

1984 FRONTIER ANNUAL REPORT

Letter to Shareholders

Frontier's cost disadvantage in the low-fare, hyper-competitive Denver market continued to take its toll on the company in 1984, as our net loss exceeded \$31 million, more than double our loss in 1983. Clearly, dramatic actions are needed - and are being taken - to attempt to stabilize the company so we can move forward to define our future "niche in the still-evolving marketplace of deregulation.

Frontier is a changing airline in a changing industry environment. Since deregulation, we, like many other airlines, endeavored to become a "generalist;" an airline that is 'all things to all people,' serving a variety of large, medium and small markets from what has become an oversaturated Denver hub. As a generalist, Frontier found itself competing head-to-head against larger airlines with greater resources and new (or reorganized) carriers with low cost structures and the resulting ability to profitably provide low fares.

To enable us to further extend our base of activities, Frontier formed a holding company in May 1982 to seek new opportunities in other areas, primarily related to aviation and travel.

A significant portion of our loss in 1984 reflects our decision to pull back from such a broad view and to re-focus our attention on Frontier Airlines. In January 1985 Frontier Holdings sold the assets of Frontier Horizon, our second airline subsidiary. Activities of our other non-airline subsidiaries have been curtailed or are being offered for sale.

When we terminated service to 22 cities in the fourth quarter of 1984, we began the process of positioning ourselves away from being a generalist to becoming an airline that will have a marketing niche - a specialist in a specific segment of the industry. In 1985 we hope to implement a business plan that will direct us toward that niche - offering a re-defined mix of local and connecting passenger service at Denver with efficient Boeing 737s, supported by specially designed marketing programs.

Before we can move forward to achieve our goal, it is imperative that we stabilize our company through control of revenues and costs. To rebuild and maximize our revenues, we are making adjustments in our pricing strategies that we expect to raise our yield, or revenue per passenger mile. At the same time, we are undergoing a route and fleet analysis in order to concentrate our resources on doing what we can do best - competing efficiently and profitably.

We achieved some cost reductions in all areas of the company in 1984, but further reductions are necessary. Members of our five unions demonstrated their willingness to help make Frontier a competitor in January 1985 when they ratified investment packages calling for substantial cost savings.

In return for their sacrifices, the employees have a unique opportunity: the possibility of becoming owners of the company through an employee stock ownership plan, or ESOP. At press time, the company, a coalition of our unions and our major shareholder were involved in negotiations with various outside parties with respect to financing the purchase of the company's outstanding common stock. Any decisions that may be made as a result of these and other negotiations will be based on the best interests of all of our

shareholders

Once we resolve the ownership question, it will be essential that we implement a business plan that will generate sufficient earnings to provide for restructuring our financial plan and servicing our debt, elements that will help us strengthen our balance sheet.

When I took the position of president of Frontier in November 1984, it was clear that the challenges ahead of us in these frustrating and uncertain times would be enormous. Validating the magnitude of the task ahead of us is the accompanying qualified accountants' report by our outside auditors, which questions our ability to survive should the sale of the company's stock not occur and should our losses continue to mount.

As we continue to work to stabilize our company and endeavor to define our niche in the marketplace, we have a strong advantage: a motivated team of employees dedicated to the future of Frontier Airlines. Buoyed by the spirit of our employees and the support of our passengers, our travel agent partners and our shareholders, we face a struggle for survival with a strong determination to win.

M.C. (Hank) Lund
President