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1Q 2018 Review & Summer Air Travel Forecast

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Media Briefing
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1Q 2018 OPERATIONS AND FINANCIAL RESULTS

1Q 2018 Was a Very Challenging Operating Environment for U.S. Airlines

Major Weather
Jan 3-5 ("bomb cyclone")
Jan 7-8, 12, 16-18, 21-22
Feb 4-5, 7, 9, 11, 15, 20
Mar 2 (Winter Storm Riley northeaster)
Mar 7 (Winter Storm Quinn northeaster)
Mar 13 (Winter Storm Skylar northeaster)
Mar 20-22 (Winter Storm Toby northeaster)

Power Outages/Airport Equipment
Jan 1 (U.S. CBP) nationwide outage
Jan 7 (JFK T4 water main break / evacuation)

Air Traffic Control
Understaffing at many major facilities*
Critically low staffing at New York TRACON (N90)*

Airport Construction
Atlanta (ATL)
Chicago (MDW & ORD)
Dallas/Fort Worth (DFW)
Honolulu (HNL)
Houston (IAH)
Los Angeles (LAX)
Miami (MIA)
New York (EWR & LGA)
Orlando (MCO)
Philadelphia (PHL)
Phoenix (PHX)
San Diego (SAN)
Tampa (TPA)
Washington (DCA)

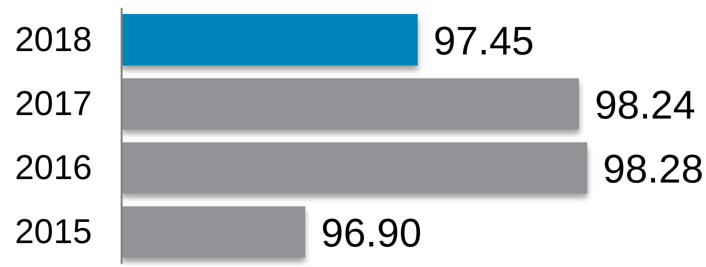
* Staffing is routinely cited as the basis for many traffic management initiatives (ground delay programs, ground stops, airspace flow programs, miles-in-trail) across the NAS
Source: A4A research, FAA Air Traffic Organization and masFlight (subsidiary of Global Eagle)

1Q 2018 Featured the Lowest-Ever Recorded Rate of Involuntary Denied Boardings

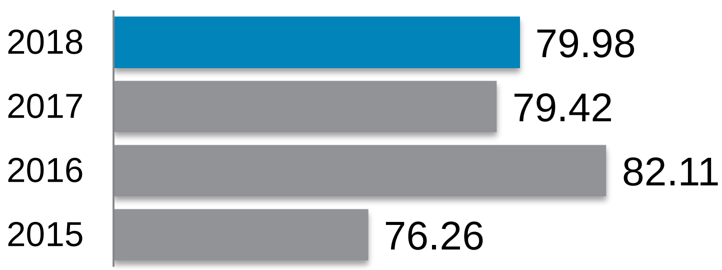
January-March Airline Flight Ops Impacted by Storms, Airport Construction, CBP Outage

1Q Involuntary Denied Boardings per 100K Psgrs.

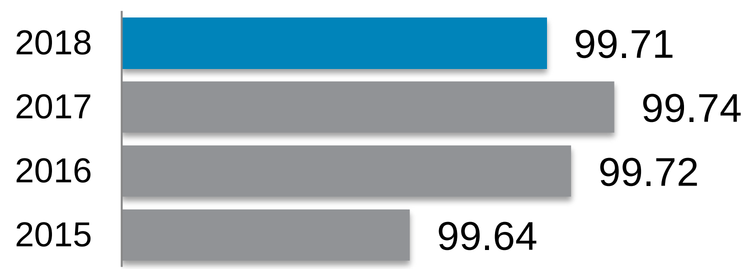
1Q Flight Completion Factor (%)



1Q On-Time Arrival Rate (%)



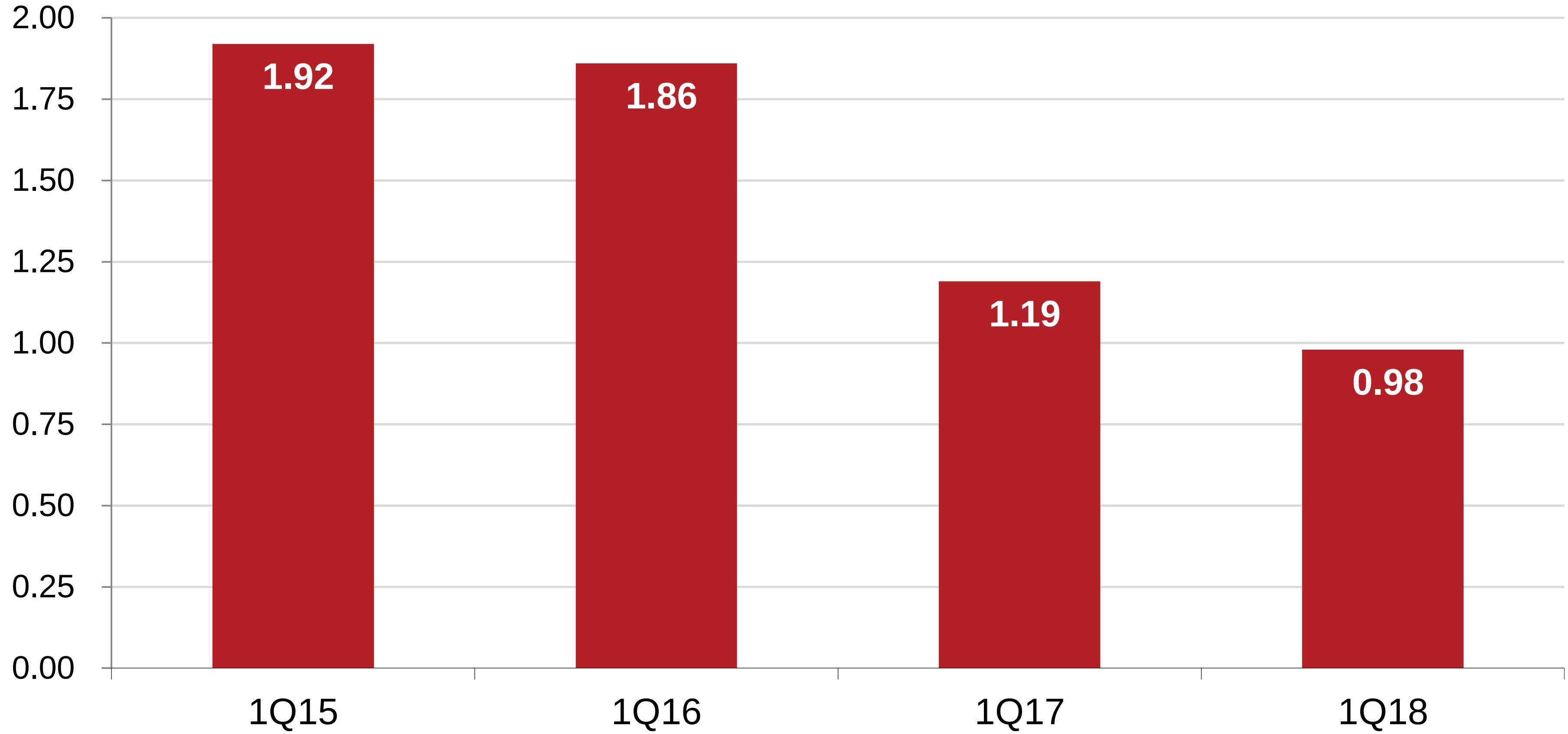
1Q Properly Handled Bag Rate (%)



Sources: BTS and DOT *Air Travel Consumer Report (*http://www.dot.gov/airconsumer/air-travel-consumer-reports)

The Rate of Customer Complaints Continued to Fall in 1Q 2018

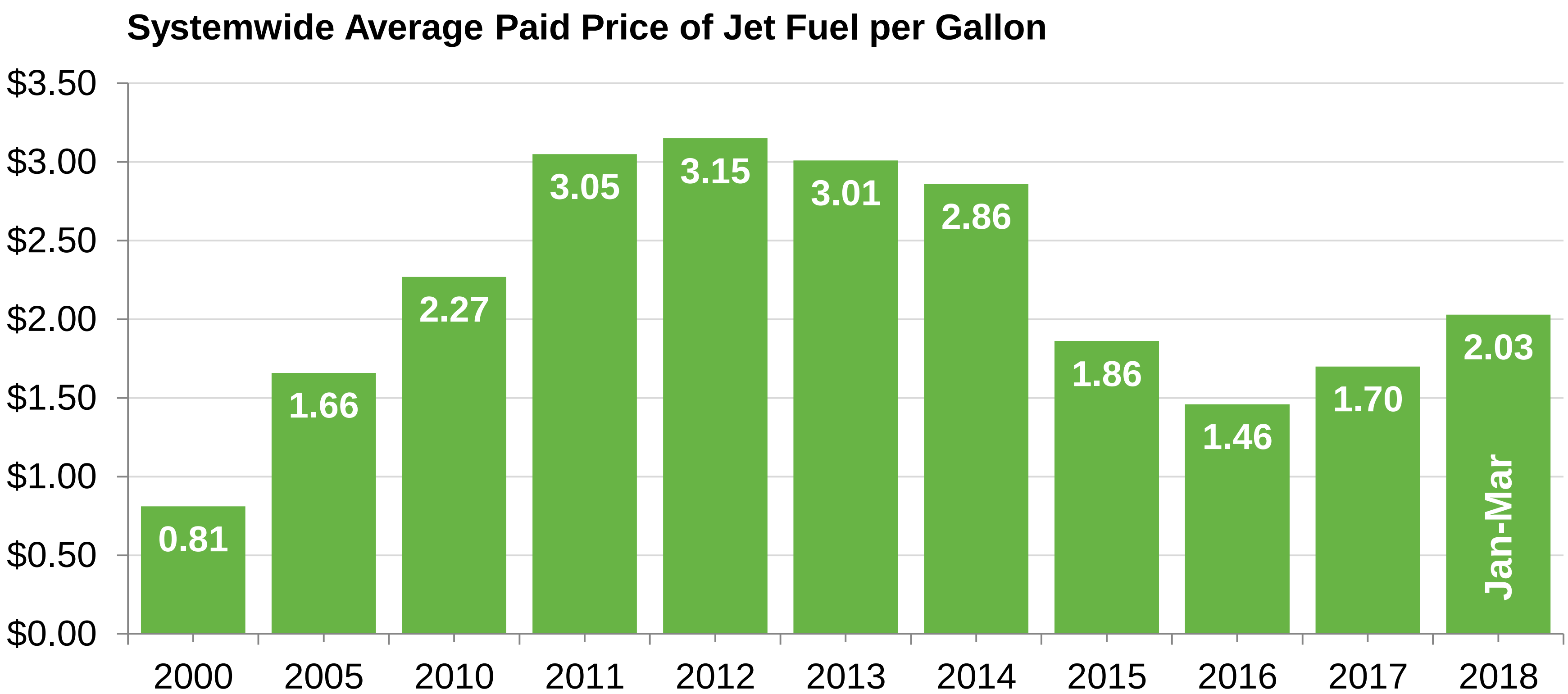
Customer Complaints to DOT per 100,000 Passengers



Sources: DOT *Air Travel Consumer Report (*http://www.dot.gov/airconsumer/air-travel-consumer-reports)

Jet-Fuel Prices Creeping Up Again

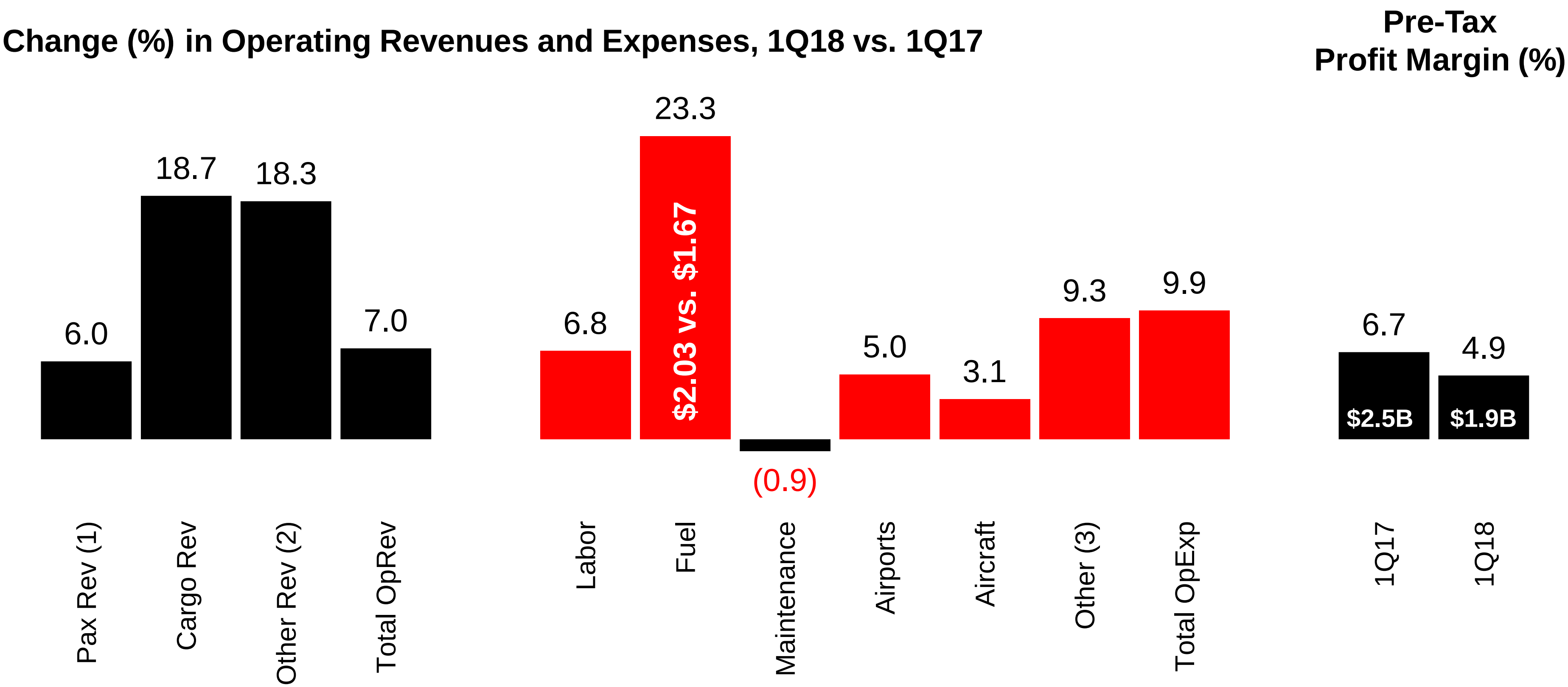
A Penny per Gallon per Year Equates to ~$200M in U.S. Airline Industry Fuel Expenses



Source: A4A and Bureau of Transportation Statistics (all U.S. carriers, scheduled an nonscheduled services)

1Q 2018 Revenues Rose 7% But Expenses Rose 10%, Reducing Profitability Again

Labor and Fuel Costs Continue to Surge, Pressuring Margins; Other Costs Rising, Too

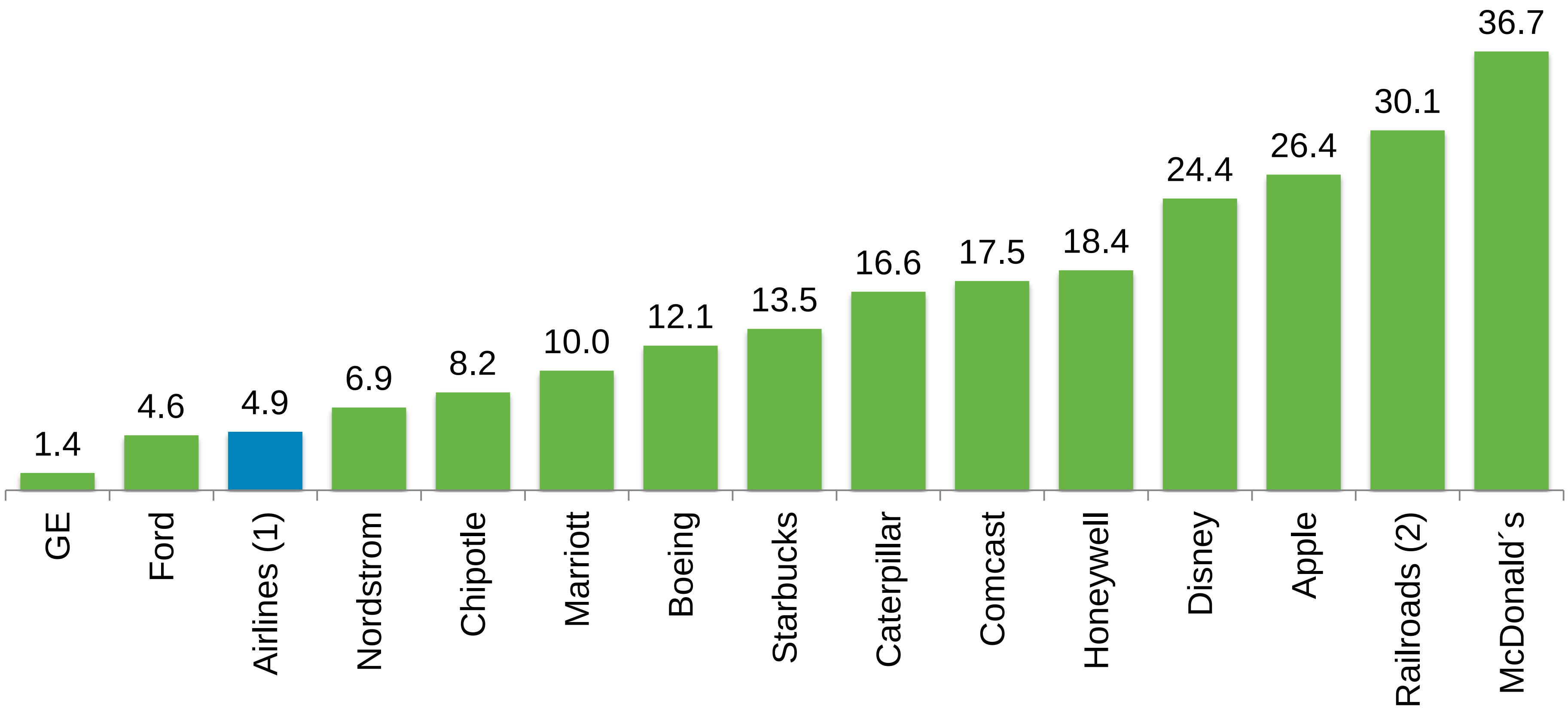


1. Traffic (revenue passenger miles) up 4.5 percent; yield (revenue per passenger-mile flown up 2.3 percent; U.S. CPI up 2.2 percent
2. Sale of frequent flyer award miles to airline business partners, transportation of pets, in-sourced aircraft and engine repair, flight simulator rentals, inflight sales, etc.
3. Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals

Source: A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United

In 1Q 2018, U.S. Passenger Airline* Profitability Well Below Average

Pre-Tax Profit Margin (% of Operating Revenues)

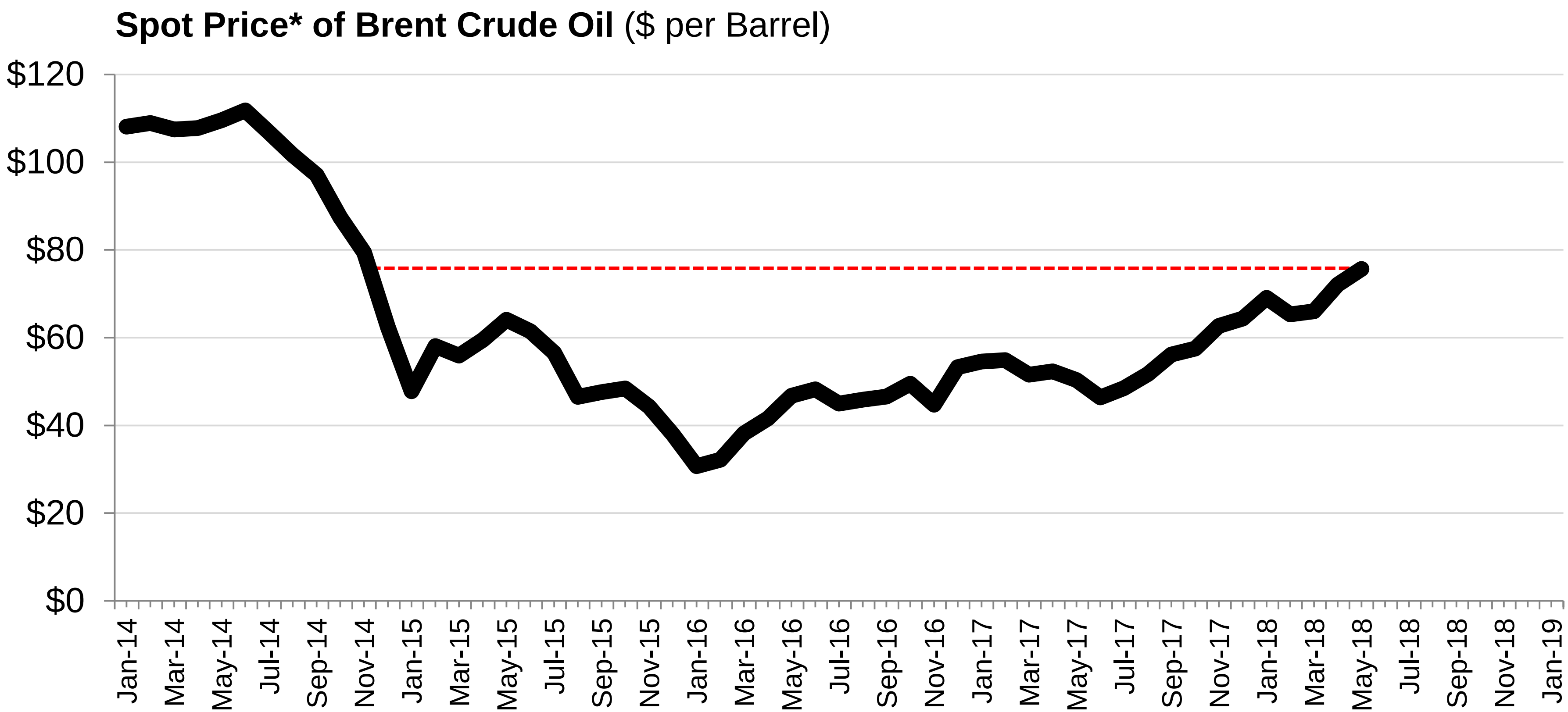


[1] Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
[2] CSX, Norfolk Southern and Union Pacific

Source: Company SEC filings

Crude-Oil Prices Rising Swiftly, to Highest Level Since Late 2014

May 2018 Averaging 50 Percent More Than May 2017



Source: A4A and Energy Information Administration (http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm)

AFFORDABILITY, COMPETITION AND ACCESS TO AIR TRAVEL

When Choosing an Airline, Leisure Travelers Value *Affordability* Above All Else

2017 Rankings Identical to 2016 (Schedule Solidly Second, Followed by Reliability)

*When traveling **for personal reasons**, how would you rank the following in terms of choosing **which airline to fly**, with 1 being your first priority and 8 being your last priority?*

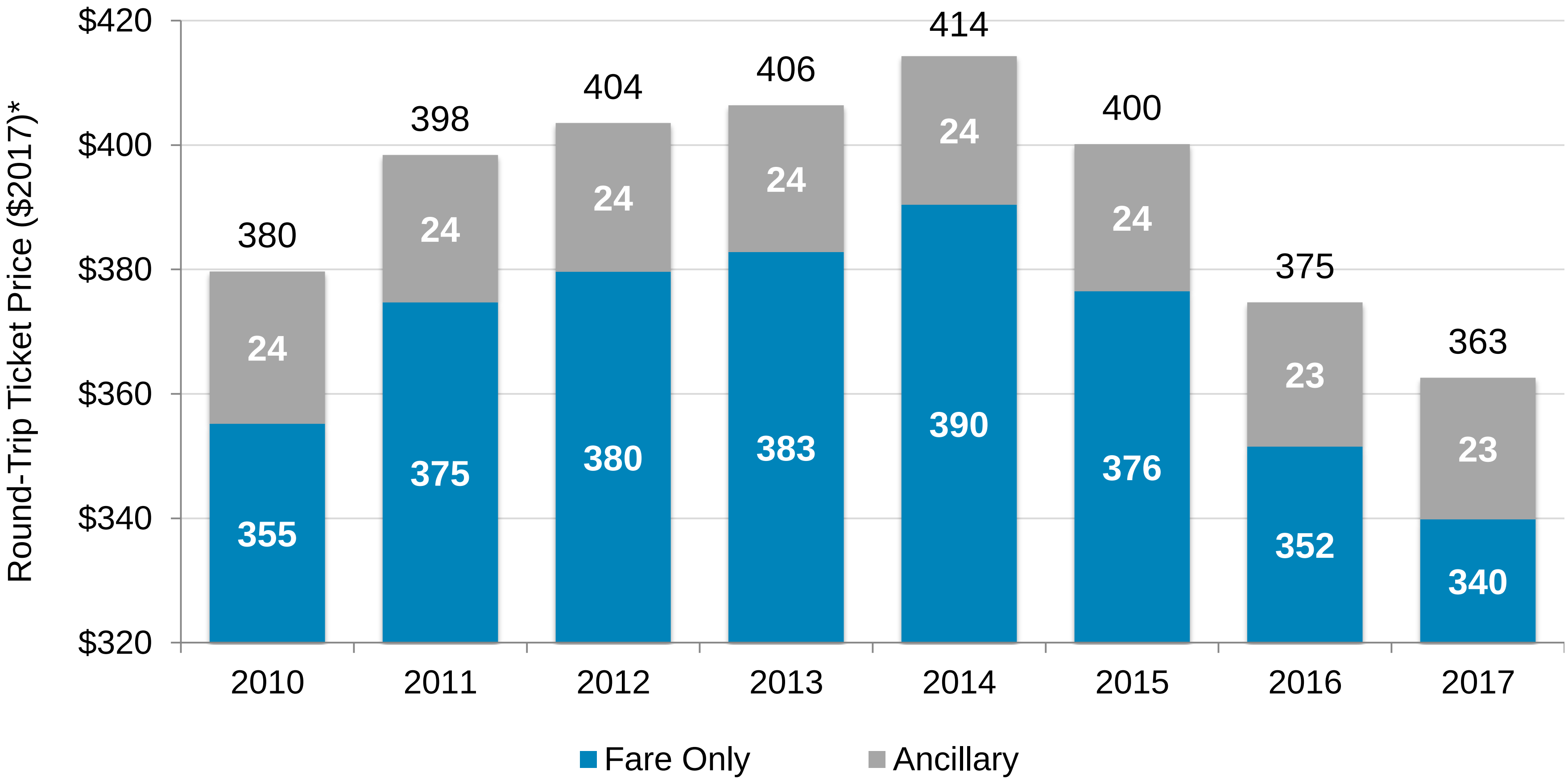
(Base = all 2017 flyers with **at least 1 personal leisure trip**)

Criteria	2017 (2016)	Score
Affordability (airfare / ancillaries / taxes)	1 (1)	2.50 (2.65)
Flight schedule (routes, timings)	2 (2)	3.12 (3.23)
Reliability of on-time departure and arrival	3 (3)	4.22 (4.28)
Airline seat comfort	4 (4)	4.54 (4.45)
Customer service (reservation/gate agents, flight attendants)	5 (5)	4.82 (4.95)
Airline frequent flyer program (earn / redeem / upgrade / status)	6 (6)	5.19 (5.00)
Quality of inflight amenities (food / entertainment / WiFi)	7 (7)	5.32 (5.17)
Environmental responsibility	8 (8)	6.28 (6.26)

Source: Ipsos survey of American adults (January 2018)

Inflation-Adjusted Fares Continued to Fall in 2017, Averaging *Less* Than in 2010

In Real Terms, Price of Domestic Air Travel Fell 12.5% in 2014-2017, 4.5% in 2010-2017

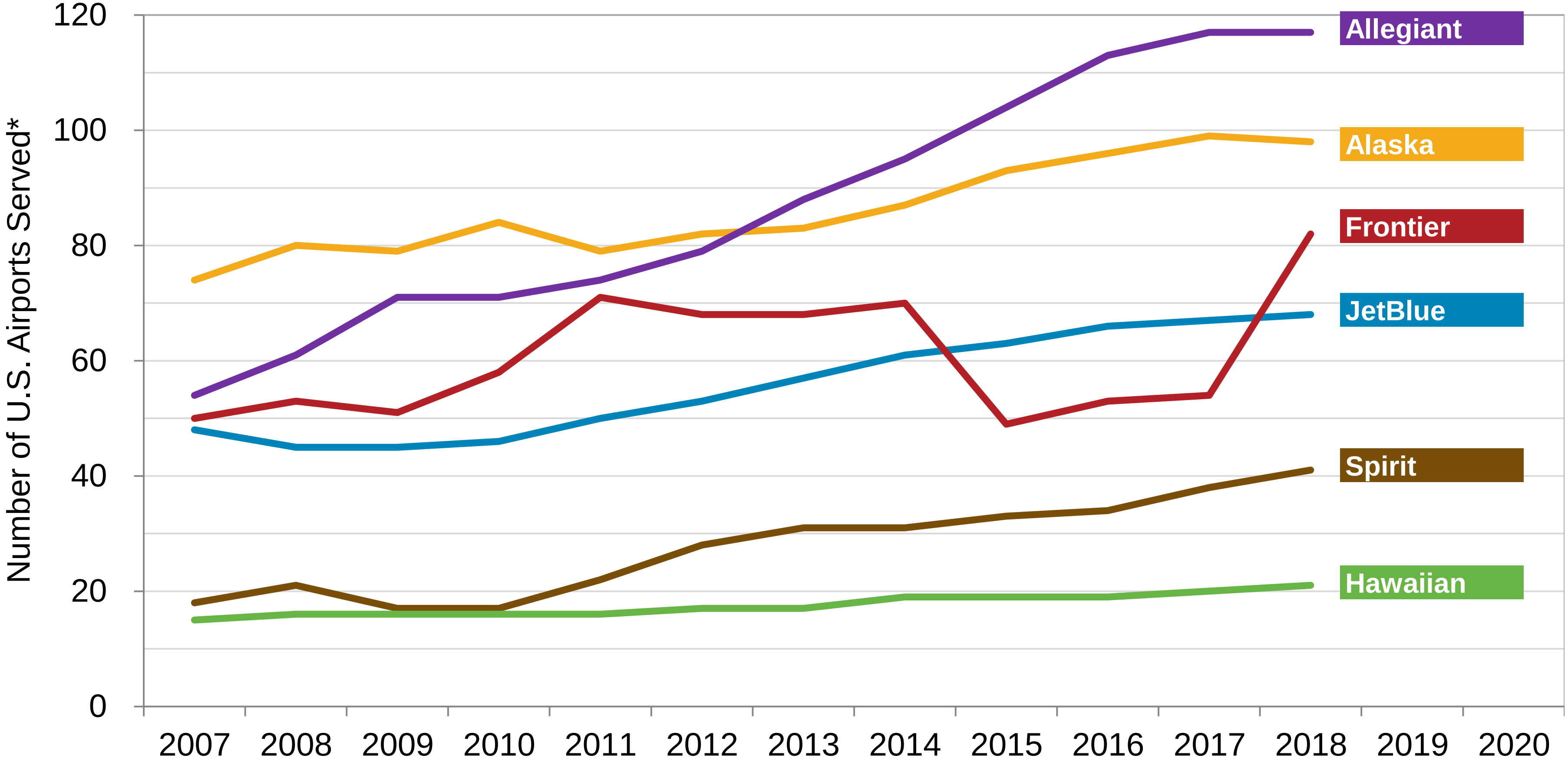


Source: A4A analysis of data from DOT Data Bank 1B (all cabins and fare basis codes) and DOT Form 41 via Airline Data Inc.

* Excluding taxes

Smaller U.S. Carriers Are Serving More and More Domestic Markets

Competitive Presence of Low-Cost and Ultra Low-Cost Carriers Continues to Expand



Source: Innovata (via Diio Mi) schedules as of April 20, 2018, for selected marketing airlines including predecessors

* July 15-21 of each year

Boston-Akron/Cleveland Is Among Countless Domestic City Pairs on Which Competition* Increased From 2007-2017 (Real Fares *Down* 20%, Passengers *Up* 23%)

Calendar Year 2007

Share of BOS-CAK/CLE Passengers

Continental Airlines	63%
AirTran	30%

Calendar Year 2017

Share of BOS-CAK/CLE Passengers

jetBlue	47%
UNITED	28%
spirit	12%
American Airlines	6%

Source: DOT Data Bank 1B and Innovata published schedules via Diio Mi

* Defined as carrying at least 5 percent of O&D passengers in the city pair

Los Angeles-Seattle Is Among Countless Domestic City Pairs on Which Competition* Increased From 2007-2017 (Real Fares *Down* 20%, Passengers *Up* 78%)

Calendar Year 2007

Share of BUR/LAX/LGB-SEA Passengers

Alaska	64%
United	17%
Southwest	8%
American Airlines	7%

Calendar Year 2017

Share of BUR/LAX/LGB-SEA Passengers

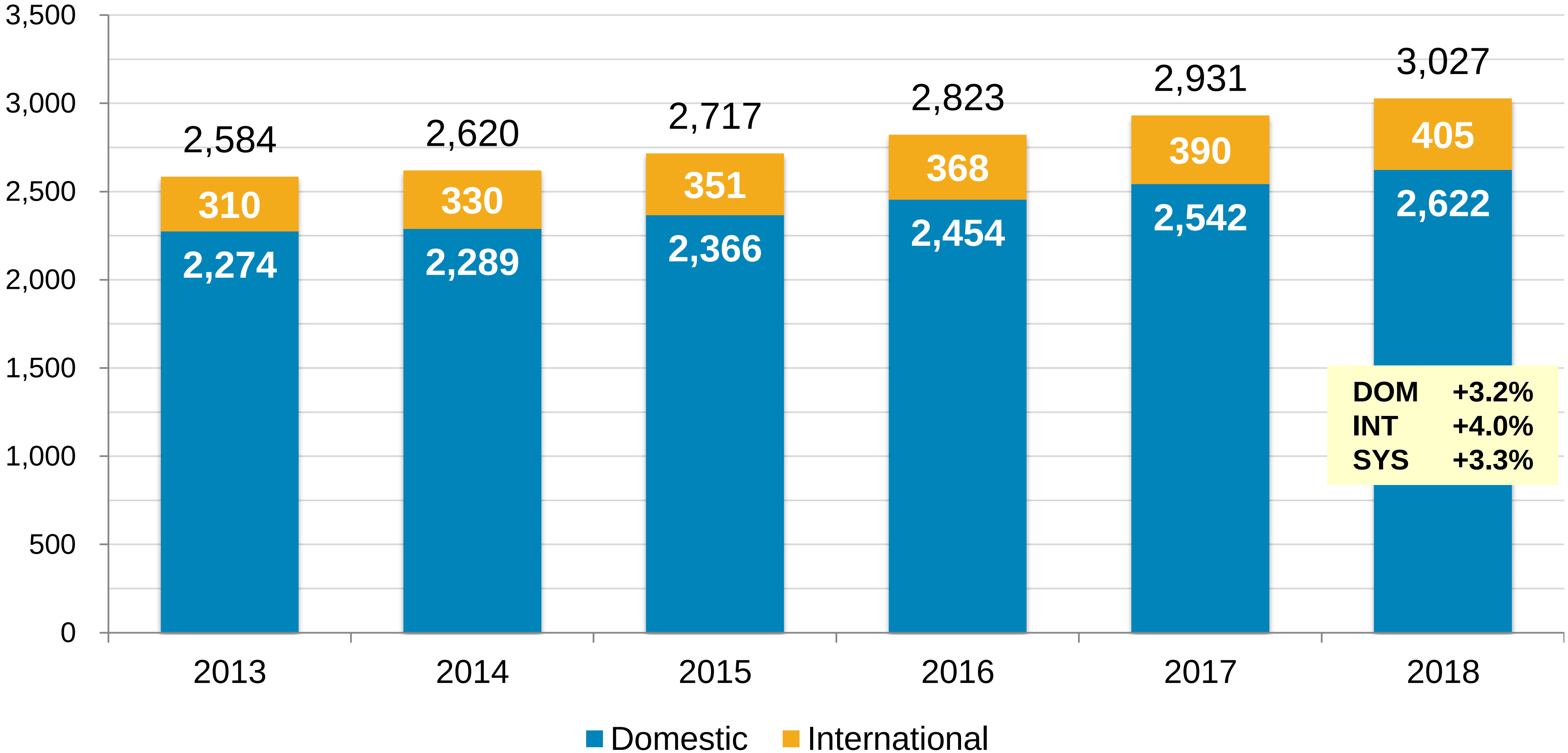
Alaska	52%
Delta	19%
jetBlue	8%
American Airlines	7%
Spirit	7%
Southwest	5%

Source: DOT Data Bank 1B and Innovata published schedules via Diio Mi

* Defined as carrying at least 5 percent of O&D passengers in the city pair

Customers Are Seeing All-Time High of 3M+ Daily Seats Departing U.S. Airports

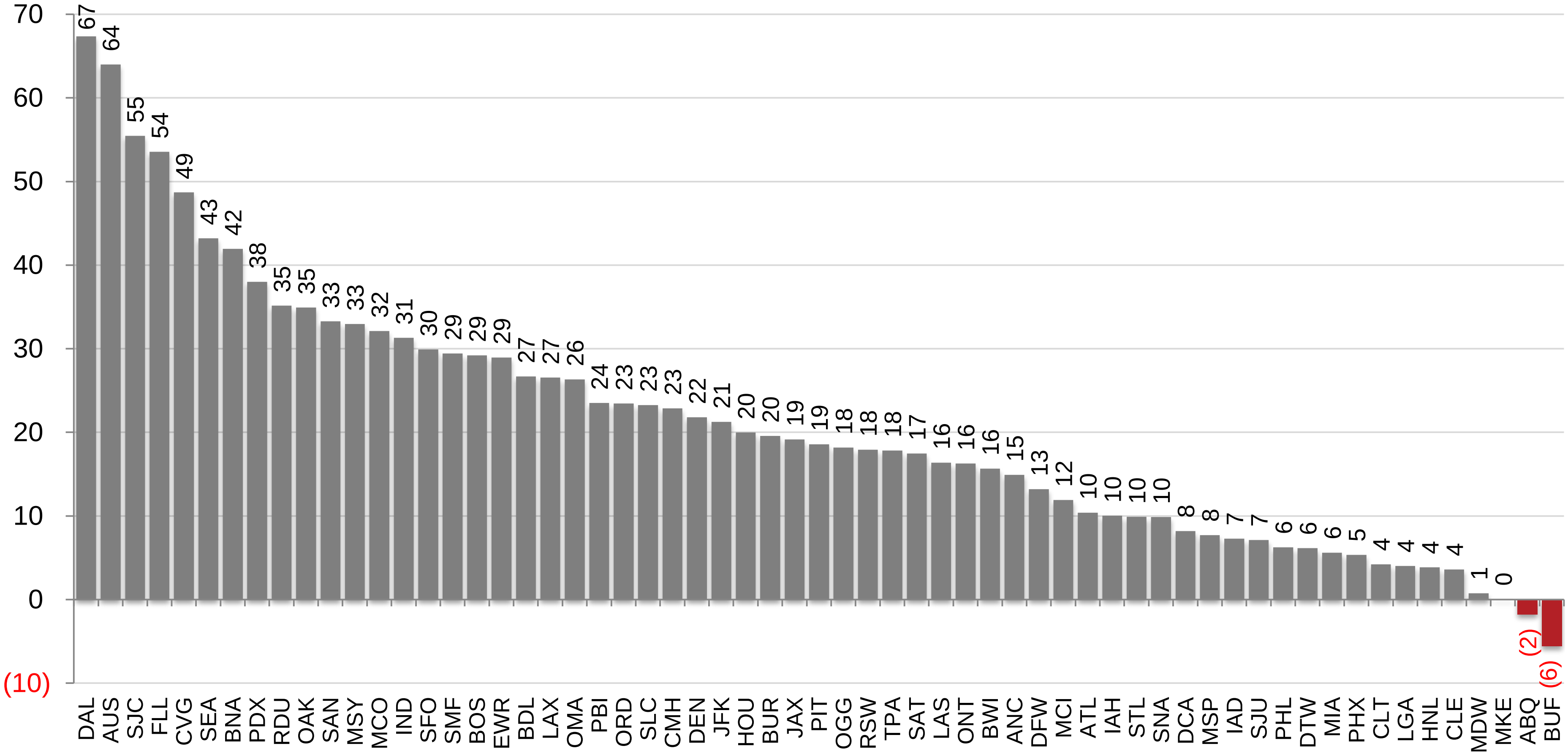
Daily Seats (000) Departing U.S. Airports in Scheduled Service: Up 3.3% YOY



Source: Innovata (via Diio Mi) published schedules as of May 18, 2018, for all airlines providing scheduled passenger service from U.S. airports to all destinations

Almost Every Major* U.S. Airport Has Seen Supply of Seats Rise Over Past 5 Years

% Change in Scheduled-Service Seats Available: July 2018 vs. July 2013



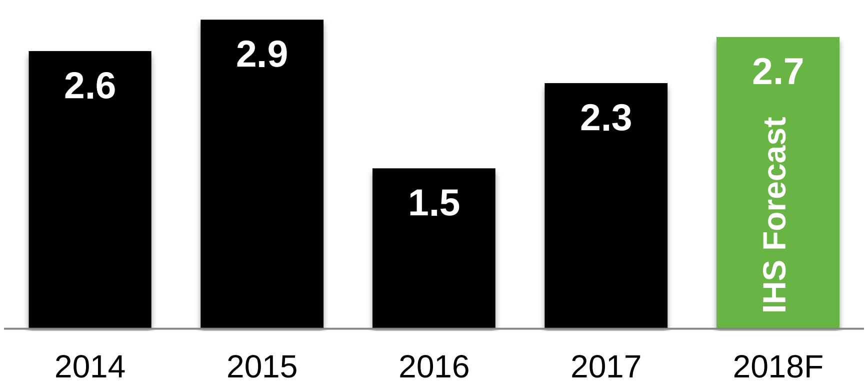
Source: Innovata (via Diio Mi) published schedules as of May 18, 2018, for all airlines providing scheduled service

* FAA large and medium hub airports

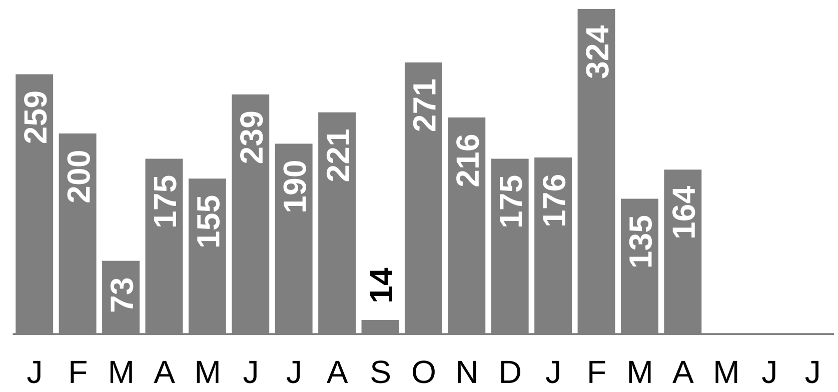
SUMMER 2018 AIR TRAVEL FORECAST

U.S. Economy and Employment Growing; Household Net Worth at All-Time High

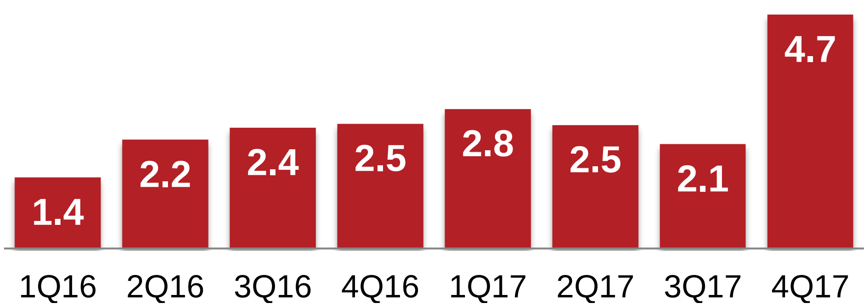
U.S. Real GDP Growth (% CAGR)



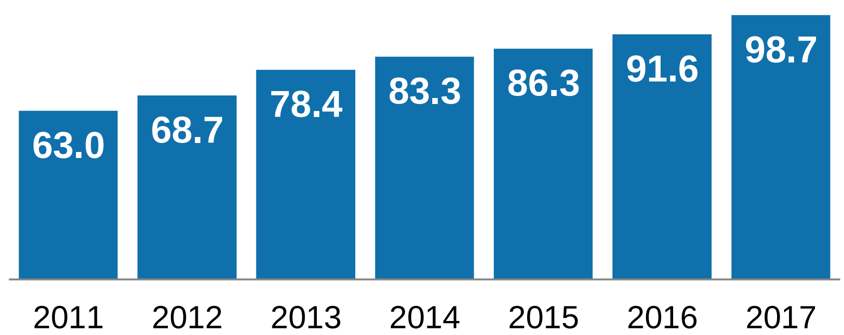
2017-2018 U.S. Employment Growth (000)



U.S. Real Gross Output Growth (% CAGR)



U.S. Household Net Worth ($ Trillion, NSA)

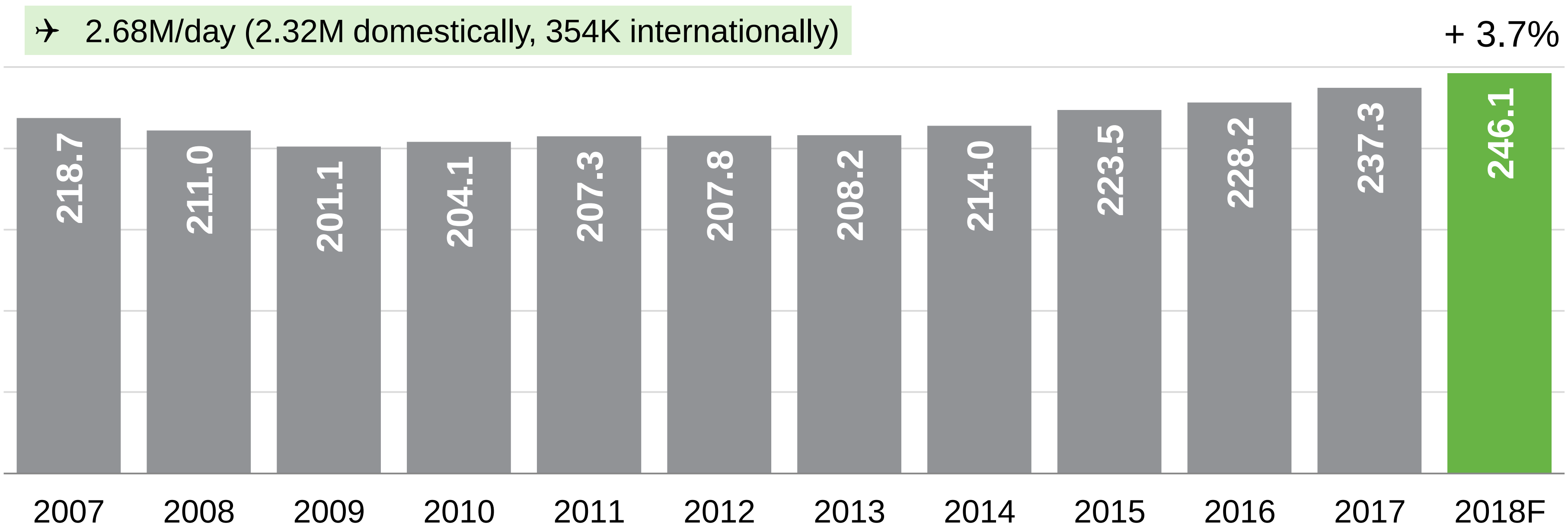


Sources: U.S. GDP and gross output (Bureau of Economic Analysis); U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted) from BLS; median personal and household pre-tax income (Census); U.S. household net worth in current dollars, not seasonally adjusted (Federal Reserve)

A4A Projects Summer* 2018 Air Travel to Rise 3.7 Percent to All-Time High

Airlines Adding 116,000 Seats/Day to Accommodate 96,000 More Passengers/Day

U.S. Airline Onboard Passengers (Millions) – Summer* 2007-17 and 2018 Forecast



✈ Drivers of growth

- Expanding presence of low-cost carriers, low-fare products and city-pair (O&D) competition
- Rising GDP, employment, disposable income and household net worth (savings, stocks, value of homes)

Source: A4A and BTS T100 segment data – U.S. carriers only; scheduled and nonscheduled services

* For this purpose, defined as June 1 through August 31

In 2017, 22 of the 25 Busiest Days at U.S. Airports Fell in the Summer Travel Season*

Thursdays and Fridays in Mid-June to Mid-August Are Especially Popular

Rank	DOW	2017
1	Fri	Jun 30
2	Sun	Nov 26
3	Thu	Jun 29
4	Fri	May 26
5	Fri	Jul 21
6	Fri	Dec 22
7	Thu	Jul 27
8	Fri	Aug 4
9	Fri	Jun 23
10	Fri	Jul 14
11	Fri	Jul 28
12	Thu	Aug 3
13	Fri	Jun 16

Rank	DOW	2017
14	Thu	Jul 20
15	Sun	Jun 25
16	Sun	Jul 16
17	Sun	Jul 23
18	Wed	Nov 22
19	Sun	Jul 30
20	Fri	Aug 11
21	Sun	Aug 6
22	Thu	Jun 15
23	Thu	Jun 22
24	Thu	Jul 13
25	Thu	Aug 10

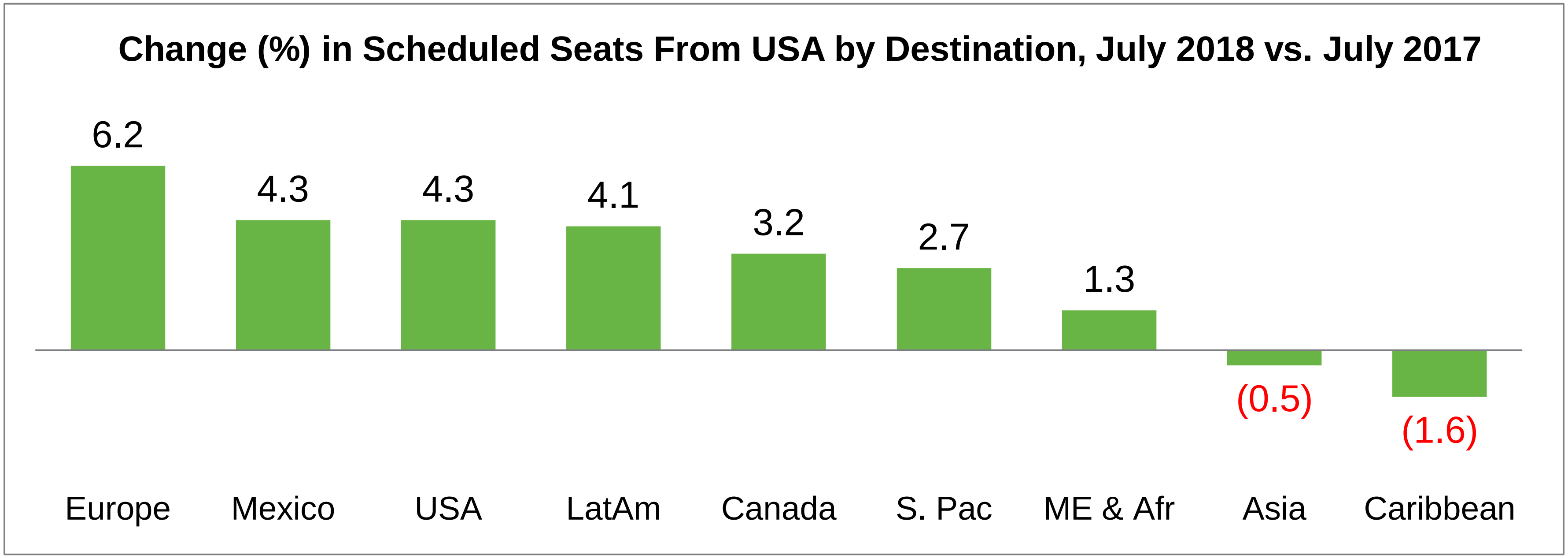
Source: A4A analysis of data from the Transportation Security Administration

* Memorial Day weekend through Labor Day weekend

Air Travelers Are Enjoying More Choices, More Available Seats Across the Atlantic

Airlines Offering More Seats From U.S. Airports to Regions Across the Globe

"Ticket prices are down, interest is up and Europe is hot." David Solomito, VP, NA Marketing, KAYAK



"It's crazy. There are some real deals to be had here." Mark Okerstrom, Chief Executive, Expedia Group

Sources: Innovata (via Diio Mi) published schedules (May 18, 2018) and Scott McCartney, "Where the Travel Deals Are This Summer," Wall Street Journal (May 9, 2018)

DEREGULATION OF U.S. AIR SERVICE:
40 YEARS OF PROGRESS

By Almost Every Measure, Air Travel Has Improved Dramatically Since Deregulation

	Pre-Deregulation	Today
Safety	Feared by many; fatality risk = 1 in 1M	Safest travel mode; fatality risk = 1 in 29M
Competition	CAB allowed just 1 or 2 airlines per route CAB set fares, disallowed price competition	No limit on number of carriers per route Vigorous price competition
Affordability	Average domestic R/T $600-700 incl. fees	Average domestic R/T ~ $363 incl. fees
Accessibility	Accessible to affluent – 63% had flown Luxury good; predominantly high-income	Accessible to all – 88% have flown Common form of intercity transportation
Small-market service	Often propeller aircraft, suboptimal times	Widespread jets, market-driven flight times
International service	Flights, carriers, cities, sales limited by law	Plentiful, cheaper due to "Open Skies"
Routings & frequency	Often multiple stops, few flights/day/week	Plentiful nonstop/1-stop, multiple flights/day
Shopping	Phone calls, ticket offices, travel agents	A few clicks online
Ticket delivery	By mail only	Universally electronic, retrievable
Checking in	Lined up at the ticket counter	Online, kiosk, mobile
Inflight entertainment	Occasional movie, far-away shared screen	Unlimited options, streaming to PED
Bag tracking	No tools at customers' disposal	Mobile tools becoming universal
Environmental impact	Not very fuel efficient; more CO_2 per flight	~120% more efficient; avoidance of CO_2

Source: A4A and Patrick Smith, "There Was No 'Golden Age' of Air Travel," *New York Times* (May 27, 2017)

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