



AIR TRANSPORT ASSOCIATION

**ACI-NA Airport Economics & Finance
Conference
“Building Dialogue Between Airlines &
Airports”**

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The Air Transport Association of America, Inc.

<i>Combination Services (13)</i>	<i>All-Cargo Services (6)</i>	<i>Associate Members (3)</i>
<p>AirTran Airways Alaska Airlines Aloha Airlines* American Airlines Continental Airlines Delta Air Lines Hawaiian Airlines JetBlue Airways Midwest Airlines Northwest Airlines Southwest Airlines United Airlines US Airways</p>	<p>ABX Air ASTAR Air Cargo Atlas Air / Polar Air Cargo Evergreen Int'l Airlines FedEx Corporation UPS Airlines</p>	<p>Air Canada Air Jamaica Mexicana</p>

*Ceased operations

ATA is the principal trade and service organization of the major scheduled carriers serving in the US – our members and their affiliates serve more than 90% of U.S. airline passenger and cargo traffic.

The Airport Properties Handbook – What Is It?

- First published in 1998 by ATA to provide basic overview of airport properties to our members, i.e. GARBs, debt service coverage, lease terms, rates & charges methodologies, etc.
- Handbook extensively expanded in 2005 and 2006 to its current form
- Intended to serve as a resource for ATA member properties representatives on a range of subjects, from the basics of airport properties work to detailed position papers on policy matters affecting airports and airlines.
- Major initiative - written by the airlines, ATA, and several consultants on a voluntary (non-compensated) basis.
- Handbook is over 100 pages; 5 major sections plus appendices
- Five Sections are:
 - Section I. Properties
 - Section II. Airport Affairs
 - Section III. Trade Associations and Governmental Entities
 - Section IV. Application of Properties Issues
 - Section V. Airport-Airline Relationship Model

The Airport Properties Handbook – Section I

Section I. Properties:

- What is Properties?
 - By the way, the answer is “the primary interface between the airline and an airport’s senior management.”
- Your Role Within the Airline
- Inter-Airline Activities
- Airline Liaison Offices
- Airport Staff/Airport Governing Body Relations
- Other Governmental Entities

The Airport Properties Handbook – Section II

Section II. Airport Affairs:

- Airport Governance and Organizational Structure
- Airport Use & Lease Agreements
- Space Classification
- Airport Capital Improvement Programs
- Airport Budgets
- Airport Financing Mechanisms
- Concession Programs
- Environmental Issues
- Airport Noise Programs
- Security Issues
- Ancillary and Support Facilities

Section III. Trade Associations and Governmental Entities:

- The Air Transport Association of America
- Other Airline Trade Associations
- Airport Trade Associations
- Other Trade Associations
- Governmental Entities

Section IV. Application of Airport Properties Issues:

- Benchmarking Exercises
- Revenue Diversion
- Airport Privatization
- Airport Access/Airport Boundaries
- Negotiating Techniques

Section V. Airport-Airline Relationship Model:

- The Airport Environment
- Financial Structure
- The Use Agreement
- Airline Review of Airport Capital Plans and Operating Budgets
- Airport Development and Competing Interests
- The Relationship

The Airport-Airline Relationship

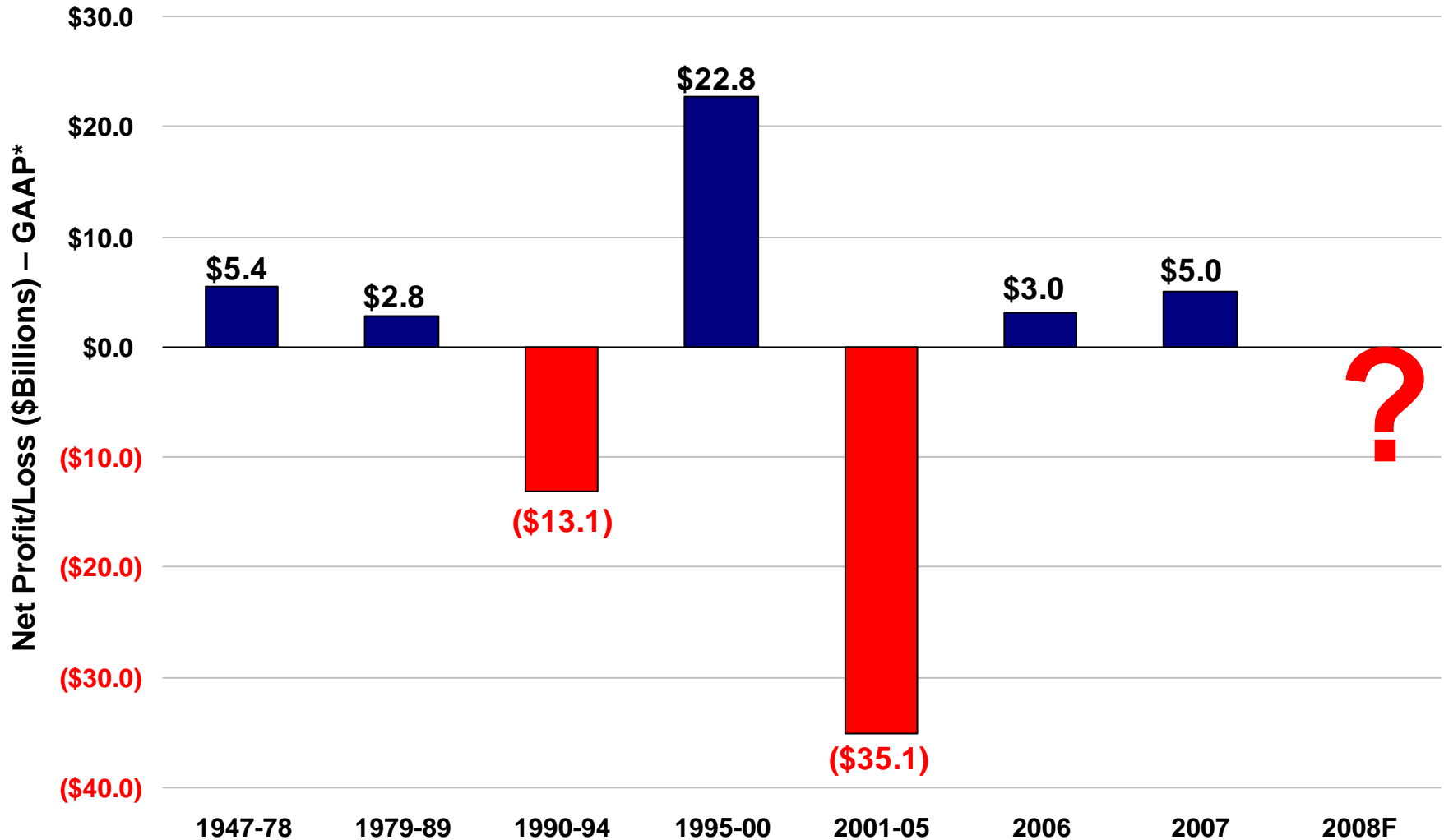
- Airlines recognize the importance of understanding the airport environment and the value of relationships.
- **Stated view in Handbook: Where airports share a vision with airlines of providing a cost effective operation that is clean, functional, and safe with appropriate amenities and facilities appropriately sized to meet demand, relationships tend to be much more productive.**
- **Mutual respect and professionalism is a key to resolving differences.**

The Airline Environment

- Profitability fleeting
- credit week
- Bankruptcy, liquidation, and consolidation
- Fuel prices unrelenting
- Airline CPE at U.S. Airports has increased about 35% since 2000 and 42% since 1996
- Airlines have limited approval rights or ability to influence airport operating and capital budgets

U.S. Airline “Recovery” Headed for Trouble

2008 Characterized by Massive Fuel Headwind

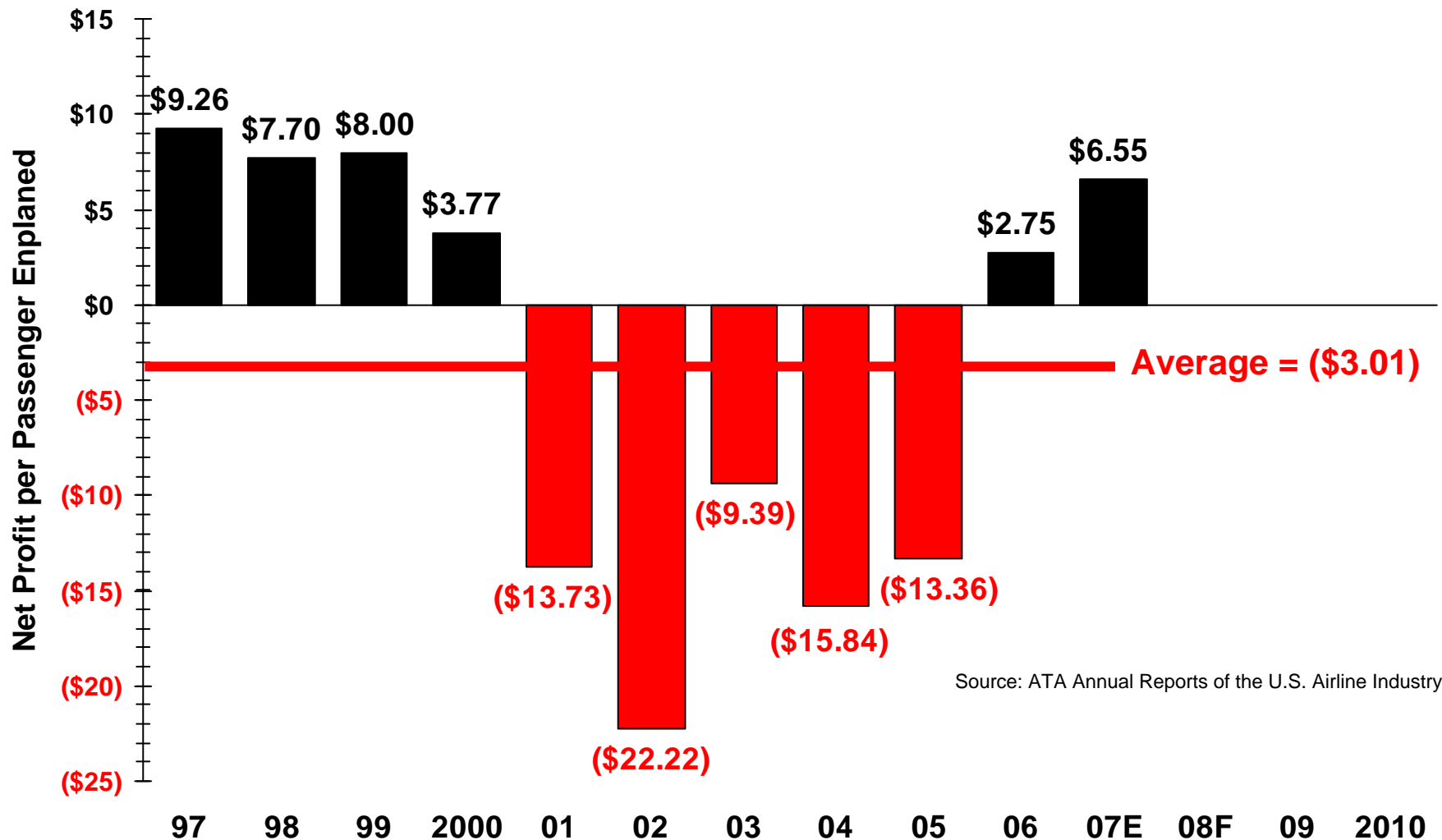


* Based on generally accepted accounting principles (GAAP), excluding extraordinary restructuring charges/gains for all U.S. passenger and cargo airlines

Sources: U.S. Bureau of Transportation Statistics, ATA research and estimates

In *Best* Years, Airlines* Net Only a Few \$ per Passenger

Average of 1997-2007 Results Reveals *Net Loss* of \$3.01 per Passenger

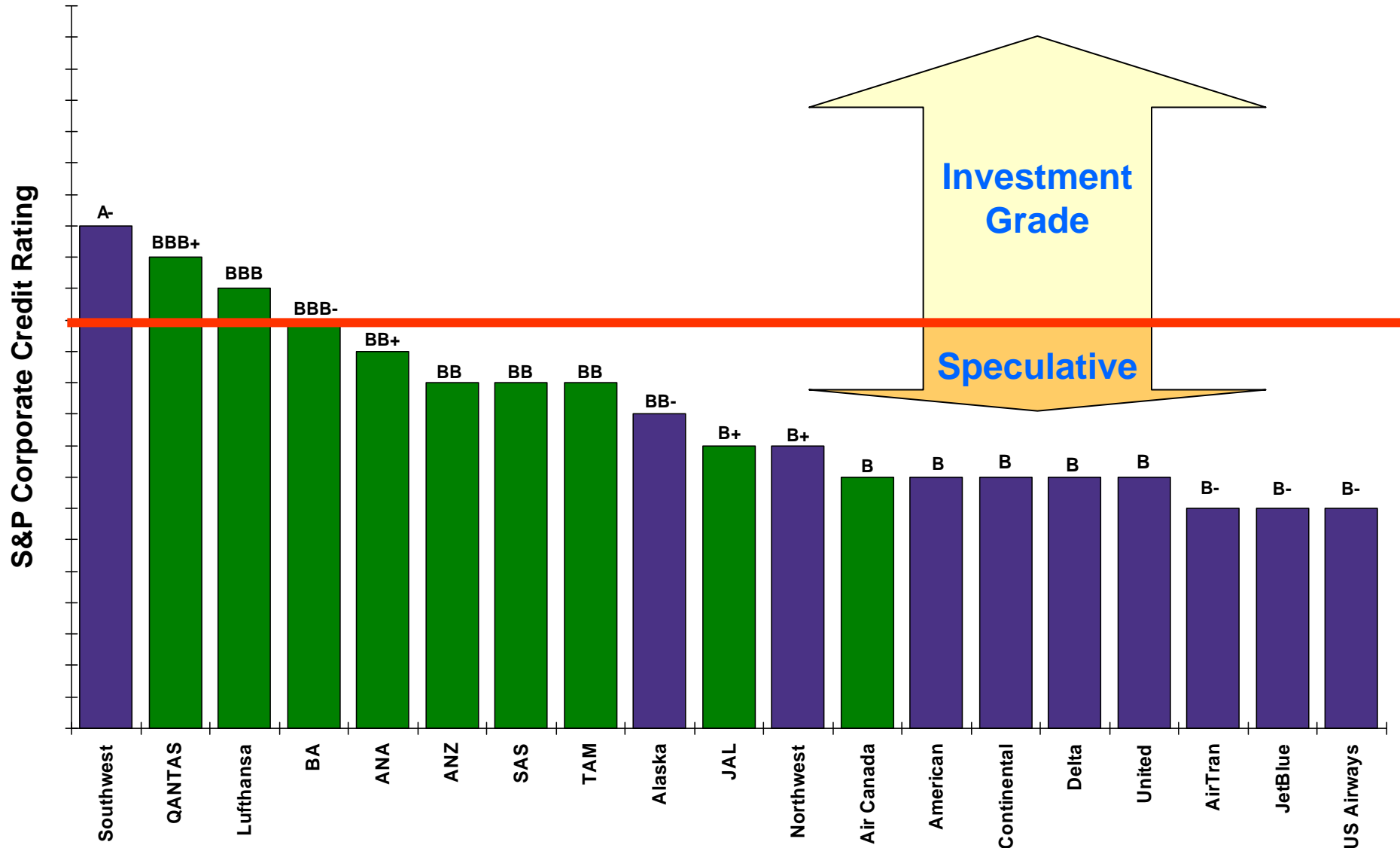


Source: ATA Annual Reports of the U.S. Airline Industry

* Based on ATA-member passenger airlines only for each respective year

U.S. Carriers Suffer From Comparatively Weak Credit

Standard & Poor's (S&P) Corporate Credit Ratings as of April 21, 2008



Recent U.S. Airline Bankruptcies, Merger

<u>U.S. Airline</u>	<u>Last Day</u>
MAXjet	12/25/07
Big Sky	1/7/08
Aloha	3/31/08
ATA	4/2/08
Skybus	4/5/08
Champion	5/31/08

<u>U.S. Airline</u>	<u>Ch. 11 Filing</u>
Frontier	4/11/08
<u>Delta/Northwest</u>	<u>4/14/08</u>

Merger Announced

Source: <http://www.airlines.org/economics/specialtopics/USAirlineBankruptcies.htm>

The Word on the Street

“Should current fuel prices persist, the impact on industry profitability is expected to rival – if not exceed – that of the 9/11 terrorist attacks.... While it may sound callous to frame fuel’s rapid ascent against the far greater tragedy of 9/11, the math is indisputable – at current fuel prices, a similar attack on the industry's profitability appears underway....”

“Unless fuel prices rapidly retreat, it stands to reason that additional carrier bankruptcies cannot be ruled out. After all, no recession since the industry deregulated has failed to include the bankruptcy of at least one – more typically, several – carriers of size.”

(J.P. Morgan Securities North America Corporate Research, Apr. 15, 2008)

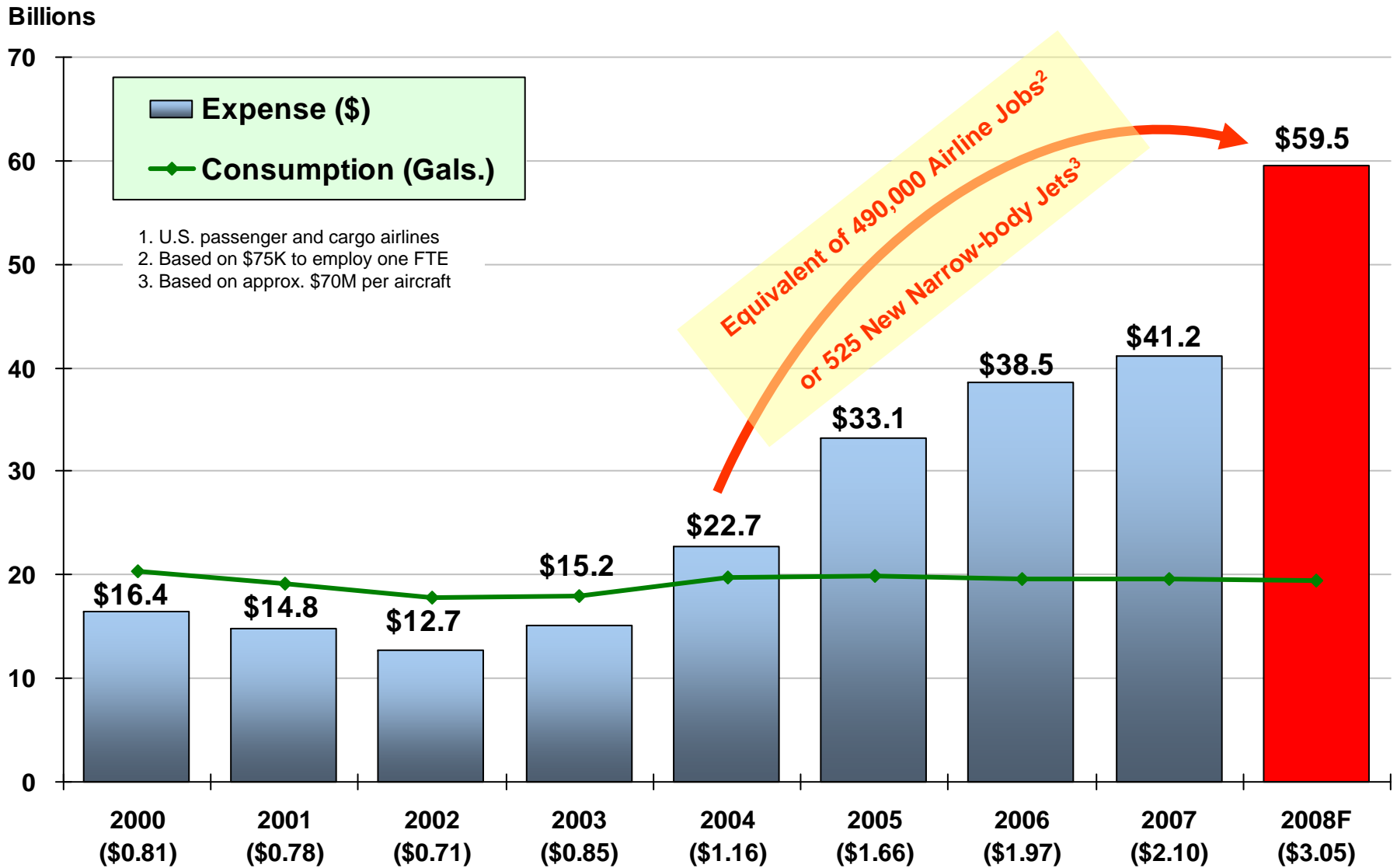
The Word on the Street (Cont'd)

“Frankly, we do not believe that the U.S. airline industry can withstand \$100+/bbl oil prices without major structural change and as long as the industry remains highly fragmented, sustainable profitability will remain an elusive goal.”

(Merrill Lynch Airline Research, Mar. 7, 2008)

2008 Jet Fuel Expense¹ Will Break 2007 Record

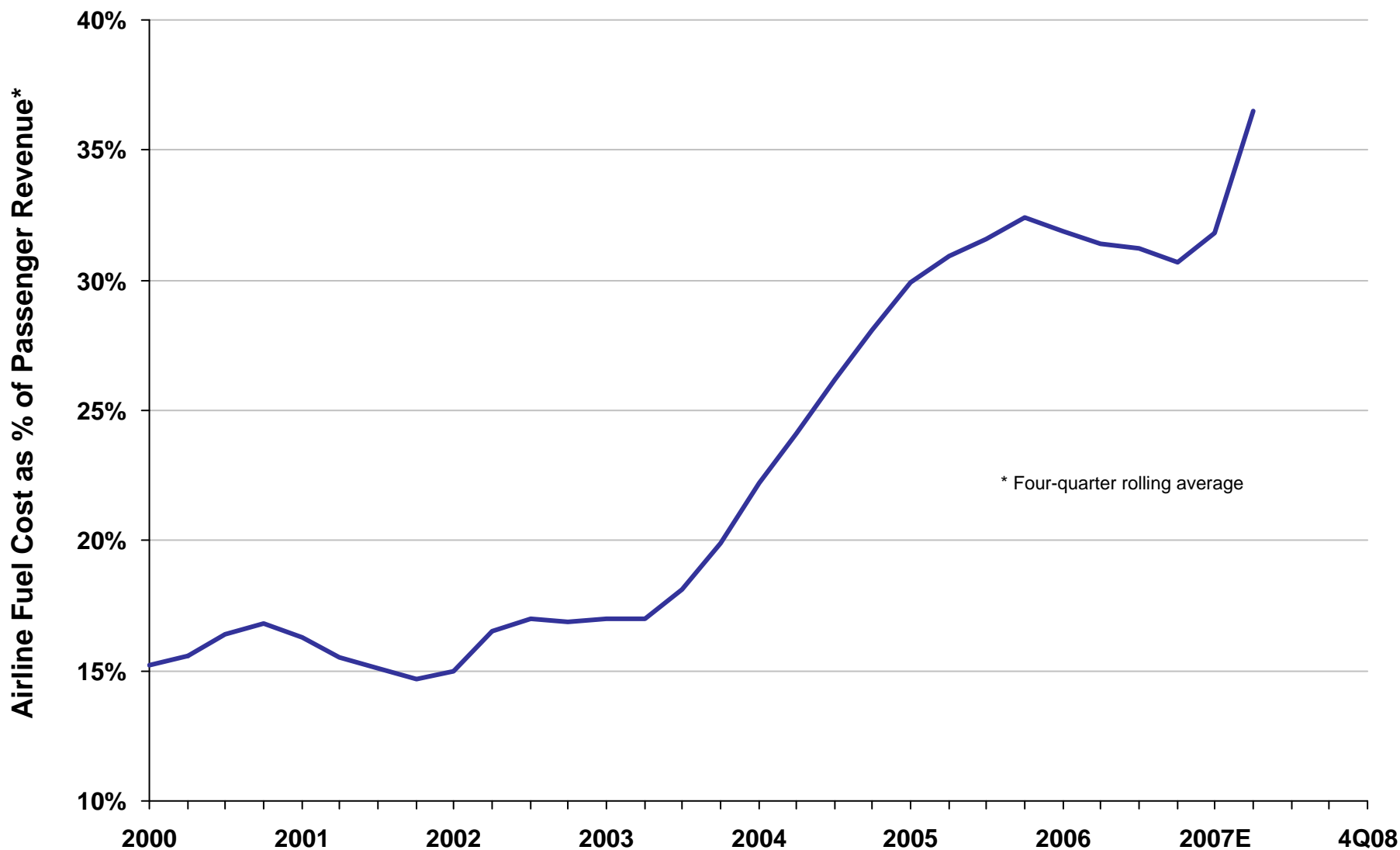
Average Price Paid per Gallon Could Conceivably Exceed \$3.00



Sources: Air Transport Association, Energy Information Administration, Department of Transportation

Portion of Ticket Needed to Pay for Fuel Approaching 40%

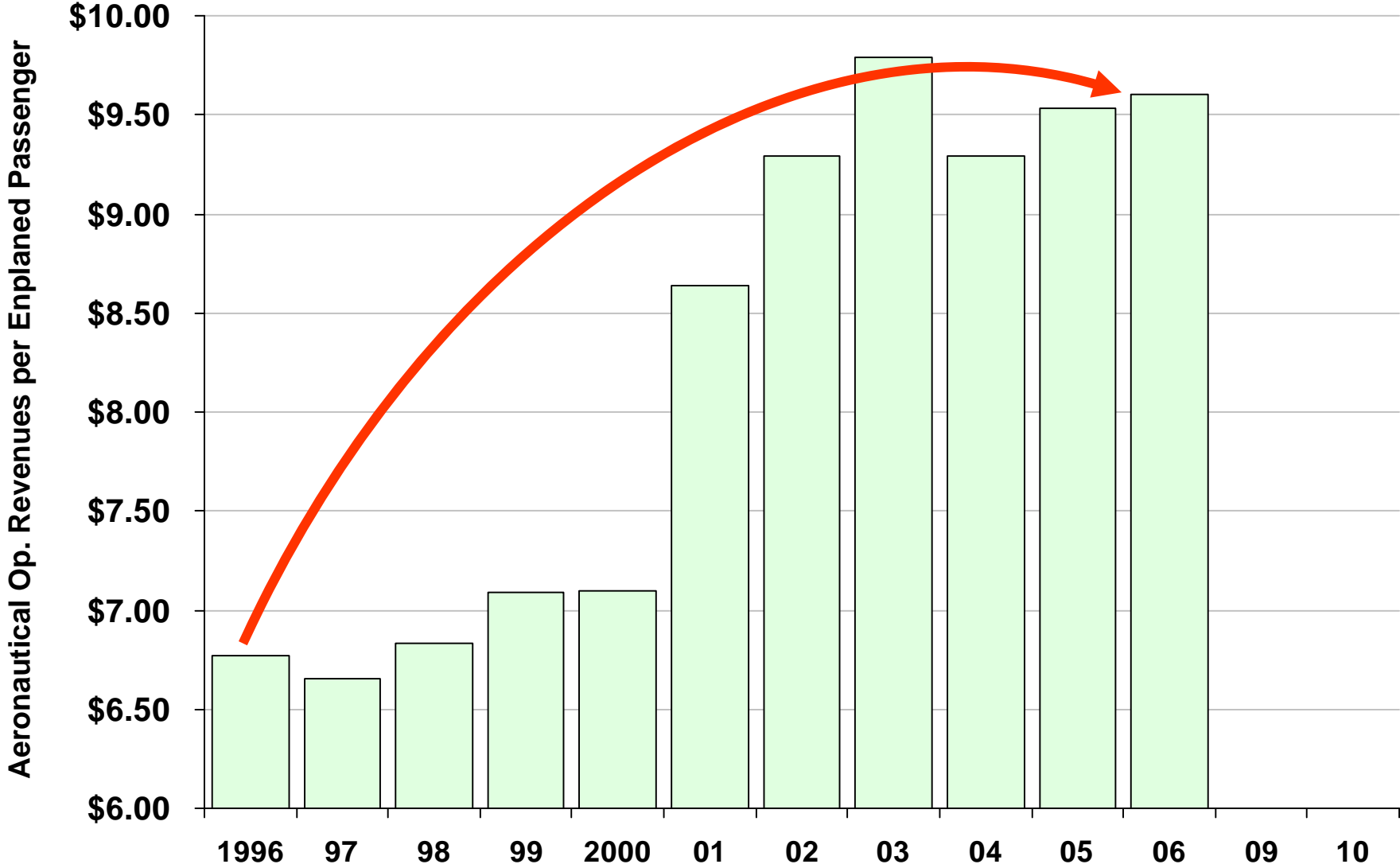
Airline Fuel Expense Has Risen From 15% to 36.5% of Passenger Revenue



Sources: ATA quarterly airline cost index plus monthly passenger revenue report and monthly fuel cost and consumption report

Airline Cost per Enplanement Rising @ U.S. Airports

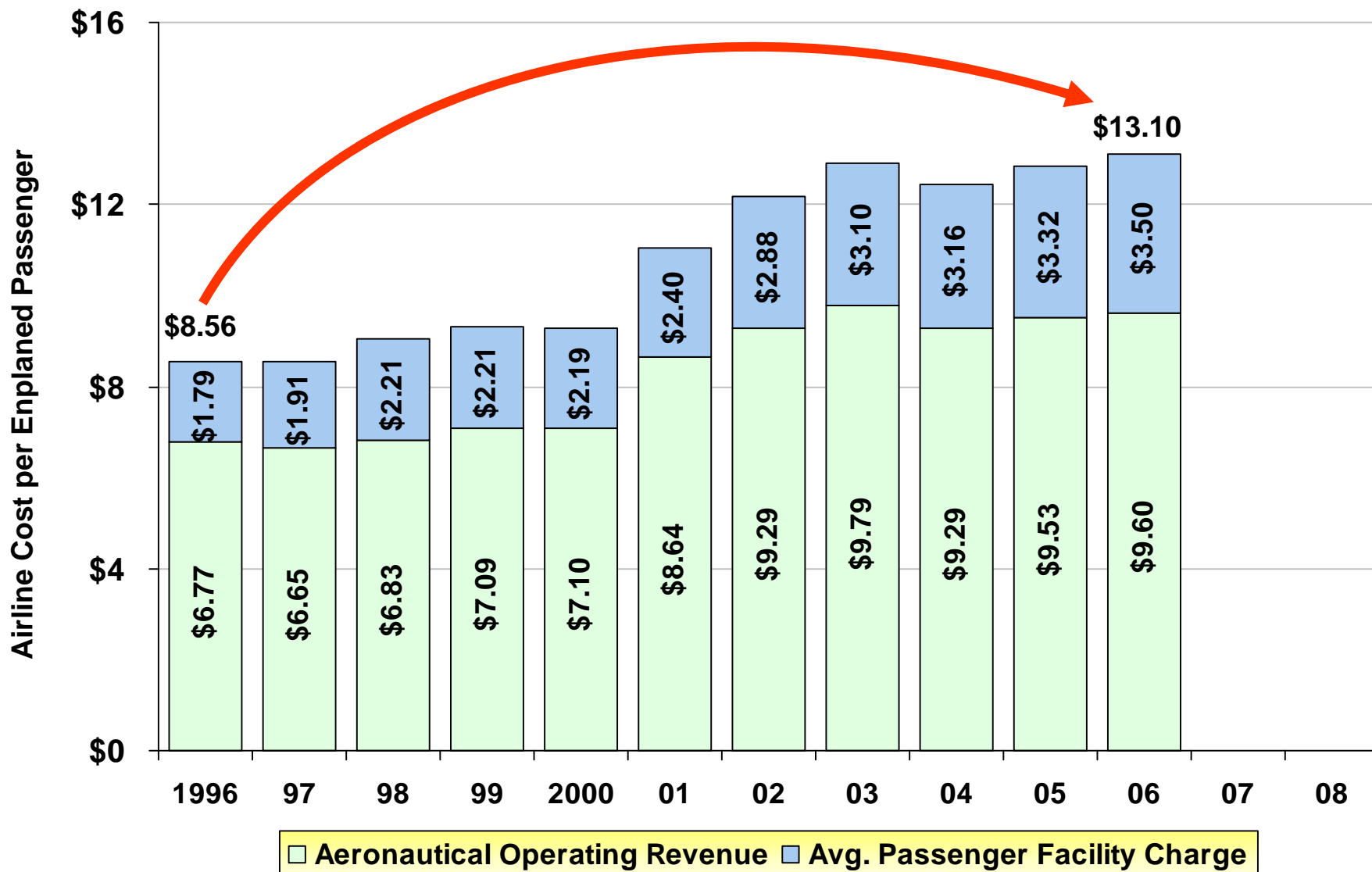
Up 41.8% From 1996 to 2006 According to Data Filed With FAA



Sources: Federal Aviation Administration (FAA) Form 127 and Air Carrier Activity Information System

Airline Cost per Enplanement Rising @ U.S. Airports

Up 53.0% From 1996 to 2006 When PFCs Included



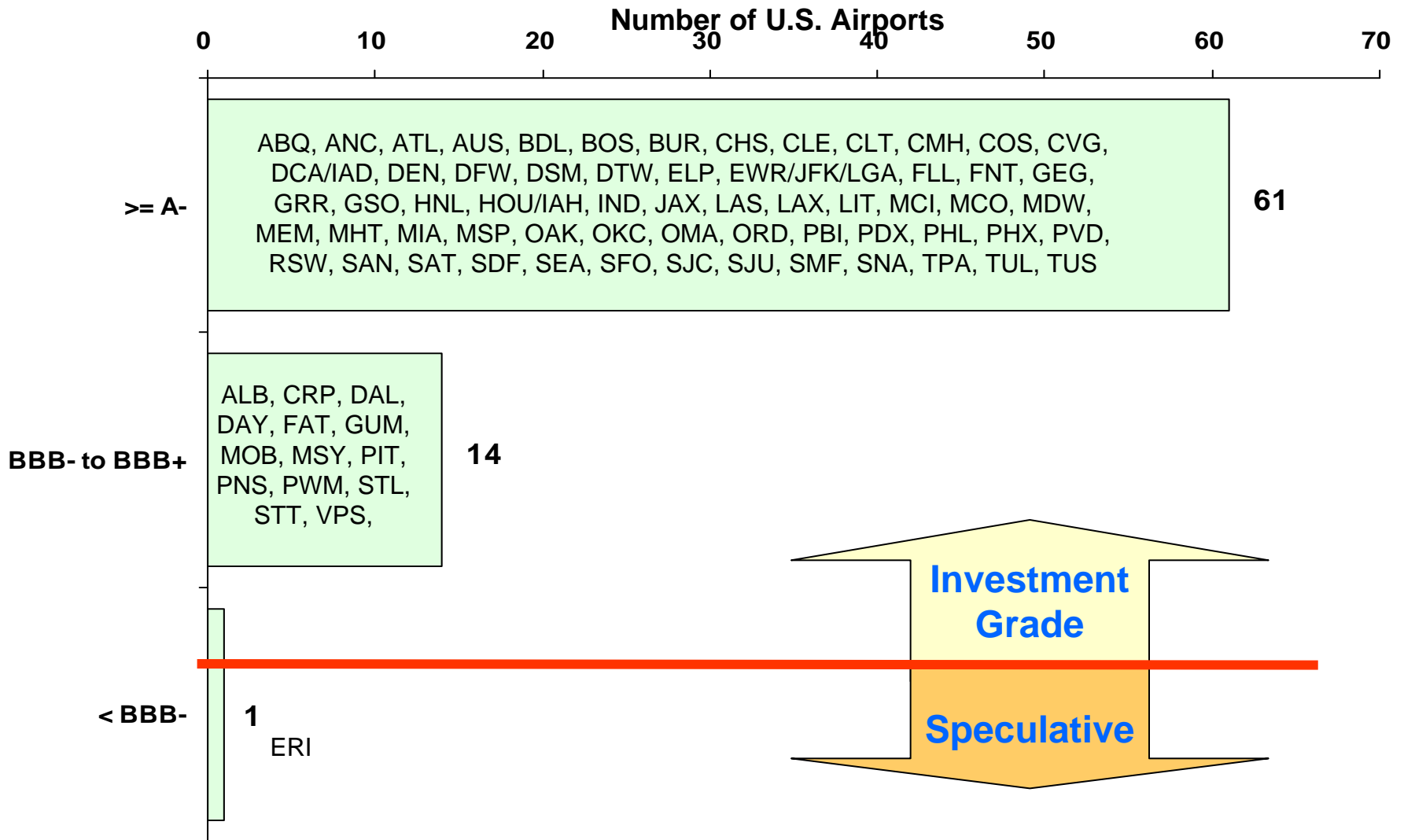
Sources: Federal Aviation Administration (FAA) Form 127 and Air Carrier Activity Information System

The Airport Environment

- US Airports financially sound (75 of 76 rated by S&P enjoy investment-grade rating)
- Airports have substantial unrestricted financial assets: \$24.8 billion for CY06 per FAA reports
- PFC collections at record levels: \$2.8 billion for CY07
- ACI-NA Survey indicates a *need* for \$88 billion in capital projects from 2007-2011
 - details not provided

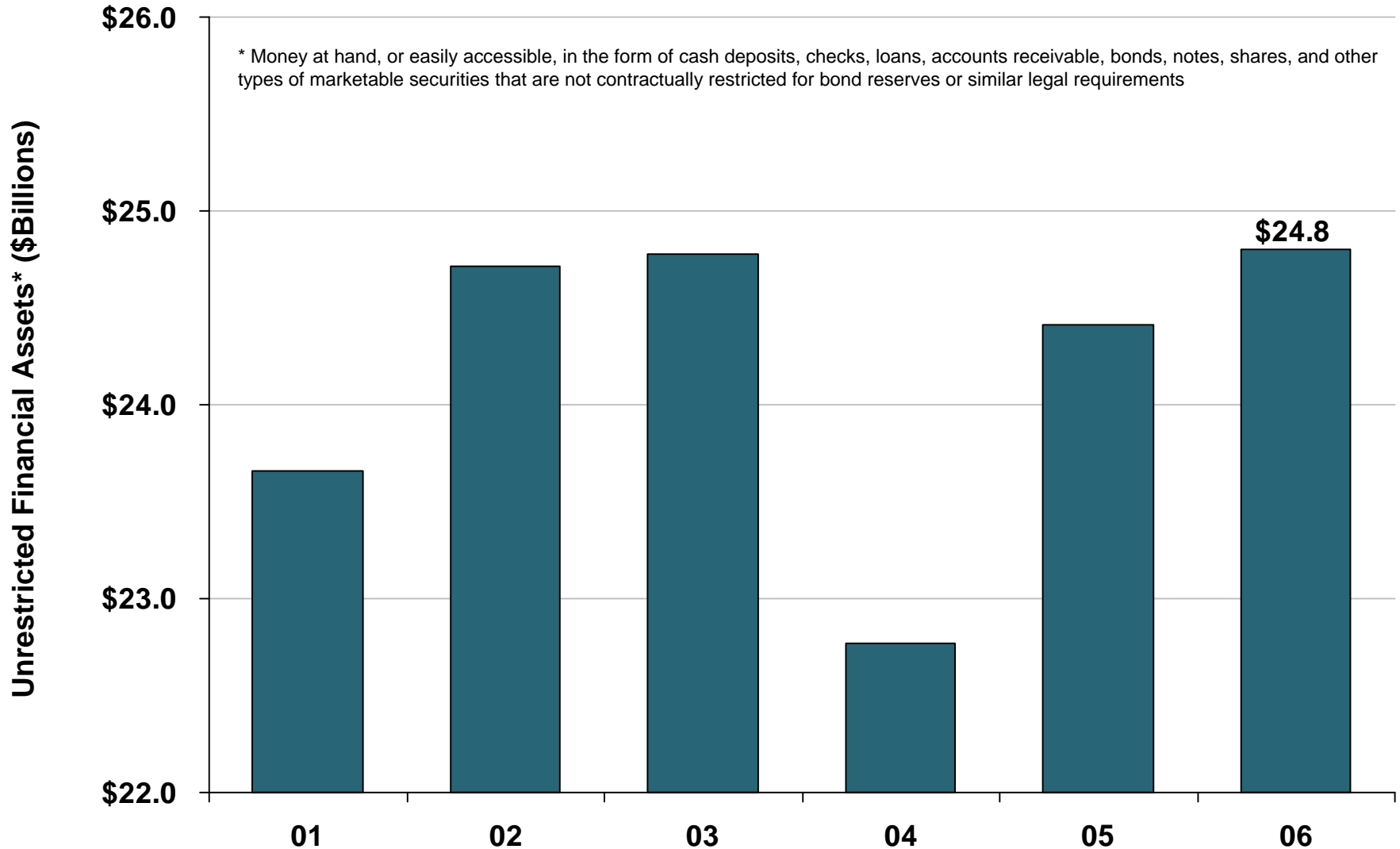
U.S. Airports are Financially Sound

Of the 76 U.S. Airport Authorities Rated by S&P, 75 Enjoy Investment-Grade Credit



Source: Standard and Poor's (January 17, 2008)

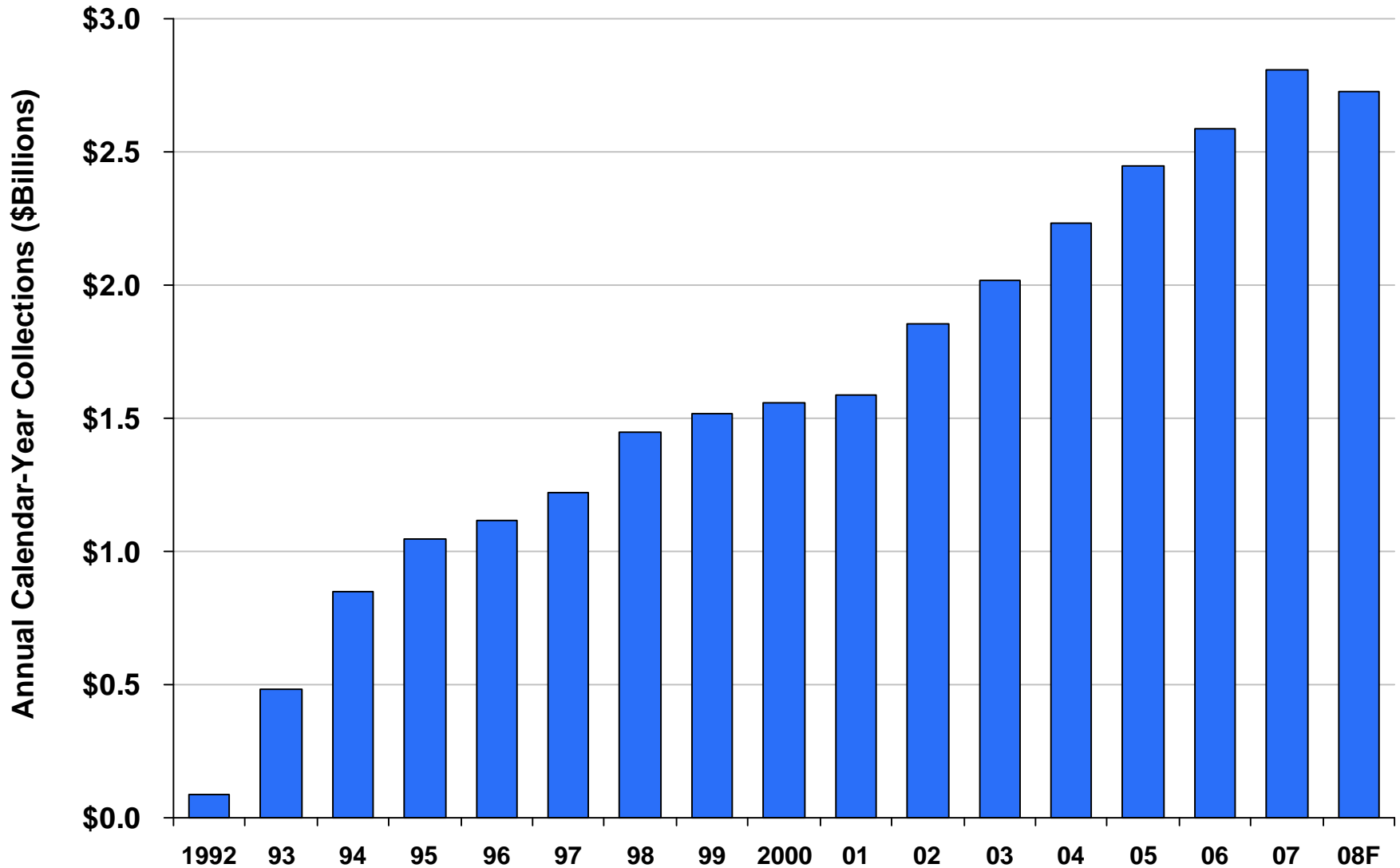
U.S. Commercial Service Airports Enjoy Substantial Unrestricted Financial Assets*



Source: Federal Aviation Administration (FAA)

Passenger Facility Charges (PFCs)

PFC Collections have reached record levels



Source: Federal Aviation Administration (FAA)

Building Dialogue Between Airlines & Airports

Where do we go from here?.....