AEROSPACE INSURANCE MARKET NEWS

Quarter Two, 2007

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Market Overview

The average aerospace liability premium renewal change for 2006 was +3% in original reporting currency, while the first four months of 2007 has seen a -2% decline, fuelling the belief that the aerospace insurance market is softening. The declines appear to have continued in May.

The main reason for the softer market conditions is the high level of capacity in the aviation insurance markets generally and the low level of claims.

As underwriters seek to diversify their insurance portfolios, the aviation industry offers an opportunity for stable returns. Aerospace capacity is estimated to have risen to over 160% for non-critical coverages over the last year as a result.

At the same time, there has been little airline claims activity, even given the time-lag between an incident occurring and a claim reaching the aerospace market. The lack of losses in the airline market often translates into lower related claims in some of the aerospace sectors.

As a result of these factors, the aerospace insurance market has begun to soften, although the reductions are significantly less dramatic than those being witnessed in the airline insurance market.

There has been a major incident, however. On April 19, a fire broke out at a Gamco hangar in Abu Dhabi and claims are ultimately likely to impact the aerospace market. A Qatar Airways A300-600R, an Air Mauritius A319-100 and a Kingfisher Airlines A320 were all damaged in the fire. The Kingfisher damage is thought to fall within its policy deductible limit. The Air Mauritius A319 has been declared a partial loss, valued at US$1.25m, and the Qatar Airways A300, valued at US$54m, has been declared a constructive total loss.

This is the second major hangar fire to have occurred during the last 12 months. In May 2006, a fire broke out at the Sabena Technic hangar at Brussels Zaventem Airport, damaging or destroying three commercial aircraft. Although the final cost of the fire has yet to be confirmed, it is thought to be in the region of US$260m.

As a result, there is likely to be significant scrutiny on the maintenance, repair and overhaul sector of the aerospace industry over the next couple of years as underwriters focus on ensuring that pricing correctly reflects the level of risk.

There are a number of operations that are said to be seeking longer-term policies of up to three years to take advantage of the current soft market.

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	Reporting Currency Premium Movement (% change)
November 2006	18	86.19	88.39	+13	+5
December 2006	16	44.02	38.09	-13	-4
January 2007	27	44.91	48.48	+8	+3
February 2007	7	10.41	9.69	-7	-5
March 2007	18	24.69	23.06	-7	-5
April 2007	22	204.11	176.25	-14	-5
Year-to-date 2007	**74**	**284.13**	**257.48**	**-9**	**-2**

Source: Aon Market Data
Table based on like-for-like data.

Sector Analysis

	Renewals	Expiring Premium (US$m)	Renewal Premium (US$m)	US$ Premium Movement (% change)	Reporting Currency Premium Movement (% change)
Airport	30	68.51	71.12	+4	-3
Manufacturer	32	205.29	177.07	-14	+3
Service Provider	12	10.33	9.28	-10	-7
Year-to-date 2007*	**74**	**284.13**	**257.48**	**-9**	**-2**

Source: Aon Market Data
*Like-for-like data.

Airports

The airport sector is relatively active during the first quarter of the year, with around a third of the expected total number of annual renewals taking place and a little over half of the total annual premium being placed.

One European programme had a significant reduction on its premium after selling a ground-handling subsidiary. Omitting this programme would mean that the first quarter original reporting currency average reduction was closer to -2%.

In terms of the air traffic control sub-sector, there were eight renewals during the first quarter, all of which received as-before or reductions of up to 8% in their premium levels in comparison with 2006 in reporting currency terms.

Manufacturers

Premium has actually increased for the manufacturing sector during the first quarter in original reporting currency.

The numbers are influenced by one European component manufacturer, which is enjoying significant growth and has nearly doubled its liability limit to match its exposure. Factoring this programme out of the totals for the first quarter and the sector would have softened by around -3% during the period in original reporting currency. Six other manufacturers received increases on their lead premium.

Meanwhile, Hawker Beechcraft has completed its US$3.3bn purchace of Raytheon Aircraft Company.

Service Providers

Service providers, the smallest of the sectors, has renewed under 20% of its forecast total lead premium for the year.

The sector's significant softening in both US dollar and reporting currency terms, has been driven by fairly universal reductions for all of the programmes that have renewed so far this year. The majority of the renewals so far this year have been refuelling operations.

The only exception has been a North American refueller that saw its premium increase by around a quarter as a result of an increase in its limit.

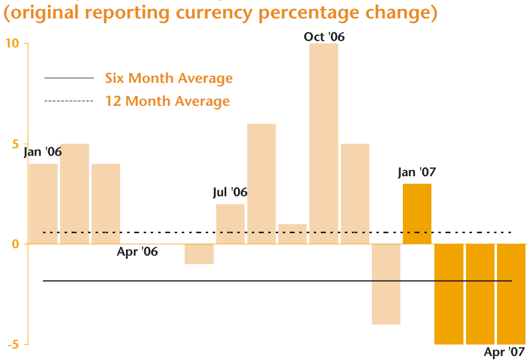
Premium Trend Movement

Three of the last four months have shown average lead premium reductions in the aerospace market, underscoring the suggestion that the market has entered a somewhat softer period.

January would have seen a -4% reduction if the impact of a growing European manufacturer were to be factored out.

The average premium movement for 2006 was +2.7%, but the softening market conditions has meant that the average for 2007 to date is -3%, and expected to fall further as the high level of capacity in the aviation markets generally continues.

Average Percentage Premium Movement
(original reporting currency percentage change)



Source: Aon Market Data

Aerospace Insurance Market Review of 2006 Available

The aerospace insurance market lead premium rose during 2006, but results from the final quarter suggest that there may be a softening over the next year in this traditionally stable market, according to Aon's Aerospace Insurance Market Review 2006.

The key findings of the review are:

- there was a fairly even split in how the insurance markets treated the regions
- the market continues to reward scale
- the manufacturing sector saw premiums rise by the highest rate among the three industry sectors

The review examines the market by month, sector, region and liability limit, as well as outlining some of the wider products that Aon can offer.

If you would like to receive the Aerospace Insurance Market Review 2006, please email aviation@aon.com.

UK's CAA Comments on EU Insurance Responsibility Changes

As the deadline for the EU wide changes to insurance responsibilities for air traffic control operators and air navigation service providers approaches, David Kendrick, Manager of the UK's Civil Aviation Authority's Airline Licensing & Consumer Issues team, discusses how the new requirements are being implemented in the UK.

Closer co-operation across Europe has led to a significant evolution in the insurance requirements for airports and air traffic control (ATC) operations over the last couple of years. The latest changes come into effect across Europe on June 21 and impact the level of third party and war risk coverage that communications, navigation and service providers, ATCs and metrological data providers need to operate legally.

According to the European Commission, the new Common Requirements Regulation (EC550/2004) establishes a set of obligations that air navigation service providers in Europe need to meet, which include levels of liability and insurance cover. Certificates will be valid throughout Europe through the principle of mutual recognition, contributing to greater co-operation between service providers and more cross-border provision of air navigation services.

David Kendrick, Manager of the Airline Licensing & Consumer Issues team at the UK's Civil Aviation Authority (CAA), explains how the changes impact operations across Europe. "The new rules cover all types of ATC from massive global businesses such as BAA Heathrow Airport to local pleasure operations such as at Fenland Airfield. As part of the Single European Sky regulations, a common requirement for insurance has been introduced, which for the first time overtly creates an EU structure for safety, security, finance, quality management and insurance, and a whole raft of responsibilities were passed onto the UK's CAA and its equivalents across Europe as a result."

The changes are not designed to increase the level of insurance that operations carry, but simply ensure that there is sufficient coverage in the right areas in the event of an incident. "There is no change to the level of coverage for the majority of operations, but it does encourage them to examine their policies and ensure that they have the best level of coverage to match their risk tolerance," Kendrick observes. "The process is helping operations consider the potential implications of an accident and move beyond the belief held in some quarters that hangar keepers' coverage is sufficient."

While operations have to be compliant with the new regulations by mid-June and no extension is possible, Kendrick stresses that the insurance guidelines are not designed to put operations out of business and there is some flexibility in how they are implemented.

"We have to be pragmatic when we are looking at the implementation of new rules," he says. "The European Commission has not, as yet, set minimum levels of insurance, as in other areas, so the CAA has had to draw its own guidelines. However great care was taken into looking at what an organisation can afford at the same time as ensuring user safety. While minimum requirements are in place, because there are so many different types of operation that a blanket rule would not be practical, the CAA is happy to consider exceptional cases.

"The CAA has a team that is working with air navigation service providers across the UK to help them ensure that they are compliant with the changes," Kendrick continues. "The idea is not to force people out of business, but to make sure that they have the insurance coverage that they need. There is an understanding that there could be exemptions on some insurance requirements, but we have now laid down minimum requirements."

Kendrick stresses that the CAA needs time to review an application and if an air navigation service provider has not yet engaged with them they should do so as soon as possible. "Its no good leaving an application to the last minute, there is a lot of work to be done and the June deadline is final."

There is a great deal of focus across Europe on how the rules are being implemented and how the UK's CAA is working with operations because of the relatively decentralised way that ATCs are set up in the country. "States are learning from one another," says Kendrick. "We want to ensure that our operators know where they stand and how they can operate across the EU. Other member states are aware of how we are implementing the changes and we are keeping an eye on what is taking place elsewhere to ensure that we implement best practice where we see it for the benefit of the whole aviation community."

Quarter Two Aerospace Renewals

Manufacturers	Renewal Date
Airbus Industrie/EADS	1 Apr
British Aerospace PLC. (BAE Systems)	1 Apr
Crane Company	1 Apr
Denel PTY Limited	1 Apr
HAECO	1 Apr
Kawasaki Heavy Industries	1 Apr
Liebherr	1 Apr
Martin Baker	1 Apr
MBDA SAS	1 Apr
Mitsubishi Heavy Industries	1 Apr
TAECO	1 Apr
Textron Inc.	1 Apr
Alstom Power Ltd	1 May
Dyncorp	1 May
Raytheon Company	1 May
Volvo Aero Corporation	31 May
3M Company	1 Jun
AAR Corporation	1 Jun
Gencorp	1 Jun
Lockheed Martin Corporation	1 Jun
Sequa Corporation	1 Jun
TAESL (Texas Aero Engine Services LLC)	1 Jun
Teledyne Continental	1 Jun
Teledyne Technology	1 Jun
L3 Communications	27 Jun

Airport Related	Renewal Date
Aeroports de Paris	1 Apr
Dutch Air Traffic Control	1 Apr
HungaroControl/Hungarian Government	1 Apr
The Airports Company South Africa	1 Apr
SEA Aeroporti di Milano (Milan Airport)	21 Apr
Avinor	1 May
Hong Kong Airport Authority	1 May
Israel Airport Authority	1 May
City of Chicago	15 May
Belfast City Airport	23 May
Chubu Airport	1 Jun
NAV E Portugal	1 Jun
NV Luchthaven Schiphol	1 Jun
Southern Cross Airports Corp	1 Jun
Greater Toronto Airport Authority	15 Jun
Airservices Australia	30 Jun

Service Providers	Renewal Date
Abu Dhabi National Oil Co.	1 Apr
Canadian Air Transport Security (CATSA)	1 Apr
CEPSA	1 Apr
Engen Petroleum	1 Apr
John Menzies	1 May
Kuwait Petroleum	1 May
ENAC	16 May
ChevronTexaco Group	1 Jun
Exxon Joint Venture	1 Jun
Prospect Airport Services	1 Jun

Results for the second quarter so far suggest that the aerospace insurance market has continued to soften, driven by reductions in all sectors.

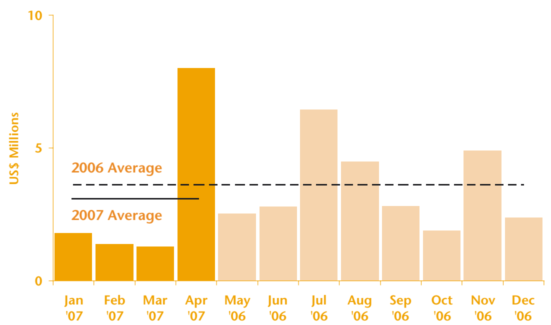
At this stage we have information about just under half of the total number of expected renewals during the quarter, reflecting the concentration of the market on the first month of the quarter.

The final numbers for the second quarter will be significantly influenced by two major European manufacturers that jointly contribute nearly a third of the quarter's total expected lead premium.

It seems likely that the reductions will continue for some time, given that current aerospace market capacity is estimated to be over 160% for non-critical coverages. This means that there is enough capacity to cover a programme with a good record over one and a half times in the current environment, with the increased competition forcing down the price of this type of business.

That said the market is finely balanced and any further losses could rapidly lead to a hardening.

Average Premium Per Renewal



Source: Aon Market Data

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Our criteria for inclusion is accounts with any of the following: a combined single limit (liability limit) of over US$650m; premium of over US$2m; top 50 airport groups by revenue; top 100 manufacturers.

We welcome any comments or suggestions to add to or improve our product.