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## Southwest has no plans to increase capacity in 2012

Adding another airline boosted profits at Southwest Airlines in the second quarter, but high fuel prices and slowing demand are prompting the Dallas-based carrier to scale back its growth plans for next year.

"We've seen some softening in business travel this summer," said Gary Kelly, Southwest's chief executive officer. "I am concerned about the U.S. economy. I'm concerned about fuel prices."

Southwest, which purchased AirTran Airways in May, said it will expand its network by 4 to 5 percent this year, instead of 6 percent, but it does not plan to increase capacity in 2012. Kelly indicated the carrier may even cut capacity next year.

The company had already announced that AirTran would stop service to four cities in January, and it eliminated direct flights between Pittsburgh and Philadelphia in its winter schedule.

Southwest earned \$161 million in the quarter, up 43 percent from the second quarter of 2010. Revenue also rose by 30 percent to \$4.1 billion. The results are for the combined Southwest-AirTran but are compared with financial results of Southwest before the merger.

Excluding one-time accounting items, Southwest reported second-quarter income of \$121 million, or 15 cents per share, disappointing Wall Street. Analysts had expected the carrier to report earnings of 20 cents per share, according to Thomson Financial estimates.

Fuel costs rose 38 percent as Southwest paid \$3.28 per gallon for jet fuel. The company also incurred \$58 million in costs during the quarter associated with its acquisition of AirTran.

Kelly shot down news reports out of Paris indicating that Southwest had exchanged informal letters with the French airplane manufacturer Airbus and said he was pleased with Boeing's decision to put more fuel-efficient engines on its 737 aircraft.

Last month, Boeing announced a re-engined version as part of American Airlines' order of 460 aircraft from Boeing and

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Airbus.

Southwest has been an all-Boeing operator.

"We were aware that that was Boeing's decision before it was made public, which we appreciate," Kelly told analysts on a conference call Thursday morning. "Boeing continues to be our primary focus, and if that all works out to our satisfaction, we'll continue to move forward with Boeing."

Source: Andrea Ahles, star-telegram.com - 5<sup>th</sup> August 2011

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## Airline industry earnings show first drop in two years

Airline-industry earnings for the three months through June suffered the first year-to-year decline in two years as oil prices rose, the International Air Transport Association (IATA) said.

Early figures for 16 carriers showed operating profit shrinking by one-third and net income tumbling by almost two-thirds, the Montreal- and Geneva-based industry group said on Wednesday in a report. North America, the Asia-Pacific region and Latin America are all showing declines. European earnings advanced only because traffic disruptions caused by a volcanic-ash cloud crimped profit last year.

"The airlines are massive consumers of fuel, and they will ultimately respond by cutting capacity," Joe Gill, an analyst at Bloxham Securities in Dublin, said in an interview

Air France-KLM Group, Europe's biggest carrier, tumbled the most in almost 18 months in Paris trading on July 28 after posting a second-quarter operating loss of 145 million euros (\$207 million), countering analysts' estimates that it would report a profit. Earnings at Deutsche Lufthansa and Singapore Airlines also failed to meet analysts' predictions.

Passenger traffic is still rising at a four per cent to five per cent annual pace, IATA said. At the same time, jet-fuel prices headed above \$130 a barrel in July, while airline capacity increases are outpacing demand, resulting in June load factors, or seat-occupancy levels, that were one percentage point below 2010's high, the group said.

A deterioration in consumer confidence and the economic

### IBA's Comment:

"Weakening confidence amongst consumers and the financial markets on top of volatile oil prices could put the squeeze on many carriers heading into the winter. Capacity cuts could see an increase in aircraft storage."

- David Rushe

outlook in the past month will put third-quarter earnings under further pressure, with a possible slowdown in business travel, which has so far spurred traffic in 2011, posing a “worry,” IATA said. A slump in demand may prove to be a catalyst for oil prices to fall, giving stronger airlines an opportunity to buy fuel at lower costs, Bloxham Securities’ Gill said. About 30 per cent of an airline’s costs come from fuel.

The IATA said early results from a sample of airlines globally show they will post \$1.04 billion in profits for the second quarter of 2011, a big drop from the \$2.88 billion in profits for the same quarter a year earlier.

“The sample is too small as yet to come to clear conclusions but Asian airlines appear to have been under (the) most pressure, whereas European airlines have improved operating profits (partly because second-quarter 2010 results were hit by the ash cloud last year),” the Geneva-based group said.

Along with Europe’s recovery, another bright spot for airlines is that air travel volume overall looks to be expanding at a rate of 4-5 per cent a year, IATA said, though air travel and freight dipped lower in June.

IATA said those sources of revenue have been more than offset by the rise in jet fuel prices above \$130 a barrel on worries about supply, which partly reflects the ongoing civil war in Libya.

Source: timesofoman.com - 4<sup>th</sup> August 2011

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## SkyWest to fly jets for US Airways

SkyWest Airlines has a preliminary agreement to operate 14 jets for a new customer, US Airways.

The two carriers signed a letter of intent for SkyWest to operate the 50-seat CRJ200 regional jets as US Airways, representatives for the companies said on Thursday.

SkyWest pilots will fly the jets out of US Airways’ airport hub in Phoenix, beginning some time in the first half of 2012.

Mike Kraupp, SkyWest’s Chief Financial Officer, said the three-year deal will add more diversity to the St. George-based airline’s customer base, which is dominated by United

Continental Holdings (67 percent) and Delta Air Lines (32 percent). The remaining 1 percent is split between Alaska Airlines and Air Tran Airways.

US Airways "is not the size of Delta and United Continental. Nevertheless, US Airways is a good-sized operator out there. Hopefully, once we get in and start small, [the relationship] will blossom," Kraupp said.

Besides the opportunity for more growth that comes with a new customer, SkyWest also gets more chances to keep its fleet of 715 aircraft fully in service. Delta and United frequently adjust their routes and seat capacities, which means that SkyWest must sometimes idle some of its aircraft until demand picks up again.

In fact, SkyWest expects to allocate aircraft for the US Airways contract from its existing fleet instead of buying or leasing more aircraft.

The US Airways deal still needs to be approved by the boards of both SkyWest and US Airways.

If it is OK'd, the deal will be the second flying arrangement that SkyWest has made this year.

In May, SkyWest began flying six West Coast routes for Alaska Airlines, using five 70-seat CRJ700 jets it leased from Horizon Airlines, Alaska's sister carrier.

"We did have a very successful launch of our Alaska Airlines relationship, which began May 14. We believe it's been successful for both us and Alaska, and [think] that [it] may lead to add future opportunity," SkyWest Inc. President Brad Rich said on Wednesday, during a conference call with analysts.

SkyWest Inc. is the parent company of SkyWest Airlines, Atlantic Southeast Airlines and ExpressJet.

Source: Paul Beebe, sltrub.com - 4<sup>th</sup> August 2011

## IBA's Comment:

"Given the precarious state of much of the 50-seat RJ fleet in the United States, where it is heavily concentrated, any improved demand on suitable regional routes is a positive sign."

- David Rushe

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## Cabinet approves \$112 million for Air India

Ailing state carrier Air India (AI) was given a much-needed boost on Thursday when a cabinet committee approved a proposal for a \$112-million cash injection, the Press Trust of India news agency reported.

The news will come as a small relief to the beleaguered airline, which is incurring monthly losses of Rs6 billion (\$134 million), according to the civil aviation minister Vayalar Ravi.

Speaking in the upper house of parliament, Ravi said Air India was suffering from high fuel prices and stiff competition from privately owned airlines.

The national carrier has struggled to pay wages to its staff for months and Prime Minister Manmohan Singh told the lower house of parliament on Wednesday that he would do everything to ensure that salaries were paid as soon as possible.

Air India suffered another blow on Monday when its bid to join the Star Alliance was grounded after the global airline network said it had not met the minimum standards for membership.

The airline, which had been given a July 31 deadline to meet joining criteria in a range of areas from branding to ticketing, is currently waiting for approval of a five-year turnaround plan.

That includes more government cash and a new business plan that would increase its fleet size, cut routes and set up network hubs.

The Indian government pumped about eight billion rupees into the airline in the financial year 2009-10 and expects to put in another 12 billion this year on condition the company cuts costs.

The restructuring plan is currently under review.

Private airlines such as Jet Airways, Kingfisher and low-cost rivals Indigo and SpiceJet have replaced Air India as a preferred airline in recent years.

Source: asianage.com - 4<sup>th</sup> August 2011

“The news will come as a small relief to the beleaguered airline, which is incurring monthly losses of Rs6 billion (\$134 million)”

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## Japan Airlines in Q2 profits boost

Japan Airlines has posted a net profit of \$165m in the three months to June, thanks largely to aggressive downsizing and cost cutting during its bankruptcy proceedings.

JAL said its quarterly net profit reached 12.7 billion yen and operating profit of 17.2 billion yen on sales of 254.9 billion yen.

The former flagship carrier said it does not have comparable

data from the previous year, when it was going through a court-led rehabilitation programme.

JAL completed the bankruptcy proceedings in March after filing for a failure in January 2010 with debts of about 2.32 trillion yen (\$28 billion) - one of Japan's biggest-ever corporate failures.

Under government supervision JAL carried out massive job and route cuts, guided by charismatic businessman Kazuo Inamori, in order to continue flying.

JAL said in a statement that it underwent a 'rigorous restructuring' last year, including the decommissioning of large aircraft, 'which collectively led to a significant reduction in operating expenses.'

The carrier temporarily reduced flights and switched to smaller aircraft in response to the decline in traffic after the deadly earthquake and tsunami that hit northern Japan on March 11 and triggered a nuclear crisis.

The number of foreign visitors to Japan fell sharply in the wake of the disasters, it said.

For domestic operations, JAL also reduced commercial trips to cut costs after the disasters and operate special flights to northern airports for emergency crews and supplies.

Source: rte.ie - 3<sup>rd</sup> August 2011

## IBA's Comment:

"Whilst other airlines struggle to post profit amidst slow economic growth, JAL has remarkably overcome internal restructuring, weak domestic spending, an earthquake and tsunami, to post a profit."

- David Rushe

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## Kuwait Airways looks for privatization bidders

Kuwait Airways is seeking a buyer for a 35 percent slice of the struggling national airline as it embarks on a long-awaited turnaround plan.

A government committee said on Monday that it is accepting offers from investors for the stake as part of a 220 million dinar (\$807 million) privatization effort. Most firms listed on Kuwait's stock exchange will be able to bid, but other Kuwaiti airlines will not. Also eligible to bid are "specialized international companies," which could include foreign carriers.

"Any sale of the company must realign the airline towards a successful future entity that builds on the aspirations of the Kuwaiti people and the past successes of this national

institution," the privatization committee said.

Kuwait Airways operates a fleet of 17 jetliners that mainly fly to Europe, the Middle East and Asia. It is the country's oldest airline and the local market leader, but it is burdened with bloated labour costs and has struggled financially for years.

In the fiscal year of 2010, the carrier brought in \$771 million in revenue but posted a loss of \$556 million, according to a government-prepared presentation for potential investors obtained by The Associated Press.

The government hopes to revitalize the airline with the privatization. It has offered the carrier's 2,600 Kuwaiti employees the chance to retire or move to another government job in an apparent effort to trim labour costs. Employees have the option of sticking with the newly privatized carrier, and it was unclear what the company may be hoping for in terms of cuts.

Kuwait's parliament approved a framework for privatizing the company in 2008. Besides the stake sale, the government plans to float part of the company on the stock market and offer some shares to employees. The Kuwait Investment Authority, the country's sovereign wealth fund, will hold a 20 percent stake in the airline following the privatization.

Kuwait Airways faces competition at home from discount carrier Jazeera Airways, whose ownership is split among several Kuwaiti companies and public shareholders.

Until recently, it also competed against Wataniya Airways, which offered high-end services to travellers mostly in the Middle East. Wataniya quit flying in March, leaving its future uncertain.

Kuwait Airways is far smaller than fast-growing regional rivals such as Dubai's Emirates, Abu Dhabi's Etihad Airways or Qatar Airways, which have turned the Gulf into a long-haul transit hub. The three carriers either did not respond or declined to say whether they might bid for the Kuwait Airways stake.

Source: AP, sacbee.com - 1<sup>st</sup> August 2011

"Any sale of the company must realign the airline towards a successful future entity that builds on the aspirations of the Kuwaiti people and the past successes of this national institution"



## IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, [www.ibagroup.com](http://www.ibagroup.com)

### Conference Dates

- 18<sup>th</sup> - 20<sup>th</sup> September 2011 - ISTAT Europe 2011, 18<sup>th</sup> European Conference, Barcelona - Phil Seymour will be speaking, James Uniacke and Adrian Lee will be attending
- 26<sup>th</sup> - 28<sup>th</sup> September 2011 - SpeedNews 12<sup>th</sup> Annual Aviation Industry Suppliers Conference in Toulouse - IBA is a sponsor and Ben Jacques will be speaking
- 28<sup>th</sup> - 30<sup>th</sup> September 2011 - ERA General Assembly, Rome - Ben Jacques will be speaking and Adrian Lee will be attending
- 5<sup>th</sup> - 6<sup>th</sup> October 2011 - UBM Aviation, Aircraft & Engine Finance & Leasing USA Conference, Chicago - Phil Seymour will be speaking
- 31<sup>st</sup> October - 2<sup>nd</sup> November 2011 - Euromoney Asia Pacific School of International Aviation Finance, Hong Kong - IBA will be presenting
- 3<sup>rd</sup> - 4<sup>th</sup> November - 12<sup>th</sup> Annual Asia Pacific AirFinance Conference - IBA will be speaking
- 1<sup>st</sup> - 2<sup>nd</sup> December 2011 - Aviation Investors Summit, London - Phil Seymour and Owen Geach will be speaking
- 24<sup>th</sup> - 26<sup>th</sup> January 2012 - Euromoney 14<sup>th</sup> Annual International Aviation Finance Conference, Dublin - IBA is sponsoring and will be speaking

### Country Visits

- Owen Geach and Steve Fisk will be in Tokyo from 25<sup>th</sup> to 30<sup>th</sup> September 2011
- Ben Jacques and Adrian Lee will be in the Far East from 22<sup>nd</sup> August to 2<sup>nd</sup> September 2011

## Publications - 2011 Editions

Please contact [marketing@ibagroup.com](mailto:marketing@ibagroup.com) for more information.

Aircraft Values Book	Published in February 2011 & August 2011	£660 per year
Lease Rate Digest	Published in February 2011 & August 2011	£360 per year
Engine Values Book	Published in April 2011	£650 per year
Maintenance Cost Journal	Published Quarterly	£200 per year

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