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CARSON & LEAHY LOCK HORNS

INVESTORS' AND OPERATORS' POLL RESULTS

KLM FINANCES ITS FIRST A330
THE BATTLE FOR AIRASIA
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INVESTORS' AND OPERATORS' POLL

It was close competition between the big two major manufacturers for the 2005 *Airfinance Journal*/Investors' and Operators' Poll, but this year Boeing is the victor.

THE REAL BATTLEGROUND

In a year of World Trade Organization disputes, stunning airshow orders and price wars, it is no wonder that the Investors' and Operators' Poll is taken very seriously by manufacturers, particularly Boeing and Airbus.

The annual poll has become a new battleground for manufacturers which want justification that their products are the best. For investors and operators to have their say. This year Boeing has topped the rankings with the 737-800, and has dominated many of the categories with aircraft such as the 777-200ER and the new 787.

INVESTORS AND OPERATORS		
Overall rankings		Score (All scores are out of 10)
1.	737-800	8.5
=2.	777-300ER	8
=2.	737-700	8
4.	777-200ER	7.9
5.	A320	7.9
6.	737-900	7.7
7.	A319	7.6
8.	737-300	7.6
9.	A330-300	7.5
10.	737-400	7.3
11.	A330-200	7.2
12.	747-400	7
13.	767-200ER	6.7
14.	767-300ER	6.6
15.	757-200	6.5
16.	A321	6.4
17.	A340-300	5.6
18.	737-600	5.6
19.	A340-600	5
20.	717-200	4.3
21.	A318	4
22.	A340-500	3.5
23.	A300-600	2.8
24.	A340-200	2.3
25.	A310	1.6

As always, the battle between the narrowbodies was close, but Boeing prevailed in the overall rankings. The 737-800 came out on top overall, and topped the Investors' Poll. The A320 came second in the Operators' Poll ahead of the 737-800, which came third.

These popular narrowbodies provoked some interesting comments. "Narrowbodies are obviously easier to finance/remarket; widebodies are treated with far more caution," says one investor. "A320s are hurt because of the split engine," says another. Operators still have favourable comments about the A320 family. "The A319, A320, A321 is the best aircraft family for mid-range operators with different capacity needs on different routes," says one operator.

Boeing mid-sized aircraft also performed well. The 777-200ER came first in the Operators' Poll and the 777-300ER came second in the Investors' Poll and overall.

Airbus' mid-sized aircraft, by comparison, did not perform as well. The A330-300 was placed ninth overall – fourth in the Operators' Poll and eighth in the Investors' Poll. The 767-200ER came 13th overall, whereas the A340-300 limped in at 17th place.

"The creation of the A350 is a tacit admission from Airbus that Boeing got it right with the 777 and they completely screwed up with the A340," says one operator.

The residual value of the A330 once the A350 is launched was also raised as a major concern. "Short-term demand will keep rentals for the 767-300ER relatively high, but the A330-200 is a much better aircraft – until the 787 and A350 come along. It will be interesting to see how Airbus continues to compete with the A330-200. Inevitably they will be forced to reduce the price," says one investor.

Other categories demonstrate the different aspects of each aircraft. The A320 topped the investor appeal category for investors, while for operators it was the 737-800 that was the most appealing.

Boeing aircraft topped remarketing appeal for both investors and operators. The 747-400 was voted the best for operational success by operators, while investors opted for the 777-300ER. This result is a fitting endorsement for the 747, which has been out of the limelight lately with the A380 on the way.

INVESTORS' AND OPERATORS' POLL

"The 747-400 has suffered hugely in recent years but it is now enjoying a major resurgence in terms of demand and value," says an investor.

The 737-800 topped residual value in both categories.

Investors and operators have widely different perceptions of manufacturers' pricing. Operators generally think Airbus aircraft are better value for money, with the A330-300 topping that category, but the 777-300ER was voted the best value for money by investors.

"Boeing aircraft are more expensive than Airbus aircraft, but that does not mean that they are worth more. Boeing is more disciplined about price points," says one investor.

"Boeing is very difficult for buyers. Once you do a deal, from the point that the deposit is paid, Boeing spend huge effort increasing the final price the customer actually pays," says another investor.

There is also criticism for Airbus on pricing. "Airbus'

discounting suggests that its position is slipping," says an investor.

New aircraft

The 787 provoked a surprisingly strong response in its favour, with 74% of voters saying they thought it would be the most successful new aircraft, compared with 11% for the A380, 8% for the ERJ-190 and just 6% for the A350.

"The A380 had better be a reasonable success. If investors are burned on the initial model, the upgrades may be a tough sell," says one investor.

Another investor points out that the new aircraft competition is a positive for airlines. "I have selected the 787 to be the most successful new aircraft largely because its maker needs it the most. Airbus has its attention spread over more than one new product, which inevitably will reduce the support for any of those products compared to the attention that Boeing has to give the 787. In any event, it is important for

INVESTORS ONLY

Overall rankings

1.	737-800	8.5
2.	777-300ER	8.3
3.	737-700	8.1
4.	737-300	8
5.	A320	7.9
6.	777-200ER	7.8
7.	A319	7.7
8.	A330-300	7.2
9.	A330-200	7.1
10.	747-400	6.9
11.	767-200ER	6.7
12.	757-200	6.5
13.	767-300ER	6.3
14.	A321	6
15.	MD-11	6
16.	A340-300	5.6
17.	A340-600	5
18.	737-600	4.9
19.	A318	4
20.	A340-500	3.5
21.	717-200	3
22.	A300-600	2.8

Regional aircraft Top five

1.	Dash 8-300	9.6
2.	ATR 72	7.9
3.	ERJ-170	7.9
4.	CRJ 700	6.8
5.	CRJ900	6.2

Operational success top five

1.	777-300ER	9.1
2.	737-300	8.8
3.	737-800	8.7
4.	A320	8.6
5.	777-200ER	8.5

Investor appeal top five

1.	737-800	8.8
2.	737-700	8.2
3.	A320	8
4.	777-300ER	8
5.	A319	7.8

Remarketing potential top five

1.	737-800	8.7
2.	737-300	8.4
3.	737-700	8.1
4.	777-300ER	8
5.	A320	7.8

Residual value top five

1.	737-800	8.3
2.	777-300ER	8
3.	737-700	7.8
4.	777-200ER	7.5
5.	A320	7.4

Value for money top five

1.	777-300ER	8.4
2.	777-200ER	7.9
3.	737-800	7.8
4.	737-700	7.7
5.	737-300	7.6

Source: *Airfinance Journal*

INVESTORS' AND OPERATORS' POLL

the airlines that both major airframe makers are successful, and that they remain in closely matched competition," says the investor.

"Airbus is more creative on the financing side, although Boeing is beginning to become more aggressive with the new 787 in terms of new financing ideas and structures. Airbus needs to be more proactive with investors in terms of residual value curves for the A380," says an investor.

Only one investor was really negative about the A380, saying: "The A380 will go down as the worst aircraft product ever produced".

Manufacturers

The poll also asked for voters' opinions on manufacturers. While it was close, Boeing inched in front of Airbus, beating the European manufacturer in most categories.

Airbus did, however, score better in terms of financial support. "They have very different philosophies in product support and financial support to get their

airplane into a new operator. Airbus is generally stronger in supporting you if it is in their best interest," says one investor. "They are always quite good in determining what is in their best interest," he adds.

Many voters, anonymously, took the opportunity to express opinions about the two manufacturers: "Airbus still has a problem delivering spares," says one operator.

"Boeing took their eye off the commercial aircraft ball and are paying the price. Also US political positions are ruling out growth markets," says an investor.

"Airbus have a lot to learn from Boeing with regards to deliveries," says an investor.

Others were more positive about Airbus. "Airbus remains way ahead in terms of customer service and orientation," says an investor. Others expressed concerns about production levels and how involved the manufacturers should get.

"There is a real concern that both leading manufacturers are moving into over-supply and we will be into the same counter-cyclical imbalance in a few years' time," says one investor.

OPERATORS ONLY

Overall rankings

Score		
1.	777-200ER	9
2.	A320	8.4
3.	737-800	8.3
4.	A330-300	8.2
5.	A321	7.7
6.	A319	7.5
7.	A330-200	7.5
8.	737-700	7.3
=9.	737-600	7.2
=9.	747-400	7.2
11.	767-300ER	7
12.	737-300	6.5
13.	737-400	6.4
14.	757-200	6.3
15.	777-300ER	6.2
16.	717-200	5.7
17.	A340-300	3.6

Regional aircraft top five

1.	ATR 72	8.1
2.	CRJ 100/200	7.8
3.	Dash 8-300	7.4
4.	Fokker 70	5
5.	Fokker 50	4.8

Operational success top five

1.	747-400	9.2
=2.	777-200ER	9
=2.	737-700	9
4.	A330-300	8.6
5.	737-600	8.5

Investor appeal top five

1.	A320	8.8
2.	777-200ER	8.6
3.	737-800	8.4
4.	A330-300	8.2
5.	A321	8

Remarketing potential top five

1.	777-200ER	8.6
2.	737-800	8.4
3.	A320	8.2
4.	A330-300	8.2
5.	A321	7.5

Residual value top five

1.	737-800	8.1
2.	777-200ER	8
3.	A320	7.9
4.	A321	7.5
5.	A330-300	7.4

Value for money top five

1.	A330-300	8.6
=2.	737-800	8.5
=2.	A321	8.5
4.	A320	8.3
5.	777-200ER	8

Source: *Airfinance Journal*

INVESTORS' AND OPERATORS' POLL

MANUFACTURER RANKINGS (Investors and operators)						
	Ease in Financing Products	Confidence in products	Financial support offered	Residual value Strategy	Product support	Total
Boeing	7.6	8	6	7	7.9	7.3
Airbus	7.4	7.9	7.4	6	7.4	7.2

REGIONAL MANUFACTURER RANKINGS (Investors and operators)						
	Ease in Financing Products	Confidence in products	Financial support offered	Residual value Strategy	Product support	Total
Bombardier	5	10	5	9.5	9.5	7.8
ATR	7.2	8.4	6.9	7.2	7.2	7.4
Embraer	6.5	9	6.5	6.5	7	7.1

ENGINE MANUFACTURER RANKINGS (Investors and operators)						
	Ease in Financing Products	Confidence in products	Financial support offered	Residual value Strategy	Product support	Total
GE	8.1	8.7	6.9	7.5	7.9	7.8
CFM	7.2	8.5	6.4	7.2	7.7	7.4
Rolls-Royce	7.2	7.7	7	7.2	7.3	7.3
IAE	7.3	7.6	6.7	6.8	7.5	7.2
Pratt & Whitney	6.5	7.6	6.3	6	7.9	6.9

“Manufacturers should build and sell aircraft. They should not be involved in leasing or trading their own products. They should never sell aircraft to themselves and report it as a sale,” says another.

Regional aircraft

Regional aircraft are attracting increasing attention in the poll. Embraers' ERJ-190 performed better in the new aircraft category than the A350, with 8% of votes.

“With the new 170/190 family of aircraft, Embraer have moved more into the manufacturing centre ground,” says an investor.

There was good news for Bombardier – the Canadian manufacturer came top of the regional manufacturers, and the Dash 8-300 topped the overall regional rankings and the Investors' Poll regional rankings. The ATR 72,

Regional aircraft rankings (Investors and operators)		
1.	Dash 8-300	8.5
2.	ATR 72	8
3.	ERJ-170	7.9
4.	CRJ 700	7.6
5.	ATR 42	7.4
=6.	CRJ 100/200	6.2
=6.	CRJ 900	6.2
8.	Fokker 100	5.5
9.	Fokker	705
10.	Dash 8-400	4.8
11.	Fokker 50	4.8
12.	Dash 8-100	4

which has seen a resurgence in orders this year, has done well. It came top for operators and second overall and in the Investors' Poll.

“The ATR is an excellent product, with an excellent remarketing value, especially due to its cargo conversion capability,” says an operator.

With turboprops being more fuel-efficient, many small airlines are looking more closely at the ATR. “They are good aircraft especially for small airlines,” says one operator.

Engine manufacturers

GE slipped ahead of CFM to top of the engines poll – and it was ahead in every category. However, it was not all negative for CFM. “The CFMI product range continues to be the benchmark for the core narrowbody market place,” says one investor. There was also praise for IAE, which finished fourth. “CFM is not at the races and is being out-muscled by IAE at every stage,” says an investor. The Investors' and Operators' Poll continues to be a test of the opinions of those who operate and invest in aircraft. With the ongoing race for orders, it will continue to be a real test of what investors and operators really think.

Methodology

Airfinance Journal contacted investors and operators via email and through our daily newsletter, Airfive. Respondents were asked to rate aircraft types according to various criteria, as well as answer questions on new aircraft, manufacturers and engine manufacturers. Results were then averaged to produce scores out of 10. ■

INVESTORS' AND OPERATORS' POLL

Like all Boeing executives, Scott Carson, vice-president of sales, is proud of his company and is confident of its future.

BOEING BITES BACK

Boeing is back on top. Rather than sitting by and watching Airbus march off with order after order, the US manufacturer has turned the tables on its European rival this year.

Scott Carson was appointed as vice-president of sales in December 2004 with a brief to rebuild relationships with Boeing's global customers and increase sales. He seems to have succeeded.

"One challenge I was faced with was to focus on rebuilding the relationship with our customers around the world," says Carson. "In the time after 9/11 we focused more on helping US carriers to reshape their airlines and neglected the rest of the world for a time. Now we are using more of our resources and are taking advantage of all of our relationships within the company to reach out to our global customers. We are all out in the field contacting our key customers around the world and this strategy has paid off. We have been focusing on customers that previously may not have even considered us, such as Royal Air Maroc, which has recently ordered five 787s."

Boeing has secured 546 orders with 39 airlines and has made 179 deliveries so far in 2005. Carson attributes this success to the general upturn in the market, as well as Boeing's new customer-focused strategy.

"The market has been very robust this year, which is a reflection of the return to pre-September 11 [2001] levels. There has been an increase in consumer confidence in air transportation, a global improvement of traffic, airline's profits have improved and they need more products to grow their businesses."

But Boeing's recent success has been driven by more than simply a general upturn in the market.

"Boeing has been on a journey for the last five or six years, the results of which are coming home at the same time as the market is picking up," says Carson.

"The first part of our strategy has focused on improving the Boeing production system of aircraft.

We have streamlined the production system and have simplified the product line, which has allowed us to be more aggressive on price. This has been the key to our strength this year.

"The second part of our strategy has been the continued investment in the future of the industry, which we have been pursuing aggressively during the downturn. We have invested in existing products with the launch of the 777-200LR, which has just completed its world tour, and the 737-900ER. We have been continuing with our work on the 747 Advanced and the 787 family, and we have invested aggressively in our product suite to make it the most up-to-date aircraft family and have worked hard to drive down production costs to be more price-competitive while the market is returning."

Boeing's 737 family has topped the rankings in the 2005 *Airfinance Journal* Investors' & Operators' Poll, with both investors and operators favouring the model over the A320.

The 737 family has always been a favourite with investors because it retains its value well and has a large customer base. In last year's poll, however, the A320 overtook the 737 as the favoured aircraft for low-cost carriers. Boeing's new aggressive price strategy has helped to return the aircraft to the forefront of the low-cost market, and the next-generation aircraft are much younger and efficient than their Airbus rival.

"The 737 Next Generation, since its introduction in 1997, has been a terrific seller. It has done a great job for our customers and it has maintained its value in the market place. Low-cost carriers have been ready to accept the aircraft because its reliability is critical for airlines that have multiple turns every day. New markets have also opened up, most recently in Indonesia and India. The 737 has been a great seller and it has a great future," says Carson.

Boeing has also launched the 737-900ER, with Lion Air's order for 60 aircraft. The 737-900 is a slight stretch of the 737-800 and seats 15 more passengers in a two-class configuration. Some airlines that placed orders for the 737-800, such as Ryanair, also took out the option to convert the order to 737-900ERs. There is the danger that the -800 could be eclipsed by its younger brother, but Carson says that this is not the case.

"The 737-900ER exists alongside the 737NG

2005 YTD orders for Boeing

737s	413
747s	8
767	11
777	29
787	87

INVESTORS' AND OPERATORS' POLL

family of aircraft," says Carson. "If some customers do opt to take the -900 instead of the -800, it will be a reflection of how they operate and what their needs are.

"The 737-900ER is a great addition to the 737 family, which has capacity for 200 seats. We are happy with its position and we think that it complements the family of aircraft. We have always wanted to fill the niche left by the 757."

The 767 has been a great aircraft for Boeing and it is still in demand, at least according to lessors. The new 787 will eventually eclipse its older brother but there is still a slow trickle of orders for the 767. All Nippon Airlines, launch customer for the 787, ordered two 767s in August and one 767 freighter. There were rumours that this was a cut-price addendum to the 787 launch order to help Boeing keep the 767 production line ticking over until the new aircraft was launched, but Carson rejects this.

"Airlines like All Nippon Airlines have a minimum requirement for lift and the 767 is a good choice for them as an interim answer until the 787 comes along. But ANA will continue to operate the 767s alongside the newer model and its order for two 767s is not directly related to its order for 787s."

He adds: "It is safe to assume, however, that the 767 production line will slow and eventually stop as the 767 and 787 overlap each other."

The 787 has been voted the best new aircraft. So far, Boeing has announced 256 orders or commitments for the 787 from 21 customers. Of those, 143 are firm orders, with 87 signed this year. Boeing is justifiably proud of its newest product.

"The 787 is a unique and market-changing product, which has captured the imagination of owners and operators," says Carson. "The 787 will have the change power that the 747 had when it was

introduced in the sense that it will revolutionize airline travel. The flying experience for passengers, for operators and for owners was an important design consideration from the beginning.

"The ambience of the cabin will change the shock that the physical self feels when flying. The lighting, the lower-pressure altitude, the larger window size and the raised humidity will all contribute to a better feeling of wellness during the flying experience."

Carson adds: "Airlines will benefit from the improved systems on board the aircraft from an MRO perspective. Rather than using operating systems that are run from the engines, we have made the aircraft to be all-electric, which will significantly lower maintenance and repair costs.

"The 787 was also designed from the perspective of the aircraft owners. The full engine interchangeability of the 787 was a result of feedback from the aircraft owners and will help the aircraft to retain a higher market value."

Delivery slots for the 787 have also been reserved for some clients that are considering the aircraft, such as Qantas and British Airways, and Boeing is confident of more orders before the end of the year.

Carson and the rest of the Boeing team have performed well during the past few months and orders are continuing to flood in. This was all achieved despite the resignation of chairman Harry Stonecipher in March. But he passed over a much stronger company to James McNerney than the one he had inherited.

McNerney has taken up the reigns as chairman of the board, president and chief executive officer of Boeing. He knows the industry well. He was formerly in charge of General Electric's jet engine unit and has sat on Boeing's board since 2001. McNerney held several executive positions at General Electric and was also executive president of Gecas.

Carson says: "The new chairman brings his own agenda to the company that is uniquely his. But we have known Jim for many years and he knows the industry well. He is hugely supportive of our strategy going forward. He is very supportive of us and we are very happy to have him on the team."

Boeing is confident of the future and has invested heavily in its product suite and has worked hard to drive down costs to be able to offer more affordable products to its global customers – a strategy that the company will continue under the guidance of McNerney.

"We started with a mandate to rebuild our relationships with airlines and we are continuing to focus on that and to take further advantage of our product development, and the reduction in production costs," says Carson.

The race is on for orders and Boeing is set to come out on top by the end of the year. With 571 gross orders (or 549 net orders), Boeing is not only ready to book significantly more orders than Airbus, but also it could beat its 1996 sales record of 670 gross orders.

But never underestimate Airbus. It could all change by December. ■



Biography – Scott Carson

Scott Carson was appointed vice-president of sales at Boeing Commercial Airplanes in December 2004. He has responsibility for the sales of commercial aircraft and related services to airline customers and leasing companies around the world.

Carson has a long history at Boeing. He joined the manufacturer in 1973 and has worked in many divisions of the company, including the Boeing Defense & Space Group. He served as executive vice-president and chief financial officer of Boeing Commercial Airplanes and, before taking over as head of sales, he led Connexion by Boeing.

Carson graduated from Washington State University with a Bachelor's degree in business administration. He later received a Master's degree in the same discipline from the University of Washington. He serves as the Boeing executive focal point for Washington State University and as a trustee of the WSU Foundation.

He has served on the advisory panel for the University of Washington Executive MBA programme and, in April 2002, received the Business Leadership award from the programme.

In January 2004, Carson became a Fellow of the Royal Aeronautical Society.

The 737 has been a great seller and it has a great future," says Carson