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Line of credit

AMR Corp., the parent of American Airlines, has received \$2.88 billion in cash and financing commitments from its business partners and will restructure its network next year to eliminate less-profitable routes, company executives said Thursday.

The deals with Citi and GE Capital Aviation Services, a unit of General Electric, will increase the company's liquidity during the recession and travel downturn that is expected to extend into 2010, company executives said.

"Today's announcement positions our company well to face today's industry challenges and allows us to remain focused on the future and on returning to profitability," said Gerard Arpey, AMR's chairman and CEO. "I want to thank our strategic business partners, GE and Citi, for their roles in these important developments and for their vote of confidence in our company.

"We have a long history of meeting our obligations to stakeholders, and we believe our track record played no small role in today's accomplishments."

During the first six months of the year, AMR reported a net loss of \$765 million or \$2.74 per share compared with a loss of \$1.8 billion or \$7.21 per share in the first half of 2008.

Since last reporting a profit in 2007, AMR and the airline industry have been pummelled by high fuel prices and sinking passenger traffic. The industry has responded by cutting seating capacity nearly 10 percent this year.

To boost its liquidity, AMR entered into a \$1 billion advance sale agreement for AAdvantage frequent-flier miles with Citi, American's longtime credit-card partner. Citibank has the right to use the frequent-flier miles, which will be treated as a loan for accounting purposes, between 2012 and 2016, in return for the cash infusion, officials said.

Additionally, AMR received \$280 million in cash from GECAS that is secured by AMR-owned aircraft as well as \$1.6 billion in sale-leaseback financing commitments by GECAS for Boeing 737s previously ordered by the company.

As it retires its aging fleet of 280 MD-80 aircraft, American is replacing them with the 35 percent more fuel-efficient 737s. American plans to take delivery of 84 737s between this year and 2011, with 16 already delivered.

An added feature of the fleet renewal program – and another financial bonus for General Electric – is AMR's selection of GE's next-generation 1B 74/75 engine to power 42 787-900 aircraft AMR has ordered. The company has rights to purchase an additional 52 of the 787s.

The latest financing commitment from GECAS means American has the ability to finance all of its remaining 737 deliveries through 2011 with traditional financing sources other than its existing financing agreements, company executives said.

"AMR is an important and longtime customer in an industry we know well," said Jeff Immelt, GE's chairman and CEO. "GE is very proud to be supporting a great company and a venerable American institution on its path to success."

The final piece of the changes announced by AMR executives is the restructuring of American and American Eagle's route systems to concentrate additional flights at Dallas/Fort Worth International Airport, Chicago O'Hare International Airport, Miami (Fla.) International Airport, John F. Kennedy International Airport in New York and Los Angeles International Airport.

The schedule shifts are expected to begin next spring and be completed by June 2010, company executives said.

In the schedule changes, American and American Eagle, its regional airline affiliate, will add 57 daily flights at Chicago O'Hare, bringing its total daily flights to 487; 19 at DFW, increasing daily flights to 780; 23 at Miami, for a total of 294; seven at JFK, increasing daily operations to 96, and two at Los Angeles, bringing its total to 129.

Source: D.R. Stewart, tulsaworld.com - 18th September 2009

IBA's

Comment:

"Guaranteed financing for 737-800 deliveries through 2011 is a major boost for American Airlines as they look to retire MD-80 aircraft. It is likely that other US majors are currently on the lookout for similar credit arrangements."
- David Rushe

Virgin set for take-off with \$4b Boeing deal

Virgin Blue is in talks with US manufacturer Boeing about buying up to \$4 billion of new aircraft to replace a large portion of its 65-strong 737 domestic fleet.

Australia's second-largest airline also said that it was yet to see significant signs of improvement in demand for travel despite the global economy stabilising.

Virgin's chief executive, Brett Godfrey, said the past year had been the most difficult since World War II as airlines were hit by a triple whammy of high oil prices, the global financial crisis and swine flu.

"The last 12 months ... have been the most taxing, the most complex, the most challenging, the most vexing and quite frankly the most unexpected," he said.

Mr Godfrey said one of the bigger risks for airlines over the next year would be speculators pushing up the price of oil, at the same time as demand for travel remained stagnant.

However, Virgin plans to take advantage of manufacturers' greater willingness to sell aircraft at lower prices after airlines cancelled orders due to the severe downturn.

Mr Godfrey said Virgin was in discussions with Boeing about buying 30 to 50 single-aisle aircraft, which would be needed from 2011 onwards to replace 737s it had leased.

"Now is the best time to do a deal," he said. "We are in the market because the market is right and we don't want to miss the opportunity."

Despite the higher cost of finance since late last year, Mr Godfrey rejected suggestions the airline would face difficulties raising the capital to buy new 737s.

"We have got a good balance sheet now [following a capital raising]. The markets are coming back and I don't believe we will have an issue with financing them," he said.

Virgin is not in talks with Airbus about buying new aircraft.

Virgin's long-haul carrier, V Australia, underlined the tough competition facing airlines after posting last month a pre-tax loss of \$124 million in its first four months of operations.

"It has been an awful few months for it but commercially the

IBA's

Comment:

"The order for 737's will be a welcome boost to Boeing and it is a good time to do business with the manufacturers. With the first of the existing leases of the aircraft by Virgin expiring at the end of this year and 24 aircraft in its backlog it is also a proactive move by the carrier."

- David Rushe

worst has to be behind it," Mr Godfrey said of V Australia. "I am not sure we will see massive improvement. But we have certainly seen a levelling out. V Australia's utilisation is up, its loads are improving and as night follows day yields will also follow loads."

Virgin reiterated that it expects to break even this financial year.

Source: Matt O'Sullivan, businessday.com.au - 17th September 2009

China may lead global aviation recovery

China is expected to lead the global aviation recovery thanks to its dynamic domestic air travel, senior executives from Boeing said.

The country will require 3,770 new airplanes valued at \$400 billion over the next 20 years and will remain the world's largest commercial airplane market outside the United States, said Randy Tinseth, Boeing Commercial Airplanes' vice-president for marketing.

"China is the world's most dynamic market for commercial airplanes. The strong domestic air travel growth in the country during the first half of this year gives us confidence that the world aviation industry is beginning to recover," said Tinseth, after issuing the annual long-term China market outlook in Beijing.

China's domestic passenger air traffic grew by 20 percent year-on-year in the first half of this year despite a worldwide slump thanks to the government's economic stimulus packages, according to figures from the Civil Aviation Administration of China (CAAC), the industry watchdog.

The CAAC said the country's domestic passenger traffic is expected to witness a full-year growth of over 20 percent this year further driven by a traditional peak travel season in the third quarter.

Latest figures showed that China's three largest airline groups all experienced significant year-on-year growth in passenger traffic in August. Air China said its domestic passenger traffic

"70 percent of the new airplanes purchased by China in the next two decades will be single-aisle aircraft"

soared 42 percent in August, while international passenger traffic achieved a double-digit growth for the first time this year. China Eastern Airlines' domestic passenger traffic skyrocketed 52 percent in August with China Southern Airlines' rising 34 percent. The two airlines also saw positive growth in international traffic in August for the first time this year.

Driven by its fast-growing domestic market, 70 percent of the new airplanes purchased by China in the next two decades will be single-aisle aircraft, such as the Boeing 737 and Airbus A320, Tinseth said.

Currently, 796 Boeing airplanes are in service in China and there are 317 jets on order, which includes 50 orders for Boeing's latest long-haul 787 Dreamliner jets.

The Chicago-headquartered company expects to have over 100 aircraft delivery deferrals this year. It declined to tell how many would be from Chinese airlines.

"There are just some minor adjustments. Most of the airplanes we are delivering to China are the B37. The domestic air travel market has sustained quite well throughout the downturn. The carriers need those airplanes," said John Bruns, Boeing Commercial Airplanes' vice-president for China operations.

Shanghai-based China Eastern said earlier that it would cut the number of plane deliveries this year by nearly half to 13 from 29.

The International Air Transport Association (IATA) said that worldwide passenger traffic is expected to decline 4 percent and cargo by 14 percent this year. IATA said the global airline industry is expected to lose \$11 billion this year and the losses will continue into 2010 with the industry expected to report a \$3.8 billion net loss.

"Revenues are not likely to return to 2008 levels until 2012 at the earliest," said Giovanni Bisignani, IATA's director-general and CEO.

Source: english.people.com.cn - 17th September 2009

IBA's Comment:

"Boeing and Airbus have both positioned themselves well with regards to the expected growth in the Chinese Market. The Chinese Banks will have the most significant role to play as there is currently a backlog of almost 900 aircraft from the two manufacturers."

- David Rushe

Mideast airline loss forecast cut by 67 pct

Middle East airline losses will be 67 percent less than previously expected this year as they continue to capture long-haul market share, the International Air Transport Association (IATA) said in its revised outlook for the world aviation industry.

The IATA said on Wednesday that regional carriers are now forecast to lose \$500 million this year, down from its previous projection of \$1.5 billion.

"Middle East carriers will see an improved outlook, from a loss of \$1.5 billion to a loss of \$500 million. Airlines continue to gain long-haul market share with expanded capacity and hub connectivity," IATA said in a statement.

The improved Middle East outlook contrasts sharply with the IATA's international outlook, with the industry body forecasting airline losses will widen to \$11 billion from \$9 billion due to weaker revenues and high oil prices escalating operating costs.

IATA said North American carriers will lose \$2.6 billion this year, Asia-Pacific carriers \$3.6 billion and European carriers \$3.8 billion, which represents 230 airlines.

International passenger traffic is expected to decline by 4 percent in 2009, while cargo volumes are forecast to fall by 14 percent, IATA said.

Giovanni Bisignani, IATA's director-general and CEO, said the industry is unlikely to recover until 2012.

"The sharp decline in yields will leave a lasting mark on the industry's structure. And revenues are not likely to return to 2008 levels until 2012 at the earliest," he said in the statement.

"Conserving cash, careful capacity management and cutting costs are the keys to survival. The global economic storm may be abating, but airlines have not yet found safe harbour. The crisis continues," he added.

"The global economic storm may be abating, but airlines have not yet found safe harbour.

The crisis continues"
- Giovanni Bisignani

Source: Shakir Husain, business.maktoob.com - 16th September 2009

As JAL seeks to survive, US rivals vie for a stake

A last-ditch attempt by the biggest airline in Japan to raise money and avoid bankruptcy has set the stage for a battle between two US titans, Delta and American Airlines. In events that would have been unimaginable a year ago, Japan Airlines, the country's flagship carrier, said Monday that it was exploring "all options" to stay in business.

Media outlets reported that JAL was in talks with Delta Air Lines and American over a possible cash infusion of several hundred million dollars.

Despite troubles back home, US airlines are eager to expand abroad to tap into international business travel, the most consistently lucrative segment in an industry notoriously prone to sharp downturns.

Still, equity ties between airlines in different countries are rare, with most carriers opting for looser alliances like code-sharing on flights.

A stake in Japan Airlines would bolster Delta's global standing by giving it access to the Japanese carrier's lucrative trans-Pacific and Asian routes, as well as to coveted berths at Tokyo's busy international airport.

Delta, the world's biggest airline by miles travelled by its passengers, already has a strong foothold in Asia through Northwest Airlines, which it acquired last year.

A deal between Delta and JAL would hurt American, which lacks a hub in Asia and relies on a code-sharing agreement forged with Japan Airlines in 1998.

Analysts expect American to call on other members of the Oneworld alliance to also take a stake in the Japanese airliner to keep it within their ranks.

Delta declined to comment on the matter, while an American spokesman said the airline was "discussing deepening our relationship with Japan Airlines," while declining to comment further. Both airlines are jockeying for position amid recent bilateral talks that could open up routes between the United States and Japan to greater competition. Current restrictions allow only two US passenger airlines – Delta and United Airlines

"Both airlines are jockeying for position amid recent bilateral talks that could open up routes between the United States and Japan to greater competition"

– to fly between the main airport serving Tokyo, Narita, and cities in the United States.

Delta could have a lot to lose if more US airlines were allowed to fly to Narita, analysts say.

A stake in JAL would better position Delta for continued dominance of trans-Pacific routes. An investment in a carrier on the brink of bankruptcy could also pose big risks. Delta, still integrating its US\$2.6 billion purchase of Northwest, lost US\$1.05 billion in the first six months of 2009.

“Several hundred million dollars would not be enough to save Japan Airlines,” said Yasuhiro Matsumoto, an airlines analyst at Shinsei Securities. “It could still go under, unless it gets even more funding.”

If Delta were to invest US\$300 million to US\$500 million in Japan Airlines, as some reports have suggested, the carrier would become its largest shareholder, with 7 to 11 per cent of JAL’s shares.

Laws in Japan prevent foreign companies from owning more than a third of a Japanese airline. Japan Airlines hopes that fresh funds from either Delta or American will persuade other creditors to offer additional loans. The cash would also let the Japanese airline upgrade to newer, more fuel-efficient aircraft and turn around money-losing routes by teaming up with a new partner.

Hurt by years of mismanagement, a falloff in air travel and the overall weakness of the Japanese economy, Japan Airlines reported a record quarterly loss of ¥99 billion, or \$1 billion, in the three months ended June 30. It has already forecast a ¥63 billion loss for the fiscal year, which ends next March, and the airline has announced plans to reduce flights. Although it recently secured ¥100 billion in government-backed loans, analysts say the airline needs at least ¥250 billion to get through the year.

Japan Airlines is mired in negotiations with its eight unions over staff and pay cuts, holding back the company’s restructuring efforts. JAL’s holdings, which include a global hotel chain and credit card business, have also drained its resources. Meanwhile, the carrier is losing out to its rival, All Nippon Airways, on domestic routes.

Source: NYT, themalaysianinsider.com - 15th September 2009

IBA’s

Comment:

“This would be a bold move by Delta given their current financial position as the likely benefits of such a stake in JAL would not be reaped for many years. However, the Japanese market is key to the long-haul activities of the US carrier, especially given how competitive the transatlantic market has become.”

- David Rushe



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IBA Group News

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

Conference Dates

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

Following on from my notes a few weeks ago, John Leahy has this week stated that "an all new single aisle will not come to market until 2024".

He mentioned that the possibility of a re-engined A320/B737 was possible in the meantime.

I am thinking of a similar strategy for myself. It is my 50th birthday next month but I have decided to delay it for a few more years.

By 2024 I will of course be planning for my retirement party - I may celebrate by flying in one of the new narrowbodies launched that year.

I am considering a "personal re-engine program" - slightly longer legs feature in my plans, only about 5 inches (12.5cm), with the addition of "a leading edge temperature enhancement shroud" otherwise known as "hair". I will have to check the return conditions - my maker may claim that I need prior approval, I just hope permission will not be unreasonably withheld.

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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RBS Aviation Capital Portfolio Overview 2009

British financial services provider Royal Bank of Scotland Group PLC is reportedly considering strategic options for its \$8 billion aircraft leasing business with Goldman Sachs Group, Inc. (GS) being appointed as the sole adviser. RBS Aviation Capital is the world's fourth largest aircraft leasing company. The process, however, is seen to be in an early stage and the sale process could take several months.

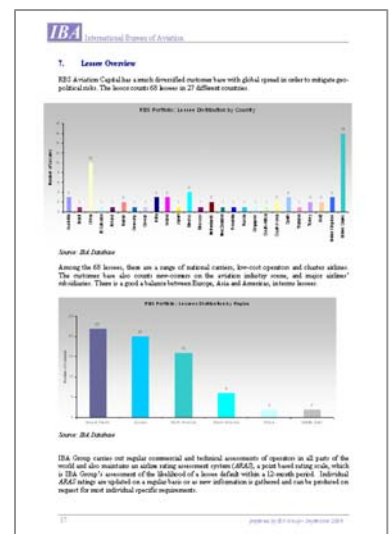
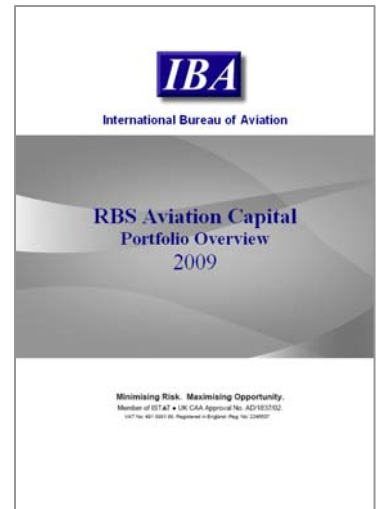
IBA Group's *Market Analysis Unit* is pleased to publish the RBS Aviation Capital Portfolio Report to assist aviation businesses gain a better understanding of the Leasing market and make informed decisions regarding RBS Aviation Capital.

This comprehensive 20 page report is a blend of market research, aviation intelligence and statistics which incorporate the following aspects of RBS Aviation Capital Portfolio:

- Aviation Leasing Market Update
- RBS Aviation Capital Aircraft Portfolio
- RBS Portfolio Valuation Summary
- IBA Group Lease Rates Summary for RBS Portfolio
- IBA Aircraft Investment Rating (AIR) Summary
- Lessee Overview for RBS Aircraft
- RBS Aviation Capital Recent Activity

This informative and detailed market intelligence report is available in electronic format for the special price of £200.

For further information or to place an order, please email: ross.elliott@ibagroup.com or call +44 (0) 1293 772743 and ask for the *RBS Aviation Capital Portfolio* report.





RBS Aviation Capital Portfolio Overview 2009

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