



ACI-NA State of the Economy & the Industry

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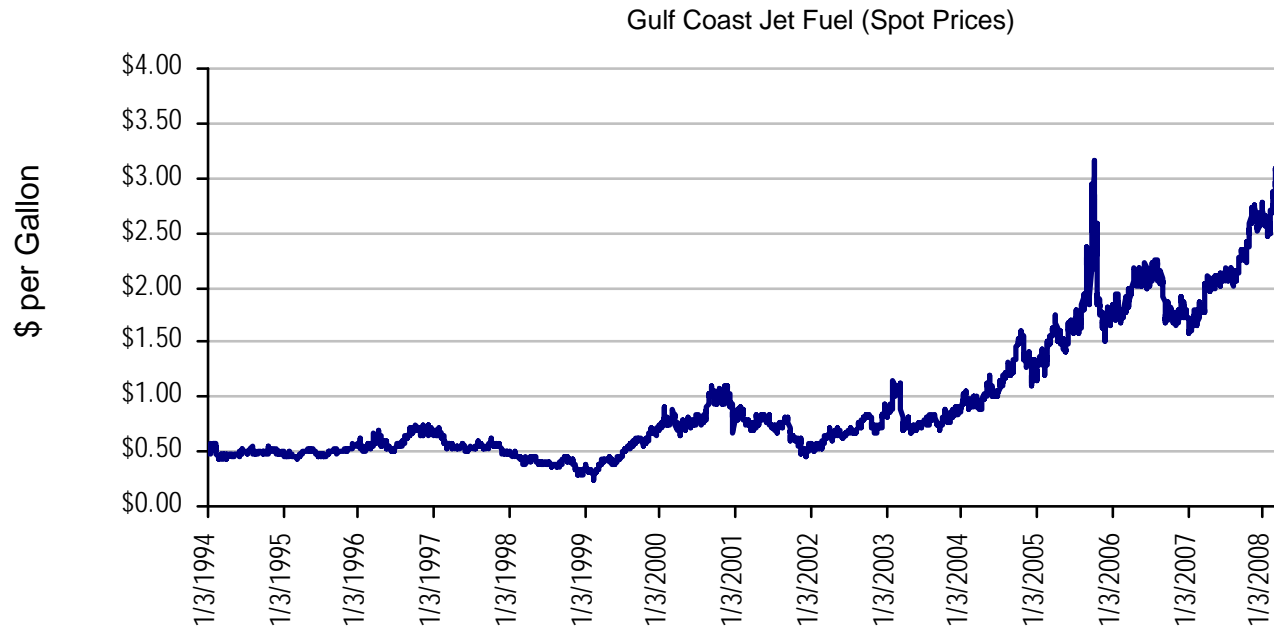
Introduction

- ◆ State of the industry
- ◆ Response to challenges
- ◆ Our take on consolidation
- ◆ Outlook for the industry and the stocks

US Airline Industry Deeply Troubled...Again

State of the Industry – Troubled - Fuel

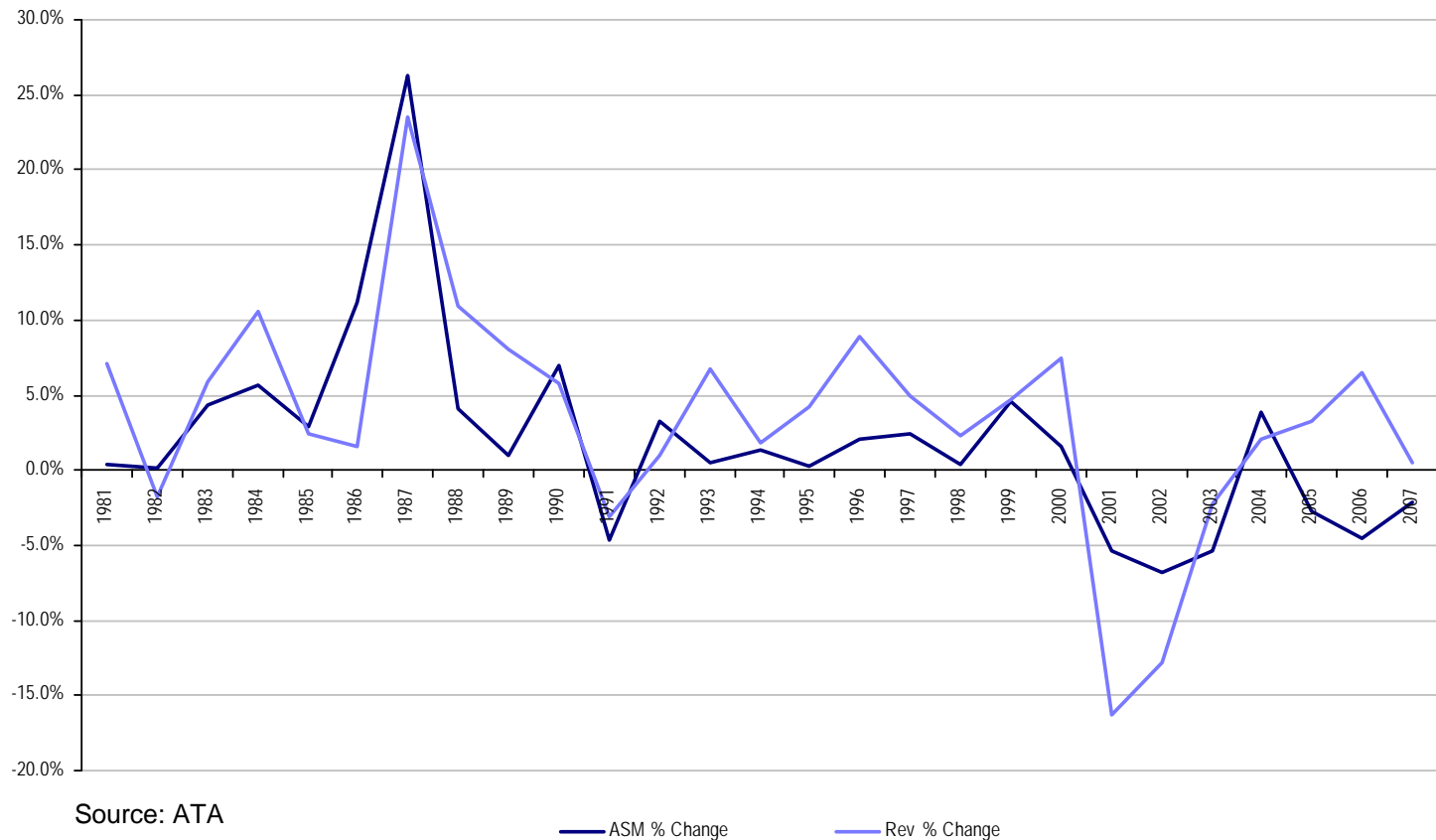
- ◆ >\$12 billion additional fuel expense
- ◆ \$1 million per hour headwind



Source: Bloomberg

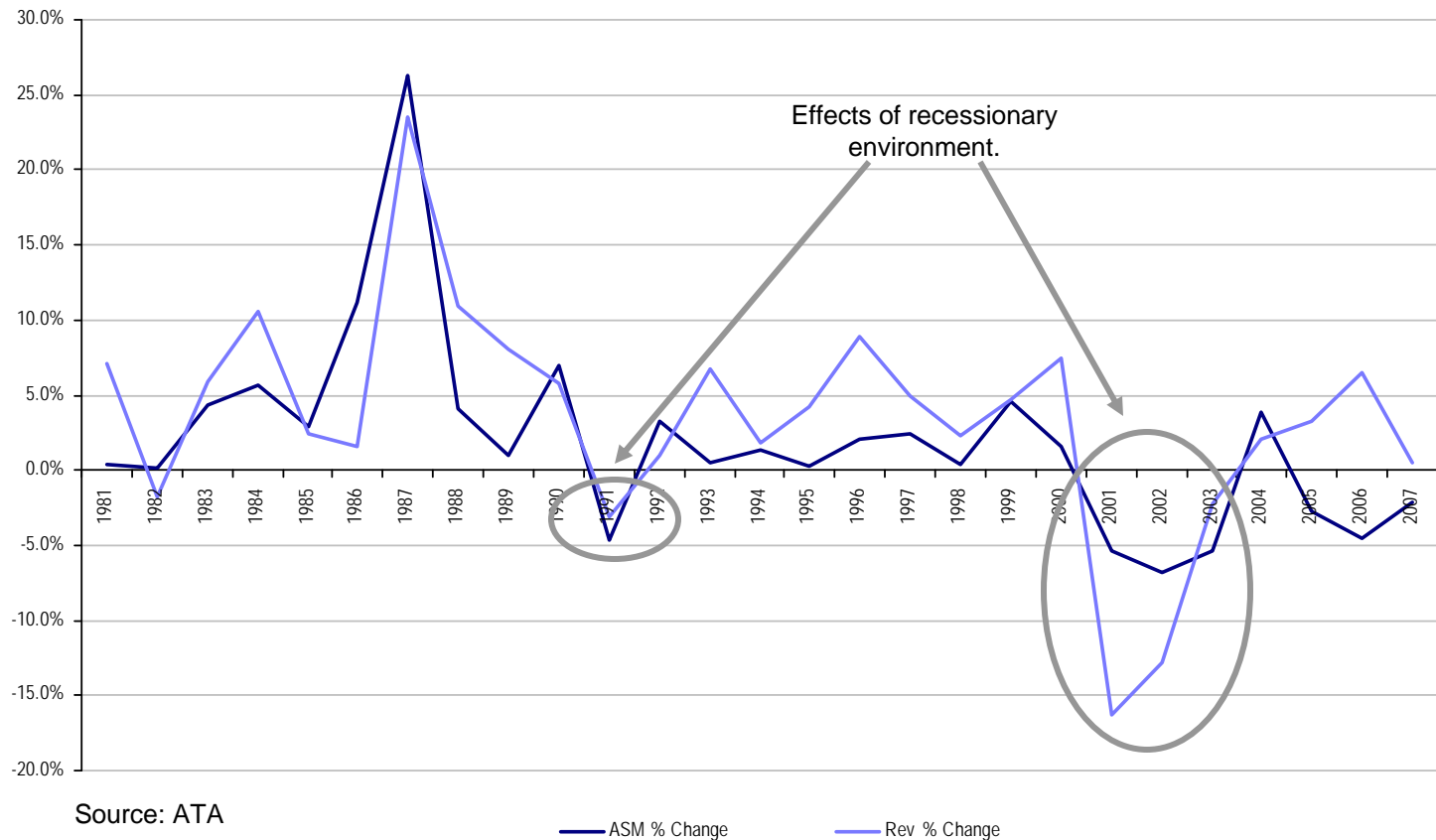
State of the Industry – Troubled - Demand

ATA Revenue vs Capacity Change - Domestic



State of the Industry – Troubled - Demand

ATA Revenue vs Capacity Change - Domestic

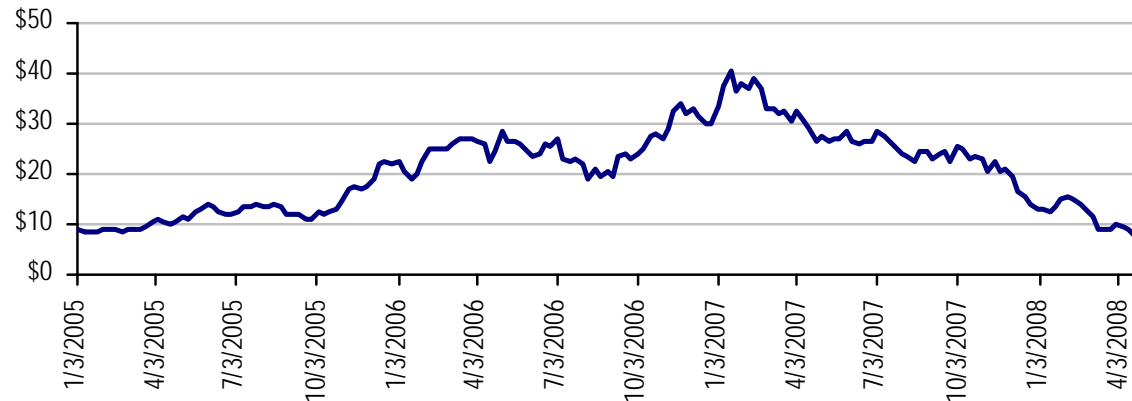


Source: ATA

State of the Industry – Troubled – Results So Far

- ◆ Bankruptcies/Liquidations of small carriers (Skybus, Frontier, Aloha, ATA...)
- ◆ Big losses from large carriers
- ◆ Investors have either abandoned the sector or become very skittish

AMR Stock Price History 2005-Apr 21, 2008

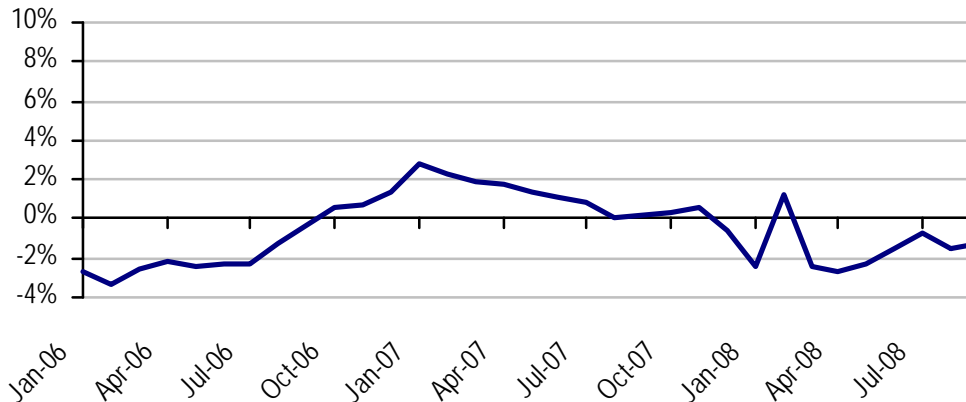


Response - Easy to Outline, Tough to Achieve

- ◆ Problem simple
- ◆ Solution too
- ◆ Industry construct and size of the problem mean solution will be difficult to achieve and will take time

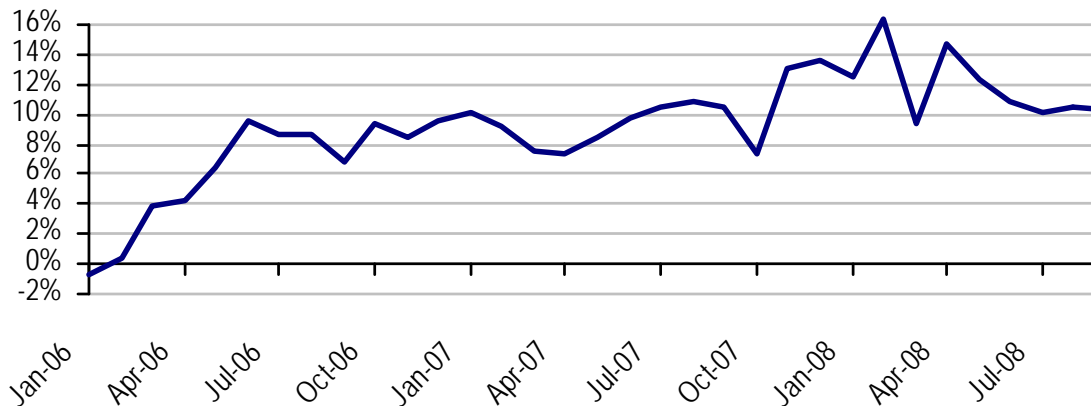
Response 1 – Move to Where the Money Is

Domestic Capacity by Month – Year over Year



Source: BACK database

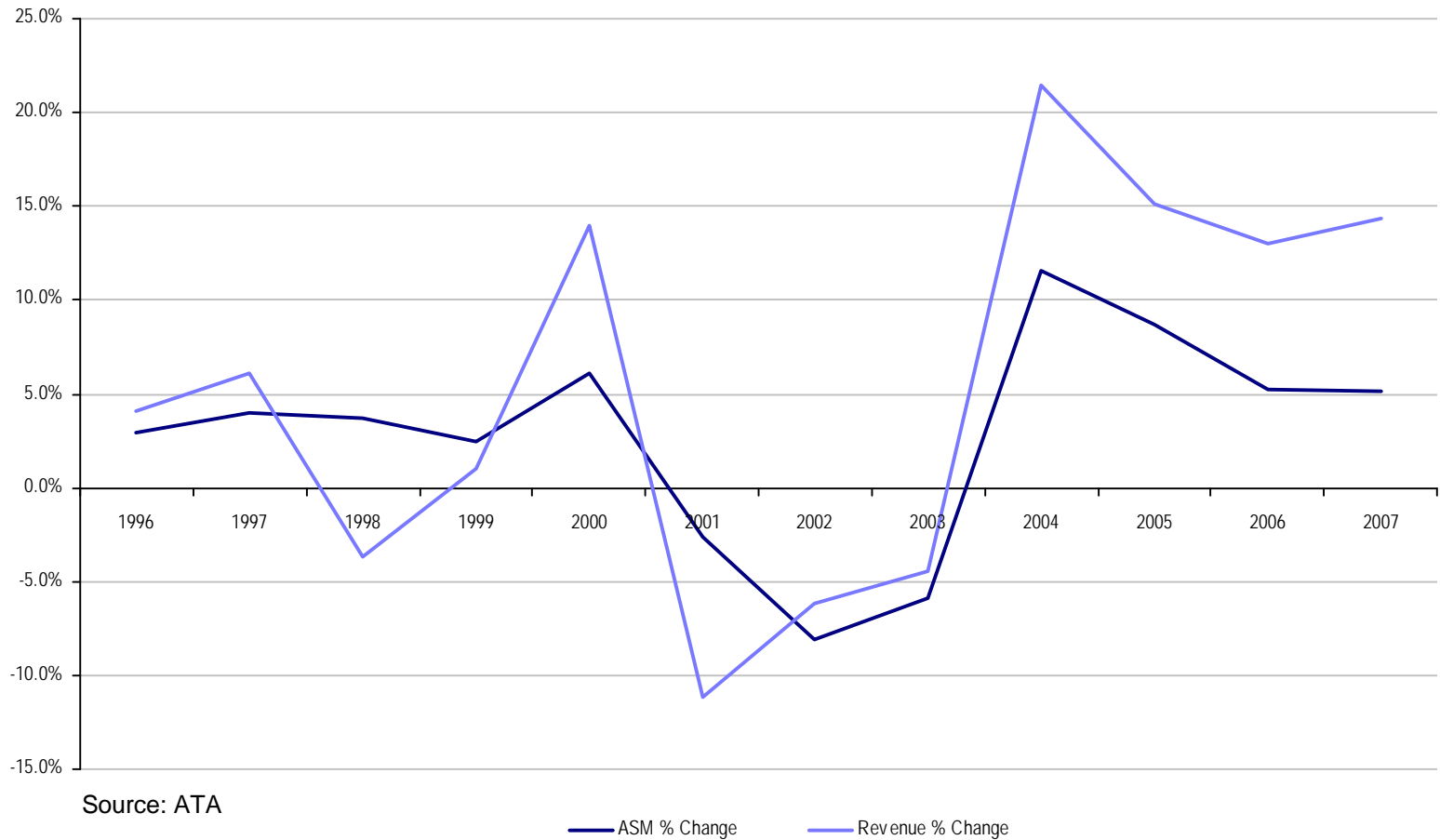
International Capacity by Month – Year over Year



Source: BACK database

Response 1 – Move to Where the Money Is - Worked

ATA Revenue vs Capacity Change - International



Response 2 – Revenue, Revenue, Revenue Now!

- ◆ Cut what costs can (e.g. discretionary capex)
- ◆ Reduce capacity and try to raise fares
- ◆ Expand non-fare revenue initiatives

Response 3 – Consolidation

- ◆ Delta/Northwest announced, more to follow
- ◆ Announced capacity cuts understate long run outcome
- ◆ Consolidation is really about 5-10 years from now

Our View: Big Losses, Bankruptcies Possible

- ◆ Some things are as simple as they appear
- ◆ Recession + \$120/bbl Oil = Losses and No Buy Ratings

EPS Estimates

| <i>Company</i> | <i>Ticker</i> | <i>Rating</i> | <i>2008 EPS UBS</i> |
|----------------|---------------|---------------|-------------------------|
| AirTran | AAI | Neutral (CBE) | -\$0.69 |
| Alaska | ALK | Neutral (CBE) | -\$0.77 |
| American | AMR | Sell (CBE) | -\$9.20 |
| Continental | CAL | Neutral (CBE) | -\$3.33 |
| Delta | DAL | Neutral (CBE) | -\$0.58 |
| JetBlue | JBLU | Sell (CBE) | -\$0.42 |
| Northwest | NWA | Neutral (CBE) | -\$1.06 |
| Southwest | LUV | Neutral | \$0.18 |
| United | UAUA | Neutral (CBE) | -\$9.37 |
| US Airways | LCC | Neutral (CBE) | -\$8.03 |

Source: UBS

Price as of:

4/25/08

CBE=Core Band Exception (more upside required to justify Buy rating)

Risk Statement

Trading airline stocks may be hazardous to your wealth. Over the long term, a diversified portfolio of airline stocks has reliably underperformed broader market averages. Our estimates – which form the basis for our valuations and stock price targets – are subject to a very high degree of error and may be materially inaccurate. This forecast error is driven primarily by revenue volatility – a function of unpredictable business travel spending, combined with significant operating and financial leverage. Other sources of error include but are not limited to jet fuel price volatility, labor disruptions, discount carrier growth, bankruptcy risk, and significant event risk associated primarily with terrorist actions. All of these risk factors combine to make our estimates statistically unreliable, but the best we can do. Furthermore, under the UBS rating system, most stocks with a forecast stock return (price appreciation plus gross dividend yield over the next 12 months) more than 10% above the market return assumption (one year local market interest rate plus 5%, which approximates the equity risk premium) must carry a Buy recommendation. Many investors may reasonably demand higher returns for airline stocks given the extreme risks involved with them.

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UBS Investment Research: Global Equity Rating Allocations

| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|-----------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 55% | 39% |
| Neutral | Hold/Neutral | 36% | 36% |
| Sell | Sell | 8% | 20% |
| UBS Short-Term Rating | Rating Category | Coverage ³ | IB Services ⁴ |
| Buy | Buy | less than 1% | 25% |
| Sell | Sell | less than 1% | 50% |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

| UBS 12-Month Rating | Definition |
|-----------------------|---|
| Buy | FSR is > 6% above the MRA. |
| Neutral | FSR is between -6% and 6% of the MRA. |
| Sell | FSR is > 6% below the MRA. |
| UBS Short-Term Rating | Definition |
| Buy | Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. |
| Sell | Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. |

Required Disclosures (Continued)

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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