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Capacity bubble in the Middle East

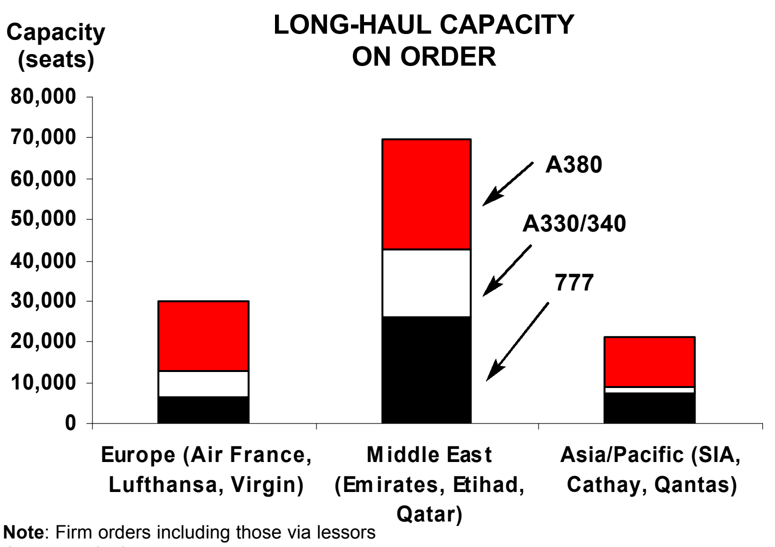
The Middle East "super-connectors" - Emirates, Etihad and Qatar Airways - have built up an impressive aircraft backlog - 51 A380s and 129 A330/340/777 types. These are firm orders, and include Emirates' 42x777 order announced at the Dubai airshow in mid-November.

Is this a petrodollar-fuelled folly or an aggressive but rational strategy to establish competitive global connecting networks? Or both?

The chart below compares long-haul capacity on order at Emirates, Etihad and Qatar Airways with their main European competitors - Lufthansa, Air France/KLM and Virgin Atlantic (BA has no current long-haul orders) and their main Asian competitors (SIA, Cathay Pacific and Qantas). The Middle East carriers have 36% more long-haul seats on order than the European and Asian airlines combined. And whereas the Middle East capacity is almost all destined for Sixth Freedom Europe-Asia operations, the European/Asian airlines capacity will be deployed as Atlantic, Pacific and intra-Asian routes as well as Europe-Asia.

When the Middle East carriers' total of 70,000 seats are eventually all delivered, they will have additional capacity sufficient to carry over 25m passengers a year. For comparison, the total volume of passengers flown on all AEA airlines to/from the Middle East and to/from the Far East in 2004 was 21m.

Another slightly disconcerting statistic is that the combined population of Dubai, Abu Dhabi and Qatar, the home states of the three Middle East carriers, amounts to a maximum of 3m people. So



Note: Firm orders including those via lessors
Source: *ACAS*

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there should be relatively little potential local traffic growth at the airlines' bases.

However, Emirates does present an intriguing case for the development of major tourism flows to its fantastical resorts in the Gulf. The projects really are mind-boggling - Sea World, for example, where artificial islands in the Arabian Gulf have been constructed to replicate in miniature the world's continents. If you're rich enough, you can you can buy a luxury property in the shape of your favourite country - Rod Stewart has just snapped up Scotland, or possibly the whole of Great Britain.

Back in the world of intercontinental airline competition, the Middle East carriers have a two-pronged strategy. The A380s will allow them to expand at slot-constrained airports like Heathrow and Frankfurt, where their scale economies potentially give them a unit cost advantage over 747 operators like BA. The 777s and A330s will be targeted directly at smaller points like Hamburg, Dusseldorf and Manchester, where they potentially threaten to divert business travellers from connecting over the home carriers' main hubs. Lufthansa appears to be particularly at risk here as a high percentage of German business travellers are based at cities other than Frankfurt and Munich.

Air France has responded by urging the European Commission to investigate Emirates for unfair state subsidies, and Qantas is resisting Emirates' planned expansion of services to Australia by complaining to its government about the advantages Emirates enjoys as a result of its state ownership and minimal tax regime.

SIA is the airline that is most at risk from the Middle East expansion. But SIA is not going to concede its Sixth Freedom traffic without a strong competitive response. And its Changi hub is intrinsically much stronger than Dubai, drawing in traffic from densely populated South East Asia to complement Europe-Asia flows.

Liberalisation at last of the Indian subcontinent is also changing the competitive landscape. More direct service between the subcontinent and Europe will inevitably reduce demand for connecting services over Middle East hubs.

Then there is the complicated issue of competition among the Middle East carriers. As noted above, Emirates claims that its profitability is not subsidised by the Emirate of Dubai and produces evidence to support its case. But Qatar Airways' "Five Star" operation is unashamedly based on support from the state - the annual budget presented to the Ruling Council specifies the amount of funding that the airline will require to cover its costs. Etihad is the Emirate of Abu Dhabi's attempt to duplicate Dubai's flag-carrier, and there are local reports that it is starting to hurt Emirates. Abu Dhabi has just announced its withdrawal from Gulf Air, which originally was a multinational venture involving Abu Dhabi, Qatar, Bahrain and Oman. Now only Bahrain and Oman are left, and Oman has its own airline, Oman Airways. A couple of years ago it looked as if Gulf Air might disappear, which would have eased overcapacity in the Middle East, but its turnaround programme, under James Hogan, has apparently been quite successful, and the de facto Bahraini flag-carrier will continue to a presence in the intercontinental market.

All the indications are of a major overcapacity issue on Europe-Asia routes, which will be very difficult to resolve.

European and US traffic trends

The snapshot of recent traffic trends (right) shows that traffic has recovered and surpassed pre-September 11 levels in all regions. Europe-Far East traffic volumes are steadily growing and the US Majors have finally returned to pre-September 11 levels on both the North Atlantic and Pacific routes.

AEA intra-Europe growth is modest, simply because it is driven by LCCs. Traffic to the Far East is strong, though threatened by the developments covered in the previous article.

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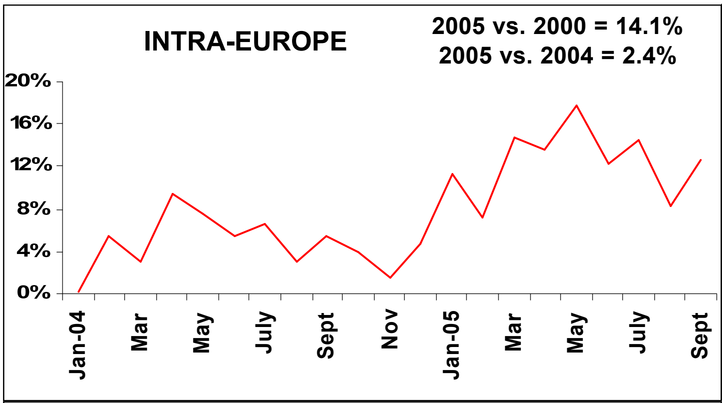
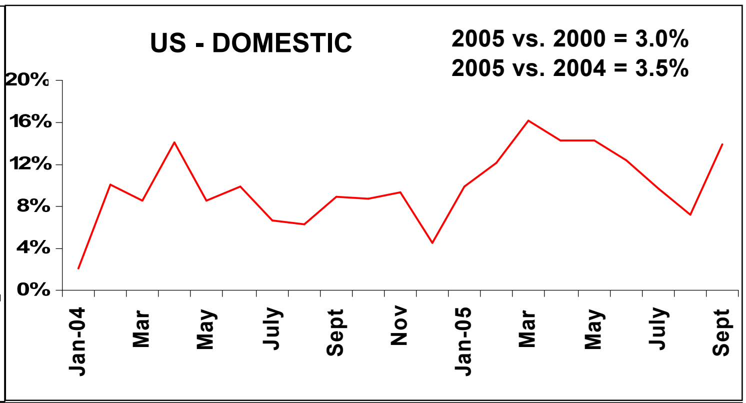
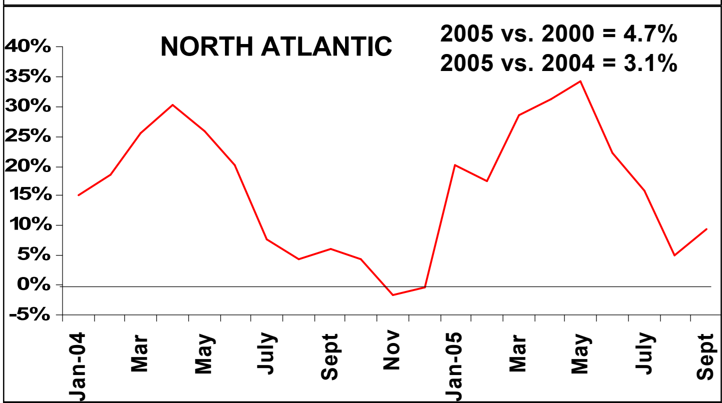
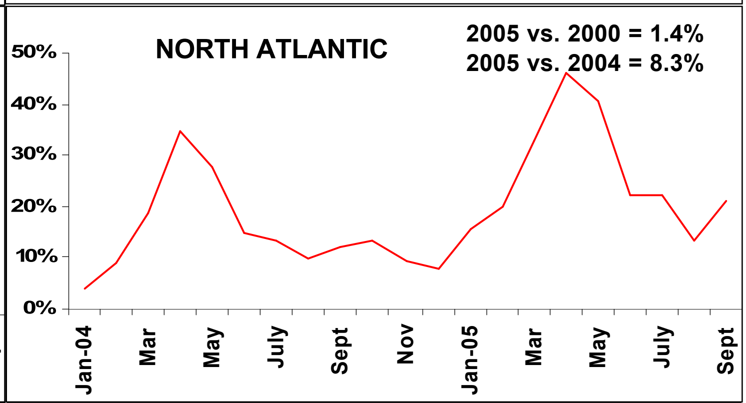
AEA AIRLINES
(Annual change in RPKs)

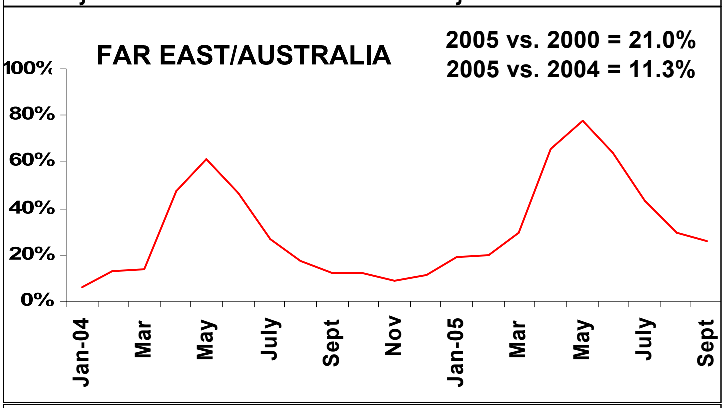
ATA CARRIERS
(Annual change in RPMs)

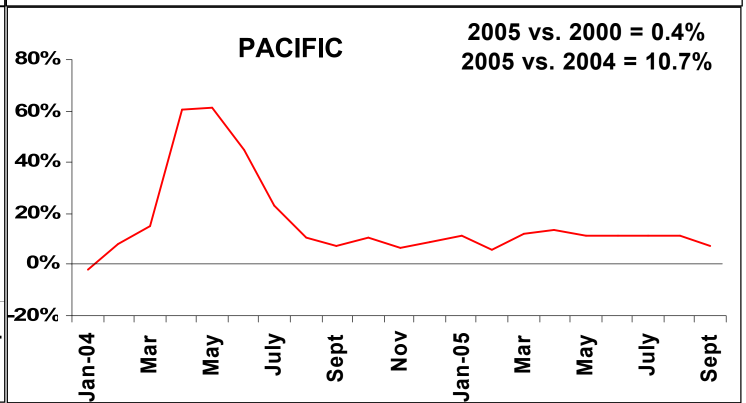


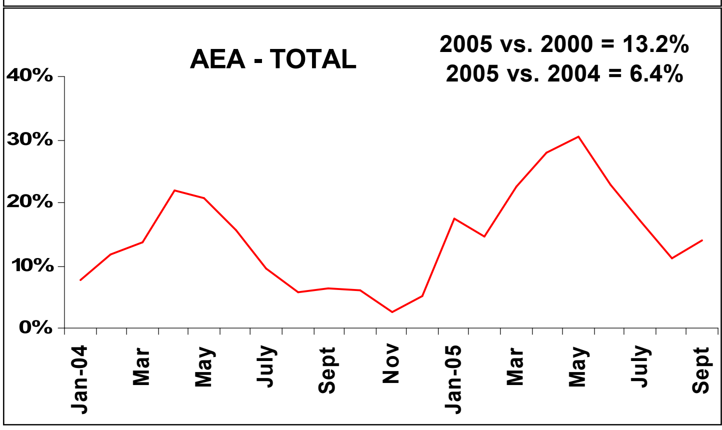


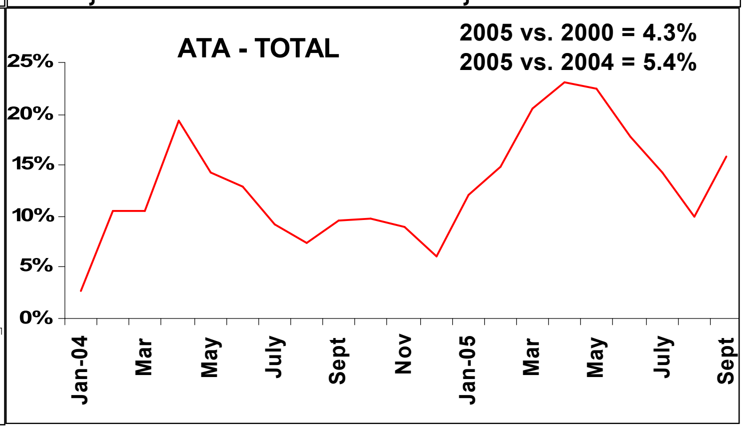












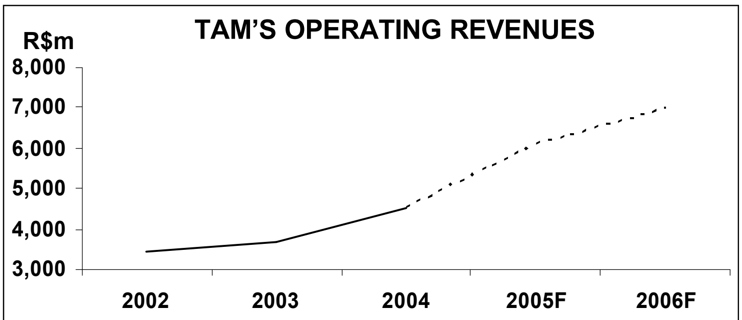
TAM: poised for international growth

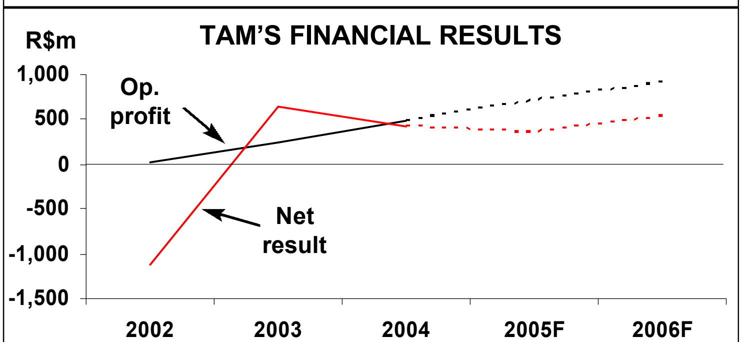
After LAN and Gol, which will be the next Latin American airline to rise to international prominence? TAM, Brazil's largest domestic airline, which has started earning strong profits, is poised to grow internationally and is planning to list its shares on the New York Stock Exchange (NYSE) in 2006.

In recent months at least two major international banks have initiated coverage of TAM, which is currently listed on the Bovespa (Sao Paulo stock exchange). UBS, which was an underwriter on TAM's R$548m (US$249m) Brazilian equity offering in June, initiated coverage of the company in August, saying that it offers a "compelling combination of near-term earnings momentum and long-term earnings growth".

Calyon Securities' US airline analyst Ray Neidl initiated coverage of TAM in late October as part of his Brazilian expansion (which also included Gol and Embraer). He described TAM as a "formidable player in the high-growth market in Brazil", noting that the stock is attractive on both value and growth basis.

Neidl initiated TAM with a share price target based on a relatively low P/E multiple of 8.5 times his 2006 EPS estimate, compared to LAN's 15.9 and Gol's 11. However, since then he has twice raised the price target after TAM surpassed the earlier targets; the latest P/E multiple is 11.5, compared to Gol's 13.





Notes: Forecasts by Calyon Securities (New York)
R$ = Brazilian Reals (R$1 = US$0.45 as of November 2005

TAM is, first of all, a great turnaround story. Originally founded by Rolim Amaro, who died in a helicopter crash in 2001, the company attracted fresh capital from private equity funds in the late 1990s and spent several years restructuring its fleet and operations. The result was a modern, efficient low-cost carrier with a strong management and a growing fleet of A320s and A330s. Profitability was restored in 2003.

Alongside Gol, TAM was then able to fill the vaccuum left by VASP and Transbrasil's demise and Varig's bankruptcy and shrinkage. This has meant substantial market share gains. In the first nine months of 2005, TAM had 43.2% of the domestic market, up 7.7 points on the previous year.

The market share gains have facilitated strong revenue and profit growth. TAM has achieved double-digit operating margins since 2004. In the third quarter, it earned a net profit of R$93.3m (US$42.4m) on revenues of R$1.54bn (US$700m), which were up by 24%. Operating margin was 14.7%. Capacity rose by 35% and the load factor by 5.6 points to 74.1%.

TAM continues to benefit from cost savings and efficiency improvements resulting from restructuring. In the third quarter, unit costs declined by 11.5%, helped by an increase in average daily aircraft utilisation from 9.25 to 12.1 hours.

Like other Brazilian carriers, TAM is able to increase its fares to compensate for higher fuel prices. This is a major advantage over airlines in other regions, making TAM a perfect "defensive play" for international investors in the current fuel environment.

Varig's struggles have meant new long-haul international expansion opportunities for TAM. However, outside Latin America, the airline is only interested in serving certain key business markets in the US and Europe. In recent months, it has launched new routes to Miami, Paris and New York (November 10). It has also applied to serve London. TAM anticipates that the key long-haul business markets will enable it to maintain a 10% yield premium over Gol, its main competitor.

TAM's year-end fleet is expected to include 80 aircraft - seven A330s, 53 A320/319s and 20 Fokker 100s. There are around 20 A320s on order, plus 20 options, for delivery over the next five years. TAM has also agreed to take eight A350-900s, plus seven options, to replace its current A330s from 2012. The airline is currently evaluating the A318 and the E190 for Fokker 100 replacement and expects to decide on that by year-end. TAM's balance sheet - its weakest point - continues to improve. At the end of September, cash reserves amounted to R$703m (US$320m), up from R$550m three months earlier but still only 11.5% of 2005 revenues. Lease-adjusted debt-to-capital ratio was 87%, down from 92%. The aim is to reduce leverage to 75-85%, either through debt repayment or the issue of new shares.

Brazil's Rolim family has a 58.86% stake in TAM while five investment funds currently hold 19.54%, leaving a 21.6% free float. According to Brazilian newspapers, the investment funds are looking to sell their shares as part of a new offering.

JetBlue: profits warning

The past month's third-quarter earnings reports from US airlines gave no reason to celebrate, but there was one especially unsettling development: the disappearance of profits at JetBlue Airways. The formerly highly profitable New York-based low-cost carrier managed to earn only US$13.8m and US$2.7m operating and net profits, respectively, in what is typically its most lucrative period, representing profit margins of 3.1% and 0.6%.

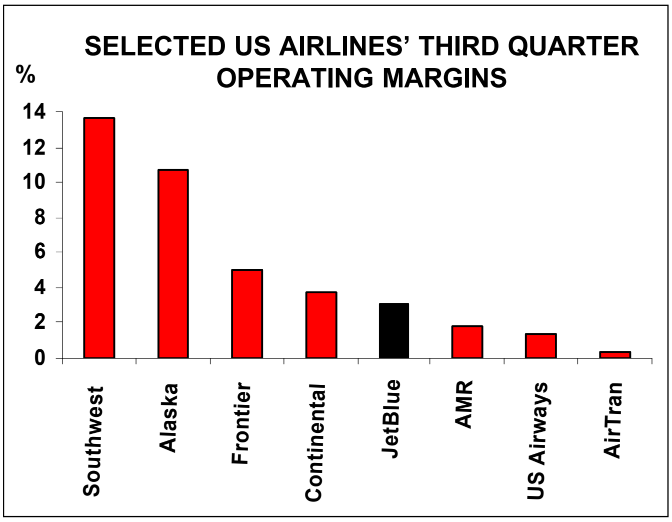
JetBlue's management disclosed that the airline was likely to incur an operating loss to the tune of 5-7% of revenues in the current quarter and that it would probably report a small net loss also for the full year. The current First Call consensus forecast is a loss of 3 cents per share. It would be JetBlue's first annual loss since 2001 (its first full year of operation).

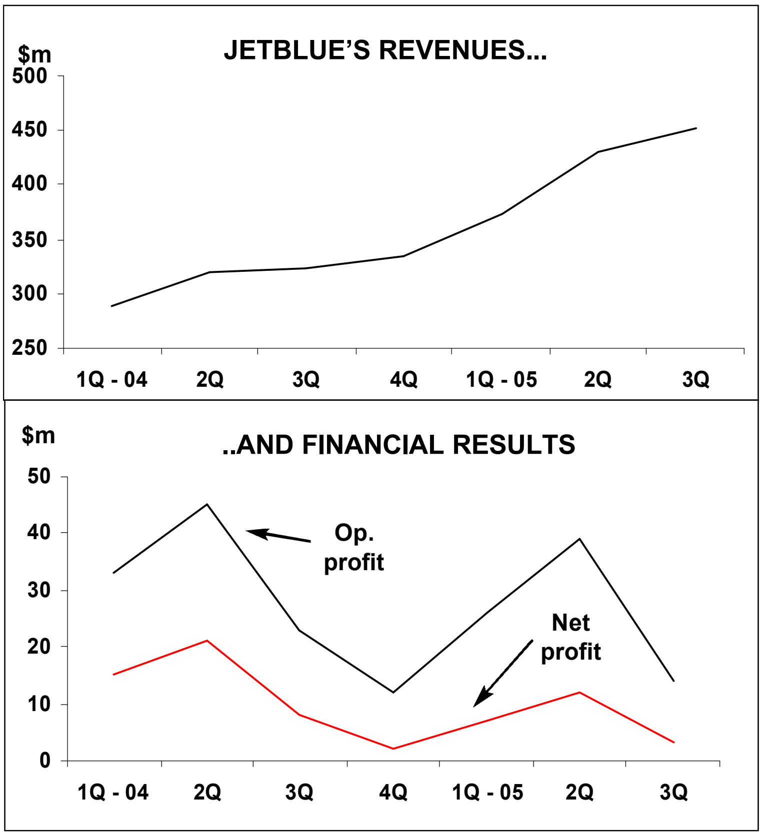
The profit deterioration has been a two-year phenomenon: after the spectacular 16-17% operating margins achieved in 2002 and 2003 came low-double digits and high-single digits during 2004, followed by low-single-digits and breakeven this year.

No-one expected JetBlue to be immune to the fuel and revenue environment. It could not have matched the performance of Southwest, which achieved a 14% operating margin in the third quarter largely because it has been uniquely lucky with fuel hedges. However, the deterioration in JetBlue's earnings has been sharper than anyone could have envisaged.

This is unsettling, first of all, because JetBlue's financial performance is currently no better than that of the solvent legacy carriers. Its 3.1% third-quarter operating margin was tucked right in there between Continental and AMR, a little worse than Continental's 3.7% though better than AMR's 1.8%. Shouldn't JetBlue be performing much better at its industry-leading 6.9-cent unit costs? Or is this an indication that the legacy carriers have finally got their act together and the stakes with LCCs are evening out?

Another major concern is that, although JetBlue's longer-term growth prospects are still promising, its profitability is now likely to





remain well below the company's longer-term objectives.

All of that has taken a toll on JetBlue's stock and credit ratings and its share performance. Over the past two years, the share price has more than halved from the peak of high-40s in late 2003 to US$18-20 in recent months (the April 2002 IPO price level). After the third-quarter results, several analysts reduced their recommendations on the stock, which is currently mostly rated "neutral". Also, in late October Standard & Poor's again downgraded JetBlue's various ratings - its corporate credit rating is now a modest "B-plus".

Fuel prices were obviously the main culprit for the poor third-quarter performance. JetBlue saw its average fuel price soar by 58%, from US$1.08 to US$1.70 per gallon. This caused unit costs (CASM) to surge by 13.8% to 6.93 cents. Fuel accounted for 35% of the airline's operating costs. Had fuel prices remained unchanged from 3Q04, the 3Q05 operating margin would have been 12.6%.

The dramatic fuel price increases obscured a solid 9.4% unit revenue (RASM) improvement to 7.15 cents (part of an industry-wide trend) and what the airline indicated was satisfactory non-fuel CASM performance. However, there were new pressures in both of those categories too.

On the revenue side, JetBlue was hit by an unusually tough hurricane season and intensified competition from Delta's low-fare unit Song in the Northeast-Florida markets, as Delta evidently shifted its focus away from Atlanta (where it competes with AirTran). Because of Song, JetBlue was unable to implement fare increases in those markets (unlike on east-west routes, where fares have been raised modestly).

On the non-fuel cost side, JetBlue is beginning to feel the impact of higher maintenance costs (up 34% in the third quarter due to a large number of C-checks) after the initial "maintenance holiday" associated with the new fleet.

While US airlines are benefiting from a return to more normal pre-Katrina crack spreads in the current quarter, jet fuel prices are expected to remain high through 2006 and 2007. JetBlue has hedged 20% of its current quarter's needs at just under US$30 per barrel, but beyond that it only has some caps in place at US$68 or higher, which it calls "catastrophic insurance". No airline is finding it worthwhile to buy new fuel hedges at the current prices.

There is not much that JetBlue can do on the non-fuel cost side either. It is already extremely lean and efficient, but it will face higher non-fuel CASM because of the A320 maintenance, as well as the start-up costs, smaller size and shorter stage lengths associated with the new 100-seat E190s.

Consequently, growth and revenue strategies will be the key. If fuel prices stay high, will JetBlue slow growth or find some means of boosting revenues?

JetBlue's revenue strategy

JetBlue appears to have adopted a three-pronged approach to managing revenues in the current tough environment. First, the airline is making extra efforts to boost non-passenger revenues. Second, it hopes to boost yield by operating the E190s in shorter-haul, higher-yield and overpriced markets. Third, there will be limited, if any, capacity cuts or fare increases in competitive markets where JetBlue is building a long-term position.

Non-passenger revenues

After demonstrating flair for extra-curricular activities early on with the LiveTV acquisition, JetBlue has done a great job this year in boosting the "other revenue" category (up by 84% in the third quarter to US$21.4m, or 4.7% of total revenues). This is probably a natural focus for a carrier that has succeeded in developing a strong brand and considerable customer loyalty.

This year's most significant initiatives have included a co-branded credit card and membership rewards programme with American Express. Also, JetBlue has launched its own online programme of customizable "Getaway" travel packages.

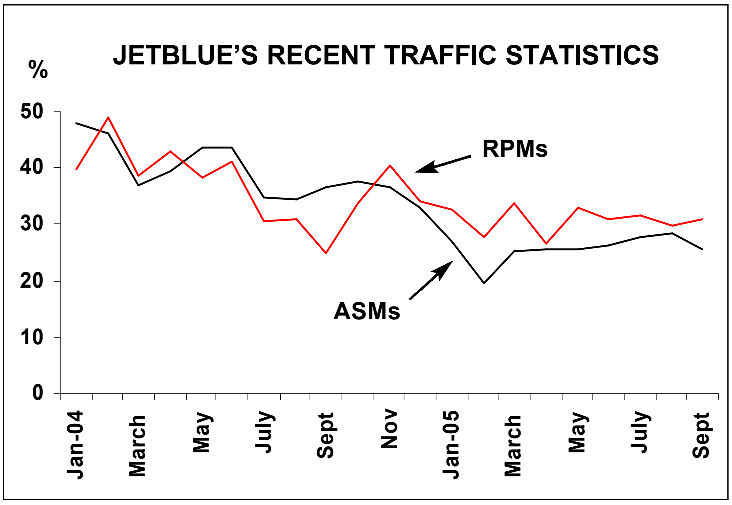
JetBlue has also increased flight change fees and has started selling upgraded headsets for a small fee. However, the airline is not going to follow the legacy carrier route of charging extra for everything; for example, LiveTV will continue to available to everyone as part of the "JetBlue experience".

The E190 as a yield-booster

The E190, which JetBlue introduced to service on November 8 in the New York-Boston market, will also be targeted at less competitive medium-density routes that currently have 50- or 70-seat regional jet service with high walk-up fares. While JetBlue will offer fares that are substantially below what other carriers are charging, it expects the E190 to achieve yield premiums over the A320 on comparable stage lengths.

Maintaining pressure in competitive markets

Even as fuel prices have surged, JetBlue has been hesitant to reduce capacity or raise fares in competitive markets so as not to lose market share as it grows. In other



words, building a strong market position currently appears to take precedence over high profit margins.

That has certainly been the case on routes that JetBlue feels are its natural markets, such as New York-Florida, and where it overperforms a key competitor (Song). According to JetBlue's management, in the third quarter JetBlue achieved a 32% RASM premium over Song on the Florida routes, while its CASM may be 20-25% lower than Song's. CEO David Neeleman explained it in the company's third-quarter earnings conference call as follows: "If we continue to keep the pressure on, to do what we do, I think we'll be rewarded for it. We're going to stay strong. This is our market."

By coincidence, just a week later Delta announced that it would discontinue the Song brand in May 2006. The low-fare unit will be integrated into Delta mainline service with some of Song's best features and its 757s reconfigured to include first-class cabins. This "new and unique long-haul domestic Song service" will take over Delta's transcontinental flights from autumn 2006 and will be expanded to all domestic routes over 1,750 miles over two years.

So far analyst opinion has been divided as to whether this is good or bad for JetBlue. On balance, the positive of losing a dedicated Northeast-Florida competitor and an estimated 7% of Delta/Song capacity in those markets in mid-2006 probably outweighs anything that Delta may or may not accomplish in the longer run.

Long-term growth plan unchanged

JetBlue has no intention of slowing its extremely rapid growth - it continues to "build the business for the long term". Following this year's 24-26% capacity growth, 2006's ASM growth looks likely to be around 30%. This is by far the fastest growth among the US non-regional airlines - only AirTran comes close with 25% ASM growth planned for 2006 (Southwest and Frontier are next with 10%).

JetBlue is adding typically 17-18 A320s and 18 E190s to its fleet annually over the next 6-7 years. At year-end, it will have 85 A320s and eight E190s. If all of the current firm orders and options were taken, the fleet would grow to 433 aircraft by 2016.

There should be no difficulty financing the aircraft, given the strong balance sheet. JetBlue has the industry's best cash position - US$491m at the end of September, or 40% of annual revenues (Southwest's was 36% by comparison).

To make sure than debt leverage remains below the target of around 75%, given the current quarter's loss and the substantial planned capital spending, JetBlue revisited the equity markets in early November to raise US$155m in gross proceeds in a public offering. This improved the airline's debt-to-capital ratio (excluding leases) to 71.5%.

JetBlue arranges aircraft financing well ahead of deliveries. The first 30 E190s have committed sale/leaseback financing with GE Capital, covering deliveries through April 2007. All of this year's A320 deliveries were pre-funded with a EETC in November 2004. All but three of next year's A320 deliveries apparently already have term sheets for bank debt prepared, and the interest rates are as competitive as in previous bank financings.

Also, JetBlue is among the best-positioned airlines to grow because it is still internally in good shape, with industry leading CASM, productivity and product offering.

Furthermore, the loss forecasts released by the airline in late October may actually represent the worst-case scenarios, because in recent weeks fuel prices have declined while the general pricing environment continues to improve gradually.

But perhaps the most valid reason to grow is because there are good immediate market opportunities particularly with the E190. In addition to launching a New York-Boston shuttle service (up to 10 daily flights), the E190s will initially open new service from both of those cities to Austin (Texas) and Richmond (Virginia), add Boston to West Palm Beach and Nassau (Bahamas) flights and increase frequencies on JFK-Buffalo and JFK-Burlington routes. JetBlue's management has called the E190 "tailor-made for Boston", and the plan is to triple the destinations from that city by April. Otherwise, the airline will have a hard time deciding where to put the E190s - the initial 2003 analyses identified almost 900 potential markets.

One major benefit of the E190 expansion is that it will reduce JetBlue's current heavy exposure to the two most competitive domestic markets: transcontinental and Northeast-Florida. Coast-to-coast services account for 61% of the airline's ASMs, while north-south flights along the East Coast account for 28% (Caribbean accounts for 7.5% and short haul markets 3.5%).

Despite its JFK stronghold, JetBlue has chosen to establish presence at all three New York area airports as slots and gates have become available. LaGuardia was added in September 2004, and Newark followed last month with service to five cities in Florida and to Puerto Rico. JetBlue has found that only 5% of its Newark customer base comes from Manhattan, so there is little traffic diversion from JFK and LaGuardia. Newark is a key hub for Continental, but competitive clashes will be limited because JetBlue has only two gates there and the airport is extremely gate-constrained.

Of course, JetBlue remains committed to JFK, where it plans to build a US$850m, 26-gate terminal jointly with the airport operator, for completion in mid-2008. Under an interim agreement, the airline is able to add seven temporary gates to the 14 it already has, to facilitate growth in daily departures from the current 130 to almost 200.

Can Ryanair stick to the winning formula?

Ryanair is the most profitable carrier in the world and now aims to become Europe's largest airline by 2012, carrying more than 70m passengers a year. Can the Ryanair success story continue, or will the dash for growth tempt management to alter a winning strategy?

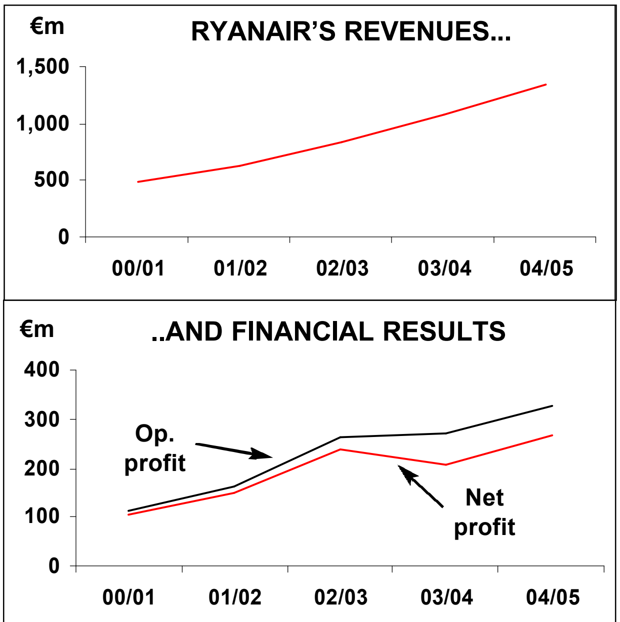
The airline's philosophy is summed up by the quote from Michael O'Leary, Ryanair CEO, that: "Our strategy is like Wal-Mart - we pile it high and sell it cheap." But it didn't start out that way. Ryanair was set up by the Ryan family in 1985 as a conventional airline with turboprop aircraft and 25 staff. But by the end of the decade, despite the introduction of jet aircraft, the building up of a network between Ireland and the UK, and attempts to launch an FFP and a business class service, Ryanair had accumulated €30m in losses in the face of fierce competition from Aer Lingus and British Airways.

It was time for a radical change. In 1991 the Ryan family refocused on Ryanair, following the failure to effect a stockmarket flotation of their mega-lessor GPA, and its subsequent collapse. €30m was invested and the airline was relaunched with new management as Europe's first LCC, copying the strategy of Southwest Airlines. Against competitors that struggled to match the lower fares of Ryanair, the new direction proved effective almost immediately. Through the early 1990s the airline's low fare, low cost strategy became even more successful, particularly after the introduction of 737s.

In May 1997 Ryanair floated on both the NASDAQ and Dublin exchanges, with David Bonderman replacing Tony Ryan as chairman.. The shares were more than 20 times oversubscribed and on the first day of trading the share price rose from €11 to more than €25. Revenue growth was given a major boost in 2000 by the launch of a booking website that today receives 15m unique visitors per month and accounts for 98% of all bookings (the other 2% come via the telephone). Even in the financial year covering September 11 Ryanair's net margin was 24%, and in fact margin has never fallen below 20% at any time during the 2000s.

Today, Ryanair's staff of just 2,760 operate more than 260 routes to 21 countries out of 15 European bases: Dublin, Shannon, Cork, London Stansted, London Luton, Glasgow Prestwick, East Midlands, Liverpool, Stockholm Skavsta, Frankfurt Hahn, Milan Orio al Serio, Brussels Charleroi, Pisa (Florence), Rome Ciampino and Girona.

These are bases rather than hubs, as Ryanair's aircraft operate on a basic point-to-point roster, with an average 25-minute turnaround time. Ryanair's first continental base was opened only in 2001 - at Brussels Charleroi - but the airline has been accelerating its base launches ever since. In the last 12 months bases have opened at Pisa, East Midlands and Liverpool (where easyJet also has a base), while the 15th base was opened at Cork in October 2005, where Ryanair is pressing the airport authority to allow the airline to use the existing terminal exclusively for low cost carriers once a new €160m terminal is opened later this year. Shannon was also developed into a base in May 2005, with 16 routes currently available throughout Europe, although this summer O'Leary admitted that "yields continue to be slightly lower than expected" at Shannon.



Note: Financial year to end of March

737 frenzy

The airline currently operates a fleet of 83 737-800s and nine 737-200s, although the 737-200s will be phased out by the end of 2005 as a massive 156 737-800s are on order. 70 of these were ordered in February, for delivery between 2006 and 2011, while in October Ryanair converted nine of its options into firm orders, all for delivery in late 2007. Ryanair's fleet will grow to 200 by 2010 and 234 by 2012, even assuming it does not convert any of its outstanding options.

The 737-800 orders are crucial to Ryanair, as the aircraft have an operating cost per seat some 50% less than the 737-200. In addition, 737-800 winglets will start being installed on all aircraft from December this year, and these will save an estimated €96,000 in fuel burn per aircraft per year.

For all its 737-800s, the airline is paying considerably less than Boeing's list price of $61m-$70m per aircraft. A "baseline price" of €51m has been mentioned by Ryanair, plus another $1m per aircraft for its required internal fittings. But Ryanair also negotiated what it calls an extra "price concession" on this baseline figure, consisting of credits towards Boeing services and products, as well as "allowances" for promotional activities. These are nothing more than a further price discount by Boeing, bringing the cost per 737-800 to probably around €30m for Ryanair.

Approximately 20% of the new aircraft will be acquired on operating lease, in order to retain operational flexibility and to secure financing benefits. Additionally, Ryanair is financing part of the order through bank loans guaranteed by the Export-Import Bank of the US, which in effect gives the airline a subsidy from the US taxpayer, thereby sweetening the deal even further.

Base doubling

The aircraft will enable Ryanair to achieve its ambitious growth plan of doubling passengers carried to 70m by 2012. This also means more than doubling the amount of bases that Ryanair operates, to approximately 35 by 2012. With just two further bases scheduled to open by the end of 2006, that means around three or four will have to open each year over the 2007-2011 period. These will be chosen from a shortlist of 48 airports that

RYANAIR'S FLEET

	Fleet	Order	Options
737-200	9		
737-800	83	156	201
Total	**92**	**156**	**201**

Ryanair has identified as potential bases throughout Europe. Of these, 10 are in France, eight in Spain, seven in the UK and Ireland, six in both Italy and Scandinavia, four in Germany and seven others elsewhere on the continent.

One of the two new bases for 2006 is likely to be in Germany, where Ryanair has just the one base so far - Frankfurt Hahn, which it launched in 2001. Four airports were under consideration: Berlin, Cologne, Munich and Hamburg Lubeck, but the latter appears to have fallen off the shortlist after plans to develop it into a gateway base for northern Germany were shelved following a local court decision that prohibited an extension of the runway and associated infrastructure. Ryanair's plans for Lubeck had in any case sparked fury from German airlines, seven of which attempted to sue Lubeck airport for what they claimed were unfair and illegal subsidies paid to Ryanair since 2000.

However, the setback at Lubeck reveals just how flexible Ryanair's route strategy is, because it claims that as a direct result of cancelling its plans for the German airport it will instead launch 10 new routes out of East Midlands in March 2006 (adding to five existing services). These services will temporarily reinforce the UK's position as Ryanair's most important market for originating traffic, currently accounting for 41% of passengers flown. Just under half of all Ryanair's aircraft are based at London airports (although traffic was only slightly affected by the London bombings over the summer). However, the long-term trend is for the UK's percentage to fall as more continental European bases become established. Currently Germany is the second most important originating market, accounting for 13% of passengers, with Italy and Ireland a close third, each with 11%.

In a recent statement O'Leary has outlined long-term expansion plans for Ryanair's operations at Frankfurt Hahn. It seems as if Hahn is now set to overtake Dublin as Ryanair's second base. Ryanair already has 6 aircraft based at Hahn, operating 26 routes. By 2012, it plans to base 18 aircraft flying over 50 routes at Hahn. According to

O'Leary "Ryanair is committed to an investment of $1bn in new aircraft at Frankfurt Hahn". Ryanair is also providing a loan of €12.5m ($15m) in respect of 50% of the total capital expenditure on the new passenger terminal and will also locate a Ryanair maintenance facility at the airport.

Italy is likely to jump into second place following the Lubeck decision and the launch of a third Italian base - Pisa - in October this year. Ten routes are being run out of Pisa, with two aircraft based at the airport initially. Ryanair also has five aircraft based at Rome Ciampino and four at Bergamo, and it is challenging Alitalia even harder by launching domestic Italian routes this year, all out of Rome. In 2005 Ryanair expects to carry more than 10m passengers on 66 routes to and within Italy.

Cost pressure?

But outside of these major markets, where else will Ryanair expand to, and - more importantly - as the new 737-800s are delivered, will it keep rigidly to its low cost strategy, in which rock-bottom airport costs are such a key component?

Ryanair vows it will not start up operations anywhere unless airport charges are low enough. Given that Ryanair has a list of 48 airports from which it needs to pick 18 new bases - and that the airline appears more than willing to walk away from an airport if the terms are not right - then the airline's route/base selection strategy is one of playing airport authorities off against each other, with contracts signed only with those that are willing to offer the very lowest charges and/or the highest subsidies.

For example, one potential base under consideration is Malta, at which Ryanair would station up to six aircraft and link the island to more than 25 destinations across Europe, carrying as many as 2m passengers a year by the end of the decade (and which would lengthen the airline's overall average sector length). However, Ryanair is making it clear it will not do so until Malta's current €25 per passenger departure charge (which includes an airport charge, government security fee and handling costs) is reduced to at least €10 and preferably around the €7.50 mark.

Ryanair is also ruthless in its approach to any threat of additional cost on existing routes. For example, this November it cut its Stansted-Newquay service from two to one flight a day after the local council introduced a £5 "airport development fee" on passenger tickets in October. The average fare on all Ryanair flights is around £28, and many of its regional routes are extremely price-sensitive. Of course Ryanair may also be victim of its own success - at Newquay, the council says its needs to spend £2.8m developing the airport due to the influx in passengers that Ryanair has brought.

Ryanair is also not afraid to drop routes - for example this year routes between London Stansted and Erfurt (Germany), and between Girona and Turin were halted after no more than 12 months' operation each. Ryanair's policy on each new route is to offer fares that quickly build a load factor of at least 80%, and then to build up yield while maintaining that minimum load factor. If that is not achieved within a relatively short period of time, the route will be axed.

One area of expansion that fits the low cost requirement is central and eastern Europe. Until this year Ryanair insisted that eastern Europe was not a priority for the airline, and instead it concentrated on western and central Europe. That view is now changing. Ryanair opened a route from London Stansted to Kaunas (100km from Vilnius) this autumn, becoming the first LCC to serve Lithuania after the government invited eight LCCs across Europe to commence operations. Ryanair also operates five routes to Latvia, 13 to Poland, one to the Czech Republic and three to Slovakia (Bratislava, which Ryanair uses as its "Vienna" airport). All but seven of Ryanair's eastern European routes go to London Stansted or Frankfurt Hahn, which indicates the importance of the German base for further routes to the east. O'Leary now wants the EU to liberalise air travel to eastern Europe and to sweep away existing bilaterals, which he deems restrictive. If that happens, Ryanair's average sector length - which has already risen by 10% in 2004/05 - will increase further.

Nevertheless, while bases may be opened in central and eastern Europe towards the end of the planned expansion period, Ryanair's main base focus for the next few years will remain western Europe, where it believes there is still lots of untapped potential.

How Ryanair's base strategy will be influenced by the European Commission's guidelines (published in September) as to how much aid state-

RYANAIR'S UNIT REVENUES AND COSTS FOR THE FINANCIAL YEAR 2004/5

	Total €	Revenue or unit cost (€ per pax)
Scheduled revenues	1,128,116,000	40.9
Ancillary revenues	208,470,000	7.6
Total operating revenues	**1,336,586,000**	**48.4**
Staff costs	140,997,000	5.1
Depreciation & amortisation	98,703,000	3.6
Fuel and oil	265,276,000	9.6
Maintenance, materials and repairs	37,934,000	1.4
Marketing & distribution costs	19,622,000	0.7
Aircraft rentals	33,741,000	1.2
Route charges	135,672,000	4.9
Airport & handling charges	178,384,000	6.5
Other costs	97,038,000	3.5
Total operating expenses	**1,007,097,000**	**36.5**

Note: Financial year ends March 31st
***Source**: Ryanair*

owned regional airports can give to LCCs is yet to be seen. Naturally, O'Leary describes the Commission's move as a "blunder", but it was hardly a surprise given its 2004 ruling that Ryanair had to repay millions of Euros of illegal subsidies at Charleroi airport to the Walloon regional government (on which the airline is appealing to the European Court of Justice).

What's likely to happen is that Ryanair will continue to reap subsidies and incentives from airports wherever and whenever it can, unless or until local courts intervene. A typical Ryanair deal was laid bare in April year when, controversially (at least in Spain), a London Stansted-Santiago de Compostela service was launched after the local authorities agreed to pay the airline €3.8m over the four years to 2008. The money is coming from the local tourist board in order to support Ryanair's marketing of the destination, but predictably this caused criticism from Iberia, which operates from Santiago de Compostela to London Heathrow. Equally predictably, Ryanair ignored the furore and added routes from Compostela to Rome Ciampino and Frankfurt Hahn this October.

If Ryanair does stick to its existing mantra of picking bases that offer either subsidies and/or very low charges per passenger, then it's unlikely that the airline will enter many primary airports, which is what the mainline airlines fear. Now and again a primary airport may be willing to sign an appropriate deal (from Ryanair's point of view), but what has been admirable about Ryanair's strategy so far is that it has consistently stuck to its strategy of low-cost airports, with the exception of London Gatwick, out of which it operates just four routes, all to Ireland. And at Rome, although Ryanair pays the same "rack rate" as other airlines, it has negotiated a deal on handling. Management insists it will not go down the easyJet route, which operates to higher cost, primary airports such as Amsterdam Schiphol, Madrid Barajas, Paris CDG and Milan Linate.

Financial trends

In the 2004/05 financial year (ending March 31st), Ryanair reported an operating profit (before exceptionals and goodwill) of €329m, compared with €271m in 2003/04, and a net profit of €267m, compared with €207m the year before. This was based on a substantial 24% rise in operating revenue, to €1.3bn, and a 19% rise in passengers carried, to 27.6m. And, according to an analysis by the *Irish Independent* in October, last year Ryanair made €39m from airport charges and taxes paid in advance by passengers who failed to show up for flights (as Ryanair's policy is not to refund these charges for no-shows).

Contrary to the O'Leary's predictions a year earlier of massive fare wars and a bloodbath among LCCs, Ryanair's yield over the 12 month period actually rose by 2%, despite a 16% increase in capacity (although in 2003/04 yield had fallen by 14% compared with the year before). Ryanair says many of Europe's flag carriers reduce capacity after going head-to-head with Ryanair - which is exactly what the LCC wants, and is a trend that will continue as flag carriers increase long-haul capacity and cut back loss-making short-haul.

However, costs rose by 25% in 2004/05, with a 50% rise in fuel costs to €265m. That trend continued into the first half of the 2005/06 financial year (April-September 2005), when Ryanair posted a 20% increase in operating profit, to €282m, and a 20% rise in net profit, to €242m (the first figure excludes a one-off aircraft insurance settlement of €6m). Revenue increased by 33% in the half-year, to €946m, and revenue per passenger rose by 3%, thanks mainly to ancillary sales. Passenger traffic grew by 29%, to 18m, with load factor of 86%, while yield rose by 3% despite a

29% rise in capacity. For the half-year Ryanair had a healthy net margin of 25% (although 3% lower than in 1H 2004/05).

Ryanair attributes the yield rise to the imposition of fuel surcharges by its rivals, which makes the comparative fare gap even wider. Ryanair has a policy of not introducing fuel surcharges (although it is simple enough to compensate for fuel price rises by adjusting fares upwards), and O'Leary is critical of airlines that do impose surcharges despite the fact that they hedge most of their fuel costs, calling it "profiteering at passengers' expense". However, O'Leary also believes competitors will have to reduce underlying fares through the rest of this year if the gap appears too big to customers.

But that's putting a positive gloss to a situation where, in the first half of 2005/06, Ryanair's fuel cost more than doubled, to €237m, making fuel account for 36% of all operating costs in the period, compared with 24% in 1H 2004/05. And this was despite a major effort by the airline to reduce costs in other areas to compensate. Excluding fuel, Ryanair's unit costs fell by 7% in the period. Although part of the fuel cost increase was due to increased capacity, the concern that Ryanair (along with all other airlines) has for fuel is obvious, and is a major contributor to its cautious outlook for the rest of the year - although it also believes the European market is not as competitive as it was a year ago, with less fare discounting around.

According to Irish stockbroker Merrion, each $1 per barrel move in the price of oil has a 2% impact on Ryanair's 2005/06 earnings. However, it is possible to be too critical here, since Ryanair faces the same problem as every other airline with regards to fuel, and is probably in the best position of all to absorb the rising cost. Ryanair is believed to have hedged almost all its winter fuel needs (to the end of March 2006) at a price of $49 per barrel or lower, and it will continue to hedge ahead the vast majority of its fuel needs. Indeed Ryanair also sees a positive side to rising fuel prices in that it may tip over the edge into bankruptcy some of the more marginal carriers across the continent.

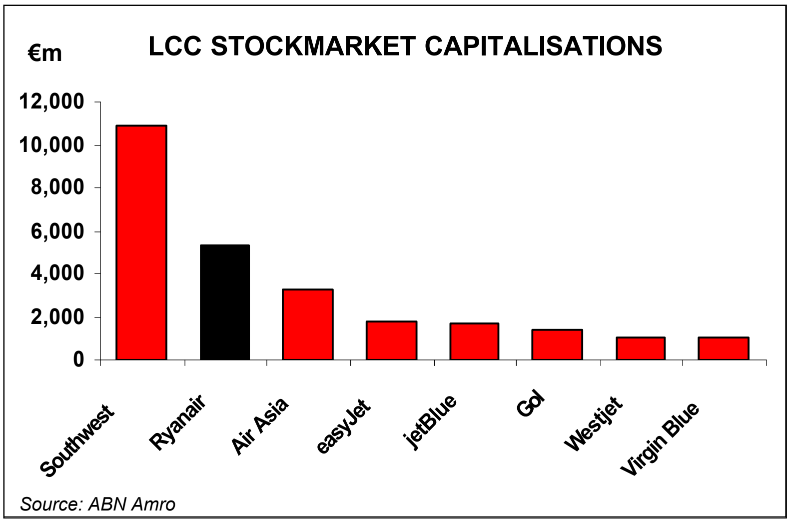
Looking to the rest of 2005/06, Ryanair believes that rising fuel prices will be offset by cost reductions elsewhere - most particularly in aircraft (through the newer models) and airports (via deals with airport authorities etc) - although yield may fall. That's worrying since Merrion calculates that "each 1% variance in yield impacts 2005/06 earnings by 4%" and comes despite Ryanair's attempts - as one analyst puts it - at "selling fewer seats at the lower end of its fare range".

For the full financial year, Ryanair expects to post underlying net profit of around €295m, around 10% up on 2004/05. Load factors are forecast by Ryanair to be around the 83% level for the full 2005/06 financial year - already this year load factor is consistently above 80%, and it reached 90% over the summer months.

Ryanair's market cap of more than €5bn is three times larger than easyJet's, even though easyJet has a bigger turnover and fleet. However, interestingly, this summer ABN Amro stated that "our preference for easyJet is based on our core view that over the coming five years easyJet's margins will improve from current low levels whilst Ryanair's will decline. We expect Ryanair's margins to remain way above easyJet's, but the gap to close."

O'Leary factor

O'Leary clearly plays up to his persona and doesn't care if people don't like him, his aggressive approach to business combined with an anti-establishment persona may be beginning to have a negative effect on the long-term future of Ryanair. Ryanair's customers can clearly go elsewhere if they do not like the frugality of the airline's product and service (whether it's an absence of window blinds or a maximum of 15kg in free

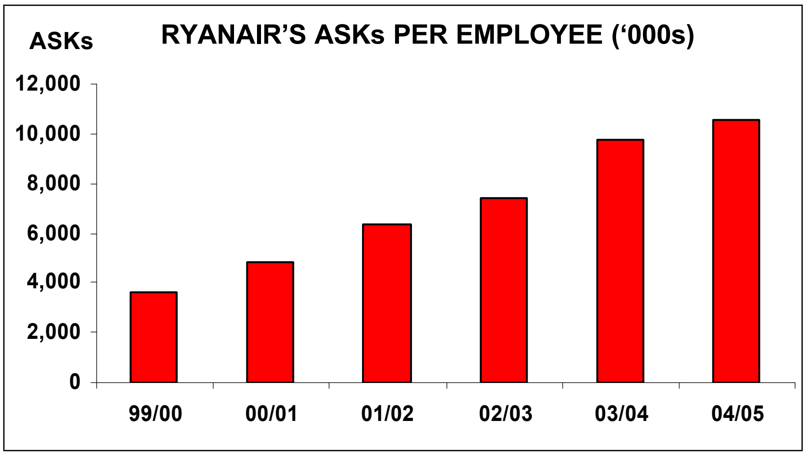


Source: ABN Amro

checked-in luggage), but for the airline's workforce it is a different matter, because if a substantial minority of staff are concerned about Ryanair's management style then this can directly impact on customer experience, and hence the success of the airline.

Naturally, cutting labour costs is core to the LCC strategy. 50% of payroll cost is productivity based, and staff have to pay for their own uniforms, crew meals and even training. They are also not given sick pay during their probationary period. There's no denying that Ryanair is lean. Of the 2,700 staff, just under 2,000 are pilots or cabin crew, and productivity as measured by ASKs per employee is impressive (see chart, below). But it is one thing to cut labour costs and another to instil a working environment where a minority of staff are - apparently - genuinely unhappy. It is reported that Ryanair is having to recruit staff from eastern Europe to make up staff shortfalls, but it's the refusal to recognise trade unions that has caused the greatest controversy.

In May Ryanair refused to give a salary increase to Dublin-based pilots that did not want to bargain individually with management. Allegedly, Ryanair wants 737-200 pilots who retrain for 737-800s to pay a €15,000 bond, and if they don't pay such a bond they will be made redundant when the 737-200s are phased out. Ryanair's management has set up Employee Representative Committees (ERCs) and a European Works Council. Nevertheless, in October the Irish High Court ruled that it would allow a Labour Court to formally investigate the ongoing dispute between the airline and the Dublin pilots - a decision that, naturally, Ryanair is appealing.



A website set up in 2004 by the International Transport Workers' Federation for employees to post their opinions on the airline - www.ryan-be-fair.org - has been swamped by alleged tales of bullying management and rock-bottom staff morale (although there are also a few positive comments). Even more annoying to Ryanair is www.repaweb.org, a site for the "Ryanair European Pilots Association" and associated with BALPA, IALPA and ECA - three pilot unions/associations. This allows Ryanair pilots to communicate with each other and "freely express their views " on a range of issues. Earlier this year Ryanair launched legal proceedings against Irish-based IALPA, whom it says carried out an "organised campaign of harassment and intimidation" via the site.

As for Ryanair's external image, the airline's aggressive attitude had led to more than one PR disaster. In April, for example, Ryanair banned its staff from recharging their mobile phones, which it believes is the equivalent of stealing electricity. But even if every single member of Ryanair's staff recharged their mobile phones fully once a week, this move will save the airline an estimated €2,000 per year in total. For that €2,000 saving, Ryanair achieved acres of bad publicity in the press.

Even more damaging, in December 2004 Ryanair lost its appeal against a UK court judgement that it must provide free wheelchairs for disabled passengers at airports Ryanair argued that the cost of doing should be born by the airport operator, BAA and, in a reaction to the initial judgement added a 35 pence surcharge to UK tickets to recover the cost - again, a move that resulted in substantial adverse publicity. The surcharge has since been reduced by 50%, as Ryanair will now share the cost of wheelchairs with BAA.

On a whole host of other issues, Ryanair is happy to take on anyone and anybody that stands in its way, whatever the adverse effects on its image. In 2005 this has included:

• A French court ordering Pau airport to redraft its contract with Ryanair after declaring that the town's Chamber of Commerce had given illegal subsidies to the airline.

• A Belgian industrial tribunal finding Ryanair guilty of illegally terminating the employment of three cabin crew at Brussels Charleroi, who were protected by Belgium laws even though the airline argued they had signed contracts drawn up in Ireland.

• The UK CAA investigating whether Ryanair is ignoring the new European rules that require airlines to look after customers if flights are delayed by more than two hours. Ryanair is arguing that it should not have to pay for delays that are out of its control, and that it should not have to offer meals to delayed passengers since it does not offer meals onboard.

Ryanair is appealing or contesting many of these decisions - the Charleroi hearing will be held in the summer of 2006, while the European Low Fares Airline Association is strongly contesting the passenger compensation rules - but accompanying comments from O'Leary on these issues results in a steady erosion of goodwill from press and, more importantly, from staff, customers and suppliers.

This can have serious consequences. For example, it's fair to say that Ryanair has a poor relationship with BAA, the UK airport operator, which deteriorated over BAA's intention to increase the fuel levy at London Stansted. Ryanair claimed the increased charge would cost it more than €1.6m a year, and so withheld €1.5m of payments on outstanding invoices to BAA as a protest. An out-of-court settlement was reached in April 2005, in which BAA reduced the fuel levy by 39% for all airlines at London Stansted until 2008, and Ryanair agreed to pay its outstanding bills.

However, the row was not ideal given that the airport is Ryanair's most important base (with more than 80 routes) and that the airline's current agreement on landing charges is shortly to be renegotiated, given that it expires in March 2007. BAA is likely to want a substantial increase in charges to pay for the €5bn-plus development of the airport, which O'Leary describes as "grandiose" and "gold plating on a rip-off scale", and which Ryanair claims should cost no more than €600m for a second runway and terminal. Ryanair's other motivation here is that it may be trying to protect its position at Stansted, as greater airport capacity reduces its scope for dominating the routes from there. Perhaps that is why Ryanair has invested around €200m in developing its base at London Luton, which currently operates 12 routes, but which is also the main base for easyJet. (easyJet is increasingly a rival for Ryanair - 16% of Ryanair's routes on a city-pair basis overlap with easyJet.)

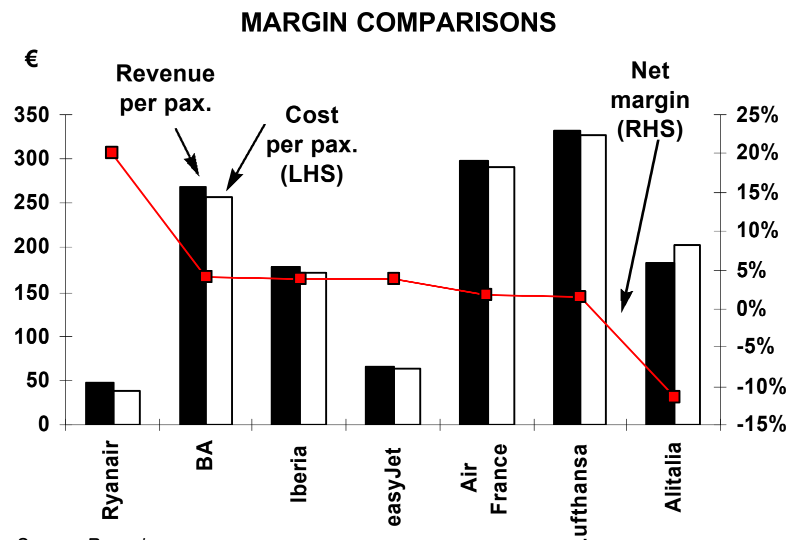
Ryanair is also unhappy at the Irish government's plan to build a second terminal at Dublin airport, to be built by the Dublin Airport Authority (DAA) as part of €1.2bn project to increase capacity from 18m passengers a year to 30m by 2016. Ryanair is taking the government to court, claiming that the project was not put out to open tender. Ryanair's objection is not to the development - since O'Leary condemns "inadequate facilities and long queues" at the airport - but that the development should be strictly cost-controlled in order to avoid further rises in airport passenger charges. Already a 22% rise in fees is to be introduced in January 2006, although the DAA had wanted to increase fees by 50%. Ryanair had previously said it would station another 20 aircraft at Dublin once a second terminal was built. One analyst believes Ryanair's behaviour on Dublin airport has been affected by a personal feud between O'Leary and Bertie Ahern, the Irish Taoiseach.

O'Leary has gradually but steadily sold his stake in Ryanair. Prior to the 1997 IPO he held 17.9%, but has since made close to €200m by reducing his stake to 4.6%. At some point in the not-too-distant future O'Leary may leave the airline (speculative stories are already appearing in the press), and it's an arguable point whether his departure would have anything like the impact of, for example, Branson leaving the Virgin empire.

Ancillary key

Although Ryanair's policy is to push up yields on established routes (particularly where there is a lack of competition), a substantial rise in revenue though fare increases is not possible under its LCC model. And that's why increasing ancillary revenue to existing passengers is just as key to the airline's continuing success as is generating new routes and passengers.

The trend is clear - in 2004/05 scheduled passenger revenue rose by 22%, to €1.13bn, while revenue from other sources rose 40%, to €209m. If those comparative rates of increase continue, then ancillary sales will overtake passenger revenues within a decade. Interestingly, Merrion calculates that a 5% increase in ancillary revenue translates to a 3% rise in earnings, so this is a



Source: Ryanair

high margin stream, primarily because Ryanair provides little of the ancillary products and services itself, instead earning commission from third-party suppliers.

Strategically, the ancillary push is correct, even it's not where Ryanair's core competence lies. According to Ryanair, its average fare per passenger is €41, compared with €62 at easyJet and €268 at BA, but its overall revenue per passenger is about €48 and its operating profit about €12. In August this year ABN Amro stated that it saw Ryanair's shares (then €6.80, the same level as they were as at the start of November) "at the top of its trading range … it is hard to see how the revenue side of the business could improve". In October it said that "we retain our long-held view that the company's margins will deteriorate [to less than 20%] over time as a result of increased airport charges, marketing and labour costs … we continue to believe Ryanair will at some stage in the future face unionisation."

Indeed in this context some analysts now see Ryanair almost as a retail company, rather than an airline, and the analogy is interesting. Presumably at some point the number of profitable European routes than Ryanair can service will reach saturation point, and then the focus of revenue growth will switch primarily to ancillary sales. On the Ryanair website passengers can book lounges, parking, hotels, insurance and holidays, as well as purchase loans and credit cards, while other revenue comes from items as diverse as scratch cards and aircraft advertising. On the latter, in September the airline announced a two-year contract with Inflight Media that will allow companies to advertise their corporate livery on Ryanair's fleet.

Financial services is likely to be a key area of expansion for Ryanair over the next few years, as well as gambling, which O'Leary describes as the "mother load". This will stretch the brand away from travel, although not to the extent of Stelios Haji-Ioannou and the "easy" franchises. It is a theme that O'Leary increasingly espouses, and indeed in September this year he speculated that within 10 years the standard airline business model could be entirely free flights, with profits coming from ancillary sales and a cut to airlines from airport retailers.

But it doesn't always work out as planned. Earlier this year Ryanair abandoned the testing of an in-flight entertainment system for films and video that it launched six months' earlier after finding that not enough passengers were willing to pay the €7 fee per flight. O'Leary had predicted it would make "enormous sums of money". Clearly while Ryanair's management are experts in transporting passengers by air, they have less experience in selling other good and services, and analysts will watch the figures closely over the next year or so to see if the drive to further ancillary revenue is truly successful.

Never-ending success?

In August - for the first time - Ryanair carried more passengers on its European network than BA worldwide, and although this was partly due to the industrial action at BA over Gate Gourmet, a permanent overtaking must surely be a matter of time given Ryanair's ambitious expansion plans.

Although growth inevitably results in some diseconomies of scale (such as more complex scheduling), analyst concerns about the pace of route and base expansion are unjustified, and the helter-skelter pace of launches will continue. 80 of Ryanair's 227 routes as at the end of September had been launched in the last 12 months, with 40 more planned in six month period October 2005 - March 2006.

What is key during expansion is that Ryanair sticks to its core philosophy, as summed up in a presentation to investors in October, that "the lowest cost wins - in every market". That's what

Ryanair management excels at, and they will continue to resist anything and everything that adds to the cost of a ticket, from whatever the source.

For example, Ryanair lobbied hard when the UK government considered a recommendation from the UK CAA that a £1 levy be imposed on air tickets in order to modernise the system for protecting air travellers against a company's collapse (the system is currently based on bonds paid to the CAA by firms). According to O'Leary, "it is wrong for ordinary passengers booking on successful airlines like Ryanair to be asked to subsidise passengers booking with financially flaky airlines and tour operators, because the CAA is not doing its job correctly." To Ryanair's relief, the government rejected the CAA's proposal in October.

That cost control is vital in an environment of rising fuel prices but, as discussed earlier, even more important are the strides that Ryanair is making in ancillary revenue. The other potential problem is distraction from non-organic growth. Ryanair's cash pile rose to an impressive €1.8bn as at the end of the first half of the 200/06 financial year (September 30th), and although Ryanair insists that growth will come from new routes and bases, it has not ruled out "possible acquisitions that may become available in the future". With a large and growing cash pile, would Ryanair be able to resist the temptation of, for example, a suitable airline in eastern Europe? That's not to say such a move would be wrong, but that it would impose a huge strain on management's workload, and undoubtedly lessen the focus on organic growth and the crucial ancillary sales.

Some analysts are intrigued by recent comments made by O'Leary that Ryanair may launch low cost long-haul services in the future. He called it a "logical extension" of the business model, although it would not happen for at least five years, until Ryanair reached a "critical mass" in Europe of carrying around 100m passengers a year (compared with the 35m passengers it expects to carry in 2005).

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 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. In the near term, the outlook remains positive but in the medium term, the arrival of new types offering greater efficiency will take their toll on existing types.

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	28.7				**717-200**	18.9	13.0		
A319 (IGW)	37.3	29.4			**737-200Adv**				0.8
A320-200 (IGW)	44.9	35.6	26.2		**737-300 (LGW)**			11.4	5.7
A321-200 (LGW)	50.7	39.3			**737-400 (LGW)**		14.7	12.0	
					737-500		12.4	9.8	
					737-600	29.9	21.3		
					737-700	37.4	30.1		
					737-800	47.4	37.4		
					737-900	43.1	31.6		
					757-200		27.8	21.9	10.0
					757-200ER		30.1	23.6	
					757-300		36.0		
					MD-82			6.5	4.0
					MD-83			7.5	4.9
					MD-88			7.9	
					MD-90			9.9	

WIDEBODY VALUES (US$m)

	NEW	5 years old	10 years old	20 years old		NEW	5 years old	10 years old	20 years old
					747-200B				5.0
A300B4-600				6.3	**747-400**	135.4	89.9	62.4	
A300B4-600R (HGW)			26.8		**767-200**				6.6
A310-300 (IGW)			19.9	5.9	**767-300**		39.1	28.8	
A330-200		79.9			**767-300ER (LGW)**		48.9	36.3	
A330-300 (IGW)		71.7			**767-400**		54.4		
A340-200			41.2		**777-200**		68.8	47.9	
A340-300 (LGW)		75.9	55.9		**777-200ER**	126.6	101.5		
A340-300ER	105.0	85.6			**777-300**	127.0	93.7		
A340-500	124.1								
A340-600	130.0				**MD-11P**			34.5	

Note: As assessed at end October 2005
Source: AVAC

NARROWBODY LEASE RATES (US$ 000s per month)

	NEW	5 years old	10 years old	20 years old
A318	235			
A319 (IGW)	329	279		
A320-200 (IGW)	338	306	258	
A321-200 (LGW)	417	353		

	NEW	5 years old	10 years old	20 years old
717-200	202	151		
737-200Adv				42
737-300 (LGW)			140	96
737-400 (LGW)			147	
737-500			126	
737-600	213	181		
737-700	322	273		
737-800	355	311		
737-900	338	259		
757-200		229	218	141
757-200ER		266	240	
757-300		291		
MD-82			95	69
MD-83			101	79
MD-88			100	
MD-90			114	

WIDEBODY LEASE RATES (US$ 000s per month)

	NEW	5 years old	10 years old	20 years old
A300B4-600				146
A300B4-600R (HGW)			244	
A310-300 (IGW)			232	118
A330-200		646		
A330-300 (IGW)		622	488	
A340-200		527		
A340-300 (LGW)		679	538	
A340-300ER	848	730		
A340-500	948			
A340-600	988			

	NEW	5 years old	10 years old	20 years old
747-200B				185
747-400		813	655	
767-200				118
767-300		305	274	
767-300ER (LGW)		419	364	
767-400		462		
777-200		542	455	
777-200ER	968	840		
777-300	955	799		
MD-11P			408	

Note: As assessed at end October 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	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	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
	Jul-Sep 05	5,485	5,446	39	-153	0.7%	-2.8%	73,405	59,584	81.2%		88,500
America West	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
	Jul-Sep 05	846	904	-58	-71	-6.9%	-8.4%	12,673	10,192	80.4%	5,802	12,179
Continental	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	
	Jul-Sep 05	3,001	2,892	109	61	3.6%	2.0%	37,450	31,185	81.7%	11,642	
Delta	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
	Jul-Sep 05	4,216	4,456	-240	-1,130	-5.7%	-26.8%	66,054	52,323	79.2%	30,870	58,000
Northwest	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
	Jul-Sep 05	3,378	3,545	-167	-469	-4.9%	-13.9%	38,881	32,889	84.6%	14,984	33,755
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
	Jul-Sep 05	1,989	1,716	273	227	13.7%	11.4%	35,170	26,336	74.9%	20,638	31,382
United	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
	Jul-Sep 05	4,655	4,490	165	-1,172	3.5%	-25.2%	58,123	48,771	83.9%	17,448	54,600
US Airways	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
	Jul-Sep 05	926	997	-71	-87	-7.7%	-9.4%	21,281	16,503	77.5%	10,109	
JetBlue	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
	Jul-Sep 05	453	439	14	3	3.1%	0.7%	10,190	8,825	86.6%	3,782	7,452

***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	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
	Jul-Sep 05	3,887	3,427	460	301	11.8%	7.7%	37,452	29,812	79.6%	9,767	46,144
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
	Jul-Sep 05	2,384	1,910	475	449	19.9%	18.8%	16,659	13,619	81.8%	7,656	25,069
Lufthansa												
YE 31/12	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
	Jul-Sep 05	5,798	5,411	387	501	6.7%	8.6%	38,967	30,466	78.2%	14,203	91,433
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
	Jul-Sep 05	2,140	2,036	104	68	4.9%	3.2%	13,599	9,838	72.3%	9,325	
Ryanair												
YE 31/03	**Year 2002/03**	**910**	**625**	**285**	**259**	**31.3%**	**28.5%**	**14,072**		**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%**	**22,524**		**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%**	**28,665**		**84.0%**	**27,593**	
	Apr-Jun 05	488	392	96	84	19.7%	17.2%			83.4%	8,500	2,764
	Jul-Sep 05	652	409	244	208	37.4%	31.9%				9,500	2,987
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
Sep-2005	150	49	199	263	46	309	508

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
Sep-2005	35	11	46	142	20	162	208

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
Sept-05	27.2	19.7	72.5	20.1	17.1	85.2	14.2	11.9	84.0	47.8	40.1	83.8	71.3	57.5	80.6
Ann. chng	2.5%	6.1%	2.5	1.2%	3.1%	1.6	8.1%	12.3%	3.2	5.4%	7.4%	1.5	4.3%	7.3%	2.2
Jan-Sept 05	233.8	158.6	67.8	172.5	143.8	83.3	124.5	99.3	79.8	421.8	343.7	81.5	624.4	483.6	77.4
Ann. Change	2.9%	5.2%	1.5	0.8%	1.9%	0.9	9.1%	11.7%	1.9	5.0%	6.4%	1.1	4.3%	6.3%	1.5

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
Sept 05	79.6	59.6	74.9	16.1	13.4	83.4	9.8	7.8	79.9	7.4	4.9	66.0	33.3	26.1	78.5
Ann. Change	-0.6%	4.4%	3.6	8.7%	8.0%	-0.5	10.4%	7.6%	-2.1	11.1%	13.3%	1.3	9.7%	8.8%	-0.7
Jan-Sept 05	760.7	596.7	78.4	132.6	110.1	83.0	87.8	72.5	82.7	79.9	58.7	73.5	300.2	241.3	80.4
Ann. Change	-0.2%	3.5%	2.8	7.3%	8.3%	0.8	13.3%	10.7%	-2.0	10.7%	14.4%	2.4	9.9%	10.5%	0.4

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	27 Oct	Air New Zealand	2 x 787		
	20 Nov	Emirates	42 x 777		plus 20 options
	21 Nov	ILFC	20 x 787	2010	
		Cargolux	10 x 747-8F		plus 10 options
		Nippon Cargo A/L	8 x 747-8F		plus 6 options
Airbus	24 Oct	Aeroflot	7 x A321	4Q 2006 onwards	CFM56-5
	25 Oct	Jet Airways	10 x A320-200	1Q 2007 onwards	plus 10 options
Embraer					
Bombardier					

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