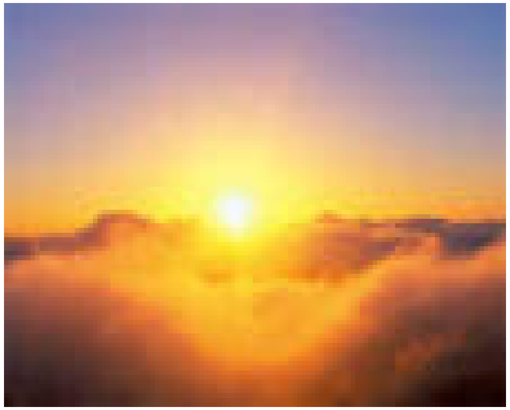

Aircraft Demand – a Lessor's Perspective

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GE Commercial Aviation Services (GECAS)

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5th Annual Wings of Russia Aviation Forum
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First a brief GECAS refresher…

A leading aircraft lessor & financier, providing a wide range of fleet, financing and productivity solutions to the worlds airlines

- ~1,700 aircraft operating lease portfolio
  - 1,400 owned + 300 managed
  - spanning CRJ to B747, including freighter types
  - ~$45 billion in asset value
- Secured loans, engine + rotables leasing/financing,airport infrastructure development

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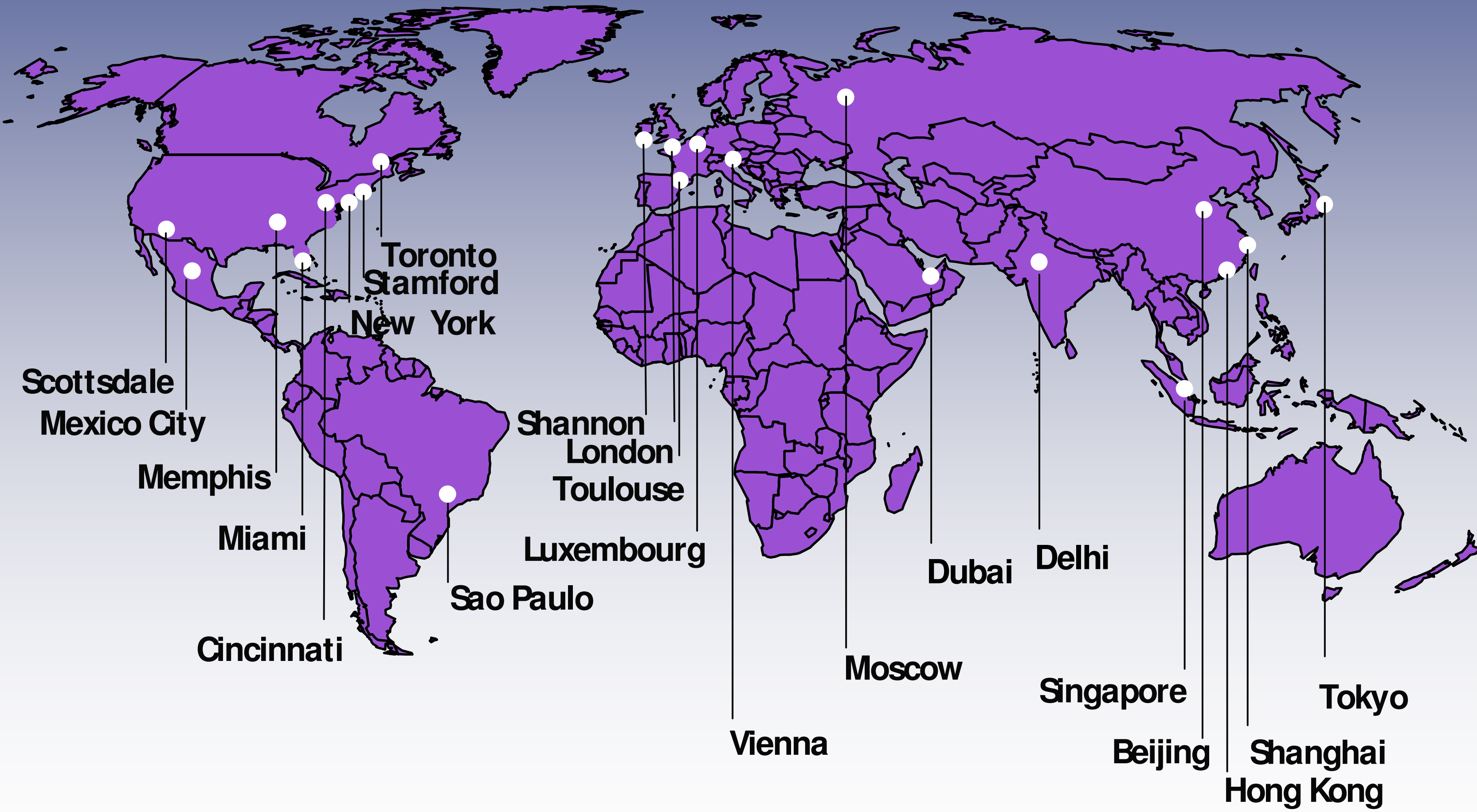
Global reach…

22 offices – 225+ customers in 60+ countries



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GECAS in Russia

- Current:
  - 2 Moscow based Sales VPs & Administrative Assistant
  - 116 Aircraft + 5 engines/QECs via operating leases, secured loans & sales
    - 92 delivered/funded, 29 committed
  - $2.2 billion exposure
  - 14 customers

- Upcoming:
  - 2nd GECAS Technical Conference for customers – December 5
  - Moscow based rotable store (initially B737 classic) launch – 4th quarter

The Big Picture…

Macro View

Cyclical Trends

- China, Southeast Asia & India booming
- Europe & Japan enjoying upswing
- Energy/resource-driven economies benefiting Middle East, Russia & Africa
- "Goldilocks" economy in US – sub-prime credit/housing woes the bear still lurking in the room

Secular Trends

- Strong emerging market traffic growth as GDP per capita rises, demographic/lifestyle changes in US/EU
- Global savings glut as trade surpluses, petro-dollar, retirement assets build along with "alternative investments" allocations
- CO_2 emissions..evolution or revolution?

Synchronous global growth, secular trends potentially mitigating shocks… great for placing "metal", less so for deploying "money"

Aircraft Demand

Emerging Regions Strong

- Demand strong everywhere, notably "south-south" axis
- China/SE Asia still growing, India digesting orders
- Middle East booming with flag carriers refleeting, start-ups tapping underserved (e.g. migrant traffic) and new demand
- Brazil, Mexico & Europe markets strong driven by LCC scalability needs
- Russia, Africa strong driven by fleet replacement needs resulting from economic/operating inefficiencies

Mature Regions Refleeting

- Network carriers replacing MD80, B737 classic, select widebody types, even US majors
- Cargo operations converting/deploying older B737, B757 & B767 as freighter; A320 around the corner
- New long-haul LCC start-ups seeking WB's

Organic growth + replacement needs fueling demand

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Aircraft Supply

<u>OEM's</u>
- Manufacturer lines largely sold out/reserved through mid-2011 (and beyond in some categories!), thereafter more open..plus coping with material cost/currency pressures
- Widebody products..both successes and delays..have tightened supply of new, cargo demand siphoning off some used supply

<u>Lessors</u>
- New order skyline substantially placed out through mid-2010
- Used supply very limited through mid-2009 (especially sister-ships)

<u>Airlines</u>
- Few, if any, bankruptcies/downsizing on immediate horizon
- Startup failures, select foreign + LCC mergers/restructurings or US slippage could result in some pockets of supply

Very tight now..rapid growth airlines will need to consider multi-year contracts, mixing new & used aircraft

The Money Glut

Debt

- Excess capital, entry of shipping lenders, Basel 2 leading to spread compression
- Local banks in emerging markets also building up book & taking on higher risk/startup credits
- Capital markets open for exit financings, aircraft purchases, buyouts
- ECA/EXIM window open though some trend toward fewer subsidies

Equity

- Purchase prices bid up, returns bid down on used + new aircraft
- Hedge funds/private equity buying used equipment or platforms…but some seeking trade exits/IPO's as well
- Commercial banks, traditional lessors bidding on newer aircraft
- New entrants include public infrastructure/REIT-type sponsors & emerging market entities out of lower tax rate areas
- Recent credit squeeze has triggered some re-pricing

Huge liquidity pool seeking transportation assets/franchises

Spotlight on Russia…

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Economics/efficiencies continue to drive Russian fleet renewal…

- ~600 aircraft remain in active service (50+ seats)
- ~300 facing retirement within 2-5 years (avg. age ~32 years)
- ~250 face gradual retirement (avg. age ~20 years)
- Represents loss of 12-14 million seats/year

Yet replacement hindered by…

- Import tax on foreign produced aircraft
- Low rate of Russian aircraft production
  - ✈ while expected to improve gradually from 2008 starting with Superjet, will take 5-7 years to scale-up and produce at meaningful rates across multiple product categories

The implications for Russian airlines?

- Current:
  - Competing globally (i.e. mature jurisdictions, stronger credits) for limited supply, both narrow- and wide-body types
    - ✈ Must have a strong story, action-oriented culture to compete effectively
  - Increasing interest by banks to finance aircraft in Russia, but remain sensitive to event risks

- Short to Medium-term:
  - LCCs & cargo conversion demand will constrain B737 supply
  - B787/A350XWB "bridge" lift demand will constrain widebody supply
  - Import tax policy – an opportunity (WTO)..and threat (age based bias)?
  - Foreign register saturation
    - ✈ Cape Town ratification would mitigate risk, lower leasing/financing costs

In summary…

- Aircraft supply is tight..and will remain so for the foreseeable future
- Lease rates at/near peak levels..and will remain so for foreseeable future
- Abundance of money (chasing financing opportunities)..if you can find the metal
- Secular trends mitigating looming threats..for now
- Wildcards ⇨ oil (where go from $80..⬀ or ⬂ ?), US economy (could housing weakness trigger the "R" word?), Iran (a new front?)

Must be able to clearly define your need, adjust your horizon and be nimble…

to succeed and grow!

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Thank You