



Role of Regional Jets in Small Markets

Impact of Recent Terrorist Attacks and the Ongoing War in Afghanistan

Presented by:

Tulinda Larsen, Managing Director

Aviation Strategic Consulting

January 2002

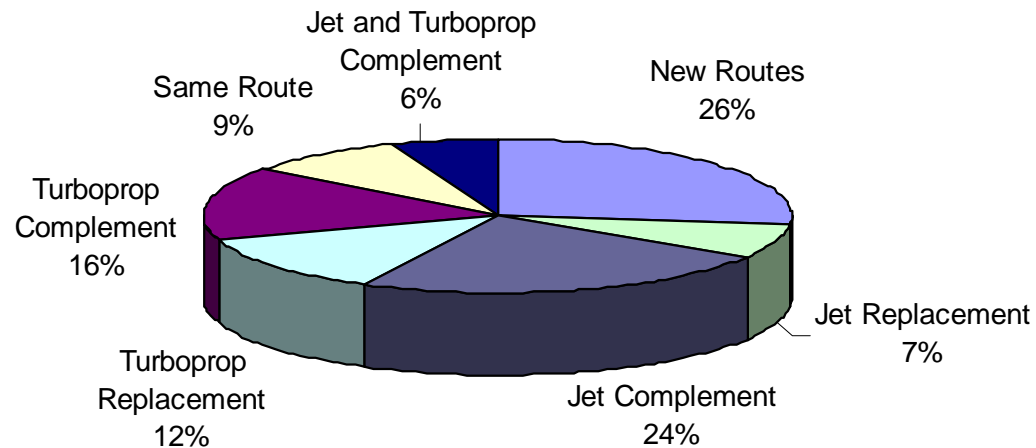
Solutions for the Aviation Industry

Today I will ...

- Analyze RJs deployment prior to September 11th
- Look at the impact of September 11th
- Discuss RJ impact on Small Market Airports

Prior to September 11th, Regional Jets were used primarily to open new routes and complement mainline jets - only 12% of RJ routes replaced Turboprops

Regional Jets Development Since April 1998



Source: BACK Schedule Data

However, 560 turboprop routes were dropped between April 1998 and April 2002

Markets With Service in 1998, but Not in 2001			
<u>Carrier</u>	<u>Mainline Jet</u>	<u>Turboprop</u>	<u>Total</u>
American	10	38	48
Continental	12	46	58
Delta	64	64	128
Northwest	22	67	89
United	23	138	161
US Airways	14	197	211
Total Discontinued Service	145	550	695

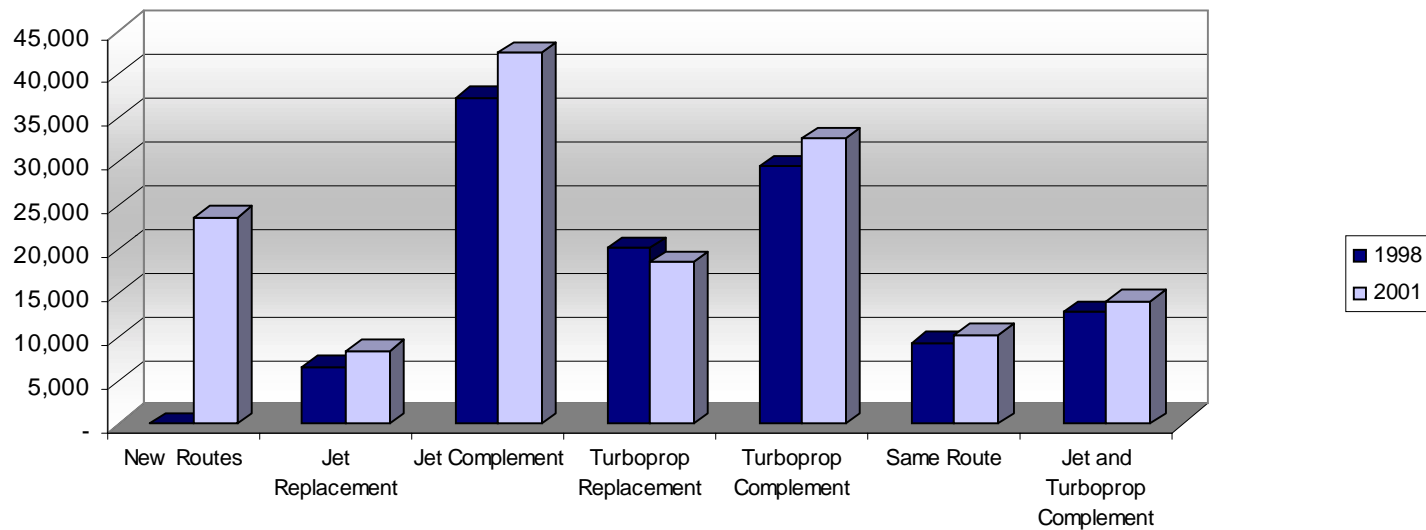
Notes: Data for April 1998 and April 2001, Source: June 2001 OAG Data

April 2001 data was used to eliminate the impact of the Comair strike.

American Airlines did not have any RJ service in 1998.

RJs were used with greater frequency in mainline jet complement markets than other types of routes

**Total Monthly Flight Comparison in Subject Markets
April 1998 vs April 2001**



Source: BACK Schedule Data

Mainline carriers deploy RJs differently -

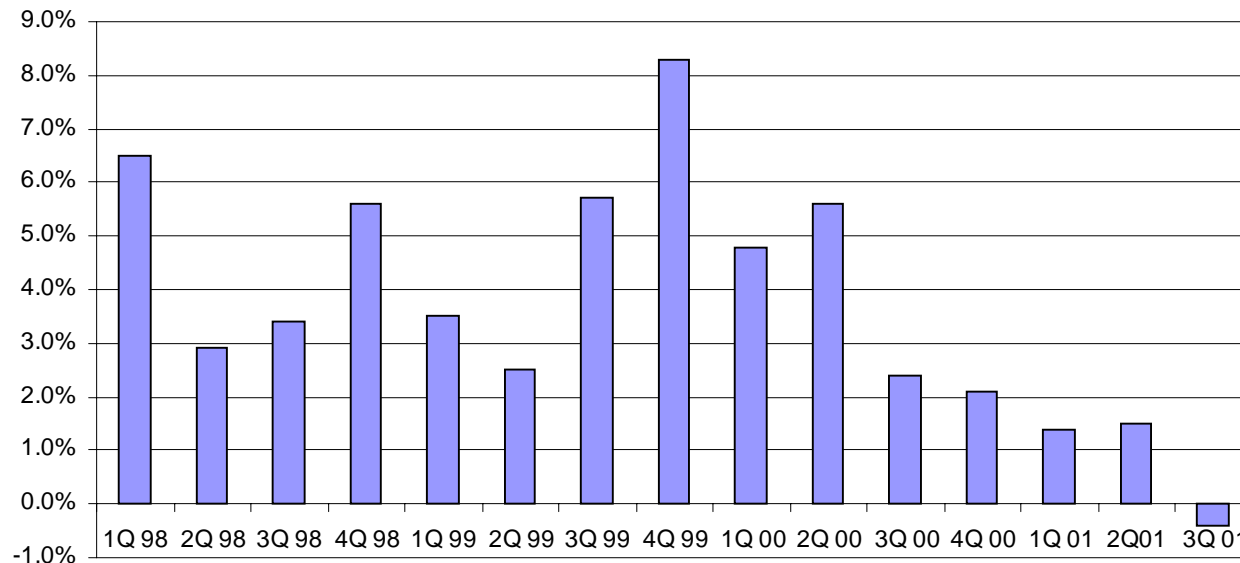
<u>RJ Service Type</u>	<u>American</u>	<u>Continental</u>	<u>Delta</u>	<u>Northwest</u>	<u>United</u>	<u>US Airways</u>	<u>Total</u>
New Routes	48.0%	30.1%	24.0%	7.1%	29.8%	24.2%	27.1%
Jet Replacement	0.0%	6.5%	8.5%	4.7%	5.3%	13.7%	6.8%
Jet Complement	2.7%	24.7%	31.5%	38.6%	7.9%	25.8%	23.6%
Turboprop Replacement	28.7%	9.1%	11.0%	9.4%	9.3%	6.5%	12.1%
Turboprop Complement	16.7%	15.6%	12.0%	17.3%	25.2%	14.5%	15.8%
Same Route	0.0%	10.8%	11.5%	0.0%	19.9%	4.0%	8.9%
<u>Jet and Turboprop Complement</u>	<u>4.0%</u>	<u>3.2%</u>	<u>1.5%</u>	<u>22.8%</u>	<u>2.6%</u>	<u>11.3%</u>	<u>5.7%</u>
Total RJ Market Share	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BACK Schedule Data

The US economy is in a recession exasperated by the events of September 11th

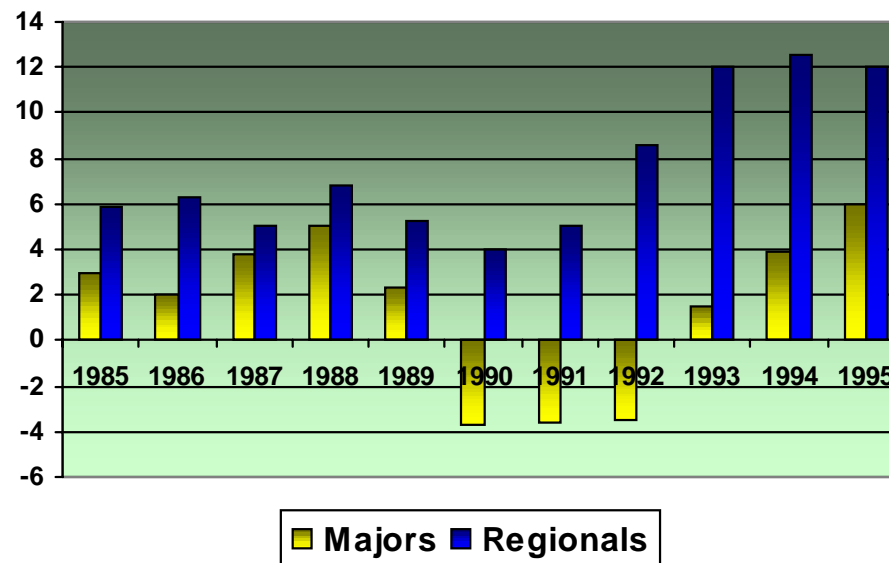
- US economy dramatically slowed with GDP at -.4% in 3Q 2001
 - With a forecast of -1.5% in 4Q 2002
 - Versus 1.4% in 4Q2000 and 8.3% in 4Q 1999

U.S. GDP



Regional airlines may escape the recession, based on performance in the last recession...

Operating Margins of U.S. Majors and Regionals in the Last Recession



A long recovery can benefit regionals

- If the recovery is steep and short, mainline carriers are likely to go back to pre September 11th market strategies
- If the recovery is long, mainline carriers will be forced to restructure operations
 - Mainline carriers will need to seriously address the low-fare carriers
 - Discount airline within and airline failed (Metrojet, Shuttle by United)
- In a long recovery the mainline carriers will need to ...
 - Lower labor costs
 - Permanently eliminate positions
 - Renegotiate pilot contracts
 - Scope clause will come under pressure to be eliminated
 - Significantly restructure fleet
 - Move more routes to lower cost providers, i.e. regionals
 - Reduce the cost of distribution
 - More travel bookings on airline website

Regional airlines have mixed impacts

- Regionals are being asked to reduce margins (i.e. renegotiate fee for departure contracts) to share in economic pain of mainline
- Due to softening demand, mainline airlines are evaluating profitability on a route by route basis with regional partners asked to serve routes that are now marginal to mainline
 - While regional airlines are picking up mainline routes, they are evaluating and eliminating certain marginal turboprop routes
- Disproportionate impact of security issues borne by regional carriers due to time sensitivity of security delays in short-haul potential “drive” markets

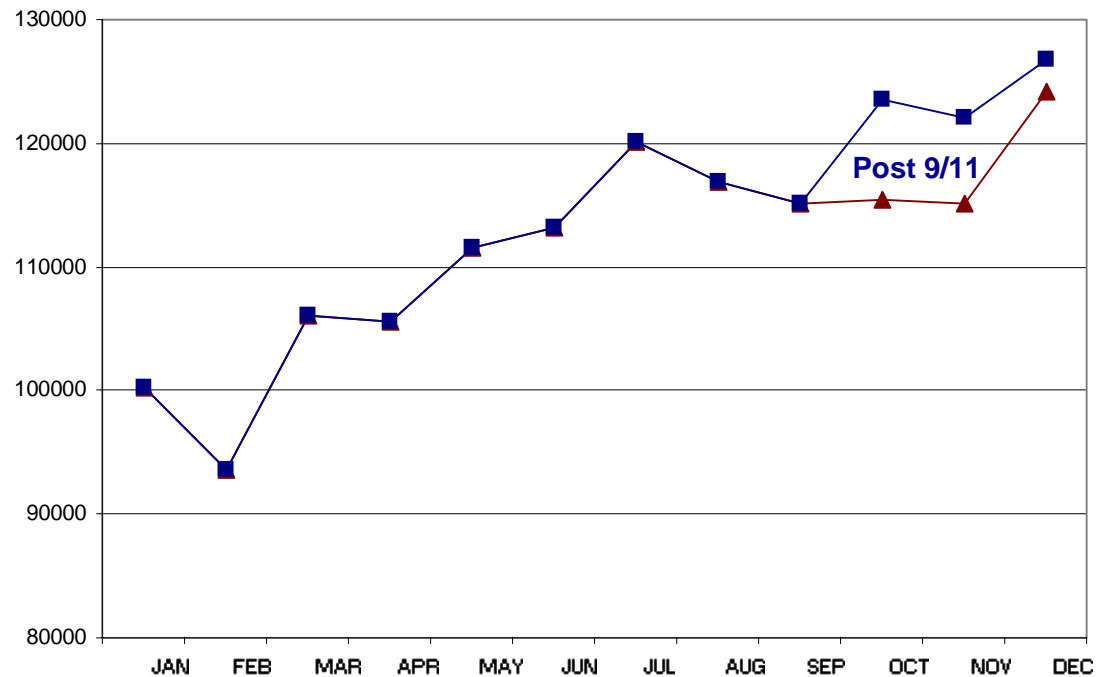
In the US, turboprops have reduced capacity by 1/4, primarily due to reduction in 19-seat flying and lower utilization

Intra-USA Schedule Changes for November 2001			
	Pre 9/11	Post 9/11	%↑↓
RJs			
Departures	128,418	120,440	↓6%
Seat Capacity	6,510,235	6,076,636	↓7%
ASMs	2,675,899,309	2,510,687,929	↓6%
Turboprops			
Departures	249,525	205,036	↓22%
Seat Capacity	7,133,714	5,716,054	↓25%
ASMs	1,360,563,063	1,078,011,672	↓26%

Source: BACK Schedule Data

RJs returned to pre- September 11th levels in December

Intra-USA: RJs

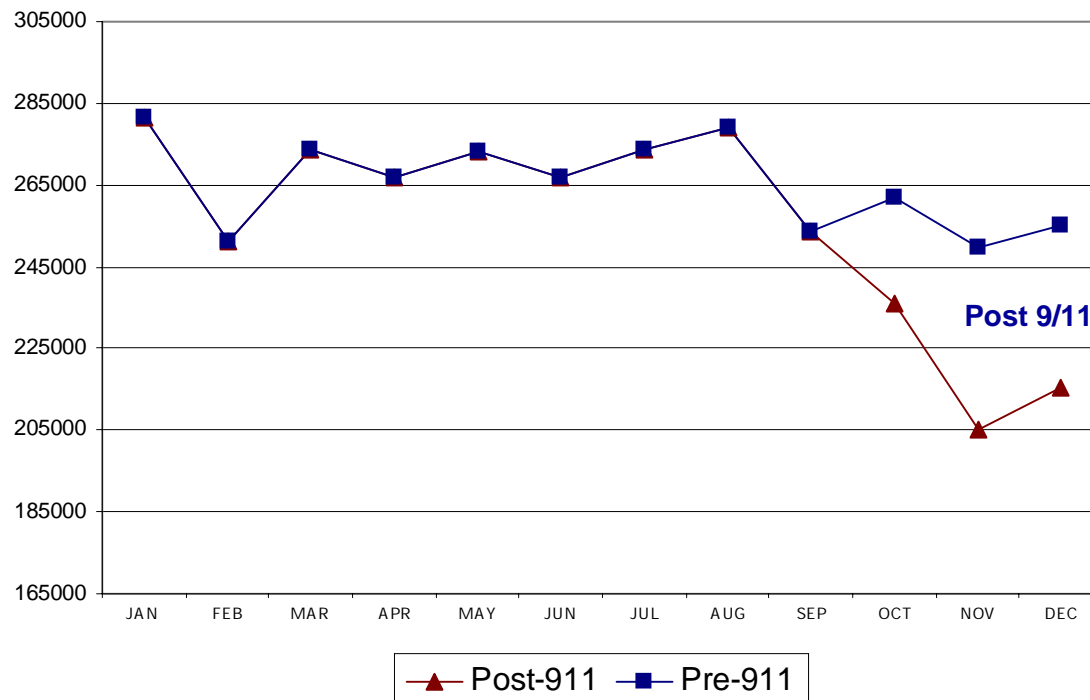


Note: Scheduled Flights

Source: BACK Schedule Data

Turboprops had a much more dramatic drop off, but began to return to pre-September 11th levels in December

Intra-USA: Turboprops



Note: Scheduled Flights

Source: BACK Schedule Data

January 2001 versus January 2002 - over 100 route have been transferred from mainline airlines to the regional partners

	Routes transferred
AA	3
CO	16
DL	19
NW	11
UA	24
US	36
Total	109

Source: BACK Schedule Data
 January 2001 versus January 2002

So what has been the impact on small market airports of RJs?

- As regionals move to RJs, turboprop routes have been dropped
- RJs are focused on hub networks
 - primarily complement and replace mainline jet service to hub
 - Many airports enplaning 400,000 to 800,000 passengers have had mainline jets replaced by RJs

Aviation Strategic Consulting

BACK Aviation Solutions

1701 K Street N.W. Suite 750

Washington, D.C. 20006

T: 202 721 0231 F: 202 721 0169

website: www.BACKaviation.com