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Aviation Strategy

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Fuel: this year's threat

Europe's Big Three are producing some pretty satisfactory financial results. The problem is that the impact of last year's surge in fuel prices has not yet filtered through to the bottom line.

Overall, it looks as if the Big Three will report a cumulative 8%-plus increase in revenues for the 2005/06 financial year, a similar increase in EBITDA and a 13% increase in reported net profit. However, according to Andrew Lobbenberg, the perspicacious ABN-AMRO equity analyst, 2005/06 will probably represent a peak, with operating and net profits deteriorating in 2006/07 (at this early stage, EBITDA is forecast to fall by about 8%).

Air France (including KLM) and Lufthansa appear to have played the oil situation rather cleverly, managing to impose fuel surcharges, especially on long-haul services, in excess of the actual fuel bill increase after taking hedging into account. For Air France, the difference between the increases in fuel charges and fuel costs in 2005/06 is estimated at a positive €218m; for Lufthansa a positive €67m. BA was not able to find quite the same degree of protection, and in its case, fuel cost increases exceeded surcharges by €228m.

This year it looks as if fuel prices will remain high - the early February spot price for crude was US$65. The airlines are partly hedged, Air France most fully at $44 for 61% of requirements, BA is covered at $55 for 50%, and Lufthansa was covered at $54 for 70% in 2005. But at an average of $60 for the full year 2006 or 2006/07, this implies an increase in the fuel costs of Air France of €935m; for BA, an increase of €650m; and for Lufthansa, €723m.

The scope for more fuel surcharges is now limited - these can be rationalised when oil prices are shooting up, but it is more difficult to impose new surcharges to compensate for level, albeit high, prices. Assuming surcharges remain at current levels, ABN-AMRO calculates that the additional income from this source in 2006/07 will be €394m at Air France, €134m at BA and €477m at Lufthansa.

Subtracting the projected fuel cost increase from the increased surcharges gives: negative €540m at Air France, negative €516m (*cont. p.7*)

BIG THREE: FINANCIAL FORECASTS (€m)

	2004 Actual	2005 Est.	Change	2006 Forecast	Change
AIR FRANCE					
Revenue	19,087	21,330	11.8%	22,300	4.5%
EBITDA	2,182	2,501	14.6%	2,258	-9.7%
Net Profit	719	861	19.7%	300	-65.2%
LUFTHANSA					
Revenue	17,943	18,686	4.1%	19,547	4.6%
EBITDA	1,618	1,640	1.4%	1,580	-3.7%
Net Profit	404	441	9.2%	273	-38.1%
BRITISH AIRWAYS					
Revenue	11,347	12,357	8.9%	12,876	4.2%
EBITDA	1,891	2,019	6.8%	1,834	-9.2%
Net Profit	749	823	9.9%	637	-22.7%
BIG THREE					
Revenue	48,377	52,373	8.3%	54,723	4.5%
EBITDA	5,691	6,160	8.2%	5,672	-7.9%
Net Profit	1,872	2,125	13.5%	1,210	-43.1%

Source: *ABN AMRO*
Notes: Financial year 2005: Air France and BA,year to Mar 06; Lufthansa, Jan-Dec 05
BA results converted at €1.46/£

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CONTENTS

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It seems highly likely that the air transport industry will be included in the European Emission Trading Scheme (ETS) although at the moment the means, methods and methodology has yet to be determined. The European Commission commissioned a consultative report in the Summer of 2005, (The Delft Report), aims to take soundings and produce further indications of the approach by early Spring or Summer 2006, and produce legislation by end 2006 or early 2007. Implementation is unlikely before 2008 and more likely to be delayed to 2012 - after the first Kyoto Protocol period.

It is likely that the industry will have to buy European Union Allowance units (EUAs) on the basis of tonnes of CO_2 required. In addition there may be side charges (through airport charges) to account for other greenhouse emissions and impacts. It is unlikely that individual carriers would be granted grandfather rights - as has been allowed in other industries. It is possible that the carriers would have to acquire through auction all their requirements. It is more likely that there will be a political compromise providing a benchmarked allowance, excesses to which EUAs would have to be traded.

The impact on individual carriers will then depend on the fleet age, fleet structure, usage, flight plans, flight routing and other efficiencies of the operator concerned. In the current European aircraft fleet operations the average emissions appear to work out at between 1.0 grammes and 1.6 grammes of CO_2 per ASK flown depending on the fleet and network structure concerned. The greatest adverse impact will be on the LCCs.

Problems ahead

As always in the aviation industry this subject is creating international political problems. The US in particular is not a signatory to the Kyoto Agreement and does not seem to accept the suggestion that Air Transport emissions are necessarily contributory to global warming. It is concerned that one region could decide operating parameters that it believes should be more properly decided by the intergovennmental International Civil Aviation Organisation (ICAO). ICAO has already decided that the subject should be discussed - but the Europeans feel that the time that would be taken by ICAO to reach any decision would be years away.

Including aviation into the ETS will internalise an external cost for the first time for many operators and effectively introduce an aviation fuel tax on international aviation. The EC-commissioned report suggests that the impact on ticket prices will be less than 1% and that therefore the impact on demand will be less than 2% over time. However, this depends on the potential purchase rate within the ETS when it comes into effect (the EU commissioned report estimates an effective rate of between €10 and €30 per tonne of CO_2). Current trading on the ETS puts the price of a tonne of CO_2 at some €25/tonne (€30/tonne was reached briefly last summer). It is more than likely that the trading value in 2013 will be higher than this and the EU assumptions are likely to be a significant underestimate.

The airline industry is still set to grow at around 5% a year over the next fifteen years. Barring a major technological breakthrough it will have less control over emissions than many other elements of industry and is therefore likely to be a net buyer over time. Furthermore, without a renegotiation of the Kyoto Protocol, the industry will be acquiring EUAs from a pool of emission units that exclude aviation’s existing emission levels - and so the more the industry needs to buy the higher the effective price is likely to be. The industry's emission requirements are bound to grow as a proportion of total EU greenhouse gas emissions.

The worst hit are likely to be the pure

intra-European operators no matter which charging scenario is chosen, those with the oldest fleets and those who want to grow faster than the average. The beneficiaries are likely to be those who operate profitable and efficient flights out of the EU - they would not dare say so but they would be able to provide effective economic subsidy to their internal EU flights - those who decide to limit growth, and those with the youngest fleets.The proposed guidelines are still subject to much discussion.

Background and proposals

There are more side effects from air transport operations in relation to pollution than for many other industries that stay on the ground. In addition there are major questions of how the pollution effect is measured and over what area of control it should be considered. The main pollutive effects are:

• CO_2 emissions from burning fuel
• NOx emissions at altitude are estimated to have a greater impact on ozone depletion on the order of 2-4 times that of CO_2 emissions - although the science of measuring this is immature.
• Vapour trails (contrails) are suspected of providing seeding for cloud cover that may be a further contributor to global warming.
• Ironically the more efficient engines for fuel consumption may at high altitudes provide a greater impact on pollution in respect of these two points than the efficiency gain.
• Equally ironically, noise abatement measures designed to alleviate ground noise pollution may have an additional effect.

Measurements: There appears to be currently only a hypothetical method of measuring NOx emissions and their effects. CO_2 emissions on the other hand are fairly easily equated with fuel consumption. It appears likely that the proposals that will prevail will base measurement of green house gas emission on the intake of jet kerosene - which is already a measurable and fileable international requirement for all aviation - along with side charges to take into effect the impact of NOx emissions.

ESTIMATED CURRENT EMISSIONS BY EUROPEAN AIRLINE

	CO_2 (tonnes m)		%
Airline	Total	EU Flights	EU
AF/KLM	23.3	7.5	32%
Alitalia	8.3	4.1	49%
Austrian	3.9	2.5	64%
BA	15.1	3.0	20%
easyJet	5.5	5.5	100%
Finnair	1.7	1.5	85%
Iberia	5.9	2.0	34%
Lufthansa	17.5	10.2	58%
Ryanair	5.8	5.8	100%
SAS	5.8	3.0	52%
Swiss	3.6	3.6	100%
Other	45.3	4.5	10%
Virgin Express	0.4	0.4	100%

Chargeability: The Delft Report considered various methods of any proposed ETS. Its principal and sole recommended proposal is to make the airline operators trade their CO_2 emissions and provide for additional charges through the airports for the effects of NOx emissions. No guidelines for NOx charges have yet been proposed.

Scope: The report proposed various possibilities for the potential scope that European emission trading in aviation may cover. These are:

• Intra-EU flights
• Intra-EU flights and 50% of emissions on routes to and from EU Airports
• Emissions of all flights departing EU airports
• All emissions within EU Airspace
• Emissions of all flights departing from EU airports plus remaining emissions in EU airspace.
• Intra-EU and routes to and from third countries that have ratified the Kyoto Protocol

There are problems in interpretation, control and data gathering and measurement for each of these options. One of the biggest problems concerns flights that touch countries outside EU control - in that there can be no definitive answer to the ratio of fuel con-

EXCESS EMISSIONS DEMAND FROM AVIATION DEPENDING ON SCOPE SCENARIOS				
		CO_2 emissions in 2004 (000s tonnes)	%age of current CO_2 emissions in ETS	Estimated %age of 2004 emissions by 2012
Current allocated CO_2 emissions		2,200,000	100.00%	
Geographical Scenarios for Aviation Emission Trading				
1	Intra-EU	51,875	2.40%	3.20%
2	Intra-EU +50% routes to/from EU	130,287	5.90%	8.90%
3	Departing from EU	130,403	5.90%	8.92%
4	Emission in EU airspace	114,337	5.20%	7.75%
5	Departing from EU + EU airspace	161,988	7.40%	10.98%
6	Intra-EU and routes to/from other KP states	72,449	3.30%	4.03%

Source: *Delft Report, 2005; Aviation Strategy estimates.*
Note: this would represent excess to currently accepted agreements

sumed (and therefore the green house gas pollution) for a specific proportion of a flight (Note that the consumption of fuel on a flight bears no linear relation to the distance flown - a greater proportion of fuel is consumed on take off and landing than in cruise) . In addition, the industry would automatically react by loading more fuel in areas where the ETS did not operate and argue subsequently over the effective usage. In addition it is practically impossible to measure emissions purely in EU airspace - the regulatory authorities can only go on tracking air lane usage which equally can only be a rough estimate of emissions. The most likely outcome would be to use the actual fuel usage - which is a mandatory part of all civil flight rules.

Additionally there would be a substantial difference between the different scopes proposed as to the level of existing emissions - which would have a significant impact on the proportion of CO2 allocated units that would be included in any ETS (see table, above).

Kyoto Protocol issues

The Kyoto Protocol specifically excludes international aviation (as distinct from domestic aviation) from the greenhouse gas measures - and consequently it is not subject to the Assigned Amount Units (AAUs) of greenhouse gas emissions under the protocol - at least not during the initial 2008-2012 period. In addition the non CO2 climate effects (not related to fuel burn) of both domestic and international aviation are not covered by the protocol. Including international aviation into the ETS may create some distinct accounting problems - equivalent to attempting to include the black market economy into official economic data. There are again various options being considered:

- Extend the Kyoto Protocol to include international aviation - (impractical)
- "Borrow" AAUs from other sectors
- The aviation sector should "buy" all its allowance from other sectors
- Obligation to buy AAUs above a baseline
- Semi-open trading: the industry is allocated allowances and can buy additional units from other sectors but cannot sell surplus units
- Trade restricted: the industry is allocated allowances and can buy additional allowances from other sectors but can only sell to other sectors from the stock of allowances it has bought from other sectors.

Allocation method: grandfathered rights vs benchmarking

Other industries have been granted grandfather rights to emissions, excess to which they would have to acquire through the ETS. For aviation it is considered that this approach would severely disadvantage new entrants into the industry, Consequently it appears that the EU will propose either auctioning of all allocation units or introduce a benchmarked year for existing operators and at some time may work out how to include new operators.

Auctioning appears to be the most attractive option for allocation. From an economic angle it is to be considered the most efficient option. Other important advantages are the achievement of simplicity regarding the equal treatment of new entrants compared with existing operators and crediting for early action, and the lower administrative burden associated with data requirements. There is also a significant degree of flexibility regarding the extent to which auction revenues are recycled. A second-best option would be to start off with benchmarked initial allocation. In general, it is felt that benchmarking is to be preferred over a grandfathering approach, the latter being less favourable to new entrants and those companies that already operated relatively energy-efficient aircraft in the base-line year.

Impact on Industry

Airports:

• Minimal impact except for a potential slow-down in growth rates

• Will be required to add elements to airport charges that take into account NOx emissions (as LHR and others already do to a certain degree)

Airlines:

• Improve relative economics for network and international hub operators

• Benefit further those with modern economic fleets

• Squeeze the economics of operating LCC and other point-to-point regional operators

• On a point-to-point basis will have very little competitive impact - except as determined by the type of aircraft operated.

• Will effectively be a tax on fuel, the rate of which will be determined by the rate that the industry as a whole decides to grow combined with the rate that other industries regulated by the Kyoto protocol are able to reduce emissions.

Economic estimates

The following tables present an illustration of the theoretical potential full total economic impact of ETS as a proportion of current revenues on various European airlines. These attempt to show the level by which unit revenues (income per ASK) would have to increase from today's levels in order to recoup the full cost of acquiring EUAs by the time that ETS comes into force - even though the cost of acquiring EUAs may well only be at the margin. The bold columns represent a guess at the likeliest range for the value of EUAs depending on the various scenarios. This is equivalent to the likely excess marginal cost per seat kilometre that would apply from the date of introduction of the ETS for aviation.

COST OF TOTAL EMISSIONS AS % OF UNIT REVENUES

	EUAs in € per tonne			
	€10	€30	€50	**€100**
AF/KLM	1.2%	3.7%	6.1%	**12.2%**
Alitalia	1.8%	5.2%	8.7%	**17.5%**
Austrian	1.8%	5.3%	8.8%	**17.6%**
BA	1.1%	3.3%	5.6%	**11.1%**
Easyjet	2.3%	6.8%	11.4%	**22.8%**
Finnair	1.1%	3.2%	5.3%	**10.5%**
Iberia	1.3%	3.9%	6.6%	**13.1%**
Lufthansa	1.0%	3.1%	5.2%	**10.3%**
Ryanair	4.0%	11.9%	19.9%	**39.8%**
SAS	0.8%	2.4%	4.1%	**8.1%**
Swiss	1.3%	3.7%	6.2%	**12.5%**
Other	1.2%	3.6%	6.0%	**12.1%**
Virgin Express	2.0%	5.9%	9.8%	**19.6%**
Average	1.2%	3.7%	6.2%	**12.4%**

COST OF EU EMISSIONS AS % OF UNIT REVENUES

	EUAs in € per tonne			
	€10	**€30**	€50	€100
AF/KLM	0.4%	**1.2%**	2.0%	3.9%
Alitalia	0.9%	**2.6%**	4.3%	8.6%
Austrian	1.1%	**3.4%**	5.6%	11.3%
BA	0.2%	**0.7%**	1.1%	2.2%
easyJet	2.3%	**6.8%**	11.4%	22.8%
Finnair	0.9%	**2.7%**	4.5%	8.9%
Iberia	0.4%	**1.3%**	2.2%	4.5%
Lufthansa	0.6%	**1.8%**	3.0%	6.0%
Ryanair	4.0%	**11.9%**	19.9%	39.8%
SAS	0.4%	**1.3%**	2.1%	4.2%
Swiss	1.2%	**3.7%**	6.2%	12.5%
Other	0.1%	**0.4%**	0.6%	1.2%
Virgin Express	2.0%	**5.9%**	9.8%	19.6%
Average	0.5%	**1.4%**	2.3%	4.7%

COST FOR EU EMISSIONS AND 50% OF OTHERS AS % OF UNIT REVENUES

	EUAs in € per tonne			
	€10	€30	**€50**	€100
AF/KLM	0.8%	2.4%	**4.0%**	8.0%
Alitalia	1.3%	3.9%	**6.5%**	13.0%
Austrian	1.4%	4.3%	**7.2%**	14.5%
BA	0.7%	2.0%	**3.3%**	6.7%
easyJet	2.3%	6.8%	**11.4%**	22.8%
Finnair	1.0%	2.9%	**4.9%**	9.7%
Iberia	0.9%	2.6%	**4.4%**	8.8%
Lufthansa	0.8%	2.4%	**4.1%**	8.1%
Ryanair	4.0%	11.9%	**19.9%**	39.8%
SAS	0.6%	1.8%	**3.1%**	6.2%
Swiss	1.2%	3.7%	**6.2%**	12.5%
Other	0.7%	2.0%	**3.3%**	6.6%
Virgin Express	2.0%	5.9%	**9.8%**	19.6%
Average	0.9%	2.6%	**4.30%**	8.5%

By James Halstead of Dawnay, Day Lockhart

AIRBUS ORDERS 2005

	A318	A319	A320	A321	A300	A330	A340	A350	A380	Total
Aegean Airlines			8							**8**
Aeroflot				7						**7**
Aercap		25	45							**70**
Air France	3									**3**
Air One			30							**30**
BMed				7						**7**
Czech Airlines		6	6							**12**
easyJet		20								**20**
Eurofly								3		**3**
GB Airways			1	4						**5**
Germanwings		18								**18**
Iberia	10	7	10	3						**30**
RBS Aviation Capital		5	15							**20**
TAP Air Portugal						7		10		**17**
Virgin Atlantic							10			**10**
Wizz Air		6	6							**12**
European Total	**13**	**87**	**121**	**21**	**0**	**7**	**10**	**13**	**0**	**272**
CIT		12	16					5		**33**
Fedex					6					**6**
GATX			2							**2**
GECAS		22	18			2				**42**
ILFC								12		**12**
Northwest Airlines						8				**8**
JetBlue										**0**
Spirit Airlines				3						**3**
UPS									10	**10**
US Airways								20		**20**
Virgin America		8	11							**19**
N.American Total	**0**	**42**	**47**	**3**	**6**	**10**	**0**	**37**	**10**	**155**
InterJet			10							**10**
LAN Airlines	20	1	4							**25**
TAM Linhas Aereas		5	11	4				10		**30**
Vuela		16								**16**
Latin American Total	**20**	**22**	**25**	**4**	**0**	**0**	**0**	**10**	**0**	**81**
Air Asia			60							**60**
Air China						20				**20**
Air Deccan			60							**60**
CASC		20	100	30						**150**
Chinese Eastern Airlines		5	4	11						**20**
China Southern Airlines						10			5	**15**
Galaxy Airlines Co. Ltd.					1					**1**
IndiGo			70	30						**100**
Jet Airways						10				**10**
Kingfisher Airlines		4	40			5		5	5	**59**
Sichuan Airlines		2	6							**8**
Shenzhen Airlines		3	3							**6**
Tiger Airways			8							**8**
Philippine Airlines			9							**9**
Asian Total	**0**	**34**	**360**	**71**	**1**	**45**	**0**	**5**	**10**	**526**
Air Cairo			4							**4**
Air Mauritius							3			**3**
Alafco								12		**12**
Jazeera Airways			6							**6**
Qatar Airways						2				**2**
Africa/M.East Total	**0**	**0**	**10**	**0**	**0**	**2**	**3**	**12**	**0**	**27**
Unidentified Total	**8**	**21**	**5**	**4**			**2**	**10**		**50**
Gross Total	**41**	**206**	**568**	**103**	**7**	**64**	**15**	**87**	**20**	**1111**
Cancellations										56
Net Total										**1055**

Airbus vs Boeing 2005

For the two manufacturers 2005 was a spectacular year - with a record for net orders, 2,057 aircraft in total. Deliveries were at the highest point for three years, with 378 for Airbus and 290 for Boeing. These results may be a mixed blessing - the last time that Boeing's demand more than doubled, in 1996, supply disruptions handed the company a loss of $178m for the following year. Both Airbus and Boeing's future profits are resting on unproven production lines, fewer suppliers in more countries and building new types of jet.

Airbus just surpassed Boeing (for the fifth year running) with net orders of 1,055 and 1,002 respectively, yet still had to explain to analysts and investors why with more than half the orders it had less than half the value. Simply put, bigger was more beautiful last year for the American manufacturer. Boeing captured 71% of the lucrative widebody market, receiving 251 orders compared to Airbus' 108. Demand for the 787 range with its 50% composite airframe and fuel-efficient engines ran to 235 orders, more than double the 87 orders that Airbus had for the A350, which will use the same engines and less aluminium than in previous models.

Airbus made up the numbers with narrowbodies, which made up more than 80% of its total orders. The Asian region, and specifically China, accounted for over 450 orders for the A320 family. China, India and the UAE are still driving sales for both companies, at least 40% of Boeing's orders came from Asia and the Middle East.

BOEING ORDERS 2005

	737	747	767	777	787	Total
Air Europa	18					18
Air France				9		9
Austrian Airlines				1		1
Avion Group				8		8
Cargolux Airlines		10				10
dba	10					10
First Choice Airways					6	6
Icelandair	15				2	17
KLM	1			3		4
LOT Polish Airlines					7	7
Ryanair	79					79
RBS Aviation Capital	20					20
SkyEurope	4					4
Transavia	1					1
Turkish Airlines	8					8
Volga-Dnepr Airlines		2				2
European Total	**156**	**12**	**0**	**21**	**15**	**204**
Air Canada				18	14	**32**
AirTran	23					**23**
Alaska Airlines	35					**35**
Aeromexico						**0**
Boeing Business Jet	11					**11**
Continental Airlines				2	7	**9**
GAP		6				**6**
GECAS	26					**26**
ILFC	20			8	20	**48**
Northwest					18	**18**
Pegasus	6					**6**
Southwest	8					**8**
UPS		8				**8**
US Air Force	3					**3**
WestJet	10					**10**
N.American Total	**142**	**14**	**0**	**28**	**59**	**243**
Aeromexico	8					**8**
Copa Airlines	5					**5**
Gol Airlines	53					**53**
LAN Airlines			6			**6**
L. American Total	**66**	**0**	**6**	**0**	**0**	**72**
Air China					15	**15**
Air China Cargo		2				**2**
Air India	18			23	27	**68**
Air New Zealand					2	**2**
All Nippon Airways			3	4		**7**
Cathay Pacific				12		**12**
China Airlines						**0**
China Eastern Airlines	4				15	**19**
China Southern Airlines	20				10	**30**
Hainan Airlines	6				8	**14**
Jade Cargo International		6				**6**
JAL International	30		7	5	30	**72**
Jet Airways	10			10		**20**
Korean Air		1			10	**11**
LCAL					14	**14**
Lion Air	30					**30**
Nippon Cargo Airlines		13				**13**
SALE	20					**20**
Shanghai Airlines	5		2		9	**16**
Shenzen Airlines	5					**5**
SpiceJet	10					**10**
Turkmenistan Airlines	2					**2**
Vietnam Airlines					4	**4**
Xiamen Airlines	10				3	**13**
Asian Total	**170**	**22**	**12**	**54**	**147**	**405**
Angola Airlines	4			2		**6**
Ariana Afghan Airlines	4					**4**
Buraq Air	2					**2**
Egyptair	6					**6**
El Al Israel Airlines				2		**2**
Emirates				42		**42**
Ethiopian Airlines					10	**10**
Etihad Airways						**0**
Kenya Airways				1		**1**
Oman Air						**0**
Royal Air Maroc					4	**4**
Sonair	2					**2**
Africa/M.East Total	**18**	**0**	**0**	**47**	**14**	**79**
Unidentified Total	**22**		**1**	**5**		**28**
Gross Total	**574**	**48**	**19**	**155**	**235**	**1031**
Cancellations						29
Net Total						**1002**

(*cont. from p.1*) at BA and negative €246m at Lufthansa. So the deterioration in 2006/07 net fuel cost (fuels costs minus surcharges) will total €1.3bn or 2.3% of 2006 forecast revenues.

Things may not turn out that miserably - there may be more room for surcharging and fuel prices could moderate - but the underlying logic of the forecast is convincing, though not, it should be noted, to the stockmarkets where the Big Three's share prices have all continued to move steadily upwards over the past 12 months.

Not content with confronting investors with the fuel price nasty, Lobbenberg also emphasises two other related and also negative points. First, demand for premium travel turned strongly up last year as investment bankers in particular chased global deals, and all three airlines benefited from an improvement in yield mix (and indifference to fuel surcharges). The financial markets are still very active but again there is a suspicion that this activity may be peaking.

Second, various difficult labour negotiations loom - BA's £1.3bn pension deficit and outsourcing flying from Lufthansa mainline to Germanwings, for example. Producing good 2005/06 results in what was featured as a very challenging cost circumstances may not be a productive basis from which to negotiate necessary concessions from the unions.

Alitalia staggers on, but competition grows

With a successful rights issue and a further round of "state aid", Alitalia's struggle for survival continues into another year. But - at long last - it appears that the troubled flag carrier is starting to face real competition from Italian-based rivals.

For a while it looked as if the rights issue would fail, as rising fuel prices devastated the original turnaround plan that was put together while Alitalia survived on a €400m emergency bridging loan provided by the Italian government. That loan was allowed by the European Commission only on the condition that privatisation was completed by October 8 last year, but with no possibility of meeting that deadline, the Commission extended it to the end of 2005 - although it warned that if this was not met then it would reopen its enquiry into state aid to Alitalia.

Back in September 2005 both Banca Intesa and Deutsche Bank (the lead underwriters on the rights issue) became concerned about the validity of Alitalia's existing 2006-2008 turnaround plan (see *Aviation Strategy*, July/August 2005), since - staggeringly - Alitalia's management based its forecasts for the entire three year period on an oil price of $40 per barrel. That was completely unrealistic at the time, let alone now, and rising fuel prices accounted for €100m of the €122m net loss that Alitalia reported for the first half of 2005. In fact Deloitte & Touche, Alitalia's auditor, initially refused to sign-off the airline's first half results (only doing so once the recapitalisation plan was confirmed). Unsurprisingly, the two banks urgently requested a revised business plan from Alitalia's management.

The rehashed "industrial plan" was presented in mid-October, with management calculating that the 40% rise in oil prices would cost the airline an extra €320m in 2006 compared with the forecasts in the previous plan. To make matters worse - and much to the furore of unions - Alitalia had not hedged any of its forward fuel costs. The airline therefore had to identify at least €150m a year in extra savings over the three-year period - on top of the €400m a year cuts already targeted - if it was to stick to the all-important financial projections that underpinned the rights issue.

To bridge the gap between the original and revised plans, management brought forward many cost-cutting measures. As existing cost-cutting deals agreed by unions earlier in the year had been overshadowed by the increase in fuel costs, the unions agreed to sit down and negotiate with management yet again. Surprisingly, in October new deals were agreed with most pilot, flight attendant and ground staff unions for the introduction of further productivity and efficiency measures within existing contracts, but without further job costs on top of the 3,300 already agreed. The exception was SULT, a flight attendants union, which called the new industrial plan "economically useless". Alitalia claims these additional measures will save an extra €65m in operating costs a year from 2006 onwards.

Equally as important in meeting the revised savings target was an extra €40m of help given by the government to Alitalia in October via tax breaks, belated compensation for losses arising after September 11 and reduced landing fees to help with rising fuel costs. This was an expensive gesture for the Italian government, because in order to get around the restrictions on state aid it also had to give €80m of similar help to other Italian airlines. Altogether, as part of the updated plan, the airline says it will receive €85m in government aid in 2006, with another €50m in both 2007 and 2008.

The revised plan

The new plan envisages turning Alitalia

into a network carrier, which it defines as a "mixed operation of short/medium and long-haul routes, on a lower industrial scale than global carriers". Key targets include:

• Increasing aircraft utilisation by 10% by 2008
• Reducing staff from 20,500 in 2004 to 9,100 in 2008 (see chart, below).
• Reducing unit costs by 24% by 2008
• Increasing productivity by 41%

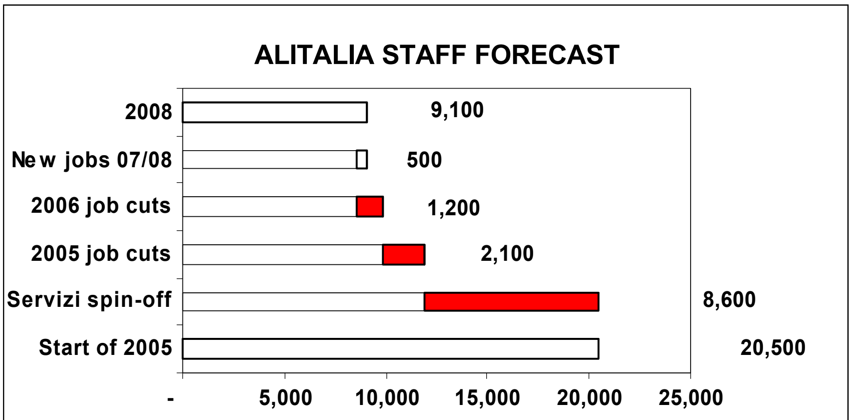
Essentially the turnaround strategy is dependent almost entirely on cost-cutting and productivity improvement (rather than revenue growth, although Alitalia factors in some capacity growth from 2007, almost all of that on long-haul).

But even if Alitalia can deliver on its promised cost and productivity improvements -and that is a very big if - some of the other assumptions underlying the new industrial plan look distinctly ambitious, particularly Alitalia's plans for the domestic market. Over the three-year period to 2008, the new plan forecasts improvements on Alitalia's domestic services of 6.9% in load factor, 4% in unit revenue and - most surprisingly of all - 0.5% in yield. Currently, short- and medium-haul-haul accounts for 74% of Alitalia's revenue, but this is under tremendous margin pressure from competitors, both domestic and foreign. Yet Alitalia wants to "regain domestic market share" and win more higher margin business travellers through a greater presence at the high-yield markets to/from Rome and Milan, while at the same time developing point-to-point domestic markets through new Italian bases.

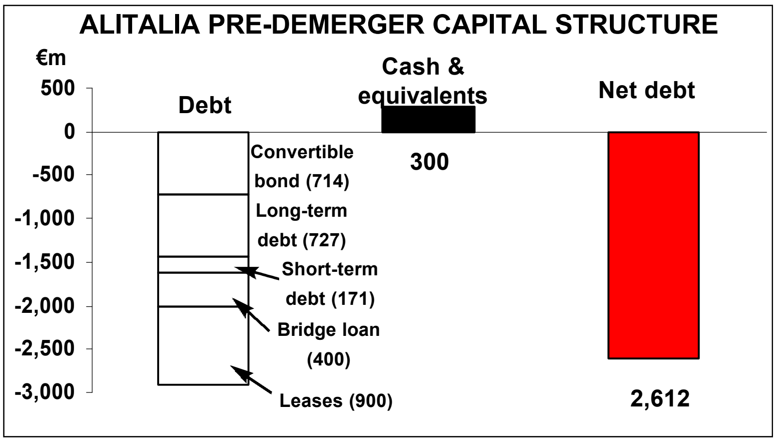
That's a stretching target. In the first half of 2005 Alitalia had just a 52% share of the domestic market, and much will depend on Alitalia not only maintaining its position at Milan Malpensa and Rome Fiumicino, but considerably improving it too (hence Alitalia's bid for Volare - see below - and its consideration of buying 10% of Innsbruck-based Air Alps in December 2005, which operates routes from Bolzano in northern Italy to Rome and Milan Malpensa). Milan Malpensa and Rome are also crucial to medium-haul as, respectively, 56% and 40% of traffic at these airports connect to/from international flights. Alitalia is looking to capture more east-west Europe traffic flows, particularly in fast-growing eastern European markets. However, in the first half of 2005, despite launching nine new routes to European countries, unit revenues fell by 2.1%. On long-haul Alitalia wants more routes to China and India.

Nevertheless, following the revised industrial plan, Alitalia's restructuring went ahead as planned. In November Fintecna - the state holding company - paid €92m for 49% of AZ Servizi, the ground services company. Fintecna also controls (but doesn't own) another 2% of AZ Servizi shares, thus allowing the loss-making subsidiary and its 8,600 employees to be deconsolidated from Alitalia's accounts.

In December the Italian government reduced its stake from 62.4% to less than 50% after the rights issue raised just over €1bn from both equity and bond holders. The Italian government bought €489m of the right issue, and institutional investors took up options that the government didn't exercise. Although this was less than the €1.2bn target envisaged originally, fortunately for the nervous underwriters they did not have to buy any unsold shares, so didn't face the same situation as happened in 2002, when underwriters for a convertible bond issue for Alitalia (including Merrill Lynch, and Credit Suisse) had to stump up millions of Euros when the issue was not fully subscribed. Once the €27m fees for underwriting and legal costs are taken



Source: Revised 2005-2008 Industrial Plan



away, Alitalia raised €979m from the rights issue.

A temporary reprieve?

The danger for Alitalia is that although the money raised from the rights issue is supposed to pay for restructuring, it is fast being swallowed up by the need to service debt and by higher fuel costs. Prior to the demerger, Alitalia group's net debt stood at €1.7bn as at the end of October, and according to Alitalia's revised turnaround plan "no financial debt of Alitalia has been passed on to Alitalia Servizi". And to that has to be added €900m of lease obligations, which brings total net debt to a staggering €2.6bn (see chart, above). When set against that, the money raised from the rights issue will not go far. And although the new business plan assumes oil prices of $60 in 2006, $57 in 2007 and $55 in 2008, just how effective Alitalia's management will be in its new policy of hedging 50% of fuel costs remains to be seen.

Indeed Alitalia's cash reserves are so low that just two weeks after the recapitalisation, Alitalia could only pay back the €400m bridging loan given to it by German bank Dresdner Kleinwort Wasserstein in October 2004 (and guaranteed by the Italian government) by borrowing €370m from France-based General Electric Corporate Banking Europe through the mortgaging of 28 of its aircraft over an eight-year term. That was despite a statement by Roberto Maroni, Italy's Labour minister, in October that this was the same as "selling the family jewels", and that "if things get worse the government would find itself with an airline that no longer owns its aircraft".

To make matters worse, unions that only a few months ago were asked to make further concessions are now in despair over what they see as continuing management incompetence amid the background of a sluggish Italian economy, which many workers and unions blame on the policies of Silvio Berlusconi's right-wing government. General strikes and other protests against proposed budget cuts by the government are likely to intensify as the Italian general election in spring gets closer, but more worryingly for Alitalia, the radical position taken by the SULT union - that the revised Alitalia business plan is unsound and that the airline's position in the competitive European aviation market is tenuous - is gaining ground among the more moderate unions.

The unions claim that their willingness to sign up to the restructuring deal and accept large job cuts has not been built on, and that management does not appear interested in building up permanently better relations. As a result, Alitalia's unions proposed a series of strikes in December, although the Italian government imposed a temporary ban to stop these. However, SULT went ahead with a strike on January 19 that caused the cancellation of 74 flights, and this rapidly escalated into a week of supporting wildcat actions from other unions, including pilots and ground staff. The government claimed the strikes cost Alitalia €10m a day, but the unions called off the action after talks with both management and government that may - according to some reports - lead to a delay in the formal acquisition of a majority stake in AZ Servizi by Fintecna from 2007 to 2008.

Against this background, Alitalia is set to release its 2005 financial results shortly. In the first nine months of 2005 Alitalia reduced its operating loss to €39m, compared with a €620m operating loss in January-September 2004, and its net loss to €119m (€685m in 1Q-3Q 2004). Revenue for 1Q-3Q 2005 rose by 10% to €3.4bn. For the full year an operating loss of around €200m is expected - its seventh consecutive year of operating loss -

although unconfirmed reports out of Italy suggest that the airline may be as much as €150m short of its revenue target for 2005, thus leading to a higher than expected operating loss.

Under the revised industrial plan, an operating and net profit is forecast for 2006, although this will be difficult given rising fuel prices and increasing competition from both foreign LCCs and Italian airlines. This latter category includes:

Air One

Air One's origins date back to an air-taxi company in the early 1980s, but in 1988 Toto - an Italian construction group - bought the company, and in 1995 the airline launched scheduled and charter operations under the Air One brand.

Based in Rome, Air One currently employs 2,100 staff and operates a fleet of 29 leased 737s on a domestic scheduled network covering 23 airports, as well as international charter flights. In Italy Air One operates more than 1,400 flights per week out of two hubs - Rome Fiumicino and Milan Linate - and has an estimated 25% of the domestic market.

In 2004 Air One recorded €490m of revenue and EBIT of €22.4m, but EBIT is forecast to fall to €16.8m in 2005 due to higher fuel costs and increasing competition. Air One carried 5.6m passengers in 2005 and its challenge to Alitalia increased further in January 2006 when the airline placed a firm order for 30 A320s (worth around €1.5bn), with another 60 aircraft on option. The aircraft are scheduled for delivery by 2008, and they will completely replace Air One's 737 fleet. Just weeks after placing this order, Air One said it planned to convert 10 of the options into firm orders later this year, with these aircraft to be used for the launch of new routes.

Air One is closely aligned with Lufthansa, having signed a commercial alliance in 2000 that includes codesharing on domestic Italian services and on routes between Italy and Germany. Partnerships are a major part of Air One's strategy, and in July 2005 it began codesharing with TAP Air Portugal on Italian and Portuguese domestic routes, as well as on TAP's services from Lisbon to Rome, Milan Linate and Venice. In September Air One agreed a codesharing partnership with US Airways on 13 domestic Italian routes (although this has still to be approved by the DoT); in October codesharing began with Swiss-based Darwin Airline on Lugano-Rome; and December an interline deal was signed with St. Petersburg-based Pulkovo Airlines. All these are in addition to more than 75 interline agreements, mostly on routes to Rome

Carlo Toto, president of Air One, is eager to take on Alitalia in the lucrative northern Italy market, and in November Air One won the Italian CAA contract to operate state-subsidised services from Crotone in Calabria to Rome and Mila Linate - replacing Alitalia on the routes. But a much greater danger to Alitalia would have come from a successful Air One bid for Volare, which Toto wanted to build up as an aggressive competitor to Alitalia.

MAJOR ITALIAN AIRLINE FLEETS

Fleet (orders)	Alitalia	Air One	Meridiana	eurofly	Blue Panorama
A319	12		4		
A320	11	-30		8	
A320		(30)		8	
A321	23				
A330				3 (2)	
A350				(3)	
737-200		3			
737-300		6			
737-400		20			4
747-200F	1				
757-200					2
767-300ER	13				4
777-200ER	10				
787					(4)
MD-11	5				
MD-80	71		17		
Total	**146**	**29 (30)**	**21**	**11 (5)**	**10 (4)**

Meridiana

Launched in 1964 as Alisarda, the Sardinian-based airline expanded onto international routes in 1991, the same year as it adopted the Meridiana name. The airline is controlled by the Aga Khan and (until being overtaken in fleet size by Air One) had traditionally been Alitalia's main Italian rival.

In 2003 the airline attempted to turn itself into a LCC, and initially this was successful. However, after a profit of €0.2m in 2003 Meridiana made a net loss of €13.9m in 2004 after turnover fell 5% to €345m. This led to a major drive to save €150m in costs through 2005, although a plan for 200 job cuts was met by strike threats, and in the end management and unions managed to find the cost savings without the need for redundancies. Nevertheless, through last year speculation grew that the Aga Khan might be willing to sell the airline, either to a management buy-in by ex-Meridiana executives and funded by private equity, or to a trade buyer such as Air One. Merger talks had previously been held with Alitalia through most of 2003, with the flag carrier reportedly ready to buy an 80% stake for more than €120m, but they came to nothing, as did the rumours of an exit by the Aga Khan in 2005.

Instead, under Gianni Rossi, who became CEO in June 2005 (he was previously CFO of Meridiana until 2000), the airline is attempting a turnaround. Today, Meridiana operates a fleet of four A319s, nine MD-82s and eight MD-83s to 14 domestic destinations, as well as on international routes to Barcelona, Madrid, London Gatwick, Paris and Amsterdam.

However, other than the A319s (which replaced BAe 146s in 2004), the fleet is relatively old, and the airline is examining replacement candidates for the MD-80s at the moment. Rossi has expressed a preference for Airbus aircraft, and an order is expected shortly for aircraft to be delivered over the period 2006-2010.

How these aircraft will be funded is not yet apparent, and Meridiana will need to find several hundred millions of Euros. Revenue of €388m is expected in 2005, based on an 11% rise in passengers carried, to 4m, but indications are that the airline is unlikely to return to a net profit. Load factor last year was just 65.2%, and Meridiana hopes to improve this though more direct sales (currently 17% of revenue comes from the airline's call centre and 23% from its web site).

Also key to Rossi's strategy is more airline partnerships, and it has already linked up with Eurofly to bid for Volare (see below). Separate to this, the two airlines have agreed a whole raft of co-operation measures, including maintenance, an interline agreement and the joint development of routes to international markets. Whether this leads to merger remains to be seen, but without a substantial injection of capital it's unlikely that Meridiana will retain its independence in the long-term.

Eurofly

On long-haul, Alitalia faces its biggest challenge from Milan-based Eurofly, which was launched by Alitalia (initially with just a 45% stake) and other investors in 1989, before becoming the flag carrier's official charter subsidiary in 2000. However, in 2003, as part of one of its frequent recovery plans, Alitalia sold an 80% stake in Eurofly for €10.8m to Luxembourg-based private equity fund Spinnaker Luxembourg (60% of which is controlled by Italian investment bank Banco Profilo). Spinnaker acquired the rest of the shares the following year.

Eurofly's management has subsequently diversified away from the competitive short-haul charter market and built up a network of scheduled, seasonal long-haul routes. Currently, Eurofly operates a leased fleet of eight A320s and three A330s on routes to Cancun, Colombo, Male (Maldives), Fuerteventura, Tenerife, Mombasa, New York JFK, Punta Cana (Dominican Republic) and Sharm El Sheikh.

Also part of Eurofly's strategy is to the development of point-to-point routes from airports other than Rome Fiumicino and Milan Malpensa - the two main international hubs for Alitalia. Routes to New York out of Naples, Palermo and Bologna were launched in the summer of 2005, and new "non-Milan" routes are under consideration to North and South America (with a three-times-a-week Rome-New York route scheduled to start in May). Worryingly for Alitalia, Eurofly also has ambitions in the business market, and last year launched an all-business charter service on the routes between New York and Bologna, Naples and Palermo using an A319LR corporate jet with a 48-seat configuration. The service is being extended to Milan Linate-New York from February 2006.

Eurofly carried 1.47m passengers in 2004, 51% up on 2003, and in January-September 2005 revenue rose 16% compared with 1Q-3Q 2004, to €228m, and EDITDAR rose 14%, to €26.3m. However, pre-tax profits fell 38%, to €4.4m, and for full 2005 the airline expects to report a net loss, compared with a €6.8m net profit in 2004, thank mainly to the effects of the Asian tsunami (which cost the airline €15m in lost revenue, according to Augusto Angioletti, Eurofly CEO), the terrorist attacks in Egypt and the loss of tax benefits enjoyed in the 2004 financial year due to the previous year's losses.

However, net profitability is expected to return in 2006, and Eurofly's ambitions have been strengthened by a successful float on the Milan stock exchange in December 2005, when the airline listed 48.6% of share capital and raised more than €40m from Italian and foreign investors (such as JP Morgan Asset Management, which bought a 5.2% stake). The float was more than two times oversubscribed, although the share price was hovering just below its issue price of €6.4 as at the end of January.

The proceeds are being used to strengthen Eurofly's balance sheet, enabling it to obtain better lease terms and/or financing for fleet purchases. In January Eurofly ordered three A350-800s at a cost of approximately €290m (with options for another three), for delivery in 2013 and 2014. And two more A330-200s will be leased in late 2006 and early 2007, to be used for the launch of new long-haul routes.

The float also positions Eurofly better for a strategic acquisition or merger. Volare tried to buy Eurofly from Alitalia in late 2002 - unsuccessfully - but a more likely candidate for an equity partnership may be Meridiana. In December 2005 Eurofly joined forces with Meridiana to bid for the assets of Volare, which if successful would have seen Eurofly offer short-haul and Meridiana long-haul services under the Volare brand.

Blue Panorama Airlines

Rome-based Blue Panorama was launched in 1998 by tour operator Astra Travel and today operates a fleet of 10 Boeing aircraft on long-haul scheduled and charter routes around the world, with scheduled services to Thailand, Mexico, Cuba, the Dominican Republic and Sri Lanka accounting for approximately two-thirds of all operations.

Its strategy is to operate as a low-fare, niche carrier connecting northern Italy with long-haul destinations, and although initially the airline leased aircraft from Swedish-based Indigo Aviation, it now wants to build up an owned fleet as it develops its network.

Last year Blue Panorama ordered four 787s (with two further aircraft on option), at a list price of €420m, for delivery from February 2009 onwards and to replace the airline's four 767-300ERs. Two 757-200s were delivered in the summer of 2005 and are used on routes launched in April to Mombassa and Zanzibar, both out of Bologna.

Services from Rome to Frankfurt and from Milan to Kiev were launched in June 2005, but in August 2005 Blue Panorama withdrew its route between Venice and Shanghai after commencing legal action against SAVE, the airport operator, for alleged breach of contract. In January 2005 Blue Panorama had taken over slots previously operated by Volare, but claims that SAVE refused to continue covering certain costs on the route, as it had done previously with Volare and allegedly promised to keep doing in a new contract with Blue Panorama. SAVE counter claims that it would cover these costs only of Blue Panorama agreed a codeshare deal with a Chinese airline, which it failed to do. Blue Panorama is now analysing the setting up of a route to Shanghai from another north Italian airport such as Verona.

In November 2005 the airline launched a low cost operation called Blue-express with an investment of €12m and a fleet of two 737-400s borrowed from its parent. These aircraft will be returned to Blue Panorama in the summer of 2006 and be replaced by three 737-300s. Blue-express operated initially from Rome Fiumicino to Milan Malpensa and Bari, but has since expanded onto international routes, to Nice, Grenoble, Munich, and Vienna. With further services to Spain and France planned, Blue-express aims to carry 800,000 passengers in its first year of operation.

Blue Panorama's revenue for 2005 is expected to be approximately €170m (compared with €130m in 2004), with a forecast rise of almost 40% in 2006, to €235m. The airline is believed to have broken even at the operating level in 2004, although this may not be the case in 2005 following the launch of the new routes and the impact of the tsunami on routes to Asia-Pacific earlier in the year.

In November Franco Pecci, president of Blue Panorama (and the major shareholder in Astra/Blue Panorama), said the airline was looking for external funds in order to extend its operations, although whether this will take the form of a listing, which was tentatively proposed in January 2005 in order to raise up to €100m, remains to be seen. More likely is the purchase of up to 20% of the airline by a private equity fund, it is believed.

Volare

The fiasco of Volare appears to be never-ending. At long last, the Italian ministry of industry was scheduled to announce on February 1st which of the five bids for the assets of troubled LCC group Volare had been accepted by the airline's administrator. Volare went bankrupt back in November 2004, with debts of up to €500m, and the airline's administrator has unearthed further financial problems since. A slimmed-down and less no-frills version (offering so-called "medium tariffs") of the airline - with just five leased aircraft - has continued to operate a handful of routes between Milan Linate/Malpensa and four regional airports in the south of Italy, mainly in order to hold on to valuable slots at the Milan airports. Turnover in 2005 is expected to be in the region of €75m, with the airline reporting a net loss.

However, of the 700 employees that remain, up to half are covered by the Italian government's temporary lay-off scheme, called CIG, under which they remain employees of the affected company but have a reduced salary paid for by the government fund.

The delay in decision-making until February 1st was caused partly by a legal appeal by Air One against an earlier decision to allow Alitalia to make a bid for Volare. Air One's petition was rejected by an Italian court in mid-January on the grounds that as Alitalia was not insolvent, it could bid for Volare if it wished to - but Air One continued its fight, and on January 30th a Rome court declared that as Alitalia had previously received state aid it could not bid for Volare. That decision - which naturally Alitalia is urgently appealing - forced the Italian ministry to suspend the sale of Volare in farcical circumstances just a few hours before February 1st.

Alitalia made the highest bid for Volare, offering €38m compared with a reported bid of €29m from Air One and €20m from Meridiana/Eurofly. Therefore if the Italian courts eventually do allow Alitalia to bid (and that's another a big if), Volare will be handed over to the flag carrier. However, this would be an immensely controversial move, and could lead potentially to antitrust investigations in Italy and/or Brussels. Air One argues that if Alitalia does take over the LCC then it will stifle competition domestically, claiming that, for example, Alitalia's share of slots at Milan Linate will rise from 46% to 55% if it is allowed to buy Volare.

Alitalia states it wants to increase Volare's fleet by 10 aircraft, but Air One is sceptical that Alitalia will even keep its promise to hire the remaining 700 Volare staff given that the flag carrier is making large job cuts of its own. Unions too are fearful about Alitalia's involvement given its past history - in 2004 it acquired collapsed regional carrier Gandalf Airlines (against competition from Air One) in order to acquire its slots, and unions believe it never had any intention of saving the airline.

As well as Alitalia and Air One, the other bidders were Meridiana and Eurofly (in a combined bid), Catania-based Wind Jet and the Radici family (who were involved in the launch of Air Europe, a Volare subsidiary).

The future for Alitalia

If some of these companies merge then Alitalia may start to face a real challenge from an Italian rival. And even if this doesn't happen, the threat from foreign LCCs is increasing all the time. Ryanair already has bases at Milan Bergamo, Rome Ciampino and Pisa, and in March easyJet is opening a base at Milan Malpensa, initially stationing three A319s there in order to serve routes to Athens, London Gatwick, Madrid, Malaga and Paris CDG. easyJet also operates services between Milan Linate and London Gatwick and Paris Orly, and expects to carry 1.2m passengers out of Milan in the year after its base opens there. Italy is easyJet's fastest growing market and Ray Webster, easyJet's CEO until the end of last year, called Alitalia "one of Europe's most inefficient airlines".

The apparent breathing space that Alitalia has from the rights issue is misleading. Although new shareholders such as London-based Walter Capital Management (which acquired an 8% stake), UK-based Newton Investment Management (with 4%) and Norges Bank (with 2%) have emerged, this may be more of a short- and medium-term speculative play rather than a genuine belief that a long-term turnaround is possible.

One problem that Alitalia has not addressed yet is its ageing fleet. Around 40% of Alitalia's fleet has an average age of 20 years and the airline will have to find millions of Euros from somewhere to pay for replacements, let alone the rise in the long-haul fleet (from 23 to 30 aircraft by 2008) forecast in the revised industrial plan. In the last 10 years Alitalia's management has somehow used more than €4.5bn of new equity and state aid, and the government cannot bail them out again. Indeed there is a point of view that Berlusconi's government only put money into Alitalia this time around in order to stave off its collapse prior to the elections due on April 9th (and according to opinion polls in early February, Berlusconi is trailing behind the opposition). Giancarlo Cimoli, Alitalia's chairman and CEO, says that the next logical step is for the government to reduce its stake to below 30% sometime this year, although the government has announced nothing. Ominously for Alitalia, at the end of January Berlusconi's cabinet broke rank when Roberto Calderoni, Reforms minister, said it would be better if the airline was allowed to go bankrupt.

Cimoli also says "we cannot remain on our own…and need to look at an alliance", and indeed the only hope for Alitalia's survival in the medium- and long-term is a merger. But Alitalia's merger/alliance options are limited, if not non-existent. Before Christmas, some analysts suggested that a slump in Alitalia's share price might lead to a bid from Air France/KLM, Lufthansa or even British Airways. The last two of these are highly unlikely candidates, but recurring speculation that Alitalia was close to a merger with Air France led to a 20% rise in the share price (to €1.1) in the first few days of 2006. However, Jean-Cyril Spinetta, chief executive of Air France-KLM, quickly denied that talks were taking place - which sent the shares downwards again.

The speculation seems to have arisen from Air France-KLM's participation in the rights issue, investing €20m to maintain its 2% stake that it has held since a crossholding deal between Air France and Alitalia in 2002. A merger has always been somewhere on the agenda, but Alitalia is not in any fit state to merge with Air France/KLM, nor any other major airline. In any case, the KLM part of Air France/KLM is likely to resist a merger given its failed and acrimonious partnership with Alitalia in 2000. Alitalia's so-called White Knight is likely to remain as illusory as the hope that Alitalia can somehow survive in a fiercely competitive European aviation market.

		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
	Jul-Sep 05	689	609	80	82	11.6%	11.9%	9,369	7,399	79.0%	4,632	8,961
American	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
	Oct-Dec 05	5,168	5,552	-384	-604	-7.4%	-11.7%	68,599	53,471	77.9%		87,200
America West	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	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	
	Oct-Dec 05	2,845	2,939	-94	-43	-3.3%	-1.5%	36,410	28,449	78.1%	15,447	
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	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
	Oct-Dec 05	1,987	1,824	163	86	8.2%	4.3%	35,000	24,364	69.6%	19,485	31,729
United	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
	Oct-Dec 05	4,386	4,568	-182	-17	-4.1%	-0.4%	55,991	44,869	80.1%	16,498	53,200
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
	Oct-Dec 05	446	478	-32	-42	-7.2%	-9.4%	10,229	8,229	81.1%	3,851	8,326

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
	Jul-Sep 05	6,790	6,154	636	864	9.4%	12.7%	60,472	50,961	84.2%	18,705	
BA												
YE 31/03	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
	Oct-Dec 05	3,664	3,362	301	212	8.2%	5.8%	37,119	27,499	74.1%	8,530	45,624
Iberia												
YE 31/12	**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	**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**
	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
	Oct-Dec 05	439	381	58	44	13.2%	10.0%			83.0%	8,600	2,963
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	
	Year 2004/05	**2,364**	**2,278**	**86**	**76**	**3.6%**	**3.2%**	**32,141**	**27,448**	**85.2%**	**29,600**	**4,152**

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**	**29095**
	Year 2002/03	**10,116**	**10,137**	**-22**	**-235**	**-0.2%**	**-2.3%**	**88,539**	**59,107**	**66.7%**	**50,916**	**28,907**
	Year 2003/04	**11,529**	**11,204**	**325**	**234**	**2.8%**	**2.0%**	**87,772**	**55,807**	**63.6%**	**44,800**	**28,870**
	Year 2004/05	**12,024**	**11,301**	**723**	**251**	**6.0%**	**2.1%**	**85,838**	**55,807**	**65.0%**		**29,098**
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**
	Jan-Jun 05	3,074	2,799	275	225	8.9%	7.3%	39,535		78.1%	7,333	15,400
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**	
	Year 2004/05	**19,905**	**19,381**	**524**	**281**	**2.6%**	**1.4%**		**102,354**	**67.4%**	**59,448**	
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**	**15,127**
	Year 2002	**5,047**	**4,679**	**368**	**366**	**7.3%**	**7.3%**	**58,310**	**41,818**	**71.7%**	**22,160**	**15,309**
	Year 2003	**5,172**	**4,911**	**261**	**-202**	**5.0%**	**-3.9%**	**59,074**	**40,507**	**68.6%**	**21,811**	**15,352**
	Year 2004	**6,332**	**5,994**	**338**	**414**	**5.3%**	**6.5%**	**64,533**	**45,879**	**71.1%**	**21,280**	**14,994**
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
	Year 2004/05	**9,524**	**8,679**	**845**	**575**	**8.9%**	**6.0%**	**114,003**	**86,986**	**76.3%**	**32,660**	
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**

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
Oct-2005	149	53	202	251	46	297	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
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
Dec-05	23.8	14.9	62.5	16.9	13.4	79.5	14.8	11.5	77.6	46.7	37.0	79.2	67.6	50.2	74.2
Ann. chng	3.1%	7.7%	2.7	0.0%	1.1%	0.8	13.2%	16.1%	2.0	5.4%	7.2%	1.3	4.6%	7.4%	1.9
Jan-Dec 05	309.3	207.7	67.2	225.9	186.6	82.6	168.6	134.4	79.7	562.6	456.4	81.1	830.8	639.3	76.9
Ann. Change	3.1%	5.8%	1.7	0.8%	2.1%	1.0	9.7%	12.2%	1.7	5.1%	6.5%	1.0	4.4%	6.5%	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
Dec 05	82.4	63.0	76.5	13.4	10.7	79.3	9.8	8.0	81.3	9.6	7.1	73.9	32.9	25.7	78.3
Ann. Change	-3.7%	0.1%	3	2.3%	0.9%	-1.1	4.0%	6.1%	1.6	4.9%	9.1%	2.9	3.5%	4.7%	0.8
Jan-Dec 05	1004.4	783.7	78.0	174.6	143.3	82.1	116.8	96.0	82.2	105.0	76.6	72.9	396.4	315.9	79.7
Ann. Change	-1.0%	2.6%	2.8	6.3%	6.7%	0.3	11.2%	9.6%	-1.2	8.9%	12.7%	2.5	8.4%	9.0%	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	21 Dec	Xiamen A/L	10 x 737-800	2H 2006 onwards	
	11 Jan	Air India	8 x 777-200LR, 15 x 777-300ER 27 x 787-8, 18 x 737-800 (for Air India Express)		
Airbus	22 Dec	easyJet	20 x A319	2008-09	CFM56-5
	22 Dec	Air Deccan	30 x A320		
	03 Jan	Eurofly	3 x A350-800	2013 onwards	plus 3 options
	12 Jan	Air One	30 x A320		plus 60 options / CFM56-5B6/P
	12 Jan	Volaris	12 x A319		plus 40 options
Embraer					
Bombardier	20 Jan	Atlasjet	3 x CRJ900		plus 2 options

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

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