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Japan Airlines announces billion-dollar loss

Japan Airlines, Asia's biggest carrier, said Friday that it lost one billion dollars in the last quarter as the global economic downturn and swine flu fears triggered a severe slump in demand.

The carrier announced drastic cuts to its flight services as it braces for a second straight year in the red.

The net loss ballooned to 99.04 billion yen (1.0 billion dollars) in the April-June quarter, from 3.41 billion yen in the same period of 2008, a company statement said.

The carrier swung to an operating loss of 86.11 billion yen from a year-earlier profit of 3.91 billion yen.

Revenue slumped 31.7 percent to 334.90 billion yen, more than offsetting the positive effect of operating cost reductions of 65.4 billion yen.

"Conditions compared to a year before are starkly harsher," JAL said.

It maintained its forecast for a loss of 63 billion yen in the year to March 2010, after ending last year 63.2 billion yen in the red.

Passenger demand on JAL's international routes plunged 18.6 percent in the first quarter while domestic routes saw a fall of 12.4 percent.

There are some signs of a recovery in travel by leisure passengers thanks to receding swine flu fears and lower fares, it said.

"While business travel is projected to remain slow, JAL will persevere in the drastic adjustments to our network," the company said.

JAL said it would reduce flights on eight international routes within Asia from October 25 and suspend services between Nagoya in central Japan and Paris as well as between Nagoya and Seoul.

It will also cut the number of flights on six domestic routes and downsize to smaller planes on 14 international passenger routes and one domestic route.

In May JAL announced 1,200 job cuts - or about 2.5 percent of its workforce - in addition to the more than 10,000 posts it has shed since 2005.

Source: fijiilive.com - 7th August 2009

AirAsia defers Airbus delivery

South East Asia's biggest budget carrier AirAsia will defer delivery of eight Airbus A320 aircraft by four years to 2014 due to 'infrastructural constraints' at Kuala Lumpur's airport.

'AirAsia foresees infrastructural constraints with the current airport facilities and until the new LCCT (low cost carrier terminal) is constructed,' the airline said in a statement late on Thursday.

The plan to defer the aircraft delivery would allow AirAsia to avoid the costs associated with leaving aircraft idle, hence avoiding having to incur depreciation and interest expense without earning revenue, it said.

AirAsia said Airbus had agreed to the revised delivery schedule and 'no penalties' would be imposed on the budget carrier.

'With the above deferment, the original delivery of 24 aircraft in 2010 shall be reduced to 16 aircraft,' it said.

AirAsia said it could exercise the right to postpone delivery of another eight aircraft in 2011 to 2014 if it informs Airbus before the end of October.

The budget carrier had placed a firm order of 175 Airbus A320 aircraft scheduled for delivery between 2005 and October 2014.

In February Malaysia's government vetoed an ambitious plan by AirAsia to build a US\$460 million (S\$660 million) airport.

It intended to build and operate the new airport in Negeri Sembilan state - outside the capital Kuala Lumpur - together with Malaysian conglomerate Sime Darby.

Source: AFP, straitstimes.com - 7th August 2009

IBA's Comment:

"Further deferrals is the last thing Airbus would have wanted to hear in light of the current spate of deferrals, cancellations and unexercised options"
- David Rushe

FAA orders changes to Boeing 767 fuel tanks

Federal regulators on Wednesday ordered operators to make safety adjustments to the fuel tanks of more than 400 Boeing 767s registered in the U.S. in order to prevent a devastating midflight explosion.

The safety directive issued by the Federal Aviation Administration gives operators of the popular airliner three years to install an automatic fuel pump shut-off system for the centre fuel tanks on 767s. The concern is that if fuel in the tanks becomes too low while the pump is still operating, under certain conditions it could ignite fuel and air vapours, causing an explosion.

In the meantime, flight crews are supposed to shut-off the pumps themselves when fuel gets low.

The estimated fleetwide cost of complying with the order is \$4.6 million.

Boeing spokeswoman Liz Verdier said the Chicago-based aircraft manufacturer sent operators of 767s a service bulletin two years ago recommending the changes in Wednesday's FAA order. Compliance with service bulletins is voluntary. Verdier said she did not know how many operators may have already installed the automatic shut-off systems.

FAA has no authority to order foreign carriers operating 767s to install the shut-off systems, but most operators usually comply voluntarily or are ordered to do so by aviation authorities in their countries. There are about 960 of the 767s in operation worldwide, including 414 in the U.S., Verdier said.

The latest order is one of a lengthy series of steps taken in the last decade to prevent the possible ignition of vapours inside fuel tanks in response to the explosion of TWA Flight 800 off the coast of New York's Long Island in 1996. All 230 people on board the Boeing 747 were killed.

Source: AP, nwcen.com - 6th August 2009

"The estimated fleetwide cost of complying with the order is \$4.6 million"

What crisis? Budget carriers thrive amid gloom

Budget airlines have found a silver lining in the global recession. As travellers pinch pennies and opt for cheaper alternatives.

AirAsia, Europe's Ryanair and other low-cost carriers are adding routes and buying new planes to grab a larger slice of global aviation at the expense of their more established rivals.

Major players such as British Airways and Hong Kong's Cathay Pacific Airways have reported full year losses for the first time in years despite cutting costs and flights to cope with a downturn in premium air travel.

Full service carriers, which once completely dominated the skies, are banking on an economic recovery to restore their fortunes but they may find it tough to return to the growth levels they enjoyed before the crisis.

"Full-service airlines have a bit of a conundrum on their hands," said Derek Sadubin of the Sydney-based Center of Asia Pacific Aviation. "We think low-cost carriers will become so much more entrenched in airports and corporate travel that it will be difficult for them to claw their business back" when the economy recovers, he said.

To be sure, all airlines have struggled as oil prices soared in the last two years. Oil prices have since tumbled and despite a rally early this year, are still half the level of a year earlier.

But major industrialized economies continue to contract and economic conditions are likely to remain tough even when a recovery is under way. The International Air Travel Association in June predicted airline losses worldwide to swell to \$9 billion this year, nearly double its previous forecast.

Full service carriers are the worst hit as the downturn has hammered business and first-class travel, which make up a small percentage of seats but account for up to 40 percent of their revenues.

Their smaller, no-frills rivals are weathering the recession better with a low-cost model that relies on high passenger volumes, stripping out costs through strategies such as taking the cheapest landing slots at airports and turning full service features like meals and check-in baggage into profit-making

"We think low-cost carriers will become so much more entrenched in airports and corporate travel that it will be difficult for them to claw their business back"

- Derek Sadubin

extras.

In Asia, budget aviation has seen exponential growth since the start of the decade and now has a 16 percent market share, Sadubin said.

The market share of low cost carriers could cross the 20 percent mark in the next one to two years, he said, as they open up new routes across the region and give travellers an option to fly at a fraction of the cost charged by full service airlines.

Malaysian-based AirAsia, the biggest low-cost carrier in the region, posted a record profit of 203.2 million ringgit (\$56.4 million) for the quarter through March, up 26 percent from a year earlier. Passengers soared 21 percent to 3.15 million during the period while falling at regular airlines.

It has ordered new planes, made its debut in Europe with flights to London in March and is eyeing plans to enter the U.S. market.

"We are in the McDonald's, Wal Mart category. Business is booming as people are looking for value," AirAsia Chief Executive Tony Fernandes told The Associated Press in a recent interview.

AirAsia's success has generated rivals, the best known of which are Singapore-based Tiger Airways and Qantas Airways-owned Jetstar.

Tiger, which is 49 percent owned by Singapore Airlines, is rapidly expanding and has a total of 56 new aircraft on order for delivery through to 2016. Tiger expects business travel to account for 15 percent of its total traffic by March 2010, more than triple from current levels.

Budget aviation has put down even stronger roots in the U.S. and Europe, with about a one-third market share in both regions, analysts said.

In Europe, Irish discount airline Ryanair remained on an expansionary course and forecasts a net profit of up to 250 million euros (\$350 million) for its 2010 fiscal year. It is eyeing plans to order up to 300 more aircraft in a deal that would make the Irish carrier more than double the size of British Airways.

In the Middle East, analysts said budget aviation penetration is

IBA's

Comment:

"The strong performance of budget carriers during the current downturn mirrors what transpired post 9/11. It makes sense that legacy carriers will look to cut costs wherever possible as BA and Finnair are trying to do"
- David Rushe

still low at less than five percent but new carriers have sprung up in recent months.

FlyDubai, based in the United Arab Emirates, was launched last month and has unveiled ambitious expansion plans after ordering 50 Boeing 737 aircraft.

The intense competition from budget carriers has changed the rules of the game for some major airlines.

Many full service carriers are regularly churning up promotional offers – with tickets at a discount of up to 80 percent – in an effort to protect their market share.

Others like India's Jet Airways, Korean Air, and Malaysian Airlines have set up low-cost offshoots, relying on a two-brand strategy to cushion earnings.

Some carriers have taken more drastic steps to focus on lower-fare volume business.

British Airways has announced it will not configure any new planes to offer first-class cabins. Qantas has also scrapped first-class service on several long-haul routes and is considering reducing the 72 business seats in its Airbus A380 superjumbo jets.

But Singapore Airlines, one of Asia's top carriers, remains confident of a recovery in the premium market. It has cut fares and capacity this year but said it would not crop the 60 business seats in its A380 planes.

"It's a cyclical business and positive growth will return. We are not going to fundamentally change our business focus overnight just because of the downturn," said spokesman Nicholas Ionides.

Source: AP, khaleejtimes.com - 5th August 2009

"British Airways has announced it will not configure any new planes to offer first-class cabins"

Sunshine through the clouds for SkyEurope

After a series of bleak reports about seized planes and impatient creditors, Slovak low-cost airline SkyEurope announced at the end of July that it had found a new investor and a €5-million loan, which together should help the company get back on its feet. SkyEurope's announcement that it had agreed a deal to bring the Austrian investment group Focus

Equity on board instantly boosted confidence in the prospects of the airline, which simultaneously managed to extend its operating licence.

Back in June, a Bratislava district court granted SkyEurope Airlines temporary protection from its creditors. At the same time, the company's planes encountered problems obtaining permission to leave some French, Bulgarian and Romanian airports amid reports of unpaid airport fees.

"Austrian investment group Focus Equity has signed an agreement to provide a new equity investment of up to €16.5 million in SkyEurope, conditional upon a number of factors including the successful completion of the financial reorganisation of SkyEurope Airlines, which has been underway since last month," said SkyEurope in an official release.

The €5-million loan, agreed under a separate deal, comes from Chain Box Technology Ltd., which is registered in England and Wales.

"This overarching credit will be used to replenish internal cash-flow for the needs of operational capital before the agreement on the investment between SkyEurope and Focus Equity is implemented," airline spokesman Tomáš Kika told TASR.

The news about SkyEurope's financial takeoff has increased interest in its tickets, mainly those for the winter season, while on August 3 shares in Holding SkyEurope rose on the Vienna Stock Exchange, the Sme daily wrote.

In return for its €16.5 million investment, the Austrian investor will get a package of shares.

SkyEurope also completed the renewal of its fleet by signing a long-term leasing contract to operate two Boeing 737-300 aircraft. The airline will operate 32 routes to 24 destinations in 17 countries during the winter. This capacity will be leased from the Slovak company Air Slovakia and will be run wholly by SkyEurope air crews.

The low-cost carrier's fleet will now consist of four Boeing 737-700 New Generation aircraft, four Boeing 737-300 and two Boeing 737-500 aircraft.

SkyEurope Holding CEO and financial director Nick Manoudakis said that SkyEurope was pleased to have signed the financing agreements so early in the company's reorganisation.

IBA's

Comment:

"Lessors with 737NG aircraft operating with SkyEurope will obviously be monitoring the airline very closely, while those with hard-to-place 737 classics with the operator may be happy to leave the aircraft there once lease payment terms are being fulfilled"

- David Rushe

“This shows that investors such as Focus see the potential in SkyEurope and recognise the opportunity of agreeing now to an investment in the company,” Manoudakis said.

SkyEurope, however, still has one of its planes stranded at Paris Orly Airport, following a ruling by a French court in Creteil on July 28.

“The Court ruled in favour of Paris Orly Airport, which will keep the plane,” Helene Caillet from Paris Orly Airport’s press department told the TASR newswire.

Soon after SkyEurope was granted protection from its creditors by a Slovak court in June, Paris Orly Airport detained the plane because of what it said were unpaid take-off and landing fees.

Source: spectator.sk - 5th August 2009

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 or Aoife O’Sullivan, Partner, at AOSullivan@gatesandpartners.com



IBA Group News

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

Conference Dates

1st 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 or call: +44 (0)1293 772743

Phil Seymour's Notes on the Week

Some mixed messages this week:

I note that Finnair's Chief Executive has resigned in what seems to be disappointment over the inability of certain groups in the airline to embrace the changes required to turnaround first half losses of over 80MUSD. Yet I have also seen a press release from the Finnair technical division celebrating cost savings in new productivity agreements that will save 20MUSD by end of the next year. As usual it looks like the maintenance staff have seen the light but others have not. Pinnacle, the US regional operator, have decided that they should pay their fledging pilots a little more than their current 22,000USD per year salary. Good thing probably - I know we think pilots have it easy but even I would suggest they need to be paid a bit more than street cleaners. I am sure that after a few years their salary expectations will be significantly more but anyone who has my life in their hands gets my vote for a pay rise. I have a horrible feeling I may be mugged by a street cleaner in the next few weeks - tracking me down after reading a discarded copy of IBA's Newswatch.

80 years ago: 8th August 1929 - the Zeppelin completed the first flight around the world by an airship - 21 days 7 hours. Remarkable!! I wonder if there was any in flight entertainment? Suggestions include: Around the World in 80 days - you could actually watch it 257 times if need be. 80 years time - where will we be? Well not writing or reading weekly notes. Maybe the World will have taken a step backwards - airships being back in vogue using hot air generated by passengers as they scream at the fledgling pilots to wake up and fly faster. But that may infringe union rules. Some things never change.

Regards,

Phil Seymour, 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

- Rising equities
- Falling US dollar
- Positive economic signs
- No tropical storms

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 remained high and volatile this week – first falling sharply after a large build in crude inventories then rallying again due to rising equities, weakening US dollar, encouraging economic signals and technical trading related to the expiration of August product futures. As of the time of this report, benchmark WTI crude oil futures (prompt contract) is trading at \$68.45/bbl.

Macroeconomic Factors

- ▶ Today, the US Commerce Department reported that second quarter GDP contracted by 1% instead of the expected 1.5%. The figure suggests that the US recession may be ending. Economists expect a rise in GDP in the third quarter. Separately, new home sales rose in June – the fourth monthly increase in six months.
- ▶ The US dollar lost ground this week against other major currencies with €1 = \$1.4224 early today. Traders sold the greenback after the International Monetary Fund said that the dollar remains “moderately overvalued”. The US dollar index on the ICE fell to a 10-month low.

Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA) reported a surprisingly large build in crude oil inventories while gasoline stocks fell and distillate stocks rose modestly. National refinery utilization dropped 1.3% to 84.6% of operable capacity.
- ▶ The International Air Transport Association reported that air passenger demand in June was down 7.2% from last year while air cargo demand is down 16.5% - the 13th consecutive month of declines. As a consequence, US jet fuel consumption is lower by over 13% year over year.

Political Factors

- ▶ Congressional Democrats are advancing controversial efforts designed to regulate financial derivatives, including commodity instruments, and may ban certain types of trades. The proposal calls for “standard contracts” to be cleared on regulated exchanges requiring upfront and variable cash security. Non-standard contracts (yet to be defined) will require increased levels of upfront cash margin. Oversight would likely be shared between the CFTC and the SEC.

Weather Factors

- ▶ Tropical Storm Lana is expected to weaken in the Pacific while no tropical storms are expected to form in the Atlantic or Caribbean over the next few days.

