AEROSPACE INSURANCE

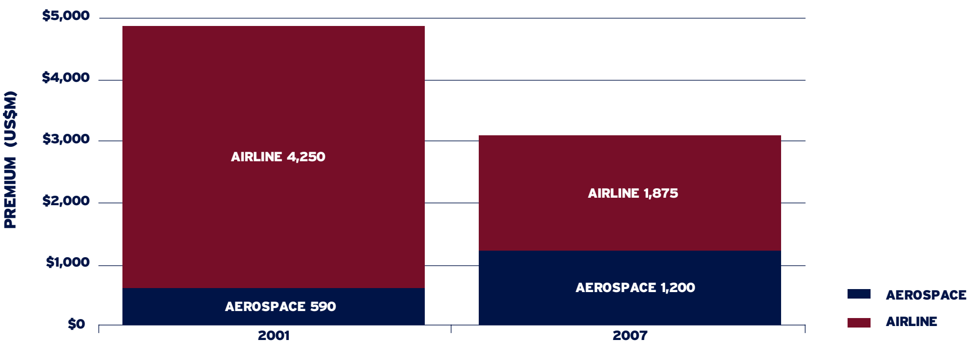
Willis INDEX

JULY 2008

The sector referred to as 'aerospace' by the London market principally covers the insurance programmes of aviation manufacturers and suppliers, including Maintenance, Repair and Overhaul (MRO), airports, air navigation and other service providers and fuel producers and suppliers.

In terms of premium volume generated aerospace has always been an integral part of the majority of underwriters' portfolios, however, compared with the airline sector's perceived 'short tail' exposure base, the aerospace sector is deemed to be 'long tail', i.e. liability claims can often take many years to come to fruition by virtue of extended inter-party litigation and subrogation actions. As a consequence of this the aerospace sector has historically been far less volatile in terms of participating underwriters, market leaders and pricing levels.

The insurance costs of the aviation industry rose dramatically as a consequence of 9/11. The chart below provides a snapshot of combined airline and aerospace premium generated to the London market in 2001 compared with 2007.



Since their peak in 2001 airline rates have fallen year on year and premium generated has similarly recorded significant reductions. Aerospace premiums also increased dramatically peaking in 2004, however, whilst aerospace premiums have since fallen, the level of annual reduction has been considerably less than that achieved by the airline sector. In 2007 the aerospace premium of US$1.2 billion was 103% greater than at 2001, in comparison, airline premium of US$1,875 for 2007, was 56% less than the 2001 amount.

This publication is designed to focus on the aerospace sector and recognise the increasing importance and value to the aviation insurance market of this sector's contribution.

FIRST HALF YEAR 2008 AEROSPACE

Total aerospace premium for the first half of 2008 amounted to US$282m* which in comparison to 2007 premium of US$288m** is a slight reduction of 2.1%, however, in original currency terms the premium reduction is larger at 5.3%.

* based on result of 181 renewal programmes, including those renewals that are not monitored by our manufacturers and airports indexes.

** All 2007 premiums converted to US$ at applicable rate of exchange 01/01/2008.

By sector, total aerospace premium:

SECTOR	NET PREMIUM % 2008 M	NET PREMIUM % 2007 M	CHANGE %	RENEWING PROGRAMMES
MANUFACTURERS	170	171	-0.6%	73
AIRPORT	84	87	-3.4%	68
ATC	13	14	-7.0%	15
FUEL	15	16	-6.0%	25
ALL	282	288	-2.1%	181

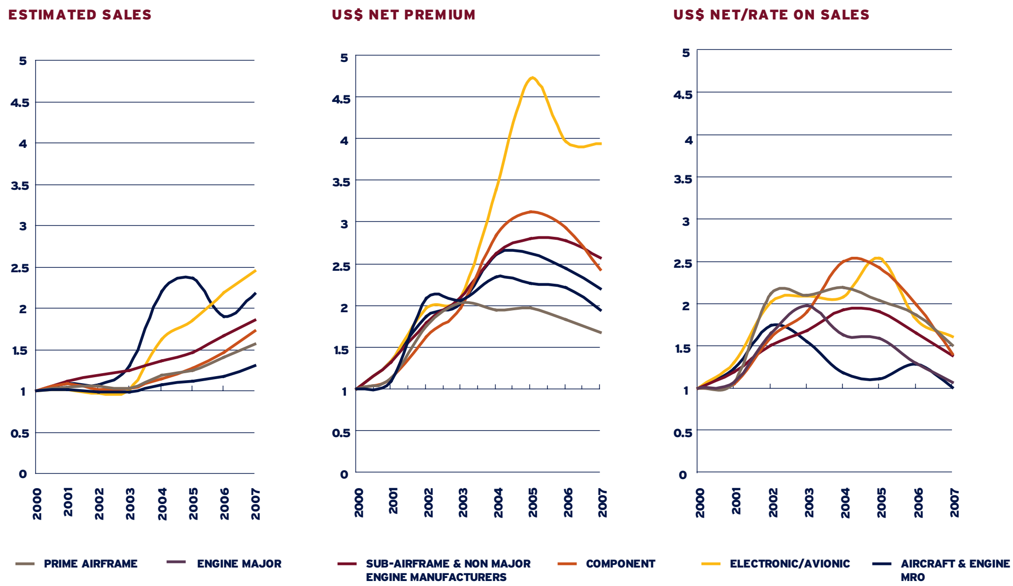
WILLIS MANUFACTURERS' INDEX

The majority of the manufacturers monitored by the Willis Manufacturers Index are those listed in Flight International magazine's 'Top 100 Aerospace Companies', who insure and have insured in the London market for at least the past 5 consecutive years. We have added other selected manufacturers to produce an index that we consider reflects the London market's position regarding manufacturers' liability insurance.

For 2007 the Index reviews the renewal experience of 113 ‘core’ aerospace manufacturing and MRO insureds, (part of a total 237 insureds for whom we are able to review London market renewal experience information).

Whilst we seek to review the renewal experience of a consistent group of insureds, mergers and acquisitions within the aerospace industry have resulted in new entrants. Some of these new entrants have been introduced into our index for the first time in 2007. We have, however, maintained the requirement that those insureds contained within our Index have renewed in the London marketplace for the past five consecutive years.

WILLIS MANUFACTURERS’ INDEX 2000-2007 DEVELOPMENT RATIOS



WILLIS MANUFACTURERS’ INDEX FIRST HALF YEAR 2008

The Willis Manufacturers Index for the first half of 2008 reports the cumulative renewal experience, by manufacturing sector, of 36 monitored insureds. This represents, numerically, 32% of the total anticipated annual renewals monitored by the Index based on 2007’s total of 113 and, in quantum of premium, 20%. Despite this relatively low level of renewal activity during the 1st half year 2008 clear trends are apparent.

Our Index review reveals that the MRO and Sub Manufacturers sectors have experienced significant premium increases.

The MRO sector premiums have increased primarily due to the impact of a number of major losses that have occurred over the past few years. Underwriters have not only applied sizable increases to the accounts that experienced those losses but have generally hardened their price across the sector.

Sub Manufacturers premiums have increased due to the considerable, 72%, growth in estimated sales. However, the derived US$ rate on sales of this sector has fallen by 28.3%.

Total Index net US$ premium has grown fractionally, 1.0%, compared with 2007, with total estimated sales up by 13%. Consequently all sectors, other than MRO, have seen a reduction in their derived US$ rate on sales. This rate reduction continues the trend established in 2005 and is evidence that the market continues to view manufacturers’ products liability as desirable business.

We anticipate that underwriters will continue to apply rate reductions (subject to loss histories, review of specific products manufactured and end use) during the third quarter. However, growth in estimated sales may result in actual premium increases.

SECTOR	NET US$ PREMIUM CHANGE	ESTIMATED SALES CHANGE	RATE ON SALES CHANGE
AIRCRAFT PRIME MANUFACTURER	-4.5%	9.0%	-12.4%
SUB MANUFACTURER	23.3%	72.0%	-28.3%
ENGINE MANUFACTURER	-1.5%	20.0%	-17.4%
MRO	26.8%	14.5%	10.8%
ELECTRONIC/AVIONIC	-6.0%	3.2%	-10.5%
COMPONENT MANUFACTURER	4.0%	23.0%	-16.0%
ALL	**1.3%**	**13.0%**	**N/A**

WILLIS AIRPORTS' INDEX

The Willis Airports Index monitors the renewal experience of those airport insurance programme placements (excluding US and Canadian airports) that insure, on a primary basis, and have insured into the London market for the past five consecutive years. Placements have been selected based on the projected total of passenger movements, being a minimum of 3 million and above per annum, as at their 2007 renewal.

The Index is structured geographically and reports the annual development, compared to the base year 2003, of passenger numbers (sum of estimated passengers per placement during any one year), the sum of US$ net premium* generated by the indexed programme placements and the 'per passenger rate' (derived from passenger numbers/net US$ premium).

For those placements that include national air traffic control services premiums have been notionally adjusted to reflect a pure 'airport exposure value'.

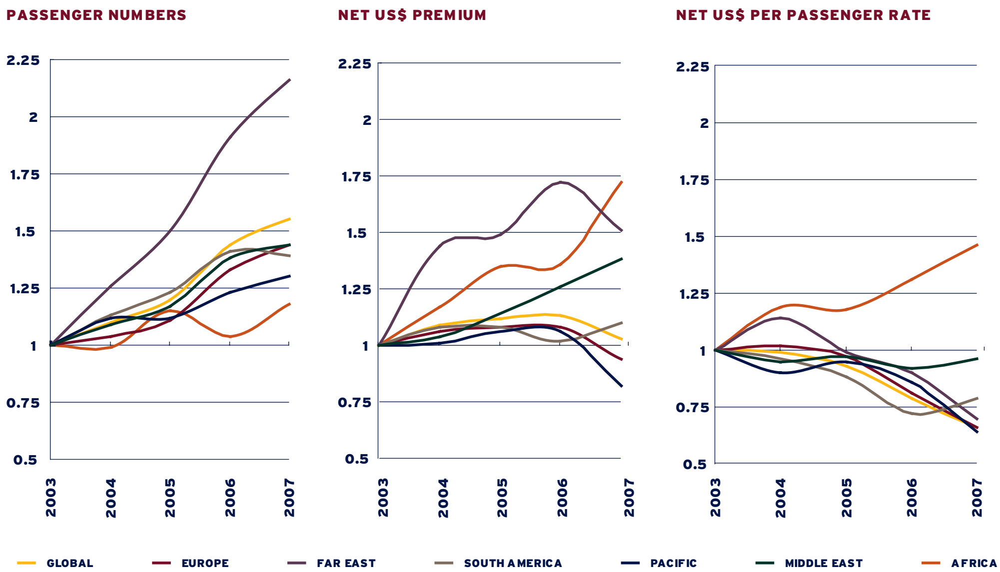
As at December 31, 2007 for the 2007 year, our Index monitors in terms of estimated airport passenger numbers approximately 84% of the 2.8 billion airport passengers reported by ACI.**

We consider that the Index delivers an accurate reflection of the London market's historic position and provides an accurate reference to the current renewal environment, in terms of pricing, of the airport liability insurance sector.

* All premiums are at London lead terms, net of commissions and are in US$ converted at January 01/01/2008 rates of exchange values for all currencies, all years.

**ACI 2007 estimate 4.4 billion airport passengers of which approximately 1.6 billion are US and Canadian.

WILLIS AIRPORTS' INDEX 2003-2007 DEVELOPMENT RATIOS



WILLIS AIRPORTS' INDEX FIRST HALF YEAR 2008

A total of 44 Index airports have renewed during the first half year, their combined US$ premium has resulted in a small reduction of 2%, whilst estimated passenger numbers have risen to 1.89 billion, an increase of 11%. As a result the derived US$ rate per passenger has fallen by almost 12%.

Underwriters have continued to offer premium reductions, unless a recent significant loss has occurred, or where exposure growth is such that even at the reduced rates currently being applied by the market a premium increase is incurred. Increased limits where purchased have generally resulted in an 'as before' premium.

Capacity remains firm and there are no indications from the market that suggest a change in attitude towards the pricing of airport liability programmes. We anticipate the trend of rate reduction will continue into the third quarter.

REGIONAL ANALYSIS

The Far East and Middle East regions continue to project the highest percentage passenger growth, close to 17% so far this year, however, it is Europe that provides the most significant numerical passenger growth, amounting to 98 million. Africa is the sole region to project a small exposure down turn.

REGION	2008 PASSENGER MOVEMENTS CHANGE	2008 NET US$ PREMIUM CHANGE	2008 NET US$ RATE PER PASSENGER CHANGE
EUROPE	8.9%	-2.7%	-10.7%
FAR EAST	16.7%	-8.1%	-21.2%
SOUTH AMERICA	9.0%	-9.2%	-16.8%
PACIFIC REGION	9.0%	-9.9%	-17.2%
MIDDLE EAST	16.8%	8.7%	-7.0%
AFRICA	-2.6%	12.7%	15.7%
ALL	**11.0%**	**-2.0%**	**-11.7%**

AIR NAVIGATION SERVICE PROVIDERS

First half year 2008 renewals total 15 which have generated US$13 million of premium a reduction, in comparison with 2007, of approximately 3.2%. When compared in original premium currencies the reduction in premium is 8%.

With the exception of one renewal the market has, this year, consistently applied reductions. Projected exposures, aircraft movements, produce an overall growth of 5% as a result the derived US$ rate per movement, has reduced by 12.5% compared to 2007.

As with the airport sector renewals underwriters are reducing rates unless exposure growth is substantial or where recent losses have occurred or where increased limits are purchased.

Underwriters have maintained their cautious view of this aerospace sector, however, we anticipate continued reductions during the third quarter.

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FUEL PRODUCERS/ SUPPLIERS/REFUELLERS

First half year 2008 Renewals have seen premium levels continue the trend of reduction established over the past few years. Price levels in this sector are heavily influenced by the amount of deductible or Self Insured Retention (SIR), carried by an insured. In US$ terms premium has reduced by 4.5%, in original currencies however, the reduction is running at an average of 7%.

Almost all buyers in this sector, in common with others in aerospace, are reporting increased sales volume, totalling 6.5%. Underwriters pricing is reflecting this, in some cases producing a premium increase where volumes record double digit growth, however, in terms of US$ rate per gallon all renewals have achieved reductions.

We anticipate no change in the markets position during the third quarter 2008.