, have reported substantial losses in recent years (both, however, have valuable slots at Heathrow which underpin their commercial viability).

Although successful LCCs are supposed to grow only organically and avoid acquisitions, LCC takeovers for tactical reasons do happen - most recently of course with easyJet/Go and Ryanair/buzz. Even Southwest has bought out competitors - Morrisair (partly to obtain its reservation system) and Muse Air (headed by Lamar Muse, Southwest's founder/CEO, when it was making life difficult for Southwest in the intra-Texas market). Some intra-UK consolidation now might not be illogical.

The other source of additional competition for the LCCs has come from the flag-carriers. BA's success with reducing its cost base and selling internet-only LCC-type fares through BA.com was covered in the previous issue of *Aviation Strategy*, and it is also worth noting that on some European routes BA is aiming to fill the back of 757s or 767s with BA.com passengers. Air France has now introduced discounts of up to 80% on standard domestic fares in an attempt to stem the expansion of easyJet, now France's second biggest carrier. Inevitably, legal processes have been opened, with easyJet challenging what it sees as the unfair bias of the French slot coordinator, COHOR.

The Aer Lingus factor

The UK-Ireland market has become a Ryanair/Aer Lingus duopoly, and although Ryanair has enjoyed a higher share of operating profits in the past, Aer Lingus has successfully turned itself into a LCC flag-carrier, offering far more effective competition than in the past. Ryanair has disclosed that UK-Ireland profits were down approximately 20% in 2003.

Aer Lingus's 2003 results underline the remarkable turn-around of the still fully state-owned carrier: an operating profit of €83m (a 30% rise on 2002's €64m) and a net profit of €69m, (96% up). During the year Aer Lingus achieved a further cost reduction of €89.5m, adding to a cumulative reduction since 2001 of €344m. The change in business model from 2003 versus 2001 includes a decline in overall capacity of 6%, with traffic up 7% and passenger load factor up 11 percentage points to 81%. This comes with a decline in average yield of 23% and a 35% fall in costs per RPK. The airline is successfully turning aerlingus.com into its primary distribution channel: at year-end 2003, 50% of all bookings were online.

Overall, Aer Lingus achieved an operating margin of 9.3% in 2003, excellent relative to its AEA peers, yet CEO Willie Walsh states "we are significantly underperforming our main competitor in Europe [Ryanair] …we have set ourselves a medium term target of a 15% operating margin. Competition within the European market is intense and we anticipate further low cost competition on key routes in 2004".

Independence Air: Regional to LCC?

Atlantic Coast Airlines (ACA) is about to formally launch its Washington Dulles-based low-fare operation, Independence Air - the first new LCC-hopeful in the US since JetBlue in early 2000. The company will be throwing a big party some time in May to announce details such as destinations, fares and schedules. Flying operations are due to begin on June 16, initially with 50-seat CRJs and from November with A319s.

The business model, (examined in *Aviation Strategy*, September 2003) is intriguing. ACA is voluntarily giving up its stable and profitable United Express and Delta Connection businesses. It is transforming itself from a regional fee-for-service provider into a low-fare carrier with a large independent hub operation at Dulles. In other words, it is opting for the riskiest form of existence (an LCC) in the most competitive part of the country.

ACA has to be commended for its determination - it has had an unusually tough time getting the venture off the ground. The challenges have included nonstop criticism from analysts and investors, an unsolicited bid for ACA from Mesa (terminated in December but only after costly legal manoeuvres) and six months of uncertainty about whether or not United would release it from the feeder contract.

However, both the United and Delta exit deals were signed last month, enabling Independence Air to start operations one month ahead of the original schedule (just 11 months after the initial announcement in late July 2003).

The transition plans look good from ACA's point of view. Its 86 CRJ-200s and 24 J-41 turboprops will exit United Express between June 4 and August 5. The CRJs will enter service with Independence Air after refurbishment, while the J-41s will be retired immediately. ACA's 33 328JETs will go to Delta or one of Delta's partners later this year.

The Delta agreement was terminated only because Delta's mainline pilot deal prohibits the use of feeder partners that have large jets in their fleets. However, this will simplify ACA's overall operation and allow its management to focus properly on the LCC brand.

The A319 revenue operations will start in early November. Firm orders currently total 27, with four scheduled for delivery in September-December, 18 in 2005 and the last five in 2005. Twelve of the aircraft currently have operating lease commitments from ILFC and CIT, the rest are coming directly from Airbus.

The product and selling methods will be JetBlue-style, including single class, leather seats, live satellite TV and 100% direct bookings. The key difference from other LCCs is that it will not even file for the minimum level of CRS participation, preferring instead to focus heavily on marketing and selling itself through its own web site (FLYi.com). The plans include changing the holding company name to "FLYi Inc" and the ticker symbol to "FLYI".

Independence Air makes a fascinating study in that it has the classic prerequisites in place to be a success - a solid niche, good management team and ample start-up funds. But it is proposing such a strange and risky business model that Wall Street analysts continue to have serious reservations about its future.

This is a pity because good market niches are extremely hard to come by. As an added strength, ACA is already well established at Dulles and will have considerable critical mass there almost from day one. The plans envisage 300 daily flights by the end of the summer, growing to 700 flights and a 50-point network by early 2006.

Analysts are mainly concerned about the RJs' high unit costs, which make it hard to operate them profitably in a low-fare environment. In Raymond James analyst James Parker's estimates, ACA will have to charge 25-30% fare premiums over LCCs that have

150-seaters.

There is some merit in ACA's argument - which is basically the same JetBlue used to justify the E190 - that the RJs and 150-seaters would typically not be present in the same markets. Therefore the fare premiums over 150-seaters will not matter (after all, the new fares will be significantly lower than those United Express currently charges). But these are just theories, and the marketplace is changing rapidly - it will be interesting to see who is right, ACA or Wall Street.

The A319 strategy is getting a general thumbs-up on Wall Street, with Parker suggesting that those operations could generate a 5% operating margin already in 2005.

Of course, it is only thanks to the 50-seaters that Independence Air will have an immediate formidable presence at Dulles. Merrill Lynch analyst Michael Linenberg suggested recently that the scale "should act as a financial barrier to entry for any newcomers".

Competitive response

However, there is significant concern about escalating competition from established operators. The biggest worry is that United might add significant amounts of capacity in the Dulles markets in its efforts to defend its key hub. It has already brought in low-fare unit Ted, lined up an army of new feeder partners and is starting to deploy the powerful FFP weapon. Then again, United does not have the resources for a prolonged battle. In Linenberg's estimates, an aggressive fare war at Dulles could cost it several hundred million dollars over the course of a year and potentially disrupt its plans to emerge from Chapter 11.

The other key competitors that Independence Air should worry about are Southwest (Baltimore), AirTran (Dulles) and US Airways (all over the region). In JP Morgan analyst Jamie Baker's view, US Airways' competitive response and fate are likely to be significant drivers of Independence Air's profitability in the longer term.

Because of the escalation of competitive pressures since last summer, ACA believes that a higher level of marketing activity will now be necessary to launch Independence Air. The marketing budget for this year has been more than doubled from $15m to $30-35m.

The other implication is that Independence Air's unit revenues are likely to be weaker than expected. Baker is now predicting RASM of only 9 cents in 2005 - a level that would be similar to major carriers' RASM but significantly below the CASM that the new venture will achieve with a sizable RJ fleet.

The switch from the fee-per-departure to the LCC model will affect ACA's earnings in two ways. First, there will be a period of losses. Second, earnings will become more volatile because under feeder agreements the major carrier partners assumed most risks, including fuel prices and sale of seats.

With the growing cost pressures and worsening revenue outlook, ACA now expects to report a net loss of around $50m for 2004 - twice its previous estimate. The current consensus forecast is even higher losses in 2005. In comparison, the company earned a $70.5m net profit before special items on revenues of $876m in 2003 and could have expected to continue achieving perhaps 10% operating margins from feeder operations.

While reducing near-term estimates, ACA has kept its original forecast of an 8-10% profit margin in 2006. As many analysts have noted, such a swing from 2005 is not realistic. The company is not helping build confidence in its plans with targets like 14-15 hour average daily A319 utilisation (that includes lots of transcontinental red-eyes, but exceeding JetBlue's 13.3 hours could be tough). The stock is likely to remain on "sell" lists for the foreseeable future.

ACA raised $122m from the sale of convertible bonds in February, which boosted its already strong cash reserves to $376m (excluding aircraft delivery deposits) at the end of March. A low point in cash of $175-200m is currently anticipated in the first quarter of 2005. Nevertheless, the company clearly has staying power to try to make the unusual LCC concept work.

By Heini Nuutinen

US Airways:
Legacy carrier to LCC?

S&P's recent decision to downgrade US Airways' credit ratings is only the latest in a series of challenges facing the struggling carrier. As a result, US Airways is in danger of losing some of its RJ financings because its corporate credit rating (CCC+) is now one notch below the minimum stipulated by its deal with GECAS.

The downgrade was based on the "difficult challenge faced by US Airways as it seeks to rapidly lower its operating expenses in response to mounting pressure from low-cost competitors". S&P noted that failure to secure further substantial labour concessions over the next several quarters could force US Airways to undertake significant asset sales and/or file for bankruptcy a second time.

As an indication of decreased confidence that US Airways would be able to reorganise successfully in a second Chapter 11 visit, the ratings on most of the company's EETCs were downgraded by more than one notch.

However, the chances are that US Airways will not lose the RJ financing commitments. GECAS is expected to waive or amend the covenants - after all, it has extensive interests at stake ($2.7bn exposure to US Airways through leases and loans). In a worst-case scenario, US Airways could 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.

Despite the pay cuts taken in 2002 and 2003, in late February US Airways' pilots agreed (in principle) to negotiations on a comprehensive package of new concessions. All of the unions have indicated that they will work with Bruce Lakefield, who was appointed CEO after David Siegel's resignation last month.

Also, in mid-March the ATSB again came to the rescue by granting US Airways covenant relief on its government-guaranteed loan, in return for the carrier prepaying $250m of the $1bn loan. The revised covenants reduced the minimum unrestricted cash requirement to $700m or the ATSB loan balance, though they still require US Airways to reduce losses significantly this year and return to profitability in 2005.

The ATSB also lifted certain restrictions on US Airways' ability to raise funds through assets sales. However, it has to be noted that the agency would probably like to defer any loan defaults beyond November's presidential election.

All of this illustrates that US Airways continues to get a lot of help from its stakeholders and partners. Given its $978m unrestricted cash reserves, the peak summer season and modest cash obligations in 2004, it does still have time to get its house in order.

Essentially, US Airways' stakeholders and partners are looking for the management to produce just one thing - something that has eluded this airline for many years: a viable long-term business plan.

In recent weeks US Airways has, first, staged a leadership shakeup to bolster confidence in the management team - in addition to the CEO change, CFO Neal Cohen stepped down and was replaced by SVP-finance Dave Davis. Second, US Airways' board quietly endorsed another major restructuring, known as "the transformation plan".

Based on US Airways executives' comments in the company's first-quarter earnings conference call on April 27, nothing much has changed in terms of financial targets and assumptions. The previous plans called for an ambitious 25% reduction in ex-fuel CASM (see *Aviation Strategy*, March 2004).

However, the new plan incorporates more drastic changes to the business model, at least in new competitive hot spots like Philadelphia, as well as hub and route restructuring. Also, the plan appears to be a work in progress, giving unions a chance to influence strategy.

The intention is to respond aggressively to Southwest in Philadelphia. The low-fare airline has reported overwhelming passenger response to the services that start on May 9 and has decided to double the frequencies in early July. Southwest expects Philadelphia to be a "very large, fast, high-growth market", at least matching Baltimore.

US Airways executives talked of "rebuilding the airline to carry more passengers at reduced yield". In other words, they are counting on the famous "Southwest effect", whereby traffic in a market triples or quadruples within 1-2 years of the low-fare carrier's entry, benefiting all airlines. This may sound like putting a favourable spin on a disastrous development, but all it means is that there will be plenty of traffic for US Airways if it gets a cost structure than can sustain $29 or $49 fares.

Strategy implications

Implications for strategy are, first, upward pressure on aircraft size. On the RJ side, where much of the growth now focuses, the executives said that US Airways will be looking to add more 70-seaters rather than 50-seaters.

Second, US Airways is looking to de-peak operations at Philadelphia, to make it into a "rolling hub". It is worth noting that airlines like American have derived great benefits from hub de-peaking in recent years.

Third, US Airways plans to restructure its network to carry more local passengers at key East Coast cities like Philadelphia, New York and Boston - in other words, become less dependent on connecting traffic.Since the first-quarter call, US Airways has told its employees that it expects to downsize Pittsburgh from a hub to a "focus city", starting this autumn. Philadelphia will remain a hub for transatlantic flights and Charlotte for Caribbean services.

US Airways has announced a simplified low-fare structure for the 13 Philadelphia routes that will see Southwest service this summer. In JP Morgan analyst Jamie Baker's analysis, the fares are "technically price-competitive with Southwest walk-up levels" (drastically lower than the previous fares) but US Airways also maintains two or three higher price categories, plus first class fares.

Baker observed that the new fares merely represent a reaction, rather than broader fare reform. However, he expects US Airways to "take a more proactive approach to fare reform in the future, potentially damaging industry revenue trends along the way".

By Heini Nuutinen

US Airways has not yet commented on the possible implications for its fleet strategy. In early 2003 it rejected many A320 leases and orders, in favour of acquiring more A330s and placing orders for 170 RJs. The current firm mainline order book includes only 18 A320-family aircraft and ten A330s for delivery in 2007-2009.RJs are important for US Airways because it serves numerous small or mid-sized cities. As the top executives noted, "ultimately, what drives profitability is flying right-sized aircraft for a particular market". The margin results have been impressive when RJs have replaced mainline jets in smaller markets.

However, the latest developments would seem to put a question mark over the strategy of relying so heavily on RJ growth. Given the desire to compete head-on with Southwest in large markets and the need to cut unit costs drastically, would US Airways not be better off focusing on 150-seaters?

Of course, were the management to raise the issue of mainline fleet growth in the context of labour negotiations, it could only help the prospects for securing concessions.

Another question is whether US Airways might be casting its net too wide. Catering for every possible market segment may make sense for global carriers like American and United, but could a niche-type operator with a limited network pull it off? US Airways is evidently pinning much hope on the Star alliance, which it formally joined on May 4, but could it be both a Star partner and an LCC catering primarily for local traffic?

Getting CASM down by another 25% in the wake of a Chapter 11 restructuring would be an unbelievable feat for any airline. Deep down, few in the industry hold out much hope for the carrier.

But could its disappearance help the rest of the industry in terms of capacity reduction and long-term profit potential? In UBS analyst Sam Buttrick's estimates, US Airways' liquidation would not have any meaningful beneficial impact on the industry's long-term profitability. The short-term impact would, of course, be significant in terms of the distribution of revenues and profits.

South America's three key markets: Chile, Argentina and Brazil

South America has long been a target for US and European airlines keen to exploit the VFR and business travel markets. But poorly performing economies, small domestic markets and protectionist regulations have hampered the emergence of strong local airlines. Now however, as economies improve and aviation regimes begin to liberalise, South America's own airlines are gaining strength and looking to expand into neighbouring countries. In this briefing *Aviation Strategy* takes a look at the three largest markets in South America.

Chile: LAN's success story continues

LanChile - or LAN as it has recently been rebranded - was privatised in 1989 and has been consistently profitable ever since the early 1990s. September 11 and the economic collapse of neighbour Argentina were major challenges - traffic on domestic Chilean routes fell 7.2% in 2002 (as opposed to a 1.8% decrease in international traffic) - but LAN reacted by reducing capacity by 10%, cutting costs by $35m a year and diversifying its network, with new routes to Ecuador and Peru. So even though September 11 and the Argentine crisis cost LAN more than $200m in lost revenue, the airline still managed to post positive results in 2001 and 2002 (see graph, page 8).

LAN followed up these measures with further cost cutting in 2003, including the restructuring of aircraft lease deals, which saved another $15m annually. Luis Ernesto Videla, LAN COO, claims that the airline now has a lower cost per ATK than virtually all the major US airlines. In 2003 LAN posted record financial results, with revenues of $1.6bn and a net profit of $83.6m, and for the first quarter of 2004 the airline reported net profits of $48.1m, compared with $21.6m in 1Q 2003.

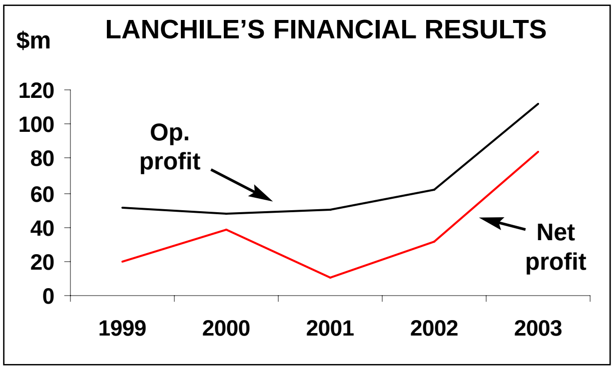
LAN is benefiting from a rise in international traffic, with international RPKs rising 21.4% in 2003, helping to overcome a 10.5% fall in domestic RPKs. Chile's domestic market is small anyway, but domestic traffic has dropped considerably over the last few year - in 2003 LAN's international RPKs were more than four times as large as domestic RPKs. Overall, RPKs rose 13.7% in 2003, outstripping an ASK increase of 7.4% and resulting in a 3.8 percentage point rise in load factor to 69.1%.

LAN (including its cargo and domestic operations) employs more than 10,000 people and operates to 33 destinations in South America, North America, the Pacific region and Europe. It has a fleet of 33 aircraft and - unusually for a South American airline - just four types: nine A320 family aircraft, eight 737-200s, four A340s and 12 767-300ERs (six of which are on three-year leases from ILFC). Twelve A319s are on order, nine of them converted from a previous A320 order, the result of a renegotiation with Airbus in 2003 that also included the postponement of two A340-300 deliveries to 2004. However, LAN may order 767s/A340s this year if international demand picks up even faster, with routes to Europe a priority. For cargo operations, LAN expects to order two 767-300Fs shortly, for delivery in 2005.

LAN's domestic routes are operated by LanExpress, which has 2,000 employees and operates a fleet of 14 A320 family aircraft and 737s. LanExpress's operations were previously the passenger division of Chilean carrier Ladeco, which LAN bought in 1995. The Ladeco name disappeared in 2001 after LAN turned its cargo business into LanCargo and its passenger operation into LanExpress. Together, LAN and LanExpress account for more than 80% of the Chilean domestic market.

Cargo contributed 38% of revenue in 2003 - the highest proportion among non-specialist airlines in the world - and the airline is benefiting from an increase in cargo volumes throughout South America. However, in 2003 the Chilean Economic Prosecutor recommended that LAN be investigated for possible cross-subsidisation of domestic passenger business from its cargo operations, an allegation that LAN fiercely denies.

Financially, LAN is one of South America's strongest airlines, and as of June 2003 the airline had a cash pile of $130m, virtually no short-term



debt, and with all of its long-term debt relating to aircraft. LAN is also the only South American airline to be listed abroad - on the NYSE - but although LAN carried out an IPO in 1997, three families - the Pinera Group, the Cueto Family and the Hirmas Eblen Group - together own 83% of the airline (American Depository Receipts represent 5.4% and minority shareholders own 11.5%). With such a small free float, LAN is keen to improve its liquidity, and in early 2004, plans for a secondary offering on the NYSE of up to 10% of the airline's equity base (which will take advantage of the strength of the Chilean Peso against the US Dollar) were announced.

If the LAN group is to expand into the larger South American markets, then a much larger equity issue will be needed. Until now LAN (which is a member of oneworld) has followed a gradual expansion policy across South America, establishing small, local airlines in secondary markets with wet-leased aircraft. LAN's portfolio includes:

• LanDominicana, launched in June 2003 with four 767-200s and operating between Miami and Santo Domingo. LAN owns 100%.
• LanEcuador, launched in April 2003 and operating two 767-300s between Miami and New York, and Quito and Guayaquil, and an A320 on services to Buenos Aires and Santiago de Chile. To comply with local laws, domestic investors - including Xavier Rivera, president of Ecuador - hold a majority of LanEcuador, while LAN owns 45%.
• LanPeru, established in 1999 and which operates domestically and to the US with two A320s. LAN owns 70%.
• LAN also has an interest in Aerolinhas Brasileiras (73%) and the cargo airlines Florida West International Airways (25%) and Mexico's MAS Air (25%).

CHILEAN FLEETS

	Lan Chile	LanChile Cargo	Lan Express	Sky Airlines
A319	1 (12)		1	
A320	8		4	
A340	4 (2)			
737-200	8	1	9	8
767-300ER	12			
767-300F		3		
Total	**33 (14)**	**4**	**14**	**8**

This has been a low cost, low risk strategy, though in some countries LAN has encountered opposition from local politicians on the grounds than a "foreign" carrier was entering their country.

Now, however, LAN is becoming more aggressive in its expansion strategy. In March 2004 LAN announced its "LAN alliance", offering common branding and service levels across all the LAN airlines, not only LanChile (which is now to be known as LAN) but also LanEcuador, LanPeru and LanDominicana. There is speculation that this may be the first step towards dropping individual country brandings and renaming all the airlines as LAN. If carried out, the single brand identity would bring marketing benefits and make it easier for the LAN group to expand across South America.

At the same time as the alliance announcement, LAN also declared it was now examining how best to enter larger markets, in particular Argentina, Brazil, Uruguay and Colombia. This may mean acquisitions - though this presents the problem of opposition to "foreign" takeovers - or the launch of new airlines.

In February 2004 LAN dismissed speculation that it was interested in buying Avianca, the Colombian airline currently under Chapter 11 protection. Talks had been held following an approach by Avianca, but in a statement the Chilean airline said that "as of today there are no active negotiations to acquire a stake" - though this doesn't rule out a move in the future.

But LAN has declared an interest in acquiring a majority stake in Lafsa, the Argentinean airline launched by the government in 2003 (see Argentina section), though it faces stiff competition from Southern Winds, the private Argentinean carrier that has a management contract to run Lafsa. American Falcon is another

Argentinean carrier that LAN is reported to be considering buying a stake in. As for Uruguay, an open skies agreement was signed between Chile and Uruguay in 2003, and LAN is sure to be looking at opportunities to enter the market there.

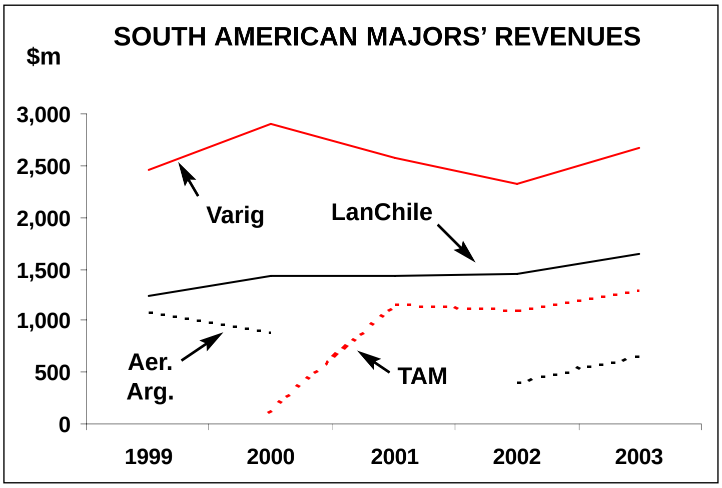
Competition to LAN comes from Santiago-based Sky Airlines, which was launched in December 2001 by Chilean entrepreneurs Jürgen Paulmann and Fernando Uauy (who previously founded National Airlines, which collapsed after coming under new ownership). It initially operated charter services before moving into scheduled services in the summer of 2002, and today it operatesdomestic services with a fleet of eight 737-200s.

While it claims "low costs", Sky is positioned as a full-fare competitor to LAN, and has between 15% and 20% of the domestic market (though it claims a market share of 22%). Sky says it is now consolidating its domestic position, and that may include a rebranding to "SkyChile" to take advantage of LAN's dropping of "Chile" from its title. The airline is also considering launching its first international routes, probably to Argentina and Brazil, though before it can do that Sky has to face the challenge of Aerolineas del Sur, an offshoot of Aerolineas Argentinas that aims to launch domestic Chilean services sometime in 2004. Owned by the Marsans group, which also controls Aerolineas Argentinas, the new airline plans to operate three 737-200s on domestic routes and possibly a 747-200 to Madrid and Miami.

Aerolineas is expected to directly challenge Sky on its most important routes, and Sky may have to change its full-fare policy and undergo a fare battle if it is to survive the challenge. The Aerolineas entry might encourage Sky to prioritise routes to Argentina before other international markets, though it is doubtful Sky will have the resources necessary both to launch internationally and engage in a fare war with an aggressive new entrant.

Sky could be an acquisition candidate for an airline trying to establish a presence in Chile (whether it is the Marsans group, a South American carrier or a European airline), and there has been speculation that Sky's owners may be prepared to sell up if the right offer came along.

Another potential start-up is Principal Air Chile, which is believed to be planning domestic routes.



Argentina: Aerolineas finally emerges from chaos

In contrast to the fortunes of LanChile, Aerolineas Argentinas has undergone year after year of crisis, a period that culminated with September 11 fall-out, the collapse in the Argentine economy, the devaluation of the peso and a change in the airline's ownership.

After Iberia acquired an 85% stake in 1990, Argentina's flag carrier struggled though the 1990s, eventually leading to a merger with Austral Lineas Aereas in 1999. But although costs were reduced, Argentineas was still in deep financial trouble and in June 2001 the airline filed for bankruptcy after the government refused to sanction plans for radical restructuring proposed by Iberia's owner SEPI, the Spanish state holding company. Salvation came in the form of a Spanish travel group Marsans, which bought Iberia's stake in November 2001 and invested more than $50m to restart international routes that had been dropped over the summer.

The turnaround has been remarkable. The airline posted a net profit of $13m in 2002, and came out of court supervision in December 2002, though this was only after tough negotiations with debt holders who eventually accepted a deal for 40% of the debt owed to them (thereby writing off $350m of debt), payable over a number of years. Formally, Aerolineas remains under the equivalent of Chapter 11 protection until the last tranche of debt is repaid, in the second quarter of 2004. Unions also agreed a three-year deal in exchange for a "no redundancy" promise. In the first quarter of 2004, Aerolineas saw turnover rise

ARGENTINIAN FLEETS

	Aerolineas Argentinas	LAFSA	Southern Winds
A310	1		
A340	4 (6)		
737-200	22	5	2
747-200B	5		
747-400	1		
767-300ER			1
MD-80	6		
Total	**39 (6)**	**5**	**3**

60% to $191m, passengers carried up 31% to 1.5m, and load factor increase five percentage points to 78.7%.

Today Aerolineas serves 64 destinations across the globe and has 7,000 employees. It has a 39-strong fleet, including 22 737-200s, six 747s and six MD-80s. Aerolineas also operates four A340s, with six more on order. The airline is likely to make an order for further short-haul aircraft this year, and the Fokker 100 is one model under consideration. Acquisitions may also be made for long-haul, most likely to be further 747-400s, to join the single 747-400 in its fleet, an aircraft on lease from Pegasus Aviation.

Analysts expected full-year 2003 net profits would be in the range $20m-$30m, given that in the first half of 2003 Aerolineas posted a net profit of $9m, compared with a $58.5m net loss in January-June 2002. Revenue rose 56% over the half-year, to $289m. But when the results were released, in February, the 2003 net profit was $44m, the improvement due to rising passenger numbers and a tight grip on costs. The airline carried 5.2m passengers in 2003, 40% up on 2002, and had a load factor of 74.4%, up from 63.4%. In particular, international traffic was boosted by an influx of tourists keen to take advantage of the depreciation of the peso.

This year Aerolineas plans to make investments of almost $200m, including $87m on fleet expansion and $30m on "foreign subsidiaries". The airline is also hiring at least another 1,200 staff over the year as the recovery in the Argentinean economy continues, and also has ambitious plans to build 12 hotels in Argentina over the next three years. Antonio Mata, Aerolineas chairman, now forecasts a net profit of $56m for 2004.

But despite its recovery, minor financial wobbles still occur - for example in October 2003 Banesto, a Spanish bank, obtained a court order to seize two 747-200s in lieu of unpaid debts (though the matter was resolved within a week and the aircraft returned to Aerolineas service). Nevertheless, Aerolineas is keen to carry out an IPO, although plans to do this at the end of 2004 have now been postponed until 2005 to ensure that it has a longer track record of profitability. The tentative plan is for up to 20% of equity to be floated, initially in Buenos Aires but subsequently on the Madrid stock exchange. Marsans may then float up to another 20% of the airline, though it will retain a majority stake given its plan for a network of airlines across South America.

Aerolineas has traditionally been at the forefront of calls for pan-continental unity and alliances between the region's airlines. Back in 2002 it called for an Alas Andinas, or Andean Wings alliance, a concept that other airlines were suspicious of, believing it would be an instrument for Aerolineas' dominance of smaller carriers. But a pan-continental alliance for common fleet buying or marketing co-operation appears doomed now that South America's majors gain so much from global alliances and are strong enough to expand into adjacent markets on their own.

Though Aerolineas is not part of a global alliance, Marsans says it wants to launch airlines in Chile, Uruguay, Bolivia and Paraguay, and has up to $30m to invest in new opportunities across the continent. As well as the foray into Chile with Aerolineas del Sur (see above), in March Aerolineas announced it had signed a Letter of Intent to buy Varig's 49% stake in Uruguayan carrier Pluna. This would be a controversial move given the traditional rivalry not only between the two neighbouring countries but also between the two respective airlines. The Uruguayan government would prefer a local buyer, and as it owns 49% of Pluna, its wishes will be hard to ignore.

Lineas Aereas Federales (Lafsa) was launched by the Argentine government in October 2003 in order to keep a domestic rival to Argentineas going after the collapse of two other domestic airlines, Lapa and Dinar. The Lafsa fleet consists of five 737-200s, with plans to add a sixth. Lafsa is run on a management contract by Southern Winds, an airline launched in 1996 (originally under the name Pampas Air) that operates scheduled and charter services in Argentina and Brazil, and internationally to Miami and Madrid with a fleet of two 737-200s and a 767-

300ER. 30% of Southern Winds is owned by Eduardo Eurnekian, the former owner of the failed Lapa and the current owner of Aeropuertos Argentinos. His involvement in running Lafsa angered unions, but in the end the government's plans went ahead as there was little alternative for the employees of Lapa and Dinar.

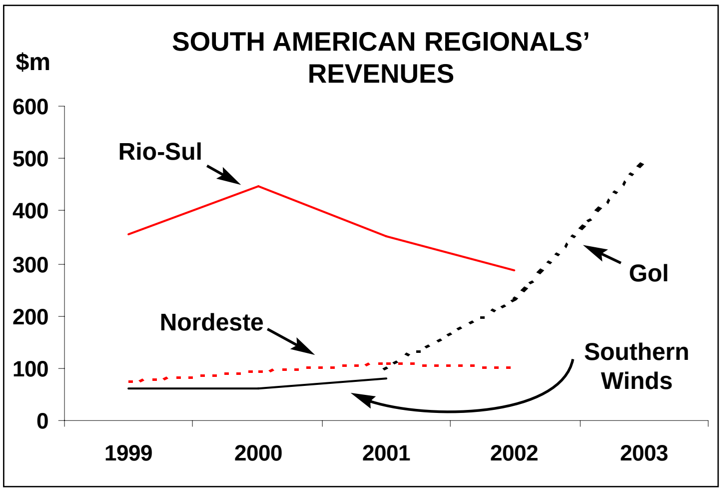
The government provides considerable financial support to Lafsa, including paying the wages of Lafsa's 800 staff as well as a reported $1m per month to help with fuel and other costs. In addition, Lafsa does not pay landing fees. The government says it intends to privatise the airline by the end of 2004, once the airline is established and after the management contract with Southern Winds expires. The original six-month contract expired in April and a six-month optional extension is being exercised. That expires in October 2004, and if the government keeps its promise then Southern Winds is itself the favourite to buy Lafsa, ahead of potential "foreign" acquirers such as LAN. But six months is a long time in the Argentinean airline industry, and privatisation is by no means guaranteed by the end of 2004.

In the meantime other small domestic carriers such as AeroVip and American Falcon have put heavy pressure on the government for similar aid and subsidies as given to Lafsa. The government is responding with a plan to cut VAT on fuel and other charges, but for all the government's efforts in establishing more domestic competition, Argentineas has more than a 90% domestic market share, and it will be some time before Southern Winds, Lafsa and others will be to dent that to any measurable degree.

Brazil: Varig/TAM soap opera

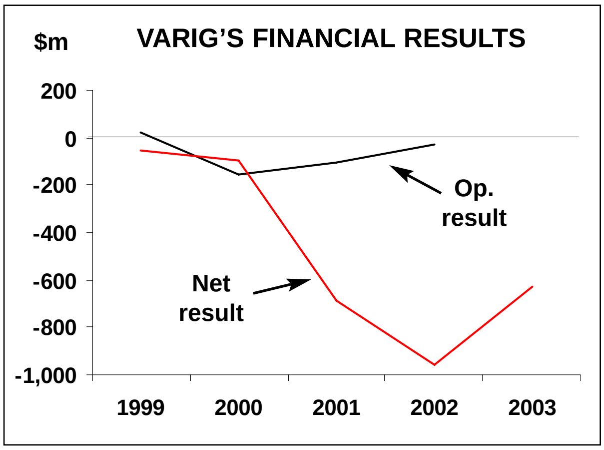
Brazilian airlines have gone through a torrid time in the last few years, thanks to a combination of a troubled economy, a devaluation of the currency and damaging fare wars, but intervention by the radical Lula government in 2003 appears to be stabilising the industry. The government's actions include the paying of increased insurance premiums on behalf of the airlines, the granting of tax breaks on aircraft leasing and the cancellation of $150m worth of unpaid social security payments owed by Brazilian carriers.

In return, the government is encouraging airlines to cut back their capacity, and the state aviation authority is now assessing all new route requests in terms of how the extra capacity will affect the overall Brazilian market. But the biggest state intervention is in trying to engineer a merger between troubled flag carrier Varig and TAM, the number two domestic airline - a deal that was announced in February 2003 but has been on/off ever since.



Varig - Brazil's oldest airline - has more than 10,000 staff and serves 50 destinations in Brazil and around the world with a fleet of 53 Boeing aircraft. Its cargo operation is Varig Log, which has a fleet of 11 727s and DC-10s.Varig also owns 97% of Rio-Sul, which operates domestically using a fleet of 26 737s and ERJ-145s, and 99% of Nordeste, which operates within Brazil with seven 737s. In October 2003 Varig closed its LCC subsidiary Rotatur, which launched in 2000 and used 737s.

Though Varig has more than a 75% market share of international traffic to/from Brazil, on domestic routes it has been losing share for a number of years. The airline is in serious financial trouble - it is saddled with more than $2bn of debt and in 2003 posted a net loss of $625m, its third massive loss in three years (although an improvement on the almost $1bn net loss of 2002). However, Varig has been carrying out major cost-cutting, including reductions in routes and a halving of the fleet over the last few years (including the return of six leased 767-200s and three MD-11s to GECAS in 2003) and is benefiting from an upturn in the Brazilian economy. Crucially, Varig has gained from a co-operation deal with TAM, which includes joint operations on certain routes and a unified fares policy - an alliance that has



increased Varig's bottom line (i.e. reduced its losses) by $100m in 2003.

TAM's origins date back to 1961, but today the airline has more than 6,000 employees and operates a fleet of 44 A320 family aircraft, seven A330s and 30 Fokker 100s to more than 20 destinations in South America and other continents. The company racked up a substantial net loss of $200m in 2002, but helped by job cuts of 500 jobs in 2003 and its codesharing alliance with Varig, the company posted a net profit of $60m last year. The success of this alliance is increasing the doubt as whether a full merger between Varig and TAM will go ahead after all, as it appears to many observers that most of the benefits of a merger can be achieved within the scope of the current alliance.

BRAZILIAN FLEETS

	Varig	Varig Log	Rio-Sul	Nordeste	TAM	Gol	VASP
A300							3
A319					13 (5)		
A320					31 (5)		
A330					7 (1)		
727		8					2
737-200							21
737-300	24		4	3			4
737-400	1						
737-500			10	4			
737-700			3			18	
737-800	2					4	
767-300ER	6						
777-200	2						
777-200ER	2						
MD-11	16						
DC-10		3					
Fokker 100					30		
ERJ-145			9				
Total	**53**	**11**	**26**	**7**	**81 (11)**	**22**	**30**

A combined airline would have many difficult decisions to make, including staffing levels and how to rationalise a fleet with no less than 10 different aircraft types, a situation that would be unsustainable. TAM is already running down its Fokker 100 fleet, but a merged company would have to make a decision on TAM's outstanding orders, for five A319s, five A320s and a single A330.

The deal is problematical anyway as it involves the current shareholders of Varig taking 5% of the merged airline and TAM shareholders accepting 35%. The rest of the equity would go to the current debt holders at Varig - largely the government and various state-owned entities. Varig/TAM would also receive a loan of more than $0.5bn from BNDES, the national development bank.

Varig's existing non-governmental shareholders - the Ruben Berta Foundation, which owns 56% - are particularly upset at the squeeze on their stake due to the debt-for-equity swap. The Foundation argues that Varig's international brand and membership of the Star alliance is being undervalued in the proposed deal. With the economy picking up, the currency improving against the dollar, and both domestic and international traffic also strengthening, the feeling is that the arguments for a higher relative stake in a merged company will be much stronger in a few months' time than they are at present. To make matters worse, there is the point of view that TAM is doing perfectly well on its own and doesn't need a merger forced upon it by the government. It's also unlikely that TAM's existing codeshares with American and Air France would survive the merger with Star alliance member Varig. Varig's unions are also unhappy about the merger plan, which they fear will lead to redundancies, while the rest of Brazil's airlines claim the merger will kill domestic competition. The combined airline would control more than 70% of the domestic market, way ahead of the third place airline, Gol.

The continuing rows and negotiations have been called a "soap opera" by the head of Brazil's competition authority, and in January 2004 Antonio Luiz Teixeira de Barros, TAM's president, said that a merger is "nearly impossible" thanks to differences between shareholders.

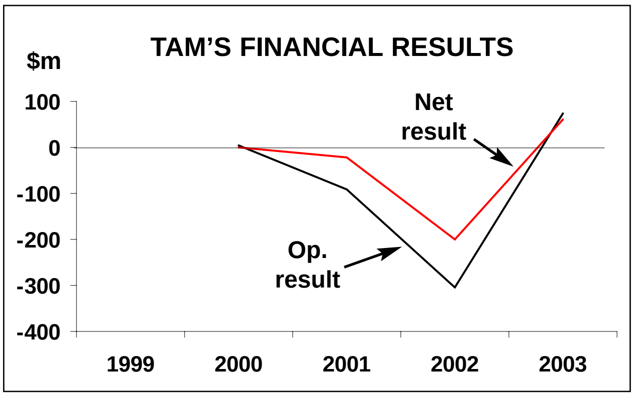
Given the difficulty of agreeing a merger and the success of the existing co-operation, it's likely that the airlines would quite happily like to carry on with the current arrangement - but this is not an option the government will agree to.

The government insists the current co-operation must be a step towards a full merger, and that Varig and Tam's argument that they can survive on their own is based entirely on the benefits of the current temporary partnership. There is little doubt that the abandonment of codesharing would have serious repercussions on both airlines. Many of Varig and TAM's routes are to small, regional cities, where profitability is hard to achieve; what the alliance has done is to increase load factor on the two-thirds of their routes that they co-operate on by 10% over the last year. Therefore, in the absence of a merger, some kind of compromise between the government and the two airlines will have to be agreed.

Indeed in February 2004 the two airlines put forward a proposal to form what they call an "association", which basically is an enhancement of the current co-operation set within a new, jointly-owned subsidiary that will operate some regional routes. This association would last for a period of two years, during which the airlines will restructure and - in Varig's case - reduce its burden of debt. At the end of the period the two airlines would then agree a merger, presumably in which Varig's shareholders will get a bigger stake than the 5% now proposed.

How the Varig/TAM "soap opera" will turn out is still anyone's guess, but taking a close interest is Gol Transportes Aereos. Launched in January 2001, the airline is owned 87.5% by Grupo Aurea, a Brazilian conglomerate, and 12.5% by AIG (parent of ILFC). Gol currently has 2,500 employees and operates 18 737-700s and four 737-800s on domestic routes out of Sao Paulo.

The airline claimed a 19% market share of the domestic market in 2003, with revenue of $491m, double that of the year before, operating profit of $101m and net profit of $56m. Launched as an LCC, Gol has grown fast and its aggressive fare discounting has shaken up the Brazilian market and forced other airlines to reduce their prices; this has been a major contributor to the red ink seen at many of Brazil's airlines.



The Varig/TAM deal is encouraging speculation that Gol may make its own merger/acquisition, with the most obvious candidate being VASP. It's speculation that Gol denies, though a successful Varig/Tam merger would make life difficult for the other domestic airlines in Brazil.

VASP is Brazil's fourth airline, with a fleet of 30 727s, 737s and A300s operating to 21 domestic destinations. 40% of the airline is owned by the VOE/Canhedo Group - an alliance between the Canhedo Group and VASP's employees - and 60% by the state of Sao Paulo. VASP also own 50.1% of Ecuatoriana.

VASP has been eclipsed by the emergence of Gol, but is fighting back through planned renewal of its ageing 737-200s, likely to be replaced in 2004 by leased 737-200Advs, 737-700s or A320s. In the first half of 2003 VASP reported a net loss of $2.9m, compared with a $59m loss in January-June 2002, but it is believed to have significant debts.

As the larger Brazilian airlines pull out of selected domestic routes, this leaves an opportunity for regional start-ups. One of them is Ocean Air, launched in 2002. Ocean Air has 400 employees and a fleet of seven Emb-120s and three Fokker 50s, and in 2003 it made a net loss of $6m on revenue of $10m.

Jet values and lease rates

The following tables reflect the current values (not "fair market") and lease rates for narrowbody and widebody jets. The figures are from The Aircraft Value Analysis Company (contact details opposite) and reflect AVAC's opinion of the worth of the aircraft. These values are different from and inevitably above the opportunistic offer prices or distressed sale prices prevalent today. These figures are not solely based on market averages, but also such factors as remarketing value, number in service, number on order and backlog, projected life span, etc.

NARROWBODY VALUES (US $m)

	NEW	5 years old	10 years old	20 years old
A318	28.6			
A319 (IGW)	35.6	27.9		
A320-200 (IGW)	42.1	33.3	24.5	
A321-200 (LGW)	48.9	38.3		

	NEW	5 years old	10 years old	20 years old
717-200	22.9	15.7		
727-200Adv				0.9
737-200Adv				1.4
737-300 (LGW)		15.4	12.4	6.3
737-400 (LGW)		16.9	13.4	
737-500		14.6	10.8	
737-600	30.5	21.9		
737-700	36.0	28.5		
737-800	45.2	35.5		
737-900	44.4			
757-200		30.4	23.4	9.2
757-200ER		34.0	25.8	
757-300		37.7		
MD-82			9.8	6.0
MD-83		13.3	11.1	
MD-88			11.6	
MD-90		17.3	13.6	

WIDEBODY VALUES (US $m)

	NEW	5 years old	10 years old	20 years old
A300B4-200				4.5
A300B4-600				8.3
A300B4-600R (HGW)		38.2	29.9	
A310-300 (IGW)			24.3	
A330-200		79.0		
A330-300 (IGW)		71.7	51.3	
A340-200			44.9	
A340-300 (LGW)	94.2	77.7	57.1	
A340-300ER	106.8	84.9		
A340-500	121.7			
A340-600	128.8			

	NEW	5 years old	10 years old	20 years old
747-200B				7.9
747-400	130.8	102.3	72.0	
767-200				8.5
767-300		43.3	31.6	
767-300ER (LGW)		51.9	38.2	
767-400	77.5			
777-200		74.6		
777-200ER	121.9	97.8		
777-300	124.4	94.1		
DC-10-30				6.3
MD-11P		48.1	36.4	

Note: As assessed at end April 2004, mid-range values for all types
Source: AVAC

NARROWBODY LEASE RATES (US $000s per month)

	NEW	5 years old	10 years old	20 years old
A318	224			
A319 (IGW)	293	246		
A320-200 (IGW)	302	268	224	
A321-200 (LGW)	375	312		

	NEW	5 years old	10 years old	20 years old
717-200	200	147		
727-200Adv				44
737-200Adv				39
737-300 (LGW)		142	104	87
737-400 (LGW)		159	136	
737-500		144	123	
737-600	194	167		
737-700	288	238		
737-800	330	280		
737-900	323			
757-200		208	193	116
757-200ER		224	197	
757-300		258		
MD-82			117	82
MD-83		141	122	
MD-88			128	
MD-90		139	129	

WIDEBODY LEASE RATES (US $000s per month)

	NEW	5 years old	10 years old	20 years old
A300B4-200				92
A300B4-600				150
A300B4-600R (HGW)		273	250	
A310-300 (IGW)			193	
A330-200		600		
A330-300 (IGW)		568	457	
A340-200			421	
A340-300 (LGW)	707	616	484	
A340-300ER	790	652		
A340-500	865			
A340-600	935			

	NEW	5 years old	10 years old	20 years old
747-200B				146
747-400	866	745	586	
767-200				115
767-300		330	280	
767-300ER (LGW)		400	341	
767-400	551			
777-200		576		
777-200ER	856	741		
777-300	882	735		
DC-10-30				124
MD-11P		465	389	

Note: As assessed at end April 2004, mid-range values for all types
Source: AVAC

		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	**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
	Year 2003	**2,445**	**2,456**	**-11**	**13**	**-0.4%**	**0.5%**	**37,614**	**26,061**	**69.3%**	**19,981**	**13,401**
	Jan-Mar 04	598	657	-59	-43	-9.9%	-7.2%	8,333	5,761	69.1%	3,592	9,984
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**
	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**
	Jan-Mar 04	4,512	4,470	42	-166	0.9%	-3.7%	68,551	48,746	71.1%		
America West	**Year 2002**	**2,047**	**2,246**	**-199**	**-430**	**-9.7%**	**-21.0%**	**43,464**	**33,653**	**73.6%**	**19,454**	**13,000**
	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**
	Jan-Mar 04	577	559	18	1	3.1%	0.2%	11,832	8,539	72.2%	4,897	11,827
Continental	**Year 2002**	**8,402**	**8,714**	**-312**	**-451**	**-3.7%**	**-5.4%**	**128,940**	**95,510**	**73.3%**	**41,014**	**40,713**
	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**
	Jan-Mar 04	2,269	2,404	-135	-124	-5.9%	-5.5%	32,621	23,678	71.7%	9,735	
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**
	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**
	Jan-Mar 04	3,292	3,680	-388	-383	-11.8%	-11.6%	55,300	39,027	70.6%	25,343	69,900
Northwest	**Year 2002**	**9,489**	**10,335**	**-846**	**-798**	**-8.9%**	**-8.4%**	**150,355**	**115,913**	**77.1%**	**52,669**	**44,323**
	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**
	Jan-Mar 04	2,603	2,711	-108	-223	-4.1%	-8.6%	35,133	26,883	76.5%	12,500	39,230
Southwest	**Year 2002**	**5,522**	**5,104**	**417**	**241**	**7.6%**	**4.4%**	**110,859**	**73,049**	**65.9%**	**63,046**	**33,705**
	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**
	Jan-Mar 04	1,484	1,438	46	26	3.1%	1.8%	29,582	18,977	64.2%	15,995	31,522
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**
	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**
	Jan-Mar 04	3,732	3,943	-211	-459	-5.7%	-12.3%	56,181	42,287	75.3%	15,923	
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**
	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
	Year 2003*	**5,312**	**5,356**	**-44**	**-174**	**-0.8%**	**-3.3%**	**85,673**	**62,408**	**72.8%**	**44,373**	**26,797**
	Jan-Mar 04	1,701	1,844	-143	-177	-8.4%	-10.4%	23,771	16,220	68.2%	12,700	26,854
JetBlue	**Year 2002**	**635**	**530**	**105**	**55**	**16.5%**	**8.7%**	**13,261**	**11,000**	**83.0%**	**5,752**	**3,823**
	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**
	Jan-Mar 04	289	256	33	15	11.4%	5.2%	6,790	5,427	79.9%	2,650	5,292

***Note**: US Airways' financial results are for the 9 months up to Dec 31, 2003. Operating statistics are for the full year.

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	
	Oct-Dec 03	1,475	1,443	32	44	2.2%	3.0%	14,621	10,815	74.0%	6,350	
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**
	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	1,622	1,696	-76	-62	-4.7%	-3.8%	17,261	13,077	75.8%		33,448
	Jul-Sep 03	1,878	1,725	152	104	8.1%	5.5%	18,905	15,874	84.0%		32,853
	Oct-Dec 03	1,838	1,801	36	10	2.0%	0.5%	17,969	14,378	80.0%		31,804
	Jan-Mar 04	1,677	1,645	32	-24	1.9%	-1.4%	17,963	14,455	80.5%		
	Year 2003/04	**7,157**	**7,011**	**146**	**29**	**2.0%**	**0.4%**	**72,099**	**57,784**	**80.1%**		**31,077**
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**
	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	
	Year 2003	**20,037**	**20,222**	**-185**	**-1,236**	**-0.9%**	**-6.2%**	**124,000**	**90,700**	**73.1%**	**45,440**	**94,798**
	Jan-Mar 04	4,742	4,883	-141	76	-3.0%	1.6%	31,787	23,030	72.5%	11,414	93,479
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**
	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
	Year 2003	**7,978**	**8,100**	**-122**	**-195**	**-1.5%**	**-2.4%**	**47,881**	**30,402**	**63.5%**	**31,320**	**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**
	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**
	Oct-Mar 04	803	861	-58	-36	-7.2%	-4.5%	10,991	9,175	83.3%	10,800	

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 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
	Year 2003	**3,810**	**3,523**	**287**	**168**	**7.5%**	**4.4%**	**59,280**	**42,774**	**72.2%**	**12,322**	**14,673**
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
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	275	117	392	274	131	405	797
2004-Jan	257	98	355	264	133	397	752

AIRCRAFT SOLD OR LEASED

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
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	408	94	502	1,119	212	1,331	1,833
2004-Jan	14	22	36	99	23	122	158

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 %
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
2003	210.7	136.7	64.9	215.0	171.3	79.7	131.7	101.2	76.8	497.2	390.8	78.6	742.6	551.3	74.2
Feb 04	15.7	9.5	59.2	15.5	11.1	71.6	11.4	9.0	79.6	39.6	30.4	76.9	58.2	41.8	71.7
Ann. chng	5.0%	8.3%	1.8	7.3%	7.1%	-0.1	8.6%	9.4%	0.6	8.2%	8.7%	0.3	7.6%	9.2%	1.1
Jan-Feb 04	31.9	18.2	56.9	32.2	23.6	73.3	23.3	18.4	78.7	82.0	63.3	77.2	119.9	85.7	71.4
Ann. chng	2.4%	5.8%	1.8	4.2%	6.0%	1.2	5.9%	5.5%	-0.3	5.8%	6.5%	0.6	5.0%	6.8%	1.2

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 %
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
Mar - 04	86.6	65.7	75.8	12.1	10.2	83.7	8.3	7.2	86.7	8.4	6.0	71.7	28.9	23.4	81.1
Ann. chng	4.7%	8.6%	2.7	2.5%	18.6%	11.4	-4.7%	15.5%	15.2	12.9%	15.0%	1.3	3.0%	16.7%	9.5
Jan-Mar 04	247.1	174.2	70.5	35.1	26.4	75.2	24.5	20.6	84.3	24.4	17.4	71.3	84.0	64.5	76.7
Ann. chng	4.9%	6.9%	1.3	2.3%	10.7%	5.7	-4.5%	6.9%	9	14.2%	16.0%	1.1	3.3%	10.8%	5.2

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	14 April	Cathay Pacific	2x 777-300	4/05,7/06	RR Trent 800
	26 April	All Nippon Airways	50x 7E7	2008-	
	29 April	Cargolux Airlines	1x 747-400F		
	6 May	China Airlines	2x 747-400F	2006	
Airbus	9 April	China Southern	15xA320,6xA319	1Q05-	CFM56-5
	14 April	Cathay Pacific	3x A330-300	2005/7	
	30 April	TAROM	4x A318	2006/7	

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,May 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