

Airline Roundtable

THE CONFERENCE BOARD

Boca Raton, Florida
February 17, 2005



Agenda

- Introduction – TCG Consulting
- Health of Airlines in Today's Economy
- Airlines in EMEA
- Simplifares and other fare reforms
- State of the GDS
- Forecast view of where carriers are headed
- Corporate contingency plans
- European Regulations



TCG Consulting

- **Headquartered in Miami**
 - Offices in Miami, Chicago and Los Angeles
 - Dedicated resources in Europe, Asia and Latin America
- **10 years in business**
- **Single focus on corporate consulting**
- **No airline, agency or other supplier revenues**
- **Full line of capabilities**
 - Assessments, Strategy, Sourcing, Management, Outsource
- **Travel, Expense and Payment Integration**
- **Proprietary technology – SAM**
- **Proprietary technology – Hotel**



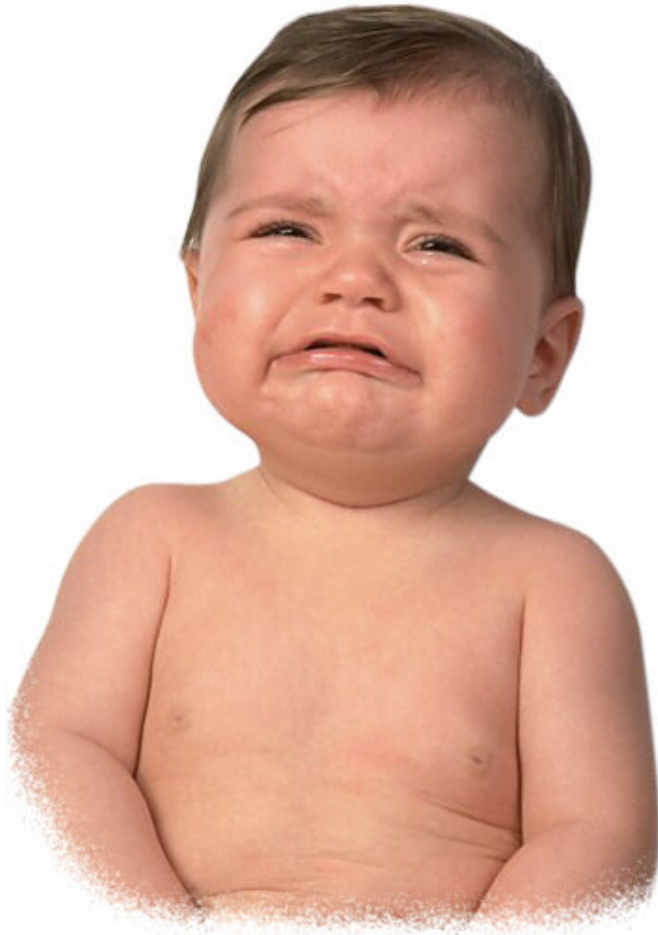
Our Clients



DAIMLERCHRYSLER



Health of the Airlines Today

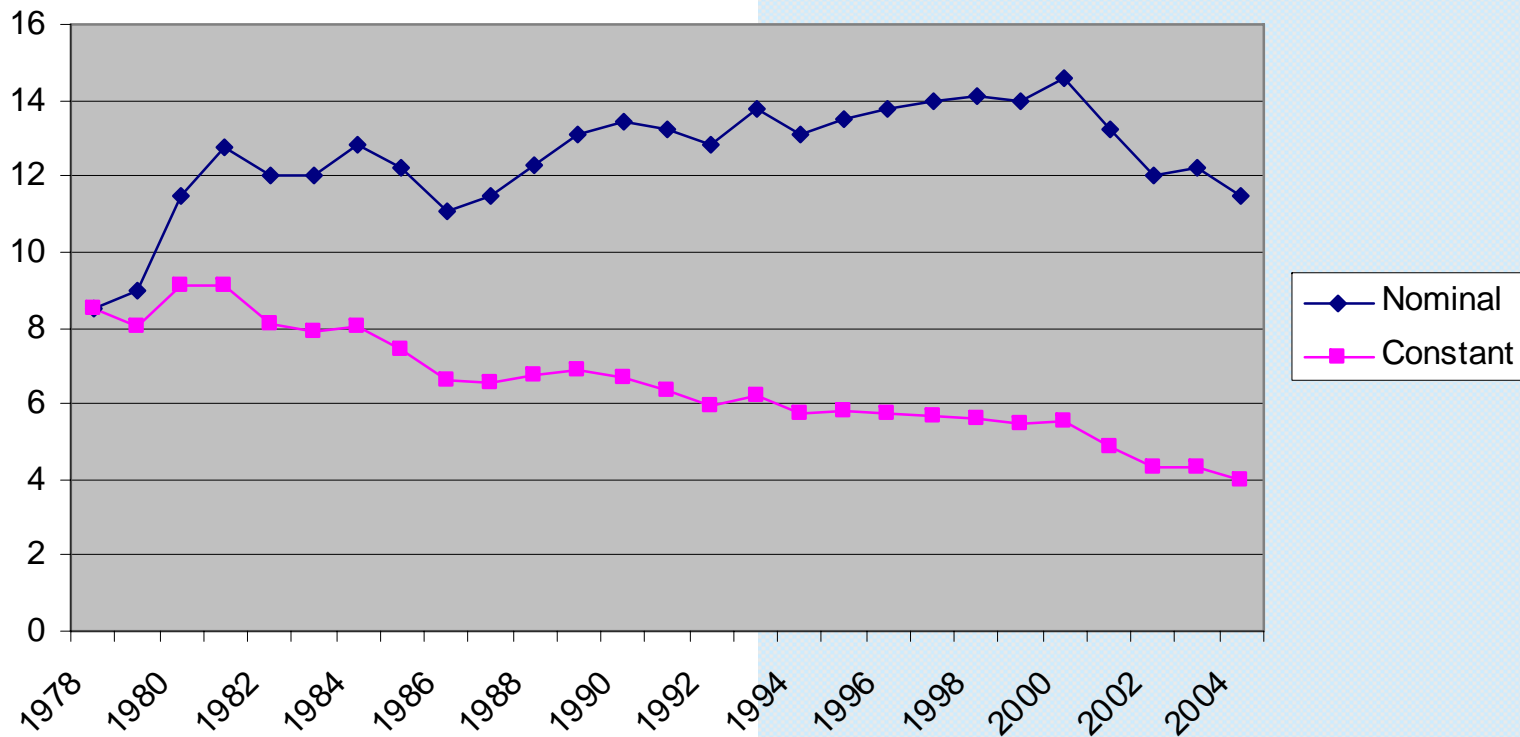


- In the US, it's not a pretty picture
- 2005 projection \$3.0B Loss
- US Airways hangs on
but for how long?
- United trying to emerge
but can they with
current
management?
- ATA bankrupt
- America West
not looking good?
- Delta
jury is still out



Health of the Airlines Today

Airline Revenue Since Deregulation
(nominal and constant cents per passenger mile)



Health of the Airlines Today



- But things look good in Europe
- Traffic up 9%
- Travel to Asia up 19.2%
- AEA airlines profit of \$900M (versus \$2.6B loss in 2003)
- Most major European carriers are reporting profits

Source: Association of European Airlines



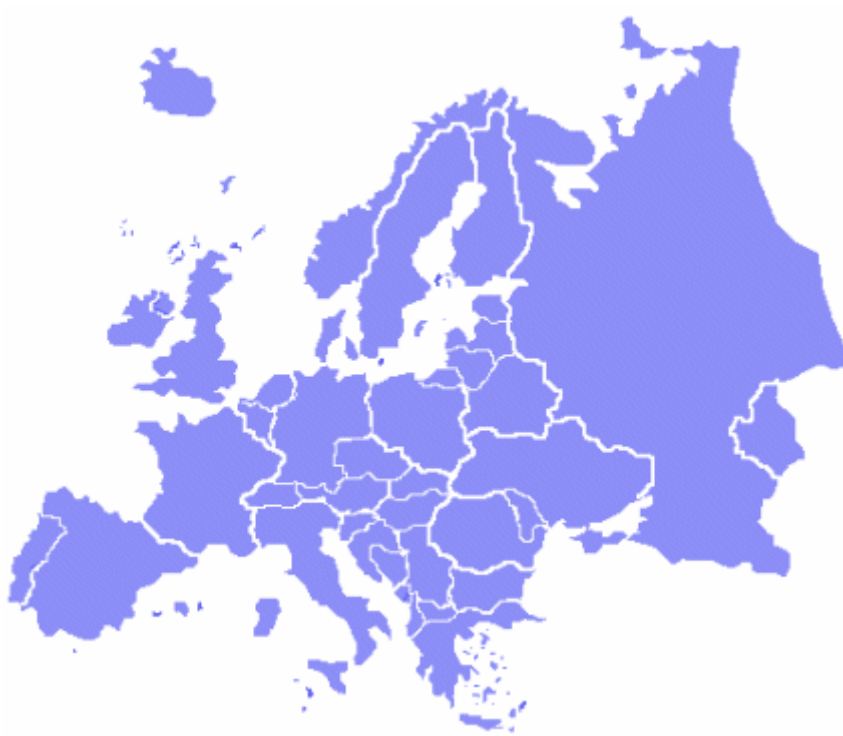
Low Cost Airlines in Europe

- Are we seeing O'Leary's predicted 'bloodbath' ?
- Jet X about to fail?
- bexx air website switched off
- First Romanian low cost carrier to launch in December
- Smart Wings adds four new Mediterranean routes
- easyJet adds Sardinia to destinations
- Nowy Przewoznik to be renamed polishwings
- Norwegian and Sterling to join forces
- Alpieagles introduces Venice to Romania routes
- Volare Web in serious trouble
- Volare Web slashes routes
- Ryanair adds three new destinations for 2005
- More low cost flights from Scandinavia to Prague
- Air Berlin takes a slice of FlyNiki
- Germania Express adds Leipzig to network
- bexx air to fly again!
- Third Spanish budget carrier prepares for takeoff
- A new UK-Egypt low cost service... but is it an airline?
- A new Italian low cost airline is born...
- easyJet introduces 19 new routes
- easyJet website gets a makeover
- Icelandair buys 8.4% of easyJet
- bmi baby and germanwings consider alliance
- German low cost airlines turn focus to Russia
- Thomson Fly confirms Bournemouth as third hub
- New easyJet route: London Stansted – Grenoble
- SAS considers changing to low cost model

Source: Altitude Travel website



Low Cost Airlines in Europe



Source: OAG Worldwide

TCGCONSULTING

© Copyright 2005, TCG Consulting, LLP. All rights reserved.

- 23% of Intra-European ASMs are on low cost carriers
- Versus 33% Domestic US
- Easyjet is 4th largest airline intra-Europe
- Ryanair is 7th largest
- Expansion in Eastern Europe

THE CONFERENCE BOARD



Simplifares aren't a New Idea

- 1992 - Value Pricing
 - 93% of tickets discounted
 - Average discount = 63%
 - Why not sell tickets for 40% less?
- Timing is everything
- We're only as smart as our stupidest competitor

“Simplicity, equity, value.”



Robert Crandall, retired chairman of American Airlines

Simplifares – the Details

Delta – Atlanta to San Francisco

- January 1, 2005
- F06 \$1,365

- Y06 \$1,081
 - BA3 985
 - HA0HTN 354
 - QA0TN 252
 - KA3FSTN 196
 - LA7TN 178
 - LA14TN 150
 - UA14TN 141

Source: ATPCO GFS database



Simplifares – the Details

Delta – Atlanta to San Francisco

- January 1, 2005

- F06 \$1,365

- Y06 \$1,081

- BA3 985

- HA0HTN 354

- QA0TN 252

- KA3FSTN 196

- LA7TN 178

- LA14TN 150

- UA14TN 141

- January 5, 2005

- F0BV \$557 – 59%

- YUPBV 511 – 63%

- QUPBY 317 – 77%

- Y0BV \$464 – 57%

- B3BV 418 – 58%

- Q0NBV 271 + 7%

- K3NBV 243 + 24%

- L7NBV 178 n/c

- U14NBV 146 n/c

Source: ATPCO GFS database

Simplifares

- Simplifares are supposed to increase revenue for Delta
- Increase unit volume
- Travelers pay for first class
- Travelers are attracted to reduced restrictions
- Corporate travelers move “up-bucket”
- Delta says they are “revenue positive” on Simplifares



Other Carrier Responses

- **American**
 - Have broadly matched structure, though fares are not as low as Delta's
 - Even in non-competing markets
- **Continental / Northwest**
 - Have matched in competing markets
- **United**
 - Has not yet introduced competing fares – even head-to-head
 - Is trying to figure out what to do
 - Will introduce new pricing 'soon'
- **US Airways**
 - Was already rolling out 'go fares'

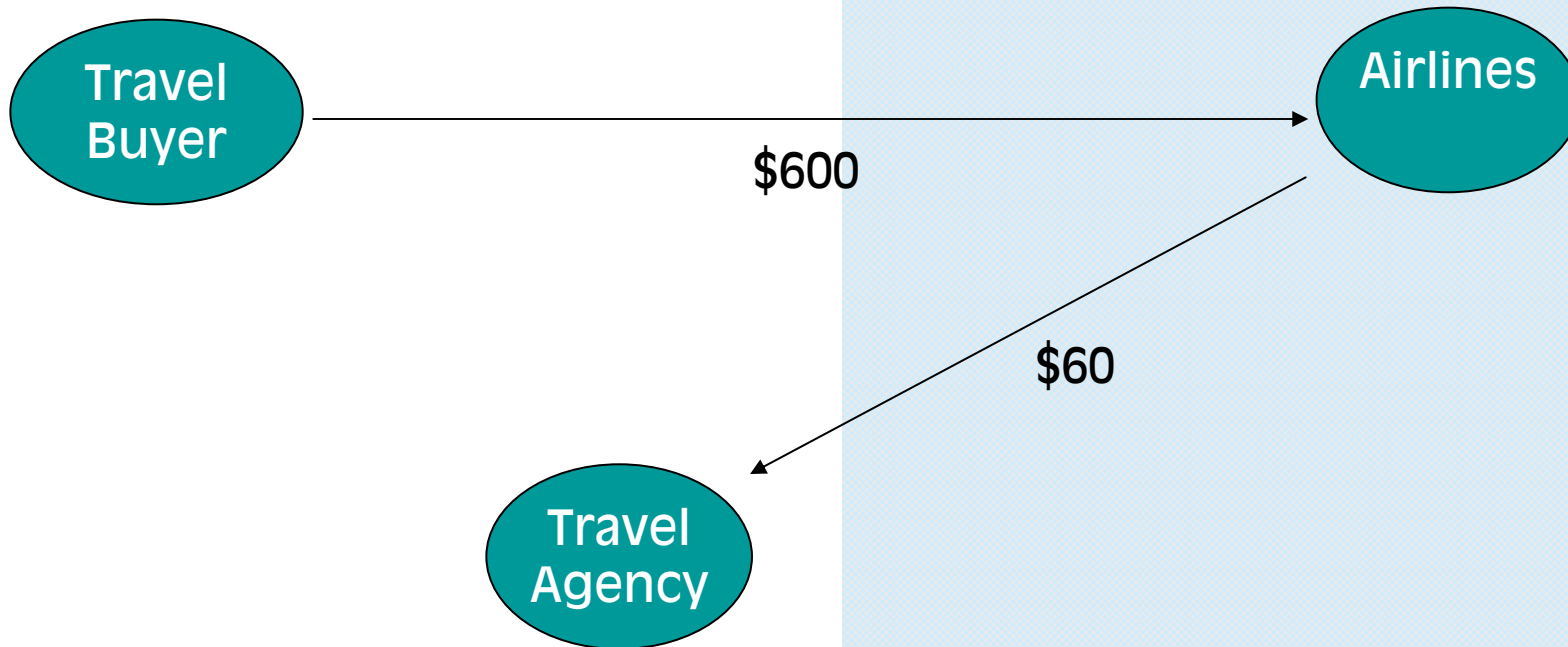


Corporate Discounts

- **Delta**
 - Had already amended contracts for national/global accounts
- **Continental**
 - Has introduced fare based discounts
- **American**
 - Will be rolling out new, lower, discounts
- **United**
 - Will be rolling out new, lower, discounts
- Carriers are adding (small) discounts on lower buckets
- International discounts not impacted
- Some companies are deciding to exclude domestic travel from contracts



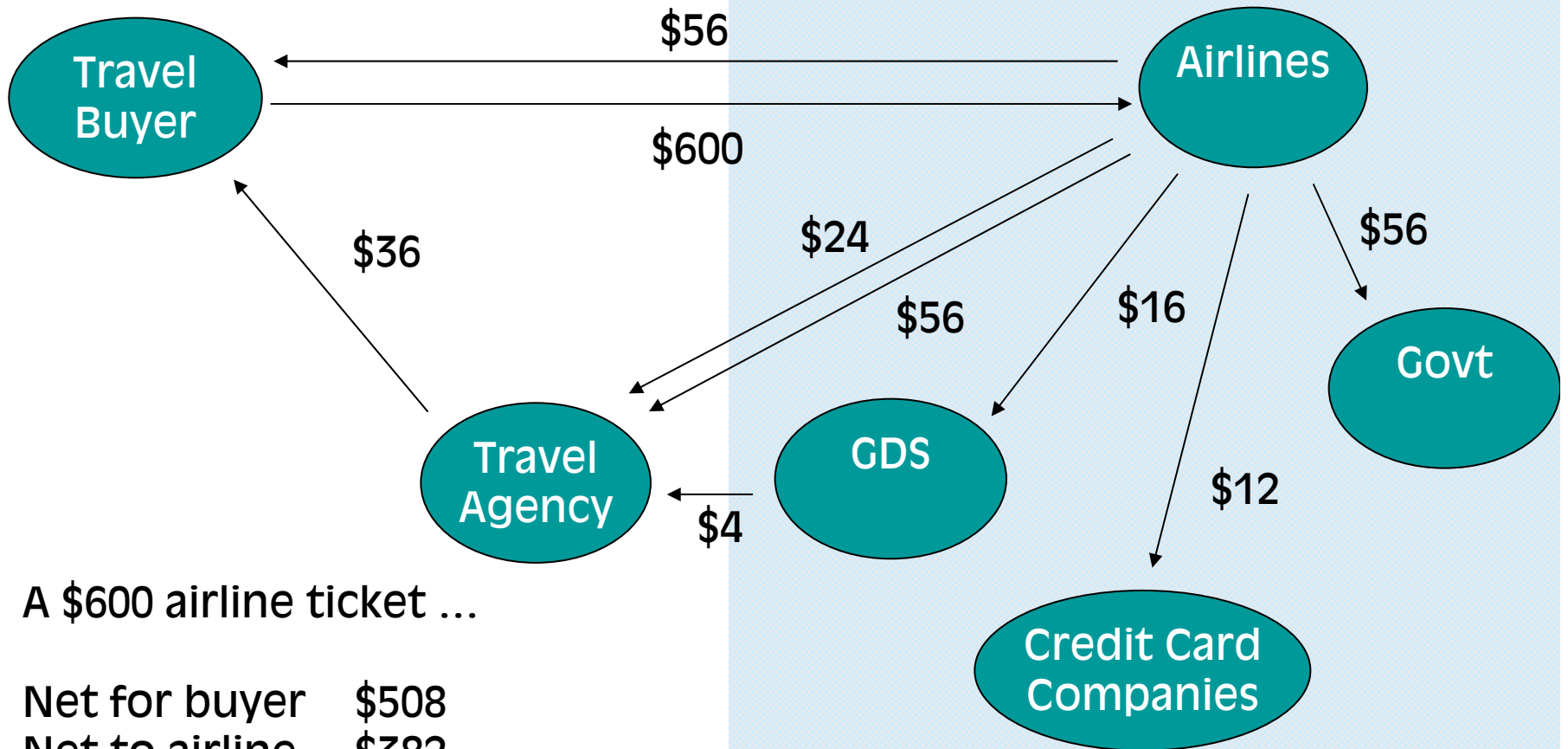
Travel Industry Revenue Flows



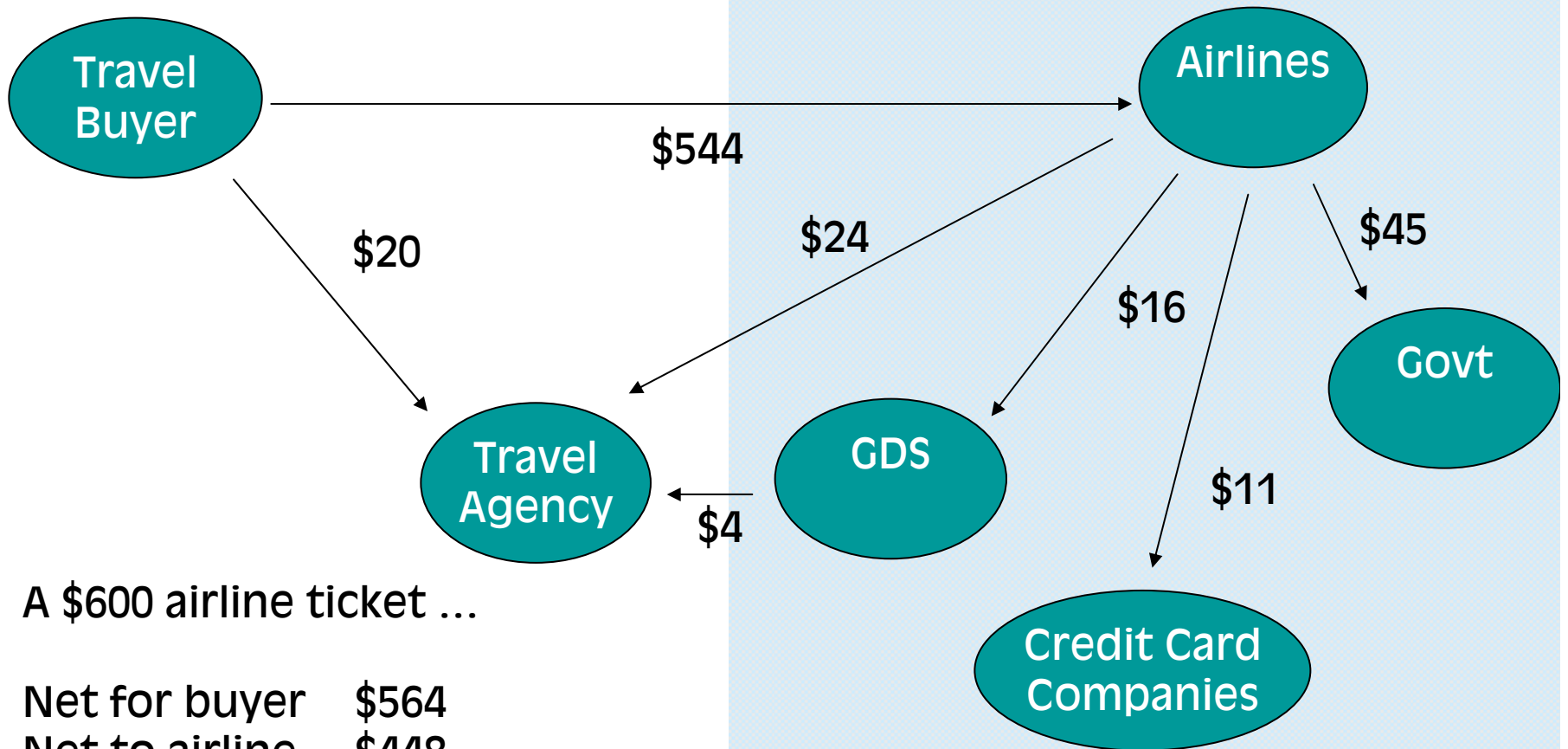
A \$600 airline ticket ...

Net for buyer	\$600
Net to airline	\$540

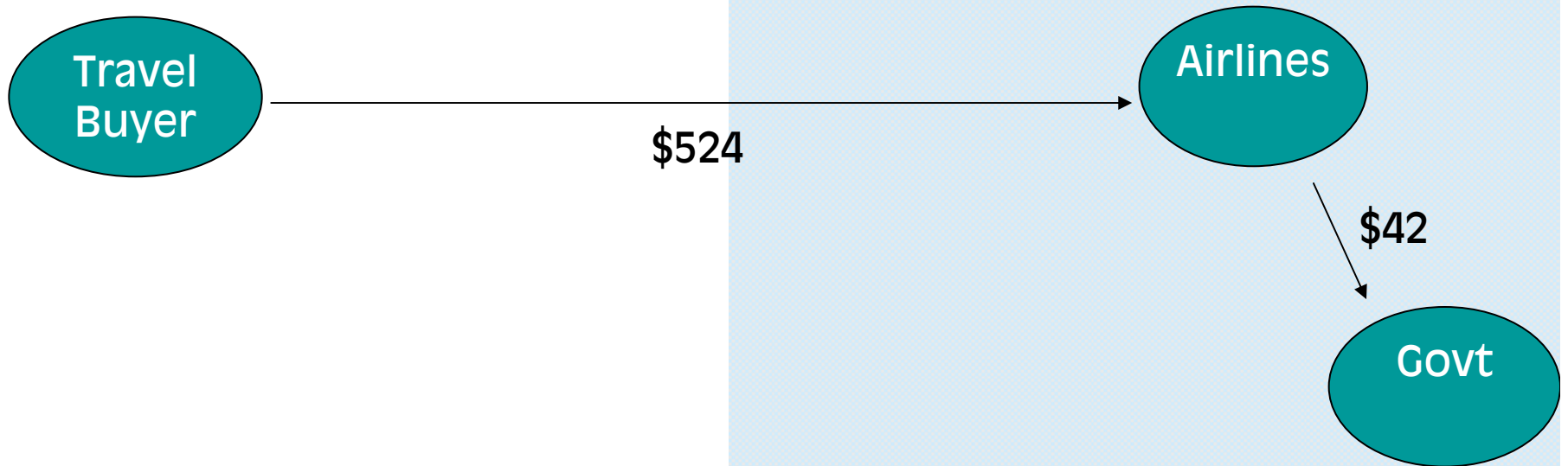
Travel Industry Revenue Flows



Travel Industry Revenue Flows



Travel Industry Revenue Flows



A \$600 airline ticket ...

Net for buyer \$524
Net to airline \$482

Except the ticket is now \$300, not \$600

GDS Deregulation

- Airlines can opt out
- United
 - \$5.00 inducement to travel agencies to book direct
- Delta
 - Menu prices
 - Travel Management Company Discount
 - Delta.com Discount +
 - “EDP” – direct link with direct form of payment Discount ++
- Positioning for renegotiations



Where Carriers are Headed

- “Air Traffic Rebounds in 2004
- Cost Efficiency; The Challenge for 2005”

- IATA press release, 1/31/2005

