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JAL shares end final day at one yen

Shares in bankrupt Japan Airlines finished their last trading day at just one yen on the Tokyo Stock Exchange on Friday, marking another ignominious milestone in the carrier's decline.

Asia's biggest airline, which went bankrupt a month ago with \$US6 billion of debt in one of the country's biggest ever corporate failures, is being delisted from the exchange under a government-backed turnaround plan.

Shareholders are to lose their investment but the airline aims to continue operating after receiving a financial lifeline of \$US10 billion in public funds.

The stock exchange said 27.6 million JAL shares changed hands on Friday, but the stock finished unchanged from the previous day's close.

Investors will no longer be able to trade JAL stocks on the Tokyo Stock Exchange although the stock may still be traded on the grey market, a spokesman for the bourse said.

"If you ask securities companies, they might buy at one yen or so, but we don't know if they would really buy the shares," he said.

JAL's stock has plunged 99 per cent over the past three months. Its highest share price since it began merging operations with small domestic carrier Japan Air Systems was Y366, seen in 2003.

JAL, a once-proud flag carrier that carries more than 50 million passengers every year, plans to slash more than 15,600 job cuts under a three-year turnaround plan.

The airline was established in 1951 and two years later the government took a 50-per cent stake. It made its international debut in 1954, connecting Tokyo, Honolulu and San Francisco.

JAL's woes are seen as the result of years of bad management, high costs stretching back to its days as a state-owned flag carrier as well as government pressure to service unprofitable routes to small domestic airports.

It was also hit particularly hard by the global economic

downturn because of its extensive overseas flight network.

The government has tapped Kazuo Inamori, a 78-year-old management guru and Buddhist monk, to run the stricken airline during its overhaul.

Earlier this month JAL said it would expand its alliance with American Airlines and its Oneworld partners, spurning an offer to team up with rival Delta Air Lines and its SkyTeam alliance.

Source: news.smh.com.au - 19th February 2010

Flying Kangaroo loses some hop

There is little less hop in Australia's flying kangaroo.

A soft profit result, a weak outlook for the period ahead and no dividend payment for mum-and-dad shareholders saw Qantas's share price tumble on Thursday, leaving the national flag carrier looking a little battered and bruised.

That the airline group posted any profit at all was mostly due to planes sporting big orange stars - rather than the kangaroo emblem - with the five-year-old Jetstar the bright spot in the company's first half results.

Having more than 6.8 million members of its frequent flyer program also helped.

Despite putting up the weakest first half net profit number in at least a decade, Qantas chief executive Alan Joyce talked up result, saying it compared favourably with overseas competitors.

"The aviation industry is continuing to lose money as a whole so Qantas' performance, relative to the rest of our peers, is a good performance," Mr Joyce said.

But the market disagreed, sending Qantas shares down 24 cents, or 8.08 per cent, to \$2.73 - the lowest close in nine weeks.

While there was good news on the local front, with a more upbeat economic mood getting more people back on planes, Mr Joyce said Qantas's biggest markets of the UK and US remained

IBA's Comment:

"Qantas's problems have been exacerbated by competition from Middle East airlines developing hubs in cities such as Dubai, Abu-Dhabi and Doha, and offering ease of connections to Europe and beyond."
- David Rushe

weak.

Airlines across the world are expected to rack up total losses of \$US5.6 billion (\$A6.22 billion) this year, after bleeding red ink to the tune of \$US11 billion (\$A12.23 billion) in 2009.

Mr Joyce also tipped airfares to rise from "unprecedented" lows in 2009.

Experts said there was not a lot to be upbeat about.

"It's a fairly weak outlook," Fat Prophets analyst Colin Whitehead said.

The global financial crisis (GFC) has also forced Qantas to begin a strip out first-class seats from a number of its planes as the top end of town becomes increasingly content sitting further back in the plane.

There will be just 12 aircraft with first-class seats from 2013 onwards, with the skybeds and pajamas and fancy meals only available on flights to Hong Kong, Los Angeles and London.

Source: Jordan Chong, tradingroom.com.au - 18th February 2010

"the top end of town becomes increasingly content sitting further back in the plane."

U.S. carriers compete for flights to close-in Tokyo airport

American Airlines Inc. and four other U.S. carriers asked permission on Tuesday to begin operating between the United States and Tokyo's close-in Haneda International Airport.

An agreement between the two nations last year allows four U.S. flights a day into Haneda - closed to U.S. airlines since 1978 - and has launched a free-for-all among U.S. carriers competing for the coveted rights.

So far, the five carriers that applied are seeking 10 flights in Haneda - the fourth-busiest airport in the world with nearly 70 million passengers a year - from seven U.S. cities. The U.S. Department of Transportation will have to pick the winners.

Fort Worth-based American applied for takeoff and landing slots that would allow it to operate daily flights from Los Angeles and New York.

Delta Air Lines Inc., the world's biggest carrier, made the

"An agreement between the two nations last year allows four U.S. flights a day into Haneda"

biggest request, for rights to fly from Seattle, Detroit, Los Angeles and Honolulu into Haneda.

Continental Airlines Inc. and its subsidiary, Continental Micronesia Inc., are seeking to launch Haneda flights from Newark, N.J., and Guam.

United Airlines Inc. wants to fly to Haneda from Los Angeles, and Hawaiian Airlines Inc. has asked for Honolulu-Haneda rights.

At present, U.S. services to and from Japan are centred on Narita International Airport, a large, more modern airport that is farther out than Haneda.

Haneda is about 11 miles from central Tokyo, while Narita is about 37 miles away. Haneda's proximity makes that airport a preferable choice for many travellers, particularly business travellers willing to pay premium fares.

The U.S. and Japanese governments signed a memorandum of understanding in 2009 that would allow more flights between the two countries, including U.S. flights into Haneda. A final treaty is yet to be signed.

The race for flights to Haneda underscores the importance of Tokyo as one of the industry's epicentres for international service. Last week, American won a bruising battle with Delta to hold onto American's partner, Japan Airlines, vital to keep American a player in Asian markets.

The airlines that win the Haneda routes will gain a foothold in that important market and get an advantage over the carriers that offer only Narita service.

Helping drive the expansion at Haneda, traditionally a domestic airport, is the planned October opening of a fourth major runway there.

The expansion will allow nearly a 50 percent increase in flights over time. The Japanese government has indicated that it plans to use a majority of the new capacity for international service.

Narita is lengthening one of its runways but will not be able to accommodate as many new flights as Haneda.

Source: Terry Maxon, dallasnews.com - 17th February 2010

IBA's Comment:

"The US-Japan market is likely to become a battleground in the next few years as JAL restructures and US airlines vie for market share amid liberalisation of traffic restrictions and antitrust laws."
- David Rushe

Jazeera Airways acquires Sahaab leasing for KD25m

In a bid to increase profitability and facilitate growth in the next 24 months, budget carrier Jazeera Airways has fully acquired Sahaab Aircraft Leasing Company (Sahaab), a private aircraft leasing firm established in late 2008.

In a deal worth KD25.6 million (Dh324.78m), Jazeera Airways has, by the way of this acquisition, gained a platform to pursue strategic vertical integration initiatives lined up for 2010 and 2011 that include an airline acquisition and access to global leasing markets, the Kuwait Stock Exchange-listed carrier said in a statement.

It added that the acquisition, expected to be completed before March 31, will enable Jazeera Airways to consolidate Sahaab's earnings beginning from January 1, 2010, adding an expected KD1.2m in earnings in the first quarter of 2010. And funding will be completed through a rights issue in Q3 to existing shareholders, following customary government approvals.

"This acquisition will immediately boost Jazeera Airways' shareholder return on equity, and give our shareholders access to steady revenue streams as well as access to the global aircraft leasing industry, which is expected to experience long-term growth," Jazeera Airways' Chairman Marwan Boodai said in a statement, adding that the acquisition will help the airline be even more strongly capitalised to pursue its strategic aspirations, regardless of prevailing market environment.

Sahaab will have a minimum fleet of 38 Airbus A320s by 2016 based on confirmed orders with the manufacturer. It currently owns a fleet of nine Airbus A320s that were purchased and leased back to Jazeera Airways, and will continue to operate as a fully-owned subsidiary of the airline catering not only to Jazeera Airways but also to other airlines, both regionally and globally.

Sahaab was founded by the group of investors who established Jazeera Airways in strategic partnership with DVB Bank, Natixis Bank, and the National Bank of Kuwait.

"Sahaab will have a minimum fleet of 38 Airbus A320s by 2016"

Source: zawya.com - 16th February 2010

American Airlines enjoys double dose of good news

A week ago, American Airlines Inc. faced a lot of doubt about its airline alliance across both the Pacific and the Atlantic.

To the west, American faced the danger of losing Japan Airlines as its major Asian partner. To the east, it did not know if it would be allowed to strengthen its alliance with its European partners.

In the space of five days, that all changed.

JAL officials re-pledged their allegiance to American on Tuesday, and U.S. Department of Transportation officials on Saturday endorsed American's alliance across the North Atlantic with British Airways PLC and other European partners.

"This is a big deal for these guys," airline consultant Darryl Jenkins said Sunday. "American Airlines has had one of the best weeks it's had in a long, long time."

In 2009 and early 2010, Fort Worth-based American was facing attacks to its international hopes from two directions. First, Delta Air Lines Inc. had made a months-long pitch to bring JAL to Delta and its SkyTeam airline alliance. Japanese media had been reporting - with certainty - that JAL had decided to switch away from American and its alliance, Oneworld.

"They were in the position if Delta got JAL, it would have marginalized them in the Orient," Jenkins said.

"If JAL had gone to the other alliance, American would have been much weaker," added Ohio State University professor Nawal Taneja said.

The implications to the Oneworld alliance went much further than just Japan Airlines, said Taneja, who chairs Ohio State's Aviation Department in its Engineering College.

Both Cathay Pacific Airways Ltd. and Qantas Airways Ltd. would have had to question whether they wanted to remain in an alliance that no longer had a strong Japanese partner, Taneja said. Without those carriers, Oneworld loses its Asian presence.

"If Oneworld was to become weak or weaker, then there are

"JAL officials re-pledged their allegiance to American on Tuesday, and U.S. Department of Transportation officials on Saturday endorsed American's alliance across the North Atlantic with British Airways PLC and other European partners."

some partners who might say, heck, 'We'll leave here and join another one.' It's a domino effect," Taneja said.

"Just losing JAL wouldn't destroy it. JAL leaving would force the decisions of some of the others who say, 'We have to go,' for a variety of reasons," he said.

Instead, American was able to retain JAL as its major Asian partner. To strengthen their partnership, the two carriers filed a request Friday for antitrust immunity.

Second, American and Oneworld have been competing with SkyTeam and the Star Alliance, the other two large global airline groups, without a key tool held by SkyTeam and Star - antitrust immunity.

The European Union and DOT had granted SkyTeam and Star that immunity in their dealings, allowing their member airlines to coordinate schedules, set pricing together, sell their products to corporations together and otherwise collaborate.

Saying they needed to compete on an equal footing, American, British Airways, Iberia, Royal Jordanian Airlines and Finnair Oyj asked DOT for an antitrust exemption in August 2008, and have been waiting for their answer ever since.

Oneworld and American could not afford to fall further behind their Star and SkyTeam rivals, Jenkins said.

"Let's be honest - they're a distant third in terms of alliance," Jenkins said. If American and Oneworld can now implement the Oneworld joint business agreements with antitrust immunity over the next 12 to 18 months, "American will be more competitive than they've ever been in their history," he said.

"In terms of the revenue potential for them, it's enormous," he said. "In Japan, having the antitrust immunity with JAL will probably get them, I don't know, a quarter billion dollars in revenue a year," he said.

"Over the North Atlantic, about the same. This is a very, very big deal," he said.

Taneja said that as important as the DOT decision will be for American and its North Atlantic business, the retention of Japan Airlines will have a bigger long-term impact.

"The real growth is going to be in Asia-Pacific in the next 15 years," Taneja said. "Yes, you're OK here [in Europe]. The growth is going to be on the other pond. That's where they

"DOT proposed that American and British Airways be required to sell or lease four pairs of takeoff and landing slots at London's Heathrow Airport to allow competitors to add two daily flights to Boston and two to another U.S. city."

need to be."

The Saturday order from the Department of Transportation gives interested parties 45 days to file responses to the DOT's order, and then 15 days to respond to the filings.

The DOT proposed that American and British Airways be required to sell or lease four pairs of takeoff and landing slots at London's Heathrow Airport to allow competitors to add two daily flights to Boston and two to another U.S. city.

American and British Airways have yet to say whether they would agree to the slot divestiture.

"They'd rather not," Jenkins said. "But if I were them, I would say 'Thank you very much,' and not argue over it.' "

Source: Terry Maxon, dallasnews.com - 15th February 2010

Low-cost carriers help capacity surge

Global airlines recorded a five per cent year-on-year expansion in seat capacity and four per cent increase in frequencies for February compared to February last year, expanding capacity levels for the sixth consecutive month, reveals the latest research from OAG (Official Airline Guide) Aviation.

The Middle East, continuing its growth trajectory, performed well with Abu Dhabi registering a 24 per cent growth in frequency for February, according to the OAG data. In December, too, Middle Eastern airlines continued to reflect a strong positive growth with the number of flights and seat capacity within the region up by 19 per cent and 23 per cent, respectively.

"Capacity and flight frequency growth in the Middle East are being driven by a substantial increase in active aircraft operated by airlines based in the region. Over the past year, Middle East carriers have increased their active fleets by about 120 aircraft. This has added a minimum of 27,000 additional daily seats into the market," John Weber, Vice-President, OAG Aviation, told Emirates Business.

He added that just four airlines - Emirates, Qatar Airways,

"Emirates, with 21 additional aircraft year-on-year, was the major catalyst for growth in the region."

- John Weber

Etihad Airways and Gulf Air - accounted for "34 per cent" of the additional aircraft. "Emirates, with 21 additional aircraft year-on-year, was the major catalyst for growth in the region," said Weber.

The global expansion for February, however, was led by an 11 per cent increase in seat capacity and frequency by low-cost carriers (LCCs), which now account for 19 per cent of total worldwide flights (410,833 flights) and 22 per cent of total seats (60.7 million seats).

In Europe, the Middle East and Africa, there are 210 new routes dominated by low-cost carriers, according to the OAG data.

"This month, a number of new routes are being launched; the Asia-Pacific region shows 174 new routes with a large number of them from Chinese carriers. In Europe, the Middle East and Africa, there are 210 new routes dominated by low-cost carriers," said Mario M Hardy, Vice-President Asia Pacific, OAG Aviation.

As the Middle East, Latin America, Central/South America and Africa have shown increases in frequency and expansion in seat capacity, Hardy said: "It is fascinating how much the movement in flight frequency and seat capacity seems to reflect the regional economic situation. Asia's economy (except Japan) is gradually and carefully recovering and so are parts of the Europe/Middle East/Africa region, while North America and Japan appear to have difficulty and are struggling to come out of the ongoing recession."

Source: Shweta Jain, zawya.com - 15th February 2010

IBA's Comment:

"Middle-Eastern operators and the low cost market are again proving to be the main drivers of market growth while several legacy carriers report losses or steep reductions in profit."

- David Rushe



NEWSWATCH

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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

14th - 16th March 2010 - ISTAT 27th Annual Conference, Orlando - IBA will be attending - Phil Seymour will be speaking on the Appraisers' panel on the Monday 15th, 3:15 p.m. - 4:15 p.m. EDT.

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

FlyGlobespan

IBA has been exclusively appointed by PricewaterhouseCoopers for the disposal of certain aviation assets formerly the property of FlyGlobespan. Interested parties should send an email to owen.geach@ibagroup.com to request more information. Further details will be made available shortly.

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

As the slow thaw continues my mind turns to the Summer.

2010 marks the World Cup event in South Africa and I am looking forward to seeing some of the World's greatest teams take part.

It appears that there is concern about the slow tickets sales generally. I don't think it applies to England fans - 23,000 are set to go. However, the South African authorities are taking a close look at the airfares being charged between the major centres with allegations of unfair trading and price fixing between the airlines. It is a tough call - where there is anticipated greater demand, prices increase - that's the World we live in. However, it is the collusion issue rather than market forces which are the concern. The organizers are alleging that the higher prices are reducing the ticket sales. I suspect for many visitors the price of the airfare to get to South Africa is the issue, not so much the internal airfares.

I haven't yet been invited to any of the World Cup games. I understand from a conversation with one bank that they only have six tickets for the final despite their multi million dollar support. That's fine I only need one ticket.

Phil

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Highlights

- Supply uncertainties
- US dollar
- Higher equities
- Iran defiant

Helpful Links

www.wfscorp.com
World Fuel Services corporate site - The Choice for Complete Fuel Management

www.eia.doe.gov
Official Energy Statistics from U.S. Government

www.nymex.com
New York Mercantile Exchange-current market and historical values

www.ncdc.noaa.gov
NOAA site for active weather updates and hurricane news

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Executive Summary

Oil prices moved decidedly higher this week – hitting new 5-week highs due to various new supply concerns, a fluctuating US dollar, and higher equity prices. Tensions with Iran over its nuclear programs also underpinned oil prices. Yesterday, benchmark WTI crude oil closed at over \$79 per barrel.

Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA), showed rising crude and gasoline inventories and another seasonal drawdown in distillate fuel stockpiles. US refinery use for the week rose .6% to 79.8% of operable capacity. Although the EIA data showed a bump in gasoline stockpiles, falling production and import statistics raised concerns about future supplies.
- ▶ Workers at six French refineries owned by Total called an “unlimited strike” and raised worries about possible gasoline supply shortages in the region. Total produces approximately 50% of France’s gasoline requirements.
- ▶ Suncor shut down its distillate refining units at its Edmonton refinery this week due to technical issues and warned of unavoidable supply impacts. Separately, an important North Sea oil platform experienced production cuts due to repairs.
- ▶ In its February *Short-Term Energy Outlook*, the EIA re-affirmed its WTI price forecast of \$81 /bbl for the second half of 2010 and \$84 /bb in 2011.

Macroeconomic & Geopolitical Factors

- ▶ Late Thursday, the US Federal Reserve raised its discount rate by .25% to .75%. The Fed emphasized that the move does not represent a credit tightening move per se, but rather an unwinding of emergency steps taken in the dark days of the credit crisis.
- ▶ This week, the Dow Jones Industrial Index rose to nearly 10,400. The US dollar rose versus the euro (€1 = \$1.3527).
- ▶ This week, the UN's atomic watchdog (IAEA) seemingly realized what most of the world knew already – that Iran may be working on a nuclear weapon. In defiance of the UN and three rounds of sanctions, Iran has enriched uranium to theoretical weapons grade.

Weather Factors

- ▶ The National Weather Service is predicting below-normal temperatures for much of the eastern US for the next 8-14 days.

