



JLT Aerospace



PLANE TALKING

JULY 2008

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Editorial

If you have any comments or suggestions or you know anyone who would like to be added to our mailing list or your email address changes, please advise by emailing details to: lucy.potter@jltre.com

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Executive Summary

- The airline industry continues to wrestle with significant uncertainty nevertheless the order book continues to grow, particularly from the Middle East.
- There are no really meaningful changes to capacity however we note that there are a number of markets that have reduced their maximum lines on airline business. We regard this capacity as being temporarily, rather than permanently, withheld from the market.
- The renewals during July perhaps offer our first reliable indicator of the likely direction of the market for the remainder of 2008. Exposures are showing signs of reducing, at least in terms of average fleet values and passenger numbers, not however in respect of potential liability costs. Lead premiums are similar to expiring terms or showing slight increases. The larger capacity markets appear to be achieving acceptable renewal terms close to their expectations however the so-called following markets, in many instances, are having an increased opportunity to participate at terms that are higher than the expiring period.
- Losses continue and we note a rash of events during July. In respect of hull losses the cumulative figures for 2008 resemble those for 2007, however the cumulative liability losses are now significantly behind 2007. Of course this situation could change instantly following just one tragic event.
- Our conclusion is that the market will continue to hold firm in terms of premium levels, subject to loss levels. Capacity will also continue to tighten although we believe will be adequate for most risks subject to price.

Airline Industry News

Considering the uncertainties in the airline industry at present, it was uplifting that so much business was formalised at the recent Farnborough air show. The announcements made at the show belie the current concerns for world economics, rising energy prices and green credentials. Of course, these new orders are for more efficient and cleaner aircraft. The most notable order was from Etihad Airlines who ordered 200 aircraft from Airbus and Boeing, valued at US\$43 billion. Most were for wide bodied aircraft including 10 A380s.

Another substantial order from the Middle East was from United Arab Emirates' new low cost operator FlyDubai with a US\$4 billion deal for 50 Boeing 737-800s. The Etihad deal establishes an order backlog for the three main Middle East airlines (Etihad, Emirates and Qatar) at more than 400 aircraft with all three ordering the A380.

Despite the fact that it has no firm orders yet, Bombardier has decided to go ahead with its long awaited, all new, C series of regional jets. Lufthansa's sole letter of intent for 60 aircraft, at a list price of US\$46.7 million, is enough to convince the manufacturer to go ahead with the C Series which is expected to enter service in 2013. The C Series is designed for 110-130 seats and is powered by the Pratt and Whitney Geared Turbofan which, it is hoped, will set it apart from similar sized jets. Although this engine is still in the development stage it is being billed as having a far superior fuel burn than current similar power units.

North America has produced little cheer in financial terms in recent years and current results just released by some major operators show little respite from the gloom. United Airlines announced a US\$2.73 billion loss in the second quarter and said it would shed 13% of its workforce- 7,000 staff, and cut more than a sixth of its domestic routes. This brings the total planned job cuts to nearly 11,000 as it lowers operating costs.

US Airways announced a US\$567 million second quarter loss, American US\$1.45 billion, Continental US\$3 million and JetBlue US\$7 million.

Farnborough Orders Summary

Airbus logged orders for nearly 260 new aircraft including 98 A350s and 123 A320s.

Boeing weighed in with orders for over 130 737 series aircraft and 25 777s.

Newcomer Sukhoi announced orders for 25 Superjet 100 aircraft from its in-house sales and marketing team and from an undisclosed customer described as a 'well established European based operator'. Is this the aircraft to

push Russian manufacturers into the western market?

Embraer announced orders for the Emb-190, 5 each for Niki, NAS Aviation and Kun Peng Airlines and 12 for Aeromexico.

Start ups

The trend observed through this year continues with very few start-up airlines being announced in July. **Ayjet** is to launch Q400 operations in Turkey, whilst **Boliviana de Aviacion** has received government backing to start with B737-300s.

And Closures

- **Gemini Air Cargo** of Dulles, Virginia entered Chapter 11 bankruptcy protection on 30th June for the second time in two years.
- **One-Two-Go Airlines** the budget carrier of Thailand suspended operations on July 22nd to allow time for financial restructuring.
- **Far Eastern Air Transport** ceased operations in May due to financial problems.

Insurance Market News

July has now become the third busiest month for airline renewals in the insurance calendar. Among the operators coming to the market is American Airlines, with a fleet valued in excess of US\$18.5 billion and estimated passenger numbers of nearly 120 million. Other major carriers renewing this month include Aeroflot, China Airlines, Federal Express, MEA - Middle East Airlines and the new grouping known as NACIL (National Airline Consortium of India Limited - the merger of Air India and Indian Airlines). Other changes this month, Far Eastern Air Transport ceased operations and Alaska Airlines has now changed its renewal from December to July.

Claims arising out of the mid-air collision in Brazil in September 2006, between a GOL 737-800 and an executive jet have been dismissed by the multi-district judge in New York due to 'forum non conveniens'.

Arrivals and Departures

- Henning Haagen has left Augsburg Re to join Allianz Global Corporate & Specialty AG to underwrite an inwards reinsurance account.
- Garrett Hanrahan has joined Willis as Chief Executive Officer of Global Aviation in North America.
- David Marra has left Max Re Bermuda to join Renaissance Re.

Renewal Analysis

Exposures

July has seen some of the year's most significant renewals so far. Although some airlines are continuing the pattern seen in the first two quarters with exposure growth forecasts, there are also several airlines in July which are bringing the monthly average down. American Airlines, for example, has forecast over US \$2,000 million (-10%) reduction in AFV and China Airlines is expecting a reduction of nearly 1.4 million (-12%) passengers in 2008. The impression overall is that exposure growth is starting to slow.

Premiums

With an overall fall in exposures in July the premium change has levelled off. As we enter the third quarter, premiums are now showing very little adjustment compared to this time last year. Despite the reductions in exposure forecasts, premium has increased slightly. Underwriters are showing resilience with regard to rating adjustments for accounts with poor loss records and achieving some success in maintaining income levels.

Year to Date	Hull US\$ M	Liability US\$ M	Total US\$ M
2007	129.97	242.55	372.51
2008	129.71	241.37	371.08
% Change	-0.2%	-0.5%	-0.4%

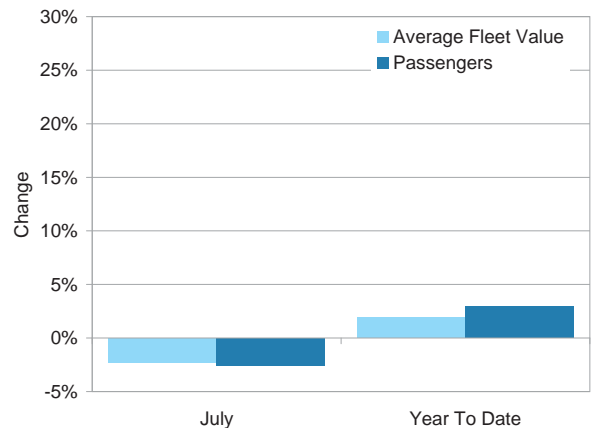
Rates

The impact of two airline account renewals which suffered losses in their previous policy period has pushed the average rate change for July higher with 5% on Hull and 7% on liability. However, even without these accounts the average rate change would show a slight increase on a like for like renewal basis in July.

Year on Year % Exposure Change

JULY / YEAR TO DATE

based on Latest Information at 24th July 2008

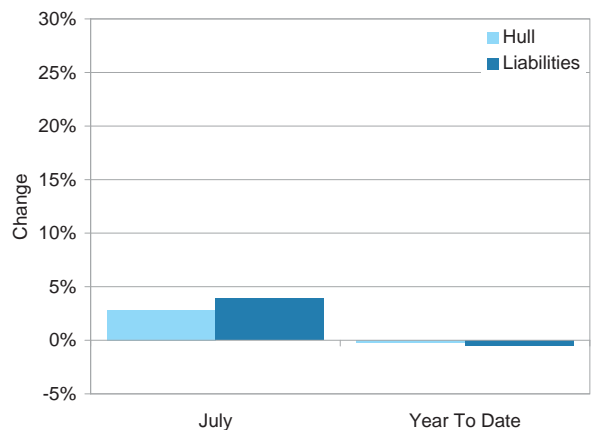


Source:
JLT database

Year on Year % Premium Change

JULY / YEAR TO DATE

based on Latest Information at 24th July 2008

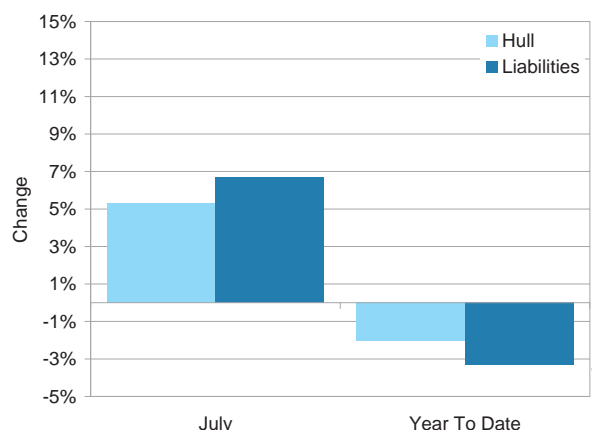


Source:
JLT database

Year on Year % Rate Change

JULY / YEAR TO DATE

based on Latest Information at 24th July 2008



Source:
JLT database

June Loss Update

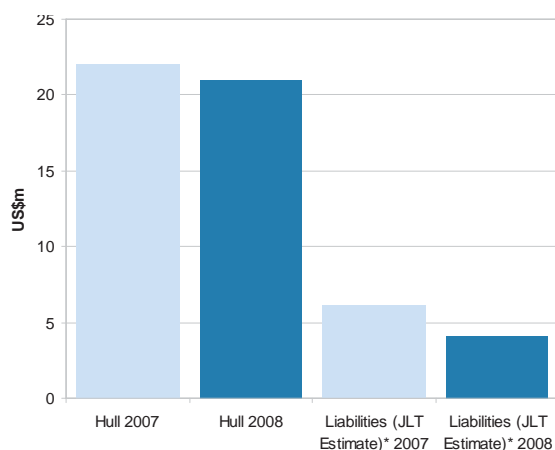
Hull Losses US\$	Liability Losses (JLT Estimate) US\$	Total US\$
16,700,000	1,450,000	18,150,000

July Known Losses of Note

2nd	PIA	B777-200ER (AP-BHX)	Italy	No injuries or fatalities	Reserve US\$5,000,000
On approach to Milan from Paris, the aircraft encountered severe turbulence and hail causing damage to nose, wing and engine inlet.					
6th	USA Jet Airlines	DC9-15F (N199US)	Mexico	No passengers involved	Reserve US\$1,200,000
Crashed short of the runway at Saltillo on final approach in darkness, breaking in two and catching fire. One pilot was killed and one critically injured. The aircraft was operating a cargo flight from Shreveport.					
7th	Kalitta Air	B747-200F (N714CK)	Colombia	No passengers involved	Value US\$7,000,000
Following an engine failure (possibly two) on take off from El Dorado Int'l Airport, Bogota the aircraft crashed onto farmland killing three people on the ground. Although the major part of the aircraft was totally destroyed the cockpit section remained mainly intact allowing the eight crew members to escape with various injuries. The aircraft was loaded with flowers en-route to Miami. This is the second Total Loss to a Kalitta B747 in six weeks.					
14th	Maldivian Air Taxi	DHC-6 (8Q-MAS)	Maldives	No injuries or fatalities	Value US\$2,500,000
Hit a speedboat on landing causing loss of float, engine and the aircraft to flood.					
20th	Atlantic Southeast Airlines	CRJ-700 (N706EV) CRJ-200 (N916EV) CRJ-200 (N975EV)	USA	No injuries or fatalities	Value TBA
During engine cleaning, the CRJ-700 jumped chocks and ran into the 2 CRJ-200s parked in a hangar.					
25th	Qantas	B747-400 (VH-OJK)	En-route Hong Kong-Melbourne	No injuries or fatalities	Value TBA
An explosion in the cargo bay punctured the fuselage causing a decompression. The aircraft made a successful emergency landing.					

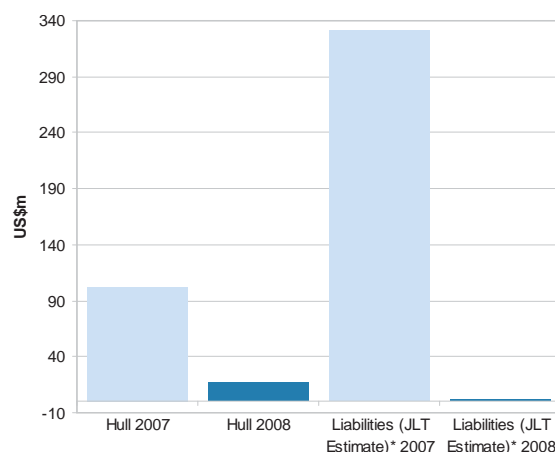
June Losses

All known losses net of deductible



July Losses

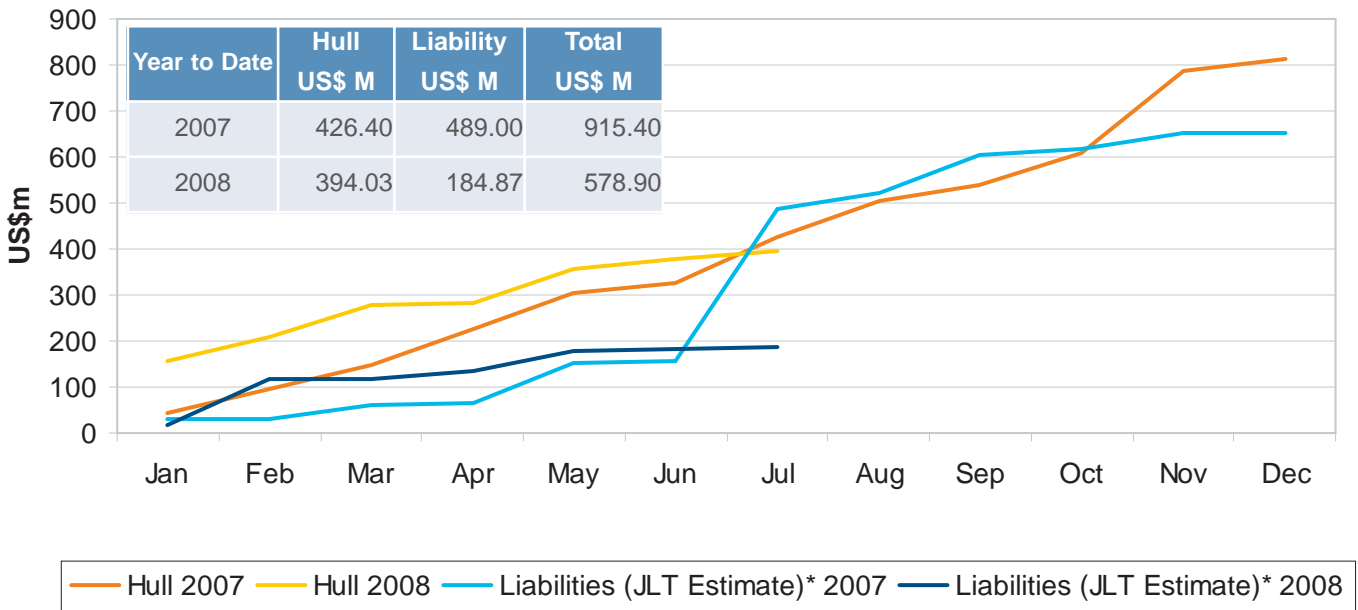
All known losses net of deductible



* The JLT liability estimates are based on our assessment of what we feel is an approximate forecast of what passenger and/or third party reserves might be. These are merely provided as a guide.

Cumulative Airline Loss Figures Year To Date

All known airline losses net of deductible

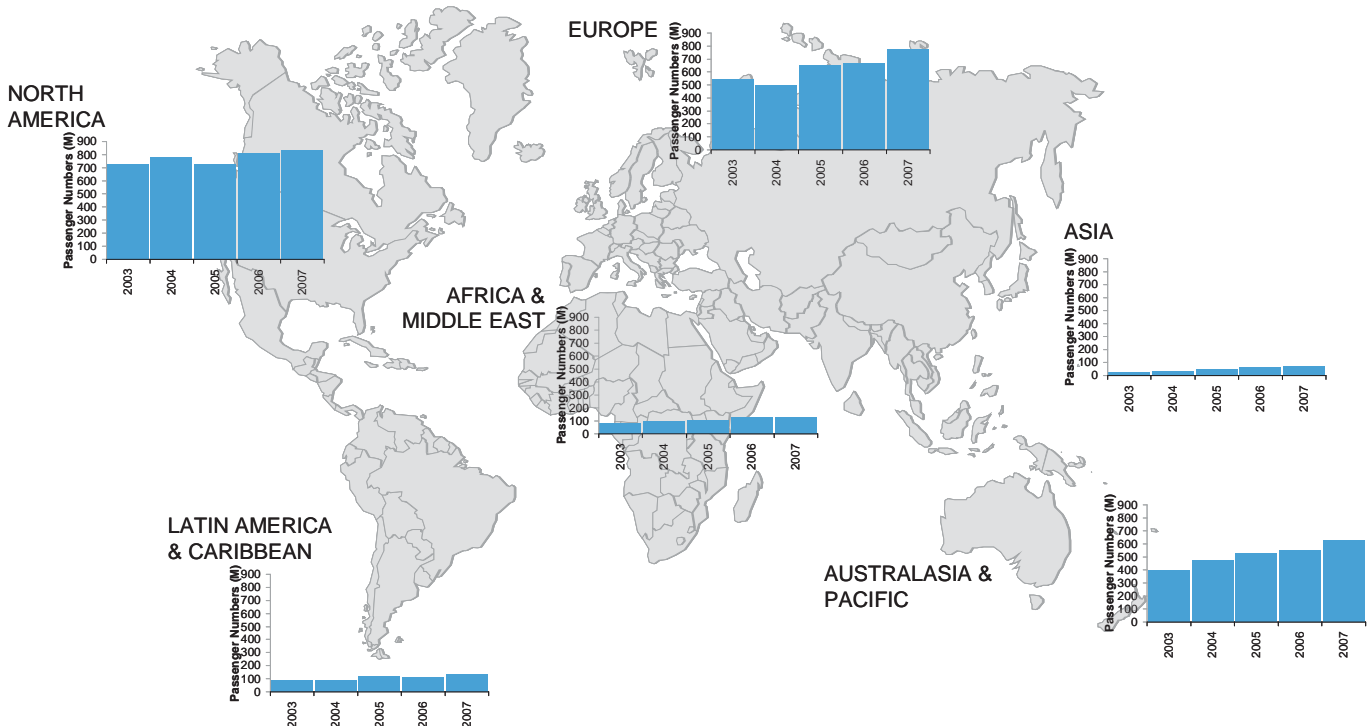


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Regional Trends

Regional Breakdown of Passenger Numbers - Last 5 years

By Region of Operator Domicile



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