Evolution of the Airline Industry Since Deregulation

Robinson Economic Forecasting Conference at Georgia State University
November 2008
Safe Harbor

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Historical Perspective
Industry Evolution & Change
<table>
<thead>
<tr>
<th>Rank</th>
<th>Airline</th>
<th>Market Share</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United</td>
<td>16.9%</td>
<td>Domestic U.S.</td>
</tr>
<tr>
<td>2</td>
<td>American</td>
<td>12.4%</td>
<td>Domestic U.S.</td>
</tr>
<tr>
<td>3</td>
<td>TWA</td>
<td>11.6%</td>
<td>Domestic / Transatlantic</td>
</tr>
<tr>
<td>4</td>
<td>Eastern</td>
<td>10.8%</td>
<td>Eastern U.S.</td>
</tr>
<tr>
<td>5</td>
<td>Delta</td>
<td>10.0%</td>
<td>Southeastern U.S.</td>
</tr>
<tr>
<td>6</td>
<td>Pan Am</td>
<td>9.0%</td>
<td>International</td>
</tr>
<tr>
<td>7</td>
<td>Western</td>
<td>4.4%</td>
<td>Western U.S.</td>
</tr>
<tr>
<td>8</td>
<td>Braniff</td>
<td>4.1%</td>
<td>Domestic / Latin</td>
</tr>
<tr>
<td>9</td>
<td>Continental</td>
<td>3.7%</td>
<td>Domestic</td>
</tr>
<tr>
<td>10</td>
<td>National</td>
<td>3.4%</td>
<td>Eastern U.S.</td>
</tr>
<tr>
<td>11</td>
<td>Northwest</td>
<td>3.0%</td>
<td>North &amp; Pacific</td>
</tr>
<tr>
<td>12</td>
<td>Allegheny (US)</td>
<td>1.7%</td>
<td>Northeast</td>
</tr>
</tbody>
</table>

* Source: DOT Form 41
# Top Airlines in 1978 – Post Deregulation

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airline</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>United</td>
<td>Exit Chapter 11 in 2006</td>
</tr>
<tr>
<td>2.</td>
<td>American</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>TWA</td>
<td>Bankrupt: Acquired by American</td>
</tr>
<tr>
<td>4.</td>
<td>Eastern</td>
<td>Liquidated</td>
</tr>
<tr>
<td>5.</td>
<td>Delta</td>
<td>Exit Chapter 11 in 2007</td>
</tr>
<tr>
<td>6.</td>
<td>Pan Am</td>
<td>Bankrupt: Parceled out</td>
</tr>
<tr>
<td>7.</td>
<td>Western</td>
<td>Acquired by Delta</td>
</tr>
<tr>
<td>8.</td>
<td>Braniff</td>
<td>Liquidated</td>
</tr>
<tr>
<td>9.</td>
<td>Continental</td>
<td>Multiple bankruptcies</td>
</tr>
<tr>
<td>10.</td>
<td>National</td>
<td>Acquired by Pan Am</td>
</tr>
<tr>
<td>11.</td>
<td>Northwest</td>
<td>Merged with Delta</td>
</tr>
<tr>
<td>12.</td>
<td>US Air</td>
<td>Multiple bankruptcies / mergers</td>
</tr>
</tbody>
</table>

* Source: DOT Form 41
Top Airlines Today – Market Share

1. Delta / Northwest 25.4%
2. American 17.6%
3. United 15.6%
4. Continental 11.8%
5. Southwest 9.5%
6. US Airways 9.1%
7. jetBlue 3.2%
8. Alaska 2.8%
9. AirTran 2.5%
10. Frontier 1.3%

* Source: DOT Form 41, 2Q08 RPMs
What Happened?
Events that Restructured the Industry

- Deregulation (1978)
- PATCO (1981)
- Mergers
- 9/11 (2001)
- Fuel
- Internet (Today)
Many Airlines Have Struggled to Adapt

Airline Bankruptcies Since Deregulation
Why the Failure to Adapt?

- Inefficiencies carried over from regulatory environment
  - High costs in a commodity-like business

- Cyclical business prone to excess capacity
  - Low barriers to entry, high to exit
  - Inexpensive asset financing has created too much capacity
  - Too many hubs

- Historically a market share focus

- Most mergers have not produced intended results
  - Temporary revenue gains
  - The most inefficient work rules typically survive
U.S. Airlines “Earnings” – Actually a Cumulative Loss

Cumulative Loss of $12 Billion

* Source: Air Transport Association
“…I like to think that if I’d been at Kitty Hawk in 1903 when Orville Wright took off, I would have been farsighted enough, and public spirited enough – I owed this to future capitalists – to shoot him down.”
Challenges Facing the Industry Today

- **Cost:** Unprecedented run up in fuel
- **Credit:** Banking crisis and its impact on credit markets
- **Revenue:** Weakening economy and recession
Recent Fuel Volatility Has Forced Dramatic Change

*West Texas Intermediate at Cushing

Sources: Air Transport Association, Energy Information Administration, PIRA Energy Group, Deutsche Bank
Airlines Have Reacted Quickly to the Fuel Run Up

- All airlines announced mainline domestic capacity reductions
  - Industry domestic capacity down approximately 10% in Q408
  - Delta capacity will be down 10-11% in Q408
  - AirTran capacity will be down 6-7% in Q408 after original plans for 10% growth

- Because of high fuel, airlines are probably six months in front of many industries in addressing economic weakness
Since World War Two, Ex-9/11, Annual U.S. Airline Revenue Has Only Declined Twice

Annual U.S. Airline Operating Revenue Growth

(Revenue Growth)

-15% -10% -5% 0% 5% 10% 15% 20% 25%


* Source: Air Transport Association
AirTran’s View of Today’s Challenges
AirTran: Demonstrated Record of Adapting

- Under new management AirTran restores profitability in 1999
- Emerged stronger from 9/11 by lowering costs and capitalizing on legacy domestic retrenching
- Completed re-fleeting to all 717 fleet
- Negotiated 737 deal at market bottom
- Increased cash balance to $100MM from low of $10MM in 1999
- Successfully recapitalized the Company with $230MM in debt maturities due 2Q01
- Transformed business to become highly regarded low-cost airline
- Expanded network into Baltimore and Florida
- Remained profitable post 9/11
- Proactive response to increase in fuel from $75 to $140 per barrel
- Focused on reducing capacity growth, increasing unit revenues, continuing to lower non-fuel costs, limiting fuel exposure, and successfully raising capital
- Low costs will allow us to further capitalize on capacity reductions
- Completed re-fleeting to all 717 fleet
- Continued to lower non-fuel unit costs to the best in industry
- Continued to increase revenues
- Capitalized on continued legacy domestic restructuring and expanded network into the West
- Remained profitable post 9/11
- Proactive response to increase in fuel from $75 to $140 per barrel
Strong Fundamentals: Unique Product

- Business Class on every flight
  - Only major U.S. airline with Business Class on every flight

- Assigned seating

- Over 150 channels of free digital XM Radio

- Oversized luggage bins

- Friendly Crew Members

- Broad distribution
  - AirTran.com
  - Reservations
  - Travel agencies
# Strong Fundamentals: #1 in Quality

## Airline Quality Rating for Major Carriers

<table>
<thead>
<tr>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tbody>
<tr>
<td>1.</td>
<td>JetBlue</td>
<td>JetBlue</td>
<td>JetBlue</td>
<td>JetBlue</td>
</tr>
<tr>
<td>2.</td>
<td>Alaska</td>
<td>AirTran</td>
<td>AirTran</td>
<td>AirTran</td>
</tr>
<tr>
<td>3.</td>
<td>Southwest</td>
<td>Southwest</td>
<td>Independence</td>
<td>Frontier</td>
</tr>
<tr>
<td>4.</td>
<td>America West</td>
<td>United</td>
<td>Southwest</td>
<td>Northwest</td>
</tr>
<tr>
<td>5.</td>
<td>US Airways</td>
<td>Alaska</td>
<td>United</td>
<td>Southwest</td>
</tr>
<tr>
<td>6.</td>
<td>Northwest</td>
<td>America West</td>
<td>America West</td>
<td>Continental</td>
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<tr>
<td>7.</td>
<td>Continental</td>
<td>Northwest</td>
<td>Northwest</td>
<td>United</td>
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<td>Alaska</td>
<td>American</td>
</tr>
<tr>
<td>10.</td>
<td>ATA</td>
<td>ATA</td>
<td>American</td>
<td>ATA</td>
</tr>
</tbody>
</table>

**Notes:**
1. Source: Wichita State University / University of Nebraska, Omaha.
2. Based on DOT reports for on-time performance, denied boardings, mishandled baggage, and customer complaints.
3. AirTran not ranked prior to 2003.
AirTran’s Non-Fuel Unit Cost Trend

- Excludes non-recurring special items
- 2008 is for the first nine months ended
Strong Fundamentals: Low Cost Structure

Industry Cost Comparison

Non-Fuel Unit Costs at 734 Miles for 1H08

While legacy costs are down, gap remains large

* Excludes fuel and special items
Strong Atlanta Hub
AirTran Operates the World’s Largest LCC Hub

- DAL - Atlanta
- AMR - Dallas
- CAL - Houston
- UAUA - Chicago
- LCC - Charlotte
- AAI - Atlanta
- LUV - Las Vegas
- AMR - Miami
- NWA - Minneapolis
- NWA - Detroit
- CAL - Newark
- LUV - Chicago
- AMR - Chicago
- UAUA - Denver
- LCC - Phoenix
- LUV - Phoenix
- JBLU - New York
- LUV - Baltimore
- LCC - Philadelphia
- UAUA - San Francisco
- AAI - Atlanta (2000)

- 225 departures in December 2008

Mainline Departures | Regional Departures
Successful Diversification of Network
AirTran Responded Quickly and Decisively

- **Reduced growth**
  - Deferred 36 planned aircraft deliveries
  - Agreements to sell / return 11 aircraft

- **Reduced costs**
  - Closed three cities
  - Cut non-aircraft CAPEX by 50%

- **Raised cash**
  - Arranged over $375MM in financing / credit facilities

- **Limit fuel exposure**
  - Active and disciplined hedging program

- **Increase revenues**
  - Significant changes in ancillary revenues
  - Fare increases
Atlanta Has the Best of All Worlds in Aviation

- World’s busiest airport
  - More flights to more destinations than any other airport in the world

- Large global carrier in Delta / Northwest

- AirTran and the world’s largest low cost hub

- High level of competition forces efficiency and quality

- Result is an economic growth engine for Georgia business
Summary

- 2008 has been a difficult year
- AirTran has moved quickly and decisively
- Fundamentals remain strong
- Positioning the company to return to profitability and capitalize on opportunities
  - Airlines are six months in front of this current economic problem
  - AirTran is better positioned for this challenge