PRESIDENT'S MESSAGE
1967 Frontier Airlines Annual Report

The year 1967 brought to Frontier its greatest period of expansion in its 21 years of operation. The story told in the following pages is one of progress and growth. Frontier Airlines again paced the industry in growth over the previous year in terms of passenger traffic. Because of several valid understandable factors, earnings trailed 1966 by a substantial margin.

The 41% increase in revenue passenger miles increased the 1967 total to 658,417,000 compared to the 465,930,000 in 1966. This was accomplished in part by substantial additions to our fleet and to our area of operating authority.

Our fleet of Boeing 727's was increased to five by the addition of three of these 99-passenger jets in April, May and June. Five additional Convair 580's were also added during the course of the year.

CAB approval of Frontier's first trunk-line route, Denver-St. Louis, represented a signal victory and a major breakthrough in route development. We commenced service in June over this 780-mile segment offering frequent daily nonstop flights from Denver to both Kansas City and St. Louis. Three daily jet flights also extended westward from Denver to Salt Lake City. Frontier's marketing team has been promoting the use of the St. Louis gateway as opposed to the congested Chicago facilities for the flow of traffic in and out of our 14-state system.

The agreement last April to merge with Central Airlines won speedy approval by our respective stockholders and by the CAB resulting in a merger of the two companies October 1, 1967. Frontier, as a result of this, is now the sexond largest domestic U. S. carrier in terms of cities served - 114 in 14 states - and the fourth largest in terms of unduplicated authorized route miles - 12,200 miles. Reorganization of departments, relocation of personnel and integration of facilities have been largely completed, but not without cost in terms of temporarily slowed efficiency and at times disruption of normal services.

Contrary to the popular concept, this merger was not effected in order to make more profits through reduction in combined expenses. In fact, it was anticipated that total expenses would increase but that in the months and years to come, increased traffic flows and reduced unit costs would more than offset these increases.

Higher wage scales of Frontier have resulted in increases for a majority of the former Central employees. Some 300 more jobs have been added since the merger to meet expanded traffic needs and to fill some obvious deficiencies existing in the new total system. The end results as affecting improved service, reduced subsidy and increased earnings will be, in our opinion, more than compensatory.

Total revenues of $56,995,240 are up 24% over the $45,782,309 of 1966, although traffic was up 41%. This disparity reflects a further substantial reduction of $1,018,736 in Federal subsidy and a further reduction in cost to the traveler because of increased use of Frontier's low-cost promotional fares. Promotional and coach fare revenues increased 77% in 1967 while first class increased only 9%. Promotional and coach revenues were roughly $18,383,000 or 44% of the $41,730,997 passenger revenue for the year.

Earnings were further depressed because of the following reasons:
(a.) Capacity increases during the year brought about by new equipment and new routes exceeded votume growth resulting in a slightly decreased schedule service load factor 42.9% versus 44.6%.
(b.) Depreciation and amortization charges of $4,589,785 were up 79% or $2,032,094 over those of 1966, reflecting the new additions to our fleet.
(c.) Interest expense totals of $2,946,328, an increase of $1,722,729 over 1966.
(d.) The traffic development expected from the enlarged fleet and route expansion was only partially achieved in 1967 but will be contributing to the profit picture in the future.

As 1968 commences, we have received the first three of our new Boeing Super 727 134-passenger jets with two more to be delivered in the fall. Ten additional Convair 580's will be acquired during the year to assist in further developing our local-service routes.

The CAB award of a new 617-mile route, Las Vegas-Denver, will allow us to start service March 1, 1968 between Las Vegas and St. Louis with intermediate stops at Denver and Kansas City. Boeing 727 equipment will be used on these flights and on other new jet services to be started the same date including Denver-Bismarck-Minot, Dallas-Ft. Smith-St. Louis, Dallas-Ft. Smith-Kansas City-Omaha.

During the past 4 years, Frontier Airlines has reduced its annual subsidy $3,619,730 without diminishment of the quantity of local service provided. In fact, in the majority of cases, service quality and quantity have improved. The subsidy reduction has been made possible by improved efficiencies in operations and increased revenues resulting primarily from low-cost promotional fares.

Frontier's breakeven load factor, absent subsidy support, has dropped from one near the top to the lowest in the local service industry - 50.6% in 1967.

Your Company's goal is to attain a subsidy-free status without cutting back on needed service to the smaller towns. The CAB endorses this philosophy as evidenced by their route improvement program. In addition, the present subsidy class rate provides for automatic subsidy reduction as revenues increase over the base year on the assumption that profits increase with revenues. Such an assumption is not necessarily a truism, but subsidy reduction occurs without regard to profit or loss.

This past year, annualized reductions of subsidy in the amount of $576,113 were agreed to by your Company resulting from the merger with Central and the award of the new Las Vegas authority. An additional reduction of $407,402 will result from application of the increased revenue factor in 1968. We believe this automatic reduction is fine in principle, but at times, harsh in its application. On the other hand, Frontier Airlines has seen some fine profit years and with the aid of new routes, will see many more. We, therefore, should acknowledge this year's reduced profits as an investment for future growth.

We are looking forward to further expansion this year. The continued loyal support of our employees, our stockholders and our customers is appreciated.

Lewis W. Dymond
February 26, 1968