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Aircraft industry is pulling out of tailspin

After one of the worst years ever for the aviation industry, airlines and aircraft leasing companies went on a buying spree at the Farnborough AirShow, announcing orders worth nearly \$30 billion, or more than three times last year's tally at the Paris Air Show. The two premier aviation gatherings alternate each year.

The orders reflected the airline industry's renewed confidence that air travel was coming back — albeit gradually.

European aircraft maker Airbus sold 133 passenger jets worth \$13 billion at Farnborough. Its Chicago rival, Boeing Co., landed 103 orders worth around \$10 billion. Makers of smaller commercial jetliners such as Brazil's Embraer and Canada's Bombardier Inc., also struck contracts worth billions of dollars.

The demand is being fuelled by an uptick in air travel.

After suffering losses of \$9.4 billion in 2009, the airline industry is expecting to bounce back with \$2.5 billion in profits this year, its first since 2007, according to a recent forecast by the International Air Transport Assn. Passenger traffic is expected to grow 7% and cargo traffic 18.5% this year.

Many U.S. carriers' posted profits in the second quarter compared with losses in the same period a year earlier.

As a result, airlines are for the first time in years looking to replace their aging fleets, which are hovering around 15 years old.

However, many airlines have not recovered enough to buy new planes on their own. Larger, twin-aisle jetliners can cost more than \$200 million each.

The biggest buyers at the show were aircraft leasing companies, which buy aircraft and rent them to airlines for a fixed time period. By leasing, airlines can get new planes without a huge investment. Because leasing companies can buy in bulk, they get discounts few airlines can get on their own.

"Airlines don't want to buy anything right now," said Joe Brancatelli, editor of JoeSentMe, a business travel website. "If they could, airlines would try to lease their

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CEOs' shoes."

This is all good for Los Angeles billionaire Steven Udvar-Hazy, who recently came out of retirement to start an aircraft leasing firm, Air Lease Corp. in Century City.

"We're getting into the market at the right time," he said in an interview last week. "Demand for aircraft is strong and only going to get stronger."

On Monday, the first day of the show, Udvar-Hazy announced he was purchasing 51 A320-family airliners from Airbus. The next day he struck a deal for 54 of the popular 737 commercial jets from Boeing. The orders are potentially worth \$9 billion based on list prices and accounted for a third of all deals at the air show.

Source: W.J. Hennigan, latimes.com - 23rd July

IBA's Comment:

"The raft of A320 and 737 orders will raise further questions about the likelihood of replacement or re-engined narrow-bodies."

- David Rushe

Bombardier puts faith in C-Series

Bombardier failed to fulfil expectations for an attention-grabbing order for its much-touted C-Series single-aisle airliner at the Farnborough International Airshow, but the Canadian plane maker insists it remains a potential rival to existing offerings from Boeing and Airbus.

Bombardier Commercial Aircraft President Gary Scott told The Associated Press on Thursday that the Montreal-based company is in advanced discussions with "a handful" of customers for the C-Series, despite being outshone at Farnborough by Brazil's Embraer as both attempt to make inroads into the lucrative mid-sized civilian jet market.

Bombardier made deals worth \$1 billion at the event, but the majority came from its successful business jet division, with the commercial arm doing just one deal with Australian flag carrier Qantas, and for just seven Q400 turboprops worth \$218 million.

Embraer, by contrast, signed a \$1.3 billion deal with Flybe for 35 E175s, which competes against Bombardier's CRJ700, with options for more as the British low-cost airline plans to expand in Europe.

"Embraer, by contrast, signed a \$1.3 billion deal with Flybe for 35 E175s, which competes against Bombardier's CRJ700"

There were no deals at all for the C-Series, which Bombardier is marketing as 20 percent more fuel-efficient than the comparable Airbus A320 and Boeing 737 family of aircraft.

Bombardier currently has 90 firm orders and 90 options for the C-Series, which launched in 2008 and is due for its first delivery in 2013.

"We all like to make announcements at airshows because everybody's watching, but we do not drive our contract discussions to be concluded by an arbitrary date like an airshow," Scott said between appointments with potential customers at the show outside London.

"We think that's not productive, it can end up in what I'll call less quality orders just in order to make an announcement at a show," he added. "So we focus on getting quality orders."

Scott said that Bombardier expects more orders "in the not too distant future," but declined to name a firmer time-frame.

Bombardier eventually hopes to capture half the global market for 100-149 seat planes, which it forecasts will require 6,700 jets between 2010 and 2029.

Expectations were raised for the C-Series at Farnborough after Bombardier notched up a strong 80-plane order earlier this year from Republic Airways Holding Inc. for the plane, which uses lightweight composite materials, advanced technologies, and a new engine from Pratt & Whitney, a unit of United Technologies Corp., to make fuel efficiencies.

Chicago-based Boeing and Europe's Airbus both conceded on the eve of the show that their days of their duopoly in the 100-200 seat plane market were numbered, citing Bombardier, Embraer, China's state-owned Comac and Russia's Irkut as growing challenges.

Part of the problem for Bombardier is that many potential buyers are hanging back to see what Boeing and Airbus plan in retaliation - both manufacturers are considering whether to add fuel-efficient engines to their popular narrow-body aircraft to compete with the C-Series.

Virgin America CEO David Cush, who signed a memorandum of understanding with Airbus for 40 A320s and options for 20 more at Farnborough, said that the C-Series "is a great airplane."

However, moving to a second fleet from a different manufacturer, which entails greater maintenance and engineering costs, is difficult for a small carrier like Virgin,

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Cush said.

"Our hope and desire is that Airbus will have an efficient option by 2016-2017 ... so that we can stay with an all Airbus fleet," he said. "But in the end I'll also say that if there is another aircraft out there that is 15 to 20 percent more green than the aircraft we have, then we will take a hard look at them."

Qatar Airways gave Bombardier its only deal at Farnborough with an order for three business jets worth \$122 million, but did not make a C-Series commitment.

Qatar Chief Executive CEO Akbar Al Baker said the carrier had issues over the Pratt & Whitney engines used in the C-Series, but those had been allayed and it was still interested in acquiring the plane.

"We are definitely still talking to Qatar," said Scott. "Our ongoing discussions have been positive, they have been productive."

Source: Jane Wardell, STLtoday.com - 22nd July 2010

RBS confirms faith in aircraft leasing arm with £5bn order

Royal Bank of Scotland took a break from its huge disposal programme on Wednesday to confirm it had placed a £5 billion order for 95 passenger aircraft for its aviation leasing unit.

The planes will be delivered between now and 2015 with those expected this year already placed with customers around the world.

The order for 52 Airbus A320s and 43 Boeing 737s aircraft from RBS Aviation Capital was confirmed at the Farnborough Air Show on Wednesday.

The bumper deal was placed some time ago but deals in the industry are often not made public until a major air show.

RBS Aviation Capital chief executive Peter Barrett said the purchase reflected strong demand for leased aircraft, particularly in emerging markets in Asia, Latin America and the Middle East.

"We always buy when we think there is demand and sell when

"There is a balance of cautious optimism and airlines have managed the recession relatively well."
- Peter Barrett

we see no demand from investors," he said.

"It reflects the underlying long-term trend that there is demand for leased airplanes, particularly for the narrow-body 'workhorses' of the industry, the Airbus A320 and Boeing 737."

Leased aircraft make up 35 per cent of the world's aircraft fleet but that percentage is rising as airlines increasingly look to reduce their capital costs.

"I think airlines are optimistic but there is a suggestion of caution which also reflects the broader economy," he said.

The first of the aircraft has already been delivered to Indonesia's Garuda, which also announced a separate order for six A330 wide-body passenger jets on Wednesday. Barrett also said he believed the airline industry had held up comparatively well during the economic downturn.

"There is a balance of cautious optimism and airlines have managed the recession relatively well. The industry has come through this storm better than many expected two years ago."

He said funding for aircraft purchases was also picking up.

"We're certainly in an improving market in terms of liquidity, but I think it will take time to get back to pre-crisis levels."

RBS Aviation Capital, which is headquartered in Dublin, is one of the world's largest leasing companies and currently controls a fleet of around 210 planes and is also an active trader of aircraft.

Meanwhile, RBS along with other UK banks HSBC Holdings, Barclays and Lloyds Banking Group is expected to have passed the EU's stress tests when the test results are released on Friday.

Results of the tests, which will assess how banks would fare if economic conditions worsened and sovereign debt holdings fell in value, are due on 91 banks across the community.

Source: Perry Gourley, business.scotsman.com - 22nd July 2010

IBA's Comment:

"The 737-800 order should help soften the blow imposed on Boeing by RBS when it cancelled 25 787's last year. Out of all the orders at Farnborough, the RBS order probably best illustrated renewed confidence in the market"

- David Rushe

Delta kicks off airlines earnings season

On Monday, Delta Air Lines Inc. reported what was probably the best second quarter in its history. In thanks, investors pushed its stock price down nearly 3 percent.

Delta kicked off the earnings season for U.S. airlines with a second-quarter net income of \$467 million, or 55 cents per share, a big turnaround from Delta's loss a year before.

It may be that type of quarter for the airline industry as the size of profits may not be as important as the signs for the future. In particular, investors and analysts want to see signs that airline fortunes continue to improve.

Delta kicked off the earnings season for U.S. carriers with a net income of \$467 million, or 55 cents per share. Excluding special items, Delta's earnings came to \$549 million, or 65 cents a share. That represents a big turnaround from Delta's \$257 million loss in the same quarter last year.

Delta's revenue rose 17 percent to \$8.17 billion.

Delta estimated that its operating margin, or earnings before interest and taxes, would be up 10 to 12 percent in the third quarter.

For some analysts, the carrier's third quarter outlook was not as strong as they hoped.

"While a 10 to 12 percent outcome is robust in the absolute (the predecessor company has not achieved 3Q margins of this magnitude since 2000, and has only done so six times in the last 15 yrs), we fear it will not satisfy the market's appetite/insistence for ever-rising estimates," analyst Jamie Baker of J.P. Morgan wrote in a Monday research note.

UAL Corp, parent of United Airlines Inc., releases its results on Tuesday. Fort Worth-based AMR Corp., parent of American Airlines Inc., and several other carriers report results on Wednesday. Dallas-based Southwest Airlines Co. winds up the earnings calls on July 29.

The industry has been enjoying a certain level of optimism, from both the carriers and Wall Street.

"The past couple of years have been difficult for the airline industry, with record oil prices and increased regulation leading to substantial losses," Dahlman Rose & Co. analyst Helane Becker wrote last week.

"2010 is seen as bucking that trend, as we have seen reasonable oil prices, a merger agreement between two major airlines and capacity discipline"
- Helane Becker

"2010 is seen as bucking that trend, as we have seen reasonable oil prices, a merger agreement between two major airlines and capacity discipline," she wrote. "We believe the airlines are preparing for a better 2010 than 2009, with blue skies ahead."

In a report last week, analyst Hunter Keay of Stifel Nicolaus Capital Markets & Co. said airlines are expected to report strong revenue growth in the second quarter. However, he worries that earnings estimates for the rest of 2010 may be too bullish.

"We believe consensus estimates reflect something close to an economic best case scenario (likely at least 2% to 3% GDP growth), which concerns us given the recent spate of poor economic data," he wrote.

According to analysts' consensus, all of the nine largest carriers are expected to report a profit except AMR. It is expected to lose three cents a share, or about \$10 million.

That's a small loss during a quarter when AMR probably brought in well over \$5 billion in revenue. It is also a considerable improvement over AMR's second quarter losses of \$390 million in 2009 and \$1.45 billion in 2008.

In his report, Keay largely blamed higher labour costs as he lowered his AMR estimate to a four-cent loss, down from a one-cent loss.

"AMR's avoidance of bankruptcy has been extremely admirable, but the lack of a restructuring has left the carrier with troublesome legacy costs (including an active pension plan)," Keay wrote.

"Management has said its labour costs result in a \$600 million disadvantage that will, over time, diminish as competitors grant pay raises. We believe investors are generally displeased with this argument but little can be done outside of bankruptcy, in our opinion."

Consensus is that Southwest Airlines will earn 27 cents a share, or about \$200 million. That would more than double its \$91 million profit a year earlier but would be far below its most profitable second quarter, \$333 million in 2007.

Source: Terry Maxon, dallasnews.com - 20th July 2010

"AMR's avoidance of bankruptcy has been extremely admirable, but the lack of a restructuring has left the carrier with troublesome legacy costs (including an active pension plan)"
- Hunter Keay

IBA expands Asset Management team due to business growth

Three new experienced technical and maintenance planning managers join IBA to increase the depth of resource at the highest international calibre in this expanding business division.

Ensuring the Company's technical inspections, maintenance planning and asset management remain at the forefront of the aviation consulting industry requires a solid and flexible team that can provide both technical and commercial expertise to meet our Client's diverse and sometimes complex requirements. These senior appointments are indicative of IBA's continuing commitment to aviation client support and the minimisation of risk in the volatile asset management sector.

Mark Curtis. Technical Manager.

Mark first served in the RAF in 1980 as an Air Engineer Mechanic maintaining Westland Wasp, Lynx and Wessex MK.V helicopters. After completing his service career, he furthered his experience as a Licensed Aircraft Mechanic working for McAlpine Helicopters, Fields Aircraft Services and Pan-American/United Airlines working on Eurocopter Helicopters and BAe748, HS125, B747, B727 and A310 aircraft.

In the twelve years between gaining his Maintenance Engineer licences and his employment with IBA, Mark has worked as a Licensed Aircraft Engineer with various European and American carriers maintaining B737-3/4/500, B757, B767, B777, DC10, MD11 and A330 series aircraft. He holds various licences:-

UK Civil Aviation Authority: EASA Part 66 B1 Licence Type Rating held on B767-200-300-400ER with PW-4000/CF6.

USA: Federal Aviation administration Airframe & Powerplant Licence.

Hold Transport Canada approval on B747-400 with PW-4000/CF6.

Scott White. Technical Manager.

In 1992 Scott started with the Royal Australian Air Force as part of their new breed of Aircraft Technicians. He trained in both airframe and engine disciplines at technician level in full alignment with civil accreditation. Initially working with C130 Hercules heavy transport aircraft he later undertook a supervisory role with the VIP/Air to Air refuelling Squadron

"These senior appointments are indicative of IBA's continuing commitment to aviation client support and the minimisation of risk in the volatile asset management sector."

with international deployments.

In 1999 Scott joined British Aerospace Aviation Services working in the Airbus A300 cargo conversion project. He later joined Manx/British Regional Airlines which later became BA CityExpress/BA Connect and subsequently transferred to British Airways' Maintenance facility at Glasgow Airport as an Aircraft Maintenance Supervisor working on Boeing 737 and Airbus A320 family aircraft where he obtained his UK CAA EASA B1 Licence.

In 2007 Scott joined KLM Royal Dutch Airlines' busy Line Maintenance facility at London Heathrow, serving more than twenty airline operators, and extended his experience to include Airbus A330 and A340 aircraft with all engine variants. As Technical Manager at IBA, Scott's line and base maintenance experience will strengthen the technical inspection team

Mark Hadfield. Planning Manager.

Mark began his aviation career in 1989 in maintenance planning for Air Europe. He was B737-300/400 Fleet Planning Engineer responsible for Air Europe (UK), Air Europa (Spain) and Air Europe Scandinavia (Norway).

In 1991 Mark began an eighteen year career with Virgin Atlantic Airways commencing with maintenance planning and progressing through to outsourced maintenance. As Outsourced Maintenance Manager Mark was responsible for all of Virgin Atlantic's A340 and B747 outsourced aircraft maintenance activities.

As Planning Manager for IBA Group, Mark's maintenance planning and base maintenance experience will bring valuable expertise to the Technical and Asset Management division.

Source: IBA & Inter Relations & Company - 21st July 2010



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IBA Group News

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

EMB 145MP

IBA is pleased to offer one EASA Compliant EMB 145 MP aircraft available for dry lease from September 2010. For further details, 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

1998 Eurocopter EC135T1 - MSN 0063, police role equipped helicopter in excellent condition AFTT 9040.
Price: Make Offer - Please contact Mark Wooller for further details at mark.wooller@ibagroup.com or call: +44 (0) 1372 224488

Two ATR-42 aircraft available for sale with lease attached with Fly 540. For further details please contact Owen Geach (owen.geach@ibagroup.com)

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

A successful Farnborough week. I say successful on the basis that I didn't go. Plenty of activity and networking opportunities occur outside of the chalets and halls and I am without the need to have my ear drums threatened. My only disappointment was not being able to accept the invite to take a look at the B787. In the meantime we have seen some major order announcements including the rather bizarre one from RBS which was actually a done deal back at the end of 2008 but kept secret. I wonder why?

Well on that note I must tell you I am going on holiday for two weeks to the USA - I also booked it some time ago but am only letting you know today.

Phil

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