

Building Air Service In A Down Economy

One Airline's View



A Little About Midwest Airlines

- In 1948, Kimberly-Clark Corporation began providing corporate air transportation for its executives. After the Airline Deregulation Act of 1978, Kimberly-Clark capitalized on its aviation experience to form Midwest Express Airlines.
- Following startup on June 11, 1984, Midwest Express successfully executed a strategic plan of controlled growth and development.
- Initial public offering in 1995. Parent company, Midwest Air Group, traded on AMEX under symbol MEH.
- In 2003, simplified name to Midwest Airlines.
- In the fall of 2007, Midwest Air Group agreed to a buyout by the private investment group TPG, which is expected to close this quarter.

Today

- Serving the heart of the Midwest from 50 cities coast to coast, plus Canada
- Recognized as “The best care in the air” by the industry and consumers.
- One brand – Midwest Airlines – with a rich legacy of service.
Three products, each geared to different types of travelers:
 - Midwest Airlines Signature Service
 - Midwest Airlines Saver Service
 - Midwest Connect



Market Conditions

Welcome to the Tough Times

- Wide ranging reports of economic slowdown
- Unemployment is up 10% from the first quarter to the fourth quarter
 - We are at the highest unemployment levels since 2004
- Domestic capacity is in decline
 - In the first quarter 2008, seats are DOWN 1.3% versus 2007
 - In the first quarter 2007, seats were UP 3.6% versus 2006
- Access to some popular airports is being limited by FAA
 - Newark, JFK, LaGuardia, O’Hare
- Oil prices are near record highs
 - Most carriers are expecting fuel to be up \$0.20 to \$0.60 versus last year

And How Are The Airlines Responding?

- Routes are being dropped
 - Especially non-strategic/non-hub routes
- Fewer Flights
- Down-gauge to regional jets
- And.....

Merger Mania Is Back

- Wall Street is calling for mergers, and the airlines are responding
 - Delta/ Northwest
 - Delta/United
 - United/Continental
 - Northwest/Midwest
 - Southwest says they are looking



This Can't Be Good For Air Service Development



Costs From The Airline Point of View

The Impact of High-Priced Oil

- Oil has become the highest single cost for airline
 - Fuel expenses now represents 40% of airline costs
 - Fuel expenses can only be managed by reducing flying, or operating aircraft that use less fuel
- High fuel costs have required airlines to run very high load factors

Who Pays The Higher Fuel Prices?

- Shareholders
 - Reduced earnings
- Customers
 - Higher prices
 - Fewer discount seats
 - Fuel surcharges
 - These increases impact passenger demand

Simple Math

- MD80 burns 1020 gallons per hour
- A flight from Milwaukee to Ft. Lauderdale takes 3.2 hours
- Gallons used: 3264
- Increased cost per flight: \$1,960
- Additional passengers required to pay for the increase in fuel, per flight: 15.6 (11 LF points)

More Simple Math

- CRJ burns 297 gallons per hour
- A flight from Milwaukee to Hartford takes 2.2 hours
- Gallons used: 653
- Increased cost per flight: \$392
- Additional passengers required to pay for the increase in fuel, per flight: 2.9 (6 LF points)



The Leverage of Revenue

Setting Higher Revenue Goals

- Revenues must increase by 5-15% to cover increases fuel costs
 - Increase load factors
 - Increase prices
- Striking a balance between load factor and yield

The Price/Volume Continuum

- For a 717, on a 2 hour flight, with a 70% load factor:
 - Each additional passenger increases revenue by 1.7%
 - To increase revenues by 10%, 6 additional passengers are required
 - Each existing passenger would have to pay \$2.50 to add the same amount of revenue
 - To increase revenues by 10%, fares would have to increase by \$15

Impact Of Price on Volume

- Looking at a market basket of O&Ds:
 - 67% of markets had fare declines in the second quarter of 2007 versus 2006
 - In each case, volume increased, but in only 1/2 the cases did revenue improve
 - In the cases where fare increases, in all cases passengers and revenues declined

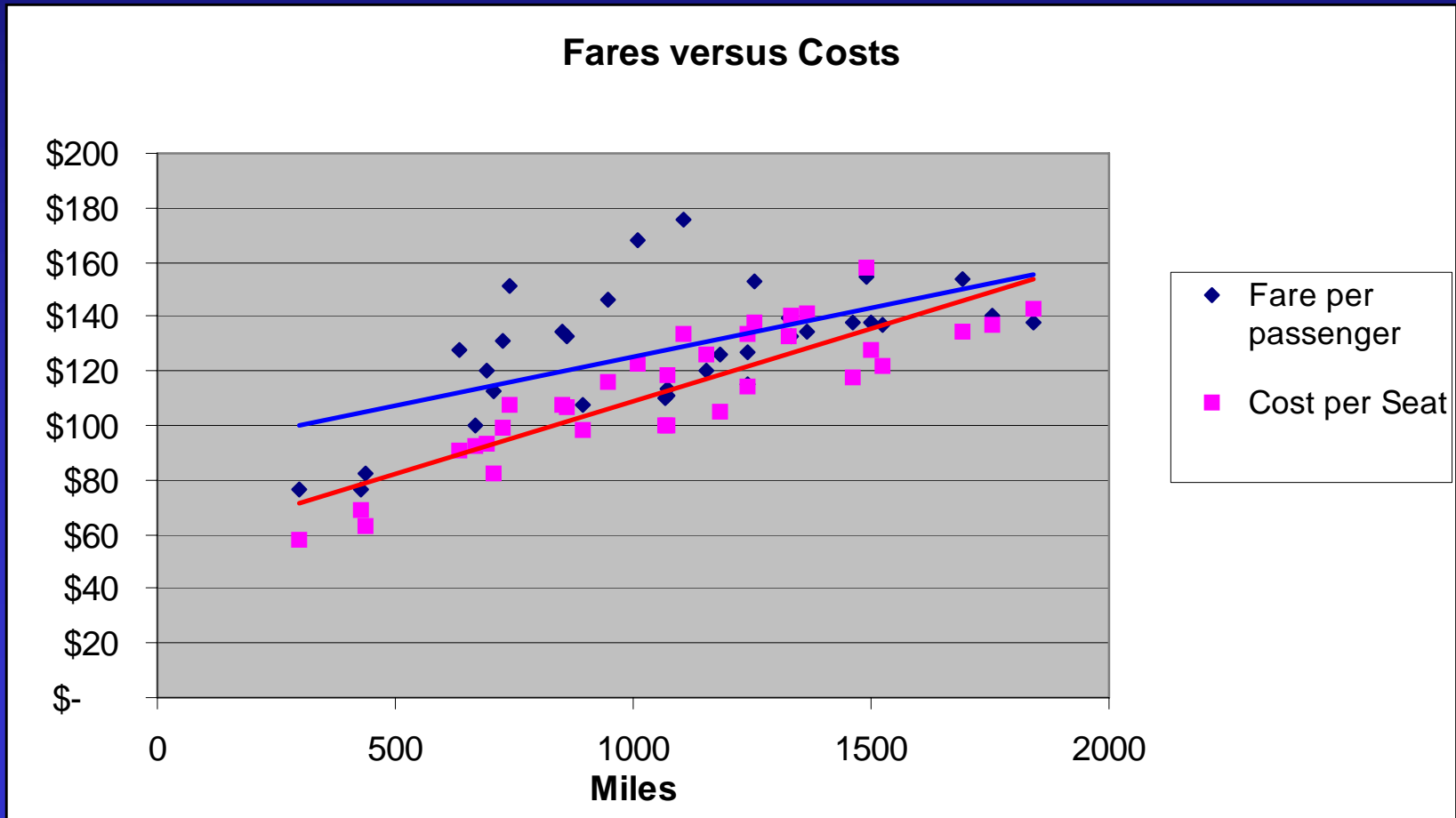


What Works In This Environment?

What The Airlines Are Looking For

- Low costs of operation
- Pricing certainty
- Minimum revenue risk

Shorter Flight Have More Attractiveness





How Airport Managements Can Influence Airline Decision-making

Keep Costs Low

- Airports can minimize the cost of entry to a carrier
 - Keep fees low
 - Absorb carrier set-up costs
 - Provide carriers with the space they need, not the space you want to rent
 - Use marketing funds for real, tangible advertising
- Defraying costs alone is not enough
 - \$500,000 first year give-backs reduce costs of a two-roundtrip schedule by only \$350 per trip

Deliver the customer

- Corporate commitments, not casual promises
- Market like it matters, because it does
- Set real goals for passengers and yields, and know how you're doing
- Stay committed to the market

Lobby For The Right Routes

- Know your airline's competitive advantages
- Minimize hub over-flying
- Focus on the point of sale strength
- Help the carrier to get the market right-sized

Summary

- Airports can attract new air service, even in a down economy
- The current economic cycle will give everyone some attractive opportunities to promote
- Losing service may not be a bad thing

The Midwest Airlines Legacy





MIDWEST 



How We Build Our Business

- Careful growth
- Focus on point of sale
- Know your market
- Keeping costs low
- Right-sizing the service

Scoring Airports

- Enthusiasm
- Commitment to airline success
- Bring the long view
- The low cost solution

What Midwest Wants From You

- We want customers
- A shared vision
- Celebrate differentiation
- A plan to build on