

The Transferability of the Low-Cost Model to Long-Haul Operations

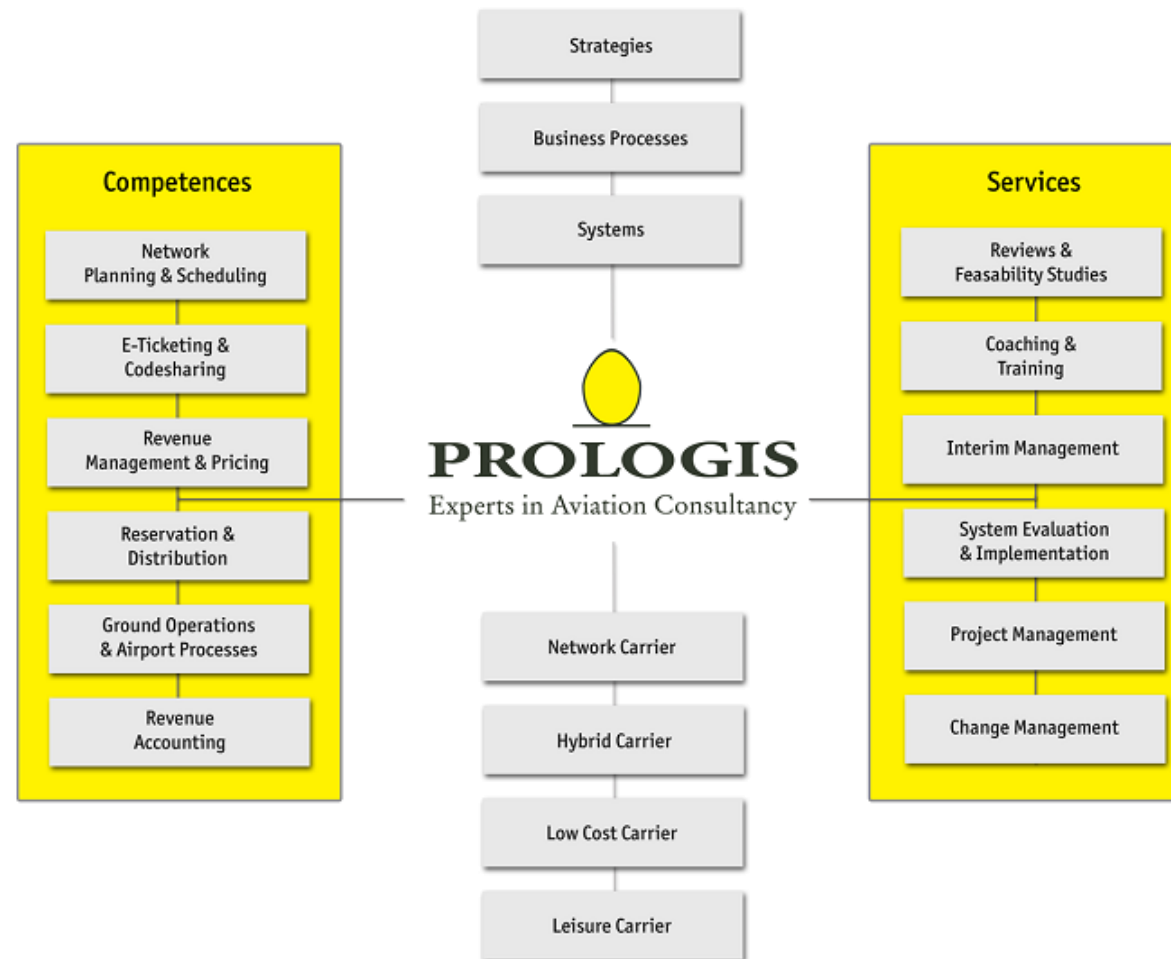
Airneth Seminar | December 09, 2015 | The Hague

Bogdan Delicostea & Hanna Schaal

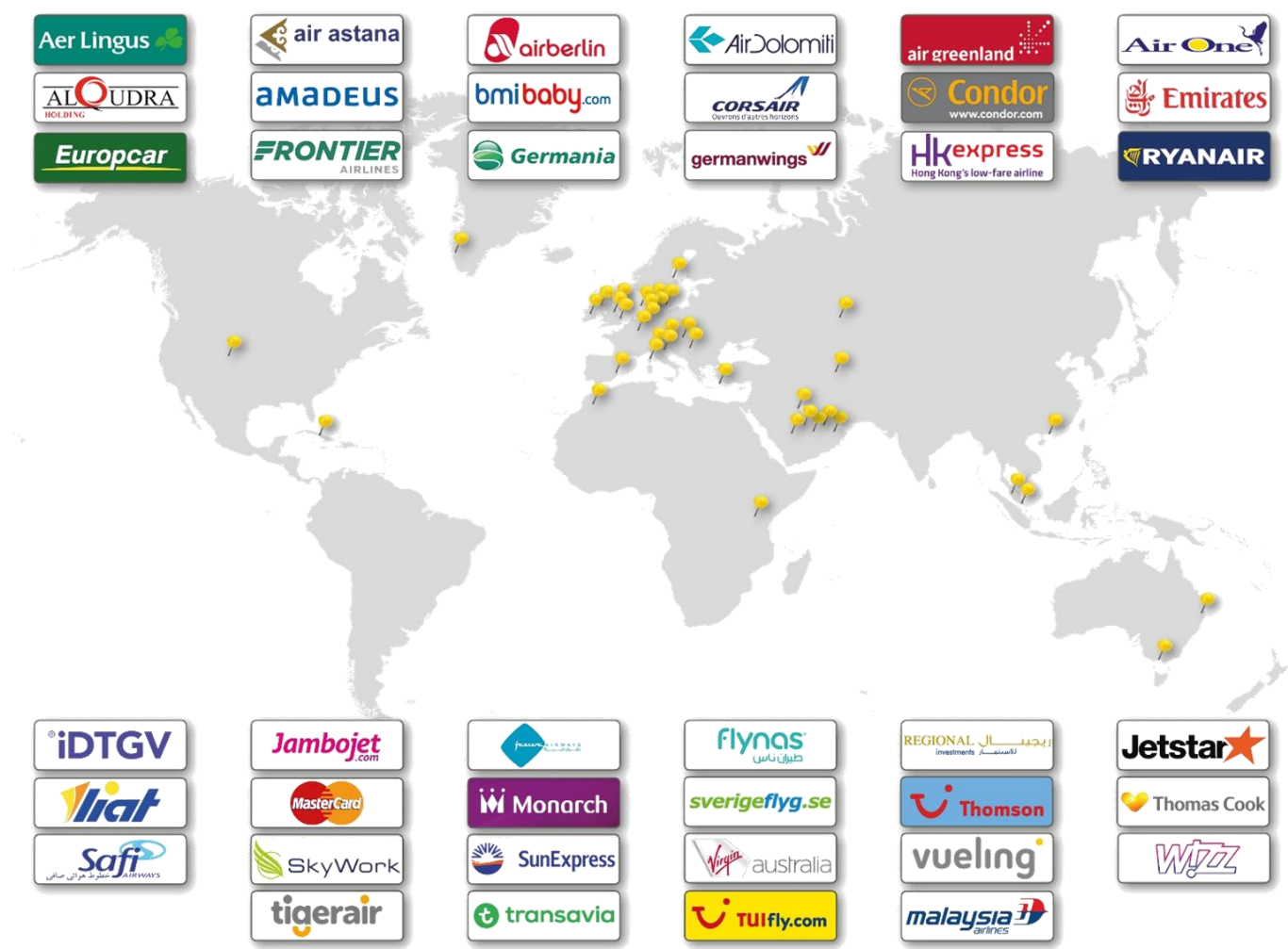
About PROLOGIS

Who we are | Expertise and Services | Customer Extract

- 2001: Incorporation of PROLOGIS after founders spent several years in the airline industry
- Headquarters in Hamburg, Germany
- Focus on Airline Business exclusively
- Together with our subsidiary Airpas Aviation more than 40 experts in the aviation industry



More than 50 airlines in over 30 countries

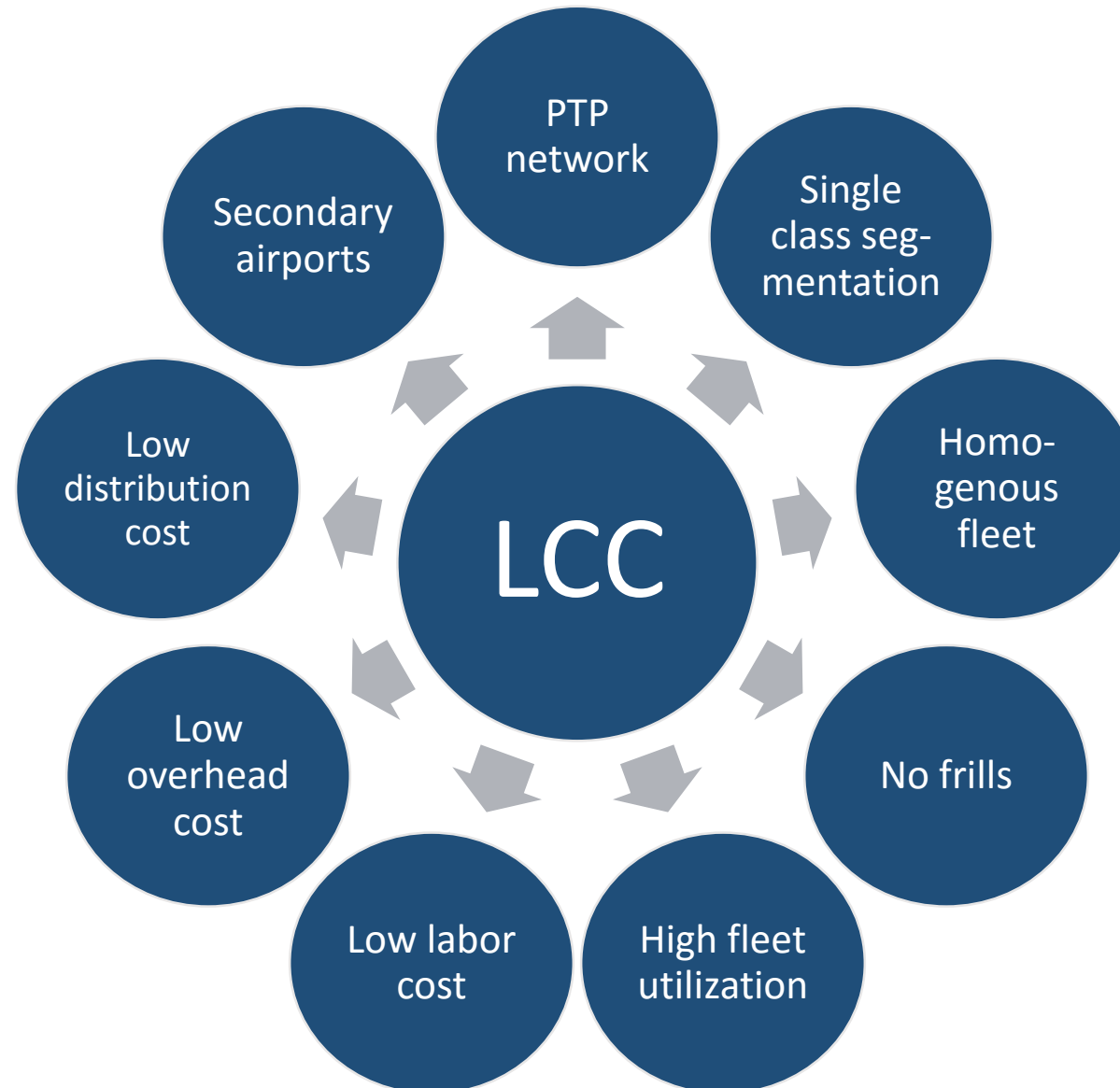


Long-Haul Low-Cost

Flight of fancy or business of the future?

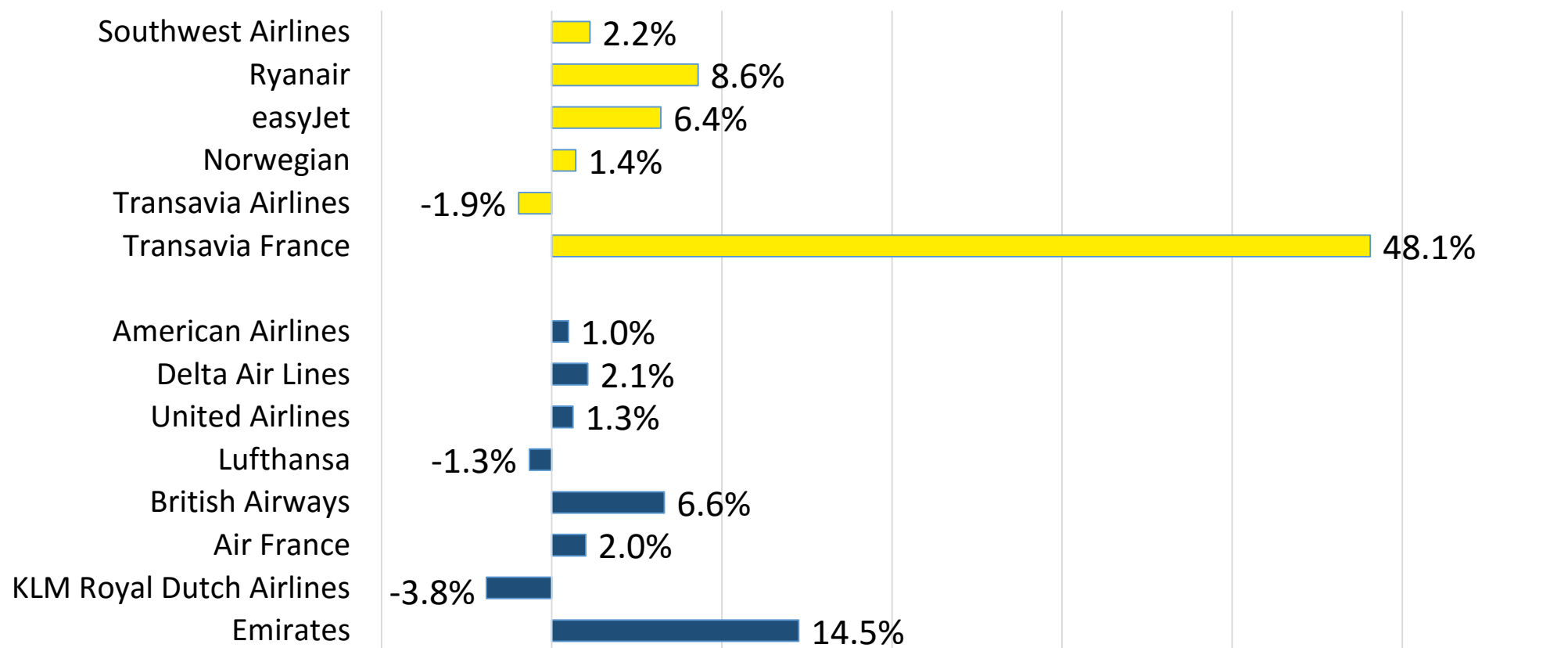
LCC Model: Cost Advantages

A short-haul
business model



Successful Short-Haul Model

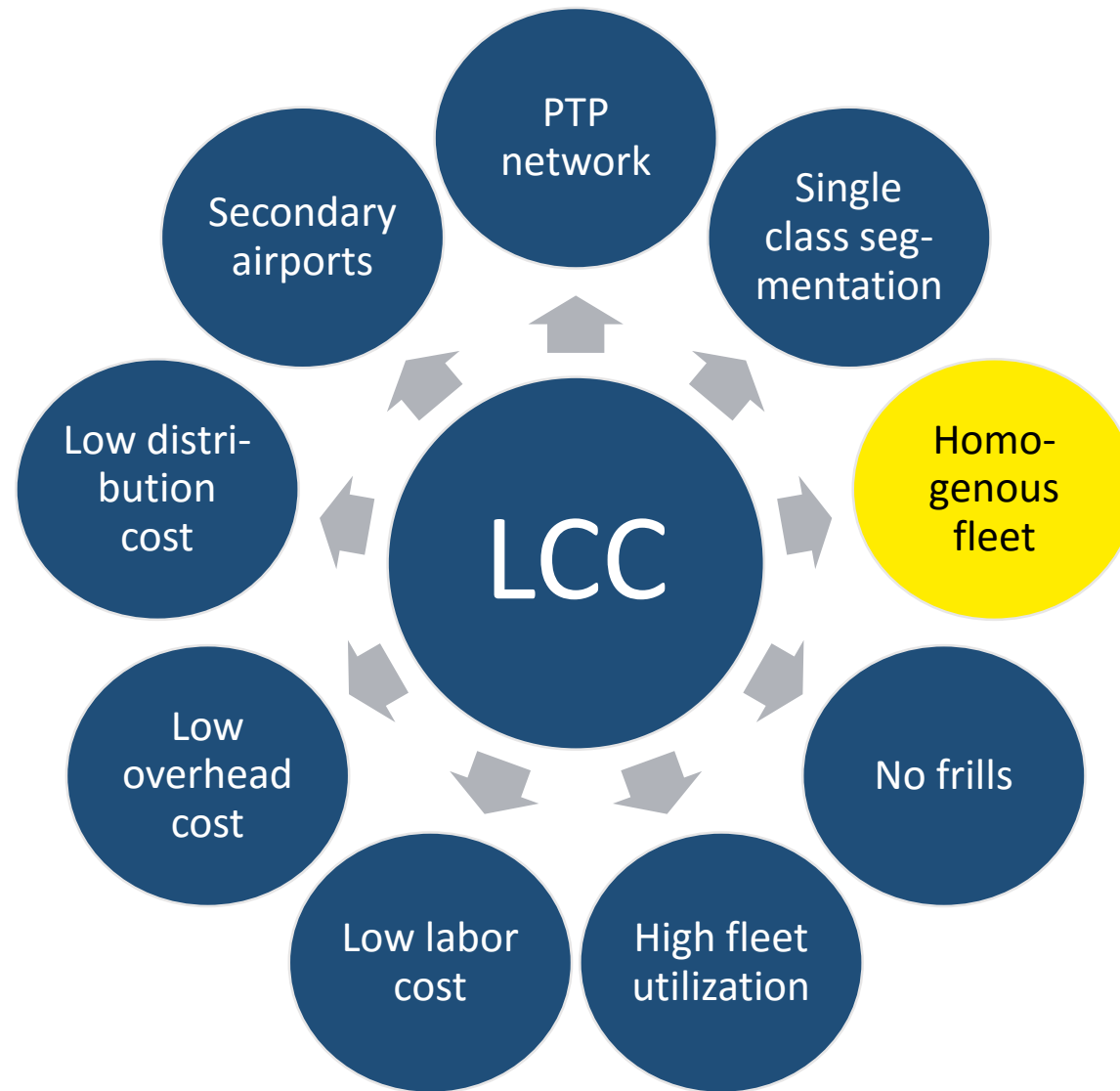
2015 Seat Capacity Growth (offered seats, Oct. 14 vs. Oct. 15)



Source: ch-aviation

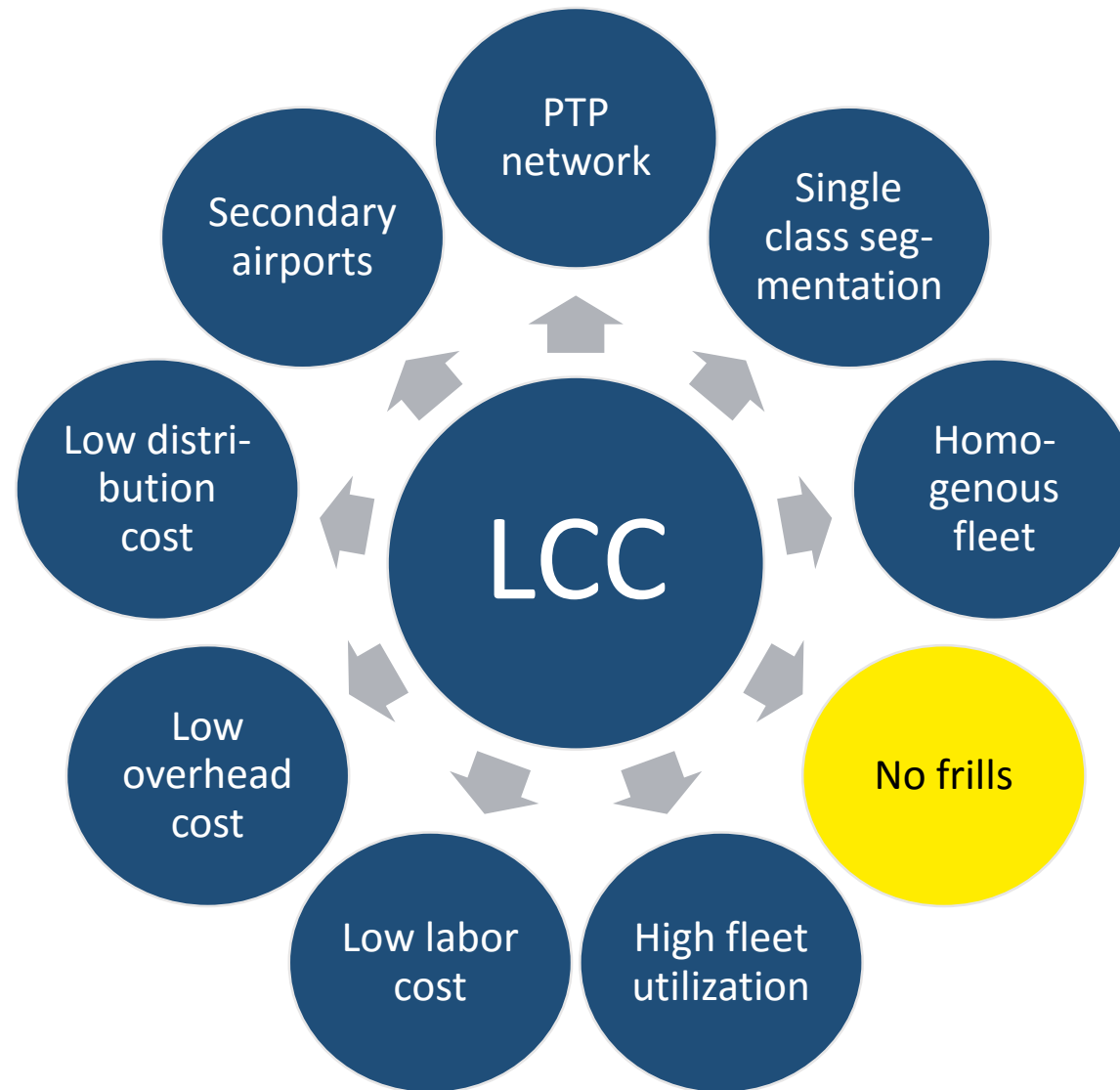
PROLOGIS Study

The Results



Cost advantages on long-haul flights:
Substantial

- Interchangeable aircraft, personnel and maintenance
- Fuel-efficient aircraft: B787 and A330-300
- Challenge: Find the right routes that match your aircraft

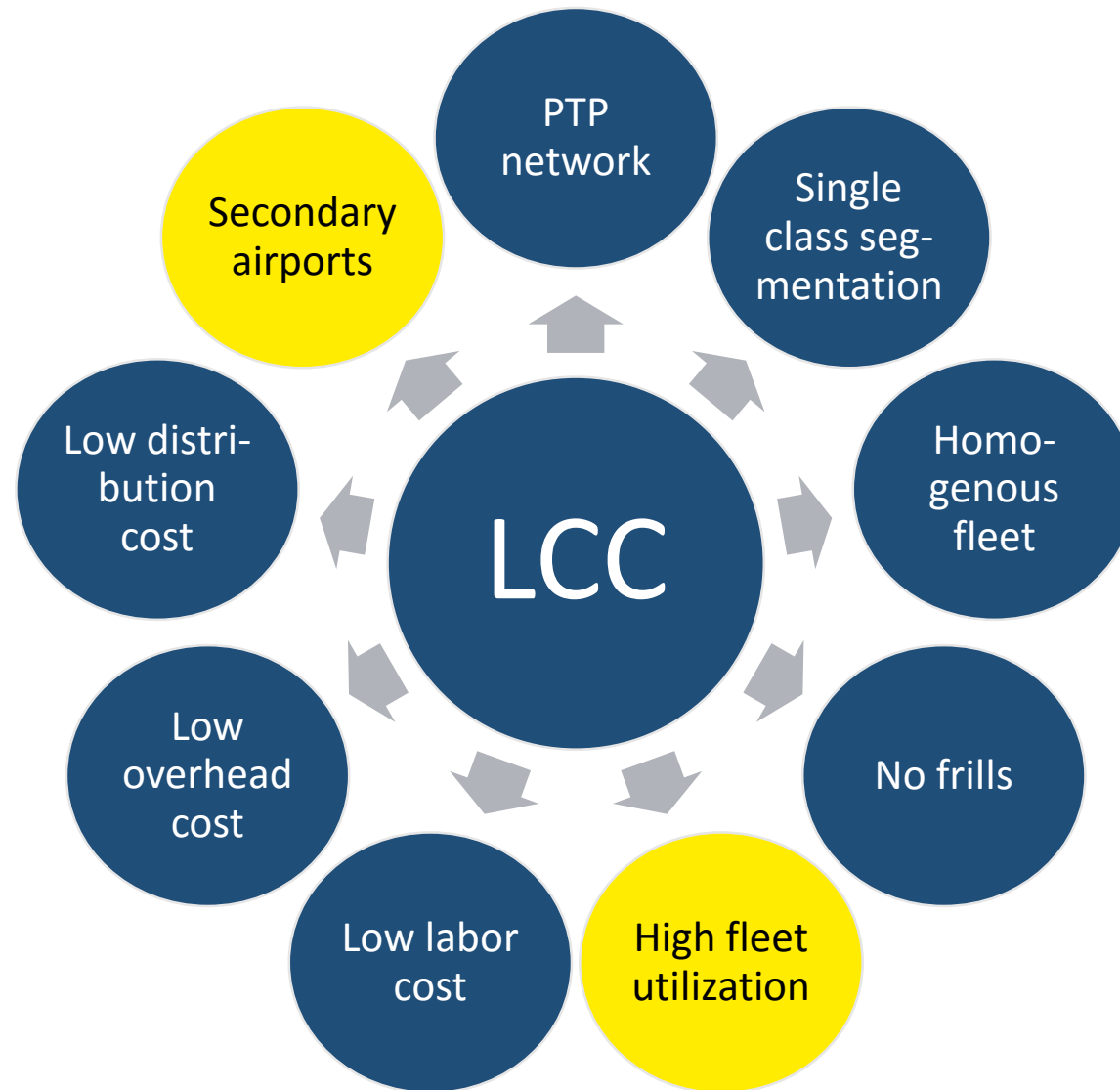


Cost advantages on long-haul flights:

None

Ancillary Services:

- 🔍 Per flight charges
- 🔍 Insignificant cost advantages



Cost advantages on long-haul flights:

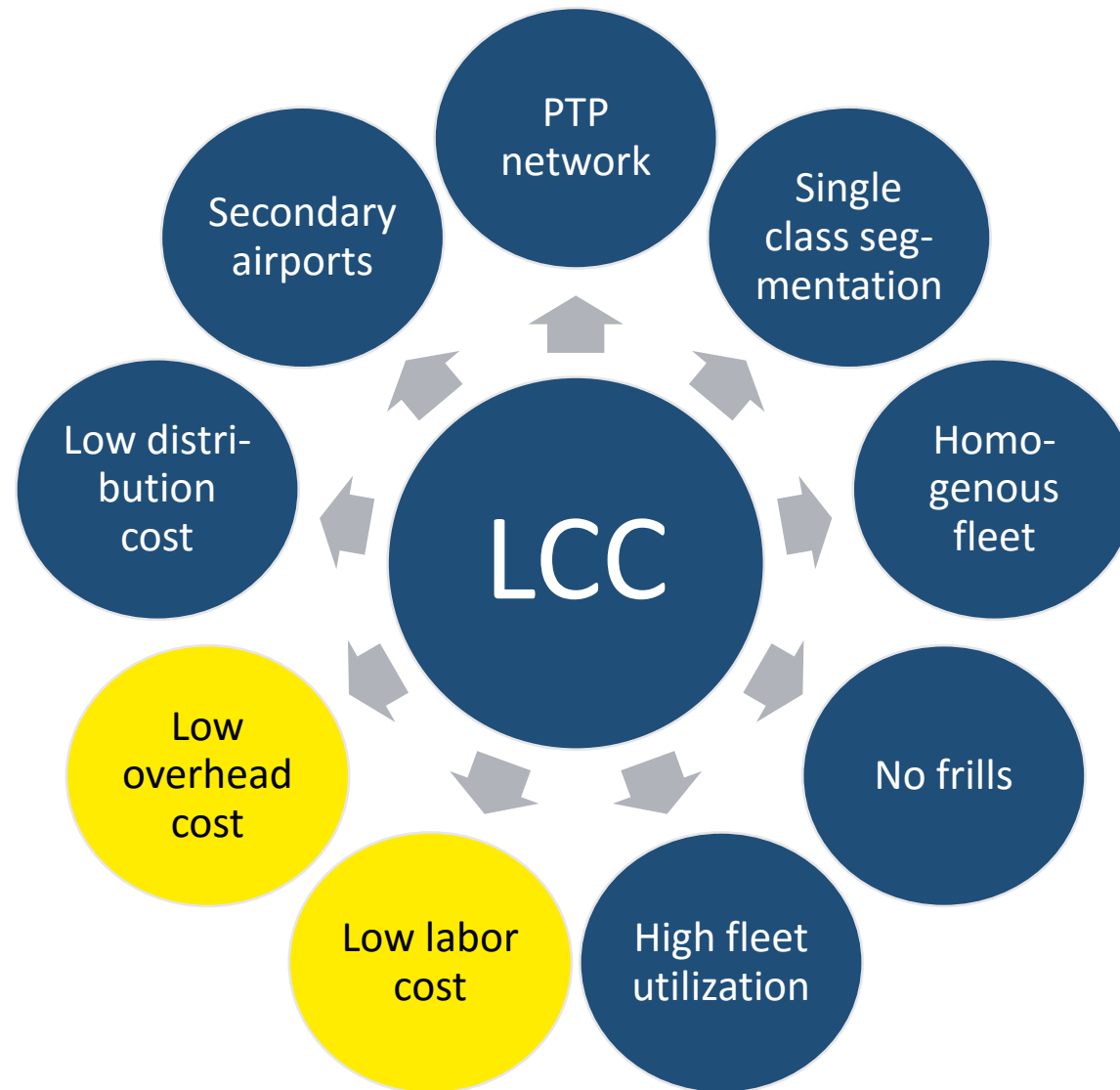
None

No fleet utilization benefits:

- Longer flights, less rotations: no cost advantages through fast turnarounds

Secondary airports unsuitable:

- Need of feeder traffic
- Need for connecting flight offers



Cost advantages on long-haul flights:

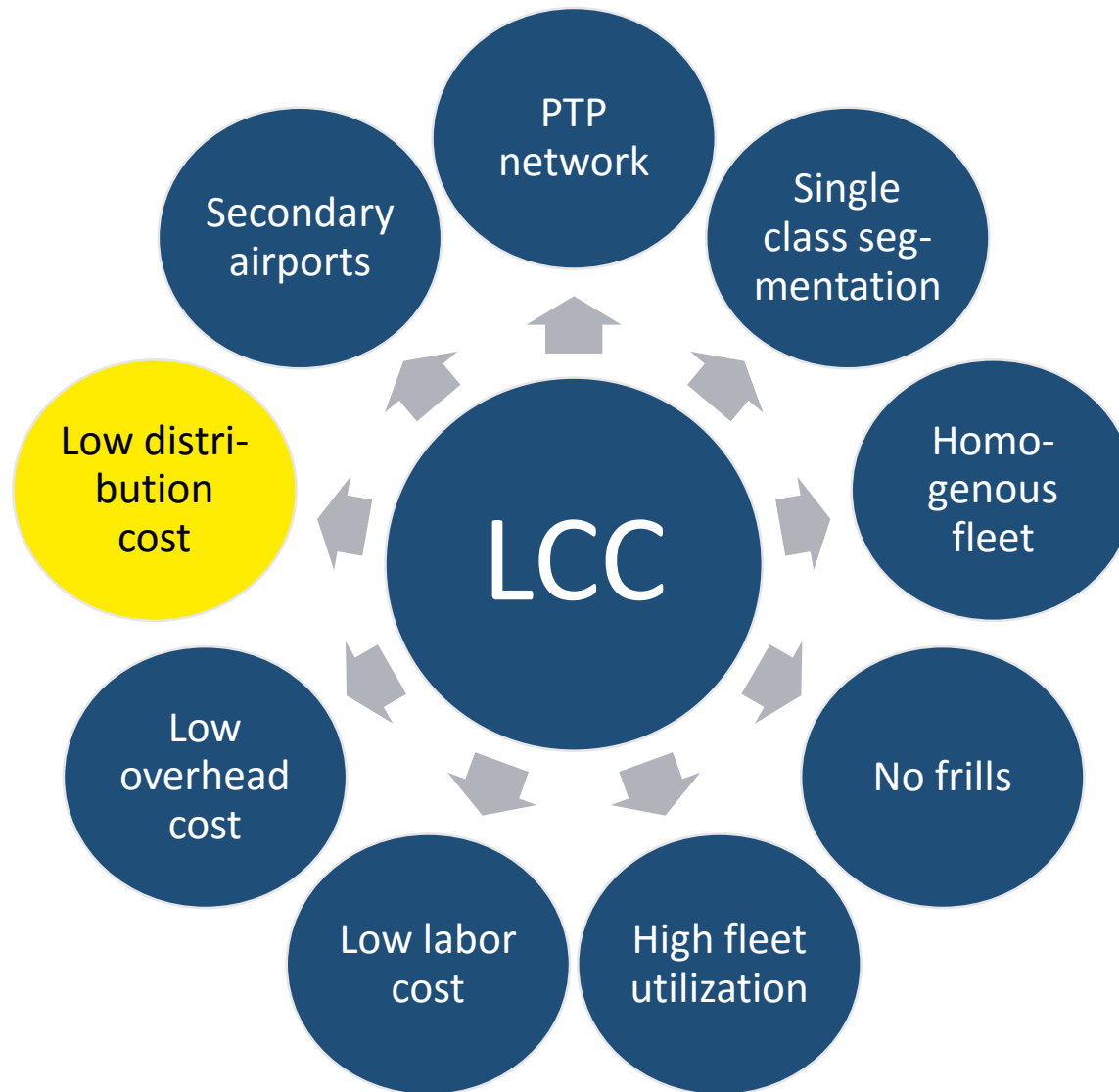
Moderate

Youth of organizations:

- No labor union constraints
- Simplicity and efficiency: lower overhead costs

Crew bases:

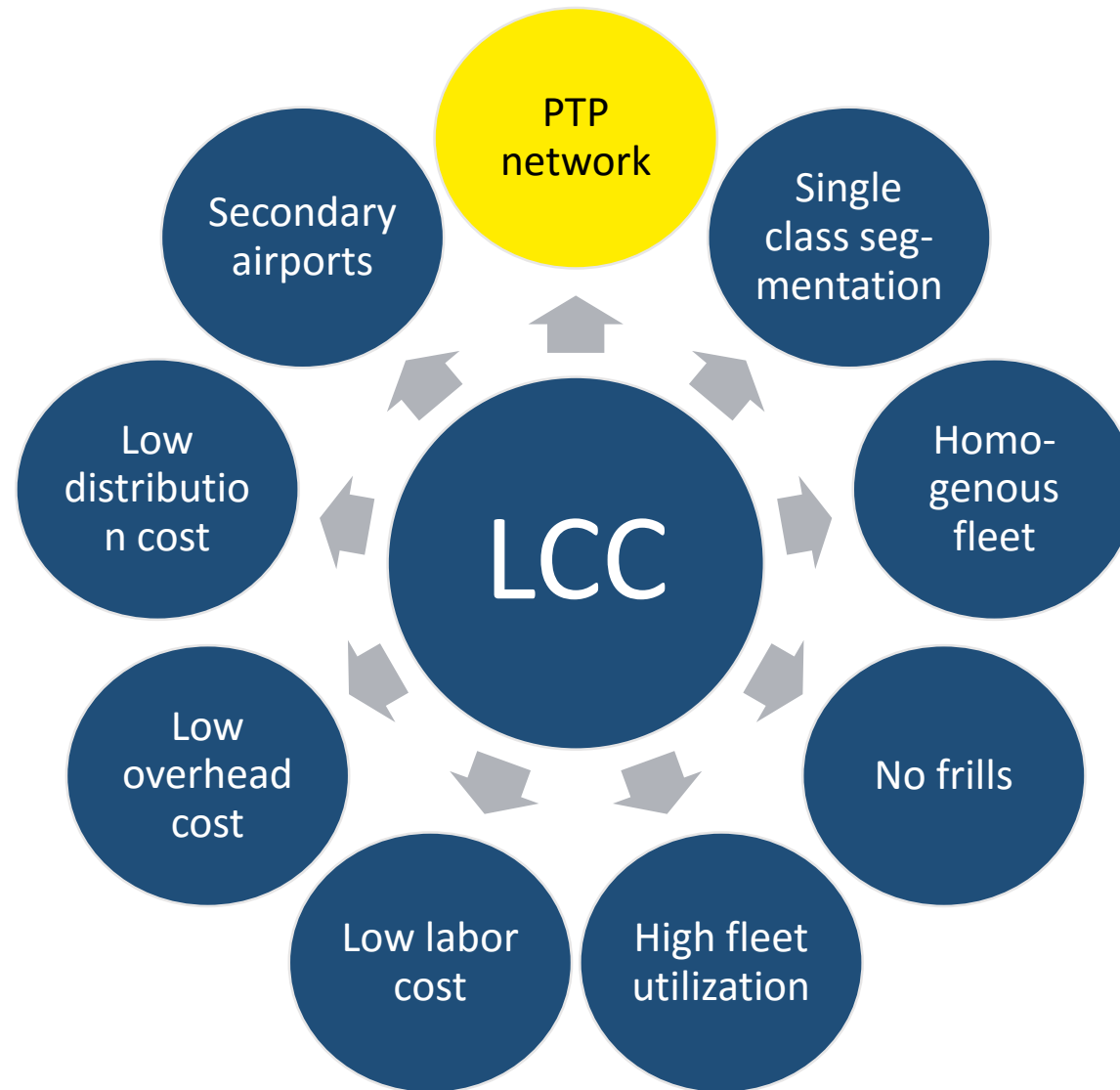
- Labor cost advantages but no crew productivity advantages



Cost advantages on long-haul flights:

Low

- Direct channels: home markets
- Indirect channels: essential for distribution outside home markets
- Generate brand awareness: costly marketing campaigns



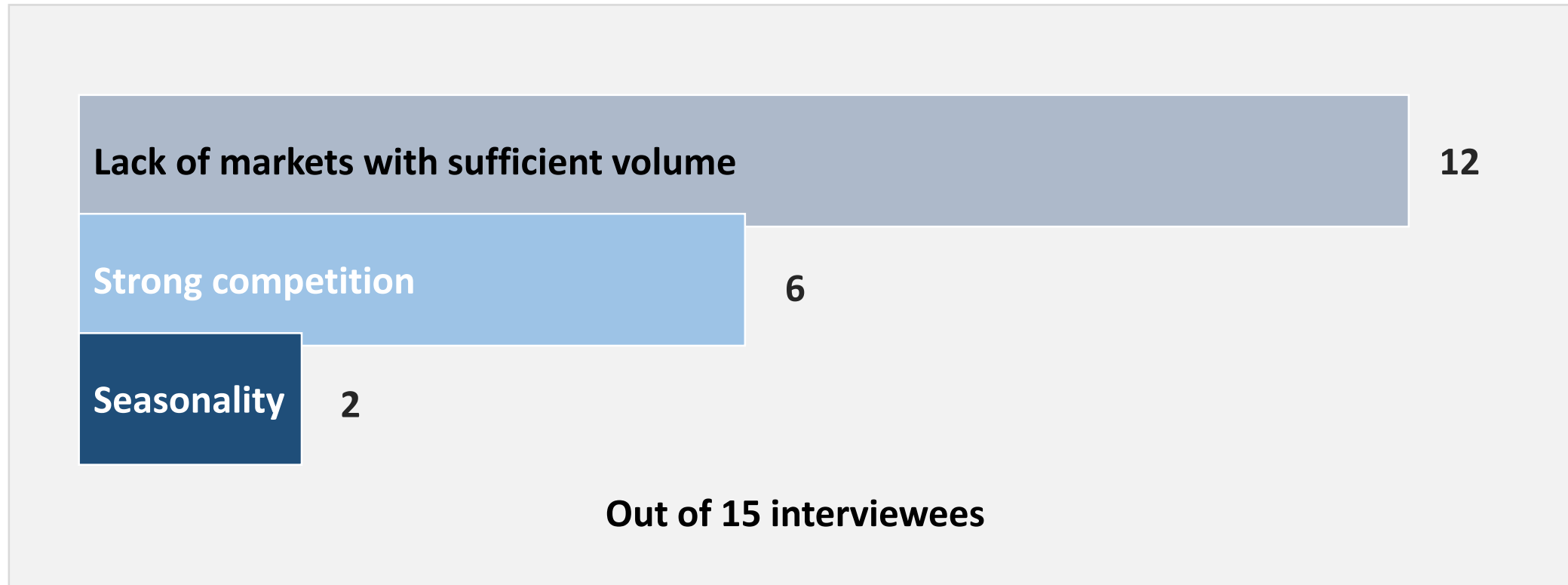
Cost advantages on long-haul flights:

Low

PTP network unsuitable:

- Lack of suitable routes
- Lack of feeder traffic
- Lack of demand in off-season

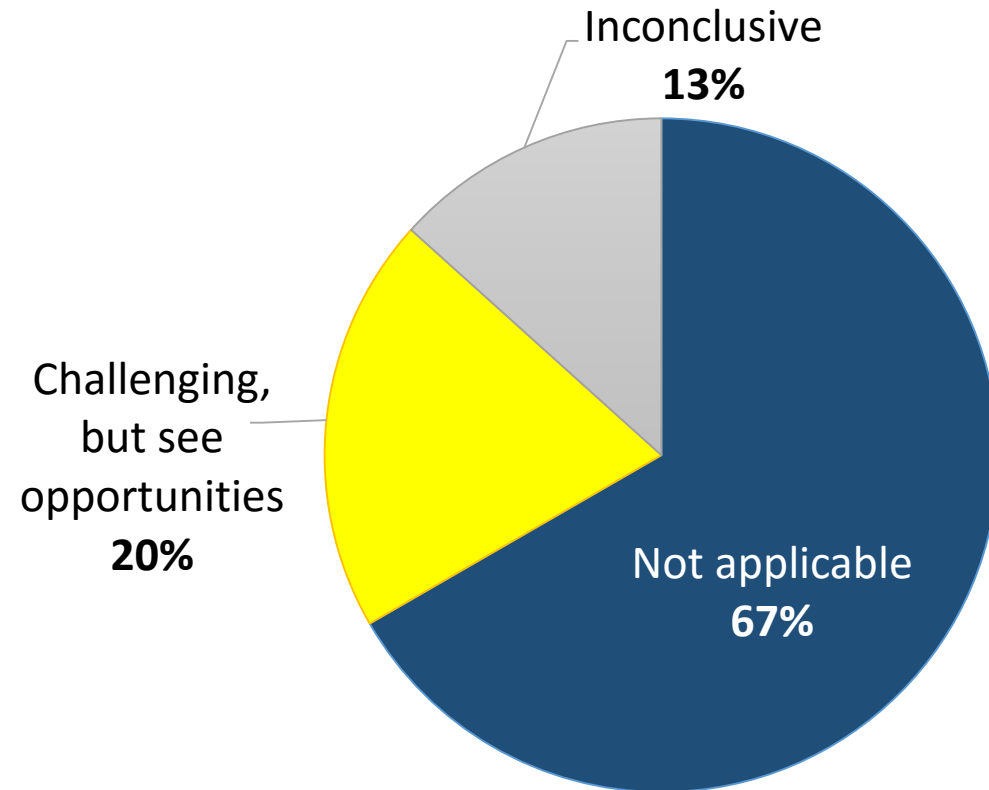
Arguments against the applicability for long-haul low-cost operations



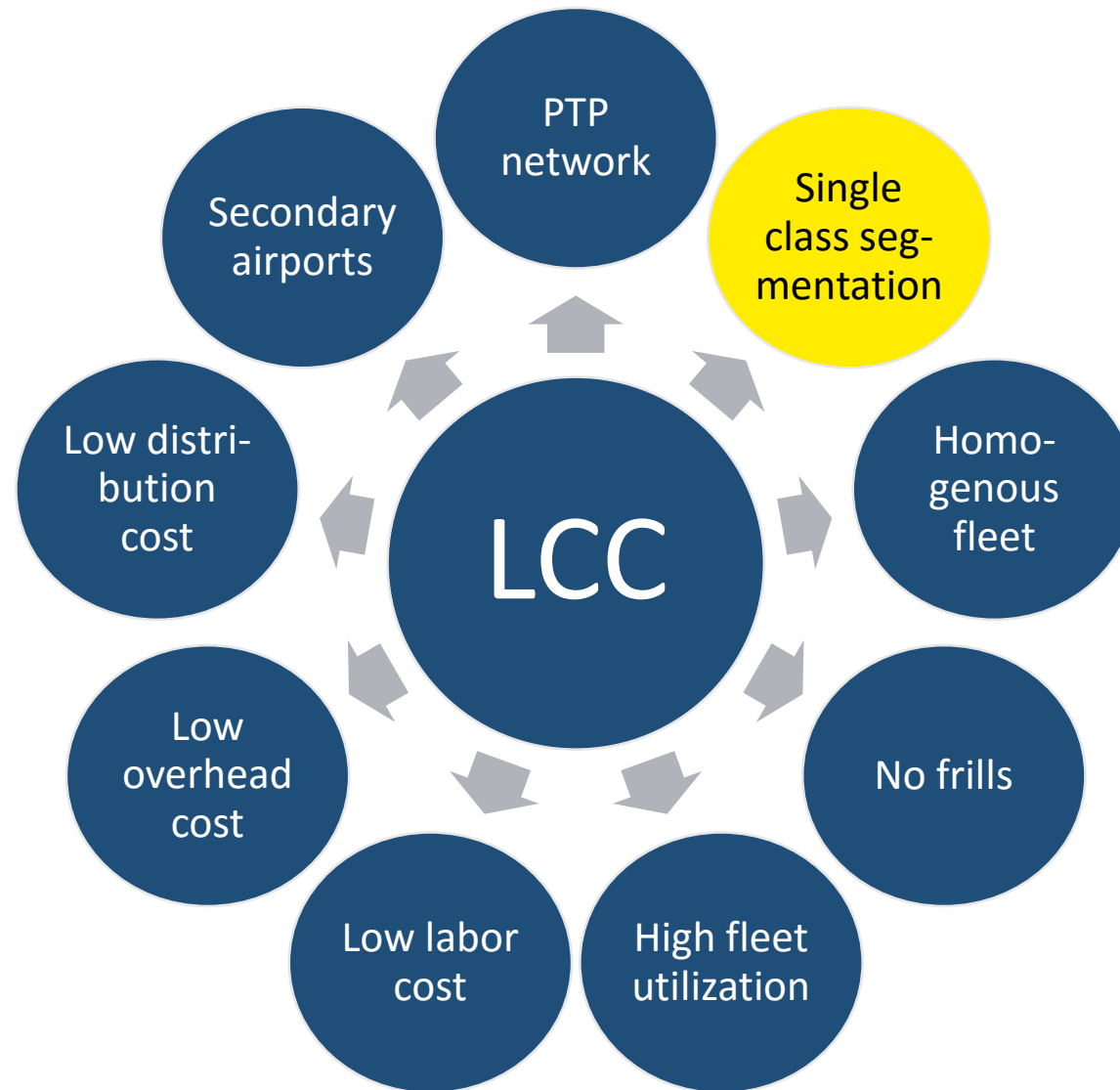
Point-to-Point for long-haul operations?

“very difficult and challenging”

“will not work”



Single Class Segmentation

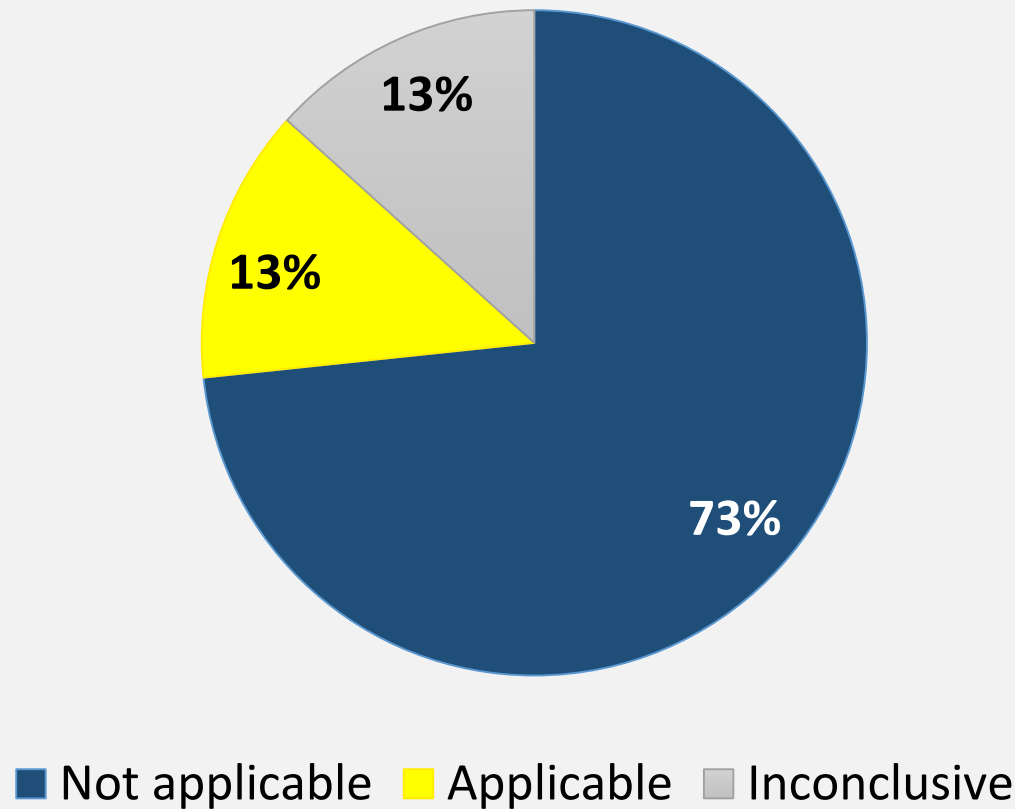


Cost advantages on long-haul flights:

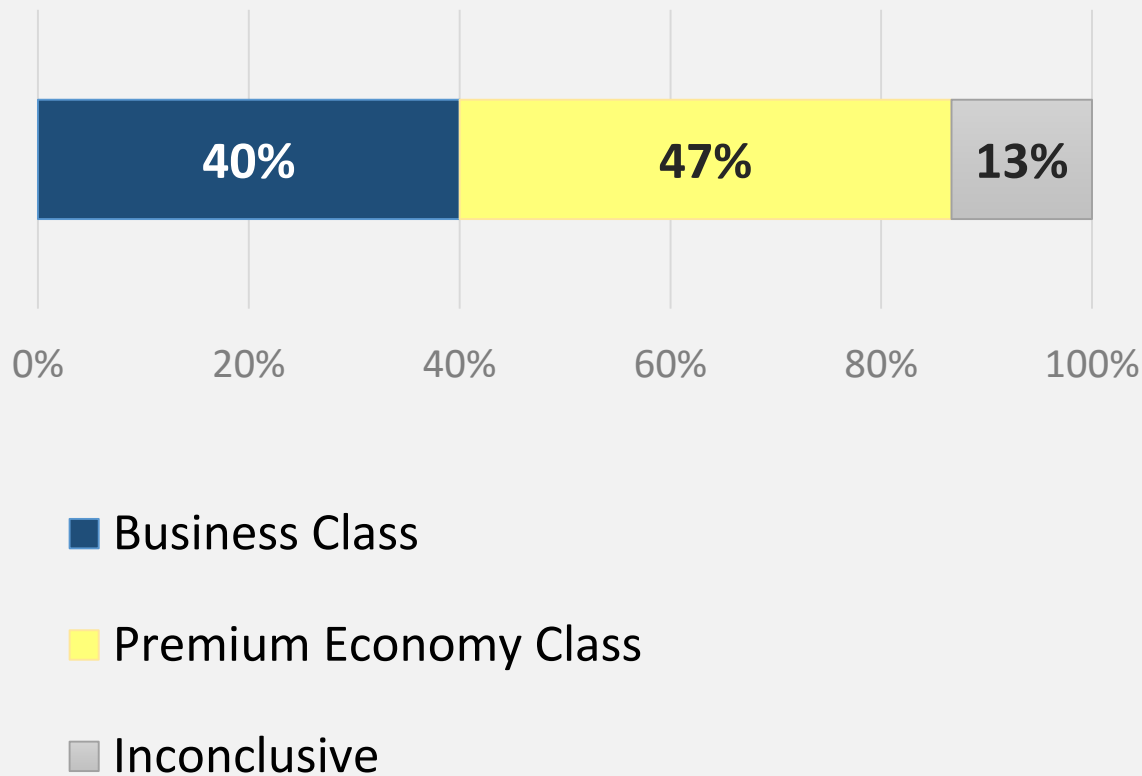
Low

- 🔍 Cross-Subsidization needed
- 🔍 Business customers in off-season needed

All-economy class:
Applicable for low-cost long-haul operations?



Business or Premium Eco?
Suggested approaches for differentiation.



Eurowings vs. Norwegian

Homogenous Fleet | No-Frills Concept | PTP Network | Single Class Segmentation

Eurowings vs. Norwegian

| Homogenous fleet | Eurowings | Norwegian |
|---------------------------|--|---|
| No frills | <p>Fleet:</p> <p>2015: 1 x A330-200 (SunExpress) 1 x B767 (TuiFly)</p> <p>2016: 6 Aircraft</p> <p>2017: 7 Aircraft</p> | <p>Fleet:</p> <p>2015: 8 x B787</p> <p>2016: 12 x B787</p> <p>2017: 17 x B787 and 5 x B737MAX</p> |
| PTP network | | |
| Single class segmentation | | |

Eurowings vs. Norwegian

Homogenous fleet

No frills

PTP network

Single class
segmentation

Eurowings

- Basic product is flight only
- Wide range of ancillaries
- Seat pitch : 115 cm (A330)

Norwegian

- Basic product is flight only
- Wide range of ancillaries
- Seat pitch : 116 cm in Premium
81 cm in Economy

Eurowings vs. Norwegian

| | | |
|---------------------------|---|---|
| Homogenous fleet | Eurowings | Norwegian |
| No frills | November 2015: 3 LH routes December 2015: 6 LH routes Summer 2016: 11 LH routes | 10 Long haul destinations 24 Markets |
| PTP network | Average sector length: 7436 km | Average sector length: 7711 km |
| Single class segmentation | | |

Eurowings vs. Norwegian

| | Eurowings | Norwegian |
|---------------------------|--|--|
| Homogenous fleet | | |
| No frills | | |
| PTP network | | |
| Single class segmentation | Single class of service with 3 products: Basic, Smart, Best | Two classes of service: Economy and Premium |

Eurowings vs. Norwegian

Eurowings

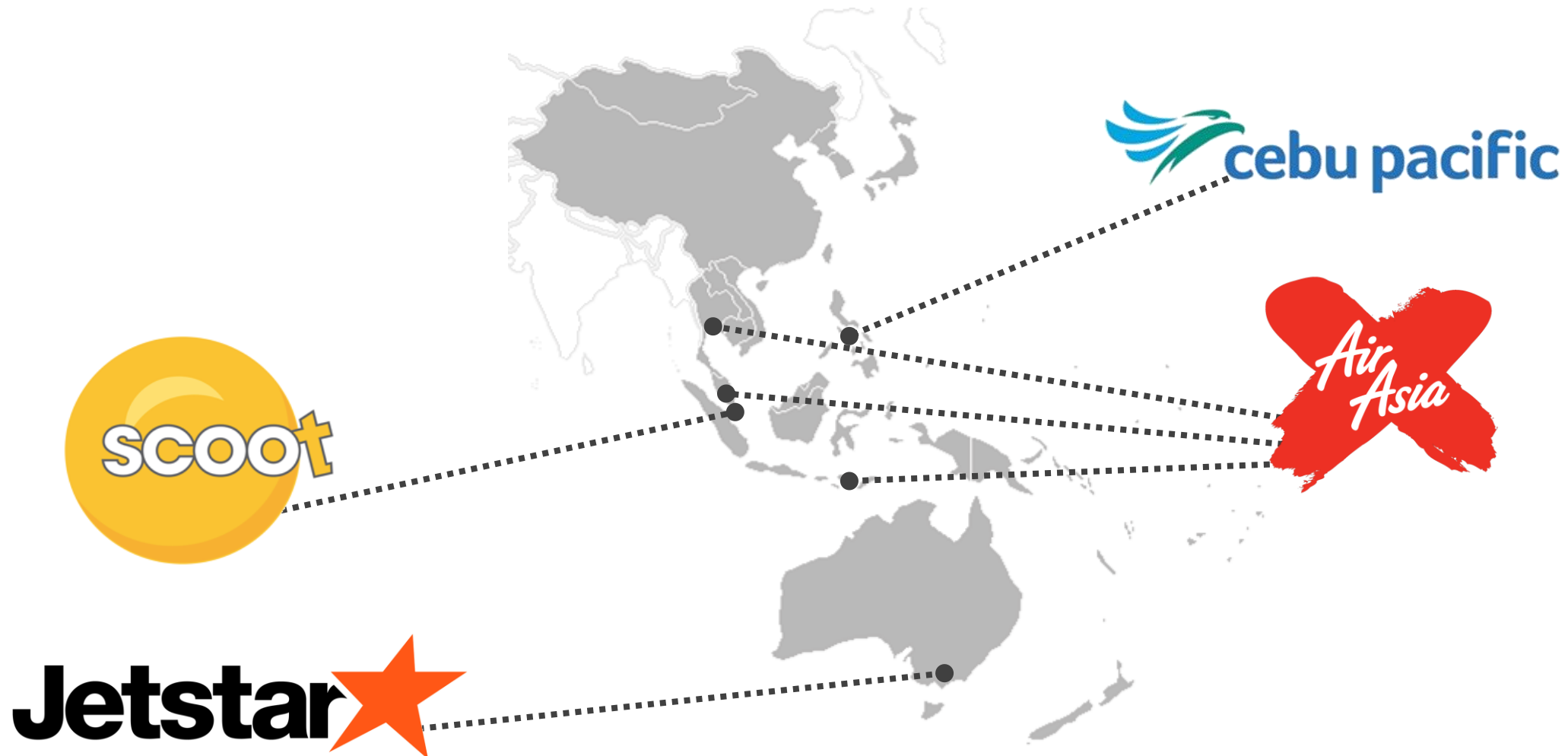
Norwegian

| Basic | Smart | Best | Lowfare | Lowfare+ | Flex | Premium | Premium Flex |
|-------------------------------|--|---|---------------------------------------|---|--|--|--------------|
| +Flight only +Hand luggage | + 1 x23 kg hold luggage + preferred seating + two meals + miles | + 2x 23 kg hold luggage + additional hand luggage + premium seating + IFE + a la carte catering + lounge access + priority checkin/boarding | +Flight only +Hand luggage +IFE | + 1x 20 kg luggage + preferred seating + meal | + 2x 20 kg luggage + refundable + fast track | + premium seating + lounge access - refundable | + refundable |

Asia-Pacific

Successful Long-Haul Low-Cost Carriers

Asia-Pacific: It seems to work

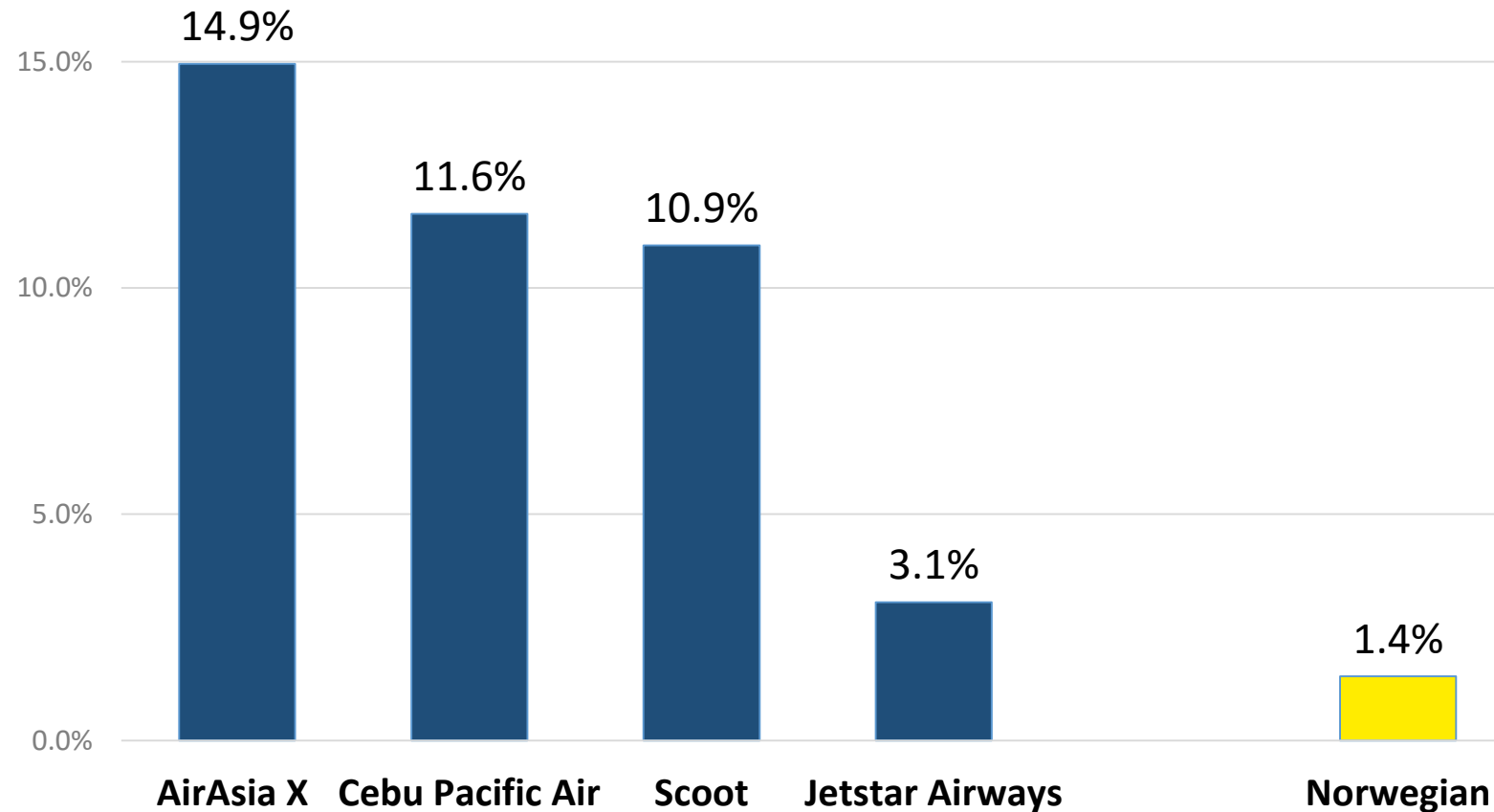


Asia-Pacific: It seems to work

| | Long haul destinations | Fleet | Class configurations |
|------------------|------------------------|------------------------|----------------------|
| AirAsia X | 18 | 26x A330-300 | Economy + Premium |
| Cebu Pacific Air | 5 | 6x A330 | Economy |
| Scoot | 16 | 9x B787; 2x B777-200ER | Economy + Scootbiz |
| Jetstar Airways | 14 | 8x B787 | Economy + Business |

Asia-Pacific: It seems to work

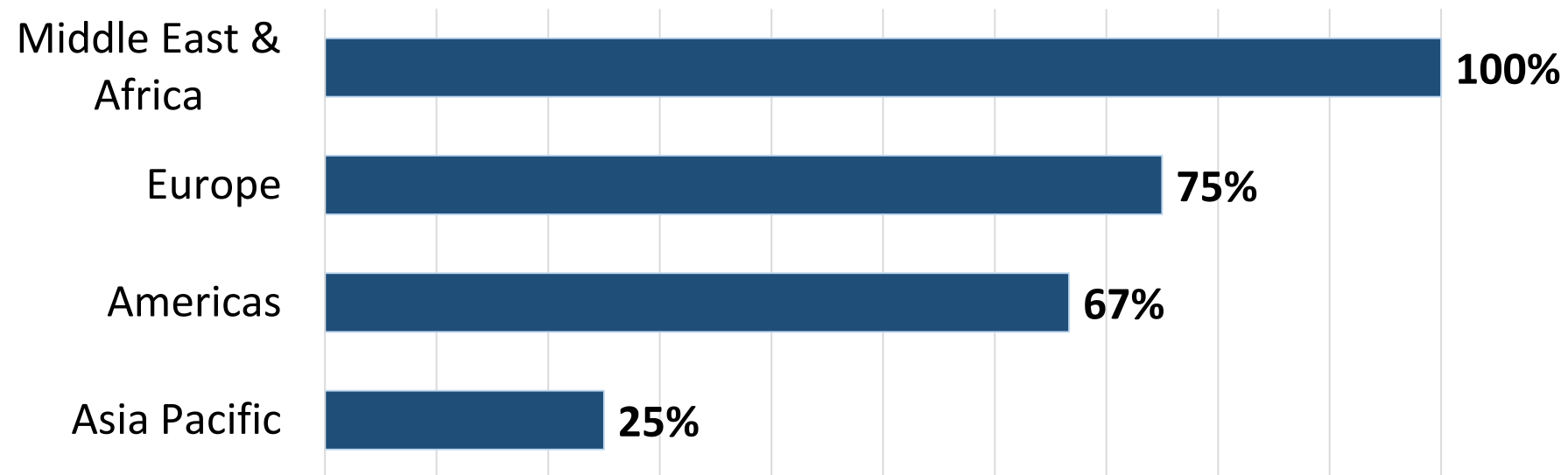
2015 Relative Capacity Growth (offered seats, Oct. 14 vs. Oct. 15)



Source: ch-aviation

Carriers that ceased Operations

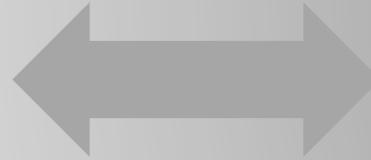
Long-haul Low-Cost success in the Asia-Pacific region



Source: PROLOGIS

Emerging markets – Two types of customers

Travelers who can hardly afford low-cost flights; highly price-sensitive.

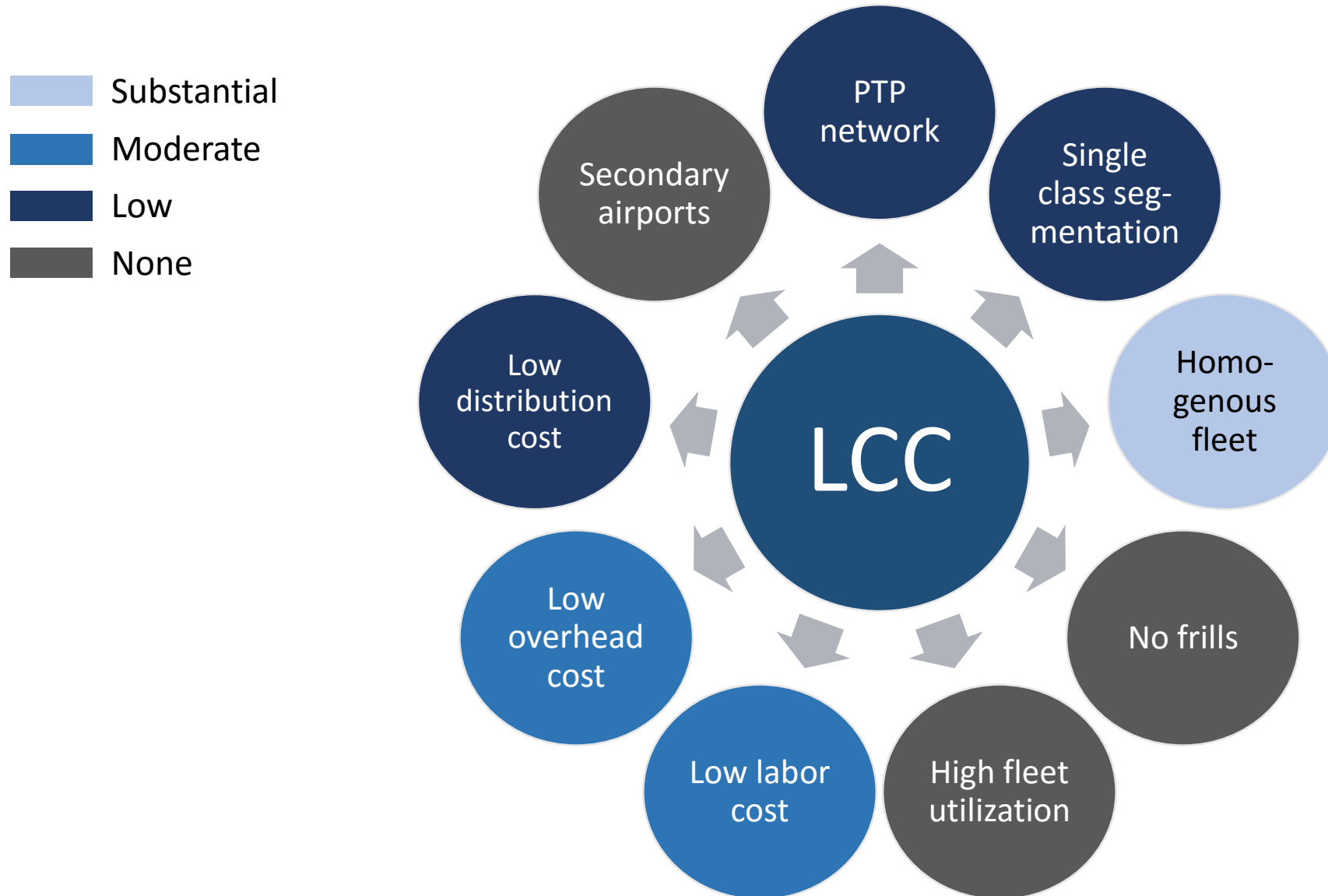


Travelers both willing and able to afford flights with very high service standards

Prospects for European Carriers

Summary

Long-Haul: Cost Advantages?





Thank you!

Any questions?

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