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**IBA Group Ltd.**  
Meadowcroft House  
180 Balcombe Road  
Horley, Surrey  
RH6 9AE  
United Kingdom  
Tel: +44 (0)1293 772743  
Fax: +44 (0)1293 772745  
[www.ibagroup.com](http://www.ibagroup.com)

## **Southwest makes bid to buy Frontier Airlines**

Southwest Airlines Co. is trying to trump a rival bid and acquire Frontier Airlines, a Denver-based carrier operating under bankruptcy protection.

The move could strengthen Southwest's position in Denver and speed the low-cost carrier's expansion into new markets such as Atlanta and resort areas in Mexico.

A court had already approved the sale of Frontier Airlines Holdings Inc. to the parent of Republic Airways for \$108.8 million, but that deal can be nixed if a better offer comes along.

Dallas-based Southwest said Thursday it submitted a nonbinding bid of \$113.6 million. Southwest hopes that making the bid will allow it to talk with Frontier and get information to help shape its final proposal.

Southwest said it faces an Aug. 10 deadline for submitting a binding bid. If there is more than one qualified bidder, an auction will be held the following day.

"We are in this to win, and we think we have the resources to be successful," said Southwest executive vice president Ron Ricks.

Frontier is scheduled to return to Tulsa International Airport on Sunday with twice-daily round-trip service to Denver International Airport. The carrier had left the Tulsa market in mid-2008.

U.S. airlines are struggling through a terrible slump in travel, as the recession has grounded many business passengers. Southwest has \$2.2 billion in cash and short-term investments and could probably borrow on its investment-grade credit rating.

Southwest said it would operate Frontier as a separate wholly owned subsidiary for a couple of years until its operations can be combined with Southwest.

Ricks said Southwest had "been considering a bid for some time, independent of any action Republic took with its bid proposal. In the past month, we began an intensive study

of the airline and expressed that interest to Frontier."

Republic spokesman Carlo Bertolini said it was too early to know if Republic would raise its bid.

Southwest recently went back into Frontier's home market of Denver, where it also competes against UAL Corp.'s United Airlines.

United said it operates 436 daily departures on average from Denver compared with 168 by Frontier and 113 by Southwest.

Jean Medina, a spokeswoman for UAL Corp.'s United, said the Chicago-based airline was not interested in a bid for Frontier and was not worried about a beefed-up Southwest. "We have long competed with them virtually everywhere in the U.S. and will continue to do so vigorously," she said.

Frontier flies from its Denver hub to about 50 locations including Mexico and Costa Rica. It overlaps with Southwest on about 27 U.S. routes and serves about a dozen others that Southwest does not.

Source: David Koenig, AP, tulsaworld.com - 31<sup>st</sup> July 2009

## IBA's

### Comment:

"It is expected that Southwest will dispose of Frontier's fleet of Airbus aircraft. Placement of the niche A318 aircraft may prove difficult."

- David Rushe

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## Loss-hit Air India cancels Boeing orders

Indian flagship carrier Air India, struggling with massive losses, has cancelled orders for five Boeing 777 planes, a report said Friday.

The Hindustan Times also said the state-run airline was claiming 710 million dollars from the US planemaker for failing to deliver 27 B787 aircraft on time.

"The cancellation orders have already been issued by my engineering department," Air India chairman and managing director Arvind Jadhav was quoted as saying by the newspaper.

He alleged that Boeing's failure to deliver the 27 B787 planes had caused large losses for the company.

"The entire schedule of Air India has gone haywire. We have put a claim of 710 million dollars for their failure to deliver the aircraft to us in time," the Air India chief told the newspaper.

"the state-run airline was claiming 710 million dollars from the US planemaker for failing to deliver 27 B787 aircraft on time"

Spokesmen for both Air India and Boeing declined immediate comment on the report.

Air India in 2006 signed a formal agreement to buy 68 Boeing airplanes in a deal that was estimated to be worth around eight billion dollars.

The carrier said it would buy 23 777s, 27 787-8 Dreamliners and 18 next-generation 737-800s.

The list price for a single aircraft varies from 165 million to 200 million dollars but Air India was believed to have negotiated a lower price because of its large order.

The airline faces a financial crisis after posting an estimated one billion dollar loss for the fiscal year ended March 31 and is hoping for a big government rescue package.

Faced with a sharp downturn in air traffic and overcapacity, it is also seeking to cut overhead costs by rationalising routes and aircraft deliveries.

"There is a lot of excess flab on the entire body of Air India," Civil Aviation Minister Praful Patel said recently.

Source: AFP, bakersfieldnow.com - 31<sup>st</sup> July 2009

"There is a lot of excess flab on the entire body of Air India"  
- Praful Patel

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## China's civil aviation industry sees overall recovery

China's civil aviation industry is experiencing an overall recovery. In the first half of 2009, total industry turnover, the best indicator, reversed its month-on-month decline. Total turnover rose 7.6 percent year-on-year in May and 12.1 percent in June, showing noticeable signs of recovery. Passenger traffic volume showed rapid growth, with an average month-on-month growth rate of more than 13 percent. In particular, the year-on-year domestic passenger traffic volume growth rate stood at 20.4 percent in the first half, pushing up total turnover. Although freight and postal traffic volume continued to drop in the first half, it improved in the second quarter and showed growth in June.

"The civil aviation industry has just entered its annual peak period. I believe that operations in the second half will be

"Policy support played an indispensable role in generating profits"

better than the first half," said Li Jiayang, director-general of the Civil Aviation Administration of China.

The civil aviation industry's recovery reflects the overall rebound in the macro-economy. International experience shows that recovery of the transportation industry usually occurs earlier than the recovery of the macro-economy, and also rallies rapidly. In the first half, China's economic development has experienced some positive changes. Industrial production continued to improve, fixed-asset investment continued to rise and resident income showed a rebound. These factors have influenced the aviation industry directly or indirectly, leading to rapid growth in passenger traffic volume, and domestic passenger traffic volume in particular.

In 2008, the civil aviation industry recorded losses of over 20 billion yuan. In the first half of 2009, the industry turned loss into profit, generating 4.86 billion yuan in total profit, of which 3.85 billion yuan came from airlines. Policy support played an indispensable role in generating profits. Airlines such as China Southern Airlines, China Eastern Airlines and Hainan Airlines have received direct capital injections from both the central and local governments. The aviation authority took steps to refund civil aviation levies to airlines after collection, and exempt airlines from the fuel tax surcharge for three years. These measures have lowered transportation costs for airlines.

Source: People's Daily Online, english.people.com.cn - 30<sup>th</sup> July 2009

"The aviation authority took steps to refund civil aviation levies to airlines after collection"

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## Budget carrier easyJet cheers market with FY profit forecast, continued growth plans

Low-cost airline easyJet PLC reaffirmed its full-year pretax profit of 25 million to 50 million pounds (\$41 million-\$82 million) on Wednesday, despite a "difficult and uncertain" market as the carrier picks up market share across Europe.

The carrier added that it is pushing ahead with its plan to target growth in markets from which weaker competitors are retreating, locking in positions for when the European economy improves.

"This has been a resilient third quarter and our position has

continued to strengthen as we made market share gains across Europe," said easyJet Chief Executive Andy Harrison. "easyJet is continuing to perform relatively well in tough trading conditions and we expect to be one of the few airlines to make a profit this year."

Coming just days after fellow budget carrier Ryanair Holdings PLC spooked the market by scaling back its full-year profit forecasts, the relatively positive report from easyJet gave airline stocks a boost.

easyJet shares rose 3.7 percent to close at 288 pence. British Airways stock ended up 2 percent at 130.90 pence, while Ryanair shed 2 percent to euro3.12.

Ryanair however scaled back its full-year profit forecasts to the bottom end of its forecast 173 million pound to 259 million pound range

London-based easyJet said total revenue in the April-June quarter, the company's fiscal third, was up 12 percent to 721 million pounds. Total revenue per seat increased by 10.9 percent, or 4.8 percent on a constant currency basis, partly because of the movement of Easter from the fiscal second quarter of 2008 to the third quarter in the current year.

Passengers carried increased by 2.9 percent to 11.9 million, with a 12 percent growth in passengers originating in mainland Europe.

The carrier said it made market share gains across Europe, particularly at London's Gatwick, Milan, Paris and Madrid.

It added that more than 75 percent of its available summer seats have been booked, leading it to believe total revenue per seat at constant currency in the second half of the year will be at least at the same level as the second half of last year.

Second half fuel costs and exchange rates are also expected to be broadly in line with the same period last year.

Source: AP, startribune.com - 29<sup>th</sup> July 2009

## IBA's

### Comment:

"The positive results posted by easyJet and Ryanair this week are even more staggering, given the huge losses at BA, an airline which appears to be playing "catch up" in its plans to move towards "no frills" onboard catering."  
- David Rushe

## Airline dogfight over lucrative Pacific route

Major airlines are fighting the biggest war in 15 years over the lucrative Pacific route linking Australia and the US, experts say.

Carriers are slashing prices and offering special deals after US giant Delta and Virgin's V-Australia entered the market this year - just as the downturn grounds swathes of passengers.

"It's not a pretty place right now," said Peter Harbison, of the Center for Asia-Pacific Aviation research group.

Fares are touching all-time lows, less than half of those paid a year ago, on a route that has not been so competitive since Continental and Northwest pulled out in the early 1990s.

"I think fares are probably about as low as they've ever been. It's not just the competition and the arrival on the route of V-Australia and Delta," said Tom Ballantyne, chief correspondent for Orient Aviation magazine.

"The current recession is hitting the airline industry very hard, particularly the high-yielding business-class traffic."

The entry of Delta, the world's biggest airline, this month sparked a furious round of discounting on what is one of the globe's most profitable routes.

Some fares have dropped to just US\$530 return and carriers are offering extra incentives, such as VAustralia's free limo pick-up for business passengers.

Australian flag-carrier Qantas is selling business-class seats two-for-one and has taken the "unprecedented" step of letting children fly free.

Analysts are convinced the bloodletting will kill off one player, possibly as early as October, with V-Australia tipped as the most likely casualty.

"It's unlikely that all of the carriers will continue to serve on the route. There are simply too many seats on the route and you can't fill them," Ballantyne said.

"Delta is a pretty big airline, they're not going to start and then leave. But V-Australia may decide this is not worth the effort."

### IBA's Comment:

"Qantas is already facing unprecedented competition on its European routes and will hope to maintain strength over the Pacific."

- David Rushe

However, V's operator Virgin Blue has announced a joint venture with Delta which is currently awaiting regulator approval.

America's United has underlined its commitment to a route it has served for 24 years, while a pull-out by Qantas, which accounts for half the market, is unthinkable.

"We've invested heavily in that route and we've no plans to do otherwise," the Qantas spokeswoman said.

Until one airline blinks, passengers will be able to enjoy cheap seats on the 14-hour journey to and from Los Angeles.

"It's fantastic for consumers - but very bad for airlines," Ballantyne said.

Source: AFP, thanhniennews.com - 27<sup>th</sup> July 2009

"Qantas is selling business-class seats two-for-one and has taken the "unprecedented" step of letting children fly free."

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## Limited places left on free risk management seminar

### Forthcoming Event: Risk Management and Practical Solutions - A Seminar for Banks and Leasing Companies with Aviation Assets. 1st September 2009, London

The International Bureau of Aviation (IBA Group), along with the other event co-hosts, are delighted to report that places on their free seminar are filling up fast. The event will bring together experts from all the various areas of contingency planning, repossession and the aftermath, with the aim of offering attendees free advice and solutions on how to best manage a possible aircraft repossession scenario.

The event's hosts are Gates and Partners - the leading London Aviation Law Firm, IBA Group - the leading Aviation Asset Management Company, Martyn Fiddler and Associates - Aviation and Customs Specialists, The Isle of Man Registry, ICM Aviation - Isle of Man Aircraft SPV Specialists, and other experts to be announced on the day.

This seminar is offered free of charge to anyone in the industry who is facing a possible aircraft repossession scenario, but be quick as places are going fast! The following topics will be covered:

- Aircraft repossession - key considerations,
- Practical legal steps,
- Tax and customs issues,
- Discharge of liens,
- Maintenance,
- Continuous airworthiness management,
- Temporary registration on the Isle of Man Register,
- Setting up a special purpose company for aircraft ownership,
- Asset management,
- Remarketing.

The event will take place at the Royal Aeronautical Society in London on 1st September 2009. The main seminar will run in the morning, with talks and interactive sessions from our panel of experts. This will be followed by a light lunch and refreshments. The afternoon session offers attendees an opportunity to network and also take advantage of one-to-one consultations with any of the host companies.

Please register your interest by emailing Owen Geach, Commercial Director, at [owen.geach@ibagroup.com](mailto:owen.geach@ibagroup.com) or Aoife O'Sullivan, Partner, at [AOSullivan@gatesandpartners.com](mailto:AOSullivan@gatesandpartners.com)

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## 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

1<sup>st</sup> September 2009, London - Risk Management and Practical Solutions" - A Seminar for Banks and Leasing Companies with Aviation Assets - IBA is hosting the event along with other leading aviation experts.

### IBA Aircraft for Sales

2008 AgustaWestland AW139 Helicopter - MSN: 31121, Total Time: 916, Cycles: 780

2008 AgustaWestland AW139 Helicopter - MSN: 31142, Total Time: 419, Cycles: 223

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

Please contact Mark Wooller for further details at [mark.wooller@ibagroup.com](mailto:mark.wooller@ibagroup.com) or call: +44 (0)1293 772743

## Phil Seymour's Notes on the Week

It is that time of year when the English Premiership football season comes back onto the horizon.

In fact I had to attend an important meeting in Hannover this week and coincidentally saw the pre-season friendly between Hannover 96 and Arsenal. It was quite competitive but Arsenal's strength shone through to take a one-nil victory. It was also the start of the Machsee Festival in Hannover which lasts until the 16 August and I can highly recommend it if you get the chance to make a visit.

The new season starts on the 15<sup>th</sup> of August and below are some of the early home League fixtures - let me know if any are of interest - we have a few tickets for each game!!

Champions league fixtures will follow (fingers crossed subject to qualifying)

August 22nd 3pm Portsmouth

August 25th 7.45pm TBA - Champions League Qualifier

Sept 19th 3pm Wigan

October 4th 1.30pm Birmingham

October 17th 3pm Blackburn

October 31st 12.45pm Tottenham Hotspurs

Regards,

Phil Seymour, [phil.seymour@ibagroup.com](mailto:phil.seymour@ibagroup.com)

## Publications - 2009 Editions

Please contact [ross.elliott@ibagroup.com](mailto: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

**"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.**

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Compiled & Edited by Alice Gondry

[www.ibagroup.com](http://www.ibagroup.com)

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

## Highlights

- Rising equities
- Good earnings reports
- Falling US dollar
- No tropical storms

## 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

## Contact Us

Jonathan Leak  
JLeak@wfscorp.com  
(770) 599-3162

## Executive Summary

Petroleum prices rallied again this week due to rising equity indices, positive economic signals, including some key corporate earnings reports, and a noteworthy drop in US refinery utilization. At time of this report, benchmark NYMEX WTI crude is trading at just over \$67 per barrel.

## Macroeconomic Factors

- ▶ In his semi-annual report to Congress, Fed Chairman Bernanke said that the pace of decline in the US economy appears to be slowing with encouraging signs in consumer spending and stabilizing housing activity. The Fed predicts a peak in unemployment by the end of 2009, a gradual economic recovery in 2010 and possible acceleration in 2011.
- ▶ The Dow Jones Industrial Index breached 9,000 this week, the first time since January, reflecting the improving economic mood and a series of encouraging earnings reports.
- ▶ The US dollar weakened against its major rivals with €1 = \$1.4213 early today. A weaker dollar is often cited as a bullish factor for oil in that it encourages investment in hard commodities as a hedge against inflation.

## Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA) showed a drop in crude inventories and modest builds in gasoline and distillate supplies. National refinery utilization dropped 2.0% to 85.8% of operable capacity.
- ▶ Total US petroleum demand is down 4.8% versus a year ago; however, gasoline demand, the largest fuel category by volume, is actually up nearly 1%. Kerosene jet fuel use is down 14% while residual fuel oil is down nearly 11% year-over-year.

## Weather Factors

- ▶ While a few stormy areas are moving westward from Africa, forecasters believe that conditions are unfavorable for further cyclonic development. As such, no tropical storms are expected to form in the Atlantic or Caribbean over the next few days.

