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US Airways' first-quarter loss shrinks

US Airways said its first-quarter loss shrank, and executives are beginning to hope things have stopped getting worse.

The carrier, which provides service also said on Thursday it will begin charging passengers an extra \$5 per bag to check luggage at the airport rather than online.

"The revenue environment does seem to have bottomed out, which means it isn't getting worse," US Airways President Scott Kirby said on a conference call. "But there also aren't yet clear signs that it's getting better."

He said fare sales have kept vacationers travelling, but there's been no sign of improvement from business travellers - who generally pay higher fares and are thus more profitable.

Tempe, Ariz.-based US Airways Group Inc. said it lost \$103 million, or 90 cents per share, for the quarter that ended March 31, compared with a loss of \$237 million, or \$2.58 per share, during the same period last year. Revenue fell 13.5 percent to \$2.46 billion, from \$2.84 billion a year ago. The company booked \$157 million in special items, including an unrealized gain on outstanding fuel hedge contracts which had been booked as a loss in previous quarters.

If not for the improving fuel hedges, US Airways says it would have lost \$260 million, or \$2.28 per share. That was slightly better than the expectation of analysts surveyed by Thomson Reuters, who expected a loss of \$2.38 per share on revenue of \$2.5 billion. US Airways also said it had another \$170 million in potential hedging losses on contracts that are under water but haven't settled yet.

US Airways charges \$15 for the first checked bag and \$25 for the second. An extra \$5 per bag now will be charged to passengers who pay those fees at the airport. The change applies with tickets booked on Thursday for flights beginning July 9. Passengers can avoid the extra \$5 charge if they prepay their baggage fees by checking in online.

Source: Joshua Freed, AP, pressconnects.com - 24th April 2009

Earnings drop 50 percent at Boeing

Boeing Co., the world's second-largest plane maker, said Wednesday its first-quarter profit dropped by half, hurt by production cuts as airlines postpone deliveries of new planes. It also forecast lower earnings for the year and reduced aircraft prices.

Demand for the Chicago-based company's jetliners has tumbled as the recession dampens demand for air travel and air cargo services. Airlines have grounded planes as fewer people fly, and tighter credit markets have made it more difficult for potential buyers to obtain financing for new aircraft.

Boeing said it plans to slash spending and restructure parts of its business as the global economic downturn presents "unprecedented challenges." In January, the company announced plans to cut a total of 10,000 jobs after reporting a surprise loss for the fourth quarter.

In its latest quarter, Boeing earned \$610 million, or 86 cents per share, compared with \$1.21 billion, or \$1.62 per share, during the same period last year.

The results included a previously announced charge of 38 cents related to planned production cuts of its twin-aisle 777, plans to delay stepped-up production of its 747-8 and 767 planes and lower anticipated prices.

Excluding one-time charges, profit reached 87 cents per share. On average, analysts had expected a profit of 91 cents on revenue of \$16.70 billion, according to a survey by Thomson Reuters.

Revenue edged up 3 percent to \$16.50 billion.

J.B. Groh, an analyst at D.A. Davidson & Co., said investors were encouraged by Boeing's indication that the 787 program remains on schedule, with the first test flight of the next-generation aircraft scheduled for the second quarter and deliveries slated to begin early next year.

Boeing lowered its outlook less than expected, considering the previously announced charges, lifting the company's shares in early trading, he said.

The company cut its 2009 profit forecast to a range of \$4.70 to \$5 per share, from \$5.05 to \$5.35, reflecting lower earnings at

IBA's
Comment:
"Boeing executives will hope that the 787 roll-out goes smoothly in order to provide a much needed boost to shareholder confidence"
- David Rushe

its commercial airplane business.

Boeing has struggled with its 747 program, which has operated at a loss and accounts for most of the 38-cent charge.

Last year, the company said it was delaying deliveries of the 747-8 freighter and passenger jets due to design changes, limited engineering resources and a strike that shut down the company's commercial jet factories for eight weeks.

For the 777, Boeing said earlier this month it would reduce monthly production of the plane to five from seven starting in June 2010, which is expected to result in job cuts.

Boeing had built up a record backlog during three years of booming demand that ended last year, when orders plunged.

On Wednesday, the company said its backlog was worth \$339 billion at the end of March, down 4 percent in the quarter. Lower expected prices and cancellations of 32 787s this year contributed to the decline.

"The expanded global economic downturn is presenting unprecedented challenges in our commercial airplane markets," Jim McNerney, Boeing's chairman, president and chief executive, said in a statement.

Source: Associated Press, tulsaworld.com - 23rd April 2009

"Boeing has struggled with its 747 program, which has operated at a loss"

Emirates expects profit drop

Dubai-owned airline Emirates expects profit for its 2009/10 fiscal year to be down on previous years as people cut back on travel and holidays amid the global recession, a senior executive said on Thursday.

Richard Vaughan, vice-president for commercial operations worldwide, maintained the airline will remain profitable for the year, which began April 1, but a return to the kind of earnings seen in 2007/08 will take "a miraculous recovery".

"I don't think will be in the same situation unless there's a miraculous recovery (in the global economy)," Vaughan said in an interview.

"The market has definitely softened and that's obviously because of the worldwide economic situation, but we are confident we will be profitable this year."

"Emirates has no plans to cut its number of routes or defer aircraft orders in the face of falling passenger numbers"

Emirates posted net income of \$1.37 billion for its 2007/08 fiscal year. The airline saw earnings nosedive 88 percent in the first half of its fiscal year that ended March 31.

Emirates, the largest Arab airline, posted net income of \$77 million for the six months ending Sept. 30 mainly due to soaring fuel costs.

Oil prices hit an all time high of \$150 in July 2008, but have since fallen by \$100 as the global recession took hold.

Vaughan would not comment on how the airline fared in the second half of the year. The airline is set to report full-year results next month.

Vaughan said Emirates has no plans to cut its number of routes or defer aircraft orders in the face of falling passenger numbers.

"We've got aircraft being delivered up to 2016 and there are no deferments or cancellations," he said.

He said the airline expects to take delivery of 17 aircraft during the current fiscal year, including seven A380s, and add two new routes and increase frequencies on several others.

Emirates has a fleet of over 120 aircraft and flies to over 100 destinations in 61 countries. The airline is the biggest customer for Airbus's A380, with a total order of 58 superjumbos. It already has four A380s in its fleet.

The International Air Transport Association (IATA) warned last month Middle East airlines will lose \$900 million in 2009, with any increase in passenger traffic seen this year cancelled out by rising capacity.

Middle East airlines are expanding aggressively and have placed some of the biggest aircraft orders with Boeing and Airbus in recent years, but analysts have warned they may have to curtail expansion plans and will struggle to fill seats amid the economic downturn.

Vaughan said Emirates is operating load factors in the high 70s. Emirates' load factor was 79.8 percent in its 2007/08 fiscal year. The airline did not disclose its load factor for the first six months of its 2008/09 fiscal year.

"These 17 aircraft that will come in, we've got work for all of them," Vaughan maintained.

Emirates was forced to pull its A380 from its launch New York-Dubai route just eight months into the service due to lack of

"We've got aircraft being delivered up to 2016 and there are no deferments or cancellations"
- Richard Vaughan

demand. The aircraft will be redeployed this summer to Toronto and Bangkok.

"New York and Wall Street has been pretty much decimated by the world problems so that's definitely affected the market to New York," Vaughan said.

The airline already operates the A380 on routes to London and Australia and has said it plans to launch the superjumbo on routes to South Korea and Singapore before the end of 2009.

The airline is also looking at expanding the number of cities it serves in the U.S. and South America, Vaughan said.

Emirates already flies to Houston, San Francisco and Los Angeles, as well as New York, and Sao Paulo in Brazil.

Emirates recently offered cabin crew the option of taking up to six months unpaid leave, but Vaughan said the airline has not make anyone redundant.

"We've not reduced staff."

Source: Larry Ferguson, business.maktoob.com - 23rd April 2009

IBA's
Comment:
"Airbus and Boeing executives will be relieved that Emirates shows no signs of arresting its aggressive fleet growth strategy"
- David Rushe

Tianjin may get A350 airframe work

In addition to the final assembly line for the Airbus A320 family of aircraft, Tianjin may secure a part of the work that Airbus has allocated to Chinese counterparts for its A350 program.

"Negotiations are underway between Airbus and relevant Chinese counterparts to locate a part of the A350 work in Tianjin. It will involve a new segment within the airplane manufacturing industry," Marc Bertiaux, vice-president of Airbus Cooperation and Partnership with China, said.

Bertiaux did not, however, disclose details of the possible new project in Tianjin citing commercial considerations. Airbus had signed a deal with China's top planning body, the National Development and Reform Commission, in 2007 wherein it agreed to allocate 5 percent of the A350XWB airframe work to the Chinese aviation industry.

The port municipality of Tianjin was also best placed to compete with other cities for Airbus' planned logistics center in China, Bertiaux said.

The Airbus Logistics Center is supposed to offer efficient and effective logistics services for Airbus' airplane manufacturing

IBA's
Comment:
"One hopes that Airbus has learned lessons from Boeing's delay in the 787 production. due to extensive use of international subcontracted assemblies"
- David Rushe

activity in China.

"The Logistics Center is expected to ship components in and out of China fast and cost effectively. The location of the center will be decided later this year," Bertiaux elaborated.

The Tianjin municipal government is highly positive about the possibility of hosting the Airbus Logistics Center.

Tianjin boasts of a well-developed harbour, train and freight connectivity and is therefore a good choice for the proposed logistics center, Bertiaux said.

Source: china.org.cn - 22nd April 2009

Qantas 'needs saving'

Qantas needs saving from "unfair competition" from foreign government-backed airlines to protect Australian jobs, the ACTU will argue today when it meets the airline over its decision last week to axe up to 1,750 jobs.

The ACTU and Qantas will also discuss measures to reduce the number of jobs Qantas plans to cut - 500 management positions and up to 1,250 staff.

Flexible work practices are on the agenda. Qantas is pushing for staff to work part-time, job share and take unpaid and annual leave to cut the number of positions it will shed. Initially unions have been receptive to discussing those issues but have ruled out talk of a wage freeze.

Expressing concern that the airline might close regional routes or services, the ACTU secretary, Jeff Lawrence, said it was essential the airline held onto its staff, describing Qantas as "an essential part of our social and economic infrastructure".

"We are also concerned about the unfair competition Qantas faces from airlines which are owned or propped up by overseas governments," he said.

Of concern to unions is that most of the airline's competitors are either fully or partly government owned or receive government support. These include Singapore Airlines, Emirates, Air China, Malaysia Airlines and Tiger Airways. This

"We are also concerned about the unfair competition Qantas faces from airlines which are owned or propped up by overseas governments" - Jeff Lawrence

means they could be run at a loss or to pursue other strategic objectives.

Qantas's chief executive, Alan Joyce, who will meet Mr Lawrence today, echoed union concerns last week in an interview with The Age in which he pointed to the advantage its competitors had.

"Some of the other airlines that operate out of here are doing it as government entities. They don't have to make the same returns," he said.

"They have a sovereign status in terms of funding for aircraft and that does produce an un-level playing field. We have always asked for a level playing field and that is still our position."

Mr Joyce said capacity in and out of Australia was growing by 11 per cent in a falling market - a key factor in the slump in Qantas profits. "We're seeing extensive discounting from carriers like Singapore, Emirates," he said last week.

In submissions to a Federal Government green paper in December, some rivals and other stakeholders argued for foreign airlines to have more access to the Australian market, pointing to the benefits from trade liberalisation.

Critics have argued that Qantas has successfully lobbied governments to protect routes from more competition. A spokesman for the federal Transport Minister, Anthony Albanese, did not return calls.

In the green paper, the Government said it was committed to liberalisation but that needed to be balanced with the national interest. An aviation white paper, with recommendations to government, is expected this year.

Source: Ben Schneiders, SMH, stuff.co.nz - 20th April 2009

"Some of the other airlines that operate out of here are doing it as government entities. They don't have to make the same returns"
- Alan Joyce



IBA Group News

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

Conference Dates

13th - 14th May - 14th Annual Aero-Engine Leasing, Trading & Finance Conference, Dublin - David Rushe will be speaking

18th - 19th May - 3rd Annual AirLaw Conference, London - Ross Elliott will be attending

Airfinance Journal and *Euromoney Seminars* present the 3rd Annual AirLaw Conference, 18th & 19th May 2009, Hyatt Regency - The Churchill, London.

As the aviation market is changing faster than ever before, making the correct legal decision and being aware of upcoming regulatory changes can be the difference between success and failure.

This timely conference will bring in-house legal counsels representing airlines, manufacturers, lessors, ECAs, insurers and financiers together with lawyers and regulators to discuss the key issues affecting the aviation industry in today's rapidly evolving market.

To register, please email your details to Karina Katysheva at kkatysheva@euromoneyplc.com

Phil Seymour's Notes on the Week

I cannot avoid mentioning the UK budget this week and how it will positively impact the aviation sector this week. Well, it won't, so we can move swiftly on.

I did note that Tesco announced profits of UK£3 Billion so it seems we are eating our way out of recession. Comfort eating presumably, does it go like this, " Oh Dear, I can no longer pay my mortgage and am likely to have my house repossessed, let's all go to Tesco and buy some crisps and chocolate" (note that means chips and candy for American readers)

Now if that is a correct analysis - and of course I doubt that it is - that means we ate less when we had money? - I don't quite get it. On the subject of food and fitness it is the London Marathon this weekend and my participation last year still leaves me exhausted just thinking about it. I haven't entered this year - I haven't spent enough time training, it's all this comfort eating. Actually, it has been more related to the almost non stop travel and lack of time to train adequately. I only hope I continue to be very busy, the thought of running another marathon leaves me cold. Good luck to all the runners this year - at least the weather forecast looks less wet than last year. Arsenal followers will note I am not mentioning that we lost to Chelsea last week in the semi final of the domestic FA Cup, but we play Manchester United in the first leg of the European Champions League next Wednesday. Cynics should be aware that I have not organised a client meeting in Manchester in order to attend, however I have arranged such meeting in Rome for the final on May 27th. Wishful thinking?

Yours Sincerely,

Phil Seymour, Managing Director, IBA - phil.seymour@ibagroup.com

Publications - 2009 Editions

Please contact ross.elliott@ibagroup.com for more information.

Aircraft Values Book	Published in February & August 2009	£650 per year
Lease Rate Digest	Published in February & August 2009	£375 per year
Engine Values Book	Published in April 2009	£650 per year
Maintenance Cost Journal	Published Quarterly	£175 per year

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Highlights

- Oil prices range-bound
- "Normal" refinery rates falls to 17-year low
- Strong EIA predictions
- Russian tensions

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 seemed to be locked in a sideways range as the market seeks discernment about near-term direction. \$50/bbl appears to be the supporting level (or floor) for prompt NYMEX crude futures as lower OPEC output offsets lower consumption, the US dollar firms and the EIA has predicted stronger retail gasoline and diesel prices for the summer driving season.

Macroeconomic and Fundamental Factors

- The weekly inventory report from the Energy Information Administration (EIA) showed building inventory levels in crude oil but shrinking product stockpiles. US refinery utilization fell 1.5% to 80.4% of operable capacity. This is the lowest utilization rate for a non-hurricane period since March 1992. (See chart below)
- The *Wall Street Journal* reports that some US oil refineries may be forced to shut down soon due to poor refining margins, costly environmental upgrades and lower demand for many product types. There are currently less than 150 refineries in the US. Many analysts warn that refinery capacity will become a serious problem again once product demand begins to grow again.
- The EIA is predicting an average WTI crude price of \$53 in 2009 and \$63 in 2010. (This implies a bal-2009 average of \$56.50/bbl.) Further, the EIA is projecting that while global oil demand will fall in 2009 by 1.6%, global production will fall by 2.4% as OPEC producers deliver on promises of output restraint.
- According to the EIA, the prices of unleaded gasoline and diesel fuel will continue to rise into the summer driving season, projected to be \$2.23/gl and \$2.27/gl respectively. Further, 2010 average retail prices for gasoline and diesel are expected to be \$2.42/gl and \$2.69/gl respectively as reported in the EIA's latest *Short-term Energy Outlook*.
- Tensions between Russia, the world's largest non-OPEC oil producer, and NATO ratcheted higher this week over planned exercises in Georgia. Russian President Medvedev warned of "different kinds of complications" and called the exercises "a dangerous decision".

Weather

- After a spell of below-normal temperatures, the eastern US, including the world's largest home heating oil market, will return to normal or above-normal levels over the next 8-14 days.

US Refinery Utilization

