East Europe
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Aerospace and Aviation market in Eastern Europe

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East Europe Aerospace Consortium

EEAC is a membership association of East European and International Organisations and Companies and today sees the launch of the East Europe Aerospace Consortium.

This event brings together many of you who are interested in developing your business throughout the region and to promote the Eastern European Commercial, Business and General Aviation and Aerospace sectors

For the right business or activity, investment funds remain available

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Within Eastern Europe we have many opportunities in the Aviation sector throughout the region and further afield

We will, without doubt, benefit from working together within Eastern Europe to bring this business to our region. The three essential elements to promote our activities are:

1. **Networking**
2. **Marketing**
3. **Investment**

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Will EEAC become a factor in the Aviation business in Eastern Europe?

Most definitely!!

- We will be promoting and assisting Companies from within Eastern Europe to do business with the rest of the world
- We will be promoting and assisting International Companies to do business with companies within Eastern Europe
- We aim to make our members from Eastern Europe more *Powerful*, have access to *New Supply Chains* and be *Competitive* whilst *Maximising Safety* in a global market

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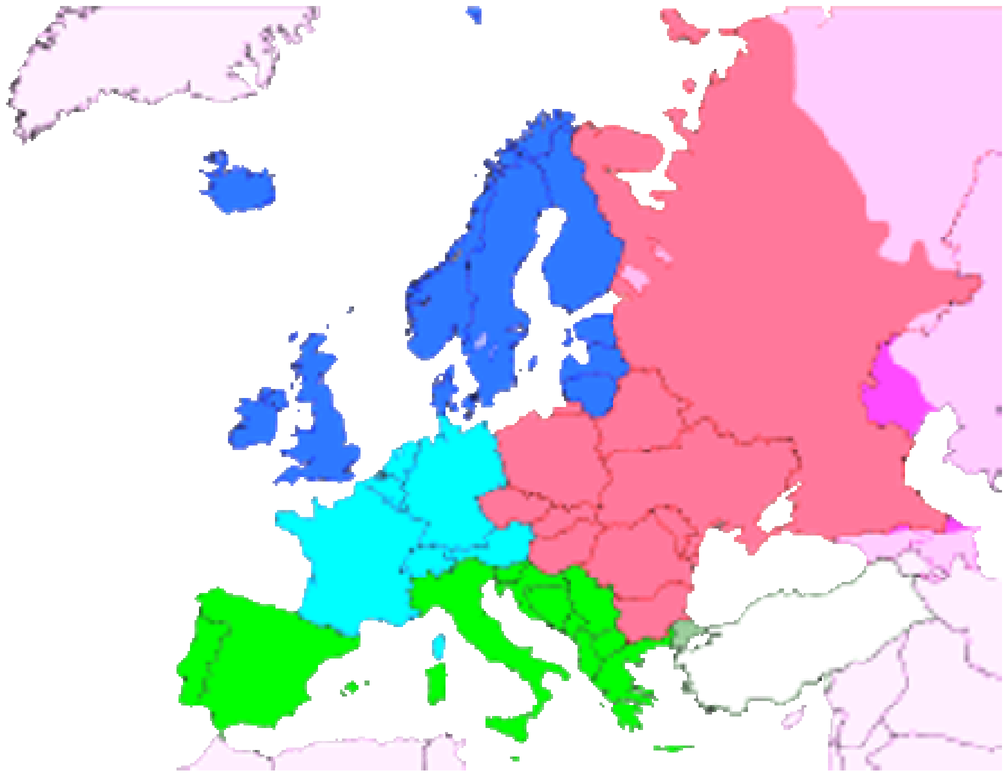
The Region

Albania
Belarus
Bosnia & Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Latvia
Lithuania
Macedonia
Moldova
Poland
Romania
Serbia
Slovakia
Slovenia
Macedonia
Ukraine



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The Market

- It is estimated that the Eastern European market represent around 3% of the global commercial aircraft.
- It is predicted that the global fleet will grow by 3.3% per annum over the next 10 years to reach 27,303 aircraft by 2020

The Aviation and Aerospace Market

- Airlines
  - Legacy
  - Low Cost Carrier (LCC)
- MRO
- Business Jet
- Airports
- Manufacturing
- General Aviation (GA)
- Military

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What is the future of aviation in Eastern Europe in general?

- Once we are through the current problems the **future is looking very bright for Aviation in Eastern Europe**
- **New investment** will gain momentum in Airports and Infrastructure for the Aviation Industry
- **Airlines will be requiring larger aircraft** for new medium to long haul destinations whilst low cost operators will again flourish
- More individuals and companies will appreciate the need to have access to their own aircraft to save time and convenience
- As aircraft in use become more aged the requirements for **cost effective MRO facilities will be in demand**
- Major **manufactures** will look for **new countries with low cost labour to be part of worldwide supply chains** for the building of Aircraft of the future

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Eastern & Central Europe MROs

Most of today's Eastern and Central Europe MROs were formed in the 1990's as descendants from airlines technical departments

Malev used the joint venture with Lockheed Martin (at that time) to build the first East European independent MRO organisation named Aeroplex

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Eastern & Central Europe MROs

Just a few organisations in this region had resources to certify themselves Western aircraft and be competitive in the third party MRO world market

Today with investment in training and facilities, the Eastern European MRO sector can competitively offer skilled and qualified engineers to EASA standards in modern facilities

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Today, a majority of MROs in the region operate as independent companies.

In the last couple of years, we are witnesses of new facilities opening in Eastern Europe.

For example:

- LHT has established operations in Budapest and Sofia
- Bulgaria Air is active in Sofia as well as stand alone MRO's in Turkey

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THE MRO MARKET

The global maintenance, repair and overhaul market is expected to grow by 3.2% per annum over the next decade to reach a value of $58 billion by 2019

MRO segmentation is split as follows (estimate):

> Engine - 35%
> Components - 22%
> Line - 22%
> Airframe heavy maintenance - 3%
> Modifications - 8%

Source: Aerostrategy

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Europe constitutes around 25 % of the world MRO market.

The fallout from the credit crisis is seeing the amount of work within existing contracts shrink as customers defer maintenance events, accompanied by changes in customer payment behaviour

MRO market trends

- **In Europe, 47% of airframe maintenance is outsourced, *with 76% of that staying in the region***

- **Globally 53% of heavy maintenance work is outsourced**, compared with 75% of engine maintenance, 77% of component maintenance and 16% of line maintenance

- More than two thirds of airframe heavy maintenance cost is related to labour

- **Narrow-body airframe demand is expected to migrate to Central & Eastern Europe**, where labour costs are significantly lower

- European labour is valuated in range from the high $50s in East Europe per hour to as much as $100 per hour on the Western Europe

- Not only price, but **turnaround time** and **quality of maintenance are key factors** in an airline's decision to select an MRO provider - MROs from Eastern Europe can meet all those requirements

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MRO market trends

- In Russia more start up airlines appears which will use older Boeing 737 and Airbus A320 Family aircrafts as well as replacing the Tu type

- There are a **lot of small airlines popping up** and are looking for **integrated maintenance solutions**

- The move towards integrated services and outsourcing of maintenance has culminated in some examples of **"Total Outsourcing"** that East European MROs, in most cases, can provide without difficulty

- **Biggest segment of the market in terms of outsourcing of maintenance is the low-cost carriers** who mostly operate narrow-body aircrafts

- Operators who used to do their **own maintenance are now beginning to outsource**

LABOUR

- European labour ranges from the high $50ph in Eastern Europe to as much as $100 ph in Western Europe

- There is strong competition between Hungary, Romania, Serbia, Bulgaria and Turkey

- Not only price, but *turnaround time* and *quality* of maintenance are key factors in an airline's decision to select an MRO provider - MROs from Eastern Europe can meet all these requirements

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The Outlook

- Regardless of global economica crisis the trends for third party maintenance providers remain positive

- The current downturn is more global in extent and it hit “harder and faster” than earlier crises

- As recovery is expected to build through 2010 into 2011, MROs need to address *opportunities now* in order to be ready

- Cost-effective locations plus programs to enhance efficiency and flexibility are the weapons to be used

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The Outlook

- There is a lot of potential work for every MRO in East Europe and their future looks very bright
- Reorganisations, implementation of process efficiency programs, cost effective management, modern integrated IT solutions and contemporary trends in quality management are things to be practiced

Airlines and MROs always have to remember that:

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QUALITY IS A VALUE

THAT CANNOT BE COMPROMISED REGARDLESS OF THE BUSINESS ENVIRONMENT

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