Did you know that an Amadeus-led consortium has won a contract with the European Commission to evaluate the technical feasibility of a multimodal European passenger transport system?
Amadeus and the travel industry

Our ambition is to facilitate the entire travel journey from door-to-door while improving the travel experience. We have more than 12,000 people in 200 countries excited about and working towards this ambition.

Luis Maroto
President & CEO Amadeus IT Group
Travel industry overview

Today, global travel and tourism is one of the world’s largest industry segments, with an estimated total contribution to global Gross Domestic Product (GDP) of US$6.8 trillion according to the World Travel and Tourism Council (WTTC). This is equivalent to 9.8% of the global GDP.

This includes induced, indirect and direct contribution generated by industry suppliers and intermediaries, comprising airlines serving 3 billion passengers annually, over 300 hotel chains, over 170 rail providers, over 200,000 travel agency locations, numerous international car rental and insurance companies, and global and regional tour, cruise and ferry operators.

2. Amadeus and the travel industry

- **World: Total contribution of travel and tourism to GDP** (constant 2012 US$ bn)

  - **Induced**: 9.0% in 2012, 9.5% in 2013, 10.0% in 2023
  - **Indirect**: 9.5%
  - **Direct**: 10.0%

- **Projected growth in global air travel**

  - Domestic & international air passenger growth to 2017

  - **2012**: 2.98 billion air passengers
  - **2017**: 3.91 billion air passengers

  - **31% growth**

All values are in constant 2012 prices and exchange rates.

As the world economy recovers from the current downturn, travel volumes have benefitted and will continue benefitting from global GDP growth. According to International Air Transport Association (IATA), global airline passenger volume has grown at a 6% Compound Annual Growth rate (CAGR) from 2009 to 2012 and is expected to grow at 5.8% in 2014. Developing regions such as Asia-Pacific, Africa, Latin America and the Middle East are expected to evolve at faster rates due to rising income levels, growing consumer confidence and increasing globalisation.

Global travel is forecasted to grow robustly over the next decade. A report commissioned by Amadeus and developed by Oxford Economics predicts global overnight visitor flows to grow at 5.4% per annum over the next decade, significantly faster than GDP growth of 3.4%, and more in line with the expected expansion in global trade flows of 5.8%.

In this respect, it is remarkable that the growth pattern of air passenger traffic is closely correlated with trends in the global GDP evolution. In fact, since 1970, air passenger traffic has grown on average at a multiple between 1.3 and 1.6 of GDP growth.

In this context, Amadeus operates at the crossroads of two large and growing industries: technology and travel. In terms of our Distribution business, we are a key player in the travel and tourism industry, one of the most important sectors in most countries worldwide. In terms of our IT business, we provide products and services designed for the needs of travel and tourism industry providers, therefore being part of the ‘travel technology’ industry.

The technology industry has undergone significant advancements in the last 30 years in the areas of computing and communications, revolutionising the travel and tourism industry. Travel providers are now able to disseminate information globally and instantaneously, making possible to consumers to consult travel information in real time.

1 IATA Financial Forecast (March 2014).
2 The World Travel and Tourism Council (WTTC) defines travel and tourism as the activity of travelling on trips outside one’s usual environment for a duration of less than one year.
Travel industry trends

Amadeus has identified the global key industry trends that affect the travel industry:

- **Global economies**
  - Developing economies and growth of middle class
  - Continued population growth
  - Market liberalisation
  - Global business integration
  - Growing urbanisation

- **Personal technology**
  - Explosion of mobile/personal technology
  - Widespread internet access
  - Decreasing price of technology
  - Sophistication of travel apps
  - Social networking services

- **Increased competition**
  - Liberalisation and new entrants
  - Continued growth of low-cost carriers (LCCs)
  - Mergers and consolidations
  - Influence of Global Airline Alliances
  - New airports and infrastructure

- **Empowered consumers**
  - Influenced more by friends
  - Looking for more adventures
  - Growing tech-savvy consumers
  - Expect more choice and personalisation
  - Reward competence in product & service

Among the travel industry trends identified, the following travel technology factors may influence Amadeus activity in the short, medium and long term:

- **Global economies**
  - Non-OECD countries accounted for 44% of global air traffic in 2013, and this is forecasted to rise to 51% in the next 10 years. This traffic is increasingly independent of mature Western markets. As an example, China may overtake the US as the largest source of outbound travel spend in the world in 2014. It may also surpass the US as the world’s largest domestic travel market by 2017.

- **Empowered consumers**
  - Greater traveller sophistication is driving increased demand for seamless, more customised, intuitive and flexible solutions meeting the traveller’s personal preferences. The continuing shift to digitisation and the increasing complexity and personalisation of the travel offer have placed further pressure on travel providers to access advanced, scalable technology solutions.
Based on the above-mentioned industry trends, Amadeus has identified some challenges and opportunities in the different business areas.

**Challenges and opportunities in the Distribution business**

Computer Reservation Systems (CRSs) provide a computer network connecting a large number of travel providers with a large number of travel agencies. CRSs provide an integrated interface displaying a wide variety of choices, prices and itineraries available, through which corporations and end-travellers can access travel content. Also, in addition to providing CRS technology, Global Distribution Systems (GDSs), like Amadeus, make broad geographical reach an important element of their value proposition.

The main challenges and opportunities faced by Amadeus in this area include:

- **Increasing importance of direct distribution channels**: an increasing proportion of bookings are being generated through direct distribution channels that connect the travel provider directly with the traveller, without any intermediary facilitator. We believe, however, that this disintermediation trend will slow and that in the medium to long term, the indirect channel will continue to be very relevant:
  
  - Distribution through CRS platforms continues to be the most efficient mean for airlines and other travel providers to reach and distribute their travel content. Moreover, in countries where a travel provider has a reduced brand awareness (for example, outside their home markets), a GDS platform offers a particularly cost-effective means of accessing the market by using local travel agencies to reach end-consumers. Additionally, as higher yield long-haul and corporate travel tickets and itineraries with additional booking complexity (for example, multi-stop flight itineraries) are more typically sold through a travel agency using a CRS platform, indirect distribution tends to provide higher yield tickets for airlines than direct channels. Disintermediation trends are today mostly driven by LCCs, which typically distribute a large proportion – or the total – of their content through their direct channels. LCCs typically adopt an indirect channel distribution strategy as they grow and become more mature, seeking to access higher yield customer segments. At Amadeus, we have continued expanding our low-cost carrier distribution customer base with the addition of 10 new low-cost airlines in 2013. Indeed, we currently hold agreements with more than 70 low-cost airlines, and our low-cost carrier bookings grew by 21% in 2013.
  
- **Growth of emerging markets with strong local CRSs**: the local CRSs, primarily in China, Japan, South Korea and Russia, are nowadays benefiting from the high growth markets in which they operate. They are also generally favoured by exclusivity agreements on the indirect distribution of certain flag carriers’ domestic content or, in the particular case of China, by local regulation.
  
  - China is a highly regulated market with a dominant local CRS player. This local distributor is supported by favourable government regulation, which creates significant barriers to entry for foreign CRS providers. New regulations in force since October 2012 allow Chinese travel agencies to use foreign CRS providers to access and make bookings for international routes offered by non-Chinese airlines. We believe that we are well placed to take advantage of these new regulations, as well as any further opening of the Chinese CRS market to non-Chinese competition that may occur in the future.
  
  - In South Korea, one of the critical players is a local CRS called Topas. Thanks to a new agreement reached by Amadeus, the travel agencies currently connected to Topas will start migrating to our platform in 2014. We estimate that the addition of these travel agencies will have a contribution of around 15 million air bookings and will help us to increase our presence in the country significantly.

All these challenges and opportunities exist in the competitive environment in which Amadeus operates.

Amadeus is the largest GDS provider serving the worldwide travel and tourism industry, holding the number one position in travel distribution in Europe as well as in faster growing emerging regions such as the Middle East & Africa and Asia-Pacific regions.

We believe that we are well positioned for further market share gains based on:

- Wide breadth of global and local content
- Continuous commitment to innovation
- Investment in best-in-class technology
- Local support offices in 71 countries serving 195 countries
- System reliability supported by fully owned data centre

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2 Market share is calculated based on the total volume of travel agency air bookings processed by the global or regional CRS. Excludes air bookings made directly through in-house airline systems or single country operators, the latter primarily in China, Japan, South Korea and Russia. Also excludes bookings of other types of travel products, such as hotel rooms, car rentals and train tickets.
Challenges and opportunities in the IT Solutions business:

We develop and provide IT solutions that enable processes such as reservations, inventory management, departure control, e-commerce, the provision of consulting services and other data, passenger processing and management services, as well as back- and mid-office solutions for travel providers. The main challenges and opportunities faced by Amadeus in the IT business include:

- Travel providers are experiencing competitive and cost pressures and, in pursuit of profitable growth, are increasingly looking to replace in-house legacy systems. By outsourcing certain mission-critical processes to third-party vendors of standardised and scalable next generation technology platforms, such as Amadeus, customers are able to enhance the quality and functionality of their product and service offerings while reducing their spending on development and ongoing maintenance. For example, IT solutions play an increasingly vital role in the management of the business processes of airlines, helping them to optimise reservation, inventory and departure control processes, as well as improve their ability to respond to changing market conditions, such as rising fuel prices, increased security regulations, and growing environmental concerns. Our current product and service offering within the travel technology industry primarily serves the airline IT market and, in particular, the Passenger Services Systems (PSS) and e-commerce. We are however currently expanding into the other travel provider IT markets, including the hotel, rail and airport IT markets.

- The IT solutions marketplace is highly fragmented, with several players focusing on specific subsectors and operating different business models. Providers of IT solutions typically operate under one of three distinct business models:
  - Community Platform Model. The outsourcing partner provides, manages, customises and continually develops the technology system using a standardised solution which is shared by all customers connected to the IT solutions provider's platform. Remuneration is typically on a per transaction basis.
  - ‘One-to-One’ Application Hosting Model. The outsourcing partner develops and deploys a system on a one-to-one basis with the customers, and hosts such a system on a third-party data centre. Remuneration is typically on a per transaction or licensing basis.
  - System Outsourcing Model. The outsourcing partner operates and manages the customer systems through a simple application hosting environment. Customisations and further developments are undertaken by the travel providers. Remuneration is generally on a fixed-price or cost-plus basis.

We believe that the Community Platform model, which we have adopted for our Altéa Passenger Services System offering, is a cost-efficient IT business model because:

- Customers benefit from common development costs.
- Its transaction-based pricing model allows customers to transform what would otherwise be a fixed cost to a variable cost linked to transaction volumes.
- Continuous development by the IT provider guarantees that the customer will always enjoy a state-of-the-art and modern solution, reducing the risks associated with large IT infrastructure fixed costs.
- The Altéa PSS is offered as a Software as a Service (SaaS) delivering model, reducing IT infrastructure and support costs to our customers.

We expect an increasing number of travel providers to choose to externalise their systems as they make investment decisions on next-generation technology systems.
Amadeus in the travel industry

Every day, Amadeus is involved in the travelling experience of more than one million travellers. We have become a relevant industry player and we have a responsibility to work together with other industry stakeholders to shape the future of travel. Taking this context into consideration, Amadeus created its Industry Affairs unit in 2011.

At Amadeus, we collaborate constructively across teams engaging in industry initiatives. Among others, these initiatives relate to:

- Regulatory aspects of our business in which we provide information, knowledge or advice to the regulator to improve legislation.
- Relevant industry developments, such as the current initiative to enable a European intermodal transport environment.
- Consumer protection, for example to safeguard the right to fare information or data privacy.

The graphic on this page illustrates our approach to industry relations:

- Shaping the future of travel by working jointly with regulatory bodies and relevant industry stakeholders.
- Amadeus commitment to making the travel and tourism industry more efficient and sustainable.
- The collaborative approach we subscribe to in working together with industry partners to find good and sustainable solutions that take into account the needs and requirements of all industry stakeholders.

Amadeus works with relevant regulatory bodies around the world, including the European Commission (EC) and the US Department of Transportation (DOT), as well as with the main industry trade associations and consumer organisations. Our closest partners are ETTSA (European Technology and Travel Services Association) and TTA (The Travel Technology Association, formerly ITSA), of which Amadeus is a founding member. We have an allied membership with ECTAA (European Travel Agencies’ and Tour Operators’ Association), and also work very closely with ASTA (American Society of Travel Agents) and its global organisation WTAAA (World Travel Agents Association Alliance). We are member of Open Allies for Airfare Transparency. In Asia, we are a long-standing member of PATA (Pacific Asia Travel Association).
Amadeus is a strategic partner of IATA (International Air Transport Association), and we support the efforts of ICAO (International Civil Aviation Organisation) promoting industry standards for aviation carbon calculators in the airline industry. We work with IATA and Airlines for America to build a common industry agenda for the sustainable growth of the airline industry, whilst ensuring that requirements of all industry stakeholders are taken into consideration.

On the other hand, collaboration among industry stakeholders is key to the sustainability of the global travel and tourism industry over the long term. Amadeus engages constructively with industry stakeholders to agree upon principles and ambitions for sustainability. We fundamentally believe that the stakeholders across the travel industry – whether airlines, railways, travel agencies, travel buyers or passengers – need to come together to agree on a common industry agenda for sustainability that builds on principles of transparency, fair competition and respect for the environment in which we operate. We remain firmly committed to working with our industry partners to achieve this.

We are a global partner of UNICEF (United Nations Children’s Fund), and an affiliate member of UNWTO (United Nations World Tourism Organisation) and WTTC (World Travel and Tourism Council).

Amadeus entered the Dow Jones Sustainability Index (DJSI) in 2012, continuing in 2013, and we report non-financial information in accordance with the Global Reporting Initiative (GRI) standards.

Multimodality

One of the strongly emergent travel industry trends being driven by the European Commission concerns seamless multimodal travel information and ticketing services. It is one theme in a raft of initiatives designed to realise the vision for the future European transport industry as set out in the European Commission’s 2011 White Paper on transport: Roadmap to a Single European Transport Area.

The White Paper identifies a 10-goal programme ‘for a competitive and resource efficient transport system’ which will contribute to an overall target of 60% reduction in greenhouse gas emissions by 2050, with goal no. 8 specifically setting the following objective:

‘By 2020 establish the framework for a European multimodal transport information management and payment system.’

Consequently, the European Commission published a ‘preparatory action’ in the form of an open call to tender (2012) for a multi-dimensional study and delivery of technological proofs of concept around the feasibility of establishing such a multimodal framework.

In 2012, Amadeus created the All Ways Travelling (AWT) consortium with partners Thales, BeneRail, IATA, UNIFE and Zeppelin University in Germany, and led a successful bid, beating off strong opposition from competing consortia. The €1.5 million contract with the European Commission was signed in April 2013 and the project is currently ongoing.

In parallel, Amadeus represented and negotiated a strong participating partner position in a Joint Technology Initiative proposal to the European Commission entitled Shift2Rail, founded by principal members of UNIFE the European rail suppliers association.

Amadeus participates in IP4, the fourth of five constituent innovation programmes in Shift2Rail: ‘IT solutions for an attractive rail transport system’, which takes up the challenge of encouraging a significant modal shift from private car usage to rail and other forms of public transport through integration within a broader multimodal vision, including air.

In this respect, Amadeus’ various businesses are currently defining our technology commitment with IP4 partners, as well as substantiating Amadeus’ role as multimodal travel ‘thought leader’ and close adviser to the European Commission in its efforts to shape the future of travel.
Amadeus has been selected by the European Travel Commission (ETC) to develop an innovative solution to promote Europe as a destination. VisitEurope is a mobile app that helps most of Europe’s National Tourism Organisations attract more tourists. The solution is also part of the ‘Destination Europe 2020’ strategy, a joint initiative between the European Commission and ETC to strengthen the image of Europe in long-haul markets through promotional activities and the implementation of new technologies in cooperation with major industry stakeholders.

VisitEurope provides the European Travel Commission with a unique digital platform to market Europe as an attractive tourism destination. Available globally, the app is optimised at an initial stage for the Americas, including the US, Canada, Chile, Brazil and Argentina, where it is able to compute the price of a long-haul flight to Europe on top of all the inspirational elements.

This app incorporates Amadeus innovative online search technology which makes travel inspiration and planning processes more appealing to travellers using their mobile devices. Available for free download, this solution also enables travellers to share their travel information through relevant social media channels.

Digital technologies are revolutionising the way Destination Management Organisations (DMOs) market and promote their products and services. The innovative technology of this platform will help DMOs be more competitive and visible, leveraging new channels such as mobile. The travel search technology will further increase the efficiency of the European Travel Commission in attracting potential travellers to Europe, whilst content sharing is becoming more and more inspirational for end-users.