

Airline Roundtable – Update on Travel Industry Marketplace

THE CONFERENCE BOARD

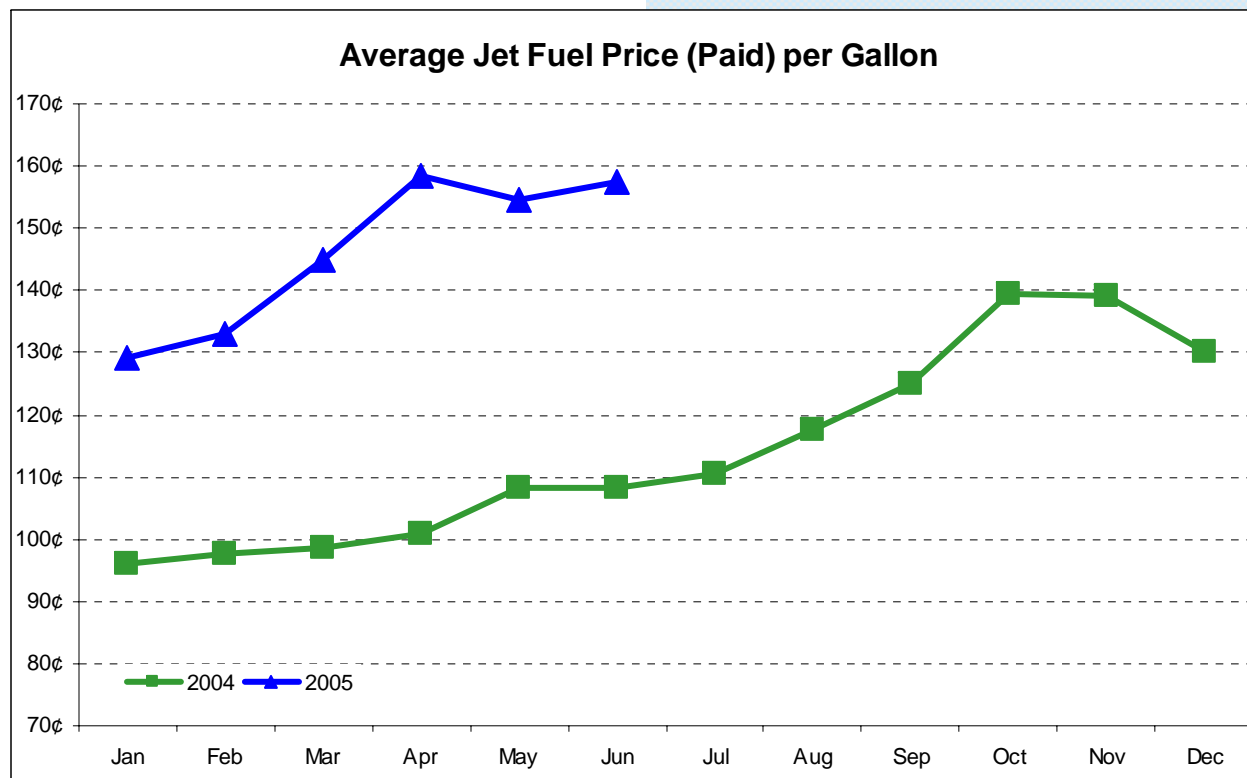
Newark, New Jersey

September 15, 2005



Fuel Prices

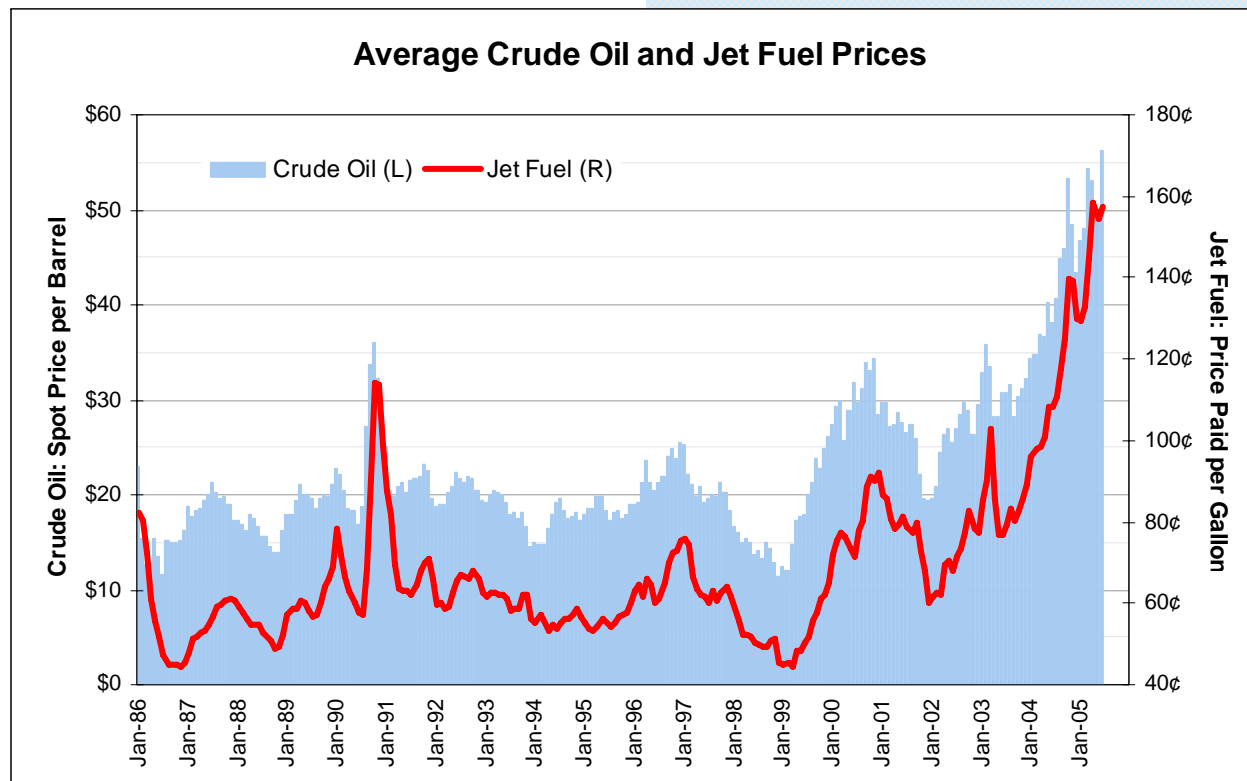
Fuel Prices up 88% since the beginning of 2004



Source: Air Transport Association

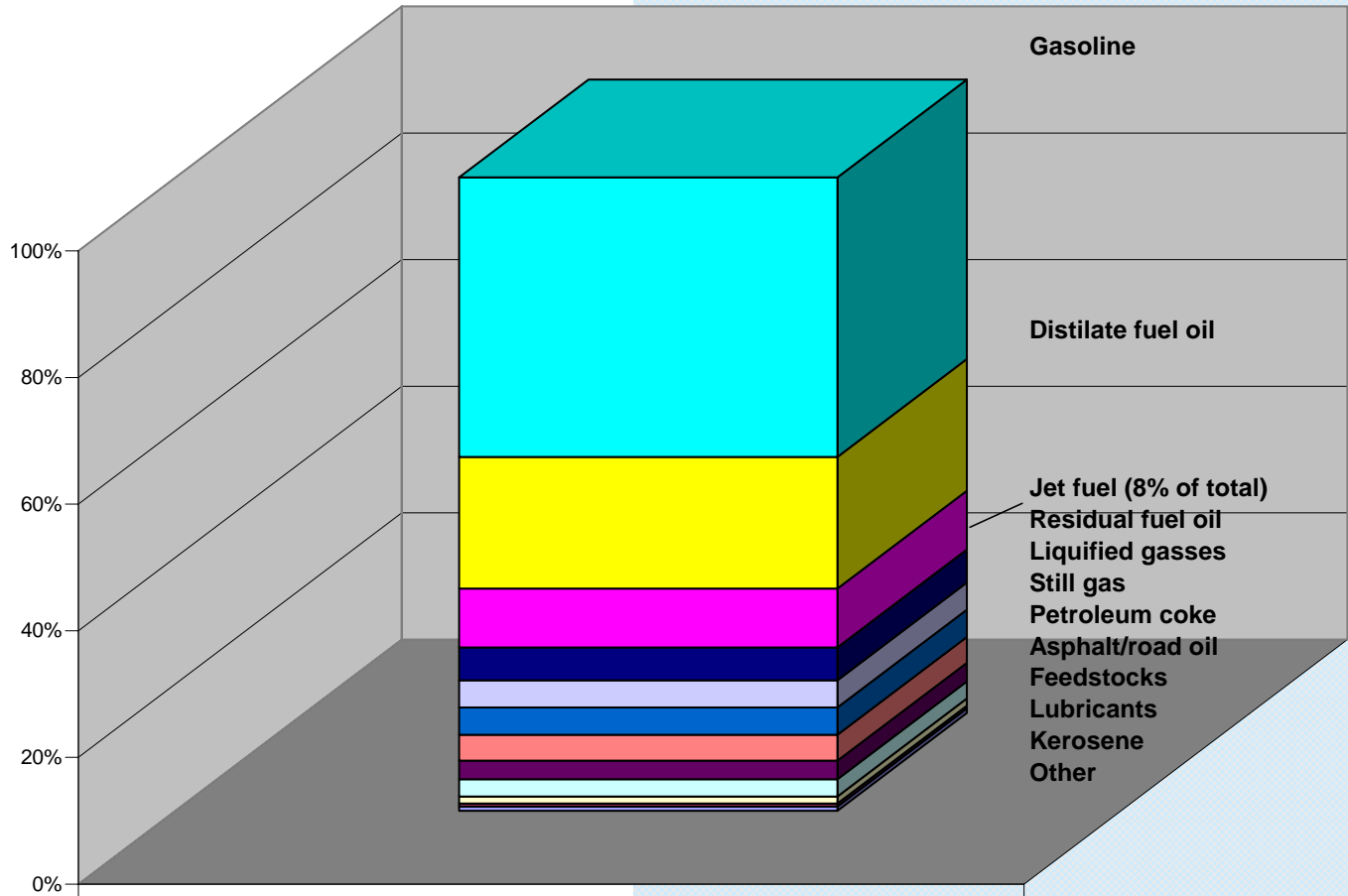
Fuel Prices

Jet fuel prices are more volatile than crude oil



Source: Air Transport Association

Fuel Prices

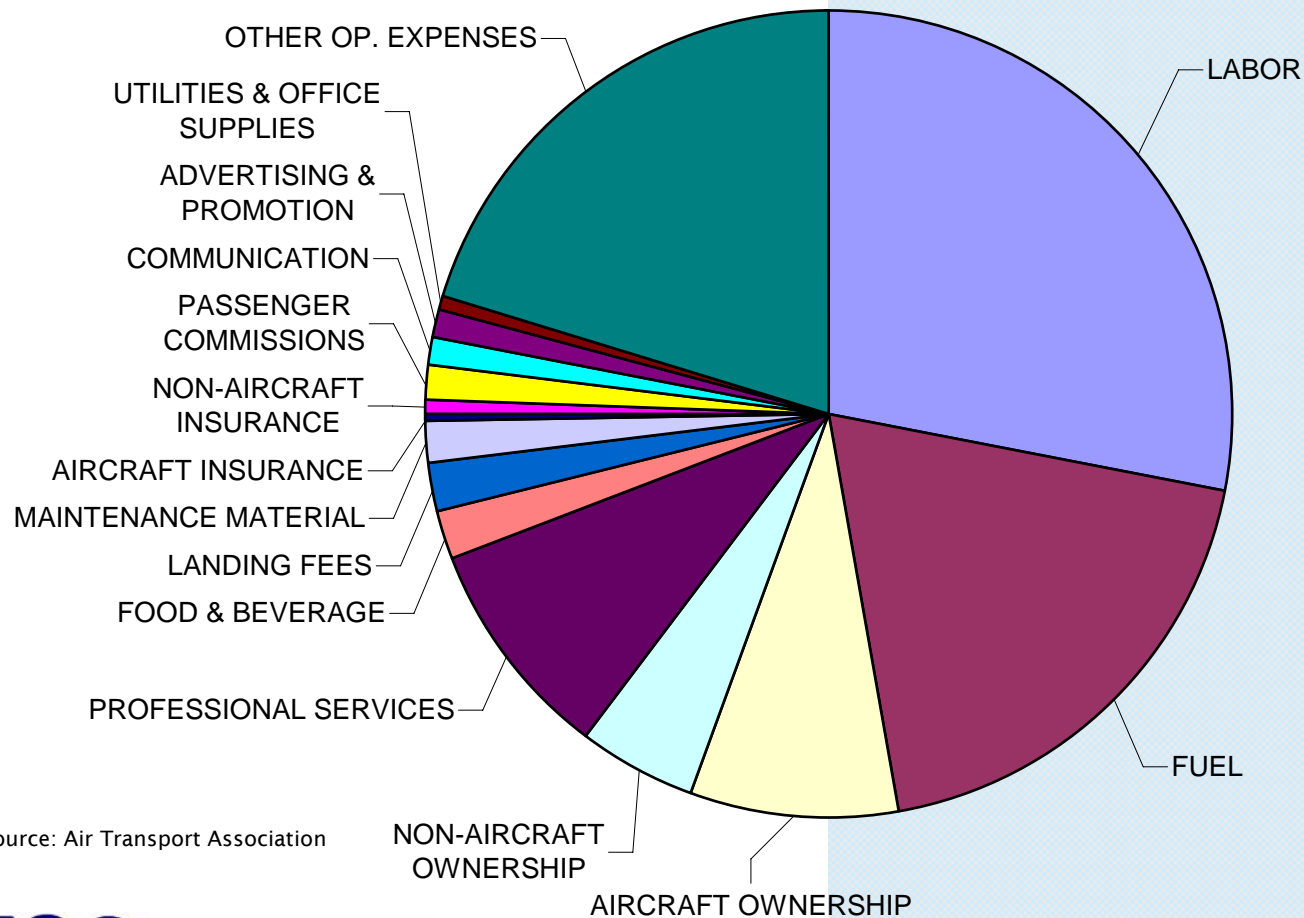


Source: American Petroleum Institute



Airline Operating Expenses

First Quarter 2005



Source: Air Transport Association



Fuel Price Response

- American
 - Removed pillows
 - Filling water to 75%, saving \$8 mm / yr
- Continental
 - Adding winglets to 737s, 757s
 - Dropped out of GSA CPP program
 - Analyzes where and when to top up on fuel
- Delta
 - Replacing coach seats with lighter weight seats
 - Removing ovens
- America West
 - Flying slower – no early arrivals
- Southwest
 - Looking to 787-based 737 replacement

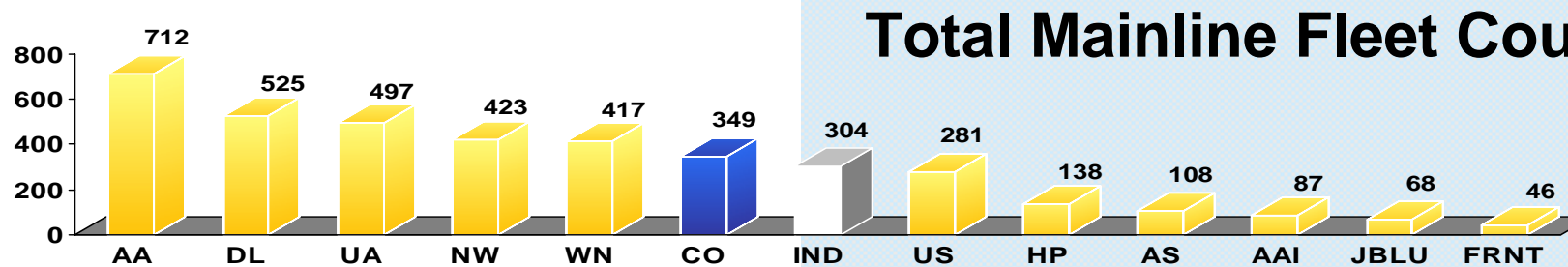
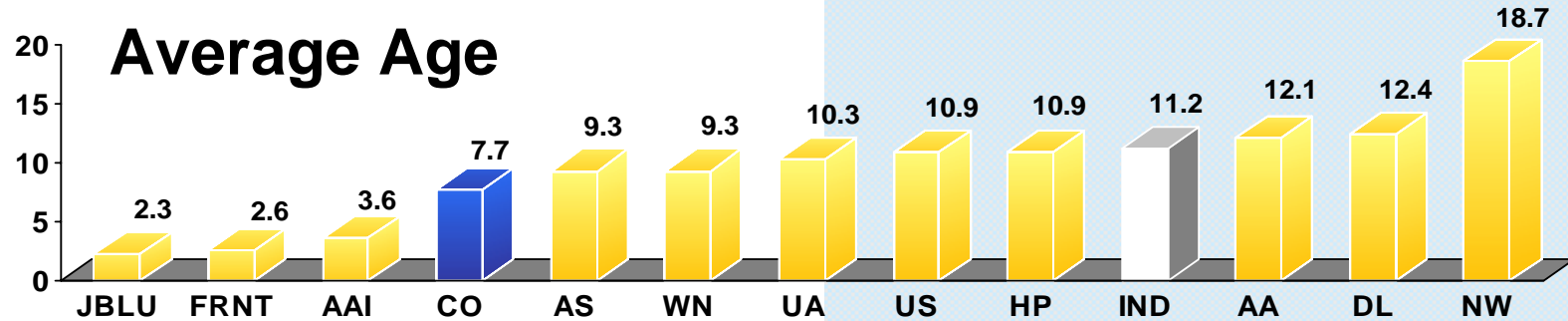


Fuel Hedging

- Southwest
 - This year 85% hedged at \$26 / bbl
 - Next year 65% at \$32 / bbl
 - Declines to 25% at \$35 / bbl in 2009
- America West
 - 20% at \$1.41 / gal
- American
 - 15% at \$40 / bbl
- United
 - 30% at \$1.38 / gal
- Continental / Delta
 - None
- Unfortunately, it takes cash to hedge



Fleet Age by Carrier



Source: Continental Airlines



Bankruptcies

- **US Airways – America West**
 - Could complete merger by September 27
 - Low cost carrier with “perks”
 - Could be domestic feeder to Star Alliance (United)
- **United**
 - Current prediction “late this / early next year”
 - \$3 Bn in exit financing
 - Based on optimistic assumptions about fuel prices ...



Bankruptcies

- **Delta**
 - Has already lowered costs, gotten concessions
 - \$1.1 Bn in labor, “right sized” CVG
 - Sold assets (11 767s, ASA)
 - Has lost \$10 Bn in the past 10 years
 - Predicted to enter chapter 11 this week (likely)
- **Northwest**
 - Has not achieved significant labor concessions
 - Could achieve them through worker replacement
 - Has missed \$42 million in debt payments in last 30 days
 - Predicted to enter chapter 11 this week (less likely)



Bankruptcies

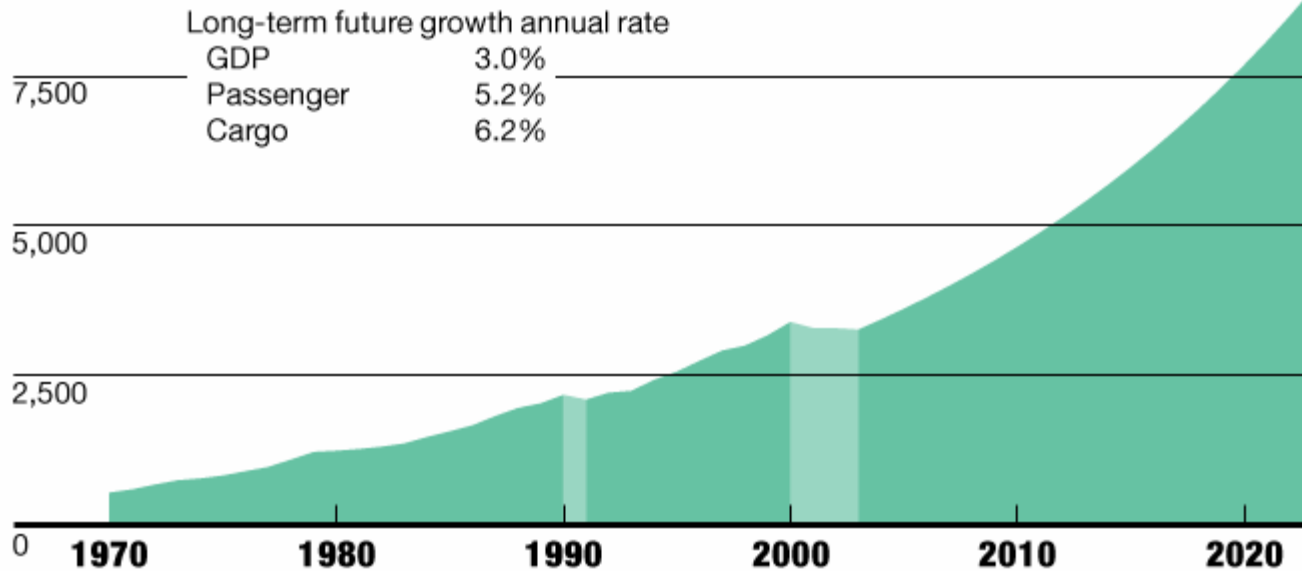
- **Bankruptcy law changes October 17**
 - Companies limited to 18-month reorganizations
 - Includes restrictions on deals to retain key employees



Growth

World Air Travel Continues to Grow

Revenue passenger kilometers, billions



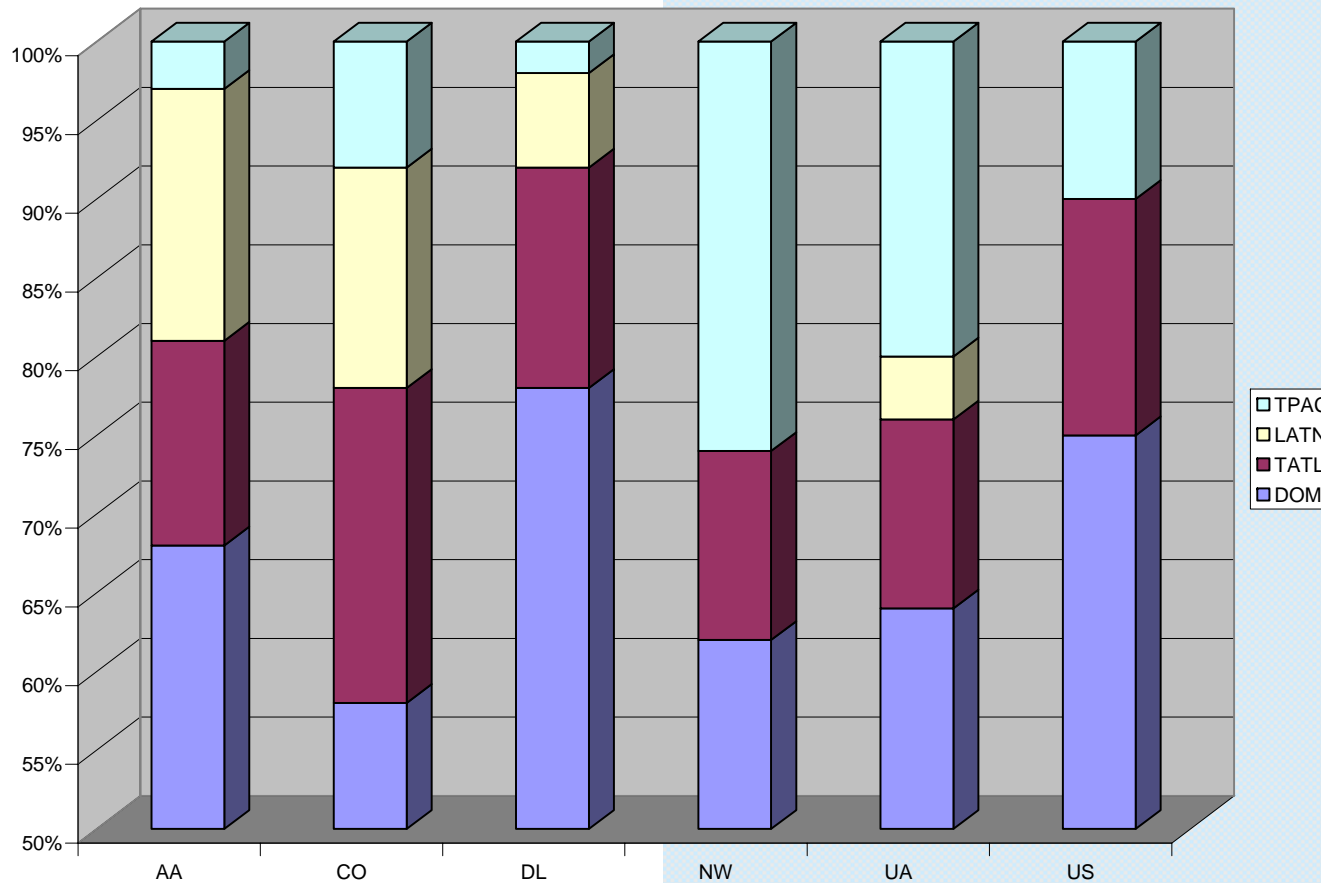
*Boeing Current Market Outlook 2004,
Demand for Air Travel*

Potential Mergers

- **American and Northwest**
 - These to “hate” each other
 - Good domestic and international compliments
 - American still reeling from TWA acquisition
- **Continental and United**
 - Good domestic and international compliments
 - Continental would be the acquirer
 - Gordon Bethune has been speaking to UA creditors
- **Delta and Northwest**
 - Good domestic and ok international compliments
 - Both Sky Team members



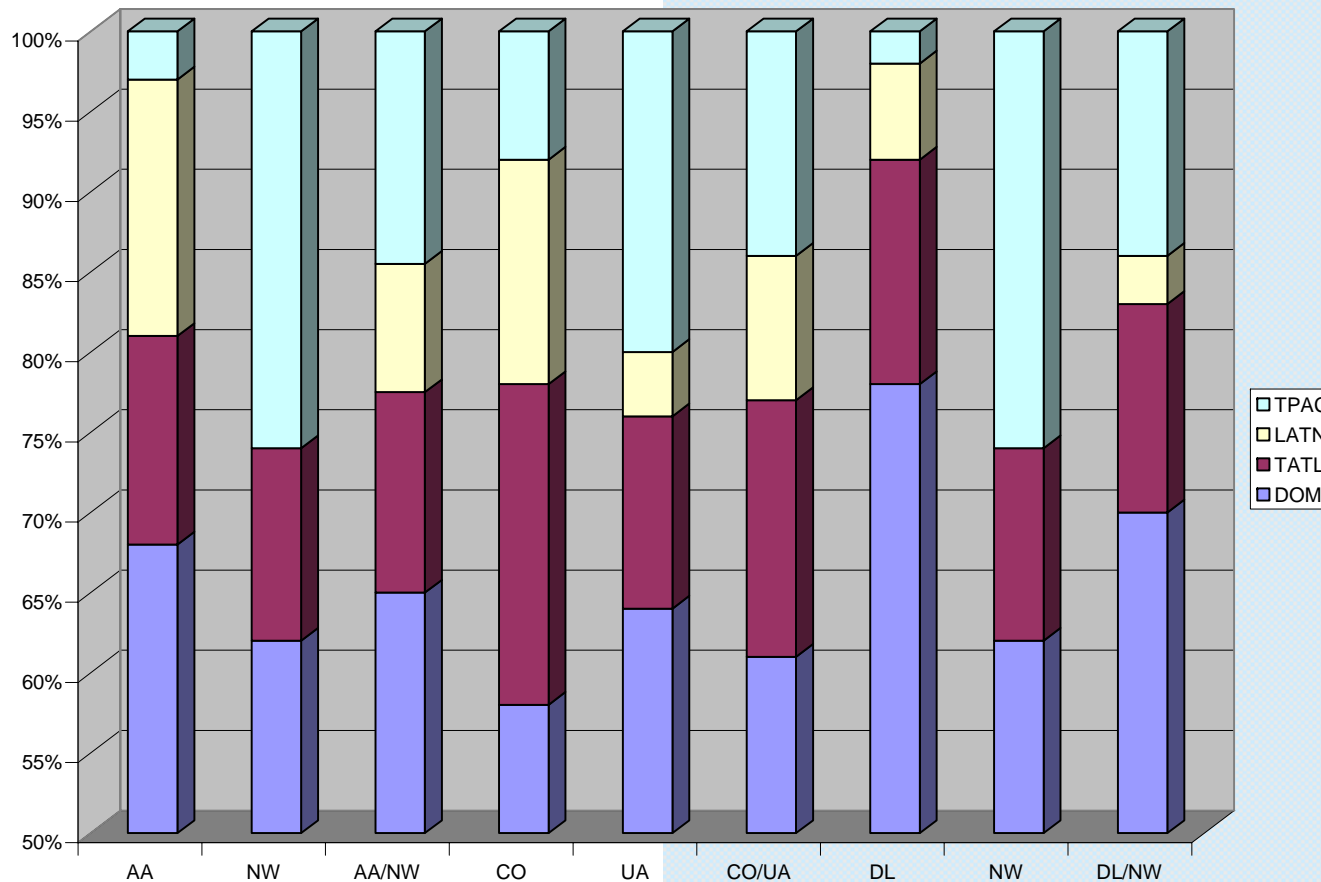
Destination Distribution



Source: Company Reports



Merger Impact on Distribution



Source: Company Reports



Alliances

- **Star Alliance**
 - Will be strengthened by addition of SWISS, South Africa
 - Most advanced in corporate agreements
- **Sky Team**
 - Trying to get out of the box
 - Has begun “packaging” corporate agreements
 - No domestic immunity (so multiple bids must be submitted)
 - CO has been reluctant to play
- **OneWorld**
 - AA-centric, will be hurt by loss of SWISS



Domestic Fares

- Simplifares on January 5
- Airline responses until May (United was the last)
- Delta has pulled back slightly
- American has pulled back even more
- Northwest and Continental only matching in head-to-head markets
- United is matching where it has to

- The bottom line – domestic airfares are down 20 – 40% (depending on policy, behavior, etc.)



Miscellaneous

- **American**
 - Adding winglets to 757s in order to fly trans-Atlantic
- **Traffic**
 - Domestic RSMs up 3.8%, ASMs flat YTD
 - International RSMs up 11.4%, ASMs up 10.5% YTD
- **JetBlue**
 - Adding operations out of EWR
- **Lufthansa working to integrate SWISS**
- **AF/KL operating as a single carrier outside of US**
- **Lufthansa, British Airways, Air France/KLM, Iberia**
 - All profitable



Miscellaneous

- **United**
 - Has outsourced 777 maintenance to company in China
- **Richard Branson**
 - Plans to build his own oil refinery
- **India**
 - Air travel is growing faster than anywhere in the world
 - New carriers, new airplanes, new rights for foreign carriers

