



**Jetting
Ahead**

Partnership with
HAINAN Airlines
&
paving our way to the
Asia-Pacific



Analysis

In the global environment, how can we compete?



Jetting Ahead

In our corporate behavior, how do we strategize and position ourselves?



Implementation

In a regulatory environment, how do we win and grow in the long term?



Risks

In an unstable environment, how do we mitigate uncertainty?

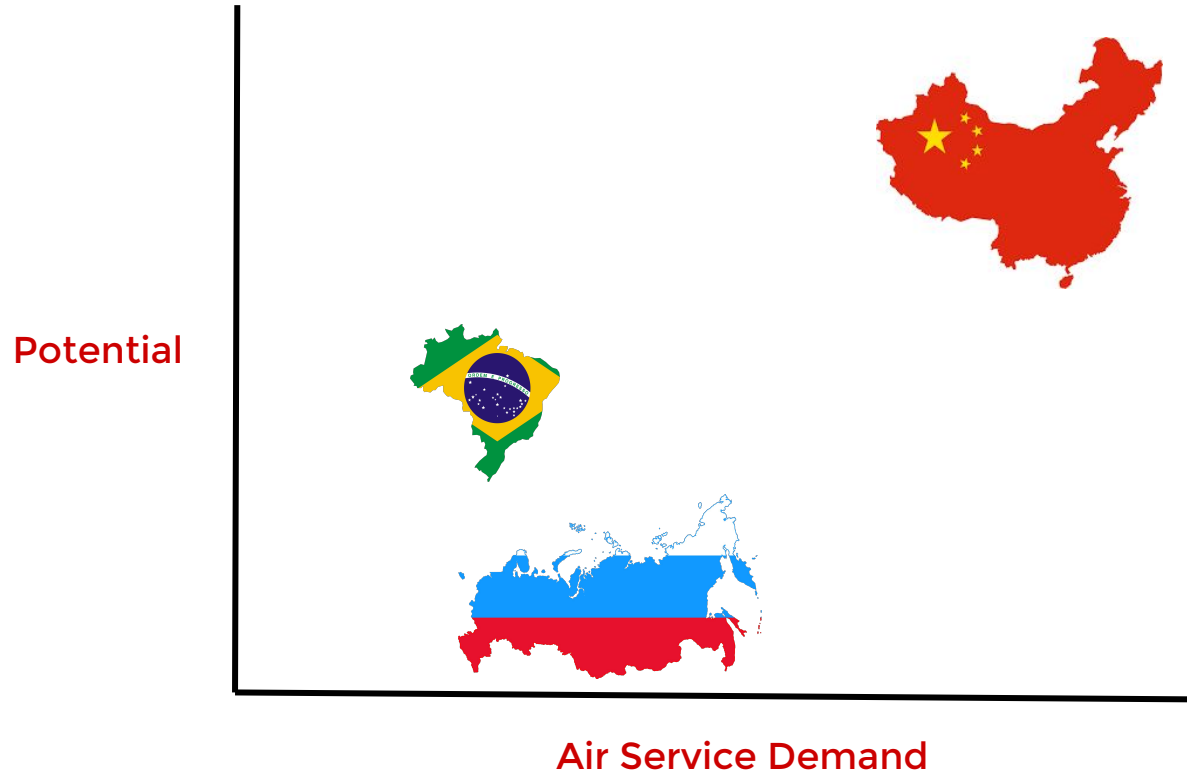
SWOT Analysis

<p><u>Strengths</u></p> <p>The Emirates Standard Government Support Megahub</p>	<p><u>Weaknesses</u></p> <p>Megahub Antitrust Issues</p>
<p><u>Opportunities</u></p> <p>Emerging Markets Codesharing Partnership</p>	<p><u>Threats</u></p> <p>Gulf Competition Leadership Turnover</p>

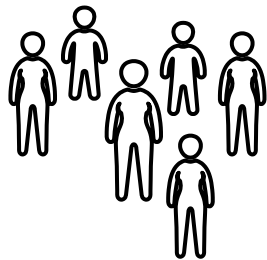
MARKET ANALYSIS



Decision Matrix



Why China? Market Forces



UPPER MIDDLE CLASS

81% of China's
incremental growth
by 2020



TOURISM

Chinese tourists spent
\$215 billion abroad in
2015, 53% more than in
2014



DISPOSABLE INCOME

8% Growth in disposable
income from 2014 to 2015

Market Gap Analysis



**Jetting
Ahead**





海南航空
HAINAN AIRLINES

6

**Regional
Hubs**

57

**Million
Customers**

537

Destinations



- + **Advanced Aircraft**
- + **International Prestige**
- + **Popularity in Sports**

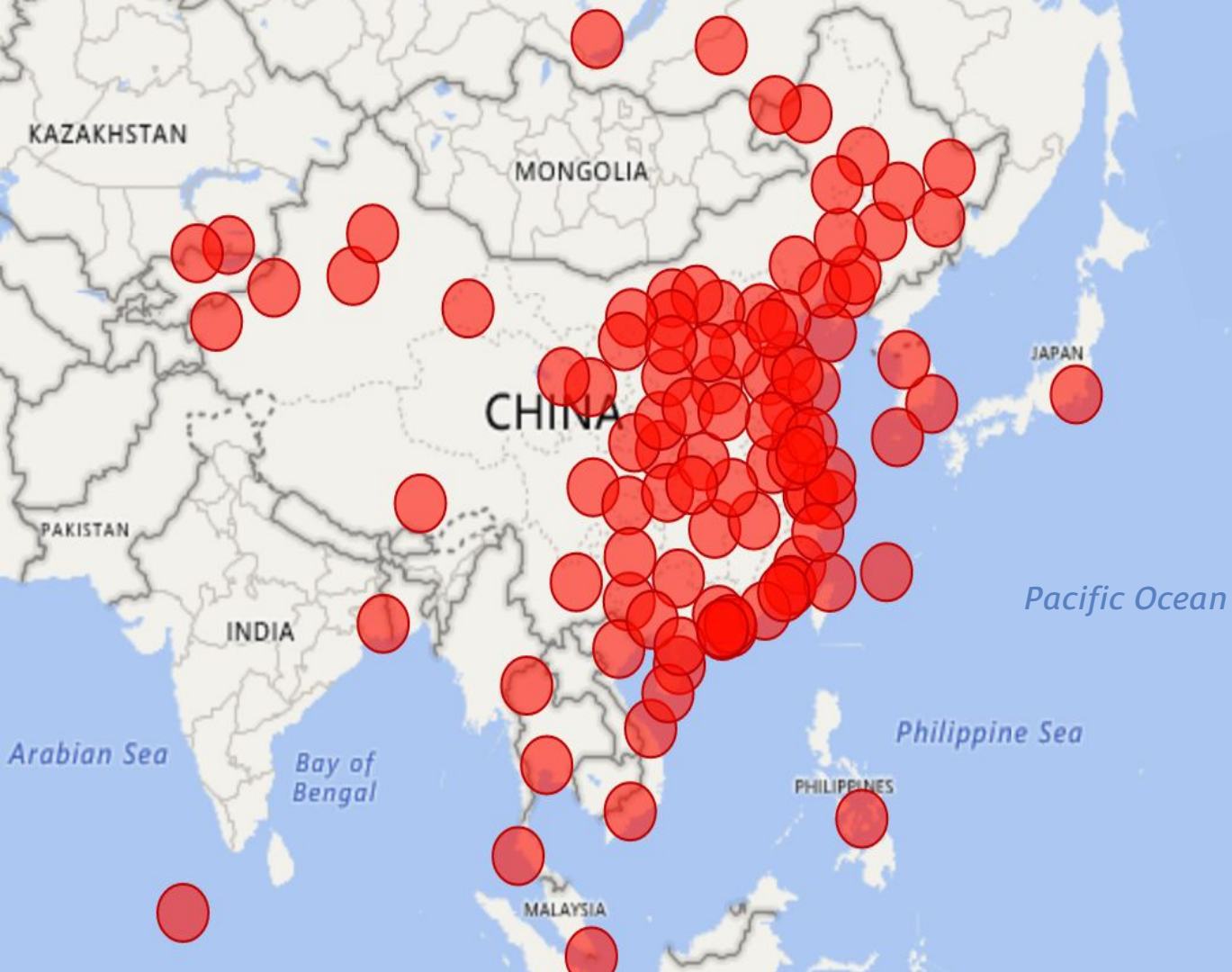


海南阿联酋航空中国
HAINAN Emirates

Market Penetration







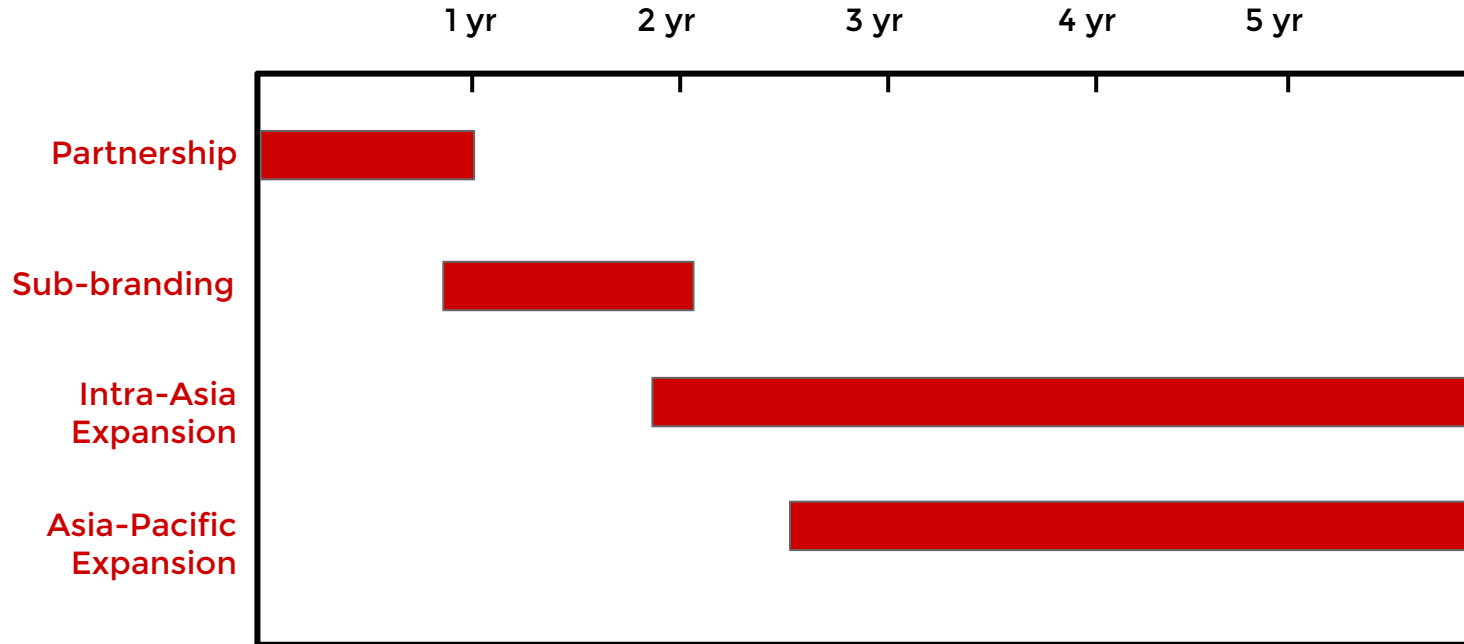


MAPS

Implementation



5 Year Roadmap



Financials

16.5%

ROI

9%

MARGIN

3%

CAGR

\$9.86_B

NPV

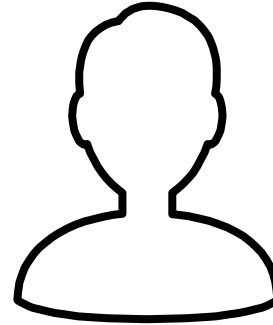
RISK MITIGATION



Risks



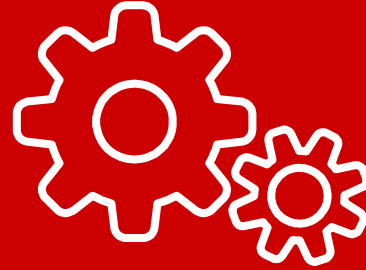
**CROSS-CULTURAL
ACCEPTANCE**



**SOCIO-POLITICAL
CONSIDERATIONS**



**BRAND EQUITY &
CUSTOMER SERVICE**



**PUBLIC
RELATIONS**



BACK-UP PLAN

Mitigation

NPV | Consulting
Group

Appendix

Why BRIC Countries?

**Decision Matrix
Computations**

Back Up Plan (M&A)

Why not Russia?

Emirates Core Competencies

Back up Plan (Russia)

Why not Brazil?

Ways to Rebrand

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Why San Francisco?

**Chinese Trends (Tourism and
International Business)**

**How is China improving their
Aviation System?**

Why Seattle?

**Chinese Trends (Urbanisation
and Income)**

Chinese Potential

Why Los Angeles?

**What about other Chinese
Airlines?**

**What are China's Second Tier
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Appendix 2

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Population

Why China? Market Forces

5 Year Road Map

Intra-Asia Markets

Market Cap Analysis

Financials

Asia-Pacific Penetration

Decision Matrix

- Based off weighted factors for determining Potential and Air Service Demand
- **Potential** - Weighted average of GDP per Capita growth, % Entering Middle Class, Annual Growth Rate % Increase, % Increase in Intangible Value of Luxury Demand (Increase in Luxury Goods)
- **Air Service Demand** - Weighted average of % increase in Resident Trips between 2013 and 2020 and % increase of of BRIC seats on international flights
- Scored on a scale of 100 on both sides

Decision Matrix

	Potential	Air Service Demand
Brazil	9.3	20.39
Russia	1.4	24.11
China	60.4	40.58

Potential				Weight (10)	Score (100)
	GDP Per Capita (2013)	GDP Per Capita (2020)	% increase	Numerical	
Brazil	2464.69	1749.35	-29%	-2.9	4
Russia	2231.84	1530.61	-31%	-3.1	4
China	9518.58	16,144.04	70%	7	4
	Millions entering Middle Class (2013)	Millions entering Middle Class (2020)	% increase		
Brazil	100	110	10%	1	3
Russia	100	80	-20%	-2	3
China	580	1,000.00	72%	7.2	3
	Annual Growth Rate (2013)	Annual Growth Rate (2020)	% increase		
Brazil	2.7	0.7	-74%	7.4	2
Russia	1.3	0.2	-85%	8.5	2
China	7.7	6.30	-18%	1.8	2
	Intangible Value of Luxury Demand	(Increase in Luxury Goods)			
Brazil	31%			3.1	1
Russia	28%			2.8	1
China	72%			7.2	1

Air Service Demand				Weight (10)	Score(100)
	Resident Trips in Millions (2013)	Resident Trips in Millions (2020)	% increase	Numerical	
Brazil	96	118	23%	2.3	7
Russia	54	68	26%	2.6	7
China	372	525	41%	4.1	7
	Percentage of Total BRIC seats				
Brazil	14.3			1.43	3
Russia	19.7			1.97	3
China	39.6			3.96	3

Backup Plan 1: Merger & Acquisition

- Clear profit distribution based on **percent ownership** of Hainan Airlines
- **Direct control of implementation** of Asia-Pacific strategy with less parties involved
- Adheres to the values that Emirates was founded on

Backup Plan 2: Russian Alternative

- **Untapped market** for international airlines
- **Lack of premium** airline brand
- **Technologically limited** planes means our fleet is skymiles above the competition

Why Focus on the BRIC Countries

- **2.8 Billion People** & 40% of the world's population
- Emerging markets with the **fastest growth potential**
- Emerging market economies will grow almost **three times faster** than developed ones, accounting for an average of **65% of global economic growth through 2020.**
- We focus on **China, India and Russia** because Emirates is currently under serving them

Why not Brazil?

- Domestic air travel **tumbled 5.3 percent** in October from a year earlier.
- Eduardo Sanovicz, president of the Brazilian airlines association Abear, expressed **no improvement over next 24 months**
- Brazil's currency has been one of the worst performers in the emerging world after Latin America's largest economy last year slipped into what is **expected to be its worst recession in more than a century**.
- No real routes existing at this point

Why not Russia?

- **Large taxes on the import of foreign airplanes** in an attempt to force the purchase of unsafe domestic planes
- The domestic Russian aircraft industry has become notorious for slow progress caused by "corruption, aging equipment and broken links between subcontractors."
- **Russia's airlines carried 99.1% of all passengers traveling into and out of the country**, up from 84.6% for the same period last year, showing that few international airlines have made an impact and there are high barriers to entry.
- **The Russian economy contracted 3.7 percent in 2015.**

Chinese Potential

- Chinese Airlines carried over **440 million passengers in 2015 - 11% increase** over the year before
- According to the International Air Transport Association, they're expected to add another **758 million new passengers over the next two decades, bringing the total number of annual passengers to 1.2 billion by 2034**
- Global Business Travel Association, business travel is also booming. The group estimates that **business travellers in China spent \$261bn in 2014** – an increase of 16.6% over the previous year – and, despite the slowing economy, it projects that **China will overtake the US as the No. 1 business travel market in the world sometime this year**

Chinese Regulations

- Currently prone to delays and last minute cancellations due to military drills
- Difficulty with accessing market
- Typically closed off to outsiders
- No open skies between U.S. and China - Growing trend of opening (12 Airlines, 60 right, 57% up from last 10 years)

How is China improving their Aviation system?

- Chinese government is starting to **make more room in the skies**. Last October, **authorities opened a third of the country's low-altitude airspace** (below 1000m)
- Plan to expand to 3000m
- Cut the advance notice of flight plans for light aircraft to **as little as one hour**.
- China is also **aggressively building more airports** and striving to improve the efficiency of its existing facilities by **increasing the number of flights that can safely land and take off every hour**

What are China's second tier Cities?

- Not as established as First Tier, i.e. Beijing, Shanghai, etc - But **represent rapid growth opportunities**
- China's second-tier cities account for **54 percent of the total imports from the U.S.** And many of these cities are **quickly developing new industries** and attention-getting enterprises.
- Many of the second-tier cities, **located primarily in central China**, have been boosted by the Chinese stimulus package that provided better highways and faster trains to increase access to these areas, signifying their growing importance to the country as a whole

	Hainan Airlines	Air China	China Eastern	China Southern
Hub(s)	Beijing - 21.5 mil Qingdao - 9 mil Dalian - 6 mil Haikou - 2 mil Taiyuan - 4.5 mil Urumqi - 3 mil	Beijing - 11.51 mil Pudong Int. - 24 mil	Beijing - 11.51 mil	Beijing - 11.51 mil Qingdao - 30 mil Chongqing - 30 mil Urumqi - 3 mil
Market Share	7.7%		21.4%	25.0%
# Destinations	537+	201+	123+	195+
# Craft	142 Planes	383 Planes	384 Planes	612 Planes
Ownership	48.6% Govt.	55% Govt.	62% Govt.	100% Govt.
Alliance	-	Star Alliance	SkyTeam	SkyTeam
International Flights	✓ North America ✓ Europe ✓ Australia ✓ Africa	✓ North America ✓ Europe ✓ Australia ✓ Africa	✓ North America ✓ Europe ✓ Australia	✓ North America ✓ Europe ✓ Australia

China's Trends (Urbanisation & Income)

- By 2020, China's **upper middle class will make up 55 % of China's urban consumption** and 81 per cent of its incremental growth by 2020.
- **8% disposable income growth** from 2014 to 2015
- **Bigger middle class than the US.** There are 109 million Chinese with wealth of between \$50,000 and \$500,000. Since 2000, twice as many Chinese as Americans have joined the middle class.
- By 2025, China will have **221 cities with one million-plus inhabitants**—compared with 35 cities of this size in Europe today—and 23 cities with more than five million.
- By 2010, the urban share of the population had grown to 45%; it's projected to reach 60% by 2030.

China's Trends (Tourism and International Business)

- In 2014, **72.2 million international visitors came to the US, according to US Travel Association, and that number is expected to hit 88.3 million in four years.** Large amount of new tourists. A huge portion of that growth will come from China, which is expected to send 3.1 million visitors to the States in 2019, a **172% increase over 2013 figures. 2014, Chinese tourists visiting America spent a whopping \$21.1 billion.**
- The projected growth is thanks in part to the **new extended US-China visa agreement** signed at the APEC summit last November, which is encouraging an increase in Chinese business travelers and tourists to the US.

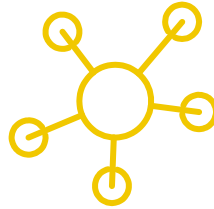
Core Competencies



Growth Via
Emerging Markets



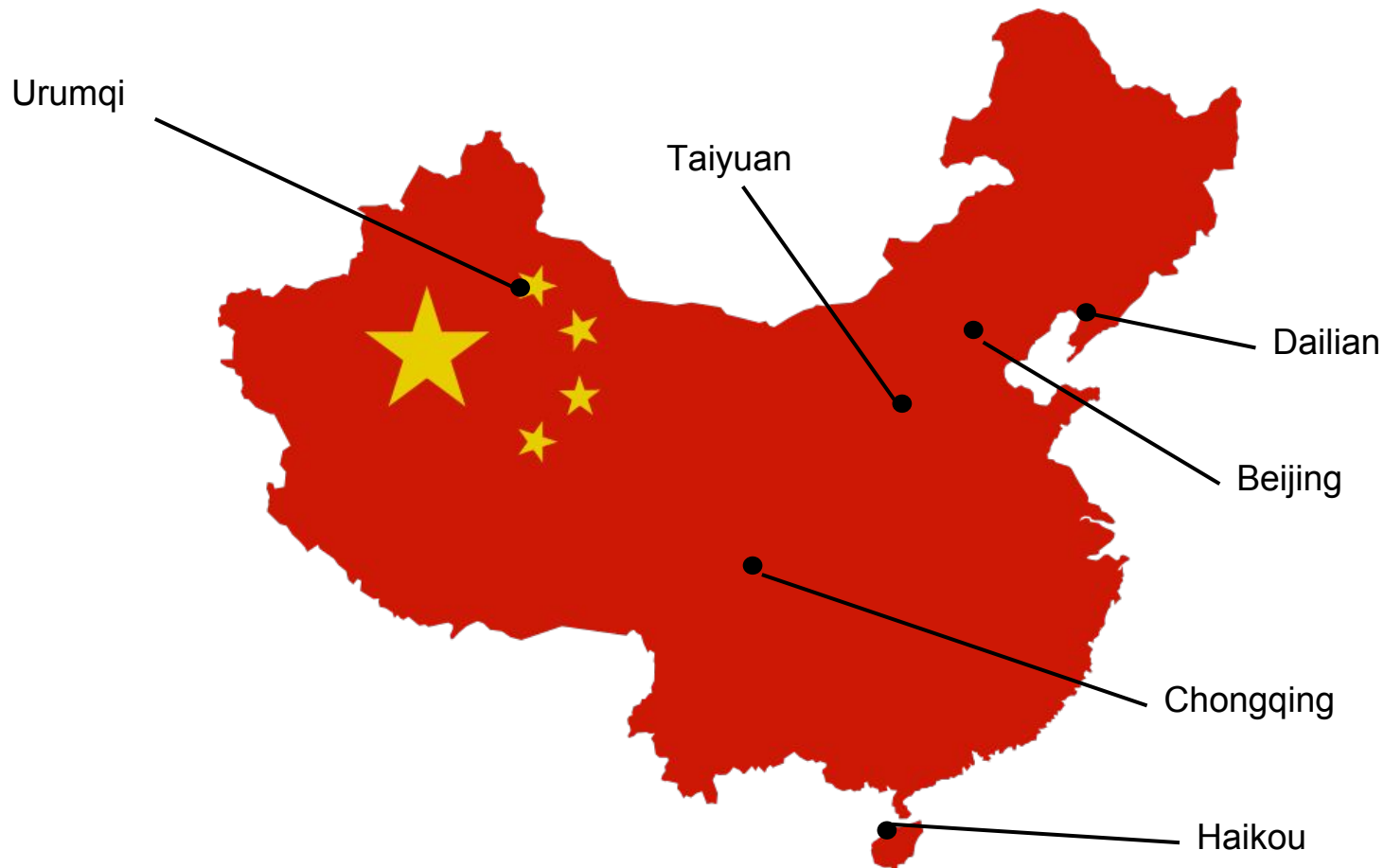
The Emirates
Standard



Megahub



Whole Ownership



Are Hubs Necessary in China?

- Due to the prevalence of domestic air travel, the Hub and Spoke model of Emirates is not practical for China at this stage. In the lifecycle of airline travel, China's industry is growing and has not yet reached the international depth that Dubai has achieved.
- Chinese airports will reduce congestion Many airports are being developed and coming up
- 3/10 people are able to travel up 3 times from 10 years ago

Why Seattle?

- Greater Seattle's economy is high-tech, innovative, and diverse, home to nine Fortune 500 companies and where over **40% of jobs are tied to international trade and business.**
- China is the **largest destination for the state's exporters**, worth nearly \$21 billion last year, 23 percent of Washington's total merchandise trade exports. That compares with \$3.5 billion in 2004, adjusted for inflation.
- Chinese port of entry arrivals grew **28 percent at Sea-Tac, October 2014 year to date**
- The U.S. and China recently extended the short-term visa validity period from one year to 10 years for eligible travelers – the longest validity period possible under U.S. law

Why San Francisco?

- San Francisco Chinese tourists' **favorite US destination.**
- The largest industry category in San Francisco, **tourism creates and retains 87,000 jobs**, according to the San Francisco Travel Association.
- **International visits to the Bay Area have increased by 21 percent in the past four years**, and the number of visitors is expected to grow another 19 percent in the next two years.

Why Los Angeles?

- 3.3 billion in Chinese investment into California in 2015.
- Los Angeles County had **779,000 visitors from China last year, up 13% from 2014**. LAX is now undergoing an \$8.5-billion modernization program that should be completed over the next several years.
- Major Chinese-funded construction projects in downtown Los Angeles such as the \$1 billion Greenland project.

Flight Route Turnaround Time

Aircraft	Capacity	Assumptions
Boeing 777 Capacity	400	Boeing website
A380 Capacity	800	Airbus Website, most conservative configuration
Weighted Average Capacity	530	Using the fleet proportion in 2016

Activity	Time (hrs)	Assumptions/Rationale
Refueling & Turnaround	3	Conservative assumption, industry average is 40 minutes
Flight Duration (East China to West US)	12	Average Flight time (google flights)
Routine Maintenance	6	Conservative Assumption, maintenance every 3 flight
Number of planes involved in route	4	Number selected to generate industry avg. flight service rate
Total Time per complete route	32	Calculated value
Routes Completed per day per plane	0.75	Using 24 hours period
Routes Completed per day	3	Able to service both airports 3 times each day using 4 planes

Fleet Growth Projection

Emirates Fleet Size

Year	A380 Quantity	Boeing 777 Quantity	Total	Change	A380 on Order	777 on Order	Assumptions/Rationale
2011-2012	21	102	123				
2012-2013	31	126	157	34	50	150	Order for 150x 777's placed & 50x A380's (case p. 7)
2013-2014	47	134	181	24	34	142	
2014-2015	59	144	203	22	22	132	
2015-2016	75	156	231	28	6	120	
2016-2017	81	166	247	16	0	110	Continuing using avg. Boeing production rate and completing A380 orders
2017-2018	81	176	257	10	0	100	
2018-2019	81	186	267	10	0	90	
2019-2020	81	196	277	10	0	80	
2020-2021	81	206	287	10	0	70	

Source: Emirates 2016 Financial Report

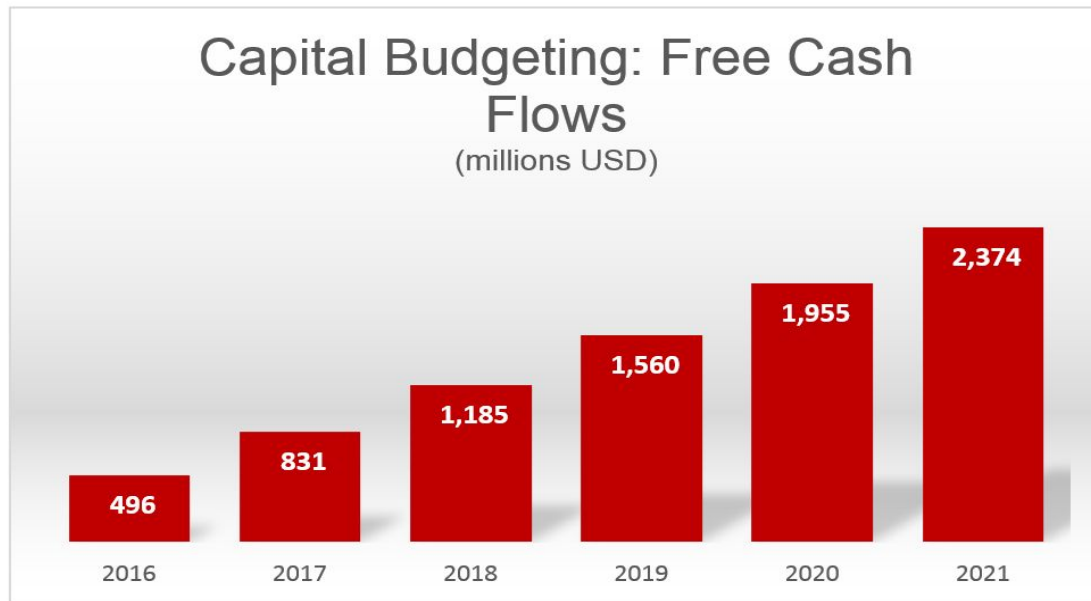
Aviation Industry Market Factors

Item	(millions)	Assumptions/Rationale/Source
2016 annual passengers	3600	IATA.org projections
Asia/Pacific Market Share	30%	UN ICAO
Asia/Pacific Annual traffic	1080	
Domestic Market	540	Roughly half, based on case and UN ICAO data
International Market	540	Roughly half, based on case and UN ICAO data

Capital Budgeting Projections

Projected Cash Flows (in millions)	2016	2017	2018	2019	2020	2021	Assumptions/Rationale/Source
Revenue	8,357	13,988	19,948	26,254	32,921	39,963	Revenue is determined by factoring in the number of aircraft deployable each year, the passenger volume accommodated, and the volume
<i>Total New Planes Introduced</i>	16	26	36	46	56	66	Using Emirates Fleet Size and Growth calculations
<i>Total New Annual Capacity (millions)</i>	6	9	13	16	19	23	Using the route calculations, weighted size, number of days in the year, and a conservative 60% fill rate
<i>Average Ticket Price</i>	1,500	1,545	1,591	1,639	1,688	1,739	Using coach data adjusted annually for inflation rate of 3%
COGS	6,184	10,351	14,762	19,428	24,361	29,573	Using historical average of 75% provided by case
Gross Margin	2,173	3,637	5,187	6,826	8,559	10,390	
Operating Expenses	1,421	2,378	3,391	4,463	5,597	6,794	Using historical average of 17% provided by case
EBIT	752	1,259	1,795	2,363	2,963	3,597	
Income Tax Expense	8	13	18	24	30	36	Emirates paid 1% in tax last year
FCF	745	1,246	1,777	2,339	2,933	3,561	
Present Value	745	1,154	1,524	1,857	2,156	2,423	Discount rate of 8% NPV
NPV	9,859						
ROI	16%	16%	16%	17%	17%	18%	
Margin	9%	9%	9%	9%	9%	9%	
CAGR	3%						

Cash Flows



ROI: 16.5%

Margin: 9%

CAGR: 3%

NPV: \$9.86B

Ways to Rebrand

- Use **native marketing** platforms, such as WeChat and Ali Baba
- Incorporate **luxury image** of Emirates
- Merge brand logos as a sub-brand

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