

## Thomas Winkelmann (CEO Germanwings) November 2008

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What is the impact of oil prices increases on Germanwings' activity?

The price of transportation heavily depends on the price of fuel. A company like Germanwings, which belongs to a group like Lufthansa, has some advantages when it comes to aircraft purchasing and fuel hedging. So we have been able to hedge at an acceptable cost. However, it is absolutely clear that the fuel price has an enormous impact on flying. I wouldn't, for instance, overestimate the so-called "lower fuel price", we should always remember that when we think 70 dollars is cheap; it is still much higher than last year.

For the low-cost sector, that means the carriers have to try to save costs by all means, like flying with wider planes, lowering the wait we have on the aircraft, that's a reason why we have implemented our luggage charges for 5 Euros, basically asking the customers to fly (if possible) with small suitcases, and we look for ways to raise ancillary revenues; otherwise it is very hard to compensate.

How much does the fuel count in your total costs?

This is a company secret. However, we are in the lucky position to have hedged at the beginning of 2008. But still, our fuel bill is 40 million Euros higher this year compared to 2007.

I can imagine that in the late 90s, for some of the airlines operating in Europe, fuel was maybe between 10 and 20% of total costs (depending of course on the labor contracts, on the airports served...). Today, it is far higher than 20%, sometime reaching 30% or more. It is a very important cost item, and the dramatic situation for some LCCs is that, if they only depend on price in their business model, it is very hard to convince the oil producing countries to give fuel at better deal than anybody else in the industry.

What is your current hedging policy? What is the fuel price where you break even?

It is also confidential, but we carefully monitor to secure the US dollars, because we are in a very volatile environment, so this is extremely important. Yes the fuel has gone down, but at the same time, the dollar is today getting stronger than the Euro, and as we all know, fuel price is based on US dollars, like aircrafts leasing...

Some other low-cost carriers announced they would reduce their expansion plans, cut jobs, ground some aircrafts, fly slower on some destinations... What is your strategy to limit the impact of fuel crisis on your business?

Europe has a very seasonal business, so Germanwings has made its biggest move by selling four aircrafts that will leave the fleet by the end of October 2008, and we could negotiate with Airbus the delivery of new aircrafts in March 2009. So we will fly with almost 11% less capacity during this winter, and we will fly during the summer 2009 with the same amount of seats that we had in 2008.

During the last World Low Cost Airlines Congress, you talked about public subsidies in the LCCs Sector. What is your opinion about it?

I was thinking about business models that are strictly dependent on spending tax payers Euros or Pounds, and which have no sustainable business models to make profit at any time. Again, we think that it is a good thing that airports have competition, the times of dictating your landing fees are over, but it is a different question when it comes to heavy tax payers subsidies for benefits of some that loses more money the more they fly. The environment in Europe with the financial crisis is more critical about government spending. If your business case is to give free — or 1 Euro — tickets, then people wonders about the sustainability of the business model. For years, a competitor based in Ireland has told the world that they were basically not paying anything at the airports, and now we read about hundreds of millions of dollars cost saving programs which will start with the airports, and therefore I was asking the question: "What does it mean if you haven't paid anything in the past, or very little, does that mean that the tax payers subsidies now even go up?"

You cannot on the one hand blame reporters or politicians for being too aggressive because of environmental reasons in the airline industry, and at the same time give a product out for free.

What is the strategy of Germanwings facing consolidation of the German market?

Our strategy is profitable growth, and everything that we do goes that direction. Next summer, we will have 29 Airbus, and 8 million passengers, and if we see a chance to grow in a win-win situation for everyone, then we do it. We are very critical to some observers of the industry, as some mergers in the industry that we have seen in the last years have created more complexity, higher costs, and tensed situations with employees, so that's nothing you can use as a low-cost carrier.

Simple business model, one aircraft, one philosophy, that is what produces profit. So I don't know if other competitors on the German market merge, and I do think that carriers that want to get "married"; immediately are very happy about their business model.