

**Small Meeting about SMBC Aviation Capital  
Presentation summary / Major questions and answers**

**SMBC Aviation Capital (SMBC AC) CEO  
CFO**

**Peter Barrett  
Barry Flannery**

**General Manager, Aviation & Maritime Strategy Dept.,  
International Banking Unit**

**Isao Sakata**

**1. Presentation Summary**

- SMFG will further enhance the aviation business, which is one of the global products that contributes to our strategy to promote O&D, and maintain the top-tier position in the industry by leveraging the strong relationship we have with our customers (airline companies) and investors.
- Speaking of the aircraft leasing industry, over the past four decades, leasing has become more mainstream, with 40% of the world's fleet provided by aircraft lessors. In addition, driven by the global GDP growth, as people get wealthier and travel more, RPK (Revenue Passenger Kilometers) is expected to double in the next two decades. Furthermore, most of the aircraft that are flying today will be replaced over that period. Therefore, this combined demand is expected to be met by approximately 40,000 new jet passenger aircraft.  
\$800 billion in aircraft financing is expected to be required in the next five years on new aircraft, and it is expected that 40% (\$320 billion) of this will be funded by aircraft leasing companies like SMBC Aviation Capital (SMBC AC).
- The four core components of SMBC AC's strategy are:
  - SMBC AC is positioned as one of the top 5 aircraft leasing companies in the world and has established itself as a market leader. In addition, by utilizing SMFG and Sumitomo Corporation's financing capabilities and customer base, we provide one of the broadest product offerings to airline customers around the world.
  - SMBC AC has one of the most disciplined approaches in asset selection in the industry, which is to invest in the most in-demand, liquid aircraft in the market, such as A320 and B737 to generate steady cash flow and capture trading opportunities.

- As being a part of a financial institution since establishment, SMBC AC has one of the largest credit risk analyst teams in the industry that makes rigorous risk management of its portfolio.
- Through trading aircraft in the market, SMBC AC aims to optimize its portfolio and maximize risk-adjusted returns.
- SMBC AC's uniqueness and strength comes from the fact that it has deepened the relationship with customers by providing various financial solutions such as debt financing and JOLCO<sup>(\*)</sup> whereas competitors normally provide only one product.  
\*JOLCO : Japanese Operating Lease with a Call Option

## **2. Major questions and answers**

### **Q1. What are the competitive advantages of SMBC AC against peers?**

A1. I believe there are three main elements that make us more competitive than our peers. First, our disciplined asset selection gives us more stable and more consistent performance in the business. The second is our experienced team. We have been working together for 17 years and have seen good times and tough times, like 9.11 and financial crisis. And finally, the strength of our shareholders and the product offerings we are able to bring to our customers. Recently, we have been able to have a deeper, broader relationship with our long-time customer by providing them with debt financing through SMBC and JOLCO through SMFL.

### **Q2. What are the growth drivers and risk factors?**

A2. The most significant growth driver is the demand for air travelling. Growth is expected in Asian countries, especially China and Indonesia, countries that have high populations and long distances to travel. Particularly, the Chinese market is expected to be the largest aviation market in the world, sometime in the next decade.

The expansion of Low Cost Carriers (LCCs) is also one of the important factors. Currently, the LCC penetration is high in the Western markets, but looking forward, it is expected that they would expand their business into South American and Asian markets, too. In mature markets including the Western

markets, fleet renewal will be the big driver of demand.

The biggest risk is the macro economic factors. After 9.11 and the financial crisis, we saw a contraction of passenger's demand. However, what we saw in both cases is that the demand recovered within the period of 6 to 12 months and resumed the growth path. There are also cases that individual challenges in particular markets affect our business in the short term, such as the swine flu epidemic in Mexico that occurred a few years ago. In a case like that, we flexibly control our portfolio by leasing aircraft to customers in other regions.

There are challenges, but we believe that the long term resilience of passengers' demands and the mobility of our assets (aircraft) will lead to the stability of our business.

**Q3. What is the competition in the market like?**

A3. We do see compression in yields resulting from severer competition, but we believe that our profitability continues to be attractive. Moreover, we do not just compete on price, but compete on providing broader range of services to our customers, and we think that differentiates us from competitors. For example, we think the most competitive market is the sales and lease-back market, which is quite easy for new entrants to start, but in this area, we have many examples of achieving transactions with Latin American or Asian airlines by collaborating with our shareholders, SMFG and Sumitomo Corporation. We provide debt financing from SMBC and JOLCO from SMFL, which are something our competitors, including new entrants, cannot replicate.

In China, where its aviation market is assumed to grow into the world's largest market in the next decade, we expect there to be more competition. However, at the same time, we believe that our experience and our aircraft portfolio will provide us with opportunities particularly in a market like China where new aircraft are very much in demand.

From the funding perspective, the liquidity in the market is currently very high, so while we have a distinctive advantage of having a financial institution as our shareholder, this strength has not been fully leveraged. However, when there is more tightness in liquidity, we believe that will pay significantly to our strength.

**Q4. Are you satisfied with your current position in the market? Do you have any plans to do M&A to raise your market position? If so, tell us what will be the decision making process.**

A4. Scale brings advantages in terms of breadth of relationship with airlines, purchasing power, diversity in funding sources, and diversity of supply in trading aircraft, so we believe that maintaining the top 5 position in the industry is important. On the other hand, we are focused on the quality of our business. Therefore, we do not have an objective to become No.1 or No.2 in scale. As one of the top players in the aircraft leasing industry, we did receive offers of M&A in the past and we looked into them. Going forward, if opportunities come along, we will consider them only in the context of our strategy, discipline and our rigor that we have applied over the last 17 years. The decision will always be made together with our shareholders and ultimately it will be the decision of our board, which is controlled by shareholders.

**Q5. What is the impact of deconsolidation from SMFG through the recently announced “Reorganization of the Joint Leasing Partnership”? What is the background of the \$1 billion capital raising?**

A5. While it is expected that we will be deconsolidated from SMFG, the impact on the business will be very limited. The shareholding of our business will remain the same, 66% of SMFG and 34% of Sumitomo Corporation. Therefore, all the cooperation in relation to the wider product base under the strength of the shareholders will continue to be our competitive advantage and we will operate the business in the same way as we do today. The \$1 billion capital raising is to further strengthen our business as we look to acquire additional aircraft. It will also allow us to maintain our industry leading ratings.

**Q6. How do you communicate with your shareholders, especially when there are conflicts between you and your shareholders?**

A6. The communication with shareholders is something we have worked on the most in the past six years and is one of the reasons why our business is currently going along well. There were times where there were conflicts

between us and the shareholders, but in the past six years, we have taken a long term view to seek ways to benefit both parties. Open and clear communication is the key for success.

**Q7. Has there been a significant change in the expected progress of SMBC AC's business from the original projection built at the time of acquisition?**

A7. Some factors like the plans for purchasing aircraft and the competition environment incorporated in the business plan SMFG made when it acquired SMBC AC have changed. However, the growth rate and profitability are so far in line with the original expectation.