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New sources of liquidity

It is quite remarkable that, after the enormous financial losses of the past four years, all of the US legacy carriers that existed before September 11, 2001 are still in business. Three have filed for Chapter 11 - UAL, US Airways (twice) and ATA - but there have been no actual shutdowns or liquidations. Why? Because unique public and private support systems have been in place to ensure that even the financially weakest carriers continue operating.

Initially, the airlines made it through the worst of the post-September 11 crisis thanks to government cash grants and the federal loan guarantee programme. Subsequently, the legacy sector was kept going by the ingenuity and willingness of the US capital and banking markets to continue providing them new funds.

The Chapter 11 process, which has long been criticised for enabling carriers that are clearly not long-term survivors to continue operating for many years, has helped US Airways and UAL enormously since their bankruptcy filings in the second half of 2002. Most recently, on May 10, United's bankruptcy court allowed it to terminate its pension plans and shift $5bn of pension obligations to the Pension Benefit Guaranty Corporation (PBGC), the federal agency that insures corporate pensions in the US.

Symbiotic financiers

In the past six months or so, US airlines have attracted significant financial assistance from yet another source: private-sector suppliers that are in "symbiotic relationships" with the airlines (a term used by Peter Morris of Airclaims in a recent speech). Most notably, General Electric (GE), which has heavy exposure to US airlines through lessor GECAS, has recently played a key role in preventing Chapter 11 filings by Delta and Independence Air and enabling US Airways to avoid Chapter 7 liquidation.

The Delta deal in November 2004 was a $500m secured debt financing, which included a term loan and a credit facility, and it was made in conjunction with a financing provided by American Express. The US Airways deal, also signed in November, was a comprehensive agreement on aircraft leasing and financing and engine services. It provided $140m in interim liquidity, deferral of debt and lease payments coming due over six months and leases for new RJs, while preserving the vast majority of US Airways' mainline fleet owned by GECAS.

In the first place, GE's motive is obviously to try to keep major customers in business. GECAS has around 94 mainline aircraft and 30 RJs at US Airways, and it would be a nightmare scenario

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CONTENTS

Analysis

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to have to take them all back. However, UBS analyst Robert Ashcroft pointed out in a recent report that GE's support was not necessarily an endorsement of that airline's long-term future; rather, it may be a way of ensuring a "soft landing" for GECAS relative to its exposure to that carrier. That certainly seems to be the case with US Airways, because GE is reducing its exposure while helping the airline.

The other notable recent cases of supplier assistance involved two regional airlines. In February, an investment entity owned by Air Wisconsin provided a $125m debtor-in-possession (DIP) loan to US Airways, which will convert to equity upon emergence from Chapter 11. In March, Republic Airways and its majority shareholder Wexford Capital made a provisional commitment to also provide $125m in new equity funding to US Airways, plus an optional $110m from the sale of EMB-170s. However, the latter is a very soft commitment in that Republic can pull out if it does not like US Airways' business plan or if US Airways fails to raise a total of $500m in Chapter 11 exit funding.

All of these deals at US Airways would obviously be renegotiated and revised, possibly involving added investment from the regional airlines, in the event that US Airways and America West reach agreement on a merger (see page six in this month's issue).

The regional carriers' motives are simple: to keep or obtain new business for their RJ fleets. Air Wisconsin, worried that it was losing its UAL contract (which it did), wanted somewhere new to place its 50-seat RJs. Republic, an old-established feeder partner for US Airways, wanted to safeguard its future role.

There is something odd about the regional carriers needing to invest in a failing major legacy carrier. It reflects on their changed fortunes (except that most of them continue to post healthy profits). Only a couple of years ago they were in great demand because of their RJ fleets. Now, as JP Morgan analyst Jamie Baker noted recently, they have to pay a "$125m cover charge to join the party". Baker also noted that Pinnacle, another regional carrier, recently had to pay $15m to Northwest to "circumvent the negotiating process".

The GE factor

However, it is GE's spectacular intervention that has caused a lively debate in recent months. Ashcroft, who has been most vocal on this subject among the analysts, has criticised GE for the major role it has played in "changing airline downturn dynamics" in the US. Aircraft financing agreements are such that airlines can only get rid of aircraft through Chapter 11 or Chapter 7. GE's rescue deals have prevented Chapter 11 and Chapter 7 filings, which has kept excess capacity in the industry. This in turn suppresses fares, which reduces earnings and ultimately depresses airline stock prices.

These concerns also reflect a realisation, over the past couple of months, that the US legacy carrier sector is headed for a liquidity crunch next winter. A combination of high oil prices, excess capacity, LCC competition, ticket prices at historic lows and a slowing economy (a new problem) means that the frantic additional cost-cutting now being implemented will not be enough to stave off huge losses. As a result, of the currently solvent legacy carriers, Delta and Continental are likely to end the year with dangerously low cash reserves (in the $500-700m range) unless they can raise additional funds. Northwest might be on the borderline with $1-1.3bn liquidity at year-end - its key challenge is to secure labour concessions.

American is an important exception among the currently solvent legacy carriers. The consensus is that, at the current fuel prices, it has sufficient liquidity to ride out 2005 through to the spring of 2006 without raising cash or approaching its unions for further labour concessions (something that it is expected to have to do at some point). Baker estimates that AMR will end the year with a comfortable cash balance of $2bn, but that it may still try to raise $350m in long-term debt this year.

Delta is now a possible Chapter 11 candidate this autumn, based on its liquidity position and limited ability to raise funds -

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the company formally warned about such a possibility in an SEC filing in early May. The consensus is that Delta's fortunes could be different had US Airways liquidated this past winter, as had been widely expected. It would have provided an immediate substantial (short-term) revenue boost for Delta, which has the highest exposure to US Airways among the legacy carriers. Independence Air's disappearance would have further helped the situation.

However, GE is not entirely to blame if Delta fails to remain solvent. The airline's fortunes hinge heavily on the US Congress passing the recently proposed pension reform laws, which would allow companies to spread funding over 25 years instead of the current four if they freeze their plans. According to Merrill Lynch analyst Mike Linenberg, that should mitigate a $3.15bn cash funding requirement for Delta in 2006-2008.

S&P analyst Philip Baggaley has been warning for some time that UAL and US Airways shedding their pension plans, which has now happened, could have a domino effect on the rest of the industry. The combination of that, the scale of the first-quarter losses and the generally grim outlook led Baggaley to warn in late April of the possibility of a "broader wave of bankruptcies".

Bailouts by suppliers and other interested parties are nothing new in the airline industry. In particular, aircraft manufacturers have a long history of providing support for their customers and have played a very important role in allowing order cancellations and deferrals since September 11.

GE itself has always been very proactive in helping its customers. Among the earlier deals, it helped Continental out of Chapter 11 in the early 1990s by providing exit funding. More recently, it has provided financing to America West, Air Canada and UAL.

There are also new types of suppliers emerging to provide support for airlines - notably credit card issuers and processors. Frequent-flyer credit cards are among the most lucrative of all cards, giving issuers strong incentives to support airlines.

Other industry observers have noted that US Airways' disappearance would not have helped the industry capacity situation for very long, because LCCs would have quickly filled the void.

LESSOR EXPOSURE TO US PASSENGER CARRIERS

Carrier	Mainline	Regional	Total
American	24		24
America West	60		60
Continental	99		99
Delta	32		32
JetBlue	6		6
Southwest	5		5
Northwest	12	84	96
United	15		15
US Airways	94	30	124
Other	101	159	260
GECAS Total	**448**	**273**	**721**
Boeing Capital	140		140
ILFC	95		95
GATX	50	2	52
CIT	43	4	47
Other Lessors	288	28	316
Grand Total	**1,064**	**307**	**1,371**

Source: Airclaims CASE Feb 14, UBS

Consequently, GE is not likely to change its behaviour. Ashcroft expects it to continue to assist those airlines to which it has high exposure, "even when those airlines appear conventionally fully-encumbered". This is potentially good news for Continental and AWA, where GECAS has around 90 and 60 aircraft respectively, and perhaps Northwest (12 mainline aircraft and 84 RJs). GE would probably not extend credit on an unsecured basis, but it would be motivated to be creative. One potential scenario suggested by Ashcroft is Continental monetising its ownership in Continental Micronesia and GECAS participating in the deal as a way of protecting its existing exposure.

While access to the capital markets is currently impossible or too expensive (and there is a general lack of unencumbered assets), Continental may be able to do a convertible debt offering this year. Of course, many of the airlines should be able to refinance debt, particularly given that asset values are on the upswing.

Asset sales are likely to play a greater role this year. For all its troubles, Delta still has marketable assets, particularly its two wholly owned regionals Comair and Atlantic

Southeast (ASA). SkyWest, Delta's partner and one of the financially strongest US regionals, disclosed in March that Delta had expressed an interest in selling one or both of them. In Ray Neidl's estimates, the two airlines could raise $600-800m.

Neidl also estimated that Continental could raise $600m through the monetisation of its Pacific subsidiary, the sale of its 49% stake in Copa Airlines and the sale of its remaining 8.5% in ExpressJet. He noted that other estimates have valued those assets at up to $1.2bn. Northwest, in turn, could raise around $75m from the sale of its remaining stakes in Pinnacle and Mesaba and $200m from the monetisation of some Japanese real estate and its vacation wholesaler.

Emirates: the long-haul, low cost carrier

Emirates is positioning itself as the low cost, long-haul global airline. It accounts for almost one-third of the firm orders for the A380, and is set to match Lufthansa's long-haul capacity by 2010. As the chart opposite indicates, Emirates' unit operating cost is about 40% lower than the lowest cost European major, KLM. It derives its cost advantage from:

• **Its business model is focused purely on long-haul aircraft**, which eventually will be able to connect any two points around the globe through its 24-hour hub at Dubai; the average unit costs of its rivals are pushed up by their short-haul operations.

• **The zero tax rate in Dubai** is a major advantage both in terms of corporate taxes and personnel costs.

• **It has not acquired legacy costs**. Emirates is less than 20 years old, so it does not have the long-standing working practices and pension arrangements that burden many airlines. Also, unions have little relevance and strikes are extremely unusual in the UAE.

• **It is a dollar-based carrier**. The UAE dirham is pegged to the US dollar, whose recent dollar weakness has accentuated the carrier's cost advantage.

Strategic direction

Emirates has a clearly defined strategy: namely, to create a long-haul transfer hub in Dubai, which is capable of connecting any two points on the globe. Emirates' strategy is unique in that it plans to serve the connecting market with just long-haul aircraft, whereas most hubs in Europe and the US have an expensive short-haul network (generally competing against LCCs) feeding into a hub. Hub-and-spoke networks generally consolidate short-haul traffic into long-haul operations but Emirates mainly has long-haul traffic flows (just 20% of revenue is

EMIRATES' FLEET PROGRESSION

Year to March	1998	1999	2000	2001	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
A310/A300	16	12	10	8	2	1	1	0	0	0	0	0	0	0	0
A330-200			2	9	16	25	29	29	29	29	25	19	18	17	15
777-200/200ER/300	3	7	9	11	13	20	21	21	21	21	21	21	21	21	21
777-300ER								2	14	25	30	30	30	30	30
A340-300							6	8	8	8	8	8	8	8	8
A340-500							4	8	10	10	10	10	10	10	10
A340-600											4	10	12	12	12
A380-800										6	12	20	30	39	45
747F						4	5	6	6	6	6	6	7	7	8
Total	**19**	**19**	**21**	**28**	**31**	**50**	**66**	**74**	**88**	**105**	**116**	**124**	**136**	**144**	**149**

Source: Emirates, UBS estimates

derived in the Middle East).

The strategy is being augmented by increased point-to-point demand to/from Dubai, which is being assisted by the development of tourism infrastructure. Emirates, in conjunction with the government, is promoting Dubai as a leisure destination. In 2003, there were 5m hotel guests in Dubai compared with less than 1m in 1992. The government is targeting 15 million by 2012.

The Government of Dubai is attempting to diversify its economy from traditional oil-related industries and the rapid development of Emirates is a key part of this strategy. It has a $33bn investment programme in infrastructure (including the airport), technology, tourism, and knowledge/health. Indeed, a measure of the scale of the commitment to tourism can be seen in the investment in "Dubailand", at the present worth $5bn.

Slated as a "Disney in the Desert", it will be double the size of Disneyworld in Orlando, Florida. To date, this investment programme has been successful, as between 1990 and 2003; Dubai's economy grew at a CAGR of 8%, driven by increases in trade, industrial output, shipping, and air transport.

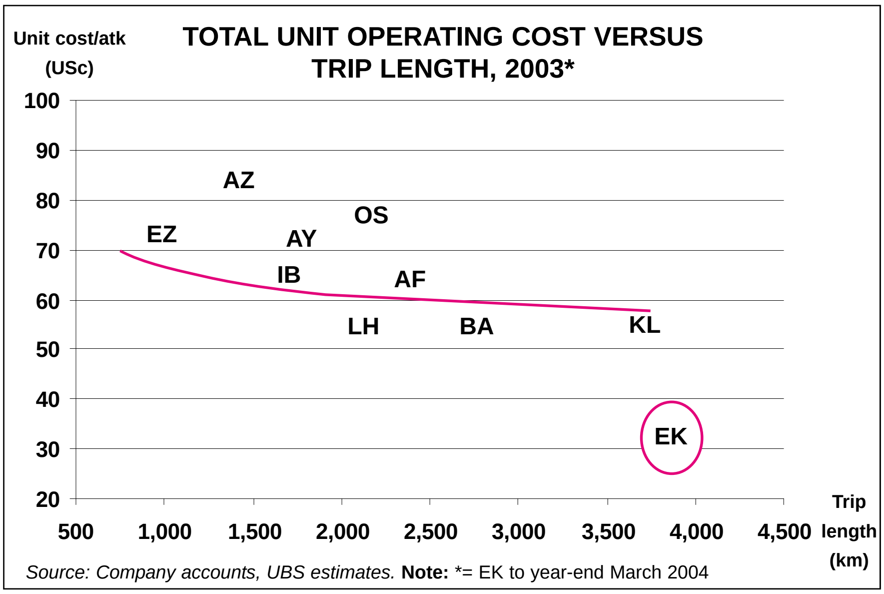
This connecting strategy takes advantage of the geographical position of Dubai, which is approximately equidistant from the major cities of Europe and the Asia Pacific. Furthermore, using the new Airbus A340-500, Emirates can now serve Australia and the US direct and economically from Dubai, significantly improving the attractiveness of these services, particularly for business travellers.

For example, Emirates recently introduced the A340-500 on the Dubai-Sydney and the Dubai-Melbourne routes, allowing non-stop service. Emirates is now aggressively marketing Dubai as a convenient alternative for both business and leisure passengers heading to Australia. This is of most concern to British Airways, which deploys around 3% of its long-haul seat capacity on the Australian market (this is the capacity BA operates to Australia; it does not include the capacity BA has access to through the Joint Services Agreement with QANTAS). Australia has become a key market for Emirates (excluding Dubai, about 12% of seat capacity is deployed in this segment) and ongoing growth is expected.

However, the primary engine for medium-term growth is expected to be India. Emirates is the largest foreign airline in India, operating to 12 destinations on the Indian subcontinent, which accounts for 20% of its capacity (excluding Dubai). The rapid growth of the Indian economy and this strong market position should underpin the growth of Emirates.

Of course, if the Indian economy falters, Emirates would be forced to switch capacity onto more mature routes, which would be negative for the industry in general.

The main geographical weakness for Emirates has been North America. Once again, the Airbus A340-500 has helped Emirates address this issue. Direct services from New York to Dubai were introduced last year. In addition to the flows of mainly business passengers from North America to the Middle East, this service is a convenient connection for the significant traffic flows between North America and the Indian subcontinent. Emirates intends to take a material share of these markets by introducing direct flights from Dubai to Washington, Toronto, Los Angeles and Boston.



Source: Company accounts, UBS estimates. **Note:** *= EK to year-end March 2004

Emirates growth is to some extent dependable on favourable regulatory developments. Political and/or bureaucratic obstacles could inhibit the growth of Emirates. For example, Emirates currently only has the right to fly to Paris once a day whereas it flies to Frankfurt twice a day (in addition to flying to a number of other German cities). Such restrictions in France are somewhat surprising, given the importance of Emirates to Airbus. That said, rapid global deregulation would present concerns for Emirates. The bilateral system has led to some markets being underserved on a point-to-point basis. This means that the excess demand spills to hubs such as Dubai. A case in point is the UK-India market, which British Airways has described as "grossly underserved". A recently renegotiated bilateral agreement has materially increased the amount of allowed capacity on this route, which could lead to market share degradation for Emirates.

The other possible threat to Emirates comes from potential overcapacity in the Middle East long-haul market as three local rivals attempt to emulate its success.

Etihad Airways: Set up by the Government of Abu Dhabi, it started operations in 2003 and has plans to grow to 50 aircraft by 2009. It currently has on order five 777-300ERs, 12 A330-200s, eight A340-500/600s, and four A380-800s aircraft.

Qatar Airways: Owned 50% by the Government of Qatar, it currently has an all Airbus fleet of 34 aircraft, with a further 23 on order (one A320-200, seven A330-200s, 11 A330-300s, two A340-600s and two A380-800s). It more than doubled passengers and revenues between the financial year ended March 2002 and the year ended March 2004, when it posted total revenue of US$605m.

Gulf Air: Operating as the national carrier of Bahrain, Oman and the UAE. Its fleet consists of 19 widebody and 11 narrowbody aircraft. After four years of losses the carrier produced a marginal profit in 2004.

Article based on a recent UBS Investment Research note: "What does Emirates mean for Europe?" by Damien Horth and Tabitha Alwyn

America West-US Airways: scepticism over "Project Barbell"

US Airways and America West (AWA), the seventh and eighth largest US carriers, confirmed recently, in response to press speculation, that they are in discussions regarding a potential merger. No details have been disclosed, but press reports citing "people familiar with the talks" have suggested that the idea is to create a new national, AWA-managed LCC that would rival Southwest in size. Such a deal would effectively rescue US Airways, which needs additional equity funding for Chapter 11 exit but is struggling to come up with an acceptable business plan in the current high fuel cost environment.

It is hard to respond to something like this with anything other than extreme scepticism. Over the decades, most airlines - and especially US Airways - have been involved in merger talks, but such talks hardly ever come to anything. On the rare occasion that they lead to a definitive agreement, the result (in the US at least) is invariably labour turmoil, soaring costs and shareholder value destruction.

In the case of AWA/US Airways, there would be extra potential obstacles. Any merger deal would have to be approved not just by the airlines' boards, unions and federal regulators but also by US Airways' creditors, US Airways' bankruptcy court and the ATSB. It would also be an extremely tough undertaking to raise the estimated $350-500m in new equity funding that the combination reportedly requires.

However, these are very unusual times. As the US legacy airline sector approaches another potential liquidity crisis in late 2005, labour unions have lost virtually all of their bargaining power while bankruptcy courts and middlemen like General Electric (GE) have assumed much control. No matter how unlikely a merger between AWA and US Airways may seem, could GE push such a deal through, with help from existing and potential big-name equity investors such as Texas Pacific and Wexford Capital?

The AWA-US Airways proposal raises many intriguing questions. First, given the dismal history of large airline mergers in the US, why would AWA even want to consider it?

Second, AWA-US Airways would be unlike anything ever seen before - a combination of two mid-size airlines that have weak cash positions and balance sheets but have transitioned to LCC-type labour costs. Could that make a viable new LCC type in the US?

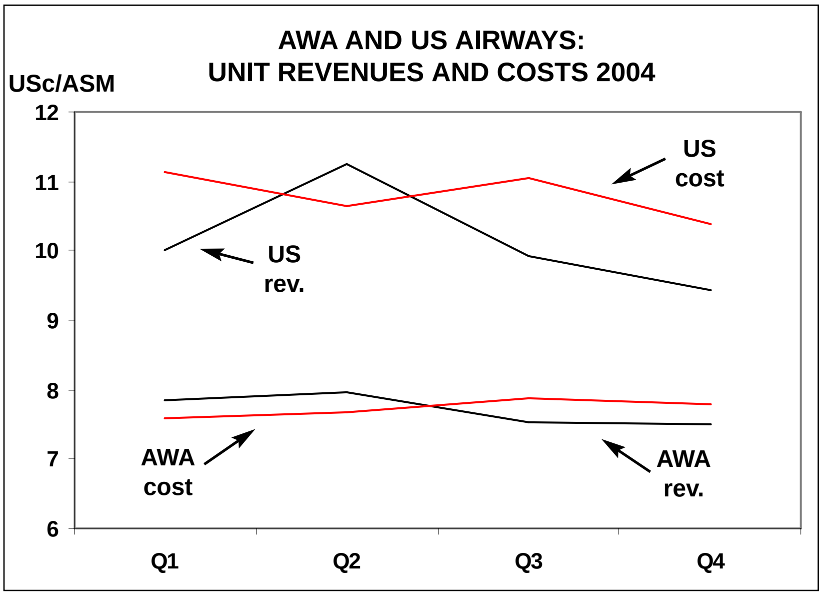
Third, would an AWA-US Airways transaction lead to a material capacity reduction, helping to raise industry unit revenues? Would it mark the start of the long-overdue industry consolidation process?

Why would AWA consider it?

Most airline mergers have been difficult and expensive, with complicated fleet and labour issues. Integrating labour has usually been the hardest part, due to differences in wage levels, benefits or seniority profiles, and solving those issues has tended to increase costs. Past experience has also shown that mergers between weak entities are a bad idea. While US Airways is in Chapter 11 for the second time in two years, AWA narrowly avoided Chapter 11 in January 2002, when it was rescued by the ATSB.

US Airways' motives are entirely clear. It needs to boost its revenue forecasts and show better prospects in its business plan in order to attract additional investment. Also, a deal with AWA would facilitate a graceful exit for David Bronner, chairman of 36%-equity holder Retirement Systems of Alabama (RSA) and his temporary management team at US Airways.

By contrast, AWA is actually experiencing a promising financial recovery, thanks to industry-leading unit revenue trends - partly because of a healthier operating environment in the West and partly because of transcontinental capacity cuts. The airline



incurred a relatively small loss in the first quarter, accounting for only 1.5% of revenues, and is clearly headed for profitability. Analysts say that its stock would be on their "buy" lists without the black cloud of a merger hanging over it. Why would AWA want to risk all that?

AWA's CEO Doug Parker, when commenting on mergers in general terms in the company's first-quarter earnings call, suggested that several things have changed that may make airline mergers more successful than in the past. First, the labour cost differentials between AWA and some of the high-cost legacy carriers have narrowed dramatically, suggesting that some of the integration hassle may be avoided. Second, with more legacy carriers in Chapter 11, the prospects for right-sizing fleets in mergers are enhanced. Third, the regulatory environment is now more open towards airlines helping themselves, as opposed to being helped by the government.

It is logical to assume that Washington would now look at airline mergers more leniently, though other airline CEOs have said that they are getting mixed messages. In any case, AWA-US Airways would probably easily pass muster with the regulators because of the scant route overlap and the LCC status.

However, regarding labour integration, analysts have pointed out that, while AWA and US Airways now have similar wage rates for most groups, they have significantly different seniority profiles. US Airways has a much older work force, as AWA was only founded in 1983. This could pose thorny labour issues at AWA, creating an odd situation where the acquirer's workers could lose out to their counterparts at the target airline.

Of course, AWA and US Airways have materially different overall cost structures. AWA is an LCC, with CASM of 8.29 cents in the first quarter with an average stage length of 1,022 miles. US Airways had CASM of 10.89 cents (average stage length 768 miles) in the first quarter. However, US Airways' CASM declined by an impressive 6.8% year-over-year despite higher fuel prices, and it is no longer totally out of line with other legacy carriers' unit costs.

Although AWA's leadership insists that the airline could survive in the long term as a stand-alone entity, the merger talks are probably driven by concerns about strategic weaknesses. There would appear to be three key issues. First, as other legacy carriers' costs come down, AWA's cost advantage diminishes. Second, AWA has a geographically limited network. Third, the legacy carriers' fare reform, such as Delta's recent SimpliFares, may have the worst impact on carriers such as AWA and ATA, which depend heavily on connecting traffic that has been attracted by undercutting legacy carriers' nonstop fares. (AWA has so far reported minimal impact from SimpliFares, but it is early days yet.)

In recent months Doug Parker has spoken frequently about the industry's need to consolidate and AWA's desire to play a part in it. In late 2004 AWA considered bidding for ATA but backed away mainly because the associated aircraft leases were too expensive (Southwest ended up with a smaller deal with ATA). Subsequently, Parker predicted that there would be many more merger opportunities, suggesting that the number of LCCs in the US would whittle down from the current 7-8 to 2-3 in the next few years.

That said, Parker made it clear in the first-quarter call that AWA would be extra careful to preserve its hard-worked-for LCC status, saying that the "guiding principle in any transaction is that it may not put that work at risk".

New merger structures?

Several analysts have suggested that the only way AWA and US Airways could avoid serious integration issues is to structure the transaction as a "partnership" or "holding company", rather than as a conventional merger. Ray Neidl of Calyon Securities suggested that such structures could produce up to 80% of the benefits of a merger without many of the risks and costs.

There are now examples of the holding company structure among large airlines in Europe, most notably Air France-KLM and Lufthansa-Swiss, where the airlines have kept their own identities but cooperate in planning, marketing and yield management, as well as the usual codesharing. In these cases the short, or even medium, term scope for cost-cutting rationalisation is still greatly limited by national and union considerations.

Northwest's CEO Doug Steenland, when asked about mergers in the company's first-quarter call, called the European models an "interesting development". He pointed out that the US mainline-regional relationships are already based on a similar model, that it works well and that he would not be surprised to see the approach tried among the larger carriers.

Potential synergies

In many ways, an AWA/US Airways combination would make a lot of sense. AWA operates mainly on the West Coast and US Airways on the East Coast - hence the name "Project Barbell" for the talks. In addition to expanding the networks of both airlines and helping their transcontinental services, it would be an opportunity to diversify. AWA, which relies heavily on leisure traffic, would get more business-type (still higher-yield) traffic, while US Airways could benefit from access to the more stable West Coast environment.

The key aspects of the existing business models are in sync. In addition to LCC-style wages and work rules, both airlines operate hubs (AWA at Las Vegas and Phoenix, US Airways at Philadelphia and Charlotte), provide assigned seating, offer two classes of service and have extensive RJ operations. The fleets are similar, both operating A320s, 737 classics and 757s, while US Airways also utilises 767s and A330s on long-haul routes.

S&P analyst Philip Baggaley made the point that, despite the obvious revenue benefits, AWA-US Airways would still not provide what he would call "truly natural coverage", meaning that the combination is weak in the mid-continent area where some of the most successful hubs are.

The latest reports in the *Wall Street Journal* suggest that the AWA/US Airways planners are focusing attention on Midwestern markets and are considering flights to Hawaii, which neither currently serves. That would be in line with AWA's recent strategy of shifting capacity from transcon to international leisure routes (mainly Mexico so far). It would also copy the Southwest/ATA strategy of codesharing to Hawaii from points in the West, which is believed to be a huge success (operated from Phoenix, with Las Vegas in the planning stage). In addition to long-haul aircraft, US Airways would bring to the combine its valuable Star Alliance membership, and including AWA's routes in Star would obviously be an early priority. There have also been reports that Air Canada, another Star member, might already be involved in the AWA/US Airways negotiations.

Approvals and funding

The ATSB and GE have an incentive to see both airlines survive and are therefore likely to endorse any transaction. The ATSB, which rescued both airlines in 2002-2003 with government guarantees on loans that currently have an aggregate outstanding balance of about $1bn, would need to waive conditions on the loans to facilitate a merger transaction.

GE, a major lessor for both airlines, is believed to have encouraged and been involved in the merger talks right from the start. As JP Morgan analyst Jamie Baker put it, GE's motive is to "lengthen the orderly process of US Airways' liquidation, already well-underway". GE is reportedly looking to take back about 60 leased aircraft from the combined fleet, as part of a strategy to reduce exposure to US airlines. This could make fleet rationalisation easy for AWA-US Airways, facilitating cost savings without the hassle having to negotiate with lessors or justify fleet cuts to employees.

While US Airways Creditors' Committee is likely to support a merger deal that would keep the airline flying, there is always uncertainty associated with Chapter 11 proceedings. It is always possible that the bankruptcy judge could require a bidding process to determine if better offers could be had, as happened with the AirTran-ATA proposal late last year.

USB analyst Robert Ashcroft has cautioned that Southwest could try to derail a transaction, as it did with ATA. "That precedent showed it is unwise to count on Southwest to sit on the sidelines", he observed, though he noted there was no obvious way to do it other than perhaps bid for the US Airways assets.

An AWA-US Airways transaction would probably be on the shakiest ground in respect of funding. The deal would be unusual in that the acquirer (AWA) would not be in a position to contribute any funds. Although AWA had an adequate $254m in unrestricted cash at the end of March, upcoming debt maturities and the continued high fuel prices mean that it may need to raise around $100m or refinance debt later this year just to maintain adequate liquidity next winter. CEO Parker said that although the company was confident of being able to raise the funds, it was not comfortable enough to commit cash for any kind of transaction.

US Airways itself is estimated to need about $300m in added liquidity, on top of $125m it has already received from Air Wisconsin. Neither US Airways nor AWA has much in terms of unencumbered assets. So a significant amount of external funding would be required, consisting essentially of full risk bearing equity funding.

In recent weeks the airlines have reportedly approached and met with numerous potential equity investors - private equity firms, existing creditors and regional carriers - many of which US Airways had already approached about providing Chapter 11 exit funding. The list includes some very big names, notably Texas Pacific Group (which has a 55% voting stake in AWA) and Wexford Capital, which earlier made a provisional commitment to invest $125m in US Airways when it emerges from Chapter 11. Of course, further funding from RSA is always possible, even though the pension fund has written off its existing investment.

As always, but especially in this kind of merger scenario, it would all depend on AWA and US Airways coming up with a viable business plan.

Industry implications

Mergers in the past have not tended to remove much capacity, but an AWA-US Airways combination could lead to a modest reduction. Analysts estimate that the 60-aircraft removal by GE would amount to perhaps 1% of industry capacity. On the positive side, those aircraft would probably go overseas.

Many people have noted that US Airways' outright liquidation would be much more helpful for the industry in terms of excess capacity reduction. However, in such a scenario most of the aircraft, gates and routes would probably be taken up by LCCs. So any overall capacity reduction would only be temporary. In the longer term, the benefit would be that the assets are in more efficient hands.

Even in a merger scenario, it is likely that some assets, such as gates and perhaps regional aircraft, could be put up for sale as the two airlines eliminated duplicate service and facilities.

The combination would have respectable market mass - Ashcroft noted that a fleet of 340 (excluding the 60 GE aircraft) would make it about the same size as Continental, though the average aircraft size would be smaller.

The combination would be heavily exposed to Southwest at three key hubs (Philadelphia, Phoenix and Las Vegas), and there is little doubt which side would win the market share battles. As Jamie Baker put it: "While the notion of building a supposed low-cost carrier capable of rivalling Southwest may have a nice ring to it, any resulting balance sheet would most certainly pale in comparison to Southwest's".

No one is expecting any AWA-US Airways merger to lead to a round of industry consolidation. Philip Baggaley made the point that many of the legacy carriers have experience of difficult mergers in the past and they certainly have their hands full dealing with losses. There is a lack of three key things required for a successful merger: management time, money and goodwill on the part of employees.

However, in the first-quarter conference calls most legacy carrier CEOs predicted that the competitive landscape would change significantly in the next 12-18 months. Consolidation is likely to take many different forms - also asset buyouts and liquidations. Many in the industry feel that asset buyouts may dominate, because that seems to be the method preferred by the strongest LCCs.

Southwest's CEO Kelly told Reuters in a recent interview that there were no plans to invest in another airline, even though the ATA partnership was showing good results. For the moment, Southwest is interested in selected gate acquisitions at airports like Philadelphia, as well as 737s that might be sold by another airline.

JetBlue is mainly interested in gates and slots that may become available, according to its top executives. With such acquisitions partly in mind, the airline recently completed a $250m convertible debt offering. "We have the cash to be able to do some things but not merge with another airline - that is out of the question for us", CEO David Neeleman commented in the company's first-quarter earnings call.

By Heini Nuutinen
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bmi: who's going to be holding the baby?

bmi broke back into pre-tax profit in 2004 after two years of losses, yet two of its three shareholders are believed to be seeking an exit. Does shareholder uncertainty imply the future for the bmi group is less than secure?

bmi's origins date back to 1938, but the airline was named British Midland Airways in 1964 before turning into bmi in 2002. Today the bmi group comprises bmi (the main airline), bmi Regional and bmibaby (its LCC), and altogether it operates a fleet of 59 aircraft out of the UK.

Run conservatively by management, the airline made steady - if unspectacular - profits through the 1990s (see *Aviation Strategy*, March 1998). However, following September 11, the group posted a pre-tax loss of £19.6m in 2002 - its first pre-tax loss in a decade. In 2003 passengers carried rose 25%, resulting in a 6.6% rise in revenue to £772m and a trimming of the pre-tax loss to £9.8m, although the Gulf war badly affected transfer traffic from bmi's Star alliance partners at London Heathrow, costing the group around £17m.

In addition to external shocks, the group has also been affected by increasing competition from the LCCs. In the late 1990s, Austin Reid - CEO at bmi since 1985 - was sceptical about the challenge of the low cost carriers, arguing that there was very little evidence that the LCCs were making money. Reid resigned in October 2004, a year earlier than planned due to "personal reasons". Although bmi claimed the change was routine, some analysts saw the early exit of Reid as part of an attempt by long-time majority owner Sir Michael Bishop to re-establish greater control over the group.

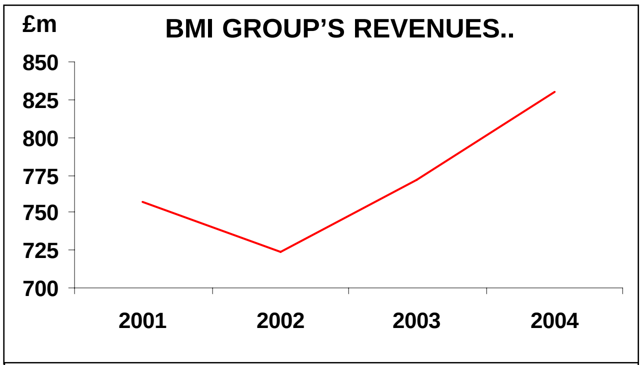
Nigel Turner, bmi's CFO since 2001, replaced Reid and his appointment was accompanied by an overhaul of the group management team. This included the appointment of bmi legal affairs director Tim Bye as deputy chief executive and bmi Regional managing director Alex Grant as chief operating officer. Following the management changes, in January this year bmi group launched a wide-ranging strategic review, including an analysis of European routes out of London Heathrow as well as of long-haul strategy.

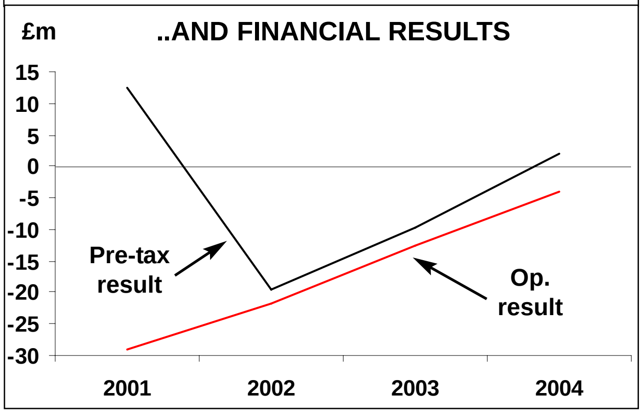
The review was initiated just before bmi group reported a pre-tax profit of £2.1m for 2004 (see graph, page 12). Turnover in 2004 rose 7.6% to £830m, based on an 11% increase in passengers carried, to 10.5m. Group ASK growth of 7% in 2004 was outstripped by a rise in RPKs, resulting in load factor increasing by three percentage points to 70%. However, at an operating level the group recorded its fourth consecutive year of losses, partly due to rising fuel costs. Even after hedging more than 80% of its fuel needs in 2004, rising fuel prices cost the group £11.1m, although half of this was recovered through passenger fuel surcharges (which were raised yet again in April this year). But results would have been far worse if it wasn't for a major cost cutting push.

Cost push

Called Blue Sky, bmi group's cost-cutting initiative aims to reduce costs by £100m over the three-year period to the end of 2006, with £34m in savings targeted in 2004, £26m in 2005 and £40m in 2006. The 2004 target was achieved, with savings coming from fleet harmonisation (an all-Embraer fleet at bmi Regional and an all-737 fleet at bmibaby), better aircraft utilisation and the introduction of self-service check-ins.

bmi also closed its call centre at East Midlands airport in 2004 after the number of calls handled fell by 40% in three years, thanks to the rise of internet bookings. bmi's website was redesigned and relaunched in the summer of 2004, complete with a new





internet booking engine. This was part of a consolidation of a number of IT contracts into one central outsourcing contract with Fujitsu Services, in a 10-year deal worth an estimated £60m. Interestingly, this partly includes variable payments - e.g. the fee for Fujitsu's provision of the website and booking engine depends on the amount of bookings processed through the site. According to Richard Dawson, bmi's IT director, this will achieve "significant savings" and is part of a philosophy "to correlate prices [i.e. costs] with business activity".

As for labour costs, other than by natural wastage, bmi has promised that cost cutting will not result in job losses among the group's 4,800 staff, 2,700 of which are employed by the main airline and bmi regional (1,600 of those are based at London Heathrow) and 2,100 of which work at bmibaby. bmi offered a 1.5% pay rise to staff in 2004, which was accepted by all employees other than the pilots. The British Air Line Pilots Association (BALPA) members at the main airline were reluctant to accept the percentage rise, and an indicative ballot of members last year suggested "overwhelming" support for industrial action if needed. However, after negotiations carried on into 2005, a deal was eventually agreed between the two sides in February, which a union source says "was higher than management's initial offer".

Overhead costs per ASK fell by 20% in both 2002 and 2003 - perhaps an indication of the bloated nature of bmi group in the first place - and overall unit costs fell by 15% over the same period, and by another 15% in 2004. But again - as with virtually every other airline in Europe - bmi has to continuously drive down costs as yields continue to fall. At a group level, yield fell in both 2002 and 2003, although it did remain level year-on-year in 2004. However, bmibaby's yield rose 4.1% in 2004 and as bmi Regional's also improved during the year, this means that yield fell yet again at the mainline bmi operation.

Mainline woes

Based at London Heathrow, the mainline bmi is a legacy airline that holds 14% of take off and landing slots at the airport. These are used on operations to more than 20 destinations across the UK and Europe, although just three destinations were added in 2004 - to Aberdeen, Inverness and Naples. However, this is precisely the short-haul market targeted so effectively by Ryanair at London Stansted and easyJet out of London Gatwick.

bmi is currently in a long running argument with the UK CAA over a proposed 40% increase in charges at London Heathrow in order to pay for the construction of the fifth terminal. bmi accuses the CAA of a "dereliction of duty" in allowing the airport operator, BAA, to levy the charges for a terminal that will be used by BA, while bmi and its Star partners will be moved to ageing terminals one and two. As well as a reduction in the charges, bmi is lobbying BAA to at least allow Star carriers to combine all their flights into one terminal, thereby allowing "parity" with BA's facilities.

For short-haul, bmi operates a fleet of 27 Airbus and Fokker aircraft. In February 2004 the first of six A319s leased from ILFC was delivered to bmi, all of which will arrive by the autumn of 2005. The A319s are replacing Fokker 100s and a couple of A321s as part of drive to convert the short-haul fleet into an all Airbus operation, which will be completed this summer. bmi is also looking at the A319LR as a potential aircraft for point-to-point medium-haul routes.

But while fleet harmonisation will improve unit costs, the short-haul mainline operation continues to face increasing competition from the LCCs, not just in London, but also at bmi's other main UK base, East Midlands airport, where easyJet and Ryanair are building up their route network. And there is always the challenge of British Airways, which is becoming much more price competitive on short-haul Europe routes. Competition contributed to a decline in business class passengers on bmi's mainline Heathrow routes in 2004, and fare wars are so fierce that one of the options under consideration by the bmi group in the current strategic review is turning short-haul mainline operations into a one-class product. British Midland was a pioneer of business class on European routes, yet bmi is finding that over the last few years business travellers have not just switched from business class to economy as a temporary measure, but as a permanent trend.

This highlights bmi's key strategic problem that it cannot fully take advantage of the group's major asset - the slots at London Heathrow. With business class passengers and yield falling on European routes, the airline would love to switch valuable slots over to long-haul operations. Yet it has long been frustrated in its ambition to launch services on the lucrative UK-US sector out of London Heathrow by the Bermuda II bilateral, which restricts the number of airlines on the sector to four, with BA and Virgin being the designated UK carriers.

After receiving three A330s in 2001 - but failing to win rights to operate out of London Heathrow to the US - bmi instead launched long-haul operations out of Manchester to Chicago and Washington DC in the summer of that year. These are both hubs for United, which bmi has codeshared with since 1992. The two routes made a loss of around £1m in 2003, but are believed have been close to break even in 2004. Last year bmi built on these initial services through the launch of routes to Toronto in April in co-operation with Star partner Air Canada, and to Las Vegas in October. Routes from Manchester to three Caribbean destinations - Barbados, St Lucia and Antigua - also started in November 2004 (and are reaching load factors of 80%). The launch of five routes in 2004 ensured that even with vastly better aircraft utilisation (there are now more than 40 flights a week out of Manchester), the long-haul business was again unprofitable in 2004.

The Star alliance is crucial to bmi's long-haul business - interline revenue totals more than £100m a year, though with United and Air Canada in financial trouble, the dependence of bmi on interline traffic from these carriers at Manchester is worrying. That's why the US still remains the major long-haul target for bmi out of London Heathrow, particularly as the UK accounts for 40% of all traffic between the US and Europe.

In the meantime, bmi's first-ever long-haul route out of London Heathrow will start in May with a service to Mumbai - although initially not with the number of frequencies that bmi wants. After the UK and India signed a liberalised bilateral in September 2004, bmi, Virgin and BA applied for 21 additional weekly frequencies between the countries at a UK CAA hearing in December. Previously, BA controlled all 19 of the authorised weekly services between the UK and India, while Virgin Atlantic operated three times a week on London-Heathrow-Delhi via a codeshare with Air India. In a market that it estimated to be worth £200m a year in revenue (with UK visitors accounting for 16% of all travellers to India), bmi wants to operate a daily service to Mumbai and six times a week to Bangalore, and told the CAA that it would undercut BA's current fares by 10%.

bmi was therefore unhappy with the CAA's decision to allocate bmi just four flights a week to Mumbai out of London Heathrow, with 10 weekly flights going to Virgin (which will now operate the route itself following the expiry of its codeshare with Air India) and another seven to BA. bmi - along with BA and Virgin - appealed against the decision, but in March the UK government upheld the CAA's allocation, However, the UK and Indian governments started another round of bilateral negotiations in April, and they quickly agreed to increase the number of frequencies between the countries by another 44 flights a week over the next 18 months. bmi is confident it will operate a daily service within that timeframe, but despite a suggestion that bmi and Virgin should in the meantime co-operate on a joint route, bmi insists it will launch the route on its own in mid-May.

The Mumbai service will be followed later in the summer by a three times a week service between London Heathrow and Riyadh, which bmi hopes will pick up demand no longer served by BA since it axed its Saudi Arabia routes in March due to security issues, which it said was hitting profitability.

However, these two routes will severely stretch bmi's long-haul capacity, as it has just three A330-200s. bmi did hold options for further A330s, but these were given up. bmi plans to damp lease a 757-200 (i.e. bmi will provide cabin crew) from Icelandair for the Manchester-Washington DC, which will free up an A330 to serve the Mumbai and Riyadh services. This is not ideal, however, as on the Washington DC route the 189-seat 757 will provide less capacity than the 244-seat A330, and with the addition of the route to Riyadh the group will have to add permanent long-haul capacity. Another complication comes from the need to get approval from the US FAA for the Icelandair damp lease deal on the Manchester-Washington DC route - until approval is given, bmi will have to temporarily suspend its codeshare with United on the service, using only its own designator instead.

bmi is also considering long-haul routes to South Africa, possibly in co-operation with fellow Star member SAA. bmi already codeshares with 20 airlines - last year codesharing was started with Singapore Airlines and Sri Lanka, while an existing codeshare with Gulf Air on UK flights was extended to selected European routes in October 2004, a move that indicates that Gulf Air may join the Star alliance in the future. bmi also started codesharing with fellow Star member US Airways in October 2004.

bmi Regional

Aberdeen-based bmi Regional operates three Embraer 135s and 10 Embraer 145s on regional routes. As part of bmibaby's launch in 2002 (see below), all of bmi's regional routes out of East Midland airport were transferred to the LCC. However, due to lack of demand, some of these services have now been transferred back to bmi Regional, the latest being routes to Paris CDG and Nice, which bmi Regional took over in March 2005.

In November 2004 bmi Regional restarted group operation to London City airport after a 13-year absence through the launch of a four-times daily route to Leeds Bradford. The service used an ATR 42 leased from Air Atlantique, but although bmi Regional said it had plans to develop routes and services out of the airport using its Embraer 135s, at the end of April the Leeds Bradford route was abruptly suspended due to low demand, caused by "the type of aircraft used". Whether further routes will be launched from the airport is now open to doubt.

The bmi group describes bmi Regional's performance in 2004 as "satisfactory", with passengers carried increasing last year, although load factor fell "marginally".

bmibaby

In 2001 Austin Reid, then the CEO of bmi, said that the airline would never launch a LCC as "going from a full service to a budget airline is almost impossible". That view rapidly changed once Go launched operations at bmi's base, East Midlands airport, in 2002. In March that same year bmibaby was launched at the same airport using a fleet of three 737s borrowed from the main airline. At that point bmi announced it was adopting a "segmentation strategy", based on separate products for different segments - the mainline bmi airline for European short-haul and long-haul; bmi Regional; and the new LCC.

bmibaby didn't get its own air operator's certificate until March 2004, which meant that it did not have operational independence from its parent until that date, but today bmibaby operates to 20 destinations out of six UK airports - East Midlands, Manchester, Teesside, Cardiff, London Gatwick and Birmingham - with a fleet of 10 737-300s and six 737-500s transferred over from its parent.

The LCC will dispose of the 737-500s in favour of an all 737-300 fleet by the end of this year, a model that has larger seat capacity. Three 737-300s were added to the fleet in December 2004, on lease from ILFC, and following the launch of routes from Birmingham International airport in January this year - which increases bmibaby's route network by more than a third - the airline will lease further 737s in the summer.

Five aircraft will be based at the Birmingham hub (where 150 jobs were created) by the summer, where currently bmibaby operates 12 routes - to Alicante, Amsterdam, Belfast International, Bordeaux, Cork, Edinburgh, Geneva, Knock, Malaga, Murcia, Palma and Prague - with another eight being added by the summer schedule. Altogether, bmibaby expects to carry more than 1m passengers out of Birmingham in 2005.

Although Flybe and MyTravelLite are based at Birmingham airport, easyJet doesn't have a presence and Ryanair has just one route. However, this wasn't the case at London Gatwick, where bmibaby's attempt to establish a hub in April 2004, with plans for at least 10 routes, was a failure. The operation was shut down at the end of 2004 in favour of the new base at Birmingham, bmibaby having learnt the hard way that directly taking on easyJet - as well as being in indirect competition with the mainline bmi operation at London Heathrow - was a mistake.

bmibaby carried 3.2m passengers in 2004, 16% up on 2003, and the LCC expects to break the 4m barrier in 2005. Load factor rose from 71% in 2003 to 78% last year, after a 9% capacity increase was met with a double figure growth in RPKs. Although bmibaby made a loss in 2003, it is thought to have been close to break even in 2004 after yields rose, a trend that is continuing into 2005 (yield was up 5.2% in January this year compared with the same month in 2004).

BMI GROUP FLEET

	Fleet	Order	Options
Mainline bmi			
A319-100	4	1	
A320-200	11	1	
A321-200	10		
A330-200	3		
Fokker 100	2		
bmi Regional			
Emb 135	3		
Emb 145	10		
bmibaby			
737-300	10		
737-500	6		
Total	**59**	**2**	**0**

To keep up momentum at bmibaby, David Byron, who has been with the bmi group for four years, was appointed managing director in January, replacing Tony Davis, who became CEO of Singaporean LCC Tiger Airways. Last year bmibaby also agreed a partnership with LCC Germanwings - controlled by bmi's Star partner Lufthansa - with co-operation on sales outside their home countries.

The bmi group claims bmibaby has a similar cost base to easyJet, and in terms of fleet utilisation there is a significant difference in operations between bmibaby and the mainline operation. Aircraft utilisation is approximately 25% higher at the LCC than the main operation, while pilot hours are up to 33% longer at bmibaby.

Uncertain future?

If bmibaby moves into profit in 2005, it has been suggested that a flotation or trade sale is a possibility. That appears unlikely though, as it increasingly appears as if the LCC is becoming the key success story at the Group, outshadowing the continuing weak performance of short-haul operations within Europe at the mainline bmi. The Group admits that "bmibaby has had an important role in absorbing part of the overhead cost of the group, which otherwise would have had a detrimental effect on our mainline operation". In the future, long-haul may generate substantial profits, but this is heavily dependent on bmi being able to better sweat its key assets - the Heathrow slots - through more routes.

According to Bishop the main airline has "turned the corner" and the group is on track to both meet the 2005 cost-saving target and make an operating profit this year. bmi also points out that at the end of 2004 the Group's debt stood at £122m, compared with debt of £181m at end 2003, while cash totalled £139m at end 2004, compared with £120m a year earlier. But it was interest on that cash pile that turned the operating loss in 2004 into a pre-tax profit, and if the group was floated then surely shareholders would demand that either the cash pile was invested in a suitable opportunity or returned to investors as a dividend.

And despite the massive cost-cutting effort and new senior management, the bmi group looks weak strategically, with a tiny long-haul network and with short-haul being squeezed by the LCCs. There are marketing problems too, particularly with bmi's image - or rather the lack of one. In 2004 bmi commercial director Adrian Parkes admitted at a meeting with UK travel agents that: "People know what they are getting with Ryanair and Virgin - they don't with us." bmi's market position has not been helped by the name change from British Midland, nor by the segmentation strategy, which offers the public three different bmi brands.

Shareholder flight?

Sir Michael Bishop owns 50% plus one share of bmi group, Lufthansa has a 30% minus one share, and SAS owns 20% - yet the two external shareholders are unhappy with the performance of the group, and are believed to be looking to sell their stakes.

Part of the reason for this is that bmi, Lufthansa and SAS pool revenues and profits on their routes between the UK, Germany and Scandinavia (and a few other destinations) under the so-called "European Co-operation Agreement". Under this pooled deal, although bmi operates most of the included routes it absorbs only 10% of losses, whereas SAS and Lufthansa each take 45% of losses. According to SAS, the pooled routes made a collective loss of £23m in 2004 (compared with a £42m loss in 2003), though bmi's share of this under the pooling agreement is just £2.3m. SAS now says that the pooled agreement is "unsuitable", and that when it expires at the end of 2007 SAS will not renew it. In any case, according to Jorgen Lindegaard, CEO of SAS group, "we probably wouldn't even get acceptance in Brussels for continuing this sort of co-operation."

bmi admits it wants the pooled agreement to perform better, and that the deal is being examined as part of the current review of mainline operations. This review will be shared with SAS and Lufthansa, bmi says, and it is confident the pooled deal will be much more attractive by the end of 2007. This appears to be a significant difference between SAS and bmi, and even if bmi offered to change significantly the cost allocation in any new deal, the Scandinavian airline appears determined to end its association with bmi as soon as possible. SAS says it has "no strategic interest" in bmi, and says that "financial assets should be sold if you don't see a return on those assets" - although in March SAS said that the airline had not yet received any offers for its bmi stake.

Lufthansa too is believed to be trying to sell its stake, to either Virgin Atlantic or British Airways, in order to avoid having to buy Bishop's 50% plus one share stake that it is legally obliged to if Bishop exercises a put option anytime until 2009, as agreed between the two parties when Lufthansa bought into British Midland in 1999 (for details on this see *Aviation Strategy*, March 2005). Lufthansa rushed into the 1999 deal - in which it bought 20% of the airline for £91.4m - out of a fear that Bishop would ally British Midland with the SkyTeam alliance (hence securing access to London Heathrow) and as a result entered into obligations that are now looking less than wise from Lufthansa's point of view. One put option was exercised in 2002, when Lufthansa bought another 10% stake for £45.7m, and the option for the 50% that Bishop owns would also be at the 1999 price. bmi's 1999 valuation was £457m, meaning that the remaining put option would cost Lufthansa more than £228m.

That price is well above what most analysts believe to be the true market worth of bmi, and write downs by Lufthansa imply that the value of bmi has at least halved. However, the launch of routes from London Heathrow if/when an open skies deal with the US is signed would increase bmi's valuation substantially. The winner in this situation is Bishop, who can hang on to his stake in the hope that a new US-UK bilateral is imminent - but in the event it isn't, can sell his shares to Lufthansa by exercising the put option.

One way of valuing the airline is on a slot basis, by considering bmi's 85 slot pairs at London Heathrow. Historical transactions suggest a price of up to £10m a pair (as paid by Qantas in 2004), although the price for an "average" pair of slots at Heathrow is around the £5m level. That suggests a price of around £425m for the slots, which, is close to the 1999 valuation of the airline.

Unconfirmed sources claim both BA and Virgin talked to Lufthansa about acquiring the German carrier's stake, but both airlines told Lufthansa that because of the Bishop's put option they did not want to do a deal at present. With BA holding 40% of the slots at London Heathrow, an acquisition of bmi is almost unthinkable from a competition point of view, but a Virgin Atlantic/bmi group merger would make sense strategically. There's little doubt that Virgin is interested in acquiring bmi (formal talks held in May 2003 came to nothing after a reported reluctance of Bishop to cede overall control), although the airline continues to refuse to comment on the current situation.

Virgin's trump card is that there are unconfirmed rumours that Bishop wants to exit his holding sooner rather than later (which he would do by simply exercising the existing put option with Lufthansa). If Bishop's intention is true, it means that not one of the three existing shareholders has a long-term commitment to the airline, leaving Virgin a clear run at securing key slots at London Heathrow - providing no surprise bidder emerges.

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 probably above the opportunistic offer prices or distressed sale prices still 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		NEW	5 years old	10 years old	20 years old
A318	29.0				**717-200**	20.3	13.9		
A319 (IGW)	36.9	29.1			**727-200Adv**				0.7
A320-200 (IGW)	44.2	35.3	26.3		**737-200Adv**				1.1
A321-200 (LGW)	50.5	39.4			**737-300 (LGW)**			12.0	6.1
					737-400 (LGW)		15.6	12.9	
					737-500		12.9	10.3	
					737-600	30.9	22.1		
					737-700	37.1	29.9		
					737-800	47.0	37.1		
					737-900	44.6	32.5		
					757-200		29.7	23.1	9.7
					757-200ER		32.6	25.1	
					757-300		38.1		
					MD-82			7.1	4.3
					MD-83			8.0	5.3
					MD-88			8.3	
					MD-90			11.0	

WIDEBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A300B4-200				3.9	**747-200B**				6.0
A300B4-600				6.8	**747-400**		93.2	65.1	
A300B4-600R (HGW)			28.3		**767-200**				7.3
A310-300 (IGW)			22.2	6.6	**767-300**		41.2	30.4	
A330-200		81.4			**767-300ER (LGW)**		54.8	40.4	
A330-300 (IGW)		73.9	52.7		**767-400**		57.8		
A340-200			42.7		**777-200**		72.8	50.8	
A340-300 (LGW)		78.3	57.8		**777-200ER**	126.5	102.0		
A340-300ER	106.8	88.1			**777-300**	128.3	97.2		
A340-500	125.4								
A340-600	131.1								
					DC-10-30				6
					DC-10-40				1.3
					MD-11P			35.3	

Note: As assessed at end April 2005
Source: AVAC

NARROWBODY LEASE RATES (US$000's per month)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A318	241				**717-200**	203	149		
A319 (IGW)	318	270			**727-200Adv**				48
A320-200 (IGW)	333	304	258		**737-200Adv**				38
A321-200 (LGW)	405	346			**737-300 (LGW)**			138	97
					737-400 (LGW)		161	143	
					737-500		143	126	
					737-600	214	179		
					737-700	295	246		
					737-800	334	289		
					737-900	326			
					757-200		217	201	120
					757-200ER		225	201	
					757-300		269		
					MD-82			121	88
					MD-83		141	124	98
					MD-88			123	
					MD-90			116	

WIDEBODY LEASE RATES (US$000's per month)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
A300B4-200				91	**747-200B**				152
A300B4-600			149		**747-400**		820	652	
A300B4-600R (HGW)			255		**767-200**				122
A310-300 (IGW)			228	114	**767-300**		317	282	
A330-200		635			**767-300ER (LGW)**		420	363	
A330-300 (IGW)		605	476		**767-400**		474		
A340-200			427		**777-200**		562	463	
A340-300 (LGW)			462		**777-200ER**	903	793		
A340-300ER	835	717			**777-300**	935	783		
A340-500	925								
A340-600	977								
					DC-10-30				122
					MD-11P		479	407	

Note: As assessed at end April 2005
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 2003**	**2,445**	**2,456**	**-11**	**13**	**-0.4%**	**0.5%**	**37,614**	**26,061**	**69.3%**	**19,981**	**13,401**
	Apr-Jun 04	699	719	-20	-2	-2.9%	-0.3%	9,068	6,605	72.8%	4,116	10,255
	Jul-Sep 04	702	626	76	41	10.8%	5.8%	9,675	7,356	76.0%	4,589	10,201
	Oct-Dec 04	656	714	-58	-45	-8.8%	-6.9%	8,774	6,399	72.9%	3,998	9,433
	Year 2004	**2,724**	**2,804**	**-80**	**-15**	**-2.9%**	**-0.6%**	**35,849**	**26,121**	**72.9%**	**16,295**	**9,968**
	Jan-Mar 05	643	723	-81	-80	-12.6%	-12.4%	8,642	6,271	72.6%	3,851	9,219
American	**Year 2003**	**17,440**	**18,284**	**-844**	**-1,128**	**-4.8%**	**-6.5%**	**279,706**	**202,521**	**72.4%**		**96,400**
	Apr-Jun 04	4,830	4,634	196	6	4.1%	0.1%	70,804	53,627	75.7%		92,500
	Jul-Sep 04	4,762	4,789	-27	-214	-0.6%	-4.5%	71,638	55,777	77.9%		93,300
	Oct-Dec 04	4,541	4,896	-355	-387	-7.8%	-8.5%	69,049	51,325	74.3%		90,700
	Year 2004	**18,645**	**18,789**	**-144**	**-761**	**-0.8%**	**-4.1%**	**280,042**	**209,473**	**74.8%**		**90,700**
	Jan-Mar 05	4,750	4,727	23	-162	0.5%	-3.4%	68,965	52,024	75.4%		88,500
America West	**Year 2003**	**2,255**	**2,222**	**33**	**57**	**1.5%**	**2.5%**	**44,880**	**34,270**	**76.4%**	**20,050**	**11,326**
	Apr-Jun 04	605	584	21	6	3.5%	1.0%	12,153	9,519	78.3%	5,343	11,936
	Jul-Sep 04	579	607	-28	-47	-4.8%	-8.1%	12,305	10,021	81.4%	5,556	11,936
	Oct-Dec 04	579	602	-24	-50	-4.1%	-8.6%	12,236	9,471	77.4%	5,336	11,845
	Year 2004	**2,339**	**2,357**	**-18**	**-90**	**-0.8%**	**-3.8%**	**48,525**	**37,550**	**77.4%**	**21,132**	**11,904**
	Jan-Mar 05	723	673	50	34	6.9%	4.7%	11,749	9,126	77.7%	5,172	11,869
Continental	**Year 2003**	**8,870**	**8,667**	**203**	**38**	**2.3%**	**0.4%**	**139,703**	**104,498**	**74.8%**	**39,861**	**37,680**
	Apr-Jun 04	2,514	2,471	43	-17	1.7%	-0.7%	34,676	27,083	77.6%	10,809	
	Jul-Sep 04	2,564	2,540	24	-16	0.9%	-0.6%	35,371	28,843	81.5%	11,182	
	Oct-Dec 04	2,397	2,558	-161	-206	-6.7%	-8.6%	37,962	29,350	77.3%	14,253	
	Year 2004	**9,744**	**9,973**	**-229**	**-363**	**-2.4%**	**-3.7%**	**95,082**	**73,151**	**76.9%**	**56,482**	**38,255**
	Jan-Mar 05	2,505	2,676	-171	-184	-6.8%	-7.3%	37,955	29,148	76.8%	14,122	
Delta	**Year 2003**	**13,303**	**14,089**	**-786**	**-773**	**-5.9%**	**-5.8%**	**216,263**	**158,796**	**73.4%**	**104,452**	**70,600**
	Apr-Jun 04	3,961	4,202	-241	-1,963	-6.1%	-49.6%	62,151	47,610	76.6%	28,616	70,300
	Jul-Sep 04	3,871	4,294	-423	-646	-10.9%	-16.7%	63,031	48,952	77.7%	28,247	69,700
	Oct-Dec 04	3,641	5,897	-2,256	-2,206	-62.0%	-60.6%	61,384	45,237	73.7%	27,794	69,150
	Year 2004	**15,002**	**18,310**	**-3,308**	**-5,198**	**-22.1%**	**-34.6%**	**244,097**	**182,351**	**74.7%**	**110,000**	**69,150**
	Jan-Mar 05	3,647	4,604	-957	-1,071	-26.2%	-29.4%	60,955	45,344	74.4%	29,230	66,500
Northwest	**Year 2003**	**9,510**	**9,775**	**-265**	**248**	**-2.8%**	**2.6%**	**142,573**	**110,198**	**77.3%**	**51,900**	**39,100**
	Apr-Jun 04	2,871	2,923	-52	-175	-1.8%	-6.1%	36,634	30,215	82.5%	14,289	39,154
	Jul-Sep 04	3,052	2,973	79	-38	2.6%	-1.2%	38,324	31,774	82.9%	14,800	38,178
	Oct-Dec 04	2,753	3,177	-424	-412	-15.4%	-15.0%	36,964	29,107	78.7%	13,775	
	Year 2004	**11,279**	**11,784**	**-505**	**-848**	**-4.5%**	**-7.5%**	**147,055**	**117,981**	**80.2%**	**55,374**	**39,342**
	Jan-Mar 05	2,798	3,090	-292	-450	-10.4%	-16.1%	36,636	29,238	79.8%	13,502	39,105
Southwest	**Year 2003**	**5,937**	**5,454**	**483**	**442**	**8.1%**	**7.4%**	**115,532**	**77,155**	**66.8%**	**65,674**	**32,847**
	Apr-Jun 04	1,716	1,519	197	113	11.5%	6.6%	30,212	23,054	76.3%	18,864	31,408
	Jul-Sep 04	1,674	1,483	191	119	11.4%	7.1%	31,359	22,794	72.7%	18,334	30,657
	Oct-Dec 04	1,655	1,535	120	56	7.3%	3.4%	32,540	21,140	65.0%	17,709	31,011
	Year 2004	**6,530**	**5,976**	**554**	**313**	**8.5%**	**4.8%**	**123,693**	**85,966**	**69.5%**	**70,903**	**31,011**
	Jan-Mar 05	1,663	1,557	106	76	6.4%	4.6%	32,559	21,304	65.4%	17,474	30,974
United	**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	
	Apr-Jun 04	4,041	4,034	7	-247	0.2%	-6.1%	58,313	47,840	82.0%	18,444	59,700
	Jul-Sep 04	4,305	4,385	-80	-274	-1.9%	-6.4%	61,403	50,439	82.1%	19,360	59,000
	Oct-Dec 04	3,988	4,481	-493	-664	-12.4%	-16.6%	58,033	44,824	77.2%	17,143	57,500
	Year 2004	**16,391**	**17,168**	**-777**	**-1,644**	**-4.7%**	**-10.0%**	**233,929**	**185,388**	**79.2%**	**70,914**	**58,900**
US Airways	**Year 2003***	**5,312**	**5,356**	**-44**	**-174**	**-0.8%**	**-3.3%**	**85,673**	**62,408**	**72.8%**	**44,373**	**26,797**
	Apr-Jun 04	1,957	1,874	83	34	4.2%	1.7%	24,991	19,336	77.4%	25,953	26,880
	Jul-Sep 04	1,799	1,976	-177	-232	-9.8%	-12.9%	25,462	19,382	76.1%	14,274	26,835
	Oct-Dec 04	1,660	1,802	-142	-236	-8.6%	-14.2%	24,514	17,622	71.9%	14,097	24,628
	Year 2004	**7,117**	**7,495**	**-378**	**-611**	**-5.3%**	**-8.6%**	**98,735**	**72,559**	**73.5%**	**55,954**	**24,628**
	Jan-Mar 05	1,628	1,829	-201	-191	-12.3%	-11.7%	24,976	17,779	71.2%	14,068	23,696
JetBlue	**Year 2003**	**998**	**830**	**168**	**104**	**16.8%**	**10.4%**	**21,950**	**18,550**	**84.5%**	**9,012**	**4,892**
	Apr-Jun 04	320	275	45	21	14.1%	6.6%	7,494	6,333	84.5%	2,921	5,718
	Jul-Sep 04	323	300	23	8	7.1%	2.5%	7,950	6,753	84.9%	3,033	6,127
	Oct-Dec 04	334	322	12	2	3.6%	0.6%	8,200	6,802	82.9%	3,179	6,413
	Year 2004	**1,266**	**1,153**	**113**	**47**	**8.9%**	**3.7%**	**30,434**	**25,315**	**83.2%**	**11,783**	**6,413**
	Jan-Mar 05	374	349	26	7	**7.0%**	**1.9%**	8,318	7,136	85.8%	3,400	6,797

***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 2002/03**	**13,702**	**13,495**	**207**	**130**	**1.5%**	**0.9%**	**131,247**	**99,960**	**76.2%**		**71,525**
	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
	Jan-Mar 04	3,668	3,680	-12	16	-0.3%	0.4%	33,917	25,026	73.8%		
	Year 2003/04	**15,024**	**14,855**	**169**	**113**	**1.1%**	**0.8%**	**134,444**	**101,644**	**75.6%**		
KLM												
YE 31/03	**Year 2002/03**	**7,004**	**7,147**	**-144**	**-449**	**-2.1%**	**-6.4%**	**87,647**	**69,016**	**78.7%**	**23,437**	**34,666**
	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**
Air France/												
KLM Group*	Apr-Jun 04	5,394	5,205	189	115	3.5%	2.1%	48,944	38,025	77.7%		
	Jul-Sep 04	6,328	5,964	364	248	5.8%	3.9%	57,668	46,767	81.1%		
	Oct-Dec 04	6,628	5,745	883	83	13.3%	1.3%	54,144	42,042	77.6%	15,934	
BA												
YE 31/03	**Year 2002/03**	**12,490**	**12,011**	**543**	**117**	**4.3%**	**0.9%**	**139,172**	**100,112**	**71.9%**	**38,019**	**51,630**
	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
	Jan-Mar 04	3,386	3,327	164	22	4.8%	0.6%	35,232	24,932	70.8%	8,142	46,551
	Year 2003/04	**13,806**	**13,067**	**739**	**237**	**5.4%**	**1.7%**	**141,273**	**103,092**	**73.0%**	**36,103**	**49,072**
	Apr-Jun 04	3,479	3,208	271	127	7.8%	3.7%	36,150	27,083	74.9%	9,288	46,280
	Jul-Sep 04	3,645	3,213	432	221	11.9%	6.1%	36,639	28,749	78.5%	9,822	46,179
	Oct-Dec 04	3,801	3,589	212	94	5.6%	2.5%	35,723	25,999	72.8%	8,428	45,888
Iberia												
YE 31/12	**Year 2002**	**5,123**	**4,852**	**272**	**174**	**5.3%**	**3.4%**	**55,633**	**40,647**	**73.0%**	**24,956**	**25,963**
	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	
	Year 2003	**5,800**	**4,459**	**202**	**180**	**3.5%**	**3.1%**	**56,145**	**42,100**	**75.0%**	**25,613**	
	Jan-Mar 04	1,325	1,356	-32	-1	-2.4%	-0.1%	14,563	10,721	73.6%	6,136	
	Apr-Jun 04	1,461	1,371	90	95	6.2%	6.5%	14,743	11,106	75.3%	6,913	
	Jul-Sep 04	1,593	1,452	141	110	8.9%	6.9%	16,053	12,699	79.1%	7,314	25,839
	Oct-Dec 04	1,660	1,605	55	74	3.3%	4.5%	15,700	11,398	72.6%	6,329	24,783
Lufthansa												
YE 31/12	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
	Apr-Jun 04	5,269	5,045	224	-28	4.3%	-0.5%	36,440	26,959	74.0%	13,336	
	Jul-Sep 04	5,511	5,164	347	154	6.3%	2.8%	38,115	28,883	75.8%	14,053	92,718
	Year 2004	**25,655**	**24,285**	**1370**	**551**	**5.3%**	**2.1%**	**140,648**	**104,064**	**74.0%**	**50,300**	**90,763**
SAS												
YE 31/12	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
	Year 2003	**7,978**	**8,100**	**-122**	**-195**	**-1.5%**	**-2.4%**	**47,881**	**30,402**	**63.5%**	**31,320**	**34,544**
	Jan-Mar 04	1,652	1,823	-171	-184	-10.4%	-11.1%	11,852	7,031	59.3%	7,238	
	Apr-Jun 04	2,007	1,979	27	13	1.3%	0.6%	13,456	8,960	66.6%	8,879	
	Jul-Sep 04	2,099	1,860	239	9	11.4%	0.4%	13,557	9,198	67.8%	8,591	
	Oct-Dec 04	2,271	2,293	-22	-96	-1.0%	-4.2%	12,667	7,649	60.4%	7,645	32,600
	Year 2004	**8,830**	**8,967**	**-137**	**-283**	**-1.6%**	**-3.2%**	**43,077**	**28,576**	**64.0%**	**32,354**	**32,481**
Ryanair												
YE 31/03	**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
	Year 2003/04	**1,308**	**978**	**330**	**252**	**25.2%**	**19.3%**			**81.0%**	**23,133**	**2,300**
	Apr-Jun 04	366	288	78	64	21.3%	17.5%			83.0%	6,600	2,444
	Jul-Sep 04	516	305	211	181	40.9%	35.1%			90.0%	7,400	2,531
	Oct-Dec 04	402	335	68	47	16.9%	11.7%			84.0%	6,900	2,671
easyJet												
YE 30/09	**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	
	Year 2003/04	**1,963**	**1,871**	**92**	**74**	**4.7%**	**3.8%**	**25,448**	**21,566**	**84.5%**	**24,300**	

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation. * = Preliminary consolidated figures for Air France Group from May-June, KLM Group from May-June

		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 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	
	Year 2003/04	**11,529**	**11,204**	**325**	**234**	**2.8%**	**2.0%**	**87,772**	**55,807**	**63.6%**	**44,800**	**20,530**
Cathay Pacific												
YE 31/12	**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**
	Jan-Jun 04	2,331	2,046	285	233	12.2%	10.0%	35,250		76.1%	6,404	
	Year 2004	**5,024**	**4,350**	**674**	**581**	**13.4%**	**11.6%**	**74,062**	**57,283**	**77.3%**	**13,664**	**15,054**
JAL												
YE 31/03	**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**	
	Year 2003/04	**18,398**	**19,042**	**-644**	**-844**	**-3.5%**	**-4.6%**	**145,900**	**93,847**	**64.3%**	**58,241**	
Korean Air												
YE 31/12	**Year 2001**	**4,309**	**4,468**	**-159**	**-448**	**-3.7%**	**-10.4%**	**55,802**	**38,452**	**68.9%**	**21,638**	
	Year 2002	**5,206**	**4,960**	**246**	**93**	**4.7%**	**1.8%**	**58,310**	**41,818**	**71.7%**		
	Year 2003	**5,172**	**4,911**	**261**	**-202**	**5.0%**	**-3.9%**	**59,074**	**40,507**	**68.6%**	**21,811**	
Malaysian												
YE 31/03	**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**
	Year 2003/04	**2,308**	**2,258**	**50**	**121**	**2.2%**	**5.2%**	**55,692**	**37,659**	**67.6%**	**15,375**	**20,789**
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
	Year 2003/04	**7,838**	**7,079**	**759**	**448**	**9.7%**	**5.7%**	**104,200**	**81,276**	**78.0%**	**30,076**	**33,862**
	Jul-Dec 04	5,017	4,493	524	358	10.4%	7.1%	57,402	43,907	76.5%	16,548	35,310
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**
	Year 2002/03	**5,936**	**5,531**	**405**	**601**	**6.8%**	**10.1%**	**99,566**	**74,183**	**74.5%**	**15,326**	**30,243**
	Year 2003/04	**5,732**	**5,332**	**400**	**525**	**7.0%**	**9.2%**	**88,253**	**64,685**	**73.3%**	**13,278**	**29,734**
	Apr-Jun 04	1,588	1,409	179	159	11.3%	10.0%	25,249	18,167	71.9%	3,800	
	Jul-Sep 04	1,780	1,587	193	215	10.8%	12.1%	26,357	19,959	75.7%	4,050	
	Oct-Dec 04	1,956	1,697	259	291	13.2%	14.9%	26,768	20,274	75.7%	4,201	

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 - MONTH END

	Old narrowbodies	Old widebodies	Total old	New narrowbodies	New widebodies	Total new	Total
Dec-1999	243	134	377	101	53	154	531
Dec-2000	302	172	474	160	42	202	676
Dec-2001	368	188	556	291	101	392	948
Dec-2002	366	144	510	273	102	375	885
Dec-2003	275	117	392	274	131	405	797
Dec-2004	185	56	241	194	48	242	483
Feb-2005	156	55	211	192	45	237	448

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	321	177	498	1,815	325	2,140	2,638
Feb-2005	30	6	36	126	16	142	178

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 %
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
2004	220.6	144.2	65.4	224.0	182.9	81.6	153.6	119.9	78.0	535.2	428.7	80.1	795.7	600.7	75.5
Mar-05	25.0	16.3	65.3	17.6	14.8	83.7	14.1	11.0	77.6	46.1	37.4	81.1	67.7	51.8	76.4
Ann. chng	1.9%	5.5%	2.2	1.8%	1.5%	-0.3	15.3%	13.9%	-0.9	7.1%	7.1%	0.0	5.9%	7.5%	1.1
Jan-Mar 05	71.0	43.2	60.9	49.8	38.8	77.9	39.9	31.0	77.7	131.6	104.6	79.5	193.2	142.8	73.9
Ann. Change	2.3%	4.7%	1.4	0.0%	1.3%	1.0	12.6%	11.3%	-0.9	5.1%	6.4%	1.0	4.6%	6.5%	1.3

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 %
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
2004	1,014.5	763.6	75.3	164.2	134.4	81.8	105.1	87.6	83.4	96.4	68.0	70.5	365.6	289.8	79.3
Mar- 05	87.2	70.2	80.6	13.4	11.4	84.9	9.6	8.1	84.5	9.7	7.4	76.4	32.7	26.9	82.3
Ann. Change	0.6%	7.0%	4.8	10.4%	12.0%	1.2	15.3%	12.3%	-2.2	15.4%	23.0%	4.7	13.3%	14.9%	1.2
Jan-Mar 05	245.8	184.0	74.9	38.1	29.3	77.0	27.8	22.7	81.4	27.9	20.6	74.0	93.8	72.6	77.4
Ann. Change	-0.6%	5.6%	4.4	8.4%	11.1%	1.8	13.9%	9.9%	-2.9	14.1%	18.3%	2.6	11.7%	12.7%	0.7

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	11April	Icelandair	5 x 737-800	2006	converted options
	19 April	Air Europa	3 x 737-800	2007	
	25 April	Copa Airlines	5 x 737NG	2007/09	plus 10 options
	25 April	Air Canada	18 x 777	2006 onwards	plus 18 options
			14 x 787	2010 onwards	plus 46 options/purchase rights
	05 May	Northwest Airlines	18 x 787-8	2008 onwards	plus 50 options/purchase rights
	09 May	Japan Airlines (JAL)	30 x 787		plus 20 options
			30 x 737-800		plus 10 options
	10 May	GECAS	6 x 737-700	2006/07	
	10 May	SkyEurope	4 x 737-700		plus 16 purchase rights
Airbus	21 April	Shenzen Airlines	3 x A320, 3 x A319		
	28 April	British Mediterranean	7 x A321	2006 onwards	IAE V2500
Embraer	11 May	LOT Polish Airlines	4 x Emb175	2Q 2006	converted options

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

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