



# Trends and Challenges for the Airline Industry

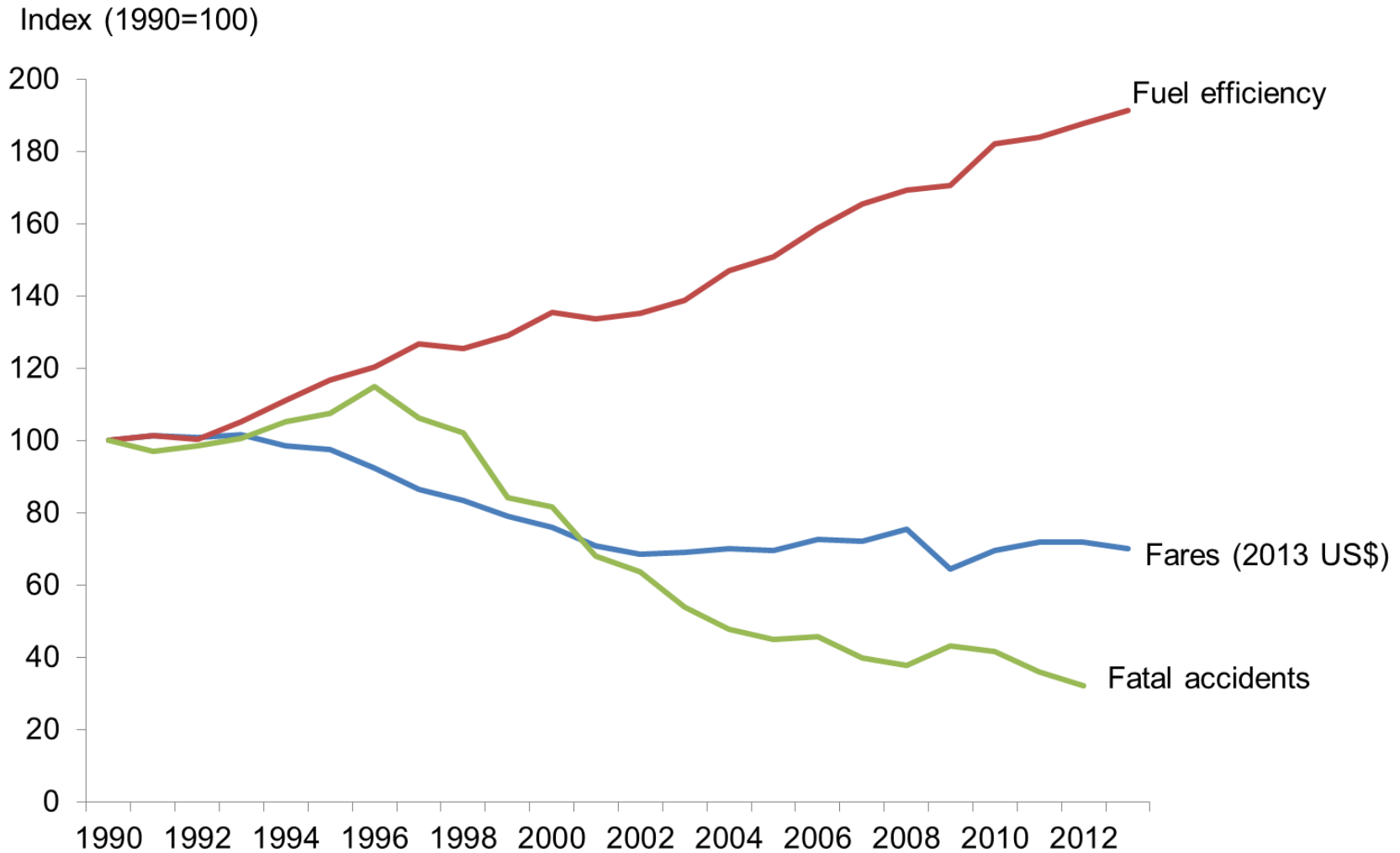
Tim-Jasper Schaaf  
Director Marketing & Sales

To represent, lead and serve the airline industry



# The value proposition for air travel remains strong

## It's safer, it's greener and it's still a bargain



\* 5-year moving average fatal accidents per passenger departure

Source: Constructed from worldwide data from ICAO and IATA

# The quality of air service has improved

Even in the past 5 years the main facets of airline service have got better

	2007	2008	2009	2010	2011	2012	2013
<b>On-time arrival rate*</b>							
European flights**	77.9%	78.3%	82.1%	75.8%	82.1%	83.4%	83.9%
US domestic flights***	73.4%	76.0%	79.5%	79.8%	79.6%	81.9%	78.8%
<b>Mishandled bags per 1000 passengers</b>							
Worldwide^	19	15	11	12	9	9	
<b>Cancelled flights</b>							
European network airlines^^	1.40%	1.38%	1.08%	3.43% <sup>^*</sup>	0.94%	1.00%	1.23%
US domestic flights^^^	2.16%	1.96%	1.39%	1.76%	1.91%	1.29%	1.42%

\* % flights arriving within 15 minutes scheduled time

\*\* <http://www.eurocontrol.int/articles/coda-publications>

\*\*\* <http://airconsumer.ost.dot.gov/reports/>; table 1A YTD December figures

^ SITA Baggage Report 2012

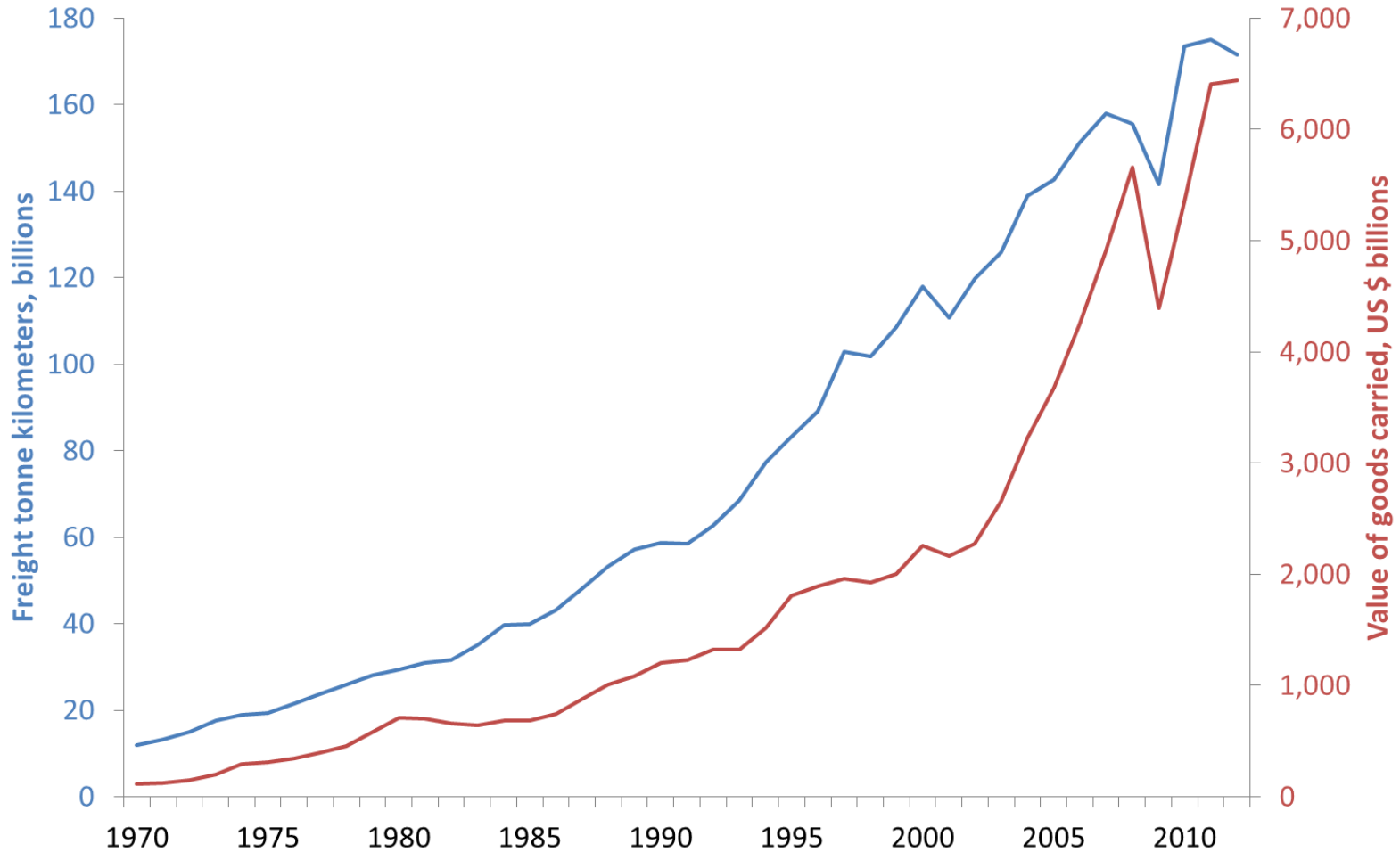
^^ AEA

^^^ <http://www.transtats.bts.gov/HomeDrillChart.asp>; On time performance - Flight delays at a glance

<sup>^\*</sup> Impacted by airspace closures due to Icelandic volcanic ash cloud

# Over \$6 trillion of goods annually are now carried by air 35% of world trade is carried by air; a key enabler of globalization

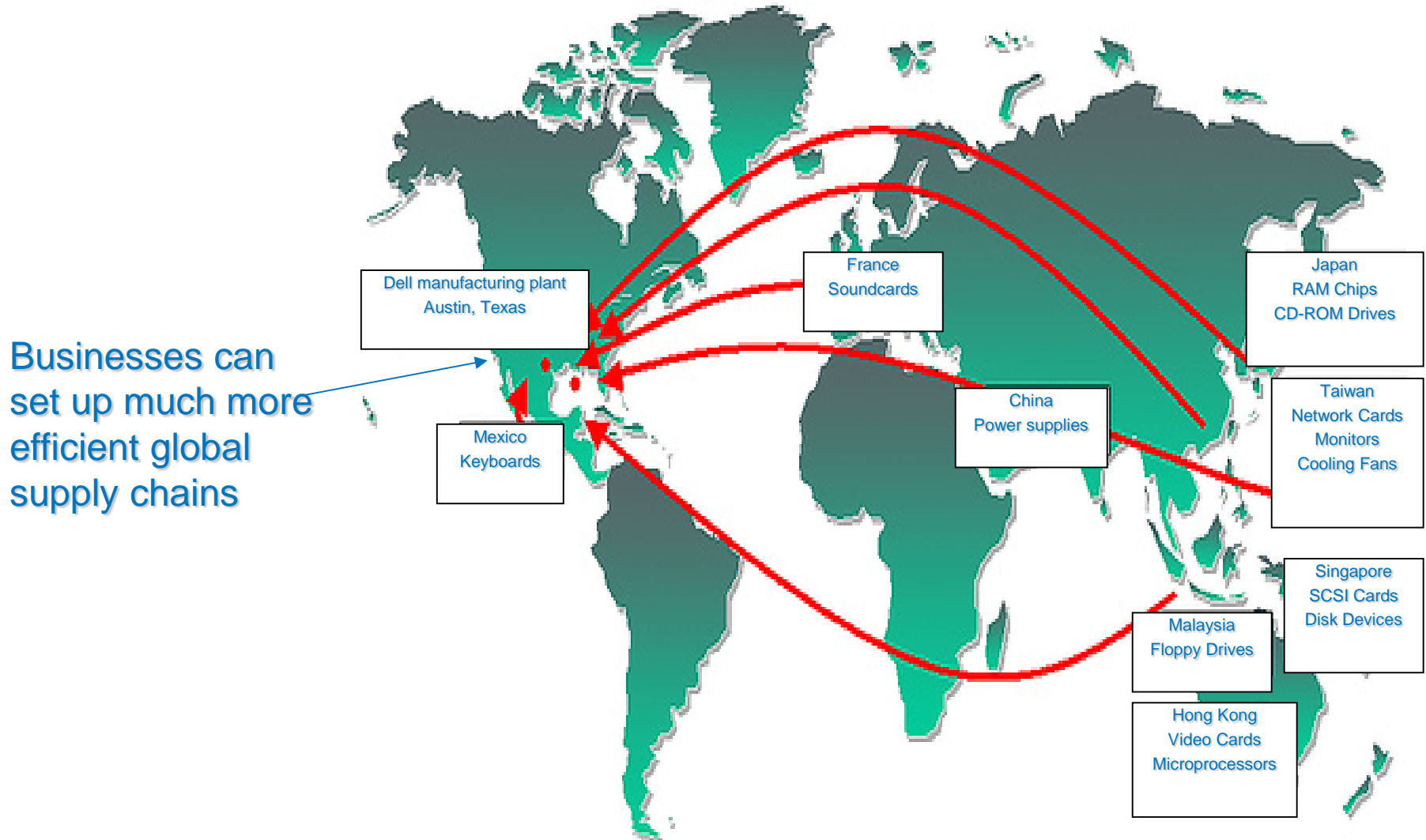
Air freight tonne kilometers flown and the value of goods carried



Source: ICAO, IATA, WTO. Value carried by air=world merchandise exports\*35% (35% estimated by The Colography Group, 2005)

# Air connectivity has enabled global supply chains

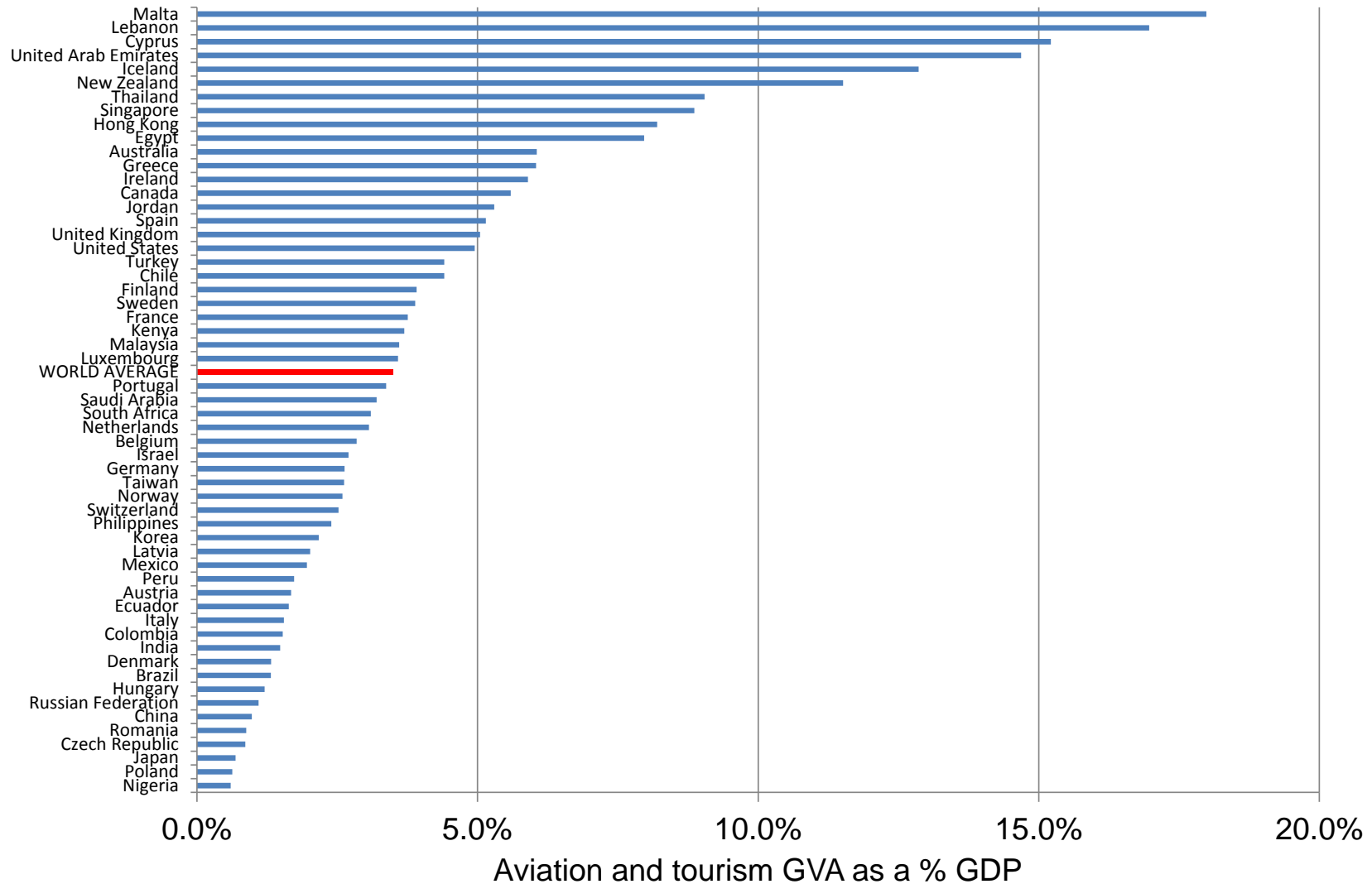
Dell, Apple, Amazon would look very different without rapid air freight



Source: Dell, IATA

# Aviation plays a major role in most economies

Footprint of aviation and tourism measured by the sector's GVA as % GDP



Source: Oxford Economics. <http://www.benefitsofaviation.aero/Pages/default.aspx> Note: GVA = Gross Value Added which is mainly wages and profits. GDP = Gross Domestic Product

# Massive expansion ahead for emerging markets

Expanding middle classes drive both travel and air cargo flows

Serving this demand will require a big expansion of investment

## Global middle income class in 2009 and prediction for 2030

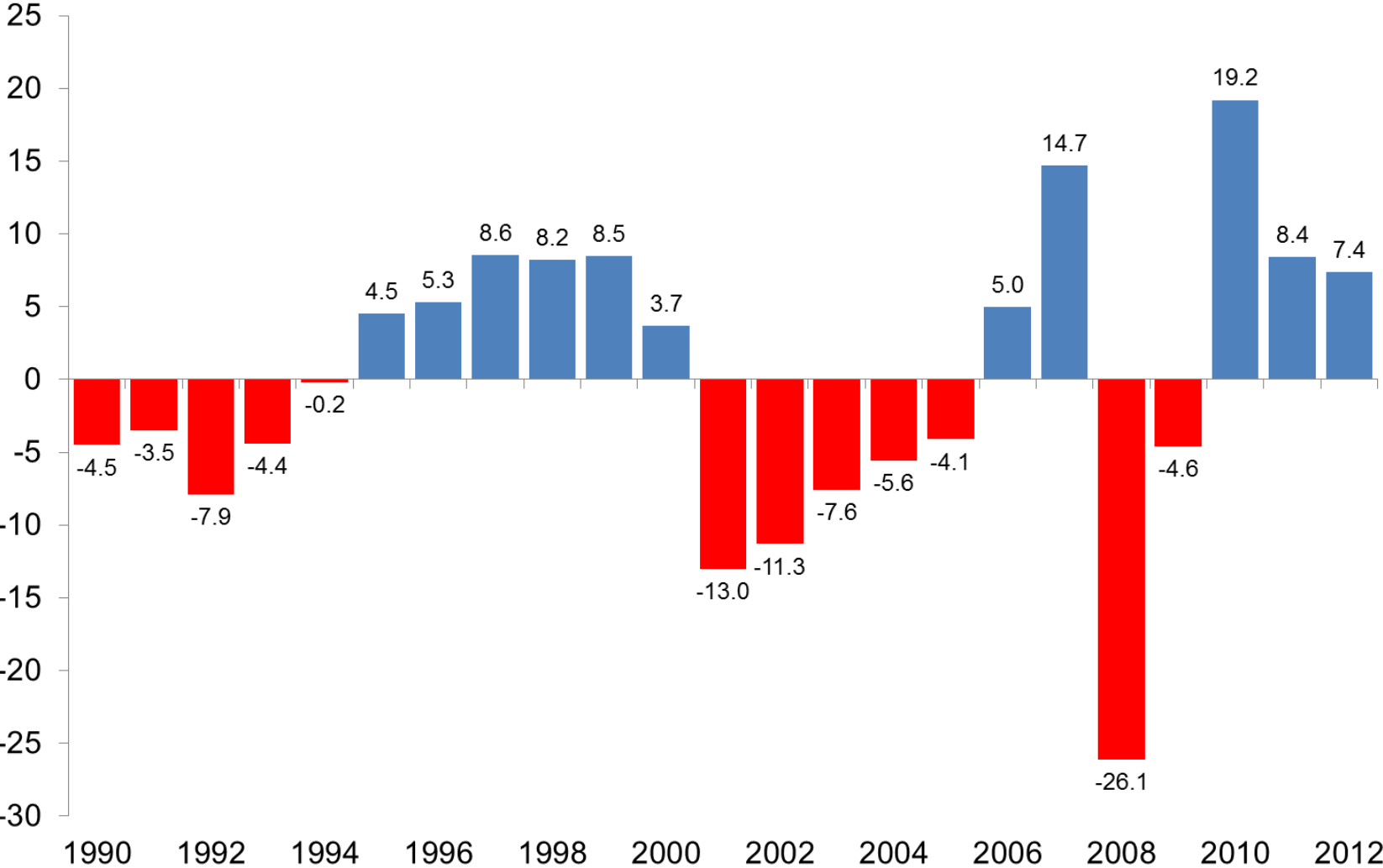


Source: OECD, Standard Chartered Bank

# Periods of profit in the industry are typically short-lived

Average 1990-2012 net profit margin for airlines worldwide was **0.0%**!

Worldwide net profits, US\$ billion



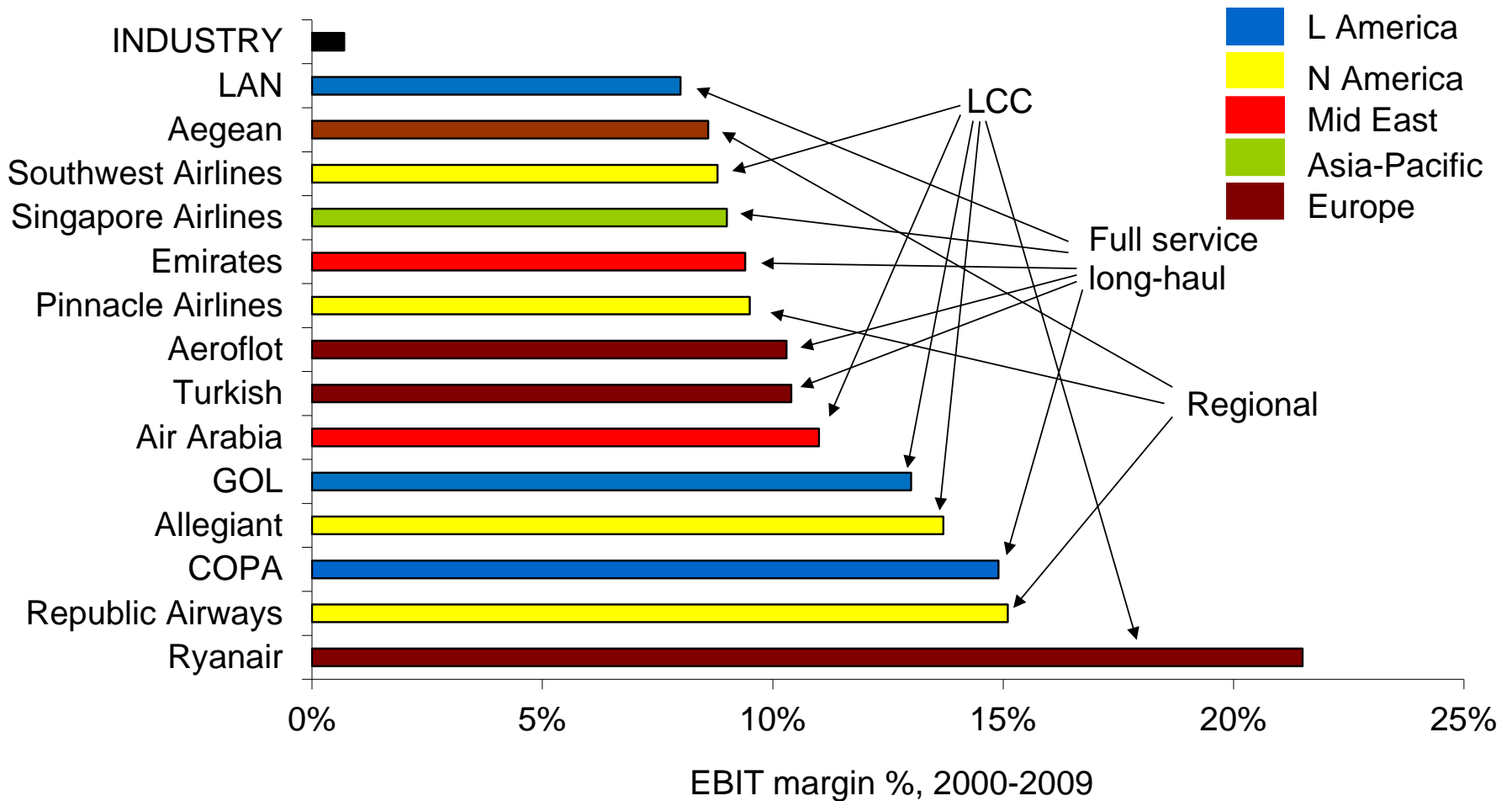
Source: ICAO, IATA



# Lack of profitability not due to business model or region

Airlines generating average EBIT margins of more than 8% during the 2000s

Average EBIT margins, 2000-09

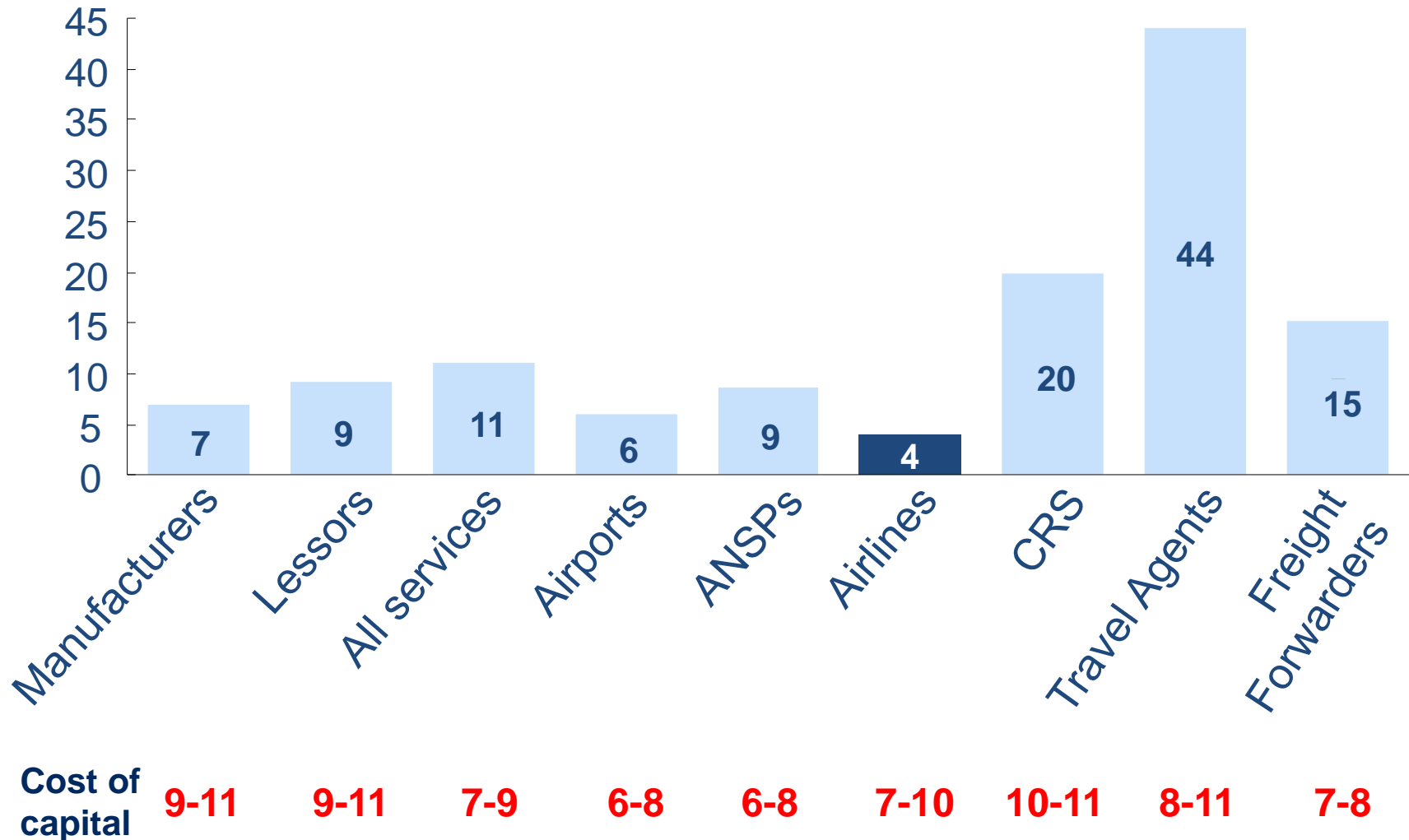


Source: IATA Vision2050 report [http://www.iata.org/pressroom/facts\\_figures/Documents/vision-2050.pdf](http://www.iata.org/pressroom/facts_figures/Documents/vision-2050.pdf)

# Profitability is very unbalanced across the value chain

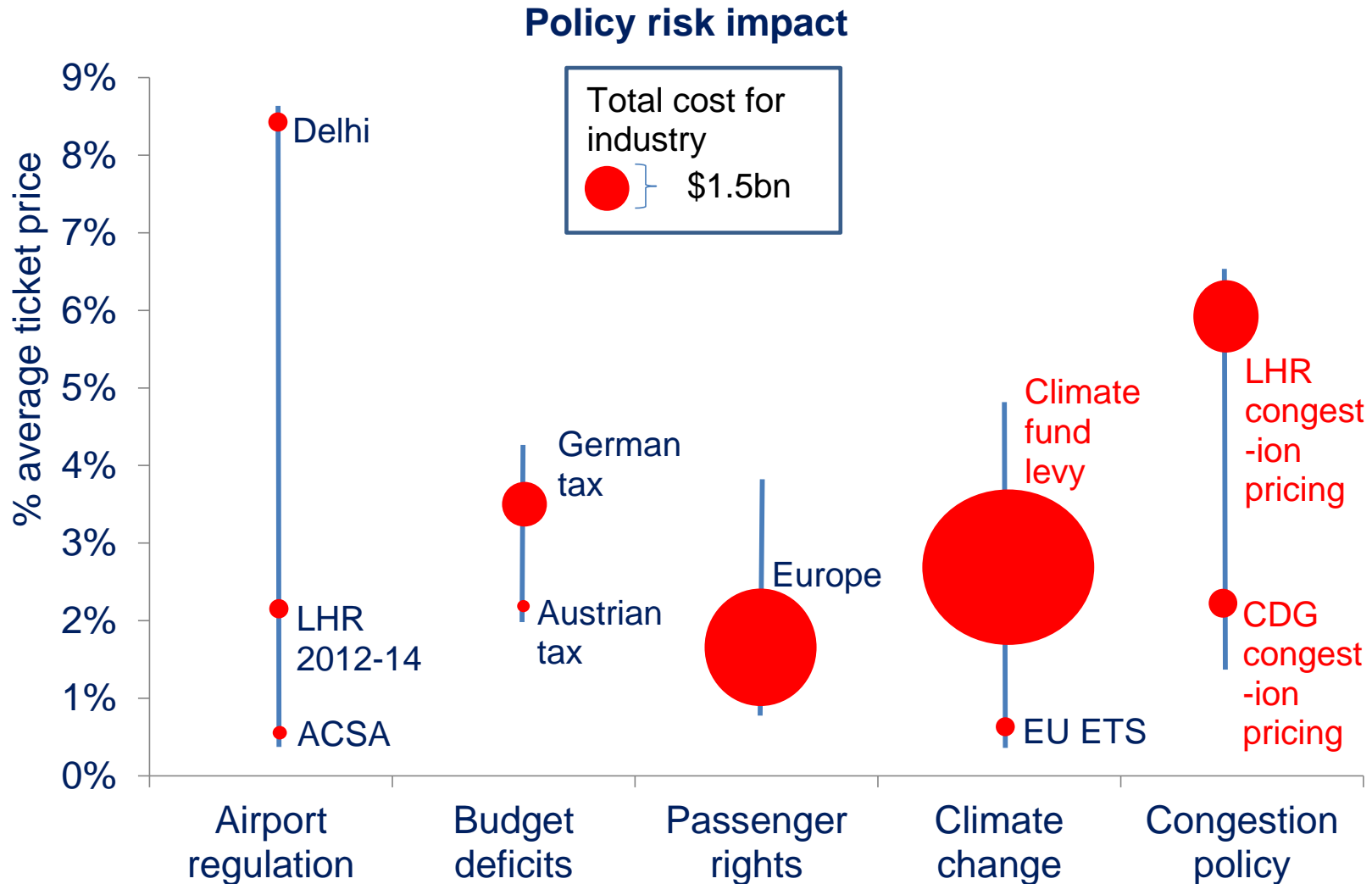
Airlines sit in the middle of the value chain making the least returns

ROIC excluding goodwill of sample, period 2004-2011, %



# Existing and proposed regulation risk significant cost

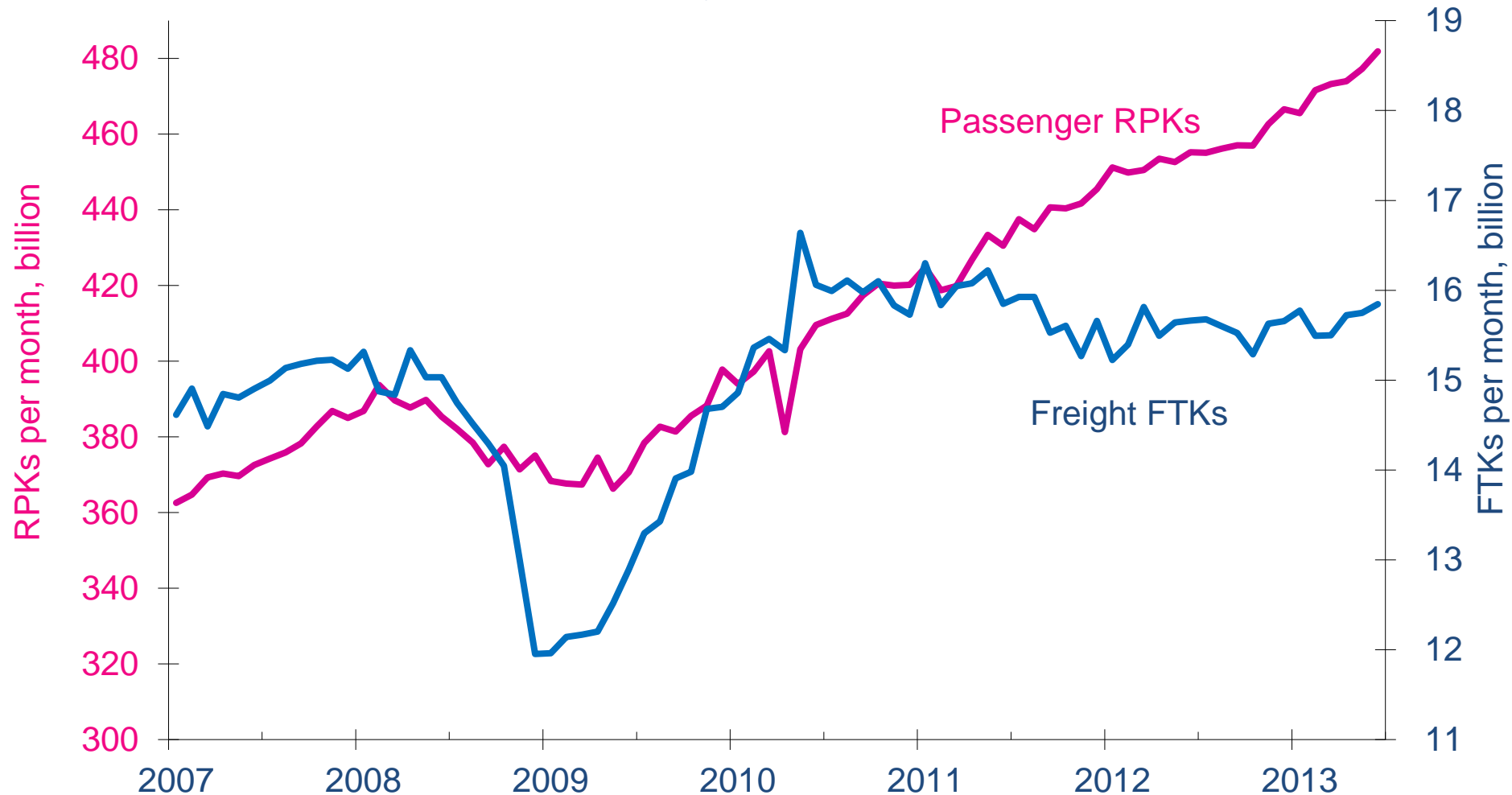
A selection of regulations/policies illustrating industry and market-level costs



Source: IATA

# Demand for air travel and cargo diverge

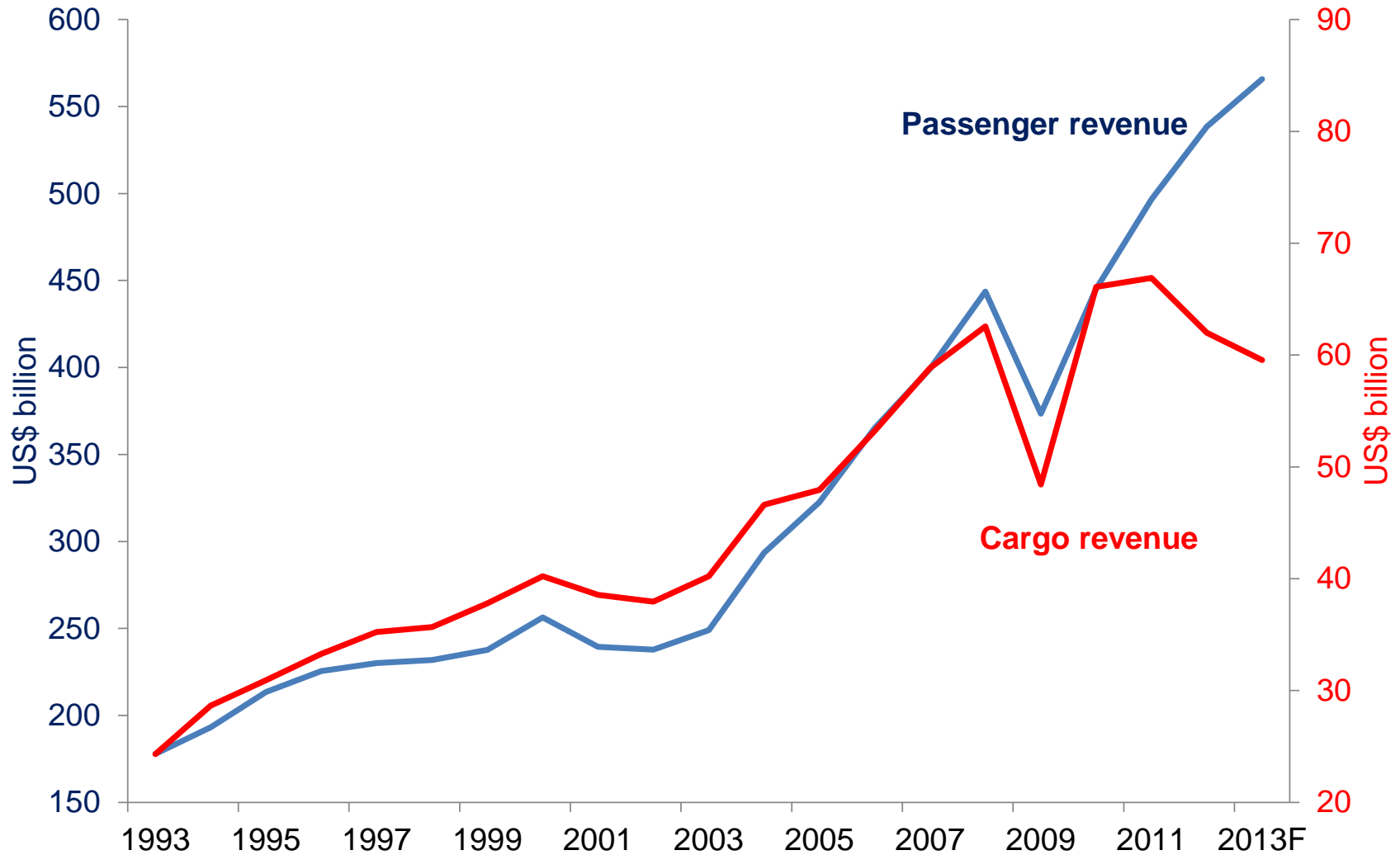
Air travel and air freight volumes  
Seasonally adjusted



Source: IATA

# Revenue divergence greater than volumes

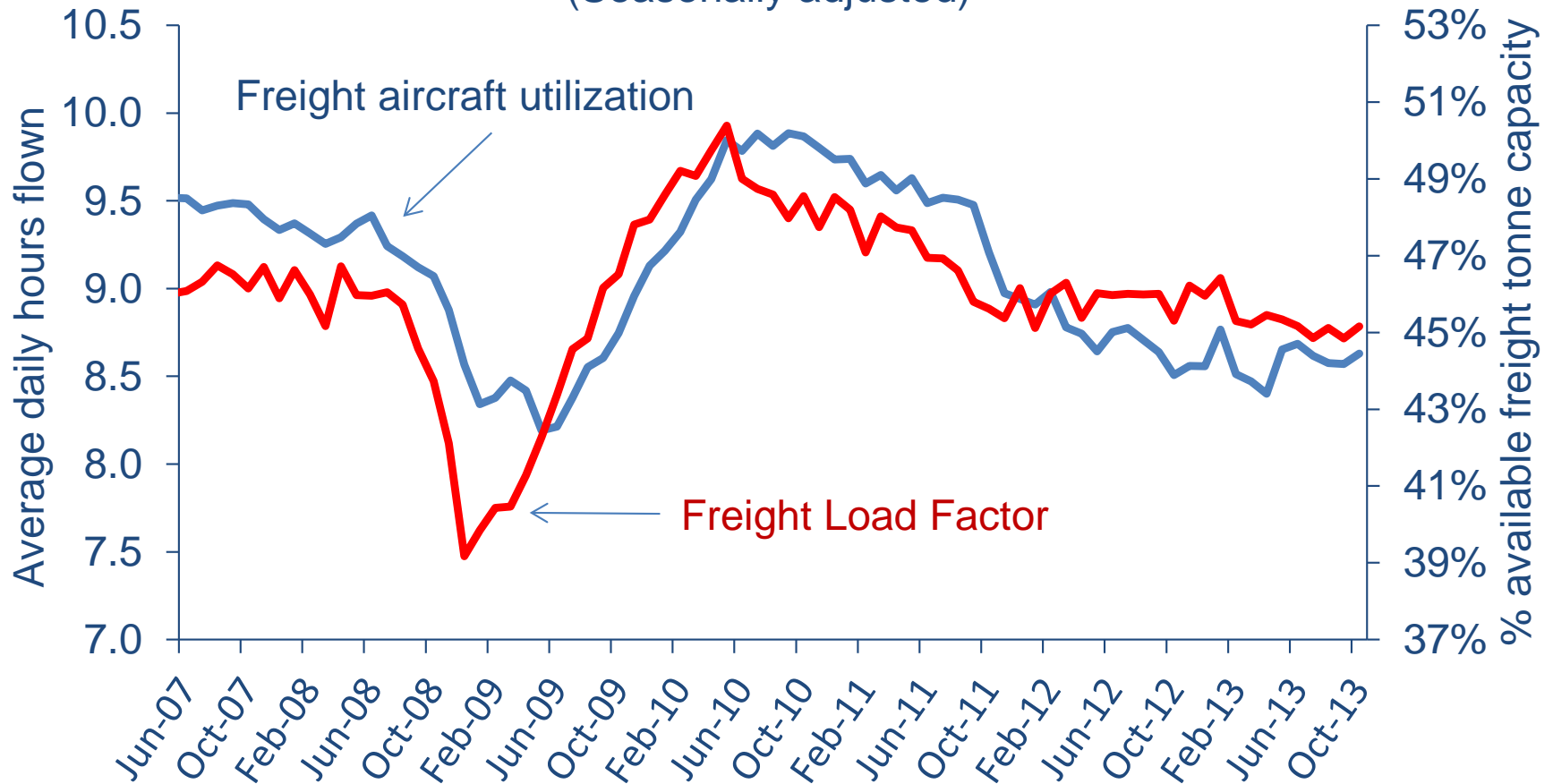
Passenger and cargo revenues



Source: ICAO (history), IATA (forecast)

# Cargo asset utilization under pressure

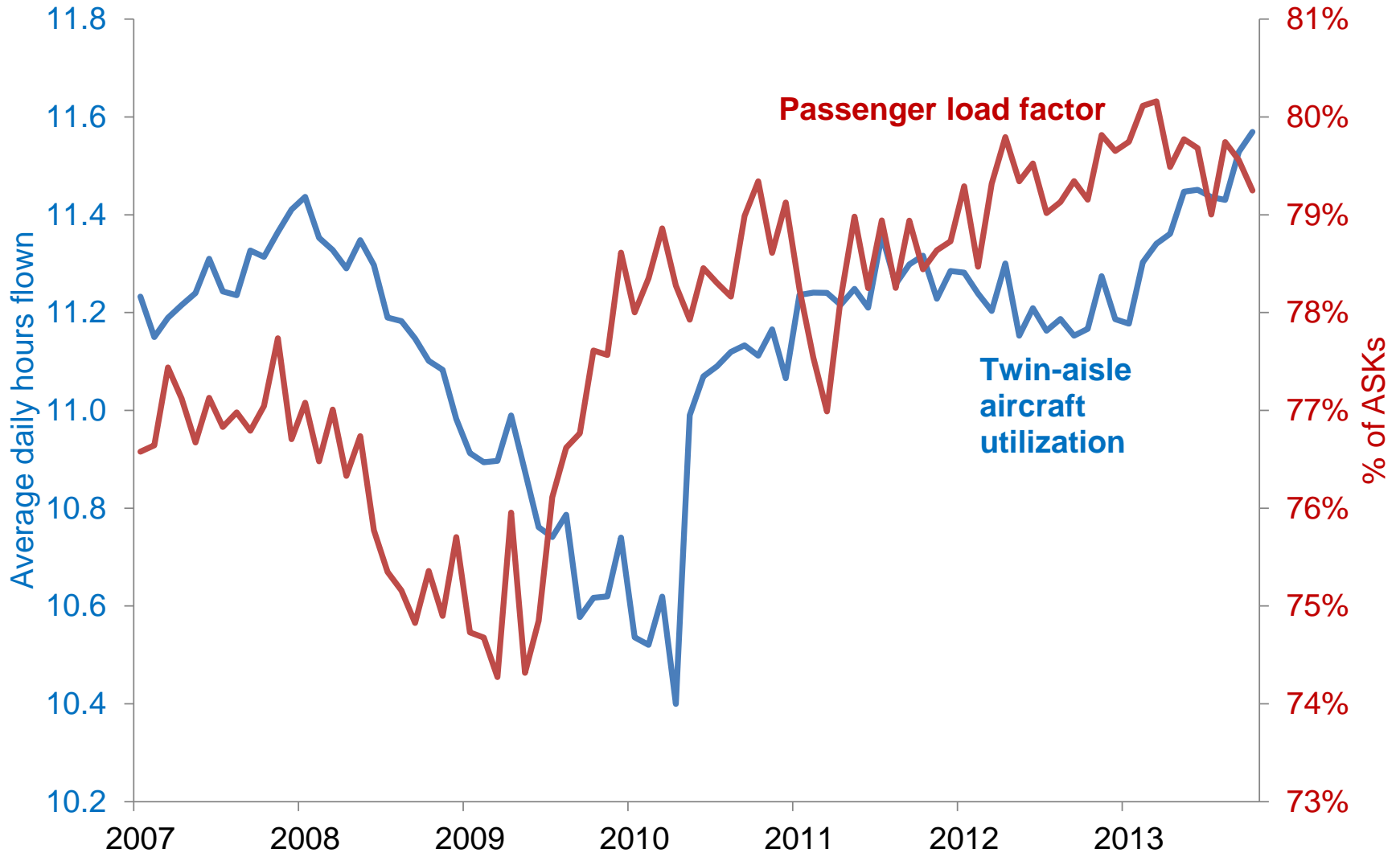
## Freight load factor and freighter aircraft utilization (Seasonally adjusted)



Source: IATA, Boeing

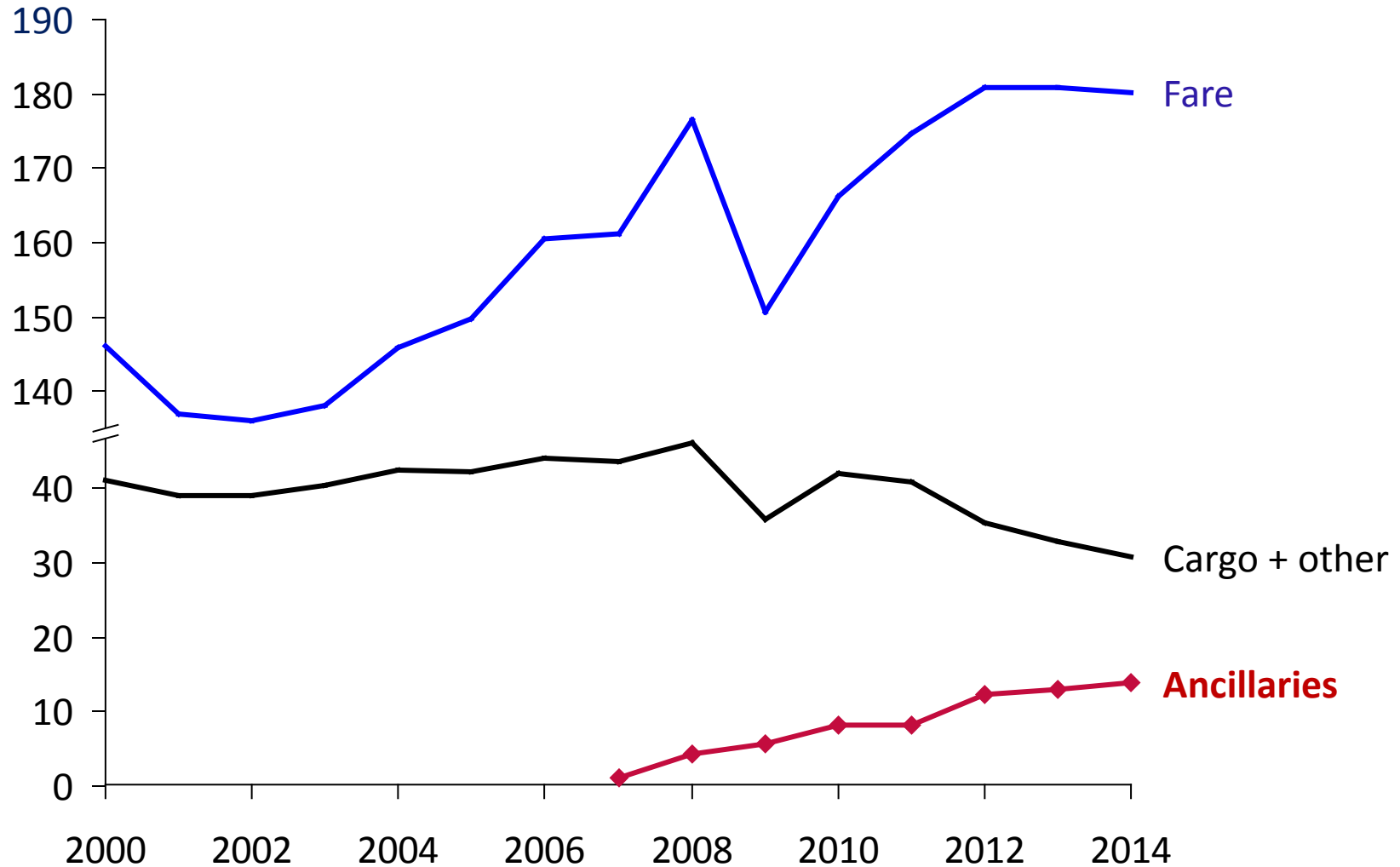
# Asset utilization high in passenger business

## Passenger aircraft utilization



# Ancillary services increasingly important

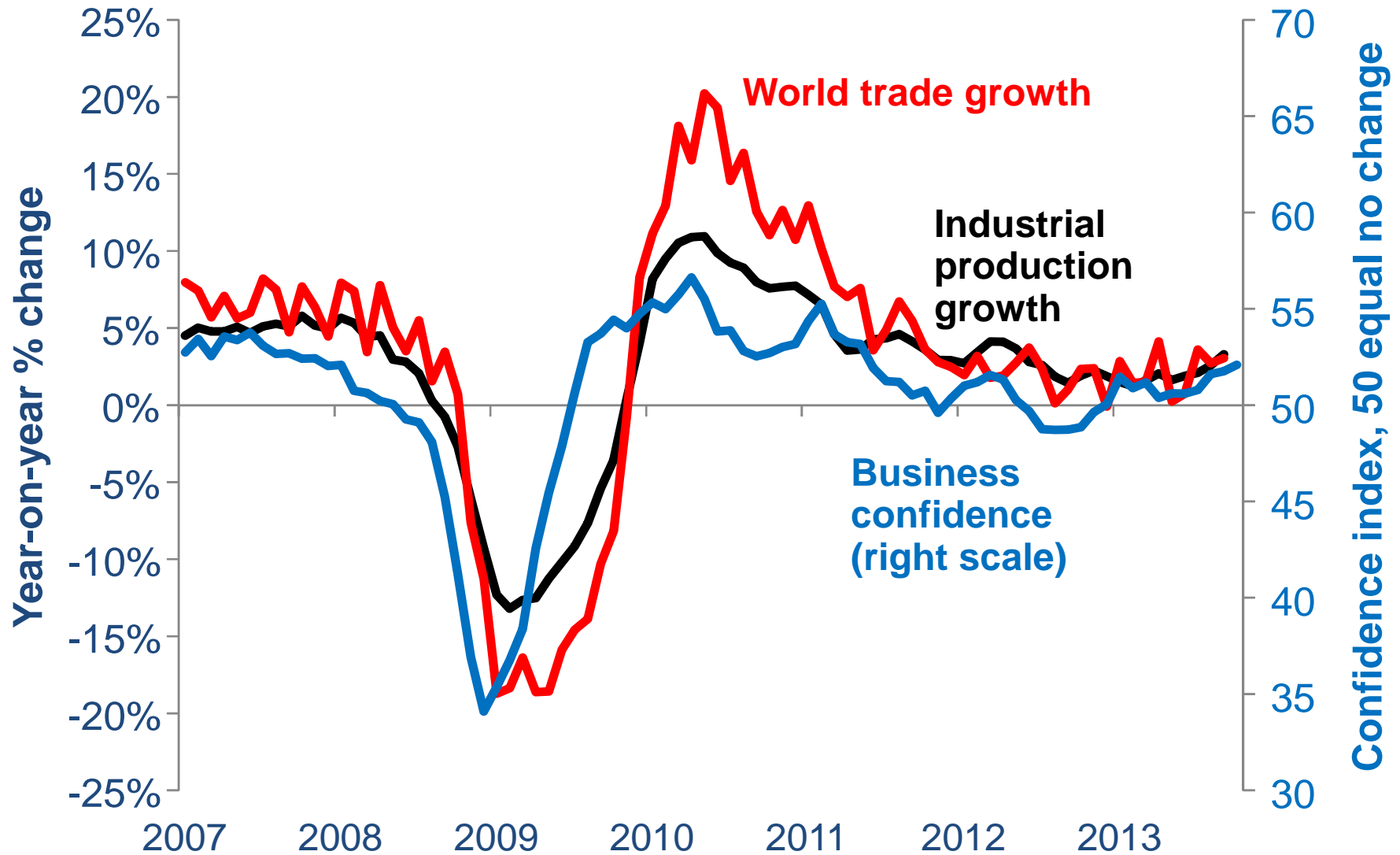
## Revenue per departing passenger



Source: Ancillaries derived from IdeaWorks 2013 report, IATA forecast



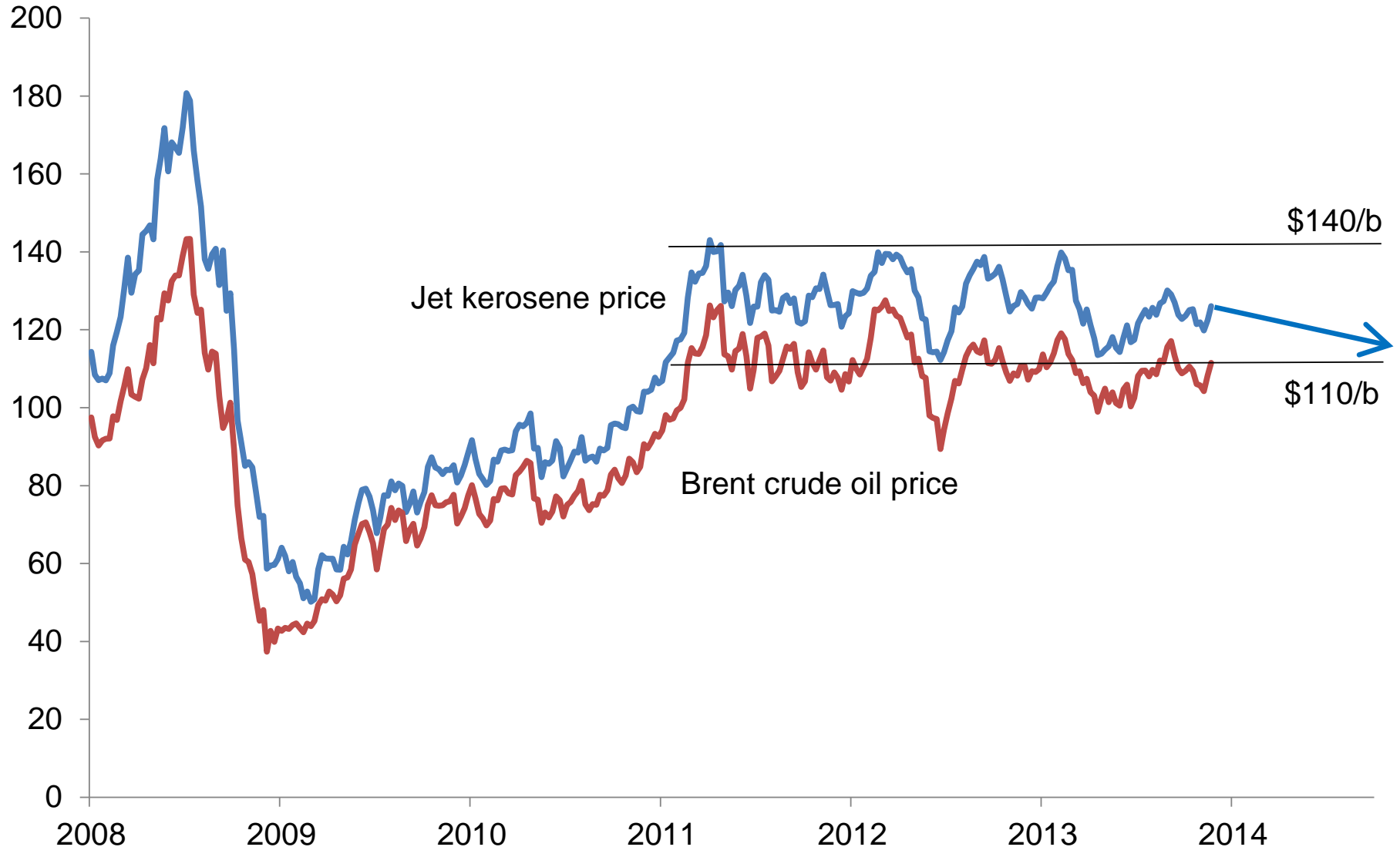
# World economy is finally turning up



Source: Netherlands CPB, Markit

# Jet fuel price to slide to low end of range

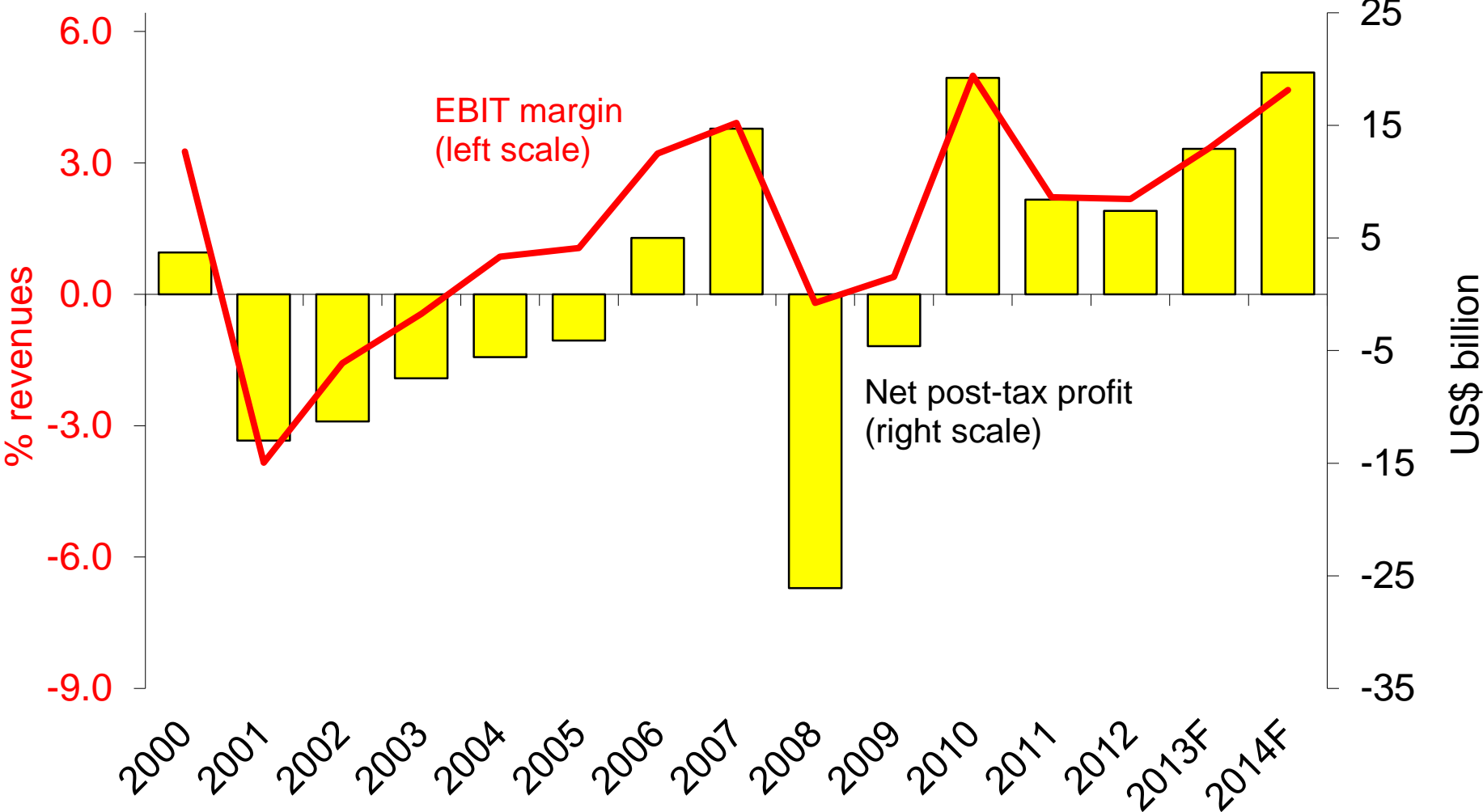
Jet kerosene and crude oil price, \$/barrel



Source: RBS, Platts, IATA

# Industry profitability almost as good as 2010

Global commercial airline profitability



Source: ICAO, IATA

# Better but divergent regional performance

## Airline net post-tax profit margins



Source: ICAO, IATA

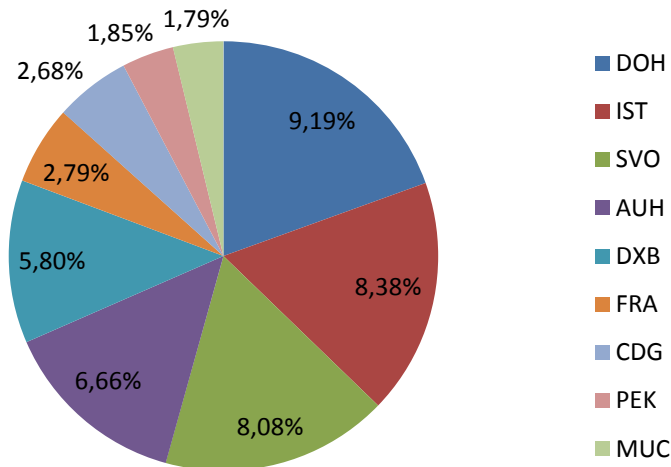
# IATA Business Intelligence data shows opportunities

➤ China-ATH has PDEW of 113. Currently there is no direct flight. People connect through SVO, IST, DXB, AUH, DOH, FRA

**PaxIS Plus Dynamic Table for flights from ALL to ATH for All Classes for travel in Year End Nov13**

*Note: passenger and revenue figures are per day and non-directional.*  
*Non-directional data averages numbers from both directions of travel into a single set of figures.*  
*Note: all fare and revenue values are in US Dollars*

Ori	Origin Country	Stops	De	Data	
DLC	China	PEK-IST	ATH	Reported + Est. Pax	0.00
HAK	China	PEK	ATH	Reported + Est. Pax	0.00
CAN	China	PEK-MAD	ATH	Reported + Est. Pax	0.00
NNG	China	CAN-DOH	ATH	Reported + Est. Pax	0.00
PVG	China	HKG-MXP	ATH	Reported + Est. Pax	0.00
TAO	China	ICN-DXB	ATH	Reported + Est. Pax	0.00
WNZ	China	PEK-AUH	ATH	Reported + Est. Pax	0.00
WNZ	China	PVG-AUH	ATH	Reported + Est. Pax	0.00
XMN	China	CAN-DOH	ATH	Reported + Est. Pax	0.00
XMN	China	CKG-DOH	ATH	Reported + Est. Pax	0.00
XMN	China	HKG-FRA	ATH	Reported + Est. Pax	0.00
XMN	China	HKG-LHR	ATH	Reported + Est. Pax	0.00
XMN	China	PEK-DOH	ATH	Reported + Est. Pax	0.00
YNT	China	PVG-DOH	ATH	Reported + Est. Pax	0.00
<b>Total</b>					<b>13.44</b>



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Ori	Origin Country	Stops	De	Data	
PVG	China	SVO	ATH	Reported + Est. Pax	9.19
PVG	China	DOH	ATH	Reported + Est. Pax	8.68
PVG	China	AUH	ATH	Reported + Est. Pax	7.89
PEK	China	SVO	ATH	Reported + Est. Pax	7.88
PVG	China	IST	ATH	Reported + Est. Pax	7.25
PEK	China	IST	ATH	Reported + Est. Pax	7.07
PEK	China	DXB	ATH	Reported + Est. Pax	6.95
PEK	China	AUH	ATH	Reported + Est. Pax	6.06
CAN	China	DOH	ATH	Reported + Est. Pax	4.62
PVG	China	DXB	ATH	Reported + Est. Pax	4.52
PEK	China	DOH	ATH	Reported + Est. Pax	3.71
CAN	China	IST	ATH	Reported + Est. Pax	3.69
PVG	China	FRA	ATH	Reported + Est. Pax	3.03

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