

RESULTS ALEXANDER CAMPBELL / LONDON

BA tries to look on the bright side

Flag carrier insists that it is well positioned to benefit from the inevitable streamlining of an industry in distress

British Airways tried to put a brave face on its second quarter results on 6 November, claiming that the same economic slowdown that almost pushed the carrier into the red would create new takeover opportunities. Pre-tax profits plunged to £5 million (\$7.3 million) compared with £200 million over the second quarter of 2000.

Things are likely to get much worse for the struggling UK flag carrier, with chairman Lord Marshall predicting a "significant operating loss" for the financial year to March – its first since privatisation in 1987. Analysts are predicting losses in excess of £700 million for the year. Pre-tax profit for the first six months totalled £45 million.

The downturn was blamed on the UK foot and mouth epidemic, the 11 September terrorist attacks and the subsequent outbreak of war and the continuing US economic slowdown, all of which led to heavily reduced passenger traffic, especially on the key transatlantic routes. Premium traffic,



Despite parking aircraft to slash capacity, BA's load factors fell

historically an especially important revenue source for BA, was particularly badly hit, declining 36% since last year compared with a fall of only 22% in non-premium traffic. As a result, staff numbers are being slashed by more than 7,000 and the dividend dropped for the first time since privatisation.

BA is now looking at the future shape of the airline and assertions

by management that every route will have to make a profit in its own right is a warning of possible further heavy cuts to come, particularly on short-haul routes.

Since September the figures have failed to improve. Despite drastic cuts in capacity, the load factor was down 8% to 63% compared with last October, with traffic down 25%. BA does not expect the

decline to level off this month, although forward bookings for December are slightly improved.

There was some slight cheer in the results. Although the group's flight schedule was reduced by 12.6%, largely because of the closure of US airspace after 11 September, revenue fell slightly less, down only 11.8%, meaning that yield actually rose, up 6.1% to 6.56 pence per revenue passenger kilometre. BA is still sitting on a healthy cash pile, with a balance of over £1 billion. And, as Lord Marshall pointed out, the airline is well situated to profit from the wave of consolidation in the European airline industry which is widely seen as inevitable.

Consolidation would have happened anyway – analysts have pointed out for years that the European market is only big enough for three large long-haul carriers, rather than today's 15. BA is expected to be one of them, with Air France and Lufthansa.

SEE BUSINESS ANALYSIS P40

FLEET REDUCTION

Varig feels effects of revenue crisis

Falling revenues may force Brazilian airline Varig to cut its fleet by 30%, but negotiations with aircraft lessor GE Capital Aviation Services have been bogged down. Varig plans to return 12-14 of its GECAS aircraft, but has not agreed on leasing terms for the remaining 18 Boeing 737s.

Airline sources indicate the aircraft could be repossessed by the end of November unless agreement is reached.

Load factors on US routes have fallen 35%, leading Varig to suspend its daily Rio de Janeiro-Miami flights. But, Varig says, "we feel there will be a recovery on US routes by 10 December".

BUSINESS DOWNTURN GRAHAM WARWICK / WASHINGTON DC

Rockwell Collins hopes diversification will see it through the rough times

Rockwell Collins expects sales to fall \$300 million next financial year to \$2.5 billion, but believes its increased diversification will help offset the drop in its air transport business. The US avionics supplier announced revenues for the year ended 30 September of \$2.82 billion, up \$310 million from fiscal year 2000.

Chief executive Clay Jones says the majority of the sales fall next year will be in the company's in-flight entertainment (IFE) product line, where revenues are expected to decline 40% from \$400 million this year. This confirms Boeing's announcement that demand for its Connexion in-flight broadband service had tumbled, as airlines attempt to cut non-essential costs.

Rockwell Collins is basing projections for FY2002 on the assumption that Airbus and Boeing will build 650 aircraft between them, with avionics sales falling as a consequence, and that air transport aftermarket revenues will fall by around 25% as airlines cut flights. The company expects revenues in its business and regional sector to remain flat, despite forecasting that manufacturers will produce 10% fewer aircraft in FY2002.

Rockwell Collins expects that the fall in civilian sales will be offset by "mid single-digit" growth in military sales. In addition to modest growth in satellite navigation and datalink communications, the company expects "significant growth" in its cockpit displays

business after buying display specialist Kaiser Electronics.

Military business is forecast to account for 45% of Rockwell Collins' revenues next year, up from just under 40% in the year just ended. Commercial business will be made up of 30% air transport and IFE and 25% business and regional. "Our diversification is a strength of the company," says Jones. "It will offset some of the decline in air transport."

Spun off as an independently traded company, Rockwell Collins posted an income of \$263 million for the year just ended, slightly up on the year before. After asset impairment and restructuring charges of \$183 million, net income dropped to \$133 million.