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Dreamliner delays affect Boeing and its suppliers

When Boeing Co. unveiled plans to build the 787 Dreamliner, the aircraft was touted as revolutionary, a major technological shift in the way a plane is made and in the way it operates.

Revolutions rarely come without a struggle.

The 787 is now more than two years behind schedule and by some estimates is costing Boeing \$4 billion more than planned to develop. The troubled jetliner has set back other Boeing projects, analysts say, and has left some suppliers financially strapped.

One major supplier, Vought Aircraft Industries, initially projected it would spend \$250 million for tools and machinery to make parts for the aircraft. By July, costs had ballooned to \$600 million. The company this summer sold its 787 fuselage assembly operation to Boeing.

"Financial demands of the 787 program were beyond what the company's balance sheet could support," said Lynne Warne, a Vought spokeswoman.

Boeing's acquisition of Vought's factory – completed so Boeing could have more control over a key aircraft part – marked a major reversal in the company's strategy and highlighted the pitfalls of making planes that not only use new materials but are assembled in a radically different way.

The 787 is the first large passenger jet to have more than half its structure made of composite materials instead of aluminium sheets. Major parts for the plane are to be preassembled elsewhere and then shipped to Everett, Wash., where they are to be "snapped together" in three days as opposed to the month the traditional way takes.

For now, it appears travellers will not be flying in the plane soon. Initially scheduled to fly passengers in May 2008, Boeing has said that will not happen until later next year.

Suppliers refused to talk about their predicament out of fear of hurting their relations with Boeing, but analysts said some parts makers took on more risk when they

signed on for the project than they had for any other aircraft development.

In an unusual arrangement, major suppliers agreed to pay upfront costs for things such as labour and tooling. The risk was considered worth taking because the 787 was considered the plane of the future, an aircraft that would be in service for the better part of the century. Some suppliers are facing escalating costs that have more than doubled in some cases.

Few disagree that once the 787 gets off the ground, it will be a game changer for the aviation industry. The plane's newly developed engine promises to burn 20 percent less fuel than jetliners of a similar size. It will seat about 250 passengers, compared with about 150 for Boeing's most popular 737 jet, and Boeing says it will require less maintenance because it has fewer parts and will sustain less corrosion. Boeing says the 787s, which cost about \$160 million each, will save airlines about 30 percent in maintenance expenses.

If everything had gone according to plan, Boeing would be producing two 787s a week by now. Instead, the company is hoping it can perform its first test flight by the end of the year, with the first delivery to its first airline customer, Japan's All-Nippon Airways Co., by the fourth quarter next year.

Amid the delays and the sagging economy, Boeing has seen orders cancelled for 83 Dreamliners, but it still has a healthy 840 orders, which speaks to the 787's potential.

Source: W.J. Hennigan, kansas.com - 16th October 2009

IBA's
Comment:
"The 787 programme has given Airbus plenty of lessons on the mistakes that can be made in applying new production processes to a brand new airplane."
- David Rushe

Qantas may ditch first-class seats to raise revenue

Qantas may ditch first-class seats on some short international routes to increase revenue, says chief executive Alan Joyce.

During his first year as Qantas chief Mr Joyce had had to deal with the global financial crisis, failed merger talks with British Airways and swine flu, which cost the airline \$90 million in

business from Japan.

The airline's profit fell by 88 per cent to \$117 million for the year to June, but it was one of the few international airlines to report a profit for the financial year.

Mr Joyce said Qantas was looking at increasing economy and premium economy seats in some international flights to boost returns, which could mean ditching first-class seats on some short international routes.

He also said there would be no more replacement of Qantas routes with Jetstar flights.

Jetstar's future expansion would come from organic growth, including eventual flights to southern Europe.

"We are seeing, in recent months, the volumes being a bit better than we were expecting," Mr Joyce said in an exclusive interview with Glenda Korporaal from The Australian.

A difficult second half was offset by profits from the Qantas Frequent Flyer business, although Qantas International lost money.

Mr Joyce said Qantas was looking at reconfiguring its long-distance aircraft, including the A380, to boost the number of economy-class seats, for which demand had been stronger.

"We are still going to be a first-class airline - we are absolutely committed to that - but do we need first-class everywhere?"

"We need it to London and to LA, but where should first-class be apart from that?"

Irish-born Mr Joyce, who was responsible for the start up and successful launch of the low cost Jetstar airline, said the replacement of Qantas routes with cheaper Jetstar services has reached its limitations.

When appointed, concern was expressed that he was going to further "Jetstarise" Qantas.

He also said that the Pacific route to the US was a "blood bath" and predicted one of Qantas's competitors would eventually drop out of the market.

Delta Airlines and Virgin Blue's V-Australia, which began services last year, are the two major competitors with Qantas on the Australia-US routes.

Source: news.com.au - 16th October 2009

IBA's

Comment:

"The decision to cut first-class seats is a prudent one during the current downturn, particularly in terms of new aircraft deliveries. Reconfiguring cabins on existing aircraft can be expensive and Qantas must ensure that the resultant capacity gains bring revenue quickly."
- David Rushe

Southwest Airlines posts \$16 million loss despite boost in traffic

Southwest Airlines Co. opened the earnings season for U.S. carriers on Thursday, posting a narrower third-quarter loss than a year ago but warning that discounted fares and the lack of business travel still cloud the industry.

"I don't believe the worst is behind us, if for no other reason because of higher energy costs," Chairman and Chief Executive Officer Gary Kelly told analysts in a conference call. "And there's no reason to believe that business travel will return any time soon to help bail us out."

Southwest is beginning to see a recovery in demand, Kelly said, but despite "quite good" bookings for October, November and December, sales have been driven by discounted ticket prices and fares lower than a year ago.

Southwest reported a net loss of \$16 million, or 2 cents a share, in the three months ending Sept. 30 compared to a loss of \$120 million, or 16 cents a share, a year earlier.

Excluding a loss from fuel hedges and a \$27 million charge tied to employee buyouts, the low-fare carrier said it earned \$23 million, or 3 cents a share. Analysts were expecting earnings of 2 cents a share, excluding charges. Revenue fell 7.8 percent, to \$2.67 billion, in the quarter.

U.S. airlines are expected to report a combined third-quarter net loss of \$418 million, an improvement over this year's second-quarter net loss of \$959 million and better than the net loss of \$1.4 billion in the third quarter last year, according to analyst Michael Derchin of FTN Equity Capital Markets Corp.

Southwest plans to keep seat capacity and its fleet in 2010 "roughly flat" with this year.

Rising fuel prices are a big worry. For next year, Southwest has bought fuel-hedge contracts for more than 65 percent of its estimated fuel use.

IBA's

Comment:

"From the European no-frills market perspective, it is unthinkable that a low-cost carrier would fly routes and not charge for checked-baggage. Indeed, many European majors are now charging for second checked bags."
- David Rushe

In 2010, Southwest will look for opportunities to grow its route map, but keep overall capacity relatively flat, Kelly said.

Southwest still has no plans to charge for a first or second checked bag.

Kelly acknowledged that the airline could bring in additional revenue by charging for luggage, but said it would lose passengers. "We're getting 2 or 3 percent of our customers because we're not charging for bags."

Source: Linda Loyd, newspress.com - 15th October 2009

"U.S. airlines are expected to report a combined third-quarter net loss of \$418 million"

AI delays new Boeing delivery by 2 yrs

Air India plans to defer the delivery of six Boeing 777 aircraft by two years and is likely to retire its large fleet of leased aircraft in the next 12-24 months as part of its cost cutting exercise, civil aviation minister Praful Patel said on Wednesday.

He said the airline had drawn up a major restructuring plan to cut costs by Rs 3,000 crore and increase revenue by Rs 2,000 crore every year, which would pave the way for the government to infuse more funds into the airline.

"One step would be the induction of equity and the other restructuring high- cost debt to low-cost debt," he told reporters after holding separate meetings with Air India employees unions and the management.

Patel said the government would come to the aid of Air India only if it cut costs drastically and increased revenue. This, he said, would lead Air India to the path of recovery.

The issue of certain newer aircraft being leased out is also being explored by the management, especially a few Boeing 777 (long range) which are, at the moment, likely to be inducted in the next few months, Patel said.

The airline would go in for sale and leaseback policy, which is being pursued by its private competitors. Patel sought the cooperation of the employees unions, including those of the

"The airline would go in for sale and leaseback policy, which is being pursued by its private competitors."

pilots, to turn around the ailing national carrier, which has piled up losses of over Rs 7,000 crore.

"A draft note on equity infusion in Air India, prepared by the civil aviation ministry, is being sent to Cabinet Committee on Economic Affairs (CCEA)," Patel said.

Describing his meeting with representatives of 14 Air India staff unions as positive, Patel said the unions were very understanding and aware of the problems.

He said a series of measures to cut costs would include returning leased planes and leasing out some new ones. Air India has undertaken a major revamp plan, of which some have come into effect, Patel said.

Air traffic has improved over the last six months and the overall market scenario has witnessed a slight improvement in the last month or two, he added.

Source: Mail Today Bureau, business.today.intoday.in - 15th October 2009

Boeing lease deal questioned

The parliamentary standing committee on Bangladeshi civil aviation and tourism ministry yesterday asked the authorities concerned to scrap the preliminary deal between Biman Bangladesh Airlines Ltd and Euro Atlantic Airways for taking out a lease on two Boeing 777 aircraft.

The committee said the deal is deeply flawed and asked for floating a fresh tender for acquiring aircraft.

Biman recently signed a letter of intent (LOI) with Euro Atlantic for taking out a lease on two Boeing-777-200ER (extended range) aircraft. The final deal was supposed to be sealed on Thursday.

"We found serious problems and flaws in the decision to take a lease on the two Boeing-777-200ER aircraft from Euro Atlantic as those planes are not actually ER versions," Engineer Mosharraf Hossain, chairman of the committee, told reporters after a meeting held at the Jatiya Sangsad Bhaban.

Echoing Mosharraf, committee member Mayeen Uddin Khan

"We found serious problems and flaws in the decision to take a lease on the two Boeing-777-200ER aircraft from Euro Atlantic"
- Mosharraf Hossain

Badal said it is a serious matter that the two Boeing 777 aircraft are not really the extended range version even though Euro Atlantic claimed it so.

"Besides, Biman will incur a loss of about \$76 million a year if it operates Boeing 777-200ERs on Biman's planned routes," lawmaker Mayeen Uddin Khan Badal told reporters.

The standing committee said there is no need to hurry in taking out a lease on two Boeing-777 aircraft since Biman is unlikely to resume its Dhaka-New York route by the October 26 deadline.

"They (Biman Bangladesh Airlines Ltd) have informed us that they are uncertain about resuming the Dhaka-New York route for which two Boeing-777 aircraft were necessary," said Mayeen Uddin Khan Badal, adding, "We therefore asked Biman to go for fresh tender."

He claimed that the engines of the two Boeing-777-200 aircraft are Rolls Royce made, not by General Electric, and Biman's pilots will face difficulties when new Boeing planes, which Biman has ordered with General Electric engines, start arriving in the future.

Source: starbulletin.com - 15th October 2009

Mokulele, go! airlines merging

The parent companies of go! and Mokulele airlines entered into an agreement today to combine the two interisland carriers.

Under the terms of the merger deal, go! parent Mesa Air Group will own 75 percent of the company and Mokulele shareholders will own 25 percent.

There was no immediate word on if the deal will lead to layoffs.

Scott Durgin, chief executive of Mokulele Airlines, said, "We are jointly taking a close look at how we can create greater efficiencies in the combined operation and deploy our workforce in ways that make for a viable second airline. We are

"Republic also will forgive Mokulele's \$3.1 million in debt to Republic."

working very hard to preserve every job."

About 40 percent of Mokulele's roughly 160-person workforce are former employees of Aloha Airlines, which went out of business in spring 2008

Passengers can continue to book travel on both carriers and existing reservations will be honoured, the companies said today, adding that customers will check in at the co-branded go! Mokulele ticket counters. The merger is effective on Thursday.

As part of the deal, Mokulele shareholders will fund up to \$1.5 million to capitalize the merged company. Republic also will forgive Mokulele's \$3.1 million in debt to Republic, the company said.

"During this period of economic stress within our industry, it is especially important to closely match capacity with demand, and this arrangement allows Mokulele to right-size the aircraft within its network," Bryan Bedford, chairman, president and CEO of Republic Airways, said in a statement.

Mokulele majority owner Republic Airways Holdings said under the merger, Mokulele's three 70-seat Embraer 170s routes will be transitioned to jet service provided by Mesa Airlines. The three E-170 aircraft will be returned to the mainland by November to operate in Republic Airways' branded network. Mokulele began offering the jet service last November.

Indianapolis-based Republic Airways is a holding company that owns Chautauqua, Frontier, Lynx Aviation, Midwest, Republic and Shuttle America Airlines.

Phoenix-based Mesa Air Group Chairman and CEO Jonathan Ornstein said, "This strategic alliance in partnership with Mokulele is a first among regional airlines and will provide a tremendous platform for the future growth of the go! and Mokulele brands."

Source: starbulletin.com - 14th October 2009

IBA's

Comment:

"Large scale consolidation is likely in the US among regional carriers not closely affiliated with any of the majors. Republic Holdings and other regional airline owners could find themselves in a strong position when the market recovers." - David Rushe



NEWSWATCH

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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

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

Well since I am still enjoying the last day of a family visit to Centerparcs you will have to wait another week to find out which songs were murdered at the karaoke last weekend.

We may even find suitable photographic evidence.

Dublin aviation asset management conference next monday anyone?

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

- Weak US dollar
- Rising equities
- Timid economic signs

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

Petroleum prices rose again this week due primarily to a weaker US dollar and rising equity prices. Nonetheless, oil prices remain locked in a range as signs of economic improvement are offset by bulging product inventories worldwide. At time of this report, benchmark WTI crude oil is trading at about \$72 per barrel.

Macroeconomic Factors

- ▶ The US Labor Department reported that initial unemployment claims for the first week in October fell to the lowest level since January 2 and, separately, there was an uptick in retail sales in September while the US trade deficit unexpectedly narrowed in August. The assorted news helped to send equities prices higher.
- ▶ The persistently weak US dollar reclaimed some ground today after Fed Chairman Bernanke said that US interest rates would rise once the economy has improved sufficiently. This week, Australia became the first advanced economy to raise interest rates since the global financial crisis while the ECB and Bank of England kept rates unchanged. Today, €1 = \$1.4727 in early trading. Gold soared to a new record high of \$1,062.70 per ounce yesterday.

Fundamental Factors

- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA) showed falling crude stocks but building gasoline and distillate inventories. National refinery utilization is at 85% of operable capacity.
- ▶ In its *Short-term Energy Outlook*, the EIA wrote that energy prices are expected to remain volatile but that "sustained economic recovery in China and signs of a turnaround in other Asian countries continue to fuel expectations of a global recovery in world oil consumption."
- ▶ Algerian OPEC minister Chakib Khelil said that OPEC is not expected to raise output quotas this year due to concerns about the strength of global economic recovery.
- ▶ The 2010 Worldscale flat rates for international shipping will be calculated using a bunker fuel price variable of \$341.16 per metric tonne – down 38.4% from 2009. The new shipping rates will be published in November and December of this year.

Weather Factors

- ▶ This week, NOAA said that it expects winter temperatures in the US to be 1% warmer than last winter and also 1% warmer than the 30-year average. The forecast, based on strong El Nino patterns, is the same for the Northeast US, the world's largest market for home heating oil.

