RISKADVISORY

FINANCIAL & OTHER GOVERNMENTAL BENEFITS PROVIDED TO AMERICAN AIRLINES, DELTA AIR LINES & UNITED AIRLINES

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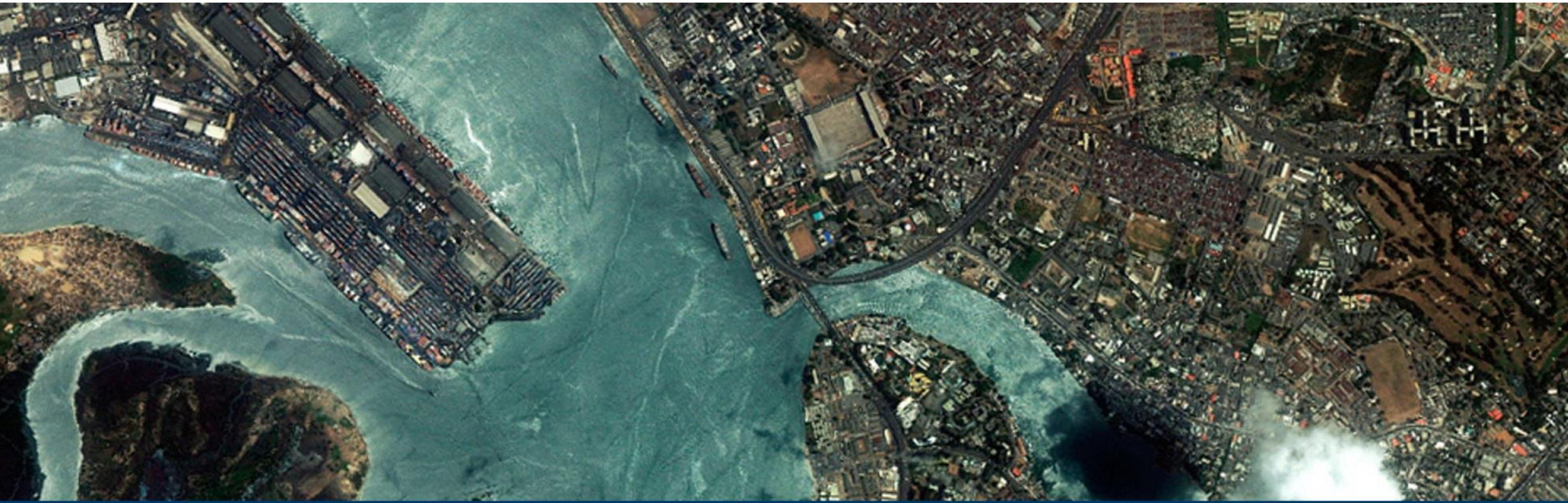

The Risk Advisory Group plc: background and research methodology

Risk Advisory is widely recognized as one of the world's leading privately-owned investigations, intelligence and security companies. We provide services to leading global financial services, multinational, multilateral organizations, governments and government departments.

We often work in close collaboration with advisors such as lawyers, insolvency experts and public relations consultants.

Our headquarters are in London, and we maintain operational offices in Washington, DC, Moscow, Dubai, Al Khobar (Saudi Arabia) and Hong Kong. From these regional hubs we operate globally.

We employ approximately 140 permanent staff who come from a wide range of professional disciplines including lawyers, bankers, business analysts, journalist, the military and academic research.

In the last 18 years we have undertaken a very broad range of investigative and consultancy assignments. Our work product has been used in litigation and arbitration, public inquiries and to inform investigative bodies' decision making. For example, we were:

- Instructed to assist in investigations relating to the Bloody Sunday Inquiry
- Instructed by Reuters to investigate the death of one of its journalists in Iraq
- Instructed by the then Kenyan Government to review the Kenyan Government's anti-corruption process and procedures

- Instructed to investigate allegations of malpractice in the lending department of a multilateral organization
- Instructed by many hundreds of multinational businesses to investigate thousands of third parties, prior to the formation of business relationships.

Our experience and expertise includes a profound knowledge of legal process, a detailed understanding of the nature and reliability of evidence and a qualitative understanding of the nature and sources of information.

Engagement by Etihad Airways

On March 3, 2015 Etihad Airways PJSC ("Etihad") engaged The Risk Advisory Group to perform a review of financial and other governmental benefits provided to American Airlines, Delta Airlines and United Airlines. We were instructed to retain complete independence over the contents of our report and rely upon primary source materials, such as governmental records, litigation filings, annual reports and governmental and regulatory reports. We were instructed not to opine on the propriety of such financial or other governmental benefits, and this report makes no such judgments. The Risk Advisory Group is solely responsible for the contents of this report.

Methodology

The report consists of a detailed summary of a program of research undertaken. In conducting our research we retrieved and analyzed documents and information filed electronically and in hard copy from the following types of sources:

Primary sources

- official government records
- audited annual reports by airlines
- reports prepared by relevant regulators
- reports prepared by supranational bodies such as the European Commission

Secondary sources

- academic studies and literature
- recognized aviation industry trade publications
- Media reports from reputable publications, such as *Financial Times*, *The Economist* and others
- Secondary literature on the aviation industry

The figures in our report have been provided on the basis of attributable sources. In every case we have cited the reference for our findings, giving preference to primary sources and citing secondary sources only in circumstances where we could not obtain the same data from a relevant primary source. We did not conduct any interviews in preparing this report.

The US Dollar has been used as the reference currency throughout this report.

For the purpose of this report, we refer to American Airlines, Delta Air Lines and United Airlines as they are currently configured. Thus, while some of the figures provided include data from Northwest Airlines and US Airways, they are included under Delta Air Lines and American Airlines, respectively.

Executive summary: quantifiable benefits to US airlines

We have identified the following quantifiable benefits to United Airlines, Delta Air Lines and American Airlines:

		United Airlines	Delta Air Lines	American Airlines	Total
Bankruptcy debt relief	One time cost savings	$26.0 bn	$4.6 bn	$0.36 bn	$30.96 bn
	Recurring annual cost savings	N/A	$3.3 bn	$1.2 bn	$4.5 bn
Pension termination	Government guarantees (PBGC)	$13.6 bn	$3.46 bn	$6.02 bn	$23.08 bn
	Cost to participants	$3.2 bn	$1.09 bn	$2.06 bn	$6.35 bn
Fuel subsidies *(estimated)*		$1.6 bn	$1.7 bn	$2.3 bn	$5.6 bn
Other subsidies & preferential financing		$6.3 mn	$868 mn	$112 mn	$0.99 bn
Grand total		$44.41 bn	$15.02 bn	$12.05 bn	**$71.48 bn**

Of the $71.48 bn, more than $70 bn relates to the period since 2000.

Our analysis has also identified significant unquantified and unquantifiable benefits to these airlines.

US carriers: debt relief

Since 2002, US carriers have benefitted from protections provided under Chapter 11 of the United States Bankruptcy Code. These protections allowed United Airlines, American Airlines and Delta Air Lines (and their antecedents) to restructure and eliminate debt, while receiving protection from creditors.

Based on court-approved disclosure statements from United Airlines, American Airlines and Delta Air Lines and their antecedents, each airline benefited from bankruptcy cost savings on the following basis:

	United[1] Airlines	American[2] Airlines	Delta[3] Air Lines
One time cost savings	Between **$26.0 bn** and **$26.9 bn**	Between **$0.36 bn** and **$1.26 bn**	Between **$4.6 bn** and **$8.6 bn**
Recurring annual cost savings	N/A	**$1.2 bn**	**$3.3 bn**
Total	**$26.0 bn - $26.9 bn**	**$1.6 bn - $2.5 bn**	**$7.9 bn - $11.9 bn**

In the executive summary, we have in all cases included the lower of the range numbers above.

US carriers: pension benefits

The Pension Benefit Guaranty Corporation (PBGC) is a federal agency created by Congress in 1974 [The Employee Retirement Income Security Act]. Its purpose is to ensure pension benefits for pension plan holders. The PBGC receives funding through Congressionally-mandated insurance premiums, private equity, and assets tied to the plans under its care.

Both United and Delta have terminated pension plans, with partial liability transferred to PBGC. PBGC data (reprinted by the US Government Accountability Office in 2005) states the 'full value of the [pension] benefits promised to participants prior to termination' was as follows:[4]

	United Airlines[5]	American Airlines[6]	Delta Air Lines[7]
Full value of pension prior to bankruptcy	**$16.8 bn**	**$8.08 bn**	**$4.55bn**
PBGC liability	**$13.6 bn**	**$6.02 bn**	**$3.46 bn**
Cost to participants	**$3.2 bn**	**$2.06 bn**	**$1.09 bn**

US carriers: jet fuel tax (Federal)

US federal tax on jet fuel is levied at a lower rate when that fuel is for commercial aviation: non-commercial carriers are taxed at 21.9¢ per gallon while commercial carriers are taxed at 4.4¢ per gallon.[8] The discounted federal rate of tax on jet fuel is not exclusive to US airlines - it is levied on all carriers at the same rate.

The US Bureau of Transportation provides data on jet fuel purchased by the three major carriers in the period from January 2009 until September 2014.[9] Applying the discounted rate of federal tax, our calculations indicate that the carriers have made the follow savings during that period[10]:

- Delta Air Lines: **$1.7 bn**
- American Airlines & US Airways: **$2.3 bn**
- United & Continental Airlines: **$1.6 bn**

US carriers: jet fuel tax (State)

State governments levy taxes on jet fuel at a different rate from the federal rate. The Tax Foundation has collated state jet fuel tax rates.[11] We have calculated the average state tax rate as 7.7¢ per gallon for commercial carriers and analyzed jet fuel tax policies in the states in which the three principal US carriers are headquartered:

- Delta Air Lines is headquartered in the state of Georgia. Legislation enacted by the Georgia General Assembly in 2005 exempts all commercial carriers from state jet fuel taxes.[12] Georgia State Representative Earl Ehrhardt is currently leading an effort to remove this tax exemption, which is reported to be worth an estimated total between **$21 and $23 mn** to commercial carriers each year.[13]

- American Airlines is headquartered in the state of Texas, where there has been no state tax on jet fuel since at least 2009.[14] The US Energy Information Administration (EIA) compiles total jet fuel consumption data by state.[15] Using available EIA consumption data for the state of Texas and the average tax rate (7.7¢) as a base of comparison, we estimate that carriers operating in Texas received a total discount of **$5.3 mn** during 2013. Further analysis of a wider data set may identify further benefits derived by the carriers.

- United Airlines is headquartered in the State of Illinois. The current state jet fuel tax in Illinois of 32.75¢ per gallon is the highest in the US. However, carriers have been exempt from paying the standard rate for all international flights since at least 2003.[16] Similarly, all carriers have been exempted from environmental impact fees since 1996.[17]

US carriers: miscellaneous benefits

We have undertaken a preliminary review of domestic incentive programs involving the three US carriers:

American Airlines / US Airways

- American received between **$80-85 mn** subsidy from the State of Missouri in 2003 to help fund the redevelopment of a facility in the state.[18]
- Pennsylvania state and local governments provided an additional **$26.25 mn** incentive package for US Airways to build an operations center in Allegheny County in 2008.[19]
- In Texas, the Fort Worth City Council created a **$6.5 mn** tax incentive in 2014 for American Airlines' operations center in the city.[20]
- US Airways received fuel tax refunds from North Carolina in 2012 and 2013, amounting to **$16.6 mn** and **$9.2 mn**.[21]

United Airlines / Continental

- Colorado's Office of Economic Development and International Trade reportedly provided **$6.29 mn** in tax credits to United in 2011 and 2012.[22]

Delta Air Lines / Northwest

- Minnesota state records indicate that Northwest Airlines received a **$838 mn** financing package from the state in 1991 which was reduced to $761 mn in 1992. Northwest apparently used this sum to build fleet maintenance facilities in the state. The package included a $270 mn loan from the Metropolitan Airports Commission and nearly $500 mn in construction financing with terms varying during Northwest's financial difficulties.[23]

- The Commonwealth of Pennsylvania's Community and Economic Development Department granted **$30 mn** in 2012 to Monroe Energy, a wholly owned subsidiary of Delta Air Lines, according to press releases issued by Delta Air Lines and the Pennsylvania Office of the Governor.[24]

US carriers: miscellaneous benefits - government bonds

United Airlines / Continental

- Indiana's Transportation Finance Authority issued bonds for **$369 mn** to finance United Airlines' construction of a maintenance facility at Indianapolis International Airport in 1991. An article from 2003 alleged further funding had been provided by local government authorities prior to the facility's premature closure.[25]

- The City of Chicago provided **$24.38 mn** in tax financing to United for its involvement in an urban renewal project in 2009, in addition to **$5.475 mn** it provided for a similar project in 2007.[26]

American Airlines / US Airways

- Between 2002 and 2012, the New York City Industrial Development Agency and Trust for Cultural Resources and Build NYC issued **$1.3 bn** in bonds to finance a new American Airlines Terminal at JFK airport, according to the New York Citizens Budget Commission.[27]

US carriers: domestic market protectionism

International carriers are forbidden from flying point-to-point destinations within the US. Quantifying the commercial benefit derived by US carriers from this domestic market protectionism is extremely difficult.

US carriers: Fly America Act

Enacted by Congress in 1995, the Fly America Act mandates that government-paid international air travel be performed by US carriers or those operating under a codeshare agreement. The law has its origins in the International Air Transportation Fair Competitive Practices Act of 1974.

It is difficult to quantify the amounts generated via this program for American Airlines, Delta Air Lines and United Airlines, due to the absence of reliable data.

US Carriers: State-owned alliance partners

American Airlines, United Airlines and Delta Air Lines are members of airline alliances. Each of these alliances includes airlines that are partially or wholly-owned by governments. Specifically:

- **SkyTeam**, the 20 partner alliance to which Delta belongs, has 10 members that are at least partially state-owned: Aeroflot, Aerolíneas Argentinas, China Airlines, Czech Airlines, Garuda Indonesia, Middle East Airlines, Saudia, TAROM, Vietnam Airlines

- **Oneworld**, the 15 partner alliance to which American Airlines belongs, includes five members that are at least partially state owned: Finnair, Royal Jordanian, SriLankan Airlines, Cathay Pacific and Qatar Airways

- **Star Alliance**, the 27 partner alliance to which United belongs, includes 11 members that are at least partially state-owned: Adria Airways, Air China, Air India, Air New Zealand, Croatia Airlines, EgyptAir, Ethiopian Airlines, LOT Polish Airlines, Singapore Airlines, South African Airways and Thai Airways International

In a number of cases, these government-owned alliance partners have enjoyed significant benefits, including direct financial support, from their governments and other associated government-owned entities.

US Carriers: Miscellaneous benefits under $5 mn

- Newark City, New Jersey reportedly provided grants to Continental in both 1997 and 2000, amounting to **$753,900** and **$1.34 mn**, respectively, according to the New Jersey Economic Development Authority.[28]

- Delta Air Lines received **$3.5 mn** from the Port of Portland in 2009, according to a PricewaterhouseCoopers annual audit in 2010.[29]

- The Commonwealth of Pennsylvania exempted US air carriers from state sales tax on airline food in 2001, primarily benefiting US Airways, which operated hubs in the state. This amounts to an estimated value of **$3.5 mn** per year.[30]

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[2] In calculating the "one time cost savings" debt relief figures on page 6 of the US section of the report, we have used figures from bankruptcy documentation filed by the three US carriers. In some cases, the total unsecured claim and debt recovery figures are provided in ranges, in lieu of one definitive figure. Where a range of figures was provided, we multiplied the high and low debt recovery percentages by the high and low total unsecured claims amount. The resulting figures were then subtracted from the total in order to arrive at the ranges included on page 6. In the executive summary, we included only the most conservative of our calculations. UAL Corporation, et al. Disclosure Statement: Case No. 02-B-48191, U.S. Bankruptcy Court for the Northern District of Illinois. 7 September 2005. *Article I Summary: C. Treatment of Claims and Interests & F. Claims Estimates*.

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[10] In order to render the savings presented here, Risk Advisory multiplied 2013 Bureau of Transportation fuel consumption statistics for United Airlines, American Airlines and Delta Air Lines by the federal commercial and non-commercial rate of tax in the United States. We then subtracted the difference between fuel consumption statistics*non-commercial and fuel consumption statistics*commercial rate.

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[12] Georgia General Assembly. "2005-2006 Regular Session - HB 341." Section 3, Point C. pp. 2. http://www.legis.ga.gov/legislation/en-US/display/20052006/HB/341

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