

The Global Financial Crisis:

Fall-out for Europe's airlines

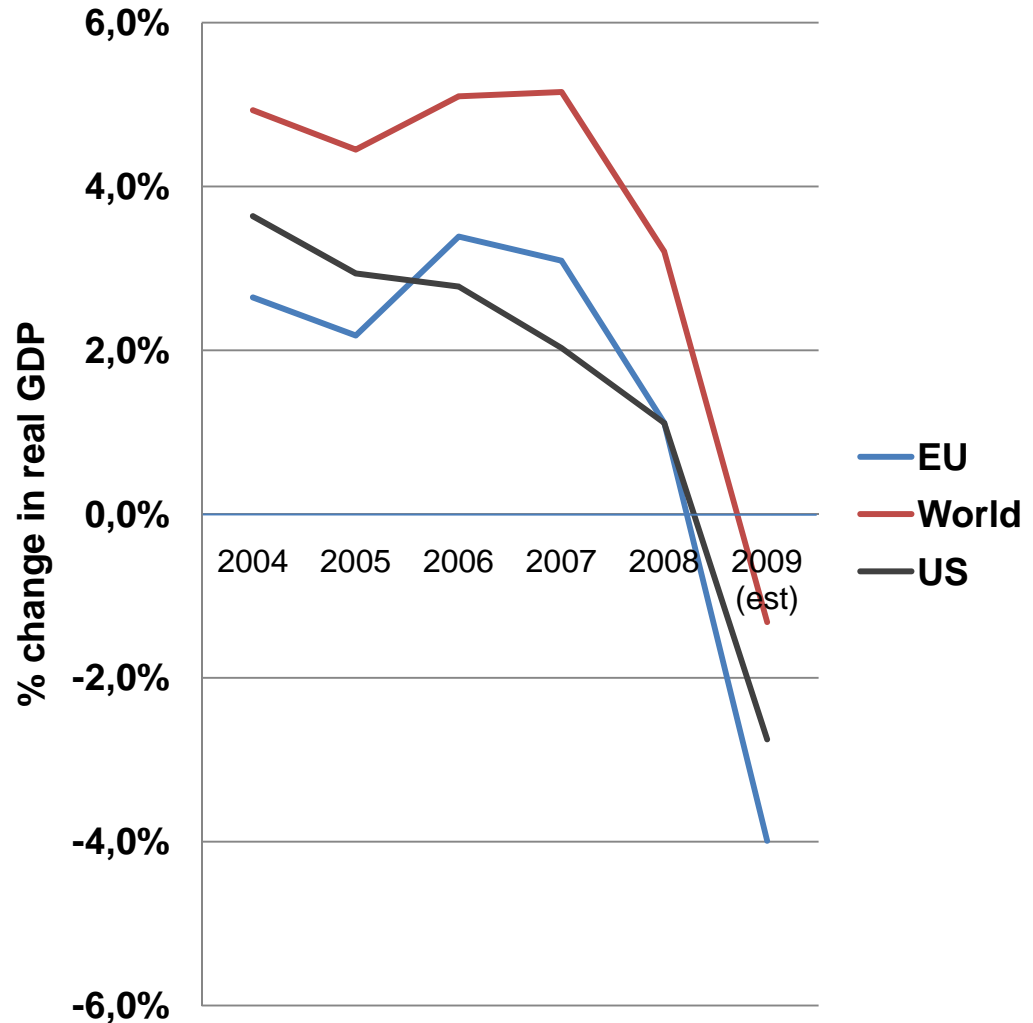
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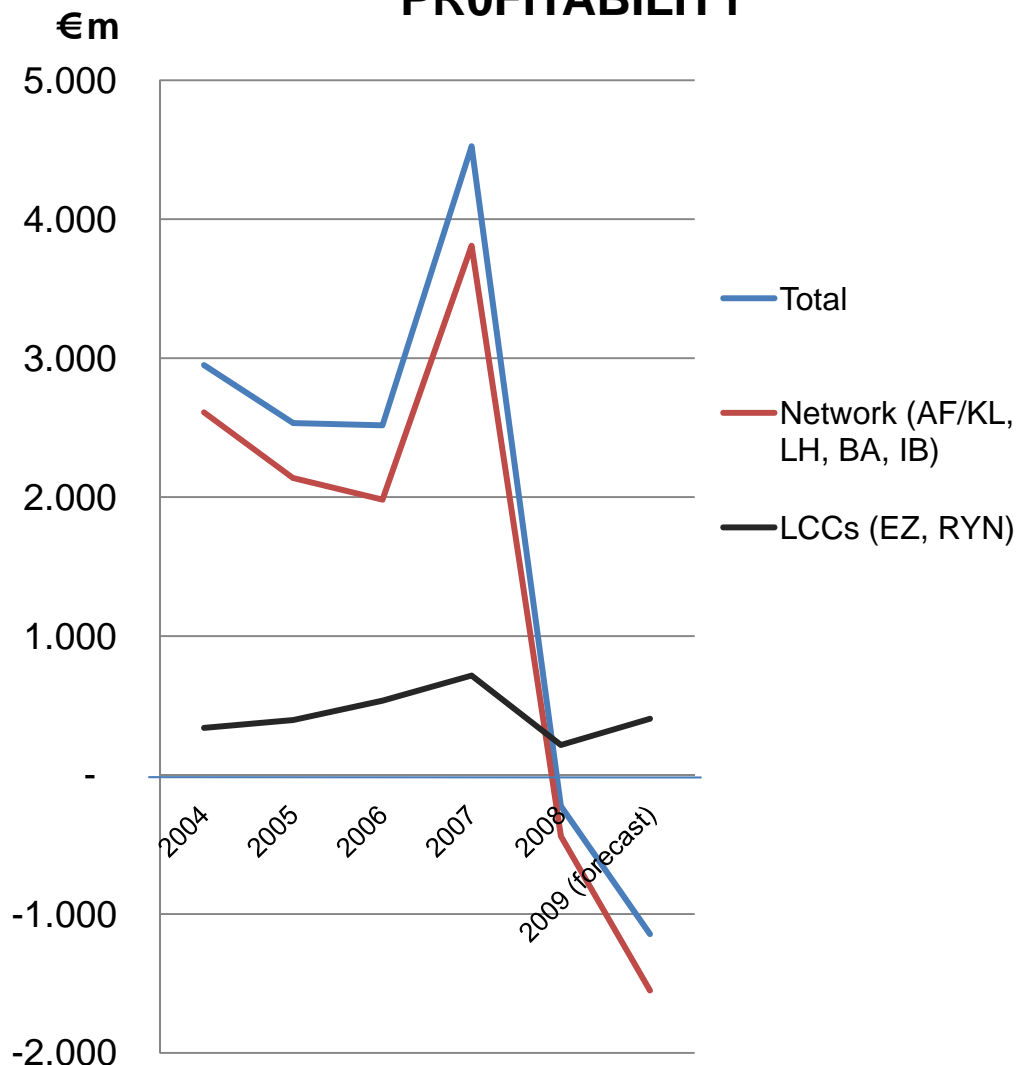
- Myth of the age of maturity
- Unsustainable growth based on financial bubble
- Freezing of credit markets – collapse of Lehmans, govt bail-outs, consumer anxiety
- Crisis spread almost instantly from the US to the rest of world
- And directly to the airline industry

COLLAPSE IN ECONOMIC GROWTH



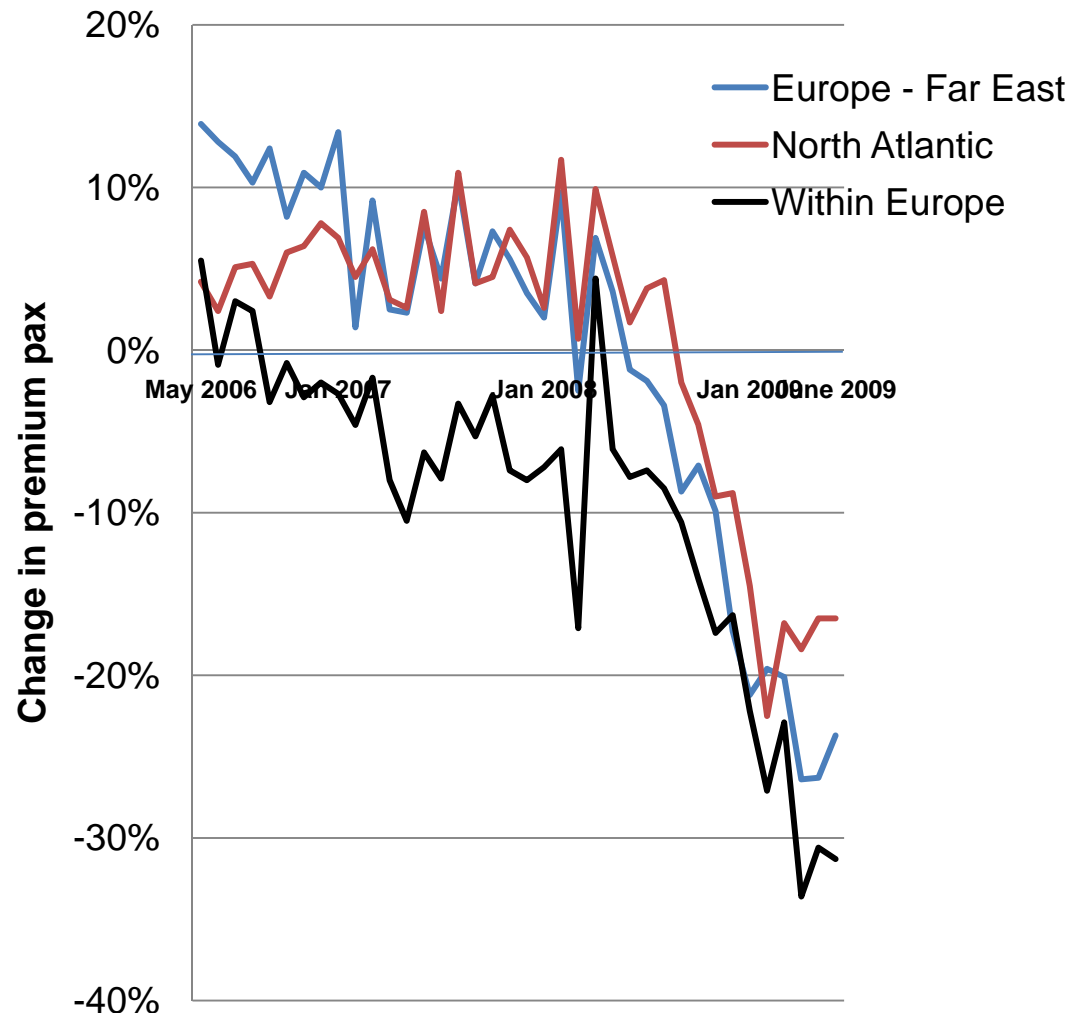
- Despite record oil price surge in 2007/08, core European industry made €12.3bn net profit 2004-2008
- Contrast with Ch 11 misery in the US
- Rationalisation of hub systems, through dehubbing (BRU, ZUR, LGW, etc) and merger of AF/KL
- Coexistence of network and LCC models in Europe?
- Current forecast: €-1.6bn net result for four network carriers and €0.4bn profit for two LCCs
- Total : €-1.2bn in 2009

COLLAPSE IN NETWORK CARRIER PROFITABILITY



COLLAPSE IN LONG HAUL PREMIUM TRAFFIC

- In early 2008, premium traffic on long haul still growing at 10% pa – leading indicator of a financial bubble!
- Decline in 2009, 20%+ in pax numbers, in revenue terms even worse
- Short haul premium in consistent long term decline

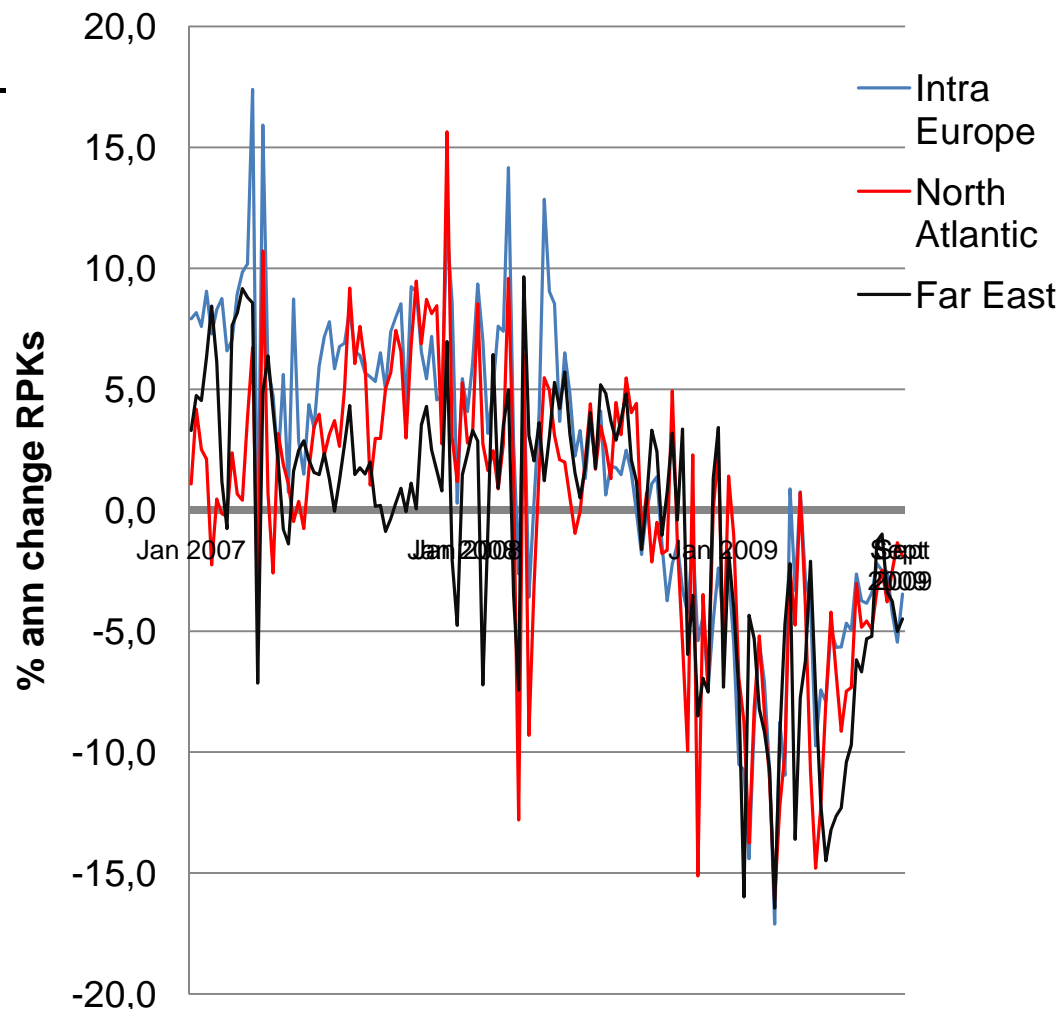


Source: IATA

- All segments of network carrier traffic down 10-15% in 2009
- Contrast with LCCs in intra-Europe
- Essentially, two network strategies:
 - Cost cut and/or adjust capacity
 - Consolidate and/or rationalise

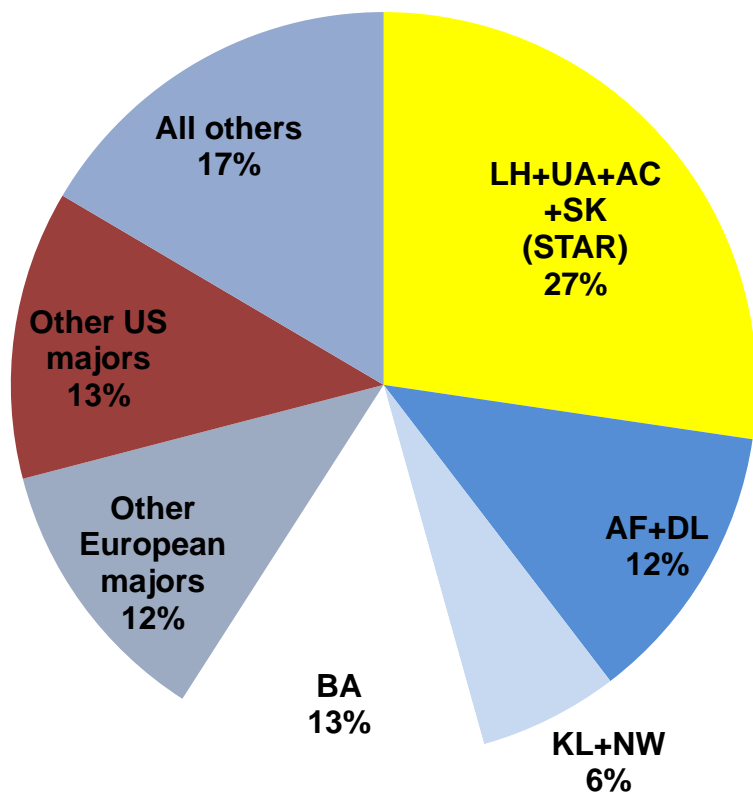
June quarter results (annual change)			
	AF/KLM	LH	BA
Pax Unit Rev	-15%	-18%	-9%
Cargo Unit Rev	-30%	-28%	-25%
Unit Cost	-4%	-6%	-3%
Operating Cashflow	-86%	-49%	-53%

COLLAPSE IN ALL AEA TRAFFIC SEGMENTS

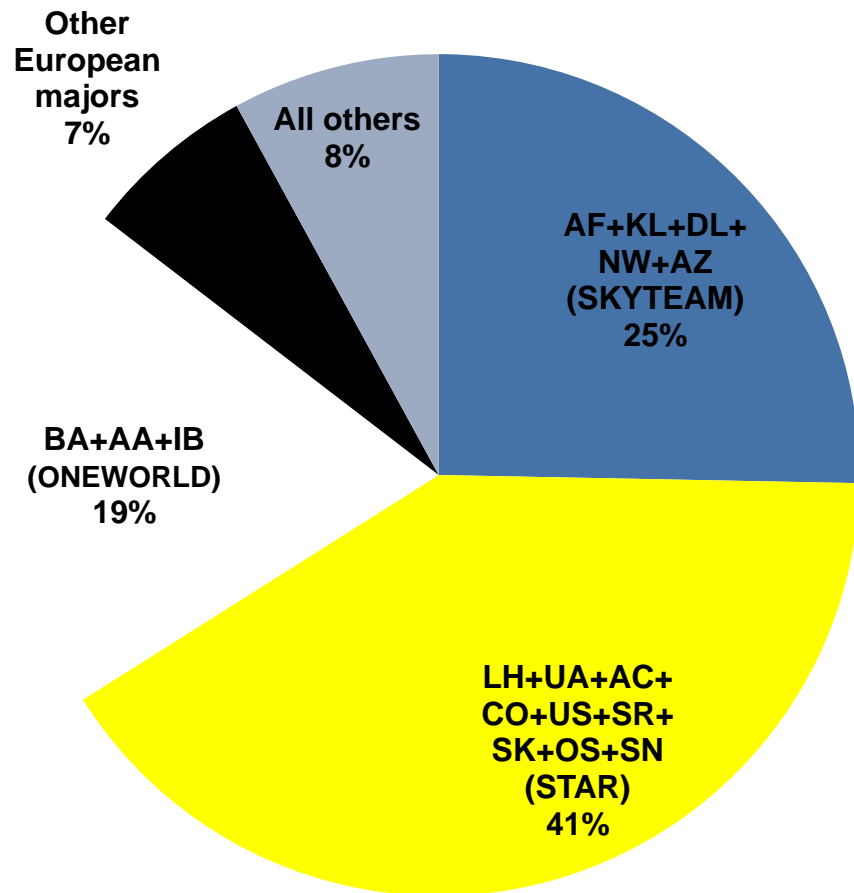


Consolidation: Size versus complexity

ALLIANCES 2003: STAR IN LEADING POSITION ON NORTH ATLANTIC



ALLIANCES 2009: SKYTEAM NOW HAS 25% OF MARKET, STAR STILL LEADS ON THE NORTH ATLANTIC MARKET



Source: Aviation Economics/ Capstats. Analysis of scheduled seats



KLM Hub Network - Amsterdam

NW Hub Network - Detroit

With NW, and protected by ATI, a ground-breaking alliance

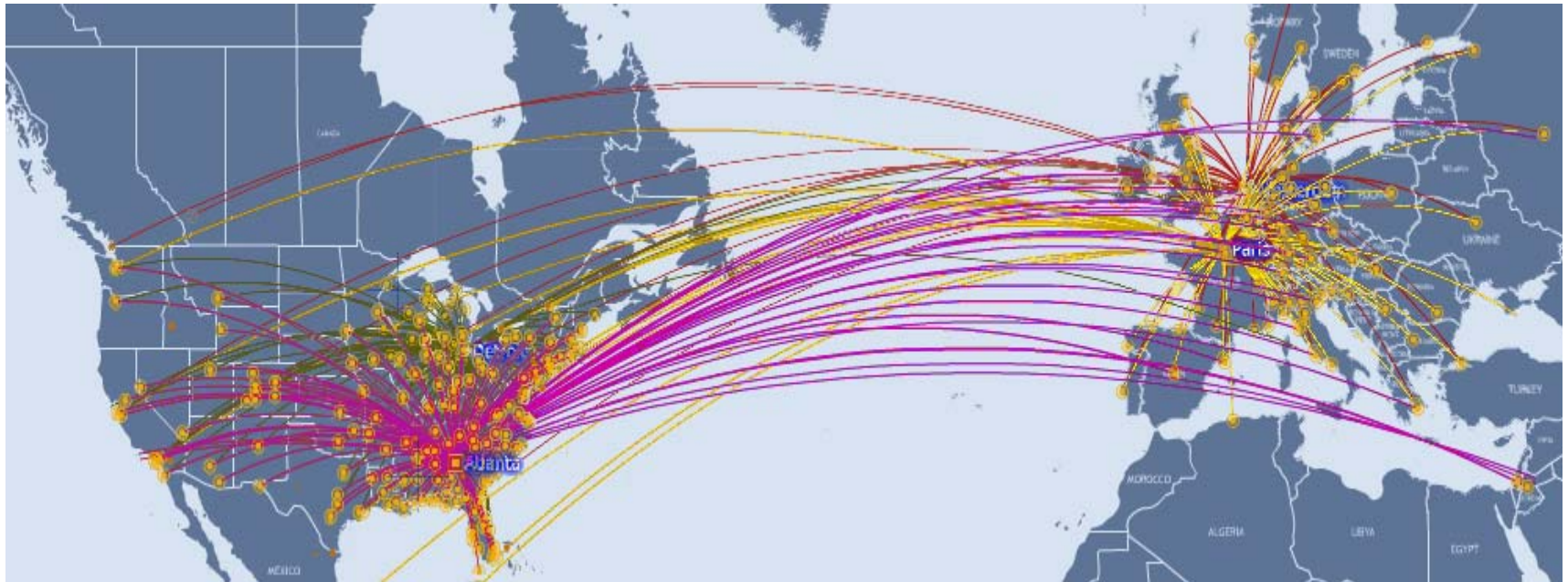


KLM Hub Network - Amsterdam

NW Hub Network - Detroit

AF Hub Network - Paris

AF adds scale but also introduces overlapping routes



KLM Hub Network - Amsterdam

NW Hub Network - Detroit

AF Hub Network - Paris

Delta Hub Network - Atlanta



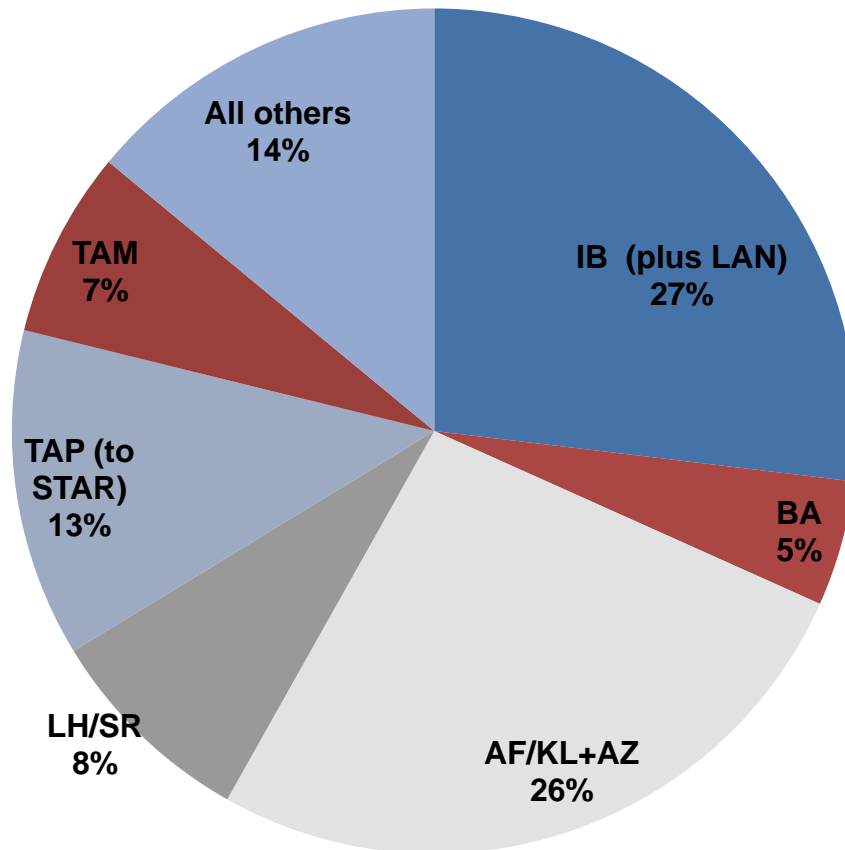
**DL has another, and very powerful, network strategy
DL+NW= “America’s premium global airline” – net loss in
2008, US\$8.9 billion**

- LH alliance with United, addition of US Airways and defection of Continental from SkyTeam to Star
- Focus on investing in airlines, which means growing debt
- Swiss/Zurich hub – profitable through downsizing
- bmi and Austrian - complicated transactions
- Alliance with a LCC at New York



ALLIANCES ON THE SOUTH ATLANTIC 2009: WHAT DOES BA ADD TO IB?

- BA, waiting for ATI to finalise alliance with AA, but 2008 US-EU has opened Fortress Heathrow to new competition (ex LGW)
- BA relatively minor player on South Atlantic, IB dominant
- AZ does add presence to SkyTeam in this market
- Equity stakes unresolved in BA/IB merger

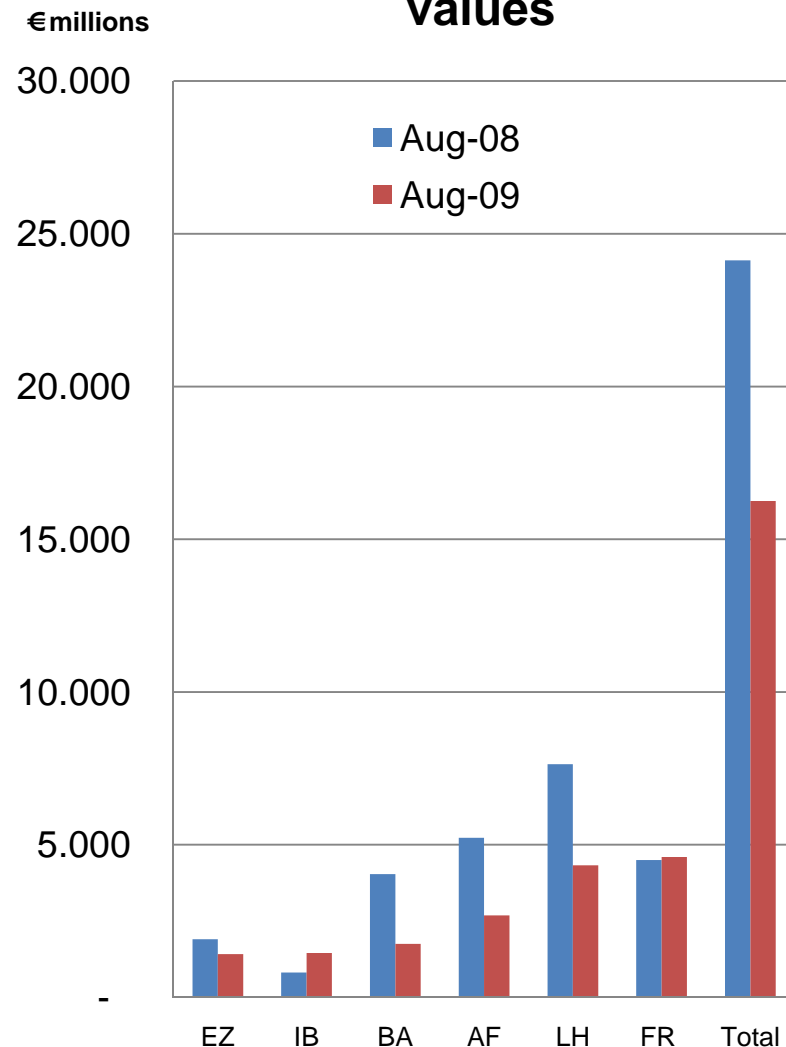


Source: Aviation Economics/ Capstats. Analysis of scheduled seats 2009

Winners and losers?

- Stock market punishes network carriers in particular – equity values 42% down y-on-y. LCCs 6% down
- Globally 2,500 jets parked, c 10% of fleet (8% post Sept 11); second-hand values down 30-50%
- Value of airports radically reassessed
 - Aug 2008, MDW bid up to \$3bn
 - June 2009 LGW fails to attract £1.5bn
 - Implied price per pax €115/pax to €40/pax
- Slots
 - CO in March 2008 bought four LHR slot pairs for €145m
 - In summer 2009 bmi takes LH to court to force €245m sale including 15% of LHR slots valued at c€1bn in its books

€bn wiped off stockmarket values



European airline summary

Network Majors	AZ/KL, LH, BA, IB – damage limitation in the short run Severe cash burn but good liquidity Consolidation/ size in itself no magic solution
LCCs	FR and EZ – very strong balance sheets, Growth through geographical flexibility All others are vulnerable, some very vulnerable
Hybrids	Reinvention of low cost subsidiary – Vueling /Clickair Positioning of Air Berlin? Size not issue, effective strategy is
Other flag carriers	A political issue for AZ, OA, plus some of the former Eastern Bloc airlines Limit to Network Majors' appetite – CSA, Niches – Finnair and TAP? Floundering – SAS, Aer Lingus
Charters	Continuous retrenchment and rebranding Exit of independents – Zoom, Excel, Futura
Specialist models	Failure of specialist business airline – Silverjet, MaxJet, Eos
New models	Long-haul LCC???

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