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NewsSummary

...a periodical review of the Airline Industry and the Aero-Equipment Market...

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June / July 2008

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Introduction

DVB's **Aviation NewsSummary** is published and distributed on a bi-monthly basis by the **Airline Research & Analysis (ARA)** 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.

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

Polis D. Polycarpou

DVB – Airline Research & Analysis (DVB-ARA)

General Airline Developments

IATA - International Traffic and Capacity

The **International Air Transport Association (IATA)** released international traffic data for **June 2008**.

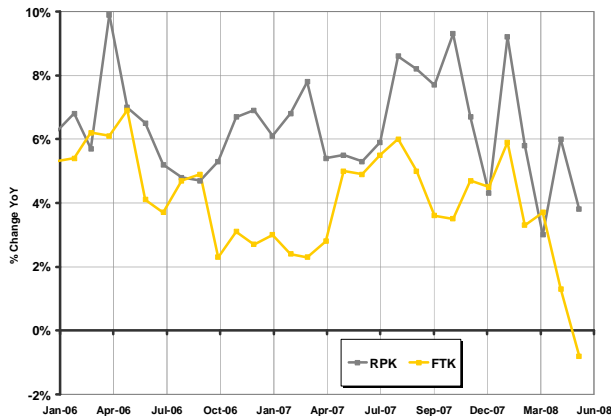
Weakening economic conditions in major markets drove slower international passenger traffic growth of **3.8%** in June, the lowest rate of growth reported since the industry's recovery from the impact of SARS five years ago. While fairly steady economic growth in the first quarter supported traffic growth, the effect of the economic slowdown is now being felt – although a universal collapse in traffic growth is unlikely given that in several parts of Asia, the Middle East and Latin America economic growth is expected to remain solid.

Capacity grew by **5.5%**, below the 6.2% for the year to date, but this result still underlines the challenges airlines face to rapidly adjust supply in response to changing demand conditions. This has put pressure on the industry passenger load factor which fell, compared to last June, to **77.6%**.

June 2008 (Percentage Change over June 2007)					
Carriers	Passenger			Freight	
	RPK%	ASK%	PLF%	FTK%	ATK%
Africa	-1.5	-0.8	67.6	-1.9	-4.7
Asia / Pacific	3.2	4.9	75.8	-4.8	-0.9
Europe	2.1	4.4	77.9	0.7	3.5
Latin America	12.5	10.1	73.5	-12.7	8.2
Middle East	9.6	9.8	75.5	12.1	11.8
North America	4.4	6.1	83.7	4.0	6.6
Industry	3.8	5.5	77.6	-0.8	3.3

January – June 2008 (%-Change over Jan–Jun 2007)					
	RPK%	ASK%	PLF%	FTK%	ATK%
Industry	5.4	6.2	75.5	2.4	4.6

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



International freight traffic continued its sharp decrease in June with a **-0.8%** decline reported. A **-4.8%** traffic decline for Asia Pacific airlines is the key driver of this development as airlines in this region carry 45% of industry international freight traffic.

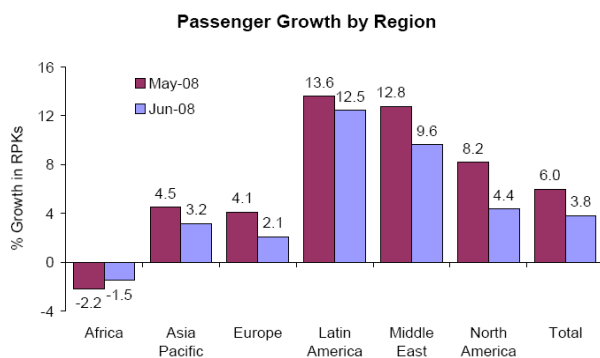
Growth in international passenger traffic fell to **3.8%** in June. This is lower than the 4% (adjusted for the effect of this year's early Easter) seen in April and is the lowest rate of growth seen in the five years since SARS hit the industry in 2003.



Further sub-prime related losses, another 62,000 job cuts in the US and oil prices rising once again to average \$135 per barrel in June all contributed to declines in business and consumer sentiment in North America and beyond. In Europe, the rate of growth in home loan lending is at record low of 4.6%, down from a high of more than 12% in 2006, and inflation has risen to 4%. Inflation is also of growing concern to economies in Asia with the rate in Singapore reaching 7.5%, a 26 year high.

While fairly steady economic growth in the first quarter of this year supported traffic growth, the effect of the economic slow down is now being felt in international travel markets – although a universal collapse in growth is unlikely given that in several parts of Asia, the Middle East and Latin America economic growth is expected to remain solid.

The global passenger traffic growth of 3.8% is well below the 5.4% recorded for the year to date. Growth for European and North American airlines both fell to just over half the levels seen in May. Domestic traffic in the US continued to contract by almost 4% in June while growth of 4.4% on international routes



was posted. Declines in business confidence and industrial production in key European economies have weakened the prospects of a return to stronger economic growth in the second half of the year and mean that the 2.1% traffic growth reported by European airlines in June may well fall further.

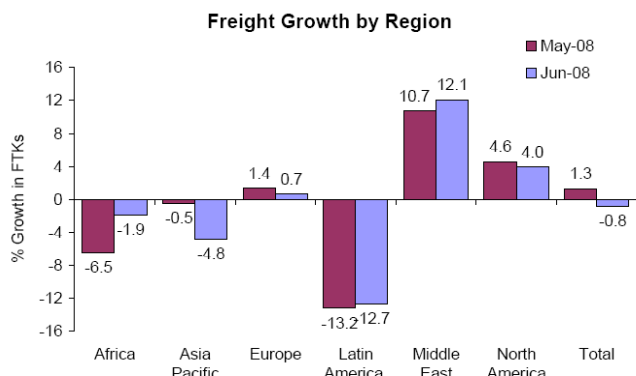
Asia Pacific airlines also recorded slower traffic growth at 3.2%, influenced by weakening long haul destination economies and inflation concerns affecting traffic drivers within the region. Slower economic growth in origin-destination regions has

also affected Middle Eastern airlines who posted traffic growth of 9.6% which, while still strong, is well down on the 18.1% recorded for the year 2007.

A continuation of strong commodity-driven economic growth in Latin America drove traffic results of 12.5%, only a small decrease on last month, while the recent decline in traffic carried by African airlines continues but at a slower rate of -1.5%.

Capacity (ASK) growth for June was 5.5%, similar to last month but lower than the 6.2% for the year to date. Over the last months many airlines have announced significant capacity cuts due to take effect in Q3 and Q4 which should see capacity growth slow further as the year goes on.

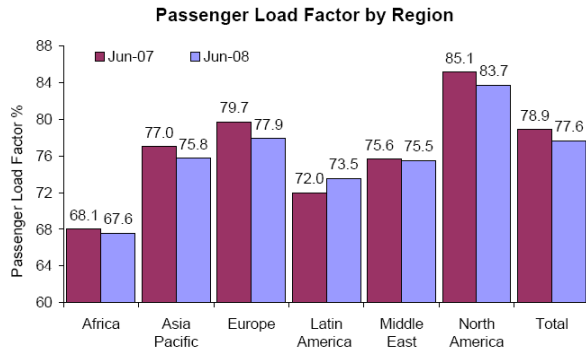
Following on from last month's fall in freight traffic growth to 1.3%, June results show an international freight traffic decline of -0.8% compared to the same month last year. This is the first absolute decline seen at the industry level since May 2005 and follows several months of falling manufacturing sector confidence indicators which pointed to the likelihood of a sharp downturn in demand for air freight.



The key driver of this fall has been the Asia Pacific, with airlines in the region reporting a -4.8% decline in traffic for June. A -1.7% fall in Japanese exports, the first fall in almost five years, will have contributed to this result. A third of Japanese exports go to the US or the EU and these dropped 15% and 10%, respectively, in June as their economies slow. International freight traffic carried by North American and European airlines continued to soften while growth strengthened to 12.1% in the Middle East.



The international passenger load factor of 77.6% is down compared to June last year. All regions, with the exception of Latin America, saw load factor decreases of up to -1.8 points on the same basis. This continues the trend seen so far this year where load factors have come under pressure in contrast to the increases seen in 2007.

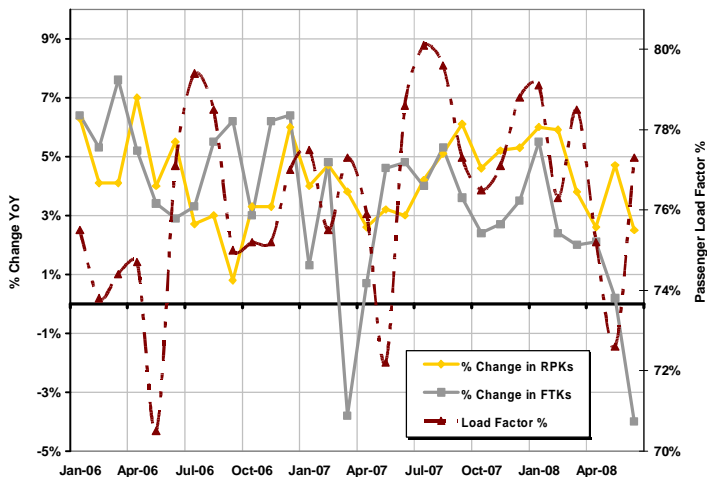


The fall in the passenger load factor highlights the difficulty airlines across the industry face to manage capacity in line with softening demand and increasing input costs in order to maintain profitability. The price of jet fuel continued its rise to average \$168 per barrel in June leading to further pressure on break-even load factors. This only highlights the need for airlines to improve asset utilisation and carefully align capacity with traffic demand.

Regional Developments

Asia Pacific

Association of Asia Pacific Airlines (AAPA) member airlines carried **12.0 million** international passengers in **June 2008**, up **1.4%** year-on-year. In RPK terms, international passenger traffic grew by **2.5%**. The average international passenger load factor fell by one percentage point, to **77.3%**, on faster capacity growth of **3.9%**.



AAPA international freight traffic, expressed in FTKs, declined **4.0%** in June, matched by a **5.0%** reduction in capacity. As a result, the cargo load factor rose slightly to **68.0%**.

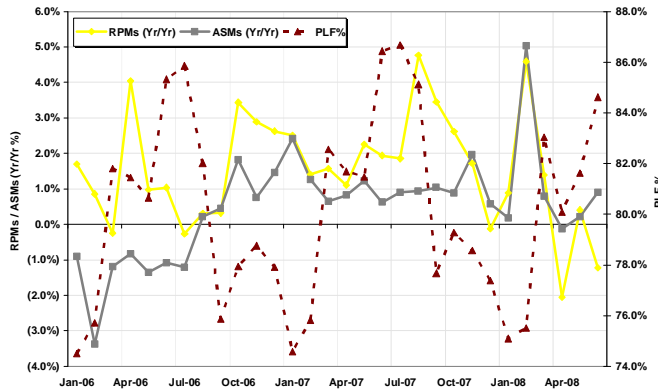
Commenting on the results, Mr. Andrew Herdman, AAPA Director General said, "For the first six months of the year, AAPA international passenger traffic registered growth of **3.6%** in RPK terms, but there are clear signs of a general slowdown. Meanwhile, we've seen hardly any growth in the air cargo market, which weakened further in June, suggesting even more difficult times lie ahead."

Mr. Herdman added, "There are worrying indications that the global economy may be reaching a tipping point. Astronomical fuel prices are inevitably pushing up the cost of travel. Throughout the airline industry, the oil price shock has precipitated another major crisis, forcing tough decisions to cut routes and urgently review staffing levels in anticipation of slower growth or declining demand. We call upon our industry partners and governments to work together with us to address these challenges, through collective actions to increase efficiency and reduce unnecessary costs."



America

The **American Air Transport Association (ATA)** has released the monthly traffic figures for **June 2008**. 2008 started positively with traffic and capacity growth enjoying a much-needed boost. However, the situation soured, growth rates plummeted and by April had reached negative figures.



International routes experienced a **small** traffic growth during **June** of **4.6%**, with **domestic** routes reporting almost of mirror reflection of this, with a negative growth figure of **-3.9%**.

Hence, **Systemwide** RPM growth fell **-1.2%** below June 2007 figures. Highest growth was witnessed on **Atlantic** routes reaching a **8.2%** increase over the same month of the previous year, followed by **5.1%** for **Latin American** routes and **Pacific** routes actually recording a decrease of **-2.7%**.

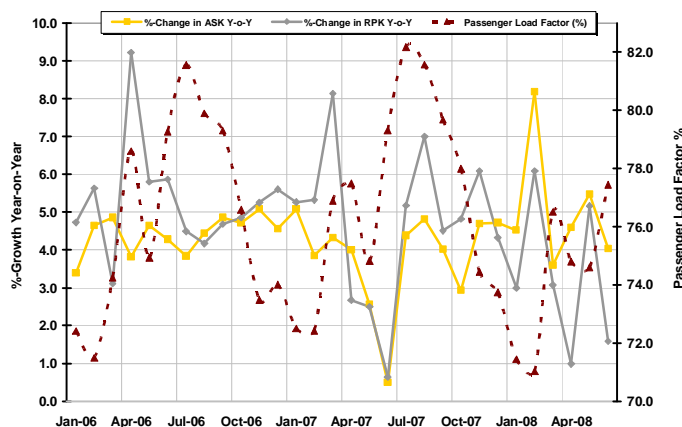
Systemwide **capacity** recorded a slight increase of **0.9%** resulting in an overall **1.8-point** decrease in **load factor**, falling to **84.6%**.

Year-to-date figures for the year 2008 showed Systemwide **traffic** increased slightly by **0.5%** compared to the previous year. **Capacity** also increased slightly by **1.1%**. Hence, **Load Factor** was subsequently reduced by **-0.5 percentage points**, reaching **80.1%**.

Europe

The **Association of European Airlines (AEA)** has released traffic and capacity data for its members in **June 2008**.

Following a better-than-expected set of results in May, the June figures more clearly reflected the depressed situation of the market. Year-on-year traffic growth slowed to **1.6%** which, coupled with a **4.0%** increase in capacity, led to a substantial fall in load factor, by **1.9 percentage points** to **77.4%**.

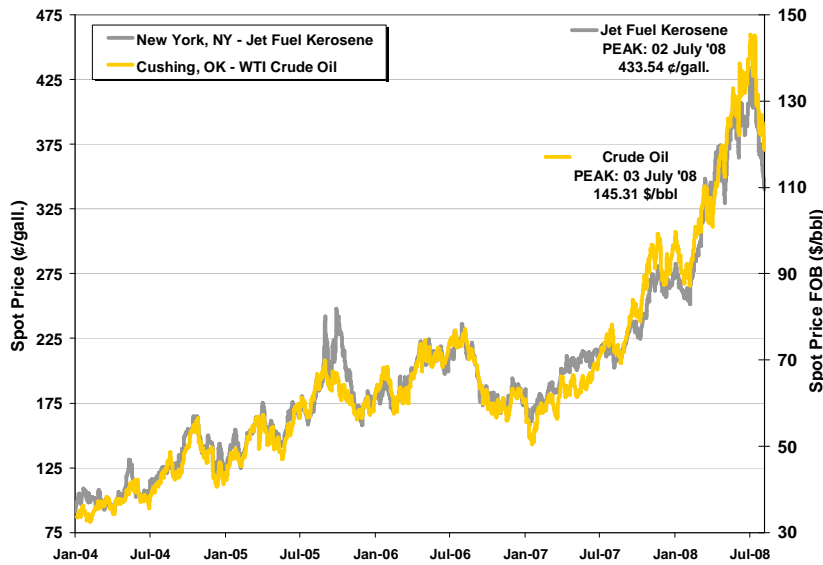


Decreases were recorded in Domestic operations (-6.7%) and on the North Atlantic (-0.2%). The normally buoyant European cross-border markets grew by 3.2% and Europe-Far East by just 0.5%. Regions which continued to post strong growth were the South Atlantic – which, at plus 10.3% nevertheless suffered a heavy loss in load factor – and the Middle East, with +6.9%.

Preliminary results for July, based on weekly reports, indicate a growth figure perhaps a percentage point better than in June, driven by a slight recovery in North Atlantic and Far Eastern flows, although both remain substantially depressed. Load factors are expected to show a further decline, although less dramatic than in June.



Jet Fuel Spot Prices



New York **Jet Fuel** Kerosene reached a crippling spot price of **433.54 ¢/gallon (182.09 \$/bbl)** on **July 2nd, 2008** and Cushing OK **WTI Crude Oil** reached a phenomenal spot price of **US\$145.31 per barrel** on **July 3rd, 2008**.

As of **August 5th, 2008**, **jet fuel** spot price was at **339.95 ¢/gallon (142.78 \$/bbl)** and **crude oil** recorded a spot price **US\$118.71 per barrel**.



Source: US Energy Information Administration

Individual Airlines (Highlights)

The Americas

North America

Air Canada, following the path of several US counterparts, said it will cut total system capacity by 7% year-over-year in this year's fourth quarter and the 2009 first quarter and slash its workforce by 2,000. Every C\$1 (\$0.97) increase in the per-barrel price of oil adds an estimated C\$26 million to AC's annual fuel expense, the airline claimed. "Fuel is the carrier's single largest expense item, accounting for more than 30% of total operating expense, and at current price levels will cost the airline close to C\$1 billion more in 2008 than in 2007." At current fuel prices and capacity levels, AC said it spends an average of C\$230 in fuel to carry one passenger on a roundtrip journey, up from C\$146 in 2007 and C\$110 in 2004. In the six-month period beginning Oct. 1, AC plans to reduce domestic capacity by 2%, US transborder capacity by 13% and international capacity by 7%. It now expects full-year 2008 capacity to range from a 1% decrease to a 1% increase, down from the 2.5% full-year ASM increase previously projected.

AirTran Airways will defer the delivery of 18 737-700s from 2009-11 to 2013-14. The carrier said the deferment will "accomplish a substantial portion" of the carrier's previously announced plan to reduce 2008-09 growth from 10% to "no more than flat". It currently operates 54 -700s and 87 717-200s. The airline will also cut 180 pilots and 300 flight attendants. The carrier said it would impose a 15% pay cut on officers and a 5%-8% cut on most staff. As for the job cuts, AirTran will offer voluntary leave for employees with at least five years of service in a deal under which medical benefits and flight privileges would be maintained for 6-12 months.

American Airlines said fuel costs are "negating all of the [cost-cutting] progress we have made in the last few years...Despite our best efforts, fares are not keeping pace with the meteoric rise in fuel prices." AA still plans to take delivery of 70 737NGs in 2009 and 2010 to facilitate the retirement of fuel-inefficient MD-80s, adding that it is considering pushing forward deliveries "at an even brisker pace." Additionally, it is considering "accelerated retirement" of its A300s. It is currently 33% hedged at \$2.55 per gal. (At an average cap of \$78 per barrel of crude oil) for full-year 2008.

AA parent **AMR Corp.** told its employees that more than 6,700 of them will be cut by year end, representing about 8% of the company's total workforce. The cuts are in line with large capacity reductions for the second half of 2008. AMR has reached deals with its flight attendants and maintenance workers on early retirement programs and reportedly is seeking a similar agreement with its pilots. However, it is clear that many of the furloughed employees will not be leaving by choice. Job reductions are expected to begin to take effect on Aug. 31.

American Airlines, British Airways and Iberia are close to applying for antitrust immunity to form a transatlantic revenue- and profit-sharing joint venture. BA and AA tried to gain antitrust immunity twice in the past, but they abandoned those efforts because they considered the concessions required to gain approval, specifically the surrender of a large number of slots at London Heathrow, to be out of balance. Virgin Atlantic reacted promptly and negatively to the reports. An alliance of six SkyTeam airlines won antitrust immunity from US authorities.

Following in the footsteps of United Airlines and American Airlines, **Continental Airlines** became the latest US carrier to announce a major downsizing, revealing plans to retire 67 737s, lower 2008 fourth-quarter mainline domestic capacity by 11% and reduce its workforce by 3,000. CO will retire 24 737-300s and 13 737-500s by year end and an additional 23 -300s and seven -500s in 2009. By year end 2009 it no longer will operate -300s and will fly just 35 -500s. It cited the lack of fuel efficiency of the older 737s compared to newer versions as a main reason for the groundings. It will operate 149 737-800s/-900s at year end and is scheduled to take delivery of 18 -900ERs in 2009. CO said it will soon detail specific flight reductions and route closures, and said jobs and destinations will begin to be cut in September following the summer peak season, though some management-level job reductions could come sooner.

Continental Airlines and **United Airlines** signed a "framework agreement to cooperate extensively, linking their networks and services worldwide," and CO revealed that it will leave SkyTeam to join Star Alliance with UA and CO planning to form joint venture operations with other Star carriers for transatlantic services as well as flights to Latin America and Asia. Both airlines recently said they would not enter into



any merger agreements and both will remain independent and retain their brands. Both antitrust immunity and codesharing agreements are subject to approval by applicable US and foreign government agencies.

US airline executives stressed the debilitating nature of rising fuel prices and said further capacity reductions may be warranted, while **Delta Air Lines** announced that it is raising its second-half year-over-year domestic mainline capacity reduction from a previously announced 10% to 13%. Carriers said they have been unable to come close to passing on the record fuel price increases to customers.

Delta Air Lines and **ExpressJet Airlines** "have mutually agreed to cease all ExpressJet Delta Connection operations" effective Sept. 1. ExpressJet currently operates 23 ERJ-145s on Delta Connection flights primarily from Los Angeles and Salt Lake City. DL said it intends "to award a portion of this flying," including all SLC flights, to another unidentified carrier. DL also told regional partner Pinnacle Airlines that the capacity purchase agreement the two signed in April 2007 will be terminated on July 31, claiming that the Memphis-based airline has failed to meet on-time performance standards. In April, DL announced it would end its agreement with Mesa Air Group subsidiary Freedom Airlines, which operates 34 ERJ-145s on Delta Connection flights. But Mesa won a preliminary US court injunction in May that prevented DL from pulling the plug. ExpressJet, meanwhile, signed an expansive new seven-year capacity purchase agreement with Continental Airlines that will see it operate a minimum of 205 aircraft for CO in the first year of the deal and a minimum of 190 in following years.

Delta also reached an accord with **Pinnacle Airlines** and agreed to abandon plans to terminate its 10-year contract with its regional partner, with terms of the reaffirmed deal allowing Pinnacle to continue operating as a Delta Connection carrier until 2017. Pinnacle reached an agreement in April 2007 to operate up to 16 CRJ700s for DL. To date, the regional has taken delivery of nine with the remaining aircraft expected to be in service by May 2009.

Meanwhile, **Delta Air Lines** will run the merged DL/Northwest Airlines out of Atlanta, the carriers announced as they unveiled the senior management team for what would be the world's largest airline. Upon closing of the merger, NWA will be an operating subsidiary of DL run by current DL President and CEO Ed Bastian, who will assume the titles of CEO and president of Northwest. Current President and CEO Doug Steenland will vacate the post and sit on the DL board.

ExpressJet signed a new seven-year capacity purchase agreement with **Continental Airlines** that CO said included lower rates comparable to those charged by other regional providers. Under the new contract, which will take effect July 1, ExpressJet will operate a minimum of 205 aircraft for CO the first year and a minimum of 190 in following years. The deal enables the regional to swap out some of its 37-seat jets for larger 50-seat RJs to be operated under the CO agreement. The new accord is based on fixed block hr. rates that include various pass-through expenses such as aircraft rent, fuel, airport ground handling and landing fees. CO gave ExpressJet the right to return to it 39 of its 50-seat ERJs that currently are used for non-CO contract flying. In turn, CO said it will add the 39 jets to the new agreement and remove 30 of its 37-seat RJs currently operated on behalf of CO by ExpressJet. CO will either ground or sublease the smaller jets as part of its planned capacity cuts.

ExpressJet Airlines said that it will suspend its independent branded flying operation on Sept. 2, citing rising fuel costs, ending a program that never made money after its April 2007 launch.

Severely affected by weak economic conditions, **FedEx** reported a 44% drop in net income for its full fiscal year ended May 31 to \$1.13 billion from \$2.02 billion the previous year. The result included a rare quarterly net loss in the fiscal fourth quarter of \$241 million, reversed from net income of \$610 million in the year-ago period. Full-year revenue rose 8% to \$38 billion but expenses increased 12% to \$35 billion including a 30% leap in fuel costs to \$4.6 billion. Operating income of \$2.08 billion was down 37% from \$3.28 billion last year.

FedEx Express launched revenue service with the first of 12 757-200 converted freighters it is scheduled to add over the next year. The 757F is the first of the type to enter the delivery giant's fleet. It is investing \$2.6 billion to replace its 90 727-200Fs with 90 757Fs and last year inked a deal with Singapore Technologies Aerospace covering 87 757-200 passenger-to-freighter conversions over seven years. ST Mobile Aerospace Engineering in Alabama is performing the conversion work, valued at \$450-\$470 million.



million over the life of the contract. FedEx said the 757 will consume 36% less fuel while providing 20% more capacity than the 727. Transition is expected to be complete by 2016.

Frontier Airlines entered into a letter of intent to sell six of its 47 A319s to VTB Leasing, which will place the aircraft with Rossiya. The parties previously had agreed to the transfer of two A319s and two A318s. The revised agreement calls for VTB to purchase the six A319s. Frontier said it also has reached an agreement "on other sale/leaseback transactions that further supplement its liquidity positions." The transactions are worth approximately \$80 million to the airline, it said.

Frontier also announced the receipt of a \$75 million commitment in post-petition debtor-in-possession financing from Perseus LLC, a Washington-based investment firm that also will serve as equity sponsor for Frontier's plan of reorganization. Upon approval, Perseus will provide the funding in two instalments.

Jazz Air said that owing to planned fourth-quarter capacity reductions by Air Canada, with which it has a contract to operate regional flights, it will reduce its flying by 5% in the year's final three months and cut 270 employees. AC said that it will reduce total system capacity by 7% year-over-year in this year's fourth quarter and the 2009 first quarter and slash its workforce by 2,000. In order to offset fuel costs, Jazz has frozen all hiring and eliminated "non-critical" staff overtime.

Midwest Airlines is grounding its 12 MD-80s "sometime near fall" as part of a restructuring effort. The decision, which is not without valid operational reasons, leaves Midwest with very little long-haul capacity to access the western US from Milwaukee. Analysts believe that the move reduces the airline's competitiveness and leaves it more vulnerable to rivals and makes Midwest much less of a player at Milwaukee, and it means that Midwest will have no real choice, pending a new fleet mix, but to focus on Kansas City as an expansion point. The company also confirmed the hiring of Seabury Group to assist with a restructuring plan.

Midwest and its **Skyway** subsidiary will reduce the workforce by 40%, equal to approximately 1,200 employees, as a result of its decision to remove its MD-80s from service this fall and in anticipation of "other schedule adjustments to be announced." Midwest announced 109 layoffs and a 2.5% schedule reduction, the MD-80 groundings and wage cuts. More was needed. Chairman and CEO Timothy Hoeksema took a 40% pay cut. Midwest said affected employees will be notified immediately and that the reductions will come via furloughs or position elimination and will be spread throughout the airline.

Northwest Airlines unveiled a further round of capacity cuts that will contribute to the removal of 43 aircraft from its fleet this year retroactive to Jan. 1. NWA will deepen its fourth-quarter mainline cut to 8.5%-9.5% year-over-year, affecting both domestic and international flights. Domestic consolidated capacity will be down 7%-8% and consolidated system ASMs will fall 3%-4% from year-ago figures. The new cuts now will result in the removal of 14 757s and A319s/A320s, plus the reduction of the DC-9 fleet to 61 aircraft by year end from 94 at the start of 2008.

Northwest said that these capacity cuts will result in a reduction of 2,500 frontline and management employees. NWA also unveiled a range of new fees designed to combat "record fuel costs." The new fees are expected to generate \$250-\$300 million in added revenue per year. Like several domestic competitors, NWA will charge \$15 for most customers' first checked bag on flights in the US and to Canada. It already charges \$25 for the second piece. Tickets issued through its WorldPerks loyalty program will cost \$25-\$100 - a "temporary service fee" - and ticket change fees will increase to \$150.

Republic Airways Holdings will cut 10% of its employees, or 500, "in response to changing market conditions and expected reductions in its small jet contract flying". It said cuts will take place over the next several months and that "a portion will occur through normal attrition."

SkyWest said it ended its quest to acquire ExpressJet Holdings after the latter announced a new service agreement with Continental Airlines. In April, ExpressJet rejected an unsolicited buyout offer from SkyWest Inc. valued at around \$180 million, claiming that the offer undervalued the carrier.

Southwest Airlines was the only profitable US carrier in the first quarter and is still contemplating expansion. The LCC is "willing to grow the fleet, and that's very different than what's going on with our competitors." SWA may keep as many as 10 aircraft slated for retirement this year and is on schedule to



add 14 new planes in 2009. It is reported that SWA plans to increase capacity 4% this year and has yet to make its plans for 2009.

Spirit Airlines announced a plan to reduce non-fuel expenses by 15% through the retirement of five aircraft, schedule adjustments and layoffs. The LCC, which has already warned of job cuts, said it will retire five A319s by September and reduce its workforce "to coincide with these capacity adjustments." It now expects full-year capacity to remain flat year-over-year. It originally planned a 10% increase.

United Airlines, facing rising fuel costs and a weak US economy, announced a dramatic downsizing that will see its Ted service discontinued and include the retirement over the next 19 months of 100 aircraft with the aim of reducing mainline capacity by a cumulative 17%-18% for 2008-09. This means that its entire 737 fleet will be grounded and it also plans to retire six 747-400s, reducing the average age of UA's fleet by 1.3 years to 11.8 years. CO said 80 of the 100 retirements will occur this year with the remaining 20 coming by year end 2009. Its fourth-quarter 2008 mainline capacity will be down 9.5%-10.5% year-over-year with North American capacity lowered by 13.5%-14.5% compared to the 2007 final quarter. UA additionally will eliminate its Ted product, reconfiguring that fleet's 56 A320s to include first class seats for a return to mainline service by year end 2009. Salaried and management employees and contractors will be cut by 1,400-1,600 including 500 personnel cuts previously revealed. The airline has not determined how many frontline jobs will be affected.

While **United Airlines** and **US Airways** both reiterated that they are strong believers in consolidation, the two carriers announced that they will not enter into a merger "at this time." Following preliminary talks and reviews by their respective boards, the carriers decided to squelch merger speculation formally. With Continental Airlines also recently ruling out a merger, it appears that the rapid US market consolidation many anticipated following the DL-NWA announcement will not occur this year.

US Airways Group took a \$622 million non-cash charge in the second quarter to write off the goodwill it had on its balance sheet that was created by the merger of the old US and America West Holdings three years ago. It said the charge was the result of an interim period goodwill impairment test performed due to the high fuel prices "that have adversely impacted the company's business." It said it also will charge related to the decline in value of specific 737 spares.

Meanwhile, **US Airways** will remove IFE from domestic flights this fall in order to save approximately \$10 million per year. Passenger demand has dropped (US charges \$5 for headsets) and the IFE systems can add some 500 lb. to each aircraft.

Central and South America

Aerolineas Argentinas' future ownership structure, agreed to earlier this year, has been cast in doubt and Argentina's government reportedly is considering a full nationalization of the carrier. Spanish tourism and transport giant Grupo Marsans announced in May that it had agreed to lower its holding in AR from 95% to 35% so the government could raise its stake from 5% to 20%, airline employees could take 10% and Argentine private investors could hold the rest. But, according to local press, the carrier has racked up \$400 million in debt this year and has been forced to ground a number of aircraft. With service levels waning, the government will seek to have a court-appointed administrator take over decision-making. Legislation to nationalize AR is being considered. Marsans responded by accusing the Argentine government of "driving us out of the company" and backing away from the prior agreement.

Gol Linhas Aereas Inteligentes received permission to complete its acquisition of VRG (formerly Varig) "with no restrictions". A request was submitted to Brazil's National Civil Aviation Agency for authorization to integrate Gol and VRG into a single airline company. "The proposed reorganization will simplify the corporate structure of Gol's subsidiaries, maximizing administrative efficiencies, optimizing revenues and reducing financial and operational costs, besides greater operational flexibility," it said. The Gol and Varig brands would be maintained, Gol said.



LAN Cargo was approved by the Colombian government to launch an affiliate cargo airline there with plans to initiate services in the first quarter of 2009. Noting that Colombia is "the largest air cargo market in Latin America in terms of exports to the US," LAN earlier this year applied for the right to launch a new airline to provide airfreight services between Colombia and the US using an undisclosed number of 767-300 freighters. It said it will add two new 777 freighters to the fleet next year.

TAM's Paraguayan subsidiary, formerly known as TAM Mercosur and now called **TAM Airlines**, said that it will cut 120 employees and transfer 133 to TAM as part of an "administrative restructuring."

Europe

Aer Lingus said it will reduce its long-haul capacity by 15% for the 2008-09 winter season owing to "unprecedented" fuel costs, the weak US dollar and a slowing economy. The carrier conceded that based on current fuel prices and the uncertain economic outlook, it expects "at best" to break even for 2008. It also decided to take two A330s out of service in 2009 when it takes delivery of two new A330s, keeping the fleet to nine rather than expanding to 11 as had been planned.

Aeroflot confirmed that it plans to lease an additional 19 A320 family aircraft. The carrier plans to add up to 65 Airbus aircraft in the future. It already operates 36 narrowbody Airbus aircraft. It reportedly wants to double its current level of domestic services by 2014.

The Russian flag-carrier also released its 2007 full-year results under IFRS standards, reporting a \$313.4 million profit that represented a 21.4% increase over the \$258.1 million earned in 2006. However, it is predicting a drop this year due to rising fuel costs. Revenue should rise 30%, driven partly by an 8%-10% increase in fares. Last year SU enjoyed a 27.3% year-over-year increase in revenue to \$3.81 billion, outpacing a 23.9% rise in costs to \$3.23 billion. Operating profit surged 49.7% to \$578 million from \$386.2 million in 2006. The company operated 143 aircraft at year end. It carried 8.2 million passengers, up 12.3%, and load factor rose 1.1 points to 71.2%.

Meanwhile, Aeroflot confirmed that it will not bid for Austrian Airlines, with the Russian carrier adding that, "The risks outweigh the reward". The OS board approved the privatization of the carrier and is waiting on a decision from the government, which controls holding company OIAG. Aeroflot repeatedly has stated its interest in acquiring a European partner.

Air Berlin unveiled a cost reduction package that will include removal of 14 aircraft from service by year end and the closure of the Munich administrative offices of dba. Beginning with launch of the winter schedule, AB will reduce its operating fleet to 120 aircraft from 134, although it said that its "aim to increase its fleet capacity utilization does not necessarily entail a reduction in the anticipated number of passengers transported." In addition, it will remove three A330-300s from its long-haul network and place them on medium-range flights from Nuremburg, while a fourth will be used as a standby or to shuttle cruise passengers. On the capacity front, fleet utilization will be reduced by 10% overall and 30% on its long-haul network. The closure of the dba office will result in 52 layoffs. Administration of the subsidiary will move to the capital. German press was reporting that capacity cuts for the summer 2009 schedule are under evaluation and that introduction of AB's new long-haul business class product may be delayed or cancelled outright.

The airline also announced that Stuttgart prosecutors have dropped insider trading charges against CEO Joachim Hunold, Chairman Johannes Zurnieden and three other executives "due to lack of evidence." Their offices and homes were raided 13 months ago when suspicion arose over stock purchases made prior to AB's acquisition of dba. "At the time the accused bought the Air Berlin shares, it was by no means sure whether the dba takeover would actually succeed or whether the Air Berlin share price would rise as a result of dba's acquisition," AB said, adding that Hunold and Zurnieden bought the shares "in order to make a public statement of confidence" and still own them.

And finally, Air Berlin confirmed that it no longer is interested in acquiring Condor Airlines from Thomas Cook Group. It said the share swap deal was "cancelled by mutual agreement," while the parties "have agreed to continue negotiations regarding the feasibility of alternative solutions." AB and Thomas Cook said the changing economic environment, including the soaring cost of fuel, was the "main reason" for the contract's cancellation.



Air France KLM remains very keen on participating in European consolidation, but denied rumours the group is looking at acquiring Austrian Airlines.

Italy's **Air One** cemented its commitment to increasing its international profile with a firm order for 12 A350-800s plus 12 options and 12 A330-200s with eight options. The aircraft will be used to "develop a comprehensive long-haul route network." The firm order is worth \$4.8 billion at list prices, with the deal potentially reaching \$8.6 billion if all options are exercised. No delivery date or engine selection for the A330s was announced. Air One also has 65 A320s on order, along with 25 options that it expects to firm. The carrier also just released its 2007 results, calling its €6.8 million (\$10.6 million) net profit "satisfactory." It reported a €6 million profit in 2006. Revenue rose 22.6% to €749.5 million during a year in which it made "important investments in widening the network, renewing the fleet and quality services offered. These three factors have allowed Air One to increase both market share [to 37% domestically from 33%] and turnover considerably," it said. Operating income dropped 24% to €19.7 million from "circa" €26 million in 2006 owing to fleet depreciation costs.

The European Commission confirmed the launch of an in-depth investigation into the Italian government's €300 million (\$465 million) emergency bridge loan to **Alitalia**, granted in April under a specific decree-law. A second decree-law on May 27 allowed AZ to incorporate that sum into its equity capital, enabling it to avoid bankruptcy proceedings and permit its possible privatization. Noting that as AZ already has benefited from rescue and restructuring aid, the EC said that Italy cannot "in principle grant it any more aid." The EC must decide whether the loan was made on the same terms as a private investor and would allow all interested parties to voice their opinions. It has up to 18 months to conduct the investigation. The ailing flag carrier maintained the loan is in line with EU law.

Separately, the European Court of First Instance rejected an appeal filed by **Alitalia** in 2001 against a European Commission ruling that attached conditions on the use of state aid as part of an AZ restructuring plan. The conditions set by the EC regarding a capital injection from Italian state finance company IRL related to AZ's 1996-2000 restructuring plan included the requirement that Italian authorities act as a normal shareholder, that the cash injection be used only for restructuring AZ and not for expanding the business and that state aid take the form of a one-off payment. The CFI ruling has no implications on the EC's current investigation of the €300 million (\$471 million) bridge funding from the Italian government to keep Alitalia afloat.

Alitalia is facing its "last chance" for survival and needs a "complete break" from its past. The Government is waiting for proposals from Intesa Sanpaolo on how to rescue the carrier. Intesa was recently appointed to draw up a strategy to revive the airline. According to some reports, one plan might be to split up AZ and merge its airline operation with Air One, which partnered with Intesa in its bid for Alitalia last year. The chairman also confirmed that AZ closed the 2007 financial year with a consolidated net loss of €495 million (\$781 million) and an operating loss of €310 million, and that KPMG was appointed to replace Deloitte & Touche as auditors. AZ said its group net debt stood at €1.12 billion at the end of May compared with €1.36 billion at the close of April. It noted that the May figure did not include the €300 million bridge loan from the government that later was converted into company capital. Short-term liquidity increased from €174 million end April to €388 million end May, "mainly due to cashing the above-mentioned amount [the bridge loan]".

However, more recently, Italian Prime Minister Silvio Berlusconi said that the capital required to fund Alitalia's relaunch has been secured, although he did not disclose the origin of the money. "For now, we have two things--the necessary capital and the slogan 'I love Italy. I fly Alitalia'".

Amerer Air, a cargo carrier based in Linz, will be the first customer for the re-launched BAe 146QT freighter program. Amerer will purchase the aircraft and operate it on behalf of major integrators as well as on ad hoc charter flights. Amerer is privately held and currently operates one F27-500.

Austrian Airlines Group is considering establishing an even greater presence in Central and Eastern Europe. It already holds a 22.5% share in Ukraine International Airlines and would strengthen its foothold with investments in other carriers in the region. Meanwhile, AAG faces tough competition at home from LCCs. It has said it may lose as much as €90 million this year and is willing to consider investment by a



larger strategic partner. Launching its own low-cost operation is not a viable option at the moment, although its Lauda Air leisure subsidiary might offer an outlet.

AAG also announced that it will cut overall capacity by 5% for the coming winter season, citing high fuel prices and weak demand. Its fleet will be lowered by three aircraft in 2009. It did not announce any layoffs but warned that further cost-cutting actions could become necessary in the future.

AAG plans to phase out 12 CRJs. One will be retired, two will be replaced by Q400s acquired from SAS Group and nine will be made available for sale. Meanwhile, AAG subsidiary Austrian Technik Bratislava is targeting the F70/100 market.

Separately, **S7 Airlines** sent a letter to state holding company OIAG, AAG's largest shareholder, expressing its interest in bidding for the stake.

Romania's **Blue Air** signed for three 737-900ERs, Boeing announced, adding to the two 737-800s ordered earlier. The order is worth \$238.5 million at list prices. Blue launched in December 2004 at Bucharest Baneasa and now operates five 737 Classics. It will add two leased 737-800s this year and a third in early 2009.

British Airways announced the completion of its acquisition of French all-business-class operator **L'Avion** for £54 million (\$107.7 million) and will integrate the company into its new premium transatlantic subsidiary OpenSkies. The combined airline will operate up to three daily flights between Paris Orly and New York JFK and Newark using three 757s. L'Avion is the trading name for Elysair, which is privately owned by Societe de Participation Aerienne. It launched in January 2007 and said it has transported more than 65,000 passengers on two aircraft operating with a single, 90-seat business class cabin between ORY and EWR.

BA, together with its oneworld partner **Iberia** confirmed that the boards of both carriers "unanimously" support negotiations "with a view to an all-share merger between the two companies." The companies announced that BA has raised its stake in IB to 13.15% and that IB "recently acquired" a 2.99% stake (34.5 million shares), in BA plus financial exposure to an additional 6.99% through contracts linked to BA's share price. The announcement boosted IB shares 20.7%. BA has a market capitalization of £2.9 billion (\$5.77 billion) while IB's market capitalization is €1.63 billion. It is expected that both brands would be retained, and IB speculated that a new company may be created to control both carriers.

Clickair and **Vueling Airlines** have agreed to merge. The deal must now be presented to the market regulator and competition authorities before completion can take place. IB will be the majority shareholder in the merged entity but will not control the company. The merged entity will not be a typical LCC but an airline featuring a "new business model" tailored to the new environment in Europe. "It will be a point-to-point carrier but offer several features a traditional LCC does not have" and hence, will stay closer to the Clickair model than that of Vueling. All flights will have the IB code and hence, available through GDSs.

Cyprus Airways is considering a partial renewal of its fleet to cut down on its growing fuel bill. "We are looking at the possibility of a part renewal of our aircraft in some depth. We expect to have a partly renewed fleet by the next summer season," Chairman Kikis Lazarides said. CY's fleet of two A319s, seven A320s and two A330-200s has an average age of 12.5 years. The airline reported a rare profit in 2007 and had anticipated good results this year but was forced to reconsider its initial forecast owing to climbing fuel costs. "I do not think we can reach the targets we had set for the year, which were quite favourable over 2007," Lazarides admitted. Initial projections of an €82 million (\$127.1 million) fuel bill this year were revised to €106 million.

Finnair is preparing to reduce capacity by about 2% initially due to the soaring cost of fuel and slowing demand and also may cut jobs. "If we have to make a reduction that equals the level of average overcapacity in Europe, 7%-10%, we will face staff cuts," the airline said.

Germanwings will phase out four of its 29 A319s Nov. 1. It was not clear whether any destinations will be removed from the network or if there will be any employee reductions.

Helvetic Airways, based in Zurich, will stop operating all scheduled flights at the end of October owing to high fuel prices and instead will use its four F100s on ACMI and charter flights. Three of its aircraft



already are on wet-lease with Swiss International Air Lines. Helvetic's scheduled routes to Brindisi, Catania, Lamezia Terme, Palermo and Jerez de la Frontera will be closed this fall. It said all 125 employees will remain on staff. It launched operations in 2002.

Iberia has submitted a stock exchange filing indicating it would withdraw its bid for Spanair.

Serbian government announced a tender for 51% of **Jat Airways**. Buyers must be registered in Serbia or the EU and had until July 31 to submit a bid for the stake, which may rise to 75% following negotiations with the winner. Jat's assets are valued at €162.6 million (\$255.7 million) and its debt is €247.4 million, according to the tender. The Serbian government however, has plans to reduce the minimum price it will accept for the sale of flag carrier to compensate for rising fuel prices. Jat flies a relatively old fleet of 16 737 Classics and ATRs. Aeroflot is no longer is interested in bidding. SU, Icelandair and Air One all have shown interest in the past and now Air Berlin and Aegean Airlines reportedly also are possible candidates.

Jet2.com parent Dart Group reported an £8.7 million (\$17.3 million) profit in the fiscal year ended March 31, up from £700,000 the prior year, as the Leeds Bradford-based LCC expanded considerably. Jet2.com added 19 new routes during the year, bringing its total to 133, and enjoyed a 32% year-over-year increase in passengers to 4 million. The company said it will realize savings through the February implementation of an in-house reservations system and that going forward it "will continue to focus its growth on the leisure sector of the airline market" and "intends to work closely with the travel trade in making its flight and holiday offerings more accessible to all forms of distribution."

Dart's aviation division operates 21 737-300s and eight 757-200s. It said a 29% year-over-year growth in revenue at the division lagged capacity growth of 35%, although ancillary revenue per passenger rose 48.5% owing largely to increased baggage charges. All expected fuel requirements for passenger operations are hedged for the current fiscal year. Dart's full-year revenue climbed 23% to £429.3 million while expenses were up 19.6% to £415.8 million. Operating profit increased to £13.5 million from £1.2 million in FY07. Dart Group also includes supermarket and retail distributor Fowler Welch-Coolchain.

Russia's **KD Avia** signed a commitment with Airbus for 25 A319s, the manufacturer announced in Berlin. No engine choice was reported. KD is a new Airbus customer that currently operates an all-737-300 fleet. Deliveries will begin in 2014, of the order that is reportedly worth \$1.7 billion.

The **LTU** brand will disappear after more than 50 years in the aviation industry. Founded in 1955, the Dusseldorf-based carrier was acquired by Air Berlin last year. The change will not be immediate as some bilateral agreements, like those with Mexico and Thailand, still require aircraft to wear the LTU livery.

Lufthansa will begin phasing out its 60-strong 737-300/-500 fleet by next year, with the -500s leaving by the end of 2009 and the remaining aircraft being retired by 2012, depending on market developments. LH owns 80% of its fleet. LH is selling an average of one aircraft per month, but the number of new aircraft it is bringing into the fleet is higher. LH has up to 180 on order worth approximately €14 billion (\$21.6 billion). Some incoming aircraft are replacements. A320s will replace the 737s and 747-8s will replace 747-400s. Some of the 60 A320s on order will be transferred to Swiss International Air Lines to grow its fleet, with the remainder slated for mainline service. In terms of regional aircraft, LH will look at Bombardier's CSeries as well as to emerging products in China, Russia and Japan. Meanwhile, four LH pilots have secured their A380 certifications. LH is scheduled to take its first aircraft in the 2009 fourth quarter and operate 15 of the type by 2015.

LH remains confident that the current downturn in the industry will not force it to reduce capacity like European rivals British Airways and Air France KLM. The carrier conceded that LH is manipulating up to 1,500 fares each day in order to remain competitive as demand weakens but have no plans to cut any routes. The carrier has hedged approximately 80% of its fuel needs for this year and up to 45% for 2009. It has added 16 new destinations this year and plans to hire 3,000 new employees throughout 2008.

Meanwhile, Lufthansa, including its Swiss International Air Lines subsidiary, has become continental Europe's biggest North Atlantic carrier despite its reluctance to take quick advantage of open skies, flying 22 non-stop routes between Germany/Switzerland and North America. The airline is offering a 12% year-over-year increase in transatlantic capacity this summer and is not ruling out the launch of new



destinations. The company is evaluating boosting its Latin American operation and is increasing cooperation with TACA Group and TAM. To the north, LH is looking at its investment in JetBlue Airways as a way to enhance its US profile, especially at JetBlue's New York JFK hub, Boston and Orlando International.

MK Airlines and Freight Feeder Aircraft Corp. signed a letter of intent for the purchase of 10 FF5000 Freight Feeder Aircraft plus five options. Officials of both Freight Feeder and MK, the UK-based carrier that suspended operations but re-launched shortly afterward after securing new funding, plan to meet within the year to complete final negotiations. Purchase order will become finalized upon "first flight" of the FF5000 prototype currently under construction and scheduled for completion next spring.

Niki is in talks with Embraer and Bombardier about a regional jet order. "We are evaluating which smaller aircraft between 88 and 114 seats is ideal for us below the A320 family. The A318 is a not useful airplane, so we are studying what else is on the market. But nothing is concrete," said President Niki Lauda. The Austrian carrier would use smaller aircraft to increase frequencies on routes such as Zurich or Frankfurt. Lauda said high oil prices are forcing the airline to consider more cost-effective aircraft. Niki has hedged 35% of its fuel needs.

TUI acquired the remaining stake of Moroccan LCC **Jet4you**. It owned 40% of the Casablanca-based airline and purchased the remaining shares. Jet4you operates five 737 Classics and plans to double its fleet by 2013. It reported €51 million (\$78.7 million) in revenue last year.

One-time items, including a huge write-down of its stake in Aer Lingus, resulted in a rare profit drop at **Ryanair** in the fiscal year ended March 31, when it earned €390.7 million (\$607.2 million), down 10.3% from the €435.6 million net posted in the preceding 12 months. Full-year operating revenue rose 21.3% to €2.71 billion as a 35% year-over-year increase in ancillary revenue to €488.1 million helped offset a slight 1% fall in average fare. Operating expenses were up 23.3% to €2.18 billion and operating profit climbed 13.9% to €537.1 million from €471.7 million in the 12 months ended March 31, 2007.

It added 30 aircraft during the year (operating 163 737-800s at year end), launched 201 new routes and enjoyed a 20% increase in passengers to 50.9 million. Fuel costs increased 14% to €791.3 million, but hedging that "insulated us from the worst of these price rises" and the decision to ground seven aircraft at London Stansted mitigated the effects.

The Irish LCC announced however, that it will cut its winter schedule at Dublin, reducing based aircraft to 18 from 22 and the number of weekly flights to 1,190 from 1,352. It estimated a passenger decline of around 500,000 from winter 2007-08. It said DUB is the second most expensive of its base airports and that a request to the airport to have fees reduced was "dismissed by the DAA monopoly."

And finally, Ryanair also announced the acquisition of 3.5 million ordinary shares in Aer Lingus worth €175,000 (\$275,919), lifting its stake in EI to 29.82%.

Unable to secure critical funds from UAE-based investment group Viceroy Holdings, all-business-class carrier **Silverjet** completely shut down, following Eos Airlines and MAXjet Airways into the history books. The company did not give up, however, and was "working actively with new investors who are prepared to inject new funds so we can recommence operations", only to announce that it had reached "principal terms" with Kingplace, an Irish-registered investment group managed by Geneva-based Heritage, to acquire and re-launch the carrier. However, "unusually complex negotiations with third parties" meant that Kingplace "is no longer in a position to acquire Silverjet as a going concern". As a consequence the entire workforce was made formally redundant in line with legal obligations. The number of job cuts numbered between 300 and 400.

Spanair unveiled a "feasibility plan" designed to negotiate the "economic crisis" and rising fuel prices that will generate an estimated €90 million (\$143.4 million). It will ground 15 aircraft, lay off 900 fulltime employees and permanently cancel several services. It still will operate more than 80% of its network, equal to 260 daily flights to 48 destinations.

Swiss International Air Lines announced the acquisition of **Servair Private Charter**, which it said will operate as a wholly owned, Zurich-based subsidiary called Swiss Private Aviation and "should establish



the Swiss Group in the business aviation sector and provide a platform for operating the Lufthansa Private Jet fleet." SPA will concentrate on offering aircraft management services to private clients and companies and operating commercial charters. From spring 2009, the LH Private Jet fleet will be operated under SPA's AOC.

UK-based **Thomsonfly** and **First Choice Airways** will begin operating jointly under the name **Thomson Airways** from May 1, 2009. The rebranding of the two leisure carriers follows the merger of the tourism division of TUI AG and First Choice Holidays last fall. Changes will be phased in gradually with rebranding work on the fleet expected to be completed over the next two years.

Asia Pacific

Air China is expected to replace older 747s with more fuel-efficient A330s. Air China is expected to replace older 747s with more fuel-efficient and said it will purchase 20 A330s valued at \$3.82 billion. CA said the aircraft will boost its capacity by 16.5% and allow it to increase flight frequencies from Beijing. The airline will use cash, bank loans and debt instruments to pay for the aircraft. The company plans to increase hedging and optimize routes to reduce fuel expense. Last year its fuel hedge accounted for 50% of its fuel consumption and this year it purchased its international fuel almost all by fuel hedge.

In conjunction with its effort to enhance its "Beijing hub" strategy and boost domestic and international frequencies from the capital, Air China plans to order 15 777s and 30 737s. CA negotiated a deal less than the \$6.3 billion list price for the 45 aircraft, which will be delivered between 2011 and 2015 and will boost its capacity by 35%. The order still requires approval from CA shareholders and the Chinese government.

Air China is also looking at presenting a bid for Star Alliance partner **Austrian Airlines** in order to establish a foothold in the West. CA confirmed that it considered acquisition of a stake in OS a possibility. But "there would be considerable research into potential synergies before a decision was made". Air China operates more international routes than any domestic competitor and has a clear advantage on service to Western countries. It plans to launch a daily Vienna service in October 2009. It currently codeshares on Austrian's daily VIE-PEK flight.

Air Macau has become another victim of surging oil prices and is clinging to survival as it awaits help from parent Air China Group. The Macau carrier posted a net loss in excess of MOP200 million (\$24.6 million) in the first six months of this year, more than half of its registered capital of MOP400 million. Under Macau law, exceeding that threshold requires the company to either inject new capital or declare bankruptcy. CA said it will determine a solution with other NX stakeholders, including TAP Portugal's SEAP investment fund (15%), casino company Sociedade de Turismo e Diversoes de Macau (14%), the Macau government and EVA Air. CA holds a 51% stake.

Air Mauritius Group returned to profit in its most recent fiscal year, posting €17 million (\$26.4 million) in earnings in the 12 months ended March 31 compared to a €6.7 million loss in the prior year. The carrier also announced that current shareholders including the Mauritius government reached agreement with British Airways to purchase its 10.5% stake in the airline for £3.2 million (\$6.3 million). BA had held the stake, comprising a 13.24% share of Air Mauritius Holding Co. and a 3.84% share in Air Mauritius Ltd. since 1973. MK's full-year revenue climbed 8.2% year-over-year to €448.1 million and passenger numbers increased 11.4% to 1.3 million. Load factor rose 2.2 points to 76.8%. Expenses were up 3% to €399.7 million and operating profit surged to €24.7 million from €1.6 million. It will adjust full-year capacity growth to 1% from the originally planned 4% and does not plan to cut any destinations from its network.

ANA took delivery of the first 767-300BCF in Singapore from Singapore Technologies Aerospace subsidiary ST Aviation Services Co. ANA is the launch customer for the 767-300 passenger-to-freighter conversion program and after exercising all options currently is signed up for seven.

Air New Zealand has announced that further cost-cutting and capacity reductions are on the agenda as the carrier faces fuel costs that doubled to approximately NZ\$2 billion in its fiscal year ended June 30. ANZ flagged its fifth fare increase this year and said it would need to raise fares 20% to cover the cost of



fuel fully, although admitted such a move would "soften demand to such a degree you may actually end up in a worse position." In May, ANZ lowered its pre-tax profit forecast to less than NZ\$200 million, which would represent a greater-than-23% year-over-year decline.

Asiana Airlines placed a firm order for 30 A350 XWBs valued at more than \$7 billion plus 10 options, a major win for Airbus. Deliveries are slated to begin in 2016. Asiana has been weighing for months whether to place a massive order for A350s or 787s to replace its 767s and A330s and drive future growth to Japan and China and on long-haul routes. The competition to woo the South Korean carrier was considered one of the most intensely fought between Airbus and Boeing this year. The airline said it plans to take all three variants of the aircraft, adding that it will be used on both regional and long-haul routes. They will be powered by Rolls-Royce Trent XWBs. Airbus said it has sold a total of more than 350 A350s to more than 20 customers.

Biman Bangladesh Airlines placed an order for four 737-800s valued at about \$320 million plus two options, bringing to 12 the number of Boeing aircraft it has ordered this year as it attempts to modernize its aging fleet. The carrier said its future fleet will be all-Boeing. It now operates four DC-10s, three A310s and three F-28s and considers upgrading its fleet a key component of a major restructuring initiative undertaken in the last two years that has included 3,000 job cuts and downsizing domestic flying to focus on more profitable international routes. It currently connects Bangladesh with 18 countries and has agreements in place that potentially will allow it to serve 42 countries.

Chinese government raised the domestic fuel price more than 25% to CNY7,450 (\$1,082) per ton, which will lead to a CNY3.6 billion increase in annual expenses for China Southern Airlines--which operates the largest domestic network--a CNY1.8 billion rise for Air China, CNY2.2 billion for China Eastern Airlines and CNY700 million for Hainan Airlines. The increase however, should not have a significant influence on second-quarter financial performance, as Yuan appreciation will continue to drive profits. Nevertheless, the second-half outlook is "less optimistic" owing to fuel costs and "declining" domestic demand. Airlines plan to follow their fuel surcharge increase on international routes with a domestic increase. CZ, CA and CEA applied for the right to boost domestic charges by 33.3% to CNY80 on routes shorter than 800 km. and by 50% to CNY150 on longer flights.

Chinese carriers were dealt another blow to their bottom lines as authorities decided to raise the jet fuel price by CNY720 (\$104.83) per ton. It is the third time fuel prices have gone up this year following a CNY210 per ton increase in the first quarter and a CNY1,500 hike on June 20. China's quarterly adjustment of jet fuel prices traditionally takes import costs into consideration, which largely has shielded airlines from the soaring international oil prices over the past two years. Analysts expect China Southern Airlines will be hit hardest by the domestic increase as it flies the largest number of domestic routes. According estimates, CZ faces a reduction of CNY250 million in marginal profit for every CNY100 increase in the cost of jet fuel, while China Eastern Airlines' bottom line would sink by CNY220 million and Air China's would drop by CNY180 million. To mitigate rising fuel expenses, Chinese carriers collectively approved an increase in domestic fuel surcharges. In addition, CA, CZ, Shanghai Airlines and Hainan Airlines will raise surcharges on international routes.

Cathay Pacific Airways issued a profit warning saying that first-half and full-year 2008 results "are expected to be disappointing" as its fuel expenses have risen by approximately 60% so far this year.

China Eastern Airlines announced a CNY1.3 billion lease deal for three A340s with Industrial and Commercial Bank of China Financial Leasing Co. CEA plans to add 20-30 aircraft each year through 2013, increasing capacity by 12% annually. It currently operates 220 aircraft. CEA MD Cao Jianxiong said the leases will help with the carrier's cash flow problem.

CEA remains confident in its plan to introduce Singapore Airlines as its strategic investor despite the fact that the exclusive stake sale agreement signed with SIA last September will be invalid after Aug. 9. CEA minority shareholders rejected SIA's purchase of a 24% stake in January. In May, CEA hinted it might schedule another shareholder vote following the conclusion of the Olympic Games. However, the Shanghai-based carrier did not discuss the stake sale at its annual shareholders conference June 30 except to note that "it will continue to push forward introducing a strategic investor."



CEA and Shanghai Airlines, both of which are based in China's largest city, denied reports that they are planning to merge. CEA said that it has never held any talks or negotiations with any other carriers save Singapore Airlines. SAL also released a statement claiming it was uninvolved in talks related to domestic consolidation. A combination of the two airlines has been suggested before, but it was scuttled when they could not reach agreement on corporate control. In addition, the fact that they are held by government organs functioning at different levels complicates matters.

China Southern Airlines signed a framework agreement with **Air France KLM** to launch a cargo joint venture. "The new cargo JV will be named **AE (Asia Europe) Cargo** and is expected to go into formal operation next year and operate 10 aircraft, including 747s and 777s, at the initial stage." CZ will hold a 75% stake in the new entity while AF KLM will hold the rest but refused to reveal the exact amount of CZ's investment. Although Chinese carriers have just 24% of the domestic cargo market compared to foreign competitors, CZ is confident that AE will be better positioned as "the operating efficiency can be enhanced greatly through CZ's cooperation with AF KLM." CZ will ask AF KLM to nominate a CEO candidate. CZ is also considering the introduction of a strategic investor but "no proper candidate has been identified."

China Southern Airlines announced that it plans to phase out 12 MD-82s in October with the aim of improving fuel efficiency, in addition to four 777-200s. In addition, it cut some international flights on June 1, particularly Southeast Asia routes from Guangzhou that "are mainly focused on tourists [and] make less profit."

CZ plans to reduce the pay of all executives, including its Chairman, by 10% in an effort to cut its operating expenses by CNY1.3 billion (\$190.3 million) by year end. The domestic fuel price has risen to CNY8,720 per ton, nearly four times greater than in 2005. The increase has hit CZ the hardest, as it operates the greatest number of domestic routes. Although the Guangzhou-based carrier raised its fuel surcharges, it still expects fuel expenses to increase by CNY1.86 billion this year. Confronted with surging fuel prices and weakening market demand, CZ noted in a statement that it would cut CNY800 million from infrastructure investment this year and save another CNY 500 million through fuel savings, optimizing capacity and sales promotions.

Struggling Wuhan-based **East Star Airlines**, which already has claimed it is in "financial crisis," was dealt a further blow by CAAC, which decided to suspend its right to fly to Guangzhou and Shenzhen. This makes the second time ESA has faced such a sanction. Flights to Shanghai were suspended by the regulator previously owing to the airline's inability to submit its "air transport funds" to CAAC in time. An ESA insider recently was quoted in Chinese media claiming the airline might cease operations because of its "financial burden." It owed approximately CNY100 million (\$14.6 million) to China Aviation Oil Import and Export Co., the main domestic oil supplier to Chinese carriers.

FlyYeti.com, the low-cost joint venture between Air Arabia and Yeti Airlines operating out of Kathmandu, will suspend operations on July 16 owing to what it called "difficult operating conditions in Nepal and a presently opaque regulatory environment" and political conditions that made it impossible to guarantee the renewal of aircraft operating leases that will soon expire.

Grandstar Cargo International Airlines, the Korean Air/Sinotrans joint venture airfreight carrier based in Tianjin, operated its inaugural flight to Frankfurt using a 747-400 freighter. KE and the Chinese logistics firm first announced plans for the airline in 2006 and gained CAAC approval in July 2007. It is 51% owned by Sinotrans Air Transportation Development Co., 25% by KE, 13% by Hana Capital Co. and 11% by Shinhan Capital Co. It plans to add a second 747-400F and two A300-600Fs to its fleet later this year. It will operate flights to Shanghai and to European cities and eventually to the US, KE said. Korean Air Cargo President Ken Choi has said that the carrier's initial aircraft are from KE's fleet but that the JV will be expected to secure its own planes by its second year of operation.

Hainan Airlines is joining with the Yunnan local government in southwestern China to launch Yunnan Airlines, which will be comprised mainly of the assets of Lucky Air, an HNA subsidiary launched in 2006 that apparently will cease to exist. Based on an agreement signed between HNA and the Yunnan government, another HNA subsidiary, Grand China Air, will be the controlling stakeholder of the new Yunnan Airlines. The entity is reported to have a registered capital of more than CNY3 billion (\$43.3



million). Lucky Air's six 737-700s will be operated by the new airline, which will aim to expand to a fleet of more than 30 aircraft within three years. The carrier is interested in acquiring A330s and 767s to operate international routes to Southeast Asia countries. Industry analysts pointed out that it will challenge China Eastern Airlines' current dominant position in Yunnan.

Indian airlines have been late in making payments for jet fuel, citing a top executive with Indian Oil Corp. Kingfisher Airlines and Jet Airways are among several carriers "delaying payments in spite of seeking a very comfortable line of credit and huge discounts," told the IOC executive. Kingfisher reportedly built up "arrears" on a line of credit earlier this year and was forced to switch to a "cash and carry" model of payment in which it pays immediately for fuel it needs. It paid down its debt and has transferred to other fuel providers except at airports where only IOC operates, according to the report. Jet still reportedly owes IOC for fuel it has purchased via a line of credit.

A significant swing to the red in its fiscal fourth quarter ended March 31 helped drag India's **Jet Airways** to a full-year loss of INR2.53 billion (\$58.9 million), a reversal from the INR280 million profit it reported in the year ended March 31, 2007, and its JetLite subsidiary suffered even heavier losses. Jet's full-year revenue rose 28.1% to INR94.82 billion as passenger numbers climbed 6.5% to 11.4 million. It flew 16.91 billion RPKs, up 37.4% year-over-year, against a 38.1% increase in capacity to 24.45 billion ASKs, lowering load factor a slight 0.3 point to 69.2%. JetLite, formerly Air Sahara, reported a pre-tax loss of INR4.4 billion, narrowed from a INR6.89 billion deficit in the prior fiscal year.

Korean Air changed the name of its short-haul domestic LCC, slated to start operations soon, from Air Korea to **Jin Air**. KE said the name change is intended to signal the carrier's "practical" approach, also to be signified by employee uniforms comprising jeans, t-shirts and jackets.

Kunpeng Airlines, the Xi'an-based JV between Shenzhen Airlines and Mesa Air Group, signed a contract for five E-190s worth \$187.5 million at list prices, the manufacturer announced. The aircraft will seat 98 passengers in two classes.

Thai LCC **One-Two-Go Airlines**, which suffered an MD-82 crash last September that killed 89, will suspend some or all of its operations from until Sept. 15 while it restructures. The carrier would be "operating a reduced schedule" during that period, but press reports out of Thailand cited other statements from One-Two-Go indicating a total grounding and citing financial problems as the cause." Meanwhile, its fleet of eight MD-82s would be grounded because the government apparently "found that their system to ensure aviation safety is not up to standard" and "their pilot screening is not systematic and not up to standard."

Philippine Airlines posted a profit of \$30.6 million in its fiscal year ended March 31, down 76.6% from the \$130.5 million earned in the previous 12 month period. Still, PAL called it a "noteworthy result in the escalating-fuel-price environment that has battered the aviation industry since last year." It is the restructured carrier's fourth consecutive full-year profit. Operating revenue rose 15% to \$1.46 billion and expenses were up 14.9% to \$1.37 billion. Operating profit increased 19.9% to \$84.3 million from \$70.3 million. The 2006-07 net result was boosted by special gains. The airline transported 7.6 million passengers, up 10.1%, and load factor rose 2.6 points to a full-year record 79.5%.

Qantas on said it will cut 1,500 jobs by Dec. 31 and cancel a planned 8% boost in capacity for its 2009 fiscal year starting July 1 "in response to the sustained high oil prices and changing economic conditions." Most cuts would come in "non-operational areas, although operational positions will also go." More than 20% of management and head-office support positions will be slashed. Capacity growth will be flat for the coming fiscal year and "up to 22 older aircraft" will be retired "including announcements previously made." Based on previous announcements, QF will retire one 737-400, two 767-300ERs, four 747-300s and one Jetstar Airways A320 as well as cancel delivery of one Jetstar A321. The company also is cancelling plans to hire a further 1,200 employees in the coming fiscal year to support the formerly planned capacity growth.



Qatar Airways signed an MOU for four A321s plus two options. The four firm aircraft are scheduled for delivery "in the near term," and the airline indicated that an order for "a lot more" could follow soon. The A321s covered in the MOU will bring Qatar's narrowbody fleet to 27.

Shanghai Airlines plans to introduce two A321s next year to replace 757s to increase the overall fuel efficiency of its fleet, citing that it will be difficult to post a profit this year if fuel prices continue to rise.

The **SpiceJet** board announced that asset management firm WL Ross & Co. will invest approximately \$80 million in the New Delhi-based LCC as Kingfisher's efforts to acquire the carrier were rebuffed. Ross said his firm "believe[s] in the long-term validity of the low-cost airline model in India and that fuel prices eventually will stabilize". The airline operates 94 daily flights with 15 aircraft and holds a 10% domestic.

Six major Chinese carriers--Air China, China Eastern Airlines, China Southern Airlines, Hainan Airlines, Xiamen Airlines and Shanghai Airlines--have been chosen to operate the first weekend charter flights across the **Taiwan Strait**, according to CAAC. Based on the agreement between the Strait Exchange Foundation (Taipei) and the Assn. for Relations Across the Taiwan Strait (Beijing), 18 flights will be permitted each weekend (including Fridays) beginning July 4. CA, CEA and CZ each will operate four while HNA, SAL and Xiamen get two. CA and HNA are expected to operate their flights from Beijing while CEA and SAL will fly out of Shanghai Pudong. CZ will fly from Guangzhou Baiyun and Xiamen from Xiamen Gaoqi.

Meanwhile, Taiwan authorities announced that Mandarin Airlines, TransAsia Airways, Uni Air, China Airlines and EVA Air have been selected to fly across the strait. Industry analysts claim that CEA will benefit most from the cross-strait flights as 35% of Taiwanese living on the Chinese mainland reside in Shanghai and neighbouring Jiangsu Province. CSA also will benefit--25% live in the Pearl River Delta Region and 10% in nearby Fujian Province. CEA and EVA said they are interested in initial cooperation on MRO, ground handling and catering and will consider codesharing and loyalty program links. CSA and CI announced a cooperation agreement recently.

China International Capital Corp. reported that cross-strait routes will be among the most profitable for mainland carriers. It predicted passenger volumes will double those on flights to/from Hong Kong and Korea, which contribute about CNY5 billion in annual net income to mainland carriers.

Thai Airways board approved the acquisition of 20 A321-200s and said it has made "progress" in negotiations with Airbus. The purchase now requires government approval. The 179-seat aircraft are expected to be delivered in 2012-17.

Australia's **Virgin Blue** announced a range of capacity reductions and a A\$50 million (\$46.9 million) cost-savings package in response to continuing record fuel prices. The initiatives are the first resulting from its wide-ranging look into how to handle fuel prices that now account for 35% of its cost base. Blue's view is that high fuel prices are here to stay. The airline will continue implementing its New World Carrier strategy, which has delivered solid profit gains over the past 18 months. However, it will tack on the A\$50 million savings initiative, increase fares by an average A\$5 on around 55% of domestic routes and remove four aircraft from domestic service during the September quarter (equal to a 6% reduction in planned capacity growth). An additional 2% of domestic capacity will be redeployed onto more profitable routes. Management faces a salary freeze and Blue will commence layoffs, although no details were provided. Further initiatives to handle escalating fuel costs are under consideration--it has 53% of its fiscal 2008-09 needs hedged at A\$108 West Texas Intermediate. The fuel bill in the current fiscal year ending June 30 will rise 21% year-over-year.

The airline will remove two 737s from its domestic network by October, reducing capacity by an additional 3%, introduce new baggage fees and adjust certain fares in an effort to combat rising fuel costs. There will be no layoffs associated with the new initiatives. Further initiatives also include "significant" fare reductions on "baggage-heavy leisure routes" and a 5% increase in its Flexible Fares. Withdrawn aircraft will operate as maintenance spares and to support disruption recovery. No destinations will be removed from the network. It will realize an additional 3% in 2008-09 through the deferral of five E-190 deliveries in 2009, lifting the overall capacity cut to 12%.

Virgin Blue shares climbed after majority shareholder Toll Holdings, an Australian logistics company, announced its long-awaited disposal of its 62.7% majority stake in Virgin Blue Holdings. Toll will distribute



98.3% of its stake in Blue to Toll shareholders by way of a special dividend, while Blue shareholders will benefit from the significantly increased liquidity in Virgin Blue shares. Virgin Blue also confirmed its that its underlying net profit for the financial year ended June 30 likely will be A\$132-A\$137 million exclusive of approximately A\$40 million of development costs associated with new initiatives scheduled for launch in 2008. It stated further that the company's balance sheet and cash reserves remained strong and, based on current trading conditions; the board sees no requirement for additional equity raisings in the foreseeable future. The dual announcements should see the recovery of Blue's share price, which has suffered because of ownership uncertainty and widespread negative media.

Middle East & Africa

EgyptAir became Star Alliance's 21st member. The carrier said it fulfilled all minimum requirements to become a Star member in fewer than nine months. It hopes to benefit from feed provided by Star members to bring further traffic to Cairo and Star hopes to be able to extend its presence in Africa via its newest member.

Emirates took delivery of its first A380 in Hamburg and during the handover ceremony signed a letter of intent to firm options on 30 A350 XWBs and order 30 A330-300s. The carrier signed a firm order for 70 A350 XWBs with options for 50 more at last year's Dubai Air Show and this new agreement includes the firming up of 30 of those options.

Ethiopian Airlines and privately held Togolese start-up ASKY signed an MOU to form a strategic partnership covering marketing, operations, maintenance, training, financing and management contracts. It will hold a 20% stake in the start-up, which is expected to launch services in December with eight aircraft likely to be leased from ET.

Etihad Airways announced a blockbuster fleet modernization and expansion program with firm orders with both Boeing and Airbus for a combined 100 aircraft valued at \$21 billion plus options and purchase rights for another 105. If all options and purchase rights with both manufacturers are realized, the total value of the deals is \$43 billion.

The Boeing deal includes a firm order for 35 787s and 10 777-300ERs worth \$9 billion at list prices plus options for another 25 787s and 10 777s and purchase rights for 10 more Dreamliners and five 777s. Deliveries will begin in 2011 and be completed in 2020. Deliveries of the 777s will start in 2011 and deliveries of the 787s in 2015. The 777s will be powered by GE90s while negotiations are still ongoing for the engines of the 787s.

The Airbus deal is for 20 A320s, 25 A350 XWBs and 10 A380s plus options for five more A320s, 10 additional A350s and another five A380s. The firm orders are valued at \$12 billion. The A350s will be powered by Rolls-Royce Trent XWB engines while powerplant decisions have yet to be made on the A320s and A380s. The Abu Dhabi-based carrier also took purchase rights for a further 15 A320s, 15 A350s and five A380s. Deliveries of the Airbus aircraft will stretch from 2011 to 2020.

FlyDubai, a start-up LCC owned by the Dubai government that plans to launch service in mid-2009, placed a firm order for 50 737-800s valued at \$3.74 billion. The carrier also will lease four -800s from Babcock & Brown. First delivery is scheduled for May 2009 and final delivery for 2015. The carrier will have a "pure low-cost model," though, "Passengers will be given the option to pay for additional services such as food, checked and excess baggage, and ticket flexibility."

Kenya Airways reported a net profit for its fiscal year ended March 31 of KES3.87 billion (\$60.7 million), down 5.6% from KES4.1 billion earned in the prior year, a drop it attributed to political violence in the country during the final quarter following a disputed election in late December. Fiscal-year revenue rose 2.9% to KES60.47 billion while expenses increased 5.4% to KES53.89 billion, producing an operating profit of KES6.58 billion, down 13.9% from KES7.64 billion the prior year. Operating margin was 10.9%, down 2.1 points.



Sama, the year-old Dammam-based carrier, said shareholders have agreed to contribute an additional SAR200 million (\$53.3 million) in financing. SAR300 million was invested at start-up and the company said its revenue rose more than 250% in the first half of 2008.

Saudi Arabian Airlines signed a firm order for eight A330-300s. The contract follows one for 22 A320s signed at the end of 2007, which was the first agreement between the carrier and Airbus in 26 years. Saudi Arabian chose CFM56-5Bs to power the A320s. CFM valued the order at approximately \$300 million at list prices.

South African Airways reported a ZAR1.09 billion (\$142.5 million) loss in the fiscal year ended March 31, widened from ZAR833 million the previous year. The result reportedly was driven by costs related to a restructuring program that included the grounding of its 747-400 fleet and nearly 2,000 layoffs. Excluding the restructuring costs, it was ZAR123 million in the black. The airline claims that it is on course for a net profit in the current financial year. Sales climbed 9% to ZAR22.5 billion on a 15% increase in fares, although passenger numbers fell 1.3%.

Wataniya Airways, a Kuwaiti start-up, announced receipt of its AOC from the national Directorate General of Aviation. The premium carrier expects to launch service in January with two 122-seat A320s.

AERO EQUIPMENT

Firm Backlog (as at July 14th 2008) Western-Built Jets

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Boeing	3660	45.53%
Airbus	3648	45.38%
Embraer	481	5.98%
Bombardier (Canadair)	192	2.39%
Harbin Embraer Aircraft Industry	41	0.51%
Boeing (McDonnell-Douglas)	16	0.20%
TOTAL	8,038	100.00%

Backlog - Top Ten Owners	Total Aircraft	% Share
General Electric Capital Corp	203	2.53%
Emirates Airline	183	2.28%
US Airways	175	2.18%
Qantas	168	2.09%
Lion Air	168	2.09%
China Southern Airlines	162	2.02%
ILFC	158	1.97%
Qatar Airways	142	1.77%
airberlin	141	1.75%
Ryanair	135	1.68%
TOTAL - TOP TEN	1,635	20.34%
TOTAL BACKLOG	8,038	100.00%

Backlog - Top Ten Operators	Total Aircraft	% Share
Emirates Airline	190	2.36%
US Airways	175	2.18%
Lion Air	168	2.09%
China Southern Airlines	163	2.03%
airberlin	146	1.82%
Qatar Airways	144	1.79%
Ryanair	135	1.68%
JetBlue Airways	132	1.64%
GECAS	131	1.63%
AirAsia	126	1.57%
TOTAL - TOP TEN	1,510	18.79%
TOTAL BACKLOG	8,038	100.00%

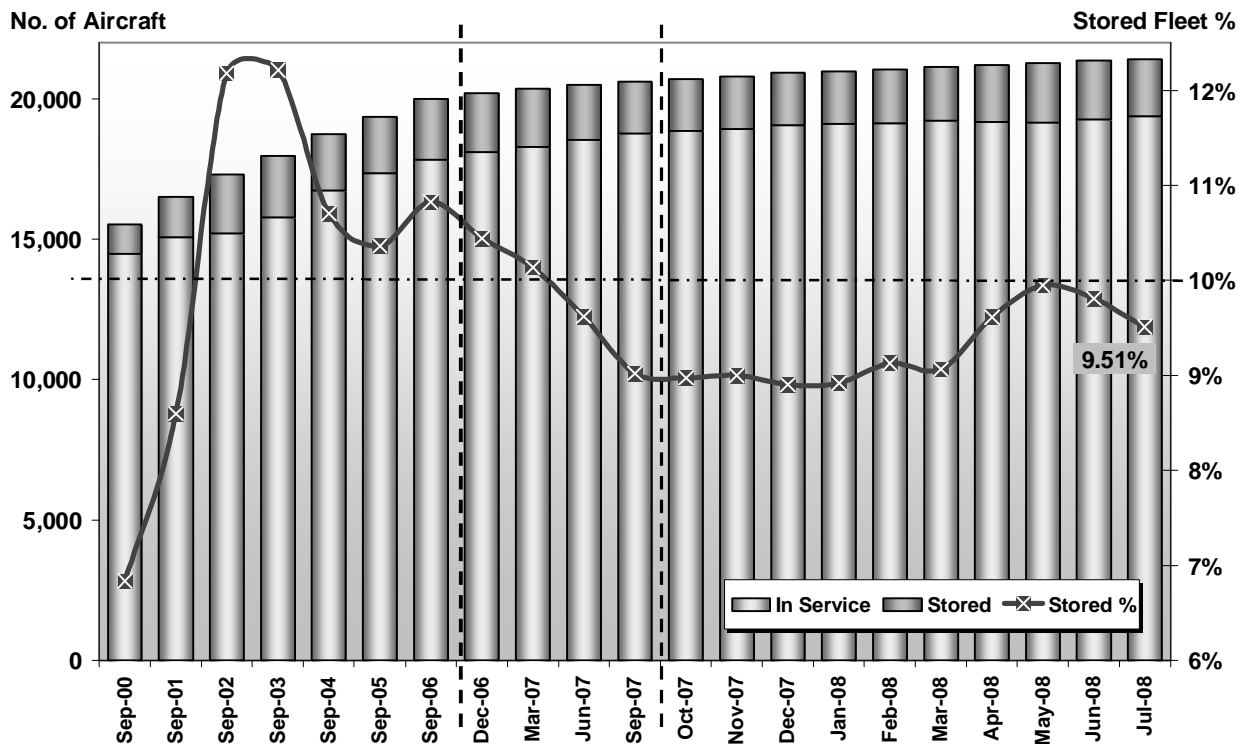
Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
Emirates Airline	183	2.28%
US Airways	175	2.18%
Qantas	168	2.09%
Lion Air	168	2.09%
China Southern Airlines	162	2.02%
Qatar Airways	142	1.77%
airberlin	141	1.75%
Ryanair	135	1.68%
JetBlue Airways	132	1.64%
AirAsia	129	1.60%
TOTAL - TOP TEN	1,535	19.10%
TOTAL AIRLINE-OWNED BACKLOG	6,287	78.22%
TOTAL BACKLOG	8,038	100.00%

Backlog - Operating Lease Companies (Owner)	Total Aircraft	% Share
ILFC	158	1.97%
AWAS	128	1.59%
CIT Leasing Corp	114	1.42%
Aviation Capital Group	107	1.33%
Dubai Aerospace Enterprise (DAE)	100	1.24%
BOC Aviation	73	0.91%
ALAFCO Aviation Lease and Finance Company	66	0.82%
AerVenture	54	0.67%
AerCap	31	0.39%
LCAL	21	0.26%
TOTAL - TOP TEN	852	10.60%
TOTAL LESSOR-OWNED BACKLOG	944	11.74%
TOTAL BACKLOG	8,038	100.00%

Backlog - Lessor (as Owner) by A/C Manufacturer	Total Aircraft	% Share
Airbus	500	52.97%
Boeing	434	45.97%
Embraer	10	1.06%
TOTAL LESSOR-OWNED BACKLOG	944	100.00%

Storage

Ascend is aware of at least 2,037 Western-built jet aircraft in storage as at 14th July 2008:



Source: CASE2® Database



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

Manufacturer & Type	Fleet Stored	Total Fleet	Fleet Stored %
Avcraft 328JET	1	1	100.00
Lockheed L-1011 TriStar	64	81	79.01
Boeing 720	2	3	66.67
Fokker F.28	70	126	55.56
Boeing (McDonnell-Douglas) DC-9	193	437	44.16
Boeing 727	289	666	43.39
Boeing 737 (JT8D)	277	669	41.41
BAE SYSTEMS (BAC) One-Eleven	14	35	40.00
BAE SYSTEMS (HS) 146	71	191	37.17
Boeing (McDonnell-Douglas) DC-8	43	145	29.66
Boeing 707	53	221	23.98
Fairchild/Dornier 328JET	25	109	22.94
Boeing (McDonnell-Douglas) DC-10	53	251	21.12
Fokker 100	44	256	17.19
Boeing (McDonnell-Douglas) MD-80	172	1,059	16.24
Boeing 747	137	1,032	13.28
Airbus A300	50	416	12.02
BAE SYSTEMS (Avro) RJ Avroliner	17	164	10.37
Airbus A380	1	10	10.00
Airbus A310	22	221	9.95
TOTAL STORED FLEET	2,037	21,424	9.51

Manufacturers News

Airbus

Airbus released a forecast for Central Europe that projected the region will require approximately 460 new aircraft worth \$32 billion through 2026. Single-aisle aircraft "will dominate deliveries," it said. Traffic in the region is expected to grow 6.7% annually through 2026, faster than the global average of 4.9%, the manufacturer said.

At Farnborough, **Airbus** received orders and commitments from 10 customers for 256 aircraft worth \$40.5 billion. Of these, 247 were firm, according to the manufacturer. Included among the firm aircraft was a deal announced with Synergy Aerospace for 10 A350-800s, completing an MOU signed in February. Airbus revealed an MOU for five firm A330-200Fs plus three options from Alis Aerolinee Italiana, a new airline founded by members of the former management team and ownership of Air Dolomiti. Synergy Aerospace is the parent of Avianca and SAM in Colombia and Oceanair in Brazil.

The firm tally for the first four days of the show comprised 128 A320 family aircraft, 11 A330s, 98 A350s and 10 A380s. Interestingly, the A380s--all ordered by Etihad--will boost the backlog by just six units, as the carrier previously had committed to acquire four test aircraft and instead will take production models. Of the test aircraft, 1-2 are committed to the corporate/VIP market.

Despite the busy week and much stronger sales than expected year-to-date, Airbus anticipates that "the market in the second half will be softer than the first half." Airbus does not see a new-generation narrowbody before 2019-20, a timeframe that puts it 1-2 years behind public statements from Boeing.

The company remains committed to boosting the A330 production rate to 11 per month from eight and is studying the case for an A330-300 freighter.

Other activity for **Airbus** at Farnborough included a contract from Aeroflot for the purchase of five A321s to be powered by CFM56-5s and Dubai Aerospace Capital firming an MOU signed at the Dubai Air Show in November for 30 A350-900s and 70 A320s worth \$12.6 billion. Also, Tunisair firming its letter of acceptance signed in April for acquisition of three Trent XWB-powered A350-800s, three A330-200s and 10 A320s. The deal includes options for two additional A320s and one A350 and is valued at \$2 billion. The carrier will take delivery of two A330s in 2012 and one in 2013, two A350s in 2018 and one in 2019 and the A320s will be delivered between 2011 and 2016.

Boeing

Boeing delivered 126 commercial aircraft in the second quarter, up 10.5% from the 114 delivered in the three months ended June 30, 2007. Deliveries comprised 100 737NGs (compared to 86 in the year-ago quarter), five 747s (compared to four), three 767s (three) and 18 777s (21). Year-to-date deliveries totalled 241, up 9.5% from 220.

The steep rise in fuel prices confronting the commercial aviation industry will drive demand for new aircraft, according to Boeing, which said that it forecasts a \$3.2 trillion market over the next two decades "driven by an increasing demand for airplanes to replace older, less efficient aircraft." It predicted a need for 29,400 new passenger and freighter aircraft by 2027, up 2.8% from the 28,600 two-decade forecast released last year. It said regional demand would be "balanced." The global fleet will decrease, however, as more aircraft are used as replacements. It forecast that 43% of new planes will replace older aircraft, up from the 36% predicted last year. The fleet in 2027 will number approximately 35,800 units, down from the 36,400 foreseen in 2007. The 3.2% annual increase is identical to the estimated economic growth rate, Boeing said, adding that more than 30% of the forecast market demand already is in backlog. Demand breakdown is as follows: Over the next 20 years, airlines will take delivery of 970 747/A380/jumbo aircraft worth \$290 billion, 6,750 twin-aisle aircraft worth \$1.47 trillion, 19,160 single-aisle aircraft worth \$1.36 trillion and 2,510 regional jets worth \$80 billion. The long-term outlook includes a projected 5% annual increase in global passenger traffic and a 5.8% annual rise in freight.

Boeing announced the signing of an order from Air China for 15 777-300ERs and 30 737-800s worth approximately \$6.3 billion at average list prices. Air China had disclosed its intent to place the order to the Shanghai Stock Exchange.

Boeing racked up big orders for 737NGs at Farnborough including 35 737-800s valued at more than \$2.6 billion to Malaysia Airlines, 15 737-700s valued at more than \$930 million to Aviation Capital Group and



seven 737NGs of undisclosed variant valued at around \$400 million to Arik Air. Both the MAS and ACG 737NGs will be equipped with blended winglets. No delivery dates were announced.

GE Aviation said Arik selected the GEnx to power seven 787s it has ordered and finalized its engine order of five GE90-115B-powered 777-300ER/-200LRs. GE valued the combined engine deals at more than \$500 million.

Bombardier

Bombardier launched its **CSeries** aircraft program, announcing on the eve of the Farnborough Airshow that Lufthansa had signed a "letter of interest" for 30 firm orders plus 30 options. The aircraft, which will be powered by the new Pratt & Whitney GTF engine, will be priced at \$46.7 million. If all options are exercised the LH contract would be valued at \$2.8 billion. Entry into service is slated for 2013.

Bombardier noted that LH was the launch customer for the popular 50-seat CRJ200 and called the German carrier "one of the highest quality customers in the world." He added that the Canadian manufacturer is "actively involved" in discussions with a number of other prospective CSeries customers. LH said the aircraft would be used for both fleet replacement and expansion. No decision has been made on which model (110 or 130) it would take

The CSeries will offer up to 20% lower fuel burn and will feature a largely composite and aluminium-lithium alloy structure, the company said. It also is touting an up-to-20% improvement in operating costs and "unmatched reductions in noise and emissions."

Chinese airlines are showing "a lot of interest" in the CSeries aircraft owing to its greater fuel efficiency. "We have been in discussion with a number of Chinese carriers, including state-owned and private airlines, on the CSeries," the manufacturer revealed. In order to mitigate the impact of skyrocketing fuel costs, Chinese carriers increasingly are looking toward more fuel-efficient aircraft. The manufacturer has forecast that there will be 12,900 new aircraft deliveries in the 20/149-seat range over the next 20 years and that China will account for 11%. Chinese carriers currently operate around 40 CRJs, with Shandong Airlines leading with seven.

Embraer

Embraer delivered 43 commercial aircraft during the second quarter, up significantly from 27 delivered in the second three months of 2007. Deliveries comprised two ERJ-145s, one E-170, 14 E-175s, 21 E-190s and five E-195s. First semester commercial deliveries totalled 18 compared to 47 last year, and the company reaffirmed its forecast of 195-200 total deliveries in 2008 including its business jet segment. As of June 30 its firm order backlog included 41 ERJ-145s (all for China's Hainan Airlines), 46 E-170s, 46 E-175s, 270 E-190s and 75 E-195s.

Austrian LCC **Niki** placed a firm order for five **Embraer** E-190s plus options for another five. The deal is valued at \$187.5 million but could double if all options are confirmed. Deliveries are set to begin in May-June 2010. Founder and President Niki Lauda said the aircraft would be used to add frequencies and "break into new destinations." They will be configured in a single class with 112 "slim seats" that are thinner and use less material than those usually installed on E-Jets.

Embraer also confirmed that **Aeromexico** ordered 12 E-190s. The new aircraft will be operated by regional subsidiary Aeromexico Connect, which currently flies 28 ERJ-145s and holds operating leases on four E-190s.

Embraer said Saudi Arabia's **National Air Services Aviation** confirmed options on five E-190s. The original contract for five firm orders with options was announced in November 2007 at the Dubai Air Show.



Leasing News

AerCap will be the launch customer for the A320/A321 converted freighter following signing here of a firm contract with Airbus Freighter Conversion (AFC) to convert 30 of its passenger A320s/A321s into cargo aircraft. The deal is valued at about \$135-\$140 million. "The A320-A321P2Fs are setting new standards in the feeder freighter market," AerCap CEO Klaus Heinemann said, citing three key reasons to make the commitment including the urgent need to replace its current fleet in the smaller freighter segment and the life extension of the A320 of "about 10 years" owing to the conversion. The Netherlands-based leasing company has identified 29 of the 30 A320s/A321s in its portfolio it will convert to freighters. They all have been operating for about 15 years, "which we see as an optimal age for the conversion," he noted.

ALAFCO reached a deal with **Saudi Arabian Airlines** for the sale and lease of 17 aircraft for delivery from 2009 through 2015. Agreement comprises the sale of eight 787-9s worth \$1.6 billion, the 12-year lease of an additional four -9s and eight-year leases on five A320-200s.

Aviation Capital Group chose CFM56-5Bs to power 25 firm A320 family aircraft scheduled for delivery between 2010 and 2012. CFM valued the order at approximately \$325 million.

ACG signed a firm contract for the purchase of 23 A320 family aircraft, lifting the US lessor's firm orders for the type since March to 68. The order, valued at \$1.8 billion, will take ACG's portfolio of A320s to 168. Deliveries are due to start in the fourth quarter of 2009 and pick up again in 2014-15, noting that between 2011 and 2014 ACG will take deliveries from two orders placed previously. The lessor selected the V2500 to power 25 of the A320s it has on order in a deal worth in excess of \$400 million, IAE International Aero Engines said. The first IAE-powered aircraft is due to be delivered in 2011.

Dubai Aerospace Enterprise is acquiring through what it says is a "split purchase and leaseback deal" 10 747Fs and eight 777-200Fs previously ordered by Emirates. DAE said the agreement will increase its leasing portfolio to 49 aircraft, with a further 200 on order for delivery between 2010 and 2013.

United Airlines' decision to ground all of its 737 Classics in the coming months, a total of 94 aircraft, is expected to have a significant impact on lease rates for the type, **Genesis Lease Ltd.** confirmed. Genesis said that they "would not be surprised to see Classic lease rates drop 10% over the next 12-18 months." Rates for A320s older than 10 years also may be affected. Genesis owns just three Classics and all are leased, he noted. None of the leases expire before 2010.

While acknowledging the crisis facing US airlines in the face of record oil prices, Genesis drew a distinction between the current environment and past downturns, mainly being the high global demand for aircraft, no big order cancellations and strong interest in new and used Western-built aircraft from Russian carriers. He noted that in the past, the demand was there but not the funding, whereas today the country is awash in cash from oil and natural gas revenue.

ILFC announced the following lease agreements: One used 737-800 to Miami Air International for four years; four new A321-200s and two used A330-200s to Vietnam Airlines for 10 and eight years each respectively; three used A330-200s to Gulf Air for eight years each; one new A321-200 to Air France for six years; one used 737-800 to Caribbean Airlines for three years; two new A321-200s to Aegean Airlines for six years each; one new 737-800 to Oman Air for 10 years; two used 737-800s to Orenburg Airlines for five years each; two used A320-200s and three used 767-300ERs to Rossiya for five and seven years each respectively; two used 737-800s to Saga Airlines for seven years each; one new A320-200 to SATA for six years; one new 737-800 to Shanghai Airlines for 10 years; one used 767-300ER to Blue Panorama for five years; two new A320-200s, four used 737-800s and one used 767-300ER to S7 Airlines for six years each; two used 737-800s to Garuda Indonesia for eight years each; two new 737-800s to Korean Air for eight years each.



Aero-Engine News

CFM International moved forward on a new-generation powerplant for the eventual successors to the 737 and A320 families with launch of the **LEAP-X**. The new engine, which builds on CFM's LEAP56 technology acquisition program, will have noise levels 10-15 db lower than Stage 4 and 60+% lower NOx emissions versus CAEP 6. It will have its first run in 2012 with certification possible in 2016. It will offer 16% lower fuel consumption compared to the CFM56-7 powering the 737NG. But it will not feature an open rotor design, technology much touted by GE, although this could be incorporated at a later date if challenges surrounding noise, reliability and blade size can be overcome. Making a big contribution to the potential fuel savings are "three-dimensional woven resin transfer moulding" fan blades that are significantly lighter and stronger than current composite blades. LEAP-X will have just 18 of the 71-in.-diameter fan blades weighing 168 lb. compared to 24 61-in.-diameter blades weighing 260 lb. on the CFM56-7B. In conjunction with lighter materials in the composite fan case, the weight savings per aircraft is 1,000 lb. The new fan technology will make it possible to offer a bypass ratio in the 9:1-plus class, compared to around 5:1 for the CFM56-7.

International Aero Engines announced at Farnborough that Shenzhen Airlines chose the V2500 to power 28 A320 family aircraft and backed the engine order with a long-term V2500Select agreement. IAE valued the deal at more than \$812 million. The engines will be the SelectOne build standard, with delivery commencing in June 2009.

IAE said Aviation Capital Group selected the V2500 with the SelectOne build standard to power 25 A320 family aircraft in a deal worth in excess of \$400 million. The first IAE-powered aircraft is due to be delivered in 2011.

IAE also said that Shanghai Airlines selected the V2500-A5 to power 10 A321s in a deal worth \$170 million with deliveries starting in July 2009. Vietnam Airlines chose the V2500 to power an additional seven A321s it is leasing from ILFC and AerCap. It already operates 12 V2500-powered A321s.

Hainan Airlines selected the IAE V2500 to power 13 A320s backed by a long-term V2500Select aftermarket agreement with a combined value of \$350 million. Hainan-owned Hong Kong Airlines picked the V2500 to power an A319 Corporate Jet equipped with the new SelectOne build standard. It is scheduled to take delivery in September 2009.

Pratt & Whitney concluded the Farnborough Airshow by announcing that Uzbekistan Airways selected PW4000s to power four firm 767s it has on order in a deal valued at more than \$130 million. Deliveries are slated to begin in 2013. It also said that AWAS Aviation Trading Ltd. selected IAE V2500s to power 30 A320s to be delivered in 2011-15 in a deal valued at \$166 million. AWAS currently owns a fleet of 29 A320-family aircraft powered by V2500s.

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And Finally...

British Airways subsidiary **OpenSkies** operated its first daily flight between Paris Orly and New York JFK aboard a three-class, 82-seat 757.



"While the economic climate has worsened in recent months, we believe that OpenSkies can compete effectively," BA CEO Willie Walsh said. "It has a low cost base and support from British Airways in key areas such as sales and marketing.

This differentiates it from some new airlines that have failed recently which were operating in isolation without the backing of an established carrier."