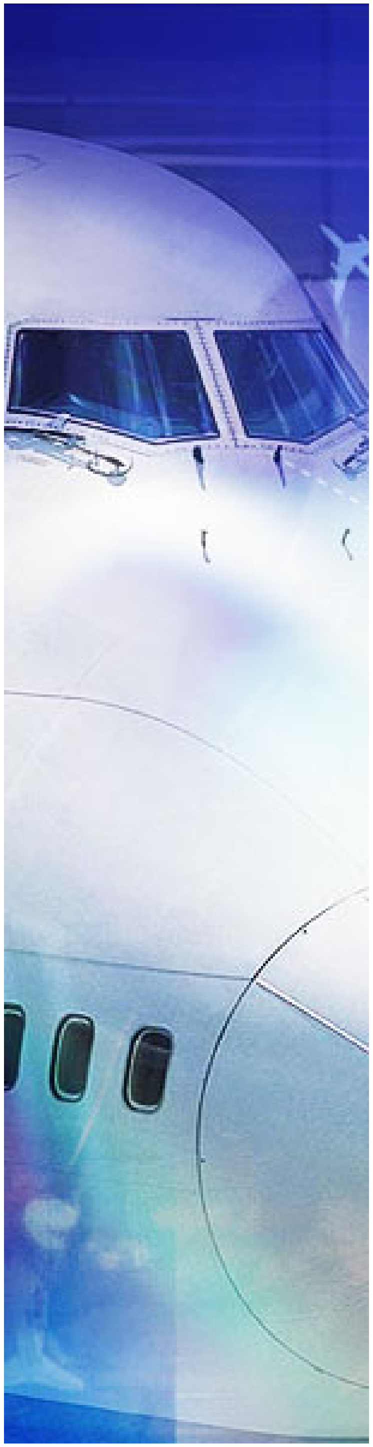
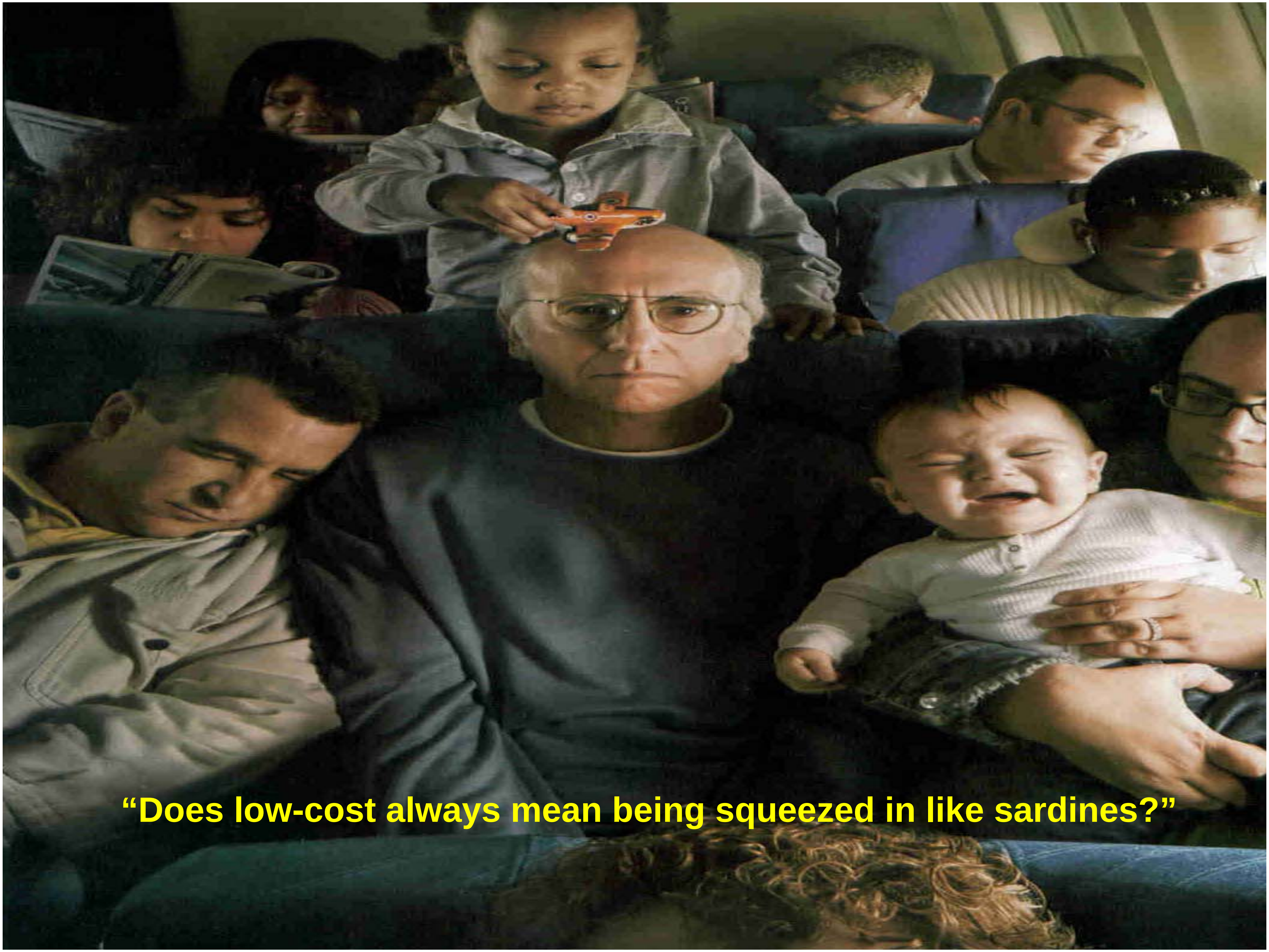


OPPORTUNITIES FOR THE LONG-HAUL LOW-COST MODEL

John Wensveen, Ph.D.
President
Airline Visions

Airneth Seminar
The Future of Long-Haul Low-Cost
The Hague
18 September 2007

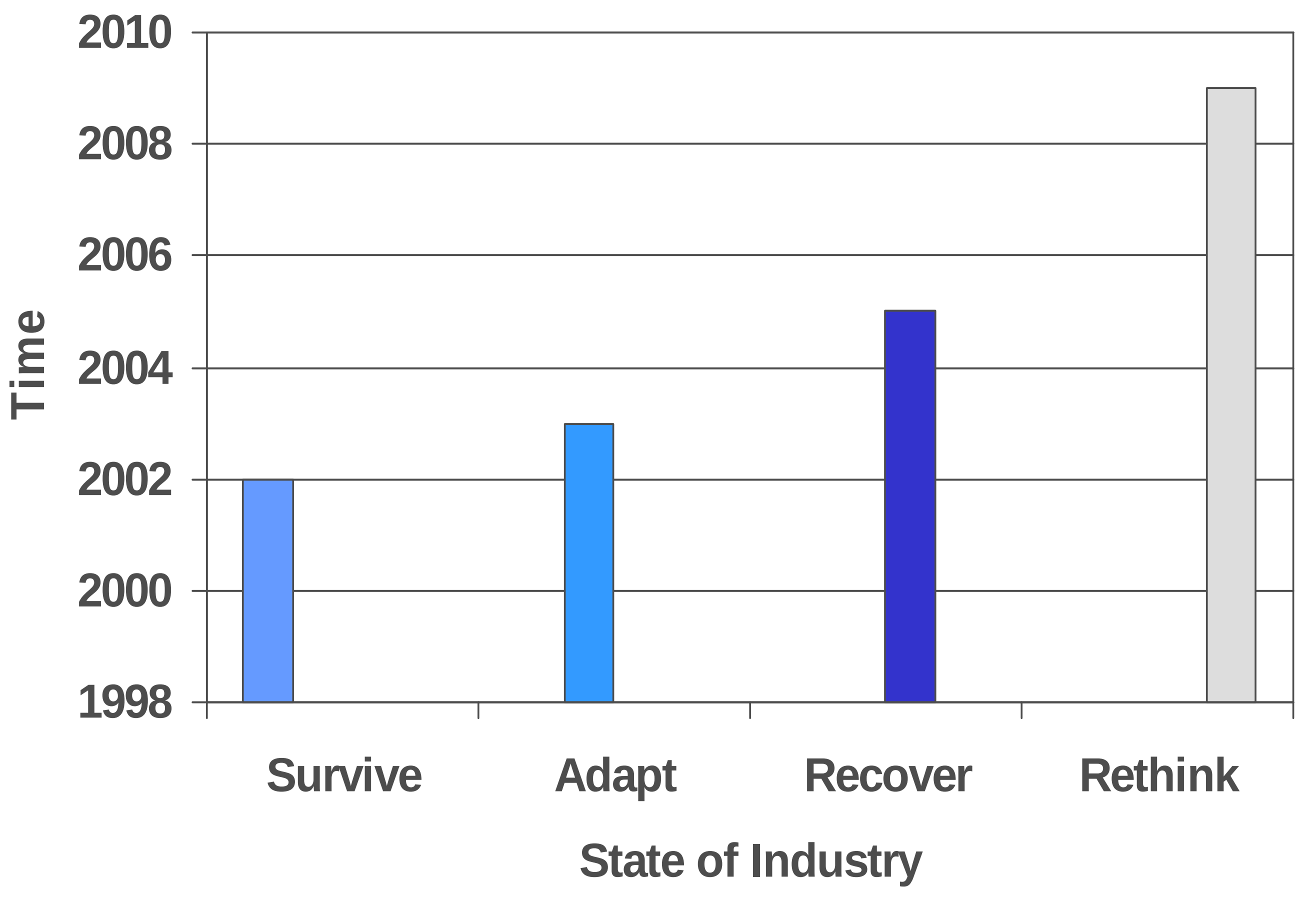
www.airlinevisions.com


“Does low-cost always mean being squeezed in like sardines?”

Failures in Airline Business Planning

- Undercapitalization
- Overexpansion
- Lack of flexibility
- “Wrong” leadership
- Unable to obtain sustainable, competitive advantage
- Failure to demonstrate revenue growth and profitability
- Lesson?

The Global Airline Industry



Discombobulated Syndrome:
What the heck does low-cost mean?

- Low-Cost Carrier/No Frills (LCC/NF)
- Low-Cost Carrier (LCC)
- Low-Fare/High Value Carrier (LFHV)
- Less Frills Carrier
- Value Carrier
- New Generation Carrier

Background

Long-haul flying is inherently different from short-haul.

•Crew requirements
•Security requirements
•Airport facilities & turn times
•Route authorities
•ETOPS and training differences
•Distribution challenges
•Route density

To be successful an entrant must seek real advantage in these factors…
… and find markets where <u>lower</u> fares than the competition can be profitable.

Enabling Factors

High Fares in Key Markets	*-Opens pricing umbrella for new entrants* *-Strengthens value proposition*
Availability of Quality Long-Range Aircraft	*-Fuel efficiency on long-haul routes* *-Affordable acquisition price*
Liberalized Route Authorities	*-New entrants can build networks based on market demand, competition*
Customer Acceptance of Secondary Airports	*-Lower costs, gate and slot availability at key airports in major cities*
Regional LCCs Building Hubs and Looking for Partners	*-Strengthens a point-to-point int'l network with connecting traffic*

Disabling Factors

Restructured Legacies	*Legacy airlines are leaner than ever and continue to innovate with product*
Network Alliances & Affinity Programs	*Legacy airlines are leaner than ever and continue to innovate with product* *Connecting flow builds frequencies while affinity programs lock-up key accounts*
ETOPS & Over-flight Issues	*New entrants must qualify for ETOPS and face other operational challenges (if over water)*
High Capital Requirements	*High initial cost to establish brand and open new markets requires capital*
Labor Pools	*Uneven supply of qualified pilots and cabin crew around the world*

The Core Problem

As distance increases, operating cost rises (unit costs decrease):

- Fuel Burn
- Crew Cost
- Maintenance Cost
- Passenger Services
- Over-flight

Incumbent carriers primarily make up this difference through substantially higher *premium* fares, not *economy* fares.

What does this mean?

1) It’s very difficult to achieve a fare advantage with all-Economy.

•Economy fares increase slowly with distance
•Narrowbody long-haul all-Economy has limited applications
(shorter haul, low competition: YHZ-LON, BOS-SNN, DUB-BWI)
•With a big plane, trade fare advantage for limited market applications

2) These dynamics have driven new models.

Network Specialist: hub bypass / hub complement
Example - Privatair
Product Specialists: premium aircraft attack higher-end pricing
Example - Eos, MAXjet, Silverjet
Price Specialists: high-capacity aircraft stimulate lower-yield traffic
Example - Oasis HK, JetStar, Zoom

Network Specialist

PrivatAir
ZUR/DUS/MUN/AMS – EWR/IAD
48 seats per A319LR & BBJ1/2

Focus:
Thin Route Dedicated Service
Long-Haul
High-Yield
Business Executives
Corporate Clients

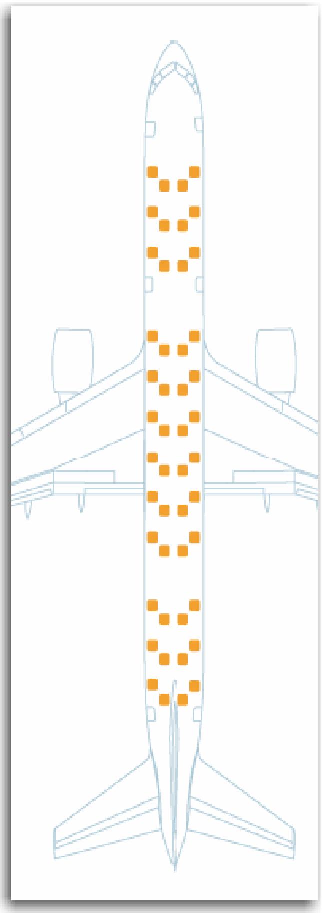
Key Differentiators:
Corporate Shuttle, ACMI for existing airlines, tailored or customized services.

Network Specialist Opportunity

Capitalize on need for corporate shuttle service on long-haul thin routes with high yield.

- Provides increased cost savings and increased productivity for executives.
- Tap into airline operations (operate on behalf of airline).
- Tap into corporate shuttle services.
- Limited competition.

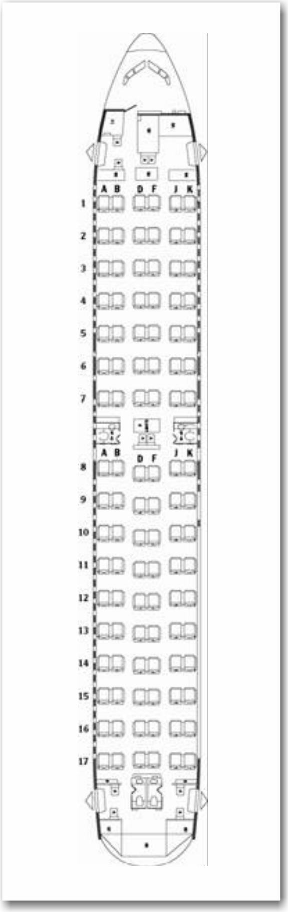
Product Specialist



Eos Airlines
JFK - STN
48 seats per B757

Focus:
High-Yield
Corporate VIPs

Key Differentiators:
Large horizontal bed
with personal service

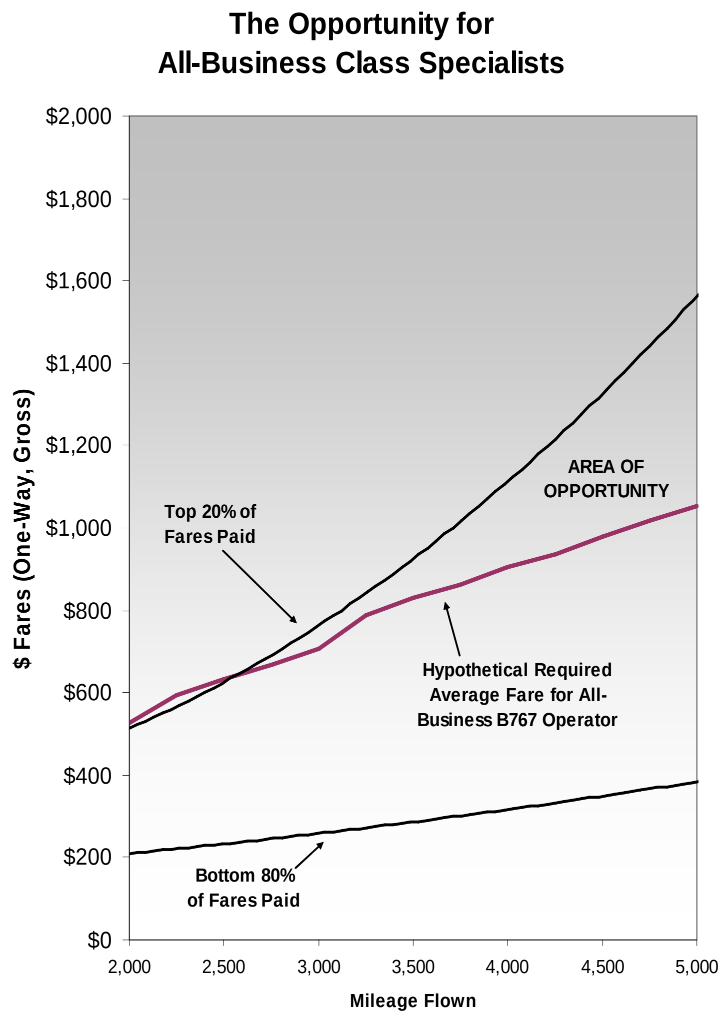


MAXjet Airways
JFK / IAD / LAS - STN
100 seats per B767

Focus:
Large and small business
Affluent leisure

Key Differentiators:
Low, flexible fares for traditional Business Class

Product Specialist Opportunity



Specialists capitalize on the relative strength of legacy yields in Premium cabins on longer-haul flights.

•The average of the top 20% of fares paid increases <u>faster</u> than the average of the bottom 80% of fares paid.

•This creates a pricing umbrella for value-driven Premium entrants.

•Requires a long-range aircraft
-Gap increases with stage length
-B767 offers a compelling combination of range vs. seating capacity

Customer Base (Premium Market)

Large Business

- Global travel contracts and policies
- Varying ability for employees to bypass preferred vendors
- Frequencies can be important, especially on flights from the eastern US

Small and Medium Business

- Limited access to discount programs
- Budget accountability increases price sensitivity
- Less dependence on frequency

Affluent Leisure

- Baby boomers, young urban professionals, etc.
- Disposable income but value conscious
- Rapidly growing global demographic

Price Specialist

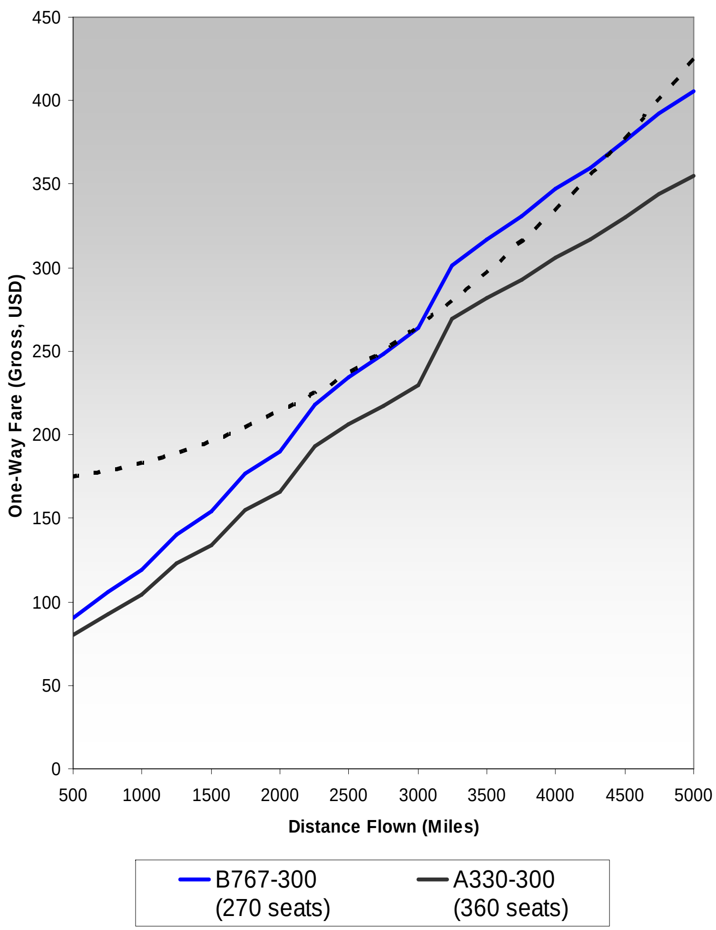
Oasis Hong Kong Airlines (Hong Kong)
Nonstop LGW-HKG with B747-400 aircraft.
81 Business Class seats and 278 Economy Class seats
A nominal low-fare carrier, but unclear cost advantage

Zoom Airlines (Canada)
Nonstop (only 1x or 2x weekly) in 15-20 long-haul markets.
63 Premium Economy and 207 High-Density Economy seats
Aggregates price-sensitive traffic onto limited frequencies

Jetstar International (Australia)
Replacing Qantas mainline in lower-yield, long-haul markets
38 Premium Economy and 265 Standard Economy seats
Interesting combination of legacy network with high-density economics

Price Specialist Opportunity

Price Leader Economics (Dense Y)
vs. 80% Market Yields for Major US-Flag Carriers



These entrants use seating density to capture lower-yield traffic <u>profitably</u>.

•Works well in markets that cannot be served profitably by legacy airlines.

•Also works in markets where excess demand can be stimulated by low fares.

•Requires large aircraft with high-density seating configuration.

•Significant economic risk can be insulated through connectivity with other networks, participation in affinity program.

Market Characteristics (Independents)

Scale (Frequency) Model

- •Movable large corporate (subsidized) business
- •Strong local catchment areas
- •Affluent leisure and VIP traffic
- •Sub-nine hour stage length (one daily rotation per aircraft)

Scope (Destinations) Model

- •Mix of affluent leisure and movable business
- •Broad regional catchment areas
- •Seasonal and economic balance
- •Availability of peak-time slots
- •Seven to twelve hour stage length

Market Characteristics (Network Airlines)

Hub Complement

- Build from hub infrastructure
- Strong corporate demand
- Lean leisure, frequent flyer and cargo demand
- Up to nine hour stage length

Hub Bypass

- Leverage product superiority versus competition
- Attract incremental corporate business
- Lower-cost competitive response

New Airline/Airport System

- Legacy Carrier Network
  - Small number of global alliances

- Point-to-Point Network
  - Mini alliances
  - Interactive marketing agreements / cross-selling
  - Mergers / acquisitions
  - Establishment of global network

- Regional/Feeder Network
  - Independent with loose partnerships

Conclusions

- Fully understand what "low-cost" means
- Opportunity should not be focused on low-cost long-haul
- Focus on 3 types of emerging carriers (Network, Product and Price Specialists)
- Concentrate on niche markets with possibility of "connecting" other niche markets

- Success based on:
  - Solid business plan
  - Flexibility
  - Diversity
  - Leadership
  - Steady and moderate growth strategies
  - Effective cost cutting strategies
  - Fleet commonality
  - Reasonable capital requirements
  - Long-term vision


Questions & Answers
www.airlinevisions.com