

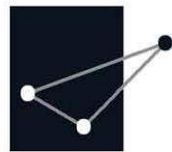


Open Skies Impact on Route Selection

FAA Aviation Forecast Conference

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SEABURY APG

AVIATION PLANNING & TECHNOLOGY



Pre-“Open Skies” Environment

- U.S. had separate bilateral with each E.U. country
- Most agreements were already negotiated as Open Skies
 - Austria, Belgium, Czech, Denmark, Finland, **France**, **Germany**, **Italy**, Luxembourg, **Netherlands**, Poland, Portugal, Sweden
- Notable exceptions were:
 - **Greece**
 - **Ireland**: Each stop in DUB required a stop in SNN
 - **Spain**: Barcelona, Madrid, Malaga, Mallorca were open
 - **U.K**: LHR was limited to American, BA, United, and Virgin, but the rest of the U.K. was open



New "Open Skies" Environment

- "Open Skies" lifts restrictions on countries that weren't open
- Dublin can be flown without also serving Shannon
- Greece is fully open
- U.S. carriers can carry traffic between E.U. cities
- E.U. carriers can fly to the U.S. from any E.U. nation
- London-Heathrow is now "open" to all carriers

98% of U.S. Carrier Transatlantic Capacity is Flown To or From a Traditional Hub...

U.S. Carrier Transatlantic Capacity—July 2008

Weekly Frequencies – Outbound

<u>US Flag</u>	<u>Hub</u>	<u>Non</u>	<u>Total</u>	<u>Pct Hub</u>
Delta	427	0	427	100%
Continental	326	0	326	100%
American	236	28	264	89%
United	196	0	196	100%
Northwest	161	0	161	100%
US Airways	154	0	154	100%
Total	1,500	28	1,528	98%

...And 96% of European Carrier Transatlantic Capacity is Flown To or From Traditional Hubs

European Carrier Transatlantic Capacity—July 2008

Weekly Frequencies -- Outbound

<u>Foreign Flag</u>	<u>Hub</u>	<u>Non</u>	<u>Total</u>	<u>Pct Hub</u>
British Airways	280	7	287	98%
Luthansa	239	7	246	97%
Air France	167	7	174	96%
Virgin Atlantic	119	9	128	93%
KLM	76	0	76	100%
Aer Lingus	47	14	61	77%
Swiss	55	0	55	100%
Alitalia	54	0	54	100%
Iberia	43	0	43	100%
Total	1,080	44	1,124	4%


Source: APGDat

Just 5% of Transatlantic Capacity is Provided by Secondary Carriers—Most is to NY, ORL or LON

Scheduled Secondary Transatlantic Capacity—July 2008

Carrier	Market	Depts/Week	Carrier	Market	Depts/Week	Carrier	Market	Depts/Week
Aerosvit	JFK KBP	5	Eurofly	JFK FCO	6	Malaysia	EWR ARN	3
Air Berlin	MIA MUC	2	Eurofly	JFK NAP	4	Meridiana	JFK BLQ	2
Air Berlin	RSW MUC	2	Eurofly	JFK PMO	2	Meridiana	JFK BRI	1
Air India	EWR CDG	7	First Choice	SFB BRS	1	Meridiana	JFK NAP	4
Air India	JFK LHR	7	First Choice	SFB EMA	1	Qatar	EWR GVA	6
Air India	LAX FRA	3	First Choice	SFB GLA	1	SilverJet	EWR LTN	13
Air India	ORD FRA	4	First Choice	SFB LGW	1	Singapore	JFK FRA	7
Air India	ORD LHR	3	First Choice	SFB MAN	2	XL	SFB GLA	3
Air New Zealand	LAX LHR	7	FlyGlobespan	SFB BFS	2	XL	SFB LGW	4
Air Tahiti	LAX CDG	7	FlyGlobespan	SFB GLA	5	XL	SFB MAN	3
Condor	LAS FRA	3	Jet Airways	EWR BRU	7	Zoom	FLL LGW	1
Eos Airlines	EWR STN	7	Jet Airways	JFK BRU	7	Zoom	JFK LGW	5
Eos Airlines	JFK STN	17	Kuwait	JFK LHR	3	Zoom	SAN LGW	2
Eurofly	JFK BLQ	3	L'Avion	EWR ORY	9	Total		182

= New York
 = London
 = Orlando
 = Some Combination



“If the U.S. has had *Open Skies* with several E.U. countries for many years, why is ‘non-traditional’ air service between them so limited?”



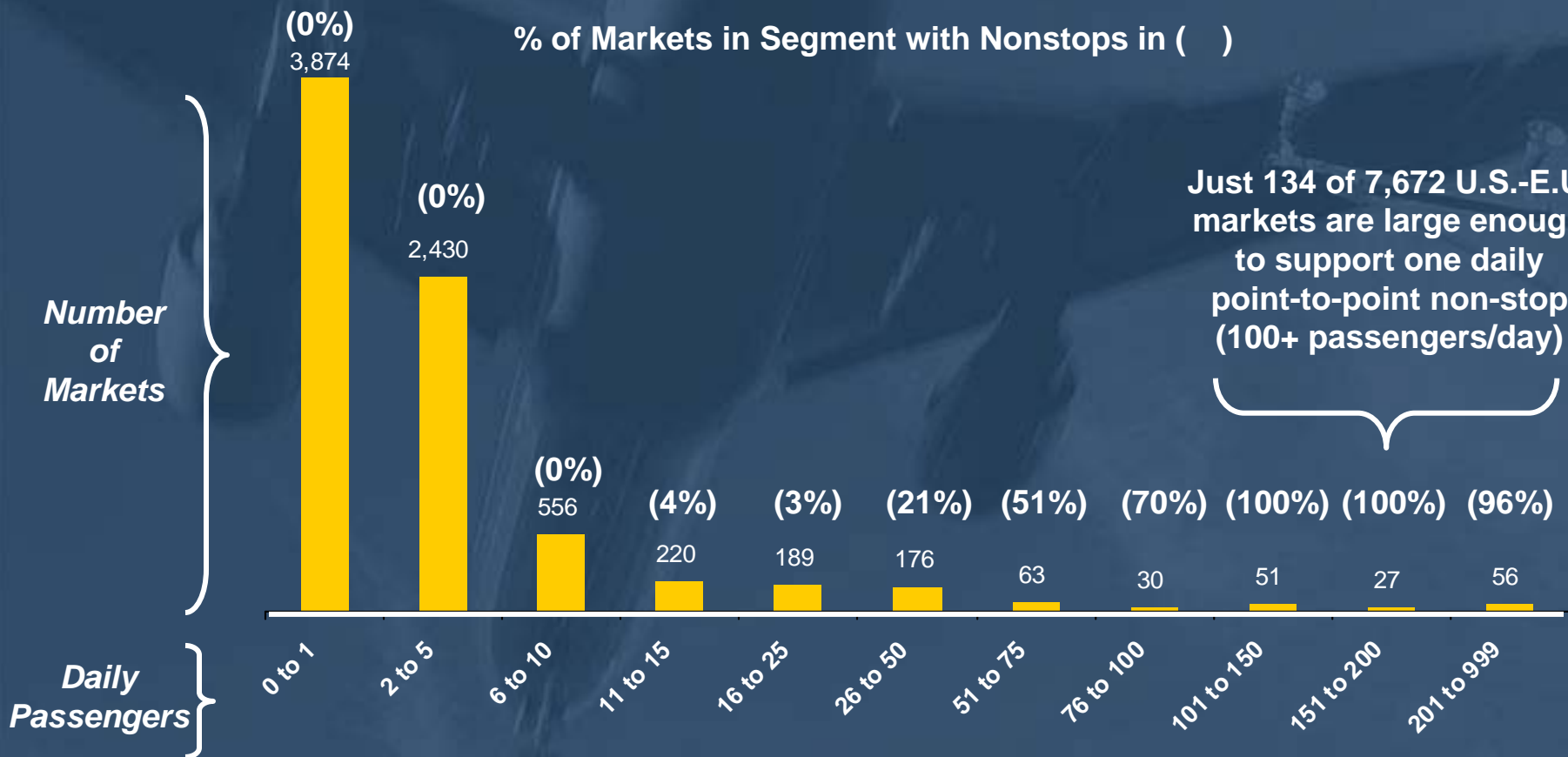
Reason #1:

***Limited local traffic, and
the subsequent need for
connecting traffic***

Roughly 2.0% of Transatlantic Markets Are Large Enough to Support Locals-Only Nonstops

U.S. – Europe Daily Traffic Analysis

% of Markets in Segment with Nonstops in ()



Source: Adjusted U.S. DOT and Pax IS for June 2007

Some Carriers Require Substantial Feed Traffic to Be Viable With Just One Daily Flight...

US Philadelphia to Paris-CDG Traffic Make-Up

<u>Traffic Rank</u>	<u>CDG to:</u>	<u>Traffic/Day</u>	<u>Share of Flight %</u>
1	Philadelphia	57.3	27.5
2	Charlotte	9.6	4.6
3	San Francisco	7.9	3.8
4	Pittsburgh	6.9	3.3
5	Tampa	6.2	3.0
6	Boston	5.5	2.6
7	Las Vegas	5.3	2.5
8	Baltimore	4.5	2.2
9	Los Angeles	4.3	2.1
10	Washington-DCA	3.8	1.8
11	Phoenix	3.6	1.7
12	Raleigh	3.5	1.7
13	Denver	3.4	1.6
14	Miami	3.1	1.5
15	Rochester	3.1	1.5
	Other	80.7	38.7
Total		208.7	100.0

On its one daily trip in PHL-CDG, 73% of US's traffic is made up by connections

...While Others Use Feed to Provide Services that Appeal to Biz Flyers and Limit Competition

BA Washington-IAD to London-LHR Traffic Make-Up

<u>Traffic Rank</u>	<u>IAD to:</u>	<u>Traffic/Day</u>	<u>Share of Flight %</u>
1	London-LHR	284.0	60.5
2	Delhi	7.6	1.6
3	Mumbai	7.4	1.6
4	Madras	5.9	1.3
5	Dublin	5.7	1.2
6	Geneva	4.9	1.1
7	Nairobi	4.2	0.9
8	Manchester	4.1	0.9
9	Paris-CDG	3.9	0.8
10	Rome	3.9	0.8
11	Bangalore	3.8	0.8
12	Dubai	3.6	0.8
13	Tel Aviv	3.2	0.7
14	Brussels	3.2	0.7
15	Madrid	3.0	0.6
	Other	121.1	25.8
Total		469.5	100.0

On its two daily trips in IAD-LHR, 40% of BA's traffic is made up by connections



Reason #2:

Cost benefits of non-traditional carriers can't offset their inability to generate premium revenue

While True LCCs Can Have Some Material Cost Savings Over Legacy Carriers....

Transatlantic Departure Cost—Legacy vs. LCC

<u>Expense Category</u>	<u>Legacy</u>	<u>LCC</u>	<u>Better / (Worse)</u>
LCC Advantage			
Flight and Cabin Crew Labor	\$13,128	\$9,846	\$3,282
Ground Labor	\$5,406	\$4,055	\$1,352
All Other (distribution, etc.)	\$29,281	\$21,961	\$7,320
Total with LCC Advantage	\$47,815	\$35,861	-25%
Questionable Advantage			
Fuel	\$40,750	\$40,750	Possible Legacy
Maintenance	\$7,518	\$7,518	???
Ownership	\$6,334	\$6,334	Possible Legacy
Total Questionable	\$54,602	\$54,602	0%
Total	\$102,416	\$90,462	-12%

Source: U.S. DOT Form 41 via APGDat and Seabury APG analysis

...Legacy Carriers Can Access High-Yield Traffic that Offsets LCC Cost Advantages

Fares in Select Transatlantic Markets

<u>Carrier</u>	<u>Market</u>	<u>Traffic/Day</u>	<u>One-Way Gross Fare</u>		<u>Premium Over Average</u>	<u>Top 20% Pct. of Total Revenue</u>
			<u>Avg.</u>	<u>Top 20%</u>		
AA	JFK-XXX	234	\$ 438	\$ 897	105%	41%
AA	JFK-YYY	571	575	1,364	137%	47%
UA	IAD-ZZZ	93	600	1,246	108%	42%
DL	ATL-DDD	114	593	1,302	120%	44%
CO	EWR-QQQ	199	525	1,142	118%	44%
AA	BOS-CCC	208	472	978	107%	41%
US	PHL-MMM	45	568	1,191	110%	42%
NW	DTW-TTT	45	645	1,384	115%	43%

Source: U.S. DOT DB1B Year-Ending 2Q 2007 via APGDat

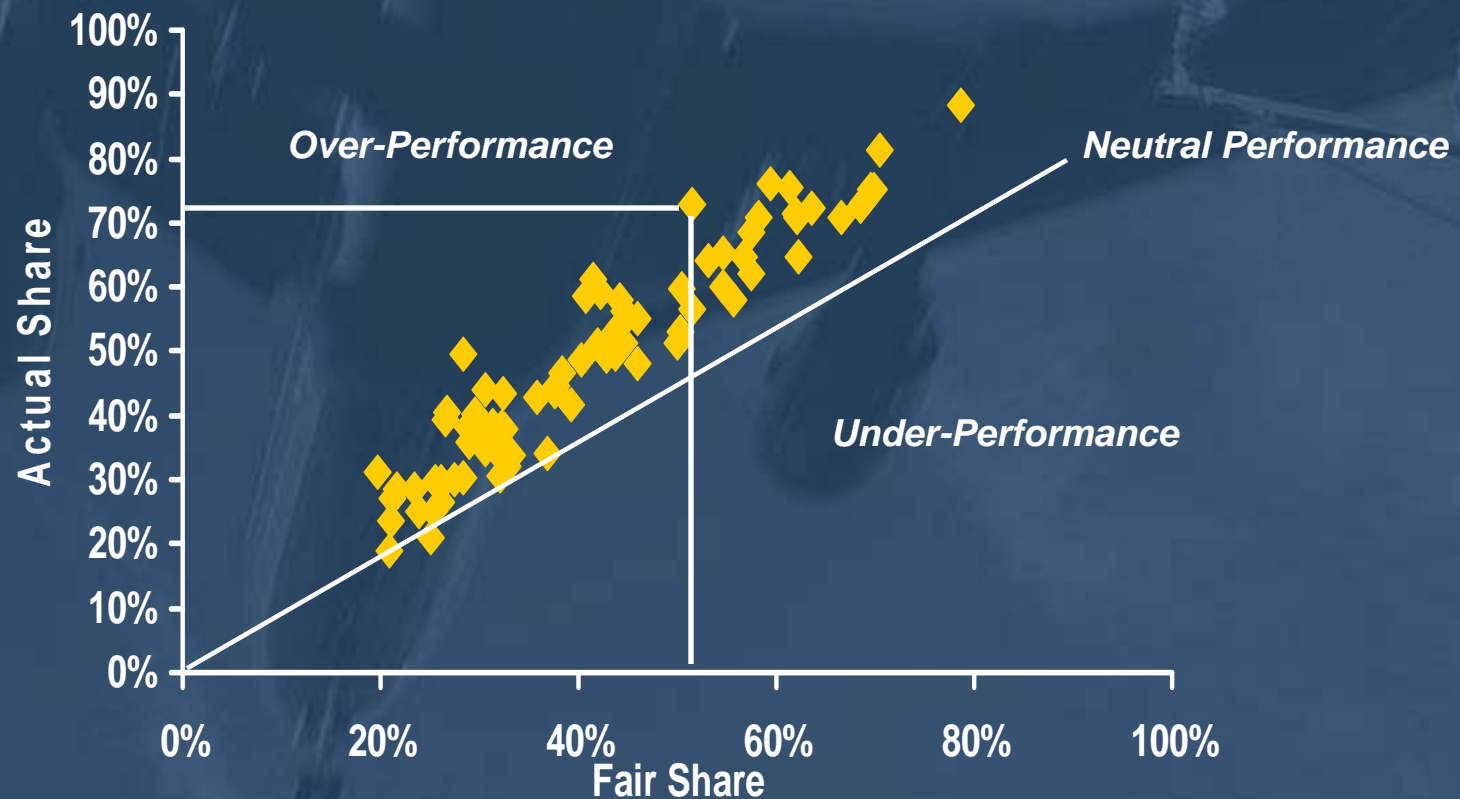


Reason #3

***Carriers' city presence
(i.e. network scope and FT
penetration) are tough for
new entrants to overcome***

FT Programs, Network Breadth and Corporate Sales Strength Help Big Carriers Over-Achieve

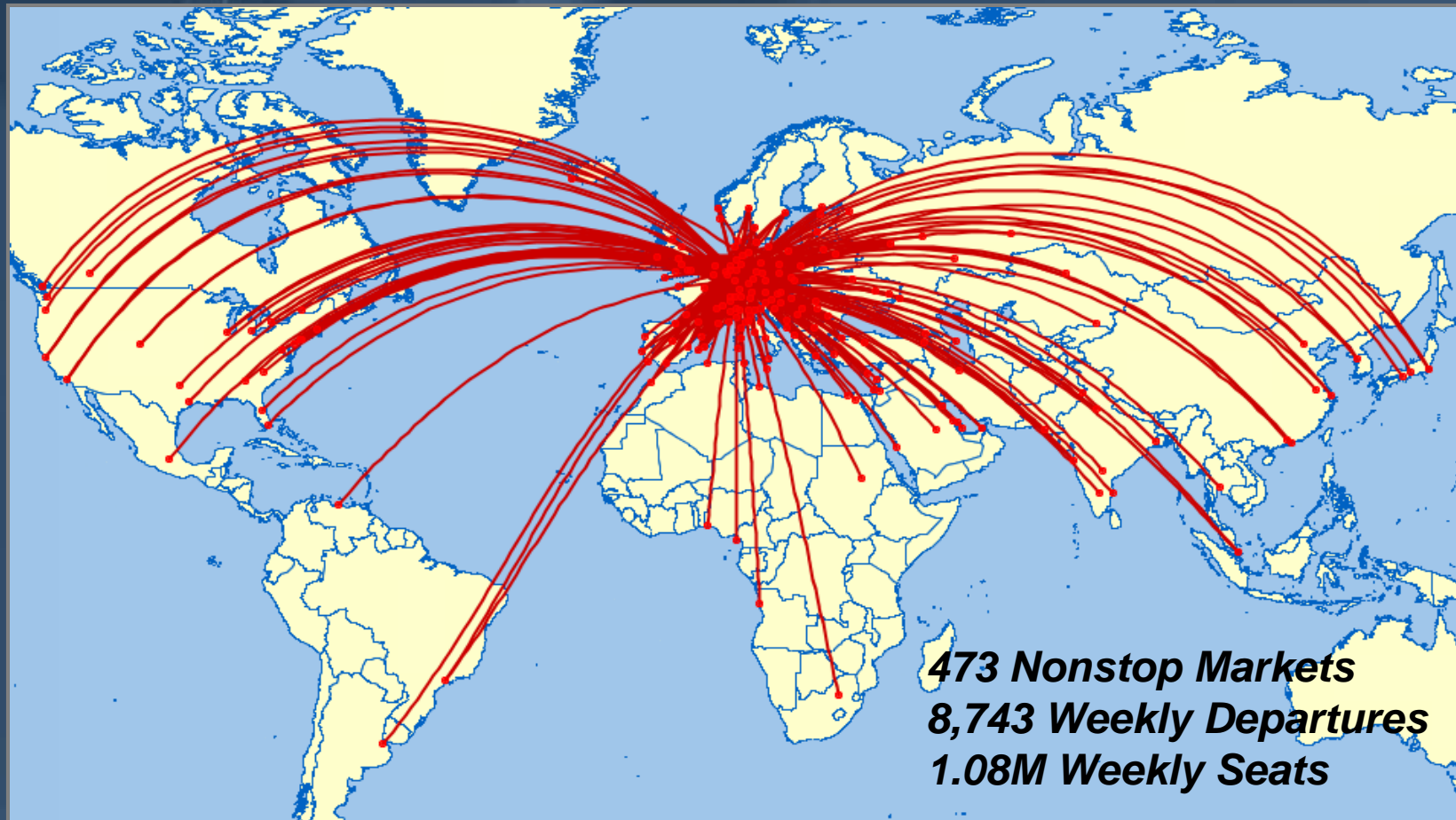
Actual Revenue Share versus QSI Fair Share for 1st Place Carriers



Source: Seabury APG Analysis

It's Often Hard to Justify Flying "Someone Else"

Lufthansa's Germany Network—July 2008



Source: APGDat

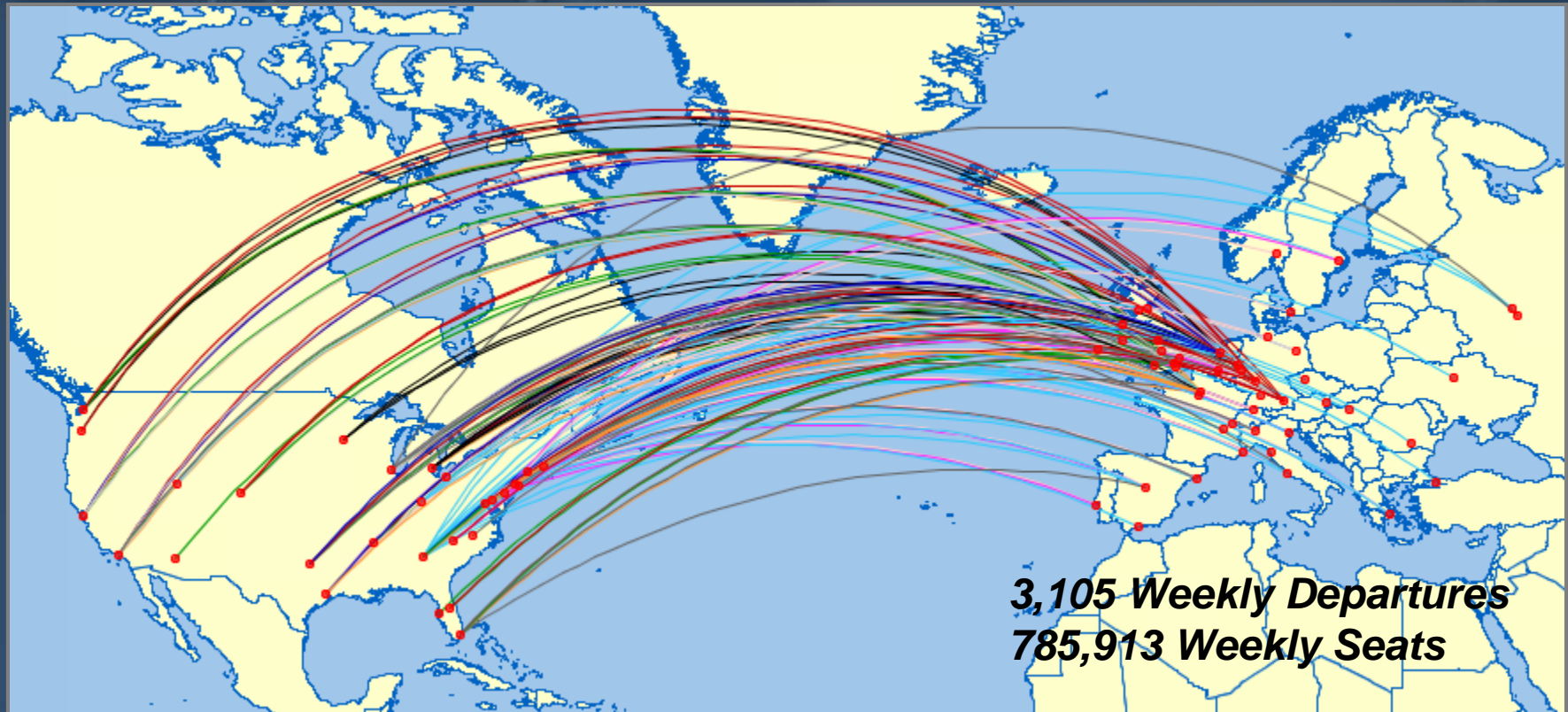


Reason #4

Raw competition

Pre-Open Skies, Big Airlines Built Networks that Will Be Hard to Penetrate Despite Policy Changes

Transatlantic Nonstops Capacity—July 2008



Source: APGDat

Even In the Deepest Markets, Seats Often Don't Sell (at Least at Fares that Make Money)

Orbitz: LON-NYC for March 10-12, 2008 Travel

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Airlines														
Stops	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop	Non-stop
Price	\$208 total \$447 see below	\$215 total \$579 see below		\$1,504 total \$1,678 see below	\$1,387 total \$1,548 see below		\$1,205 total \$1,549 see below				\$1,308 total \$1,671 see below	\$1,648 total \$1,809 see below	\$1,506 total \$1,882 see below	
	1 stop		\$619 total \$1,009	\$619 total \$1,009	\$1,106 total \$1,279	\$1,149 total \$1,346	\$1,205 total \$1,568	\$1,387 total \$1,559	\$1,205 total \$1,575	\$1,205 total \$1,648			\$1,466 total \$1,872	\$1,648 total \$1,872
	2+ stops													

Fares are per person in US dollars, using e-tickets. Total fare includes all taxes and fees.




~\$200 Walk-Up Fares in NYC-LON!!

Source: Orbitz, viewed March 9, 2008



“What’s going to happen to London-LHR in all of this?”

Alliances Are Already Creatively Jockeying For Position at London-LHR...

<u>Alliance</u>	<u>LHR Action(s)</u>	<u>Slot Source</u>
	AA is adding 2x DFW, 1x RDU	British Airways?
	NW adding DTW, MSP, SEA	KLM
	DL adding 2x JFK, 1x ATL	Air France

...And Air France/SkyTeam Are Diving Head-First Into LHR to See Just How Deep It Is

Air France LAX-LHR Service....

- LAX-LON = 1,100 passengers/day
- ~32% of traffic is Y, J or F
- Starts March 29, 2008
- Boeing-777 w/ three classes
- East: 20:25-14:40 West: 17:00-20:15
- Delta is also selling flight as nonstop

...Will be Supported by DL Connections

DL Western LAX Service

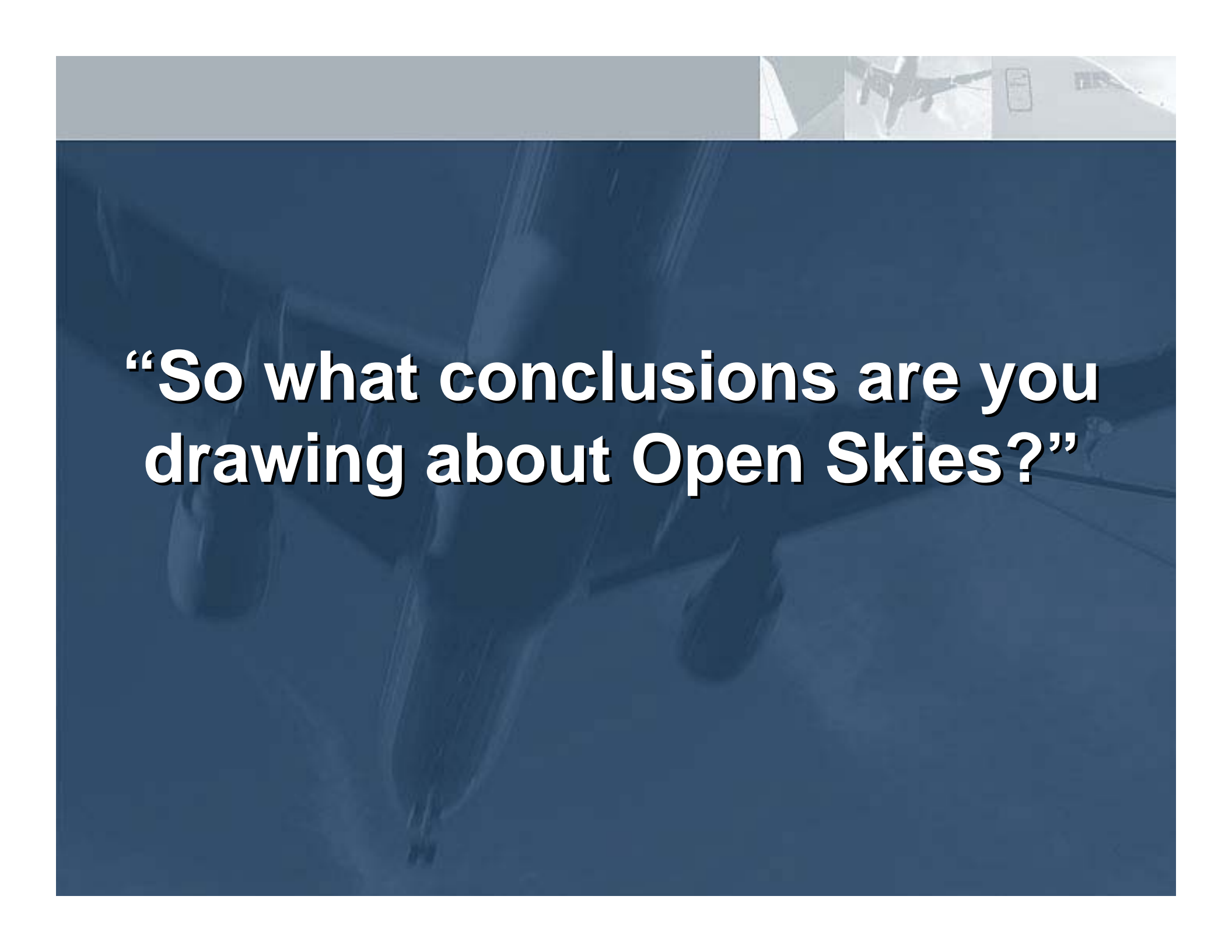




Other Carriers Are Buying Their Way Into LHR, But Few Will Be Able to Afford Such Endeavors

<u>Carrier</u>	<u>Slots Purchased</u>	<u>Estimated Amount (\$)</u>
US Airways	1 pair of sub-prime slots for PHL	\$20.0M
Continental	4 pairs of prime slots for 2x IAH and 2x EWR service	\$209.0M

Source: APGDat and Carrier SEC filings



“So what conclusions are you drawing about Open Skies?”



Conclusions: Impact of Open Skies

- Big carriers will continue to refine LHR operations
- Some U.S. – E.U. niche flying will be successful
 - e.g. *Open Skies* (BA) BRU-JFK service
 - e.g. Limited seasonal leisure-focused flying
- Alliance / Partnership feed will be important
 - Traditional alliances—Star, oneworld, et al
 - New partnerships—Ryanair to Southwest???
- Next-gen aircraft will open some limited opportunities
- Being profitable where there are no synergies will be tough



Final Thought...Simply Trying ≠ Success

Hubs of a Bygone Era

Baltimore (US)
Columbus (US, HP)
Dallas (DL)
Dayton (US)
Denver (CO)
Frankfurt (DL)
Indianapolis (US)
Kansas City (Many)
Pittsburgh (US)
Raleigh-Durham (AA)
San Jose (AA)
St. Louis (AA)

Abandoned Concepts

Business Select
Cal-Lite
Independence Air
Market share at all costs
MAXjet
MetroJet
Song
Etc...