



“This was a very interesting and rare deal. It really got my juices flowing”



40 million

the combined number of passengers carried by Etihad Airways and Air Berlin each year

86

the number of cities served by Etihad Airways, the national airline of the United Arab Emirates

171

the number of destinations served by Air Berlin, Germany's second-largest airline



{ CATEGORY CASH AND TRADE FINANCE – WINNER ETIHAD AIRWAYS }

READY FOR TAKE-OFF



If innovation in treasury was what the judges wanted, then they found it in Etihad Airways' groundbreaking secured shareholders' loan to Air Berlin.

The transaction was structured as part of Etihad Airways' wider strategic relationship with Air Berlin and constitutes the shareholders' loan component of a combined equity and debt investment in the German airline.

The shareholders' loan was structured as a pre-delivery payment (PDP) loan against Air Berlin's outstanding aircraft orders. PDPs are initial deposit and progress payments that are paid by airlines to aircraft manufacturers between the date of placing the order and delivery of the aircraft. PDP financing packages are notoriously difficult to secure at the best of times, and have all but disappeared amid the recent financial turmoil. They are further complicated by the requirement for a tri-party agreement with the aircraft manufacturer to ensure that

A groundbreaking funding solution from Etihad Airways gave Air Berlin the financial boost it needed to grow its fleet

security is perfected and released when aircraft are delivered. Default risks also need to be properly managed between the parties.

In this case, PDP financing was selected as the best funding option since Air Berlin's aircraft orders and related PDPs provided the appropriate security for Etihad Airways' investment. (Although other types of assets were also considered.) The treasury teams at Etihad Airways and Air Berlin led the structuring and execution of the transaction, including the negotiations with Boeing. Notably, no external advisers were used.

Under the terms of the deal, which was the first-ever example of direct PDP financing between two airlines, Etihad Airways lent Air Berlin \$255m over a five-year period to support its fleet development and network growth. The deal

was secured against 71 aircraft due to be delivered between 2013 and 2021.

Etihad Airways is now the largest single shareholder in Air Berlin, with a 29% stake. Meanwhile, Air Berlin has shifted its Middle East operation from Dubai to Abu Dhabi, and runs four flights a week between Berlin and the UAE capital. The agreement also includes code-sharing, integrated frequent flyer programmes, mutual maintenance agreements and an integrated Boeing Dreamliner aircraft programme.

Ricky Thirion, Etihad Airways' group treasurer, explains what makes the deal special: “To our knowledge, this is the first time that one airline has provided a loan to another airline using aircraft orders and PDPs as security. The transaction also has a customised drawdown and repayment schedule, which is not tightly linked to the aircraft deliveries, despite using the aircraft and deposits as security. We are not aware that this has been achieved before.”

Deal highlights

Borrower: Air Berlin
Lender: Etihad Airways
Third party: The Boeing Corporation
Structure: PDP financing solution backed by Boeing 737 and Boeing 787 aircraft with customised drawdown and repayment schedules
Amount: \$255m
Interest rate: 7.5% p.a. fixed rate on outstanding amount
Tenor: Five years



Ricky Thirion, Etihad Airways group treasurer:
Deal is probably a market first

Highly commended: Super-Max Group

Super-Max Group, the world's second-largest razor blade maker, moved its global headquarters to Dubai in 2010 and plans to set up

a manufacturing base in the region. Its treasury team succeeded in securing a \$30m financing package with a cost-effective fee

structure from HSBC to support the group's growth. This comprised a \$28m working capital facility (consisting of \$20m in trade finance and

\$8m in receivable finance) and \$2m in treasury facility, vehicle loans and credit card facility. The maximum available tenor is 75 days.