

IAA HOW EFD

REINVENTING HOUSTON AIRPORTS



ANNUAL REPORT 2011



OUR MISSION

We exist to connect people, businesses, cultures and economies of the world to Houston.

OUR CORE VALUES

INTEGRITY - Do the right thing.

EFFICIENCY - Look to simplify your work without compromising quality.

TRUST - Treat others as you would want to be treated. Believe in the honesty and reliability of each other.

INNOVATION - What would you attempt to do if you knew you could not fail?

TEAMWORK - Involve coworkers in solving problems together.

EXCELLENCE - Be the best. Do your best work every time.

CREATE FUN! - Enjoy what you do.



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IAH HOU EFD



Dear Houstonians,

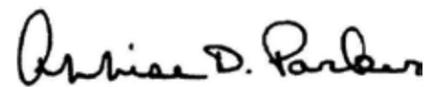
Each year more than 49 million people pass through George Bush Intercontinental, William P. Hobby and Ellington Airports. Our airports are big business - boasting a \$27.5 billion annual economic impact and more than 230,000 regional jobs. We are the largest hub for the largest airline in the world with more flights to Mexico than any other American city. Plus, our airports have excellent on-time performance ratings.

When selected as the 2011 City of the Year by Fast Company Magazine, Houston was described as "one of the world's next great cities." I believe the future is now. We are a city that is always reinventing itself and we do this with a focus on tomorrow. This is evident in the expansion and improvements underway at our airports. They are a critical to our ability to connect with business opportunities around the globe.

In August 2011, Houston was 175 years old. We have certainly come a long way. In addition to our world class airports, we are the global energy capital and home to the largest medical complex in the world, the largest foreign tonnage port in America and NASA. We pioneered the artificial heart, revolutionized heart transplants and we were the first word spoken from the moon.

Everything we have done as a city has been a matter of vision and will, of taking what we have and deciding what we want, setting an impossible goal, and then creating it. We are taking that next bold step as we expand our airports to meet the future needs of passengers and airlines while at the same time paying close attention to environmental, social and community concerns.

Let Houston be your gateway to a remarkable future,



Mayor Annise D. Parker



Dear Houston Airports Stakeholders,

Our team of talented and dedicated aviation professionals to ensure your hometown airports are ready to serve your needs. Whether you fly from Houston to one of our more than 170 destinations worldwide or you received air cargo - we are pleased to be part of your life. While our past year was a challenge as we felt the financial stress of the recession, we see improvements in the economy.

Houston Airports are a self-funded enterprise fund. We do not depend on tax dollars. Revenue generated must be reinvested into our three airports.

One of our best accomplishments was how we reinvented Houston Airports with many initiatives. Our parking program for the system received a makeover with a new green initiative. Our air service grew to include new destinations. The best is yet to come as many exciting changes are on the horizon.

BUSH AIRPORT - TERMINALS B AND D

We're moving forward with the first phase of a \$1 billion Terminal B partnership with United Airlines to enhance the customer experience in the gate area and provide better flexibility for various aircrafts. Our plan will renovate the Mickey Leland Terminal D to accommodate Group VI aircraft. The project is sparked by the arrival of the A380, operated by Lufthansa in 2012.

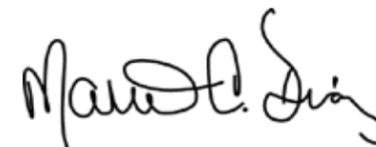
HOBBY AIRPORT

In 2012, we will reopen the entrance road at Hobby after a makeover. Growth of Hobby traffic continues as airlines add new nonstop routes and draw increased customers with highly competitive fares.

ELLINGTON AIRPORT

Embry-Riddle Aeronautical University will be a perfect fit for our future aerospace and aviation needs of local employers. Ellington is a critical part of the community.

Together, we are set to make a difference in Houston's future air service needs.



Mario C. Diaz

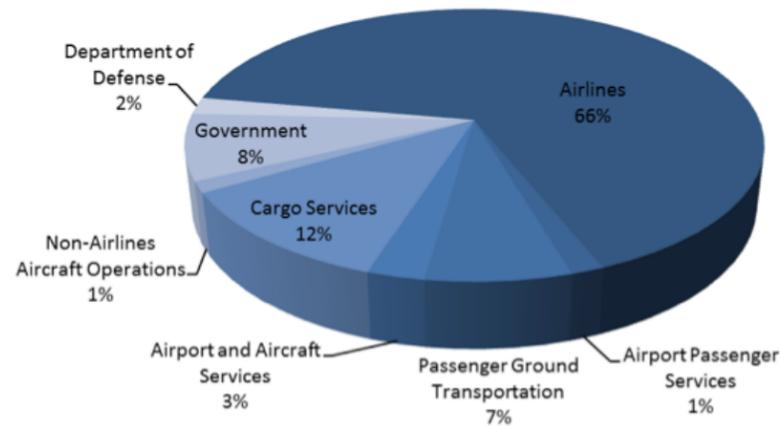


HOUSTON AIRPORTS' ECONOMIC IMPACT

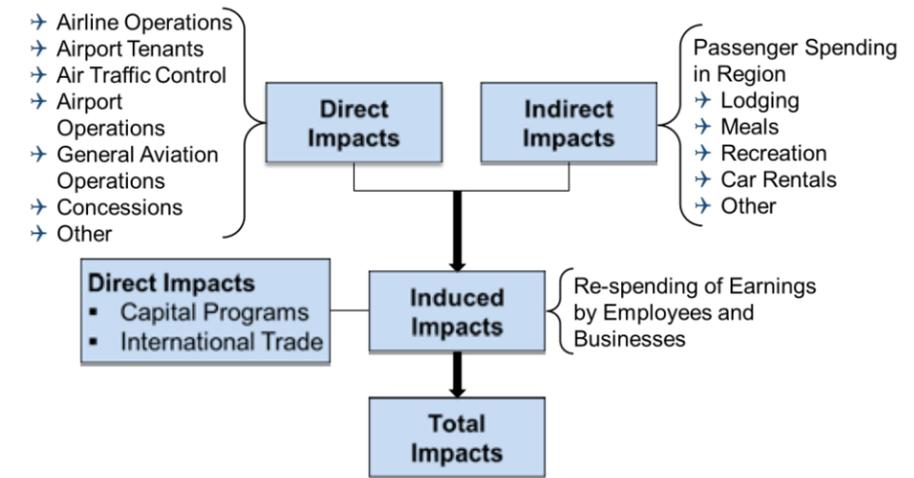
Houston Airports remain a key driver in the entire region's economy, pumping \$27 billion into the Houston economy. An economic impact study released in October 2011 confirmed Bush Intercontinental, Hobby and Ellington provide a solid foundation for future economic growth and prosperity. With our continuing efforts to reinvent our airports, Houston's three airports are poised to sustain, lead and diversify the regional economy as Houston emerges as a global gateway, connecting Houston to worldwide markets and destinations. In 2010, the Houston Airports were directly responsible for more than 230,000 jobs that generated \$8.7 billion in employment earnings.

	Employment	Earnings (\$mil)	Output (\$mil)
Direct	45,646.8	\$3,055.1	\$8,471.9
Indirect	47,713.0	\$1,125.0	\$3,663.6
Induced	137,184.8	\$4,523.1	\$14,988.4
Total	230,544.6	\$8,703.2	\$27,124.0

Bush Intercontinental accounts for more than 80 percent of Houston Airport's total economic impact, or \$22 billion, supporting more than 170,000 jobs and total earnings impact exceeding \$6.8 billion. Hobby is responsible for more than 52,000 jobs, with total earnings impact of \$1.7 billion. The total economic impact of Hobby is more than \$4.4 billion.



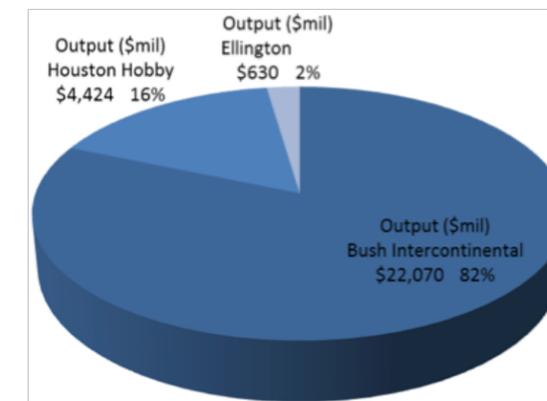
Houston's airports have four kinds of economic impacts: direct, indirect, induced and total impacts. Direct impacts result from providing passenger, cargo, government and private air transportation services, while indirect impacts come from visitors spending money in Houston during their stays. Induced impacts are gained when Houstonians spend and re-spending the income earned due to the direct and indirect impacts of our airports.



DIRECT IMPACTS (\$8.6 BILLION): Direct impacts produce more than 47,000 jobs with approximately \$3 billion in income at Houston's three airports. Most of this direct impact comes from airlines which employ more than 24,000 people and generate more than \$2.1 billion in income.

INDIRECT IMPACTS (\$3.6 BILLION): More than 47,000 jobs with more than \$1 billion in income are created in Houston through indirect impacts.

INDUCED IMPACTS (\$15 BILLION): Induced impacts in the Houston region and economy support another 139,000 jobs and provide earnings of more than \$4.5 billion.



The study was prepared by GRA, Incorporated, in association with University of Houston Economic Professor Steve Craig. To view the full report, visit <http://www.fly2houston.com/EconomicImpact>

MILESTONES



AUGUST 2010

- HOU celebrates \$350 million East Terminal Wing makeover.
- United moves flight operations from IAH Terminal A to C.



NOVEMBER 2010

- Frontier Airlines relocates to HOU.
- Mary Case named IAH general manager.
- Perry Miller named HOU general manager.



FEBRUARY 2011

- First landing of Boeing 787 Dreamliner at IAH.
- Kirk Rummel named Houston Airports Chief Financial Officer.



MARCH 2011

- IAH announces ecopark, debuts compressed natural gas buses.



APRIL 2011

- Military facility opens at EFD.



SEPTEMBER 2011

- Houston City Council gives unanimous support to IAH Terminal B expansion plan.



JUNE 2011

- Total number of non-stop destinations at HOU increases to 33.

OCTOBER 2011

- Embry-Riddle Aeronautical University announces EFD expansion plans.



NOVEMBER 2011

- HOU tops nine million passengers for second consecutive year.



JUNE 2010

- Mario C. Diaz named director of aviation at Houston Airports.
- More than one million passengers book tickets for summer travel.



SEPTEMBER 2010

- IAH receives \$15 million FAA grant for taxiway rehabilitation.
- Southwest announces plans to purchase AirTran.



DECEMBER 2010

- Houston Airports unveils five-year Strategic Plan.



JULY 2011

- EFD welcomes shuttle crew home.
- Saba Abashawl named Houston Airports chief external affairs officer.
- Lisa Kent named Houston Airports chief information officer.

JUNE 2010



JULY 2010

- IAH celebrates arrival of VivaAerobus, Atlas Air.



OCTOBER 2010

- IAH recognized nationwide for best on-time performance.
- United and Continental close merger deal.



JANUARY 2011

- Lance Lyttle named Houston Airports chief technology and performance officer.



MAY 2011

- Houston Airports sponsors first-ever Airport Express and Endurance Ride.



AUGUST 2011

- Mario Diaz, along with GHP and CVB, completes trade mission to China, South Korea and Taiwan.



DECEMBER 2011

- Lufthansa announces A380 Service at IAH.





GEORGE BUSH INTERCONTINENTAL AIRPORT

- Houston's largest airport
- Airport sits on more than 11,000 acres of city-owned property
- First 'Model Port' in the U.S.
- Five passenger terminals (Terminal A, B, C, D and E)
- Terminal E includes Federal Inspection Services (FIS) with 84 primary inspection booths that can process more than 4,500 passengers per hour
- Served by 17 scheduled passenger airlines, in addition to numerous charter airlines
- More than 40.4 million passengers annually
- Seventh busiest airport in the U.S. for total passenger traffic and international passenger traffic
- Ranks third in the U.S. among airports with scheduled non-stop domestic and international service to more than 170 destinations
- With nearly 30 destinations, offers more non-stop service to Mexico than any other U.S. airport
- Largest hub for the world's largest airline, United Airlines, with more than 700 daily departures



Located in a multicultural regional of nearly 6 million people with a thriving international community, Bush Intercontinental Airport is expanding its global connections. Now the largest hub for the world's largest airline, Bush Intercontinental is well positioned to serve the world as United Airlines builds its global network.

With Houston's strong reputation in the aerospace research industry, last year's gains in airport traffic, and strategic plans to target growth sectors including aerospace and aviation, Bush Intercontinental will remain one of the region's most important economic engines.



General Manager Mary Case with the Bush Airport Management Team: (L-R) Kathleen Emmons, Jesus Saenz, Peter Ferguson, Robert White, Mary Case, Mark Bull, Joel Conwell and Cheryl Hamilton.

To strengthen Houston's global gateway, Bush Intercontinental is transforming its infrastructure, enhancing passengers' airport experience and expanding its global reach.

“Our airports offer people a first impression of Houston, while also providing a welcome for others returning home. Efficiency and high-quality customer service are crucial for all travelers – whether they are from Houston, come for a short stay or just passing through.”

– Houston Mayor Annise Parker

“In the past two years Houston Airports continued to create jobs— that speaks to the perseverance of the city. Regardless of one's socioeconomic background, ethnicity, or education level, the Houston region is a place where you can live the American dream, excel at it, and afford it.”

– Jeff Moseley, president and CEO, Greater Houston Partnership

REINVENTING OUR FUTURE BY: TRANSFORMING INFRASTRUCTURE

TERMINAL B EXPANSION PLAN

In May 2011, Houston Mayor Annise Parker, Houston Airports and United Continental Holdings, Inc. reaffirmed a commitment to overhaul Terminal B with a revised \$1 billion renovation project. The public-private initiative will help boost the Houston economy through the creation of local construction jobs during the next seven to 10 years and transform Terminal B into a spacious, efficient, eco-friendly facility. In September 2011, Houston City Council members gave unanimous support to the plan.

“Together, United and Bush Airport serve millions of passengers as a partnership to help people connect. By giving Houston this opening day fresh terminal, we are demonstrating a wise investment for our stakeholders.”

– Houston Airports Chief Operating Officer Lance Lyttle

TAXIWAY REHABILITATION

In September 2010, Congresswoman Sheila Jackson Lee announced a \$15 million Federal Aviation Administration (FAA) grant for Taxiway Rehabilitation at IAH. The project will:

- Rehabilitate a nerve center of taxiways that are critical to aircraft movement and provide rehabilitation to one of the five major runways at the airport
- Extend the useful life of the taxiway another 30 years and accommodate larger aircraft
- Allow a new runway center line and runway status lights to be installed as part of the project



TERMINAL B EXPANSION PLAN, PHASE ONE

COST: \$161 MILLION
PROJECTED OPENING DATE:
LATE 2013

- United will introduce a high-efficiency boarding process designed to handle up to 30 flights to depart through three main boarding zones
- New gate layout will provide better flexibility for future fleet changes by the airline
- Will incorporate energy-friendly systems

“These taxiways were built about 45 years ago and designed at time when the largest aircraft for IAH was the Boeing 727-100 aircraft. Today, we have Boeing 747’s, we’re expecting the 787 – Dreamliner soon and we do anticipate the Airbus 380. We must continue to preserve, to maintain and build on the infrastructure at IAH.”

– Houston Airports Director of Aviation
Mario C. Diaz

EXPANDING OUR GLOBAL REACH

HOUSTON AIRPORTS SET NEW RECORDS FOR INTERNATIONAL TRAFFIC

Emerging as a global gateway, Bush Intercontinental Airport international passenger traffic is on the rise, experiencing a passenger growth rate of 8.6 percent in 2011. Bush Intercontinental also handled a record 454,910 tons in air cargo, up six percent from 2010.



Houston Airports credits new Lufthansa Cargo and Qatar Airways Cargo routes at IAH for the gains. Existing carriers Saudi Airlines Cargo and Cargolux also expanded their Houston operations.

HOUSTON AIRPORTS AIMS TO GROW ASIAN SERVICE

During a 10-day trade mission to China, South Korea and Taiwan in 2011, Houston Airports Director of Aviation Mario Diaz aimed to grow Asian service. Diaz also completed visits to Hanoi, Ho Chi Minh City and Da Nang in an effort to attract air service to Vietnam.

“Establishing new routes to Asian destinations is a top priority for Houston. Asia is a market with virtually unlimited growth potential and we need to make sure that strong connectivity is firmly in place between our two regions.”

– Houston Airports Director of Aviation
Mario C. Diaz

DOMESTIC DESTINATIONS FROM IAH



DESTINATIONS TO LATIN AMERICA FROM INTERCONTINENTAL



INTERNATIONAL SERVICE FROM INTERCONTINENTAL





WILLIAM P. HOBBY AIRPORT

The highly popular William P. Hobby Airport shines with an ongoing \$350 million makeover, which began in 2001 with the renovation of the Central Concourse. The changes are paying dividends as more customers are flying in and out of this gateway. Houston's 84-year-old airport also boasts new carriers and routes.

In November 2010, Perry J. Miller was named the new General Manager of Hobby Airport. With Houston Airports since 1991, Miller served in management positions at all three Houston airports. Previous Hobby Airport General Manager Mary Case moved on to become general manager of Bush Intercontinental.

RETURNING HOBBY AIRPORT TO OPENING DAY FRESH

The Hobby renovation is enhancing the customer experience with the intention of maximizing both efficiency and customer satisfaction. The new spaces provide open, modern and easier to navigate features.

"This remodeling project has a positive ripple effect," said Mario C. Diaz, Houston Airports director of aviation. "The customers enjoy the new facility, so passenger numbers start to go up. The airlines notice that trend and as a result, start to bring in even more air service and then the economic engine of Houston is taken to an even higher gear."

The renovation project started in 2001 and offers passengers upgrades such as:

- A new entryway and lobby with terrazzo flooring, new lighting and ceiling design, glass and marble walls, as well as an overall architectural layout that emphasizes a more open atmosphere
- A whole new baggage claim area
- New ticket counter area that provides increased space for customers as they check in prior to flights and more open traffic flow from the terminal entrance to the security checkpoint
- A \$6 million capital improvement project on the ticket-level (upper-level) entrance ramp expected to be complete in fall 2012

"This is an extensive renovation and we are very excited about the new look of Hobby and all its modern features and amenities," said Miller. "Passengers are going to notice a dramatic change in virtually every corner of the operation."

Hobby also opened a new surface level parking lot within walking distance of the terminal, bringing the total parking spaces available at Hobby to more than 4,000.

EXPANDED ROUTES AND NEW CARRIERS

2010 and 2011 were very active years for air service changes at Hobby. Major changes with Frontier Airlines and Southwest Airlines mean more direct routes and flights from Hobby for passengers.

In November 2010, Frontier Airlines moved from Bush Intercontinental to Hobby after nine years at Bush's Terminal A. The move means a broader range of destinations from Hobby.

"We are excited to add another low-cost carrier to our airline family," said Miller. "2010 was an outstanding year for passenger growth at Hobby and we are thrilled to have more non-stop flights to additional destinations for Houston's air travelers."

Hobby Airport is served by AirTran Airways, American Airlines, Delta Air Lines, Frontier Airlines, JetBlue Airways and Southwest Airlines.





ELLINGTON AIRPORT

- Three state-of-the-art runways
- 24-hour air traffic control services
- Center for military activity, recreation, education and space exploration
- Integral part of the local, regional and national aviation infrastructure
- Commerce and aviation center supports operations of the U.S. Military, Department of Homeland Security, NASA, Coast Guard, private pilots and private businesses
- Supports relief and recovery efforts, including medical evacuations and cargo relief operations during natural disasters
- Home of Wings Over Houston Airshow and Aeros & Autos

Coined by Houston Airport officials as the city's "Crown Jewel," Ellington Airport is reaching phenomenal heights, with major expansion plans underway including a new control tower, a complex of aviation museums, a business park, expanded military presence and an aeronautical university campus. Ellington Airport is the ideal location for businesses with ties to aerospace and aviation to relocate or expand their operations, with more than 600 acres of undeveloped land available. Surrounded by a substantial skilled workforce, strong business and industry climate, and multi-modal accessibility, the airport would be a great venue for a technology park, manufacturing and assembly plant or petrochemical facility.



General Manager Brian Rinehart (R), Peter Fress (L), Chuck Farina (C)

ELEVATING ELLINGTON AIRPORT'S PROFILE

EXPANSION PLANS UNDERWAY

Six areas at Ellington Airport will undergo construction and expansion, totaling nearly \$300 million to a half-billion dollars, creating as many as 600 jobs. The projects include:

U.S. COAST GUARD REGIONAL FACILITY

- Will be four stories and approximately 100,000 feet, housing more than 350 employees



Service to honor 9/11 heroes.



Design of new Coast Guard facility.

NEW AIRPORT HANGARS

- New airport hangars for lease will allow people or corporations to store aircraft or build and maintain airplanes

MIXED-USE BUSINESS DEVELOPMENT CENTER

- Air cargo facility on 136 acres along the northern edge of the airport with warehouses, a tarmac and parking for aircraft

AIRCRAFT MUSEUM EXPANSION AND LONE STAR FLIGHT MUSEUM

- The expansion of an aircraft museum on the campus will include two new hangars of 20,000 to 30,000 square feet each
- Damaged during Hurricane Ike, the Lone Star Flight Museum in Galveston will be relocated to Ellington, offering its world-class collection of aircraft from the World War II era

EXPANDING ELLINGTON'S U.S. MILITARY COMPLEX

- Continuing expansion of a U.S. military complex, which includes a training center, logistics center and battle command center
- Latest part of expansion will include construction of a new hangar and maintenance facilities

NEW TERMINAL, TOWER AND FEDERAL INSPECTION STATION

- Terminal will serve domestic and international general aviation
- Replacing the 57-year-old control tower damaged by Hurricane Ike, the new 120-foot replacement tower will be almost twice as tall as the existing structure



Three runways serve general aviation flights



Ellington Control Tower

A MAGNET FOR THE AEROSPACE INDUSTRY

EMBRY-RIDDLE AERONAUTICAL UNIVERSITY

In October 2011, Embry-Riddle Aeronautical University – Worldwide, the world's largest, fully accredited university specializing in aviation and aerospace, selected Houston as the city to offer new master's degrees in the fall of 2012 and relocate to a new facility at Ellington Airport.

“Houston is known for a talented workforce that reaches for the stars and moon and has a spirit of exploration. We welcome the Embry-Riddle expansion because it will provide educational background that is required for the technical jobs available in the aviation and aerospace fields. Our city is an excellent fit for this higher learning institution and its great track record for advancing our future in these two fields.”

– Houston Mayor Annise Parker

Embry-Riddle opened a classroom location in the Houston area in 1997 and its current location on Space Center Boulevard opened in 2005. In the first phase of the multi-year expansion program, the Houston Airports will work with Embry-Riddle to relocate the existing campus to a site on Ellington Airport.

The new degrees are expected to be valuable to aerospace companies such as The Boeing Company, Lockheed Martin Corporation, Jacobs Engineering, United Space Alliance, members of the Bay Area Houston Economic Partnership, NASA and the Houston Airports.

“We welcome the opportunity to help Embry-Riddle Aeronautical University – Worldwide grow in Houston in support of our critically important aerospace industry that looks not only to build on mankind's continuing exploration of, and ultimate occupancy of space, but also its position to grow the new and growing sector of the industry for space tourism and 'light lift' support for satellites and the International Space Station.”

– Houston Airports Director of Aviation Mario Diaz



COMMERCIAL DEVELOPMENT

With the major renovation of Bush Intercontinental's Terminal B, continued work on Hobby Airport's \$350 million restoration and Ellington Airport's expansion, Houston's airports are getting a fresh new look, making the traveling experience more modern and friendly while generating more non-airline revenue.



TERMINAL B REDEVELOPMENT

A new special facilities lease with United Airlines, approved in 2011, triggered a \$1 billion renovation of Bush's Terminal B. Phase I of construction started in January 2012 and United began operating the entire Terminal B building in February 2012. The airline manages concessions, facility maintenance and janitorial services on behalf of the City and will share concessions revenue with the airport. If all Terminal B redevelopment projects are completed, it will expand the facility to 71 gates, with six piers and a new terminal building.



U.S. COAST GUARD HEADQUARTERS

The United States Coast Guard is making a multi-million dollar investment at Ellington, opting to move its Houston-Galveston headquarters to the airport facility from the Houston Ship Channel by 2014. The new 117,000-square-foot building will house more than 300 employees, the sector's command center, investigative services, electronic support, public affairs and the regional civil rights office.



LONE STAR FLIGHT MUSEUM

Galveston's Lone Star Flight Museum will also move to Ellington over the next three years. The move will give the museum a bigger hangar, and a more modern museum as well as add a theatre and restaurant at Ellington. The museum will make \$7.5 million in improvements and pay about \$15,000 annually in rent. About 50,000 people visit the museum per year.



MILLION AIR

Full-service fixed-base operator (FBO) Million Air, which is headquartered at Hobby with more than 30 locations around the country, continues to expand its services and is planning major renovations to the west ramp of Hobby with an investment of more than \$12 million. Million Air offers a luxury facility and customer service staff. The FBO is capable of fueling any aircraft from a Cessna 152 to a Boeing 757.

CONCESSIONS

Bush saw the addition of two new kiosks and three new restaurants. Flight 281 Express Kiosk opened in Terminal A North and new retail wall outlets were added in Terminal D to provide passengers with reading materials. Terminal C South also gained a new Subway location. Mango Taco Truck, in Terminal C North, offers dishes that mirror the cuisine of rural Mexico. Urban Crave, near gate C-32, opened in April 2011 and offers 'bites from the edge' fresh, mobile street cuisine.

Hobby welcomed two new restaurants in 2011 with another expected to open in 2012. In December 2011, a Dunkin' Donuts and Baskin-Robbins combination restaurant opened in the Hobby Central Concourse. Houston-based Pappas Restaurants plans to open a Pappas Bar-B-Q in 2012.

NEW ADVERTISING VENUES

The Houston Airports Concessions Team worked with the Transportation Security Administration (TSA) and its advertising concessionaire (JCDecaux) to upgrade security checkpoints in return for the right to advertise in the security bins. Print advertising can now be found inside the plastic bins used to store passengers' personal items, as well as the tables located near screening machines and new carts used to transport the bins from various locations at both Bush and Hobby Airports. The Automated People Mover at Bush also now features advertising.

TECHNOLOGY INNOVATIONS

REINVENTING OUR TECHNOLOGY

BLUETOOTH STUDY

In June 2010, Houston Airports Director of Aviation Mario C. Diaz wanted to track how long it was taking for passengers to get through security checkpoints. By collecting this data, airport officials hoped the study's results would ultimately improve customer service and enhance the passenger experience. Houston Airports partnered with Purdue University to conduct the two-week study at George Bush Intercontinental Airport. A total of nine Bluetooth sensors were placed around IAH, including:

Anytime a passenger with a Bluetooth-enabled device passed through one of the sensors, the device measured the transit time between point A and point B. The data captured the wait time through the checkpoint and also how long it took passengers to get through the checkpoint to one of the gate concourses. After two weeks of capturing data, the research team accumulated nearly 200,000 records of IAH passengers' travel time.

“Most people are very interested in understanding or being able to identify how long they might need to allow to get to their gate. The idea is that we would push that information real time to our website, but also develop some applications that could be used for some of the phone manufacturers like iPhone or Droid so passengers would be able to check wait times before they drive to the airport.”

– Lisa Kent, Houston Airports chief information officer

Airport officials plan to deploy Bluetooth sensors throughout Bush Intercontinental, William P. Hobby and Ellington Airport by June 2012.



Chief Information Officer Lisa Kent with her team (L-R) Bryan Helaire, Jeff Bream, Lisa Kent, Fred McDowell and Doug Frankhouser.

EXPANDED ROUTES & NEW CARRIERS

July 2010

- VivaAerobus to Monterrey, Mexico
- AeroMexico to Monterrey, Mexico
- Cathay Pacific Cargo increases from 3x to 4x weekly to Hong Kong

September 2010

- China Airlines Cargo increases from 1x to 2x weekly to Taipei

October 2010

- Singapore Airlines increases from 5x to 7x weekly service to Moscow/Singapore

November 2010

- Emirates increases from 7x to 14x weekly service to Dubai

December 2010

- Continental Airlines to Gunnison-Crested Butte, Colorado (seasonal Dec-Apr)

January 2011

- United / Continental Airlines to Aspen, Colorado

February 2011

- United / Continental Airlines to Reno, Nevada

March 2011

- Southwest Airlines HOU to Charleston, South Carolina
- Southwest Airlines HOU to Greenville-Spartanburg, South Carolina

April 2011

- United / Continental Airlines to Bakersfield, California
- American Airlines to Los Angeles
- Lufthansa Cargo to Frankfurt (via Atlanta)

May 2011

- United / Continental Airlines to Montreal, Canada
- United / Continental Airlines to Cedar Rapids, Iowa
- United / Continental Airlines to Grand Junction, Colorado
- AirTran Airways HOU to Branson, Missouri (replaces Branson Air Express operation)

June 2011

- Southwest Airlines HOU to Newark, New Jersey
- Lufthansa Cargo to Frankfurt to 2x weekly

July 2011

- United / Continental Airlines to Hobbs, New Mexico
- Saudi Airlines Cargo adds 3rd weekly frequency (Dammam)



INTERNATIONAL DEVELOPMENT / GLOBAL ENTRY & ONESTOP

More than 8.6 million international travelers used Houston's airports in 2011. It's a testament to the city's global population and expanding presence as an international trade hub. People from 100 different nationalities who speak 90 different languages call Houston home. Our ongoing efforts to reinvent our airports and restore all three of Houston's airports to opening day fresh are attracting interest from countries, airlines and companies that want to do business in Houston. Bush Intercontinental offers service to 68 international destinations around the world in 31 countries. A major goal is to expand route offerings to Asia. Currently, non-stop service is offered to Japan and Singapore. As part of an effort to boost relations and potential new business opportunities, Director of Aviation Mario C. Diaz led, with the Greater Houston Partnership and the Greater Houston Convention Visitors Bureau, trade missions to China, South Korea and Taiwan in August 2011.

"China is the most populous country in the world and has vast underserved markets. As we continue into 2012, we'll continue opening trade relationships there to open routes from Houston to China," Diaz said. "Houston's vibrant Asian population continues to grow and will provide a wealth of opportunities for Houston Airports in the future."

Diaz led a trade mission to Vietnam in October 2010 with stops in Hanoi, Ho Chi Minh City and Da Nang. Houston's Vietnamese population is the third largest in the United States. With an estimated 50,000 annual roundtrip passengers, Ho Chi Minh City was the largest international market without non-stop service from Houston.

In November 2011, United Airlines launched daily non-stop service from Bush Intercontinental to Lagos, Nigeria. It is the first and only service offered from Texas directly to Africa.

"As an executive of a company actively involved in doing business in Africa, I can't stress enough the importance of this flight. To have successful projects in Africa, U.S. businesses must commit to being present and involved in every aspect of the transaction. This flight makes it possible for me to balance efficiently and effectively my obligations as Chairman and CEO of a US-based company with my company's commitment and steadfast interest in working with the local governments and private sectors across Africa."



United will launch the first non-stop flight from Houston to Auckland, New Zealand in November 2012. The 7,400-mile route will be the longest route United flies from Bush Intercontinental and the airline is one of only three providing service between North America and New Zealand. The Nigeria route currently uses a Boeing 777. The New Zealand route will be served by the Boeing 787 Dreamliner. The addition of the flight means that Houston will be the only city in the Western Hemisphere with non-stop service to all six inhabited continents.



HOUSTON LEADS THE NATION IN GLOBAL ENTRY PROGRAM

In 2011, Houston Airports continued its partnership with U.S Customs and Border Protection (CBP) to enhance facilitation methods and improve service to airport customers. The Global Entry program allows expedited clearance for pre-approved, low-risk travelers upon arrival in the U.S. It serves as a mechanism to reduce overall wait times in passport control by reducing the total number of passengers needing to be processed by an officer.

Since the program's inception in 2008, IAH has continued to lead the nation in Global Entry enrollments and kiosk usage. Year over year, enrollments have increased over 86 percent from 8,480 in 2010 to 15,808 in 2011. Additionally, 129,070 passengers utilized the Global Entry kiosks at IAH, more than at any other participating airports. The program has been instrumental for business travelers, allowing them to process through kiosks in less than 60 seconds, with no lines, no paperwork and little-to-none interaction with customs officers..





“The business community in Houston was very quick to recognize the benefits of the Global Entry program. This is a diverse community that’s very familiar with the international arrival process, so it’s not surprising that they would line up for this service in record numbers.”

– Houston Airports Chief External Affairs Officer Saba Abashawl

ONE STOP
make it easy, make it fast

ONESTOP

Exclusive to IAH, the OneStop program streamlines the inspection process for international travelers arriving with only carry-on luggage to process faster through a designated processing line. In 2011, 325,782 internationally arriving passengers and crew used OneStop lanes, representing a 46 percent increase from 2010. This program does not require membership or registration to participate and is open to all travelers. OneStop not only decreases wait times for participants, but like Global Entry, further reduces the number of passengers waiting in the regular queue to be processed by an officer.

“Customs and Border Protection with its industry partners in Houston are always looking for innovative ways to provide improved customer service to the traveling public, the OneStop Program is just an example of how committed we are to finding better ways to expedite the process,” said Service Port Director Terry L. Estell. “The program lends itself to speeding up the CBP process for travelers as well as supporting our partners in the travel industry operating at the Houston Intercontinental Airport.”

GLOBAL AVIATION INITIATIVES / HASDC

Houston Airports, with the support of other industry and government stakeholders, hosts professional and educational programs for airport executives from around the world. These programs provide a professional exchange platform that promotes industry professionalism to build a safe, efficient and friendly global air transportation network. They also build Houston Airports’ international reputation as industry leaders and engender goodwill towards cooperative relationships with our global counterparts.

The longest running and most popular course is the “Comprehensive Airport Management Program,” offered for the past 18 years. In 2011, Houston Airports developed and offered these courses:

- Airport Emergency/Contingency Management
- Airport Operations, Air Traffic Management & Runway Safety
- Energy Conservation & Emission Reduction
- Executive Management Development Training
- Airport and Airlines Ground-Handling Operations
- Aviation Safety Program

Approximately 150 aviation professionals participate in the program annually. Representatives from more than 30 countries in Asia, Africa, Latin America and the Caribbean completed the training courses. Houston Airports has received visitors from more than 90 of China’s 130 airports. The most recent visitors in December 2011 were from a variety of Chinese aviation entities including educational institutions, airlines, airports and government bodies.

HAS DEVELOPMENT CORPORATION

HAS Development Corporation (HASDC) is affiliated with Houston Airports. Its mission is to share best practices of the professional services of Houston Airports to promote safe and efficient air travel worldwide. As airports in emerging nations develop, the need for air service grows. HASDC has been assisting in the operation of the current Quito, Ecuador airport. HASDC is assisting in the ongoing construction of the \$600 million New Quito International Airport, which will open in 2012.



AIRLINE INDUSTRY UPDATE

UNITED-CONTINENTAL MERGER

Since the United-Continental merger became official in October 2010, Houston's George Bush Intercontinental Airport is now the airline's largest hub, connecting passengers to Latin America and other parts of the globe.

REINVENTING TERMINAL B

Houston Mayor Annise Parker and Houston Airports in partnership with United Continental Holdings, Inc. broke ground on the first phase of a three-phase redevelopment project at IAH. Phase one of the project, to be completed in 2013, will create a new Terminal B south concourse dedicated to regional jet operations.

The \$160 million south concourse project will replace the existing south side flight stations with a new 225,000 square-foot facility to accommodate United's regional aircraft. At nearly four times the size of the existing space, the new concourse will provide a better customer experience, as it will feature modern and expanded gate lounge areas, concessions and restroom facilities.

Now a member of the Star Alliance network, United is part of a growing alliance of the world's most respected airlines. As a member, United must comply with the highest industry standards of customer service, security and technical infrastructure. As United's largest hub, Bush will serve as important connecting hub for passengers flying on Star Alliance carriers to destinations around the world, increasing traffic volume at the airport. Member carriers are:

- AIR CANADA
- LUFTHANSA
- SINGAPORE AIRLINES
- UNITED
- US AIRWAYS

"This is a critical partnership with Houston Airports and United," said Houston Airports Chief Operating Officer Lance Lyttle. "As United enhances this terminal, it will allow enhanced customer service and more aircraft types, provide new amenities and improve efficiencies at the hub."



The airline worked to combine the products, services and policies of the two carriers into a single United. In the past year the airline rebranded aircraft, upgraded plane interiors, announced a new frequent-flier program (MileagePlus) and received FAA approval for a single operating certificate.

Upcoming plans include combining the two airlines' passenger service technologies, including reservation systems, check-in kiosks and computers at gates. The combined airline will run on Continental's Shares system.

SOUTHWEST-AIRTRAN MERGER

Since Southwest Airlines, the largest air carrier at William P. Hobby Airport, announced plans to purchase low-cost airline AirTran Airways in 2010, the proposed merger has received overwhelming support from shareholders.

"This merger will strengthen Southwest Airlines' market position and increase their domestic network. That is a good thing for Houston travelers. We look forward to Southwest's continued growth at Hobby Airport, which is a very important hub in the Southwest network."

- Ian Wadsworth, Houston Airports chief commercial officer

In 2011, AirTran shareholders approved the proposed acquisition from Southwest Airlines. More than 98.6 percent of votes cast and 77.5 percent of shares outstanding were voted in favor of the acquisition.



OUR GREEN INITIATIVES

ECOPARK KEEPS THE AIR CLEAN

George Bush Intercontinental Airport launched a new green initiative in 2011 known as ecopark. The initiative uses a fleet of 30 new compressed natural gas (CNG) shuttles, rather than traditional diesel, to serve the economy lot at Bush Airport. Using CNG is expected to reduce shuttle fuel cost by 50 percent, saving at least \$200,000 annually.

Ecopark, the only airport-operated economy lot, will continue to operate in its current location along John F. Kennedy Boulevard, but all vehicles, marketing materials and signage will now feature the name ecopark. Shuttle buses are “wrapped” with the new logo and blue-green color scheme prior to being utilized in the “traffic loop” between the lot and terminals.

Houston Mayor Annise Parker says, “It makes perfect sense to do this at the airport. These buses run 24/7 along a highly congested strip of road and we want to make sure that we put fewer and fewer particulates into the air.”

Houston Airports partnered with Apache Corporation, a Houston-based oil and gas exploration and production company, and Clean Energy to design and construct a CNG fueling station at Bush Airport’s New South Parking area as a donation to the City of Houston.

“There is no doubt that compressed natural gas can improve the air quality,” said Apache CEO G. Steven Farris. “It’s a cleaner burning fuel and it’s much more economical to use.”

Shuttle buses for the airport’s economy lot operation typically travel more than a million miles per year and annually transport approximately 676,000 people.



New ecopark announced at city hall by Mayor Annise Parker, Director of Aviation Mario Diaz, Apache Corporation Chairman and Chief Executive Officer, G. Steven Farris, New South Parking, Clean Energy.



ENERGY WISE

- 32 percent of all energy consumed by Houston Airports is generated from renewable energy.
- Telephone network upgrade at Bush and Hobby Airports uses 40 percent less power.
- Installed energy-efficient flat-screen monitors that automatically turn off when not in use.
- Conference rooms have motion sensors to automatically turn off the lights.

RECYCLE & REDUCE WASTE

Recycling at Houston Airports saves money by avoiding disposal costs, saves natural resources by providing substitutes for raw materials, and reduces consumption of limited landfill space.

- In 2010, Bush Airport collected, compacted, and recycled 122 tons of cardboard, paper, glass, aluminum, and plastic.
- Hobby Airport recycled 45 tons of cardboard, paper, glass, aluminum, and plastic.
- Business centers send approximately 23,500 pounds per year of shredded paper from security-sensitive documents offsite for recycling.

RUNWAYS TO SUCCESS

The typical life span for runway and taxiway pavement, according to industry standards, is 20 years. In one project at Bush, using recycled content and widening the concrete base extended the taxiway service life by 50 percent for a 10 percent cost increase.

- During the past 10 years, runway modification and improvement projects at all three airports have used tons of recycled concrete in the new pavement. These projects also incorporated fly ash from local cement kilns and commercial incinerators and slag from local blast furnaces into the runway concrete pavement.
- The runway rehabilitation project at Hobby used 10 tons of recycled polyethylene (similar to the plastic in milk jugs) in the asphalt pavement. This recycled material also increased the pavement’s durability because it’s less susceptible to damage from heat.



OFFICE OF BUSINESS OPPORTUNITY

The Houston Airports Office of Business Opportunity is committed to supporting a vibrant and thriving business community in Houston by promoting the utilization of locally owned small businesses and Disadvantaged Business Enterprises (DBEs). Our goal is to continually improve access to Houston Airports' contract and procurement opportunities for the widest variety of companies and to ensure compliance with local and federal mandates. We take an active role in reaching out to these business owners for each new project.

In June 2011, Houston Airports was recognized for raising the bar on corporate commitment and passion, promoting the utilization of DBEs and increasing the sustainable capacity for DBEs to be successful by the Airport Minority Advisory Council at the Airport Business Diversity Conference.

Director of Aviation Mario C. Diaz addressed conference attendees in Fort Worth. "We are proud that Houston Airports has seen a 50 percent growth in DBE participation since 2008," said Diaz.

On Nov. 5, 2011, the Houston Hispanic Chamber of Commerce also honored Mario Diaz at the Chamber's 29th Annual Awards Gala to celebrate the city's top Hispanic entrepreneurs and executives. Diaz is the highest ranking Hispanic appointee for Mayor Annise Parker in the City of Houston and was recognized for his achievements. The director participates in events for the Houston Hispanic Chamber of Commerce to ensure that small business opportunities are open to its members.



YOU MATTER TO HOUSTON AIRPORTS

REINVENTING OUR ROLE IN THE COMMUNITY

Houston Airports demonstrates its commitment to the region through a variety of community-based initiatives. Whether it's reaching out to the local community in times of need, or participating in the City of Houston's Combined Municipal Campaign, Houston Airports' employees and managers strive to make a difference.

YOU MATTER TO HOUSTON AIRPORTS

William P. Hobby Airport sits at the heart of a growing, vibrant and diverse community. In November 2011, more than 120 volunteers participated in a community-wide cleanup effort near the airport. As part of its commitment to be a good environmental steward and convey a thoughtful message to its surrounding neighbors, a new theme emerged during the 2011 Hobby Airport Community Day: **"You Matter to Houston Airports."**

The goal of the event was to interact with members of the local community and recruit volunteers to cleanup Monroe Road, a heavily traveled road leading to Hobby Airport. Several City of Houston departments were on-site to lend their support, including representatives from Houston Parks and Recreation Department, Public Works and Engineering Department, Municipal Courts Department and the Department of Neighborhoods.

"There has always been a special bond and connection between Hobby Airport and the surrounding communities. That's why an event like this is possible and why the turnout is so strong."

- William P. Hobby Airport General Manager Perry Miller





GOVERNMENT RELATIONS

In 2011, Houston Airports increased its outreach to local, state and federal government representatives to share the interests of its three airports with key stakeholders. Houston airport officials launched a targeted newsletter to elected officials titled “Global Gateway News” in an effort to showcase the airports’ projects of interest, and also communicate how various airport initiatives are meeting – and exceeding – Houston passengers’ needs. To give government leaders a first-hand view of unique airport happenings, Houston Airports also conducted on-site airport tours.

COMBINED MUNICIPAL CAMPAIGN

The Combined Municipal Campaign (CMC), the City of Houston employees’ charitable giving campaign, allows city employees to demonstrate their strong sense of community. For two consecutive years, Houston Airports has been recognized for raising the most funds out of all City of Houston departments, raising more than \$332,000 in 2011.

Currently, Houston Airports CMC hosts several signature events, including:



AIRPORT EXPRESS, BUSH AIRPORT

Two-day annual event featuring 25 and 50-mile marked trail rides and a 10-mile fun ride across 13,000 acres of groomed riding trails. In 2011, all proceeds benefited St. Jude Children’s Research Hospital.



AEROS & AUTOS, ELLINGTON AIRPORT

One-day annual event showcasing antique, hot rods, low-riders, motorcycles, vintage and military aircraft. Benefits the Houston chapter of the United Service Organization (USO) and the Texas Lions Camp

ART IN THE AIRPORTS

REINVENTING OUR AIRPORTS WITH ART

The Houston Airports’ public art collection is a welcoming gateway for passengers. Whether it’s a painting, a sculpture or an architectural enhancement that allows one to discover beauty and mystery in our everyday surroundings--art enhances the passenger experience. Our permanent art collection showcases 30 works of art. These commissioned and donated works of art are displayed in key locations throughout Bush and Hobby Airports. In 2011, we introduced two new works of art to the collection:

Radiant Fountains is Dennis Oppenheim’s last work completed before his death. Just as Houston and its airports are reinventing themselves in a more fresh, modern and friendly approach, this work represents the same idea. Radiant Fountains was constructed using environmentally friendly, programmable light-emitting diodes (LEDs) that cascade droplets of light. Oppenheim created the work to be a welcoming gateway to Houston, offering an impressive “hello” to visitors to Houston’s global city.

Houston Can you Hear Me? by Hana Hillerova consists of 19 colorful powder-coated aluminum sculptures of “Stars.” These range from two to eight feet in diameter, and are suspended on cables at various lengths above the escalators. The experience of passing through the sculpture installation gives one the feeling of traveling through a galaxy. Passengers are instantly reminded of where they are: Houston, the city known for being instrumental in the exploration of outer space.



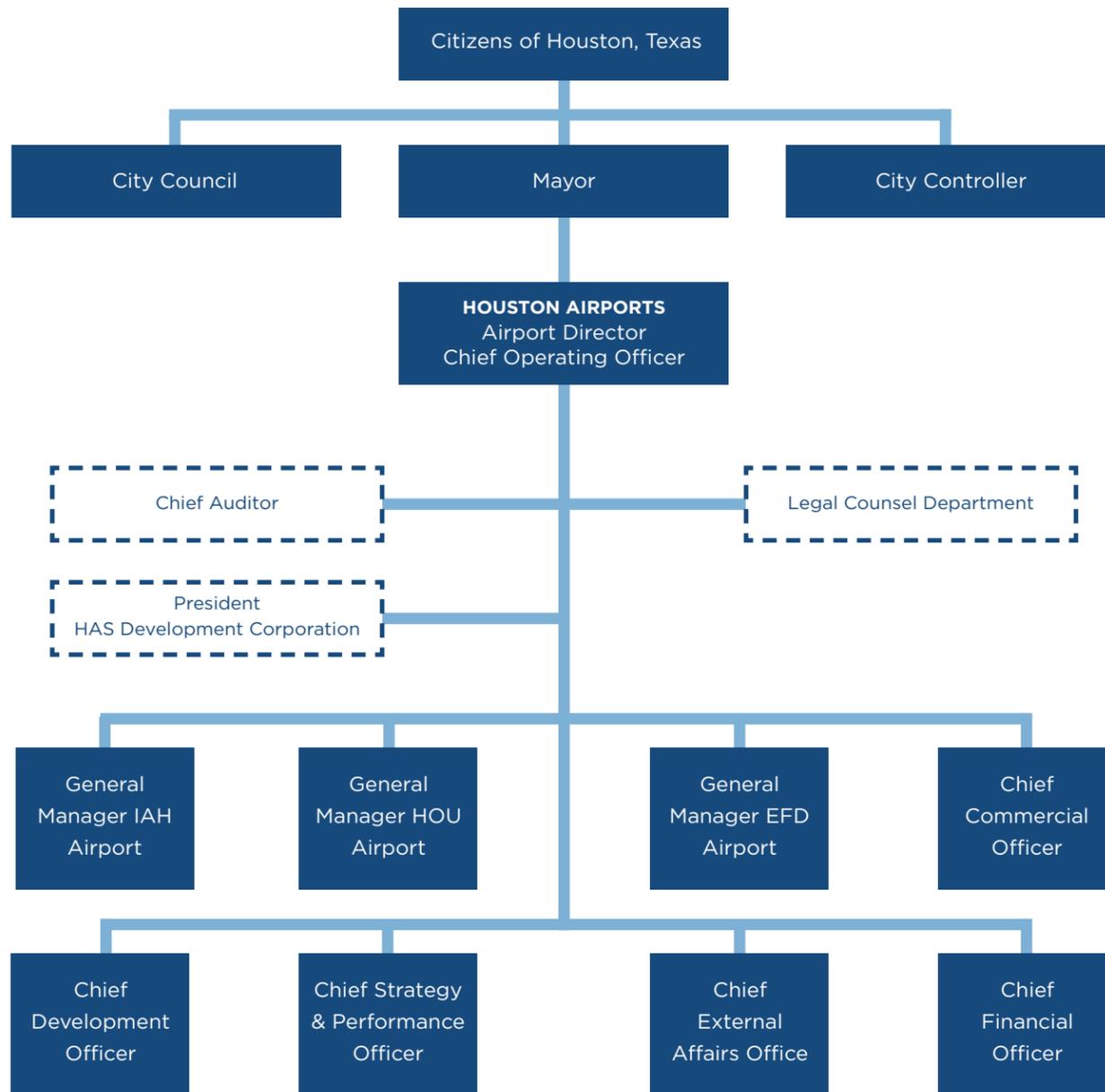
RADIANT FOUNTAINS by Dennis Oppenheim
Location: John F. Kennedy Boulevard



HOUSTON, CAN YOU HEAR ME? by Hana Hillerova,
Location: Aluminum Sculpture; Terminal A, Above Ground Train Station



ORGANIZATIONAL CHART AS OF JUNE 30, 2011



Airport System Fund An Enterprise Fund of the City of Houston, Texas

Fiscal Year Ended June 30, 2011

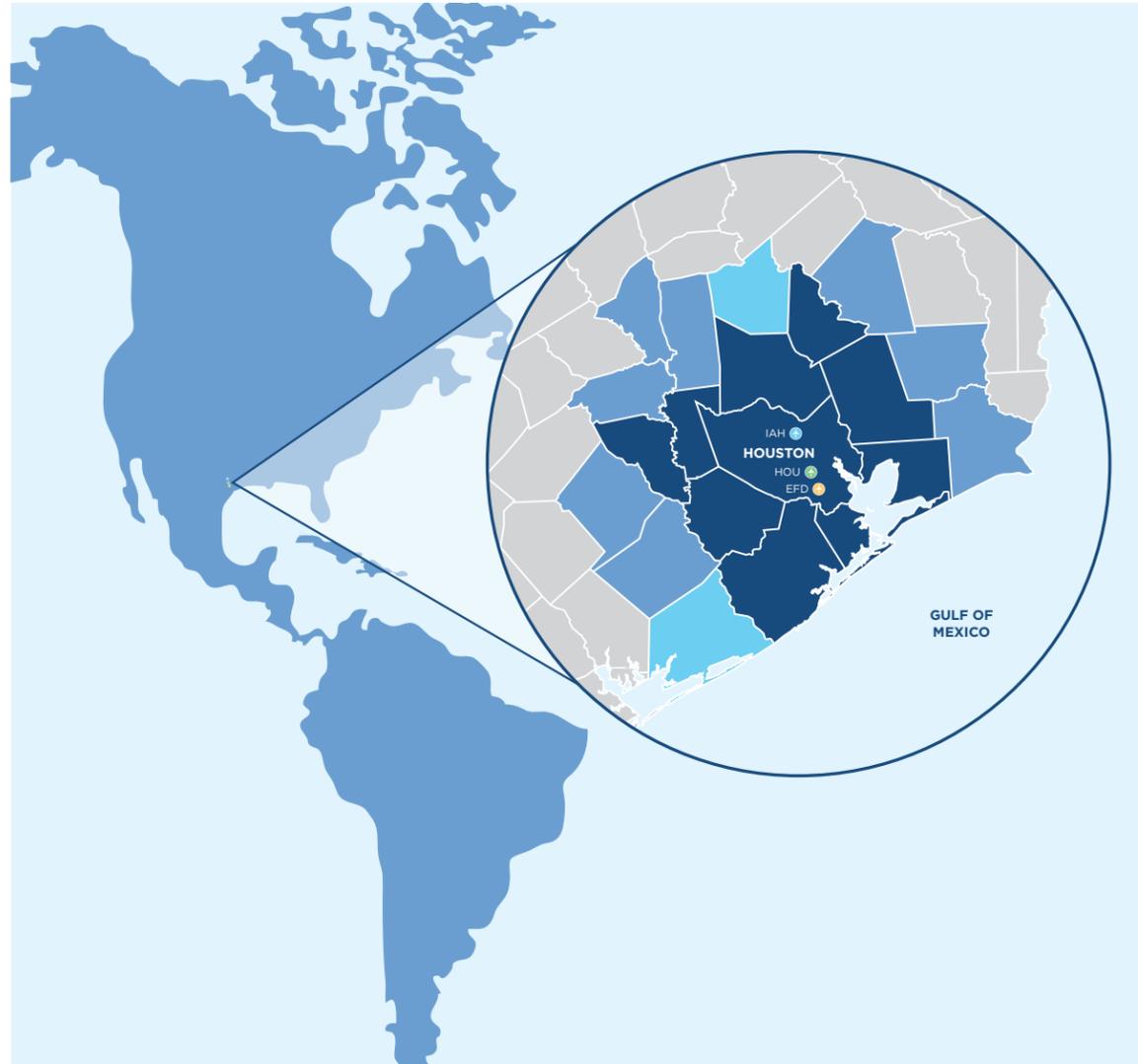
Prepared by:
Office of City Controller

Ronald C. Green
City Controller

Carl Medley
Deputy Director Controller

Becky Moores, CPA
Houston Airport System

HOUSTON AIRPORT SYSTEM



	Metropolitan Statistical Area (MSA) of Houston - Sugar Land - Baytown, TX includes 10 counties.
	Consolidated Statistical Area (CSA) of Houston - Baytown - Huntsville, TX adds both Matagorda & Walker Counties



As management of the Airport System Fund, we offer readers of the Airport System Fund's financial statements this narrative overview and analysis of the financial activities of the Airport System Fund for the fiscal year ended June 30, 2011. Please read the Management's Discussion and Analysis (unaudited) section in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The Airport System Fund's net assets decreased by \$6.5 million or 0.5% during fiscal year 2011 and increased by \$58.0 million or 4.2% during fiscal year 2010.

Operating income decreased by \$34.3 million due to an increase in operating expenses of \$38.1 million or 9.3% with an increase in operating revenue of \$3.8 million or 0.9%. In fiscal year 2010, operating income decreased \$10.6 million or 133.7%, due to an increase in operating expenses of \$31.4 million or 8.3% with an increase in operating revenue of \$20.8 million or 5.4%.

Interest revenue decreased by \$20.8 million or 68.2% in fiscal year 2011 and decreased by \$6.8 million or 18.3% in fiscal year 2010.

Total Operating expenses increased by \$38.1 million or 9.3% in fiscal year 2011 and increased by \$31.4 million or 8.3% in fiscal year 2010. Depreciation expense decreased \$1.1 million or 0.7% in fiscal year 2011 and increased \$27.6 million or 20.2% in fiscal year 2010. Maintenance and operating expenses increased \$39.3 million or 16.0% in fiscal year 2011 and increased \$3.7 million or 1.6% in fiscal year 2010.

The Fund had a net loss before capital contributions of \$50.6 million, compared to a net income before capital contributions of \$6.5 million in fiscal year 2010.



OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Airport System Fund's financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System, consisting of George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby), and Ellington Airport, is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

The statement of net assets presents information on all the Fund's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, and acquisition or retirement of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET ASSETS

Total net assets at June 30, 2011 were \$1,430.5 million, a 0.5% decrease from June 30, 2010. Total net assets at June 30, 2010 were \$1,437.0 million, a 4.2% increase from June 30, 2009.

	NET ASSETS		
	JUNE 30, 2011, JUNE 30, 2010, and JUNE 30, 2009 (in thousands)		
	June 30, 2011	June 30, 2010	June 30, 2009
Current assets	\$ 1,068,806	\$ 1,072,728	\$ 793,641
Noncurrent assets	8,502	9,389	5,375
Capital assets	3,007,398	3,055,976	2,958,723
Total assets	4,084,706	4,138,093	3,757,739
Current liabilities	171,876	177,173	167,817
Long term liabilities	2,482,340	2,523,961	2,210,922
Total liabilities	2,654,216	2,701,134	2,378,739
Net assets invested in capital assets, net of related debt	663,917	701,767	790,731
Restricted net assets	766,573	735,192	588,269
Total net assets	\$ 1,430,490	\$ 1,436,959	\$ 1,379,000

Approximately half of the Fund's total net assets (46.4% in fiscal year 2011; 48.8% in fiscal year 2010) reflects net assets invested in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue or other sources procured by the airport fund, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Fund's net assets (53.6% in fiscal year 2011; 51.2% in fiscal year 2010) represents resources that are subject to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Airport System Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any unrestricted net assets carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements.

CHANGES IN NET ASSETS

From July 1, 2010 to June 30, 2011, net assets of the Airport System Fund decreased by \$6.5 million or 0.5%. From July 1, 2009 to June 30, 2010, net assets increased by \$58.0 million or 4.2%.

CHANGES IN NET ASSETS JUNE 30, 2011, JUNE 30, 2010, AND JUNE 30, 2009 (in thousands)

	June 30, 2011	June 30, 2010	June 30, 2009
Operating revenue:			
Landing area fees	\$ 90,384	\$ 94,165	\$ 82,823
Rentals, building and ground	181,182	182,105	174,433
Parking and concessions	134,985	125,999	122,701
Other	3,851	4,310	5,800
Total operating revenues	<u>410,402</u>	<u>406,579</u>	<u>385,757</u>
Nonoperating revenue:			
Interest on investments	9,700	30,487	37,332
Passenger facility charges	63,138	66,383	32,398
Other nonoperating	3,409	7,525	1,093
Total nonoperating revenues	<u>76,247</u>	<u>104,395</u>	<u>70,823</u>
Total revenues	<u>486,649</u>	<u>510,974</u>	<u>456,580</u>
Operating expenses:			
Maintenance and operating	284,307	245,051	241,303
Depreciation	163,054	164,186	136,554
Total operating expenses	<u>447,361</u>	<u>409,237</u>	<u>377,857</u>
Nonoperating expenses:			
Interest expense	91,133	95,037	94,396
(Gain) / Loss on disposal of assets	(1,241)	198	(1,020)
Total nonoperating expenses	<u>89,892</u>	<u>95,235</u>	<u>93,376</u>
Total expenses	<u>537,253</u>	<u>504,472</u>	<u>471,233</u>
Excess (deficit) before contributions	(50,604)	6,502	(14,653)
Capital contributions	44,135	51,457	70,936
Change in net assets	(6,469)	57,959	56,283
Net assets, July 1	1,436,959	1,379,000	1,322,717
Net assets, June 30	<u>\$ 1,430,490</u>	<u>\$ 1,436,959</u>	<u>\$ 1,379,000</u>

Operating revenues increased by \$3.8 million or 0.9% for fiscal year 2011. Enplaned and deplaned passenger volume increased for the second consecutive year despite continuing difficult economic conditions, growing 1.7% in fiscal year 2011 after a 2.2% increase in fiscal year 2010.

Operating expenses increased by \$38.1 million or 9.3% in fiscal year 2011. Most of this increase was due to \$2.2 million increase in total payroll costs, a \$2.9 million increase in Interfund Police Service Costs, \$8.8 million of Hurricane Ike repair costs, a \$9.2 million write-off of halted projects and a \$13.8 million write-off of planning and construction costs not meeting capitalization criteria. Base salary expense increased \$2.2 million or 2.0% partially as a result of a Houston Organization of Public Employees (HOPE) Union 4.2% salary increase. Operating expenses in fiscal year 2010 increased by \$31.4 million or 8.3%. Depreciation expense increased by \$27.6 million or 20.2% and base salary expense increased \$3.7 million or 3.5% in fiscal year 2010 partially as a result of a Houston Organization of Public Employees (HOPE) Union 4.2% salary increase.

Capital contributions in fiscal year 2011 decreased by \$7.3 million or 14.2% over fiscal year 2010. This decrease is partly due to a 10 year FAA Letter of Intent on runway 8L 26R ending in fiscal year 2010. In fiscal year 2010, capital contributions decreased by \$19.5 million or 27.5%. This decrease is the result of the Airport System fund receiving fewer entitlement grants due to PFC charges being received at Intercontinental for a first full year (PFC program was implemented at Intercontinental Airport in December, 2008).

Non-operating revenue decreased by \$28.1 million or 27.0% in fiscal year 2011. Passenger Facility Charges (PFC's) decreased \$3.2 million or 4.9% from fiscal year 2010 because HAS transitioned from a FAA cash basis of reporting PFC's to an accrual basis in fiscal year 2011. Interest revenue, which is included in non-operating revenue, decreased by \$20.8 million or 68.2%. The decrease is primarily explained by an apportioned \$16.1 million of unrealized investment losses from the city. The \$16.1 million represents 1.6% of the total Houston Airport System pooled investment portfolio. In fiscal year 2010, non-operating revenue increased by \$33.6 million or 47.4%. This increase was due to IAH PFC charges being reported for the first full year in 2010.

Interest expense decreased by \$3.9 million or 4.1%.

CAPITAL ASSETS

The Airport System Fund's investment in capital assets amounts to \$3.0 billion at June 30, 2011, a decrease of \$48.6 million, or 1.6%, from June 30, 2010. Capital assets at June 30, 2010 were \$3.1 billion which was an increase of \$97.3 million, or 3.3%, from June 30, 2009.

CAPITAL ASSETS JUNE 30, 2011, JUNE 30, 2010, AND JUNE 30, 2009 (net of accumulated depreciation in thousands)

	June 30, 2011	June 30, 2010	June 30, 2009
Land	\$ 210,091	\$ 209,738	\$ 209,311
Rights & Intangibles - Non-Depreciable	7,016	-	-
Buildings and building improvements	1,472,872	1,362,503	1,411,348
Improvements other than buildings	950,859	965,506	1,000,178
Equipment	52,647	47,678	51,890
Rights & Intangibles - Amortizable	635	-	-
Construction work in progress	313,278	470,551	285,996
	<u>\$ 3,007,398</u>	<u>\$ 3,055,976</u>	<u>\$ 2,958,723</u>

The major on-going capital projects during fiscal year 2011 at George Bush Intercontinental Airport included the rehabilitation of Taxiway WA and WB, extension of the automated people mover system to Terminal A, the Terminal C garage upgrades and planning for the redevelopment of Terminal B and Terminal D. Projects at William P. Hobby Airport included terminal building redevelopment, parking structure rehabilitation and planning for various security upgrades. System-wide projects across the Houston Airport System included ongoing GIS development and pavement replacement for airfields and roadways at all three airports.

DEBT

At the end of the current fiscal year, the Airport System Fund had total debt of \$2.4 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts, premiums and deferred amount and an inferior lien contract, all secured solely by Airport Fund revenues. The \$6.0 million senior lien commercial paper was repaid in July 2010 and no commercial paper is outstanding as of 06/30/2011. In addition, the Fund is responsible for \$2.0 million of pension obligation bonds. At the end of fiscal years 2011 and 2010, the Fund had total debt of \$2.4 billion and \$2.5 billion respectively.

OUTSTANDING DEBT JUNE 30, 2011, JUNE 30, 2010, AND JUNE 30, 2009 (in thousands)

	June 30, 2011	June 30, 2010	June 30, 2009
Senior lien debt:			
Long-term revenue bonds payable	\$ 449,660	\$ 449,660	\$ -
Unamortized discounts and premium	(1,255)	(1,367)	-
Commercial paper	-	6,000	93,000
Total senior lien debt	<u>448,405</u>	<u>454,293</u>	<u>93,000</u>
Subordinate lien debt:			
Current maturities-revenue bonds	52,285	47,335	40,840
Long-term revenue bonds payable	1,939,075	1,990,430	2,042,415
Unamortized discounts, premium, or deferred amounts on refunding	(29,716)	(29,545)	(30,835)
Total subordinate lien debt	<u>1,961,644</u>	<u>2,008,220</u>	<u>2,052,420</u>
Inferior lien debt:			
Current maturities-contract	4,535	4,305	4,085
Long-term contract payable	32,895	37,430	41,735
Total inferior lien debt	<u>37,430</u>	<u>41,735</u>	<u>45,820</u>
Other debt:			
Pension obligation bonds	2,006	2,006	2,006
Total other debt	<u>2,006</u>	<u>2,006</u>	<u>2,006</u>
Total outstanding debt	<u>\$ 2,449,485</u>	<u>\$ 2,506,254</u>	<u>\$ 2,193,246</u>

Total outstanding debt decreased \$56.8 million or 2.3% during fiscal year 2011 due to principal repayment. During fiscal year 2010, the outstanding debt increased \$313.0 million or 14.3%. The increase in fiscal year 2010 was partly attributable to the issuance of City of Houston, Texas, Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2011:

	As of June 30, 2011	
	Senior	Subordinate
Standard & Poor's	AA-	A
Moody's	Aa3	A2
Fitch's	Not Rated	A+

STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2011 AND 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 1,028,278	\$ 1,018,843
Accounts Receivable (net of allowance for doubtful accounts of \$526 in 2011 and \$1,427 in 2010)	22,174	24,976
Due from City of Houston	953	10,832
Inventory	2,549	2,490
Prepaid insurance	2,207	2,305
Due from other governments - grants receivable	5,967	6,476
Restricted assets - investments	6,678	6,806
Total current assets	1,068,806	1,072,728
Noncurrent assets		
Deferred charges	8,502	9,389
Capital Assets		
Land	210,091	209,738
Intangibles	7,679	0
Buildings, improvements and equipment	4,255,434	3,998,824
Construction in progress	313,278	470,551
Total capital assets	4,786,482	4,679,113
Less accumulated depreciation	(1,779,084)	(1,623,137)
Net capital assets	3,007,398	3,055,976
Total noncurrent assets	3,015,900	3,065,365
Total assets	\$ 4,084,706	\$ 4,138,093

(continued)

Liabilities

	2011	2010
Current Liabilities		
Accounts payable	\$ 8,953	\$ 6,667
Accrued payroll liabilities	4,591	4,151
Due to City of Houston	1,208	538
Advances and deposits	1,422	1,492
Deferred revenue	9,870	7,830
Claims for workers' compensation	797	910
Compensated absences	4,865	5,113
Revenue bonds payable	52,285	47,335
Inferior lien contract payable	4,535	4,305
Commercial paper payable	0	6,000
Accrued interest payable	53,897	54,958
Contracts and retainages payable	29,453	37,874
Total current liabilities	171,876	177,173
Long-term liabilities		
Revenue bonds payable, net	2,357,764	2,409,178
Inferior lien contract, net	32,895	37,430
Pension obligation bonds payable	2,006	2,006
Claims for workers compensation	1,830	2,428
Compensated absences	7,156	5,717
Net pension obligation payable	42,083	37,205
Other post employment benefits	38,275	29,997
Other long-term liabilities	331	0
Total long-term liabilities	2,482,340	2,523,961
Total liabilities	2,654,216	2,701,134
Net assets		
Invested in capital assets, net of related debt	663,917	701,767
Restricted net assets		
Restricted for debt service	164,162	156,341
Restricted for maintenance and operations	43,320	42,405
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	549,091	526,446
Total net assets	\$ 1,430,490	\$ 1,436,959

CITY OF HOUSTON

AIRPORT SYSTEM FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (IN THOUSANDS) FOR YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Operating Revenues		
Landing area fees	\$ 90,384	\$ 94,165
Rentals, building and ground area	181,182	182,105
Parking	70,681	70,127
Concessions	64,304	55,872
Other	3,851	4,310
Total operating revenues	<u>410,402</u>	<u>406,579</u>
Operating Expenses		
Maintenance and operating	284,307	245,051
Depreciation	163,054	164,186
Total operating expenses	<u>447,361</u>	<u>409,237</u>
Operating income	<u>(36,959)</u>	<u>(2,658)</u>
Nonoperating revenues (expenses)		
Interest revenue	9,700	30,487
Interest expense	(91,133)	(95,037)
Gain / (Loss) on disposal of assets	1,241	(198)
Passenger facility charges	63,138	66,383
Other revenue	3,409	7,525
Total nonoperating revenues (expenses)	<u>(13,645)</u>	<u>9,160</u>
Income/(loss) before capital contributions	(50,604)	6,502
Capital contributions	44,135	51,457
Change in net assets	(6,469)	57,959
Total net assets, July 1	<u>1,436,959</u>	<u>1,379,000</u>
Total net assets, June 30	<u>\$ 1,430,490</u>	<u>\$ 1,436,959</u>

CITY OF HOUSTON

AIRPORT SYSTEM FUND

STATEMENTS OF CASH FLOWS (IN THOUSANDS) FOR YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities		
Receipts from customers	\$ 411,472	\$ 391,367
Payments to employees	(96,988)	(95,396)
Payments to suppliers	(101,002)	(100,890)
Payments to the City of Houston	(36,807)	(52,387)
Claims paid	(796)	(910)
Other revenues	5,709	5,775
Net cash provided by operating activities	<u>181,588</u>	<u>147,559</u>
Cash flows from investing activities		
Sale of investments	14,809	9,043
Purchase of investments	(14,681)	(9,022)
Gain (loss) on sale of nonpooled stock	125	-
Interest income on investments	9,575	30,487
Net cash provided by investing activities	<u>9,828</u>	<u>30,508</u>
Cash flows from noncapital financing activities		
Interest expense pension obligation bonds	(106)	(106)
Deferred charges on future debt issuance	(386)	468
Net cash (used for) provided by noncapital financing activities	<u>(492)</u>	<u>362</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(47,235)	(45,490)
Proceeds (use of cash) from issuance of debt	92,900	443,288
Refunding of revenue bonds	(92,900)	-
Interest expense on debt	(111,972)	(98,822)
Retirement of inferior lien contract	(4,305)	(4,085)
Retirement of commercial paper	(6,000)	(87,000)
Passenger facility charges	63,138	66,383
Advances and deposits	-	(337)
Contributed capital	44,622	55,304
Acquisition of capital assets	(119,737)	(256,026)
Net cash (used for) capital and related financing activities	<u>(181,489)</u>	<u>73,215</u>
Net increase (decrease) in cash and cash equivalents	9,435	251,644
Cash and cash equivalents, beginning of year	1,018,843	767,199
Cash and cash equivalents, end of the year	<u>\$ 1,028,278</u>	<u>\$ 1,018,843</u>

(continued)

PASSENGER STATISTICS BY CARRIER TOTAL
FOR YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Noncash transactions		
Capitalized interest expense	\$ 21,912	\$ 16,496
Donated assets	(22)	(427)
Capital additions included in liabilities	(8,421)	(9,462)
Loss (gain) on disposal of assets	(1,241)	198
Noncash transactions	\$ 12,228	\$ 6,805

	2011	2010
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (36,959)	\$ (2,658)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	163,054	164,186
Capital improvement plan expense	21,746	-
Other revenues	3,409	7,525
Changes in assets and liabilities		
Accounts receivable	1,402	(21,529)
Due from the City of Houston	9,879	(9,559)
Due from other governments	-	549
Inventory and prepaid insurance	39	201
Accounts payable	2,302	(8,751)
Accrued payroll liabilities	440	421
Due to the City of Houston	670	202
Advances and deposits	1,970	4,018
Other post-employment benefits	4,878	3,876
Net pension obligation payable	8,278	9,349
Claims for workers' compensation	(711)	(1,098)
Compensated absences	1,191	827
Net cash provided by operating activities	\$ 181,588	\$ 147,559

**CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM STATISTICS
(unaudited)**

Airline Market Shares

Airlines	Domestic		Intercontinental		Hobby		Hobby	
	Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2010		Fiscal Year 2011	
	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	65,313	0.2%	90,976	0.2%	-	0.0%	-	0.0%
Air Tran	-	0.0%	-	0.0%	334,988	3.8%	407,703	4.3%
American West	-	0.0%	-	0.0%	-	0.0%	-	0.0%
American Airlines, Inc.	736,072	1.8%	719,228	1.8%	-	0.0%	-	0.0%
American Eagle - AA	99,970	0.2%	171,519	0.4%	234,427	2.7%	206,761	2.2%
Atlantic Southeast - DL	55,564	0.1%	113,068	0.3%	93,262	1.1%	123,063	1.3%
Charter Airlines	7,354	0.0%	8,891	0.0%	9,432	0.1%	14,446	0.2%
Chautauqua Airlines - CO	475,140	1.2%	369,304	0.9%	-	0.0%	-	0.0%
Colgan - Air Inc. - CO	524,431	1.3%	802,826	2.0%	-	0.0%	-	0.0%
Cornair - DL	86,609	0.2%	77,038	0.2%	1,542	0.0%	-	0.0%
Compass Airlines - DL	70,513	0.2%	102,155	0.3%	2,516	0.0%	441	0.0%
Continental	19,524,402	48.6%	19,214,288	47.7%	-	0.0%	-	0.0%
Delta	462,501	1.1%	422,809	1.0%	3,008	0.0%	89,279	0.9%
Executives - AA	-	0.0%	-	0.0%	30,945	0.4%	-	0.0%
ExpressJet Airlines, Inc.	7,501,514	18.7%	6,792,429	16.9%	-	0.0%	-	0.0%
ExpressJet - Branson Air	-	0.0%	-	0.0%	-	0.0%	3,983	0.0%
Frontier	224,423	0.6%	87,044	0.2%	-	0.0%	122,692	1.3%
JetBlue	-	0.0%	-	0.0%	150,044	1.7%	141,149	1.5%
Mesa Airlines, Inc. - UA	27,647	0.1%	5,214	0.0%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - US	14,603	0.0%	9,243	0.0%	-	0.0%	-	0.0%
Mesa Aviation, Inc. - DL	159,885	0.4%	211,150	0.5%	-	0.0%	-	0.0%
Pinnacle Airlines, Inc. - DL	-	0.0%	-	0.0%	176,864	2.0%	110,939	1.2%
Pinnacle Airlines, Inc. - NW	159,926	0.4%	121,252	0.3%	-	0.0%	-	0.0%
Republic Airlines - US	146,741	0.4%	149,140	0.4%	-	0.0%	-	0.0%
Shuttle America Corporation - CO	-	0.0%	3,027	0.0%	-	0.0%	-	0.0%
Shuttle America Corporation - DL	21,744	0.1%	-	0.0%	22,126	0.3%	5,749	0.1%
Shuttle America Corporation - UA	72,106	0.2%	52,628	0.1%	-	0.0%	-	0.0%
SkyWest Airlines - CO	-	0.0%	148,090	1.0%	-	0.0%	-	0.0%
SkyWest Airlines - DL	211,361	0.5%	130,023	0.3%	8,397	0.1%	5,562	0.1%
SkyWest Airlines - UA	48,821	0.1%	139,858	0.3%	-	0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	7,687,170	87.8%	8,202,622	86.9%
United Air Lines Inc.	619,122	1.5%	567,832	1.4%	-	0.0%	-	0.0%
US Airways	777,568	1.9%	887,186	2.2%	-	0.0%	-	0.0%
Total Domestic	32,093,330	79.8%	31,666,218	78.4%	8,754,721	100.0%	9,434,389	100.0%
International	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011				
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
AeroMexico	138,063	0.3%	191,603	0.5%				
Air Canada Jazz	189,385	0.5%	233,147	0.6%				
Air France	163,358	0.4%	147,048	0.4%				
Atlas Air	-	0.0%	24,009	0.1%				
British Airways	220,658	0.5%	245,119	0.6%				
Charter Airlines	2,227	0.0%	2,178	0.0%	Domestic only			
Continental	5,303,028	13.3%	5,809,580	14.3%				
Emirates	163,269	0.4%	220,534	0.5%				
ExpressJet Airlines, Inc.	1,291,483	3.3%	1,074,597	2.7%				
KLM	177,245	0.4%	179,274	0.4%				
Lufthansa	196,349	0.5%	212,202	0.5%				
Qatar Airways	135,802	0.3%	146,162	0.4%				
Shuttle America Corporation - CO	-	0.0%	2,444	0.0%				
Shuttle America Corporation - UA	-	0.0%	4,867	0.0%				
Singapore Airlines	80,784	0.2%	117,375	0.3%				
SkyWest Airlines - CO	-	0.0%	9,301	0.0%				
TACA	57,147	0.1%	48,529	0.1%				
United Air Lines Inc.	-	0.0%	43,889	0.1%				
Viva Aerobus	-	0.0%	20,435	0.1%				
World Airways	19,684	0.0%	-	0.0%				
Total International	8,138,482	20.2%	8,732,293	21.6%				
Total Airlines	40,231,812	100.0%	40,398,511	100.0%	8,754,721	100.0%	9,434,389	100.0%

(continued)

Airlines	Houston Airport System			
	Fiscal Year 2010		Fiscal Year 2011	
	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	65,313	0.1%	90,976	0.2%
Air Tran	334,988	0.7%	407,703	0.8%
America West	-	0.0%	-	0.0%
American Airlines, Inc.	736,072	1.5%	719,228	1.4%
American Eagle - AA	334,397	0.7%	378,280	0.8%
Atlantic Southeast - DL	148,826	0.3%	236,131	0.5%
Charter Airlines	16,786	0.0%	23,337	0.0%
Chautauqua Airlines - CO	475,140	1.0%	369,304	0.7%
Colgan - Air Inc. - CO	524,431	1.1%	802,826	1.6%
Comair - DL	88,151	0.2%	77,038	0.2%
Compass Airlines - DL	73,029	0.1%	102,596	0.2%
Continental	19,524,402	39.8%	19,214,288	38.7%
Delta	465,509	1.0%	512,088	1.0%
Executives - AA	30,945	0.1%	-	0.0%
ExpressJet Airlines, Inc.	7,501,514	15.3%	6,792,429	13.6%
ExpressJet -Branson Air	-	0.0%	3,983	0.0%
Frontier	224,423	0.5%	209,736	0.4%
JetBlue	150,044	0.3%	141,149	0.3%
Mesa Airlines, Inc. - UA	27,647	0.1%	5,214	0.0%
Mesa Airlines, Inc. - US	14,603	0.0%	9,243	0.0%
Mesaba Aviation, Inc. - DL	159,885	0.3%	211,150	0.4%
Pinnacle Airlines, Inc. - DL	176,864	0.4%	110,939	0.2%
Pinnacle Airlines, Inc. - NW	159,926	0.3%	121,252	0.2%
Republic Airlines - US	146,741	0.3%	149,140	0.3%
Shuttle America Corporation - CO	-	0.0%	3,027	0.0%
Shuttle America Corporation - DL	43,870	0.1%	5,749	0.0%
Shuttle America Corporation - UA	72,106	0.1%	52,628	0.1%
SkyWest Airlines - CO	-	0.0%	418,090	0.8%
SkyWest Airlines - DL	219,758	0.4%	135,585	0.3%
SkyWest Airlines - UA	48,821	0.1%	139,858	0.3%
Southwest Airlines Company	7,687,170	15.7%	8,202,622	16.6%
United Air Lines Inc.	619,122	1.3%	567,832	1.1%
US Airways	777,568	1.6%	887,186	1.8%
Total Domestic	40,848,051	83.4%	41,100,607	82.5%
International				
	Fiscal Year 2010		Fiscal Year 2011	
	Total Passengers	Market Share	Total Passengers	Market Share
AeroMexico	138,063	0.3%	191,603	0.4%
Air Canada Jazz	189,385	0.4%	233,147	0.5%
Air France	163,358	0.3%	147,048	0.3%
Atlas Air	-	0.0%	24,009	0.0%
British Airways	220,658	0.5%	245,119	0.5%
Charter Airlines	2,227	0.0%	2,178	0.0%
Continental	5,303,028	10.8%	5,809,580	11.7%
Emirates	163,269	0.3%	220,534	0.4%
ExpressJet Airlines, Inc.	1,291,483	2.6%	1,074,597	2.2%
KLM	177,245	0.4%	179,274	0.4%
Lufthansa	196,349	0.4%	212,202	0.4%
Qatar Airways	135,802	0.3%	146,162	0.3%
Shuttle America Corporation - CO	-	0.0%	2,444	0.0%
Shuttle America Corporation - UA	-	0.0%	4,867	0.0%
Singapore Airlines	80,784	0.2%	117,375	0.2%
SkyWest Airlines - CO	-	0.0%	9,301	0.0%
TACA	57,147	0.1%	48,529	0.1%
United Air Lines Inc.	-	0.0%	43,889	0.1%
Viva Aerobus	-	0.0%	20,435	0.0%
World Airways	19,684	0.0%	-	0.0%
Total International	8,138,482	16.6%	8,732,293	17.5%
Total Airlines	48,986,533	100.0%	49,832,900	100.0%