DVB Aviation News Summary

- General Market Developments
- Regional Developments
- Individual Airline News
- Manufacturers News
- Leasing Market News
- Aero-Equipment Market Dynamics

September - October 2011

News & Data Sources: *AACO, AAPA, AEA, Airbus, Aircraft Value News, Airline Business, Airline Monitor, Airliners.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.

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General Airline & Air Transport Developments

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

Air travel and air freight markets diverged sharply in **September**, with air freight pulled lower by deteriorating economic conditions, but air travel rose strongly.

Worldwide RPKs flown in September were **5.6%** higher than a year ago, compared with 4.6% in August. The start of the weaker trend in travel, after the fall in August, was expected, but the rebound in September took RPKs back to trend growth.

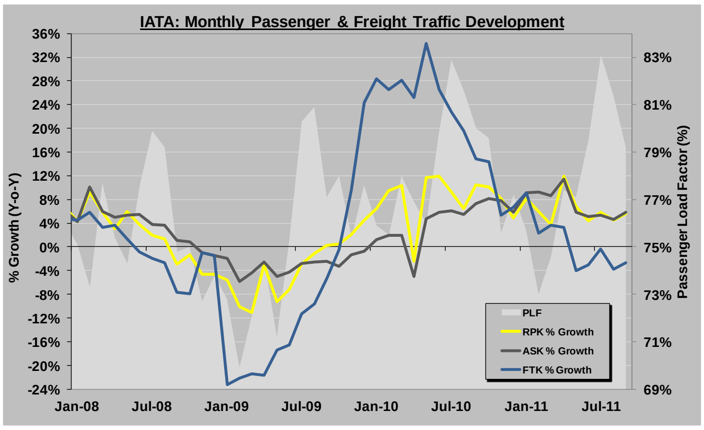
Air freight tells a different story. In September worldwide FTKs flown were **2.7%** lower than last year. Air freight volumes had stopped growing for the 12 months to the second quarter. In the third quarter there was a significant decline in air freight markets, as the chart below shows.

September 2011 (Percentage Change over **September 2010**)						
Carriers	**Passenger**			**Freight**		
	RPK%	**ASK%**	**PLF%**	**FTK%**	**ATK%**	**FLF%**
Africa	2.3	2.9	70.5	-2.5	-1.1	24.2
Asia / Pacific	5.1	5.8	77.1	-6.3	-2.2	57.4
Europe	9.0	9.0	81.3	-2.4	3.9	46.3
Latin America	8.3	11.6	73.8	4.8	3.5	41.8
Middle East	9.0	8.2	77.1	4.2	11.4	42.4
North America	1.4	0.6	82.0	0.0	3.6	34.6
Industry	**5.6**	**5.8**	**79.2**	**-2.7**	**2.4**	**45.1**

YTD January – September 2011 (Percentage Change over **Jan-Sep 2010**)						
	RPK%	**ASK%**	**PLF%**	**FTK%**	**ATK%**	**FLF%**
Industry	**6.3**	**6.6**	**78.4**	**0.1**	**4.8**	**45.7**

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.

The rise in air travel was broad-based in September, across domestic and international markets. The recovery in Japan's domestic market faltered but there were strong increases in China and India. On international markets the strongest performances were registered in Latin America and, despite the Eurozone crisis, in Europe.



The further decline in air freight was dominated by falls in Europe and Asia-Pacific, reflecting the crisis in many European economies and knock-on effects of weakness in Western economies for manufacturers in Asia. Domestic air freight was unchanged. The decline in international air freight reflects a broader deterioration in international trade.

The outlook for the next few months still looks weak. Air travel has yet to show any such weakness. However, analysis still suggests the fall in air freight and the declines in business and consumer confidence are precursors to a significant slowdown in air travel growth.

September 2011 vs. August 2011

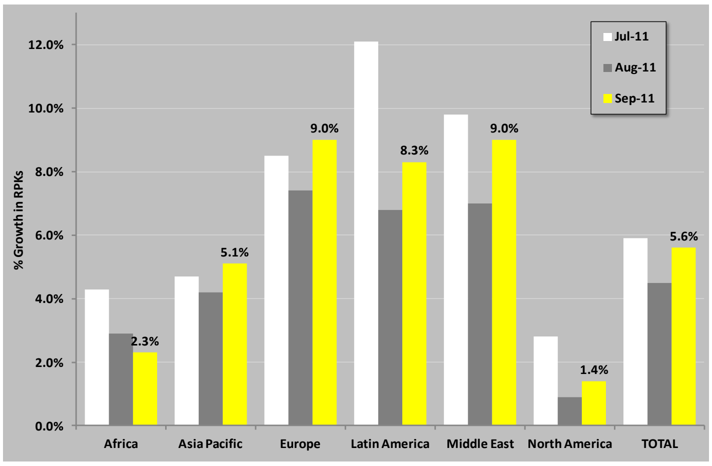
The seasonally-adjusted data show a very strong rebound in RPKs during September, after the falls seen in August. Capacity was up but at less than half the pace of demand recovery, allowing a significant rise in load factors.

Domestic freight was flat in September but the bulk of air freight takes place on international market and that was down significantly. Freight load factors fell.

PASSENGER MARKET

International air travel volumes rebounded to the levels reached in July, following the dip in August. Air travel is performing remarkably well given the economic uncertainties and decline in confidence. Although the upward trend remains there does seem to have been a slowdown in its growth. Between May and September RPKs have been trending upwards at a 4% annualized pace, compared with twice that pace up to early 2011.

The sharp decline in business confidence in most economies, and the weakness of consumer confidence in Europe and the US, suggest that business and leisure travellers will be much more reluctant to travel. Confidence has been weakening for some months without any lasting impact on travel. This may reflect the still robust conditions in China and other emerging markets. However, a large part of the momentum for air travel to date will be trips booked earlier in the year, when economic conditions were stronger.



Latin America saw a strong increase which may be supported by more robust economic conditions. European airlines continue to see unusually robust growth in the traffic they are carrying, despite the worries about recession spreading in the region. One driver of this growth is the addition of almost 10% capacity over the past year. Airlines in the Middle East saw a similar increase in traffic over this period, but their capacity additions have recently slowed to single figure growth, which is a marked change from the 15%+ growth seen in recent years. North American airlines are adding very little capacity but the weakness of growth in the traffic they carried in September is likely to reflect weak home markets.

Passenger load factors rose a little in September but remained below earlier highs. Airlines are keeping available capacity more or less in line with the recent trend in demand. However, rising new aircraft deliveries has led to a fall in the utilization of twin aisle aircraft as airlines have sought to match supply to demand. The highest load factors on international markets are being achieved by North American and European airlines, despite the surge in new capacity. The largest numbers of new aircraft are being delivered to the Asia-Pacific region and softer demand recently has led to load factors slipping to the lowest of the major regions.

Domestic air travel markets rose strongly in September, despite a fall-back in the recovery of Japan's market. Strong growth was experienced in China, the second largest domestic market, and in India. The largest domestic market, the US, grew modestly in September.

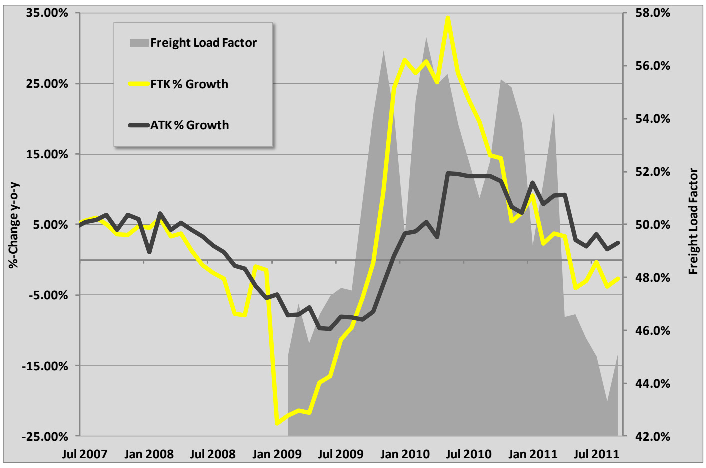
Growth in overall domestic air travel was significantly stronger than new capacity in September. Load factors rose to a new high in September as a result. Chinese airlines are now achieving the highest domestic load factors. In the last two years these airlines have improved domestic load factors by 10 percentage points, as a result of consolidating capacity – together with strong growth in demand, which has played an important part in the shift from loss to profit among major Chinese airlines.

Adding international and domestic passenger markets together shows a renewed expansion to a new high in September. The slow growth in North America, where capacity growth is being restrained, contrasts sharply with growth in Europe (+9.0%), where capacity has been expanding at an unusually fast pace. Airlines in the Middle East matched the growth of their counterparts in Europe. Latin American airlines, benefiting from the region's strong economies, were only a little way behind. Despite the strong growth of the Indian and Chinese domestic markets, the Asia Pacific airlines experienced only modest growth. This was only partly due to the continued weakness of the Japanese domestic market, as growth on international markets was also relatively weak.

FREIGHT MARKET

Air freight volumes have fallen significantly during the third quarter. By September worldwide FTKs flown were 5% down on the end of the first quarter. This represents deterioration in trade and economic conditions and was mirrored by a decline in business confidence. Purchasing managers are once more worrying about recession in the developed economies. Inventory-expected sales ratios have risen as a result and shipments by air are being cut.

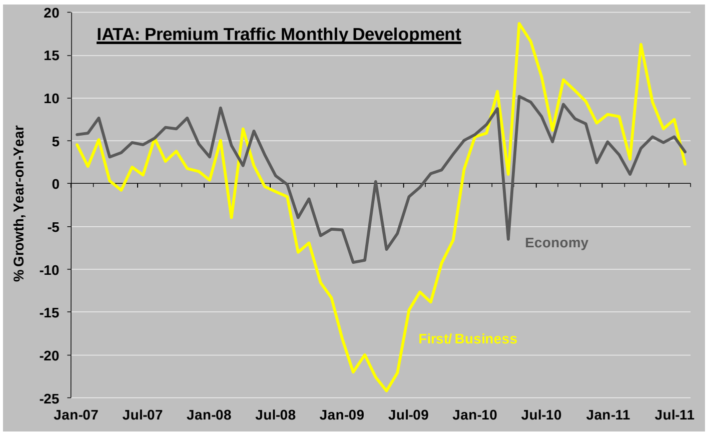
Asia-Pacific airlines have been particularly hard hit with the FTKs they carry down 6.3% on last year. One of the weakest trade lanes for air freight has been within Asia, despite the still rapid expansion of many economies. The slow recovery of Japan from the damage to auto and electronic supply chains caused by the earthquake and tsunami has been one reason for this. Latin America and the Middle East are the only two regions whose airlines have seen any growth.



Freight load factors have fallen further in September. Compared to the early 2010 peak load factors are down 6 percentage points as capacity continues to enter the markets, as a result of wide body passenger aircraft, while demand shrinks. The weakness of demand coupled with falling load factors will be exerting significant downward pressure on profitability.

IATA – Premium Traffic (August 2011)

The number of airline passengers travelling on premium seats, having been unexpectedly strong at the start of the third quarter, fell sharply in August. The level of premium passengers in August was just **2.3%** higher than last year, compared to 7.5% in July. The drop in this passenger segment, which represents mostly business travel, was larger than the fall in economy travel, which declined from 5.5% to **3.8%**.



The August decline in travel on international markets, particularly on premium markets, is also apparent in the first chart below which shows the number of passengers adjusted for seasonal variation. Premium travel has now fallen back to the levels of the fourth quarter of last year. Economy travel markets are a bit higher but less than 1% up on the third quarter of last year.

It is always hazardous to announce the start of a new trend on one month's data, but the decline in August is consistent with what we had been expecting for several months, based on the fall of world trade and the decline in business confidence.

Although there was a significant rebound in premium travel after the 2008-09 recession, there has clearly been a structural shift, due to the severity of the recession, away from travel on business and first class seats towards economy. Prior to the recession premium travel made up 9-10% of the international total, a share that has now shifted down to 7.5-8.5% (part of that shift was into premium economy, which is included in the economy segment in this data set). In recent months, that structural downshift has been joined by the start of a new cyclical downturn.

The strongest flight segment so far this year, out of the larger markets, has been within the Far East, supported by the strength of Asian economies and trade flows within the region. Premium travel growth remained strong on these markets in August. The most significant decline occurred on the previously strong flight segments on the North Atlantic and within Europe markets, reflecting the deterioration in economic conditions in this part of the world.

Forward-looking indicators for air travel, particularly travel on business, continue to point to a further slowdown in the months ahead. The global manufacturers purchasing managers index fell below 50 in September for the first time since mid-2009, pointing to no growth or declining industrial production. This weak level of business confidence is usually consistent with little or no growth in premium travel volumes.

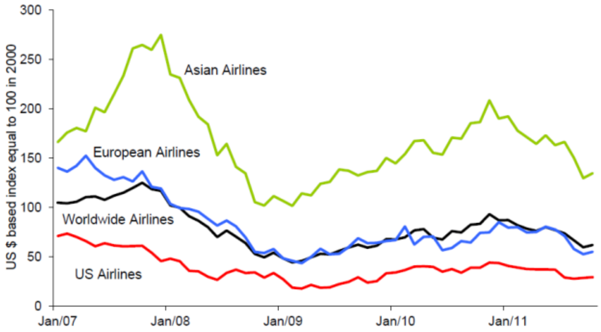
IATA – Airlines Financial Monitor (September – October 2011)

Financial Indicators

Airline share prices still down almost 30% so far this year on market pessimism

Share prices rallied at the end of October after a new package had been agreed to resolve the Eurozone crisis, but then fell back as the Greek Government put the resolution to a national referendum. The chart does not show the subsequent fallback in airline share prices.

Even with a small bounce in October airline share prices are still almost 30% down on the year, representing a large downward revision in financial market expectations for airline profits



Q3 results show much better performance with a rebound at the EBIT level

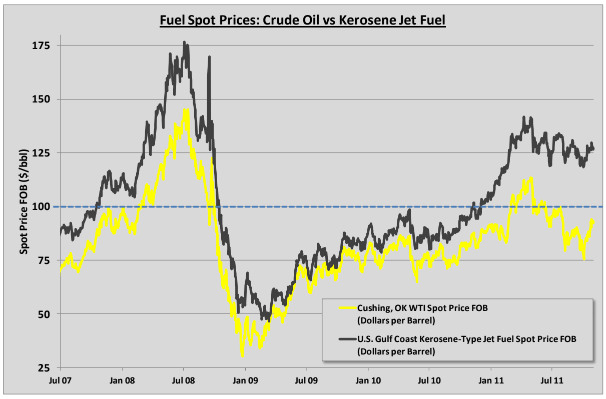
# Airlines		Q3 2010		Q3 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
10	North America	2277	1630	2826	986
10	Asia-Pacific	3533	2998	3549	1977
4	Europe	1452	1001	1148	889
1	Latin America	157	106	161	95
25	**Sample total**	7419	5735	7684	3947

Airline profits were significantly better in the third quarter. Profits started to be squeezed by high fuel prices in Q4 last year, and were 60% down on a year ago by the second quarter. In the third quarter operating profits were back up to last year's performance.

Better performance was widespread across the regions, reflecting the rebound in passenger revenues from Q2 and better asset utilization. However, the outlook continues to look more challenging.

Fuel Costs

Jet fuel price downward trend slows almost to a halt with prices 35% up on last year



Jet kerosene prices rose back to $129 a barrel in late October, still 35% higher than last year. Without hedging this fuel cost increase would add 10% to airline operating costs. The actual impact is estimated to be half that.

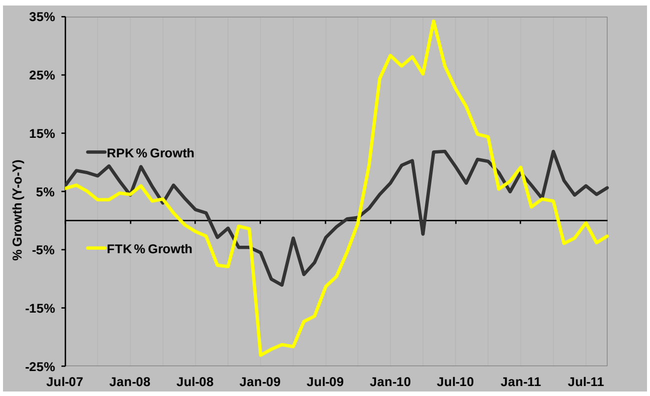
Part of the reason for the rise in oil prices was financial market optimism that the Eurozone threat to global growth had been resolved. Oil demand also remains underpinned by robust developing economy demand. The Eurozone situation could still reverse but, that apart, there appear few downward pressures on fuel prices.

Demand

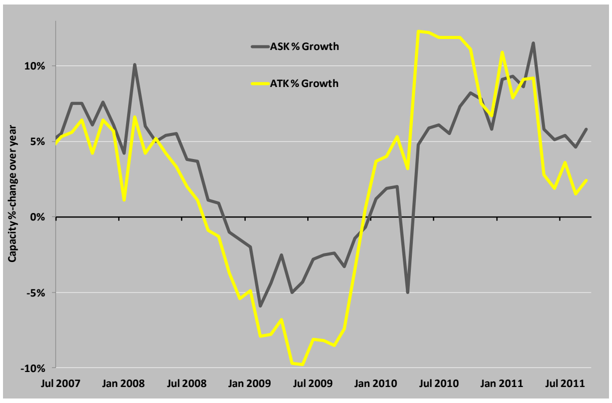
Air freight is weakening significantly but air travel continues to expand close to trend

Air freight markets shrank by several percentage points during the third quarter. Overall world trade appears to be stable, so this looks like shippers changing transport mode. This is likely to reflect expectations of an economic slowdown.

However, none of this shows in air travel which rose strongly in September and contributed to good EBIT results in Q3. With consumer and business confidence down in the US and EU some weakening should be expected in the months ahead.



Capacity



Passenger and freight capacity expand unabated, so far, despite demand uncertainties

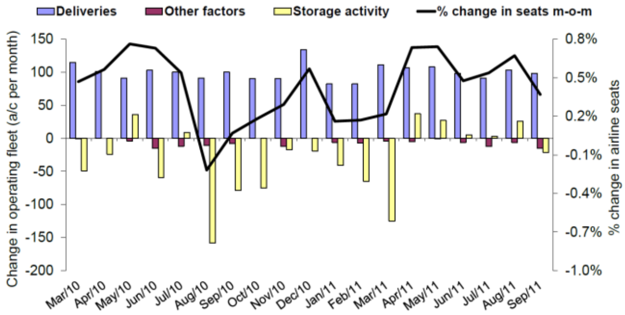
Airlines continue to expand passenger capacity at a fairly steady pace close to 6%. There have been a number of announcements of cuts and planned cuts but so far there has been no slowdown in the pace of ASK increases.

Air freight capacity is increasing at a slower pace, largely because the freighter fleet has been stable. Growth is from belly capacity in twin aisle passenger aircraft.

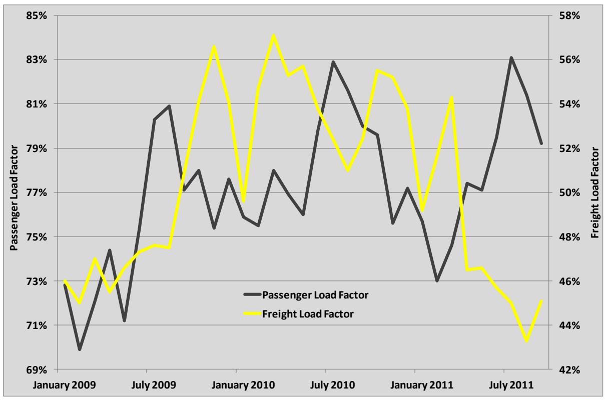
In-service fleet expanding seat numbers at slightly slower 4-5% pace in September

Aircraft deliveries at a pace of around 100 a month coupled with aircraft being taken out of storage had been increasing the number of seats in the fleet at an annualized pace of 6-7%.

During September some modest increase in storage and retirements partially offset the impact of the 98 new jets and turboprops delivered. This cut the increase in seats to an annualized increase of 4-5%.



Load factors are still high in passenger markets but slipping in freight



Passenger load factors rebounded to earlier highs in September, producing a high average for the third quarter and contributing to the improved EBIT performance in this quarter.

Air freight load factors fell sharply. If the freight business were larger in comparison with the passenger business then the improvement in the latter would have been offset. Freight utilization is being undermined by falling demand and new belly capacity from the passenger aircraft fleet.

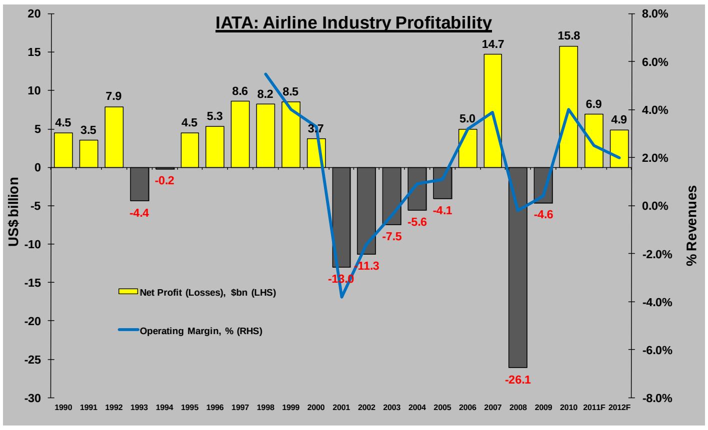
Yields

Passenger yields still trending higher, but at a slower pace

The pace of passenger yield improvements has slowed but was still moving upwards during September. High load factors supported tight supply-demand conditions despite the economic gloom in Europe.

US airlines are in a relatively strong position to improve yields with very little capacity additions and the highest load factors. Average international fares are rising at a slower pace. Nonetheless both were around 7% higher in Q3 than a year ago, comfortably above the estimated rise in fuel costs and a further factor helping Q3 airline profits.

IATA – Financial Forecast (September 2011)



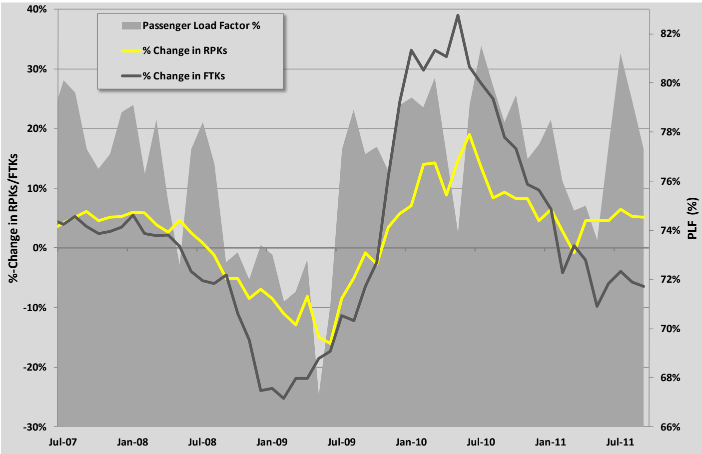
The economic outlook has deteriorated since the June update of the IATA forecast for airline industry profits. However, air travel expanded more strongly than expected during the first half of this year and airlines managed to restore asset utilization during the second quarter. The net impact of these factors has been to limit the deterioration in airline profits, but to extend the period of weak airline profitability into 2012.

IATA now expect airline industry net post-tax profits to total **US$6.9 billion in 2011** (was $4 billion), after the $16 billion achieved in 2010. For the **2012** outlook IATA conclude that it will be a year of sluggish growth and weak profits, with net profits forecast at **$4.9 billion**.

The financial performance of the airline industry is closely linked to the health of world economies. If economic growth is strong airlines can cope with high fuel prices. But whenever world economic growth has slowed below 2% the airline industry has suffered losses. The weaker economic outlook is taking growth perilously close to that 2% rate. IATA forecast weak airline profits to continue into 2012.

Regional Developments

Asia Pacific



Preliminary traffic figures for **September** released by the Association of Asia Pacific Airlines showed sustained growth in international passenger traffic, whilst international freight markets continued to soften.

Asia Pacific based airlines flew a total of **16.0 million** international passengers in September, a growth of **5.4%** compared to the same month last year, underpinned by business and leisure demand on Asian routes. Measured in revenue passenger kilometre terms (RPK), international passenger traffic grew by **5.2%**. With available seat capacity expanding by **6.8%**, the average international passenger load factor fell **1.1** percentage points to **77.3%.**

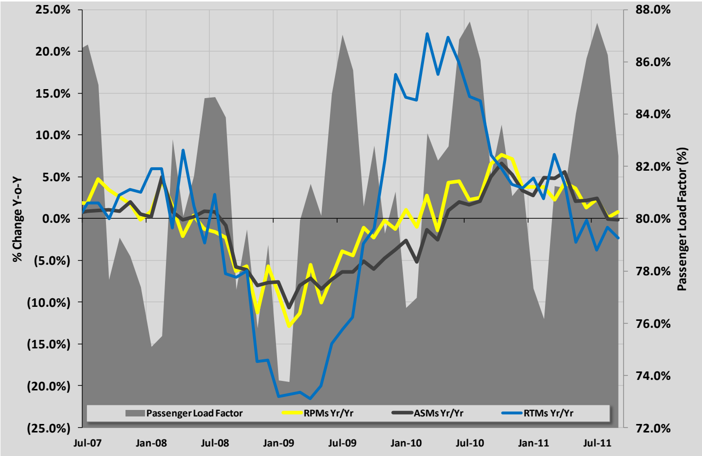
As a result of a slowdown in trade activities, Asia Pacific international air cargo demand, in freight tonne kilometre (FTK) terms, declined by **6.5%** compared to the same month last year. Offered freight capacity contracted by **1.3%**, resulting in a **3.5** percentage point decline in the average international air cargo load factor for the region's carriers to **63.8%** for the month.

Commenting on the results, Mr. Andrew Herdman, AAPA Director General said, "Overall, for the first three quarters of the year, Asia Pacific airlines saw a **3.7%** increase in the number of international passengers carried, whereas international air cargo demand fell by **4.1%**."

Mr. Herdman continued, "Resilient Asian economies, with relatively strong domestic spending power, helped support leisure and business travel markets. However, a slowdown in export demand, as a result of the ongoing European economic crisis and softening North American economies, contributed to the fall in overall cargo traffic. As a result, Asian airlines have seen only modest revenue growth this year. At the same time, airlines have had to grapple with a 40% increase in jet fuel prices, squeezing what are typically already very thin margins."

Mr. Herdman concluded, "Notwithstanding the current challenges, and uncertainty about the global outlook, optimism about future growth opportunities remains positive for Asia Pacific carriers. This sentiment is underpinning ambitious fleet expansion plans, as well as the establishment of a number of new carriers of varying business models, including international partnerships and joint 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 **entering 2011** during the first half. Nonetheless, effective capacity control has allowed for slightly improving passenger load factors.

International routes continued their decline with **a minute decrease** in traffic growth during **September 2011** of **0.6%. Domestic** routes reported a small, yet slightly more commendable increase of **1.6%.**

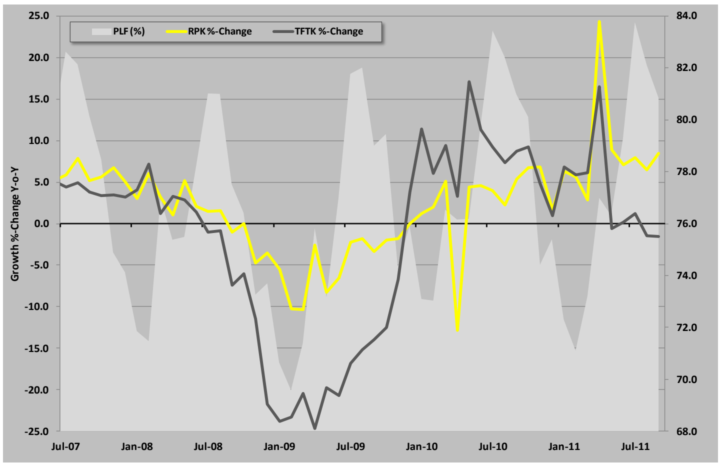
Hence, **Systemwide RPM growth** increased by just **0.8%** above September 2010 figures. **Latin** routes recorded the healthiest increase, growing by **7.1%**, with **Pacific** and **Atlantic** routes actually recording a decline of **1.0%** and **3.3%** respectively.

Systemwide capacity recorded a very slight decrease of **0.1%** resulting in a slight positive year-on-year increase of **0.7** points in **passenger load factor**, still managing to maintain a very good level and to reach **82.4%.**

Year-to-date figures for the **three quarters of 2011** showed Systemwide **traffic** increasing overall by **2.4%** compared to the previous year. **Capacity** also increased by a slightly higher **2.7%**, hence causing **Load Factor** to marginally slip by **0.2** percentage points, reaching **82.7%.**

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 **September 2011** continuing this negative trend with a growth of **-2.3%** year on year. The **year-to-date** RTM figure for the **three quarters of 2011** remains positive albeit very small at **0.9%**.

Europe



The **Association of European Airlines (AEA)** released preliminary traffic and capacity data for **September 2011**.

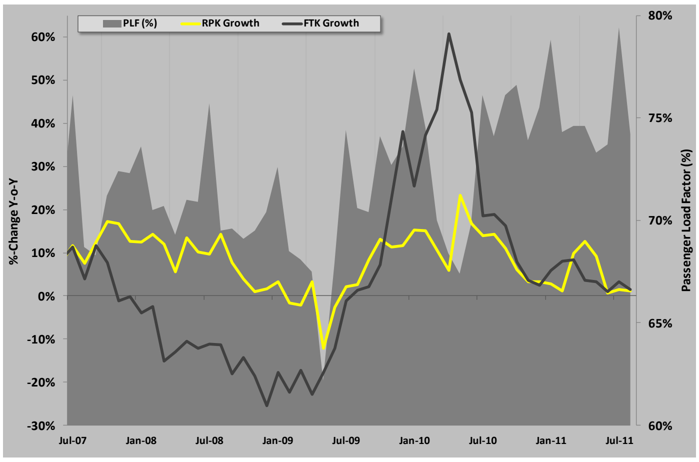
Overall passenger traffic (RPK) was up **8.5%** over September 2010, following the massive spike seen in April as a result of the y-o-y comparison with April 2010 – during the ash cloud crisis.

The traffic increase was accommodated within an **8.8%** increase in capacity, leading to a slight decrease in load factor of **0.2** percentage points compared to the previous year, reaching **80.8%**.

Airfreight volume fell for the second month into negative growth by **-1.5%** as it restores normality resulting from the comparison with the spike recorded mid-2010, but also a reflection of the global slowdown in air freight activity.

Latin America and Caribbean

The Latin American and Caribbean Air Transport Association (ALTA) announced that its member airlines carried **11.8 million** passengers in **August**, down **0.7%** from the previous year. Despite the decline in the number of passengers carried, traffic (RPK) grew **1.1%** and capacity (ASK) increased **1.0%**, raising the load factor to **74.2%**, 0.1 percentage points higher than in August 2010.

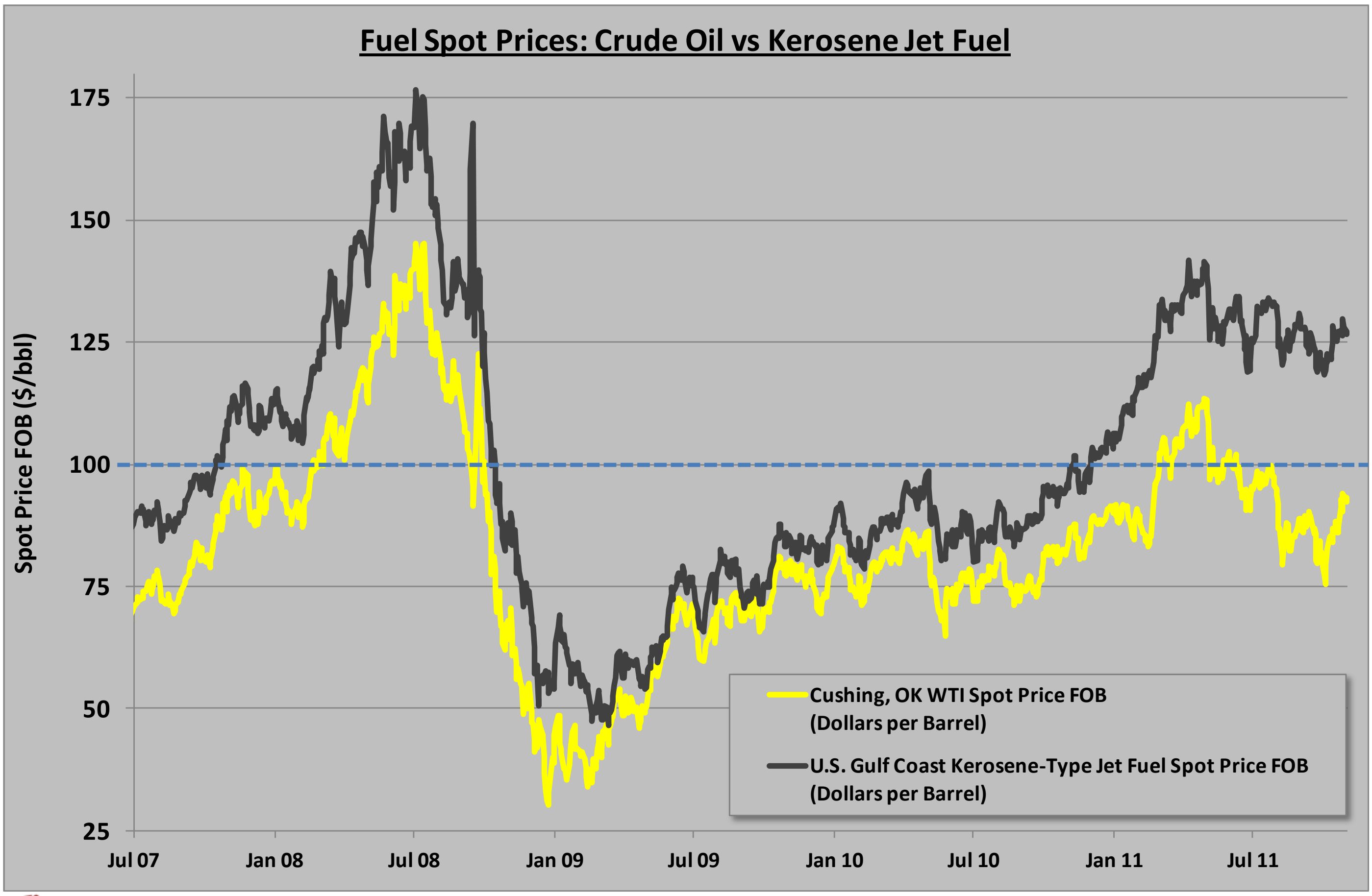


"Mexicana's exit from the market continues to affect the region's passenger growth numbers," said Alex de Gunten, ALTA's Executive Director. "Excluding Mexicana, passenger growth in August would be 5.0% with an increase in traffic of 7.2% and capacity at 7.6%."

The number of passengers carried year---to---date (January to August) increased **3.3%** versus the same period of the previous year, reaching **91.9 million** passengers. During the aforementioned period traffic (RPK) rose **4.6%**, capacity (ASK) remained flat, and the passenger load factor reached **75.6%**, 3.3 percentage points higher than the previous year.

FTKs increased **1.5%** in August and **4.2%** year to date.

Jet Fuel (Kerosene) & Crude Oil Spot Prices



US Energy Information Administration

Most recent figures for **November 1st 2011**: **Crude Oil** recorded a spot price of **$92.19/bbl** and **Kerosene Jet Fuel** was at **$126.462/bbl (301.1 ¢/gallon)**.

Individual Airline News (Highlights)

The Americas

North America

Alaska Airlines and **Horizon Air** parent **Alaska Air Group** reported third-quarter net income of $77.5 million, down 36.7% from $122.4 million in the year-ago quarter. In this quarter, we saw strong demand in all of our regions," the Group said. "Fuel prices were much higher and offset much of our revenue gains. Traffic gains outpaced the 5% capacity growth leading to higher load factors." Excluding mark-to-market fuel hedge losses of $84.3 million and fleet transition charges of $2 million, the company reported a record third-quarter net income of $131.1 million, compared to net income of $118.1 million on a similar basis in the third quarter of 2010. Group operating revenue rose 12.2% to $1.2 billion while expenses increased 23.9% to $1.05 billion, producing an operating profit of $143.2 million, down 34% on the prior-year quarter. Alaska Airlines' revenue rose 25.1% to $1.2 billion while expenses increased 27% to $976.4 million, producing an operating profit of $219.7 million, up 17.2% from $187.5 million in the prior-year quarter. Horizon reported operating revenue of $93.2 million, down 48.5% from the year-ago quarter, while expenses decreased 47.5% to $82.9 million, producing an operating profit of $10.3 million, down 55% from $22.9 million in the year-ago quarter. Alaska mainline flew 6.04 billion RPMs, an 8.2% rise year-over-year, on a 6% rise in capacity to 6.93 billion ASMs, producing a load factor of 87%, up 1.7 points. Its yield rose 5.3% to 14.7 cents as RASM lifted 6.8% to 14.15 cents. CASM ex-fuel was 7.27 cents, down 3.3%.

Las Vegas-based **Allegiant Travel Co.** 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. This year's elevated fuel prices led the company to restrict capacity and increase fares by 21% in the third quarter. Revenue rose 17% to $191.5 million while expenses increased 21.2% to $174.8 million, producing an operating profit of $16.7 million, down 14.1% from the prior-year quarter. Scheduled traffic decreased 0.6% to 1.35 billion RPMs on a 3.3% fall in capacity to 1.46 billion ASMs, producing a load factor of 92.2%, down 2.6 points. Yield rose 21.2% to 9.31 cents as scheduled service PRASM rose 24.5% to 8.58 cents. CASM was 10.97 cents, up 25.4% and CASM ex-fuel was 5.69 cents, up 14.7%.

American Airlines' parent **AMR Corp.'s** stock price regained some ground following a plunge of more than 40% at one point. Company shares were sold off at such a fast rate that automatic stops in trading AMR shares were triggered on the New York Stock Exchange. The share decline increased speculation about AMR's financial health, including renewed talk among media and analysts of a potential Chapter 11 bankruptcy filing. The company downplayed those suggestions. AMR has been the US industry's worst performer for the last several reporting periods. It was the only US major to suffer a full-year loss in 2010. It incurred a net loss of $286 million in the 2011 second quarter following a first-quarter net deficit of $436 million. American's biggest US rivals went through Chapter 11 restructuring in the last decade, gaining labour concessions through the process that AMR, which avoided bankruptcy, did not. The Dallas-based carrier has repeatedly pointed out that its labour costs are higher than other US legacy airlines as a result. The company's fiscal woes did not stop it from making one of the largest aircraft order announcements in commercial aviation history over the summer, signing up for 130 Airbus A320 family aircraft, 130 re-engined A320neos, 100 Boeing 737NGs and also committing to order 100 re-engined 737s. Airbus and Boeing agreed to help finance the aircraft.
Bernstein Research said AMR was fully aware of its tenuous financial situation when the order was announced, and will likely be able to take delivery of the aircraft even if it does file for bankruptcy reorganization. The deal meant that the airline would have a valuable asset: a huge number of delivery slots from both Airbus and Boeing at a time when both manufacturers were sold out of narrowbody airplanes into 2016. Bernstein added, "We believe that the financing arrangements also minimized cash outflows from American. Such a deal could not be done after a bankruptcy filing because the airline would then be prevented from spending any money on new airplanes."
AMR Corp. did little to mitigate concerns about its financial health when it reported a third-quarter net loss of $162 million. The result was reversed from net income of $143 million earned in the year-ago period and marked the company's fourth straight negative reporting period following the rare profit in last year's third quarter. Quarterly fuel costs soared 30% year-over-year. AMR generated $6.38 billion in revenue in the third quarter, up 9.1% year-over-year, while costs lifted 15.2% to $6.34 billion. Operating profit was $39 million, down 88.5%. The carrier, which already has lowered fourth-quarter capacity, is "planning for flat to down capacity next year," she added. Third-quarter mainline traffic rose just 1% to 33.9 billion RPMs on flat capacity of 39.94 billion ASMs, producing a load factor of 84.9%, up 0.9 point. Passenger yield heightened 7% to 14.21 cents.
AA, which has struggled financially more than any US carrier over the past 18 months, said its fourth-quarter mainline capacity will be down 3% year-over-year. Lowered capacity resulting from a reduced winter schedule will mean 11 Boeing 757s will be retired in 2012, it added. AA's full-year mainline capacity is now expected to rise just 0.4% year-over-year with consolidated capacity up 1.2%. "This represents an approximate 3% reduction in the company's capacity expectations versus American's initial guidance provided in January 2011," AA stated.

US regional carriers **Atlantic Southeast Airlines (ASA)** and **ExpressJet Holdings** have reversed course on branding the combined airline that will result from their pending merger, scrapping the "SureJet" moniker unveiled in July in favour of "**ExpressJet**". Utah-based SkyWest Inc. last year acquired Houston-based ExpressJet and announced it would merge with SkyWest's Atlanta-based subsidiary, ASA**.** ASA and ExpressJet aim to receive a single operating certificate from US FAA by year end. Though it has decided to adopt the ExpressJet name, the new ExpressJet will be based in Atlanta and headed by ASA president and COO Brad Holt. It will also maintain "legacy Atlantic Southeast branding" even as it drops the name. The new ExpressJet will operate 2,400 daily flights with an all-jet fleet of 412 aircraft. Its network will span 192 airports in the US, Bahamas, Canada and Mexico. Via capacity purchase agreements, it will operate as Delta Connection, United Express and Continental Express.

Boeing's 747-8 freighter program was dealt another blow when **Atlas Air Worldwide Holdings (AAWH)** cancelled three of the 12 -8Fs it had on order, citing "lengthy delays and performance considerations." Coming on the heels of Cargolux's (CV) surprising decision to decline delivery of the first two 747-8Fs, the AAWH move raises more questions about the aircraft's operating performance. But AAWH, parent of Atlas Air and Polar Air Cargo, has long been eager to take delivery of its 747-8Fs and place them into ACMI services. The termination of its first three -8Fs lends credence to the notion that the aircraft—or, at least, the early-build units—fall short of promised performance metrics. However, Cathay Pacific Airways (CX) said it is "satisfied" with the 747-8F and will soon accept its first of the type. CX is due to receive five 747-8Fs this year, four of which are on the flight line at Boeing facilities in Everett, Wash., and five next year. CX has options for a further 10. AAWH said it now expects to receive three 747-8Fs in 2011, four in 2012 and two in 2013. The first five already have been placed under long-term ACMI contracts with British Airways (three) and Panalpina (two). By the end of 2013, AAWH's cargo fleet is expected to comprise nine 747-8Fs and 24 747-400Fs. It plans to retire its last five 747-200Fs by mid-2012.

The re-worked New York LaGuardia (LGA)/Washington National (DCA) slot swap deal between **Delta Air Lines (DL)** and **US Airways (US)** gained final US Dept. of Transportation (DOT) approval, but the US Dept. of Justice (DOJ) has indicated that it may take action on the matter. DOT has the final regulatory say on the transaction, but DOJ's antitrust division is empowered to investigate and go to court to stop the deal if it determines the swap would violate antitrust laws. DOJ said in a statement that it is not concerned with the LGA portion of the agreement but "will continue its investigation with a focus on the increase in US Airways' share and use of slots at [DCA] and the resulting decrease in Delta's share of slots at this slot-constrained airport, at which passengers pay among the highest fares in the country." The airlines focused on DOT's final approval rather than DOJ's concerns. Under the deal, DL will acquire 132 slot pairs at LGA from US and US will get 42 slot pairs from DL at DCA.

Though **Delta Air Lines' (DL)** third-quarter fuel-related expenses increased 42% year-over-year, the Atlanta-based carrier offset 85% of a $1 billion impact of higher fuel prices and saved $100 million in fuel spend through hedging. DL posted a net income of $549 million, up 51% year-over-year, on a 10% increase in revenues to $9.8 billion. Excluding $216 million of special items, net income was $765 million for the quarter. Consolidated traffic fell 0.3% to 54.5 billion RPMs on a 0.6% dip in capacity to 63.3 billion ASMs, producing a load factor of 86.1%, up 0.2 points. Like many carriers, DL cut capacity to/from Japan following the disaster aftermath. The airline is now "in a recovery mode" and expects next year to be "a strong recovery year" in the Japanese market. Third-quarter expenses jumped 13% to $8.9 billion. Operating income was $860 million, down 14% from operating income of $1 billion in the 2010 third quarter. Looking to the fourth quarter, the carrier forecasts a continued reduction in system capacity—a 4%-5% dip.

FedEx Corp. reported a net profit of $464 million for its fiscal first quarter ended Aug. 31, up 22% from net income of $380 million in the prior-year period. Despite the profit rise, the Memphis-based express delivery carrier lowered per share earnings guidance for its full fiscal year ended May 31 from $6.35-$6.85 to $6.25-$6.75, reflecting slower-than-expected global economic growth. FedEx's companywide revenue grew 11% year-over-year in the fiscal first quarter to $10.52 billion while expenses increased 11% to $9.78 billion, producing an operating profit of $737 million, up 17% from $628 million in the year-ago period. FedEx Express saw its operating income dip 19% year-over-year to $288 million as revenue increased 12% to $6.59 billion but expenses jumped 13% to $6.3 billion. The unit's fuel costs leaped 43% to $1.08 billion. FedEx Express "operating income and margin [4.4% compared to 6% in the August 2010 quarter] decreased as package volume declines accelerated during the quarter due to slowing global economic growth," the company said. "The package volume declines were more pronounced in certain premium services."

Hawaiian Airlines' (HA) parent Hawaiian Holdings' third-quarter net income dipped 15.9% year-over-year to $25.6 million on a 29.5% lift in revenue to $455.9 million. It expects the 2011 second half to look "considerably better" as long as bookings hold and the price of oil does not rise by year end. 3Q expenses rose 26.3% to $394.9 million and operating income jumped 55.2% to $60.9 million from $39.3 million in the year-ago quarter. Traffic rose 13.7% to 2.69 billion RPMs on a 16% lift in capacity to 3.16 billion ASMs, producing a load factor of 85.2%, down 1.7 points. RASM rose 11.7% to 14.4 cents and CASM climbed 8.8% to 12.47 cents. CASM ex-fuel decreased 2.3% to 8.18 cents.

JetBlue Airways (B6) reported a third-quarter net income of $35 million, down 40.7% year-over-year from $59 million. B6 cited higher fuel expenses of $162 million year-over-year and "challenging economic conditions and severe weather" for the results. The low-cost carrier also finalized a firm order for 40 Airbus A320neos, previously announced at the Paris Air Show in June, though it has not yet made an engine selection. B6 is also converting 30 of its pre-existing orders for A320s to A321s. In total, B6 has on order 40 A320neo aircraft, 30 A321s and 22 A320s. Third-quarter revenue climbed 16% to $1.2 billion, on a 22.1% increase in expenses to $1.09 billion, including a 55.3% increase in fuel-related charges. Operating income for the quarter fell 23.1% to $108 million. Hurricane Irene, which led to 1,400 cancelled flights over three days, resulted in an $8 million negative impact on operating income, including lost revenue of approximately $18 million, offset in part by cost-savings of $10 million. Excluding special items, the carrier's net income totalled $38 million. Third-quarter passenger traffic rose 8.2% to 8.33 billion RPMs on an 8.3% boost in capacity to 9.86 billion ASMs, resulting in a load factor of 84.5%, down 0.1 point. Passenger yield grew 7.7% to 13.04 cents and PRASM rose 7.7% to 11.03 cents. Looking to the fourth quarter, B6 expects CASM to increase 11%-13% year-over-year, and capacity by 8%-10%. It intends to announce a new interline partner by the end of the year, adding to its 12 existing airline partners, and anticipates further partnerships in 2012. Ancillary revenue continues to improve, rising 7% year-over-year in the third quarter, driven primarily by its "even more space" product (even more legroom)—a product on track to generate more than $100 million in 2011 revenue.

Owing to $227 million in unrealized, non-cash fuel hedging mark-downs, **Southwest Airlines (SWA)** incurred a third-quarter net loss of $140 million, reversed from a $205 million profit in the year-ago period. But the LCC touted a strong revenue performance and pointed out that, excluding special items, third-quarter net income was $122 million. That was still down 37.4% from $195 million in net income on a similar basis in the 2010 third quarter. SWA noted that fuel market prices have rebounded since the Sept. 30 end of the quarter "and our future fuel hedge portfolio has gained back over $300 million in fair value." The Dallas-based airline and Orlando-based **AirTran Airways**, which SWA acquired in May, plan to begin integrating next year, contingent on US FAA issuing a single operating certificate and resolving labour issues. Third-quarter revenue (including both SWA and AirTran) totalled $4.31 billion, up 11.7% from pro forma SWA/AirTran revenue in the prior-year period. Expenses jumped 18.5% to $4.09 billion, including a 40.1% surge in fuel costs to $1.59 billion. Operating income was $225 million, down 45.5% from pro forma operating income of $413 million in the 2010 third quarter.

Spirit Airlines' (NK) third-quarter net income fell 55.2% from the prior-year period to $27.7 million, owing to Hurricane Irene, a 65.2% year-over-year increase in fuel expenses, and a 38.9% increase in maintenance and repair costs. Third-quarter results were "strong," with a 41.8% year-over-year increase in revenues to $288.71 million, and a 112.4% leap in operating income to $44.56 million. The introduction of a carry-on bag fee last August drove a 30.4% increase in average non-ticket revenue per passenger flight segment (PFS) to $44.66. Non-ticket revenue increased 56% to $102 million for the quarter. NK passenger traffic grew 15.6% to 2.11 billion RPMs on a 10.4% increase in capacity to 2.42 billion ASMs. Load factor rose 3.8 points to 87%. The carrier expects fourth-quarter capacity to be up 5.6% year-over-year.

United Continental Holdings (UCH), parent of merger partners United Airlines (UA) and Continental Airlines (CO), posted a third-quarter net profit of $653 million, down 23% from $852 million in pro-forma net income in the year-ago period. It plans to keep capacity flat in 2012. UCH expects "sluggish economic growth in 2012" but a "stable" demand environment. It will take delivery of 19 Boeing 737-900ERs and five 787s next year, but will retire aircraft to keep growth down, including 14 737-500s. Though international capacity will grow slightly next year with the addition of the Dreamliners, overall "we're effectively keeping United the same size it was [on a combined pro-forma basis] in 2010 and 8% lower on a pro-forma basis compared to 2008." Its fourth-quarter 2011 mainline capacity is expected to be down 3.8% year-over-year. UA and CO expect to receive a single operating certificate from US FAA by year end and to operate a "single passenger service system by the end of the first quarter next year." The two carriers have already co-located facilities at 53 airports and that there is now a single check-in point at more than 70% of the airports in the carriers' combined global network. Third-quarter operating revenue totalled $10.17 billion, up 8.7% on a pro-forma basis, while expenses heightened 11.6% to $9.24 billion, including a 32.7% jump in fuel costs to $3.37 billion. Operating income was $935 million, down 13.5%. Mainline traffic in the quarter was 49.88 billion RPMs, down 1.6% on a pro-forma basis, on a 0.9% dip in capacity to 57.94 billion ASMs. Load factor was 86.1%, up 0.7 point. Yield rose 10.8% to 14.56 cents.

United Parcel Service (UPS) posted third-quarter consolidated net income of $1.04 billion, up 5% from $991 million year-over-year. UPS attributed the results to a "deceleration in exports from Asia and a challenging global economic environment." Operating revenue rose 8% to $13.2 billion from $12.2 billion while operating expenses increased 9.2% to $11.55 billion, producing an operating profit of $1.62 billion, up 0.2% from the year-ago quarter. In the domestic segment, the company's operating margin was the "highest we've experienced in three years, improving 13.1% due to higher yields." Third-quarter revenue is up 6.6% to $7.8 billion. "A base price increase of 3% and higher fuel charges were the key factors". On the international side, operating profit was $409 million, down 2.4%, which UPS attributed to "excess capacity, higher fuel prices and the slight drag from currency fluctuations." As volumes declined on the Asia to US link, UPS "acted swiftly to take down aircraft and pull capacity out of the market, but not quickly enough as margins were negatively impacted." Despite this slowdown, UPS International revenue jumped more than 14%, to $3.06 billion, "driven by solid volume growth in other theatres." Looking forward, the outlook for the remainder of the year is for "continued slow growth."

US Airways (US) reported its highest third-quarter revenues in company history, earning $3.44 billion, up 8.1% year-over-year. The carrier posted a 13.7% increase in total expenses for the quarter, including a 44.9% increase in fuel-related costs. Driven by the increase, its net income dove 68.3% to $76 million from the $240 million earned in third-quarter 2010. Third-quarter mainline unit cost excluding fuel, special items and profit sharing was up only 1.7%, despite a 0.6% reduction in ASMs. Third-quarter mainline passenger traffic rose 1.9% year-over-year to 16.47 billion RPMs, on a 0.6% decrease in capacity to 19.03 billion ASMs. Load factor climbed 2.1 points to 86.5%.

Central and South America

Colombia-based **Avianca**, part of the airline group AviancaTaca Holdings, has ordered four A330-200 freighters. The new aircraft, to be operated by Avianca's cargo subsidiary Tampa, will replace its cargo fleet and play a key role in expanding Avianca's international cargo business. Avianca will announce its engine choice at a later date. Avianca purchased Tampa Cargo in 2008. The order makes Avianca the first Latin American operator to receive the A330-200F. The A330-200F can carry up to 70 tonnes of payload and has a maximum range of 4,000 nm. Eight A330-200Fs are now flying with four operators in the Middle East, Europe and Asia.

Azul Linhas Aéreas Brasileiras has ordered 11 Embraer 195 jets, in an order valued at $497.2 million at list prices. Deliveries are scheduled to begin in 2013. The transaction increases Azul's total E-Jet orders to 52 aircraft. In addition to the 23 E-195s it already flies in a 118-seat single-class configuration, the airline also operates 10 106-seat E-190s. Azul operates the largest fleet of E-Jets in South America. All aircraft are equipped with individual in-flight entertainment systems.

GOL gained partial regulatory approval for its acquisition of a previous competitor, Webjet. The purchase price is estimated at $37 million. The National Aviation Agency has approved the deal, but the antitrust regulator still needs to sign off.

Chilean antitrust tribunal TDLC approved the merger of Chile's **LAN Airlines** and Brazil's **TAM**, though it cautioned that the carriers must agree to a number of conditions before combining under **LATAM Airlines** Group, the single holding company that will own them both. LATAM will operate passenger and cargo flights to 115 destinations in 23 countries with more than 280 aircraft. It will employ more than 40,000 workers. The airlines plan to maintain independent brands following the combination. LATAM would become one of the largest airline companies in the world with annual revenue of around $8.5 billion. The conditions set by TDLC include the disposing of four daily slot pairs at Sao Paulo Guarulhos (GRU), to be turned over to airlines seeking to start or increase GRU-Santiago de Chile service. They also would force LATAM to exit oneworld or Star Alliance. LAN is in oneworld while TAM joined Star Alliance in May 2010. The battle over which alliance the mega-airline will participate is likely to be intense, with considerable market penetration in Latin America at stake. Among other conditions set by TDLC, LAN will have its access to the Lima market restricted.

LAN is "confident" it will complete the merger process with **TAM** during the first quarter of 2012. LAN's board asked the TDLC to correct some "numerical calculation errors" about LAN's yields that led the regulator to "significantly overestimate both the yields and the revenues generated by the routes," causing it to "question that its fares on domestic flights within Chile are on average lower than those in the United States domestic market." LAN said it will appeal some of the requirements set by the TDLC, whilst conceding that the conditions TDLC tied to approving the merger "are broadly in line with those LAN and TAM were willing to accept." But it added that "three of the measures are illegal and unconstitutional in certain aspects." LAN said the airlines "believe the mitigation measures imposed by the TDLC do not significantly impact the synergies generated by the transaction and do not modify in any material respect the companies' joint strategic development plans."

LAN Airlines reported a third-quarter net income of $94.5 million, down 11% compared to $106.2 million in the year-ago quarter. The Santiago, Chile-based company said the results were driven by "solid traffic growth, reflected in strong yields and load factors in both the passenger and cargo businesses." Total operating revenue rose 29% to $1.49 billion, while expenses increased 33% to $1.33 billion, producing an operating income of $161.2 million, up 2.9% over $156.6 million in the year-ago period. During the quarter, passenger and cargo revenues climbed 32.6% and 22.5%, respectively, reflecting continued growth in both markets. Higher fuel prices during the quarter, which increased 42.8% compared to the year-ago quarter, generated $133.8 million in increased fuel costs. LAN's financial hedging strategy resulted in a $3 million fuel hedge loss. Third-quarter passenger traffic heightened 13.7% to 9.84 billion RPKs on an 11.4% boost in capacity to 12.2 billion ASKs, producing a load factor of 80.6%, up 1.6 points. Passenger yield grew 16.6% to 10.8 cents. Cargo traffic jumped 11.7% to 889 million RTKs on a 10.7% increase in capacity to 1.3 billion ATKs, producing a load factor of 69.3%, up 0.6 point. Cargo yield rose 9.7% to 44.5 cents. Net income for the first nine months of 2011 amounted to $207.7 million, down 18.6% compared to the year-ago period. Operating revenues increased 29.9% to $4.18 billion and operating income was $370.3 million, down 10.2% from $412.1 million in 2010. LAN Airlines reached a settlement to pay Chilean airline PAL $5 million regarding the pending legal proceeding before the TDLC and their appeal before the Chilean Supreme Court in connection with the merger process between LAN and TAM.

Mexicana Airlines, which ceased operations under severe financial distress over a year ago, will offer charter flights through Nov. 20. Unions are expecting to get legal approval to implement a plan for 20 charter flights eventually to be performed by three of the airline's A320 fleet. Crew members have agreed to be paid nothing as a way to contribute to the recovery of the ailing carrier and call the attention of would-be-investors. Mexicana and co-sisters Mexicana Click and Mexicana Link are in desperate need of estimated $250 million to exit bankruptcy. Nuevo Grupo Aeronautico, the holding company of the three carriers, grounded the carriers Aug. 28, 2010, for the lack of liquidity. Later, the airlines were granted "concurso mercantil" status, which provides protection equivalent to Chapter 11 provisions in the US.

Pluna Lineas Aereas Uruguayas will launch domestic services in Chile in the 2012 first quarter. The airline will operate flights between Santiago (SCL) and Antofagasta, Calama and Concepcion. The LCC is hopeful it will successfully compete with local market leader LAN Airlines and other competitors by consolidating its presence in the Chilean market. The carrier operates a fleet of nine Bombardier CRJ900s and will introduce two additional aircraft of the type into fleet by year end. The airline is hopeful its new domestic Chilean services will feed traffic for its international routes out of the MVD hub to three destinations in Argentina, one in Paraguay and nine in Brazil.

Brazil's **TAM Airlines** has finalized a purchase agreement for 32 Airbus A320 aircraft, comprising 22 A320neo and 10 A320 family aircraft. The order follows an MOU signed in February. TAM will make an engine selection at a later date.

Europe

Shareholders of Slovenia-based **Adria Airways (JP)** approved a cash injection of €50 million ($68.4 million) and a debt-to-equity conversion of €19.7 million against the financially troubled airline's total debt of nearly €70 million. The Republic of Slovenia and JP's largest shareholder, state-run PDP Corp., will invest the €50 million. The money was given on the condition that the creditor banks simultaneously perform the debt-to-equity conversion in the amount of no less than 25% of their claims toward the company. All the bulk shares, which will be issued by the company, have to be paid by Sept. 30. In addition, JP said its shareholders appointed a special auditor to review the company business over the past five years. In January, the Star Alliance member was granted an additional credit of up to €4 million ($5.16 million) from Slovenian banks based on its restructuring plan after total debt reached €130 million.

Aegean Airlines (A3) said it is "adapting and changing to the difficult Greek environment" and vows it will not relinquish its high-quality service approach. The Greek sovereign debt crisis and austerity measures introduced by the government are affecting demand and causing recurring strikes by ATC. In August, Greece's largest airline reported a €19.8 million ($27.2 million) net loss for the 2011 first half, an improvement over the €32.6 million deficit incurred in the year-ago period, but warned it is heading toward a full-year loss as the Greek economic crisis continues. He stressed the airline "is not pulling out" of the domestic market but "concentrating growth on international routes and big routes." He noted the carrier abandoned routes that "could not sustain an A320 operation." A3 operates a streamlined fleet of 22 Airbus A320s, four A321s and three A319s after four Avro RJ100s were delivered back to their owner earlier this year. This winter, domestic routes could see a reduction in seats of 15%-20% on last winter's schedule. The carrier is considering leasing some aircraft this winter and launching several new initiatives next summer. In June, it set up a base in Cyprus with three A320s flying routes to Greece and the UK, including London Heathrow. A3 is considering launching routes from LCA to more international destinations. It is also finalizing plans to launch more direct routes from the Greek islands to international destinations in summer 2012, "not only to Western Europe but also to Russia".

Aer Lingus Group (EI) reported a consolidated net loss of €13.1 million ($18.9 million) in the 2011 first half, narrowed from an €18.4 million deficit in the year-ago period, and upgraded its profit outlook for the full year. First-half revenue rose 5.8% year-over-year to €569.1 million and revenue for the second quarter jumped 14.1% to €351.2 million, following a weak first quarter, which was affected by disruptions caused by an industrial action by the IMPACT cabin union and difficult demand conditions, particularly on leisure routes from Ireland. Short- and long-haul passengers carried increased 8.6% and 4.8%, respectively, in the second quarter compared to the prior-year period, resulting in a

total passenger increase of 8.3%. Average fare per passenger rose 8.4% year-over-year to €113.13 for the quarter but ancillary revenue per passenger decreased 1.2% to €17.1. Average passenger load factor decreased 2.2 points to 71% owing to some continuing weakness on European leisure routes and increased competition on transatlantic routes. EI now has implemented a new revenue management system, "which will improve demand forecasting and revenue optimization abilities." EI generated an operating result before exceptional items of €25.9 million in the second quarter, which represented a notable 37.8% improvement over the year-ago period. For the six months, operating loss before exceptional items widened 46.3% to €27.8 million owing to the €53.7 million operating loss in the first three months. Passenger numbers were down 1% to 4.4 million in the first half while the average fare per passenger heightened 8.4% to €106.94.
The Irish government is considering the sale of its 25% stake in **Aer Lingus** because it is no longer seen as a "strategic" asset. The divestment of the EI holding was included in a government-sponsored report published in April as part of the country's commitment to raising approximately €2 billion ($2.8 billion) from sales of state assets to reduce high public debt. The report also listed the Dublin Airport Authority and the Irish Aviation Authority as possible disposal targets. Ryanair, which is EI's largest shareholder with close to 30% ownership, said it would not bid for the 25% stake if the government indicated such an offer would be unwelcome. It also said it would "welcome" and work with another financially strong airline/investor to restore shareholder value and even consider selling its own stake.

AirBaltic (BT) filed for legal protection from its creditors and submitted a plan to the court for continued operations. The loss-making Latvian national airline is entangled in a destructive dispute between its two main shareholders, the Latvian state and Baltic Aviation Systems (BAS), the company controlled by the carrier's president and CEO, Bertolt Flick. The dispute centres on a capital injection, but is a culmination of years of tense relations and political wrangling. The Latvian state owns 52.6% of BT while BAS has 47.2%. By initiating a legal process similar to a US Chapter 11 bankruptcy filing, Flick is attempting to prevent the Latvian government from interfering in airline decision making. As part of the procedure, an administrator is nominated to be responsible for the legal protection plan that all parties have to follow—including shareholders, management and the supervisory board. The administrator and the plan for continued operations must be approved by the court.
It was finally decided that the Latvian national airline will receive €153.7 million ($201.9 million) in new capital financed by its two main shareholders, the Latvian government and Baltic Aviation Systems (BAS). The Latvian government will secure €82.3 million, while the private investor BAS will secure €71.4 million. **BT** has named former Malev Airlines (MA) CEO Martin Gauss as its new CEO and chairman, effective Nov. 1. Gauss replaces Bertolt Flick, who was CEO of BT since 2002, who stepped down as part of the agreement reached between the carrier's two main shareholders. Gauss, 43, was CEO of MA between April 2009 and May 2011; he resigned after failing to reach an agreement on his compensation. He is also a Boeing 737 captain who has logged more than 8,000 flight hr.

Air Berlin (AB) announced the financially troubled carrier will reduce its fleet size by 10% as part of its Shape & Size program to improve earnings by €200 million ($273.2 million). By the summer of 2012, AB aims to cut its current fleet of 170 aircraft to 152 aircraft. AB CEO Joachim Hunold stepped down Sept. 1 as the airline began its steep cost-cutting program. According to AB, the core of the program announced in August focuses on process organization, marketing and distribution, cost reduction, flight routing and maintenance. AB's business model could be significantly changed, including possible network and fleet adjustments. Interim CEO Hartmut Mehdorn did not rule out job reductions among AB's 9,000 employees if necessary. AB has already committed to reducing its fleet by eight aircraft this year, though this may not be enough and the number to be phased out could increase. IATA DG and CEO Tony Tyler blamed government taxation for AB's troubles: "The recent downsizing of Air Berlin is a clear reminder of the high cost of the German departure tax on the economy, jobs and communities."
Air Berlin is however strengthening its Eastern Europe network for the winter schedule to prepare for upcoming membership into oneworld. AB and Austrian partner Niki will synchronize schedules; Niki will operate 23 aircraft next year and will switch its check-in area to Terminal 1 in VIE from the second part of 2011 and locate all Air Berlin and oneworld members there. The switch will be possible when VIE opens its new terminal, SkyLink, in June 2012, when most of the Star Alliance carriers move to the new facility. A capacity increase of almost 35% from the Russian market enabled better connections to Europe and long-haul flights. Passenger boardings increased by more than 50%.

Air France-KLM Group met with trade unions to discuss potential new cost savings in light of the uncertain economic outlook. AF stressed that no specific numeric target had been discussed. The group increased the target of its challenge 12 cost-savings program from €470 million ($664.1 million) to €500 million for the current financial year after reporting a net loss of €197 million during the first quarter ended June 30. It also said it would lower scheduled growth of its long-haul network for the winter 2011-12 schedule from 5.1% to 2.7%. The Challenge 12 hiring freeze will be extended until 2014, mainly affecting the hiring of interns and temporary workers.

Air France KLM revealed its long-awaited order for new-generation, long-range aircraft, stating that its board approved the order of 50 firm aircraft plus 60 options. The 50 firm aircraft are evenly divided between A350s and 787s. Air France KLM cautioned that the orders are "still subject to the finalization of discussions with the manufacturers." The airline group said the orders and options will comprise a mix of A350s and Dreamliners, adding that "consistent with the provisional fleet plan, this order will result in the group's operation of 73 next-generation aircraft through 2024: 43 A350-900s and 30 787-9s." This indicates it anticipates to firm at least 23 options in a first stage. Airbus stated that Air France KLM's order for 25 A350-900s "will be firmed up shortly." The first 787-9 will enter into service with KLM in 2016 and the first A350-900 with Air France in 2018. The new aircraft will replace older widebodies as well as support growth. The group has not yet made a choice of engines to power its 787s. The A350-900s will be equipped with Rolls-Royce Trent XWB engines, as it is the only engine "provided for this aircraft by the manufacturer."

Pierre-Henri Gourgeon stepped down as CEO of **Air France KLM Group** and CEO of Air France (AF) following a board meeting in. Former AF chairman and CEO Jean Cyril Spinetta and former KLM president and CEO Leo Van Wijk were reappointed as chairman and CEO of AF KLM Group and group deputy CEO, respectively. They will be in charge of its "strategic coordination," AF said. The two men masterminded Europe's first merger between two flag carriers in 2004. The management reshuffle reflects board and analyst concerns over the poor financial performance of the group—particularly AF—took over from Spinetta in January 2009 as group and AF CEO. Spinetta, who recently turned 68, remained active as chairman of AF KLM.

Alitalia Group reported a third-quarter consolidated net income of €69 million ($95.9 million), up 76.9% compared to €39 million in the year-ago quarter. The group called its P&L figures "particularly satisfactory." Operating profit rose 60.7% to €90 million. Total operating revenue rose 12% to €1.08 billion during the quarter on a 7.3% increase in passengers carried to 7.6 million. Load factor improved 1.6 points to 77.5% year-over-year. For the nine-month period ended Sept. 30, the group reported a dramatic reduction of its net loss to €25 million from a €125 million deficit recorded in the year-ago period. Operating results came in at €21 million, reversed from a €74 million loss year-over-year. Revenue for the first nine months of 2011 rose 10.7%, compared to €2.7 billion for the year-ago period. Enplanements inched up 1.1% to 18.8 million, driven by a 9.4% growth of international traffic in spite of the impact of the unrest in the North African markets. The group did not provide separate revenue figures for its full-service carrier Alitalia (AZ) and low-cost carrier Air One Smart Carrier (AP). AP increased passengers carried in the first nine months by 47% to more than 1 million. Looking forward, the fourth quarter is showing "a sharp slowdown in high yielding business demand" and the persistence of high fuel cost levels. The board approved its 2012-2015 business plan. Over the next three years, the company will put a higher emphasis on international expansion with new international AZ routes and "also through new operating bases of Air One," a growth in the number of long-haul destinations and an upgrade in the airline's long-haul fleet.

British Airways (BA) acquired six daily take-off and landing slots at London Heathrow from British Midland Airlines (bmi), increasing its slot holding at the airport to 44%. "The slots will be used by British Airways from late October 2011 with the airline looking to expand both its long-haul and short-haul network at the airport." The price of the purchase was not disclosed. BA reconfirmed its interest in acquiring the slots from bmi some weeks ago when rumours surfaced that parent Lufthansa Group had mandated banks to look into a sale of its loss-making UK subsidiary. Bmi posted a €120 million ($162.1 million) operating loss in the 2011 first half, down 29% from the €93 million operating loss posted in the year-ago period. Revenue declined 5% year-on-year to €396 million.

Lufthansa Group is working **with British Midland International (bmi)** management to produce a long-term business plan that will return the UK airline to profitability. bmi, which is owned by LH Group, had been affected by the recent MENA crises as well as the weak UK market. Bmi reported a €63 million ($91 million) first-quarter operating loss, which followed an operating loss of €145 million in 2010, its first full year as a LH Group airline. LH's options include either selling the loss-making airline or creating a new partnership. **bmi** appointed former SAS deputy CEO Vagn Ove Sorensen to succeed Lufthansa (LH) executive board member and Group Airline chief officer Stefan Lauer as bmi chairman, yet another move indicating that LH is interested in selling its loss-making UK subsidiary. LH has reportedly mandated banks to look into a potential sale of bmi. Several airlines—including British Airways, Virgin Atlantic and Flybe—have expressed interest in acquiring bmi or part of bmi, which comprises bmi mainline, the LCC bmibaby and bmi regional. International Airlines Group (IAG), parent of BA and Iberia, said it is still interested in acquiring bmi mainline, which would enable BA to take advantage of bmi's takeoff and landing slots at London Heathrow.

Qatar Airways and **Cargolux International Airlines (CV)** completed the equity transaction announced in June after gaining all regulatory approvals, making the Doha-based carrier the second largest shareholder in Europe's largest all-cargo airline with a 35% stake. Luxair, which has a 43.4% equity stake, is CV's largest shareholder.

Cargolux (CV) declined to take delivery of the first two General Electric GEnx-2B67-powered Boeing 747-8 freighters, citing "unresolved contractual issues between Boeing and Cargolux in respect of the aircraft." It added that it has put financing of the aircraft, secured through JP Morgan via an Ex-Im Bank guarantee, on hold pending resolution of the dispute with Boeing. A company executive said there was an "overall performance shortfall" by the 747-8F. The carrier has 13 of the type on firm order. Performance metrics such as uplift, range and fuel burn were not in accordance with the performance guaranteed by Boeing. Other sources claimed that politics and the role of Qatar Airways (QR), which recently became CV's second largest shareholder, should not be ruled out. The State of Qatar is believed to be in negotiations to buy all or half of the 15% stake in Airbus parent EADS held by Daimler. The government of Qatar fully controls QR. "In the event that the issues cannot be resolved in a timely manner, Cargolux will source alternative capacity to fully meet customer demand and expectations ahead of the traditional high season," CV said. Separately, David Arendt resigned as executive vice president and CFO. He will leave the company before the end of the year.

German leisure carrier **Condor Airlines (DE)** has reduced capacity by one-third this summer owing to the crises in Northern Africa. The CEO said that the carrier was profitable, but cost-cutting measures continue to be necessary and he is bracing for a difficult 2012. Nevertheless, the carrier is growing its fleet. The carrier is running its third cost-savings program, which has generated an additional €100 million ($136 million) in earnings during the last seven years. Within the next eight months the CEO will evaluate a replacement strategy for the 767s – all now fitted out with winglets. DE, part of the Thomas Cook Group, ordered 30 A320 family aircraft in December for delivery between 2012-2017. Twelve A321s are confirmed orders; the other ones will be on lease, operating for DE. Its fleet of 13 757-300s, with an average age of 11, will eventually be replaced by A321s, and some Airbus narrowbodies will be configured with winglets. He would not confirm if A321neos would also be considered. DE also operates 12 A320s.

EasyJet raised its earnings guidance for its fiscal year ending Sept. 30 and said it now expects to post a profit before tax of between £240 million ($376 million) and £250 million, citing a “robust” commercial performance across its network and cost-control measures. It had previously forecast a full-year, pre-tax profit of between £200 million and £230 million. The British low-cost airline also announced it would return around £190 million to shareholders as it attempts to appease its founder and largest shareholder Stelios Haji-Ioannou, who has repeatedly criticized the company for failing to create shareholder return and over-investing in aircraft with new Airbus orders. The £190 million dividend comprises a maiden dividend of £40 million, the first since its stock-market listing 11 years ago, and a one-off dividend of £150 million. EasyJet said the ordinary and special dividend will, “in the absence of unforeseen circumstances,” be declared in the full-year results in November and paid in early 2012. The carrier said second-half total revenue per seat is expected to be 6% higher than the year-ago period and around 3% higher for the full year, following strong sales on the network with “particular strength on city routes used by business and short-break leisure travellers.” It added that cost-control initiatives for the year had “delivered in line with expectations with good performance in ground handling, aircraft maintenance and disruption-related costs as a result of improved operational robustness. It, however, warned about what McCall described as “cost headwinds for 2012” and estimated that its fuel bill will increase by approximately £220 million compared to the prior year. Additionally, the inclusion of aviation in the EU’s Emissions Trading Scheme and higher costs at regulated airports in Spain, Italy and the UK are also expected to negatively impact cost performance in the next fiscal year, it said. On the revenue side for fiscal year 2011-12, it said one-third of the seats in the first quarter are now booked at a similar level to the prior year, and total revenue per seat continues to show improvement versus the prior year, albeit at a lower rate of growth than the “strong” fourth quarter of the current fiscal year.

A new row has erupted between the easyJet board and the airline’s founder and largest shareholder after Stelios Haji-Ioannou revealed plans to launch a new airline. Haji-Ioannou and his family own 37% of easyJet through the private investment vehicle easyGroup. easyJet said it had received notice from Stelios Haji-Ioannou that he intends to set up an airline branded **Fastjet** and that a website, www.fastjet.com, had already been established. EasyGroup registered a second website, www.e-jet.com,_and both have a deep red background and the message “By Stelios. Coming soon!” EasyJet threatened it would “take necessary action to protect the rights of easyJet and the interests of its shareholders.” EasyJet and EasyGroup in the past have been entangled in a lawsuit on the use of the “easy” name and reached agreement in October 2010. As part of the amended brand license, Haji-Ioannou agreed not to acquire an interest in any other airline licensed in any EEA country nor Switzerland for a period of two years (unless the interest is less than 10% and he is not involved in an executive capacity). He also agreed to not use his own name or a derivation of it to brand any other airline that flies to or from any country in Europe for five years. But Haji-Ioannou said that easyJet breached the terms of the binding comfort letter and therefore the letter is no longer in force.

Finnair (AY) downgraded its full-year profit guidance, predicting the 2011 second half will be “slightly negative,” owing to weak business travel. It had expected to return to profitability by the end of 2011. Even though preliminary third-quarter results look positive, estimates indicate that fourth-quarter results will be “weaker than expected,” the company said. AY predicted year-over-year revenue growth in 2011 of more than 10%. In September, RPKs rose 12% as overall capacity grew 14.7% compared to September 2010. Asian traffic load factors were lower, which were reflected in unit revenues. In the third quarter, revenue per ASK decreased 3.2% compared to 2010. Load factors in leisure traffic were still lower than expected, even though they improved slightly from the previous year.

International Airlines Consolidated Group (IAG) approved the launch of subsidiary **Iberia Express**, which will be part of its short- and medium-haul network. The new carrier will start operations in summer 2012 with four Airbus A320s and will have 13 aircraft by the end of 2012. All the aircraft will be sourced from Iberia's (IB) existing fleet. The subsidiary is being established to compete effectively in the Spanish domestic and European market. Over time it will develop new markets and destinations and strengthen the Madrid hub. It will offer business and economy seats "at competitive fares" from Madrid for point-to-point traffic and also provide transfer feed onto IB's long-haul network. "Iberia Express will have lower operating costs than Iberia's loss-making short- and medium-haul business. The subsidiary will recruit new staff at market rates. It will have improved aircraft utilization," IAG said. Maintenance and ground handling will be initially provided by IB. IB's short- and medium-haul network has been facing mounting competition from the high-speed train and LCCs, including Ryanair and easyJet, which both have bases at Madrid Barajas and Barcelona El Prat. Competing has been difficult as a result of IB's high flight crew costs and low productivity.

The Serbian government is once again trying to sell financially troubled, state-owned **Jat Airways** – or at least find an investor willing to operate and manage a "new" Belgrade-based airline. Jat's total debt is estimated at about €300 million ($433 million). The first tender for the sale of a 51% stake in the airline, proffered in 2008, failed owing to a lack of interest, particularly given the government's high asking price of €51 million. The new strategy calls for offering investors a holding in a "new" company called NewCo that would be free from debt. Presumably, Jat's assets (which include an aging fleet comprised of 737-300s and ATR 72-200s) would form the basis for the airline. Bids will be accepted through Sept. 30. JU reported a loss of €16.5 million ($22 million) in 2009 and borrowed €51.5million from the government to renew its fleet and prepare for a potential partnership with THY, which was unsuccessful.

LOT Polish Airlines is expecting another delivery delay of its first Boeing 787. The first delivery has recently been rescheduled for spring 2012, just short of five years behind the original schedule. Three more 787s were expected to be delivered by the end of next year. LOT 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. LOT posted a loss of PLN52 million ($18.4 million) on its core business operations in the first three quarters of 2011, up by PLN44 million compared to the same period last year. Proceeds from core business operations rose by 6% over the nine months in 2011 while costs rose by 4% (year-on-year), despite fuel prices rising by as much as 27%. The financial result on the core operations for the three quarters means that a loss declined from PLN96 million in 2010 to PLN52 million this year. Polish Leasing Co. PLL LOT posted net profits of PLN 5.4 million from January to September 2011.

Lufthansa (LH) Group lowered its full-year earnings forecast owing to a weaker than expected August. Its operating profit will now be "at the upper end of the three-digit million euro range" and that "as viewed currently, the target of a further increase on the previous year figure no longer appears to be achievable," said LH Group, which reported an EBIT of €876 million ($1.2 billion) in 2010. LH Group comprises LH passenger airlines (LH, LH Regional and LH Italia), Austrian Airlines, British Midland (bmi), Germanwings and Swiss International Air Lines. The group said it would also adjust further booking trend expectations and reduce scheduled capacity for the 2011/12 winter timetable. The group had previously planned for a 6% winter capacity growth. In August, LH Group reported a year-on-year increase in RPKs of 5.7% on an 8.4% hike in ASKs, pushing seat load factor down 2 points to 81.4%. As in previous months, LH and Swiss were the growth drivers, with an increase of 8.1% and 5.7% in RPKs, respectively, while Austrian Airlines' traffic inched up just 0.3% and bmi traffic again reduced considerably (-9%) owing to the uncertain political situation in the Middle East and North Africa. For the first eight months, bmi's traffic fell 5.4% to 4.85 billion RPKs on the year-ago period and passengers carried fell 7.2%.

LH is ordering seven new Airbus aircraft, including two A380s, and five Embraer 195 regional jets. The Airbus order includes four A320s and one A330-300 as well as the A380s. Once firmed, the order will bring Lufthansa's total number of A380 orders to 17. The total value of the order, including the 195s, is €1 billion ($1.36 billion). The Airbus aircraft will be for LH German Airlines. The additional order for the A380 and A330 will be used on long-haul routes for an interim period. There are also plans to order two additional A380s. LH operates eight A380s, with two more to be delivered next year. Five more on order are scheduled to join the carrier in 2015.

Lufthansa Cargo (LHC) said the German regional court ruling halting night flights from its Frankfurt Airport (FRA) cargo hub would cost the carrier "double digit million of Euros" in rescheduled flights and lost customers. The ban, which comes into effect as of November, runs from 11 p.m. to 5 a.m., will affect 17 flights nightly; most are LHC flights. LHC operates 10 scheduled FRA night-time slots in its winter schedule. A higher court in Leipzig will rule on whether to re-allow night flights in the first quarter of 2012. LHC has implemented a backup plan, which includes cancelling two to three flights per week and moving some flights to daytime hours. Also, some flights to China will now stop for several hours at Cologne/Bonn (CGN) after leaving FRA in the evening. LHC will stay with its 777 freighter order with first delivery scheduled for 2013, but the Leipzig ruling will determine where the aircraft will be based.

Malev Hungarian Airlines (MA) should not expect further financial help from the Hungarian government owing to 2012 budgetary restrictions, several Hungarian news agencies reported. The European Commission has been investigating Hungarian government support measures for MA to determine if the financially troubled carrier received illegal state aid eight times between 2007 and 2010, totaling up to HUF100 billion ($455 million) in capital injections, debt payoffs, loans and deferred tax obligations. Hainan Airlines Group was reportedly considering investing in MA.

Monarch Group, parent of **Monarch Airlines (ZB)**, confirmed it has cancelled its order for six Boeing 787s. ZB "reassessed its decision" to purchase the aircraft following the strategic decision "to focus as a schedule airline on strengthening and developing its short-haul network, and the delay to the delivery of the Boeing 787 from 2010." The group stressed, however, that the decision to terminate its 787 order did not affect Monarch Aircraft Engineering's strategy to provide Dreamliner maintenance support. ZB announced in June it would concentrate on short-haul operations and reiterated it would further expand into new UK bases and new routes from 2012, "whilst remaining dedicated to supporting its long standing tour operator partner needs. Further consideration will be given to developing and strengthening its long-haul options in the future."

AB partner **Niki**, an Austrian-based LCC, is working to establish an AB/Niki hub in Vienna. President Niki Lauda said the airline is working out the details and is evaluating whether to increase its Airbus/Embraer fleet from 21 to 23 aircraft in 2012. He said Niki will announce a 2011 profit and is not affected by AB's cost-cutting measures.

Norwegian Air Shuttle (DY) reported third-quarter consolidated net income of NOK494.9 million ($88.3 million), down 6.3% from NOK528.1 million in the year-ago period when earnings were affected by a currency gain of NOK172 million not related to the operation. Revenue soared 19.4% year-over-year to NOK3.38 billion while operating expenses, excluding leasing and depreciation, increased 9% to NOK2.17 billion, producing earnings before depreciation and leasing of NOK1.21 billion, up 43.6% from a NOK839.9 million EBITDAR in the prior-year quarter. EBIT soared 61% to NOK923.3 million. DY set a new passenger record and carried more than 4.6 million passengers in the third quarter, up 21% on the year-ago period. Traffic rose 27% to 5.47 billion RPKs on a 22% lift in capacity to 6.48 billion ASKs, producing a load factor of 84%, up 4 points. RASK rose 4.6% to NOK0.45 and CASK fell 9.8% to NOK0.37. CASK ex-fuel decreased 23.3% to NOK0.23. On-time performance was a record 99.9% in the quarter, up from 99.7% in the same quarter last year. The carrier said that demand and advance bookings have been "satisfactory" entering the fourth quarter. It expects "continued competitive pressure" since rivals are announcing capacity increases and lowering fares in parts of the Scandinavian market.

Russian carrier **OrenAir (R2)** recently took delivery of its first Boeing 777-200ER. The aircraft, VQ-BNU, was leased from International Lease Finance Corp. (ILFC) and made its first flight in 1999. The cooperation with one of the biggest Russian tour operators—Pegas Touristik—has turned the one-route airline (Orenburg-Moscow) into an appreciable carrier on international routes over the past several years. In 2010, Orenburg-based R2 carried more than 2 million passengers on international routes becoming the third biggest Russian airline after Aeroflot (SU) and Transaero (UN). R2's fleet comprises 19 737s (-400, -500 and -800 models), four Tupolev Tu-134s, four Tu-154s and one Tu-204-100. Until now, only UN has operated 777s in the Russian market. Several years ago, SU also operated 777s but management removed them from the fleet (this year the company ordered 16 new 777s). R2 is currently consolidating with SU. The merger process has not been finalized but, according to the SU press service, the company's board of directors approved R2's fleet expansion with 777-200ERs in May 2011.

Ryanair (FR) will open a base at Wroclaw Airport (WRO) in March 2012, initially with one Boeing 737-800 and six new routes, bringing its network from the airport to 21 destinations. The LCC expects the base will deliver up to 800,000 passengers annually and sustain 800 jobs in the Wroclaw region. WRO with be FR's first base in Poland and its 46th base in Europe.

SAS Group president and CEO Rickard Gustafson announced a new strategy, SAS 4Excellence, aimed at reducing costs by 3%-5% annually until 2015 and returning the carrier to profitability. The 4Excellence program focuses on achieving excellence in four areas—commercial, sales, operations and people—which SAS said will be attained by "continued cost reductions" and a "strengthened focus on productivity improvements." It is also restructuring its group management. SAS swung to a second-quarter pre-tax profit of SEK729 million ($114 million) against a loss of SEK600 million in the year-ago period, its "best second quarter since 2008 and a result of cost-savings measures". Its previous strategy—Core SAS, in which the group focused on the Nordic region as well as its home market—has enabled the airline to reduce unit costs by 23% since 2008. In June, SAS announced Finnish subsidiary Blue 1 will phase out its remaining five Avro RJ-85 aircraft and focus on operating Boeing 717s, resulting in a maximum of 85 job redundancies at Blue1. SAS will maintain its position as the first-hand choice for business travellers, but will expand its offerings to strengthen its market share within the leisure travel segment. SAS also has changed from a holding structure with several subsidiaries to become one functionally organized airline.

Sky Express, Russia's first low-cost carrier (LCC), will lose its air operator's certificate (AOC) and operate under a new single AOC with Russian regional carrier Kuban Airlines. The owner of Kuban, Russian investment company Basic Element, announced its intent to buy Sky Express in 2010. ***T***he new combined airline will operate under the better-known Sky Express brand, but it is not clear if it will remain an LCC. Sky Express was launched in 2007 by a group of foreign investors, including the European Bank for Reconstruction and Development and Altima Capital. It started operations with two B737-300s operating several domestic routes. Later, however, the airline was forced to enter the charter market because it could not sustain the LCC business model in Russia. In 2010 it carried 1.66 million passengers. In October 2011, the Dept. of Aviation suspended the AOC of a second Russian LCC—Avianova, which started flights in August 2009, but investors American Indigo partners and Russian A1 stopped funding. Avianova carried 1.54 million passengers in 2010.

The Romanian government approved a plan to partially privatize **Tarom**. The airline was not included among a list of state-owned entities the government said earlier this year it would privatize, though the carrier's privatization has been speculated about for some time. The newly approved plan provides for the sale of a 20% stake in Tarom, which is currently 95%-owned by Romania's Ministry of Transport and Infrastructure. The government will determine the timing of the sale later. Under the privatization strategy, 20% of Tarom will be sold via a secondary IPO on the Bucharest Stock Exchange. Tarom incurred a net loss of €80 million ($113 million) in 2010, 41.6% worse than its 2009 deficit.

Airbus confirmed that **Transaero Airlines (UN)** signed a memorandum of understanding (MOU) with Airbus for four A380 aircraft, making UN the launch customer for the A380 in Russia, the CIS and Eastern Europe. Transaero will announce an engine selection for the new aircraft in the near future. The second-largest Russian carrier plans to start operations with the A380 on its long-range network of high density routes from Moscow. The aircraft will feature a three-class cabin layout, seating about 700 passengers. Airbus said, "We definitely see market potential for the A380 in Russia. Passenger traffic in this region is expected to increase at an average rate of 5.6% per year over the next 20 years. Deliveries are expected to start no earlier than 2015. The A380s/747-8s would be used to replace older 747s and expand the carrier's fleet from 2015 onward. Moscow Domodedovo (DME) airport is analyzing the installation of double-deck passenger boarding bridges for A380 use. UN would deploy the A380 from DME, but reportedly Emirates has also indicated interest in operating the A380 to DME. In August, UN signed an MOU with Airbus to buy eight A320neos plus options on an additional four, making it the first A320neo customer in Russia, the CIS and Eastern Europe. Privately held UN is historically a loyal Boeing customer and operates 70 aircraft, comprising 19 747s, eight 777s, 13 767s, 27 737s and three Tupolev Tu-214s. It operated an Airbus A310 from 2000-2002. It is the largest operator of widebodies in Russia, CIS and Eastern Europe.

Two Russian carriers—**Ural Airlines (U6)** and **Kuban Airlines (GW)**—announced they will stop using Soviet Union-era aircraft on regular flights. Ekaterinburg-based U6 said it removed a Tupolev Tu-154M from its fleet after its last flight. When the airline was launched in 1993, it had 11 Tu-154Bs; in 1994 it bought four more Tu-154Ms. U6 now operated just three Tu-154Ms allowed to fly to Europe, which the company is planning to sell. In November 2006, U6 took delivery of its first A320, which started its fleet renewal program. Now the airline operates 13 A320s and five A321s. In 2012, the carrier is planning to acquire four more A321s. Krasnodar-based GW said it will use eight Yakovlev Yak-42s only on charter flights and as reserve aircraft during its upcoming winter schedule. After the Yak Service Yak-42 crash Sept. 7 in Yaroslavl, media reports and some experts in Russia blamed old Soviet-made aircraft for being unsafe. The Russian Flight Safety Foundation International has objected to these conclusions, noting that during the last 20 years, Russia has lost 50 aircraft. While 44 were Soviet-built aircraft, he said technical defects were responsible for just 16% of the accidents.

The main reason U2 and GW are retiring the Soviet-era aircraft is their low fuel efficiency. Also, GW is consolidating with LCC Sky Express, optimizing its route network and cancelling several destinations in its winter schedule. The combined carrier now owns three A319s and five Boeing 737s.

The replacement of Soviet-era aircraft began in the Russian market in 2005-2006. Through their renewal program, the biggest Russian carriers—such as Aeroflot, S7 Airlines and Rossiya—have already removed the older aircraft from their fleets. However, UTair, the fourth-biggest carrier, still operates 21 Tu-154s; UTair-Express has 28 Tu-134s and 25 Antonov An-24s.

Boeing said Russia's **UTair Aviation** has finalized an ordered 40 Boeing 737NextGen aircraft, comprised of seven 737-900ERs and 33 737-800s. The agreement was previously announced at the 2011 Paris Air Show. The order is valued at $3.8 billion at list prices.

UT announced it will further expand its fleet with widebodies but is considering 767s. UT will take delivery of its first aircraft in 2012 and will need up to 10 aircraft but has not disclosed further details. In 2010, UT was the fourth-biggest airline in the country, operating mostly domestic routes. Its fleet comprises more than 200 aircraft, including four 43 737s (-200, -400, -500, -800), 14 ATR 42s, 11 ATR 72s (-200, -500), 15 CRJ200s, and Soviet-made aircraft Tu-154 and Tu-134. The carrier wants to increase its international network but bilateral agreements make it difficult to get permission for scheduled flights.

Russian authorities are planning to amend federal aviation regulations to increase the required minimum number of aircraft operated by an airline. Beginning in 2012, carriers operating scheduled flights with aircraft of more than 55 seats must have at least 10 aircraft of the same size to obtain an air operator's certificate; this could eventually increase to 20. Airlines operating aircraft of 55 seats or fewer must have at least three aircraft of the same size. Charter airlines will be required to have at least five aircraft. Russian regulations currently require any airline to operate at least three aircraft of the same size. Russian transport authorities said the new measures will help to improve flight safety. There have been four fatal airplane accidents in Russia in 2011. The initiative is aimed at reducing the number carriers and to make it almost impossible to start a new airline.

Middle East & Africa

Nigeria's **Arik Air** was revealed as the previously unidentified customer for two Boeing 747-8 Intercontinental aircraft. It joins Korean Air and Lufthansa as airlines with the passenger version of the 747-8 on firm order. The order is valued at $635 million at list prices. Boeing has sold 36 747-8Is including nine for VIP customers.

Equatorial Congo Airlines (ECAir), a new national carrier of the Republic of Congo, has begun with an inaugural Brazzaville-Point Noire flight. ECAir will operate the route 3X-daily with a 120-seat, two-class Boeing 737-300, and plans to open further routes to international destinations as it acquires additional aircraft. The Brazzaville-based carrier's operations will be "accompanied by" private jet operator, Swiss' PrivatAir. The start-up process of the airline was managed by Lufthansa Consulting.

Boeing confirmed that **Ethiopian Airlines (ET)** is the customer for four previously unidentified 777 freighters. The order, valued at approximately $1.1 billion at list prices, makes ET the first African carrier to order the freighter.

Etihad Airways (EY) reported third-quarter revenue of $1.1 billion, up 39% year-over-year. Passenger revenue was up 32% to $833 million and cargo revenue increased 28% to $168 million. Operating costs rose 12% on a 12% rise in capacity while non-fuel costs rose 7%. Passengers carried rose 18% year-on-year to 2.25 million and seat load factor improved 3.8% to 80.7%. Etihad Crystal Cargo posted a 16% year-on-year growth in tonnage to 77,623 tonnes and a 10% year-on-year increase in average yields. The quarter saw a consistent strong performance across all markets.

Etihad has declined to comment on reports that it has approached the Irish government to buy a 25% stake in Aer Lingus (EI). EY would also not confirm if it is in talks with Virgin Atlantic (VS) about a partnership if VS buys British Midland (BD), as reported in the ***press***. Reportedly, British Airways (BA) has also shown an interest in the stake.

Kenya Airways finalized an order with Embraer for 10 E-190s, plus purchase rights for a further 16 E-jets, as part of its long-term expansion plan to fly to all African capital cities by the end of 2013. The order follows a letter of intent signed at the Paris Air Show in June. Deliveries are scheduled to begin in the third quarter of 2012. The E-190s will be configured in a dual-class layout with 96 seats, comprising 12 in business class and 84 in economy. The finalized E-190 order is in addition to KQ's LOI with GECAS for the lease of two new Boeing 777-300ERs, expected to be delivered at the end of 2012-early 2013 if the contract is firmed.

Qatar Airways took delivery of a 259-seat Boeing 777-200LR, its 100th aircraft. The carrier now operates 27 777s.

Morocco's government has offered **Royal Air Maroc (RAM)** 1.6 billion dirhams ($193.3 million) to shore up its finances hurt by growing competition, lower sales and higher fuel prices. The funds are part of a 9.3 billion dirham package to restructure the state-carrier from 2011-2016 and reduce its workforce by 30% by 2013. The government is expected to proceed with the partial privatization of the loss-making carrier, with the sale of 30% of the shares to a foreign company. RAM plans to raise about 1 billion dirhams from the sale of four A321s and five B737-500s to reduce the average age of its fleet to five years. It is unclear if RAM will continue to operate its single 747-400. As part of RAM's fleet renewal plan, it plans to take delivery of two out of four 787s next year. It has at least five 737-800s on order. RAM is under pressure from LCCs that offer more direct services from Europe to Africa bypassing Casablanca, as well the open skies agreement between Maroc and the European Union. RAM is evaluating whether to cut unprofitable routes that do not connect with its hub in Casablanca. RAM has posted losses close to 80 million dirhams per month this year after political unrest in some Arab countries.

Royal Jordanian received its second new Airbus A320, as part of its medium-haul fleet modernization program that involves replacing six A320s/A321s with seven new of the same model type. The remaining three A320s and two A321s will be delivered during 2011 and 2012, to bring its narrowbody fleet to 13 A320 family aircraft. The aircraft are leased on operational basis and are configured with two cabins and 136 seats.

Starbow, a start-up airline based in Accra, said it commenced services in late September. The carrier is operating domestic flights in Ghana using two BAe 146-300s leased from Riva Investments, which purchased them from Falko Regional Aircraft. The aircraft are configured with 94 seats, including eight in business class. Domestic services envisaged for Starbow include routes cantered on Accra and the important regional city of Kumasi and linking them to other destinations such as Tamale and Takoradi. While operating domestically initially, the airline plans to offer direct air services to the capital cities of neighbouring countries such as Ouagadougou, Burkina Faso; Abidjan, Ivory Coast; Monrovia, Liberia; Bamako, Mali; Niamey, Niger; Lagos, Nigeria; and Freetown, Sierra Leone.

Asia Pacific

Hong Kong-based Bravia Capital and Haikou-based HNA Group, parent of Hainan Airlines, have acquired Istanbul-based all-cargo carrier **ACT Airlines**. Financial terms were not disclosed. The companies added that ACT Airlines "has been rebranded and will trade as MyCargo Airlines." The Turkish carrier will operate under its Grand China Logistics Group. Turkey and the surrounding "region is a strategic focus for HNA, and we hope to utilize our investments to develop a full-service logistics hub for the surrounding growth regions. ACT/MyCargo currently operates six Airbus A300-200 freighters and counts DHL and Lufthansa as customers. Bravia/HNA will deliver two Boeing 747-400 freighters to MyCargo to be put into service this year. "Bravia and HNA have [also] committed to source and deliver up to 10 A300-600 freighters and three additional 747-400 freighters over the next two years".

The Chinese government provided **Air China (CA)** with a CNY1 billion ($156.7 million) capital injection to allow the carrier to increase its holding in Cathay Pacific Airways (CX). CA and CX established a cross-shareholding deal in 2006. The most recent investment made by CA in the Hong Kong-based carrier was CNY6.34 billion in 2009 to expand its stake to 29.99%, making the Beijing-based carrier the second-biggest CX shareholder. State-owned CA received CNY1.5 billion from the government in January 2010 to help it reduce its debt ratio.
CA reported a third-quarter net income of CNY3.8 billion ($597 million), down by 26.5%, compared to CNY5.17 billion in the year-ago quarter. The Beijing-based carrier blamed the profit drop on the “ongoing economic instability in Europe and the US,” plus fluctuations in oil prices, which have “slowed down the growth of international traffic and cargo business.” Revenue increased by 13.4% to CNY28.14 billion, while expenses rose 20.3% to CNY23.36 billion owing to rising fuel costs. RPKs climbed 8.94% to 33.31 billion on an increase of 6.1% in capacity to 39.36 billion ASKs, producing a load factor of 84.7%, an increase of 2.21 percentage points compared to the year-ago period. RFTKs declined by 1.63% to 1.23 billion against a boost in capacity of 1.58% to 2.05 billion AFTKs. CA also earned a net income of CNY7.863 billion for the first nine months, down by 20.3% from CNY9.86 billion year-over-year. The carrier cited “the reduction of fuel hedge gain and investment gain (from Cathay Pacific)” for the result.

Air India (AI) is understood to be ready to cut its Boeing 787 order for 27 aircraft in half. Press reports that AI’s board has recommended buying 12 787s, compared to the original order for 27 placed in 2005. A group of ministers will meet to decide on a turnaround plan for the ailing carrier. India's civil aviation minister has previously said the airline cannot afford the 27 787s it has on order. But others said the 787 would be the platform for a turnaround and that the full fleet of 27 is needed. Press cited a government report stating that none of AI’s international routes were profitable in 2009-10. It also said the airline has outstanding loans of $9.5 billion and is in discussions with banks to restructure $4 billion of working capital debt. It is also implementing a turnaround plan to cut costs by redeploying staff and disposing of non-core real estate.

Air New Zealand (ANZ) lifted its stake in Virgin Australia (VA) from 14.99% to 19.99%, in a move that will continue ANZ’s “strategy to develop scale and reach in this region.” ANZ confirmed it has no intention of making a takeover bid for VA. In a complex deal, the increased interest is held through an equity derivative agreement with Deutsche Bank, which gives ANZ an increased economic interest of up to 5% in VA, subject to certain conditions. One condition is that the purchase does not cause VA to breach its foreign ownership cap of 49% specified in the Australian Air Navigation Act. Under the agreement, ANZ is guaranteed a minimum additional exposure of 3.5% and up to a maximum additional exposure of 5%. The outlay for the minimum exposure of 3.5% will be A$23 million ($22.5 million), while the outlay for the maximum 5% will be A$32.8 million. ANZ said it intends to work with VA to bring its interest out of the derivative and into physical shares as soon as possible within the constraints of the foreign ownership cap. Prior to entering into the equity derivative arrangement, ANZ received Australian Foreign Investment Review Board approval to purchase up to 19.99% of VA.

Fiji’s **Air Pacific** has ordered three Airbus A330s for its fleet renewal program after it cancelled its order for eight Boeing 787s in April. Orders for five Dreamliners were initially placed in 2006 and three more were placed in 2008. The A330-200s will be delivered in 2013 and operated from Fiji on transpacific routes to Los Angeles, Calif., and throughout the Asia-Pacific region to Hong Kong, Australia and New Zealand.

All Nippon Airways (ANA) officially applied to establish its planned joint venture LCC with **AirAsia** to be called **AirAsia Japan**. ANA will apply for an Air Operator's Certificate for AirAsia Japan "with the aim of beginning low-cost operations from August next year." The carrier will be based at Tokyo Narita. ANA will initially invest ¥10 million in the JV, with its total investment eventually rising to ¥5 billion ($65.1 million), giving it a 51% stake. The LCC plans to operate both domestic and international flights.

Boeing celebrated the delivery of the first 787 Dreamliner to launch customer **All Nippon Airways (ANA)** during a ceremony adjacent to the factory where the airplane was assembled. More than 500 employees representing the 787 program walked alongside the all-new jetliner to present it to ANA executives as a crowd of thousands looked on. The signing comes after years of program delays.

Bangkok Airways cancelled an order for four A350-800s after shelving its long-haul ambitions. The cancellation was in line with the carrier's revised strategic plan to shelve its intercontinental start-up and prepare for domestic and regional expansion. The order was placed at the end of 2005. The carrier had planned to use the aircraft for flights to/from Europe. It is understood the airline will focus on orders for more A320s and A319s for regional growth and rely on its codeshare partners to feed international passengers to its network.

Chengdu Airlines (EU) has confirmed that Commercial Aircraft Corp. of China (COMAC) has pushed its first ARJ21 delivery into next year. The delivery, originally scheduled for Nov. 28, was reportedly delayed owing to the inability of some key parts to pass flight tests. The ARJ21, which has received 340 orders, is in the test-flight phase to gain CAAC certification. It is working toward gaining FAA certification, paving the way to put its international marketing plan into action. EU said the ARJ21 delivery delay will not affect its normal operations and plans to introduce one A320 to make up for the delay.

Taiwan's **China Airlines (CI)** officially joined SkyTeam, becoming the first Taiwanese airline to join the alliance. CI becomes SkyTeam's 15th member. China Southern and China Eastern joined the alliance in November 2007 and June 2011, respectively. CI operates 224 daily departures to 80 destinations and brings three new destinations to SkyTeam's network: Okinawa and Miyazaki, Japan, and Surabaya, Indonesia. CI has also refreshed its brand image. At the joining ceremony in Taipei, the Taiwan flag carrier unveiled a new trademark, integrating its "Plum Blossom" trademark and "Chinese Seal."

China Eastern Airlines (MU) has cancelled an order for 24 Boeing 787s and replaced it with an order for 45 737s, citing delivery delays and a weakening economy. MU placed its Dreamliner order in 2005. In November the carrier was considering cancelling 15 787s because of the aircraft program's continuous delays. Chinese carriers have ordered a total of 57 787s, including 24 by MU, 15 by Air China, 10 by China Southern Airlines and eight by Hainan Airlines. In a major blow to Boeing, **CEA** ordered 15 Airbus A330s. The new order became apparent as MU revealed it was cancelling its 787s. The new Airbus order comprises 12 A330-200s and three A330-300s. MU said they will facilitate its international expansion. The Airbus order is valued at $2.5 billion at list prices. The aircraft will be delivered between 2013 and 2015, and should boost the carrier's capacity by 9.4%. MU expects to sell five A340-300s to Airbus in 2012 to save operating costs, which will reduce the carrier's capacity by 3.68%. The large cancellation of the 787s by MU in favour of A330s is a significant development as until now airlines such as Singapore Airlines and Qantas have typically ordered more A330s but held their 787 orders intact. While Boeing holds that it can ramp up production of the 787 from the current two a month to 10 a month by 2013, a number of key analysts have said it will take another nine months at least to reach that target.

China Southern Airlines (CZ) announced it plans to operate its first Airbus A380 on the Beijing-Shanghai and PEK-Guangzhou routes. The aircraft is scheduled to be delivered Oct. 15, though the carrier is still awaiting CAAC approval to operate the aircraft on international routes, reportedly either PEK-New York or PEK-Paris, Air China's two most profitable routes. Guangzhou-based CZ is the only Chinese carrier to order the A380. It has five of the type on order, with the second delivery expected later this year. In June, the Chinese government blocked an order from Hainan Airlines' subsidiary Hong Kong Airlines for 10 A380s to express its disapproval of Chinese carriers' inclusion in the EU Emissions Trading Scheme starting next year. CZ's first A380 has 506 seats, comprising eight luxurious first-class seats, 70 first-class seats and 428 economy seats.
Boeing has delayed the delivery of **CSA's** first 787 from December until July 2012. CZ's order for 10 787s was placed in 2005 with deliveries originally scheduled to begin in 2008. The carrier is "quite concerned about the continuous delays of the 787 and thus we won't rule out the possibility of cancelling its 787 orders." It is unlikely the carrier will cancel the order given that its first 787 is already on Boeing's production line. CZ has been committed to international expansion owing in part to domestic competition with high speed rail. To meet demand, the carrier must choose between the A330 or 777 to operate routes on which it had planned to use 787s, such as its new Guangzhou (CAN)-London Heathrow route scheduled to launch in March 2012. In the coming months, the carrier plans to open more international routes, including Beijing (PEK)-CAN-Brisbane, PEK-CAN-Perth and PEK-Urumqi-Istanbul.

China Southern Airlines reported a third-quarter net profit of CNY3.13 billion ($492 million), up 2.99% from CNY3.04 billion in the year-ago quarter. The carrier cited robust growth in domestic demand for the result. Revenue jumped 17.8% to CNY27.27 billion against an increase of 24.3% in expenses to CNY 20.61 billion. CZ posted a net income of CNY5.9 billion for the first nine months of this year, up 15% compared to CNY5.1 billion year-over-year. Revenue climbed 20.5% to CNY69.7 billion while expenses jumped 22.8% to CNY55.91 billion.

Hainan Airlines (HU) reported a first-half net profit of CNY669.52 million ($104.7 million), up 20.2% compared to net income of CNY556.83 million in the year-ago period, owing to "robust growth of domestic market demand." Operating revenue jumped 19.6% to CNY11.56 billion while operating expenses rose 18.1% to CNY8.74 billion. Passenger boardings rose 4.3% to 9.6 million with an average load factor of 83.7%, up 2.5 points year-over-year. Cargo traffic volume decreased 2.3% to 132,100 tonnes. Average aircraft utilization rate reduced 10.9% to 9.46 hrs.
Separately, HU announced its three subsidiaries also earned healthy first-half profits. Beijing-based China Xinhua Airlines earned a net profit of 197.9 million, Xi'an-based Chang'an Airlines posted a net income of 51.1 million and Taiyuan-based Shanxi Airlines reported a net profit of 27.4 million.

Jet Airways took delivery of its first (of 11) 737-800 aircraft, equipped with Boeing's Sky Interior. The aircraft will initially operate roundtrip Delhi-Doha service. The remainder of the aircraft will be delivered through March 2013.

Malaysia Airlines Group (MAS) has launched a network rationalization program with its subsidiary, Firefly, which will now serve short-haul turboprop routes. MAS will focus on enhancing its premium full-service offering. Firefly's turboprop operations will remain unaffected by the restructure. The takeover is part of service separation plans under the business realignment exercise to address Firefly's continuing heavy losses. Firefly operates two 737-400s and six 737-800s, which will be returned to MAS. All Firefly jets will be redeployed into MAS operations.

Peach Aviation, Japan's newest low-cost carrier, formed by joint venture partners All Nippon Airways and First Eastern Investment, confirmed it has obtained approval from Japan's Ministry of Land, Infrastructure and Transport to operate flights to congested airports. Peach is preparing for its first flight March 1, 2012.

Qantas (QF) has reaffirmed its commitment to the Boeing 787 program, despite the long delays. QF confirmed that while the first 787-8s would go to low-cost operator Jetstar, the first 787-9s due in 2014 would more likely go to QF first. No final decision has been made on precise timings and placement within the group. QF has 50 787s on order with another 50 options. In the longer term, the carrier envisages a three-aircraft QF fleet—A380, 787 and 737.
The **Qantas Group** and Airbus have finalized a contract for 110 A320 family aircraft for QF subsidiary **Jetstar** in Australia and Singapore and the newly announced Jetstar Japan. The order for 78 A320neos and 32 A320s is the largest single order in Australian aviation history by aircraft units and follows a commitment signed in August**.** The new aircraft will be deployed across the QF Group on short- to medium-haul domestic and international operations and will also be the key to the group's new premium-based airline in Asia. QF will make its engine decision at a later date.

Qantas will be back in the air after industrial arbitrator Fair Work Australia ruled the industrial action must be terminated. This is subject to approval from the regulator. The move comes after QF grounded its entire domestic and international fleet in a move designed to force the Australian government to end a nine-month industrial dispute with three key unions over pay and security. The strike action has cost the airline A$68 million. QF and the unions now have 21 days to negotiate a settlement before binding arbitration may be imposed. The airline's action came as a result of an impasse with the Australian and International Pilots Assn. (AIPA), the Transport Workers Union (TWU) and the Australian Licensed Aircraft Engineers Assn. (ALAEA). QF has had more than 200 meetings with the three unions to try and hammer out a deal. The grounding, which did not affect QantasLink or Jetstar, affected 447 flights a day and disrupted travel for more than 60,000 passengers who were stranded across the world. QF had hoped the overwhelming vote of support of the company's strategy at the airline's AGM would send a clear signal to the unions, but instead it received further threats of increased industrial action. QF's forward bookings have plunged as the ALAEA warned passengers not to book with the airline because the dispute would drag on for 12 months.

Sichuan Airlines (3U) has placed a firm order for 20 Commercial Aircraft Corp. of China (COMAC) C919s. According to COMAC, the aircraft should receive type certification by 2016, followed shortly thereafter by first delivery. COMAC has received 165 orders for the C919, which will enter the final design definition phase this year. Detailed design will be completed by 2012 and first flight is slated for 2014. Shijiazhuang-based Hebei Airlines took over stakeholder 3U's Embraer fleet, comprising five E-145s.

Singapore Airlines has firmed up an agreement with Airbus to lease another 15 A330-300 aircraft. The aircraft will be delivered between 2013 and 2015 and will be operated on routes within Asia as well as to points in Australia and the Middle East. The A330s will be powered by Rolls-Royce Trent 700 engines and will join 19 already in service.

Boeing has delivered a 737-900ER to Tajikistan-based **Somon Air**, the carrier's first of the type. It becomes the first Central Asian carrier to operate an aircraft featuring Boeing's Sky Interior. The delivery is also Somon Air's first direct purchase of a 737.

Brisbane-based **Strategic Airlines** announced it will be renamed **Air Australia** later this year. The carrier said it would launch flights from Brisbane and Melbourne to Honolulu after receiving approval from US Dept. of Transportation. Those flights will be operated by A330s with 30 business-class seats and 244 in economy. In addition to rights to fly to the US, Strategic has also gained approval to operate services between Australia and China.

Thai Airways International Public Co. has scrapped plans to form a joint venture with **Tiger Airways Holdings** to form **Thai Tiger Airways**, the low-fare joint venture carrier the companies announced last year. The move is a sudden change after Thai and Tiger formally signed a shareholders' agreement in March to launch the airline. Thai was to own 49.9% while Tiger would have had 39% ownership with a 10% stake being held by RyanThai. It is not clear if Tiger's recent grounding in Australia had a bearing on the Thai decision. Thai now plans to launch a wholly owned subsidiary, Thai Smile, in July 2012.

Singapore-based LCC company **Tiger Airways Holdings** announced it would buy a 33% stake in Indonesia-based **Mandala Airlines**, which will be held through Tiger's wholly owned subsidiary, Roar Aviation. Mandala is undergoing a financial restructuring after ceasing operations in January. Indonesian investment company Saratoga Group will be the largest shareholder in the restructured Mandala, with a 51% holding; the remaining 16% will be held by the previous shareholders, Indigo Partners and creditors. Indigo Partners, which holds 24% of Tiger, acquired 49% of Mandala in 2006. In January, Mandala's president director Diono Nurjadin blamed high aircraft lease rates as a prime contributor to the airline's downfall. Tiger Airways Holdings said it expects to complete the deal in about 90 days after getting regulatory approvals and to restart Mandala operations soon after. The restructured airline plans to adopt the Tiger Airways business model and will offer low-fare travel to international and domestic Indonesian destinations within a 5-hour radius. The restructured airline will operate A320s.

Turkish Airlines has placed a firm order for 20 Boeing 737-800s and 15 737-900ERs. Two 737-800s and two 737-900ERs will be delivered late this year. Delivery of all 35 737s ordered should be completed by the end of 2015. The additional 737s are needed for ongoing fleet expansion.

Turkish Airlines' (TK) massive long-haul fleet expansion created instability throughout the network. But, after nearly doubling its long-haul fleet to 36 aircraft from 2010, the carrier synchronized its network. After the crisis in the Middle East/North Africa, from the first quarter on, things "did not go … as planned." In fact, TK reported a TRY220.6 million ($126.4 million) consolidated net loss for the second quarter, increasing its first-half loss to TRY543.6 million, owing to foreign exchange losses on financial leases related to its fleet expansion activities. At the end of June, TK operated 175 aircraft, 22 more than a year earlier. The number of aircraft seats has now reached 32,000, including 10,000 seats on widebodies, which "causes a marketing problem." Load factor has dropped on long-haul routes. TK will add more narrowbodies to the fleet next year, featuring individual in-flight entertainment and fixed business class seats. Also, next year the carrier will add 10 routes to Europe and 10 routes on its medium- and long-haul sectors. New routes to Australia will be deferred.

The Australian Competition and Consumer Commission (ACCC) granted approval for **Virgin Australia's (VA)** comprehensive alliance with **Singapore Airlines (SIA)**. The alliance completes VA's global strategy of linking with some of the industry's major players. In the past year, the airline has won approval for alliances with Delta Airlines, Etihad Airways and Air New Zealand.

Aero-Equipment Market

Firm Backlog *(as at **November 7th 2011**)* Western-Built Jets

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Airbus	4,362	51.70%
Boeing	3,486	41.32%
Embraer	291	3.45%
Bombardier	194	2.30%
Mitsubishi	65	0.77%
Kawasaki	30	0.36%
McDonnell-Douglas	7	0.08%
Scaled Composites	2	0.02%
TOTAL	8,437	100.00%

Backlog - Top Ten Owners	Total Aircraft	% Share
American Airlines	285	3.38%
AirAsia	282	3.34%
ILFC	234	2.77%
IndiGo Airlines	229	2.71%
General Electric Capital Corp	226	2.68%
Qantas	226	2.68%
Emirates Airline	184	2.18%
Air Lease Corporation	151	1.79%
CIT Leasing Corp	142	1.68%
Qatar Airways	136	1.61%
TOTAL - TOP TEN	2,095	24.83%
TOTAL BACKLOG	8,437	100.00%

Backlog - Top Ten Operators	Total Aircraft	% Share
American Airlines	285	3.38%
AirAsia	281	3.33%
IndiGo Airlines	229	2.71%
ILFC	194	2.30%
Emirates Airline	190	2.25%
GECAS	184	2.18%
LAN Airlines	138	1.64%
Qatar Airways	136	1.61%
Air China	129	1.53%
CIT Aerospace	129	1.53%
TOTAL - TOP TEN	1,895	22.46%
TOTAL BACKLOG	8,437	100.00%

Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
American Airlines	285	3.38%
AirAsia	282	3.34%
IndiGo Airlines	229	2.71%
Qantas	226	2.68%
Emirates Airline	184	2.18%
Qatar Airways	136	1.61%
LAN Airlines	134	1.59%
Air China	128	1.52%
JetBlue Airways	128	1.52%
Lion Air	126	1.49%
TOTAL - TOP TEN	1,858	22.02%
TOTAL AIRLINE-OWNED BACKLOG	6,392	75.76%
TOTAL BACKLOG	8,437	100.00%

Backlog - Operating Lease Companies (Owner)	Total Aircraft	% Share
ILFC	234	2.77%
Air Lease Corporation	151	1.79%
CIT Leasing Corp	142	1.68%
Aviation Capital Group	115	1.36%
AWAS	100	1.19%
RBS Aviation Capital	88	1.04%
BOC Aviation	59	0.70%
Aircraft Purchase Fleet Ltd	46	0.55%
ICBC Leasing Co	42	0.50%
ALAFCO Aviation Lease and Finance Company	33	0.39%
TOTAL - TOP TEN	1,010	11.97%
TOTAL LESSOR-OWNED BACKLOG	1,218	14.44%
TOTAL BACKLOG	8,437	100.00%

Backlog - Lessor (as Owner) by A/C Manufacturer	Total Aircraft	% Share
Airbus	673	55.25%
Boeing	463	38.01%
Embraer	62	5.09%
Bombardier (Canadair)	20	1.64%
TOTAL LESSOR-OWNED BACKLOG	1,218	100.00%
TOTAL BACKLOG	8,437	

*Source: **CASE2**® Database*

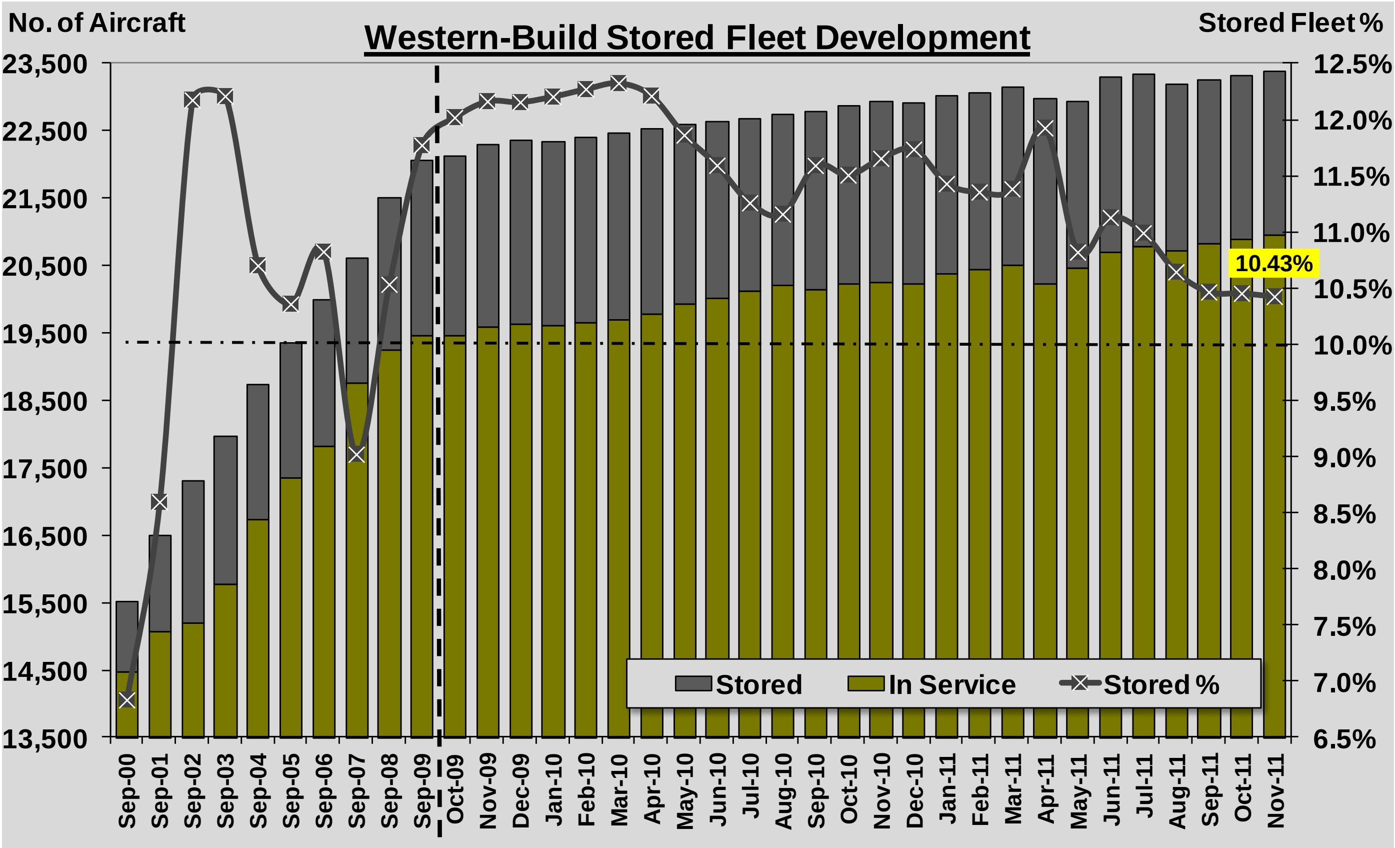
Storage

The table below shows the aircraft types whose percentage of **Stored Fleet** is **above the Total Average (10.43%)** of the whole Western-built jet stored fleet figure:

Manufacturer & Type		Fleet Stored	Total Fleet	Fleet Stored %
Avcraft	328JET	2	2	100.00%
Boeing (McDonnell-Douglas)	DC-9	172	273	63.00%
Fairchild/Dornier	328JET	60	108	55.56%
Lockheed	L-1011 TriStar	15	28	53.57%
Boeing (McDonnell-Douglas)	MD-90	54	108	50.00%
Boeing	737 (JT8D)	213	436	48.85%
Boeing (McDonnell-Douglas)	DC-8	34	72	47.22%
BAE SYSTEMS (HS)	146	65	161	40.37%
Boeing	727	138	381	36.22%
Fokker	F.28	21	61	34.43%
BAE SYSTEMS (BAC)	One-Eleven	4	12	33.33%
Boeing (McDonnell-Douglas)	MD-80	256	887	28.86%
Fokker	100	64	227	28.19%
BAE SYSTEMS (Avro)	RJ Avroliner	45	161	27.95%
Airbus	A300	70	347	20.17%
Airbus	A310	34	177	19.21%
Boeing	707	35	183	19.13%
Embraer	ERJ-135	58	315	18.41%
Boeing (McDonnell-Douglas)	DC-10	32	190	16.84%
Boeing	717	26	155	16.77%
Boeing	747	139	904	15.38%
Boeing	737 (CFMI)	247	1706	14.48%
Bombardier (Canadair)	CRJ Regional Jet	129	1024	12.60%
TOTAL WESTERN-BUILT JETS IN STORAGE		2,440	23,401	10.43%

*Source: **CASE2**® Database*

ASCEND is aware of at least **2,440 Western-built jet aircraft** in **storage (10.43%)** out of a current fleet of **23,401 aircraft**, as at **November 7th 2011:**



Source: ***CASE2***® *Database*

Manufacturer News

Airbus

Airbus forecast demand for 736 new freighter and passenger aircraft (with more than 100 seats) in Australia, New Zealand and the Pacific Islands over the next 20 years, valued at $98 billion. The manufacturer said in its latest global market forecast that traffic growth between Australia, New Zealand and the Pacific Island region is significantly faster than the world average of 4.8%. Traffic growth for China is 6.2%, India's growth is 5.6% and growth for the rest of Asia is 5.7%. Low-cost carriers (LCCs) will continue to expand and their market share of traffic between the region and Asia is expected to increase to around 35% by 2030, Airbus said. The region's growth rate is tipped to be 4.8% per year through 2030, matching the world average, but outstripping all other developed aviation markets, such as North America (2.5% domestic) and Western Europe (3.5% inter-regional). The region's requirement for 736 new passenger and freighter aircraft includes 468 single-aisles, 211 twin-aisles and 57 very large aircraft. Of these, 731 will be passenger aircraft. Nearly half will replace older models with more fuel-efficient ones. In 20 years, the region's passenger fleet will almost double from approximately 400 to more than 780 aircraft by 2030. The region's proximity to Southeast Asia, China and India will also drive traffic growth, said Airbus. China and India will be at the centre of the world's strongest demand for aircraft (34%) and by 2030, the largest share of traffic (33%). This concentration of demand, together with its historical links to Western markets, will drive business and tourism in the region, Airbus said.

Boeing

Boeing is promising customers for its new 737 Max series up to a 7% advantage in operating costs over future competing aircraft as it ramps up the marketing of the third major redesign of the family. Boeing's stated 2017 EIS for the Max is a "worst case" scenario and it fully expects to better it. The baseline aircraft being offered to airlines will be improved significantly as a variety of technologies are proven. Boeing forecasts global demand for more than 23,000 aircraft in the 737's market segment over the next 20 years at a value of nearly $2 trillion.

Boeing forecast that North American airlines will take delivery of about 7,530 new commercial aircraft worth $760 billion over the next 20 years. Around 73% of new deliveries will be for fuel-efficient, single-aisle jetliners. The North American fleet will grow from 6,610 airplanes to about 9,330 airplanes by 2030, taking retirements into account. The region's airline industry is poised for long-term, moderate growth. Airlines are expected to continue focusing on capacity discipline and improving financial performance. A majority of increased growth in the single-aisle category is related to traffic travelling to and from economically dynamic regions in Central and South America. Aircraft, such as the 737NG and 737 MAX, offer "significant advantages in improved capabilities, fuel efficiency and maintenance costs, as well as enhanced environmental performance," it said. Long-haul international traffic will continue to grow at an average annual rate of approximately 4.5%, said Boeing, noting this growth is expected to result in demand for an additional 1,180 new fuel-efficient, twin-aisle airplanes such as the 787. "Large aircraft (747-size and larger) will not see significant demand in North America, with only about 50 airplanes, or 1% of the total investment."

Boeing announced it has begun building the first 737NextGens at a rate of 35 aircraft per month, up from 31.5 airplanes a month, to meet demand. The 737 production rate will increase to 38 a month in the second quarter of 2013 and to 42 a month in the first half of 2014. Boeing has sold 9,134 737s of all 737 models up to Sept. 30 and has delivered 6,919 up to the same date. Boeing said it has improved production processes, increased capacity through investments in a new wings system installation line in its Renton factory, and made the site footprint more efficient.

Boeing has reported third-quarter net income of $1.1 billion, or $1.46 per share, on revenue of $17.7 billion but concedes lower deliveries of 787s and 747-8s. The manufacturer also announced the accounting block for the 787 will be 1,100 aircraft, based on 821 firm orders and approximately 200 options, four times higher than its last four aircraft programs, reflecting both the higher development costs and greater sales. Strong operational performance drove double-digit margins (9.7% operating margin) in both of major businesses. Development and certification of the 787-8 Dreamliner and 747-8 freighter was completed, the new 737 MAX was launched, and Boeing continued their ramp-up in commercial airplane production rates. Boeing Commercial Airplanes' (BCA) deliveries guidance is now 480, down from between 485 and 495, on lower planned deliveries on development programs. This was explained by a lower "combined 15 to 20 787 and 747-8 units, from 25 to 30 units." BCA booked 255 net orders during the quarter and 426 during the first nine months of 2011, while backlog remains robust with more than 3,500 airplanes valued at $273 billion. Total company 2011 revenue is expected to be between $68 billion and $70 billion.

Boeing has surpassed 300 deliveries of the 777-300ER aircraft type, with an Oct. 21 delivery to **Biman Bangladesh**. It is the first direct Boeing order from the carrier. The 777-300ER has received 543 orders, as of Sept. 30.

Bombardier

Bombardier said "current market demand" drove its decision to cut CRJ production rates starting in January, an acknowledgement of slowing regional jet sales. The Canadian manufacturer said it is still on track to deliver 90 commercial aircraft (a mix of CRJs and Q400s) this year and emphasized that the production cut will not necessitate any layoffs, only transfers of personnel. Bombardier delivered 97 commercial aircraft, including the first nine CRJ1000s, during its fiscal year ended Jan. 31. That represented a 19.8% decrease from 121 commercial units delivered in the prior fiscal year. Bombardier does not release specific production rates. The decision to cut CRJ production comes as the manufacturer prepares for the CSeries' planned first delivery in 2013 and the production ramp-up that will follow, likely requiring some resources that have been used on the CRJ program.

Embraer

Embraer will announce its next commercial aircraft development step before the end of the year. Embraer had been waiting to see whether Boeing would replace or re-engine the 737NG before deciding either to launch a 130-150 seat aircraft or embark on an E-Jet re-engining. Embraer is leaning toward a higher seat-capacity aircraft. Embraer will probably not be cooperating with another regional aircraft manufacturer in the near future. Bombardier and the Commercial Aircraft Corporation of China (COMAC) in March signed a framework agreement to establish a long-term strategic cooperation on commercial aircraft, although it is not clear how this will play out on their product lines. Europe represents 28% of the Embraer E-jet order book.

Leasing News

Amsterdam-based **AerCap Holdings** has signed a $400 million, 10-year credit facility to finance the purchase and leaseback of 12 Boeing 737-800s to American Airlines (AA). The aircraft are part of AerCap's previously announced sale/leaseback deal with AA covering 35 737-800s.

Aircastle and **Southern Air Holdings** have entered into long-term leases, under which Southern Air will utilize two Boeing 747-400SF aircraft owned by Aircastle. The aircraft are expected to enter commercial service during the first quarter of 2012, advancing Southern Air's fleet renewal and business expansion program.

Air Lease Corp. (ALC) concluded lease placements of 12 aircraft. They comprise one new A330-300 leased to Asiana Airlines, two new 737-800s leased to Korean Airlines, two new E190LRs leased to Aeromexico, one 737-800 leased to Air Berlin, two A320-200s leased to Vueling, one A330-200 leased to Avianca, one A330-200 leased to Thomas Cook, one 737-800 leased to GOL and one 737-700 leased to Southwest Airlines. ALC said it is seeing "continued progress" toward its goal of achieving 100 aircraft in its fleet by the end of the year.

Avolon has leased nine aircraft to Ryanair (five Boeing 737-800s) and AirAsia (four Airbus A320s). It also announced it has increased its committed debt facilities by $600 million to $2.6 billion. **Avolon** completed a sale and leaseback transaction with Wizz Air for three new Airbus A320 aircraft to be delivered in the first half of 2012.

Emirates took delivery of its 16th A380, on lease from **Doric Asset Finance** for 12 years.

GE Capital Aviation Services has inked a contract for six Embraer 190s, plus six options, with the right to convert to the E-195. The total value of the deal is $256.8 million at list prices. Delivery will begin in the 2012 fourth quarter. GECAS has 93 E-jets of all models on lease with 15 airlines, and its portfolio now comes to 101 E-jets.

ICBC Financial Leasing Co., a subsidiary of Industrial and Commercial Bank of China, has signed an MOU with CFM International for CFM56-5B engines to power its new fleet of 22 A320 family aircraft. The firm order, which includes three spare engines, is worth more than $450 million at list prices. The lessor is scheduled to take delivery of these aircraft in 2012. ICBC Leasing signed a purchase agreement with Airbus in June for 42 A320s. All of the new engines will be the CFM56-5B Performance Improvement Package configuration, with a 0.5% improvement in fuel burn, scheduled for certification and EIS by the end of 2011. ICBC Leasing has ordered 45 CFM Leap-X-powered COMAC C919 aircraft. ICBC Leasing, the biggest financial leasing company in China, has a total fleet of 70 aircraft.

Aircraft leasing giant **International Lease Finance Corp. (ILFC)** filed a registration statement to launch an initial public offering that will pave the way for it to largely break away from troubled parent American International Group. AIG Capital, the unit within AIG that holds ILFC, "must dispose of more than 50% by value of its interest in us within two years after the completion of this offering". "In addition … AIG Capital intends to dispose of at least 80% by value of its interest in us within three years after the completion of this offering. AIG currently expects that AIG Capital will reduce its ownership interest in us through one or more additional public offerings of our common stock and, possibly, through one or more privately negotiated sales of our common stock." The number of shares to be offered in the IPO, the pricing of those shares and the timing of the offering are still to be determined. Citigroup, JP Morgan and Morgan Stanley are acting as the joint global coordinators of the offering. ILFC earned net income of $143.2 million for the first six months of 2011, more than tripling a net profit of $47.2 million in the prior-year period. It did incur a net loss of $495.7 million in 2010 (mostly owing to high aircraft impairment charges), reversed from an $887.2 million net profit in 2009. It earned $696 million in net income in 2008. Full-year revenue in 2010 totalled $4.8 billion. **ILFC** has agreed to SLB five new 737-800s to Virgin Australia, scheduled to be delivered in 2012 and 2013.

Engine News

MTU Aero Engines has taken an 18% share in Pratt & Whitney's PW1100G-JM engine program, under development for the A320neo aircraft family. MTU said it will take on a portion of the final engine assembly and test of the PW1100G. It will also raise its stake in the PW1500G engine program for the Bombardier CSeries from 15% to 17%.

Pratt & Whitney (P&W) anticipates taking full control of **International Aero Engines (IAE)** by around mid-2013 if regulatory approvals and administrative business transactions are completed by mid-2012. P&W announced it was restructuring its almost 30-year 50:50 joint venture with Rolls-Royce, buying out Rolls' share of IAE for $1.5 billion. The two companies are creating a new 50:50 JV to develop engines for future new mid-size aircraft in the 120-230 seat range. The program will focus on geared turbofan technology. Under the deal, Rolls will continue to be responsible for producing high-pressure compressors, fan blades and discs for IAE V2500 engines, which power A320 family aircraft. It will also provide engineering support and continue final assembly of 50% of V2500 engines. The agreement also includes a payment to Rolls for each hour flown by the current installed fleet of V2500-powered aircraft for 15 years from transaction completion. The value of that fee is rumoured to be worth more than the $1.5 billion cash payment. From around mid-2013, however, it is expected that Rolls will no longer be involved in IAE's day-to-day management. Before the deal can close, it will require regulatory approval and agreement from IAE partners MTU Aero Engines and Japanese Aero Engines Corp.

Pratt & Whitney has completed ground testing of its first PW1217G engine for the Mitsubishi regional jet. It has completed more than 300 hr. and 1,100 cycles. The test program will run a total of eight test engines through 2012; EIS is scheduled for 2014. The PW1217G has also been selected to power the CSeries, A320neo and Irkut MC-21.

ST Aerospace Technologies (Xiamen), the JV between ST Aerospace and Xiamen Aviation Industry Co., opened a $78 million engine MRO facility in Xiamen. It has the capacity to do work on 300 engines annually. It will initially provide MRO and total support for CFM56-7B and CFM56-5B engines powering 737NGs and A320s. The JV has been certified by CAAC, US FAA and the South Korean Government to perform CFM56-7B maintenance.

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And Finally…

All Nippon Airways flight 7871, the first Boeing 787 commercial passenger service, landed at Hong Kong Oct. 26 after a 4 hr. and 10 min. flight from Tokyo Narita. The inaugural flight—a special charter—was marked with celebrations of the traditional saki toast at Narita, Chinese dragon dancing at Hong Kong and water hosings by fire tenders on the taxiways of both airports. But there were also many references to the 40-month delivery delay that launch customer ANA endured to get to this point. Onboard, however, the problems getting to this point were forgotten as passengers admired the multi-hued cabin lighting and the huge windows with electro-chromatic, auto-dimming technology that does away with the need for plastic shields. The flight to Hong Kong carried mainly international media, ANA and Boeing executives and VIP guests. The aircraft's 100 economy seats were sold to the public as a package that includes a one-night hotel stay in Hong Kong; six business-class seats were also put up for a charity auction sale.

ANA fully expects to take delivery of 20 Boeing 787s by the end of March 2013. Two 787s are now with ANA. Five more aircraft were expected by year end and that by the end of March 2012—the end of ANA's 2011 fiscal year—six more will have been delivered. By the end of March 2013, a total of 20 aircraft are expected. ANA, the launch customer for the 787, has 55 of the aircraft on order.

ANA is examining the US West Coast as a potential destination for its new Boeing 787 routes. The Japanese carrier wants to expand its European and North American network with the 787. ANA has received two of the 55 787s it has on order. A total of 20 aircraft are scheduled to be delivered by the end of the airline's 2012 fiscal year on March 31, 2013. ANA's first scheduled international 787 routes will include Tokyo Haneda (HND)-Beijing, beginning in December, and HND-Frankfurt, beginning in January. Its first domestic routes will include HND-Itami, HND-Yamaguchi Ube and HND-Matsuyama by the end of March 2013. ANA estimates the 787's fuel savings will eventually be worth $130 million a year. With just two newly delivered aircraft, it was still too early to determine the exact fuel performance of the aircraft, which ended up heavier than originally designed.

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