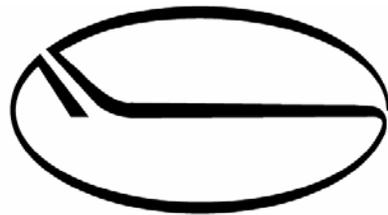


Market Opportunities ???



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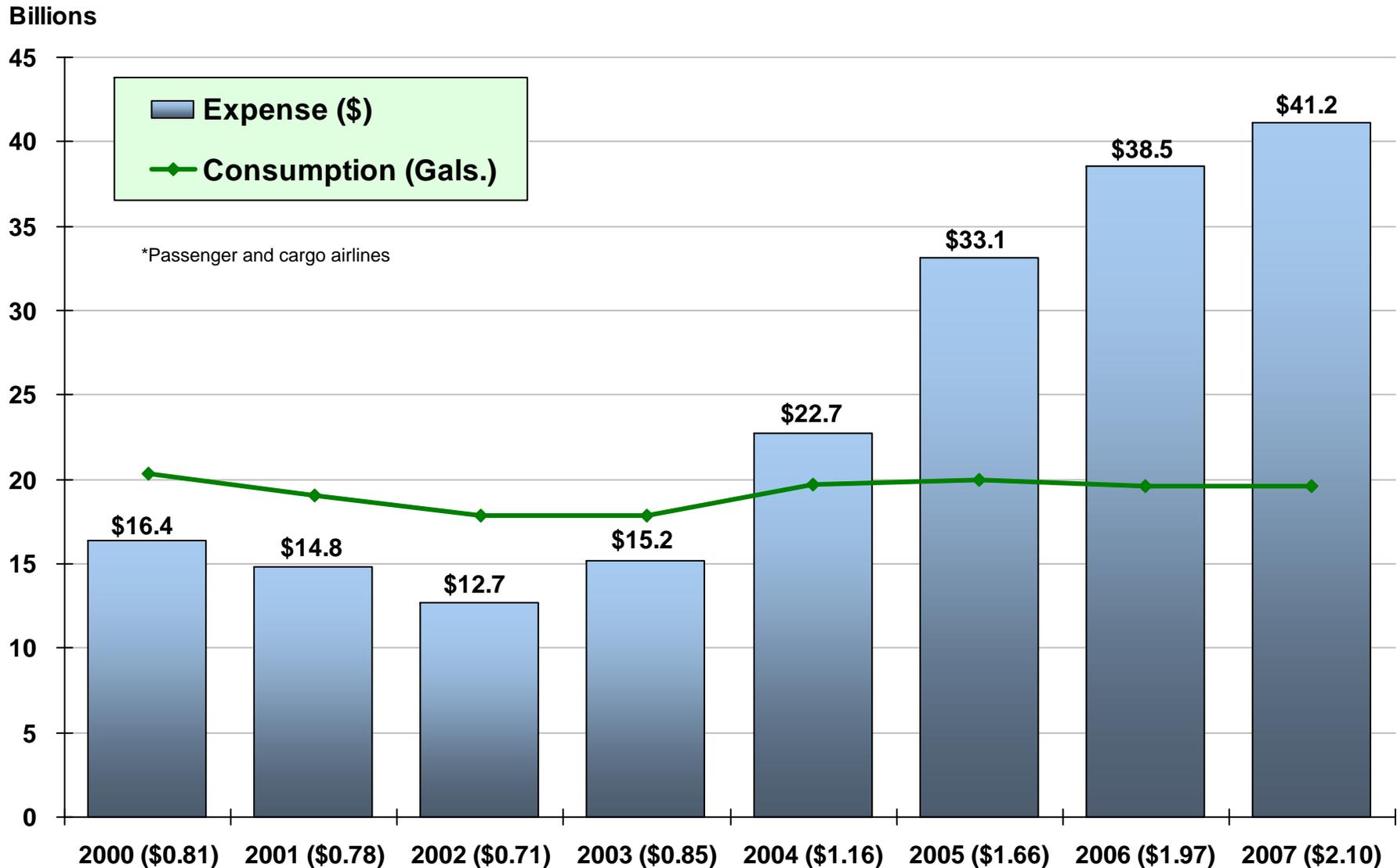
John Heimlich, VP & Chief Economist
33rd Annual FAA Aviation Forecast Conference
March 10, 2008



got crude?

U.S. Airline* Fuel Expense Exceeded \$41B in 2007

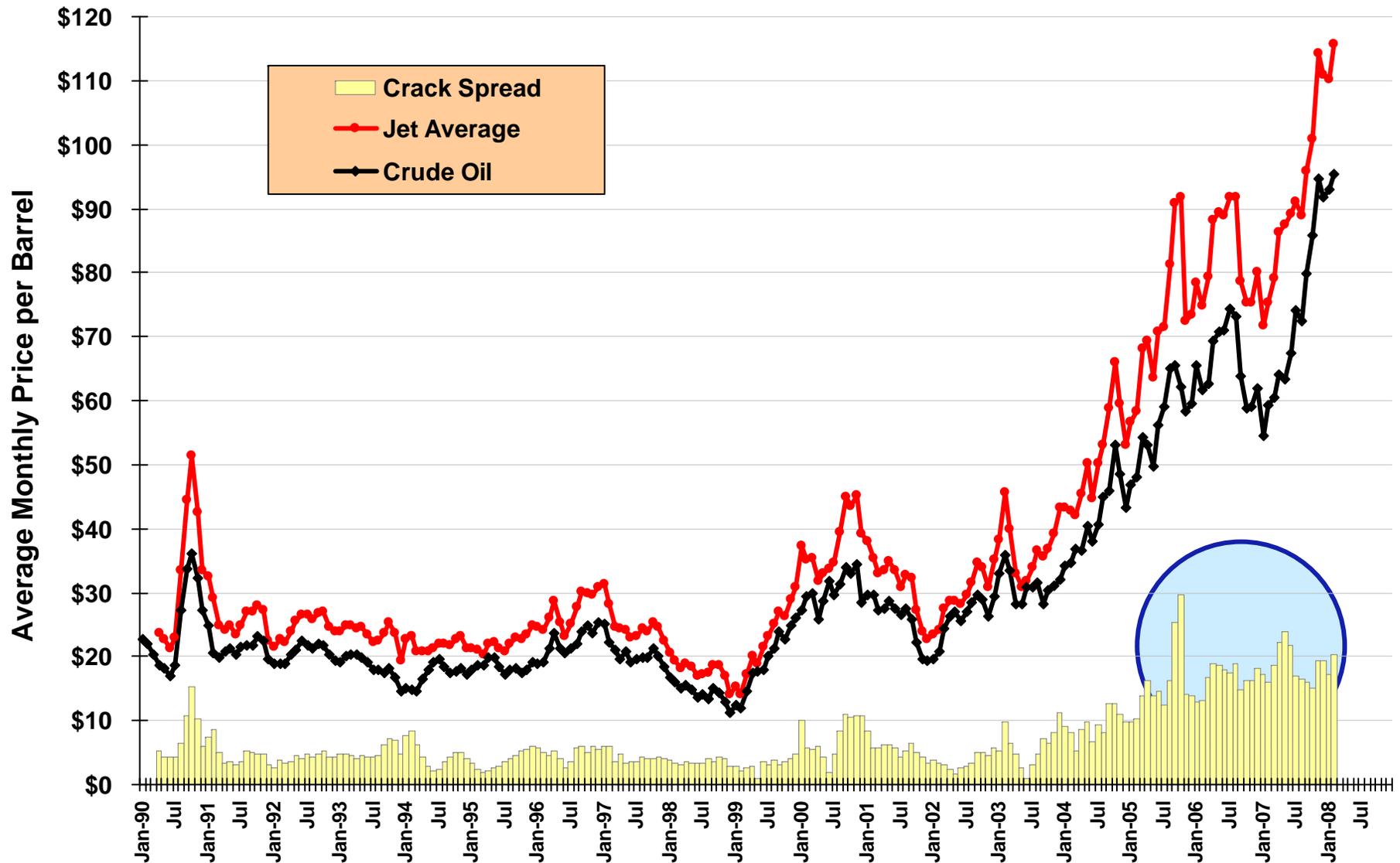
Average Price Paid per Gallon Exceeded \$2.00 for First Time in U.S. Airline History



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

Jet Fuel Continues to Rise on Soaring Crude

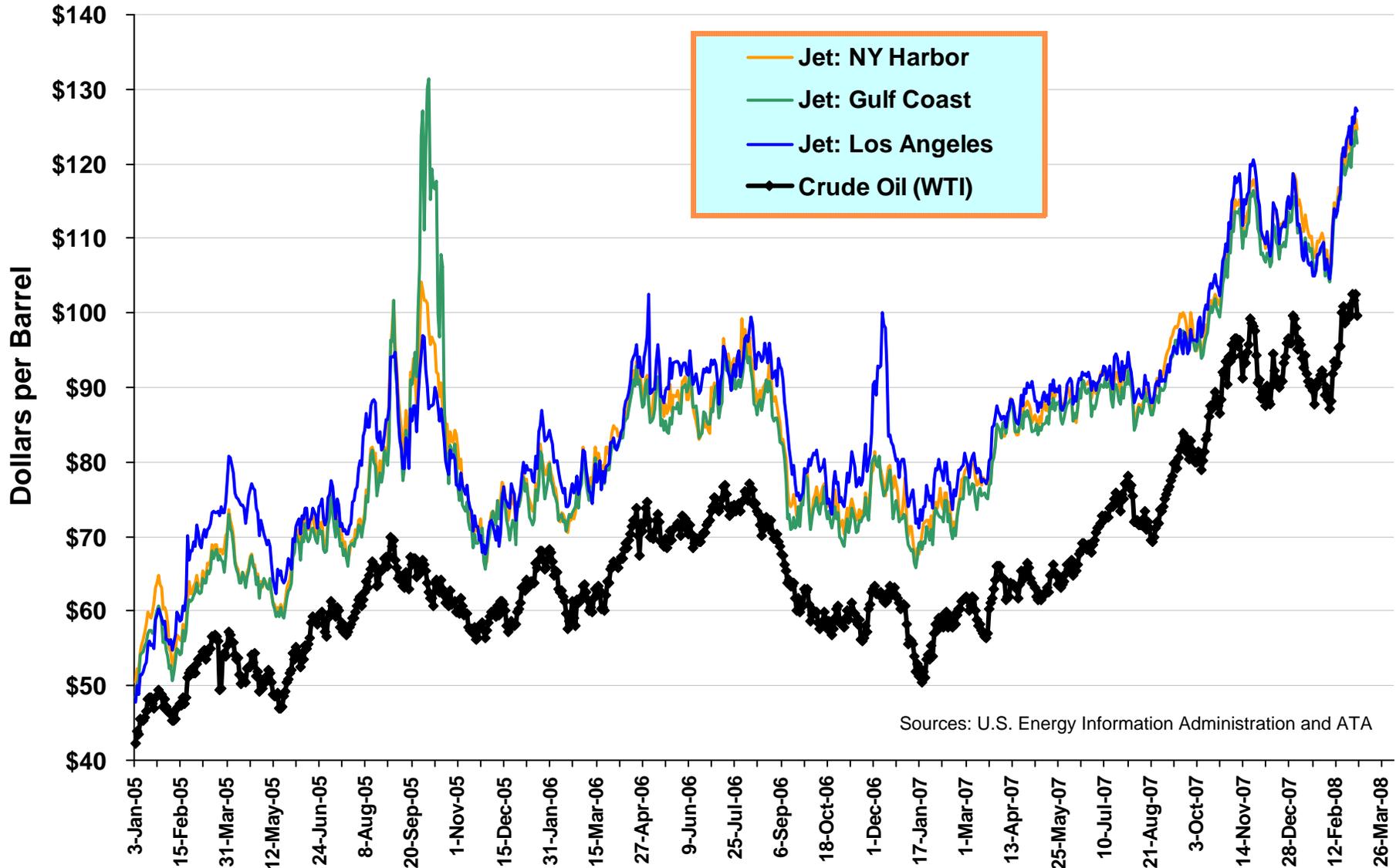
Crack Spread Down from \$30/bbl Peak, But Still Far Above \$5 Historical Norm



Sources: U.S. Energy Information Administration and the Air Transport Association of America

2008 Energy Market Begins Beyond Bullishly

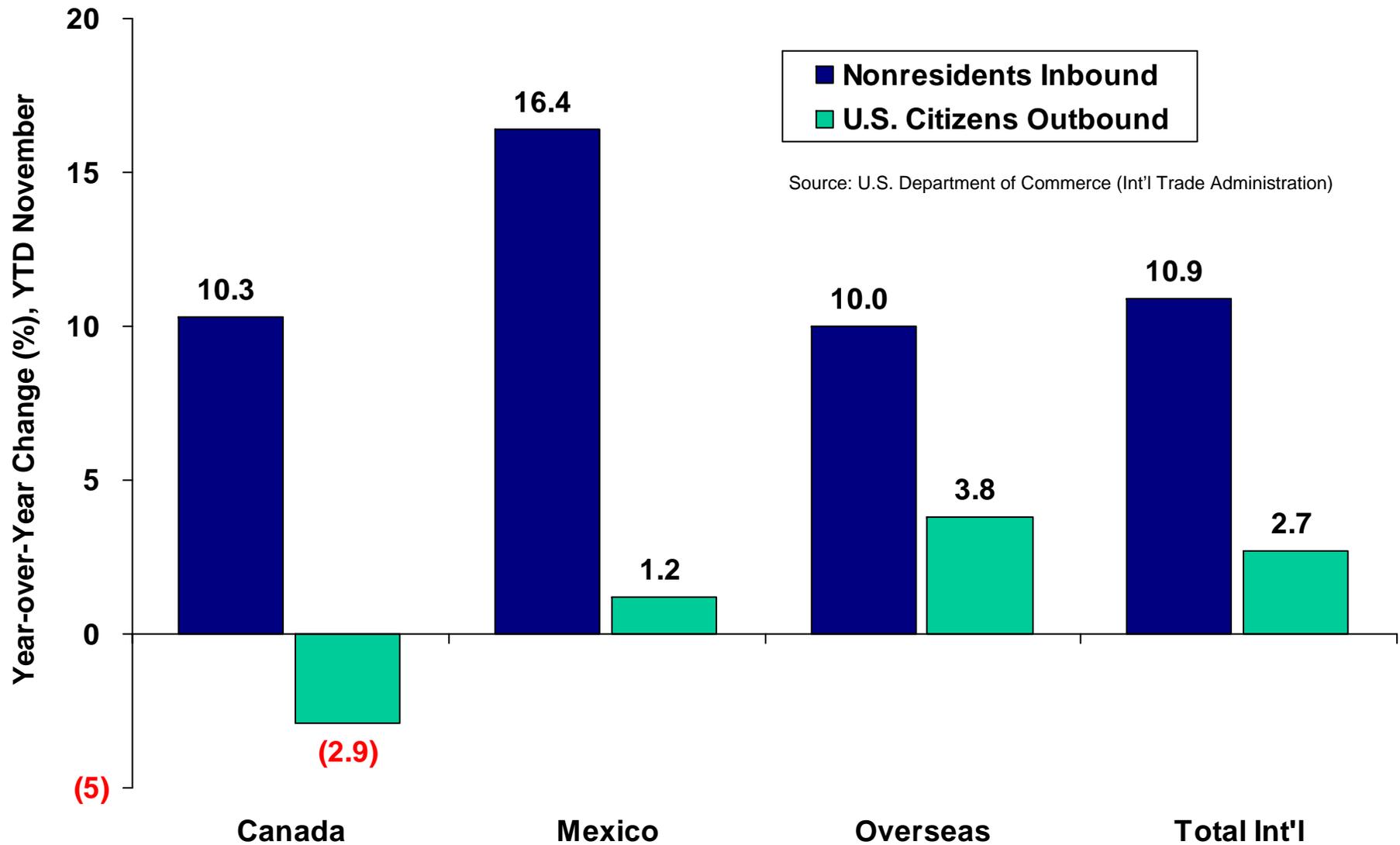
Crude Oil Surpasses \$105 per Barrel; Jet Fuel Eclipses \$3.00 per Gallon



Sources: U.S. Energy Information Administration and ATA

Overseas Visitors to United States Strong in 2007

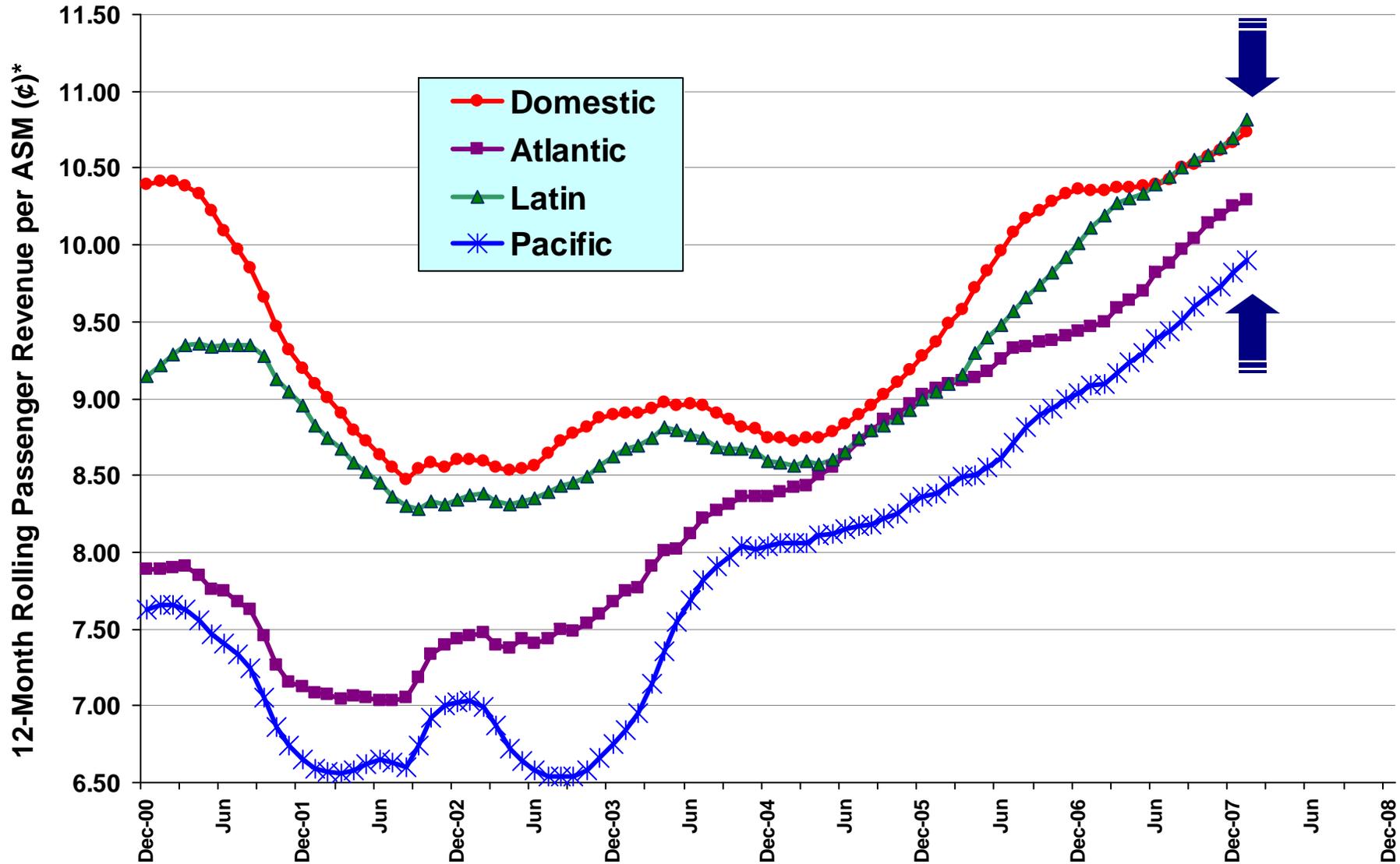
New Passport Rules May Be Limiting Outbound Travel to Neighboring Countries



Source: U.S. Department of Commerce (Int'l Trade Administration)

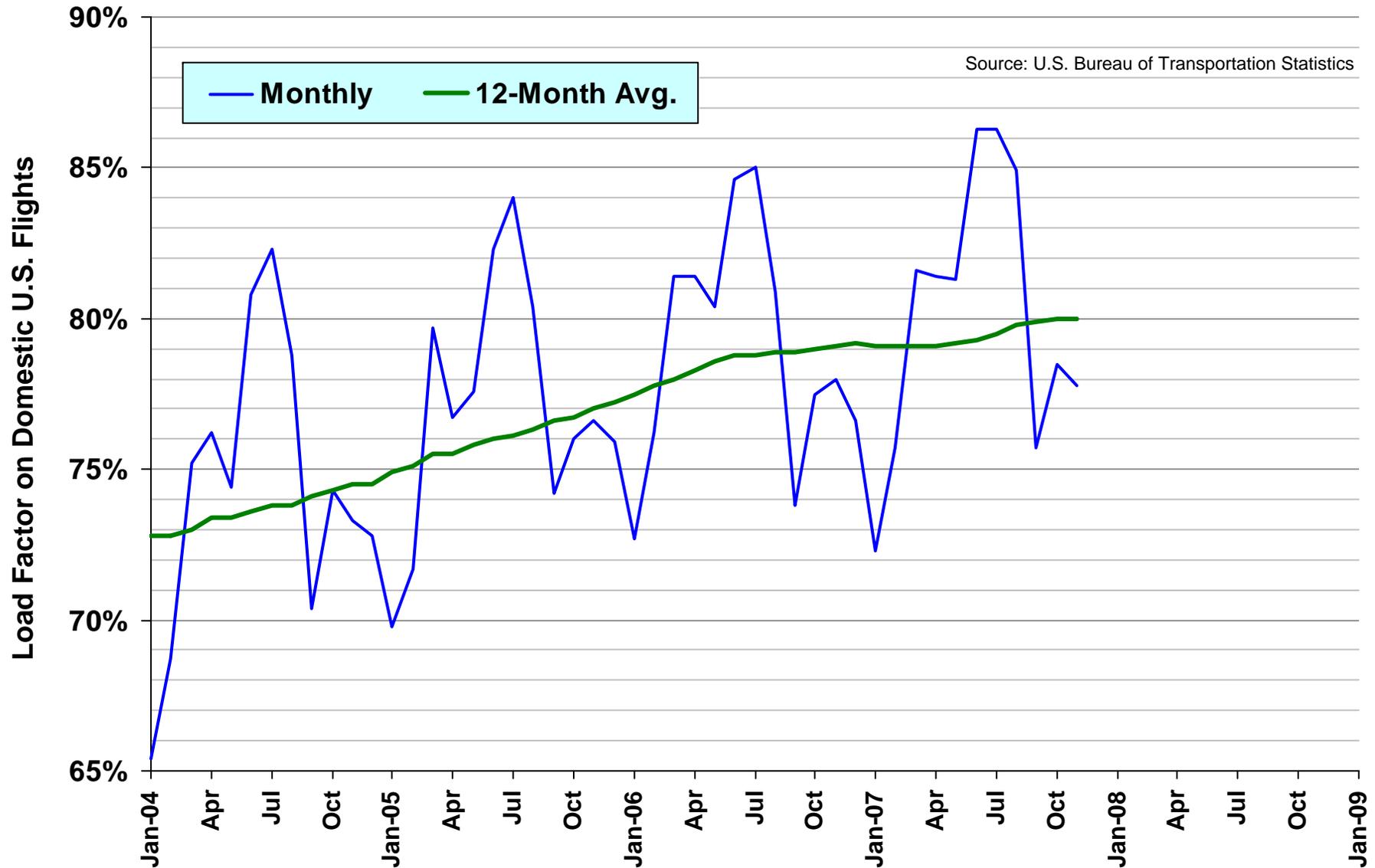
Passenger Unit Revenue Showing Regional Differences

But Domestic Marketplace Finally Seeing Similar Uptick



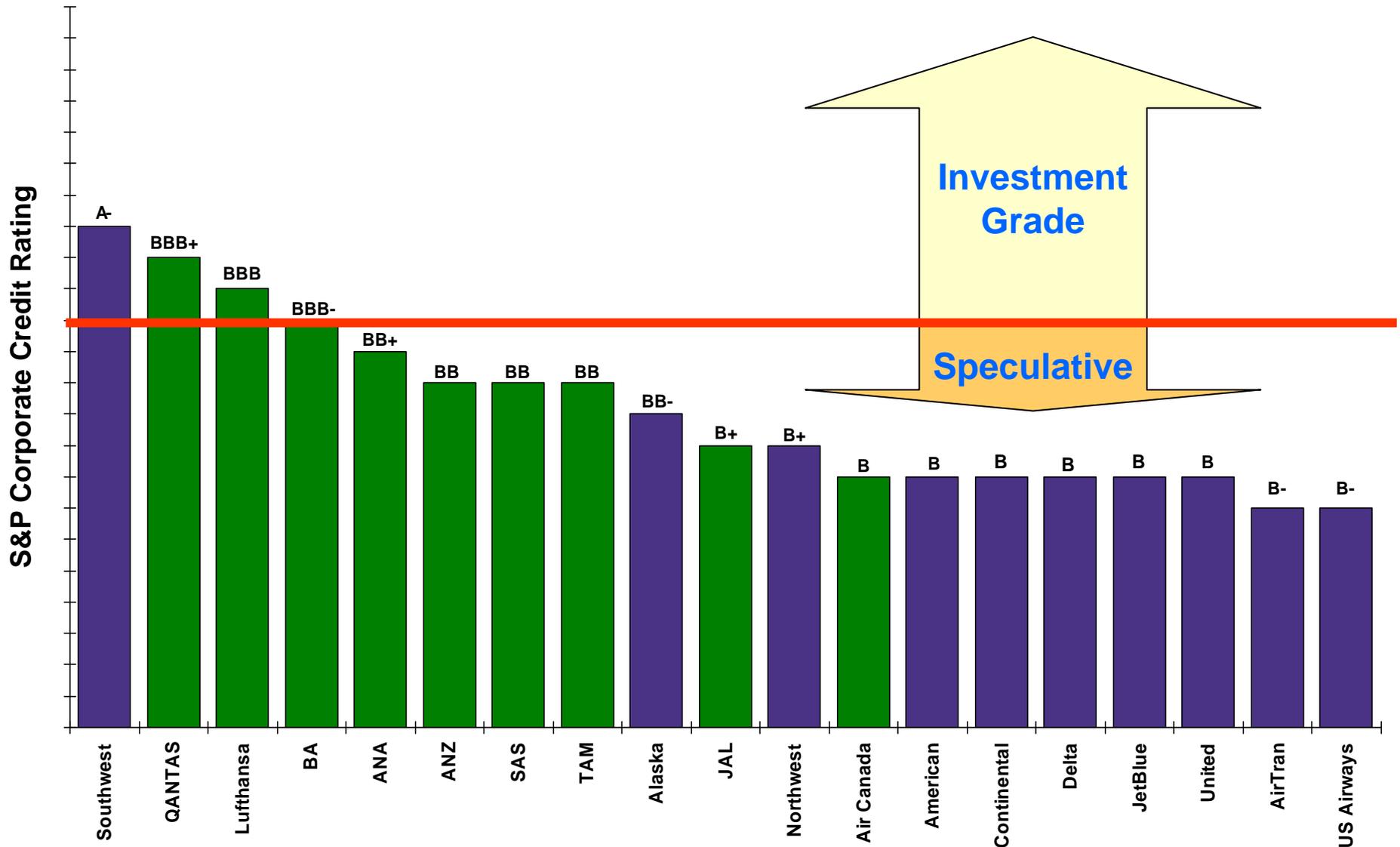
* ATA research of Alaska, American, Continental, Delta, Northwest, United, US Airways (incl. America West)

Domestic Load Factor Expected to Average 80% in 2007



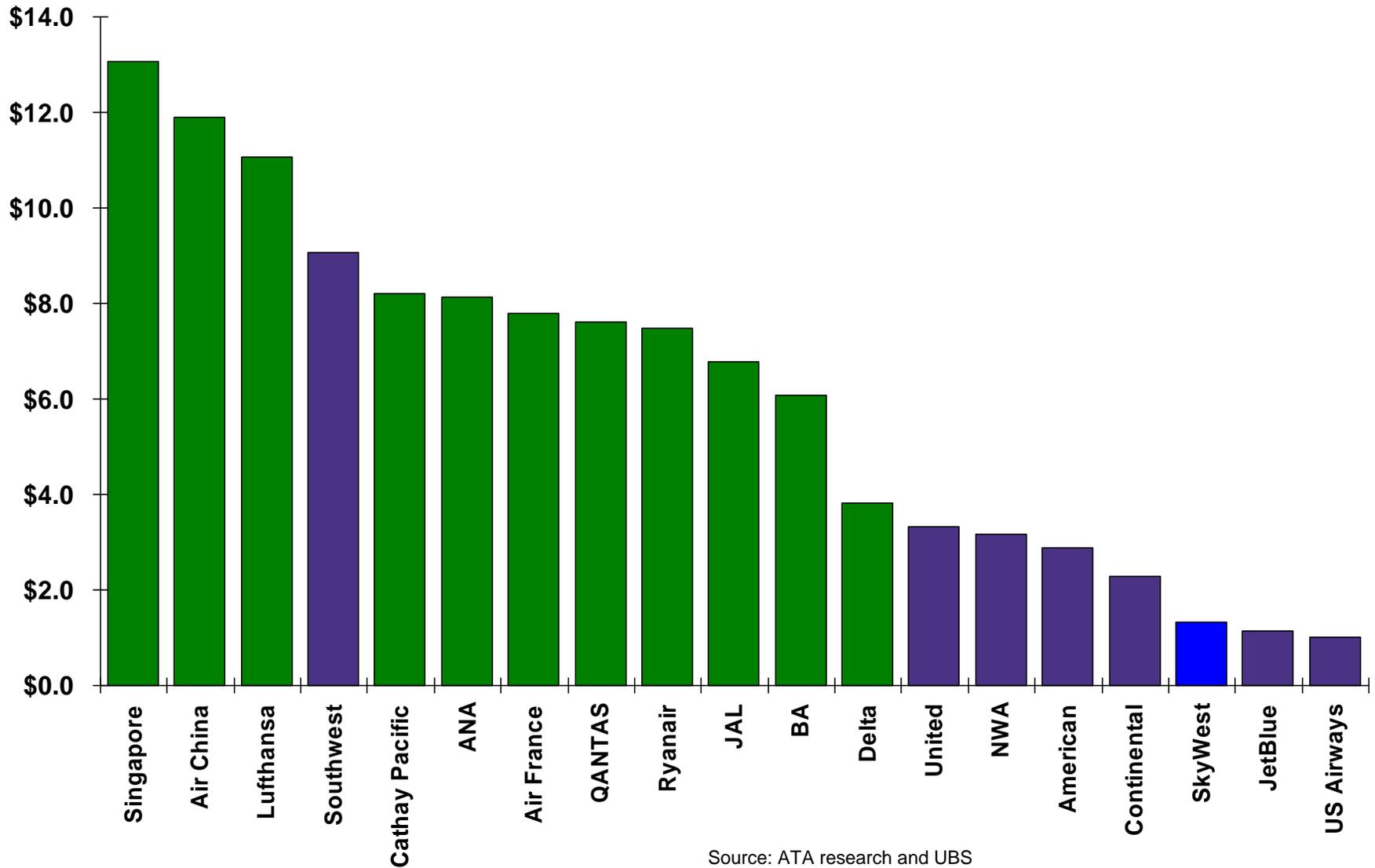
U.S. Carriers Suffer From Comparatively Weak Credit

Standard & Poor's (S&P) Corporate Credit Ratings



U.S. Carriers Have Less Valuable Equity

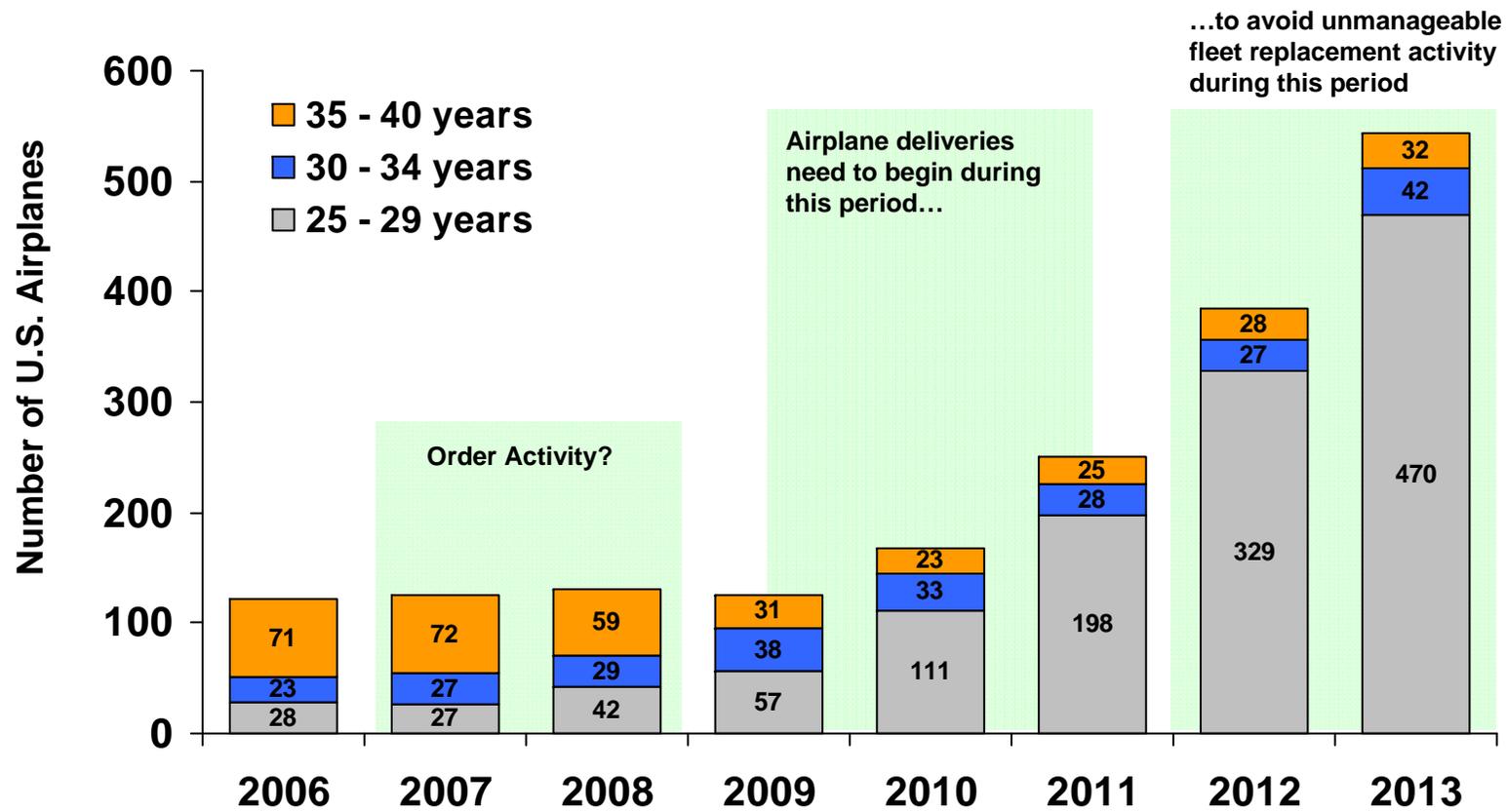
Market Capitalization (Billions USD)



Source: ATA research and UBS

“Big 6” Fleets Nearing Critical Replacement Age

Source: Boeing



Network carriers include: AA, US, CO, DL, NW, UA
Aircraft older than 40 years are excluded

Major Challenges Lie Ahead

- **U.S. airlines expanding internationally, but...**
 - ✓ Non-U.S. airlines enjoy better access to capital (credit and equity markets), younger fleets, stronger currency, less market fragmentation, higher rated product, etc.
 - ✓ Liberalization (U.S.-EU/China) a two-edged sword
- **Load factors still high domestically, but...**
 - ✓ Economy slowing, new entry continues, tax rates (incl. possibly PFC) rising, yields still below 2000 levels (even without adjusting for inflation)

Major Challenges Lie Ahead (Cont'd.)

- **Airlines keep improving fuel efficiency, but...**
 - ✓ Fleet aging and jet fuel > \$3.00/gal (\$105 crude)
 - ✓ Delays (taxi out, airborne) rising (~\$9B/year)
- **Free cash flow should be positive again, but...**
 - ✓ Capital needs (e.g., fleet renewal) growing quickly
 - ✓ Major *new* non-commercial/controllable costs (e.g., security, environmental) loom
 - ✓ Labor costs 2008-2012 are a wildcard
 - ✓ Remaining fruit (to cut) hangs high!



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