

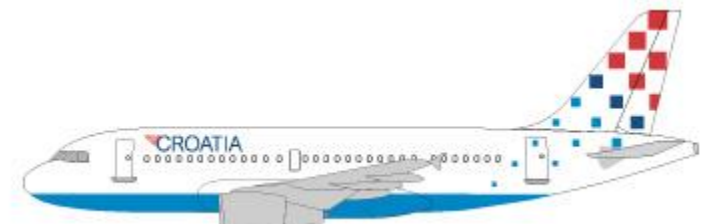
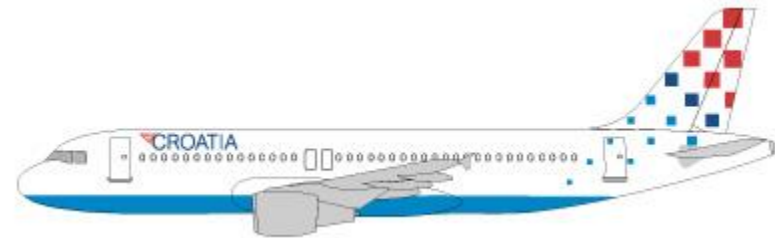
Corporate Governance Challenges Croatia Airlines

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Zagreb, November 03 - 04 2011



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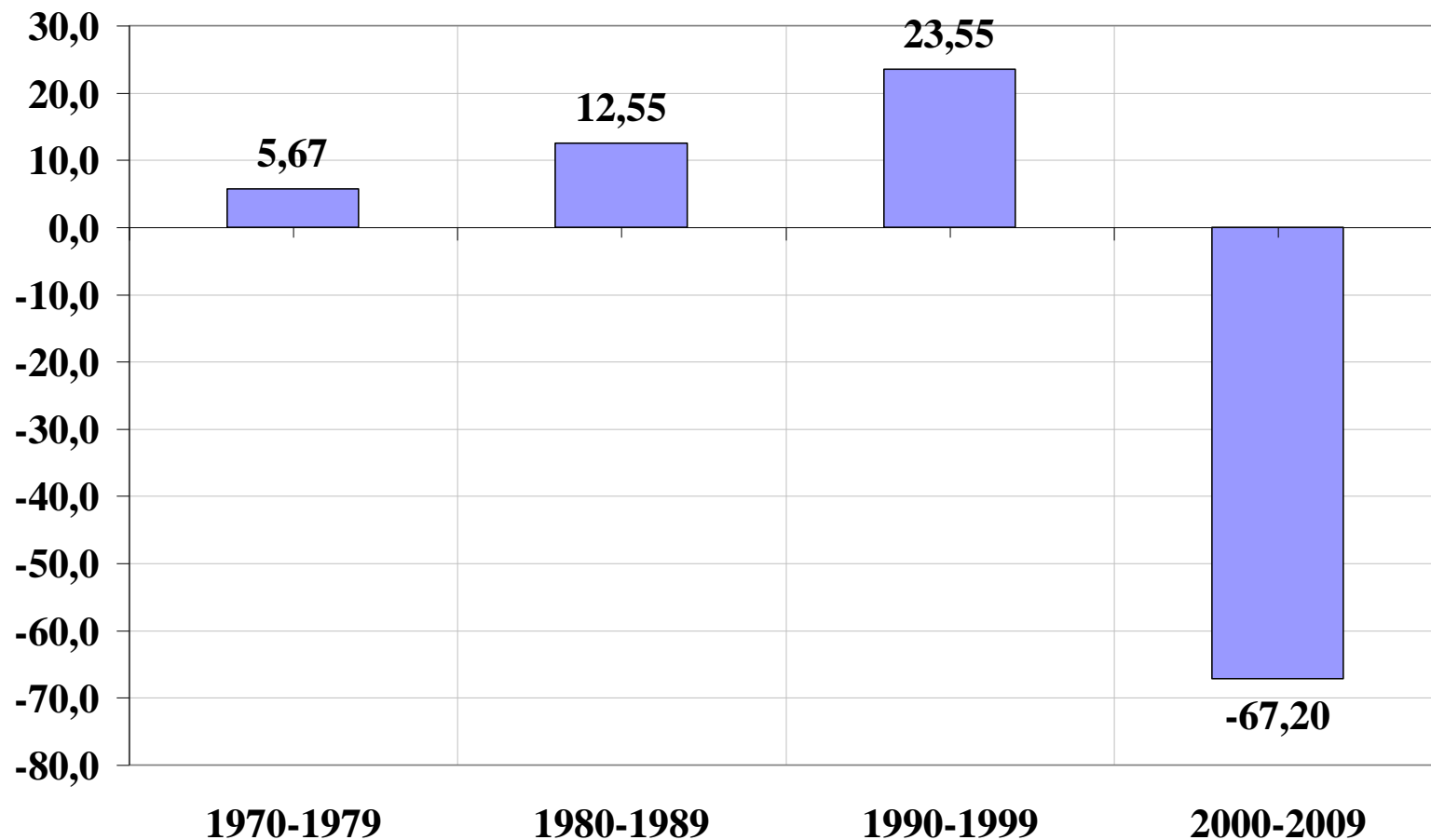
 CROATIA AIRLINES

Contents

1. Economic and Social Benefits of Air Transport
2. alliances
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Airline Financial Results (bill US\$)

- last four decades -



Economic and Social Benefits of Air Transport

→ Worldwide

- 2,000 airlines
- 23,000 aircraft
- 3,750 airports
- 160 ATC providers

→ Jobs

- 32.0 mill globally
- 5.5 mill direct
- 6.3 mill indirect
- 2.9 mill induced
- 17.1 mill catalytic

ECONOMIC IMPACT **3,560 bill usd(7.5% of GDP)**

AIRFREIGHT **3,500 bill usd**

Economic and Social Benefits of Air Transport

→ **EUROPE** **414 airports, population 500 mill**

→ **JOBS**

→ **3.0 mill direct**

→ **4.2 mill indirect**

→ **7.6 mill catalytic**

→ **SE EUROPE** **30 airports** **58 mill inhabitants**

Air Transport Market SEE

Summary

- **Passengers 30,4 millions**
- **Cargo 84.000 tons**
- **Airports 37**
- **Airlines 35**
- **No. of Aircraft \approx 250**
- **Pax per Inhab. = 0.52**

Air Transport Market SEE Destinations and frequencies within region

Airline	No. of routes	SEE routes	Destinations / Weekly frequency	SEE freq.
Adria Airways	27	6	Ljubljana - SJJ 7x; TGD 3x; TIA 7x; SKP 11x; OTP 4x; PRN 14x	46
Croatia Airlines	36	4	Zagreb - SJJ 14x; SKP 7x; TDG 3x; PRN 4x	28
Bulgaria Air - Hemus	34	3	Sofia - TIA 2x; SKP 2x; OTP 5x	9
Air Moldova	16	1	Chisinau - OTP 5x	5
Albanian Airlines	4	1	Tirana - SKP 3x	3
Belle Air	19	1	Tirana - PRN 12x	12
BH Airlines	6	1	Sarajevo - SKP 3x	3
Macedonian Airlines	6	0	-	0
Tarom	38	2	Bucharest - SOF 11x; KIV 4x	15
Carpatair	34	1	Timisoara - KIV 6x;	
Montenegro Airlines	14	3	Podgorica - BEG 21x; LJU 2x; Tivat - BEG 14x	37
JAT	33	4	Belgrade - SKP 18x; LJU 7x; TGD 33x; TIV 31x	89
Total	267	27		247

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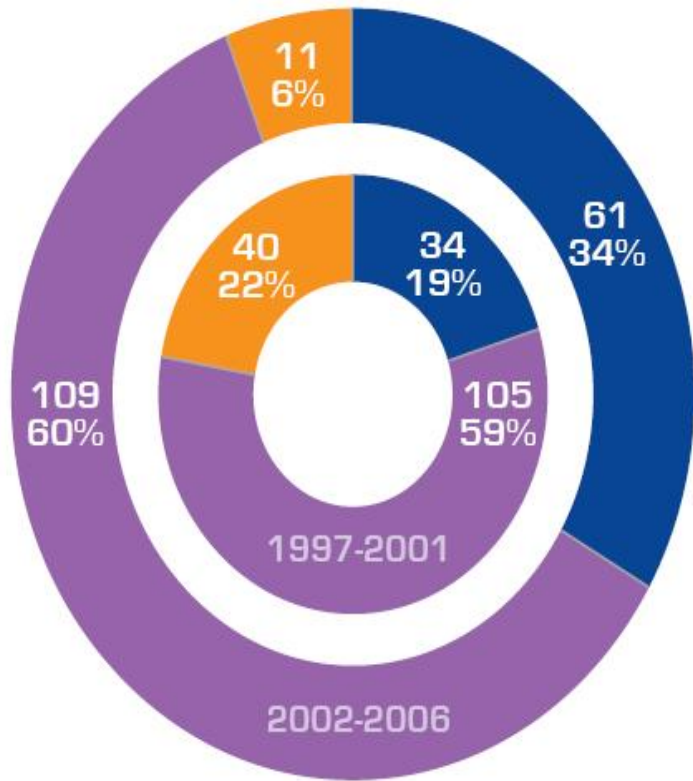
Air Transport Market SEE Destinations and frequencies within region

Summary

- Only 10% of existing routes oriented to the SEE area
- Average weekly frequency on half of SEE routes less than one daily flight

**The best air connections within the region are:
via Vienna!**

Markets



Regional Routes In Europe

- Primary - Primary
- Primary - Secondary
- Secondary - Secondary

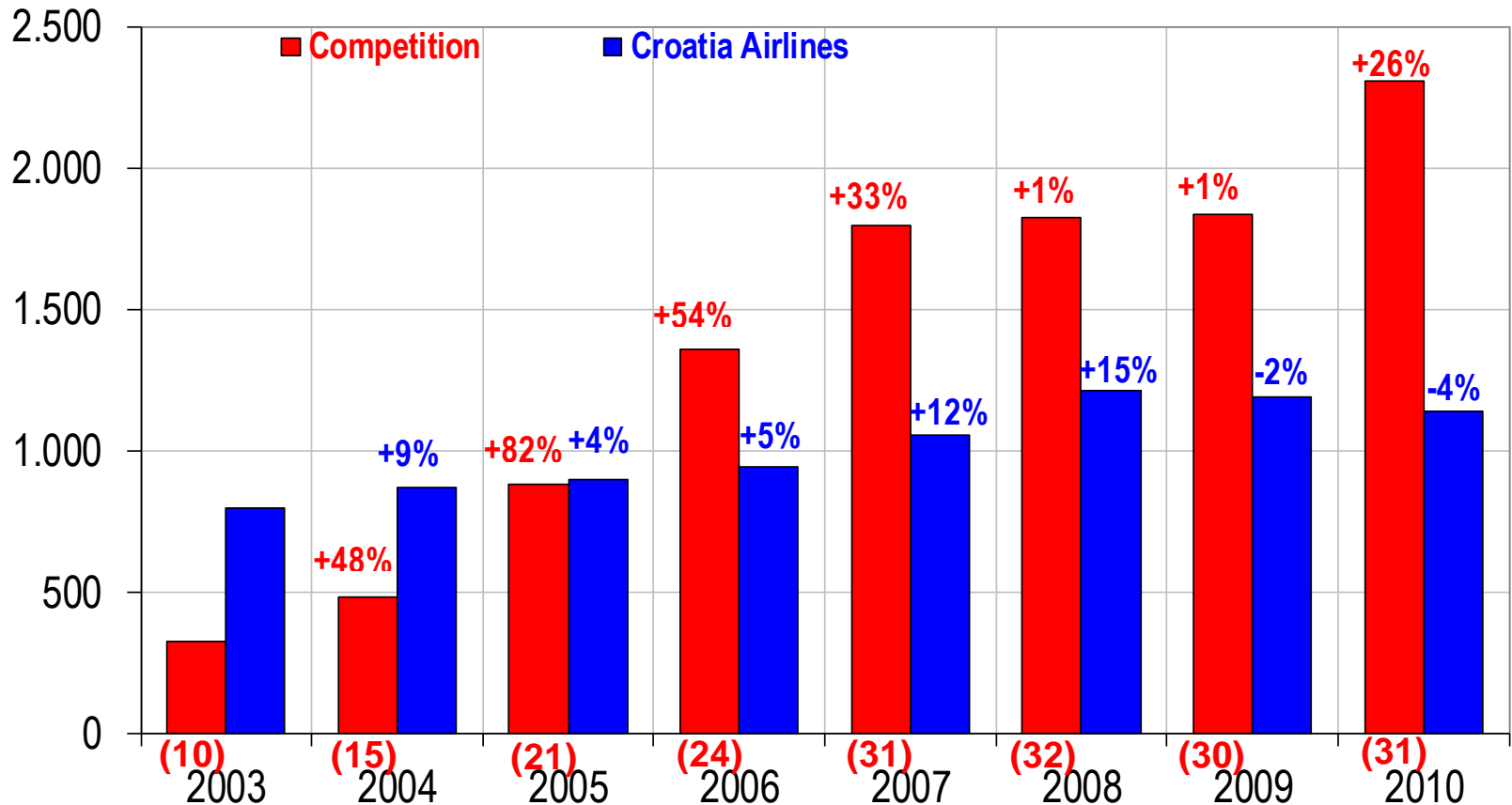
International Scheduled Traffic in Croatia

TOP 10 Airlines by Business Models

FSNC	2010	
	000 pax	udio %
Croatia Airlines	1.640	65,8
Lufthansa	193	7,7
Austrian	146	5,9
Air France	72	2,9
Transaero	69	2,8
Aeroflot	63	2,5
Turkish Airlines	62	2,5
British Airways	59	2,4
SAS	55	2,2
Malev	39	1,6
Others	93	3,7
Ukupno	2.491	100,0

LCC	2010	
	000 pax	udio %
Germanwings	431	29,6
easyJet	289	19,8
Ryanair	216	14,8
Norwegian	204	14,0
Wizzair	76	5,2
Air Berlin	71	4,9
Thomsonfly	58	4,0
Aer Lingus	37	2,5
Click Air / Vueling	34	2,3
Blue 1	14	1,0
Others	27	1,9
Ukupno	1.457	100,0

Competition in Croatia

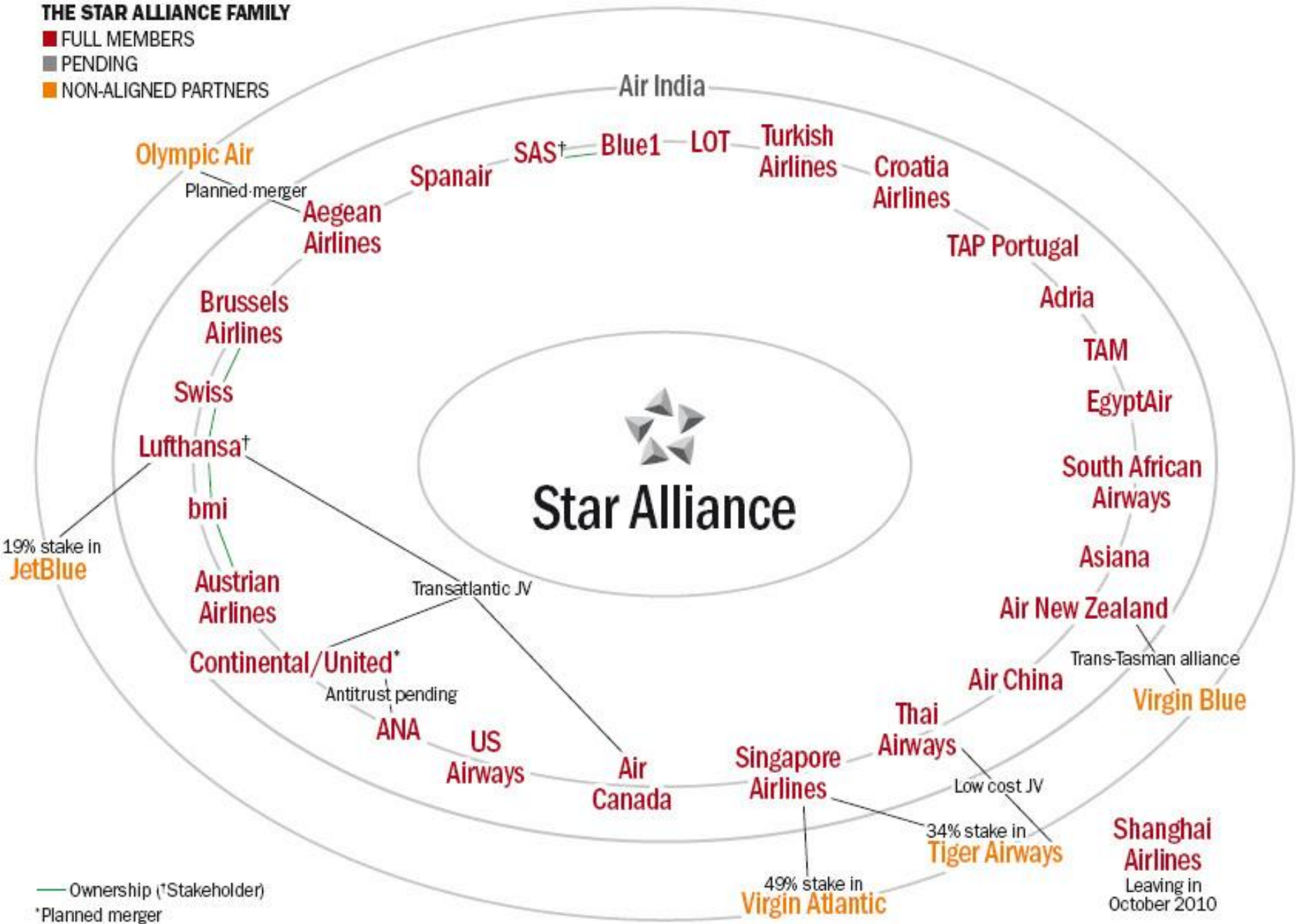


() - Number of Competitors

**+53 Charter Airlines
= 85**

THE STAR ALLIANCE FAMILY

- FULL MEMBERS
- PENDING
- NON-ALIGNED PARTNERS



Star Alliance minimum requirement list

SARP ⁶	Cooperation on air safety
Safety program	Emergency response manual
Mutual emergency support	Crisis communications policy
Corporate communications policy	Orientation training module
StarLife	Signing of Star Governance contracts
Booking class alignment	Special Prorate Agreement - SPA
IATA Clearing house	IDEC ⁷
Code share	Signage manual
Lounge policy	Bilateral message exchange
Airport premier customer handling	Harmonized baggage policies
Harmonized irregular operations	Through check-in
Operating carrier on bag tag	CRS ⁸ availability display
PNR ⁹ premium customer identification	Goodwill compensation
Complaints investigation	Harmonized interim expense policy
Logo branding to aircraft	Marketing communications strategy
Brand principles	Reciprocal frequent flyer agreements
Status Miles exclusively	Gold and silver benefits communication
Awards billing	Redemption Availability and Sell - RAS
Awards	Extranet
Starnet	Priority wait-listing
MTDA ¹⁰	STBH ¹¹

Strategy within Star Alliance

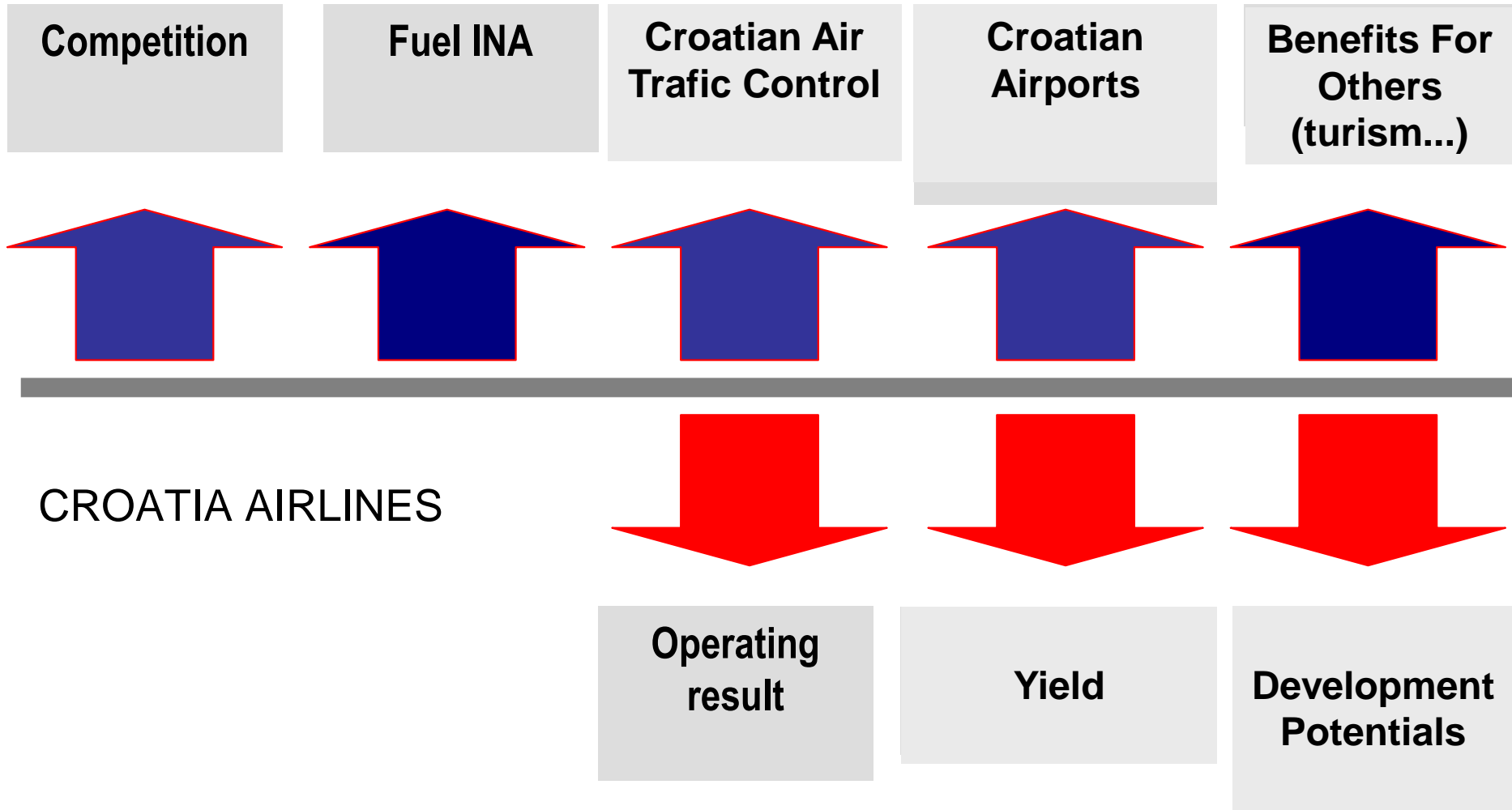
- Improvement and spreading of sales and competitiveness in region Southeast Europe;
- Fleet restructuring;
- Implementation of revenue management models;
- Rationalization of maintenance, fuel, insurance, staff costs etc...
- Improvement of safety, quality and productivity standards

Strategy within Star Alliance

problems and threats

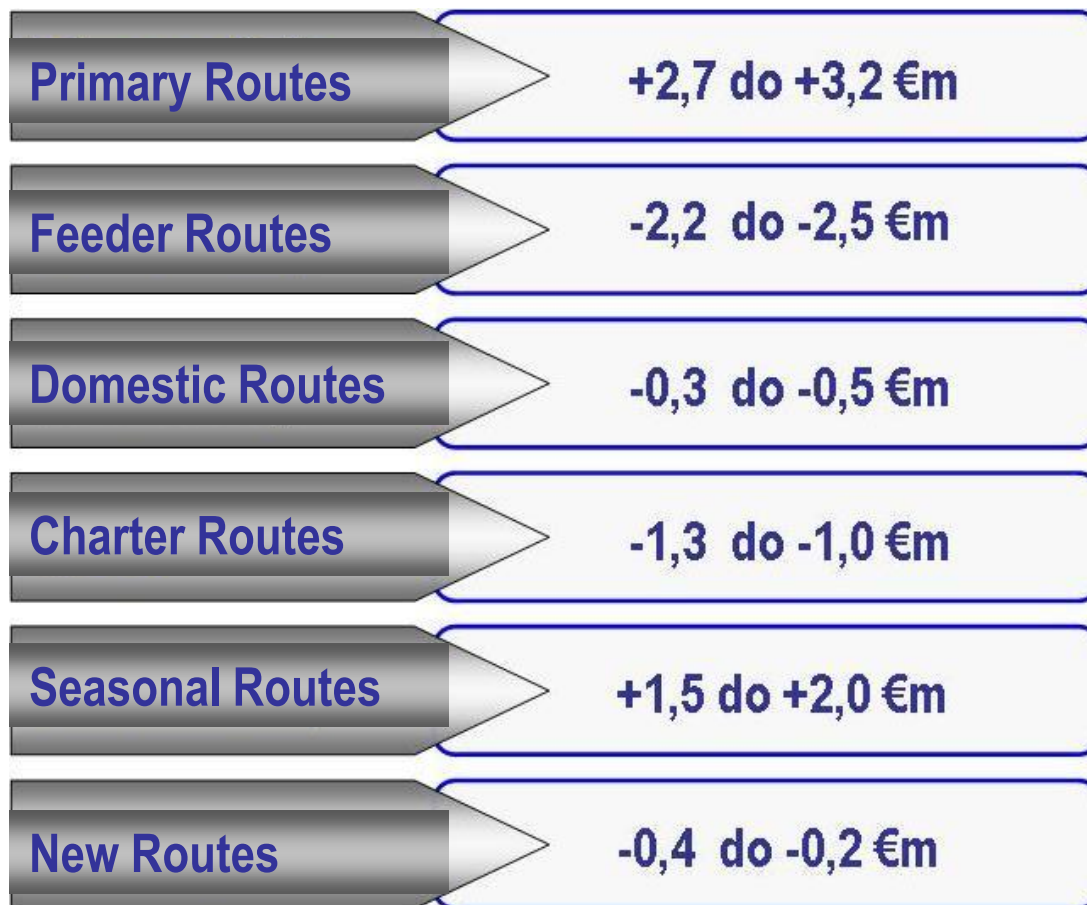
- **Competition increase of the rival alliances (Air France introduced two daily flights to Paris unlike before Croatia Airlines entering to Star Alliance);**
- **High investments in minimum requirement list items, CITP and other IT improvements;**
- **Negative impact due to size of the company and waiting lists in all aspects and priorities of the commercial cooperation;**
- **Limitations in some of the crucial voting decisions that can considerably affect the business activities level.**

Value Chain Paradox in Croatia



Croatia Airlines Challenges

Route portfolio Targets



Croatia Airlines Challenges

Potentials

Restructuring of flight	8,0 €m	Q400 vs. Airbus
Revenues	7,0 €m	Rev. Manag, Pricing, Code Share, C class...
Administration	1,0 €m	Reduction of employees
Labour productivity	1,5 €m	Reduction of unit labour costs
Suppliers	4,0 €m	Contribution of suppliers
Quality-punctuality	0,5 €m	Direct and indirect costs

Corporate Governance Challenges

- 1. Profitability**
- 2. Productivity**
- 3. Security and Safety**
- 4. Quality Performance**
- 5. Competition**
- 6. Value Chain**
- 7. Development**
- 8. Restructuring**
- 9. Privatisation**
- 10. Enviromental Responsibility....**

Final Statements and Conclusions



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