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ascend

Taking your airline to new heights

A man in a dark pinstriped suit and tie is smiling and holding a small white model airplane. He is standing in front of window blinds. The background is a light blue sky.

World's Happiest Airline

A Conversation With ...
Enrique Beltranena, Volaris
Chief Executive Officer
and Managing Director
Page 10.

6 Afriqiyah Airways knows when and where to expand

32 Significant improvements to air traffic control systems

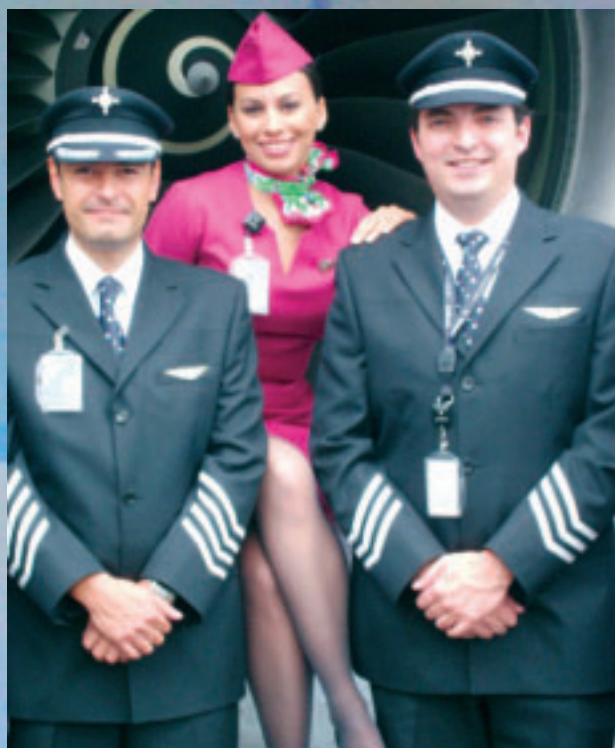
80 Effectively diagnosing MRO issues and prescribing solutions

VOLARIS



The World's Happiest Airline

A Conversation With ...
Enrique Beltranena,
Chief Executive Officer and
Managing Director, Volaris





From the time of its inaugural flight in March 2006, Volaris, known as the “World’s Happiest Airline,” has been anything but a typical, ordinary airline. The high-efficiency carrier shakes it up year after year, bringing surprise and excitement to its customers and employees, who are known as “Ambassadors.” For example, to celebrate its first anniversary, Volaris offered 45,000 tickets to all of its destinations for a total fare — taxes included — of US\$20 per ticket. And that was just the first of many surprises the Mexico-based carrier would offer the market during its first four years.

Volaris uniquely engages with the traveling public through a series of contests and promotions that undoubtedly pique the interest of current and prospective customers. For the past two years, the “Your Name On A Plane” contest has driven customer participation, generating great results for the airline. Last year, 21 Volaris customers won the contest, earning a year of free travel for the winner and a guest on any Volaris flight to any

of the carrier’s 38 domestic and two international destinations. In addition, 21 of the airline’s Airbus aircraft now sport the individual winners’ names on the fuselage.

“We received over 20,000 story entries from our customers describing what they would do if they had one of our airplanes at their disposal for a year; the selection is a well-represented group from all over the country,” said Enrique Beltranena, Volaris chief executive officer and managing director. “We selected the 21 most outstanding stories and are certainly pleased with the tremendous response we got from our clients.”

In 2008, Volaris and Coca-Cola Zero teamed up to give 60 contest winners a concert that was held 30,000 feet above the ground, aboard a Volaris flight. The in-flight concert, Vuelo Zero, featured two of the most popular Mexican rock bands, Zoé and Molotov. To enter the contest, participants simply had to register and accumulate “Zero Codes” from 400 milliliter and 600 milliliter Coca-Cola Zero bottles.

In addition to providing enjoyable and memorable experiences for its customers, Volaris enriches the lives of those who are less fortunate in the communities it serves. Last year, the carrier became the official airline of Fundación Televisa “Nuestro Destino es AYUDAR,” providing educational and motivational opportunities for children in two orphanages and foster homes in Mexico. As a reward for outstanding performance or activities at their respective institutions, 65 kids between the ages of 3 years old and 15 years old flew to Monterrey and participated in fun activities held at the MARCO Museum and Kidzania Monterrey. In addition, children saw a performance by pop singer Tatiana during the event.

“For us, it is a true honor to be part of such significant events that will truly mark the lives of each and every one of these children, serving as a reminder that a promising future does lie ahead for them,” Beltranena said.

Volaris customers, employees and communities aren’t the only beneficiaries of the airline’s

thoughtful, giving, responsible ways. The environment is also an issue constantly appearing on the carrier's radar screen. In 2008, the International Air Transport Association presented Volaris with Latin America's first Green Airline Award and also granted it the Green Aviation Partner certification. Last year, the airline documented, implemented and achieved certification on an "Environmental Management System" under the ISO 14001 norm awarded by NORMEX, an entity certifying the airline's environmental program. With this announcement, Volaris became one of the first airlines in Mexico and Latin America to operate in accordance with these regulations.

Beltranena follows his conviction that "what makes an executive great is a deep vocation to be and remain human, motivating his team and making sure they move forward, overcoming all hurdles." As a result of his ability to put his beliefs and work ethics into everyday practice, last October, during the sixth Annual ALTA Airline Leaders Forum in Cartagena, Colombia, Beltranena received the prestigious "Federico Bloch Award." In a recent interview with *Ascend*, Beltranena shared his thoughts about what makes Volaris Mexico's premier low-cost carrier.

Question: In just three short years after Volaris' inaugural flight, the carrier, in April 2009, was ranked by the Great Place to Work Organization as one of the best 100 companies to work for in Mexico. The airline ranked high in employee pride and comradeship as well as respect and credibility. How would you describe Volaris' corporate culture?

Answer: Fun and happy travelers and employees! When we founded the company, we knew that one of the most important challenges we faced going forward was managing our talent. We started day 1 with an entire philosophy that not only applies to our Ambassadors (our employees representing the brand and a lifestyle) but also our customers. As I always said, we shared the notion that aviation had lost sight of the ability to treat passengers as real customers. The only way to shift this behavior is by starting in house. I remember how I dreamed, a year before while certifying, what the culture was supposed to be. Our conclusions were laid out in a document called "Working Together." This document refers to our personnel as "Human Talent," since we needed a fresh culture that we could develop, with passion to execute, focused on common goals, generating synergies among the team and committing to becoming an exceptional culture and working environment. We never lost sight of the fact that we are all humans that must be treated fairly: 42 percent of our company's Ambassadors do not hold the same position they had when we started, and they have grown up with the company; 82 percent of our people submitted their point of view to the Great Place to Work Organization, assuring the world we are a great company to work for — number 34 among the top 100 in Mexico — because of our pride,



Volaris ranks No. 34 among the top 100 companies to work for in Mexico because of its pride, teamwork to achieving high-efficiency goals, and executing under moral principles and behavior.

teamwork to achieving high-efficiency goals, and executing under moral principles and behavior.

Q: How has the airline built such a strong culture? What keeps employees satisfied and motivated? And what impact does this type of culture have on the airline?

A: We all dreamed of having tons of fun and being happy doing our work. Our promotional campaigns developed by our chief commercial officer, Holger Blankenstein, supported by our marketing director, Jose Calderoni, have to be very fun and very close to our targeted client as well as be born and incubated in our company environment. When we launch them, we guarantee ourselves that our Ambassadors are living them. Among one of the most fabulous achievements we've had has been the brand penetration in the market. If it worked for the public, which is a reflection of our Ambassadors' behavior, imagine what it did internally for the company!

I stand up every morning with the dream of showing Mexico that it is viable to make aviation in this country a fabulous, enjoyable, effective work environment. I start the week planning our Ambassadors communication and how we can become one of the top 10 companies for which to work, an excellent place to develop a professional career in the aviation business. You watch, we will make it ... it is another set of guarantees!

We found 83.4 percent of our Ambassadors feel they are completely informed of what is happening in the company. We realize 50,000 information impacts in our internal network of screens,

mailing, electronic chats and events each month.

Q: Part of Volaris' mission is to enable more people to travel "WELL" ... placing great emphasis on the term "WELL." What does this mean for the carrier and its customers?

A: With safety, treating them with fair human respect and not just as a reservation number, guaranteeing on-time performance or their money back, at a fair price, well informed, entertained, with reliability, receiving more than what we promised, with credibility (which means integrity in service), with lots of warmth and reasonable comfort. We aim to carry out these actions, with a lot of creativity before, during and after the flight. For the carrier, this means more and more training, and for the customers, it means they can fly more ... now they can fly rather than spend hours on a bus. It's about being a company that understands and speaks directly and clearly to them.

I remember a discussion we had when an Ambassador suggested to write the legend "Proudly Mexican" below the Mexican flag on the tail of the aircraft. It was during the time we were opening our U.S. routes. Someone told us to be careful because immigration was a sensitive issue. We are proud to show the world that we are a Mexican carrier, with a Mexican labor force, with a huge emphasis on our community travelers. My next step was to walk to the legal council office at our company and ask them to prepare the paperwork to become a naturalized Mexican carrier. We all show our customers that they are nothing but a great market that increasingly needs to be treated fairly and with

respect. The slogan of the launch campaign was “The U.S., more Mexican every day,” which, by the way is totally true, and we used a simple way of writing typical Mexican words and cultural elements, spelled out as they would be read in English. The campaign has ranked among the best campaigns of the year in Mexico, and customers reacted very positively to it. We became the highest market-share carrier in San Francisco and Oakland, California, after four months.

Q: Social media, such as Facebook and Twitter, is becoming widely used in the airline industry as a method to communicate and engage with customers. In what innovative ways does Volaris leverage social media? What impact does it have on the airline? And in what way does it serve as part of the airline's vision?

A: We need to speak in the same language, form and in the same way those communities are communicating. Clearly, this is not the only way we communicate with them, but it certainly has become one of the most important ones. When we classified our niches, we found that the least-loyal group of travelers are young, between 16 years old and 32 years old. They are very much driven by price, but deep down inside, they are sensitive to what is aspirational, or what is cool. They react much more to feelings and increasingly communicate via mobiles and the Web, at their convenience. In terms of media, it is the niche with highest growth in Mexico. So, we speak to them, promote to them, create games, solve their requests and, in general, identify with them through mobiles and social media like Facebook and Twitter. At the airline, this means thinking the way the customer does, in their most comfortable environment, which led us to create a department that communicates with them and prepares campaigns for them using their most appropriate communication tools. The result for the airline vision was again helping them fly WELL, but it has developed twice the loyalty in that niche than before we started. A key result is retention, in a niche where the prevailing mode of transportation is flying as opposed to previous generations who used to consider bus transportation primarily.

Q: Volaris has reached exceptional on-time performance levels, as high as 98.1 percent some months, supporting its on-time guarantee on all flights. From the time a customer arrives at the airport for a flight to the time the flight has landed at its destination, what steps does Volaris take to ensure an on-time departure and arrival? On those rare occasions that Volaris doesn't deliver on its on-time promise, how are customers compensated?

A: When measuring those attributes passengers value most, after pricing and safety, we learned that on-time service was a priority. At the start, we were very price competitive and drew in lots of customers. But when asked if they realized how successful we were in terms of

on-time performance, there was no awareness. Our variable compensation is very much oriented to it, with a difference to the drivers of compensation based on punctuality. Why? Because we are significantly oriented to it. When we launched the airline, not only did we have to communicate well that we were delivering as promised, but we also needed a product differentiator without representing a higher cost to the airline. On-time performance is something you can achieve by delivering systems, managing airports, etc., but the only real element that makes it happen in real life are those people working at the airline, an incurred cost, not an additional one. When we launched Volaris, the legacy carriers matched our pricing levels, so we sent a market message that pricing with service was not all; you have to have a differentiator, and one of ours is delivering on-time performance.

Q: Volaris' vision is to transcend by creating and living the best travel experiences. What does the airline bring to the traveling public that surpasses that of its competition?

A: It is all precisely part of our flying WELL notion, as I explained. Our competitors' mentality did not take us seriously in our goal to transform the aviation industry by evolving, innovating and satisfying. I think the key is not only to improve day after day, but also to remain as the best. So, when we speak about transcending, we mean staying forever in the market in the long run, and this was clearly not

what happened to the other five airlines that appeared and already disappeared in the market during the past two-and-a-half years. If company people enjoy what they do, and if they enjoy their work, the natural result is better experiences providing better service. We do this because working for Volaris is unique in the aviation industry in Mexico and because we all have great fun doing so.

Have you ever heard a passenger telling his flight experiences after a trip? When you are able to create memorable and positive experiences, they will be that much more lasting. In fact, we made an ad about it: it was about a little boy who went to see the whales in Los Cabos. The kid returned from his trip and told a story about hundreds of dolphins swimming around the whales and, even without having had the experience of touching the whales, he spoke to his peers at school about the size of the whale describing it as “hu-hu-hu-hu-hu-hu-huuuuuuuuuuuuuuu-mongous! Humongous!”

We set out to create unique, unforgettable travel experiences, making dreams come true and then aiming for passengers to retain them as such. We do it with creative people who develop new ideas in an environment where we empower people to do things differently, with less money but without losing sight of safety, customer experience and growing with sustainable profitability. Flying is just part of the travel process, it is not the goal. Traveling is about living and dreaming, it invites us to live with joy! So



Nearly half of Volaris' employees, called Ambassadors, do not hold the same positions they had when they started; they have literally grown and expanded with the company. And 82 percent of the carrier's people submitted their point of view to the Great Place to Work Organization, confirming to the world it's an excellent company for which to work.

then, why not aspire to convert the process of flying into that? Sounds reasonable!

Q: Airbus has recognized Volaris as the airline with the most efficient use of its Airbus A319 aircraft. How does the airline operate this particular aircraft more efficiently than other carriers that utilize the same equipment?

A: After our Ambassadors, our fleet is our most important asset. It is costly and, naturally because of this, it is essential we use it optimally. My great, great grandparents came from Spain during the colonization period with one single purpose: to offer efficient transportation in the colonies. I remember my grandfather saying that a still mule never charges for its service. Aircraft are just the same. Why would you have an aircraft sitting on a ramp rather than charging for service? We put them to good use, so we can dilute costs throughout the network. We are flying each aircraft more than 12 hours of actual flight time a day per aircraft, which translates to more than 14 hours a day referred to block times.

The second element is on-time performance, which we already covered, but as examples it encompasses maintenance and reliability, the capacity to turn around in less than 22 minutes, the network configuration, airports providing efficient service, where and how to maintain the fleet, etc.

The third element is where and how you utilize the fleet. You do not run the most famous horse race Grand Prix with mules or camels. You search for the best-fitted horse to win, handling top distances, altitude, weather conditions, horse track conditions, etc., all are key. Aircraft are the same. They are fitted to a certain mission, and the more you adapt to these, the better they perform. Selecting the right aircraft was important; designing its features is paying back.

Q: Volaris is the only airline in Mexico certified for very low visibility (Cat III) operations at Toluca Airport. How has it achieved this certification? What does this mean for Volaris? And what impact does it have on the carrier's local competition?

A: When I came to Mexico, Pedro Aspe, chairman of our board, gave me four alternatives to fly to and set a base for the airline. From our market perspective, Toluca was the most appropriate one. But as in the past, and as is still the case, at times, the location sometimes has lots of fog. Since on-time performance, high utilization and fast turnarounds were of the essence — fixing this piece of the puzzle became a basic need. The federal government contracted International Civil Aviation Organization specialists and confirmed that this certification was important. Providing the airport with first-world technology was then a forced step. They did it, and we bought the fleet with the capabilities and training as needed. Aviation is an extremely complex business that simply does not tolerate improvisation, given that it can be so costly.

In the beginning, and for about the first year, we were the only airline certified and, slowly, another carrier obtained the certification. It has a huge impact in on-time performance and further, the process was worthwhile for some U.S. airports, where we are already Cat III-certified.

Q: Volaris has achieved many successes during its short tenure. What are the main contributors to the airline's overall success?

A: An extremely disciplined board of directors drives the company to follow the original plan. The management team with most of them coming from outside of the industry, and most of them being the best in their respective fields, learned to be great aviation people, in addition to the operating shareholder TACA and, clearly, the Volaris team, of whom I have referenced throughout.

Q: Looking back, what are some of the greatest challenges the airline has faced? How has it overcome these challenges? What were some lessons learned?

A: Every day of the past three-and-a-half years were a challenge, especially last year. We have a saying in Spanish that states more or less, "Fleas stick to the skinniest dog." Well, we were that dog! I think back on those years and really thank God for guiding our team! The most important lesson besides being committed was remaining humble despite our achievements.

Q: Volaris has clearly moved up the ranks quickly in Mexico — rated as the nation's second air passenger transportation company. In its goal toward total leadership nationwide, what types of innovative products does the carrier offer its clients that will help make it the airline of choice? What role do employees play in growing Volaris' customer base and gaining customer loyalty?

A: Our goal of leadership nationwide is limited to the capacity of what we can do with our fleet. We already have a decent share and, unless we modify the model, I don't see Volaris being the total leader. This is the case with most low-cost carriers around the world. As a result, and based on the Mexican peso risk, the company also had planned to create a natural income hedge in U.S. dollars to leverage versus its U.S. dollar cost proportion. The opening of the U.S. market was on the plan since the company's conception and is stated in the original "Concession" (the equivalent of the U.S. Department of Transportation authorization). We now intend to continue providing the same product quality to our targeted markets in the United States, and most of the growth will come from there. I would say the expansion of the current product beyond the Mexican border is the most important step now. But this comes with a major alliance with Southwest Airlines to accomplish our market objectives. Everything that is necessary to pair the two airline systems and products is happening as we speak.



Volaris, the official airline for Fundación Televisa, further supports the communities it serves through several initiatives such as Teleton (the largest fund-raising campaign in the country favoring disability patients and this year included children with cancer), transportation of organs for transplants, and transportation for injured and burned individuals.



Francisco was among one of 21 Volaris passengers to win last year's "Name On A Plane" contest. In addition, he earned one year of free travel for himself and a guest on any Volaris flight.

Q: The contest to win in-flight seats to the Vuelo Zero rock concert for the Latin American MTV awards proved extremely successful for Volaris. What did this promotion involve? What impact has it had on the airline? What other prizes were awarded to contest participants?

A: Vuelo Zero was the first one. We've also done the Tigres del Norte, the most popular norteño band in the country. The purposes of these activities were explained before, and our results were amazing. With minimal prizes/cost, we generated a ton of publicity in both cases. The first one associated with Coca-Cola and the second with the producers, Bandamax. It involves lots of coordination, especially when it comes to guaranteeing in-flight safety and security. Authorities were fully participating in the planning phases and that is the huge challenge from the operational perspective. From the market perspective, it involves coordination of advertising, especially in terms of how to position the event and related campaign. Doing this well guarantees a great return on the brand. Most of the impact is measured by the return in multiples of the publicity campaign. The prizes were very simple! Fly and participate in the event.

Q: While other carriers strive to generate additional revenue through ancillary sales, Volaris offers customers an onboard array of snacks and drinks from well-known brands such as Coca-Cola, Krispy Kreme, Canel's, Dove, Cervecería Cuauhtémoc Moctezuma, Sanborns and Casa Cuervo at no additional cost. How does the airline afford to offer top brands on a complimentary basis?

A: It is basically a barter agreement with the sponsors. They get commercial exposure, we get their products, which have to represent an

aspiration for the consumer. We afford it based on our capacity to position their products and the onboard sponsorship opportunity.

Q: Volaris has a codeshare agreement with Southwest Airlines. What does this agreement involve, and how does each partner airline benefit? What requirements must a carrier meet to partner with Volaris?

A: The agreement is essentially that ... a codeshare agreement. The agreement will be expanded upon implementation, and we will announce further reach at that time.

Q: How has the success of Volaris contributed to Mexico's economy?

A: We firmly believe that without transportation, there is no economical development — a simple premise! In the first years, the market domestically grew from 22 million domestic passengers to almost 28 million. In addition, a true alternative to Mexico City's International Airport was developed in Toluca, and the State of Mexico, where Toluca is located, has benefited greatly from the creation of this development. I could add so many more other non-subjective issues, but I prefer to stick to these two. I could also add that a new category of airline was added to the market, one based on value, service and style. Plus, the expansion of electronic commerce.

Q: Volaris tackles environmental issues straight on. What are some of the sustainability initiatives the airline has in place? What are your greatest environmental accomplishments?

A: We firmly support our campaign promoting our capacities as having the most modern fleet in the Americas, averaging just over

two-and-a-half years. This advantage allows us to produce fewer CO₂ emissions and reduce noise. Flying techniques are very helpful in saving fuel and polluting less, and we have tackled most of them. Finally, recently we certified the company under ISO 14001 standards and started offsetting our corporate office emissions purchasing carbon bonuses. But this is not enough. Our social responsibility campaign carries out a variety of ecological activities to support the community in this goal. We were the first airline in Latin America recognized by IATA in our progress and provided ALTA with a questionnaire that basically helps airlines fulfill many actions, as much as they can, to support the environment. I repeat that the major accomplishment was to filter, convince and make our labor force understand the purpose of the campaign to inherit a better world for our children.

Q: In addition to being the official airline for Fundación Televisa, what unique ways does Volaris support the communities it serves in terms of volunteer and fund-raising efforts?

A: We do have educational campaigns, house building, supplemental hearing aid products, nutritional efforts, Teleton (the largest fund-raising campaign in the country favoring disability patients and this year included children with cancer), transportation of organs for transplants, etc. We also provide transportation for injured and burned individuals.

Q: What role does technology play in the success of Volaris?

A: Wow! Everything! I mentioned our people and our aircraft previously as our priorities. The third is technology, which is why we are moving toward *SabreSonic*[®] *Customer Sales & Service* and some other components. *Sabre Airline Solutions*[®] technology is by all means the foundation for growth and has the systems with which will clearly support the next growing phase. We launched three-and-a-half years ahead with an e-ticket platform. Distribution for us is direct to the customer on about 82 percent of our sales. It is clearly a driver to grow in the United States, and we will keep on using it to enhance the customer experience and customer research.

Q: Where do you see Volaris in the long term — five to 10 years down the road?

A: We are positioned to become a preeminent value airline for Mexico and in flows to/from the United States. The business model proved itself this year when we achieved our first profitable year. The network and the point-to-point model keeps being the edge for profitability, and we will expand in twice our actual size during the coming four to five years. We will continue enabling more people to travel WELL ... always placing great emphasis on the term WELL. **F**