Global Landscape
Asia Pacific Perspective

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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

Western-built Jet Aircraft Major Accident Rates
by Operator Region 2006 - 2016
3-year moving averages

Source: AAPA
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

Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12
World’s busiest domestic air routes

<table>
<thead>
<tr>
<th>Rank</th>
<th>Route</th>
<th>PAX(million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Jeju - Seoul</td>
<td>11.1</td>
</tr>
<tr>
<td>2</td>
<td>Sapporo - Tokyo</td>
<td>7.8</td>
</tr>
<tr>
<td>3</td>
<td>Fukuoka - Tokyo</td>
<td>7.6</td>
</tr>
<tr>
<td>4</td>
<td>Melbourne - Sydney</td>
<td>7.2</td>
</tr>
<tr>
<td>5</td>
<td>Beijing - Shanghai</td>
<td>6.1</td>
</tr>
<tr>
<td>6</td>
<td>Hanoi - Ho Chi Minh City</td>
<td>5.4</td>
</tr>
<tr>
<td>7</td>
<td>Delhi - Mumbai</td>
<td>5.0</td>
</tr>
<tr>
<td>8</td>
<td>Jakarta - Surabaya</td>
<td>4.5</td>
</tr>
<tr>
<td>9</td>
<td>Beijing - Chengdu</td>
<td>4.4</td>
</tr>
<tr>
<td>10</td>
<td>Osaka - Tokyo</td>
<td>4.0</td>
</tr>
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World’s ten busiest domestic routes are all in the Asia Pacific region

Source: IATA WATS 2016, 2015 data
Most of the world’s busiest international routes are also in the Asia Pacific region.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Route</th>
<th>PAX (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong - Taipei</td>
<td>5.1</td>
</tr>
<tr>
<td>2</td>
<td>Jakarta - Singapore</td>
<td>3.4</td>
</tr>
<tr>
<td>3</td>
<td>Bangkok - Hong Kong</td>
<td>3.0</td>
</tr>
<tr>
<td>4</td>
<td>Kuala Lumpur - Singapore</td>
<td>2.7</td>
</tr>
<tr>
<td>5</td>
<td>London - New York</td>
<td>2.7</td>
</tr>
<tr>
<td>6</td>
<td>Hong Kong - Singapore</td>
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</tr>
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</tr>
<tr>
<td>10</td>
<td>Dublin - London</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Source: IATA WATS 2016, 2015 data
Business Outlook
Global economic outlook remains tentative

- 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

Average trade to GDP ratio: 2.0x

Source: IMF
Global passenger and cargo traffic

- **Air passenger traffic CAGR +5.4%**
- **Air cargo traffic CAGR +3.7%**

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

Source: IATA
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
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
Airline enterprise values by region

Market capitalisation as of 12 April 2017

Source: AAPA Estimates
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

Driven by rising incomes, urbanisation, social development
Growing middle class consumers

Driving consumption including air travel demand

Source: Airbus GMF 2016-2035

* Households with yearly income between $20,000 and $150,000 at PPP in constant 2015 prices
** Estimate for 1995 split region
Asia Pacific markets to lead future growth

**Overall market grows x 2.5 by 2035**

Source: Airbus GMF 2016-2035
Future aircraft orders led by Asian airlines

Global total: 39,620 new deliveries

Source: Boeing CMO 2016 - 2035
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

- 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

Note: the size of each bubble is proportional to each route's share of industry-wide premium revenues.

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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