CASE STUDY:

GULF AIR
ON A PATH TO SUSTAINABILITY
Originally set up as Gulf Aviation Company in 1950, Gulf Air is one of the first airlines to be established in the Middle East. Now the flag carrier of the Kingdom of Bahrain, the airline’s ownership was inherited by Mumtalakat at inception in 2006 and has since been under its active stewardship, with the goal of improving the airline’s operational and financial performance.

Gulf Air has prided itself on being a regional pioneer in aviation. Once regarded as the gold standard for aviation, Gulf Air has been facing stiff business challenges recently, especially after its erstwhile owners set up airlines in their respective countries.

With air connectivity being indispensible for an island nation like Bahrain, Gulf Air is an entity of national importance. Additionally, a direct air link to key destinations in Europe and Asia is critical to boost the country’s business requirements and the economy as a whole while maintaining global supply chains.

Over the years, Mumtalakat has played a crucial role in improving the national carrier’s performance through various initiatives, including setting the strategic agenda of the airline, improving operational efficiency through better revenue management practices and adoption of cost discipline, increasing focus on niche point-to-point business traffic in the region etc.

Through direct involvement at the Board level, Mumtalakat has been effective in creating value, helping the airline reduce operating losses by nearly 88% between 2013 and 2015. This improved performance needs to be juxtaposed to the airline’s performance during the preceding five years (2008-2012) when the airline was losing around US $500 million a year (roughly US $1.4 million a day!)
SIGNIFICANT HEADWINDS: 2008-2012

Like most airlines globally between 2008 and 2012, Gulf Air was reeling under the effects of multiple events that had a debilitating impact on the viability of the aviation industry itself. These macro-economic events included the global recession of 2008, the SARS epidemic and the dramatic increase in fuel prices, reaching over US $120 per barrel, amongst other factors.

As a responsible shareholder, Mumtalakat stepped in and took a number of key decisions, including changing the Board and senior management of the airline and injecting more than US $1 billion of capital to continue operations.

Due to the various initiatives taken in 2009, Gulf Air’s performance improved in 2010 – losses were reduced by more than 26% in a year. However, a slew of other external events beyond the airline’s control, virtually nullified the efforts taken during the previous two years. In fact, the airline’s performance during 2011 and 2012 was perhaps the worst in its history.

It was against this background that a new Board took over the reins at Mumtalakat in mid-2012 and the same Board was appointed to lead Gulf Air as well. Given the unsustainability of the situation, the Board appointed advisors to devise a restructuring plan that would place the airline on a path to sustainability.

GULF AIR’S FINANCIAL PERFORMANCE

2008-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Loss (BD Millions)</th>
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<tr>
<td>2008</td>
<td>-156</td>
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<tr>
<td>2009</td>
<td>-190</td>
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<tr>
<td>2010</td>
<td>-140</td>
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<tr>
<td>2011</td>
<td>-211</td>
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<td>2012</td>
<td>-196</td>
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(BD MILLIONS)

With the support of Mumtalakat, the advisors and management of Gulf Air created “Project Voice,” a high-impact restructuring programme that was approved by the Board of Gulf Air and ultimately received support from the Government of Bahrain through funding from the national budget.

Project Voice involved several strategic and operational measures aimed to reduce the airline’s cost base, improve revenue performance and enhance its customer experience. Several loss-making routes were closed (network strategy), old and excess aircraft were returned to lessors and new aircraft were inducted (fleet strategy), manpower was optimized and several commercial arrangements were renegotiated (cost focus).

Additionally, two sub-projects were initiated – Project Air focused on improving Gulf Air’s commercial and revenue management practices and Project Fix focused on reducing the cost base of the airline’s aircraft maintenance.

The cumulative effect of the above initiatives was a 53% reduction in losses within one year (2012 vs. 2013) and a further 32% reduction in losses in 2014. The culmination of the restructuring efforts was an enhanced financial performance by 2015 in which losses had dropped to US $64 million (compared to US $520 million in 2012).

THE INDUSTRY SINCE MID-2016

The aviation industry in the region has been facing significant headwinds since mid-2016. Over-capacity has plagued all the major carriers in the Middle East who have been forced to price competitively to attract customers. In fact, the Middle East saw a dip in profitability during 2016, when airlines in most of the regions around the world were reporting record profits. The sustained drop in oil prices, while reducing the fuel cost of the airlines, has actually resulted in a drop in demand for flying from the region. This bleak outlook has been exacerbated by protectionist measures taken by the European Union and the United States. For an industry that must cater to a variety of global socio-economic challenges, from passenger loyalty and safety to freight requirements, climate change and fuel prices, profitability typically occurs in short-lived periods. Mumtalakat’s guidance has been instrumental in both safeguarding the airline and its vast employee body as well as improving efficiency.