AIRLINE EXECUTIVE SUMMIT

15 JUNE 2017 / SEOUL, KOREA

Global Landscape
Asia Pacific Perspective

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Sabre

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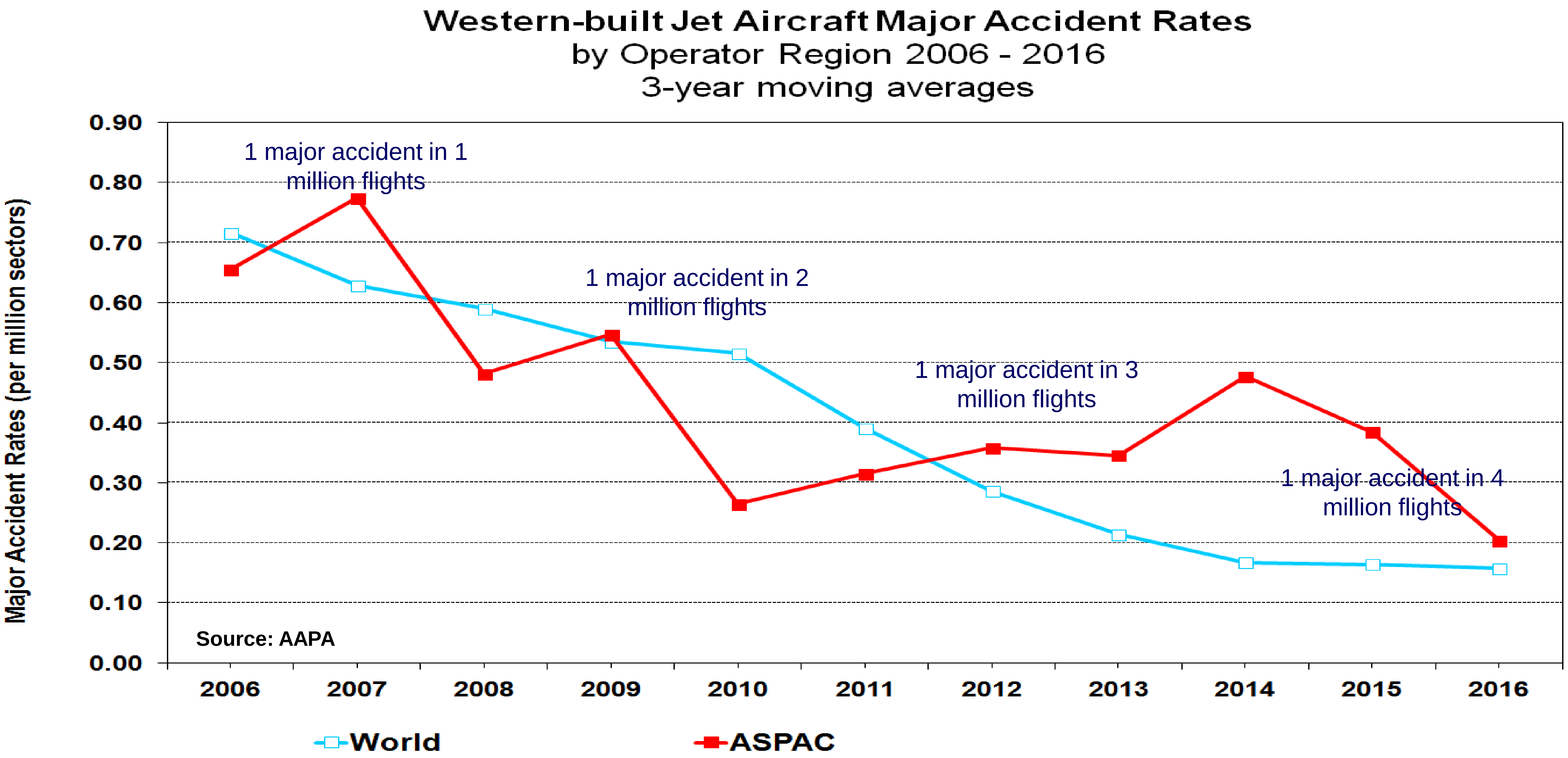
Aviation: connecting the world

- **Air travel delivers global mobility**
- **3.6 billion passengers**
  - ➢ **10 million per day**
- **Carries 35% by value of global trade**
  - ➢ **Goods worth US$6 trillion**
- **Wider social and economic benefits**
- **Committed to sustainable growth**
- **Outstanding safety record**

Source: IATA, ATAG

Aviation Safety Performance Trends



Aviation & Sustainable Development

- **Aviation committed to sustainable future growth**
- **Aviation pursuing multi pillar strategy:**
  - **Fuel efficiency through technology**
  - **Operational efficiencies**
  - **Infrastructure improvements**
  - **Development of alternative fuels**
  - **Additional emissions reductions under ICAO CORSIA carbon offsetting scheme**

Aviation has set ambitious environmental targets and is delivering on its commitments

Asia Pacific

- **Diverse geographic region**
- **Home to 4 billion people**
  - **56% of the world's population**
- **Dynamic economies generate 34% of global GDP**
- **Wide range of income levels, rapidly growing middle class**
- **Aviation widely recognised as a key contributor to economic and social development**
- **Political diversity remains challenging: need for multilateral cooperation**

Asia Pacific Aviation

US$165 billion revenue

US$7 billion net profit

1,297 million passengers

927 million domestic

370 million international

21 million tonnes of cargo

7,058 aircraft

Asia Pacific carriers overall market share:

33% of global passenger traffic

38% of global cargo traffic

Data: Traffic: AAPA 2016 Estimates, Financials: IATA 2016 Estimates

Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12

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World's busiest domestic air routes

Rank	Route	PAX(million)
1	Jeju - Seoul	11.1
2	Sapporo - Tokyo	7.8
3	Fukuoka - Tokyo	7.6
4	Melbourne - Sydney	7.2
5	Beijing - Shanghai	6.1
6	Hanoi - Ho Chi Minh City	5.4
7	Delhi - Mumbai	5.0
8	Jakarta - Surabaya	4.5
9	Beijing - Chengdu	4.4
10	Osaka - Tokyo	4.0

World's ten busiest domestic routes are all in the Asia Pacific region

Source: IATA WATS 2016, 2015 data

World's busiest international/ regional routes

Rank	Route	PAX(million)
1	Hong Kong - Taipei	5.1
2	Jakarta - Singapore	3.4
3	Bangkok - Hong Kong	3.0
4	Kuala Lumpur - Singapore	2.7
5	London - New York	2.7
6	Hong Kong - Singapore	2.7
7	Hong Kong - Shanghai	2.5
8	Hong Kong - Seoul	2.5
9	Bangkok - Singapore	2.4
10	Dublin - London	2.2

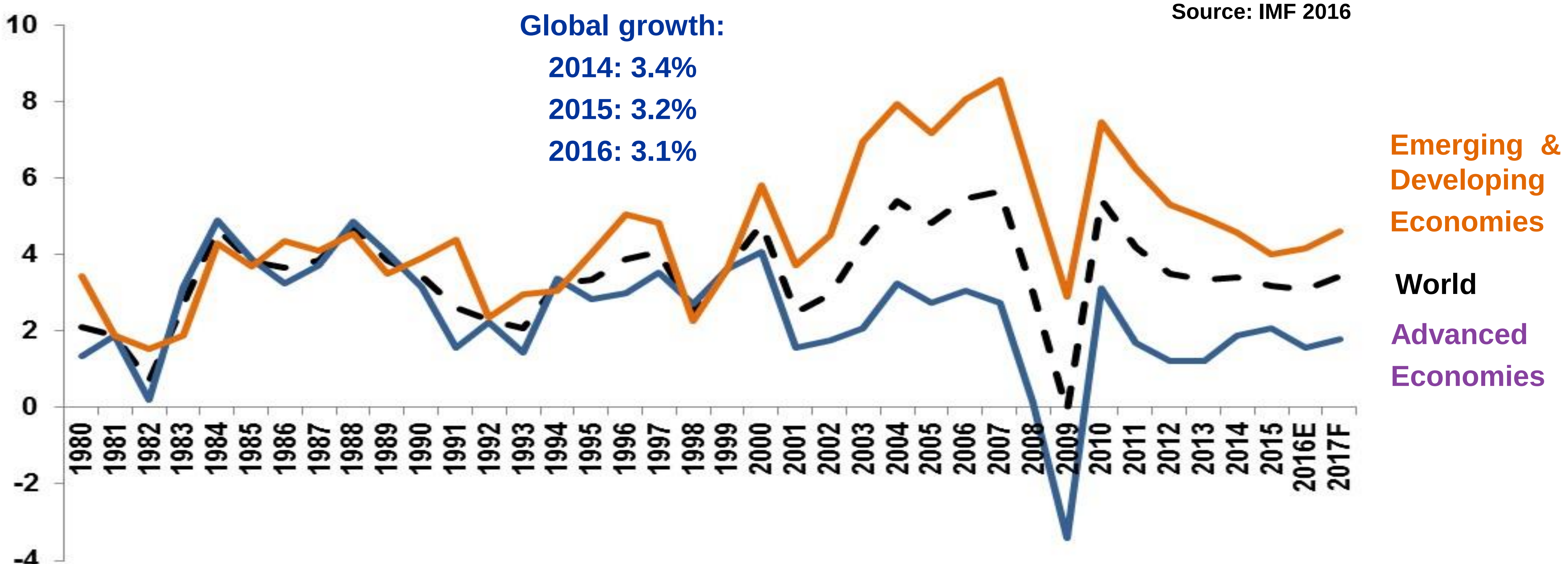
Most of the world's busiest international routes are also in the Asia Pacific region

Source: IATA WATS 2016, 2015 data

Business Outlook

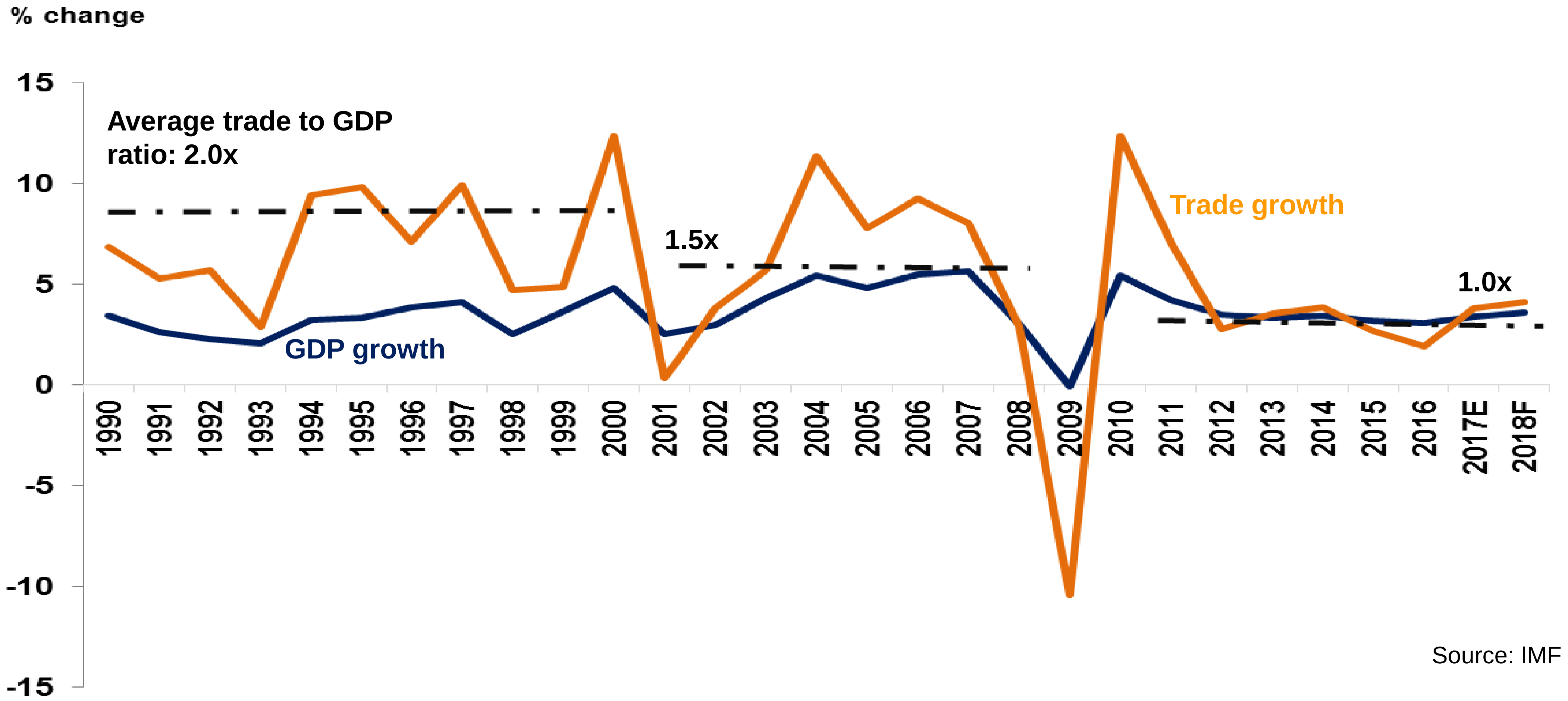
Global economic outlook remains tentative

GDP growth rates



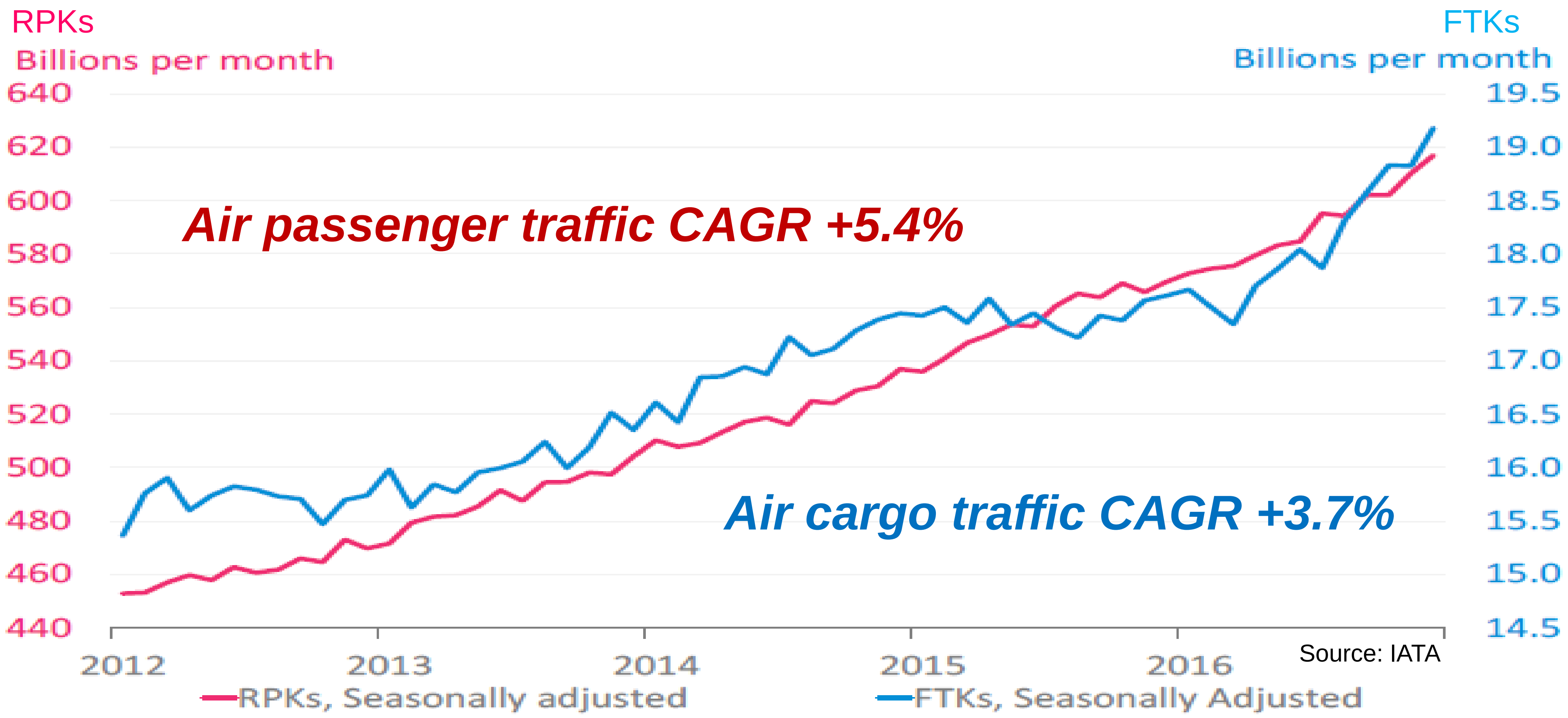
- *Global growth rates moderated*
- *Still a two speed global economy*
- *Low interest rates signal still uncertain outlook*

Global trade remains relatively subdued



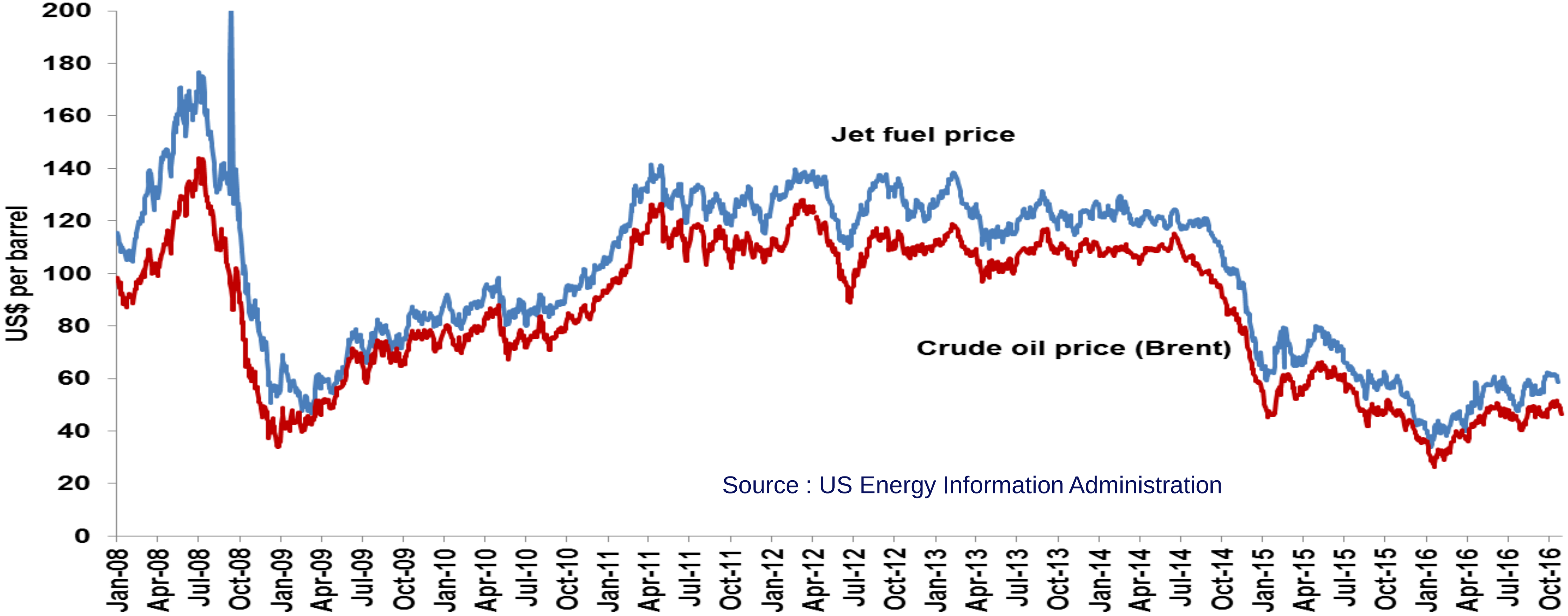
Trade volumes maintained despite protectionist sentiment

Global passenger and cargo traffic



- *Steady growth in passenger traffic*
- *Air cargo experienced more uneven recovery*

Oil prices fluctuate but drive efficiency



Fuel costs typically represent between 15% and 35% of total airline costs so always strong incentives to improve fuel efficiency

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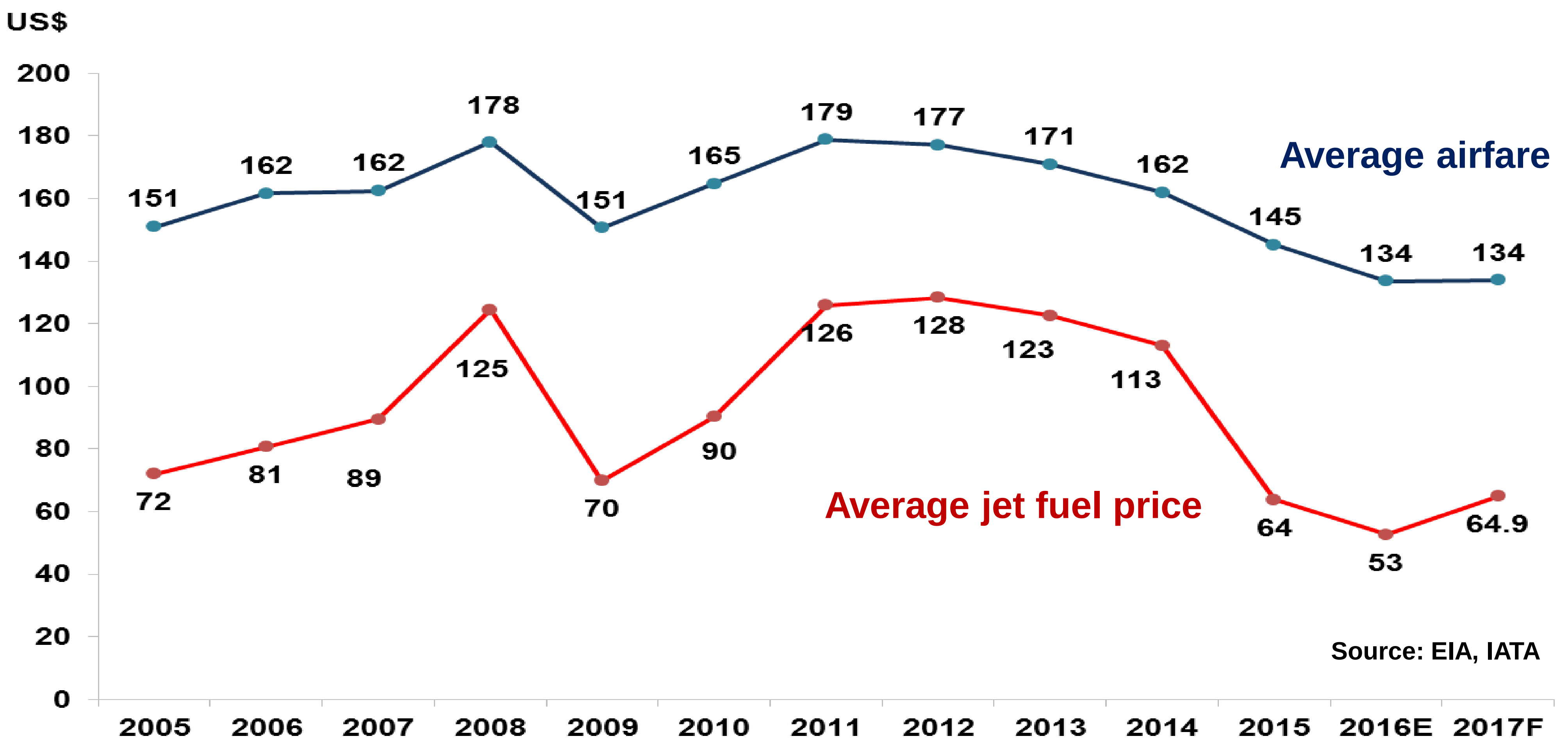
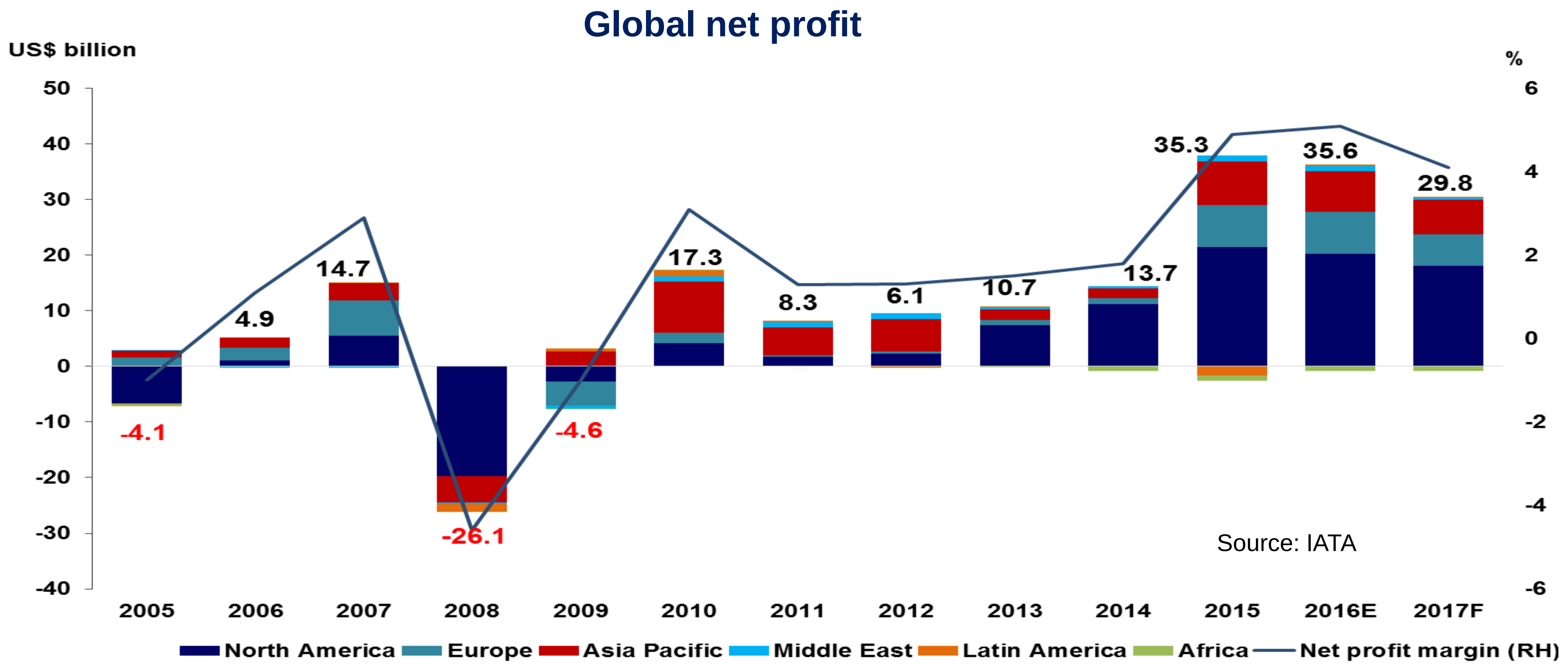
Competitive markets: airfares track changes in oil prices



Widespread availability of affordable airfares spurs travel demand

Global airline industry profitability



- *Robust passenger demand and lower oil prices*
- *Earnings led by North American carriers*
- *Average profit margin still only 5% or ~$10 per passenger*

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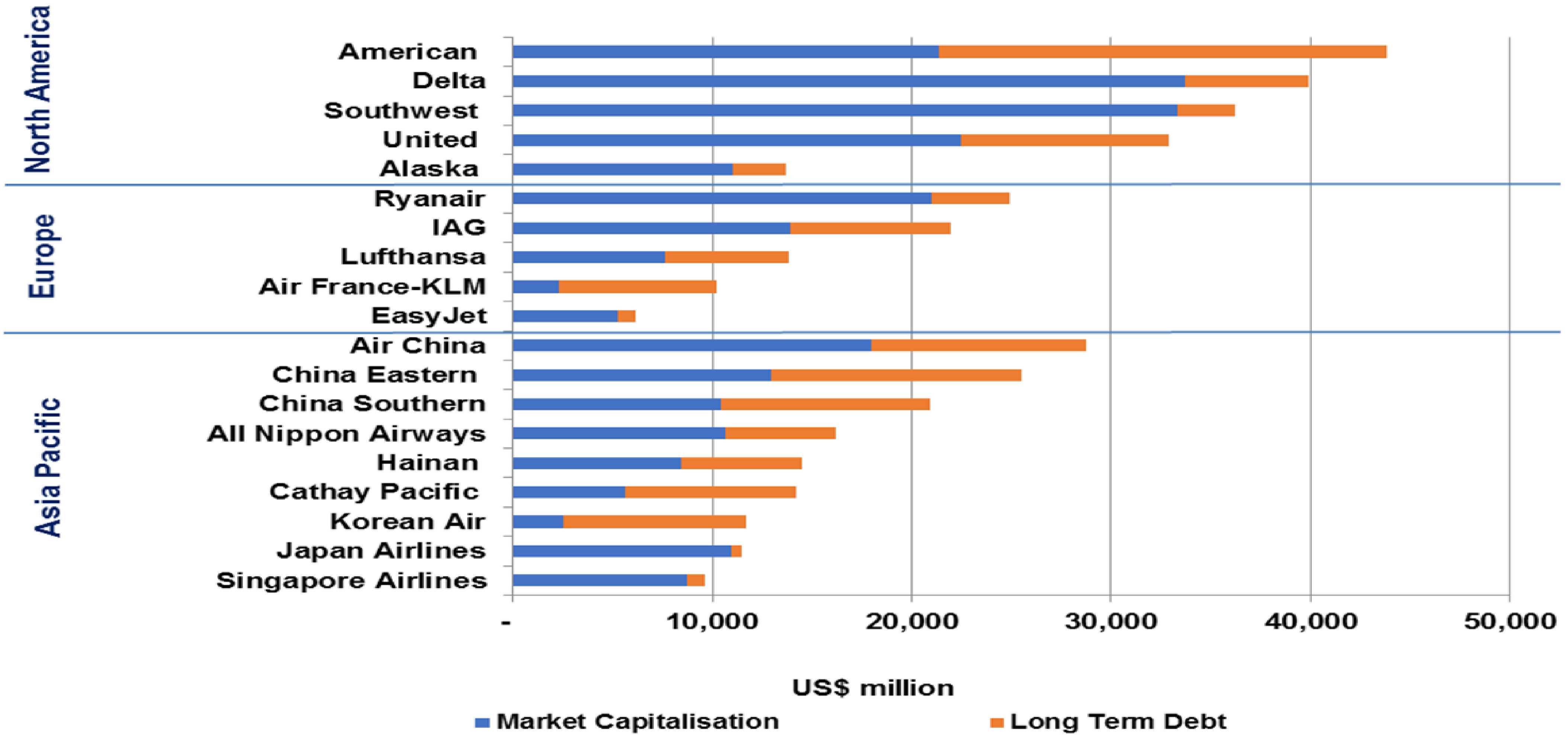
Airline enterprise values by region



Market capitalisation as of 12 April 2017

Source: AAPA Estimates

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Regulatory Challenges

Global Regulatory Challenges

Aviation is subject to intensive regulation

- Safety
- Security
- Environment
- Passenger Facilitation
- Consumer Protection
- Competition Laws
- Taxes & Charges

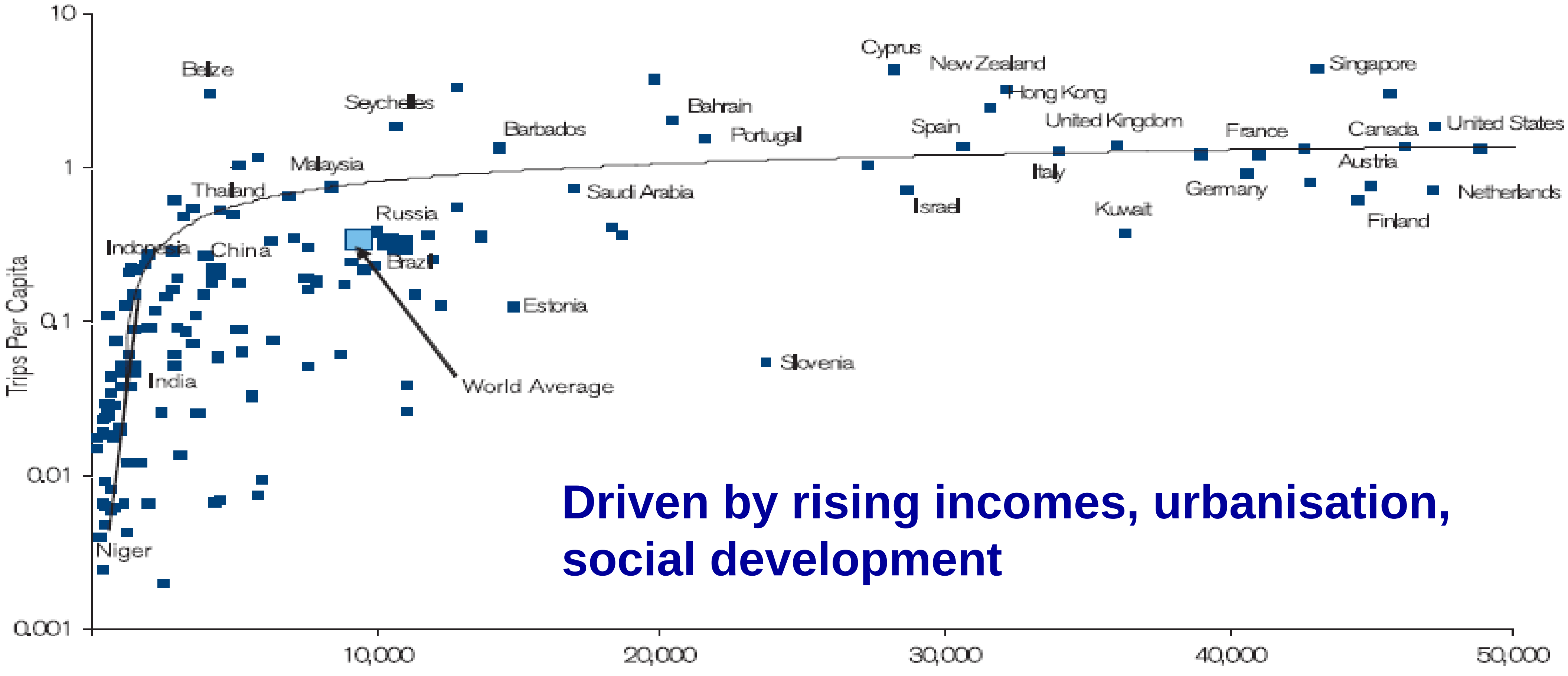
Global Regulatory Influences

- ***Wider impact of US and EU regulations***
- ***Asia Pacific needs a unified voice***
- ***Need for harmonised global standards***

Future Growth

Aspirational Demand for Air Travel

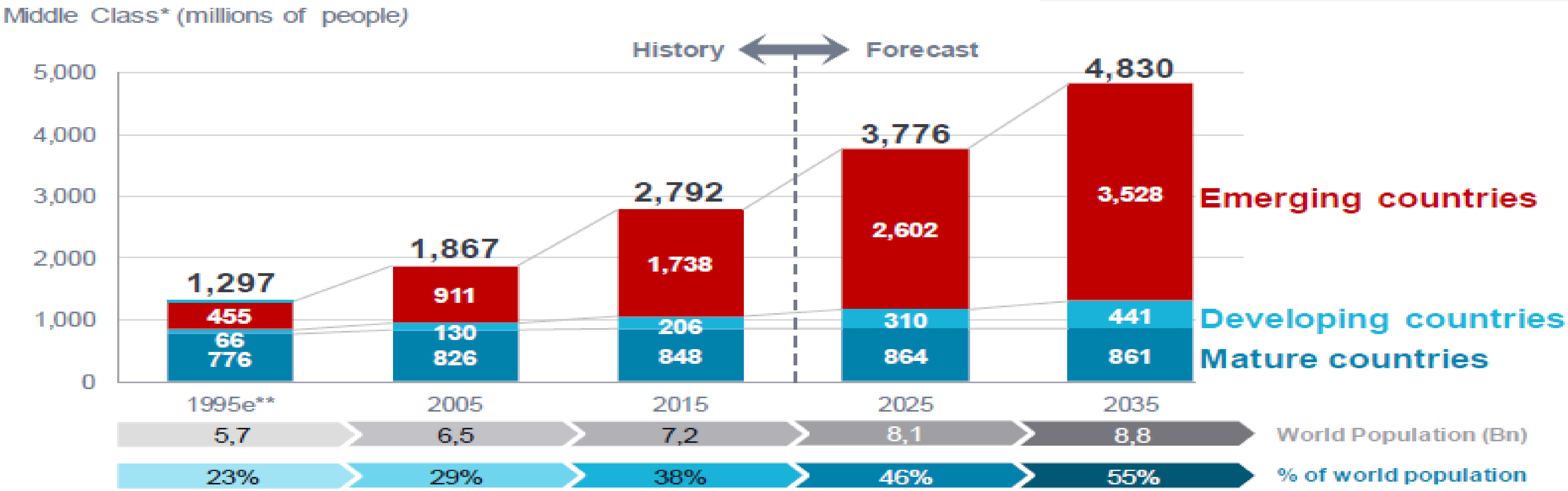
Trips per capita



Driven by rising incomes, urbanisation, social development

GDP per capita US$

Growing middle class consumers

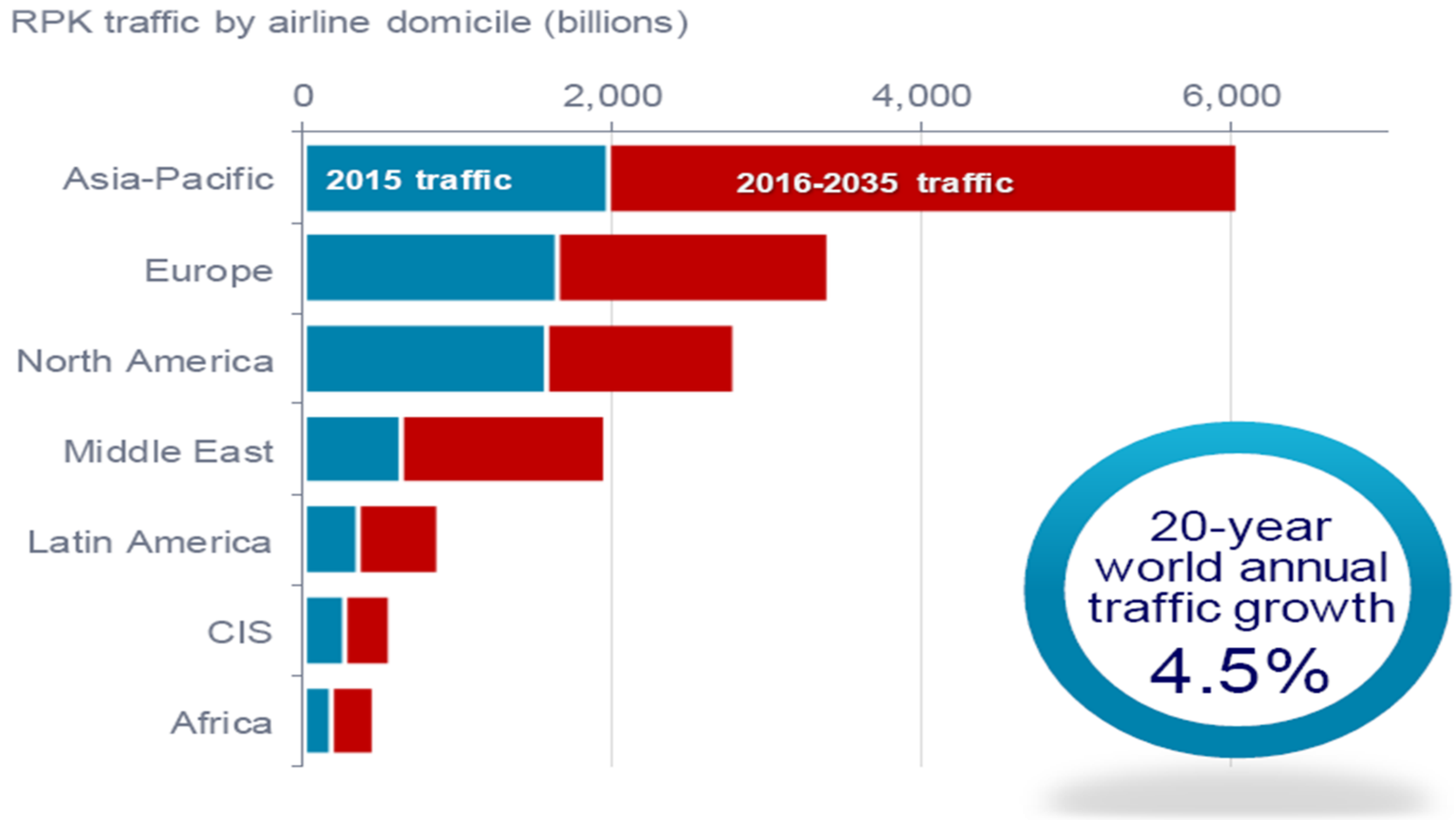


* Households with yearly income between $20,000 and $150,000 at PPP in constant 2015 prices
** Estimate for 1995 split region

Driving consumption including air travel demand

Source: Airbus GMF 2016-2035

Asia Pacific markets to lead future growth



% of 2015 world RPK	20-year growth	% of 2035 world RPK
30%	5.7%	36%
25%	3.7%	22%
24%	2.9%	19%
9%	5.7%	11%
5%	4.8%	5%
4%	4.1%	4%
3%	4.8%	3%

Source: Airbus GMF2016

- ***Overall market grows x 2.5 by 2035***

Source: Airbus GMF 2016-2035

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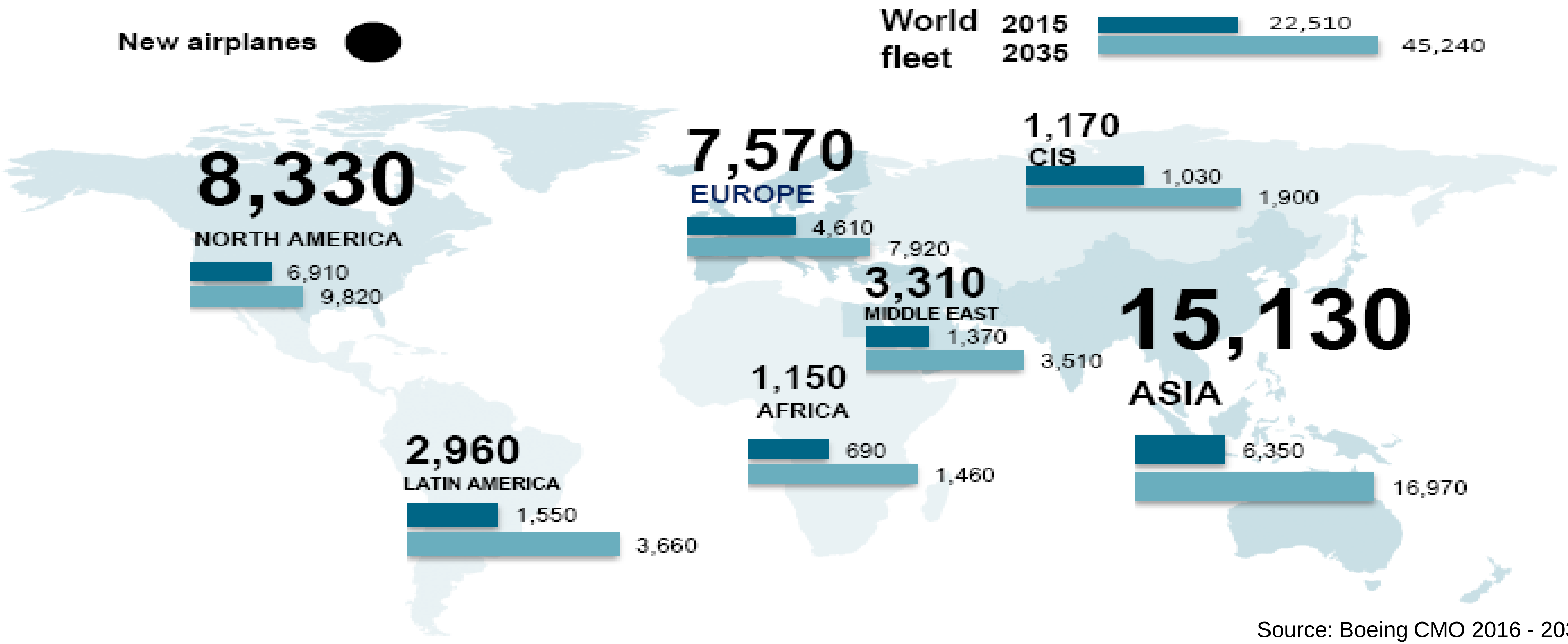
Future aircraft orders led by Asian airlines



Source: Boeing CMO 2016 - 2035

Global total: 39,620 new deliveries

Infrastructure

- **Aviation is a complex global system**
- **Aviation infrastructure must keep pace with rapid traffic growth**
- **Chronic congestion and delays already evident in some areas**
- **Greater focus on operating efficiency, productivity and cost-effectiveness**
- **Managing our environmental impact**
- **Government responsibility to coordinate planning and long term investment required**

Infrastructure is critically important: governments & industry must work together

Airline Strategies

Competitive dimensions for airlines

- Revenue enhancement
  - Tailoring products to markets
  - Investing in premium products and services
  - Active yield management
  - Multiple brand strategies
  - Alliances

- Improving cost competitiveness
  - Asset utilisation
  - Fuel efficiency
  - Labour productivity

- Value chain improvement
  - Partnering with service providers

Evolving Airline Strategies

- Industry consolidation, alliances and new ventures

- Full Service Network Carriers
  - Still investing heavily in premium services
  - Streamlining short haul operations
  - Establishing LCC subs and associates

- Point-to-Point LCCs
  - Initially focused on domestic short-haul
  - Venturing into international and longer-haul markets
  - Experimenting with codeshares, connections, adding customer service
- Further signs of convergence
  - Long-haul requires wide body aircraft, cargo operations, two-class passenger configurations, and network feed
  - Development of hybrid partnerships and new ventures

Evolving airline business strategies

- **Further convergence of business models**
- **Group structures: single or multiple brands**
- **Service differentiation: 1, 2, 3 or 4 classes**
- **Value added services at a price**
- **High density seating driving cost efficiency**
- **Revenue optimisation through network connectivity & cooperative relationships**
- **Innovation in merchandising & distribution**

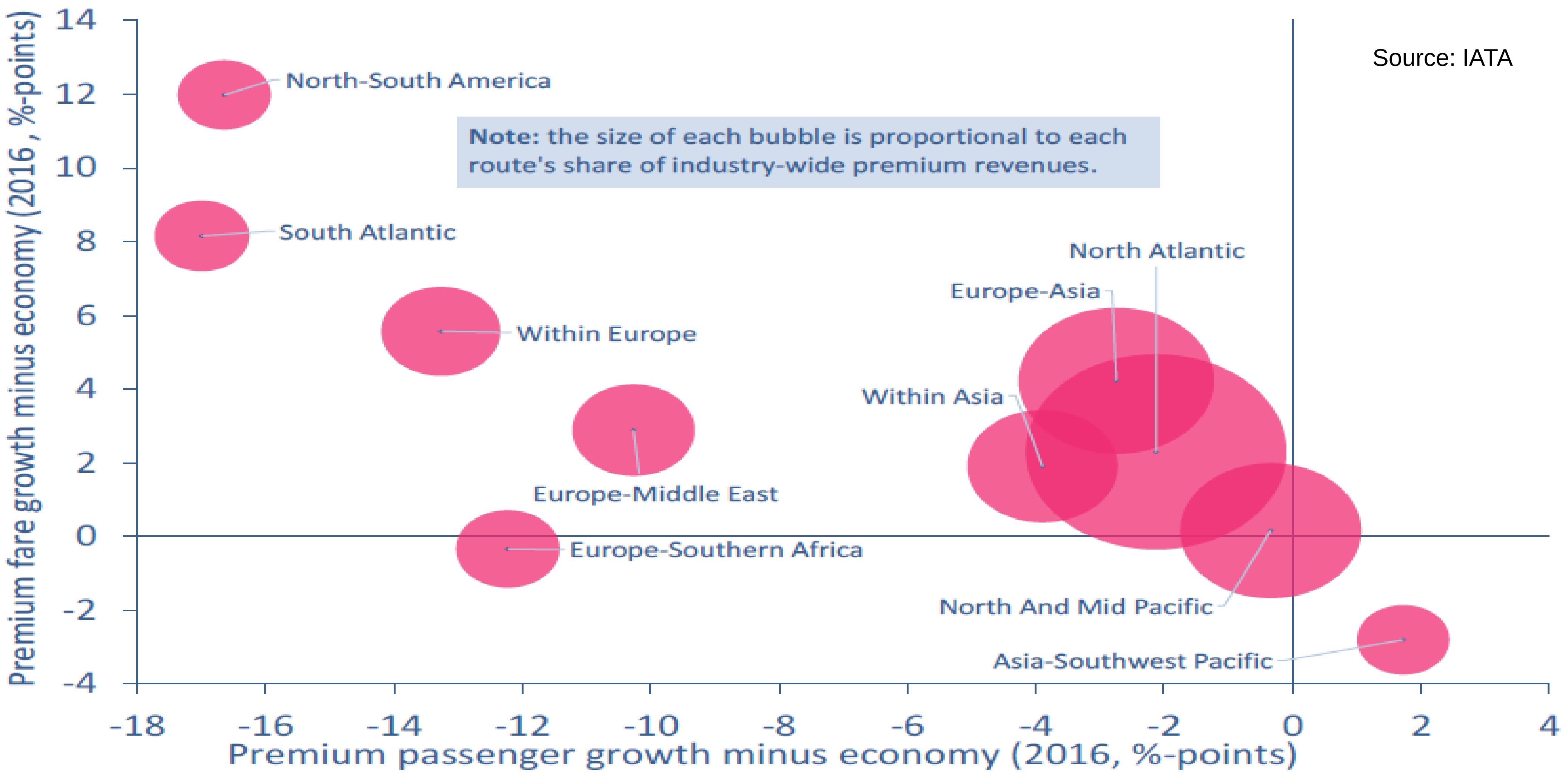
Asia Pacific airlines at the forefront of global industry developments

Asia: Customer Service Leadership

5 STAR AIRLINE SKYTRAX

- Asian carriers are global leaders in service quality with world-class premium product offerings
- Premium cabins generate 27% of total international passenger revenue
- Continuous innovation in seat comfort, cabin ambience, inflight entertainment, food and beverage, cabin crew, customer service
- Investing in products, people and partnerships

Relative strength of economy and premium traffic



Source: IATA

Closing Thoughts

- Aviation driving global economic and social development
- Overall prospects for long term growth remain bright
- Aviation is a complex system requiring close cooperation amongst many stakeholders
- Infrastructure planning is a shared challenge
- Growing but highly competitive markets
- Airline business strategies are responding to changes in market demand and consumer preferences

Asia Pacific airlines playing a leading role in shaping the future of global aviation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