

TRANSFORMATION IN EUROPEAN AVIATION

"IMPACT OF MIDDLE EASTERN CARRIERS"

AIR TRANSPORT COLLOQUIUM 2014
LARS REDELIGX
CHIEF COMMERCIAL OFFICER



A new era: Nation building with airlines



Sheikh Mohammed bin Rashid
Al Maktoum, ruler of Dubai

„National airlines are leading a new stage in the global aviation sector. The UAE’s target is to connect the world together and to become the new commercial hub in the centre of the world.“

„We want Turkish Airlines to reach everywhere. Our strategy of transportation, our strategy of energy, our strategy of economics should all be integrated.“

Ahmet Davutoğlu
Prime Minister of Turkey
and leader of the AKP party

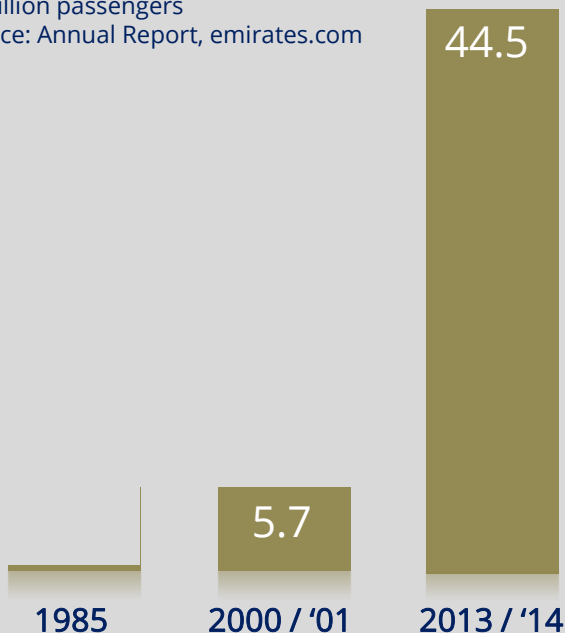


Markets are being re-distributed



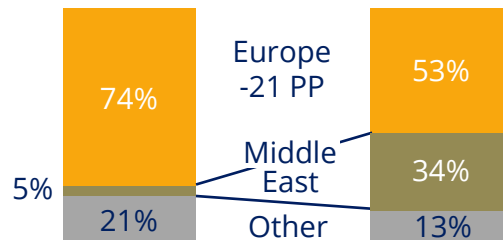
Emirates – exponential passenger growth

in million passengers
Source: Annual Report, emirates.com



Disruption of existing trade routes and business paradigms

Source: O&D Market size // typical week DEC 14, JFK-DXB includes 5.6K seats via MXP



Gulf states surpassing Europe in U.S. – India traffic (2005-'11)

- JFK ✈️ DXB EK 19.3K seats
- JFK ✈️ LHR AA 12.0K seats
- JFK ✈️ ATL DL 13.0K seats

From JFK, Emirates can deliver more passenger weekly to Dubai, than American Airlines to London or Delta to Atlanta

Dubai	12.1M	20%
Frankfurt	8.3M	2%
London	7.3M	3%
Paris	6.8M	2%
Doha	6.5M	20%
Amsterdam	6.3M	2%
Atlanta	5.7M	4%
Istanbul	5.5M	33%
Miami	5.3M	4%
Abu Dhabi	4.3M	23%

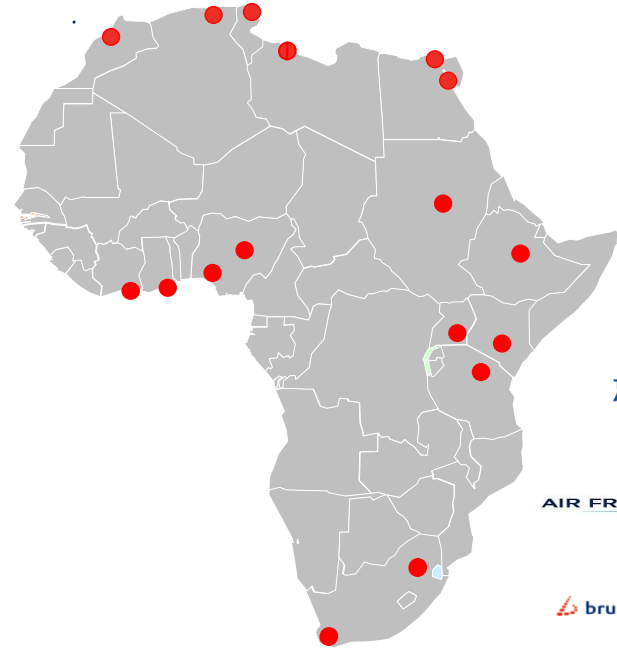
Double-digit transit passenger growth in the Gulf, traditional hubs stagnate (CAGR 2005-'13)

Africa: From niche market to cut-throat competition



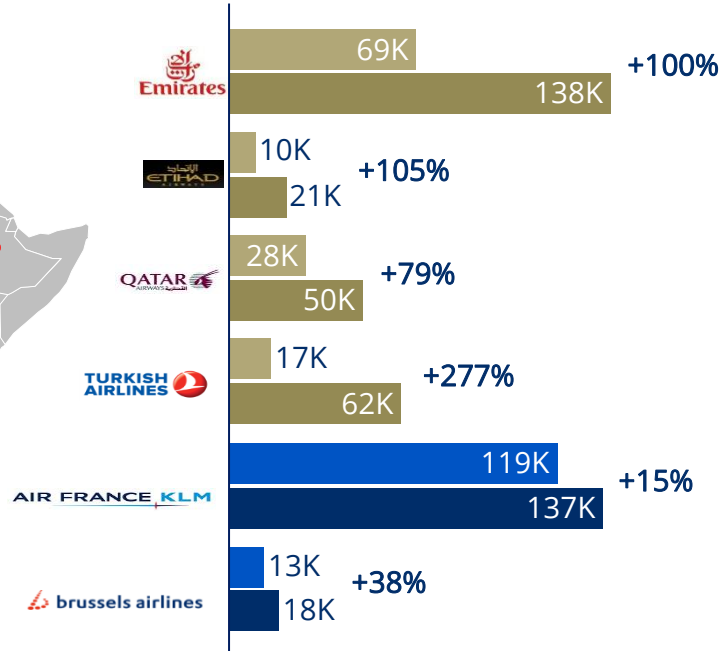
MEC* destinations 2008

* Middle East Carriers (EK, EY, QR, TK)

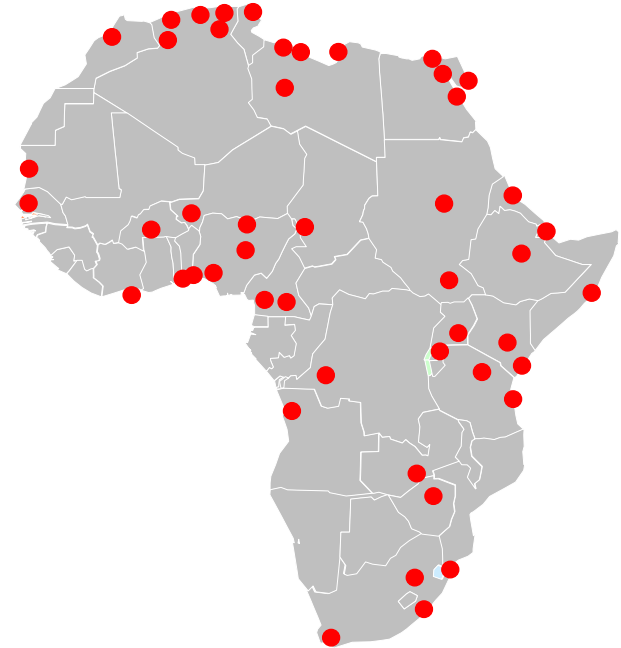


Seat growth comparison

Weekly RT seats from hub.
Source Diio Mi, SEP '08 vs. SEP '14



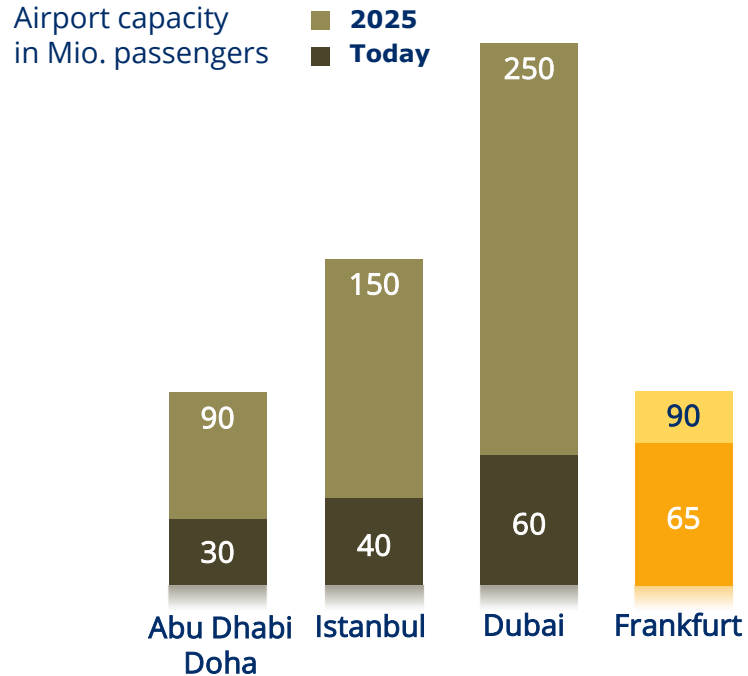
MEC destinations 2014



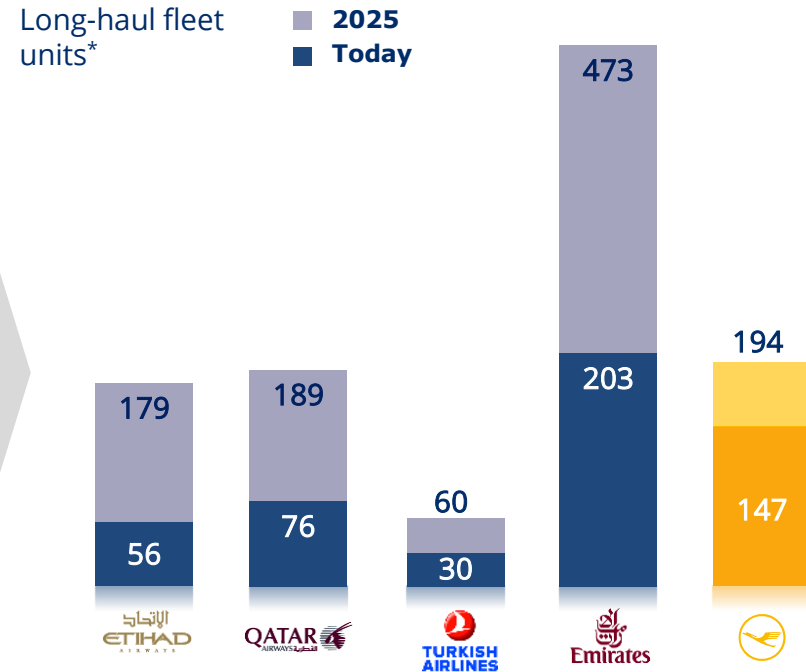
Further gigantic growth in the Gulf and Bosperus area



Pre-requisites are being created on the ground ...



... and in the air

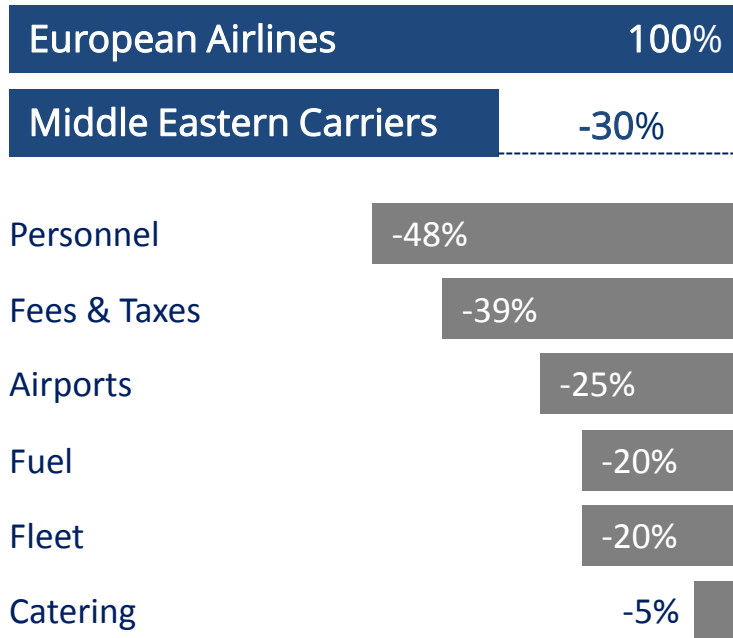


* Without options. LH figures include SN (8 units today, 12 units in 2025). Already deducted: 30% roll-over for MEC carriers and 60% for Lufthansa

Growth is enabled by approx. 30% lower CASK

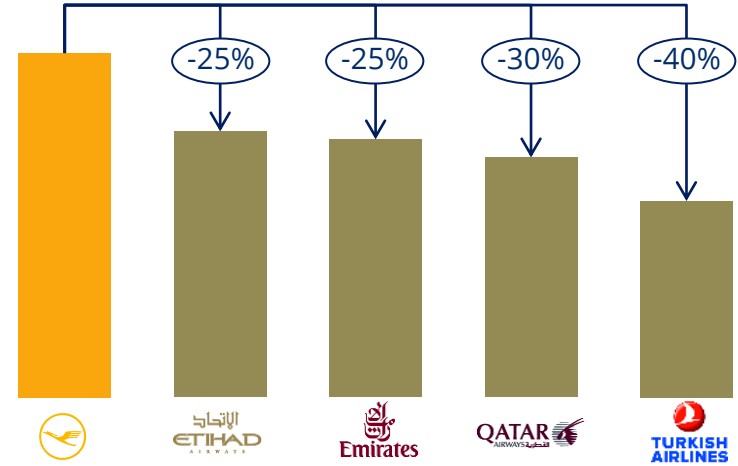


Cost advantage compared to European network carriers



Source: Arthur D. Little study, 2010

... leads to significantly lower CASK*



* CASK stage length adjusted to LH average intercontinental stage length
Base year 2010, CASK difference approximated, based on ADL study, annual reports

Cost advantages result from lack of level playing field



Lack of level playing field

- Prioritization of aviation as a key industry
- Close relationship between owners and local authorities
- Government financing, credit line guarantees
- Low fees (airport, air navigation services)
- No passenger tax
- No tax on earnings, no income tax for employees
- No emission trading, no noise charges
- No night curfew
- No consumer protection
- Lower social security contributions
- Limited or no workers rights
- No control of state aid
- No control of anti-competitive behaviour

Other cost advantages

- Geographic location
- Fleet age
- No legacy structures & processes

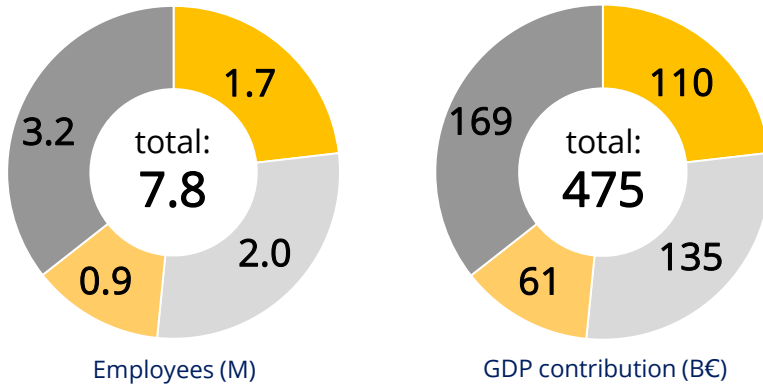


If Europe wants to keep 8M jobs, it needs to act



Employment in aviation and EU GDP contribution

Source: ATAG, 2012



- Direct effect of the aviation sector
- Indirect effect through spending and commissioning by the aviation sector
- Induced effect, in particular through the purchasing power of aviation employees
- Additional knock-on effects in tourism

... needs to be safeguarded by the right framework

“Apparently, governments in Europe and Brussels take the existence of their airlines for granted and assume they are more or less indestructible, despite a sheer endless list of airline bankruptcies. They impose all kinds of taxes on us and shirk their responsibility to adopt the necessary reforms like Europe-wide uniform organization of airspace”

Willie Walsh, CEO IAG

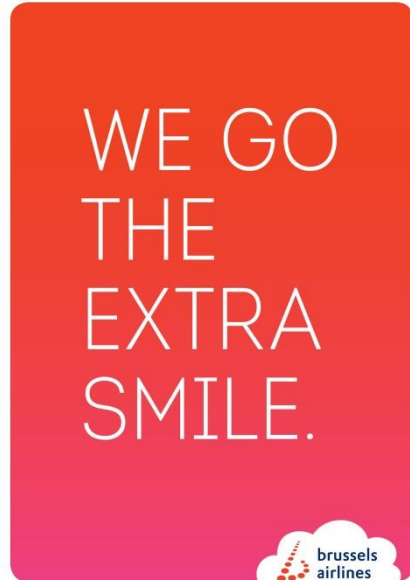
Necessary changes:

- Improve regulatory and operational framework (e.g. Single European Sky)
- Enforce existing bilateral air service agreements (connect two markets, not beyond markets, reciprocity in market access and market shares, no capacity dumping)
- Apply and enforce EU requirements on ownership & control with respect to investments in EU carriers

... and airlines need to prove capacity to change – we do

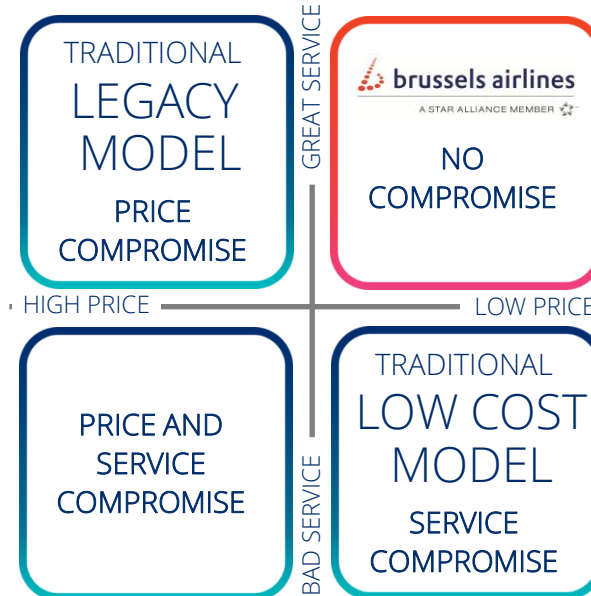
Purpose

“We want to be the most personal airline, bringing people together and making travel a pleasure”



Positioning

With Brussels Airlines, no need to choose between great service and low price – we offer both



Implications





1. Cost reduction as priority No. 1
Yield deterioration is structural, hence focus on CASK reduction
2. Smart capacity development to progressively extend network and profitably improve market share in BRU
3. Fundamental change of commercial strategy
4. Build a Belgian love brand
5. Leverage the power of Lufthansa Group

Smart capacity development – Belgium’s No. 1 airline



No. 1 in development of destinations and seats*

* +13 addtl. destinations operated by LH Group & Star from BRU. Source: Diio Mi

	No. 1	No. 2	No. 3
Destinations (SU 2014)	RYAN (77)	 brussels airlines (68)	JAF (67)
New destinations in 2014	 brussels airlines (12)	RYAN (10)	VUEL (7)
New destinations in 2015	 brussels airlines (6)	JAF (3)	RYAN (1)
Seats typical week WI 2014/15	 brussels airlines (171K)	RYAN (142K)	JAF (43K)

Long-haul: Further growth, leveraging LHG and Star

- ➔ Brussels Airlines is the Africa specialist driving the Lufthansa Group Africa strategy
- ➔ Use our 'African savoir faire' to differentiate vs. competition and demonstrate value (e.g. West Africa)
- ➔ Progressively move to daily service on top destinations (e.g. EBB, KGL, NBO) to create new anchor points
- ➔ New destinations: Fill the gap on some top markets and add white spots, leveraging local partnerships
- ➔ Further develop NATL portfolio to serve market need and increase hub effect (+2 to +3 destinations)
- ➔ +2 to +4 additional long haul units by 2018

Commercial strategy: Building the new Brussels Airlines



- New product portfolio, serving all market segments
- Develop a la carte services without becoming a “no frills” carrier (aka Low Cost airline)
- Become Online Retailer and drive conversion
- Establish new short-haul FFP, use data to increase retention
- Further improve the customer experience to remain No. 1 in service
- Innovate: Mobile, content, partnerships, bring back the pleasure to travelling
- Build a Belgian love brand



- Bookings
- Load Factor
- Ancillary revenue
- Reach (visits)
- Conversion rate
- Retention rate
- Contribution / margin
- Market share
- L-Factor (brand likeability)

New products, new website and better customer experience

- “New Check&Go” offer from 69€ RT → great response
- Plenty of improvements in product and customer experience
 - Free change to earlier flight
 - Belgian buy on board (Panos, ...)
 - Improve Flex&Fast catering
 - Pre-ordered Premium Meal
 - New flagship lounge “The Loft”→ features beat any traditional LCC or legacy carrier offer
- Improved digital experience (4 clicks) with new website → All time high for conversion

Check & Go offer

A STAR ALLIANCE MEMBER

69 RETURN*

DO CHOOSE THE BEST PRICE. AND COMFORT.

Check & Go[™]
Flying comfortably in Europe from €69 return*.

brussels airlines

Brussels Airport

The advertisement features a large white '69' on a red background, with two airplane icons flying towards it. The text 'RETURN*' is positioned to the right of the '9'. Below the main text, there is a small Brussels Airport logo and the Brussels Airlines logo.

New website & booking engine

brussels airlines

DISCOVER THE MAGIC OF AFRICA from €599

Our products & services

Travel classes on European flights	Travel classes on intercontinental flights
Add baggage	Get your upgrade
Our new lounge in Brussels	Order your à la carte dining option
Hotel accommodation	Car rental
Airport parking	

Our best deals

Europe	Africa	USA	Worldwide
Lyon from €79	Venice from €59	Winnipeg from €59	Turin from €59
Warsaw from €59	Tel Aviv from €250		

Our packaged offers

Need inspiration?

Paris Turin Krakow Venice

About us Press Contact us

The screenshot shows the Brussels Airlines website interface. At the top, there's a navigation bar with 'brussels airlines' logo and links for 'Plan & Book', 'Manage My Booking', 'Practical Info', and 'Online Check-in'. Below that is a banner for 'DISCOVER THE MAGIC OF AFRICA' with a price tag of 'from €599'. The main content area is divided into 'Our products & services' (with expandable sections for European and intercontinental flights, baggage, upgrades, lounge, dining, hotel, car rental, and parking), 'Our best deals' (a table of flight offers to various destinations), 'Our packaged offers' (with icons for lounge, car rental, and a 'pass' offer), and 'Need inspiration?' (a carousel of destination cards for Paris, Turin, Krakow, and Venice). The footer contains 'About us', 'Press', and 'Contact us' sections.

A brand that speaks to the head and to the heart



We go the extra smile... always getting better



	2014										2015	
Brand		BOIC partnership		Red Devils #SN2014	Tomorrow land 10 years	Re-launch brand		Campaign #2		Campaign #3		
Network & fleet	9 new summer destinations		Kra-kow	+2 A319 +1 A320		Minimum connecting time BRU 35'	War-saw	Riga		6 new summer destinations		
Product offer						Check&Go Light&Relax Flex&Fast Bizz & Class	Gourmet Meal	Fly & Ski	New family offer	More a la carte services		
Customer experience	Awards: Best trans-atlantic airline, best wine in business class		belgian star chefs		Belgian buy on board	The Loft		Net Promoter Score		Connector Brussels Airport		
Digital & content		New website V1.0		New website V2.0 & booking engine		Connected Lounge App		b.gift		New website V3.0	Mobile app	
Loyalty		Customer event	Customer event	Customer event		Customer event		Customer event		New loyalty program		

ANY QUESTIONS?

