



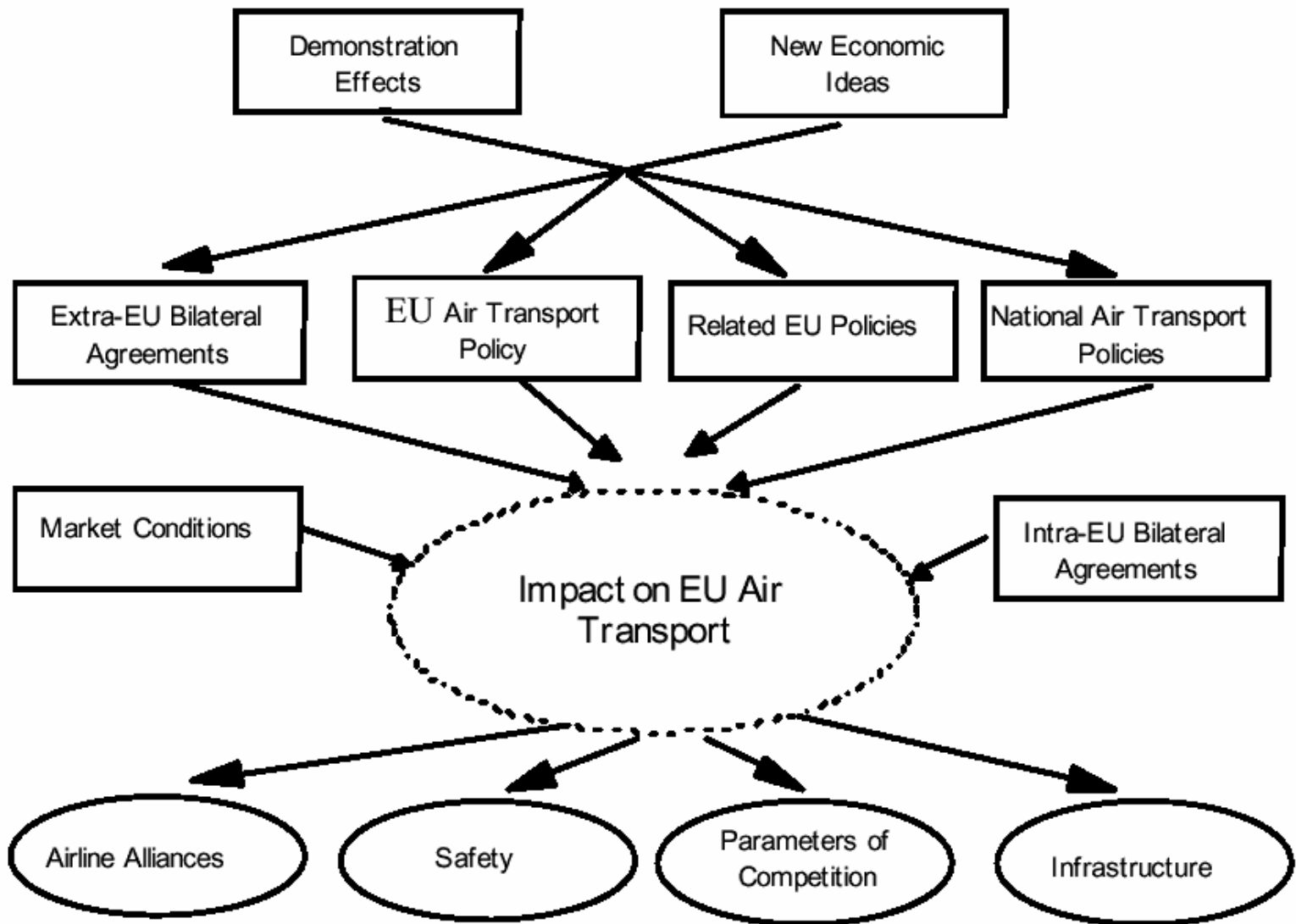
LOW COST AIRLINE MODEL

study

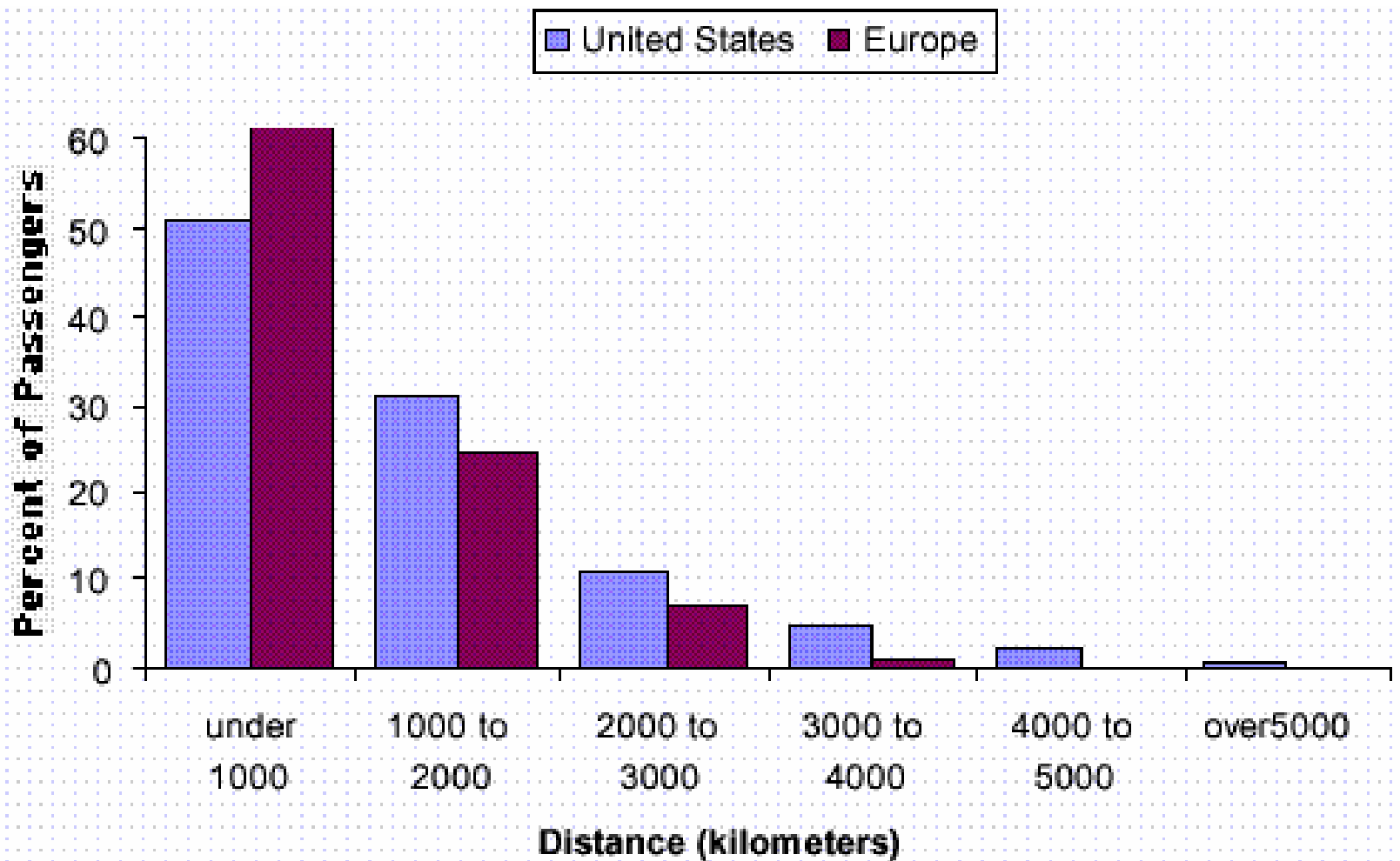
13 febbraio 2005

Prima parte

Simplified flow chart of factors influencing EU air transport

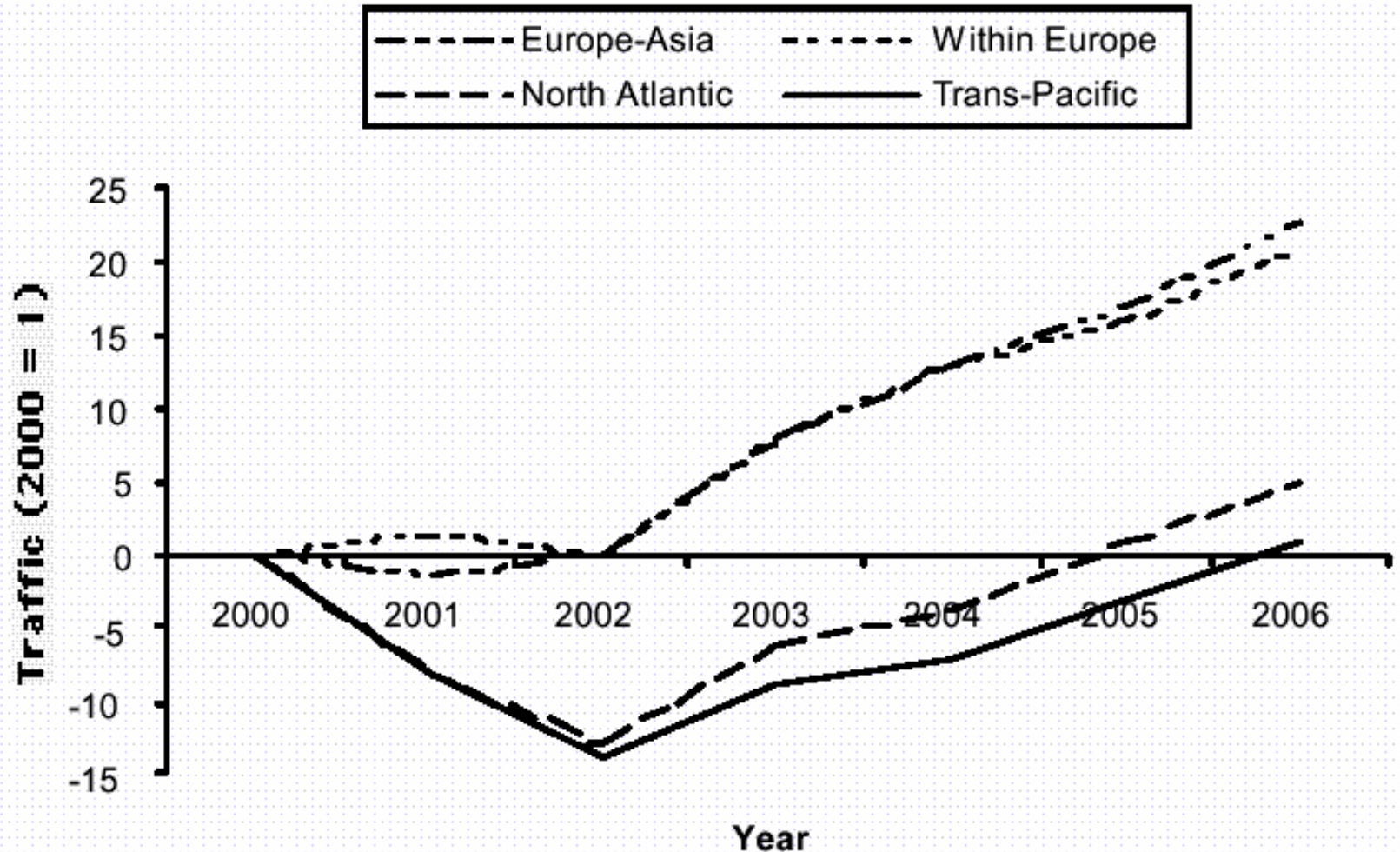


PASSEGGERI: distanze di volo US - UE

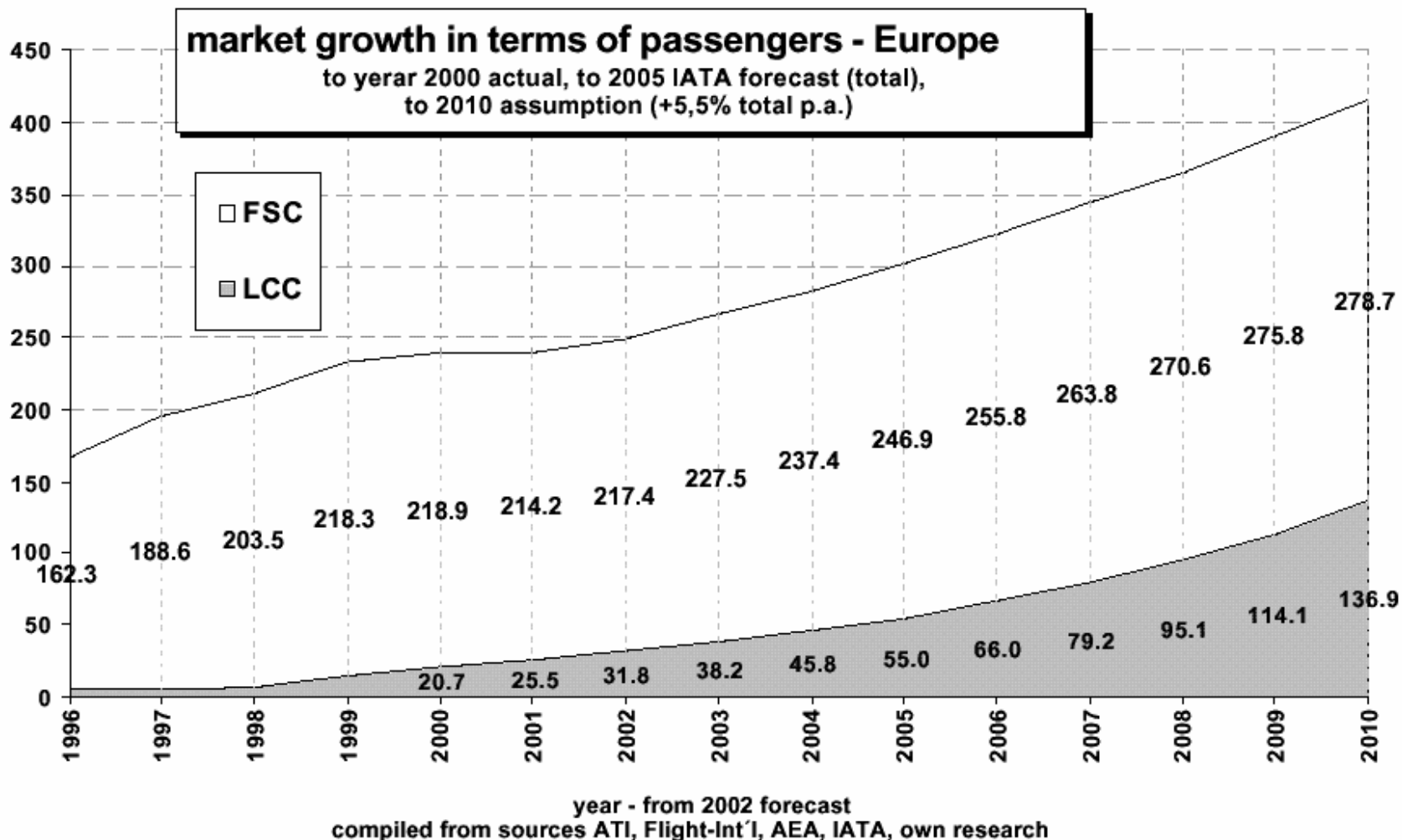


STIME IATA

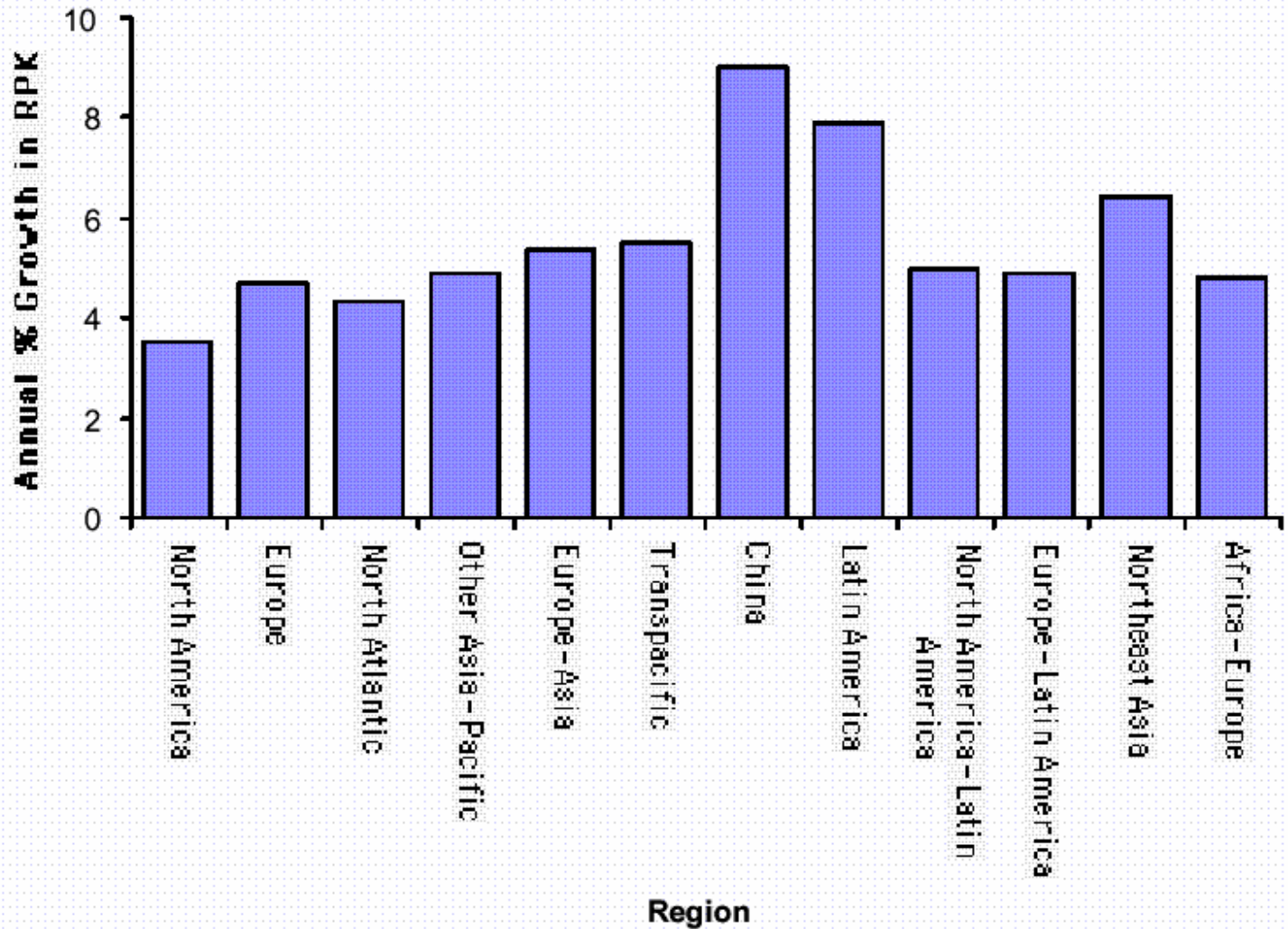
IATA Forecast of regional passenger traffic growth



Market growth perspectives scheduled airlines and low cost carriers (ECA study)

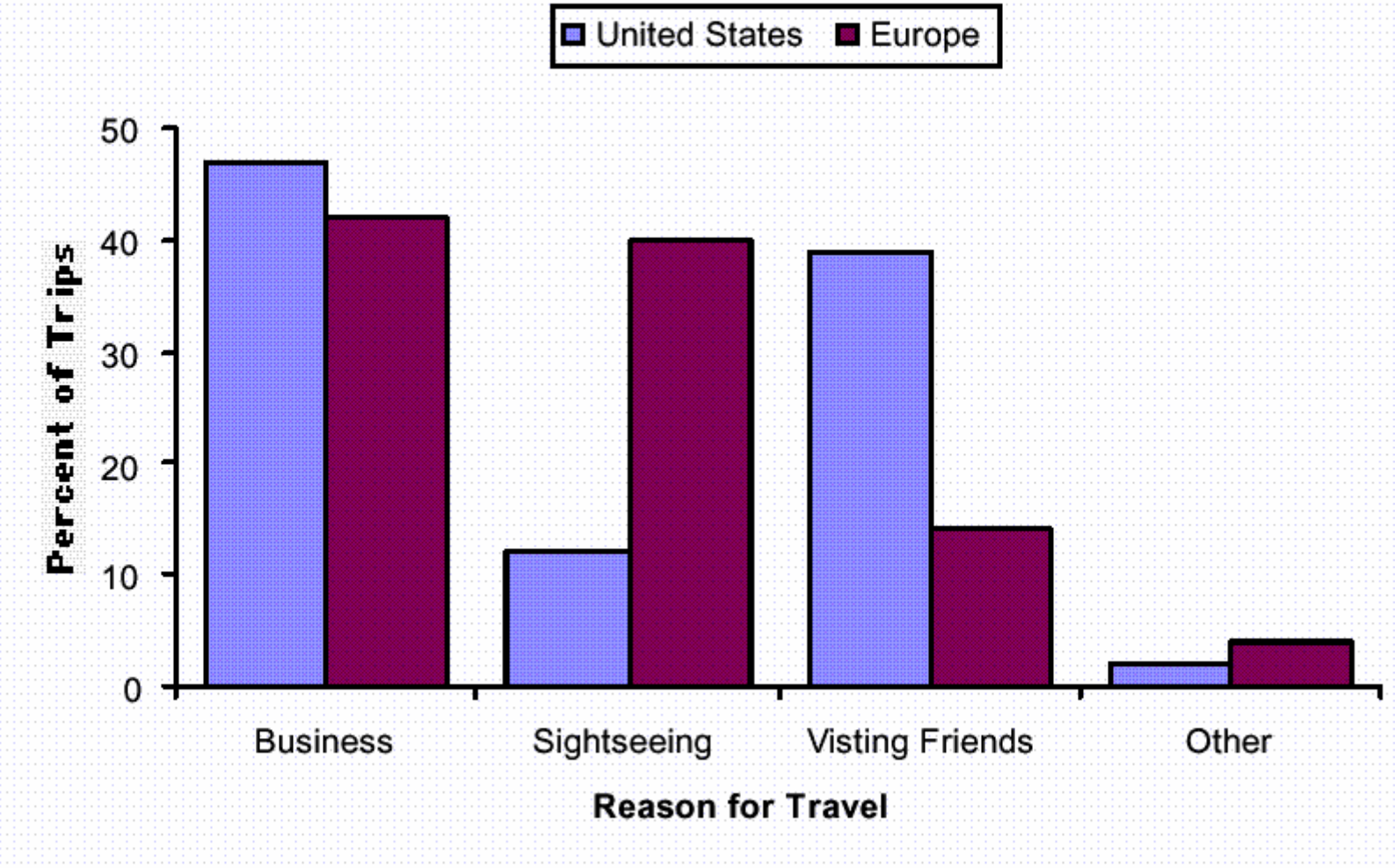


Long term forecasts of revenue passenger kilometer growth to 2021



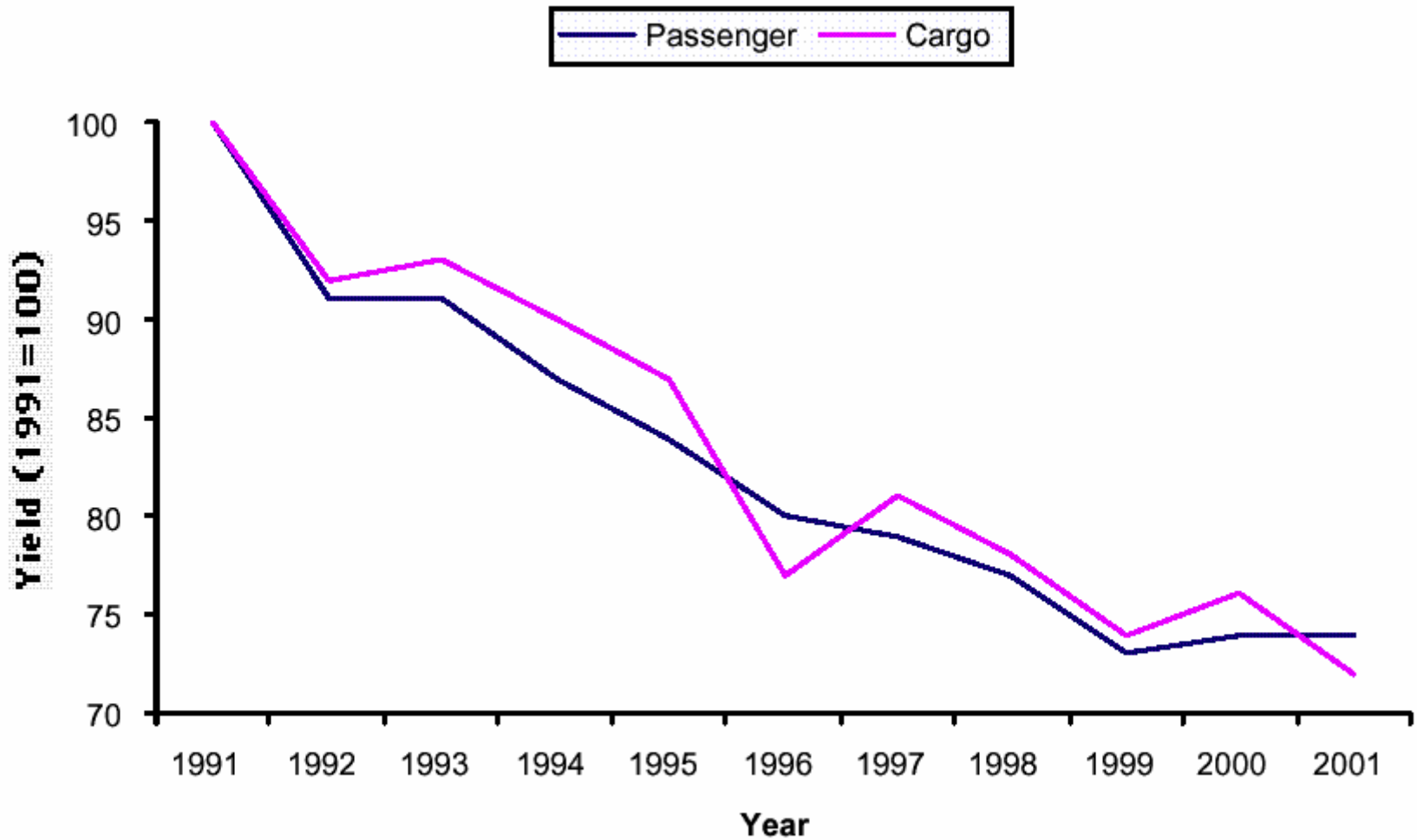
Source: Boeing, Current Market Outlook 2002.

Motivations for travel in the US and Europe



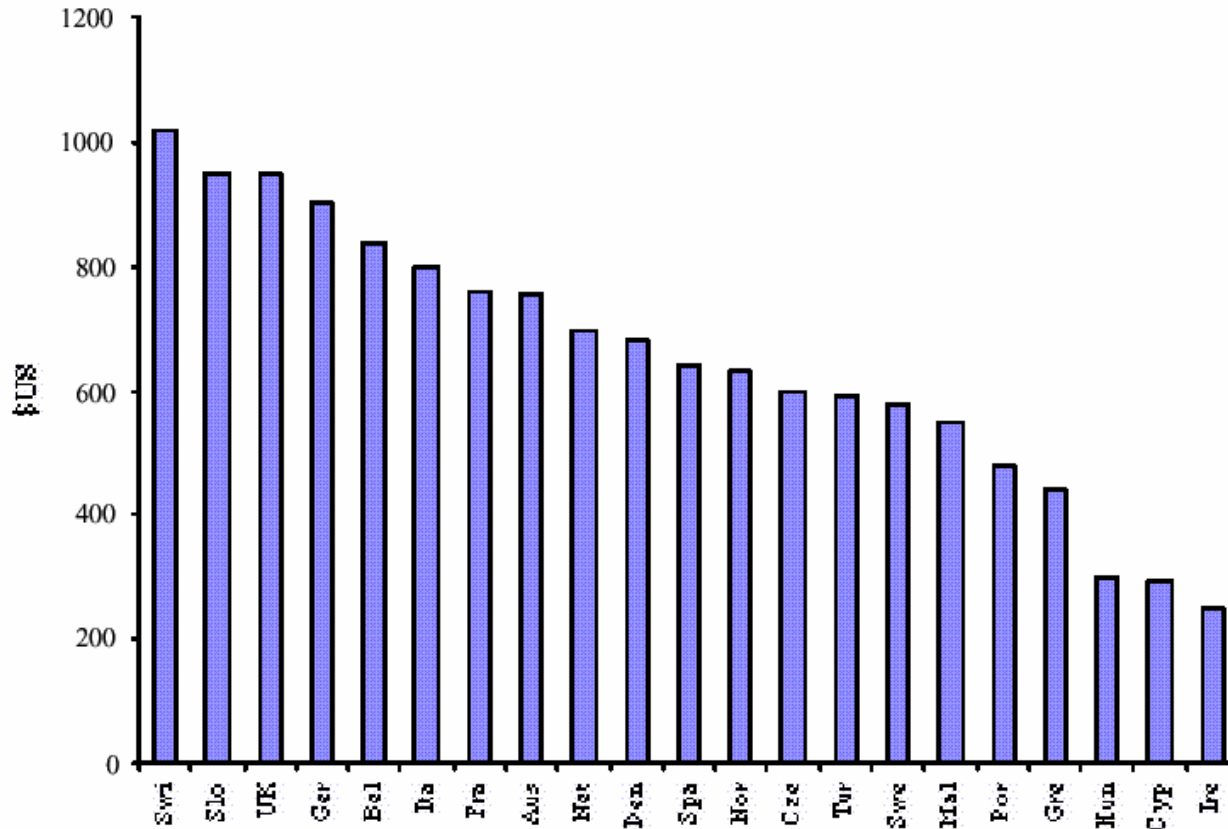
Sources: Institute of Air Transport, Gallop/ATA Survey
www.aerohabitat.org

Real passenger and cargo yields for European scheduled services



Source: Association of European Airlines

Costs to overfly Europe: Airbus A320 in 1997 for the average AEA airline's flight of 850km.



Source: Association of European Airlines (1997a)

AEROPORTI: numero destinazioni

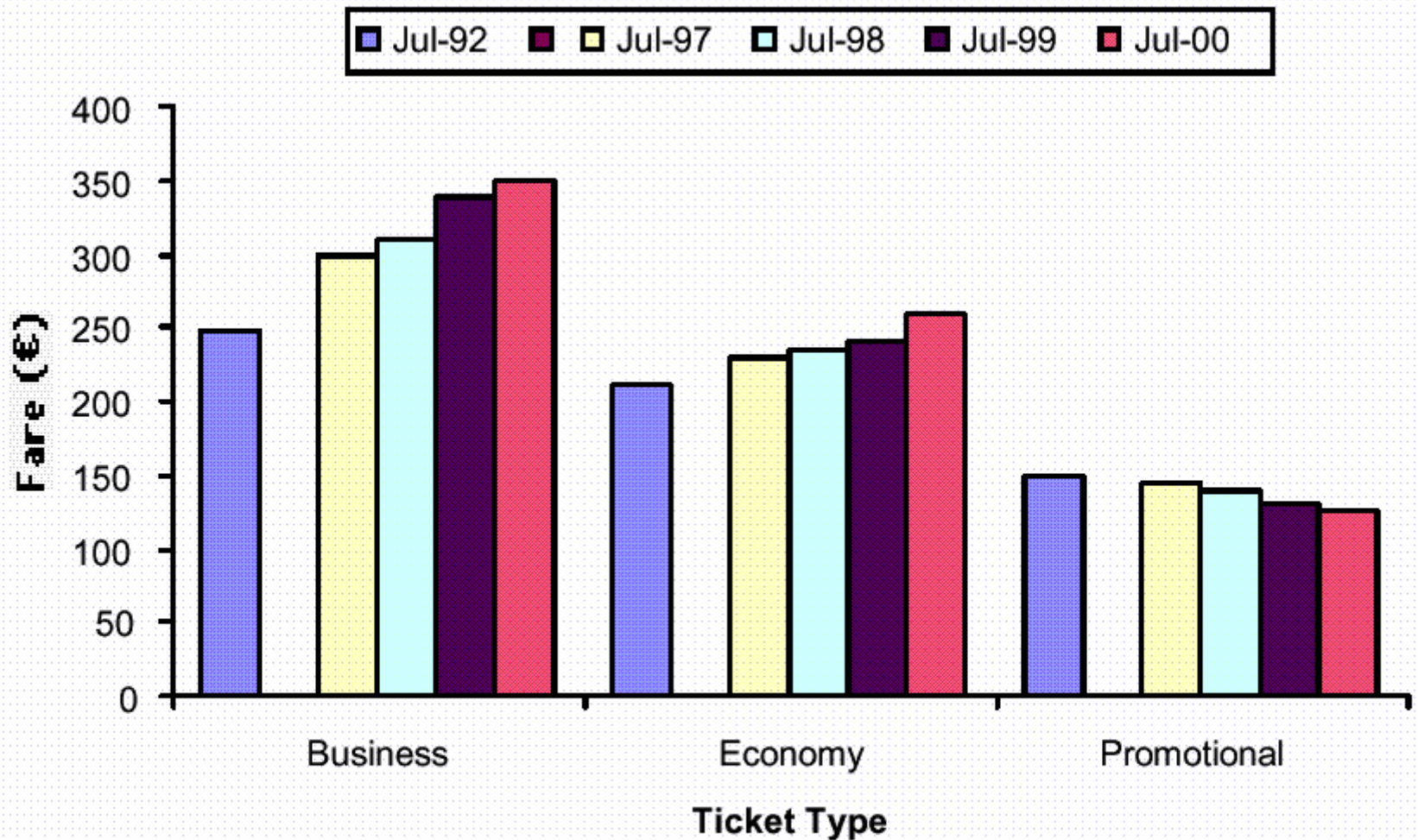
Number of destinations served from major European airports, 1990-2002

Year	Schiphol	Charles de Gaulle	Frankfurt/Main	London Heathrow	London Gatwick
1990	201	210	254	170	227
1991	198	210	250	142	212
1992	204	217	262	149	210
1993	210	219	271	147	212
1994	227	229	285	150	213
1996	231	254	317	165	209
1997	240	251	292	178	200
1998	239	251	291	179	198
1999	234	241	289	175	191
2000	238	250	292	180	189
2001	215	246	296	170	186
2002	205	220	296	140	191

Note: Includes all unique destinations served by direct flights and 2 leg flights

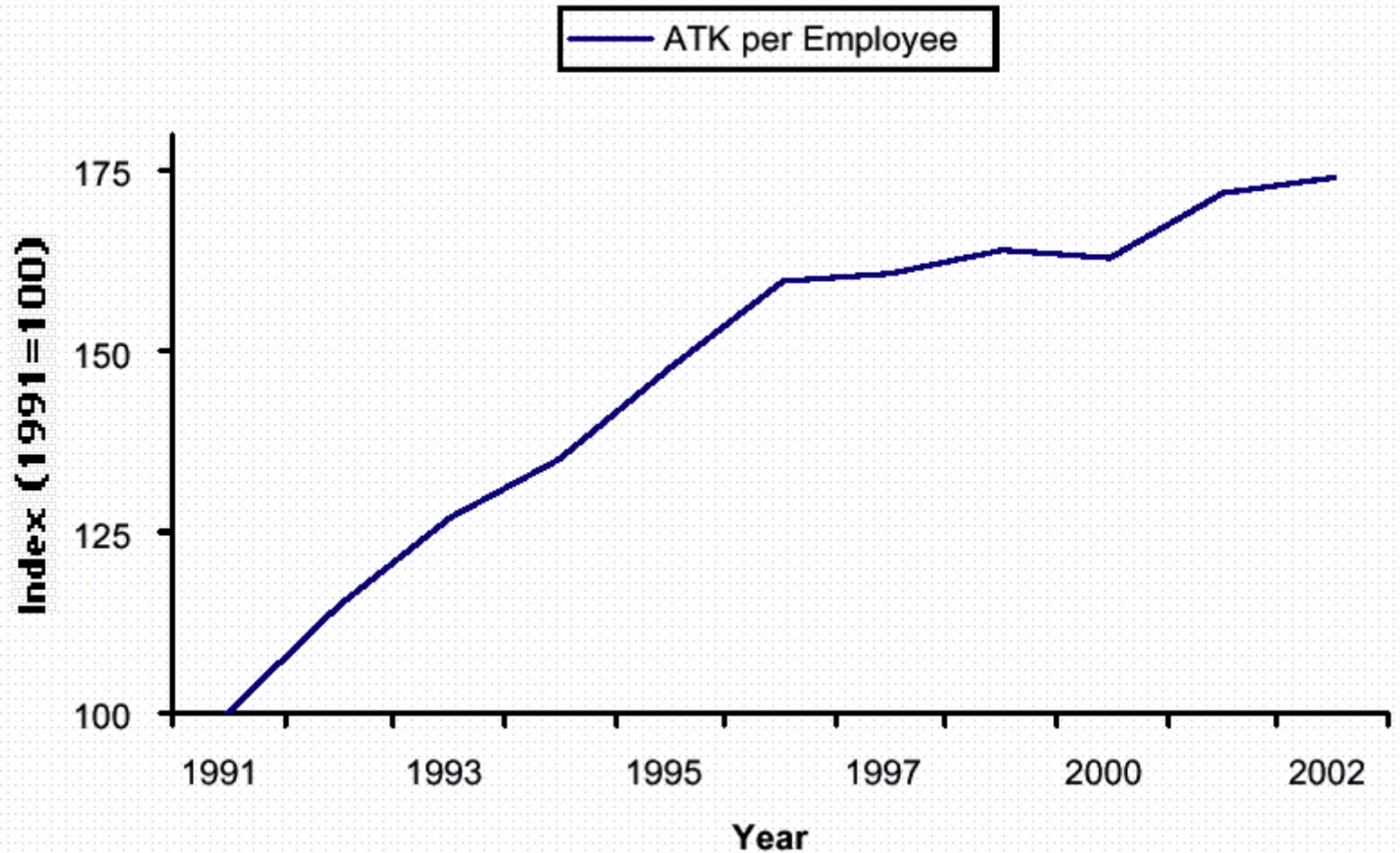
Source: Parkinson and Sentance (2002)

Weighted average fares within the EEA



Source: BAE Systems (2000)

Airline productivity in Europe

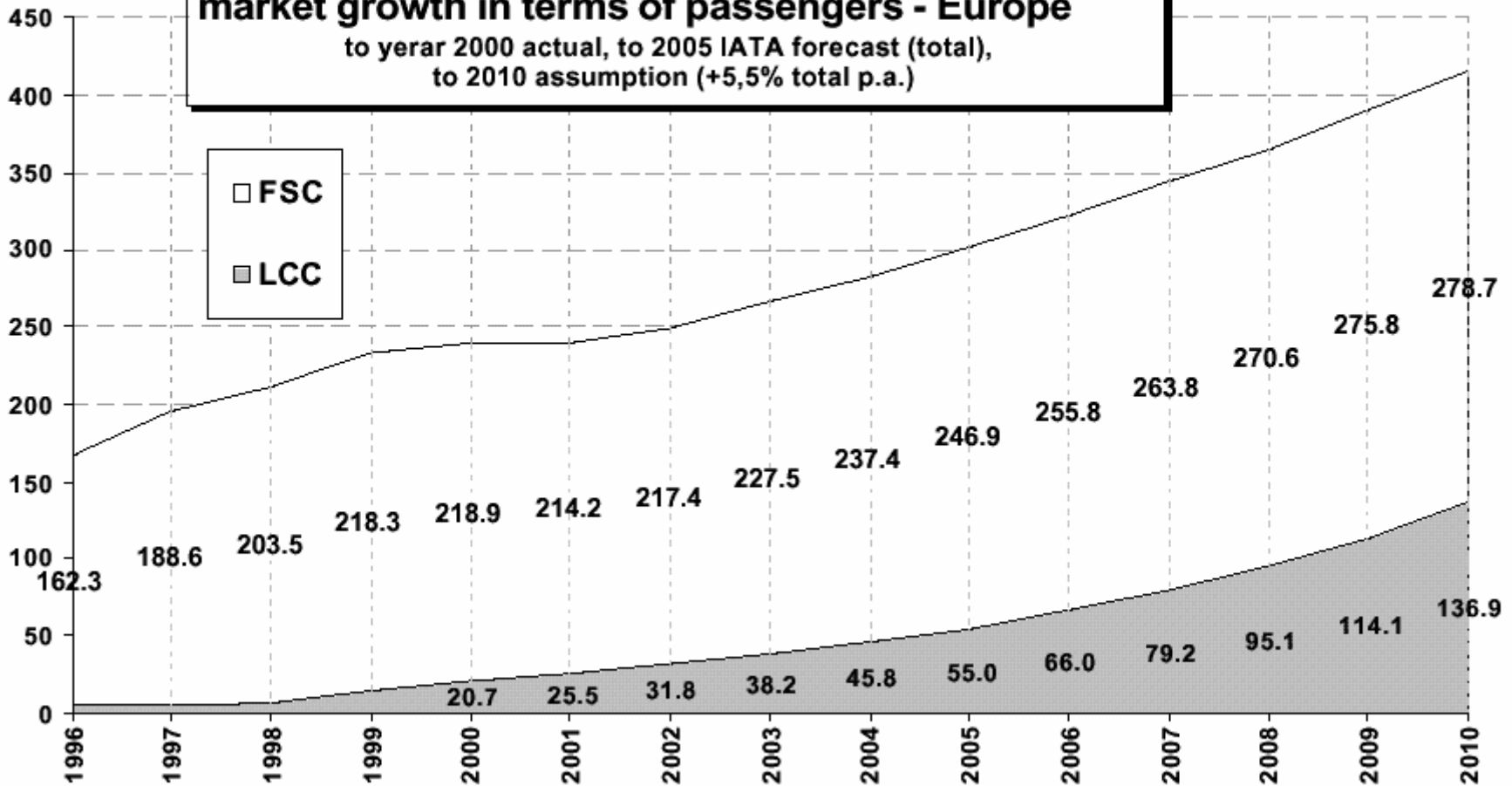


Source: Association of European Airlines

Market growth perspectives scheduled airlines and low cost carriers (ECA study)

market growth in terms of passengers - Europe
 to year 2000 actual, to 2005 IATA forecast (total),
 to 2010 assumption (+5,5% total p.a.)

□ FSC
 ■ LCC



year - from 2002 forecast
 compiled from sources ATI, Flight-Int'l, AEA, IATA, own research

LOW COST TRAFFIC

- ❑ **Gli aeroporti periferici – minori, hanno tariffe low cost, sono caratterizzati da una “catchment area” estesa ad oltre 400 km**
- ❑ **La prenotazione via Internet assicura una utenza flessibile negli spostamenti via terra (auto – treno – pullman)**
- ❑ **La “catchment area” è transfrontaliera**

LOW COST MODEL

- ❑ **Operazioni point – to – point only**
- ❑ **NO – Hub ma scali di riferimento**
- ❑ **Bassi costi operativi – accordi pluriennali**
- ❑ **Aeroporti periferici – minori**
- ❑ **Flotta omogenea (stesso aeromobile: Boeing 737 – Airbus 320)**
- ❑ **Elevato utilizzo della flotta (arco giornaliero – mensile – transiti 25 minuti)**
- ❑ **Biglietti via internet**
- ❑ **No frills on board o a pagamento**

LOW COST:owners

Ownership of low cost airlines

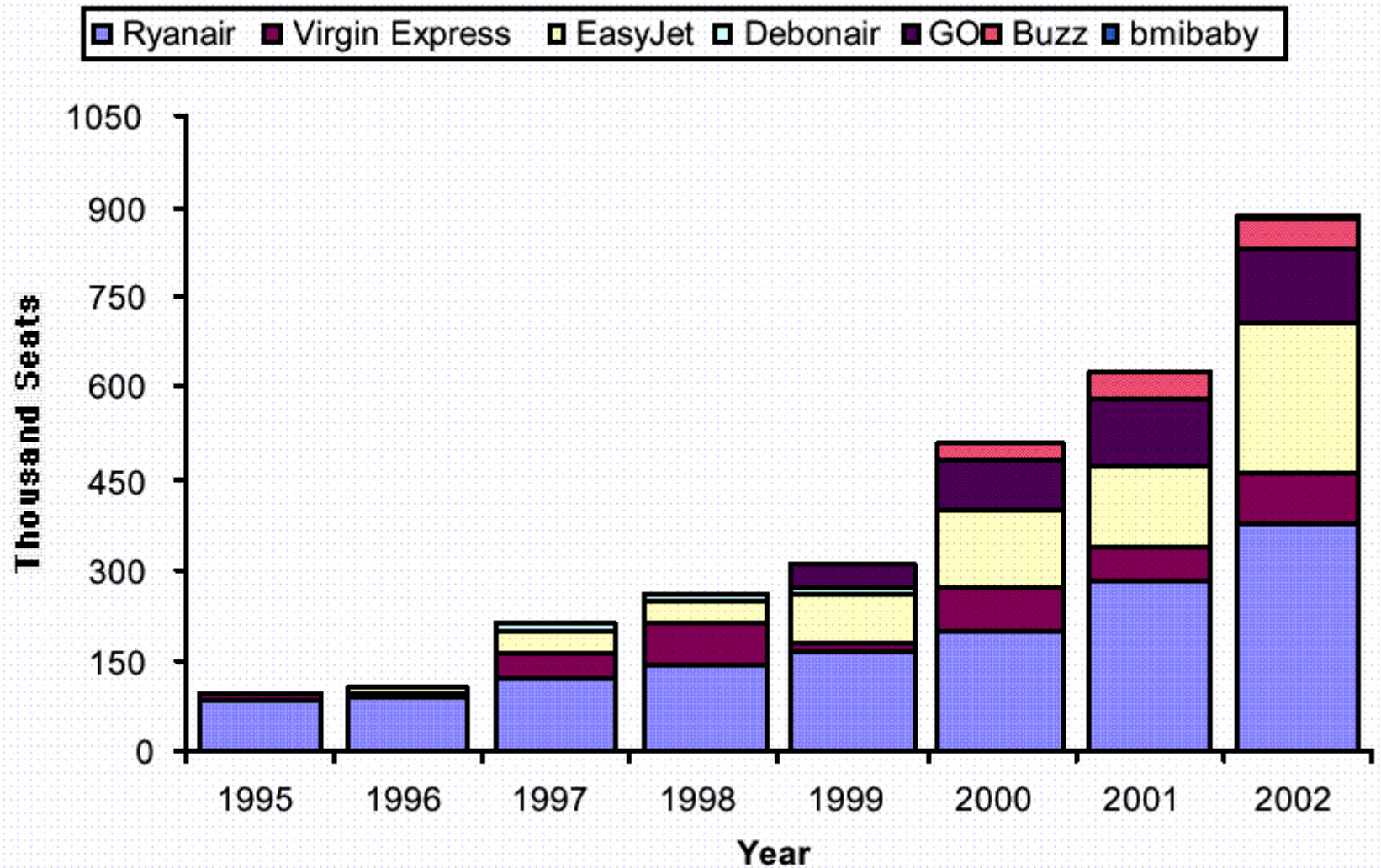
Network Carrier	Country	No Frills Airline
Air Canada	Canada	Jazz West Jet
Air New Zealand	New Zealand	Freedom Air
British Airways	Great Britain	Deutsche BA (formerly) Go (formerly)
Iberia	Spain	Air Nostrum
JAL	Japan	Air Japan JAL Express & JAL Ways
KLM	Netherlands	Transavia
TAP Air Portugal	Portugal	Yes Air, Air Luxor
Varig	Brazil	Gol

LOW COST: incremento Flotte

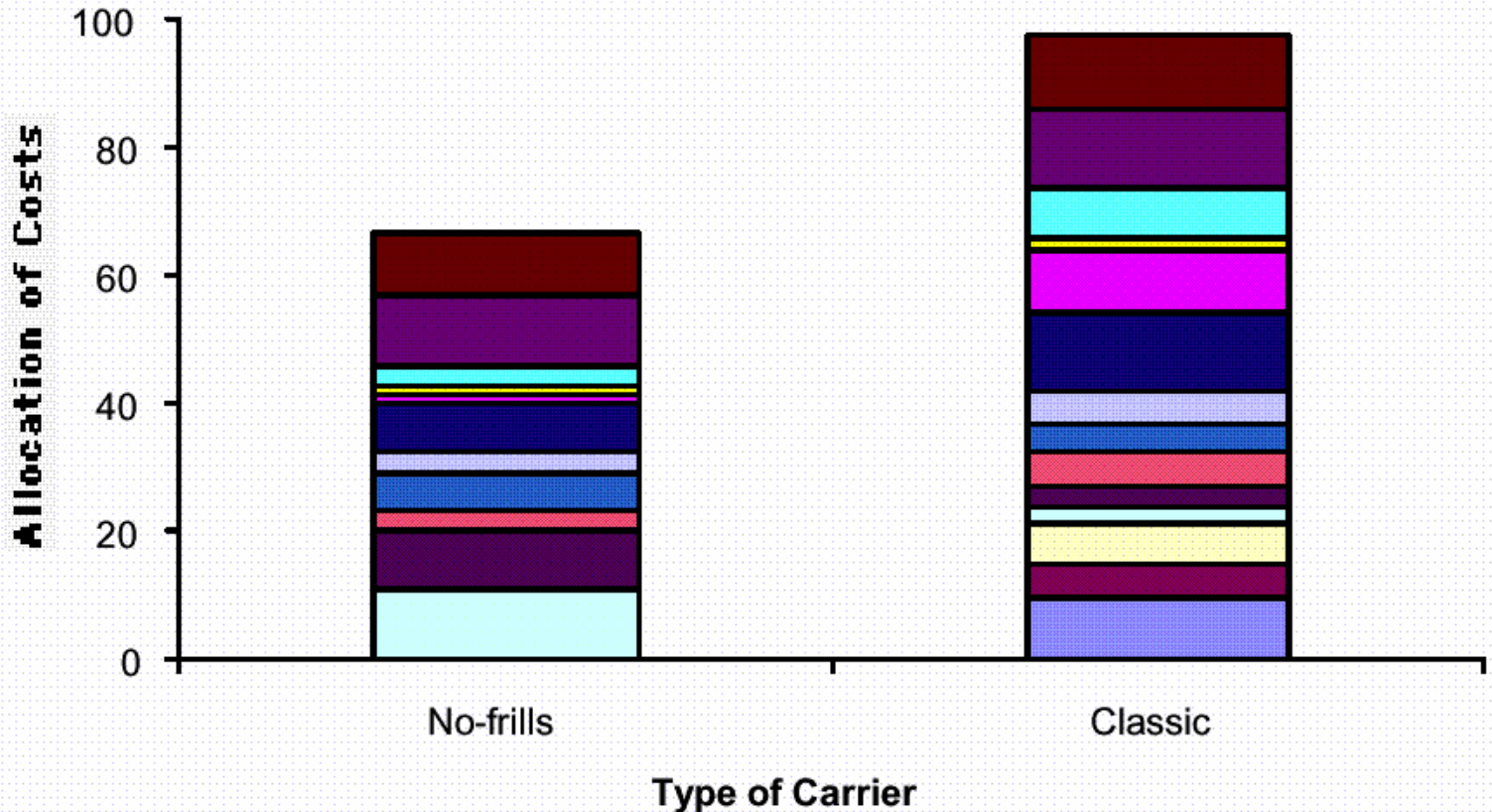
Fleet expansion plans

- **easyJet - 240 firm & options**
- **WestJet - 94 firm & options**
- **Ryanair - 150 firm & options**
- **Jet Blue - 90 firm & options**
- **Southwest - 430 firm & options**

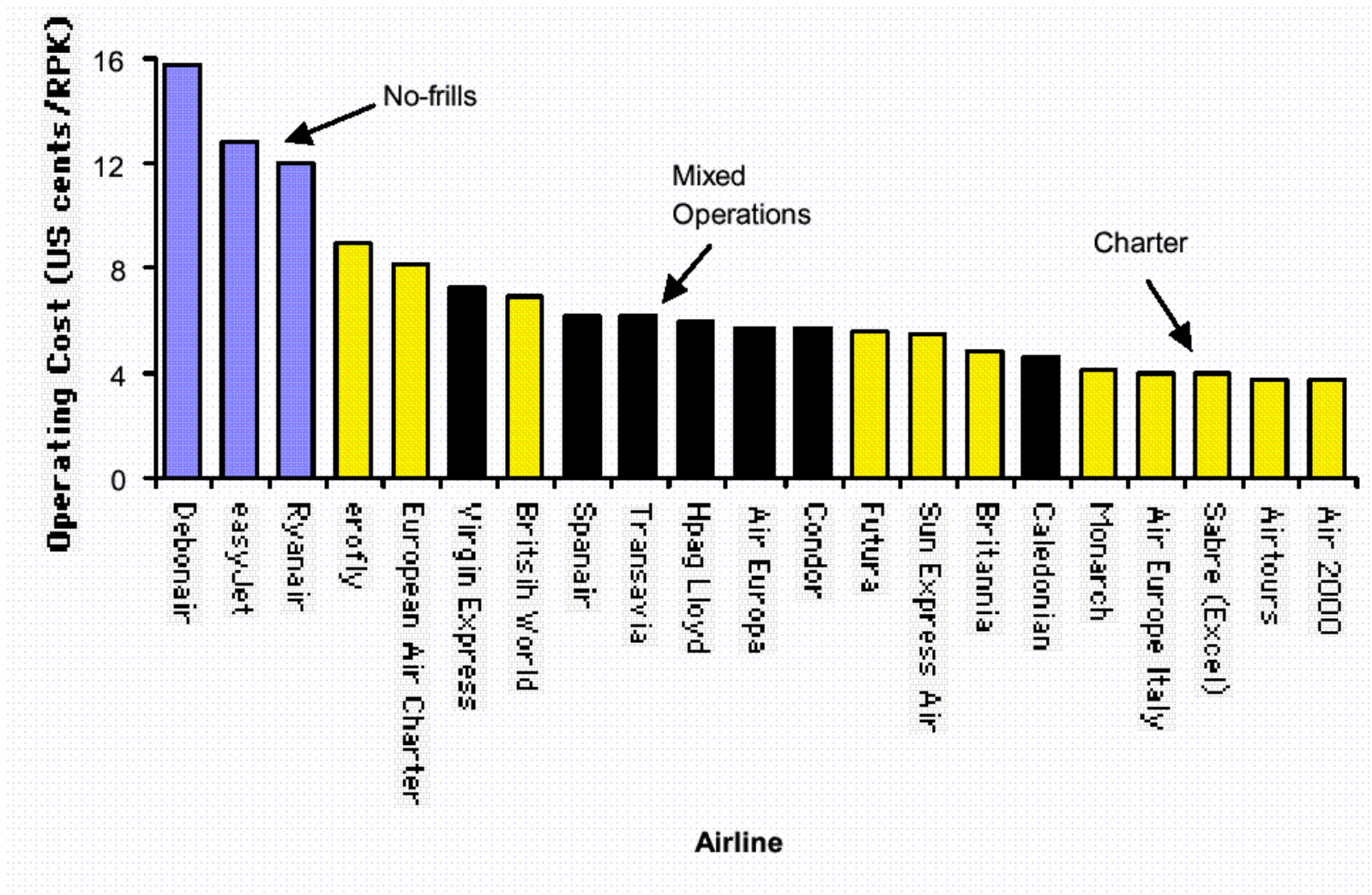
Growth of no-frill carriers



Typical cost differences an a flight stage between a no-frill carrier and a full service carrier

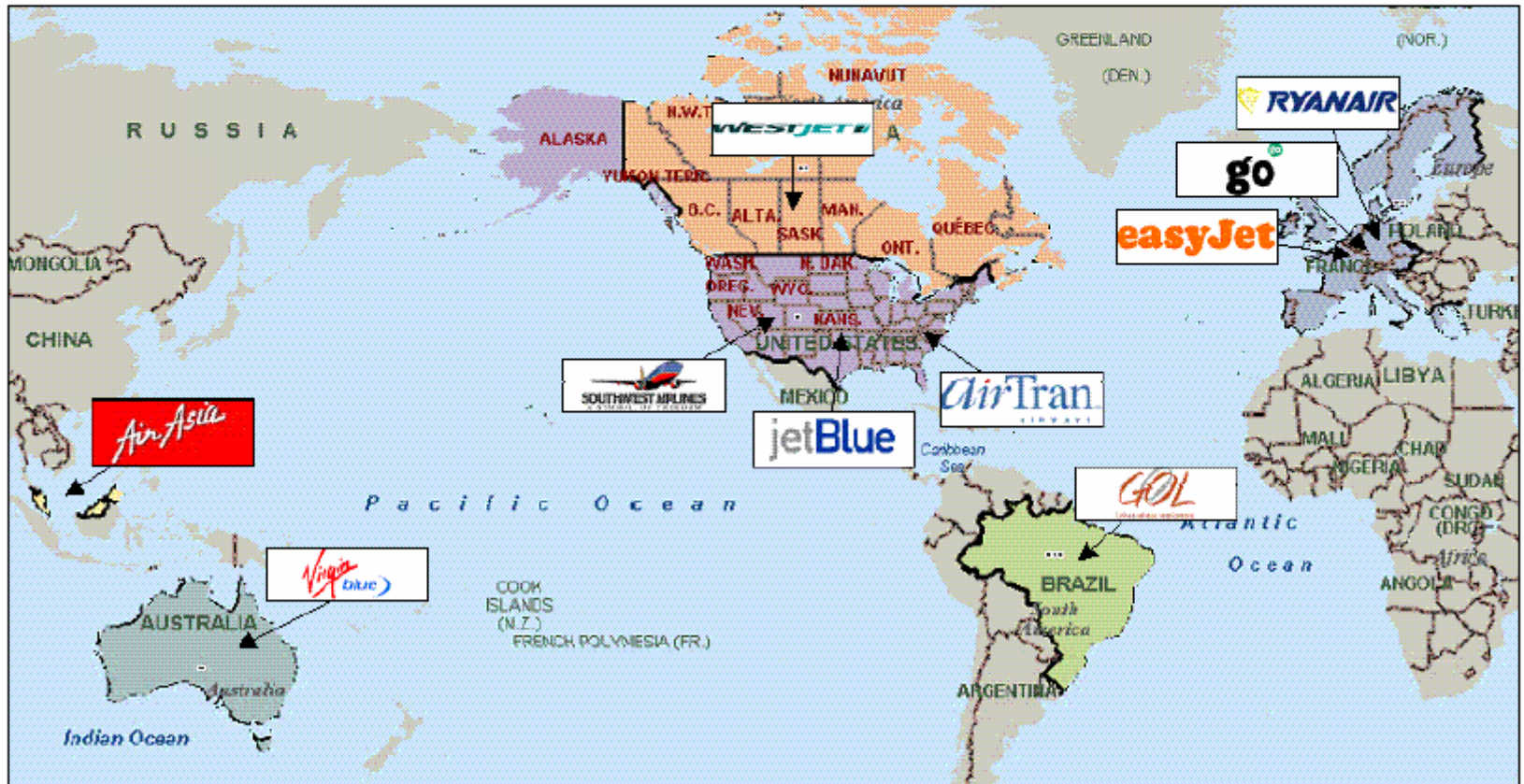


Operating costs of no-frill and charter airlines



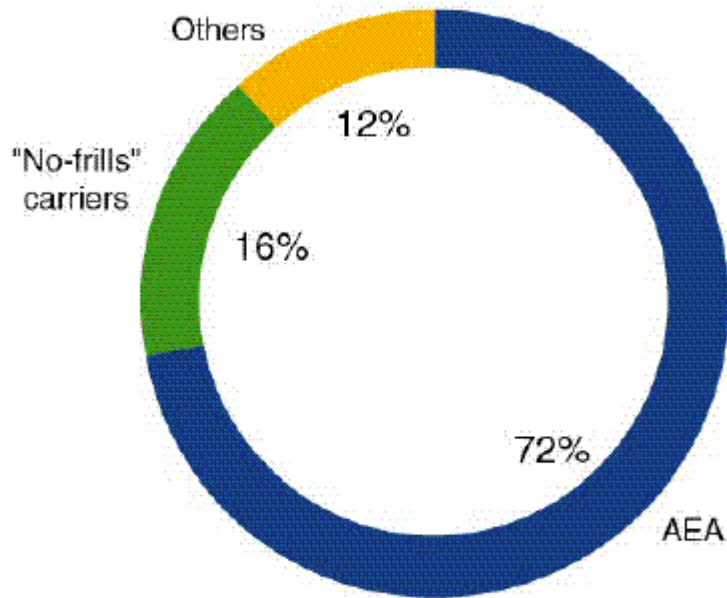
Source: Williams (2001)

LOW COST CARRIER in the WORLD



LOW COST: quote di traffico

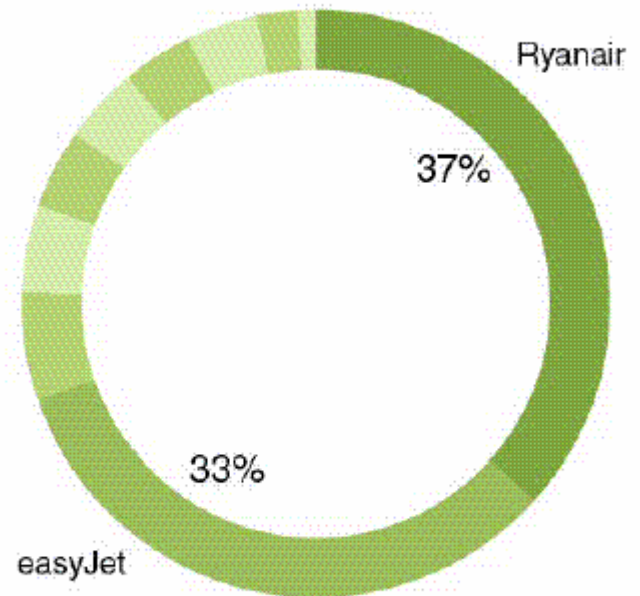
EUROPEAN MARKET SHARES



Summer 2003
Scheduled Seats Offered

Source: OAG
AEA_DS_03_13

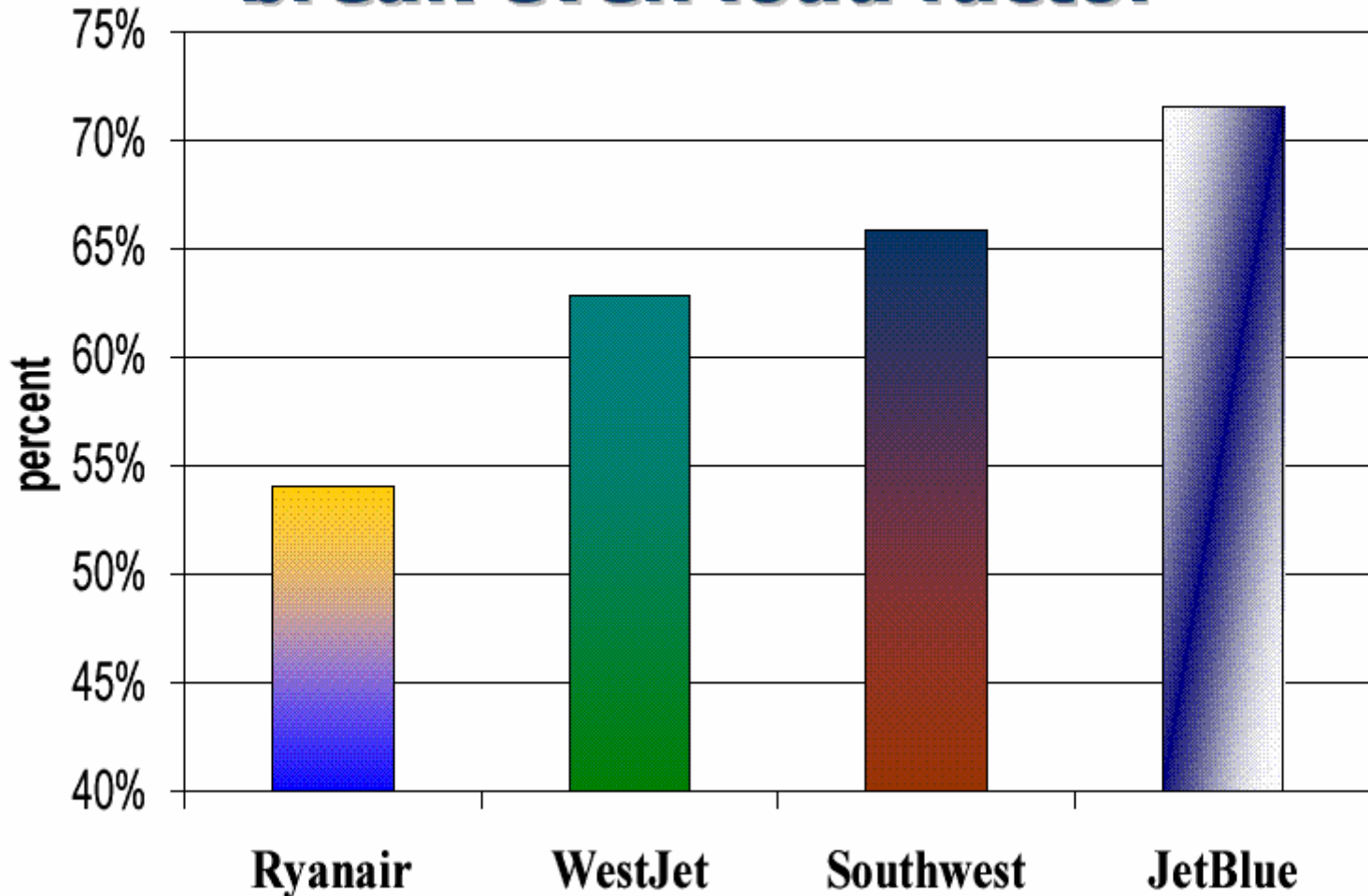
"NO-FRILLS" MARKET DISTRIBUTION



Summer 2003 - Europe
Scheduled Seats Offered

Source: OAG

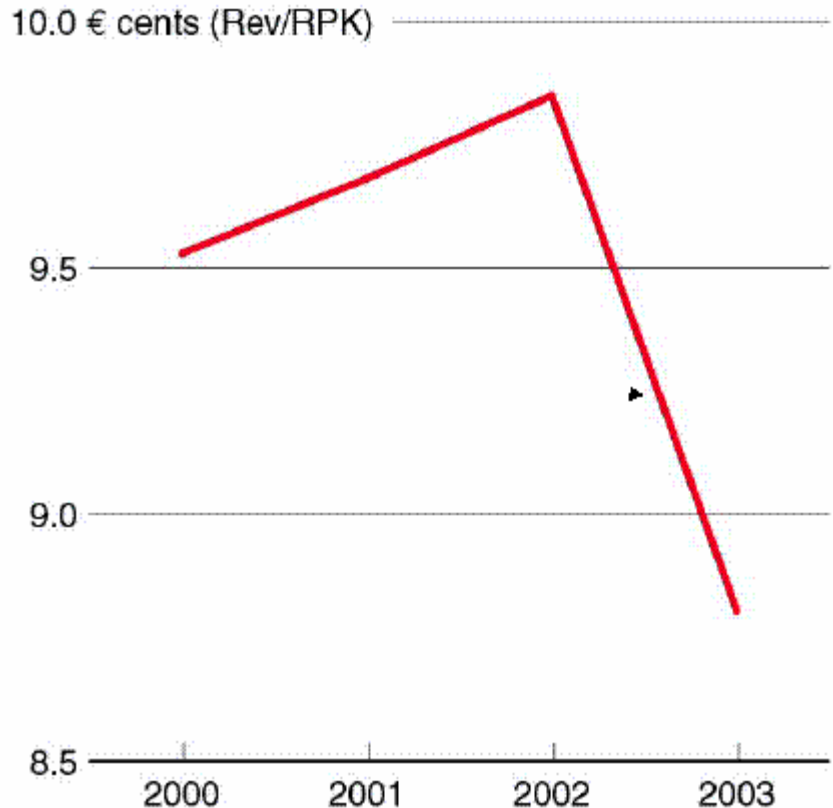
LOW COST: break even load factor



LOW COST: YIELD

- ▶ Passenger yields in €cent in 2003: minus 10% yoy
- ▶ Half of the effect is to be attributed to the strong appreciation of the € to the USD, JYE...

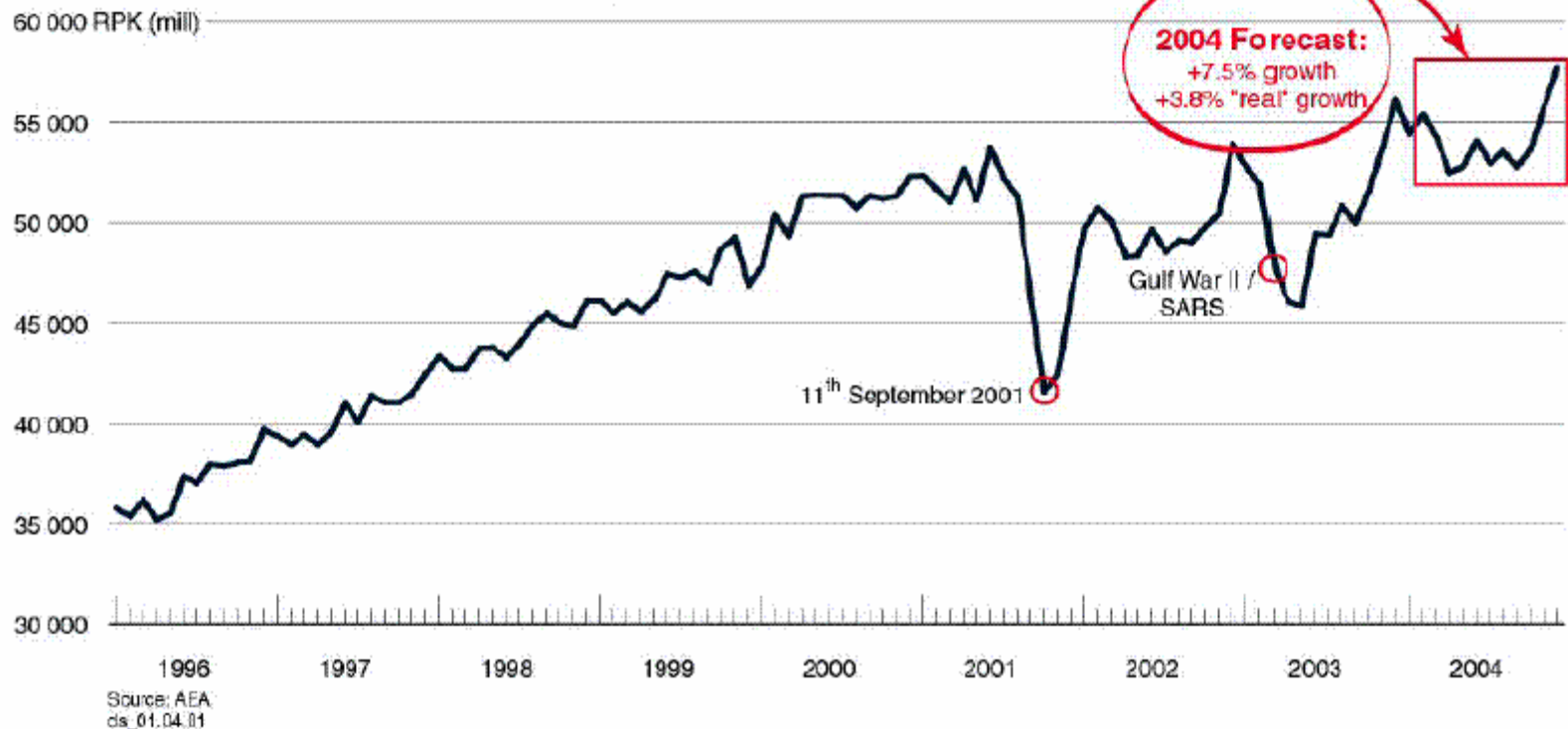
AEA TOTAL SCHEDULED PASSENGER YIELDS
Current Yields



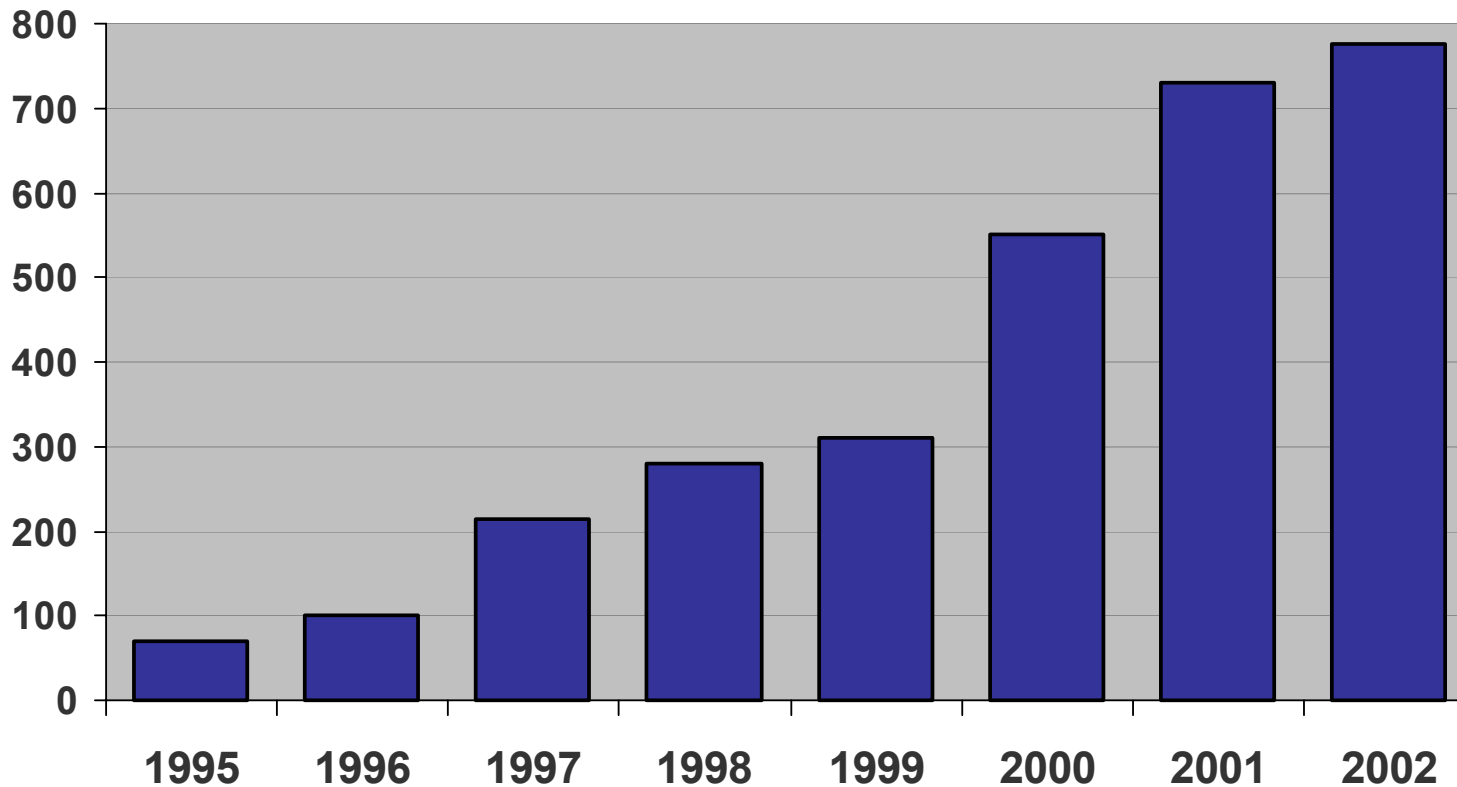
Source: AEA
DS_02.04.01

AEA TRAFFIC 2003 stime 2004

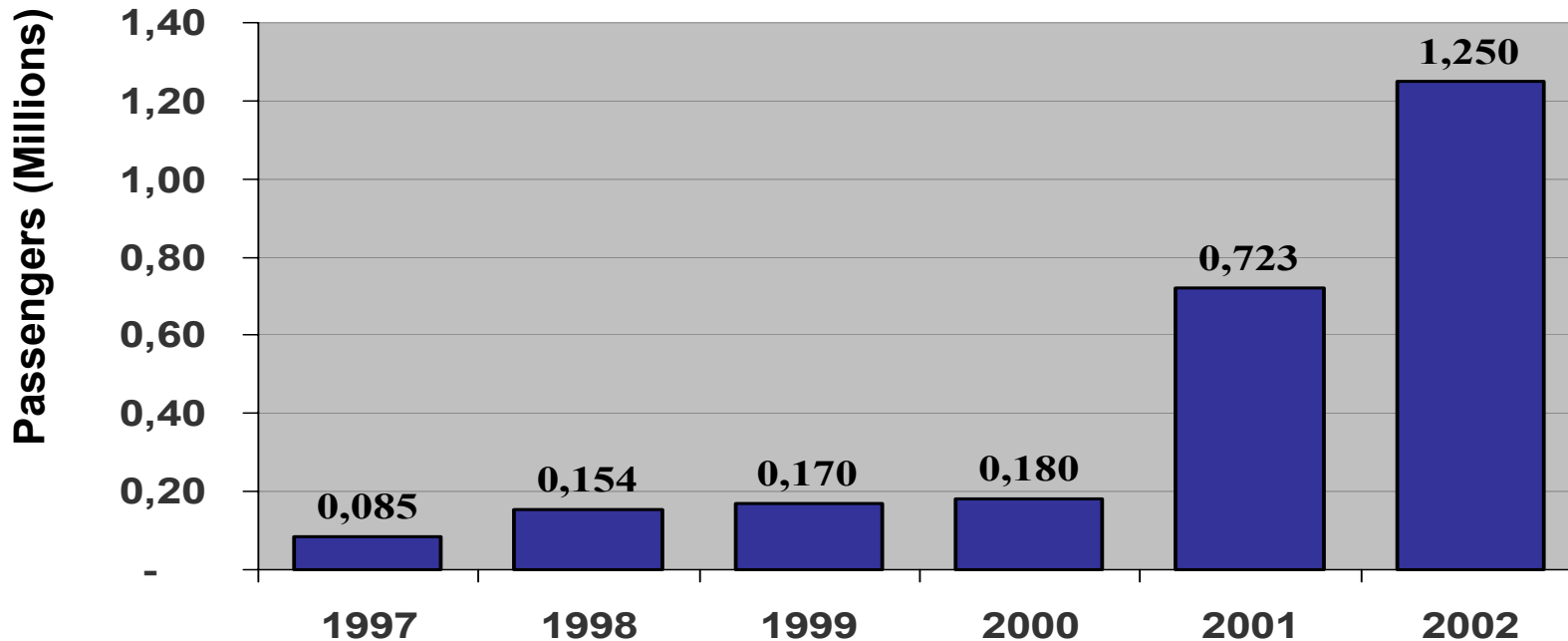
AEA TOTAL SCHEDULED TRAFFIC IN RPK
Adjusted for seasonal variation



LOW COST: incremento in Europa



RYANAIR: incremento a Charleroi



LOW COST: NO – HUB & spoke

Ryanair

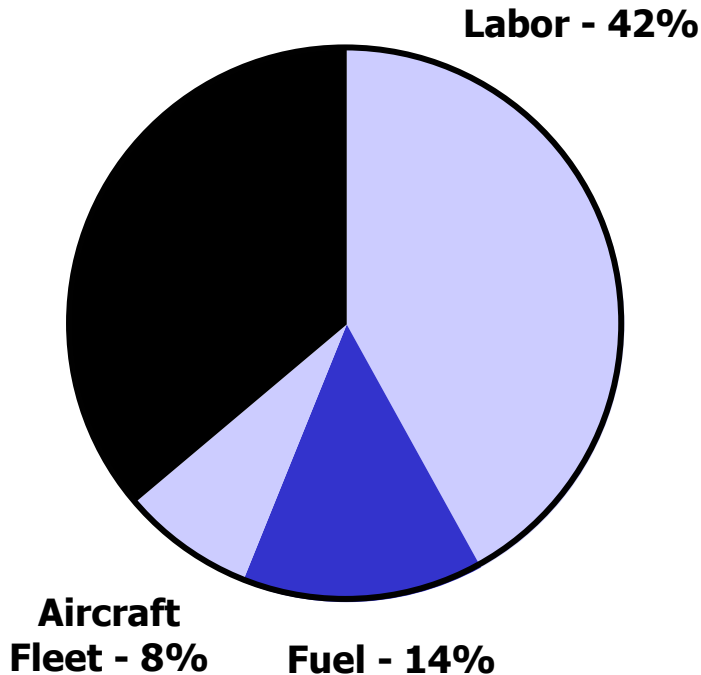


EasyJet

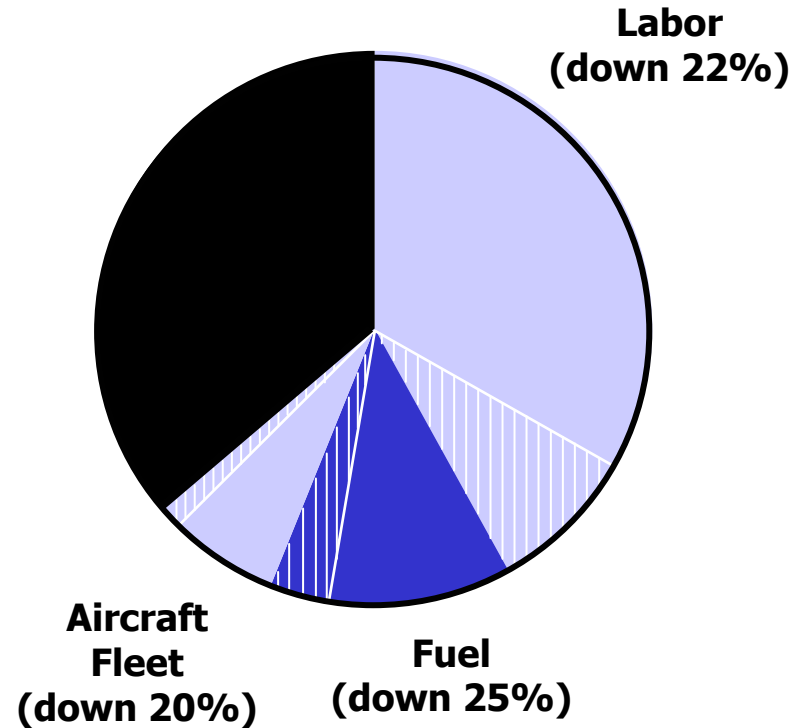


STRUTTURA COSTI: Major airline

Major Expense Components
Pre-Restructuring

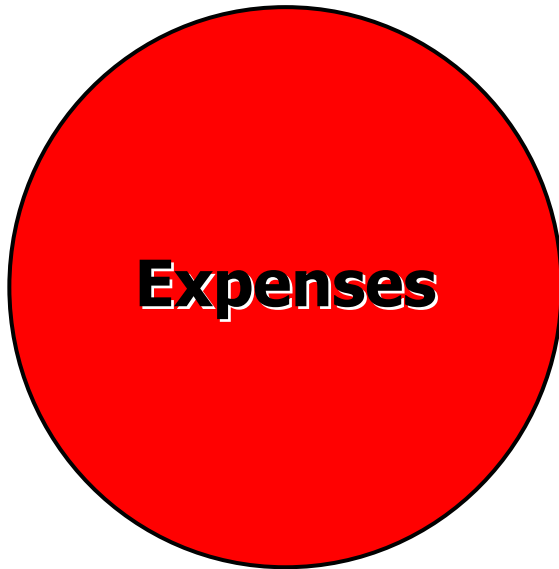


Major Expense Components
Post-Restructuring

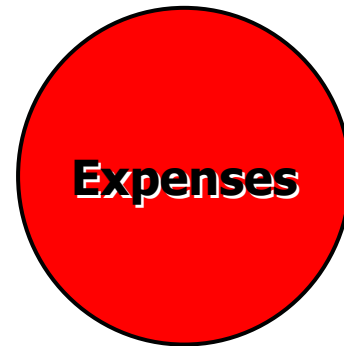


STRUTTURA COSTI: Major airline

Pre-Restructuring



Post-Restructuring



STRUTTURA COSTI - Major airline

fasi: target riduzione costi

YESTERDAY

Distribution

TODAY

Labour

Aircraft Rentals

Taxes & Fees

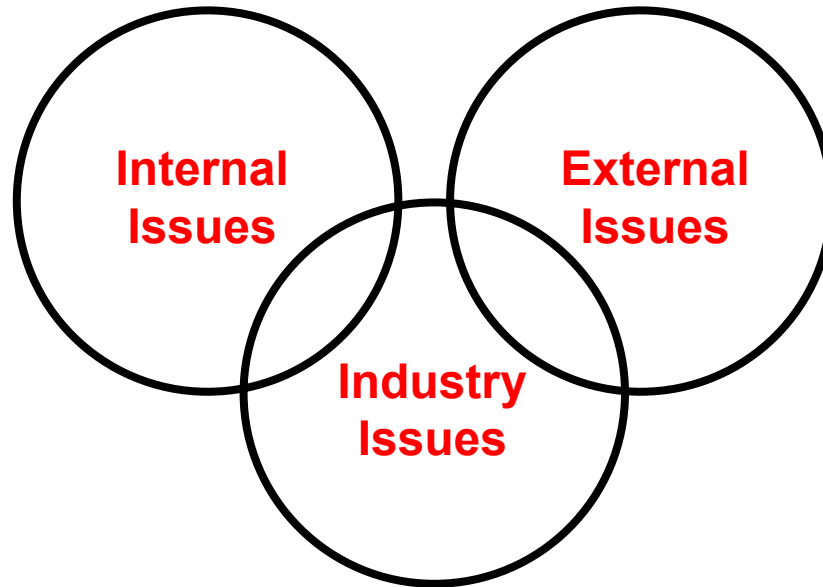


TOMORROW

Taxes & Fees

A/C Production/
Maintenance Costs

Airport Costs



MAJOR Airline

MAJOR Airline: struttura dei costi

Internal Issues:

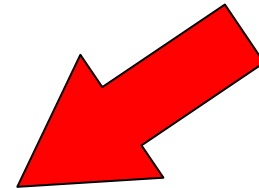
- Labour Costs/Productivity
- Aircraft Lease Rate
Restructuring
- Technology-Producing Savings
 - Distribution
 - Airport Check-in
- Meals and Meal Delivery
- Segmentation of
Customer Products into
Separate “Value” Centres

MAJOR Airline: struttura dei costi

Rapporti con esercenti
ed altri attori
Commercial Aviation

External Issues:

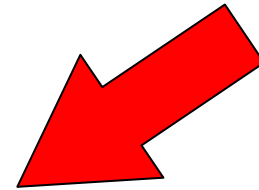
- Government-Imposed Tax, Fee and Security-Related Burdens
- UE lex
- Airport Charges
- ATC/Navigation Charges
- Aircraft Lease Rate Issues

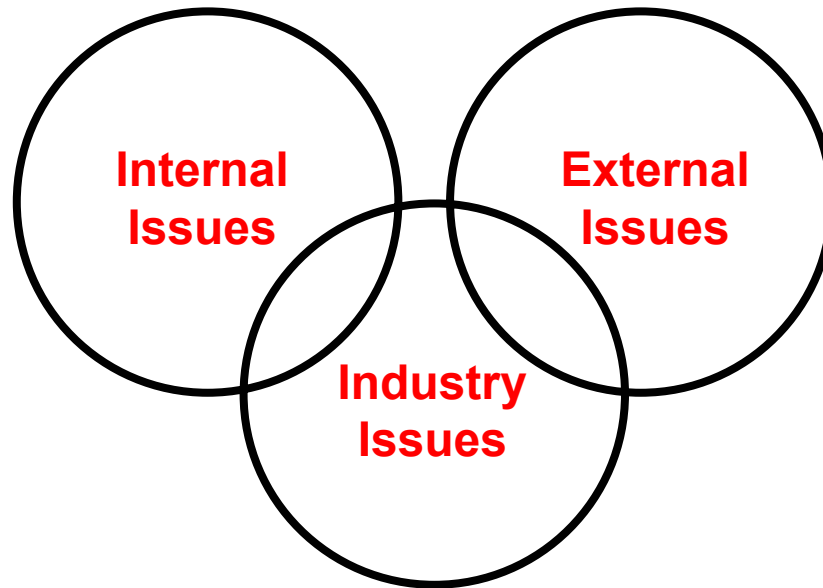


MAJOR Airline: struttura dei costi



**Soluzione delle
questioni vitali
dipendenti dai Governi**








MAJOR Airline: contesto degli interventi

RYANAIR : **pianifica una contrazione dello** **yeld**



LOW COST: pianifica una riduzione dello yield

-  Low cost business alimenta un continuo declino nello yield**
-  E' necessario stimolare il mercato**
 - il calo dello yield determina parametri di mercato correlati**
-  Consente ulteriori economie a supporto dei "lower unit cost"**

MAJOR AIRLINE: deve fronteggiare una costante riduzione dello yeld



Labour



Aircraft Rentals



Taxes & Fees



A/C Production



Maintenance Costs



Airport Costs



**LOW COST
VS
MAJOR AIRLINE
MODEL**

(FIRST PART)

13 febbraio 2005