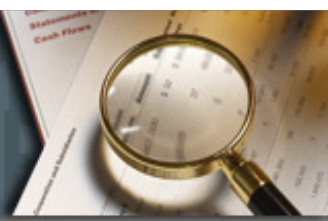


# Rebuilding the Foundation: 2006 U.S. Airline Credit Challenges

Bill Warlick, Senior Director – Corporate Finance

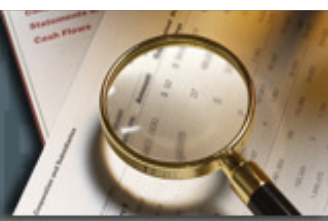
FAA Annual Forecast Conference

February 28, 2006



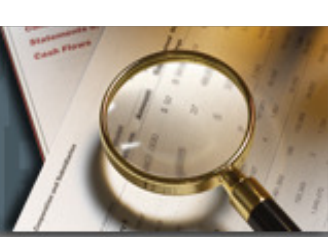
## U.S. Airline Balance Sheets Remain Very Weak

- Five years of operating losses and negative cash flow
- Over \$100 billion in lease-adjusted industry debt
- Virtually all unencumbered assets pledged
- Debt reduction is key to rebuilding credit profiles

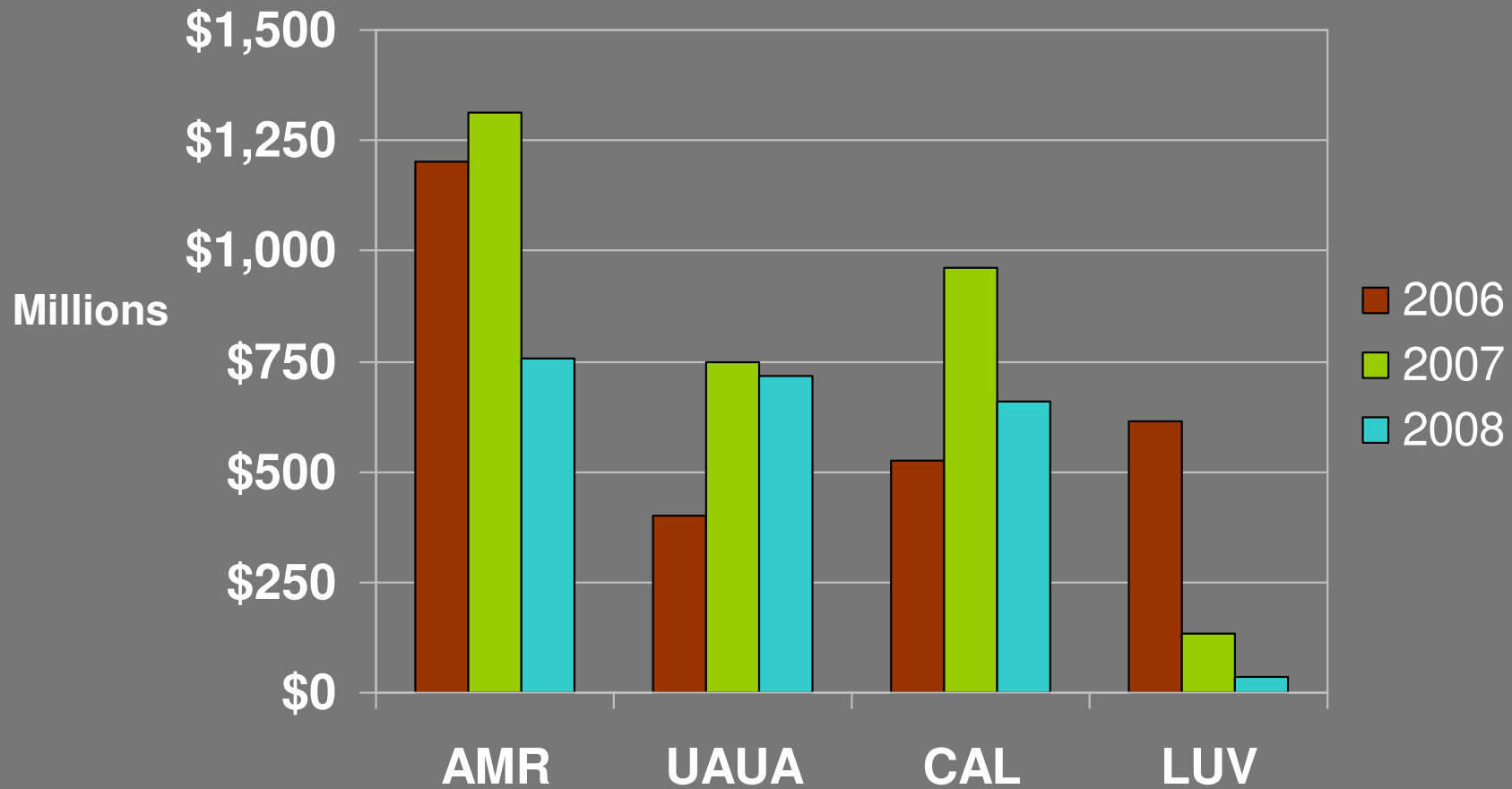


## Free Cash Flow Outlook Better for 2006-07

- Even in a \$1.90+ jet fuel world, operating cash flow generation should improve this year
- RASM increases driven by capacity pull-down
  - Delta, Northwest and Independence Air
- Capital spending cutbacks (fewer aircraft deliveries)
- Modest cash pension obligations
  - American and Continental
- Heavy debt maturities, interest and rental payments



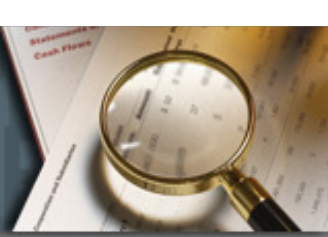
## Balance Sheet Repair Will Require Heavy Principal Payments





## Cash Flow Remains Highly Sensitive to a Further Fuel Price Spike

2006 Est. Mainline Fuel Expense with Spot Fuel Prices at:			
\$ Millions	\$1.95 / gal.	\$2.10 / gal.	Increase
<b>AMR</b>	5,711	6,151	440
<b>UAUA</b>	4,492	4,837	345
<b>CAL</b>	2,887	3,109	222
<b>LUV</b>	1,809	1,877	68



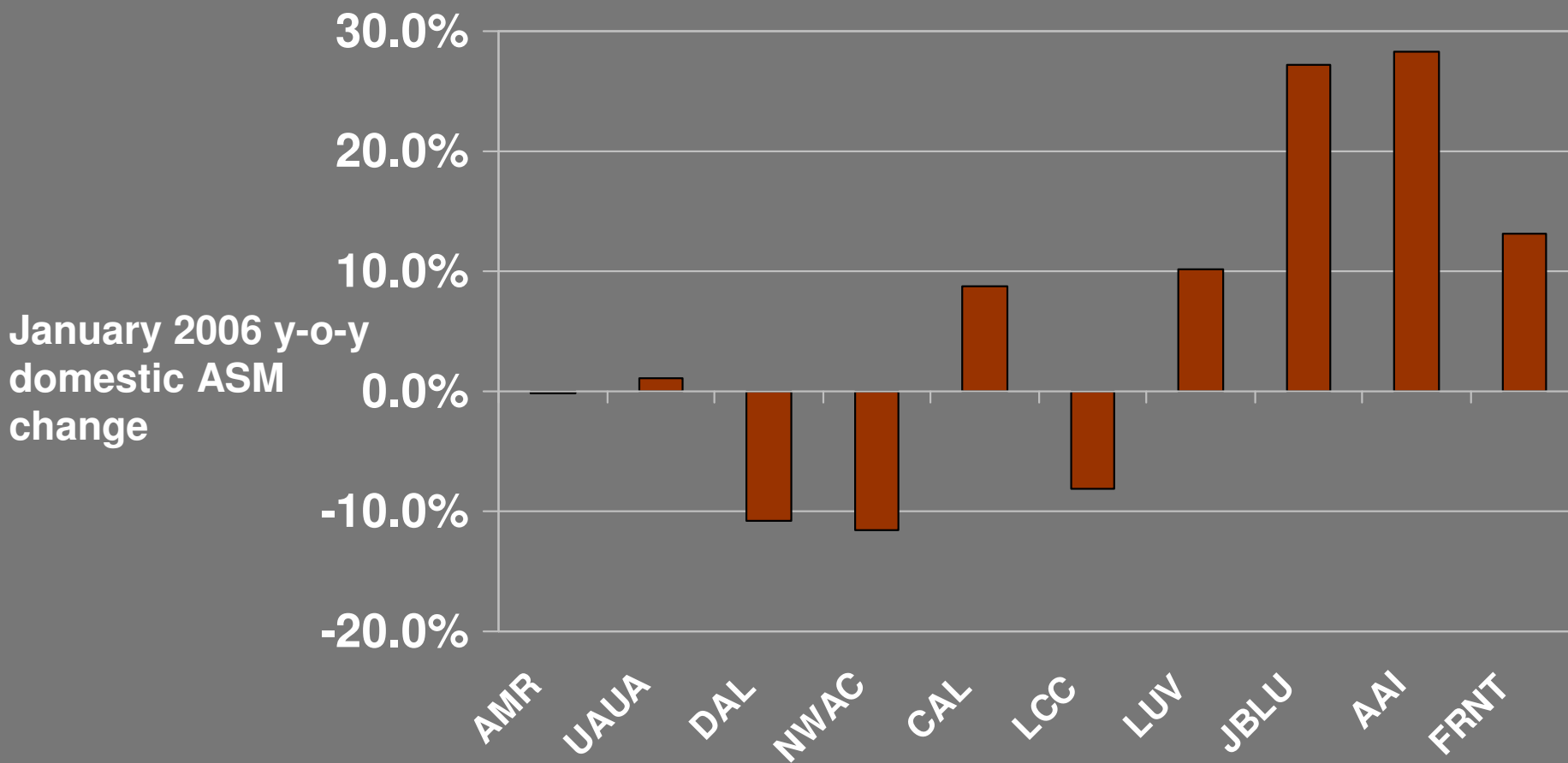
## Additional PRASM Gains Required to Offset Fuel Cost Pressures

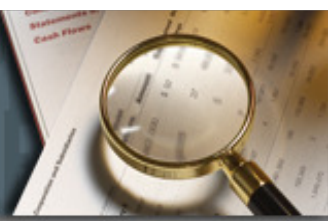
\$ Millions	$\Delta$ Fuel Cost \$2.10 vs. \$1.95	% Add'l PRASM Improvement Needed*
<b>AMR</b>	440	2.7%
<b>UAUA</b>	345	2.7%
<b>CAL</b>	222	2.5%
<b>LUV</b>	68	0.9%

\* Versus 2005 full-year actual PRASM



## Continuation of Domestic Capacity Discipline Uncertain, Potentially Undermining Pricing

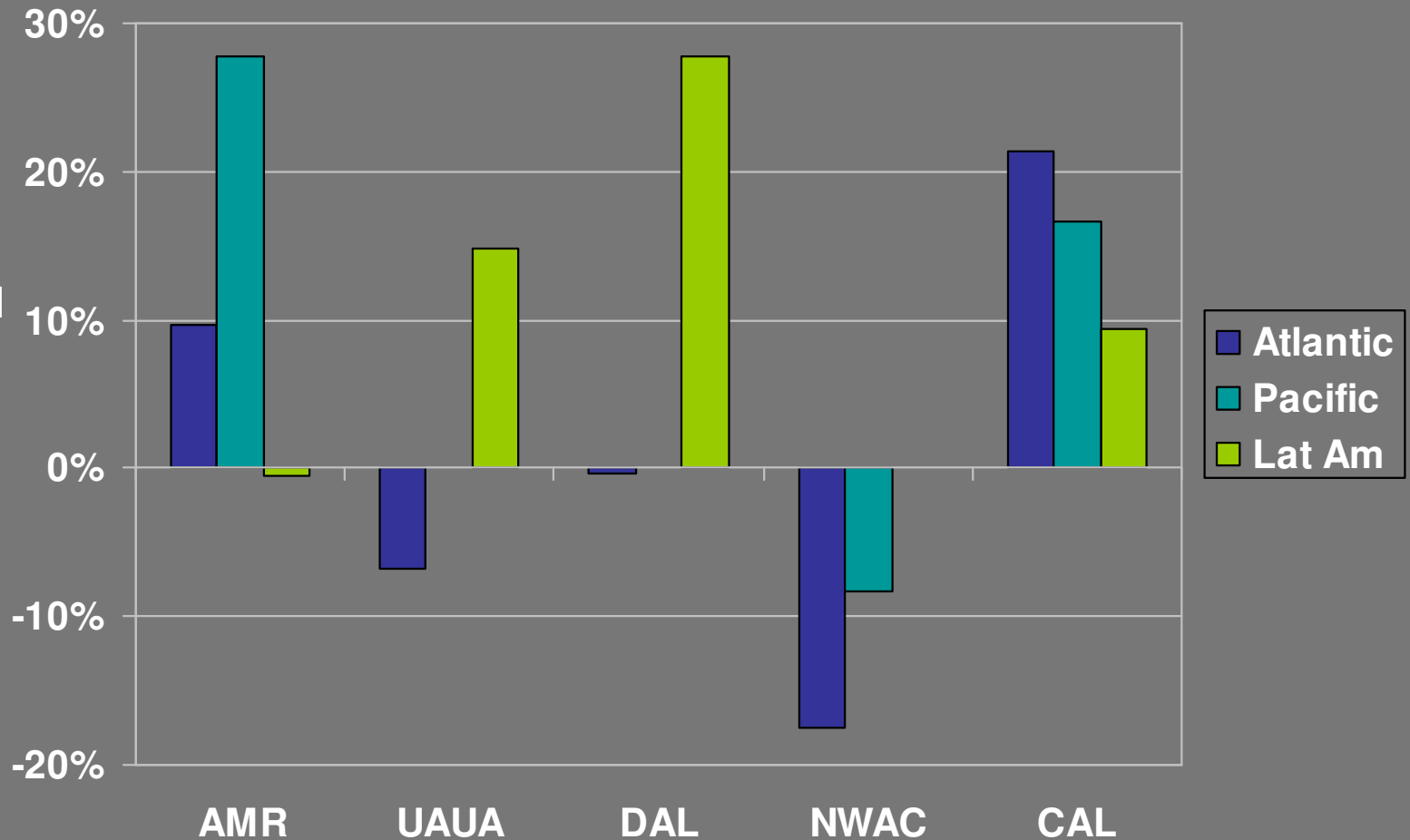




## Shifting Capacity to International Routes Poses Risks

- Most big carriers likely to add capacity overseas this year
- Continental and Delta, in particular, boosting Atlantic and Latin ASMs
- Some signs of Pacific RASM weakness appearing

January y-o-y international ASM change by entity







## Debt Reduction Must Precede Fleet Renewal / Expansion

	Avg. Age	2006-09 Firm Orders	Aircraft Orders
AMR	14	2	2 B777
UAUA	12	0	
DAL	14	53	48 B737, 5 B777
NWAC	18	33	5 A319, 2 A320, 14 A330, 12 B787
CAL	9	44	40 B737, 2 B777, 2 B787
LUV	10	67	67 B737
JBLU	3	140	68 A320, 72 E190
AAI	4	52	2 B717, 50 B737

Source: Airclaims, company reports

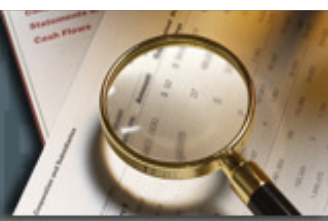


## LCC Deliveries During the Next Four Years Will Significantly Exceed Those to Legacy Carriers

- Delta and Northwest delivery schedules could be modified as part of their restructurings

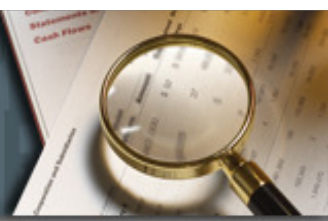
Aircraft Deliveries by Year				
	2006	2007	2008	2009
AMR	2	0	0	0
UAUA	0	0	0	0
DAL	0	36	14	3
NWAC	13	8	6	6
CAL	6	2	13	23
LUV	33	28	6	0
JBLU	34	35	35	36
AAI	20	13	6	13

Source: Airclaims, company reports



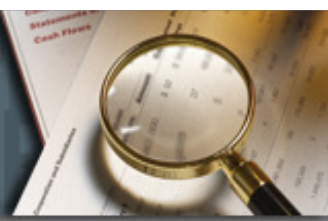
## Consolidation Pressures Are Growing, but Obstacles Remain

- Fleets -- No pure alignment opportunities
- Labor -- Union seniority issues paramount (US Airways / America West)
- Financial risk -- Weak balance sheets, need for equity capital support



## LCCs May Also Look to Integrate More Closely

- Need for network scale and scope (US Airways – America West)
- Variation in business models a limiting factor
- Code-share alliances may expand (Southwest – ATA, JetBlue international alliance?)



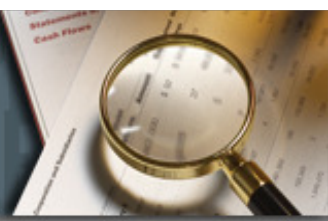
## Capital Is Flowing to the Industry, but Only Conditionally

- No more debt capacity
- Secured lending with good recovery prospects (AMR and UAL credit facilities)
- Aircraft-backed deals with good collateral (JetBlue)
- Private equity will be critical if industry restructuring is to proceed



## Summary

- **First steps toward balance sheet repair hinge on revenue recovery and fuel price moderation.**
- **2006-07 cash flow challenges are daunting.**
- **Changes in industry structure are inevitable, but practical obstacles remain.**



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