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Aircraft Financing: Reflecting on 2009 and anticipating 2010

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The aircraft financing marketplace in 2009 certainly delivered the excitement that was anticipated, along with multiple challenges and some pleasant surprises. We are gratified by how the year has unfolded in line with our forecast and we expect a similar and still manageable aircraft financing environment in 2010. This time last year, the global financial markets were experiencing historic levels of volatility and fragility and an accompanying lack of liquidity. Aircraft finance was not immune from these pressures and some of our industry's luminaries were forecasting dire outcomes for the year.



We at Boeing Capital were also concerned about how market conditions could affect our ability to finance 2009 deliveries. In late 2008, we went through a comprehensive analysis to develop a forecast of 2009 conditions. It considered every scheduled Boeing delivery and closely scrutinized each airplane's financing plan. This served as the basis of our bottoms-up analysis. In addition, we worked closely with the aircraft financing community to determine the industry's funding capacity as the basis for our top-down analysis. Reconciling these two perspectives provided us confidence that the funding task could indeed be manageable.

We concluded that any potential shortfall in financing for 2009 deliveries of large and regional jets would be in the range of \$0 to \$5 billion, relative to the total funding requirement of \$68 billion. To us, this meant that either some airplanes would not be delivered due to lack of

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787 Dreamliner makes first flight, enters six-plane test program

The first 787 Dreamliner took to the skies for the first time December 15 from Paine Field in Everett, Wash., ushering in a new era in air travel.

The newest Boeing jetliner family took off at 10:27 a.m. local time under the control of Capt. Mike Carriker and Capt. Randy Neville. It landed approximately three hours later at Seattle's Boeing Field. The flight took it to an altitude of 15,000 feet (4,572 meters) and an air speed of 180 knots, or about 207 miles (333 kilometers) per hour, during which the flight crew tested some of the airplane's systems and structures.

It marks the beginning of a flight test program that will see six airplanes flying nearly around the clock and around the globe, with the airplane's first delivery scheduled for fourth quarter 2010.

Fifty-five customers around the world have ordered 840 787s, making the Dreamliner the fastest-selling new commercial jetliner in history. ■



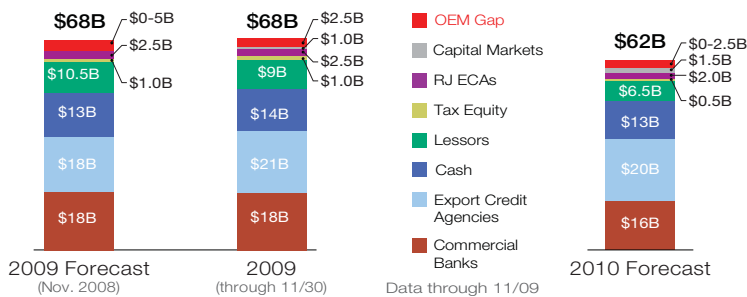
A Dream First Flight: The 787's maiden flight was limited only by weather, with the flight crew on landing reporting performance as expected and no technical surprises (Boeing photo)

financing or that manufacturers would be called on to bridge the gap.

As we close out 2009, our prediction is turning out to be accurate and even conservative. We expect the manufacturers will have to finance less than \$2.5 billion in deliveries, with almost no white tails, and that Boeing's total new aircraft financing will be significantly less than the approximately \$1 billion we planned for at the start of the year.

This exceptional performance by our industry now needs to be followed up with new accomplishments to address the still difficult financing environment expected next year. Our 2010 analyses indicate a smaller potential commercial funding short fall than we forecasted for 2009. We project that any likely gap would be \$2.5 billion or less, relative to a smaller anticipated total industry requirement of \$62 billion dollars for the large and regional jet manufacturers. The accompanying chart (see 2009-2010 Delivery Financing) shows the expected capacity breakdown among the various financing sources.

2009 – 2010 Delivery Financing



Commercial bank debt continues to be a mainstay of aircraft finance. While European banks have seen unprecedented market pressures, their aircraft portfolios are weathering the liquidity crises well. In general, most funding commitments made prior to the severe market disruptions have been kept, even by the banks that have terminated their aviation business. Continued evolution of regional banking, led by Chinese banks, is becoming a vital complement to European banks. In 2010, we anticipate a slightly smaller volume of commercial bank debt compared to this year but a more stable and predictable environment

than we saw in 2009.

Lessors provided a meaningful amount of funding capital for 2009 deliveries and will continue to do so in 2010. However, we recognize that their inability to borrow unsecured results in them being a shrinking capital source. The aircraft leasing segment is returning to its roots of aircraft-secured capital, with stronger balance sheets and less SPC structuring.

Capital markets have turned out to be the pleasant surprise of 2009. Few anticipated their strong recovery in 2009. The EETC markets reemerged this summer and have continued to gain strength. Junior tranches that have been absent for quite a while have returned as well. New export credit syndications are creating incremental liquidity for new aircraft deliveries. At the same time, airlines around the world have been able to raise a great deal of cash on an unsecured basis. Continued strength in the capital markets in 2010 could offset any declining year-to-year capacity in other funding categories.

Export credit has been a critical and major funding source in 2009. Here in the U.S., the Ex-Im Bank doubled its volume relative to past years. At the same time, Ex-Im facilitated the evolution of new capital markets liquidity, brought new banks into the export credit arena, created new structures that address commercial banks' long-term funding cost concerns and greatly expanded its business with lessors. Ex-Im Bank implemented all of this crucial support with the Bank's usual prudence that over the years has helped level the playing field for a major U.S. export, sustained tens of thousands of industry jobs and generated a significant profit for U.S. taxpayers. In 2010, we believe export credit overall will continue to play a major role of being a needed industry supplement during commercial market disruptions.

We close out 2009 being most grateful that the world's aircraft finance community has so successfully navigated the global financial markets turbulence. We are cognizant that major challenges yet remain for 2010 and confident that by again closely working together with each of the aircraft financing markets, 2010's delivery requirements can again be successfully managed. Best wishes for the New Year! ■

Please direct questions or feedback to the following:

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