**Operator**

Ladies and gentlemen, welcome to BOC Aviation 2018 half year results call. Mr Timothy Ross, please begin.

**Timothy Ross**

Thank you operator and welcome everyone to BOC Aviation's earnings call to discuss our interim results for the half year ended 30 June 2018. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Phang Thim Fatt and our Chief Operating Officer, David Walton.

Please note that some of the information you'll hear during our discussion today may consist of forward-looking statements, which are subject to risks and uncertainties that may cause actual results to differ materially from statements made today. You should not place undue reliance on any forward-looking statements and you should review our results announcement for full details. Please also note that all currency references are in USD only.

A copy of our earnings announcement is available both via the Hong Kong Stock Exchange and in the Investors' section of our website at www.bocaviation.com, and a conference call presentation is also available in the Investor section of our website. This call is being recorded and will be available for replay from our website within the next 24 hours as is a transcript of today's management presentation.

I'll now hand over the call to Robert Martin, to provide an overview of our business and strategy.

**Robert Martin**

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2018 interim results earnings call.

We are delighted to report a net profit after tax of $297 million for the first half of the year, up 24% on the first half of 2017 and equivalent to earnings per share of 43 cents. Our earnings were driven by growth in our revenue and our aircraft assets: total revenues and other income rose 23% compared to 1H 2017 and the Net Book Value of our fleet rose 18% to US$14.3 billion compared with June 2017.

In light of our robust earnings performance our Board has declared an interim dividend of 12.84 cents per share, payable to shareholders of record on 5th of October. This interim dividend represents a 24% increase over the dividend paid in the first half of 2017 and is consistent with last year's distribution pattern: namely, an interim pay-out ratio of 30% of first half NPAT. The Company's policy remains to make a total annual dividend payment of up to 35% of full year net profit after tax.

We ended the first half with total assets of $17 billion, as we continued our efforts to grow our balance sheet through investment in aircraft.

We enter the second half of 2018 with cash and committed liquidity of $3.9 billion. This positions the company well to fund both our contracted investments in aircraft and further growth in the portfolio. During the period in review, both S&P Global Ratings and Fitch Ratings reaffirmed our industry-leading corporate credit ratings of A minus.

Turning to the market backdrop, despite some potential headwinds, macro conditions remain broadly positive for the aircraft operating leasing industry. On the airline demand side, traffic continues to perform ahead of long term growth expectations, with air travel demand remaining robust. Airline passenger traffic as measured by IATA – the trade association for the world's airlines - rose 7% in 1H 2018, above the long term trend rate of 5%. Freight activity remained high, with IATA reporting freight traffic growth of 4.7% for its members for the half year.

However, looking forward, some airlines will be impacted by rising interest rates and fuel prices, the effects of currency volatility and revenue impact from the delayed delivery and introduction of new technology aircraft. This saw IATA reduce its earnings expectations for 2018 for the airline industry in June to $33.8 billion. This number still represents the industry's fourth best earnings period ever.

The availability of US Dollar liquidity remains high. This is partly driving the strong demand for purchases of aircraft with leases attached that we continue to see from aircraft investors. Greater liquidity is also good for the funding side of the business and long-term interest rates remain low in a historical context.

We saw LIBOR rates move up for our floating rate leases and our LIBOR-based funding cost also increased. There was no adverse impact on our net lease yield due to our active hedging policy. Net lease yield – which captures both the effects of interest rate fluctuations and the competitive lease rental environment – remained stable at 8.5% for 1H 2018.

The supply of new aircraft to the market is barely keeping pace with demand for both the narrowbodies and the new technology widebodies that account for the majority of our fleet. Capacity utilisation, as measured by IATA passenger airline load factors, have been pushed up to record levels. Supply chain issues have visibly limited production ramp up, with pressure evident in a number of areas of the manufacturer supply chain, including at all engine manufacturers. These factors continue to limit timely aircraft deliveries to airlines and leasing companies.

We have been actively investing in new technology aircraft, with A320NEO, 737MAX, A330NEO, 787 and A350 aircraft representing over 95% of our orderbook.

In 2017, the Board implemented a change in the long term incentive plan for management, where 50% of future long-term incentives are to be invested in BOC Aviation shares. The first tranche of shares was purchased by a trustee in the secondary market, following our 2017 results announcement in March 2018. These shares will vest after the third year following their grant and marks part of our commitment to align management with shareholders.

I'll now hand the call over to David to speak to our operations and business development and then Thim Fatt will take over for a more detailed review of our P&L and balance sheet.

**David Walton**

Thank you, Robert and let me add my thanks to you all for joining us this evening.

In the first half of 2018, we delivered 27 new aircraft from our orderbook to airline customers, including one where the customer exercised a purchase option at delivery, giving us 26 new aircraft added to our owned portfolio. Our total fleet stood at 487 aircraft at the end of June 2018, comprising 295 owned and 29 managed aircraft and an orderbook of 163 aircraft delivering between now and the end of 2021.

Our core lease rental contribution, which is defined as lease revenue less finance expenses and depreciation and amortisation of debt issuance and lease transaction closing costs, continues to be the principal component of our pre-tax earnings. This rose 20% in 1H 2018 to $312 million and represents a sustainable long-term income stream that recurs across the cycle, given our average remaining lease term of 8.3 years.

We continue to have close to $15 bn in contracted future lease revenues, similar to levels at the end of June 2017.

We are pleased to announce that we had another half year with strong portfolio utilization of 100%, and in 1H 2018 our collection rate was 99.5%. The average appraised value of our fleet was $15.9 billion dollars on a full life, current market value basis, representing an 11% premium to the fleet's net book value of $14.3 billion.

We sold 18 aircraft from the owned fleet during the first half, similar to the 19 aircraft sold in 1H 2017. The weighted average age of our owned portfolio is now three years and remains one of the youngest in the industry. During the first half we signed 30 lease commitments with airline customers and all of our 2018 scheduled new aircraft deliveries have lease commitments with airlines.

We have a regular dialogue with our customers regarding their appetite for the most popular modern Airbus and Boeing models, and we are seeing good lease demand for aircraft in our orderbook. In 1H 2018, 52% of our fleet by net book value was deployed in Asia-Pacific, reflecting the faster rates of air traffic growth in this region relative to more mature economies.

Interest, fee and other income increased substantially compared to the first half of last year to $35 million.

We have 31 aircraft scheduled for delivery in the second half of the year and we are working to add to that number.

With that, I'll turn it over to Thim Fatt.

**Phang Thim Fatt**

Thank you, David. With reported net profit after tax of $297 million for the first half, we have now produced sustained growth in EPS and net assets per share over the five earnings periods since our IPO. Our earnings per share was 43 cents per share, increasing 24% over 1H 2017, while net assets per share, rose 5% to $5.75 from the end of 2017.

The principal driver of the growth in earnings was a 23% increase in total revenues and other income. Our core lease rental contribution was $312 million, which - net of operating costs - represented 79% of net profit before tax.

Our lease rental income rose 24% compared to 1H 2017 as we increased the size of our fleet, as higher interest rates lifted our floating rate lease revenues and as new leases signed on higher fixed rates also contributed to the rise.

Pre-tax gains on aircraft sales were $37 million, equivalent to 11% of NPBT. Interest, fee and other income amounted to $35 million and comprised 10% of our NPBT.

Depreciation was up 23% compared to 1H 2017, reflecting the growth in the size of our fleet.

Finance charges increased by $42 million, driven primarily by an increase in our borrowings and as LIBOR rose. As the proportion of fixed rate leases have increased, we increased the proportion of our fixed rate debt, which also contributed to the rise in our average cost of funds to 3.1% in 1H 2018 up from 2.8% for the first half of 2017.

Staff costs rose by US$9 million and represented approximately 5% of our total revenue and other income in 1H 2018, in line with 4.8% in 1H 2017. The increase in cost was a consequence of higher staff numbers, a lower provision for variable compensation in the first half of 2017 as earnings for the full 2017 year were much better than initially envisaged, as well as the amortisation of costs in relation to the share based incentive plan mentioned earlier by Robert.

Other operating costs in 1H 2018 were $25 million, 16% higher than the previous year but growing more slowly than our revenue base. We had no impairment charges in 1H 2018 and our average tax rate fell to 9.8% from 10.6% in 1H 2017, primarily as a consequence of the reduction in the US federal tax rate.

At the end of June 2018, our total assets had increased 7% - or about $1.1 billion - to $17 billion from the end of 2017. Our gross debt to equity remained 2.9 times, similar to year-end 2017 levels.

We had capital expenditure of $1.9 billion in 1H 2018 primarily related to our aircraft deliveries and we are currently committed to aircraft capex of $3.5 billion for the full year.

Our borrowings increased, rising 7% to $11.7 billion at the end of June 2018 compared with the end of 2017, reflecting the borrowing activity that included successful bond and floating rate note offerings and raised $1.2 billion under our GMTN program.

Now back to Robert for his final comments.

**Robert Martin**

Thanks Thim Fatt. The six months ended June 2018 has been the most profitable first half in our company’s history as earnings per share rose 24%. Our balance sheet strength and committed future revenue of close to $15 billion position us well. The 24% increase in our interim dividend demonstrates our commitment to increasing shareholder distributions in line with earnings growth. It also underpins our focus on total shareholder return, which was an annualised 46% according to Bloomberg, for the six months ended 30th June 2018. This compares with a decline of over 3% for the Hang Seng Index during the same time frame.

We look forward to celebrating our company's 25th anniversary in November and to a successful second half.

This concludes our review of the industry and our company's financials and I'll pass the call back to Timothy.

**Timothy Ross**

Thanks, Robert. This wraps up management's formal commentary. We now have time for Q&A and request that each participant restrict themselves to one question and one follow up, unless time permits for additional queries.

I'll hand the call back now to the operator for the Q&A session.