

Happy New Year 2012

DVB

DVB Aviation News Summary



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November - December 2011

News & Data Sources: AACO, AAPA, AEA, Airbus, Aircraft Value News, Airline Business, Airline Monitor, Airlines.net, Airwise, ALTA, ASCEND, ATA, ATI, ATW, AVAC, Aviation Intelligence, Aviation Strategy, Boeing, Bombardier, BTS, CAA, CAO, CAPA, CASE, Company Data, DoD, DoE, DoT, DTS, EADS, EIA, ELFAA, Embraer, FAA, Factiva, Flight International, IATA, ICAO, OAG, SpeedNews

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Introduction

DVB's *Aviation News Summary* is published and distributed on a bi-monthly basis by the **Airline Research & Analysis (ARA)** department of **DVB Bank SE**, based in London. The *Aviation News Summary* provides a review and overview of recent, relevant developments within the aviation industry and contains information from a range of sources, including the Internet, trade magazines and company news releases, in addition to our own analyses, comments and opinions.

We regret that for practical reasons it is not possible to credit each and every source and author individually; however, we have attempted to credit all sources frequently used in compiling this periodical.

Petis D. Polycarpon

DVB – Airline Research & Analysis (DVB-ARA)

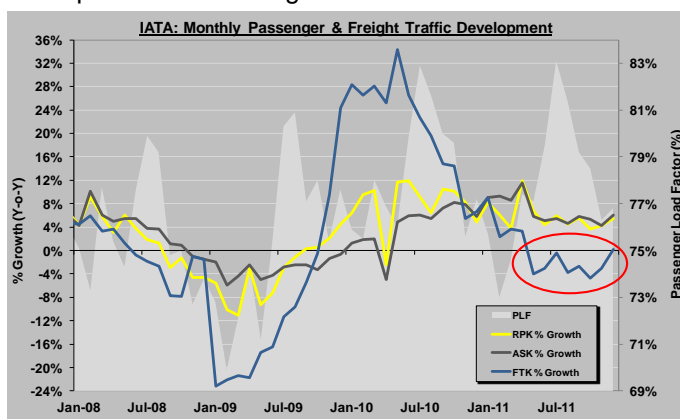
General Airline & Air Transport Developments

IATA - International Passenger Traffic and Air Freight (December 2011)

Air freight markets turned up at the end of **2011**, having shrunk through most of the second half of the year. Year on-year growth in FTKs worldwide was **0.2%** in December. A strong performance for North American airlines, but also in Asia, suggests improving economic conditions in some parts of the world were offsetting Eurozone weakness at the end of last year.

Air travel also rose in **December** to a level **5.4%** higher than in the previous year. But the trend since mid-year has clearly slowed, as travel markets react with a lag to the falls in confidence that had weakened cargo in the second half of 2011.

During the year as a whole, passenger travel markets performed well, given weak economic conditions in western economies. Passenger traffic grew **5.9%**, with international travel expanding 6.9%. In international markets, European airlines posted the second fastest growth rates, behind Latin America. The emerging markets of Brazil, India and China all showed double-figure growth, while Japan declined 15.2% as a result of the earthquake in March. By December, however, the Japanese domestic market had recovered to levels 5% below pre-earthquake levels. Cargo markets contracted over the year by 0.7%. Asia/Pacific, the largest international cargo market and the major location for manufacturing activity, declined most, by 4.8% for international traffic and 4.6% in total. Latin America and the Middle East showed significant growth over the year.



December 2011 (Percentage Change over December 2010)						
Carriers	Passenger			Freight		
	RPK%	ASK%	PLF%	FTK%	ATK%	FLF%
Africa	-3.0	-1.9	68.8	-1.8	0.7	24.2
Asia / Pacific	5.5	7.0	75.4	-4.4	1.6	58.2
Europe	10.5	10.4	75.9	2.3	5.6	49.5
Latin America	7.6	10.4	73.7	2.3	8.9	39.2
Middle East	11.7	11.0	76.8	10.7	14.5	43.1
North America	-0.4	-0.4	80.9	2.3	3.3	35.4
Industry	5.4	6.1	76.8	0.2	4.4	46.1

YTD January – December 2011 (Percentage Change over Jan-Dec 2010)						
	RPK%	ASK%	PLF%	FTK%	ATK%	FLF%
Industry	5.9	6.3	78.1	-0.7	4.1	45.9

IATA statistics cover international scheduled air traffic; domestic traffic is not included. All figures are provisional and represent total reporting at time of publication plus estimates for missing data.

Load factors in passenger markets were high in the middle part of 2011, but declined in Q4 as airlines added capacity at a greater rate than traffic increased. Cargo load factors have shown significant decline since mid-2010, but strength in December traffic has resulted in a slight increase in load factors.

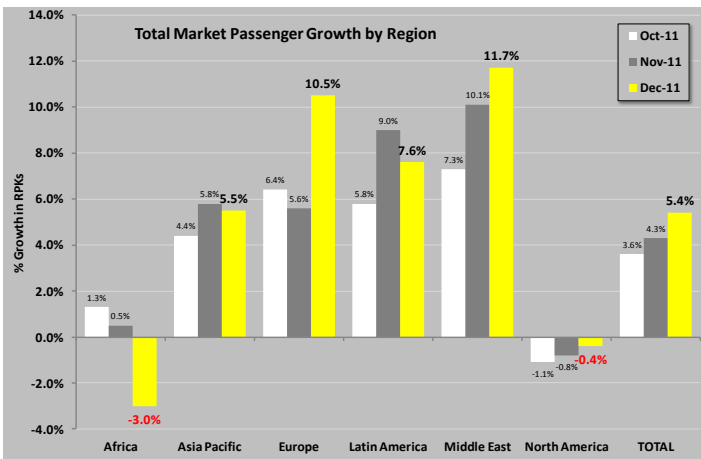
Market conditions for air transport improved a little at the end of 2011, with an improvement in business confidence in December and January. In coming months we are likely to see stabilization in air transport markets.

December 2011 vs. November 2011

The increase in passenger traffic resulted from strong performance in international markets, which grew 1.4% in December. Domestic markets contracted by 0.5%. The second month of growth in cargo markets was supported largely by domestic freight movements, which increased 3.2% during December. International cargo also performed well, growing 1.5%.



PASSENGER MARKET



International travel grew in December, but the progress since mid-year has been less pronounced than the growth which took place in the first part of 2011. From February through to July, international travel grew 6.2%, compared to 1.2% between September and December. Nevertheless, impressive growth in some regions has resulted in a positive end to 2011, and strong year-on-year results (6.4%).

European markets recorded significant growth with a 9.8% increase year-on-year. However, this December result should be put in context, as the comparison is being made to an unusually weak December 2010, during which strikes and weather conditions suppressed traffic. Nevertheless, the month-on-month comparison does

show strong traffic growth in Europe, at 2.1% in December. The results are somewhat surprising given the economic weakness throughout the economy; it is likely to be business travel related to exporting countries in Northern Europe and Germany that is supporting the growth.

Latin America and the Middle East continue to show strong traffic growth in the international sector. Latin American air traffic is supported by robust economic conditions at home and continued trade activity; Middle East airlines can take advantage of price competitive products to increase share on long-haul markets.

North American traffic posted a positive result in December, but growth rates still remain notably low. Despite the US economy gaining some positive momentum, capacity management measures by airlines have kept traffic growth contained. Load factors are clearly highest for the North American region.

Although all regions except Africa added capacity in December, this was exceeded by the growth in international traffic and load factors rebounded slightly. Load factors increased by 0.2ppt in December month-on-month.

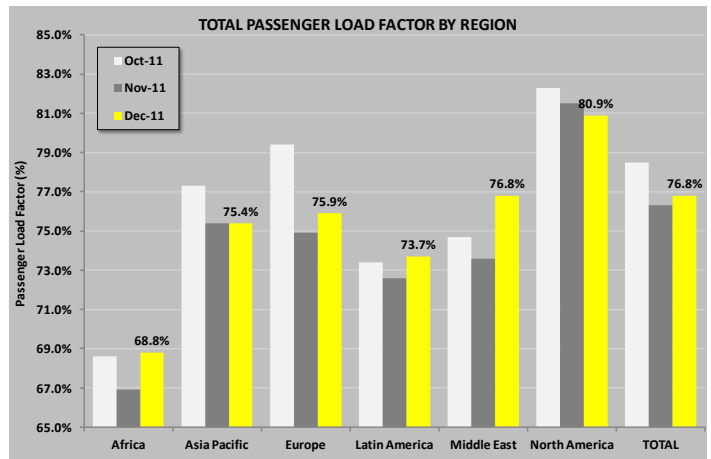
Domestic travel declined in December, from the level in November, despite posting growth of 3.7% year-on-year. The monthly decline of 0.5%, however, did occur after a month of strong growth – so the results could be reflecting a combination of noise as well as particular market conditions in some regions.

The US domestic market contracted 1.2% in December. Shrinking capacity could be the primary reason, and with ASKs in December falling by a greater degree (1.4%) than traffic, this is likely to be the explanation for weak domestic traffic.

Domestic traffic in China remains strong, where economic growth continues to support internal activity and travel. India, too, has had good growth over the year, but that appears to have paused in December. Capacity has grown more rapidly than traffic, pushing load factors below break-even levels, ultimately resulting in losses.

Japan’s domestic market continues to show decline over the year, but in December the degree of decline was notably less than in November. In December, traffic grew 3.4% month-on-month. Increases in industrial production and employment numbers have helped support domestic activity.

The airline industry across all domestic and international markets shows growth close to trend, both over the year and comparing December to the previous month. All regions except North America and Africa experienced growth, with Middle Eastern air travel leading the result, followed by the European market. In addition, all regions also added capacity in December, to a degree that brought load factors down overall.



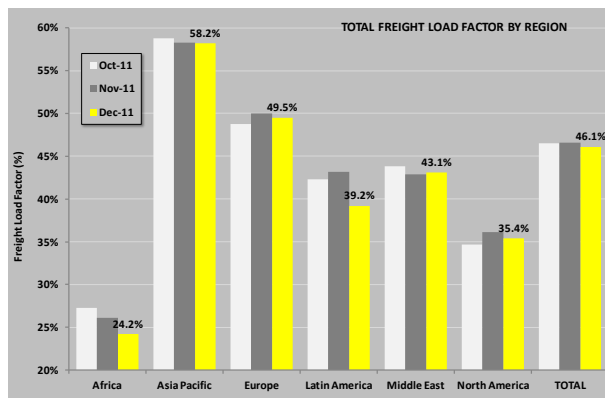
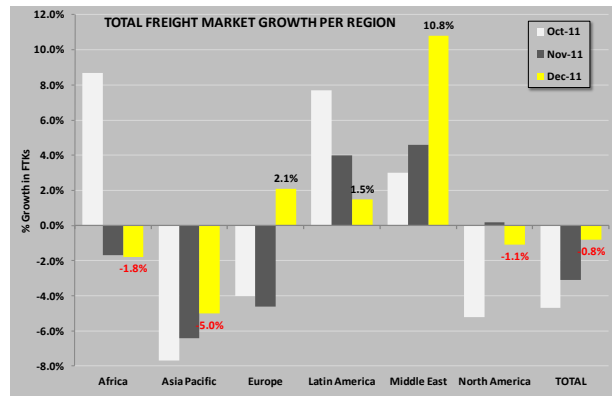


FREIGHT MARKET

Freight markets have shown growth for 2 consecutive months, and December cargo traffic grew 1.7% compared to November.

Business confidence measures, which act as a leading indicator for changes in cargo markets, entered expansion territory in December. Business confidence indicators for China, France and Germany also show positive signs for manufacturing activity.

Furthermore, indicators of export orders showed strong growth in December. In total, these could all be signs of the freight downturn bottoming out, with potential for growth in the coming months.

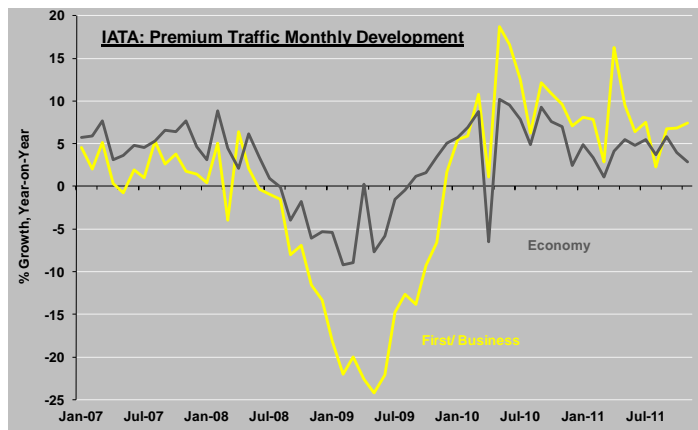


Nevertheless, risks from European financial and economic downturn do remain a possibility and they could suppress any potential upward moment in cargo traffic.

Although passenger load factors had managed to hold up to levels of the previous year, 2011 saw freight load factors decline considerably.

For freight the challenge of maintaining load factors, despite measures to reduce the cargo fleet, has been difficult as traffic has fallen away considerably, and additional capacity has entered through the passenger aircraft fleet – so losses, due to low load factors, have been the result.

IATA – Premium Traffic (November 2011)



an exceptional month-to-month change. Moreover, economy travel has generally been stronger than premium travel over the past six or more months. Compared to the same month last year, economy travel is up 3.0%.

Whereas the trend in premium travel in the second half of 2011 was downwards, the opposite was the case for economy travel. Compared to the start of 2011, economy traffic grew by 3.8%, while premium traffic contracted 0.1%. The share of premium travel in total travel has been losing ground for much of 2011, having partly regained, during 2010, the share lost in the late 2008/early 2009 downturn. The chart below indicates a minor increase in premium travel as a share of total travel for November, but the seat class mix is still considerably worse – from the perspective of airline yields - than at the start of the year.

On some markets, premium travel is weak because a contraction or slowdown in economic activity has reduced business travel. In other markets, business travel continues, often linked to export business, but business travellers have switched from premium to cheaper economy seats. The latter substitution appears to have been taking place on, for example, the within-Europe segment, where premium travel fell in November although economy travel growth remained relatively robust.

The number of passengers travelling on premium seats increased slightly in November, by 0.6% compared to October. Over the year, there has been cumulative growth in premium travel of 1.7% when comparing November 2011 to the same month in 2010.

However, the level of premium travel has trended downwards from the high point reached earlier in 2011. Although there was some increase from October levels, the size of the international premium passenger market in November was 2.6% smaller than in May 2011.

Economy class travel contracted in November, down 1.1% from October, but as the chart below indicates this is not



World trade growth has slowed to a virtual halt in recent months and business confidence in the major industrial economies has fallen sharply, to the point where the survey shows industrial production is expected to grow no further over the next few months. World trade has been a good current indicator for premium travel. Business confidence has been a good leading indicator. Both suggest there will be little further growth in premium travel in the next few months.

Trends in international trade have been good indicators of premium travel. Although not all business travel is trade related, world trade growth can be a good proxy for manufacturing, as well as finance and consulting industries. In November, there has been very little change from previous months with international trade growth remaining low – signalling no growth in business travel.

Changes in business confidence can act as an early indication of changes in premium travel, giving a signal sometimes up to 6 months in advance. The Purchasing Managers Index (PMI) is an indicator of business confidence and it tells much the same story as world trade - no growth in business activity and therefore in business related travel. Business confidence started to decline in May 2011, and the weak business travel performance could now be showing the reality of those expectations. Furthermore, the PMI is persisting just below the expansion/contraction level of 50, confirming the unlikelihood of growth in business activity and premium travel in the coming months.

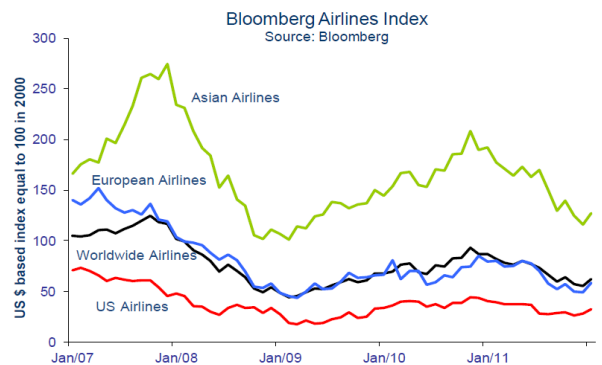
IATA – Airlines Financial Monitor (December 2011 – January 2012)

Financial Indicators

Airline share prices rally at year-end, but remain 30% below levels 12 months ago

Airline shares rebounded in the last month by a notable 12%, according to Bloomberg Worldwide Airlines Index. Regional airline shares have all experienced increases, with European and US share prices growing most – 18% and 14% respectively.

The rally showed financial markets upgrading their expectations for future airline financial performance. However, share prices are still 30% down on the start of the year. Markets expect the deterioration in airline profits to be a little less severe.



Q4 results indicate continued profit decline, with year-on-year airline profits falling 55%

In US \$ Million

# Airlines		Q4 2010		Q4 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
10	North America	1572	114	1635	349
12	Asia-Pacific	1954	1169	1091	272
3	Europe	193	88	60	68
3	Latin America	798	359	193	53
1	Middle East	21	20	37	29
29	Sample total	4539	1750	3015	771

Compared to Q4 2010 net profits have contracted by 55% for the industry overall. This continues the squeeze that started in Q4 2010, as a result of slowing demand and high fuel prices.

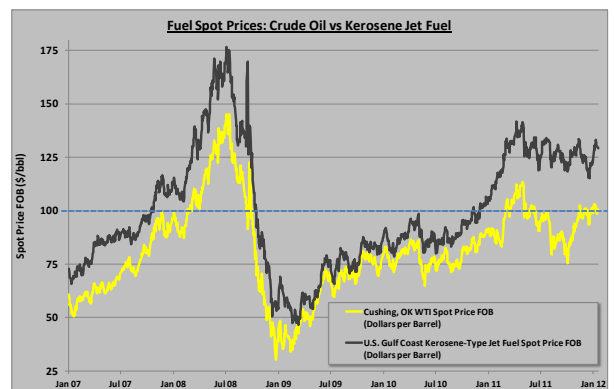
By contrast, North American airlines, which managed to maintain strong yields and load factors, had good Q4 performance – more than doubling profits compared to the same period in 2010.

Fuel Costs

Jet fuel prices down on peak levels, but up 14% on last year

Jet fuel prices are down 9% from the Q2 peak, but are still up by 14% when compared to January 2011. Furthermore, volatility over much of the year occurred across a tight band of 10-15\$/barrel, giving little chance of relief for airlines throughout 2011.

Fuel prices have remained high because of supply-side restrictions, as seen by the fall in stocks from 66.2 days to 64.2 days. Prices have also been supported by strong Chinese demand for oil products.

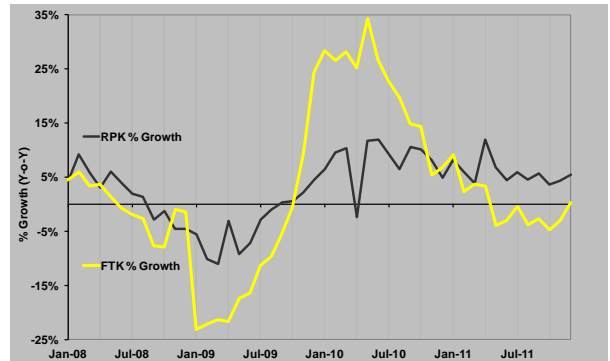


Demand

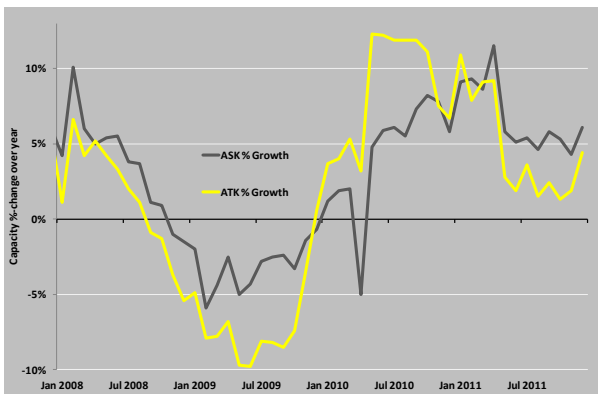
Cargo traffic stabilizes, as passenger travel continues to grow

Air freight markets experienced an upturn at the end of 2011, after having shown contraction in most months since mid-2010. Month-on-month growth in FTKs worldwide increased 1.1% in December 2011, but downside risks to cargo traffic from the Eurozone still remain a possibility in 2012.

Passenger travel also rose in December to a level 5.4% higher than the same month in the previous year. But the trend since mid-year has now clearly slowed, and the impacts of weakening consumer confidence throughout 2011 are finally showing.



Capacity



Passenger capacity expands unabated, and freight capacity resumes strong growth

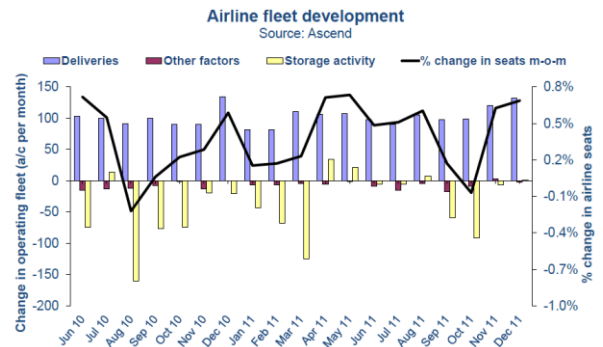
Air freight capacity increased in Q4, despite measures to reduce the freighter fleet. The increase is likely to be resulting from the growth in belly capacity as twin-aisle passenger aircraft continue to be delivered.

Passenger capacity has persisted to increase since mid-2010. Until recently, the growing capacity has not affected load factor levels – that appears to be changing in Q4.

Aircraft deliveries up again in December, keeping seat capacity growth strong

Aircraft deliveries register another month of growth in December 2011. Not only did aircraft deliveries increase over the month, there was no storage activity to offset the growth in seats.

The rate of growth in seats increased to 0.7% per month in December, or an annual rate of 8-9%. If this trend continues, it could significantly undermine load factors in passenger and cargo markets alike.



Freight load factors remain weak and passenger load factors now also show decline

Strong growth in additional capacity has already started to show through declining load factors in passenger markets. Q4 has seen passenger load factors fall, breaking a trend of solid load factors throughout much of 2011.

Cargo load factors remain at weak levels, however good traffic performance has offset some of the capacity increase, and stabilized load factors for the moment.

Yields

Passenger yields maintain strength and international fares continue to grow

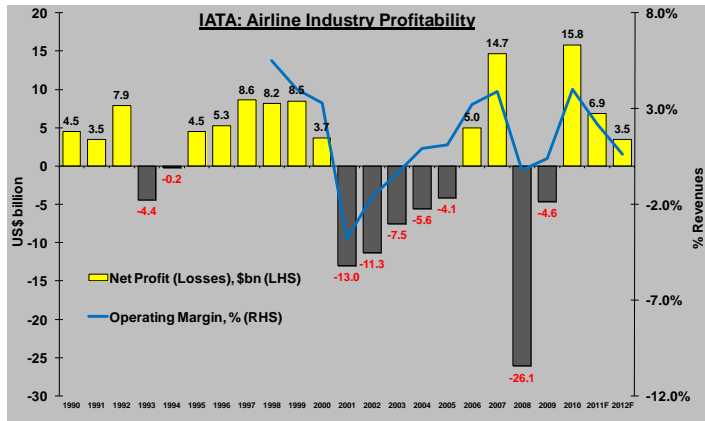
Persisting high fuel prices have forced airlines to try to recover costs through improving yields. As a result, passenger yields have continued to grow, as have average international fares.

This has been possible as load factors, at least until recent months, have been strong. However, if load factors continue to weaken as they have done in Q4, yields may become suppressed and place downward pressure on profits.



IATA – Financial Forecast (December 2011)

Euro crisis outcome key for airlines



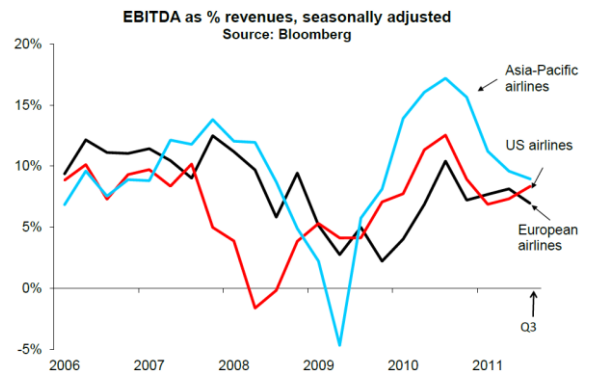
The biggest risk facing airline profitability over the next year is the economic turmoil that would result from a failure of governments to resolve the Eurozone sovereign debt crisis. At the time of writing, actions were being taken by central banks to avert a credit crunch. IATA's central forecast for the airline industry is based on further measures being taken to avert the financing problems now facing Italy and Spain, which may include support from the IMF. Even this relatively benign outcome will fail to prevent a short-lived recession in Europe, and IATA has revised down their forecast for **industry profits in 2012 from \$4.9 billion to \$3.5 billion.**

IATA's forecast for 2012 also shows a marked divergence of financial performance between regions. European airlines are likely to be hardest hit by recession in their home markets, and IATA now expects to see small losses in this region. Contrasting performances are shown by North American airlines, where capacity cuts are providing some protection to profitability, and in Asia where, in particular, IATA expect significant profits generated by high load factors on China's expanding domestic market.

There remains a very significant risk that the sovereign debt crisis in the Eurozone could spiral out of control, generating a banking crisis and more widespread economic weakness. The OECD has recently published an assessment of this risk. Based on the OECD's analysis IATA estimates that industry wide losses could reach \$8.3 billion. Europe would be worst affected but IATA doubt any region will be able to escape losses.

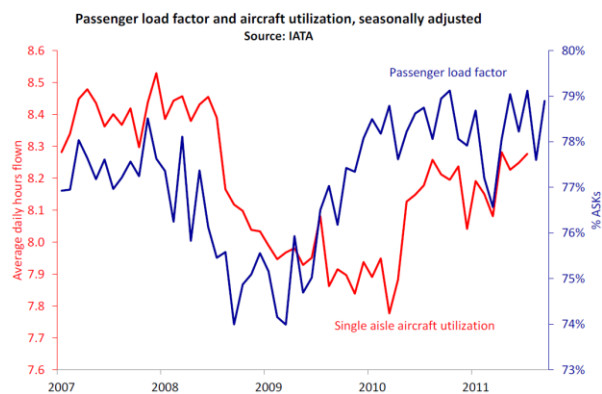
Performance so far this year is good

Airline profits around the world peaked in the third quarter of 2010. As oil and fuel prices surged profit margins were squeezed. However, performance by the third quarter of 2011 was still reasonably good, with EBITDA in the three largest regions of between 5% and 10% of revenues. The most intense squeeze on cash flows and margins was in the fourth quarter of 2010 and the first quarter of 2011. Cash flows more or less stabilized in the second and third quarters.



Asset utilisation sustained at high levels

Airlines managed to generate this stable financial performance, while business confidence in most of the industrial economies slumped and jet fuel prices stayed relative high.



There were several reasons for this good performance. First, airlines were able to prevent fuel costs from pushing break-even load factors higher, by generating better yields and cutting non-fuel unit costs. The extent to which this was achieved on passenger markets was able to offset deterioration on air freight markets.

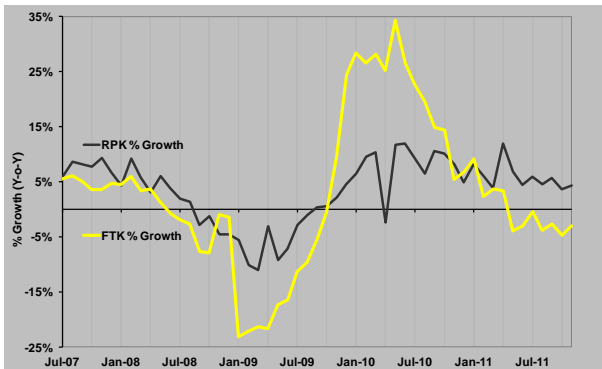
As well as stabilizing break-even load factors on passenger markets, up to the third quarter at least, airlines managed to keep aircraft utilization high. Seat load factors were sustained close to the highs of the past eighteen months, and aircraft utilization remained close to the levels reached in mid-2010. Careful yield and capacity management played an important part in keeping

airline cash flows stable, despite still high fuel prices and slumping business confidence.

But freight markets already shrinking

Robust air travel demand was also an important support to airline cash flows and profitability through to the third quarter. Despite the slump of business confidence in most major economies and a decline in consumer confidence in Europe and the US, air travel volumes continued to trend upwards, at a pace close to trend, through to the end of the third quarter. The outlook however looks much weaker.

Freight markets had already begun to decline by the middle of the year. Between May and October worldwide air freight markets shrank by 5%. Over the same period world trade also began to decline, but so far only by 1%. Air freight is suffering more than other transport modes as the slump in business confidence has led shippers to switch to cheaper and less timely modes, as they anticipate a build-up of inventory. This air freight decline has been a good indicator of wider economic weakness in the past, and IATA think that is what is being signalled by the data today.



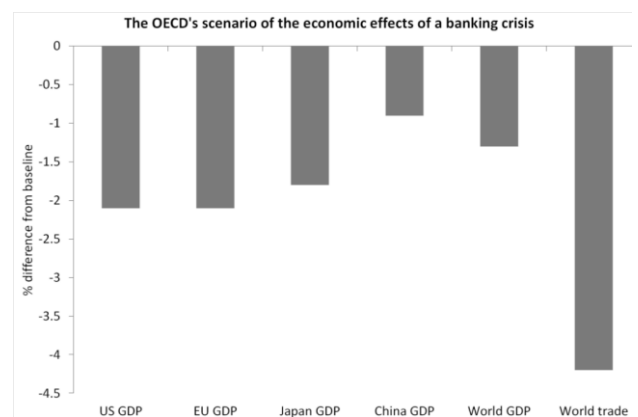
The outlook for freight and travel markets depends on how policy-makers address the problems of debt and competitiveness in the Eurozone. Our central forecast is based upon a resolution of the Greek default and back-stop financing for other European governments provided by the IMF and/or the ECB. This may allow Europe to muddle through for another year, at the cost of a mild recession. This would allow growth to continue in emerging market regions, albeit at a slower pace

than the past two years. The world would remain 'two-speed' and this would lead to a divergence of financial performance between airlines in Europe, exposed to weak home markets, and those in other regions, with a greater exposure to growth markets.

However, there are significant risks that attempts to shore up the Eurozone fail. Politicians have been clear that there is no appetite for fiscal union, Europe-wide bond issuance or the ECB acting as lender of last resort. Since peripheral Eurozone economies need to restore 20-30% of lost competitiveness against Germany, in order to generate sustainable economic growth, the choice is either deep austerity in those countries or an acceptance of higher inflation in Germany. Both look very difficult paths and it is this that leaves open the chance of the situation deteriorating into a banking crisis. If that happened then the European recession would be much deeper as bank credit dried up and asset markets slumped. Economic weakness would also spread more widely around the world. It is obviously very hard to put numbers on such a scenario, and those in the table for the 'banking crisis' should be taken as indicative.

Downside risk assessed by the OECD

In their latest economic outlook, the Organisation for Economic Co-operation and Development warn that 'A large negative event would...most likely send the OECD area as a whole into recession, with marked declines in the US and Japan, and prolonged and deep recession in the euro area'. Even the so-called emerging markets would suffer. It is clearly impossible to be certain about the impact of such an outcome, but the OECD explores such a scenario that starts from a disorderly sovereign default in the Eurozone, damaging confidence and, via contagion, other sovereigns and financial institutions. IATA uses the OECD scenario economic impacts to estimate the financial effect of the consequent loss of air travel and cargo to the airline industry. IATA estimates this has the potential to cause airline losses of over \$8 billion in 2012.

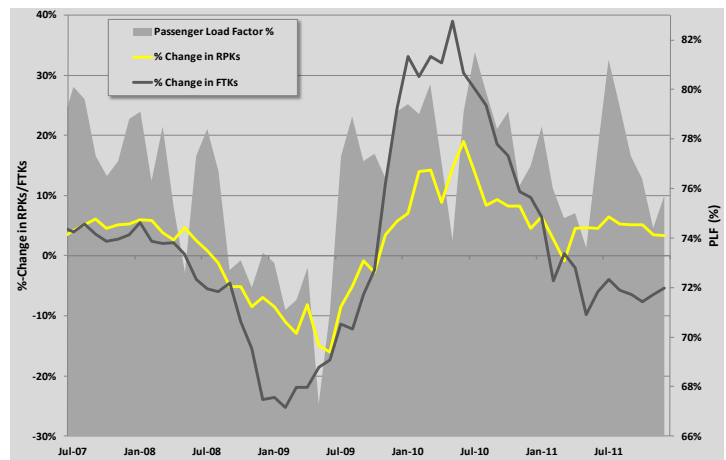


Regional Developments

Asia Pacific

Preliminary figures for the **full calendar year 2011**, released by the **Association of Asia Pacific Airlines (AAPA)**, showed steady growth in international air passenger demand. Conversely, international air freight markets weakened, following the strong rebound in the preceding year.

Overall, Asia Pacific airlines carried **190 million** international passengers in 2011, **3.5%** more than the previous year, with the region's sustained economic growth supporting both business and leisure travel demand. International passenger traffic, measured in revenue passenger kilometre (RPK) terms, grew by **3.7%**. Capacity growth for the year was a relatively optimistic **6.3%**, resulting in a **2.0** point fall in the average international passenger load factor, to **76.4%**.



Asia Pacific international air cargo demand, expressed in freight tonne kilometre (FTK) terms, fell by **4.8%** in 2011, a reflection of weakening world trade conditions. In spite of the decline in freight demand, offered freight capacity matched that of the previous year, leading to a **3.4** percentage point decline in the average international freight load factor, to **66.6%**.

Commenting on the results, Mr. Andrew Herdman, AAPA Director General said, "Despite a series of natural disasters including the devastating earthquake and tsunami in Japan, growth in international passenger traffic for Asian airlines held up relatively well in 2011. By contrast, the year saw air cargo demand weaken significantly compared to the restocking surge experienced in 2010, reflecting cautious management of supply chain inventories in the expectation of relatively weaker growth prospects for the major developed economies."

Looking ahead, Mr. Herdman concluded, "Uncertainty over prospects for the global economy in 2012 has somewhat overshadowed the immediate outlook, and airlines worldwide are bracing themselves for another challenging year ahead. Overall, however, Asian airlines still remain optimistic about longer term growth prospects, as evidenced by ambitious fleet plans, ongoing service enhancements, and the launch of innovative new business ventures."

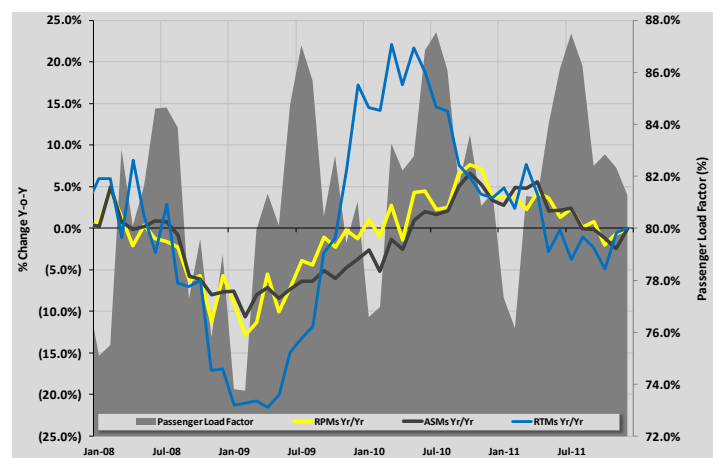
North America

Entering **2010**, for the members of the **American Air Transport Association (ATA)**, passenger traffic finally broke through the positive growth barrier, despite a negative dip in February and April - undoubtedly due to the chaos caused by the Icelandic volcano ash cloud. Capacity also followed a similar upward trend. Peaking in late October/November, year-on-year growth has been slowly falling **throughout 2011**.

Passenger load factors have been continuously falling since May 2011. Falling capacity entered into negative growth as of August 2011 and traffic followed a similar path, entering a negative growth phase as of October.

International routes continued their decline in traffic growth during **December 2011** with **0.8%**. **Domestic** routes reported a small, yet slightly more commendable increase of **0.2%**.

Hence, **Systemwide RPM growth** decreased by **0.1%** above December 2010 figures. **Latin** routes recorded the healthiest increase, growing by **4.5%**, with **Pacific** and **Atlantic** routes actually recording a decline of **3.2%** and **2.8%** respectively. **Systemwide capacity** did not change **0.0%** resulting in a slight year-on-year decrease of **0.1** points in **passenger load factor**, still managing to maintain a good level of **81.3%**.



Year-to-date figures for the **full-year 2011** showed Systemwide **traffic** increasing overall by **1.6%** compared to the previous year. **Capacity** also increased by a slightly higher **1.7%**, hence causing **Load Factor** to marginally slip by **0.1** percentage points, reaching **82.6%**.

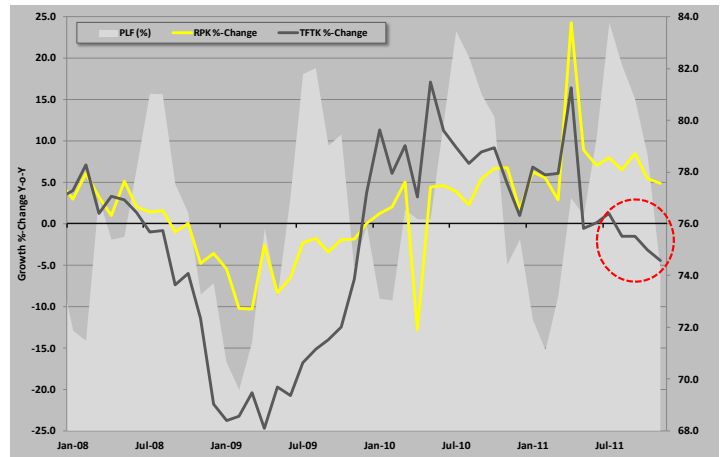
Following the peak in **CARGO Revenue Tonne Miles** growth in May 2010 of 21.7%, mapping out a phenomenal surge in activity, there has been a gradual decline, perhaps a restoration of normality. Growth figures continued to fall entering in 2011 to a trough in February at 2.4%, before recording a small spike at the end of the first quarter, with the growth figure settling reaching almost 8%. May however showed a negative growth figure of -2.9% - albeit a reflection of the peak a year before - with **November 2011** continuing this negative trend, albeit at a slower pace of **-0.5%** year on year. The **year-to-date** RTM figure for the **eleven months of 2011** remains positive albeit very small at **0.2%**.

Europe

The **Association of European Airlines (AEA)** its preliminary traffic figures for **2011**, which indicate 7.1% growth in year-on-year passenger numbers.

Over the full year, Europe's network airlines carried a total of **363 million passengers**. This provisional figure, covering 31 of AEA's 35 members, is 24 million up on 2010. Traffic (measured in RPKs) rose by **8%**, but capacity growth (measured in ASKs) remained a step ahead at **8.9%**. This slight shortfall in demand caused AEA's average load factor to slip by **0.6** of a percentage point to **77.3%**.

Based on this positive traffic performance, AEA expects its member airlines to post a collective **€1.5 billion EBIT profit** in 2011, up from €0.5 billion in 2010.

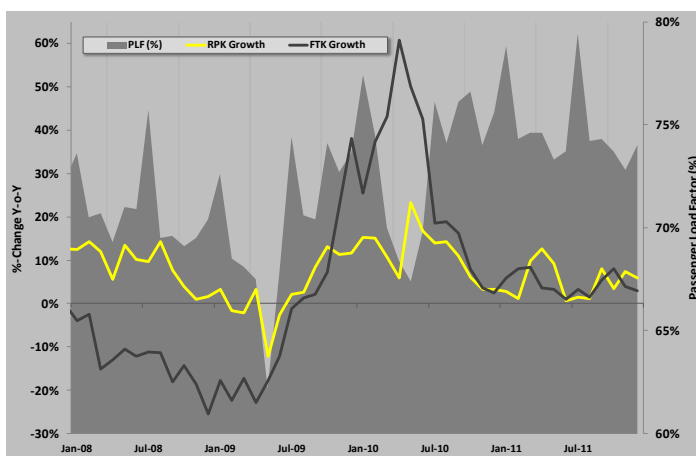


"There is much to encourage us in the 2011 figures. In times of austerity and financial turmoil, European citizens continue to vote for air travel in unprecedented numbers," said AEA Secretary General Ulrich Schulte-Strathaus.

The 2010 baseline was depressed by several significant events, notably the closure of European airspace in May due to the perceived risk of volcanic ash contamination and airport closures in late 2010 as facilities failed to cope with the winter weather.

"Even after adjusting for the exceptional events of 2010, we still saw 6% underlying RPK growth. Unfortunately we cannot, and do not, expect this buoyancy to last. Air freight – a key barometer for the industry – has been slowing since May and we began to see passenger traffic cool down in the final quarter of 2011. Meanwhile, fuel costs remain cripplingly high and aviation continues to be a target for additional regulatory burdens, further impacting financial stability," concluded Mr Schulte-Strathaus.

Latin America and Caribbean



The **Latin American and Caribbean Air Transport Association (ALTA)** announced that its member airlines carried **139.2 million** passengers in **2011**, up **3.8%** from the previous year.

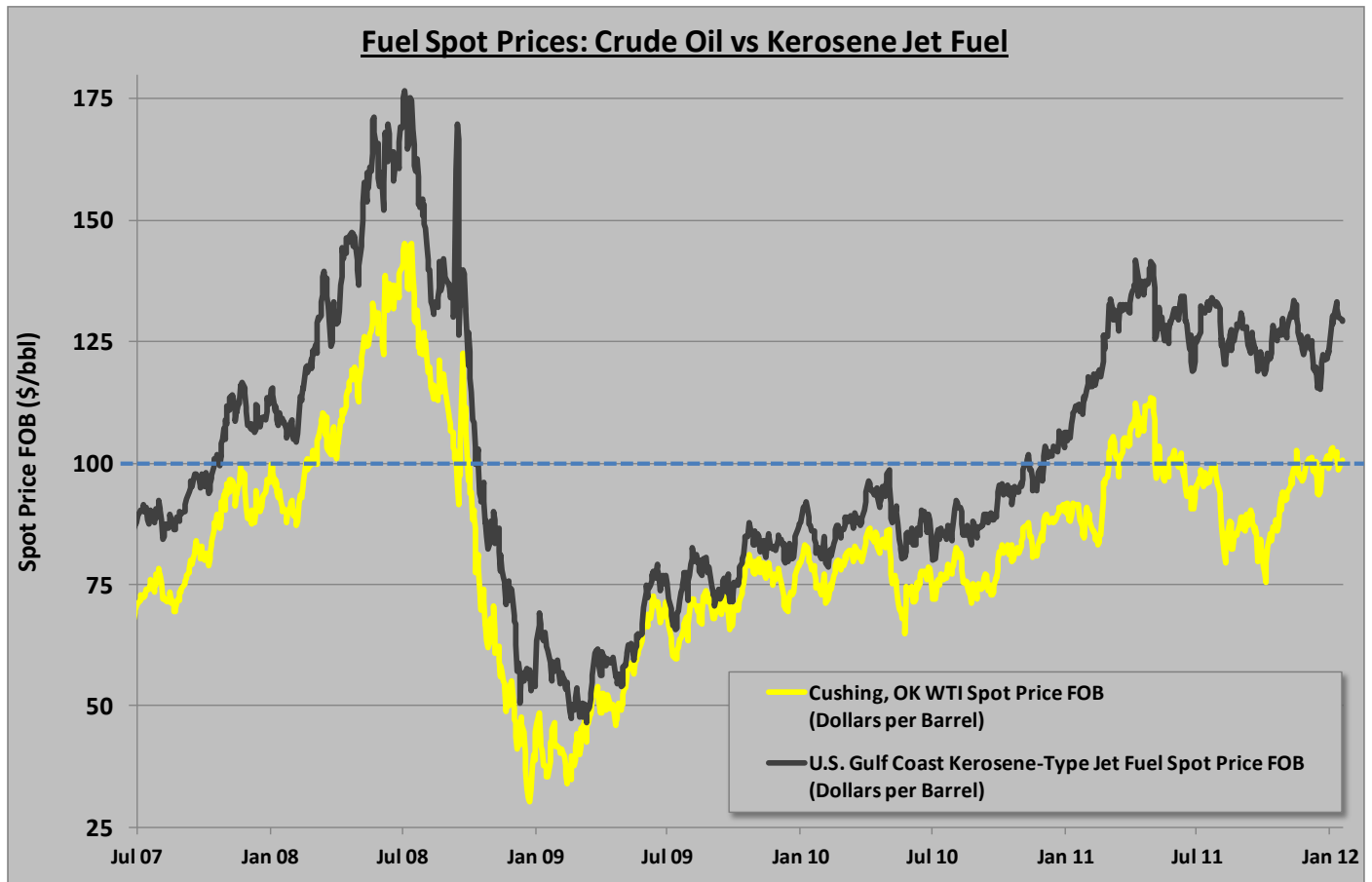
Traffic (RPK) grew **5.1%** and capacity (ASK) increased **2.9%**, bringing up the load factor to 74.9%, 1.6 percentage points higher than in 2010.


"The results as of December 31, 2011, clearly show the solid growth of the aviation industry in the Latin American and Caribbean Region", says Alex de Gunten, ALTA's Executive Director, "Passenger traffic growth in the Region in the last five years, at 7.7%, has outpaced the global industry average of 3.8%."

The number of passengers carried during December 2011 increased **4.8%** versus the same month of the previous year, reaching **12.4 million** passengers. In that month, traffic (RPK) rose **5.9%**, capacity (ASK) increased **8.3%**, and the passenger load factor reached **74.0%**, 1.6 percentage points lower than December 2010.

Freight ton kilometres increased **4.5%** in 2011 and **3.0%** in December.

Jet Fuel (Kerosene) & Crude Oil Spot Prices



 US Energy Information Administration

Most recent figures for **January 18th 2012**: **Crude Oil** recorded a spot price of **\$100.61/bbl** and **Kerosene Jet Fuel** was at **\$129.192/bbl (307.6 ¢/gallon)**.

Individual Airline News (Highlights)**The Americas**North America

Allegiant Travel Co. has inked a purchase agreement with **Scandinavian Airlines System (SAS)** for up to 13 MD-80 aircraft and 12 JT8D-219 spare engines in 2012 and 2013. According to Allegiant, these purchases will primarily be used to “replace engines that will be coming due for major overhauls over the next two years, thus helping the airline to optimize its engine-related maintenance expense.” The agreement also gives Allegiant the flexibility to use several of the aircraft for additional MD-80 fleet growth in the future, it said. Las Vegas-based Allegiant reported net income of \$9.5 million, down 27.9% from \$13.8 million in the year-ago quarter, owing mainly to higher fuel prices.

Citing an “untenable” cost disadvantage compared to its primary competitors, **American Airlines (AA)** parent AMR Corp. filed for Chapter 11 bankruptcy protection in a New York court and announced the resignation of chairman and CEO Gerard Arpey. President Tom Horton assumed the roles of chairman and CEO and began making the case that better times are ahead for the Dallas-based carrier. He explained that AA had done all it could to restructure outside of bankruptcy but couldn't get its cost base, particularly labour expenses, low enough. “All of our competitors have taken this path, some more than once,” he said. “It's a well worn path.” Horton said AA has “great assets” that will enable profitability if it can lower its cost structure. Among these, he said, are hubs in key US markets and a range of international partnerships, most prominently its membership in the oneworld alliance and antitrust-immunized joint ventures with British Airways and Iberia on transatlantic flights and with Japan Airlines on transpacific flying. Most important, he said, is the massive order announced in the summer for 130 Airbus A320 family aircraft (to be split between A319s and A321s), 130 re-engined A320neos, 100 Boeing 737NGs and 100 re-engined 737 Max aircraft. “That deal gives us enormous flexibility to grow the company as we get our costs and capital in line,” Horton said. Since Boeing and Airbus have agreed to help finance the aircraft, the split order is not believed to be in jeopardy. The company said that AA and regional affiliate American Eagle would “continue conducting normal business operations.” AA chose CFM International's CFM56-5B engines to power the A319s and International Aero Engines' V2500-A5 powerplants for the A321s. Also part of the mega-order were 130 re-engined A320neos, 100 CFM56-7B-powered 737NGs and 100 737 Max aircraft re-engined with a variant of CFM's Leap-X. AA still has not made an engine selection between the Leap-X and Pratt & Whitney's PW1100G for the A320neos it has on order.

Even though **American Airlines (AA)** is in a relatively strong position for a bankrupt airline—with \$4.1 billion in cash on hand, more than \$6 billion in revenue generated quarterly and an expansive network underpinned by oneworld membership and other international partnerships, the Chapter 11 process will be “complex” AA “will have to change the way we do business,” necessitating “very tough and sometimes unpopular decisions that will impact people's lives. We will restructure our debt and aircraft leases, and as we do we will undoubtedly need to ground some planes and resize our network before we can turn the corner and grow again. And, regrettably, we will most certainly end the process with fewer people than we have today.” AA entered into Chapter 11 with about 80,000 employees.

Atlas Air Worldwide Holdings (AAWH) reported a third-quarter net income of \$28.2 million, down 16.6% compared to a \$33.8 million net profit earned in the year-ago period. But the company, the parent of Atlas Air and Polar Air Cargo, believes its prospects have brightened with its first Boeing 747-8 freighter joining its fleet. By year-end 2012, cargo operations are expected to include seven 747-8Fs. AAWH has nine 747-8Fs on order with deliveries expected to be completed in the first half of 2013; it cancelled three more of the type it had on order in September. AAWH's third-quarter revenue rose 11.1% year-over-year to \$362.9 million, highlighted by a 12.9% lift in ACMI revenue to \$163.4 million. Expenses increased 17.5% to \$319.4 million including a 39.8% jump in aircraft fuel costs to \$103.7 million. Third-quarter ACMI block hr. flown heightened 9% to 26,426 and ACMI revenue per block hr. improved 3.7% to \$6,184.

Delta Air Lines (DL) signed a binding agreement to invest \$100 million in **GOL** to gain preferred shares in the Brazilian airline and a seat on the GOL board of directors. As part of the agreement, the carriers expanded their codesharing relationship and pledged to coordinate flight schedules to better facilitate the transfer of passengers and cargo in Brazil. GOL, which has moved to an all-737NG operating fleet, will also transfer its two remaining 767s to DL.

Evergreen International Airlines, the Oregon-based cargo carrier, has signed up for a Boeing 747-400 passenger-to-freighter conversion that will be delivered in 2012, Boeing said. The aircraft will be the first of the type to enter the airline's fleet. Boeing said the conversion will mark its 50th 747-400 converted freighter. It contracts out the touch work to Taikoo Aircraft Engineering in Xiamen, China. Modifications to the aircraft will include the addition of a side cargo door, a strengthened main-deck floor, full main-deck lining installation, provisions for a new cargo handling system and revisions to aircraft systems. The converted freighter has positions for 30 pallets on the main deck.

FedEx revealed it has placed a firm order for 27 Boeing 767-300 freighters valued at \$4.74 billion at list prices, but also has deferred delivery of 11 777Fs. The disclosures were made as the Memphis-based express delivery operator reported a 76% year-over-year lift in net income for its fiscal second quarter ended Nov. 30 to \$497 million on a 10% rise in revenue to \$10.59 billion. FedEx will take delivery of three 767-300Fs in its fiscal year starting June 1, 2013, and receive six per year over the following four years. The aircraft will replace the cargo carrier's aging MD-10Fs. It selected GE Aviation's CF6-80C2 engines to power the 27 767-300Fs. It also signed a multiyear OnPoint maintenance, repair and overhaul agreement with GE. Regarding the 777Fs, FedEx exercised two options but also has delayed the delivery of 11. Two will be deferred that had been scheduled for delivery in the fiscal year starting June 1, 2012, five from the next fiscal year, and one per year in the following four years. FedEx said the deferrals were necessary "to better balance air network capacity to demand." It did not say when the deferred aircraft will be delivered. As a result of the deferrals, FedEx will place four 777Fs into service in the fiscal year starting June 1, 2012, and two in the following fiscal year. It has 17 777Fs in service.

Honolulu-based **Hawaiian Airlines** (HA) has grown its Airbus A330-200 order by five aircraft. HA now has a commitment of 22 A330 aircraft, including four that are leased. The airline operates five A330-200s. "Adding these additional A330-200s to our fleet over the next four years will support the continued expansion of our network and replacement of our current 767-300s".

JetBlue Airways has selected Pratt & Whitney engines to power its recently ordered fleet of Airbus A320neo aircraft, becoming the first US airline order for PurePower engines. The New York-based carrier announced its choice of the PurePower PW1100G-GM engine. A memorandum of understanding with Pratt covers 86 engines and a long-term maintenance agreement. JetBlue's fleet of 40 neos are scheduled to start delivery in 2018.

Pinnacle Airlines Corp., the Memphis-based parent of regionals Pinnacle Airlines, Colgan Air and Mesaba Aviation, reported a third-quarter net loss of \$3.5 million, down from a net profit of \$9.4 million in the year-ago quarter. The disappointing results are "reflective of the numerous changes underway," namely the integration of the pilot integrated seniority list, which caused an increase in pilot expenses of \$4.9 million, ratification of a new five-year contract with Pinnacle's flight attendants, and completion of over half of the move consolidating the corporate staff into its new headquarters. Additionally, the company has "nearly completed all of the FAA requirements to transfer all of its regional jet operations under the Pinnacle Airlines certificate by year-end." Consolidated operating revenue climbed 5.8% to \$319.8 million from \$302.3 million, while expenses heightened 13.3% to \$313.3 million, producing an operating income of \$6.5 million, down 75% from \$25.7 million in the 2010 third quarter. Pinnacle Airlines reported third-quarter operating income of \$2.6 million, down 1.6% year-over-year, owing to "an increase in pilot wage rates related to the new labour agreement with ALPA and an increase in crew-related expenses resulting from scheduling changes by Delta Air Lines (DL), which resulted in the reallocation of flight crews and increases in crew staging." Pinnacle also said it reached a settlement with DL over certain heavy airframe maintenance costs, which reduced third-quarter revenue by \$3.3 million. Beginning Oct. 1, Pinnacle said it will pay a portion of its heavy maintenance costs rather than passing them along to DL for reimbursement. The increased cost will be factored into higher rates for its CRJ-200s as of Jan. 1, 2013, Pinnacle said. The company said Mesaba reported breakeven operating results and Colgan reported operating income of \$6 million, down \$1.1 million from the year-ago quarter. Consolidated third-quarter traffic rose 4% to 2.4 billion RPMs on a 1% decrease in capacity to 3.03 billion ASMs, producing a load factor of 78.3%, up 3.7 points.

Southwest Airlines (SWA) has placed a firm order for 150 Boeing 737 Max aircraft and 58 Next-Generation 737s. The deal marks the first firm order for the Max, a re-engined variant. With the SWA order, Boeing said it has 948 commitments and orders from 13 customers for the Max. The order also makes Dallas-based SWA the Max launch customer. Boeing said the list price of the total order is \$19 billion and that SWA is scheduled to take delivery of the first Max in 2017. The fuel-efficient Max will be powered by CFM International Leap-1B engines. CFMI put the order value at \$4.7 billion at list prices.

Surging costs sent Utah-based **SkyWest Inc.**'s third-quarter net earnings tumbling to just \$116,000, significantly lower than the \$25.5 million net profit it posted in the year-ago period. The parent of US regionals SkyWest Airlines, ExpressJet and Atlanta Southeast Airlines saw its quarterly expenses leap 47.7% to \$928.6 million, outpacing a 39.1% lift in revenue to \$955.4 million largely attributed to the addition of Houston-based ExpressJet, acquired in the 2010 fourth quarter. Operating profit of \$26.8 million was down 54% year-over-year. The cost increases included an 83.6% jump in aircraft fuel expenditures to \$160.3 million and various maintenance charges. Expenses associated with ExpressJet, which incurred a \$7 million pre-tax loss in the third quarter, did little to help. Owing in large part to the addition of ExpressJet (which is in the process of merging with ASA), SkyWest Inc.'s third-quarter traffic heightened 54.3% to 7.89 billion RPMs on a 53% rise in capacity to 9.68 billion ASMs, producing a load factor of 81.4%, down 0.6 point. Yield declined 9.8% to 11.9 cents.

SkyWest Airlines will operate as **US Airways Express**, US Airways announced. By spring 2012, SkyWest will operate 49 flights to 19 destinations for US Airways Express. SkyWest will serve US Airways' Phoenix-based Express operation with 14 50-passenger Bombardier CRJ200 regional jet aircraft, replacing the CRJ200 and Dash8 Express service currently operated by Mesa Airlines as US Airways Express.

Spirit Airlines and Airbus signed a Memorandum of Understanding (MOU) at the Dubai Airshow for 75 A320 aircraft, comprising 45 A320neos and 30 A320s. The new aircraft will be used on Spirit's growth markets in the US, Caribbean and Latin America. Airbus said the engine selection will be announced later.

United Continental Holdings received FAA approval for a single operating certificate, the final regulatory step integrating United Airlines (UA) and Continental Airlines (CO). It will take effect in the first quarter of 2012. The two airlines announced their merger in May 2010 and closed the transaction Oct. 1, 2010. Under the deal, CO shareholders received 1.05 shares of UA common stock for each CO share they owned, with a transaction value of approximately \$8 billion.

Virgin America (VX) saw strong revenue growth for the 2011 third quarter, but higher fuel costs brought operating profit down by \$4.8 million to \$16.2 million and resulted in a \$3.3million net loss. The LCC reported a 44% increase in operating revenue over the same period in 2010 and a 6% operating margin. The airline's RASM improved by 9% year-over-year, on a 32% increase in capacity. Excluding new routes added in the past 12 months, RASM in the carrier's established markets improved by 17% year-over-year. However, total fuel costs for the quarter increased by 86% and the company's average price per gallon of fuel increased by 43% year-over-year. The increase in fuel costs was the primary factor in a \$4.8 million decrease in VX operating income. VX also said it had raised an additional \$150 million in a new four-and-a-half year debt facility funded in December, further improving the company's cash position. The company has also obtained lease financing commitments for 13 Airbus A320 family aircraft slated for delivery between October 2011 and September 2013. In addition, the company has closed on a financing facility for the majority of its pre-delivery payment obligations due on the first 20 aircraft within its order of 60 Airbus A320s, scheduled to begin delivery in the summer of 2013.

WestJet (WS) reported a C\$39.3 million (\$38.8 million) third-quarter net profit, down 10.4% from net income of C\$43.8 million in the prior-year period. The Canadian low-cost carrier's 26th straight quarterly profit was a "solid" result, particularly given "significantly higher fuel costs". The Calgary-based airline boosted third-quarter revenue 13.3% year-over-year to C\$775.3 million while expenses heightened 16.9% to C\$709.2 million. Aircraft fuel costs jumped 35.1% to C\$230.8 million. Operating profit was C\$66 million, down 14.4%. Third-quarter traffic rose 7.7% year-over-year to 4.32 billion RPMs on a 7.1% lift in capacity to 5.4 billion ASMs, producing a load factor of 80.1%, up 0.5 point. Yield increased 5.3% to C\$0.18. The company's board of directors declared a cash dividend of C\$0.05 per common voting share and variable voting share for the fourth quarter to be paid Dec. 30 to shareholders of record Dec. 14. WS is one of the few carriers in the world to reward shareholders in this way.

Central and South America

Copa Holdings, parent of Panama's Copa Airlines and Copa Airlines Colombia (formerly Aero Republica), posted third-quarter net income of \$70.3 million, nearly on par with a \$71.5 million net profit earned in the prior-year period. The fast-growing airline company said full-year consolidated capacity will be 21% higher than full-year 2010 capacity while 2012 capacity will increase another 20%. The growth is made possible by the addition of 10 Boeing 737-800s this year and another 10 of the type expected to join the fleet in 2012. Third-quarter revenue leaped 31.3% year-over-year to \$476.8 million while expenses increased 38.2% to \$374.7 million, including a 58.8% spike in aircraft fuel costs to \$145.8 million. Operating profit was \$102.2 million, up 38.2%. Net income fell slightly owing to a \$19.8 million mark-to-market loss on fuel hedging. Third-quarter traffic increased 21.6% to 2.66 billion RPMs on a 19.1% rise in capacity to 3.45 billion ASMs, producing a load factor of 77.1%, up 1.6 points. Yield rose 9.1% to 17.2 cents.

Copa Airlines confirmed that Copa and Avianca-Taca will join Star Alliance in April 2012. Copa will add 10 Boeing 737-800s next year as some 737s are paid off and could be parked, if necessary. The fast-growing airline showed no interest in the 737-900 series. Copa ruled out adding a long-haul fleet connecting PTY with Europe or Asia. Copa Holdings, parent of Panama's Copa Airlines and Copa Airlines Colombia (formerly Aero Republica), posted third-quarter net income of \$70.3 million, nearly on par with a \$71.5 million net profit earned in the prior-year period. The carrier said full-year consolidated capacity will be 21% higher than 2010 capacity while 2012 capacity will increase another 20%.

Brazil's **GOL** incurred a third-quarter net loss of BRL516.5 million (\$293.2 million), reversed from a BRL110 million net profit earned in the year-ago period, but emphasized the deficit is mostly related to non-cash charges. The company did, however, see a big year-over-year rise in expenses and swung to an operating loss as well. It said the net loss "was mainly due to the appreciation of the [US] dollar," which increased 18.8% in relation to the BRL from the end of the 2011 second quarter to the end of the third quarter Sept. 30. The carrier said the "depreciation of the Brazilian currency generated a net expense from the foreign exchange variation of approximately BRL\$476.4 million, as most of the company's financial liabilities [72% as of Sept. 30] are represented in dollars." Third-quarter revenue grew 3.1% year-over-year to BRL1.84 billion while expenses jumped 19.8% to \$1.92 billion (including a 28.5% leap in fuel costs), producing an operating loss of BRL75 million, reversed from a BRL187.2 million operating profit last year. Third-quarter traffic increased 10.4% to 8.91 billion RPKs on a 5.7% lift in capacity to 12.47 billion ASKs, producing a load factor of 71.4%, up 3.1 points year-over-year but below GOL's estimated break-even load factor of 74.4%. Yield declined 7.6% to BRL0.183. GOL ended the third quarter with an operating fleet of 118 Boeing 737-700/800 aircraft.

Brazil's Council for Economic Defense (CADE) has approved the merger between Chile's **LAN Airlines** and Brazil's **TAM** in a unanimous vote. The antitrust regulator imposed two conditions before allowing the carriers to combine under LATAM Airlines Group, the single holding company that will own them both. The airlines must give up two slot pairs at Sao Paulo Guarulhos for the Sao Paulo-Santiago route and exit either oneworld or Star Alliance. Santiago-based LAN is a oneworld member and TAM is part of Star Alliance. The carriers said the regulation approval process for the merger is now complete in Brazil and the merger will close in the first quarter of 2012.

LAN Airlines shareholders approved the carrier's planned merger with Brazil's **TAM** under **LATAM Airlines Group**, taking another step toward the expected completion of the combination early next year. LATAM will control more than 40% of the Latin American air passenger market. The transaction will take the form of an all-stock exchange in which TAM shareholders will be offered 0.9 shares of common stock of LATAM for each share of TAM. TAM shareholders are expected to clear the merger in a Dec. 23 vote. Antitrust regulators in Chile and Brazil have given conditional approval of the transaction, and LAN expects a ruling from the Chilean Supreme Court in January on its appeal of some of the requirements set by the Chilean antitrust tribunal TDLC.

LAN Airlines re-launched Aires as **LAN Colombia**, another sign of the Santiago de Chile-based carrier's increasingly dominant presence in South America. LAN already operates affiliates in Peru, Argentina and Ecuador and is in the process of merging with Brazil's TAM under LATAM Airlines Group, a holding company that will control more than 40% of the South American air passenger market. LAN last year acquired nearly 99% of Aires, Colombia's second largest domestic airline, for \$32 million. Bogota-based LAN Colombia operates to 22 domestic destinations and Ft. Lauderdale with a fleet of 26 aircraft. It has a workforce of 1,750 and controls 23% of the Colombian air passenger market. LAN said it has invested \$405 million in Aires/LAN Colombia since making the acquisition, funding "the implementation of LAN operational standards, rebranding, as well as fleet updates and expansion, including the incorporation of three new Airbus A320 aircraft."

Brazil's **TAM Airlines** will revamp its Boeing 777 aircraft by installing an all-new cabin configuration with the delivery of its fifth 777-300ER next year. TAM offers first-, business- and economy-class on its long-haul 777 fleet, which will increase to 12 aircraft by 2014. The aircraft will fly on North American and European routes. TAM's A330 fleet will also be featured with the new product. It was also noted that the airline needs to improve its brand. The airline must strengthen its visibility in the market, and that membership in an alliance will "help to improve our brand outside Latin America." TAM has approximately 30 aircraft on order, scheduled for delivery through 2022.

The Ecuadorian government is considering partially privatizing its national carrier **TAME Linea Aerea del Ecuador (EQ)** and is looking for a strategic partner to develop Eloy Alfaro International (MEC) in Manta. Discussions have already taken place with several airlines. To safeguard traffic rights, the foreign investor will not be able to own more than 49% of EQ's capital. Ecuador's national flag carrier operates on a mostly domestic network and some international routes to Colombia, Cuba, the Dominican Republic and Panama using three Airbus A320-200s, one A319, five CF34-powered Embraer 170s and E-190s, and one ATR42-500. The Government is also opening the development and management of Manta airport to foreign investment. By attracting Asian carriers to MEC, TAME can provide feeder traffic. The government is "considering involving Lufthansa Consulting in the Manta airport and TAME project. The Ecuadorian government is investing \$350 million in the upgrade and expansion of its airports. The bulk of this investment is for the new Quito International Airport, which is scheduled to open next year and will have a 4,100 m. runway and MEC. The management of four of the country's 26 airports is under concession to companies or consortia from the private sector.

Mexican low-cost carrier **Volaris** (Y4) has signed a memorandum of understanding (MOU) with Airbus for 44 A320 aircraft, comprising 30 A320neos and 14 A320 family aircraft. Y4 is the first Mexican airline to order the A320neo, which will be used to continue the airline's expansion into the US and renew its fleet.

Europe

Aer Lingus Group (EI) reported a third-quarter operating profit of €94.5 million (\$130 million), after exceptional items, up 14.1% from €82.8 million earned on an operating basis in the year-ago period. It said the “strong performance is directly attributable to the commercial, operational and cost reduction actions taken by the group since late 2009.” The results “were achieved against the backdrop of difficult trading conditions. Demand in our primary markets continues to be impacted by consumer concerns about the future and the ongoing Eurozone debt crisis. We are also affected by high airport charges and are now exposed to higher fuel prices than earlier this year.” EI’s third-quarter revenue increased 5.9% year-over-year to €435.8 million, while total operating costs rose at a lower rate of 2.6% to €341.6 million. Staff costs were up 10.2% and fuel costs increased 8.7% to €83.7 million on flat fuel consumption compared to the year-ago period. EI said it is experiencing rising fuel costs month-to-month as it loses the benefit of fuel hedges put in place before spring 2011. The carrier’s third-quarter traffic rose 3.7% to 4.43 billion RPKs on a 2.4% increase in capacity to 5.37 billion ASKs, producing a load factor of 84.4%, up 1 point. Long-haul traffic inched down 0.1% on 1.3% reduction of capacity, lifting load factor 1 point to 89%. Short-haul RPKs rose 3.7% on 2.4% higher capacity, leading to a 1.1 point improvement in seat factor to 82.4%. Short-haul boardings rose 2.3% to 2.7 million and passengers carried on its long-haul routes contracted 0.3% to 286,000. The average fare per passenger increased 5.2% to €100.41 on short-haul routes and 3% to €351.05 on long-haul routes. Retail revenue per passenger rose 6.1% to €18.28. EI said it expects fourth-quarter operating losses will be higher compared to the year-ago period, owing to higher quarterly fuel and airport charges. It forecasts its full-year 2011 operating results, before exceptional items, to be “at the upper end of the range” of current market expectations of €30-€42 million.

Aeroflot (SU) plans to modernize the fleet of its subsidiaries with Airbus A320s and Russian regional aircraft Sukhoi Superjet 100s (SSJ100s). These aircraft will serve international flights primarily and the company is considering using SSJ100s in the Far East. SU has 30 SSJ100s on order to be used on its domestic routes.

Aeroflot (SU) launched Sukhoi Superjet 100 (SSJ100) international services Dec. 4 when the aircraft (RA 89002) flew between Moscow (SVO) and Oslo (OSL). By the end of the year, the aircraft is expected to fly from SVO to Budapest (BUD). SU operates three SSJ100s, which serve AVO routes to St. Petersburg, Nizhny Novgorod, Yekaterinburg, Ufa, Astrakhan, Chelyabinsk, Kazan, Anapa, Perm and Minsk. SU was the SSJ100’s first Russian customer and took first delivery in May. It has 30 of such aircraft on order. SU plans to modernize the fleet of its subsidiaries with A320s and SSJ100s. These aircraft will serve international flights primarily and the company is considering using SSJ100s in the Far East.

Aeroflot (SU) has sold 51% of its newly-acquired, Saratov-based subsidiary **Saravia Airlines (6W)** to private investors. The price and the purchaser were not disclosed. According to an SU statement, 6W does not align with SU’s business strategy. No more information was given. It was originally suggested that SU could create a low-cost carrier based on 6W. The 6W fleet consists of 12 Yak-42s, although only eight are operated. During the first 11 months of 2011, the airline carried 356,820 passengers.

The Latvian government has acquired the 47.2% stake in **airBaltic (BT)** previously held by Baltijas Aviacijas Sistēmas (BAS), the company controlled by former BT president and CEO Bertolt Flick. It now owns 99.8% of the Riga-based carrier. The purchase follows the collapse of the Lithuanian bank Snoras and its subsidiary Krajbanka, which held the BAS shares in airBaltic as collateral. The government used its pre-emptive right to make the purchase. It bought the shares for their nominal value of LVL224,453 (\$432,106), a move Riga’s local government is contesting. The government has already injected LVL16 million, and BAS has injected LVL14 million, into the airline. By Dec. 15, the state will invest another LVL41.6 million and BAS LVL37.7 million. The Riga City Council wants the government to revoke its decision to buy 47.2% of BT because the shares could be sold at a much higher price. It believes its interests as a major Krajbanka depositor were injured by the deal. The council said the price of the security should have been determined, not according to the nominal value of the shares, but by the amount of the loans worth dozens of millions LVLs. The 47.2% stake is not worth LVL224,453 “but at least LVL50 million,” it said.

Financially troubled **Air Berlin (AB)** said it is in talks with Boeing and Airbus to delay aircraft deliveries as part of its Shape and Size cost-cutting program. These deliveries, originally scheduled for 2012-2013, have been moved to 2015-2016. The delivery delay affects eight 737NGs and 11 A320 family aircraft, several German media outlets reported. AB had planned to add 50 aircraft during this timeframe but will now integrate 31 into its fleet. The volume of investments will be lowered accordingly. Originally the carrier planned to invest \$508 million next year and \$1.1 billion in 2013. The delivery delay reduces the carrier’s current total fleet from 170 to 152 aircraft.

Air Berlin (AB) believes the carrier will be profitable again in 2012, having battled through this year’s crises in Europe and the introduction of Germany’s new aviation taxes. If necessary AB will extend its cost-cutting program, Shape & Size, which is expected to reduce its fleet size by 10% and improve earnings by €200 million. By the summer of 2012,

the aim is to cut AB's fleet from 170 to 152 aircraft. Employee layoffs could be possible at smaller- and medium-sized airports where AB has reduced its operations. AB is in the final stages of joining oneworld alliance in early 2012. AB is hopeful that some oneworld members will operate to Berlin. AB's main hub will be the new Berlin Brandenburg Airport, which opens in June 2012. So far the carrier is keeping its order commitment for 15 Boeing 787s and still expects first delivery in 2014.

Air France (AF) will open bases in Toulouse (TLS), Nice (NCE) and Bordeaux (BOD) in 2012, as it tries to regain the market share from low-cost carriers (LCC). The TLS and NCE bases will open in April; BOD will follow later in the year. The announcement of the base openings follows the launch of the carrier's first regional base in Marseille (MRS) in October with 13 new nonstop routes and increased capacity on existing domestic routes. AF's regional strategy is to combine the best operating practices of LCCs with its own service approach while keeping fares restrained. The carrier also hopes to reduce operating costs by about 15% by basing aircraft, pilots and cabin crew at the regional airports and increasing aircraft and crew productivity. By the summer of 2012, AF will operate more than 1,200 weekly flights combined from MRS, TLS and NCE. **EasyJet (U2)** in October also announced plans to make NCE and TLS new bases from the summer of 2012, with two aircraft at each airport. U2 is France's second largest carrier in terms of passengers carried. **Vueling** opened a base at TLS with one 180-seat Airbus A320 in April.

Air France KLM Group reported a net profit of €14 million (\$19.2 million) for the quarter ended Sept. 30, down 95.2% from net income of €290 million in the year-ago quarter, due mainly to foreign exchange losses and a decline in the fair value of hedging instruments. AF KLM announced a shakeup of its top management, which included the return of Spinetta as group CEO and AF CEO. Spinetta said the new management will focus on three priorities: a "rapid" reduction of the company's €6.5 billion net debt, additional cost savings, and the restructuring of its short- and medium-haul business. He declined to go into detail and said an action plan will be presented during the first quarter of 2012. Operating revenue climbed 2.1% to €6.79 billion in the quarter, while expenses heightened 5.3% to €6.39 billion owing mainly to soaring fuel costs. Excluding fuel, total operating costs rose 2.3% for a 4.9% increase in EASKs (equivalent ASKs, which weighs in both passenger and cargo operations). Operating income fell 31.1% to €397 million. The group's passenger business delivered a positive operating result of €356 million for the quarter on a 2.9% increase in revenue to €5.2 billion. Passenger traffic rose 7.9% on a 6.2% hike in capacity, producing a load factor of 86.1%, up 1.3 point on the year-ago quarter. The cargo business posted an operating loss of €37 million. For the six months ended Sept. 30, AF KLM Group posted a net loss of €183 million, reversed from a €1.03 billion net profit in the year-ago period when earnings benefitted from a €1.03 billion gain from the sale of part of its holding in Amadeus. Operating profit amounted to €252 million. AF KLM Group—which is changing its fiscal year to the calendar year from a year that ended on March 31—warned it expects to report an operating loss in the year's last quarter, owing to the difficult economic environment exacerbated by volatile currency movements and a high fuel price. It also anticipates reporting an operating loss for the 12 months through Dec. 31. However, for its fiscal year, which comprises the nine months from April to December, it anticipates a positive operating result.

Istanbul-based **Atlasjet Havacilik** has signed a letter of intent (LOI) for 10 Bombardier CS300s and will take options on a further five, in an order valued at \$776 million. It could increase to \$1.18 billion if the options are converted to firm orders. Atlasjet said there were several reasons for the order: "The CS300 has the best economics in its class; it is well suited for our unique operations in hot temperature environments; and, based on its performance and economics, it will return the highest profitability in strategic markets. With its offering of widebody comfort in a single-aisle aircraft, it is the right-sized platform for us." Founded in 2001, Atlasjet operates 17 aircraft on domestic and international routes with scheduled and charter services.

Austrian Airlines (OS) may have to extend its cost-cutting program as the economic outlook weakens demand. OS will save up to €100 million (\$134 million) this year but this may not be enough. Lufthansa (LH) told OS employees that it will no longer subsidize the troubled carrier. Details were not given, but an extended cost-saving program will include all areas of the company, including possible layoffs. Since LH took over OS two years ago, OS employee numbers have been reduced from 8,500 to 6,000.

British Airways (BA) owner International Airlines Group (IAG) reached a binding agreement with Lufthansa Group (LH) to buy **British Midland Ltd. (bmi)**. IAG, the parent company of BA and Iberia, will pay €207 million (\$271 million) in cash for the loss making UK carrier, although the price is subject to significant reductions if LH decides not to sell bmi subsidiary bmibaby before completion, IAG said. The deal is subject to regulatory clearance from competition authorities, including the European Commission. The companies said they aim to complete the transaction during the first quarter of 2012. LH has the option to sell bmibaby and bmi regional before the deal is completed. IAG said bmi regional and bmibaby "are not part" of the company's plans. "Buying bmi's mainline business gives IAG a unique opportunity to grow at Heathrow, one of our key hub airports. Using the slot portfolio more efficiently provides the option to launch new long-haul routes to key trading nations while supporting our broad domestic and short-haul network". LH also held negotiations with Virgin Atlantic Airways (VS), which said it would ask anti-trust regulators to

block the deal. The purchase of bmi will increase IAG's number of slots at Heathrow by up to 56 daily pairs at an airport where it already holds about 43% of slots. LH will remain responsible for bmi staff pension liabilities.

Two **Cargolux Airlines International (CV)** executives, including its former CEO, have entered into a plea agreement with the US Dept. of Justice (DOJ) in which they agreed to serve 13 months in prison for fixing surcharge rates on air cargo shipments. Ulrich Ogiermann, the Luxembourg-based airfreight carrier's former president and CEO who now serves as a special adviser, and Robert Van de Weg, SVP-sales and marketing, "pleaded guilty to conspiring with others to suppress and eliminate competition by fixing and coordinating certain surcharges, including security and fuel surcharges, charged to customers located in the United States and elsewhere for air cargo shipments including shipments to and from the United States," DOJ said. The agreement follows their indictment by a US grand jury in October 2010 for alleged violations of US antitrust laws. CV itself pleaded guilty in the US in 2009 to cargo price fixing and agreed to pay a fine of \$119 million. To date, 22 airlines and 21 executives have been charged in the DOJ's ongoing investigation into price-fixing in the air transportation industry. More than \$1.8 billion in criminal fines have been imposed and four executives have been sentenced to serve prison time.

CSA Czech Airlines (OK) will fire a third of its 300 pilots in the coming days and weeks as part of its restructuring plan. According to Czech media, some of the 100 terminated cockpit crew members may be hired by CSA subsidiary Holidays Czech Airlines, but at significantly lower salaries. The financially troubled carrier posted a CZK632 million (\$33.5 million) loss last year and is in need of an urgent restructuring plan. CSA said it will transfer up to 11 narrowbody aircraft to the leisure carrier.

In a drive to expand ancillary revenue, **easyJet (U2)** will trial allocated seating on selected routes from spring 2012. The low-cost carrier (LCC) said it expects demand for certain seats, such as the front-row seats and seats with extra leg room, like those on the over-wing exit rows. Passengers will be allocated a specific seat, a move that will bring U2 a step closer to a full-service carrier model. The company did not detail how much it would charge for the purchase of an allocated seats, but said "prices will stay true to easyJet's commitment to low fares." U2 operates the standard LCC unreserved system whereby passengers choose which seats to occupy when boarding the aircraft. It already sells a "speedy boarding" option for £13 (\$20.50) per segment per passenger.

EasyJet (U2) nearly doubled its net profit for the fiscal year ended Sept. 30 to £225 million (\$353.4 million) from £121 million in net income earned in the prior year and decided to return £195 million to shareholders, the company's first dividend since its IPO in November 2000. U2 indicated in September it would pay an ordinary and a one-off special dividend to appease Stelios Haji-Ioannou, its largest shareholder and founder, who criticized management for failing to create shareholder value and buying too many Airbus aircraft. U2 attributed the strong performance to the company's focus on customers, robust operational performance and the strength of U2's network—combined with cost control and capital discipline. She said the carrier is "well placed to succeed despite the headwinds of higher fuel costs and a weak and uncertain economic outlook." Full-year revenue rose 16.1% year-over-year to £3.45 billion (\$5.42 billion) and passengers carried increased 11.8% to 54.5 million on an 11.5% increase in seats flown to 62.5 million and a 10.1% hike in ASKs to 69.32 billion. RPKs rose 9.3% to 61.35 billion and load factor inched up 0.3 points to 87.3%. Passengers originating outside of the UK now account for 56% of RPKs, an increase of 3 points compared to the prior year. The carrier said it is taking a "cautious" approach to capacity deployment as weak consumer confidence across Europe slows the rate at which higher fuel prices and increased taxation can be passed onto passengers. It plans to keep capacity flat year-on-year in the first half and grow with around 4% for the full year.

Finnair (AY) will return four Airbus A320s at the end of their lease periods in the fall of 2012 as part of its €140 million (\$186.6 million) cost-savings program, to be completed by 2014. As a result of this move, AY said it "expects to realize a boost in narrowbody aircraft utilization." The move will not impact personnel.

FlyNiki founder Niki Lauda has resigned as CEO of the Austrian airline and has been appointed to the Air Berlin (AB) administrative board as non-executive director. Since July 2010, AB has held a 49.9% stake in Niki. In the restructuring process, AB and Lauda have agreed that the Lauda Private Trust (LPT) will soon withdraw from Niki, in accordance with company law. As a result, the LPT will repay the loan it received from AB by transferring its 50.1% stake in Niki. This will not involve any cash payments. To ensure Austrian control of Niki, a new exclusively Austrian private trust will hold a majority stake. Niki will operate under its own name. Its position as a legally independent Austrian company, with its own management board, will remain unchanged. In 2010, FlyNiki reported a net income of €5.7 million (\$8 million), down 68% from an €18 million profit in 2009, on a 25.2% increase in revenue to €337.4 million. Passengers carried in 2010 rose 31% year-over-year to 3.38 million.

International Airlines Group (IAG) reported a 26.2% drop in third-quarter consolidated net profit to €267 million (\$367 million), compared to €362 million earned in the year-ago period. It cited increases in fuel costs for the decline. The parent of British Airways (BA) and Iberia (IB) said its quarterly fuel bill spiked 25% to €1.38 billion. Total operating

expenses were up 7.1% to €4.14 billion, outpacing a 2.2% lift in revenue to €4.49 billion. Cargo revenue was up 0.3% to €389 million and passenger revenue rose 2.9% to €3.18 billion on a 2.7% decline in passengers carried to 14.9 million. Operating profit, after €12 million in exceptional items, came in at €351 million, down 33.5% from €528 million a year earlier. IAG's third-quarter traffic heightened 3.4% to 47.02 billion RPKs on a 3.1% rise in capacity to 55.66 billion ASKs, producing a load factor of 84.5%, up 0.3 point. Passenger yield declined 0.4% to 8.11 euro cents. CASK increased 3.5% to 7.41 euro cents, comprising a 19.9% hike in fuel costs per ASK to 2.47 euro cents and a 2.9% reduction in other costs per ASK to 4.95 euro cents. For the nine months ended Sept. 30, IAG posted a net income of €338 million, compared to €10 million in the year-ago period. Revenue rose 11.6% to €12.26 billion and operating costs were up 10.3% to €11.88 billion after exceptional items of €68 million. Operating profit after exceptional items surged 74.9% to €383 million. The company expects "to deliver a 2011 full-year operating profit of around double the year 2010 profits. The main challenge for 2012 will be to offset increased fuel costs, as our hedges unwind, against a background of potentially weaker demand."

Baltic Aviation Systems (BAS), a minority shareholder of troubled Air Baltic, has made a bid for the finally troubled state-owned **JAT Airways** (JU) after the Serbian government extended the deadline. JAT reported a loss of €16.5 million (\$22.7 million) in 2009.

Moscow Vnukovo (VKO) announced it will suspend serving **Kuban Airlines** (GW) flights as of Dec. 26 because of the carrier's debt to the airport. According to VKO, the Krasnodar-based regional carrier owes the airport nearly RUB400 million (\$12.6 million), an amount GW denies, saying it is over twice the amount of the real debt. The carrier also said that the debt had been rescheduled, which it will pay from April 2012. Airline representatives published proving documents on social networks. VKO admitted the RUB307 million debt was rescheduled. GW also said the amount includes debt from LCC Sky Express, which merged with GW in October. During the first 11 months of 2011, GW carried 847,000 passengers, the number of travellers increased nearly 40% compared to the same period in 2010. But VKO representatives said the carrier has decreased the number of routes from the airport and is cutting down its fleet.

LOT Polish Airlines' (LO) first 787 delivery has again been postponed. The first 787 will arrive in the fourth quarter of 2012 instead of April 2012. The next two aircraft are to reach Poland within two months after the delivery of the first one. LO placed its first order for seven 787s in 2005, and increased the order to eight in 2007. Deliveries were originally slated to begin in 2008. LO will be the first European airline to introduce the Dreamliner, which will replace its 767s as the airline looks to launch service to Tokyo Narita and Beijing next year.

Lufthansa (LH) announced it is investing €60 million (\$81 million) to increase its presence at the new Berlin Brandenburg Airport (BER), which is expected to open June 3, 2012. LH destinations from BER will increase from eight to 38 starting from summer 2012. New routes will include mostly European and two Middle East destinations. LH's dedicated BER-based fleet will increase from nine to 15 A320 family aircraft, resulting in 40% more ASKs. LH said the investment will also create several hundred new jobs, including an additional 130 pilots and more than 200 flight attendants. LH and its partner carriers serve 25% of a total of 21 million passengers who fly annually to/from Berlin's two airports, Tegel and Schoenefeld, which are expected to close after the new airport opens. LH and its group airlines will operate 35 aircraft out of the new airport, offering more than 1,000 weekly flights to/from BER.

Lufthansa (LH) will freeze investments, including hiring, for six months owing to the weak global economy. However, fleet investments will not be affected. The move should assure LH's investment grade credit rating will not be downgraded as demand weakens. LH's Boeing 747-8 and Airbus A380 aircraft deliveries will take place as scheduled. LH has 202 aircraft, worth €19 billion (\$25.2 billion), on the delivery schedule through 2018 as it phases out older jets. In a further move, LH wants to restart talks with airport and supplier companies to reduce fees.

Lufthansa confirmed it will announce a cost savings program in the 2012 first quarter but has not released details. It is reported that the program would be "up to €1.5 billion (\$1.96 billion). The new cost saving program would be added to the already installed Climb 2011 savings initiative, which is projected to save up to one €1 billion. Climb 2011 includes tough measures, such as phasing out all 50-seat aircraft. The group's biggest challenge for 2012 will be the carrier's ability to be flexible in adjusting capacity as demand fluctuates and the carrier is focusing on where to make capacity adjustments as it heads into next year.

Lufthansa Cargo (LHC) is predicting flat to 5% traffic growth in 2012. LHC will adjust capacity and can cut 25% of its volume, if necessary, if demand collapses. LHC is already facing declining load factors on routes from China and has redirected capacity by shifting two MD-11Fs to North America routes. LHC said it is expecting a €15 million (\$20.2 million) hit to this year's earnings owing to the night flight ban at Frankfurt Airport (FRA). The ban, which runs from 11 p.m. to 5 a.m., affects 10 LHC night-time slots in its winter schedule. Separately, LHC said it is seeking to find a solution to stabilize Shenzhen-based Jade Cargo, in which it has a 25% stake. It said it is considering selling its holding.

Malev, the Hungarian national carrier, will get a HUF4.2 billion (\$18.4 million) owner loan to cover its short-term financing from the Hungarian National Asset Management Co. The three-year loan must be repaid in a single lump sum upon maturity. **Malev Hungarian Airlines** is also facing bankruptcy. The Budapest government is holding talks with an investor from the Czech Republic to form a new carrier and a deal could be reached by the middle of next year. The investor is also owner of Czech leisure carrier Travel Service. It was reported earlier that the Hungarian government was not willing to invest any more funds into MA. It has been evaluating whether to create a new carrier, in which 51% would need to belong to a European Union airline or investor. The European Commission continues its investigation into whether MA received illegal state aid from the Hungarian government between 2007 and 2010 totaling HUF100 billion (\$455 million) in capital injections, debt payoffs, loans and deferred tax obligations.

Russian state corporation **Rostec** has completed the asset transfer of five regional carriers to **Aeroflot** (SU), in a previously announced deal worth RUB2.5 billion (\$81 million). SU's sister company, Aeroflot-Finance, received 52.156% of **Vladivostok Avia** (XF), 51% of **Saravia Airlines** (6W), 75% minus one share of **Rossiia Airlines** (FV), 100% of Yuzhno-Sakhalinsk-based **SAT Airlines** (HZ) and 100% of **OrenAir** (R2). Rostec received 3.55% of Aeroflot shares. In 2010, the Russian government decided the largest Russian carrier would get six airlines belonging to Rostec. The sixth carrier, Mineralnye vody-based **KMV** (KV), ceased operations this summer and became a part of **Donavia** (D9), which is also a SU sister company. According to a SU statement, the group plans to take 45.5% of the market by 2025. During the first nine months of 2010, SU and its two sister companies—D9 and Nordavia (N5)—had 30% of the market share. During the first nine months of 2011, SU—with D9, XF, 6W, FV, HZ and R2 excluding N5—had a 40% of the market. During the same period in 2011, S7 Group (S7 Airlines and Globus) had a 13% share, Transaero, 12%, UTair Group (UTair and UTair-Express), 10%. All together, the four biggest airline groups have a 75% share.

Ryanair (FR) reported net profit of €543.5 million (\$750 million) in the first half ended Sept. 30, up 20.2% compared to adjusted net profit of €451.9 million in the year-ago period. Including exceptional items, earnings jumped 28% from €424 million to €543.5 million. Adjusted net margin was 20%. Revenue rose 24% to €2.7 billion, on a 12% growth in passengers carried to 44.7 million and a 13% hike in average fare to €50. Ancillary revenues grew by 15% to €486.5 million. Revenue per passenger rose 11% to €63. The 13% rise in average fares (which include baggage fees) was attributed to the slower growth, a better mix of new routes and bases, "as well as rising competitor fares/fuel surcharges. Europe's largest low-cost carrier will proceed with its previously announced planned capacity cuts in its fiscal second half and ground up to 80 aircraft this winter due to higher oil prices. Consequently, it expects traffic to fall in the second half by 4%, including a noteworthy decline of 10%, or almost 500,000 passengers in November, whereas the average ticket prices are expected to rise by up to 14%, slightly better than the 12% in its previous earnings guidance. The better-than-average ticket prices prompted FR to raise its full-year net profit guidance by 10. It now expects to earn €440 million, compared to €400 million forecast earlier in the year. Fiscal first-half operating expenses increased 26% to €2.06 billion, primarily owing to an increase in fuel prices, the higher level of activity and operating costs associated with the airline's growth. Fuel, which represents 44% of total operating costs compared to 40% in the prior period, increased by 37% to €907 million. Unit costs, ex-fuel, increased by 6%. Load factor remained flat at 85%. FR ended its fiscal first half with 275 Boeing 737-800s, which operate more than 1,500 daily flights. Its network spans more than 1,300 routes connecting 160 airports in 27 countries. The company will be meeting with Commercial Aircraft Corp. of China (COMAC) and Boeing as it looks to place an order for up to 300 aircraft for fleet replacement and growth. FR revealed it had signed a memorandum of understanding with COMAC at the Paris Air Show in June to develop a 200-seat aircraft.

SAS Scandinavian Airlines has secured a five-year refinancing deal for four Airbus A321s worth \$74 million, through Deutsche VerkehrsBank AG. The transaction is part of SAS's ongoing aircraft refinancing program where loans maturing in 2011/ 2012 are to be renewed. The financing of two aircraft will close in the fourth quarter of 2011 and the remaining two will close in the third and fourth quarter of 2012.

Russian authorities withdrew the air operator's certificate (AOC) for **Sky Express** (XW) owing to the deterioration of its performance and finances. XW was Russia's first low-cost carrier. The carrier's AOC was going to be cancelled due to the consolidation process between XW and Krasnodar-based regional carrier Kuban Airlines (GW). Both carriers belong to the investment company Basic Element. Despite losing one AOC, the owner will keep both brands on the market as the XW name has become well known over the last several years. Earlier this fall, XW transferred its aircraft to GW, creating a combined fleet of seven Boeing 737s, three Airbus 319s and 11 Yak-42s, which will not be used for scheduled flights. Most of XW's routes were closed when the airlines optimized their winter schedule. It is still not clear if the combined airline will continue to offer low-cost fares. Since advanced notice of the consolidation and AOC withdrawal was given, passengers were not affected.

The European Low Fares Airline Assn. (ELFAA) is preparing a formal submission to the European Commission (EC) regarding the "huge amounts" of state aid to **Spanair** (JK). According to ELFAA, JK recently received €25 million

(\$33.7 million) from the regional government and city council of Barcelona. This brings the total amount of public funds that have “been poured in with no obvious benefit to the taxpayer and to the detriment of free and fair competition” to an estimated €120 million, ELFAA said.

Swiss International Air Lines (LX) is expecting a much more moderate growth rate in 2012 because of the weakness of the European economy. The airline expects a flat growth rate in terms of passengers for the winter schedule season, compared to the same period last year, as well as a single-digit percent growth for summer 2012. LX is working on a program to adjust the cost structure of its European Route Network. LX will take delivery of three Airbus A330-300s and two A320s in 2012; it expects the first of up to 30 Bombardier CSeries Regional Jets in 2014. The carrier will also add 500 additional employees.

TAP Portugal is optimistic the privatization process of the Portuguese carrier will be a success, although the carrier's pilots—frustrated by their lack of participation in the company's privatization process—are threatening industrial action. TAP is set to be privatized next year as part of Portugal's €78 billion (\$105 billion) international bailout agreed by the EU and the International Monetary Fund. According to the airline, it is growing everywhere and dominates service between Europe and Brazil. Portugal's economic crisis hasn't been a major impediment for TAP, with only 21% of its business coming from Portugal. Overseas, TAP serves 13 destinations in Africa and 12 in Latin America, of which 10 are in Brazil, the carrier's biggest market.

Two carriers of the Tatarstan republic in Russia's Volga region will merge, the area's president has announced. **Tatarstan Air (U9)**, which is based in the republic's capital of Kazan, and **Ak Bars Aero (2B)**, based in the city of Bugulma, will be merged. This follows pressure from the federal government after the head of Rosaviatsia, Russia's Dept. of Aviation/Ministry of Transport, recommended the merger in November. U9 belongs to the Tatarstan-Aero company, which is 50:50 owned by the republic and Bulgarian holding company Chimimport. Ak Bars' owners are Ak Bars Holding and the Tatarstan republic, which has a 46.13% stake. U9's fleet consists of two Yak-42s, two Tu-154s, five Boeing 737s and two Airbus A319s. During the first 10 months of 2011, the airline carried 506,553 passengers, down 7.7% than for the same period in 2010. 2B has seven CRJ 200s and seven Yak-40s. The carrier also owns Bell 407s, Robinson R44s and Mi-8s helicopters and business jets, one of which is used by Minnikhanov.

Transaero Airlines (UN) signed a memorandum of understanding (MOU) with Boeing for four 747-8 Intercontinental aircraft, making it the first customer in Russia, the CIS and Eastern Europe for the passenger version of 747-8. The deal is valued at \$1.32 billion at list prices. The aircraft will be delivered in 2016. The aircraft will feature a four-class cabin layout (first, business, premium economy and tourist) seating about 460 passengers. AirBridge Cargo is Russia's first customer of 747-8 cargo version, which will receive its first aircraft at the beginning of 2012. The carrier also signed an MOU for four Airbus A380s. The A380s/747-8s would be used to replace older 747s and expand the carrier's fleet from 2015 onward.

Russia's second-largest carrier **Transaero (UN)** has confirmed an order for eight Airbus A320neos following an MOU signed in August. The first delivery is scheduled for 2017. The carrier has not yet announced an engine selection between CFM International's Leap-X and Pratt & Whitney's PW1100G. UN will become the first operator of this aircraft type in Russia and the CIS region. It is planning to operate the aircraft on its extended medium-haul network of domestic and international routes. Since its start in 1991, UN has mostly used a Boeing fleet.

Transaero Airlines (UN) has signed a memorandum of understanding (MOU) with Boeing for four Boeing 787s. The deal is valued at \$774 million at list prices. The aircraft will feature three-class cabins seating about 262 passengers, according to UN. The carrier did not disclose the delivery dates but market experts said the first aircraft is planned for 2014.

Turkish Airlines (THY) reported a consolidated net profit of TRY76.7 million (\$43.3 million) in the third quarter, up from TRY21.4 million in the year-ago quarter. For the first nine months of the year, net loss amounted to TRY466.9 million, reversed from a TRY255.6 million net profit in the year-ago period, as foreign exchange losses continue to bite and yields remained under pressure following its aggressive long-haul expansion. Within the strategy of forward-looking growth, along with the entrance of widebody aircraft to the fleet since the last quarter of 2010, Turkish Airlines introduced more capacity in long-haul routes. Due to latter capacity increase, load factors and utilization declined, hence lowering revenue yields which led to negative effect on profitability. On EBIT level, THY performed better with a TRY510.4 million operating profit in the third quarter and a TRY244.3 million profit for the first nine months resulting from an increase in load factor and utilization on “all routes but especially in long-haul routes” in the third quarter. For the first half, operating loss was TRY266.2 million. Third-quarter sales revenue grew 41% to TRY3.58 billion on a 25% hike in capacity increase and a 12% increase in passengers carried. For the nine-month period, revenue soared 35% year-on-year to TRY8.5 billion on a 24% increase in 59.59 billion ASKs, a 21% increase in RPKs to 49.49 billion and an 11% growth in passengers carried to 24.3 million.

Turkish Airlines (TK) will focus on increasing feed to its long-haul network as it takes delivery of mainly narrowbody aircraft over the next years. “We have added a lot of new widebodies over the past two years but [in] the next years we will take delivery of mostly narrowbody aircraft. We will launch new routes to the Far East and Africa; however, our main focus will be on expanding our medium-haul network to feed the extensive long-haul network we built in the last years”. In terms of seats, growth will slow from 18% this year to 5% in 2012, 7% in 2013 and 2% in 2014; in 2015 there will be a 2% decrease to 36,670 seats. TK will end the year with a passenger fleet comprising 35 widebodies and 137 narrowbodies, which will increase to 36 and 158, respectively, by the end of 2015. Scheduled new deliveries (for its passenger fleet) for 2012 include three Airbus A330s, six A321s, two 737-800s and seven -900s, which are being fitted with two additional fuel tanks to increase range. Between 2013 and 2015, a further seven new Boeing 737-900ERs, 16 -800s and 10 A321s will be delivered to TK. THY reiterated that 2011 “was our biggest crisis year” owing to its massive long-haul fleet expansion, but added the company is on track to rebalancing its network and profitability. The carrier is feeling the crisis in Europe, but said that while point-to-point might be under pressure, transfer traffic is growing.

Barcelona-based LCC, **Vueling Airlines (VY)** reported a third-quarter net profit of €41 million (\$55.3 million), slightly down from a €43.3 million net profit earned in the year-ago period. It expects to obtain a positive result for the full year despite high fuel prices and a difficult macroeconomic and operating environment. Third-quarter revenue grew 19.5% year-over-year to €330.5 million while costs jumped 24.2% to €269.7 million, mainly owing to a 50.6% leap in fuel costs. Other costs (ex-fuel) rose by 14.5%, in line with the capacity growth of 12.2% to 4.64 billion ASKs. Operating profit was €60.8 million, up 2.4% from a €59.4 million EBIT last year. Passengers carried increased significantly, with 20.8%, to 4.2 million on a 17.4% increase in seats flown to 5.3 million, producing a load factor of 81%, up 3.1 points year-over-year. RASK increased 6.5% to 7.12 euro cents. CASK rose 10.7% to 5.81 and CASK ex-fuel rose 2% to 3.99 eurocents. International and domestic networks both had passenger growth. The LCC said it will continue exploring opportunities to reach new commercial agreements with other airlines. It also “envisages the possibility of a greater process of consolidation in the markets in which it operates. This would offer new growth to Vueling.”

Wizz Air (W6) will base a sixth A320 at Bucharest Baneasa from June 2012. This aircraft will enable the airline to support a new route to Verona (VRN) and increase frequencies on existing routes to Milan Bergamo, Venice Treviso, Madrid, Dortmund, Bari, Cuneo Turin, Catania, Forli Bologna and Pisa. “Wizz Air is Romania’s single largest airline by now with well over 2.5 million passengers to be carried in 2011.

Middle East & Africa

Air Seychelles (HM) will slash all its remaining European routes as demand weakens and competition increases. Apparently, the European economic crisis—coupled with tough competition from the Middle East—has led HM to shut down its long-haul operations. HM’s three remaining Boeing 767-300ERs will be returned to the International Lease Finance Corp. (ILFC). It returned two 767-200s to ILFC in October and November. HM said it will focus on regional services and plans to sign a cooperation with Etihad Airways on services Abu Dhabi (AUH). The carrier is considering operating a 737-800 for the remaining routes within the region, as well to AUH for connecting services to Europe. It is unclear if HM will keep its order for two 787-8s based on a 2006 contract with ILFC.

Emirates Airlines (EK) has ordered 50 Boeing 777-300ERs on the opening day of the 2011 Dubai Airshow. The order, valued at \$18 billion, includes 20 options and is the largest single order—in terms of dollar value—in Boeing’s history. The aircraft will be powered by General Electric GE90-115B engines rated at 115,000 lb. thrust. With the EK order, the Boeing’s 2011 net order book for the 777-300ER tops 182. EK confirmed that its order was an insurance against late deliveries of the Airbus A350. EK is cautious on the A350 program slippage. “Our A350-1000 order is in limbo—we want the original specification...We were not consulted on the changes.” EK is also urging Airbus to go ahead with a stretch A380 that would seat up to 670 in a three-class configuration.

Etihad Airways (EY) has ordered 10 Boeing 787-9s, making it the largest -9 Dreamliner airline customer. Abu Dhabi-based EY also committed to two 777 freighters. Deliveries of the 787s are scheduled for between late 2014 and 2019. It will initially use the aircraft on routes to Dublin, Frankfurt, Kuala Lumpur, Beijing, Nagoya, Delhi and Istanbul. The 12 additional aircraft (including the 777Fs) are valued at \$2.8 billion at list prices and lifts EY’s firm orders for 787s to 41 and 777s to 12. The airline’s fleet currently includes eight 777-300ERs and one 777F. EY placed an initial order for 35 firm Dreamliners with options and purchase rights for a further 25 at the Farnborough Airshow in 2008 as a part of a deal for up to 205 widebody and narrowbody aircraft. Earlier this year, it swapped four firm 787s due for delivery in 2019 for three 777s.

Etihad Airways (EY) will increase its shareholding in **Air Berlin Plc (AB)** to 29.21% for €72.9 million (\$95 million) as part of an agreement that includes far-reaching commercial cooperation and debt financing. EY built up a 2.99% holding in the Berlin-based carrier between January and August and will become AB's largest single shareholder upon completion of the deal. As of Sept. 30, the company's largest shareholder was Turkey's ESAS Holding, owner of Pegasus Airlines. The Abu Dhabi-based airline will augment its shareholding through a new share issue by AB. It will subscribe to 31.6 million new shares issued under exclusion of the pre-emptive rights of AB's existing shareholders on the basis of a set share price of €2.31, AB said in a statement. EY will also provide financing of up to \$255 million to support fleet development and future network growth through Dec. 31, 2016. The commercial cooperation includes integrating the carrier's frequent flyer programs an extensive codeshare agreement, with EY initially adding its code on 36 of the German carrier's 171 destinations and AB adding its code on 24 of EY's destinations. AB stressed it "further continues to plan joining oneworld alliance by spring 2012." AB will move its operation from Dubai airport to Abu Dhabi to connect to EY's network to Asia and Australia. It will operate four weekly flights using an Airbus A330-200 between Berlin and Abu Dhabi from Jan. 15. The companies will seek anti-trust immunity to allow greater coordination of route networks and of sales and marketing activities. They will also set up a joint procurement task force to look for cost efficiencies across the two companies, including areas such as fleet procurement and deployment, maintenance, repair and overhaul and general procurement. The transaction closing is planned for the first quarter of 2012.

Ethiopian Airlines (ET) became the 28th member of Star Alliance, as the alliance network in Africa grows. ET is Star's third carrier based in Africa, joining EgyptAir and South African. ET serves 62 international and 17 domestic destinations. With the addition of ET, the Star Alliance network in Africa is growing to cover major commercial and political cities of the continent particularly in East, Central and West Africa. The 16 Star member carriers serving Africa offer more than 750 daily flights to over 110 destinations in 48 countries on the continent, with Addis Ababa, Cairo and Johannesburg serving as the main hubs.

Ethiopian Airlines (ET) said that Lome-based **ASKY Airlines (KP)**, in which ET holds a 40% stake, is looking for potential investors to enable the carrier to operate as a multi-hub system within Africa. KP, which was founded in 2009, is operated by ET via a five-year management contract. "We are looking for investors like South African Airways (SAA) or EgyptAir (MS) and others." The airline is also considering creating a new carrier in Central Africa. ASKY announced in June it would start long-haul operations.

Kenya Airways (KQ) posted a net profit of KES2.03 billion (\$21.3 million) for its fiscal year first-half ended Sept. 30, up 41.6% from KES1.4 billion in the year-ago period. It noted the improved profitability was realized despite the challenging economic and geopolitical environment and said it was "optimistic" for continued improvement in the second half. Fiscal first-half revenue rose 33.3% year-over-year to KES54.9 billion but direct operating costs rose by 52.5% to KES39.5 billion, mainly due to an increase in operations and high fuel expenses. Fuel costs, excluding hedge costs, increased year-on-year 89.7% to KES21.2 billion. Consequently, six-month operating profit sank 57.2% to KES1.02 billion. KQ's fiscal first-half traffic, in terms of RPKs, heightened 17.9% on a 13.2% increase in ASKs, largely as a result of increased frequencies and the launch of two new destinations—Ouagadougou and N'Djamena. The carrier took delivery of three new Embraer 190s and returned one Boeing 767-300 to its lessor in the reporting period. This resulted in a net increase of three aircraft to 33 units, including four 777-200s, five 767-300s, five 737-800s, four -700s, six -300s, four E-190s and five E-170s. Passenger yields, including fuel surcharges in US cents, increased by 0.9% and strengthened to 12.6% when translated into Kenya shillings, KQ said. It did not provide actual yield or RASK. The Nairobi-based airline—in which Air France KLM Group holds a 26% stake and the Kenyan government holds 23%—intends to raise capital via a rights issue within the next six months to finance its 10-year expansion plan through FY2020-21. The plan includes "new destinations roll out covering the six continents and a fleet acquisition plan".

Oman Air (WY) has ordered six 787-8s at the Dubai Airshow, taking over six of 14 aircraft previously ordered by Kuwait-based leasing company ALAFCO. The decision to order the 787-8 is part of Oman Air's long-term growth strategy to expand and modernize the fleet with newer, more fuel-efficient aircraft. Established in 1993, WY now serves 41 destinations across the Gulf, the Levant, Europe, East Africa and Asia from Muscat.

Qatar Airways (QR) ordered 50 Airbus A320neos and five A380s, worth a reported \$6.5 billion at the Dubai Airshow—alongside a Boeing order for two 777 freighters worth \$560 million—but the Airbus order was only secured after some high drama. Pratt & Whitney announced that QR has selected its PurePower PW1100G-JM engines for its order of 50 firm A320neo family aircraft. The deal includes 100 PW1100G-JM engines with a PureSolutionSM maintenance service agreement, P&W said. Deliveries are scheduled to start in 2015.

Bombardier's CSeries family is still on Qatar Airways' (QR) radar and is "still of great interest" to the airline but that it had finite resources to work through a variety of projects.

QR is also weighing up to 29 767F conversions with Boeing after Airbus has apparently balked at an A330 freighter conversion program.

Asia Pacific

Malaysia-based **AirAsia** is planning to launch a new premium airline to compete with Qantas' (QF) boutique full-service airline, dubbed **RedQ**. The airline will be called **Caterham Jet**, after the UK Caterham Cars. It has reportedly secured Bombardier CRJ aircraft, to be fitted in a business-only configuration, that typically operate from airports closer to city centres. Caterham Jet will be based in downtown Subang airport and will initially fly to Bangkok, Jakarta and Singapore. QF is apparently battling to get approval to base its RedQ airline in Singapore; Singapore Airlines is lobbying to block the deal.

AirAsia Japan, the JV between AirAsia and All Nippon Airways (ANA), plans to add A330 services to longer haul destinations from 2013. The carrier expects to start operations from August 2012. The new airline plans to offer services to Thailand, Indonesia and Singapore, once it introduces the A330s.

The Air Transport Assn. of America (ATA) filed suit against the Export-Import Bank of the United States (Ex-Im Bank) to halt a pending deal for \$3.4 billion in loan guarantees for aircraft financing to **Air India** (AI), saying that it fails to meet statutory requirements, including consideration of the impact on the US airline industry and airline jobs. According to ATA, "the Ex-Im Bank recently approved \$1.3 billion in US taxpayer-backed loan guarantees for AI, and is considering an additional \$2.1 billion in loan guarantees, to support the purchase of 30 aircraft, including 27 Boeing 787s for delivery between 2011-2015". ATA said it asked the court to find the AI loan-guarantee commitments unlawful, to prevent the loan guarantees from being issued, and to order injunctive relief requiring the Ex-Im Bank to comply with its statutory obligations. In a statement, ATA asserted that the "practices of Ex-Im Bank put US carriers at a commercial disadvantage to foreign carriers. Specifically, the US loan guarantees enable foreign carriers to obtain financing for aircraft at considerably lower rates, in some cases up to 50% lower, than what US airlines must pay on the commercial market."

Air Macau (NX) has received a MOP700 million (\$89 million) capital injection from the Macau local government by selling its 420,420 new shares for the carrier's fleet expansion in the next two or three years. Through the stake sale, the Macau government becomes NX's second largest stakeholder. Air China (CA), which holds 80.9%, is the largest stakeholder. The Sociedade de Turismo e Diversoes de Macau casino company, which held 14%, has diluted its shares. At the end of 2009, CA injected MOP158.7 million into the troubled subsidiary, lifting its stake to 80.9% from 51%. The Macau-based carrier was launched in 1994 and began formal operations in 1995. It has a fleet of 16 aircraft, comprising seven A321s, two A320s, five A319s and two A300B4 freighters. It flies on routes from Macau to Beijing, Chengdu, Nanjing, Shanghai, Xiamen, Hangzhou, Nanning, Ningbo, Hefei, Taiyuan, Chongqing, Seoul, Bangkok, Tokyo, Osaka, Singapore, Kaohsiung and Taipei. NX posted a net profit of MOP230 million in 2010, owing to a strengthened cooperation with CA. It expects to report a net profit this year.

All Nippon Airways (ANA) reported net income of ¥22.8 billion (\$301 million) for the first half of its fiscal year ended Sept. 30, up 72.1% over a ¥13.2 billion net profit in the six months ended Sept. 30, 2010. First-half operating revenue heightened 3% year-over-year to ¥704.8 billion while expenses rose 4.4% to ¥654.7 billion, producing an operating profit of ¥50.1 billion, down 6.6%.

"Demand for air travel recovered from the effects of the Great East Japan Earthquake on March 11," ANA stated. "Nevertheless, the short-term outlook remains unclear due to factors such as the weakening global economy, steep rises in crude oil prices, and volatility in exchange rates and equity markets. In light of the prevailing economic conditions, ANA has sought to minimize the impact of the earthquake by promoting various initiatives to stimulate demand and reduce costs."

Fiscal first-half domestic traffic decreased 8.5% year-over-year to 17.05 billion RPKs on flat capacity of 28.41 billion ASKs, producing a load factor of 60%, down 5.6 points. International traffic for the six-month period heightened 10.7% to 12.2 billion RPKs on a 21.5% lift in capacity to 16.92 ASKs, producing a load factor of 72.1%, down 7 points.

All Nippon Airways, the launch customer for the Boeing 787 with two in service, said its third Dreamliner will not be delivered this month as scheduled owing to a Boeing "productivity" issue. As a result, ANA said it will push the launch of Tokyo Haneda (HND)-Beijing 787 service from this month to mid-January. ANA expects to take delivery of 20 787s by the end of March 2013. The carrier has 55 of the type on order—40 -8s with a 7,650 nautical mile range and 15 -9s with an 8,200 nautical mile range.

Asiana Airlines (OZ) will expand its long-haul routes and focus on becoming a world top 10 carrier by 2015. Its fleet would grow from 71 aircraft this year, to 83 in 2013 and 88 in 2015. ATKs would increase by 5% this year, 14% in 2013 and 25% in 2015. Asiana will take delivery of its first Airbus A380 in 2014 and its first A350 in 2015. These new aircraft will be key to Asiana's growth strategy; the A380, in particular, will be used to increase long-haul capacity to routes such as Korea-US, where the carrier has a supply shortage. The carrier would be looking to develop "new growth engines" from 2013 but added he could not elaborate on those plans.

Hong Kong-based **Cathay Pacific Airways** (CX) has taken delivery of its first Boeing 747-8 freighter, making it the first carrier in Asia/Pacific region to operate the aircraft. CX is due to receive five -8Fs this year and five next year. CX has options for a further 10. The -8F will help CX further strengthen its position in Hong Kong as “the world’s leading international air cargo hub.” In September, when Atlas Air Worldwide Holdings (AAWH) cancelled three of the 12 -8Fs it had on order, citing “lengthy delays and performance considerations,” CX was said it was satisfied with the aircraft and would accept delivery. The 747-8Fs are expected to progressively replace the 747-400 Boeing Converted Freighter (BCF) in the CX cargo fleet. CX currently operates six 747-400Fs, six 747-400ERFs and eight 747-400BCFs. Eight customers have ordered a total of 75 747-8 freighters, Boeing said.

Taiwan-based **China Airlines** (CI) plans to replace its 13 Boeing 747-400s from 2015/16 and will decide by 2013 which aircraft to order. It is considering the 747-8, Airbus A380, 777-300ER and the A350-1000. The carrier is also evaluating a narrowbody fleet of more than 20 aircraft such as the 737 Max and A320neo by 2020. CI has 14 A350-900s on order, plus six options, which it could change to the -1000 version. Delivery is expected between 2015 and 2018. CI is in the delivery process of seven A330-300s between 2010 and 2013. Up to six 737-800s should join the fleet by the end of 2014. Sun said the carrier is also considering the -900ER.

Shanghai-based **China Eastern Airlines** (MU) and **Hainan Airlines** (HU) reported third-quarter profit increases owing to the continuous robust growth of domestic market demand. MU posted a third-quarter net income of CNY3.31 billion (\$523 million), up 4.9% over a net profit of CNY3.16 billion in the year-ago quarter. Operating revenue climbed 12% to CNY24.45 billion while operating expenses rose 13.6% to CNY21.27 billion. HU reported a third-quarter net profit of CNY1.61 billion, up 31.3% over a net income of CNY1.22 billion compared to the year-ago quarter. Operating revenue climbed 28.3% to CNY7.8 billion against an increase of 27.1% in operating expenses to CNY4.9 billion. In the first nine months of the year, MU earned a net income of CNY5.76 billion while HU reported a net profit of CNY2.28 billion in the same timeframe. The Shanghai-based carrier’s operating revenue grew 14% to CNY63.23 billion from January to October while its operating expenses also increased 14% to CNY 58.07 billion. HU’s operating revenue climbed 23% to CNY19.37 billion while operating expenses increased 20.6% to CNY13.642 billion in the same timeframe.

China Southern Airlines subsidiary Xiamen Airlines (MF) has been accepted into the SkyTeam alliance, with full entry slated by the end of 2012. The predominately domestic carrier feeds 90% of traffic out of its three hubs in Xiamen, Fuzhou and Hangzhou. SkyTeam membership will enable MF to offer passengers access to the alliance’s strong network of 173 countries served by 15 member carriers.

Air China’s (CA) new subsidiary **Dalian Airlines** is expected to launch Dec. 26 on the Dalian-Shenzhen route. It received an operating certificate from CAAC. CA holds an 80% stake and the Dalian Baishui Zhengtong company, representing the Dalian municipal government, holds the remaining 20% stake in the carrier. The subsidiary will initially operate two Boeing 737-800s and plans to expand its fleet to five aircraft next year and to 20 by 2015. Dalian is expected to face fierce competition from China Southern Airlines, which has a 40% share of the Dalian market.

Taipei-based **EVA Airways Corp.** (BR) is “in aggressive talks” to join either oneworld or Star alliance by 2013. BR competitor, China Airlines, recently joined SkyTeam. The airline is optimistic it will be accepted in “less than two years from now, hopefully earlier”. Joining an alliance would benefit the carrier’s mainland China services, where it flies to 25 destinations. BR carried 6.4 million passengers in 2010 and reported a profit of \$40 million. BR recently ordered 14 A321 aircraft to replace its MD-90 fleet. With the A321s an interim solution, the carrier is not sure if it would order the “neo or something else. BR is evaluating whether to replace its A330s with 787s or A350s, most likely by 2015.

Hainan Airlines Investment Holding Co., a wholly owned subsidiary of **Hainan Airlines** (HU), has purchased a 19.02% stake in **Hong Kong Airlines** (HX) for CNY842 million (\$132.4 million) in a move to strengthen the carrier’s financial position. HX is a fast-growing airline and the third biggest carrier in Hong Kong following Cathay Pacific Airlines and Dragon Air. The Haikou-based carrier also purchased a 12.68% stake for CNY282 million in Changan Airlines (2Z) from Grand China Airlines, making it a wholly owned subsidiary. 2Z operates a fleet of 24 aircraft and has a 14.3% share of the Xi’an market. HU began integrating its subsidiaries in August by purchasing a 32.41% stake in Xinhua Airlines from Grand China Airlines for CNY1.08 billion. Two months later, it bought a 6.18% holding in Lucky Air from Grand China Airlines for CNY130 million and a 33.82% stake in Lucky Air from Yunnan Xiangpeng Investment Co. for CNY712 million in October. It also bought a 21.74 holding in Tianjin Airlines for CNY694 million. HNA had planned to integrate its airlines subsidiaries into Grand China Airlines to pave the way for an IPO in Hong Kong stock market, but owing to continuous delays, HNA decided to integrate its subsidiaries.

China’s **Hebei Airlines** (NS) took delivery of two Embraer E-190s. Embraer said the sale of the two E-190s was confirmed and the purchase of another eight jets is still subject to Chinese government approval. The Shijiazhuang-based carrier will deploy the E-190s to support establishing a hub network within the Hebei Province, and on routes from Shijiazhuang to other provincial capitals.

Jetstar Airways (JQ) has reiterated its commitment to **Jetstar Pacific** (BL) and dismissed erroneous claims that the Vietnam-based low-cost carrier will be absorbed as part of a proposed airline deal. BL is majority owned by the Vietnamese State Capital Investment Corp. (SCIC) and 27% owned by the Qantas Group (QF). JQ said the misleading claims stem from reports of a proposed ownership swap between SCIC and Vietnam Airlines (VN)—a swap QF has publicly said it supports. QF's 27% stake would be unaffected by the deal.

Shanghai-based **Juneyao Airlines** (HO) is preparing to launch an IPO in the Shanghai Stock Exchange for fleet expansion. The privately run airline was launched in June 2005 with a registered capital of CNY150 million (\$23.6 million). Juneyao Group, the controlling stakeholder, later injected an additional CNY100 million capital to it. HO operates a fleet of 21 aircraft, mainly on domestic routes. It received CAAC approval to operate international routes last year and plans to open more routes from Shanghai to Japan, Korea and neighbouring Southeast Asian countries. HO posted a net income of \$416 million in 2010, nearly tripling its net profit year-over-year. Separately, Shanghai-based low-cost carrier **Spring Airlines** also plans to launch an IPO in the very near future.

Lao Airlines, the national carrier of the Lao People's Democratic Republic (Laos), has taken delivery of the first of two Airbus A320 aircraft, its first of the type. The second A320 is scheduled to arrive in Vientiane, with the aircraft entering service on routes to key destinations in Southeast Asia, including Bangkok and Singapore. The aircraft are powered by CFM56 engines and feature a high comfort two-class layout, seating 126 passengers in the main cabin and 16 in business class.

Indonesian carrier **Lion Air** (JT) has signed an intent to buy 201 Boeing 737 Maxs and 29 Next-Generation 737-900ERS in a \$21.7 billion deal that is Boeing's largest ever in dollar value. Purchase rights for a further 150 aircraft were included in the deal. Boeing put the list price of the JT deal at \$21.7 billion. The 150-aircraft purchase rights, if exercised, is valued at \$14 billion, Boeing said. JT, Indonesia's largest private airline, operates or has on order a total of 178 737NGs.

Malaysia Airlines (MH) unveiled a plan to return to profitability by 2013 that includes launching a new regional premium airline, shrinking its network, focusing on costs and making aggressive efforts to win back customers. The plan targets a net loss of MYR165 million (\$55 million) in 2012, which would be a substantial improvement over MH's net loss of MYR527 million for just the 2011 second quarter, and estimates a potential 2013 net profit of MYR1.18 billion-MYR1.51 billion. MH said that a new regional premium airline will be launched by the second half of 2012 to connect Malaysia to ASEAN destinations and key cities in South Asia and Greater China. The new airline will use a fleet of Boeing 737-800s. In the longer-term, it will fly all of the domestic and regional routes serviced by MH. MH said it will suspend loss-making routes, including services to/from Cape Town, Johannesburg and Buenos Aires. ASKs will be cut by 12%. But it will also introduce 23 new aircraft in 2012 equipped with state-of-the-art passenger amenities that should drive revenue gains. MH will also spin off some ancillary businesses, including its aerospace engineering, pilot training, cargo and ground services units, for an expected gain of MYR255 million-MYR337 million.

Malaysia Airlines (MH) will cut routes to Europe, Africa and the Middle East starting in January to stem losses and return to profitability. Beginning in January, the airline will scrap the following routes: daily Langkawi–Penang–Singapore; 2X-weekly Kuala Lumpur–Karachi–Dubai; 2X-weekly Kuala Lumpur–Dubai–Damman; daily Kuala Lumpur–Surabaya; 3X-weekly Kuala Lumpur–Johannesburg; 2X-weekly Kuala Lumpur–Cape Town–Buenos Aires; and 3X-weekly Kuala Lumpur–Rome route. This accounts for almost 12% of passenger capacity and the ongoing route rationalization should "improve loads, increase yields and have an estimated profit impact of MYR220-302 million (\$73-\$100 million) for 2012". MH said it will focus on South Asia, Greater China and North Asia where the demand outlook is strong, fuelled by a growing middle class and increased global and intra-regional trade.

Qantas (QF) confirmed that the Australian Federal Police (AFP) is investigating the alleged sabotage of one of its 265-seat Boeing 767s in Brisbane while the aircraft was undergoing upgrade work. The airline is tight-lipped on the details but after engineers returned from a lunch break they noticed several wires were cut on an in-flight entertainment system. Further investigation by the engineers revealed more severed wires had been covered up. The risk of more serious sabotage apparently was the reason for the delay in QF getting its fleet back in the air the following week, which left more than 70,000 passengers stranded. After the incident, Australia's Civil Aviation Safety Authority apparently insisted on a comprehensive sabotage risk mitigation strategy for QF with more thorough checks of all critical systems.

Qantas (QF) said the extensive industrial action taken by its three labour unions has cost the airline A\$194 million (\$195 million). Combined with soaring fuel costs of \$450 million, the airline's first-half profit will be slashed by up to 66%. QF advised that its underlying profit before tax for the six months to Dec. 31 is expected to fall to between A\$140 million and A\$190 million, down from A\$417 million for the same period last year, as a result of the 10-month dispute. Fair Work Australia has been called upon to resolve the battle between Qantas and its three unions—the

Australian Licensed Aircraft Engineers Assn., Australian and International Pilots Assn. and the Transport Workers Union—over new labour contracts, which culminated in QF grounding its fleet Oct. 29. QF said the cost of all the stoppages up to the Oct. 29 grounding was A\$68 million; the grounding itself cost A\$70 million, plus a A\$27 million impact on forward bookings and A\$29 million for initiatives to placate passengers.

Qantas (QF) has denied Australian media reports that its Asian strategy has been put on hold and confirmed that discussions were continuing with Malaysia Airlines (MH) and Singaporean interests. In August, the Qantas Group announced it was setting up a joint venture with Japan Airlines and Mitsubishi to form Jetstar Japan, and it would also launch a premium branded airline in Asia to tap the rising middle class. While discussions are continuing with Singaporean interests, the recent tie-up between MH and AirAsia, which has a cooperation agreement with QF's low-cost airline Jetstar, has significant appeal.

Sichuan Airlines (3U) has signed for eight Airbus aircraft, comprising two A319s, four A320s and two A321s. It will take delivery of the four A320 aircraft between 2014 and 2015. 3U didn't reveal the value of the deal. The Chengdu-based carrier operates a fleet of 64 aircraft, comprising 61 A320s and three A330s. It said it would consider ordering an A320neo when it goes into mass production. 3U plans to expand its fleet to 100 by the end of 2015. It is scheduled to introduce 13 Airbus aircraft this year. The carrier placed a firm order for 20 Commercial Aircraft Corp. of China (COMAC) C919s in October. According to COMAC, the aircraft should receive type certification by 2016, followed shortly by first delivery.

Singapore Airlines (SQ) has revealed its new long-haul, low-cost carrier (LCC) will be named "**Scoot**" and will operate four Boeing 777-200s to be purchased from the parent company. Scoot will start services in mid-2012 with fares up to 40% below legacy carriers. It will operate from Singapore Changi Airport (SIN) Terminal 2, not the low-cost terminal, and will offer two cabins. Seats, cabin features and offerings are still being evaluated.

Singapore Airlines (SIA) Group posted a net profit of S\$238.9 million (\$187.6 million) for its fiscal-year first half ended Sept. 30, down 62% from net income of S\$632.7 in the year-ago period. It said the drop was "principally on account of high fuel costs." The six-month operating profit of the parent airline company declined 86% year-over-year to S\$53 million. SIA Group's fiscal first-half revenue rose 3% year-over-year to S\$7.28 billion, outpaced by a 10% lift in expenses to S\$7.14 billion that included a 35% surge in fuel costs to S\$747 million. It said the fuel spike was "partially offset" by a S\$118 million year-over-year gain in fuel hedging. Group operating profit for the six months sank 77.5% to S\$133.9 million. SIA's fiscal first-half traffic heightened 3.8% to 43.46 billion RPKs on a 6.3% increase in capacity to 56.09 billion ASKs, producing a load factor of 77.5%, down 1.9 points. Yield was flat at S\$0.118. SIA took delivery of three Airbus A380-800s in the six months ended Sept. 30 while retiring four Boeing 747-400s and returning a 777-300 upon expiration of its lease. As of Sept. 30, its fleet comprised 106 passenger aircraft, including three 747-400s, 65 777s, 19 A330-300s, 14 A380-800s and five A340-500s.

Singapore Airlines (SIA) confirmed it is the customer for eight previously unidentified 777-300ERs. "The additional 777-300ERs will also help us further strengthen the Singapore Airlines' network, providing our customers even more travel options." The order, valued at \$2.4 billion, was first announced Aug. 10. SIA has ordered 85 777s, 27 of which are 777-300ERs. The engine value at list prices on the GE90-115B engines powering the eight 777s for is more than \$450 million, GE said.

Shanghai-based **Spring Airlines**, the most successful Chinese low-cost carrier, is preparing to launch a carrier in Japan to gain a deeper foothold in the Japanese market. The carrier has registered a company in Japan; however, since foreign investors can hold no more than a one-third stake in a Japanese airline, it is looking for a Japanese partner. Spring is negotiating with potential investors in the new entity. Spring also plans to explore other international markets. To that end, it will open new routes to Thailand and South Korea next year. Spring, which has become one of the fastest growing carriers in China, is expected to report a higher net income in 2011 than the CNY460 million (\$72.6 million) net profit it earned in 2010. The carrier is moving forward with an IPO, which is scheduled to launch on the Shanghai Stock Exchange next year, to fund fleet expansion. Spring operates a fleet of 27 Airbus A320s and plans to expand to 50-60 aircraft by 2015.

Thai Airways International (TG) acquired an additional 10% in **Nok Air**, lifting its stake in the low-cost carrier to 49%, it said in a statement to Thailand's stock exchange. With a 49% share, TG has five directors out of nine on Nok Air's board, compared to four previously, giving it greater control over Nok's strategy.

Thai Airways International expects a fourth-quarter loss of THB3 billion (\$97.6 million) owing to the flooding in Thailand. TG might report a loss for 2011 given the decline of both local and international passengers. Travel advisories caused visitors to change destinations although several tourist destinations were not hit by the floods. In the first nine months of the year, TG reported a net loss of THB4.81 billion, reversed from a THB11.96 billion net profit

in the year-ago period. Passengers carried increased year-on-year 4.2% to 13.9 million and yield rose 7.1%, lifting revenue 9.8% to THB147.37 billion. Expenses increased 15%, owing mainly to a THB3.33 billion loss on foreign currency exchange and 41.5% hike in the cost of jet fuel. TG also confirmed that it will not proceed with plans to form a joint venture with Singapore-based Tiger Airways Holdings to launch Thai Tiger Airways. TG said it was unable "to facilitate the joint venture (JV) company within the timeframe limit according to the MOU" and decided not to proceed with the incorporation of Thai Tiger. TG did not list a reason for abandoning Thai Tiger but since the JV MOU was signed, it revealed plans to commence a "light premium" sub brand, Thai Smile Air, in July 2012. It is also increasing its stake in domestic LCC Nok Air from 10% to 49%. Thai Smile will be a hybrid carrier and utilize new Airbus A320s in a two-class configuration, whereas Nok Air is a pure no-frills operator.

Thai Airways International has purchased Rolls-Royce Trent engines to power 12 Airbus A350 XWBs and eight Boeing 787 Dreamliner aircraft. The Trent 1000 was selected over General Electric engines for the 787s; the Trent XWB is the only engine available for the A350 XWB. Following delivery of the engines, TG will operate every member of the Trent family: the Trent 500, Trent 700, Trent 800, Trent 900, Trent 1000 and Trent XWB.

The Virgin Australia group launched its international airlines V Australia and Pacific Blue under the new brand, **Virgin Australia** (DJ). Establishing one brand and identity for DJ's domestic and international operations is a key part of the company's game change program strategy and follows an agreement with Singapore Airlines (SQ), which is a 49% stakeholder in Virgin Atlantic Airways (VS). When SQ acquired the stake in 2000, one of the conditions was that DJ could not use the Virgin name outside Australia. The company's trading name has also been changed from Virgin Blue Holdings Ltd. to Virgin Australia Holdings Ltd.

Aero-Equipment Market

Firm Backlog (as at January 28th 2012) Western-Built Jets

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Airbus	4,490	49.99%
Boeing	3,893	43.35%
Embraer	294	3.27%
Bombardier	197	2.19%
Mitsubishi	65	0.72%
Kawasaki	30	0.33%
McDonnell-Douglas	10	0.11%
Scaled Composites	2	0.02%
TOTAL	8,981	100.00%

Backlog - Top Ten Owners	Total Aircraft	% Share
Southwest Airlines	350	3.90%
AirAsia	277	3.08%
ILFC	231	2.57%
IndiGo Airlines	226	2.52%
Emirates Airline	226	2.52%
General Electric Capital Corp	223	2.48%
Qantas	219	2.44%
Qatar Airways	191	2.13%
Norwegian	180	2.00%
United Airlines	173	1.93%
TOTAL - TOP TEN	2,296	25.57%
TOTAL BACKLOG	8,981	100.00%

Backlog - Top Ten Operators	Total Aircraft	% Share
Southwest Airlines	350	3.90%
AirAsia	277	3.08%
Emirates Airline	241	2.68%
IndiGo	226	2.52%
ILFC	195	2.17%
Qatar Airways	191	2.13%
Norwegian	184	2.05%
GECAS	174	1.94%
United Airlines	173	1.93%
American Airlines	152	1.69%
TOTAL - TOP TEN	2,163	24.08%
TOTAL BACKLOG	8,981	100.00%

Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
Southwest Airlines	350	3.90%
AirAsia	277	3.08%
IndiGo Airlines	226	2.52%
Emirates Airline	226	2.52%
Qantas	219	2.44%
Qatar Airways	191	2.13%
Norwegian	180	2.00%
United Airlines	173	1.93%
American Airlines	152	1.69%
LAN Airlines	129	1.44%
TOTAL - TOP TEN	2,123	23.64%
TOTAL AIRLINE-OWNED BACKLOG	6,802	75.74%
TOTAL BACKLOG	8,981	100.00%

Backlog - Operating Lease Companies (Owner)	Total Aircraft	% Share
ILFC	231	2.57%
Aviation Capital Group	157	1.75%
Air Lease Corporation	155	1.73%
AWAS	97	1.08%
RBS Aviation Capital	87	0.97%
ALAFCO Aviation Lease and Finance Company	77	0.86%
BOC Aviation	67	0.75%
Aircraft Purchase Fleet Ltd	45	0.50%
ICBC Leasing Co	42	0.47%
Intrepid Aviation Group	22	0.24%
TOTAL - TOP TEN	980	10.91%
TOTAL LESSOR-OWNED BACKLOG	1,294	14.41%
TOTAL BACKLOG	8,981	100.00%

Backlog - Lessor (as Owner) by A/C Manufacturer	Total Aircraft	% Share
Airbus	720	55.64%
Boeing	469	36.24%
Embraer	85	6.57%
Bombardier (Canadair)	20	1.55%
TOTAL LESSOR-OWNED BACKLOG	1,294	100.00%
TOTAL BACKLOG	8,981	

Source: CASE2® Database

Storage

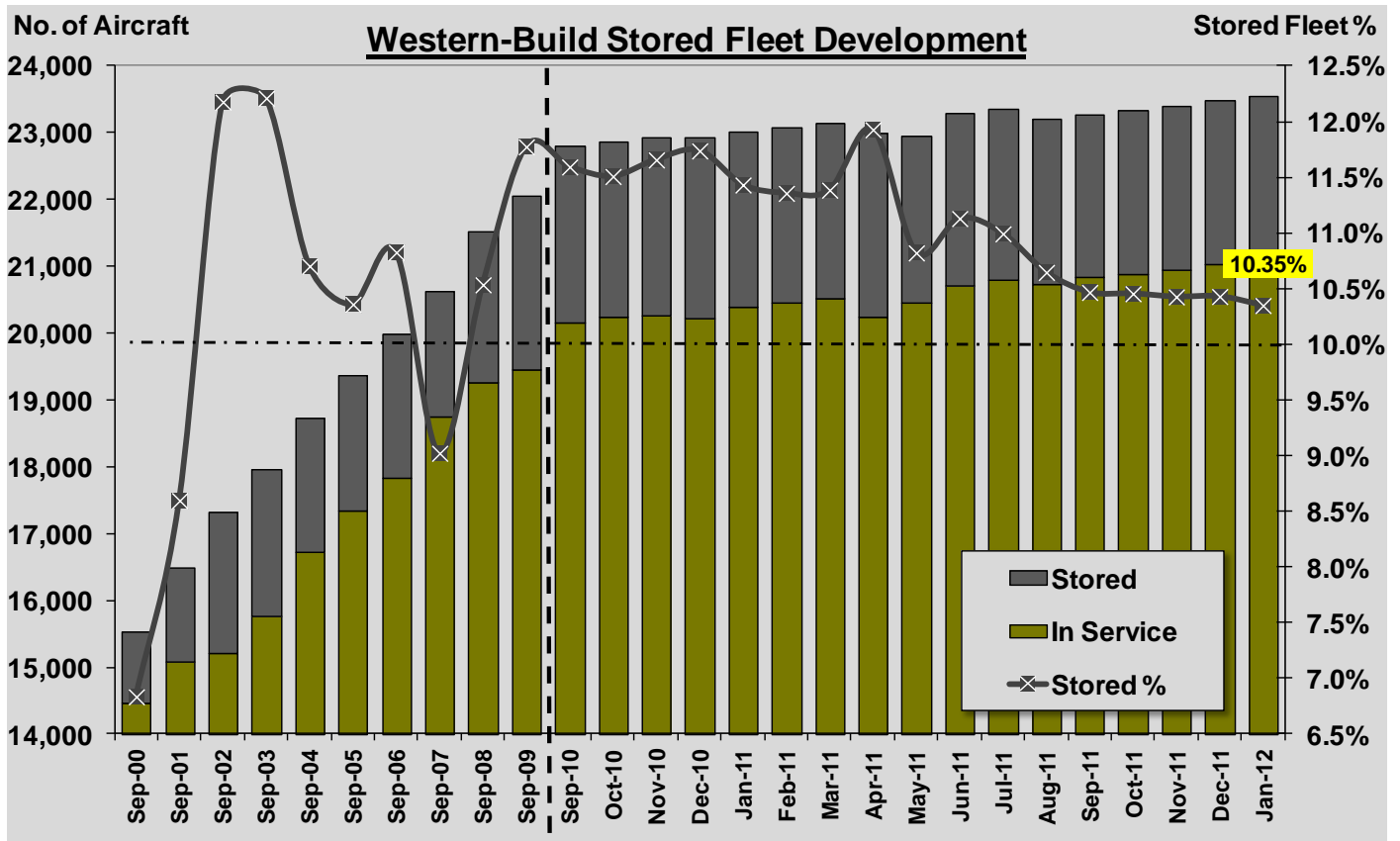
The table below shows the aircraft types whose percentage of **Stored Fleet** is above the **Total Average (10.35%)** of the whole Western-built jet stored fleet figure:

Aircraft Manufacturer	Aircraft Type	In Service	In Storage	Total Fleet	% Stored
Avcraft	328JET	-	2	2	100.00%
Boeing (McDonnell-Douglas)	DC-9	95	152	247	61.54%
Lockheed	L-1011 TriStar	10	15	25	60.00%
Fairchild/Dornier	328JET	47	61	108	56.48%
Boeing (McDonnell-Douglas)	MD-90	53	55	108	50.93%
Boeing	737 (JT8D)	217	183	400	45.75%
Boeing (McDonnell-Douglas)	DC-8	38	32	70	45.71%
BAE SYSTEMS (HS)	146	98	62	160	38.75%
Boeing	727	240	136	376	36.17%
BAE SYSTEMS (Avro)	RJ Avroliner	112	49	161	30.43%
Boeing (McDonnell-Douglas)	MD-80	618	268	886	30.25%
Fokker	F.28	39	16	55	29.09%
Fokker	100	161	64	225	28.44%
BAE SYSTEMS (BAC)	One-Eleven	8	3	11	27.27%
Airbus	A300	277	70	347	20.17%
Boeing	707	146	36	182	19.78%
Airbus	A310	140	34	174	19.54%
Embraer	ERJ-135	260	61	321	19.00%
Boeing	747	749	150	899	16.69%
Boeing	717	129	25	154	16.23%
Boeing (McDonnell-Douglas)	DC-10	158	30	188	15.96%
Boeing	737 (CFMI)	1,428	264	1,692	15.60%
Lockheed	Galaxy	97	14	111	12.61%
Bombardier (Canadair)	CRJ Regional Jet	906	120	1,026	11.70%
TOTAL WESTERN-BUILT JET FLEET STORED		21,110	2,437	23,547	10.35%

Source: CASE2® Database



ASCEND is aware of at least **2,437 Western-built jet aircraft** in **storage (10.35%)** out of a current fleet of **23,547 aircraft**, as at **January 15th 2012**:



Source: CASE2® Database

Manufacturer News

Airbus

Airbus has confirmed that it has pushed back entry into service (EIS) of its A350-900 aircraft by six months to the “first half of 2014” owing to the “late availability of some key parts.” Start of final assembly will be “first quarter 2012” in a delay that is costing “€200 million.” At the Paris Air Show in June, Airbus announced it pushed back EIS for the A350-1000 to 2017 from 2015 and delayed the -800 EIS to 2016 from 2014. It said it was “heading toward the final assembly line by the end of 2011” for the static test A350-900.

Airbus secured a total of 211 orders and commitments worth \$20.5 billion at the 12th annual Dubai Airshow, reinforcing the strength of its decision to re-engine the A320. There were 135 firm orders worth \$13.7 billion, made up of 130 A320neos and five A380s and 76 MOUs worth \$6.8 billion. **Qatar Airways** (QR) placed the single largest firm order for 50 A320neos and five A380s worth \$6.4 billion at list prices. **Spirit Airlines** made the largest commitment for Airbus with 75 A320 family aircraft, comprising 30 A320s with sharklets and 45 A320neos, worth \$6.7 billion. By end of the airshow, neo sales reached 1,420 orders and commitments, less than a year after launch.

Airbus has completed the first flight of its fuel-saving sharklet wing-tip devices on the company’s A320 development aircraft (MSN 001). The flight marks the start of flight testing to capture data for fine-tuning the flight laws, as well as for certification and performance validation. Sharklets are around 2.5 m. (8 ft.) tall and will replace the aircraft’s current wingtip fence. Offered as an option on new-build aircraft, sharklets are designed for the Airbus A320 family to reduce fuel burn by up to an additional 3.5%, corresponding to an annual carbon dioxide reduction of around 700 tonnes per aircraft, according to Airbus. Sharklets will be a standard fit on the new A320neo family. Combined with new engines, they will contribute to an overall 15% in fuel savings.

Airbus has delivered its 7,000th aircraft, an A321, to US Airways. Airbus delivered its first aircraft in 1974—an A300B2 to Air France.

Boeing

Boeing has commitments from eight airlines for more than 600 737 Max aircraft. A commitment means that an airline has paid a deposit to secure its order for the 737 Max, a modified version of the narrowbody that will be fitted with the CFM International Leap 1-B engine. 737 production is to ramp up from 31.5 a month now to 35 a month next year, 38 in 2013 and 42 by the end of 2013.

Boeing had done calculations showing the new 787 Dreamliner was more fuel efficient on a per passenger basis than an Airbus A380. Boeing's figures compared a 242-passenger 787 to a 550-passenger A380 flying a 3,000 n. m. route.

Boeing confirmed that an All Nippon Airways (ANA) 787 aircraft has "returned to service" following a landing gear problem, less than two weeks after the aircraft's inaugural flight. Pilots on the first of two aircraft delivered so far to ANA were forced to deploy the landing gear using a manual backup system after an indicator lamp suggested the wheels were not properly down. They landed at Okayama at the second attempt following the incident.

Boeing has begun assembling the 1,000th 777, a 777-300ER, which will be delivered to **Emirates Airline** in March 2012.

Boeing has rolled out its first 737NG at the production rate of 35 aircraft a month and is on track to deliver the aircraft to launch customer Norwegian Air Shuttle in January. To prepare for the 737 rate increases, Boeing said it has made production processes more efficient, increased production capacity with capital investments, made the site footprint more efficient and decommissioned outdated equipment.

According to Boeing, it will increase the 737 rate to 38 airplanes a month in the second quarter of 2013 and to 42 aircraft a month in the first half of 2014.

The **Boeing 747-8 Intercontinental**, the latest passenger version of the popular widebody, won FAA certification; the first of the type is slated for delivery to Lufthansa (LH) early next year. The manufacturer said it is in the "final stages" of preparing the first aircraft for delivery. The 747-8I is 6 m. longer than the 747-400 and, at 76.3 m., will be the world's longest passenger jet. LH has ordered 20 747-8s, which are due for delivery from the beginning of 2012 through mid-2015.

Boeing has delivered its 7,000th 737. The aircraft, a 737-800, was delivered to Flydubai. The delivery was the 21st in Flydubai's fleet; it has an additional 30 737-800s on order.

Embraer

Embraer earned third-quarter net income of \$1.9 million, significantly reduced from a \$126.1 million net profit posted in the year-ago period. The Brazilian aircraft manufacturer said the drop was "primarily as a result of deferred income taxes generated by the appreciation of the US dollar during the period." Adjusted net income, excluding these taxes, was \$125.7 million, which is nearly double net income of \$64.7 million earned on a similar basis in the 2010 third quarter. It noted that third-quarter revenue increased a robust 30.7% year-over-year to \$1.36 billion. Embraer delivered 28 commercial jets during the three months ended Sept. 30, up 40% from 20 delivered in the year-ago period and nearly on par with the 29 delivered in the 2009 third quarter. It sold 17 new E-Jets during the three months to push total sales of E-Jets to 1,018 firm orders. More than 800 have been delivered.

Embraer is dropping plans to enter the 130-160 seat narrowbody market and instead focusing on developing a re-engined variant of its E-jet family that could be ready in 2018. The Brazilian manufacturer has been analyzing the potential of developing a narrowbody for some time, but has said that recent changes in the marketplace, with Airbus and Boeing both now developing re-engined versions of their Airbus A320 and Boeing 737, make clear it would be "very challenging" for a new entrant to persuade airlines to switch to an all new aircraft type. Instead, Embraer will focus on developing a version of its E-jet family that would be equipped with a new engine, new landing gear and other new technology. It could potentially be a stretch of the E-195 and it would consolidate Embraer's market leadership in the 70-130 seat market. Anticipated entry into service date would be around 2018. A launch customer could be announced around mid-2012. A name for the new variant has yet to be decided—for now, Embraer refers to it as a new generation E-jet—and an engine supplier has also yet to be picked. Embraer has a long-established relationship with GE and the CF34, but other options are being considered. The manufacturer was in talks with its customers to define the future requirements of the 70-120 seat segment. A lot of commonality will remain with the existing E-jet family.

Leasing News

Air Lease Corp. (ALC) has signed lease agreements for 13 additional aircraft. ALC said it placed two Embraer 175s, leased to **Belavia** (Belarus); four ATR 72-600s, leased to **Passaredo** (Brazil); and two Airbus A320-200s, leased to **S7 Airlines**, from its order book. ALC leased one Boeing 737-800, leased to **Caribbean Airlines**; one 737-800, leased to **Transaero**; and one 737-800, leased to **Sun Country**, from its fleet. ALC acquired on lease one 737-800, leased to **Spicejet**, and one A320-200, leased to **Interjet**.

Boeing finalized an order with **Air Lease Corp.** (ALC) for four 787-9s. ALC also exercised options for four 737-800 NextGens. The order, worth more than \$1.2 billion, marks the completion of an agreement announced during the Paris Air Show in June. The aircraft join the 74 737-800s and five 777-300ERs that ALC has on order.

Aircraft Leasing & Management announced the sale of one Boeing 737-700 from GF Ibis Leasing to CT Aerospace. The aircraft was delivered to CT Aerospace Nov. 21.

Aviation Capital Group (ACG) announced an intent to order 35 Boeing 737 Max aircraft, and a firm order for 20 737-800NextGens. ACG is the first leasing company to commit to the 737 Max. The CFM International Leap-1B is the exclusive engine on the Max. The Max order was not yet firm because the lessor still had to work out specific configurations. With the announcement, ACG has ordered or committed to a total of 151 Boeing airplanes made up of 111 Next-Generation 737s, 35 737 Maxs and five 787 Dreamliners. This includes 15 737NGs for which ACG acquired delivery positions from another airline in 2006.

Aviation Lease and Finance Co. (ALAFCO) has finalized an order for 50 Airbus A320neos and has taken options for 30 more. The contract, which was signed at the Dubai Airshow, is an increase from ALAFCO's initial commitment for 30 A320neos announced in an MOU at the Paris Air Show in June.

BOC Aviation, a Singapore-based aircraft leasing company, signed a contract with Embraer for 15 E-190 aircraft. Deliveries are scheduled from the fourth quarter of 2012 through 2014. "We see excellent potential for the E-190 not only here in Asia where there is strong growth but also with airlines around the world that have discovered the importance of 100-seat aircraft capacity, both in developing new markets and complementing narrowbody operations with relevant economic gains. The E-190 will allow us to expand the range of BOC Aviation products to customers in established and emerging markets."

BOC Aviation entered into a sale and leaseback transaction for four new Embraer 195s, the lessor's first such transaction involving Embraer aircraft. The aircraft are on long-term lease to Brazil's Azul. Two have been delivered and two are scheduled for delivery by the 2012 second quarter.

China Aircraft Leasing Co. has placed an order for 20 150-seat Commercial Aircraft Corp. of China (COMAC) C919s. COMAC now has 215 orders for the C919. In the past two months, China's Bank of Communications Financial Leasing Co. ordered 30 C919s, Sichuan Airlines ordered 20 aircraft and ICBC Financial Leasing Co. placed 45 firm orders. COMAC said it is negotiating with some foreign companies about possible C919 orders. Qatar Airways has been in talks with COMAC and would consider ordering the aircraft as long as "relevant criteria can be met." COMAC said the C919 will enter the final design definition phase this year. Detailed design will be completed in 2012 and the first flight is slated for 2014. Type certification is expected by 2016, followed by first delivery. By 2020, COMAC expects to produce 150 C919s annually.

CIT Aerospace, the aircraft leasing unit of CIT Group, signed an agreement with Embraer for up to 30 Embraer 190 and/or 195 jets, with 10 firm orders. Deliveries are scheduled through 2015, the manufacturer said. According to Embraer, CIT owns or finances a fleet of approximately 300 commercial aircraft. The order allows CIT Aerospace "to continue to maintain one of the youngest and most technologically advanced fleets in the industry and will help us meet our customers' increased demand for this size of aircraft."

Doric Asset Finance took delivery of its 11th Airbus A380, on lease to Emirates for 12 years. It has also been awarded a remarketing mandate for two A319s.

Doric Asset Finance has taken delivery of one Airbus A380 (its 12th aircraft), acquired by Doric Nimrod Air Two Ltd. (DNA2) from Airbus Dec. 2. The A380 is leased to Emirates for 12 years.

FLY Leasing Ltd. has acquired two Boeing 737-800s, one on lease to Air China and one on lease to Korean Air. It also sold one 777-200ER on lease to KLM and one 737-800 on lease to SpiceJet for a total of \$139 million.

International Lease Finance Corp. (ILFC) entered into a sale-leaseback arrangement with American Airlines (AA) to finance 15 previously ordered Boeing 737-800NextGen aircraft. Two aircraft have been delivered; the rest are scheduled for delivery in 2012.

LOT Polish Airlines will wet lease an additional long-haul Boeing 767-300ER aircraft from the Ukrainian carrier, **AeroSvit**, until Jan. 15.

Precision Conversions re-delivered the third full-15 cargo position 757-200PCF freighter to Cargo Aircraft Management. The Pratt & Whitney-powered 757-200PCF was previously operated by United Airlines as a passenger aircraft and will be leased to Capital Cargo International Airlines.

Engine News

GE Aviation and **CFM International** announced engine and service orders valued at more than \$13.8 billion at the Dubai Airshow. **Emirates** (EK) selected the GE90-115B the engine, with a 12-year OnPointSM maintenance agreement, to power its 50 Boeing 777-300ERs with 20 options, in a deal valued at more than \$6 billion. **Garuda Indonesia** (GA) chose CFM International's advanced Leap-1A engines to power 10 new Airbus A320neo aircraft, and CFM56-5B engines to power 15 standard A320 aircraft, in orders valued at \$490 million. GA also finalized a long-term support agreement covering the airline's fleet of the CFM56-7B engines powering 63 737-800 aircraft. The 15-year rate per flight hr. contract is valued at \$500 million. **Air China** finalized its agreement to purchase 20 GEnx-2B engines, including a 15-year OnPointSM solution agreement, to power its five 747-8Is. **Cathay Pacific Airways** signed a 15-year OnPointSM solution agreement with GE Aviation covering the maintenance of the GE90-115B engine fleet for four Boeing 777-300ER aircraft and eight 777-200 freighters ordered in August, along with the 10 777-300ERs ordered in March. **Qatar Airways** selected the GE90 engine to power the two Boeing 777 freighters ordered at Dubai. Egyptian carrier **Petroleum Air Services** ordered a CF34-8 engine to power its CRJ900 aircraft. **Republic Airways Holdings** inked an OnPoint Fuel and Carbon Solutions agreement with GE to identify and track operational improvements to reduce the airline's fuel spend by an average of 3%. GE won a 15-year OnPoint solution \$1 billion agreement with **Cargolux** for the maintenance of its GEnx-2B engines powering its 13 747-8 freighters. **Lufthansa** selected CFM56-5B engines to power four new A320s in a firm engine order valued at \$60 million.

GE Aviation's GEnx-1B engine, which powers the Boeing 787, has been given FAA 330-minute extended-range, twin-engine operations (ETOPS) approval. The FAA approval confirms the engine has demonstrated the reliability to conduct ETOPS flights up to 330 minutes flying time from a primary or alternate airport, GE said. The approval process included a 3,000-cycle ground endurance test in April. The first GEnx-2B-powered Boeing 747-8 was delivered to Cargolux in October. Five more GEnx-2B-powered Boeing 747-8s have since been delivered.

International Aero Engines (IAE) is evaluating a new addition to its successful V2500 Select engine series, with the V2500 SelectThree. The SelectThree series is "on the drawing board," IAE said, adding that the engine will focus on reducing maintenance costs and developing technology, which can be retrofit across the entire fleet. IAE also announced its V2500 SelectOne engine has reached 1,000 deliveries. The company made the milestone delivery of its engine V16000 to Indian low-cost airline Indigo, shipped from Rolls-Royce Dahlewitz. IAE earlier introduced the SelectTwo series, projected to provide 0.6% fuel burn savings compared to the V2500 SelectOne for a 500 n. m. Airbus A320 flight. It includes a software upgrade for the Electronic Engine Control and a new data entry plug.

For questions, comments and suggestions regarding the **DVB Aviation News Summary**, and for information on all other "ARA" products and services, please contact:

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And Finally...

Airlines in the EU will be allowed to buy and sell slots under clear and transparent conditions across the 27 member states under legislation proposed by the European Commission (EC). If approved, the new rules would end legal uncertainty on secondary slot trading and a patchwork of different practices across the bloc. Secondary trading exists in the UK, but it is banned in Spain.

The new slot rules are part of the EC's long-awaited and much-discussed airport package, which aims to address capacity shortage at Europe's airports and improve the quality of services offered to passengers.

The package contains three legislative proposals on slots, ground handling and noise, as well as a communication on airport policy in the EU. The proposals must still be approved by the European Parliament and the 27 member states to become law.

The slot proposal also includes the broadening of the definition of “new entrant” to help facilitate the growth of “sustainable competitors and reduce the schedule fragmentation that occurs when slots are allocated to a larger number of airlines unable to translate these slots into a viable alternative to dominant carriers.”

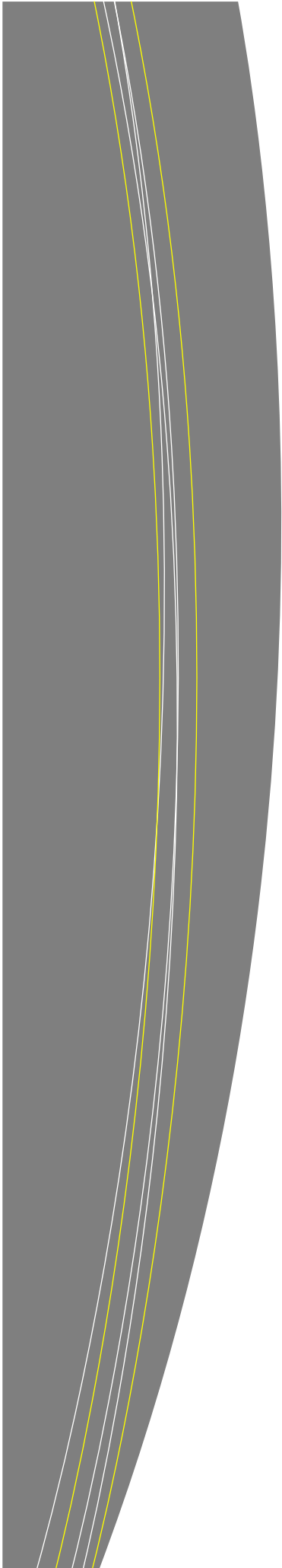
Additionally, the “use it or lose it” slot obligation would increase from 80% to 85% and the length of slot series (the minimum number of weekly slots required for priority allocation for the following corresponding season) would be raised from five to 15 for the summer schedule, and to 10 for the winter timetable.

The new proposals on ground handling introduce the full opening of the self-handling market for airlines and increase the minimum number of service providers at large airports from two to three. It also introduces greater transparency on how airlines and handlers are charged for airport “centralized infrastructures,” such as the use of baggage processing systems, and under which conditions airports can provide ground handling services.

IATA and the Assn. of European Airlines (AEA) welcomed the further liberalization of the ground handling market and the clarification of the slot trading rules, but expressed concern about the proposed changes to the “use it or lose it” rule. “If this regulation is passed, it will seriously hamper airlines’ ability to react to changing demand,” AEA secretary general Ulrich Schulte-Strathaus said.

International Air Carrier Assn. (IACA) reacted with “dismay” to the EC’s plan to redefine the series of slots.

“Without today’s legal certainty to maintain historical rights for a series of five slots, IACA airlines will no longer fly to tourist destinations that can only be served economically during the peak season. If the Commission is not careful, they could effectively be wiping out the most popular flights from the system,” IACA director-aeropolitical affairs Koen Vermeir said.



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