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NewsSummary

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

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Prepared & Compiled by Polis D. Polycarpou – DVB Airline Research & Analysis (ARA)

Telephone: +44 207 618 9603 • Email: polis.polycarpou@dvbbank.com

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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 SE**. 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 & Air Transport Developments

IATA - International Traffic and Capacity

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

Passenger traffic in October was not quite as bad as September's 2.9% decline but, with international RPKs 1.3% lower than a year ago, the downward trend continues. International markets were still growing at a pace of 5.4% in the first half of this year, after more than 7% growth in 2007. With international RPKs now up only 2.8% in the year to October, the outcome for 2008 as a whole is unlikely to exceed much more than 2%. When IATA surveyed the industry in the middle of the year airline expectations were for international growth this year of around 5% and 4.7% in 2009; those expectations are being dashed by the increasing damage to air travel being wrought by the recession.

October 2008 (Percentage Change over October 2007)					
Carriers	Passenger			Freight	
	RPK%	ASK%	PLF%	FTK%	ATK%
Africa	-12.9	-11.6	69.4	3.0	-13.8
Asia / Pacific	-6.1	-2.3	72.2	-11.0	-6.1
Europe	1.8	3.8	77.0	-5.4	2.7
Latin America	4.5	5.7	72.5	-11.4	1.6
Middle East	3.5	4.1	73.0	1.0	3.5
North America	-0.8	0.4	78.7	-7.6	-0.2
Industry	-1.3	0.9	75.0	-7.9	-1.3

This data is measured by region of airline registration rather than origin or destination of the passenger, so changes in market share as well as local economic conditions shape outcomes. Africa has been the weakest region all year, despite economic growth holding up. Air travel was also holding up well until September but within Africa travel is now slowing and intercontinental travel now falling. This is adding to the loss of market share suffered by African airlines, resulting in the 12.9% decline in traffic in October. This is the one region where traffic deteriorated relative to September.

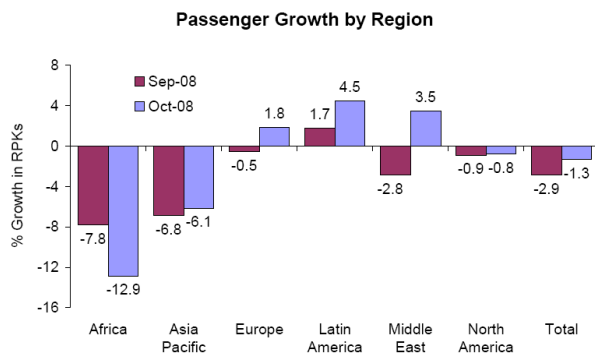
YTD January – October 2008 (%-Change over Jan–Oct 2007)					
	RPK%	ASK%	PLF%	FTK%	ATK%
Industry	2.8	4.5	76.2	-0.8	2.7

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

The two other recently booming smaller regions of **Latin America** and the **Middle East** both saw a slight improvement in October, to growth in international RPKs of 4.5% and 3.5% respectively. But even this growth is considerably worse than the double-figure rates of expansion seen during the first half of the year. Economic growth in these regions is forecast to stay positive in the 2-4% range over the next 12 months. But this is much slower than the growth that has previously helped to drive traffic growth. Moreover, airlines from these regions are mainly, particularly in the case of Middle Eastern airlines, serving long-haul connecting traffic. Recessions in the major airline markets of the US, Europe and Japan are now severely affecting the businesses of Middle Eastern and Latin American airlines.



Of the major three markets **Asia-Pacific airlines** are suffering the most at present, with a 6.1% decline in traffic on their international markets, which is only slightly less than the 6.8% fall experienced in September. Japan, one of the largest markets with 15% of regional ASKs, is in recession with falls of GDP in both the second and third quarters. Already by August the number of passengers flying in and out of Japan was down almost 5% on the year. Elsewhere in the region international travel was still growing at quite a reasonable pace through August but there seems to have been a sharp fall in September on within Asia markets, routes across the Pacific and to Europe. However, there does seem to be an element of market share loss accounting for the fall in international RPKs carried by Asia-Pacific airlines. Origin-destination data shows Asia-Far East markets shrinking by 6-7% in September. However, data from the AEA shows European airlines with modest growth in passenger traffic on these markets.



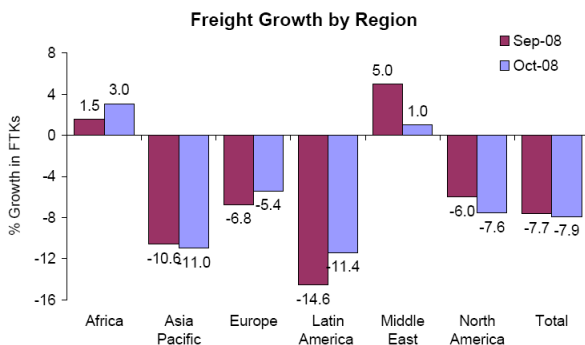
Much of **Europe** is also officially in recession with falls of national income in both the second and third quarters of this year. The international traffic carried by European airlines grew modestly by 1.8% in October, but data from the AEA shows that cross-border European traffic was falling as the recession hit travel within Europe. For European airlines travel across the Atlantic was flat during October, which may be the calm before the storm since last month marked the near collapse of the banking industry and a slump in business confidence generally. With both the US and European economies forecast to be in

recession from now well into 2009 the fall in business travel across the Atlantic is likely to pull traffic for European as well as US airlines lower in the months ahead.

North American airlines had enjoyed robust 5%+ international traffic growth through to August. This declined abruptly in September and continued to decline, by 0.9%, in October. Having switched much capacity from domestic markets onto previously more robust and profitable international markets, US airlines are being forced to reconsider their capacity plans.

Passenger markets may have paused in October but **international air freight volumes** continued their steep decline. The level of international FTKs was down a further 7.9% in October, following September's 7.7% fall. International FTKs for the year to October are now down 0.8%. With further declines expected the average for 2008 now looks set to be in the region of -1.5%. With key air freight customers such as the Semiconductor Industry Association now forecasting a 5.9% decline in sales in Q4 and a 5.6% fall in 2009, further weakness should be expected in the months ahead.

Air freight seems to be holding up for the **African airlines**, unlike the steep declines in their passenger business. This may reflect continued growth of trade in the region and perhaps more of a competitive advantage in the air freight market than with international passengers. **Middle Eastern** airlines also continued to expand air freight as wide-bodied capacity continues to be added by airlines in the region.

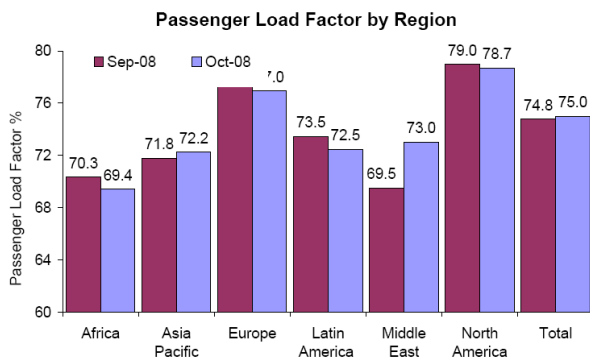


However, there were steep declines in air freight in all other regions with double figure declines in both **Latin America** and **Asia-Pacific**. The fall in the freight business is particularly important for airlines in the Asia-Pacific region where it forms a much large part of revenues and profitability than for European or North American airlines. **European and North American airlines** are only suffering slightly less precipitous declines in the air freight volumes they carry with falls of 6.4% and 7.6% respectively.



Recessions almost always hit air freight markets before passenger markets, since international trade falls before jobs start to be lost and consumer incomes damaged. The acceleration in the decline of air freight volumes suggests the recession got worse at the start of the fourth quarter. Since the recessions already seen in Q2 and Q3 were too early to have been driven by the fallout from the near collapse of the banking sector in September and October there is clearly worse to come.

Load factors and aircraft utilisation generally had been trending down throughout this year as accelerated aircraft deliveries and the consequent increase in capacity outpaced traffic growth that was still reasonable but not stellar during the first half of this year. The spike in fuel prices in June and July led to rapid action by airlines, particularly in the US to cut planned capacity in the rest of the year and into 2009. Now the recession and the slump in traffic has added to the need for capacity to be shrunk to better



match expected demand. Those planned cutbacks are only now taking effect with growth of less than 1% in international ASKs in October.

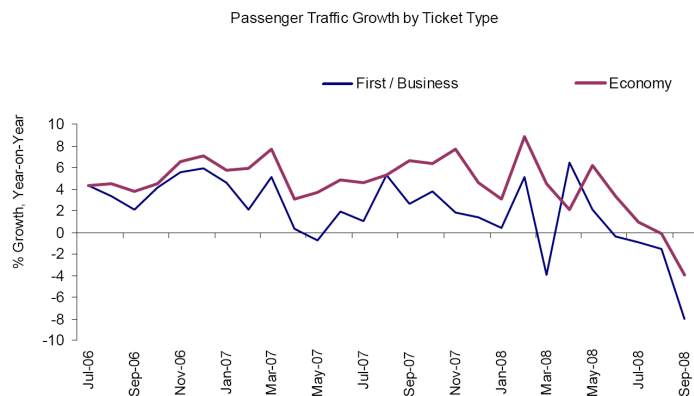
As a result of both the slightly better (less worse) traffic in October and the start of significant capacity changes, load factors were not as low compared to the previous year as in September when they were 3% points down. At 75% international load factors were around 2% points lower than they were in the same month last year.

Significant 10%+ cuts are planned for US domestic markets. However, to date, schedules data suggests capacity on international markets will still be growing slightly in the months ahead, albeit dramatically slower than the 7-10% growth of earlier this year. With further declines in passenger traffic likely that implies some more decline in load factors and downward pressure on profitability.

IATA – Premium Traffic

Business and other premium ticket travel numbers declined at an accelerating rate in **September**, when the level of premium passengers was 8% lower than a year earlier. This follows a 1.5% decline in August and is the third consecutive month of shrinking premium traffic, after growth of 1.5% during the first half of the year.

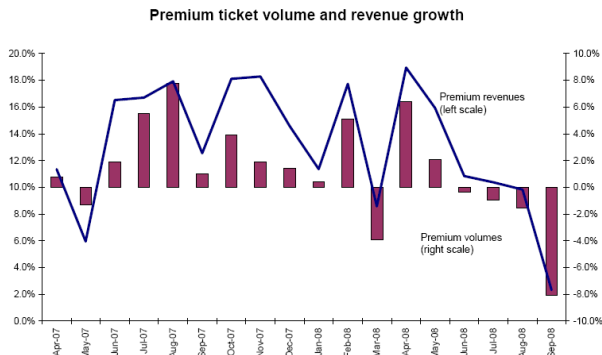
The very sharp fall in business travel during September coincided with a similarly large fall of business confidence in the manufacturing sector across major markets, with the steepest declines seen in Europe, Japan and the US.



This fall in business confidence follows the month after a 2.7% fall in air freight volumes experienced during August, which is a typical pattern with international trade being hit first by economic downturn which in turn damages business confidence and business travel. September also saw the bankruptcy of Lehman Brothers and then the near collapse of the banking system, which will have further cut business travel from the financial sector. It is no surprise that business confidence of both manufacturing and services fell considerably further in October. Another substantial decline in business travel volumes should be expected in October as a result.



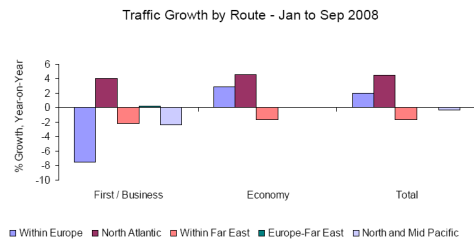
The collapse in premium travel volumes is now leading to a virtual standstill in premium revenue growth. Premium fares were still rising into the late summer, as airlines sought to recover part of the rise in actual fuel costs paid through price rises in this less price sensitive market segment.



Until September this had kept revenue growth up, despite weakening volumes. With further declines in volumes likely in the months ahead, premium revenues are likely to begin to decline in absolute terms.

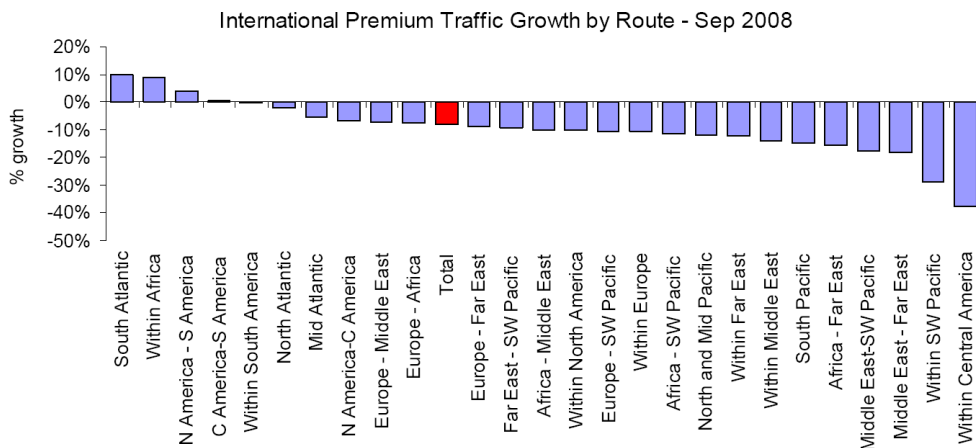
There were some sharp downturns in many markets in September. Up until August most of the weakness, aside from the structurally weak within-Europe premium market, had been seen in Asia and in markets connected to Asia. By contrast North Atlantic and Middle East markets had held up relatively well. That has now changed. Premium traffic on North Atlantic markets fell 2% in September, reflecting the sharp economic downturn on both ends of this market. Perhaps more of a surprise was a 13.8% fall in premium traffic flying within the Middle East. This traffic had been booming at a rate of 20% a year up to August on the back of the economic activity generated by strong oil revenues in the region. Sixth-freedom traffic over the Middle East also seems to have declined with a 7.0% fall in Europe-Middle East travel and an 18.2% fall in Middle East-Far East passenger numbers.

Meanwhile the plunge of premium travel in Asian markets accelerated in September. Within Far East premium travel shrank 12.1% after a 7.8% fall in August. Travel between the US and Asia across the Pacific not surprisingly also worsened with an 11.6% decline in premium traffic, following a 6.4% decline in August. Travel between Europe and Asia also worsened, reflecting economic conditions, with an 8.7% fall in September, following a 3.4% decline the previous month.



The smaller emerging markets which had shown counter-cyclical strength are now beginning to suffer from the global economic downturn. Within Africa premium travel slowed to 8.9% growth and traffic between Africa and Europe, the Middle and Far East all declined by 7-10%. Premium traffic from the US to South America is still growing but within South America, previously another strong region of growth, premium travel declined 0.2% in September.

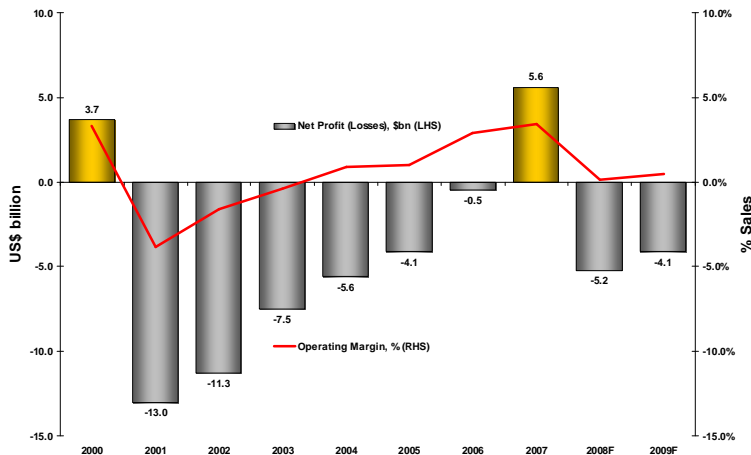
Economy passenger numbers also fell at an accelerating rate, with a 4% fall in September following a 0.1% decline in August. In total passenger numbers were down 4.4% in September, compared to the 2.9% fall in RPKs reported earlier. All long-haul markets are now showing signs of weakness but their decline remains less than that seen on shorter-haul markets.





IATA – Financial Forecast

IATA now forecast that airline industry net losses will total **\$5.2 billion this year** and weak financial performance will continue into **2009**, with **further net losses of \$4.1 billion**.



IATA's last forecast in early June was made during a period of extreme uncertainty over oil prices. As a result they presented two scenarios. One based on oil prices of \$106.5 a barrel and the other on futures market prices at the time (\$135/b) producing an average of \$122/b for 2008. Net losses for 2008 were forecast at \$2.3-\$6.1 billion. Oil prices have fallen substantially and are not expected to regain levels that had been feared; but the average IATA now expect of **\$113/b** this year is still **55% higher** than last year.

A new development has been weaker economic growth outside the US, reflected in deterioration in the outlook for air travel and freight. IATA have significantly revised down our forecast for traffic growth. As a result IATA's new forecast of losses this year, at \$5.2 billion is close to the top of the June range.

Industry restructuring will produce some benefits in **2009** but the weaker economic outlook will also slow traffic growth. Oil prices may also slightly lower at **\$110/b** but net losses will still be high at **\$4.1 billion**.

Profitability deteriorated dramatically in the first half of **2008**. Results from 28 major airlines show operating profits have fallen from \$7.6 billion in the first half of 2007 to \$2.3 billion in the first half of this year. The decline of net profits has been even sharper with losses of \$2.7 billion in the first half of 2008.

The largest deterioration, with net losses so far this year of \$2.5 billion, has been for US airlines. The US industry has been sharply squeezed from rising fuel costs and shrinking domestic markets. Relatively low hedging levels left airlines fully exposed to the rise in dollar fuel prices, while the collapse to 28 year lows in US consumer confidence led to a fall in travel on domestic markets.

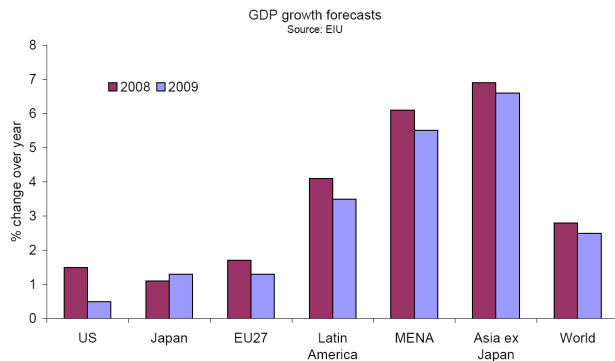
The deterioration of operating profits has not been as severe for airlines in other regions. During the first half of the year hedging and US dollar weakness provided some offset to the rise in fuel prices. Moreover, economic growth started the year strongly in Europe and Asia. That growth is now slowing sharply and, although fuel prices have fallen, hedging levels are diminishing and the US dollar is strengthening. Results so far are consistent with their new forecast for industry net losses this year of \$5.2 billion.

The biggest change in the outlook has been the sharper than expected deterioration in air travel and air freight growth. After a relatively robust first five months of the year, international traffic growth has slowed considerably in June and July, with absolute declines in air freight volumes. Domestic traffic has been shrinking all year in the US but also slowed sharply in other markets by mid-year.

Economic growth in the developed economies was a fairly robust 2.5% in the first quarter but then slowed sharply in the second quarter, particularly in Europe but also in Asia. Recent surveys of both business and consumer confidence have shown sharp declines. Consumer confidence in the US, which fell first from late last year, appears to have bottomed out but at a level consistent with a fall in consumer spending (and travel). This suggests travel and air freight markets will remain weak throughout 2008.



IATA forecasts anticipate a much longer period before recovery to normal economic growth. Next year is expected to be weaker than this, particularly in the US economy but also in Europe and most emerging markets. Growth is forecast to be weaker in 2009 but expansion remains relatively strong in many emerging markets which should provide more support for travel and air freight than in the developed markets.



One of the reasons for the weaker outlook for economic growth in 2009 is that the increase in inflation has prevented central banks, outside the US, from cutting interest rates to offset the spreading impact of the credit crunch and the squeeze on disposable incomes from higher food and energy prices. A recovery to more normal economic growth rates is now not expected until 2010.

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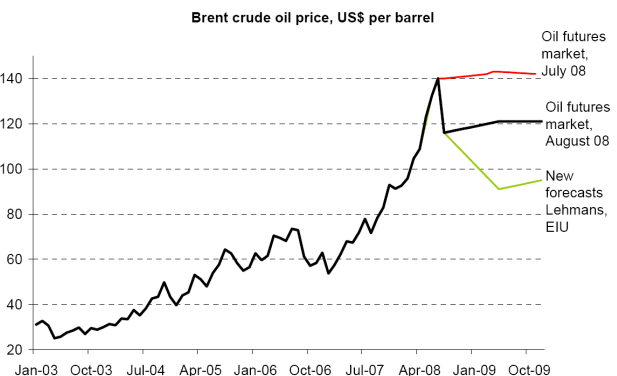
Annual average growth rates, %	2006	2007	2008F	2009F	2006	2007	2008F	2009F
	Traffic volumes (tkp)				Capacity (atk)			
Global	5.3	5.3	2.8	2.9	4.1	5.0	4.0	2.2
Regions								
North America	3.6	2.9	0.1	-0.6	1.2	3.1	2.3	-3.4
Europe	4.9	4.7	3.2	2.9	3.9	3.2	3.9	2.8
Asia-Pacific	7.6	6.8	3.3	3.9	6.9	7.0	4.1	4.3
Middle East	11.8	15.1	10.8	7.9	12.6	12.8	10.9	9.3
Latin America	-3.4	5.7	5.6	4.2	1.5	6.9	5.5	5.1
Africa	7.0	5.9	-1.4	2.9	1.8	5.2	-0.9	2.2

Source: ICAO data to 2007. IATA 2008-09 forecasts. Domestic and international traffic. Includes passenger and cargo by weight.

IATA has significant revised down their forecasts for traffic growth this year and next, in response to the weaker economic outlook. This year traffic volume growth has been reduced from 3.9% in the June forecast to 2.8%, and for 2009 from growth of 4.5% down to just 2.9%. North American airlines are expected to see an absolute reduction in traffic carried in 2009, in response to the weak economy and capacity cuts.

Airlines are responding to this outlook by announcing cuts or less growth in capacity. In North America, IATA forecast capacity will shrink by 3.4% in 2009, as most of the cuts already proposed are implemented. At the level of oil prices forecast this will allow some reduction of forecast losses for airlines in the region. Overall, IATA expects **capacity growth** to slow to just **2.2%**, allowing a small recovery in load factors.

Spot oil prices fell back \$30 a barrel from their peak of \$147/b in July, as part of the futures market-driven bubble generated in May-July was deflated by profit-taking and growing concern about economic weakness. The much weaker economic outlook has led to a fall in all commodity prices and few now expect oil prices to return to July peaks over the next 18 months. Some major forecasters are now projecting oil prices at \$91-94/b in 2009. Oil futures markets have fallen from 2009 prices of over \$140/b to around \$120/b. IATA's oil price forecast, based on a consensus of experts, is **\$110/b for 2009** following an average of **\$113/b this year**.



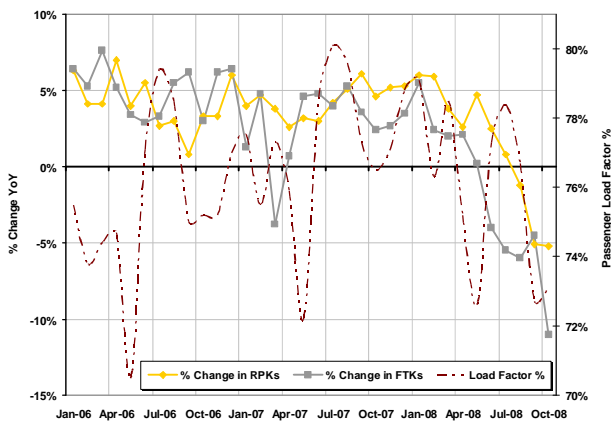
This oil price is still very high, implying **jet fuel prices of \$136/b in 2009**. Moreover, hedging will offer less protection. As a result the fuel bill is forecast to rise to **\$186 billion or 36% of operating costs** this year, but then further to **\$223 billion or 40% of operating costs in 2009**.



Regional Developments

Asia Pacific

International passenger and cargo traffic for the Association of Asia Pacific Airlines (AAPA) member airlines registered further declines in **October 2008**, as the sharp slowdown in the global economy was reflected in weaker demand for air travel and airfreight. International passenger numbers for the month were **down 4.1% to 11.6 million**, while passenger traffic measured in **RPK terms fell by 5.2%**. The average international passenger load factor for October fell **3.1 percentage points to 73.1%**, as a **1.2% reduction in capacity** failed to match the reduction in demand.



The deterioration in AAPA **international air cargo traffic** in October was even more pronounced, with an **11.0% decline**, in FTK terms, compared to the same month last year. Despite a **7.5% reduction in cargo capacity**, the average international **cargo load factor** for the month fell **2.6 percentage points to 65.4%**.

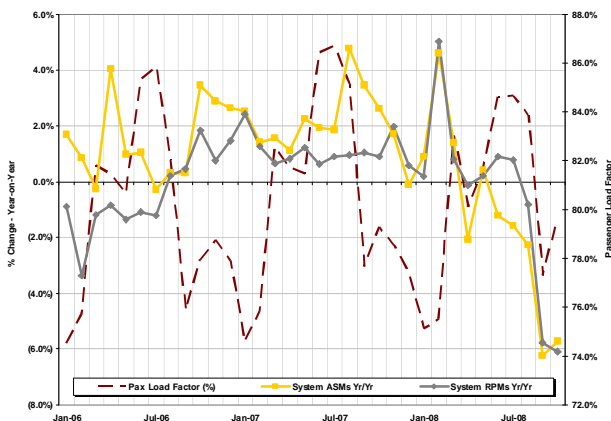
Commenting on the results, Mr. Andrew Herdman, AAPA Director General said, "In recent months, Asia Pacific airlines have been facing a rapid decline in both passenger and cargo demand as a result of the global economic slowdown. AAPA member airlines carried 119 million international

passengers in the first ten months of 2008, in line with last year, but passenger numbers are now falling. AAPA international air cargo traffic has already fallen sharply, registering a **2.9% decline** in FTK terms for the first ten months of the year."

Mr. Herdman noted that, "Airlines around the world are facing extremely difficult market conditions, with expectations of even tougher times ahead in 2009. Asia Pacific airlines are moving quickly to adjust capacity in line with expected demand, and redoubling efforts to reduce costs throughout the business. In these difficult times, more so than ever, we strongly urge governments, airports and other aviation service providers to refrain from imposing further unjustified taxes and charges on the aviation industry."

America

The **American Air Transport Association (ATA)** has released the monthly traffic figures for **October 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. A slight recovery was witnessed in June, before traffic growth again plummeted to all-time lows, together with capacity.



International routes experienced a **small decline in traffic growth** during **October** of **-0.3%**, with **domestic routes** reporting a much larger negative growth figure of **-8.2%**.

Hence, **Systemwide RPM growth** fell **-5.7%** below October 2007 figures. Positive growth was only witnessed on **Atlantic routes** reaching a **3.7%** increase over the same month of the previous year. **Latin American** and **Pacific routes** recorded negative growth figures of **-2.3%** and **-6.2%** respectively.



Systemwide capacity recorded also fell **-6.1%** resulting in an overall **0.3**-point increase in **load factor**, rising slightly to **79.6%**.

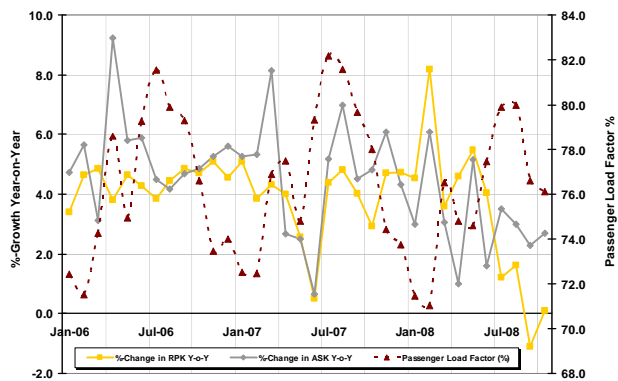
Year-to-date figures for the year 2008 showed Systemwide **traffic** again decreasing slightly by **-1.3%** compared to the previous year. **Capacity** also decreased slightly by **-0.5%**. Hence, **Load Factor** was subsequently reduced by **-0.6** percentage points, reaching **80.7%**.

Europe

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

After the negative traffic growth recorded in September, the October figure showed an increase over the previous year, by the smallest possible margin, of **0.1%**.

The reversion to growth was illusory, however, as it included an element of recovery of traffic lost to industrial action in October 2007. Discounting this effect, a truer picture would be a decrease of 1.5%, following on from the -0.9% recorded in September.



Apart from Domestic routes, where important structural changes have significantly impacted traffic flows, the weakest markets were the two largest: cross-border Europe, at minus 2.7%, and the North Atlantic at minus 0.7%. While the third of the major traffic flows, between Europe and the Far East, showed a small increase of 1.0%, that too would have been negative were it not for the depressed 2007 baseline.

Other regions continued to show growth, notably the Middle East and North Africa, and the still-buoyant South Atlantic routes.

With **capacity** increasing by **2.7%**, **load factors** suffered a substantial drop, of **2** percentage points down to **76.1%**. Only the Near and Middle East escaped the decreasing trend, while load factor losses of three points or more were recorded on the Far East, the South Atlantic and within Europe.

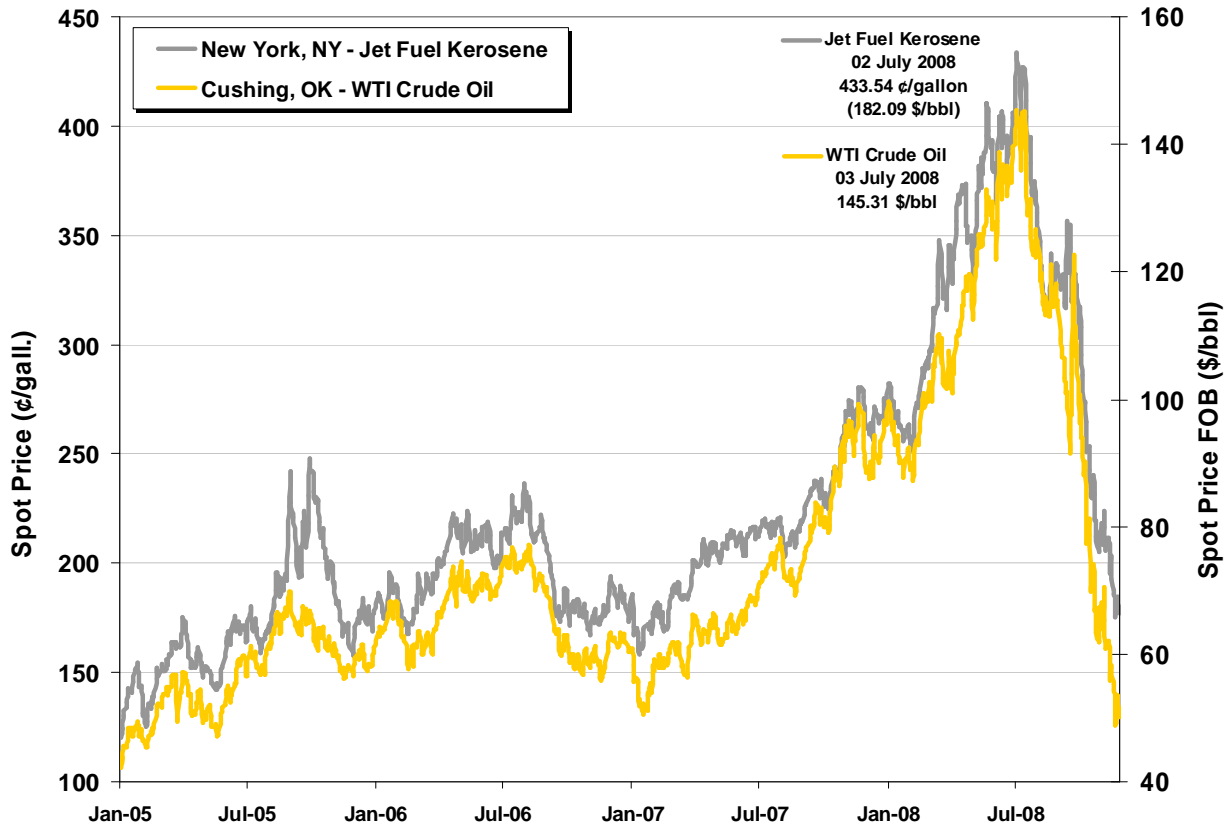
The severe slowdown in the **air cargo** market continued, with a **6.0%** drop in volumes following the 7.3% reduction in September.

Indications for November, derived from AEA's weekly reports, are for a significant downturn in the already weakening trend, with the traffic losses only partially offset by capacity cuts introduced in the Winter timetable programme.

Said AEA Secretary General Ulrich Schulte-Strathaus: "Key is the excess capacity. Although airlines have significantly increased the speed with which they can reduce the size of entire networks, seat load factors – the industry measurement of aircraft utilisation – are too low; demand is decreasing more quickly than capacity offered. Given that no one knows whether we have seen the eye of the economic storm yet, adapting capacity quickly has become the number one priority".



Jet Fuel (Kerosene) & Crude Oil Spot Prices



Source: US Energy Information Administration

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 **November 25th, 2008**, NY kerosene **jet fuel** spot price was at **177.14 ¢/gallon (74.39 \$/bbl)** and Cushing **WTI crude oil** recorded a spot price **US\$50.02 per barrel** – almost \$100/bbl lower than five months before!

Individual Airlines (Highlights)

The Americas

North America

ABX Air parent Air Transport Services Group outlined its plan to survive beyond next year's expected termination of its operation as a DHL sub-service airline, saying it will become a smaller, diversified company that will wet- and dry-lease aircraft and provide expanded MRO services to third parties at its Wilmington, Ohio, base. The "much different" company will be 25%-30% of its current size and will seek to negotiate lower-cost labour contracts with employees who will be retained. More than 6,000 ABX workers are expected to lose their jobs owing to the loss of the DHL air lift business. DHL announced its intention to withdraw from the US domestic market on Jan. 30 and turn over the line-haul air portion of its US international shipping to UPS. Under its new business model, it plans to retain 14 of the 27 767Fs it now operates for DHL to transition to ACMI operations. It will return five of the remaining 13 to lessors and sell the rest, including possible sales to DHL. It estimates the current book value of each 767F at \$4.5-\$5 million. ATSG will maintain a fleet of 36 freighters. ABX's current operating fleet of 116 aircraft comprises 29 767Fs, 15 DC-8Fs and 72 DC-9Fs, most of which it plans to sell or return to lessors.

Air Wisconsin, which operates 70 CRJ200s as US Airways Express, said it provided a \$35 million, 12-month loan to US. Another Express operator, Republic Airways Holdings, provided a similar loan as part of a \$950 million liquidity package. Air Wisconsin said the loan includes optional monthly extensions totalling an additional 12 months.

American Airlines placed a firm order for 42 787-9s valued at more than \$8 billion with first delivery scheduled for September 2012, a move it said signals its continued focus on the future even as it navigates current economic difficulties. AA also has options for 58 more Dreamliners. The order is contingent upon reaching an agreement with its pilots that would allow the carrier to operate 787s. A provision in the purchase agreement with Boeing forces AA to "reconfirm" its order 18 months before each scheduled delivery. The 787s will be replacements for 767-300s and also will allow AA to grow its widebody long-haul fleet to match new opportunities presented by potential transatlantic antitrust immunity with British Airways and Iberia. The 42 787s on firm order will be delivered over six years, with final delivery scheduled for 2018. The order is in line with taking delivery of 76 737-800s in 2009-10 to replace the MD-80 fleet, helping to reduce fuel and maintenance costs [and] lessen environmental impact.

Delta Air Lines began the 12- to 24-month process of integrating Northwest Airlines, now a wholly owned subsidiary of DL, with the flying public likely to begin noticing changes in the first half of 2009. NWA stockholders each will receive 1.25 DL shares based on the latter's closing price on Oct. 29, an exchange rate that is the equivalent of \$9.99 per NWA common share. DL said its code will be added to "nearly all of the Northwest system" by year end and "a fully consolidated worldwide flight schedule" will be launched in advance of summer 2009. DL's livery, staff uniforms and onboard amenities will be introduced on NWA aircraft beginning in spring 2009 and the carriers' websites and frequent-flyer programs will be integrated next year. It will take 14-16 months for DL and NWA to be granted a single FAA operating certificate.

Pinnacle Airlines will operate seven additional CRJ900s for Delta Air Lines that are being returned by another unidentified Delta Connection carrier. Pinnacle will lease the aircraft from DL on a short-term basis and return them as five ordered CRJ900s are delivered from Bombardier from January through May 2009. Pinnacle currently operates 11 CRJ900s (nine for DL).

Primaris Airlines, a Las Vegas-based charter carrier, sold 75% of its preferred and outstanding stock to CorpoPetrol Global Energy Development and filed for Chapter 11 bankruptcy protection in order to allow CorpoPetrol to finalize the financing. Primaris operates 757-200s.

Southwest Airlines will take delivery of 10 737NGs next year, down from the 14 previously planned, with four deliveries deferred until 2016. SWA continues to consider flat capacity growth next year an option and could treat the new 737s as replacements by "returning five [737 Classics] to the leasing company" and selling "five or more" that it owns.



The fuel hedges that helped **Southwest Airlines** stay profitable while surging oil prices crippled its US rivals now have resulted in the carrier's first quarterly net loss in 17 years, a \$120 million deficit that represented a reversal from the \$162 million profit reported in the third quarter of 2007. The company took a \$247 million charge as oil prices dropped, a sum that "essentially reversed a large portion of mark-to-market gains recognized in prior periods," it said. It remains committed to the hedges in the long run, however, and will save money as it expects to pay around \$2 per gallon for fuel in the current quarter compared to \$2.44 in the third. It holds derivative contracts for more than 75% of its estimated 2009 fuel consumption at approximately \$73 per barrel. SWA remained in the black on the operational front, reporting a record quarterly revenue of \$2.89 billion, up 11.7% year-over-year. Net result excluding special items was a \$69 million profit, down from \$156 million on a similar basis last year.

Having already sealed a codeshare deal giving it access to Canada, **Southwest Airlines** announced a partnership with Toluca-based **Volaris** that will give the world's largest LCC a foothold in Mexico for the first time. Southwest CEO Gary Kelly said in July that he was looking to expand on the carrier's deal with WestJet and offer passengers access to Mexico and the Caribbean. SWA said it and Volaris will offer "a seamless travel experience to a wide array of destinations," with codeshare flight schedules and "additional features" scheduled to be announced by early 2010. By next spring, Southwest's website will become a distribution channel for Volaris tickets. Loyalty programs, ground handling and cargo are areas of potential cooperation, it said.

Southwest Airlines said that it has submitted a \$7.5 million bid to gain the rights to 14 New York LaGuardia slots (seven roundtrips) formerly used by ATA Airlines, which declared bankruptcy and shut down in April. The bid was submitted in connection with the public auction of ATA's assets being handled by the US Bankruptcy Court in Indianapolis. "The bid does not contemplate operating ATA, but it is intended to allow Southwest to acquire the LGA slots. SWA plans to initiate service at LGA next year. Its presence in the New York area is limited to its operations at Long Island Islip, about 50 miles east of the city; it does not operate any flights to New York JFK or Newark. The bankruptcy court must approve the bid before SWA could gain the rights.

Sun Country Airlines filed for Chapter 11 bankruptcy protection, but insisted it will "operate business as usual." The Minneapolis/St. Paul-based carrier has been on shaky ground since its parent company, Petters Group Worldwide, became ensnared in a US federal criminal investigation related to an alleged fraud scheme. Recently resigned PGW Chairman Tom Petters, who was arrested, relinquished his role as SCA chairman. President and CEO Stan Gadek became chairman and said the airline, which has not been implicated in the federal probe, needed to secure its financial independence. Gadek said that the bankruptcy filing was forced on SCA as "a result of recent events at Petters Group Worldwide," adding, "We do not anticipate any disruptions and expect to operate business as usual. Customers can book their flights in confidence." SCA operates a fleet of nine 737-800s on scheduled services and charters to points in the US, Mexico and the Caribbean.

United Airlines continued to take measures to boost its cash position, announcing that it has completed financing transactions that will add approximately \$275 million in cash by year end. It said \$125 million will come from an aircraft financing agreement, an additional \$140 million from asset sales and another \$10 million from substituting "certain cash collateral with a letter of credit

Central and South America

Argentine court appointed an administrator to take over day-to-day oversight of **Aerolineas Argentinas's** operations as the Argentine government and Spain's Grupo Marsans, the airline's current owner, argue over terms of the carrier's nationalization. Marsans has agreed to sell its holding to the Argentine government but claims the government has violated terms of the deal by not finding a third party to perform a valuation. Marsans reportedly is threatening to take the case to the World Bank's International Centre for Settlement of Investment Disputes.



Alma de Mexico suspended operations and filed for bankruptcy, citing the "crisis" in the industry and global economy. The Guadalajara-based LCC operated 19 CRJ200s and had two CRJ900 NextGens on order. It said "historic" high fuel prices, low occupancy and the peso's fall against the US dollar were key factors in its demise.

Gol Linhas Aereas Inteligentes announced the formal integration of Gol and VRG (once again called Varig) into a single airline company and from Oct. 19 will launch a new route network in which Gol will focus on shorter routes and Varig will operate longer-haul flights. The company said the reorganization will increase operational efficiency. The integrated airline company will operate 800 daily flights to 49 destinations. The integration will mean a unified ticket sale system and operating under one IATA code.

Mexicana has been hit by the current industry downturn like many carriers, but it remains in "adequate" financial health and is focused on a long-term plan that includes oneworld entry and the launch of its first European services early next year. On Jan. 17, Mexicana will begin twice-weekly flights from Mexico City to London Gatwick aboard a 767-200ER leased from American Financial Group. MX will begin serving Madrid from MEX in February with a daily A330-300 flight. It announced the lease of two aircraft from CIT Aerospace. The A330s are new and originally were destined for XL Airways, which shut down in September, and will be leased for 10 years each. Borja said the newly arriving 767s are on lease for four years each, while the terms on the carrier's two current 767-300ERs expire in 2010. MX "probably" will look to add A330s, as its narrowbody fleet is composed entirely of A320-family aircraft.

Mexicana CEO Manuel Borja, who saw his company's takeover bid for rival Aeromexico rejected by Mexican authorities last year, said he remains a "firm believer that the Mexican market should become consolidated." He said Mexico needs "different models in the market. Actual competition comes from offering different products and different solutions according to the different needs of our customers.

Star Alliance formally invited Brazil's **TAM** to be its 24th member, and said it will look to increase its presence further in the Latin American region next year. Without a member south of the US since Varig was expelled in 2006, Star believes TAM's inclusion will turn Latin America from a "white spot" into a "hot spot" on its map. The carrier currently flies to 42 domestic and 16 international destinations with a fleet of 116 aircraft. Star claimed that Brazil accounts for 30% of commercial aviation revenue in South America. TAM holds a 20% market share on the continent, a massive 73.9% share of Brazil's international traffic (in August) and 54.2% of its domestic market. The airline will become a full Star member within 12-18 months and should realize an additional \$60 million in revenue during its first year of membership.

Volaris CEO said the Toluca-based LCC expects to launch its first US service in the 2009 fourth quarter and plans to be operating to 10-12 markets north of the border in the next 3-5 years, which would represent a penetration comparable to that of Aeromexico and Mexicana. He would not reveal destinations, but said the US service will align with that of new codeshare partner Southwest Airlines. Volaris and SWA unveiled their MOU and said they plan to reveal further details of the agreement in 2010. He said about 78% of its US-Mexico traffic would be point-to-point, with the remainder connecting.

Europe

Aer Lingus intends to cut up to 1,500 jobs as part of an effort to save €74 million (\$101.8 million). EI management announced its intention to follow through with the cost-reduction program, saying it sought "fundamental change". The carrier added that it will lower its payroll by €50 million, cut an additional €14 million from distribution, marketing and other activities and realize €10 million in savings from a reduction in long-haul services.

Aeroflot informed Russia's Ministry of Transport that it wishes to bid for the state's 25.5% stake in rival S7 Airlines. An S7 spokesperson, however, said that the carrier had received no notification from Aeroflot.

Air Berlin confirmed that it is discussing a possible merger with **TUIfly**, whose effort to combine with Condor and Germanwings was scuttled when Condor parent Thomas Cook withdrew recently.



Air France KLM remains interested in acquiring 20%-25% in the new Alitalia as well as the Austrian government's 41.6% stake in Austrian Airlines Group. "We would be willing to invest about €200 million (\$253.8 million) [in Alitalia] through a capital increase". The Compagnia Aerea Italia investor group, which was cleared by the Italian government to take over AZ for €1.05 billion, has not announced its choice of international partner. The new airline, which will incorporate Air One, reportedly may be ready to commence operations as early as Dec. 1.

Alitalia said it is reducing domestic and short-haul international flying, citing ongoing labour unrest as well as administrative issues related to the transfer to CAI. Employees must be made redundant before being rehired by CAI. AZ said its intercontinental flight schedule will be "nearly unchanged." It did not specify how many flights will be cancelled. The AZ unions that have not accepted either new work conditions offered by CAI or redundancy payments agreed to postpone a strike.

Aeroports de Paris and **Air France** operated a two-day trial program for the **Airbus A380** at Charles de Gaulle. MSN 001 was piloted by AF crew from Toulouse to CDG. Following tests at the airport's Terminal S3, the aircraft was towed inside AF's new H6 hangar for compatibility tests. Maintenance equipment tests conducted by Air France Industries all produced "satisfactory results," AF said, while tests on noise and luminosity levels were carried out simultaneously with Wi-Fi tests between the aircraft and the hangar's IT network. Lastly, an A321 was parked next to the A380 to check compatibility of dedicated maintenance equipment. AF KLM said that it still "hopes" to take delivery of the carrier's first A380 in fall 2009. AF will be the first European airline to operate the aircraft.

Air France KLM's decision to slow its growth is in line "with a greater capacity discipline by most major players." AF KLM network-wide capacity will be up just 1.7% year-over-year this winter season and it envisions capacity growth of only 1%-2% in the summer schedule 2009. Winter-season capacity growth is down from an initially planned 4.1%, and encompasses a capacity increase of 2.6% on long-haul flying (down from initially-planned 4.8% growth) and a 1.4% reduction on medium-haul routes (reversed from a planned 1.6% increase). Capacity growth by the industry on routes to/ from Europe for the current winter schedule has been scaled down to 1.3% from a 5% capacity hike last winter. All regions are taking part in this capacity discipline with the exception of the Gulf, defined as the UAE, Qatar and Bahrain, where industry-wide capacity is being increased by 14%. The decision to slow capacity growth does not mean AF KLM will relinquish market share. "Despite our capacity discipline, we do remain the clear market leader on long-haul routes from/to Europe."

AiRUnion, the failed Russian airline alliance that comprised five carriers, ceased to exist as the management company shut down. The Russian government intended to replace AiRUnion with a state-owned grouping of nine airlines, but AiRUnion COO Gustav Baldauf said that "we are still working on a concept for a follow-up company" and that decisions on how the replacement alliance would function "will take some time." Talks with the government are on hold and Atlant-Soyuz Airlines, the Moscow-owned carrier that was supposed to take over AiRUnion's flights, still is awaiting certification to do so.

New alliance created and controlled by the state and Russian Technologies to replace **AiRUnion** will comprise 10 regional airlines, be registered as a public corporation and eventually be called **Rosavia**. Moscow Vnukovo will be the carrier's principal base, with the Moscow city government holding the remaining 49% of the new company. It also will have bases in St. Petersburg, Krasnoyarsk and Khabarovsk. The 10 carriers are Atlant-Soyuz, Rossiya, Kavminvodyavia, Orenburg Airlines, Saratov Airlines, Vladivostok Avia, Dalavia and former AiRUnion members KrasAir, Domodedovo Airlines and Samara. DG nominee Vitaly Vantsev said the airlines will begin codesharing in the upcoming winter schedule. He also said Atlant-Soyuz and Vnukovo are negotiating with the government on reimbursement of RUB2 billion (\$74.3 million) spent transporting AiRUnion passengers. Moscow Mayor Yury Luzhkov said Rosavia "will be a large, serious company with a powerful potential and will rival Aeroflot."

Alitalia Extraordinary Administrator Augusto Fantozzi said he received several expressions of interest for acquisition of the group's assets and activities. Deadline for offers was Sept. 30. Fantozzi said only one proposal directly concerned air transport activities whereas the other expressions of interest were for specific branches and/or activities of various companies comprising Alitalia Group.



Compagnia Aerea Italia's binding offer for **Alitalia** is worth €1 billion (\$1.29 billion), the airline said and comprises €900 million for AZ's flight operation, assets and contracts, €57 million for Alitalia Servizi, €7 million for Alitalia Airport, €19 million for Alitalia Express and €17 million for low-cost subsidiary Volare. The €900 million for AZ comprises €275 million cash and €625 million to assume the carrier's debts. The first cash payment of €100 million will be made at closing of the acquisition Nov. 30. For AZ, Express and Volare, the balance will be paid in two equal parts within 180 days and 24 months after closing. For Servizi and Airport the balance will be paid within 180 days of closing. CAI's offer still lacks support from unions. CAI is confident it can re-launch Alitalia on Dec. 1 with labour onboard. The group's net debt as of Sept. 30 was €1.2 billion, narrowed 3.8% from the prior month.

Alitalia must pay back the €300 million emergency loan from the Italian government, which the European Commission called "unlawful aid and incompatible with the common market." The EC ruled that Italy "has to take the necessary action to recover" the money. The bridge loan was granted in April to keep AZ afloat. The money must come from the airline and not Compagnia Aerea Italiana, the investor group that has bid for the ailing carrier. The Commission notes that there is no continuity between Alitalia and CAI. However, the Commission was supportive of CAI's €1 billion bid, the fate of which remains unclear following the ruling on the loan and the lack of support of all of Alitalia's unions, several of which continued to stage wildcat strikes, where AZ had to cancel 124 flights.

The EC gave Italy the "go-ahead" to sell AZ's assets and said it will appoint a "monitoring trustee" to ensure "that transactions will be made at market prices." It said CAI offered the best bid and "will conduct its passenger air transport activity on the basis of its own business plan, which has been drawn up with specific operational targets in terms of fleet management, personnel and flight times and on market terms." CAI plans to carry 69% of the passengers currently flying with AZ, the EC said.

The EC authorized a six-month, €17 million loan from the Italian government to **Alpi Eagles**, the Venice-based regional that suspended flights in January. Alpi intends to restart operations.

Coventry-based **Atlantic Airlines** and Sweden's **West Air Europe** are merging to form an all-cargo regional carrier called **West Atlantic**. The company expects an annual turnover of €125 million (\$156.1 million) and will operate 41 BAE ATP freighters, a single ATR 72, six Electras and two CRJ200s configured for cargo. It will be headquartered in Gothenburg.

Lufthansa was the only carrier to confirm its interest in bidding for **Austrian Airlines Group** by the deadline. Neither Air France KLM nor S7 Airlines, both short-listed finalists, expressed interest in making a formal bid. However, the sale of the state's stake in the flag carrier remains up in the air following the suspension of AAG's shares and owing to LH's resistance to paying the full asking price. Lufthansa is due to submit its offer, and Austrian takeover law requires a company bidding for at least 30% of an entity to make an offer to the remaining shareholders. Austrian state holding company OIAG owns 42.75% of AAG. The winning bidder was scheduled to be unveiled on Oct. 27. But LH has hinted that owing to Austrian's troubled financial situation and LH's promise to safeguard jobs and OS's Vienna hub, it should pay a reduced rate for OIAG's shares. An unidentified LH source said that it would maintain Austrian's VIE hub for at least 30 years but also warned that if the sale does not go through and if OS leaves Star Alliance, LH will launch negotiations with LCC Niki to become an investor and compete with Austrian.

Austrian state holding company OIAG, which owns 42.75% of the troubled flag carrier, delayed **Austrian Airlines** Group's privatization until year end in order to attract better offers. Lufthansa was the only official bidder, but it said it was willing to pay just €360,000 (\$454,090) for OIAG's stake, or €0.01 per share. Other shareholders would receive €3-€4 per share under terms of LH's offer and the Austrian government would have to assume €500 million of AAG's €900 million debt. To keep OS flying, the Austrian government will look to inject €500 million, although such a move would require approval of European Union competition authorities. AAG CEO Alfred Oetsch said that no significant restructuring, such as phasing out aircraft or reducing the network, will be implemented until a new strategic investor is secured. But other AAG officials have said certain routes are losing too much money, with one saying that Vienna-Tokyo Narita loses up to €6 million monthly. Austrian media are reporting that if OS is not sold it will have to ground its six 767-300ERs and axe long-haul routes in order to stay afloat. Its regional network could be pared as well, forcing the grounding of CRJs and the dismissal of up 2,000 employees.



The group reported operating profit of €1.41 billion for the most recent fiscal year ended March 31. It also said it planned to increase capacity in the upcoming winter season and its summer 2009 schedule by 1%-2%, refuting speculation that it was targeting zero growth.

Austrian Airlines Group will run out of cash by mid-2009 at the latest if it is unable to find a new owner or secure funding from the Austrian government, which was asked by Lufthansa to take responsibility for a significant portion of AAG's debt in exchange for a German takeover. Analysts from Austrian banks now predict a 20% chance of bankruptcy. While AAG has said it can continue operations with more cuts, employees are "full of fear about the future." Meanwhile, Air France KLM sent a letter to OIAG saying it is interested in presenting a bid if the Austrian government assumes €500 million of AAG's debt.

Lufthansa will reduce the workforce, including management, at its **CityLine** subsidiary by 20% (500 positions) by 2010 and cull 14 CRJ200s from the regional's fleet of 72 aircraft. The company hopes to make the cuts without layoffs and will try to offer displaced workers positions elsewhere with Lufthansa Group. Last year LH placed an order for 15 CRJ900s for CityLine and took over Swiss International Air Lines' order for 30 E-190s. LH subsidiary Air Dolomiti will take the first E-190, with the distribution of the remaining aircraft unannounced. CityLine transported 7.3 million passengers last year, approximately 10% of LH's total.

Clickair plans to ground seven or eight aircraft for the winter season owing to anticipated weak demand.

EasyJet's profit for the fiscal year ended Sept. 30 dropped 45% to £83.2 million (\$123.4 million) from £152.3 million the year before amid an escalating dispute between founder Stelios Haji-loannou and the LCC's board. Haji-loannou refused to approve the airline's annual accounts. He said he was concerned about a number of valuation issues surrounding easyJet's acquisition of GB Airways, including the value of aircraft and London Gatwick slots that are "at odds with current commercial realities and the macroeconomic climate." Haji-loannou, who represents easyGroup, the carrier's largest shareholder with 26.9%, also reiterated that the "dividend policy of the company should be changed" and asked the board to pass a resolution planning to pay a dividend "by, say, 2011 if the markets and the liquidity of the company allow". The LCC's other board members "were unanimous in their approval" of the accounts.

Full-year revenue rose 31.5% to £2.36 billion, including a 22.7% increase in passenger revenue to £1.99 billion driven by the January acquisition of GBA and the strengthening euro. Ancillary revenue surged 114.5%, to £367.1 million thanks largely to the new checked bag charge that delivered £144.1 million. Operating costs climbed 40% £2.24 billion as fuel expense jumped 66.6% to £708.7 million. Operating profit fell 47.1% to £91 million from £172 million in 2006-07.

Passenger numbers lifted 17.3% to 43.7 million and seats flown increased 16.8% to 51.9 million. Load factor gained 0.4 point to 84.1% and the fleet grew to 165 aircraft from 137 the previous year, with GBA contributing 16. Unit revenue inched up 2.7% to 4.24 pence while CASK rose 8.9% to 4.02 pence, or 1.3% to 2.75 pence excluding fuel.

EasyJet can defer delivery of half of its firm orders for up to two years with 18 months notice. In September it deferred four scheduled to arrive in 2010. It has 109 A320 family aircraft due for delivery through 2012, including 36 in the current fiscal year. It is planning to withdraw 12 737-700s, seven A321s and five A319s and said the sale of the Airbus aircraft "continues to progress, albeit in the current market potential purchasers are finding financing more difficult to arrange." It expects to be profitable in 2008-09 at current fuel and foreign exchange rates.

easyGroup Holdings, the company of **easyJet** founder Stelios Haji-loannou, appears to be heading toward a confrontation with the airline's current board and management as easyGroup increased its shareholding and voting rights in the LCC to 26.9% from 15.6% and requested the prompt appointment of two directors. Haji-loannou, who launched the airline in 1995, also reserved his right to appoint himself as chairman in the event the two directors, who are easyGroup employees, are not appointed.

Despite the board's already cautious approach, Stelios indicated that he wished the company further to restrict future aircraft orders, to make future dividend payments in conjunction with a cessation or slowing of growth. EasyJet has not paid a dividend since its November 2000 IPO. "I am merely applying my rights...to protect my investment in easyJet," Haji-loannou noted in a statement.



Grupo Marsans signed a contract for four A380s, 10 A350-900s, five A330-200s, five A321s, 25 A320s and 12 A319s, firming an MOU reached 13 months ago, Airbus announced. Marsans will be the first A380 operator in Spain and Latin America. Marsans also ordered 12 A330-200s in 2006. It owns Madrid-based **Air Comet** and recently returned debt-ridden Aerolineas Argentinas to the Argentine government, although the parties have not agreed to a price.

Iberia raised its stake in British Airways to 9.07%, or 104.6 million shares. The increase comes one week after IB had upped its holding to 8.07%.

LTE International Airways, a Palma de Mallorca-based scheduled and charter carrier, suspended flight operations "due to the financial situation of the company that makes it difficult to meet the operational expenses in the next days," it said. "After 20 years operating with maximum dedication to our clients it just was not possible to avoid this situation given world events lately." It operated seven 180-seat A320s.

Lufthansa will become **bmi's** main shareholder with an 80% stake following the decision by bmi Chairman Michael Bishop to exercise his put option requiring LH to purchase his 50%-plus-one-share of the carrier he helped to found more than 30 years ago. The deal makes Lufthansa the second-largest slot holder at London Heathrow behind British Airways with a 12% share. The option, which was part of a 1999 agreement that gave LH a 10% share in bmi, was exercised recently, but the action was revealed in LH's third-quarter earnings report. It posted a €149 million profit, down 74.6% from the €586 million earned in the third quarter of 2007. LH declined to reveal the price of the purchase, but reports suggest it is about £320/€400 million (\$499.5 million). The transfer is expected to occur "not before Jan. 12," according to LH, and is subject to antitrust and regulatory approval. LH currently holds a 30%-minus-one-share stake in bmi and the remaining 20% is owned by SAS Group, which has expressed publicly its desire to divest. British Airways and Virgin Atlantic Airways also have had their eye on bmi.

Lufthansa suspended talks regarding a possible takeover of SAS Group with a steep loss at SAS subsidiary Spanair the primary reason for the retreat. LH holds stakes in Brussels Airlines, bmi and JetBlue Airways and is evaluating potential investments in Alitalia and Austrian Airlines Group.

Lufthansa opted not to wait for a decision on a foreign partner for the restructured **Alitalia** and will be launching its own subsidiary at Milan Malpensa, called **Lufthansa Italia**, in February. Six former Germanwings A319s will comprise the venture, designed to take advantage of AZ's cutbacks in Lombardy. LH originally had planned to base Air Dolomiti E-195s at MXP but instead has decided to pursue its own Italian Air Operator Certificate. Securing the AOC could take as long as 12 months but LH believes it will be in hand by early next year. Air Dolomiti, based in Verona, will continue to provide regional lift for LH. Milan and Lombardy rank among Europe's economically most important and strongest regions. "A good route network connecting them with Europe's principal cities is essential." LH Italia is not connected with the carrier's interest in a minority partnership with Alitalia rescuer Compagnia Aerea Italia, which is expected to choose either LH or Air France KLM. "

Greek government called for expressions of interest from potential purchasers of **Olympic Airlines**, which has been losing nearly €2 million per day, and holding company Pantheon. "The buyer of Pantheon will be selected through a multistage process. It is envisioned that a number of qualifying interested parties will be allowed to participate in the net stages of the process," the government said. Olympic will be replaced by a separate airline (which may keep the Olympic name), ground handling and maintenance companies under the Pantheon umbrella. Deadline for expressions of interest is Oct. 31 and the tender is scheduled to be concluded by year end.

Greek Ministry of Transport and Communications announced the companies interested in bidding for some or all of **Olympic Airlines**. Interested in Olympic's flight operations are Athens Airways, Kuwait's Fouad El Ghanim Group, Italy's MyAir, Qatar Airways, SkyEurope Airlines and US charter services Chrysler Aviation and SkyOne. Interested in OA's ground handling division are Athens Airways, Greek construction firm Ellaktor, Fouad El Ghanim, Goldair, Hellenic Cargo Group and Swissport. Interested in OA's maintenance division are: Athens Airways, Iberia and Fouad El Ghanim. Twenty-two additional potential bidders requested anonymity.



Olympic Airlines employees walked out again, grounding nearly 100 flights and disrupting other air traffic in a runway protest against Greece's plan to sell the ailing state carrier. The Greek government is looking for an investor to bail out Olympic. OA workers protested at least one day per week last month, causing hundreds of cancellations.

Ryanair exercised options for 10 737-800s under terms of its 2005 agreement with Boeing. Three aircraft are scheduled for delivery in October 2010 and seven the following month.

S7 Airlines confirmed that Nov. 17 will be the last day it operates any Russian-built aircraft. It said it will cut flights to "some" Russian cities whose airports have not been cleared to handle foreign-built aircraft. Meanwhile, CEO Vladislav Filev said the carrier has "received a verbal offer from an investment company which is acting in the interests of an undisclosed client" and has hired an unnamed bank to assess the offer. Aeroflot has expressed interest in acquiring the state's 25.5% stake in S7.

SkyEurope Airlines said that York Global Finance, which holds 29.9% of the LCC, has offered to buy the remaining shares and inject more capital into the carrier. It said it will negotiate with York but "will continue to look for alternative investors who might ascribe a higher value to the company's business".

Transaero plans to announce an order for six A350 XWBs or A380s very soon. The airline is awaiting a detailed offer from Airbus, adding that the A350 "is a more economical aircraft" than the 787. Transaero has ordered eight A330-200s and four A320s but currently operates no Airbus equipment. It expects its fleet to reach 43 by year end, up from 38 one year ago. It recently took delivery of its first 777-200.

Uzbekistan Airways finalized its order for four 767-300ERs worth \$597 million at list prices, Boeing said. Aircraft will be used to fill "interim capacity targets" and "growth plans" while the carrier awaits its two 787-8s. It already operates five 767-300ERs and six 757-200s.

AF KLM's acquisition of **VLM Airlines** was cleared by the UK Office of Fair Trading along with approval of an "up-front entrant" remedy it said "restores airline competition to pre-merger levels" on the London City-Amsterdam route, which OFT said is worth more than £50 million per year. The remedy goes beyond the traditional slot divestment and requires a new entrant to use the divested slots. "A key lesson from abroad is that an incumbent airline's offer to make slots available does not guarantee that a competitor would take up the offer and enter onto the route and so some past airline merger remedies failed to achieve their goal of restoring competition," OFT reasoned. **Eastern Airways** was approved as the new entrant and will commence up to eight-times-daily LCY-AMS in January. AF KLM said OFT's approval opens the door for "close" cooperation between VLM and AF subsidiary CityJet, which also operates from LCY.

Virgin Atlantic Airways, which has held several discussions with bmi over a possible tie-up, still believes a combination is possible and reportedly is seeking a partnership with its UK counterpart and its future-owner Lufthansa. VAA's CEO said it would make sense for Virgin Atlantic and bmi to combine their long-haul and short-haul networks... and create a new, strongly viable competitor to British Airways." He declined to say whether Virgin, which long has coveted a deal with independent-minded bmi, would try to buy out LH or seek a three-way deal. Virgin has opposed vigorously the granting of antitrust immunity to BA, American Airlines and Iberia.

Virgin Atlantic Airways is discussing the acquisition of 12 aircraft with Airbus, Boeing and lessors to plug the gap in its fleet caused by delays to the 787. It has 15 787-9s on order and now is not expecting delivery until 2013. **VAA** is considering additional aircraft orders, possibly for 777s or the A350 XWB, while it is in talks with Boeing on compensation for the delay of its 787s. A potential new order is separate from discussions regarding replacement/interim lift for the delayed Dreamliners, although part of an order could substitute the options and purchase rights the carrier has on an additional eight and 20 787s, respectively. VS placed a firm order for 15 787-9s in April 2007 and had expected delivery of its first 3-4 aircraft in 2011 and all of them by 2014. The carrier, which pushed delivery of the first of its six A380s back to 2013, also remains interested in the A380 stretch version.



Virgin Atlantic Airways asked the European Commission to reject what the carrier called the "virtual merger between two of the world's biggest airlines" and submitted a document to competition authorities outlining its objection to the antitrust alliance between American Airlines and British Airways. The Commission opened its investigation into the tie-up, which also includes Iberia, in August. "Nearly 50% of slots at [London] Heathrow would be controlled by BA and AA, and Heathrow, which is totally full, is unique as it accounts for nearly a quarter of all passengers travelling between Europe and the US."

Wizz Air said it will base one extra A320 each at Timisoara, Bucharest Baneasa and Cluj Napoca and double its Romanian capacity over the next six months. It also will increase service on 10 routes from Baneasa and Cluj. In 2009, Wizz expects to carry more than 1.7 million passengers in Romania, double the 2008 number, aboard six A320s.

Asia Pacific

AirAsia X hopes to announce its first UK service from its base at Kuala Lumpur and commence the route in March. While declining to confirm Stansted as the destination, the airline said, "We prefer STN over Manchester airport because of the connectivity" with LCCs like Ryanair and easyJet. Next the carrier will launch flights from KUL to Perth and Melbourne. It currently operates to Australia's Gold Coast and Guangzhou. The current slowdown in demand and the uncertain economic climate are apparently not affecting its expansion plans. The airline currently operates one leased A330-300 and will take delivery of two new A330-300, out of an order for 25, before the end of the year. Three new A330s and one leased A340 will arrive next year, the latter to support the likely KUL-STN service.

The airline also said the demise of other long-haul, low-cost start-ups like Oasis Hong Kong Airlines and Zoom Airlines is not affecting X's confidence in the business model. "They operated old aircraft. They started from scratch and building a brand is expensive, and thirdly, operating long-haul point-to-point is difficult. You need feed. You need a network," X said.

X operates with its own AOC and IATA code while selling tickets under the AirAsia brand through the latter's website. Aircraft carry the red AirAsia livery. "The need to connect reflects the traditional legacy model for long-haul," X said. "But we don't interline, which strips out a lot of operational complexity and costs. Because of the Internet and the passenger's independence, our passengers self-connect. They self-transit in KUL." Eighty-one percent of X's current passengers do not stay in Kuala Lumpur. Both AirAsia and X operate out of KUL's low-cost terminal.

ANA, whose fiscal-first-half profit fell 79.1% year-over-year to ¥22 billion (\$227.4 million), is taking measures to stabilize itself as Japan officially slides into recession, and is considering launching a low-cost subsidiary. Competing in a country where unit costs are high and a region where LCCs are continuing to assert themselves, ANA now feels it must react. The carrier is now evaluating a new business model to possibly include a low-cost subsidiary based somewhere else in Asia. The company claims to be well aware of the difficulties associated with operating an LCC in the region but says the new airline should be able to operate with unit costs 50% lower than ANA's. Premium passengers would remain with the mainline. The new subsidiary may fly 767-300s and that a decision on whether to move forward with it "will be made soon." To compensate for falling demand, ANA is down-gauging aircraft types on domestic and Chinese routes.

The carrier also will postpone its decision on an order for jumbo aircraft. ANA has three options for a future ultra-large aircraft. Besides the A380 or the 747-8, the other possibility is to extend the fleet based on our current large widebody, the 777 family. ANA has received no new information from Boeing regarding the delivery of its first 787. The airline has ordered nine 767-300s for interim lift.

Cathay Pacific Airways finally has decided to phase out its 777-200s, rationalizing its 777 fleet around the -300 and -300ER while cutting capacity. It has been considering the future of its -200s for some time, as its fleet is built around the A330-300 for regional flying and the 777-300 for heavy trunk routes. It will attempt to sell the aircraft. It will not renew leases next June on two A330-300s used by Dragonair.

Chinese carriers should get some relief in the fourth quarter as the Chinese government decided to cut the price of fuel by CNY570 (\$82.37) per ton owing to the recent drop in international oil prices. It marks



the fifth time that Beijing has adjusted the domestic fuel price. It introduced a CNY210 per ton increase in the first quarter, a CNY80 drop in the second quarter, a CNY1,500 hike on June 20 and a CNY720 addition on July 8. HSBC noted that China Southern Airlines is expected to benefit most from the most recent domestic cut as it has the largest number of domestic routes, which comprise 80% of its total.

Nine mainland **Chinese carriers** were selected to operate weekday flights across the **Taiwan Strait** and are expected to launch service on Dec. 15, according to CAAC. In addition to Air China, China Eastern Airlines, China Southern Airlines, Hainan Airlines, Xiamen Airlines and Shanghai Airlines, which all already operate weekend cross-strait flights, Sichuan Airlines, Shandong Airlines and Shenzhen Airlines were tapped to operate the weekday flights. Mainland carriers are permitted to operate 54 weekday flights per week. According to CAAC, CA will operate 10 while 12 have been allotted to CEA, 10 to CZ, five to HNA, 6 to Xiamen and 5 to SAL. Sichuan, Shandong and Shenzhen each have been granted permission to operate 2 weekly weekday flights. Regarding cross-strait cargo flights, CEA subsidiary China Cargo Airlines, China Southern Airlines and Air China Cargo have been selected. China Cargo Airlines and CZ each are expected to operate 10 monthly flights from Shanghai and Guangzhou respectively, while Air China Cargo is expected to operate 5 monthly flights from both Shanghai and Guangzhou.

China Southern Airlines and **China Eastern Airlines** have started to ground aircraft and cut flights as there is little sign of a recovery in the slumping domestic market. According to CAAC, Chinese carriers again suffered from falling demand despite the "golden week" travel period surrounding Oct. 1 National Day. Passenger load factor fell 2.2 points year-over-year to 76.9% while daily aircraft utilization was down 2.1% to 9.2 hr. CZ has grounded 12 MD-82s and reconfigured both its domestic and international schedules, and predicted that the "domestic market will recover in the second half of next year while the international market will turn for the better in 2010." CEA has cut some "unprofitable" routes and grounded about 20 aircraft in secondary domestic markets. The difficulty facing Chinese carriers again has raised the possibility of consolidation. CAAC would support any move that would benefit the industry.

Jet Airways is "very pleased" with the performance of its European hub in Brussels, which it launched in August 2007 with a daily Mumbai-BRU-Newark 777 service, claiming that its first year "proves that the concept of "hubbing" out of your home market works." But CEO Prock-Schauer confirmed that the venture is not yet profitable. "We remain optimistic to achieve our target to break even after 18 months of operations despite the current slowdown," he said. "It counters all this euphoria of non-stop, very-long-haul flights. Brussels Airport has become, uniquely, an Asian carrier's hub!" Despite the losses, during its 13 months at BRU Jet has become "the market leader in Belgium on all its destinations, [the] largest long-haul carrier at BRU and the largest cargo operator in belly load on BRU," he added. The carrier said it holds a 40% market share on BRU-JFK, 49% on BRU-EWR and 70% on BRU-Toronto.

Jet Airways, India's largest airline by market share, announced that it will lay off 1,900 employees across all levels. The news, which sent ripples through the domestic airline industry, came two days after Jet sealed a surprising partnership with former rival Kingfisher Airlines. The airline aims to cut flights by close to 15% during its winter schedule and the new layoffs follow its previous decision to cut 800 employees from the rolls of low-cost subsidiary JetLite. The company employs about 12,000, and trade unions and opposition political leaders condemned the announcement and asked for employees to be taken back.

Jetstar Airways' new CEO, Bruce Buchanan, downplayed the impact of Tiger Airways in the Australasian market, claiming that his focus is on "bigger [low-cost] competitors with large fleets that have a significant impact on the market. There is only one or two in the Asian region and I don't put Tiger in that category." Virgin Blue and AirAsia were subsequently mentioned by Buchanan.

Kingfisher Airlines and **Jet Airways** are emphasizing that their newly formed "alliance" is not a merger or a precursor to one but was necessary to "enable a stabilization of the Indian aviation industry in the larger public interest." Cooperation between the former archrivals likely will be extensive. "While maintaining their separate legal entities and brand entities, both Jet and Kingfisher will examine co-branding opportunities and have formed a core committee of senior management personnel from both companies who will drive the various identified initiatives forward," the airlines said in a joint statement. They insisted that "there will not be any mutual equity investments."



Each airline is losing money as they contend with rising costs and overcapacity in the Indian market and see cooperation as a way to lower costs and increase efficiency. The carriers insisted they are not planning to merge.

The two, which collectively control nearly 60% of the domestic Indian market, have agreed to cross-sell tickets, share crews on similar aircraft types and combine ground handling and fuel management operations. Passengers will be able to earn and use frequent-flier miles across both carriers.

India's airlines are estimated to have lost more than \$1 billion in the 12 months ended March 31. Jet Airways CEO told that Jet expects to follow a \$100 million loss in its last fiscal year with another loss for the year ending March 31, 2009.

The Federation of Indian Airlines, of which both Jet and Kingfisher are members, in recent days asked for a \$1 billion bailout from the government to help carriers manage the financial crisis. FIA predicts collective losses of more than \$2 billion for India's airlines this year.

Kingfisher Airlines defaulted on rental payments for four A320s on lease from GECAS, which complained to India's Directorate General for Civil Aviation and is seeking to repossess the aircraft. Kingfisher quickly responded and secured relief from the Karnataka state court preventing the repossession. "Since the matter is sub-judicial, the DGCA cannot take action on de-registering the aircraft." GECAS declined to comment further.

Kingfisher Airlines has "received several expressions of interest from foreign airlines as it pressed the government to allow foreign interests to acquire up to 25% of Indian carriers.

Shenzhen Airlines plans to launch **Kunming Airlines** in January in the capital of Yunnan Province. Preparations for Kunming Airlines' launch have been underway since 2004 and the carrier gained CAAC approval in 2005. But for various reasons, the preparations were suspended for some time before being revived earlier this year when Shenzhen Airlines came forward to say it would be the controlling stakeholder. It also will provide aircraft and MRO support. Kunming Airlines will launch with three aircraft, with plans to grow the fleet to 10 in 2009, 30-40 in 2010, 80-100 by 2015 and 150-200 by 2022. It eventually will open additional operating bases in Xi'an, Guangzhou, Tianjin and Hangzhou.

Located in south-western China, Yunnan is home to numerous resorts and is a popular tourist destination. Kunming Airlines will not be without competition; Hainan Airlines signed a cooperative agreement with the Yunnan government in June to launch Yunnan Airlines, which will be comprised mainly of the assets of Lucky Air.

Malaysia Airlines is postponing its decision on its long-haul fleet renewal owing to current market conditions. MAS had anticipated analyzing future widebody requirements in the current quarter to complement its spring commitment for 35 737-800s plus 20 options. It will not defer deliveries scheduled to begin in September 2010, but it may not firm the options. The 35 737-800s will replace the older narrowbodies, whereas the options were to secure future capacity expansion. MAS has reduced capacity by 7% year-over-year during the past six months in response to decreasing passenger demand.

Boeing's largest airline customer for the 787, **Qantas** Group, confirmed that its first Dreamliner could be up to an additional six months late. Jetstar Airways executives said that the LCC's first 787 is not expected until May 2010, 21 months later than the original schedule. The lag is far longer than the 54-day IAM strike and confirms that there has been further slippage in the program, possibly due to brake control issues. Jetstar and Qantas have ordered 65 787s, with the original schedule calling for the first 15 to arrive one per month at Jetstar from August 2008. When Boeing announced its third program delay last April, Jetstar's first delivery, ship 21, had slipped 15 months to November 2009.

Turkish Airlines won the tender to acquire a 49% stake in Sarajevo-based, B&H Airlines. Comintel Corp. of Malaysia and a Jordanian consortium including Royal Jordanian were among THY's competitors. The Bosnian government has formed a commission to negotiate the purchase.

Turkish Airlines moved forward with its fleet renewal, announcing its intention to place an order for 25 widebody and 50 single-aisle aircraft plus 10 widebody and 10 narrowbody options. Requests for



proposals will be solicited from both Boeing and Airbus and THY said it is considering the A350 XWB, A330, 777 and 787 for the twin-aisle order and the entire A320 and 737NG families (except the 737-600) for its narrowbody purchase. It expects to begin taking delivery of the new aircraft in the second half of 2010, a schedule it said "will be the critical decision factor beside the price" when it places the order. It did not say when it would announce its decision nor did it give a deadline for the RFP. "The need for the interim aircraft will be clarified after the conclusion of the tender and the finalization of the delivery dates," it said, leaving open the possibility of "leasing under the best market condition[s]."

The ongoing Boeing machinists strike has forced Australia's **Virgin Blue** to postpone the launch of its **V Australia** transpacific service between Sydney and Los Angeles planned for Dec 15. Boeing has informed customers that it cannot predict the duration of the nearly month-old strike by 27,000 members of the International Assn. of Machinists and Aerospace Workers and therefore cannot guarantee delivery of VA's first 777-300ER. Three -300ERs destined for the start-up are close to completion with one already painted. That aircraft cannot be delivered, however, because its galleys are running late and need to be fitted, which only can be done by machinists.

Middle East & Africa

Air Arabia firmed options for 10 A320s, Airbus announced, following up on the order for up to 49 aircraft signed at last year's Dubai Air Show and saying said it needs the additional planes to support expansion and its new Moroccan base scheduled to open next year. The order comprised a firm contract for 34 aircraft plus 15 options. The LCC currently operates 16 A320s. It is awaiting governmental approval for its Casablanca operation called Air Arabia Maroc, which will be a joint venture with privately held Regional Air Lines of Morocco.

The EU's open skies agreement with Morocco, signed two years ago, worries several European carriers that fear Air Arabia might gain unrestricted access to the European market via a Moroccan affiliate. Earlier this year, an EC source confirmed that the body has sought reassurance from the Moroccan government that it will guarantee application of the EU-Moroccan air services agreement, including ownership and control rules. The Moroccan operation had been scheduled to launch late this year in Rabat. Air Arabia's Kathmandu joint venture with Yeti Airlines, FlyYeti.com, suspended operations in July.

Ethiopian Airlines said it posted a ETB507 million (\$51.2 million) profit in the fiscal year ended June 30, which would mark a significant improvement over profits of just over \$14 million in each of the prior two fiscal years. Revenue rose 34% year-over-year to ETB9.2 billion while expenses were up 31% to ETB8.8 billion. Passenger numbers climbed 20% to 2.5 million.

Italy and United Arab Emirates signed an agreement that will allow **Emirates** and **Etihad Airways** to have significant access to Italian airports, with EK planning to use Milan Malpensa, Rome Fiumicino and Venice as gateway "hubs" to Europe. The Italian Government said the re-launched Alitalia would provide connections for EK passengers. EK will operate 21 weekly flights to both MXP and FCO and 14 to VCE. It also will operate 28 weekly cargo flights collectively to the Italian cities. Etihad plans to operate seven weekly flights each to MXP and FCO.

Abu Dhabi Aviation announced the acquisition of a 95% stake in **Maximus Air Cargo**, which flies eight freighters on charter and ACMI operations for commercial customers and the UAE government. Maximus said nine-month revenue rose 227% year-over-year to \$86.4 million.

Wataniya Airways, an all-premium Kuwaiti start-up, will launch operations in February with a twice-daily Kuwait City-Dubai A320 service. The airline also announced that parent company Kuwait National Airways will be listed on the Kuwait Stock Exchange on Dec. 15. It will operate out of KWI's private Royal Terminal under the KW code and said it has hired 15 pilots and 59 cabin crew. Ticketing operations have commenced. Wataniya said it will have four aircraft operating next year and up to seven by the end of 2010. The Kuwaiti carrier will lease three aircraft from ALAFCO, three from AerCap and one from ILFC. It has committed \$250-\$300 million for the leases. Qatar Airways also has plans to operate all-business-class service in the region.

AERO EQUIPMENT SECTION

Fleet News



More than 1,000 aircraft will leave the global airline fleet by the end of this year through either retirements or carrier failures, according to Ascend Director Eddy Pieniasek.

The 1,029 aircraft represent more than 5% of the world fleet but 4.1% of total seats, Pieniasek said. Most disposals are occurring in North America, 776, followed by 155 in Europe, 89 in Asia and nine in Latin America. More than half of the groundings--543--are narrowbodies, 111 are widebodies, 233 are regional jets and 86 are turboprops. Fifty-six aircraft have yet to be determined.

Seemingly belying these developments, orders for new aircraft have been strong this year, with 1,457 ordered including 415 since July 1, according to Ascend. Just 62 orders have been cancelled. "In the scheme of things, 62 cancellations are nothing," Pieniasek noted.

Operating lessors, however, have 500 aircraft on the ground and lease rates have softened, said Ascend Head of Valuations and Appraisals Les Weal. Lease rates for in-production narrowbodies are down 10% since mid-year, he said, with market values down 5%-10%. Lease rates for out-of-production narrowbodies such as the 737 Classic and MD-80 have fallen 20% since mid-year. Modern widebodies have fared better with only marginal changes so far. Lease rates also appear to be holding for older-technology widebodies such as the 747-400 and A340-300, but market values are down 5%.

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

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Boeing	3773	46.00%
Airbus	3737	45.56%
Embraer	459	5.60%
Bombardier (Canadair)	180	2.19%
Harbin Embraer Aircraft Industry	40	0.49%
Boeing (McDonnell-Douglas)	14	0.17%
TOTAL	8,203	100.00%

Backlog - Top Ten Owners	Total Aircraft	% Share
DAE Capital	200	2.44%
General Electric Capital Corp	190	2.32%
Emirates Airline	177	2.16%
Lion Air	166	2.02%
Qantas	166	2.02%
US Airways	161	1.96%
China Southern Airlines	155	1.89%
ILFC	150	1.83%
Ryanair	147	1.79%
Aviation Capital Group	143	1.74%
TOTAL - TOP TEN	1,655	20.18%
TOTAL BACKLOG	8,203	100.00%

Backlog - Top Ten Operators	Total Aircraft	% Share
DAE Capital	200	2.44%
Emirates Airline	184	2.24%
Lion Air	166	2.02%
US Airways	161	1.96%
China Southern Airlines	155	1.89%
Ryanair	147	1.79%
Air China	146	1.78%
airberlin	140	1.71%
Qatar Airways	140	1.71%
Aviation Capital Group	139	1.69%
TOTAL - TOP TEN	1,578	19.24%
TOTAL BACKLOG	8,203	100.00%

Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
Emirates Airline	177	2.16%
Lion Air	166	2.02%
Qantas	166	2.02%
US Airways	161	1.96%
China Southern Airlines	155	1.89%
Ryanair	147	1.79%
Qatar Airways	140	1.71%
Air China	138	1.68%
airberlin	136	1.66%
JetBlue Airways	128	1.56%
TOTAL - TOP TEN	1,514	18.46%
TOTAL AIRLINE-OWNED BACKLOG	6,222	75.85%
TOTAL BACKLOG	8,203	100.00%

Backlog - Operating Lease Companies (Owner)	Total Aircraft	% Share
DAE Capital	200	2.44%
ILFC	150	1.83%
Aviation Capital Group	143	1.74%
AWAS	127	1.55%
CIT Leasing Corp	118	1.44%
BOC Aviation	75	0.91%
ALAFCO Aviation Lease and Finance Company	70	0.85%
AerVenture	53	0.65%
AerCap	31	0.38%
LCAL	21	0.26%
TOTAL - TOP TEN	988	12.04%
TOTAL LESSOR-OWNED BACKLOG	1,104	13.46%
TOTAL BACKLOG	8,203	100.00%

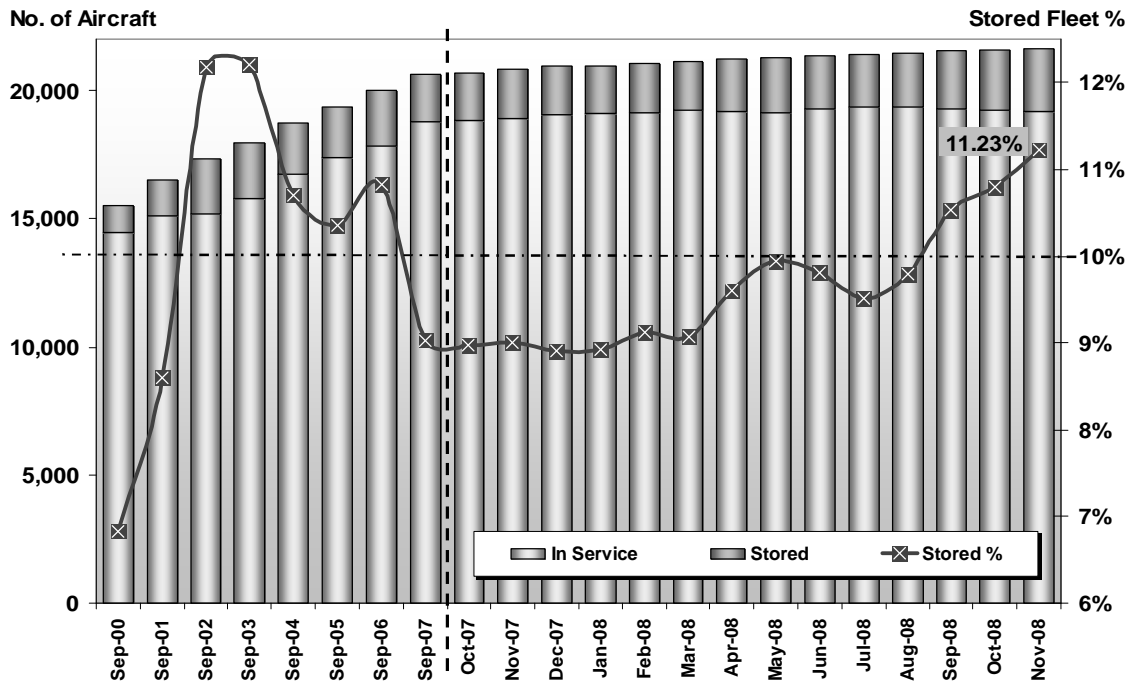
Backlog - Lessor (as Owner) by A/C Manufacturer	Total Aircraft	% Share
Airbus	648	58.70%
Boeing	446	40.40%
Embraer	10	0.91%
TOTAL LESSOR-OWNED BACKLOG	1,104	100.00%

Source: CASE2® Database



Storage

Ascend is aware of at least **2,430 Western-built jet aircraft** in storage as at **14th November 2008**:



Source: CASE2® Database

The table below shows the aircraft types whose percentage of Stored Fleet is **above the Total Average (11.23%)** of the whole Western-built jet stored fleet figure:

Manufacturer & Type	Fleet Stored	Total Fleet	Fleet Stored %
Lockheed L-1011 TriStar	54	72	75.00
Boeing 720	2	3	66.67
Fokker F.28	70	125	56.00
Boeing (McDonnell-Douglas) DC-9	206	424	48.58
BAE SYSTEMS (BAC) One-Eleven	16	34	47.06
Boeing 737 (JT8D)	299	661	45.23
Boeing 727	270	640	42.19
BAE SYSTEMS (HS) 146	68	189	35.98
Boeing (McDonnell-Douglas) DC-8	51	147	34.69
Fairchild/Dornier 328JET	26	109	23.85
Boeing (McDonnell-Douglas) MD-80	239	1,040	22.98
Boeing (McDonnell-Douglas) DC-10	54	246	21.95
Boeing 707	45	217	20.74
Embraer ERJ-135	43	264	16.29
Fokker 100	41	256	16.02
Airbus A300	60	414	14.49
Boeing 717	22	155	14.19
Boeing 747	141	1,026	13.74
Airbus A310	28	221	12.67
TOTAL STORED FLEET	2,430	21,638	11.23

Source: CASE2® Database



Manufacturer News

Airbus

Airbus COO-Customers John Leahy said the manufacturer has agreed to sell 280 additional aircraft to Chinese airlines. As many as 160 of the new aircraft orders could be approved by Beijing and officially announced by year end. They will help Airbus tally about 850 total orders for 2008, he added.

Airbus booked 31 new orders in September and delivered 34 aircraft. Its 2008 gross order total now stands at 785. The manufacturer said deliveries during the month were mostly A320 family aircraft that went to Afriqiyah Airways, Air China, AirAsia, Avianca, British Airways, China Eastern Airlines, China Southern Airlines, CIT Leasing (for Juneyao Airlines and Qatar Airways), CSA Czech Airlines, easyJet, GECAS (for Aeroflot, East Star Airlines and Juneyao), GoAir, ILFC (for Shenzhen Airlines), IndiGo, JetBlue Airways, LAN Airlines, TAM, Turkish Airlines and US Airways. Qantas received its first A380 and Singapore Airlines its sixth.

Airbus decided to pull back on planned production rate increases, citing "uncertainty in the financial markets." A320 family production will stay at 36 per month rather than being ramped up to 40 by 2010 as planned and A330 production will grow from eight to 10 per month but not up to 11 by 2010 as previously planned.

Boeing

Boeing predicted that world air cargo traffic will grow 5.8% annually over the next 20 years, down slightly from the 6.1% rate it projected in previous forecasts. Its newly released "**2008/2009 World Cargo Forecast**" said worldwide airfreight traffic will triple by 2027 and that "current near-term market weakness and worldwide economic uncertainty" won't significantly affect long-term demand. "The industry has shown strong recoveries from previous economic downturns such as the Asian economic crisis, the 9/11 attacks and the SARS outbreak," it said.

Global airfreight traffic growth is projected to be driven by the Asian market. "Asian production fundamentals, including abundant raw materials and low-cost labour, remain solid and China will remain a source of strong economic growth with substantial industrialization and related investment," Boeing said. It predicted that the world freighter fleet will increase to 3,890 aircraft in 2027 from 1,950 currently, with 3,360 joining the fleet over the next two decades. More than 75% of the additions will be from conversions.

Boeing's chances of flying the 787 this year took another hit after the company acknowledged further fastener problems with the first aircraft on the production line. The manufacturer "recently discovered some fasteners on the 787 airplanes in Everett Final Assembly were incorrectly installed and do not conform to specifications. The fasteners themselves are fine."

The spokesperson added that Boeing "alerted our structural and pre-integration partners to also inspect the units they have in production. Although we are still receiving data, some installation non-conformance has been found. Less than 3% of fasteners installed to date are nonconforming."

It is unclear how the discoveries will affect the 787's first flight schedule. The latest problem comes as Boeing machinists return to work, but analysts now suggest that the first Dreamliner will not fly until January at the earliest, with first delivery pushed back to the 2010 first quarter.

Management now will be under intense pressure to advise the market and its customers on the full impact of the ongoing 787 production and software problems. Working in its favour will be a reenergized workforce, keen to work overtime to make up for pay lost during the 58-day strike.

US FAA issued an emergency airworthiness directive requiring inspection of all **Boeing 737NG** centre wing tank fuel pump auto shut-off wiring systems within 48 hours, warning that "incorrect wiring" could lead to "localized overheating of parts inside the fuel pump [that] could produce an ignition source inside the fuel tank."



FAA is requiring airlines that operate 737NGs that have the auto shut-off system for centre wing fuel pumps to verify that "the wiring is correctly installed" as well as to conduct a "functional test of the auto shut-off system." Carriers are required to take applicable corrective actions and to report both positive and negative findings to Boeing. The agency noted that the left-hand fuel pump of the CWT "may be deactivated" for up to 10 days if the required tests cannot be conducted within 48 hours.

Boeing said it will deliver the first 777F to Air France in the 2009 first quarter rather than the current quarter as a result of the recently concluded machinists strike. The manufacturer recently announced a 6-9-month delay to its 747-8 program. Boeing has two 777Fs in flight testing and one in production. There are 73 orders for the aircraft. Meanwhile, the company completed destructive testing on a full-scale composite 787 wing box. To meet certification requirements, the wings must withstand loads up to 1.5 times greater than the highest aerodynamic load the 787 could expect in the fleet's lifetime.

Boeing revealed its latest aircraft program delay, saying that the first 747-8 Freighter will be delivered in the third quarter of 2010 instead of late 2009 as planned and the first 747-8 Intercontinental will be delivered in the second quarter of 2011 instead of late 2010. The manufacturer said that "issues that have slowed the program's progress . . . include supply chain delays driven by design changes to the airplane, limited availability of engineering resources inside Boeing and the recent machinists' strike that halted production in the company's factories." The 747-8F program was launched in November 2005 and first deliveries are slated for Cargolux and Nippon Cargo Airlines. Lufthansa is the sole airline customer for the 747-8I passenger version and holds orders for 20 plus 20 options. There are eight orders from unannounced customers for the 747-8BBJ version and 78 for the freighter from nine customers.

Boeing warned that it will lay off an undetermined number of employees next year as part of an effort to slash costs to contend with a "challenging business environment." The manufacturer said it will cut the workforce at its Wichita facility by 27%, or 800 jobs. Boeing said the cuts at its Kansas facility make clear there will be "some employment decreases starting in early 2009" and indicated more job reductions will be announced. Challenges in 2009 include delayed contract awards and program completions, expectations for moderating defence spending and the potential impact of a global recession on the airline industry. The immediate challenge is to get the 787 program back on track, with analysts suggesting the company will provide a status update early in December.

Embraer

Embraer delivered 37 commercial jets, nine executive jets and two aircraft for defence/government use in the third quarter compared to 38 commercial and nine business aircraft in the year-ago period. The Brazilian manufacturer received 13 commercial orders during the quarter and its firm order backlog was valued at \$21.6 billion, up 4.3% year-over-year. Nine-month deliveries totalled 145 aircraft, up 34%, and it reaffirmed its estimate that it will deliver 195-200 aircraft this year.

Leasing News

AerCap Holdings, the Amsterdam-based operating lessor, has "suspended all future Capex other than existing contracted Capex with Airbus" and is reducing headcount by around 15% as it seeks to adjust to the impact of the ongoing credit crunch and airline traffic downturn. The company also is "in active discussions" to sell minority stakes in parts of its portfolio. CEO Klaus Heinemann announced the moves parallel to AerCap reporting a 5.6% year-over-year rise in net income to \$51.3 million. Lease revenue grew 23% to \$167.9 million despite the loss of \$6 million related to the failures of Zoom Airlines and Gemini Air Cargo, both of which leased aircraft from AerCap. Total revenue was down 10% to \$301.9 million, reflecting a 35% reduction in revenue from aircraft sales. Commenting on the lease market, Heinemann estimated that rentals for a recent model A320 have dropped around 10% while for an older aircraft such as the 767 or 737 Classic the decline could be as much as 30%. The lessor owned 156 aircraft as of Sept. 30 and managed a further 54. It had 90 on order: 60 A320-family and 30 A330s.



BOC Aviation, which said it anticipates "ongoing demand for leased aircraft from the A320 family at both full-service and low-cost airlines around the world," placed firm orders for 20 aircraft at the Zhuhai Air Show. The Singapore-based lessor, a subsidiary of Bank of China, now has ordered 98 single-aisle aircraft from Airbus, of which 58 have been delivered. It also has five A330-200Fs on order for delivery in 2012 and 2013, and BOC announced the selection of the Trent 700 to power those aircraft, which already have been placed on "long-term" leases.

ILFC Chairman and CEO Steven Udvar-Hazy confirmed that American International Group "is in the process of selling ILFC to a group of investors, including management." The subject of an \$85 billion US government bailout, AIG was pressured to shed divisions "that were not essential to its core business strategy." He offered no other details, saying only that the sale "process is underway now." AIG acquired the aircraft lessor in 1990. ILFC posted pre-tax income of \$913 million in the first nine months of 2008, up 39% from the \$657 million earned in the year-ago period. Revenue rose 9.4% year-over-year to \$3.83 billion and is expected to top \$5 billion for the full year, he said.

Jazeera Airways has partnered with NBK Capital and **DVB Bank** to launch a Kuwait-based aircraft lessor called **Sahaab Aircraft Leasing**, the companies announced. Sahaab has been capitalized at \$375 million and plans to order 40-50 aircraft from Boeing and Airbus next year. Jazeera CEO Marwan Boodai announced that the low-fare airline will be Sahaab's first customer and that "the Gulf offers plenty of growth opportunities. Cash is here."

Aero-Engine News

International Aero Engines won a \$700 million deal from Sichuan Airlines for V2500 SelectOne engines to power 18 A320s slated for delivery in 2009-12. Contract also designates IAE as Sichuan's preferred engine supplier for future A320 family acquisitions. Sichuan launched the V2500 in China in 1995 and the engine has been selected for more than 180 additional A320s placed on firm order in East Asia, representing more than half the market share in China.

Rolls-Royce said it is consulting with its labour unions regarding plans to cut 140 jobs at its Derby Assembly and Test Facility. The proposed job reductions are "the first stage" of a larger downsizing that could see 1,500-2,000 workers laid off on a worldwide basis. Actions are in response to the "current economic uncertainties," delays to specific programs such as the A380 and 787 and "the benefits of the group's continuing focus on efficiency," according to a statement. The reductions account for 4% of the worldwide workforce. At the end of September, Rolls employed around 39,000, of which 22,100 are employed in the UK.

For questions, comments and suggestions regarding the **NewsSummary**, and for information on all other “ARA” products and services, please contact:

Airline Research & Analysis (ARA):

Polis D. Polycarpou Tel: +44-20-7618-9603 polis.polycarpou@dvbbank.com

For information on **Aero-Equipment / Aviation Asset Research**, please contact:

Aviation Industry Research (AIR):

Bert van Leeuwen (MD) Tel: +31-10-206-7986 bert.van.leeuwen@dvbbank.com

Bjorn Batenburg Tel: +31-10-206-7967 bjorn.batenburg@dvbbank.com

Simon Finn Tel: +44-20-7618-9729 simon.finn@dvbbank.com

Steven Guo Tel: +44-20-7618-9633 steven.guo@dvbbank.com

And Finally...



Denmark's **Sterling Airlines**, owned by Iceland's Northern Travel Holding, cancelled all flights and filed for bankruptcy, blaming decreasing demand, rapidly rising fuel prices and the Iceland financial crisis for its collapse.

The Copenhagen-based LCC, which operated 24 737NGs and three 737 Classics, all leased, said shareholders were committed financially into 2009 and had injected DKK444.5 million (\$74.8 million) over the summer to fund restructuring. But "over a 3-4 week period, the whole [Icelandic] financial system melted down, and that resulted in our shareholder being unable to continue his support." It said it had discussions with additional investors, "but it was impossible to make ends meet." Northern acquired Sterling from FL Group in December 2006.

Sterling, which merged with Maersk in 2005, posted a loss of approximately DKK33.6 million in 2007. It carried 4.3 million passengers last year to 40 destinations from eight bases.

