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Japan's first passenger jet lands big order

An ambitious project to build Japan's first ever passenger jet received a huge boost on Friday, landing a 100-plane order worth up to 40 billion US dollars from a US regional airline.

The state-backed Mitsubishi Regional Jet (MRJ) is expected to take to the skies in 2014, carrying Japan's hopes of developing a fully-fledged civil aviation industry with it.

Mitsubishi Heavy Industries, the company developing the 70-90 seat airliner, announced that it had signed a letter of intent with US carrier Trans States for 50 firm orders and the same number of options.

Mitsubishi declined to say how much the latest deal was worth, but the catalogue price of each jet is 400 million US dollars.

It is the second order for the MRJ, which aims to meet growing demand for fuel-efficient planes.

The project officially got off the ground in 2008 after launch customer All Nippon Airways agreed to buy up to 25 of the jets, the first of which are scheduled to be delivered in early 2014.

It quickly flew into turbulence as the global economic downturn unleashed a severe slump in the aviation industry that forced many carriers, including Japan Airlines, to slash jobs and routes.

"This is a very proud moment for us," said Hideo Egawa, president of Mitsubishi's aircraft division.

"The world has high expectations for the MRJ. This is especially true in the US," where airlines operate jets of up to 90 seats on many routes, Egawa said.

The Mitsubishi jet project, which has financial backing from Toyota Motor, is competing with small aircraft produced by Canada's Bombardier and Brazil's Embraer, as well as jets designed by Russian and Chinese firms.

"Making a decision of this size in this economic situation was difficult," said Richard Leach, president of Trans States Holdings.

"But when these aircraft come into the market it's at a

time when there's going to be a need in the US to replace aircraft.

"We want to be at the front of the line before there starts to be a feeding frenzy on wanting this technology."

The group, based in Missouri, operates Trans States Airlines and GoJet Airlines, and operates feeder services for United Airlines and US Airways. It has been a customer advisor for Mitsubishi since the past five years.

The plane saves 20 to 30 percent in fuel burn per hour compared with other jets in the same category, Mitsubishi officials said.

Fuel costs are "very important," said Trans States' Leach.

The jet incorporates a geared turbofan engine developed by Pratt & Whitney, a relatively new technology regarded as a fuel sipper due to a system that allows the engine's fans to operate at a different speed to the turbine.

The engine is also used in Canada's Bombardier aircraft.

The MRJ would be the first commercial passenger aircraft in four decades - and the first jet aeroplane - to be developed in Japan.

Japan has in the past developed a turboprop plane, the YS-11, which was the only Japanese airliner built since World War II. It made its debut flight in 1962 but had limited success with production ending in 1974.

The firm plans to build the aircraft at parent company Mitsubishi Heavy's factory in central Nagoya prefecture, starting at 24 aircraft per year in the early stages, and increase the amount to 72.

Mitsubishi, advised by US aircraft maker Boeing, said earlier this month it had delayed the delivery slightly to revamp the design by increasing cabin and cargo space and switching to aluminium for the wings, from carbon-fibre.

Source Kimiko de Freytas-Tamura, news.smh.com.au - 2nd October 2009

IBA's Comment

"Given that MRJ will face stiff competition from existing manufacturers and new entrants from Russia and China, the US order can be seen as a great boost for the Japanese manufacturer. It is also good news for the P&W Geared Turbofan Project."
-David Rushe

Qatar Airways flying above credit crunch

Qatar Airways has secured two innovative financing deals worth a total of US\$700million for the purchase of four brand new Boeing 777 aircraft due for delivery over the next few months.

A US\$350 million finance lease deal to purchase two new Boeing 777 aircraft - both a 777-300ER and a 777-200LR version - followed an agreement with five leading international banks.

Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Deutsche Bank AG, Standard Chartered Bank and Sumitomo Mitsui Banking Corporation Europe Limited struck the deal with a 12-year term. One Boeing 777-300 Extended Range aircraft is scheduled for delivery this month and one 777-200 Long Range version is due to be delivered in November 2009.

Following a highly successful US\$500 million aircraft financing transaction for Qatar Airways arranged by the same group of banks last year, the group was keen to work again with the airline on a follow on transaction.

The innovative structure ensures that the deal finances 100% of the purchase cost of the aircraft, achieving a loan to aircraft value profile that would meet the requirements of international aviation banks. Standard Chartered Bank acted as facility agent and security trustee.

The closing of this deal is a testament to the close co-operation enjoyed between Qatar Airways and the lending group. Qatar Airways Chief Executive Officer Akbar Al Baker said of the deal: "In these difficult times for the banking sector, I am very pleased to see this group of experienced aviation banks regrouping to support Qatar Airways once again.

The Doha-based airline is on an aggressive expansion drive with more than 220 aircraft worth over US\$40 billion currently on order.

Qatar Airways has also struck a further deal worth US\$350 million for the financing of two new Boeing 777 aircraft in a move that further shows the global finance community's support and commitment towards one of the world's fastest growing airlines. The airline appointed Calyon and Natixis

IBA's Comment

"Following American Airlines securing finances for its 737-800's last week, the Qatar deal is yet another innovative financing arrangement, crucial to the latter's ambitious expansion plans. The 777 also continues to be a "Financier's Favourite"
-David Rushe

Transport Finance as Joint Arrangers for the financing of one Boeing 777-300 Extended Range aircraft scheduled for delivery in October 2009 and one Boeing 777-200 Long Range version due to be delivered in December.

The transaction, an up to 12-year, two-tranche finance lease structure, was designed to attract key asset players, as well as banks which relied on creditworthiness of the airline. The financing has been underwritten and financed by a pool of four banks - Calyon, Credit Suisse, Helaba, and Natixis Transport Finance.

Of this deal, Al Baker said: "I am very pleased that not only is Qatar Airways continuing to attract financing from its long-term relationship banks such as Calyon and Natixis Transport Finance, but also attracting support from new banks such as Credit Suisse and Helaba."

Successfully closed against a backdrop of ongoing financial insecurity in the global banking sector, the transactions demonstrate Qatar Airways' ability to attract financing from leading aviation banks.

Source: menareport.com - 30th September 2009

"The transaction, an up to 12-year, two-tranche finance lease structure, was designed to attract key asset players, as well as banks which relied on creditworthiness of the airline."

Low-Cost Mango Reports First Profit

For the first time since launching in 2006, South African Airways' (SAA's) low-cost airline Mango has given some insight into its financial performance, reporting after-tax profit of R10.9m for the year to March.

Mango said that it had improved revenue 31% and grown its market share 4%, without providing any further detail.

It said that operating costs surged 15%, largely due to a surge in fuel prices last year and currency weakness.

A 5% head-count reduction, through natural attrition, and supplier contract renegotiation helped contain overall costs.

While it is welcome that the airline has given some insight into its financial performance, it is short on the detail of how these results were achieved and elected not to publish its financial statements. This will no doubt attract criticism from its

competitors.

This week, acting SAA CEO Chris Smyth said that Mango's financial performance contained competitively sensitive information and he therefore would not comment on the low-cost airline beyond saying that it was performing well.

Meanwhile, Mango CEO Nico Bezuidenhout said although Mango was not publishing separate financial statements, it would again release its bottom-line result and would further provide insight into year-on-year revenue, cost and market-share trends.

"This level of disclosure exceeds the level of disclosure from some other publicly owned operations which, to date, have not disclosed any separate performance figures pertaining to their low-cost operations whatsoever."

He also emphasised that Mango continued to trade separately from its parent, which extended to the management of its fleet.

"Mango subleases four Boeing 737-800 aircraft, owned by the aircraft lessor Gecas, from SAA at market-related rates. Lease rental expenditure, from a Mango perspective, is expensed via Mango's income statement and, similarly, lease rental income, from an SAA perspective, is recognised within SAA's income statement," he said.

Commenting on its financial results, Bezuidenhout said the airline, unhedged in terms of fuel exposure, benefited from operating a new-generation fuel-efficient fleet while it further implemented various fuel-saving initiatives.

Source: Julius Baumann, PTI - 30th September 2009

"Mango subleases four Boeing 737-800 aircraft, owned by the aircraft lessor Gecas, from SAA at market-related rates" - Nico Bezuidenhout

A Fleet of Aged Airbus and Boeing Aircraft Builds up in the Urals

The number of Western aircraft leased out by Ural airline companies has already topped fifty. A RusBusinessNews reporter discovered that old, second-hand airplanes are being purchased under the pretext of upgrading the existing aircraft fleet. The process, which so far has not been

controlled by the government, can result in more flight delays caused by technical reasons and undermine the financial foundation of the airlines themselves. In 2009 the airline companies based in the Urals Federal District have sharply accelerated the aircraft fleet upgrading process. Decommissioned Soviet Tu-134 and Tu-154 aircraft are replaced solely with leased Western-made aircraft.

Soviet aircraft fleet inherited by the Russian airlines had been exploited up to the beginning of the 21st century. Its replacement was caused by two key reasons. Firstly, the international aircraft operating rules have become more stringent. Il-62, Il-76, Il-86, Tu-134, Yak-40 and the unmodified Tu-154, in particular, can no longer fly to European and American airports due to unacceptably high noise emission.

The second reason is as important. The competition in the Russian sky has toughened and several carriers began to operate the same routes (especially those to Moscow). In these circumstances, the airlines have curtailed passenger flight costs significantly mainly by saving on fuel consumption. The amount of jet fuel used by Soviet airplanes accounts for up to one half of the flight costs. Modern Western aircraft consume nearly twice as less fuel.

Currently, four airline companies based in the Urals Federal District - UTair, Ural Airlines, Yamal and Kolavia operate 51 western aircraft. UTair pioneered in this field in 2005 by leasing a short-haul ATR-42. After that, scores of ATR, Airbus and Boeing aircraft flew to the Urals.

Interestingly, despite the global economic crisis and a decrease in passenger air traffic throughout Russia, the number of leased airplanes is but increasing in the Urals. The ongoing year 2009 has already shown record figures. In January - September, UrFD air carriers have leased 18 aircraft: UTair - seven Boeing 737 aircraft, Ural Airlines - six A320 and two A321 aircraft, Kolavia - two A320 and one CRJ-200 aircraft.

"UTair will continue receiving Boeing 737-500 in the current year: three more airplanes will be commissioned in September - October", airline press-service informed RusBusinessNews. "Structural improvement of short-haul aircraft fleet makes Utair a strong competitor in the

IBA's Comment

"Lessors and manufacturers, while delighted that new operators can be found for older 737's and A320's, must ensure that the aircraft are properly maintained and operated in line with recommendations.

There are potentially negative effects on aircraft values and onward placement if the airframes and records are not properly maintained."

-David Rushe

passenger transportation market, the company increases traffic volumes and expands the geography of flights."

The Ural Airline Press Service informed RusBusinessNews that in 2010 the company plans to lease 4 more A320 aircraft.

Active purchases of western aircraft, however, entail a number of threats. Most of the airplanes leased are 15 years old or older, and have been previously operated by 3 to 4 airline companies. For example, 7 out of Utair's 13 Boeing737 had made their first flight in 1994, 4 out of 13 ATR-42 airplanes made their first flight back in 1987, the rest of the airplanes are only 1 to 3 years younger. Four out of Ural Airline's 14 aircraft have been utilized since 1991 (and were also operated by African domestic airlines). All these factors result in flight delays due to "technical unavailability of aircraft," making passengers wait for a backup airplane for 5 hours or longer.

Another threat is airlines' financial state. Leasing of another batch of expensive aircraft puts more debt on the air carrier. Experts estimated that in order to make full and timely payments for leased aircraft, the airline company must utilize Airbus or Boeing aircraft 15 to 17 hours a day, and the flights should be occupied by no less than 70%. This requires the establishment of a well developed logistics service. Otherwise, air carriers may go bankrupt as was the case with the Ekaterinburg Aviaprad airline in February 2008, which was (commercially) inefficient in utilizing several Boeing 737 aircraft it had leased.

Meanwhile, according to Rosaviation January-July statistics, the UTair Airlines decreased its passenger traffic by 3.6% and the Ural Airlines by 9.4% compared to the same period last year.

Leasing of Western-made airplanes is a double edged sword. Russian authorities could regulate this process not only by establishing high custom tariffs and implementing protective policy aimed at supporting domestic aircraft industry, but they could also prohibit acquisition of aircraft older than 15 years.

Source: Pavel Kober, rusbiznews.com - 29th September 2009

"Decommissioned Soviet Tu-134 and Tu-154 aircraft are replaced solely with leased Western-made aircraft."

BA launches US biz-class route

Struggling British Airways on Tuesday launched its inaugural all-business class service from London to New York as it seeks to claw back ground lost to rival Virgin Atlantic and succeed where others failed.

The transatlantic service, which offers flat beds, fine food and Internet access for 32 passengers, left London City airport for the first time at 1150 GMT. It will arrive at JFK airport at 1615 GMT after refuelling in Ireland.

The plane must fly via Shannon airport because London City Airport's runway is too small to cater for an A318 jet with a full load of jet fuel.

BA hopes time lost through refuelling can be won back by getting passengers through US customs and immigration while on the ground in Ireland.

Loss-making BA is seeking to get back on track amid a severe economic downturn that has slashed demand for air travel. However, in contrast to BA, rival Virgin Atlantic has enjoyed an upturn in premium business travel.

Previous attempts at all-business class services from airlines such as Maxjet and Silverjet failed in the run-up to the worst downturn since the 1930s.

BA chief executive Willie Walsh, flying on Tuesday's trip, predicted the new service, offered on a plane that normally carries three times as many passengers, would be profitable within a year.

'This really is an exciting day. This is innovation. This is what you expect from BA,' Mr Walsh added.

Return fares for the new BA service start at GB£1,901.

'I think it could be the best service BA operates,' said Matthew Nicklin, a barrister from London on board the first flight.

'London City is a much smaller airport and it is much quicker to get through than (London's main hub) Heathrow,' he added.

Source: AFP, straitstimes.com - 29th September 2009

IBA's Comment

"The new BA initiative could be very successful if speedy passenger movements through London City and the pre-clearance through Shannon go as smoothly as BA predicts. BA (and the Airbus A318 program) will hope that the project can grow."

-David Rushe



IBA Group News

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

Conference Dates

11th - 13th October 2009 - ISTAT 16th European Conference, Dubrovnik - Owen Geach and David Rushe will be attending
19th -20th October 2009 - Aircraft Asset Management Training School, Dublin - IBA will be speaking
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

Memories of Rome - it should go like this.....Trevi Fountain, the Coliseum, Vatican City, but for my visit this week there was nothing culturally stimulating or romantic about it at all.

Well I was on business so that was fair enough but for me Rome was all about Tooth Ache. There is not much that adds to the agony of security queues and late flights but my upper right wisdom tooth decided to make a fuss. A visit to the dentist upon my return led to only one outcome.....extraction. So it fell short by 8 days in joining the rest of my body into its 50th birthday celebrations. Instead, it joins that bedside drawer full of memories, my first baby milk teeth that my mother kept so dearly to her heart, that first lock of hair (the drawer is rather full of the remaining hair that departed many years after that first lock - actually on reflection not so many years after)

Aviation takes a back seat this week - it is all about me focusing on my ageing body. Sorry must go now - off to the gym and then the optician.

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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As a leading independent aviation consultancy, IBA Group Ltd. offers technical advice, commercial business solutions & asset valuations for our worldwide client base.

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Risk Management and Practical Solutions

A Seminar for Banks, Lease Companies
& Operators with Aviation Assets

Wednesday 25th November 2009
London, UK



The Partnership:

GATES AND PARTNERS
SOLICITORS

Gates and Partners are recognised as one of the world's pre-eminent aviation law firms and can advise on all aspects of commercial aviation and liability.



IBA is a leading asset management specialist with the technical expertise needed to minimise the risks for aircraft owners, operators, banks and leasing companies.



ICM Aviation is part of the ICM Group of companies and provides a range of solutions to aircraft owners, including registration on the "M" register.



Martyn Fiddler Associates Limited is renowned in the aviation industry for its practical handling of all customs, VAT and duty related matters.

CONFERENCE PROGRAMME

Chairman: To be Confirmed

9.00 Registration

9.30 Opening Remarks

10.00 **Legal Issues**

- Default and distress scenarios and legal issues with repossession
- Interim measures for the protection of the asset
- The Cape Town Convention
- Insolvency considerations: bankruptcy proceedings and creditor priority

Aoife O'Sullivan, Partner, Gates and Partners

10.30 Networking Coffee Break

11.00 **Asset Recovery**

- Preparation: aircraft tracking, location of records, where to repossess
- Physical repossession: security, insurance, ferry flight, de-registration, storage and maintenance, records
- On the ground support: registration, continuous airworthiness management, reconfiguration

Owen Geach, Commercial Director, IBA Group Limited

11.30 **Isle of Man**

- Isle of Man international finance centre
- The Isle of Man Aircraft Register
- Isle of Man SVPs and corporate service providers
- Isle of Man tax, VAT and duty

Mark Byrne, Director, ICM Aviation Limited

12.00 **Concluding Remarks**

12.30 **Q&A Session**

With the participation of

Martyn Fiddler, Director, Martyn Fiddler Associates Limited

Brian Johnson, Director of Civil Aviation, Isle of Man Aircraft Register

Gerard Mahr, Head of Tax, Ernst & Young (Isle of Man)

13.00 Networking Lunch

SPEAKERS

Aoife O’Sullivan, Partner, Gates and Partners

Aoife O’Sullivan is a partner with world renowned aviation law experts, Gates and Partners. Aoife advises clients on aircraft finance, commercial aviation and regulatory issues including aircraft and fleet acquisitions and disposals, financing, airline start-ups, licensing applications and ancillary issues. She has a particular expertise in the specialised private and corporate jet market. Aoife also sits on a number of Business Aviation industry committees in the UK.

Owen Geach, Commercial Director, IBA Group Limited

Owen has 28 years experience in aviation, travel and banking, and has worked in aviation asset management since 1994 when he joined the IBA Group as Corporate Manager. From 1997 through to 2001, Owen held the positions of Company Secretary, and then Marketing Manager, before being appointed as IBA’s Head of Sales and Contracts. Throughout this time, Owen specialised in global contracts and aircraft asset management, involving blue-chip clients from the airline, banking and leasing industries. His remit also included the sale and procurement of aircraft, and advisory services covering all aspects of aircraft operation and leasing.

In 2004, Owen was approached by Bureau Veritas, joining them to establish their UK Aviation Asset Management Division, before becoming their Director of International Business Development, for the Aeronautics & Space Division. Owen re-joined the IBA Group as Commercial Director in October 2007, he now manages all aspects of the Company’s commercial activities.

Mark Byrne, Director, ICM Aviation Limited

Mark was born in Douglas on the Isle of Man and graduated in Law from the University of Westminster. He has an MBA from Manchester Business School and a Diploma in Marketing from the Chartered Institute of Marketing. Mark previously worked for two engineering companies in Germany in the legal, budgeting and marketing departments and for a management consultancy company in London and Ireland. He went on to work for a trust company as a client administrator and business development manager before being appointed as a Director of the ICM Group in 1995. Mark specialises in corporate and fiduciary matters with a special interest in aviation.

COMPANY PROFILES



Based in the city of London, Gates and Partners are recognised as one of the world’s pre-eminent aviation law firms. They have a team of experienced and highly regarded professionals on hand to advise on all aspects of commercial aviation and liability. A number of Gates and Partners personnel are also located in other countries throughout the world, and the Company is registered to practice in Singapore. Gates and Partners advise a wide range of global clients on all aspects of their aviation needs. Clients include airlines, financiers and lessors, business jet owners and operators, insurers, maintenance organisations, product manufacturers, private use individuals, aircraft leasing companies and funds. They proactively deliver high quality, practical and commercial legal advice to clients in an efficient, timely and controlled manner.

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ICM Aviation is part of the ICM Group of companies, founded in the Isle of Man in 1984. The Group operates from offices at London Stansted Airport and in the Isle of Man.

ICM Aviation provides solutions to a number of inter-related issues including aircraft ownership, where to register, how to operate tax efficiently, how to insure the asset economically and how to deal with a range of administrative and operational issues.

ICM Aviation works closely with associated company Inter-Continental Management Limited (ICM) to incorporate companies for aircraft ownership. Licensed by the Isle of Man Financial Supervision Commission as a Corporate and Trust Service Provider, ICM will incorporate and administer aircraft ownership structures.

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Founded in 1988, the IBA Group has become one of the leading aviation consultancies in the world, focusing on commercial and technical issues in the global aerospace community. Headquartered in the United Kingdom, near Gatwick Airport, IBA is an independent organisation which provides impartial opinions and recommendations to its broad portfolio of clients, without any conflict of interest.

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A leading asset management specialist, IBA has the technical expertise to gather and analyse the information needed for aircraft owners, operators, banks and leasing companies to minimise their risks, or exposure, and maximise the value of their assets.

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As Europe's leading aviation and VAT specialist, and part of the ICM Group, Martyn Fiddler Associates Limited is well known throughout the aviation industry for the quality of their advice and service. Aircraft and helicopter owners and operators know that flying in the EU can create VAT and duty liability. Failure to deal with these issues correctly can be very expensive and lead to customs authorities seizing aircraft whilst the matter of how much is due in VAT, duties and fines is dealt with.

Martyn Fiddler Associates Limited handle these matters, ensuring that VAT and duty are accounted for at the optimum rate.

Together with specialist partners, Martyn Fiddler Associates Limited can arrange for the freighting of helicopters and smaller aircraft worldwide. They also offer a unique customs warehousing solution for aircraft, helicopters and yachts.

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