



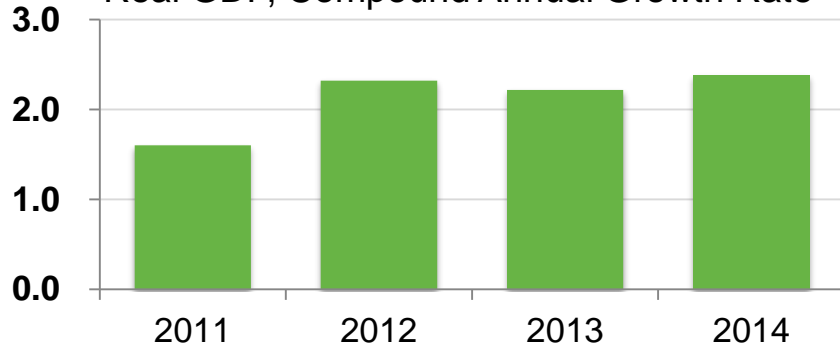
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U.S. Airlines: Spring 2015 Air Travel Forecast, 2014 Operational and Financial Results and 2015 Update

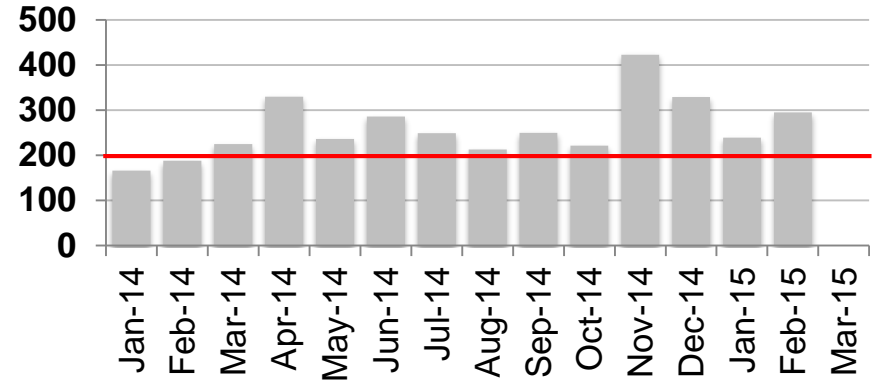
John P. Heimlich, Vice President & Chief Economist
Media Briefing
March 11, 2015

Key Air-Travel Demand Drivers Trending Positively

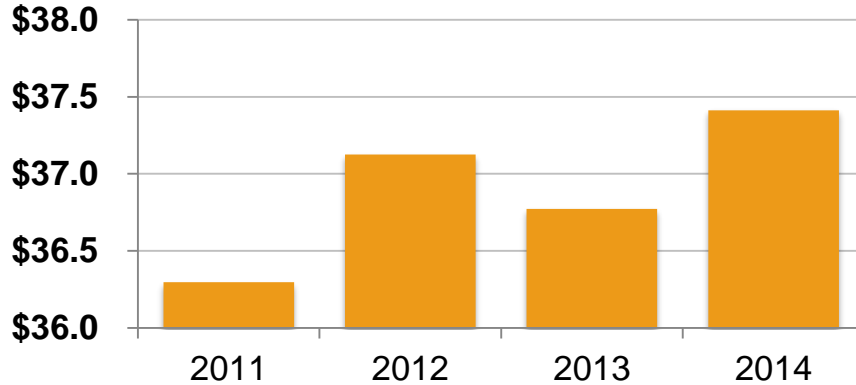
U.S. Economy Growing > 2%
Real GDP, Compound Annual Growth Rate



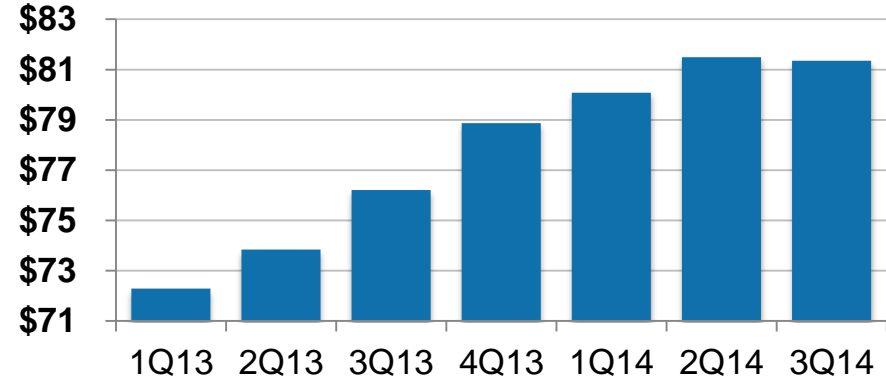
U.S. Generating > 200K Jobs per Month



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

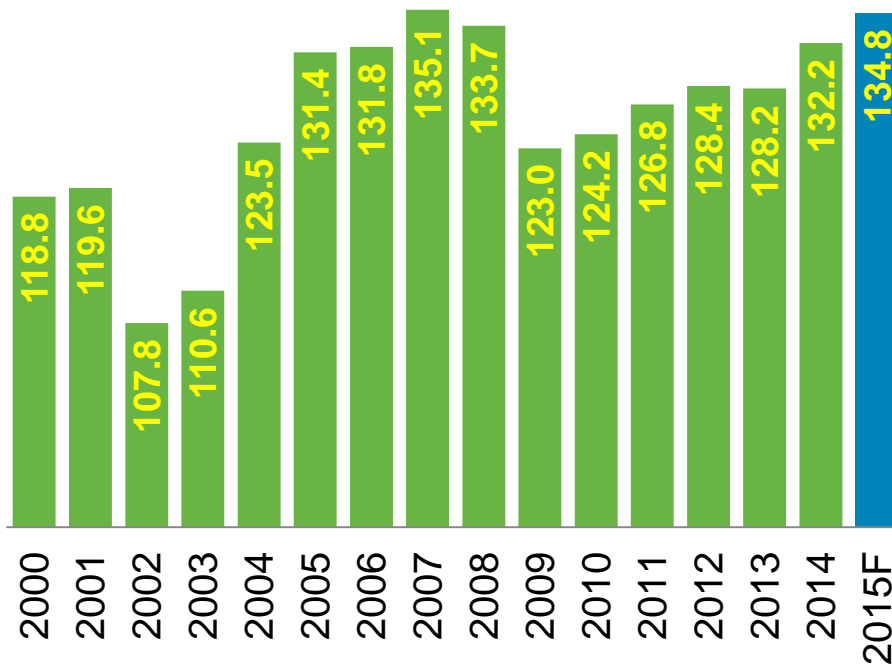


A4A Projects Spring 2015 Air Travel to Rise 2% — to Highest Level in Seven Years

Airlines Adding 3% More Seats to Accommodate Robust Demand

U.S. Airline Onboard Passengers (Millions)

All Services, March 1 through April 30



Spring 2015 Air Travel Forecast Highlights

- 134.8M passengers (2.2M/day)
 - Up 2% from 2014; busiest since 2007
 - Remains 0.2% below 2007 all-time high
 - Average load factor: Low 80s
 - Includes 17.2M (283K/day on int'l flights)
- Airlines boosting supply of seats by 3%
- Key drivers include:
 - Expanding GDP, employment growth, rising personal incomes and consumer confidence
 - Air travel affordability (esp. vs. other modes)
 - Improved airline financial condition
 - Higher expected flight completion factor due to inauspicious year-ago weather

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



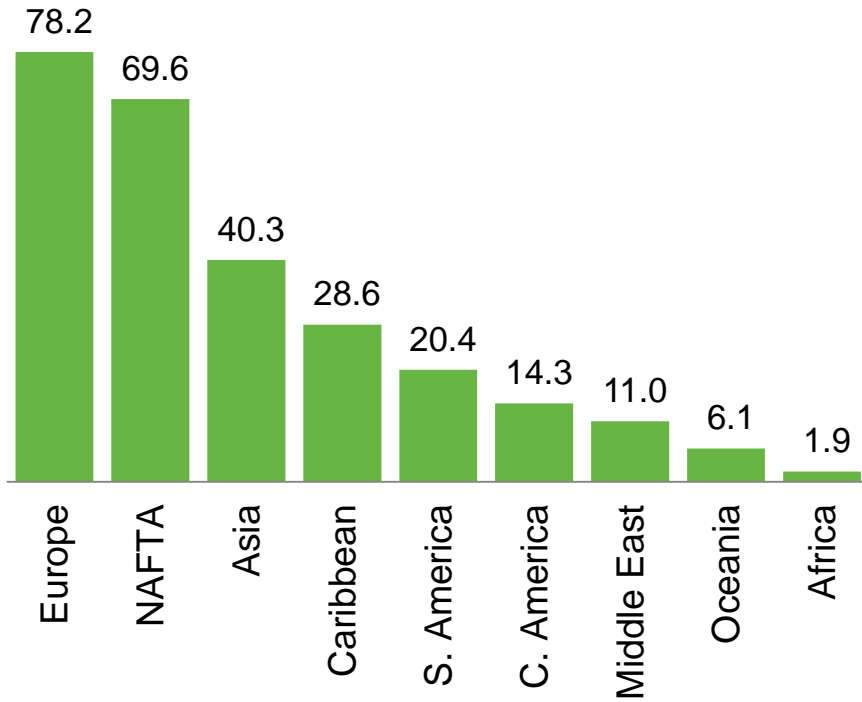
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International Air Travelers to/from USA Reached a Record 197.3 Million in 2014

Up 6.5 Percent from 2013; U.S.-Europe Led Overseas Traffic at ~78K Per Day Each Way

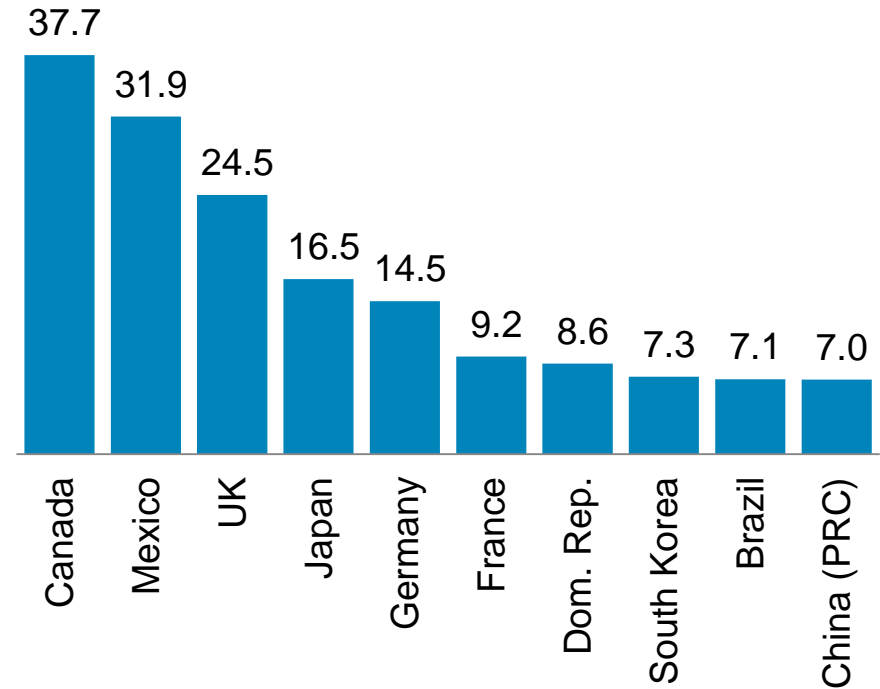
Foreign Gateways to/from USA, 2014

Average Daily Passengers (000) Each Way



Top 10 Country Gateways to/from USA, 2014

Average Daily Passengers (000) Each Way



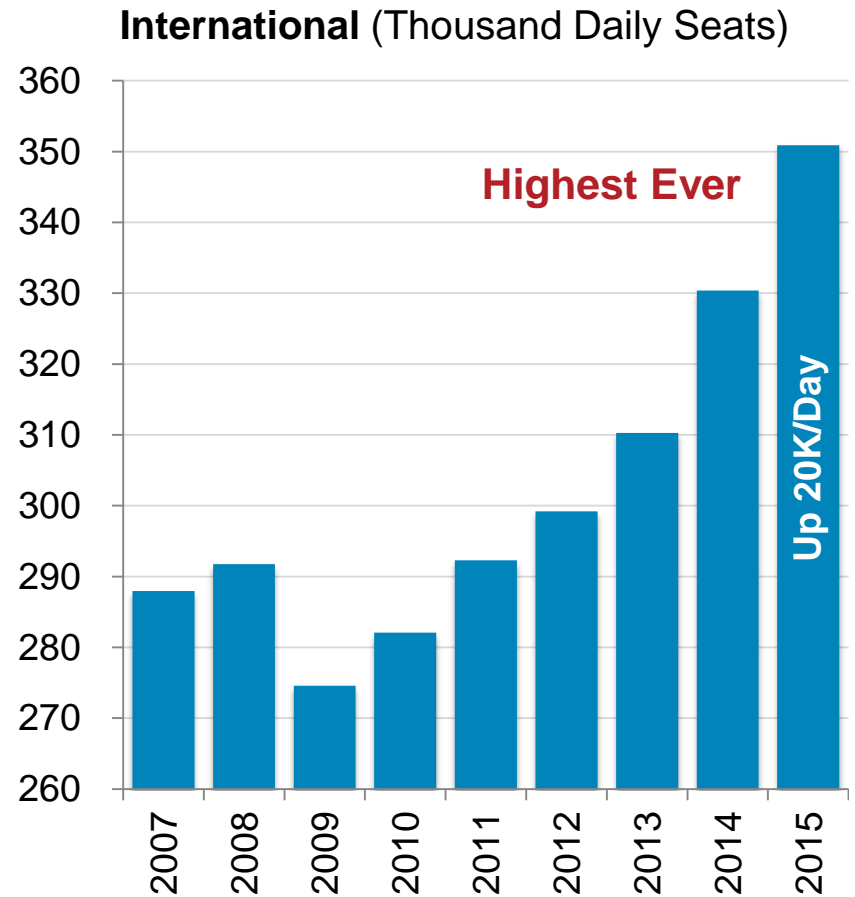
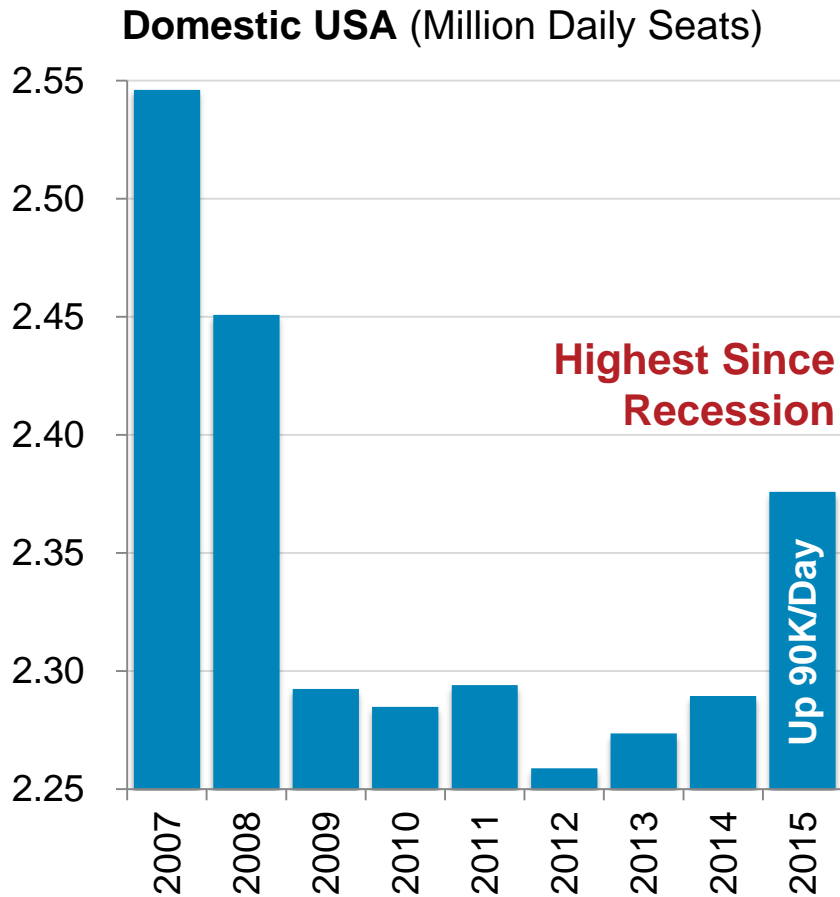
Source: Department of Commerce (National Travel & Tourism Office) and DHS Advance Passenger Information System (APIS)



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As Airlines Generate Normal Returns on Capital, Customers Are Seeing More Seats

Domestic Supply at Highest Point in Seven Years; International Supply at All-Time High



Source: Innovata (via Diio Mi) published schedules as of March 6, 2015, for all airlines providing scheduled passenger service from U.S. airports to all destinations

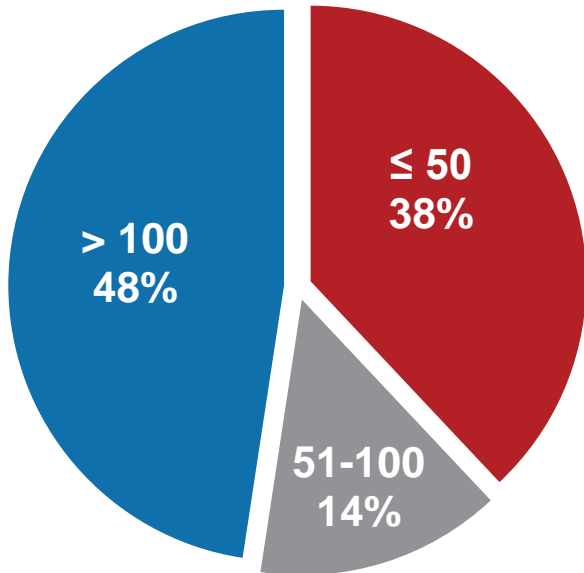


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Over the Past Five Years, Customers Are Seeing More Flights on Larger Aircraft

U.S. Airlines Have Greatly Reduced the Use of Aircraft With 50 or Fewer Seats

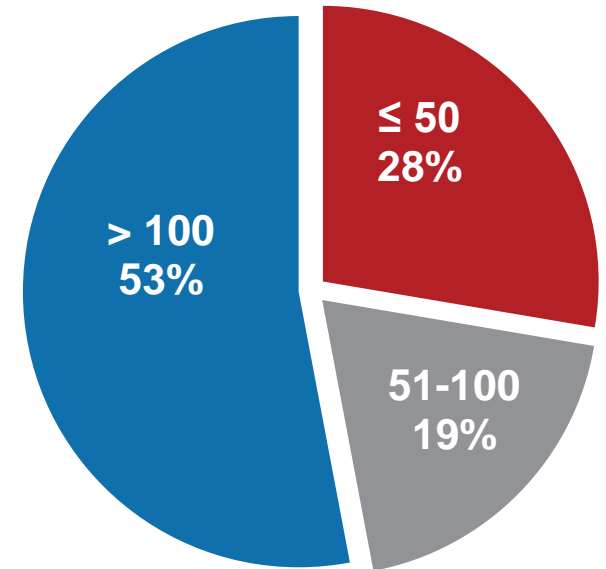
**Domestic Flights
by AC Size (Seats): 2Q10**



Five-Year Change

≤ 50	(32%)
51-100	+26%
>100	+5%

**Domestic Flights
by AC Size (Seats): 2Q15**



Source: Innovata (via Diio Mi) published schedules as of March 6, 2015

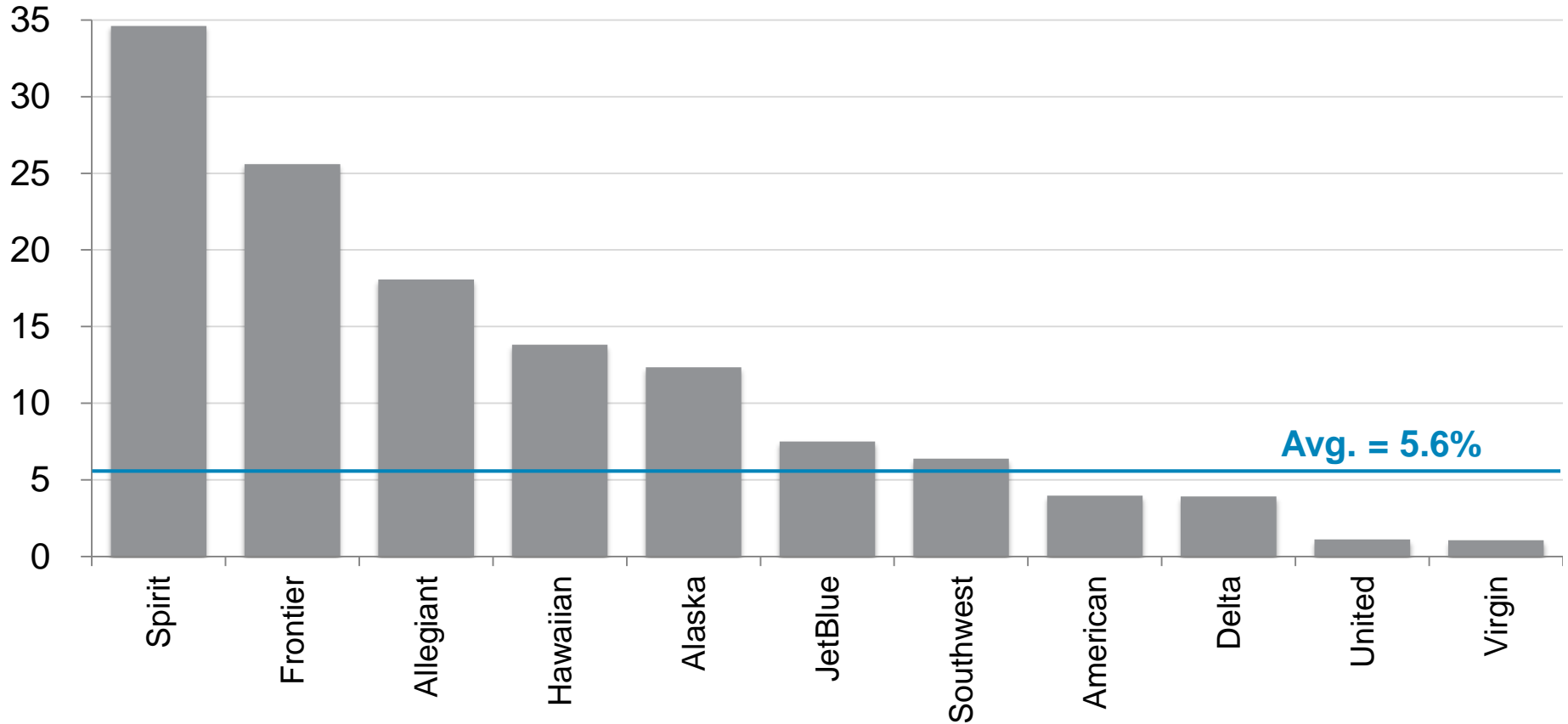


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Competitive Pressure Is Alive and Well Amid Rising Supply and Improving Finances

Every U.S. Airline Is Increasing Capacity, Accommodating a Wide Array of Customers

Year-Over-Year Growth (%) in Domestic Capacity (Available Seat Miles): 2Q15 vs. 2Q14



Source: Innovata (via Diio Mi) published schedules as of March 6, 2015, for all airlines providing scheduled passenger service from U.S. airports to all destinations



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Healthy Air-Travel Demand Drove Airline Profitability* in 2014

Costs Rose in Most Categories on Employee Gains, More Flying and Aircraft Deliveries

	% Change YOY	2013	2014	Change
Operating Revenues (\$158.6B)	5.0	16.03¢	16.43¢	+2.5%
Operating Expenses (\$145.2B)	3.3	831.2B	848.9B	+2.1%
Fuel (33% of Operating Expenses)	0.6			
Wages & Benefits (25%)	8.1			
Maintenance, Materials & Repairs (5%)	(0.4)			
Landing Fees & Terminal Rents (5%)	4.6			
Aircraft Rent (2%)	(5.1)			
Depreciation & Amortization (5%)	7.1			
Other Operating Expenses** (24%)	3.1			
Interest & Other Non-Operating Expenses	21.2			
Pre-Tax Profit: \$9.5B (6.0% of Revenues)	+1.2 pts.			
Net Profit: \$7.3B (4.6% of Revenues)	(3.1) pts.			

	2013	2014	Change
Enplanements	724.6M	743.0M	+2.5%
U.S. Inflation ³	232.957	236.736	+1.6%
Personal Income ⁴	\$39,468	\$40,689	+3.1%

1. Average airfare paid per mile flown, excluding taxes
 2. Revenue passenger miles (RPMs) flown
 3. U.S. Consumer Price Index (1982-84 = 100)
 4. U.S. disposable personal income per capita

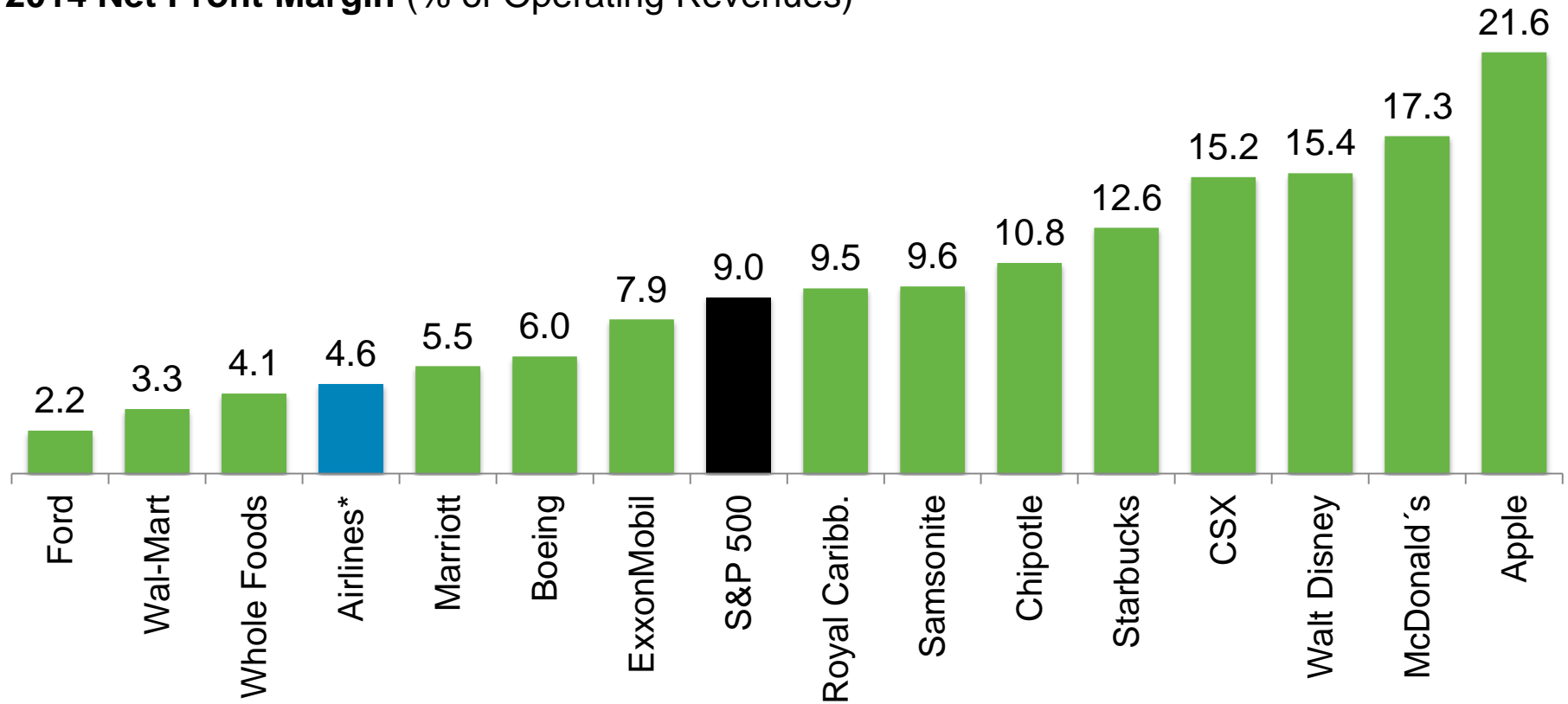
* A4A analysis of reports by Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit, United and Virgin America

** 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 Keeping a Nickel as Profit

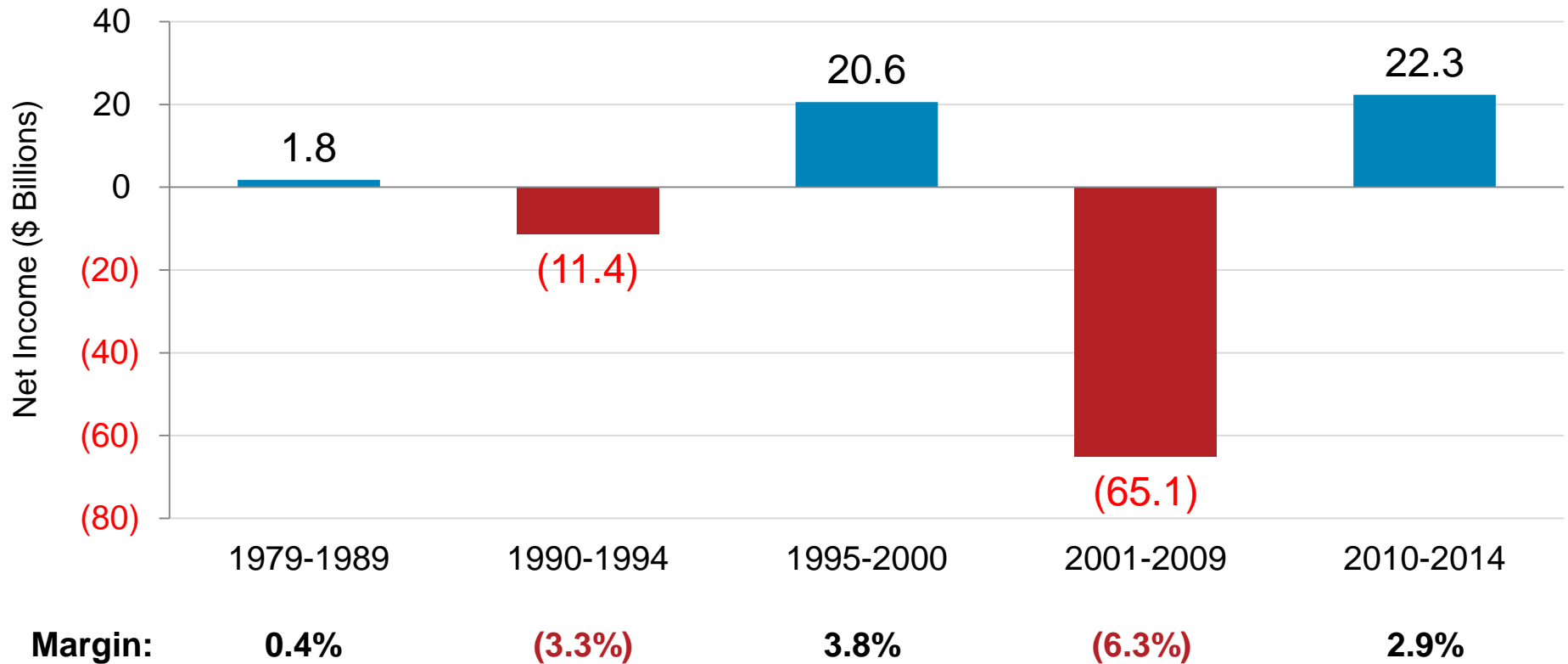
2014 Net Profit Margin (% of Operating Revenues)



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



In the Deregulated Period, U.S. Airline “Earnings” Have Been Cyclical and Volatile
 Cumulatively, Airlines Have Recorded Net Losses of \$32B (or -1% of Revenues)



Source: A4A Passenger Airline Cost Index



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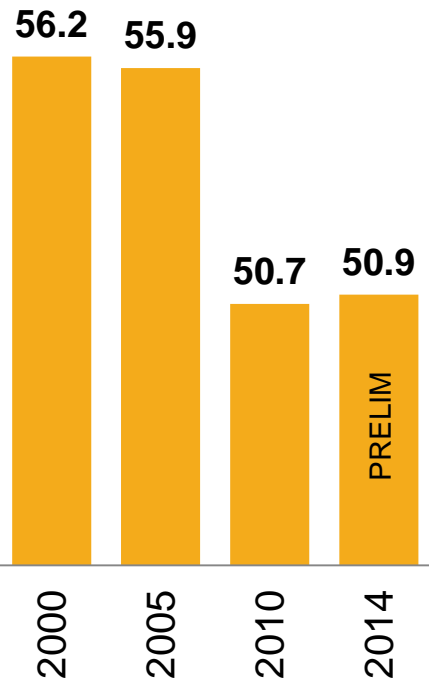
In 2014, U.S. Airlines' Fuel Bill Totaled \$48 Billion

Average Price Paid for Jet Fuel Rose 255% in 2000-2014, Including 26% in 2010-2014

[In 2011-2014, the Average Annual Price of Crude Oil Ranged From \$99 to \$112 per Barrel]

Using Less Fuel But ...

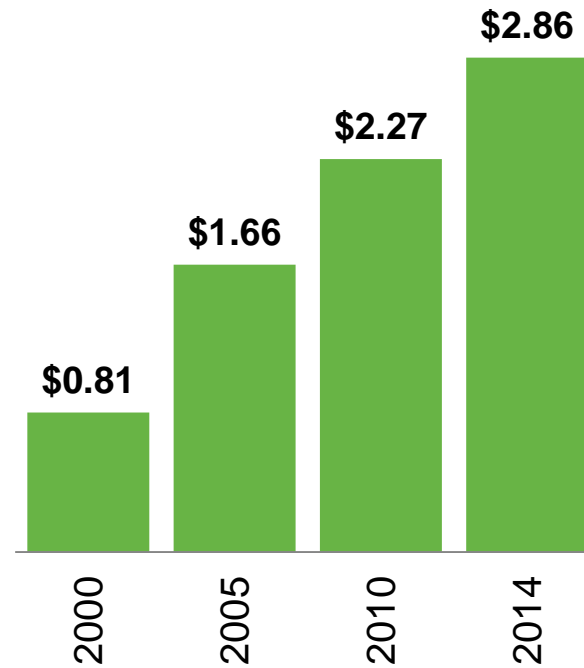
Million Gallons per Day



Source: BTS (T2: 921) for U.S. airlines

Due to Rising Prices ...

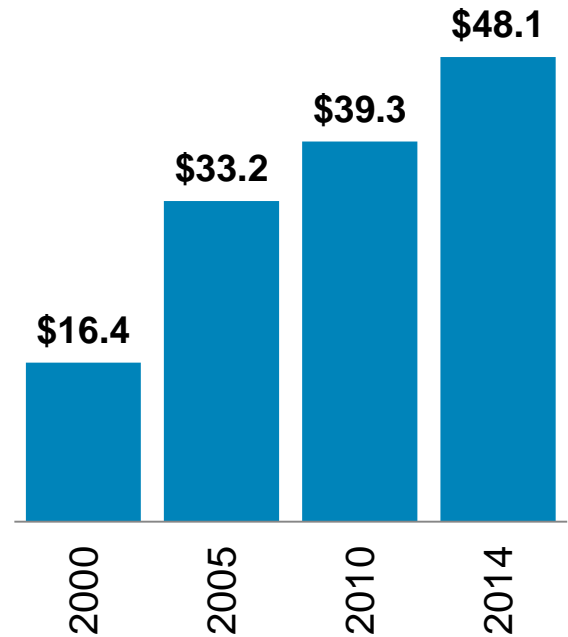
Avg. Price Paid per Gallon Systemwide



Source: BTS (Form 41 P-12(a) for U.S. airlines)

... Incurring Higher Costs

Billion USD per Year



Source: BTS (Form 41 P-12(a) for U.S. airlines)



In 1H 2014, 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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...and With Thunder, Fire and Winter Weather, 2H 2014 Didn't Get Any Easier

July	The biggest impact was July 2-3 with more than 3,000 flight cancellations as severe thunderstorms moved through the Northeast and Mid-Atlantic. July 14-15 saw more than 2,500 flights cancelled due to storms in the Northeast and the Dallas region.
Aug	Thunderstorms were a significant cause of flight cancellations and delays in August.
Sep	On Sept. 26, a fire at the Chicago Air Route Traffic Control Center (ZAU) resulted in a significant disruption to operations to/from Chicago area airports. The incident also required most aircraft to be diverted around the area controlled by the center.
Oct	Operations at Chicago-area airports continued to be affected by the fire at...ZAU.... Oct. 1-3 – cancellations were above normal levels as Chicago-area capacity was restricted and thunderstorms and strong winds impacted the Midwest from Texas to Illinois. Oct. 13 – storms again hit the Midwest.... Oct. 31 – very strong winds and light snow affected the Chicago area.
Nov	Winter weather ...began to impact flight operations. (e.g., Nov. 10 – MSP and DEN, Nov. 17-18 – Chicago and Northeast; Nov. 26 – winter storm hit the Northeast)
Dec	December saw significant operational improvement across the board with the exception of SFO (low ceilings throughout much of the month). December 9-11 – winter storm hit the Northeast and DFW.

Source: masFlight



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Carriers Overcame Horrible 1Q Weather and the FAA En Route Center Outage in Chicago (Aurora, Illinois) to Post Strong Operational Results in 2014

	2010	2011	2012	2013	2014
Flight Safety (fatal accidents per million departures)	0.000	0.000	0.000	0.000	0.000
Flight Completion Factor (% of scheduled domestic departures)	98.24	98.09	98.71	98.49	97.82
On-Time Arrival Rate (% of domestic flights within 00:15)	79.79	79.62	81.85	78.34	76.25
Mishandled Bags (per 1,000 domestic passengers)	3.57	3.39	3.09	3.22	3.62
Involuntary Denied Boardings (per 10,000 passengers)	1.09	0.82	0.99	0.92	0.92
Customer Complaints (per 100,000 systemwide passengers)	1.20	1.18	1.42	1.13	1.38

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



Like Other Responsible Businesses, Airlines Are Focused on Balanced Allocation of Capital to Benefit All Stakeholders: Customers, Employees and Investors

➤ Customers

- Renewing fleets and improving the product at all stages of the journey
 - Also boosts operational reliability and helps achieve environmental objectives
- Restoring/increasing, in a return-justified manner, air service levels (capacity)

➤ Employees

- Restoring/increasing employee wages and benefits
- Shoring up pensions (or comparable underfunded retirement liabilities)

➤ Investors

- Reducing debt
- Returning cash to shareholders
 - e.g., issuing dividends, buying back stock buybacks, boosting earnings per share



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



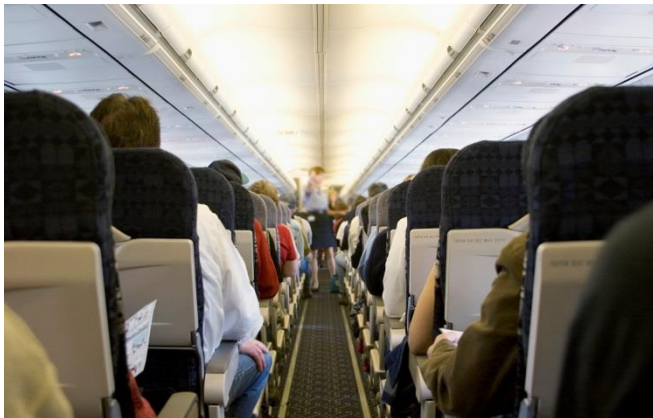
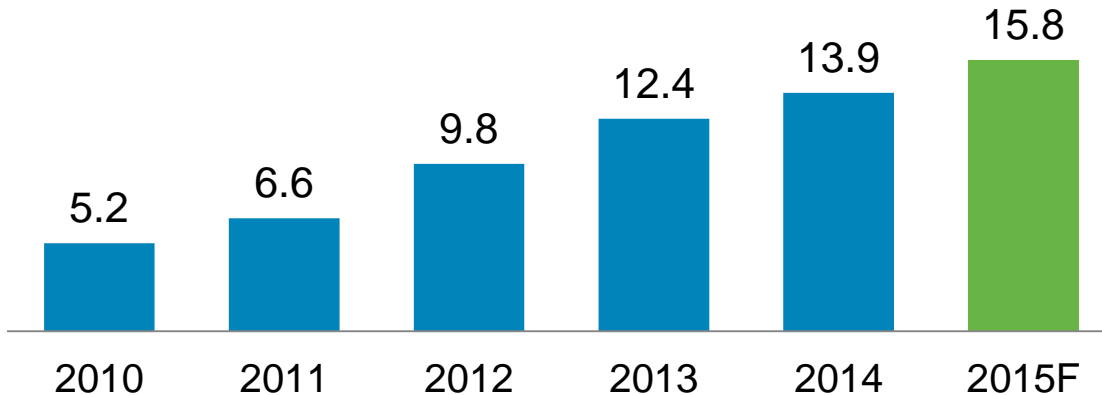
- » New or refurbished aircraft, larger overhead bins for luggage
- » Availability of lie-flat seating with AC power and USB, proliferation of Wi-Fi and inflight entertainment
- » Expanded route networks (scope and frequency) and schedules (seat growth)
- » Improved airport check-in areas, lounges, gate amenities, baggage systems, ground equipment
- » Continued development and roll-out of mobile technology and website/kiosk functionality
- » Increasing operational reliability (controlled for weather conditions)
- » Enhanced tools (computers, tablets, software) and training for customer-contact employees



Improving Finances Enabling Significant Reinvestment in Customer Experience

Airline Capital Spending Exceeding \$1 Billion per Month – Highest in 14 Years

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



- » 2014 outlays exceeded \$1.1B per month
 - \$19 per passenger; 85% of operating cash flow
 - Included delivery of 317 aircraft
 - At 12/31, firm orders for 1,800+ aircraft worth \$94B
- » 2015 outlays could exceed \$1.3B per month
 - 10 carriers to take delivery of 367 aircraft

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



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Airlines Are Also Collaborating With TSA and CBP to Enhance Customer Experience

Selected Examples in 2014

Working with TSA to enhance security, minimize hassle

- » In 2014, TSA opened 120 new Pre✓® lanes and began Pre✓® operations at 11 new airports, bringing the year-end total to 600 lanes at 125 U.S. airports
- » Over 40% of passengers received expedited screening
- » Only 0.32% of passengers waited in a line > 20 minutes



Working with CBP to welcome international travelers



- » In 2014, CBP installed Automated Passport Control kiosks in 22 locations, reducing wait times by as much as 40%, and launched Mobile Passport Control, an app that expedites the entry process for U.S. citizens and Canadian visitors
- » Global Entry expanded to 1.7 million members, 42 U.S. airports and 12 Preclearance locations
- » In 2014, average wait times at JFK fell 28%

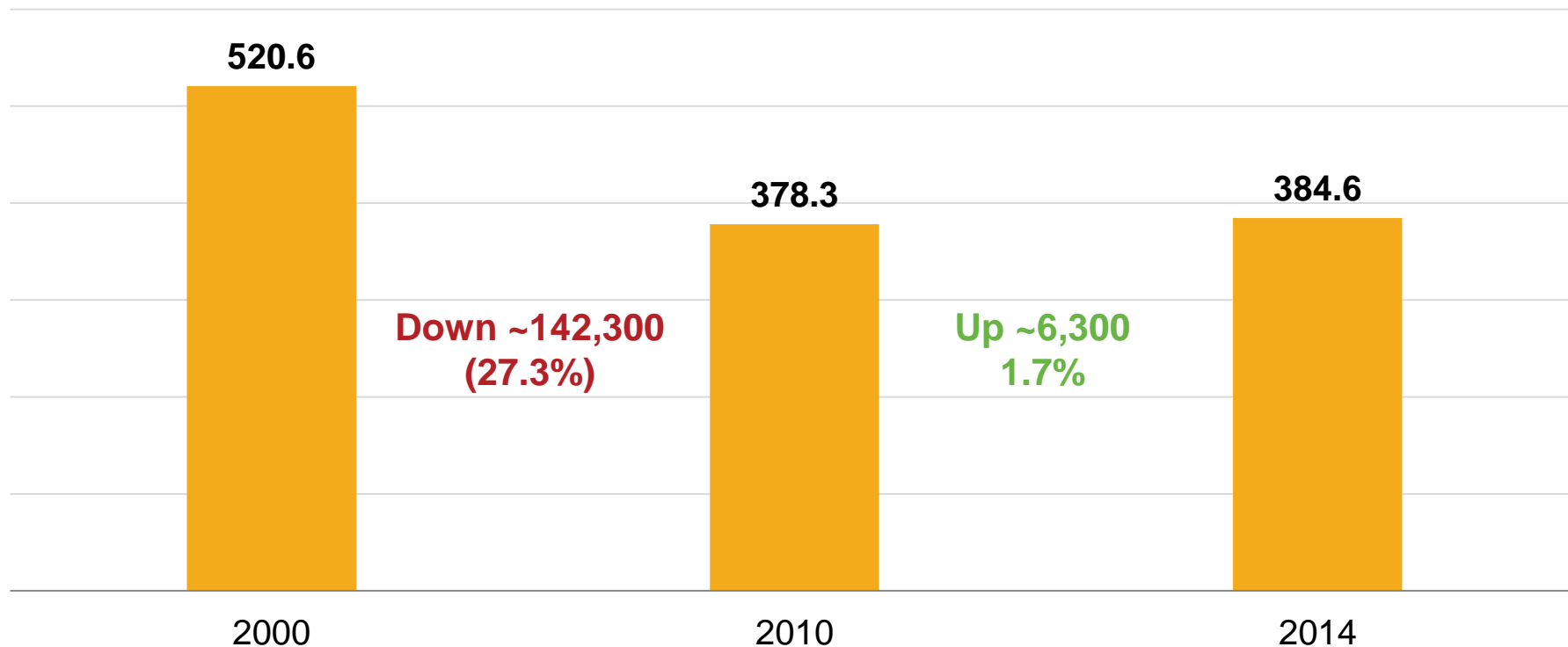


After a Decade of Sharp Workforce Reductions, U.S. Airline Jobs on the Rise Again

December 2014 Was 13th Consecutive Month of YOY Employment Gains at U.S. Airlines

Employment at U.S. Passenger Airlines

Thousand Full-Time Equivalents (FTEs)



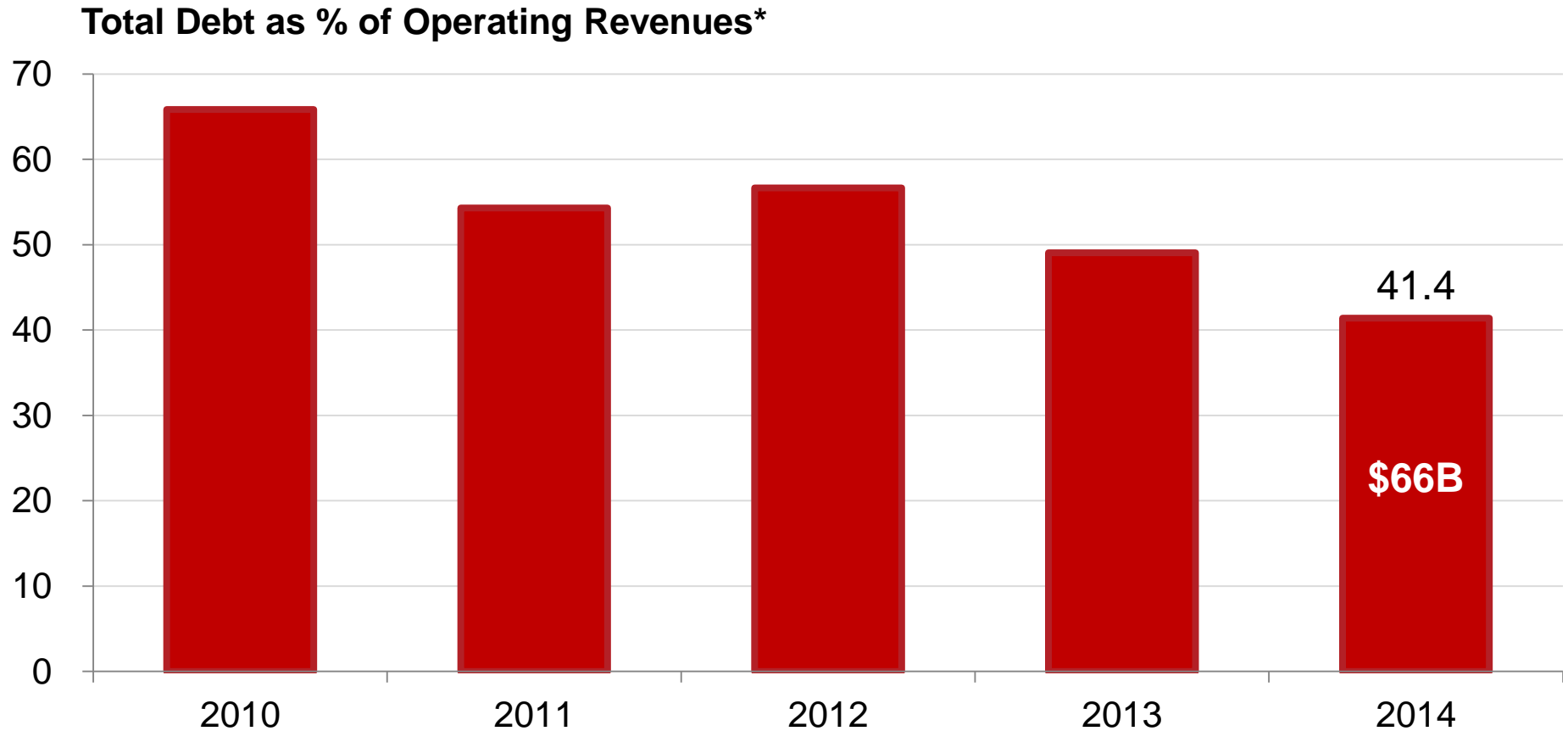
Source: BTS



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

Airlines* Reduced Debt by an Additional \$8.4B in 2014 (\$16.3B Over Two Years)



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



Airline Creditworthiness Remains Far From Stellar

Per S&P, Only Two U.S. Passenger Airlines Have Investment-Grade Credit

Investment Grade¹ (>= BBB-)

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

■ Passenger Airline

Speculative² Grade (< BBB-)

Qantas	BB+
British Airways, Delta, LATAM	BB
Allegiant, Avis-Budget, Chrysler	BB-
Air Canada, Virgin Australia, Hertz, Sabre	B+
AAL, GOL, HA, JBLU, UAL	B
SAS	B-

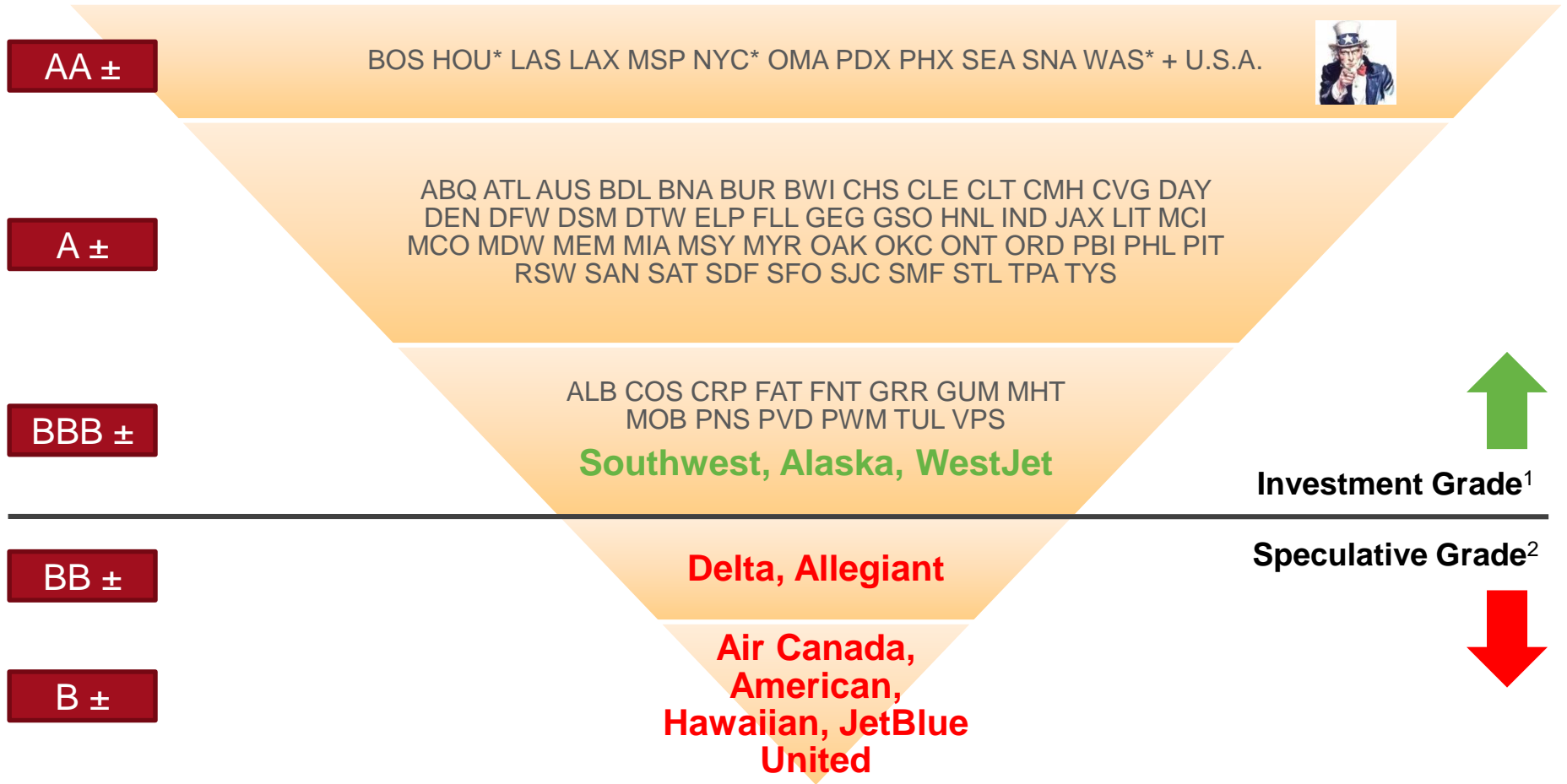
¹ Describes issuers with relatively high levels of creditworthiness and credit quality

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?"



Unlike Airports and USG, North American Airline Creditworthiness Remains Deficient



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

* HOU = HOU/IAH; NYC = EWR/JFK/LGA; WAS=DCA/IAD



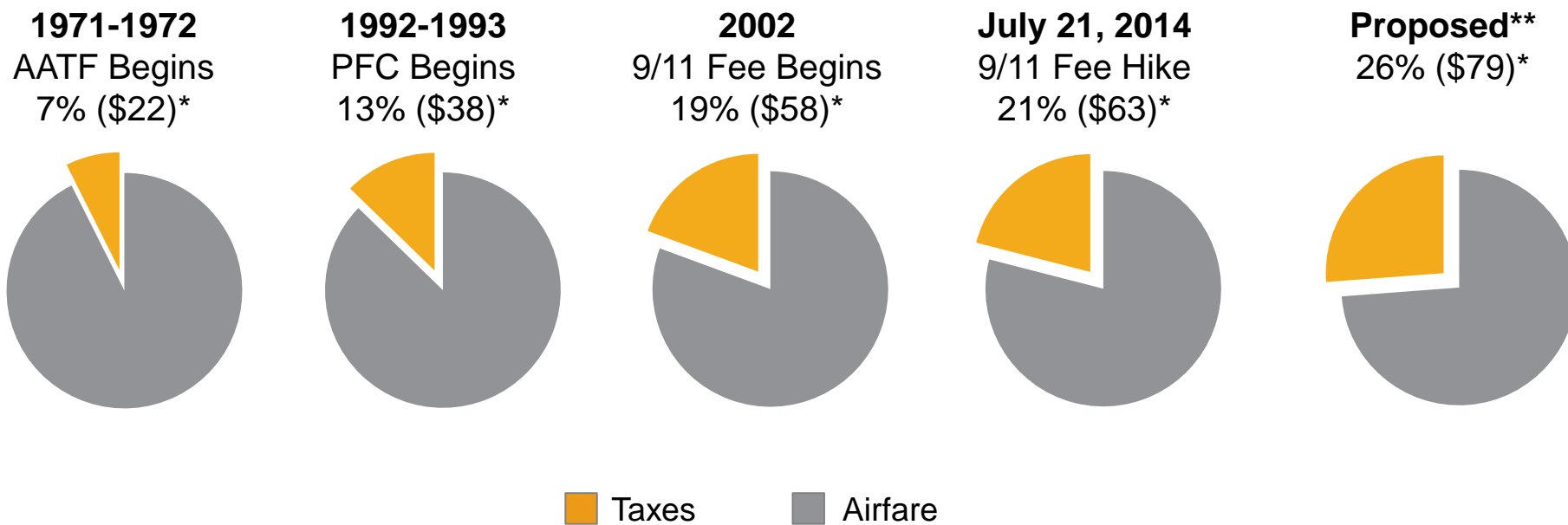
Recap and Risks

- » An expanding U.S. economy, employment growth, rising personal incomes and highest U.S. consumer sentiment in a decade driving increased demand for air travel, with A4A projecting a 2% increase in spring air travel to the highest level in seven years
- » In 2014 U.S. airlines overcame very difficult operating conditions to post respectable profit margins but trailed the S&P 500 average by a large margin
- » With revenues outpacing costs, airlines were able to reduce debt a further \$8 billion in 2014 and increase capital expenditures to their highest level in 14 years, including the delivery of more than 300 aircraft; reinvestment is poised to rise again in 2015
- » U.S. airlines added jobs throughout 2014 and have boosted domestic seats supplied to the highest level in seven years, with every U.S. carrier growing in 2015
- » While competitive pressures continue domestically and internationally, the biggest financial risks may lie on the policy front...



Federal Tax-and-Fee Approach to a \$300 One-Stop Domestic Round Trip* Over Time

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


** Based on proposed increases in President's FY2016 budget and as sought by U.S. airports (via ACI-NA and AAAP)



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Airline industry pours millions into new terminals

 **Charisse Jones,** 10:03 a.m. EDT March 17, 2014



(Photo: Reed Saxon, AP)

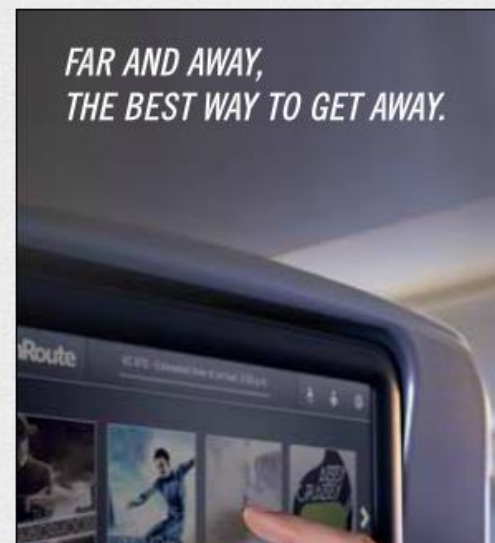
f 135 **t 117** **in 203** **5** **EMAIL** **MORE**
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For business travelers, crisscrossing the country or the globe, airport terminals can be akin to a second home.

Those beehives where the flying public gets boarding passes, checks bags and waits for flights are also the first and final glimpse a traveler has of a

city, a business hub for concessionaires and — depending on the experience — a potentially key factor in whether a passenger boards a jet in a tranquil or testy mood.

Now, airlines and airports are spending hundreds of millions of dollars building and revamping airport terminals across the U.S., from putting in work stations and lounge-like seating to adding Wi-Fi to transforming the building's exteriors into architectural standouts

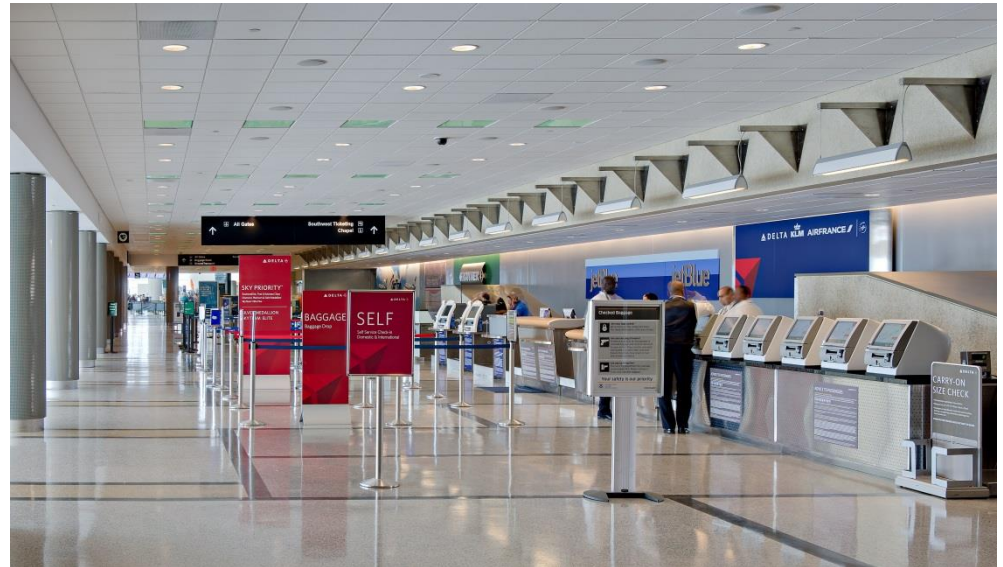


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THE BEST WAY TO GET AWAY.*



Since 2008, More Than \$70B in Capital Improvement Projects Have Been Completed, Are Underway or Have Been Approved by U.S. Airlines and Their Airport Partners at the Country's Largest 30 Airports (Selected Examples Below)

- » JFK & LGA (airlines have invested billions of their own money)
- » SAN & LAX have opened new terminals in past year
- » ORD modernization
- » HNL terminal modernization
- » SEA terminal modernization
- » HOU (Hobby) terminal expansion
- » DAL Love Field modernization
- » GSP terminal modernization
- » FLL runway extension
- » Wichita (ICT) new terminal scheduled for Spring 2015 opening



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