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LOGAN INTERNATIONAL AIRPORT

2

Activity Levels

Introduction

This chapter presents aviation activity statistics for Logan Airport in 2005 and compares current year activity to the prior year. Air passengers, aircraft operations, fleet mix, and cargo and mail volumes in 2005 are compared to 2004 levels.

Key Findings

Highlights for 2005 are:

- Air passenger traffic at Logan Airport continued to rebound in 2005, but remained below the peak year level reached in 2000. The total number of passengers using Logan Airport in 2005 increased by 3.6 percent over the prior year to 27.1 million passengers. Although the recovery in passenger demand was underway in 2005 throughout the industry and at Logan Airport, legacy commercial airlines continued to struggle financially in the face of increased competition from low cost carriers (LCCs)¹ and rising fuel prices.
- In 2005, total aircraft operations (409,066 operations) at Logan Airport increased by 0.9 percent over 2004 levels. Reductions in operations by legacy carriers at Logan Airport were accompanied by rising load factors; growth in operations by LCCs accounted for the modest increase in operations from 2004.
- While 2005 passenger traffic at Logan Airport was approximately equal to 1999 levels, these passengers are being carried on 86,000 fewer flights (495,000 flights in 1999 versus 409,000 flights in 2005).
- In 2005, Logan Airport ranked 18th among United States (US) airports in total cargo volume. All-cargo operations at Logan Airport declined by 7.1 percent in 2005. However, total cargo volume, including cargo carried in the belly compartments of passenger aircraft, fell by only 2.8 percent.

¹ Major low cost carriers (LCCs) operating in the US during 2005 were Air Tran, American Trans Air, America West, Frontier, Independence Air, JetBlue, Song, Southwest, and Spirit Airlines.

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Airport Passengers in 2005

The total number of passengers using Logan Airport in 2005 increased by 3.6 percent over the prior year to 27.1 million passengers, as shown in Table 2-1. During the same period, total passenger enplanements in the US increased at a slightly higher rate, growing by 4.2 percent in 2005.² Since the downturn in 2001, the pace of passenger traffic recovery at Logan Airport has been slower than the national experience. In 2005, Logan Airport's passenger traffic was 2.3 percent lower than its 2000 peak year level. In contrast, nationwide enplanements in 2005 were approximately 6.2 percent higher than enplanements in 2000. Since 1990, US airline industry enplanements have risen by 48 percent, while Logan Airport air passenger totals have grown by 18 percent. Rapid growth at Manchester Airport, NH and T.F. Green Airport, Warwick RI, spurred by the entry of Southwest Airlines in the late 1990s, has caused Logan Airport to accommodate a decreased share of the total growth in the region's passenger traffic.

Logan Airport is an origin-destination airport and is not a hub for any of the network carriers due to its location in the northeast corner of the country. Logan Airport was the 11th largest origin-destination market in the US in 2005. Approximately 90 percent of Logan Airport's 2005 passengers began or ended their air trips in Boston.

Figure 2-1 shows the distribution of Logan Airport passengers by market segment. As shown in Table 2-1, domestic passengers, Logan Airport's largest market segment, increased by 4.1 percent and accounted for 83.9 percent of total passengers. The average nonstop stage length of domestic flights at Logan Airport in 2005 was 708 miles.

Table 2-1 Air Passengers by Market Segment									
	1990	2000	2001	2002	2003	2004	2005	Percent of Total Passengers in 2005	Percent Change (2004 - 2005)
Domestic	78%	23,100,645	20,070,039	18,725,422	18,890,079	21,830,294	22,728,788	83.91%	4.12%
International	15%	4,513,912	4,301,250	3,882,257	3,815,987	4,201,638	4,237,105	15.64%	0.84%
Europe/Middle East	NA	2,948,452	2,661,471	2,469,822	2,435,997	2,590,225	2,629,823	9.71%	1.53%
Canada	NA	833,669	733,559	670,457	564,018	622,098	682,904	2.52%	9.77%
Bermuda/Caribbean ¹	NA	693,620	905,962	728,992	786,574	911,757	845,863	3.12%	(7.23%)
Asia/Pacific	NA	37,451	258 ²	0	0	0	0	0.00%	—
Central/South America	NA	0	0	12,986	29,398	77,558	78,515	0.29%	1.23%
General Aviation	7%	112,996	103,641	88,462	85,103	110,584	122,012	0.45%	10.33%
Total Passengers	100%	27,726,833	24,474,930	22,696,141	22,791,169	26,142,516	27,087,905	100.00%	3.62%

Source: Massport

1 Includes Puerto Rico and US Virgin Islands.

2 The only operation directly serving Asia/Pacific was one charter flight that occurred during September 2001.

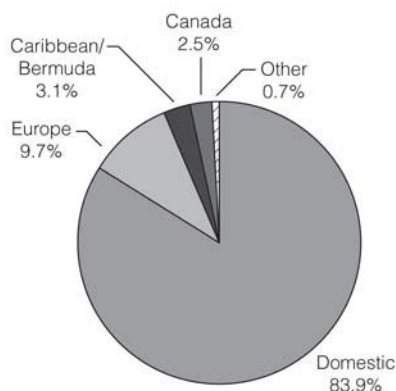
Note: Total passengers - The sum of domestic, international, and GA markets.

NA = Not Available.

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Figure 2-1 Distribution of Logan Airport Passengers by Market Segment - 2005



Source: Massport

In 2005, international passenger traffic at Logan Airport grew by 0.8 percent. Europe is the dominant market destination, accounting for 62.1 percent of Logan Airport's international passengers and 9.7 percent of total passengers. Travel to/from destinations in Canada grew significantly faster than any other scheduled market segment at 9.8 percent; traffic to/from the Caribbean (including Bermuda) declined by over 7.2 percent after a 16 percent jump during 2004. Latin American passenger numbers were stable, with 1.2 percent growth between 2004 and 2005. While the swings in the Canadian and Caribbean/Bermuda markets were large, these markets account for 36 percent of Logan Airport international passengers and 6 percent of total airport passengers. Logan Airport also experienced a 10.3 percent increase in the number of general aviation (GA) passengers in 2005, associated with an increase in corporate jet travel. However, GA passengers account for less than 0.5 percent of total airport passengers.

Aircraft Operations in 2005

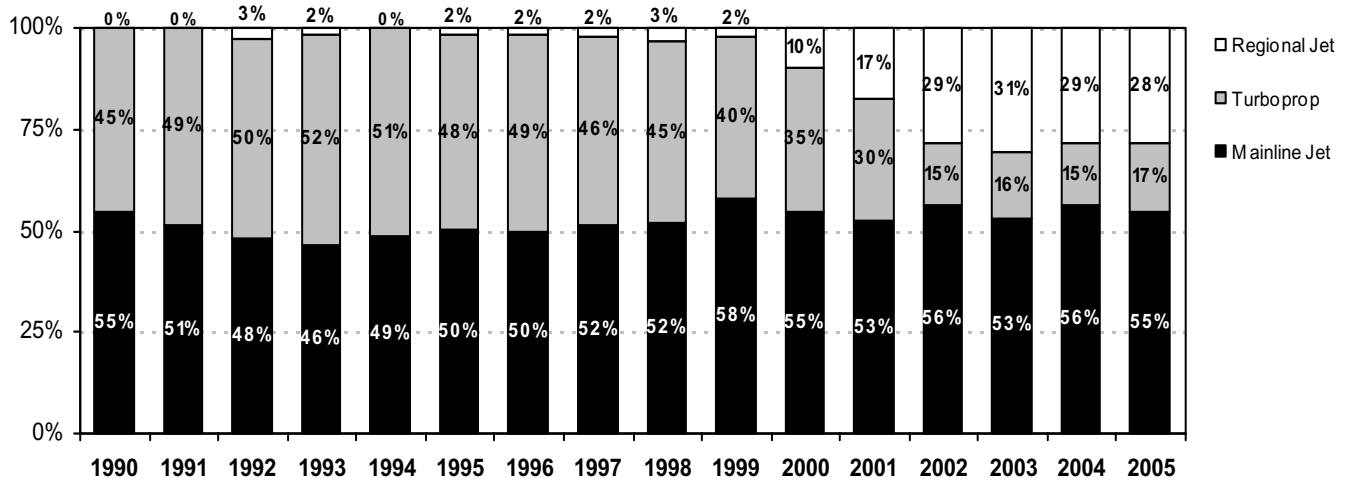
In 2005, total aircraft operations at Logan Airport increased by 0.9 percent, to 409,000 operations, as shown in Table 2-2. Aircraft operations grew at a slower rate than airport passengers, as airlines increased passenger load factors, captured operational efficiencies, and made greater use of larger regional jets. Total operations by mainline passenger jets decreased by 5.3 percent in 2005. This decrease was offset by an 11.6 percent increase in regional jet operations. Regional jet operations returned to rapid growth in 2005 after growing just 1.7 percent in 2004. Regional jet operations at Logan Airport have tripled since 2000, similar to the growth observed for the US as a whole. In 2005, the number of Logan Airport non-jet passenger operations increased by 4.9 percent compared to 2004. In 2005, non-jet operations (58,960) were 64 percent below the level of non-jet activity in 2000 (163,045 operations).

The change in the mix of scheduled passenger flights at Logan Airport over the last fifteen years is shown in Figure 2-2. Most significantly, non-jet operations (turbo prop), which accounted for more than 50 percent of total scheduled flights in the early 1990s now represent just 17 percent of scheduled operations.

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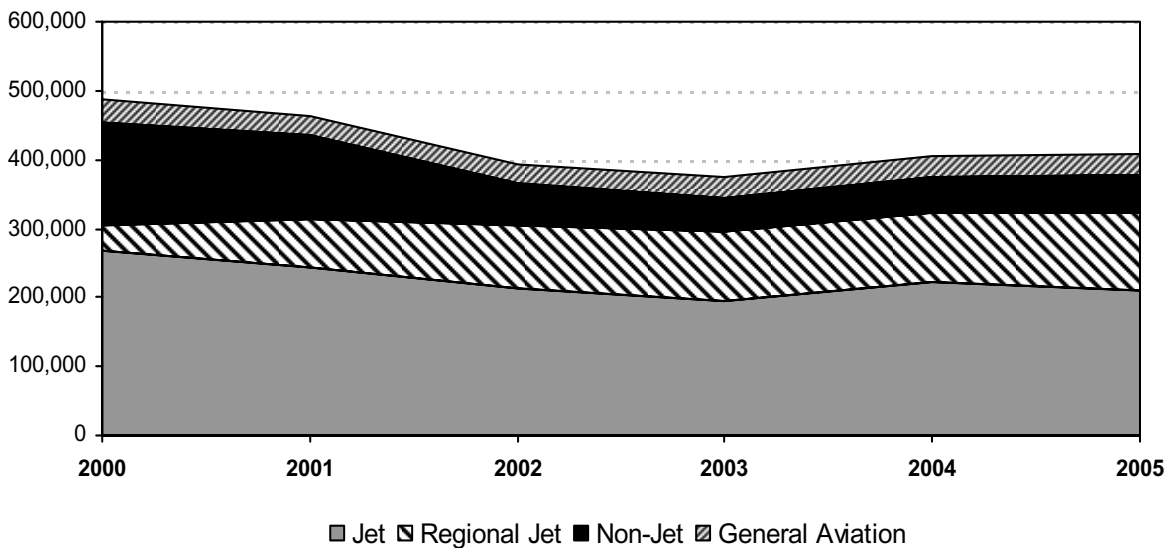
Figure 2-2 Mix of Scheduled Passenger Aircraft Operations at Logan Airport by Aircraft Class



Source: Official Airline Guide, (August 1990 through August 2006)
 Note: All totals based on scheduled August departures. Percentages may not add due to rounding.

General aviation operations increased by 4.5 percent due mainly to an increase in GA jet activity, which is the fastest growing segment of the US general aviation industry; non-jet GA operations fell by 16.0 percent from the 2004 level. Cargo operations fell 7.1 percent from 2004 levels. Together, GA and cargo operations represent 10.2 percent of total aircraft operations at Logan Airport, an increase of 0.1 percent from 2004. Figure 2-3 depicts the changes in Logan Airport aircraft operations by aircraft type since 2000.

Figure 2-3 Aircraft Operations at Logan Airport by Aircraft Class



Source: Massport
 Note: GA operations may include jet or non-jet aircraft.

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Table 2-2 Logan Airport Aircraft Operations									
Category	2000	2001	2002	2003	2004	Percent of Total (2004)	2005	Percent of Total (2005)	Percent Change (2004 - 2005)
Operations by Aircraft Class									
Jet	287,351	259,643	228,911	215,266	245,397	61%	236,221	58%	(3.74%)
Regional Jet	37,600	70,533	93,493	100,336	102,039	25%	113,886	28%	11.61%
Non-Jet	163,045	132,948	69,675	57,702	57,823	14%	58,960	14%	1.97%
Total Operations	487,996	463,125	392,079	373,304	405,258	100%	409,066	100%	0.94%
Operations by Type and Aircraft Class									
Passenger Jet	254,968	233,431	202,313	185,166	212,723	52%	201,502	49%	(5.27%)
Passenger Regional Jet	37,600	70,533	93,493	100,336	102,039	25%	113,886	28%	11.61%
Passenger Non-Jet	147,913	119,103	60,663	49,520	49,672	12%	52,114	13%	4.92%
Total Passenger Operations	440,481	423,068	356,469	335,022	364,433	90%	367,501	90%	0.84%
General Aviation Jet	20,595	15,056	16,586	20,480	23,085	6%	25,806	6%	11.79%
General Aviation Non-Jet	14,638	13,683	9,010	8,180	8,151	2%	6,846	2%	(16.01%)
Total General Aviation Operations	35,233	28,739	25,596	28,660	31,236	8%	32,652	8%	4.53%
Cargo Jet	11,788	11,156	10,012	9,620	9,589	2%	8,913	2%	(7.05%)
Cargo Non-Jet	494	162	2	2	0	0%	0	0%	
Total Cargo Operations	12,282	11,318	10,014	9,622	9,589	2%	8,913	2%	(7.05%)
Total Operations	487,996	463,125	392,079	373,304	405,258	100%	409,066	100%	0.94%

Source: Massport

Note: Percentages may not add due to rounding.

Low Cost Carrier Trends in 2005

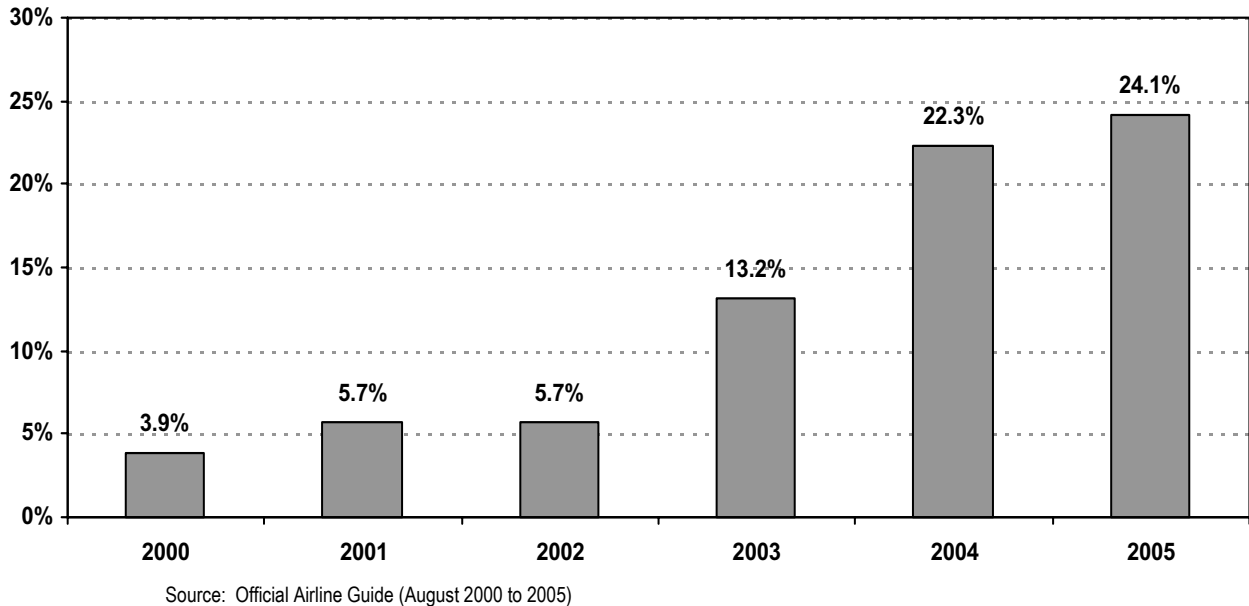
LCCs have increased their presence in the US aviation industry and this trend was reflected at Logan Airport in 2005. Operations by LCCs at Logan Airport increased by 13.5 percent over the prior year.³ During the same period, the legacy carriers, who have struggled financially since 2001, decreased their domestic operations at Logan Airport by 0.7 percent. LCCs providing service out of Logan Airport in 2005 included JetBlue, Air Tran, Song, America West, Independence Air, and American Trans Air. Figure 2-4 shows the increase in seat capacity offered by LCCs since 2000.

³ Includes flights operated by Song, a low-fare subsidiary of Delta Air Lines.

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Figure 2-4 Low Cost Carrier Share of Scheduled Daily Domestic Seat Capacity at Logan Airport, 2000 to 2005



Passengers and Operations Trends in 2005

Air carriers showed further gains in operational efficiency in 2005 as the average number of passengers per aircraft operation increased. In 2005, Logan Airport operations accommodated an average of 66.2 passengers per flight compared to 64.5 passengers in 2004, as shown in Table 2-3. The average number of passengers per flight has risen by 22.8 percent since 1990. This is a reflection of the airlines' continued emphasis on capacity rationalization as they seek to return to profitability, the increase in LCC services, which are typically operated with narrow body jet aircraft and higher passenger load factors, and the use of larger regional jets on Logan Airport routes.

While the load factor on flights at Logan Airport has historically been below the national average, the gap has closed in recent years, as shown in Figure 2-5. In 2005, the average domestic load factor for flights at Logan Airport was 70.8 percent, compared with a national average of 72.7 percent. In contrast, during 2000 Logan Airport's average domestic load factor was 61.1 percent, compared with a national average of 67.6 percent.

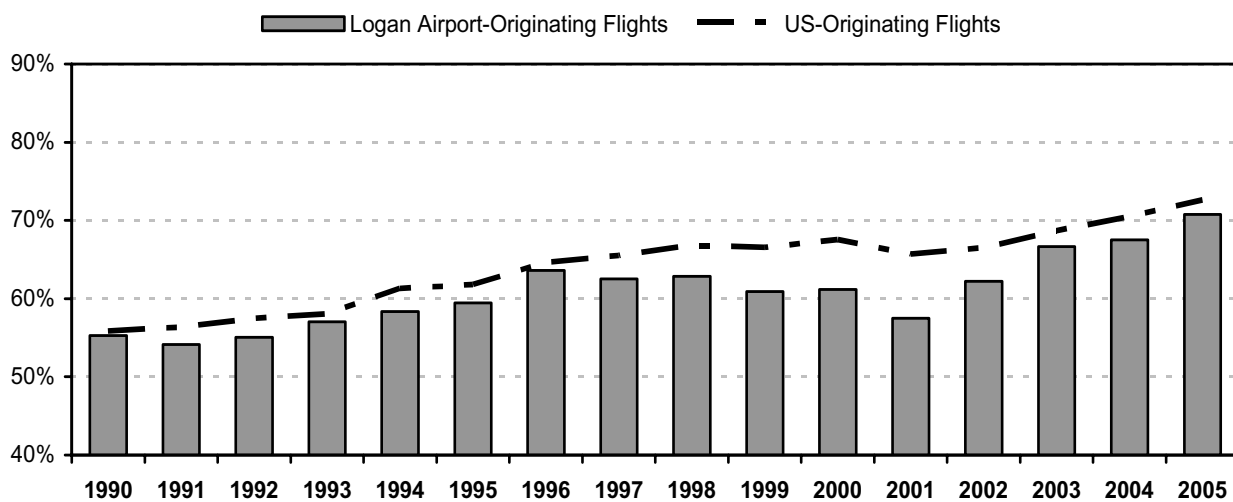
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Table 2-3 Air Passengers and Aircraft Operations						
Year	Air Passengers	Percent Change	Aircraft Operations	Percent Change	Average Passengers Per Operation	Net Change from Previous Year
1990	22,878,191	—	424,568	—	53.9	—
1991	21,450,143	(6.24%)	430,403	1.37%	49.8	(4.0)
1992	22,723,138	5.93%	474,378	10.22%	47.9	(1.9)
1993	23,579,726	3.77%	493,093	3.95%	47.8	(0.1)
1994	24,468,178	3.77%	458,623	-6.99%	53.4	5.5
1995	24,192,095	(1.13%)	466,327	1.68%	51.9	(1.5)
1996	25,134,826	3.90%	456,226	(2.17%)	55.1	3.2
1997	25,567,888	1.72%	482,542	5.77%	53.0	(2.1)
1998	26,526,708	3.75%	507,449	5.16%	52.3	(0.7)
1999	27,052,078	1.98%	494,816	(2.49%)	54.7	2.4
2000	27,726,833	2.49%	487,996	(1.38%)	56.8	2.1
2001	24,474,930	(11.73%)	463,125	(5.10%)	52.8	(4.0)
2002	22,696,141	(7.27%)	392,079	(15.34%)	57.9	5.1
2003	22,791,169	0.42%	373,304	(4.79%)	61.1	3.2
2004	26,142,516	14.70%	405,258	8.56%	64.5	3.4
2005	27,087,905	3.62%	409,066	0.94%	66.2	1.7

Source : Massport

Figure 2-5 Overall Load Factor, Logan Airport-Originating Flights and US-Originating Flights



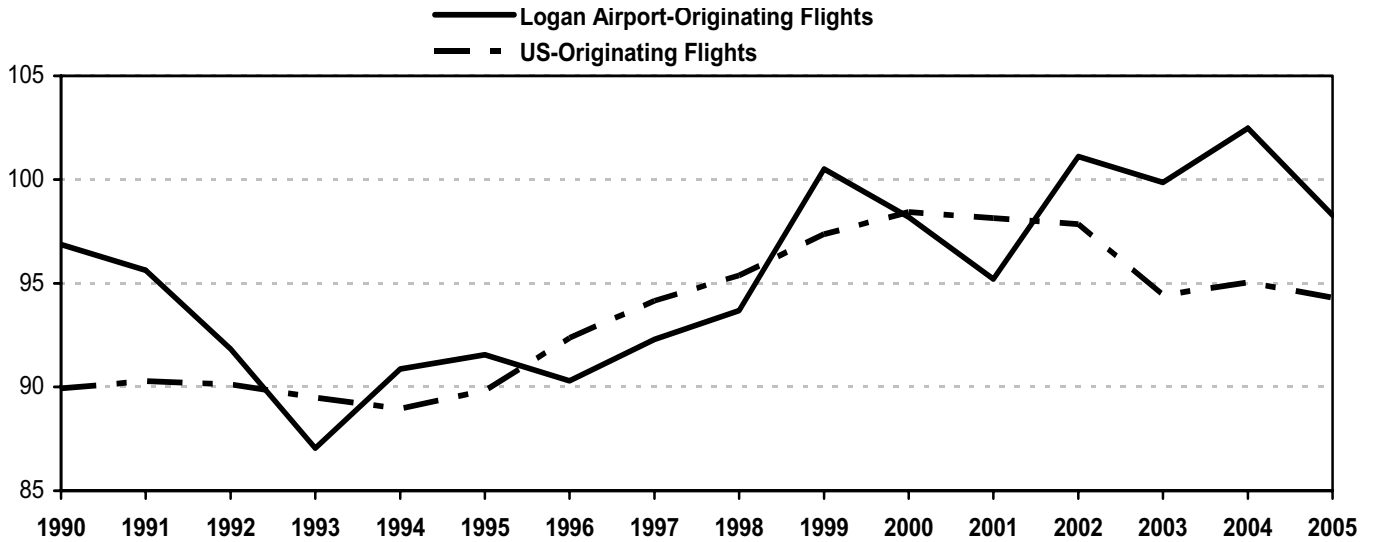
Source: US DOT T100 Database
 Note: Domestic Only, US Carriers Only.

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The average number of seats per scheduled passenger flight at Logan Airport was 98 in 2005, up from a low of 87 in 1993. Since 2002, the average number of seats per scheduled passenger flight at Logan Airport has been higher than the national average, as shown in Figure 2-6. The average size of a regional jet leaving Logan Airport was 46 seats in 2005, up from 40 in 2004.

Figure 2-6 Average Seats Per Scheduled Departure, Logan Airport Flights and Domestic US Flights



Source: Official Airline Guide (August 1990-August 2005)

Airline Passenger Service in 2005

In 2005, over 50 airlines provided scheduled or charter passenger service from Logan Airport to more than 100 nonstop destinations. This section describes the major changes in Logan Airport's scheduled passenger services during 2005.

Changes in Domestic Passenger Service

American Airlines, US Airways, Delta Air Lines, Cape Air, and United were the predominant carriers at Logan Airport in 2005 based on aircraft operations. The ranking was unchanged from 2004. Legacy carriers overall flew 6.1 percent fewer domestic operations in 2005 than in 2004. Total domestic passenger operations were up 1.4 percent over 2004, buoyed by strong LCC growth.

In 2005, LCCs continued to expand their presence in the Boston market. In its second year in Boston, JetBlue accounted for 15,000 operations at Logan Airport, an increase of 66 percent over its 2004 total, and was the airport's largest LCC. At year-end, JetBlue offered 33 daily departures from Logan Airport and served 12 nonstop destinations. AirTran, another incumbent LCC, increased its operations at Logan Airport by 15 percent in 2005 to 14,500 annual operations. Independence Air, a newly formed LCC in 2004, operated 4,700 domestic passenger flights at Logan Airport in 2005. This was 15 percent fewer flights than Independence Air's 2004 total operations.⁴ In all, LCCs (including Delta Air Lines' Song) accounted for 16.3 percent of

⁴ Independence Air filed for bankruptcy protection in November 2005 and ceased operations in January 2006.

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Logan Airport's domestic passenger airline operations in 2005, compared to 14.5 percent in 2004. American Trans Air ended scheduled service to Logan Airport in November 2005.

One major industry trend in 2005 was a shake-up among the regional carrier affiliates of the legacy airlines. Several of the regional carriers that partnered with mainline Logan Airport airlines in 2004 were no longer present in 2005, and other regional carriers that remained at Logan Airport in 2005 partnered with different mainline carriers. Table 2-4 summarizes the changes in domestic passenger airline operations at Logan Airport between 2003 and 2005. The total volume of commuter traffic rose by 5.3 percent.

Table 2-4 Domestic Passenger Airline Operations at Logan Airport					
Category	2003	2004	2005	Change 2004 - 2005	Percent Change
Total Jet Operations	162,252	193,599	190,991	-2,608	(1.3%)
Legacy/Charter Carriers	135,607	146,411	137,422	-8,989	(6.1%)
Low Cost Carriers	26,645	47,188	53,569	6,381	13.5%
Regional/Commuter	134,108	130,272	137,203	6,931	5.3%
Charter Carriers	467	507	664	157	31.0%
Total Domestic	296,827	324,378	328,858	4,480	1.4%

Source: Massport

Changes in Domestic Markets Served

In 2005, the changes in the domestic destinations included:

- New nonstop service to several destinations was provided in 2005, including Long Beach, California (flown by JetBlue), Allentown/Bethlehem and Wilkes-Barre/Scranton, Pennsylvania (added by Continental), and Kansas City, which was opened by Midwest Express after being dropped in 2003.
- Several markets were served with more frequency in 2005 than in the prior year. Markets that experienced the largest increases in annual operations were Atlanta, New York Kennedy, and Indianapolis. The increase in activity to Atlanta and J.F. Kennedy Airports were driven by LCC expansion and the competitive responses of legacy carriers.
- Services declined in a number of domestic markets as airlines continued to downsize and adjust their air service strategies at Logan Airport and around the US.
 - Airlines reduced scheduled services between Logan Airport and several West Coast markets, including San Francisco, Los Angeles, and Seattle/Tacoma. JetBlue's increase in Long Beach service and a modest increase in American Airlines' service to San Diego offset this trend.
 - Several major airlines reduced services to certain connecting hub markets as they continued to restructure their operations in 2005. For example, both United Airways and American Airlines reduced operations to Chicago O'Hare, and American Airlines reduced its service between Boston and Dallas/Fort Worth while Delta Air Lines dropped service in that market as the carrier eliminated its Dallas/Fort Worth Airport hub operation.

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A complete listing of all changes in scheduled departures by domestic destination can be found in *Appendix E, Activity Levels*.

Changes in International Passenger Service

Total international passenger operations declined by 3.5 percent in 2005, as summarized in Table 2-5.⁵ Both scheduled and non-scheduled international operations declined; the largest declines for scheduled traffic were in the Bermuda/Caribbean sector, where passenger operations decreased by 18 percent following a 17 percent increase in 2004. The European market, which is Logan Airport's second largest international market in terms of operations and the largest in passengers, experienced a 1 percent increase in aircraft operations.

Changes in International Markets Served

Logan Airport added limited new nonstop service in international markets, including:

- Air Canada restarted service to Quebec;
- Cayman Airways began service to Grand Cayman; and
- Finnair added seasonal service to Nykoping, Sweden.

Departures to Caribbean markets dropped significantly:

- Montego Bay service declined by over 50 percent;
- San Juan service fell by 20 percent; and
- Bermuda service fell by over 10 percent.

In addition, the following services were discontinued in 2005:

- SATA International service to the Shetland Islands;
- Aer Lingus service to Dublin (although Shannon service increased 68 percent); and
- American Airlines service to Port-au-Prince.

Category	2000	2001	2002	2003	2004	2005	Change	Percent Change
Scheduled	43,021	44,060	38,217	36,882	38,588	37,575	(1,013)	(2.63%)
Europe/Middle East	13,435	13,206	12,278	11,408	12,085	12,206	121	1.00%
Canada	26,067	24,898	20,750	19,332	18,639	18,914	275	1.48%
Bermuda/Caribbean ¹	3,205	5,956	5,035	5,808	6,838	5,594	(1,244)	(18.19%)
Central/South America	314	0	154	334	1,026	861	(165)	(16.08%)
Non-scheduled	2,141	1,892	1,184	1,313	1,467	1,068	(399)	(27.20%)
Total	45,162	45,952	39,401	38,195	40,055	38,643	(1,412)	(3.53%)

Source: Massport

¹ Includes Puerto Rico and U.S. Virgin Islands.

⁵ Detailed tables of changes in operations by carrier, are presented in *Appendix E, Activity Levels*.

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2005 Cargo Activity Levels

In 2005, Logan Airport ranked 18th among US airports in total cargo volume.⁶ Cargo at Logan Airport is carried in the belly compartments of passenger aircraft or by dedicated all-cargo carriers, such as Federal Express, Airborne Express, and United Parcel Service, in all-freight aircraft. The express/small package segment dominates Logan Airport cargo activity, accounting for 60.2 percent of the total non-mail volume. Table 2-6 shows all-cargo aircraft operations and cargo volumes at Logan Airport since 2000.

All-cargo operations at Logan Airport declined by 7.1 percent in 2005. Total cargo volume, including belly cargo, fell by 2.8 percent. The improving competitiveness of truck delivery underlies the falling all-cargo activity and volume levels. Freight truckers have modified their operations around the idea of guaranteed on-time delivery - in effect, they have developed a scheduled trucking business model. This model allows truckers to compete with airlines and air cargo carriers on cost. As a result, freight operations and volumes declined from 2004 levels at Portland International Jetport, T.F. Green Airport, Manchester Airport, and Logan Airport.

In 2005, the express/small packages and freight volumes dropped below 2004 levels, and airmail volume continued to decline.

	2000	2001	2002	2003	2004	2005	Percent Change (2004 - 2005)	Average Annual Growth (2000 - 2005)
All Cargo Operations								
Jet	11,788	11,156	10,012	9,620	9,589	8,913	(7.05%)	(5.44%)
Non-Jet	494	162	2	2	0	0	NA	NA
Total	12,282	11,318	10,014	9,622	9,589	8,913	(7.05%)	(6.21%)
Volume (lbs.)								
Express/Small Packages	484,490,143	428,066,158	465,138,432	474,271,444	478,584,154	472,605,966	(1.25%)	(0.50%)
Freight	367,857,011	316,731,138	324,471,576	272,566,843	280,690,836	268,911,342	(4.20%)	(6.07%)
Mail	194,902,513	126,454,080	65,842,827	55,756,993	48,412,006	43,728,414	(9.67)	(25.84)
Total	1,047,249,667	871,251,376	855,452,835	802,595,280	807,686,996	785,245,722	(2.78%)	(5.60%)

Source: Massport

Airline Industry Analysis

State of the Airline Industry in 2005

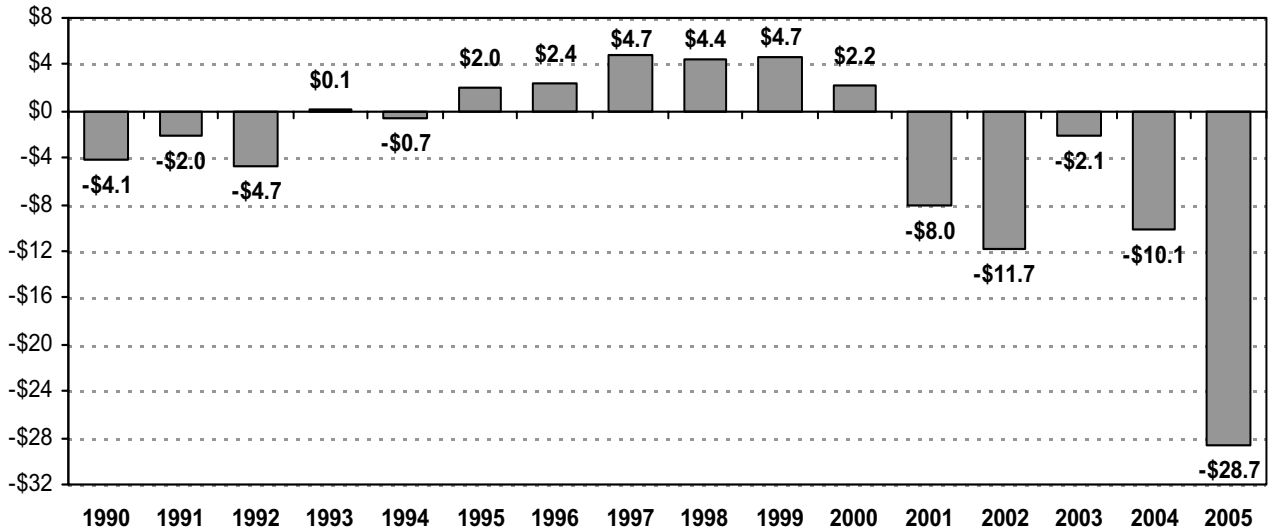
US airlines have experienced unprecedented financial losses since 2000. The network airlines, generally characterized by hub-oriented route networks, lost approximately \$60 billion over the past five years (see Figure 2-7) and are in the process of undergoing massive financial and operational restructuring in an effort to restore profitability and achieve long-term viability.

⁶ Airports Council International, 2005 North America Airport Traffic Statistics, May 2006.

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Figure 2-7 US Scheduled Airlines' Net Income (\$ Billions) - 1990 to 2005



Source: US DOT, Form 41

Note: 2005 figure includes United Airline's restructuring charges of \$20 billion.

Restructuring charges accounted for most of US airlines' net loss in 2005; from an operating perspective, the industry showed significant improvement during 2005. Considering that Figure 2-7 includes United Airlines \$20 billion in restructuring charges, in 2005 there was a reduction in operating loss (operating loss is revenue less operating costs) for all US airlines compared to 2004.

The legacy carriers are responding to their financial distress and growing domestic competition by reducing domestic capacity, refocusing activity on their primary hub markets, increasing their reliance on regional airline affiliates, and aggressively restructuring costs including labor, pensions, and aircraft lease rates, either inside or outside of bankruptcy court.

While some industry observers have predicted the demise of the legacy carriers, these airlines still maintain a revenue advantage over low cost competitors due to their network structure, the ability to participate in a greater number of city-pair markets, a dominant presence in US-international markets, and the ability to access worldwide markets through their international alliances. Their survival has certainly been aided by the continued willingness of investors to provide new capital despite the industry's poor financial performance.

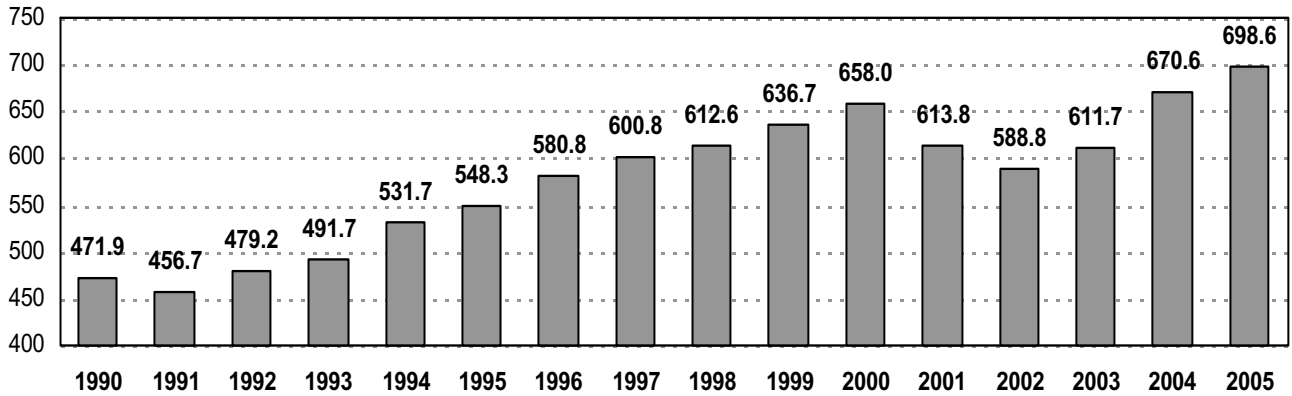
Demand Continues to Recover

Improvement in airline operating results has been driven by both growing revenues and cost structure improvements. Enplanements, which had fallen from 658 million in 2000 to 589 million in 2002 after September 11, 2001 and the 2002 economic downturn, approached 700 million in 2005 (see Figure 2-8). Logan Airport air passenger figures, however, remain slightly below 2000 levels.

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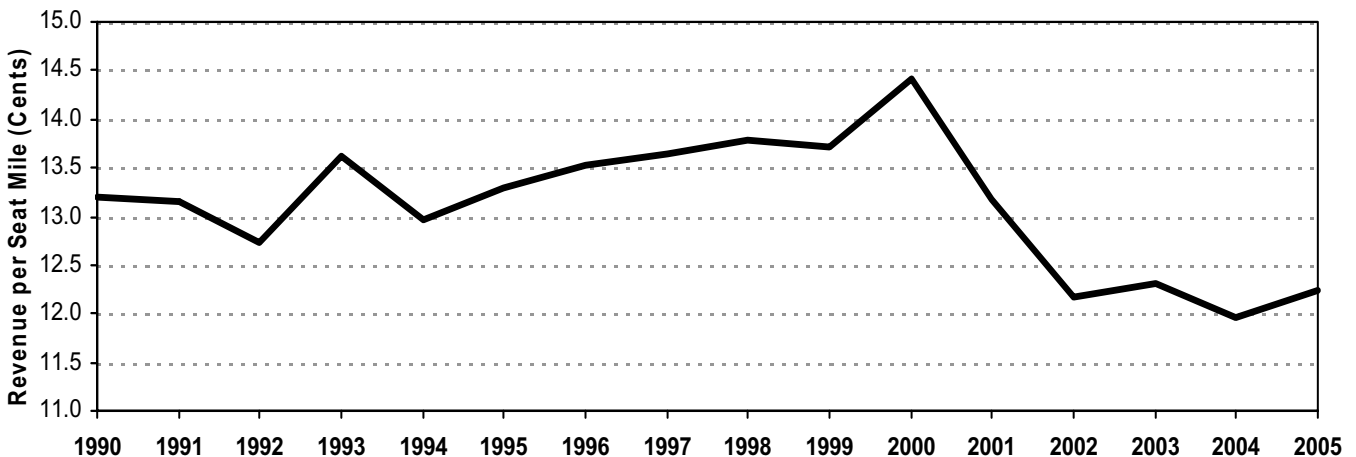
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Figure 2-8 US Scheduled Airline Passenger Enplanements (in Millions) 1990 to 2005



Since 2004 and associated with increases in total passengers, there is a small improvement in airline yield (revenue per passenger mile). Despite the improvements in yield, however, the average domestic yield in 2005 (12.4 cents per passenger mile) was still 15 percent lower than the 14.6 cent yield achieved in 2000, prior to September 11, 2001 and the corresponding industry downturn (see Figure 2-9). The increase in the number of passengers has been accompanied by declines in capacity, as legacy carriers have retired aircraft and used bankruptcy protection to exit aircraft lease agreements. Given the falling capacity and rising enplanements, both load factors and ticket prices rose in 2005, with yields stabilizing after a sharp decline from 2000 to 2002. Unfortunately for airlines in 2005, yields did not rise sufficiently to offset rapidly increasing fuel costs.

Figure 2-9 Average Yield for US Scheduled Domestic Airlines - 2000 to 2005



Source: US DOT, Form 41, Airline Reports

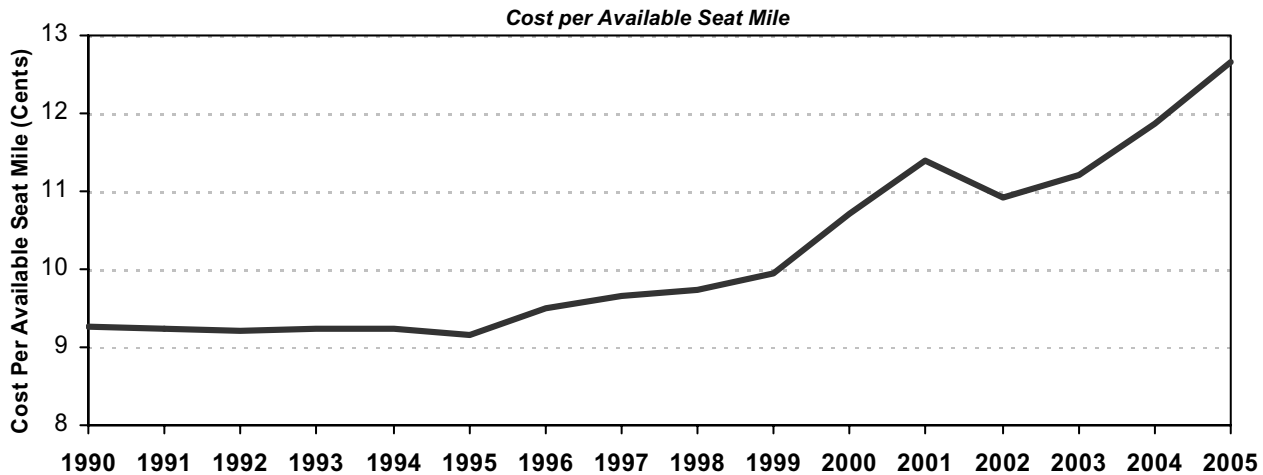
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Airline Costs Continue to Rise

In 2005, airline costs continued to rise, with average cost per available seat mile reaching 12.7 cents on an average fuel price increase of 40 percent (see Figure 2-10). That rise obscured some important developments in legacy carrier cost structures. Two major legacy carriers, Delta Air Lines and Northwest, entered bankruptcy protection, and US Airways emerged from bankruptcy. Carriers that provided 47 percent of nationwide domestic seat capacity⁷ in 2004 were in bankruptcy for at least part of 2005, and efforts are underway across the airline industry to reduce operating costs, rationalize and redirect capacity, and raise unit revenues.

Figure 2-10 Average Unit Cost for US Scheduled Domestic Airlines - 2000 to 2005



Source: US DOT, Form 41, Airline Reports

In 2005, fuel prices, the airlines' second largest expense item following labor, increased by 40 percent over the prior year, causing airlines to vigorously raise fares in an attempt to achieve profitability. Since 2000, the average cost per gallon paid by the nation's airlines has doubled, although price increases have been partially mitigated by an 18.3 percent improvement in the fuel efficiency of the domestic fleet from its 2000 level.⁸ After small declines in fuel price in 2001 and 2002, the airlines absorbed a 20 percent increase in 2003 followed by successive 35 percent and 40 percent spikes in 2004 and 2005 (Figure 2-11). These fuel price increases have more than offset the cost reductions the airlines were able to obtain through their cost restructuring efforts and have prolonged the financial distress in the airline industry.

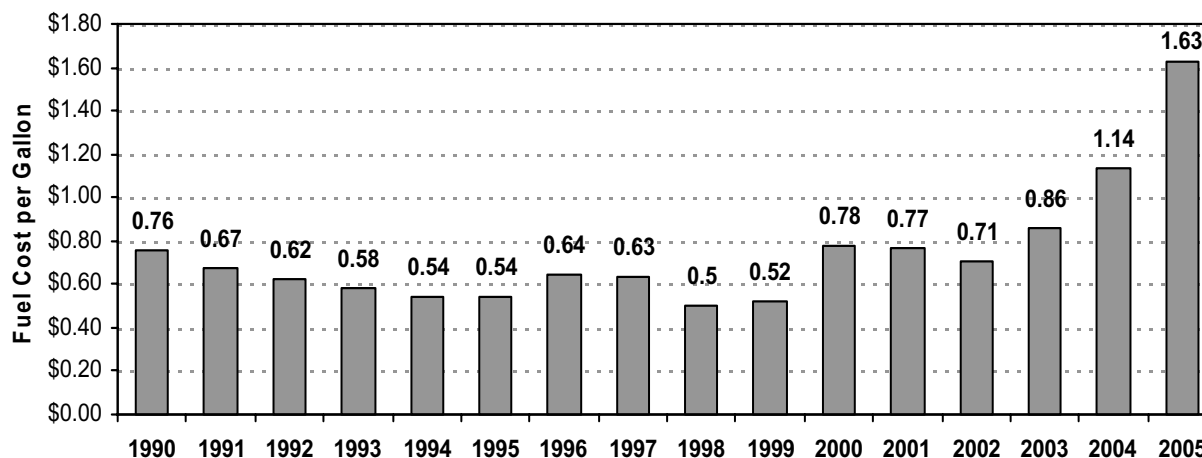
⁷ Delta Air Lines, Northwest, United, US Airways, and Independence Air.

⁸ Form 41 Database, Domestic traffic only. Fuel efficiency is measured by gallons of fuel consumed per hour of taxiing/flying time.

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Figure 2-11 Average Unit Cost of Fuel for US Scheduled Domestic Airlines - 1990 to 2005



Source: US DOT, Form 41, Airline Reports

In September 2005, US Airways left bankruptcy protection and merged with America West, while Delta Air Lines and Northwest filed for Chapter 11 protection. Navigating Chapter 11 of the US Bankruptcy Code, which allows corporations to continue to operate while they restructure, can be a long process for airlines to complete, but it has provided them the opportunity to restructure or eliminate untenable payment obligations, particularly with regard to aircraft leases and pensions.

Another major industry development was the negotiation by legacy carriers of new contracts with their regional partners. As shown in *Appendix E, Activity Levels*, only four Regional/Commuter carriers had operations levels in 2005 that were within 50 percent of their 2000 levels at Logan Airport.

Continued Expansion of Low Cost Carriers

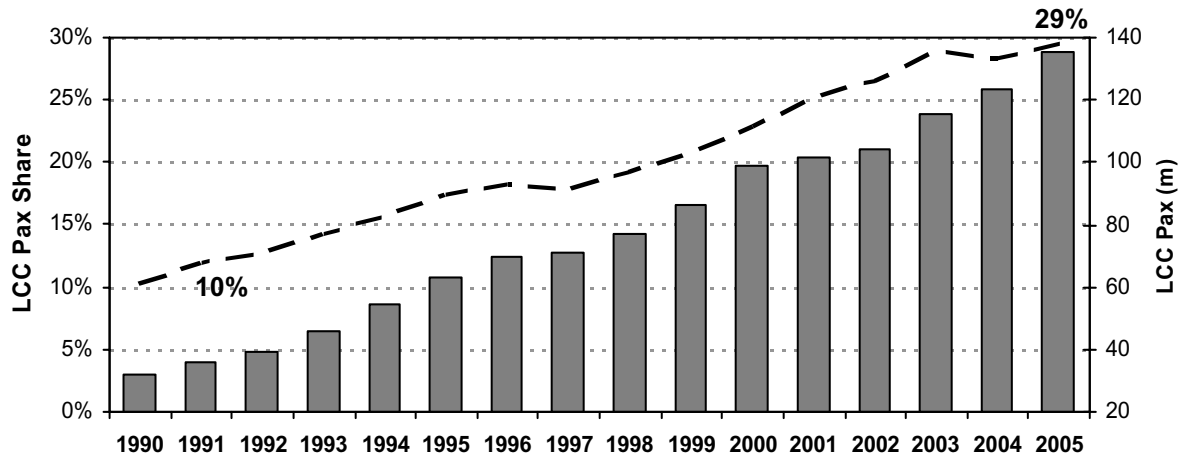
LCCs have strengthened their position at Logan Airport and nationwide. In 2005 there was continued major growth of LCCs, as AirTran and JetBlue increased their operations at Logan Airport. Nationally, LCCs were more profitable than legacy carriers in 2005. The year was not entirely positive for LCC finances, however, as Independence Air, which began service from Logan Airport with 5,000 operations in 2004, filed for bankruptcy in November of 2005 and ceased operations in January 2006. Independence Air was hobbled by a high-cost fleet of small regional jets which were inconsistent with its low-cost business model and an aggressive competitive response from its former mainline partner, United Airlines, which matched service in nearly all of Independence Air's routes out of its Washington Dulles hub.

Increased popularity of LCCs continued in 2005, as shown in Figure 2-12. In total, LCCs carried 135 million passengers, or 29 percent of total US domestic passengers. (Figure 2-12) At Logan Airport, LCCs increased their presence and their enplanements; including Delta Air Lines' Song subsidiary, LCCs accounted for 30 percent of Logan Airport's domestic jet passengers in 2005, up from 25 percent in 2004.

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Figure 2-12 Low Cost Carrier Share of Total Domestic US Passengers, 1990 to 2005



Source: US DOT, Origin and Destination (O&D) Passenger Survey, Database DB1B (Database Products)

The pressure on legacy carriers will continue, as low cost carriers expand their aircraft fleet and overall presence in the US market. While the legacy airlines are reducing capacity, low cost airlines are adding substantially to their fleets. LCCs have firm aircraft orders totaling 376 aircraft over the next five years, compared to 244 aircraft orders for the legacy carriers.

While the airlines continued to struggle financially in 2005, air passenger demand in most markets recovered and the airlines were aggressively restructuring their operations to compete more effectively in the new operating environment of increased LCC competition and high fuel prices. Over the long term, it is expected that the airlines will adapt to the new operating realities, that the industry will stabilize, and that financial performance will improve.