



# Air Service Development In Today's Fuel Environment

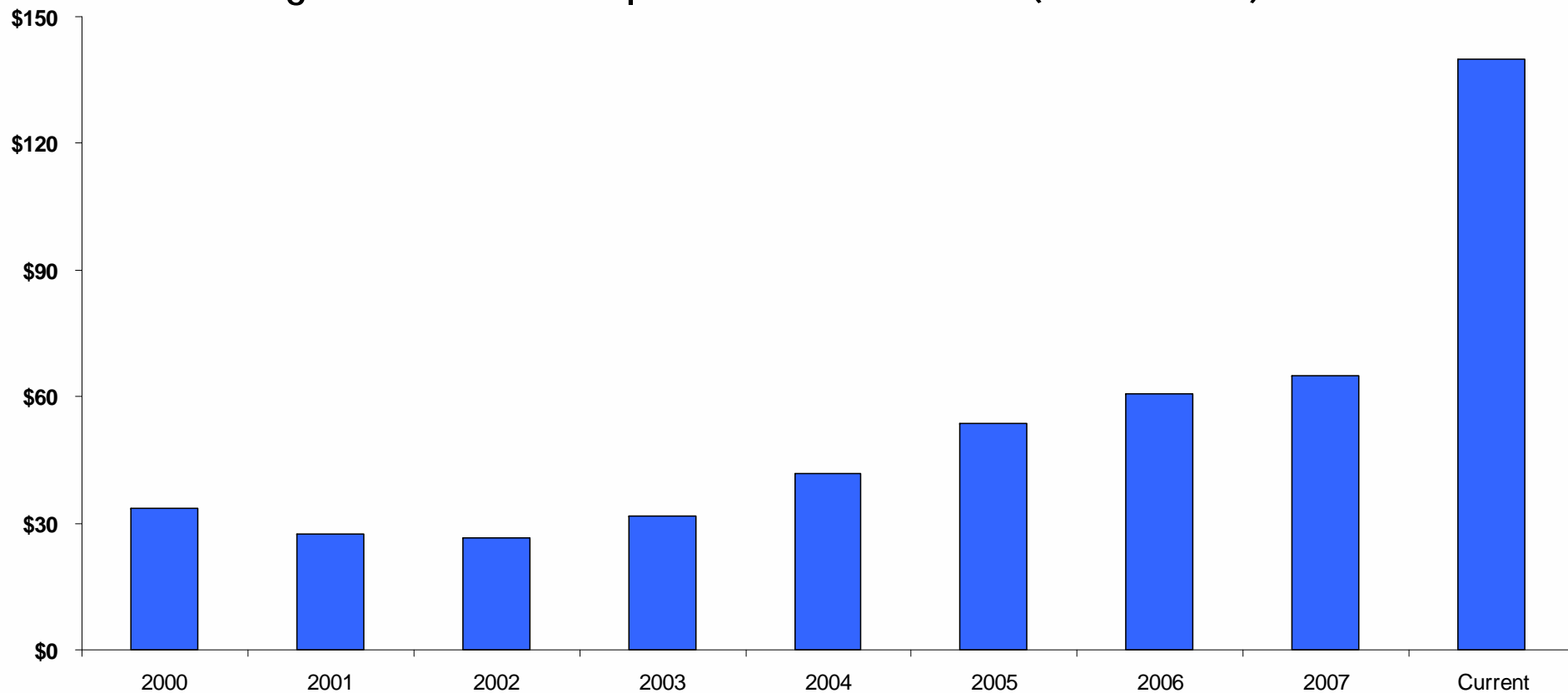
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# The Industry Is Facing An Unprecedented Challenge

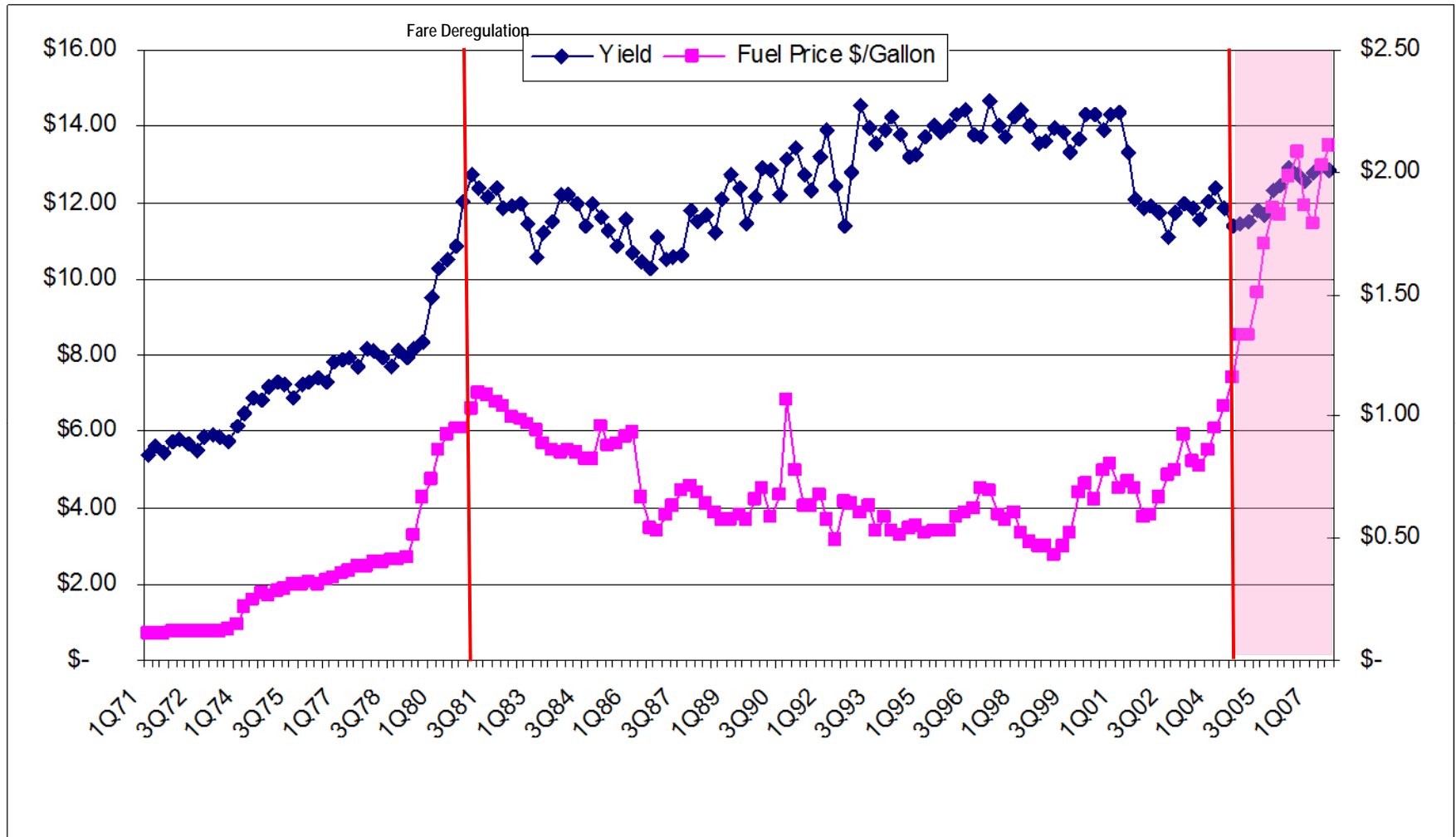
- Because of increased fuel costs, carriers have shifted focus from fully allocated profits to cash generation and preservation
- While still competitive, value carriers and LCCs lose much of their cost advantage vs. legacy carriers in today's fuel environment
- JetBlue has reacted by reducing flying in high frequency and long haul markets; some capacity will be redeployed to shorter haul markets that 'connect the dots'
- Given the difficult conditions, true partnerships become the key factor in sustainable air service development

# As everyone now knows, crude oil prices have increased dramatically over the past 18 months

Average annual crude oil prices: 2000 – Current (2008 dollars)

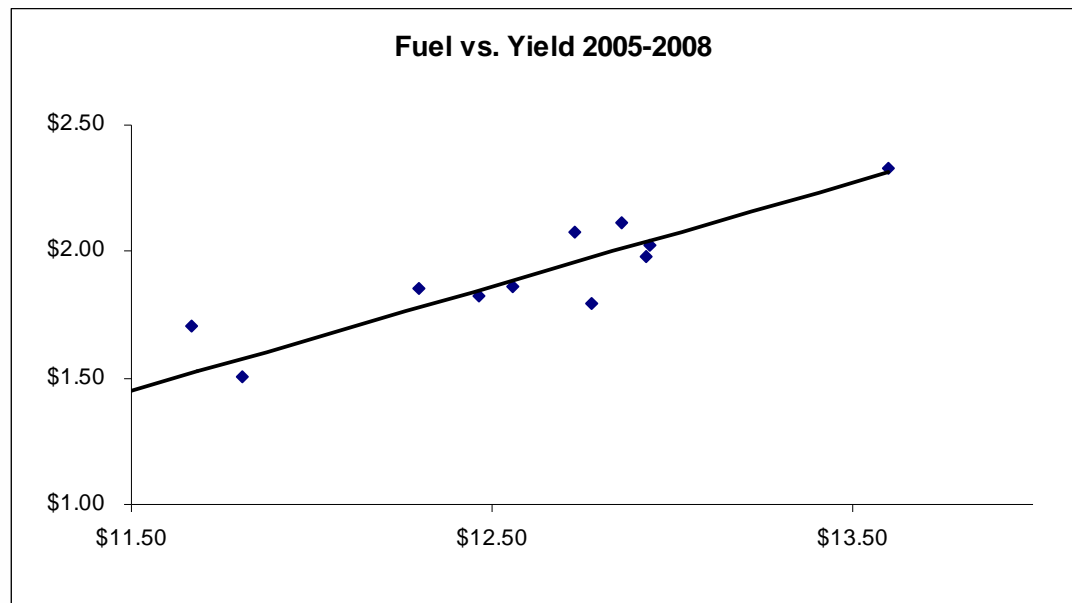


# Yields and fuel price have shown slight correlation since deregulation: industry capacity levels didn't change with fuel costs



# But the scope of recent fuel cost increases uncovered the capacity reduction tipping point

- Since the fuel spike in late 2005, fuel price and yield are now showing a strong correlation



- For this reason, further increases in fuel price should be seen as triggering events for further capacity reductions (and revenue increases)

# These factors will result in continued industry change

- The industry will continue to seek a capacity level that results in profitability
- Industry fares will likely continue to increase, leading to more sustainable airline results
- Networks will continue to evolve as underperforming capacity is removed

# So, what does this mean for air service development?

- Partnerships, based on sustainable service, will become even more important to airlines
- Incentives and airport cost relief become even more critical to airline/community discussions
- Industry capacity shifts and the desire to add additional revenue flows may lead to increased service level volatility