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THAI fails to transfer four long-range jets

Thai Airways International has failed in its most recent attempt to sell four long-range jets after the bidder low-balled the flag carrier, sources say.

The bidder, believed to be a US aircraft dismantler, offered only \$50 million apiece for the Airbus A340-500 jetliners, roughly a quarter the price THAI paid for them and significantly lower than the current \$230-240 million price new. The price offer left senior THAI executives dumbfounded, prompting them to consider abandoning any further bids to sell the aircraft, said THAI insiders.

THAI has spent more than a year searching for buyers who would offer a reasonable price for the aircraft, which can fly 16,000 kilometres non-stop.

Despite a number of verbal offers the only repeat bidder was the US aircraft dismantler, which reportedly wanted the aircraft to sell the parts.

"It seems impossible to sell them at a reasonable price. The market for this aircraft is quite niche and there seems to be little or no demand for it now," said a senior THAI executive.

The A340-500s were put up for sale after the airline terminated its daily Bangkok-New York flights last July. Back then surging oil prices made the New York route unviable.

While THAI waits for buyers, the aircraft have been deployed on the Bangkok-Los Angeles non-stop routes and on the new Bangkok-Oslo service since June 15.

The only sensible option left for THAI is to keep the A340-500s and do a better job of utilising the planes for long-haul flights. THAI intends to increase the frequency of its non-stop Bangkok-Los Angeles and Bangkok-Oslo flights for that reason, which will see the four jetliners fully utilised. To make the aircraft more economical THAI is considering re-configuring the seat layout by removing business class and premium economy class seats to make room for about 50 more economy class seats.

Source Boonsong Kositchotethana. AFP, .bangkokpost.com - 11th September 2009

Air Arabia seals deal to launch budget carrier

Air Arabia Wednesday said it has signed a 40:60 joint venture with Egyptian travel and tour operator Travco Group to launch a low-cost airline in Egypt that will help the Sharjah-based budget carrier to compete in the European budget aviation market dominated by Ryanair and easyJet.

Gulf News last week reported Travco was finalising the deal with a UAE-based budget airline.

This is the airline's third hub after Sharjah and Morocco, where it operates a subsidiary with a joint venture.

Air Arabia Egypt will be launched with a start-up capital of \$50 million (Dh183.5 million) and Air Arabia will deploy a fleet as soon as the company starts operating commercially, which could take a few months. The airline has 20 aircraft on the fleet with 44 on order.

"With the joint venture, Air Arabia now becomes a true Pan-Arab airline covering the entire Arab world and stretched its operations from Morocco to South Asia," Adel Ali, Board member and chief executive of Air Arabia, said.

He added that, after strengthening the Middle Eastern network, his airline will begin serving the European market in a bigger way.

"I do not see Europe as a battleground. But definitely there are lots of opportunities that we want to tap," he said.

Source: Saifur Rahman, archive.gulfnews.com theobserver.ca - 4th September 2009

IBA's

Comment:

"Diversifying into the low cost market

makes sense in

the current

downturn,

however Air

Arabia will

need to start

with a large

fleet in order

to compete

with the large

European

carriers."

- David Rushe

China showcases commercial jet at Asia air show

China showcased its newest and biggest commercial plane Tuesday – a jetliner with as many as 200 seats that could boost the country's fledgling aviation industry to compete with Western rivals like Boeing Co. and Airbus.

The narrow-body, single-aisle C919 plane is scheduled to take

its maiden voyage in 2014 before being delivered to buyers in 2016, according to Wang Wenbin, an official with the plane's manufacturer, state-backed Commercial Aircraft Corp. of China.

Work on the prototype began last week, he said. A car-sized mockup of the jet was on display Tuesday at an Asian air show in Hong Kong.

The project is a major first step by China toward developing homegrown commercial planes, along with the research and technology capabilities, for its fast-growing domestic market rather than relying on foreign companies. It would also pave the way for international expansion.

Due to China's nascent commercial aerospace industry still lacking expertise, the C919 initially will be outfitted with engines and other parts from foreign companies.

"The civil aviation industry is just starting to boom," said Wang, COMAC's assistant general manager. "Although we have... experience on civil aircraft manufacturing, we still have a long way to go in comparison with those aviation industry superpowers such as the U.S.A."

The C919 is designed for short- to medium-range hauls up to 5,555 kilometers (3,450 miles), and can seat as many as 200 depending on the configuration. According to state media, the first 9 in the jet's name was chosen because it suggests eternity in Chinese culture, with the 19 referring to the 190 seats that the plane might accommodate. C stands for COMAC.

Chinese aviation executives make no secret about their global ambitions.

"C919 comes after Airbus and Boeing, so you will have ABC in the aviation industry," the plane's chief designer Wu Guanghui told state media earlier this year.

The plane's suppliers have yet to be announced, though officials said they were in talks with four engine manufacturers, including General Electric, and a decision would be made later this year.

Among the key selling points that would help China take on Boeing and Airbus — whose 737 and A320, respectively, dominate this segment of the market — are efficiency and costs, according to Chen Jin, COMAC's sales and marketing

"Because China's nascent commercial aerospace industry still lacks expertise, the C919 initially will be outfitted with engines and other parts from foreign companies."

chief.

Compared to similar jets made by the two global aviation giants, the C919 would be cheaper for airlines to operate and use between 12 percent and 15 percent less fuel, Chen said in an interview with The Associated Press.

The day when China is poaching orders from Western companies in their own markets is still far off. Marketing of the C919 will be directed at the mainland at first, likely local carriers such as Air China and China Eastern, before going global.

"It depends on the market," Chen said. "The market is changing all the time."

To succeed, China will not be able to count simply on state-owned airlines buying local, said Andrew Herdman, director general of the Association of Asia Pacific Airlines.

Whether it makes sense commercially- how the jet stacks up against Western planes on operating costs, resale value, maintenance track records and other standards – will be the final test. Therefore in that respect, matching more-established manufactures will be very tough in the early going, not least because of the uncertainties surrounding a new product.

"It's about the bottom line," Herdman said. "That was the challenge for Airbus and others... and that's no different for China."

"It's obviously very ambitious," Herdman said. "But we welcome competition and we certainly welcome innovation."

Also in development by Shanghai-based COMAC is a 70 to 110-seat ARJ-21 passenger jet, designed for the local market.

Last year, General Electric Commercial Aviation Services signed a deal to order 25 of ARJ-21s. GE is supplying the engines for the project.

Source: Jeremiah Marquez, AP, ethiopianreview.com - 9th September 2009

IBA's

Comment:

"With Airbus having opened a plant in China and new Chinese aircraft entering the market, the region could become a potential battleground for narrowbody orders. The C919 may also offer an alternative for older Boeing 757 aircraft."
- David Rushe

Air travel to rebound in 2011

International air travel, whacked by the economic downturn, is starting to stabilise but may not recover until 2011 as companies and passengers continue to scale back, executives at aviation giants Boeing Co and Airbus SAS said on Wednesday.

Passenger travel, somewhat better so far in the second half of 2009 than in the first, was still expected to slump between 6 per cent and 8 per cent for the year, said Randy Tinseth, Boeing vice president for marketing.

Still, there were signs the drop in demand was slowing, with global airlines beginning to restore capacity and the Chinese and Latin American markets picking up, he said.

'We're already starting to see some improvements in traffic and traffic growth, but we've got a long way to go,' Tinseth told reporters at an Asian aerospace and aviation show in Hong Kong. 'We see 2010 as a year of economic recovery and 2011 as a year of air travel recovery.'

Airlines have racked up massive losses since the global economic crisis led companies to curb travel and shipping and consumers cut back on trips. Carriers, their losses already US\$6 billion in the first six months of the year, are set to lose a total of US\$9 billion for all of 2009, according to the International Air Transport Association.

Airbus said air traffic seemed to be in the process of bottoming out and was slightly more optimistic. Global air traffic - measured by a combination of revenues, passengers and distances flown - could slide between 2 per cent and 4 per cent this year, but then turn flat or grow as much as 4 per cent next year, according to Laurent Rouaud, the aircraft manufacturer's senior vice president for market and product strategy. In 2011, traffic could grow over 6 per cent, he said.

Asia, where major economies like China and India are still expanding fast despite severe contractions in the West, was likely to lead the recovery. The region's air traffic may be up 4 per cent this year and at least 6 per cent in 2010, he said. Boeing's Tinseth said Asia is set to overtake North America as the world's largest air travel market over the next 20 years, growing from its current 32 per cent share to 41 per cent.

"Asia, where major economies like China and India are still expanding fast despite severe contractions in the West, was likely to lead the recovery"

Source: AP, straitstimes.com - 9th September 2009

More failures likely for smaller low-cost carriers

Failed Slovakian low-cost carrier SkyEurope could be just the first casualty among the smaller airlines finding it difficult to survive one of the worst slumps on record, analysts said.

"End of summer, early autumn, is a likely time for airlines to shut down. There are going to be more," said Nick Cunningham of Evolution Securities.

"This winter is going to be very hard with very weak traffic and even weaker yields," Cunningham said.

"If you think an airline is not going to be viable, then you shut it down. There is no point" in continuing to run it, he added. Bratislava-based SkyEurope said last week that a court-appointed trustee had decided that a bankruptcy application was the only way forward owing to "the lack of sufficient interim funding to finance ongoing operations."

The airline had been in trouble for some months, not having the scale of the major low-cost carriers such as Ryanair or easyJet to survive the deepest global downturn since the 1930s.

"SkyEurope will not be an isolated case. There will be other low-cost carriers who are going to find it hard to get through the winter," said Yan Derocles of Oddo Securities.

Formed in 2002 as the market recovered from the shock of the 9/11 attacks in the United States, SkyEurope like many of its small rivals had only limited funding but hoped to cash in on the boom in air traffic in the following years.

However, "at the first shock, they struggled to survive because they had not increased their capital," Derocles said. As the financial crisis took hold from late 2007, the global economy ground to a virtual halt, with airlines seeing traffic numbers tumble even as they grappled with soaring fuel prices.

"This is the worst crisis we have ever seen," International Air Transport Association head Giovanni Bisignani said in May, as passenger and cargo figures showed continued losses.

"at the first shock, they struggled to survive because they had not increased their capital"

- Yan Derocles

Ryanair, seen as the market leader, returned to profit in the three months to June after a run of losses but attributed the better performance largely to a sharp fall in fuel prices.

Chief executive Michael O'Leary said when the results were released in July that Ryanair would "be the only major European airline to deliver passenger and profit growth in the current year."

Low-cost carriers, unlike their traditional, full-service rivals, cannot rely on governments to bail them out if they get into trouble, Cunningham said.

However, there may be a silver lining to the recession cloud - however much they suffer, the traditional airlines are doing much worse.

"Ryanair and easyJet have done much better than the large national companies such as Lufthansa, Air France and British Airways. Passengers looking to keep costs down are going to them," said Johannes Braun, analyst at Commerzbank.

The established airlines have suffered particularly as their premium business class customers have either moved down cabin or taken the low-cost route to save money.

With a high and inflexible full-service cost base, they have been on the defensive while the more adaptable low-cost carriers have been able to keep their expenses down, analysts said.

Source: AFP, timesofoman.com - 8th September 2009

"The established airlines have suffered particularly as their premium business class customers have either moved down cabin or taken the low-cost route to save money."

India's budget airlines leave rivals in vapour stream

India's low-cost airlines are set to go from strength to strength as they grab market share from ailing premier carriers such as Air India, whose debts and losses continue to pile up, experts say.

Big airlines such as Jet Airways, Kingfisher and Air India are being hit by falling revenues due to tough economic conditions and high air fuel taxes, AFP reports.

The smaller, 'no-frills' carriers such as SpiceJet or Indigo, set up to open up the skies to the country's burgeoning middle classes, have dealt better with the turbulent business conditions of the last year, analysts say.

At least seven budget airlines fly across India's skies, with a 40-per cent market share.

'By December-end, we estimate this to rise to 70 per cent,' said Kapil Kaul, South Asia chief executive of the Centre for Asia Pacific Aviation (CAPA) consultancy.

A sign of the predicament facing India's private airlines — which carry 80 per cent of local air traffic — was seen last month when bosses threatened to ground planes for a day unless the government gave them a bailout.

The demand was denied but a strike was averted when the government promised to take steps to reduce the burden of steep fuel taxes.

Air India posted a 1.03-billion-dollar loss last financial year and has appealed for nearly 620 million dollars in state aid to keep flying.

Jet Airways lost 2.25 billion rupees in the quarter ending June, while Kingfisher Airlines reported a net loss of 2.40 billion rupees in the same period.

Kingfisher's flamboyant chairman, Vijay Mallya, has said: 'Our losses are no longer sustainable. It costs us more to fly than to stay on the ground.'

Losses for the entire Indian aviation sector last year are put at some two billion dollars.

This means Indian airline losses represented nearly a fifth of the 10.4-billion-dollar loss posted by the industry globally last year, even though the country accounts for just two per cent of the world's flying public.

The situation is a far cry from five years ago, when a clutch of new airlines was launched amid predictions of double-digit passenger growth as the government opened India's skies to more competition.

The growth was too rapid, analysts say, leading to over-capacity.

By 2007-08, India's airlines were in shake-out mode with Jet

"At least seven budget airlines fly across India's skies, with a 40-per cent market share."

"Our losses are no longer sustainable. It costs us more to fly than to stay on the ground."

- Vijay Mallya

striking an alliance last October with arch-rival Kingfisher. The deal includes code-sharing, route rationalisation and pooling crews.

'The first round of consolidation – Jet buying out loss-making Sahara, Kingfisher buying out Air Deccan, were strategic mistakes,' CAPA's Kaul said.

Mihir Shah, analyst with brokerage firm Prabhudas Lilladher, added: 'India's airlines saw excess capacity and intense competition. When the economic downturn came, their business travellers were being replaced by the leisure class.'

Kaul said the situation was 'alarming' as major carriers were making losses, but added: 'If there is a bad business case, we need to allow airlines to exit.'

State taxes imposed on jet fuel are high at an average of 26 per cent. Fuel costs are also 70 per cent more expensive than the average paid by airlines globally.

Such factors have combined to leave Air India, Jet and Kingfisher with a combined debt of eight billion dollars, analysts said, with six billion dollars more expected to be added by 2012.

Gaurang Shah, chief fund manager with Geojit BNP Paribas Financial Services, suggested larger Indian airlines will have to cut more routes, fleets and staff to keep flying.

On the other hand, low-cost carriers like SpiceJet and Indigo appear better placed, as they do not have a legacy of high debts, he added.

SpiceJet showed a net profit of 263.42 million rupees for the quarter ending June against a net loss of 1.29 billion rupees a year earlier.

Source: dawn.com - 7th September 2009

IBA's

Comment:

"Low cost airlines offer the Indian Public the perfect incentive to fly with cheap fares; something which the country's struggling legacy carriers have failed to do, resulting in wildly contrasting financial performances for the two groups."
- David Rushe



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Conference Dates

- 13th - 14th September 2009 - Boeing Appraisers Conference, Seattle - Dr Stuart Hatcher will be attending
- 15th - 17th September 2009 - Cargo Facts, Fifteenth Annual Aircraft Symposium, Seattle- Dr Stuart Hatcher will be attending
- 24th - 25th September 2009 - Euromoney Operating Leasing Masterclass, Dublin - David Rushe will be speaking on aircraft valuations
- 11th - 13th October 2009 - ISTAT 16th European Conference, Dubrovnik - Owen Geach and David Rushe will be attending
- 21st - 23rd October 2009 - GE Appraisers Conference, Cincinnati - Dr Stuart Hatcher will be attending
- 26th - 27th October 2009 - CAO US Valuation Conference, Washington - Dr Stuart Hatcher will be speaking and IBA is a sponsor

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

It has been noticed by a few of our readers that some of our news items were not of the most recent... Those in the US did not need to read about hurricane Danny one week after it came to shore. Of course we take that point seriously, however hurricane Danny took a week to reach the UK. As we should be aware in this global order, what happens in the US takes a little while to filter down to the rest of us...

Hurricane Danny has now just become a very light wind and will probably be passing through Hong Kong as we speak...

I am actually heading west for a long weekend to play golf with my buddies...

Fortunately the weather forecast in South Wales is fine, dry and sunny, which I figure is how the weather was like in New York last weekend...

If you are going to Cargo Facts enjoy Seattle and look out for Stuart Hatcher so he can tell you all about our new online valuation system... What is the weather going to be like in Seattle?

Regards,

Phil Seymour, phil.seymour@ibagroup.com

Publications - 2009 Editions

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

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|--------------------------|-------------------------------------|---------------|
| 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 |
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