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## BA announces £50m losses

British Airways has reported a smaller-than-expected quarterly loss of £50 million - but warned it still faces a record annual shortfall.

The airline said hefty cost cutting measures had helped improve performance in the three months to December 31. Analysts had expected the firm to post a much greater loss of £150 million in the period.

BA also reported its first operating profit for more than a year for the quarter.

Chief executive Willie Walsh said the results reflect "permanent change" to the business and said operating costs were down more than 10%.

BA has yet to stem the fall in passenger numbers and said these were down 8.7% for the UK and Europe in January compared to a year earlier - declining steeply from the nine month fall of 4%.

The freezing winter weather continued to take its toll, with heavy snowfall at the beginning of the month causing disruption in the UK and Europe.

The International Air Transport Association has said last year was the worst year on record for the industry.

In the nine months of the financial year so far BA passenger revenues were down 13%, with a 3.9% reduction in capacity.

Losses for the year so far have reached £342 million, from £70 million the previous year after BA posted a record deficit in first half trading - a normally buoyant period because it contains the holiday season.

BA said the better trading seen in the third quarter is likely to continue to the end of its financial year, with continued improvement in long haul routes.

Source: Press Association, [banburyguardian.co.uk](http://banburyguardian.co.uk) - 5<sup>th</sup> February 2010

## Bombardier cries foul over Boeing, Airbus pact

Bombardier Inc. is escalating the war of words in a dispute about the financing of sales of its new C Series jet, alleging that Boeing and Airbus and their respective national export agencies are threatening to use anti-competitive practices to harm sales of the plane.

"Bombardier believes there should be a level playing field with respect to financing policy," Bombardier spokesman Marc Duchesne said on Wednesday.

Mr. Duchesne confirmed that Bombardier president and chief executive officer Pierre Beaudoin last week expressed concern over the so-called "gentlemen's agreement" between Boeing Co. of Chicago and European consortium Airbus SAS.

Under terms of the informal pact, the Export-Import Bank of the United States refrains from providing a backstop to the financing of sales of Boeing aircraft to European customers. European export credit institutions, in turn, hold back from providing guarantees to financing of Airbus sales to U.S. buyers.

Mr. Beaudoin said sales of the C Series - a 110- to 130-seat jetliner - could be harmed if Montreal's Bombardier had to bend to this so-called "home market rule" and not be allowed to resort to Export Development Canada for financial guarantees to U.S. and European buyers of the C Series aircraft.

The rule would also apply to other new entrants from Brazil, Russia, Japan and China, who will be going up against Airbus and Boeing with their own mid-size aircraft.

The issue is being discussed at OECD talks now taking place in Paris and aimed at finding a compromise agreement on global export financing of jetliners.

Ottawa has also run into opposition from the U.S. and European Union at the Organization for Economic Co-operation and Development over its plans to provide export financing to foreign buyers of the C Series under terms that put the jet in a smaller plane category.

The U.S. and EU, backed by Boeing and Airbus, have been

### IBA's Comment:

"Given the number of new entrants in the regional aircraft market over the next few years, there will be a lot of competition for orders, particularly in Asia. The manufacturers will want to have the support of ECAs to enable flexible and attractive financing structures."

- David Rushe

challenging Canada's proposal that the C Series be classified as a smaller plane that would make it eligible in some cases for better export credit financing terms under a 2007 OECD agreement.

The talks are trying to strike a deal that would impose a new set of rules in which there is no longer a distinction made between larger and smaller planes. A spokeswoman at the Department of Finance in Ottawa said on Wednesday that no comment will be made on the issue of home market rule at this time. Last week, the department said in a statement that OECD member countries have agreed to revisit the issue of having two sets of financing conditions for large and regional aircraft.

Source: Bertrand Marotte, [theglobeandmail.com](http://theglobeandmail.com) - 4<sup>th</sup> February 2010

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## Boeing to deliver first 787 jet by year-end

American plane maker Boeing has said that the development of its 787 mid-sized aircraft is back on track.

Two of the jets are already carrying out flight tests and have clocked a total of more than 70 flying hours, said the company's marketing chief for commercial aircraft, Mr Randy Tinseth.

Another two aircraft will join the flight test program later this month, with the first delivery to Japan's All Nippon Airways expected in the fourth quarter of the year - a delay of more than two years.

Singapore Airlines has ordered 20 of the aircraft, which can carry more than 200 passengers each.

In a wide-ranging media briefing at the Singapore Airshow, Mr Tinseth also touched on the state of the industry, adding that while the global economy is seeing recovery, it would be some time before aircraft orders pick up.

Boeing expects to deliver between 460 and 465 aircraft this year, compared to 481 planes last year.

Many of these will be from the single-aisle 737 family, Mr Tinseth said.

**"Boeing expects to deliver between 460 and 465 aircraft this year, compared to 481 planes last year."**

On the positive side, the company expects to face fewer order cancellations and aircraft delivery deferrals.

Last year, Boeing customers ordered just 142 commercial aircraft - the lowest number since at least 2003 and just one-tenth of the 1,413 planes that were ordered in 2007. By contrast, its European rival Airbus had more than 270 aircraft orders last year.

When things pick up, Asia-Pacific will be a key focus for the company, Mr Tinseth said.

As for the bankruptcy of Japan Airlines, Mr Tinseth said that Boeing has not received any cancellations of the more than 70 aircraft the airline has ordered.

Last month, the Japanese carrier filed for bankruptcy protection with US\$26 billion in debt.

The airline is due for an overhaul under a new corporate chief, with more than 15,600 jobs to be cut and many loss-making routes expected to be slashed.

Source: Karamjit Kaur, chinapost.com.tw - 4<sup>th</sup> February 2010

“As for the bankruptcy of Japan Airlines, Mr Tinseth said that Boeing has not received any cancellations of the more than 70 aircraft the airline has ordered.”

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## Turkish Airlines to buy 20 Boeing jets

Turkish Airlines, Turkey's flagship carrier, announced it will buy 10 Boeing B737-800 planes and 10 B737-900ER aircraft between 2011 and 2014, even as global demand for planes continues to slump.

Turkish Airlines, or THY, has an option to buy another 15 aircraft between 2013 and 2015, the company said in a filing with the Istanbul Stock Exchange on Thursday.

In a statement, THY said it aims to grow its fleet by almost 50 percent in the next five years. THY expects to have 196 aircraft by the end of 2015 from the 133 planes today, the Istanbul-based company said.

The announcement comes as global plane makers predict a slump in demand will continue.

“THY expects to have 196 aircraft by the end of 2015 from the 133 planes today”

"The market will stay slow for new orders until 2012," Airbus Chief Operating Officer John Leahy said in a Bloomberg TV interview at the Singapore Air Show on Wednesday. The European Aeronautic Defence & Space Co. unit expects to get between 250 and 300 orders this year, he said. That would be a third straight decline from the record 1,458 achieved in 2007.

"It's been a tough road," said Boeing's commercial aircraft marketing head Randy Tinseth. "Things are better, but they can still improve a great deal more."

Carriers have slowed expansion plans and cut capacity after global international air travel plunged 3.5 percent last year, the most since World War II. The industry will likely take three years to rebound from the decline, according to the International Air Transport Association, or IATA.

"No one has any real confidence," Bloomberg quoted Jay Ryu, an analyst at Mirae Asset Securities in Hong Kong.

A future rebound in aircraft orders may also coincide with new competition for Boeing and Airbus in China, the world's fastest-growing air-travel market. State-controlled Commercial Aircraft Corp. of China's 168-seat C919, the nation's first narrow-body aircraft, is due to make its maiden flight in 2012 and to enter service two years later.

"It's going to take them some years before they finalize their product, and after that, you have to gain credibility," said Christian Duhain, an EADS vice president. "That's not easy."

Source: hurriyetdailynews.com - 4<sup>th</sup> February 2010

## IBA's Comment:

"Turkish Airlines continues to pile up orders for new narrowbody aircraft, despite the global downturn. Istanbul's geographical location allows it to function as a hub between Europe, Asia and beyond. The country's airlines currently have 145 aircraft on order."  
- David Rushe

## Aeroflot merger plan given green light

Aeroflot is set to acquire Russia's fragmented regional carriers that will be formed into one company around the St. Petersburg airline Rossiya, thus scrapping the government's plans to set up a second big state airline.

Formed in 2008 to compete with Aeroflot, the now failed project, called Rosavia, will shortly come under the wing of the company it was intended to challenge.

Russian Premier Vladimir Putin has agreed with the proposal made by Russian Transport Minister Igor Levitin to reincorporate Rossiya, the state transport company based in St. Petersburg, as a joint-stock entity in 2010 and then give it to Aeroflot.

"Kavminvodyavia", "Orenburg Airlines", "Vladivostok Avia", "Saratov Airlines" and "Sakhalin Airways" are among other aviation assets of governmental corporation "Rostechology", which will also be integrated with Russia's flagship airline.

"We will turn these companies into one corporate entity during 2010. Rossiya, the biggest carrier and the nucleus for those assets, will be registered as a stock company in St. Petersburg. The local government will provide assistance. It is a lot of work and we should conduct it together. Then the entire asset will be gathered under joint management and merged with Aeroflot," Igor Levitin, Russia's Transport Minister explained.

Specifically, the state transport company Rossiya, which comes fifth in terms of transport volume, is said to have the most serious problems among Russian aviation companies, with a debt of 6 billion Roubles in December last year - according to the former head of Rosaviation Gennady Kurzenkov.

However, Kirill Tachennikov, a senior analyst at Otkrytie FC, says the deal is still questionable, as Aeroflot is a commercial entity and a governmental decision alone is not enough for a merger to take place.

"In fact, the practicality of the deal isn't obvious, as Aeroflot has to settle its own financial problems and become at least loss-free before taking up the financial burden of Rossiya."

Andrey Rozhkov, an analyst at IFC Metropol, agrees that Rossiya's debt could indeed become too troublesome for Aeroflot, but adds that its amount is still not clear.

"Aeroflot has to settle its own financial problems and become at least loss-free before taking up the financial burden of Rossiya"  
- Kirill Tachennikov

"It is too early to talk about how heavy Rossiya's debt could be for Aeroflot, as its price hasn't been calculated yet. First, Rossiya will just be converted into a stock company, and only after that the amount of debt will be estimated. I think, in case a possible loss turns out to be too high, Aeroflot will ask the government either to restructure it, or subsidize it. As for the airline, being a commercial entity, there is absolutely no point in taking up additional debt. Or, alternatively, Aeroflot could set up one or two subsidiaries and pass Rossiya's debt burden to it," he said.

Talking about possible advantages for Aeroflot, Kirill Tachennikov remained sceptical. He thinks even an increase in passenger turnover will not decide the company's basic financial problems:

"The only advantage I can see that Aeroflot can take out of the deal is to increase its passenger traffic. Again, this will result in higher revenues, while shareholders are interested in net income."

However, Andrey Rozhkov was more positive, saying the merge could help Aeroflot to better Aeroflot's performance.

"First, Aeroflot could strengthen its position in Russia's Far East, especially in Vladivostok, and expand into South East Asia. And second, the deal will increase the company's passenger traffic, which really has room for improvement compared to both the Russian and European average. In 2009, capacity utilization at Aeroflot was at 60-68%, while Russia's average is 72-73%, and in Europe it's at 82-85%."

Currently, Aeroflot controls over 42% of the Russian market of regular international air traffic, with its joint route network including 856 airports in 169 countries. According to Levitin's estimates, after the merger, Aeroflot's share of the domestic market will rise from the current 15% to around 35%.

Even though this might limit competition in Russia's market, Levitin claims it will still go in line with legislation.

"It is within the anti-monopoly regulation, and we can work together with the Federal Antimonopoly Service on how to permanently monitor those regulatory measures."

Furthermore, "there is a trend towards larger scales and consolidation of the industry. This is the case worldwide, it is

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- Andrey Rozhkov

also the case in other countries," Levitin added, while Rozhkov said that this probably reflects Aeroflot's long-term plans to become internationally competitive in some five-to-six years.

Evgeny Shago, Director at the investment asset management department in Ingosstrakh, also thinks competition will remain in the market.

"The companies in question are small and will add only 2% to 5% to Aeroflot's domestic share of the market. The two attractive airlines transferred to Aeroflot are Rossiya Airline based in St. Petersburg, and Vladivostok Airlines who own the city's airport. The others will most probably be restructured or shut down. As for the idea of another national carrier - it is already there - we have S7 and Transaero, which are able to compete with Aeroflot."

Source: rt.com - 3<sup>rd</sup> February 2010

"As for the idea of another national carrier - it is already there - we have S7 and Transaero, which are able to compete with Aeroflot"  
- Evgeny Shago

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## Asia now world's biggest air travel market

The Asia-Pacific region has overtaken North America as the world's largest air travel market with 647 million passengers in 2009, the International Air Transport Association (IATA) said Monday.

By contrast, 638 million people flew on commercial flights in North America last year, IATA announced at an aviation business conference on the eve of the Singapore Airshow featuring the world's leading aviation industry players.

Within Asia, China has eclipsed Japan over the past decade as the region's largest domestic market, with 1,400 aircraft compared with Japan's 540 and 5.7 million weekly seats against 2.6 million in Japan.

The Singapore Airshow is taking place after a harrowing year in the global aviation industry, which lost an estimated 11 billion dollars in 2009 as a result of the financial meltdown that began in the United States.

IATA director general Giovanni Bisignani told the conference

"Within Asia, China has eclipsed Japan over the past decade as the region's largest domestic market, with 1,400 aircraft compared with Japan's 540."

that the Asia-Pacific market would continue to grow rapidly with an estimated 217 million additional air passengers a year in the region by 2013.

"While we see dynamism and diversity within the region, the aspect of Asia-Pacific that excites me most is its potential," said Bisignani.

"More than a quarter of the 2.2 billion people who flew last year, or 647 million people, flew within Asia-Pacific markets.

"It has eclipsed travel within North America as the traditional leader in traffic numbers." IATA represents some 230 carriers that account for more than 90 per cent of scheduled air traffic, but does not include many of the budget airlines credited with a boom in short and medium-haul travel in recent years.

Its members in Europe, the Asia-Pacific region and North America recorded year-on-year declines in passenger demand of 5.0 to 5.6 per cent in 2009, according to an IATA report released Friday.

Asian airlines staged a strong recovery in December, when demand grew 8.0 per cent from a year ago, nearly twice the global average, the IATA report said.

Bisignani told the conference that Asian airlines were projected to narrow their losses collectively to 700 million US dollars this year from 3.4 billion dollars in 2009, about a third of the industry's global losses last year.

"It is tough in all regions but Asia-Pacific's prospects are improving faster than other regions," he said.

Despite the upbeat outlook for Asia, Bisignani warned the region to press on with liberalisation or miss its growth potential.

He cited efforts by the 10-member Association of Southeast Asian Nations (ASEAN) regional bloc to liberalise the air sector by 2015 as an example. "Industry is preparing and it is important that the target date is met... Asian aviation will not reach its potential if the airlines are constrained to old ways of doing business," he said.

Source: AFP, dawn.com - 1<sup>st</sup> February 2010

## IBA's Comment:

"With a huge travelling population, confident banks and a large aircraft backlog, the Asian market is well positioned to expand rapidly over the next few years as the signs of a global recovery take hold and international traffic begins to improve."  
- David Rushe



## IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, [www.ibagroup.com](http://www.ibagroup.com)

### Conference Dates

14<sup>th</sup> - 16<sup>th</sup> March 2010 - ISTAT 27<sup>th</sup> Annual Conference, Orlando - IBA will be attending

23<sup>rd</sup> - 26<sup>th</sup> March 2010 - The 24<sup>th</sup> 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](mailto:owen.geach@ibagroup.com)

### Alitalia Assets

IBA has been appointed by Alitalia's administrator to manage the sale process of a number of engines, simulators, spare parts and tooling. For details of the tender process, please visit our website at: [www.ibagroup.com](http://www.ibagroup.com)

## Publications - 2010 Editions

Please contact [marketing@ibagroup.com](mailto: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

I have decided to introduce a "word of the week"

Our language never ceases to amaze me (or is that "seizes to amaze me"?)

I was in a meeting only yesterday concerning an aviation legal battle and I heard a top barrister (that's an "advocate" - not a "barista" - that's someone who makes the coffee at Starbucks) use the word "Egregious".

I thought "I must look up that word when I get home".

Low and behold I find it means "shocking, folly, blunder, remarkable".

Within hours I heard the very same word being used in the media "British Airways announce less egregious losses than anticipated".

Things must be improving then - losses are less worse (?) than the same quarter in '08 - just GB£50 millions losses for the last quarter 09.

"Good idea" award must go to Air New Zealand's economy triple seat that "turns into a bed". Let's see if it works out. Will that mean the end of wandering around the economy section looking for empty rows of seat to stretch out on?

As senior aviation executives you may not be accustomed to the word "economy".

Economy is the word of the decade rather than the week - according to the Oxford dictionary it means "frugal, cheapest available" and also "long queues and additional charges for hold baggage".

Phil

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## Highlights

- **5.7% 4Q GDP growth!**
- **Sluggish demand**
- **Equities lower**
- **Stronger US dollar**

## Helpful Links

[www.wfscorp.com](http://www.wfscorp.com)  
**World Fuel Services corporate site - The Choice for Complete Fuel Management**

[www.eia.doe.gov](http://www.eia.doe.gov)  
**Official Energy Statistics from U.S. Government**

[www.nymex.com](http://www.nymex.com)  
**New York Mercantile Exchange-current market and historical values**

[www.ncdc.noaa.gov](http://www.ncdc.noaa.gov)  
**NOAA site for active weather updates and hurricane news**

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## Executive Summary

Oil prices have continued to slide this week due to sluggish demand readings, falling equity prices and a stronger dollar. Petroleum markets shrugged off better-than-expected GDP growth in the 4<sup>th</sup> quarter. At time of this report, benchmark WTI crude prices are trading around \$74.00 per barrel.

## Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA), lagged by one week, showed a large draw in crude inventories, essentially flat distillate fuel stockpiles and growing gasoline inventories. Refinery use rose slightly to 78.5% of operable capacity.
- ▶ According to the Department of Energy, total US petroleum demand is down nearly 2% year-over-year. Gasoline use is down slightly by .8%, distillate use is down by 8% while residual fuel oil is down a whopping 31%. On the other hand, kerosene jet fuel consumption is actually higher by 1.5%.

## Macroeconomic Factors

- ▶ The US Commerce Department reported that GDP grew at a 5.7% annualized rate in the fourth quarter of 2009 – better than expectations of 4.8%. While encouraging, many economists add that the robust growth can be attributed to inventory rebuilding in the quarter and may not be sustainable.
- ▶ Today, the US dollar rose to the strongest level since August 2009 with €1 = \$1.3948 in early trading. The positive GDP report and signals from the Federal Reserve have raised expectations that key US interest rates may increase sooner than expected.

## Weather Factors

- ▶ Another wave of wintry weather is moving out of the lower plains and into the southeastern quadrant of the US this weekend. Otherwise, the National Weather Service is predicting the return to normal, above-normal temperatures for much of the US, including the northeastern home heating oil market, for the next 6-10 days.

