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British Airways reports £292m six-month loss

British Airways (BA) has recorded a loss of £292 million before tax for the six months to September.

The airline, which has been badly hit by the recession, said the figures represent the first time it has reported a loss for the first half of the financial year.

The interim management report for the six months to September 30th showed operating losses of £111 million, compared to £140 million profit last year, with revenue down 13.7 per cent and total operating costs down 8.7 per cent.

British Airways' chief executive, Willie Walsh, said: "Aviation remains in recession with IATA predicting that the industry will lose \$11 billion (£6.62 billion) this year. We were quick to respond to the crisis by taking out excess capacity and, at the same time, driving down unit costs by 5.2 per cent.

"This demonstrates how well our costs have been managed in the first half and it's imperative we continue to deliver on our plans to reduce costs further in the second half. With revenue likely to be £1 billion lower this year, we can't stand still and further cost reduction is essential."

The airline is currently battling with unions over the implementation of a pay freeze and job cuts. Cabin crew are the first to be affected, with their numbers being reduced on long-haul flights.

The union Unite has said it will continue with strike ballot action over the changes, seeking a high court injunction to have them blocked.

A statement from the union declared: "Unite is taking its legal challenge to prevent BA from imposing, without agreement, widespread contractual changes upon the cabin crew. BA is seeking to impose these changes, which Unite has described as "unfair and unworkable", from November 16th, 2009."

Source: Sarah Garrod, inthenews.co.uk - 6th November 2009

Emirates reports a 165 percent rise in half-year profits

Emirates airline has announced a net profit of \$205 million for the first six months of the current financial year, which ended on September 30, 2009. This represents a 165 percent improvement on the \$77 million net profits for the same period in 2008.

During this period the airline made an estimated direct contribution of \$2.7 billion and an estimated indirect contribution of \$3.8 billion to the United Arab Emirates' economy, carrying over 13 million passengers and over 700,000 tons of cargo.

Emirates currently serves four gateways in the U.S., operating twice daily service from New York and daily service from Houston, San Francisco and Los Angeles to its international hub in Dubai. The airline supported and stimulated growth in the industry by continuing fleet and network expansion with eight new aircraft added, two new destinations launched and additional frequencies introduced. In addition, Emirates focused on the progression of its ongoing program to install the latest in-flight entertainment systems and mobile connectivity across its fleet; and invested in the training and retention of its 29,000-strong staff.

HH Sheikh Ahmed bin Saeed Al-Maktoum, Chairman and Chief Executive, Emirates airline and Group said, "Emirates remained focused on its long-term strategy despite the global economic slowdown. We have continued to invest in our eco-efficient aircraft fleet; in strengthening our global route network; and also in supporting the infrastructure for our growing business."

According to Al-Maktoum, throughout the recent economic struggles, Emirates did not cut back on its product, service or people unlike many others in the industry. "Instead, we invested in these areas and looked to our people to develop more innovative ways to manage costs, improve efficiencies, reallocate resources, and drive alternative strategies for the business," he added.

IBA's

Comment:

"Given the financial woes experienced by other legacy carriers in this difficult period for long-haul operations, this is a positive showing from Emirates. Emirates has developed a strong brand focused on quality of passenger service and a young fleet, promoting Dubai as a global hub"

- David Rushe

In the first-half of its financial year 2009-10, Emirates posted strong business growth, both in terms of capacity on offer and traffic carried compared to the corresponding period in 2008, performance that has been in stark contrast to the current trend seen across the aviation industry. Capacity measured in Available Seat Kilometers (ASKM), grew by 22 percent, while passenger traffic carried measured in Revenue Passenger Kilometers (RPKM) was up 21 percent with Passenger Seat Factor sustained at a high level, averaging 77.5 percent, slightly down compared to 78.3 percent for last year. The volume of cargo uplifted was in line with last year.

Total revenue at \$5.4 billion was lower by 13.5 percent compared with \$6.2 billion recorded last year, largely reflecting lower passenger and cargo yields. However, total expenditure at \$5.2 billion was 15.8 percent lower than \$6.1 billion last year, helped by cost containment measures and lower jet fuel prices.

Emirates' cash position (including held to maturity cash investments of \$54 million) on September 30 was \$1.8 billion, compared to \$2.0 billion six months earlier. This was after funding a significant ongoing capital expenditure program that included pre-delivery payments for new aircraft on order, building projects in Dubai, and an upgrade of the interiors of some of the existing fleet. During the first half, Emirates successfully raised aircraft financing of \$0.9 billion.

Since April 2009, Emirates has launched passenger services to two new destinations, Durban and Luanda, expanding its global network to serve 101 cities across six continents. Emirates' current fleet size is 139 aircraft. Since the beginning of its current financial year, the airline has received delivery of eight new wide body aircraft, with another 10 new jets scheduled to be delivered before the end of the financial year on March 31, 2010.

Source: siliconindia.com - 6th November 2009

“In the first-half of its financial year 2009-10, Emirates posted strong business growth, both in terms of capacity on offer and traffic carried compared to the corresponding period in 2008”

Asia's low-cost airlines undergo changes in direction

The global low-cost airline movement has undergone a fundamental change of direction in the past two years, but the biggest shifts in the model are coming, according to a landmark new study by the Centre for Asia Pacific Aviation (CAPA).

Looking to the future, "in most of the more likely scenarios, yield will become increasingly attractive as a refuge for all but the lowest cost operators," said CAPA.

"High fuel prices are the most likely catalyst of change in the short term. With the unlikely levels already experienced despite the global financial crisis, speculative activity is tipped to push prices even higher as the economy improves."

CAPA noted that surges in price can be highly destabilizing and one of the few risk management options that most low-cost operators have to guard against this is to search for higher yields.

"This and other uncontrollable externalities both in cost and demand will relentlessly force most low-cost airlines towards reconstituting the network model, domestically and internationally."

According to the report, the new network version will differ in two main ways: It will use unbundled pricing methodology and low-cost mentality will pervade all phases of the operation.

"Perhaps the most marked example of this evolution is found in the AirAsia/AirAsia X short haul-long haul combination. It is early days to pronounce this a format which can be imitated everywhere, but it does have characteristics that point the way to building an international network system."

"Virgin Blue is following a more conventional, but still expansive, full service approach in its New World Airline model."

"Other, more tentative steps are being undertaken by carriers such as JetBlue, partnering and code-sharing with Lufthansa, Southwest and others code-sharing with foreign LCCs and going international. There is a common theme in much of this evolution, so a pattern develops."

"In turn this drives suppliers such as GDSs and IT providers to explore new lower cost, stripped-down initiatives. Airports and

IBA's

Comment:

"Yield per passenger has overtaken passenger load factor as a key indicator of a route's profitability.

Low cost carriers have been successful in driving down operating costs but any substantial increase in fuel price will increase the importance of high and sustainable yields"

- David Rushe

airways systems feel the pressure to drive costs down and cooperate progressively in innovating all of which supports the need to find more environmentally friendly ways of maintaining the global tourism and travel industry."

Source: EHL, mb.com.ph - 5th November 2009

Airlines raise \$8bn but 2009 loss outlook stays

Stronger capital markets allowed airlines to raise a further \$8 billion in new funds in the months of September and October. While there are early indications of financial performance improving in the third quarter, the \$11bn net loss for 2009 is still likely, says the aviation trade body International Air Transport Association (IATA).

In its Financial Health Monitor report for September-October, IATA warned that with jet fuel prices having hit \$85 a barrel mark in October - almost back to year-earlier levels, airlines would see cash flows squeezing. The Middle East, however, still remained the only region with a double-digit growth of 18.2 per cent in passenger traffic in September as against the same month last year, with load factors resting at 71.8 per cent for the period.

Meanwhile, travel demand growth turned positive for the first time in a year, while airline capacity cuts were sustained. Load factors for both passenger and freight are back to pre-recession levels, stabilising fares and yields - albeit still at very low levels, said IATA. "The revenue environment remains extremely challenging," it added.

Moreover, fleet has expanded two per cent, and aircraft utilisation is down three per cent, leaving a capacity overhang threat. IATA said fares are now moving in the "right direction" but the pace of improvement is slow and levels remain well down on last year, unlike travel volumes.

It added that current low levels of aircraft utilisation and planned deliveries both suggest a threat to fares and yields in the months ahead.

Source: Shweta Jain, .zawya.com - 4th November 2009

"fleet has expanded two per cent, and aircraft utilisation is down three per cent, leaving a capacity overhang threat."

Airlines' cost index plunges

The composite cost index for U.S. airlines dropped 29 percent in the second quarter, easily outpacing the 0.9 percent decline in the U.S Consumer Price Index, executives at the Air Transport Association said Tuesday.

ATA, the trade group representing the major U.S. airlines, said the three largest components of the composite cost index were labour, fuel and transport-related expense.

ATA executives said combined labour and fuel costs accounted for nearly half of airline operating expenses in the second quarter. The average price paid for fuel fell 36 percent from record levels one year ago, ATA officials said, while the average cost of employing a full-time equivalent worker — wages, benefits and payroll taxes — rose 6 percent, to \$79,657.

ATA officials said other rising cost categories included aircraft insurance, up 24 percent; interest, up 22 percent; landing fees, up 7 percent; and professional services, up 6 percent.

U.S. airlines in the second quarter had year-over-year declines in aircraft rent and ownership, food and beverage, maintenance material, nonaircraft insurance, travel agency commissions, communication, utilities and office supplies and transport-related expense, ATA executives said.

"Airlines remain intensely focused on reducing expenses and identifying additional sources of revenue, but this is a challenging environment," said ATA Chief Economist John Heimlich. "Carriers are demonstrating tremendous cost discipline in the face of a weak demand environment and continuing fuel-price volatility."

"Airlines remain intensely focused on reducing expenses and identifying additional sources of revenue, but this is a challenging environment" - John Heimlich

Source: D.R. Stewart, tulsaworld.com- 4th November 2009

Air New Zealand says to buy 14 Airbus A320 aircraft

Air New Zealand said Tuesday it will buy 14 new Airbus A320 aircraft to replace its domestic fleet of 15 Boeing 737-300 planes.

The airline said the 14 aircraft had a list price of more than one billion US dollars but added it had secured a discount to reflect market conditions.

"This is a very good time to buy aircraft," said Air New Zealand's short haul general manager Bruce Parton.

"The industry is at the bottom of a deep cycle, so demand for aircraft is limited, creating favourable conditions for buyers with strong balance sheets like Air New Zealand," Parton said.

As part of the agreement, Air New Zealand also has purchase rights for a further 11 aircraft.

Subject to details of the final contract, the first A320 aircraft is expected to be delivered in January 2011, with the fleet to be progressively introduced up to 2016.

Air New Zealand currently uses 12 A320 aircraft on short haul international routes and using the same aircraft on domestic routes would result in cost savings for the airline.

"Thanks to its fuel efficiency, the A320 will enable Air New Zealand to increase capacity on the domestic market while reducing carbon emissions," Parton said.

The current 737 fleet is configured with 133 seats, with the larger domestic A320 aircraft likely to have around 171 seats. Air New Zealand said it had been evaluating options to replace the 737-300s for the past eight months.

More than 6,400 Airbus A320 aircraft have been sold to over 300 customers and operators worldwide, the airline said.

Source: AFP, timesofoman.com - 3rd November 2009

IBA's

Comment:

"Aircraft manufacturers will vie for a number of large scale narrow-body orders over the next few years. Operators will look to replace ageing fleets of A320's, 737's, 757's and MD80 aircraft to ensure capacity and lower operating costs when the market recovers"

- David Rushe



IBA Group News

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

IBA Aircraft for Sales

IBA has a limited mandate to sell an ATR 42-320 msn 0240. This is a 1991 model, currently on lease to Fly540 in Kenya. The lease is for 60 months from June 2007 at a rental of \$55,000 per month plus maintenance reserves. Options exist to purchase the aircraft with the existing lease in place or with no lease. If this opportunity would be of interest, please contact Owen Geach (owen.geach@ibagroup.com) or David Rushe (david.rushe@ibagroup.com) for further information.

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

Publications

Coming soon: IBA's MRO Market Outlook Report

This report studies the following aspects of the Global Airframe MRO Market:

- Demand and major suppliers; New market entrants; A seven year market forecast looking at potential revenues, with detailed analysis of number, type and ownership of aircraft due to undergo heavy checks; A320/737NG first 12 year check focus; Illustrative graphs and tables showing MRO spend by country, airline and region; Future trends - total support concepts and PMA parts, considering in particular how these will impact the Airframe MRO market; A financial model detailing the revenue and costs of aircraft maintenance by aircraft type; Trends in diversified services (Line Maintenance, Ground Handling, Catering etc.); The constraints inherent to the maintenance industry, including availability of personnel and qualifications, regulatory considerations, facilities, spares, tooling, stock and other equipment; Maintenance procedures in the event of airline/MRO mergers and/or alliances.

The study will be substantiated with information gained from various industry sources and databases related to:

- Existing MRO's; IBA intelligence and databases; Aircraft Lessors; Aircraft Manufacturers and where applicable, their local asset managers; Airlines and Legal Owners.

For further details please contact david.rushe@ibagroup.com or call +44(0) 1293 772 745

Phil Seymour's Notes on the Week

BA today announced Summer season losses - unprecedented for them to lose money in the peak season I believe.

That in the same week we have Ryanair announcing profits and giving Boeing a hard time on new aircraft pricing and BA announcing losses and trying to curb potential strike action really shows the paradox of today's airlines. There is of course no simple answer to the dilemmas facing Messieurs Walsh and O'Leary. The interviewer on this morning's BBC radio 4 asked Mr Walsh if he would be prepared to work another month without his salary having set that precedent in August. He replied that he was prepared to do anything. That was probably the best way to respond to the "tongue in cheek" question. It makes the jobs that most of us are doing fade into insignificance. Anyway I hope you are all enjoying your own jobs at the moment - I know I am - but I have a warped sense of humour to get me through. Humour is probably not an attribute that works at BA and Ryanair right now. On that sombre note have a happy week.

Phil Seymour,

Phil.seymour@ibagroup.com

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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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Highlights

- Oil prices, equities retreat
- End of recession?
- Ample inventories
- Sluggish demand

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

Oil prices pulled back a bit this week in volatile trading as the dollar firmed and equities slid due to profit-taking. Despite a better-than-expected GDP report, sluggish consumption and high product inventories continue to weigh on the market. Benchmark WTI crude oil (prompt futures contract) is trading at about \$78 per barrel.

Macroeconomic Factors

- ▶ The US Commerce Department reported a rise in 3Q GDP of 3.5% annualized – the first quarterly gain since 2Q08. Some analysts believe that the report confirms that the recession, which began in December 2007, has bottomed. Further, core inflation seems to be contained while unemployment figures remain worrisome.
- ▶ The relative value of the US dollar continues to be very volatile and headline-driven. Today, €1 = \$1.4755 – a bit higher than yesterday.

Fundamental Factors

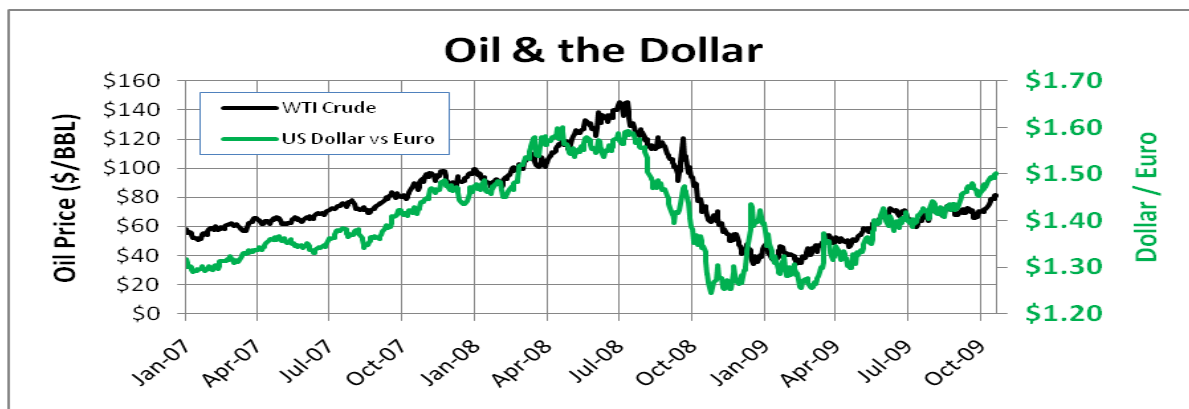
- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA) showed shrinking distillate inventories but building crude and gasoline stockpiles. Refinery use rose by .7% to 81.8%. Total US petroleum demand was about 3% lower than one year ago – characterized by higher gasoline consumption but lower distillate and fuel oil demand.
- ▶ US jet fuel inventories are currently 20% higher than a year ago and represent 35.8 days of forward cover – the highest since October 1994. The 5-year average forward cover level is 25.6 days.

Geopolitical Factors

- ▶ Iranian brinkmanship continues in relation to its nuclear development programs. Now, Tehran is signalling that it is ready to strike a deal with the United Nations – whose key members are united in their stand against a nuclear Iran.

Weather Factors

- ▶ Like last week, the National Weather Service is predicting below-normal temperatures for the eastern two-thirds of the US for the next 8-14 days. Early season blizzards have moved into the Rocky Mountain West and Upper Plains. The Atlantic tropics are quiet in terms of storm development.





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JET VALUES 2



Jet Values 2, from the International Bureau of Aviation, is a new powerful online aircraft valuation tool, giving you access to IBA's expertise 24 hours a day, seven days a week.

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- Forecast Base, Market and Soft Values, and Forecast Base Lease Rates

What's more, the system also delivers total flexibility on the model, specification, length of forecast, inflation parameters, and a choice of Excel or PDF outputs. Special tools, such as the 'My Fleet' and 'Portfolio Manager' functions further enhance the system's usability.

IBA has also designed a number of payment plans, making **Jet Values 2** accessible to everyone. Choose from an annual subscription giving unlimited access for a full year, or pay-as-you-go packages starting from just £120. Furthermore, IBA is offering a free trial of the system, so you can be sure that it is right for you prior to subscribing.

Why not set up a free trial to experience the system's cutting edge functionality for yourself? Simply contact Ross Elliott on ross.elliott@ibagroup.com or +44 (0) 1293 772743 for more information.

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