

BOC AVIATION INVESTOR UPDATE

January 2019

Shenzhen / Hong Kong



25 YEARS
OF EXCELLENCE

 **BOC AVIATION**

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1H18 - Another Record Performance

Strong earnings growth¹

US\$297 million

 **24%**

Net profit after tax

US\$0.43

 **24%**

Earnings per share²

Driven by:

US\$825 million

 **23%**

Total revenues and other income

US\$312 million

 **20%**

Core lease rental contribution³

8.5%

 **Stable**

Net lease yield⁴

All data as at 30 June 2018

Notes:

1. Compared to the first six months of 2017
2. Based on the number of shares outstanding as at the end of the relevant period
3. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
4. Calculated as lease rental income less finance expenses divided by average net book value of aircraft
5. Compared to 31 December 2017
6. Payable to shareholders registered at the close of business on the record date, being 5 October 2018
7. Compared to US\$0.1038 paid for 1H17

Robust balance sheet⁵

US\$17.1 billion

 **7%**

Total assets

US\$4.0 billion

 **4%**

Total equity

US\$5.75

 **4%**

Net assets per share²

Higher dividend per share

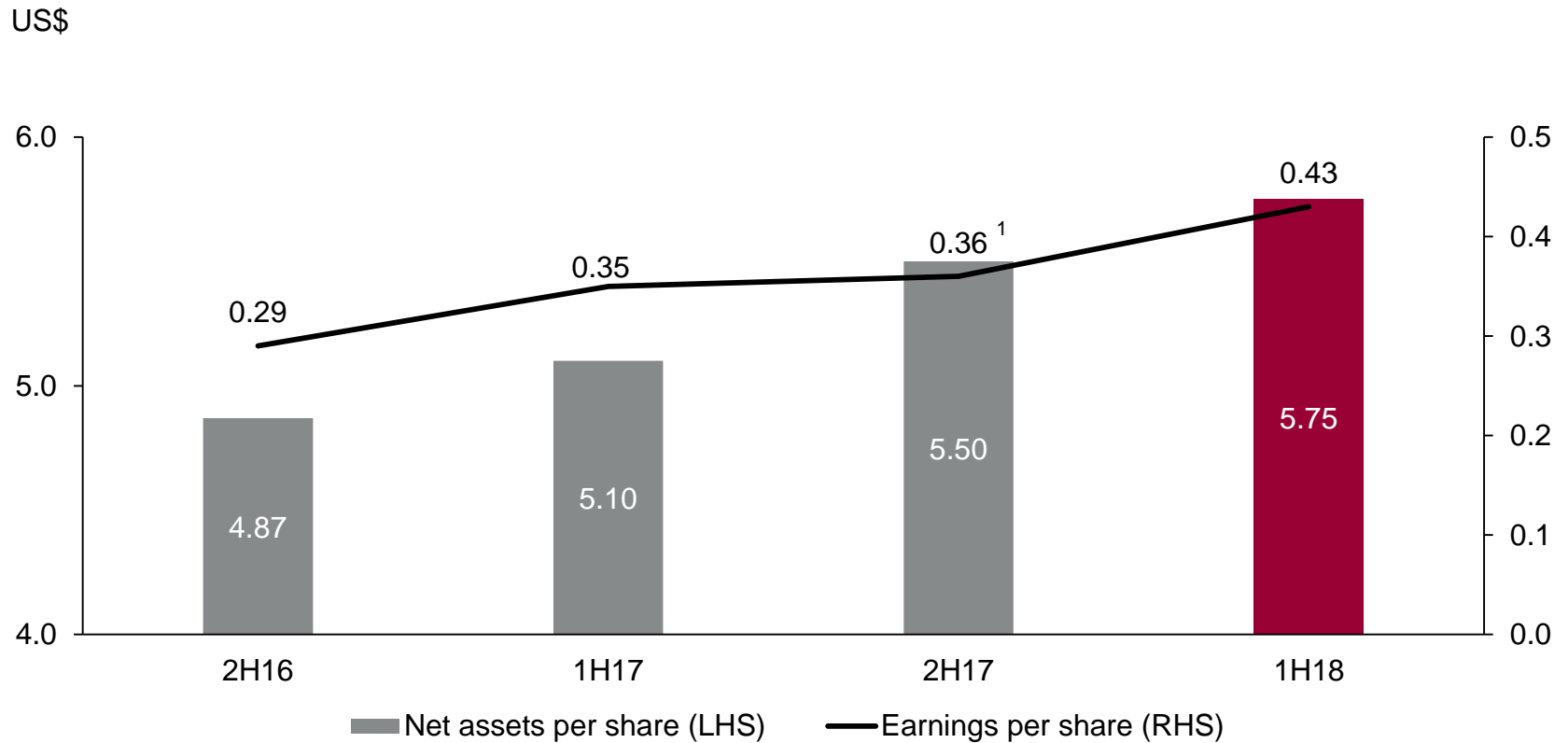
US\$0.1284

 **24%⁷**

Interim dividend per share⁶



Continued Growth in Net Assets and Earnings Per Share



18% EPS CAGR since IPO

All data as at the end of the relevant period

Note:

1. Excludes the adjustment for net deferred tax liabilities in the USA



4Q/FY2018 Operational Performance Update

- Ended 2018 with total fleet of 511¹
 - Portfolio utilization of 99.9% and cash collection rate of 99.5%²
 - Average fleet age of 3.0 years³
 - Average lease term of 8.3 years³
- Took delivery of 19 aircraft in 4Q18, and 55 aircraft in 2018⁴
 - Added 18 new airline customers in 2018
- Signed 27 lease commitments in 4Q18, and 92 in 2018
- Sold 41 aircraft in 2018
 - 34 owned, seven managed
- 79 aircraft scheduled to be delivered in 2019
- Company turned 25 in November 2018

2018 ended on a strong momentum

All data as at 31 December 2018 unless otherwise indicated

Notes:

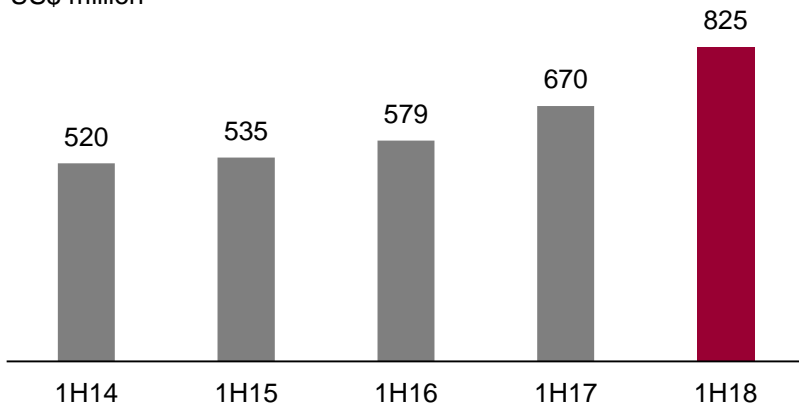
1. Included owned, managed and aircraft on order
2. As at 30 June 2018
3. Weighted by net book value of owned fleet
4. Including three acquired by an airline customer on delivery in 4Q18 and five in 2018



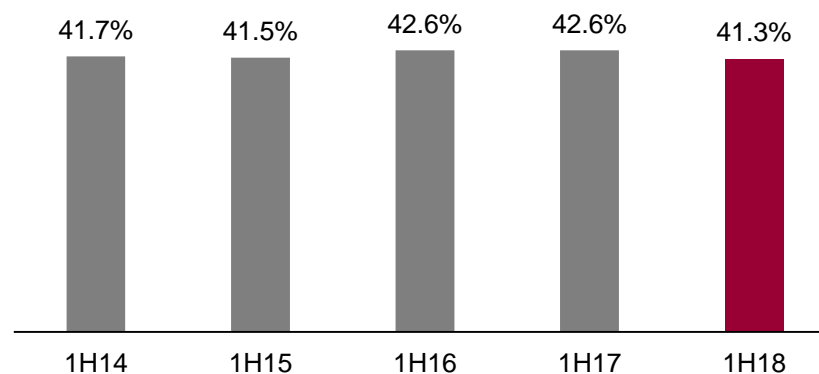
1H18 Revenue and NPAT Growth

Fleet growth underpins lift in revenues

US\$ million

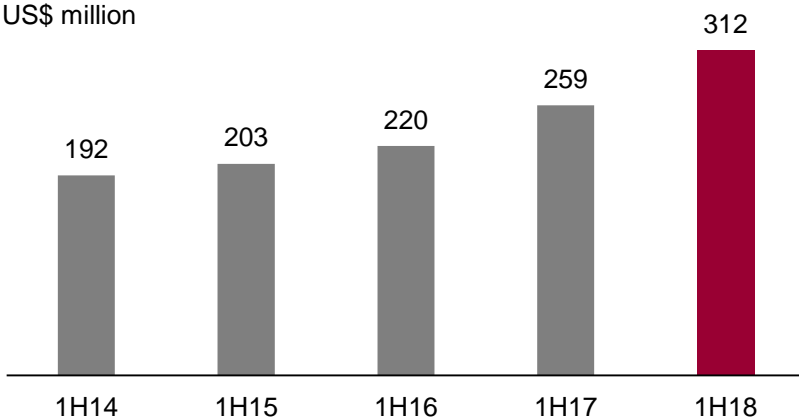


Operating margin > 40%²



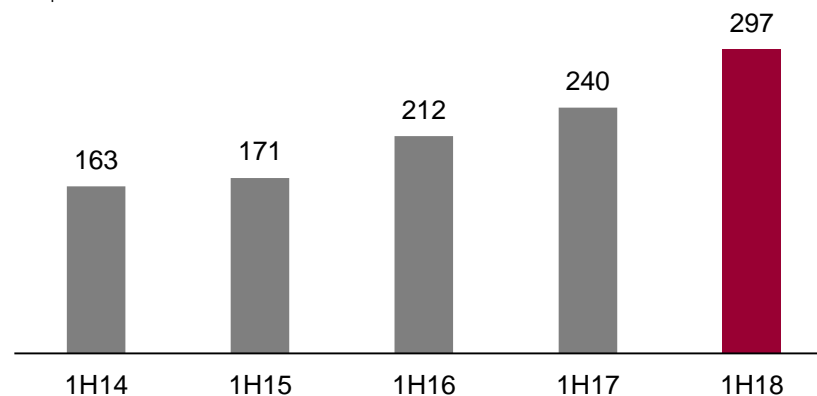
Higher core lease rental contribution¹

US\$ million



Strong NPAT growth

US\$ million



All data as at 30 June 2018

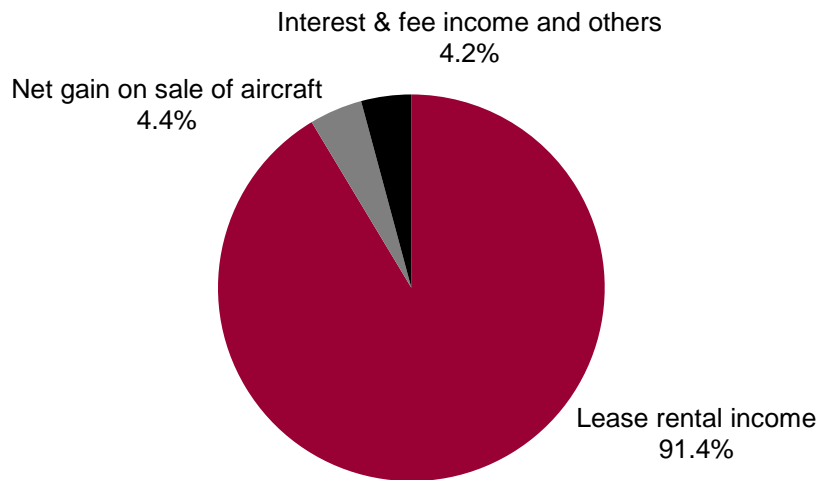
Notes:

1. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
2. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs divided by lease rental income

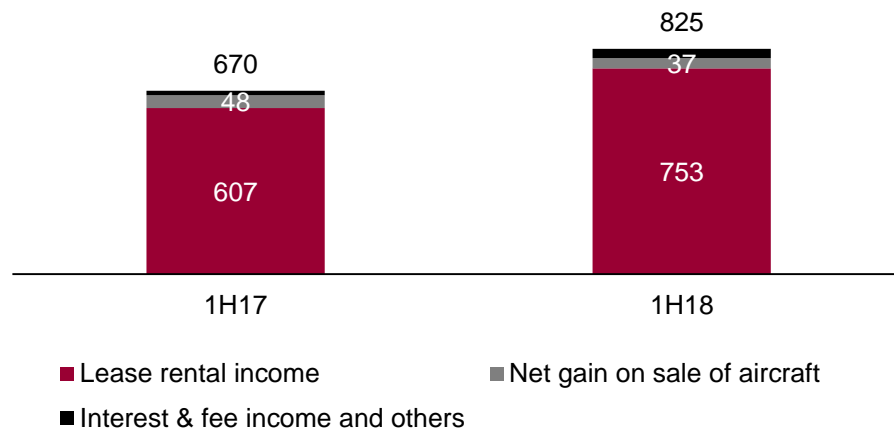


Lease Rental Income Dominates P&L

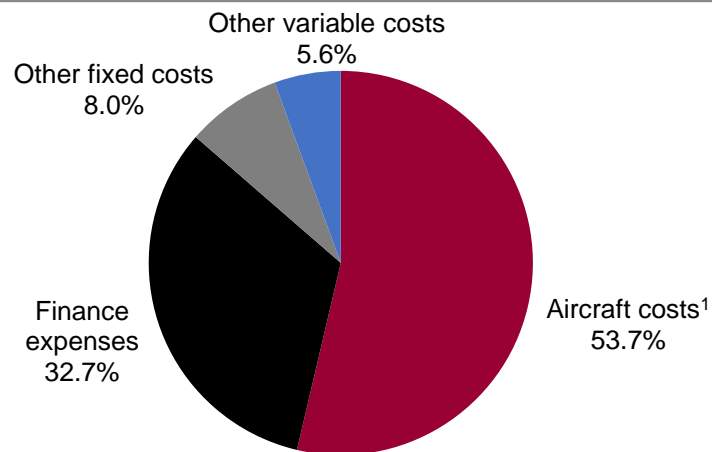
Lease rental income consistently c.90% of total revenue and other income



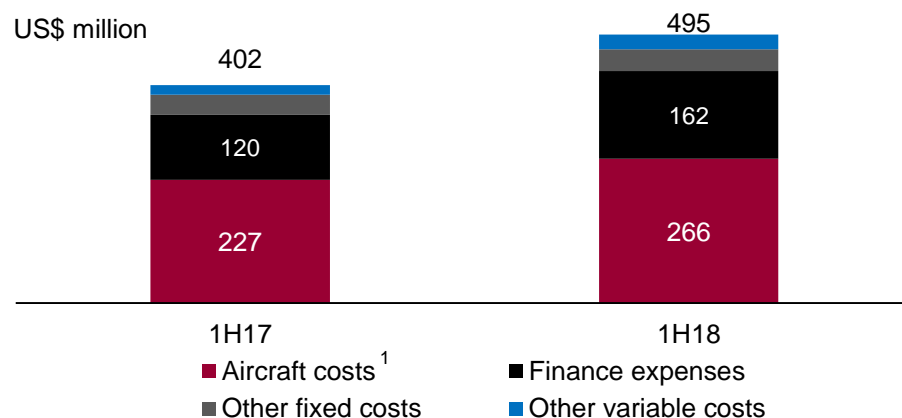
US\$ million



Depreciation of aircraft plus financing costs make up >85% of total costs



US\$ million



All data as at 30 June 2018

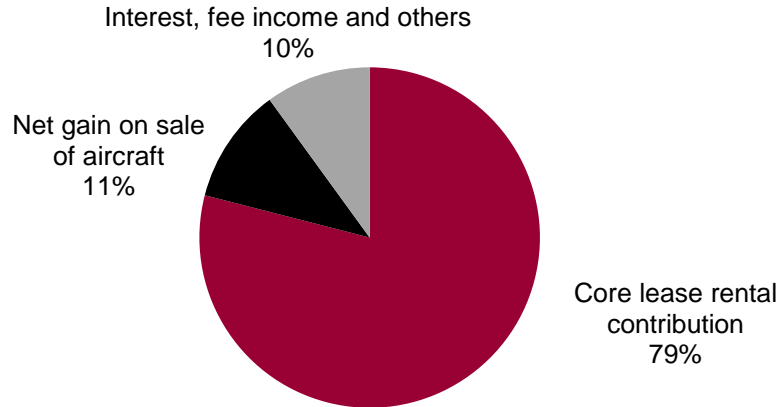
Note:

1. Comprises aircraft depreciation and impairment charges



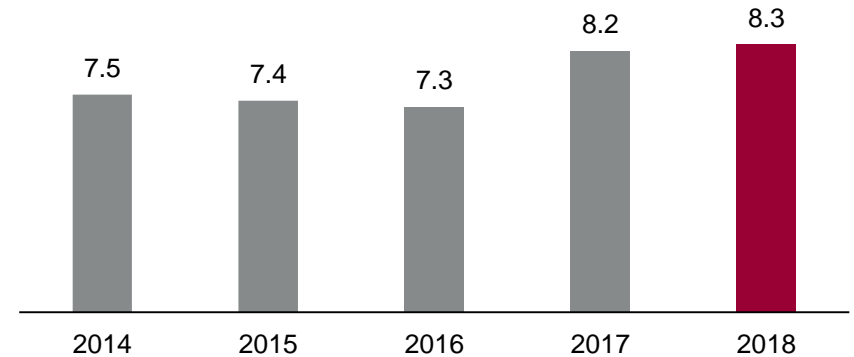
Core Leasing Business Anchors Earnings Growth

c.80% of PBT is from core lease rental contribution¹

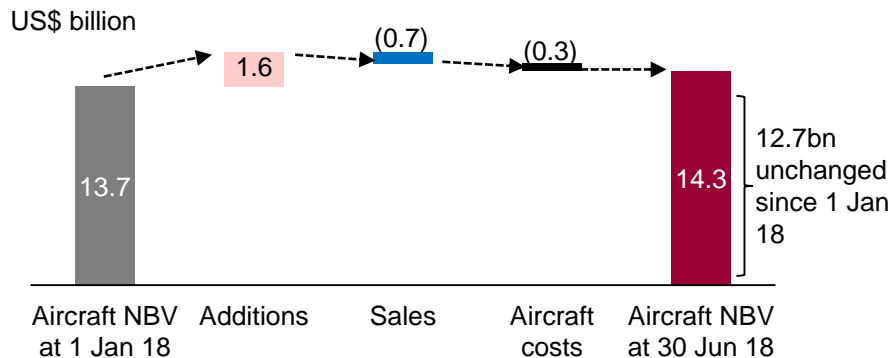


We have a longer average remaining lease term²

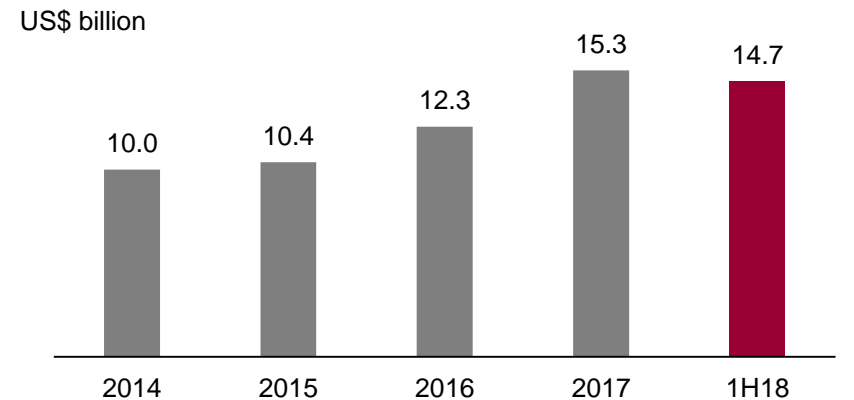
Number of years



...and reflects rising investment in our fleet



... and high future committed lease revenue



All data as at 30 June 2018 unless otherwise indicated

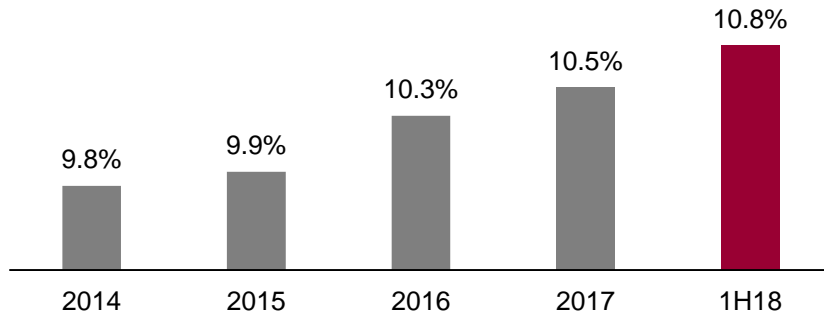
Notes:

1. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
2. Weighted by net book value of owned fleet

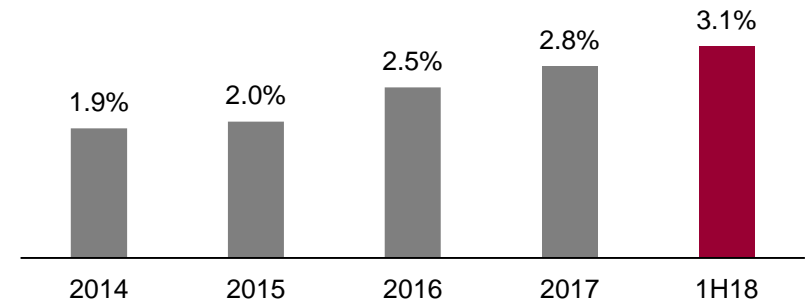


Consistently High Net Lease Yield Drives Profitability

Higher lease rate factor^{1,5} reflects increased proportion of fixed rate leases

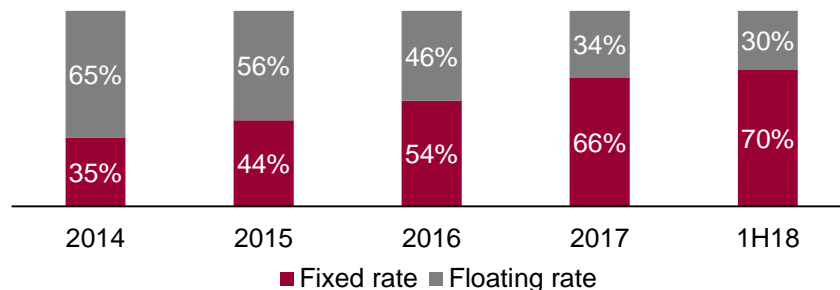


... with a higher proportion of fixed rate debt affecting finance expenses^{3,5}

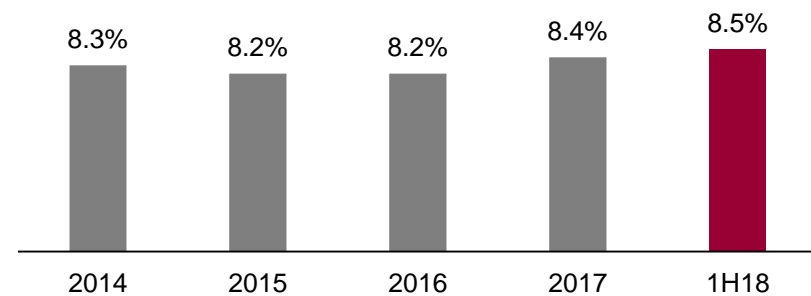


Proportion of fixed rate leases rising steadily²

By net book value



Maintaining net lease yield > 8%^{4,5}



All data as at 30 June 2018

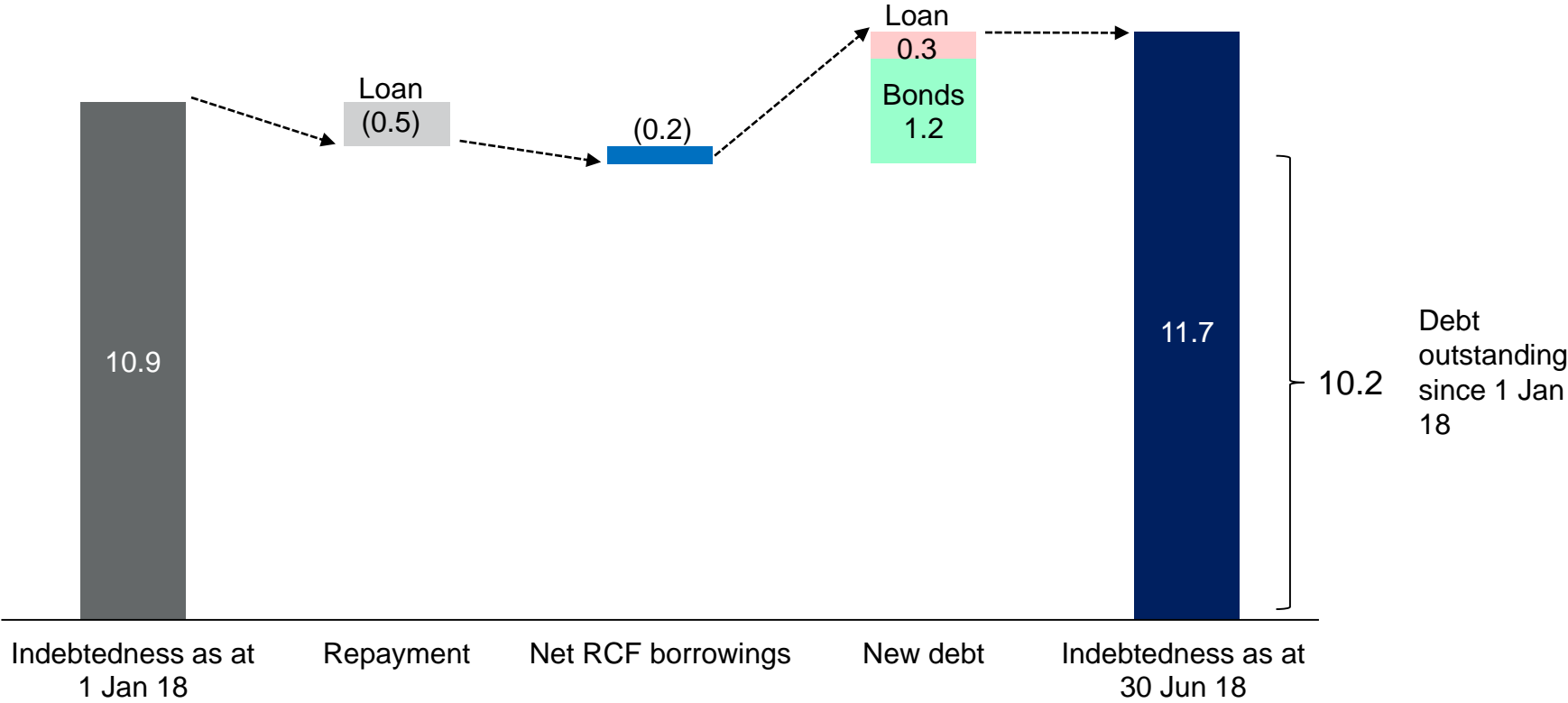
Notes:

1. Calculated as lease rental income divided by average net book value of aircraft and multiplied by 100%
2. By net book value including aircraft held for sale and excluding aircraft subject to finance lease as well as aircraft off lease
3. Calculated as the sum of finance expenses and capitalized interest, divided by average total indebtedness. Total indebtedness represents loans and borrowings and finance lease payables before adjustments for debt issue costs, fair values, revaluations and discounts/premiums to medium term notes
4. Calculated as lease rental income less finance expenses divided by average net book value of aircraft
5. 1H18 calculated on annualised basis



Debt Stability Reduces Finance Expense Volatility

US\$ billion



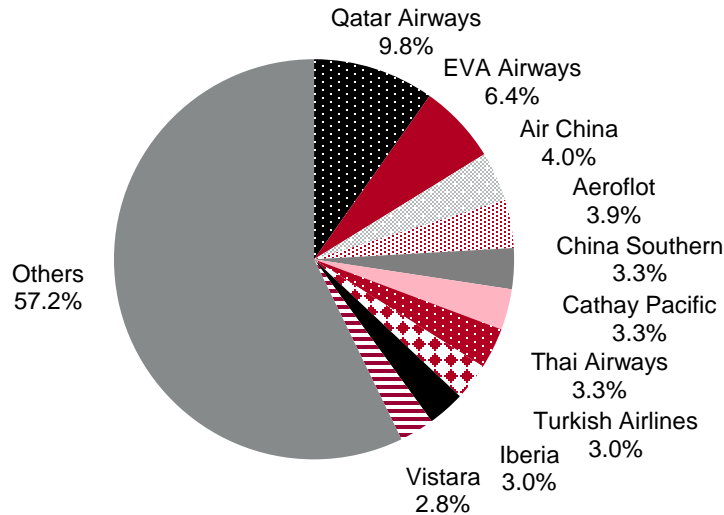
Over 90% of debt unchanged from 1 January 2018

All data as at 30 June 2018

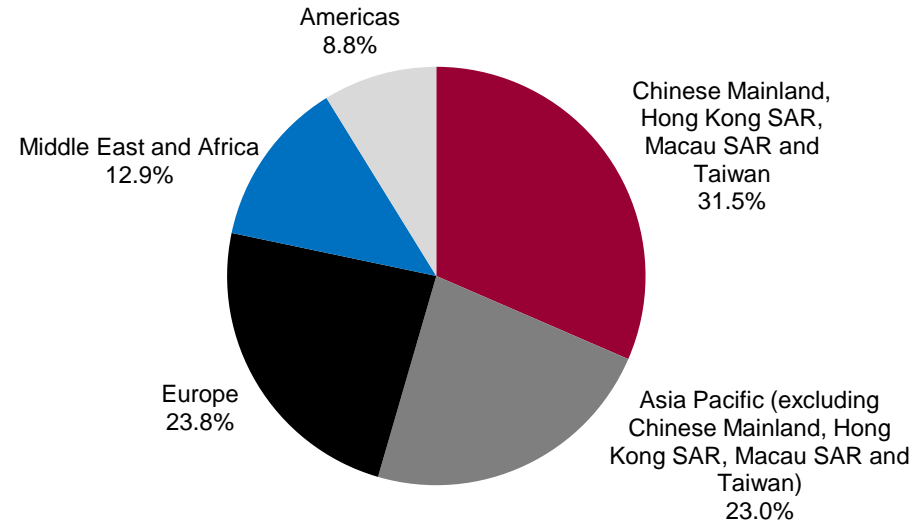


Diversified Portfolio Delivers High Utilization, High Collection Rate

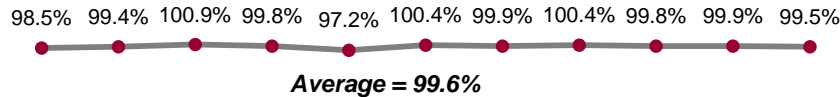
Lease portfolio diversified by customer^{1,2,3}



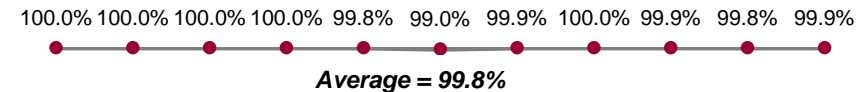
...and diversified by geography^{1,3}



High collection rate⁴



High fleet utilization⁵



All data as at 31 December 2018 unless otherwise indicated

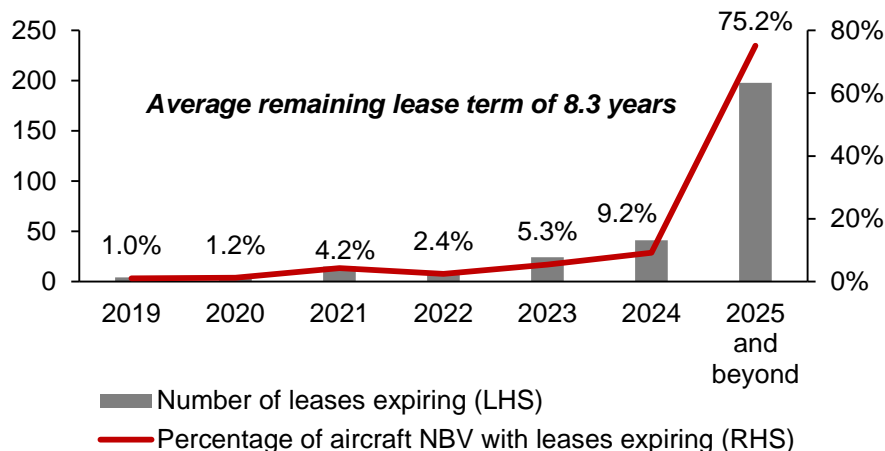
Notes:

- Based on net book value as at 31 December 2018
- For certain airlines, the percentage includes leases to affiliated airlines whose obligations are guaranteed by the named airline
- Based on the jurisdiction of the primary obligor under the relevant operating lease. Excludes two Airbus A320 aircraft off lease
- As at 30 June 2018
- Fleet utilization is the total days on-lease in the period as a percentage of total available lease days in the period



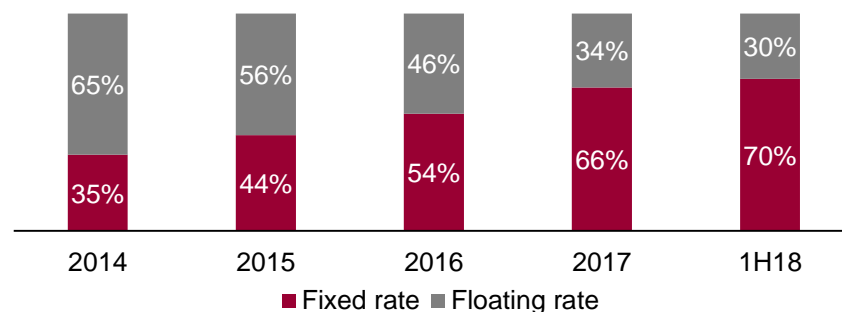
Long-term Contracted USD Cash Flows

Well-dispersed lease expiries¹



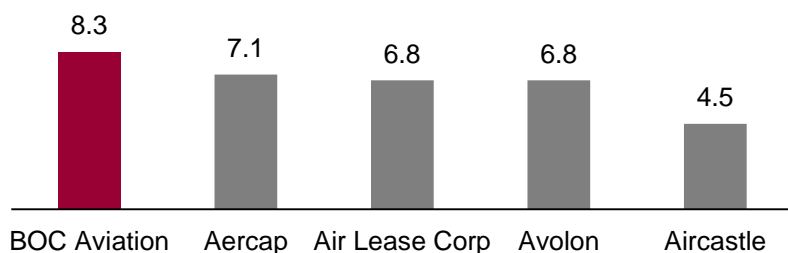
Proportion of fixed rate leases rising steadily³

By net book value



Long average remaining lease term²

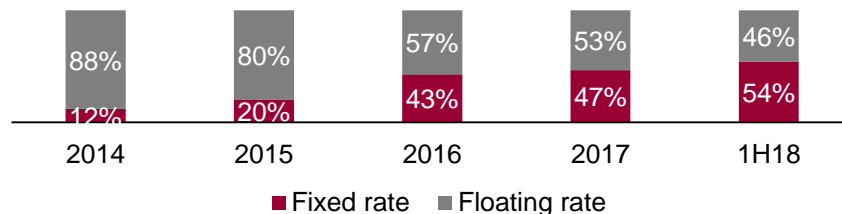
Number of years



Source: Respective company websites

Proportion of fixed rate debt also rising⁴

- Hedged c.80% of mismatched interest rate exposure
- A 25 basis points increase in interest rates on our floating rate leases, deposits and debt, holding all other variables constant, could decrease our annual NPAT by c.US\$1.8 million based on the lease portfolio, deposits and debt composition as at 30 Jun 18



All data as at 30 June 2018 unless otherwise indicated

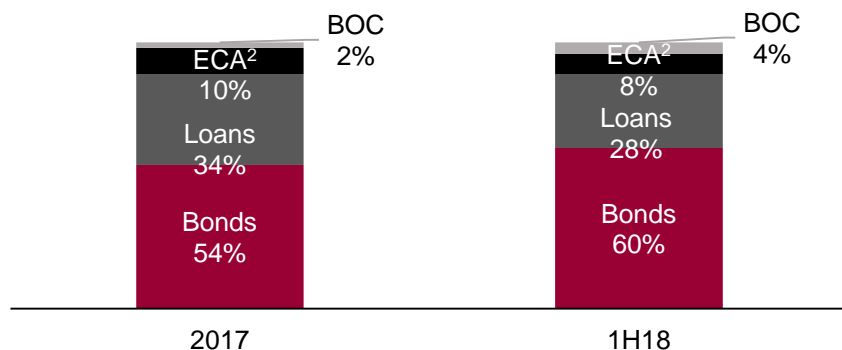
Notes:

1. Owned aircraft with lease expiring in each calendar year adjusted for any aircraft for which BOC Aviation has sale or lease commitments, weighted by net book value including aircraft off lease as at 31 December 2018
2. Weighted by net book value of owned fleet as at 30 September 2018 for all except for BOC Aviation, which was as at 31 December 2018
3. By net book value including aircraft held for sale and excluding aircraft subject to finance lease as at 30 June 2018
4. Fixed rate debt included floating rate debt swapped to fixed rate liabilities

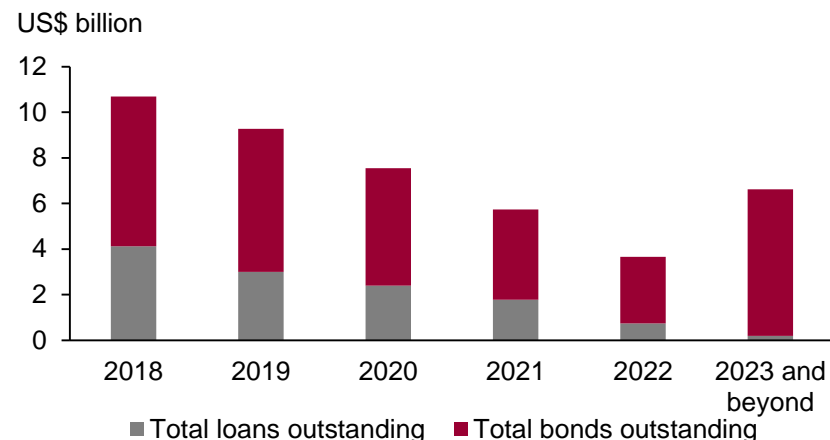


Flexible Capital Structure and Ample Backstop Liquidity

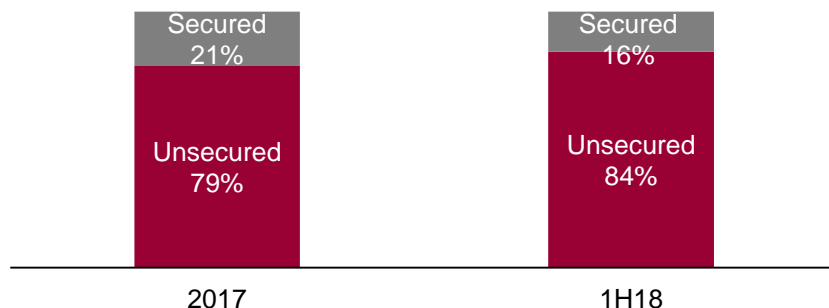
Sources of debt¹



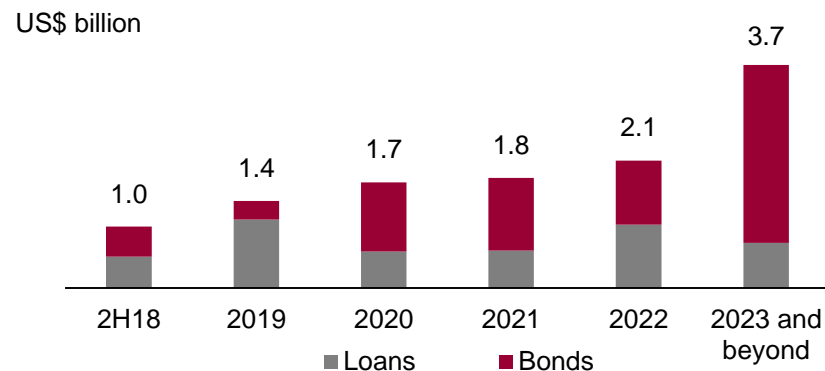
Outstanding debt amortises over a long term



Increasing unsecured funding



Debt repayment by year



Undrawn committed credit lines and cash of US\$3.9 billion

All data as at 30 June 2018 unless otherwise indicated

Notes:

1. Drawn debt only
2. ECA refers to debt guaranteed by the export credit agencies of France, Germany, the United Kingdom or the United States



Popular and Fuel-Efficient Fleet

Our aircraft portfolio

Aircraft type	Owned aircraft	Managed aircraft	Aircraft on order ¹	Total
Airbus A320CEO family	130	8	0	138
Airbus A320NEO family	24	0	62	86
Airbus A330CEO family	12	4	0	16
Airbus A330NEO family	0	0	12	12
Airbus A350 family	6	0	2	8
Boeing 737NG family	98	8	2	108
Boeing 737 MAX family	5	0	90	95
Boeing 777-300ER	19	3	3	25
Boeing 777-300	0	1	0	1
Boeing 787 family	4	0	12	16
Freighters	5	1	0	6
Total	303	25	183	511

All data as at 31 December 2018

Note:

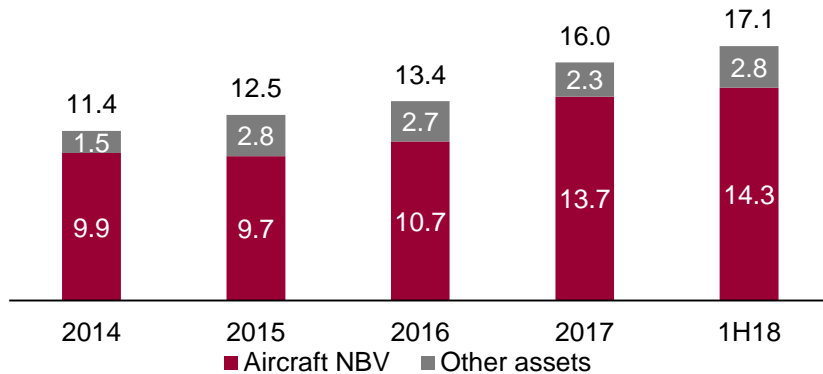
- Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery. Certain airline customers have notified us of their intention to acquire on delivery a total of 18 of our aircraft scheduled for delivery in 2019, comprising four Airbus A320NEO family aircraft, two Airbus A330NEO family aircraft, two Airbus A350 family aircraft, five Boeing 737 MAX family aircraft and five Boeing 787 family aircraft.



Orderbook Underpins Future Balance Sheet Growth

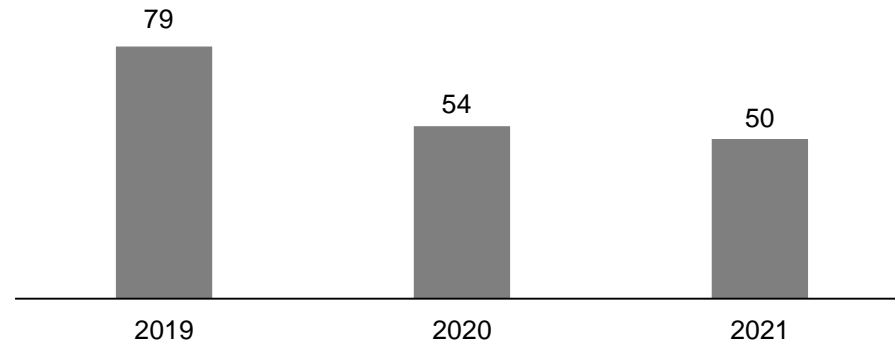
Growing balance sheet

US\$ billion



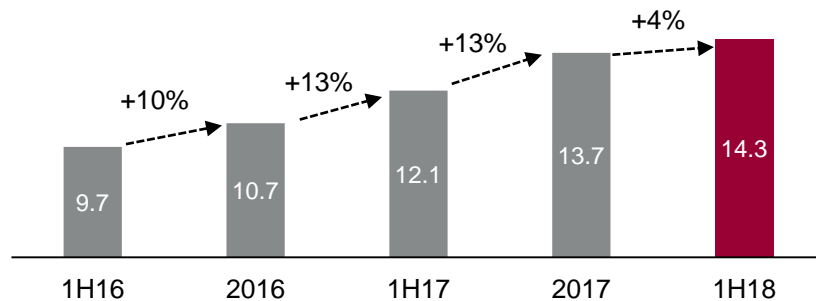
Committed deliveries of 183 aircraft until 2021^{1,2}

Number of aircraft



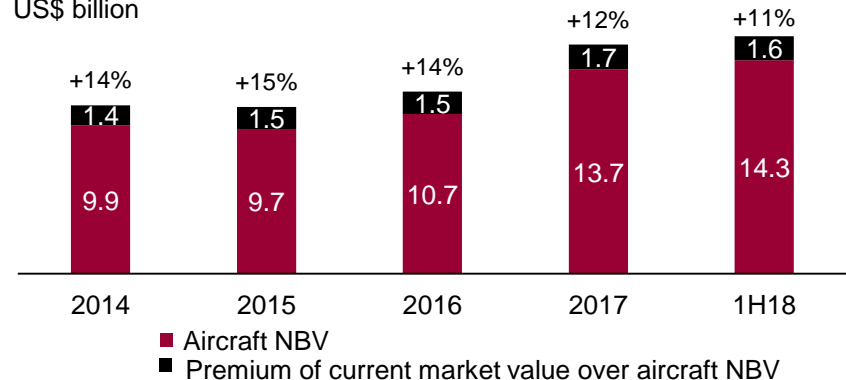
NBV growth since IPO

US\$ billion



Premium over aircraft NBV^{3,4}

US\$ billion



Aircraft net book value grew 18% in the last 12 months

All data as at 30 June 2018 unless otherwise indicated

Notes:

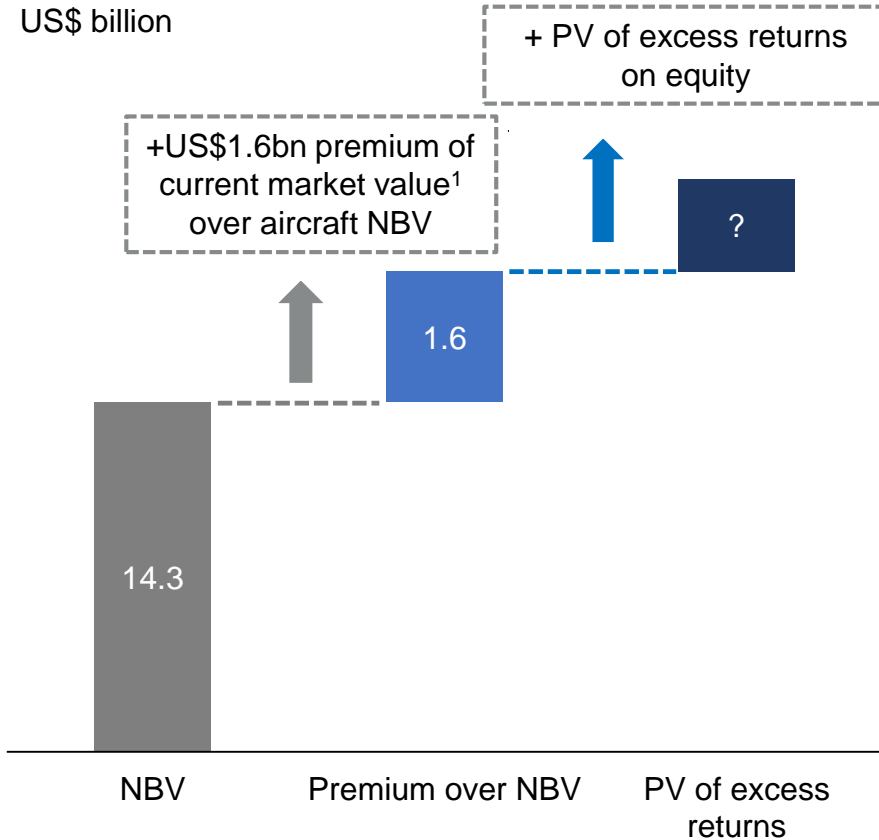
- As at 31 December 2018
- Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery
- Average of five appraisers
- Percentages refer to premium of appraised current market value over aircraft NBV



Value Driven by Fleet and Committed Lease Revenues

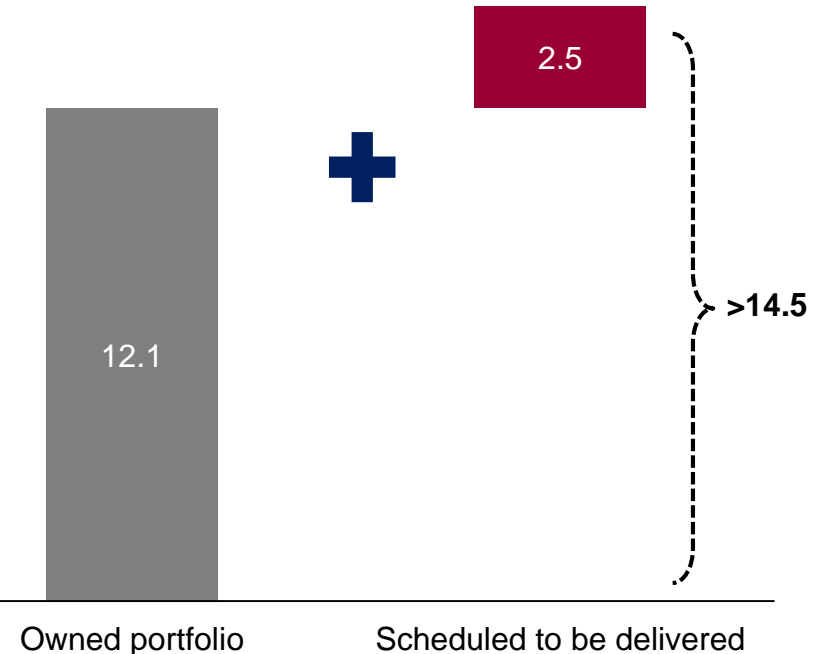
Net book value understates business value

US\$ billion



Committed future revenues of US\$14.7 billion

US\$ billion



Committed future lease revenues underpin value creation

All data as at 30 June 2018

Note:

1. Based on an average of five independent appraisers' aggregate value for our owned fleet at US\$15.9 billion, on a full-life, current market value basis, which compared with a net book value of US\$14.3 billion



Conclusion

- Another record performance
 - 1H18 NPAT increased 24% to US\$297 million
 - Interim dividend also increased 24% year-on-year to US\$0.1284/share
 - Net assets and earnings per share have grown consistently since our IPO
- High liquidity, long-term revenue visibility and sustainability
 - Committed lease revenues of approximately US\$15 billion as at 30 June 2018
 - Orderbook of 183 aircraft through to 2021 provides future balance sheet growth
 - Available liquidity of around US\$4 billion as at 30 June 2018
- Strong management team
 - Our senior management team has an average industry experience of > 25 years each
 - Mr. Robert Martin celebrated his 20th year as the CEO
- 2018 marked another milestone in the Company's history
 - 25th anniversary in November
 - Delivered 55 aircraft

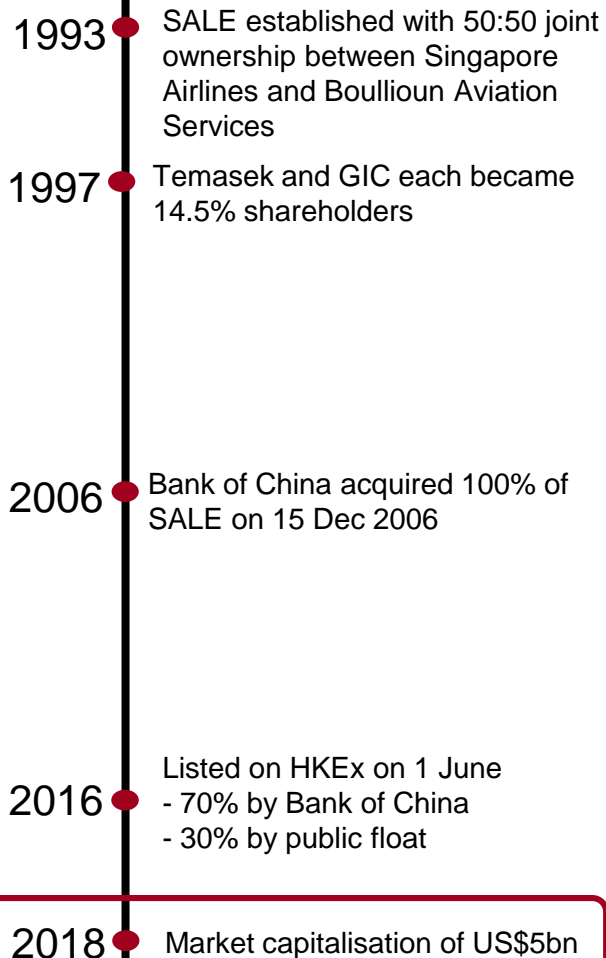
Record 1H18 earnings in a landmark year

APPENDICES



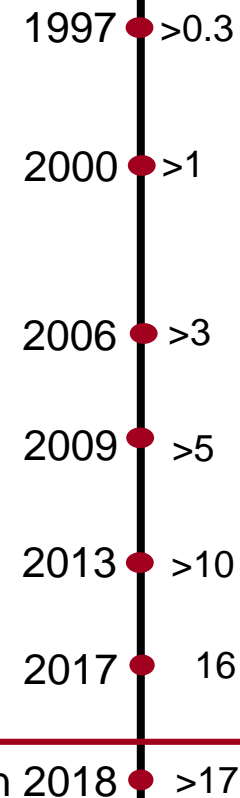
The BOC Aviation Journey

Ownership



Total assets

US\$ billion



All data as at the end of the relevant period



BOC Aviation – Who Are We?

- One of the world's top five aircraft lessors
 - The largest in Asia
 - Listed on HKEX
 - Bank of China owns 70%
- Total assets of US\$17.1 billion
 - 511 aircraft¹
- Consistent profitable performance into our 25th year
- Industry-leading financial metrics – average ROE of 15% over the last 11 years
- Investment grade credit ratings of A- from S&P Global Ratings and Fitch Ratings
- Major customer for Airbus' and Boeing (largest combined customer in 2017)

An established lessor with deep management experience

All data as at 30 June 2018 unless otherwise indicated

Note:

1. Includes owned, managed and aircraft on order as at 31 December 2018



Core Competencies – a Reminder

Since inception in 1993:

- | | |
|--------------|---|
| • Purchasing | More than 800 aircraft purchased totalling more than US\$43 billion |
| • Leasing | More than 860 leases executed with > 160 airlines in 57 countries and regions |
| • Financing | More than US\$23 billion in debt raised since 1 January 2007 ¹ |
-
- | | |
|-----------------|--|
| • Sales | 330 aircraft sold |
| • Transitions | More than 80 transitions |
| • Repossessions | 38 aircraft in 14 jurisdictions ² |

All data as at 31 December 2018, since inception unless otherwise indicated

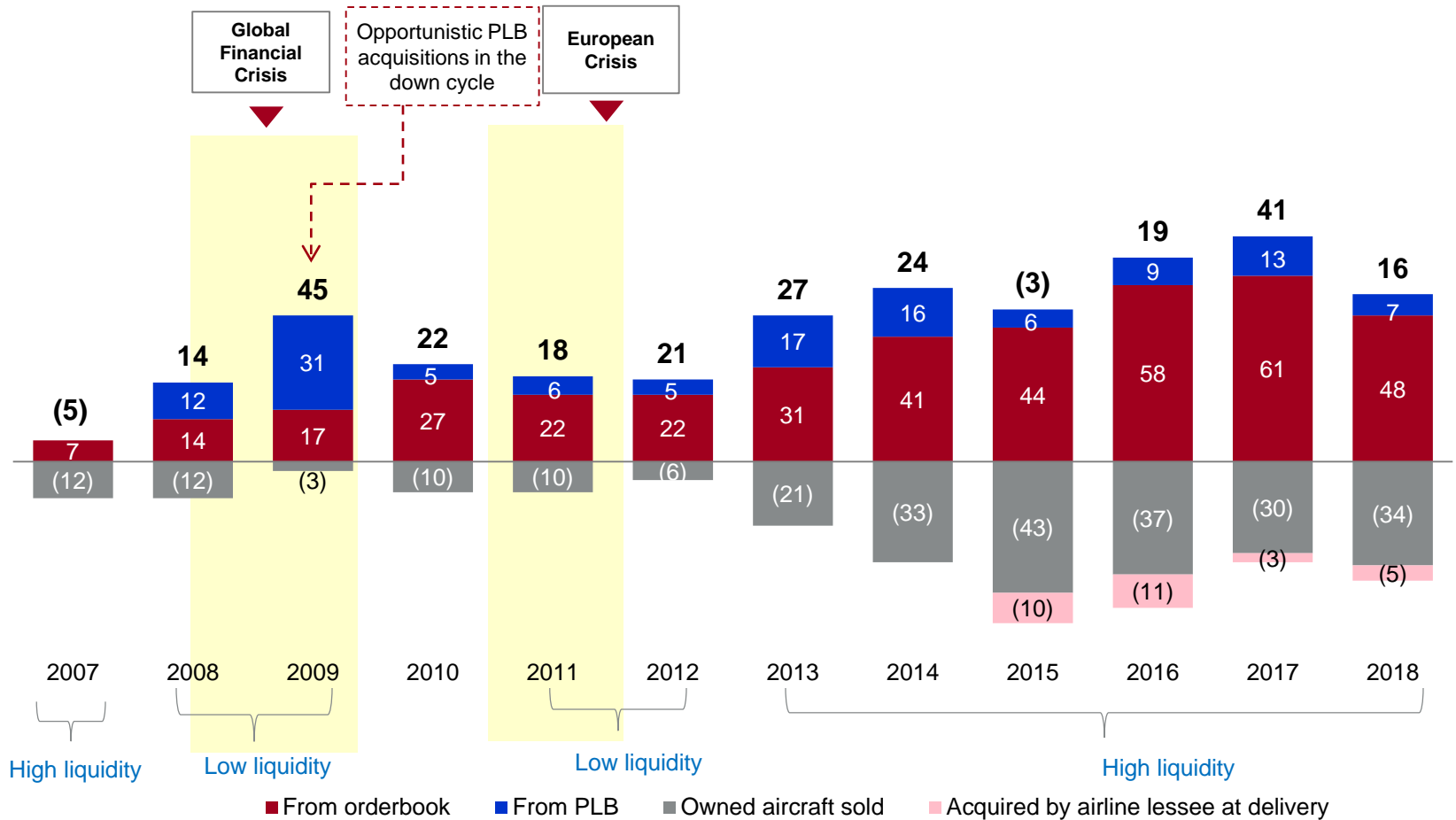
Notes:

1. As at 30 June 2018
2. Includes repossessions and consensual early returns



How We Invest

Number of aircraft delivered, purchased and sold



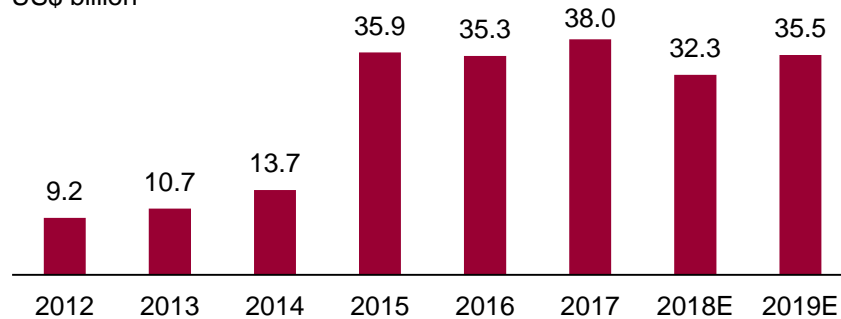
All data as the end of the relevant period



Positive Environment with Airline Profitability near Records

Elevated airline profitability sustained

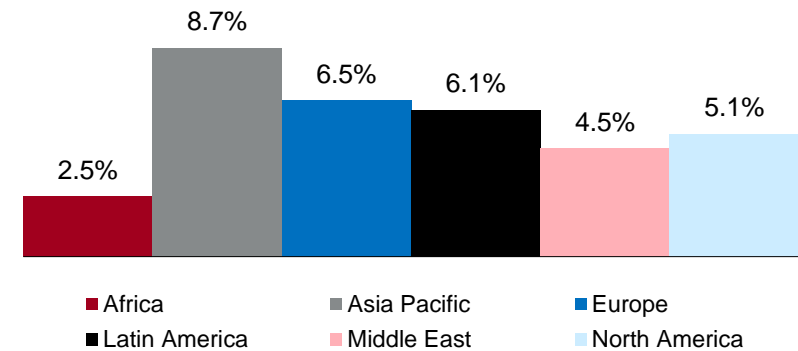
Aggregate net profit
US\$ billion



Source: IATA (December 2018)

Emerging markets continue to record high air traffic growth

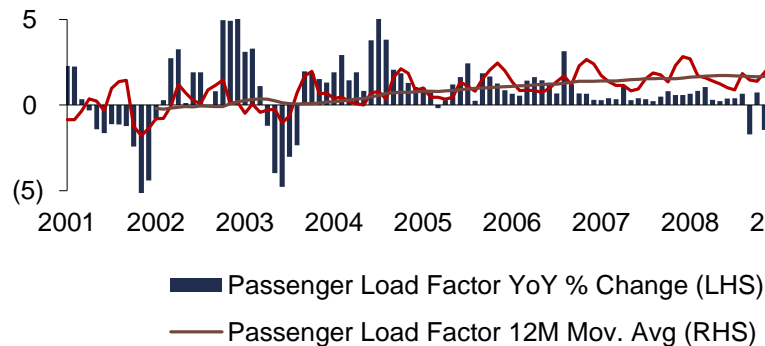
RPK growth, YTD



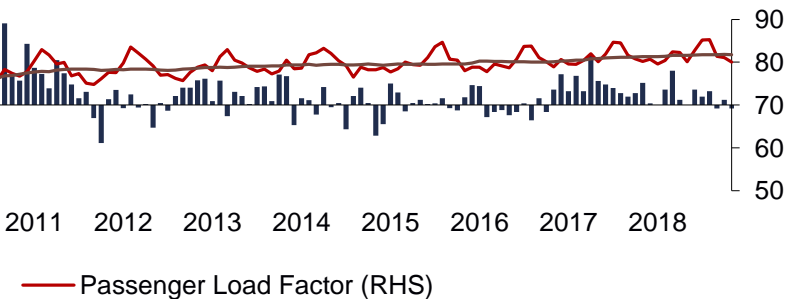
Source: IATA (November 2018)

High load factors suggest well-managed capacity

Passenger Load Factor
YoY change, %



Passenger Load Factor
%

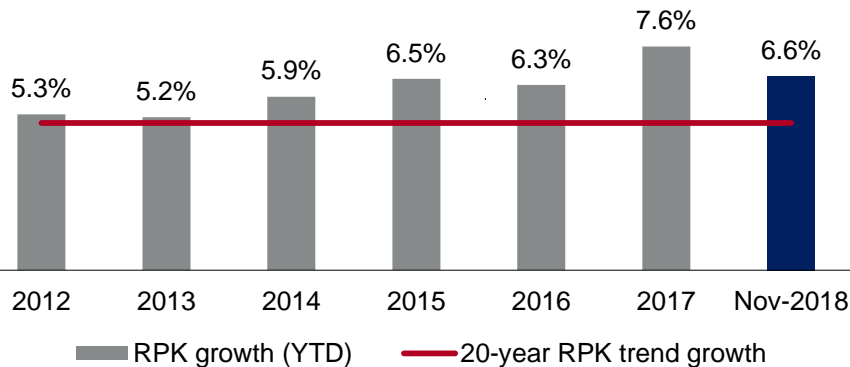


Source: IATA (November 2018)



Underlying Traffic Growth Positive for Core Leasing Business

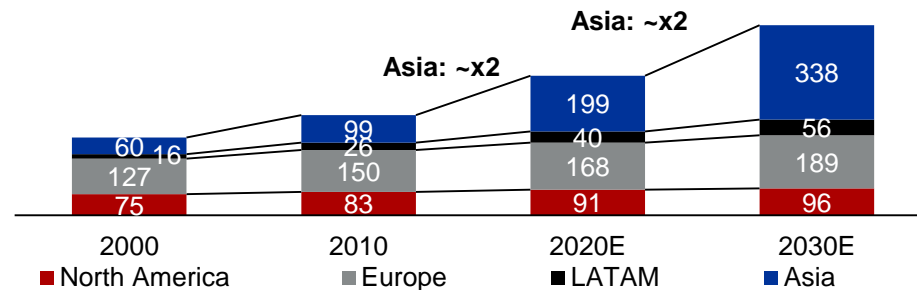
Above-trend passenger demand growth



Source: IATA (November 2018)

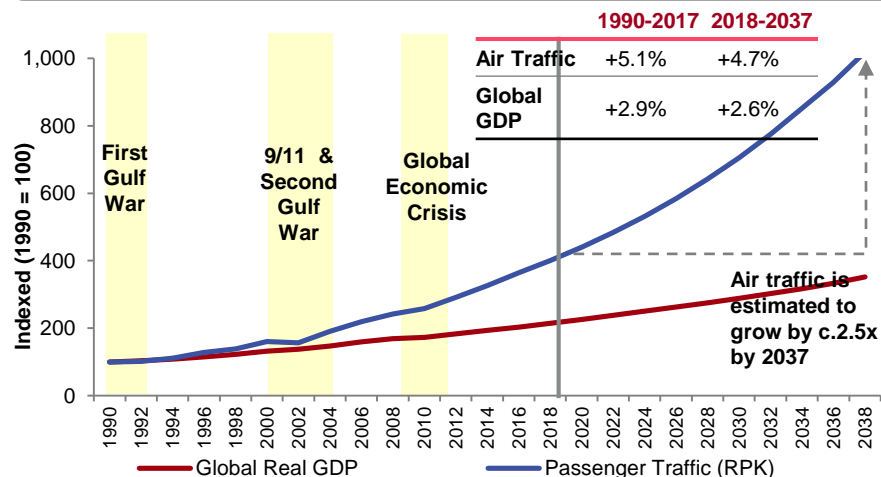
Growth in the middle classes¹ to be driven by emerging economies

Middle class households (million)



Source: Euromonitor

Air traffic estimated to grow by c.150% in the next two decades...



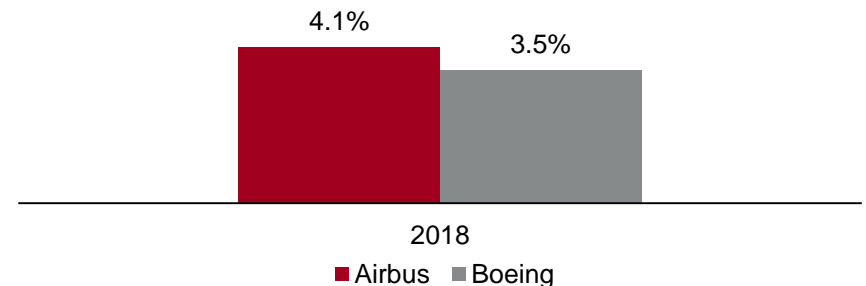
Source: Ascend Flightglobal Fleet Forecast 2015, Oxford Economics, Boeing Current Market Interactive Forecast 2018-2037

Note:

1. Defined as number of households with yearly income between US\$25,000 and US\$150,000

Fleet expected to double in the next 20 years

20-year fleet growth rate, %

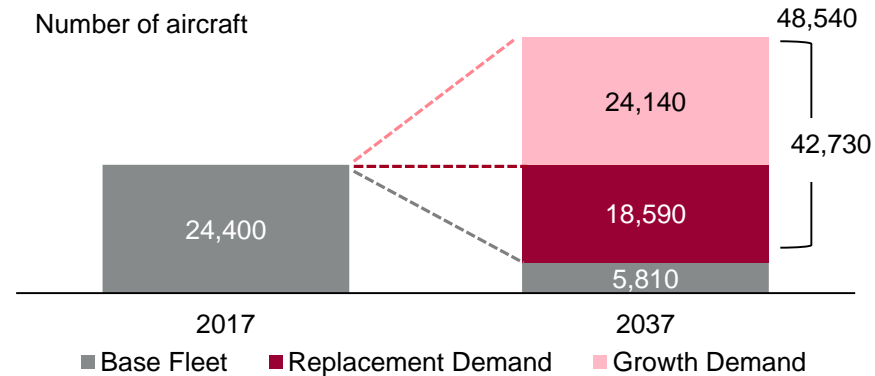


Source: Airbus Global Market Forecast, Boeing Capital Market Outlook



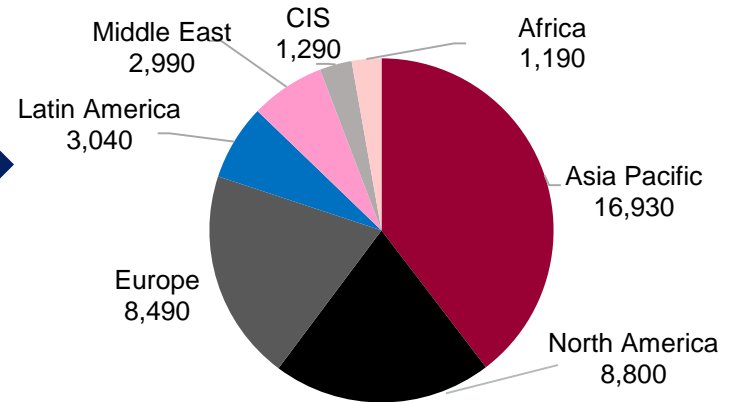
Aircraft Operating Leasing Drivers

Demand driven by market growth and replacement of old aircraft



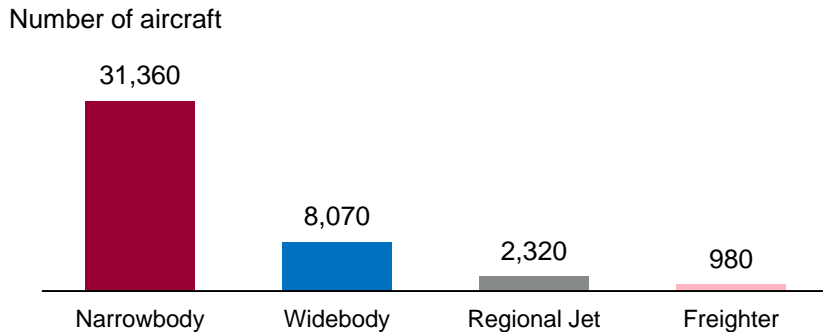
Source: Boeing CMO 2018-2037

New aircraft demand led by Asia Pacific



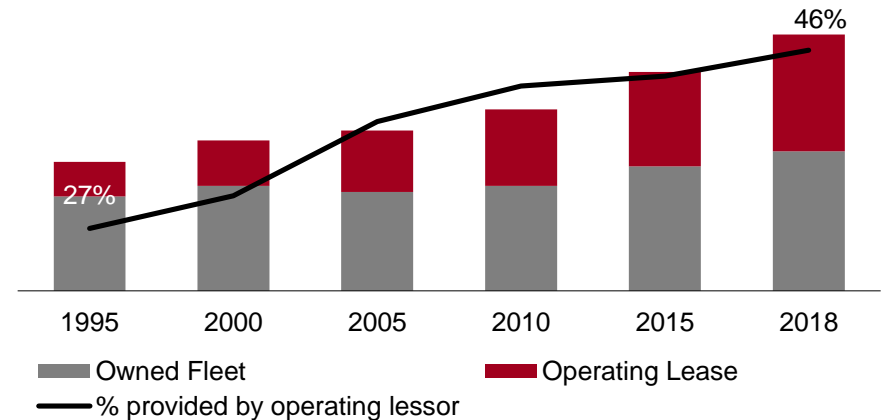
Source: Boeing CMO 2018-2037

Predominantly single aisle aircraft



Source: Boeing CMO 2018-2037

Share of operating lessors now stable



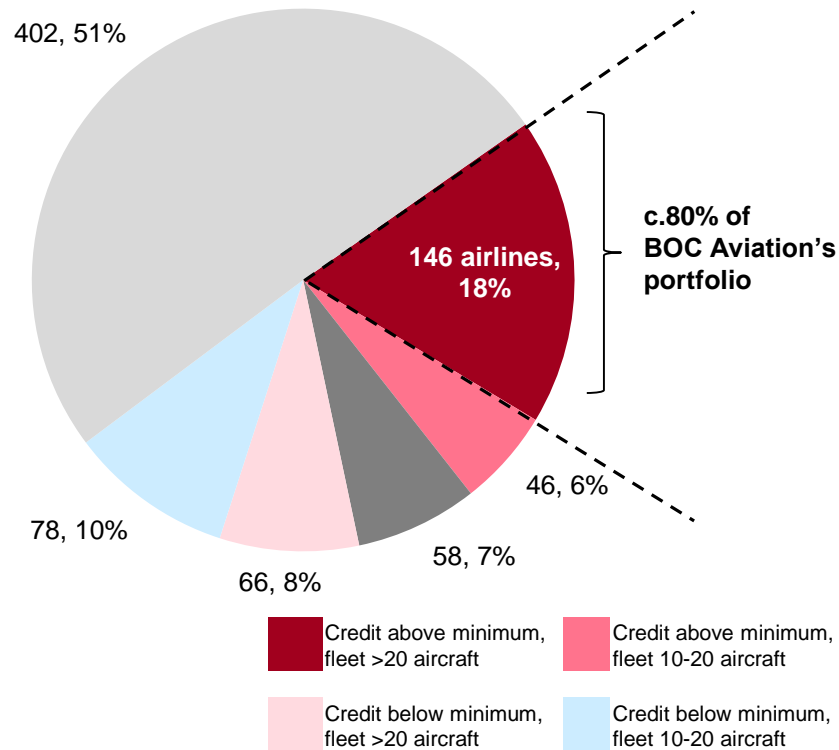
Source: Ascend, 31 December 2018



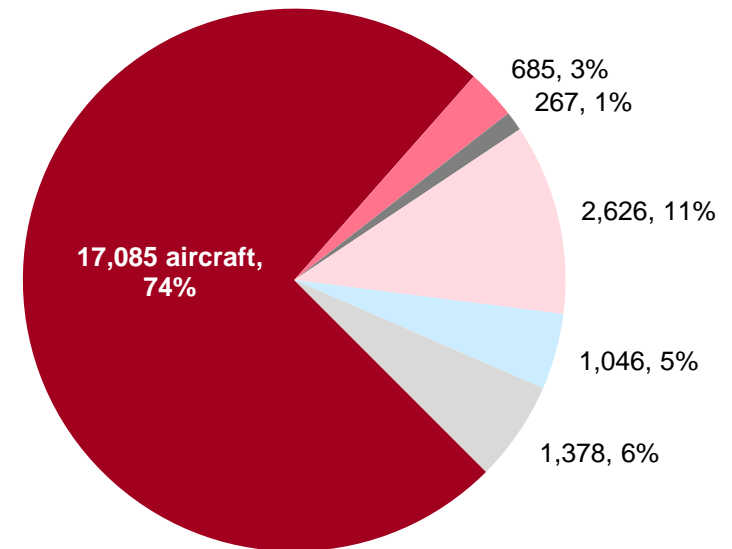
Leasing: Customer Segmentation

- 796 airlines in service today
- Focus on 146 airlines or only 18% of the airlines in the market – minimum credit score, above 20 aircraft

Airline segmentation by credit score and fleet size



Our target 146 airlines operate 74% of the current in-service aircraft



Source: Ascend, as at 31 December 2018
Only commercial aircraft with 100 seats and above



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