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Could Chapter 11 solve the US legacy crisis?

The US Chapter 11 process has long been blamed for keeping excess airline capacity in the domestic system and for preventing industry consolidation. However, Delta's and Northwest's initial moves in bankruptcy and the successful completion of the US Airways/America West merger suggest that Chapter 11 may in fact help solve some of the industry's problems.

It is hard for airlines to shrink in size significantly when they are stuck with aircraft (through long-term operating leases or debt financing obligations). The Chapter 11 process enables them to get rid of unwanted aircraft, thus facilitating a sizable capacity reduction if desired.

Both Delta and Northwest have moved promptly to cut capacity since their simultaneous Chapter 11 filings in mid-September. This is perhaps not surprising in light of the current fuel environment, which has forced even a solvent carrier like American to temporarily cancel 15 flights in high-frequency domestic markets this month to save money. However, the scale of the initial domestic "right-sizing" announced by Delta and Northwest has impressed many industry observers.

Delta is cutting its domestic mainline capacity by 15-20% in 2006. It will right-size domestic hubs and increase point-to-point flying. The airline has rejected leases on 40 mainline aircraft and plans to shed an additional 80-plus mainline aircraft by the end of 2006. This will simplify Delta's fleet from 11 to seven mainline types.

However, Delta still plans to increase its international capacity by 25% in 2006 "to pursue routes with greater profit potential". Its winter schedule adds new or expanded service to 41 international destinations. This will include major expansion to Mexico and new Atlanta-Tel Aviv and Atlanta-Copenhagen routes in the spring.

Northwest has so far outlined plans to reduce domestic mainline capacity by 10% and international ASMs by 4-5% in the current quarter. Additional schedule reductions in January will cut first-quarter system mainline ASMs by 11-13%. The airline has talked about an eventual reduction of 15% or more, which nevertheless would have only minimal impact on the three domestic hubs.

CEO Doug Steenland explained the strategy to the bankruptcy court as follows: "Northwest will become a smaller airline to compete successfully in a world where fuel may continue to be priced at $60 per barrel or more and refining costs are at record levels. Routes that might have been commercially viable with oil at $40 per barrel are not profitable at $60 per barrel or higher. Moreover, a number of aircraft in our fleet have above-market lease rates."

Although specific plans have not yet been disclosed, Northwest

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can be expected to continue to focus on international flying. In the Chapter 11 filing, CFO Neal Cohen described the airline's Pacific routes as one of its most valuable assets.

Northwest began its fleet restructuring by returning seven aircraft, and it has identified 100-plus additional aircraft as candidates for return. Somewhat surprisingly, that includes 50 Northwest-owned or leased regional jets operated by two regional partners. Northwest has already notified Pinnacle and Mesaba that it will remove 15 CRJs and 35 AVRO RJ85s from their respective fleets. The airline has told its creditors that it wants to establish a new subsidiary that would operate 70-100 seat RJs.

US Airways and America West, which completed their merger on September 27 (when US Airways also emerged from its Chapter 11 reorganisation), are in the process of shrinking their combined mainline fleet by 59 aircraft. That will constitute a useful 15% capacity reduction.

Furthermore, US Airways (as the combination is now known) has chosen not to have any commitments to grow in the next couple of years, as the company focuses on integrating the two cultures.

Washington/Dulles-based Independence Air, a small carrier that has been highly disruptive with its steep price-discounting on the East Coast, has announced plans to cut a third of its flights by the end of October, in an effort to save money and avoid bankruptcy. The airline is reducing its daily flights from 350 to 230 by eliminating all West Coast destinations except Las Vegas, as well as six cities in the East. Some 600 of the 3,400 workers will be laid off this month.

All the indications are that Independence Air's parent FLYi will run out of cash and file for Chapter 11 in the current quarter. Unlike the legacy carriers, FLYi is probably also headed for liquidation, which would further help the capacity situation on the East Coast.

In its latest global capacity report, OAG noted that US airlines scheduled 2% fewer domestic flights for October than a year earlier, while international flights rose by 4%. The largest declines are at Washington/Dulles (25%) and Dallas Ft. Worth (12%), reflecting capacity cuts by Independence Air and Delta.

The combination of reduced capacity and relatively robust demand has led to an improved domestic pricing environment - something that has been evident since the spring. If fuel prices remain at the current levels, further domestic capacity reductions are likely - also by the solvent legacy carriers like American and Continental - which would further improve the revenue picture.

The strongest LCCs are, of course, expected to continue growing as they take advantage of opportunities that arise from the legacies' cutbacks. AirTran anticipates growing ASMs by 25% in 2006. JetBlue has just announced major service expansion from JFK, including plans to introduce the first new 100-seat E190s on the New York-Boston route. JetBlue is taking one new E190 every 20 days, plus 16 new A320s in 2006.

JP Morgan analyst Jamie Baker estimated in an early-October research note that total US domestic industry capacity would decline by at least 2% in 2006, driven by a 6.6% reduction by the eight largest carriers and Independence Air. Internationally, capacity is likely to grow by 6.2%, down only slightly from 2005's 9%.

In Baker's estimates, thanks to the favourable capacity trends, domestic unit revenue (RASM) growth in 2006 could exceed this year's anticipated 6.5% and possibly top 10%. The main gains are expected to be on the East Coast, driven by estimated capacity declines at Delta (15%), US Airways (5%) and Independence (100%). Baker expects international RASM to be flattish next year.

Facilitating mergers ?

In addition to the Chapter 11 process helping airlines shed capacity, there is a school of thought that it will facilitate more mergers along the lines of US Airways/America West. As US Airways' CEO Doug Parker explained at a recent Wings Club lunch, "the bankruptcy process allows

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things to happen that will be friendly to consolidation".

As well as removing aircraft and capacity (to avoid duplication and permit synergies), Chapter 11 can reduce high legacy labour costs, as happened with US Airways. In other words, the Chapter 11 process can be used to prepare and transform a high-cost legacy carrier into an attractive, or at least lower-risk, merger target.

Many people in the industry, including Parker, are convinced that Washington regulators have "airline fatigue". After telling the industry for quite some time that airlines must fix themselves and not expect any more assistance, in the end the regulators will have little choice but to allow mergers.

Merrill Lynch analyst Michael Linenberg suggested such a scenario for Delta immediately after its Chapter 11 filing: "We would not be surprised if down the road Delta borrows a page from the America West/US Airways playbook and emerges from bankruptcy in the form of a merger. That would be one way of achieving airline consolidation - an objective that has eluded the industry for years."

MAXjet and Eos: Prospects for the all-business class concept

Competition in the lucrative and prestigious New York-London market is set to intensify in the coming weeks, as two new cut-price, all-business class carriers enter the JFK-Stansted route. Purchase, NY-based Eos Airlines is launching daily 757-200 flights on October 18, while Washington/Dulles-based MAXjet Airlines is making its debut with six-per-week 767-200ER services on November 1. Are these newcomers likely to be successful? What impact will they have on the market?

To keep things in perspective, Eos and MAXjet will be small niche operators in a huge and already fiercely competitive market. They will face many industry heavyweights, including BA, American, United, Virgin and Continental. Their impact in terms of capacity addition will be minimal - there are already at least 25 flights from New York to London each day (mid-October schedules) and most utilise larger aircraft such as 777s and 747-400s.

Eos and MAXjet will operate to Stansted (the only London area airport where new carrier service is permitted under the UK-US ASA). All but two of the current 25 daily eastbound flights are to Heathrow, which is the airport strongly preferred by business travellers (the other two existing flights are to Gatwick).

The newcomers are counting on Stansted's improved transport connections and image - the airport has a terminal express train connection to the City of London (the financial district). The airport has seen very strong growth in European destinations, but this growth has been driven by Ryanair, and there will be no possibility of interlining agreements. So, in the short term at least, the airport may only attract niche-type transatlantic traffic.

That said, Eos and MAXjet will have impact because they are focusing on where it hurts the large carriers the most: long-haul business traffic. Transatlantic routes, which have always been important for BA (traditionally accounting for some 40% of its revenues), have become critically important for airlines on both sides of the Atlantic as the profitability of US domestic and European short-haul services has eroded due to LCC competition. And because there is heavy leisure fare discounting on routes such as New York-London, the profits are made from business traffic.

US passenger airlines made a US$718.6m operating profit on the transatlantic in 2004, compared to a US$4.4bn aggregate operating loss posted domestically by the nine largest carriers. Not surprisingly, the transatlantic has featured heavily in US carriers' expansion plans - a trend that is intensifying now that capacity is finally

A QUICK COMPARISON

	MAXjet	Eos
Aircraft Type	767-200ER	757-200
Seats	102	48
Seat size	60in recliner	78in flatbed
Proposed fare range	$1,500 - $1,900	$5,000 - $6,500

www.maxjet.com, www.eosairlines.com

being removed from the domestic system.

As small niche carriers, Eos and MAXjet will not be able to pull large numbers of "mainstream" business passengers - the vast majority that regard factors such as high frequencies, global networks and FFPs as critical. And frequent travelers in large corporations and banks are tied to corporate travel policies under which preferred network carriers offer substantial discounts.

Nevertheless, given that the segment is one of the last bastions of profitability, the large airlines cannot afford to lose even small numbers of business passengers. Consequently, a strong competitive response is likely in the form of price-matching and product enhancements.

Interestingly (and evidently coincidentally), the newcomers will launch simultaneous assaults on the opposite ends of the transatlantic business passenger segment. Eos will target the high-end business traveller with a product that mixes corporate jet-like privacy with the luxury of a "top-tier international first-class cabin", while MAXjet will target the value-oriented business traveller with a "true business class experience" at one-way fares starting at just US$779.

In other words, Eos is hoping that the strong surge in demand for corporate jet travel seen in recent years, as service standards on commercial fights have slipped, will also materialise in long-haul international business markets. The airline will have just 48 "flatbed" seats in its 757-200s, offering each passenger 21 square feet of personal space. It claims to have developed customised service training on par with the world's finest luxury hotels.

Eos will offer a basic unrestricted return fare of US$6,500 (after a limited-time introductory offer of US$5,000), which compares very favourably with the first and business class return fares of US$12,772 and US$8,682, respectively, that BA currently offers.

MAXjet will have 102 "traditional business class" seats in its 767-200ERs (compared to the typical 200-plus), with 60-inch pitch and no middle seats. It will offer a "high-quality, low-fare business class product" with the usual amenities. The airline said that its fares, from US$1,558 return, would be 50-75% lower than prevailing fares. The low fares will be available "at all times, even for last-minute" and they will be flexible, allowing changes for a fee of US$100 and refunds for US$300.

At those fares, neither of the newcomers should have difficulty filling their aircraft initially. But whether adequate load factors can be sustained in the longer run will obviously depend on the extent to which the established carriers match the fares and the product offerings live up to expectations.

History is not encouraging. Luxury airlines have invariably failed because they could not generate enough revenue from premium-class passengers. They did not have the flexibility offered by a mix of segments. One such example was Kirk Kerkorian's MGM Grand Air, which operated all-premium class service with 727-100s and DC-8s between Las Vegas and New York in 1992-94 and failed after two attempts.

Then again, until very recently virtually all start-up airlines in the US failed, whether premium or LCC. In recent years, there has been a steep learning curve in how to start and run new airlines. And seat configurations can always be changed to accommodate multiple classes, if necessary.

Eos and MAXjet, which were both founded in 2003, look good on paper. They seem to have the key attributes essential for new entrant carrier survival, including adequate funding, strong management teams, large enough markets and reasonable cost and efficiency levels.

However, of the two, Eos would seem to have an edge in a number of ways. First, it has stuck to the same strategy since its inception, whereas MAXjet was originally proposed as a more leisure-oriented carrier. Second, Eos has better financial backing. Third, it has more suitable aircraft for the new fuel environment, whereas MAXjet, among many other changes, is now being forced to rethink its fleet strategy.

Eos Airlines

Eos, originally called "Atlantic Express Airlines", is the brainchild of its CEO David Spurlock, an American with an MBA from Stanford who worked for British Airways in 1997-2001, most recently as director of strategy (for a historical perspective on Spulock’s thinking see *Aviation Strategy,* March 2000). The management team includes seasoned ex-Continental and ex-US Airways executives.

Eos has received equity commitments totaling US$87m from three top venture capital firms - Golden Gate Capital (the leading investor), Silicon Valley-based Sutter Hill Ventures and Maveron (a firm co-founded by Starbucks' founder Howard Schultz). Some US$72m of it has been collected so far, with US$15m to be made available for growth later. The funds comfortably exceed the US$64.7m required to meet the DoT's fitness criteria (pre-launch expenses plus 25% of year one operating costs). The initial fleet of three 757-200s, all delivered by September, have been taken on operating lease from ILFC.

The backers were attracted evidently because Eos offered something different. Golden Gate Capital's CEO Jesse Rogers described it as an "opportunity to build a great business in a dramatically underperforming industry". Rogers noted in June that "incumbent competitors are coping with severe challenges to their ongoing viability, and service levels have suffered" and that Eos would offer "an experience modeled after leading customer-centric retailers and premium hotels".

Eos applied for markets that are not subject to restrictions on entry imposed by ASAs or slot restraints. It was granted licences to serve the UK (other than Heathrow and Gatwick), as well as the Netherlands and Germany (both open skies regimes). In the first place, the airline hopes to add a second daily JFK-Stansted flight from January 3. The plan is to grow the fleet by about four aircraft a year, to operate 20 757-200s by the fifth year.

The DoT suggested that Eos' proposals were "considerably more ambitious than generally put forward by new applicants" (presumably meaning international carriers, because JetBlue and other domestic start-ups have grown at faster rate). Nevertheless, the application was approved in less than 12 months, though the DoT asked Eos to give it notice 45 days before going over four aircraft. Under a new requirement, all US start-up carriers must submit a detailed progress report to the DoT within 45 days of the first anniversary of fight operations.

Eos somewhat confusingly aims to be a "low-cost producer of a market-leading North Atlantic product". By low costs it essentially means the general cost advantages enjoyed by new airlines over established operators, through younger work forces, more efficient corporate systems and processes, extensive use of new technology and suchlike.

MAXjet Airlines

In its original DoT and FAA applications filed in February 2004, MAXjet (formerly SkyLink Airways) planned to operate low-fare services from East Coast cities such as Baltimore to European cities such as London and Paris. It had hoped to start full scheduled service in April 2005, meeting summer demand with seven routes and having eight 767s in the fleet by year-end. However, in June this year the airline scaled down its plans significantly, citing higher fuel prices, longer-than-expected FAA certification process and general market conditions. It was also clear that MAXjet was nowhere near raising the US$50m or so in funding needed to meet the DoT's financial fitness criteria.

The airline's revised plans call for a much slower build-up of scheduled service - to save costs and reduce risk - and increased charter flying this winter (to maintain adequate fleet utilisation). Under the revised plans, year one operating expenses have been slashed to one quarter of what they were previously (US$41.6m, down from US$164.5m).

MAXjet has so far raised US$28.8m from individual investors, which slightly exceeds the DoT's requirements for the scaled-down operation. In addition, there are pledges for further funding to meet expansion needs and financing commitments for the first three 767-200ERs. According to DoT filings, Kenneth Woolley, a Salt Lake City-based businessman who was an early investor in JetBlue, owns 55% of MAXjet's outstanding shares.

MAXjet has a solid management team, led by Gary Rogliano as CEO. The company is committed a low-overhead operation and outsourcing wherever possible - there are apparently only 15 people in the head office not affiliated with flight operations (in marketing, finance, etc.).

In addition to the six-per-week JFK-Stansted flights to be introduced on November 1, MAXjet will be launching a weekly JFK-Florida domestic tag. That and the planned charter flying to the Caribbean in the winter will help offset seasonality in the transatlantic market.

In the spring, MAXjet currently expects to add scheduled transatlantic service to Stansted from two more East Coast cities, one of which will be Baltimore/Washington. Those services will be three or four times a week. JFK-Stansted will become a daily service by the end of June 2006 and will subsequently be gradually built up to a twice-daily service. MAXjet has DoT approval to operate also to Aruba, Austria, Belgium, Canada, Chile, Germany, France, Italy and the Netherlands.

After receiving its third 767-200ER in December (all leased from an affiliate of Lehman Brothers), MAXjet does not intend to take any more aircraft until the third quarter of 2006. This is partly because fuel prices have called into question the long-term viability of the 767-200ERs. The airline is currently evaluating A330s and 777s, which would be more suitable for the current fuel environment.

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Virgin's airlines: Wise and foolish

After reporting record profits for 2004/05, Virgin Atlantic Airways plans to double in size over the next five years. Is this a positive move by the flagship of Sir Richard Branson's empire, or recognition that - as its name suggests - the airline is dangerously exposed to a transatlantic market that sooner rather than later will face greater competition?

Based at both London Heathrow and Gatwick, the long-haul carrier that was launched with a single leased 747 by entrepreneur Richard Branson in 1984 today operates 26 routes in total. 10 to the US , four to Africa, five to Asia/Pacific and seven to the Caribbean. This makes it the second-largest operator of long-haul routes in the UK.

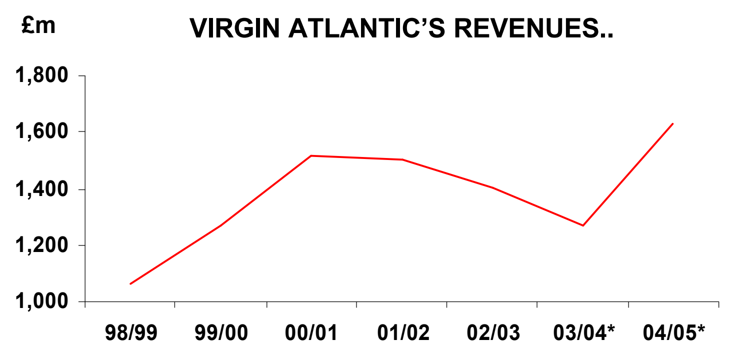
After September 11, Virgin Atlantic was affected severely by the collapse in business traffic across the Atlantic, and in the year to April 2002 the company made a loss before tax of £93m, even after cutting more than 1,300 staff. However, in 2002/3 Virgin Atlantic changed its strategy by starting to hire again and pushing ahead with business class innovation, in the expectation that it would be one of the first airlines to benefit when business travel levels returned to normal.

That proved to be an astute move, and the airline returned to profit in 2002/03. Profit rose again in 2003/04, and results for Virgin Atlantic's 2004/05 financial year (the 12 months to the end of February 2005) seem even more impressive, with pre-tax profits of £68m - the best result since 1998/99 (see chart, page 8). This was based on turnover of £1.63bn, with 4.4m passengers flown in 2004/05. In comparison, in 2003/04 (a 10 month period only, due to a change in Virgin Atlantic's financial year to match that of SIA, its minority shareholder) pre-tax profits were £20.9m on revenue of £1.27bn, with 3.4m passengers flown. Results were so good in 2004/05 that Virgin Atlantic's employees received a profit-related bonus.

In business class, Virgin Atlantic carried 352,000 passengers in the 2004/05 year, a 26% rise on 2003/04. Business load factor was 56%, its highest percentage since 1999/2000. This was due partly to the 5% increase in capacity in the financial year, but more substantially to the revamped Upper Class Suite seat, which was launched in November 2003 (and which is still being fitted to the last of the airline's A340-300s). Virgin Atlantic says the product is luring business passengers across from rivals such as British Airways, although BA is now revamping its own business class seat in response.

As the Virgin Group - which holds Branson's 51% stake in Virgin Atlantic - is privately held, a detailed picture of the airline's finances is impossible. But what is apparent is that the 2004/05 results were boosted by several extraordinary items, including £31m from the partial writing back of a provision for the value of Virgin Atlantic's fleet following September 11. Virgin Atlantic also banked £16m from the sale of its 50% share in cargo handling company Plane Handling, which was a joint venture with Go-Ahead. Without these two items, pre-tax profits would be £21m - which is almost the same as in 2003/04 - although that financial year only had 10 months. If the 2003/04 figure is extrapolated to 12 months, Virgin Atlantic's 2004/05 profit before tax actually fell by more than 16%.

And the Virgin Atlantic financials also include tour operator Virgin Holidays, as well as cargo operations. In 2004/05 the tour operator contributed £407m of turnover, compared with £314m in the 10 months of FY 2003/04. That means the airline (and cargo) part of Virgin Atlantic recorded revenue of £1,223m in 2004/05, compared with £958m in the 10 months of 2003/04. If the 2003/04 figure is extrapolated to a 12 month basis, the airline's 2004/05 revenue is just 6% higher. The difference in profit margin between the tour operating and airline operation is unknown, but what is apparent is that Virgin Holidays is being given more prominence within the over-



Note: Until 2003, FY to end of April. *03/04 is 10 months to end Feb. *04/05 is 12 months to end Feb.

all Virgin Atlantic operation, for example by helping the airline choose which destinations to add to its network. As for Virgin Atlantic's cargo business, it carried 149,000 tonnes in 2004/05, although that was just 4% higher than the 2000/01 financial year (the last financial year pre-September 11). 45% of cargo tonnage comes from routes to the US, while 44% is on flights to the Asia/Pacific region.

Expansion push

Branson intends to double both the revenue and fleet at Virgin Atlantic by the end of the decade, with the immediate aim for the 12 months to the end of February 2006 being a growth in capacity and revenue of between 10% and 15%.

More than 1,500 staff (including 150 pilots and 1,100 cabin crew) will be recruited by the end of 2006, although one-third of them will be for natural staff turnover. During the financial year to the end of February 2005 the Virgin Atlantic workforce increased by 600 (mostly cabin crew) to 8,118, and the extra 1,000 staff will lift the workforce to almost 9,500 by the end of next year. Longer-term, Virgin Atlantic is looking to increase its staff to 12,000 by 2010.

In terms of the fleet, Virgin Atlantic currently operates 18 A340s and 13 747s, at an average age of just under six years. Three A340-600s were received in 2004/05, and Virgin Atlantic currently has 21 aircraft on outstanding firm order. Two A340-600s are outstanding from a previous order, while 13 A340-600s were ordered in August 2004, for delivery in 2006-2008 (with another 13 aircraft on option). The A340s are valued at £2.3bn at list prices, but Virgin Atlantic will have negotiated a steep discount on this. Three aircraft from the order are to be leased from ILFC on 12 year contracts, and they will join seven other aircraft in Virgin Atlantic's fleet on lease from the US lessor.

These join the six A380s (and six options) that Virgin Atlantic ordered in February 2001, which will be delivered between May 2008 and February 2010. Originally the aircraft were to be delivered from the summer of 2006, but the date was delayed by an initial 18 months due to problems with suppliers of interior cabin equipment and delays in facilities at airports, although the delivery schedule has since slipped even further. Virgin Atlantic's A380s will be in a 555-seat configuration and are due to be used on routes to New York, Hong Kong, Los Angeles, Sydney, Tokyo, Washington DC and Johannesburg. In total, the fleet will rise to 36 aircraft by February 2006 and to 39 by the end of 2006.

The extra staff and aircraft will be used primarily for the launch of a series of new long-haul routes around the globe although - crucially - almost all of them will be outside of the transatlantic sector. In 2004 no less than 65%

VIRGIN ATLANTIC'S FLEET

	Fleet	On order	Options
A340-300	8		
A340-600	10	15	13
A380		6	6
747-400	13		
Total	**31**	**21**	**19**

of Virgin Atlantic's capacity and 67% of its RPKs came from North Atlantic flights, a significantly higher proportion of total long-haul capacity and traffic than at any of its main European rivals (see chart, right).

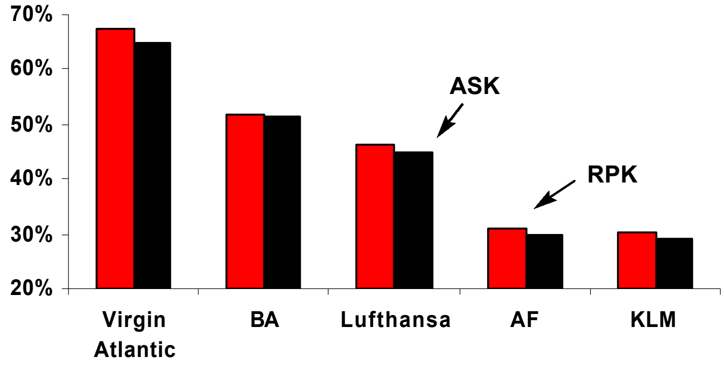
Steve Ridgway, CEO of Virgin Atlantic, said in April this year that the airline fully supported the EU's attempts to strike an open skies deal with the US, and it would undoubtedly benefit from the lifting of foreign ownership restriction in US airlines (see below). However, at the same time Virgin Atlantic's transatlantic revenues will be hit significantly if more US and UK airlines are allowed to compete on US-UK routes. Virgin Atlantic is already concerned about overcapacity on transatlantic routes, where struggling US airlines have been slashing fares in order to bring in revenue to compensate for dismal domestic turnover, but the situation will get much worse once more than just two US and two UK airlines compete on the transatlantic sector.

New routes

As Virgin Atlantic tries to lessen its dependence on the transatlantic market, the focus is turning to the Asia/Pacific region, the Caribbean, India, the Middle East, Africa and China.

A London Heathrow-Mumbai route using A340-300s was launched in March 2005, following the signing of a new, liberalised bilateral between India and the UK in September 2004. Prior to the new bilateral, BA had operated 19 of the permitted weekly frequencies between the UK and India, with Virgin Atlantic flying just three times a week on Heathrow-Delhi via a codeshare with Air India (although this codeshare deal has since ended). Following the revised bilateral (on a sector worth an estimated £200m in revenue each year), the UK CAA awarded 10 of the additional 21 frequencies to Virgin Atlantic, seven to BA and four to bmi. Naturally, all three airlines appealed, but in March this year the UK government upheld the CAA's decision. However, after another round of bilateral negotiations in the spring, an additional 44 weekly frequencies over the next 18 months

NORTH ATLANTIC CAPACITY AND TRAFFIC AS A PERCENTAGE OF TOTAL LONG-HAUL, 2004



Source: AEA

were agreed. Despite a suggestion that Virgin Atlantic might operate UK-India routes jointly with bmi, Virgin Atlantic is pushing ahead on its own, and will expand its services to daily flights to New Delhi and Mumbai by December this year. The airline is also looking at other Indian destinations.

A twice-a-week service between London Gatwick and Havana was also launched in July 2005 to tap into rising demand from UK holidaymakers to Cuba, while in the same month a weekly service commenced between London Gatwick and Nassau in the Bahamas. Both routes use 747-400s. A London Heathrow-Dubai service will also start in March 2006 with A340-600s, the first of what Virgin Atlantic hopes will be several routes on the lucrative London-Middle East market - although Emirates is likely to react very competitively to Virgin Atlantic's moves. And following a revised bilateral between UK and Jamaica, a Gatwick-Montego Bay route will launch in July next year, using 747-400s. These two definite new routes will bring to 28 the number of destinations served by Virgin Atlantic.

Virgin Atlantic has been operating between London and Shanghai since 1999, and on October 30 this year boosted the route to a daily service. The increased frequencies were made possible by the Chinese government's listing of the UK as one of its "Approved Destination Countries" (which enables many more Chinese tourists to visit), part of the government's liberalisation policies (see *Aviation Strategy*, September 2005).

Virgin Atlantic believes there is great potential for UK-Chinese travel - but so does BA, and it launched a five-times-a-week Heathrow-Shanghai service in June. Virgin Atlantic also plans to launch a daily London-Beijing service at some point in the near future.

However, Virgin Atlantic's long-haul expansion plans have not all gone to plan. Following a new bilateral between Hong Kong and the UK to allow fifth freedom rights to Australia, in December 2004 Virgin Atlantic launched a daily London Heathrow to Sydney route via Hong Kong, using A340-600s, which it wanted to increase to two flights a day. Routes to Australia had long been a target for Virgin Atlantic (in order to challenge BA/Qantas on what is a very profitable route) and the airline also wanted to launch a route to another Australian destination - most likely Melbourne or Sydney.

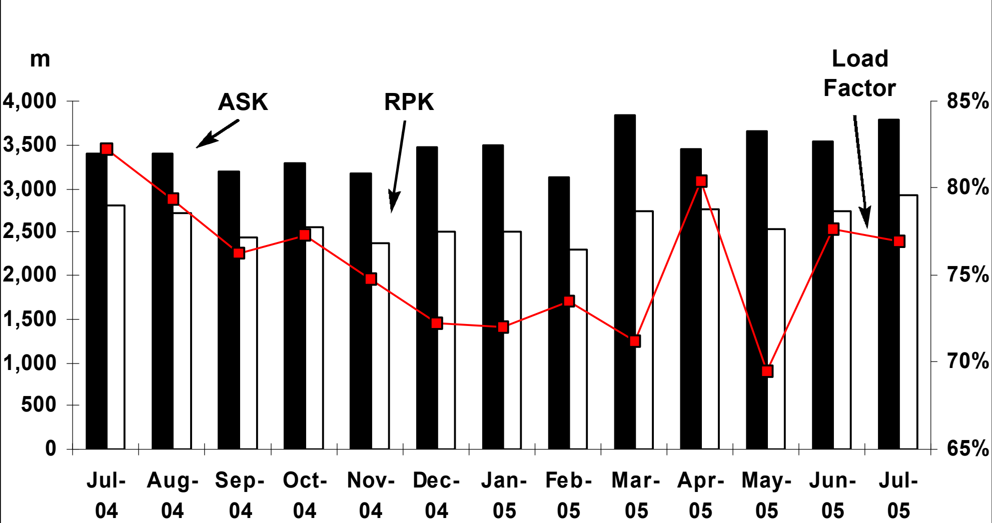
But Virgin Atlantic's performance on the so-called "Kangaroo route" has been poor. In April outbound flights had an average load factor of just 36%, and incoming flights achieved a paltry 33%. Following a two-for-one offer on economy seats to Hong Kong, load factor on the route has reached at least 50% in both directions, but according to a Virgin executive the airline was unprepared for the level of competition on the Sydney-Hong Kong route. Rivals Cathay and Qantas increased capacity in response to Virgin's entry, and almost 1,000 extra seats a day are now available on the sector. This forced Virgin Atlantic to significantly restructure its pricing policy this summer, with a reduction in some fares by as much as 50%. It's unlikely the route is making a profit at the moment, although in July Virgin Atlantic commenced codesharing with Australian-based Virgin Blue on beyond flights from Sydney to six Australian destinations.

One of these is Melbourne, which has long been a target for Virgin Atlantic following demand from business travellers, though a direct service has been hampered by a delay in getting traffic rights. The current Australia-UK bilateral allows 28 flights per week from British airlines, of which Virgin Atlantic has seven and British Airways 21. Qantas operates all 28 of the Australian capacity. Virgin Atlantic complained to the Australian regulator about an extension of BA's alliance with Qantas, but the regulator turned down the appeal. Instead, Virgin's hopes depend on talks held this summer between Australia and the UK on expanding the bilateral. An expansion of flights is even more crucial given that local analysts are uncertain as to how many of Virgin Atlantic's business passengers will want to transfer onto Virgin Blue flights, which is a single-class LCC operation.

A Manchester-Barbados service is also possible before the end of the year, while frequencies are being increased on a number of routes by the end of 2006, including to Shanghai, Las Vegas, Orlando, Port Harcourt, Dubai and Jamaica. Other new destinations under consideration include Mauritius, the Seychelles and Rio de Janeiro.

Virgin Atlantic is also revamping its portfolio of codeshare and frequent flier partnerships. Codesharing began with America West (now US Airways) in 2004 on domestic US routes operated to/from four of Virgin Atlantic's eight US destinations (Los Angeles, San Francisco, Las Vegas and Washington Dulles). Virgin has been codesharing with Continental on North Atlantic flights since 1998, and the airline

VIRGIN ATLANTIC'S TRAFFIC STATISTICS



also codeshares with bmi, Malaysia Airlines and Singapore Airlines. An existing interline deal with South African airline Nationwide was replaced on October 31 this year by a domestic codeshare and frequent flier agreement with South African Airways on beyond destinations from Johannesburg.

A key part of Virgin Atlantic's expansion plan is to almost double the number of passengers it will be able to handle at London Heathrow by 2012, following a deal struck with airport operator BAA earlier in 2005. The first part of the expansion will be completed by BAA by 2008, when Virgin Atlantic's first A380 will be delivered, and the work will be competed by 2012, when the airline will be able to handle 5.5m passengers a year at Heathrow (compared with 3m at present).

Although not part of the Virgin Atlantic group, Branson has other substantial airline interests, though they have met with varying degrees of success. Virgin Express, Branson's attempted European LCC, was a failure strategically (see *Aviation Strategy*, April 2004) and is merging operations with SN Brussels Airlines this year. And Branson's other current aviation investments are meeting with variable success too.

Virgin America: delay after delay

Virgin America intends to be a LCC that will now commence operations sometime in the first half of 2006. However, the airline's launch has been delayed several times already, and it originally intended to start way back in 2003 (under the name Virgin USA). In April of that year Branson declared that the airline would be launched "within six months" - once $150m was raised from venture capitalists - while in early 2005 Branson said the launch financials were in the final contractual stages. However, both times Branson's optimism has proved to be wrong.

Branson now says that "it has taken slightly longer than thought to get suitable investors on board because we are giving away control of the Virgin brand in the US. We've got to pick someone who can do the job well." But it may be that the delay is due to a lack of financing, although the launch team may be facing a host of other problems too. For example, Virgin America is likely to face opposition from unions and politicians over the impact to weaker US carriers from a LCC in which a foreign company holds up to 49% of the equity (although it can have no more than 25% of voting rights according to current US regulations).

Unions are fully aware that Branson cited US foreign ownership restrictions as a reason that Virgin did not invest in Jet Blue Airways in the late 1990s. Last year the giant AFL-CIO union wrote a letter to Congress in which it alleged Branson had an agenda to "gut US laws that limit foreign control and ownership of US airlines and that bar foreign air carriers from servicing domestic point-to-point markets in the US". The letter went on to warn that "we will strongly oppose any rule-bending that harms airline workers".

US airlines are also reacting aggressively towards the perceived threat of Virgin America. Alaska Airlines, for example, told its employees that it would be "all over it [i.e. Virgin America] defending our territory", and that "if they attack our routes, we will meet and match them at every turn". Most concern though must be felt at United, which has a hub at San Francisco (Virgin America's proposed operational base). Interestingly, Southwest moved its operations from San Francisco to Oakland in 2001 after citing delays and poor turnaround times at San Francisco airport.

For the moment though, both unions and airlines are waiting for Virgin America to launch. Surprisingly, there has been no official press communication from Virgin America since July 2004. This deafening silence followed a host of announcements in the first half of that year, including the appointment of Frederick Reid as Virgin America's CEO. Reid resigned as COO and president of Delta in early 2004 after being overlooked for the CEO position at the US carrier, and must have been looking forward for a rapid expansion of Branson's new airline, particularly given the June 2004 announcement that Virgin America had ordered 105 A320 family aircraft. This included 11 A319s and seven A320s, (with options for 72 further A320 family aircraft) as well as 15 additional new A320s to be leased from GECAS.

The firm Airbus order was to be delivered from early 2005, but that obviously hasn't happened, and some US-based aviation observers believe Virgin America is highly unlikely to be able to launch even in the first half of next year.

Question marks have also been raised over Virgin America's proposed "split personality", with operations based at San Francisco and corporate headquarters based in New York - which must hold the record for the longest distance between the operational and corporate HQs of any airline in the world. The split presence is less to do with logic than local government incentives, with the state of California contributing a reported $15m in benefits towards the San Francisco operation and the city and state of New York offering $11m for the corporate base. Between them, the two bases will employ up to 3,000 staff, when - or if - the carrier is launched.

Virgin Nigeria: brave joint venture

In October 2004 Virgin Atlantic agreed a deal with the Nigerian government to launch Virgin Nigeria Airways. The government had been trying to launch a new flag carrier since the collapse of Nigeria Airways in May 2003, but previous attempts had failed (see *Aviation Strategy*, July/August 2004). In 2004 the plan was for the airline to be called Nigerian Eagle Airlines and be launched in October of that year, but after talks with proposed partner South Africa Airways stalled during the summer, the government approached Virgin Atlantic. Branson's airline still had to compete against SAA in a final shortlist to win the joint venture deal, but the success of its London-Lagos route launched in 2001 is believed to have been influential in the government's decision to choose the UK carrier as its strategic and technical partner.

Virgin Atlantic owns 49% of the airline, with the other 51% being held by Nigerian institutional investors. The Lagos-based airline has its own management team, employs 1,000 staff in Nigeria and currently operates a fleet of three Airbus aircraft. Virgin Nigeria's first route was Lagos-London Heathrow, started in June this year with an A340-300 transferred from Virgin Atlantic, while two A320s are used for routes from Lagos to Abuja, Port Harcourt and Accra (Ghana). The A320s are temporary, as they will be replaced by 737-300s, the first of which will be delivered in December 2005. The airline aims to increase its fleet to 11 aircraft by the end of 2006, with seven 737s and four A340s.

These aircraft will operate on new regional routes within western and southern Africa (such as to Johannesburg and Douala in the Cameroon), while on long-haul the airline wants to operate the US (New York and Houston are under consideration), Asia, Europe and the Middle East (Dubai is a target). Altogether the airline plans to have a network of more than 15 routes by the end of next year. Virgin Nigeria is also aiming to become profitable from 2006 onwards, and - according to Branson - if the airline is successful the joint venture concept could be extended into other west African countries.

Virgin Blue: the lost shareholding

The Australian-based LCC was launched by Branson in August 2000 and today operates a fleet of 47 737-700s and 737-800s to more than 30 domestic destinations, as well as to New Zealand and selected Pacific islands. It has grown to become the second biggest airline in Australia after Qantas, with an estimated 30% share of the domestic market. Even though Virgin Blue issued a profit warning in August, saying that net profits for the 12 months to end of September 2005 were likely to be in the US$67m-US$76m range (compared with US$120m in the previous financial year) - due to higher fuel prices and increasing competition from airlines such as Jetstar, the LCC launched by Qantas - the airline must be considered a huge success. But the Virgin Group controls only 25% of Virgin Blue.

The airline was set up as a 50:50 joint venture between the Virgin Group and the Patrick Corporation, an Australian transport conglomerate, but in December 2003 Virgin Blue carried out an IPO, with Virgin's stake falling to 25% and Patrick's to 45%. But Branson appears to have made a strategic error in allowing the Virgin Group's stake to drop much lower than Patrick's, because in January 2005 Patrick announced a takeover bid for the whole of Virgin Blue - a bid that took the Virgin Group by surprise and which it resisted strongly. Although ideally Patrick wanted to take 100% control of the airline, it still managed to increase its stake to 62.4%. That gives Patrick effective control of the airline - albeit it with an upset and troublesome minority shareholder that does not want to sell its stake.

Indeed in August this year the Virgin Group said it was supporting an attempt by Toll Holdings - another Australian transport conglomerate - to take over Virgin Blue. Branson said that if successful, the bid would allow the Virgin Group to increase its stake to 41% and "take a more active role in Virgin Blue's strategic direction". He added: "As a minority shareholder we have been somewhat frustrated by the delay in implementing new business initiatives such as the frequent flyer programme and the decision made not to hedge Virgin Blue's exposure to fuel prices."

Given that Branson now regrets selling down Virgin Group's stake, why did he do so in the first place? A clue comes from sale of 49% of Virgin Atlantic (for £600m) to Singapore Airlines in April 2000, which revealed just how vital the cash-generating airlines are to the entire Virgin empire. In 2000 an investigation by the UK's *Economist* newspaper revealed that the Singapore sales effectively saved Branson's music retail chain from bankruptcy. The *Economist* stated: "As Virgin's finance chief admits, without the money from SIA Virgin would have had to approach the trustees of Branson's offshore family trusts, which are the ultimate controllers of his companies. The financial position of these private trusts, based in the Channel Islands, is secret … The trusts would have lent the money and it would have been repaid out of the bumper cash flow that Virgin Atlantic rakes in during the busy summer months. One way or another, the airline was to be the ultimate source of the cash."

So as much as Branson is attracted to the excitement of the airline industry, he is also pragmatic enough to milk successful airlines as cash cows when needed.

Virgin Blue is keen to export its business model to other parts of the Asia/Pacific region. In January 2004 Virgin Blue launched Pacific Blue, a New Zealand-based LCC that uses three 737-800s on routes to Australia and Pacific islands. Based in Christchurch, the airline used the "Blue" name since Virgin Blue does not have the legal right to use the Virgin brand outside of the Australian market.

Virgin Blue is also now launching Polynesian Blue, in partnership with the West Samoa government, to take over the international routes previously operated by flag carrier Polynesian Airlines, but now to be operated under a LCC strategy. Routes from Apia to Auckland and Sydney were due to launch in late October/early November using 737-800s crewed by Polynesian Airlines' staff. Virgin Blue and the government each own 49% of Polynesian Blue, with the last 2% held by "an independent Samoan shareholder".

New airline opportunities

As well as long-haul expansion, Virgin Atlantic and Branson are scouring the globe for other start-up opportunities. Branson says he is advanced in his plans to launch another airline in Australia, this timed focussed on the Australia to US sector (particularly to Los Angeles), as well as to Japan and China. A CEO is being hired at the moment and according to Branson the airline is set to launch by the end of 2005, with Virgin owning up to 49%, with 51% held by a local investor. The move by Branson to set up a transpacific airline comes after Virgin Blue decided to focus on a domestic network - although given the relationship between the Virgin Group and Patrick (see above), it would come as no surprise if the new airline competed against Virgin Blue in the long-term.

In the shorter-term, a new transpacific airline will face fierce competition anyway. Qantas operates to Los Angeles from Brisbane, Sydney and Melbourne (and will operate A380s on the sector later this decade). Singapore Airlines also wants to operate routes between Australia and the US, and is unlikely to be influenced by its 49% stake in Virgin Atlantic. Much depends on whether the Australian government is prepared to give Singapore fifth freedom rights, which puts Branson in the delicate position of either explicitly or implicitly lobbying against the interests of Virgin Atlantic's minority shareholder.

Elsewhere, India has long been a target for Virgin, and in July 2005 Richard Branson promised that an investment of up to $50m would be made into an Indian domestic airline within the next six months, presumably an existing carrier given the number of new LCCs now in the Indian market. However, since the Indian government does not permit foreign airlines to invest in its carriers, the stake will be made in a personal capacity, most likely being held by one of the myriad of offshore companies/trusts that Branson controls.

China too is on the Branson radar, and his development team are believed to be examining at several possibilities in the Chinese market - although it's unlikely that the Chinese government's liberalisation drive could extend to a Virgin China in anything other than the long-term.

Atlantic outlook

While Branson is pressing ahead on several fronts in establishing new airlines, what's clear is that he tends to be too optimistic about timescales. However, the success (or otherwise) of new Virgin airlines around the globe and held by other parts of the Virgin empire will not particularly affect the future of Virgin Atlantic. Rumours persist that Virgin Atlantic would like to merge with bmi in order to challenge British Airways even more keenly. The airline is believed to be interested in acquiring the 30% stake in bmi that Lufthansa may want to sell (see *Aviation Strategy*, May 2005), although some analysts believe this is no longer a possibility given Virgin Atlantic's ambitious organic growth plans. Maybe - but Branson may also be hedging his bets, since by building up the perceived strength of Virgin Atlantic he will be in a better position to negotiate the best deal for Lufthansa's bmi stake in the future.

Much depends on Virgin Atlantic's performance in the 2005/06 financial year, in which management says profits will increase. Sources suggest Virgin Atlantic's figures for the first quarter of the 2005/06 financial year (March-May 2005) have been according to plan, but it is believed that rising fuel costs will have hit second quarter results. An overall increase in profits for the year is a brave prediction given the challenge of rising fuel costs. In the 2004/05 financial year fuel costs totalled £293m, against a budgeted expenditure of £233m, and a fuel surcharge introduced in May 2004 only recovered £20m of the extra £60m fuel costs experienced during the year. Perhaps this is one reason why Branson is now apparently launching Virgin Oil, which plans to build an oil refinery in the UK

This financial year, fuel costs could top the £400m mark. In June Virgin Atlantic increased its fuel surcharge from £16 to £24 per sector on all tickets sold in the UK, and in September raised it further, to £30. Again however, this is likely to only recover part of the extra costs.

Virgin Atlantic is pushing ahead with a cost-cutting programme that is targeting to save £50m by the 2006/07 financial year, but much of the planned savings are to come from renegotiated contracts with suppliers. Substantial savings may be hard to achieve; for example, one of the biggest suppliers to Virgin Atlantic is Gate Gourmet, the in-flight meals provider that is undergoing substantial financial problems (and in current contract negotiations with British Airways is insisting that its prices go up, not down, as Virgin wants). And there is a risk that the dash for non-transatlantic growth will hit the bottom line. Altogether the next 12 months will be a challenging time for Virgin Atlantic.

AIR FREIGHT DEMAND FORECAST 2004 - 2009 (tonnes)

Origin	Destination	Service Level	Actual - 2004	2005	2006	2007	2008	2009	CAGR 2004-09
Africa	Asia/Pacific	Express	5,371	5,534	6,153	6,901	7,805	8,928	10.7%
Africa	Asia/Pacific	Standard	39,737	40,990	44,730	48,987	53,882	59,256	8.3%
Africa	Europe	Express	19,547	22,246	24,904	27,833	31,199	35,105	12.4%
Africa	Europe	Standard	287,731	323,012	348,934	375,960	405,126	437,573	8.7%
Africa	Latin America	Express	1,039	1,099	1,214	1,352	1,518	1,720	10.6%
Africa	Latin America	Standard	5,812	6,060	6,499	6,992	7,538	8,144	7.0%
Africa	Middle East	Express	2,088	2,217	2,381	2,548	2,732	2,941	7.1%
Africa	Middle East	Standard	22,082	23,225	25,260	27,495	29,968	32,716	8.2%
Africa	N. America	Express	5,555	5,648	6,603	7,837	9,460	11,557	15.8%
Africa	N. America	Standard	33,381	33,801	37,502	41,741	46,710	52,493	9.5%
Asia/Pacific	Africa	Express	18,126	21,485	24,522	27,953	31,922	36,436	15.0%
Asia/Pacific	Africa	Standard	107,753	118,089	126,946	136,239	146,233	156,799	7.8%
Asia/Pacific	Asia/Pacific	Express	506,320	516,994	582,894	658,329	744,870	842,838	10.7%
Asia/Pacific	Asia/Pacific	Standard	3,254,641	3,293,516	3,522,483	3,765,446	4,023,368	4,293,096	5.7%
Asia/Pacific	Europe	Express	270,902	292,764	328,803	371,919	421,496	477,767	12.0%
Asia/Pacific	Europe	Standard	1,760,269	1,858,336	1,997,527	2,154,245	2,323,511	2,503,581	7.3%
Asia/Pacific	Latin America	Express	21,067	22,306	25,468	29,193	33,634	38,925	13.1%
Asia/Pacific	Latin America	Standard	122,697	127,074	137,507	148,720	160,883	174,002	7.2%
Asia/Pacific	Middle East	Express	28,827	35,294	41,647	48,912	57,476	67,524	18.6%
Asia/Pacific	Middle East	Standard	206,139	228,202	249,370	271,177	294,440	319,224	9.1%
Asia/Pacific	N. America	Express	309,106	339,734	384,305	438,060	502,294	581,597	13.5%
Asia/Pacific	N. America	Standard	1,682,669	1,790,004	1,932,805	2,087,646	2,254,576	2,440,194	7.7%
Europe	Africa	Express	52,459	57,496	60,314	63,240	66,255	69,426	5.8%
Europe	Africa	Standard	284,965	306,117	318,802	331,745	345,004	358,867	4.7%
Europe	Asia/Pacific	Express	203,377	207,338	221,651	237,761	254,903	272,672	6.0%
Europe	Asia/Pacific	Standard	1,393,664	1,414,328	1,501,534	1,598,996	1,702,590	1,808,313	5.3%
Europe	Latin America	Express	57,649	59,414	64,107	69,241	74,461	79,845	6.7%
Europe	Latin America	Standard	290,140	297,264	317,525	339,399	361,325	383,678	5.7%
Europe	Middle East	Express	65,039	70,210	74,774	79,750	85,033	90,736	6.9%
Europe	Middle East	Standard	374,192	393,575	414,666	437,222	460,759	485,803	5.4%
Europe	N. America	Express	194,682	200,598	212,995	226,881	241,746	258,490	5.8%
Europe	N. America	Standard	1,139,914	1,160,418	1,213,977	1,271,708	1,331,012	1,394,557	4.1%
Latin America	Africa	Express	2,839	3,297	3,590	3,906	4,252	4,634	10.3%
Latin America	Africa	Standard	9,100	9,772	10,326	10,893	11,484	12,109	5.9%
Latin America	Asia/Pacific	Express	8,296	8,784	10,223	11,909	13,924	16,319	14.5%
Latin America	Asia/Pacific	Standard	54,549	55,971	60,643	65,702	71,253	77,353	7.2%
Latin America	Europe	Express	28,704	31,676	34,376	37,303	40,566	44,282	9.1%
Latin America	Europe	Standard	262,957	291,123	311,436	332,472	354,835	379,278	7.6%
Latin America	Middle East	Express	1,497	1,633	1,745	1,872	2,015	2,179	7.8%
Latin America	Middle East	Standard	11,746	12,060	12,113	12,178	12,271	12,403	1.1%
Latin America	N. America	Express	79,895	87,292	97,962	110,529	124,980	142,026	12.2%
Latin America	N. America	Standard	667,106	699,608	742,586	789,369	839,087	892,044	6.0%
Middle East	Africa	Express	2,395	2,798	3,134	3,485	3,877	4,329	12.6%
Middle East	Africa	Standard	11,403	12,511	13,396	14,216	15,063	15,975	7.0%
Middle East	Asia/Pacific	Express	14,338	15,096	17,156	19,441	22,011	24,953	11.7%
Middle East	Asia/Pacific	Standard	67,328	68,761	74,211	80,043	86,298	93,102	6.7%
Middle East	Europe	Express	16,158	17,961	19,587	21,440	23,489	25,789	9.8%
Middle East	Europe	Standard	134,811	146,966	156,101	165,843	176,187	187,519	6.8%
Middle East	Latin America	Express	1,359	1,502	1,686	1,906	2,177	2,515	13.1%
Middle East	Latin America	Standard	7,337	7,783	8,294	8,839	9,438	10,102	6.6%
Middle East	N. America	Express	10,663	12,193	13,962	16,050	18,555	21,693	15.3%
Middle East	N. America	Standard	72,393	75,500	81,508	88,073	95,167	103,152	7.3%
N. America	Africa	Express	9,157	9,957	10,496	11,222	12,168	13,327	7.8%
N. America	Africa	Standard	37,526	40,462	42,436	44,837	47,765	51,147	6.4%
N. America	Asia/Pacific	Express	192,937	201,172	215,238	231,468	250,114	272,044	7.1%
N. America	Asia/Pacific	Standard	887,399	912,709	960,567	1,014,239	1,074,110	1,142,082	5.2%
N. America	Europe	Express	170,743	178,049	183,346	189,952	197,369	205,942	3.8%
N. America	Europe	Standard	856,218	892,478	915,344	941,392	969,285	999,953	3.2%
N. America	Latin America	Express	96,257	102,068	107,792	113,886	120,207	127,454	5.8%
N. America	Latin America	Standard	272,902	287,333	294,261	300,322	305,361	310,999	2.6%
N. America	Middle East	Express	20,625	21,674	23,414	25,514	28,070	31,252	8.7%
N. America	Middle East	Standard	80,896	84,642	89,211	94,477	100,527	107,516	5.9%

Source: MergeGlobal Inc. 1010 N. Glebe Road, Suite 250 , Arlington, VA 22201 USA

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		Group revenue US$m	Group costs US$m	Group op. profit US$m	Group net profit US$m	Operating margin	Net margin	Total ASK m	Total RPK m	Load factor	Total pax. 000s	Group employees
Alaska	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
	Apr-Jun 05	756	747	9	17	1.2%	2.2%	8,920	6,947	77.9%	4,232	9,144
American	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
	Apr-Jun 05	5,309	5,080	229	58	4.3%	1.1%	72,447	57,605	79.5%		88,500
America West	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
	Apr-Jun 05	833	803	30	14	3.6%	1.7%	12,480	10,277	82.3%	5,752	12,200
Continental	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	
	Apr-Jun 05	2,857	2,738	119	100	4.2%	3.5%	36,138	29,041	80.4%	11,465	
Delta	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
	Apr-Jun 05	4,185	4,314	-120	-382	-2.9%	-9.1%	65,136	50,957	78.2%	31,582	65,300
Northwest	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
	Apr-Jun 05	3,195	3,375	-180	-217	-5.6%	-6.8%	38,256	32,218	84.2%	15,145	38,348
Southwest	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
	Apr-Jun 05	1,944	1,667	277	159	14.2%	8.2%	34,341	24,912	72.5%	20,098	31,366
United	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**
	Jan-Mar 05	**3,915**	4,165	-250	-1,070	-6.4%	-27.3%	55,133	43,103	78.2%	15,667	56,300
	Apr-Jun 05	4,423	4,375	48	-1,430	1.1%	-32.3%	56,538	47,156	83.4%	17,150	55,600
US Airways	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
	Apr-Jun 05	1,945	1,904	41	-62	2.1%	-3.2%	26,547	20,165	76.0%	15,826	21,396
JetBlue	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
	Apr-Jun 05	430	390	39	12	9.1%	2.8%	9,408	8,247	87.7%	3,695	7,284

***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/												
KLM Group	Apr-Jun 04	5,394	5,205	189	115	3.5%	2.1%	48,944	38,025	77.7%		
YE 31/03	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	
	Year 2004/05	**24,641**	**21,744**	**641**	**453**	**2.6%**	**1.8%**	**214,606**	**168,998**	**78.7%**	**64,075**	**102,077**
	Apr-Jun 05	6,257	5,982	275	135	4.4%	2.2%	57,936	46,041	79.5%	17,948	101,886
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
	Jan-Mar 05	3,549	3,474	96	17	2.7%	0.5%	35,677	26,062	73.0%	8,178	45,914
	Year 2004/05	**14,681**	**13,666**	**1,015**	**472**	**6.9%**	**3.2%**	**144,189**	**107,892**	**74.8%**	**35,717**	**46,065**
	Apr-Jun 05	3,716	3,398	318	162	8.6%	4.4%	36,706	27,768	75.6%	9,177	46,079
Iberia												
YE 31/12	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
	Year 2004	**6,466**	**6,212**	**254**	**252**	**3.9%**	**3.9%**	**61,058**	**45,924**	**75.2%**	**26,692**	**24,993**
	Jan-Mar 05	1,531	1,571	-40	-21	-2.6%	-1.4%	15,261	11,421	74.8%	6,181	24,044
	Apr-Jun 05	1,466	1,392	74	54	5.0%	3.7%	15,843	11,939	75.4%	7,242	24,435
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**
	Jan-Mar 05	5,041	5,079	-38	-150	-0.8%	-3.0%	32,477	23,793	73.3%	11,190	89,939
	Apr-Jun 05	5,487	5,138	349	140	6.4%	2.6%	37,700	28,178	74.7%	13,583	90,373
SAS												
YE 31/12	**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**
	Jan-Mar 05	1,842	1,990	-148	-137	-8.0%	-7.4%	12,465	7,342	58.9%	7,299	31,797
	Apr-Jun 05	2,046	1,925	121	64	5.9%	3.1%	13,810	9,259	67.0%	9,357	32,285
Ryanair												
YE 31/03	**Year 2002/03**	**910**	**625**	**285**	**259**	**31.3%**	**28.5%**			**84.0%**	**15,740**	**1,900**
	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
	Year 2004/05	**1,727**	**1,301**	**426**	**345**	**24.7%**	**20.0%**			**84.0%**	**27,593**	
	Apr-Jun 05	488	392	96	84	19.7%	17.2%			83.4%	8,500	2,764
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**	**3,727**
	Oct-Mar 05	1,039	1,116	-77	-41	-7.4%	-3.9%	14,526	12,150	83.8%	13,500	

Note: Annual figures may not add up to sum of interim results due to adjustments and consolidation.

		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
July-2005	160	47	207	248	44	292	499

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
July-2005	26	12	38	97	21	118	156

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
August-05	27.9	20.7	68.9	21.2	18.3	86.2	14.5	12.0	82.8	50.1	42.4	84.7	74.5	60.6	81.3
Ann. chng	2.4%	4.9%	1.7	-0.3%	0.7%	0.9	6.8%	10.9%	3.1	3.9%	5.4%	1.2	3.3%	5.2%	1.5
Jan-Aug 05	206.6	138.9	66.2	152.5	126.7	83.1	110.3	87.4	79.2	374.0	303.7	81.2	553.1	426.1	77.0
Ann. Change	2.9%	5.1%	1.4	0.8%	1.8%	0.8	9.2%	11.6%	1.7	4.9%	6.2%	1.0	4.2%	5.9%	1.4

Source: AEA

US MAJORS' SCHEDULED TRAFFIC

	Domestic			North Atlantic			Pacific			Latin America			Total Int'l		
	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %	ASK bn	RPK bn	LF %
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
August-05	89.1	72.7	81.6	16.7	14.1	84.5	10.4	8.8	85.0	9.0	6.9	77.4	36.0	29.9	82.9
Ann. Change	-0.9%	1.1%	1.6	7.8%	7.1%	-0.6	11.7%	11.5%	-0.2	4.2%	5.7%	1.1	8.0%	8.0%	0.0
Jan-Aug 05	681.3	537.2	78.8	117.1	97.2	83.0	77.9	64.7	83.0	72.5	53.8	74.3	267.5	215.7	80.6
Ann. Change	-0.1%	3.4%	2.7	7.7%	8.9%	1.0	13.7%	11.0%	-2.0	10.6%	14.5%	2.5	10.2%	10.9%	0.6

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	22 Sept	Air Atlanta Icelandic	4 x 777F	02/2009 onwards	plus 2 options
	02 Oct	El Al	2 x 777-200ER	2007	
	05 Oct	Ryanair	9 x 737-800	09/2007 onwards	converted options
	06 Oct	Austrian Airlines	1 x 77-200ER	4Q 2006	
Airbus	28 Sept	Air France	3 x A318	2006 onwards	CFM56
	11 Oct	LAN Chile	25 x A320	2006 onwards	plus 15 options
Embraer					
Bombardier	06 Oct	Styrian Spirit	1 x CRJ900		

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

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