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First Chinese airline goes bankrupt

East Star Airlines Co, a cash-strapped private regional carrier, has become the first Chinese airline to go bankrupt, state media reported on Friday.

The company's debt totalled more than one billion yuan (145 million dollars) at the end of 2008, against assets of just 629.6 million yuan, the People's Daily said.

The Intermediate People's Court in the central Chinese city of Wuhan, where East Star is based, announced the bankruptcy in a statement on Thursday, according to the newspaper.

The court also rejected a restructuring plan submitted by the carrier's parent East Star Group and investment firm ChinaEquity, which had promised to inject between 200-300 million yuan into East Star, the official Xinhua news agency said late on Thursday.

The court said the plan "was infeasible and failed to meet the conditions for a legal restructuring", arguing that ChinaEquity had failed to explain where it would get the money from, according to the agency.

East Star, which was established in 2005 and operated more than 20 regional routes in early 2008, was hit by cash flow problems in the second half of last year as travel demand slumped amid the economic crisis.

It was ordered to stop flights by the nation's aviation regulators in March this year because of a failure to pay plane rental fees, after it rebuffed a takeover offer from flag carrier Air China.

The country's small number of private airlines have been especially vulnerable to the economic downturn as their passenger base is relatively small and they do not have the same access to funding as state-owned competitors.

Source: AFP, hindustantimes.com - 28th August 2009

Qantas raises stake in Jetstar Pacific

Australia's Qantas Group has increased its stake in Jetstar Pacific Airlines from 18% to 27% as part of a capital injection plan for the Vietnamese low-cost carrier.

The Australian airline group said in a statement that Qantas' 18% stake in Jetstar Pacific was equivalent to US\$30 million and that it would complete the acquisition of more shares to obtain the targeted 30% stake by 2010 under an agreement signed with the State Capital Investment Corporation (SCIC) in 2007.

Qantas became a strategic partner of SCIC after the local firm clinched a US\$50-million agreement in April 2007 to sell 30% of Vietnam's second largest airline after the national flag Vietnam Airlines.

Currently, SCIC still holds the controlling stake of 67.46% in Jetstar Pacific. The other stakeholders of Jetstar Pacific are Saigontourist Holding Company with 5.50% and the carrier's chief executive officer Luong Hoai Nam with 0.04%.

Decree 76 issued by the Government in May 2007 allows for 30% ownership of a Vietnamese airline like Jetstar Pacific by a single foreign investor and 49% by all foreign investors.

Jetstar Pacific on Monday announced that it transported almost one million passengers on its domestic flights in the first six months of this year, up 30% compared with the same period last year.

The passenger figure included some 180,500 passengers for June alone, an increase of up to 43% over the same month in 2008.

Nam of Jetstar Pacific said the airline's passenger data for the first half of 2009 was a strong result for the airline despite challenges like the global recession and H1N1 influenza that have dealt a blow to the world's aviation industry.

Nam said Jetstar Pacific was making air travel possible for more Vietnamese by offering low fares. "With a population of 86 million people, yet only six million passengers travelling by air within Vietnam each year, many people have not experienced air travel before."

Nam said Jetstar Pacific was optimistic about the future of

IBA's
Comment:
"Qantas is pursuing an increasingly diverse investment strategy in the current downturn, which will reduce exposure in the event of continued difficulties for its core business."
- David Rushe

domestic travel within Vietnam as the airline continued to grow.

Jetstar Pacific currently operates 42 domestic flights per day on seven major routes including HCMC-Hanoi, and from these two cities to Danang, Vinh, Hue, Haiphong and Nha Trang and vice versa.

Jetstar Pacific conducts 11 return flights a day on the high-traffic HCMC-Hanoi route, accounting for around 40% of the total frequencies operated by this airline, Vietnam Airlines and Vietnam's first operational private carrier Indochina Airlines on this route.

Source: VietNamNet/SGT, english.vietnamnet.vn - 27th August 2009

Aer Lingus posts first-half loss

Irish airline Aer Lingus Group PLC said Thursday its net loss more than trebled in the first half of the year after it slashed fares to entice passengers amid the economic downturn, prompting talk the carrier may yet succumb to a takeover by rejected suitor Ryanair.

The carrier posted a net loss of 73.9 million euros (\$105.5 million) for the six months through June, down from 21.5 million euros for the same period a year ago. Revenue fell 12 percent to 555 million euros from 632 million euros.

Chairman Colm Barrington said Aer Lingus would push ahead with a "wide-ranging" business review to return the airline to profitability.

"We must now take difficult but necessary steps to address our business model and cost base," Barrington said in a statement.

"While traffic volumes have stabilised, consumer confidence remains weak and we see no sign of any improvement in the near term," he added.

Average fare prices were 17 percent lower over the first half. Fuel costs rose 10 percent. The company also said it was impacted by the imposition of a euro10 passenger departure

"We must now
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- Colm
Barrington

tax in Ireland.

The results put more pressure on incoming Chief Executive Officer Christoph Mueller, who takes over the top job at the start of next month.

Mueller, 47, for the past two years has been aviation director at Anglo-German travel group TUI Travel PLC, where he managed charter airlines with 160 aircraft and 11,000 employees.

Aer Lingus has twice rejected hostile bids from Ryanair, but chief financial officer Sean Coyle said Friday he had "no idea" if the airline would resist a third approach.

Ryanair Holdings PLC, which holds an almost 30 percent stake in Aer Lingus, did not make any immediate comment on a renewed offer, but repeated calls for regulators to investigate a December 2008 document issued by Aer Lingus as a defence against takeover that said reduced fuel prices and cost reduction plans would "enhance profitability in 2009 and beyond."

Ryanair Chief Executive Officer Michael O'Leary, who has accused Aer Lingus of misleading shareholders to protect its independent status, said Aer Lingus should be forced to explain the document to shareholders, who have watched the carrier's share price plunge in recent months.

Immediately after the Irish government offloaded 75 percent of Aer Lingus equity on to the Irish and British stock exchanges in September 2006, Ryanair began buying up its Irish competitor, a move that caught both Aer Lingus and the government off guard.

Its strategy is to buy out the government's pivotal 25 percent stake eventually. The government of Prime Minister Brian Cowen has repeatedly rejected the idea of a Ryanair-Aer Lingus merger, but it also is battling the worst budget deficit in Irish history, making it desperate for cash.

Source: AP, app.com - 27th August 2009

IBA's
Comment:
"Aer Lingus would eventually move towards a majority shareholding by Ryanair unless Aer Lingus can reduce its substantial cost base and consolidate its long-haul operations."
- David Rushe

Airlines may have a bumpy road in fall, winter

Airlines cut fares to get more passengers on planes and salvage the summer travel season, but now their job gets harder heading into the slower fall and winter months.

The nine largest U.S. carriers lost nearly \$600 million in the second quarter of this year. Bigger losses are predicted in the third and fourth quarters, and some analysts have raised the possibility of another round of bankruptcies.

The nation's airlines have been in a defensive crouch for two years. They have cut flights and fired workers - first to absorb rising fuel prices, then to ride out the recession. Revenue is down one-fifth or more from a year ago at the four largest carriers.

Because they have cut costs, sold new stock and borrowed money, the airlines have plenty of cash for now. Even in good years, airlines build cash during the busy summer travel period, which ends around Labour Day, to get through the slower months.

Airlines need enough cash to pay employees, buy fuel and pay other bills, including payments on the money they have borrowed. If cash falls too low, they can be pushed into bankruptcy protection, as happened earlier this decade with Delta, United, Northwest and US Airways.

United, US Airways and American are often mentioned as the airlines in the most precarious financial positions. They rely on business travellers who pay hundreds of dollars per ticket to sit in first-class. Many of those people are grounded or flying in cheaper coach seats due to the recession. Meanwhile fuel costs, although lower than last year's record levels, have been rising. The spot price of jet fuel has jumped about 70 percent since March.

One leading analyst, JPMorgan's Jamie Baker, estimates that by the fourth quarter, American Airlines parent AMR Corp. will burn more than \$11 million a day, while United Airlines' parent UAL Corp. will be going through \$7 million a day.

As of June 30, AMR had about \$2.8 billion in unrestricted cash and short-term investments, UAL had \$2.6 billion, and US Airways had about \$1.7 billion.

"Revenue is down one-fifth or more from a year ago at the four largest carriers."

If Baker is right about how much cash they will burn this winter, all three will have a thinner cash cushion than did the carriers who filed for bankruptcy protection in 2004 and 2005.

United and US Airways were among several airlines that made Chapter 11 filings from 2001 through 2005.

They used bankruptcy protection to shed debt and lower labour and pension costs.

Standard & Poor's analyst Philip Baggaley says, however, that the two have little to gain by doing it again and would face "more risk that if they go into bankruptcy they might not come out." That is because they might not find the financing they would need in the current tight credit market.

In most airline bankruptcies, the carriers have kept flying and passengers hardly noticed any difference. In the worst case - liquidation - employees would lose their jobs, shareholders would lose their investments, and stranded travellers could be forced to ask their credit card company for ticket refunds.

More mergers are also a possibility. Delta and Northwest combined last year, three years after each went through bankruptcy court. The current US Airways is the product of a combination with America West. United and Continental talked but did not reach a deal.

Consolidation or liquidations could reduce competition, at least temporarily, leading to fewer flights on the surviving carriers.

"Who gets hurt in consolidation? The customer," says Morningstar Inc. analyst Basili Alukos, "because prices go up. If anyone has benefited from the airlines' misery, it's been customers, because prices have fallen."

Some analysts think talk of further consolidation is premature. Airlines have a knack for borrowing more money and living to fly another day.

"Undertaking a merger takes time, money, management attention and labour cooperation," says S&P's Baggaley. "If you're fighting for survival, it's risky to add that to your plate."

Source: Associated Press, clarionledger.com - 27th August 2009

IBA's

Comment:

"US airlines will have to park further aircraft whilst keeping new aircraft order schedules in an effort to reduce operational costs. The US consumer tends to react negatively to airline's pulling routes so capacity reduction will be done by reducing flight schedules while keeping existing routes."

- David Rushe

FAA investigates Southwest Airlines' parts, repairs

The Federal Aviation Administration is investigating Southwest Airlines Co.'s use of unauthorized parts and repairs on its older Boeing 737 planes just months after the carrier paid the agency \$7.5 million to settle maintenance violations.

An FAA inspector working at a maintenance shop used by Dallas-based Southwest questioned whether some parts on Boeing 737-300 and 737-500 series planes were authorized for use.

The parts under examination divert hot engine exhaust away from the wings when the plane's flaps are extended.

As a result, Southwest grounded 46 aircraft Saturday, causing significant delays in its system and cut its on-time performance to less than two-thirds from its typical 90 percent.

FAA spokesman Lynn Lunsford said that the agency was still in the process of understanding how the unauthorized parts got onto the aircraft and that it was too early to comment on any possible enforcement against Southwest.

Southwest said the issue was about whether a vendor correctly documented the repair and parts used on the planes. Southwest also said it was not about whether the parts themselves were authorized to be used on the aircraft, said spokeswoman Beth Harbin.

Southwest and Chicago-based Boeing Co. worked on a solution to address the problem with the FAA, but Southwest chose to temporarily ground the planes Saturday. The FAA allowed Southwest to fly the aircraft for 10 days until a permanent solution is reached.

"We are all working toward that resolution now, but there are no conclusions or mandates at this point," Harbin said Tuesday night.

The parts in question - hinge fittings located near the jet engines - are not considered critical enough to jeopardize the immediate safety of the airplane. If they do not work properly, they can put too much pressure on the flaps - wing panels used

"the issue was about whether a vendor correctly documented the repair and parts used on the plane"

to help control the plane.

What is unclear is whether a new investigation would violate the terms of the settlement reached with the FAA on March 2 that lowered a proposed fine of \$10.2 million for the carrier's failure to do required inspections on some of its planes.

That settlement stated that Southwest needed to comply with a series of new procedures in its maintenance department, including adding more staff and improving its training manuals.

Southwest flew nearly 60,000 flights in 2006 and 2007 on aircraft that were not checked for cracks, and the airline had a relationship with regulators that an FAA whistleblower called too cosy.

The resulting congressional hearings created considerable embarrassment for Southwest and for the FAA.

More recent problems have continued to raise questions about Southwest's maintenance practices.

An unexplained football-size tear in a Southwest jet bound for Baltimore on July 13 forced the aircraft into an emergency landing, though no one was hurt.

The National Transportation Safety Board continues to investigate the cause of the rip in the top of the plane's fuselage.

Southwest, like many major airlines, pays other companies to do heavy maintenance on its fleet of 544 Boeing 737s.

Following the series of inspection issues at both Southwest and at Fort Worth-based American Airlines Inc., the FAA cracked down on enforcement and has been substantially more aggressive in enforcing airworthiness directives designed to keep the flying public safe.

Source: Eric Torbenson, dallasnews.com - 26th August 2009

“The parts in question - hinge fittings located near the jet engines - are not considered critical enough to jeopardize the immediate safety of the airplane”



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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

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Phil Seymour's Notes on the Week

In these tough times I now hear of one of the most bizarre employee protests - a hunger strike.

The news item earlier this week states that 20,000 Air India staff are taking part in a three day fast.

I am not sure what that really does in terms of getting the message across to management and one can only hope that no pilots are taking part.

I presume that whilst on hunger strike they still go to work - otherwise it would just be a normal strike wouldn't it?

A tiny part of me thinks a three day hunger strike would actually do some of us some good but alas it would take a toll on my Marathon training efforts. I haven't told many people yet but I am 90% decided to run at the Florida Disneyworld event in January 2010.

Bizarre is also a word that features in the thinking through on that decision - no not whether I should do it at all, but the nature of running around being spurred on by Tweedle Dee and Tweedle Dum.

It's the warm weather that is the real attraction to me as I fear that the promised hot Summer in the UK has not arrived and with September around the corner I can already see falling leaves from the trees.

We may yet have an Indian Summer - oh I am back to where I started.

Regards,

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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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