



Integrated Fuel Management

A holistic approach to managing aircraft fuel

Canadian Airline Investment Conference

June 6, 2006 – Toronto

Agenda

- Introduction
- Departure point – a volatile market
- Integrated Fuel Management - Case for Action
- The Integrated Approach
- What next

About us

- **Robert Kokonis**
 - Robert is President & Managing Director of AirTrav Inc.
 - Nearly 17 years of airline and travel industry experience
 - With Air Canada finance division managed aircraft fuel budget
- **Bob Kelland**
 - Bob is a Partner with BMB Fuel Consulting Services Inc. and leads the Energy Management Practice
 - Involved in public and private sector consulting for 20 years
 - Has significant experience in the energy and defence sectors





AirTrav and BMB – Partners in Fuel Management

AirTrav Inc.

- Toronto based consulting firm, privately held, 100% Canadian-owned, founded in 2001
- Delivers broad spectrum of financial commercial and support solutions to the global air transportation and travel management sectors
- Independent research opinions on Cdn transportation firms
- www.airtrav.org

BMB Fuel Consulting Services Inc.

- Ottawa-based consulting firm, privately held, 100% Canadian-owned, founded in 1992
- Delivers innovative fuel management solutions, with international base of subject matter experts
- NATO Secret data-facilities secure
- IATA strategic partner - 2006
- www.bmbfuel.ca

We understand fuel market, financial, technical, logistical, procurement and environmental issues



Desired outcomes for session

- Shared information regarding AirTrav/BMB fuel/energy management experience
- Communicate the imperative of new thinking regarding an **Integrated Fuel Management** strategy

Departure Point - a Volatile Market

- Aircraft fuel overtaking labour as top operating expense
- Ability of airlines to “self-hedge” overstated
 - Ability to make fare hikes and surcharges stick – pricing power difficult to attain in a highly competitive market
 - Recovering yields, in Canada and the US, mitigating some pain
- Consumers can adapt to higher fuel prices...
 - ...up to a certain level
 - ...provided rate of escalation not too rapid

Rapidly escalating fuel prices constrain the airline industry's ability to invest in operating programs and essential capital infrastructure such as fleet.

Departure Point - a Volatile Market

JetBlue Posts First-Quarter Loss of \$32 Million (April 25, 2006 - New York Times)

*JetBlue Airways reported a first-quarter loss of \$32M as **fuel costs rose**, prompting it to **scale back growth plans...***

United Parent's Loss Widens On Fuel Costs (May 8, 2006 - Reuters)

*UAL's first-quarter loss rose 1.3 percent as the company **grappled with record high fuel prices.***

Singapore Airlines Profit Slips (May 9, 2006 - Reuters)

*Singapore suffered its 5th quarter of lower profits due record fuel costs and said **soaring fuel was its top headache.***

Woes Continue As JAL Sinks To A Loss (May 10, 2006 - Reuters)

*Japan Airlines Corp. reported a full-year **operating loss on high oil prices...***

Northwest Air's Q1 Loss USD\$1.1 billion (May 10, 2006 - Reuters)

*Northwest Airlines reported a first-quarter net loss of USD\$1.1 billion, **hurt by rising fuel prices** and [reorg] costs.*

Virgin Blue H1 Profit Drops (May 10, 2006 - Reuters)

*Virgin Blue posted an 8.5 percent fall in first-half profit as **fuel costs soared 30 percent.***

ACE Aviation Has 1st-Qtr Profit on Sale of Jazz Stake (Update3, May 11, 2006 - Bloomberg)

*ACE's operating loss widened to C\$62 million...on **higher fuel** and severance payouts.*

Iberia Loss Trebles As Fuel Costs Soar (May 12, 2006 - Reuters)

*Iberia's **net loss almost trebled** in the first quarter to EUR44.96 million as fuel costs jumped...*

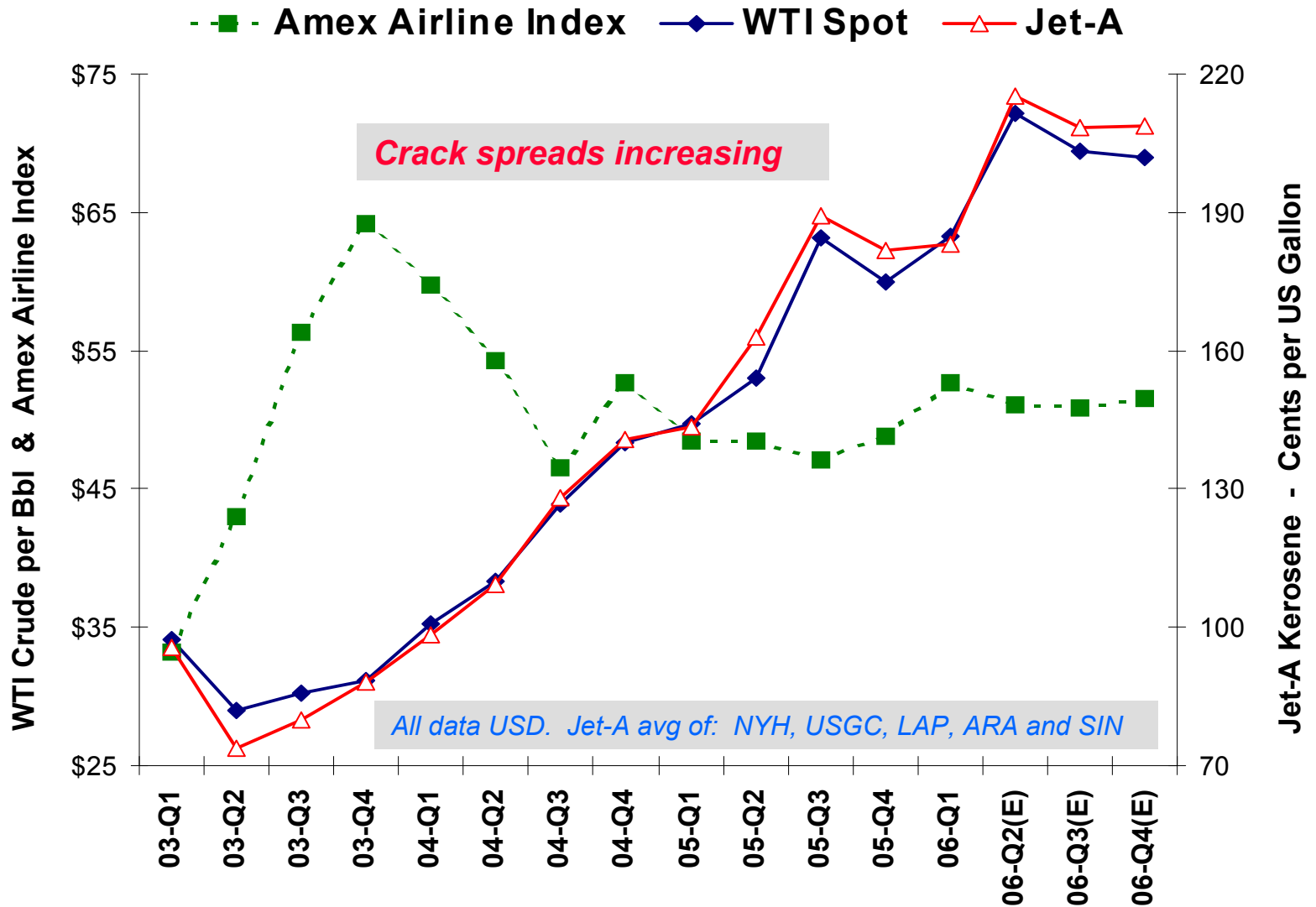
Departure Point - a Volatile Market

“The airline industry has moved aggressively to reduce costs in the face of unprecedented challenges... On a non-fuel basis, operating profitability... is as good as it was in the late 1990s. While these facts are exciting..., they may also be totally moot if oil prices do not return to [historical norms].

Unfortunately, high fuel prices are consuming what would otherwise be an upcycle for the industry.”

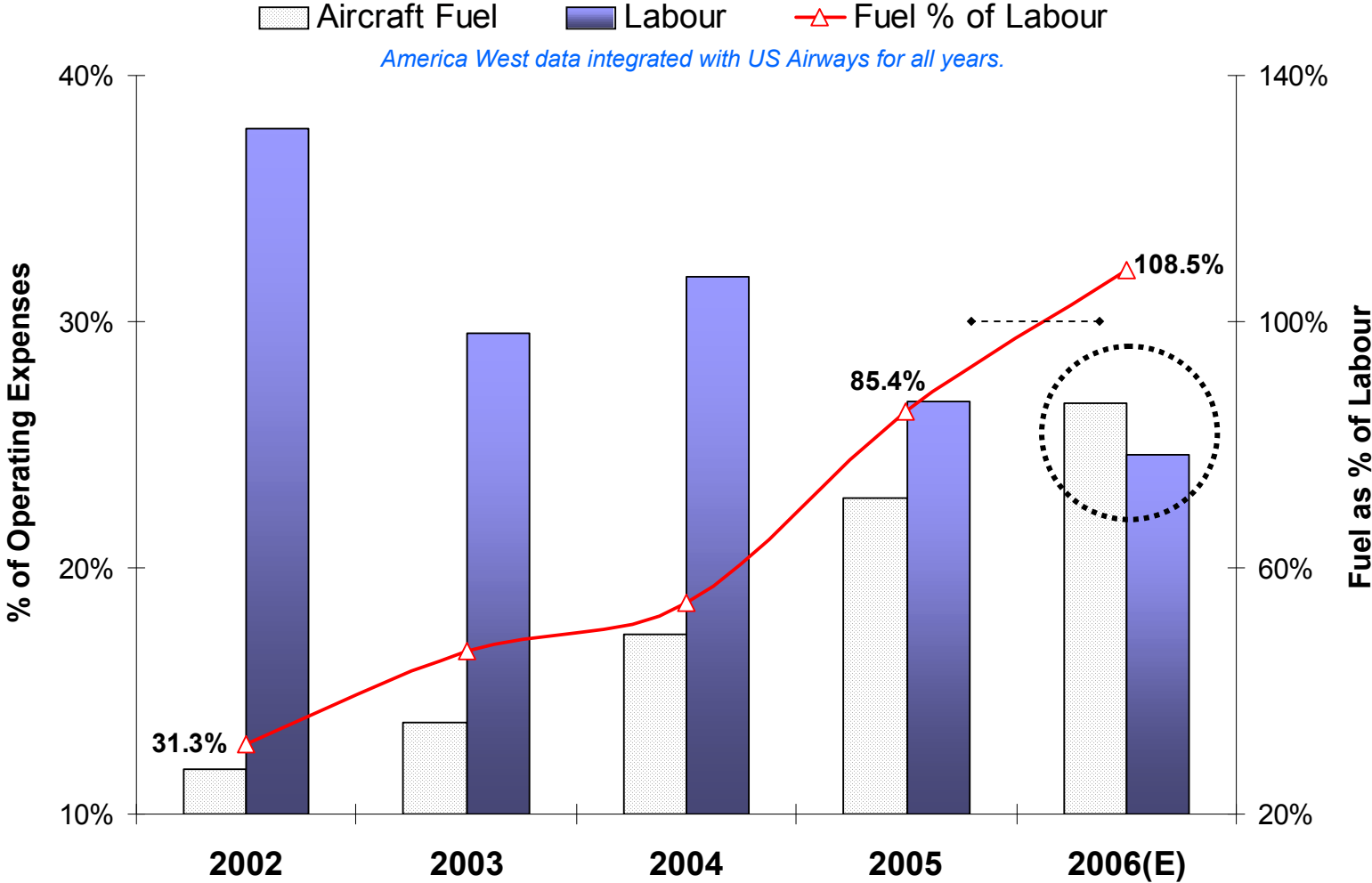
Gary Chase, Lehman Brothers
“Industry Update” (March 15, 2006)

Departure Point - a Volatile Market



Departure Point - a Volatile Market

US "Big 7" Passenger Airlines + ACE Aviation



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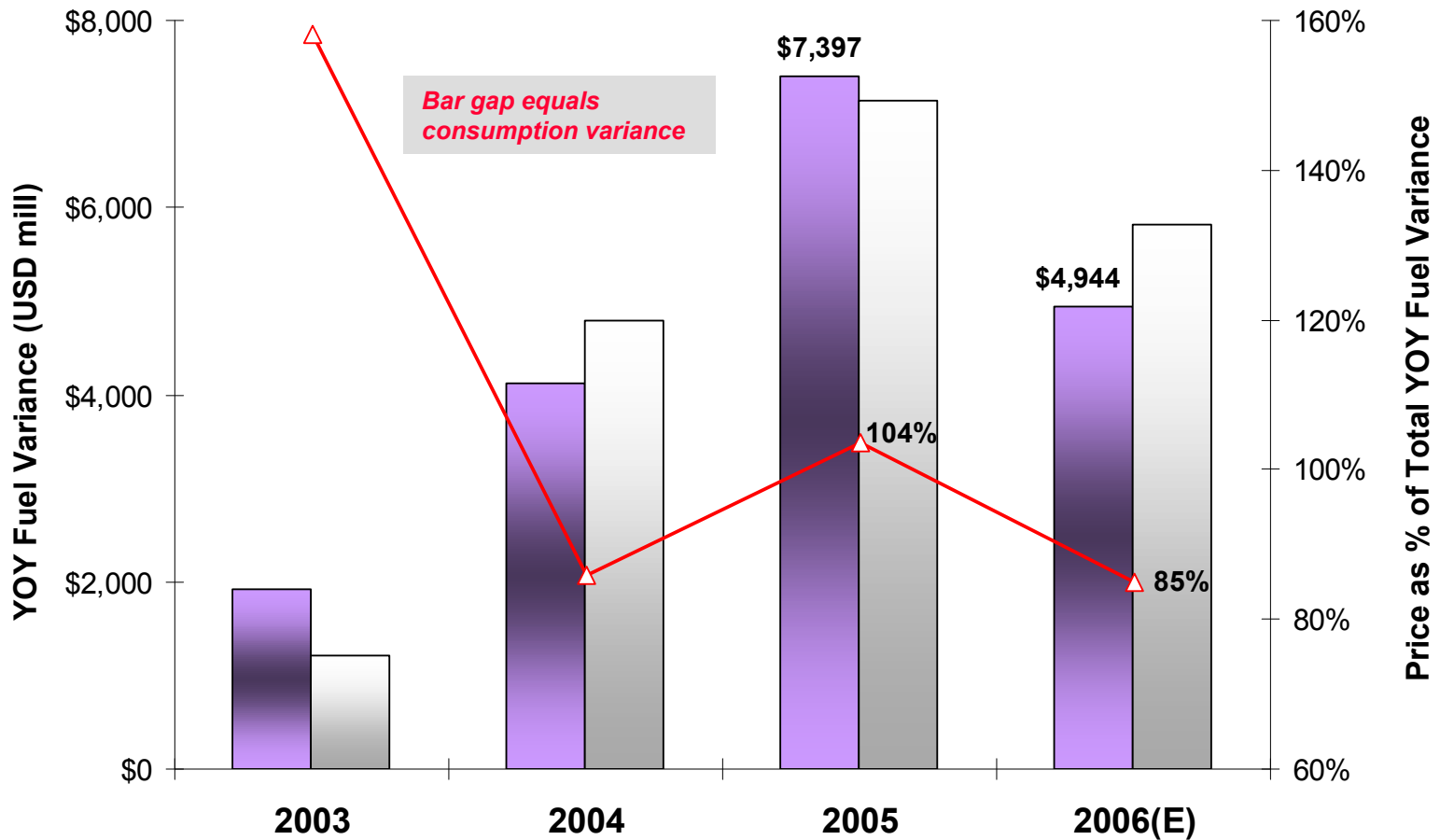


Departure Point - a Volatile Market

US "Big 7" Passenger Airlines + ACE Aviation

■ Due Price ■ Total ▲ Price Variance % Total Fuel Var

America West data integrated with US Airways for all years.



Departure Point - a Volatile Market

US\$1 Rise in Crude
(US\$0.90=CA\$1.00)

CAD per:

	Year	Quarter	Month	Day	Hour
	(millions)	(millions)	(millions)		
ACE	\$25.45	\$6.36	\$2.12	\$69,715	\$2,905
WJA	\$3.86	\$0.97	\$0.32	\$10,577	\$441
CJA	\$0.48	\$0.12	\$0.04	\$1,326	\$55
TOTAL	\$29.79	\$7.45	\$2.48	\$81,618	\$3,401

Departure Point - a Volatile Market

- Crude Oil – price forecast effective May 9, 2006:

<u>Crude Oil Prices</u> USD per Barrel	2005	2006					2007
		Q1	Q2	Q3	Q4	YEAR	
Imported	\$48.96	\$54.45	\$62.69	\$62.31	\$60.68	\$60.09	\$60.41
WTI Spot*	\$56.49	\$63.27	\$69.81	\$69.33	\$68.50	\$67.73	\$67.92
US Wt. Avg. Crude	\$51.17	\$57.11	\$64.84	\$64.43	\$63.04	\$62.39	\$62.76

* West Texas Intermediate

Sources: Energy Information Administration (EIA) and AirTrav Inc.

Departure Point - a Volatile Market

- Most analysts believe the volatility and high prices are here to stay
- Volatility hurting hedge ratios, the correlation between jet fuel and proxy hedges such as crude and heating oils
 - Extra basis point risk in an already difficult financial environment for hedging

“Geopolitical risks prevail and are not going away in the short term. The risk to WTI* prices is therefore still skewed to the upside and even comfortable reserves and warm weather cannot compete against nuclear showdowns and sabotaged pipelines.”

Deutsche Bank Commodities Research
Commodities Weekly (February 3, 2006)

Departure Point - a Volatile Market

“[A]s long as incremental supplies of oil continue to come from countries where availability is an issue, the potential for prices to stay high or go higher is, itself, very high.

After several years of very strong global economic growth and rising oil demand and a decade of under-investment in oil infrastructure, **there is virtually no spare oil production capacity left in the world.** In such circumstances, **a sudden shortage in the markets can only be rebalanced through an extraordinary rise in prices.”**

Adam Sieminski, Deutsche Bank
Commodities Weekly (April 28, 2006)

Departure Point - a Volatile Market

- Aviation fuel no longer the darling of refining industry
 - Stability of supply has moved to forefront as a critical issue
 - *A pocket full of dollars* cannot necessary guarantee supply
- Challenge of traditional, functional based management of aircraft fuel by individual departments
- We need to aggressively move towards solutions

Integrated Fuel Management - *Case for Action*

- An integrated approach recognizes that fuel is...
 - a strategic resource
 - a critical enabler to airline operations
 - one of the largest cost drivers in any airline operation and consequently with potentially significant savings
 - a highly volatile commodity governed by a sophisticated and dynamic marketplace
 - inextricably linked to environmental and sustainable issues, legislation and regulation

*Coordinated and integrated fuel management
produces both superior results and cost savings*

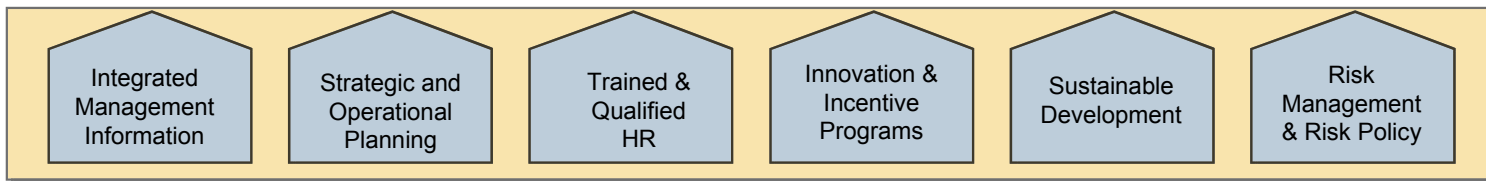
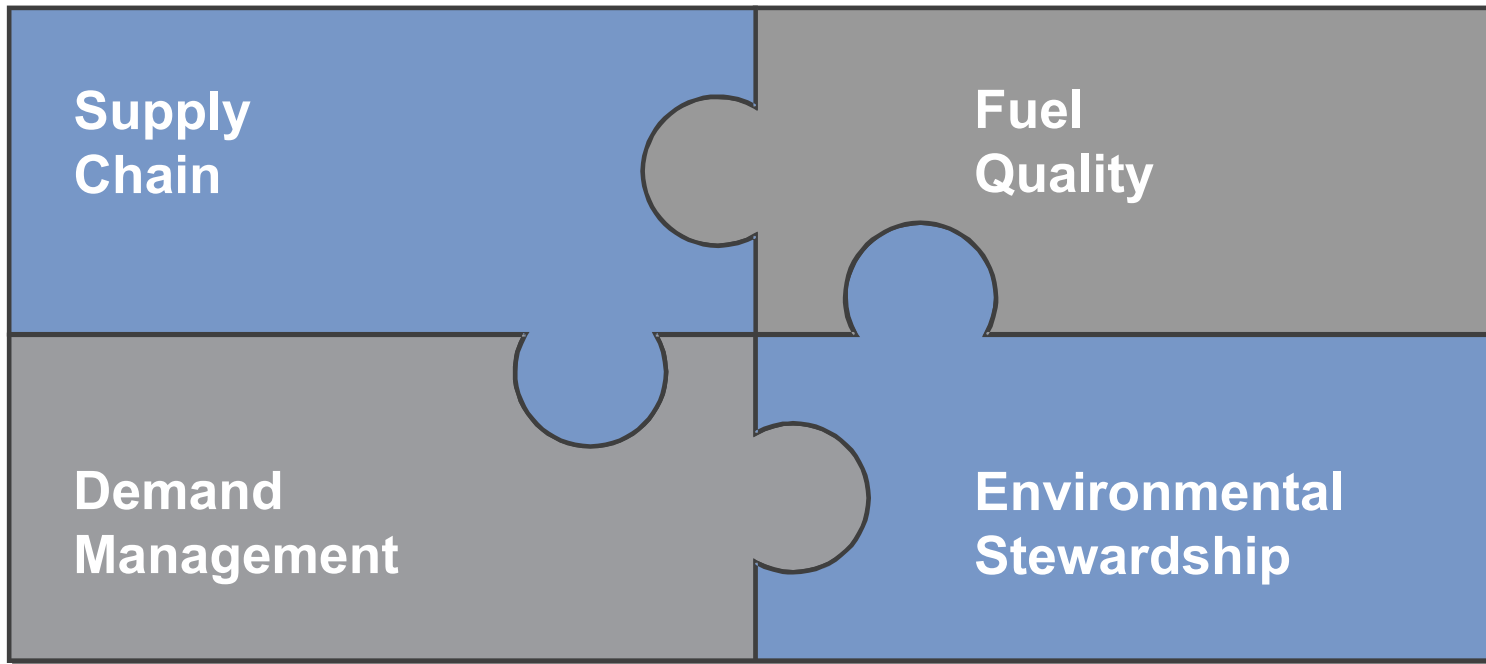
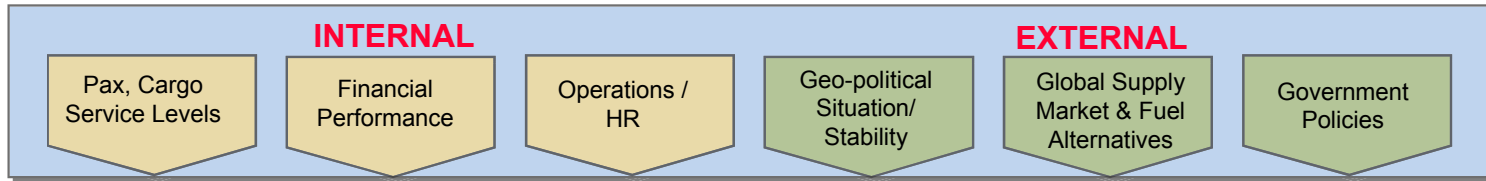
Integrated Fuel Management System

- A disciplined, systemic and holistic approach to program-management
- Airline CFO's and Managing Directors must be fully engaged in changing long-term approach to fuel
- Establishes institutions, policy, standards and procedures to construct, operate, and maintain safe, environmentally responsible, high quality fuel systems to meet the operational requirements of an airline, at lowest total cost of ownership

Full circle solution from cockpit to boardroom

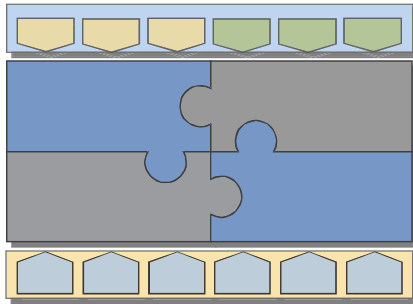
Integrated Fuel Management

Aviation Industry Imperatives and Pressures



Enabling Environment





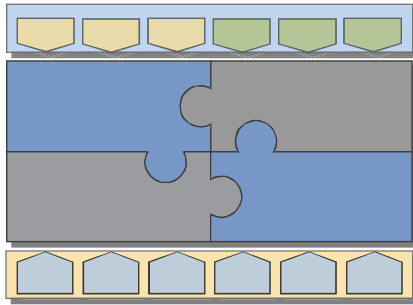
Supply Chain

Supply Chain Considerations

- ✓ Supply Chain management
- ✓ Strategic Sourcing
- ✓ Procurement
- ✓ Price Risk management
- ✓ Into-plane and bulk fuel distribution
- ✓ Infrastructure
- ✓ Charges, taxes and fees
- ✓ Disaster recovery plans
- ✓ Criticality of ULSD issue on supply



- What are your cost-quality-delivery performance measures?
- What is your performance against external benchmarks?
- Do you have contingency or disaster recovery plans in place?

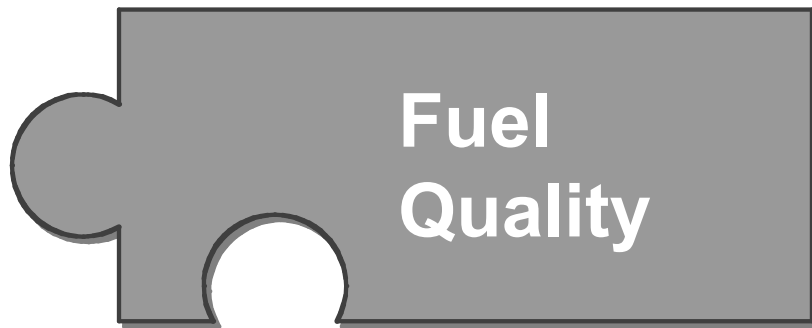
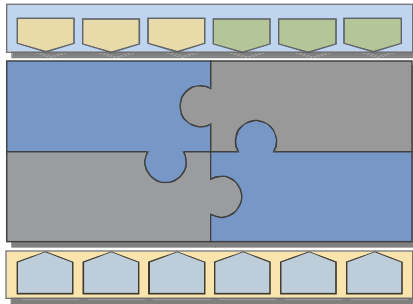


Demand Management Considerations

- ✓ Dispatch and Operational Requirements
- ✓ Fleet profile
- ✓ Conservation management
- ✓ Operational efficiencies and flexibility
- ✓ Loss prevention



- What is your performance across fleets and crews, including performance against external benchmarks?
- Do you use performance incentives to institutionalize conservation?
- Do you use a life cycle costing approach?
- Variable cost indexing – tie in aircraft deployment with other costs.

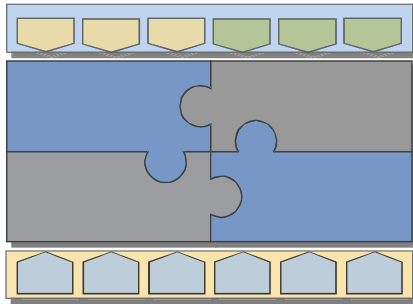


Fuel Quality Considerations

- ✓ Quality Management
- ✓ Handling and product standards
- ✓ Technical audits
- ✓ Additives and fuel type
- ✓ Type Certifications



- What quality performance measures do you have in place, and what is your performance?
- Do you have a quality management program in place, and how does this integrate with suppliers?



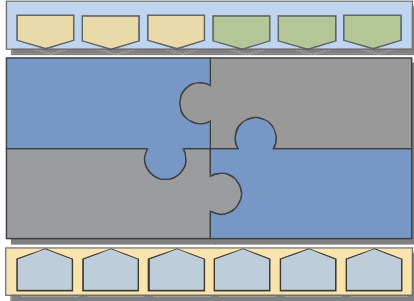
Environmental Considerations

- ✓ Balance social, environmental, economic
- ✓ Environmental compliance
- ✓ CO₂ emissions
- ✓ Kyoto-like obligations



- What are your performance measures and what is your performance compared to other airlines?
- Do you plan to increase profit and environmental performance?

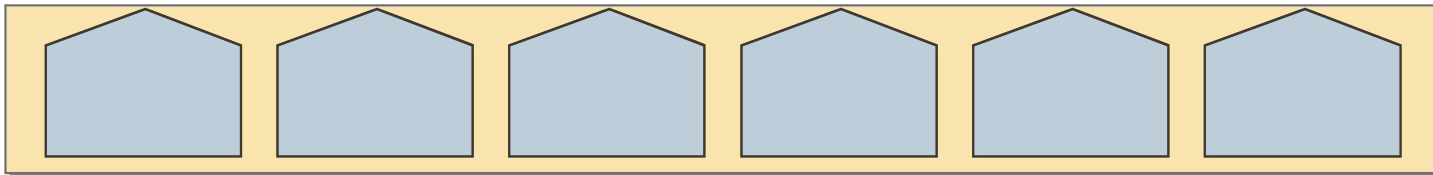
Business Enablers



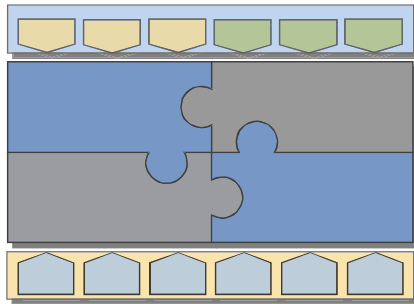
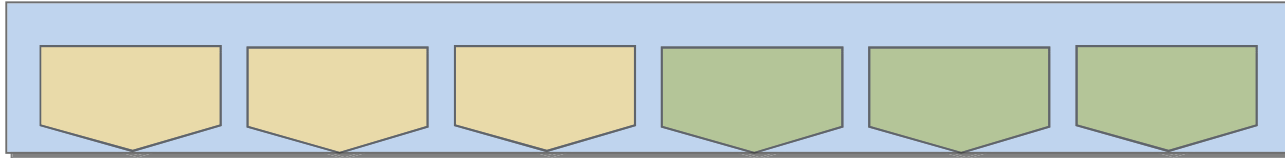
Enabler Considerations

- ✓ Integrated Management Information
- ✓ Strategic and operational planning
- ✓ Sustainable development
- ✓ Trained & qualified Human Resources
- ✓ Risk management & corporate risk policies
- ✓ Government policy
- ✓ Performance based contracting
- ✓ Effective Performance Management Framework
- ✓ Innovation and Incentive Programs

- Can you access the data and information needed to manage your business?
- Are your staff adequately trained?
- Do you have an effective performance management framework?



Industry Imperatives & Pressures



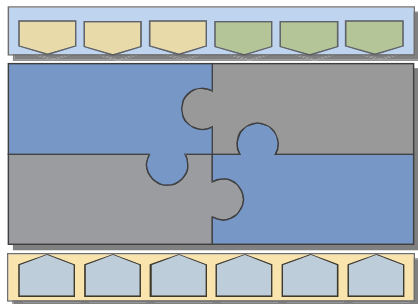
- Are you structured to plan, manage and respond to external pressures?
- Do you have contingency plans in place?
- Are you leading or following competitors?

Some Considerations

- ✓ Flight planning / Dispatch / Flight Ops
- ✓ Financial performance
- ✓ Maintenance & engineering
- ✓ Pax/cargo service standards
- ✓ Geo-political situation/political stability
- ✓ Natural disasters: *bird flu, hurricane, earthquake*

- ✓ Global supply market
- ✓ Competitive landscape
- ✓ Government policies
- ✓ Mix of traditional/low-cost carriers
- ✓ Fuel alternatives
- ✓ Global warming & pollution reduction
- ✓ Other pressures: *supply stability, price volatility, higher prices, China and increased demand, flight safety, price/supply shock*

Integrated Fuel Management Outcomes



- Improved Fuel support to operations
- Strategic direction and leadership
- Capacity to manage and adapt
- Environmental responsibility
- Performance and accountability
- Savings and efficiencies

Integrated Fuel Management - Potential Starting Point

- Diagnostic to assess your capacity to deliver an integrated fuels management program
- Focus on specific areas that may be weak, such as
 - Optimize supply chain
 - Price risk management strategy
 - Strategic sourcing approach
 - Seek profit through environmental excellence
 - Minimize fuel taxes
 - Minimize shrinkage and losses
- Assess the level of senior executive ownership of fuel

Thank you for your time!

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