Singapore Aircraft Leasing Enterprise

Financing the Airlines Expansion




Liberalisation of Air Transport in Asia/Pacific
Shanghai, China
25 May 2005

Contents

Asia-Pacific market

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- Current fleet 3,000 aircraft = 20% of world fleet
- Traditional widebody market
  - 1,300 aircraft in service = 34% world widebody fleet
  - 300 aircraft on order = 41% total widebody backlog
- Significant freight market
  - 25% international revenues for AAPA airlines
- New low cost carrier base
  - Creating new demand in short haul markets
- Competition from Middle East hubs / airlines

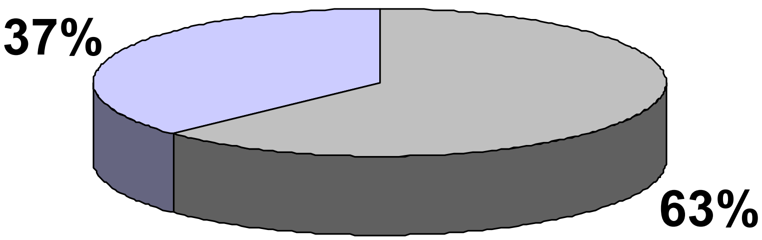
Asian fleet at end 2004

<u>Single aisle</u>		
Airbus	338	24%
Boeing	925	65%
MD	165	11%
Total	***1428***	
<u>Widebody</u>		
Airbus	338	28%
Boeing	816	68%
MD	43	4%
Total	***1197***	

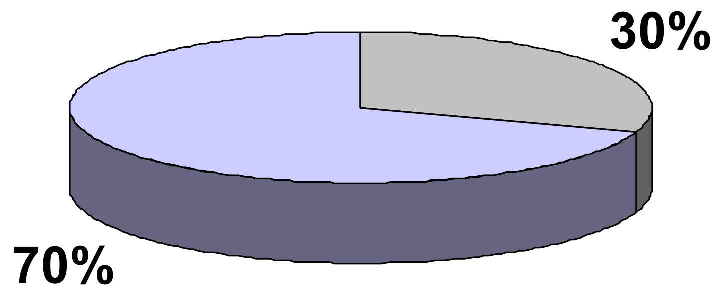
Grand Total 2625 = roughly 20% world fleet

Airbus and Boeing backlog of orders from Asian airlines

Total units – 477



Total value US$25.8 billion



Single aisle	
A319	68
A320	150
A321	25
B737-700	45
B737-800	10
B737-900	1
Total	299

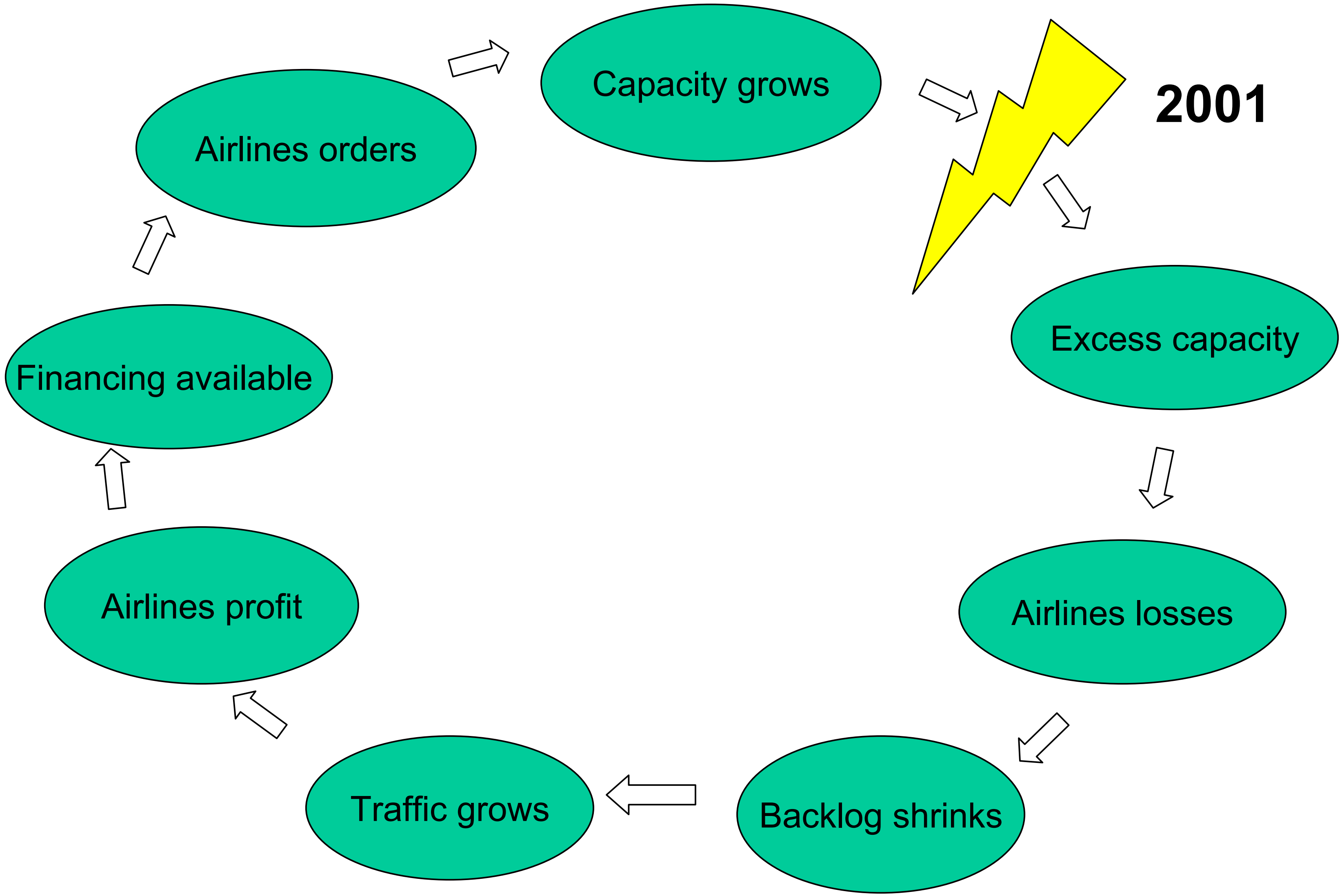
Widebody	
A330	22
A340	10
A380	27
B747	24
B767	6
B777	89
Total	178

Source: ACAS, as at end April 2005

The evolving Asian market

- Traditionally dominated by state owned / controlled flag carriers
- Credit risk previously perceived as quasi sovereign risk
- Deregulation is changing everything
  - Shift to mixture of flag carriers, regionals and LCCs
- Much greater focus on credit risk by financiers due to increased private nature of sector
- Each creditor has its own rating system
  - Very few public ratings for airlines

The cycle


Capacity grows
2001
Excess capacity
Airlines losses
Backlog shrinks
Traffic grows
Airlines profit
Financing available
Airlines orders

Sources of equipment funding over cycle

Financing Sources	Trough 1991-1993	Run Up 1993-1997	Peak 1998-2002	Trough 2003-2005	Run Up 2005-2009	Peak 2009-2013
Internal Funding / Commercial Lending	10%	18%	25%	7%	18%	25%
Capital Markets / Tax Leases	11%	17%	20%	9%	15%	20%
Operating Lessors	26%	28%	30%	26%	28%	30%
ECAs	26%	20%	15%	26%	20%	15%
Manufacturers	20%	15%	10%	20%	15%	10%
Transition Capital	7%	2%	0%	12%	4%	0%

Source: citigroup

Types of financing

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Type	Source
Unsecured debt / bonds	Banks
Debt / bonds secured by aircraft	Banks and ECAs
Operating leases without maintenance reserves	Operating lessors
Operating leases with maintenance reserves	Operating lessors
Vendor financing	Manufacturers

Level of required credit rating increases

Sample Credit Grades of Airlines

Airline	Moody's Rating
Southwest / Qantas	Baa1
Lufthansa	Baa3
British Airways	Ba2
JetBlue / SAS	B2
Northwest	Caa1
American Airlines / America West / Continental	Caa2
ATA Airlines	Caa3
Delta Airlines	Ca

Moody's Cumulative Default Rates (1970 – 2004)

Year

	1	2	3	4	5	6	7	8	9	10
Aaa	0.00	0.00	0.00	0.04	0.12	0.21	0.30	0.41	0.52	0.63
Aa	0.00	0.00	0.03	0.12	0.20	0.29	0.37	0.47	0.54	0.61
A	0.02	0.08	0.22	0.36	0.50	0.67	0.85	1.04	1.25	1.48
Baa*	0.19	0.54	0.98	1.55	2.08	2.59	3.12	3.65	4.25	4.89
Ba	1.22	3.34	5.79	8.27	10.72	12.98	14.81	16.64	18.40	20.11
B	5.81	12.93	19.51	25.33	30.48	35.10	39.45	42.89	45.89	48.64
Caa-C	22.43	35.96	46.71	54.19	59.72	64.49	68.06	71.91	74.53	76.77

* *Investment grade*

Source: Moody's Special Comment: Default & Recovery Rates of Corporate Bond, January 2005

Today's debt market

- Commercial banking market remains cautious
- Pricing no longer competitive for some US carriers
- Tax-based leases more difficult to arrange
- Securitisation market extremely limited

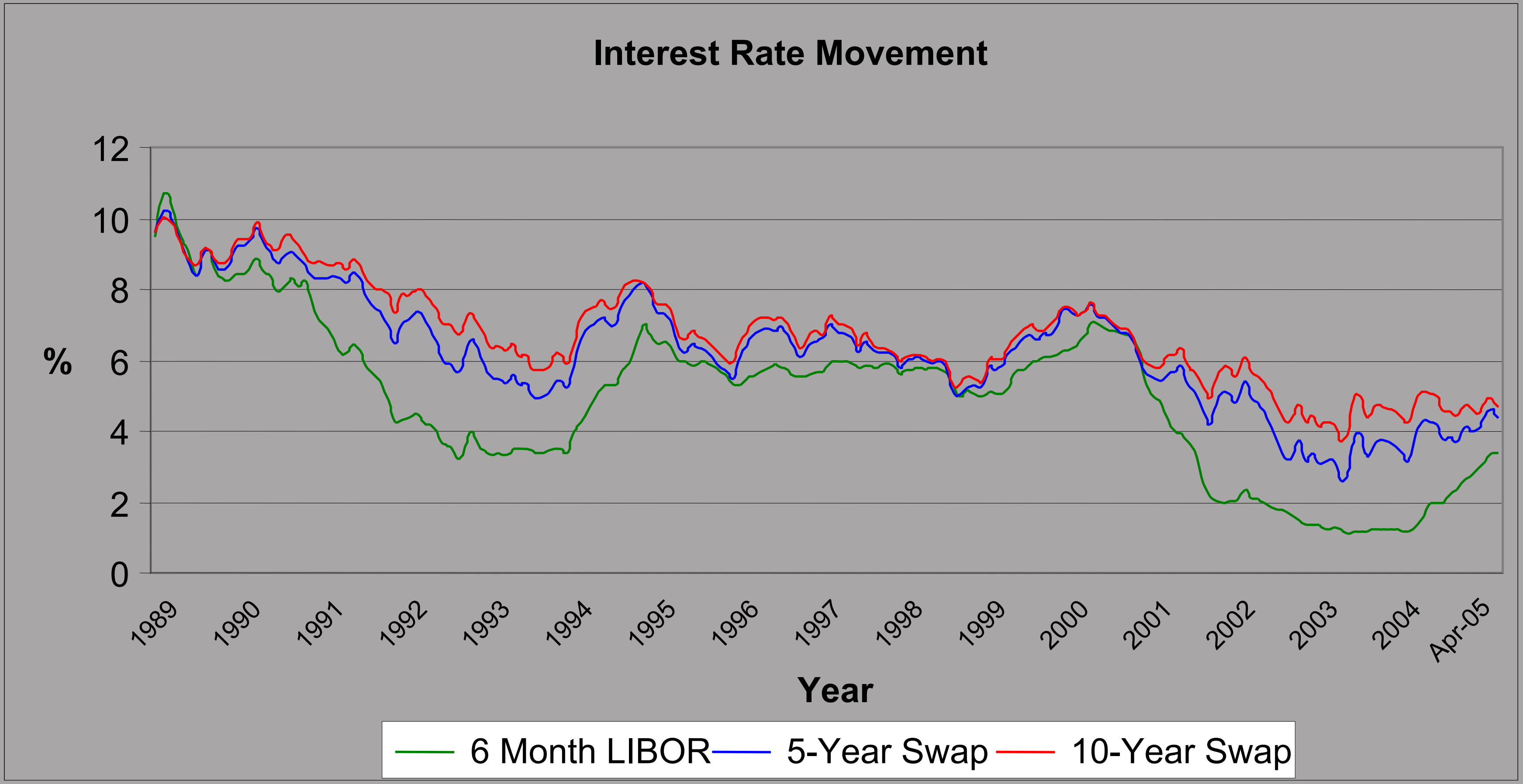
Issues affecting airline profitability

- High susceptibility to event risk
- Fuel costs
- Exchange rates
- Interest rates
- Regulatory environment

Impact on ability to attract equity at all stages of cycle

Interest rate environment

15 year Average LIBOR = 5%



Source: Bloomberg

Country Specific Issues to Consider

- Country Credit Rating
  - Determine banks' volume appetite for debt

- Alternative investment opportunities for banks
  - Infrastructure, ports, etc

- Withholding tax

- Ratification of Cape Town Convention
  - Increase ability to access financing

The Cape Town Convention

- International registry created to protect security & leasing interests in aircraft equipment

- Provide enforcement rights for insolvencies & defaults, lease & deregistration of aircraft equipment

- Require 8 countries to ratify
  - →Ethiopia, Nigeria, Oman, Pakistan, Panama, USA
  - →Singapore, Malaysia – 2005?

- Reduce the risks of international aircraft financing

- Increase amount of financing available to airlines
  - →EXIM exposure fee reduction
  - →More attractive terms
  - →Stimulate demand
  - →Saving in financing & transaction cost

Financing challenges

- Cyclical challenges
  - Banks cautious of financing airlines

- Keys to funding
  - Access to equity capital
  - Credible business plan
  - Proven management skill

Airline Purchase Decision

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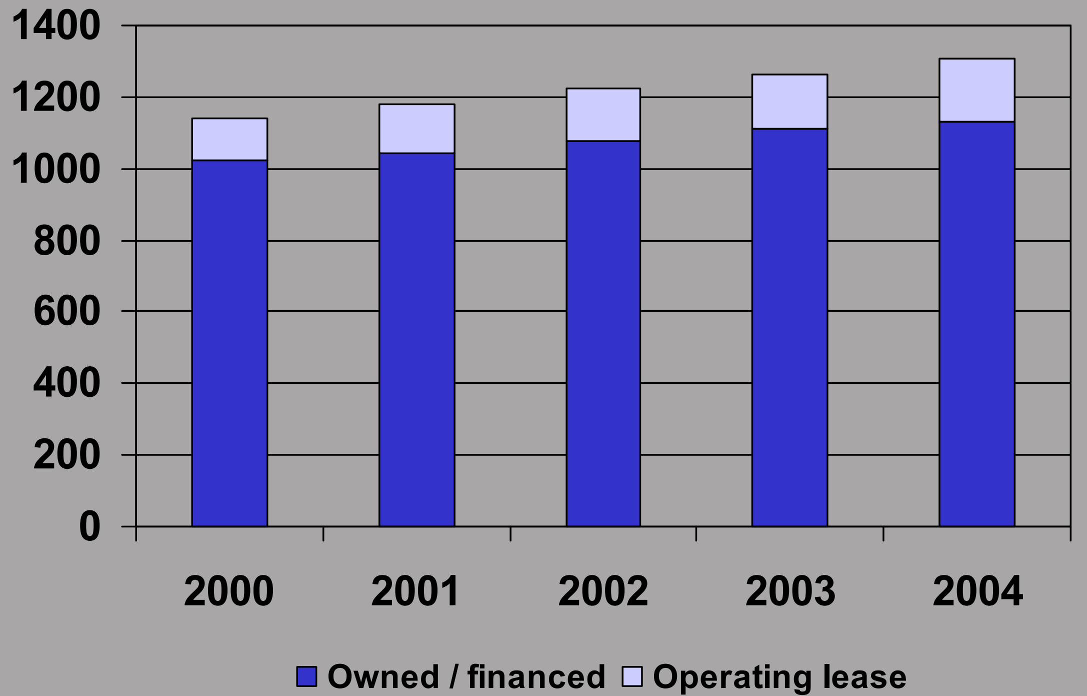
To Buy or Lease?

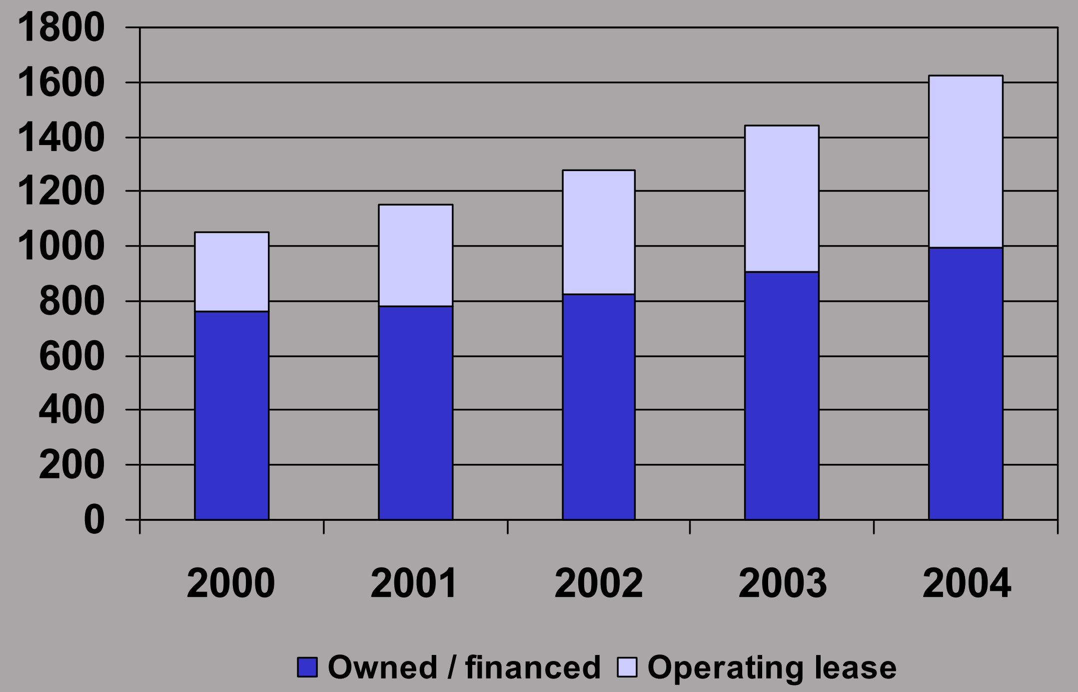
Evolution of widebody fleet Asia-Pacific region



- Only 13% of widebody aircraft in region are leased
- Most financed via export credit
- Move towards greater mix of owned / leased aircraft

Fleet data from Airclaims

Evolution of single aisle fleet Asia-Pacific region



- Single aisle fleet has grown by 55% in five years
- 39% of single aisle aircraft in region are leased

Fleet data from Airclaims

To buy or lease?

- Prior to purchase decision, evaluate
  - Relative buying power
  - Timing in supplier cycle
  - Potential available sources of financing
  - Availability of backstop debt *and* backstop SLBs
  - Availability of aircraft and competitive lease rates

To buy or lease?

- Buy?
  - Commercial funding
    - Banking community remains cautious
    - Preferential pricing only available to better credits
    - Airline assumes residual risk
    - On-balance sheet
    - Significant capital requirement
  - Export credit agency funding also available
    - Flexibility limited for sale of aircraft
  - Capital markets funding
    - Limited appetite in domestic markets
    - Aircraft are still US$ based assets

To buy or lease?

- Direct operating lease?
  - Off-balance sheet
  - Reduced initial capital outlay (100% funding)
  - Flexibility to develop fleet in line with demand
  - Capital freed up for other uses in airline
  - Avoid residual value risk

To buy or lease?

- Sale and leaseback?
    - Increasingly popular form of aircraft acquisition
    - Airline realises hidden equity in aircraft
    - Residual risk eliminated
    - Lease may be shorter than finance option
    - Mutually beneficial for airlines and lessors

Common Reasons For Leasing

Comparison of Financing Options

CRITERIA	CASH PURCHASE	LOAN	CAPITAL LEASE	OPERATING LEASE
Initial capital required	*Significant* 100% of cost	*Significant* Down payment usually 20%-25%	*Low* 1 to 4 months advance payments	*Low* 1 to 4 months advance payments
Effect on existing banklines	*Some* Loss of liquidity	*Reduction* Decreases available credit line	*Possibly none* Leases frequently represent sources of additional credit	*Likely none* Leases frequently represent sources of additional credit
Effect on operating capital	*Significant* High front-end costs	*Variable* Impact from down payment	*Minimal* Low front-end cost	*Minimal* Periodic payments
Payments	Entire cost of equipment paid up-front	*Fixed / Floating* Payments may move with changes in interest rates	*Fixed / Floating* No increase during the term of lease (unless floating rate)	*Fixed / Floating* No increase during the term of lease(unless floating rate)

Why should airlines partner with aircraft operating lessors?

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- Consistent source of both direct operating leases and purchase and leaseback
    - Liquidity
    - Hedge residual risk
    - Flexibility to adapt to market demand

- Alternative to banks, ECAs and capital markets
    - Specific focus on aviation assets
    - Technical expertise

- No airline can ignore event risk in today’s market

Role of lessors

- Supplier of equity in aircraft
    - Direct lease – no equity required from airline
    - Sale and leaseback = 100% financing

- Alternative source of financing to banks, bond markets, ECAs

- Partner in fleet decisions

- *Mechanism for hedging fleet residual risk*

Conclusion

- Funding is available for top credit airlines
- In general, banks remain cautious of financing airlines
- Greater focus on credit rating
- Building a solid equity base and continued access to debt is key success factor
- Financing can be limiting factor for growth
- Greater requirement for transparency to access funding

A global player

- Established 1993
- Four shareholders

SINGAPORE AIRLINES WestLB GIC TEMASEK CAPITAL

- Offices in Singapore, UK and USA
- Asia-based with global reach
- Executed over 130 leases with 52 airlines worldwide

Portfolio

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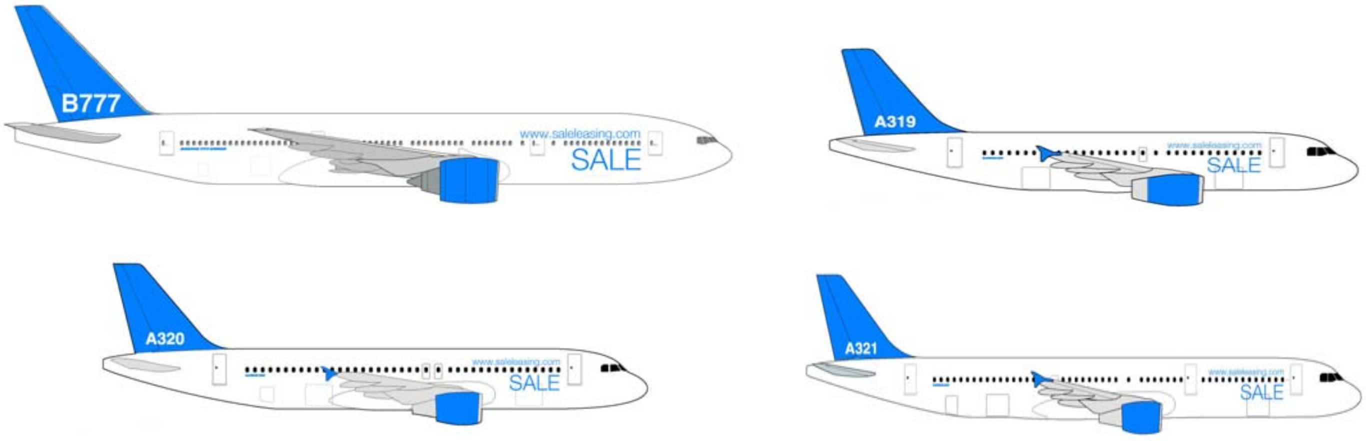

- Focus on new generation types
- Single aisle and widebody types
- Current fleet 63 aircraft
- Average age 4.6 years

Current lessees

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AEGEAN AIRLINES
AirAsia Now Everyone Can Fly
AIR-BERLIN
Asiana Airlines
AIR MEMPHIS
AMERICA WEST AIRLINES
AIR DECCAN
BH Air
BlueMoon Aviation
BMED
CSA
中國新華航空公司 CHINA XINHUA AIRLINES
easyJet
Emirates
FINNAIR
FRONTIER
Hapag-Lloyd
JetAsia
KOREAN AIR
LIVINGSTON ENERGY FLIGHT
LTU
malaysia AIRLINES
Martinair
NIKI
QANTAS
SPIRIT AIRLINES
TAM
TURKISH AIRLINES
UM Air
Valuair

29 customers worldwide

Current portfolio

	Current	On order
Owned		
A320 Family	39	9
A330	1	0
B737 Classic	3	0
B737NG	7	0
B747-400F	2	0
B777	5	0
Managed		
A330	2	0
B737NG	2	0
B777	2	0
Total	**63**	**9**

www.saleleasing.com

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