AIR NewsSummary

June 1st, 2006 - July 31st, 2006

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Sources: ***DVB-AIR****, AACO, AAPA, AEA, Airbus, Airclaims, Aircraft Value News, Airline News, Airline Monitor, Airliners.net, Airwise, ATA, ATI, ATW, AVAC, Aviation Economics, Aviation Strategy, Boeing, Bombardier, Company News & Reports, DoD, DoE, DoT, EADS, EIA, Embraer, Factiva.com, Flight International, IATA, ICAO, Just Planes, OAG, SpeedNews, Yahoo!*

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Introduction

DVB's ***AIR NewsSummary*** is published and distributed on a bi-monthly basis by the **Aviation Industry Research** department of **DVB Bank AG**. The *NewsSummary* is intended to provide a review and overview of recent, relevant developments within the aviation industry and contains mainly news-articles from a range of sources, including the Internet, trade magazines and company news releases, in addition to our own analyses, comments and opinions.

Aviation **I**ndustry **R**esearch regrets that for practical reasons it is not possible to credit each and every source and author individually; however, the front cover of this publication does state the sources most frequently used in compiling this periodical.

Polis D. Polycarpou
DVB Aviation Industry Research

General Developments

IATA - International Traffic and Capacity:

The **International Air Transport Association (IATA)** reported that 2006 international passenger traffic for the **first half of the year** grew 6.7% while international freight traffic was up 5.2% over the same period in 2005. The passenger load factor reached 75.1%, 1.2 percentage points higher than during the same period last year.

For the single month of **June 2006**, passenger traffic continued the pattern of strong and stable growth seen over the past 18 months with a 6.5% expansion over June 2005. With only a 4.4% expansion in capacity, the passenger load factor reached 78.3%, over 1.5 percentage points over June 2005. Freight performance was disappointing with 4.1% growth, a drop from the 5.1% growth recorded in May.

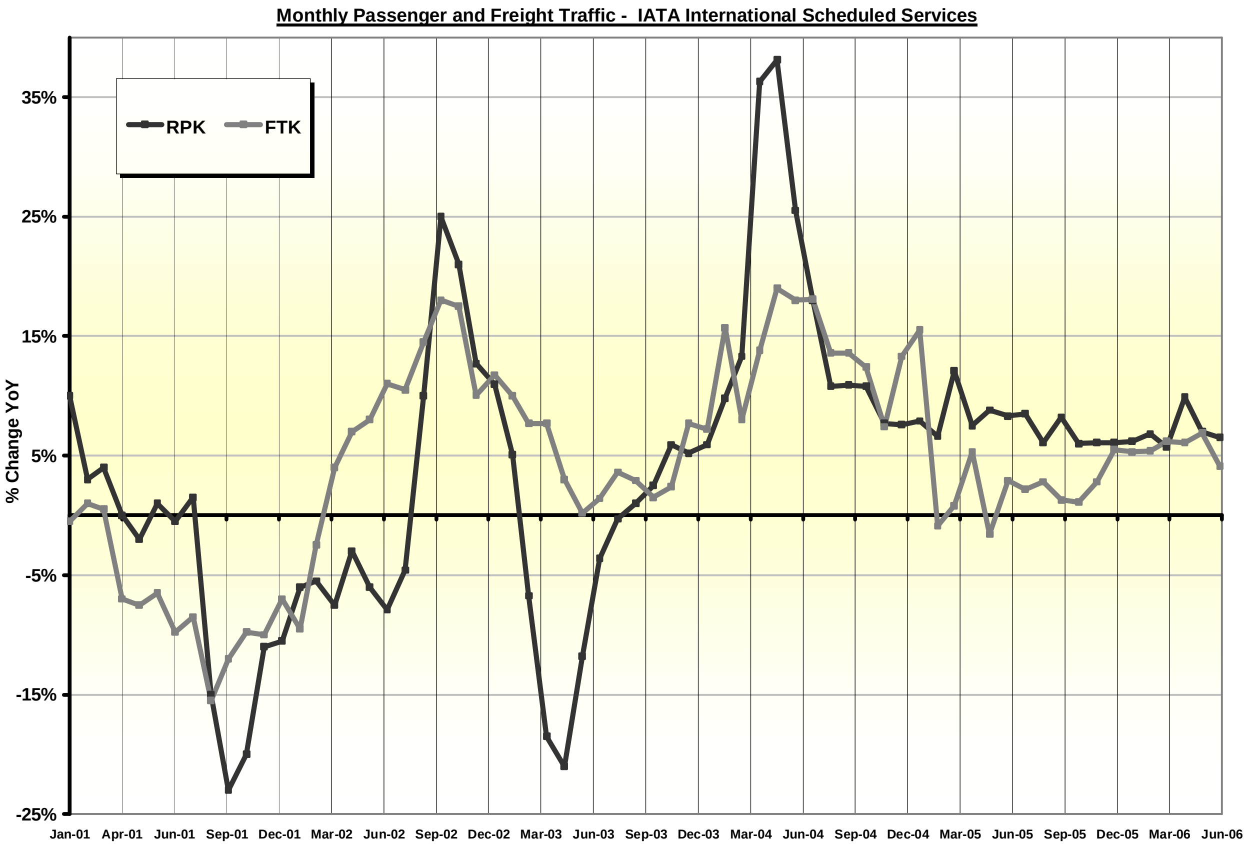
"The bottom line is all about oil. Prices continue at near record levels and we expect a fuel bill of US$112 billion this year at an average price of US$66 per barrel. Increased political instability in the Middle East does not bode well for a price drop any time soon. The good news is that neither the extraordinary price of oil nor the inching-up of interest rates negatively impacted demand," said Giovanni Bisignani, IATA's Director General and CEO.

Bisignani continued, "The revenue environment is strong. In each of the last three years, revenues increased 10%. And careful capacity management has seen global load factors move about the 75% level for the first half of the year. None-the-less, airlines will still end the year US$3 billion in the red."

"Change is urgent and now is the time. Airline efficiency gains must be matched throughout the value chain. And we must find new ways of doing business. Airlines are leading the way by Simplifying the Business. The 100% conversion to e-ticketing by the end of 2007 is a great example. But we now look to the oil industry to move faster at developing alternative fuels to further improve efficiency and environmental performance," said Bisignani.

June 2006 (Percentage Change over June 2005)					
Carriers	Passenger			Freight	
	RPK%	ASK%	PLF%	FTK%	ATK%
Africa	11.9	9.7	65.6	9.8	7.8
Asia / Pacific	5.2	1.9	76.4	2.3	1.7
Europe	6.2	4.9	79.4	2.4	4.8
Latin America	-4.1	-5.2	71.2	-2.3	-4.5
Middle East	17.1	15.2	73.6	19.2	18.1
North America	6.8	5.1	85.3	6.3	5.2
Overall	**6.5**	**4.4**	**78.3**	**4.1**	**4.6**
January–June Year-to-Date 2006 (Percentage Change over **Jan–Jun Y-t-D 2005**)					
	RPK%	ASK%	PLF pts	FTK%	ATK%
Overall	**6.7**	**4.9**	**75.1**	**5.2**	**5.4**

All figures are provisional—represent total reporting plus estimates for missing data



IATA moderated industry profit and loss expectations for 2006 in the face of expectations that the price of oil will average $66 a barrel, a level that is offsetting revenue growth and efficiency gains. Speaking at the opening of the World Air Transport Summit and AGM in Paris, CEO and DG Giovanni Bisignani said airlines will lose $3 billion this year. In late March he put the figure at $2.2 billion based on $57 per barrel oil.

Problems in the US domestic market continue to thwart the recovery elsewhere, with US carriers expected to lose $5.2 billion domestically while IATA members in aggregate earn $2.2 billion from international operations. Airlines in Europe are expected to earn $1.3 billion and Asia/Pacific carriers $1.7 billion. Airlines in the Middle East and Latin America regions will achieve breakeven results while African carriers shed $900 million.

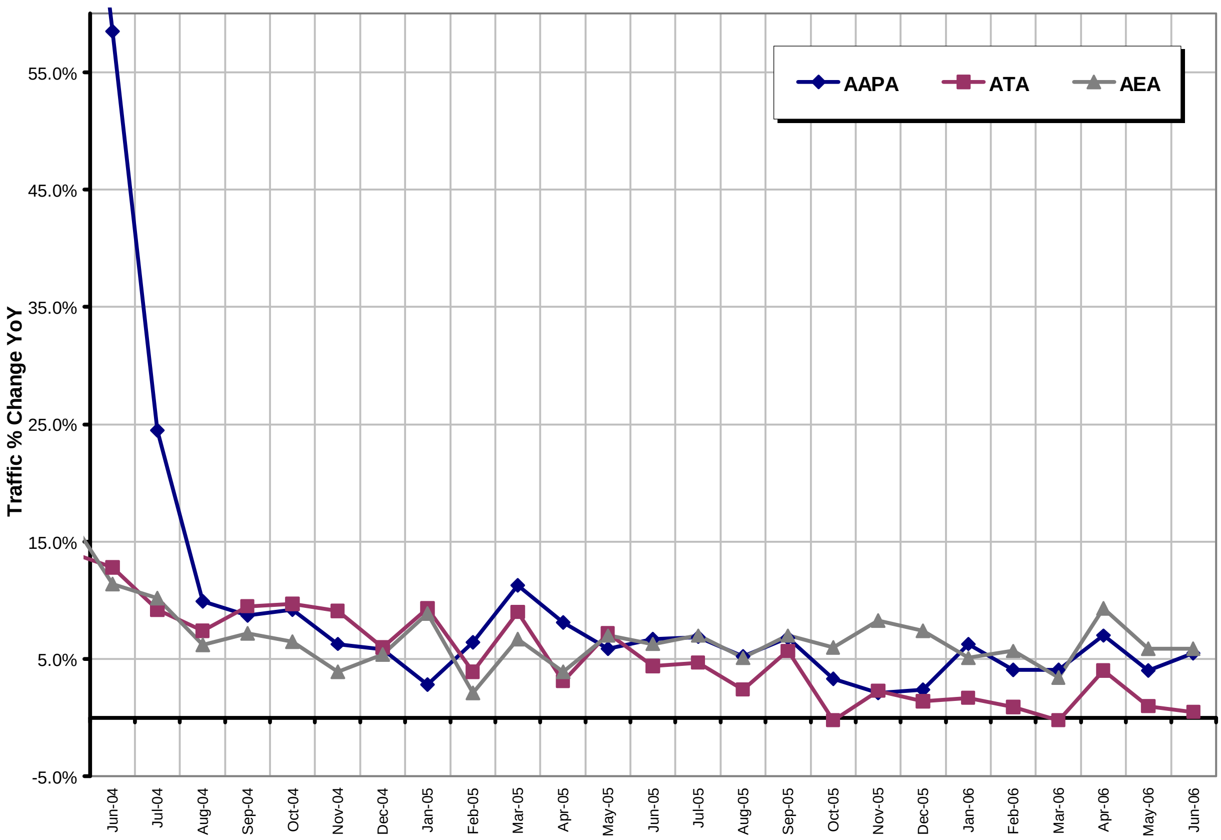
Despite the downward revision, Bisignani said the industry is "starting to see some light at the end of a five-year tunnel--some cautious optimism." But he also issued a warning: "Sometimes we have been our own worst enemy--chasing growth instead of profitability." Record aircraft orders "could be our Achilles heel if we stop managing capacity carefully."

ICAO issued a preliminary financial estimate for 2005 showing that scheduled airlines of the 189 member states achieved an operating profit of approximately $4.13 billion last year, compared to $3.41 billion in 2004, on a 9.1% rise in revenues to $413.3 billion. ICAO estimated the industry had a 2005 net loss, excluding reorganization costs of US carriers, representing 0.8% of operating revenues, which can be calculated at $3.31 billion. For 2004, ICAO estimated the loss at 1.5% of turnover, which can be calculated as $5.68 billion.

Regional Traffic and Performance:

By grouping together and contrasting the operating figures from the three main airline associations of the world – the **AAPA** (**A**ssociation of **A**sia **P**acific **A**irlines), the **AEA** (**A**ssociation of **E**uropean **A**irlines) and the **ATA** (**A**ir **T**ransport **A**ssociations) of America – we are clearly able to see that the industry has more or less recovered, even without including all the low-cost traffic in these statistics.

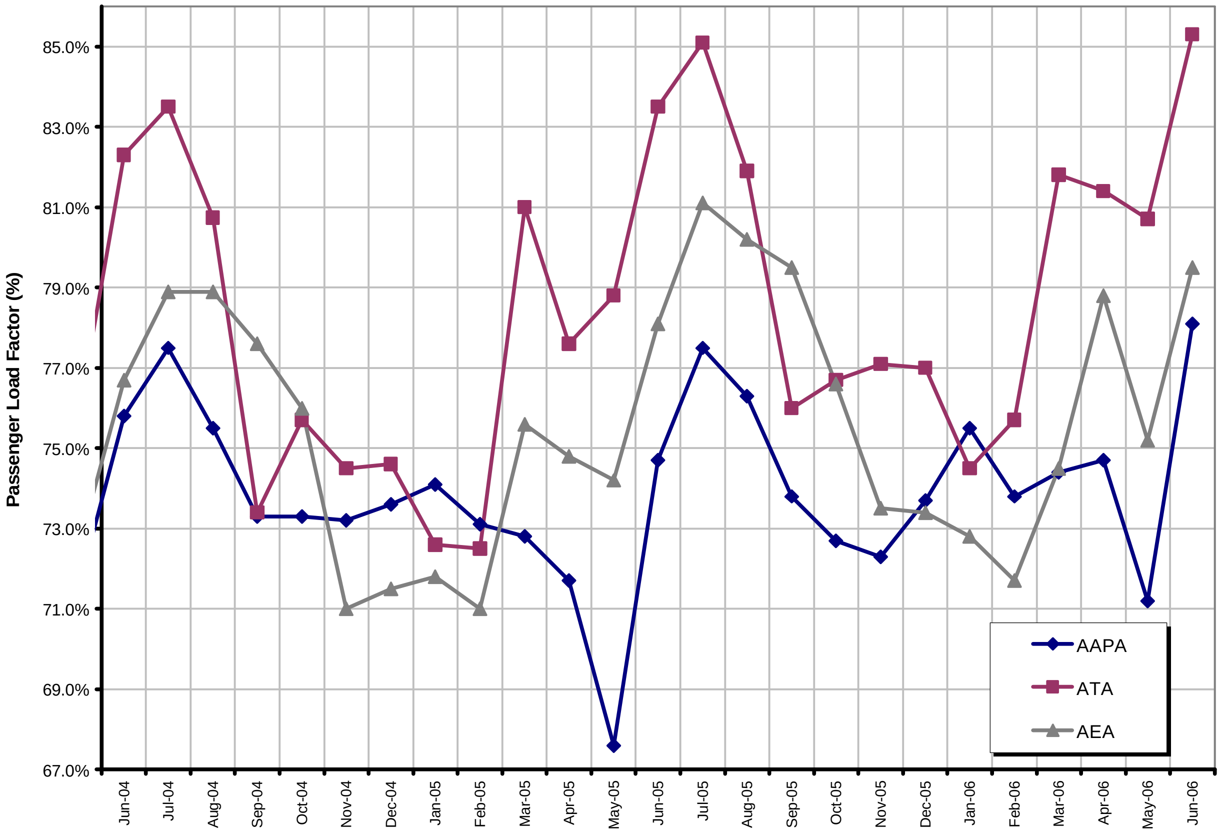
Revenue Passenger Kilometres (RPKs):



In terms of **revenue passenger kilometres (RPKs)**, passenger traffic for the Asia Pacific airlines continued its positive growth trend for the first half of 2006, as it had also displayed for the entirety of 2005. Peaking in April at 7.0%, May and June 2006 also reported positive figures of +4.0% and +5.5% respectively. After a dip in March, ATA airlines maintained their positive trend, with May and June 2006 posting small, but positive growth with +1.0% and +0.5% respectively. After peaking in April, the European airlines stabilised their respectable growth trend at 5.9% for both May and June 2006.

Passenger Load Factors (PLF):

With passenger traffic rising as previously mentioned for the Asia Pacific airlines, and capacity expanding in June 2006 by just +0.6%, this resulted in a substantial improvement of +3.6 percentage points in passenger load factor, to a high 78.1%. Capacity for the ATA airlines has been slightly decreasing over the first half of 2006. Combined with a positive growth in RPMs since April, this resulted in an increase of PLF in June 2006, by 1.8% over the previous year, reaching a high 85.3%. A positive capacity increase for the European airlines, coupled with a much higher increase in traffic RPKs, PLF increase by 1.3 percentage points in June 2006, recording a nine-month high figure of 79.5%.



Regional Developments

Asia Pacific:

Preliminary results for **June 2006** show further growth in the **Association of Asia Pacific Airlines (AAPA)** passenger traffic, with 11.1 million international passengers carried during the month, up 5.5%, boosted by travel during the busy holiday period. Traffic measured in revenue passenger kilometres (RPK) terms grew by 5.5% and, with capacity up just 0.6%, resulted in a 3.6 percentage point improvement in load factor to 78.1%.

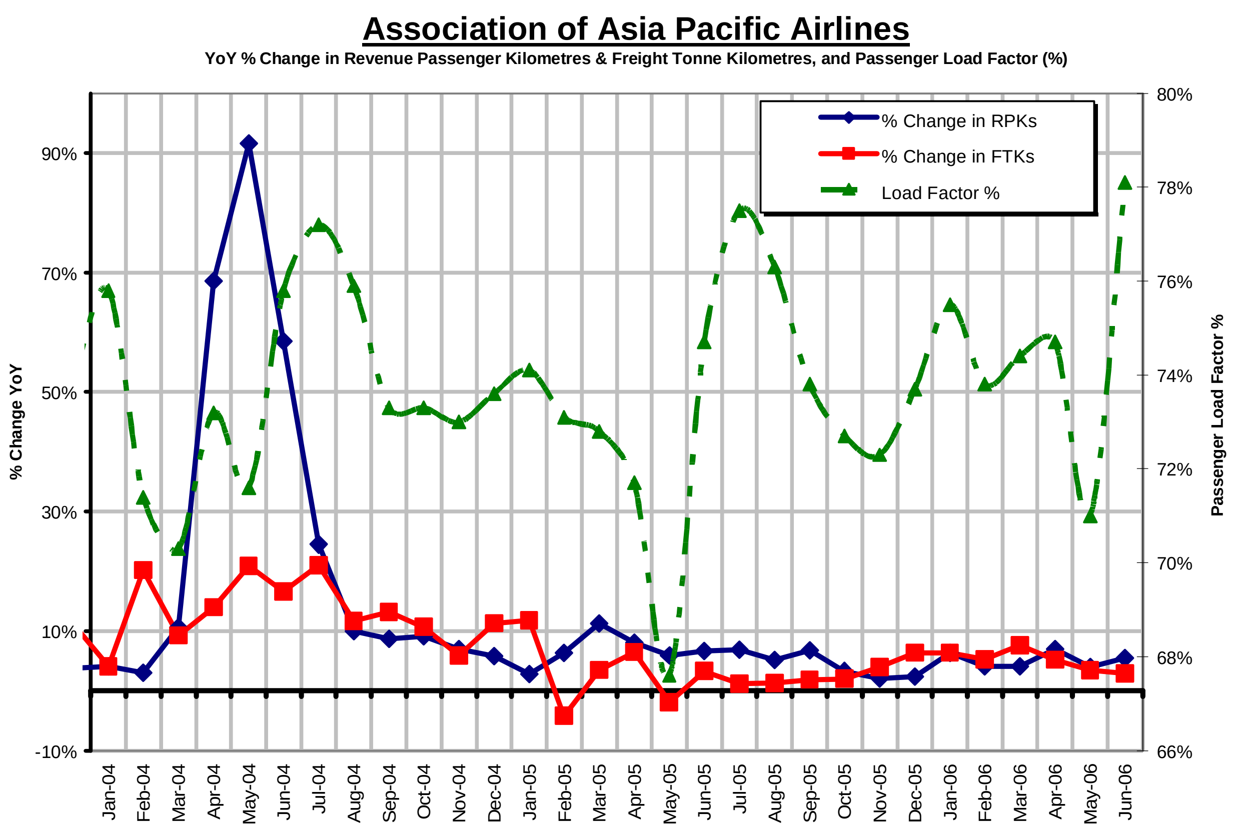
AAPA international cargo traffic in June rose by 2.9% in freight tonne kilometres (FTK) terms. Capacity however, grew by just 3.5%, bringing about a 0.4 percentage point decline in the freight load factor to 66.6%.

Commenting on the figures, Mr. Andrew Herdman, AAPA's Director General, said:

"Reflecting solid and sustained travel demand, AAPA airlines carried 65 million international passengers in the first half of 2006, an increase of 5.1% on the same period last year. Meanwhile, air cargo traffic grew by 4.7%. The outlook for the global economy remains positive, but the risk remains that high oil prices may eventually undermine consumer confidence."

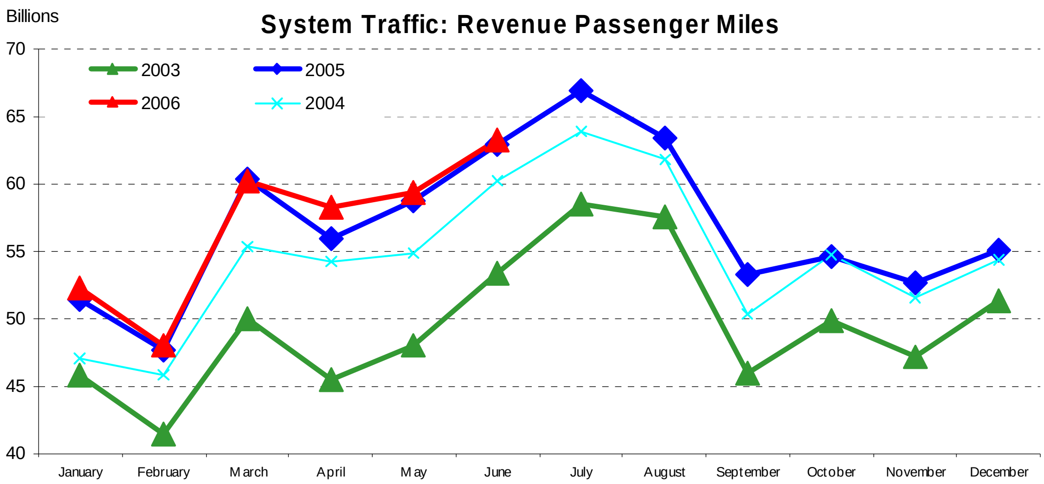
June 2006			
	June 2006	June 2005	% Change
Passengers Carried (000)	11,136	10,559	5.5
Revenue Passenger Kilometres (000)	46,821,150	44,400,682	5.5
Available Seat Kilometres (000)	59,978,713	59,646,383	0.6
Passenger Load Factor (%)	78.1	74.5	+3.6 points
Freight Tonne Kilometres (000)	4,406,964	4,284,520	2.9
Available Freight Tonne Kilometres (000)	6,620,964	6,399,583	3.5
Freight Load Factor (%)	66.6	67.0	-0.4 points

January – June 2006			
	Jan-Jun 2006	Jan-Jun 2005	% Change
Passengers Carried (000)	64,999	61,873	5.1
Revenue Passenger Kilometres (000)	269,556,155	256,720,340	5.0
Available Seat Kilometres (000)	361,129,675	354,759,651	1.8
Passenger Load Factor (%)	74.6	72.3	+2.3 points
Freight Tonne Kilometres (000)	25,769,744	24,609,830	4.7
Available Freight Tonne Kilometres (000)	38,736,125	37,570,874	3.1
Freight Load Factor (%)	66.5	65.5	+1.0 point



America:

The **American Air Transport Association (ATA)** monthly traffic figures have maintained growth when compared year-on-year. **May** and **June 2006** displayed only a slight growth increase over the same periods in 2005 with traffic increasing by **1.0%** and **0.5%** respectively:

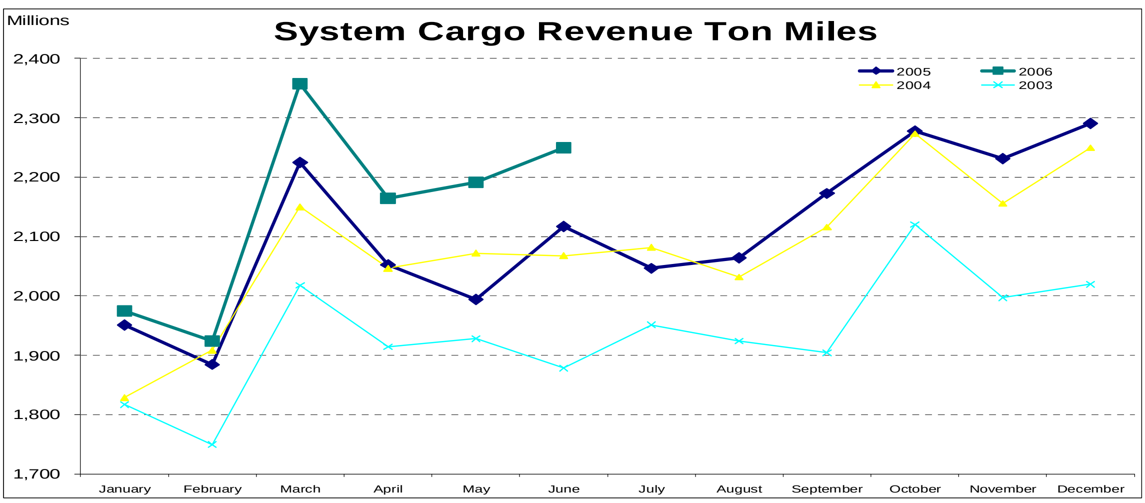


All **international** routes experienced positive growth during June 2006 of 7.2%, though domestic routes were down 2.2%. Hence, Systemwide RPM growth was just 0.5% over June 2005 figures. Highest growth was witnessed on Atlantic routes reaching 11.3% increase of the previous year, followed by 7.5% for Latin American routes and just 0.3% for Pacific. Systemwide capacity fell slightly by 1.6% resulting in a 1.8 point increase in load factor, reaching a high 85.3%

For the short period **January-June 2006** Systemwide traffic **increased** slightly by **1.3%** compared to the same period of the previous year. Capacity fell by 1.5%. Load Factor subsequently also enjoyed a modest increase of 2.2 percentage points, reaching 80.1%.

<u>US Cargo Traffic</u>

Monthly figures for 2006 have maintained positive growth over comparable periods in the previous year. **June 2006** kept up this positive trend and although Systemwide **mail** was up by just 0.3%, **freight and express** increased by **6.5%** and hence, **total cargo** recorded an increase of **6.2%**:



Europe:

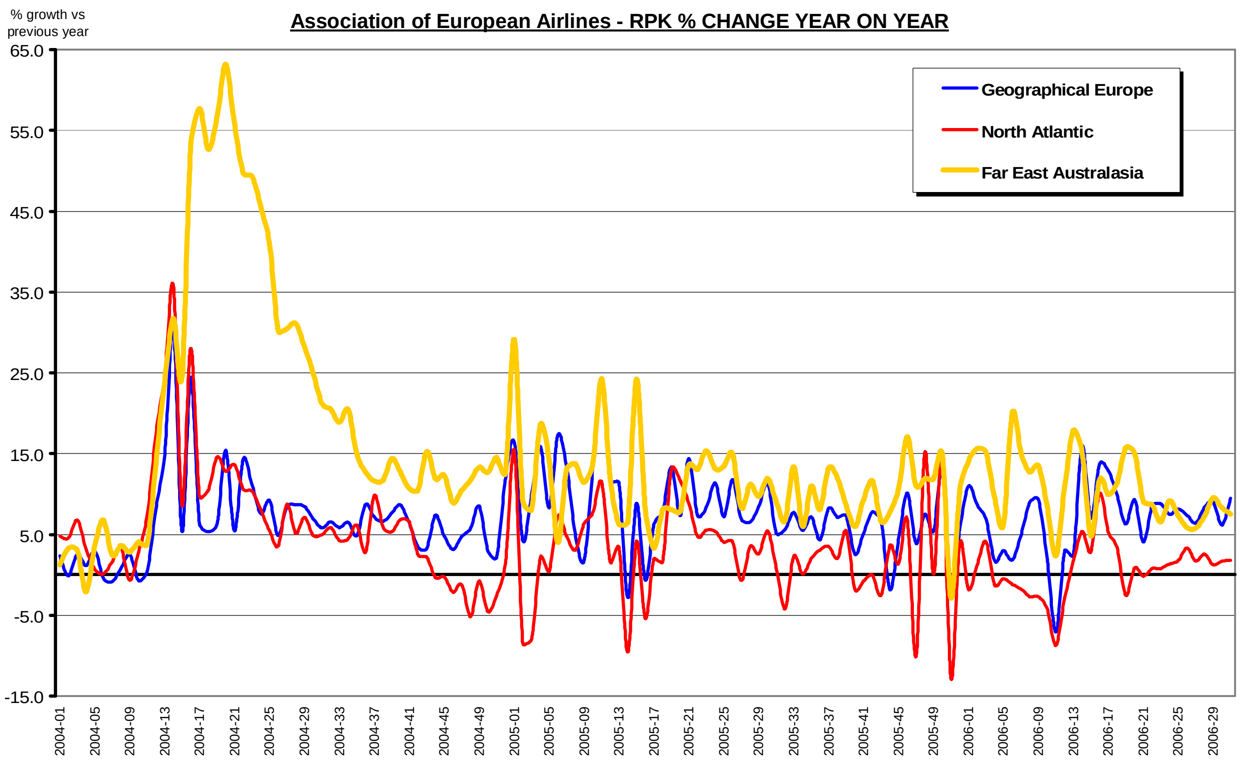
The Association of European Airlines has released traffic and capacity data for its members in June 2006.

Traffic patterns continued very much as they had done through the first part of the year, and the 'bottom line' figures for the month, of +5.0% passenger boardings, +5.9% passenger-kilometres, +4.2% seat-km and +1.3pts load factor, were almost identical to the half-year totals.

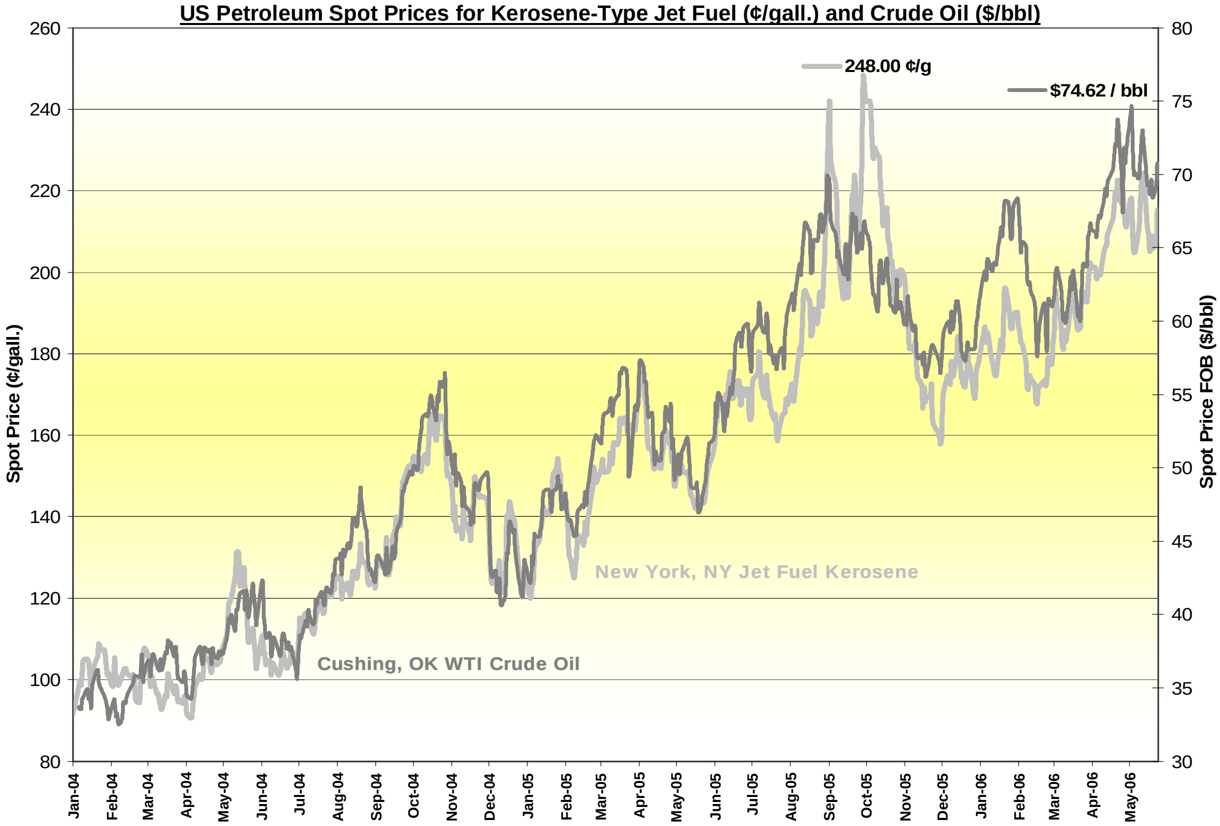
Cross-border traffic in Europe was up 8.5%, an 18-month high if Easter effects are discounted. This was accommodated within a 5.4% capacity increase, leading to a 2.1 percentage-point growth in load factor to 73.6%. This figure has only ever been exceeded on two occasions, in July and September last year.

On Far Eastern routes, the AEA carriers throttled back on their capacity growth, to a still-solid 7.8%, with the result that the monthly growth slipped below double digits, to 9.1%, for the first time in more than a year.

The North Atlantic continues to be characterised by very modest capacity development – in this case +1.3% – accompanied by slightly higher traffic growth (+2.3%) driving already-high load factors into new territory. The June occupancy figure of 89.4% was the highest load factor ever recorded by AEA, in any month, on any route group.



Jet Fuel Spot Prices



Source: US Energy Information Administration

New York **Jet Fuel** Kerosene reached a crippling spot price of **248.00 ¢/gallon** on September 28th, 2005 and Cushing OK WTI **Crude Oil** reached a phenomenal spot price of **US$77.05 per barrel** on August 7th, 2006.

Individual Airlines (Highlights)

The Americas:

North America:

ACE Aviation Holdings announced the sale of an additional 2.75 million shares of US Airways Group stock in June and July "through a series of transactions on the open stock market" that netted proceeds of $137.9 million. Air Canada's parent said it has earned $205.5 million from the sale of shares in its Star Alliance partner from an initial investment of $75 million in September 2005. ACE still holds 500,000 shares.

The records piled up for **AirTran Airways** in the second quarter, with net income of $32 million--nearly triple the year-ago quarter's $11.4 million profit--the highest in any three-month period in its 13-year history. All-time quarterly records also were set for RPMs, capacity, enplaned passengers and load factor. Revenues surged 44.2% to $528.2 million and expenses climbed 36.6% to $473.7 million as fuel costs rose 61.7% to $175.1 million. Operating profit jumped to $54.5 million from $19.5 million in the year-ago quarter.
AirTran flew 3.7 billion RPMs, up 25.9%, against a 23.3% increase in capacity to 4.74 billion ASMs, lifting load factor 2.4 points to 78.1%. It took delivery of six 737s and two 717s during the quarter. For the six months ended June 30, the carrier posted net income of $27.4 million, eight times the $3.3 million earned in the year-ago period. Revenue was up 41.8% to $944.2 million, expenses rose 36.3% to $894.2 million and operating income increased to $50 million from $10.1 million.

Alaska Air Group, parent of Alaska Airlines and Horizon Air, reported net income of $55.5 million for the second quarter ended June 30, more than triple the net income of $17.4 million in the year-ago quarter, strong results that the company attributed to "a combination of revenue gains and cost improvements." Group operating revenues grew 15.4% to $873 million while expenses climbed 10.1% to $792.9 million. Operating income more than doubled to $80.1 million from $36.6 million last year.
Alaska Airlines revenues rose 15.3% to $710.4 million against an 8.2% lift in expenses to $639.5 million, while Horizon revenues climbed 15.7% to $162.7 million as expenses rose 18.7% to $152.5 million. Alaska posted operating income of $70.9 million, up 178% over $25.5 million in the year-ago quarter. Horizon reported operating income of $10.2 million, down slightly from $12.1 million last year.
For the six months, Alaska Air Group posted a net loss of $23.6 million, a 62.5% drop from a net loss of $63.1 million in the first half of 2005.

American Airlines parent **AMR Corp.** earned $291 million in the second quarter ended June 30, widened from a profit of $58 million in the same period last year and only the carrier's second profitable quarter in the last 5.5 years.
Second-quarter revenues were $4.7 billion, 10.7% above the $4.3 billion for the year-ago quarter. Expenses increased 12.5% to $6 billion from $5.3 billion, with fuel costs jumping 26.5% to $1.7 billion from $1.3 billion last year. Operating income totalled $476 million, more than doubling operating income of $229 million in the year-ago period.
Mainline RPMs increased 3% to 36.8 billion as capacity dropped 0.9% to 44.6 billion ASMs. Second-quarter mainline load factor rose 3.1 points to 82.6%.
As part of ongoing efforts to reduce costs, AA will return 19 leased 757s it inherited in its 2001 buyout of TWA's assets when the planes' leases expire in 2008 and 2009.
For the first six months of 2006, AMR reported net income of $199 million, a significant increase over a $104 million net loss in the first half of 2005. Half-year revenues increased 12.5% to $11.3 billion while expenses rose 9.4% to $10.7 billion and operating income jumped more than 100% to $591 million.

In a rare commitment by a US Major for widebody aircraft, **Continental Airlines** announced an order for 10 additional 787s, doubling the order it placed in December 2004 and making it the largest US customer for the Dreamliner. CO also said it will acquire 24 more 737NGs, bringing the number of firm orders for the type to 66. The 20 787s begin delivery in 2009, with the first additional 737 arriving in 2008.

The carrier currently operates 299 737s including 147 NGs, 17 757-300s, 26 767 family aircraft and 18 777-200ERs. It has two 777s on order.

Continental Airlines concluded its best quarter since 2001 with a net profit of $198 million, nearly double the $100 million earned in the second quarter of 2005. While expenses did rise 19.2% to $3.26 billion, Continental's ability to attract more passengers and implement "several fare increases" boosted turnover 22.8% to $3.51 billion, more than doubling operating income to $244 million from $119 million in the year-ago quarter. It recorded $10 million in special charges, comprising a $14 million settlement charge related to lump-sum payments to retiring pilots and a $4 million reduction of an older charge related to the grounding of leased MD-80s.
Consolidated traffic during the quarter grew 15.2% to 23.37 billion RPMs. Capacity rose 10.9% to 28.26 billion ASMs and load factor climbed 3.1 points to 82.7%, a record for the period.
The airline said it is in "advanced discussions" on a capacity purchase agreement for 40-50 regional jets to partially replace the 69 retained by ExpressJet. With the addition of two 777s early next year, it anticipates growing mainline capacity 5% and consolidated capacity 3%-4% in 2007.
For the first six months of 2006, net profit was $132 million compared to an $86 million loss in the year-ago period. Revenues rose 20.3% to $6.45 billion; expenses increased 14.4% to $6.2 billion and operating result improved from a $54 million loss to a $255 million profit.

Continental Airlines officially selected **Chautauqua Airlines** to provide and operate 44 regional jets as a Continental Express carrier beginning in 2007, filling a void created earlier this year when the Major failed to reach agreement with ExpressJet on a new capacity purchase deal to keep the Regional's 69 aircraft flying under the CO code. Continental announced three months ago that it had chosen Chautauqua, a subsidiary of Republic Airways Holdings, as a replacement and now has firmed an agreement that will see the Regional operate 50-seat RJs on behalf of CO. The Major will continue to schedule and market all of its Continental Express service.
According to Chautauqua, CO will purchase all capacity at predetermined rates and industry standard pass-through costs. The first aircraft is expected to be placed into service next January and the last in July. All aircraft covered by the agreement will be leased by Chautauqua from third-party lessors and all fuel will be purchased directly by CO and will not be charged back to Chautauqua.
Continental said it has no plans to bridge the capacity gap between Chautauqua's 44 planes and ExpressJet's 69, noting that the additional 25 aircraft are not currently necessary.

Delta Air Lines told the US Bankruptcy Court in New York that it has signed a letter of intent with ILFC to lease 10 757-200ERs.The aircraft, powered by Pratt & Whitney PW2037s, will be delivered from July 15 through Nov. 15, 2007, after undergoing C checks and painting, and will be leased for seven years and three months each, according to the filing. The rent figures were not disclosed.
In addition, ILFC will provide a cash contribution toward the purchase of winglets that will remain installed after each airplane is returned. If approval is granted by the court, which Delta expects to occur by July 27, it said it will sign lease documents before Aug. 4.
"The Letter of Intent (and the Lease Documents that will be executed thereafter) will permit Delta to lease and operate the Aircraft which Delta has determined, in its sound business judgment, will be beneficial to its on-going efforts to reconfigure its fleet towards an expanded international capacity," the airline's attorneys wrote.
The carrier has been slashing domestic capacity in recent months while adding to its international route network. It has launched more than 50 international routes in the past year and will fly 350 times per week between the US and Europe this summer and nearly 500 times per week to Latin America. It has added more 757s to its fleet in the past year than any other type while decreasing the number of 737s and 767s in operation. In May 2005 it had 85 757-200s in its fleet while this May it had 121.
Delta's capacity reconfiguration is evident in its June traffic results, released earlier this month. It flew 11.11 billion system RPMs in June, a 0.1% dip from the year-ago month. Overall capacity declined 3% to 13.16 billion ASMs and load factor rose 2.5 points to 84.5%. But domestic RPMs fell 10% to 7.57 billion against a 13.5% drop in capacity to 8.99 billion ASMs, lifting load factor 3.2 points to 84.1%. Meanwhile, international traffic soared 30.6% to 3.55 billion RPMs, capacity grew 31.3% to 4.17 billion ASMs and load factor slipped 0.4 point to 85.1%.

Driven by growing revenues on transpacific services, **FedEx** posted fiscal fourth-quarter net income of $568 million, a 26.8% increase over earnings of $448 million in the year-ago quarter. The FedEx Express airline segment produced operating income of $560 million for the period ended May 31, a 29.9% improvement over $431 million last year. Perhaps more importantly, Express achieved an operating margin of 10%; a figure that long has been a target of FedEx executives.
For the full year, FedEx reported net income of $1.8 billion, up 25% over net income of $1.45 billion in FY05. Revenues were $32.3 billion, up 10% from $29.4 billion the previous year. Operating expenses rose 9% year-over-year to $29.3 billion compared to $26.9 billion last year.
FedEx Express posted full-year operating income of $1.76 billion, up 25% over operating income of $1.41 billion for FY05. The unit's annual revenues reached $21.45 billion, a 10% increase, as operating expenses grew 9% to $19.7 billion. Fuel expenses surged 38% in the fiscal year to $2.8 billion. Fourth-quarter revenues were $5.6 billion, up 10% from $5.1 billion in the year-ago quarter, as quarterly operating expenses climbed 8% to $5.1 billion.

Frontier Airlines posted net income of $4 million for its fiscal first quarter ended June 30, a solid improvement over a net loss of $2.7 million in the year-ago quarter. Revenues for the quarter totalled $302.1 million, up 27.8% over revenues of $236.4 million in the year-ago quarter, as operating expenses rose 22.6% to $291.4 million including a 51.2% surge in fuel costs to $90.4 million. Operating income was $10.7 million, an improvement over an operating loss of $1.2 million last year. Mainline RPMs grew 24.2% to 2.28 billion on an 18.9% increase in capacity to 2.79 billion ASMs. Load factor rose 3.5 points to 81.9%.

After two consecutive quarters in the red, **JetBlue Airways** announced a return to profitability with net earnings of $14 million during the three months ended June 30, an increase of just 7.7% over the $13 million profit in the year-ago quarter but a performance that represented "a definite step in the right direction."
Operating revenues surged 42.4% to $612 million from $429 million in the year-ago period. Expenses jumped 45.2% to $565 million, driven by a 72.4% rise in fuel costs to $192 million and a 27.1% increase in employee costs to $134 million. Operating profit climbed 15.5% to $47 million from $40 million.
JetBlue remains $18 million in the red after the first six months. It posted a $19 million profit in the year-ago period. Revenues rose 37.3% to $1.1 billion in the first half and expenses climbed 46.5% to $1.08 billion, lowering operating profit 67.1% to $22 million from $65 million.

MAIR Holdings, parent of Mesaba Airlines and Big Sky Airlines, reported a loss of $82.8 million in a fiscal year ended March 31 that turned on the bankruptcy of its primary subsidiary last fall.
MAIR earned $7.4 million in the prior fiscal year. Mesaba lost $70.7 million in the current 12-month period, including a $45.6 million fourth-quarter net loss driven by $20.2 million in reorganization items, a $6.2 million operating loss and a $29.1 million reserve for unsecured funds owed by Northwest Airlines prior to its own entry into bankruptcy.
MAIR's FY06 operating revenues narrowed 42.1% to $256.3 million and expenses fell 26.5% to $319 million as Mesaba's operation shrank. The parent swung from an $8.6 million operating profit to a $62.7 million operating loss.
MAIR's fourth-quarter loss was $54.1 million, widened from $1.7 million in the year-ago period. Revenues plunged 95.1% to $5.4 million and expenses dropped 82.5% to $19.9 million. Operating loss grew from $3.2 million to $14.5 million.

Northwest Airlines said it will accelerate the retirement of its 12 remaining DC-10s, all GE CF6-50-powered dash 30s, over the next seven months. It is the last Major US passenger airline to operate the type. The DC-10s will be replaced with newly arriving A330s on transatlantic services and three parked 747-400s that are being returned to service on transpacific routes, NWA said. Currently, DC-10s operate on seven routes.
The remaining DC-10s include five of the last six off the production line before McDonnell Douglas switched to the MD-11. Ironically, the DC-10 proved to be a more durable type in North America. American Airlines and Delta Air Lines, the two US customers for the MD-11, both have disposed of their fleets.

Northwest Airlines is seeking to lower its annual fleet ownership costs by $400 million as part of its Chapter 11 bankruptcy restructuring. The airline faces greater challenges than other bankrupt carriers regarding its aircraft costs because "pre-filing [for bankruptcy] it predominately owned their fleet, whereas others have a larger percentage of leased aircraft. NWA is attempting to negotiate new terms for interest payments on aircraft it owns and may seek alternate ways of financing aircraft to reduce its outright ownership burden.

Republic Airlines reached a purchase agreement for 30 Embraer 175s, expanding its existing service contract with US Airways and making it the US launch customer for the 86-seat jet. The Regional currently operates 28 170s for US Airways. The 175s, which will be delivered in 2007 and 2008, will be operated under a 12-year capacity purchase contract that stipulates US will continue to supply fuel at no cost to its partner. Republic Airlines is a subsidiary of Republic Airways, the US launch customer for the 170 with 106 firm orders and 75 options for 170s/175s.
Republic Airways Holdings also is the parent of Shuttle America and Chautauqua Airlines. The Indianapolis-based carriers operate a total of 166 aircraft including 71 170s. In addition to US Airways, the company has codeshare agreements with Delta Air Lines, United Airlines and American Connection and recently announced its fifth codeshare partner, Continental Airlines.
The 175s will replace 20 50-seat ERJ-145s currently operated for US Airways by Chautauqua Airlines. Those aircraft will be switched over to service for Continental, which finalized its capacity purchase agreement with Chautauqua. The remaining 10 175s will either replace retiring aircraft or be used for future growth. Republic operates 1,000 flights per day to 89 cities in 35 states.

Reaping the benefits of capacity cutbacks by its legacy competition, **Southwest Airlines** enjoyed record revenues in the second quarter ended June 30 and more than doubled its net income to $333 million from earnings of $144 million in the year-ago quarter. Southwest generated a record $2.45 billion in revenues during the three-month period, a 26% increase over $1.94 billion in the year-ago quarter. Expenses climbed 21.3% to $2.05 billion and operating income surged 57% to $402 million from $256 million.
Unit costs increased 13.1% to 8.95 cents as fuel expense went up 39.2% to $1.42 per gal. The company realized a $225 million cash benefit during the quarter from its hedging position. It is more than 73% hedged for the remainder of the year at approximately $36 per barrel.
For the six-month period, net income grew 93.1% to $394 million as revenues climbed 23.9% to $4.47 billion and expenses increased 21.3% to $3.97 billion, lifting operating profit 48.4% to $500 million.

Spirit Airlines announced that Indigo Partners, the Arizona-based investment firm run by former America West Airlines head William Franke and Oaktree Capital Management of California, which already was a Spirit investor, "will provide significant resources for the Company to consolidate its position as the leading low-cost carrier to the Caribbean and pursue its long-term growth strategy. Spirit operates 30 aircraft on 130 daily flights to 30 destinations. It is replacing its MD-80 fleet with A320 family aircraft, a process that has cost millions but should conclude in September. It lost $62.1 million in 2005, narrowed from a $93.2 million loss in 2004.
Separately, Spirit flew 372.5 million RPMs in June, a 4.1% drop from the year-ago month. Capacity fell 3.6% to 453.7 million ASMs and load factor declined 0.4 point to 82.1%.

United Airlines will report its first quarterly profit excluding unusual items in six years when it releases its second-quarter results on July 31.Parent UAL Corp. took the unusual step of unveiling preliminary figures in a filing designed to offer guidance to investors as it prepares to issue $726 million in convertible notes to an employee trust by Aug. 1. The company anticipates net earnings of $119 million, or $141 million excluding a one-time severance payment in the June quarter, reversing a $1.43 billion loss in the year-ago quarter, or $26 million excluding reorganization and special items.
UAL expects to report operating revenues of $5.11 billion, up 15.6% over last year. Expenses will rise 10.9% to $4.85 billion and operating profit will grow more than fivefold to $260 million from $48 million.

The merger of **US Airways Group** and **America West Airlines** continues to pay big dividends, according to President and CEO Doug Parker, who said it was the "primary driver" behind second-quarter net earnings of $305 million for the combined company.

Although results are not directly comparable to the year-ago period when the airlines operated independently, the figure represents a significant improvement over an approximate combined pro forma loss of $46 million by the constituent companies, America West Airlines ($2 million) and US Airways Inc. ($44 million), in the 2005 quarter. In the 2006 quarter, US earned $246 million on a standalone basis and AWA earned $68 million. The result includes $35 million in merger-related transition expenses and $25 million in special gains.
Group revenues of $3.19 billion were 14.1% higher than the $2.8 billion generated by the two airlines on a pro forma basis in the year-ago quarter. Expenses climbed just 4.7% to $2.85 billion. The operating profit of $342 million compares to the $74 million earned by US and AWA last year.
US Airways mainline flew 9.91 billion RPMs during the quarter, a decline of 7.6%. Capacity dropped 12.8% to 12.06 billion ASMs and load factor rose 4.6 points to 82.2%.
AWA mainline RPMs dipped 2.3% to 6.24 billion as capacity declined at the same rate to 7.58 billion ASMs. Load factor was level at 82.3%.
The group posted a profit of $370 million in the first six months of 2006 compared to a pro forma loss of $478 million in the year-ago semester. It said it remains on schedule to combine the two operating certificates into one by this time next year.

Virgin Atlantic reported a pre-tax profit of £41.6 million ($75.6 million) for the fiscal year ended Feb. 28, more than double the £20.1 million earned a year ago, a jump it attributed to a "large increase" in business passengers at primary subsidiary Virgin Atlantic Airways. The company, also parent to Virgin Nigeria Airways and tour operator Virgin Holidays, posted annual revenues of £1.91 billion, up 17.2% from £1.63 billion in the previous fiscal year.
Virgin said premium-paying passengers, who increased 10.1% over the prior year, provided a big earnings boost. "The profits came despite a tougher operating environment, with a 30% increase in fuel costs over the year and continuing overcapacity on some routes, especially between the UK and the North Atlantic," it said in a statement. Virgin Atlantic and Virgin Nigeria carried a combined 4.9 million passengers for the year, up 11%.

World Air Holdings finally reported its 2005 fourth-quarter and full-year financial results, posting net income of $31.6 million for the year, increased 23.4% from $25.6 million in 2004. WAH, parent of wet-lease specialist World Airways and charter carrier North American Airlines, missed several reporting deadlines and was de-listed by NASDAQ as a result.
Revenues in 2005 were $787.1 million, up 56%, while operating income increased 41% to $56.6 million from $40.3 million the previous year. For the fourth quarter, net income rose 33.3% to $10.8 million. Operating income was $18.4 million, more than double the year-ago period, on revenues of $237.1 million, up 83.2%.
WAH issued updated guidance for the 2006 first quarter ended March 31, saying that revenues "are expected to be in the range of $214 million to $216 million," slightly below previous expectations, and operating income will be $7-$9 million, slightly above previous guidance..

Central/South America:

AeroMexico will lease three 787-8s from International Lease Finance Corp., with deliveries beginning in 2010. The aircraft will replace 767s on leases set to expire and will be used on flights to Europe and Asia. ILFC has 20 787s on firm order. AeroMexico recently took delivery of two 777-200ERs. "With similar speeds, mission capabilities and cockpit commonality, the combination of the 787 with the 777 will provide AeroMexico with optimum fleet flexibility on long-range missions," said BCA.

Demand that outpaced capacity, floundering competition and effective cost and fuel management resulted in another good quarter for **Gol**, which finished the three months ended June 30 with a net income of BRL106.7 million ($48.8 million), an increase of 45.4% over the BRL73.4 million earned in the second quarter of 2005. Through the addition of aircraft and flight frequencies during the quarter, Gol significantly increased its domestic market share [by 6 points to 35%] and further consolidated its position as the second-largest domestic airline in Brazil.

The airline added five leased 737s--bringing its fleet to 50 aircraft--62 flights and one destination (Santarem) during the quarter, helping drive a 50.1% rise in operating revenue to BRL844 million as traffic growth helped offset falling yields. Expenses climbed 49.2% to BRL711.8 million helped by a strengthened real and fuel hedges that resulted in a 1.9% year-over-year drop in fuel cost per ASK. Operating profit surged 55.6% to BRL132.3 million from BRL85 million.
Traffic was up 57.3% to 3.52 billion RPKs as capacity grew 50.4% to 4.64 billion ASKs and load factor improved 3.3 points to 75.9%.

LAN posted a profit of $16.5 million in the second quarter after a one-time charge of $6.4 million related to severance payments, reduced 38% from $26.6 million in the second quarter of 2005. However, the airline group's operating performance was sound for a period that traditionally is the weakest in South America. Operating revenues climbed 21% to $690 million, driven by a 23.1% rise in passenger revenues. Expenses grew 19.8%--LAN did not provide a figure--and operating income surged 60.8% to $25.4 million. This was achieved despite a $36.4 million jump in fuel costs, $9.4 million in losses in LAN's Argentine domestic market and a 37% decline in fuel hedge gains to $10.4 million.
The company said it also incurred significant costs related to the addition of 11 aircraft in the second half of this year. It took delivery of a 767-300ER recently and will take two more this fall. It will add eight A319s and a 767-300F by year end.
LAN said its operating performance highlighted its "ability to adapt to challenging conditions by rapidly adjusting its operations and deploying cost containment measures." Among those were layoffs that resulted in the severance payment. It said the cuts will result in annual savings of $15 million.
In the first six months, LAN earned $96.1 million, up 31.8% compared to a $72.9 million profit in the year-ago period. Operating income increased 30% to $94.1 million from $72.4 million.

TAM signed an MOU with Airbus to acquire 37 aircraft, boosting both the manufacturer's flagging fortunes and the airline's hopes for domestic dominance as Varig lingers on the verge of shutdown. The order comprises 15 A319s, 16 A320s and six A330s to be delivered through 2010. Last year, TAM ordered 29 A320s for delivery in the same timeframe, plus 20 options. The announcement comes on the heels of a March IPO that netted the airline approximately $700 million, which it said it would funnel mainly into fleet renewal and expansion. TAM expects to be operating 41 A320s, 13 A319s, 22 F100s and 10 A330s by year end. It will phase out the F100s by 2010, at which time it will fly 111 A319s/A320s and 16 A330s.

Varig may not be well, but it is alive; three days after its bid was rejected by the airline's creditors, freight and logistics company VarigLog, the former Varig subsidiary purchased this year by a consortium led by Volo do Brasil, was the sole and winning bidder at a public auction. It paid BRL52.4 million ($23.9 million), according to press reports, and will split Varig into two companies, one operational and one that will handle facilities and the carrier's $3 billion debt. Volo will not be responsible for the debt. The airline currently is flying just 13 aircraft and will have to negotiate the fate of much of its fleet with leasing companies.
VarigLog agreed to invest more than $600 million--$128 million for assets like routes, slots and brand and $485 million for operations. Its initial bid of $500 million was turned down by creditors. Reportedly, documents filed with auction officials indicated the new owners might eliminate up to 80% of Varig's workforce of about 10,000 employees.

Europe:

European low-cost carriers operated 16.3% of all flights in May, according to a market analysis issued by **Eurocontrol**. In the past 12 months, LCCs added 2.4 points to their market share through re-branding and organic growth. The number of flights operated by LCCs in the first five months of 2006 increased 23% year-over-year to more than 3,700 per day and there are now 15 low-cost operators with more than 50 daily flights compared to 13 a year ago. Overall, Europe now has 50 LCCs, down by two since last year, with low-cost companies operating out of 22 countries.
The UK still is the largest low-cost market, with 32% of its flights operated by LCCs. This compares with a 21% share in Poland and Spain. Finland, Poland, Denmark and Latvia have seen the low-cost market

share jump by more than 5% but others, including Hungary, Slovenia and Greece, have lost market share. A 2% increase per year is the average, which is the same rate of market share growth seen in previous years.
The Eurocontrol analysis also shows that there is no apparent shifting of low-cost flights from larger airports to smaller ones. London Stansted remains the airport with the largest number of budget flights, followed by Gatwick, Dublin, Luton and Cologne/Bonn. Ten of the top 25 low-cost country-pair flows involve the UK and account for 42% of all low-cost flights.
Slovakia is the national market where individual flows are most dominated by LCCs. However, the biggest markets remain dominated by traditional carriers: Out of the top 10 total country-pair flows in Europe, low-cost carriers have the highest share in only one, between Spain and the UK.

Aegean Airlines ordered three more IAE V2500-powered A320s, bringing its total order for the type to 14 including three leased from ILFC, plus nine options. It signed the initial agreement in December. The new A320s are scheduled to be delivered between January 2007 and April 2009 and will replace older aircraft and be used for expansion on routes from the carrier's Athens and Thessaloniki bases

Irish Transport Minister Martin Cullen outlined privatization plans for **Aer Lingus** to Ireland's parliament, confirming the government's April decision to sell off most of its stake in the carrier by the end of September. The share sale will include both an offering to "domestic and international institutions" and an IPO. It has not yet been determined how many shares will go to retail investors and how many will be put up in the IPO, but the government will retain at least a 25.1% stake in the airline, Cullen said.
He said retail investors will be required to make a minimum investment of €10,000 ($12,766). He added that by retaining more than a quarter of the shares, the government will maintain "significant influence over matters requiring shareholder approval."

Austrian Airlines Group announced its half-year financial results and revealed that it will not achieve a balanced adjusted EBIT this year as planned owing to "continued high kerosene prices that exceed our budgetary assumptions, already set high as a precautionary measure, and because of the negative consequences of the capacity bottlenecks that have emerged at Austrian air traffic control since spring."
AAG's six-month loss narrowed to €61 million ($77.1 million) from €79 million in the first half of 2005 but its quarterly loss of €3.9 million was a reversal from a €3.4 million profit in the second quarter last year.
Quarterly operating revenues climbed 9.9% to €694.7 million and expenses rose 5.5% to €685.6 million. Adjusted EBIT nearly tripled to €6.1 million from €2.1 million. For the semester, operating revenue increased 13.2% to €1.26 billion while expenses grew 7.9% to €1.3 billion and adjusted EBIT narrowed to a €47.8 million loss from a €64.1 million loss.

Blue Wings signed an MOU with Airbus for 20 A320 family aircraft, the plane-maker announced. The order is worth $1.6 billion at list prices, according to press, which said the deal reached at Farnborough comprised 16 150-seat A320s and four 185-seat A321s to be delivered starting in 2009. Blue Wings is based in Dusseldorf and operates mostly charter services to Turkey, the Middle East and South Asia. It plans to launch flights to the CIS. It is 48% owned by Alpstream AG, a Zurich-based affiliate of Russian National Reserve Corp.

Cyprus Airways finalized the sale of charter subsidiary **Eurocypria** to the government, according to press reports. The deal, worth CYP13.5 million ($29.9 million), is part of the carrier's restructuring. The government said that the acquisition and spin-off of Eurocypria were designed to create a second, debt-free scheduled carrier. Eurocypria took delivery of its fifth 737-800.

Dba purchased the remaining 40% stake in LTU German Airlines held by Rewe Group through the Intro Verwaultungs investment concern belonging to Hans Rudolf Woehrl, dba's largest shareholder. Intro now owns 100% of LTU, having acquired a 60% share of the struggling charter carrier in a deal announced in February. Woehrl will face difficulties attempting to implement a €45 million ($57.3 million) cost-cutting program at LTU. The airline is struggling with high fuel costs and increasing pressure from low-cost carriers.

EasyJet issued new full-year profit guidance, forecasting that its pre-tax earnings will increase 40%-50% rather than the 10%-15% originally predicted. It reported a net profit of £59 million ($108.3 million) for the year ended Sept. 30, 2005, based on International Financial Reporting Standards. The new guidance comes after unit revenue rose 17% in the third quarter. In June, passenger numbers climbed 15.6% over the year-ago month to 3 million and load factor increased 2 points to 87.6%.

Futura International Airways of Palma de Mallorca ordered three 737-800s plus three purchase rights, Boeing announced. The three firm aircraft are worth about $210 million at list prices and are scheduled for delivery in 2009 and 2010. Futura, owned in part by Spanish equity firm Corpfin Capital (65%) and Aer Lingus (20%), operates 11 dash 800s and 13 other 737 family aircraft.

Spain's **Grupo Marsans** signed an MOU with Airbus here to purchase 12 A330-200s plus 10 options for delivery in 2008 and 2009. They will replace 747-200s operated by Grupo Marsans subsidiaries and also provide growth. Engine selection has not yet been made.

Iberia confirmed that its new Barcelona-based LCC, now formally named **Clickair**, will launch in October with 12 domestic and additional European destinations, press reported. Originally dubbed Catair after its Catalonia home, the airline officially has been branded Clickair to highlight the importance of the Internet to its sales efforts. Iberia pilots participated in a three-day strike earlier this month that ended when the airline guaranteed no jobs would be lost because of the new venture

Lufthansa released preliminary financial results for first-half 2006 that showed a profit of €85 million ($107.3 million) compared to €0.2 million in net earnings for the same period in 2005.Operating profit increased 17.4% to €297 million from €253 million, while revenues climbed 12.9% to €9.6 billion. LH said the addition of the stakes acquired in Swiss International Air Lines and the Eurowings companies should be taken into account when making year-over-year comparisons.

Lufthansa offered an expanded version of its second-quarter and half-year results, confirming it's previous announcement that it posted a profit of €183 million ($232.8 million) in the three-month period ended June 30, up 57.8% from the year-ago quarter, and a six-month profit of €85 million compared to last year's breakeven result. Lufthansa Group's outlook is optimistic despite concerns about high fuel costs and competitive price pressure.
Second-quarter revenues increased 14.4% year-over-year to €5.2 billion and operating profit rose 32.9% to €384 million. For the six-month period, revenues grew 14.2% to €9.65 billion against a 12.5% hike in expenses to €9.9 billion, sending operating profit up 30% to €338 million from €260 million.
The passenger airline segment enjoyed a 35.9% rise in six-month operating profit to €140 million on a 15% lift in revenues to €6.52 billion. Traffic was up 0.9% to 52.7 billion RPKs as capacity climbed 1.5% to 71.26 billion ASKs, dropping load factor 0.3 point to 74%. LH's cargo load factor gained 2.4 points to 67.2%.
Among other Group segments, LH Technik saw its six-month operating profit fall 19.6% to €111 million, Lufthansa Logistics more than doubled its operating result to €47 million, Thomas Cook AG narrowed its loss to €200 million and LH Systems' operating profit declined 16.7% to €20 million.

Lufthansa Cargo is evaluating replacement of its 19 MD-11 freighters, which have an average age of eight years, as it looks to brace itself for tough competition in the years ahead. The 747-400ERF, 747-8 or 777F are LHC's most realistic options.
The operator commented that the 747 must have a nose door to be considered and that LHC no longer wants a mixed freighter fleet and is not interested in passenger-to-freighter conversions like several of the MD-11Fs it currently operates. They are not interested in the A380F: "So far, only integrators like FedEx have ordered the A380F. To operate them there must be a super infrastructure at the airport, but that is not the case on many routes we fly."
Further challenges in 2006 lie in LHC's implementation of the new EU aviation security regulations, fierce competition in its home market and ongoing efforts to obtain a favourable ruling on operating night flights at Frankfurt. Start-up Jade Cargo International, in which LHC holds a 25% stake, will operate its first flight on Aug. 8 from Shenzhen. LHC is studying how best to cooperate with Jade.

One-off costs related to air traffic control, "irregularities" at Oslo Gardermoen and ground and engine mishaps took a chunk out of **Norwegian's** second-quarter profit, which came in at NOK17.8 million ($2.8 million) after taxes, a figure that represented a 20.3% improvement over earnings of NOK14.8 million in the year-ago period but was "below our expectations" for the current term. The factors cost the airline NOK17 million, but it said it was able to maintain profitability thanks to record traffic. Operating revenue for the three months to June 30 climbed 44% to NOK764.6 million while costs increased 45.9% to NOK730 million, lifting EBITDA 12.3% to NOK34.6 million.
Passenger numbers surged 49% year-over-year to 1.3 million and RPKs rose 43% as the company increased its fleet from 13 aircraft to 16. Capacity grew 41% to 1.32 billion ASKs and load factor climbed 1 point to 79%. Unit costs rose 3.8% to NOK0.55.
Operating costs are expected to rise as Norwegian switches handling agents in Oslo, the fleet expands to 20 737-300s and unit costs for the summer period are NOK0.005-0.01 higher than forecast.

The replacement carrier for troubled **Olympic Airlines** is supposed to start operating this fall, Sabre Aviation Consulting Services President Nejib Ben-Khedher announced during the IATA conference in Paris. Sabre's consulting arm was contracted by the Greek government to find investors and work out a business plan for the start-up, which probably will be called Pantheon Airways. The government will be a shareholder of the new carrier but the size of that stake is unclear. "Pantheon will be run as a private airline, but one can assume some senior management will come from Olympic," Ben-Khedher said.
In April, the European Commission referred Greece to the European Court of Justice for its failure to recover some €540 million ($695.3 million) of illegal state aid from Olympic Airways and successor Olympic Airlines. The creation of Pantheon unquestionably is related to this decision, as returning that amount would force OA into de facto bankruptcy.
Pantheon's structure appears similar to the construction of SN Brussels Airlines, which arose from the bankrupt Belgian national carrier, and more recently the restructuring of Alitalia. Only flight activities would "migrate" to the new entity while services like ground handling and catering would be outsourced. Pantheon will operate primarily within Europe, possibly adding destinations not served currently by Olympic.

Ryanair called its growth "inexorable" as it reported a record €302 million ($390.9 million) after-tax profit for the financial year ended March 31, a figure approximately €7 million above forecast and 12% higher than the €268 million earned in the previous fiscal year. It did issue a "cautious" outlook for the coming term, predicting that traffic will climb 20%, yields will remain flat and profit will grow by a more "modest" 5%-10%.
Fiscal year revenues increased 28% to €1.69 billion and the company operated on an 18% margin. Traffic was up 26% to 35 million passengers against a 27% capacity increase on 330 routes operated by 103 aircraft. Yield increased just 1% and unit costs rose 5%, but dropped 6% excluding fuel. The airline has hedged 90% of its fuel needs through September at an average of $70 per barrel but is fully exposed from October on.

Airbus was able to secure an expected order for 20 A320s from **Wizz Air** for delivery in 2009-11. The deal follows on last year's order by the Polish LCC for 12 A320s plus 12 options. The agreement covered the exercise of those options plus eight more aircraft. All will be powered by IAE V2500s. By 2012, Wizz Air hopes to operate up to 53 A320 aircraft.

Asia Pacific:

China's General Administration of Civil Aviation said that Chinese carriers lost more than CNY3 billion ($374.7 million) in the first six months of 2006 owing to rising fuel prices, according to press reports. Passenger numbers climbed 17.9% to 74.3 million and freight increased 11.4% to 1.6 million tonnes.

AirAsia will have the lift to match its ambition after signing a contract with Airbus for 40 A320 family aircraft and 30 options, the manufacturer announced. The deal is worth approximately $2.7 billion, according to press reports. AirAsia Group, comprising the Malaysian mainline, Thai AirAsia and AirAsia Indonesia, is replacing its 737 fleet. It currently operates 21 737-300s and seven A320s, with another 53 already on order. Thai AirAsia has nine dash 300s.

Air China offered HK$3.23 billion ($416 million) to increase its stake in Cathay Pacific Airways to 17.5% as part of a transaction that will privatize China National Aviation Co., which controls Air Macau and catering, maintenance and ground handling services. CNAC agreed to sell its stake in Dragonair as part of the deal in which Cathay is taking over its fellow Hong Kong airline.

The much-anticipated change in shareholder structure among **Cathay Pacific Airways**, **Dragonair** and **Air China** announced by owners Swire Pacific, CNAC and CITIC Pacific is set to create the most powerful airline group in Asia. Under the agreement, which is subject to shareholder approvals, Dragonair will be wholly owned by Cathay Pacific and Air China will acquire a 17.5% stake in CX, which in turn will double its holding in Air China to 20%. Swire will remain the principal long-term shareholder in Cathay. Dragonair will continue to operate under its own brand but under Cathay management, while CX and Air China will continue to develop closer ties.
The far-reaching deals end several years of sparring between Cathay and Dragonair over access to the Chinese mainland. The emergence of powerful players such as China Southern Airlines and China Eastern Airlines and the liberalization of air routes into China drove the restructuring k.
Under the agreement, CX will buy the 82.21% of Dragonair it does not already own for HK$8.22 billion ($1.06 billion). Air China will become a substantial shareholder of CX with a 10.16% stake, purchasing shares from Swire and CITIC for HK$5.39 billion. Air China and its CNAC subsidiary will own 17.5% of CX, which will double its holding in CA for HK$4.1 billion.

With its share/management restructure with Dragonair bedded down, **Cathay Pacific Airways** moved quickly to expand its freighter fleet with an order for six 747-400ERFs that takes up all the remaining slots for the standard 747.The PW4062A-powered aircraft are scheduled to arrive between May 2008 and April 2009. They will be deployed on routes to North America.
The airline operates 14 747 freighters comprising one dash 400BCF, six dash 400Fs and seven dash 200Fs. It has an outstanding order for five dash 400BCFs and options on another six. Dragonair's freighter fleet consists of four 747-200s/300s, one wet-leased A300B4 and one wet-leased 747-400F.
Cathay has been considered a significant driver of the 747-8 program but has yet to commit. However, recent studies done by Boeing to stretch the 747-8 Intercontinental to hold up to 500 passengers are thought to be aimed at CX.

China Southern Airlines confirmed it will take 50 A320s as its allocation from the Chinese government's order of 150 A320 family aircraft booked in December, which enabled Airbus to pip Boeing in the order stakes. The third carrier to announce its allotment, China Southern's order is valued at $3.3 billion. It will take delivery in 2009 and 2010. Air China will take 24 A320s and China Eastern Airlines will take 30. A total of 46 remain to be allocated to three more airlines.

Hyderabad-based **Flyington Freighters** ordered four 777-200Fs saying that "our vision is to be one of the best and largest freighter operators in Asia within the next three years." The new airline will wet-lease some medium-capacity freighters to launch operations later this year.

GoAir signed a purchase agreement for 10 A320 family aircraft with an option for a further 10 here. The aircraft will be powered by CFM International engines. GoAir launched services with two leased A320s in November 2005, with a further five leased A320s scheduled to enter the fleet during 2006.

Jade Cargo International will begin operations at the beginning of August, immediately after taking delivery of its first 747-400ERF. Its second 747-400ERF is due to arrive in November. It has ordered a total of six with deliveries through January 2008. Jade was founded as a joint venture among Shenzhen Airlines (51%), Lufthansa Cargo (25%) and DEG (24%). It currently has 120 employees.

Five months after sealing a merger that would have created an airline with control of nearly half the Indian market, **Jet Airways** and **Air Sahara** have parted ways in acrimonious fashion and will head to court. Neither carrier issued a statement, but press reports from India said that Jet, which agreed in January to purchase its rival for $500 million, pulled out of the deal after struggling Air Sahara refused to renegotiate for a lower price ahead of the deadline. One report suggested Jet wanted to cut the purchase price by 20%-25%.
Air Sahara reportedly holds a 9%-13% market share, while Jet has 35%. Analysts were quoted as saying Jet would have had to pour too much money into the smaller carrier to turn it around. The airlines have filed lawsuits against each other to prevent the withdrawal of money placed into a common account, *press* reported.

New details emerged regarding the failed merger of **Jet Airways** and **Air Sahara** as the legal fight between the carriers escalated and may be headed for India's Supreme Court.
In an extensive interview, Air Sahara President Alok Sharma claimed Jet wanted to cut its $500 million acquisition price by 10%-20%, which Air Sahara "summarily rejected," effectively killing the deal.
He added that Sahara was "not willing to compromise on price" and offered an extension beyond the June 21 deadline for completing the takeover, but Jet decided to let the deal expire. Jet Airways said it was filing a petition with India's Supreme Court to transfer to the high court all lower court cases revolving around the failed merger, including a disputed $108.5 million escrow account.

Mumbai-based Indonesia's **Lion Air** exercised options on 30 737-900ERs, taking its orders to 60. The additional 30 aircraft will be delivered between 2010 and 2012. First deliveries from the first order placed last year, which launched the aircraft, are set for 2007.

Malaysia Airlines is expected to cancel its A380 commitment, according to sources, saying that MAS is close to cancelling its order for six aircraft. Before the delay announced by Airbus, MAS had been scheduled to take delivery of its first A380 in July 2007 and it's sixth in May 2009.

Qantas revealed that its pre-tax profit for the fiscal year ending June 30 will be approximately A$670 million ($494.3 million), which falls at the bottom of the A$670-A$895 million range forecast by analysts. The total is affected by an estimated $153 million in restructuring costs. "We have advised the market since reporting a 2004-05 profit before tax of A$914.3 million that we would not achieve the same level of profitability" in the current fiscal year, CEO Geoff Dixon said. "This position has been reinforced by a A$1 billion increase in fuel costs for 2005-06 after hedging, a significant amount of which will not be recovered by surcharges."

Singapore Airlines kicked Airbus while it was down, announcing that it signed a letter of intent to purchase 20 787-9s plus 20 options. SIA stressed, however, that the A380 delay did not affect its selection. Even though SIA expressed displeasure with the A350, the airline's reported concern over securing early Dreamliner delivery slots appeared to keep Airbus in the game. This did not matter in the end, and SIA opted not to wait for the redesigned A350 and instead will wait until 2011 to take its first 787. The order for the firm aircraft is worth $4.52 billion at list prices. Deliveries will occur through mid-2013. It did not announce an engine choice.
The carrier said it will fund the purchase "by cash flow generated from airline operations" and that its selection of the dash 9 variant was due to the fact that it has "the largest cabin and longest range." A larger version, the dash 10, has yet to be formally launched.

SriLankan Airlines Group is recovering gradually from the December 2004 tsunami, reporting a net profit of LKR2.04 billion ($19.6 million) for the fiscal year ended March 31 that marks a 48.3% improvement from the prior year's profit of LKR1.38 billion but still falls far short of the LKR5.64 billion it earned in FY04. The airline unit posted a profit of LKR797.9 million in the recent fiscal year compared to earnings of LKR7.7 million in FY05. Group operating revenue climbed 14.2% to LKR62.49 billion while expenses rose 11.8% to LKR60.6 billion, driven by a 39.7% jump in fuel costs.

Middle East & Africa:

Tripoli-based **Afriqiyah Airways** signed an MOU with Airbus for acquisition of six A320s, three A319s and three A330-200s as well as options on five A319s and three more A330s. Engine selections and delivery dates were not announced. The A319s will carry 124 passengers while the A320s will seat 250, both in two-class configuration. The A330s will operate in a three-class configuration seating 253.
Airbus also announced that Air Caraibes purchased an additional A330-300 for delivery in November 2008. It will replace one of two A330-200s operated by the Caribbean airline.

Nigerian start-up **Arik Air** took delivery of two CRJ900s in Montreal, becoming the first operator of the aircraft in Africa. Two aircraft now are making their way to Nigeria with two more to follow in the next several months. The airline stated that they had selected the CRJ900 because of its technology, operating economics and high level of customer support. He also said the airline recently acquired assets belonging to the former Nigeria Airways. In addition to the 900s that will begin service this summer, Arik has two previously owned 737s and three CRJ200s. The fleet also includes two Hawker 800XPs for corporate use.

Emirates signed a "heads of agreement," essentially a letter of intent, to take 10 GEnx-powered 747-8 Freighters worth $3.3 billion, becoming the third customer for the freighter version behind Cargolux and Nippon Cargo Airlines, which launched the program last year with combined firm orders for 18. The engine component of the deal was valued at more than $600 million by Emirates.
The order is for delivery from 2010. Emirates also announced it will add another two 747-400Fs to its leased fleet next year. The freighter orders have led to speculation that the carrier may order the passenger version to replace its order for 18 A340-600HGWs, which is on hold, although it does not operate any 747 passenger aircraft. The airline, which is doubling in size every four years, is targeting the projected 6% annual growth in air cargo.

Emirates remains totally committed to the A380, saying that fundamentally it promises to be a "superb aircraft. The airline urged Airbus to instigate program management changes quickly and refocus its energies on getting the program back on track.
Aside from the A380, Airbus still has challenges, the airline said. "We have not yet had a formal offering on the revised A350 [the so-called A370]. They have widened the fuselage and added a new high-speed wing but we have not seen a formal offering. The airline said the original A350 would have been a good aircraft if it was delivered in 1993." Emirates would prefer to wait to see exactly what the A370 will be before committing to the 787-10, "but we are running out of time." Airbus has not yet committed to going ahead with the new variant. "Airbus told us that Singapore Airlines was excited by the new A370, but then they ordered the 787-9."
Emirates needs to move on the 787-10 to protect delivery positions, as the dash 10 is what the airline asked for, although some carriers now want more range and Boeing still is working on the final definition. Emirates also want to see Airbus develop a quad from the revised A370. "We want the wider fuselage and 787 [type] engines. We will not be taking the A340-600s in their present form."

Load Air Cargo ordered two 747-400ERs for delivery in 2009. The recently launched Kuwait-based carrier holds an exclusive license to carry freight to and from Kuwait.

Royal Jordanian intends to make a decision before year end on the replacement of its long-haul fleet, President and CEO Samer Majali announced during the IATA AGM in Paris. He said the initial version of the A350 "could have worked for us" but that deciding between the 787 and A350 has become problematic as "it is difficult to base an analysis on an aircraft that is not yet defined." The long-haul fleet renewal should start in 2010 and comprise 8-10 aircraft. RJ currently deploys three A310s and four A340s on its long-haul network. It will upgrade the A310s with new business class seats and individual IFE units and "refresh" its A340s, which also will add personal IFE. It is in the process of negotiating with Airbus an extension of the leases on two A340s by three years, until 2010. The leases on its other two A340s expire in 2009.

The carrier also is in the midst of renewal of its single-aisle fleet. It has taken delivery of four new A320s, with a fifth due to arrive in Amman this month and a sixth in November. It finalized an order for seven Embraer 195s in March with deliveries starting in October.

Sky Airlines of Turkey placed an order for three firm 737-900ERs and two purchase rights, becoming the first European customer for the type launched last year, Boeing announced. The aircraft are valued at $226 million at list prices and are scheduled to begin delivery in the first quarter of 2009. Sky is a vacation airline operating a fleet of six 737-400s and one dash 800.

Falling yields, low-cost competition and soaring fuel costs had a devastating effect on **South African Airways'** bottom line during the fiscal year ended March 31 as profits plunged 90% to ZAR65 million ($9.1 million) from ZAR648 million, the carrier said, according to press reports. SAA released certain year-end performance indicators on its Web site, but did not include final profit figures. It did say that passenger revenue rose 0.8% to ZAR13 billion against a 3.5% decline in yield as it lost market share to low-fare carriers.
Domestic yield dropped 11% and international yield decreased as well. "It is clear that going forward, attention should be focused on enhancing yields on domestic and international routes," SAA said. Capacity increased 5.6%, passenger numbers rose 4.5% to 7.2 million and load factor remained steady at 70%.
The carrier said its freight revenue grew 7.9% to ZAR1.61 billion, MRO revenue climbed by more than 25% to ZAR470 million and "other airline income" more than doubled to ZAR3.78 billion, which included the increased fuel surcharges placed on tickets.
Operating costs went up 17.7% driven by a 53.1% spike in fuel expense to ZAR4.9 billion. SAA said it has hedged 40% of its fuel at an average of $62 per barrel. Operating costs rose 5.6% excluding fuel, which it said was "broadly in line with inflation."

Tunisair announced that its 2005 net profit improved 43% year-over-year to $29.6 million and that it is planning a $2.6 million capital increase to $60.5 million. It generated $676 million in operating revenues over the 12-month period, representing a 7% increase. Operating expenses also rose 7% to just under $664 million.

AIRCRAFT EQUIPMENT (Western-Built Jets)

May 2006 produced several significant orders for the main manufacturers:

NEW JET AIRCRAFT ORDERS – May 2006		
Airbus (6)	**Boeing (33)**	**Others (12)**
National Air Service – 2 x A318-100 **Tunis Air** – 1 x A319-114 **Unann. Non-Comm. Customer** – 1 x A319-100 **Unann. Non-Comm. Customer** – 1 x A319-100 **Unann. Non-Comm. Customer** – 1 x A330-200	**Alaska Airlines** – 1 x B737-890 **Sky Airlines** – 3 x B737-900ER **Unann. Comm. Customer** – 1 x B737-800 **Virgin Blue** – 5 x B737-8FE **Nippon Cargo Airlines** – 2 x B747-4KZF **Unann. Comm. Customer** – 1 x B747-8F **Unann. Comm. Customer** – 6 x B777-200LR **Unann. Comm. Customer** – 14 x B777-300ER	**Air One** – 6 x CRJ-900ER **Arik Air** – 2 x CRJ-900ER **Adnan Kassar** – 1 x ERJ-135 Legacy **Celtel International** – 1 x ERJ-135 Legacy **JT Aviation Corp** – 1 x ERJ-135 Legacy **Unconfirmed American Operator** – 1 x ERJ-135 Legacy
Total May 2006 Orders = 51		

Firm Backlog *(as at **August 14th 2006**):*

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Airbus	2098	45.25%
Boeing	2090	45.08%
Embraer	324	6.99%
Bombardier (Canadair)	87	1.88%
Boeing (McDonnell-Douglas)	31	0.67%
Harbin Embraer Aircraft Industry	5	0.11%
Avcraft	1	0.02%
TOTAL	4,636	100.00%

Aug-01	Aug-02	Aug-03	Aug-04	Aug-05	Aug-06
4,655	3,797	3,581	3,259	3,615	4,636

Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
JetBlue Airways	171	3.69%
Ryanair	142	3.06%
US Airways	132	2.85%
Southwest Airlines	126	2.72%
Emirates Airlines	105	2.26%
ANA - All Nippon Airways	104	2.24%
IndiGo Airlines	99	2.14%
AirAsia	91	1.96%
Continental Airlines	87	1.88%
Air China	73	1.57%
TOTAL	1,130	24.37%

Backlog - Top Ten Owners	Total Aircraft	% Share
ILFC	248	5.35%
JetBlue Airways	171	3.69%
General Electric Capital Corp	154	3.32%
Ryanair	142	3.06%
US Airways	132	2.85%
Southwest Airlines	126	2.72%
Emirates Airlines	105	2.26%
ANA - All Nippon Airways	104	2.24%
IndiGo Airlines	99	2.14%
AirAsia	91	1.96%
TOTAL	1,372	29.59%

Backlog - Operating Lease Companies	Total Aircraft	% Share
ILFC	248	44.93%
AerVenture	70	12.68%
CIT Leasing Corp	54	9.78%
RBS Aviation Capital	50	9.06%
Singapore Aircraft Leasing Enterprise Pte Ltd	30	5.43%
Finnair Aircraft Finance Ltd	19	3.44%
Aviation Capital Group	18	3.26%
ALAFCO Aviation Lease and Finance Company	15	2.72%
Low-Cost Aircraft Leasing	14	2.54%
AerCap	9	1.63%
FL Group	9	1.63%
Guggenheim Aviation Partners	6	1.09%
Bavaria International Aircraft Leasing GmbH	4	0.72%
GATX Air	2	0.36%
Aircraft Finance OY	1	0.18%
China Aviation Leasing Co., Ltd	1	0.18%
GATX Third Aircraft Corp	1	0.18%
GE Capital Hietfinans	1	0.18%
TOTAL	552	100.00%
Aircraft Manufacturer	**Total Aircraft**	**% Share**
Airbus	348	63.04%
Boeing	195	35.33%
Embraer	9	1.63%
TOTAL	552	100.00%

NB: Backlog figure considers Airlines / Op. Lease Companies as Owners

Backlog - Top Ten Operators	Total Aircraft	% Share
JetBlue Airways	171	3.69%
Ryanair	142	3.06%
US Airways	129	2.78%
Southwest Airlines	126	2.72%
Emirates Airlines	120	2.59%
ANA - All Nippon Airways	106	2.29%
IndiGo Airlines	99	2.14%
AirAsia	91	1.96%
Continental Airlines	87	1.88%
Air China	81	0.00%
TOTAL	1,152	23.10%

Manufacturers News

Airbus:

Airbus and parent EADS responded to increasing criticism over A380 program delays announced, with the focus intensifying on EADS Co-CEO Noel Forgeard's sale of €2.5 million ($3.2 million) in stock options three months prior to EADS' stock sinking 26% on news of the next-generation aircraft program's setback. Meanwhile, Airbus officials reassured airlines that the A380 still will be a success even as EADS said it was launching an internal investigation into the program's delays.

Airbus new aircraft sales picked up a bit as the embattled plane-maker reported orders for 12 aircraft in **June**, up from six in May and nine in April. All were for A320 family jets comprising four A319s, six A320sc and two A318s. The new commitments brought total first-half sales to 117, comprising 96 narrowbodies and 21 widebodies. Airbus sold just one widebody in the second quarter and that was to a non-airline.
Boeing has not released June monthly sales figures; however, in the period Jan. 1-July 5 it booked net orders for 480 aircraft, 122 of them occurring since the end of May. Thus it sold more airplanes in the June 1-July 5 period than Airbus has sold since January and has outsold Airbus by better than 4:1 since the year began. The 480 aircraft comprise 374 737s and BBJs, 11 747s, four 767s, 22 777s and 69 787s.

As expected, **Airbus** revealed a completely revamped A350 design featuring a cabin that is 12 in. wider than the A330 cabin cross-section and an all-new carbon fibre wing capable of Mach 0.85 cruise. "Virtually everything has changed," COO-Customers John Leahy said here.
The aircraft, named the **A350 XWB** (extra wide body), initially is being offered in three versions, one more than was presented last year. All will share a common range of 8,500 nm. (15,800 km.). The newest and largest is the dash 1000 capable of seating 350 in a typical three-class configuration with a nine-abreast economy cabin, placing it in the same class as the 777-300ER. MTOW is 290 tonnes and it will require engines in the 95,000-lb.-thrust range.
Airbus did not supply powerplant specifics but said the aircraft will offer "next-generation engines" providing a 2% SFC improvement versus the original A350. It also will have "a common engine type across the family," a statement that appears to mean General Electric will not participate in the program since the engine-maker does not intend to pursue development of a 95,000 lb. engine based on the GEnx currently offered for the A350. It already is supplying the GE90 in that thrust range, and the A350-1000 will compete directly with the 777-300ER for which the GE90-115 is the exclusive engine. Rolls-Royce is currently onboard the A350 with a variant of the Trent 1000.
The first version to deliver, in mid-2012, is the A350-900 at 265 tonnes, requiring 87,000 lb. thrust and seating 314 in a three-class configuration. New CEO Christian Streiff said he will do "everything humanly possible" to advance the timetable. The smaller A350-800 (245 tonnes, 75, 000 lb. thrust and seating 270) arrives in 2013. The A350-1000 will arrive in 2014.
In the new design, Airbus has eliminated its traditional rear fuselage taper so that the cross-section remains the same from door 1 to door 4. It claims windows will be 2 in. wider than those on the original A350, making them the widest of any aircraft being offered, according to Leahy. It says the A350 cabin will be 5 in. wider than the 787 at eye level (211 in. versus 206 in.).
Airbus also said the aircraft will offer more comfortable cabin pressure of 6,000 ft. or below and 20% cabin humidity levels, although it does not intend to use a composite fuselage and did not address issues such as corrosion and fatigue from the increased moisture and pressurization. The cockpit will feature technology and systems appearing in the A380.

Embattled **Airbus** ended the Farnborough Airshow on a high note, announcing that Singapore Airlines signed a letter of intent for up to 40 A350-900 XWBs and up to 15 A380s, for which SIA is the launch customer. The LOI covers 20 firm plus 20 options for the A350 XWB and nine new orders for the A380 plus six new options. The A350s will be delivered in 2012 and as an interim measure SIA will lease 19 A330-300s for delivery in 2009-10. The first of the newly ordered A380s will be delivered in mid-2008.
The commitment from SIA provided a big boost for Airbus, which spent the weeks before the show attempting to recover from delays to the A380 program and contending with airlines' concerns over the original A350 design as well as a political firestorm that led to the resignation of CEO Gustav Humbert.
The manufacturer unveiled a revamped A350 XWB at Farnborough and was able to secure an order by week's end. While Emirates and International Lease Finance Corp. say they have not seen guarantees on the A350 XWB, an SIA spokesperson said that the airline "had been given guarantees." SIA's order for the A350 XWBs does not affect its commitment for up to 40 787.

Overall, Airbus announced firm orders and commitments from 12 customers for 182 aircraft valued at $21.5 billion at Farnborough.
Meanwhile, the announcement that SIA is taking delivery of its nine new A380s from mid-2008 led analysts to speculate that some carriers have either cancelled delivery positions or let them slip. The latest production delays mean that Airbus likely will not catch up on deliveries until 2010, analysts said. No airlines have announced any cancellations formally, although industry speculation mounts on the exact status of orders by Malaysia Airlines and Thai Airways.

BAE:

BAE Systems confirmed that it served upon EADS a formal notice of exercise of its put option regarding BAE's sale of its 20% stake in Airbus back to the French-German company. BAE Systems had announced May 2 it would use the put option if it could not reach agreement on the value of the stake.

Boeing:

Boeing maintained a better than 3:1 sales lead over Airbus through the month of May, based on information obtained from both companies' websites. Airbus received orders for six aircraft in the month--two A318s, three A319s and one A330-200--bringing year-to-date sales to 105. The A330 and two of the A319s were sold to private customers.
Data from Boeing's website, meanwhile, is complete through June 7, but the manufacturer is not yet revealing its sales total through May 31. However, in the Jan. 1-May 30 period it listed 347 net orders, an increase of 22 units over net orders of 325 received between Jan. 1 and April 30. Boeing's year-to-date sales through June 7 numbered 405 units, including 12 737s from an unidentified customer. In total, 97 aircraft are listed as being from unidentified customers. Interestingly, Boeing actually is well ahead of its 2005 sales performance; in the first five months of 2005 it sold 279 aircraft.
Turning to deliveries, Airbus handed over 28 A320 family aircraft, two A300-600Rs, six A330-200s and an A340-600 in May for a total of 37, bringing the five-month figure to 170. Boeing delivered 126 aircraft through April including 28 in that month but has not released May delivery figures.

Boeing denied reports that its 787 program schedule has been affected by a fault in a composite fuselage barrel section. According to the manufacturer, the fault had been expected owing to a problem with a particular mandrel that developed a flaw, and reiterated that the program is on time.

The **Boeing 747-8 Intercontinental** order booked is a VIP transport for a Middle East-based buyer. According to sources in London, the order is linked to the order for 20 777s. That order is believed to be for Qatar Airways.
Meanwhile, Virgin Blue Airlines is the customer that exercised purchase rights for nine 737-800s, Boeing revealed. The aircraft had been listed on the airframer's orders and deliveries table as belonging to an unidentified customer. It is valued at $634.5 million at list prices and aircraft will begin delivering in 2008, replacing leased aircraft in Virgin Blue's fleet of 52 737NGs.

Boeing is coming under growing pressure to boost capacity on the 747-8 Intercontinental by two seat rows as airlines start to look at it as a possible alternative to the A380 rather than a model positioned between the 365-seat 777-300ER and 555-seat A380. Increasing the length of the dash 8 to that of the 747-8F adds 20 seats. Moving galley carts into the overhead space would add another 30, lifting seating capacity to 500 in the standard Boeing configuration compared to 416 for the 747-400 using the same rules. Currently the passenger variant has a 3.6-m. stretch while the freighter is stretched by 5.6 m.
The company also is well underway with trade studies that may see the Intercontinental with the same wing as the freighter, lifting the resale value for freighter conversion.

Boeing delivered 97 commercial aircraft in the second quarter, with 70 737NGs comprising most of the deliveries. The manufacturer also delivered 17 777s. In the year-ago period, Boeing delivered 85 commercial aircraft comprising three 717s, 59 737NGs, four 747s, one 757, four 767s and 14 777s. For the first half of 2006 it delivered 195 aircraft, including 142 737NGs and 34 777s.

Boeing opened the Farnborough Airshow with the stunning news that it is in negotiations with 30 customers for up to 1,000 787s. Commercial Airplanes CEO Alan Mulally delivered "Boeing's good news" just moments before Airbus unveiled its remade A350, the XWB (extra wide body).
Mulally said Boeing has a record high backlog that at the end of the first quarter topped $132 billion, more than double what it was just three years ago. The 787 is leading the charge with 28 customers for 403 aircraft. But he was coy on any new assembly line for the type with suppliers ramping up production capability within existing infrastructure. "We have not taken that [second production line] yet," he said.
He was candid on some supplier delays and weight issues on the 787 but told media that fixes are in place to address them. The 787 and 777 account for 61% of Boeing's backlog, with the 737 at 32%, the 747 at 7% and the 767 making up the balance.
Mulally declared that the 767 will continue to make a contribution to the backlog for "some time yet." He explained that as demand for 787s outstrips supply, airlines are seeking 767s to fill capacity shortfalls. He added that despite fuel prices, yields and productivity are rising and load factors are at all-time highs as the industry continues to restructure and liberalize.
However, he would not be drawn into how airline profitability will affect Boeing's sales--which stand at 480 to date--for the balance of this year. The company is hoping that its 747-8 will contribute to sales and that process should start with an order for 10 from Emirates. It is understood that airline, which has orders for 45 A380s, is interested in the 747-8 Intercontinental.

Boeing is close to announcing that its 747-8 Intercontinental will have the same fuselage length and wing as the 747-8F. Currently the passenger variant has a 3.6-m. stretch while the freighter is stretched by 5.6 m. Airlines have been pressing for more passenger capacity. The stretch would allow two additional seat rows, and combined with overhead galley cart storage would add an extra 30 seats, bumping the Intercontinental's capacity to 500 versus 550 for the A380 in most customer configurations. Adding the freighter wing also improves the aircraft's residual value.
Boeing also may give details at the show of the significant headway it is making in its attempt to lighten the 777-200LR by about 8 tons to fulfil Qantas's requirement for more range to meet its wish for year-round Sydney-London non-stop capability. Qantas also wants to use the aircraft to open Sydney-New York and Sydney-Dallas services.
Singapore Airlines is understood to be studying the developments as part of its RFP for up to 15 aircraft to replace its A340-500s on the New York-Singapore and Los Angeles-Singapore routes.

Boeing reported a second-quarter net loss of $160 million, a significant decline from net income of $532 million a year ago owing to more than $1 billion in one-time charges related to delays in its Airborne Early Warning & Control surveillance program and a previously announced settlement with the US Justice Dept. in two criminal cases. The company stressed that its outlook is strong, pointing to robust sales in its Commercial Airplanes business, which enjoyed record orders last year and has booked 487 gross orders so far in 2006.
Revenues for the second quarter rose 2% year-over-year to $15 billion. Operating loss was $48 million, a major decline from operating earnings of $818 million in the year-ago period.
The Commercial Airplanes unit posted $719 million in operating income for the quarter, 51.4% above $475 million last year, on a 10% jump in revenues to $7.11 billion. The manufacturer delivered 97 commercial aircraft in the quarter, 14% more than the 85 delivered in the 2005 period. Contractual backlog rose to $142 billion as it booked 311 gross orders.
For the six months ended June 30, Boeing recorded net income of $532 million, a 52% decline from net income of $1.1 billion in the year-ago period, on a 7% rise in revenues to $29.3 billion.
Meanwhile, the company reaffirmed its bullish air cargo forecast this week, projecting that the world freighter fleet will nearly double from 1,789 to 3,563 by 2025. Factoring in retirements, it estimates 2,983 freighters will be added to the global commercial fleet over the next 20 years. Some 62% of those additions will be widebodies.
Boeing also celebrated the delivery of its 2,000th 737NG, a dash 700 for Southwest Airlines. The 737NG has been in service since 1998.

Bombardier:

Bombardier said it will stay with the proposed CSeries program at least through this year, with a scaled-back team of engineers working on technology development issues for the 110/130-seat jet and a concerted effort to boost interest in the aircraft from international customers. But the future after 2006 is unclear.
Research shows there will be a $250 billion market for mainline aircraft in the 90/149-seat range over the next two decades. The program has failed to capture a number of partners or, perhaps most importantly, a launch customer. In January, Bombardier put the CSeries on the back burner but pledged to keep it alive for at least this year with $100 million earmarked for continued development.
The manufacturer also said it continues to explore options for a CRJ900X that would seat 98-100 passengers as well as an extended version of the Q400 turboprop that would seat 78-100. But these models would not cross over into the CSeries product line. Thus far the company has tallied 394 firm orders for the CRJ700/705/900, with some 40% of those orders from customers of the CRJ200.

Bombardier projects that over the next two decades, airline capacity will nearly double with much of the growth centred on low-cost and Regional operators. Some 11,000 aircraft in the 20/149-seat category valued at $370 billion will be delivered, according to the company's forecast. These include 1,100 in the 20/50-seat range, 4,100 of 60/99 seats and 5,800 100/149-seaters. "The next area where we are looking for growth is the CSeries," said VP-Strategy and Business Development Michael McAdoo, noting that program is still under consideration despite the fact that it has failed to attract a launch customer for the proposed 110/130-seat aircraft. Over the past two years, Bombardier has received firm orders for 79 Q400s and 75 firm orders for the 86-seat CJ700, reflecting the trend toward larger regional aircraft, McAdoo said. Along with the CSeries, the company continues to evaluate a derivative of the Q400 that would be the first 90-seat turboprop on the market and a stretch version of the CRJ900.

EADS:

Embattled **EADS** Co-CEO Noel Forgeard insisted that he will not resign despite the recent disclosure of major new delays in the A380 program and growing questions about his March sale of €2.5 million ($3.2 million) in stock options three months prior to EADS' stock sinking 26% on news of the setbacks.

Airbus parent **EADS** reported a €527 million ($663.9 million) second-quarter net profit, down 9% from €582 million in the year-ago quarter, on revenues of €9.9 billion, a 10% rise over last year. It conceded that "operational issues" leading to A380 delivery delays, the A350 redesign and the resignations of top executives at both EADS and Airbus made the second quarter a difficult one.
It also lowered its profit forecast for the full year, saying it now estimates 2006 EBIT of €3.2 billion. Previously, it said its EBIT could be as high as €3.4 billion. Airbus reported second-quarter EBIT before exceptional items of €810 million, a 1% dip from EBIT of €816 million in the year-ago quarter. Revenues rose 8% to €6.79 billion from €6.27 billion last year. In the first half of 2006, Airbus delivered 219 aircraft compared to 189 in the same period last year and received 117 gross orders, not including the 182 additional orders announced at the Farnborough Airshow.
For the first half, EADS net income was €1.63 billion, up 5% from net income of €992 million in the first six months of 2005, on an 18% jump in revenues to €18.98 billion. Airbus's first-half revenues climbed 17% to €13.15 billion.

Embraer:

Embraer unveiled plans to offer higher-capacity variants of its 170/190 E-Jets. The modifications will not require structural changes or new testing. The 170, now at 78 seats, also will be offered with 80. The 86-seat 175 will be offered with 88 seats, the 108-seat 190 with 114 and the 118-seat 195 with 122. For an operator choosing a 114-seat Embraer 190, for instance, the revenue potential can be increased by up to 14% when compared to the standard all-economy, 32-in. pitch, 100-seat configuration.

Aircraft Leasing Market

Aviation Capital Group, a wholly owned subsidiary of Pacific LifeCorp, ordered 14 737-800s worth approximately $987 million at list prices. Subject to market demand, ACG has the right at a future date to substitute 737-700s for the dash 800s. The aircraft were included on the Boeing orders and deliveries website earlier this year attributed to an unidentified customer. CFM valued the engine order at approximately $170 million at list price.
ACG also announced that it has acquired three 737-700s and three 737-800s from AeroMexico that it will lease back to that carrier. It will begin taking delivery of the aircraft, originally ordered by AeroMexico, later this year.

Airbus announced orders for five A330-200s plus four A320 family aircraft from **CIT Group**. Delivery dates and engine selection were not given. Including these aircraft, the New York-based operating lessor has ordered 117 Airbus products comprising 97 A320 family aircraft, 15 A330s and five A350s. Of these, 65 have been delivered to date.

International Lease Finance Corp. signalled that it may cancel its order for 10 A380s and could do so without penalty because of the program's delays. ILFC "could cancel and are considering cancelling" an order valued at $3 billion. "We are not happy and on safe ground to cancel the order."
Airbus announced further delays in the A380 program, saying backups in aircraft wiring installations would push deliveries back 6-7 months. That marked the second delay in the program, and ILFC's 10 aircraft now will be delayed by 12-14 months. ILFC claimed the order contract allows them to cancel without penalty if A380s are delivered more than six months late.

ILFC signed for six 737-800s, two 777-300ERs and two 787s. The orders take its commitment to 737s to 420, 777s to 78 and 787s to 22.
ILFC stated that it would "shortly announce the placement of the 787s to three new customers," while the 737s and 777s are topping up inventory. ILFC also indicated that is "working closely" with Boeing both on the 747-8F and on defining the passenger version. "We have been involved in all the 747 models and we launched the 747-400ERF. We are largest owner of widebody aircraft with 300 and the 747 is an integral part of the widebody fleets."

ILFC is "holding firm" on its A380 commitment for 10 aircraft "for the moment" and is "looking at compensation [from Airbus]," backing away from earlier statements that the lessor might cancel its orders over delays to the program.

ILFC ordered six additional A320 family aircraft, taking its orders for the narrowbody family to more than 430 and its total orders for all Airbus types to more than 600.

ILFC selected the GEnx to power up to 24 787s it has ordered. ILFC also ordered six GE90-115B-powered 777-300ERs and two GE90-94B-powered 777-200ERs. GE valued all the engines, including options, at more than $750 million. Delivery of the 777s is scheduled to begin this year with the 787 deliveries to begin in 2010.

Pegasus Aviation Finance Co. ordered two 787-8s and will take over an existing order for four 787-8s placed by Italy's Blue Panorama in 2004. Pegasus will lease the aircraft to the carrier.

<u>Market Changes</u>

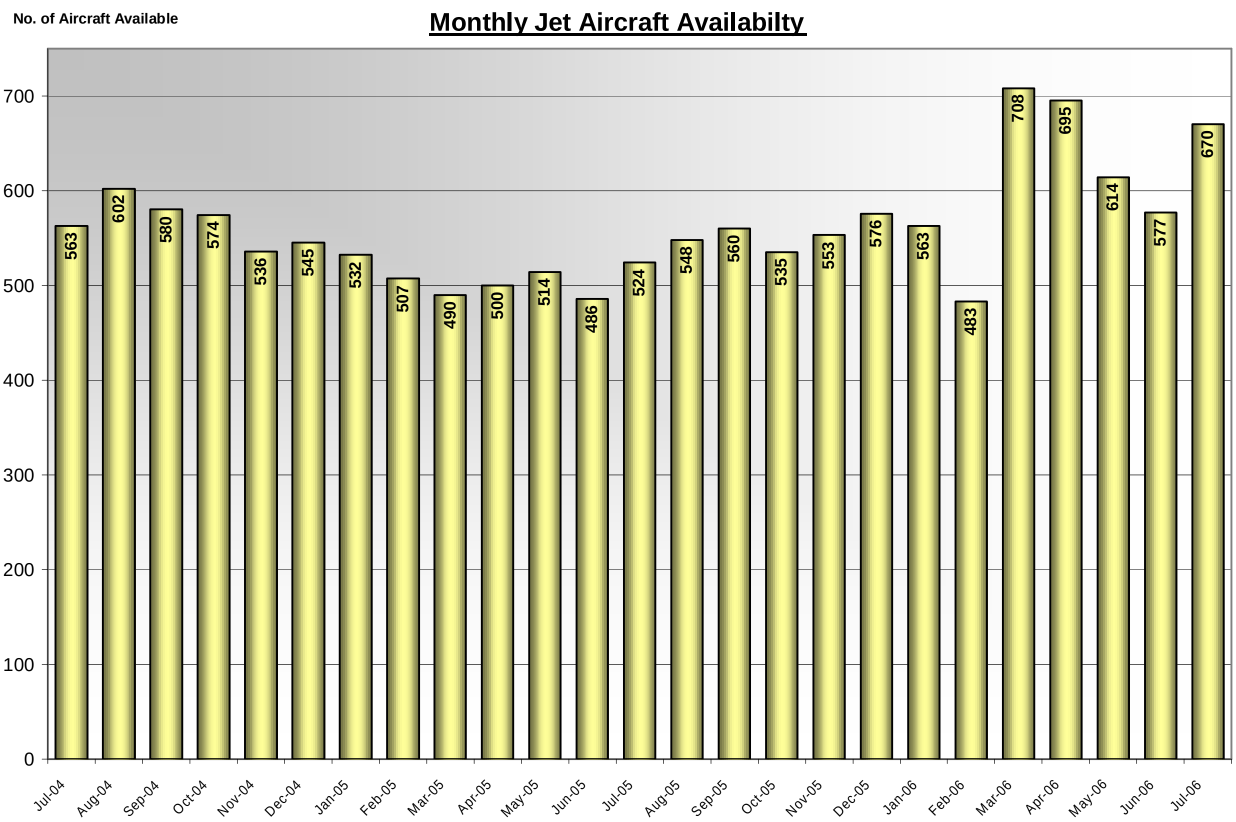
Transactions:

According to the Ascend CASE® database there are over 169 aircraft returning off lease during **August 2006**. All transactions are subject to lease extensions.

Availability Statistics:

Ascend are currently aware of at least **832** aircraft offered for sale and/or lease (**569 Jets**, 254 Turboprops & 9 smaller aircraft). **2 aircraft** are **<u>new</u> additions** for **June 2006**, and are as per the following table:

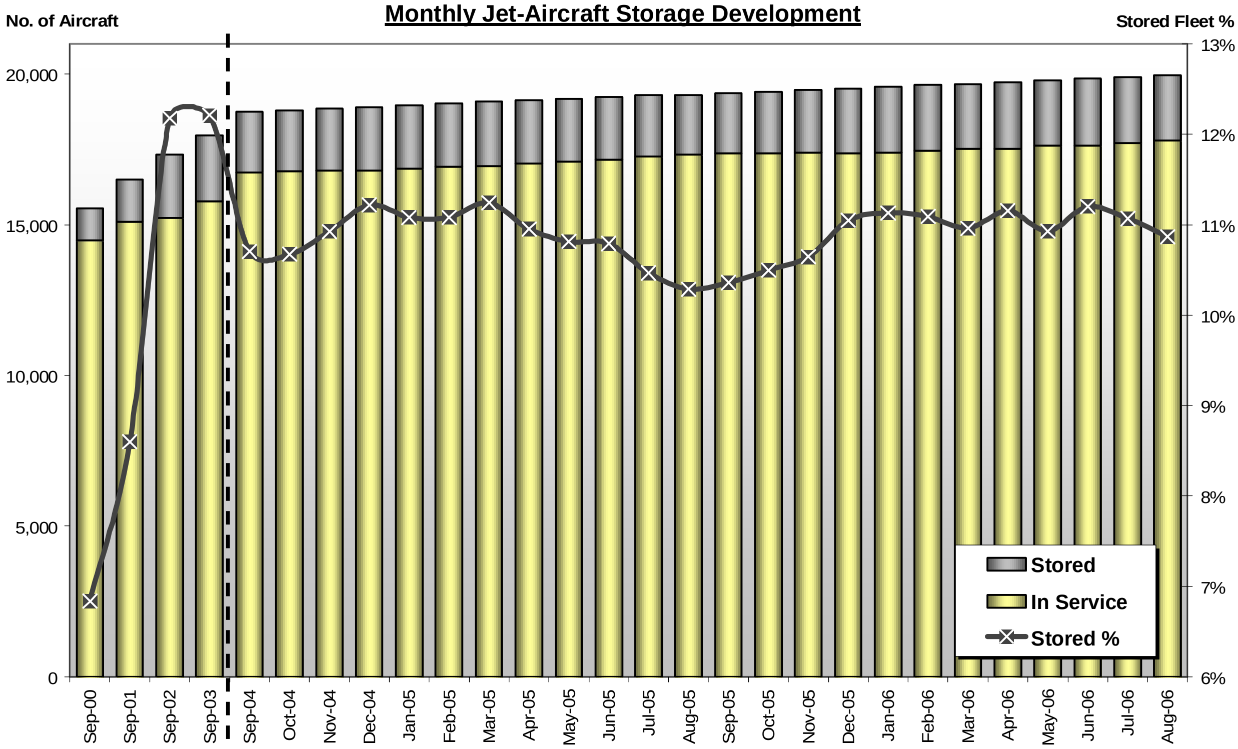
AVAILABILITY ADDITIONS @ June 2006			
Jets		**Turboprops / Other**	
A320	**+ 2**		
Sub-Total	**+ 2**		**+ 0**
Grand Total		**+ 2**	



*Source: Ascend **Market i***

Storage:

Airclaims is aware of at least **2,169 Western-built jet aircraft** in storage as at **14th August 2006:**



Manufacturer & Type	Fleet Stored	Total Fleet	Fleet Stored %
Aerospatiale Caravelle	1	2	50.00
Airbus A300	42	423	9.93
Airbus A310	28	230	12.17
Airbus A318	-	31	0.00
Airbus A319	14	885	1.58
Airbus A320	9	1,546	0.58
Airbus A321	1	356	0.28
Airbus A330	3	423	0.71
Airbus A340	2	321	0.62
Airbus A380	-	4	0.00
BAE SYSTEMS (Avro) RJ Avroliner	33	165	20.00
BAE SYSTEMS (BAC) One-Eleven	18	38	47.37
BAE SYSTEMS (BAC) VC10	-	16	0.00
BAE SYSTEMS (HS) 146	49	200	24.50
Boeing (McDonnell-Douglas) C-17	1	159	0.63
Boeing (McDonnell-Douglas) DC-10	71	277	25.63
Boeing (McDonnell-Douglas) DC-8	48	173	27.75
Boeing (McDonnell-Douglas) DC-9	250	546	45.79
Boeing (McDonnell-Douglas) MD-11	25	195	12.82
Boeing (McDonnell-Douglas) MD-80	151	1,114	13.55
Boeing (McDonnell-Douglas) MD-90	4	112	3.57
Boeing 707	49	255	19.22
Boeing 717	8	155	5.16
Boeing 720	2	5	40.00
Boeing 727	352	867	40.60
Boeing 737 (CFMI)	139	1,939	7.17
Boeing 737 (JT8D)	246	759	32.41
Boeing 737 (NG)	21	2,004	1.05
Boeing 747	142	1,063	13.36
Boeing 757	36	1,036	3.47
Boeing 767	85	916	9.28
Boeing 777	9	579	1.55
Bombardier (Canadair) CRJ Regional Jet	101	1,040	9.71
Bombardier (Canadair) CRJ700 Regional Jet	8	271	2.95
Bombardier (Canadair) CRJ900 Regional Jet	2	63	3.17
Embraer 170	-	116	0.00
Embraer 175	-	22	0.00
Embraer 190	-	38	0.00
Embraer 195	-	1	0.00
Embraer ERJ-135	-	185	0.00
Embraer ERJ-140	-	75	0.00
Embraer ERJ-145	13	684	1.90
Fairchild/Dornier 328JET	39	110	35.45
Fokker 100	41	262	15.65
Fokker 70	-	46	0.00
Fokker F.28	63	138	45.65
Harbin Embraer Aircraft Industry ERJ-145	-	12	0.00
Lockheed L-1011 TriStar	59	95	62.11
Romaero S.A. One-Eleven	4	4	100.00
VFW 614	-	1	0.00
TOTAL	**2,169**	**19,957**	**10.87**

Aero-Engine News

General Electric revealed that Nippon Cargo Airlines was the customer for two 747-400Fs. NCA selected the GE CF6-80C2 to power the aircraft, scheduled for delivery in 2008 and 2009. The deal is worth more than $80 million, GE said. NCA ordered the same powerplants for the two dash 400Fs it currently operates and the six it will take over the next two years.

General Electric said it received more than $2.5 billion in engine orders and OnPoint Solutions service agreements at Farnborough. Among the deals were a 10-year, $40 million OnPoint accord with Egypt's AMC Airlines for service on its CFM56-7B-powered 737-800s, GEnx orders from ILFC and Emirates and a $195 million TAP Portugal order for CF6s to power five A330s along with a nine-year service agreement. CFM International said it logged approximately $850 million in orders for its CFM56 family at the show.

Pratt & Whitney said that the P&W-General Electric Engine Alliance is the most suitable vehicle to supply an engine for the redesigned and renamed A350 XWB, nixing the possibility that Pratt, which is not on the 787, will develop a new engine for the Dreamliner's rival.

Pratt & Whitney said that it secured nearly $1.5 billion in new business for its Commercial Engines unit at the Farnborough Airshow.

Rolls-Royce projects that 114,000 jet engines will be required to meet global demand for 51,000 commercial aircraft ranging from business jets to long-haul passenger planes over the next 20 years. That adds up to a worldwide market for jet engines through 2026 potentially valued at $600 billion, the engine-maker said in its long-term forecast released this week. Underpinning the demand will be 6.6% annual growth in Asia/Pacific air traffic over the 20-year period, Rolls said. Growth in Chinese air traffic will be 8% annually, creating a demand for 6,500 jet engines valued at $65 billion in China alone over the next 20 years. Outlook in North America also is strong, with 20,000 engines required to power mainline and regional aircraft through 2026.

Rolls-Royce announced that Hainan Airlines signed a $250 million contract for Trent 700s to power five new A330s leased from ILFC. Hainan also signed a long-term TotalCare services agreement. Deliveries will begin in November 2007. Rolls said the Trent 700 is powering every one of the 100-plus A330s either operating or on order with Chinese carriers.

Rolls-Royce said that it posted £1.78 billion ($3.3 billion) in underlying sales in civil aerospace engines and aftermarket services in the first half of 2006, up 6% from £1.68 billion for the first half of 2005. Civil aerospace profits rose 23% to £246 million in the year's first six months but engine unit deliveries dropped 6.6% to 412 "as a result of the anticipated slowdown in demand for 50-seat regional aircraft," according to Rolls. Overall, the company's underlying profit before taxes was up 12% to £345 million for the first half.

Shannon Engine Support ordered 40 CFM56-7B spare engines. Scheduled for delivery between late 2006 and 2010, the order will bring SES's total dash 7B portfolio to more than 80 engines. It is one of the largest spare engine leasing companies in the industry and the leading lessor of CFM56 spare engines. It is a wholly owned subsidiary of CFM International, a 50:50 joint venture of Snecma and General Electric.

For questions, comments and suggestions regarding the ***AIR NewsSummary***, and for information on all other **"AIR" Products and Services**, please contact **DVB Aviation Industry Research (A.I.R.)** direct:

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And Finally…

Market Size		
Market value $ trillion		2.6
New airplanes required		27,210
New Airplane Deliveries		
Regional jets		3,450
Single aisle airplanes		16,540
Twin aisle airplanes		6,230
Large airplanes		990
Demand by Region	**$bn**	**Units**
Asia Pacific	930	7,900
North America	740	9,490
Europe	620	6,600
Middle East	160	1,110
Latin America	110	1,680
Africa	40	430
Fleet Size	**2005**	**2025**
Regional jets	2,710	5,040
Single aisle	10,580	21,470
Twin aisle	3,070	8,070
Large	970	1,390
Total	**17,330**	**35,970**

Boeing has upped its 20-year forecast of world jet transport demand in its latest Current Market Outlook (CMO). The manufacturer now sees a requirement for 27,200 new aircraft valued at more than $2.6 trillion through 2025. Last year it projected a need for 25,700 aircraft worth $2.1 trillion.
The increase in deliveries compared to the 2005 CMO largely is attributable to today's high fuel prices coupled with the introduction of "new, very efficient, very capable aircraft," which will force older airplanes from the fleet sooner than might otherwise have occurred, Boeing said. Replacement aircraft will represent an estimated 35% of deliveries, or 9,600 units, over the two decades, an increase of about 1,400 compared to last year's forecast.
Passenger traffic (RPKs) is forecast to grow at 4.9% annually over the period, a slight rise from the 4.8% average annual growth rate for the 1985-2005 period. Traffic growth will create a demand for 17,300 new airplanes.
Compared to last year, Boeing raised its forecast for 400-seat and larger jets from 900 to 990, although it sees only 325 in the A380 size category, while demand for regional jets of 90 seats and below is now seen at 3,450 units compared to 3,900 in 2005. Single-aisle aircraft seating 100-240 will represent 61% of the delivery pool over the 20-year period at 16,540 units. Twin-aisle aircraft seating 200-400 will account for 6,230 deliveries.
Airlines in North America will absorb the most aircraft, 9,490, followed by Asia/Pacific carriers with 7,900 and Europe with 6,600. However, in terms of value Asia leads, with its aircraft worth $930 billion followed by North America at $740 billion and Europe at $620 billion. Middle East airlines will acquire 1,110 aircraft valued at $160 billion, Latin American carriers will take 1,680 units worth $110 billion and Africa will get 430 valued at $40 billion.
Cargo traffic will rise at a rate of 6.1% per year, according to the forecast. The freighter fleet will double from 1,790 units today to 3,560 in 2025, accompanied by a shift toward widebody freighters. With 1,200 retirements, around 3,000 freighters will be added. Most of these will be converted from passenger and combi aircraft, with 770 new production aircraft, Boeing said.
For the complete Current Market Outlook 2006, log on to:

http://www.boeing.com/commercial/cmo/