

Airline Industry Outlook

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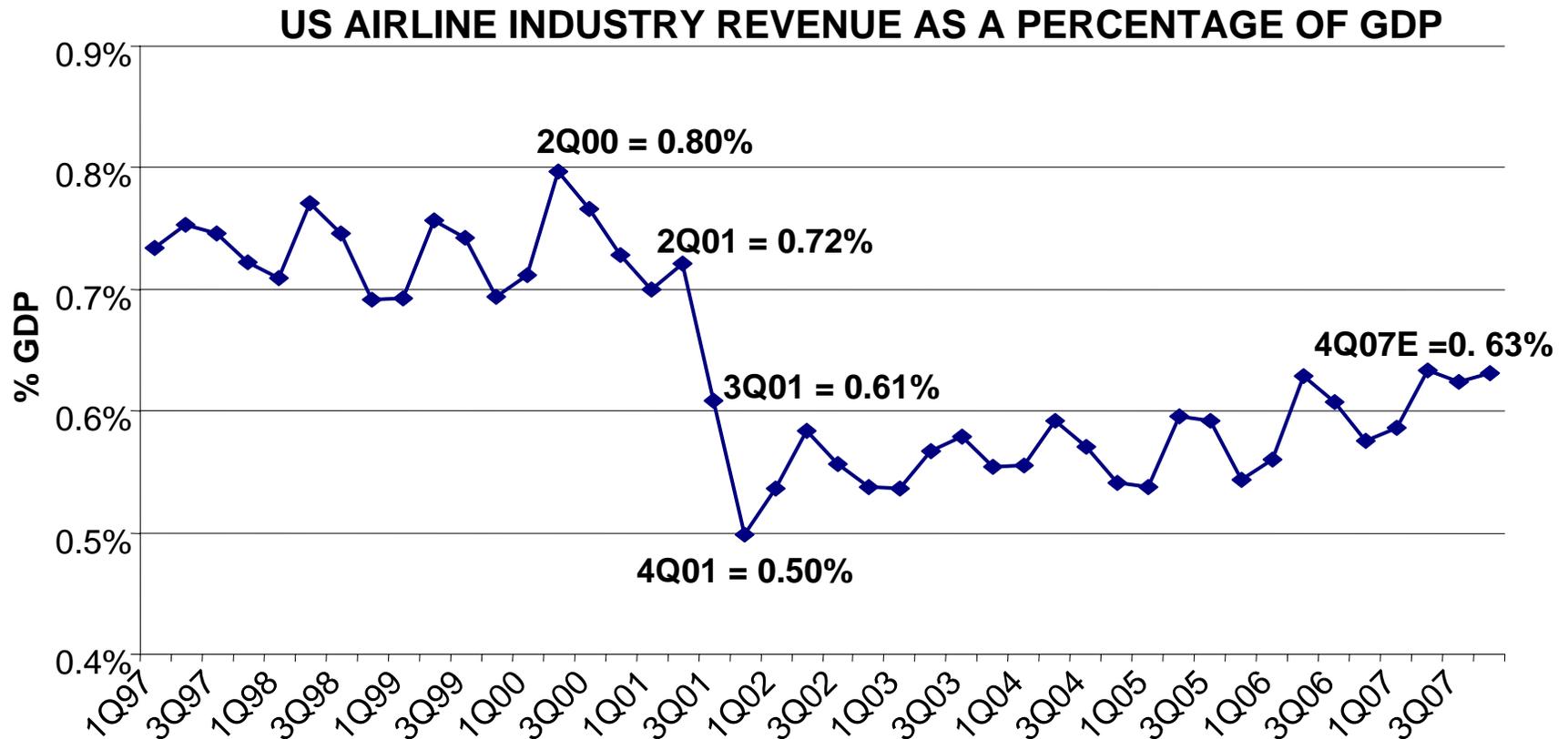
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Airline Economics Today

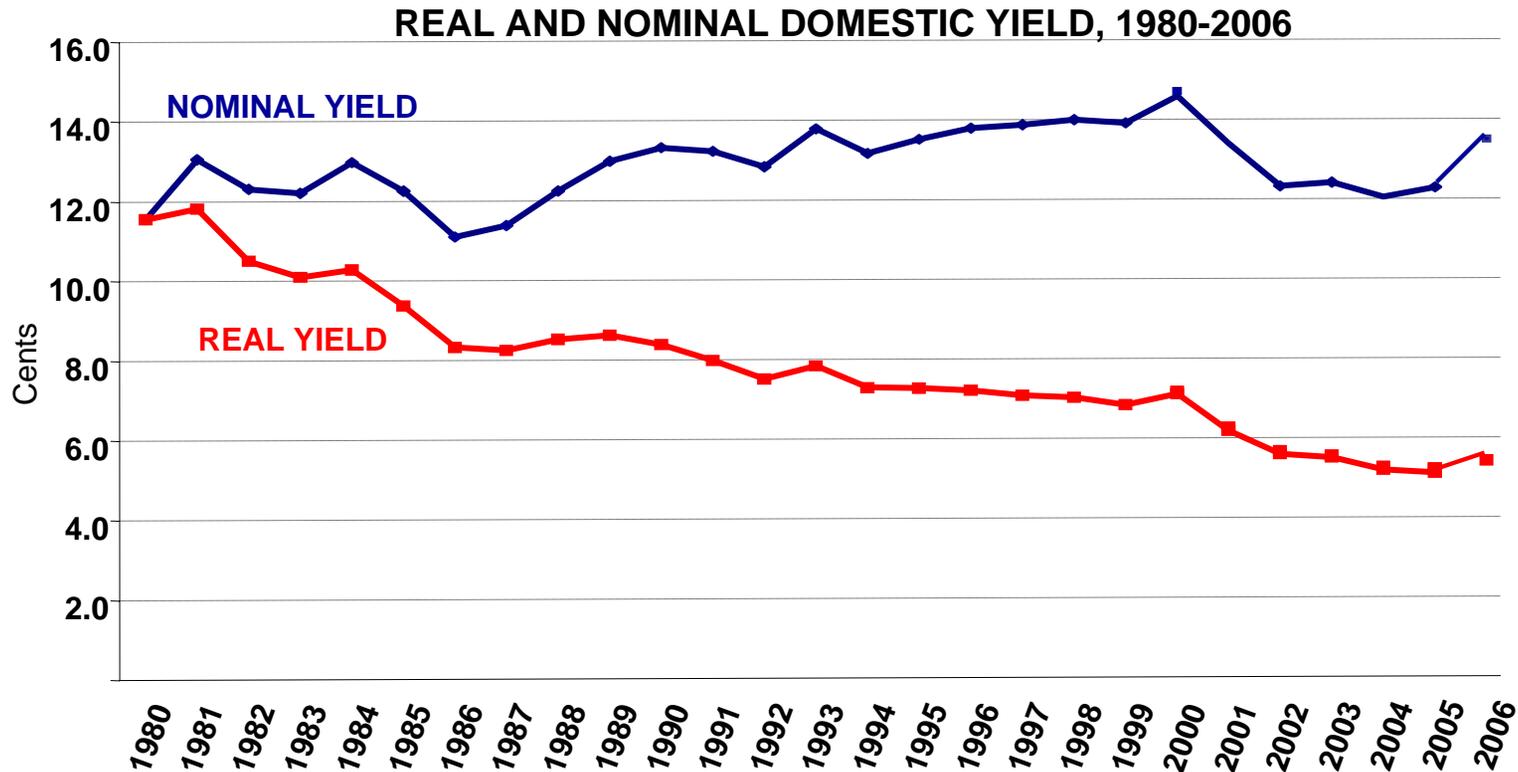
Airline Industry: Post- 9/11 Recovery

- The US Airline Industry has not fully recovered from 9/11



Airline Industry Revenue Performance

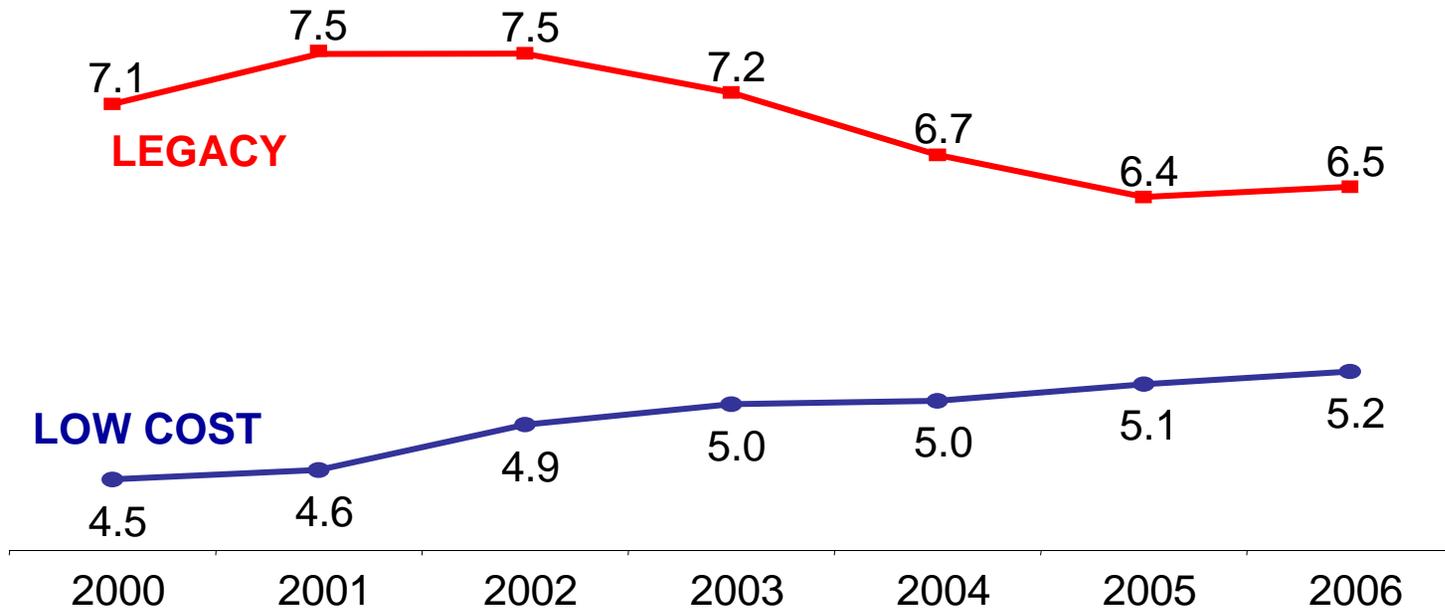
- On an inflation-adjusted basis, airline yields have declined over time
- If history is a guide, sustaining recent yield increases may prove challenging



Airline Industry Cost Performance

- Legacy carriers have restructured their operations to better compete
- Ongoing cost reduction is imperative

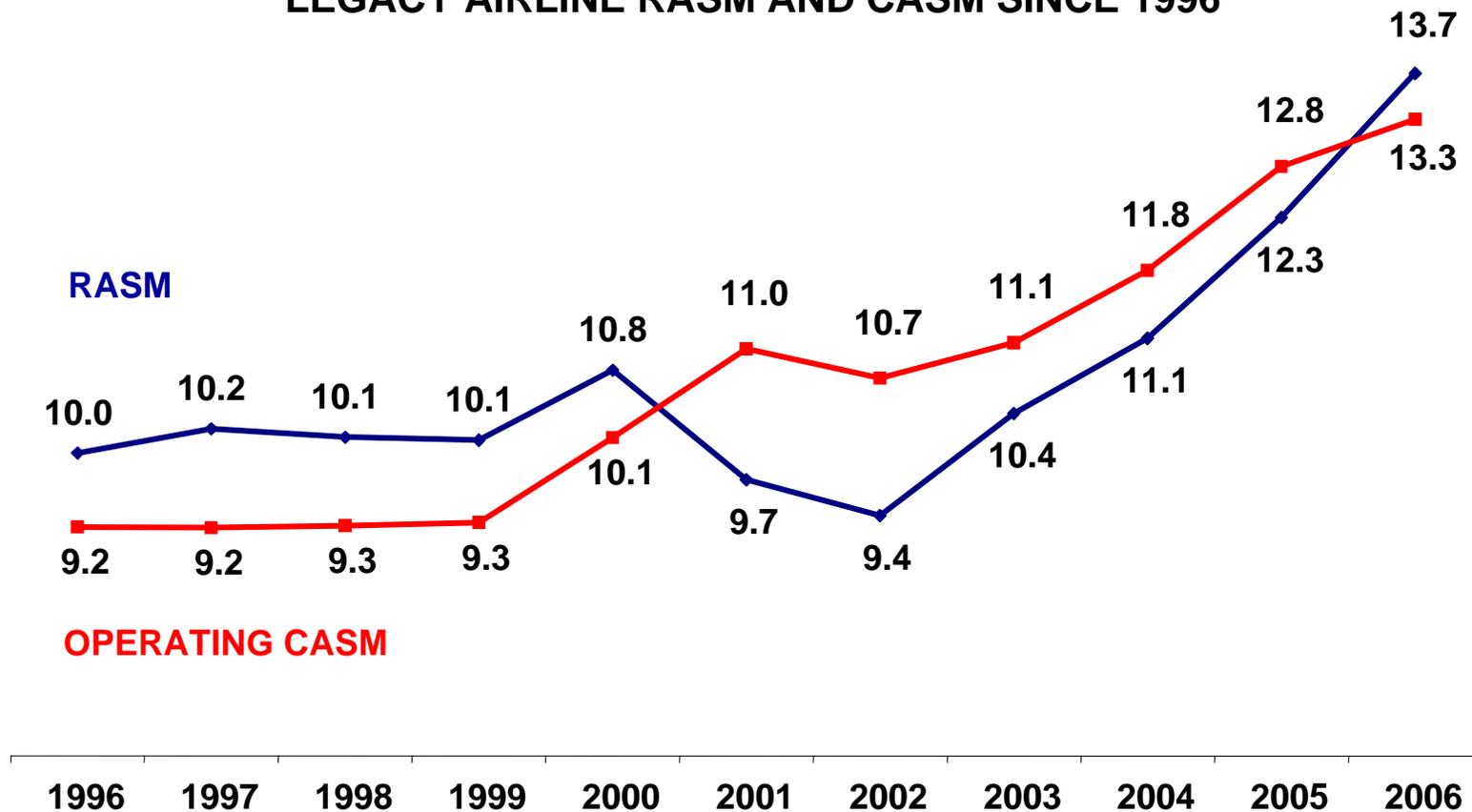
**LEGACY AND LOW COST CARRIER UNIT COSTS (CENTS)
EX. FUEL AND SPECIAL ITEMS**



Post-9/11 Revenue and Cost Equilibrium

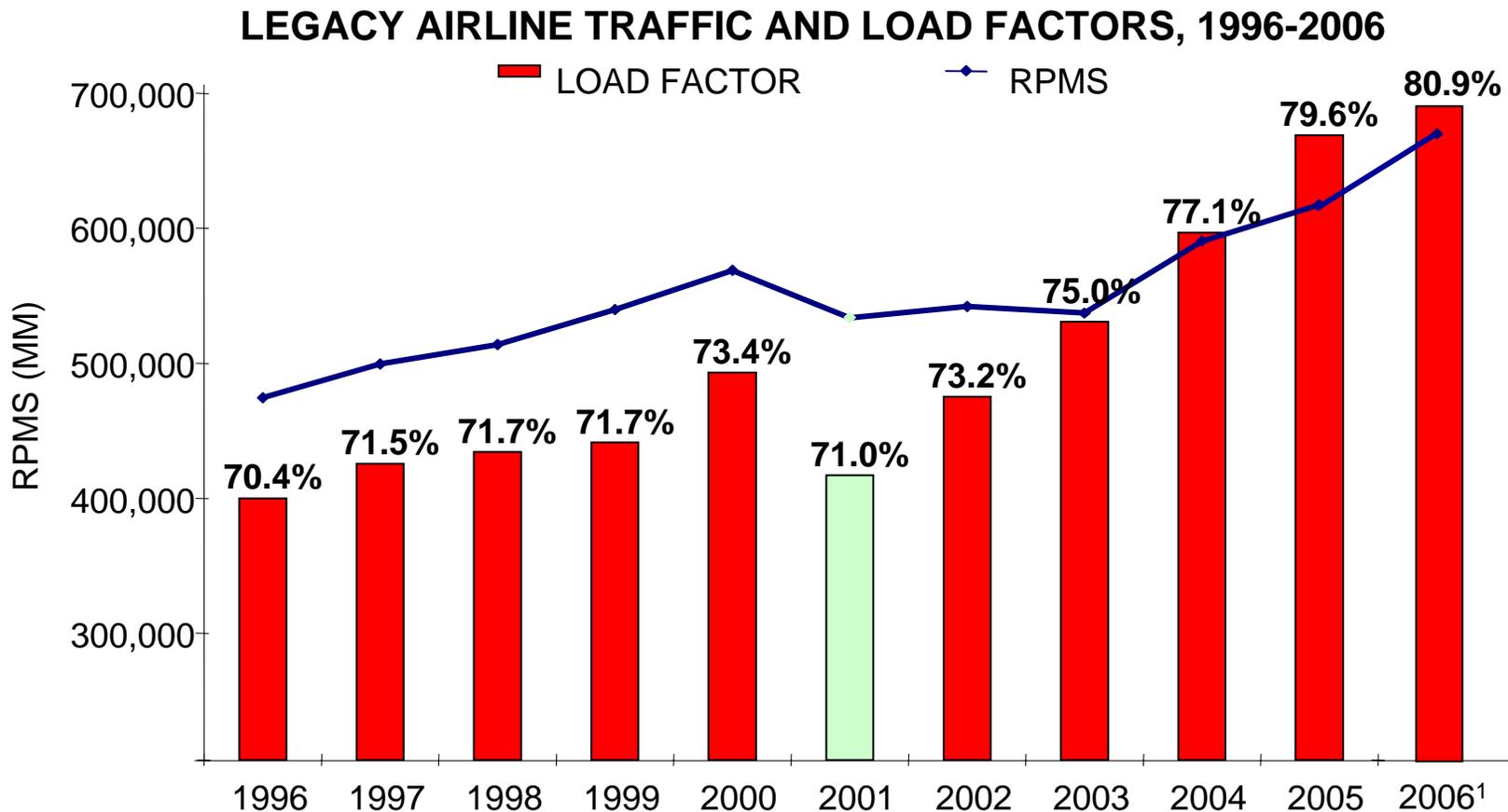
- The balance between legacy carrier unit revenues and unit costs has improved, but has not reached pre- 9/11 levels

LEGACY AIRLINE RASM AND CASM SINCE 1996



Airline Industry Network and Revenue Performance

- High load factors required in the current pricing environment present operating and infrastructure challenges



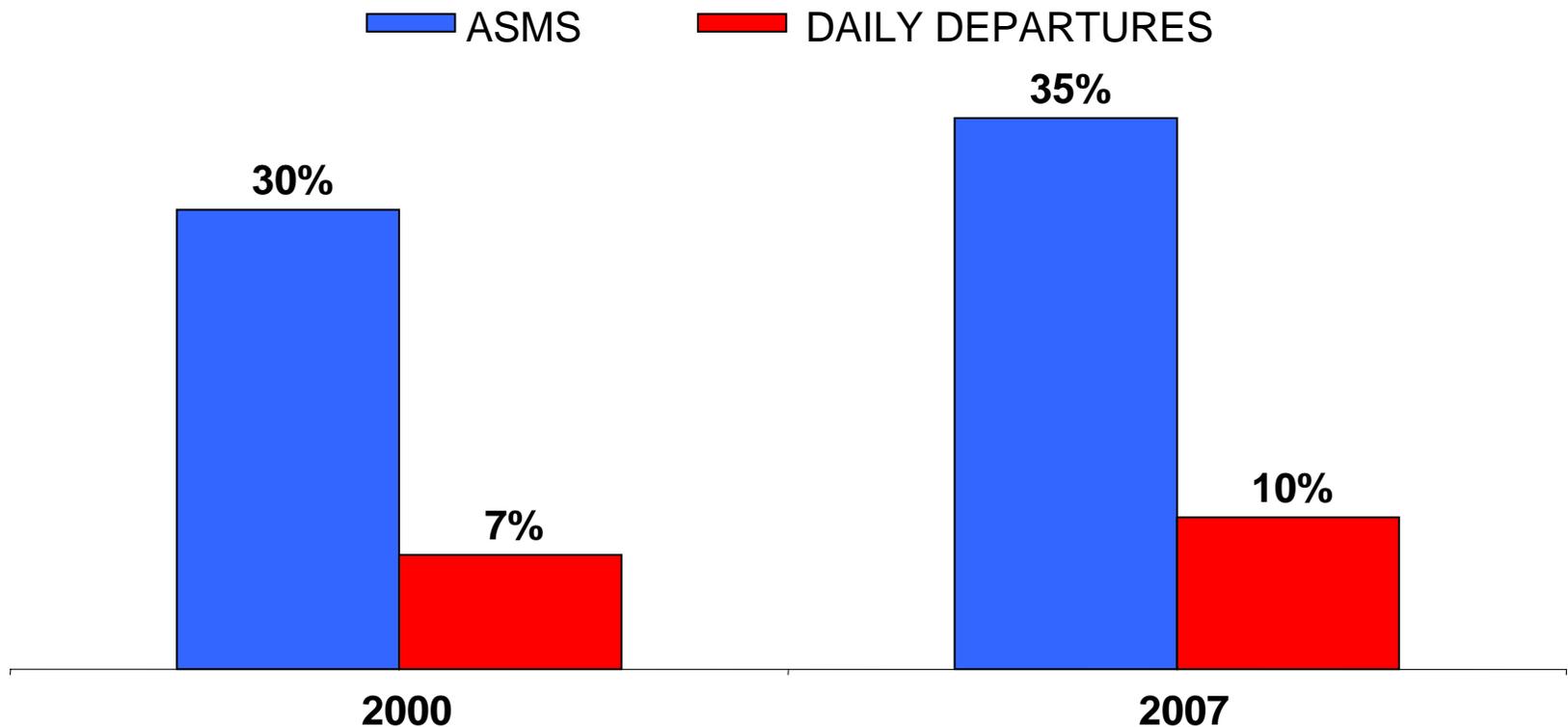
Source: Form 41 data; Legacy airlines are AA, CO, DL, NW, US, UA
1/ 2006 Load Factor and RPMS are based on carrier filings



Airline Industry Network Performance

- The weak domestic revenue environment and growth of low cost carriers has led to an increase in international flying

LEGACY AIRLINES: INTERNATIONAL FLYING AS A PERCENTAGE OF TOTAL FLYING, 2000 VS. 2007



Keys to Success

- **Airlines must continue to change their business models to remain competitive**
 - **Must compete in a world of increasing price-transparency**
 - **Must offer a compelling network**
 - **Continued migration to customer self service**
 - **Further unbundling of services offered with base fare**
 - **Continuous cost improvement**



U.S. Airline Industry: Key Challenges

Airline Industry Outlook: Key Challenges

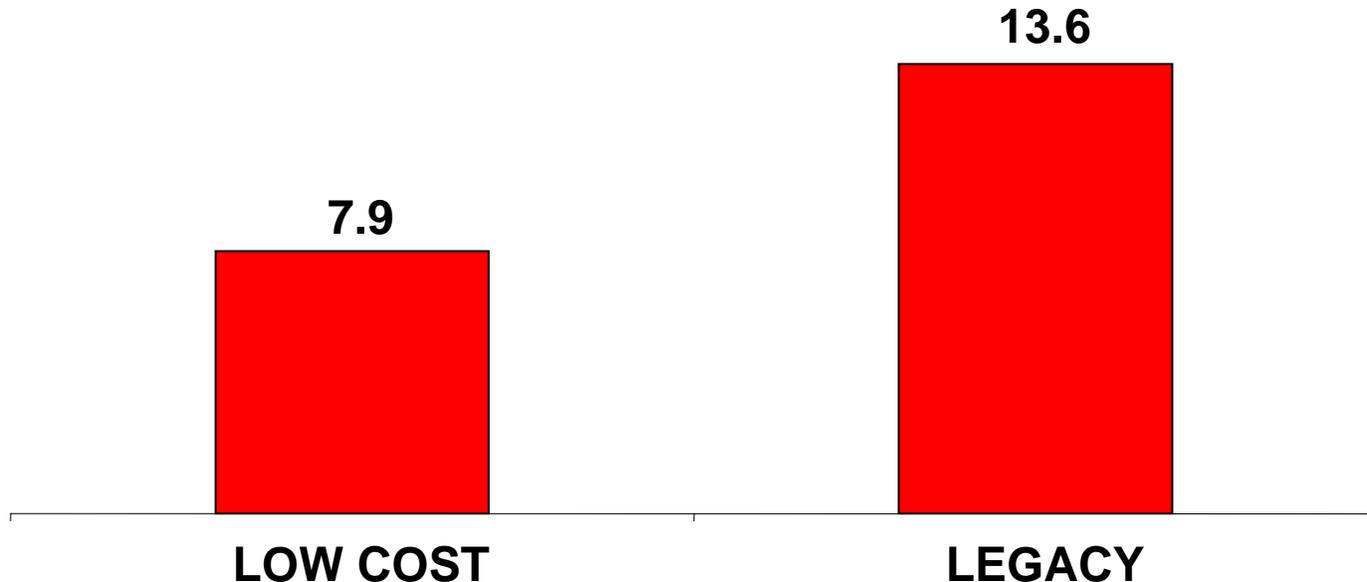
- **Fleet replacement and renewal**
- **Airport infrastructure costs**
- **ATC infrastructure and costs**
- **Other Regulatory issues**
- **All of these will affect costs and revenues in an already profit challenged industry**



Airline Industry Outlook: Fleet Renewal

- **Legacy airlines will need to renew their fleets to remain competitive**

AVERAGE AGE OF ACTIVE FLEET, AS OF JAN 2007



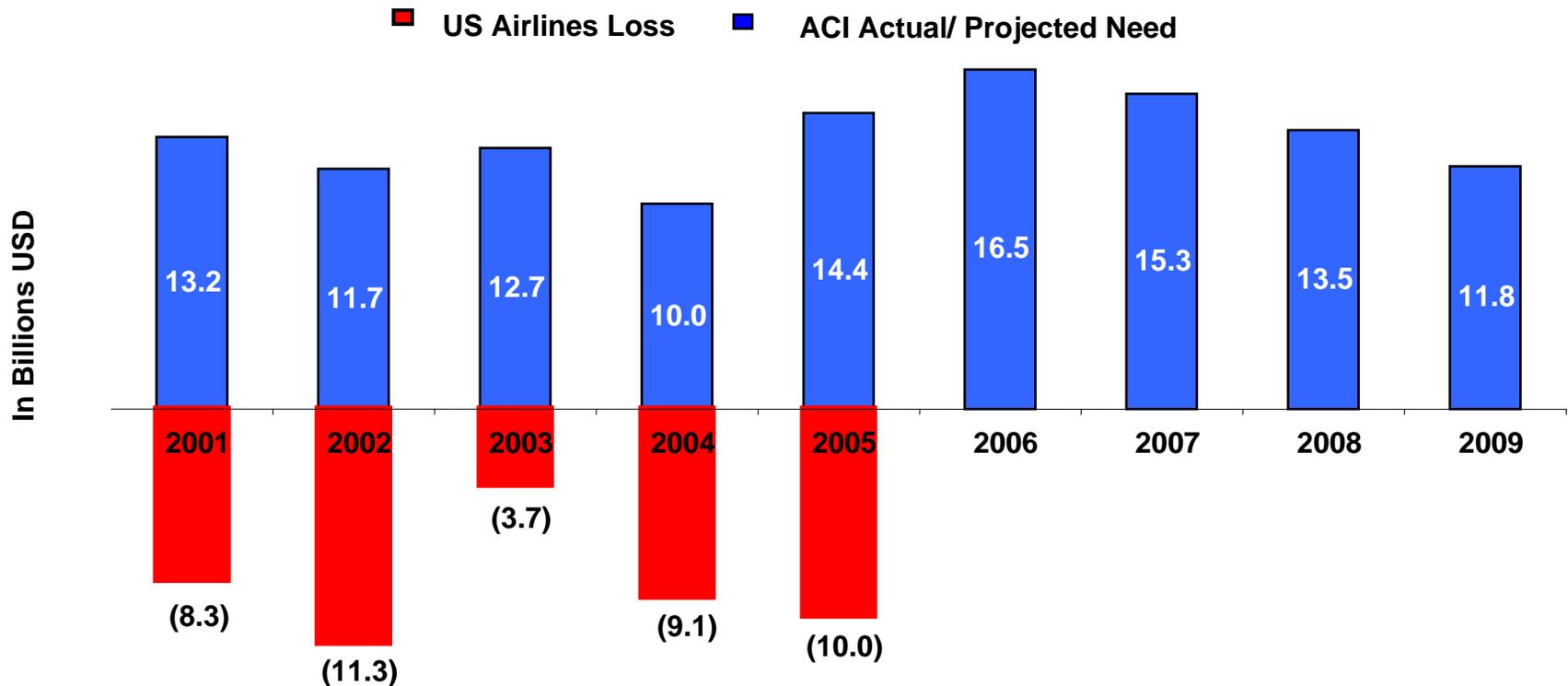
- **North American fleet renewal and growth will require**
 - **9,490 new airplane deliveries by 2025**
 - **\$740BB in airline investment by 2025**



Airline Industry Outlook: Airport Capital Needs

- US airports are estimated to need \$71BB in infrastructure improvements through 2009
- Between 2001-2004, US airlines financed \$47.5BB in airport improvements, while accumulating losses totaling \$32BB

Past & Future Airport Capital Needs vs US Airline Industry Losses

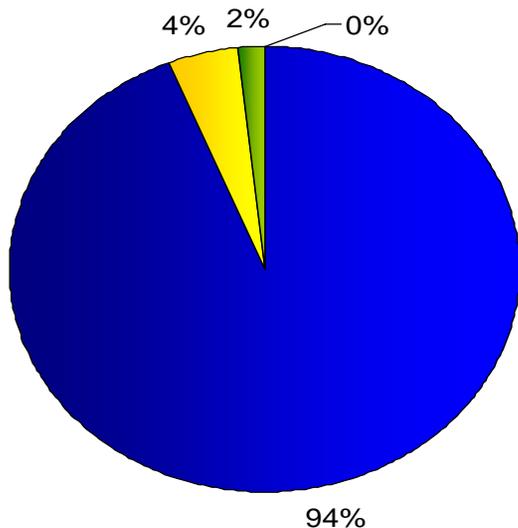


Airline Industry Outlook: Air Traffic Control

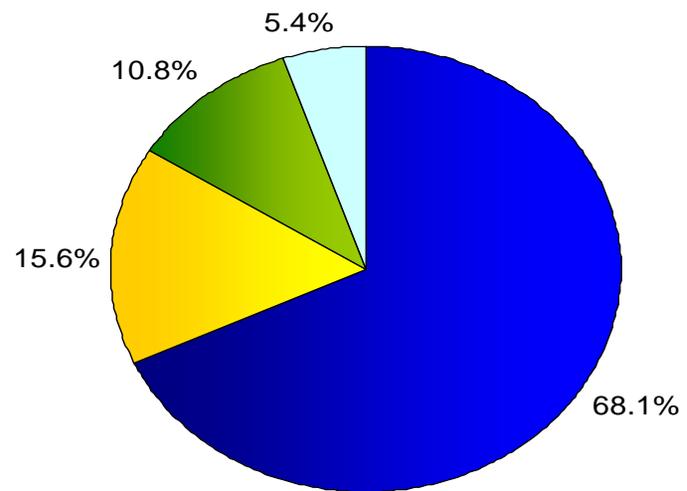
- The Air Traffic Control (ATC) system also requires re-investment
- Passenger airlines use less than 70% of the ATC system, but pay for over 90% of it

■ Passenger & Freight Airlines
■ Business Aviation

■ General & Personal Aviation
■ Military & Unknown



Who Pays for the ATC System?



Who uses the ATC System?



Airline Industry Outlook: Other Regulatory Issues

- **In the years ahead, the airline industry will also be affected by**
 - **Evolving Passenger Security Requirements**
 - **US Visa restrictions for foreign visitors**
 - **Carbon Emissions and Noise Restrictions**



Summary

Airline Industry Outlook: Summary

- **The recent improvement in industry profitability is both revenue and cost driven**
 - **But the revenue side remains cyclical**
- **Long term financial stability requires further profit improvement and balance sheet repair**
- **Capital investment and increased expenses for fleet and infrastructure will add to the industry's challenges**

