

DVB Aviation News Summary



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June – July 2011

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



Introduction

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

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

Polis D. Polycarpon

DVB – Airline Research & Analysis (DVB-ARA)

General Airline & Air Transport Developments

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

June saw a slight softening of demand for air travel and freight, following two months of improving traffic volumes. Total revenue passenger kilometres flown by commercial airlines world-wide were 4.4% higher in June, compared with the same month a year ago. Air freight volumes, measured by freight tonne kilometres flown, were 3% lower over the same period;

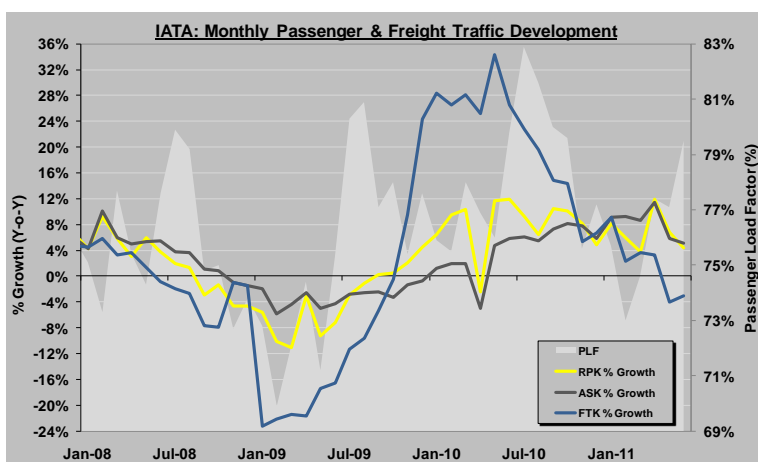
The trend in air travel remains upwards. After stripping out the many shocks as well as the seasonality affecting air travel demand, the current pace of growth in the trend is estimated to be 4-5% a year. This trend is below the 20-year average of 6% and is around half the pace of the post-recession expansion between early 2009 and early 2010. This slowdown reflects slower economic growth and the higher cost of travel, due to the rise in jet kerosene prices and, in some countries, higher taxes on passengers;

The trend in air freight is harder to discern but, after the June data, now looks little better than flat. International markets are seeing a stronger demand than domestic markets, but even here growth is very subdued. World trade in goods continues to expand but other modes of transport are benefiting from this growth, not air;

June 2011 (Percentage Change over June 2010)						
Carriers	Passenger			Freight		
	RPK%	ASK%	PLF%	FTK%	ATK%	FLF%
Africa	-3.2	1.1	64.9	0.3	2.3	25.8
Asia / Pacific	2.8	3.6	77.1	-5.8	-1.9	58.6
Europe	7.6	8.0	79.8	-4.3	4.5	48.2
Latin America	13.4	8.1	73.6	2.8	-6.5	44.4
Middle East	6.4	7.9	75.0	3.7	10.1	44.1
North America	1.7	2.7	85.4	-3.0	2.4	33.4
Industry	4.4	5.1	79.5	-3.0	1.9	45.7

YTD January – June 2011 (Percentage Change over Jan-Jun 2010)						
	RPK%	ASK%	PLF%	FTK%	ATK%	FLF%
Industry	6.5	7.1	76.7	1.2	5.9	46.4

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.



Regional differences in traffic volumes persist, due to a combination of differing economic conditions and the various shocks of recent months. The Japanese domestic market is only recovering slowly from the impact of the 11 March earthquake and tsunami, with RPKs still 23% down on February levels. The recovery of international travel to the North African markets hit by civil unrest has been a little faster but even these markets are still down, at some 4% below January levels. Strong economic growth and trade flows have boosted the traffic carried by Latin American airlines, while many European airlines are benefiting from the trade and business travel generated by the weak Euro;

Capacity grew in June, causing a fall in load factors. Commercial airlines world-wide managed to achieve a load factor of 79.5%, but part of that represented the seasonal rise in travel. Taking out the normal seasonal rise shows the average load factor at just over 78%. This is a good level of seat utilization by historic standards but nonetheless is worse than it was last month, and is lower than the peak in 2010;

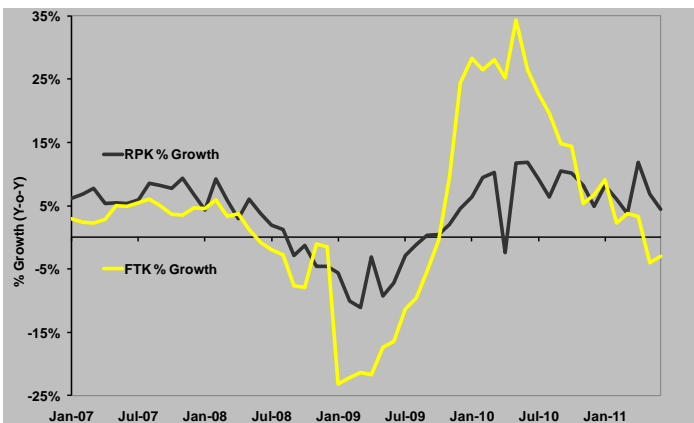
Airlines are starting to publish second quarter financial results. These results will reflect better passenger market conditions than in the first quarter. On average during the quarter passenger traffic strengthened and load factors rose. However, freight markets saw less of a rise in volumes and little improvement in load factors. Moreover, jet kerosene prices increased by more than \$10 a barrel between quarters, to average \$133/b in the second. The very different experience for airlines, between geographical markets and between passenger and freight markets, will be a significant influence on whether they have been able to recover the rise in fuel costs.

June 2011 vs. May 2011

Broadly speaking there was a fall in traffic volumes, capacity rose, producing a decline in load factors. This confirms that the year-on-year growth rates are now less distorted by events from last year.

PASSENGER MARKET

International air travel markets have been stronger than the average of domestic markets. Domestic air travel has been flat since Q3 last year and was 1.9% higher in July than a year earlier. Over that same period international air travel markets have grown 4% and RPKs were almost 6% higher in July than a year earlier. In the first half year of 2011 international RPKs were up 8%, compared to a 4% rise in domestic RPKs;



Latin American airlines are showing the strongest regional growth in the chart above, propelled by the strength of economies and trade flows to and from the region. Africa is the weakest, partly reflecting the continued impact of civil unrest in a number of North African countries. European airlines are now showing stronger growth in capacity and traffic carried than the Middle Eastern airlines, who had been the fastest growing region until recently – as a result of a modest slowdown in capacity additions in the Middle East and acceleration in Europe.

Supply-demand conditions in passenger markets – as represented by load factors – are tightest for US airlines (both on international and domestic markets). This should help the ability of these airlines to recover higher fuel costs. They are second tightest for European airlines, although recent significant additions to capacity on both Atlantic and Europe-Asia markets have started to cause load factors to slide. Load factors are relatively low for Latin American airlines but there has been a very significant improvement in the past six months, which should put these airlines in good shape to deal with the rise in fuel costs. At the other end of the spectrum are African airlines, with the weakest supply-demand conditions and the largest recent fall in seat utilization rates.

The contrasting experience of domestic air travel markets to international markets, in aggregate, is clear. There has been no growth on average since Q3 last year. This is partly due to the maturity of the US domestic market, which represents more than 50% of all domestic air travel. It is also due to the sluggishness of the recovery in Japan's domestic market, which remains 23% smaller than pre-crisis levels.

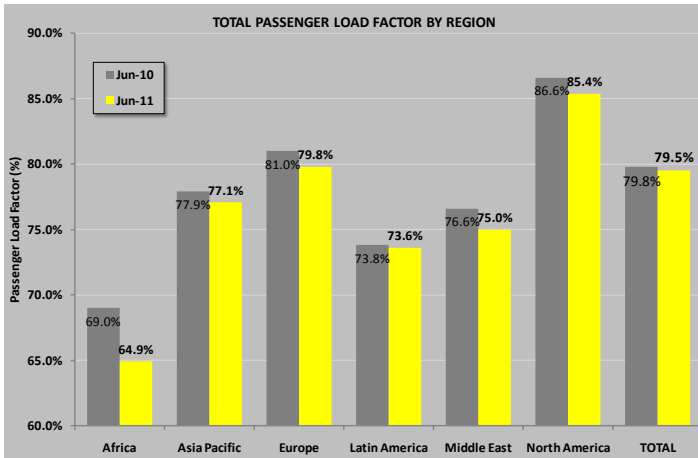
Other domestic air travel markets in the BRIC economies are strong. India in particular is showing solid growth, reflecting the strength of the economy and the growing middle classes. China, the second largest domestic market, has seen growth in its domestic market slow – though there is still plenty of potential – as consumer purchasing power has been squeezed by tighter economic policies. Brazil has been the fastest growing domestic market so far this year, propelled by strong growth in household incomes over the past year.

Load factors on domestic air travel markets peaked later than those on international markets. The fall during the recession was also smaller on domestic than on international markets, since the collapse in international trade was more substantial than the fall of domestic economic activity. The subsequent improvement in PLF has taken longer on domestic markets. The peak was reached in 3Q of last year. Since then there has been some moderate slippage.

Load factors on Chinese and Indian domestic markets are now comparable to the performance of airlines on developed country markets. For India in particular this is a very sharp improvement over the situation just 2-3 years ago when severe excess capacity was causing a lot of problems for airline profitability. Brazil's load factor is relatively low by comparison, but has also improved substantially from very low levels of seat utilization a few years earlier. Japan's low load factor reflects the sluggishness of the recovery from the 11 March shock.



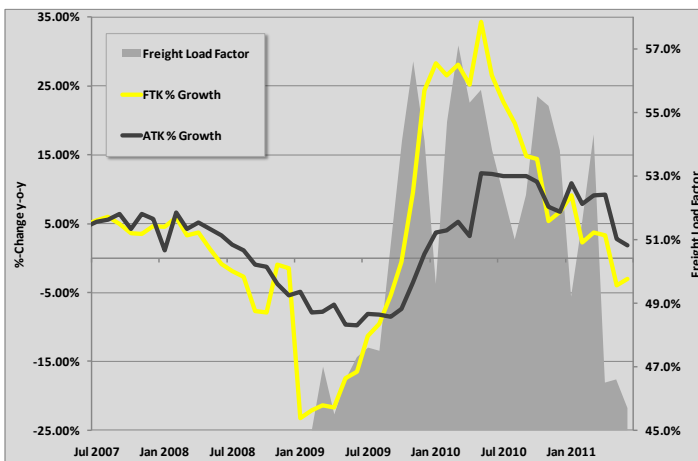
The lack of overall growth in domestic air travel markets since Q3 last year (domestic air travel represents just over one-third of worldwide RPKs) has not stalled the expansion in to overall passenger traffic carried by commercial airlines. The year-on-year rise of 4.4% in air travel in total is now close to the underlying trend of 4-5% growth per year.



The airlines seeing the fastest growth are those based in Latin America, benefiting from strong home markets as well as a strong performance on international markets. Growth by Middle Eastern airlines, with small home markets, has slowed recently. By contrast, and despite the economic crisis in a number of European economies, the European airlines are expanding capacity and the traffic they carry at a much faster pace than previously. North American airlines have made only modest additions to capacity on US domestic markets, and growth of capacity on international markets has been limited.

The pattern of load factors for the overall passenger business of airlines in the regions is similar to that for international markets. The exception is for Latin American airlines, whose overall load factor is pulled down by the relatively low seat utilization rate on the Brazilian domestic market.

FREIGHT MARKET



The size of the international air freight market is a little better than the middle of last year – and is stronger than domestic air freight - but remains 6% smaller than the level reached in May 2010. This lack of a robust second upward phase to the post-recession recovery is not because international trade in goods has stagnated. In fact international trade has risen strongly since the middle of last year and is currently expanding at a pace of around 7% a year. Unfortunately for the airline industry this expansion has been captured by other modes of transport.

Most regions, including the overall total, are now experiencing air freight volumes lower than they were carrying last year. In June the weakest region was Asia-Pacific. This is partly due to Japan, since it is a key supplier in the electronics and autos supply chains. However, air freight volumes reached their peak in early 2010. Since then there has been no further expansion in volumes. Since air freight represents a disproportionately large part of revenues for many airlines in the Asia-Pacific region this profile has been a significant drag on profitability.

The two groups doing relatively well in this air freight environment are airlines based in Latin America and in the Middle East.

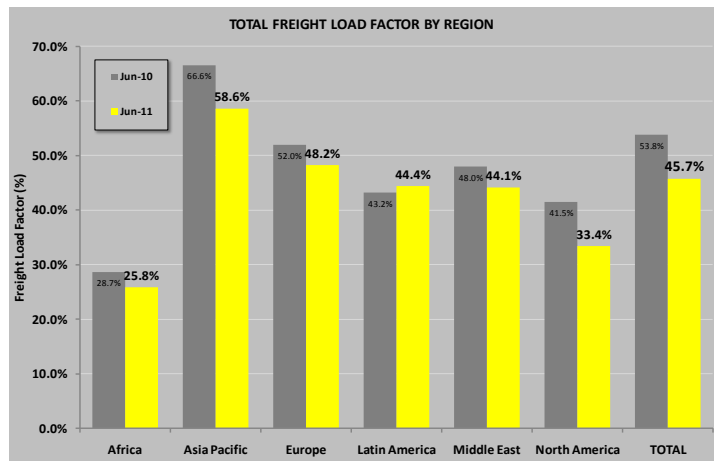
The supply-demand situation has deteriorated further in the past year in the air freight business than it has for the passenger business, which will be a further challenge to the profitability of airlines with a significant freight business. For airlines in the Asia-Pacific region the decline has been a little less, and they remain the region with the highest freight load factor by a significant degree.

The strongest contrast is with airlines in Africa, where freight load factors are less than half those of Asia-Pacific airlines. This is partly, if not largely, due to the direction of air freight flows. Asia is the manufacturing centre of the world and originates a large proportion of the goods air freighted. Africa is largely a commodities exporter, which are transported by other modes. With half of the available freight capacity provided by belly space in passenger aircraft, and therefore less responsive to the underlying trade flows, there is always going to be a disparity in load factors between these two regions.

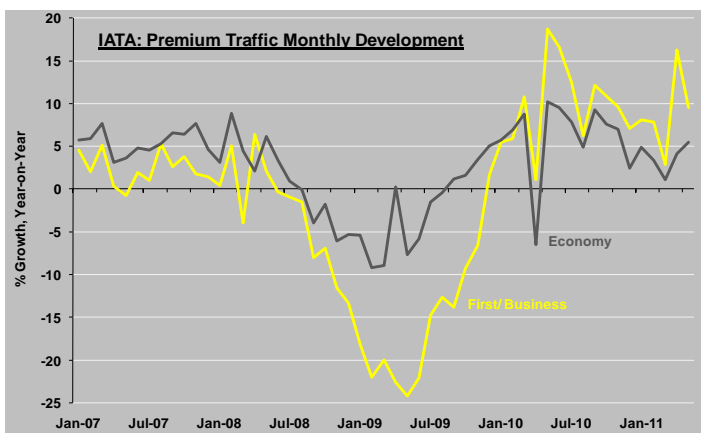


The picture is very similar for the overall air freight business. There is very little sign of a renewed upward trend in overall volumes, yet. The regional distribution is the same as for international air freight markets.

Load factors on domestic markets are generally half that achieved on international markets, so the overall freight load factor for commercial airlines in June was 45.7%, compared to 50.5% on international markets alone. With significant new capacity due to arrive later this year it may prove challenging to sustain even these levels of freight capacity utilization.



IATA – Premium Traffic (May 2011)



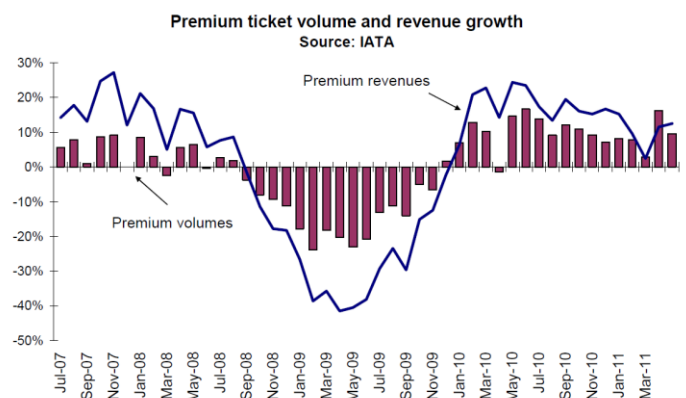
There was an improvement during **May** in passenger numbers travelling on premium and economy seats, taking international air travel above the weaker levels of the previous few months. Compared to the same month last year **premium** travel in May was up by **9.5%**, while economy travel rose **5.5%**. These year-on-year growth rates are lower than in April but that decline was due entirely to the distortion caused by the volcanic ash cloud last year;

These are encouraging signs that air travel has been picking up in the second quarter after a disappointing first quarter. However, premium travel has typically grown in line with developed country international trade,

which has been a good proxy for the drivers of business travel. That trade is growing at a pace of 3-4%. Moreover, a good leading indicator for premium travel has been business confidence, another driver of business travel, which has declined in the past couple of months to levels consistent with premium travel growth closer to the 3-4% growth of international trade. This suggests that the May data may be exaggerating the underlying growth of premium travel;

Economy travel is no longer showing signs of being significantly damaged by the effects of high fuel prices which, although down on April peaks are still 25 \$/barrel up on the third quarter of last year. The rise in the level of this market segment in April and May has taken economy travel to a new peak 4% higher than the high point before the recession. This looks odd. It should be noted that both economy and premium travel have month-to-month growth rates with a standard deviation of 2-3%. The 2.2% rise in economy travel numbers between April and May, and part of the 2.7% rise in premium travel, could be noise - the normal volatility in the data. Another month or two of data is required to see whether the trend in air travel has recovered from the recent soft patch;

There is still a mixed picture across route areas but it has been encouraging to see renewed strength in some major markets, such as the North Atlantic, where premium traffic is up 12.4% so far this year, reflecting a strengthening of international trade. The Europe-Far East market has also grown 13.2% so far. However, another key premium market, the Pacific, remains weak with growth of less than 4%, partly reflecting events affecting Japan.



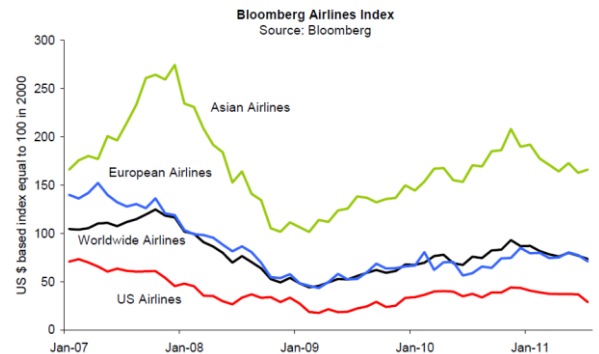
IATA – Airlines Financial Monitor (June – July 2011)

Financial Indicators

Airline shares down 15% so far this year as financial markets remain bearish

In the past month confidence in the economic outlook has deteriorated. Debt and inflation forced governments to tighten economic policy. Business confidence fell. Equity markets fell. Equity markets worldwide down 0.5% last month, up 1.6% so far this year.

Airline stock prices – sensitive to the cycle – fell further. The Bloomberg global airlines index was down 4% last month, and is down 15% so far this year. Airlines are expected to be hit more than most sectors by the economic slowdown.



Early Q2 results show first year-on-year fall in airline profits in eight quarters

# Airlines		Q2 2010		Q2 2011	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
7	North America	2526	1425	1567	608
4	Asia-Pacific	565	322	-94	-62
4	Europe	272	1081	801	487
1	Latin America	113	61	56	16
16	Sample total	3475	2888	2329	1048

Early results on Q2 airline financial performance shows, with the exception of Europe, the first year-on-year fall in profits since Q2 of 2009. After Q1 losses of \$1.8 billion, Q2 net profits – for the small sample of airlines reporting so far – total \$1 billion.

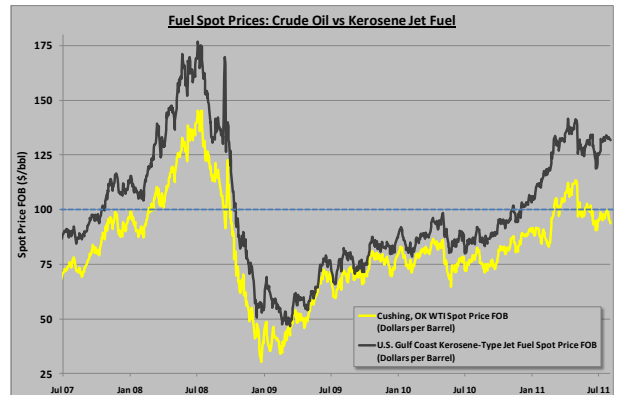
The sample is too small as yet to come to clear conclusions but Asian airlines appear to have been under most pressure, whereas European airlines have improved operating profits (partly because 2010Q2 results were hit by the ash cloud last year).

Fuel Costs

Jet fuel prices back up above \$130 a barrel despite fears of slower economic growth

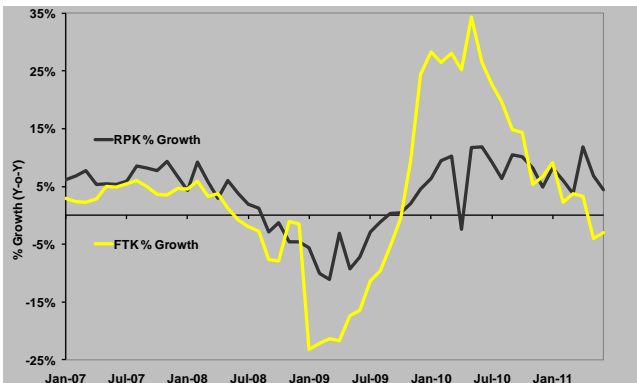
Last month it looked like jet fuel prices were trending downwards from a peak in April. However, during July prices headed back up above \$130 a barrel in spite of increasing concerns about the strength of the economic expansion. Worries about supply, including the situation in Libya, have more than offset potential demand reductions.

So far this year Brent oil prices have averaged \$112/b and jet fuel \$128/b, which are close to the levels IATA assumed for the year as a whole. Current prices are \$6-7/b higher.



Demand

Air travel is trending upwards at a 4-5% pace but air freight markets have stagnated



Air travel and freight volumes dipped lower in June, compared with levels in May. However, the upward trend in air travel appears to remain intact, albeit at a slower pace than the year following the low point of the recession. The trend in air travel volumes looks to be expanding at a pace of 4-5% a year.

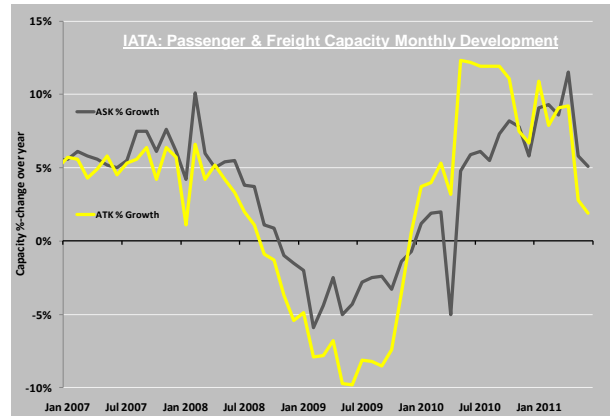
The recent sharp falls in business confidence are a worry, since business travel has been a major growth factor. This is also a concern for air freight markets which remain stagnant, below the 2010 peak.

Capacity

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

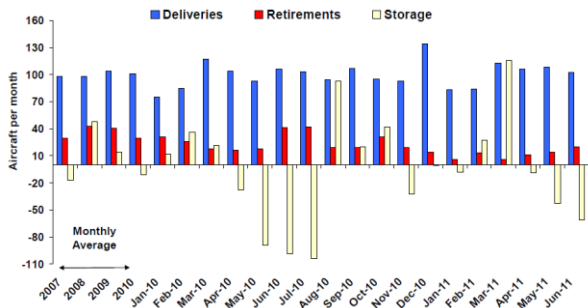
Capacity is being introduced onto air travel and freight markets at a faster pace than the growth in demand.

The trend in capacity on passenger markets has slowed a little but remains over 5% a year so far. Published schedules would suggest growth in capacity at a slightly faster pace this year. Following a major rise in freight capacity early last year the trend in this segment has slowed to around 2% a year. That is a relatively slow increase in capacity, but it is still faster than the flat trend in air freight demand.



In-service fleet expands as aircraft out of storage join new capacity being delivered

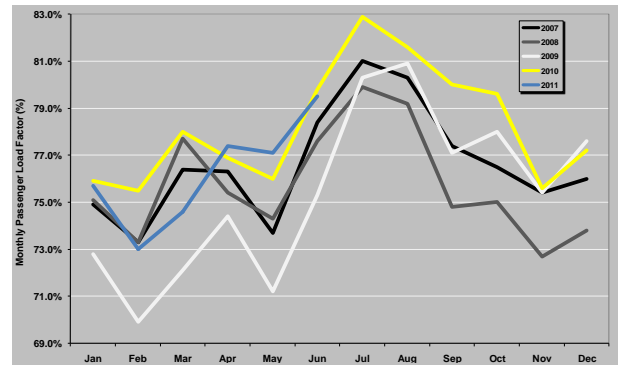
Deliveries of new jets and turboprops remained above 100 aircraft in June. These aircraft entering the in-service fleet were joined by an increasing number of aircraft being taken out of storage. The impact on capacity of these new deliveries has been held down for much of this year by a fall in the utilization of the existing fleet.



With over 1,300 aircraft scheduled to be delivered this year, the pace of new capacity additions should increase over the second half of the year. This will have a positive impact on fuel efficiency, but the net effect on profits will depend on how well fleet utilization holds up.

Load factors are still at historically high levels but have started to slip

Seasonally adjusted load factors slipped in June as travel and freight volumes fell but capacity rose. The rapid post-recession improvement in load factors is clearly over, and has been for some time. Load factors are still at historically high levels, but there has been no improvement now for over a year. As capacity has overtaken demand growth, passenger load factors in June were 1% point below 2010 highs and freight load factors were 4% points down.



Slipping load factors will start to undermine unit revenues and yields.

Yields



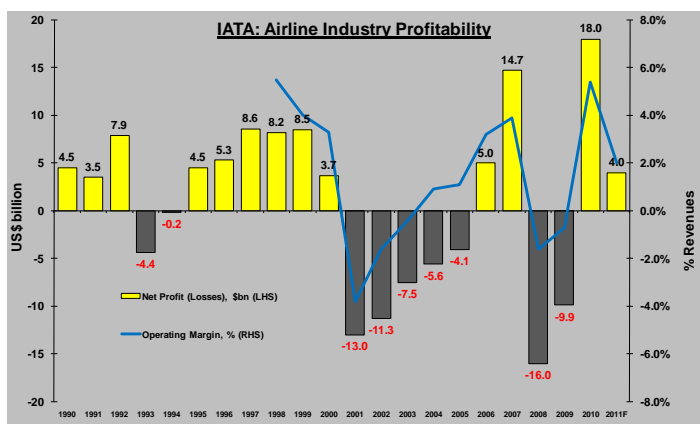
Passenger yields back to pre-recession levels in US but international fares softer

Tight supply-demand conditions have allowed US airlines to reflect rising fuel costs in their passenger yields, which have risen back to pre-recession levels in recent months. Yields have not been quite as strong outside the US, where load factors have not been as high, supply-demand conditions not as tight.

Fuel surcharges are not included in the average international fares shown in the chart. Even so we estimate that industry wide passenger yields are still 10% or so below pre-recession yields.



IATA – Financial Forecast (June 2011)



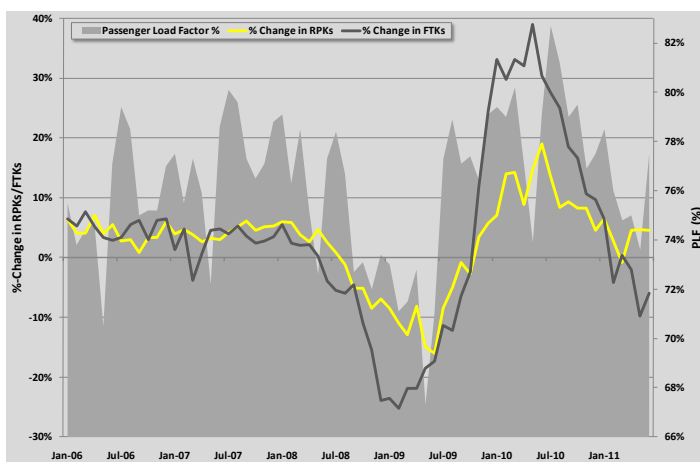
IATA have again reduced their forecast for airline net post-tax profits this year to **US\$4 billion**, less than half the \$8.6 billion we expected for 2011 in our March forecast. Since their previous forecast, air transport markets suffered adverse demand shocks from the earthquake and tsunami in Japan, and the turmoil in a number of MENA countries. There was also an adverse shock to costs with a further \$20 a barrel rise in oil prices. In line with the new market consensus IATA have raised their forecast for Brent oil prices this year from \$96 to **\$110 a barrel**, which will add significantly to costs. Continued strong global economic expansion will be critical to generate the revenue growth that could partially offset higher fuel costs. Economic forecasts

remain positive, despite the current level of energy costs. If this view proves to be correct IATA expect the airline industry to avoid losses, although profits this year will be less than a quarter of that achieved last year.

Airlines in all regions are likely to suffer in this environment. However, those serving stronger economies and those where capacity is more closely matched to demand will be in a better position to recover higher fuel costs. Asia-Pacific airlines, supported by strong regional growth, are expected to remain the most profitable, followed by airlines in North America where capacity growth has been limited relative to demand.

Regional Developments

Asia Pacific



Preliminary traffic figures for the month of **June 2011** released today by the **Association of Asia Pacific Airlines (AAPA)** showed continued expansion in international passenger demand, but international air freight markets softened further during the month.

Overall, airlines based in the Asia Pacific region carried a total of **15.5 million** international passengers in June, **4.4%** more than the same month last year. International passenger traffic in revenue passenger kilometre terms (RPK) increased by **4.5%**. However, available seat capacity grew by **6.7%**, again outpacing passenger demand, resulting in a **1.6** percentage point decline in international passenger load factor to **77.5%**.

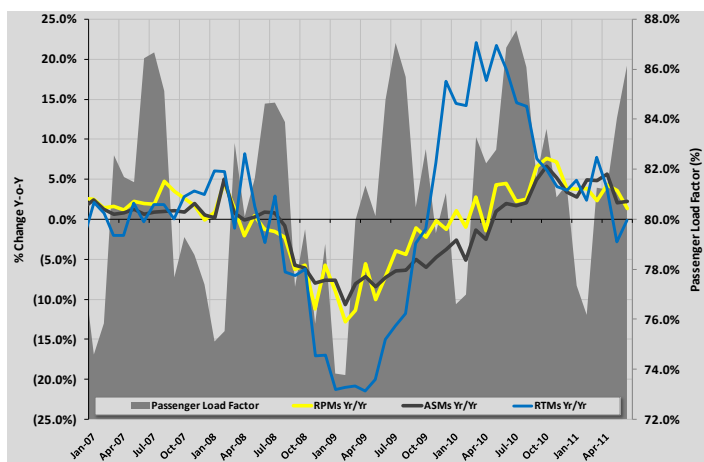
International air cargo demand, measured in freight tonne kilometres (FTK), was **6.0%** lower in June compared to the same month last year, a reflection of the strong recovery in 2010, and some recent moderation in demand for Asian exports. Offered freight capacity fell by just **1.5%**, leading to a **3.1** point decline in freight load factor to **67.3%**.

Commenting on the results, Mr. Andrew Herdman, AAPA Director General said, “During the first half of the year, Asia Pacific airlines carried 92 million international passengers, 3.1% up compared to the same period last year. However, capacity grew by 6.8%, resulting in a 2.3 percentage point fall in the average international passenger load factor, to 75.8%. At the same time, international air cargo demand during the first half was relatively soft, declining by 3.2% compared to last year’s post-recession restocking surge. Overall, the combination of lower utilisation, and other cost pressures including very high oil prices, places further downward pressure on already thin airline operating margins.”

Mr. Herdman continued, “Despite these challenges, the outlook for the second half of the year still remains reasonably positive, given the normal seasonal pattern of stronger demand for both passengers and cargo. Amongst positive indicators, it is encouraging that Japan related traffic is starting to recover and, more broadly, consumer confidence across the Asia Pacific region remains robust. Demand for premium class seats also remains strong on many popular business routes. Nevertheless, some uncertainties remain about the strength of the global economic recovery, and unresolved macro-economic imbalances, evident in ongoing currency and oil price volatility.”



North America



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

Hence, **International** routes experienced a **minute increase** in traffic growth during **June 2011** of **0.9%**. **Domestic** routes reported a small, yet slightly more commendable increase of **1.6%**.

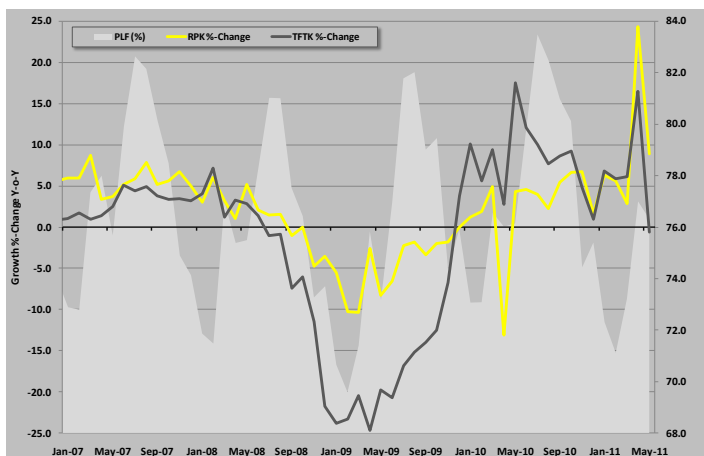
Hence, **Systemwide RPM growth** increased by just **1.3%** above June 2010 figures. **Latin** routes recorded the healthiest increase, growing by **3.4%**. **Pacific** routes managed to a small growth figure of **1.7%**, with **Atlantic** routes actually recording a decline of **0.7%**.

Systemwide capacity recorded an increase of **2.2%** resulting in a slight year-on-year fall of **0.7** point in **passenger load factor**, still managing to maintain a very good level and its first-half climb to reach **86.1%**.

Year-to-date figures for the **first quarter of 2011** showed Systemwide **traffic** increasing overall by **3.1%** compared to the previous year. **Capacity** also increased by a greater **3.9%**, hence causing **Load Factor** to marginally slip by **0.6** percentage points, reaching a lower **78.4%**.

Following the peak in **CARGO Revenue Tonne Miles** growth in May 2010 of 21.7%, mapping out a phenomenal surge in activity, there has been a gradual decline, perhaps a restoration of normality. Growth figures continued to fall entering in 2011 to a trough in February at 2.4%, before recording a small spike at the end of the first quarter, with the growth figure settling reaching almost 8%. May however showed a negative growth figure of -2.9% - albeit a reflection of the peak a year before - with June 2011 continuing this negative trend with a growth of **-0.2%** year on year. The **year-to-date** RTM figure for the **first half of 2011** remains small but positive at **2.6%**.

Europe



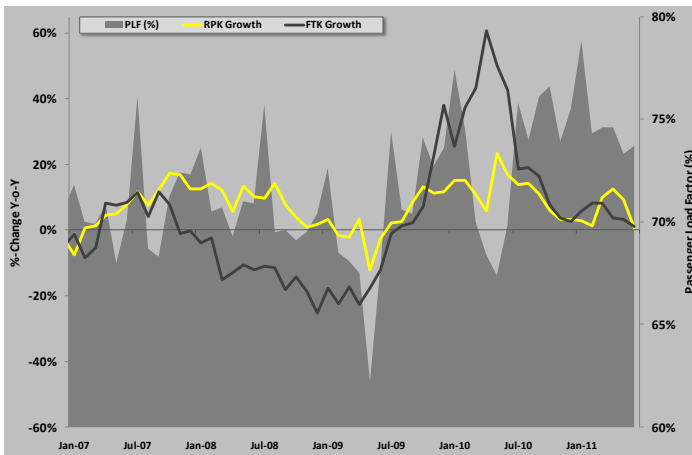
The **Association of European Airlines** released preliminary traffic and capacity data for **May 2011**.

Overall passenger traffic (RPK) was up **8.9%** over May 2010, following the massive spike seen in April as a result of the y-o-y comparison with April 2010 – during the ash cloud crisis. The traffic increase was accommodated within an **8.8%** increase in capacity, leading to very slight increase in load factor of **0.1** percentage points compared to the previous year, reaching **76.3%**.

Airfreight volume slipped into negative growth of **-0.6%** resulting from the comparison with the spike recorded twelve months previously.

Latin America and Caribbean

The **Latin American and Caribbean Air Transport Association (ALTA)** announced that its member airlines carried **10.6 million** passengers in **June 2011**, down **1.1%** from the previous year. Traffic (RPK) grew **0.7%** but capacity (ASK) declined **4.6%**, rising the load factor to **73.7%**, **3.9** percentage points higher than in June 2010.

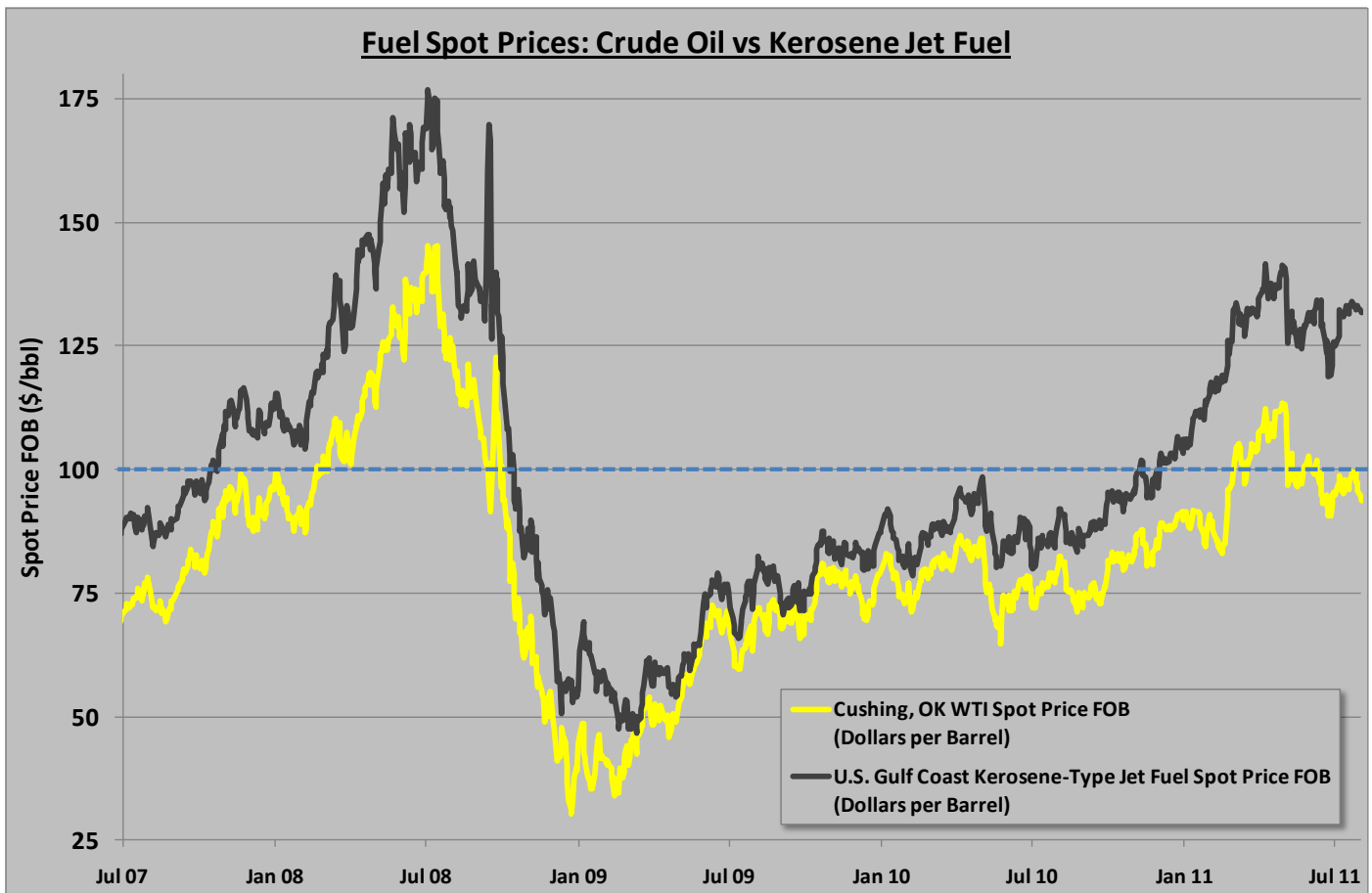


“The decrease in June traffic is attributable to the effects of the recent volcanic eruption and also because of Mexicana’s cease of operations in August 2010,” says Alex de Gunten, Executive Director of ALTA. “The region maintains solid growth patterns and Latin America continues to be a top performer in global aviation.”

The number of passengers carried year-to-date (January to June) increased **4.5%** versus the same period of the previous year, reaching **67.7 million** passengers. During the aforementioned period traffic (RPK) rose **6.1%**, capacity (ASK) increased **0.9%**, and the passenger load factor reached **74.9%**, **3.7** percentage points higher than the previous year.

Freight ton kilometres increased **1.0%** in June and **4.6%** year to date.

Jet Fuel (Kerosene) & Crude Oil Spot Prices



US Energy Information Administration

Most recent figures for **August 2nd 2011**: **Crude Oil** recorded a spot price of **\$93.78/bbl** and **Kerosene Jet Fuel** was at **\$131.754/bbl (313.7 ¢/gallon)**.

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

The Canadian Commissioner of Competition filed an application with the country's Competition Tribunal, an independent law enforcement agency, seeking to "prohibit" **Air Canada** and **United Continental Holdings** from launching a planned revenue-sharing joint venture on US/Canada transborder services. In a statement, the Commissioner said, "If the joint venture is allowed, it will monopolize 10 important Canada/United States routes, and substantially reduce competition on nine additional routes, leading to increased prices and reduced consumer choice on key transborder routes. If allowed to proceed, consumers will face higher prices and even less choice on key, high demand air passenger routes. The proposed joint venture is effectively a merger between Air Canada and United Continental on all of their Canadian and US operations." Three existing "coordination agreements" between AC and UCH give the companies "the power to charge passengers inflated fares. The current agreements between AC and UCH already allow the companies to set prices above competitive levels on all key 19 transborder routes, which alone violates Canadian antitrust law." AC, UA and CO are all members of the Star Alliance. As co-members of Star, the carriers already have received antitrust immunity from the US Dept. of Transportation. AC operates flights to 59 US cities while UA/CO operates to 16 Canadian destinations. AC has agreed with UCH to "suspend the proposed transborder joint venture, pending further developments relating to the outcome of the Commissioner's application. Air Canada's transborder services remain unaffected."

Las Vegas-based **Allegiant Air** has gained US FAA approval to begin operating the Boeing 757-200 aircraft type, the first step toward its planned launch of flights to Hawaii next summer. The leisure carrier operates a fleet of 51 MD-80s, which do not have the range to reach Hawaii from the continental US. Allegiant last year announced it would add 757-200s to its fleet. It currently owns four of the type, three of which are leased to two European carriers through mid-2012. It noted that it has also committed to buying two more 757-200s. The carrier's 757-200s will be configured to seat 217 passengers in a single-class cabin. It said its "next focus" is gaining ETOPS certification from FAA to allow it to fly to Hawaii, "which the company anticipates achieving in summer 2012."

American Airlines announced one of the largest aircraft orders in commercial aviation history, signing up for 130 Airbus A320 family aircraft, 130 re-engined A320neos, 100 CFM56-7B-powered 737NGs and also committing to order 100 of a new variant 737 with CFM Leap-X engines. Boeing and Airbus will help finance the aircraft, AA said. It did not announce an engine selection between the Leap-X and Pratt & Whitney's PW1100G for the A320neos it ordered. In addition to the firm order for 100 current version 737NGs, AA took 40 options. Boeing and AA said in a statement that they will "work to finalize" the order for 100 of the apparently re-engined 737. "Pending final configuration of the new 737 variant and board of directors' approval, Boeing will take another giant step forward in improving the operating economics of this already market-leading airplane," the manufacturer stated. It noted that in addition to 100 aircraft to be ordered, AA will take 60 options on the new variant. The carrier said it will begin taking delivery of the newly ordered aircraft in 2013, with the last of the 460 total aircraft committed to arriving in 2022. The orders "are supported by approximately \$13 billion of committed financing (loans) from the manufacturers through lease transactions on the first 230 aircraft that will help maximize our balance sheet flexibility and reduce risk."

American Airlines' blockbuster split order for up to 460 aircraft, including 130 A320neos and 100 re-engined 737NGs, appeared to be the carrier's answer to critics who say that its current fleet and business strategy are not sufficient for it to emerge from a long string of unprofitability. But the Centre for Asia Pacific Aviation noted that analysts "weren't buying it, with one suggesting it was designed to distract from yet another quarter of losses—this time \$268 million [for the June quarter], down from the first quarter but up from the near breakeven results in 2Q 2010. During the first-quarter [earnings conference call in January, analysts] pleaded with [Chairman and] CEO Gerard Arpey to tell them there is more than just [its current business] strategy and achieving labour parity with peers, which they have discounted as something that would never happen, or at least not soon enough, to help the ailing Dallas-based company." (Unlike several of its US rivals, AA did not go through a bankruptcy restructuring in the last decade that allowed it to shed labour costs.) AA was the only US major to incur a loss in 2010 and it has posted losses in each of the first two quarters this year. The order agreements with Airbus and Boeing come "with \$13 billion in financing in place for the first 230 [aircraft], which begin delivery in 2013." It added that the order "addresses one of [AA's] most critical problems—rising fuel costs and the oldest fleet in the US." Arpey is bullish on the order, noting that the current generation of aircraft burn 35% less fuel than MD-80s and the re-engined aircraft could better that by a further 15%. "If you look at the pure replacement economics, this was a no brainer, an economic home run from day one," he said. He also noted savings would come from lower maintenance costs on the re-engined aircraft. CAPA noted that "with financing in place through 2017, American's exposure to fluctuations in the financing market has also been reduced."

The merged carrier resulting from the combination of US regionals **Atlantic Southeast Airlines** and **ExpressJet Holdings** will be named **SureJet**. Utah-based SkyWest Inc. last year acquired Houston-based ExpressJet and announced it would merge it with SkyWest's Atlanta-based subsidiary, ASA. ASA and ExpressJet aim to receive a single operating certificate from US FAA by year end, at which point the combined carrier will be branded as SureJet with headquarters in Atlanta. SureJet will operate 2,400 daily flights with an all-jet fleet of 412 aircraft. Its network will span 192 airports in the US, Bahamas, Canada and Mexico. Via capacity purchase agreements, it will operate as Delta Connection, United Express and Continental Express.

Delta Air Lines and **Virgin Australia Airlines** said they welcomed the US Dept. of Transportation's final approval of antitrust immunity for the airlines' transpacific alliance, which will allow the carriers to implement a joint venture on service between the US and Australia. DOT tentatively approved ATI for the carriers, reversing its prior opposition.

Delta Air Lines reported second-quarter net income of \$198 million, down 58% from a \$467 million net profit in the year-ago period. DL stated that it is "recalibrating its business to succeed in a permanent, high fuel price environment." Part of the adjustment is reducing fourth-quarter capacity 4% -5% year-over-year, an incremental 1 point reduction from previous guidance. The cuts will come "in markets where revenues do not cover higher fuel costs," DL explained. Domestic December quarter capacity will be down 1%-3% and international capacity will be 4%-6% lower. Second-quarter revenue lifted 12% year-over-year to \$9.15 billion while expenses heightened 19% to \$8.67 billion, including a 36% jump in fuel costs to \$2.66 billion. Operating income was down 44% to \$481 million. Consolidated traffic increased just 0.9% to 50.37 billion RPMs on a 2.5% rise in capacity to 60.14 billion ASMs, producing a load factor of 83.7%, down 1.3 points. Passenger yield improved 11.5% to 15.67 cents.

As **FedEx** predicted following the end of its fiscal third quarter, the company posted a strong financial performance for its fiscal fourth quarter ended May 31. Net income jumped 33% to \$558 million from a \$419 million profit in the prior-year period and quarterly revenue rose 12% year-over-year to \$10.55 billion. With the strong finish, FedEx reported net income of \$1.45 billion for FY2010-11 ended May 31, up 23% from a FY2009-10 profit of \$1.18 billion. The company, regarded as a strong economic indicator, provided very positive guidance for FY2011-12. The FedEx Express airline unit earned operating income of \$429 million in the fiscal fourth quarter, up 4% from a \$413 million operating profit in the prior-year quarter. The unit's revenue rose 13% to \$6.63 billion; its operating margin, though, was 6.5%, down from 7% in the year-ago quarter. FedEx said International Priority average daily package volume increased 6%, led by exports from Asia. Operating income improvements at the unit were driven by strong yield growth, particularly in US domestic package services, and by volume growth in IP package and freight services. FedEx said full-year FY2010-11 revenue grew 13% to \$39.3 billion while operating income rose 19% to \$2.38 billion from \$2 billion last year. FedEx said its positive outlook is based on fuel prices remaining relatively stable and continued moderate growth in the global economy. The company forecast capital spending in FY2011-12 at \$4.2 billion, up from \$3.4 billion in the prior fiscal year. The expenditures include the delivery of aircraft as well as progress payments toward future aircraft deliveries and other investments in facilities, vehicles and information technology.

Jazz Air parent Chorus Aviation reported net income of C\$14.7 million (\$15.1 million) for the first quarter ended March 31, a slight decrease from a C\$16.4 million net profit in the 2010 first quarter. Operating profit of C\$21.6 million was up 36.2% year-over-year as revenue lifted 24.7% to C\$443 million.

Minneapolis/St. Paul-based **Sun Country Airlines** said it has been sold to Cambria Holdings. Financial terms of the transaction were not disclosed. The airline operates a fleet of 12 737-800s to 38 destinations (including seasonal services). It has struggled with ownership and financial problems for several years, including going through a bankruptcy restructuring. Sun Country has more than 800 employees. No immediate changes to its operations are expected.

US Airways is planning two offerings of enhanced equipment trust certificates totaling \$471 million, with proceeds of both generally intended for aircraft financing. One will offer approximately \$388 million in Class A and Class B enhanced equipment trust certificates. The second offering is for Class C enhanced equipment trust certificates in the amount of approximately \$83 million. The company plans to use the money to refinance five already-owned Airbus aircraft and to finance four new Airbus aircraft, scheduled for delivery in September and October. The balance of the proceeds, if any, would be used for general corporate purposes. Goldman, Sachs & Co. will act as the structuring agent for the offering, with Goldman and other global investment banking and securities firms involved as joint book-running managers and co-managers. The \$388 million financing will comprise about \$294 million of Class A certificates with a final expected distribution date in October 2023, and about \$94 million of Class B certificates, with an expected distribution date in October 2018. The \$83 million of Class C certificates will have a final expected distribution date in April 2016.

Virgin America reported a first-quarter net loss of \$44.6 million, widened from a year-ago deficit of \$35.5 million, owing to “investment in growth and increased fuel prices”. Revenue climbed 37% year-over-year to \$201.1 million while expenses rose 37% to \$230.6 million, producing an operating loss of \$29.5 million, widened from an operating loss of \$21.6 million in the prior-year quarter. RASM lifted 11.6% to 9.25 cents while CASM grew 11.6% to 10.61 cents. Yield rose 13.2% to 11.13 cents. Average load factor was down 0.2 point to 75.7%.

Virgin America selected CFM's Leap-X engine to power 30 Airbus A320neo aircraft it has on order with deliveries beginning in 2016, becoming the first to choose the CFM offering for the re-engined narrowbody. The previous three engine selections on the A320neo were for Pratt & Whitney's PW1100G geared turbofan. VA's order also includes 30 standard A320s, which will be powered by CFM56-5B engines. CFM valued the total engine order at \$1.4 billion at list prices. The Leap-X is also powering COMAC's C919 slated to enter service in 2016 CFM promises a 15% fuel burn improvement compared "to today's best CFM56 engines."

Central and South America

Air Jamaica flights will operate under **Caribbean Airlines'** 'BW' code, part of the ongoing integration of the carriers. Trinidad and Tobago owned-Caribbean in May finalized its acquisition of Air Jamaica, a move first announced last year. As part of the deal, the government of Jamaica now owns 16% of BW and is represented by a member appointed to the airline's board of directors. In addition to operating under the same flight code, the airlines are moving towards one fleet type for both Caribbean Airlines and Air Jamaica and customers will also notice that front line staff for both carriers will be custom uniformed to represent both brands." BW earlier this year finalized an agreement to order nine ATR 72-600s, some of which it said could operate on Air Jamaica routes. Deliveries are scheduled to begin in October. The combined staff of the airlines exceeds 1,850 workers.

LAN expects Chilean antitrust tribunal TDLC to complete its investigation into the merger between LAN and TAM under LATAM Airlines Group and approve the deal by the middle of July, enabling the transaction to close before the end of 2011. LAN has offered significant concessions on the Santiago-Sao Paulo route, where the carriers have a combined 90% share. LAN has offered to raise capacity 10% per annum over the next five years while lowering fares 10% each year as well. It is also offering airport slots to potential new entrants as well as interline and frequent flyer reciprocity.

Europe

Aegean Airlines said it managed to reduce its first-quarter net loss to €16.3 million (\$23.3 million) from a €25.6 million deficit in the year-ago quarter despite weak demand in Greece, combined with the 40% year-over-year rise in the price of fuel. Efforts to improve competitiveness, as well as capacity cuts implemented during the winter months, were the main contributors to the loss containment, Aegean said. Revenue fell 8% to €105.8 million, including a 6% reduction in revenue from scheduled operations to €82.7 million. The Greek carrier boarded 1.14 million passengers in the first quarter, a 15% reduction compared to the year-ago period, by operating 18% less flights. International enplanements fell 12% to 530,000 and passengers carried on domestic routes fell 18% to 614,000. Reported RPKs declined about 10% to 1.03 billion on a 7% reduction in capacity to 1.72 billion ASKs. Load factor averaged 59.6%, down 2.2 points on the year-ago period. A3's fleet as of March 31 comprised 26 aircraft: 18 Airbus A320s, four A321s and four Avro RJ100s, which subsequently left the active fleet and will be redelivered to their owner in the second quarter. They have been replaced with leased A319/A320s.

AirBaltic announced it will retire its Fokker 50 fleet this winter season to speed up its fleet modernization process. The Fokker 50s originally were scheduled to operate until 2013. Last year, the carrier introduced Bombardier Q400s to its fleet. Growing maintenance costs for the Fokker 50, and said the retirement will be "a substantial cost reduction." The carrier will now work to optimize its network for the winter, and is evaluating "an option to introduce additional modern turboprop aircraft for the summer of 2012.

As part of a new **Air France** strategy to give no-frills carriers a run for their money and regain some of the market share lost to lower cost rivals, the carrier released details of its revised business model that includes deploying A320s from several regional bases on point-to-point short- and medium-haul routes. In the long term, AF intends to increase seat capacity more than 30% by launching 54 nonstop routes from Marseille, Toulouse, Nice and Bordeaux to major cities in Europe and the Mediterranean, as well as by increasing capacity on domestic routes. On “all flights,” passengers will benefit from the standard “free” AF services on its medium-haul network, including one piece of checked baggage, a choice of daily newspapers at boarding, a snack, and a choice of seat and payment by credit

card at no extra charge, the carrier said. “With this new project involving all its employees in France, Europe and the Mediterranean, Air France intends to initiate a virtuous circle that will enable its medium-haul operations to regain profitable growth, the foundation of the Air France-KLM group's strategy, while offering customers attractive fares and ensuring long-term employment”. The first base at MRS will launch Oct. 2 and Toulouse, Bordeaux and Nice will follow in spring 2012. MRS used to be a thriving Ryanair base and, although it closed the base in January over a legal dispute with the French government over taxes and social security charges, it still is the largest user of the airport's LCC terminal MP2 with 26 routes. Vueling recently opened a base at TLS; easyJet operates some 16 routes from NCE and a wide network from BOD. AF said that implementing this new strategy—based on achieving a “significant” reduction in operational costs of around 15%—will be achieved by using a single aircraft type (A320 with between 142 and 178 seats) and an optimized daily aircraft utilization, with departures earlier in the morning and return flights later in the evening, as well as turnaround times reduced by five minutes at out-stations. Other cost reductions will come from flight crews based in the provinces and optimized use of human and material resources on the ground throughout the day. The carrier will launch 13 nonstop routes from MRS, increasing seat capacity 50%. New routes include Basel Mulhouse, Biarritz, Brest, Athens, Copenhagen, Dusseldorf, Eindhoven, Milan-Malpensa, Moscow and Prague, Beirut, Istanbul and Casablanca. AF expects the base will result in 1.3 million additional passengers per year to and from MRS.

Air France-KLM's board is expected to endorse an order for 25 Boeing 787s and 25 Airbus A350s with a similar number of options for both; a major order is imminent. The order is expected to be placed immediately and officially announced in September. The Boeing element of the order has been a highly contentious subject in French politics.

Air Malta confirmed details of a long-awaited restructuring plan, which it said is needed to “to save the airline and hundreds of jobs.” However, as airline officials remained vague on the plan, details leaked to a national newspaper disclosed that almost 40% of KM's workforce, or 500 jobs, will be cut. KM's long-time struggle for survival prompted the EC in November to authorize a €52 million (\$74.4 million) short-term loan facility from the government to alleviate the small carrier's liquidity problems. The EC approved the state aid on a temporary basis until it could take a position on the restructuring plan. The document also states the Maltese government will have to provide an additional €25 million to recapitalize KM whereas the airline must raise €51 million in bank loans or bonds. The company posted a €36 million loss in the last financial year ended March 2011. Deficit in FY 2009-10 amounted to €31 million. The restructuring plan outlines a target fleet of 10 aircraft and some 800 employees, down from 1,300, resulting in the layoff of 57 pilots, 53 cabin crew, 21 engineers, 190 ground workers and 190 administrative personnel. The workforce reduction would bring savings of between €12 million and €15 million. It suggests KM restructure its network and abandon routes with low profitability and high competition such as Birmingham, Palermo, Tunis and Turin. It also recommends revenue-generating measures, including charging baggage fees for every piece of luggage, removing discounts for children and introducing a credit card fee for bookings. The report describes the recent agreement with ILFC, Airbus and CFM International to renew the KM fleet with 12 new Airbus A320 family aircraft for a term of 12 years each as “a very poor decision.” It criticizes the airline's senior management team, concluding that it was “not proactive in reacting to the significant change in operating environment and this has been a key reason for the poor performance and the airline's current fight for survival.”

SAS Group said Finnish subsidiary **Blue 1** will phase out its remaining five Avro RJ-85 aircraft and focus on operating Boeing 717s. The phase-out of the Avro fleet is expected to start in August and will result in a maximum of 85 job redundancies at Blue1. SAS said it will close of a number of European destinations and will make some capacity adjustments on Finnish domestic routes. At the same time, a Tampere-Copenhagen route will be opened. The streamlining of the fleet is in line with the SAS Group's ambition to simplify and harmonize the fleet at their home bases. This is also consistent with the Core SAS strategy to focus on the Nordic region as their home market.

Following several months of negotiations, financially troubled **Cimber Sterling** announced it secured a subscription agreement with Mansvell Enterprises, which agreed to inject DKK165 million (\$31.8 million) in the Danish carrier “subject to certain conditions”. It will also be part of a new Nordic regional airline to be created by Mansvell. The Danish carrier said that as it prepared an annual report for the financial year 2010-11 ended April 30, it became “evident that the equity in the company is lost” and that it would not “be able to operate on a standalone basis but needs new equity and cash resources to service its creditors, of which a significant part is due, as well as to secure its continued operations and ensure a long-term strengthening of its capital base.” Cyprus-based Mansvell Enterprises, which is 75%-owned by Ukrainian billionaire Igor Kolomoisky, will subscribe to 110.5 million new shares—with a nominal value of DKK1 each—at a price of DKK1.50 by way of a cash contribution, the airline stated. This will give Mansvell a stake of about 70%. Mansvell recently acquired Swedish regional carrier Gothenburg-based City Airline and in December bought Stockholm-based Skyways. Cimber Sterling Group posted an operating loss, before special items, of DKK200 million in FY2010-11, narrowed from DKK228 million in FY2009-10. Revenue rose 25% to DKK1.94 billion. In a guidance for FY2011-12, the group said it expects revenue to rise to DKK2.1 billion and EBIT loss to be between DKK20 million and DKK60 million.

EasyJet will set up a base at London Southend from April 2012 with three Airbus A319s operating some 70 flights per week to about 10 European destinations including Barcelona, Faro and Ibiza. The carrier signed a 10-year partnership agreement with SEN owner Stobart Group, which is building a new passenger terminal due to be opened in the fall. It also invested in a new control tower and a runway extension. EasyJet said it expects to fly around 800,000 passengers to/from SEN in the first year of operations. Aer Arann Regional commenced daily services from Galway and Waterford to SEN in March, the airport's first scheduled international passenger flights since the early 1990s.

UK-based **Flybe** and **Finnair** announced they will jointly acquire **Finnish Commuter Airlines**, the Finnish regional carrier owned by privately held Finncomm Oy, for €25 million (\$36.2 million) in cash. The acquisition will be made through a new joint venture, to be called Flybe Nordic, in which Flybe will hold 60% and Finnair 40%. Flybe will pay €12 million for the majority stake while Finnair will pay €13 million for the smaller holding, "but Flybe has committed to carry several investments relating to the operational side of the business". Flybe plans to take over the day-to-day operation and management of the airline from Aug. 1. The acquisition is subject to the approval of relevant competition authorities. FCA will continue operating existing domestic routes, feeding into Finnair's hub at Helsinki, and gradually expand its network into Sweden, Denmark, Estonia and Latvia using Flybe's low-fare concept/product. Relations between FCA, which has provided feeder services for AY since 1998, and Finnair have been tense at times. In September, both parties reached a preliminary agreement calling for Finnair to buy a 20% stake in FCA and to acquire 100% of the companies that own Finncomm Group's ATR 42/72 aircraft. Finnair confirmed it still intends to purchase the FCA fleet and lease it "on market terms." It will buy the carrier's current nine ATR 72-500s, plus three on order to be delivered this autumn and in 2012, and lease them to FCA. The remaining four ATR 42s owned by Finncomm Oy will be leased to FCA for certain predefined periods. In addition, FCA will continue leasing two Finnair-owned Embraer 170 aircraft. Finnair's investment in the nine ATR 72s will be approximately €104 million, including €70 million in debt liabilities. Flybe, which is a Q400 and E-jet operator, committed to continue using the ATR for its Nordic operations. Flybe has also agreed to buy 46% of Finnish Aircraft Maintenance. FCA carries some 900,000 passengers annually. Finnair transported 7.1 million passengers in its last financial year, down 4%, while Flybe flew 7.2 million passengers, flat year-over-year. Finnair Group posted a €22.8 million net loss in 2010, narrowed from a €95.2 million deficit in 2009. Flybe reported net income of £3.8 million (\$6.1 million) for its fiscal year ended March 31, down from £22.2 million earned in the prior year. Net income benefitted from a £8.1 million tax credit. Revenue rose 4.4% to £595.5 million and operating costs increased 5% to £587.9 million. Operating loss came in at £0.9 million, reversed from a positive EBIT of £27.6 million in FY 2009-10.

UK regional **Flybe** unveiled "with immediate effect" the reorganization of its "day-to-day divisional operating structure," dividing the company into three units: Flybe UK, Flybe Europe and Flybe Aviation Support. "The move has been made to support the ongoing delivery of European expansion and continuing growth in the UK market," the carrier said.

International Airline Group, formed by the merger of British Airways and Iberia in January, has no plans to acquire additional airlines in the near future. Commenting on rumours that IAG may invest in Air Berlin, IAG said: "We are very focused on the synergies [from BA and IB]." IAG believes that high oil prices will encourage more airlines to consolidate more quickly, but that it may not be the right time to invest in carriers. IAG reported a first-quarter net profit of €33m (\$48.7m) and that premium long-haul traffic remains strong, but the European market is still under pressure.

International Airlines Group firmed up an order for eight A330-300s plus eight options. GE CF6-80E1 engines were selected to power the aircraft, which will begin delivering in 2013. The engine deal is valued at \$200 million at list prices. The aircraft order is for the future IB fleet. The A330s "can be easily assimilated into Iberia's existing long-haul fleet, reducing the need for additional crew training and maintenance costs". IAG said the A330s are designated to replace up to 16 A340s in IB's fleet and "will give IAG the flexibility to determine the overall size of Iberia's long-haul fleet and capacity in the future." IB currently operates 19 A340-300s and 17 A340-600s on long-haul flying.

Lufthansa is making every effort to bring its European network business back to profitability. LH incurred a multi-million euro loss on European routes in the first quarter. Measures have been taken such as exchanging higher capacity aircraft with smaller aircraft, particularly 50-seat regional jets, on some European routes. In another move aimed at improving European operating efficiency, LH plans to shut down subsidiary Lufthansa Italia by the end of October. LH is impacted by additional cost burdens, such as the new German eco-aviation tax and that fully passing on the tax to passengers would make LH less price competitive. There are fears the ETS will distort competition, leaving European carriers at a disadvantage. LH estimates spending €150-350m annually to comply with the ETS.

Lufthansa ordered 30 A320neo family aircraft, confirming a commitment announced by the airline's supervisory board in March. The order comprises 25 A320neos and five A321neos, which will be powered by Pratt & Whitney PW1100G geared turbofan engines. Airbus noted that LH is its biggest operator of its aircraft worldwide with 365 in service, comprising 254 A320 family aircraft, 38 A330s, 65 A340s and eight A380s. With this latest order, LH has an order backlog with the manufacturer of 85 A320 family aircraft, eight A330s and seven A380s.

Malev Hungarian Airlines is making progress in its turnaround efforts, but still will not earn a profit this year; profitability is likely "to happen in the next 18 to 24 months." The Hungarian government has provided strong support to the carrier to see it through fiscal distress. The government re-nationalized Malev in 2010, taking a 95% stake, to enable it to avoid bankruptcy. The European Commission is investigating the propriety of the state help. The airline, which joined oneworld in 2007, would like to use Budapest as hub to connect oneworld passengers to secondary Eastern European destinations. The carrier uses oneworld to expand its reach since it does not operate its own long-haul flights. MA operates a fleet comprising six Boeing 737-600s, seven 737-700s, five 737-800s and four Q400s.

Norwegian Air Shuttle, which is not leaving any doubt about its long-haul ambitions, signed a LOI with **International Lease Finance Corp.** for one more new Boeing 787-8 to increase its future fleet of the type to six. It also confirmed that "negotiations for further aircraft will continue." The additional 787 is expected to be delivered in early 2014; it is the third ILFC-leased 787. Last year, Norwegian entered into a lease agreement for the delivery of two 787s in the fall 2012/winter 2013. At the Paris Air Show, the Oslo-based LCC finalized its contract to purchase three 787s that were initially ordered by Icelandair Group. Two of the aircraft are expected to be delivered during the first half of 2013 and the third aircraft in early 2015. Norwegian's additional 787 order came on the heels of it posting strong second quarter results. A June quarter net profit of NOK53.7 million (\$9.64 million) was reversed from a NOK134.4 million deficit in the year-ago period. Revenue for the quarter rose 34.1% year-over-year to NOK2.73 billion and operating expenses, excluding leasing and depreciation, increased by 26% to NOK2.38 billion. EBIT came in at NOK72.8 million, compared to a NOK92.8 million operating loss a year earlier. Passenger traffic climbed 29% to 4.32 billion RPKs on a 24% increase in ASKs to 5.52 billion, increasing load factor 3 points to 78%. Passenger numbers grew 26% to 4.04 million. Yield rose 5% to NOK0.55 while RASK was NOK0.43, up 9% from NOK0.39 in the year-ago period. Unit cost was flat at NOK0.52 and CASK ex-fuel was NOK0.32, 6% lower than NOK0.34 for the same period last year. The operator said RASK growth compared to last year partially reflects improved load factor, the closure of European airspace in April last year and an adjusted route portfolio. For the 2011 first half, Norwegian reported a net loss of NOK239.5 million, reduced from a NOK333.6 million deficit in the year-ago period. First-half revenue was up 27.5% to NOK4.62 billion on a 21% increase in passengers carried to 7.1 million. As of June 30, Norwegian had 59 aircraft in its fleet, including 35 new 737-800s. So far this year, it has received 12 new -800s; three more will be delivered later this year. Older 737-300s are being phased out. Entering the third quarter, the group said that demand and advance bookings have been "satisfactory". Norwegian is maintaining its earlier guidance for full-year growth in ASKs of 25%, mainly from increasing its fleet by adding 737-800s.

Swiss International Air Lines are expecting a difficult second half of 2011 owing to high fuel prices, political unrest in MENA and the natural and nuclear disasters in Japan, though the carrier is "still confident" it will make a full-year profit. "We made a SFR16 million [\$18.8m] profit in the first quarter of 2011. The European network remains under pressure. In order for LX to continue as a successful hub carrier, Zurich Airport will have to increase its capacity.

S7 Airlines, which once planned to operate 15 Boeing 787s before cancelling its Dreamliner order, is now firmly focused on building a narrowbody-centric fleet. Its last Airbus A310 will leave the fleet shortly and its only two 767-300s are under evaluation for retirement. S7 also operates 19 A319s and nine A320s. S7 placed an order for 10 737-800s in 2006 to be operated by Globus Airlines, which flies under the S7 brand. Up to five aircraft from that order are expected to be in service this year. S7 will operate both A320 family aircraft and 737NGs in its future fleet. S7 is doing relatively well given the difficult operating environment for commercial aviation in Europe and around the world. S7 has denied its interest in buying other Russian airlines.

Romania's **Tarom** incurred a net loss of €80 million (\$113 million) in 2010, 41.6% worse than its 2009 deficit and the SkyTeam member's full-year revenue totalled €306 million. Passengers carried heightened 23.6% year-over-year to nearly 2.2 million. The airline claims it did not meet its revenue forecast because it was forced to keep fares low, owing to a lack of pricing power with passengers. RO employs more than 2,300 workers and operates a fleet of three 737-800s, four 737-700s, four 737-300s, four A318s, one A310-300, seven ATR 42-500s and two ATR 72-500s.

Middle East & Africa

Ethiopian Airlines said that Lome-based **ASKY Airlines**, in which it now holds a 40%, is preparing to start long-haul operations. ET are also very close to formally announcing the launch of long-haul ASKY services. ASKY operates three 737-700s and one Q400. Though ASKY is looking to spread its reach, competition on routes between Africa and other world regions is fierce. International routes to/from Africa "have become overcrowded with many foreign airlines like Emirates or SkyTeam member carriers" attempting to gain market share. "Inner-African routes are still better business". ET and future Star Alliance partners EgyptAir and SAA are evaluating whether to establish a carrier in Central Africa.

ET is expecting the delivery of two new 777 freighters on lease from GECAS by the end of 2012, with "15% of our business comes from cargo." The carrier's passenger fleet modernization is proceeding smoothly. "Two of 10 new 737NGs [on order] just arrived and we have 12 A350s and 10 787s on order. The first 787 should be delivered in January [2012 and ET expects] to bring a total of four 787s into service next year." ET currently operates 11 767-300s, with eight of the type slated for retirement by 2016. It also operates four 777-200LRs, eight 757-200ERs, five 737-700s, five 737-800s and eight Q400s.

Etihad Airways reported a 28% year-over-year rise in first-half revenue to \$1.72 billion and reiterated it is on course to reach its goals of breaking even this year and achieving profitability in 2012. It said the first six months of 2011 represented its "most successful first-half year" and that EBITDAR was positive "for the first time" for a first half since it launched operations in 2003. The Abu Dhabi-based and -owned carrier did not disclose EBITDAR figures for the period but noted the results were supported by a 2% reduction in unit costs "despite large increases in oil prices." Passenger revenue rose 21% on the back of 14% growth in passengers carried to 3.8 million and 5% growth in passenger yield. Load factor inched up 0.4 point to 72.7% in spite of political unrest in the Middle East and the Japanese earthquake. Cargo revenue lifted 32% year-over-year, which was helped by improvement in tonnage and yields, it said. EY took delivery of its first Boeing 777 freighter, joining a cargo fleet comprised of two Airbus A330-200Fs, two A300-600Fs and two MD-11Fs. The carrier's cargo division now operates to 26 international destinations. This year, the carrier launched freighter services to Johannesburg, Amsterdam and Kabul. It expanded cargo services frequencies to Milan, Frankfurt-Hahn, Shanghai, Nairobi and Erbil because of growing demand. EY has taken delivery of five new widebody passenger aircraft this summer, comprising three A330-300s and two 777-300ERs. "

Separately, EY reached a naming rights deal with the Manchester City football club under which the City of Manchester Stadium will be renamed Etihad Stadium. The rights are reportedly worth £150 million (\$241 million) spread out over 10 years.

Flydubai expects to announce its first annual profit in 2012. "With 21 aircraft [by the end of 2012] we will have the right size to" operate sustainably. The LCC celebrates its second anniversary and continues to expand at a rapid pace. Though conceding that building a new airline is "challenging," the Middle East is a "dynamic region for an airline to start operations," particularly compared to launching an LCC in a European market saturated with low-fare services. The carrier expects more Middle East LCCs to launch: "LCCs have less than 10% of the market share [in the Persian Gulf region] compared to 30% and 50% in North America and Europe." Nevertheless, the carrier faces challenges such as securing traffic rights, political unrest in the region and even dealing with the impact a strong sandstorm can have on an airline's operations. Flydubai has 54 Boeing 737-800s on order with deliveries slated to be completed in 2016. The LCC is operating its 737s 14 hr. per day on average. Flydubai will stay away from ultra-long-haul operations. By the end of 2011, the carrier expects its network to reach 40 destinations, rising to 50 by the end of 2012.

Kenya Airways reported a net profit of KES3.54 billion (\$41.8 million) for its fiscal year ended March 31, up 73.9% over a KES2.04 billion profit in the prior fiscal year. KQ "managed to reach two historic milestones in the reporting year, by surpassing the 3 million [annual] passenger mark and exceeding the \$1 billion [annual] revenue mark. These key milestones were reached without [negatively impacting] the yields." Revenue soared 21.3% to KES85.84 billion on higher volumes and higher yields in both its passenger and cargo business. Passenger revenue rose 19.9% to KES73.35 billion and cargo revenue was up 20% to KES6.52 billion. Almost half of its revenue is generated in Africa. Passenger yield in US dollars (the carrier's preferred way of measurement) increased 7.2% to 9.79 cents and strengthened 11.5% when translated into Kenyan shilling, primarily due to a weaker Kenyan currency in the period. RASK improved 11.7% to 6.78 US cents while CASK heightened 7.1% to 5.27 US cents. Cargo yield per kg rose 13.7% to 1.49 US cents. Operating profit almost tripled to KES5.82 billion from KES1.84 billion in the year-ago period and operating margin was 6.8%. European airline groups Lufthansa and Air France KLM (which is the largest shareholder in KQ with 26%) reported operating margins of just 3.2% and 1.7%, respectively, in their most recent reporting year. Total operating expenses grew 16.1% to KES80.02 billion, mainly owing to the 31.7% rise of its fuel bill to KES24.78 billion, the weaker Kenyan shilling and increased operations as it opened six new destinations and increased frequencies on existing routes.

To support further growth, KQ is in negotiations with Embraer, regarding a potential order for an additional eight to 10 E-jets. The airline took delivery of a seventh E-jet and will take delivery of a further three E-190s this fiscal year, bringing its E-jet fleet to 10 units. KQ also revealed discussions with a potential lessor for a Boeing 747F are ongoing and could be finalized soon. It also wants to add two 737-300s. KQ is also looking at closer cooperation on cargo with its SkyTeam partners. Full-year passenger boardings rose 8.5% to 3.14 million and traffic increased 10.2% to 12.8 billion RPKs on a 5.9% hike in capacity to 12.8 billion ASKs. Passenger load factor gained 2.7 points to 69.2%. As of March 31, KQ had 31 aircraft, including six 767-300s, four 777-200s, six 737-300s, four -700s, five -800s, five E-170s and one E-190—which compares to 27 aircraft at the end of FY2009-10.

Kenya Airways received compensation from **Boeing** for the delay of its Dreamliners, although the amount does not fully cover the expenses associated with the delay. KQ mid-April reached a settlement with Boeing on a new delivery schedule for nine Boeing 787-8s, and finalized a purchase agreement signed in 2006 after previously threatening to cancel the order over delays to the program. The 787s are part of the carrier's fleet modernization and expansion plan, and are slated to replace its aging 767s. Delivery of KQ's first two 787s was initially scheduled for October 2010; it now expects them to arrive in the fourth quarter of 2013, with the remaining seven in 2014 and 2015. The carrier calculated that the direct operating expenses owing to the delay, including upgrading of the interiors/IFE of the 767s, additional maintenance costs and the higher fuel burn of the 767 compared to the 787, amount to at least \$300 million. It is not guaranteed that the KQ Dreamliners will be delivered in 2013, as foreseen in the settlement agreement. KQ has not yet listed an engine selection for the 787s and intends to exercise options on four additional 787s "after the initial nine aircraft have been delivered."

Kenya Airways signed a letter of intent with GECAS for the lease of two new Boeing 777-300ERs as part of its long-term expansion plan. The new -300ERs are in addition to its Dreamliner order and are expected to be delivered at the end of 2012-early 2013 if the contract is firmed. KQ would use the widebodies on new routes to India and other points in the Far East as well as Dubai. Traffic rights are no issue, noting KQ has the rights to Delhi and is in talks regarding Mumbai. Kenya and UAE have an open skies agreement. KQ's first 787s are slated to be delivered in the fourth quarter of 2013. The company has also concluded an agreement for a 747-400F and is looking at two 737Fs. The second-hand 747 is leased and is expected to start flying with the KQ livery in October. A team is inspecting the two 737Fs "for the moment. Then we will make a decision and we expect to have them in September." KQ recently signed a LOI for 10 Embraer E-jets with a further 10 options. It currently operates two E-190s and five E-170s in a two-class configuration. Two new E-190s, with seat-back IFE in both classes, will join its growing fleet before year end. The airline is using the E-jets on thin routes and new routes in Africa. The airline is moving ahead with its plan to add seven new destinations this year and seven next year as part of its long-term strategy to "unlock Africa" by flying to capital cities across the continent by the end of 2013. KQ commenced twice-weekly 737 service to Ouagadougou, its ninth destination in West Africa. While most new routes will be in Africa, KQ has Beirut and Jeddah mapped as new routes. KQ is one of the few privately owned and profitable airlines in Africa. It posted a KES3.5billion (\$41.8 million) net profit in its fiscal year ended March 31. The company is looking to increase capital to support its ambitious growth plan; management will present details.

Oman Air has stated that it is "here to stay for the long term" and "the government of Oman is ready to support us in a difficult time." Unrest in the Middle East and North Africa has led to intra-Gulf passenger boardings dropping 10%-15%, but WY's long-haul business remains on target, noting that "60%-65% of our transfer business is long-haul to long-haul via Muscat." The carrier will focus on point-to-point traffic and is targeting profitability by 2014. The Oman government owns 98% of WY. While privatization of the airline is an eventual goal, a move away from government ownership is still a long way off. WY transports around 3.5 million passengers annually. The carrier recently took delivery of its seventh Airbus A330 and earlier this year placed two new Embraer 175s in service.

Qatar Airways signed an agreement with **Cargolux International** Airlines to acquire a 35% holding in Europe's largest all-cargo carrier. QR was negotiating an acquisition of around one-third of Cargolux. The equity purchase is part of a wider agreement that cements close commercial cooperation between the carriers. The transaction was signed in Luxembourg, but no information on the value or the terms of the agreement was released. The companies said they would disclose further details at closing, which is expected to take place in the coming weeks. QR's 35% equity interest in Cargolux marks the "termination of the temporary role of the Luxembourg state as a shareholder in the company and enables other state-controlled shareholders who participated in the 2009 Cargolux restructuring plan through the acquisition of a 33.7% holding of former SAirlines to sell or reduce their ownership in Cargolux." Luxair, the country's national carrier, is CV's largest shareholder with 52.1% while four Luxembourg financial institutions—BCEE (13.1%), SNCI (12.8%), BIP Investment Partners (11.5%) and Lux-Avantage (2.2%)—hold 39.6% and the Luxembourg state holds 8% directly. BCEE's capital is entirely owned by the Luxembourg state. Cargolux returned to the black in 2010 after three years of losses.

TAAG Angola Airlines secured a \$256 million long-term loan guarantee from the US Export-Import Bank for the purchase of a Boeing 777-300ER aircraft with GE90-115B engines, the Ex-Im Bank said. The aircraft will be used to expand the Angolan national flag carrier's intercontinental service provided by its all-Boeing fleet. The guaranteed lender is the New York-based Private Export Funding Corp. and the arranger is HSBC Bank PLC in London. The transaction is structured as an asset-backed finance lease in which Ex-Im Bank retains a first-priority security interest in the financed aircraft. Ex-Im Bank's guarantee is supported by a sovereign guarantee from the Angolan government.

Asia Pacific

Air Astana posted a pre-tax profit of \$36.9 million for the first half of 2011, up 10.4% over the corresponding period in 2010. Revenue rose 18% year-over-year to \$346 million as passengers carried increased 18.7%. KC reported that its operating margin during the June quarter was affected by fuel prices that lifted around 33% year-over-year, but said its markets continued to strengthen, resulting in robust revenue growth. During the period, KC took delivery of the first two of six Embraer 190s it has on order, bringing its fleet to 24 total aircraft. It increased frequencies on all of its central Asia/CIS routes and launched new flights to Samara in southern Russia and Tbilisi in Georgia. The airline remains cautious regarding full year earnings because of increased fuel costs and general inflationary pressure.

Air China invested CNY86.8 million (\$13.5 million) to take a 31% stake in Lhasa-based start-up **Tibet Airlines**, which officially launched operations. The move is part of Beijing-based CA's continued expansion into West China. CA purchased the stake from Tibet Autonomous Region Investment Co., which originally held 51%. It also sent pilots, cabin crews and technicians to the new carrier for its formal launch. Tibet Airlines currently operates one Airbus A319 on routes from Lhasa to Ali, Chengdu and Chongqing. Two additional A320s are slated to be added to the fleet in August and. It plans to expand its fleet to 20 aircraft in the next five years.

Air India, Star Alliance and senior officials from the Indian government and the Civil Aviation Authority are scheduled to meet to discuss the progress of the carrier's induction into the alliance. The meeting is part of the routine integration process. In May, Star Alliance said that AI had until July 31 to fulfil the requirements to join the airline grouping or the carrier's invitation would be withdrawn. AI was originally slated to join Star in 2010 but has had trouble meeting the alliance's membership standards regarding IT systems and other areas. The state-owned carrier has struggled financially and is attempting to gain the backing of Indian bankers for a comprehensive restructuring plan.

All Nippon Airways and **Lufthansa** won antitrust immunity approval from the Japanese Ministry of Land, Infrastructure and Transport to launch a joint venture operation on Japan-Europe routes. The companies plan to coordinate schedules between Japan and Europe and cooperate on pricing, sales and network planning, while sharing revenue on the routes. ANA in April launched a transpacific JV with United Continental Holdings.

All Nippon Airways and **AirAsia** announced the formation of a joint venture, **AirAsia Japan**, a new low-cost carrier to be based at Tokyo Narita. The airline will operate under the AirAsia brand, and will serve domestic and international destinations when it commences services in August 2012, subject to approvals. The LCC would take advantage Japan's rapidly transforming aviation market, including the expansion of open skies agreements, and on the domestic side will look to counter growing competition from road and rail-based travel. ANA also noted that NRT is seeking to increase capacity with the introduction of a new terminal and is expected to attract many LCCs and foreign airlines. ANA will provide 51% of the capital to launch the JV with AirAsia. It is still unclear how AirAsia Japan will impact Peach Aviation, the JV LCC formed by ANA and Hong Kong-based First Eastern Investment.

Cathay Pacific Airways will examine the viability of very large aircraft for its network over the next two years. The airline's prime focus is on frequency but an increased capacity aircraft, above the Boeing 777-300ER, might be needed on some routes. "Sometime in the next two years we will have a good look at the large aircraft, the 747-8I and A380," Cathay said, noting that an ideal route for a larger aircraft would Hong Kong-London Heathrow service, where two of the airline's four daily flights from HKG leave within 30 min. of each other. Cathay also clarified recent statements to media about a potential A350 delay: "We are working closely with Airbus and are happy with the way the aircraft is proceeding and expect it to be delivered to us late in 2015."

Cathay Pacific Airways will not launch a low-cost carrier along the lines of the one announced by competitor Singapore Airlines. Instead, it will stick with the airline's proven premium and network strategy. CX said that the airline's network and brand were powerful assets in the battle with LCCs. "We understand low-cost airlines well and in economy class we've got to have sharp fares to get you to purchase Cathay Pacific tickets." Until now, CX has competed effectively against short-haul LCCs, such as AirAsia, by discounting the back end of its Boeing 777-300s. However, the airline is moving toward adding a premium economy product as an additional point of difference.

Cebu Pacific signed an MOU with Airbus to purchase 30 A321neos and exercise options for seven current model A320s. The 37 aircraft, valued at \$3.8 billion at list prices, will be delivered between 2015 and 2021 and are in addition to 18 A320s that will begin delivering in the second half of this year with the last of the group slated to arrive in 2014, according to the airline. Cebu said the A321neo order, if finalized, would represent "the largest single aircraft order ever made by a Philippine carrier." The MOU also includes 10 A321neo options. The carrier currently operates a fleet comprising 25 A320 family aircraft and eight ATR 72-500s. It said it has not made an engine selection on the A321neos. Virgin America became the first to select CFM's Leap-X to power the re-engined narrowbody. Also available is Pratt & Whitney's PW1100G geared turbofan.

China Southern Airlines has reached an agreement with Boeing to purchase six 777 freighters valued at \$1.58 billion based on list prices, although it noted that it received "price concessions" making the cost "significantly lower" than list prices. Meanwhile, China Eastern Airlines officially relaunched **China Cargo Airlines**, finalizing the integration of its cargo unit with Shanghai Airlines' airfreight subsidiary. CZ said the six 777Fs will be delivered between 2013 and 2015 and "will facilitate the optimization of the structure of the group's cargo business, freighter fleet and cargo traffic capacity." The 777Fs will enable CZ to boost its cargo capacity 8.4%, it said. Rival CEA is also seeking to buttress its cargo business through the re-launch of China Cargo Airlines, which is based on the assets of CEA's old subsidiary China Cargo Airlines, Shanghai Airlines Cargo International and Great Wall Airlines. The new China Cargo Airlines has a registered capital of CNY3 billion (\$463 million). CEA holds 51%, China Ocean Shipping Co. owns 17%, Eva Airways controls 16% and Singapore Cargo Airlines has 16%. CCA is based in Shanghai and will operate 18 freighters comprising five 747-400Fs, four 777Fs, four MD-11Fs, two 757-200Fs and three Airbus A300-600Fs. It is scheduled to introduce two new 777Fs this year. CEA MD Ma Xulun said the 747-400F and 777F would become the venture's main fleet types by 2015. Shanghai is the biggest and most lucrative cargo market in China, but it is dominated by FedEx, UPS and DHL rather than domestic operators. In addition to the new CEA carrier, Air China and Cathay Pacific Airways formally launched their SHA-based joint venture cargo operation in May. It is noteworthy that Guangzhou-based CZ has also shifted its cargo base to SHA.

China Eastern Airlines and subsidiary **Shanghai Airlines** formally joined SkyTeam in Beijing, making the alliance the first global airline grouping to have two major Chinese member carriers; China Southern Airlines joined SkyTeam in November 2007. Shanghai-based CEA becomes SkyTeam's 14th member. Taipei-based China Airlines is scheduled to join in September and the alliance is expected to reach 19 members by next year. With the addition of CEA, "we firmly solidify our position as the No.1 alliance for the Greater China region," said SkyTeam. CEA and Shanghai Airlines bring 32 new destinations to SkyTeam's network. CEA predicted annual operating revenue would grow by more than CNY1 billion (\$154.4 million) owing to alliance membership, adding that SkyTeam will hold a 32% share of passenger traffic in the Beijing market and a 53% share in Shanghai. CEA will accelerate the pace of its international expansion by opening new routes and boosting flight frequencies to North America, Asia and Europe. The Shanghai-based carrier also plans to join SkyTeam Cargo Alliance when the "time is right." Saudi Arabian Airlines, Middle East Airlines, Aerolineas Argentinas and Garuda Indonesia are scheduled to join SkyTeam in 2012. SkyTeam is also negotiating with Jet Airways and GOL to "fill its void in India and Latin America."

China Southern Airlines plans to launch a cargo carrier this year, following in the footsteps of Air China and China Eastern Airlines. CZ didn't reveal the operating base of its new cargo carrier but it is widely believed to be in Shanghai, the biggest and most lucrative cargo market in China. The Guangzhou-based carrier was scheduled to launch a cargo joint venture with Air France-KLM in 2008, but owing to that year's global financial crisis, both carriers broke off their cooperation. Last year CZ shifted its cargo base from CAN to Shanghai, where it operates a freighter fleet of seven aircraft, comprising two Boeing 747Fs and five 777Fs, on international routes to Los Angeles, Chicago O'Hare, Amsterdam, Vienna and Frankfurt. It is expected to accelerate its expansion plans after reaching an agreement with Boeing to buy six 777 freighters. CZ's new cargo entity will likely face fierce competition from the newly formed China Cargo Airlines, which was relaunched by CEA, finalizing the integration of its cargo unit with Shanghai Airlines' airfreight subsidiary. CA and Cathay formally launched their SHA-based cargo joint venture in May.

CAAC gave a green light to **Air China** to launch **Dalian Airlines**, which is expected to enhance CA's position in North China. The Dalian-based carrier has a registered capital of CNY1 billion (\$154.5 million). CA is the controlling stakeholder with an 80% holding. The airline invested CNY800 million while Dalian Baoshui Zhengtong Co. put forward CNY200 million to take the remaining 20% stake. CA last year signed an agreement with the Dalian government to launch the carrier. Hainan Airlines had previously reached an accord with the local government to start a Dalian-based airline, but disagreements unravelled that deal and opened the door for CA. According to a cooperative agreement between CA and the Dalian government, the new airline is expected to launch international service to South Korea and Japan as well as operating a number of domestic routes. It is expected to use Boeing 737-800s.

Garuda Indonesia placed a firm order for four A330-300s and converted three previously ordered A330-200s into -300 models, Airbus said. The carrier will use the aircraft on long-haul flights from Jakarta and Denpasar to Middle East and Asia/Pacific destinations. No engine selection was announced. Garuda currently operates seven leased A330-200s and six A330-300s. At the Paris Air Show, it signed an MOU covering 15 standard A320s and 10 A320neos for operation by its domestic low-cost unit Citilink. The airline is expected to become a full SkyTeam member in 2012.

GoAir, the Wadia Group-owned airline based in Mumbai, announced that it has ordered 72 Airbus A320neos. Former Air One Chief Revenue Officer Giorgio De Roni will take over as GoAir CEO. Deliveries will start in 2015 and the carrier will then receive 15 A320neos per year. Founded in 2005, GoAir operates just 10 A320s on an 18 destination

network. It did not announce an engine selection on the A320neos. Cebu Pacific signed an MOU to purchase 30 A321neos.

Hainan Airlines is expected to collect CNY8 billion (\$1.24 billion) through the private placement of additional shares. It plans to use the funds to reduce its high debt ratio and expand its fleet. The Haikou-based carrier said it intends to circulate an additional 1.25 billion shares priced at no less than CNY6.42 per share. HNA plans to spend the CNY8 billion to pay off a bank loan of approximately CNY6 billion, which would reduce the carrier's debt ratio to 71.36% from 81%. The remaining CNY2 billion will be used to facilitate fleet expansion. HNA was approved to issue bonds worth CNY5 billion to the general public in May to alleviate financial pressure owing to rapid fleet expansion in recent years. Grand China Airlines, the majority stakeholder in HNA, plans to launch an IPO to ease its financial difficulties.

Hainan Airlines Group is considering investing in financially troubled **Malev Hungarian Airlines**, as the Haikou-based carrier is in negotiations with the state-owned airline. If successful, HNA would become the first Chinese carrier to invest in a European airline. HNA signed a LOI with MA to deepen its cooperation and sent a group to negotiate with the Hungarian carrier. However, the HNA Chairman Chen Feng noted that the carrier is more interested in setting up a new airline in Hungary. HNA considered making a bid for MA in 2004. Ultimately, the carrier decided against the investment because HNA lacked a broad route network in Europe and it considered the financial risk to great. Meanwhile, Chen revealed that HNA is interested in a stake in Germany's Hochtief Airport.

Haikou-based **Hainan Airlines Group** sealed a deal to invest in Istanbul-based cargo carrier **ACT Airlines**. HNA, which has made clear that it wants to invest abroad, didn't reveal how much money it will put into ACT or how large its holding will be. ACT was launched in 2004 and operates a fleet of four A300-B4 freighters. Its fleet is expected to expand to 10 aircraft in the next two years, aided in part by the HNA investment. In October 2010, HNA invested in the Turkish MRO company myTECHNIC and has said it plans to increase its stake. It has been negotiating to invest in financially troubled Malev Hungarian Airlines and has expressed interest in a stake in Germany's Hochtief Airport.

Shenzhen Airlines subsidiary **Henan Airlines**, which has been grounded since a fatal Embraer 190 crash in August 2010, is expected to resume operations soon. As part of Henan's restructuring, Shenzhen is negotiating to sell all or part of its 51% stake in the carrier to Henan Coal Chemical Industry Group. Henan changed its name last year from **Kunpeng Airlines**, which launched in 2007 as a joint venture between Shenzhen and Mesa Air Group. But Phoenix-based Mesa sold its holding to Shenzhen in 2009 and the Henan provincial government moved in to take the stake, leading to the name change. Shenzhen is negotiating with Henan Coal Chemical Industry Group about the specifics of the airline's restructuring plan. After both sides reach an agreement, the Zhengzhou-based carrier is expected to resume operations. It has not flown since the E-190 crash last August that killed 42 and injured 54 at Yichun airport. Beijing-based Air China became the majority shareholder in Shenzhen when it increased its stake from 25% to 51% in March 2010 and has been steadily cutting or integrating Shenzhen's subsidiary companies. Shenzhen agreed to join Star Alliance.

The Chinese government has blocked an order from Hainan Airlines' subsidiary **Hong Kong Airlines** for 10 Airbus A380 aircraft. The order had been scheduled to be announced at the Paris Air Show. The Hong Kong-based carrier had to postpone the order because Beijing failed to give the airline a "green light," in part to express its disapproval of Chinese carriers' inclusion in the EU Emissions Trading Scheme starting next year. In a statement, the China Air Transport Assn. noted it would urge the Chinese government to "impose much tougher retaliation measures" against the EU over the ETS, which it said could "severely impact" the "friendly cooperative relations between Chinese and European carriers as well as European aircraft manufacturers." The organization estimated that the ETS will cost Chinese carriers CNY800 million (\$123.6 million) annually.

CATA sent representatives to Brussels in May to negotiate with the EU on exempting Chinese carriers from the ETS, but little progress has been made. Airbus and the European Airlines Assn. jointly wrote to the EU, warning it was "madness to risk retaliation" from China over the ETS. But the EU has not backed down as yet.

The CEA Board Secretary also expressed dissatisfaction with the EU ETS. Citing the scheme, he said the Shanghai-based carrier would prefer the domestically produced COMAC C919 over Airbus aircraft. The C919 is scheduled to enter service in 2016. COMAC has won orders for 100 C919 aircraft from four Chinese airlines, comprising Air China, China Southern Airlines, CEA and Hainan, as well as two leasing companies—GE Capital Aviation Services and China Development Bank Leasing Co.

Japan Airlines and **American Airlines** said they are engaging in "closer cooperation" on international cargo operations as part of their transpacific joint venture launched in April. The two carriers said they've begun using Los Angeles, Chicago O'Hare, Dallas/Fort Worth, New York JFK and Honolulu "as key transfer points for cargo traffic" in the US and similarly are using Tokyo, Osaka and Nagoya as transfer points in Japan.

Jetstar Asia will add five Airbus A320s and two A330s to its Singapore hub by year end, resulting in an additional 40 weekly flights. By year end, Jetstar will have 17 A320s and four A330s based at SIN, which represents almost 200%

growth at the airport since 2009. At year end, Jetstar's network including Australia will feature more than 3,000 flights per week to more than 60 destinations across 17 countries. Its fleet will number 86 aircraft.

Australia's **Qantas Airways** will sponsor **Malaysia Airlines'** entry into the oneworld alliance as it looks to form a close partnership with the Kuala Lumpur-based airline as part of its plan to lift its share of the Asian market. QF CEO Alan Joyce said the airline had been talking to MAS for quite some time and would help make the necessary changes for the airline to join the alliance by the end of 2012. However, he said the entry of MAS into oneworld would not diminish QF's presence in Singapore.

The Australian Competition and Consumer Commission granted interim approval for the proposed joint business agreement between **Qantas** and **American Airlines** "on their services between Australia/New Zealand and the US, within these regions and beyond to third countries". QF codeshare with American to 52 destinations beyond Dallas/Fort Worth and both airlines are committed to further strengthening this relationship. The agreement does not include revenue sharing, although the JBA does create a shared financial objective, according to a QF spokesperson. It still requires approval from the New Zealand Minister of Transport and the US Dept. of Transportation.

Airline operations in Australia and New Zealand were thrown into chaos by ash from Chile's **Puyehue-Cordon Caulle Volcano**. Qantas and Jetstar cancelled all operations from Melbourne, Tasmania and to and within New Zealand, while other airlines limited operations in the affected areas. The ash cloud now stretches almost around the globe in the roaring forties latitudes and is located between 6,000 m. and 10,600 m. altitude. The ash cloud temporarily grounded air service to, from and within Argentina. In contrast to the Australian airlines, Air New Zealand and most international airlines said they would continue operating normally, flying either above or below the cloud or flying longer routes to avoid it where required. Puyehue began erupting June 4, with the initial ash plume reaching above 15,240 m. More dense ash areas to the south and west are expected to affect airline operations in Australia. New Zealand's Civil Aviation Authority and Australia's Civil Aviation Safety Authority are monitoring the cloud in conjunction with both countries' volcanic ash centres and weather bureaus.

Airservices Australia and New Zealand's Airways are also involved, liaising with airlines to develop new flight routes around the cloud. Decisions on whether or not flights will operate are being made by individual airlines and operators.

Qantas Group slashed A\$700 million (\$750 million) from its capital expenditure over the next 12 months as it pares back its planned domestic growth over the next year from 8% to 5.3%. The airline group now expects to take delivery of 34 narrowbody aircraft in 2011/12 compared with 43 previously planned deliveries. Orders for 12 aircraft will be cancelled or deferred, including three aircraft in the second half.

Rolls-Royce agreed to pay **Qantas Airways** A\$95 million (\$100 million) in full settlement for last November's uncontained failure of a Trent 900 engine on a QF A380. The announcement came as part of the airline's disclosure of a forecast profit before tax of A\$500 million-A\$550 million for the year ended June 30. QF reported a profit before tax of A\$417 million for the half-year to Dec. 31, 2010. The airline has blamed disruptions from several significant weather events and natural disasters for an A\$206 million hit to the bottom line, worse than its earlier guidance of an A\$140 million hit. The revised figure includes an A\$21 million cost from the disruptions caused by ash from Chile's Puyehue-Cordon Caulle Volcano as of June 20. However, Qantas International is forecast to generate a loss before interest and tax of approx. A\$200 million, on invested capital of more than A\$5 billion, with a worse result expected next year.

Former Australia Civil Aviation Safety Authority chairman Dick Smith has infuriated airline unions by predicting that **Qantas International** will go bankrupt unless it moves its operations to Asia. Smith warned that high wages and government policies that opened up routes to/from Australia to too many carriers had put QF's mainline international operations in danger. He claimed that QF was in a similar position to manufacturers forced to move offshore because of an inability to compete with lower-cost competitors. Smith told that servicing on aircraft in Singapore was 50% cheaper than in Australia, and many airlines were operating at much lower costs than QF. Qantas CEO Joyce will announce major structural changes to QF Aug. 24 with many services to be cut or restructured. There are also strong indications that Joyce will set up an Asian-based, full-service airline. Smith's comments angered pilot and engineers unions worried about job security and poised to take industrial action.

Qantas declared that its future is in China, the world's second biggest and fastest growing aviation market, but the airline needs its staff to embrace the radical change to succeed. QF CEO Alan Joyce warned that "out of touch union leaders" who are resisting change don't understand that the carrier's costs are 25% above its competitors such as Singapore Airlines. According to Joyce, China is already home to seven of the world's top 20 airports by capacity. "By 2020, China will have 15 cities with bigger populations than Sydney and the region will be home to 2.6 billion people. And by 2030 the country expects to have at least three globally recognized international airline hubs, 10 national and regional hubs and at least 244 airports," he said. But to capitalize on the booming China and Asia market, QF needs significant change, cautioned Joyce. Joyce noted that QF subsidiary Jetstar operates Asia's largest and fastest-growing low-fares network. "That is an amazing achievement for an Australian airline," he said. QF is expected to

announce a major restructure of its international operations and a new joint venture to establish an airline in Asia, which will be based in either Malaysia, China or Singapore.

Air China subsidiary **Shenzhen Airlines** signed an MOU with Star Alliance and is expected to formally join the global airline grouping in the second half of 2012. CA said that ZH's Star membership will help the carrier attract more transfer passengers. It noted that the Beijing-based carrier reported CNY1.75 billion (\$270.3 million) in additional operating revenue in 2010 through its cooperation with Star member carriers. Becoming a Star member will enable the airline to further explore the international market. ZH plans to launch more international routes and is scheduled to expand its fleet from 100 aircraft currently to 171 by 2015. The carrier is slated to introduce 19 new aircraft while phasing out nine aircraft this year. CA joined Star in December 2007; Shanghai Airlines withdrew from Star in October 2010 to pave the way for it to join SkyTeam with parent company China Eastern Airlines.

Singapore Airlines selected the Boeing 777-200 as the aircraft type to comprise the fleet of its new long-haul, low-cost subsidiary airline scheduled to launch next year. The aircraft will "initially" be acquired from SIA, which did not say how many 777-200s will make up the unnamed LCC's operating fleet. SIA had 35 777-200ERs in its fleet as of March 31. The aircraft will be reconfigured in a new seating layout for the LCC that will almost certainly feature a 10 across 3-4-3 configuration in economy. It called the 777 "a mainstay" of its fleet since its 1997 introduction. In addition to the 35 777-200ERs, SIA's fleet as of March 31 also featured 31 777-300/300ERs. The new LCC will be wholly owned by SIA, but will be operated independently and managed separately, operating no-frills, medium- and long-haul flights.

India's **SpiceJet** is seeking Reserve Bank of India permission to raise \$270 million from Canada's export finance agency Export Development Canada for aircraft acquisition and expansion of its operations. The fast-growing budget carrier operates a modern fleet of 29 Boeing 737-800 and -900ER aircraft, and is adding seven more 737s this year. It also has ordered 30 Bombardier Q400s, with deliveries starting immediately. The first base for the new Q400s will be Hyderabad, with service expected to begin in July. The airline plans to have around 70 aircraft in its fleet by 2013. The low-fare carrier operates 192 daily flights to 21 Indian cities, as well as internationally to Kathmandu and Colombo.

Shanghai-based LCC **Spring Airlines** is accelerating the pace of its Japanese market expansion. The carrier operates thrice-weekly Shanghai-Ibaraki service and is scheduled to open a twice-weekly Shanghai-Takamatsu route. It also plans to start Shanghai-Kyushu flights this year and a Shanghai-Hokkaido route next year. Spring delayed the opening of new routes in Japan owing to the natural and nuclear crises in March. As part of its expansion plan, Spring is considering setting up a joint venture airline in conjunction with some Japanese enterprises, although there is no specific timetable and it would need government approval. The reason behind the JV in Japan is because growth in China is constrained by a pilot shortage. JAL and ANA both plan to launch low-cost subsidiaries in the coming months. Wang also implied that Spring is interested in launching JVs based in South Korea, Hong Kong and Macau.

Shanghai-based **Spring Airlines** posted net income of CNY160 million (\$24.8 million) in the 2011 first half, down 6.3% from a net profit of CNY170 million in the year-ago period. Spring's operating revenue for the year's first six months climbed more than 20% year-over-year to CNY1.9 billion. Meanwhile, the privately held carrier is pressing ahead with plans to launch an IPO and is scheduled to be listed on the Shanghai Stock Exchange in the first half of next year. Spring is accelerating the pace of its Japanese market expansion but has slowed down the introduction of new aircraft owing to a pilot shortage. The carrier plans to expand its fleet to 50-60 aircraft by 2015, a sharp contrast to the expansion announced last year calling for 100 aircraft by 2015.

Tibet Air is scheduled to start formal operations in July, according to CAAC, which will soon grant an operating certificate to the Lhasa-based carrier. Tibet Air was established as a company in May 2010 and, when it begins flying, will be the only Lhasa-based airline in China. The company has a registered capital of CNY280 million (\$43.2 million) in which Tibet Autonomous Region Investment Co. holds a 51% stake, Tibet Sanli Investment Co. owns 39% and Tibet Ruiyi Investment Co. holds the remaining 10%. The carrier ordered three Airbus A319s to be used on the Lhasa-Beijing route starting July 20. The first one will be delivered July 7. The other two aircraft will be introduced in August and September. The carrier plans to expand its fleet to 20 aircraft in the next five years.

Tiger Airways Australia, a subsidiary of Singapore-based Tiger Airways Holdings, was grounded for five days by Australia's Civil Aviation Safety Authority over a series of safety issues. In an unprecedented move, CASA said it no longer had "confidence in the ability of Tiger Airways Australia to satisfactorily address the safety issues that have been identified." CASA is expected to apply to Australian federal court to extend the grounding beyond the five days, a move that could keep the airline's 10 Airbus A320s idle for some time. Two safety breaches by TT pilots, including an incident of flying too low, prompted CASA to ground the airline. The watchdog wants the airline to make a range of management changes and to re-qualify all of its pilots in third-party simulators before allowing operations to recommence. The requirements could take up to a month to fulfil, affecting up to 35,000 passengers a week. The weekly cost to TT in lost revenue is estimated at as much as A\$1.5 million (\$1.7 million).

Australia's Civil Aviation Safety Authority is expected to lift the grounding of **Tiger Airways Australia** within days. TT has satisfied the agency that the airline now has the management and systems in place to meet requirements for safety oversight of pilot training, operations and maintenance. Key to getting the airline back in the air was the appointment of former Qantas chief pilot Chris Manning as TT's safety adviser. TT, a subsidiary of Singapore-based Tiger Airways Holdings, is expected to return to regular services although the airline may drop some regional cities from its network. The grounding, which took effect July 2, has affected up to 35,000 passengers weekly while costing the airline approximately A\$7 million (\$7.8 million) in lost revenue. As the crisis unfolded, Tony Davis left his post as CEO of Tiger Airways Holdings in Singapore to replace TT CEO Crawford Rix, a move Davis said demonstrated the parent company's long-term commitment to the Australian market. Separately, Tiger Airways in Singapore will add six Airbus A320s from this year through March 2012 to bring its fleet to 20 aircraft.

China Southern Airlines subsidiary **Xiamen Airlines** plans to join SkyTeam. CZ joined SkyTeam in November 2007 (. Xiamen operated a fleet of 71 Boeing aircraft as of April 30 and plans to expand its fleet to more than 130 aircraft by 2015. It operates five international routes to Singapore, Kuala Lumpur and destinations in neighbouring Northeast Asian countries. Signalling its ambition to have greater international reach, Xiamen ordered six 787s. It plans to use the Dreamliners, slated for delivery in 2014 and 2015, to launch flights to Europe and the US from its Xiamen base and Fuzhou. Joining SkyTeam is seen as way to further advance its international ambitions.

China Eastern Airlines and subsidiary Shanghai Airlines are scheduled to formally join SkyTeam June 21. Air China is also pressing ahead with requiring its majority-owned subsidiary Shenzhen Airlines to join Star Alliance.

The far-reaching alliance between **Virgin Australia** and **Singapore Airlines** announced in Singapore could significantly alter Australian airline market dynamics, according to analysts. Subject to regulatory approvals, Virgin Australia will codeshare on all SIA flights throughout Asia and India, while its frequent flyers will be able to use their points on any flights in SIA's network. SIA, in turn, will sell seats on all Virgin Australia domestic flights. The deal rounds out Virgin Australia's push to create global alliances to offer its passengers the same choices as Australian market leader Qantas. Virgin claims that the close link with SIA would help attract more corporate accounts to Virgin Australia and assist in the airline's goal of lifting its share of that business sector from 12% currently to 20%. However, QF is "adamant that the airline would not give up any of its market share. Virgin Australia and SIA will also offer passengers reciprocal frequent flyer program benefits and lounge access and seamless connections. The two airlines will file an application for authorization with the Australian Competition and Consumer Commission to enable them to cooperate across a broad range of commercial functions. It is expected that regulatory approval will be completed by the end of the year.

Aero-Equipment Market

Firm Backlog (as at July 13th 2011) Western-Built Jets

Backlog - Aircraft Manufacturer	Total Aircraft	% Share
Airbus	3,907	49.07%
Boeing	3,399	42.69%
Embraer	357	4.48%
Bombardier (Canadair)	199	2.50%
Mitsubishi	65	0.82%
Boeing (McDonnell-Douglas)	23	0.29%
Kawasaki Heavy Industries	10	0.13%
Scaled Composites	2	0.03%
TOTAL	7,962	100.00%

Backlog - Top Ten Owners	Total Aircraft	% Share
AirAsia	286	3.59%
ILFC	235	2.95%
IndiGo Airlines	233	2.93%
General Electric Capital Corp	222	2.79%
Emirates Airline	192	2.41%
Qatar Airways	144	1.81%
Air Lease Corporation	144	1.81%
LAN Airlines	142	1.78%
Air China	141	1.77%
Lion Air	133	1.67%
TOTAL - TOP TEN	1,872	23.51%
TOTAL BACKLOG	7,962	100.00%

Backlog - Top Ten Operators	Total Aircraft	% Share
AirAsia	286	3.59%
IndiGo Airlines	233	2.93%
Emirates Airline	199	2.50%
ILFC	195	2.45%
GECAS	183	2.30%
LAN Airlines	146	1.83%
Qatar Airways	144	1.81%
Air China	141	1.77%
Lion Air	133	1.67%
China Southern Airlines	124	1.56%
TOTAL - TOP TEN	1,784	22.41%
TOTAL BACKLOG	7,962	100.00%

Backlog - Top Ten Airlines (Owner)	Total Aircraft	% Share
AirAsia	286	3.59%
IndiGo Airlines	233	2.93%
Emirates Airline	192	2.41%
Qatar Airways	144	1.81%
LAN Airlines	142	1.78%
Air China	141	1.77%
Lion Air	133	1.67%
Qantas	126	1.58%
Wizz Air	102	1.28%
Southwest Airlines	100	1.26%
US Airways	100	1.26%
TOTAL - TOP TEN	1,699	20.08%
TOTAL AIRLINE-OWNED BACKLOG	6,002	75.38%
TOTAL BACKLOG	7,962	100.00%

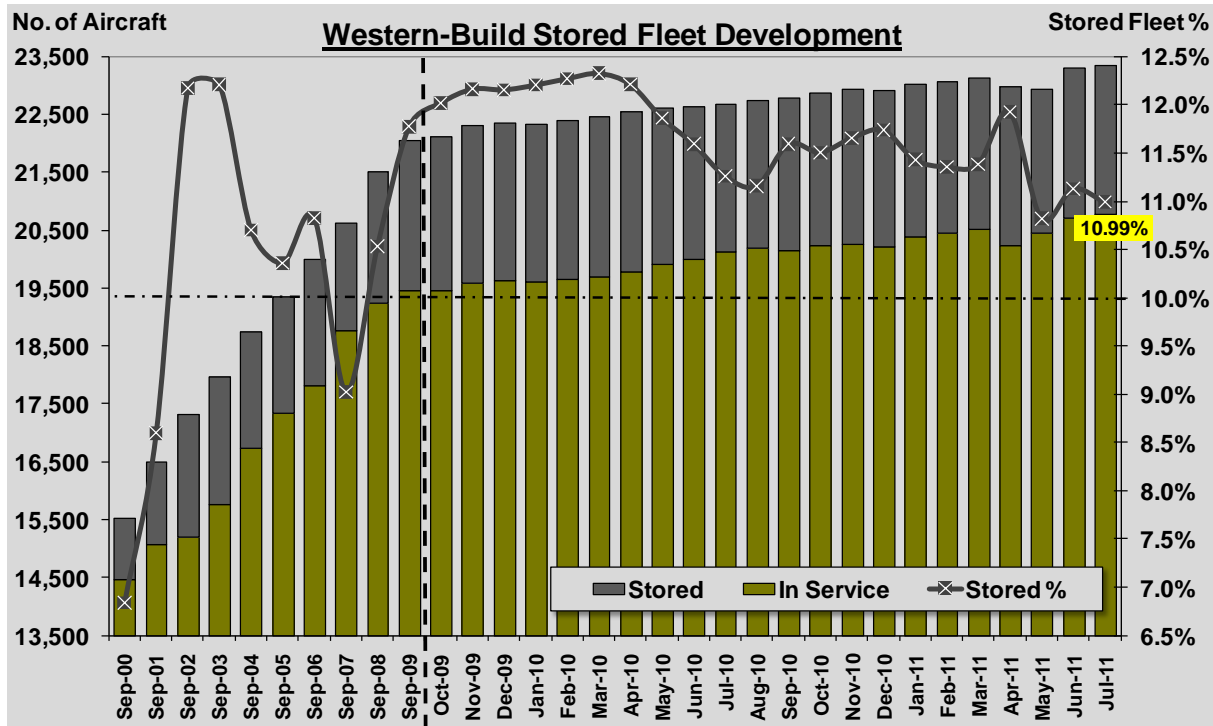
Backlog - Operating Lease Companies (Owner)	Total Aircraft	% Share
ILFC	235	2.95%
Air Lease Corporation	144	1.81%
Aviation Capital Group	119	1.49%
AWAS	105	1.32%
CIT Leasing Corp	98	1.23%
RBS Aviation Capital	90	1.13%
DAE Capital	56	0.70%
BOC Aviation	56	0.70%
Aircraft Purchase Fleet Ltd	50	0.63%
ALAFCO Aviation Lease and Finance Company	34	0.43%
TOTAL - TOP TEN	987	12.40%
TOTAL LESSOR-OWNED BACKLOG	1,161	14.58%
TOTAL BACKLOG	7,962	100.00%

Backlog - Lessor (as Owner) by A/C Manufacturer	Total Aircraft	% Share
Airbus	602	51.85%
Boeing	486	41.86%
Embraer	53	4.57%
Bombardier (Canadair)	20	1.72%
TOTAL LESSOR-OWNED BACKLOG	1,161	100.00%
TOTAL BACKLOG	7,962	

Source: CASE2® Database

Storage

ASCEND is aware of at least **2,568 Western-built jet aircraft in storage (10.99%)** out of a current fleet of **23,359 aircraft**, as at **July 13th 2011**:



Source: CASE2® Database

The table below shows the aircraft types whose percentage of **Stored Fleet** is above the **Total Average (10.99%)** of the whole Western-built jet stored fleet figure:

Manufacturer & Type	Fleet Stored	Total Fleet	Fleet Stored %
Avcraft 328JET	2	2	100,00
Boeing (McDonnell-Douglas) DC-9	177	292	60,62
Fokker F.28	51	91	56,04
Fairchild/Dornier 328JET	60	109	55,05
Lockheed L-1011 TriStar	15	28	53,57
Boeing (McDonnell-Douglas) DC-8	41	82	50,00
Boeing (McDonnell-Douglas) MD-90	54	108	50,00
Boeing 737 (JT8D)	219	466	47,00
BAE SYSTEMS (HS) 146	71	164	43,29
Boeing 727	127	399	31,83
Boeing (McDonnell-Douglas) MD-80	290	940	30,85
Fokker 100	55	228	24,12
Airbus A300	84	364	23,08
Airbus A310	43	189	22,75
BAE SYSTEMS (Avro) RJ Avroliner	37	163	22,70
Boeing 707	42	195	21,54
Embraer ERJ-135	56	314	17,83
Boeing 747	164	921	17,81
Boeing 717	27	155	17,42
Boeing (McDonnell-Douglas) DC-10	34	197	17,26
BAE SYSTEMS (BAC) One-Eleven	2	12	16,67
Boeing 737 (CFMI)	257	1,751	14,68
Bombardier (Canadair) CRJ Regional Jet	123	1,031	11,93
TOTAL WESTERN-BUILT STORED	2,568	23,359	10,99

Source: CASE2® Database

Manufacturer News**Boeing**

Boeing said it will boost the production rate for the 737NG to 42 per month in the first half of 2014, up from 31.5 currently and planned increases to 35 per month in early 2012 and 38 monthly in the 2013 second quarter. The manufacturer noted it will "build on average two 737s each workday and nearly 500 airplanes each year" from 2014. Boeing has a backlog of more than 2,100 737s. Airbus announced it will raise the production rate of its A320 family to 42 aircraft per month beginning in the 2012 fourth quarter. Boeing is still weighing whether to re-engine the 737NG or launch an all-new successor aircraft.

Boeing forecast demand for 33,500 new commercial aircraft worth \$4 trillion through 2030 in its latest "Current Market Outlook". The 20-year aircraft demand projection is up 8.4% from the manufacturer's 2010 demand forecast and up 15.5% from its 2009 projection. Market value over 20 years is up 11.1% from \$3.6 billion projected last year. Boeing predicted average annual worldwide passenger traffic growth of 5.1% over the next 20 years. "The single-aisle market will continue to see strong demand around the world and is expected to increase its share of the market," Boeing stated. "Fleet composition will change significantly by 2030 with single-aisle jets making up 70% of the total," up from 62% currently. Twin-aisles in 2030 will comprise 22% compared to 19% currently while regional jets' share will dip from 15% currently to 5%, according to the manufacturer. The global fleet will more than double from 19,410 aircraft at the end of 2010 to 39,530 aircraft in 2030, Boeing predicted. "Robust growth in China, India and other emerging markets will lead to a more balanced airplane demand worldwide," it explained. "Asia/Pacific is forecasted to need the most new airplanes over the next 20 years and will represent the largest market by value of deliveries at more than \$1.5 trillion. The region will account for more than a third of new deliveries worldwide, while the Middle East and Latin America will also continue to show very strong growth." Europe and North America in particular will require replacement aircraft for older models, according to the manufacturer. "In fact, we predict 94% of the European fleet operating in 2030 will have been delivered after 2011, with airplanes that are better for the environment, passengers and the airlines," Boeing explained. "40% of all new airplanes delivered [worldwide] over the next two decades will be replacements." Regarding cargo, the company projected that the world freighter fleet will nearly double from 1,760 aircraft today to 3,500 in 2030. "Additions to the fleet will include 970 new-production freighters (market value of \$250 billion) and 1,990 airplanes converted from passenger models," Boeing stated. "Large (more than 88.2 tons capacity/80 tonnes) freighters will account for 690 new-build airplanes. Medium (44.1 to 88.2 tons /40 to 80 tonnes) freighters will total 280 airplanes. No new standard-body freighters (49.6 tons/less than 45 tonnes) will be required, but there will be 1,240 standard-body conversions." The manufacturer forecast average annual global cargo traffic growth of 5.6% over the next two decades.

Boeing said it has started function and reliability testing and ETOPS demonstrations on the 787, noting it is entering the "final phase of flight testing prior to certification of the airplane." F&R testing "simulates various normal and non-normal operations for the airplane, in a realistic airline-like flight environment," the manufacturer explained. "During ETOPS demonstrations the company validates the airplane's ability to safely divert for a variety of reasons, including long diversions with one engine shut down." ANA is scheduled to conduct 787 service readiness trials in Japan.

Boeing forecast demand in India for 1,320 new passenger aircraft valued at around \$150 billion over the next 20 years, a dramatic increase over Indian market projections made by the manufacturer five years ago. In fact, Boeing's 20-year market value for India has more than doubled since 2006, where it forecasted that India's airlines would order 856 passenger aircraft valued at \$72 billion over 20 years. The manufacturer noted that passenger traffic in India, which reached 53.6 million domestic travellers and 13.1 million international boardings in the most recent reporting year, is expected to grow 8.1% annually over the long term.

"This demand is driven by growth in developing and emerging cities, demand from low-cost carriers and the need to replace an aging fleet." Boeing said the strongest demand will be for single-aisle aircraft. It predicted that Indian airlines "will grow by responding to passenger preference for more flight choices, lower fares and direct access to a wider range of destinations. Air carriers will focus on offering more flights using more efficient airplanes instead of significantly larger airplanes." The manufacturer forecast global demand for 33,500 new commercial aircraft worth \$4 trillion through 2030.

Boeing's commercial aircraft deliveries through the first six months of 2011 kept pace with 2010 deliveries, with the manufacturer delivering 222 aircraft in the 2011 first half led by 181 737NGs, the exact number of total and 737 deliveries made in the 2010 first half. It delivered nine 767s through June 30, up from six of the type delivered in the first six months of 2010. First-half deliveries of 777s totalled 32, down from 35 in the year-ago period. Second-quarter deliveries totalled 118 aircraft, up slightly from 114 delivered in the 2010 June quarter, led by 94 737NGs, one fewer than was delivered in the 2010 second quarter. Boeing said its full-year 2011 delivery guidance remains unchanged at 460-465 aircraft.

Boeing denied widespread published reports, based in part on comments by the CFO of a key airline customer, that the 787-9's late 2013 EIS has slipped. Boeing has "reaffirmed its guidance that 787-9 first delivery is scheduled for late 2013." Air New Zealand CFO Rob McDonald said at an Aviation Outlook conference in Sydney that delivery of the 787-9, for which ANZ is the launch customer, has been pushed into 2014. "It would be an understatement to say we are frustrated and disappointed [by the 787 delays]," he commented, describing the delays as "painful." In its most recent assessment, New York-based Bernstein Research projected that Boeing will deliver eight 787s this year (the manufacturer has targeted 12-20 deliveries for this year), 61 in 2012, 78 in 2013 and 107 in 2014. Boeing is still working on plans for an additional Dreamliner surge line in Everett that, combined with the existing line and the Charleston (S.C.) line, could lift 787 production to 17 a month by 2016. First delivery of the 787-8 to ANA is expected in September.

Boeing said its decision to re-engine the 737NG instead of developing and producing an all-new aircraft was reached after months of careful consideration leading to the conclusion that there was much less risk in re-engining. The comments came while discussing Boeing's \$941 million second-quarter profit, up 19.6% year-over-year. Airlines wanted the "greater certainty" of a re-engined 737NG with EIS by mid-decade rather than waiting for an all-new aircraft by 2019 or 2020, he explained. The re-engining was revealed earlier when American Airlines committed to purchase 100 of the revamped 737 model as part of a massive narrowbody order split between Boeing and Airbus. The re-engined 737NG "will be the most fuel efficient aircraft in its segment," with a "conservative" estimate is for the updated narrowbody—powered by CFM International Leap-X engines—to provide a 10%-12% fuel efficiency gain over current model 737NGs. Boeing sought to counter the impression that the company was hastily pushed into re-engining the 737NG to win a portion of the AA order. The changed view, includes "robust demand" among airlines for a re-engined narrowbody and concerns, particularly internally at Boeing, that building the production system for an all-new aircraft would be challenging and risky. It is true, however, that Boeing executives repeatedly indicated their preference for an all-new aircraft over the past year. Their main caution, though, did revolve around production system concerns, particularly in light of the many supply chain issues that have hampered the 787 program. Boeing said that a big factor weighing against the all-new aircraft was "not having all the answers we wanted on a production system." A re-engining is a "low risk, low capital way to access this market demand" for fuel efficient narrowbody aircraft".

Bombardier

Bombardier reported \$220 million in net income for its fiscal first quarter ended April 30, up 13.4% over a net profit of \$194 million in the year-ago period. Revenue rose 9.4% year-over-year to \$4.66 billion. The new order from Braathens Aviation for 10 aircraft increases firm commitments for the CSeries to 100 and raises the number of CSeries customers to four. Other customers include Republic Airways Holdings (40 CS300s on order), Lufthansa (30 CS100s) and Lease Corp. International Group (17 CS300s and three CS100s). Bombardier Aerospace's fiscal first-quarter revenue heightened 11.7% year-over-year to \$2.19 billion and unit EBIT lifted to \$141 million from \$133 million in the prior-year quarter. The company delivered 23 commercial aircraft in the three months ended April 30, up from 16 in the prior-year period.

Embraer

Embraer delivered 25 commercial aircraft in the second quarter, down 13.8% from 29 delivered in the 2010 June quarter. Commercial deliveries for the three months ended June 30 were comprised of 17 Embraer 190s, five E-195s, one E-175 and two ERJ-145s. Three airlines took delivery of their first E-Jets during the quarter: Austria's People's Viennaline, Kazakhstan's Air Astana and Bulgaria Air. First-half 2011 deliveries totalled 45. The manufacturer said it secured orders for 18 E-Jets during the quarter including one E-170 (Australia's Air North) and 17 E-190s (two to Air Astana; five to Air Lease Corp. and 10 to China's CDB Leasing to be operated by China Southern Airlines). It received orders for 62 E-Jets through the first half of 2011. The manufacturer's firm backlog (including business aircraft) stood at \$15.8 billion as of June 30, up 3.9% year-over-year but down 1.3% from \$16 billion on March 31.

Leasing and Conversion News

AerCap Holdings completed an amendment to its \$775 million non-recourse revolving debt facility, arranged by UBS Securities in April 2006. The amendment extends the facility to June 2016, granting AerCap an additional two-year revolving period with a three-year term-out period. "The facility continues to allow for the acquisition of a range of aircraft types," AerCap said, "and provides ... committed financing and significant flexibility to purchase aircraft." The transaction also includes new AerCap lenders Credit Suisse, Citibank, Nomura Global Financial Products and Scotiabank Capital. So far this year, financing transactions completed by the aircraft lessor total \$1 billion. It closed two long-term debt facilities to finance A330s earlier in 2011 with Landesbank Hessen-Thuringen Girozentrale of Germany and DBS Bank of Singapore.

AerCap Holdings had a busy second quarter in which it signed new lease agreements for 16 aircraft, delivered seven, purchased one Airbus A330 and one A320, and sold one A321 and one Boeing 737-400. It also inked contracts for the sale of another four aircraft from its owned portfolio (two A320s, one 737-300, one 757-200), and four aircraft from its managed portfolio (one 737-400, three 737-500s). The independent lessor reached new aircraft lease agreements during the June quarter with Virgin America for four new A320s, Garuda for three A320s, Interjet for three A320s, Amsterdam Airlines for one A320, Aircompany Tatarstan for two A319s, Avianca for one A319 and Bangkok Airways for two A319s. During the quarter, it delivered one new A330 (Virgin Atlantic Airways), one new A320 (Hainan Airlines), one A320 (Amsterdam Airlines), two A320s (Interjet), one A320 (Brussels Airlines) and one A319 (Aircompany Tatarstan). In the engine segment, it delivered 11 engines under lease agreements, purchased eight, sold five and disassembled three. The 11 new engine lease agreements comprised nine CFM56s, one CF34 and one V2500-A1, all of which have been delivered, it said. It sold four CFM-56 engines and one CF-6 engine from its owned engine pool. According to AerCap, as of June 30, its portfolio comprised 335 aircraft and 95 engines that were either owned, on order, under contract or LOI, or managed.

AerCap Holdings entered into a purchase-leaseback transaction with **American Airlines** to finance up to 35 Boeing 737-800s, including 29 firm deliveries—26 of which were previously ordered—plus three new orders. The deal also covers six optional 737-800s, which, if exercised by the carrier, would be delivered in 2013-2014. AA's updated delivery schedule will now see 15 737-800s delivered this year, 28 in 2012 and 14 in 2013.

Airbus said it finalized an agreement with **Singapore Airlines** under which the carrier will lease 15 new A330-300s to be delivered by the manufacturer from 2013-2015 to join an existing fleet of 19 A330-300s currently operated by SIA. The aircraft will be powered by Rolls-Royce Trent 700 engines and will be used to fly "from Singapore to destinations across the Asia/Pacific region and to the Middle East," according to Airbus. Financial details of the Airbus/SIA transaction were not disclosed. SIA announced plans to set up a new no-frills, low-fare carrier operating twin-aisle aircraft on medium- and long-haul routes.

Air Lease Corp. announced it signed lease agreements for 20 additional aircraft. ALC will lease 10 new aircraft to Alitalia, comprising five Embraer 175s and five E-190LRs under 12-year leases. SriLankan Airlines will lease three new Airbus A320-200s, one of which was delivered in May; the remaining two aircraft will be delivered in October and November on 12-year leases. S7 Airlines is leasing three new A320-200s for eight years, which will be delivered in January, February and May 2012. Kenya Airways has entered into an eight-year lease agreement for three new Embraer 190ARs, scheduled for delivery in August and September, and May 2012. ALC acquired one A320-200, on lease to Spring Airlines.

Air Lease Corp. signed lease agreements for 25 additional aircraft as it focuses on "providing innovative fleet solutions for airlines around the world". According to ALC, it has entered into a long-term lease agreement with TRIP Linhas Aereas for six new ATR 72-600s and six new Embraer 190LRs for delivery between July 2011 and October 2012. ALC is leasing four new Embraer 190s to Bulgaria Air, with deliveries set for March, April, June and November 2012. It signed a 12-year lease agreement with Garuda Indonesia Airlines for a new Airbus A330-200, and is leasing an additional new A330-300 to Asiana Airlines for delivery in September 2012. Previously unannounced from prior quarters, ALC said it acquired seven additional Boeing 737-800s on lease to six operators, comprising two to Hainan Airlines and one each to Shanghai Airlines, Caribbean Airlines, Sun Express (Turkey), Xiamen Airlines and Sunwing (Canada).

Air Lease Corp. announced that UK-based **Thomas Cook Airlines** signed long-term lease agreements for six new Airbus A321-200s powered by CFM56 engines. Two of the aircraft will be delivered in 2013 and four in spring 2014. The aircraft are part of ALC's existing order book with Airbus, it said. The ALC management team has "a long-standing relationship with the [Thomas Cook] group and we are happy to support the renewal of their single-aisle fleet, including A321-200s with sharklets."

Dublin-based aircraft lessor **Avolon** said it is aiming to establish itself as a leader in the Asia/Pacific and Middle East markets and plans to open an office in one of the two regions during the next 12 months. It already maintains offices in Hong Kong and Shanghai and has leased 26 aircraft to nine airlines between the two regions. "We have already made solid progress in developing our portfolio in the region and with in excess of 40% of future aircraft orders destined for this region, it remains a key focus for our team," said Avolon President. "We see significant opportunity to maintain strong growth in our fleet as we move from our existing committed portfolio to a fleet value of in excess of \$6 billion by 2014." Avolon has leased aircraft to Air Arabia (A320), Indigo (eight A320s), Philippine Airlines (two A320s), Spring Airlines (A320), Flydubai (five 737-800s), Japan Airlines (four 737-800s), Skymark (737-800), SpiceJet (737-800), and Virgin Australia (three 737-800s). Its total fleet stands at more than 80 committed aircraft, valued \$4 billion.

Braathens Leasing Limited, a subsidiary of Braathens Aviation of Sweden, placed a firm order for five Bombardier CSeries100s and five CSeries300s valued at \$635 million at list prices, providing a boost to the Canadian manufacturer's narrowbody aircraft program. Braathens also took options on an additional 10 CSeries aircraft, potentially lifting the value of the order to \$1.37 billion at list prices. Bombardier said the CSeries ordered will be operated by another Braathens Aviation subsidiary Malmo Aviation from its base at Stockholm Bromma. According to the manufacturer, Malmo currently operates 12 jet aircraft and "intends to renew its fleet and explore new business opportunities with its CSeries aircraft starting in 2014."

China Aviation Supplies Holding Co. and **ICBC Financial Leasing** inked an accord with Airbus to purchase 88 A320 family aircraft. ICBC Leasing signed a purchase agreement for 42 A320 family aircraft and the manufacturer said CAS would likely take the other 46 aircraft. The order is the first that ICBC Leasing has placed directly with an aircraft manufacturer. The Chinese lessor currently has 68 aircraft in its portfolio. Deliveries are scheduled to begin next year. Airbus noted that 575 A320 family aircraft were in operation in China as of May 31. The signing comes on the heels of Beijing, dissatisfied with the EU's refusal to back away from non-EU airlines' pending inclusion in its Emissions Trading Scheme, reportedly blocking Hainan Airlines' subsidiary Hong Kong Airlines from ordering 10 A380s.

Dubai Aerospace Enterprise's **DAE Capital** aircraft leasing unit cancelled the remaining 45 aircraft it had on order with Airbus, the manufacturer confirmed. DAE leapt into the aircraft leasing business at the 2007 Dubai Air Show with orders for 200 aircraft, divided evenly between Boeing and Airbus, with a combined list price value of more than \$27 billion. The original commitment with Airbus was for 70 A320s and 30 A350s, but it had already axed 55 of those aircraft. The latest orders to get cut were for 34 A320s and 11 A350-900s.

Dubai Aerospace Enterprise's **DAE Capital** aircraft leasing unit continues its dramatic climb down from its ambitious 2007 launch. It followed its recent Airbus order cancellations by axing orders for 35 Boeing 737NGs valued at \$2.8 billion at list prices. Boeing confirmed the cancellation. DAE leapt into the aircraft leasing business at the 2007 Dubai Air Show with orders for 200 aircraft, divided evenly between Boeing and Airbus, with a combined list price value of more than \$27 billion. But the company was hard hit by the 2008-09 global financial crisis and has offloaded most of those orders. Airbus confirmed that DAE had cancelled the remaining 45 aircraft it had on order with the European manufacturer. Boeing still lists orders for six 777s and 15 747-8Fs from DAE.

Cebu Pacific Air, now the largest airline in the Philippines, signed six-year operating lease agreements with **RBS Aviation Capital** for two new A320 aircraft, which will be delivered in March 2012 - on top of 27 A320s to be delivered from September until 2016, and 30 A321neo aircraft to be delivered from 2017-2021. CEB signed an MOU with Airbus to purchase 30 A321neos and exercise options for seven current model A320s. The A321neos will be a first of the type to operate in the Philippines. CEB currently operates 10 A319s, 15 A320s and 8 ATR-72 500s. Of the 15 A320s, nine are under operating lease agreements.

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And Finally...

49th International Paris Air Show – Le Bourget (June 2011) – Headline News

49th INTERNATIONAL
PARIS AIR SHOW
LE BOURGET
JUNE 20-26, 2011

49^e SALON INTERNATIONAL
DE L'AÉRONAUTIQUE ET DE L'ESPACE
PARIS LE BOURGET
20-26 JUIN 2011

Bombardier said a "major network carrier" signed an order for 10 CSeries100 aircraft, valued at \$616 million, with options for six more. The airline "has requested to remain unidentified at the present time," the Canadian manufacturer stated. Bombardier Commercial Aircraft President Gary Scott said the carrier "will be the first operator in the CSeries aircraft program." He noted the order is the third one announced this month for the narrowbody aircraft.

International Aero Engines announced an agreement with China Southern Airlines for 65 V2500 SelectOne engines. CZ also signed a long-term maintenance contract with IAE for the A320 engines. Deliveries will begin in May 2012. Total value of the agreement exceeds \$750 million, according to IAE. The engine consortium additionally secured an

order from Gulf Air for 12 V2500 SelectTwo engines.

Pratt & Whitney won an order from All Nippon Airways for 10 PW4074D engines to power five new Boeing 777s the carrier has on order. Deal's value is \$230 million. Pratt additionally signed an exclusive five-year agreement with Malaysia Airlines for its EcoPower engine wash service. Under the accord, the airline will lease one set of EcoPower engine washing equipment from Pratt and perform its own washes at Kuala Lumpur International.

Embraer won commitments for 39 E-190s worth \$1.7 billion at list prices, lifting the number of orders for its E-Jet family to more than 1,000. Of those, 99 have been booked this year. New E-190 orders announced Monday at the Paris Air Show include a contract from Air Astana (two firm and two options), GECAS (two firm), Sriwijaya Air (20 firm and 10 purchase rights) and Air Lease Corp. (five firm). The lessor now has 30 E-jets on contract with Embraer, of which 25 are E-190s and five are E-175s. Embraer's new order list also includes a letter of intent from Kenya Airways for 10 E-190s, plus 10 options. Earlier this month, KQ Group indicated that the carrier was in talks to take additional Embraer aircraft. Embraer delivered its first E-Jet in March 2004 to LOT Polish Airlines and now has some 740 of them operating with 55 airlines in 37 countries.

Airbus kicked off the Paris Air Show Monday with aircraft orders from GECAS, Air Lease Corp., SAS and Saudi Arabian Airlines totaling \$15 billion in value. COO-Customers John Leahy said the manufacturer "will push up the pace" of orders Tuesday. The bulk of the orders were for A320neo family aircraft and 90 of them will be powered by CFM Leap-X engines. During the press conference announcing the SAS contract, Leahy joked that "neo" no longer stands for new engine option but for "new environmental obligation."

GECAS signed a contract for 60 A320neos scheduled to begin delivery in 2016 and selected Leap-X engines for all of them. The engine order is valued at \$1.4 billion at list prices and the aircraft order \$5.5 billion.

SAS placed an order for 30 A320neo family aircraft with options for an additional 11. First delivery is scheduled for the second half of 2016 and final delivery during 2019. The carrier chose the Leap-X to power the aircraft. The engine order is valued at approximately \$710 million at list prices and the aircraft order, based on Airbus list prices and before discounts, is approximately \$2.8 billion. The A320neo order follows the carrier's decision to reduce its short- and medium-distance mainline fleet from 2015 to two aircraft types: A320 family aircraft at its base in Copenhagen and Boeing 737NGs at bases in Stockholm and Oslo. SAS Group expects to finance the aircraft through a combination of leasing and loans. SAS did look at the Bombardier CSeries but said the "total cost package, including issues like pilot retraining and change of maintenance, was not competitive." SAS operates 23 Airbus aircraft, including seven A340s, four A330s, eight A320s and four A321s.

Air Lease Corp.'s agreement with Airbus comprised an MOU for 50 A320neo family aircraft, of which 14 are options, and an order for 11 A330s and one A321. The A321 and all A330s have been placed with customers from different world regions, said ALC Chairman Steven Udvar-Hazy. The A321 will be delivered in November 2012. Delivery of the widebodies will commence in October and will be completed by September 2012; delivery of the A320neos (20 A321s and 16 A320s) is scheduled to start mid-2016 and run through 2019. Udvar-Hazy conceded he was sceptical about the A320neo and publicly questioned the success of the re-engined narrowbody at last year's Farnborough Airshow when ALC ordered 51 A320 family aircraft (30 A320s, 21 A321s). "Initially we were not convinced but oil prices last year were not as high as they are now, and we also doubted the higher maintenance costs," he said. "But the new engines together with the sharklets make the A320s, and specifically the A321, a powerful option. This is what finally got us to go in this direction".

Boeing opened the Paris Air Show with some bold statements, such as a claim that its 747-8 Intercontinental had superior trip and seat-mile economics to the Airbus A380, and backed up its declarations by announcing a slew of new orders. Boeing Commercial Airplanes President and CEO Jim Albaugh said the manufacturer is the leader in every market segment but believes its seven-year backlog is too great. "We are working to bring this down to three to four years," he said. "We have [made plans to increase] the 737 rate to 42 a month, [increase] the 777 to 8.3 and will build the 787 to 10 a month. And we want to get that to 12. We have to be able to respond to our customers' needs or they will be forced to make decisions they don't want to [make]."

Albaugh added that all of Boeing's numbers are in positive territory. "Our customers are blue chips, our margin is 7.2% and our backlog is \$263 billion."

Adding to the backlog Monday at the air show were Qatar Airways and Air Lease Corp. Qatar added six more 777-300ERs to bring its 777 commitments to 40, while ALC committed to 33 aircraft: 24 737-800s, five 777-300ERs and four 787-9s.

Looking to buttress its claim of better economics than the A380, Boeing announced orders for 17 747-8Is from two unnamed customers. This takes firm orders for the passenger version of the newest 747 model to 50.

Going forward, Albaugh said the manufacturer is receiving "strong interest" in the 787-10X, which will be a 5.5 meter stretch of the 787-9 with a capacity of between 290 and 330 passengers, about 40 more than the 787-9. Albaugh asserted that the 787-10X's economics are "brilliant," with operating efficiency 10% better than the A350-900 and 5% better than the A350-1000.

He reiterated that a decision on a 737NG replacement or re-engine would be made at the end of the year. The company is looking at both single-aisle and twin-aisle models as a replacement for the 737. Boeing appears to be moving toward an all-new solution for the replacement of the 737, the biggest selling commercial jet aircraft in history. BCA said an all-new aircraft would offer "new technology which exists" and could enter service in 2019. While a new aircraft carried more risk it "also promised far greater rewards." If Boeing were to re-engine, the new 737 would surpass the A320neo in terms of operating performance. "A re-engined 737 would offer 10% to 12% better fuel burn and an improvement of 6% to 7% in cash operating costs," and the 737 could be compatible with both Pratt & Whitney's PW1000G and CFM International's Leap-X, the two engine choices on the A320neo. Regarding a potential all-new aircraft, Pratt, GE Aviation and Rolls-Royce were all working on new designs. The improvement in fuel burn would be 20% while the cash operating cost advantage would be a percentage "in the low teens".

ATR won an order from Brazil's Azul Linhas Aereas for 10 ATR 72-600 aircraft valued at \$227 million at list prices. "The deal is the conversion into firm orders of 10 of the 20 options inked in the contract that both companies announced at Farnborough Airshow last year," ATR stated. "This conversion brings to 30 the total fleet of ATR 72-600s to be operated by the carrier." ATR 72-600 deliveries to Azul are slated commence in October.

Airbus President and CEO Tom Enders dismissed the possibility that the manufacturer will revive the freighter version of the A380, on which work was suspended in 2007 after all A380F customers cancelled their orders owing to concerns about the manufacturer's ability to maintain delivery schedules. FedEx and UPS in particular were very interested in the aircraft at one point, and have indicated they would take another look if the program were restarted.

International Aero Engines signed an MOU with US Airways to upgrade the carrier's fleet of V2500-powered Airbus A320 family aircraft with the V2500 SelectTwo. Under the MOU, US would purchase kits to upgrade 92 in-service aircraft. Additionally, it would convert V2500 orders for 60 A320 family aircraft on order to SelectTwo models.

Boeing's 787 made its Paris Air Show debut Tuesday. Dreamliner flight test aircraft ZA001 flew a brief demonstration over Le Bourget before landing around 5:20 p.m. local time following a transatlantic flight.

Boeing announced a host of new orders Tuesday at one of the most active Paris Air Shows, in terms of commercial aircraft commitments, in recent memory.

Norwegian Air Shuttle ordered 15 737-800NGs valued at \$1.2 billion based on list prices, bringing its commitment for the type to 78. The airline also finalized its contract to purchase three 787s, an agreement the Oslo-based operator announced in May, which brings the total number of 787s it will operate to five, including two to be leased from ILFC.

Aeroflot ordered eight more 777-300ERs in addition to the order for eight 777s announced in March. Aeroflot noted it is "extremely interested" in the proposed 787-10 with BCA adding that Boeing would "probably build the aircraft" and hoped Aeroflot would be a "launch customer."

GECAS announced its intent to purchase two 747-8 freighters and eight 777-300ERs. The 747-8F is a new model for the GECAS portfolio. Boeing said that it "looks forward to finalizing the details of the agreement, at which time the order will be posted to the Boeing Orders site."

Finally, Malaysia Airlines exercised options for 10 737-800s. The order was previously listed as unidentified by Boeing. The airline has options for a further 10.

Bombardier's CSeries program achieved two milestones as Korean Air signed a letter of intent to purchase 10 CS300s, becoming the first Asian airline to commit to the aircraft, and Pratt & Whitney test flew for the first time the PW1500G geared turbofan engine designated to power the aircraft. The LOI is for the purchase of 10 CS300s, plus 10 options and 10 purchase rights. First delivery is scheduled for the first quarter of 2017. KE said that the aircraft likely will be used to operate short-haul routes from Seoul Incheon to destinations in China, Japan and Southeast Asia. Both Scott and Cho indicated that finalizing the order is close, and that the airline plans to take advantage of the options and purchase rights.

Not including the KE LOI, Bombardier has booked orders for 113 CSeries aircraft comprising 51 CS100s and 62 CS300s. It won an order Monday for 10 CSeries aircraft from an undisclosed.

Airbus remained on a roll Tuesday at the Paris Air Show, announcing orders from CIT Group, JetBlue Airways, Garuda Indonesia and TransAsia. Like Monday, orders and commitments were dominated by A320 family aircraft, particularly the re-engined A320neo. In the first two days of the show, Airbus received commitments for 263 aircraft worth \$26.1 billion at list prices. The A320neo family has logged 594 orders so far this year.

Airbus will start offering a retrofit large winglet solution from 2013 for A320 family aircraft currently in service. The cost for a retrofit is estimated to be around \$1 million. Sharklets for new-build A320s are produced by Korean Air's aerospace unit, but Airbus would not confirm if KE would also produce the retrofit large winglets.

The ramp-up of A320neo production will be "pretty fast" and that Airbus's narrowbody production line could be fully dedicated to the re-engined version from the 2018 first quarter. "But this will depend on market demand". A320neo EIS is planned for October 2015.

TransAsia placed a firm order for six A321neo aircraft and Garuda signed an MOU covering 15 standard A320s and 10 A320neos for operation by its domestic low-cost unit Citilink. CIT Group signed an MOU for 50 A320neo family aircraft valued at \$4.6 billion based on list prices. Deliveries are scheduled to start in 2016 and will run through 2019. The company did not define how many of each type of the A320neo family it would take. "As a lessor we need flexibility, but we will need especially A321neos," CIT commented, pointing out that "the unique combination of the new engines and the sharklets really add range ... It brings it very close to filling the 757 gap." CIT said it selected Pratt & Whitney PW1100G engines for its order of A320neo family aircraft, noting that the deal "includes 60 PW1100G engines and options for up to 40 additional engines installed on aircraft." In a separate announcement, it said it concluded an agreement with CFM International for Leap-X engines to power 15 A320neo family aircraft, plus options to purchase engines to power an additional 10 aircraft.

JetBlue Airways signed an MOU to purchase 40 A320neo aircraft as part of what it called a "network-driven revision and extension of its A320 delivery schedule," which also includes the deferral of eight A320s from 2014-2015 to 2017 and the conversion of 30 of its current 52 A320 positions to A321s. The deferrals are intended to "smooth out aircraft deliveries, reducing capital commitment over the near term," it said.

All of JetBlue's A320 family deliveries starting in 2013 will come with sharklets, and JetBlue will be a launch customer for retrofit winglets on its existing A320 fleet. Its A320neos are scheduled for delivery in 2017. The airline did not announce an engine selection.

Boeing signed an agreement Wednesday with Russia's UTair Aviation under which the airline committed to purchase seven 737-900ERs and 33 737-800s.

ATR has plenty of reasons to celebrate its 30th birthday with a big bang after increasing its Paris Air Show tally to a record 60 new orders and 37 options. It added two new contracts Wednesday: Ecuador's TAME ordered three ATR 42-500s valued at \$54 million at list prices, and Nordic Aviation Capital signed a contract for 10 ATR 72-600s, plus 10 options. The 97 orders and options announced at the air show this week join 28 orders and five options previously revealed this year, lifting 2011 sales to 130 aircraft. ATR's backlog now stands at 233 aircraft valued at \$5.4 billion.

"Our list of customers, both airlines and leasing companies, is dramatically increasing, and ATR aircraft are today in almost 100 countries."

The NAC order marks the lessor's first speculative purchase of an ATR aircraft. The privately held leasing company will take delivery of the new aircraft in 2014 and 2015, lifting its ATR portfolio to more than 100 units. NAC has placed ATRs worldwide and sees strong demand in Asia and Latin America for the turboprops.

Airbus continued its steady stream of aircraft order announcements at the Paris Air Show Wednesday, taking commitments and orders in the first three days of the show to more than 600 aircraft—most of them A320s. Not all of the announcements are new orders or MOUs, however. IndiGo's contract signing Wednesday was a firming up of an agreement reached late last year for 180 A320s, including 150 A320neos. The contract has a value of \$16.2 billion at list prices. Deliveries will start in 2015 and run through 2024. "Our existing order for 100 A320s and the order announced today will help meet India's growing flying market," IndiGo told media, strongly dismissing the assertion that there is overcapacity in the Indian market. "There are only about 400 commercial planes for a market of 1 billion people. It will take many years before the Indian market reaches maturity." IndiGo, as previously announced, selected Pratt & Whitney PW1100G engines for its A320neos.

Airbus announcements Wednesday included a new MOU for 40 A320neos and 40 A319neos from Republic Airways Holdings, which selected CFM International's Leap-X engine for all 80 neos. The engine order is valued at more than \$2 billion at list prices.

New orders and commitments also came from ALAFCO. The Kuwaiti aviation leasing firm signed an MOU for 30 A320neos and an order for six A350-900s, bringing its total order for the type to 18. "The order reflects a strong recovery in long-haul traffic demand from our customer airlines," the lessor noted. Its new order is valued at \$1.6 billion at list prices. ALAFCO initially signed up for 12 A350-800s in 2007 and switched them to the larger -900 variant at the Farnborough Airshow.

LAN Airlines placed a firm order for 20 A320neo aircraft as part of its expansion strategy and fleet renewal program. The airline becomes the first in South America to sign a firm order for the re-engined narrowbody. Engine selection will be announced by the airline at a later date, Airbus said.

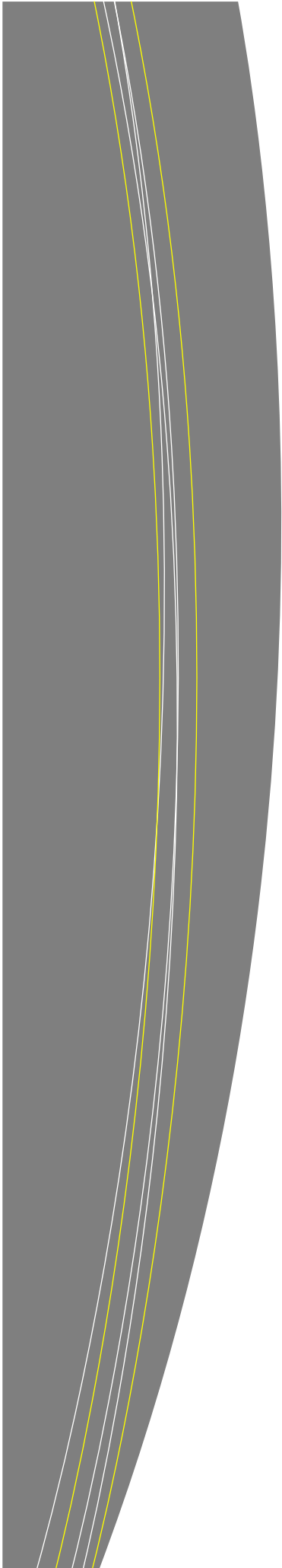
More A320neo commitments came from AviancaTaca, which signed an MOU for 51 A320 family aircraft, including 33 A320neos.

A massive order Thursday from Malaysia's fast-growing, low-cost carrier AirAsia for 200 A320neos capped a record Paris Air Show for **Airbus**, bringing its total orders and commitments for the week to 730 aircraft from 16 customers. The tally includes purchase orders for 418 aircraft (some of which had been previously announced as MOUs) valued at about \$44 billion at list prices, and new MOUs for another 312 aircraft worth about \$28.3 million at list prices. Airbus's biggest seller at the air show by far was the A320neo; it now has secured a total of 1,029 commitments for the re-engined aircraft since its launch in December 2010. The order from AirAsia for 200 A320neos, valued at \$18.5 billion, tops Wednesday's deal for 150 A320neos and 30 standard A320s placed by IndiGo, which had been previously announced. AirAsia is now the largest customer for the A320 family of aircraft, with a total of 375 ordered and 89 already in service. AirAsia, which has selected the CFM International's Leap-X engine for its neos, expects to take delivery of 12-15 aircraft each year beginning in 2016. First deliveries of the A320neo begin in 2015.

India's GoAir also added to the A320neo backlog with a firm order for 72 aircraft. The carrier already operates 10 A320s and will take the remaining 10 A320s from its original order over the next two years.

Another order at the tail end of the show boosted the order book for the A380. Skymark Airlines, Japan's third-largest carrier, placed orders for two more A380s, which brings its total commitment to six aircraft. The carrier plans to start operations with the A380 on international routes linking Tokyo Narita to destinations in Europe and the US.

Bombardier added another order to its new CSeries backlog, this time for 10 of the CS100 model from an unidentified European customer. The order, the third disclosed at last week's Paris Air Show, is valued at about \$628 million at list prices. The latest order brings Bombardier's CSeries order book to 123 aircraft. Other firm-order customers for the CSeries include Republic Airways Holdings (40 CS300s), Lufthansa (30 CS100s), Lease Corp. International (17 CS300s, 3 CS100s), Braathens Aviation (5 CS100s and 5 CS300s), an unidentified airline (3 CS100s) and an unidentified "major network carrier" (10 CS100s). In addition, Korean Air has signed an LOI for up to 30 CSeries aircraft, and there are 109 options on the books.



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