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IBA Group Ltd.
IBA House
7 The Crescent
Leatherhead, Surrey
KT22 8DY
United Kingdom
www.ibagroup.com

Southwest, Continental Airlines show profit

Southwest Airlines Co. and Continental Airlines Inc. posted fourth-quarter profits, helped by higher passenger traffic and lower fuel costs, but they said the road to recovery would be tough.

Southwest, Philadelphia's second-busiest carrier, said yesterday that despite a rollercoaster year, the low-fare carrier in 2009 eked out its 37th consecutive year of annual profits.

"To be able to report even a very modest profit in this environment is a huge accomplishment," Southwest chief executive officer Gary Kelly told investors.

Southwest and Continental "handily" beat Wall Street expectations, JPMorgan Chase & Co. analyst Jamie Baker said in a research note.

With a rough year behind them, airlines see signs of recovery for 2010. The big question is: How much will jet fuel costs go up?

Passenger traffic at Southwest rose 5.3 percent in the latest quarter, but many seats were filled with leisure travellers taking advantage of low fares. There were 7.7 percent fewer flights and seats.

Southwest posted a fourth-quarter net profit of \$116 million, or 16 cents a share, compared with a net loss of \$56 million, or 9 cents a share, a year earlier. Excluding special items, fourth-quarter net income was \$74 million, or 10 cents a share.

Dallas-based Southwest posted a full-year profit of \$99 million, after losing money in the first nine months.

Houston-based Continental also beat Wall Street estimates, reporting net income of \$85 million, or 60 cents a share, compared with a loss of \$269 million, or \$2.35 a share, in the 2008 fourth quarter.

Excluding special items, such as a \$158 million noncash income tax benefit, Continental's latest quarterly profit would have been \$4 million, 3 cents a share. The carrier

reported a 3.5 percent increase in passenger traffic.

"While we are seeing some business traffic increasing, we likely have a long and slow road to recovery," said Continental CEO Jeff Smisek.

Analysts are viewing the reports as evidence of an industry turnaround. Airlines have cut jobs and trimmed capacity in the last two years to reduce costs in the face of a surge in fuel prices and a recession.

While Southwest sees strong booking trends in the first quarter, the "economic recovery is tepid" and 2010 "will be another challenging year," Kelly said.

"The sequential improvement that we've seen in our business in the fourth quarter is very broad, but our short-haul markets are still lagging," he said. "I'd attribute that to still a softness in business travel."

Southwest said its "bags fly free" promotion had helped lure customers.

American Airlines was the first major airline to report earnings Wednesday, posting a quarterly loss, but said business travel was improving.

Source: Linda Loyd, philly.com - 22nd January 2010

"our short-haul
markets are still
lagging"
- Gary Kelly

Tiger Airways makes SGX debut

Tiger Airways made its debut on Friday on the Singapore Exchange, becoming the first Asian carrier to be listed in five years.

Shares in the budget carrier opened at its initial public offering price (IPO) of S\$1.50. They rose to S\$1.58 before dropping back.

Singapore-based Tiger Airways said funds raised from the IPO would go mainly towards financing the carrier's expansion plans in Asia, which is expected to become the world's biggest travel market by 2020.

Tiger Airways raised S\$247.7 million in gross proceeds from the IPO and planned to set aside S\$166 million to buy new jets.

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The carrier wants to expand its current fleet of 17 Airbus A320s to 68 by December 2015 as it moves to increase the number of destinations it serves. It is also looking to establish new operating bases and airlines when the opportunities arise, as well as repay short-term loans.

Tiger, which began its first commercial flights in September 2004, flies from Singapore to destinations across Asia, including popular holiday spots such as Penang in Malaysia, and Bangkok and Phuket in Thailand. The carrier is 33.1 per cent owned by flag carrier Singapore Airlines.

Source: AFP, straitstimes.com - 22nd January 2010

Once-proud JAL victim of Japan's economic decline

Japan Airlines, a former state-owned flag carrier that was once a source of national pride, has become one of the highest profile victims of the country's long economic malaise.

JAL's rise and fall mirrors the nation's economic "miracle" after World War II as well as its years of stagnation after the bubble burst in the 1990s.

The airline was established in 1951, half controlled by the government. It made its international debut in 1954, connecting Tokyo, Honolulu and San Francisco.

Flying to 217 airports in 35 countries and regions, the biggest carrier of the world's second-largest economy is saddled with huge debt and is widely expected to file for bankruptcy Tuesday in a court-led rehabilitation process.

With estimated debts of about two trillion yen (22 billion dollars), a JAL bankruptcy would be the biggest failure outside the financial sector since World War II, according to Tokyo Shoko Research, an advisory firm.

Despite the airline's current woes, Japan's government said it will do everything possible to ensure that JAL keeps flying during a restructuring that is expected to include drastic route reductions and thousands of job cuts.

Its landing slots also remain coveted, with US carriers American

IBA's Comment:

"JAL has one of the largest fleets of Boeing widebodies (124). It will be interesting to see how many, if sold, find new operators and if the new JAL entity retains the 22 787's on order."

- David Rushe

Airlines and Delta Air Lines locked in a bidding war for a slice of JAL as they look to increase their share of the Asian market.

Sporting its trademark crane logo, JAL rapidly widened its operations at home and overseas during the 1960s and 70s, at one stage becoming the world's largest carrier in terms of regular flights.

Disaster struck in 1985 when a JAL jumbo jet crashed into a mountain in central Japan, killing 520 of the 524 people aboard in the worst single-airplane accident in aviation history.

As it battled to overcome the tragedy, the carrier was fully privatised in 1987 and expanded its fleet in the early 1990s, a move that soon turned out to be a financial burden as the economic "bubble" burst.

The carrier now has 279 aircraft, including 113 leased planes, most of them Boeing jets. It transported about 53 million passengers last fiscal year, 41 million of them on domestic routes.

Source: AFP, mb.com.ph - 20th January 2010

"The carrier now has 279 aircraft, including 113 leased planes, most of them Boeing jets."

Air China gets 1.5b yuan capital injection

Air China Ltd, the nation's flag carrier, inched a step closer to its goal of finalizing an air cargo joint venture with Cathay Pacific Airways by the end of June after the government approved a 1.5 billion-yuan capital injection into the airline.

The Beijing-based airline, also the nation's largest international carrier, will receive the funds from its controlling shareholder China National Aviation Holding Co.

Air China will use the capital to acquire a minority interest in its cargo unit, Air China Cargo, the airline said in a statement on Saturday. This makes it the third mainland carrier to receive a capital injection from the government. China Eastern Airlines received 9 billion yuan while China Southern Airlines received 3 billion yuan last year.

Launched in 2003, Air China Cargo initially had three shareholders, including Air China with a 51 percent stake, CITIC Pacific Ltd with a 25 percent stake and Capital Airports Holding Co with a 24 percent share.

"This makes it the third mainland carrier to receive a capital injection from the government."

The carrier operates four Boeing 747-200 freighters and eight B747-400 planes, and has since become a wholly owned unit of Air China after the airline bought out CITIC Pacific in January 2008 and Capital Airports in April 2009.

With these acquisitions now completed, the 1.5-billion-yuan injection will be used to replenish Air China's working capital, the airline said.

"Air China is steadily moving forward on a cargo joint venture with Cathay Pacific. The air cargo market is expected to improve this year as demand from the US and Europe recovers. There is no better time than this to start the joint venture," said Li Lei, an aviation analyst with CITIC China Securities.

Air China has been negotiating with Cathay Pacific to set up the venture in Shanghai since 2006. It is expected to begin operation by June 30, Huang Bin, Air China's board secretary, said in November.

Earlier media reports have said Air China will have a controlling 51 percent stake in the joint venture, while Cathay Pacific will hold a 49 percent stake.

Despite the sluggish international air cargo market, the joint venture will benefit from Shanghai's expanding cargo demand over the mid- to long-term, Li Lei said.

Shanghai Pudong International Airport currently handles over 60 percent of China's international air cargo and is the world's fastest-growing airport for cargo handling. Foreign carriers control over 70 percent of the international cargo market in Shanghai.

Li Jiayang, director of the Civil Aviation Administration of China (CAAC), said last week that the government would encourage air cargo industry growth and aims to create one of the world's top five cargo carriers by 2030.

Chinese airlines posted a total net profit of 212 billion yuan last year, a huge improvement over a record 28 billion yuan loss in 2008, the CAAC said.

China Eastern said on Saturday that it expects to post an annual net income for last year compared with a net loss for 2008.

Source: english.people.com.cn - 19th January 2010

IBA's Comment:

"Any improvements in the cargo market are likely to involve Chinese consumer demand, therefore this can be seen as a prudent investment by Air China and Cathay Pacific - both of whom have had a tough few years."
- David Rushe

HKAC to use Allco deal as stepping stone

The China-owned buyer of Allco Finance Group's \$3 billion worth of aviation assets says the acquisition is its first step in a bid to become an international player in the sector.

Hong Kong Aviation Company (HKAC), a consortium led by Bravia Capital Partners and China-based HNA Group, finalised the acquisition of Allco's aircraft leasing business earlier this month, eight months after a deal was signed.

The value of the deal remains undisclosed, but HKAC said the assets, made up of 68 aircraft leased to customers including Qantas and Singapore Airlines, were worth nearly \$3 billion.

HKAC said on Tuesday that Allco's aviation management team would be integrated into the company's operations and further hiring would be undertaken as HKAC was continuing to expand.

The Allco aviation acquisition was the beginning of HKAC's push to become a major global investor in the aviation industry, its chairman Adam Tan said.

"The Allco transaction is only the first step," he told journalists.

"We can grow our corporation in Sydney, in Australia, later on and we definitely can enlarge our business in Australia, not only in the airline business.

"This is only our first step for our operation, we have full confidence for this company, the Hong Kong Aviation Company, to become a worldwide name and a worldwide business."

Bravia Capital Partners chief executive Bharat Bhise said the main focus for HKAC for the next few months was a restructure of its assets into specific businesses as well as the appointment of a new CEO.

A shortlist of three has been drawn up and at least one of those is Australian based, he said.

HKAC was looking to make another significant acquisition this year, outside of Australia, Mr Bhise said.

"We are bidding on other portfolios and we are actively in the market to buy large portfolios similar to the size of Allco," he

"We are bidding on other portfolios and we are actively in the market to buy large portfolios similar to the size of Allco"
- Bharat Bhise

said.

Two of the Allco aircraft remain subject to legal action between the Allco receivers and Geoffrey Kinghorn, the son of the founder of Allco Finance.

Mr Bhise said those proceedings did not involve HKAC and he would not comment on their progress or implications for the acquisition.

Source: Drew Cratchley, news.smh.com.au - 19th January 2010

Bombardier retreats on CSeries sales prediction

Bombardier Inc.'s Gary Scott backtracked Tuesday, conceding the aircraft-maker would almost certainly not fulfill its oft-stated prediction it would notch up another sale for its coming CSeries airliner by the end of the fiscal year, or 11 days from Wednesday.

Scott, president of Bombardier Commercial Aircraft, said in Dublin he now hopes the next order for the plane under development will come "in the first half of the fiscal year," or before July 31.

As The Gazette reported in December, top Bombardier executives were shying away then about their earlier assertion that the fledgling new aircraft would receive at least one and perhaps two more orders from airlines or leasing firms by Jan. 31, the end of Bombardier's fiscal year.

So far, two customers have ordered the CSeries, 30 planes from Deutsche Lufthansa AG and 20 from Dublin-based private lessor Lease Corp. International Group.

Scott said in Dublin that "one of the major issues airline customers face is how to finance their planes," Bloomberg reported.

Consequently, leasing firms with better balance sheets and credit ratings than airlines will probably account for about half of sales for the CSeries, he added.

Scott noted Bombardier was unlikely to sign up General Electric Co. as a customer. GE supplies practically all of Bombardier's

"two customers have ordered the CSeries, 30 planes from Deutsche Lufthansa AG and 20 from Dublin-based private lessor Lease Corp. International Group.

engines for regional jets - as it does for the whole RJ industry - and owns GECAS, the world's biggest aircraft leasing company. Almost all the planes GECAS buys are powered by GE engines, which would leave out the CSeries that will be powered by a Pratt & Whitney engine developed specifically for Bombardier.

Bombardier Aerospace officials have said the company is involved in over 125 "sales campaigns" for the CSeries around the world at any one time.

Bombardier Aerospace spokesperson Marc Duchesne said he could not comment on what was blocking any new signed deal so far - price or other issues. He called the self-imposed Jan. 31 deadline "a bit artificial. It really doesn't mean anything." Winning a sales campaign is not excluded, but "there's not a lot of time left," Duchesne added.

He stressed that the longer than expected wait for the next CSeries order would "absolutely not" affect the 100-to-149-seat aircraft's development schedule. The CSeries is slated to enter service in 2013.

Raymond Jaworowski, an analyst with Forecast International in Newtown, Conn., said he agreed the delay in racking up another CSeries sale is "the still very sluggish airline market."

"Traffic is coming back gradually, but there's not going to be a boom," Jaworowski said.

"I don't expect orders to come back until the second half of this year."

"But if (Bombardier) doesn't get another CSeries order by the end of 2010, then there's cause for worry."

Source: François Shalom, thegazette.canwest.com - 19th January 2010

IBA's Comment:

"Airlines may be reluctant to invest in this game-changing PW1000G powered aircraft, given the problems and delays experienced by other manufacturers in the past few years. The smaller MRJ offering has also racked up more orders."

- David Rushe



IBA Group News

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

Conference Dates

23rd - 26th March 2010 - The 24th Annual Commercial Aviation Geneva Forum, Geneva - Owen Geach will be speaking and hosting several panels

Globespan Airways Limited (in Administration)

IBA, on behalf of Globespan Airways Limited (in Administration) welcomes expressions of interest in acquiring the Air Operators Certificate. For further details contact Owen Geach at owen.geach@ibagroup.com

Publications - 2010 Editions

Please contact ross.elliott@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

I see that Air France will charge seriously overweight passengers for two seats rather than one from next month.

This follows on from a situation two years ago when Air France was ordered to pay £5,000 in damages to a 27-stone passenger who had his stomach measured at an airport check-in desk before being told to buy two seats.

Well, rather than penalties I prefer a reward system - why not charge passengers less if they are small?

Or if they have less hair?

And a further discount if you agree not to talk to the passenger next to you?

That's because smaller people weigh less and the aircraft will burn less fuel, less time wasted in the toilet brushing hair means smaller queues and fewer passenger complaints.... and I would definitely pay more if I was assured the passenger next to me wasn't going to make conversation.

Yours Grumpy.

Phil

Phil.seymour@ibagroup.com

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Compiled & Edited by Alice Gondry & David Rushe
www.ibagroup.com

Tel: +44 (0)1293 772743 Fax: +44 (0)1293 772745

**EXTRAORDINARY ADMINISTRATION OF
ALITALIA – LINEE AEREE ITALIANE S.P.A., ALITALIA EXPRESS S.P.A.,
ALITALIA SERVIZI S.P.A. AND VOLARE S.P.A.**

Re: sale of certain assets belonging to the technical warehouse of Alitalia Linee Aeree Italiane S.p.A., Alitalia Servizi S.p.A., Alitalia Express S.p.A. and Volare S.p.A., all under extraordinary administration.

In accordance with a program of sale drafted pursuant to art. 27, paragraph 2, letter *b-bis*), of Legislative Decree No. 270 of 1999, approved by the Ministry of Economic Development, upon consultation with the Supervisory Committee, by its own decree issued on 19 November 2008, the companies Alitalia – Linee Aeree Italiane S.p.A., Alitalia Express S.p.A., Alitalia Servizi S.p.A. and Volare S.p.A., all under extraordinary administration, intend to commence the procedure for the sale of the assets belonging to their technical warehouse, which is divided in the following Lots formed taking into account the ownership and the technical features and specifications of such assets:

LOT	Description
01	CF6-80C2B6F Engine ESN 702691
02	CF6-80C2D1F Engine ESN 702381
03	CF6-80C2D1F Engine ESN 702469
04	MD-11 Simulator
05	JT8D-217A Engine ESN 709784
06	JT8D-217A Engine ESN 709830
07	JT8D-217C Engine ESN 728065
08	JT8D-217A Engine ESN 709849
09	AE3007 Engine ESN 312358
10	AE3007 Engine ESN 312244
11	AE3007 Engine ESN 312175
12	AE3007 Engine ESN 311456
13	PW127 Engine ESN AK0008
14	PW127F Engine ESN EB0135
15	B747 APU – P/N 380716-1-7 ESN P-38069
16	ATR72 Propellers
17	DC-10 Flap Assy
18	ATR72 Landing Gear
19	Maintenance Tools
20	Consumables A320/B767/B777
21	A320 Rotables
22	Catering Equipment
23	B767 Rotables
24	B777 Rotables

Parties interested in the purchase of the technical warehouse may express their interest in purchasing one or more Lots, without prejudice in any case to the severability of offers. Expressions of Interest pertaining to single assets included in one or more Lots are not allowed.

Expressions of Interest must be received by 12:00 noon (CET) on 18th February 2010, via fax to the no. +44 1293 772745, setting out in the subject the following wording: “Expression of Interest – Sale of the Technical Warehouse”. Following the verification of the expressions of interest received, interested parties may be admitted to the due diligence phase on the assets belonging to the technical warehouse and invited to submit binding offers.

This call for expressions of interest is published, in the Italian language, in its entirety on the websites of the Extraordinary Administration Procedure (www.alitaliaamministrazionestraordinaria.com and www.alitaliaamministrazionestraordinaria.it) and on the website of the advisor www.ibagroup.com. This Call for Expression of Interest is also published in English language on one international daily newspaper and on two magazines specialized in the sector of reference and in its entirety on the above-mentioned websites and on the website of the advisor www.ibagroup.com, provided, however, that the Italian version, in its entirety, shall be deemed the only official version of this call for expressions of interest and shall prevail over the English version for all legal purposes.

For any further detail on the sale procedure of the Technical Warehouse and on the modalities of submission of the expression of interest, please refer to the full version of this call for expression of interest, available on the above-mentioned websites.

Rome, 19 January 2010

The Extraordinary Commissioner
Prof. Avv. Augusto Fantozzi