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Continental, United airlines talking merger again

Continental Airlines is again discussing a merger with United Airlines, two years after the Houston-based carrier abandoned similar talks and declared its desire to stay independent.

The renewed talks were kick-started after word got out last week that United and US Airways had started merger discussions of their own.

If United and US Airways were to merge, they would create the second-largest airline in the world, leaving Continental a distant fourth.

There was speculation last week that those talks might draw Continental back to the table. A merger of Continental and United would make it the largest carrier, surpassing the now-merged Delta and Northwest.

"I'm not surprised that there are merger talks, but that doesn't mean there will be a merger," a knowledgeable industry source stressed.

Among the issues to be hammered out: price; who would be in charge; whether the headquarters would be in Houston or Chicago, where United is based; the airline's name; what hubs might stay or go; and a plan for labour issues, which are often contentious in airline mergers.

Industry observers generally believe that Continental CEO Jeff Smisek would head up the new carrier.

Officials at Continental and United declined to comment on Thursday.

United and Continental had on-and-off talks dating to 2006, but the landscape changed in early 2008 after Delta and Northwest decided to merge.

United and Continental went to the bargaining table again, but in late April 2008, Continental, led by then-CEO Larry Kellner, walked away.

The two ended up getting together in a different form: an operational alliance that lets them expand their networks without merging. As a result, Continental joined the Star Alliance with United and US Airways.

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In January of this year, Smisek took over as CEO of Continental. He said last month that he was not convinced about a Continental merger deal.

Former Continental CEO Gordon Bethune said Thursday it would not surprise him if Smisek is talking to United CEO Glenn Tilton.

"He definitely owes it to his employees and his shareholders to look it over," Bethune said.

Continental's domestic strength in the Northeast would complement United's hub on the West Coast, analysts say. And United is strong in Asia, while Continental is a major player in Latin America.

A Continental-United merger creates almost twice the post-merger value than a merger with US Airways, wrote Vaughn Cordle, partner and chief analyst at research firm Airline Forecasts.

A merger would generate revenue and cost savings of more than \$2 billion, perhaps \$750 million to \$1 billion more than a United-US Airways pairing, according to a research report by analyst Hunter K. Key of investment bank Stifel Nicolaus.

On Thursday, United's Air Line Pilots Association announced that Continental seemed like a more logical partner for United than US Airways, saying that deal would have fewer overlapping routes. That, the union said, would help protect more pilot jobs.

Jim Kee, a chief economist with South Texas Money Management Ltd. in San Antonio, said falling jet fuel prices along with the improving economy may make a merger more attractive now. The firm held 1.2 million shares of Continental at the end of last year, according to regulatory filings.

"Airlines are not profitable businesses even at their best, but they do tend to do well coming out of recession," he said.

Regardless of the outcome of the United-Continental discussions, airline investors expect some carriers to merge.

"I do think there's going to be some mergers, and it's probably going to be good for the industry," said Don Hodges, chairman of Hodges Capital Management in Dallas, which owned about 977,000 Continental shares as of Dec. 31.

Source: Jenalia Moreno, chron.com - 16th April 2010

IBA's Comment:

"Given the huge appetite for and, in some cases, necessity of airline mergers in Europe and the US, it is likely that only six major legacy carriers could exist across the two continents in a few years."

- David Rushe

Reliance Acquires Stake In Cargo Venture Deccan 360

Reliance Industries Ltd (RIL), India's largest private sector company, has invested an undisclosed sum in Deccan 360, the cargo airline venture floated by aviation entrepreneur Captain G R Gopinath. Reliance Industries has made this investment through a wholly owned subsidiary, a company statement said.

RIL's stake in Deccan 360 is expected to be between 26% and 50%. Two RIL representatives will be on the board of the cargo venture. A Reuters report pegs the investment by Reliance at \$20 million to \$30 million.

Earlier media reports have said that Bharti Enterprises and Federal Express were in the race to acquire a stake in the cargo airline. Deccan 360 was also exploring private equity investment possibilities.

Commenting on the initiative, Mukesh D. Ambani, Chairman & Managing Director, Reliance Industries Ltd, said, "we believe that our collaboration with Deccan 360 will see a transformation in the logistics domain in India. We are sure that this initiative will propel the customer experience to the next level in India in the logistics domain."

Capt Gopinath, chairman and managing director of Deccan 360, has invested \$25 million in the venture.

By acquiring more than 26% in Deccan 360, RIL seems to be exploring the high potential of the logistics business, especially in air cargo to strengthen its retail business, where it is gaining traction. Capt Gopinath founded Air Deccan, India's first budget carrier, which was sold in 2007 to the United Breweries group, operator of Kingfisher Airlines Ltd.

It is a win-win deal, said an aviation analyst, who did not wish to be quoted. For RIL, it means synergies with its retail business, that can then benefit from a presence in the logistics space. Deccan 360 brings on board a marquee strategic investor.

"For RIL, the supply chain is very important to ensure that they have a strong network for getting products across the country," Binit Somaia, Director for South Asia at the Centre for Asia

"Reliance is also getting into an industry which has a huge potential, as there are very few air cargo operators in India"

- Binit Somaia

Pacific Aviation in Sydney told Bloomberg. Reliance is also getting into an industry which has "huge potential," as there are "very few air cargo operators in India," he said.

Reliance Retail Limited (RRL), a subsidiary of RIL, was set up in 2006 to lead the Group's foray into organised retail. According to the RIL website, RRL has increased its footprint to over 900 stores in 80 cities across 14 states.

According to Param Desai, a logistics analyst at Angel Broking, the move by RIL will be an easier way of strengthening the retail business by outsourcing all services to Deccan 360 instead of setting up its own logistics business and team.

Dow Jones, quoting data from the Airports Authority of India, says, "air freight companies carried 1.4 million metric tonnes of domestic and international cargo in India during April-December 2009, a 10% rise from the year earlier period." India's air cargo and logistics services still severely lag those in countries such as China, Hong Kong and Korea because of the lack of adequate warehousing and processing facilities at India's airports, Dow Jones reports.

Deccan 360 has currently deployed eight freighter aircraft, covering 15 airports, with a fleet of over 300 trucks and 850 vehicles nationwide. It is delivering services to 50 cities, all driven by 60 plus franchisees nationwide.

Deccan 360 claims to be the first logistics company in India to adopt and develop a hub and spoke model. The core of its hub-and-spoke model is the state-of-the-art hub being developed across 50 acres at Nagpur. This central hub in Nagpur will form an extensive state-of-the-art multimodal (surface and air) storage, transportation and delivery network bringing connectivity to every corner of the country.

Source: Reghu Balakrishnan, vccircle.com - 16th April 2010

"Deccan 360 has currently deployed eight freighter aircraft, covering 15 airports, with a fleet of over 300 trucks and 850 vehicles nationwide. It is delivering services to 50 cities, all driven by 60 plus franchisee nationwide."

Bombardier's CSeries has upped the ante for entire industry

Say what you will about Bombardier Inc.'s project to build a large airliner, the CSeries, to compete with the giants of the aerospace world but no one can deny it has made the aviation industry sit up and take notice.

And to a large extent, the fate of the most ambitious and riskiest program in Bombardier's 24 years of building airplanes rests not only on what the Montreal firm does, but how its competitors respond.

The world's two big-league airframes, Airbus SA and Boeing Co., once sniffed at Bombardier as regional stuff, down-market, and not their concern. They are concerned now.

Bombardier says it has 90 orders for CSeries planes which are slated to go into service in 2013. Testing on the aircraft's wings is underway at the company's Belfast facility in Northern Ireland.

Since development of the CSeries was launched 13 months ago, the central question in airplane circles has become whether the giants of the industry will respond by "re-engining" their venerable Airbus 320 and Boeing 737 families of narrow-body aircraft.

Re-engining refers to new, more efficient engines that Airbus and Boeing are considering for planes that have long proven their mettle in the sky, the A320 family for Airbus and the B737 family for Boeing.

That, in itself, is an indication of how the industry has had to focus on the CSeries, particularly its GTF (geared turbofan) engine that Pratt & Whitney developed for that plane. If the engine performs as advertised, cutting fuel consumption by up to 20 per cent, it would represent a major step forward that Airbus and Boeing could not afford to ignore.

For Air Canada, by way of example, fuel accounts for between 25 and 35 per cent of total operating costs - big money for an eternally precarious industry.

Top executives of both companies stressed they are not taking the CSeries lightly.

"I'm not going to use the word threat," said Barry Eccleston,

"the central question in airplane circles has become whether the giants of the industry will respond by "re-engining" their venerable Airbus 320 and Boeing 737 families of narrow-body aircraft."

president and CEO of Airbus North America, "but we do see it as a competitive product."

He noted Airbus and Boeing have not finalized which new engines in development they may adopt, and that it will require "a large investment."

Drew Magill, marketing director for Boeing Commercial Airplanes, added that "we take the CSeries very seriously. We see some issues that they're going to overcome. A lot of the technologies being discussed (for the CSeries) we have quite a bit of experience with over many years. It's going to be a challenge for somebody new in that area."

Bombardier's moves have been met with mixed reviews.

Bernstein Research, said chillingly last week that "an Airbus or Boeing re-engine would crush the CSeries."

It hedged a bit, calling Bombardier's "CSeries ... the most important near-term threat while China's Comac C919 represents the most important long-term threat."

Bernstein cast doubt on "Bombardier's ability to bring the CSeries to market close to its 2013 schedule or performance expectations," but added that Boeing and Airbus cannot afford to bet "that the CSeries will fall short."

On the other side, analyst Nicholas Heymann, with brokerage firm Sterne Agee on Wall St., is a firm, almost devout, believer in the CSeries.

"Once the industry figures out that plastic planes are the way to go, the CSeries will be far out front and impossible to catch," Heymann said.

The "plastic plane" reference is to the lighter carbon composite materials that Boeing used for its 787 Dreamliner and that Bombardier is using in parts of the CSeries. Heymann and others say it will become the standard for new planes.

Eccleston said Airbus's decision will be made by the time of the Farnborough International Airshow in England this July. Most people interviewed expect Boeing to announce shortly after Airbus, and to tailor its decision to that announcement - a no go by Airbus would likely mean the same from Boeing and vice versa.

Their decisions are complex ones, with many moving parts. Their first hurdle is an engine. Both have partnered to develop

IBA's Comment:

"The success or otherwise of the GTF will be a key driver in future orders for the CSeries. IBA is of the opinion that a successful test phase will lead to further order placements as the aircraft enters service. The US regional and short-haul market has to be seen as a key source of these orders."

- David Rushe

better engines, including a version of Pratt & Whitney's PW1000G geared turbofan as well as CFM International's LEAP-X, but none has been fully developed yet.

Also, both their plates are full. Boeing is still dealing with its much-delayed 787 Dreamliner and stretched 747-8, and it recently announced accelerated production of its wide-body 747s and 777s. Airbus still bears the scars of its also-delayed A380 superjumbo and the Toulouse-based company is faced with a series of critical decisions about a major military transport plane and the planned A350, its response to the Boeing 777 and 787.

Brazil's Embraer SA is also considering entering the fray.

Gary Scott, the former Boeing executive who has been in charge of the CSeries program from the start, said in a March interview that "Boeing and Airbus today compete with a downsized version" of their 737s and A320s.

"If they were to re-engine, it would make them better planes but not optimal. They'd put new engines on legacy airframes" that were not designed specifically for that engine, unlike the CSeries.

Raymond Jaworowski, a senior aerospace analyst for Forecast International of Newton, Conn., agrees. Given that re-engining would cut costs by eight to 10 per cent from heavier, more expensive planes that cost more to operate, Jaworowski said, "the CSeries promises something more to the market than re-engining does."

"In the environment that airlines operate in, that's a big selling point for the CSeries. It all depends on how close to the promised efficiencies Bombardier can come. Airlines will not only look at the promised efficiencies re-engining offers, but how that compares to the CSeries."

Whatever happens, Boeing and Airbus are unlikely to keep their duopoly in large aircraft, said Brian Foley of New Jersey-based aircraft analysis firm Brian Foley Associates,

Source: Francois Shalom, vancouver.sun.com - 15th April 2010

"If they were to re-engine, it would make them better planes but not optimal. They'd put new engines on legacy airframes"
- Gary Scott

Macquarie buys aircraft leasing unit

Macquarie Group will substantially boost its aircraft leasing arm with its banking arm to acquire a portfolio of 53 aircraft for \$US1.99 billion from troubled US insurer American International Group.

Macquarie said the purchase will be funded from existing cash reserves. A spokeswoman for the bank said the assets come debt-free.

The deal has invoked memories of former high-flying leasing specialists, Allco Finance Group and Babcock and Brown, which both amassed sizable aircraft leasing portfolios before their respective empires collapsed as the rush of cheap credit dried-up.

Shares of Macquarie Group rose 39 cents, or 0.8 per cent, to \$50.39.

A US-listed subsidiary of Babcock continues to operate - B&B Air currently oversees a fleet of 62 aircraft to more than 30 airlines.

Macquarie has long coveted the aviation industry. The investment bank spearheaded the acquisition of Sydney airport and in 2007, with partner Allco, came close to acquiring carrier Qantas Airways in a debt-fuelled transaction.

Of the 53 aircraft that MBL has agreed to acquire, it will pay \$US1.67 billion for 47. A second Macquarie subsidiary already has rights to acquire an additional six aircraft directly from AIG on similar terms.

Macquarie said the portfolio of 47 aircraft comprises young, modern aircraft on lease to 35 airlines.

The weighted average age of the fleet is less than 4 years and the average remaining lease term are more than 5 years.

The bulk of the aircraft portfolio is made up of Boeing 737 Next Generation and Airbus A320s.

Macquarie said the credit quality of the lessees were above average for an aircraft operating lease portfolio.

Macquarie Group chief financial officer Greg Ward said the acquisition leverages the investment bank's existing asset leasing business and diversifies the client base of its fleet of aircraft.

IBA's Comment:

"Macquarie has secured a very attractive package of aircraft in this acquisition. ILFC has reduced its China exposure. A good deal all round."

- Owen Geach

Currently Macquarie operates an asset leasing trust which owns nine aircraft on lease to an Australian airline and MAF, a global aircraft leasing company which in 2006 purchased GATX Air, a business that owns or manages 124 jet aircraft leased to 57 operators.

In January, the receivers of Allco Finance completed the sale of its key aircraft leasing business to China's HNA Group.

Source: Eric Johnston, smh.com.au - 14th April 2010

Garuda to phase out 16 Boeing aircraft

PT Garuda Indonesia plans to phase out 16 of its Boeing aircraft following plans to increase its fleet to 116 by 2014.

Its president director, Emirsyah Satar, said on Tuesday that the decision would affect old planes to make the airline able to operate more efficiently and safely using new planes.

"Until today the number of our planes is 72. This year Garuda plans to receive 24 new planes. However in net terms we will only add eight more planes because 16 classic units would be phased out," he said.

He said the leases of some of the 16 planes had expired and therefore they would be returned to the lessors in France.

Meanwhile, the planes that are owned by Garuda would possibly be sold to other airlines, he said. Emirsyah would not say the prices of the planes that would be sold.

According to plans, the state-owned airline would receive 23 Boeing 737 New Generation aircraft and one Airbus 330-200.

The company plans to operate 116 planes consisting of 90 Boeing 737NG and 26 A330-200s by 2014.

Garuda spokesman Pujobroto said all classic Boeing 737-300, -400 and -500 aircraft would be phased out.

He said, however, it was not impossible for the company to still use those aircraft belonging to Garuda for Cililink service, its subsidiary operating in a medium market.

"Or we convert them into cargo planes. So Garuda would not

"Until today the number of our planes is 72.

This year Garuda plans to receive 24 new planes.

However in net terms we will only add eight more planes

because 16 classic units

would be phased out"

- Emirsyah Satar

only rely on belly cargo but could also operate its own cargo planes," he said.

He said the phase-out plan was still being studied further. Pujobroto also said that the cargo business had so far contributed 12 to 13 percent of the company's total revenue.

"Last year the target was not achieved. It is hoped by converting the old planes we could increase our income from cargo service," he said.

Emirsyah on Tuesday signed a memorandum of understanding with Bank Rakyat Indonesia (BRI) in the field of corporate sales.

Based on the cooperation, Garuda would give a 15 percent discount on tickets for domestic as well as overseas travels to corporate customers of PT Bank Rakyat Indonesia and their family members.

"BRI itself is the 734th corporate customer of Garuda," he said. BRI president director Sofyan Basir said the cooperation scheme would certainly reduce official travel cost.

Sofyan said BRI has 62,000 employees and 6,600 branch offices across the country and abroad, making travel frequencies for BRI officials high.

"Every year we spend more than Rp100 billion for flight tickets. The cooperation with Garuda will certainly reduce it and assure more efficiency and accountability," he said.

Sofyan said Garuda has been cooperating with BRI in ticket purchase through BRI's automatic teller machine network.

Garuda expects to earn Rp2 trillion from corporate customers from 750 companies this year, up from last year which was recorded at only Rp600 billion from 580 companies.

Source: Antara News, antara.co.id - 14th April 2010

IBA's Comment:

"The Indonesian carrier anticipates rapid growth as it expands international services following removal from the EU black list. Indonesia also has potential as a long-haul hub given its location within ultra long-haul range of Europe and proximity to Australasia and South Asia"

- David Rushe



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IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, www.ibagroup.com

Conference Dates

26th - 27th April 2010 - Euromoney 30th Annual New York Finance Conference, New York - Owen Geach will be attending

4th - 6th May 2010 - 2010 European Business Aviation Convention & Exhibition, Geneva - Owen Geach and Mark Wooller will be attending

Geneva Airfinance Conference

IBA's Owen Geach and Alice Gondry were prominent speakers at the Geneva Airfinance Conference last month. IBA presented their Perspective on the Current Market and Updates on Aircraft Values and Lease Rates to a breakfast seminar and also fielded questions on the Appraiser Panel. IBA holds the view that the industry downturn is at the bottom and that there are signs of recovery. Aircraft Value drops have occurred across the board - some have been minor as little trading has actually occurred, others are significant. Current production aircraft have exhibited the smallest drops, with some out of production aircraft dropping by large margins. Most aircraft market values have dropped from between 10-20% from base, and even further when considering the market peak in 2007. Some poor performing aircraft like the MD80 have dropped 40% from base alone. Banks are reluctant to finance transactions - this together with low passenger numbers has led to a drop in deals completing. There have been a large number of lease defaults - and decreasing rental streams. For a copy of IBA's full market presentation please contact owen.geach@ibagroup.com

IBA Aircraft for Sale

2002 Embraer Legacy - MSN: 145505, Total time: 2281, Cycles: 1484 - US\$12.5m.
Please contact Mark Wooller for further details at mark.wooller@ibagroup.com or call: +44 (0) 1372 224488

Publications - 2010 Editions

Please contact marketing@ibagroup.com for more information.

Aircraft Values Book	Published in February & August 2010	£650 per year
Lease Rate Digest	Published in February & August 2010	£375 per year
Engine Values Book	Published in April 2010	£650 per year
Maintenance Cost Journal	Published Quarterly	£175 per year

Phil Seymour's Notes on the Week

So Icelandic catastrophe causes European stagnation!

Its ash rather than cash this time. I know that volcanic ash is not conducive to keeping aircraft in the air, I was a young engineer at BA when we had the B747 that flew through spewing ash and all four engines flamed out. I was actually involved in sorting out the materials that needed to be sent to Jakarta - most leading edges, windscreens and air conditioning equipment that had either become eroded or clogged (oh, yes I almost forgot the engines) BUT to stop all flights is a complete over-reaction in my opinion. However, I am reminded of a basic pilot training anecdote - "better to be on the ground wishing you were on the air, than being in the air wishing you were on the ground".

Phil

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