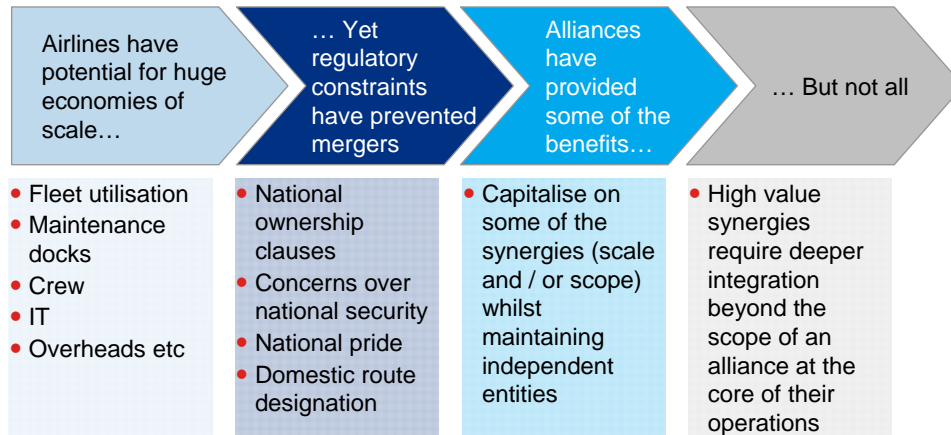


Privatization: Strategies and Considerations

Option 2 – Benefits of a Merger vs. Alliance Membership

Alliances, although powerful in the past, will not generate the level of synergies that can be realised through M&A activity.

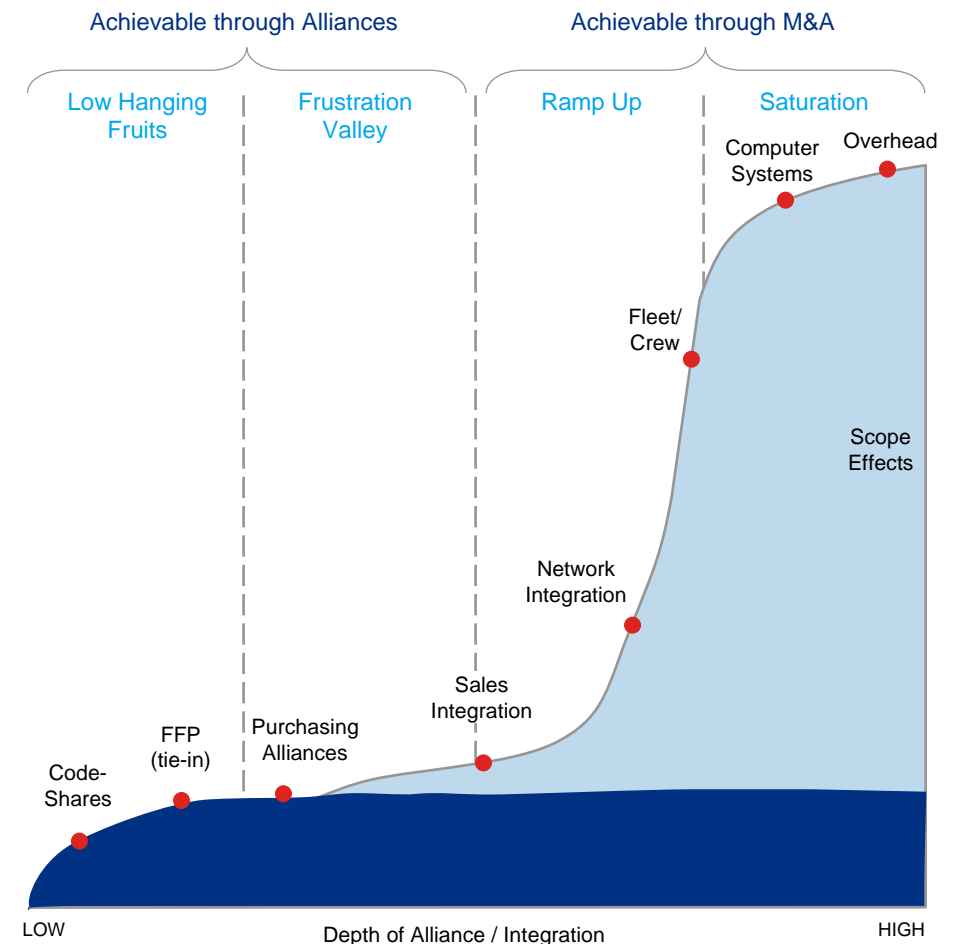
Alliance Synergies Are Lower Value Than Merger Synergies



Mergers Offer More Than Alliances

- ✓ **Access to Higher Value Synergies**
 - Synergies easily realisable through global alliances are often of limited value (cost control, revenue synergies and brand value)
 - High value synergies require integration at the core of their operations (sales forces, network and fleet management, corporate account management etc) only achievable through M&A
 - Network overlap is the key source of synergies
- ✓ **More Critical Mass**
 - As a scale driven industry, larger merged airlines are more capable of riding out cycles than smaller airlines
- ✓ **Stabilised Synergies**
 - No benefit-sharing among other alliance members
 - No exposure to performance of other members

Synergy Potential At Various Levels of Integration



Option 2 – Execution Considerations

	Description	Comment	Implication
Labour	<ul style="list-style-type: none"> Any privatisation strategy will have a greater chance of succeeding with the support of the companies strong unions 	<ul style="list-style-type: none"> Important to maintain good relationship with employees 	<ul style="list-style-type: none"> Communicate strategy around staffing issues / potential partnership Avoid structures that require shareholder super majority
Political	<ul style="list-style-type: none"> High degree of regulation in airline sector will require that political interests are considered in structuring a sale of strategic stake, especially if majority stake 	<ul style="list-style-type: none"> Political considerations will include <ul style="list-style-type: none"> National interest Security and defence Political strategy Willingness to amend legislation when 'it isn't broke' European precedent shows political concerns overdone / reality quite workable 	<ul style="list-style-type: none"> Need to develop a strategy to highlight national interest and political benefits of a merger
Bi-laterals	<ul style="list-style-type: none"> Regulates international transport between countries Transport rights granted between countries (bi-laterals) require that airlines demonstrate that they are '<i>substantially owned</i>' and '<i>effectively controlled</i>' by nationals of the contracting state to be entitled to traffic rights under bi-lateral treaty 	<ul style="list-style-type: none"> 50% + 1 share to be owned by member states or its nationals 	<ul style="list-style-type: none"> Traffic rights could be withdrawn Airline / Government may have to renegotiate bi-lateral agreements
Alliances	<ul style="list-style-type: none"> Several Arab Airlines are members of the 3 major alliances 	<ul style="list-style-type: none"> Additional complexity if a partner would require to leave a particular Alliance <ul style="list-style-type: none"> Removal from systems and re-integration 	<ul style="list-style-type: none"> Breakage fees significant