

# *Rising to your challenges*



1162	Istanbul IST		
1352	Palma Mallorca		
1382	Moskau DME		
1398	Brüssel		
150	Helsinki		
912	Doha		
753	Helsinki		
1824	Rimini		
185	Amsterdam		
	Frankfurt		

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*your priorities, our  
professionalism...*

*...doing great  
work together*

Our starting point is your needs. Being ready and able to rise to your challenges is what makes us a leading professional services provider to top-tier private and public sector clients in the airline and airport industries.

# Introduction



**Bernd Roesse**  
Global Airlines & Airports Leader



**Julian Smith**  
Global Transportation & Logistics  
Leader

You know more than most how airlines and airports literally keep the world moving. Vast quantities of people and goods are moving by air around the world around the clock. Air transport plays a vital role in business, trading and personal relationships within and between all regions of the world. More than three billion people and 50 million metric tons of cargo were transported by air in 2013<sup>1</sup>.

But you also know about the challenges facing airport operators and the airline industry. Airlines and airports have the lowest return on invested capital in the whole air transport value chain<sup>2</sup>. They are global industries where competition is in many senses more global than in other sectors. Investments have increased capacities in airports as well as airplanes and this competitive dynamic goes on.

Regulatory pressures are considerable. There is a constant pressure to lower the cost base but, at the same time, there is the need to innovate product and service offerings to maximise a share of the growing air transportation market. Growth itself is a big challenge for many airport operators as they strive to expand infrastructure capacity to match demand.

PwC works with airlines, airport operators and organisations throughout the air transport industry to help them respond to the challenges they face. Our strength is in matching our specialist capabilities and understanding of air transport with insights and global leading practices from multiple industries. We leverage the institutional knowledge, experience and solutions of our network of 195,000 professionals in 157 countries to support our Transportation and Logistics practice, itself a global network of approximately 5,400 professionals.

This statement of our capabilities aims to show you some of the many ways we can help you. Speak to us now. We live and breathe the industry and are ready to rise to your challenge.

Kind Regards,

A handwritten signature in black ink, appearing to read 'B. Roesse', written in a cursive style.

**Bernd Roesse**

A handwritten signature in black ink, appearing to read 'Julian Smith', written in a cursive style.

**Julian Smith**

<sup>1</sup> IATA Industry Facts and Statistics, June 2014

<sup>2</sup> IATA Economics Briefing No10, Profitability and the air transport value chain, June 2013.

# Your starting point is our starting point

*Central to the successful delivery of PwC's services is an in-depth understanding of today's air transport industry issues and an unwavering commitment to identifying innovative solutions that produce economic value. This is how we consistently earn the trust of our clients and why we are a leading professional services provider to top-tier private and public sector clients in the airline industry.*

Our global network of specialists not only understand the challenges faced by the industry, we know the organisations and businesses with which airlines and airports most frequently interact and have to succeed with. That ranges from regulatory relationships all the way through to the value chain both upstream and downstream. This big-picture perspective enables us to address the most complex and challenging business issues.

## ***Relationships that are built to last***

Our reputation lies in building lasting relationships with our air transport clients. This requires gaining their trust and taking your industry seriously. By this, we mean, investing in talent that knows the airline and airports business, and in initiatives that support the industry. We are committed to always expand and deepen our industry knowledge to increase our value to you and deliver significant results.

PwC continues to make significant investments in supporting the airline industry through investments in strong relationships with prominent airline associations. For example, as a strategic partner of IATA (International Air Transport Association), we share our industry and technical insights with its members and participate as sponsors and speakers at educational conferences. We also participate in IATA's specialised working groups to facilitate collaboration among airline industry decision makers while deepening our own industry knowledge.

We are also proud to conduct our annual Global Airline CEO Survey in collaboration with IATA to identify chief executive's sentiments, challenges and priorities.

We have invested in our Corporate Finance Transport Infrastructure Delivery Centre which provides a specialist air transport research capability on hand to resource global aviation projects for a range of public and private sector clients. These projects have involved the extrapolation and analysis of significant datasets, traffic modelling, economic impact analysis, demand modelling and policy analysis.

## ***Practical strategy to execution advice***

PwC and Booz & Company have come together to form a new kind of consulting business – Strategy&. It's part of the PwC network and offers a full and integrated strategy-through-execution offering drawing on expert capabilities and customised to each clients' needs.

As separate firms PwC and Booz & Company both had considerable complementary experience in the airport and airline industry. But now together as PwC Strategy &, you get much more. You get practical strategy advice from people who understand the opportunities and risks involved in implementation—and execution expertise from people who understand the strategic context.

## ***Multi-disciplinary rigour***

We bring together the precision, structure, and deep analytical capabilities of audit and tax and the creative mindset and problem-solving skills of consulting. We are objective in our work and careful to use fact-based approaches and replicable methodologies. We begin with the end in mind and consider implications across strategy, structure, people, process, and technology.

We focus on action, impact, and value – we don't just assess and recommend; we also help you implement with agility and flexibility. We take advantage of our global reach and inter-disciplinary talent to deliver what you need, when and where you need it.

## ***Strategic partnerships***

We support the development of thought leadership and discussion in the industry through our strategic partnerships and involvement with a number of industry bodies, including:

- International Air Transport Association (IATA)
- Airports Council International (ACI)
- SAP User Group for Airlines (SUGAIR)
- Oracle User Group
- Aerexchange User Group



# Putting our services to work for you

PwC's global airlines and airports industry team focuses on delivering professional services to companies of all sizes, across all segments of the industry. We're on hand to respond to your priorities with industry-specific solutions in the fields of audit and assurance, transactions, consulting and tax to help address your business and stakeholder issues.

## **Audit and assurance**

PwC audits major companies across the aviation industry, including many of the world's most respected airlines and airports. Aviation companies want audit teams that know their issues and understand their business challenges. Our professionals bring a high level of aviation knowledge to their work and receive specialised training, including regular updates on airline and airport issues. We have the knowledge and experience necessary to help you with complex financial accounting matters such as valuations, pensions and share plans, listings, International Financial Reporting Standards (IFRS) conversions, corporate treasury and company secretarial functions.

PwC auditors around the world use a single, global audit methodology, fully compliant with International Auditing Standards and applicable national standards. Our globally consistent approach to audit means that, regardless of location, PwC people can understand and evaluate your business systems, and processes using a single language and common methods. In turn, that gives you a uniform level of quality in all our audits. This methodology also enables us to quickly organise and deploy the kinds of multinational audit teams often required by our larger aviation clients.

Our member firms audit many of the world's best-known companies and thousands of other organisations both large and small. Our audit approach, at the leading edge of best practice, is tailored to suit the size and nature of your organisation and draws upon

our extensive industry knowledge. Additionally, we are leaders in the development of non-financial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance, and business models based on the principles of sustainability.

## **Advisory services**

The needs of airlines, airport sector companies and other industry stakeholders lie at the heart of our thinking and expertise. Whether you are pursuing new opportunities, responding to events or coping with the daily pressures of growth, we are there to help. We do this by creating unique, value-added solutions based on the combination of industry knowledge, subject matter expertise in our Consulting and Deals teams, and our collective experience and expertise from all areas of PwC.

## **Consulting**

We help you create the value you are looking for. We understand aviation clients are facing a multitude of challenges as well as opportunities. Our specialist teams work with yours to innovate and grow, improve operations, manage risk and regulation, and leverage talent.

**Growth and innovation** – the pressure on aviation companies to find new sources of growth and deliver greater efficiencies through innovation is intensifying. Airlines and airports companies are continuously reassessing their potential for growth through innovation powered by new technologies. We help companies get closer to their customers, understand the role innovation plays in their growth strategy, and assist them in structuring and allocating limited resources to deliver profitable market results. We do this by applying our deep knowledge of the airlines and airports industry, supported by rigorous market, economic and financial analysis, to enable business growth.

*We have over  
5,400 specialists  
worldwide...  
...who are dedicated  
to the transportation  
and logistics industry,  
giving you the  
industry insight that  
your projects require.*

**Improving operations** – in an industry facing continuously increasing fuel, labour and other costs, finding ways to increase productivity and take cost out of operations is key to commercial success. At the same time, companies can expect continued and, indeed, greater demand from customers asking more of their organisation and their supply chains. We bring together capabilities in process improvement and finance effectiveness to help you optimise your operating processes and supply chain. Our experts help you transform your important value chain functions, from customer management through maintenance and sourcing of services and goods. We apply proven cost management methodologies and, responding to changing conditions, bring agile responses to achieve lasting sustainable benefits.

**Leveraging talent** – getting the best from people at every level when there is constant change is the key to sustainable competitive advantage. Solid strategies, processes and technology alone do not deliver results. It takes people to accept, adopt, drive, and sustain the change to have a real impact. Success in business hinges on strategic agility and the ability to execute.

**Managing risk and regulation** – we support our clients in identifying, understanding and managing risk and help ensure an appropriate balance between risks and opportunities. We also assist businesses in designing and implementing governance and compliance programmes to ensure that companies continue to operate within the boundaries of relevant legislation and regulations. This includes building a culture of doing the right thing.

### **Deals**

Globalisation of the aviation sector is moving forward on a number of fronts. Deals are crucial to many airlines' and airports' company strategies. That's why we work together with clients to help determine the right strategy that best suits their needs. Our goal is to help clients meet their strategic priorities and growth targets so that they deliver value for their shareholders.

We are well known in the aviation marketplace for our experience in major deals across key markets. Whether it is gaining a presence in growth markets or selling assets to fund other investments, we advise and implement to ensure the maximum value for our clients. Our experience extends the deal continuum from strategy through execution to post-deal integration.

### **Tax services**

We have the largest network of tax specialists in the world, with over 30,000 dedicated tax specialists in 150 countries. This means that we can support you both locally and globally, wherever you require tax advice. Our tax professionals solve challenging issues, anticipate changes that can impact your tax situation and financial statements, and keep you apprised of local, state, domestic and international tax regulations as they relate to your company's operations. We can help you construct effective cross-border strategies and manage your global structural tax rate and advise on the best tax strategy for a range of situations such as mergers and acquisitions, joint ventures and other new projects.

### **Human resources**

With more than 6,000 professionals in over 150 countries, the PwC network has one of the world's largest human resource (HR) advisory organisations. Our multidisciplinary approach allows us to advise on all aspects of people management, helping our clients to create value and deliver competitive advantage for their businesses through people.

# Putting your priorities first

## Strategy development

*Razor-thin margins in much of the sector make the difference between making and losing money very slim, putting a big onus on getting strategy development right. And then it's vital to link overall strategy to the day-to-day operations. Many airlines have borne the brunt of a misalignment between the two. For example, a low-fare market strategy without a lean cost structure to support it, or an ambitious customer acquisition plan lacking the product innovation to make it happen.*

To compound matters, airlines are faced with such market uncertainty and volatility (in terms of both fuel price and customer demand) that operational strategy must be flexible enough to adapt quickly to changing conditions. The challenge is not just to get the operational strategy right to support the overall strategy, but also to relentlessly implement, monitor, revisit and adjust to keep up with the pace of the industry.

### **How PwC can help you**

#### **Strategy development and support for key decisions**

We've conducted strategy and business planning exercises for many airlines, including a new corporate organisation structure for a European carrier, corporate restructuring for a large Asian carrier and the development of a new growth strategy for a low cost carrier in the Middle East we can also provide you with the analysis needed to support key decisions, using a fact-based, data-driven approach. PwC uses a combination of global industry subject matter expertise, tool-based analytics, interviews with key stakeholders, site visits, and research using our airline benchmark performance data and leading practices. We then 'sweat the details' and provide an independent view of where, when and how to deploy your financial and operational assets to maximise the returns - in individual functions or at the corporate level.

#### **Network, route and fleet planning**

Good network optimisation and planning is essential for profitability growth for both airlines and airports, whether through optimising existing route and capacity management or identifying the growth routes of the future. Our methodologies and

advanced analytic capabilities can help you identify the most immediate, profitable and emerging market opportunities as well as take a hard look about getting better results from existing networks. Rigour in revenue management needs to go alongside network and capacity planning. PwC can assist with a range of services to deliver improvements to your revenue modelling and revenue management activities.

#### **Choosing and designing the right operational model**

Low cost or premium fares? Pay-as-you-go or bundled offerings? Regional or ultra-long-haul? In-house or outsourced MRO? Spot or hedged price fuel? Single operator to shared functional services within an aviation holding? Alliance and joint venture relationships? The number of dimensions that airline executives have to consider, and reconsider on an ongoing basis, is daunting. PwC supports decision-makers with its set of industry leading practices and benchmarks in choosing the right model for their geography and market and then designing it. We understand the linkage between operating model options and the bottom line and can help you with a business case to support major decisions.

#### **Strengthening your commercial strategy and operations**

It's no good having the right business strategy if there are weaknesses in your commercial strategy. Your strategy needs to be supported by a sound commercial strategy, operating model and support functions. We can help you improve your commercial functions. Whether it's traffic forecasting or capital expenditure planning or revenue modelling, reviews of front-end business models (e.g. customer

segmentation strategy, channel strategy, customer analytics), reviews of back end operations (supply chain assessment for catering and MRO, organisational structure and governance, financial function, procurement), we are on hand to help. The outcome is a set of focused and practical recommendations that will help your operations serve the corporate strategy and ultimately unlock top and bottom line improvements.

#### **Organisation and change management**

We can provide support to help you deliver change with a detailed roadmap for change and a distinctive hands-on approach by which we work alongside your functional teams, rather than outside, to accompany them in the transformation journey. We can be as prescriptive or as collaborative as your corporate culture requires us to be. Operational or technological change needs to be accompanied by concerted efforts to make sure that people understand the changes and are in a position to make the most of them. PwC can help you deliver the programmes that are needed to get the all-important buy-in to change and then to maximise its impact.

#### **Airport commercial space masterplanning**

Non-aviation business drives the revenues for airports. Therefore it is essential to plan and build state-of-the-art commercial spaces and integrate them in an intelligent way into the existing aviation operations. We help airports to draw a masterplan and to consider the necessary outside-in view for the business behind commercial spaces bringing in our experts from our global real estate and retail & consumer networks. The masterplan is underlined with a detailed business plan and a roadmap which helps the management to deliver results.

#### **Airport operations and planning**

We provide strategic advice through the entire airport value chain from aeronautical operations to non-aeronautical revenue opportunities. We can help you with your strategy development, asset valuation and competitive positioning, as well as commercial and surface access strategies.

## Impact

PwC designed and ran a transformation programme to deliver what was a major organisational change. The focus was on efficiency, effectiveness and compliance. The new terminal included a full US Customs and Border Protection “Customs Preclearance” facility, one of only two in Europe and just thirteen in total worldwide. The transformation programme also established a ‘best practice’ governance model, able to meet all day-to-day requirements, including major incidents.

## Working together – building and implementing a best practice target operating model

### Context

PwC was asked by one of Europe’s top international airport operators with a turnover in excess of €550m, to help it design and develop a new organisation capable of running a new terminal in an efficient, effective manner. The client had six months within which they had to trial the terminal building functionality, interview and hire a management team and staff, develop its processes, procedures and reporting infrastructure, develop a new culture for the new company, develop new contracts for staff (from the original terminal), train the staff, run operational trials and then open the new terminal for use by the public.

## Working together – strengthening disruption resilience at a major global hub airport

### Context

Following major winter weather disruption, an independent enquiry panel made 14 recommendations to enhance the resilience of a major global hub airport. The airport owner / operator asked PwC Strategy&, then Booz & Company, to lead the strategy, design and management of the resilience improvement programme. The improvements had to be implemented and ready within eight months, in time for the next winter season.

### Approach

We were responsible for the programme strategy and design, including the facilitation of six planning workshops with client senior management, as well as the day-to-day management of the programme. In total there were three major initiatives, 14 workstreams, 100+ milestones and 700+ different activities, all under the leadership of a programme management office. We also conducted an assessment of best practice for passenger welfare and snow operations by way of interviews of senior managers at leading global airports.

## Impact

The programme achieved over 80 tangible outcomes including: additional equipment, enhanced facilities, IT solutions, additional internal and external resources, coordinated processes & protocols, external peer reviews, training and testing. It was soon put to the test with significant enhanced levels of resilience during subsequent real incidents including volcanic ash, industrial action and early season snowfall.

## Working together – revenue management and network optimisation at a leading US domestic passenger airline

### Context

The airline had relied on historical passenger demand data (last four quarters) to predict industry passenger demand. Existing methodologies ignored the effect of external economic conditions, pricing changes, or any other external events on demand. The client wanted to develop a route level forecast of total demand for air travel, intended to optimise route and capacity planning and to identify new routes for market entry.

### Approach

PwC designed a methodology to identify the factors affecting passenger demand on routes, by leveraging macroeconomic, demographic and other external data at a local, state and national level. PwC developed a prototype solution for predicting route level demand across six different routes/route-types, with an overall mean absolute percentage error (MAPE) of <6%. We also developed a future state analytics modelling and rollout plan to implement and scale the models to the entire airline network.

## Impact

The airline’s Revenue Management and Network Optimisation group was able to optimise its network planning and efficiency through better prediction of industry passenger demand at a route level.

# Improving profitability

*With a persistent track record of one of the lowest returns on invested capital among all industries, profitability is a challenge in the airline and airports sector. This situation has persisted across many market cycles and shows only limited signs of changing on a global basis. New business models, have come into mix and there is a great variance in profitability across regions.*

Instead, a variety of factors explain each instance of high profitability. Individual comparative cost-advantage is a key one and a great deal of focus has been on trying to get the cost base down to a level that is competitive with the best in the particular market that the airline is operating in. But reductions in the cost base have to be matched by strategies on the revenue side and a growing recognition of the need to compete in an environment of increasing customer expectations. Improving profitability is a fine balance between cost control and investment in the things that are going to lead to breakthroughs in the future and service innovation.

## **How PwC can help you**

### ***A focus on revenue maximisation and cost control***

We can help you focus on the all-important relationship between revenue and costs with a range of services. On the revenue side, we can help you strengthen network planning, revenue management, distribution strategy, ancillary services, product unbundling and digital platforms to better reach and connect with customers. On the cost side, we have a range of services that can support your efforts to become more cost-effective. We summarise some of the ways in which we can help you control costs and boost revenue in the following paragraphs.

### ***Being Fit for Growth\****

Fit for Growth\* is PwC Strategy&'s approach to transforming your company's performance and accelerating growth. It's based on taking a more strategic approach to cost management in order to prepare for the next round of growth. Being able to expand requires work on three complementary, reinforcing elements — determining strategic priorities, optimising costs, and reorganising for

growth. Our Fit for Growth approach is designed to help you develop and lock-in capabilities that keep resources flowing to 'good' costs and away from 'bad' ones. The outcome is an adaptable, high-performance culture positioned on an accelerated path to sustained growth.

\* Fit for Growth is a registered service mark of PwC Strategy& Inc. in the United States.

### ***Managing fuel costs and other financial exposures***

Airlines face some critical decisions when it comes to managing fuel costs. Hedging is central to many airline strategies but others choose not to hedge at all. We can help you determine what approach across a broad spectrum of options is best for your unique situation. We can also assist if you decide to pursue other routes to managing fuel price risk, for example moving up the fuel supply chain through the ownership of assets. And we can support your efforts to reduce your fuel consumption altogether by, for example, better flight planning. We can also help you optimise other critical financial exposures, with currency and interest rate risks most significant among them. And when you're ready to evaluate the use of alternative fuels and more sustainable business models, we're ready to help.

### ***Making alliances and joint ventures more profitable***

The constraints on mergers in the sector have led to extensive use of alliances and minority ownership structures. But both raise governance issues and bring with them the danger of complicated decision-making. This can be a barrier to delivering full value from initiatives. Even where airlines have been able to take full ownership they have sometimes been slow to deliver gains from possible synergies, even as basic

as shared back office functions. PwC can help you deliver better value from existing alliances and JVs while also looking at alternative cooperation and consolidation options.

### ***Ancillary services, merchandising and retailing***

Airlines and airports are relying more and more on ancillary services to drive their revenue growth, whether it is disaggregating elements of the journey with fees for baggage, catering, boarding and seating choices or packaging these and other services in enhanced and premium ticket offers. They can also secure important additional revenue streams from bundling, cross-selling and adding additional offers to provide a more complete travel package. Among our services, we can help you develop pricing and inventory management strategies for bundling, cross-selling and up-selling ancillary services, methodologies and systems for dynamic pricing and new retailing techniques to drive sales.

### ***Sourcing/procurement improvement***

We can help your efforts to reduce cost while maintaining quality by, for example, supporting your moves to more strategic sourcing, which is an important way of improving your value to price ratios. PwC can perform a comprehensive, fact-based evaluation of the current-state organisation and conduct rigorous due diligence on the global sourcing alternatives available. We can help you move to a more data-driven, real-time digitised relationship with suppliers as well as identify opportunities to improve procurement terms and processes.

## Working together – revenue modelling and ancillary fees at a leading US carrier

### Context

The client had introduced a no-baggage fee campaign to gain market share. Wall Street analysts were questioning the success of this campaign, given the implied loss of revenue. The client team had built a regression model which predicted its market share vis-à-vis the rest of the industry. The client wanted PwC to validate the models developed, advise on possible improvements in the modeling process and robustly measure the efficacy of their marketing campaign.

### Approach

PwC highlighted the deficiencies of the existing model in meeting some basic assumptions of regression. We recommended a series of steps including time series and segmentation analysis to assess and build on the model to further explain the market share impact of baggage fees.

### Impact

A better analytic roadmap, ability to estimate the market share impact of a campaign through multiple techniques such as customer-switching propensity, prospect-switching propensity and time series analysis.



## Working together – optimising the set-up and steering of airline cooperations

### Context

The client had entered into two major airline cooperations in order to improve its customer offering and strategic position in vital markets. The aim of the cooperations was to secure a joint-optimum position for the partner airlines and their customers. But there were difficulties in ensuring effective operational decision making. The aim of the assignment was to increase transparency and understand what measures, processes and organisation were necessary to ensure an optimal steering of the cooperation.

### Approach

PwC carried out an assessment of network coordination, inventory steering, pricing management and sales across all key affected markets as well as a review of the cooperation revenue sharing agreement. This was used to identify short and long-term measures that could significantly improve the ability to monitor performance, speed up decision-making and the implementation of decisions within the group-wide organisation and core hubs and outwards into the cooperation partners. We also evaluated engagement activities with potential future partners to determine the minimum requirements in order to efficiently manage these within the wider group.

### Impact

The approach won buy-in from the executive board and the advisory board. PwC developed operating model scenarios for managing the cooperations. Amended organisation structures, detailed roles and responsibilities, necessary process changes, ways of working, areas for sales channel collaboration and validations against known use cases and challenges were devised. We also developed an overall cooperation cockpit across network capacities, inventory steering and sales for steering the cooperations. A minimum requirements framework across the various airline functions was developed together with a straw-man template for use in future cooperations.

# Customer experience and loyalty

*Rapid advancements in technology platforms, digitisation, mobile connectivity and customer expectations are creating the conditions for airlines to extend and deepen direct relationships with end customers. Securing more direct relationships offers the prize of margin enhancement as well as greater customer loyalty. In the air and on the ground, customers are expecting airlines to think more like other service providers and retailers and less like transportation operators. That means being more innovative and improving the use of data analytics.*

A tailored customer experience is expected by today's travelers and requires integrated processes, service teams and information systems that support customers through the entire customer journey. A great customer experience is key to gaining passenger loyalty. Loyalty programmes that can then reinforce and extend that experience are important for both increasing competitiveness and generating revenue. Such programmes also provide airlines with detailed information on their customers allowing further opportunities to increase revenue as well as improve customer services. In the future, better and more sophisticated use of data analytics can also pave the way for a move from capacity-driven to customer-driven pricing.

## **How PwC can help you**

### ***Better customer experience and product innovation***

Successful airlines provide the most desirable, differentiated and satisfying customer experience day-in and day-out. But they still face a challenge to introduce innovative product propositions that can truly stand out. Integrated passenger service systems that take a holistic approach to reservations, operations, servicing and loyalty are an important part of providing a consistent end-to-end travel experience. PwC can help with the development of more customer-centric systems. We can also help you understand customer needs and move to a more innovative footing. Our customer experience team uses several techniques including journey mapping, customer analytics, and behavioural

economics to identify and unlock opportunities in your organisation. We help businesses find and unlock the often hidden sources of value that drive exceptional, differentiated customer experience.

### ***Improved customer analytics and personalisation***

PwC can help you with analytics and profiling to increase customer value through a data driven understanding of customer behaviour and its financial significance to the company. We will help you build a multi-channel marketing approach which will allow you to maximise value. We can help you to build a flexible foundation with scalability for growth and change with integration across various platforms. We also provide customer data and information management to build a sound foundation for customer relationship management and enhanced loyalty.

### ***Loyalty programme strategies***

Loyalty programmes can help you gain a committed customer base and maximise its value. Your strategy will depend upon what your objectives are and what you want to achieve. PwC can help you to understand the external forces in the market that will play a role in shaping your strategy, support you in articulating the value proposition and identify programme economics to understand cash flow and profitability. We will help you structure your programme and integrate it across the organisation to create a consistent customer experience and engage members across all possible points of contact. We can identify key drivers of loyalty and develop a tracking

and governance structure to measure performance versus programme and company goals. We can help you to manage your currency to optimise pricing of current sales and redemption products. Liability and regulatory issues can be managed through the implementation of risk models.

### ***Developing more effective loyalty programme business structures***

We believe there is untapped value in many airline loyalty programmes that can be realised through internal restructuring or separation into a third party business. There is an opportunity to clearly define a programme's structure as a standalone business focused on driving profit and generating value for the airline. It may also offer the possibility of raising finance by monetising part or all of the airline's ownership. We can help you look at the key value streams in your loyalty programme business model and examine the ways in which a more well-defined and focused structure can work for you.

### ***Making the most of airport retail operations***

Airports are prime retailing locations. We can measure the potential demand and value of retail and other commercial operations such as car parking. We can help you examine the link between passenger growth over time to demand for retail and other commercial operations. We have internal databases to analyse and benchmark current performance in terms of overall sales, the mix of stores and operations along with performance over time to identify underperforming assets and operations along with upside potential. We can also help you understand better the physical drivers of performance such as the location of stores in relation to passenger flows, dwell areas and lines-of-sight and the implications for revenue taking into account current layout as well as future plans for terminals and associated developments.

## Working together – transforming a loyalty programme into a loyalty business

### Context

A major international airline wanted to increase the profitability of its loyalty business unit. But it faced several challenges - there was no implementation roadmap, it lacked definition for its core capabilities, and its IT was intertwined with its legacy systems and supported by a small IT organisation. PwC was asked by the airline to develop an IT and operations strategy to support the growth and profitability of its loyalty business.

### Approach

PwC worked with the client to design business capabilities and a future-state architecture that served to establish core operations to manage the loyalty business. The combined team developed flexible redemption and accrual management; created data assets and analytics; and delivered targeted marketing and communications capabilities, which enabled multiple loyalty programmes and coalitions for the client.

### Impact

PwC provided the airline with an actionable US\$80m plan, able to support a \$1.6bn growth strategy. The plan included a functional model for core capabilities and a future-state architecture that enabled speed-to-market and minimal organisational overhead.

## PwC – at the forefront of digital technology

Our customised set of digital solutions help you make performance and profitability change across your organisation, creating disruptive value. We've made strategic acquisitions globally, strengthening our capabilities and putting PwC's Digital Services at the forefront of the sector.

We can help you determine the best digital opportunities for your airline or airport business:

- Digitising the business - enhancing engagement and performance by implementing digital technologies in all relevant parts of your operations.
- Digital engagement – exploring and exploiting new growth and customer engagement channels through digital.
- Disruption - helping you make the right digital decisions before your competitors do.
- Trust – using digital technologies to manage risk and build trust.

Don't just take our word for it. Our digital service offering is becoming widely recognised and applauded:

**Strategy leader** - named a leader in digital strategy consulting by Kennedy Consulting Research & Advisory.

**Award winning** - 500+ awards for our client work, including recognition from The Addy Awards, The Webby Awards, and the Internet Advertising Competition.

**Largest mobile** - ranked the largest mobile marketing agency in the US by Advertising Age in 2014.

**Technology leader** - named as a leader in Cloud and Enterprise Mobility Consulting by IDC.

# Maintenance and engineering

Today's maintenance and engineering functions face challenges on several fronts, which can have a profound impact on the organisation. Aging aircraft fleets, global fleet growth and outsourcing of large portions of maintenance, repair and overhaul (MRO) activities by commercial airlines have increased the demand for MRO services. As a result, many airlines and original equipment manufacturers have focused on the MRO market as an area to help drive growth in their businesses. In particular, MRO executives are looking to better understand the performance gaps that exist within their supply chains and the opportunities that may result from improving their effectiveness.

'Next generation' engineering demands are expanding due to the technical sophistication of aircraft, increased supply chain complexity, evolving maintenance systems and shifting regulatory requirements. The 'connected airline' is now becoming a reality and maintenance departments are exploring ways to use maintenance and operating data to improve aircraft reliability and enhance the value maintenance provides to the airline.

## How PwC can help you

### Process improvement

Today's leading MRO organisations rely on a programmatic, structured approach to make sound decisions about MRO

and its impact on the bottom line. PwC has developed a framework that can help airlines as well as MRO providers achieve improved MRO performance, transforming maintenance processes and helping companies to execute more efficiently, delivering cost savings to the business.

### Optimising your supply chain

One of the great challenges for maintenance executives is to manage the fine balance between spares supply chain service levels and the 'cost to serve'. PwC's Rapid Supply Chain Assessment can help you gain a deeper understanding of your company's supply chain performance and related working capital costs. Addressing the identified

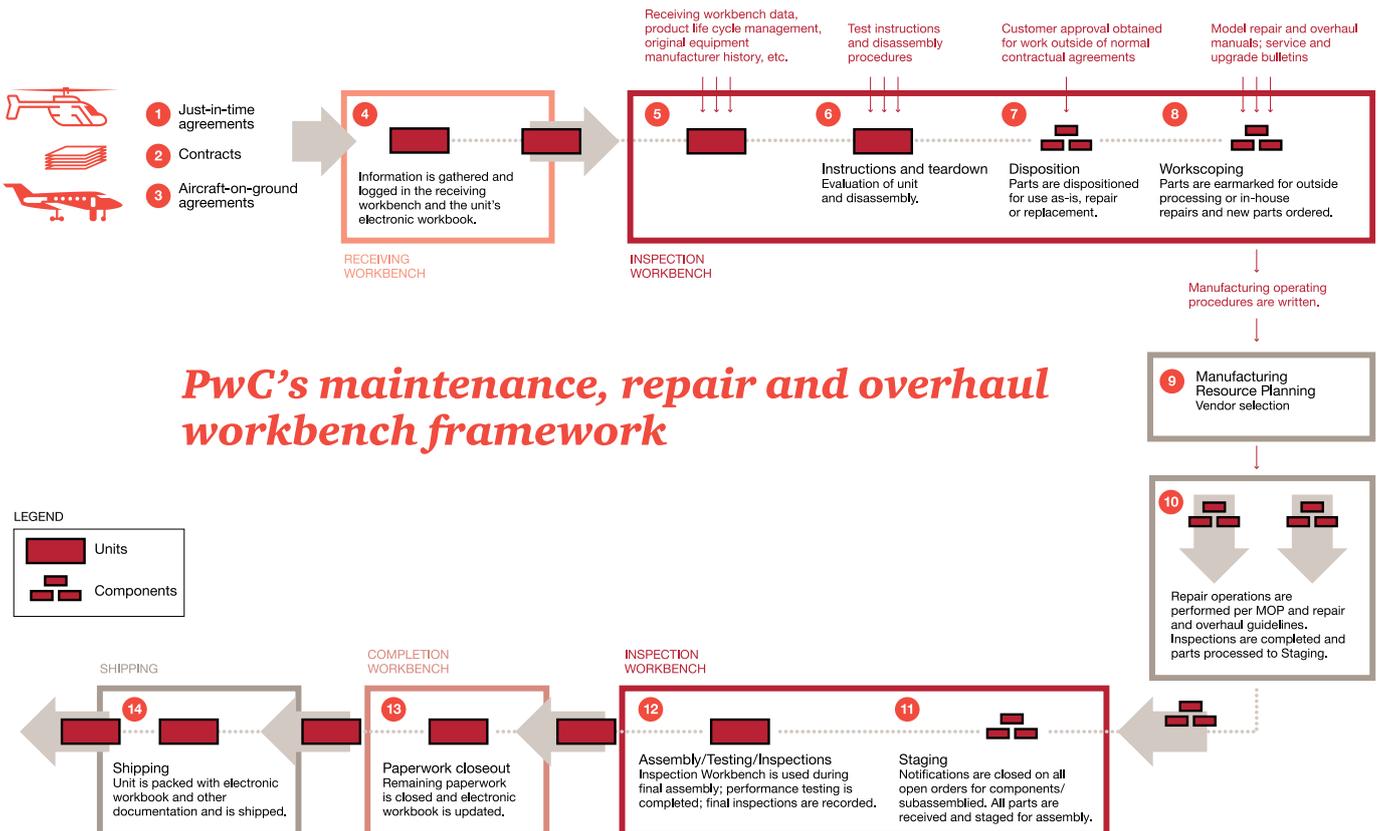
gaps in parts sourcing, forecasting, and the logistics chain can have a significant impact on maintenance cost and airline dependability.

### Predictive maintenance analytics

Current and next generation aircraft and engines are dramatically increasing the volume of data for airlines to process. Combined with advances in data analytics, opportunities exist for maintenance to become more predictive and unlock new value for the airline by improving the reliability and dependability of its fleet. By combining our deep knowledge of maintenance processes and our advanced data analytics capabilities, PwC is helping maintenance organisations move to the next level of performance.

### Revenue recognition

Since no specific guidance in generally accepted accounting principles is specific to MRO activities, financial reporting depends on the interpretation of GAAP for these arrangements. Financial reporting depends on the application of GAAP. Determination of how to apply GAAP can be complex. PwC can assist you in evaluating and improving your financial reporting for MRO activities.



## Working together – maintenance & engineering at a major US carrier

### Context

A major carrier's Maintenance & Engineering (M&E) group had seen their work evolve from soloed fixed - interval tasks to on - condition work scheduling with complex regulatory demands. In addition, an integration with another carrier had added to the demands of supporting new aircraft types that manual spreadsheets and short-term technical solutions were incapable of handling.

### Approach

PwC was engaged by the airline to deliver and provide IT architectural guidance for a large-scale multi-year IT systems integration initiative. It includes essential tools such as decision support systems, process automation, and easy data capture to meet the demands of the airline's evolving and increasingly complex environment. We're helping deliver the project on an aggressive, FAA-dictated schedule that entails replacing the M&E's legacy mainframe maintenance system with a leading third-party integrated M&E solution.

### Impact

The new M&E solutions will allow the carrier to optimise productivity through automation; reducing paper-based manual processes, offer visibility into tool availability, and optimise aircraft maintenance yield. In addition, the carrier will be able to gain real-time visibility into essential processes while utilising an improved centralised analytics platform for decision support. This implementation is forecast to give the carrier yearly cost savings in the region of US\$1.8m.



## Working together – MRO systems implementation healthcheck at a major global airline in Australia

### Context

A major airline was implementing a A\$200m maintenance, repair, and operations (MRO) system, critical to running the airline and its aircraft airworthiness, safety management system and maintenance scheduling. It required a large degree of organisation change and standardisation across geographic locations, involving numerous vendors.

### Approach

PwC was engaged to conduct a healthcheck that assessed the readiness of the programme to proceed with the first major release. We conducted 50+ interviews with programme leadership and business representatives.

### Impact

We provided detailed and achievable recommendations to improve the programme governance. Our recommendations aimed to improve steering committee effectiveness, defect management and triage. We validated the timeline and provided recommendations on revised timelines and improvements to the testing phase. Additionally, we provided clarification on roles and responsibilities among the project leaders and opportunities to enhance risk and project management.

# Technology landscape development

*Technological advances have always been important in the industry but recently some have begun to converge in a 'game changing' way. Airlines can now collect massive quantities of data from sensors on the aircraft, analyse the data to turn them into actionable information, and then disseminate that information in real-time to resources dispersed throughout the operation. This process can help airlines to improve decision-making and resolve or even avoid problems.*

New technologies are enabling the analysis, monitoring and continuous improvement of maintenance programme effectiveness, balancing technical excellence and costs on a near-real-time basis. Legacy systems like PSS, loyalty, CRM, flight operations, crew scheduling, engineering & maintenance, catering, cargo and ERP need to be replaced because of aged or unsupported infrastructure and technology. This also provides opportunities to realign these systems to trends in distribution, merchandising and loyalty.

Airlines and airports can improve air-and land-side operational coordination, leading to better slot planning and increased airport asset efficiency, by consolidating data across stakeholders and their separate IT systems. Airlines can better predict and prepare for maintenance events, leading to improved aircraft utilisation and reduced turnaround time and maintenance costs, by correlating aircraft operating data with component reliability data.

## **How PwC can help you**

### **Better IT strategy**

Airlines can no longer afford the steep price they have been paying to maintain process complexity and legacy IT systems. For example, an airline that has not renovated its processes and systems for flight planning and dispatching requires up to five times as much staff time to dispatch its fleet as an airline that has redesigned and automated these processes using state-of-the-art IT systems. But moving onto a more effective and integrated footing is a costly and high-risk undertaking that needs to be driven by a well thought-through automation and IT strategy.

### **Building a modern IT infrastructure**

Airlines and airports still persist in a traditional IT infrastructure and rely on mainframe technologies and internal data centres more than other industries. Cloud computing offers airlines and airports the potential to propel IT agility to new heights and fulfil the role of technology as a strategic enabler. Companies that embrace and accelerate the transition to a cloud based infrastructure will achieve a competitive advantage. We can help you develop and execute the right cloud strategy for your business, anticipate and manage the change on your organisation, and deliver new capabilities to your customers and business stakeholders.

### **Business-driven IT transformation**

We can help you redesign and integrate processes and systems and achieve business-driven IT transformation. Demand management, process-oriented and change-focused project management, and savvy sourcing practices are the three key ingredients of successful transformation. Successful business-driven IT restructurings can produce a substantial reduction in operating cost, as well as enhanced asset utilisation in fleet, crew, and slots. There are also revenue gains to be found along the entire value chain of an airline.

### **Passenger service system (PSS) improvement**

We can help with the implementation of PSS replacements. Modern passenger service system (PSS) solutions provide true customer-centricity and enable increased business benefits, including cost reductions, thanks to leaner, zero-touch processes and automated disruption handling. They also protect and enhance revenue thanks

to improved revenue integrity, sales channel integration, and inventory functionality. But don't fall into the trap as seeing PSS improvement as purely an IT-led change. It needs to be informed by a great deal of insight into the core of an airline's everyday business if it's going to help you become truly customer-centric.

### **Putting multi-channel data to work**

Airlines can increase merchandising revenue and reduce the cost of supply chain fulfilment by correlating passenger data across multiple channels and better matching supply with demand. Through loyalty programmes, social media and other data sources, airlines can learn much about their passengers' buying behaviour. These behaviours can then be analysed to help determine how best to sell to passengers, increasing merchandising revenue. It can be shared with vendor management to more accurately predict and procure needed parts, catering, and other goods and services. We can help you to build a flexible foundation with scalability for growth and change with integration across various platforms.

### **Strengthening cybersecurity**

Cybersecurity is a paramount concern given the amount of personal data and passport information being handled. Cybersecurity risks have dramatically evolved but, in many cases, the approach businesses use to manage them has not kept pace. Cybersecurity isn't just about technology and computers. It's about protecting people, information, systems, processes, culture and physical surroundings. PwC will give you that confidence by helping you shape a broader strategic response to cyber risk and target investment on what matters most. We can help you understand your current capability and put in place a plan to target cyber security investment in the right places. We can also help you respond to actual cyber incidents and advise on the legal issues surrounding breaches, data privacy and protection.

## *Working together – expanding the reach of an airport automated border solution*

### **Context**

The client, a major airport hub in Canada, had designed and developed a new process/technology to expedite border crossings at its own airport facility for inbound domestic citizens. PwC Strategy& was engaged by the airport to develop a market entry strategy to expand sales of this technology into additional domestic and international airports.

### **Approach**

Strategy& was engaged to conduct an extensive market study to assess the market potential for this new product and the best operating model to pursue this opportunity. We conducted interviews with airport stakeholders and performed a competitive analysis of other global automated border solutions and kiosk manufacturers. Our market study also looked at pricing rationalisation and strategy, go-to-market and implementation strategy, as well as operating model and core capabilities analysis. And our final test used economic modelling to validate the financial viability of the opportunity under several potential scenarios.

### **Impact**

Our work provided validation of the product market including market size (in both volume and price expectation) by each major customer. We provided the client with an optimal market entry strategy and timeline covering cost, risk and benefit analysis for five different potential business model scenarios.



## *Working together – integration management at the world's largest airline*

### **Context**

As a result of a merger creating the largest airline in the world, there was a need to integrate application portfolios across the two airlines (with a total planned IT integration budget over US\$400m across 175 projects). The most complex and critical effort was migrating to a single passenger service system (PSS), requiring the migration of over 16m customer records, training over 10,000 front line employees, and changes to over 1,000 systems. Beyond the large scope of the effort, the airline was tasked with accomplishing this migration within a very narrow time window to minimise operational and customer impact.

### **Approach**

PwC defined, mobilised and executed a cutover command centre framework, developed training for key processes and tools, and led in-depth preparedness reviews to promote knowledge sharing and cutover readiness.

### **Impact**

By planning and facilitating a smooth 24x7 cutover command centre operation and anticipating and coordinating hardware, facilities, security and logistics needs, the PwC team enabled leadership and teams to focus fully on the cutover. The approach also included dialogue with business stakeholders, resulting in better cross-business/IT coordination before, during and after the cutover. We also defined and implemented processes that promoted transparency and quick resolution across teams.



# Economic regulation and competition policy

*The aviation industry is built on an international framework of regulation. PwC specialises in the development and application of economic regulation and competition policy on airports and airlines.*

Moves toward liberalisation of international air services, and the spread of so-called 'open skies' agreements over the past decade or so, have lifted a number of constraints on the industry – at least so far as provision of capacity, and operation of routes is concerned. This has led to an increasingly competitive industry. But limited progress has been made on airline ownership and control. Airlines are thus restricted in their ability to establish a presence in markets outside their home country and there are implications for their access to international capital markets.

Major airports are often considered local monopolies, with associated market power. As airport assets are increasingly financed through the private sector, government control has weakened or disappeared. As a result, economic regulation has become a vital tool in ensuring that airports meet their stakeholders needs, and do not abuse their market power.

## **How PwC can help you**

### **Assessing the implications of regulation**

We can help examine proposed or impending regulations and policy developments nationally and internationally, eg:

- pricing issues, e.g. landing fees and other airport charges
- security measures
- passenger rights
- taxation on air travel
- emissions trading and other areas under environmental regulation
- international bilateral and multilateral air rights and developments.

We examine the likely impact that any such current and/or impending regulation may have on the activity at an airport and its key customers.

### **Compliance with environmental reporting**

The EU Emissions Trading Scheme places significant compliance obligations on airlines and is part of a patchwork of local and regional regulation of emissions around the globe. The industry has expressed overwhelmingly its preference for a global mechanism and the International Civil Aviation Organization (ICAO) is seeking a global, market-based measure to tackle aviation emissions, based on the industry preference of a global offset scheme. PwC can help with the reporting and compliance activities that arise from current and future environmental regulation. PwC has developed a risk based verification approach which entails a process in which the verification steps are comparable with a financial audit.

### **Mapping connectivity**

The air connectivity of a location is crucial to the wider economy as well as to the planning of airport capacity. We can conduct connectivity assessments, analysing a range of measures to capture short and long haul connectivity as well as different weightings of destinations. Connectivity analysis is also vital for identifying route gaps and helping track the performance of airports over time and against other countries. We can also measure the economic impact of particular airports on the more general economy.

### **Supporting key decisions**

Airline executives face the challenge of optimising networks, whether expansion into new markets or consolidation of services in support of commercial viability. Partnering with other airlines through alliances or codeshare agreements has been the traditional approach to securing network expansion but alliances are inherently unstable and

cannot offer the synergies that might be achieved through joint ventures, equity investments and other collaborative models. PwC can help with the analysis of regulatory frameworks, as well as the commercial and political landscape within which decisions on equity investments need to be made.

### **Supporting better governance**

We work in conjunction with legal advisers and focus on actual and potential issues that impact upon the commercial and operational performance of airlines and airports including:

- board structure
- shareholders issues
- government ownership issues
- decision making and commercial approval processes
- regulatory out-performance
- post transaction planning implication.

### **Stronger corporate social responsibility**

If airlines and airports are to be successful in persuading governments to dismantle or alleviate some of the policy barriers that can have a negative impact on the industry, they in turn also need to step up their communication of how their activities contribute positively to social and economic good. PwC can help organisations measure, report and communicate the full impact of their company's activities - across social, environmental, fiscal and economic dimensions. We can also provide independent verification of your social responsibility reporting and help you integrate corporate sustainability reporting into the mainstream of your practices and your financial reporting.

## Working together – EU emissions trading scheme verifications

### Context

Airlines flying to and from or within the EU are required to monitor emissions, issue an emissions report and have that report verified by an independent and accredited verifier.

### Approach

PwC conducts verifications of the annual emissions reports of the world's leading airlines to ensure they comply with the EU legislation. We have developed a risk-based verification approach in which the verification steps are comparable with a financial audit.

## Impact

PwC has provided assurance for 50 global airlines that their annual emission reports comply with the legislation. We are well placed for such verification. As a market leader and consultant to the European Commission, we're able to add knowledge on best practice and the latest developments to give the best possible service to clients.

## European Commission – Improved protection against unfair competitive practices in international air transport

### Context

Amid concerns about unfair pricing practices which could have jeopardised the interests of EU air carriers, EC Regulation 868/2008 was introduced. Its objective is to protect EU air carriers against subsidisation and unfair pricing practices but, for a variety of reasons, it has proved unworkable. The main policy objective for our work, therefore, was to develop a more appropriate and effective instrument to safeguard fair competition in international aviation.

### Approach

We undertook an investigation which included:

- Analysis of the international aviation regulatory framework within which measures to ensure fair competition

including the possible development of a more effective regulation must be considered;

- Problem definition - validating and substantiating the main problem and its drivers;
- Elaboration of policy options including validating, extending and elaborating the initial set of options, and proposing specific measures under different options;
- Comparison of options and preferences that mapped the positive and negative consequences of each option, as well as assessing the effectiveness, efficiency and where appropriate, assessing the legal and political feasibility of the options; and
- Assessment of impacts – analysing and where possible quantifying the likely impacts of adoption of measures to address the problem.

## Impact

This study arose to address concerns that the existing legislative framework does not guarantee effective protection against unfair practices in international aviation and its outputs provided the Commission with a set of options for improving regulatory outcomes. This may be carried forward into the development of new regulatory instruments, policy statements and new approaches to addressing competition concerns specific to the air transport industry.

## Working together - PwC and UK air connectivity

### Context

The Airports Commission, chaired by Sir Howard Davies, was established in September 2012 to identify and recommend to government options for maintaining the UK's status as a global aviation hub. Its final report is due in 2015. PwC has been providing wide-ranging support to the Airports Commission since 2013, encompassing strategy, commercial, financial and economic options appraisal. One area of work has considered air connectivity and its impact on the UK economy.

### Approach

PwC helped the Airports Commission to understand the UK's connectivity over time, and how this has evolved including relative to other countries and, in the case of Heathrow, against competing European hubs such as Frankfurt, Paris CDG, Schiphol and Madrid. This included a range of measures to capture short and long haul connectivity as well as different weightings of destinations.

## Impact

This project developed measures of connectivity to enable the Airports Commission to track the performance of UK airports and against other countries. Connectivity was an important factor in helping the Airports Commission to assess future scenarios and define the UK's connectivity objectives, leading directly to the findings of the Commission's interim report. It further provides an important basis for the assessment of airport expansion options, as well as informing concurrent work on economic impact appraisal.

# Deals

*Aviation sector players are living with a global “new normal” business environment – a world of uncertainty that is here to stay and not just a one-off experience stemming from the global financial crisis. Growth in the established markets of North America and Europe will remain challenging, whilst the opportunities in the emerging markets will stimulate new entrants and investment opportunities.*

Investors and operators alike need to be equipped to cope in these uncertain times, yet need to remain agile so that they can take advantage of opportunities as they arise.

The airport infrastructure transactions market remains resilient, with continued interest in the corporatisation and privatisation of aviation assets around the world. As new geographies open up to aviation infrastructure investment, such as South East Asia, Japan and Latin America, new players are entering the market, bringing both local and sector expertise. However, while airport assets are attractive, with often a mix regulated and commercial income streams, local factors, such as regulation, airline market dynamics, and modal competition require new skills and capabilities. Ownership structures are often complex, made up of passive and strategic investors, operators, and sector specialists, whether it be in construction, retail, or property development.

In the “New Normal” legacy airlines are challenged to rebuild their business models in the face of competition – facing constraints to alliances and consolidation as routes to stable growth. As the new entrants from the low cost revolution consolidate and mature, they face the challenges of rapid growth and maintaining their competitive edge. All airlines face uncertainty in terms of costs (such as fuel and financing), traffic demand (as GDP growth no longer always equates to traffic growth, or for that matter, profitability growth), and increased competition. How do airlines take advantage of consolidation in a globalised market where economic regulation is often a barrier to efficiency? How can performance gains

be converted into airline profitability. Airline deals will continue, as operators and investors seek to capture efficiencies and improve performance, but they are now increasingly complex to meet the demand of stakeholders and regulators.

## **How PwC can help you**

PwC can offer you expert deal structuring and financing advice at all points throughout the deal cycle. We deliver value thorough quantitative analysis, rigorous implementation and leading edge structuring techniques, carrying out pre-acquisition due diligence, ensuring tax-efficient deal structuring, and ensuring post-deal integration. Intercompany transactions across borders are growing rapidly and are becoming much more complex. At PwC, we have a strong international network of dedicated transfer pricing specialists with advanced training in economics, accounting, law, project management and aviation industry specialists ready to work with you.

**Divestitures and sell side advice** – our airlines and airports specialists help you complete and extract the maximum value from your transactions. We identify appropriate buyers and will implement a sale to generate the best price for our client.

**Delivering deal value** – we help find the targets, analyse the strengths and weaknesses, identify synergies and potential improvement opportunities, negotiate terms, access capital, manage the post-deal integration process, carve out non-core assets, and make changes to realise improvements in long-term performance.

**Restructuring and recovery** – our recovery professionals are valued by clients for their ability to quickly identify problems, gain cooperation, develop viable solutions, and implement them with sensitivity and precision. Our experienced teams offer a full range of advisory and implementation services, from turnaround and restructuring plans to optimised exit strategies.

**Mergers and acquisitions** – we provide independent valuation advice for your business. By offering robust planning for the parties to a transaction, we enable clients to capture the most value possible and implement changes to deliver synergies and improvements after the deal.

**Commercial strategy** – our commercial experts can assess markets and forecast traffic for the future, analyse revenues (aeronautical and non-aeronautical) and project operational costs. We can help with capital expenditure planning and management team’s strategy reviews.

**Regulatory** – both airports and airlines operate in environments that are subject to a range of regulation. Our experienced teams can advise on the impacts of economic regulation – of both pricing and access – on environmental and security legislation, taxation on travel and the implications of international bilateral and multilateral air rights and developments.

**Financing** – our finance professionals have a wealth of expertise to support with financing options assessment, commercial and financial structuring, overall transaction support and asset valuations.

*We support our clients through the entire life-cycle of a transaction*



## **Working together – commercial due diligence for a major stake in Birmingham Airport**

### **Context**

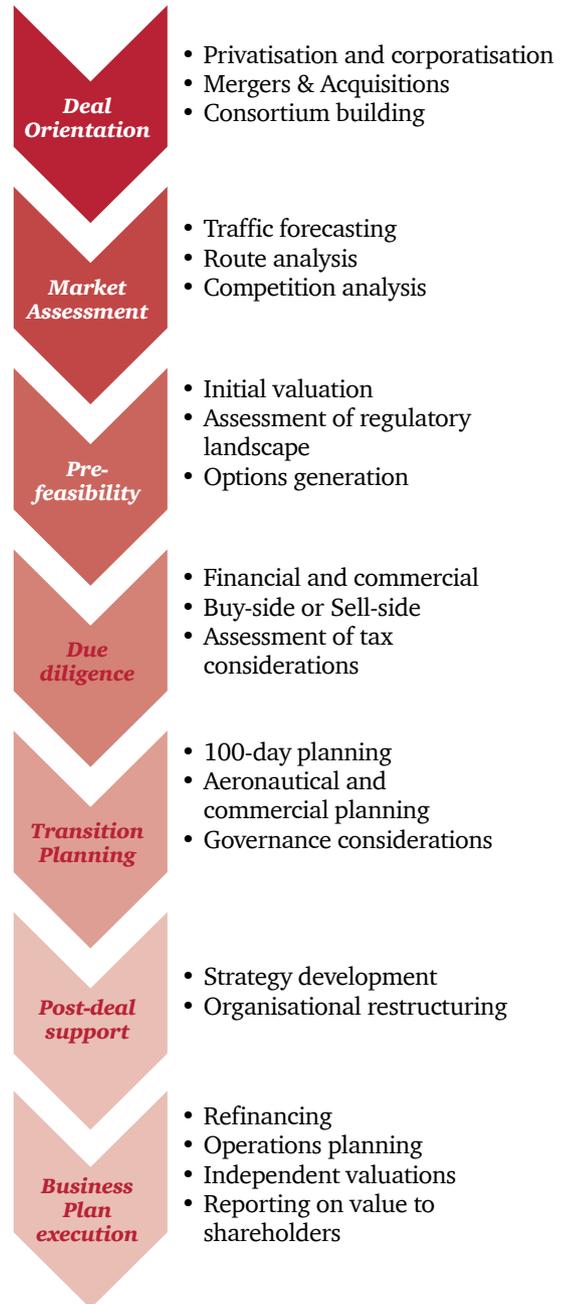
PwC Strategy&, then Booz & Company, was engaged by a consortium of pension funds to conduct a strategic review, due diligence and business risk analysis report related to the binding bid stage of the acquisition of 48.5% stake in Birmingham Airport.

### **Approach**

Strategy& developed a model to calculate likely future aeronautical and non-aeronautical revenues, as well as capex and opex costs. Traffic review and forecasting was a key part of our analysis. Various scenarios were developed to support the valuation calculations of the financial advisor. We also created a build-out plan for the airport to enable accommodation of the expected traffic to 2045 and a benchmarking and best practice review of the commercial activities of the airport to assist with transition and future performance improvement.

## **Impact**

The clients received a detailed review of the business and operational risks and opportunities arising out of the transaction and the model shock scenarios gave insight into the impact on commercial operations. Our strategic review and report provided our clients with the transparency and necessary information to move forward with its successful bid for the stake in Birmingham airport.



# Financial, reporting, assurance and tax

*The international nature of operations, the asset base and a variety of customer programmes and channels are just a few of the factors that can create complexity in financial reporting in the airlines and airports industry. Industry-specific regulation, particularly for airports, adds to the challenges. The challenges are all the greater with external changes in reporting requirements, whether that is for example in the field of international accounting standards or in matters such as environmental reporting and CO2 requirements.*

Our experience in the sector means we are well-placed to assist with assurance and reporting for airlines and airports. Our understanding of issues within the industry and our deep understanding of regulation and legislation means we are able to help with the complexity of reporting involved. Additionally, we are leaders in the development of non-financial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance, and business models based on the principles of sustainability.

## How PwC can help you

### Lease accounting

Accounting for aircraft fleet leases is a major topic for the global airline industry. Lease classification, whether a lease is treated as an operating lease or a finance lease and thus whether it is off or on balance sheet, is a crucial consideration. The effect of such decisions on the balance sheet and then the debt ratio and equity ratio is enormous. PwC can help you plan the best approach and, most importantly, prepare you for future changes in international accounting standards. Under the proposed new lease accounting standard, which is likely to be the subject of intense debate, the assets and liabilities arising from leases would have to be shown on the balance sheet. Such treatments would have a major impact on some current arrangements.

### Accounting for loyalty programmes

Loyalty programmes are an important part of airline customer relationships and revenue streams. PwC can help you think through the accounting implications of such programmes, not only to ensure you get the accounting right but also to optimise the design of the programme. We are familiar with

the valuation models that are needed as well as with the complexities that can arise, for example as a result of customer awards claimed with alliance partners or sell of mile to third-parties.

### Assurance for your major change programmes

Many aviation industry organisations are undertaking major change programmes, in areas such as organisational design, IT and digitisation, talent strategies, corporate governance and the use and management of data and data analytics. PwC is on hand to give independent and objective third party assurance of your change programmes, which is particularly important where programmes impinge on data protection and other regulatory requirements.

### Hedge accounting

Fuel is the largest single cost item for the global airline industry. Despite continued improvements in engine and airframe technologies which have dramatically improved fuel efficiency, jet fuel accounts for around a third of operating costs. Fuel hedging is an important part of managing this cost for many airlines. PwC advises many airlines on how best to manage such hedging. It's particularly important as international accounting standards for hedge accounting continue to evolve with the new IFRS 9 set to possibly relax some aspects of the accountancy but perhaps at the expense of introducing new complexity in other areas.

### Segment reporting for airport operators

The way an airport operator chooses to explain its business in its reporting can have a big impact on its discussions with stakeholders and regulators. Airport operations are a complex business involving a mix of regulated returns in the aviation side of the business and non-regulated returns in retailing,

parking and other commercial activities. Airport asset valuations are often a fiercely debated topic with issues arising around impairment testing. PwC can advise on the best approach to impairment testing, segment reporting, and the allocation of revenues and expenses that reflects the context of a particular airport business and allows it to be reported in a transparent and appropriate way.

### Corporate treasury solutions

PwC's dedicated corporate treasury solutions team is ready to help with all aspects of your treasury needs. Our services include risk profiling and mitigation; treasury governance; treasury systems, processes and controls; treasury execution; cash management; treasury reporting (including GAAP advisory) and, where treasury activities operate across geographical borders, treasury taxation solutions and foreign exchange risk management and hedging strategies.

### Environmental and non-financial reporting

We are leaders in the development of nonfinancial performance reporting, helping our clients respond to the need for greater transparency, improved corporate governance, and business models based on the principles of sustainability. We are also on hand to assist airlines and airport operators with their environmental reporting, ensuring compliance with CO2 and other emission monitoring requirements, as well as to advise on emission trading activities.

### Tax

Strategic tax planning is vital for minimising the tax burden of airlines and airports alike. The tax implications of major business decisions need to be factored into those decisions from the start. The international nature of airline operations makes such planning all the more important with consideration needing to be given to the tax effect in various countries of operation as well as the home country, transfer pricing implications, tax treaties and so on. Our international team of tax professionals can help you structure your activities tax-effectively, manage your tax compliance and advise on the tax effects of changes in your business.

## Working together – risk assurance for a leading European cargo carrier

### Context

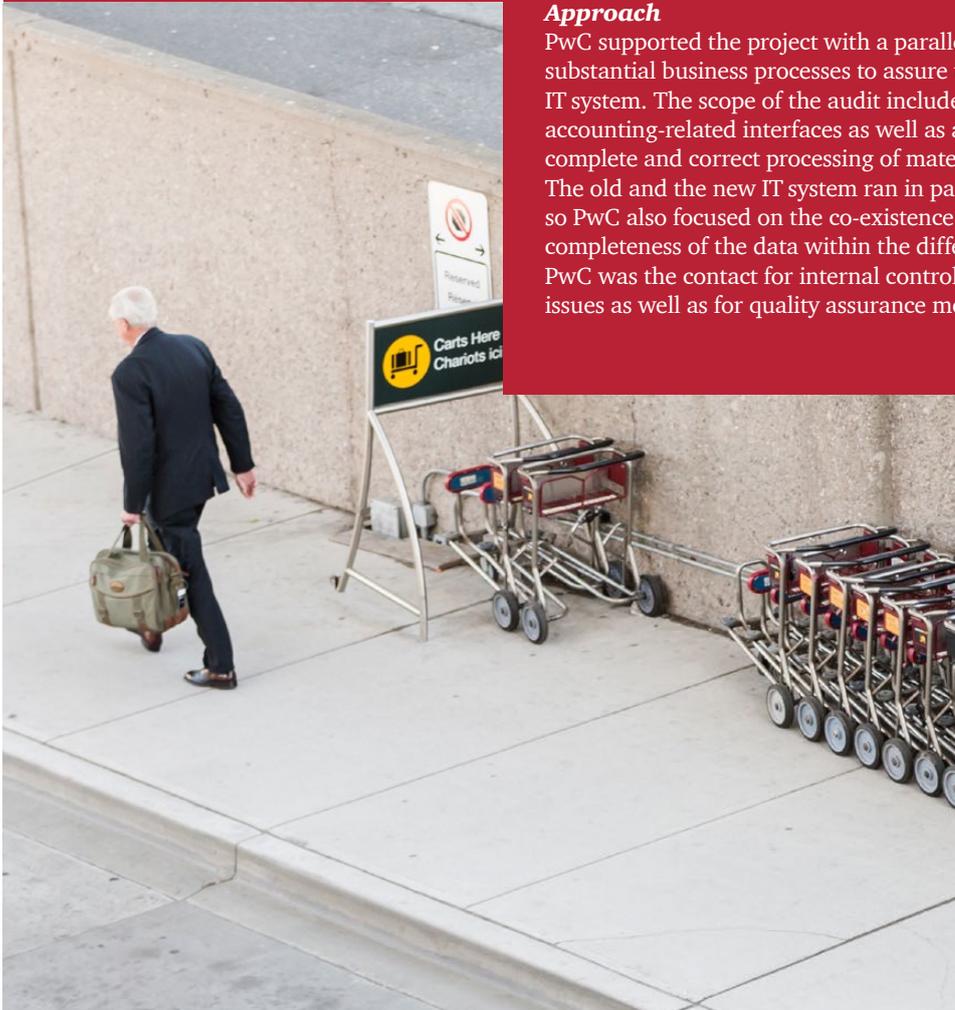
The IT system for the operative handling process of a leading European airfreight carrier had reached the end of its lifecycle and was no longer satisfying the increasing requirements of the corporate strategy. The airline planned to replace it with a standardised industry-based IT solution which it would customise to meet its requirements. The project had to link in with a number of other work areas - handling, sales and finance were all affected. It was essential that correct system operation and accounting remained guaranteed throughout the implementation.

### Approach

PwC supported the project with a parallel audit and reviewed the substantial business processes to assure the correctness of the new IT system. The scope of the audit included the connection of the accounting-related interfaces as well as assessment of the timely, complete and correct processing of material business transactions. The old and the new IT system ran in parallel for a period of time so PwC also focused on the co-existence phase, ensuring the completeness of the data within the different systems. In addition, PwC was the contact for internal control system and compliance issues as well as for quality assurance measures.

### Impact

The audit not only assured the correctness of the system but also supported the customer in their digital transformation of the corporate strategy. The findings included recommendations that increased the efficiency of the project as it was rolled out for further phases. The recommendations also gave the opportunity to enhance the relevant concepts and processes of the different areas such as handling, sales and finance. PwC is supporting the ongoing sustainability of the new system with internal control systems and quality assurance measures.



## Working together - PwC and Emirates Airline connectivity

### Context

Emirates Airline has grown rapidly to now become the largest international airline in the world (measured by international passenger-kilometers). The airline is committed to ensuring that environmental responsibility underpins their core values as an organisation, and recognises the importance of building trust and transparency amongst its key stakeholders. When Emirates produced their first Environmental Report in 2011, they were looking for an assurance provider to have their environmental performance figures verified.

### Approach

PwC was asked to support the airline as an independent auditor of the Environmental Report and act as the assurance provider to support the credibility and reliability of their reporting performance. We performed an audit of their environmental report, taking a look at the processes, systems and controls in place helping them to understand what data is critical to enable strategic decision making.

### Impact

The measurement of their environmental footprint and assessment of reporting effectiveness resulted in actions to address identified gaps, which in turn helped to maximise reporting quality and create long term stakeholder value. Furthermore, Emirates and PwC are in a continuous dialogue to increase the relevance of the Environmental Report to stakeholders.

# What makes us different?

Since our airline industry group is part of PwC's broader Transportation and Logistics (T&L) industry practice, this enables us to bring clients the value of a broad perspective that includes shipping, ports, rail, roads, post and logistics. And working closely with our Aerospace and Defence (A&D) practice enables us to provide valuable expertise and perspectives from OEM (Original Equipment Manufacturers), MRO (Maintenance, Repair and Overhaul) and other key value chain stakeholders.

## Our reach

PwC's Transportation and Logistics practice is made up of a global network of more than 5,400 functional and industry professionals. The team provides advisory, assurance or tax services for 82% of the transportation and logistics companies listed in the Fortune 500. This far-reaching global footprint enables us to provide clients with a greater depth of talent, resources and know-how.

## Our people

The scale of our resources means we can address our clients' needs whenever and wherever they arise. Our skilled teams are located in areas where your business operates today as well as in other destinations where your future growth strategy may take it.

## Our knowledge

Our worldwide network of industry specialists are linked by a sophisticated internal knowledge management system, giving them the tools to input their insights and draw upon the most up to date information for the benefit of our clients. Our programme of 'thought leadership' is widely respected. From roundtable discussions to global surveys, we share knowledge with our clients on industry issues. Each year, we prepare industry dedicated reports and gather opinions on the issues that are of key strategic importance to our clients and the challenges that lie ahead. Our knowledge draws on the insight of our worldwide network of industry specialists as well as the industry itself.

Future prospects in Africa for the transportation & logistics industry

## Africa gearing up



## Experience Radar 2013

Lessons learned from the Airline Industry



## The "new normal" for airport investment

What's new:  
What is the "new normal" for airport investment?  
#3  
How do you know if you're the most financially fit? The impact on airport operations  
#4  
The European airline landscape is changing. How airports keep up?  
#10

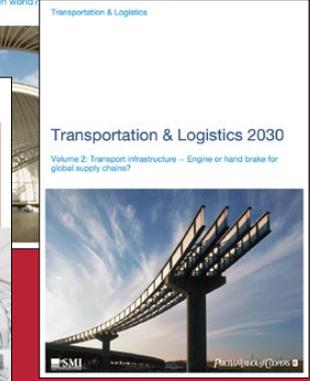
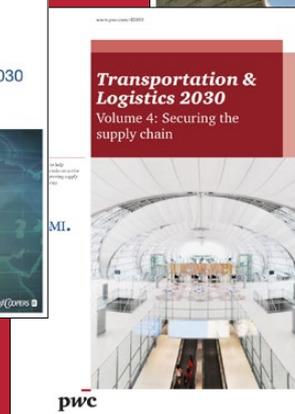
## Strategic sights set on transformation and innovation

82% of airlines will invest more than \$1 billion in infrastructure over the next 5 years



## 2012 Airline Themes

Setting the Agenda



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