



Our Industry Challenges: Dealing with uncertainty

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- In engineering, turbulence is characterized by chaotic, stochastic changes where whose behavior is non-deterministic – like the wake-turbulence of an aircraft



- Our industry is facing the unique conjunction of multiple disruptive factors leading airlines to manage two layers of complexities:
 - *Dynamic changes* in market forces, affecting airlines' operational, commercial and financial performances
 - *Discontinuities* that can be defined as a possible sudden incident with immediate impact
- One of the key characteristics of the current crisis is now the preponderance of **discontinuities vs. dynamic changes**, leading to a much more complex environment characterized by sudden events changing the market landscape

Where do We Stand Today?

\$ 80 billions

Airline Revenue Lost in 2009 vs. 2008

\$ 12 billions

Airline Debt by Q2 2009 vs. \$ 5 b in 2008

65 airlines

Bankrupts in 2008, and 15 more in 2009

- 25 %

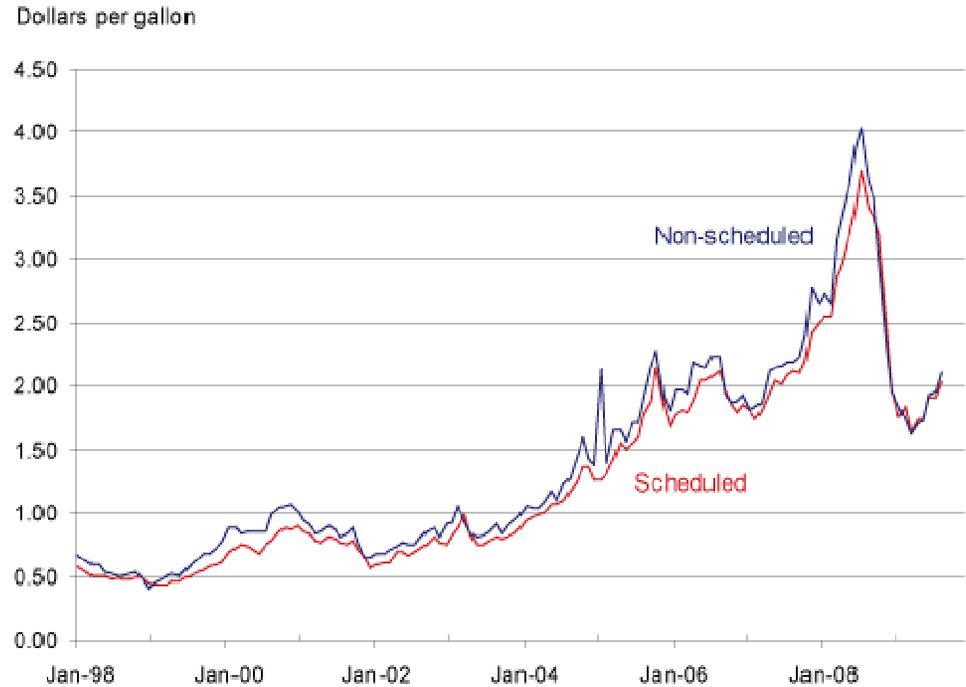
Reduction in Premium Traffic in 2009

We Still have Lots of Challenges Ahead!

FUEL PRICE VOLATILITY

The only certainty with Fuel Price evolution is how the experts went wrong, leading airlines to hedge in 2008... leading to massive losses in 2009 !

The sudden variations of the fuel price generate uncertainty on airline costs and profitability, while investments have to be planned and financed ahead...



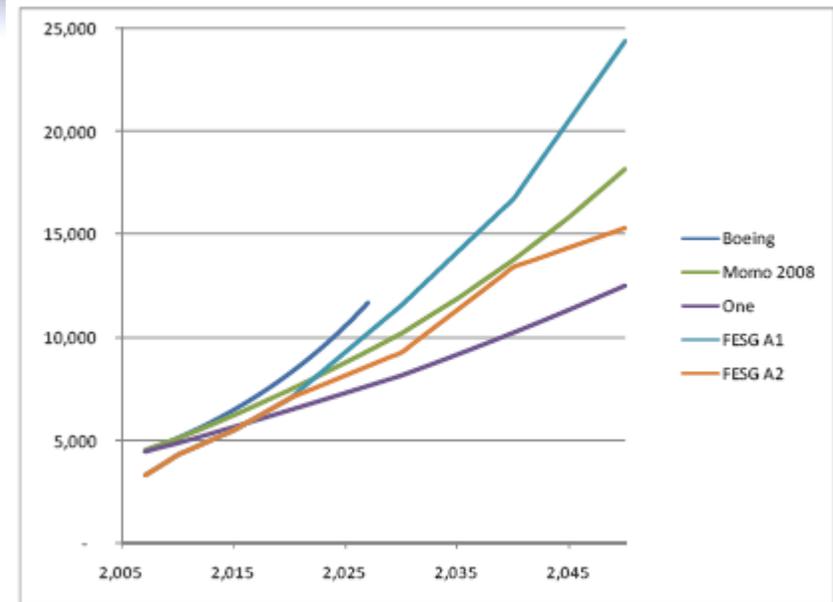
***“Oil prices are seen rising to about \$81 a barrel by December 2010, assuming U.S. and world economic conditions continue to improve”
EIA, Department of Energy, Nov 2009.***

We Still have Lots of Challenges Ahead!

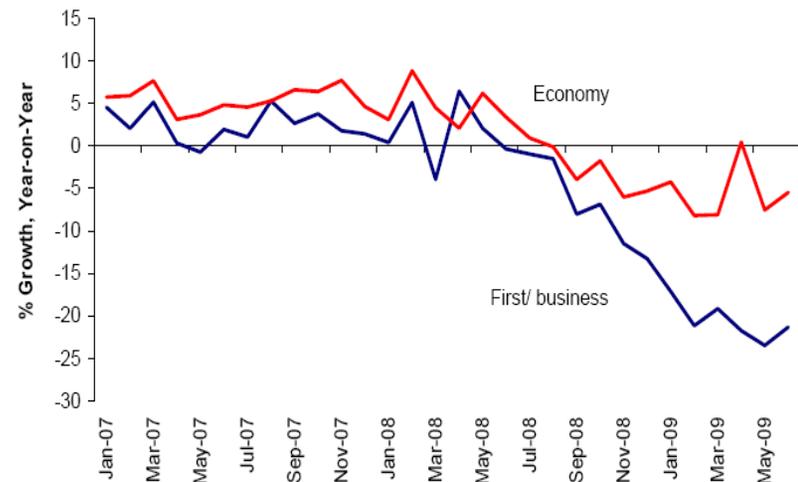
DEMAND VOLATILITY

While the future traffic outlook remain positive on the long term – even with fairly significant variations – the bread and butter of the airline industry, its Premium Traffic, dropped by more than 20%...

In addition, traffic evolution is more fragmented with contrasted regional evolutions and sharp declines or increases...



Passenger Traffic Growth by Ticket Type



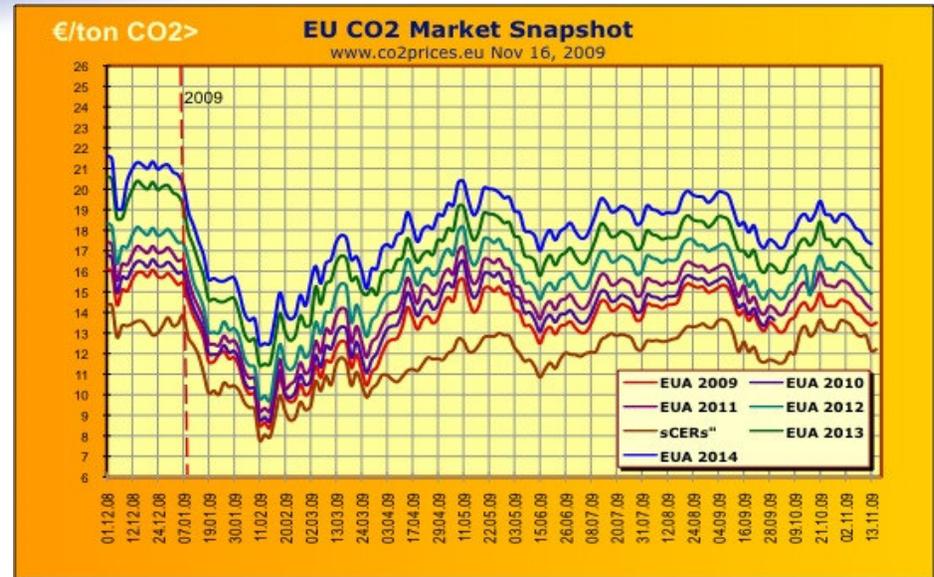
Sources: Sabre, ITF, IATA Confidential

We Still have Lots of Challenges Ahead!

ENVIRONMENTAL SUSTAINABILITY

A recent study that by 2013, ETS will cost \$ 1billion, while airline will be able to pass only 20% of such cost to the passenger, hitting airline profitability by 19%

In addition the risk is to see a patchwork of specific regional or nation emission targets with specific taxes and measurements hampering any sustainable growth and barely manageable in today's airline operations.



“As one of the fastest growing airlines in the world, we recognize that it is important to go beyond the current best industry practices to reach our final goal – carbon neutral growth. What we need now are practicable measures to deal with emissions from aviation, which we do not see incorporated in unilateral enforced emission trading schemes, but as a global solution for the aviation industry”

Chris Schroeder, Qatar Airway's Senior Manager, CSR, Environment and Fuel Optimization, July 2009.

And we Should not Expect a Prompt Recovery!

- We should not expect an other Japanese miracle where, after the collapse of the economy, the Government was able to pump its household savings to funds its deficit and support its investment policy
- The very low saving rate in the North Hemisphere with government debt above 100% of GDP will ultimately rise bonds yield, creating additional financial challenges for our industry and driving down its profitability due to much higher financing costs
- African carriers are at the forefront of the crisis since the capital availability compared to the demand for capital is lower than 70% while above 110% in every other region of the world



Responding to the Turbulence

- **In other Industries, such difficult time is addressed through greater cooperation and consolidation**
 - But our industry is facing national regulatory barriers. Even the recent signature between the European Union, the United States and six other countries of an “Agenda for Freedom” is non binding
- **African carriers are still far away from cooperating, while their neighbors in the Middle-East, even if competing fiercely against each others, have understood the benefits of cooperating**
 - The Arabesk Association groups now more than 9 airlines, attracting even key players such EgyptAir or Etihad
 - It has generated ten of millions of incremental revenue each year for its members, increase the quality of services for the passengers and the number of destinations served by each airlines, and increase savings through joint purchasing initiatives

Responding to the Turbulence

- **While the financial, commercial, operational autonomy of each carrier is preserved, the Arabesk cooperation has been used as a tool to develop synergies and reduce operating costs**
- **This require a true commitment from the African carriers to ease the bilateral constraints, which have prove their inefficiencies, and have fired back to the African carriers**
 - In 2009, the only airlines increasing their market share in Africa are the European and Middle East carriers, stealing traffic and revenue
 - In order to survive, African carriers have to start working together on joint initiatives:
 - Schedule coordination and code-sharing
 - Joint purchasing agreements (fuel, handling, distribution)
 - Operations and Safety and Security joint program
 - Commercial development with a Pan-African web-portal



Responding to the Turbulence

- **Airlines need also to improve their Return on Capital, a much more accurate measure of financial health during such crisis, and improve their net working capital which affects the liquidity and profitability of the company.**
 - Airlines need to show their ability to generate consistently positive cash flow from their operations – an airline is a cash driven business and still poor management of cash in-outflow, as well as cross boarder flows, seems the standard for many airlines that focus on profit only
 - Specifically focus on developing Sales and leveraging revenue management and pricing practices, supported by a strong revenue integrity, would positively improve an airline working capital. Today, African carriers are lagging behind on these commercial practices, while any improvement can generate incremental cash flow and therefore allow airlines to raise working capital from the bank rather than calling for capital market or avoiding to sell and lease back

Responding to the Turbulence

- **Finally, the cost component in Flight Operations is putting increased pressure on airlines, specifically regarding irregular operations**
 - Air Transport Association estimates that direct delay costs average \$40 per minute of delay. That does not include indirect delay costs, such as lost revenues for transferring passengers who miss their connections. When the indirect delay costs are included, the total delay cost can easily double or triple, with poor OTP costs equaling millions of dollars every year for many carriers
 - On Time Performance and delays in Operations Recovery are nothing than just a revelator of inefficient procedures and current practices that do not resist under the stress of irregular operations
 - African carriers need to proactively improve their operational practices to generate and implement best practices, as well as invest in efficient decision support tools to address simultaneously aircraft, crew, and passengers disruptions

Conclusion

- **The best way for African airlines to foster a thriving aviation marketplace is to actively work toward improvement:**
 - Turnaround commercial, financial and operational performance
 - Joint cooperation and revenue initiatives with the support of AFRAA
 - Set up a strong operational knowledge and practices
 - And open up the market: this will encourage private investment and sector growth!