

Plane Talking

JLT AEROSPACE

FEBRUARY 2011

Executive Summary

Fuel for thought

- February was a quiet month with very few policy renewals, start-ups, closures and new orders seen
- Prices for jet fuel are rising swiftly. This month saw the price of crude oil soar to a two-year high due to the spreading unrest across the Middle East
- Manufacturers are all too aware of the rising demand for modern fuel efficient aircraft and are taking the necessary steps to improve their designs
- No major aircraft losses hence hull and liability claims are down
- Increased awareness for new types of risk

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Special Review - The Real Alternative

JLT International Aviation Insurance Forum, Dubai January 2011

At the end of January JLT successfully completed its first International Aviation Insurance Forum. Not only successful from JLT's point of view but also from the view point of the 200 delegates from around the world, who were very positive about the event.

Held in Dubai, the Forum had delegates from airlines, airports, insurers, reinsurers, insurance brokers, loss surveyors, lawyers, media organisations plus various other parties with an interest in aviation insurance.

The main focus of the event was a series of presentations from various leading

industry professionals. In addition there were also panel discussions talking about important current issues in aviation and as would be expected there were also a number of social events designed to allow delegates the opportunity to meet their peers and other industry professionals.

Since JLT's plans to grow its aviation business started nearly two years ago there has been increased media attention on the business and this was true of the event with particular interest generated in the launch of exclusive new insurance products announced by Munich Re and Swiss Re.

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Nigel Weyman, Chairman of JLT Aerospace, opened the forum followed by a presentation setting out the reasons why JLT now represent the real alternative to the other major brokers. JLT Aerospace has expanded considerably over the past eighteen months, investing in new staff and attracting major new clients. The presentation set out the next stage of JLT's development, focussing on our desire to provide our clients with high quality broking services. In addition the presentation emphasised our key cultural difference with our competitors - we believe in people over process and will continue to invest in developing our resources.

Gary Chapman, President, Group Services of Dnata, The Emirates Group, provided an overview of the Emirates Group, including details of Emirates Airlines' continuing growth and its future plans. The sheer scale of the development of the civil aviation industry in the United Arab Emirates was reinforced by a detailed presentation from Paul Griffiths, CEO, Dubai Airports.

Swiss Re's Oliver Dlugosch, attracted media attention with the announcement of an exclusive new insurance product, which has been developed in conjunction with JLT. This product will allow airlines to insure against loss of business caused by natural phenomena such as ash clouds, earthquakes, floods, storms and snow. Wolfgang Boffo, Risk Consultant, Munich Re, also addressed the need

for innovative risk solutions for new types of risk faced by airlines. Both presentations demonstrated the ability and willingness of aviation insurers to continue to develop new products for the benefit of the civil aviation industry.

Further insight from the insurance market was provided by Nick Brown, CEO, Global Aerospace and Jose Ribeiro, Director, International Markets, Lloyd's of London. Nick Brown's presentation included comment on the need for aviation insurers, brokers, adjusters and lawyers to make better use of modern media outlets. Several other speakers returned to this point, and Chris Myers, General Manager UK/Europe, Air New Zealand addressed this subject directly within his presentation.

Flight safety issues were explored in detail, including presentations from Robert Jensen, Chief Executive-Kenyon International, Joe Gillespie, Partner & Safety Management Advisor, Gates Aviation LLP, David Bickerton, Principal Surveyor and Director, Airclaims and David Learmount, Operations and Safety Editor, Flight Global. These presentations provoked an interesting debate regarding the issue of human error in flight safety. A number of speakers commented that humans represent the weak link in flight safety, but David Learmount highlighted the importance of flight crew as a final defence when all else fails. Amongst other things David Learmount pointed to the recent Qantas A380 engine failure incident as an example of the professionalism of the flight crew averting a major disaster.

One of the highlights of the forum was a presentation from Jean Francois Wibaux, Group Risk Manager, Air France, which focussed upon the impact for risk managers in the immediate aftermath of a major accident. Many risk managers attending the forum have commented that they found the insight provided by Mr Wibaux to be very interesting.

Claims handling issues were further explored within presentations delivered by John McKay, Chairman, Risk & Asset Management, Charles Taylor Aviation and Sean Gates, Senior Partner, Gates and Partners Solicitors.

The forum closed with a presentation from Chris Tranter, Aviation Director, elseco, setting out the continuing development of civil aviation and space travel.

JLT will be happy to provide further detail regarding any of the subjects addressed during the forum.

We would like to take this opportunity to thank all of the delegates who attended the event and helped to make it such a great success. We would also like to thank the Emirates Group for allowing us to use their magnificent facilities to host the event, as well as our generous sponsors; Gates and Partners, Charles Taylor Aviation, Kenyon International, Talbot Underwriting, Munich Re, Swiss Re, Airclaims and Asia Capital Re.



Comment

Just a few weeks ago market analysts were optimistic about prospects for 2011 and although it was predicted that the year would not be as profitable as 2010 there was still enough momentum for a positive outcome.

The proviso was that recovery would not be stalled by sluggish GDP growth, additional government taxes and higher fuel prices. The latter is now in the forefront of airline operator's minds and even before the recent political upheavals across North Africa and parts of the Middle East, oil prices were already creeping upwards.

The response was for some airlines to increase fuel surcharges on routes or to just put up fares unilaterally. However, events have escalated recently with the biggest daily jump in the price of oil in over two years hitting the market in late February.

As IATA pointed out back in December, the projected airline profit of USD9 billion for 2011 was based on oil at USD84 a barrel and confirmed that every USD1 increase in price will boost the airlines fuel bill by USD1.6 billion. At one stage recently Brent crude hit USD108 per barrel.

Manufacturers have not been idle in the face of these challenges and their order books are proof of the demand for modern fuel efficient aircraft. Airbus have already offered a significant fuel burn improvement of up to 15% on their new A320neo whilst securing Virgin America as the launch customer. Bombardier's new and yet to fly CSeries powered by the Pratt and Whitney PW1500G geared turbofan promises 20% less fuel consumption versus current aircraft models.

Airlines are being forced to re-equip their fleets with next generation aircraft in order to remain competitive, and in turn manufacturers are responding quickly with advanced airframes and engines. As a result there are lucrative orders to be won, as seen with Delta Airlines who need to replace its existing narrow body aircraft with up to 200 new models. Competition is already fierce between western manufacturers and will become crucial as China, Russia and Japan enter the narrow body sector.

Airline News

Start-Ups

- Crystal Thai Airlines (CTA), Thailand, commenced its inaugural service this month using a leased Airbus A320-211, flying from Bangkok to Muan. The carrier plans to add a second Airbus A320 an Airbus A330 and two Boeing 747 aircraft by April 2011. Domestic routes to Phuket and international services to points in Bhutan, India, Philippines, Sri Lanka and Thailand are also planned.
- Djibouti Air, Africa, commenced operations on 22 February 2011 flying from Djibouti to Dubai using a Boeing 737-200 aircraft. In the coming months the carrier plans to add a Boeing 737-300 aircraft into its fleet and launch flights to Ethiopia, Somalia, Yemen and Kenya. Subsequently, the airline will expand into Europe and East Asia, while increasing frequencies to Middle Eastern countries.
- LV Air, USA, will operate four daily flights between New York and Las Vegas using wide body aircraft. It is believed that the operation will commence this summer.

Orders

There are very few new announcements to report this month.

There were two airlines finalised previous Memorandum of Understandings these being, Skymark Airlines for four Airbus A380s and Caribbean Airlines for 9 ATR72-600s.

New order announcements came from LAN for three further Boeing 767-300ER aircraft, adding to its current fleet of 28 similar models. LAN also announced an order for eleven Boeing 767-300 Freighters. Additionally Comair of South Africa announced an order for 8 Boeing 737-800s to update both the Kulula.com and the British Airways branded Comair fleets.

The only new type/operator announcement this month is an agreement reached between Embraer and Dniproavia for 10 E-190 jets plus a further five on option. These are to be operated by Dniproavia and Aerosvit on lease from a yet to be disclosed third party. Delivery is due to commence in the 4th quarter 2011.

Closures

- Air National New Zealand, a charter airline based in Auckland has been suspended by the Civil Aviation Authority due to safety issues and of falsifying training records. It offered executive charters with a mixed fleet including Beech 1900's and BAe 146's.
- Skywings International, Macedonia, which operated a single Boeing 737-300 to six destinations has had its AOC revoked by the Civil Aviation Authority due to licensing problems. There is now no national carrier in the country.
- Recent start up charter airline Illryian Airways of Pristina, has been forced to cease flying and return its only aircraft a Boeing 737-300 to the lessor in Ireland.

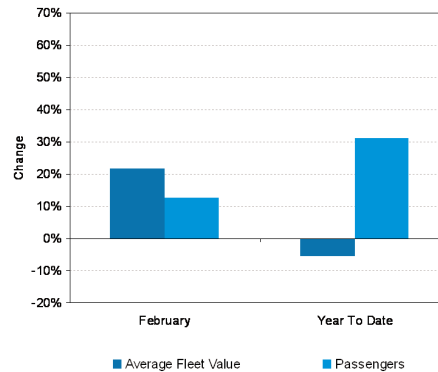
Renewal Analysis

Exposures

With more renewals moving out of February we have very few airlines included in this analysis. Passenger movements shown here reflect the changes of just one operator.

Year on Year % Exposure Change

February / Year to date. Based on latest Information at 24 February 2011



Source: JLT Database

Premiums*

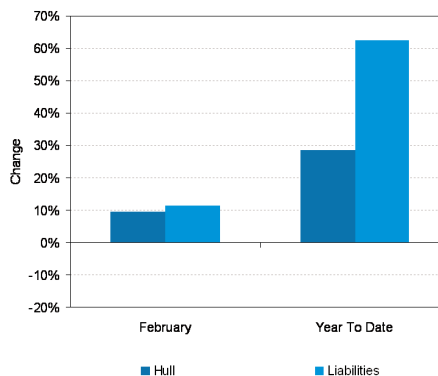
The increase in premium can be put down to a reflection of exposure growth as rates overall declined.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	5.83	5.73	11.6
2011	7.50	9.31	16.8
% Change	29%	63%	45%

* Net of brokerage and at lead terms

Year on Year % Premium Change

February / Year to date. Based on latest Information at 24 February 2011



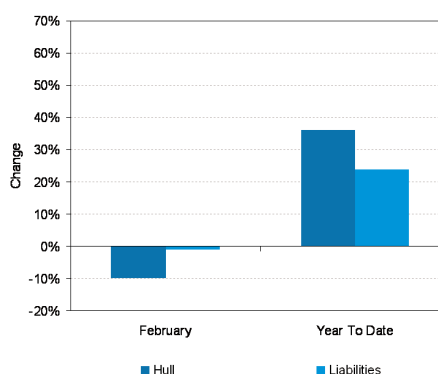
Source: JLT Database

Rates

A reduction has been seen overall this month. This is due to one airline having had their rates re-adjusted, following an increase in 2010 which resulted from a significant loss in the preceding policy period.

Year on Year % Rate Change

February / Year to date. Based on latest Information at 24 February 2011



Source: JLT Database

Insurance Market News

A.M. Best has upgraded the financial strength rating of Korean Re to A (Excellent) from A- (Excellent). The outlook for the rating is stable.

Arrivals and Departures

- Old Republic Insurance Company has announced the reorganisation of its underwriting subsidiary Phoenix Aviation Managers Inc. As a result of this reorganisation the following people have been appointed to these positions: John Clemente Jr, Senior VP and CFO, Spencer LeRoy III, Senior VP and General Counsel, R. Scott Rager, CEO, Ralph H. Sohl, President and COO and Michael E. Warren, Senior VP, Claims.
- Airclaims Limited has announced the appointment of Mark McCloy, formally of Virgin Atlantic Airways and Marc Besse, formally of Airbus Industrie. Both new additions will join the London Survey Team.

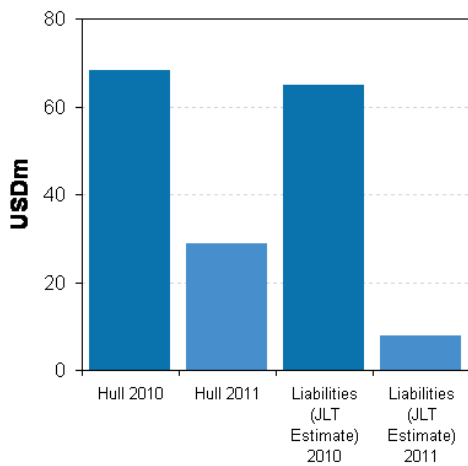
Losses Summary

January

- Hull and spares losses of USD28.95m
- 81 airline fatalities
- Liability loss estimate of USD7.80m

January Losses

All Known Losses Net of deductible

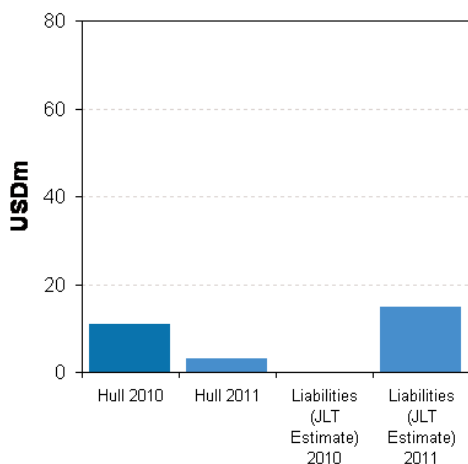


February

- Hull losses USD3.07m
- 27 airline fatalities
- Liability loss estimate of USD14.85m

February Losses

All Known Losses Net of deductible



Loss Analysis

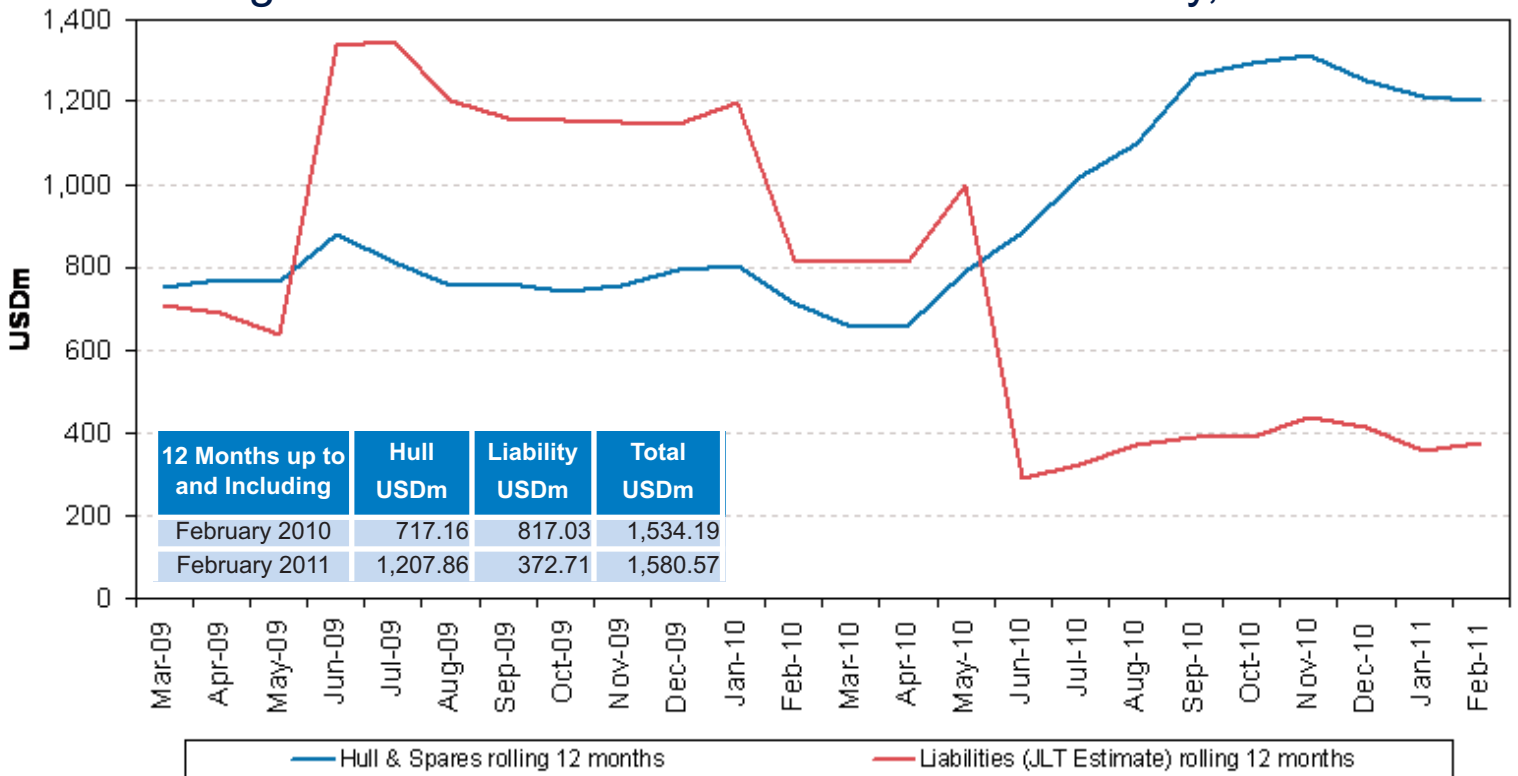
Known Losses in February

9th	Air Nelson	Bombardier DHC8-300Q (ZK-NEQ)	New Zealand
<p>On approach to Wellington, the crew received an unsafe gear warning. The aircraft was diverted to Blenheim airport where a landing without nose undercarriage was carried out.</p>			
10th	Manx2	Fairchild SA-227AC Metro III (EC-ITP)	Ireland
<p>The aircraft, operated by FlightlineBCN for Manx2, a 'virtual' airline, crashed at Cork airport whilst trying to land in fog. The flight was a scheduled international service from Belfast with 10 passengers, 4 of whom lost their lives along with the 2 crew members.</p>			
12th	Sabang Merauke Raya Air	CASA 212-100 (PK-ZAI)	Indonesia
<p>On a post-maintenance check flight with 5 crew, the aircraft crashed in a densely wooded area on Bintan Island, disintegrating on impact.</p>			
14th	Central American Airways	Let 410UVP (HR-AUQ)	Honduras
<p>On approach to Tegucigalpa in rain and limited visibility, the aircraft lost height and crashed into a forest. None of the 12 passengers and 2 crew on the domestic scheduled flight survived.</p>			
14th	African Air Services	Let 410UVP (9Q-CIF)	Congo
<p>Shortly after takeoff from Bukavu, the aircraft crashed into a hillside killing both pilots. The aircraft was on a ferry flight after delivering seeds as part of the world food programme.</p>			
21st	TRIP	ATR72-212 (PR-TTI)	Brazil
<p>Landing at Altamira at the end of a domestic scheduled passenger flight, the aircraft's port undercarriage collapsed causing damage to the propeller, engine and possibly wing.</p>			

* The JLT liability estimates are provided merely as a guide.

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to January, 2011

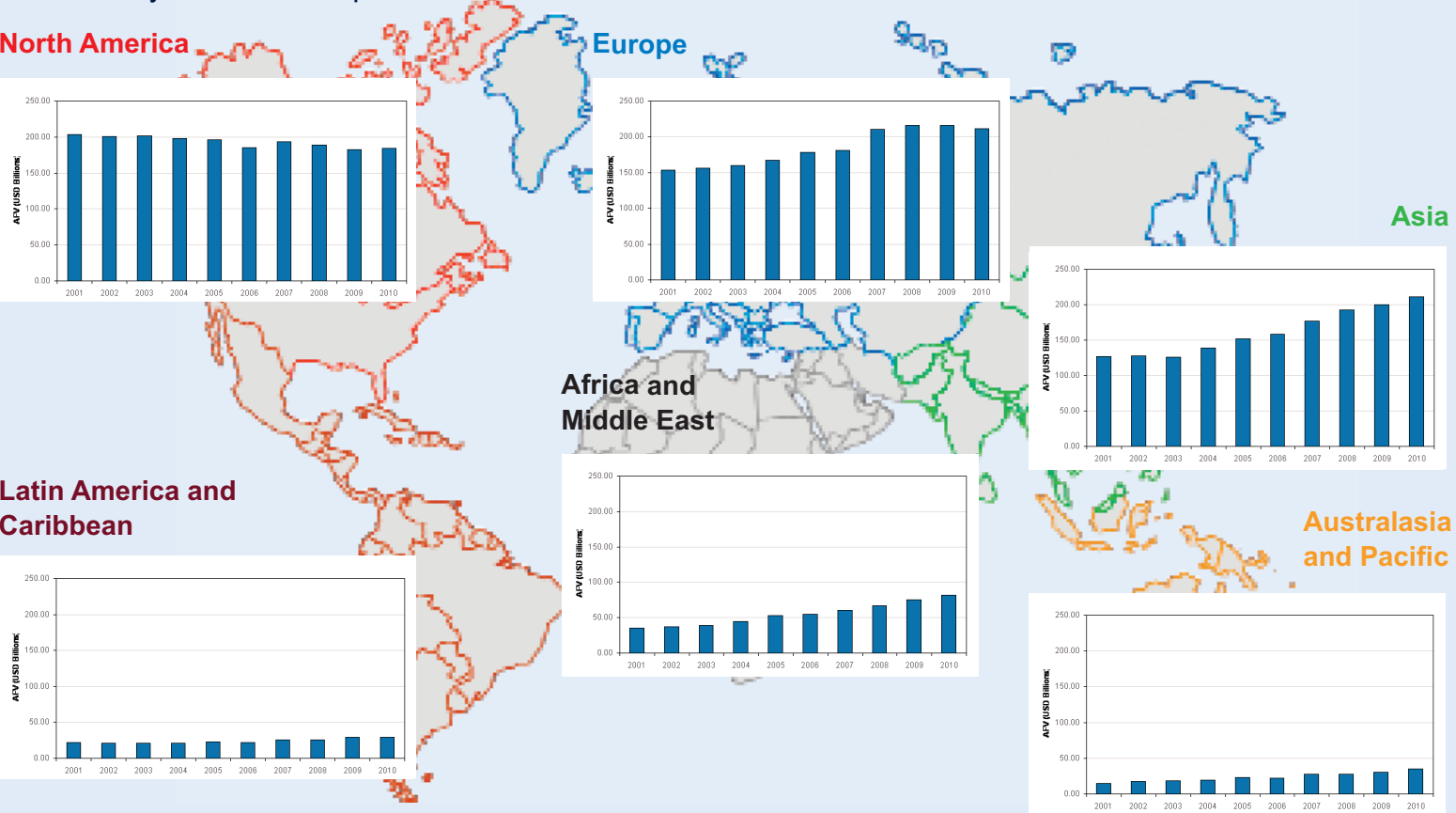


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Regional Chart

Exposures - Total Average fleet value - last 10 years

By Domicile of Operator



North America

Europe

Asia

Africa and Middle East

Latin America and Caribbean

Australasia and Pacific

PlaneTalking

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Richard Adams

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Lucy Ginty

Brad Hills

Andy Poulton

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