

Confidence in Future Business

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Confidence in Future Business

- Forecast for financing future fleets
- How will asset values be affected?
- Are there new marketing and buying opportunities? If so, where and in what shape?

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Forecast for financing future fleets

- Retrospective – last two years. In the aviation upturn, airlines used a variety of ways to finance their fleets:
 - IPOs:
 - SkyEurope, AerLingus and Aegean Airlines
 - Aer Lingus priced at Eu2.20 a share. Company value = Eu1.1 billion. 3.8 times oversubscribed
 - Aegean Airlines' Eu135 million (\$250 million) IPO. The offering was almost 17 times oversubscribed and was awarded European Deal of the Year by Airfinance Journal
 - Export credit agency funding:
 - E.g. Ryanair used Exim financing. ING Bank provided the Soar loan

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Retrospective (continued)

- Debt financing e.g. British Airways
- Predelivery payments
- Japanese equity - Japanese operating lease e.g. Finnair

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Credit Crunch - July 2007

- Fortunes started to turn half-way through 2007
- Credit crunch impact: increased cost of funding, wider spreads, retreat of capital markets and fewer syndications
- But deals are still closing

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So what does the near future hold?

- Capital markets are shut but will return in 2009. Expecting international EETC market
- Banks are launching aviation funds
- ECA funding. New Aircraft Sector Understanding, includes regional aircraft. Premiums are increasing, limitations for banks (no longer able to offer a Soar or mismatch loan if co-funding an ECA deal)
- Debt/commercial financing. Still used despite the high costs of funding. More club deals
- Japanese equity. Investors are still interested. Changes to Japanese depreciation rules
- Leverage leases. European countries offer tax advantages. Luxembourg leverage lease financed one freighter aircraft for Cargolux

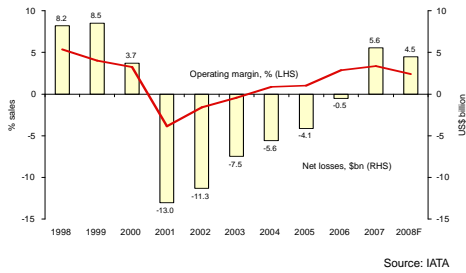
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Future (continued)

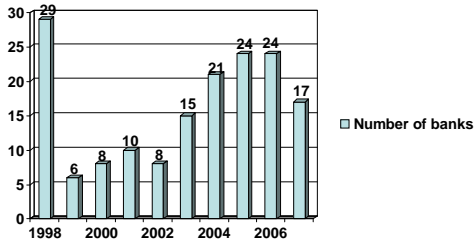
- Regional banks in the Middle East and China. China has lower interest rates and excess liquidity. Chinese banks committing to leasing. Credit crunch is impacting this region
- Sovereign wealth funds in the Middle East are also proving popular sources of funding
- Pension funds and retail investors. KG funds aimed at German retail investors e.g. 5 A380s for Singapore Airlines
- Australia - superannuation funds
- Investors more comfortable with aircraft generated revenues
- Sale leaseback deals
- Predelivery payment facilities. Spreads are now 175 basis points, up from 75 bps two years ago.
- Airlines in Europe should rely on regional banks

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Airline industry profits



Banks financing airlines



2000 - Citibank, Chase Manhattan, WestLB, Credit Agricole Indosuez, Halifax, BNP Paribas, Credit Lyonnais, East Merchant Bank
 2001 - Allico, Deutsche Bank, HSBC, Dresdner Kleinwort Wasserstein, Credit Lyonnais, Credit Agricole Indosuez, United Overseas Bank, Overseas Union Bank, Sanwa Bank, ANZ
 2002 - Bank of America, Credit Lyonnais, Lombard (RBS), Deutsche Verkehrs Bank, Credit Agricole, Nomura Babcock and Brown

Source: Airfinance Journal research

Impact on asset values

- Values will come down
- Supply side - we are still in the bubble.

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Narrowbodies in \$ millions

Source: IBA Group

	Year	Newest	Year	Oldest
737-400	2000	18.018	1988	9.813
A320-200	2008	45.000	1988	12.129
737-800	2008	45.750	1988	27.153
737-700	2008	38.210	1997	20.920
A318	2008	32.200	2002	21.773
A319	2008	37.620	1996	20.297

Widebodies in \$ millions

Source: IBA Group

	Year	Newest	Year	Oldest
A330-200	2008	97.150	1998	57.249
A340-300	2007	98.627	1992	38.685
747-400	2005	110.170	1989	34.972
777-200ER	2008	124.100	1997	66.559
777-300ER	2008	150.000	2004	120.392

Regionals in \$ millions

Source: IBA Group

	Year	Newest	Year	Oldest
ATR72-500	2008	18.326	1997	8.460
Dash8Q-400	2008	21.000	2000	13.121
CRJ200	2006	15.590	1996	7.379
Embraer 145	2007	15.811	1996	8.213
Embraer 170/175	2008	25.975	2005	20.584
CRJ700	2008	24.000	2001	14.999
F100	1996	7.077	1988	5.906
Bae146	1995	4.255	1983	1.496
Avro RJ	2003	11.479	1992	3.968

Are there new marketing and buying opportunities?

- Maintenance repair and overhaul facilities
- Revenue management, cost cutting services and fuel hedging
- Consolidation in the leasing market
- Business travel. Congestion in the UK and Europe's busiest airports. Secondary airports ideal for business airlines. E.g. VLM 10 consecutive years of profits.

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Summary

- "The industry is cyclical. There will be a downturn and we will get through it. The trick is to sit tight, and hope that no one pushes the panic button."

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