



Point-to-Point®

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A Clear Investment Horizon for Global Aviation

The Boeing Current Market Outlook 2008-2027 projects \$3.2 trillion in aircraft financing opportunities

Some may be puzzled by our optimistic headline, given the current economic environment. Fuel prices remain at record levels. Credit is tight around the world. Economies in the United States and the eurozone are soft. And the International Air Transport Association projects that the world's airlines will lose billions of dollars this year.

Our Current Market Outlook is based on the long-term drivers of air travel growth, not simply today's current conditions. We look deeper than today's headlines, continuously gathering and analyzing data from a variety of sources, many of which are not readily accessible to media commentators.

Our analysis shows clearly that, despite the shocks that are currently affecting the industry, global economic growth, measured by world gross domestic product (GDP), is still a key driver of demand for aviation services. GDP is projected to grow at an average rate of 3.2% during the next 20 years, driving global passenger traffic to rise 5.0% per year and air cargo traffic to rise 5.8% per year. By the year 2027, the world's airlines will take delivery of 29,400 airplanes with a total value of \$3.2 trillion to keep pace with that growing demand.

Recent developments will however, have two significant long-term effects on the aircraft market.

First, airlines will accelerate their fleet renewal plans to replace older, less-efficient airplanes with the newer jetliners that use less fuel and meet ever more stringent environmental standards.

Historically, replacement aircraft have represented about one third of the airplane market. Between now and

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What Forecasted Market Shifts Mean for Financiers

By Walt Skowronski

This year's Current Market Outlook (CMO) comes amid significant industry turmoil, fueled by record-high energy prices and global economic deterioration. But we have learned during our 40 years of market forecasting that aviation is extremely resilient. As aircraft financiers, we recognize that it is the long-term perspective that must drive our investment decisions.



Walt Skowronski,
President of Boeing Capital

Our latest forecast projects that a 3.2% global economic growth rate will translate into increased demand for airline passenger and cargo services of 5.0% and 5.8% respectively. Meeting this demand will require 29,400 aircraft with a value of \$3.2 trillion, for a slightly smaller global fleet forecast than last year. Along with these strong growth numbers, this year's forecast identifies two dynamics that have significant implications to aircraft financiers and investors.

First, replacement aircraft will be a larger share of future deliveries—43% as opposed to roughly a third today. Higher energy prices will drive carriers to update their fleets to the most fuel-efficient models and operators who deferred fleet replacement when fuel prices were low will take aggressive action to keep up.

Second, demand is shifting from regional jets to larger single-aisle jets. Higher fuel prices and elimination of scope clauses are making RJs economically unviable in competition with airplanes like Boeing's Next Generation 737 family.

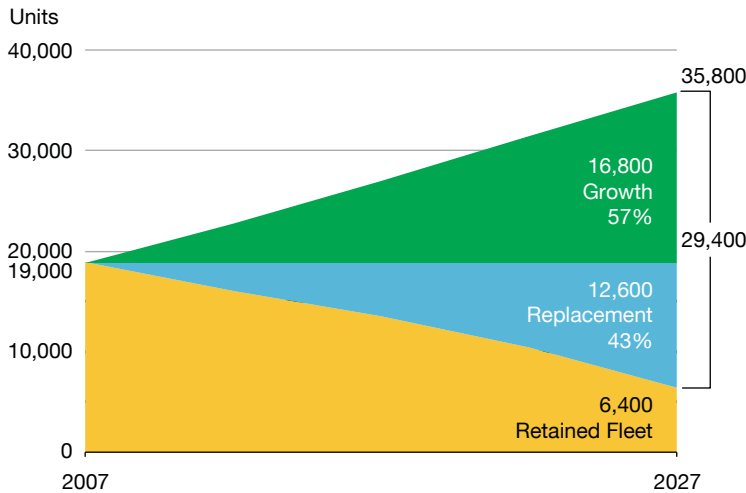
Boeing's product strategy is well-positioned to meet the challenges and opportunities reflected in the CMO. The Next Generation 737 family is ideally suited to fill the needs of regional operators looking for greater efficiency. The 787 and 777 continue to shape the expanding opportunities for point-to-point travel. And the 747-8 is engineered to deliver new levels of efficiency to selected high-capacity city pairs.

Boeing has a substantial stake in the accuracy of the CMO, as it drives many of our key business decisions. Key trends identified in the CMO also affect the valuations of portfolio aircraft, impacting aircraft investors and financiers. We remain committed to sharing our analysis and perspectives with you through activities such as our annual financiers' events, regional roundtables, speaking appearances, and this newsletter. We see ample evidence of our industry's potential for long-term growth as well as enduring opportunities for investors. ■

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2027, the replacement market will expand to about 43% of deliveries (12,500 airplanes).

The relatively low fuel prices of the past decade allowed airlines to defer fleet renewal, but operating older airplanes is an increasing drain on airline finances. As a consequence, the economic life of some older models may be compressed as the latest generation of highly efficient airplanes raises the bar on competition.



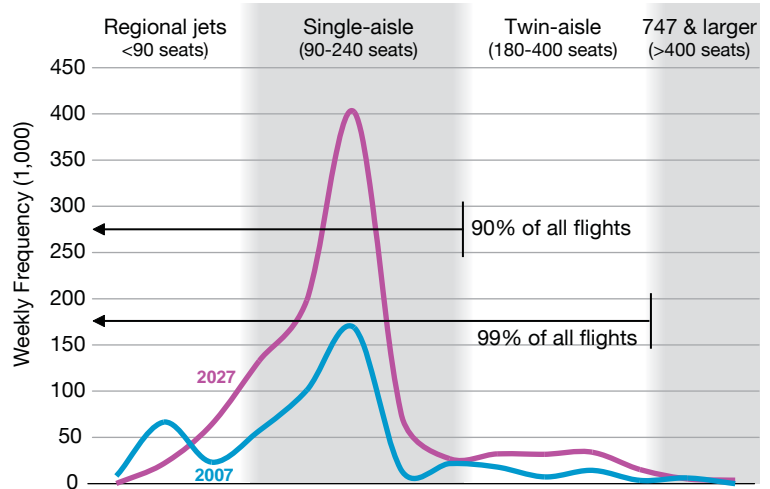
The need to make up for deferred fleet renewal will add urgency to airline efforts to replace less efficient airplanes with newer airplanes that use less fuel and require less maintenance.

By 2027, about 82% of the airplanes in service will be airplanes manufactured since 2008.

Second, airlines will adapt their business models, and therefore the type and size of airplanes that they operate, to the prevailing economic conditions.

For example, to optimize seat-mile costs, airlines will move decisively away from smaller regional jets toward larger regional jets and single-aisle airplanes. For the same reason, many operators of single-aisle jets will tend to favor the next larger size airplane within the single-aisle category. Single-aisle airplanes will account for 19,160 (65%) of the new airplane deliveries.

Some twin-aisle operators will also replace existing airplanes with larger, new models. But, the overall trend toward increased size stops at about 400 seats, where increased trip cost begins to erode the seat-mile cost advantage of larger airplanes. In addition, the convenience and abiding popularity of point-to-point service will continue to provide competitive advantages to airlines. To gain ability to offer point-to-point services

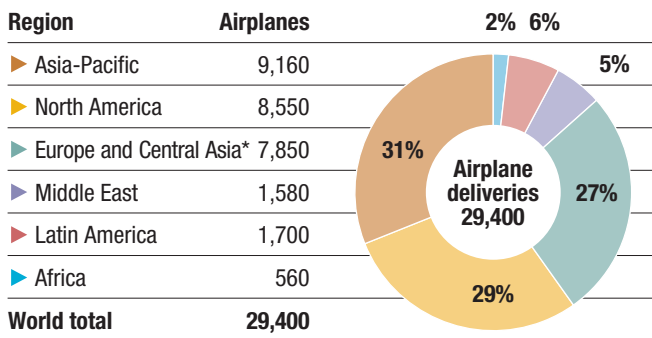


Regional jets and single-aisle aircraft account for roughly 90% of weekly departures. As airlines tend toward incrementally larger airplanes within each seat-count category, flights currently flown by regional jets will shift to larger regional jets and single-aisle airplanes. Within the twin-aisle category, larger airplanes will take a greater share of weekly frequencies, but the shift toward larger airplanes tops out at about 400 seats. Airplanes of more than 400 seats will not gain appreciable numbers of frequencies.

in the widest variety of markets, airlines will replace some of the biggest airplanes in service today with the latest generation of large twin-aisle airplanes. The largest category of airplanes (Boeing 747 and larger) will therefore not see an appreciable gain in total airplane market share. Together, twin-aisle and large airplanes will account for 7,730 (26%) of new deliveries and 55% of new airplane market value.

The increasing geographic diversity of airplane markets will help mitigate the effect of cyclical demand. Rapid economic growth and rising incomes in the world's fast-growing economies are stimulating business travel, spurring air cargo, and making it possible for whole new populations to afford to fly.

In 1970, airlines in Asia operated only 2% of the world's commercial airplane fleet. As a result, the industry relied on European and North American markets, where nearly 90% of the fleet was in service. By 2027, the Asia-Pacific region's fleet size will attain parity with North America, each accounting for approximately 30% of the fleet in service. The Asia-Pacific region will lead the globe in air travel growth with an annual growth rate of 6.7%. The region's airlines will take delivery of 9,160



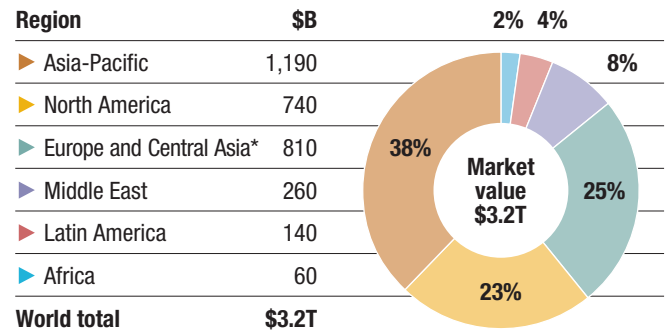
Asia is projected to account for the greatest share of the world's new airplane requirement, both in number of deliveries and market value. Of the nearly 9,200 new airplanes needed by Asia-Pacific airlines over the next 20 years, 40% will go to China.

airplanes over the next 20 years, nearly tripling the size of its fleet. Europe, Russia, and Central Asia together will account for just over 25% of the world's fleet.

Leading the world in air traffic growth with an annual increase of 7.9%, China will help the Asia-Pacific region become the world's largest aviation market. Domestic travel in China will grow at a heady rate of 8.9% as the nation's aviation infrastructure catches up to its economy and population. By 2027, about 45% of global air travel will be to, from, or within the Asia-Pacific region. Markets in the Middle East, Latin America, and Africa, though relatively small compared to Asia, will also post strong growth.

Liberalization of regional markets and improving global financial infrastructure are catalyzing a geographical shift in investment and financing opportunities. The European airplane market will for the first time equal the North American market in value at \$740 billion. The Asia-Pacific region will offer \$1,190 billion in financing opportunities. Recent orders and burgeoning activity in the low-cost carrier segment has prompted a 40% boost in this year's forecast for the Middle East region! The Middle East market is valued at \$260 billion over the next 20 years.

Southwest Asia is second only to China in terms of aviation growth. Air transport demand will grow faster for operators in Southwest Asia than in any other region, with passenger miles increasing 8.0% and air cargo miles by 8.9% per year. The region's fleet of aircraft will grow from 430 airplanes today to 1,450



The North American market, while slow growing, is still significant, accounting for over 8,500 units and \$740B. However, due to slower economic growth and the shift toward larger aircraft in the RJ market, the unit forecast is down sharply from last year. Stronger growth will eventually return to the North America market, as the current fast pace of growth in Europe moderates slightly.

airplanes by 2027, for an average growth rate of 6.3% per year.

Pressure to reduce aviation's contribution to man-made emissions will continue. As reported elsewhere and in previous issues of Point-to-Point, Boeing is taking a leadership role in developing new airplane technologies, sustainable sources of carbon-neutral fuels, and emissions-reducing operating procedures. Airlines are moving toward more efficient airplanes and network structures.

The world community has every reason to collaborate on global emissions guidelines, as air transport remains crucial to the world's transportation infrastructure and the global economy. Noting that rising oil prices have proven more effective than decades of regulation in reducing fuel use and emissions in the ground transport industry, we are confident that the aviation industry will rise to meet well-crafted environmental regulation.

Investment opportunities will continue to be strong in the aviation industry. Diversity in airline business strategy, a geographically balanced aircraft market, and an expanding global financing infrastructure ensure that the \$3.2 trillion aircraft market offers ample prospects for aviation financiers. ■

To review the complete 2008 Boeing Current Market Outlook, or to order a printed copy, please visit www.boeing.com/commercial/cmo/

Noteworthy Developments

Hawaiian Expands Interisland Service with BCC's Help

Hawaiian Airlines will expand its interisland fleet with the addition of four 717-200s to be leased from Boeing Capital Corporation. The expansion is part of the airline's response to the closing of its competitor, Aloha Airlines. Hawaiian's current interisland fleet comprises 11 717s, which are used for 150 daily flights. The airline will add two airplanes in September and one each in November and December, for a total of 15, all on long-term lease from BCC.



Boeing converted freighters to support Aeroflot Cargo growth plan

Boeing is helping Aeroflot-Cargo improve its operational efficiency and adapt to growing market demands by providing three leased MD-11 Boeing Converted Freighters (BCFs). Boeing Capital Corporation structured the leasing deal and Boeing Commercial Aviation Services conducted the modification work. Aeroflot Cargo, which already operates four DC-10 freighters, is leasing the three MD-11s under a multi-year operating agreement. "This solution allows us to optimize our choices for airplanes that we needed to redeploy, maximizing the airplane's value since freighter conversion is a great residual play for the MD-11s," said Tony Simpson, Boeing Capital managing director for Europe, Russia and Central Asia.



Aeroflot Cargo: Russia's second-largest cargo operator began MD-11 service in mid July. (Aeroflot Cargo photo)

Boeing Program Update:

787:

- Boeing achieves 787 power on
- 787 Dreamliner fatigue airframe departs factory
- Boeing 787 Dreamliner structure test a success

777:

- Boeing 777 Freighter makes first flight

767:

- World's first 767-300 Boeing Converted Freighter goes to ANA

737/BBJ:

- Boeing Next-Generation 737 carbon brakes earn FAA certification
- Boeing completes first BBJ 3

Other:

- Boeing and Japan Airlines flight demonstration of second-generation biofuel planned
- Boeing tailored arrivals ATM concept cuts fuel, emissions in initial deployment

Nineteenth Planning Seminar for Next-Generation Financiers

Boeing Capital attracted about 30 attendees representing a wide geographic diversity for its week-long Airline Planning Seminar for financiers held in Renton, Wash in July. It was the 19th annual session of the educational outreach program which provides a detailed overview of the underlying dynamics and key business decision drivers of the airline industry, drawing on the talents of both Boeing Commercial Airplanes and BCC presenters. "We had a great geographic mix with attendees from Europe, China and South Africa and, for the first time, bankers from Russia," said Mike Laucius, a BCC Europe director and one of the coordinators. Participant feedback was overwhelmingly positive and there is already a waiting list for next year's session.



2008 Planning Seminar: Both next-generation and seasoned aircraft financiers attended.

Airplane Orders – June through August 2008

777s: 777-300ERs – Air France (3), Korean Air (1), GECAS (2), British Airways (2), Egyptair (2); 777-200LR: Delta (1)

767: 767-300ER: Azerbaijan (2)

737s: 737-700s – Unidentified (2), WestJet (4), Aviation Capital Group (15);

737-800s: American (2), Arik Air (7); Biman Bangladesh (2); COPA (2); Malaysian (35); Ryanair (3); American (27); FlyDubai (50); Saga (2), SAS (1); 737-900ER: Azerbaijan (2); BBJs: 737-700 (1), 737-800 (1)

Deliveries – June through August 2008

777s: 777-300ERs – Air Canada (1), Air India (2), JAL (1), Singapore (1), All Nippon (1), Emirates (2), EVA (1), JAL (2), Qatar (1), TAM (1); 777-200ER – Korean Air (1); 777-200LRs – Emirates (2)

767: 767-300ERs – JAL (1), LAN (2), All Nippon (1)

747: 747-400F – UPS (1), Cargolux (1); 747-400ERF – Cathay Pacific (1)

737s: 737-700s – AirTran (2), Southwest (8), TUI (1), Delta (2), Turkmenistan (1), WestJet (1), China Eastern, KLM (2); 737-800s – Air Berlin (2), Air China (3), Air Europa (1), Air India (2), Alaska (3), All Nippon (1), Continental (3), COPA (1), GECAS (8), Hainan (4), ILFC (4), JAL (2), Qantas (3), Ryanair (3), Shangdong (3), Shanghai (2), Shenzhen (3), Turkish (3), Virgin Blue (2), Aviation Capital Group (3), GOL (3), Pegasus (1), SpiceJet (2), TUI (1) Egyptair (1), U.S. Navy (1); 737-900ERs – Continental (4), SpiceJet (1), Lion Air (1); BBJ – 737-700 (2).

Please direct questions or feedback to the following:

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