Trends and Challenges for the Airline Industry

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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

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

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

* % 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
^* 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.

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

Businesses can set up much more efficient global supply chains

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](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

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, %

- Manufacturers: 7%
- Lessors: 9%
- All services: 11%
- Airports: 6%
- ANSPs: 9%
- Airlines: 4%
- CRS: 20%
- Travel Agents: 44%
- Freight Forwarders: 15%

Cost of capital:
- Manufacturers: 9-11%
- Lessors: 9-11%
- All services: 7-9%
- Airports: 6-8%
- ANSPs: 6-8%
- Airlines: 7-10%
- CRS: 10-11%
- Travel Agents: 8-11%
- Freight Forwarders: 7-8%

Source: McKinsey
Existing and proposed regulation risk significant cost
A selection of regulations/policies illustrating industry and market-level costs

Policy risk impact

Source: IATA

IATA Economics www.iata.org/economics
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

Average daily hours flown

Passenger load factor

Twin-aisle aircraft utilization

2007 2008 2009 2010 2011 2012 2013

% of ASKs

73% 74% 75% 76% 77% 78% 79% 80% 81%
Ancillary services increasingly important

Revenue per departing passenger

Source: Ancillaries derived from IdeaWorks 2013 report, IATA forecast

IATA Economics  www.iata.org/economics
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.
IATA Solutions Spectrum

- Gain advantage from passenger loyalty
- Increase the profitability of your network
- Make safety part of your airline’s DNA
- Boost revenue, now and for the future
- Re-orient your business to ensure growth
- Build a future-proof distribution strategy

www.iata.org/solutions
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