



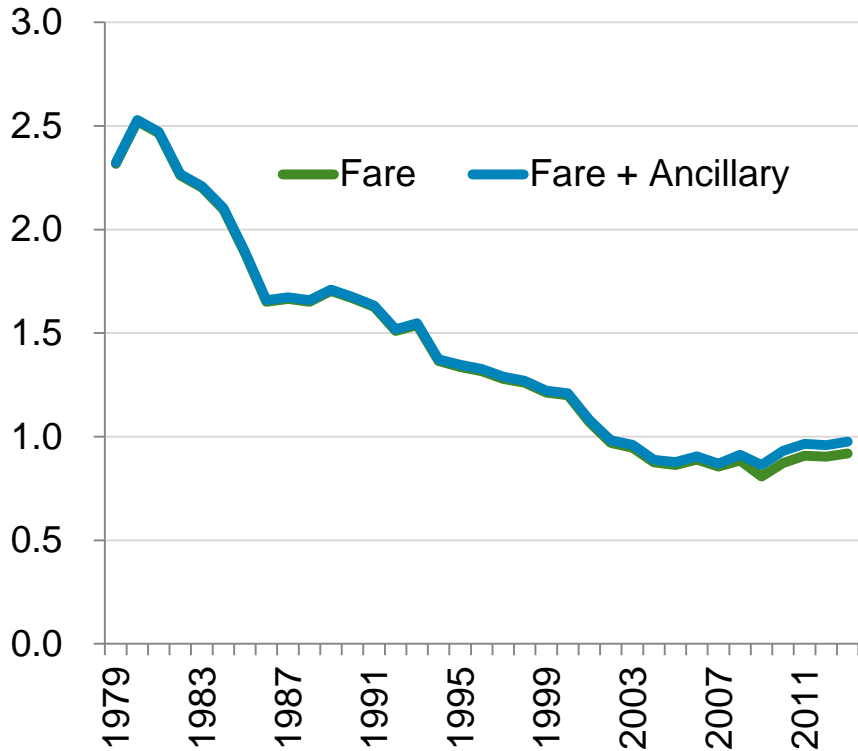
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U.S. Airline Industry First Half 2014 Review
Putting Improving Finances to Work

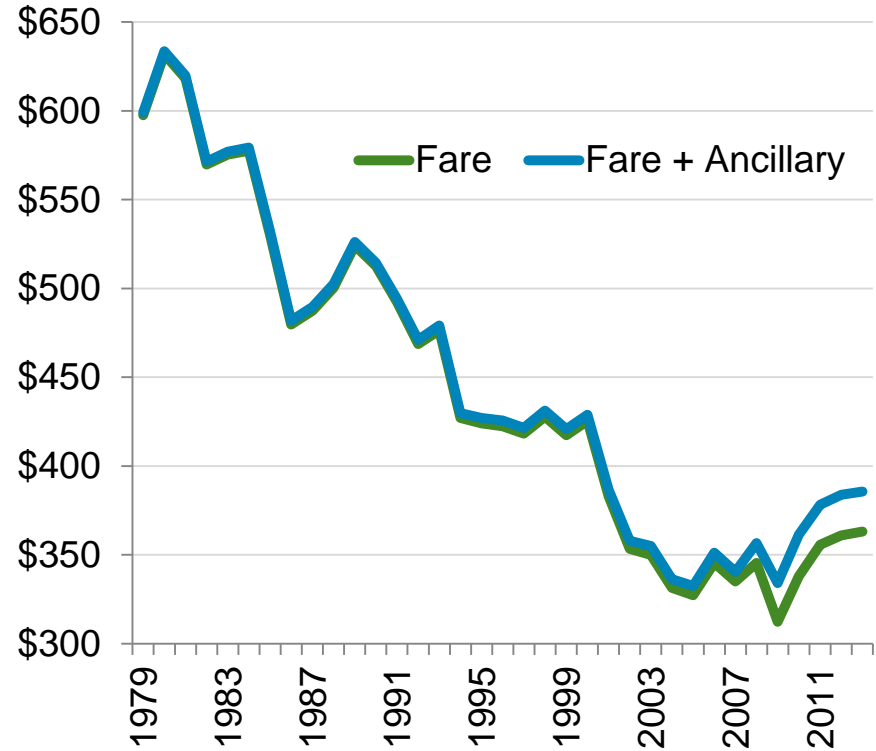
John P. Heimlich
Vice President & Chief Economist
A4A Media Briefing
August 21, 2014

With Personal Incomes Outpacing the Price of Air Travel, Americans Can Purchase ~2.5 Times the Amount of Air Travel They Could at the Outset of Deregulation
 Adjusted for Inflation, Domestic Air Travel Remains ~40 Percent Below 1980 Levels

Domestic R/T Airfare as Share (%) of Per-Capita Disposable Personal Income



Domestic R/T Airfare Adjusted for Inflation (in CY2013 Dollars)

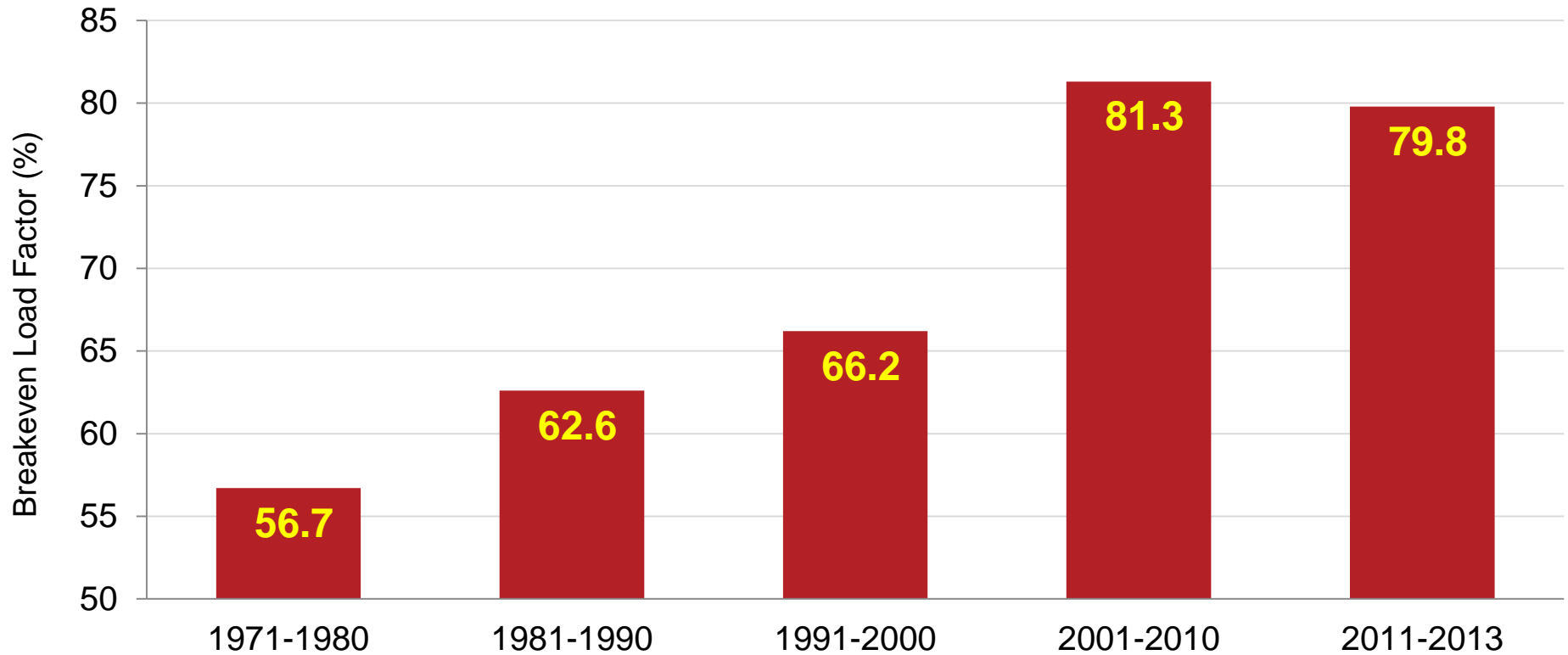


Source: A4A analysis of data from BEA, BLS and BTS (Data Bank 1B)



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This Decade, U.S. Airline Flights Need to Be ~80 Percent Full to Avoid Losing Money
Over Multiple Decades, the Rising Costs of Running an Airline – Without a Commensurate Increase in Fares – Have Meant That Airlines Have *Had* to Fill More Seats to *Break Even*



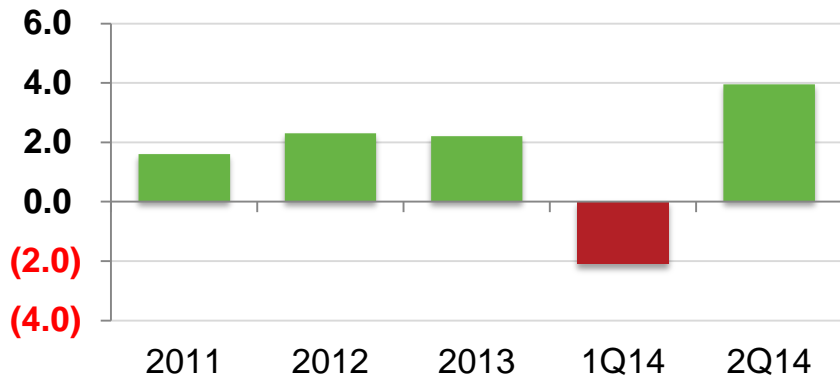
Source: A4A Passenger Airline Cost Index



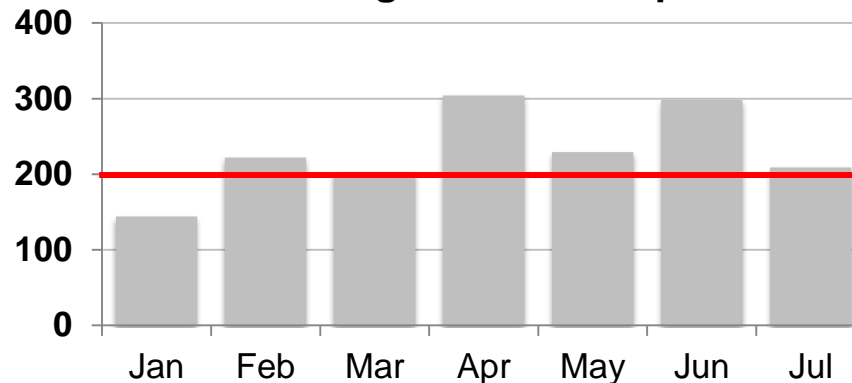
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Key Air-Travel Demand Drivers Trending Positively

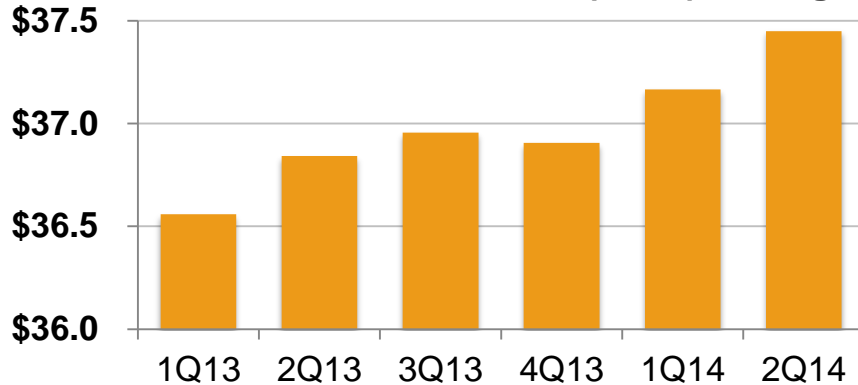
U.S. Economy (% CAGR) Expanding



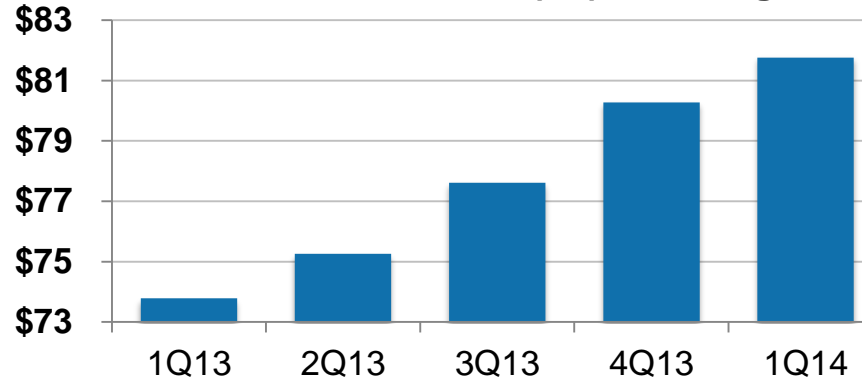
U.S. Generating > 200K Jobs per Month



Real Personal Incomes (\$000) Rising



Household Net Worth (\$T) Growing



Sources: BEA, BLS, Federal Reserve and IHS Economics; U.S. GDP real annual average growth rate (%), U.S. nonfarm payroll employment growth (month-over-month, in 000s, seasonally adjusted), U.S. disposable personal income per capita (chained 2009 dollars, SAAR); U.S. household net worth in current dollars, not seasonally adjusted



Healthy Air-Travel Volumes and Fuel-Price Relief Drive Margin Gains* in 1H 2014

Lower Fuel Expense Largely Offsets Increases in Labor, Airport and Aircraft Costs

	% Change YOY	1H13	1H14	Change	
Operating Revenues (\$77.2B)	6.0	Passenger Yield ¹	16.00¢	16.46¢	+2.9%
Operating Expenses (\$70.4B)	2.2	Passenger Traffic ²	399.3B	409.7B	+2.6%
Fuel (33% of Operating Expenses)	(2.4)	1. Average airfare paid per mile flown, excluding taxes 2. Revenue passenger miles (RPMs) flown			
Wages & Benefits (24%)	6.5	Enplanements	353.7M	360.0M	+1.8%
Maintenance, Materials & Repairs (5%)	(4.1)	U.S. Inflation ³	232.366	236.384	+1.7%
Landing Fees & Terminal Rents (5%)	5.3	Personal Income ⁴	\$39,273	\$40,465	+3.0%
Aircraft Rent (2%)	(4.4)	3. U.S. Consumer Price Index (1982-84 = 100) 4. U.S. disposable personal income per capita			
Depreciation & Amortization (5%)	6.9				
Other** (25%)	(5.4)				
Interest & Other Non-Operating Expenses	6.4				
Income Tax & Other Expense / (Benefit)	nmf				
Net Profit: \$3.8B (5.0% of Op. Revenues)	+ 2.8 pts.				

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

** Professional fees, food/beverage, insurance, commissions, GDS fees, communications, advertising, utilities, office supplies, crew hotels, nonfuel payments to regionals



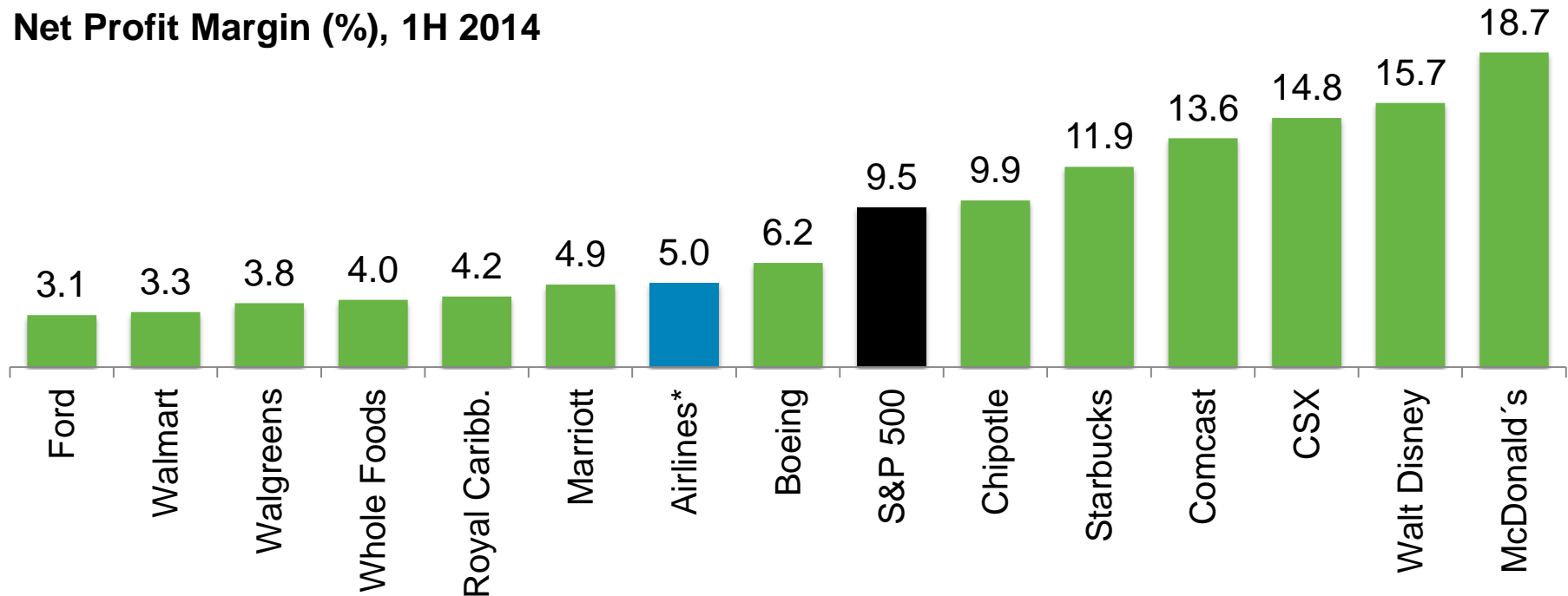
The Airline Industry Remains a Low-Margin Business, Lagging S&P 500 Average

For Every Dollar of Revenue Collected, U.S. Airlines Keep Just a Nickel as Profit

“Although it may seem like it’s becoming more popular to invest in airlines, data would show that it’s not... [T]here still isn’t a lot of long-term capital invested in the space...

“Who owns airline stocks? You might be surprised...,” Hunter Keay, CFA, Wolfe Research (March 17, 2014)

Net Profit Margin (%), 1H 2014



* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United
Sources: Standard & Poor's and company SEC filings; S&P is trailing twelve months



In 1H14, Extreme Weather Took a Significant Toll on Airline Operations...

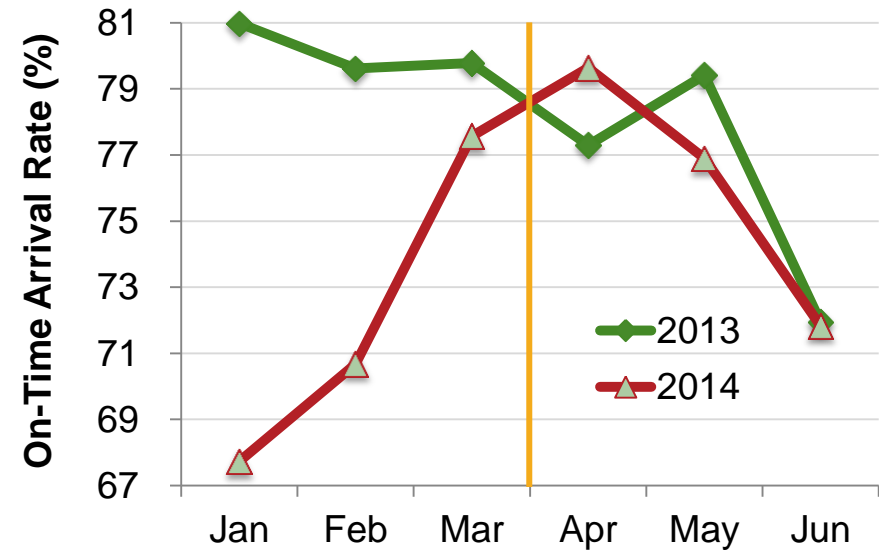
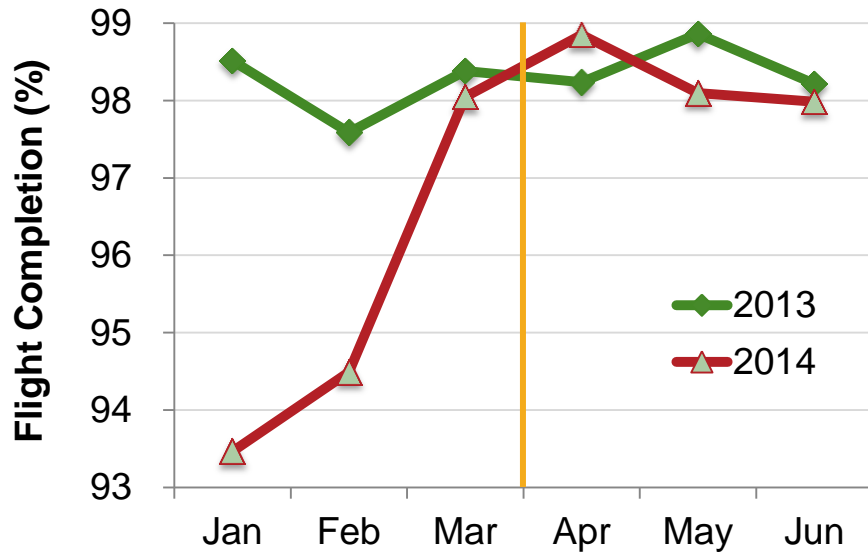
Jan	Polar vortexes brought extremely cold temperatures to the Midwest and East plus a series of snow and ice storms caused extensive delays and operational challenges.
Feb	The first three weeks of February saw a series of winter storms with multi-day impacts as they moved across the Midwest to the East Coast. The final week of the month was close to normal with only minor disruptions. February 13 was the single worst day for flight cancellations this winter with more than 7,500 as a massive winter storm affected operations at airports from Atlanta to Boston.
Mar	The biggest impact was March 2-4 as Winter Storm Titan brought snow and ice to the Midwest and Mid-Atlantic regions. March 12-13 saw more limited cancellations due to Winter Storm Vulcan , which primarily affected airports on the Great Lakes including ORD, DTW, CLE and upstate NY.
Apr	April was finally a reprieve from the challenging winter . The biggest impact was April 29-30 when nearly 1,900 flights were cancelled as severe thunderstorms moved through TX, the SE, and the DC-NY corridor. April 14-15 saw thunderstorms, snow/ice, and wind affect airports from TX to NY.
May	May saw an increase in thunderstorm activity compared to the previous year , with twice as many days with 500 or more cancellations. The biggest impact was May 8-16 when nearly 8,300 flights were cancelled as severe thunderstorms moved through the Midwest and Northeast.
Jun	Thunderstorm season was in full force . The biggest impact was June 9-13 with almost 5,000 flight cancellations as severe thunderstorms moved through the Midwest and Northeast. Runway construction also caused numerous delays, particularly at EWR and SFO.

Source: masFlight



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...Massive Winter Storms Pummeled 1Q Operations, Bringing Down 1H Performance
Notwithstanding Increase in May Thunderstorms, 2Q Operations Were Comparable to 2013



	2013	2014	Chg.
1Q	98.2	95.4	(2.8)
2Q	98.4	98.3	(0.1)

	2013	2014	Chg.
1Q	80.1	72.2	(8.0)
2Q	76.2	76.1	(0.1)

Source: BTS



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After Years of Staggering Losses, U.S. Airlines* Are Tackling the Mountain of Debt

“...it would be unreasonable to assume that all airline risks have just disappeared... [T]he business model requires a large cushion of cash and significant reinvestment.”

Alexander MacLennan
The Motley Fool
Feb. 3, 2014

“The industry is still subject to U.S. and global economic cycles, oil price (the largest operating expense) fluctuations, and unforeseen events...”

Betsy Snyder
Standard & Poor's
Mar. 25, 2014

Total Debt* (\$ Billions)



* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United; includes capitalized operating leases at 7x annual aircraft rents



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Improving Finances Are Helping Airlines Hire/Train/Retain High-Quality Employees



- » Job growth and security
- » Attractive wages and benefits
- » Tools and training to serve customers
- » Profit sharing
- » Accelerated contributions to employee retirement accounts



Earnings Momentum and Debt Reduction Are Attracting New Investors



- » De-risking (e.g., paying down debt)
- » Share buybacks
- » Issuance of dividends
- » Stock price appreciation
- » Value creation ($ROIC > WACC$)



...and the Increasing Ability to Hire, Train and Retain High-Quality Talent and to Lure Long-Term Investors is Translating Directly to Palpable Benefits for Our Customers



- » New or refurbished aircraft
- » Expanded route networks (scope and frequency) and schedules (seat growth)
- » Enhanced tools (computers, tablets, software) and training for customer-contact employees
- » Improved airport check-in areas, lounges, gates
- » Continued development and roll-out of mobile technology and website/kiosk functionality
- » Increasing operational reliability (controlled for weather conditions)
- » Larger overhead bins for luggage
- » Availability of lie-flat seating with AC power and USB (incl. on select transcon flights)
- » Proliferation of domestic and international WiFi and inflight entertainment options

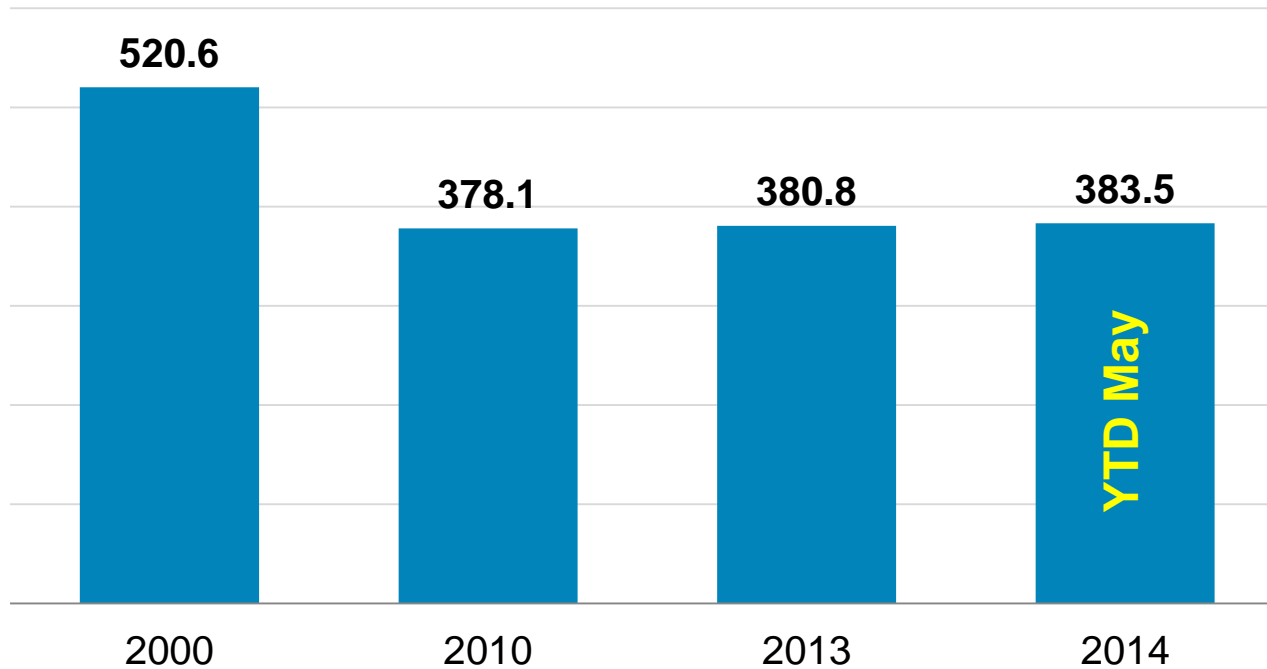


After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again

May 2014 Was Sixth Consecutive Month of YOY Employment Gains at U.S. Airlines

Employment at U.S. Passenger Airlines

Thousand Full-Time Equivalent (FTEs)



Source: BTS

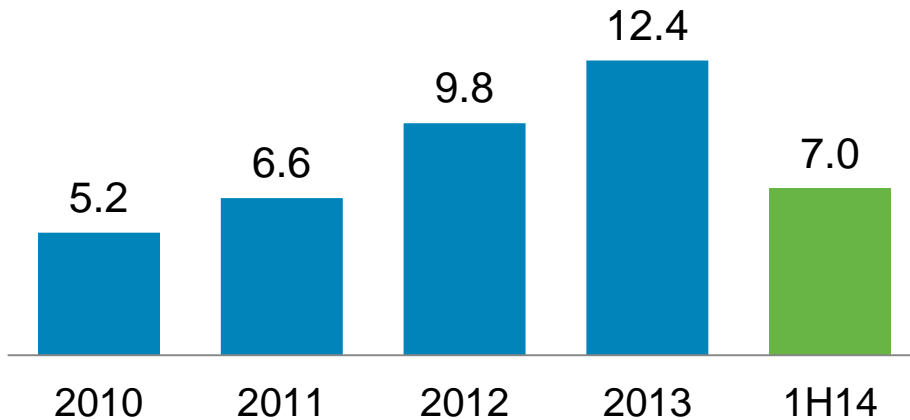


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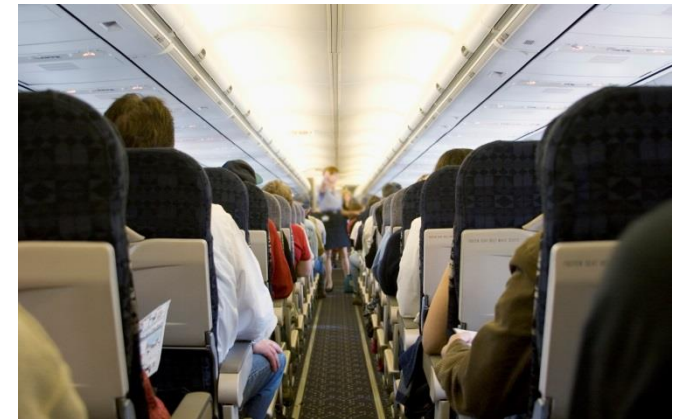
Improving Finances Enabling Significant Reinvestment in Customer Experience

Airline Capital Spending Continues at Robust Clip of More Than \$1 Billion per Month

U.S. Airline* Capital Expenditures (\$ Billions)



- » Aircraft (**317 deliveries in 2014**), spare engines, winglets
- » Premium seats, new aircraft interiors
- » Ground equipment, loading bridges
- » Airport (gates/lounges) and maintenance facilities
- » Bag carousels, carts, scanners
- » In-flight entertainment and Wi-Fi
- » Computers, kiosks, mobile technology



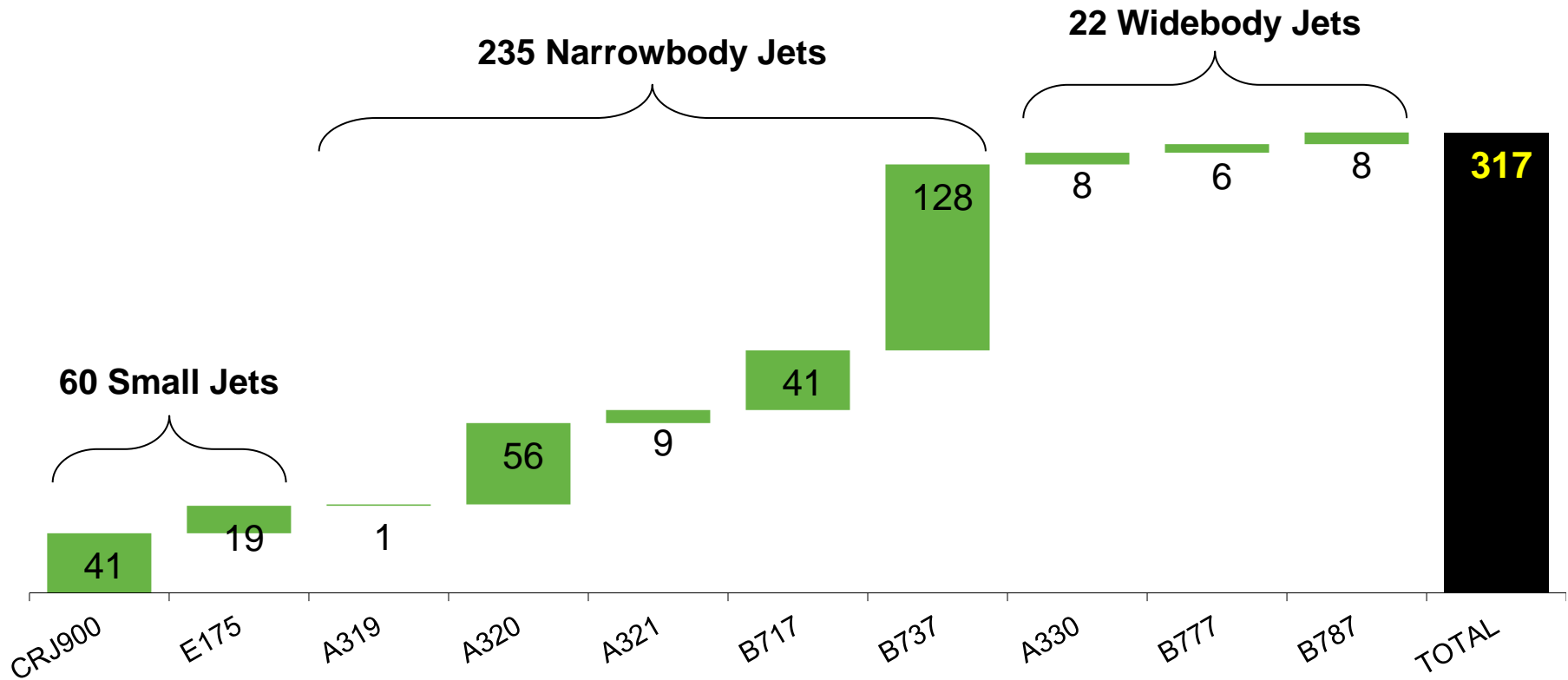
* SEC filings of Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



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U.S. Passenger Airlines* Taking Delivery of 317 Aircraft in 2014 – Almost 1 per Day

149 Units Received in First Six Months; 168 Units Slated for Delivery in Second Half

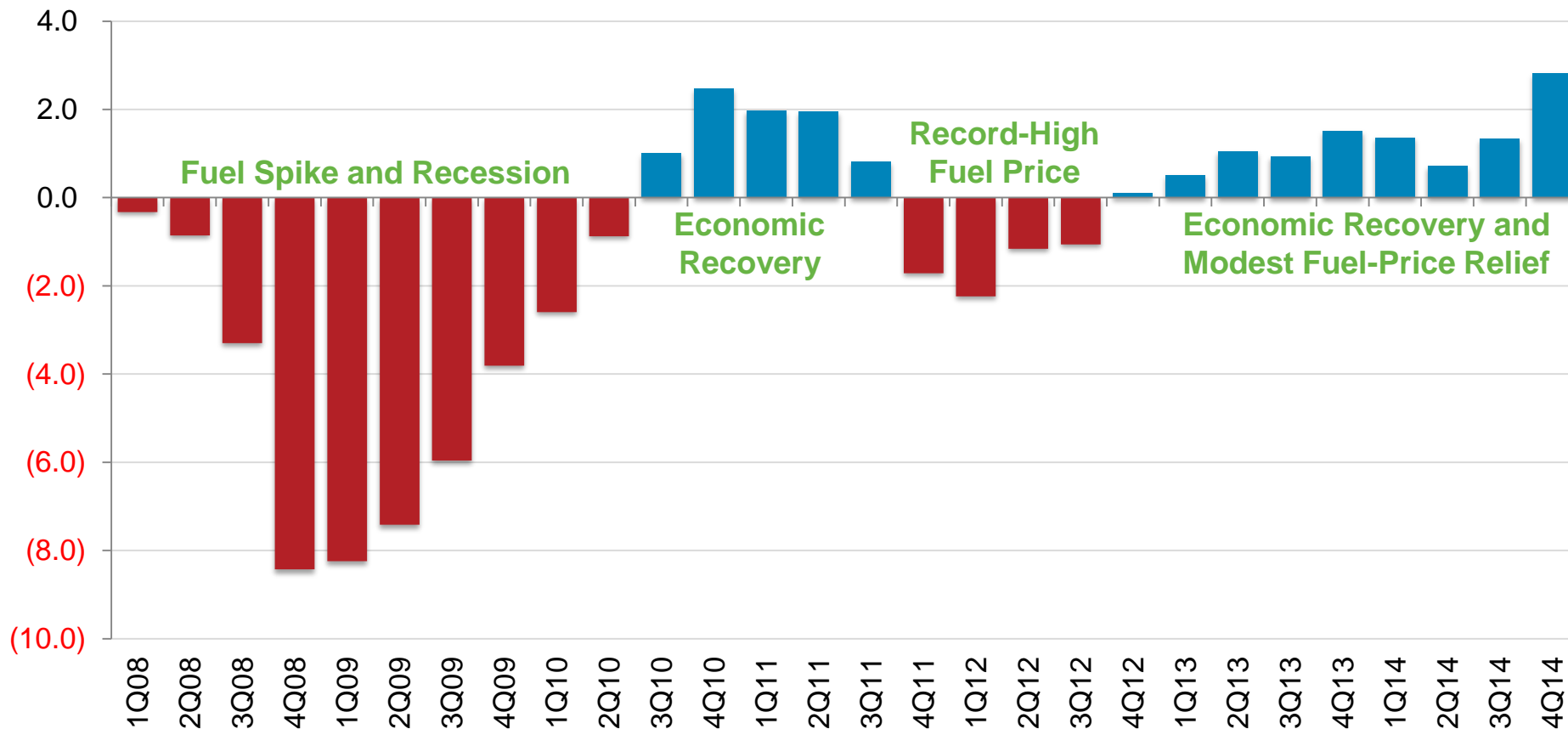


* Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United



As Airlines Generate Modest Returns on Capital, Customers Are Seeing More Seats Scheduled to Depart from U.S. Airports – Two Years' of Growth

Year-Over-Year Change (%) in Scheduled Seats at U.S. Airports



Source: Innovata (via Diio Mi) published schedules as of Aug. 15, 2014 for all airlines providing scheduled passenger service from U.S. airports to all destinations



Airline Creditworthiness Remains Far From Stellar

Per S&P, Only One U.S. Passenger Airline Has Investment-Grade Credit

Investment Grade¹ (>= BBB-)

ExxonMobil, Microsoft		AAA
GE, United States Government		AA+
Wal-Mart		AA
Toyota		AA-
UPS		A+
BP, eBay, Union Pacific		A
Amtrak, Starbucks		A-
FedEx, Marriott, Starwood		BBB
Ford, Lufthansa, Southwest, WestJet		BBB-

■ Passenger Airline

Speculative² Grade (< BBB-)

Alaska, Qantas	BB+
British Airways, Latam	BB
Avis-Budget, Chrysler, Delta	BB-
Hertz, Sabre	B+
AC, AAL, GOL, HA, JBLU, UAL	B
SAS	B-

¹ Describes issuers with relatively high levels of creditworthiness and credit quality

² Describes issuers with ability to repay but facing significant uncertainties, such as adverse business or financial circumstances that could affect credit risk

Source: Standard and Poor's; "Guide to Credit Rating Essentials: What are credit ratings and how do they work?"



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Significant Progress, But Risks Remain

“Industry remains **very cyclical and highly competitive, vulnerable** to exogenous shocks; carriers have high degree of leverage, **low margins.**”

-- Craig Fraser, Joe Rohlena and Ilya Ivashkov, Fitch Ratings, “Concerns Remain,” July 30, 2014

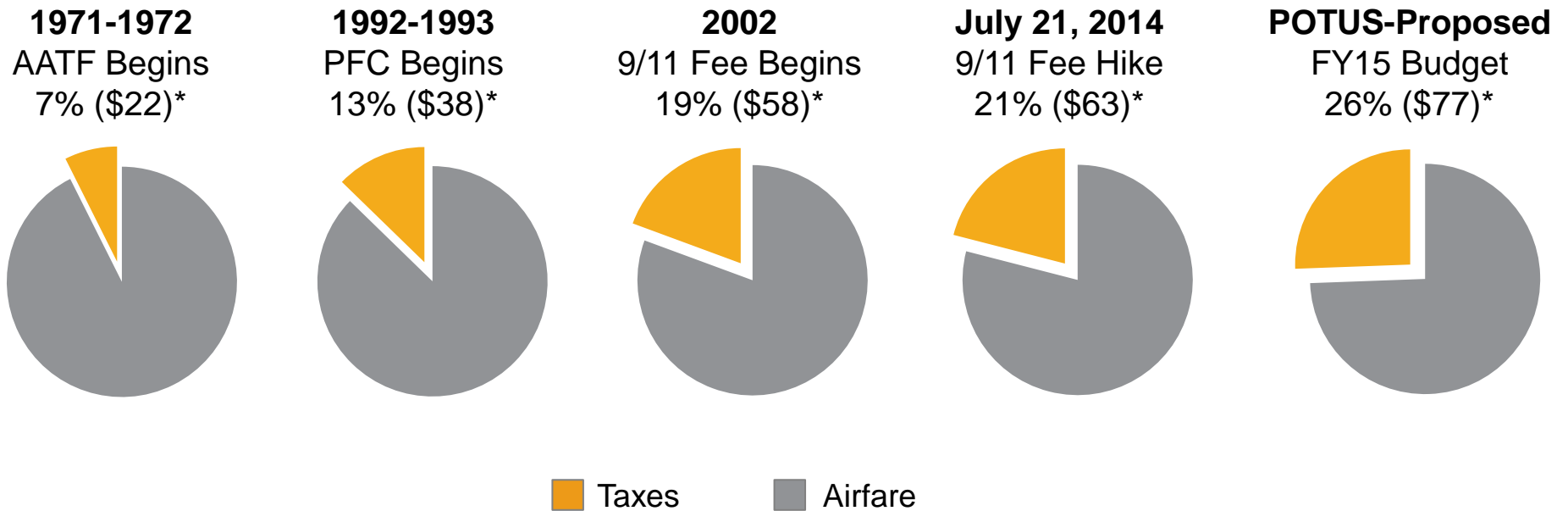
“Leverage progress slowed, **big capital spending needs ahead**; demand is still **cyclical; rising labor costs...**”

-- Philip Baggaley and Betsy Snyder, Standard & Poor's, “Potential Risks,” July 30, 2014



U.S. Ticket Taxes on \$300 One-Stop Domestic Round Trip* Just Went Up Again

Growing Governmental Take Leaves Less Revenue for Carriers to Reinvest



AATF = Airport and Airway Trust Fund

* Sample itinerary is a domestic round trip with one stop each way and maximum passenger facility charge (PFC) per airport; total ticket price includes taxes

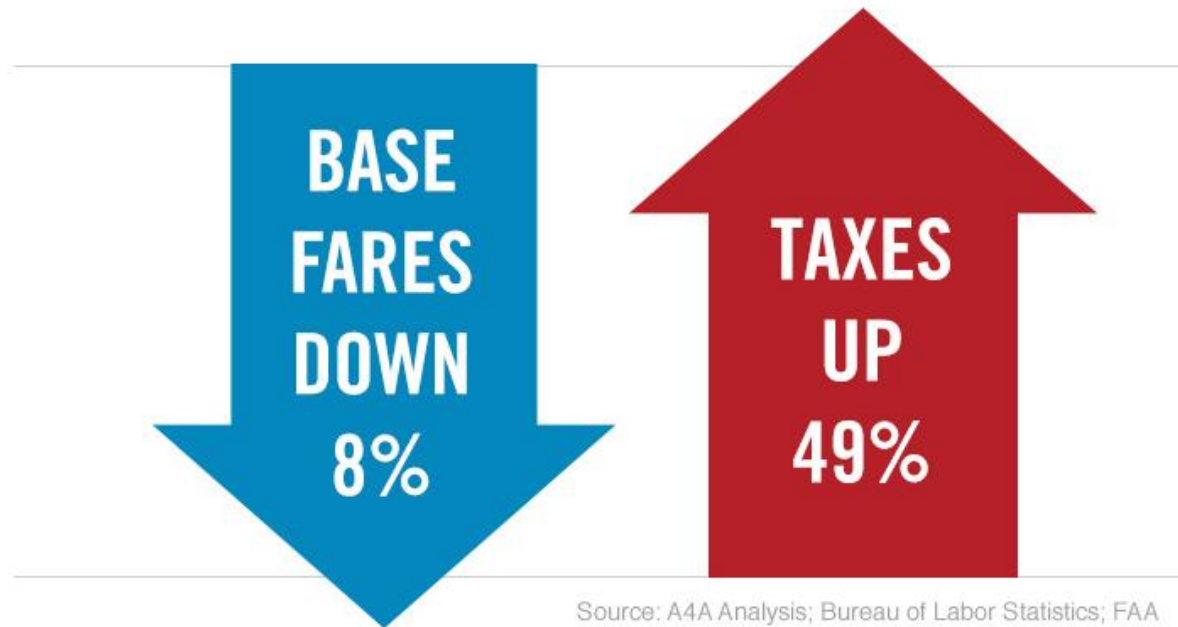
Source: A4A analysis of federal tax code, including IRS Revenue Bulletin 2013-47, Rev. Proc. 2013-35, Bipartisan Budget Act of 2013, and President's FY2015 budget



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Don't you want to know where your airfare taxes are going?

**FROM 2000-2013, FARES DROPPED
WHILE TAXES SOARED.**



Learn more about the government's new tax on passengers, and why it's bad for consumers and the economy as a whole. Visit StopAirTaxNow.com