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Malév Airline Grounds All Flights After Running Out Of Cash

Hungarian airline Malév grounded all flights on 3rd February to stave off further losses after running out of money.

"After 66 years of continuous operation, Malév aircraft will not depart from 6am on 3rd February," the airline said.

"Unfortunately, the event occurred which we had a greatest fear of and we wanted to avoid with might and main," Chief Executive Loránt Limburger said.

"Although, until the latter days there were prospects to continue operation and the trust of our passengers is unbroken, our partners lost their trust due to the information published in the last days and they started to ask for payment of their services in advance."

Limburger said that this had speeded up the cash outflow and the situation of the airline had become "untenable".

It is also known that the owner, despite the best intentions, is unable to provide additional financial resources to operate after the EU decision, he said.

"Considering all these, the Board decided to order the cease of operation of Hungary's National Airline. We apologise to all of our passengers," Limburger said.

As to rerouting and compensation, the airline cited the government regulation that came into force on 31st January 2012 by which assistance can be provided to those passengers who purchased valid tickets before Malév ceased operations and whose travel dates are on the day of suspension of operations or on the following three calendar days.

"In addition, to those who already travelled to their destination on the suspension day or before and possess valid return tickets on Malév flights on a date not later than 29th February 2012. Those who are entitled are going to have assistance from Malév by rerouting their tickets to other flights or other modes of transportation," the airline said.

The Voice of America said that the shutdown comes about a month after the European Commission ordered the airline to repay millions of euro in government subsidies it received between 2007 and 2010.

Source: sofiaecho.com - 3rd February 2012

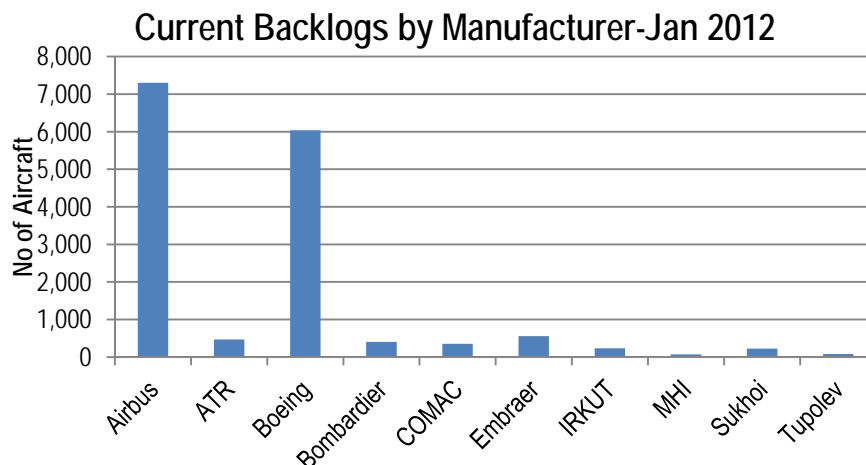
The Mood From The Dublin Air Finance Conference

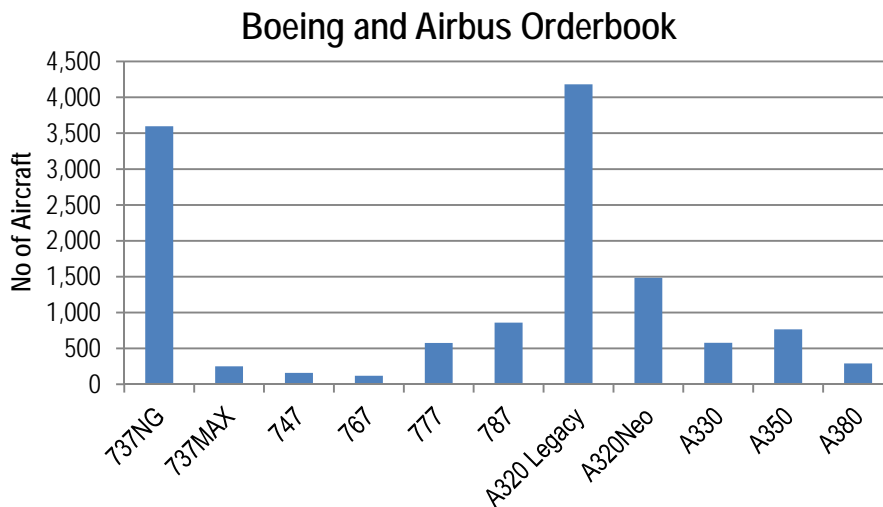
by David Rushe

Last week saw approximately 1,200 attendees descend on Dublin for the 14th Annual European Airfinance Conference including three IBA representatives - our Commercial Director, Owen Geach; Managing Director, Steve Fisk and I. The main venue, the Four Seasons Hotel, was packed with industry executives as were local pubs, hotels and restaurants. It is clear that the conference is now the headline annual industry gathering in Europe and IBA's presence was enhanced by its role as one of the sponsors of the 3-day event and numerous speaking engagements.

As has been the case for the past few years, there is a degree of uncertainty across the industry with regards to funding, overproduction, residual values and future passenger demand. All of this is happening amidst a turbulent global economy dominated by the euro zone crisis, credit rating downgrades, a static US economy and slowing growth in China. As was the case in 2009 and 2010, concerns about a funding gap were evident during discussions at the conference. The weakened euro against the dollar and increasing cost of financing have meant that barely a handful of European banks remain attracted to the industry. During the conference, there were numerous calls for the ECAs, banks, manufacturers and other investment groups to work more closely together to come up with creative financing structures. The size of the current orderbook by manufacturer and indeed that of Boeing and Airbus, as outlined below, illustrates the volume of deliveries which may require financing.

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Recent years have seen the role of institutional investors in aircraft finance increasing and the market needs this trend to continue. Two directives in the near future will also change the goalposts in terms of financing - namely the 2013 ASU (aircraft sector understanding) and Basel III - which could well restrict the role of ECAs and traditional financing methods in the market. The large contingent of Japanese entities at the conference highlights the role the region's banks are likely to play in aircraft financing. Sumitomo Mitsui's recent purchase of the RBS Aviation Capital Portfolio is a case in point. The Development Bank of Japan (DBJ) and Bank of Tokyo-Mitsubishi are just some examples of such entities.

Overproduction is clearly a big concern. The above Boeing and Airbus Orderbook chart is dominated by narrowbodies, a backlog which has been bolstered by the launch of both the A320neo and the 737MAX in 2011. Order levels for the neo and the MAX have been staggering and now top 1,800 aircraft across both families. The manufacturers' retorts to concerns about overproduction points to the lack of white tails in Seattle or Toulouse and low availability of spare current-production aircraft. Large industry events typically attract large numbers of secondary market traders and there were concerns about the impact of overproduction on residual values. It is a sad state of affairs when sub-10 year old aircraft are impossible to place and part-out becomes an option. This has been the case for a marginal number of A320 family and 737NG aircraft in recent times. Such instances have been few and far between but tend to attract a lot of media coverage and discussion - as was the case amongst conference delegates - which weakens investor confidence. As ECAs continue to have a large role to play in

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financing in 2012, the ease at which previously second and third-tier operators, who previously went to secondary market for aircraft, can now obtain new aircraft with this ECA support. Indeed, the economic usable life of aircraft was a prominent topic of discussion during the conference.

As is the case with any of the larger industry conferences these days, Boeing and Airbus went head-to-head extolling the virtues of their respective products. A 222 aircraft order from Norwegian Air Shuttle split between the A320neo and the 737MAX was announced during the conference and many delegates wondered how the operator would fill these aircraft in an already highly-competitive European low-cost airline market. However, it appears that the operators are fairly optimistic about the passenger market. Presentations by easyJet, Lufthansa and Flybe all pointed to a positive market outlook, contrasting heavily with a pessimistic view of the market by AWAS CEO, Ray Sisson. It is clear that lessors face pressure on residual values and aircraft values are depreciating more rapidly than traditional straight-line curves allow - particularly as manufactures continue to push replacement technology onto the market. Lessors continue to place orders directly with manufacturers or chase A320 and 737NG sale and leaseback deals. This is a highly competitive space and it may be the case that lessors may turn to widebody and regional aircraft sale and leasebacks. Boeing coincided a 787 visit to Dublin Airport with the Airfinance Conference to market the aircraft to the swatches of financiers and lessors in town, whilst Airbus moved to outline the pressures Boeing faces internally to manage the mass production of the 787, the development of the 737MAX and the design of an improved 777 to compete with the A350 - which incidentally faces more delays. Airbus also made a frank statement during the conference to allay concerns about wing cracks on the A380.

Despite the wide range of concerns expressed by various stakeholders, many were also keen to stress that the aviation industry has proven to be resilient. There is no doubt that some operators around the globe face difficulties and 2012 is likely to see more bankruptcies but provided the financing community can support the secondary market as well as the huge volumes of new deliveries in the next few years, "white-tails" can be kept to a minimum as was the case during the recent downturn. Fuel prices raise another, quite daunting, challenge and should encourage operators to achieve further efficiencies in their cost bases. A repeated plea from the investment community during

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the conference - right up to the Airbus Financiers Event last Friday - was the need to work together to ensure continued funding for aircraft. Airbus and Boeing are producing aircraft at a high rate in response to operator demands for new more fuel-efficient technology to reduce the effects of high fuel pricing. There is the danger of a damaging shortfall in demand for second-hand aircraft and the financiers have a big role to play here if they can support prospective buyers - possibly the most prominent issue I encountered last week.

Source: David Rushe, IBA Group Ltd. - 3rd February 2012

Boeing Dreamliner Faces Glitches

Boeing's Dreamliner launch customer, All Nippon Airways (ANA) of Japan, had to cancel two of its first 10 flights between Tokyo and Frankfurt, Germany, the new jet's first long-haul route that opened on 21st January.

The glitches on the early long-haul flights follow a relatively smooth introduction of the Dreamliner into domestic service in Japan and on short-haul flights to China.

ANA spokeswoman Jean Saito said the airline cancelled the 26th January flight out of Frankfurt "due to a malfunction of the flaps system" on the aeroplane. The flaps are the hinged moveable surfaces on the trailing edge of the wings that are deployed on landing and take-off.

Passengers on that flight were transferred to another aeroplane. After the Dreamliner was repaired in Germany, ANA flew the plane without passengers to its maintenance base at Haneda airport in Tokyo, "to make sure everything was OK," Saito said.

The Tokyo-Frankfurt route operates every other day, and the plane returned to service on January 28. But on January 30, ANA cancelled another flight, this time in Tokyo. Saito attributed this to "a temporary error in the computer software that monitors the controls of the aircraft".

Saito said this was repaired by replacing parts of the computer system and re-loading software. She said the plane returned to service on Wednesday.

Boeing declined to comment on the glitches, referring questions to ANA. Saito said the airline is "working together and

IBA's Comment:

"As with some of the A380 tech problems during its very early revenue services, any 787 AOG incidents are likely to attract unwanted attention from the media, given the high profile of the aircraft. However, with a 96.3% dispatch reliability thus far, the ANA 787s rate is impressive."
-David Rushe

fully cooperating" with Boeing "to make it a better aeroplane" as it begins long-haul service.

Originally, ANA planned to step up to daily flights to and from Frankfurt on 1st February. That was pushed out until March following delays in December in delivering ANA's next aeroplanes.

To date, ANA has taken delivery of five 787s. The one on the Frankfurt route, Dreamliner No. 31, is the only one configured for long-haul destinations, with 158-seats.

The first four Dreamliners flying within Japan were fitted with 264 seats, although in April the airline plans to introduce Dreamliners fitted with 335 seats for domestic service.

Source: Dominic Gates, news.smh.com.au - 2nd February 2012

Spanair Folds Leaving Thousands Stranded

Barcelona-based Spanish airline Spanair, Spain's fourth largest airline, filed for bankruptcy on Monday. In financial difficulties for the last several years, the airline suspended operations last weekend amid debts that have spiralled to €300 million.

Spanair's chief creditor is Swedish SAS, the Spanish airline's majority owner until 2009, retaining a 10% stake in the carrier. More than 20,000 passengers were stranded by Spanair's decision to cease flight operations early on Saturday at just a few hours' notice.

Spanair employs around 4,000 people, half working directly for the airline and the rest for contractors providing ground facilities such as cleaning and maintenance.

Ryanair has already formally requested that the EU withholds additional public funding for the bankruptcy and reorganisation of the stricken airline that was propped up to the tune of €150 million by the Catalan government since 2009. Late last Friday Qatar Airlines declined to invest in Spanair resulting in the decision to cease operations.

At El Altet, 44 Spanair employees have been left in the lurch, driven to stage a week of demonstrations at the terminal and pleading for a fair financial settlement.

Spanair's workforce included 2,075 workers in Spain with a further 2,000 employed by handlers Newco affected by the

IBA's Comment:

"The Spanair bankruptcy looks like creating more opportunities for Ryanair - already Spain's largest carrier by passenger numbers. It is clear from Spanair's route network that it encountered stiff competition from European low-cost and legacy carriers"

-David Rushe

company's closure.

Despite their distress, four of Spanair's staff manned the Spanair office at El Altet on Saturday to assist nearly 400 stranded passengers.

Source: Jan Gamm, roundtownnews.co.uk - 2nd February 2012

Cebu Pacific Plans Long-Haul Flights

In a bid to serve Filipinos working abroad who cannot afford to fly home more often, Cebu Pacific on Tuesday unveiled plans to launch budget long-haul flights, hopefully by the third quarter of 2013.

The budget carrier is in discussions to lease up to eight Airbus A330-300 aircraft to serve new markets which are beyond the range of its current fleet composed of Airbus A320s. Among the international destinations being eyed are Australia, the Middle East, parts of Europe and the United States.

Cebu Pacific refused to disclose specific routes pending the filing of application with the Civil Aeronautics Board. Lance Gokongwei, Cebu Pacific President and Chief Executive Officer, however, said Hawaii and Guam are being considered as "potential" long-haul routes.

"We are exploring serving cities where a large Filipino community resides. Data indicates that more than half of Filipinos deployed in these regions take multiple stops and connecting flights because no home carrier can fly them there non-stop," said Gokongwei.

Saudi Arabia, for instance, flew about 165,000 passengers last year to Manila directly, against 293,000 Filipinos who travelled there. This means that nearly half of Filipinos who flew to Saudi Arabia in 2010 had to take multiple flights to get to their destinations.

Gokongwei said Cebu Pacific can tap the 4 million overseas Filipino workers (OFW) in the US and 2.5 million in the Middle East. The Airbus A330 has a 400-seat capacity. Gokongwei declined to reveal how much it will shell out in lease payment.

The airline is looking at adding 1 million passengers annually for the first four A330s that will be in operation by 2014. "The total eight A330s will be here by 2016," he added.

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-Lance Gokongwei, President and CEO, Cebu Pacific

One issue, however, is weighing down on Cebu Pacific's new plan. The airline cannot fly to these countries until the ban on Philippine carriers is lifted. Gokongwei, however, said Cebu Pacific is confident that by the end of the year local airlines will be allowed to fly in the countries where they are currently restricted. "We are very confident that before the end of the year the significant safety concern issues and EU blacklisting will be lifted. Our objective is to start flying by the third quarter of 2013."

When asked what prompted the airline to make this decision amid spiraling fuel prices and the prevailing ban on Philippine carriers, Gokongwei said "We were already examining long-haul flights very carefully. Is there a market? Yes, there is. Our primary beneficiary will be the OFWs. With cheaper fares they will be able to come home more often."

Cebu Pacific expects to charge 35-percent lower than the fares currently offered by other airlines, and as much as 80-percent lower when it offers promo fares. He cited that if other airlines are charging around \$500 for a one-way ticket to any long-haul destination Cebu Pacific may collect an average fare of \$350.

Gokongwei said Cebu Pacific is expecting 2012 to be a competitive year, similar to 2011. "Certainly, our revenue and passenger traffic will grow this year. We expect passengers to reach 14 million this year from 11.9 million in 2011. We will be profitable this year."

Traffic growth for its international routes is expected at 20 percent to 25 percent and 10 percent to 15 percent for domestic operations for 2012.

Cebu Pacific currently flies to 34 domestic destinations and 18 international routes.

Source: Lenie Lectura, businessmirror.com.ph - 31st January 2012

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IBA Group News

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Conference Dates

7th - 8th February 2012 - 2nd Annual International Corporate Jet and Helicopter Finance Conference, London - Phil Seymour, Owen Geach and Mark Wooller will attend

18th - 20th March 2012 - ISTAT Americas 2012, Arizona - Laurie Hatcher, Phil Seymour, Owen Geach and Alice Gondry will attend

23rd - 24th April 2012 - 32nd Annual New York Airfinance Conference, New York - Owen Geach will attend

24th - 26th April 2012 - AFCA (Aircraft Finance & Commercial Aviation) 2012 - IBA will be speaking

6th - 8th May 2012 - ISTAT Asia 2012, Singapore - Phil Seymour will be speaking

14th - 16th May 2012 - EBACE 2012, Geneva - Owen Geach and Mark Wooller will attend

Phil Seymour's Notes on the Week

It's happened again I am afraid; no aviation inspired comment from me due to a work commitment (or is it because I am sulking about Arsenal's recent lacklustre performances?)

Phil

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