



ABN-AMRO

The Airline Industry- Major Carriers

USA

Airlines



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▶ **Reports of My Death Have Been Greatly Exaggerated**



- ▶ The airline industry is once again being declared “dead” as fuel costs rise, the economy softens and labor becomes more demanding. Airline stock prices currently reflect these risks. The situation could turn on a dime if the economy stabilizes, fuel prices moderate or when contracts are signed with various unions.
- ▶ Airline stocks are trading vehicles and there are always investment opportunities.
- ▶ Investing in the airline industry poses such risks as participating in a cyclical and seasonal environment, capital and labor-intensive (highly unionized) operations, historically weak management, and rising fuel costs.
- ▶ In recent years, new management teams with a greater focus on profitability as opposed to market mass have entered the industry. Consequently, the industry has recognized better control of risks because of constrained capacity increases, yield management systems, modernized fleets, higher utilization of hubs, and the implementation of new technology.
- ▶ We believe the main reasons to invest in the airline industry are that the companies are capable of stronger earnings, strong cash flow generation, stock buy-back programs and relatively low P/E multiples.
- ▶ We have recently expanded our coverage to include regional, small- to mid-sized cap airlines, and specialty carriers. These airlines are characterized by high growth.
- ▶ Regional airlines are experiencing growth due to the use of fee-per-departure contracts and regional jets

Mark Twain once said, “the reports of my death are greatly exaggerated.” The same can be said for the major U.S. carriers that have been pronounced dead more than once. With the major network carriers are having their first quarterly loss since 1993, some cynics are once again, prematurely we might add, saying that the industry is dying. Despite a number of industry risks coming to the forefront at the same time (i.e., high fuel costs, weakening economy, labor turbulence and M&A related risk), investors should not give up on the industry. Cash reserves at most carriers remain high and, even in a recessionary environment, most airlines tend to continue to generate strong cash flows. New aircraft orders are aggressive, but carriers can easily finance deliveries. The new aircraft should make companies more efficient and cost effective operators. We view airline stocks as trading vehicles, and believe prices are justifiably cheap at the present (based on a long-term valuation), but this industry could turn on a dime. We are looking for that dime.



Why Airline Stocks Are an Attractive Trading Vehicle

The industry has historically had the following risks for investors to consider:

- ▶ Cyclical.
- ▶ Capital intensive.
- ▶ Labor intensive (highly unionized).
- ▶ Seasonal.
- ▶ Historically weak management.

New management has taken over most of the major carriers and, in many cases for the first time, this management has come from beyond the tight circle of inner-bred management. The new managers are not married to the airline tradition but have brought in hard business practices from their experience in other industries. Below is a view on what this new management accomplished and what is different about this industry since the disastrous results incurred by the carriers during the recession of the early 1990s:

Most of the major carriers have constrained capacity increases. In the late 1980s the “Big Three” [United Airlines (NYSE: UAL-\$38.20, Reduce), American Airlines (NYSE: AMR- \$38.55, Hold) and Delta Airlines (NYSE: DAL-\$47.86, Hold)] ordered many new aircraft believing that most other carriers would be going out of business. Many of the other carriers [Southwest Airlines (NYSE: LUV-\$19.11, Buy) being the exception] were having financial difficulties and were on the verge of, or in, bankruptcy. Most survived and just as the new capacity began to come on line, a severe worldwide industry recession hit because of the Iraq situation. Although many analysts are worried about stepped-up capacity now coming on line, we believe carriers have greater flexibility and willpower, and will ground older aircraft if demand weakens.

Vastly improved yield management systems have come into operation in recent years, and virtually all airlines are now using these systems. Yield management enables airline planners to better allocate seats by price while at the same time maximizing load factors. In other words, it enables carriers to set aside enough seats for high-yielding business travelers who book late, while the carrier can sell the excess capacity at various discount levels with various restrictions. With nearly all the carriers now using the system, the likelihood of “wild giveaway” prices is reduced and yield maximization is enhanced.

Airlines retreated from marginal routes into their fortress hubs, where new competition is difficult. Most carriers decided that if they could not be at least No. 2 or 3 in a market, they would abandon that market. This allowed for a rationalization of most airline-route systems.



Consistent modernization and rationalization of fleets has reduced operating costs. The carriers have continued to modernize their fleets with more labor and fuel-efficient aircraft (labor and fuel being the two biggest operating costs).

New technology for product distribution has also reduced airline reliance on expensive travel agents to market and distribute tickets. We believe this is a trend that has potential large savings for the carriers. E-commerce can be, and is being, readily adopted by mature industries like airlines. By incorporating this new technology into an old-line business, costs can be reduced and operations can be run in a more efficient and timely manner, whether it is through B2B, B2C or B2E initiatives.

Stronger balance sheets and reduced debt have substantially reduced interest costs. Since the last recession, most carriers have recorded record profits. This strong cash flow has not been wasted on new aircraft or dividends. Management has built up large cash reserves and paid down substantial amounts of debt.

Surplus cash flow has been used for aggressive stock buyback programs at most carriers. In our experience, share buybacks tend to increase EPS, even if no new records are set for carrier profitability.

It is our belief that these changes are real and will enable most airlines to come through the next recession in much better financial condition than the two previous post-deregulation recessions. In our view, not only are the airlines capable of producing greater earnings in a good economy, but should show better results in an economic downturn. Once the market realizes this, we believe it should assign a higher price multiple to airline stocks.

For the past few years, most analysts could not believe the industry's good earnings results in a good economy and have constantly underestimated the earnings of the carriers prematurely. Beginning in 1999, the industry ceased setting new records, principally because of the more than doubling of fuel prices. Industry fundamentals actually strengthened in 2000 despite continuing very high fuel prices and did not run into weakness until the middle of the first quarter 2001. We believe that this industry, at least among the major carriers, should be able to support a higher P/E multiple than the high-single-digit multiples that are now common. This may not happen until airlines prove themselves in the next recession or until airline Street analysts become more aggressive in their support for the industry.

Investors should consider airline stocks for their portfolios for four fundamental reasons:

1. **Industry is capable of stronger earnings** – The industry is structured to be more profitable. For seven straight years, most carriers have produced very good returns, breaking many records in most years. They cannot break a record every quarter, but carriers have shown that they can maintain a



relatively good earnings record in a strong economy. The current economic weakness will pass and in anticipation of any strengthening of the economy, we believe airlines should be at the top of the buy list.

2. **Strong cash flow generation** – Generally, airlines are strong cash generators, even when they are losing money. With seven years of record, or near-record profits, most carriers have generated large amounts of cash. Much of this surplus cash has been used to retire high-coupon debt and to strengthen cash reserves to the point where surpluses can be used for other purposes.
3. **Capital needs** - Met through secured financing at reasonable interest rates.
4. **Stock buyback** - Since growth in operations has been modest and most new aircraft are being financed with low-cost EETC paper, most carriers have been growing their cash positions. Part of their large cash hoard has been used to buy back shares, which we expect to resume at some point. Airlines are strong cash flow generators and most of their financial needs, paying for new aircraft, can be met through low-cost EETC financing or operating leases. This factor could have a significant effect on future share prices in our opinion.
5. **Low multiples** – Most carriers are still trading below double-digit multiples on projected earnings and below book value. Industrial multiples have been in the mid-20s and even railroads were in the mid-teens. We believe that there is potential value in airline stocks at current levels. It may take another recession for airlines to prove themselves or it just may take a couple of enlightened analysts to help the market to value airlines at in our opinion a justifiably higher multiple.

Our remaining concerns about the industry:

- ▶ **Capacity situation** – As new aircraft are accepted, airline management will have to use their good judgement concerning aircraft retirements based on how fast demand develops and what kinds of price incentives are necessary to stimulate this demand.
- ▶ **Labor** – The airline industry is a service industry and, therefore, will always remain a labor-intensive industry. The industry is highly unionized and labor problems can flare up at any time, as was demonstrated in 1998 at Northwest Airlines.
- ▶ **Fuel costs** – Even though fuel costs are becoming a smaller factor in overall operating costs, this still remains significant at usually 10-15% of total operating costs and is probably the most difficult expense to forecast for airline management. Some measure of risk can be reduced through hedging programs.



- ▶ **International business** – As most network U.S. certified carriers have expanded their domestic systems worldwide, greater opportunities develop in flowing passengers but carriers also become more exposed to greater worldwide economic and currency risks.
- ▶ **U.S. economy** – Although we believe that airline management has improved knowledge regarding the negotiation of an economic cycle, the nature of the business, nevertheless, still remains very cyclical and investors should not be surprised to see earnings and stock prices decline with any expectations of an economic slowdown.
- ▶ **Seasonality** – The nature of the business still indicates that it is seasonal with demand strongest in the summer period and weakest in the winter period. Stock prices of the major carriers still tend to reflect this with softness in the summer, in anticipation of slowing demand after Labor Day, and rallies occurring in the winter in anticipation of the coming heavy travel season. With new tools developed, such as yield-management systems, airline managers are now better equipped to deal with this, and have been able to keep traffic demand up through pricing policies, without destroying the entire pricing system.

Industry Developments Since Deregulation in 1978

Before 1978, the airline industry was heavily regulated by the government, which dictated prices charged and routes that specific carriers were allowed to fly. Competition between carriers was more or less limited to flight frequencies and times, company image, and cabin service amenities. Price competition and fare wars were unheard of. This, combined with the cyclical nature of the business, provided the carriers limited earnings opportunities. However, as a result of the value of government-granted routes, airlines could readily borrow for their capital needs. If an airline did get into financial trouble, the government would arrange for a merger into a larger and stronger carrier that was eager to obtain the additional route authority. The industry was more or less run and regulated like a utility.

This changed with the deregulation of the industry in 1978 by which carriers were allowed to fly where they wanted (domestically) and charge whatever prices they wanted. New carriers were allowed to operate that were not weighed down with high unit costs, particularly in the labor area, and price became an important competitive tool. Airline management, unfamiliar with these freedoms and competition, experimented in this new environment. In many cases, as a result of bad management decisions and the new competition, large losses were incurred by the industry. Many carriers went into bankruptcy and some old-name carriers ceased operations. Between 1978 and 1992, two severe recessions further magnified the industry's problems, finally forcing the industry to organize and run operations in a business-like manner. In most cases these actions were implemented by top-level management brought in to run individual airlines for the first time from outside the industry.



Over the past seven years, the industry has done much to reorganize itself. The good economy was certainly helpful in enabling the industry to achieve record profitability year –after year, and sharply lower oil prices that occurred two years ago have done their part to sustain this record. However, airline management has done much to earn these record earnings such as curtailing rapid expansion and aircraft acquisitions, pulling back to key geographic areas of strength (exiting peripheral markets where there was no chance of leadership), concentrating operations in key hub operations, taking hard steps to contain unit cost increases, and most importantly perfecting and applying advanced yield management systems thereby curtailing ruinous price wars. The most recent actions taken have been code-sharing hookups within the United States between major airlines, where four main worldwide systems have developed. This allows carriers to basically serve all areas of the country and the world without having to go through the expensive and risky strategy of a major expansion or acquisition. These actions have not only allowed carriers to generate record profits in a good economy but should allow this cyclical industry to better weather the next recession.

Summary

Even though the airline industry remains intensely competitive, today each of the major carriers has route systems well adjusted to the carriers individual strengths. As a result, the major network carriers for the most part have focused attention and resources on their major hubs and on other markets where they have done well historically. Also, today there are fewer carriers in the kind of financial disarray that was constant in the 1980s and early 1990s, following deregulation. Fewer carriers are operating on the verge of bankruptcy, in the process disrupting pricing patterns. Most carriers, today can afford to focus on the long term. Even though there are a large number of new aircraft with order commitments, virtually all of the carriers have incorporated a great deal of flexibility into their fleet plans. The industry has a lot of older, fully depreciated aircraft that are prime candidates for retirement if demand for air travel slows.

Warning, we consider probable industry consolidation as being a major risk. In the long term, it could allow carriers to operate more efficiently and over a broader base to better serve their customers but in the consolidation process, if the past is any guide, service problems could lead to losses. In the process, balance sheets can be expected to be weakened to finance the acquisitions.

General Airline Stock Valuations

While regulated industries, both airlines and railroads tended to sell at very low multiples of projected earnings. Both industries were deregulated around the same time (in the late 1970s and early 1980s). However, the railroads seemed to be able to move faster in taking advantage of deregulation, with its managers realizing that the business was going to have to be run like more traditional businesses. Railroad management took a number of major steps to bring their operations into shape for full competition. Some of the steps taken include a



series of major mergers and operational changes. In addition, the carriers abandoned or sold off uneconomical branch lines, depending on low-cost feeder railroads or trucks to feed their long-haul unit trains. In addition, major changes were made with the entrenched labor unions, vastly reducing expensive workrules. Profits improved and became more predictable in this cyclical business and the industry was rewarded with a higher multiple on its stock.

While this was going on, airline management continued to think with the regulatory mind, going after market share rather than bottom-line profitability. Capacity was constantly added in the 1980s and most carriers tried to compete in as many geographic areas as possible. Every recession since deregulation slammed the airline industry hard to the point that not only startup carriers were disappearing, but many of the big old established names as well, such as Eastern Airlines and Braniff. It took an infusion of outside management to finally end this madness beginning out of necessity at America West (NYSE AWA-\$10.40, Hold). The airline retrenched to its basic areas of strength in the Southwest, after ending bankruptcy in the early 1990s, serving other sectors of the country through code-sharing agreements. The carrier showed immediate sharply improved results, while most of the other carriers remained lackluster as they came out of the long drawn-out 1990s recession. Northwest Airlines (NASDAQ: NWAC-\$26.06, Add) (almost in bankruptcy) was the next carrier, under new outside management, to follow America West's example, and was the second major carrier to experience a sharp and consistent turnaround. Virtually all of the other carriers followed, in the process abandoning underutilized hubs and weak routes, which began the industry's powerful and long-sustained turnaround over the past four years.

As a result, these major changes in how airlines were run, the market began putting a progressively higher multiple on increasing company earnings, causing airline stock prices to rapidly rise. Multiples increased from the low- to mid-single digits to around 11 for most of the major carriers at their July 1998 height, since then pulling back, never seeing double digits again. As can be seen by this nervousness, the market appears still highly skeptical of the industry. It is still a cyclical industry and airline management must prove that it can produce earnings (or least minimize losses) in a recession or economic downturn. However, we believe that the market will continue to give the airlines credit for more stability in the current strong economic environment, and as a result, the industry still has room to increase its multiple.

As long as airlines continue to use their strong cash flow wisely, we believe that valuations should be raised. They have been using the strong cash flow from strong profits to build large cash reserves, strengthen their balance sheets, modernize and upgrade equipment for greater productivity and ultimately to buy back stock. Until recently, they have not been using their strong cash positions to rapidly expand, make acquisitions or pay out large dividends. However, UAL Corp has recently violated these principles and now pays a large



dividend and is trying to rapidly expand through the acquisition of US Airways (NYSE: U- \$25.05, Hold). This developed after a longtime industry veteran assumed control of the company upon the retirement of an outside businessman. We do not have anything against dividend payouts. In fact, we believe a small dividend payout might even be beneficial to the industry in that it would demonstrate to the investment community that management really believes that it has stabilized operations. However, with the heavy capital needs of the companies and the remaining cyclical nature of the industry, large dividends cannot be justified in our view. Carriers also continue to maintain a good control on cost increases. The low inflation atmosphere is giving air carriers a strong incentive to invest in new aircraft and modern systems since price increases could be harder to implement. When the market realizes that the carriers are investing profits wisely, we believe that stock prices will rise.

Airline Dividend Policy

Airlines because of the cyclical nature of their businesses have not been traditional payers of dividends. In the United States, Southwest Airlines and Delta Air Lines have consistently paid dividends and UAL Corp. has recently initiated one. While other airlines' management are considering the paying of dividends we would not look for any significant trend in this direction. UAL Corp. was an exception, since they wanted to get additional cash to their employee/owners. Since employees own over 55% of the company, over half of the dividend is tax deductible, making it more attractive for UAL to pay dividends than it would be for other airlines.

Airlines have been generating large amounts of free cash flow despite heavy aircraft acquisitions and have been using much of it to buy back stock. Aircraft were being financed through low interest EETCs or leasing, leaving cash free to go into airlines reserves. Most airlines avoid paying dividends believing that it does nothing to enhance stock values. We differ in opinion. We believe dividend payments would demonstrate to the market that airline management had faith that they could manage the business better through the next recession. In addition, with large cash buildups, management could be prone to do something that we believe would be unwise for shareholders. This seems to be happening, airlines want to buy each other. We are not fans of mergers since they have proved to be destructive to airline operations in the short-to-intermediate term as workforces and operations were merged and, in many cases, were not well thought out or productive even in the longer term. In our opinion, alliances produce most of the benefits without any of the merger-related risks. We believe that the strong cash flow and reserves were burning holes in the pockets of airline management, which enabled them to set off this latest merger mania. Even though some mergers may make sense from an operations viewpoint, many just represent empire building. Acquisitions are then made at high premiums that do not produce synergies in many cases. For example, the proposed UAL acquisition of US Airways is a rich offer, we believe, for a company that is losing money, has a very high unit cost structure and



faces new low-cost competition. Even though the route systems fit in nicely with each other, we do not believe that in the long run, even UAL with all of its resources can support the current US Airways system. We would not be surprised if, after a couple of years, the merger goes through, and the US Airways system is cut by at least a third from its current size.

Those Crowded Skies

Tempers of travelers continue to boil over as flights are delayed because of stepped up frequencies to meet heavy demand and the Air Traffic Control System (ATC) strains to meet these needs. It should be no surprise that when a system is overloaded problems develop. Flights, already operating with heavy load factors are fuller—testing the endurance of the passengers’ patience, who probably think of airplanes as being “human mailing tubes.” Surveys indicate that customers are most concerned with: on-time arrival, which suffers because of ATC problems, and related delays; flight cancellations, which probably will increase as equipment is put to greater daily use; and lost baggage, which increases as the hordes of passengers increase. Fear of lost baggage prompts travelers to try to squeeze as much as possible into overhead bins. With equipment, airport infrastructure and the ATC system being strained to its fullest during the heavy travel season, and sudden severe weather constantly cropping up, the airlines have become convenient punching bags for politicians wanting to demonstrate to the public that they can do something to ease their woes.

We believe someone should point out to all the critics that the travel mess might be eased if more of the funds collected for travel improvement were spent on new computers for the ATC system and expanded airport capacity. The ATC system is being operated at full throttle and the situation is particularly being made worse by the rapid increase in the usage of regional jets (RJs). Something has to be done about this situation or we believe the system will collapse. The Federal Aviation Authority (FAA) claims that its system is updated and functioning well but weather sometimes holds up flights and airlines should not schedule flights so close together particularly to meet the tight needs of a hub operation. We have a “Catch 22,” if the technology is not available to meet the additional demands of the public for cheap and economical flights and the system has to be scaled back. One way of doing that would be to raise fares to drive out (ground) marginal demand. We do not think that this is what the politicians or consumer advocates want however.

In our view, the problem is further compounded by people who have moved near airports because of economical prices as a result of a less desirable location with airport noise and then complain about airport noise (surprise—airplanes make noise when they take off). These complaints usually delay or force the cancellation of new projects such as new runway construction and cause airlines to adopt expensive and time-consuming procedures to lessen noise in addition to forcing curfews on flights at certain times.



What is an airline to do? Carriers could reduce capacity and sharply raise prices to maintain current profit margins. This is already being done to a limited degree by American Airlines and United Airlines, as they remove seats to give greater legroom. They are trying to please the higher yielding passenger by this move and in the process will probably be forced to “spill” some of the lower yielding traffic. Higher prices would drive away a significant amount of demand and, therefore, reduce both airport and aircraft congestion. The simple fact is that people do not like to be crowded into a tight tube for hours on end, and the more crowded conditions are, the more they will complain. Of course the consumer, and hence the politician, would get very upset if fares were raised significantly. They would lose their cheap airfares even if the problem of congestion was reduced in the process. The public and politicians want it both ways.

In addition, in an open market, if certain carriers cut back capacity, other carriers would probably rush in to fill the void. Several politicians are calling for some regulation, which if done, could drive up prices to a point at which the airlines are forced to take these actions. Hence, deregulation would go out the window and only more affluent could fly. We cannot see politicians wanting this scenario.

The conclusion that we come to is that the only way to logically solve the problem is for the government to loosen the purse strings on spending to upgrade the ATC system and to beef up the infrastructure to keep up with growing demand. The airlines are working diligently to try to speed the processing of passengers through the terminals by spending a significant amount of their resources on automation and ticketing machines. If the government wants to do its part, we believe politicians should reduce the “grandstanding” by threatening a so-called “consumer bill of rights” and concentrate on doing more to solve its end of the problem. Maybe airports and the ATC system should be privatized for greater efficiency. After all, privatization has worked in other countries to increase efficiency. In the airline industry, there are, of course, improvements that can be made and we are sure that pressure will continue on the air carriers to make needed changes. We believe that airlines will try to continue to serve customers at economical prices while trying to improve conditions in very difficult circumstances.



Regional, Small/Mid Size Cap. and Specialty Air Carriers: High Growth Stocks

Industry Background

We recently expanded our universe to include additional small to mid-size cap. airlines and the regional airline sector. Also included in this realm are specialty air carriers such as Atlas Air (NYSE: CGO-\$24.90, Hold), an ACMI freight carrier in the “wet lease” aircraft business, which we have been following for some time. These are high-growth sectors. The carriers we are targeting are participating in this high growth and we believe, in many cases they are undervalued.

Companies currently under coverage are part of a larger universe of carriers that can be broken down into three primary groups:

Regional Airlines

Most of the major U.S. carriers either own or employ so-called regional carriers to feed their hub operations from smaller cities. Some airlines have chosen to own these regional operators, giving them greater control over all aspects of the feed. Other airlines own some of their regional feeder airlines and contract with others, while other airlines have chosen not to expend the capital resources for ownership and contract with their regional feeders. Contracts have tended to run along two main lines:

1. **Pro-rated contract:** The first is the pro-rated contract by which the regional carrier has more independence to go after local O&D (origin and destination) passengers but still flies fixed routes for the larger partner. The regional carrier handles the marketing and yield management, as well as faces the risks of higher costs, particularly volatility in fuel prices. This type of partnership seems to be declining in usage, as the larger partner wants to assume more control over its junior partner, the regional airline. With the increasing introduction of regional jets into the aircraft inventory of regional airlines, it makes it easier for the larger carrier to structure deals in the mode of the second type of contract, the fee-per-departure.
2. **Fee-per-Departure:** The type of arrangement that has become more common is the fee-per-departure contract, which assures the regional partner a guaranteed cash stream and profit margin. The regional airline also loses its need for marketing, revenue accounting and yield management functions, leaving these tasks to the larger partner that is basically buying the seats, choosing destinations and schedules and guaranteeing a profit. Though there is less sensitivity to traffic levels and yields, the contract is usually structured in such a manner that margins can vary depending on a fixed formula tied to performance and revenues generated.



Different regional airlines have different strategies for survival and, also, to obtain a good return on equity. The industry has been drastically changing, as many smaller regional carriers have disappeared. In addition, many regional airlines have been acquired and absorbed into the larger carriers and operated as a regional airline division. Most regional carriers have given up their own identities and now fly under the colors of their larger contract partner. Most are now affiliated with a larger carrier and few do independent flying. However, the contract between the regional and the large carrier can differ along two primary routes.

The industry is undergoing a revolution, as prop flying is now being confined to only very small and short distance markets. Regional jets (RJs) over the next few years will absorb the bulk of flying in smaller markets. These aircraft are more popular with customers, and though they are expensive to operate, generally they are capable of generating higher fares or increased flow traffic into the hub operations of the major carrier/partner. As a result of the increasing importance, most contracts signed between the majors and the independent regional carriers are now a fee-per-departure, which gives the major carrier total control over the customer. The industry is undergoing a revolution with the increasing use of RJs, which will not only stimulate traffic but will allow the whole air system to function more efficiently. The main concern is the pace at which it will occur since there are two main restraints that have to be overcome, pilot “scope clauses” at the major carriers and ATC (Air Traffic Control) restraints. Pilots at major carriers are concerned over losing jobs to the lower-paid pilots of RJs and have been resisting their increased usage. In addition, airport and ATC constraints, in many cases, are limiting how fast RJs can be expanded in certain key markets. These are problems that are still being worked out.

Small- to Mid-Size Cap Airlines

This category includes carriers that have not yet attained major status (under \$1 billion in annual revenues), or have a very small float. Some of these carriers have been around for a long time such as Amtran (NASDAQ: AMTR-\$19.38, Hold) or Midwest Express (ASE: MEH-\$17.71, N/R), others are newer such as AirTran (ASE: AAI-\$9.81, Buy) or Frontier (NASDAQ: FRNT-\$16.29, N/R). We have excluded carriers that do not have at least a successful two-year operating record. In this sector, we also plan to include what we consider unique and well-managed foreign carriers that either have ADR’s (American Depository Receipts) or can trade in the United States such as LanChile (NYSE: LFL-9.80, Add) (Chile) and WestJet (T: WJA-\$21.60, NR) (Canada) and have what we consider a good niche and/or good growth prospects. We will be adjusting this field from time to time.

Specialized Air Carriers

This category would include carriers that have their own particular niche, which we believe that they can exploit. Right now the only company in our sights is Atlas Air which dominates the widebody, longhaul ACMI market and is



growing up to 20% per year. If the new company that Northwest Airlines recently incorporated, Northwest Freight, ever issues stock, it would probably fall into this category as well. World Airways (NASDAQ: WLDA-\$1.00, N/R) is also in this category, and although it seems to be recovering from near insolvency, it still seems to be struggling.

Summary and Investment Opinion

The carriers that we cover represent airlines that we believe have strong-growth potential not only in terms of ASMs (available seat miles), but also EPS as well. Some of them, such as Atlantic Coast Airlines (NASDAQ: ACAI-\$23.10, Buy) and SkyWest (NASDAQ: SKYW-\$29.36, Buy), already trade at high P/E multiples but we feel there is much potential in investing in them because of their continuing growth prospects. Other airlines, such as AirTran and Mesa (NASDAQ: MESA-\$11.09, Add), not only have good growth prospects, in our opinion, but also appear to be undervalued on a P/E multiple basis in light of their good growth prospects.

Carriers we cover that fall in this universe include: Atlas Air, Atlantic Coast Airlines, Mesa, LanChile, SkyWest Airlines, Amtran, and AirTran.

Regional Jets Are Expected to Change Air Travel Patterns

Most flying performed by regional carriers is now done for, or in conjunction with, one of the major airlines with flying being done under the banner of the major carrier/partner and usually connecting into one of the hubs of the major carrier it partners with. The major airlines have various policies regarding their regional partners with some owning all of their regional connectors (American), others owning some and partnering with others [Delta and Continental (NYSE: CAL- \$50.15, Add)], and others just doing partnerships (United and America West), not wanting to get involved with operating a regional system. The trend in regional airline flying is moving towards the increased usage of regional jets.

The use of RJs is preferred by customers, which should drive up demand. In addition, RJs are cost effective and increase the efficiency of feeding hubs from smaller markets. Most RJ's coming into usage are 70-seat aircraft or less, with 30-seat RJs now becoming of interest to operators. However, turbo-prop aircraft that have fewer than 30 seats should remain in use for smaller, thinner markets. The pilots at the major carriers have been resisting the increased usage of RJs for fear of job losses. RJ pilots earn significantly less and are generally more productive than their counterparts at the major airlines. As a result, even though a 90-seat RJ is becoming available, regional airlines will probably not adopt them because of pilot concern at major carriers that this aircraft will replace the smaller non-RJ aircraft they fly in many markets.

Regional airlines have two ways in dealing with their major airline partners, first is the "pro-rated contract" by which the regional carrier has more independence to fly schedules and price the product, but is exposed to market



risks. The second structure is the “fee-per-departure,” which is becoming more common with the expanded use of RJs, by which the major carrier buys all of the revenues and assumes all of the risk while the regional partner gets a guaranteed operating margin for operational performance. The “fee-per-departure” partnership is becoming more common since the larger partner has more control over the feed into its system while the regional airline has a guaranteed profit. The main risk of the regional carrier in the “fee-per-departure” contract is that service standards remain high and costs do not get too far out of control that the major airline may decide to step in or reject paying all of the cost increase.

Growth and earnings seem more stable at regional carriers, which have a solid operating performance history, a large number of RJs on order and long-term contracts signed with strong major airline partners. The main risk for the investor is the high multiple that a regional airline that meets this criteria is trading at, in particular Atlantic Coast Airlines and SkyWest Airlines. We believe that the multiple can be maintained as long as the regional carrier can maintain strong growth. Once growth slows, the carrier will probably no longer trade at high multiples and will be at levels closer to most of the major network carriers.

Airbus and Boeing – Old Technology versus New Technology

Both Boeing and Airbus, the last two major worldwide manufacturers of non-regional commercial jets, are taking major risks in the development of new products, which they believe will carry them through the first quarter of the 21st Century. However, they are going in different directions. After trailing Airbus for a number of years in developing new technology, it now appears that it is Boeing’s time for something new. Boeing now appears to be reversing a recent “derivatives-only practice and is looking at a radical near-sonic configuration for its next aircraft.

Airbus, long envious of Boeing’s 30-year cash cow, the B747, which serves the very large aircraft segment of the market was the major hole in Airbus’s product line of sub-sonic commercial jets and is at last getting into the jumbo jet category with the 555 seat A380. The company claims that it has already sold 65 aircraft. Developmental costs are high but the chances of its success have improved, as Boeing shied away from an extended B747 to compete with this new aircraft. Instead, it may offer an extended range version of the B747-400 that could be developed at a fraction of the cost of the \$4 billion costs that a B747x project would have entailed. Both Airbus and Boeing agreed that the market was not big enough for two super-jumbo aircraft. In recent years, Airbus has had an advantage, since it started into the commercial jet business later, its planes are all new technology with generally common cockpits and avionics. The plane will not be available until 2006 and many airports will have to modify their operations to accommodate such a large aircraft.



Boeing has had to generally build on existing technology for its family for sub-sonic commercial jets, so many of its new aircraft are derivatives of already existing models, where many of the components between different models are not interchangeable as they generally are for Airbus planes. Boeing was not keen on developing a super-jumbo jet with Airbus and half-heartedly offered a larger derivative of the B747 (B747x), which most airlines did not seem interested in since they perceived it as being warmed over technology. In fact, the carriers encouraged Boeing to back off of the B747x and to concentrate on a new technology "sonic cruiser." As a result, Boeing is expected to concentrate on smaller, futuristic airliners that will represent a new paradigm in air transportation. The manufacturer believes that this aircraft will not need any new engine developments with the design being based on currently available engines and could fly as early as 2007. This plane is expected to fly at speeds of up to 700 miles per hour, 20 percent faster than current jets and is likely to be in service within the next 10 years. It is expected to be an airliner that will be so different that it has the potential to remake markets and the structure of the airline industry.

With the exception of the Concorde, Boeing's proposed Mach 0.98 long-range "sonic cruiser" breaks the mold that has dominated large transports for the past 50-plus years. As a result, Boeing now seems to be taking a different tact. The company has been criticized for being too conservative in developing new products but that will change with its proposal to develop a super-fast plane that will do mach 0.98 at 98% the speed of sound. It will have seating in the 200 to 250 passenger category with a twin aisle design, the size that most carriers seem to want for long distance travel airliners. The platform will almost be like the B767 and will use conventional take off field lengths. However, if successfully developed and marketed, it is believed by industry executives that it would lead to a whole new family of "sonic cruisers." If successfully developed at a reasonable cost, the new plane could make all other long distance airliners obsolete overnight. The key is if it can be produced and operate at a reasonable cost. Timing of its development will depend on how much new technology airlines want. It is believed that the aircraft can match the operating costs of today's transports with current technology but advanced technology would take longer. It will try to secure a launch customer by next year. The airplane has two major attractions that override higher fuel usage; the first is speed that should allow for additional daily operations, the second is that it will become the preferred way for business travel, possibly justifying a premium fare.

Early reaction from the leading global carriers on the "sonic cruiser" have been encouraging, supportive, and called strategically brilliant with many industry executives believing that it is a quantum move. Executives believe that this type of aircraft would allow not only fragmentation opportunities (which have already developed in the North Atlantic markets) but segmentation opportunities as well for customers who prefer to be able to travel to points on the globe much quicker than is achievable by today's jet aircraft. The proposed



aircraft size is also attractive and could operate in long-haul markets with a large portion of high-yield business traffic. While the A380 could only be filled for part of the year by most airlines, the "sonic cruiser" at its current projected size could add to productivity year-round. In fact some industry executives have stated that this concept will be the industry's next major productivity improvement.

For the past several years, airlines have had to work hard to increase productivity but there have been no major productivity enhancements for 40 years in aircraft design, not since turbofan transports became common in the fleet. A 20% faster aircraft could translate into 20% increased productivity, in the process changing business productivity allowing for greater aircraft utilization on longer-distance markets. However, industry executives warn, across the board, that the new aircraft would probably have to have the economics of the B767, the aircraft that it would replace. If fuel burn is greater, it would have to be offset by additional improved productivity. If successfully developed, industry executives do not believe that development will stop at this one aircraft. Once it is proved that this advanced technology aircraft can be produced and sold at economical prices, they believe that a whole family can be developed and that there is no limitation on where this type of aircraft could go. In the process, it probably would make today's long-distance jetliners obsolete.

Airbus and Boeing seem to be diverging on their approaches to the size of their future jets, reflecting a fundamental difference in their views of how the aircraft market will unfold over the next couple of decades. Airbus seems to believe that airlines will be forced to buy very large aircraft because of the continued worsening of airport congestion worldwide. Boeing seems to believe that there will be a continuation, if acceleration, of the easing of travel restrictions by the global community in both Europe and Asia. This combined with growing U.S. markets would result in increased point-to-point service, which would call for smaller aircraft. We may be looking at a situation similar to the early 1950s when Howard Hughes in the United States and the Bristol Company in Great Britain tried to develop a jumbo airplane with technology about to be bypassed. The super-jumbo jet may be too much too late as passengers now want to fly direct and to avoid making changes at congested hub airports. Boeing is trying to meet this demand by developing a new generation of twin-engine long-haul jets for flying the world's thinning routes. When Boeing introduced the B747 in the late 1960s, the company believed that the aircraft type would have a market life of 10 years, then would be superseded by SST's, just as the introduction of the B707 on long haul routes made the new powerful jet piston aircraft of the 1950s become obsolete overnight. Because of environmental concerns and high costs, SST's were never manufactured or introduced into service in any great numbers. It's been 40 years and it probably is time for the next big leap in aviation technology, which the mach 0.98 Boeing aircraft will do. If the plane can be manufactured where the operating costs are only moderately higher than today's aircraft, the difference could be made up



through the greater productivity of the aircraft flying faster and through the consumer preference to get to their destinations faster. It will also be a major stepping stone to the next big change in technology to a more economical and environmentally friendly SST or HST.

The prospects for this new technology aircraft are much higher, if technological challenges can be met and it can be done economically, then those for a very large aircraft such as the A380. Boeing believes that these goals are achievable because of recent advances made in aerodynamics and the plane could be launched as early as 2006. If this plane is successful, markets will be redefined and today's technology aircraft would become obsolete very quickly. Markets are becoming more fragmented as the global industry deregulates with traditional entry points now more frequently being over flown. This has happened in the United States, and Europe and is just beginning in Asia. Customers want the convenience of more flights and more point-to-point service where feasible. In addition, most airports will have to readopt their infrastructure to support an aircraft as large as the A380. It appears that Boeing may be trying to leapfrog the technological lead of Airbus by developing a completely new type of aircraft. The A380 may eventually be delegated to freight service, which through its sheer size would make a good long-distance freighter or to a few high volume low yielding passenger markets.

Commercialization of the ATC System

Has the time come to commercialize the Air Traffic Control (ATC) system that is to spin it off to some form of user-funded corporate entity? We believe that there are several fundamental factors that make commercialization of the ATC system an idea whose time has come.

The first reason is obvious, the system is stretched to its limit as is evidenced by record delay levels that have been experienced for the past two years as a record number of people travel. The system has reached a point at which it has become a constraining factor on growth. This has caused a number of airline's to come to the conclusion that the ATC system is unlikely to be fixed as long as it remains under FAA control and may be leading to industry support for privatization or corporatization of the system as the only way of making it more efficient to meet the growing industry demand. Finally, there is now some positive feedback from other countries that have already commercialized their ATC systems. Early indications are that this process in their countries has accelerated modernization of the system while increasing productivity and decreasing user fees. This is experience that can be drawn upon for changes in the U.S. system.

Skeptics still cite three major obstacles to privatization including airline conflicts over user fees, opposition from general aviation and lack of support from employees. These are problems that can be overcome. The user fee problem is that today air traffic control is financed by a ticket tax, which is proportional to fares not the cost of service provided. Shifting to a direct fee for



service has the potential to sharply increase the relative costs of low-fare carriers such as Southwest Airlines. If a weight-distance formula is introduced by corporatization of ATC providers plus adding a congestion factor to the terminal charge portion that applies to the nation's most congested airports during their busiest periods should leave the present airline share of ATC costs relatively unchanged. Other obstacles include opposition from general aviation users and from the ATC unions, problems that will not go away. However, for general aviation, formulas could be worked out for non-jet operators to pay an annual fee based on aircraft weight and abolishing the general aviation fuel tax which some project to be revenue neutral. Jet operators who use more ATC resources would probably have to pay a higher fee using this formula. Regarding ATC employees, provisions could be made to protect controller and technician jobs with guarantees of no layoffs, pension protection and the encouragement of lateral transfers or early retirement for employees that are unlikely to succeed in the new environment.

The airlines have been deregulated but the institutional framework for providing the infrastructure needed by a rapidly changing and growing industry has not kept pace. This is the heart of the problem of increasing flight delays and growing consumer and political dissatisfaction. ATC related flight delays are not only an annoyance to travelers but also an increasingly serious drag on the national economy. While privatization or commercialization of the ATC system is no sure cure for this problem, it should be fundamentally recognized that a restructuring of the system is required and that just another reorganization within the FAA parameters will not be sufficient. Fundamental and major change is necessary.

Index of Airline Industry Terminology

ACMI – Aircraft, crew, insurance and maintenance is provided, usually known as a “wet lease.”

AMI – An ACMI contract where the crew is not provided. This type of contract is appealing to airlines that have “scope clause” restrictions in their pilot contracts.

Aircraft Maintenance Checks – This refers to periodic checks that have to be done on the aircraft after a certain amount of time or usage. A and B checks are lighter checks that can usually be performed at the airport gate as an aircraft is serviced overnight. C and D checks are heavier more thorough checks that take the aircraft out of service and usually have to be performed at an airline's maintenance base.

Airport Slots – Certain airports have capacity limitations and allocation landing slots to various carriers. It is more commonly in place in busy airports in other countries. In the United States, the only airports with slot restrictions are Kennedy and LaGuardia in New York, National in Washington D.C. and O'Hare in Chicago.



ATC – Air traffic control.

Available Ton miles (ATMs) – Tons multiplied by miles flown. It is an international measure of the capacity available for a carrier. It is also used to measure capacity available for freight carriers.

Available Seat Miles (ASM) – The number of seats available multiplied by the number of miles flown. This measures an airlines capacity capability. For example, a transport configured to fly 100 seats goes 100 miles would give the carrier 10,000 ASMs for that particular flight.

Available Seat Kilometers (ASK) – The number of seats flown multiplied by the number of kilometers they are flown.

Available Ton Kilometers (ATK) – The number of tons capable of being carried multiplied by the number of kilometers flown.

Average Fare – Passenger revenue divided by the number of passengers.

Block Hours – This represents the time between the time the aircraft departs the gate and the destination gate arrival.

Bilateral Aviation Agreement – This is an agreement between two countries similar to a treaty but only concerning aviation rights.

Breakeven Load Factor (BELF) – The load factor necessary for the carrier to break even. It is a function of the percent of seats filled at a particular yield versus the airlines operating costs.

Cabotage – Commonly used as part of the term Cabotage rights, meaning the right of a company from one country to trade in another country. In aviation terms, it is the right to operate within the domestic borders of another country. Most countries do not permit Cabotage, although this is changing within Europe for member states of the European community.

Code-sharing – This is a growing practice in which airlines share the same two-letter designator code on certain flights, as they are presented in the various computer reservations systems used by airlines and travel agents. Sharing of the codes permits a travel agent or airline to sell a ticket that will include routings of both carriers where codes are shared.

Computer Reservations Systems – The electronic system that allows travel agents or airlines to reserve seats on commercial flights.

Cost Per Available Seat Mile (CASM) – The unit operating cost of a carrier, also known as unit cost. The cost, expressed in cents to operate each seat mile offered. Determined by dividing operating costs by ASMs.

Dry Lease – A lease in which just the aircraft is provided with no maintenance guarantees.



Equipment Trust Certificates (ETC) – Is a security that represents the debt portion of equipment financing, usually 80% cost of the acquisition of the aircraft. The company may retain the remaining 20% equity portion or more commonly lease the aircraft from a third party. Note holders are granted a security interest in the aircraft, and in the case of a leveraged lease, the underlying lease with the airline includes the right to receive rental payments.

Enhanced ETC/PTC – Known as double ETCs (EETC), it is similar to a conventional ETC/PTC except that the security has been traunched into two or more classes of securities, each with different payment priorities and asset claims. These securities also usually have a liquidity facility added covering three successive interest payments. As a result, when these securities are properly structured, even weak credits can obtain an investment grade rating for the particular issue.

Multilateral Aviation Agreement – An agreement for air service among more than two nations (see Freedoms of the Air).

Pass-Through Certificates (PTC) - Instruments that evidence the ownership of two or more ETCs. In other words, ETCs may be bundled into a pass-through structure as a means of diversifying the asset pool and/or increasing the size of the offering. The principal and interest payments on the ETCs are ‘passed through’ to certificate holders.

Load Factor (LF) – The percentage of seats filled. Determined by dividing RPMs by ASMs.

Length of Hop – The average distance of a flight or stage length.

Origination/Destination (O&D) – A measure of the point of origination of a passenger to the final destination. It is the true trip of the passenger, though they may change flights and planes at least once during the journey. It allows carriers to determine where their true business lies.

Passenger Haul (PAX Length of Haul) – Is the average distance flown per passenger. It includes distance from connecting flights.

Pure Freighter Aircraft - An aircraft that is designed and used to only carry freight. This type of aircraft can transport larger and odd shaped items that cannot fit into the cargo area of a passenger aircraft. Traditionally, most pure freighters were converted passenger aircraft, since the low average daily utilization of pure freighter operations were low and could not justify the high capital costs of a new aircraft. The B747-400 widebody pure freighter broke this mode because of the aircraft’s large design and long rang capability allows for high average daily utilization.

Regional Jets (RJs) – New jets coming on line with less than 80 seats that have begun to be used by commuter carriers, being substituted for turboprop aircraft that have been unpopular with many passengers. Some large carriers



have scope clause agreements with their pilots unions that limit the number of RJs that can be used by the commuter feed carriers that operate them in conjunction with the large airline.

Revenue per Available Seat Mile (RASM) – It is the revenue generated for each available seat mile operated, expressed in cents. Revenue divided by ASMs.

Revenue Passenger Miles (RPM) – The principal measure of the airline passenger business. It represents the number of paying passengers flown by the distance flown.

Revenue Passenger Kilometers (RPK) – The number of passengers multiplied by the number of kilometers they fly.

Revenue Ton Kilometers (RTK) – The number of tons carried multiplied by the number of kilometers flown.

Revenue Ton Miles (RTMs) – The revenue generated for each ton mile operated.

Scope Clause – Provisions in U.S. major airlines' pilot contracts that impose limits on the operation of jet airplanes used by regional "partner" airlines. Limits on seat count (generally 70 seats or less), weight, cruise speed, or ratio of regional jets to standard jets are the most common provisions.

Section 1110 (of the US Bankruptcy Code) - Generally provides a secured party with an interest in an aircraft the ability to take possession of the equipment within 60 days after a bankruptcy filing unless the airline cures all defaults. More specifically, the right of the lender to take possession of the secured equipment is not hampered by the automatic stay provisions of the US Bankruptcy Code.

Stage Length (see Length of Hop) – Is the average distance flown per flight.

Stage 2 and Stage 3 Airplanes – A measure of noise; newer Stage 3 airplanes are quieter and are allowed to operate into more airports.

Unit Cost – Is the cost per available seat mile (ASM). Obtained by counting total operating costs and dividing it by the ASMs. Expressed in cents.

Wet Lease – Is a lease in which not only the aircraft is provided but also other services are included, as well as including hull insurance, crews and maintenance guarantees.

Yield (Revenue per Revenue Passenger Mile) – It is a function of passenger revenue generated divided by the revenue passenger miles generated. It is expressed in cents per mile and measures the average level of fares at which the airline is selling its product.

Yield Management Systems – Computer-managed systems that airlines have installed and are constantly perfecting to better enable them to manage price



and seat inventories, enabling the carriers to sell the maximum number of seats at the most productive yield mix.

Freedoms of the Air: These freedoms are the norms of international commercial aviation that were adopted at the Chicago Convention in 1944. The rights established and approved in aviation agreements are as follows:

First freedom - The right of an aircraft from one country to overfly another country, provided the nation is notified and approval is granted.

Second freedom - The right of an aircraft from one country to land in a second country for technical reasons, such as fueling or maintenance.

Third freedom - The right of an airline to carry traffic from the country of origin to another country.

Fourth freedom - The right of an airline to carry return traffic from the other country to its own country.

Fifth freedom - The right of an airline to carry traffic between two countries other than the country of origin. The flight must begin and end in the country of origin, however.

Sixth freedom - Not a right defined by the Chicago Convention, but referring to traffic originating in another country (a third country). An example of sixth-freedom traffic would be traffic originating in Mexico and flying to London via Miami.

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Additional information available upon request. Stocks priced as of the May 24, 2001, close.



Status of Airline Labor Contracts

Airlines	Pilots	Flight Attendants	Dispatchers	Mechanics/ Related Personnel	Clerical/ Agents
ABX	IBT (8/01/01)	-----	-----	-----	-----
AirTran	ATPA (3/31/06) In Negotiation	AFA (9/18/02)	TWU- (10/1/04)	IBT***Initial Contract	-----
Alaska	ALPA (5/1/03)+	AFA (10/29/03)	AFA (8/9/02)	AMFA (12/23/02) (1/10/04)**	IAM IAM (10/29/02)
Aloha	ALPA (6/30/02)	AFA (8/31/03)	TWU (12/31/02)	IAM (1/1/03)	IAM (1/1/03)
America West	APA (5/1/00) In Negotiation	AFA (5/4/04) APFA (11/1/98)	TWU (4/15/03)	IBT***Initial Negotiation	TWU (RAMP) (6/12/05)
American	APA (8/31/01)	In Negotiation	TWU (3/1/01)	TWU (3/1/01)	-----
American Trans Air	ALPA (9/23/00) Negotiation	AFA (9/11/04)	TWU-(8/15/04)	-----	-----
Continental	IACP (10/1/02)	IAM (9/17/04)	TWU (10/1/03)	IBT (1/1/02)	-----
Delta	ALPA (5/2/00) Tentative Agreement Comair On Strike	-----	PAFCA (1/1/03)	-----	-----
DHL	ALPA (1/1/04)	-----	IBT (11/27/03)	-----	-----
Federal Express	FPA (5/31/04)	-----	-----	-----	-----
Hawaiian	ALPA (7/01/04)	AFA (2/28/00) In Negotiation	TWU (2/28/00) Negotiation	In IAM (2/28/00) Negotiation	Initial IAM (2/28/00) Negotiation
Northwest	ALPA (9/13/02)	IBT (6/1/05)	TWU (12/1/03)	AMFA - Agreement (2/25/03)** Contract	Tentative IAM First IAM (2/25/03)
Southwest	SWAPA (8/31/04)	TWU (5/31/02)	SAEA (11/30/09)	IBT (8/17/00*) Negotiation	In IAM (11/10/02) (12/31/00) In Mediation (recessed) (RAMP)
TWA	ALPA (10/1/02)	IAM (1/31/01)	TWU (12/31/03)	IBT (1/31/01)	IAM (1/31/01)
United	ALPA 9/01/04	AFA (3/1/06)	PAFCA (7/12/00) In Negotiation (recessed)	IAM (7/12/00) Negotiation (recessed)	In IAM (7/12/00) In Negotiation (recessed)
UPS	IPA (12/31/03)	-----	-----	IAM (7/31/01)	-----
US Airways	ALPA (1/2/03)	AFA (4/30/05)	TWU (1/31/07)	IAM (10/10/04)	IAM (10/10/04) CWA (Passngr Service) (12/12/04)
World	IBT (6/30/03)	IBT (7/1/00) In Negotiation	TWU (12/31/03)	-----	-----

() denotes amendable date of contract.

Note: *8/17/01 for mechanics, ** Ramp servicemen and stock clerks (reconvened negotiations); *** Stock Clerks.

Note: + Horizon contract open.

Date: 5/4/2001.

Source: Company reports

Airline Industry Comparable Company Analysis

Company	TA	TD	BV	LTM						Tot Firm Value to			Rev
				Rev	EBITDAR	EBITDA	EBIT	NI	EBITDAR	EBITDA	EBIT		
Major Airlines													
Alaska Airlines	2,630	609	930	2,203	269	82	(30)	(23)	3.4	11.1	(30.5)	0.4	
America West Holdings	1,785	306	882	2,369	353	13	(42)	(22)	1.3	36.0	(11.2)	0.2	
AMR Corp.	26,534	6,573	7,233	19,886	3,015	2,413	1,186	620	3.7	4.6	9.4	0.6	
Continental Airlines	9,268	4,000	1,169	10,073	1,961	1,109	697	337	3.0	5.3	8.4	0.6	
Delta Air Lines	21,931	5,998	5,343	16,672	3,136	2,392	1,178	603	3.3	4.3	8.7	0.6	
Northwest Airlines	10,877	3,798	231	11,517	1,611	1,179	555	215	3.3	4.5	9.6	0.5	
Southwest Airlines	6,670	870	3,451	5,836	1,563	1,368	1,076	650	9.9	11.3	14.4	2.7	
Trans World Airlines	2,192	741	(280)	3,483	676	11	(123)	(179)	1.0	61.0	(5.5)	0.2	
UAL Corp.	24,355	7,388	5,190	19,230	2,239	1,334	256	(119)	4.2	7.0	36.7	0.5	
US Airways	9,127	2,972	(358)	9,412	807	276	(120)	(203)	4.1	12.1	(27.9)	0.4	
Small Cap, Regional, and Specialized Airlines													
AirTran Airways	546	427	8	666	130	113	87	53	7.5	8.6	11.2	1.5	
Amtran, Inc.	1,032	458	125	1,318	203	127	(2)	(18)	2.8	4.4	(255.5)	0.4	
Atlantic Coast Airlines	383	71	168	494	114	47	35	23	8.5	20.6	27.6	2.0	
Frontier Airlines	170	0	132	451	134	86	81	53	1.6	2.4	2.6	0.5	
Great Lakes Aviation	143	120	0	134	17	8	1	(8)	7.6	16.5	144.5	1.0	
Hawaiian Airlines	256	43	18	607	55	25	9	6	1.3	3.0	8.4	0.1	
LanChile Airlines	333	454	311	1,447	255	130	87	36	4.0	7.9	11.8	0.7	
Mesa Airlines	381	180	148	485	44	44	39	23	11.6	11.6	13.0	1.0	
Mesaba Airlines	216	4	164	426	152	53	37	26	0.9	2.5	3.6	0.3	
Midwest Express Holdings	306	3	129	492	43	18	(0)	0	5.4	13.0	(576.2)	0.5	
SkyWest Airlines	669	85	481	523	181	122	89	61	7.4	11.0	15.0	2.6	
Vanguard	39	3	(13)	132	(3)	(21)	(25)	(26)	(7.0)	(1.1)	(0.9)	0.2	
World Airways	114	51	(7)	264	80	9	2	(2)	0.6	5.3	21.9	0.2	
Freight Carriers													
Airborne Freight	1,676	279	844	3,288	273	178	(32)	(35)	2.7	4.2	(23.3)	0.2	
Atlas Air Worldwide Holdings	2,174	1,092	552	804	401	322	228	88	3.7	4.6	6.5	1.8	
FDX Corp	9,332	1,050	4,200	15,700	3,002	2,002	1,200	668	4.2	6.3	10.5	0.8	
United Parcel Service	21,600	3,500	9,735	30,270	5,723	5,723	4,518	2,765	NM	11.9	15.0	2.2	
Group Average													
Major Airlines	11,537	3,326	2,379	10,068	1,563	1,018	463	188	3.7	15.7	1.2	0.7	
Small Cap, Regional, and Specialized Airlines	353	146	128	572	108	58	34	17	4.0	8.1	(44.1)	0.8	
Freight Carriers	8,696	1,480	3,833	12,516	2,350	2,056	1,479	872	3.5	6.7	2.2	1.3	

Source: Company reports and ABN Amro, Inc. calculations

Airline Industry - Comparable Company Analysis

Company	Ticker	Rating	Cur Price	Shares	Hi	Lo	Mrkt Cap	Net Debt	Firm Value	Price per Share to			BV	LTM EPS	01 EPS	02 EPS
										LTM EPS	01 EPS	02 EPS				
Major Airlines																
Alaska Airlines	ALK	H	29.47	26	35	19	766	147	914	(33.31)	982.33	8.77	0.03	(0.88)	0.03	3.36
America West Holdings	AWA	H	10.49	33.6	20	9	352	116	468	(16.02)	(104.90)	9.37	0.01	(0.65)	(0.10)	1.12
AMR Corp.	AMR	H	39.98	154	44	26	6,157	5,015	11,172	9.93	14.33	9.09	0.01	4.03	2.79	4.40
Continental Airlines	CAL	A	50.59	56.4	58	38	2,853	2,993	5,846	8.47	8.68	8.17	0.04	5.98	5.83	6.19
Delta Air Lines	DAL	H	47.07	125	58	37	5,884	4,391	10,275	9.76	30.76	9.27	0.01	4.82	1.53	5.08
Northwest Airlines	NWAC	A	26.47	83	39	19	2,197	3,105	5,302	10.22	16.86	8.05	0.11	2.59	1.57	3.29
Southwest Airlines	LUV	B	18.80	807	23	12	15,172	347	15,519	23.34	20.89	16.07	0.01	0.81	0.90	1.17
Trans World Airlines	TWA	NR	1.32	66	4	1	87	584	671	(0.49)	(0.83)	nm	(0.00)	(2.71)	(1.60)	nm
UAL Corp.	UAL	R	37.20	116.8	65	30	4,345	5,044	9,389	(36.51)	(4.89)	nm	0.01	(1.02)	(7.60)	nm
US Airways	U	H	25.20	67.03	51	25	1,689	1,656	3,345	(8.32)	(7.95)	nm	(0.07)	(3.03)	(3.17)	nm
Sm Cap, Reg. and Splized Airlines																
AirTran Airways	AAI	B	9.90	66	10	3	653	324	977	12.42	9.80	7.56	1.25	0.80	1.01	1.31
Amtran, Inc.	AMTR	H	19.11	12.2	20	8	233	329	562	(12.88)	(10.01)	(24.82)	0.15	(1.48)	(1.91)	(0.77)
Atlantic Coast Airlines	ACAI	B	23.15	44	25	11	1,019	(50)	969	45.27	21.05	16.42	0.14	0.51	1.10	1.41
Frontier Airlines	FRNT	NR	16.71	19	26	8	317	(110)	207	5.96	8.94	9.03	0.13	2.80	1.87	1.85
Great Lakes Aviation	GLUX	NR	1.40	8.6	3	1	12	118	130	(1.47)	N/A	N/A	10.77	(0.95)	N/A	N/A
Hawaiian Airlines	HA	NR	3.00	40	3	1	120	(47)	73	21.82	N/A	N/A	0.17	0.14	N/A	N/A
LanChile Airlines	LFL	A	9.80	65	9	6	637	390	1,027	17.50	10.65	8.17	0.03	0.56	0.92	1.20
Mesa Airlines	MESA	A	11.03	32	12	4	353	153	506	15.15	15.99	11.14	0.07	0.73	0.69	0.99
Mesaba Airlines	MAIR	NR	10.96	21	14	9	230	(99)	131	8.99	11.42	10.75	0.07	1.22	0.96	1.02
Midwest Express Holdings	MEH	NR	17.32	14	26	13	242	(12)	230	606.20	44.41	14.20	0.13	0.03	0.39	1.22
SkyWest Airlines	SKYW	B	29.24	52.8	30	16	1,544	(208)	1,336	25.35	27.85	18.99	0.06	1.15	1.05	1.54
Vanguard	VNGD	NR	1.35	17	2	0.4	23	0	23	(0.88)	N/A	N/A	(0.11)	(1.53)	N/A	N/A
World Airways	WLDA	NR	1.00	10	2	0.5	10	36	46	(4.76)	N/A	N/A	(0.14)	(0.21)	N/A	N/A
Freight Carriers																
Airborne Freight	ABF	NR	11.06	48	22	8	531	212	743	(15.30)	(15.36)	73.73	0.01	(0.72)	(0.72)	0.15
Atlas Air Worldwide Holdings	CGO	H	25.01	38	46	24	950	533	1,483	10.84	11.47	10.73	0.05	2.31	2.18	2.33
FDX Corp	FDX	H	40.52	287	49	33	11,629	940	12,569	17.41	19.11	14.58	0.01	2.33	2.12	2.78
United Parcel Service	UPS	H	59.76	1109	64	51	66,274	1,548	67,822	23.97	25.43	20.97	0.01	2.49	2.35	2.85

Source: Company reports and ABN Amro, Inc. calculations





Comparable Company Analysis

Company	LTM Margin			EBITDA/ Int	3 yr Rev Gro	Pr Chng YTD	int	BV/ Share
	EBITDA	EBIT	NI					
Major Airlines								
Alaska Airlines	3.7%	-1.4%	-1.0%	2.0	7%	-1%	40.2	35.77
America West Holdings	0.5%	-1.8%	-0.9%	0.8	8%	-18%	16.7	26.25
AMR Corp.	12.1%	6.0%	3.1%	5.2	5%	1%	467.0	46.97
Continental Airlines	11.0%	6.9%	3.3%	4.3	11%	-2%	260.0	20.73
Delta Air Lines	14.3%	7.1%	3.6%	5.4	7%	-6%	440.0	42.74
Northwest Airlines	10.2%	4.8%	1.9%	3.5	9%	-12%	337.0	2.78
Southwest Airlines	23.4%	18.4%	11.1%	19.5	15%	-16%	70.0	4.28
Trans World Airlines	0.3%	-3.5%	-5.1%	0.1	0%	nm	92.0	(4.24)
UAL Corp.	6.9%	1.3%	-0.6%	3.1	4%	-5%	433.0	44.43
US Airways	2.9%	-1.3%	-2.2%	1.0	3%	-38%	263.0	(5.34)
Small Cap, Regional, and Specialized Airlines								
AirTran Airways	17.0%	13.1%	7.9%	2.8	20%	37%	40.7	0.12
Amtran, Inc.	9.6%	-0.2%	-1.4%	4.1	17%	32%	30.8	10.25
Atlantic Coast Airlines	9.5%	7.1%	4.6%	7.9	24%	13%	6.0	3.82
Frontier Airlines	19.0%	17.9%	11.8%	1,225.7	44%	-19%	0.1	6.95
Great Lakes Aviation	5.9%	0.7%	-6.1%	0.9	15%	87%	9.2	0.02
Hawaiian Airlines	4.1%	1.4%	0.9%	8.2	16%	66%	3.0	0.45
LanChile Airlines	9.0%	6.0%	2.5%	3.9	14%	24%	33.1	4.78
Mesa Airlines	9.0%	8.0%	4.8%	2.7	8%	58%	16.0	4.63
Mesaba Airlines	12.5%	8.6%	6.0%	133.3	17%	-13%	0.4	7.81
Midwest Express Holdings	3.6%	-0.1%	0.1%	26.4	11%	18%	0.7	9.21
SkyWest Airlines	23.3%	17.0%	11.6%	48.7	25%	2%	2.5	9.11
Vanguard	-16.1%	-18.9%	-19.7%	(152.1)	nm	116%	0.1	(0.74)
World Airways	3.3%	0.8%	-0.8%	1.7	-5%	nm	5.0	(0.70)
Freight Carriers								
Airborne Freight	5.4%	-1.0%	-1.1%	7.7	3%	13%	23.0	17.58
Atlas Air Worldwide Holdings	40.0%	28.4%	10.9%	2.6	30%	-23%	124.0	14.53
FDX Corp	12.8%	7.6%	4.3%	13.8	8%	1%	145.0	14.63
United Parcel Service	18.9%	14.9%	9.1%	29.1	9%	2%	197.0	8.78
Group Average								
Major Airlines	8.6%	3.7%	1.3%	4.5	6.9%	-10.7%	241.9	21.44
Small Cap, Regional, and Specialized Airlines	8.4%	4.7%	1.7%	101.1	15.8%	34.9%	11.4	4.28
Freight Carriers	19.3%	12.5%	5.8%	13.3	12.5%	-1.7%	122.3	13.88

Source: Company reports and ABN Amro, Inc. calculations



Alaska Air- Fleet plan

Aircraft	Owned	Leased	Total	Average Fleet Age
MD-80	15	19	34	10.6
B737-200	7	1	8	20.4
B737-400	9	31	40	5.7
B737-700	13	0	13	0.8
Total	44	51	95	8
Horizon Air				
Dash 8	0	40	40	5.3
Fokker F-28	9	13	22	17
Total	9	53	62	9.5
Note: As of 12/31/00				
Forecasted Fleet Plan				
	On Hand 12/31/00	Estimated Change During		
		2001	2002	2003
MD-80	34	(4)	(4)	0
B737-200	8	1	0	0
B737-400	40	0	0	0
B737-700	13	3	0	0
B737-900	0	5	4	4
Total	95	5	0	4
Horizon Air				
Dash 8	40	3	0	0
Fokker F-28	22	(15)	(7)	0
CRK 700	0	7	7	4
Total	62	(5)	0	4

Note: As of 12/31/00

Source: Company reports



American Airlines - Fleet Plan

Aircraft Type	On Hand YE 2000	YOY Change			On Hand YE 2003
		2001	2002	2003	
MD11	7	(7)	0	0	0
B777	27	13	5	2	47
B767-3ER	49		5	10	64
B767-2ER	22				22
A300 ER	10				10
B767-200	8				8
A300 2-Class	25				25
B757	102	16	7	0	125
B737	51	26	28	12	117
B727	60	(14)	(26)	(20)	0
MD90	5	(5)	0		0
MD82/83/87	276	(13)	(4)	0	259
F100	75				75
Total AA Fleet Inc./ (Dec.)		16	15	4	35
Total AA Fleet	717	733	748	752	752

Note: As of 5/10/00

Source: Company reports

Amtran - Fleet Plan

Aircraft	2001	2002	2003	2004
L1011	15	14	9	6
B727	12	0	0	0
B757	20	24	24	24
B737-800	14	35	39	46
Total	61	73	72	76

Note: As of April 2001

Source: Company reports

America West - Fleet Plan

Aircraft	Total Fleet as of 3/31/01	2001 (2Q-4Q)	2002	Total Fleet as of 12/31/02
B737-200	14	0	-2	12
B737-300	47	-2	0	45
B757-200	13	0	0	13
A319	21	10	1	32
A320	45	2	3	50
Total	140	10	2	152
Total Fleet Year-End		150		152

Note: As of 3/31/01

Source: Company reports



Continental Airlines - Fleet Plan

Committed Fleet							
Includes Continental, Continental Micronesia and Continental Express Regional Jets							
Firm Commitments Less Planned Retirements							
	Total @ YE 2000	2001E	2002E	Total @ YE 2002E			
777-200	16	-	2	18			
DC10-30	17	(8)	(4)	5			
767-400ER	4	2	10	16			
767-200ER	3	7	-	10			
757-300	-	2	6	8			
757-200	41	-	-	41			
737-900	-	10	5	15			
737-800	58	15	25	98			
MD-80	65	(6)	(8)	51			
737-300	65	-	(2)	63			
737-700	36	-	-	36			
737-500	66	-	-	66			
Total CAL & CMI Fleet	371	22	34	427			
ERI-145XR	-	-	6	6			
ERI-145	78	29	33	140			
ERI-135	18	12	12	42			
Total Regional Jet Fleet	96	41	51	188			
Total YE Jet Fleet	467	530	615				

Firm Commitments Less Planned Retirements and Other Lease Exp							
	Total @ YE 2000	Net Inductions and Exits					Total @ YE 2005E
		2001E	2002E	2003E	2004E	2005E	
777-200	16	-	2	-	-	-	18
DC10-30	17	(8)	(4)	(5)	0	-	-
767-400ER	4	2	10	4	2	2	24
767-200ER	3	7	-	-	-	-	10
757-300	-	2	6	7	-	-	15
757-200	41	-	-	-	-	-	41
737-900	-	10	5	-	-	-	15
737-800	58	15	20	-	-	-	93
MD-80	65	(8)	(13)	(13)	(14)	(17)	-
737-300	65	-	(7)	(15)	(12)	0	31
737-700	36	-	-	-	-	-	36
737-500	66	-	(1)	(2)	0	-	63
Total CAL & CMI Fleet	371	20	18	(24)	(24)	(15)	346
ERI-145XR	-	-	6	31	36	2	75
ERI-145	78	29	33	9	-	-	149
ERI-135	18	12	12	8	-	-	50
Total Regional Jet Fleet	96	41	51	48	36	2	274
Total YE Jet Fleet	467	528	597	621	633	620	

Note: As of March 31, 2001

Source: Company reports



Delta Air Lines - Fleet Plan

Aircraft Type	Owned	Leased		Total	Average Age
		Capital	Operating		
B-727-200	90	-	10	100	22.3
B-737-200	1	45	8	54	15.6
B-737-300		3	23	26	13.6
B-737-800	24	-	0	24	0.8
B-757-200	70	-	41	111	9.6
B-767-200	15	-	0	15	17.1
B-767-300	4	-	24	28	10.4
B-767-300ER	50	-	8	58	4.5
B-777-200	7	-	-	7	0.8
L1011-1	7	-	-	7	19.2
L1011-250	5	-	-	5	17.6
L1011-500	7	-	0	7	19.6
MD-11	8	-	7	15	6.4
MD-88	63	-	57	120	10
MD-90	16	-	-	16	4.6
Mainline Total	367	48	178	593	
EMB-120	51	-	14	65	10.1
ATR-72	4	-	15	19	6
CRJ-100/200 (Regional Jet)	22	-	110	132	2.8
ASA & Comair Total	77	0	139	216	5.3
Grand Total	444	48	317	809	10.1

Calendar Year-End						
Aircraft on Firm Order	Remainder				After 2003	Total
	of 2000	2001	2002	2003		
B-737-600/700/800	16	27	18	10	37	108
B-757-200	7	3	-	-	-	10
B-767-300/300ER	-	1	-	-	-	1
B-767-400	12	4	5	-	-	21
B-777-200	-	-	1	1	4	6
CRJ-100/200	16	34	29	22	2	103
CRJ-700	-	2	20	12	23	57
Total	51	71	73	45	66	306

Calendar Year-End							Rolling Options
Aircraft on Option	Remainder of 2000	2001	2002	2003	After 2003	Total	
B-737-600/700/800	-	3	5	7	45	60	256
B-757-200	-	-	9	11	-	20	74
B-767-300/300ER	-	-	2	2	7	11	14
B-767-400	-	-	5	5	14	24	16
B-777-200	-	-	5	5	10	20	27
CRJ-100/200	-	-	12	28	191	231	-
CRJ-700	-	-	-	-	165	165	-
Total	0	3	38	58	432	531	387

As of June 30, 2000 (Includes Delta, ASA, Comair)
Note: Includes regional jet order agreement signed on July 10, 2000

Source: Company reports

Northwest Airlines - Fleet Plan

Net of firm orders and scheduled retirements											
Aircraft	Seats	Avg Age	Own	Lease	3/31/01	2001E	2002E	2003E	2004E	As of April 2001	
										Orders	Options
B747-400	403	8.3	-	14	14	14	16	16	16	2	-
B747-200	349	21.3	16	5	21	21	21	21	21	-	-
B747-200F	-	20.0	5	5	10	12	12	12	12	-	-
DC10-40	281	27.2	19	2	21	18	13	5	0	-	-
DC10-30	273	22.7	16	8	24	24	24	24	21	-	-
A330-300	302	-	-	-	0	0	0	6	14	40	/1 8
B757-300	219	-	-	-	0	0	6	18	20	20	/2 -
B757-200	190	11.3	15	33	48	53	53	53	53	5	-
B727-200	149	22.2	25	-	25	21	11	0	0	-	-
A320	148	7.1	35	35	70	74	75	81	82	12	19
A319	124	0.9	12	12	24	33	55	74	74	50	31
DC9-50	125	22.7	35	-	35	35	35	35	35	-	-
DC9-41	110	32.4	12	-	12	12	12	12	12	-	-
DC9-30	100	31.8	102	13	115	114	112	110	107	-	-
DC9-10	78	34.2	10	-	10	9	8	8	8	-	-
Total Aircraft			302	127	429	440	453	475	475	129	58
Average Age of Fleet			-	-	20.4	20.2	19.5	18.3	18.6		
Average Age of Fleet ex-DC9s			-	-	13.8	13.3	12.2	10.6	10.6		
Avro RJ85	69		11	25	36	36	36	36	36	-	-
CRJ-200	50		-	12	12	31	41	49	54	41	70
Total Jet Aircraft (w/regionals)					477	507	530	560	565	170	128
Average Age of Fleet (w/regionals)					18.5	17.8	17.1	16.1	16.3		

/1 Includes 16 orders fully cancelable by NW

/2 NW has right to convert later deliveries to B757-200

As of April 2001



Southwest Airlines - Fleet Plan

Aircraft Type	Seats	Average Age (in years)	# of Aircraft
737-200	122	19	33
737-300	137	9.7	194
737-500	122	9.9	25
737-700	137	1.5	100
Total Q101		8.3	352

Note: As of April 2001

Type	2001	2002	2003	2004	2005	2006	2007	2008-2012	Total
Firm Orders	25	27	13	29	5	22	25	0	146
Options	0	0	13	13	18	18	0	25	87
Purchase Rights	0	0	0	0	0	0	20	197	217
Total	25	27	26	42	23	40	45	222	450

Note: As of April 2001

Source: Company reports

TWA - Fleet Plan

Aircraft	YE 2000	2001	2002	2003	YE 2003
B717	15	15			30
B727	0				0
B757	27				27
B767	16	(7)	(3)	(6)	0
DC-9	22	(13)	(1)	(8)	0
MD-80	103				103
Total	183	(5)	(4)	(14)	160
INCR'L MD80	0	3	2		5

Note: 5/10/01
 Note: TWA is now part of American Airlines

Source: Company reports



UAL - Fleet Plan

Additions		2003		
		2001E	2002E	and Beyond (E)
A319		15	22	7
A320		18	22	8
B767-300		2	0	0
B777-200		8	5	0
Total		43	49	15
Retirements		2003		
		2001E	2002E	and Beyond (E)
B727-200A		25	25	25
DC10-30		3	0	0
Total		28	25	25
Year-end Aircraft		2000	2001E	2002E
A319		32	47	69
A320		68	86	108
B727-200A		75	50	25
B737-200A		24	24	24
B737-300		101	101	101
B737-500		57	57	57
B747-400		44	44	44
B757-200		98	98	98
B767-200		19	19	19
B767-300		35	37	37
B777-200		48	56	61
DC10-30		3	0	0
Total		604	619	643

Note: As of 12/31/00

Source: Company reports

US Airways - Fleet Plan

Aircraft	Fleet Count as of 3/31/01	Average Seats	Average Age	Owned	Leased	Total
A330-300	9	266	1.4	9	0	9
B767-200	11	203	12.6	8	3	11
B757-200	34	182	11.2	23	11	34
B737-400	54	144	12	19	35	54
MD-80	31	141	19.6	16	5	21
B737-300	85	126	14.7	11	74	85
B737-200	43	118	18.8	39	3	42
DC-9-30	7	0	0	0	0	0
F-100	40	97	11.1	36	4	40
A320 Family	99	136	1.7	42	71	113
Average Total	413	138	10.6	203	206	409

Note: As of 4/10/01

Source: Company reports

The World's Top-25 Airlines

<u>RPK's (000,000)</u>		<u>Operating Revenue (000)</u>		<u>Passengers (000)</u>		<u>Fleet Size (Aircraft)</u>	
1 United	201,873	1 UAL Corp.	\$18,027,000	1 Delta	105,534	1 American	697
2 American	177,334	2 AMR Corp.	\$17,730,000	2 United	86,580	2 FedEx	650
3 Delta	168,596	3 Japan Airlines Group	\$15,150,000	3 American	81,507	3 United	594
4 Northwest	119,336	4 Delta	\$15,051,000	4 Southwest	57,500	4 Delta	584
5 British Airways	117,463	5 FedEx	\$14,508,367	5 Northwest	56,114	5 Northwest	423
6 Continental	93,367	6 British Airways	\$14,304,000	6 US Airways	55,812	6 US Airways	398
7 Air France	83,736	7 Lufthansa Group	\$12,847,527	7 Continental	44,012	7 Continental	370
8 Japan Airlines	82,904	8 All Nippon Group	\$11,305,112	8 All Nippon	42,743	8 Southwest	318
9 Lufthansa	81,401	9 Northwest	\$10,276,000	9 Lufthansa	38,872	9 British Airways	283
10 US Airways	66,875	10 Air France Group	\$9,922,299	10 Air France	37,028	10 Lufthansa	240
11 Singapore	64,529	11 Continental	\$8,639,000	11 British Airways	36,346	11 American Eagle	240
12 KLM	58,903	12 US Airways	\$8,460,000	12 Japan Airlines	32,933	12 Air France	234
13 Southwest	58,695	13 SAirGroup	\$8,135,351	13 TWA	25,854	13 UPS	231
14 Qantas	58,134	14 KLM Group	\$6,050,888	14 Iberia	24,274	14 Iberia	172
15 All Nippon	56,725	15 Qantas	\$5,584,591	15 Alitalia	24,048	15 Air Canada	157
16 TWA	41,945	16 SAS Group	\$4,868,888	16 SAS	22,225	16 America West	153
17 Cathay Pacific	41,503	17 Singapore Airlines	\$4,773,680	17 Japan Air System	20,597	17 SAS	152
18 Air Canada	39,005	18 Southwest	\$4,735,587	18 Korean	20,537	18 Alitalia	152
19 Thai Int'l	38,534	19 Air Canada	\$4,480,145	19 America West	18,704	19 Continental Express	149
20 Alitalia	36,689	20 Korean	\$4,218,794	20 Qantas	16,692	20 All Nippon	141
21 Korean	36,662	21 Iberia	\$3,877,980	21 Thai Int'l	16,593	21 TWA	138
22 Iberia	35,379	22 Cathay Pacific	\$3,693,947	22 Malaysia	15,659	22 Japan Airlines	138
23 Swissair	34,670	23 TWA	\$3,308,712	23 Air Canada	15,200	23 Mesa Airlines	135
24 Malaysia	32,238	24 Airborne Express	\$3,140,226	24 China Southern	15,112	24 Aeroflot Russian	121
25 America West	28,497	25 Thai	\$2,833,000	25 Swissair	14,501	25 Comair	109

Note: American and TWA have merged

Note: Table published in June 2000

Source: AirTransport World





Airline Alliances

Star Alliance:	Revenue	Expense	Op. Income	Net Income	Passengers	RPKs	FTKs	Fleet
Air Canada	\$4,480	\$4,134	\$346	\$147	15.2	39,005	1,260	157
Air New Zealand	\$1,783	\$1,703	\$80	\$114	6.5	19,665	833	76
All Nippon Group	\$11,305	\$11,010	\$295	(\$142)	42.7	56,725	1,509	141
Ansett Group	\$2,321	\$2,223	\$98	\$104	13.4	16,964	na	65
Austrian Air Group	\$1,259	\$1,257	\$2	\$13	3.8	7,891	87	35
British Midland	\$981	na	na	\$22	6.5	4,774	7	50
Lufthansa Group	\$12,848	\$11,831	\$1,017	\$633	38.9	81,401	7,072	240
Mexicana	na	na	na	na	7.9	11,994	64	51
SAS Group	\$4,869	\$4,545	\$324	\$217	22.2	21,243	741	152
Singapore Airlines	\$4,774	\$4,298	\$476	\$737	13.5	64,529	5,482	91
Thai	\$2,833	\$2,381	\$452	\$140	16.6	38,534	1,673	74
UAL Corp.	\$18,027	\$16,636	\$1,391	\$1,235	86.6	201,873	3,581	594
Varig	\$2,500	na	na	(\$54)	10.1	23,624	1,084	80
Total	\$67,979	\$60,018	\$4,479	\$3,165	283.9	588,223	23,393	1,806
oneworld:	Revenue	Expense	Op. Income	Net Income	Passengers	RPKs	FTKs	Fleet
Aer Lingus	na	na	na	na	6.5	8,155	138	36
AMR Corp.	\$17,730	\$16,574	\$1,156	\$985	81.5	177,334	2,511	697
British Airways	\$14,304	\$14,170	\$134	(\$34)	36.3	117,463	4,536	283
Cathay Pacific	\$3,694	\$3,331	\$363	\$282	10.5	41,503	3,770	62
Finnair	na	na	na	na	8.1	21,137	80	57
Iberia	\$3,878	\$3,820	\$58	\$154	24.3	35,379	823	172
LanChile	\$1,237	\$1,186	\$51	\$48	4.3	9,738	1,737	50
Quantas	\$5,585	\$5,121	\$464	\$279	16.7	58,134	na	100
Total	\$46,427	\$44,201	\$2,226	\$1,713	188.2	468,843	13,595	1,457
Delta/AirFrance/Aeromexico/Korean:	Revenue	Expense	Op. Income	Net Income	Passengers	RPKs	FTKs	Fleet
Aeromexico	na	na	na	na	8.6	12,190	91	95
Air France Group	\$9,922	\$9,577	\$345	\$340	37.0	83,736	4,727	234
Delta	\$15,051	\$13,695	\$1,356	\$1,285	105.5	168,596	1,985	584
Korean Air	\$4,219	\$4,060	\$159	\$226	20.5	36,662	5,962	107
Total	\$29,192	\$27,332	\$1,860	\$1,851	171.6	301,184	12,765	1,020
"Wings":	Revenue	Expense	Op. Income	Net Income	Passengers	RPKs	FTKs	Fleet
Continental	\$8,639	\$8,039	\$600	\$455	44	93,367	1,115	370
KLM Group	\$6,051	\$5,960	\$91	\$324	na	58,903	4,149	96
Northwest	\$10,276	\$9,562	\$714	\$300	56.1	119,336	3,016	423
Total	\$24,966	\$23,561	\$1,405	\$1,079	100.1	271,606	8,280	889
The Qualiflyer Group:	Revenue	Expense	Op. Income	Net Income	Passengers	RPKs	FTKs	Fleet
Air Europe	na	na	na	na	0.9	na	na	11
Air Littoral	na	na	na	na	na	na	na	na
AOM	na	na	na	na	na	na	na	na
Crossair	\$729	\$683	\$46	\$33	6	na	na	78
LOT	\$639	\$639	\$0.87	\$0.85	2.6	na	na	30
Portugalia	na	na	na	na	0.84	701	1	12
Sabena	\$2,074	na	na	(\$14)	9.97	17,693	na	46
Swissair Group	\$8,135	\$7,714	\$422	\$171	14.5	34,670	1,949	73
TAP	na	na	na	na	4.8	9,380	204	34
Turkish	na	na	na	(\$121)	10.5	14,019	288	74
Volare	na	na	na	na	na	na	na	na

Note: Table published in June 2000

Source: AirTransport World



U.S. Carriers - Fleet Plan

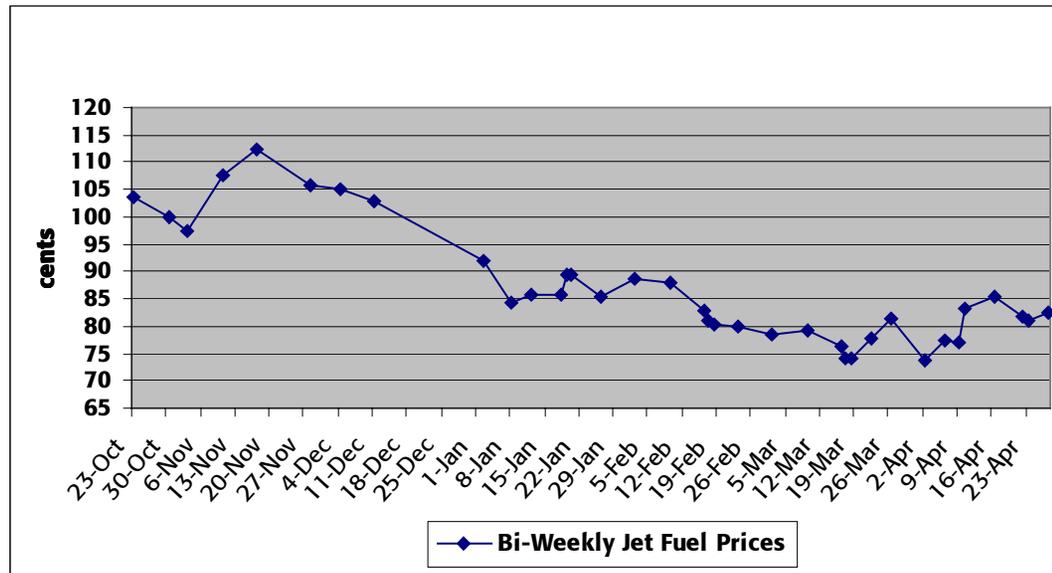
AirTran (53)		American Trans Air (53)		Delta (584)		Northwest (423)		United (594)	
DC-9-30	35	L-1011	18	777-200	7	747-400	14	747-400	43
737-200	10	757-200	11	767-300	47	747-200	21	747-200	7
717-200	8	727-200	24	767-300*	32	747-200F	10	777-200	40
On Order:		On order:		757-200	15	757-200	48	767-300ER	32
717-200	42	757-200	2	757-200	65	727-200	31	767-200	19
Option:		737-800	37	757-200*	41	DC-10-40	21	757-200	98
717-200	50	757-300	10	737-800	16	DC-10-30	22	737-500	57
				737-300*	26	DC-9-50	35	737-300	101
				737-200	1	DC-9-40	12	737-200	24
				737-200*	53	DC-9-30	115	727-200	75
Alaska (89)		America West (153)		727-200	94	DC-9-10	10	DC-10-30	7
MD-83	29	757-200	13	727-200*	10	A319-100	14	DC-10-10	7
MD-82	5	737-300	47	L-1011	26	A320-200	70	A320	56
737-400	40	737-200	14	MD-88	63	On order:		A319	28
737-200	8	CRJ	16	MD-88*	57	A320	12	On order:	
737-700	7	A320	40	MD-11	8	757-200	25	777-200	21
On order:		A319	11	MD-11*	7	A319	55	767-300	5
737-700	12	DHC-8	12	MD-90	16	A330	16	A320	30
737-900	10	On order:		On order:		Option:		A319	19
Option:		A318-100	10	777-200	6	A319	182	747-400	1
737-700	1	A319-100	14	767-300	8			Option:	
737-900	10	A320-200	14	767-400	21	Southwest (318)		777-200	34
737-400	9	Option:		757-200	15	737-500	25		
		A318-100	16	737-800	112	737-300	194	US Airways (398)	
		A319-100	40	Option:		737-200	35	767-200ER	12
		A320-200	9	777-200	20	737-700	64	757-200	34
American (697)				767-300	11	On order:		737-400	54
777-200IGW	12	Continental (370)		767-400	24	737-700	29	737-300	85
767-200	8	757-200	40	757-200	20			737-200	59
767-200ER	22	777-200	15	737-800	60	TWA (183)		727-200	4
767-300ER	49	747-200	1			757-200	2	A319-100	31
757-200	102	737-500	67	Frontier (22)		757-200*	24	A320	15
737-800	24	737-700	36	737-200	7	767-200	5	MD-80	31
727-200	68	737-800	41	737-300	15	767-200*	5	DC-9-30	33
MD-11	10	737-300	65	On order:		767-300*	6	Fokker 100	40
DC-10-10	3	727-200	4	A319	6	727-200	2	On order:	
DC-10-30	5	DC-10-30	29	A318	5	727-200*	8	A319	39
MD-80	279	MD-80	69	A319*	15	MD-80/82*	41	A320	35
MD-90	5	DC-9-30	3	A318*	1	MD-83*	61	A321	34
A300-600R	35	On order:		Option:		DC-9-30*	29	A330-300	9
Fokker 100	75	777-200	1	A319/320	9	On order:		Option:	
On order:		757-200	1			717-200	50	A330-300	7
737-800	81	737-800	1			A318	50		
757-200	6	737-900	15	Midwest Express (34)		757-200	1	US Airways Shuttle (19)	
777-200IGW	26	767-200ER	10	DC-9	24	767-300ER	2	A320-200	5
		Option:		MD-80	10	Option:		727-200	10
		757-200	20			717-200	50	737-300	3
						A320 family	75	DC-9-30	1

* Leased

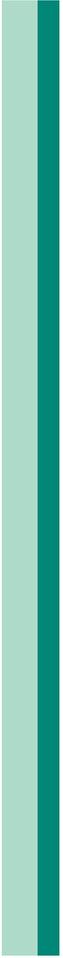
Note: American and TWA have merged

Source: Air Transport World

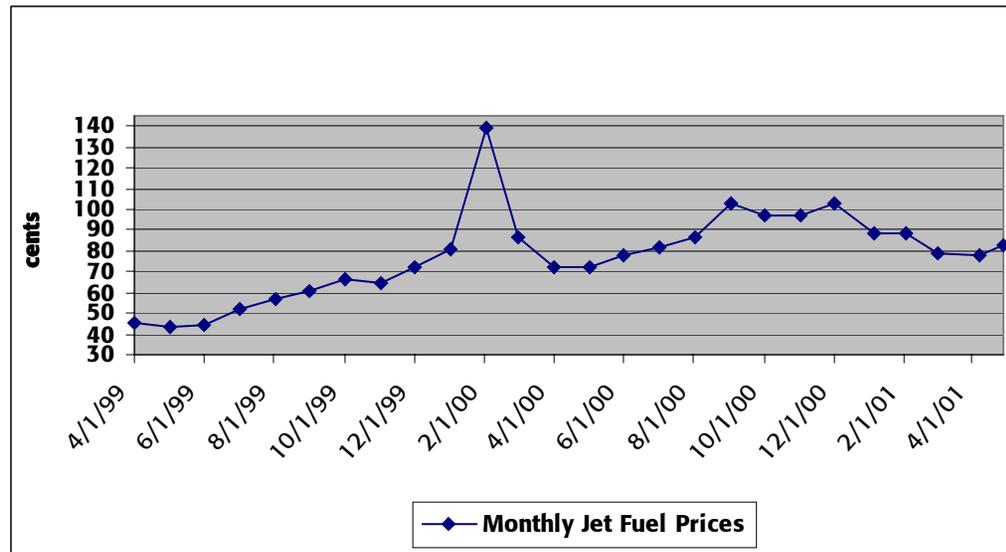
6 Month - Jet Fuel Prices



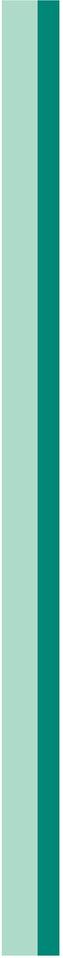
Source: Bloomberg



2 Year - Jet Fuel Prices



Source: Bloomberg

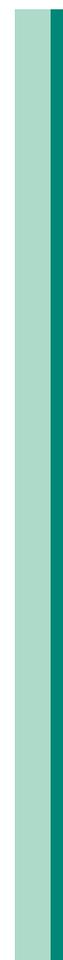


Fuel Hedging

Carrier	Q201	Q301	Q401	2001	Details
Alaska	23%	23%	23%	23%	Hedges at prices of approximately \$30 per barrel. Crude oil call options
America West	60%	30%	20	nm	Heating oil futures. Prices not disclosed.
American	48.20%	51.70%	45.50%	48%	Hedged at approximately \$23.50 per barrel for all quarters.
Continental	50%	None	None	nm	Q1 hedged at \$0.86 (swap price); Q2 hedged at \$0.85 (capped)
Delta	60%	nm	nm	48%	Q2 hedged at \$0.70
Northwest	None	None	None	None	None
Southwest	80%	80%	80%	80%	Q1 hedged @ \$23; Q2 hedged @ \$22; Q3 hedged @\$22; Q4 hedged @\$22; 2001 average hedge @ \$22. \$0.82 Cap. Heating oil based. Excludes FAS 133 impact
UAL	None	None	None	None	None
US Airways	None	None	None	nm	Q1 hedged @ \$0.79 per gallon

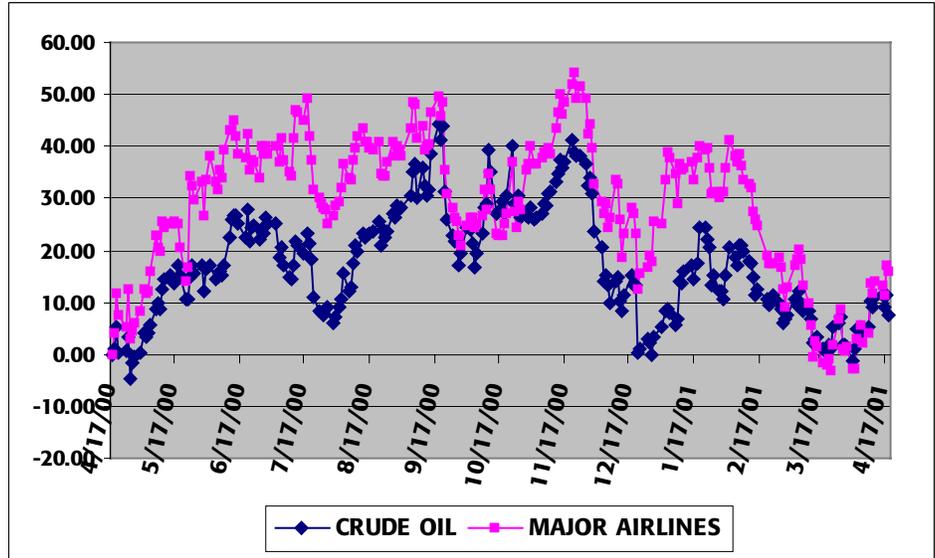
Note: As of 4/30/01

Source: Company reports



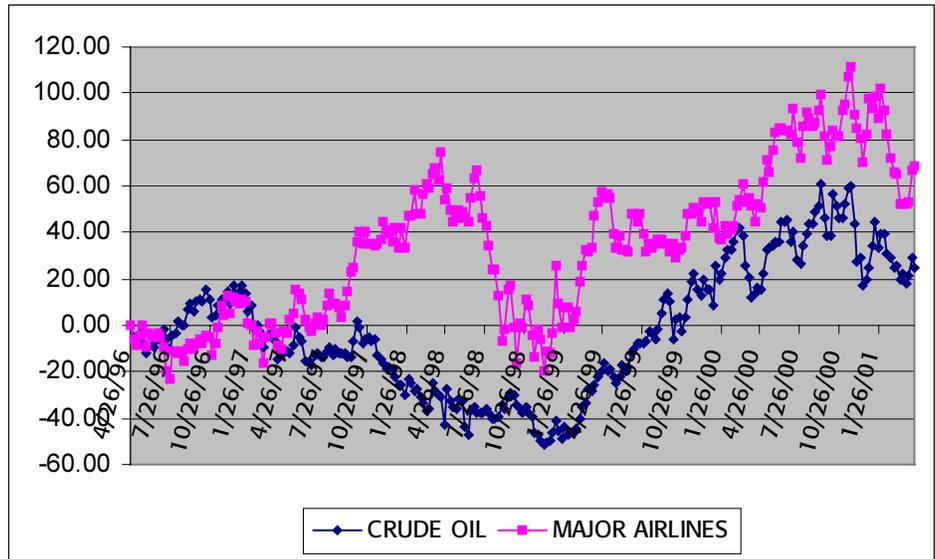


1 year price comparison



Source: Baseline

5 year price comparison



Source: Baseline



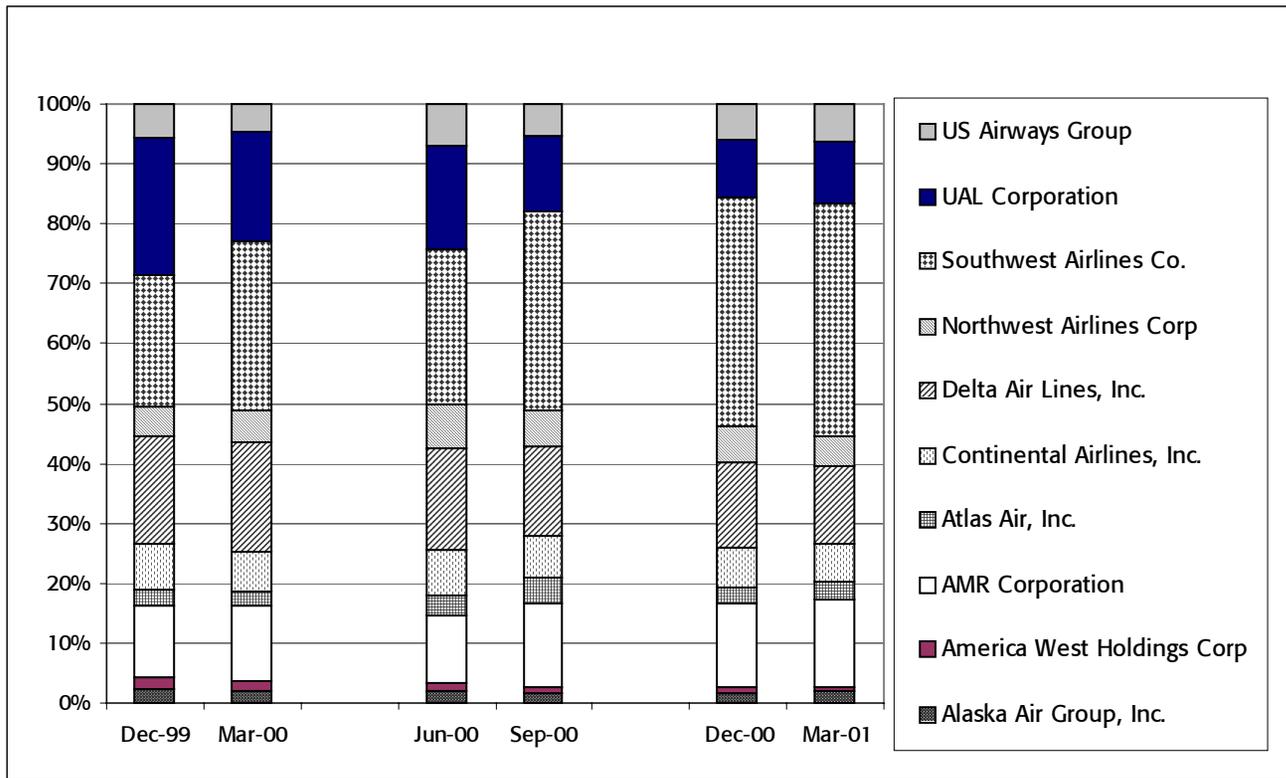
Market Capitalization - Ten Major Domestic Carriers

	12/30/99			3/31/00			6/30/00			9/30/00			12/31/00		
	Shares (mln)	Price	Market Cap.												
Alaska Air Group, Inc.	26.507	35.13	931.06	26.426	30.06	794.43	26.498	27.13	718.76	26.49	24.00	635.76	26.49	29.75	788.08
America West Holdings Corp	39.432	20.75	818.21	36.955	15.50	572.80	36.749	17.13	629.33	34.764	12.19	423.69	34.764	12.81	445.41
AMR Corporation	157	29.96	4,703.87	154	31.88	4,908.75	164	26.44	4,335.75	164	32.75	5,371.00	164	39.19	6,426.75
Atlas Air, Inc.	34.5	27.44	946.59	34.608	27.38	947.39	36.021	35.88	1,292.25	38.618	42.25	1,631.61	38.618	32.63	1,259.91
Continental Airlines, Inc.	68.9	44.38	3,057.44	64.2	40.88	2,624.18	62.2	47.02	2,924.37	61.1	45.44	2,776.23	61.1	51.63	3,154.29
Delta Air Lines, Inc.	140.023	49.81	6,974.90	133.587	53.25	7,113.51	130.95	50.56	6,621.16	130.532	44.38	5,792.36	130.532	50.19	6,551.07
Northwest Airlines Corp	92	22.25	2,047.00	92	22.63	2,081.50	92	30.44	2,800.25	93	24.56	2,284.31	93	30.13	2,801.63
Southwest Airlines Co.	532.918	16.13	8,593.30	526.36	20.81	10,955.13	528.713	18.94	10,012.77	531.032	24.25	12,877.53	531.032	33.53	17,805.50
UAL Corporation	115.7	77.56	8,973.98	116.1	60.50	7,024.05	116.8	58.17	6,794.48	116.5	42.00	4,893.00	116.5	38.94	4,536.22
US Airways Group	69.347	32.06	2,223.44	66.5	27.81	1,849.53	68.282	39.00	2,663.00	67.056	30.44	2,041.02	67.056	40.56	2,719.96
Total 10 Airlines			39,269.79			38,871.27			38,792.11			38,726.50			46,488.82

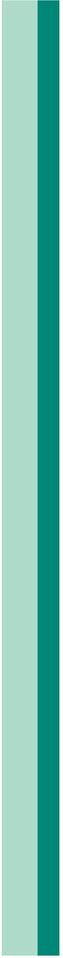
Source: ABN Amro, Inc calculations



Market Capitalization - Ten Major Domestic Carriers

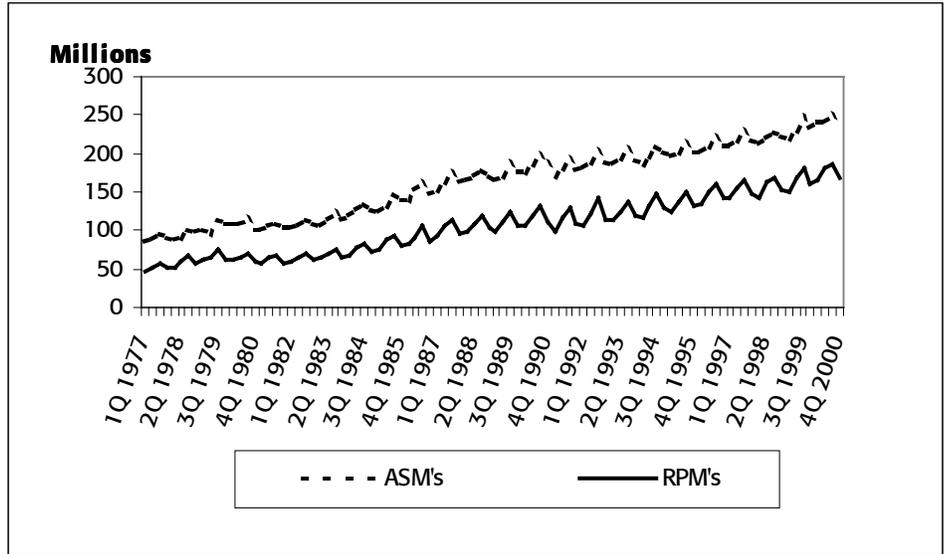


Source: ABN Amro, Inc. calculations



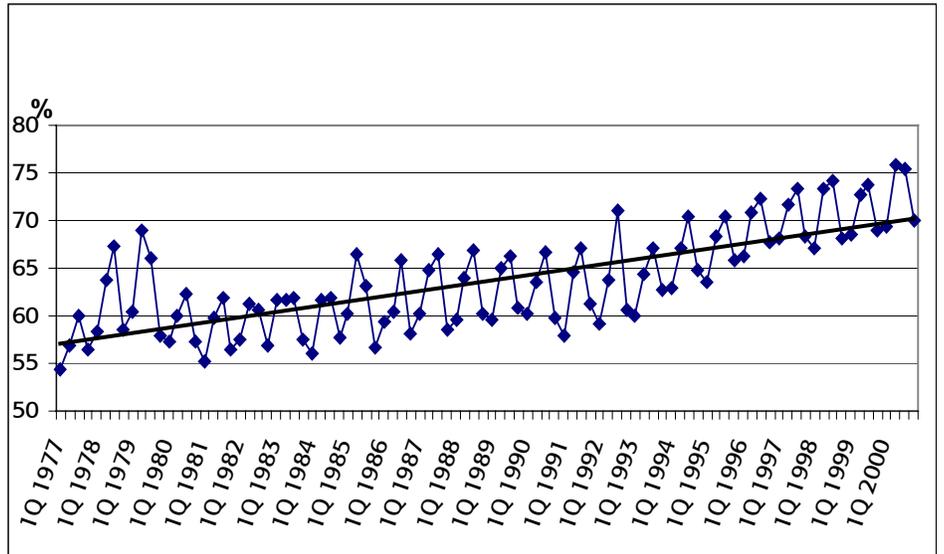


Airline Industry - RPMs and ASMs



Source: SH&E International Air Transport Consultants

Airline Industry - Load Factors



Source: SH&E International Air Transport Consultants

U.S. Industry Traffic Share - March Quarter 2001 (in thousands)

3 Months 2001	RPMs	Share (%)	ASMs	Share (%)	LF (%)		
1 . United	28,764,109	17.83	1 . United	42,080,902	17.73	1 . Spirit	76.5
2 . American	26,436,056	16.39	2 . American	38,944,484	16.41	2 . Hawaiian	76.5
3 . Delta	24,025,988	14.89	3 . Delta	35,653,305	15.02	3 . Northwest	73.1
4 . Northwest	18,265,950	11.32	4 . Northwest	24,986,926	10.53	4 . ATA	71.0
5 . Continental	15,113,892	9.37	5 . Continental	21,455,832	9.04	5 . AirTran	70.5
6 . US Airways	11,403,045	7.07	6 . US Airways	17,233,731	7.26	6 . Continental	70.4
7 . Southwest	10,661,624	6.61	7 . Southwest	15,852,999	6.68	7 . America West	69.1
8 . TWA	5,775,818	3.58	8 . TWA	8,958,801	3.78	8 . United	68.4
9 . America West	4,875,498	3.02	9 . America West	7,055,749	2.97	9 . American	67.9
10 . ATA	2,921,580	1.81	10 . Alaska	4,428,000	1.87	10 . Delta	67.4
11 . Alaska	2,895,000	1.79	11 . ATA	4,114,255	1.73	11 . Southwest	67.3
12 . Hawaiian	1,307,136	0.81	12 . Hawaiian	1,708,327	0.72	12 . USAirways	66.2
13 . AirTran	1,124,550	0.70	13 . AirTran	1,594,737	0.67	13 . Alaska	65.4
14 . Spirit	889,142	0.55	14 . American Eagle	1,383,364	0.58	14 . TWA	64.5
15 . American Eagle	747,114	0.46	15 . Continental Express	1,289,072	0.54	15 . Midway Airlines	63.6
16 . Continental Express	733,349	0.45	16 . Comair	1,183,754	0.50	16 . Air Wisconsin	62.4
17 . Comair	720,974	0.45	17 . Spirit	1,161,905	0.49	17 . Horizon	61.8
18 . Frontier	660,726	0.41	18 . Frontier	1,097,489	0.46	18 . Comair	60.9
19 . Atlantic SE	537,564	0.33	19 . Atlantic SE	889,532	0.37	19 . Atlantic SE	60.4
20 . Midwest Express	483,051	0.30	20 . Midwest Express	834,431	0.35	20 . Frontier	60.2
21 . Midway Airlines	448,800	0.28	21 . Mesa	817,119	0.34	21 . Vanguard	59.9
22 . Mesa	406,925	0.25	22 . Mesaba	735,645	0.31	22 . Midwest Express	57.9
23 . Mesaba	395,396	0.25	23 . Midway Airlines	706,000	0.30	23 . Continental Express	56.9
24 . Atlantic Coast	339,628	0.21	24 . Atlantic Coast	689,618	0.29	24 . Executive	55.1
25 . Horizon	335,700	0.21	25 . US Airways Express	629,955	0.27	25 . American Eagle	54.0
26 . US Airways Express	322,230	0.20	26 . Horizon	543,200	0.23	26 . Mesaba	53.7
27 . Air Wisconsin	307,949	0.19	27 . Air Wisconsin	493,578	0.21	27 . US Airways Express	51.2
28 . Vanguard	238,811	0.15	28 . Vanguard	398,542	0.17	28 . Mesa	49.8
29 . Executive	112,814	0.07	29 . Executive	204,562	0.09	29 . Atlantic Coast	49.2
30 . Great Lakes	52,709	0.03	30 . Great Lakes	118,126	0.05	30 . Great Lakes	44.6
31 . Skyway	30,844	0.02	31 . Skyway	72,915	0.03	31 . Skyway	42.3
Total	161,333,972		Total	237,316,855			68.0

Source: Aviation Daily



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