



Aerospace & Defense



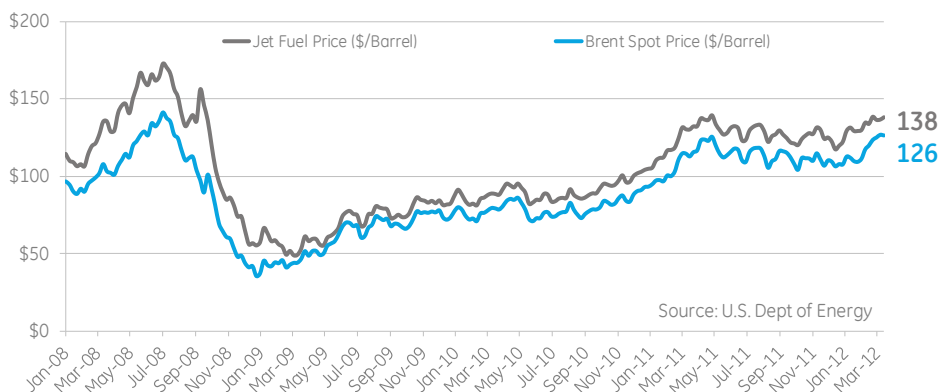
Key Developments

- **GE Aviation** expects engine deliveries to increase more than 10% in 2012 from the 2,918 engines delivered in 2011. The company projects delivery of approximately 3,400 engines this year and 3,800 in 2013.
- **Airbus** said it will need years to get past problems with wing cracks on its flagship A380 passenger jet. Airbus expects to unveil a solution for the problem in April, and will start installing new parts by the end of the year.
- **Southwest** and **Delta** said fuel costs will hurt their bottom line more than previously expected for the first quarter. Additionally, **United Continental** expects to trim capacity by up to 1.5% in 2012 due to fuel costs.
- The **FAA** estimates that the U.S. commercial-aircraft fleet shrank by 61 units to 7,185 during 2011. The mainline carrier fleet now stands 16.7% below the level it was in 2000.
- According to an SEC filing, **United Continental** wants **Boeing** to compensate it for the overdue delivery of the 787 Dreamliner.

Industry Fundamentals

Airline operating profitability for the current 1st quarter is expected to reflect elevated fuel costs that largely offset the benefits of capacity discipline and moderating but still generally positive trends in passenger and freight traffic. Ongoing shifts in the U.S. defense budget toward ISR, cyber security, UAVs and generally toward sea and air will continue to force defense OEMs to adjust.

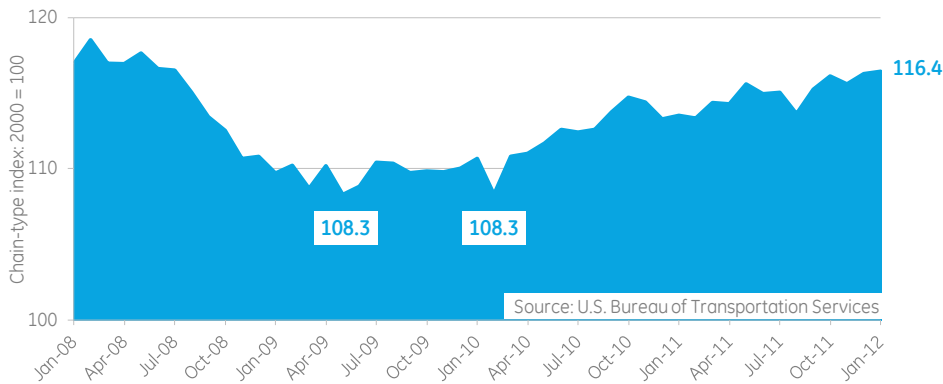
Jet Fuel and Oil - Average Weekly Spot Prices



Through mid-March, oil and jet fuel prices remained in an uptrend due primarily to improving macro data as well as escalating geopolitical concerns. Jet fuel prices are now higher than anytime since 2008 and are 183% higher than a cyclical low in early 2009 and 6% higher than a year ago. As of March 20th the daily spot price for Gulf Coast Jet Fuel was \$3.26/gallon compared to \$2.92/gallon at the end of 2011.

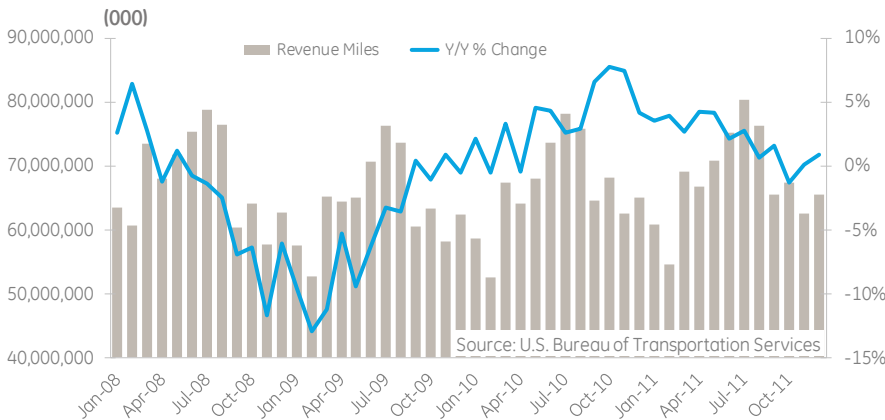
Domestic Carriers - Passenger

Transportation Services Index - Passenger



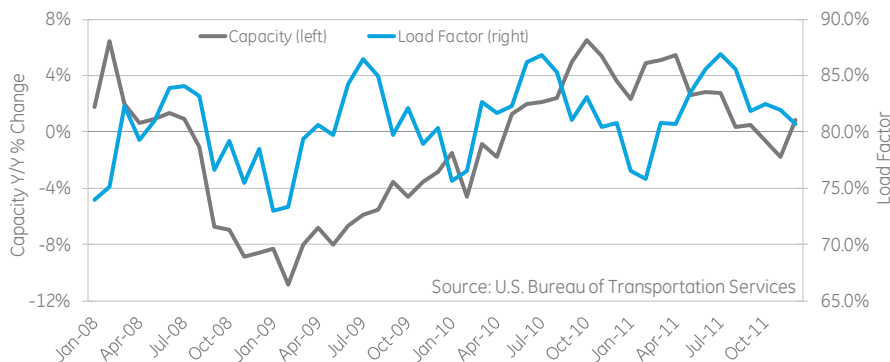
Despite macro headwinds, passenger traffic trends generally remain positive. Since reaching a low in February 2010, the Passenger TSI has risen month-over-month in 15 of the past 23 months and year-over-year for the past 23 consecutive months. The January reading of 116.4 increased .15 points from December and was the second consecutive month-over-month increase since a slight dip in November.

U.S. Carriers Global Passenger Traffic



Macro headwinds took a toll on growth in passenger miles flown on domestic carriers during the latter half of 2011. However, passenger traffic rebounded slightly during December and was up nearly 1% year-over-year and 4.7% compared to November.

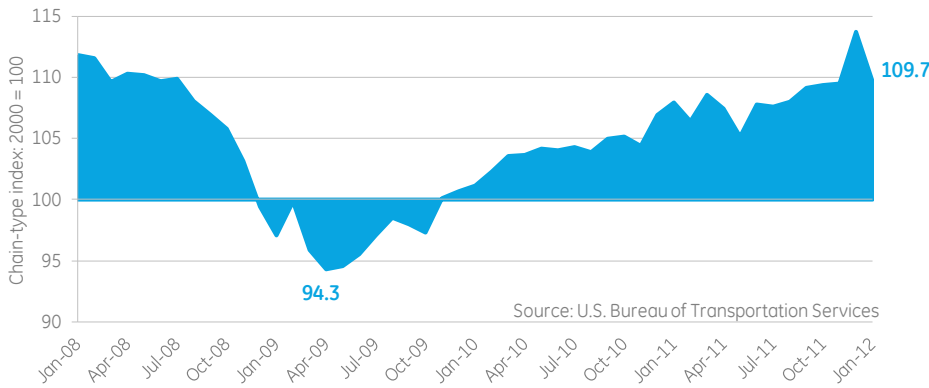
U.S. Carriers Global Passenger Capacity and Load Factor



An increase in month-over-month passenger traffic during December was not enough to outpace a larger percentage increase in capacity and the system-wide load factor nudged slightly lower. Although capacity increased less than 1% year-over-year, a 6.3% month-over-month increase during December outpaced a 4.7% month-over-month increase in passenger traffic resulting in a decrease in the system-wide load factor to 80.9%. Passenger load factors have now decreased in 4 of the past 5 months.

Domestic Carriers - Freight

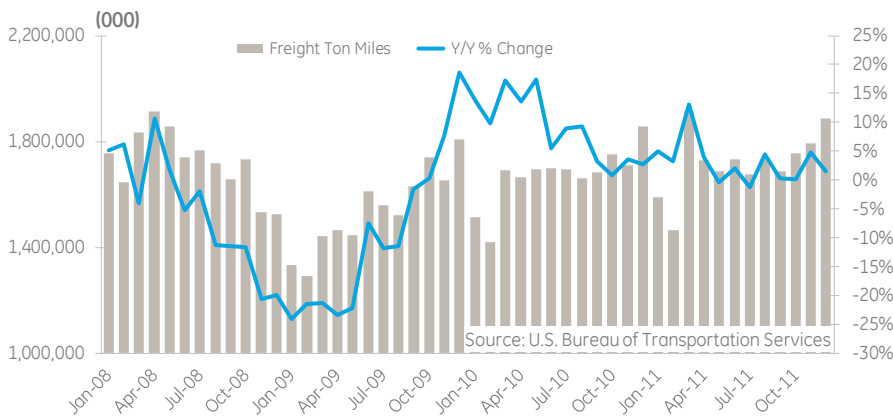
Transportation Services Index - Freight



The Freight TSI has risen year-over-year for the past 26 months. Despite retracing from an all-time high in December, the TSI level for January is still the second highest since July 2008.

During January, freight shipments as measured by the TSI index were up 1.6% year-over-year but down 3.6% month-over-month. Since April 2009, freight shipments have risen 16.3% but only after declining 15.5% in the previous 15 months.

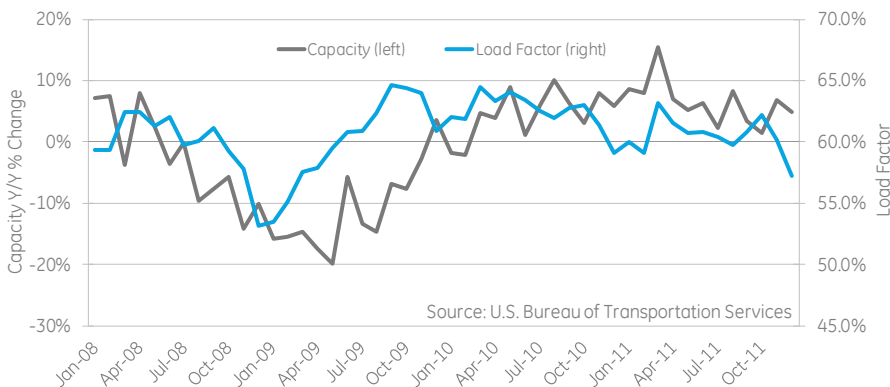
Domestic Carriers Global Freight Traffic



During December, freight miles flown on domestic carriers continued a modest rebound. Freight traffic increased 1.5% year-over-year during December and 5.2% compared to November.

During 2011, freight traffic grew 3.0% compared to 2010.

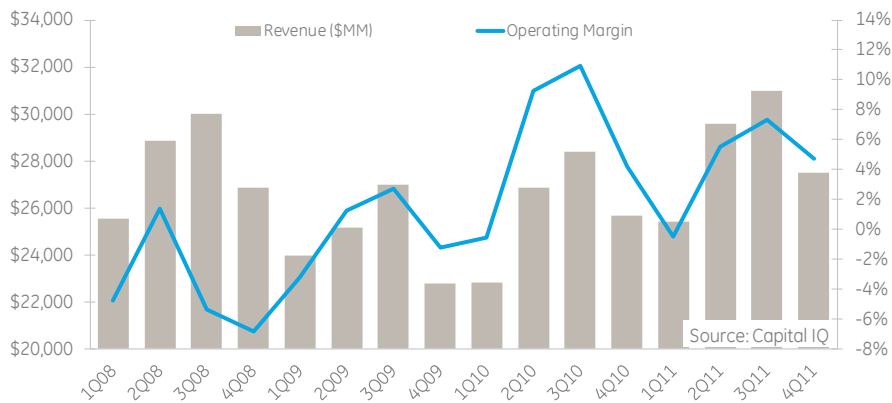
Domestic Carriers Global Freight Capacity and Load Factor



Capacity rebounding. The December system-wide load factor of 57.2% was sharply lower than November and reflects growth in capacity significantly outpacing actual freight traffic.

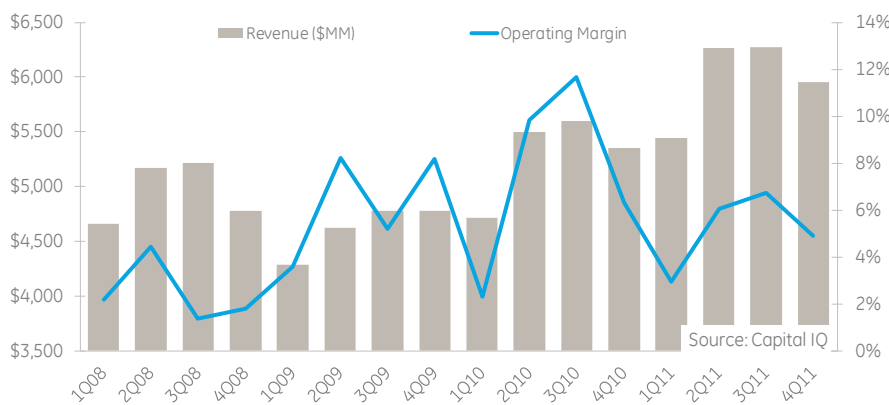
Domestic Carriers – Revenue & Profitability

Large Network Carriers – Revenue & Operating Margin



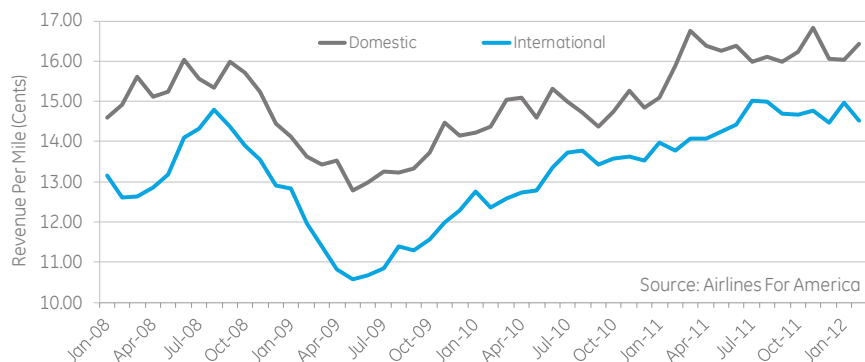
With the exception of American Airlines and despite increasing cost pressure from rising fuel prices, large network carriers generated revenue and operating profit growth in the 4th quarter. During the 4th quarter of 2011, total revenue for a composite of large domestic network carriers increased 7% year-over-year but declined 11.3% from the 3rd quarter of 2011. The increase in revenue year-over-year was largely offset by an increase in operating costs (primarily fuel) resulting in operating profit margin of 4.7% compared to 4.2% in the year ago quarter.

Low Cost Carriers – Revenue & Operating Margin



Low cost carriers continue to see robust demand. During the 4th quarter of 2011, total revenue for a composite of domestic low cost airlines increased 11.3% year-over-year but declined 5.5% compared to the 3rd quarter. Despite the increase in revenue, higher fuel costs resulted in a decrease in average operating margin to 4.9% during the 3rd quarter, down from 6.3% in the year ago quarter.

Passenger Yield – Revenue / Mile (Cents)

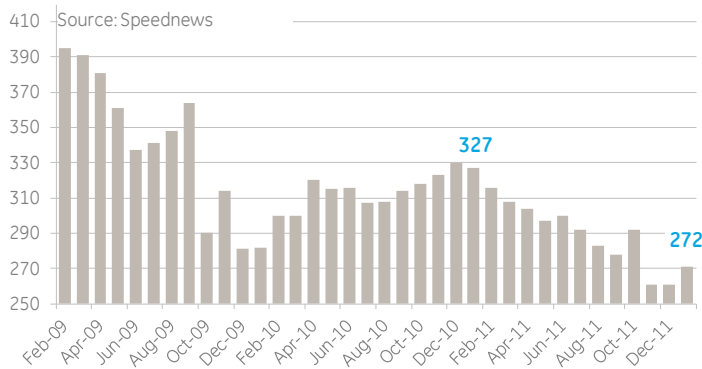


The trend toward rising fares has continued into 2012. During February, the average price paid to fly one mile on a domestic flight increased 5.4% year-over-year and up 2.6% compared to January. The price per mile on an international flight in February increased 6.3% year-over-year but declined 2.9% compared to January.

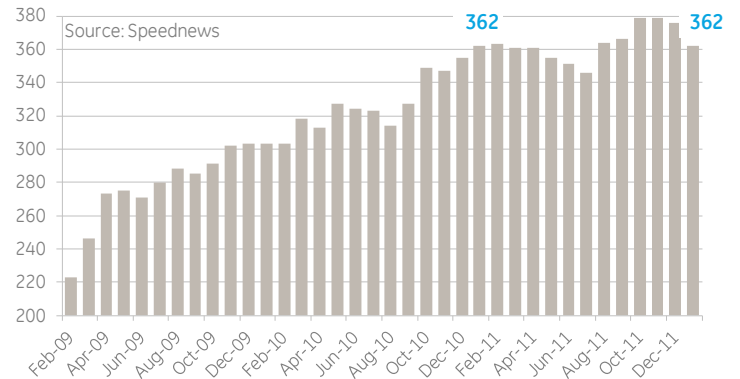
Aircraft In Storage

Aside from regional jets, the overall downward trend in storage of aircraft remains intact. Older larger commercial aircraft continue to be brought out of storage and often scrapped in favor of more fuel efficient new aircraft.

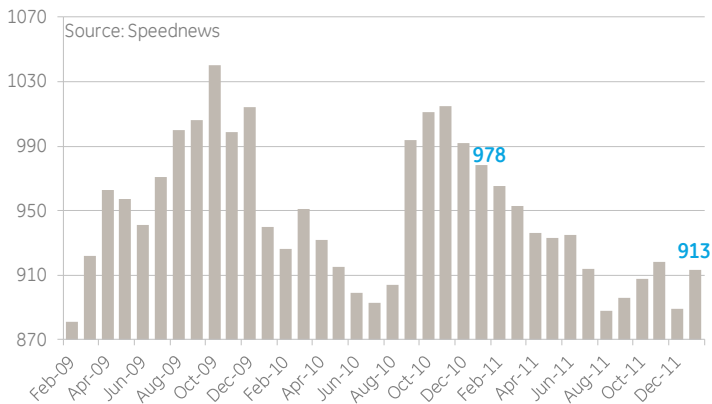
Turboprops



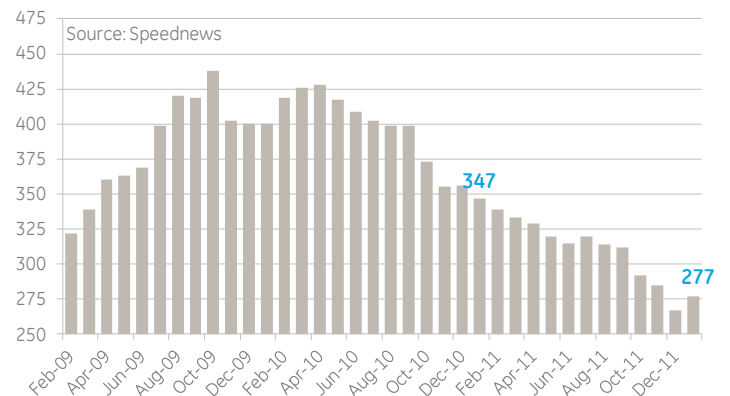
Regional Jets



Narrow-body



Wide-body



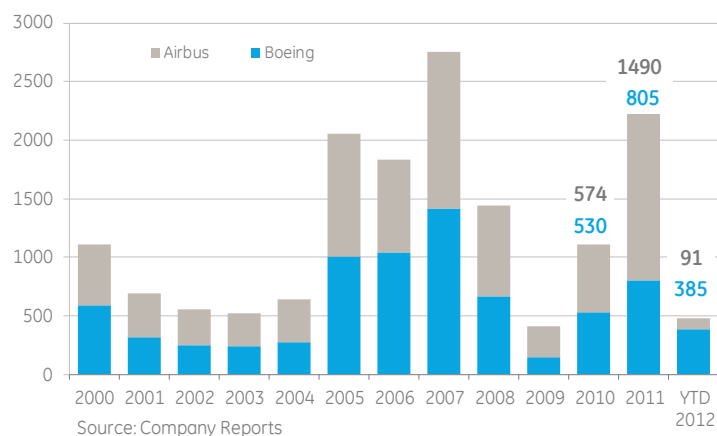
- **Turboprops in storage increased 9 units during January to end the month at 272.** However, the current inventory remains well below the 327 turboprops that were in storage a year ago.
- **Narrow-body aircraft in storage increased during January.** Total narrow-body units in storage at the end of January stood at 913, up 24 units during the month but 65 less than were in storage a year ago.

- **Regional jets in storage remain elevated as demand for this type of aircraft is still lackluster.** Total units in storage at the end of January stood at 362, which was down 14 units during the month but the same level as a year ago.
- **The number of wide-body aircraft in storage remains significantly lower than the cyclical peak reached in October 2009.** Total wide-body aircraft in storage increased 10 units during January to end the month at 277. Current inventory is now 20% lower than the 347 aircraft that were in storage a year ago.

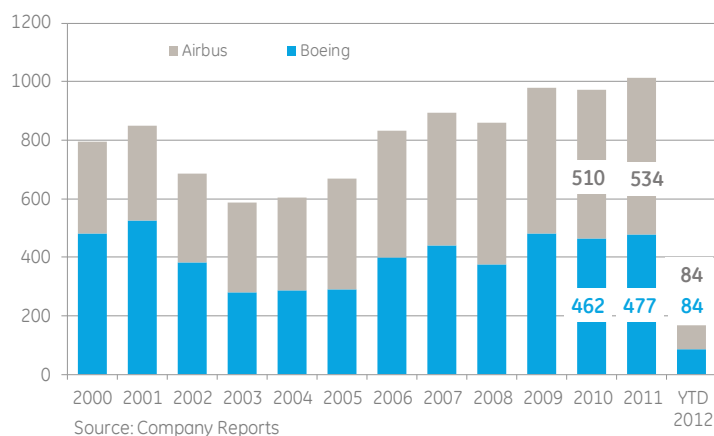
Commercial Aircraft Orders & Deliveries

Fuel efficiency remains a top priority for airlines as evidenced by a flurry of activity at the Singapore Air Show in February and the Dubai Air Show in November. Despite ongoing concerns about the global macro environment and the corresponding implications for passenger and freight traffic, airlines continue to have a positive long-term view of the global aviation industry and are placing orders with Boeing and Airbus at a near record pace.

Boeing and Airbus Net Orders



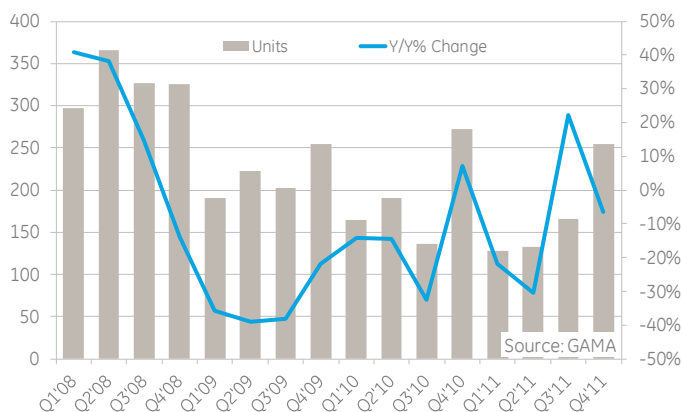
Boeing and Airbus Deliveries



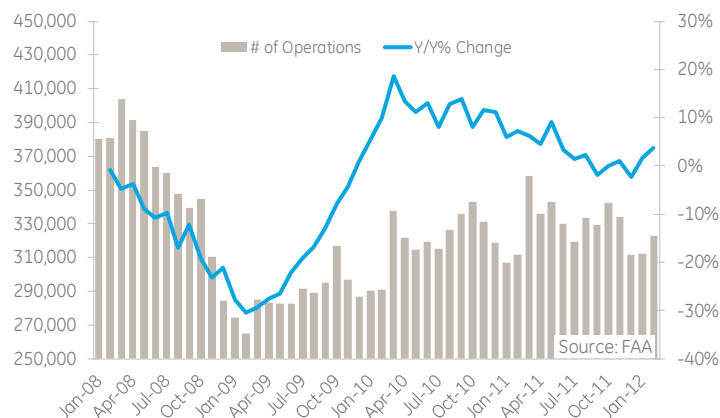
Business Jets

Despite a sequential uptick during the 3rd and 4th quarters, total unit shipments of business jets during 2011 were down 6.3% from 2010. Although business jet flight activity increased 2.9% during 2011, the second half of the year was significantly slower than the first half. That being said, business jet flight operations have started 2012 on a positive note. For the month of February, operations increased 3.7% year-over-year and 3.5% compared to January.

Business Jet Deliveries

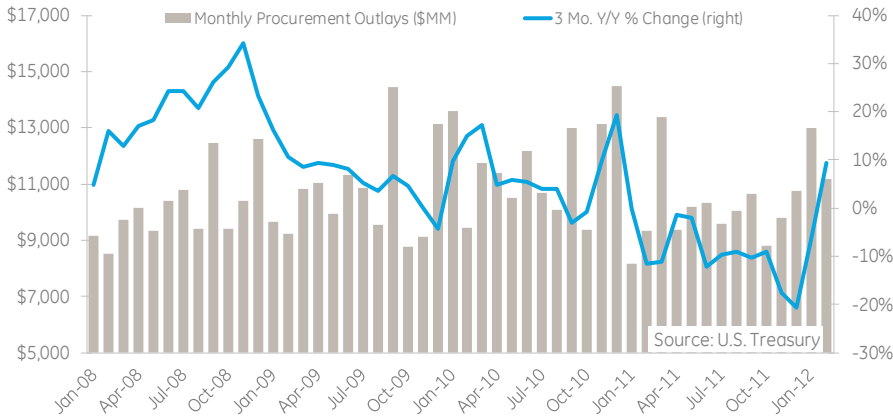


U.S. Business Jet Operations (Take-offs and Landings)



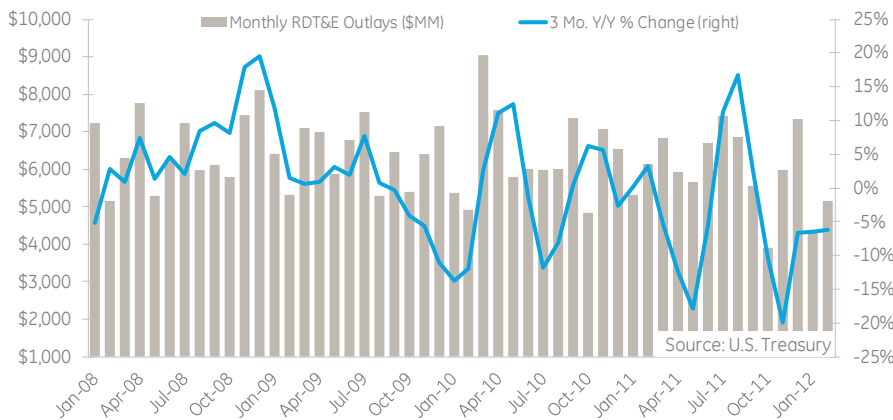
Defense

U.S. Defense Outlays - Procurement



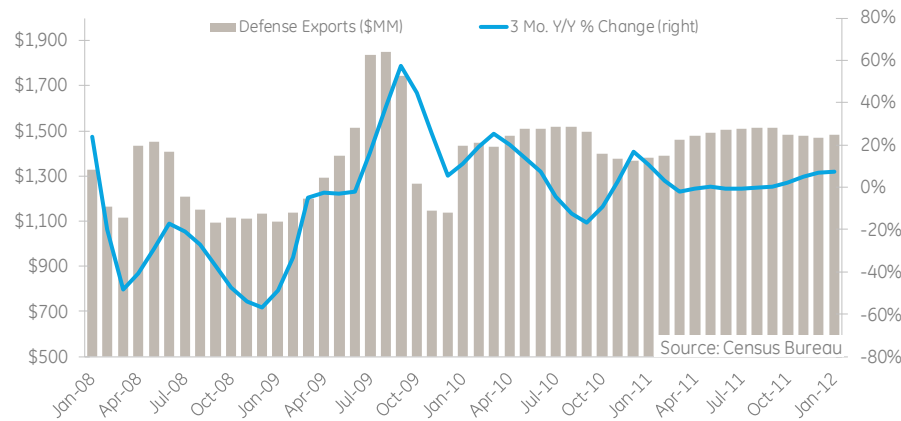
During February, procurement outlays were up nearly 20% year-over-year but down 14% compared to January. Total procurement outlays over the past 3 months increased more than 9% compared to the same 3-month timeframe a year ago. For the fiscal year ending in October, total procurement outlays declined 5%.

U.S. Defense Outlays - Research, Development, Test & Evaluation (RDT&E)



During February, outlays for RDT&E decreased 16% year-over-year but increased 18% compared to January. Total RDT&E outlays over the past 3 months declined 6.2% compared to the same 3-month timeframe a year ago. For the fiscal year ending in October, total outlays for RDT&E declined 3%.

Defense Trade Exports

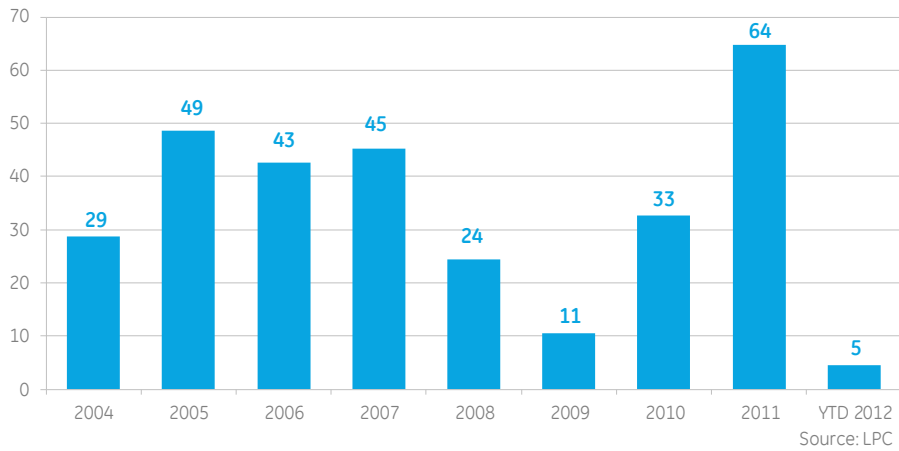


Military exports in January were up 7.2% year-over-year and 0.7% compared to December. Military exports over the past 3 months increased 7.4% compared to the same 3-month timeframe a year ago.

Although 2011 military exports were roughly flat with 2010, growth is poised to re-accelerate in 2012 and beyond. In 2010 the Pentagon notified Congress of an estimated \$102.5 billion in proposed, government-to-government, conventional arms transfer agreements with 28 countries, setting a new high that surpasses the previous high of \$75 billion proposed in 2008.

Financing Trends

Global Aerospace and Defense Leveraged Loan Volume (\$B)



Financing associated with United Technologies' \$18 billion acquisition of Goodrich helped to put 2011 leveraged loan issuance by the A&D industry at the highest annual level in recent memory.

GE Capital Commitments

\$48 Billion in Investments Across the Value Chain*

*GE Capital, Americas + GE Capital Aviation Services (GECAS) as of 12/31/11



\$43.8 Billion
Airlines



\$315 Million
Finished Goods/Defense



\$4.0 Billion
Parts & Subsystems

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