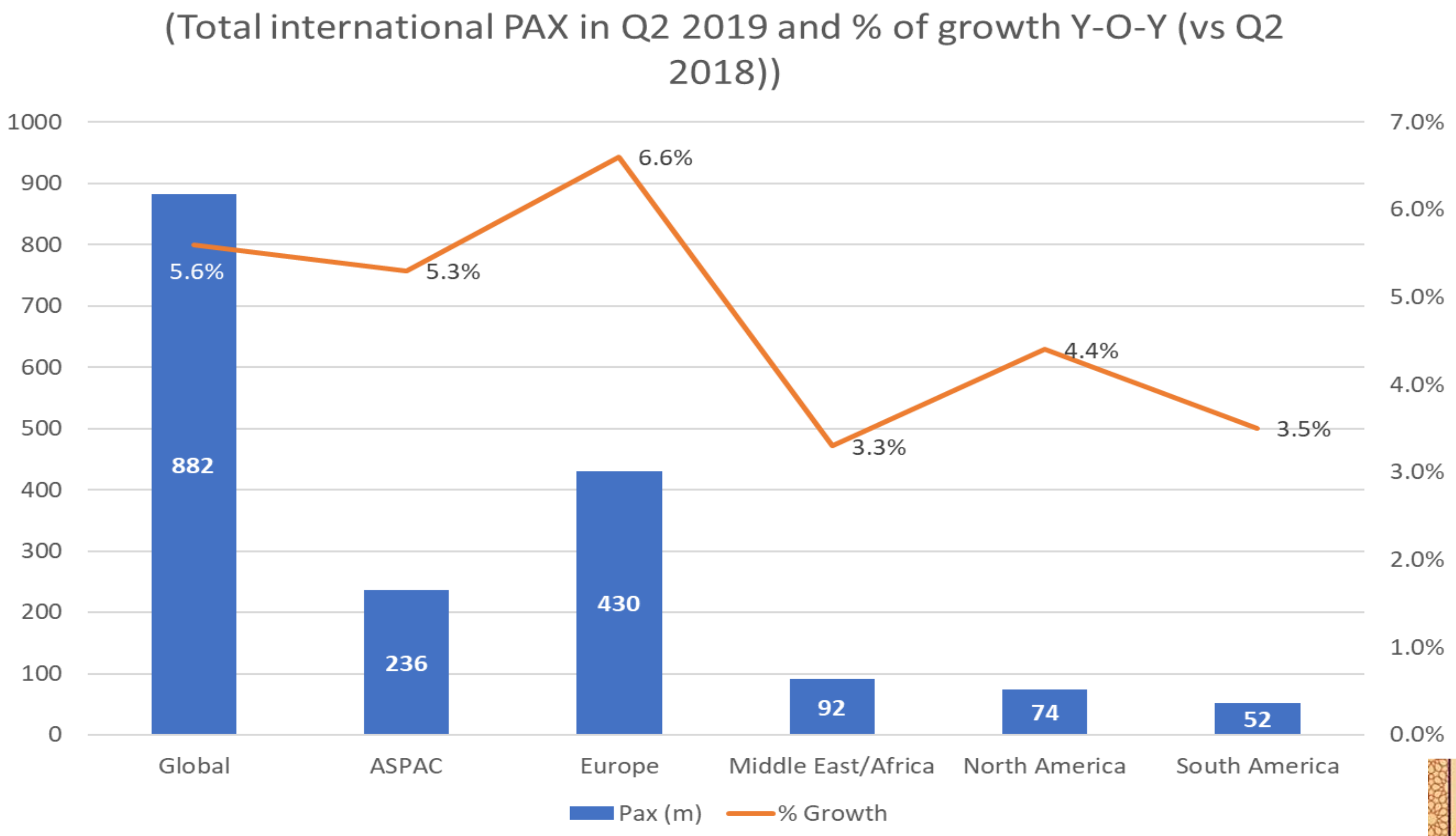
PLANE VISION

Airlines & Duty Free Retailers
Partners or Competitors?

PLANE VISION

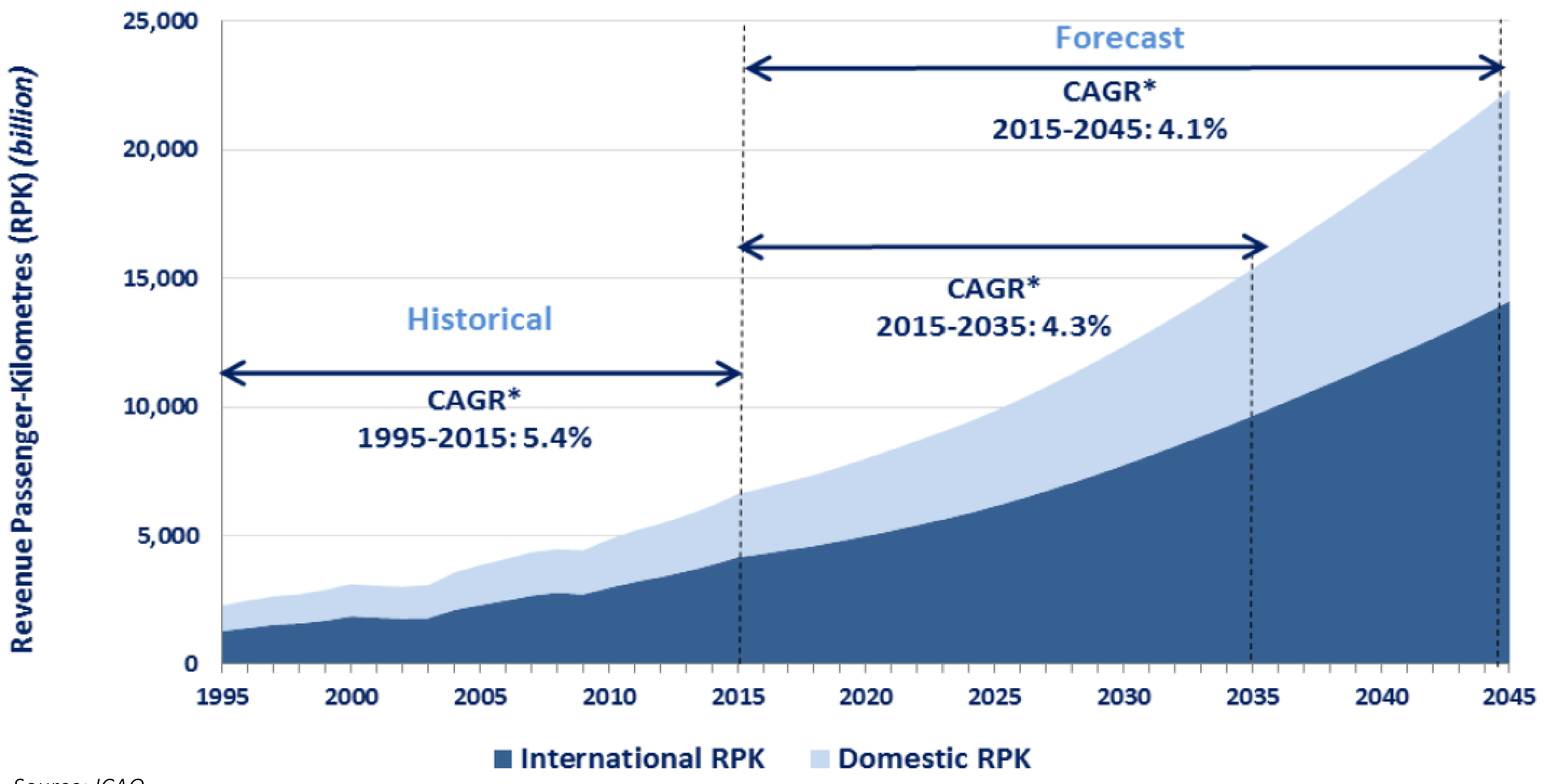
The Airline Industry 2019



Source: ICAO

The Airline Industry

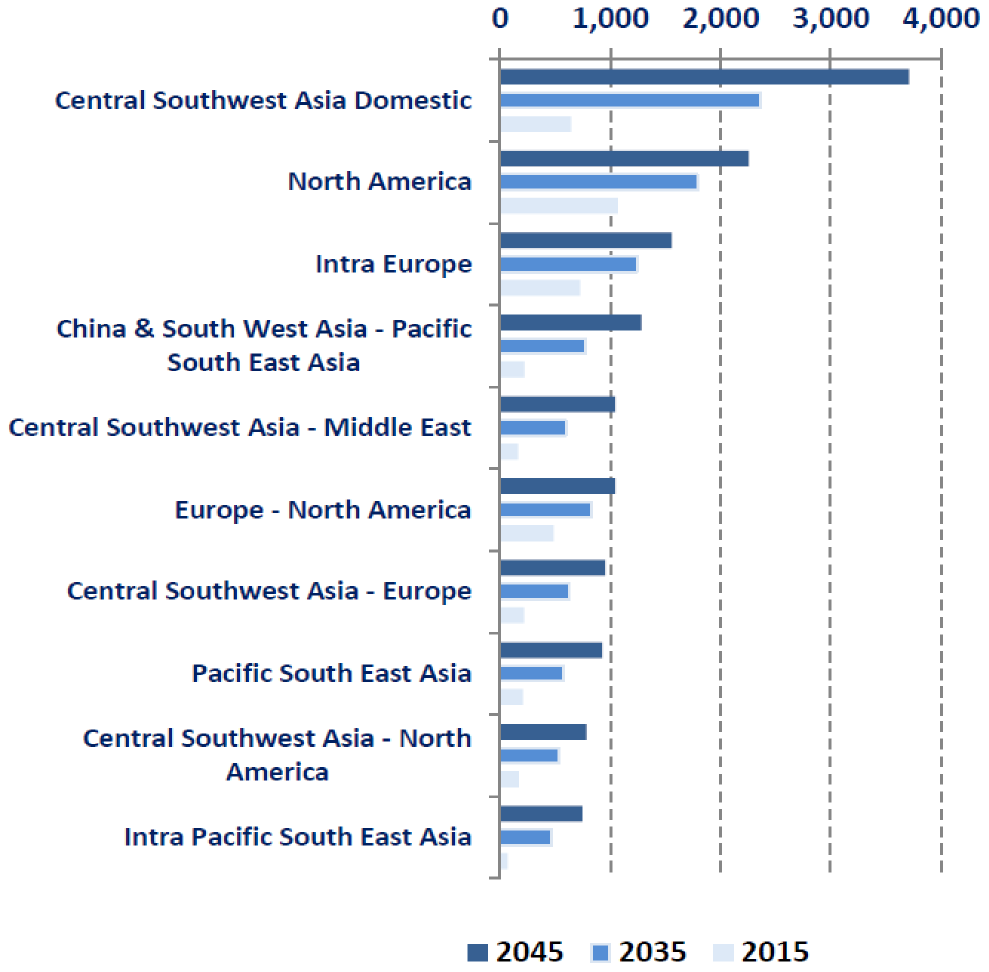
Total passenger traffic: history and forecasts



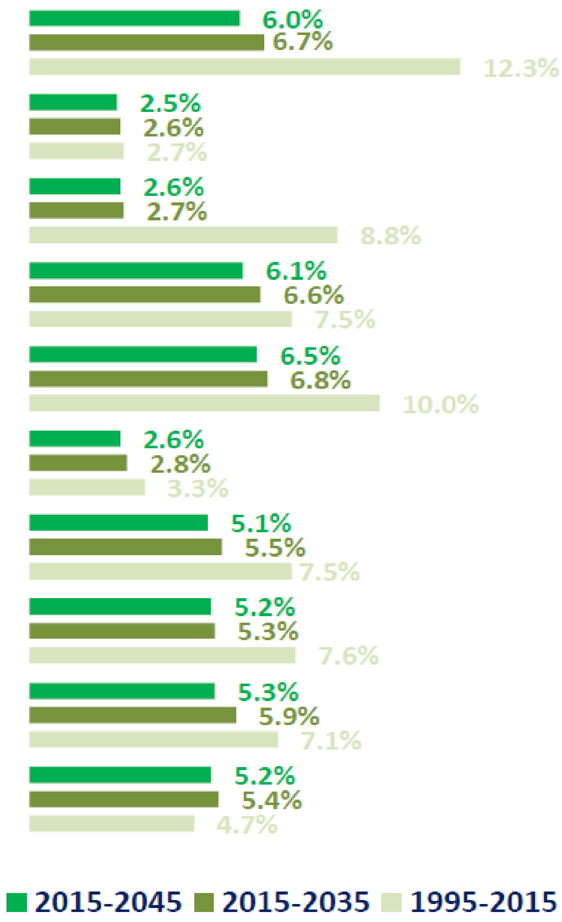
Source: ICAO

The Airline Industry By Region

Revenue Passenger-Kilometres (RPK) *(billion)*



CAGR*



Source: ICAO

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AACO Middle East Carriers

egypt fly
AFRIQIYAH AIRWAYS
BADR AIRLINES
Palestinian Airlines
SYRIANAIR
Yemenia Yemen Airways
royal air maroc
flynas
ETIHAD AVIATION GROUP Choose Well.
EGYPTAIR
MEA Middle East Airlines - Air Liban
SAUDIA
TUNISAIR
TARCO AVIATION The Legend of Africa
GULF AIR
flydubai
AIR CAIRO
Emirates
AirArabia
AIR ALGERIE
OMAN AIR
Iraqi airways
KUWAIT AIRWAYS
NILE AIR
LIBYAN AIRLINES
SUDAN AIRWAYS
Tassili Airlines
QATAR AIRWAYS
JORDAN AVIATION
Mauritania Airlines
Nouvelair
ROYAL JORDANIAN
SaudiGulf

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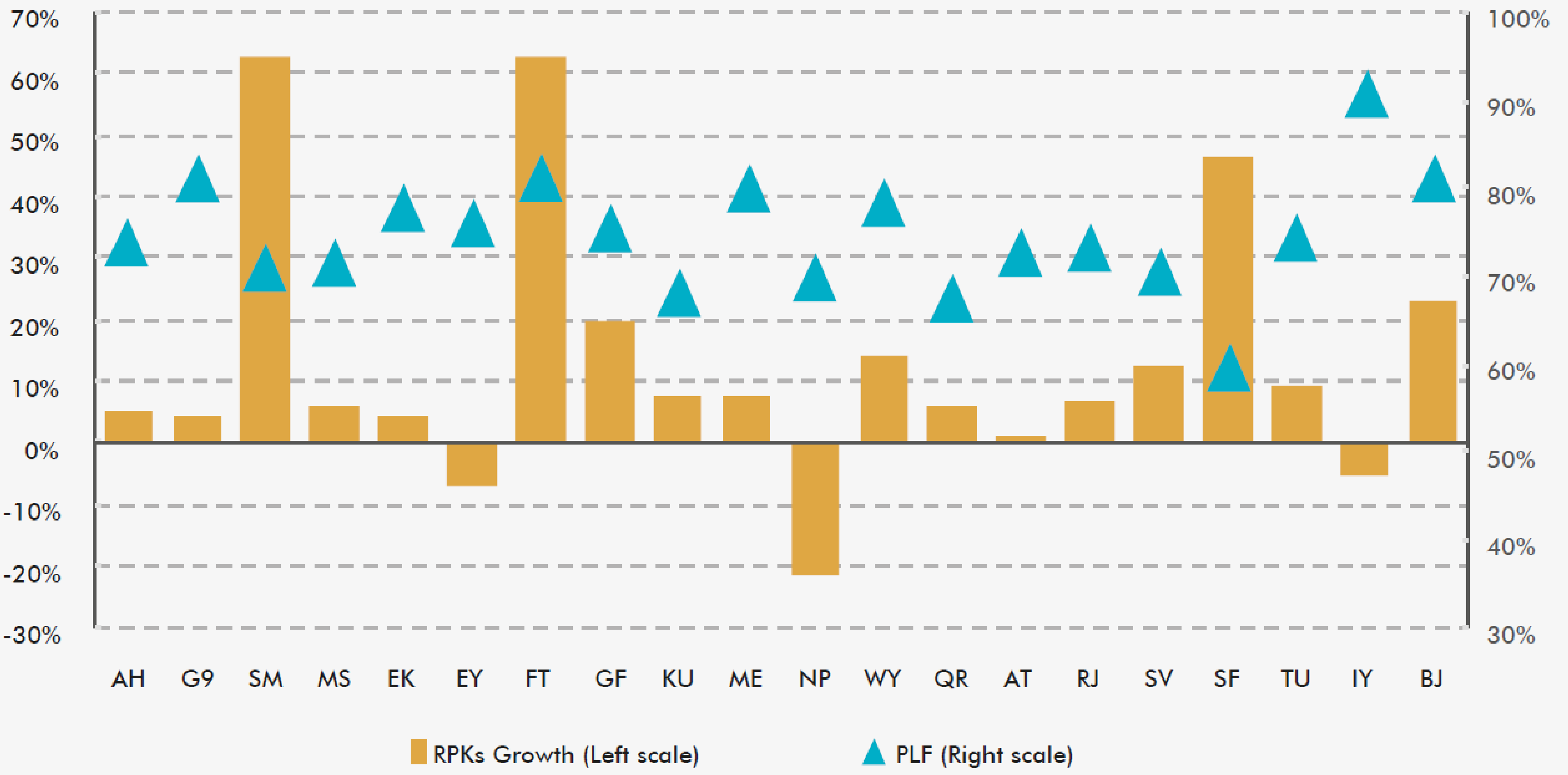
AACO Members Quick Facts 2018

Member Airlines	33 (August 2019)
Billion $ Revenue	69.9 (+4.8% over 2017)
Million Passengers Carried	229.6 (+2.8% over 2017)
Million Tons of Cargo	6.94
Destinations Served	459
Countries Served	128
Average Daily Flights	4,092 (+1.1% over 2017)
Average Daily Seats	902,987 (+2.0% over 2017)
Aircraft in Fleet	1,406 (+45 A/C over 2017)
Employees (reported)	194,158

RPKs Growth & Passenger Load Factor of Some AACO Members in 2018



Source: AACO

ME Large Carriers

- ✓ State owned , 100+ aircraft
- ✓ In line with the leadership vision and therefore enjoy close relationship
- ✓ Well and discretely funded up to now
- ✓ Restructuring and capacity rationalization due global and regional downturns

ME Medium Carriers

- ✓ State owned , 30-100 aircraft
- ✓ Limited support as in competition with other national priorities
- ✓ Financials in the public domain. public perception unfavorable
- ✓ Continuous struggle to redefine their role and to ensure support

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ME Medium Carriers

ROYAL JORDANIAN

MEA Middle East Airlines - Air Liban

- ✓ Privatized carriers , up to 50 aircraft
- ✓ Indirect support but no direct financial subsidy
- ✓ Good hub markets and run as private sector companies
- ✓ Small size and economies of scale makes for very difficult competition with the all other carriers types within and external to the region

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ME Low Cost Carriers

- ✓ Several other non AACO carriers, Fly-A-Deal, Al Jazeera, Al Wataniyah, Al Salaam ,etc
- ✓ Mixture of state owned and private ownership enjoying hub support
- ✓ Questionable low cost carrier environment, with a move to hybrid configurations
- ✓ Some becoming domestic and regional feeders for their mother carriers.

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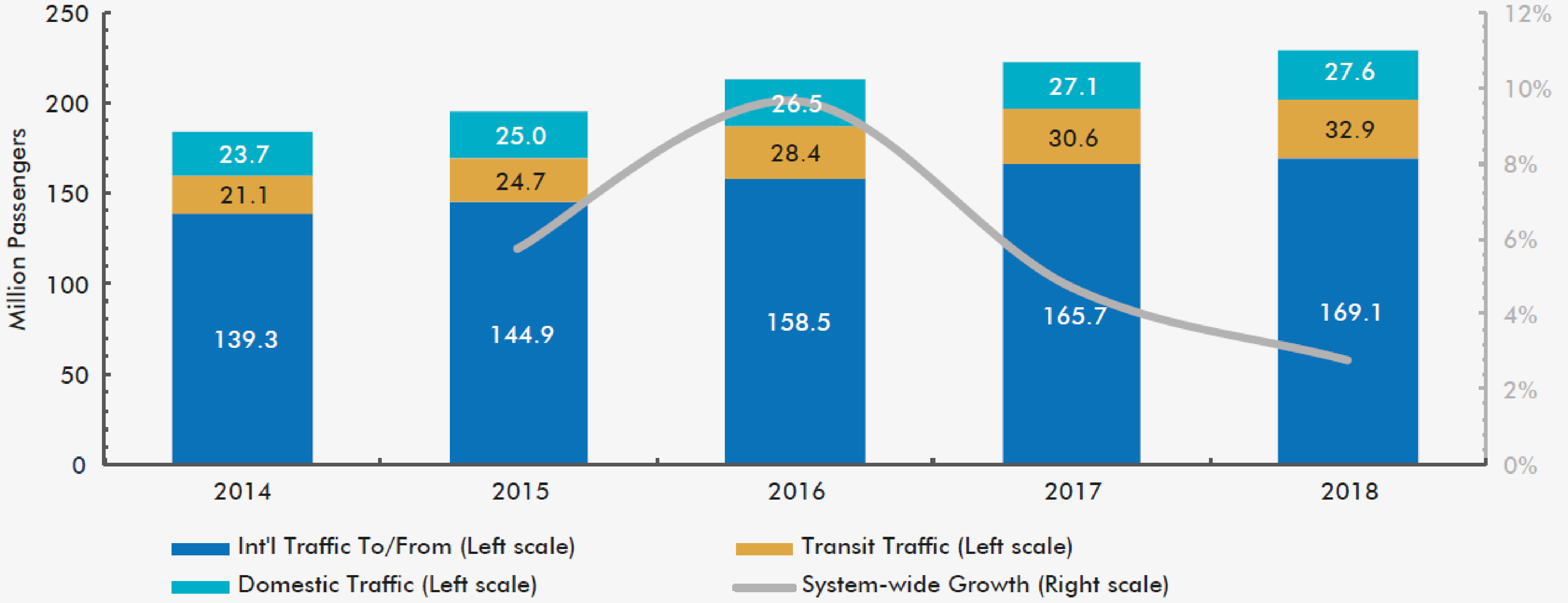
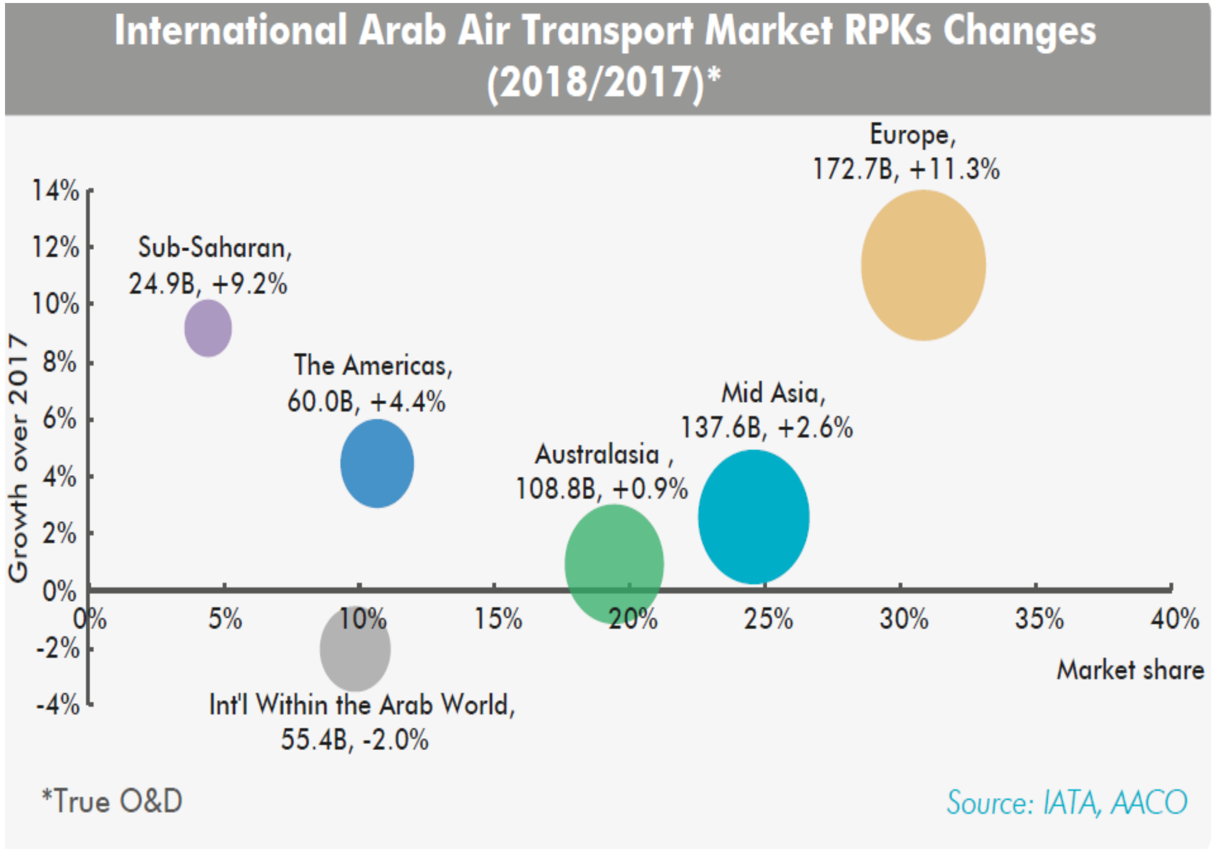
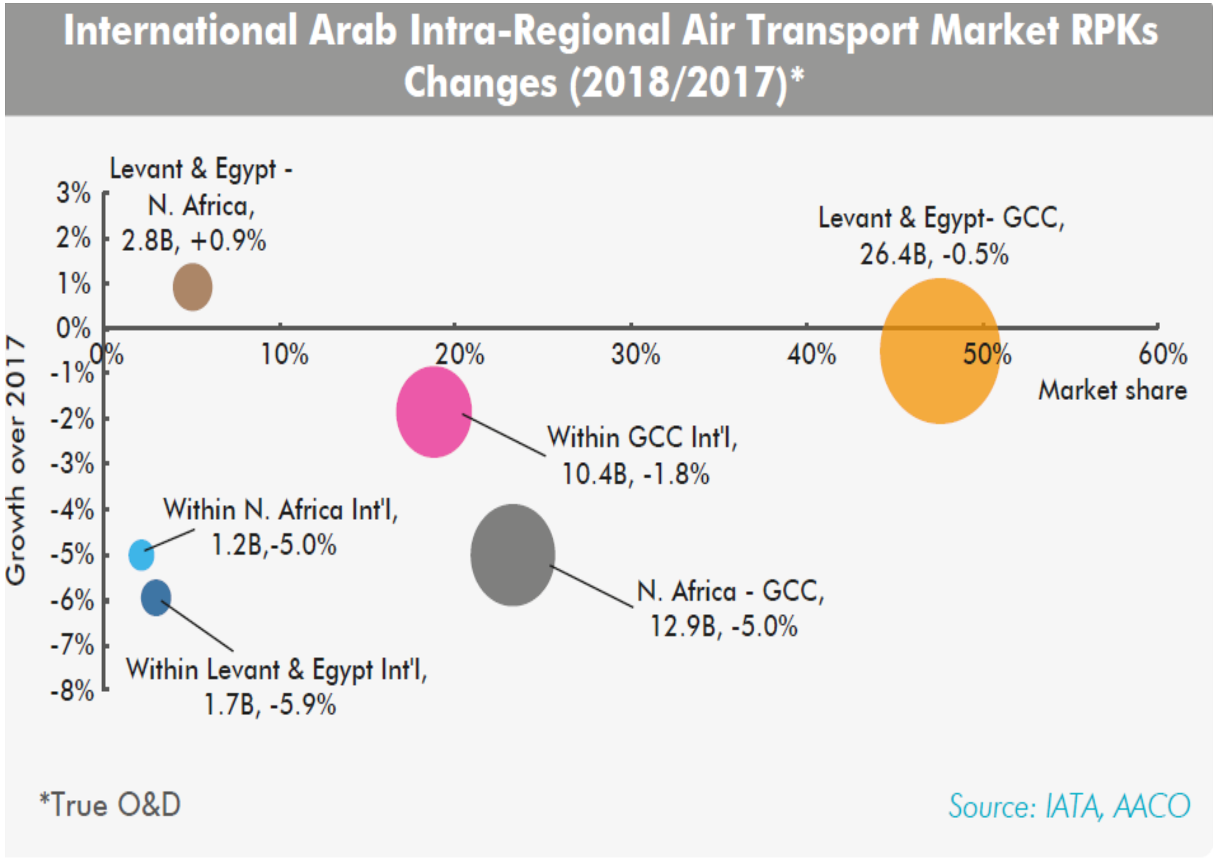
AACO Members' Passenger Traffic Distribution & System-wide Growth



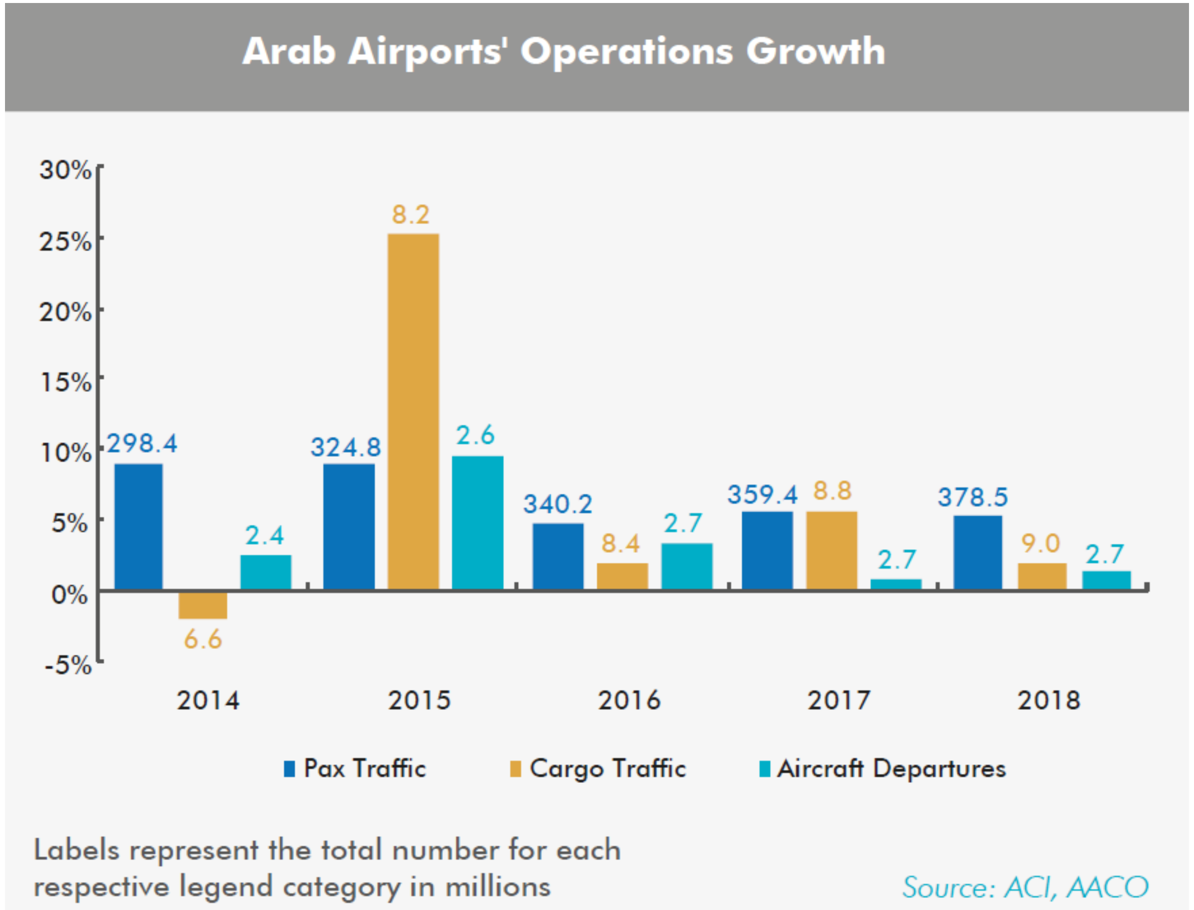
Source: IATA, AACO

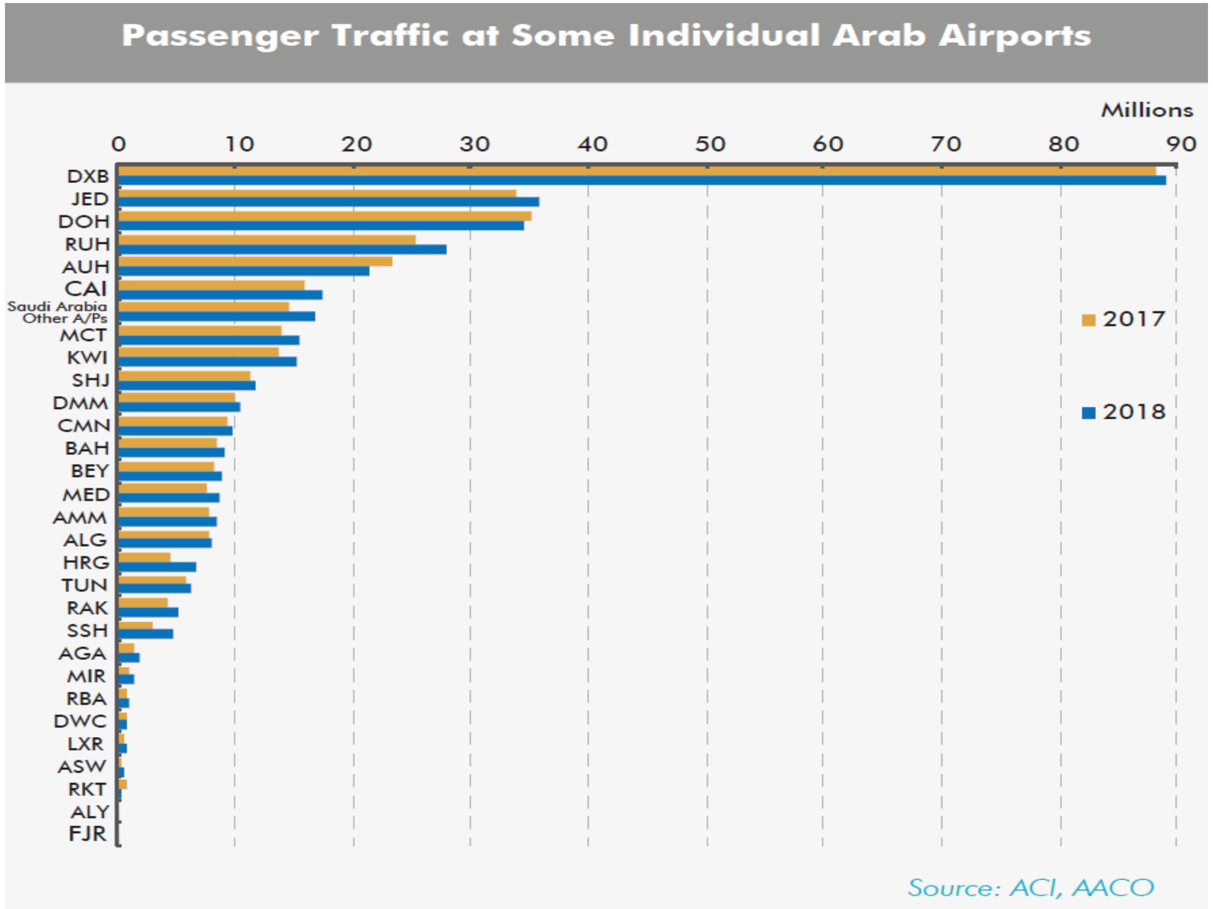
Arab Air Transport Market RPK Changes 2018/2017





Arab Airports Operations Growth & Passenger Traffic





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Middle East Airlines Outlook

- ✓ Very challenging environment due to external competition from larger carriers external to the region
- ✓ State support much more difficult to achieve due to reducing state revenues, regional political challenges, etc
- ✓ Still serious barriers to mergers and capacity rationalization
- ✓ Growth will continue but at a slower pace

Airlines: The original airport operators

Airport operators were originally departments within Civil Aviation Authorities and were considered not to have the technical or service culture to operate airport core services. Therefore, the airlines operated:

✓ Departure control systems (DCSs)

✓ Baggage handling systems and flight information systems (FIDs)

✓ Gate and slot allocation, etc

Airlines: The original aviation retailers

Also traditionally, airlines were considered responsible for bringing the passengers they transported. Using their influence, they therefore became the de facto operators of:

- ✓ Duty Free
- ✓ Catering
- ✓ Ground Handling and Cargo Warehousing, etc.

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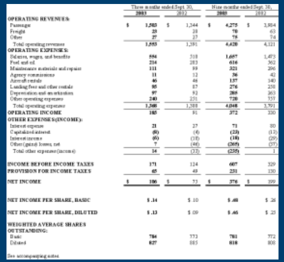
Airline Business Model

Cost Structures

Basic cost drivers in terms of aircraft ownership costs, fuel, maintenance, airport and overflying charges, insurance and HR salaries are substantially similar between all carriers from legacy to low cost

The only competitive edge between carriers are economies of scale and the efficiency of resource deployment and usage



	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2003	2002	2003	2002
OPERATING REVENUES:				
Passenger	$ 1,503	$ 1,344	$ 4,275	$ 3,984
Freight	23	20	70	63
Other	27	27	75	74
Total operating revenues	1,553	1,391	4,420	4,121
OPERATING EXPENSES:				
Salaries, wages, and benefits	554	518	1,657	1,473
Fuel and oil	234	203	616	582
Maintenance materials and repairs	111	99	321	296
Agency commissions	11	12	36	42
Aircraft rentals	46	46	137	140
Landing fees and other rentals	95	87	276	250
Depreciation and amortization	97	92	285	263
Other operating expenses	240	231	720	745
Total operating expenses	1,368	1,300	4,048	3,791
OPERATING INCOME	185	91	372	330
OTHER EXPENSES (INCOME):				
Interest expense	21	27	71	80
Capitalized interest	(8)	(4)	(23)	(13)
Interest income	(6)	(10)	(18)	(29)
Other (gains) losses, net	7	(46)	(265)	(37)
Total other expenses (income)	14	(33)	(235)	1
INCOME BEFORE INCOME TAXES	171	124	607	329
PROVISION FOR INCOME TAXES	65	49	231	130
NET INCOME	$ 106	$ 75	$ 376	$ 199
NET INCOME PER SHARE, BASIC	$ .14	$ .10	$ .48	$ .26
NET INCOME PER SHARE, DILUTED	$ .13	$ .09	$ .46	$ .25
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	784	773	781	772
Diluted	827	805	818	808

See accompanying notes.

Core Revenues

Airlines compete aggressively on ticket sales. prices are usually within 5-10 percent of each other on all O&Ds for similar services due to :

- ✓ Liberalization and open skies progressively since the mid 70’s
- ✓ Total competitive transparency in the online sales distribution systems and travel portals
- ✓ Over capacity and no barriers to entry

PLANE VISION

Airline Business Model

Loss of the non core airport retail businesses due to:

- ✓ Airport authorities becoming independent and subsequently privitizatized, wrestling back airport retail businesses, in addition to the basic airport services, for revenue generation
- ✓ Airline privatization and the separation and sale of non core businesses

Loss of Ancillary Revenue

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Airline Business Model

Airlines over the past 20 years have had to develop new sources of ancillary revenue, led by the example of low cost carriers, by:

- ✓ Developing and streamlining the traditional on board duty free sales and excess baggage revenues
- ✓ Unpacking the flight product by charging for physical check-in, seat selection, food, etc.
- ✓ Promoting the onboard magazine and advertising space on seat trays and overhead bins etc.

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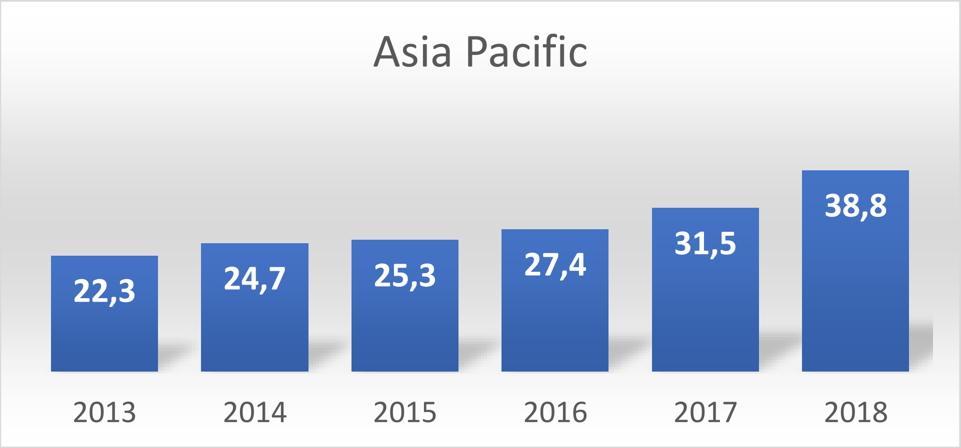
State of the Aviation DF Business

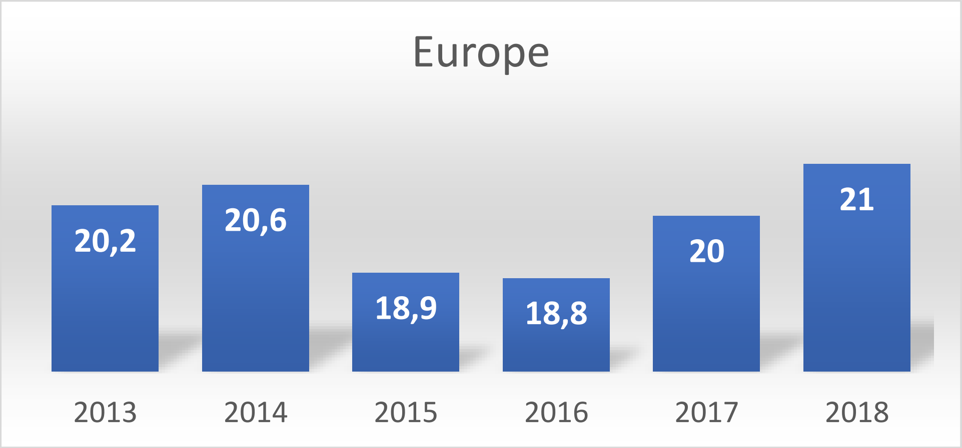
- ✓ Continuation of duty tax differentials as a financial incentive on international travel?
- ✓ Psychology of the air traveler a ‘captive customer ‘
  - Looser pockets, travel not an every day event
  - Boredom, waiting for flight, delays, inflight journey length
  - Visiting friends and relatives VFR , gifts etc.
- ✓ Growth of landside airport and online shopping malls

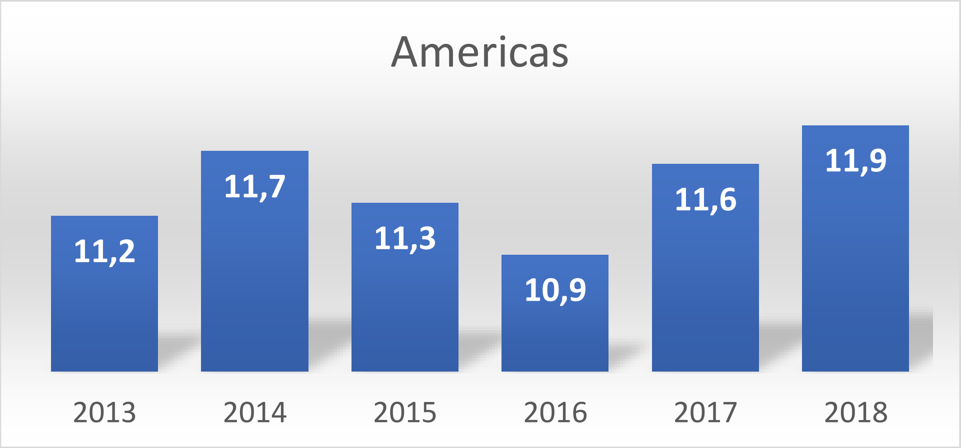
PLANE VISION

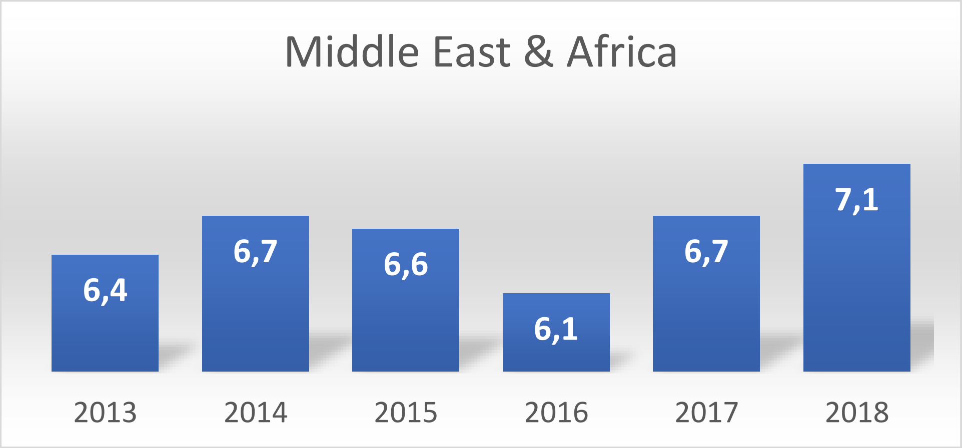
State of the Aviation DF Business

Evolution of sales by region – in USD billions









Source: GENERATION Research, Sweden

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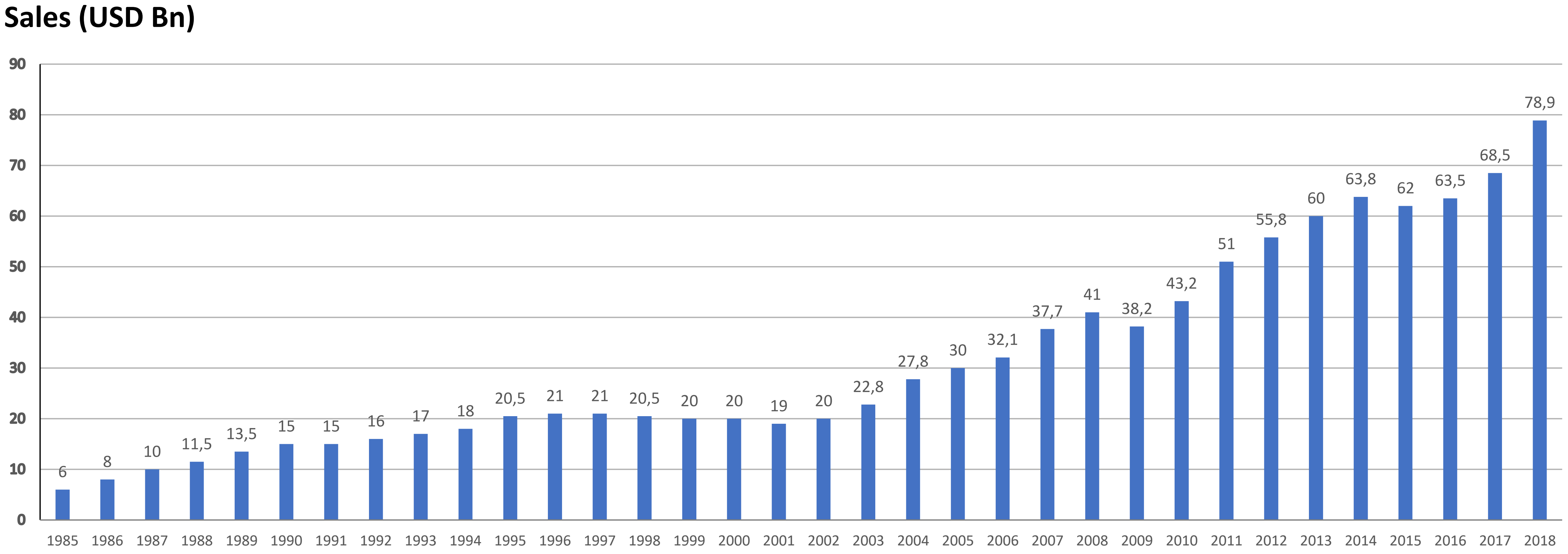
Evolution of duty free and travel retail sales 1985-2018

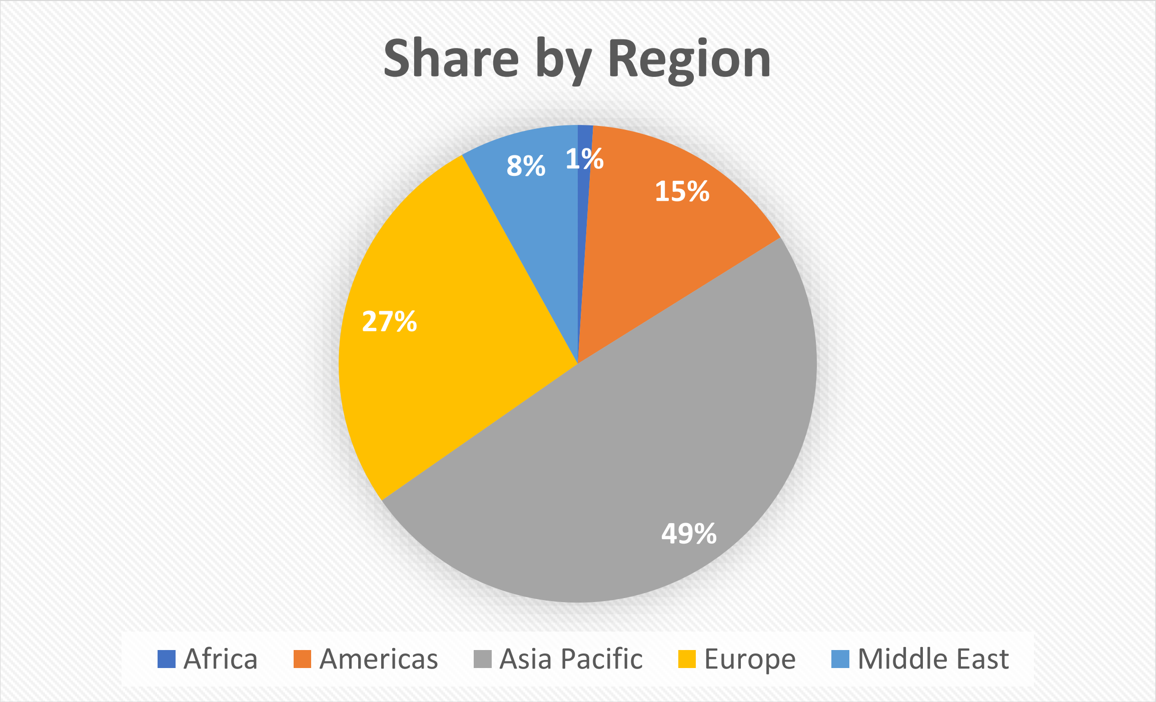


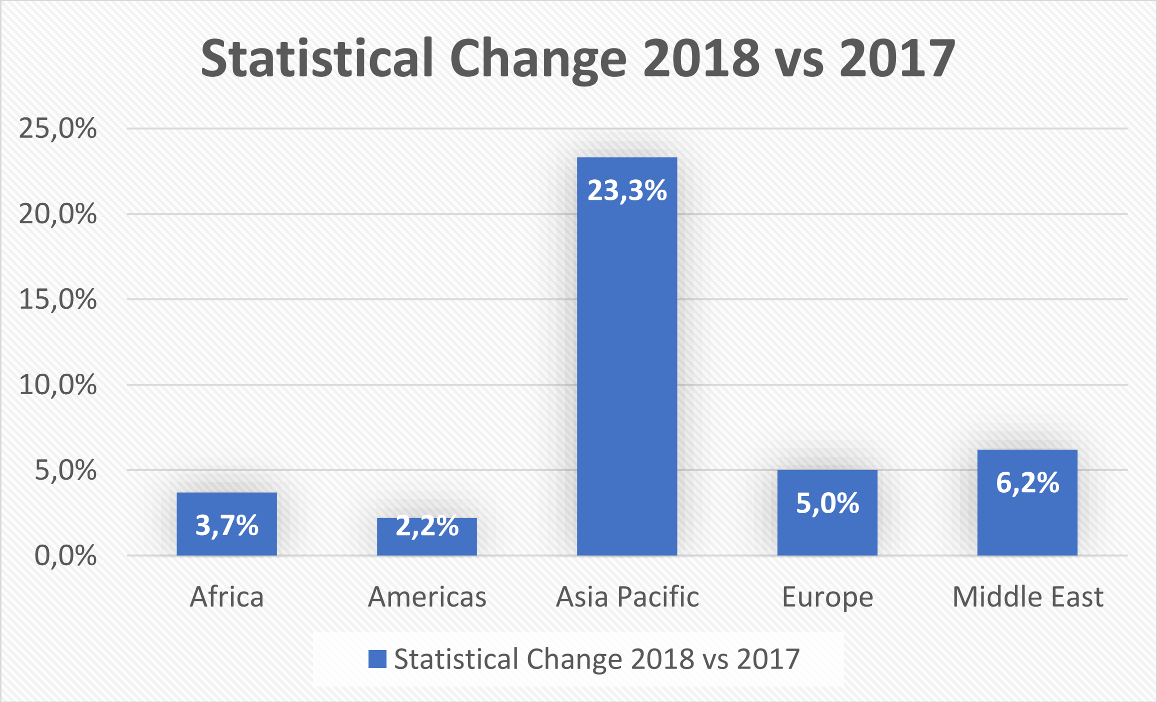
1 Asia Economic Crisis 1998
2 Intra EU DF Abolition 1999
3 Global Economic Recession 2000
4 Sept 11, 2001
5 Iraq War 2002
6 SARS 2003
7 USD Weakens 2004
8 Global Economic Recession 2008
9 Lehman Brothers Crash 2009
10 Global Debt Expansion 2010
11 Sovereign debt crisis 2011/2012
12 Currency War 2013
13 Ukraine Crisis 2014
14 Currency Fluctuations 2015

Source: GENERATION Research, Sweden

State of the Aviation DF Business

USD 78.9 billion - Global duty free & travel retail sales 2018

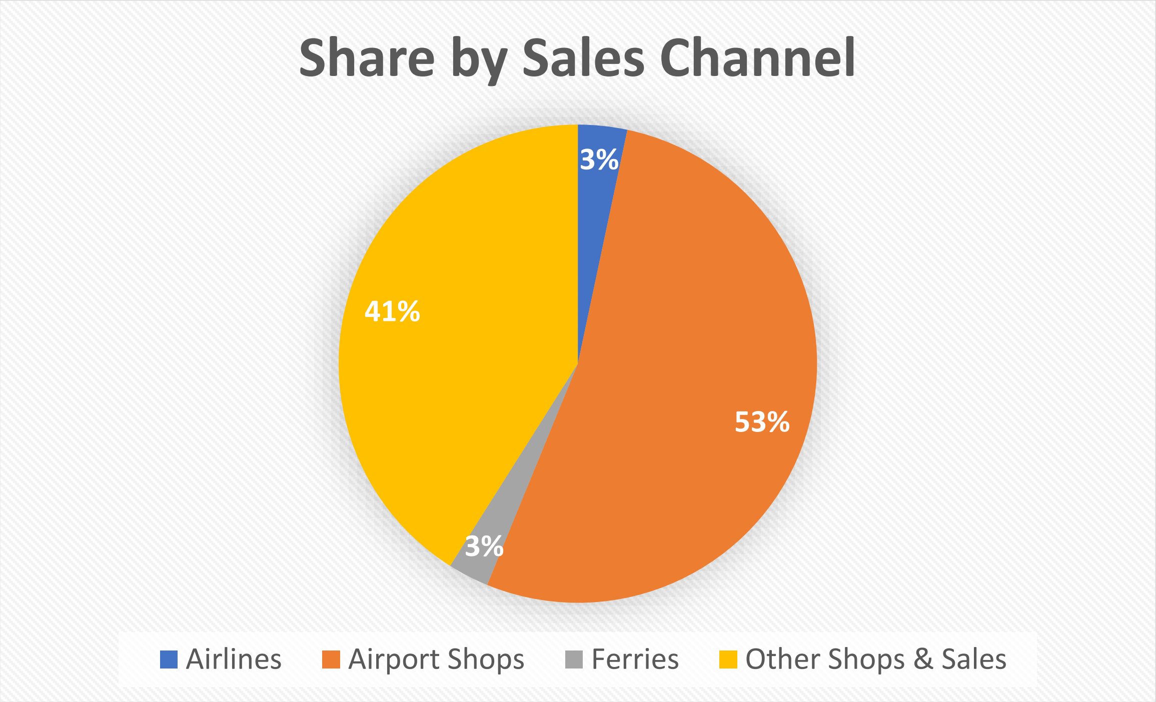


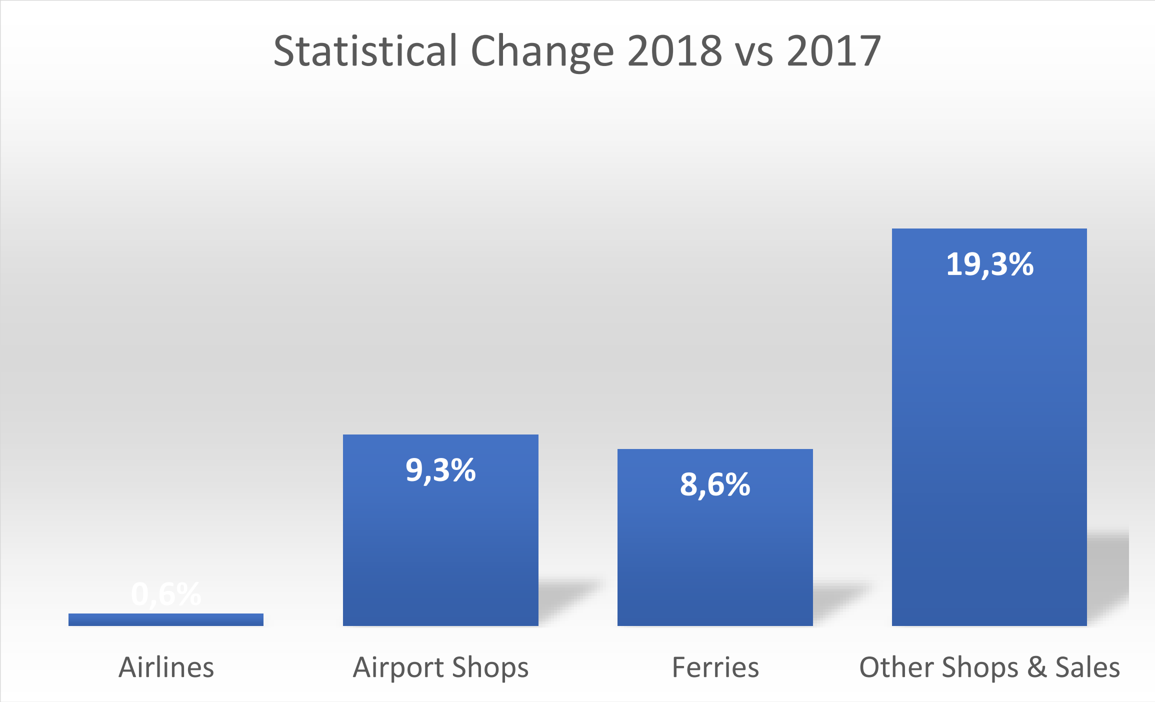


Source: GENERATION Research, Sweden

State of the Aviation DF Business

USD 78.9 billion - Global duty free & travel retail sales 2018





Note: Included in "Other shops & sales" are Downtown shops, Border shops, Diplomatic & Military, Cruise ships and Low tax areas

Source: GENERATION Research, Sweden

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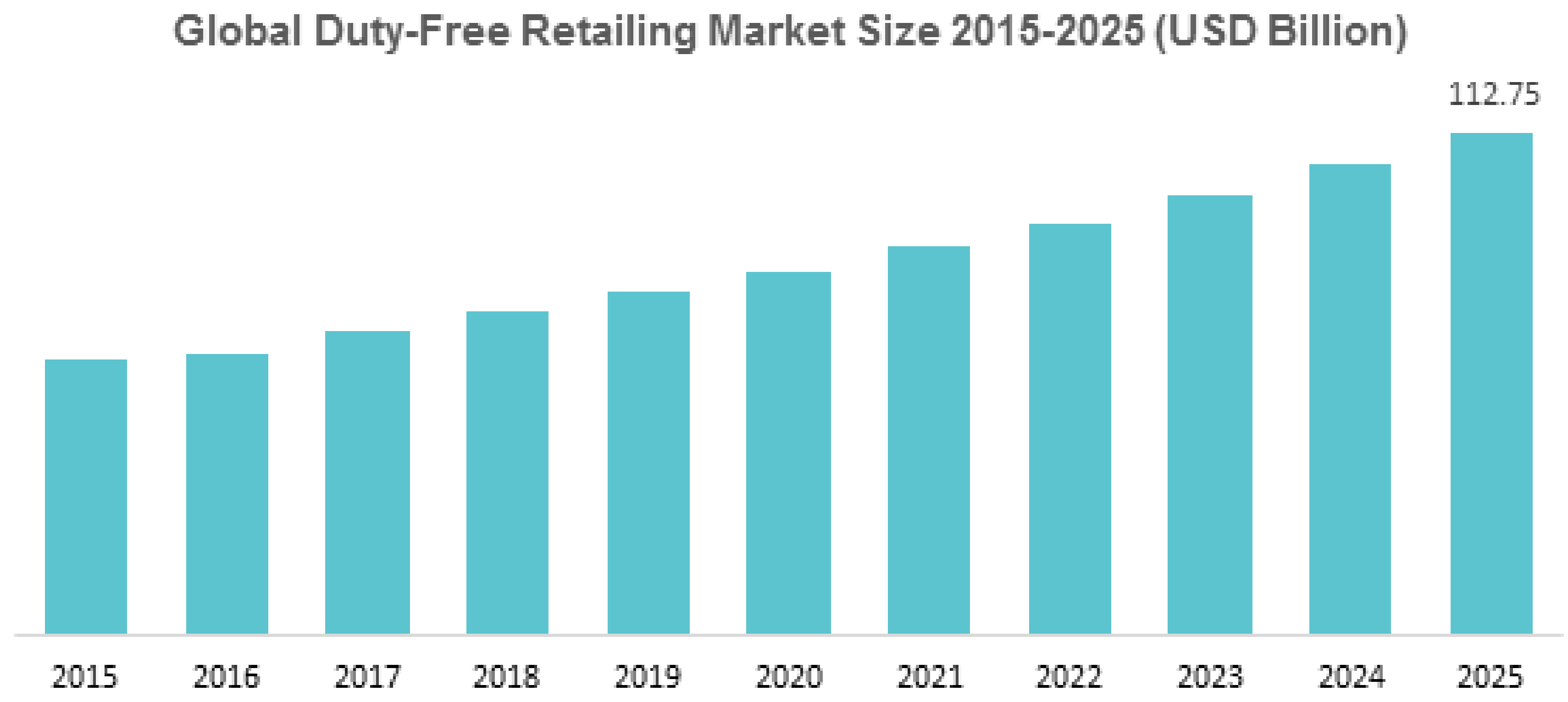
State of the Aviation DF Retail Business



Source: Adroit Market Research © 2019

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Partners or Competitors ?

Should airlines compete with duty free retailers or complement them ?

- ✓ Disadvantage over DF Retailers: consumer product retailing is not their core business nor do they have economies of scale , in addition to limited storage space on board
- ✓ Advantage over DF Retailers: captive customers; boredom; and more selling time on board the flight

An opportunity to complement each other by utilizing the power of the internet and inflight satellite communication

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The way ahead

On Inbound Flights:

- ✓ Develop the current arrangements with carriers to present the entire product range of the destination shop to the passengers onboard
- ✓ Finalize the sale and data link transaction to allow for delivery at the arrival gate or the baggage area for customs clearance
- ✓ Remove all products on board to allow for wider sample presentation
- ✓ Achieve space and weight reduction on board

PLANE VISION

The way ahead

On Outbound Flights:

Explore arrangements with each carrier on a route per route basis for sales on board of a customized product line, but based upon delivery to the passenger at his destination address

- ✓ Real time customs fees determination need to be incorporated in the price and the sales receipt
- ✓ A contracted service provider is needed to both clear the purchased item from customs upon arrival and arrange for delivery. The service provider will either obtain a customs waiver based upon the passengers travel allowance followed by a refund or arrange for the fees to be transferred to customs

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Thank You

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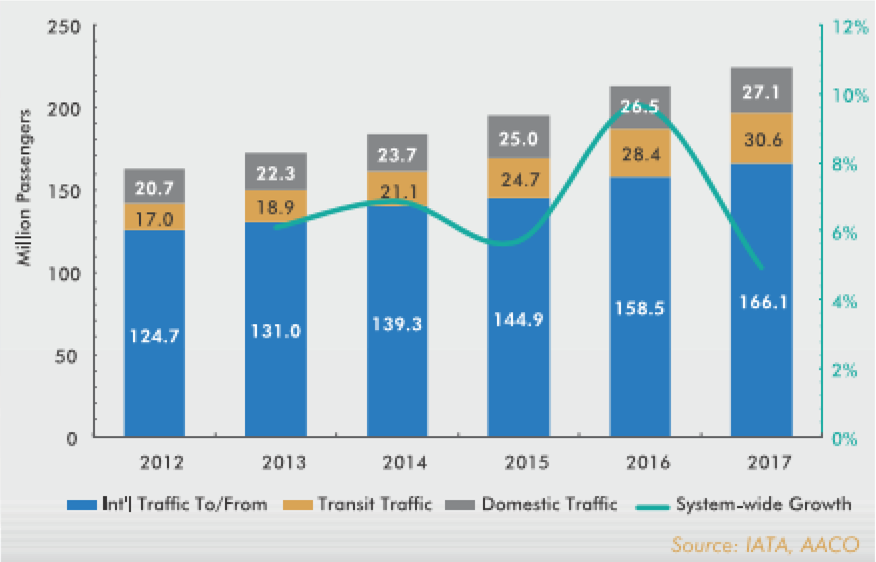

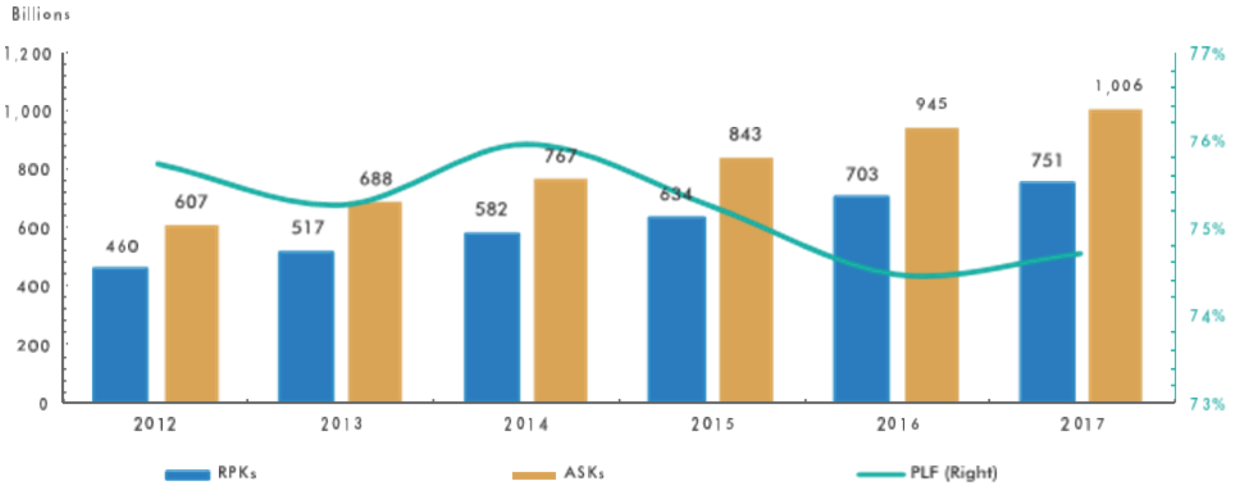

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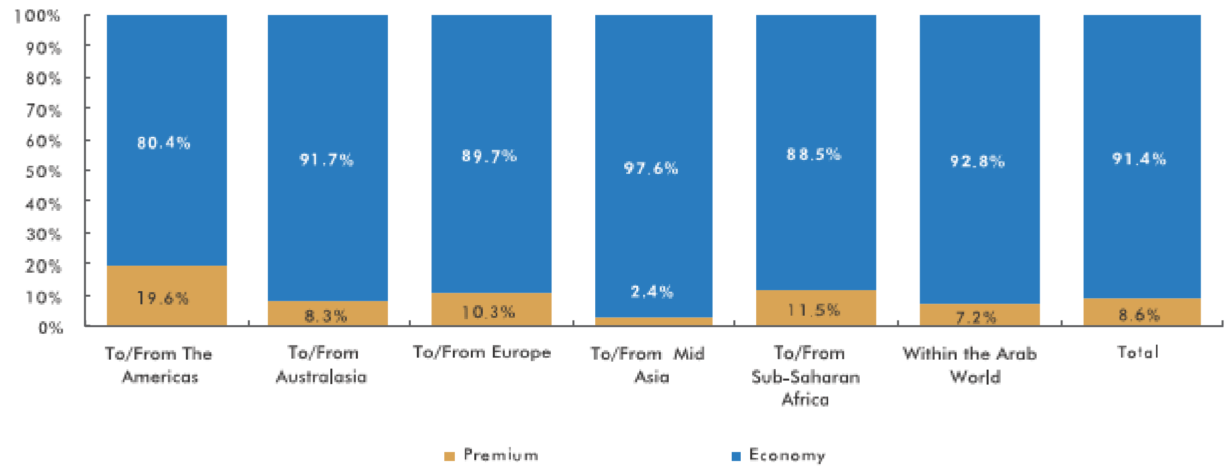
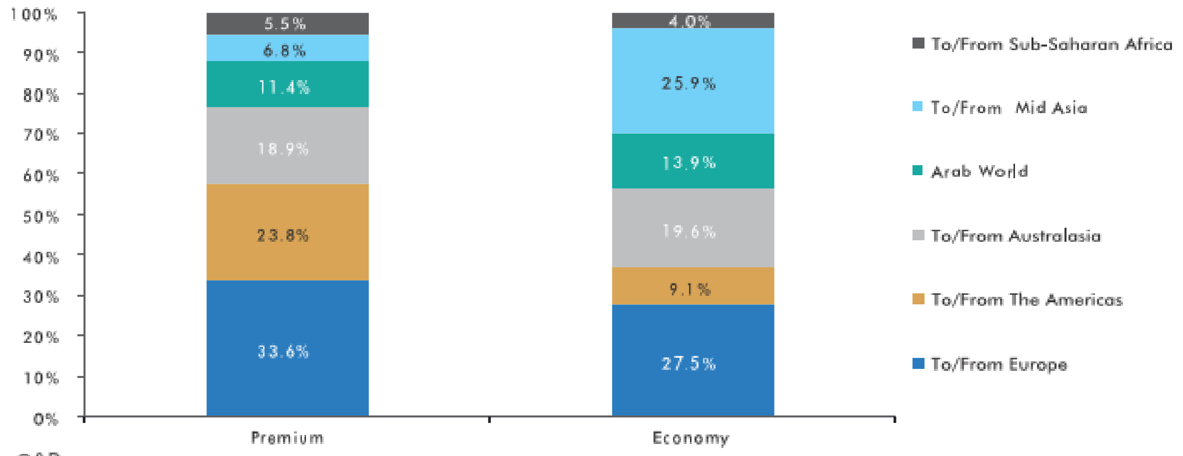


*True O&D

Source: IATA, AACO



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18.9%
23.8%
33.6%
4.0%
25.9%
13.9%
19.6%
9.1%
27.5%
Premium
Economy
To/From Sub-Saharan Africa
To/From Mid Asia
Arab World
To/From Australasia
To/From The Americas
To/From Europe

*True O&D

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