

The Airfinance Journal

EUROMONEY
SEMINARS

30th
Annual

NEW YORK Airfinance Conference

Outlook for Aviation & Aerospace

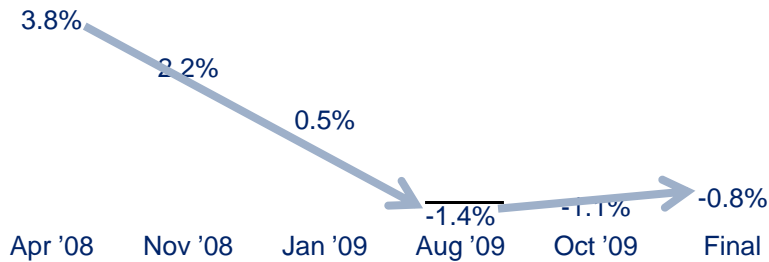
Michael B. Cox, Senior Managing Director
April 27, 2010
New York City

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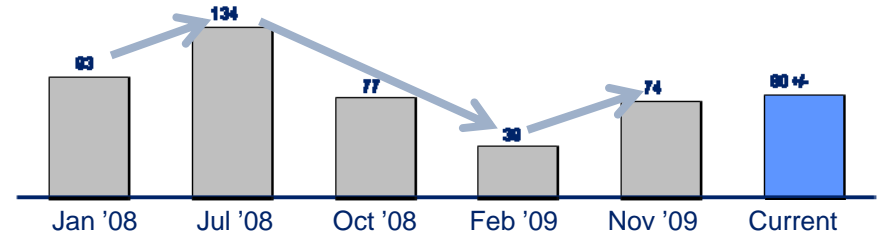
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Constantly changing economic inputs drove uncertainty...

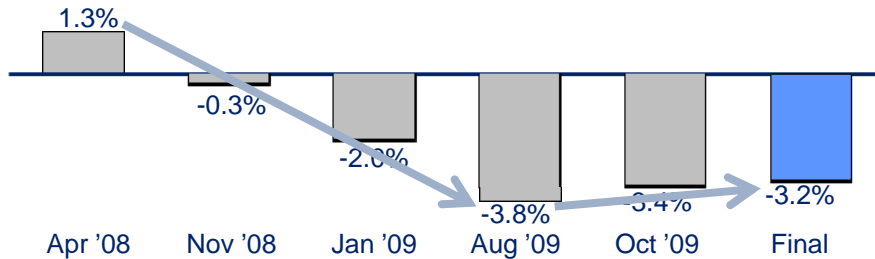
2009 Global GDP (IMF)



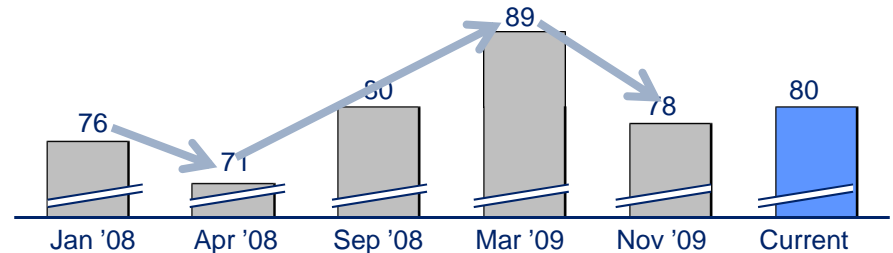
Oil price (\$/bbl)



2009 Advanced Economies GDP (IMF)



US Dollar Index



What do the stabilizing economic indicators project for the
 Aerospace and Airline near-term outlook?

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A picture of the recovery is starting to emerge in most markets

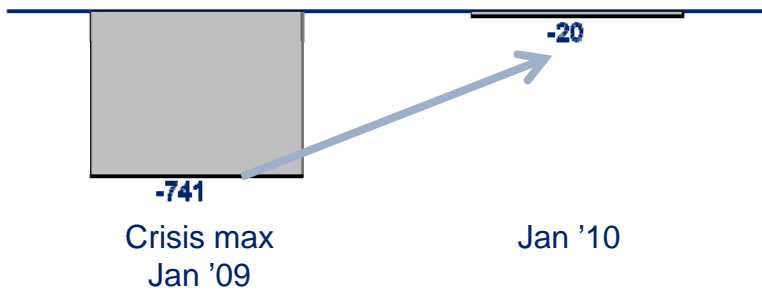
- 1 **Most economies are expanding again**, but the 2010-2011 outlook remains fragile
- 2 **Air travel demand has bottomed**, but faces slow growth from a lower baseline
- 3 **Capacity is growing**, but excess supply continues to plague many markets
- 4 **New-generation aircraft replace old**, but financing remains a challenge
- 5 **In-service fleet utilization will improve**, but the recovery will differ by fleet type
- 6 **Narrowbody production cuts did not materialize**, but near-term demand remains uncertain
- 7 **Cargo demand is rebounding**, but freighter conversions will be limited

Aviation and aerospace should prepare for a slower recovery

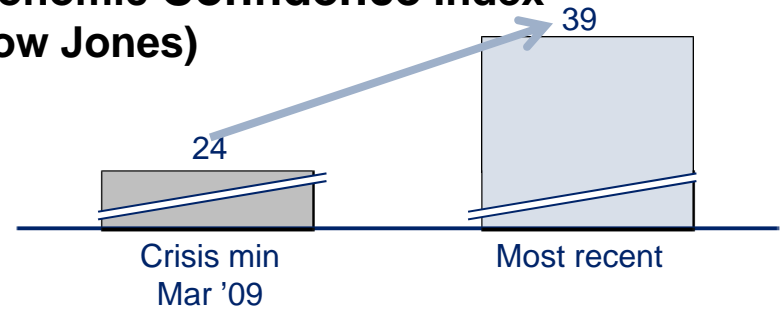
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1 There are some reasons for optimism...

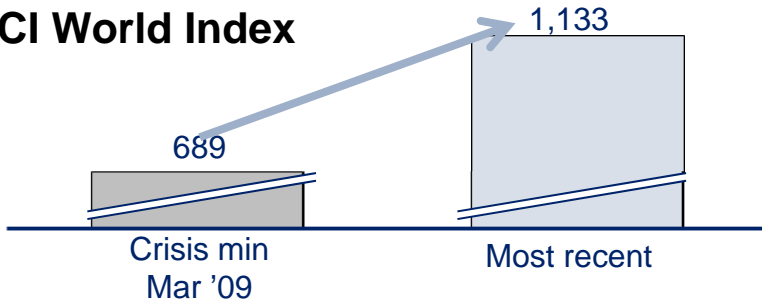
US non-farm job losses



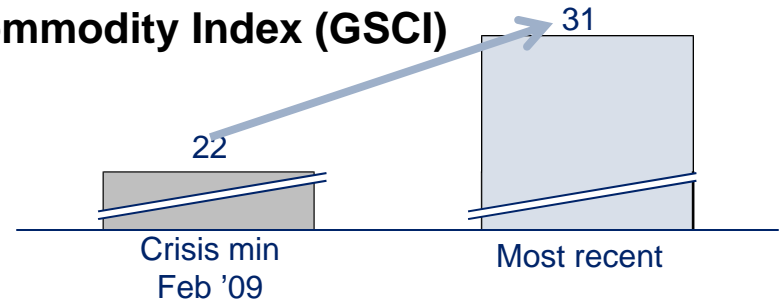
Economic Confidence Index (Dow Jones)



MSCI World Index



Commodity Index (GSCI)

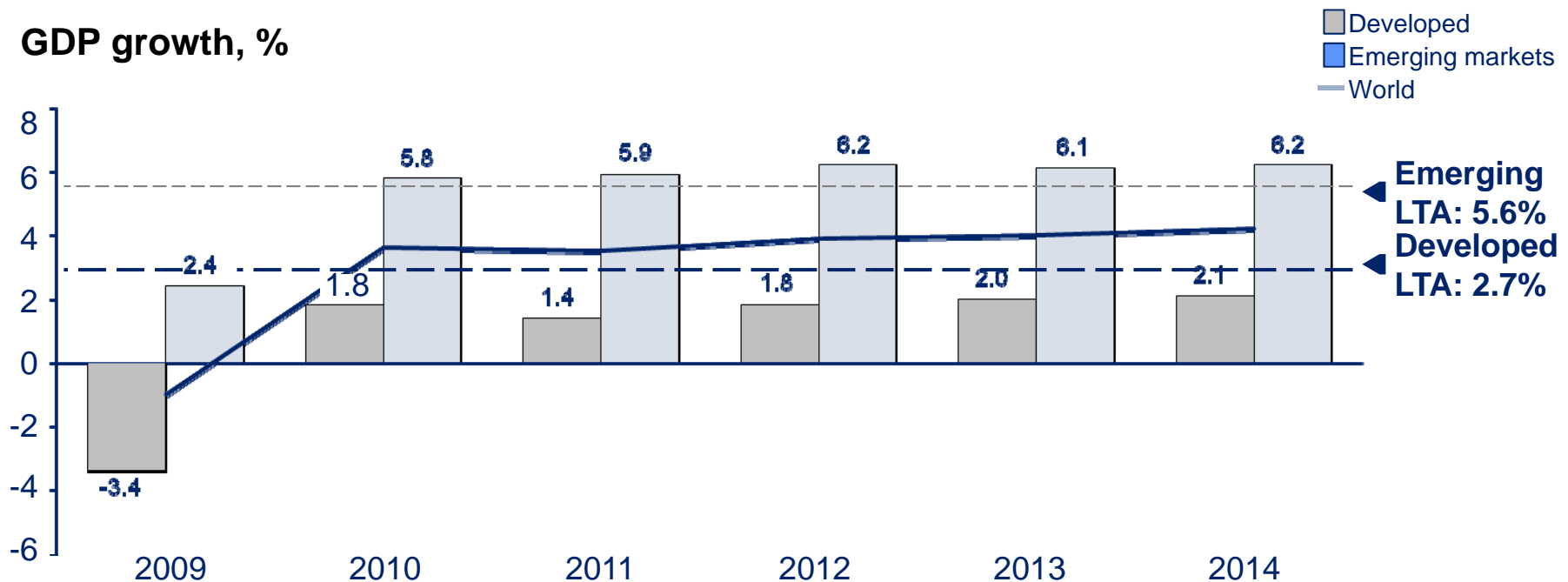


Leading indicators have been improving but also uneven, suggesting a recovery is likely to be longer and slower than previous rebounds

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1 ...but economists remain conservative on long-term outlook

GDP growth, %



Developed regions' growth likely to remain below historical trend; emerging markets fuel global growth

Note: Developed includes NAM, EU, Hong Kong, Singapore, Japan, Australia, New Zealand and Korea;
 Long-term average (LTA) period is 1993-2007; Source: EIU January (PPP)

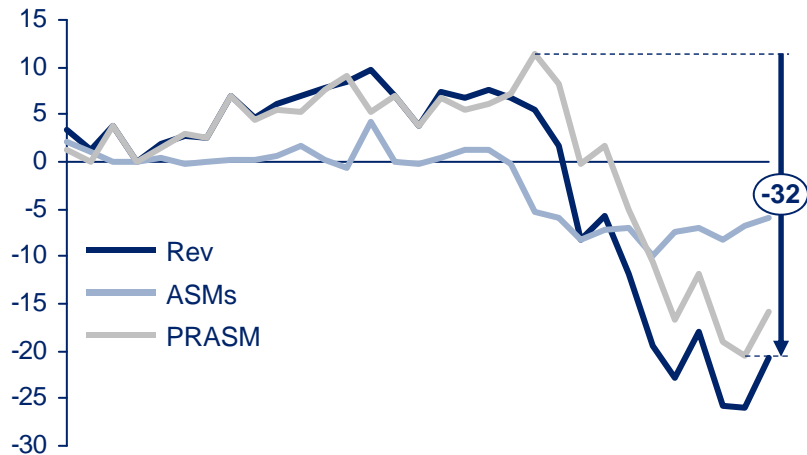
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2 Downturns again prove tougher on airlines

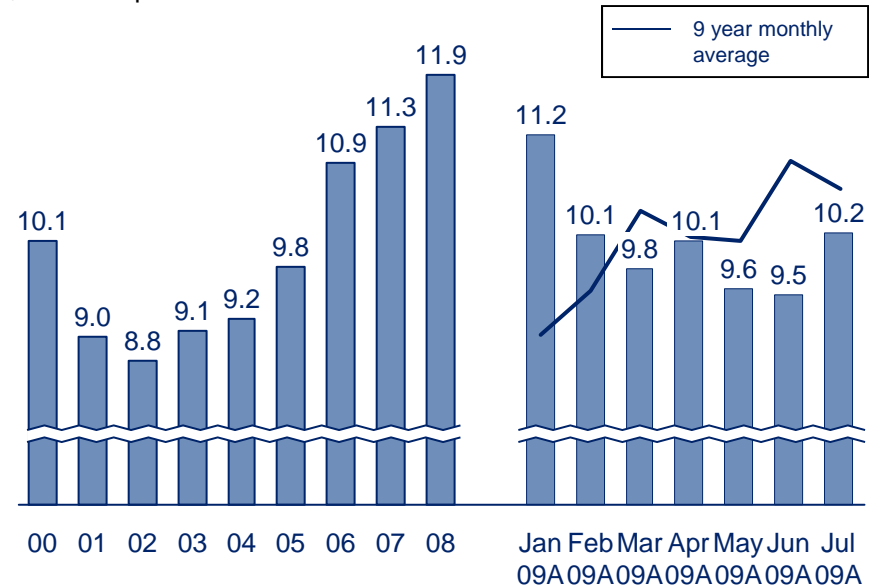
US revenue indicators

% change YoY



US historical unit revenue

\$US cents per ASM



Effect remains evident in many traffic and revenue statistics, albeit with signs of recovery showing

Source: ATA

Note: 2009 monthly unit revenue figures are seasonally adjusted

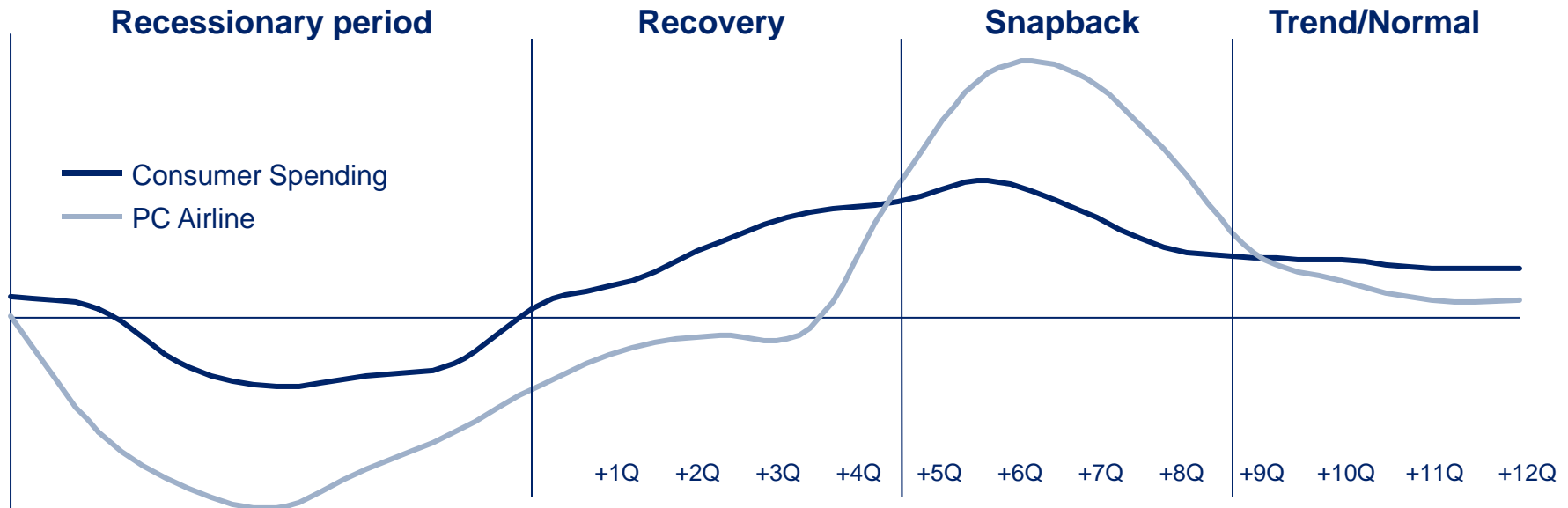
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2 Historical pattern indicates 12-month lag in return to growth

Airline demand recovery pattern (illustrative)

% changes YoY



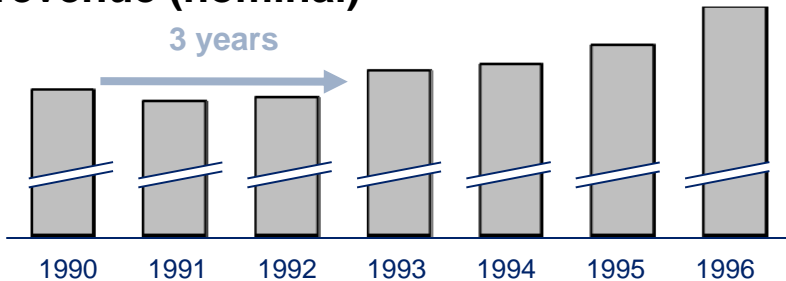
...but the greater issue will be building back from last year's lower base of revenue in almost all regional markets

Source: Bureau of Economic Analysis; Seabury analysis

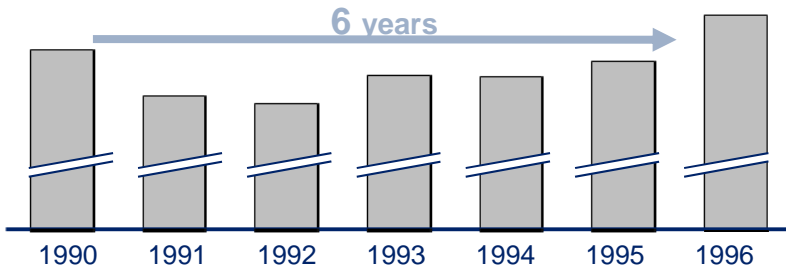
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2 Recoveries take a long time, especially in mature markets

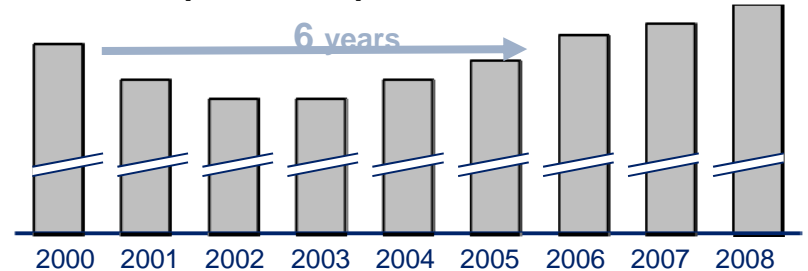
1990-1996 US industry system wide revenue (nominal)



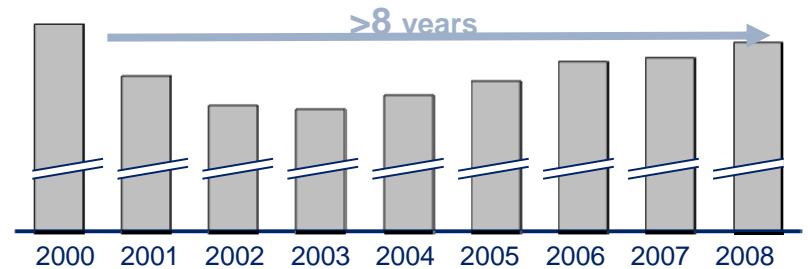
1990-1996 US industry system wide revenue (inflation adjusted)



2000-2008 US industry system wide revenue (nominal)



2000-2008 US industry system wide revenue (inflation adjusted)



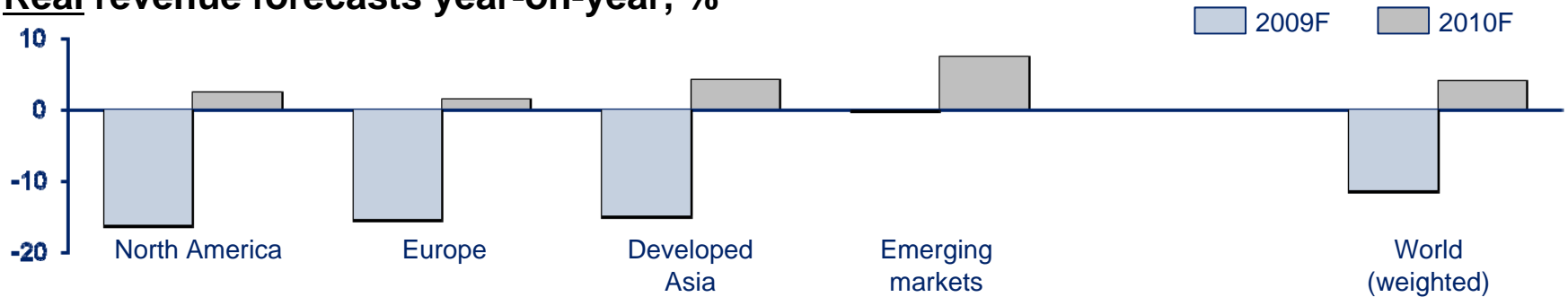
The economic crisis has again reset the baseline for growth

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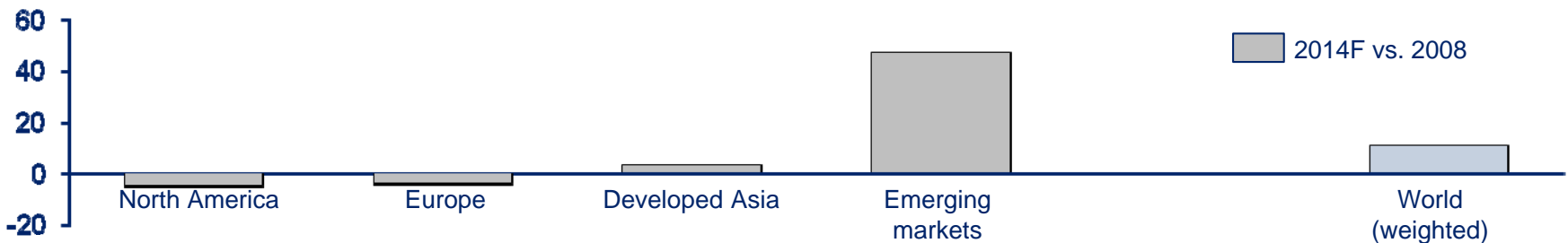
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2 Revenue is growing again, but off of a substantially lower base

Real revenue forecasts year-on-year, %



Real revenue forecasts 2014F vs. 2008, %



2014: Developed economies struggle to reach 2008 real revenue, emerging markets drive global demand growth

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Note: Developed Asia includes Hong Kong, Singapore, Japan, Australia, New Zealand and Korea
 Source: EIU; Seabury analysis

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3 Airlines relied on capacity cuts to balance supply & demand

Cut capacity to maintain yields and load factors

- Timing:** ▪ Immediate
- Impact:** ▪ High
- Recent examples:**
- American – 14% reduction
 - Delta – 8% reduction
 - SAS – 13% reduction
 - British Airways – 4% reduction
 - AF-KLM – 5% reduction
 - Singapore Airlines – 11% reduction



Some cuts implemented, more required

Drive cost reduction to improve CASM

- Short-to-medium term
- Low in North America - most already achieved
- Medium in rest of world
- Lufthansa – €1B “CLIMB 2011”
- SAS – SEK 2B program
- Air Canada – CAD \$500M
- Qantas – Q Future A\$1.5B



Current problem is revenue, but cannot lose focus on cost

Secure strategic opportunities

- Opportunistic
- Variable
- Continental-Star Alliance
- Oneworld transatlantic
- Lufthansa-Austrian/Brussels/JetBlue
- British Airways-Iberia
- Delta-Virgin Blue/Air France
- TACA-Avianca



Consolidation and alliances solidify position

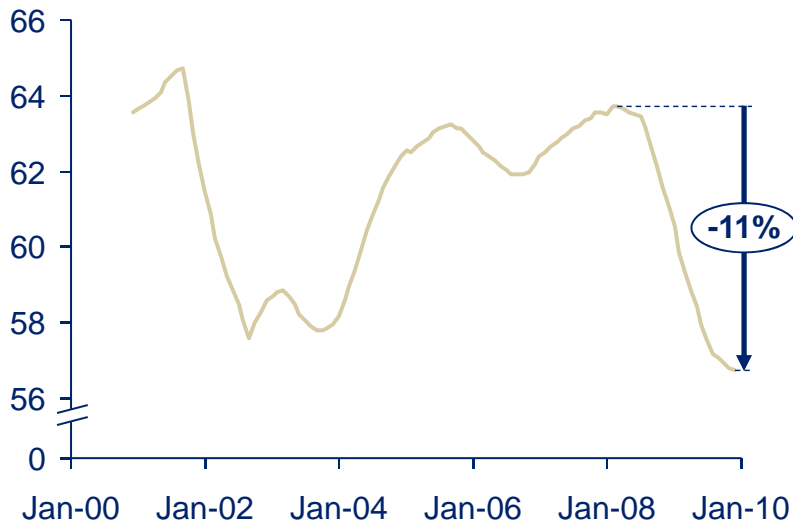
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3 Capacity changes

Airlines have responded to the drop in demand by reducing capacity in all major markets with an unprecedented drop in US domestic capacity relative to GDP level

US domestic industry capacity

Billions of ASM's, 12-month ending average



Rest of world industry capacity

Billions of ASM's, 12-month ending average



US domestic capacity has now been reduced to levels below post-9/11, while international markets have seen less capacity reductions

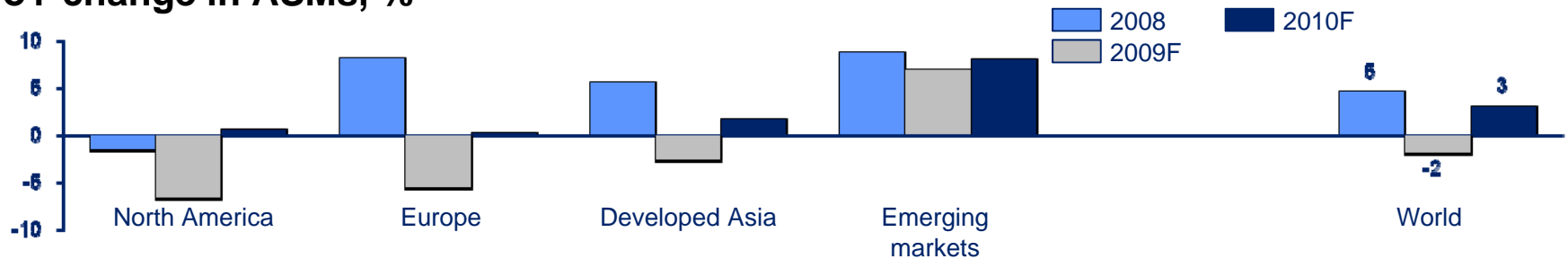
Note: Capacity represents scheduled service to/from the United States only
 Source: Seabury APG analysis and Innovata

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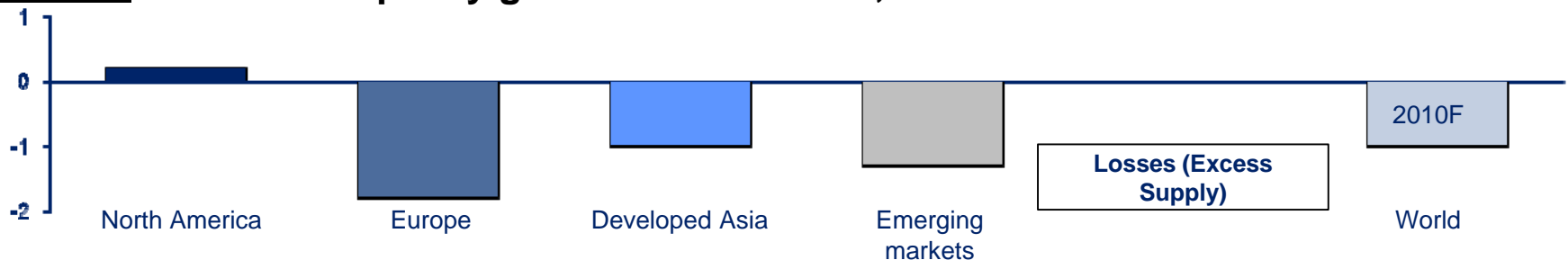
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3 Capacity cuts have still not been sufficient

YoY change in ASMs, %



EOY2010 additional capacity growth to breakeven, %



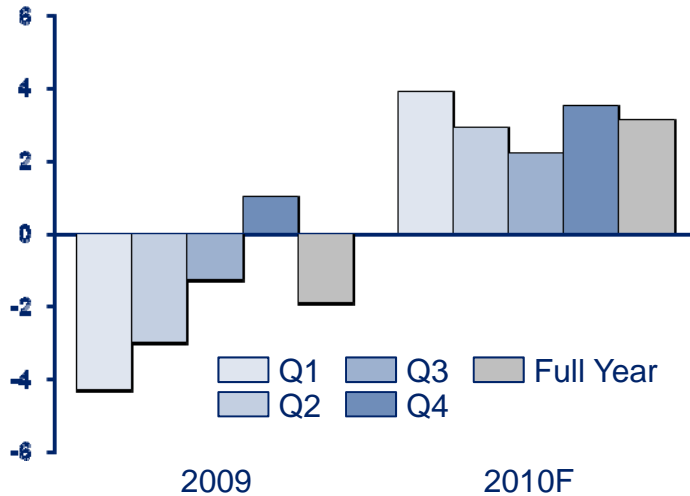
2010: Probably another year of losses for the global industry

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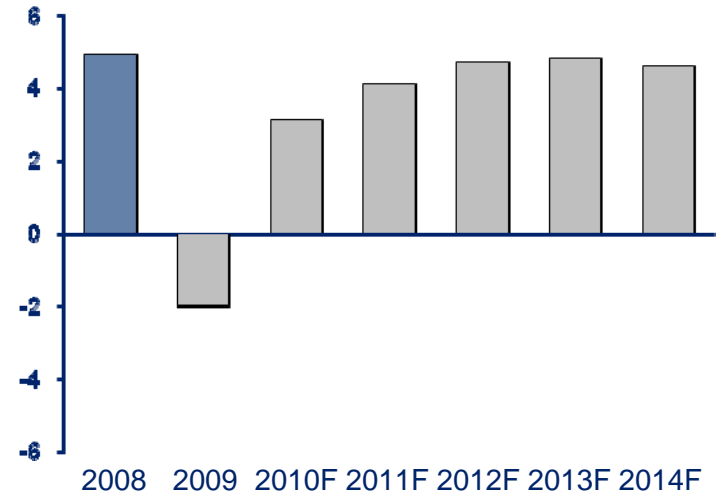
Note: Source Developed Asia includes Hong Kong, Singapore, Japan, Australia, New Zealand and Korea
 : EIU; Seabury analysis

3 Global capacity fell in 2009, resumes growth in 2010

YoY change in ASMs, %



Annual change in ASMs, %



Capacity growth will take multiple years to reach “trend levels”

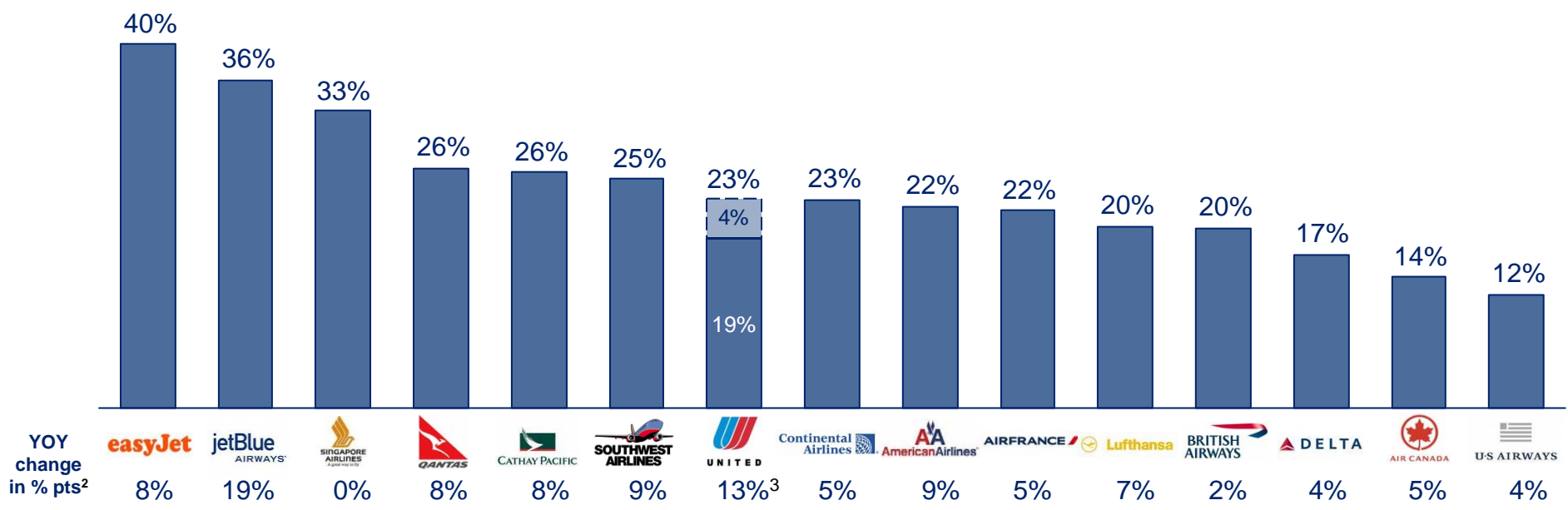
Note: Passenger capacity only
 Source: EIU; Seabury analysis

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3 Liquidity of major airlines around the world

Recognizing the difficulty of a slow and possibly shallow recovery, airlines have been moving aggressively to rebuild liquidity

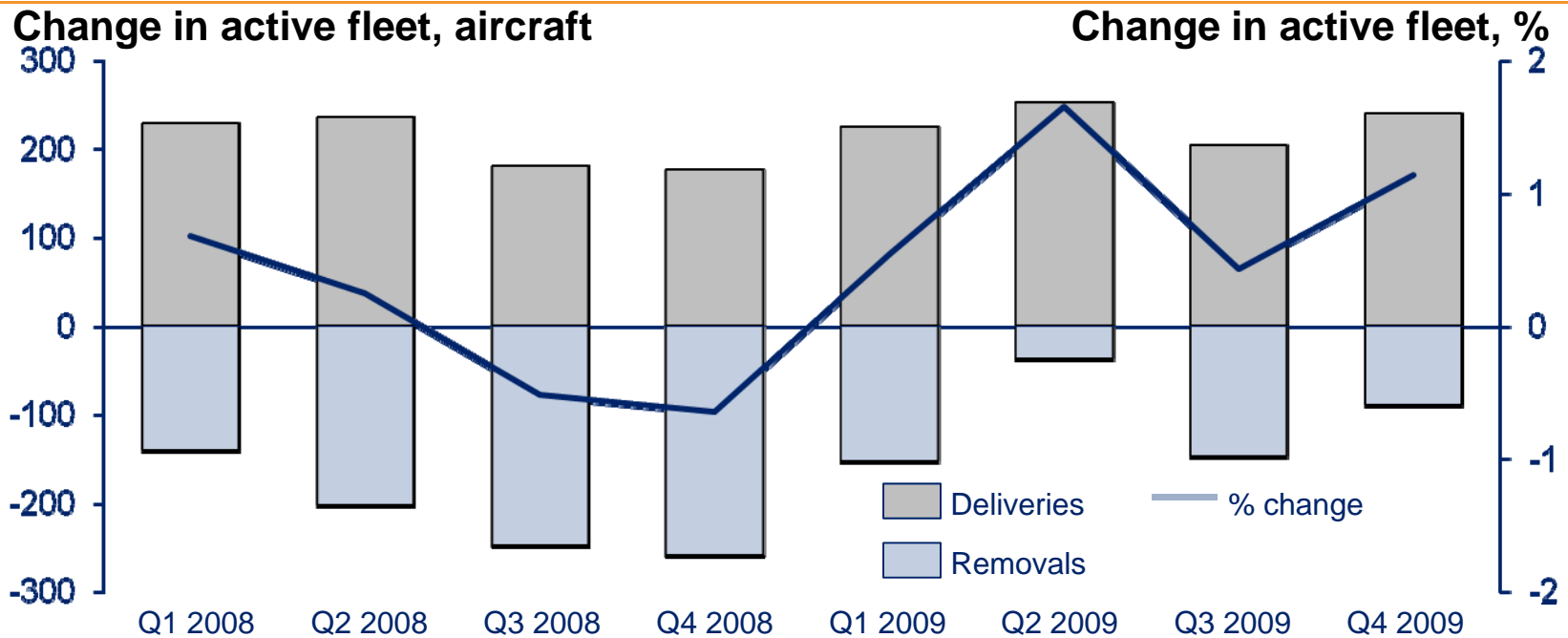
Unrestricted cash as % of LTM revenues¹ for select airlines



Notes:

1. As of December 31, 2009
 2. YoY change represents December 31, 2009 over December 31, 2008 - higher/(lower)
 3. UA received \$700M in proceeds from secured notes due 2013. The capital raise was completed on January 15, 2010
- Source: Company filings, Seabury analysis

4 Active fleet size bottomed in early 2009

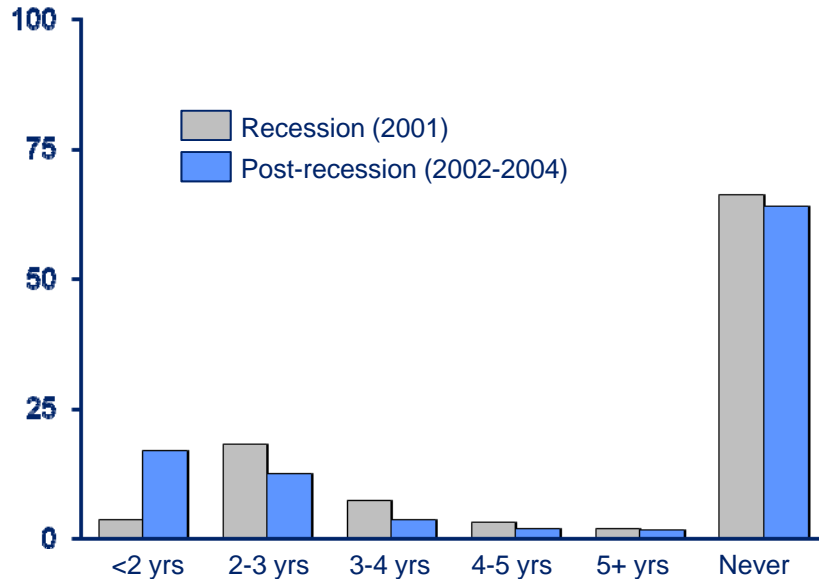


New deliveries continue to push out older generation aircraft

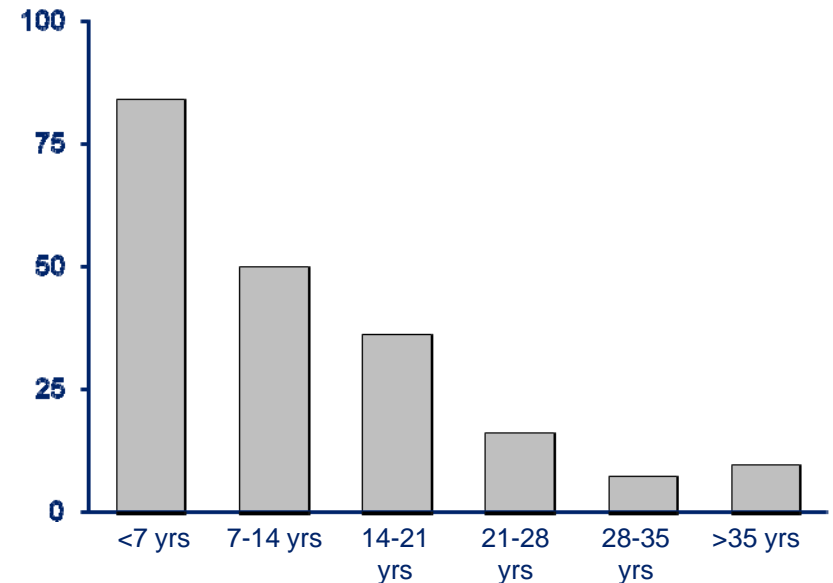
Note: Passenger aircraft only; Includes Boeing, Boeing MD, Airbus removals and Boeing and Airbus deliveries only
 Source: Ascend, Seabury analysis

5 Most parked aircraft will likely never return

Return to service by storage duration, %



Return to service by aircraft age*, %

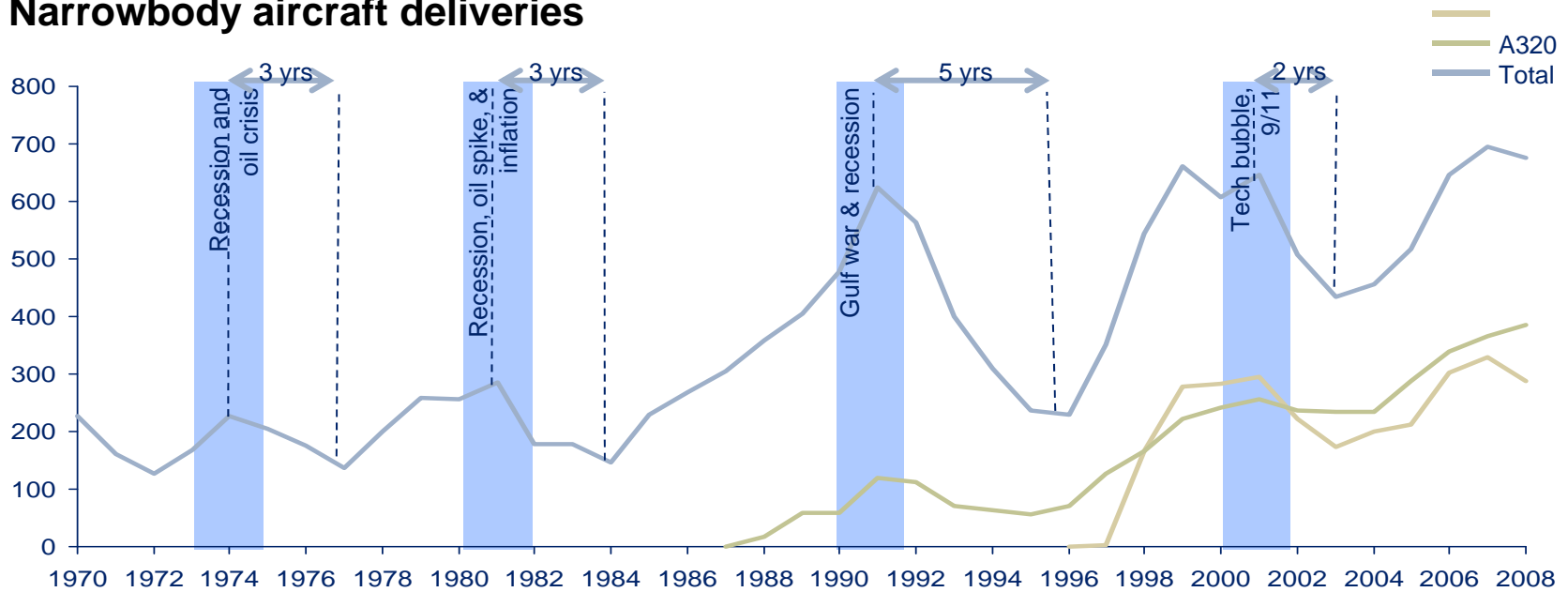


Most aircraft stored in this recession are approaching 21 years - the opportunity for return-to-service is low

Note: *Average fleet age of aircraft that do return into active service; Aircraft returning to service in less than 6 months excluded to account for standard ownership/lease transactions; Source: Ascend; Seabury analysis

6 Production cuts historically lagged economic conditions...

Narrowbody aircraft deliveries



2009 saw limited orders and numerous deferrals, but OEMs have expressed strong belief that demands will support increases (rather than decreases) in production

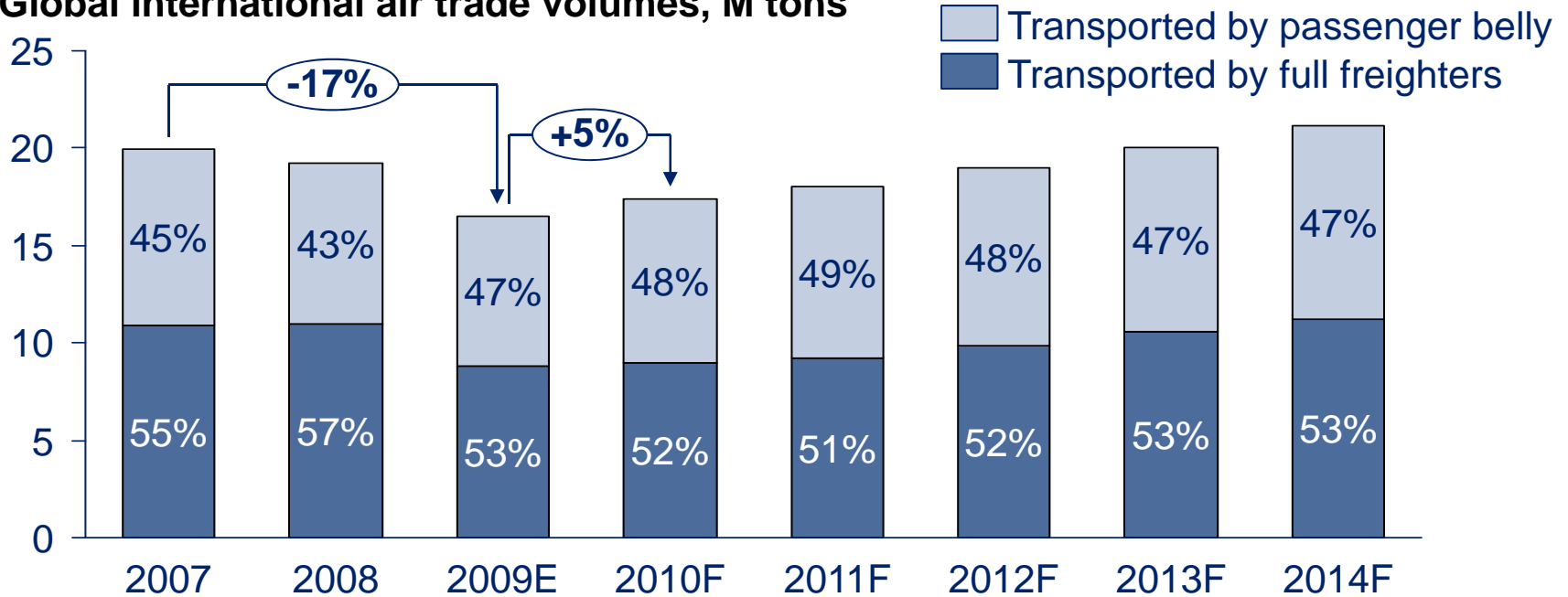
Note: Western built aircraft only
 Source: Back Aviation iFleet

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7 Air cargo demand is down significantly since 2007

Global international air trade volumes, M tons

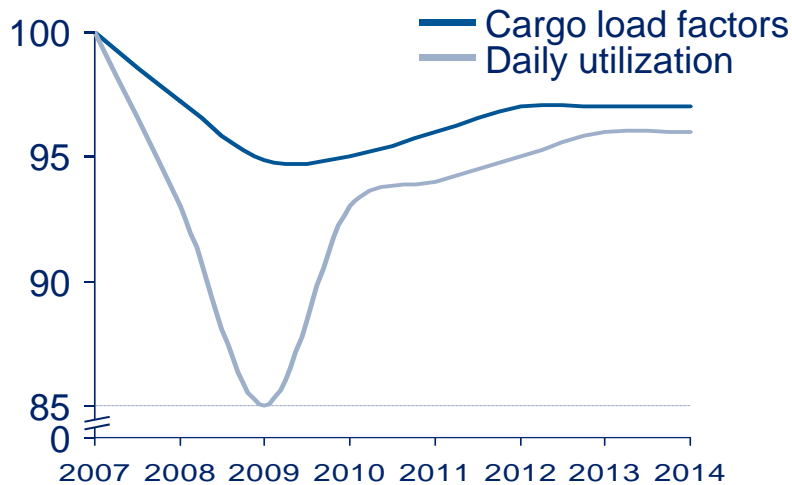


Freighter demand has been disproportionately impacted as belly space gains share

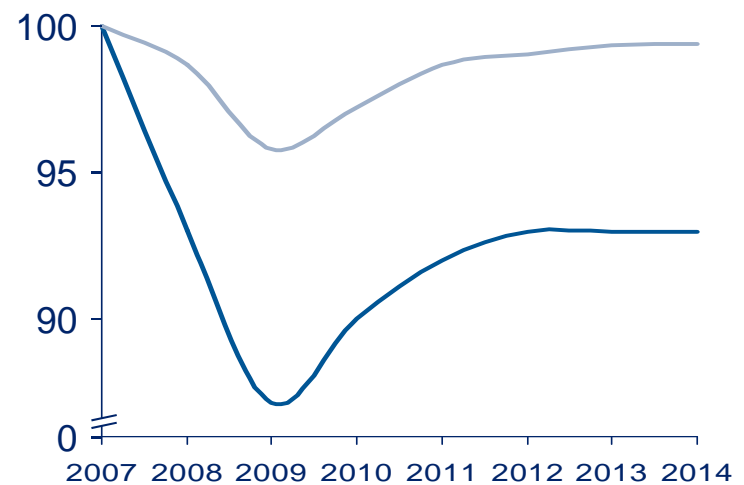
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7 Freighter operators have responded by cutting utilization

Freighter utilization and load factors, 2007 index



Belly utilization and load factors, 2007 index



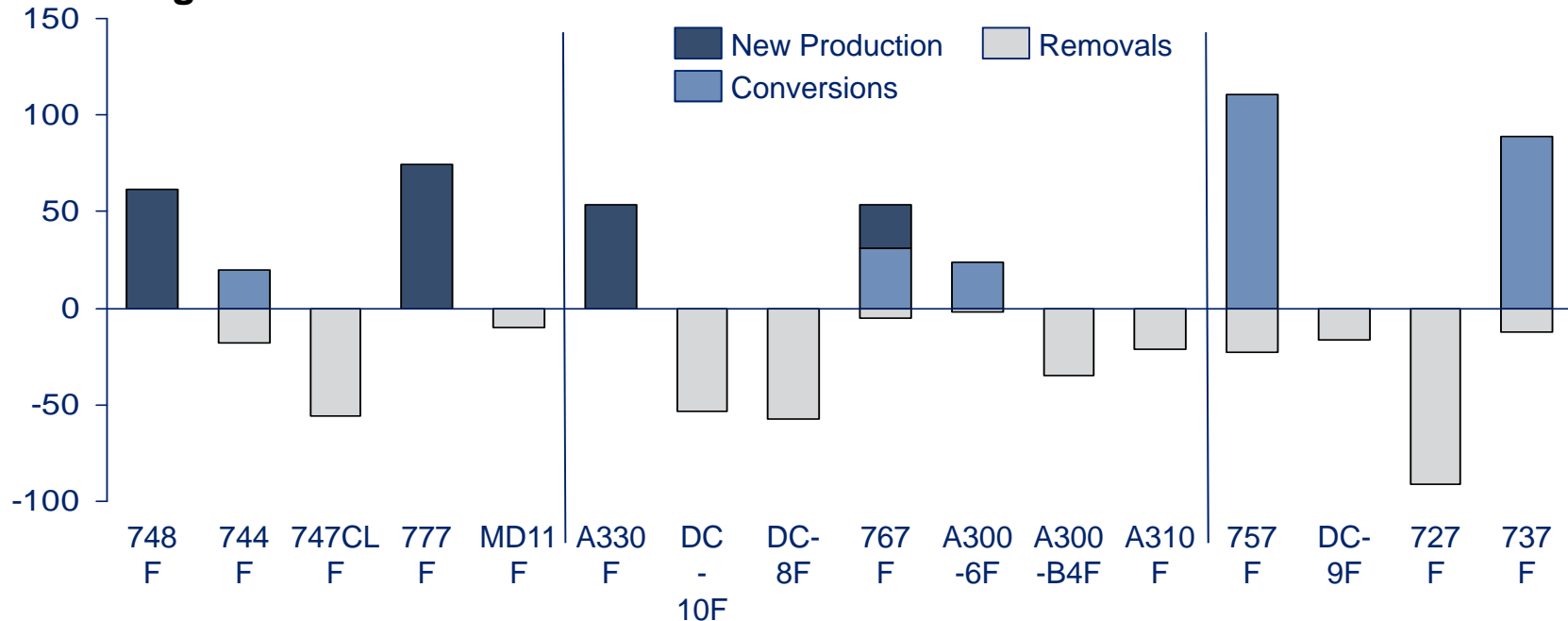
Freighter utilization recovery will drive significant capacity growth

Note: Passenger aircraft utilization calculated by using Seabury utilization forecast for new and old/medium gen aircraft weighted by forecasted active fleet in each group; Source: IATA, ACAS, Seabury analysis

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7 Refleeting remains a critical focus

Change in aircraft 2009-2014F



Limited opportunity for freighter conversions; again, newer-gen freighters expected to significantly increase share

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Summary

- 1 Global economic recovery is underway, but its strength remains unknown
- 2 Air travel demand will recover, but starting from a much lower baseline
- 3 In certain regional markets additional airline capacity cuts may be needed beyond those taken
- 4 Airline liquidity concerns remain, but creative solutions are being developed
- 5 Re-balancing supply and demand by region will likely keep OEMs busy over the next few years

Both the aviation and aerospace industries will likely undergo more restructuring and consolidation – requiring comprehensive corporate assessments

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