Agenda

A. The Evolution of Short Haul
B. The Last Phase
C. Vueling: the Right Model
D. What is Needed for the Last Phase
## The evolution of short-haul

### Deregulation/Privatization
- Majors are created
- All countries with a national airline that goes to total or partial privatization

### Entry of LCCs
- Ryanair converts to an LCC
- easyJet launches with two planes
- Other regional LCCs start

### Short-haul, converted
- >700 LCC a/c in Europe
- Every major has a lower-cost strategy (at different stages of implementation)
The evolution of short-haul

Deregulation/Privatization
- High fares
- Mono or duo-polies
- High costs

Entry of LCCs
- Lower fares
- More competition
- Lower costs

Short-haul, converted
- Permanently lower fares and lower costs
- Continued competition

And what were traditional airlines saying at each stage?

“When we privatise, we will be really successful!”
“We are pretty skeptical, but not worried”
“We’ve given up on short-haul; focus on long-haul”
B. The last phase

1. The last phase: short-haul, converted

2. What does it mean? Why is this good?

3. What are signs that we may be already in this last phase?
The last phase: short-haul converted

What does it look like when it ends

- Majors operate short haul with business class only between own alliance hubs and major business trunk routes

- Everything else is lower operating cost subsidiaries or LCC alternative
## Traditional airlines
- Disappearance of full business class product in all but premium routes
- Connect and revenue share models with leaner operators
- Finally control their short haul costs

## Low cost airlines
- Become more sophisticated
- Evolve in product:
  - Business passenger
  - Connections
- Access to higher fares

## Airports
- More growth (Flights, Pax, services...)
- Discretionary spending increases
- Drives more capital investment

## Business activity
- Growth through lower fares
- More choices
- More direct flights
### What are the signs that we may be in this last phase?

#### Traditional airlines
- **Lufthansa**
  - Germanwings: Cooperation
- **Air France, KLM**
  - Re-distribution of bases
  - Access to Transavia
- **Iberia**
  - Clickair, then Vueling
- **British Airways**
  - LGW as an alternative
  - Welcoming Air Berlin

#### Low cost airlines
- **Ryanair**
  - Assigned seat trial
  - Acknowledged currently “bad customer service” (17-5-11, FT Deutschland)
- **easyJet**
  - Biz passenger focus
  - Flexible fares
- **Norwegian.no**
  - GDS distribution
  - Inflight WIFI

#### vueling
- Seat assignment
- Blocked middle seat
- Multi-frequency
- Main airports
- OneWorld FFP
- Connections / interline
- GDS sales
- Flexible fares
- Very high punctuality
What are the signs that we may be in this last phase?

Consolidation till now

- Lessons learned: Why did other airlines fail?
  - SAS → snowflake
  - bmi → bmi baby.com

- Closure
  - SKY EUROPE
  - myair.com
  - VIKING
  - ITALIA
  - air slovakia
  - blue wings
  - flyglobe span

- Consolidation
  - Brussels airlines
  - Fly L.M.
  - Austrian
  - bmi

Future consolidation?

- Do we expect more consolidation?
  - High competition
  - Higher costs
  - Short-haul only
  - Short-haul without prospects to grow
  - State-aided airlines with limited government resources

YES
C. Vueling in this phase

1. Vueling figures and history
**Some figures**
- 12m annual pax, > 100 routes, >50 airports
- 47 A320s, 8 bases, €800m revenues
- LCC in Europe with more frequencies (10,4 weekly frequencies on average per route)

**CASK exfuel, 2010 (€c/ASK)**

<table>
<thead>
<tr>
<th></th>
<th>Vueling</th>
<th>Air Berlin</th>
<th>easyJet</th>
<th>Norwegian</th>
<th>Lufthansa</th>
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**History**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tr>
<td>2004</td>
<td>Vueling starts flying</td>
</tr>
<tr>
<td>2005</td>
<td>Clickair starts flying</td>
</tr>
<tr>
<td>2006</td>
<td>Vueling’s IPO</td>
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<tr>
<td>2007</td>
<td>$148/Barrel Oil</td>
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<td>2008</td>
<td>Vueling Clickair merger</td>
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<td>2009</td>
<td>Transfer Pax</td>
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<td>2010</td>
<td>Interline Pax</td>
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<td>2011</td>
<td>European expansion</td>
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Internet Sales only  GDS Sales  Middle seat blocked  Flexibility  LCC Business

LCC Service

New Model
Only proven tool to profitably support the last phase of short haul substitution in Europe
D. What does the market need for this last phase

No more market distortions!!!

A fair competitive environment for everyone, in and out of the industry:

• 261/2004 regulation: Urgent reforms

• Stop selected, politically-driven public subsidies
What does the market need for this last phase?

261/2004 regulation: **Urgent reforms**

- Poor drafting & referrals to ECJ for interpretation has led to confusion regarding its objectives and reach

- Under the current regulation, Airlines are objectively responsible for events outside the scope of their responsibility
  - Natural events: Volcanic ash,...
  - Inappropriate Airport management (London, Dec 2010) / Disruption Events (Strikes...)

**Cost sharing**

- Stop having to play the role of an insurance company
  - Cost sharing with administration
  - Cost sharing with airports
  - Objective limitations to the duty of care, as in ground and maritime transport regulations
What does the market need for this last phase?

**Subsidies create artificial demand**

- Prolonging state-aid not only distorts the market but it slows down access to a better environment
- Local Spanish example: More than €100M of public aid during 2 years

**Leveling the playing field**

- “The aid may be granted only once (the ‘one time, last time’ principle)” (EC Competition Law)
- “The aid must not be targeted on expansion” (EC Competition Law)
flying hoy means vueling