



Point-to-Point[®]

FINANCIAL TRENDS IN COMMERCIAL AVIATION

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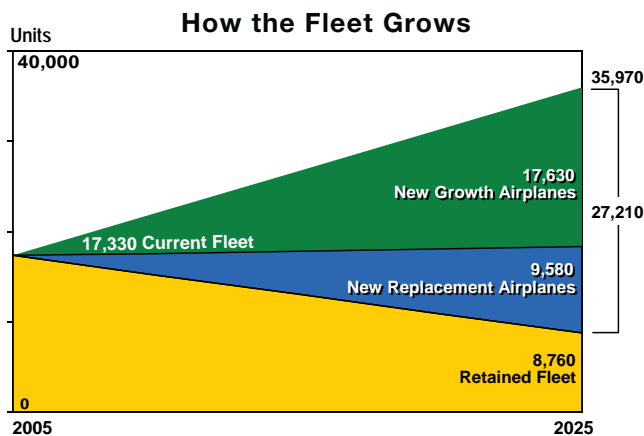
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Global Economic Growth, Liberalization Drive Airplane Demand

Air transport is a crucial part of the global economy. People need to fly and airlines need new airplanes, both to satisfy growing demand and to improve the efficiency and economics of their fleets. Over the next 20 years, global demand for commercial airplanes will create \$2.6 trillion worth of airplane investment opportunities. Competition among airlines will continue to focus on the convenience of nonstop flights and frequent departures, sustaining the value of airplanes that are efficient and economical to operate in multiple markets. The spread of liberalization to markets outside North America and Europe will enhance asset liquidity and reduce investment risk.

Global GDP, a reliable indicator of demand for air transport, is projected to grow at an average rate of 3.1% per year over the next 20 years. The 2006 Boeing Current Market Outlook projects that air traffic will continue to outpace GDP growth, with passenger traffic growing an average of 4.9% per year and air cargo traffic growing an average 6.1% per year.

Demand for new airplanes is the product of expanding air transport markets and the need to replace older, less efficient airplanes in the existing fleet. During the next 20 years, airlines will replace 9,580 airplanes, 2,220 of which will be converted to freighters and remain in the active fleet. To meet growing demand for air transport services, the world's air carriers will add 17,630 new airplanes to their fleets, requiring a total of 27,210 new airplane deliveries by the year 2025. This rising demand will keep airplane asset values strong and stable throughout the forecast period.



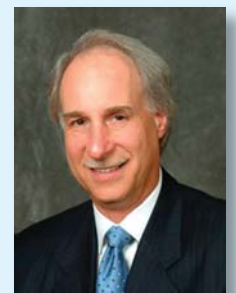
The global commercial airplane fleet will grow from 17,330 airplanes today to 35,970 in 2025, with delivery of 9,580 replacement airplanes and 17,630 new airplanes for fleet expansion.

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The Right Product Strategy For Highest Value, Lowest Risk

By *Walt Skowronski*

Airplanes are a good investment. This simple conclusion follows from the burgeoning demand for passenger and air cargo services, which in turn drives airlines' need for airplanes. In this issue of *Point-to-Point*, we review Boeing's recently released 2006 *Current Market Outlook*. A standard reference for the commercial aviation industry and the financial community since its first publication in 1954, the *Current Market Outlook* summarizes the market trends and airline needs that drive the Boeing product strategy and differentiate Boeing airplanes from the competition.



Walter E. Skowronski
President, Boeing
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Global economic growth and the need to replace older, less efficient aircraft will generate demand for more than 27,000 airplanes over the next 20 years—creating \$2.6 trillion in airplane investment opportunities.

The single-aisle segment of the market will generate the greatest number of airplane investment opportunities with a requirement for well over 16,000 airplanes. On the other hand, twin-aisle airplanes, such as the Boeing 787 and 777, will capture 45% of the total airplane investment dollars, with more than 6,000 deliveries. The large airplane market, though accounting for fewer than 1,000 deliveries over the next 20 years, represents 10% of the market's value or \$260 billion.

Boeing's entry in the large airplane segment, the new 747-8 Intercontinental and 747-8 Freighter, illustrates how Boeing builds investment value into its airplane products. The 747-8 incorporates many advanced features of the 787 Dreamliner to achieve higher efficiency, greater payload capability, longer range, and improved environmental performance. The 50 operators flying 747-400s today can gain these advantages using existing facilities and ground equipment and their same pool of pilots and cabin crews. Most importantly, they can fly into and out of all 210 airports around the world that the 747 can currently serve.

Boeing focuses on building airplanes that succeed as investments as well as commercial revenue earners. That means airplanes with the range, speed, and economic performance for varied markets; airplanes that are simple to reconfigure and transition to new owners, missions, and regions of service; and airplanes, that fit a wide variety of airline business plans. The tremendous market acceptance of the 747-8 Freighter, complemented by Lufthansa's recent major order for the first 747-8 Intercontinental is a clear testament to Boeing's product strategy. ■

The Right Airplane for the Large Airplane Market

747-8: A High-Value, Low-Risk Investment

The 2006 *Current Market Outlook* forecasts that large airplanes will account for 3% of the airplane investment opportunities and 10% of the airplane investment value over the next 20 years. While liberalization of commercial aviation markets will hold average airplane size steady, there will be a market for 990 large airplanes (about 650 passenger jets and 300 freighters) to serve the world's busiest long-distance routes and markets where competition is constrained by regulation or takeoff slot limitations.

The new 747-8 Intercontinental passenger jetliner and 747-8 Freighter are excellently positioned to capture the major part of the large airplane market over the next 20 years. With 1,475 total orders and 1,379 airplanes already earning revenue in airline fleets, the 747 family will continue to be the prevalent airplane in the market it created. Easy to integrate into the fleets of current 747 operators, the new 747-8 offers longer range, larger revenue payload, and superior environmental performance, while reducing operating costs. But one of the 747-8's most valuable assets is its ability to serve the 210 airports where the 747-400 is currently welcome.

Providing a low-risk path for continuous upgrades, the 747-8 allows operators to replace older, less efficient airplanes, or improve the efficiency and economics of their fleet. This continuity enables operators to preserve the valuable service networks they have developed for the 747 family. In particular, because Boeing long-range airplanes are designed to complement each other in commercial operations, airlines can introduce the 747-8 into their networks without eroding the frequency of flights or sacrificing nonstop service.

Flexibility Creates Value

Even the healthiest passenger and cargo markets are subject to fluctuation—by season, day of the week, time of day, or even direction of travel. Airlines must routinely shift airplanes to match demand that migrates from market to market within their networks. Scheduling the right airplane for the right market spells the difference between profit and loss. The 747-8 is the right size and has the right capabilities to serve multiple markets and turn a profit on a variety of routes.

Building a continuous family of aircraft that complement each other in commercial service is an important element of the Boeing product strategy. The Boeing product line includes five sizes of airplanes—from 200 seats to more than 450 seats—that share the same speed, range, comfort, and economics. The 467-seat 747-8, as the world's only airplane in the 450-seat market, plays an indispensable role, serving high-density long-range routes.

Designed to replace older 747s that will be retiring from service over the next 20 years, the 747-8 will eventually succeed the 747-400 as the icon for long-distance comfort. There is no other airplane that is the right size to serve the 747's varied missions—providing non-stop passenger service between the world's busiest long-distance city pairs and carrying more than half the world's air cargo, as measured by value.



A spacious entry way, vaulted ceilings, and elegant cabin architecture welcome passengers aboard the 747-8 Intercontinental. During the flight, cabin lighting varies continuously to match the time of day, helping passengers adjust naturally to the destination time zone.

A Worthy Successor to the 747-400

It takes more than superior efficiency and increased revenue payload to make the 747-8 a worthy successor to the 747-400. Airlines challenged Boeing to create a new 747 that offers breakthrough environmental performance, new sources of revenue, and the revolutionary passenger experience pioneered by the 787 Dreamliner. Financiers challenged Boeing to design an airplane that maintains superior asset value and liquidity throughout its life cycle.

Technologies from the 787 rose to the challenge, which is why the newest 747 received the “-8” designation. In addition to GENx engines, advanced light-weight materials, high-technology flight-deck features, and an innovative wing design for superior efficiency and operational economy, the 747-8 incorporates an all-LED lighting system, more overhead stowage, and cabin architecture inspired by the 787 to delight passengers who have come to regard the 747 as the pinnacle of airborne elegance.

In addition, the 747-8 offers new sources of revenue by making productive use of the space above the main passenger deck. Equal in volume to a 737 passenger cabin, this SkyLoft allows airlines to move equipment that doesn't generate revenue, such as galley carts, from the main deck. This frees up main deck space for additional seats or premium comfort and convenience features. The most innovative use of this space is for SkyLoft suites, premium passenger amenities that can be outfitted as a business center, as office spaces, as sleeping compartments, or as a lounge.

Redefining environmental responsibility in the large airplane market, the 747-8 uses less fuel and produces lower carbon dioxide emissions than its predecessors or competitor. The 747-8 also meets or exceeds NOX emission targets of the Committee on Aviation Environmental Protection. The quietest large airplane ever built, the 747-8 will produce 30% less noise on takeoff than the 747-400. Together, these environmental improvements mean lower landing and navigation fees and fewer airport emissions charges.

The technologies and features integrated into the 747-8 enhance the airplane's market flexibility, passenger appeal, and revenue earn-

ing potential, while reducing economic risk and improving liquidity for leasing companies and airline investors. With a large pool of potential operators and more standard features, the 747-8 is easy to transition from one operator to another. The 747's unequalled success as a freighter ensures that the 747-8 will enjoy a long service life, extending well beyond its decades of service in the passenger role.

Because the 747-8 fits easily into airports and airline fleets around the world, demand will remain strong and placement opportunities will be plentiful on all six continents currently served by the 747-400, providing an excellent hedge against regional economic down cycles and shocks. ■

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Liberalization, Competition Shape Market Growth

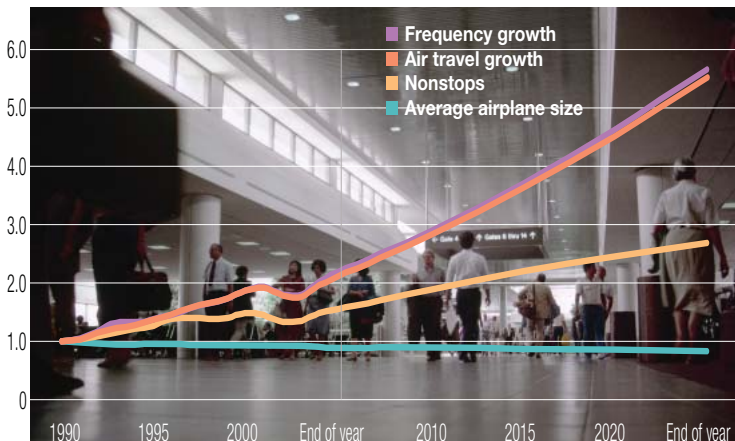
Liberalization of air transport markets ushered in the current era of competitive fares and convenient service in North America and Europe. Even in these regions, where liberalization has taken firm hold, there is room for further progress as trade barriers and restrictions on international ownership persist. Of equal importance over the long term, the world's developing economies are increasingly embracing liberalization, in order to unleash the benefits of airline competition.

Competition fostered by liberalization will continue to favor airlines that offer nonstop flights and frequent departures. Consequently, airlines will meet traffic growth requirements primarily by increasing frequencies and adding new point-to-point flights.

The largest number of aircraft investment opportunities will come from single-aisle airplanes, which will account for 16,540 deliveries. The greatest share of investment value will come from twin-aisle airplanes, which will account for 6,230 deliveries. Large airplanes, the size of the Boeing 747 and larger, will offer only 3% of the airplane investment opportunities over the next 20 years, but will represent a 10% share of the total investment value.

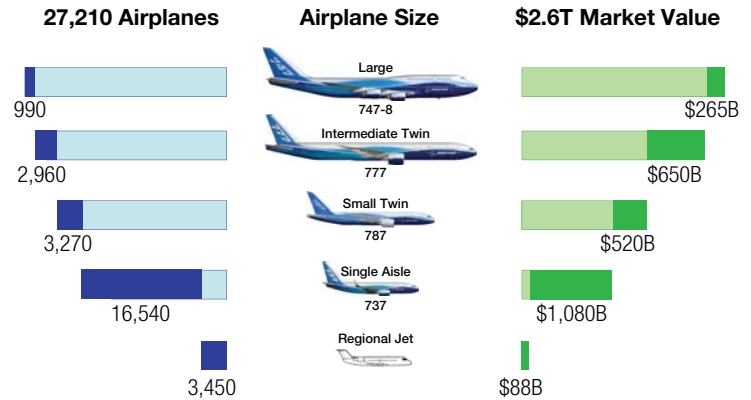
How Air Travel Will Grow

Air Travel Growth Parameters Indexed to 1990



Competition in liberalizing markets will spur airlines to offer more frequent and direct flights. Average airplane size will therefore remain stable at the same level it has maintained since 1990.

How Investment Opportunities Will Grow



The single-aisle market presents the greatest number of investment opportunities, while the twin-aisle market captures the greatest share of investment value.

Geographical Diversity Reduces Economic Risk

The global market is becoming more diverse across the world's regions. Traditional market giants, North America and Europe, will continue to be strong players, accounting for a 35% and a 24% share of the total market by number of airplanes delivered.

Yet the next 20 years will see the Asia-Pacific region become the world's largest passenger traffic market. Asia-Pacific will gain a 29% share of airplane deliveries to surpass Europe's delivery share. In terms of value, the region's \$930 billion worth of deliveries amount to a 36% share of the total \$2.6 trillion market, surpassing both North America's 28% share and Europe's 24% share.

Markets in the world's other regions are also strengthening. The Middle East region has used its well-developed airport infrastructure and liberalized air service agreements to create vibrant centers of tourism and commerce. Middle East airlines will take delivery of 1,110 airplanes, 56% of which will be long-range, twin-aisle jets, including 80 airplanes in the 747-or-larger size category.

Profitable airlines are not limited to the world's largest markets. Each of the world's six regions can claim at least one airline that ranks in the top seven, in terms of profit margin. In fact, six of the top 30 airlines are from Africa or Latin America. Latin America will take delivery of 1,680 new airplanes, mostly single-aisle jets for service within the region, as new airlines spring up and the low-cost business model spreads. Africa, with more than 50 nations, more than 12% of the world's population, and an economy expanding 40% faster than the world average at 4.4% per year will need 430 new airplanes. Increased leisure travel, especially from Europe, and commerce between countries not connected by ground transport will bolster demand in the region.

The growing diversity of the airplane market reduces airplane investment risk by facilitating placement of airplane assets and providing alternative markets as a hedge against regional economic cycles.

Clearly, the next 20 years offer rich airplane investment opportunities. The Boeing product strategy is firmly based on the market realities that create value for airlines and financiers alike. Boeing Capital Corporation is dedicated to help Boeing customer airlines obtain favorable financing for their fleet enhancement and expansion requirements. Bringing investors and financiers together with airline customers, we facilitate all types of airplane transactions, including sales, leases, title transfers, and airplane upgrades and conversions. ■

Noteworthy Developments

Cape Town Update:

- Afghanistan, Mongolia, and Kenya become 11th, 12th, and 13th countries to ratify Cape Town Treaty.

Boeing Program Update:

737:

- 737-900ER takes first flight, commencing five-month flight test program.

747:

- Boeing completes firm configuration of 747-8 Freighter design (studies needed to finalize airplane performance capability).
- Lufthansa becomes first customer to order 747-8 Intercontinental passenger airplane.

777:

- Boeing begins use of moving final assembly line for 777 jetliners. (Improves productivity and quality by creating leaner, more efficient production system that identifies and eliminates waste; makes problems visible and creates urgency to fix root causes.)

787:

- Boeing Composite Manufacturing Center begins fabricating 787 vertical fin.
- 787 Dreamliner rolls out – virtually – for employees, customers and partners, featuring production and final assembly.

BBJ:

- Newest business jet, the BBJ 3, based on the 737-900ER, launched on BBJ's 10th anniversary.
- Boeing Business Jets launches widebody VIP airplanes with customers for 787, 747-8 BBJs.



747-8 Intercontinental
in Lufthansa's livery

Recent Airplane Order Announcements

(* Includes purchase agreements and customer intention announcements – as of 12/12/06)

- Air Berlin – (60) 737-800s and (15) 737-700s, for combined value of \$5.1B at list prices*
- Continental – 12 more 737-900ER conversions, for total of 24
- Ryanair – (32) 737-800s, valued at \$2.25B at list prices
- Hainan Airlines – (15) 737NGs, completing previous 150 China airplane order
- EgyptAir, KLM – (6) 737-800 options each
- Travel Service – (2) 737-900ERs with 2 purchase rights
- Guggenheim Aviation Partners – (4) 747-8 Freighters with 2 options and (3) 777 Freighters with 1 option
- Atlas Air – (12) 747-8 Freighters
- Emirates SkyCargo – (10) 747-8 Freighters, valued at approximately \$2.8B at list prices
- Lufthansa – (20) 747-8 Intercontinentals, listed at \$5.5B, plus 20 purchase rights
- ANA – (2) 767-300 Boeing Converted Freighters options
- FedEx Express – (15) 777 Freighters with 15 options
- TAM (Brazil) – (4) 777-300ERs (first Boeing airplanes in fleet; currently operates only Airbus A319/320s and A330s)*
- China Southern Airlines – (6) 777 Freighters*
- Air France – (1) 777-300ER
- Korean Air – 25 Boeing airplanes: (10) 777-300ERs, (5) 747-8 Freighters, (5) 777 Freighters and (5) 737NGs, at list value of about \$5.5B*
- Philippine Airlines -- (2) 777-300ERs with 2 purchase rights*
- PrivatAir – (1) 787 BBJ VIP Dreamliner
- CIT Aerospace – (5) 787-8 Dreamliners
- First Choice -- 2 more 787 Dreamliners
- Aeroméxico – 2 more 787-8s and 10 more 737-700s
- Singapore Airlines – (20) 787-9s with 20 more purchase rights
- Nakash Group (Arkia Israeli Airlines) – (2) 787s

Boeing Commercial Airplanes Order Tally

(2006 firm net orders through December 6, 2006 – 855)

737NG	– 576	(Model totals through November 2006 – 101 customers – 3,543 orders)
747	– 67	(83 customers – 1,475 orders)
767	– 8	(66 customers – 963 orders)
777	– 60	(46 customers – 887 orders)
787	– 144	(37 customers – 458 orders – 435 firm – 23 announced commitments)

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