

A close-up, low-angle shot of a jet engine fan, showing the curved blades and the central hub. The lighting is dramatic, with a bright light source from the left creating a strong glow and highlighting the metallic surfaces of the blades. The background is a deep blue gradient.

Houston Airport System • Informe Anual 2012

unleashing creativity



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

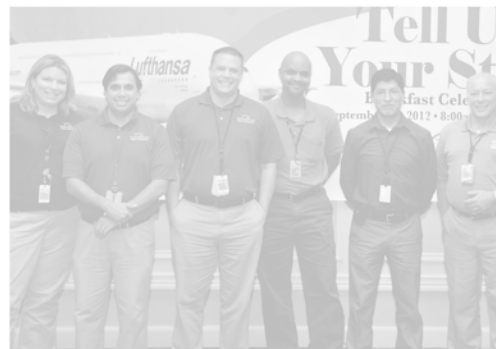
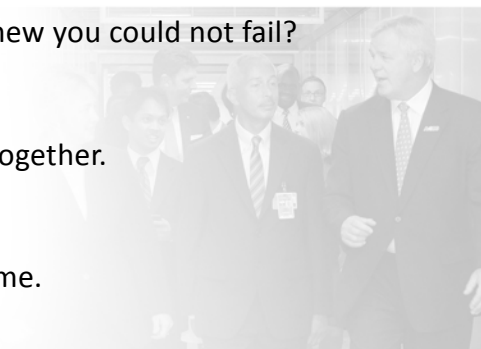
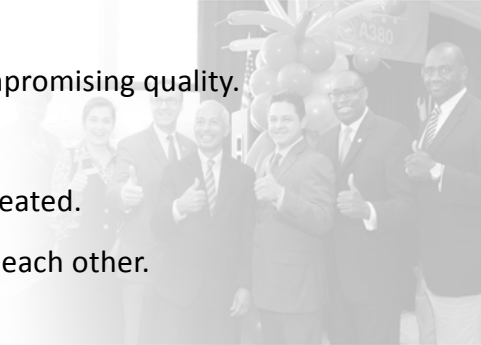
Involve coworkers in solving problems together.

Excellence

Be the best. Do your best work every time.

Create Fun!

Enjoy what you do.



Our Mission

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

2	Message from Mayor Parker	51	HAS Development Corporation
3	Message from Director Diaz	52	Under Our Wing: Aviation Club
4-5	Leadership Team	53-54	You Matter to Houston Airports
6-21	Bush Intercontinental Airport	55	Volunteer Ambassadors & Airport Rangers
22-32	William P. Hobby Airport	56	Office of Business Opportunity
33	Service Area Map	57	Community Relations
34-35	Airline Industry Update	58-59	Award-Winning Marketing & Communications
36-39	Ellington Airport	60	Let's Get Social: Twitter
40-41	Green Initiatives	61	Organizational Chart
42-43	Technology Innovations	62-63	Finance
44	Planning, Design & Construction	64-75	Comprehensive Annual Financial Report (CAFR)
45-48	International Development	76-77	Milestones
49-50	Goverment Affairs	78-79	Economic Impact
		81	Houston Elected Officials

Dear Citizens of Houston,

2012 brought a lot of good news that is boosting our economy, creating jobs and paving the way toward better service for the millions of travelers who rely on the Houston Airport System.

We celebrated the arrival of the next generation planes at Bush Intercontinental – the United Dreamliner and the Lufthansa A380. We saw the start of reconstruction and modernization of Terminal B at Intercontinental through our partnership with United Airlines. And, at Hobby Airport, Houston prepares for the expansion of Southwest Airlines' international service.

In 2013, we are celebrating two new foreign flag airlines launching nonstop service: Air China to Beijing and Turkish Airlines to Istanbul. I am pleased to welcome new carriers and to celebrate the vibrant success of all existing airlines that touch down on our Houston runways.

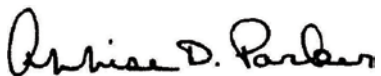
Houston has gained a reputation as the most international city in Texas because of our strong outreach to world markets. It is critical to connect with emerging markets and build relationships across the world's datelines. Our three airports will continue to lead the way as one of the strongest global gateways in the Americas, touching the lives of 50 million commercial passengers annually.

In addition to moving passengers, the airports are also strong economic engines that move business in and out of our region. The boom to our economy depends on quality air transportation and ensures we continue our path as the "Job Creation Capital of the U.S." While the Texas economy gained more than 200,000 jobs with an annual growth rate of more than 2 percent, Houston is the job creation leader of cities in the Lone Star State.

The leadership at our airports takes pride in caring for the airport infrastructure. We strive to improve the customer experience – and with technology leading the way. One important addition to our city is the unveiling of new video phones to assist those who are hearing impaired. The airport system also unveiled new innovations to better serve passengers with the posting of true security checkpoint wait times on fly2houston.com and the addition of valet parking services.

We welcome a bright future together.

Let Houston be your gateway to a strong tomorrow.



Mayor Annise D. Parker



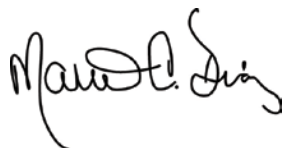
Dear Houston Airport System Stakeholders,

If you've traveled by air at all, chances are you're familiar with the terrific sense of relief that comes to a passenger once an aircraft finally ascends to an altitude that lies above turbulent weather. It's that calming moment when the wings even out, passengers reclaim a sense of confidence and comfort, and pilots begin to focus their attention on the more distant path lying ahead. For me, this analogy best describes both the successes and the challenges of 2012; it is the year that the Houston Airport System rose above the difficult financial climate of the troubled global economy and began to place a sharper focus on maximizing future opportunities that exist for the entire Houston region.

The touchstone for these efforts was found within the Houston Airport System's mission statement, which reads, "We exist to connect the people, the businesses, the cultures and the economies of the world to Houston." Our city has long been recognized as a global gateway for the Latin American region but when I challenged my team in 2009 to "Go Global" with its strategic planning efforts, it was clear to everyone that our collective vision had to stretch well beyond the borders found in North and South America alone. Success would be measured in distant locales and expanding Houston's coverage area in the Far East stood as the number one priority. That's why the 1,400 HAS team members felt such a sense of gratification when Air China announced its plans to connect Houston and Beijing with nonstop service beginning in July 2013. The "Go Global" mantra also led to successful efforts in establishing new nonstop service with Turkish Airlines announcing their plans to launch flights to Istanbul, beginning in April 2013.

New service in the air also led to some major structural improvements on the ground. Throughout the year, terminal renovation projects, apron improvements and new operational capabilities were all part of the landscape at George Bush Intercontinental Airport. William P. Hobby unveiled both a new roadway system and a new baggage claim area, while Ellington Airport witnessed the construction of a new regional headquarters facility for the United States Coast Guard. These concrete improvements, combined with the arrival of customer service features such as valet parking, security wait times on the Web and expedited processing for international travelers, represent a snapshot of what made 2012 such a special year.

"Unleashing Creativity" is much more than just the theme for this year's annual report. It's a mindset which has already generated historic successes in 2012 and promises to take Houston to even greater heights in the future.



Mario C. Diaz





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UNLEASHING





An aerial night photograph of George Bush Intercontinental Airport. The terminal building is brightly lit, with its glass facade reflecting the lights. Several United Airlines aircraft are parked at gates, with their jet bridges extended. The tarmac is illuminated by ground lights, and the surrounding area is dark, with city lights visible in the distance. The text "GEORGE BUSH INTERCONTINENTAL AIRPORT" is overlaid in white serif font across the middle of the image.

GEORGE BUSH INTERCONTINENTAL AIRPORT



IAH CONTROL TOWER

George Bush Intercontinental Airport

George Bush Intercontinental Airport: Unleashing Creativity at Our Flagship Airport

If a person has only 30 seconds to make an impression, then the same can be true of an airport. That is why Houston prides itself on making the most of its largest gateway – with 40 million passengers disembarking from aircraft to one of our five terminals at George Bush Intercontinental Airport (IAH).

Intercontinental is a vital portal where the world's commerce, hopes, ideas, adventure and imagination flow. A glimpse at Intercontinental reflects the innovations and opportunities that Houston offers as the fourth largest city in America.

“Our airports serve the City of Houston as a key economic driver and Intercontinental continues to deliver outstanding operational results as a role model for other airports as a leader in innovation and facilitation,” said Houston Mayor Annise Parker. “It is critical to offer the world high-quality customer service as we compete with other markets for business.”

“Our strategic priorities are to serve the customer, to fund the future, to return our airports to opening day fresh, and to build a high performance organization,” said Director Mario C. Diaz. “With our creative spirit, we are charting a new vision to our city for air service and the goal is to climb to new heights.”

Now the largest hub for the world's largest airline, Intercontinental is well positioned to serve the world as United Airlines builds its global network. The attraction of Houston as a business center creates an allure for other airlines to desire operating from Intercontinental. The outstanding global network with Star Alliance is a key reason that Turkish Airlines will begin service from Houston in April 2013.

“Commercial airports are the economic engines that drive the local, state, national and even global economies. We provide the connectivity that fuels business and trade. Our business is to create an environment that is ideal for leisure, medical and academic tourism in Houston. We strive to continuously grow our domestic and global network to accommodate endless opportunities for economic vitality.”



- Lance Lyttle, Chief Operating Officer

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, Intercontinental will remain one of the region's most important economic engines. To strengthen Houston's global gateway, Intercontinental is transforming its infrastructure, enhancing passengers' airport experience and expanding its global reach.

Unleashing Creativity: One Terminal at a Time

Intercontinental is dedicated to creating a bright tomorrow. With expansion of two of its terminals underway to accommodate the needs of the traveling public, the Houston Airport System unleashed creativity with improvements to Terminal B and Terminal D to return the infrastructure to “Opening Day Fresh.”



Terminal B

The Houston Airport System and United Continental Holdings, Inc. are creating a new reality for passengers who fly in and out of Terminal B with a \$161 million major renovation project, which is scheduled to open in late 2013. The capital improvement project creates new gates designed to handle up to 30 flights with better flexibility for future fleet modifications, public restrooms, concessions and holding rooms with modern standards for improved traffic flow.

Travelers will access the new concourse from the terminal via a 95 foot-wide bridge with 13,000 square feet of food, beverage and retail concessions; a 500 percent increase over the current facility. The updated concourse will feature 28 foot-high foot-to-ceiling glass windows, offering expansive tarmac views from the spacious central passenger lounge areas with durable and modern interior finishes. The project's design incorporates energy-efficient techniques using Leadership in Energy and Environmental Design (LEED) criteria.



TERMINAL B CONSTRUCTION

Terminal D

The terminal ready to welcome the world is appropriately named after a Houston Congressman who is known for his service to the world. The Mickey LeLand Terminal is poised to serve our global city as the location of foreign flag carriers. Houston is known for creating opportunity to a booming business community as it reaches for global markets. The vision for Terminal D is to renovate to allow for expanded air service.

The addition of Turkish Airlines in April 2013 is just the beginning of great things to come as Houston creates more international connectivity.

“We had a vision and I am proud of the team for delivering on the high profile launch for the A380,” said Diaz. “This is the highlight of my career in aviation to have prepared our gateway for the aircraft known in the industry as a game changer.”

The addition of the new jet bridges required all departments to coordinate resources and schedule to ensure success. The legacy is that Intercontinental strives to enhance the quality of the customer experience as the first jet of its kind operating from a Texas airport.



One key project when Houston “Unleashed Creativity” is the preparations to Terminal D to accommodate the Airbus A380 in August 2012. During the fiscal year, the Houston Airport System launched construction to prepare the airport for a double decker plane. The project was not only ambitious for its short window of completion, but it was managed to a precise date with the operation of the flight scheduled by Lufthansa Airlines for an inaugural flight.

“We strive to serve our passengers with outstanding customer service and our initiatives set Houston apart from other cities,” said General Manager of Intercontinental Carl Newman. “We are honored to be in a city known as the world’s energy capital and by unleashing creative ways to better serve our passengers, we are a guiding light to global trade.”

Concessions

RAISING THE FORK AT INTERCONTINENTAL

For passengers connecting with long layovers, the feast for dining opportunities is one of many options. In the past year, Houston welcomed many new restaurants and was honored for the new eateries. In 2012, Terminal E - Intercontinental was honored with Second Place as the “Best Food & Beverage Program – Large Airport” from Airports Council International-North America.

The jump in concession revenues year-over-year is evidence that air travelers enjoy taking time to experience the food Houston offers at Intercontinental -- from fine dining to grab and go style.

When passengers eat in any one of the more than 50 restaurants in Terminals A, B, C and D – the Houston Airport System gains a percentage of the sales. Revenues during fiscal year 2012 were healthy and help support the general fund for future budget needs. Below is a list of what’s new.

Camden Foods

Old farm venue style with garden fresh veggies, wholesome foods options and a colorful salad bar, Terminal C.

Cat Cora’s Kitchen

Iron Chef Cat Cora’s Restaurant includes tapas, unique entrees and burgers with special toppings and a full bar, Terminal E.

Einstein Bros Bagels

Bagels for breakfast and lunch including salads, hearty soups and sandwiches, Terminal E.

Flite 281 Spirits + Bistro

Ready-to-go meals including sandwiches, salads and pastries with drinks including mixed drinks with premium spirits, Terminal A.

Fresh Gourmet and Fresh Gourmet Express

Serves award-winning arabica, espresso and decaffeinated coffee, fresh bagels, pastries, salads and personal pizzas, Terminal E.



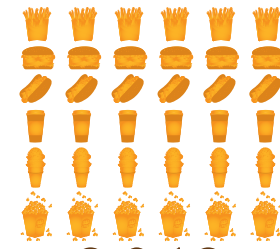
Concessions IAH Growth

10.6%



2011

27.6 Million



2012

30.6 Million

La Tapenade - Mediterranean Café

Mediterranean sandwiches, wraps, salads with fresh cheeses and specialty grilled meats, Terminal E.

Mango Taco Truck

Authentic Latin food including chili-rubbed chicken and cochinita, chipotle fire-roasted salsa, Terminal C.

Nature's Kitchen

Natural dishes: salads, sandwiches, paninis, wraps, Terminal E.

The Market by Villa

Grab and go eatery with healthy alternatives, Terminal E.

Yogun Fruz

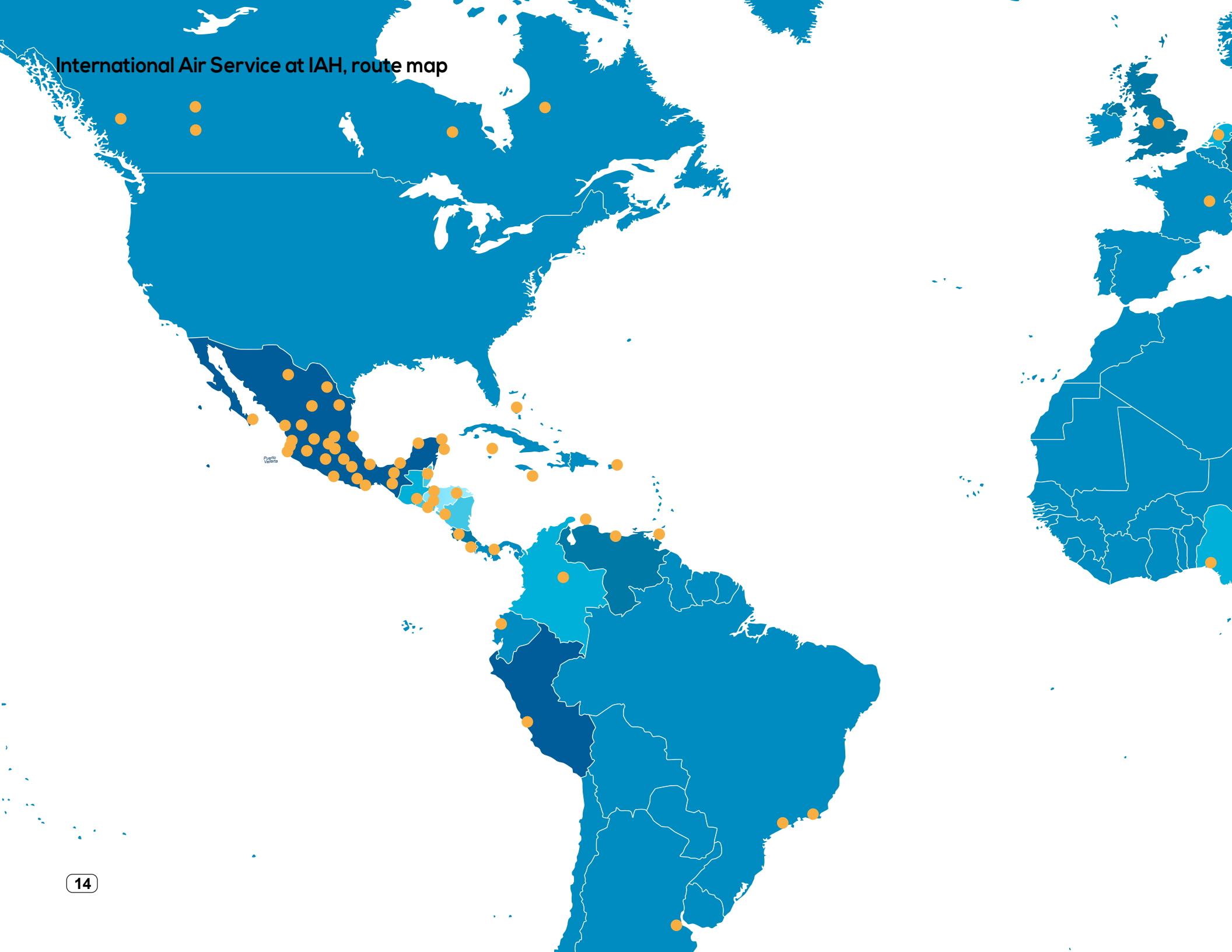
Delicious and nutritious frozen yogurt, smoothies and other desserts, Terminal E.

Zori Bistro

Asian cuisine: sushi rolls, teriyaki rice plates, bento boxes, Terminal E.



International Air Service at IAH, route map





Expanding Our Destinations

June 2011

Lufthansa Cargo to Frankfurt, Germany, 2x week

July 2011

United Airlines to Hobbs, New Mexico, 13x week

Saudi Arabian Airlines Cargo adds third weekly frequency

September 2011

China Airlines Cargo adds second weekly frequency
(seasonal for two months)

Delta Air Lines moves New York City, NY / JFK service from IAH to HOU

October 2011

Cargolux Cargo, IAH – Lagos – Accra, adds weekly flight

November 2011

Qatar Airways Cargo begins IAH via Luxembourg to Doha, 2x week

Cathay Pacific Cargo adds fifth weekly frequency

United Airlines begins seasonal service to Palm Springs, California
(November 2011 to April 2012), daily

United Airlines to Lagos, Nigeria, 7x week

February 2012

United Airlines to Edmonton, Alberta, Canada, adds second daily flight

Lufthansa Cargo to Manchester, England, 1x week

March 2012

Emirates up-gauges aircraft from B777-200LR to B777-300ER, increase of 134 seats

June 2012

United Airlines begins 7x weekly seasonal service to Rapid City, South Dakota, (June 7, 2012, to Aug. 27, 2012)

United Airlines begins 2x weekly seasonal service to Jackson Hole, Wyoming, (June 8, 2012, through August 27, 2012)

July 2012

Delta Airlines to New York's LaGuardia Airport, 4x daily

August 2012

Lufthansa Airlines up-gauges 747-400 to Airbus A380 on Frankfurt route, daily, increase of 182 seats

September 2012

Sun Air International arrives at IAH and begins Victoria, TX, 4x daily

Spirit Airlines arrives at IAH and begins Dallas/Ft. Worth, 2x daily

October 2012

Spirit Airlines to Chicago O'Hare, daily

Spirit Airlines to Las Vegas, daily

Future Routes

February 2013

Spirit Airlines to Orlando, daily

March 2013

United Airlines to London, adds third daily flight

April 2013

Turkish Airlines arrives at IAH and begins Istanbul, 4x week

July 2013

Air China arrives at IAH and begins Beijing, 4x week

Rolling Out New Services at Intercontinental

Courtesy Shuttles

The Houston Airport System operates a fleet of 11-passenger Courtesy Shuttles at Intercontinental's terminal parking garages. The Courtesy Shuttles pick up travelers in the parking garages and drive them and their luggage to the elevators.

Valet Parking

The Valet Parking service allows customers to drive into reception areas and drop off their keys at all Intercontinental terminal parking garages: Terminal A Garage – Ground Level; Terminal B Garage – Ground Level; Terminal C Garage – Level 4; and Terminal D/E Garage – Level 2.

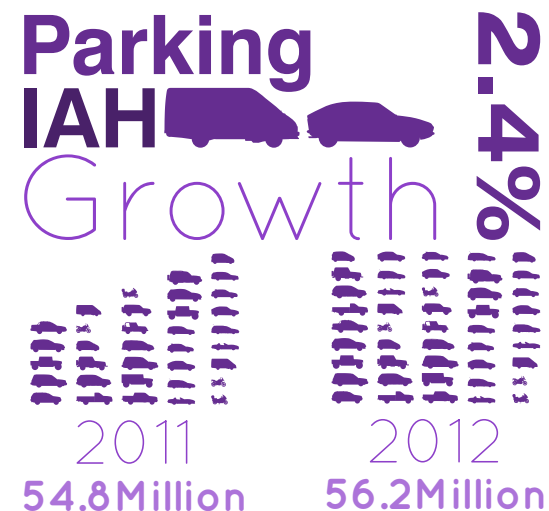
Customers are able to drop off the vehicle at one terminal and arrange to pick it up at a different terminal, if desired. Valet is \$23 a day, compared to \$17 a day to park in the terminal garage. The service comes with a free USA Today newspaper and bottle of water. Various customer-friendly improvements have been introduced, including online reservations, an iPhone App and the option to add SUDS Valet Car Care services. For more information, visit fly2houston.com/IAHValetParking.

Portable Car Wash Services

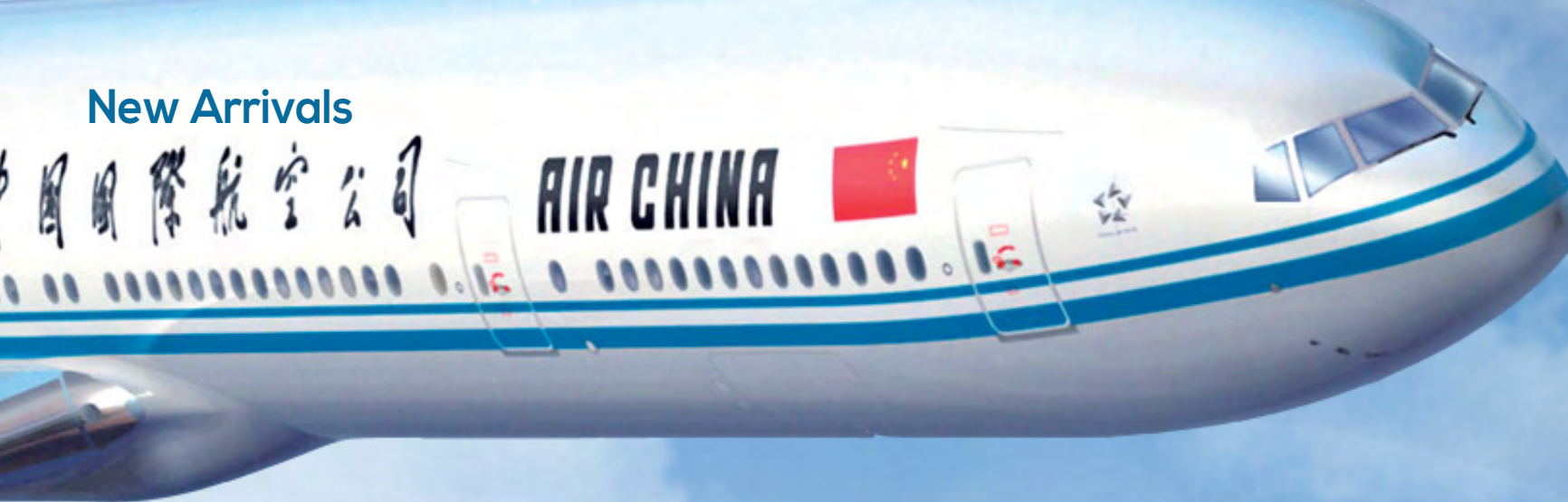
ecopark and valet parking customers can choose to use SUDS Hand Car Wash and SUDS Valet Car Care services. SUDS uses a high-pressure nozzle that turns water into a near vapor, making the service environmentally friendly. For ecopark customers, only the exterior of the vehicles are cleaned. Valet customers are offered four packages to choose from that range from a regular car wash to detailing services.

Upgraded Revenue Control System

The Upgraded Revenue Control System includes improvements to the servers which service the revenue and access control equipment for all parking operations. The project enhances the process of credit card transactions to ensure Payment Card Industry (PCI) compliance with the latest regulations and added couponing and reservation capabilities.



New Arrivals



Air China Plans New Houston Flights

In 2013, Houston becomes the first gateway for direct connection to China in Texas and in the South Central Region of the United States. Air China, China's exclusive national flag carrier, is scheduled to operate the roundtrip service from Intercontinental to Beijing Capital International Airport (PEK) on a new generation Boeing 777-300ER beginning July 11, 2013.

"Houston is honored to be the newest global gateway for Air China as our international growth depends on strong relationships worldwide," said Mayor Annise Parker. "This new direct route to China will ensure our success in growing the Texas regional economy and strengthen the global ties to our trade partners in China."

By selecting Houston, Air China will benefit from a strong international community with many business and leisure passengers who use Intercontinental as a global gateway. In 1979, Houston was one of the stops of China's late paramount leader, Mr. Deng Xiaoping. The first Chinese Consulate General in the U.S. was established in Houston.

"We've seen a steady growth of air travel between Houston and China in recent years, and now it will become the first scheduled passenger destination in the U.S. that we've added in three decades," said Jianjiang Cai, Air China President and Executive Director.

"With its vibrant business communities and fast-growing diverse population, Houston is a perfect choice for an additional gateway for Air China. It offers the most convenient connections to China and beyond for our passengers from Texas and other neighboring states," said Dr. Zhihang. Chi Air China Vice President and General Manager for North America.

"We offer a Texas-sized welcome to Air China on the new flights to Intercontinental that offer the Lone Star State a direct connection to China," said Mario C. Diaz, Director of the Houston Airport System. "As a critical economic driver for Houston, this new route will result in tremendous benefits to the region."

Houston will be Air China's fifth gateway in North America. China's national flag carrier is the world's largest airline by market capitalization, according to the International Air Transport Association. As a Star Alliance member, Air China serves 1,356 destinations in 193 countries.

Houston Lands Turkish Airlines

Turkish Airlines begins new nonstop flights to Istanbul beginning April 1, 2013, between Intercontinental and Istanbul's Ataturk International Airport.

"Houston's strong business connections with Turkey created the opportunity to attract this foreign flag airline to our city," said Mayor Annise Parker. "Houston has become the gateway to the world. Our global business structure helps our economy thrive and our job market remains the envy of the nation. These four new weekly flights will surely lead to increased economic opportunity for both Istanbul and Houston."

"The Houston Airport System exists to connect people, businesses, cultures and economies of the world to Houston," said Mario C. Diaz, Director of the Houston Airport System.

"This flight will open up more convenient travel options to both Turkey and beyond points, in particular, those in South/Central Asia and Africa." The new service will operate four days per week with flights on Mondays, Tuesdays, Fridays and Saturdays.

- Departure from Houston at 7:50 p.m. local time and arrival in Istanbul at 3:55 p.m. local time.
- Departure from Istanbul at 1:05 p.m. local time and arrival in Houston at 6:05 p.m. local time.

Turkish Airlines will operate the new route with a Boeing 777-300ER, which seats up to 334 passengers. Based at Ataturk International Airport, Turkish Airlines serves more than 190 destinations and carries 33 million passengers as the national flag carrier airline of Turkey.

Turkey remains a fast growing and emerging business and leisure economy with a strong cultural link to Houston. The total Houston to Turkey trade value in 2011 was \$3.6 billion.

Recently Turkish Airlines was selected by Air Transport World as the recipient of the "world's market leadership award."

Turkish Airlines is a member of the Star Alliance, which is the dominant airline network at Intercontinental as the largest hub for the Star Alliance.

America's Inaugural Dreamliner for United Takes Off in Houston

United Airlines operated its first flight involving ticketed passengers aboard the 787 Dreamliner aircraft, at Intercontinental on November 4, 2012.

"Houston applauds the achievement of this milestone for United and George Bush Intercontinental Airport," said Mayor Annise Parker. "The aviation industry continues to be a major driver in the local economy and our job growth. That is why we take so much pride in each accomplishment, especially such a historic flight like this."

Hundreds of people, including the CEO and President of United Airlines Jeff Smisek, gathered together inside Terminal E to celebrate the moment.

The scene at Gate E5 included blue and white balloons, cookies featuring a photograph of the 787 aircraft and commemorative posters. Many of the passengers aboard flight 1116 to Chicago bought their ticket solely to enjoy the experience of taking part in the inaugural experience. The Dreamliner opens air travel to in a new era for composite-plastic aircraft.



"This is a very exciting day for United Airlines and it's a day that we've been waiting for a long time," Smisek told the crowd. "If you want to be the world's leading airline then you need to have the world's leading aircraft and we have that in the Boeing 787 Dreamliner."

The lighter weight material is used in the construction of the aircraft, rather than the traditional aluminum material. The Dreamliner offers airlines a 20 percent reduction in fuel burn compared with wide-body models of similar size. Passengers are enjoying dimmable windows and LED lighting that changes in different phases of flight.

Carl Newman

New General Manager of Intercontinental

In 2012, the Houston Airport System named an aviation veteran from Phoenix to serve as the new General Manager of Intercontinental Airport. His leadership style immediately gained strong support as he initiated a new employee-friendly platform to get to know his new team that he branded as “Cookies with Carl.”

“The team at Intercontinental serves 40 million passengers and I felt it important to spend time getting to know everyone on a personal level,” said Newman. “We are a service industry and by listening to each person on my team, I am able to share my vision on customer service and gain an appreciation of what each team member brings to the organization.”

Newman has a commitment to public service, as a civilian employee for the Phoenix Police Department prior to his career in aviation. One of the attractions to coming to Texas, was the demonstration of strong core values of the Houston Airport System that parallel his career experience.



“I enjoy involving my team as we solve problems together. This is a reason that I wanted to form more team dialogue so we can continue to be a high performance organization and establish our airport as a center of excellence, innovation and efficiency. It is only by working as a team and creating fun that we will reach our ultimate destination of success.”

Carl Newman, General Manager of Intercontinental

As a critical gateway and a model port for the international passengers, Newman is focusing his energy on how to create strong partnerships with local, regional and national officials. The wait times for the checkpoints and international arrivals is an area that the team is working together to enhance the customer experience.

“We are always in close communication with our key stakeholders and by being open and trusting, we are making significant steps to reduce customer processing time without sacrificing the importance of our mission to provide a safe airport. Newman is impressed with the 761 team members, who work in operations, maintenance, security, communications and customer service.

“Intercontinental is like a symphony – not one person makes a move without impacting the entire performance and the customer is our focus,” adds Newman.

“We make them happy with the perfect timing and mood of our music. We all depend on each other to complete the orchestra.”







WILLIAM P. HOBBY AIRPORT

William P. Hobby Airport

As an airport now marking its 85th anniversary, William P. Hobby Airport (HOU) is a classic. With some recent modifications, the airport is stronger today than in more than eight decades. An ideal location to downtown Houston continues to elevate the customer experience.

The highlights of the past fiscal year gained new respect across the world as Southwest Airlines courted Houston to become a future international point of departure and arrival. The investment Southwest Airlines will make ensures that this gateway, which was one of the original airports served by the Dallas-based carrier when it first began flights, will ride into the history books as it begins a new chapter.



Unleashing Creativity as Hobby Upgrades to Better Serve the Public

A rebirth of Hobby is just around the corner. Yet, to look around the gates, public wait areas, baggage claim and ticketing – it is clear that Hobby is more than ready for the dance. The summer of 2012 hit a turning point for Hobby as it completed a \$350 million renovation that began in 2006.

One of the most dramatic changes to greet passengers is in the baggage claim area with plenty of space for serving an airline that allows passengers to check bags for free. The addition of the new renovation is a welcomed site in ticketing with new terrazzo flooring, new lighting and ceiling design, glass and marble walls. The overall architectural layout that emphasizes a more open atmosphere and maintains the classic feel of Hobby as Houston's beloved first commercial airport.

In 2012, the Houston Airport System completed a \$6 million capital improvement project on the ticket-level (upper-level) entrance ramp that was essential to operations.



“As you walk through the terminal, the new lighting, expanded ceilings and open, modern design helps with the wayfinding, and provides an attractive setting for our 9 million passengers, I am pleased that we create a new way to enhance the customer experience by improving efficiency and customer satisfaction.”
Perry Miller, Hobby General Manager

William P. Hobby is Going Global

Following a Houston City Council vote on May 30, 2012, the conceptual plan introducing international service by Southwest Airlines was approved to move forward. The Houston Airport System negotiated a new use and lease agreement with Southwest, and international service is expected to commence around year-end 2015. This plan includes a five gate international concourse with Federal Inspection Service processing and a reconfigured and enlarged security screening area.



Gaining Altitude in Nonstop Service

With new destinations to broaden the route map, Hobby Airport gained some highly popular vacation destinations for passengers to fly to and from Houston.

“Every time we gain a new nonstop place to fly from Hobby Airport, we celebrate the strength for our medium-sized facility to continue to offer the personalized customer service that makes Hobby so attractive and easy to navigate,” said Ian Wadsworth, Chief Commercial Officer.

Hobby is served by AirTran Airways, American Airlines, Delta Air Lines, JetBlue Airways and Southwest Airlines, which operates the majority of flights with more than 40 nonstop destinations.

Coming Soon: A new Federal Inspection Services Facility

As a legacy for being the city’s first commercial airport, Hobby is known for being a place many love. The future for growth and development is certain following a period of debate about new international service operated by Southwest Airlines.

In April 2012, the City of Houston reviewed a recommendation to consider a future new facility as a result of a request by Southwest. Houston Director of Aviation Mario C. Diaz recommended the City of Houston work with Southwest to expand the federal inspection services (FIS) facility at Hobby to support scheduled commercial international service.

As the proposal was unveiled, Mario C. Diaz, issued a statement, “I have concluded given Southwest’s existing and sizeable domestic network operation at Hobby, it would not be reasonable to require the airline to relocate to Bush Intercontinental Airport, or even conduct split operations – domestic service at Hobby and international service at Intercontinental.

Therefore, it’s my recommendation we support Southwest’s request to begin the process of obtaining the necessary approvals to initiate international service at Hobby.”

The Houston City Council overwhelming approved the proposal and the next step is to complete necessary approvals and pending that step, construction will begin in 2013.

The anticipated timeline is for the facility to be completed in 2015. Southwest at this time, has not announced any specific routes for the new five-gate facility. However, service to the Caribbean and Mexico is expected.

The studies commissioned to explore the expanded international service from Houston found that international air service at Hobby is projected to generate an additional 1.5 million passengers to, from and through Houston annually, creating more than 10,000 jobs and generating an annual economic impact of more than \$1.6 billion.

“We are expecting to move forward with our plans on the construction as we complete all design work and gain the input by our stakeholders,” said Diaz. “The steps we take will ensure a positive impact to the entire south side region. The momentum will ensure a bright future as we unleash creativity for an airport ready to take off.”

Celebrating Art at the Airport

In keeping with the theme, “Unleashing Creativity,” passengers who fly through Hobby enjoy many of the permanent and temporary art exhibits. Over recent years the popularity of the Texas Children’s Hospital designs lures many passengers to pause to reflect on the creativity and expressive works of art. For more details on the art collection at Hobby, go to fly2houston.com/airportart.

Million Air

Major construction is underway at Million Air at Hobby to provide general aviation and corporate flight support as a full-service fixed-base operator. The expansion of services will enhance the abilities of Million Air to meet the needs of a vibrant general aviation industry by investing more than \$12 million on a major renovation of the west ramp. Million Air is capable of fueling any aircraft from a Cessna 152 to a Boeing 757, including ground handling for transport category aircraft. In addition to the Houston location, Million Air operates at 30 other airports in the United States.



Concessions

Right Stuff at Hobby for Food and Fun

Whether a passenger is looking for a gift or needs to grab a bite, Hobby is able to deliver the goods. The extra friendly service is a trademark at Hobby and many passengers will enjoy the new food and shopping options. As a medium-sized airport, Hobby has Texas-sized personality and the variety of options grew in the recent years. The Houston Airport System gains revenue from all dining and shopping and this ensures the future as the airport thrives with new business.

Dunkin Donuts/Baskin Robbins, Central Concourse

The smell of fresh coffee and donuts is an American favorite and Dunkin Donuts delivers at Hobby with the new location doubling with Baskin Robbins, the world's largest chain of ice cream specialty stores.

Fun in the Sun, Central Concourse

A kiosk with shades for all faces and places under the sun.

Hudson News, Central Concourse

Ideal spot to purchase a quick snack, drink or reading material for the flight.

Natalie's Candy, Central Concourse

A kiosk that offers a variety of conventional, nostalgic, proprietary and hard to find candy and candy related gift items.

Concessions
HOU   
Growth 15.9%

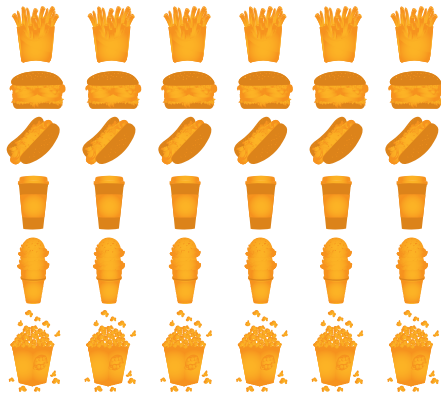


Pappas Bar-B-Q, Lobby

Slow-smoked barbeque with homemade sides, breakfast tacos, handspun milkshakes and a full bar. Plus, all food items are allowed to pass through security for travelers on the go.

Tech on the Go, Central Concourse

For passengers who left a vital piece of equipment at home or in the car, the kiosk offers phone chargers, ear buds and iPhone cases.



2012
7.7 Million



UNLEASHING CREATIVITY



Expanded Routes

June 2011

Southwest Airlines to Newark, New Jersey, 2x daily

September 2011

Delta Air Lines moves New York City, NY / JFK service from IAH to HOU

February 2012

Southwest Airlines to Atlanta, Georgia, 3x daily

April 2012

Southwest Airlines to Kansas City, Missouri, daily

Southwest Airlines to Raleigh-Durham, North Carolina, daily

June 2012

Southwest Airlines begins seasonal daily service to Seattle, Washington, (June 2012 to August 2012)

November 2012

Southwest Airlines to Indianapolis, Indiana, 2x daily

Southwest Airlines to Orange County, California, daily

Future Routes

April 2013

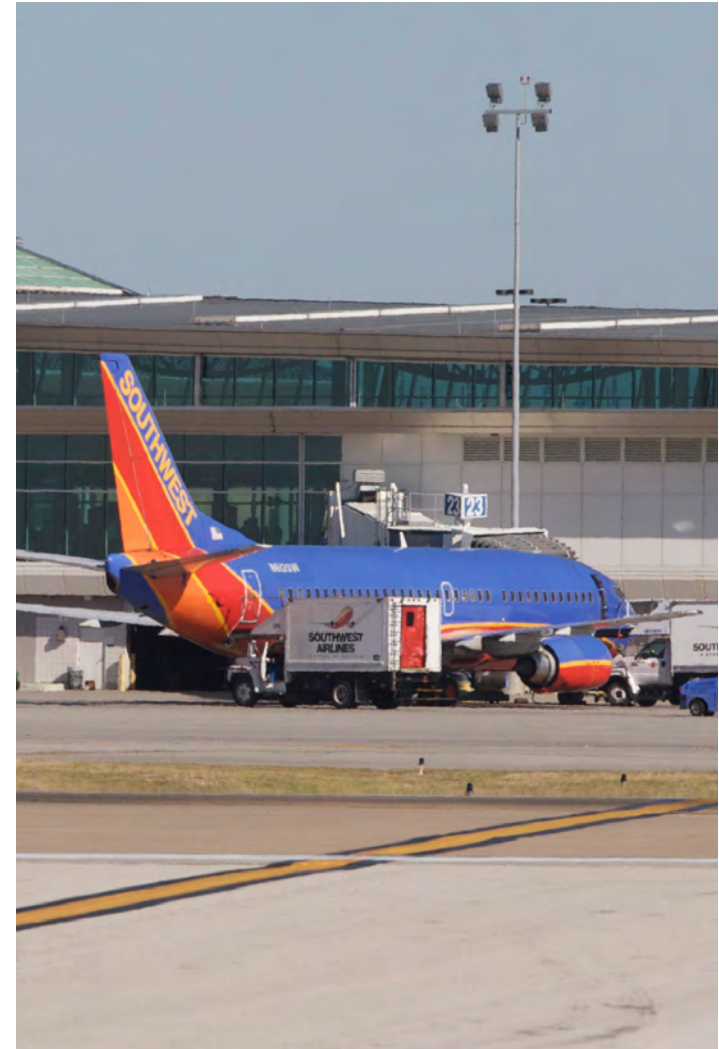
Southwest Airlines to Charlotte, North Carolina, daily

Southwest Airlines to Pittsburgh, Pennsylvania, daily

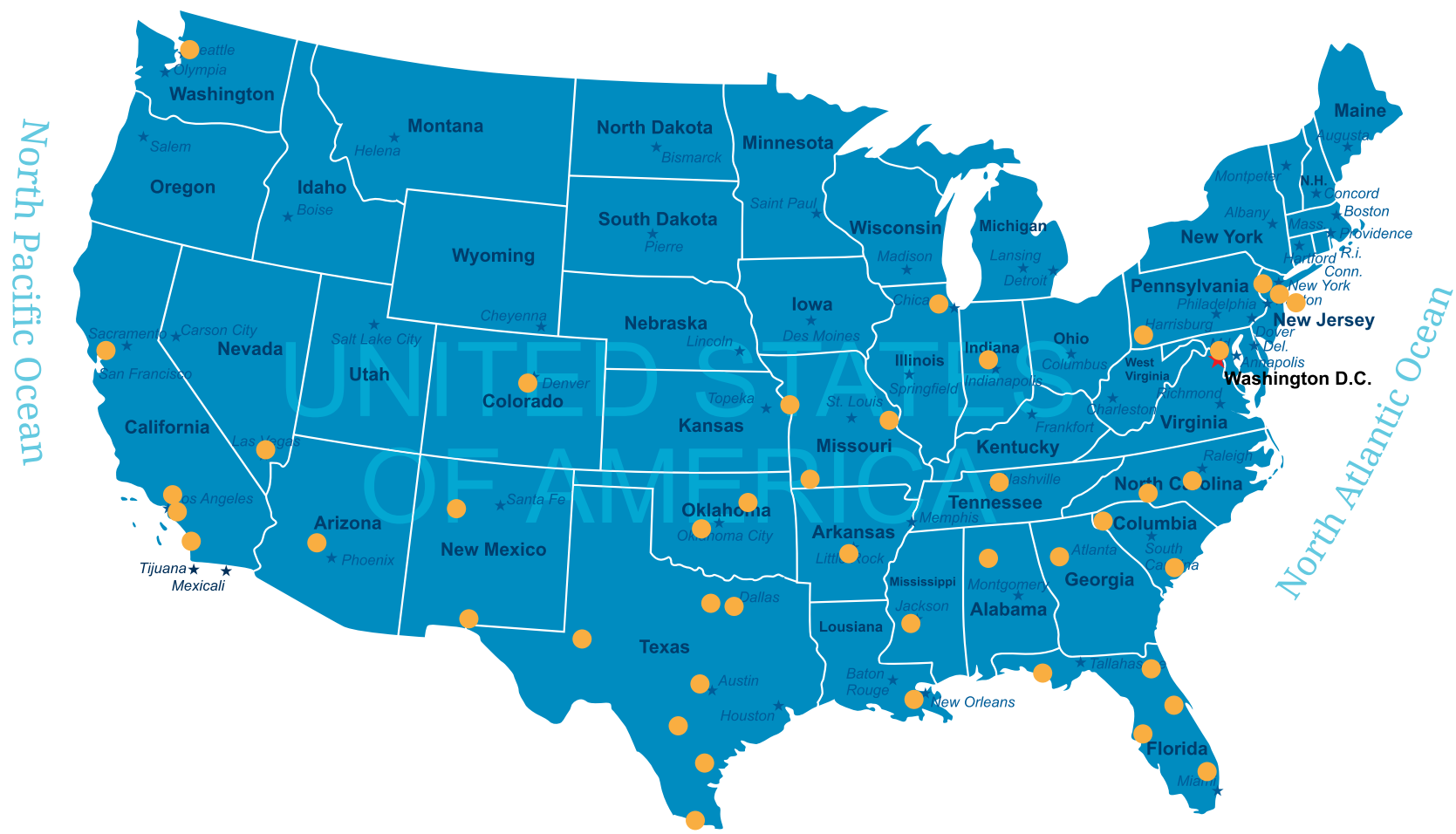
June 2013

Southwest Airlines to New York LaGuardia, 2x daily

Southwest Airlines to Seattle, Washington, daily



Air Service at HOU, route map



Rolling Out New Services

Courtesy Shuttles

Hobby operates a fleet of 11-passenger Courtesy Shuttles for customers using the ecopark 2 parking lot. The shuttles take customers to and from the terminal and ecopark 2; the on-airport economy lot located 900 feet from the terminal. The shuttles help customers in additional ways, including loading and unloading luggage for senior citizens and parents traveling with small children; helping assist passengers locate vehicles; and calling for service to jump start dead car batteries.



Valet Parking

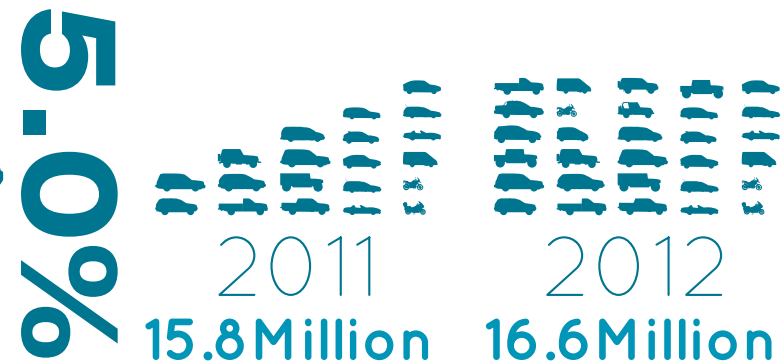
The Valet Parking service at Hobby allows customers to drive into the reception area located in the parking garage, drop off their keys and catch a flight.

Upon check-in, customers complete a form and drop off their keys. All vehicles are parked in a covered spot inside the garage. Valet is \$23 a day, compared to \$17 a day to park in the terminal garage. Valet parking customers receive a free USA Today newspaper and bottle of water with the service. Various customer-friendly improvements have been made to the Valet Parking program since its debut, including online reservations, an iPhone App and the option to add SUDS Valet Car Care services. For more information, visit fly2houston.com/HOUValetParking.

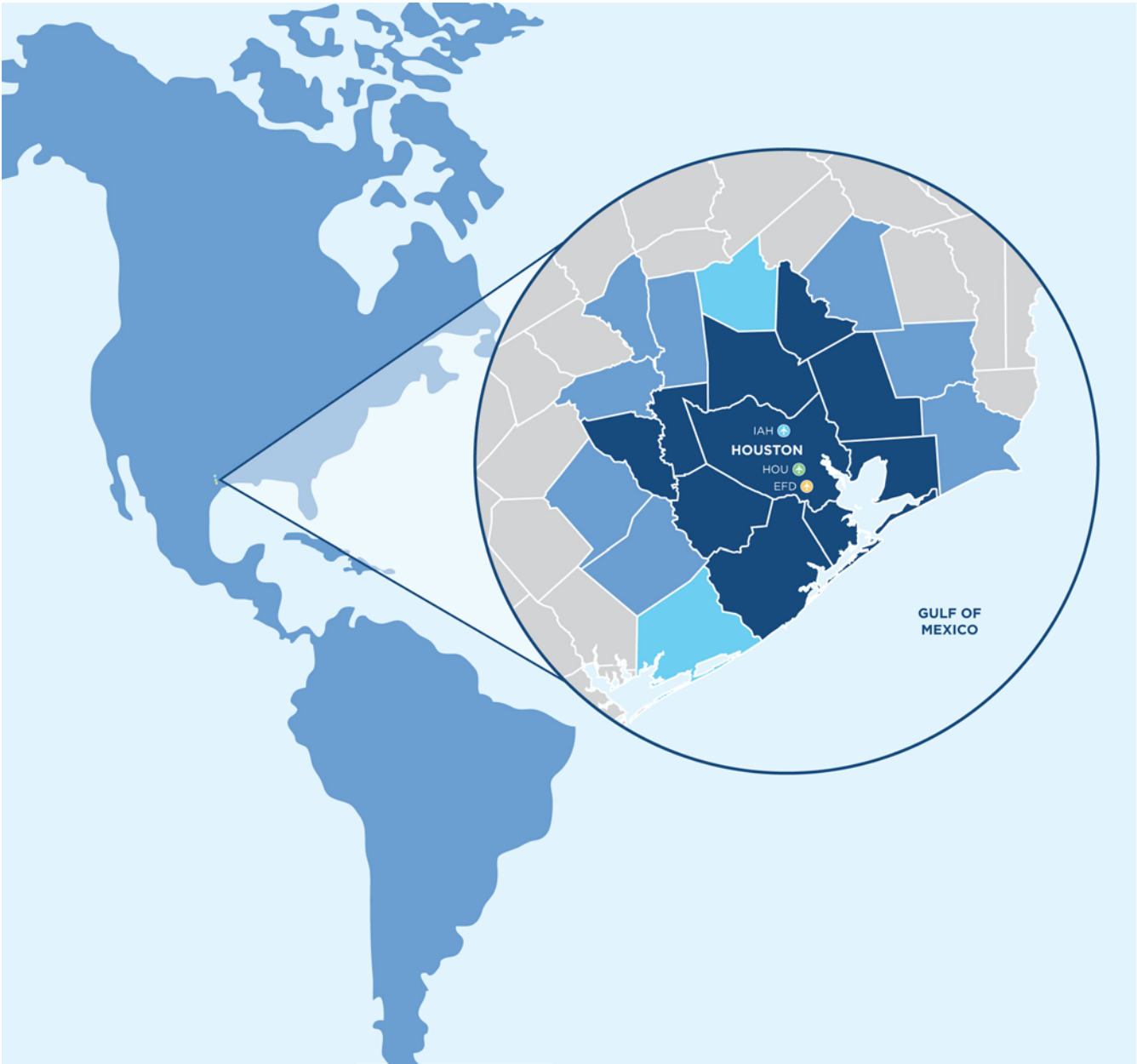
SUDS Valet Car Care



Valet Parking customers have the option to add the additional service of having their vehicles washed and/or detailed while they are away. Vehicles are cleaned a few hours before customers are scheduled to arrive to Houston with a high-pressure nozzle that turns water into a near vapor.

Parking
HOU  
Growth



Service Area Map



	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



Airline Industry Update

Passenger Totals

Airline passengers are flying in record numbers throughout the United States. According to the U.S. Department of Transportation, 803 million passengers traveled on U.S. airlines and on foreign-based airlines serving the United States in 2011. This number represents a 1.7 percent increase over the totals recorded the prior year. Over the past two years, an increase of 6 percent has been recorded in the total number of passengers.

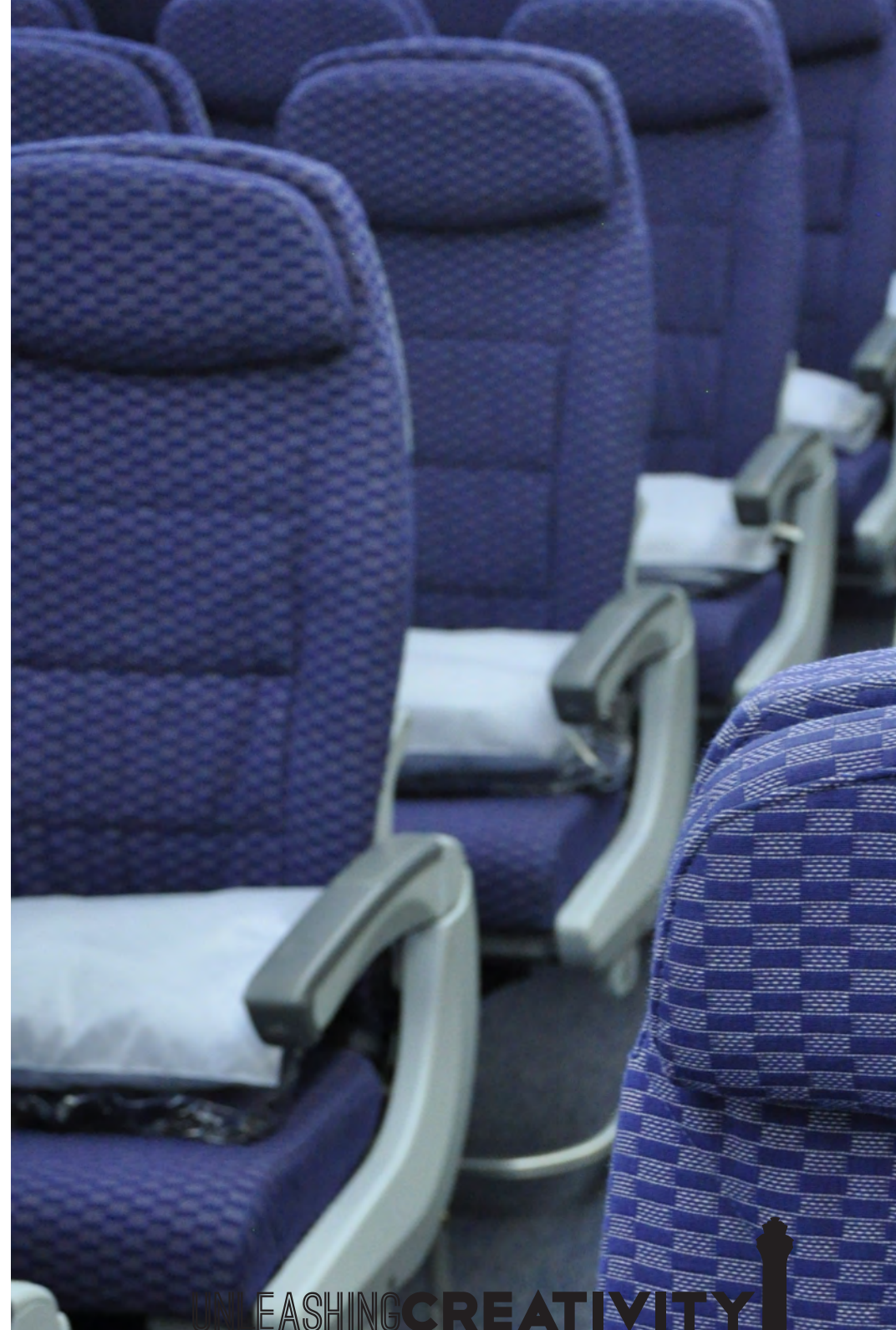
Seat Capacity

These record setting numbers are being posted, in spite of the fact that seat capacity within the aviation industry continues to decline, as airlines across the globe continue to trim their operating expenses by minimizing operations and maximizing load factors.

The reduction in seats has been brought on by two key factors, the economic downturn that began in 2008 and the fluctuating costs associated with the purchase of jet fuel.



photo by Kevin Hong



United and Continental Merger

Passengers in Houston had a front row seat to this process as United Airlines continued to move forward with its merger of Continental Airlines. Houston quickly became the world's largest hub for the world's largest airline, as the airline moved forward with the combining of the two operations.



AirTran Airways and Southwest Merger

Passengers at Hobby were also provided with an upclose view of the merger process, as AirTran Airways was absorbed by fellow low cost carrier Southwest Airlines.



Bankruptcy Realignment

American Airlines continues to make its way through the bankruptcy process, while exploring merger possibilities with U.S. Airways at the same time. American Airlines conducts flight operations at both commercial airports in Houston, while U.S. Airways flies exclusively in and out of Intercontinental. In 2011, the two carriers combined to handle more than 1.5 million passengers in Houston. American Airlines, and its parent company AMR, filed for Chapter 11 bankruptcy protection in November 2011. AMR Corporation, the parent company of American Airlines, Inc. and US Airways Group, Inc. announced a merger agreement in February, 2013. Operating under the American Airlines name, the combined airline will have a robust global network.



A group of people, including men and women, are standing in a line on a grassy area next to a paved road. They are holding large American flags on tall poles. The flags are waving in the wind. In the foreground, a man in a black vest with patches and a baseball cap is looking towards the camera. A woman in a white shirt is standing next to him. In the background, there are trees, a building, and a clear sky. A white car with a light bar is partially visible on the right side of the image.

ELLINGTON AIRPORT

Ellington Airport

It's the granddaddy of airports in Texas with runways and taxiways first intended to serve the nation's security in the World War I era. With many tours of duty, Ellington Airport is a veteran of "Unleashing Creativity" with the many missions it completes for the greater Houston region.

Located only minutes from downtown and a short drive from NASA's Johnson Space Center – Ellington Airport is poised to become a successful spaceport, which is why the Houston Airport System completed a feasibility study for horizontally Launched Reusable Vehicles. In addition to the proximity to the nation's significant space landmark, Ellington is neighbor to more than 50 aerospace contractor companies that support NASA and America's Human Space Exploration program. The legacy of the area's technical expertise is a magnet to many other space-related enterprises drawn to the region.

"Houston offers direct air space over the Gulf of Mexico and more than 400 acres of land ready for development of hangars, research centers and other facilities," said Brian Rinehart, General Manager of Ellington Airport. "Our population is trained and tested to serve the space exploration missions and as the need for commercial spaceflight grows, our city and airport has a strong chance as we pursue a non-federal spaceport license from the Federal Aviation Administration."

In 2012, Ellington Airport completed the feasibility study to review the spaceport licensing and regulations, the possible launch vehicles, existing spaceports in the U.S., a facilities assessment, explosive site plan, airspace and operating area, the environmental requirements and a cost estimate for two different scenarios of development of spaceport facilities.



"The results from the spaceport feasibility study validate the Houston Airport System's view that a strong business and investment case exists."

**Brian Rinehart, Ellington Airport
General Manager**

Next, the Houston Airport System held a pre-application consultation with the FAA Office of Commercial Space Transportation to present highlights of the technical feasibility study. The conclusion is hopeful that the project will move forward. "The FAA strongly encouraged Ellington to pursue a spaceport license and pledged their full support and guidance," said Rinehart.

Flying into the sunset

On September 19, 2012, the space shuttle Endeavour brought more than 30,000 people to Ellington as it made a Houston appearance on its way to Los Angeles, California. Endeavour retired to an aviation museum after more than two decades worth of service. As it flew into the Houston airspace, the Boeing 747 Shuttle Carrier Aircraft and NASA crew members conducted flyovers at key landmarks in the greater Houston area, including Intercontinental, the downtown skyline, the San Jacinto Monument and Hobby Airport. Endeavour landed at Ellington Airport.

Capital Improvements

Construction of the new U.S. Coast Guard Regional Facility is nearly complete with a four-story building that will serve the needs of 350 employees. With 100,000 square feet, the vital services provided by the Coast Guard to serve the communities along the Gulf of Mexico will improve the ability to satisfy the mission to perform rescue and recovery efforts.



Lone Star Flight Museum

Plans to relocate the Lone Star Flight Museum from Galveston to Ellington continue. With a world-class collection of aircraft, the in-land location of Ellington offers protection from area storms.

Community Connections

Ellington Airport hosts numerous special events to showcase the heritage of aviation. Wings Over Houston is hosted at Ellington every October and the event in 2012 set an attendance record as the U.S. Navy's Blue Angels thrilled the crowds. The annual Aeros & Autos event raises funds for community charities: the USO and Texas Lions Camp. The events at Ellington symbolize the theme of "Unleashing Creativity" by offering quality entertainment for a fun family day.

Remembering 9/11

The Houston Airport System, in partnership with Mayor Annise Parker, the Houston Police Department and the Houston Fire Department, is proud to support the 9/11 Heroes Run. The 5K run honors the fallen and brings the community together to run, volunteer and donate. Held on September 8, 2012, the annual event drew thousands of participants. The main goal is to pay tribute to the thousands who were killed in the terrorist attacks of September 11, 2001. The event recognizes the millions who have helped keep America safe such as military personnel, police officers and firefighters.

"It's a great deal of fun for the participants but more importantly, it's also a chance for us to offer up a collective thank you to all the men and women who protect us on a daily basis," said Rinehart.



Green Initiatives

As the Energy Capital of the World, Houston understands the need to be conservative of our natural resources and this is why we embrace the Green Initiative for our airports.

Apache Corporation

The Houston Airport System partnered with Apache Corporation and Clean Energy to design and construct a new compressed natural gas (CNG) fueling station at Intercontinental. The results are a greener airport with cleaner air. Today, Intercontinental operates a fleet of 30 new CNG shuttles between all five terminals and the economy lot. By using CNG, the Houston Airport System is reducing the shuttle fuel cost by 50 percent, saving at least \$200,000 annually.

Better Buildings

A Greener Airport Central Plant

One key important green milestone is the Houston Airport System winning an \$8.8 million dollar Federal Aviation Administration Voluntary Airport Low Emission Program (VALE) Grant.

“We are installing new heating and cooling equipment at Intercontinental,” said Carl Newman, General Manager of Intercontinental. This will impact all five terminals with an estimated 70 percent reduction in harmful ozone precursor emissions.”

The new environmentally friendly equipment includes emissions controls, a hot-water-based heating system, a cooling tower and an electric chiller, which will derive some of its electricity from new solar panels on the roof. The project will save 5 million cubic meters of natural gas annually with an estimated 8.5 tons of ozone precursor emissions.



A Greener Terminal B

The re-construction of Terminal B is proceeding with LEED Certification for the new terminal building.

The facility will feature 28 foot high floor-to-ceiling glass at passenger hold rooms overlooking the south airfield, yet the facility will consume 22 percent less energy. In addition, the project is recycling more than 95 percent of the construction waste. The project design includes:

- High-efficient exterior glass with exterior louvers and roof overhang to shade from direct sunlight
- Interior light shelves for natural light to be reflected into the building
- High efficiency light fixtures and HVAC equipment



Cleaner Jets

The new state-of-the-art aircraft, new to Texas as well as Houston, are highly energy efficient and in addition clean. In 2012, Intercontinental welcomed the Airbus A380. The Boeing 787 Dreamliner began test flights in Houston as United introduced the plane, into its fleet.





Technology Innovations

Tracking Our Future

The Houston Airport System remains committed to bringing Houston's air passengers access to state-of-the-art information and technology equipment, whether traveling through Intercontinental or Hobby.

That commitment is leading to exciting advances in the logging and sharing of information regarding passenger flow trends. The Houston Airport System continues to focus on accessibility and convenience surrounding the passengers' use of the various digital devices that are now prevalent in today's modern society.

Tracking Trends

Bluetooth devices are leading to a treasure-trove of information regarding traffic patterns at both airports. The communication tools are now providing the Houston Airport System's Information & Technology team with hard data regarding the length of time needed to navigate checkpoint lines.

Last year, the airport system partnered with Purdue University to conduct a two-week study to determine the average length of time it took passengers to navigate their way through the airport's roadway system all the way to their designated gate.

Now, that same technology is providing a detailed minute-by-minute look at the flow times associated with various security checkpoints.

A passenger tracking dashboard is available on fly2houston.com, providing passengers with real-time data on security checkpoint wait times. Updates occur every 15 minutes at security checkpoints in all five terminal facilities.

"We think this information can provide our passengers with a valuable tool in the future. We're working toward a real-time snapshot of the various security checkpoints, so that passengers can make informed decisions on when they arrive to the airport and where they enter the secure areas."



Lisa Kent
Chief Technology Officer

Power Up

The Information & Technology team is making it easier for passengers to stay connected with their electronic devices, increasing the number of power stations and implementing other improvements.



Planning, Design & Construction Team

Teamwork builds airports; airports build teamwork.

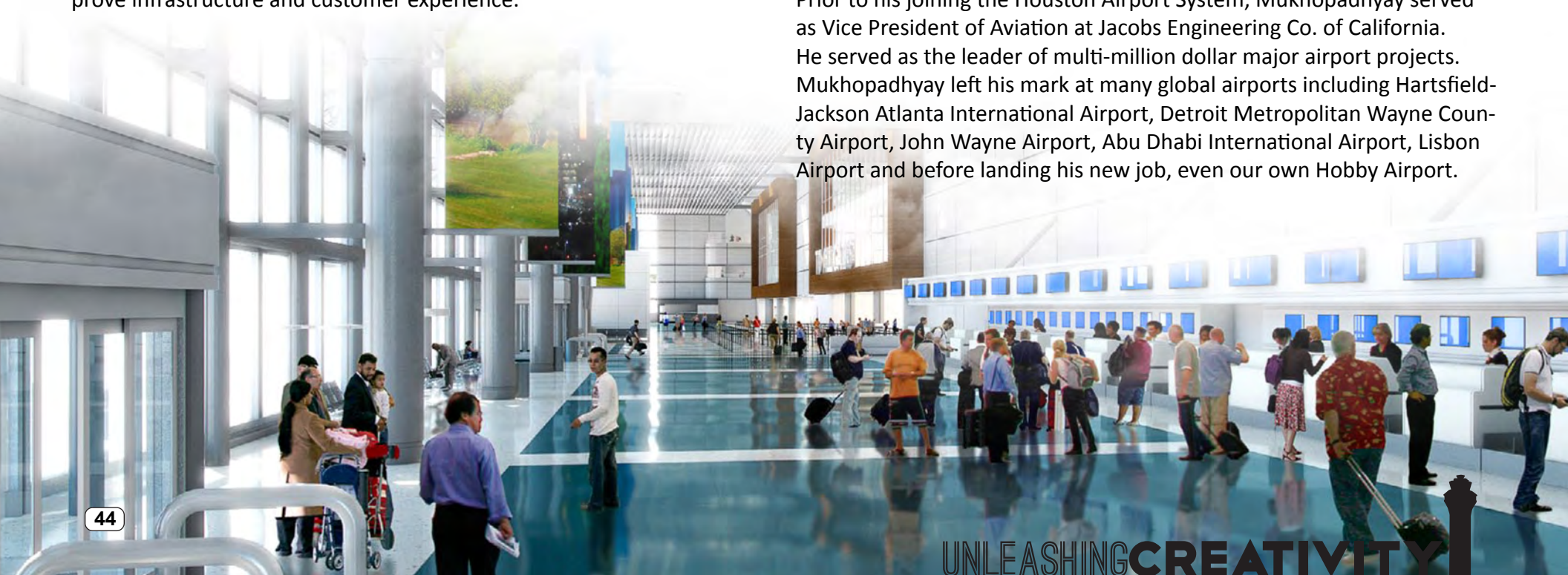
The best time to view the dynamic energy of any airport is with a bird's eye view of all the infrastructure with the concrete of the runways and taxiways stretching from across the field with the terminals serving as anchors for all the planes. The newest leader to direct the many projects to "unleash creativity" is 35-year project and construction manager veteran Samar N. Mukhopadhyay, who joined the Houston Airport System in 2012 as the new Chief Development Officer of Planning, Design and Construction (PDC).

Mukhopadhyay is currently leading the effort to update the Master Plans for all three City of Houston airports to serve as a blueprint for all the development needed to support the growing air service needs and to modernize the airfield to ensure safety of all operations with the most advanced technology. There are several major efforts underway to improve infrastructure and customer experience.



"I want to create an efficient ecosystem here at the Houston Airport System for delivering projects," said Mukhopadhyay. "This would require recognition that all of us: small and minority businesses; national firms; PDC team and our customers and tenants will be working collaboratively towards an optimized goal. We are ready to lead the effort."

Prior to his joining the Houston Airport System, Mukhopadhyay served as Vice President of Aviation at Jacobs Engineering Co. of California. He served as the leader of multi-million dollar major airport projects. Mukhopadhyay left his mark at many global airports including Hartsfield-Jackson Atlanta International Airport, Detroit Metropolitan Wayne County Airport, John Wayne Airport, Abu Dhabi International Airport, Lisbon Airport and before landing his new job, even our own Hobby Airport.



UNLEASHINGCREATIVITY

International Development

Houston is one of the most diverse and dynamic cities anywhere in the world, leading its airport system to continually strive to provide the city's international air passengers with the maximum number of international flights possible and the best streamlined entry process. These two key goals are met through constant collaboration with a diverse group of local, national and global constituents that include airlines, federal agencies, businesses and foreign governments. The Houston Airport System strives to identify and develop business opportunities to support air service.

Access to international markets and economic stability is enhanced through an efficient transportation infrastructure. Business development officers with the Houston Airport System strategically identify the top air service markets in demand and work regularly with prospective air carriers to promote the benefits of operating between Houston and those cities.

With Houston's international passenger traffic growing rapidly, the federal government faces increasing challenges in augmenting its staffing and implementing the new technology needed to speed passengers through arrivals processing. Together with U.S. Customs and Border Protection (CBP), we have ongoing programs in place supporting efforts to increase efficiency for the benefit of Houston travelers. The Houston Airport System also works closely with the U.S. Departments of State, Commerce and Transportation to expand opportunities for new air service to Houston.

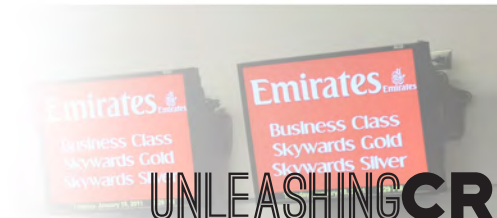


Global Connectivity

Global connectivity is an essential element for a city such as Houston and its citizens with worldwide business operations to succeed and flourish. The Houston Airport System places heavy emphasis on building and maintaining a strong relationship infrastructure with key stakeholders, including consular officials, corporations, foreign governments, conference organizers and air carriers.

Through these relationships, and by engaging travelers on the entry process, introducing new programs and services, and resolving concerns ahead of arrival, the International Development team is able to promote Intercontinental as the primary international gateway to the U.S. This outreach is vital to reducing passenger processing times, establishing and sustaining international routes, as well as supporting the retention, relocation and expansion of business within the city.

In 2012, the International Development team coordinated several international visits to countries including China, Taiwan, South Korea, Brazil, Qatar and the United Arab Emirates. Each required close collaboration with the U.S. Department of Commerce, Embassies, international chambers of commerce and a multitude of other government officials and corporate leaders. These visits allowed the Houston Airport System to establish beneficial relationships that increase the number of travelers to Houston and leverage support for future air service.



Global Entry and OneStop

The Global Entry program at Intercontinental recorded dramatic increases in several key activity areas during fiscal year 2012. From July 1, 2011 to June 30, 2012, an increase of more than 70 percent was recorded in both the number of new program members and those utilizing the self-serve kiosks, located within the Federal Inspection Services facility.

Global Entry is a U.S. Customs and Border Protection (CBP) program that allows expedited clearance for pre-approved, low-risk travelers upon arrival in the U.S. Due to its significant impact on processing times and ease of entry, Global Entry has proven to be essential for corporate travelers and a key feature attracting business to Houston.

Intercontinental consistently leads the nation in the number of Global Entry participants, thanks to the aggressive and creative outreach efforts of the Houston Airport System. In 2012, Houston's Global Entry marketing program was recognized as one of the best in the world by Airports Council International; the campaign received second-place recognition in ACI's North American division of the Excellence in Airport Marketing and Communications Contest.



ONE STOP
make it easy, make it fast

OneStop is another process available to international travelers at Intercontinental. This unique process, which is currently only available in Houston, features designated lanes and a special exit that bypasses Baggage Claim and the CBP Exit Control inspection area.

This consolidated process is available for any traveler that does not have checked luggage to collect in Baggage Claim, as well as those pre-identified, United Airlines passengers connecting internationally. In 2012, more than 5 percent of international travelers used the OneStop lanes.

Outreach efforts are also helping to increase the number of passengers participating in the Transportation Security Administration's PreV™ program, since those participants are invited subsequent to enrolling in Global Entry.



Global Aviation Initiatives

Global Aviation Initiatives promotes Houston and the Houston Airport System by showcasing Houston's best aviation practices to our aviation counterparts, including leaders and professionals from international airports, government supervising entities and other relevant business and professional organizations. In 2012, more than 150 government leaders and aviation executives from China and Africa came to Houston to attend educational, professional and executive development programs. The programs are designed to feature the Houston Airport System's facilities and services while acquainting participants with our best aviation practices, experiences and lessons learned through our many years of developing and operating our multiple airport system.



"The participants enjoy the opportunity to receive a comprehensive overview of U.S. aviation history, culture, management standards, operations models and aviation safety factors."

Kelly Hu, Director of Global Aviation Initiatives

International Relations and Protocol

The Houston Airport System enjoys a strong working relationship with the 94 members of Houston's Consular Corps, the third largest in the nation; numerous corporations and institutions, the Texas Medical Center, major international conference organizers, and the international community at large.

Each year, Houston attracts a large number of highly-ranked foreign visitors ranging from heads of state and members of reigning royal families to CEO's of the world's largest corporations. The International Development



ment team, in conjunction with the Houston Office of Protocol and International Affairs (HOPIA), works diligently to ensure that even the most complex visits to Houston go smoothly. HOPIA, which is administered by the Houston Airport System, serves as the community's primary resource for Houston's extensive international relationships.

Throughout the fiscal year, the Houston Airport System facilitated the arrivals of more than 550 high-level guests, as well as numerous international patients of the Texas Medical Center. In May 2012, more than 20,000 international attendees were seamlessly welcomed for the annual Offshore Technology Conference, the world's foremost energy-related trade show with nearly 90,000 participants from 127 countries.

HOUSTON
OFFICE OF PROTOCOL & INTERNATIONAL AFFAIRS



Government Affairs

As one of the largest and most important airport systems in the nation's transportation network, the Houston Airport System is deeply involved in advocating for airport and community interests through ongoing legislative and regulatory efforts. Because airport operations have significant safety and security implications, the airport system's activity is highly regulated, and its ability to grow its facilities and services is closely intertwined with developments at the federal and state government level. In particular, the Houston Airport System works closely with the U.S. Department of Transportation, the FAA and the Department of Homeland Security to effectively manage and enhance our services while complying with ongoing changes in the law and implementation of federal government programs and new technology. The vital support of our Congressional Delegation has been instrumental in bringing our efforts to fruition.

The Houston Airport System is at the forefront of NextGen, having worked closely with the FAA to test the new technology at Intercontinental, and in May the FAA launched its \$4.8 Million "Houston Metroplex Airspace Initiative" to implement NextGen in Houston on a permanent basis, with completion targeted for the end of 2013.

Because of the increasing impact on airports of national security measures, the Houston Airport System works in close cooperation with the Department of Homeland Security and Customs and Border Protection to enhance effective management of passenger and cargo screening to optimize both security and the customer service experience at our airports.

International air service is governed by a complex web of government-to-government agreements that in many cases limit the flight options that can be implemented, and the Houston Airport System coordinates extensively with those agencies and local business and tourism entities to expand the air service options available at our airports and to meet local and regional needs.

In light of current efforts by the Administration and Congress to reduce the federal deficit, continued federal funding for airports and new technology will be under significant pressure moving forward. This will require even closer cooperation between the Houston Airport System, government entities and our business, tourism and other community interests as we continue to enhance our airports to meet growing air service needs.



A Texas-Sized Voice

The Houston Airport System also played a key role in strengthening and unifying the voices of commercial airports operating in Texas by helping to establish the Texas Commercial Airports Association (TCAA).

The TCAA allows commercial airport leaders in Texas to share information on common concerns and better educate lawmakers and policy makers on the importance of airports to the state's overall economic health.

Houston Aviation Director Mario C. Diaz is serving as the Association's first Chairman, representing a group of airports which brings the state annual earnings of approximately \$20 billion. TCAA members meet quarterly to discuss various issues such as federal airport funding, infrastructure needs, security policies and more.

On the state level, the Houston Airport System has multiple programs in place to advance the overall interests of Texas airports, closely working with our counterparts throughout the state to maximize air service development, infrastructure enhancement, economic benefits to the community, and job creation.



UNLEASHING CREATIVITY

HAS Development Corporation

Around the world, airports in developing nations turn to Houston, Texas, to learn the best practices for the aviation and aerospace industry. HAS Development Corporation (HASDC), an affiliate of the Houston Airport System, exports its expertise to other airport facilities and offers support worldwide. With billions of dollars being invested in the airport sector in all parts of the globe, the application of best practices in airport financing, development and management can have a significant positive impact on the overall efficiency of the aviation value chain and the returns generated for investors and owners.



“It is critical to the network of airports to showcase global benchmarks across core airport disciplines and with the wealth of knowledge Houston offers with three airports, our team teaches the management techniques to implement these practices to create and increase value,” said Jeff Reynolds, President of HASDC. “Our mission for HASDC is to share best practices of the professional services of the Houston Airport System to promote safe, and efficient air travel worldwide.”

As emerging nations develop, the need to connect with other major world markets is clear for a strong economy. HASDC supports important projects such as the operation of the Quito, Ecuador Airport. In 2012, many opportunities in Latin America, Asia and Africa allowed HASDC to make a difference.



In Asia, HASDC shared knowledge to airport chiefs from emerging countries in an executive program in Mumbai in November 2012. During the event, HASDC executives offered in-depth training on Airport Management, Development and Finance. HASDC anticipates being a strategic training partner of CAPA Aero Park in India.

Houston gained the reputation as highly respected global experts on many critical topics and the success of new developments ensures that the airport team will continue to be in demand for future development opportunities. HASDC is broadening its consulting offering to include value-added advisory services in connection with public private partnerships.

Under Our Wing

Houston's young people who dream of careers in aviation and aerospace are getting help from the Houston Airport System with a new Aviation Club. Director of Aviation Mario C. Diaz dreamed of aviation when he was growing up in New York.



"As a teenager, I became fascinated with aviation and I enjoy the journey I experienced as first a pilot and later as an executive for airports in three major U.S. cities," said Diaz. "The Aviation Club is poised to launch the passion for flying in the next generation of aviators and space pioneers."

In 2012, the Aviation Club started at two high school campuses with monthly meetings for learning, enrichment and mentoring activities. The students selected for the first class of the Aviation Club all have a desire and passion for exploring post secondary educational and career opportunities in aerospace or aviation.



Numerous community groups support the Aviation Club. The sponsors include Embry-Riddle Aeronautical University, Texas Southern University, San Jacinto College, Lone Star College, Houston Independent School District, Sterling High School, Carnegie Vanguard High School, Bay Area Houston Economic Partnership, NASA - Johnson Space Center, and the City of Houston.



AVIATION CLUB

The ultimate goal is to build a new workforce for tomorrow's aviation and aerospace jobs. Houston continues to lead the nation in new job creation. The effort to prepare students to fill those jobs is essential to a strong Houston.



YOU MATTER TO HOUSTON AIRPORTS



Strong communities create a more stable and supportive society for its individuals. Houston Airport System events not only convey pertinent information about airport services to the community, but also help to foster strong relationships with individuals, stakeholders and business partners.

Intercontinental Welcomes the A380



On August 1, 2012, hundreds gathered to catch a glimpse of the first A380 flight to operate out of Intercontinental, and a first for any airport in the Lone Star State. Aviation aficionados flocked to Terminal D and the public viewing party hosted by the Houston Airport System and Lufthansa Airlines, in order to view the world's largest passenger aircraft.



City of Houston Mayor Annise Parker noted, "The A380 flight is a symbol of Houston's thriving economy, our commitment to global enterprise, and our investment in infrastructure."

Customer Appreciation Day

Passengers received a special thank you and items of appreciation when the Houston Airport System took a moment to recognize the millions of passengers flying in and out of Houston.

Houston Airport System Cares About Kids

Employees demonstrated their commitment to the community throughout the holiday season by organizing a toy drive for hundreds of children in the Aldine-Greenspoint area and the Harbach-Ripley Neighborhood Center.

Combined Municipal Campaign (CMC)

Each year, the municipal workforce helps make dreams come true for Houstonians by giving back to the community through the Combined Municipal Campaign. This year, the Houston Airport System raised over \$119,000 for the City's annual charity drive.

HobbyFest

An annual community event promoting aviation and showcasing the 1940 Air Terminal Museum, a historic, award-winning facility which is among the last Art Deco terminals in the world. Proceeds from the festival benefit the Allen T. Johnson Memorial Scholarship. This year, the scholarship committee invited participants to submit an abstract with aviation-related topics. Scholarships were awarded to five contestants.



Airport Rangers

Cheers from the crowd and music from parade bands serenaded the Airport Rangers as they made their way through downtown Houston during the Houston Livestock Show and Rodeo parade. The Airport Rangers are the 130 volunteers who help monitor and patrol on horseback, the more than 13,000 acres at Intercontinental.



Volunteers

Volunteer Ambassadors provide passengers with a unique and pleasing experience by offering friendly, helpful assistance at strategic terminal locations to more than 50 million annual travelers. As an essential part of the Houston Airport System's customer service division, volunteers meet and greet travelers, assist with wayfinding throughout the airport terminals, staff information booths and support special event programs.



Office of Business Opportunity

The Houston Airport System Office of Business Opportunity (OBO) 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 (DBE's). The goal of the office is to ensure meaningful participation by underutilized groups in the government procurement process. This effort results in the growth and success of small businesses operating in the Houston area.



During fiscal year 2012, the City of Houston awarded \$339,651,389 in city contracts to certified Small, Minority, Women and Disadvantaged Business Enterprises (S/MWDBE) companies. The overall percentage of S/MWDBE awards given in FY2012 is 28 percent, the highest percentage given to certified vendors in the last seven years.

The outreach efforts have been particularly successful within the operations of the Houston Airport System, where a 50 percent growth in DBE participation has been recorded since 2008. This type of progress is the result of persistent outreach efforts by the OBO staff.

In May 2012, the Houston Airport System and OBO hosted the annual "Runway to Business Opportunity Fair," which brought together more than 500 businesses, including prime contractors and small, minority and women owned firms to educate them on Houston Airport System opportunities. The event also aims to create connections between small and large businesses and provide best practices in growing their capacity.



During fiscal year 2012, the Houston Airport System awarded more than \$33 million in prime and subcontracting opportunities to certified businesses.

Community Relations

Mission

Information and opportunity are the two key words providing daily direction for the Houston Airport System's office of Community Relations. Using various outreach techniques, this department works to build and maintain true partnerships between the airport system's three airport facilities and the communities that surround them. Community Relations also works diligently to ensure that the opportunities created by the airport system's multi-billion dollar annual economic impact are not only accessible to the underutilized businesses of today, but are also highlighted and brought into focus for the entrepreneurs of the future.

Outreach

In a world dominated by virtual connections and cyber conversations, airports serve as an important reminder that human connections are still vitally important to any healthy society. With this reality in mind, Community Relations Director Rhonda Arnold routinely engages and visits area groups and organizations with face-to-face meetings, in an effort to bring them up to speed on the latest developments within the Houston Airport System. This outreach program often pairs Arnold with members of area Chambers of Commerce and other important economic organizations operating throughout the Houston region, facilitating discussions on airport expansion plans, the arrival of new air service and a host of other important topics. Informational efforts unfolding at the grassroots level are also a familiar entry on the Community Relations calendar, with presentations routinely occurring at civic meetings and homeowner's organizations.

Empowerment

In addition to bringing information to the general population of the Houston region, the Community Relations Division of the Houston Airport System also looks to engage the area's young people in a group discussion that covers the exciting career possibilities that exist within the field of aviation. This goal serves as a guide when the airport system participates in programs such as STEM, which uses aviation-related lessons and virtual airplanes to enliven the subjects of science, technology, engineering and math. For example, Intercontinental played host to students from the Aviation Career Education (ACE) Academy in July 2012, as they were given an up-close view of a major airport operation over a weeklong period.

The Community Relations Division not only helps facilitate events such as these, but often provides the various organizations with access to facilities which can bring the discussions to life for students.



Award-Winning Marketing and Communications

Houston Shines in North American Airport Industry Competition

From community outreach to television advertising, Houston showcased its ability to “Unleash Creativity,” by winning top honors in the 2012 Airports Council International-North America (ACI-NA) Excellence in Marketing & Communications Contest. The contest allows ACI-NA to recognize the quality of work, abundance of talent, and creativity within the marketing and communications field of the airport industry. Houston was recognized for the distinction of finishing as one of only three airports/airport systems in North America to be recognized in five separate categories.

The Houston Airport System won the following awards:

Marketing Campaign – 2nd Place for Global Entry Marketing

The recognized marketing campaign involved the Global Entry program that allows faster international travel by expediting the process of clearing customs.

Community Outreach – 2nd Place for Hobby Community Day

This involved a clean-up effort at Hobby Airport on November 19, 2011. Dozens of people showed up to pick up trash and help clean the area.



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HOUSTON AIRPORTS
fly2houston.com

Brochures – 3rd Place for “Art at the Airports”

Houston Airport System owns an extensive public art collection and this brochure intends on helping the public view the art at Intercontinental.



Radio Advertising – 3rd Place for ecopark launch

Radio advertising played a key role in alerting the public to the name change.

Television Advertising – 3rd Place for ecopark launch

In 2011, the Houston Airport System rebranded the economy parking operation with the introduction of “ecopark.” TV advertising allowed the maximum branding for the new name.

Since its inception in 1990, the contest has generated tremendous interest throughout the industry. Award winners were recognized at the 2012 ACI-NA Annual Conference & Exhibition in Sacramento, CA.



Twitter @IAH / @HobbyAirport

IAH Twitter Followers



HOU Twitter Followers



Get Social with Houston Airports

Intercontinental and Hobby Airports recognize social media as a unique tool to connect with customers and to do our best to make their time at our airports as pleasant as possible.

Twitter allows us to connect with customers to better understand their needs and to serve them better. We actively search for customers that are in the airports and tweet that need help. If they reach out to us, we reach right back and lend a hand with what they need. Twitter is one of the best tools we use to get the most accurate and up-to-date information out to customers whether it be about weather affecting flights; security checkpoint wait times; new airline service and routes; special events at the airports; and emergencies.

Ben Adkins @marketophile
@iah also... Fastest twitter response so far of any airport I've been to #nicejob

30 Jan

Blake Fisher @theblakefish
@iah Thanks for following up on my parking issue -- quite impressed with the response and keep up the good work! #willUseAgain #HoustonProud

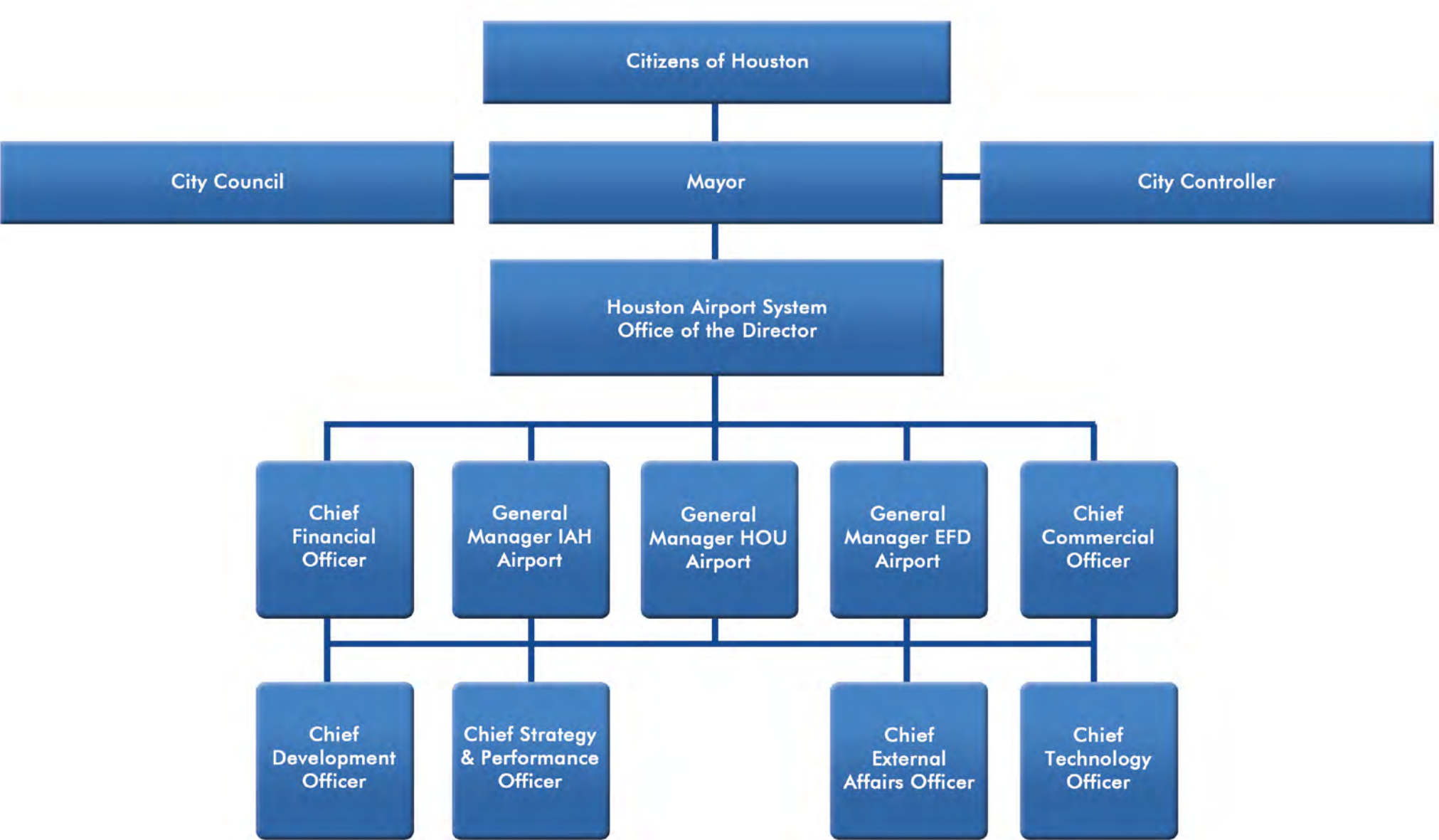
15 Dec

Pete @peettran
@iah thank you again for finding my lost license and returning it 2000+ miles back to me

5 Nov

We monitor Twitter Monday through Friday, 8 a.m. to 5 p.m. CST.
Just tweet us @iah or @HobbyAirport.

Organizational Chart as of June 30, 2012





UNLEASHING**CREATIVITY**

Finance

Keeping Our Airports in the Green: Fund the Future

The purpose of our Finance Team is to effectively collaborate with all of the business units to ensure the financial health of the Houston Airport System. With attention to details, the team is responsible for management reporting, metrics reporting, rates and charges, accounts payable, accounts receivable, fixed asset/construction/grant accounting, general accounting, annual Financial Report pursuant to Governmental Accounting Standards Board (GASB) standards, investor relations, liquidity management, debt management, effective use of grants and passenger facility charges (PFCs), budgeting, financial analysis of the Capital Improvement Program, Operations & Maintenance (O & M) expenses and Capital equipment outlay, and audit coordination.

In support of the overall purpose of the Finance & Accounting Business Unit, the Finance Team is comprised of the following sections:

Financial Planning & Analysis:

Financial Planning & Analysis (FP&A) provides management reporting, financial planning and analysis related to the organization's annual O&M and capital equipment outlay budgets. It sets the annual airline rates and charges which generate the majority of the Houston Airport System's annual revenues. It also assists in maintaining the financial health of the Houston Airport System through collaborative efforts of with all business units. The FP&A team also ensures the integrity of the financial data available for decision making.

Accounting:

This section processes and monitors the Airport's financial transactions and reports results to management, other HAS divisions, The City of Houston, regulatory agencies, industry organizations, financial institutions, and all other stakeholders. The section operates in four distinct groups: Accounts Receivable (Revenue and Ground Transportation Permitting), Accounts Payable (Disbursements), Fixed Assets/Construction/Grants, and General Ledger/Financial Reporting. The Accounting division ensures that the Houston Airport System complies with the financial regulations set by the FAA and GASB. The department interfaces with the City of Houston Controller's Office and the City's Finance Department.

Treasury & Financial Programs:

With critical oversight, this section manages airport liquidity, financial risk, investor relations, and raises funds through the issuance of bonds and commercial paper; ensures efficient use of grants and PFCs. Specific responsibilities include:

- Working with various stakeholders to lead the development and implementation of the CIP financing plan
- Raising money through the issuance of capital markets or bank transactions
- Lowering interest expense or reducing debt service through re-funding transactions
- Leading the process to effectively track and maximize the use of grants and PFCs

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2012.

Financial Highlights

The Airport System Fund's net assets decreased by \$36.0 million or 2.5 % during fiscal year 2012 and decreased by \$6.5 million or 0.5% during fiscal year 2011.

In fiscal year 2012, operating income decreased \$0.2 million or 0.6%, due to an increase in operating expenses of \$7.4 million or 1.6% and an increase in operating revenue of \$7.1 million or 1.7%. In fiscal year 2011, operating income decreased by \$34.3 million because of 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%.

Interest revenue decreased by \$4.1 million or 41.9% in fiscal year 2012 and decreased by \$20.8 million or 68.2% in fiscal year 2011.

Total operating expenses increased by \$7.4 million or 1.6% in fiscal year 2012 and increased by \$38.1 million or 9.3% in fiscal year 2011. Depreciation expense increased \$27.6 million or 16.9% in fiscal year 2012 and decreased \$1.1 million or 0.7% in fiscal year 2011. Maintenance and operating expenses decreased \$20.2 million or 7.1% in fiscal year 2012 and increased \$39.3 million or 16.0% in fiscal year 2011.

The Fund had a net loss before capital contributions of \$51.0 million, compared to a net loss before capital contributions of \$50.6 million in fiscal year 2011.

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 flow 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 (UNAUDITED)

Net Assets

Total net assets at June 30, 2012 were \$1,394.5 million, a 2.5% decrease from June 30, 2011. Total net assets at June 30, 2011 were \$1,430.5 million, a 0.5% decrease from June 30, 2010.

Net Assets			
JUNE 30, 2012, JUNE 30, 2011, and JUNE 30, 2010			
	(in thousands)		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current assets	\$1,052,535	\$1,068,806	\$1,072,728
Noncurrent assets	14,751	8,502	9,389
Capital assets	<u>2,924,624</u>	<u>3,007,398</u>	<u>3,055,976</u>
Total assets	<u>3,991,910</u>	<u>4,084,706</u>	<u>4,138,093</u>
Current liabilities	157,250	171,876	177,173
Long term liabilities	<u>2,440,150</u>	<u>2,482,340</u>	<u>2,523,961</u>
Total liabilities	<u>2,597,400</u>	<u>2,654,216</u>	<u>2,701,134</u>
Net assets invested in capital assets, net of related debt	618,155	663,917	701,767
Restricted net assets	<u>776,355</u>	<u>766,573</u>	<u>735,192</u>
Total net assets	<u>\$1,394,510</u>	<u>\$1,430,490</u>	<u>\$1,436,959</u>

Approximately half of the Fund's total net assets (44.3% in fiscal year 2012; 46.4% in fiscal year 2011) 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 (55.7% in fiscal year 2012; 53.6% in fiscal year 2011) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Changes in Net Assets

From July 1, 2011 to June 30, 2012, net assets of the Airport System Fund decreased by \$36.0 million or 2.5%. From July 1, 2010 to June 30, 2011, net assets decreased by \$6.5 million or 0.5%.

Changes in Net Assets			
Years ended JUNE 30, 2012, JUNE 30, 2011, and JUNE 30, 2010			
	June 30, 2012	June 30, 2011	June 30, 2010
Operating revenue:			
Landing area fees	\$86,935	\$90,384	\$94,165
Rentals, building and ground	182,320	181,182	182,105
Parking and concessions	144,219	134,985	125,999
Other	4,076	3,851	4,310
Total operating revenues	417,550	410,402	406,579
Nonoperating revenue:			
Interest on investments	5,634	9,700	30,487
Passenger facility charges	63,550	63,138	66,383
Other nonoperating	4,644	3,409	7,525
Total nonoperating revenues	73,828	76,247	104,395
Total revenues	491,378	486,649	510,974
Operating expenses:			
Maintenance and operating	264,060	284,307	245,051
Depreciation	190,664	163,054	164,186
Total operating expenses	454,724	447,361	409,237
Nonoperating expenses:			
Interest expense	87,652	91,133	95,037
(Gain) / Loss on disposal of assets	11	(1,241)	198
Total nonoperating expenses	87,663	89,892	95,235
Total expenses	542,387	537,253	504,472
Excess (deficit) before contributions	(51,009)	(50,604)	6,502
Capital contributions	15,029	44,135	51,457
Change in net assets	(35,980)	(6,469)	57,959
Net assets, July 1	1,430,490	1,436,959	1,379,000
Net assets, June 30	\$1,394,510	\$1,430,490	\$1,436,959

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating revenues increased by \$7.1 million or 1.7% for fiscal year 2012 and by \$3.8 or 0.9% for fiscal year 2011. Enplaned and deplaned passenger volume increased for the third consecutive year despite continuing difficult economic conditions, growing 1.7% in fiscal year 2012 after the same 1.7% increase in fiscal year 2011.

Operating expenses increased \$7.4 million or 1.6% for fiscal year 2012. Maintenance and operating expense decreased by \$20.2 million or 7.1% but this decrease was offset by an increase in depreciation of \$27.6 or 16.9% which was attributable to a large amount of Work-in-Process assets being placed into service in fiscal year 2012. Base salary in 2012 decreased \$4.3 million or 3.9% due mainly to the effect of staff reductions at the end of the prior fiscal year. In fiscal year 2011, operating expenses increased by \$38.1 million or 9.3%. 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. In 2011, 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.

Capital contributions in fiscal year 2012 decreased by \$29.1 million or 65.9% over fiscal year 2011. The decrease is attributable to timing differences in construction on entitlement grants and a decrease in discretionary grants. In fiscal year 2011, capital contributions decreased by \$7.3 million or 14.2%. This decrease is partly due to a 10 year FAA Letter of Intent on runway 8L 26R ending in fiscal year 2010.

Non-operating revenue decreased by \$2.4 million or 3.0% in fiscal year 2012. The decrease was due to a decline in the investment yield from the City's general investment pool. In fiscal year 2011, non-operating revenue decreased by \$28.1 million or 27.0%. During fiscal year 2011,

passenger facility charges (PFCs) decreased \$3.2 million or 4.9% from fiscal year 2010 because the HAS transitioned from a FAA cash basis of reporting PFCs to an accrual basis. Also in fiscal year 2011, interest revenue decreased by \$20.8 million or 68.2%. The decrease was due to a decrease in investment yield, and to an apportioned \$16.1 million of unrealized investment losses from the City's general investment pool.

In fiscal year 2012, interest expense decreased by \$3.5 million or 3.8%. In fiscal year 2011, interest expense decreased by \$3.9 million or 4.1%. In both years, the decreases were caused by declines in variable debt interest rates, and by principal payments which reduced outstanding debt balances. In fiscal year 2012, the fund further decreased interest expense through the issuance of Revenue Refunding Bonds, Series 2011A, 2011B, 2012A and 2012B.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets

The Airport System Fund's investment in capital assets amounts to \$2.9 billion at June 30, 2012, a decrease of \$82.8 million, or 2.7%, from June 30, 2011. Capital assets at June 30, 2011 were \$3.0 billion which was a decrease of \$48.6 million, or 1.6%, from June 30, 2010.

CAPITAL ASSETS JUNE 30, 2012, JUNE 30, 2011, and JUNE 30, 2010 (net of accumulated depreciation in thousands)

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Land	\$ 210,568	\$210,091	\$209,738
Rights & Intangibles - Non-Depreciable	7,670	7,016	-
Buildings and building improvements	1,668,786	1,472,872	1,362,503
Improvements other than buildings	895,307	950,859	965,506
Equipment	46,148	52,647	47,678
Rights & Intangibles - Amortizable	478	635	-
Construction work in progress	<u>95,667</u>	<u>313,278</u>	<u>470,551</u>
	<u>\$2,924,624</u>	<u>\$3,007,398</u>	<u>\$3,055,976</u>

The major on-going capital projects during fiscal year 2012 at George Bush Intercontinental Airport included the continued rehabilitation of Taxiway WA and WB, redevelopment of the south side of the Terminal B apron area (United Airlines is redeveloping the south side terminal area), replacement and rerouting of the central plant's chilled water lines and planning for the redevelopment of Terminal D.

The primary projects at William P. Hobby Airport included the final phase of the landside redevelopment of the terminal building and planning for both a new international terminal and a new parking garage.

Ongoing GIS development occurred on a system-wide basis for the Houston Airport System

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 June 30, 2012. In addition, the Fund is responsible for \$2.0 million of pension obligation bonds. At the end of fiscal years 2012 and 2011, the Fund had total debt of \$2.4 billion and \$2.4 billion respectively.

		OUTSTANDING DEBT		
		JUNE 30, 2012, JUNE 30, 2011, and JUNE 30, 2010		
		(in thousands)		
		<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Senior lien debt:				
Long-term revenue bonds payable		\$449,660	\$449,660	\$449,660
Unamortized discounts and premium		(1,137)	(1,255)	(1,367)
Commercial paper		<u>-</u>	<u>-</u>	<u>6,000</u>
Total senior lien debt		<u>448,523</u>	<u>448,405</u>	<u>454,293</u>
Subordinate lien debt:				
Current maturities-revenue bonds		52,805	52,285	47,335
Long-term revenue bonds payable		1,811,155	1,939,075	1,990,430
Unamortized discounts, premium, or deferred amounts on refunding		<u>49,544</u>	<u>(29,716)</u>	<u>(29,545)</u>
Total subordinate lien debt		<u>1,913,504</u>	<u>1,961,644</u>	<u>2,008,220</u>
Inferior lien debt:				
Current maturities-contract		4,780	4,535	4,305
Long-term contract payable		<u>28,115</u>	<u>32,895</u>	<u>37,430</u>
Total inferior lien debt		<u>32,895</u>	<u>37,430</u>	<u>41,735</u>
Other debt:				
Pension obligation bonds		<u>2,006</u>	<u>2,006</u>	<u>2,006</u>
Total other debt		<u>2,006</u>	<u>2,006</u>	<u>2,006</u>
Total outstanding debt		<u><u>\$2,396,928</u></u>	<u><u>\$2,449,485</u></u>	<u><u>\$2,506,254</u></u>

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Total outstanding debt decreased \$52.6 million or 2.1% during fiscal year 2012. This decrease was due to \$65.2 million in principal repayments, offset by a \$12.6 million increase due to the issuance of City of Houston, Texas, Airport Subordinate Lien Revenue Refunding Bonds, Series 2011A, 2011B, 2012A, and 2012B. During fiscal year 2011, total outstanding debt decreased \$56.8 million or 2.3% due to principal repayment.

The underlying ratings of the Airport System Fund’s obligations for fiscal year 2012:

	As of June 30, 2012	
	Senior	Subordinate
Standard & Poor’s	AA-	A
Moody’s	Aa3	A2
Fitch’s	not rated	A+

STATEMENTS OF NET ASSETS (in thousands) June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$1,000,014	\$1,028,278
Accounts Receivable (net of allowance for doubtful accounts of \$3,572 in 2012 and \$532 in 2011)	25,667	22,174
Due from City of Houston	1,282	953
Inventory	2,094	2,549
Prepays	12,018	2,207
Due from other governments - grants receivable	4,713	5,967
Restricted assets - investments	<u>6,747</u>	<u>6,678</u>
Total current assets	<u>1,052,535</u>	<u>1,068,806</u>
Noncurrent assets		
Deferred charges	<u>14,751</u>	<u>8,502</u>
Capital Assets		
Land	210,568	210,091
Intangibles	8,522	7,679
Buildings, improvements and equipment	4,576,702	4,255,434
Construction in progress	<u>95,667</u>	<u>313,278</u>
Total capital assets	4,891,459	4,786,482
Less accumulated depreciation	<u>(1,966,835)</u>	<u>(1,779,084)</u>
Net capital assets	<u>2,924,624</u>	<u>3,007,398</u>
Total noncurrent assets	<u>2,939,375</u>	<u>3,015,900</u>
Total assets	<u>\$3,991,910</u>	<u>\$4,084,706</u>

(continued)

STATEMENTS OF NET ASSETS (in thousands) June 30, 2012 and 2011

Liabilities	2012	2011
Current Liabilities		
Accounts payable	\$6,950	8,953
Accrued payroll liabilities	1,621	4,591
Due to City of Houston	1,852	1,208
Advances and deposits	1,589	1,422
Deferred revenue	7,072	9,870
Claims for workers' compensation	926	797
Compensated absences	5,389	4,865
Revenue bonds payable	52,805	52,285
Inferior lien contract payable	4,780	4,535
Accrued interest payable	42,783	53,897
Contracts and retainages payable	31,483	29,453
	<u>157,250</u>	<u>171,876</u>
Total current liabilities		
Long-term liabilities		
Revenue bonds payable, net	2,309,222	2,357,764
Inferior lien contract, net	28,115	32,895
Pension obligation bonds payable	2,006	2,006
Claims for workers compensation	1,864	1,830
Compensated absences	6,577	7,156
Net pension obligation payable	45,477	42,083
Other post employment benefits	46,889	38,275
Other long-term liabilities	-	331
	<u>2,440,150</u>	<u>2,482,340</u>
Total long-term liabilities		
Total liabilities	<u>2,597,400</u>	<u>2,654,216</u>
Net assets		
Invested in capital assets, net of related debt	618,155	663,917
Restricted net assets		
Restricted for debt service	185,167	164,162
Restricted for maintenance and operations	44,023	43,320
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	537,165	549,091
	<u>1,394,510</u>	<u>1,430,490</u>
Total net assets	<u>\$1,394,510</u>	<u>\$1,430,490</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

(in thousands) For Years Ending June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Landing area fees	\$86,935	\$90,384
Rentals, building and ground area	182,320	181,182
Parking	72,833	70,681
Concessions	71,386	64,304
Other	<u>4,076</u>	<u>3,851</u>
Total operating revenues	<u>417,550</u>	<u>410,402</u>
Operating Expenses		
Maintenance and operating	264,060	284,307
Depreciation	<u>190,664</u>	<u>163,054</u>
Total operating expenses	<u>454,724</u>	<u>447,361</u>
Operating income (loss)	<u>(37,174)</u>	<u>(36,959)</u>
Nonoperating revenues (expenses)		
Interest revenue	5,634	9,700
Interest expense	(87,652)	(91,133)
Gain / (Loss) on disposal of assets	(11)	1,241
Passenger facility charges	63,550	63,138
Other revenue	<u>4,644</u>	<u>3,409</u>
Total nonoperating revenues (expenses)	<u>(13,835)</u>	<u>(13,645)</u>
Income/(loss) before capital contributions	(51,009)	(50,604)
Capital contributions	<u>15,029</u>	<u>44,135</u>
Change in net assets	(35,980)	(6,469)
Total net assets, July 1	<u>1,430,490</u>	<u>1,436,959</u>
Total net assets, June 30	<u><u>\$1,394,510</u></u>	<u><u>\$1,430,490</u></u>

STATEMENTS OF CASH FLOWS (in thousands)

FOR YEARS ENDED JUNE 30, 2012, AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Receipts from customers	\$411,427	\$411,472
Payments to employees	(97,462)	(96,988)
Payments to suppliers	(100,295)	(101,002)
Payments to the City of Houston	(58,616)	(36,807)
Claims paid	(926)	(796)
Other revenues	<u>4,644</u>	<u>5,709</u>
Net cash provided by operating activities	<u>158,772</u>	<u>181,588</u>
Cash flows from investing activities		
Sale of investments	8,486	14,809
Purchase of investments	(8,555)	(14,681)
Gain (loss) on sale of nonpooled stock	-	125
Interest income on investments	<u>5,634</u>	<u>9,575</u>
Net cash (used for) provided by investing activities	<u>5,565</u>	<u>9,828</u>
Cash flows from noncapital financing activities		
Interest expense pension obligation bonds	(107)	(106)
Deferred charges on future debt issuance	<u>386</u>	<u>(386)</u>
Net cash (used for) provided by noncapital financing activities	<u>279</u>	<u>(492)</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(60,995)	(47,235)
Proceeds (use of cash) from issuance of debt	1,124,584	92,900
Refunding of revenue bonds	(1,119,089)	(92,900)
Interest expense on debt	(115,098)	(111,972)
Retirement of inferior lien contract	(4,535)	(4,305)
Retirement of commercial paper	-	(6,000)
Passenger facility charges	63,550	63,138
Contributed capital	16,283	44,622
Acquisition of capital assets	<u>(97,580)</u>	<u>(119,737)</u>
Net cash (used for) capital and related financing activities	<u>(192,880)</u>	<u>(181,489)</u>
Net increase (decrease) in cash and cash equivalents	(28,264)	9,435
Cash and cash equivalents, beginning of year	<u>1,028,278</u>	<u>1,018,843</u>
Cash and cash equivalents, end of the year	<u><u>\$1,000,014</u></u>	<u><u>\$1,028,278</u></u>

(continued)

STATEMENTS OF CASH FLOWS (in thousands)

FOR YEARS ENDED JUNE 30, 2012, AND 2011

	<u>2012</u>	<u>2011</u>
Noncash transactions		
Capitalized interest expense	\$17,933	\$21,912
Donated assets	-	(22)
Capital additions included in liabilities	1,379	(8,421)
Loss (gain) on disposal of assets	(11)	(1,241)
	<u>\$19,301</u>	<u>\$12,228</u>
 Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$(37,174)	\$(36,959)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	190,664	163,054
Capital improvement plan expense	8,660	21,746
Other revenues	4,644	3,409
Changes in assets and liabilities		
Accounts receivable	(3,493)	1,402
Due from the City of Houston	(329)	9,879
Inventory and prepaids	(9,356)	39
Accounts payable	(2,003)	2,302
Accrued payroll liabilities	(2,970)	440
Due to the City of Houston	644	670
Advances and deposits	(2,631)	1,970
Other post-employment benefits	3,394	4,878
Net pension obligation payable	8,614	8,278
Claims for workers' compensation	163	(711)
Compensated absences	(55)	1,191
	<u>\$158,772</u>	<u>\$181,588</u>
Net cash provided by operating activities		

Milestones From 2011 to 2012

July 2011

Ellington welcomes crew from Space Shuttle Atlantis on NASA's final mission of the program.

August 2011

Houston completes 10-day trade mission to China, South Korea and Taiwan aiming to grow Asian service.

September 2011

Airports reports a growth of 2.6 percent in passenger traffic with 298,693 more passengers traveling that same time year-over-year.

October 2011

Ellington thrills crowd at Wings Over Houston Airshow.

November 2011

United Airlines launched non-stop service between Houston and Lagos, Nigeria.

Qatar Airways Cargo celebrates an inaugural flight from Intercontinental.

December 2011

Intercontinental Welcomes Cathay Pacific Airways Boeing 747-8 Freighter to Houston

January 2012

Construction begins at Terminal D Gates 12 and 12a for arrival of the A380.

February 2012

Bush Intercontinental unveils branding of APM trains with Houston Airports logo.

March 2012

United Airlines begins renovation of Terminal B.

April 2012

Plan announced in partnership with Southwest Airlines to expand the federal inspection services (FIS) facility at Hobby.

May 2012

Houston City Council approves request from Southwest Airlines for new FIS at Hobby.

Ellington Airport hosts the 4th Annual Aeros & Autos.

Houston Airports begins projects in support of Terminal B for airport ramp, utilities, roadways, fuel transmission pipeline.

June 2012

Samar N. Mukhopadhyay announced as new chief development officer of Planning, Design and Construction.

July 2012

Terminal D construction project is completed prior to arrival of A380.

TSA PreV™ starts at Bush Intercontinental.

Frontier Airlines moves flight operations from Hobby to Intercontinental.

Intercontinental launches Valet Parking as a new customer amenity.

Grand opening of new baggage claim area at Hobby.

Delta Air Lines launches new nonstop flights from Bush Intercontinental to New York.

Hobby completes construction of the entrance road; opens new Pappas Bar-B-Q.

Construction begins at Intercontinental Airport Central Plan to reduce ozone precursor emissions, reduce energy costs and extend the operational capacity.

August 2012

Carl Newman named General Manager of Intercontinental.

Lufthansa makes Houston the first airport in Texas with A380 Service and hundreds come to airport to welcome and witness the flight.

September 2012

Spirit Airlines launches new service from Houston to Dallas.

United lands its first Dreamliner at Bush Intercontinental as it begins test flights prior to the scheduled introduction of the aircraft for commercial service.

Sun Air International begins air service between Intercontinental and Victoria Regional Airport.

October 2012

The Houston Airport System opened a second interfaith chapel at Intercontinental in Terminal D near Gate 8.

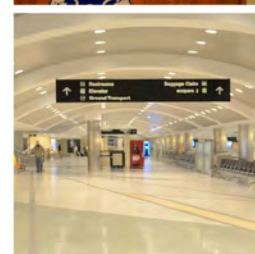
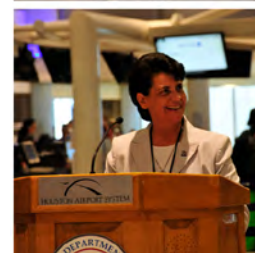
The Space Shuttle Endeavour flies to Houston on its historic final mission and lands at Ellington after flying over Intercontinental, Hobby and downtown Houston.

November 2012

New wait time tool on fly2houston.com shows the amount of time it takes to get through all airport checkpoints.

January 2013

Houston Airport System presents details of the Hobby International plan to city leaders.



Economic Section

Airports Make a Difference as Economic Engines

The combined three airports are a powerhouse for the region with a \$27 billion economic impact for the Greater Houston economy. A study performed shows the Houston Airport System was directly responsible for more than 230,000 jobs that generated \$8.7 billion in employment earnings.

Total Economic Impact of Output, by Airport

Intercontinental accounted for more than 80 percent of the Houston Airport System total economic impact, or \$22 billion. The result is more than 170,000 jobs and total earnings impact exceeding \$6.8 billion.

Hobby was responsible for more than 52,000 jobs, with total earnings impact of \$1.7 billion. The total economic impact of Hobby was more than \$4.4 billion in economic output.

Ellington supported more than 10,000 jobs in the regional economy with total earnings impact of more than \$300 million. The total economic impact of Ellington was more than \$640 million.



Direct, Indirect and Induced Impacts of Houston Airport System

The methodology used to measure the economic impact of Houston's airports follows guidelines set forth by the Federal Aviation Administration. Economic impacts for all airports were classified into four categories: direct, indirect, induced and total.

- Direct Impacts (\$8.6 billion): Airline operations, airport tenants, air traffic control, airport operations, general aviation operations and concessions.
- Direct employment impact exceeds 47,000 jobs and direct earnings from these jobs exceed \$3 billion.
- An overwhelming majority of the output, earnings and employment can be attributed to airlines, which generate more than \$5.6 billion and \$2.1 billion in output and earnings, respectively, and employ more than 24,000 people.
- Cargo service providers provided the next highest output level, followed by government airport-related activities, which produce \$984 million and \$662 million in output, respectively.



Indirect Impacts (\$3.6 billion): Passenger spending in region, such as lodging, meals, recreation, car rentals.

- Indirect employment impact exceeds 47,000 jobs and earning from these jobs is more than \$1 billion.

Induced Impacts (\$15 billion): Includes re-spending of earnings by employees and businesses as well as direct impacts from capital programs and international trade.

- Induced employment impact exceeds 139,000 jobs and earnings from these jobs is more than \$4.5 billion.

The study was prepared by GRA, Incorporated. To view the full report, visit fly2houston.com/EconomicImpact



Houston Airport System Leadership

HOUSTON AIRPORT SYSTEM AS OF JUNE 30, 2012:

Aviation Director, Executive Officer
Deputy Director, Chief Operating Officer
Deputy Director, Chief Commercial Officer
Deputy Director, Chief Financial Officer
Deputy Director, Chief Development Officer
Deputy Director, Chief External Affairs Officer
Deputy Director, Chief Technology Officer
Deputy Director, Chief Strategy & Performance Officer
Interim General Manager, Intercontinental Airport
Interim General Manager, Hobby Airport
General Manager, Ellington Airport

Mario C. Diaz
Lance Lyttle
Ian Wadsworth
Kirk Rummel
Samar Mukhopadhyay
Saba Abashawl
Lisa Kent
Vacant
Perry Miller
Ross Underhill
Brian Rinehart

AS OF JULY 31, 2012:

General Manager, Intercontinental Airport
General Manager, Hobby Airport

Carl Newman
Perry Miller

2012 Annual Report is produced by Houston Airport System External Affairs team

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Writers

Roxanne D. Butler, David Hebert and Melissa Sustaita

City of Houston Elected Officials

Mayor Annise D. Parker

Controller Ronald C. Green

Council Member, At-Large Position 1 Stephen C. Costello

Council Member, At-Large Position 2 Andrew C. Burks, Jr.

Council Member, At-Large Position 3 Melissa Noriega

Council Member, At-Large Position 4 C.O. "Brad" Bradford

Council Member, At-Large Position 5 Jack Christie

Council Member, District A Helena Brown

Council Member, District B Jerry Davis

Council Member, District C Ellen Cohen

Council Member, District D Wanda Adams

Council Member, District E Dave Martin

Council Member, District F Al Hoang

Council Member, District G Oliver Pennington

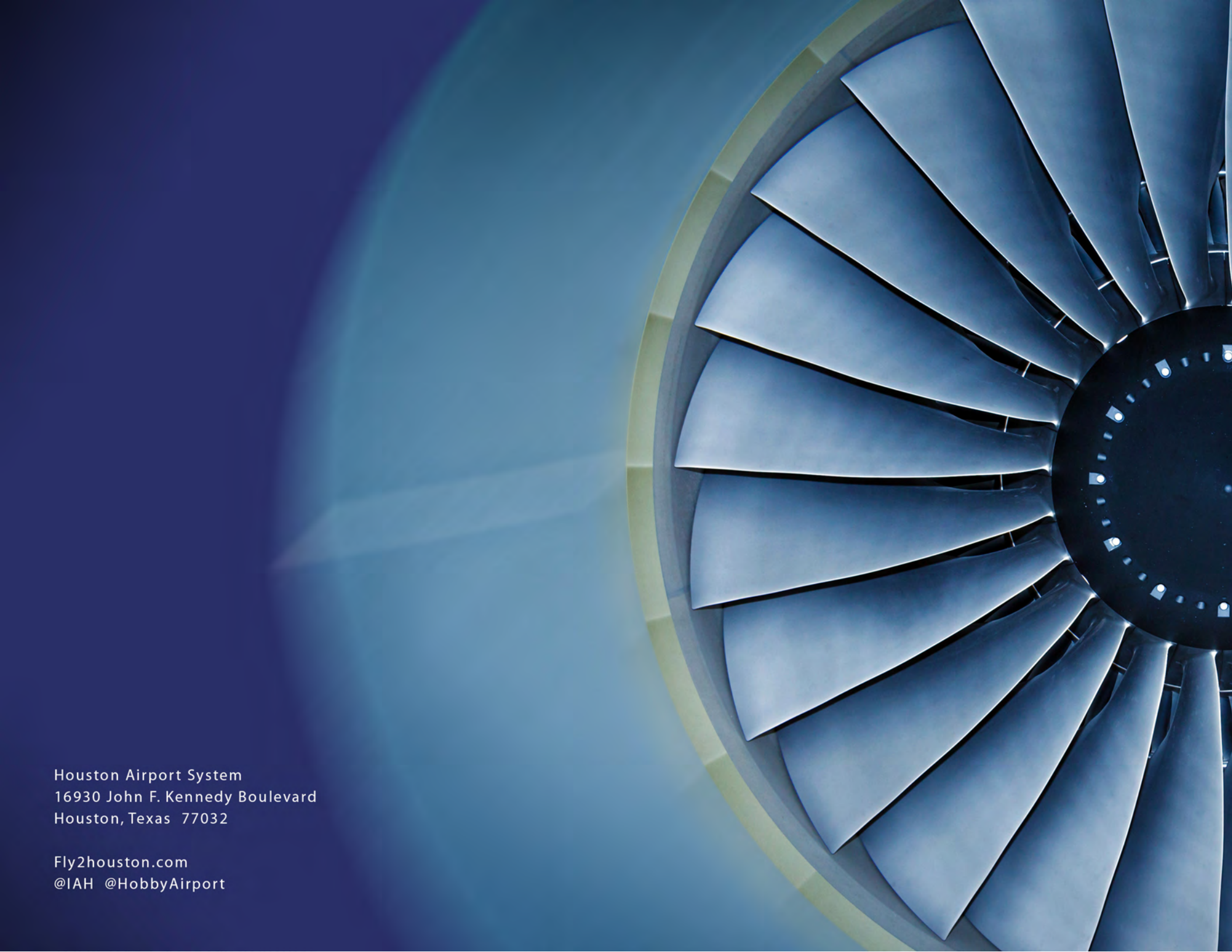
Council Member, District H Ed Gonzalez

Council Member, District I James G. Rodriguez

Council Member, District J Mike Laster

Council Member, District K Larry Green



A close-up, low-angle shot of a jet engine fan. The fan blades are arranged in a circular pattern, radiating from a central hub. The blades are a light blue-grey color and have a curved, aerodynamic shape. The central hub is dark and features a ring of small, glowing blue lights. The background is a deep blue gradient, with a bright, circular light source visible on the left side, creating a lens flare effect.

Houston Airport System
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