Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our interim results for the six months ended 30 June 2021. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Steven Townend and our Deputy Managing Director and 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 in today's call are in USD.

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 discussion.

I'll now turn over the call to Robert Martin for his comments.

Robert Martin

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2021 half year results earnings call. During this period we surpassed $5 billion in cumulative earnings and celebrated our fifth year as a publicly listed company.

We have reported a net profit after tax of $254 million for the first half of 2021, equivalent to earnings per share of 37 cents. This was down 21% on the same period last year although it represented an improvement of 36% on our 2H 2020 net profit of $187 million. Net assets per share, meanwhile, rose by 5% from the end of 2020 to $7.19.

Our pre-tax earnings adjusted for non-cash impairment charges rose 5% to $434 million compared to 1H 2020 as we invested in our aircraft fleet with deliveries of 100% new technology aircraft.

Our total revenues and other income continued to rise, increasing 7% to more than $1.1 billion for the first half. We ended 1H 2021 with total assets of $24 billion.

Operating cash flow net of interest expense was $557 million for the period, just ahead of the same period last year, and amounts deferred under rent deferral agreements where we supported our customers remain equivalent to 2% of our available liquidity. We finished the first half with cash and committed liquidity of $5.8 billion and remain well-supported by capital markets and the banking market. In 1H 2021 we raised $1.5 billion in bond issuance and drew down $630 million in term loans. We continued to utilise the $3.5 billion revolving credit facility provided by BOC during the period, with $250 million drawn net of repayments at the end of June

Consistent with previous interim distributions, our Board has declared an interim dividend of 10.98 cents per share, payable to shareholders of record on 13 October. This represents a pay-out ratio for the half year of 30% of Net Profit after Tax. The Board's policy continues to be to pay a dividend to shareholders of up to 35% of full year Net Profit after Tax .

While the prospect of renewed outbreaks of Covid remains a risk, the speed and efficacy with which vaccination programmes have been rolled out in many of the world's largest economies has been supportive of domestic traffic growth. The clear correlation between high levels of vaccination and lower hospitalisation rates should give governments the confidence to remove barriers to travel and to reopen their borders with other countries. We have noted the confidence evident in the second quarter earnings calls amongst our suppliers and customers and we share this confidence.

Freight traffic continued to perform above pre-pandemic levels during the first half and domestic passenger demand returned close to 2019 levels in a number of major markets such as China, the

United States and Russia. As European countries begin to open their borders to vaccinated travellers, this should start the recovery in regional and trans-Atlantic passenger traffic as well.

As airlines increase their operating schedules and place new orders, airframe manufacturers are looking to raise production. Since the return to service of the Boeing MAX in December last year, over 150 MAX aircraft have been delivered and there have been over 500 orders placed so far this year, leaving a backlog of 3,300 MAX. Boeing is producing 16 MAX at present and expect to lift this to 31 per month from early next year. Meanwhile, Airbus has announced increases in production from 40 to 43 A320 NEO family aircraft per month in July and anticipates lifting that to 45 per month from the fourth quarter of 2021.

Airlines globally have become demonstrably more confident in the recovery. According to the International Air Transport Association's Airline Business Confidence Index for July, 89% of airline CFOs surveyed expect better passenger traffic over the next 12 months. Of the same sample of CFOs, 73% anticipate a rise in profitability, with the outlook for earnings improving on previous surveys the most since January 2007.

This recovery in earnings is being led by US carriers where three of the big four have already reported profits for 2Q 2021 and the fourth anticipates positive numbers by the fourth quarter. A number of North Asian airlines are close to or are reporting profitability as they have successfully leveraged their freight business and we expect more airlines to join them as vaccination levels rise. This will be good for airlines, for the aviation industry and for our company.

More liquidity is becoming available to support the aviation sector as its earnings outlook improves. Bond and equity markets are beginning to support non-investment grade issuers and the Asset Backed Securitisation market for aircraft deals has also re-opened, providing an important source of funding for non-investment grade borrowers as potential buyers of our aircraft.

The pace of recovery, however, will be uneven in both trajectory and distribution. Carriers serving economies where the effects of the pandemic are still pronounced continue to struggle, with those domiciled in Southeast Asia, the most significantly affected. Low vaccination rates, negligible tangible government support, reliance on cross border traffic and an absence of capital market access have compounded the difficulties that the region's airlines face - with the principal exception of Singapore.

We continue to face delivery issues for new aircraft. Ten Boeing 787s did not deliver as expected during 1H 2021 and we continue to experience delivery delays with the A320 NEO family as well.

In relation to our Board of Directors, we welcome our new Chairman, Mr Chen Huaiyu and the appointment of two non-executive directors Mr. Wang Xiao and Mdm. Wei Hanguang. With Mdm. Wei's appointment, we now have one of the most balanced boards of directors in both the aircraft operating leasing industry and amongst companies listed on the Hong Kong Stock Exchange.

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

David Walton

Thank you, Robert.

Operationally, we had a busy and productive first half of the year, and during this period we continued to face restrictions on working from the office from time to time in every one of our locations other than Tianjin. The energy and resilience demonstrated by our team, with the foundation of our Digital Workplace Transformation enhancements, enabled us to work in a coordinated way with our customers, suppliers and other stakeholders. We successfully delivered aircraft, signed leases and closed our other deals. With the opening up of travel in some parts of the world, we have now begun to get back on the road for the important business of resuming face to face meetings with our business partners, which was a very welcome development. At the same time, we continue to make employee health and safety a top priority.

Elsewhere, we continued our high engagement rate on ESG issues during the period and remained carbon neutral during the first half of 2021. Despite the impact of changes in social distancing regulations that affected certain volunteering activities, we have been active across most of our offices. Our teams in Singapore and London were able to undertake community-based events during the first half and we have added another three outreach projects since the end of the June, managed by teams located in New York and Singapore. We also continued our support of charitable organisations that we have partnered with consistently over the past decade or more, including Airlink and Orbis.

Turing to our portfolio, in the first half of 2021, we delivered 34 aircraft to airline customers, of which six were purchased by the customer at delivery. Of the total 28 net new aircraft deliveries, ten were from our manufacturer orderbook and 18 were purchase and leasebacks with airlines. Our total fleet stood at 536 aircraft at the end of June, comprising 377 owned and 37 managed aircraft, with an orderbook of 122 aircraft.

In the first half we continued to improve the quality of the portfolio, delivering 28 aircraft all of which were latest technology, including:

- 11 A320 NEO family aircraft
- 16 737 MAX aircraft
- One Boeing 787 aircraft

These new deliveries were placed on lease to well-established airlines that included Air China, United Airlines, TUI, Wizz and Scoot, a member of the Singapore Airlines group.

We sold nine aircraft from the owned fleet during 1H 2021, compared to five aircraft sold in the first half of 2020.

Our pipeline for the second half of 2021 remains robust, with 37 new aircraft scheduled for delivery. We expect five of these to be purchased by airline customers on delivery, leaving 32 expected net new aircraft deliveries in the second half of this year. I would caution, however, that there is a risk of further manufacturer delivery delays during the balance of the year.

As I mentioned at the beginning of my remarks, our owned portfolio stood at 377 aircraft at the end of the first half of the year.

- 369 of these aircraft were on lease
- Six were off-lease and have signed leases in place with deliveries scheduled in the second half of this year
- Two narrowbody aircraft are off-lease in active remarketing

During the period, we transitioned four used aircraft to new airline customers, representing a combination of normal transition work following scheduled lease expiry and putting repossessed aircraft back on revenue. The transitions included two A330-300s that we remarketed for a managed customer. We ended the first half with utilisation of 99.6% on the owned portfolio. The weighted average age of our owned portfolio was 3.7 years at the end of June, once again one of the youngest in the aircraft operating leasing industry. We also have one of the industry's longest weighted average remaining lease term for our owned portfolio, at 8.1 years. This embedded, owned aircraft portfolio of $20 billion is the Company's earnings engine for our future performance, and we will continue to improve it with deliveries of new technology aircraft, sales primarily of previous technology aircraft, and transitions to new customers to keep the fleet generating revenue.

With that, I'll turn it over to Steven.

Steven Townend

Thank you, David. Before I start on a more detailed breakdown of our numbers, I would like to remind you that the comparable period of the first half of 2020 was still relatively unaffected by Covid-19 and was in fact a record first half for BOC Aviation.

As Robert outlined, we have reported a net profit after tax of $254 million for the first half of 2021, This equates to post tax earnings of 37 US cents per share, down 21% from the first half of 2020.

Core earnings rose by 5% to $434 million compared with 1H2020. This improvement in core earnings was driven by a 4% year-on-year rise in lease revenue, reflecting the growth in the net book value of our fleet, offset by a fall in our Net Lease Yield to 7.5%.

Turning to other sources of revenue.

Interest and fee income amounted to $95 million – 27% ahead of 1H 2020 level - as we generated more fee income from pre-delivery payment transactions and included full period contributions from six aircraft that we classify as finance leases.

$82 million of other income was predominantly derived from recoveries upon termination of leases and these reflect the robustness of the leases that we agree with our airline customers.

Gains on aircraft sales were $3 million.

Turning to our two largest expenses, which combined account for 85% of total, depreciation – our largest expense item - increased by 15% relative to first half 2020. Finance expenses increased 7% to $236 million, as an increase in our borrowings to fund investment in more aircraft was offset by lower interest rates. Our average cost of funds improved to 2.9% per annum in the first half of 2021 from 3.2% in 2020.

During the first half we recorded an $84 million asset impairment related to the carrying value of 28 aircraft delivered in prior years and we provided for impairment losses on financial assets of $63 million, representing those lease receivables from certain airline customers that exceeded security deposits. Both of these charges exceeded 1H 2020 levels, when the full effects of the pandemic had yet to be felt on airline cashflows and appraised aircraft values.

We had capital expenditure of over $1 billion in 1H 2021, primarily related to our aircraft deliveries and pre-delivery payments. We had committed capex of $2.5 billion for the second half as at 30 June and would expect total capex for 2021 of up to $4 billion.

During the period, S&P Global Ratings and Fitch Ratings reaffirmed our industry-leading A- credit ratings as we tapped the debt capital markets, with S&P lifting our outlook from negative to stable. We raised $1.5 billion in the debt capital markets, as these remained supportive, and our indebtedness rose just 2% to $17.1 billion as at 30 June compared with end-2020, while our Gross Debt to Equity remained in our target range at 3.4 to 1. Our fund raising included a debut $1 billion bond issuance from our US subsidiary as we geographically aligned our financing with our aircraft purchases. Support from investors and bankers, together with robust internally generated cashflows saw us repay $1.1 billion in debt maturities, leaving us just over $700 million dollars of scheduled repayments in 2H 2021. These obligations and our target capex can be funded from our cash and committed liquidity of $5.8 billion.

Just a final comment also on our tax provisions. Our tax rate increased to 11.7% up from 8.6% for first half 2020. This was predominantly due to more assets being booked in our US subsidiary plus the future increase in UK tax from 2023 that was enacted in June.

Now back to Robert for his final comments.

Robert Martin

We would like to recognise the efforts of our directors and colleagues who have retained their focus and drive throughout a very volatile and challenging period and thank all our customers and suppliers for their partnership. We thank you for your persistence and hard work, culminating in achieving the milestone of $5 billion of cumulative profits on the back of 27 years of unbroken profitability.

As distinct from this time last year, our path ahead appears clearer as visible recovery in passenger and freight volumes continues in those markets with robust vaccination rates. The global recovery will continue to be uneven, but we remain confident in the outlook for airline passenger growth starting with domestic growth followed by regional and then long-haul international markets. Improved traffic volumes will have a positive impact on our customers and thus on our company.

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

Timothy Ross

Thanks, Robert. This wraps up management's formal commentary. Before we break for Q&A, though, I would like to remind you that – on the basis of today's consensus estimates – as a company we are trading on a forward dividend yield of 4.5% vs. a Hong Kong market average of 3.2%.

We now have time for Q&A and - out of fairness to others - 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.