Airline and airport managers are cautiously positive about the future of European aviation. However, fundamental changes are underway. The industry players might be forced to adapt to the new realities quicker than currently anticipated.
The trends and situation analysis shown in this survey summarize the views of 62 top managers of 42 leading companies of the aviation industry.

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Aviation managers draw a mixed picture of the European aviation industry – Fast and fundamental changes anticipated (1/2)

**PERCEIVED ECONOMIC SITUATION**

The current overall economic situation in Europe is rated negatively; However, managers draw a differentiated economic picture of their home countries. While Southern Europe is seen as very negative, other countries show a wider performance spread.

Managers indicate a negative impact on passenger demand in due since early 2012. Positive signs come from air cargo managers who see chances for improvement.

**MAIN TRENDS**

Managers are aligned in their judgment – The European aviation industry faces fundamental changes with potential deeper impacts than currently seen. Transformation will be funneled by both LCCs, Asian/Middle Eastern carriers and a potentially accelerated exit of European airlines.

Increasing regulatory restrictions (e.g. night flight bans, noise or security regulations) and stricter anti-trust rules for cooperation & mergers will foster additional operational challenges.

A further fuel price increase is shared by all survey participants as the most likely macroeconomic scenario for 2013.

**TRAFFIC EXPECTATIONS**

Airline and airport managers expect further demand growth, but are aligned in expecting demand to be below IATA forecast for 2013.

Positive signs come from air cargo with chances for stronger improvement versus IATA – This is of interest as air cargo is often a reliable early indicator for economic trend changes.

Aviation managers draw a mixed picture of the European aviation industry – Fast and fundamental changes anticipated (2/2)

RESULTS AT A GLANCE

ECONOMIC OUTLOOK

Despite current negative economic judgment, positive overall outlook expected for 2013 by all participating managers. This forecast show in contrast to a rather mediocre performance in a difficult 2012 environment.

TOP PRIORITIES

Participants voice different priorities

While passenger airlines currently focus strongly on cost cutting activities, air cargo airlines have a more balanced focus on revenue improvement and cost reduction and innovation management.

Airports predominately push for cost and innovation activities as well as for acquisition of new airline customers.

OPPORTUNITIES

Passenger airlines see opportunities in strengthening the individual market position through alliances/Joint-Ventures; acquisitions currently not in focus.

For cargo airlines gaining new customers through product differentiation offers a significant opportunity for growth.

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
The perceived industry status calls for further activities: Based on survey findings, five examples outlined for managing challenges ahead (1/2)

1. MANAGING UNCERTAINTIES & VOLATILITY

Positive 2013 outlook stands in contrast to an overall negative economic climate and an expected strong change in the competitive landscape. A potentially accelerated exit of airlines (96%) might bear higher than currently anticipated risks (e.g. short-fall of airport revenues, new competition levels, different infrastructural requirements, etc.)

→ A scenario-based planning approach incl. identification of critical uncertainties and their impacts helps to identify relevant options, their effects and required (counter)measures

2. ESCAPING THE COMMODITY TRAP

Business model convergence (92%), increasing customer price sensitivity (83%) and acceptance of LCCs (96%) will worsen the 'commodity trap' for airlines. Achieving yield increase (81%) might be more difficult and drive revenue shortfalls. Although 92% of managers see trend to unbundled product offering, only 55% focus on its implementation

→ Unlocking new income sources for airlines through revenue/service initiatives skimming the customer's willingness to pay are therefore imperative for future sustainability

3. EMBRACING THE REGULATORY CHALLENGES

Increasing importance of JVs with ATI (74%) combined with potentially more restrictive antitrust rules will drive new limitations for alliances/JVs. Players might face additional complexity with negative impact on profits

→ Reviewing the success factors of JVs and identifying required steering rules will be key, especially when involving partners of different size

(x%) percentage of managers quoting relevance of trend and/or importance of measure

Source: Roland Berger Strategy Consultants
The perceived industry status calls for further activities: Based on survey findings, five examples outlined for managing challenges ahead (2/2)

4. UNLOCKING BENEFITS ALONG THE VALUE CHAIN

- Deeper cooperation of airlines with key suppliers (50%) and new cooperation models between airports/airlines (76%) are on the activity radar of managers, but potentially not pushed enough despite the joint aim to improve efficiency and effectiveness.

- Closer cooperation/strategic partnering at key interfaces (e.g. airline-airport, airline-caterer, airline-ground handler) and an elimination of restrictions, redefinition of processes, joint approaches to develop traffic, etc. will generate benefits, improve the competitive position and generate growth for both airports and airlines.

5. REVIEWING THE TRANSFORMATION IMPACT

- Further growth of both Middle Eastern carrier (92%) and LCCs (79%) combined with an increasing acceptance of these transportation models (87%, 96%) might have a strong impact on traffic flows and also affect airports (e.g. infrastructure, traffic volumes, revenues).

- Airports should review the potential effect of these structural shifts and assess the impact on volumes, revenues and profits as well as operational and infrastructural needs.
The AVIATION RADAR is part of the publications of the Roland Berger competence center for transportation

Further studies and issue papers (selection)

**CURRENT CHALLENGES OF EUROPEAN AIRLINES**
Comprehensive review of recent macroeconomic, demand, offer and yield developments

**SCENARIOS FOR THE EUROPEAN AVIATION SECTOR**
Scenario study showing alternative developments of European carriers due to potential shifts of consumer behavior and a changed competitive landscape

**HEALTH CHECK ADDRESSING THE PROFITABILITY CHALLENGE**
Systematic review and optimization of the airline and airport revenue and cost value chain levers, measures, best-in-class cases

**AIRPORT PERFORMANCE ASSESSMENT**
Benchmark outlining top/lowlow performing airports incl. identification of key trends affecting the future of the airport industry

**RESHAPING THE BUSINESS MODEL OF AIRLINES**
Comprehensive business model redesign incl. reference cases what airlines could learn from other industries

**AIRLINE JOINT VENTURES – OUTLOOK & SUCCESS FACTORS**
Study on airline joint ventures on alternative cooperation models, benefits and challenges
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B  Further details on the survey and contacts  18
A. How aviation managers judge the current situation and outlook for the European aviation
The current economic situation is rated negatively – More positive view from the Central European area

Assessment of the current economic situation in Europe by main countries of participants

EUROPE OVERALL

n = 61

very positive | somewhat positive | neutral | somewhat negative | very negative

0% | 8% | 25% | 61% | 7%

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Managers indicate a negative impact on demand due to the perceived economic situation since early 2012 – Positive signs on air cargo side

Impact assessment of perceived economic situation on demand by segments

**DID the perceived ECONOMIC SITUATION INFLUENCE DEMAND?**

- **PAX AIRLINES**
  - No: 32%
  - Yes, deterioration: 68%
  - Yes, improvement: 0%

- **AIR CARGO AIRLINES**
  - No: 25%
  - Yes, deterioration: 17%
  - Yes, improvement: 58%

- **AIRPORTS**
  - No: 16%
  - Yes, deterioration: 80%
  - Yes, improvement: 0%

**IF YES, HOW AND SINCE WHEN?**

<table>
<thead>
<tr>
<th>Segment</th>
<th>DETERIORATION SINCE</th>
<th>IMPROVEMENT SINCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1 2012</td>
<td>H2 2012</td>
</tr>
<tr>
<td>PAX AIRLINES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>52%</td>
<td>16%</td>
</tr>
<tr>
<td>Yes, deterioration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIR CARGO AIRLINES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>41%</td>
<td>17%</td>
</tr>
<tr>
<td>Yes, deterioration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIRPORTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Yes, deterioration</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Further fuel price increase is shared by all participants as the most likely scenario for 2013 – Air cargo managers believe in a recovery of Europe.

Likelihood of economic scenarios in the coming 12 months [# participants judging scenario as relative likely]

- Risk of increasing fuel prices judged relatively high compared to all other scenarios with a significant negative impact to the economic performance of airlines.
- Likelihood of a recovery of the European economy seen rather low – only air cargo managers are more optimistic.
- Other economies expected to remain stable.

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
MANAGEMENT ALIGNED IN THEIR JUDGMENT – EUROPEAN AVIATION INDUSTRY FACES FUNDAMENTAL CHANGES WITH POTENTIAL DEEPER IMPACTS THAN CURRENTLY SEEN

EXPECTED MAIN TRENDS BY SEGMENTS

<table>
<thead>
<tr>
<th>PASSENGER AIRLINES</th>
<th>AIR CARGO AIRLINES</th>
<th>AIRPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Stable demand combined with increasing price sensitivity of travelers</td>
<td>&gt; Stable demand of more demanding customers with regard to price attractiveness and quality</td>
<td>&gt; Fundamental change of passenger airline business model</td>
</tr>
<tr>
<td>&gt; Further stepping up of the competitive environment with network/full service carriers being stuck between LCCs and players from emerging markets (mainly ME)</td>
<td>&gt; Further growth of premium product capabilities/capacities</td>
<td>&gt; Intensification of overall competitive level and accelerated consolidation/ exits of cargo airline players</td>
</tr>
<tr>
<td>&gt; Consolidation of suppliers combined with increase of prices above inflation rates</td>
<td>&gt; Competitive environment fueled by expansion of Asian/ Middle Eastern carrier and potentially accelerated consolidation</td>
<td>&gt; Increasing pressure from airlines with regard to reduction of airport charges</td>
</tr>
<tr>
<td>&gt; Further deterioration of operational freedom due to increasing regulations (e.g. night flight bans, cooperation/ merger rules, security)</td>
<td>&gt; Increasing capacity constraints at major airports</td>
<td>&gt; Extension of night flight bans combined with stricter noise emission rules</td>
</tr>
</tbody>
</table>

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Pressure of LCCs and Asian/ Middle Eastern carrier will funnel the European aviation transformation – Airlines more critical than airports

Rated trends for passenger services by airline and airport managers [judged as likely, # of quotes]

**DEVELOPMENT OF COMPETITIVE ENVIRONMENT**

- Accelerated consolidation/ exits of airlines [80%, 96%]
- Further expansion of LCCs in Intra-European traffic [64%, 79%]
- Further expansion of Asian/ Middle Eastern Airlines in Europe [88%, 88%]
- Expansion of bans on night flights [71%, 65%]
- Ongoing high/strict security regulations for passenger services [55%, 75%]

**MEASURES OF PLAYERS**

- Further adaptations full service carrier towards LCC product offering on intra EU flights [92%, 92%]
- Transfer of intra EU flights from full service carrier to new/lower cost entities [87%, 91%]
- Increased trend to unbundled product offering by airlines [52%, 92%]
- Increased targeting of corporate customers by LCCs [72%, 86%]
- Further liberalization of traffic rights (incl. Asian & Middle Eastern carriers) [42%, 29%]
- Increased importance of joint ventures with ATI [25%, 74%]
- Suspension/review of EU’s unilateral emission trading scheme [48%, 48%]

**REGULATORY ISSUES**

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
CONSEQUENCES – TRAFFIC EXPECTATIONS

Airline & airport managers aligned in their below IATA demand forecast expectation – Air cargo managers bullish on long-haul compared to IATA

2013 expected demand growth by segments and participants vs. IATA forecast

<table>
<thead>
<tr>
<th>PASSENGER DEMAND relative to the IATA forecast 2013</th>
<th>AIR CARGO DEMAND relative to the IATA forecast 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IATA</strong>&lt;sup&gt;1)&lt;/sup&gt;</td>
<td><strong>Judgment by participants</strong></td>
</tr>
<tr>
<td>European short-/medium haul traffic</td>
<td></td>
</tr>
<tr>
<td>+3.4%</td>
<td>Better 8%</td>
</tr>
<tr>
<td>Long-haul traffic from/to Europe</td>
<td></td>
</tr>
<tr>
<td>+5.1%</td>
<td>Better 20%16%</td>
</tr>
</tbody>
</table>

1) IATA forecast 2013 as of October 2012

Positive overall outlook expected for 2013 by all participating managers after rather mediocre performance in a difficult 2012 environment

Judgment of current and future business situation (based on quoted development to previous period)

**CURRENT PERFORMANCE 2012 vs. 2011**

- **PASSENGER AIRLINES**
  - Mixed development with 57% reporting improving and 38% declining EBITs
  - Changes fueled by improving volumes (64%) and yields (68%); mixed picture on costs

- **CARGO AIRLINES**
  - Weak development with only 33% reporting improving and 56% declining EBITs
  - Changes driven by declining volumes (70%)

- **AIRPORTS**
  - Mixed development with 55% reporting improving and 40% declining EBITs
  - Changes due increasing revenue (76% non-airaviation, 55% aviation) but also cost (71%)

**OUTLOOK 2013**

- **PASSENGER AIRLINES**
  - Optimistic outlook with 75% expecting EBIT improvements and 5% a decline
  - Changes fueled by improving volumes (86%)/ yields (70%); mixed picture on costs

- **CARGO AIRLINES**
  - Positive outlook with 100% expecting EBIT improvements
  - Changes driven by improving volumes and better managed costs

- **AIRPORTS**
  - Optimistic outlook with 65% expecting EBIT improvement and only 20% decline
  - Changes driven due to revenue increase (76% non-airaviation, 71% aviation), but also cost increase (57%)

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Participants voiced different priorities – passenger airlines strongly focused on cost management

Overview of outlined management priorities by segments

CONSORTIUM IMPROVEMENT FOCUS BY AREAS

RANKING OF RELATIVE PRIORITIES (% OF QUOTES JUDGED AS LIKELY)

LOWER HIGHER

Revenue enhancement

Cost improvement

Network & fleet development

Innovations

Airlines pax Airlines Cargo Airport

68% 68% 48%

80% 65% 64%

61% 46% –

60% 66% 71%

> Passenger airlines predominantly focusing on cost activities (highest value of all segments) – Relative lower focus on innovations compared to others

> Cargo airlines with a balanced focus on all three levers revenues, costs and innovations

> Airports with stronger focus on costs and innovations. On Revenue side higher focus on acquisition of new customers

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
B. Further details on the survey
62 top managers from 42 companies participated in the survey and voiced their opinion on the market and company situation.

**ON THE SURVEY**

- Aviation industry facing (again) major challenges due to the current weak economic situation in many European markets, strong fuel price increases and fierce competition.

- Players have launched efficiency improvement programs to counter these developments and secure economic sustainability.

- From January 31 to February 28, 2013, over 60 CEOs, CFOs, business development and operational heads of European passenger and cargo airlines as well as airports shared their opinion with regard to the current status of the European aviation industry and their companies.

- The survey was based on a structured multiple choice questionnaire and aims at providing a holistic (qualitative) picture on how top managers see their industry.

- Analyses and interpretation conducted by Roland Berger Strategy Consultants.

**SURVEY AREAS**

- Perceived economic situation in Europe, its impact on demand for air traffic and most likely economic scenarios.

- Expected trends on consumer/ client, competitor, supplier and regulatory side?

- Perceived current company performance and outlook for 2013.

- Considered activities in response to the changed market environment.

- Expected opportunities.

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
The size and variety of our sample allows a good snapshot of the business mood in the aviation industry

Overview of participants

SEGMENT SHARE [%]

- Full service pax airline: 24%
- Low frill/hybrid/charter pax airline: 13%
- Regional pax airline: 6%
- Pure freighter airline: 5%
- Freighter & belly cargo airline: 3%
- Air cargo subsidiary of logistic company/integrator: 6%
- Major airport operator: 11%
- Medium/smaller sized airport operator: 23%
- Airport group operator: 6%

Airports [40%]  Passenger Airlines [42%]  Air Cargo Airlines [18%]

Annual sales [EUR m]

- >5,000: 16%
- 2,000-5,000: 19%
- 500-2,000: 28%
- <500: 37%

COMPANY SIZE

Source: Roland Berger Aviation Radar: "Assessing the status of the Aviation Industry in 2013"
Disclaimer

This document was created based on a top management survey of the European Aviation industry. Roland Berger Strategy Consultants assumes that the answers provided by the participants are truthful and exact. Roland Berger Strategy Consultants does not assume any responsibility for the completeness and accuracy of any of the survey answers made available.

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This presentation reflects the situation of March 28, 2013 and will not be updated.