Developing a competitive edge - aircraft financing options for African airlines

Robert Martin
Chief Executive Officer, BOC Aviation
AFRAA AGM
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Contents

BOC Aviation

- Established in 1993 as Singapore Aircraft Leasing Enterprise (SALE)
- Leading Asia-based aircraft leasing company
- SALE acquired in December 2006 100% by Bank of China
- Name changed to BOC Aviation in July 2007

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Track record

- 113 aircraft acquired to date
- Over 200 leases executed
- Worked with more than 60 airlines in 32 countries
- Current portfolio 72 aircraft
  - Focus on new generation types
  - Average aircraft age of just 3.5 years
- 60 aircraft on order for delivery through to 2012

Bank of China

- World's third largest bank by market capitalisation*
- Total assets > US$700 billion
- Offices in 27 countries and territories worldwide
- Current airline financing portfolio totals US$7 billion
- 230,000 staff

The BOC group can provide full package of air finance services on a global basis

* Source: Citigroup, 30 November 2007

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Market capitalisation larger than top 10 passenger airlines combined

	Airline	Market Capitalisation (US$)
1	Air China	31.2 bn
2	Singapore Airlines	14.7 bn
3	China Southern	13.3 bn
4	Lufthansa	12.2 bn
5	Air France-KLM	10.7 bn
6	Ryanair	10.3 bn
7	Cathay Pacific	10.1 bn
8	Southwest	9.9 bn
9	Qantas	9.8 bn
10	China Eastern	8.7 bn
	Total	130.9 bn
	Bank of China	217.0 bn

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Source: Bloomberg/Citigroup, 29 November 2007

Market capitalisation compared with manufacturers

Bank of China	US$217.0 bn
Boeing	US$72.2 bn
EADS	US$26.4 bn

Source: Bloomberg/Citigroup, 29 November 2007

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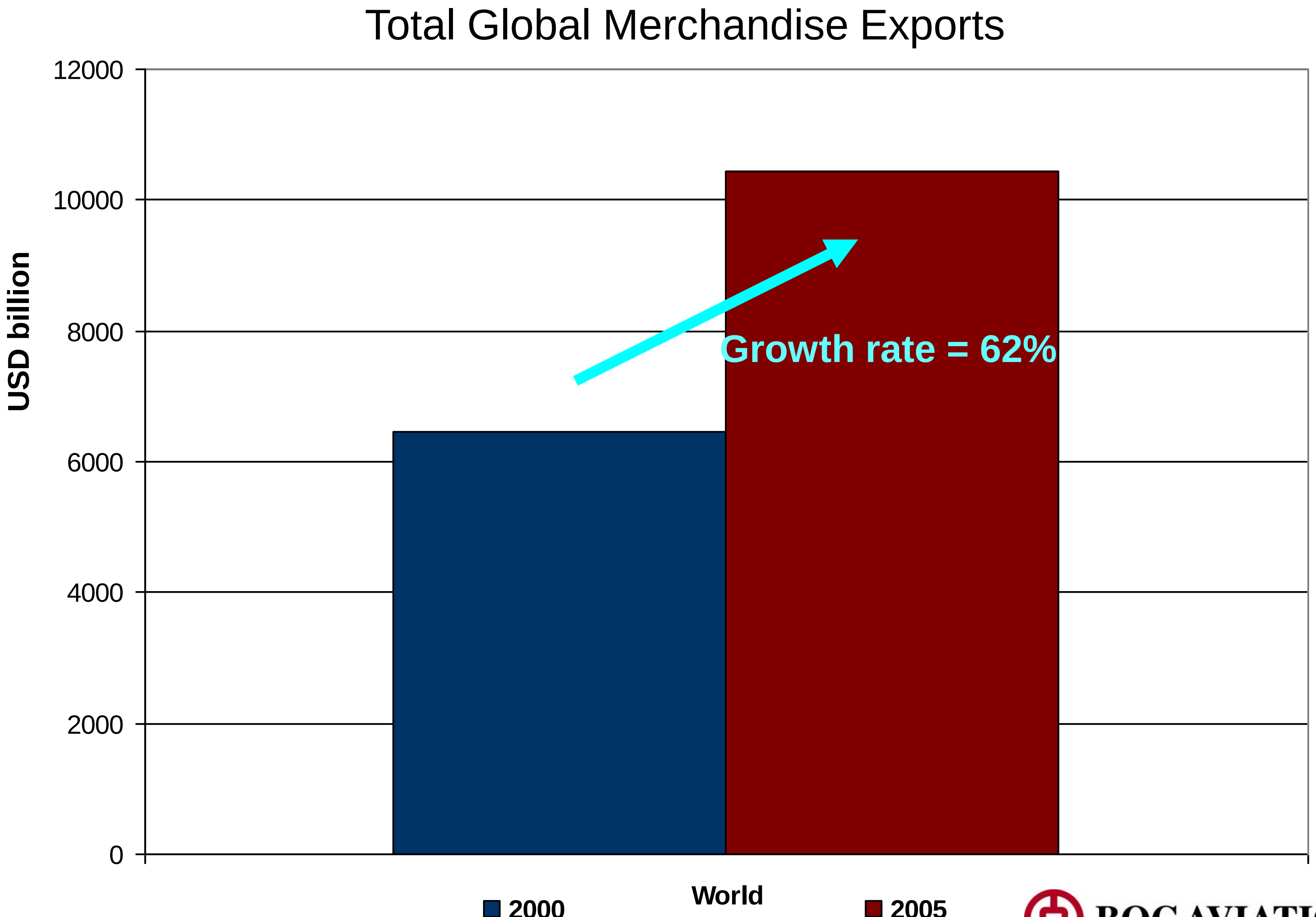
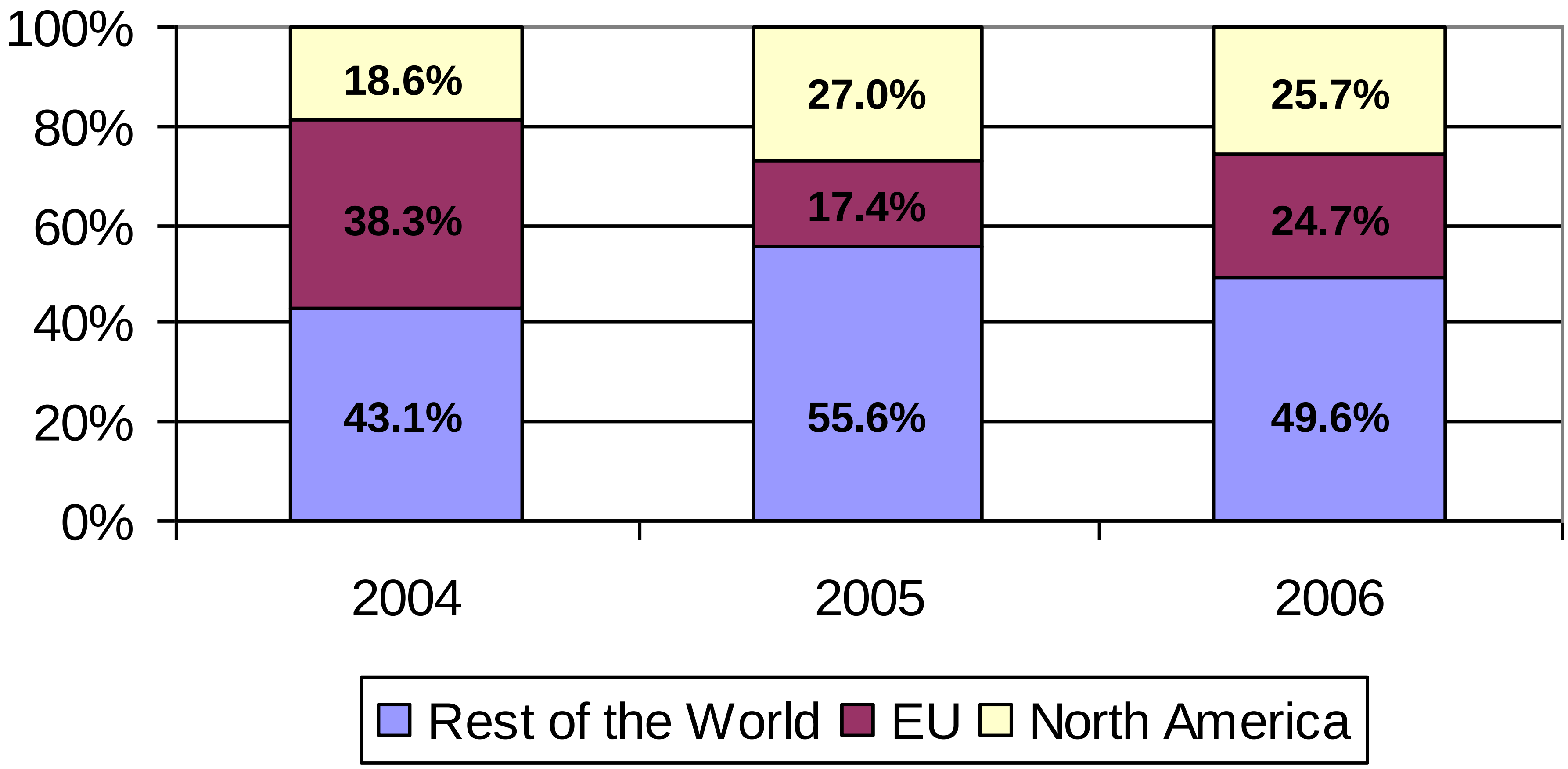
Growing importance of trade flow in the world



Source: Forbes Magazine, Apr/16 2007, data from World Trade Organization

Contribution to world GDP growth by regions



Source: IMF World Economic Outlook database, Oct 2007

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African countries benefiting most from commodity boom

- South Africa (various metals, coal)
- Nigeria (oil)
- Algeria (natural gas)
- Libya (oil, natural gas)
- Angola (oil)
- Zambia (various metals)
- Democratic Republic of Congo (oil)

China is now Africa's third largest trading partner

Source: IMF World Economic Outlook Oct 2007 Edition

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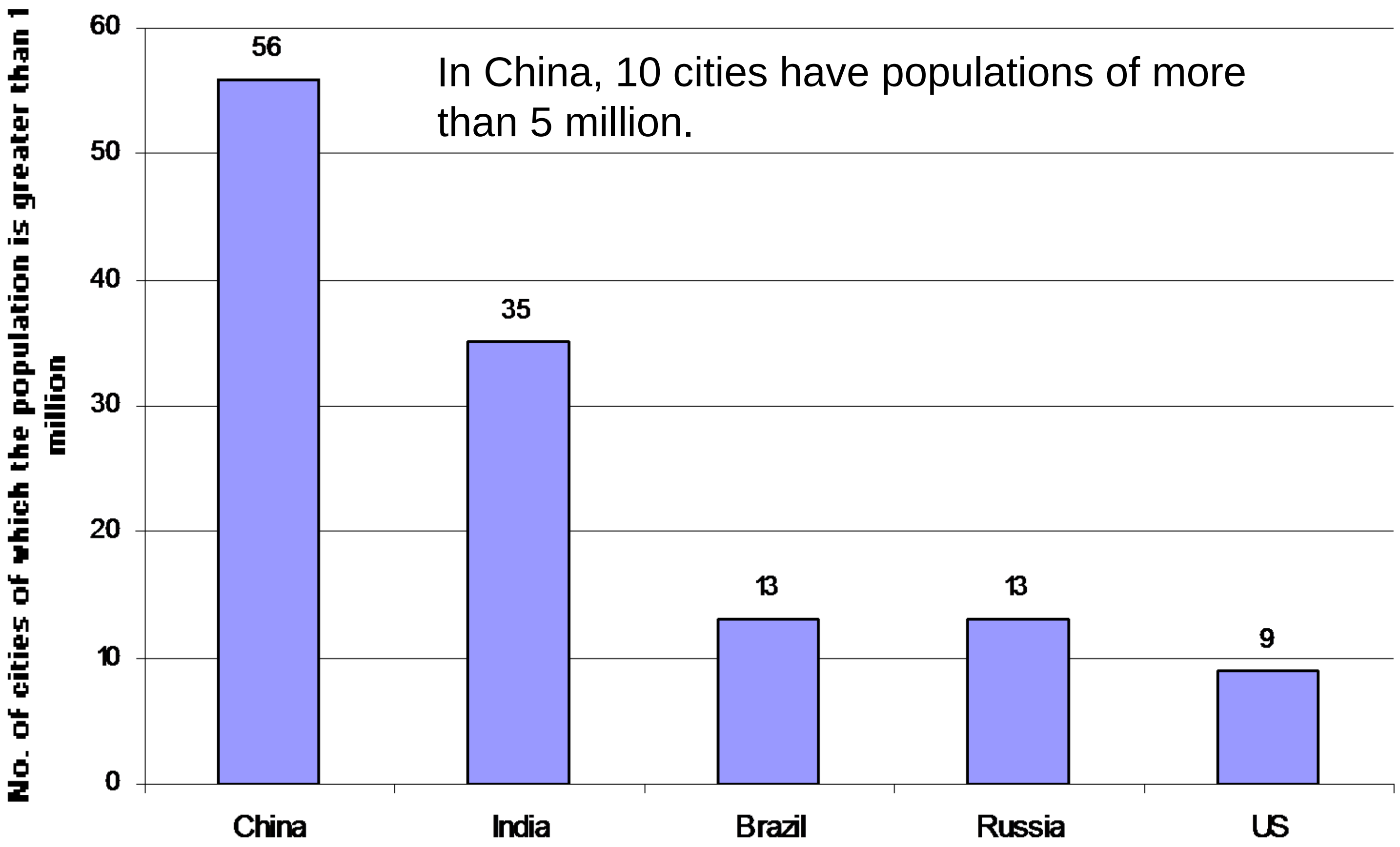
Number of cities with populations greater than 1 million



In Africa there are 42 cities with at least 1 million people

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Source: National statistics

Other trends to watch

- Ethnic flows
  - Increasing number of Asians settling in Africa
- Tourism – more Asian participation
  - India and China are just starting to travel
  - Russia – high end holidays
- Cargo flows
  - Increase in commodity prices changing cargo flows

The keys to competitiveness

- Fleet flexibility
  - Trade flows are changing rapidly
  - Upscaling of capacity
  - New routes to follow trade flows
  - Rising importance of air routes from Africa to Asia
- Keep capital available for route development
  - Minimise non-earning outgoings
    - E.g. pre-delivery payments to manufacturers
- Source capital on a global basis
  - Commercial debt
  - Export credit
  - Operating leases

The keys to competitiveness

- Maintain cyclical flexibility
  - In downturn requirement to downscale fleet
  - Mix of debt and operating leases
- Watch financial cycle
  - When is best time to order and to take delivery of aircraft?
- Competitor issues
  - What are they doing?

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The three cycles we watch

- Manufacturers delivery cycle
  - Orders reflect airline sentiment
  - Deliveries reflect real firm orders
  - Importance of duopoly of suppliers

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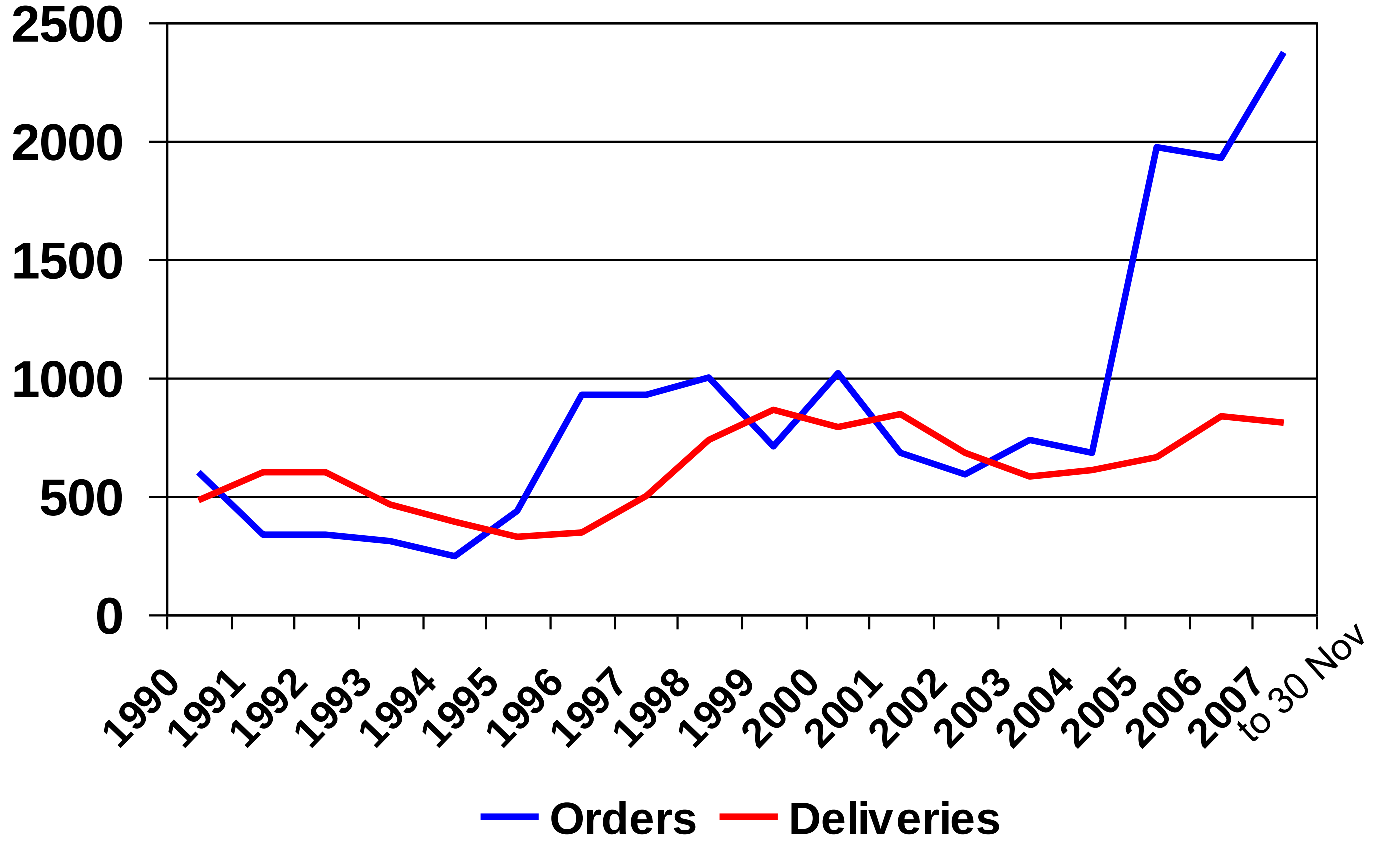
Airbus and Boeing orders and deliveries 1990 – 2007



Source: Airclaims, end November 2007

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The three cycles we watch

- Manufacturers delivery cycle
  - Orders reflect airline sentiment
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  - Importance of duopoly of suppliers
- Airline profitability cycle
  - Presently globally strong

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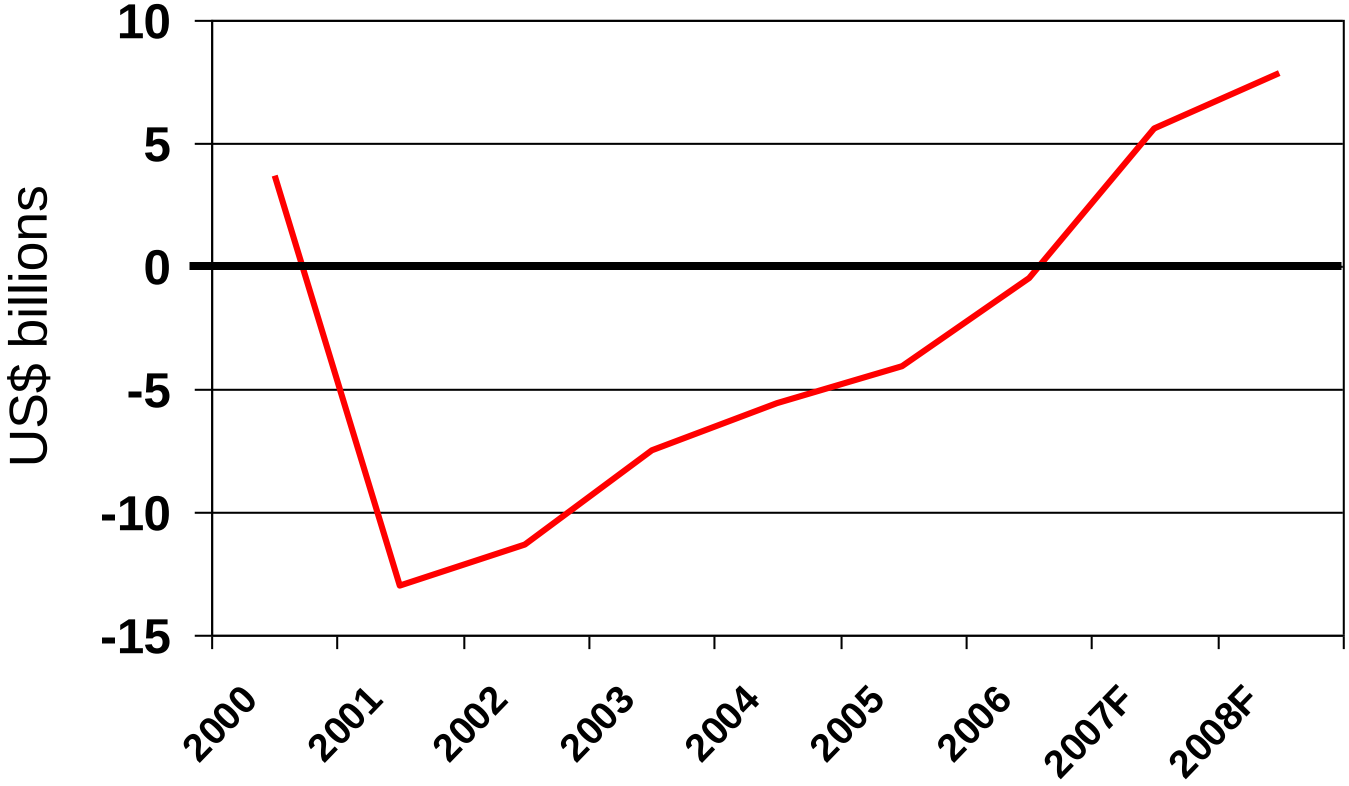
IATA world airline net profitability



Source: IATA

The three cycles we watch

- Manufacturers delivery cycle
  - Orders reflect airline sentiment
  - Deliveries reflect real firm orders
  - Importance of duopoly of suppliers
- Airline profitability cycle
  - Presently globally strong
- Financial availability cycle
  - Turning down rapidly
  - Look for safe sources of finance

World top 10 banks by market capitalisation

Rank	Bank	Market Capitalization (US$)
1	ICBC	351 bn
2	CCB	228 bn
3	Bank of China	217 bn
4	HSBC	208 bn
5	Bank of America	198 bn
6	Citigroup	161 bn
7	JP Morgan Chase	147 bn
8	Banco Santander	135 bn
9	Unicredito Italiano	110 bn
10	Wells Fargo	102 bn

* Source: Citigroup, 29 November 2007

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The optimal financial mix

- Debt finance
  - 50% of fleet
  - Keep flexible
  - Tax leases only for core aircraft that you will definitely keep for 10 years or more
  - Keep pre-delivery payments affordable within your cashflow
  - Requires aircraft exit strategy

- Note changes in export credit rules

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Changes to export credit market

- In July 2007 new Aircraft Sector Understanding (ASU) replaced 1986 agreement
- Implementation for all orders signed after April 2007
  - Grandfathering only for deliveries prior to December 2010
- New minimum rates to be charged by ECAs based on risk rating, with a “Cape Town discount”, where applicable

Risk Category	S&P equivalent	Existing Premium (% of amount financed)	New Base Premium	New Net Premium (with Capetown Discount)
1	AAA/BBB-	3.00	4.00	3.80
2	BB+/BB	3.00	4.75	4.27
3	BB-/B+	3.00	5.50	4.95
4	B+/B-	3.00	6.25	5.31
5	<B-	3.00	7.50	6.00

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The optimal financial mix

- Operating leases
  - 50% of fleet or more
  - Minimal pre-delivery payments
  - Stagger expiries of operating leases
  - Aircraft residuals already hedged
  - Flexibility to upscale or downscale aircraft size
  - Continuous fleet renewal with minimal upfront cost

Forward fleet planning is essential

Some issues to consider

- Impact of aircraft age on airline cost base
  - High fuel price
  - Maintenance costs
- Limited short-term supply of new or almost new aircraft
  - Maintain global relationships to source aircraft
- Environmental issues
  - Noise regulations
  - New emission regulations
  - Watch the EU
- Short and medium term impact of problems in financing markets

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What we can offer - an integrated suite of products for airlines

- Operating leases
- Purchase and leaseback
- Finance leases
- Debt financing (through Bank of China)
- Aircraft-related structured finance services
- Investor lease management services
  - Sourcing aircraft

The BOC group can provide full package of air finance services on a global basis

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Conclusion

- Trade flows are changing rapidly
  - Monitor changes in trade flows
  - Flexibility in fleet management is key

- Recommend mix of debt and operating leases
  - Diversify lease maturities
  - Minimise pre-delivery payments (“dead money”)
  - Keep loan terms flexible

- Financial markets have become more volatile
  - Forward planning is essential

Source funding on a global basis

www.bocaviation.com

For more information, please contact:

Don Healy
Executive Vice President, Europe & Africa
Tel: +353 861 725 863
don.healy@bocaviation.com