

American Metals Market Aerospace Materials Conference

Market Outlook: Aircraft Aluminum Plate in the Aerospace Supply Chain

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by

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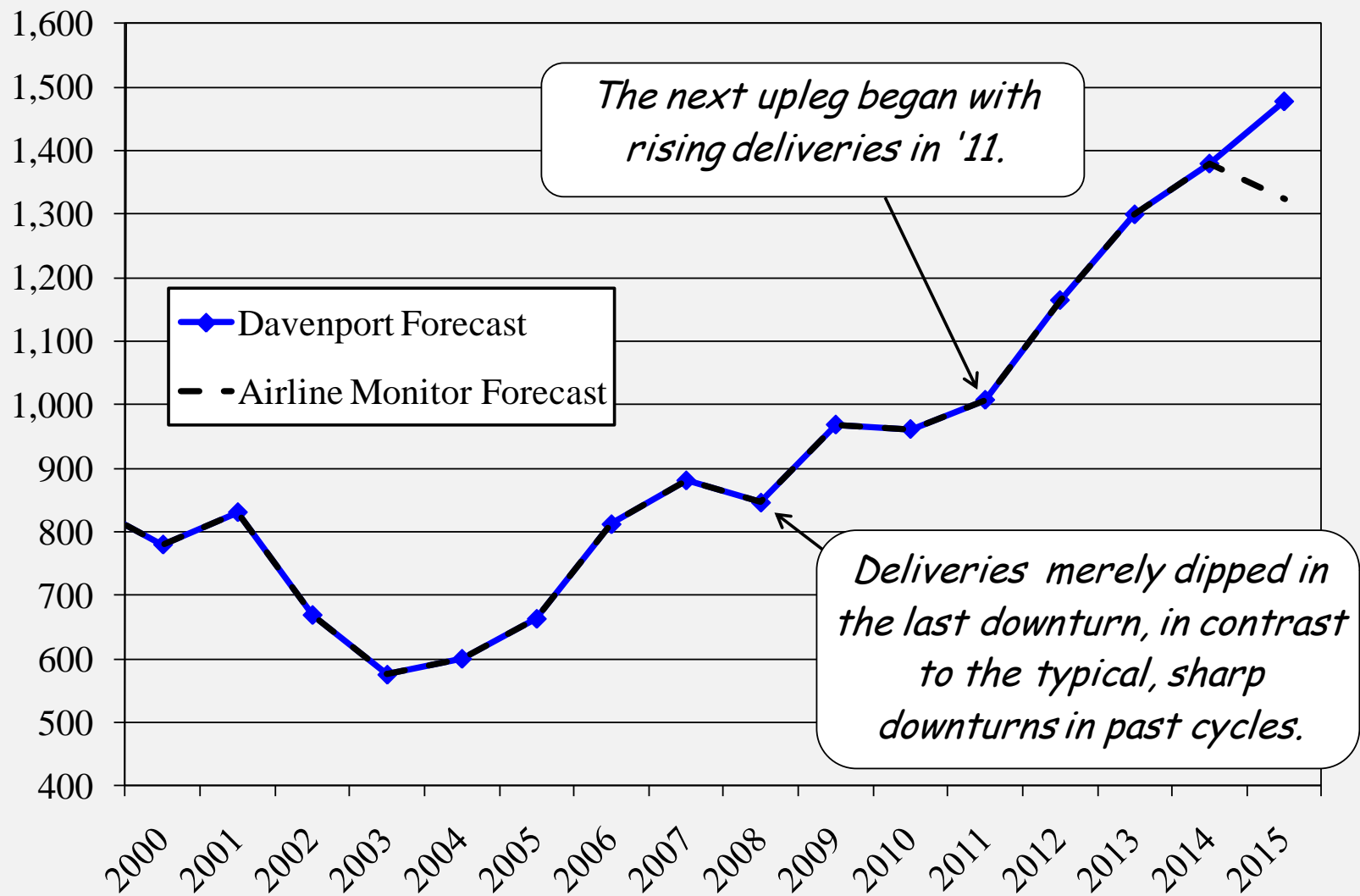
Agenda – Aluminum Plate

- Demand
- Supply
- Implied market balance (utilization rates)
- Pricing
- Conclusions

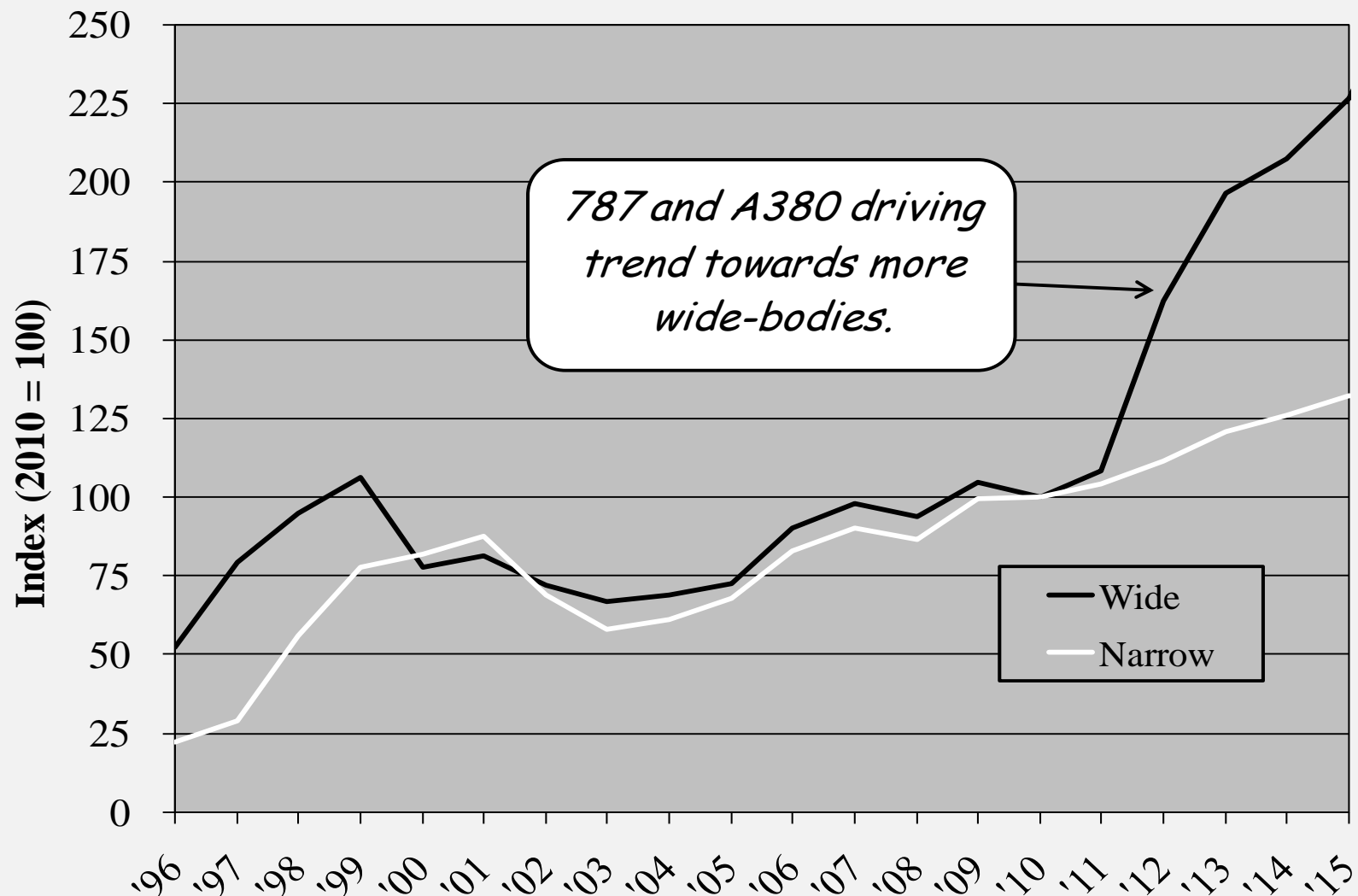
Demand Drivers

- Major increases in aircraft deliveries and production,
- Favorable mix in aircraft production—higher growth in larger plane models,
- Monolithic design, and
- End to destocking that has dominated the market in the last few years.

Large Commercial Aircraft Deliveries



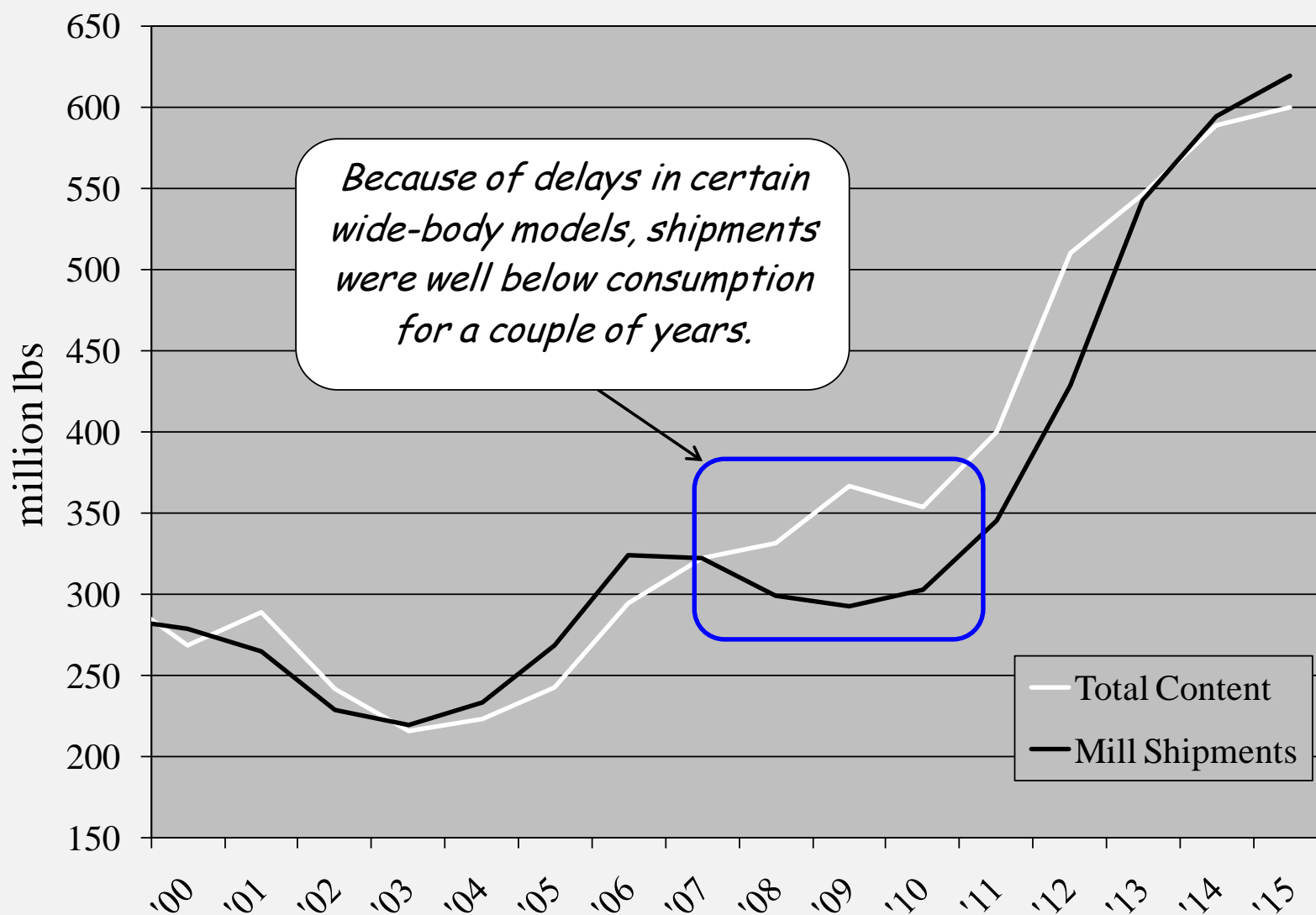
Wide vs. Narrow-body Deliveries



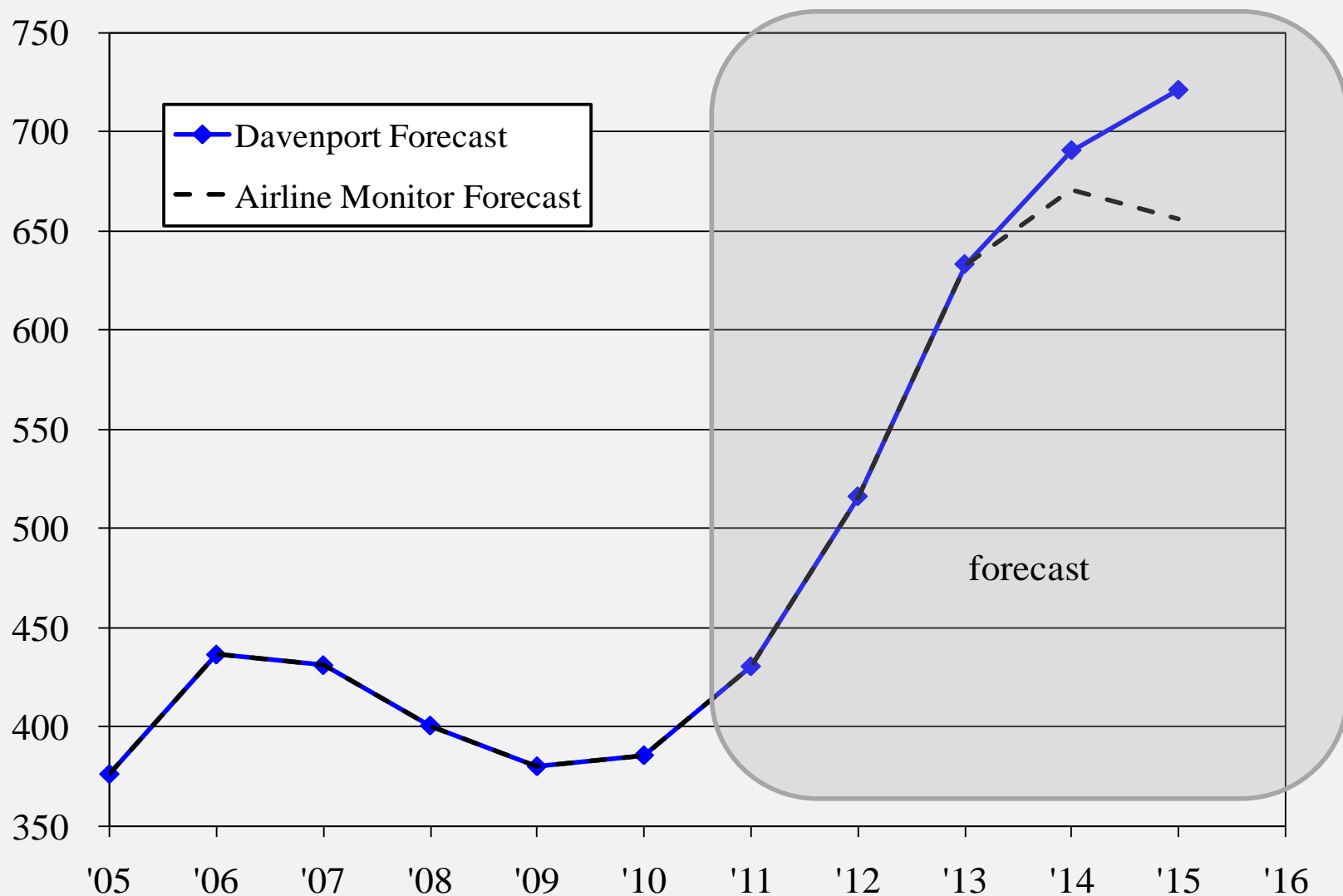
Monolithic Design

- Shift in production techniques for key parts that replace sheet, extrusions, and fasteners with highly machined plate
- Advantages
 - Machined part is an integral piece of metal so that is stronger
 - Can be made thinner and hence lighter—weight saving
 - Can be fabricated cheaper
 - Requires re-engineering

Aluminum Plate Demand – Content vs Mill Shipments



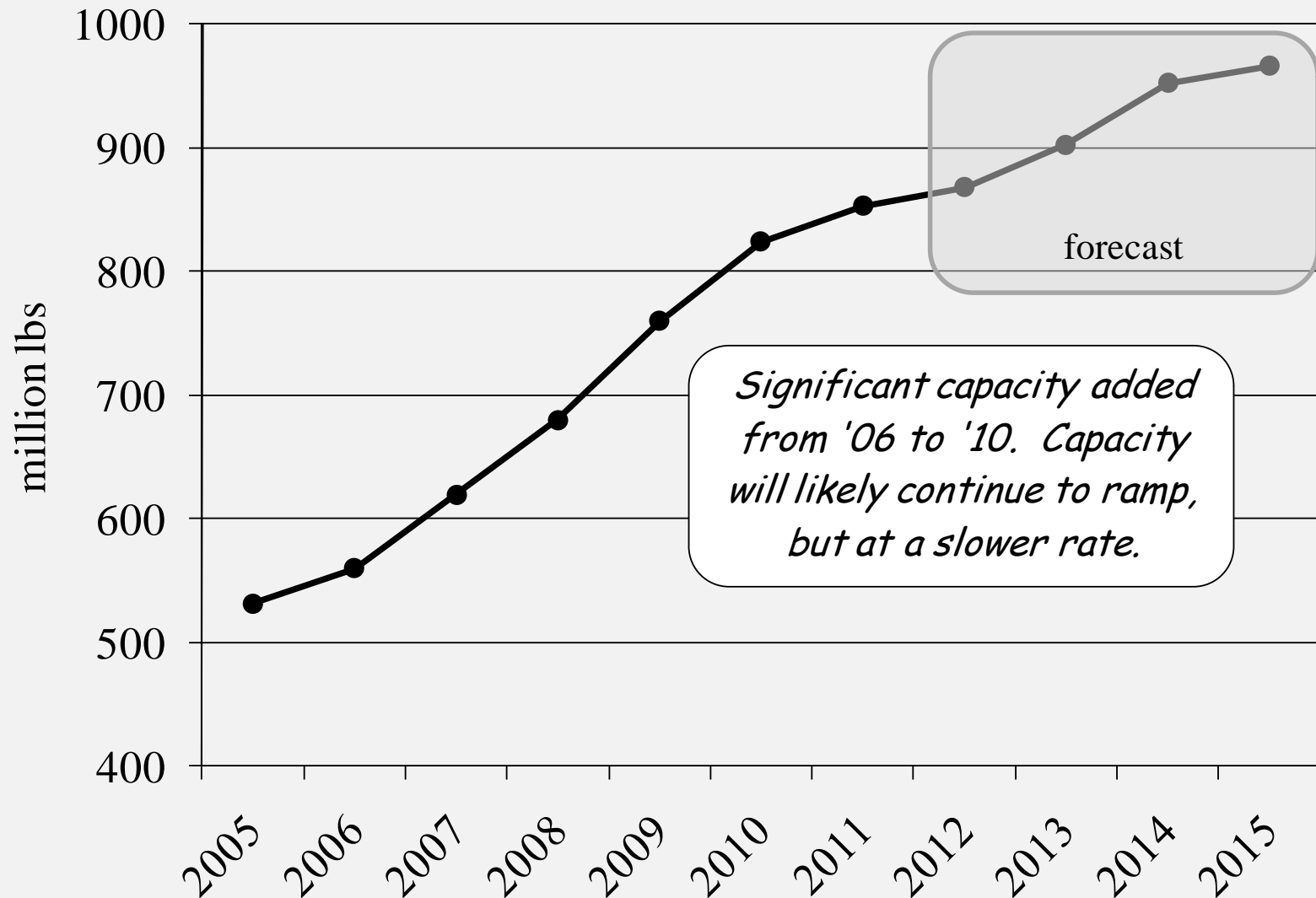
Aluminum Plate Demand – Content vs Mill Shipments



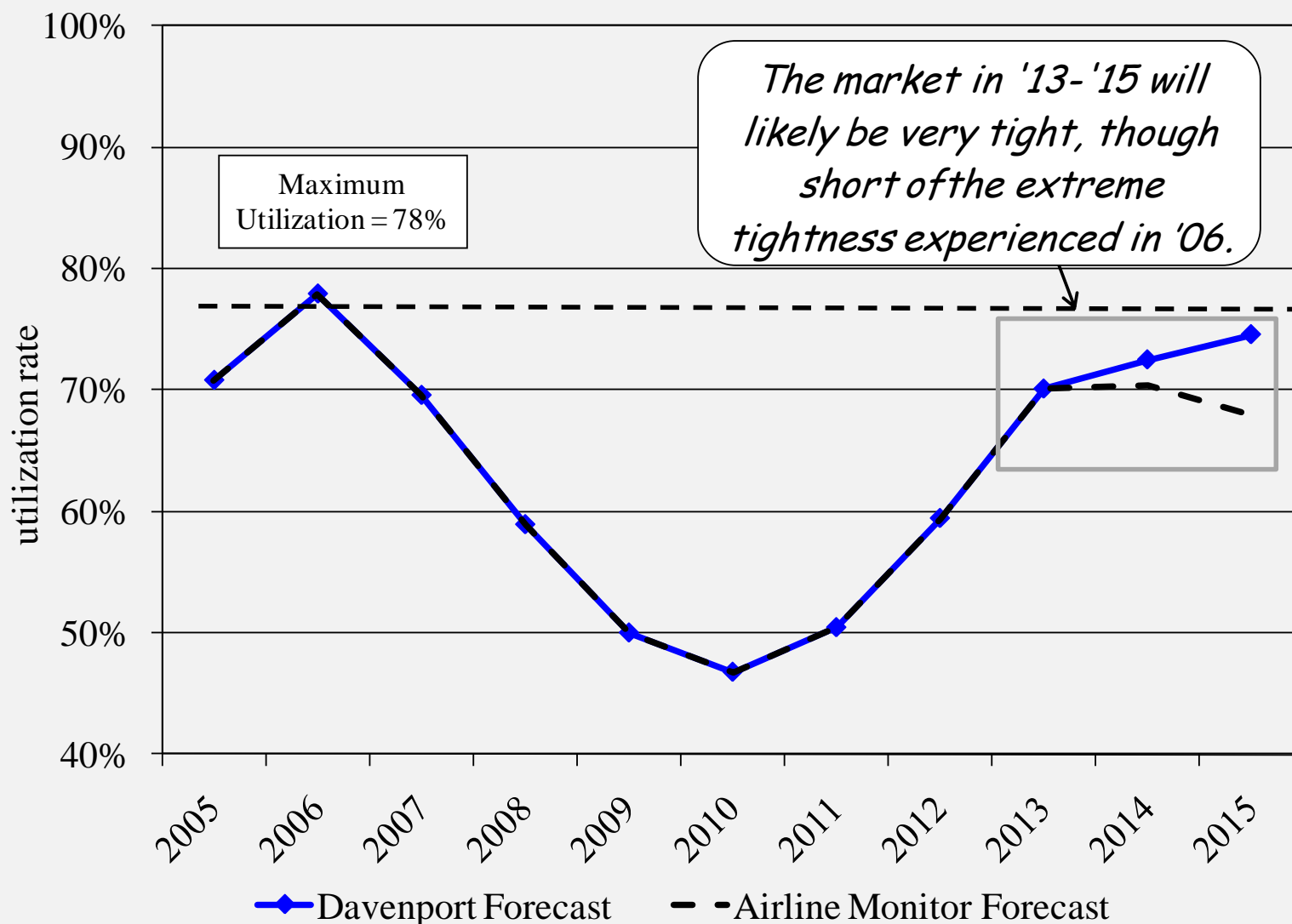
Supply Drivers

- 2005-2011:
 - Strong demand and pricing in '05 and '06 induced new capacity
 - Brownfield expansions; no new mills because they are very expensive at ~\$2 billion
 - Expansions led by Kaiser and Alcoa
- 2012 and beyond
 - Small new mills in China to supply Comac
 - Trentwood debottleneck

Global Aircraft Plate Capacity



Industry Utilization Rate



Pricing

- OEM Contracts—fixed prices with LME hedged
 - Prices on new contracts may be higher or lower
 - Lower if done at today's lower LME price vs. '07
 - Higher given upward pressure on conversion prices due to tight market outlook
- Spot prices—incorporate both LME and plate supply-demand
 - Extremely high in '06 and '07
 - Fell substantially starting in '08 and by '10-'11 were below OEM contract level
 - Have rebounded slightly
 - Likely will rebound substantially as market tightens
 - However, we do not expect return to early '07 peak

Conclusions

- Resumption of underlying growth (particularly wide-body) plus the end of destocking spurs a rebound in aerospace plate consumption
- Supply to increase less than consumption
- Utilization rate projected to rebound sharply but short of 2006-style levels
- Anticipate major rebound in spot prices

The O'Carroll Aluminum Bulletin

- Covers aluminum supply-demand-price trends on a global basis and macroeconomic trends. This service is offered by Davenport & Co. LLC, consisting of three publications:
 1. Quarterly Aluminum Bulletin
 2. Monthly Aluminum Update
 3. Quarterly Economic Bulletin

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- | | |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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Q&A