Airline Business Strategy

Driver for Aircraft Financing

Dr Emre Serpen
Executive Vice President and Head of Airline Practice

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InterVISTAS is the Leading Aviation Consulting Specialist – *Exclusively Focused on Aviation*

- Parent company Royal Haskoning/DHV has strong aviation engineering and consulting component and over 9000 staff worldwide;
- Established in 1997;
- Over 400 clients worldwide;
- Project experience in 60 countries;
- 80 professionals in 10 offices;
- Extensive airline expertise;
- Airline process model;
- Extensive airline and airport experiences worldwide.
InterVISTAS’ Client Experiences

Selected current/recent clients

- Qantas
- Malaysian Airlines
- Garuda
- Turkish Airlines
- MAZ Holding
- DAS Holding
- Oman Airways
- Sri Lanka Airlines
- RAK Airlines
- Royal Jordanian
- Porter Airlines
- Etihad
- British Airways
- Amadeus
- Belleair

Regions

- Europe
- Middle East
- South Asia
- Eastern Europe

Sectors

- Airlines
- MRO
- Cargo & Logistics
- Investors

Team Members’ Client Experiences: 60+ Airlines
**Strategy and Finance**

- **Strategy** – Develop strategy, feasibility studies and business planning
  - Market Forecasting (Airline, Airport, MRO, Cargo)
  - Start up Airline and MRO Feasibility and Business Plan
  - Mergers and Acquisitions Planning

- **Network and Fleet Planning** – Develop and optimise network and route plans for airlines
  - Route Planning and Schedule Development, Alliances
  - Hub Design and Optimization, Slot Remarketing
  - Fleet Planning, Aircraft Leasing and Remarketing

- **Financial Services** – Evaluate airline investment opportunities
  - Due Diligence (Airline, Airport, MRO, Cargo, GH)
  - Privatization and Spin-off and Financing of Airline, MRO, Pilot School, GH, Cargo

**IT Strategy**

**Performance Improvement**

- **Commercial Improvement** – Airline revenue improvement
  - Pricing and Revenue Management
  - Marketing, Sales and Distribution
  - Technology Solutions supporting revenue growth

- **Operations Improvement** – Airline productivity improvement and cost reduction
  - Diagnostic and Cost Reduction
  - MRO
  - Crew Resource Management
  - Integrated Operations Control

- **Restructuring & Change Management** – Airline transformation and turnaround
  - Restructuring (Airline, MRO, Cargo, Aerospace)
  - Start up Implementation
  - Performance Management
  - Organization Improvement and Change Management.

**IT Implementation**
Stakeholders Require Comprehensive Business Plan Prior to Sanctioning Fleet Decisions

Reasons for airlines’ strategy review projects often are prompted by fleet financing:

- Delayed fleet renewal decisions causes airlines to fly operationally expensive aircraft with high and maintenance costs.
- Governments not willing to provide funds for flag carriers with operating losses and require detailed business plan.
- Current conditions make fleet financing difficult for many airlines. They cannot raise finance from local banks and they need to access capital markets.
- Start up carriers below profitability targets are not funded by owners/holding companies.
- Incorrect fleet decisions, increased competitor activity and unrealistic growth rates can cause stakeholders to review risk exposure and require detailed business plans.

Profitability forecast and development of a bankable business plan is critical for clients to raise finance for aircraft renewal.
Realizing the vision together

Strategy, Performance Improvement, Fleet Plan and often Interdependent Introducing Risk to Business Plan

Profit forecast, business risks influence fleet financing for fleet renewal decisions

- Execution effectiveness and financial results
- Market and competitive changes, strategic options (mainline, regional, cargo, MRO, etc.)
- Changes in route structure and alignment of fleet with changes in strategy and network
- Alignment and improvement of commercial and operational activities
- Forecast of marketshare and route profitability based on variable contribution
- Business plan: revenue, cost, profitability forecast
- Assessment of risks; market, competition, turnaround delivery, fuel costs, etc.
- Aircraft sourcing, availability, vintage, buy versus lease
- Financial analysis sources and application of funds

*Breadth of depth of analysis, accurate assumptions, implementable strategies and improvement actions are key for the quality of the business plan*
Benchmarking Provides Insights to Execution Effectiveness and Effectiveness and Results of the Current Strategy

- Compare commercial performance with peers and competitors
- Passenger numbers, capacity (ASK), compare airline’s growth with its peers and competitors
- Revenues
  - RASK, load factor, yield
  - Cargo revenue and ancillary revenues
- Costs, CASK
  - Fuel, maintenance, ground, crew, etc.
- Productivity benchmarking
  - Number of employees per passenger
  - Employees per aircraft, employees per ASK
  - Cockpit cabin crew productivity
- Follow up gaps with further detailed diagnostic to identify improvement areas
Poor Revenue Performance often driven by markets, capacity, product quality, fleet utilisation, commercial strategy and management expertise

- Review functions contributing to revenues
- Network revenue performance
  Market share by revenue quality
  Low share, High yield: improve LF, better RM
  High Share Low Yield: improve RM
  Low share low Yield: restructure
  Poor optimisation 2% - 10%
  Reasons for poor route performance
  Route restructuring costs
- Pricing and RM improvement
  Lack of management expertise, tools
  Proactive, strategic, performance focused
  Opportunity 2% - 5%
- Ancillary Revenues
  Full service 5%
  Low cost/Regional 20%
Airlines with High Costs Route Structure typically driven by wrong fleet mix, low fleet utilisation, low staff productivity, high MRO, crew, ground handling, distribution costs and overheads

- CASK benchmarking can highlight opportunities to reduce cost and improve productivity
- Maintenance costs (9% costs)
  Benchmark maintenance costs
  Hangar/engine component
  TAT/costs
  Materials/supply chain outsourced contracts
- Pilot/Cabin crew costs (3-10% roster)
  Improve productive hours
  Basings/reserves
- Ground handling costs (5% of cost base)
  Turn times/resource optimisation
  Contract improvements
- Distribution (8% of costs)
  Direct distribution/lower cost channels
  GDS contracts

### Average Duration of a Light C Check

<table>
<thead>
<tr>
<th>Item</th>
<th>Example Client</th>
<th>Industry Practice</th>
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</thead>
<tbody>
<tr>
<td>Fixed Rate – Routine Labor</td>
<td>$800,000</td>
<td>$635,000</td>
</tr>
<tr>
<td>T&amp;M Man Hour Rate</td>
<td>$60 / manhour - Hangar</td>
<td>$50-50 /manhour – Technician</td>
</tr>
<tr>
<td></td>
<td>$80 / manhour – Engineer</td>
<td>$70-80 /manhour - Engineer</td>
</tr>
<tr>
<td>Material Premium</td>
<td>New parts – CLP plus 13%, cap of $3K plus $150 admin fee</td>
<td>New parts – CLP plus 10%, cap of $2K, No admin fee</td>
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<tr>
<td></td>
<td>Consumables extra</td>
<td>Consumables included up to $100 per task</td>
</tr>
<tr>
<td>Subcontracted Services</td>
<td>Invoice plus 15% plus admin fee of $150</td>
<td>Invoice plus 8%, no admin fee</td>
</tr>
<tr>
<td>Turn-around-Time (TAT)</td>
<td>60 Days</td>
<td>42 Days</td>
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<tr>
<td>TAT Penalty</td>
<td>None</td>
<td>$4000-$5000 per day</td>
</tr>
<tr>
<td>Warranties</td>
<td>12 months or 4,300 flights hours, whichever 1st.</td>
<td>12 months or 3,000 flights hours, whichever 1st.</td>
</tr>
</tbody>
</table>

**Overall Value**

Mediocre
Review of Market Growth, Market Share, Competitors, Fares provides insights into routes with opportunities and weaknesses

- Airlines position in markets
  - Year on year market share growth
  - Market share growth relative to market growth
  - Shrinking share in growing markets
  - Market share of high yield markets
  - Year on year fare changes
  - Gain or protect market share at the expense of reducing fares/yield

- Capacity growth, competitor activities markets with share gap

- Competitors gaining share at own hub

- What are the competitive opportunities and threats from other airline

- Market forecasting, focus on growth markets, yield and circuitry

- Development of network and route scenarios

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</thead>
<tbody>
<tr>
<td>BNX-LHR</td>
<td>681,113</td>
<td>681,216</td>
<td>1,974</td>
<td>4,253</td>
<td>0.3%</td>
<td>0.3%</td>
<td>-2.4%</td>
<td>1115.5%</td>
<td>0.3%</td>
<td>341</td>
</tr>
<tr>
<td>CVG-LGA</td>
<td>296,105</td>
<td>297,857</td>
<td>130</td>
<td>530</td>
<td>0.1%</td>
<td>0.1%</td>
<td>-13.2%</td>
<td>405.8%</td>
<td>0.1%</td>
<td>341</td>
</tr>
<tr>
<td>EWR-PHL</td>
<td>111,638</td>
<td>105,654</td>
<td>11,557</td>
<td>10,069</td>
<td>10.4%</td>
<td>10.3%</td>
<td>-5.0%</td>
<td>405.8%</td>
<td>0.1%</td>
<td>341</td>
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<tr>
<td>JFK-LGA</td>
<td>114,139</td>
<td>100,873</td>
<td>4</td>
<td>10</td>
<td>0.6%</td>
<td>0.8%</td>
<td>-16.6%</td>
<td>150.0%</td>
<td>0.0%</td>
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<tr>
<td>ORL-SLH</td>
<td>100,653</td>
<td>100,005</td>
<td>937</td>
<td>1,197</td>
<td>0.9%</td>
<td>1.2%</td>
<td>-8.9%</td>
<td>27.7%</td>
<td>0.3%</td>
<td>341</td>
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<tr>
<td>PHL-LAX</td>
<td>44,417</td>
<td>43,192</td>
<td>1,506</td>
<td>5,042</td>
<td>3.4%</td>
<td>3.9%</td>
<td>-4.3%</td>
<td>204.9%</td>
<td>0.8%</td>
<td>341</td>
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<tr>
<td>DM-LDL</td>
<td>25,082</td>
<td>25,645</td>
<td>1,250</td>
<td>4,964</td>
<td>4.6%</td>
<td>10.3%</td>
<td>-1.6%</td>
<td>206.0%</td>
<td>12.0%</td>
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<tr>
<td>RDU-DCA</td>
<td>24,516</td>
<td>24,104</td>
<td>19</td>
<td>77</td>
<td>0.5%</td>
<td>0.3%</td>
<td>-1.5%</td>
<td>11.6%</td>
<td>0.0%</td>
<td>341</td>
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<tr>
<td>LDF-DFW</td>
<td>75,137</td>
<td>50,210</td>
<td>59,301</td>
<td>42,521</td>
<td>65.6%</td>
<td>72.8%</td>
<td>-22.4%</td>
<td>13.8%</td>
<td>7.3%</td>
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<tr>
<td>Total</td>
<td>1,436,144</td>
<td>1,348,440</td>
<td>66,701</td>
<td>70,775</td>
<td>4.6%</td>
<td>5.2%</td>
<td>-2.6%</td>
<td>6.8%</td>
<td>6.5%</td>
<td>341</td>
</tr>
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</table>
Network Design, Route Development and Fleet Alignment is Key to Improve Airline Profitability

- Test different scenarios and business models and evaluate respective differences in variable contribution towards selection of the best model
- Align routes and frequencies markets with growth, and yield advantages
- The route structure that maximises marketshare, and variable contribution improving competitiveness is selected
- Identify key changes to Long Haul, Medium Haul, Regional and Domestic routes
- Improve 6th freedom traffic and revenues
- Identify key changes for better use of code shares, alliances and joint ventures
- Changes in the fleet plan is driven by the optimal route structure – iterative process
Schedule Improvement, Next Season

- Focus on current network and improvements that can be feasibly implemented subject to airport and other operational constraints of the airline.
- Financial performance of the current network can be evaluated and routes can be classified according to the yield and Revenue per Available Seat Kilometre (RASK) achieved on routes.
- Focus will be on improving overall RASK, increase in business class routes and reduce volatility of passenger throughputs.
- Quick-hit improvements to the schedule are identified. This can include changes to departure times or introduction of new flights given no new fleet in 2013).
- Operational constraints, such as overnight maintenance downtime requirements, crewing restrictions, slot and bilateral restrictions, etc.
Network Design uses Candidate Aircraft Type and use of Accurate Aircraft Data is Essential
a aircraft purchase, lease and operational costs

- Use of accurate operational and ownership costs
- Aircraft selection list prices
- Optimised scenario actual price
- Actual MRO, Fuel, Crew costs
- Use if actual block hours
- Aircraft replacement – fuel, maintenance costs
- Many airlines delay fleet replacement decisions with impact on financial performance
- Lack of financial resources may force airlines to use vintage aircraft, or aircraft with high operational costs
- Leverage geographic advantage for NB use reduce commercial risk
- Right NB/WB ratio to for hub operations
- Fleet commonality for reduced costs
- Buy versus lease calculations
- Actual lease and purchase prices and bank rates

### Block Hours by Aircraft Type

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>320</td>
<td>22,677</td>
<td>35,391</td>
<td>35,740</td>
<td>36,286</td>
<td>38,878</td>
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<tr>
<td>332</td>
<td>29,261</td>
<td>38,809</td>
<td>53,221</td>
<td>62,553</td>
<td>68,125</td>
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<tr>
<td>343</td>
<td>29,629</td>
<td>24,734</td>
<td>14,389</td>
<td>7,143</td>
<td>2,590</td>
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<tr>
<td>Total</td>
<td>81,567</td>
<td>98,934</td>
<td>103,350</td>
<td>109,863</td>
<td>109,593</td>
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### Average Utilization

<table>
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<tr>
<th></th>
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<tbody>
<tr>
<td>320</td>
<td>10.8</td>
<td>11.4</td>
<td>10.9</td>
<td>11.0</td>
</tr>
<tr>
<td>332</td>
<td>14.3</td>
<td>13.7</td>
<td>14.3</td>
<td>13.7</td>
</tr>
<tr>
<td>343</td>
<td>13.5</td>
<td>12.9</td>
<td>12.1</td>
<td>13.6</td>
</tr>
<tr>
<td>Total</td>
<td>12.9</td>
<td>12.6</td>
<td>12.6</td>
<td>12.7</td>
</tr>
</tbody>
</table>

### ATK by Aircraft Type

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>320</td>
<td>236,455,883</td>
<td>396,899,079</td>
<td>399,489,366</td>
<td>405,245,130</td>
<td>434,944,089</td>
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<tr>
<td>332</td>
<td>807,967,280</td>
<td>1,091,350,985</td>
<td>1,552,586,802</td>
<td>1,866,583,715</td>
<td>2,051,262,199</td>
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<tr>
<td>343</td>
<td>1,022,549,024</td>
<td>881,844,737</td>
<td>527,312,858</td>
<td>265,463,424</td>
<td>96,647,409</td>
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<tr>
<td>Total</td>
<td>2,066,972,187</td>
<td>2,369,094,801</td>
<td>2,479,389,026</td>
<td>2,537,292,269</td>
<td>2,582,853,697</td>
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### Operating Cost Category Measurement

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>FUEL &amp; OIL</td>
<td>Per Block Hour</td>
<td>1,999</td>
<td>2,039</td>
<td>2,080</td>
</tr>
<tr>
<td>LANDING</td>
<td>Per Departures</td>
<td>420</td>
<td>448</td>
<td>457</td>
</tr>
<tr>
<td>HANDLING</td>
<td>Per Departures</td>
<td>900</td>
<td>918</td>
<td>936</td>
</tr>
<tr>
<td>OVERVING</td>
<td>Per Departures</td>
<td>303</td>
<td>309</td>
<td>316</td>
</tr>
<tr>
<td>AIRCRAFT MAINT</td>
<td>Per Block Hour</td>
<td>753</td>
<td>791</td>
<td>830</td>
</tr>
<tr>
<td>INFIGHT CATERING</td>
<td>Per Pax</td>
<td>8.0</td>
<td>8.1</td>
<td>8.5</td>
</tr>
<tr>
<td>AIRCRAFT RELATED</td>
<td>% of Block Hours, Cost per Month</td>
<td>3,022,321</td>
<td>4,064,446</td>
<td>4,288,890</td>
</tr>
<tr>
<td>CREW LAYOVER</td>
<td>Per Flight</td>
<td>1,043</td>
<td>1,063</td>
<td>1,085</td>
</tr>
<tr>
<td>AREA/OTHER</td>
<td>% of ATK</td>
<td>6,879</td>
<td>7,885</td>
<td>8,252</td>
</tr>
<tr>
<td>CORPORATE OVERHEADS</td>
<td>% of ATK</td>
<td>2,414</td>
<td>2,767</td>
<td>2,896</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>FUEL &amp; OIL</td>
<td>Per Block Hour</td>
<td>4,371</td>
<td>4,459</td>
<td>4,548</td>
</tr>
<tr>
<td>LANDING</td>
<td>Per Departures</td>
<td>1,220</td>
<td>1,253</td>
<td>1,278</td>
</tr>
<tr>
<td>HANDLING</td>
<td>Per Departures</td>
<td>2,778</td>
<td>2,833</td>
<td>2,890</td>
</tr>
<tr>
<td>OVERVING</td>
<td>Per Departures</td>
<td>1,609</td>
<td>1,642</td>
<td>1,674</td>
</tr>
<tr>
<td>AIRCRAFT MAINT</td>
<td>Per Block Hour</td>
<td>810</td>
<td>834</td>
<td>859</td>
</tr>
<tr>
<td>INFIGHT CATERING</td>
<td>Per Pax</td>
<td>10.7</td>
<td>10.9</td>
<td>11.1</td>
</tr>
<tr>
<td>AIRCRAFT RELATED</td>
<td>% of Block Hours, Cost per Month</td>
<td>4,665,661</td>
<td>6,577,686</td>
<td>9,033,459</td>
</tr>
<tr>
<td>CREW LAYOVER</td>
<td>Per Flight</td>
<td>3,168</td>
<td>3,232</td>
<td>3,296</td>
</tr>
<tr>
<td>AREA/OTHER</td>
<td>% of ATK</td>
<td>6,879</td>
<td>7,885</td>
<td>8,252</td>
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<tr>
<td>CORPORATE OVERHEADS</td>
<td>% of ATK</td>
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<td>2,767</td>
<td>2,896</td>
</tr>
</tbody>
</table>
Alignment of Commercial Processes with Business Model Changes for Improved Revenue

- Alignment of commercial processes with the new business model and route strategy
- Key changes in the product strategy
- Critical changes in pricing strategy, fare matrix, pricing review for RASK increase
  - Pro-active pricing processes
  - Reactive pricing processes
- Improvements in revenue management
  - Diagnostic assessment
  - LF forecasting
  - Critical flight management
- Revenue planning and revenue delivery
- Pricing and revenue management performance measures
- Improvements in ancillary revenues
- Distribution benchmarking, segments, unit revenue, unit cost per channel, as is costs
- Changes in distribution mix
Alignment and Improvement of Airline Operational Activities

- Opportunities to align operations with the business model changes and reduce costs
- Target CASK to align with target revenues
- Review and improve direct and indirect costs
- Determine initiatives for productivity improvement and unit cost reduction to meet target CASK
- Organisational improvement

Productivity improvements
  - Fleet (utilisation)
  - Maintenance
  - Crew
  - Ground handling costs
  - Overheads and other areas
Operations Cost Reduction and Productivity Improvement: Crew and Operations Control

- Review crew assignment process and costs
- Review flight operations identify improvement opportunities
- If needed, identify opportunities in improvements in crew productivity
- Identify changes in the crew manpower plan
- Operations control centre diagnostic
- Identify inefficiencies leading to suboptimal decision making
- Identify improvements in processes and improvements in co-location of IOC functions
- Provide recommendations that relate to organisation, systems and performance management that relate to:
  - Flight operations
  - Crew optimisation
  - Integrated operations control

Examples of Crew Optimisation and Benchmarking

OCC Leading Asian Carrier

- OCC has good functionality and an operationally sound design. This physical structure of the building presents many limitations, however. This emphasizes the importance of ensuring that an appropriately sized facility is secured, with the proper dimension to facilitate a proper layout from conceptual design.
Operations Cost Reduction and Productivity Improvement: MRO

- Alignment of the operational activities support business model changes – MRO costs and productivity improvement
- Benchmark MRO costs and productivity, operation, turnaround times, material costs and productivity
- Diagnostic of key MRO areas:
  - Hangar
  - Line maintenance
  - Supply chain
  - Engineering and planning
  - Other processes
- Benchmarking of engine, OM, component contracts
- Restructure processes for productivity improvements at shops
- Opportunities for the growth of third party revenues
- Business plan
Air Cargo Market and Competitor Analysis and Market Size Forecasting

- Compare market share and capacity share with competitors
- Are there opportunities to improve route performance
- Market forecasting to focus on best return markets
  - Air cargo trade lane analysis
  - Conduct workshops with freight forwarders and customers
  - Feedback for improving market share with customers
- In executing market analysis and forecasting work, InterVISTAS uses its proprietary data sources from industry research and regular contact with related associations
- Cargo markets are particularly challenging due current economic conditions – with many freighters grounded
Forecast Market Share and Expected Gain for Profitable Operation of Freighters

- Determine expected load factor for each route, regions and system wide, considering future market growth (from the previous market forecasting task).

- Analysis include following elements:
  - Future market sizes
  - Market share growth based on current load factors
  - Cargo capacity growth, driven by the growth of the passenger fleet
  - Additional cargo capacity driven by freighters that may be committed to this route (capacity and frequency)
  - Total capacity including competitors operating this route

- The routes will be prioritized according to best market share forecast and they will be used in developing scenarios for network design.

- Market share forecasting is done using the InterVISTAS proprietary tools.

*InterVISTAS provides proprietary tools for route level cargo marketshare forecasting*
Analysis of Air Freight Route and Freighter Scenarios for Improving Profitable Operation of Freighters and Belly

- **Scope to design/improve** the route structure and freighter type/number / utilization maximizing route profitability. Analysis also drives the freighter performance improvement.

- **Criteria will include weighted average**, where weights include expertise and experience of InterVISTAS team.

- For selected routes deeper analysis will be executed:
  - Where the current share is less than expected share, analysis is executed to establish LF growth at the target routes in relation to market size

- Route scenarios will be subsequently tested for freighter types that will be analyzed in the next task

- **Significant growth in WB aircraft increasing availability of belly capacity**

- Increasing fuel price causing intermodal shift towards maritime

- Warehouse development costs are significant
Results of New Strategy and Improvement/Turnaround Actions Reflected in the Business Plan

- Revenue forecast
  - Scheduled seat revenues: route revenue forecast, market share, fares, service/schedule quality
  - Charter revenues
  - Non seat airline revenues: ancillaries
  - SBU revenues: third party growth
- Cost Forecast
  - Direct operating costs
  - Aircraft ownership costs
  - Overheads
- Assumptions including improvements of business benefits
  - Impact of product improvement on yields/fares
  - Impact of productivity and cost reduction initiatives
Development of the Business Plan with Revenue, Cost and Profitability Forecasting Including Strategy and Improvement Impacts

- Route level business plan for different freighter types tested at different frequencies for route profitability for belly and freighter operations

- Opportunities in reduction of direct and indirect aircraft-related cost:
  - Direct costs will include fuel, maintenance, crew, ground handling, over flight, ownership, etc.
  - For belly cost per KG carried will be used. If airline is allocating other direct and indirect costs these will be used.

- Profitability forecast will be developed for belly and freighter operations

- Sensitivity analysis

![Business plan method based on marketshare, fare, operating and capital costs for freighter and belly](image)

![Business plan is based on directional (inbound and outbound route level profitability)](image)
Minor Variation in Modelling Assumptions can make Significant Difference on Profitability/Financial Forecast

- Due diligence questions
  - Market growth rates
  - Competitor capacity growth rates
  - Average fares
  - Fare improvement as a function of product improvement
  - Ancillary revenues
  - SBU third party market share/revenue growth assumptions
  - Fuel costs: current and future
  - Maintenance costs: accuracy/variations
  - Aircraft ownership costs: list, actual
  - Depreciation rates
- Sensitivity analysis: major revenue and cost assumptions

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<tr>
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<tbody>
<tr>
<td>Passengers</td>
<td>262,968</td>
<td>2,891,151</td>
<td>253,274</td>
<td>2,768,001</td>
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<tr>
<td>Revenue ($</td>
<td>53,052,618</td>
<td>652,142,240</td>
<td>43,982,830</td>
<td>537,292,097</td>
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<tr>
<td>Operating Expenses</td>
<td>$69,714,983</td>
<td>$509,015,566</td>
<td>$72,540,299</td>
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<td>Profit (Loss)</td>
<td>$(16,652,366)</td>
<td>$143,126,674</td>
<td>$(28,557,470)</td>
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<td>Operating Margin</td>
<td>-34.5%</td>
<td>24.6%</td>
<td>-71.4%</td>
<td>1.7%</td>
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<td>2,891,151</td>
</tr>
<tr>
<td>Revenue ($</td>
<td>45,978,935</td>
<td>$565,189,941</td>
<td>$53,052,618</td>
<td>$652,142,240</td>
<td>$50,749,419</td>
<td>$619,952,419</td>
<td>$53,052,618</td>
<td>$652,142,240</td>
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<tr>
<td>Operating Expenses</td>
<td>$69,264,058</td>
<td>$504,714,962</td>
<td>$72,137,108</td>
<td>$527,626,489</td>
<td>$69,537,333</td>
<td>$507,031,861</td>
<td>$70,701,516</td>
<td>$516,218,616</td>
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<tr>
<td>Profit (Loss)</td>
<td>$(23,285,129)</td>
<td>$60,474,975</td>
<td>$(19,084,491)</td>
<td>$124,513,751</td>
<td>$(18,787,914)</td>
<td>$112,920,559</td>
<td>$(17,648,898)</td>
<td>$135,923,624</td>
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<tr>
<td>Operating Margin</td>
<td>-55.7%</td>
<td>12.0%</td>
<td>-39.6%</td>
<td>21.4%</td>
<td>-40.7%</td>
<td>20.4%</td>
<td>-36.6%</td>
<td>23.3%</td>
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</tbody>
</table>

**Scenario 1** – Fares are discounted XX percent from MIDT market fares versus XX percent in the Baseline scenario

**Scenario 2** – Fuel price of $XX/kg consumed increases by XX percent

**Scenario 3** – Market introduction stimulation rates are lowered by XX percent

**Scenario 4** – Overhead costs increase from X percent to XX percent of all other costs

**Shock Scenario** – All of the above factors occur at once, showing a worst case scenario

**Realizing the vision together**
Financial Analysis for Determination of Sources and Application of Funds for Aircraft Financing

**SOURCES AND APPLICATION OF FUNDS [BLEND]**

**FUNDING REQUIREMENTS**

1. Capital Expenditure
   - **Client Airline**
     - *Equity funding requirement for Reflecting (Generic AC Blend Scenario - bought AC only) including current year cabinmod (XXX m)*
   - **Client SBU’s**
     - Information Technology
     - SBU Engineering
     - XXX
     - SBU Cargo
     - Airport Services - XX
     - Airport Services - XX

   *Total Equity funding requirement by SBUs*

2. Capitalised Cost of Engines Overhauls - current fleet only
3a. Maintenance Reserves (Net of Recoveries) - current fleet - reflected in AC OPS COST
3b. Maintenance Reserves (Net of Recoveries) - new fleet - reflected in AC OPS COST
4. Increase in Inventories (from original BP)
5. Increase in Trade Receivables
6. Increase in Trade Payables (from original BP)
7. Repayment of Interest Bearing Liabilities - Foreign Loans
8. Repayment of Interest Bearing Liabilities - Local Loans (FY2012/13 ff from original BP)

*Total Funding Requirement*

**SOURCES OF FUNDS**

1. **CLIENT GROUP EQUITY INFUSION REQUIREMENT [BLEND]**
2. Proceeds of IPO of subsidiary (potential of $ XXm indicated)
3. Proceeds from Disposal of Property, Plant and Equipment (from original BP)
4. Proceeds from Interest Bearing Loans and Borrowings (from original BP)
5. Client Profit adjusted for non-cash items

*Total Funding Available*

**NET INCREASE IN CASH**

**Cash Balance Brought Forward**

**CASH BALANCE CARRIED FORWARD**

- # of Months of Operating cost for min cash level
- Min. cash liquidity required
- Min. cash level ok?

**XX GROUP CUMULATIVE EQUITY INFUSION REQUIREMENT - BLEND Scenario**

Dividend potential to Equity Investor (capped at XX % of Client Group profit p.A.)
# Use of Accurate Assumptions in Aircraft Purchase and Lease Calculations

## Purchase & Lease of new aircraft

<table>
<thead>
<tr>
<th>EQUITY</th>
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<tbody>
<tr>
<td>Required PDP equity narrowbody aircraft</td>
<td></td>
</tr>
<tr>
<td>Required Delivery Equity narrowbody aircraft</td>
<td></td>
</tr>
<tr>
<td>Interest payments on PDP Debt</td>
<td></td>
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<tr>
<td><strong>Owned Narrowbody Total</strong></td>
<td></td>
</tr>
<tr>
<td>Rent, only for 3 new replacement &amp; growth narrowbody aircraft</td>
<td></td>
</tr>
<tr>
<td>Deposits (3 months rental)</td>
<td></td>
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<tr>
<td>Maintenance Reserves on new NB fleet only</td>
<td></td>
</tr>
<tr>
<td><strong>Leased Narrowbody Total</strong></td>
<td></td>
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<tr>
<td><strong>Owned and interim leased Narrowbody total</strong></td>
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</tbody>
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<table>
<thead>
<tr>
<th>DEBT</th>
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<tbody>
<tr>
<td>PDP Debt converted into senior loan at Delivery - narrowbody</td>
<td></td>
</tr>
<tr>
<td>PDP Debt converted into senior loan at Delivery - widebody</td>
<td></td>
</tr>
<tr>
<td>Senior Loan amount at end of fiscal year - narrowbody</td>
<td></td>
</tr>
<tr>
<td>Leverage (PDP + Sr Loan) at end of fiscal year - narrowbody</td>
<td></td>
</tr>
<tr>
<td>Senior Loan amount at end of fiscal year - widebody</td>
<td></td>
</tr>
<tr>
<td>Leverage (PDP + Sr Loan) at end of fiscal year - widebody</td>
<td></td>
</tr>
<tr>
<td><strong>Total Senior Loan at end of fiscal year - fleet</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Fleet leverage at end of fiscal year</strong></td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Senior loan annuity payments</th>
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<tbody>
<tr>
<td>Interest payments of Senior loan after Delivery - Narrowbody</td>
<td></td>
</tr>
<tr>
<td>Interest payments of Senior loan after Delivery - Widebody</td>
<td></td>
</tr>
</tbody>
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<tr>
<th>New Aircraft Total Funding demand (incl. debt interest payments)</th>
<th></th>
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<tbody>
<tr>
<td>Principal payments of Senior loan after Delivery - Narrowbody</td>
<td></td>
</tr>
<tr>
<td>Principal payments of Senior loan after Delivery - Widebody</td>
<td></td>
</tr>
</tbody>
</table>
Turnaround Implementation including Fleet Renewal

- Overall migration plan is used for delivery of business model changes including specific projects
  - Product changes
  - Route, hub schedule related
  - Distribution
  - Relationships between client, airlines and operating companies (MRO, ground handling, catering)
  - Organization
  - Other

- Airlines ability to service debt will be driven by the effectiveness of new strategy and on time implementation of turnaround actions

- Fleet decisions can be delayed by airline management not committing to turnaround plan or stake holders lack of confidence in execution
Thank You!

Please contact Dr. Emre Serpen for any queries on this proposal.

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Telephone: +447944163891