

State of the Airport Address

March 13, 2013

WELCOME

Thank you Andy for that kind introduction. Council-members, distinguished guests, our airline and service partners, and everyone here today who understands the importance of the Houston Airport System, and its direct relationship to the growth and sustainability of the greater Houston area economy, thank you for joining us.

INTRODUCTION

In preparing for this event, I was reflecting back on all of the highlights that unfolded in 2013, and I quickly realized that it was going to be extremely difficult for me to address all of the major events that unfolded within the Houston Airport System last year. But hopefully this statement offers a little bit of a perspective. I have been fortunate enough to have enjoyed a career in transportation management that has spanned three decades. I've overseen maritime and airport operations in the New York/New Jersey metropolitan region; for eleven years while in Atlanta, I was the Chief Operating Officer at the busiest airport in the world. And now I manage the three airport system here in the City of Houston. But in all that time, I have never been associated with a single year that was more eventful than the year just passed. As you can see from the 2013 Annual Report, last year's theme was "Shaping the Journey"—a nod to the fact that even though we are impacted by external events, each and every one of us remains the primary determiner of our own individual path, and collectively we help shape the direction of this city that we all call home.

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STRATEGY

Over the past three years we have been pursuing a strategy of growth that supports the economy of Houston, while at the same time addressing the needs of the citizens of the Greater Houston region for more air transportation options, at affordable prices with great customer service. It begins with our stated mission to "Connect the people, the businesses, the cultures and the economies of the world to Houston".

It establishes four key areas of focus:

1. Build a High Performance Organization
2. Go Global
3. Opening Day Fresh
4. Fund the Future

It recognizes that we cannot do anything with excellence if we try to do everything at once; it forces us to focus on those endeavors that will make a difference if done well, and it establishes the culture to get us there, focusing on Relationships, Innovation, Service and Excellence as the pillars of our core values that help shape the behavior of our employees and guide us in determining the entities with which we partner to help us reach our stated goals.

HIGH PERFORMANCE ORGANIZATION

Of course for us it all starts with building a high performance organization. As leaders we recognize that alone we can get nothing done. It is only through the creative spirit and energy that our employees bring to work each and every day that we

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can make forward progress. The flawed and outdated command and control management philosophy of the 19th and 20th centuries must give way to the recognition that in this the 21st century success is measured not so much by human physical output as by the volume and quality of ideas that flow from human minds. It has not been easy to turn the Houston Airport System culture around to this new way of thinking, and there is still work to do, but I am most optimistic and see positive signs that our employees are beginning to actually enjoy their work, their jobs and relationships within the Airport System, and this is what is leading us to success.

I have been fortunate to have attracted what I believe is some of the finest management talent to be found in the airport industry. If you will permit me I would like to recognize just a few of my direct reports: Lance Lyttle, Chief Operations Officer, for his excellent skills in managing execution on all of our strategic initiatives. Lance is an exceptional executive with whom I have had the pleasure to work for the past 14 years; Lance gets things done; Ian Wadsworth, Chief Commercial Officer, for the impressive growth of non-airline revenues year over year for the past three years; Lisa Kent for her outstanding skills in leading us in finding and implementing technology solutions to difficult business problems; Saba Abashawl for engaging the leadership of our nation's capital to address the need for the resources we desperately need to drive growth in international service while maintaining a secure environment; Carl Newman, our General Manager, Bush Intercontinental, for his energetic yet engaging style of management that has made a difference to the over 800 employees at Intercontinental; Marie Andersen, Chief Strategy and Performance Management Officer, for her talent at helping

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us sharply define and focus our energies to make a difference and know we are making progress; and finally, Harleen Smith, our Chief Human Resource Officer, for the fresh and new approach to helping shape the culture of our organization.

Please join me in applauding the management team and the over 1300 employees of the Houston Airport System.

GO GLOBAL

As I have said, our mission is to connect the people, the businesses, the cultures and the economies of the world to Houston. The best way we can reach this goal is to maximize the level of connectivity available to the Houston region—to put as many non-stop routes on the board as possible and to make sure that the route map is viewed through a global lens. This is one area where we have focused our efforts and where we have truly excelled in 2013.

Over the course of a 10-month period, beginning in April 2013, we either welcomed or announced the arrival of three new international air carriers to the City of Houston. Now, if you're not familiar with the aviation industry, landing three new international air carriers would represent an impressive accomplishment over a five-year period. The H-A-S team brought it to life in less than a single year.

We kicked the year off in April with Turkish Airlines' nonstop service to Istanbul. Three months later Air China began nonstop service to Beijing, China... And by the end of the year

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we had received confirmation that Korean Air was coming to Houston with a nonstop flight to Seoul, South Korea.

And just as impressive as the new flights themselves was the response from the Houston market to the new service. Turkish Airlines launched Houston to Istanbul with four flights per week but quickly decided that the market could support daily service.

Air China came to Houston with four flights per week and if you studied their history, you would expect them to remain with that schedule for at least a couple of years—but within a matter of months, the demand was so strong, they were going to daily service as well. Air China's flight was profitable the first day, the first week, the first month and every month since.

And as for Korean Air—well, they didn't even make it to their first flight before going daily. The early bookings were so strong that they moved from four flights per week to daily service a full three months before their inaugural flight.

And all of these arrivals and expansions are in addition to the new service that we saw coming from our existing airline partners. United Airlines announced a new nonstop to Munich, Germany and a second daily flight to Tokyo....and then added a third daily frequency to London and upgraded their Lagos service to include the 787 Dreamliner.

Singapore Airlines, Aeromexico and Spirit Airlines all made significant investments in 2013, and there is still more to come. We already have some new routes and expansions slated to take place later this year.

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Collectively, these flights—and the ones connecting Houston to another 160 airports located around the globe—represent more than 27- billion dollars annually in economic activity for the region, but just as important, they enhance the quality of life for its residents by making it easier to make vital connections on a global scale. Houston is the most diverse major metropolitan area in the country and that fact brings with it a major responsibility for the Houston Airport System team. It means that we have to view our air service goals with a global perspective in mind and it means that we have to continue to enhance Houston’s status as an international gateway city.

At William P. Hobby Airport, that means bringing back international air service after an absence of almost forty-five years. Thanks to an agreement with Southwest Airlines, construction is already underway on a new 5-gate international terminal that will eventually accommodate regional international service. The long-haul international flights will remain at Bush Intercontinental, but this new service will bring passengers added options and service when booking flights to Mexico, Central America, the Caribbean and the northern rim of South America.

In support of this project, the Houston Airport System will be constructing a new multi-level parking garage, and making significant improvements to the roadway system at Hobby. The project is on schedule to open in the fourth quarter of 2015.

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When the arrival of international air service at Hobby Airport is viewed on a macro-scale, it translates into an incremental \$1.6 Billion annual economic impact for the Houston region—an additional 10-thousand jobs created, and an extra one-million annual passengers flowing through Houston.

And Southwest Airlines is showing a commitment to the Houston market in ways well beyond the scheduled arrival of international air service in 2015. The carrier spent much of last year enhancing its Houston route map, adding 8 new destinations in 2013 alone. As a result, Hobby passengers now have even more options available to them, whether they're flying to Reagan National in Washington, D.C. ...to San Diego, California... or anywhere in between.

At Bush Intercontinental Airport, domestic traffic has remained steady at a level of about 31-million passengers per year, but we're seeing remarkable growth in the number of international passengers. In the year 2000, Houston was handling about 5-and-a-half-million international passengers. Last year, that number was just under the 9 million mark, representing a jump of an amazing 60 percent.

Passenger totals at Hobby Airport topped the 11-million mark for the first time in its 85-year history, setting yet another all-time record for the fourth consecutive year. Over the past decade, the growth in traffic has been absolutely staggering. We have seen a 42 percent increase in the number of people flying in and out of Hobby Airport during that time, and we have seen a 56 percent increase in the number of nonstop destinations available to those passengers.

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We have strengthened the foundation of our international service with new flights to Latin America, but as I mentioned earlier, we have also made significant progress in bringing Houston closer to destinations well beyond the Gulf of Mexico—in Asia, the Middle East and Africa. Houston is connected on a level that we have never experienced before and the Houston Airport System is going to do everything possible to keep that positive momentum moving forward.

OPENING DAY FRESH

We're also doing the heavy-lifting that's necessary to bring our facilities back to an overall condition of Opening Day Fresh. At last year's gathering, we told you how we had just wrapped up work on a \$350 million renovation program that improved virtually every aspect of the operation at Hobby Airport, and hopefully all of you have had the chance to personally view the amazing transformation that's occurred there. Well now it's time to bring that same level of fundamental change to Bush Intercontinental Airport. Thanks to our partners at United Airlines, we're off to a great start. On April 15th of last year, many of us here in this room gathered together in the new Terminal B South concourse at Intercontinental to cut the ribbon on a new 30 Gate Regional Jet facility.

The 97-million-dollar terminal is almost four-times larger than the terminal it replaced. Together with the \$55-million new ramp and infrastructure project managed by the Houston Airport System, it brings to Houston the type of look and design that we're trying to establish across the entire airport campus—utilizing natural light, maximizing electronic

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connectivity and bringing the concession/retail experience right to the passenger's gate.

In terminal A we have begun the complete renovation of all bathrooms. We completed the bathrooms on the ticketing level, and soon will start reconstruction of bathrooms in the baggage claim area and then on to those past security screening.

In terminal D we completed the renovation of the hold-rooms, with new paint, carpeting, a refurbished common-use VIP lounge and art: more than 100 new works—sculptures and paintings located throughout the seating area. We have refocused our efforts on making sure the hold-room areas and bathrooms are absolutely clean, and maintained that way throughout the day.

We moved forward with a plan that calls for forty-million dollars in improvements to the Airport Marriott Hotel. Host Hotels and Resorts, the hotel lessee, will completely renovate the 565 rooms, as well as the lobby and the inter-terminal train entrance on the lower level.

At Hobby Airport we opened up almost 700 new parking spaces to customers in the Ecopark 2 parking lot and we wrapped up the design work for a similar project at Intercontinental. As a result, later this year drivers will find an additional 2,000 parking spaces waiting for them as they approach the airport along Will Clayton Parkway.

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We have finished design for resurfacing of all roadways at Bush Intercontinental, as well as the complete redesign and construction of entrance roadways at Hobby.

Most importantly, we achieved a major milestone on the path to completely replace the aging roadway signs at Intercontinental with new, modern, colorful and easy to read traffic signs. I hope you have all noticed them. This project will be capped later this month with monument signs at the entrance to Intercontinental at both JFK Blvd and Will Clayton Pkwy, announcing you have arrived at the flagship airport of the Houston Airport System.

And while the details will be left to next year's speech, I do want to ensure each and every one of you that dramatic improvements are on the way at the Terminal D facility at Intercontinental. We recognize the importance of this international terminal and we recognize the fact that the current building does not adequately reflect Houston's standing as a premiere international gateway city. We have engaged in productive dialogue with United Airlines and the foreign flag carriers to begin the design and construction of a completely new terminal, replacing the existing terminal D. Some of you may have received the notice announcing the industry day event the Houston Airport System will be hosting this evening to communicate the vision we have planned for the new terminal and to provide guidance to the design teams assembling as we speak on the quality of design, the features we would like to see and the wish for creativity that will address the desire to make not so much an architectural statement, but a statement about a sense of place, the instant

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recognition upon arrival by a passenger that they have arrived in Houston.

FUND THE FUTURE

And let's not forget Ellington Airport. I want to give you a quick update on a major project that continues to unfold at Ellington. But as they say, a picture is worth a thousand words.

[ROLL VIDEO]

So hopefully that gives you a sense of what we're trying to accomplish with the Commercial Spaceport initiative. We are certainly not trying to create an industry from the ground up. We are trying to position Houston within a multi-billion dollar industry that is already up and running with eight licensed commercial spaceports already operating inside the United States.

We have completed the feasibility study and we're about halfway through the process of putting together the formal application required by the F-A-A. We expect to file that application by the end of this year, and if everything goes forward according to plan, Houston will establish itself as the nation's ninth licensed commercial spaceport.

Should that happen, Ellington Airport would be able to accommodate operations of Reusable Launch Vehicles, each of them taking off in a horizontal fashion similar to commercial aircraft. Once over the Gulf of Mexico, they would start a path

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towards the near reaches of space. That means Houston could be home to the assembly of aircraft/spacecraft, launching of micro satellites, zero-gravity experimentation, astronaut training and even space tourism. And again, if all of this sounds like science fiction, I assure you it's not. The International Space Station is already being re-supplied with vehicles from the private sector, not a government agency. Numerous companies are deep into the testing phase on space tourism vehicles and the customers are already lining up to pay the ticket price required to be one of the first civilian passengers to be launched into space.

Now the fare on one of those flights is going to run you about \$200,000, but like every new service, the costs eventually come down to a point where a broader customer base is able to afford it. So, what this means for those of us who are not multi-millionaires is a much more efficient way to travel in the future, especially on trans-oceanic flights. Because if we can get a commercial spacecraft to travel comfortably at Mach 3 to 4, or three to four times the speed of sound, then you're talking about a flight between Houston and Singapore that lasts about 4 hours as opposed to 16.

It's simply the next logical step in the evolution of commercial travel and I believe Houston needs to be leading the charge, especially given the fact that we enjoy such a well-deserved reputation as a leader in the aerospace industry.

But of course, none of this happens by accident. It takes planning, coordination and resources. You may have heard the famous quote "A goal without a plan is just a wish"well, I can assure you that the Houston Airport System will not be guided

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by a wish as we collectively move forward. At Intercontinental, Hobby and Ellington Airports, we're taking the necessary steps to determine the best course of action and then we're implementing the structure needed to ensure that progress is made in following that path.

CUSTOMER SERVICE

We've developed a more elaborate customer response system, so that we have a better understanding of where we may be falling short and where improvement is needed. We've completely overhauled the "Houston Friendly" customer service program and we're going to be requiring uniformed training for all badged employees, whether they work for the Houston Airport System or a private-sector company doing business at one of the airports....And in 2013 we created a new division called Corporate Strategy & Performance, whose sole purpose is to effectively translate goals into action, streamline processes and drive efficiency within the Airport System.

We're going to continue utilizing the latest programs and the latest technologies in getting passengers through the arrival process in a more efficient manner. On international flights, that means passengers now have access to 20 automated processing kiosks in the immigration hall. The Automated Passport Control Program (as it is called) can cut down processing time as much as forty-percent and Bush Intercontinental is one of only ten airports in the nation to have it in place.

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For international passengers wanting even faster processing, there is the Global Entry program and in this area....once again, Houston is setting the industry standard. Last year we set up a downtown enrollment center at City Hall to make it easier for passengers wanting to enroll in the Global Entry program. Within a matter of months, the hours at the enrollment center had to be expanded because of overwhelming demand.

On the domestic front, we worked with leaders from the Transportation Security Administration to extend the reach of the popular expedited travel program known as PreCheck, taking it from one terminal to four at Intercontinental and introducing it to Hobby passengers for the first time in September 2013. PreCheck allows passengers to breeze through the security checkpoint, removing only metallic objects from their person, while leaving on their shoes and even suit jackets and light coats. And passengers at both airport facilities were also introduced to the new CLEAR kiosks at the T-S-A security checkpoint area, offering passengers yet another choice when it comes to how they approach the airport security process.

GREEN

And we are approaching each of these projects with a keen awareness on their potential impact to the region's environment. For example, last year we completed work on a new Central Utility Plant that will handle the heating and cooling needs for the entire Intercontinental Airport campus. The work included the installation of chiller units, boilers and solar panels....and by the time it was done, Centerpoint Energy

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was not only recognizing us in their Score Lite Program but they were also giving us a check for Three-Hundred-Thousand-Dollars, because the program represented the type of work that they're pushing for in the area of energy conservation. We also used grant money from the U.S. Department of Energy to install 24 individual charging stations for electric vehicles at Intercontinental and that's in addition to the numerous steps that we've taken in the past to maximize the use of energy efficient lighting and hybrid vehicles.

Throughout the year we combine this steady focus on performance with consistent reminders of the importance of community. When Wounded Warriors pass through the airport in Houston on their way to a weekend getaway, they're greeted by thunderous applause from more than a hundred H-A-S employees. Last February, when hundreds of people passed through Intercontinental after being stranded on a cruise ship with no power for five days, it was Intercontinental employees waiting for them with bottled water, snacks and an organized plan to get them back home. And in mid-December, more than 200 employees braved the freezing temperatures to participate in the National "Wreaths Across America" Day at Houston National Cemetery.

These are the actions that are consistent with our core values, that drive success in attaining our strategy, that creates the environment of positive energy that allows the free-flow of thought and creativity, and makes it possible for me to stand here before you today to share with you the success we can all embrace and be absolutely proud of.

Thank you, and have a great afternoon.