

In this Issue:

- Bombardier clinches big order for 40 C-Series jets
- Japan Airlines posts \$2 bln loss
- AirAsia announces RM639.3mil pre-tax profit
- Airline industry crisis hits 2009 Iberia performance
- Chinese govt injects 1.5b yuan into China Southern Airlines
- Greek airlines merge
- IBA Group News

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

Tel: +44 (0)1372 224488
Fax: +44 (0) 1372 224489
www.ibagroup.com

Bombardier clinches big order for 40 C-Series jets

Bombardier Inc. said on Thursday that it has signed a highly anticipated \$3.06 billion (U.S.) deal to sell 40 of its new C-Series planes to Republic Airways Holding Inc. and that it looks forward to more deals as the commercial aerospace market stabilizes.

Bombardier, the world's No. 3 civil aircraft maker, said the agreement includes options for an additional 40 aircraft. If those options are exercised, the value of the deal would jump to about \$6.34 billion.

With the recession forcing many airlines to put off buying new planes, Bombardier had not had an order for its C-Series aircraft, the company's first foray in the narrow body, 100-150 seat market, since last March, when it won C-Series orders from Deutsche Lufthansa AG and Lease Corp. International Group.

Ben Boehm, vice-president of Bombardier's commercial aircraft programs, said the company is in active discussions with more than 65 potential customers worldwide and that he is confident more orders are on the way.

Bombardier has now recorded firm orders for a total of 90 C-Series aircraft and has booked options for another 90. The new plane is set to start flying in 2013.

Indianapolis-based Republic said in December that it was evaluating the C-Series planes as it looked to fleet replacement for its low-cost carrier Frontier Airlines. Republic, which also owns Chautauqua Airlines, Lynx Aviation, Midwest Airlines, Republic Airlines and Shuttle America, said at the time it was also in discussions with Airbus and Boeing. It said part of what made the Bombardier offer attractive, beyond the C-Series' 15 per cent-plus lower fuel burn, was that it may be able to tap into some export financing through Export Development Canada, a government agency.

The C-Series aircraft are scheduled to be delivered to Republic in the second quarter of 2015.

Source: John McCrank, thestar.com - 26th February 2010

Japan Airlines posts \$2 bln loss

On Friday, Japan Airlines, which filed for bankruptcy protection last month and is undergoing restructuring, posted a net loss of 177.9 billion yen (2 billion US dollars) in the nine months to December.

Japan's ailing flagship carrier booked an operating loss of 120.8 billion yen on sales revenue of 1.14 trillion yen, down about 27 percent from the same period in 2008, JAL executive officer Norikazu Saito told reporters.

JAL went bankrupt in January with 26 billion US dollars of debt in one of the country's biggest ever corporate failures, but continued flying and announced an overhaul involving more than 15,000 job cuts.

In a brief online statement on Friday, JAL apologised to its shareholders, creditors and the public over its failure, but it did not offer an outlook, saying its rehabilitation plan was yet to be fully drafted.

Last month the government announced a 3.3-billion-dollar injection of public funds and fresh emergency loans of 6.6 billion US dollars for the carrier.

The airline's shares were delisted from the Tokyo Stock Exchange on February 19, with its price down to one yen, ending the carrier's almost half century of listing on the bourse.

JAL this month rejected an offer to team up with the SkyTeam alliance, which includes US carrier Delta Airlines, and said it would expand its tie-up with American Airlines and its Oneworld partners.

The airline's new chairman Kazuo Inamori said last Saturday the embattled carrier would speed up efforts to improve its bottom line through restructuring, including new early retirement programmes.

"We're making a very huge loss every day and must stop the bleeding by reducing expenses," he was quoted as saying by the Kyodo news agency.

Source: news.smh.com.au - 26th February 2010

IBA's Comment:

"JAL executives will hope that the Japanese economy showing some recovery signs could lead to improved consumer confidence in the airline. Yet, by cutting capacity and reducing operations, JAL could be in a poor position to cater for any rising demand, particularly in the face of greater trans-pacific presence by the US majors."
- David Rushe

AirAsia announces RM639.3mil pre-tax profit

AirAsia Bhd announced a pre-tax profit of RM639.317mil for the year ended Dec 31, 2009, a turnaround from a pre-tax loss of RM869.198mil in 2008.

In contrast to the aviation industry gloom, AirAsia Group CEO Tony Fernandes said the budget airlines' revenue for the year was higher by 11.5% to RM3.179bil against RM2.851bil previously.

In a statement, AirAsia said its passenger growth registered a healthy 21% increase to 14.2 million in the Malaysian operations.

The combined Malaysian, Thailand and Indonesian operations carried 24% more passengers, totalling 22.7 million, it said.

Fernandes said: "We have successfully grown our market share in every market we served, opened up four new bases (Penang, Bandung, Phuket and Surabaya), launched new routes and amassed RM748mil cash in the balance sheet as a bulwark against any contingencies that may arise."

On the operations in Thailand, Fernandes said AirAsia Thailand has captured a substantial market share and delivered a core operating profit of 334 million baht (RM34.1mil).

The Thai operation is enjoying the cost benefits of the increased number of Airbus A320 aircraft in its fleet, he said.

On AirAsia Indonesia, he said: "Indonesia is in the final stage of its aircraft renewal programme and this will help enhance operational reliability, increase capacity and substantially reduce operational cost."

As Indonesia received more Airbus A320 aircraft, it would replicate the cost advantages in Malaysia and was on course to deliver sustainable profits for the full year 2010, he said.

Fernandes was optimistic on AirAsia's prospects in 2010, saying: "There are early signs that the global economy is stabilising and the benefits are already visible in the aviation industry."

The supply-demand conditions are favourable for an upward fare revision in certain sectors, he said.

"We have identified nine new routes to be launched and this will support passenger growth of 11-14% in 2010," he said.

"As Indonesia received more Airbus A320 aircraft, it would replicate the cost advantages in Malaysia and was on course to deliver sustainable profits for the full year 2010"

Based on the forward-booking trend, the underlying passenger demand in the first quarter 2010 was positive, said Fernandes.

The group is also determined to increase its penetration in the Asean region.

While it was already operating through its hubs in Malaysia, Indonesia and Thailand, AirAsia has also entered into a joint venture with VietJet in Vietnam with the goal of launching operations out of that country this year.

On fuel, Fernandes said AirAsia has partially hedged fuel requirements up to December this year.

"This will help mitigate some of the oil price volatility and we are monitoring the market and constantly assessing the feasibility of hedging further our fuel exposure in 2010 and beyond," he added.

Source: Bernama, zawya.com - 25th February 2010

Airline industry crisis hits 2009 Iberia performance

Iberia, on 25th February, posted its results in 2009, one of the most difficult years in the airline's history, when the world economic crisis and stiff competition led to a steep decline in operating income.

After 13 consecutive profitable years, Iberia reported a net loss of 273 million euros in 2009.

"Throughout the year Iberia adapted its supply of flight services to the changes in the different markets, cutting seat supply overall by 6 per cent, which brought an overall passenger load factor of 79.8 per cent, similar to that of 2008, and one of the highest achieved by any European network carrier last year," Iberia informs.

Operating income plunged by 19.1 per cent in the year, due to the collapse in both passenger and cargo demand. Average income per RPK dropped 14.1 per cent from the 2008 level, due chiefly to the decline in demand for business class seats and cutthroat competition in most of Iberia's markets.

Meanwhile, operating expenses fell by 11.9 per cent to 4,873

million euros in 2009, due in large part to the 482 million euro (28.9 per cent) reduction in spending on fuel, thanks to lower prices and smaller purchases. Unit operating costs were down by 6.3 per cent to 7.84 euro-cents per ASK.

The average staff level was trimmed by 4.2 per cent to 20,671 people. The 6 per cent decline in seat supply led to a 1.8 per cent fall in productivity, measured as ASK per employee. In contrast, the fleet utilisation rate rose 3.7 per cent to an average of 10.3 hours/day per aircraft, thanks to the reduction of the fleet by 10 aircraft via the cancelling of leasing agreements, the postponement of new deliveries and the mothballing of some units. At the end of 2009 Iberia had 109 aircraft in service.

Passenger traffic (RPKs) fell by 6.2 per cent in the year, while seat supply (ASKs) was cut by 6 per cent. On long-haul routes the seat supply reduction was only 3.3 per cent, while traffic volume in this segment declined by 5.4 per cent in the year. The final quarter showed some signs of recovery, and the occupancy rate (load factor) edged 0.6 points higher. Business class seat demand in the segment was down by 13.3 per cent, but it recovered slightly after the summer. Iberia maintained its leadership of the Europe-Latin America market with a 20.1 per cent share.

Load factor on Iberia's medium haul international flights improved by 2.5 points, reaching 75.6 per cent, following a 9.2 per cent cut in seat supplies. Demand in this segment fell by 6 per cent.

Seat supplies in the domestic market were cut by 11 per cent in the year, which pushed the load factor 0.4 points higher. On the Madrid-Barcelona route seat supplies were slashed by 20 per cent; this percentage was lower in the last nine months of the year.

Revenues from outside clients amounted to 322 million euros for Iberia Maintenance in 2009, a 4.1 per cent improvement from the previous year, thanks mostly to technical assistance to Spain's Defence Ministry and landing gear repairs, a new business line for the division.

Despite a 7.3 per cent decline in the number of aircraft served, the income from Iberia's handling division (Iberia Airport Services) was down by only 3.3 per cent, thanks to a 2.1 per

IBA's Comment:

"The Spanish carrier has faced a difficult year but perhaps not as bad as other national carriers. This has not been helped by improving Spanish mainland rail and road infrastructure which has hit domestic traffic. However, Iberia's strong presence in the growing Latin American market is a huge advantage during the present economic climate."

- David Rushe

cent increase in unit revenues and larger income flows from other airport services, including Iberia's share in a new business for assisting reduced-mobility passengers. In the fourth quarter, handling division revenues were boosted by 2 per cent when Vueling signed up for the division's services.

As of December 31, 2009, the Iberia Group has net assets of 1,551 million euros, down 0.8 per cent for the year. The impact of the net loss of 273 million euros in 2009 was offset by better hedging operations valuation and the rise in value of British Airways shares. Iberia's available balance came to 1,974 million euros, 377 million less than a year earlier.

Source: finchannel.com - 25th February 2010

Chinese govt injects 1.5b yuan into China Southern Airlines

China Southern Airlines suspended trading in both Hong Kong and Shanghai pending a decision on how to use a 1.5 billion yuan (\$220 million) government cash injection. The Ministry of Finance awarded the funds to parent China Southern Air Holding Company to support the company's core business development, China Southern said in a filing on the Hong Kong Stock Exchange on Tuesday.

The airline said it is discussing ways of using the funds to pare debts with its parent.

The company's ratio of total debt to total assets was 85.73 percent as of the third quarter of 2009.

Analysts believed the injection would improve the company's financial status.

"China Southern might issue additional shares to its parent and other institutions. That will lower its debt-to-asset ratio, cut payments for interest and increase net asset value per share," Ma Xiaoli, a Shanghai-based aviation analyst with CITIC Securities, told the Global Times.

China Jiayin Investment Securities said in a report that China Southern's debt-to-asset ratio would be lowered 1.62 percentage points by the injection.

"If China Southern issued additional A and H shares to its parent

"The company's ratio of total debt to total assets was 85.73 percent as of the third quarter of 2009"

at the closing price on Monday, its equity would be increased by 4.06 percent to 8.33 billion yuan (\$1.22 billion). If the carrier repays banking loans with the injection, its annual interest expense will be down 79.65 million yuan (\$11.66 million) on the premise that the annual interest rate is 5.31 percent," said the report.

It is the second time that China Southern has received government aid since 2008, when it got 3 billion yuan (\$440 million), lowering its debt-to-asset ratio to 80.66 percent from 83.26 percent. The carrier issued additional shares to repay bank loans.

The parent companies of the nation's three biggest carriers have received a total of 15 billion yuan (\$2.20 billion) to help cut debts and cope with the travel slump that started in 2008, including 9 billion yuan (\$1.32 billion) to China Eastern's parent, and 1.5 billion yuan to Air China.

In 2008, high aviation fuel costs diluted the already low revenue of the three airline companies against the backdrop of a slow economy, the Sichuan earthquake and the Olympic Games.

The three carriers jointly lost 27.9 billion yuan (\$4.08 billion) in 2008, with China Southern posting a 483 million yuan (\$70.74 million) loss, the lowest of the three airlines.

There have been signs of pickup since the first quarter of 2009. The industry's full year profit reached 12.2 billion yuan (\$1.79 billion), boosted by record high passenger traffic - 230 million journeys, an increase of 19.7 percent year-on-year.

Yao Jun, an aviation analyst with China Merchants Securities, told the Global Times that the industry will continue the momentum trend this year if no adverse factors, such as dramatic oil price hikes, happen this year.

Ma expects a substantial increase in the core business of the industry, transportation, and forecasts high efficiency of seat utilization and high ticket prices.

China's carriers expect to handle a total of 260 million passengers this year. And China Southern said last month it would buy 20 Airbus A320 aircraft with a list value of \$1.54 billion.

"It is the second time that China Southern has received government aid since 2008"

Source: Chen Xiaomin, tradingroom.com.au - 24th February 2010

Greek airlines merge

Greece's two major airlines, Olympic Air and Aegean Airlines SA, are merging to create a "national airline champion," the companies said in a statement on Monday. The two airlines together have 97 per cent of the Greek domestic air travel market and will use the name Olympic Air after a transition period in which the Aegean name will be used in parallel.

The companies said they were combining to better compete within the European Union and preserve jobs in the industry.

"The prevailing conditions in the Greek economy as well as in the aviation sector dictate the combination of forces in order to maintain competitive customer prices, protect levels of employment and increase our competitiveness at a European level," said Olympic Air chairman Andreas Vgenopoulos, head of Olympic's 100 per cent shareholder, Marfin Investment Group (MIG).

The merger must be approved by European Union regulators, a process that "will take several months," MIG spokesman Seraphim Konstantinidis said.

The combined airline is not expected to operate before October, 2010, at the earliest, sources say. The merged company will have 5,850 employees, including Aegean's current 2,500, Olympic Air's 1,300, as well as 2,000 in Olympic Handling and 50 in Olympic Engineering, which will be 100 per cent subsidiaries of the new company.

Olympic Air is the successor airline to state-owned, debt-ridden Olympic Airways, later Olympic Airlines, which accumulated massive deficits for all but one of its 34 years of state ownership from 1975 to 2009. It was sold to MIG after several unsuccessful privatization attempts. It currently flies on 41 domestic and 15 international routes, a drastic cutback from its heyday in the 1980s.

Aegean Airlines flies to 24 domestic and 26 international destinations. It is a regional partner of Lufthansa and collaborates with Brussels Airlines, Portugal's TAP and Britain's bmi.

Source: CTVnews.ca - 23rd February 2010

IBA's Comment:

"Consolidation of the Greek carriers is a smart move given the current ailing Greek economy. The airlines will look to a lower cost base and a strong brand to fend off the influx of low-cost carriers flying into Greek airports, attracting both business and leisure passengers."

- David Rushe



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 and Phil Seymour will be speaking and hosting several panels

8th April 2010 - Risk Management and Practical Solutions, Dublin - Phil Seymour will be attending and Owen Geach will be chairman and speaker - register@aeropodium.com

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

FlyGlobespan

IBA has been appointed as exclusive sales agent by The Joint Administrators of The Globespan Group Plc for the Boeing 737-600 and spare parts inventory formerly the property of FlyGlobespan. The Boeing 737-600 was manufactured in March 1999, with MSN 28303 and registration SU-MWC, powered by CFM56-7B20 engines and with a Garrett GTCP131-9B13-9B APU. The aircraft has accumulated 20,596 hours since new and 19,280 cycles and is available from April 2010. There is an inventory of rotatable and consumable parts also for sale. Interested parties should send an email to owen.geach@ibagroup.com to request more information. Further details will be made available shortly.

IBA Aircraft for Sales

2002 Embraer Legacy - MSN: 145505, Total time: 2281, Cycles: 1484 - Price reduced.

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

Winter Olympics

Olympic appears to be set for a merger with Aegean. The financial turmoil in Greece appears to be making headway in terms of pragmatic decision making.

So whilst the home of the Olympics is making the news for the wrong reason the Winter Olympics in Vancouver caught my attention. Whilst I admire most sportsmen and women for their dedication, I have finally found a sport that got me up from the sofa and pretending to ski: Ski Cross also known as Skier cross in some circles. Four skiers starting at the same time out of the blocks fighting their way down to finish via a slalom style course along with bumps and jumps. Great fun, surely someone from Nintendo will create the armchair version for us?

Word of the week: Wootang, its the technical name for the high jumps in ski cross.

Try using it today. For example could the merger of the Greek airlines prove to be a wootang too far for the unions to tolerate?

Phil

Phil.seymour@ibagroup.com

"Newswatch" is a free weekly round-up collated by IBA Group Ltd.

Go to our website to find the last year editions of Newswatch archived.

To either SUBSCRIBE or UNSUBSCRIBE to this newsletter, please send an email to marketing@ibagroup.com with your request.

The items in this document do not necessarily represent the opinion of IBA, and is intended to be for information purposes only. Therefore, IBA assumes no responsibility or legal liability for any action taken, or not taken, by the addressee, or by any other party, with regard to the information and views contained.

As a leading independent aviation consultancy, IBA Group Ltd. offers technical advice, commercial business solutions & asset valuations for our worldwide client base.

Compiled & Edited by Alice Gondry
www.ibagroup.com

Tel: +44 (0)1372 224488 Fax: +44 (0)1372 224489