

ADAPTING TO MODERN COMPETITIVE REALITIES



Suren Ratwatte
Chief Executive Officer
SriLankan Airlines

About: SriLankan Airlines

- Started operations in 1979
- National carrier of Sri Lanka
- Member of **oneworld** alliance
- Fleet of 25 modern Airbus aircraft – with average age below 8 years
- Network of 40+ international destinations



A unique route network

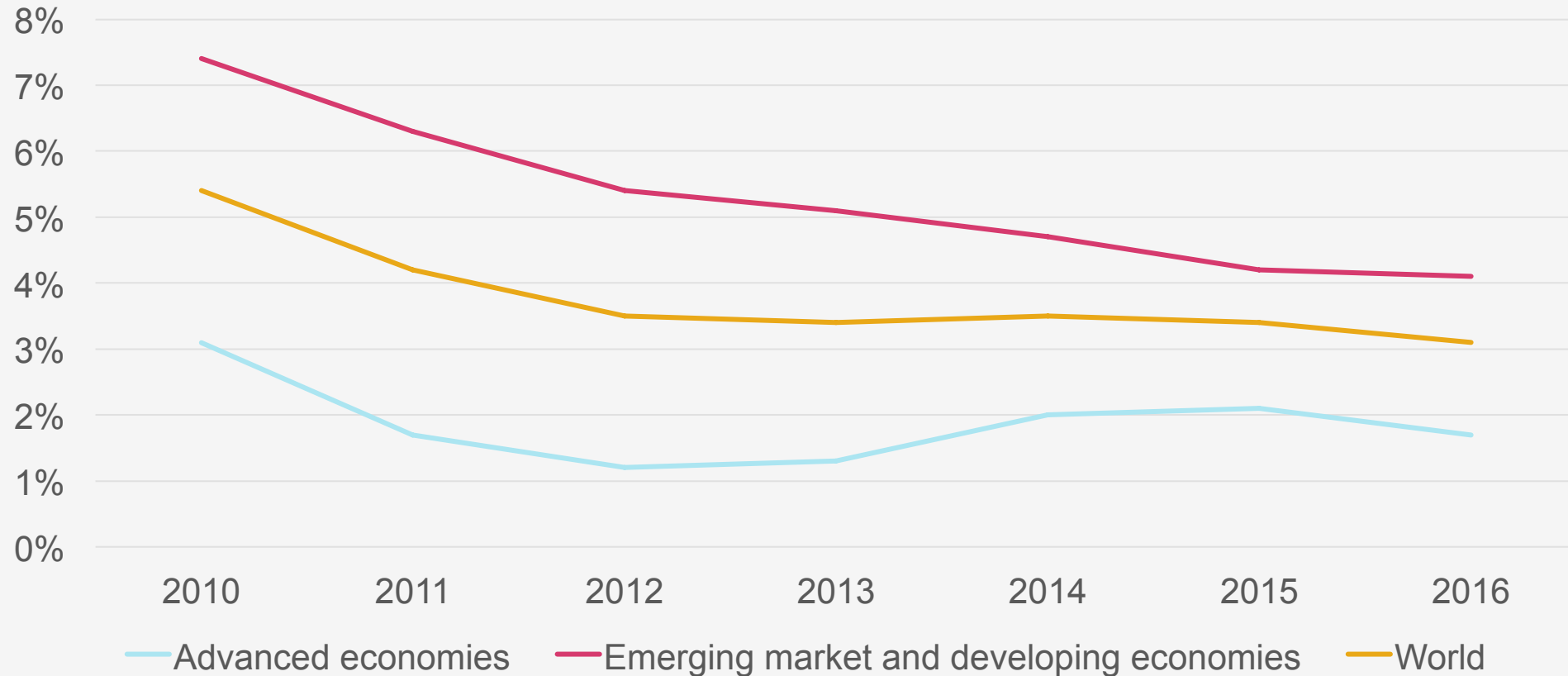
- 3 continents
- 41 destinations
- Most destinations in India by any foreign airline
- *Daily Melbourne – Colombo service launching in Winter*



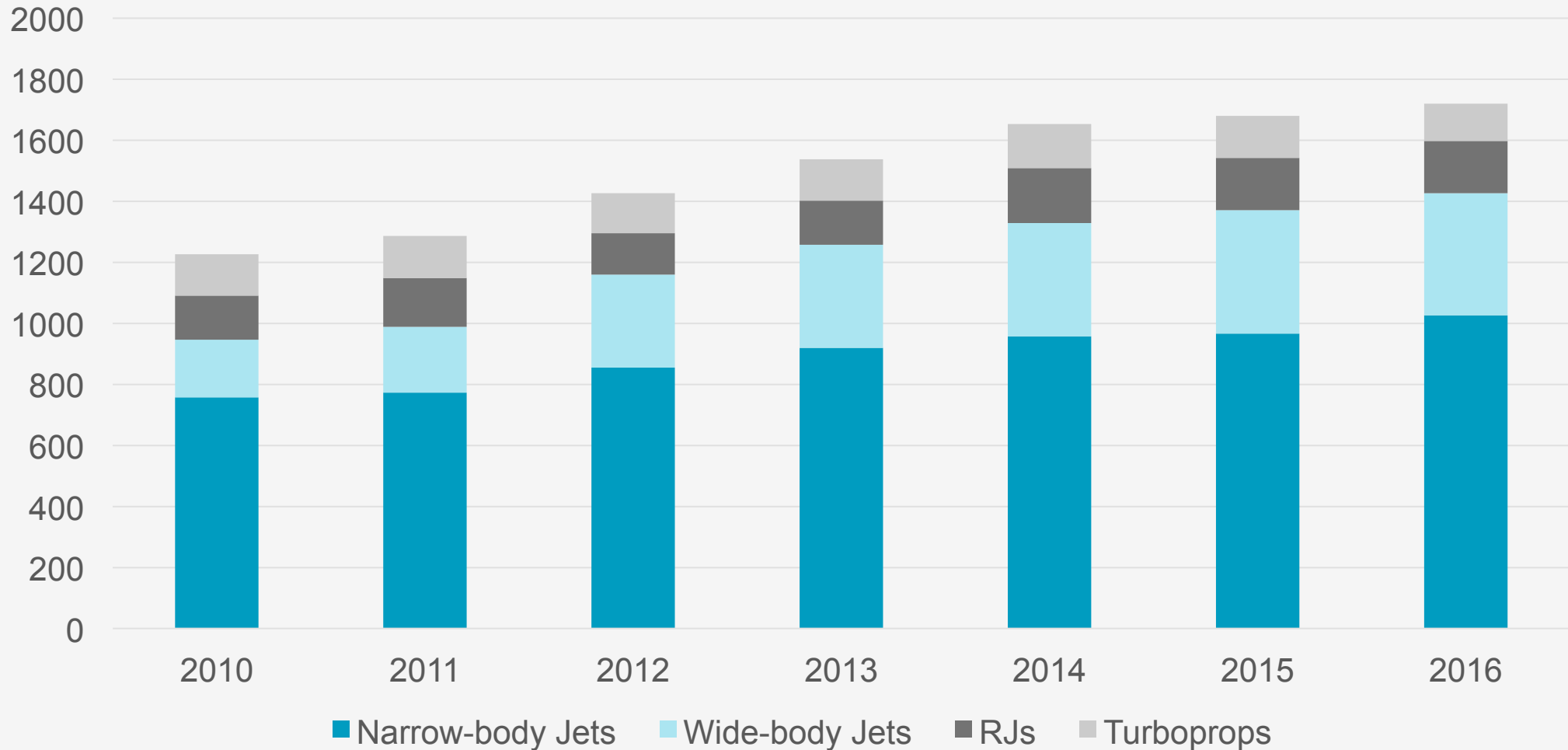
Air travel demand is closely linked to GDP

- World economy has been slowing down ...

Real GDP Growth



... however aircraft deliveries have not

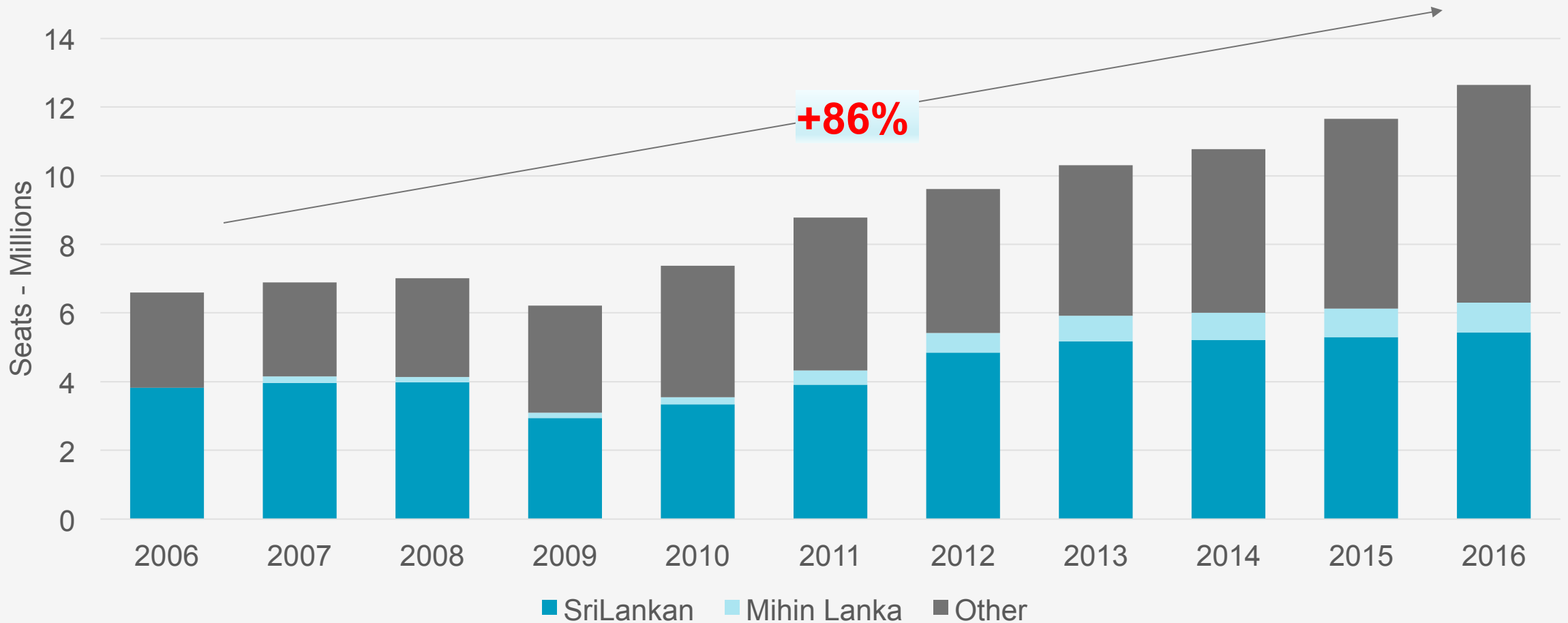


THE RESULT?

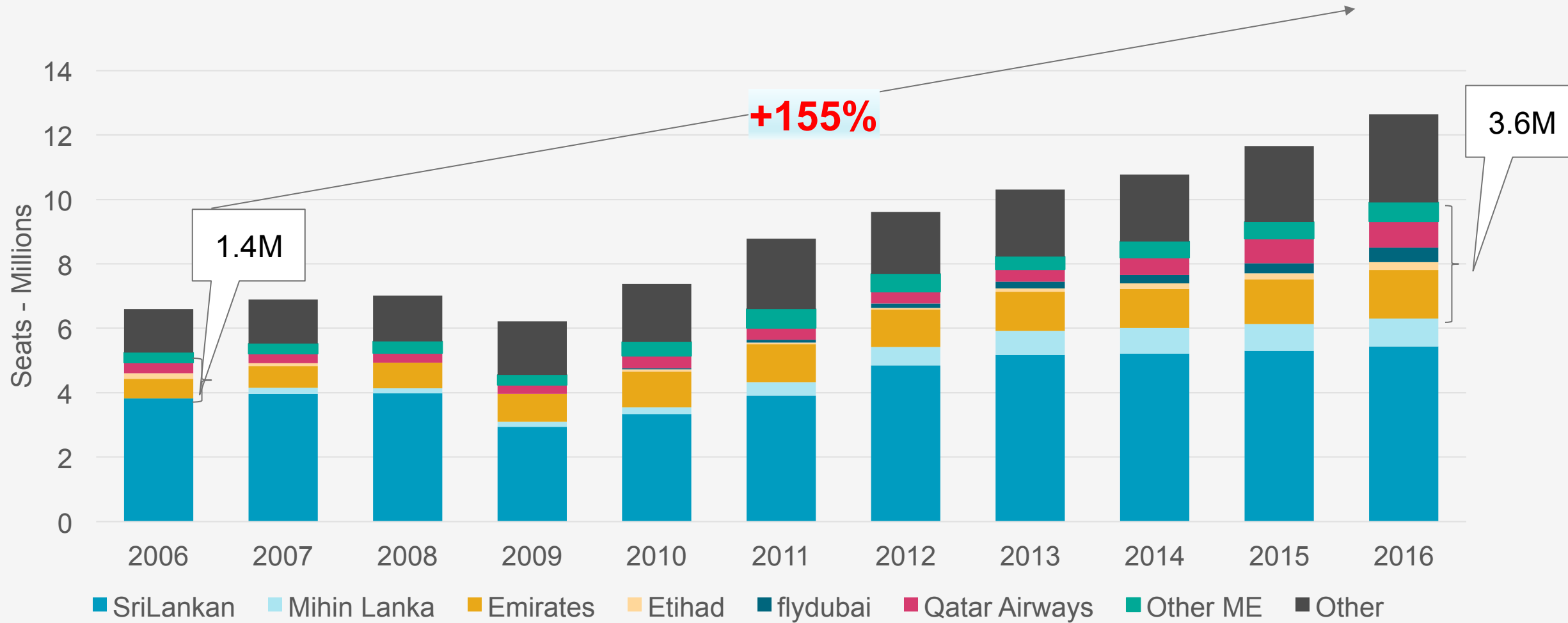


Case Study: Sri Lanka market

Sri Lanka has seen a tremendous increase in seat capacity ...

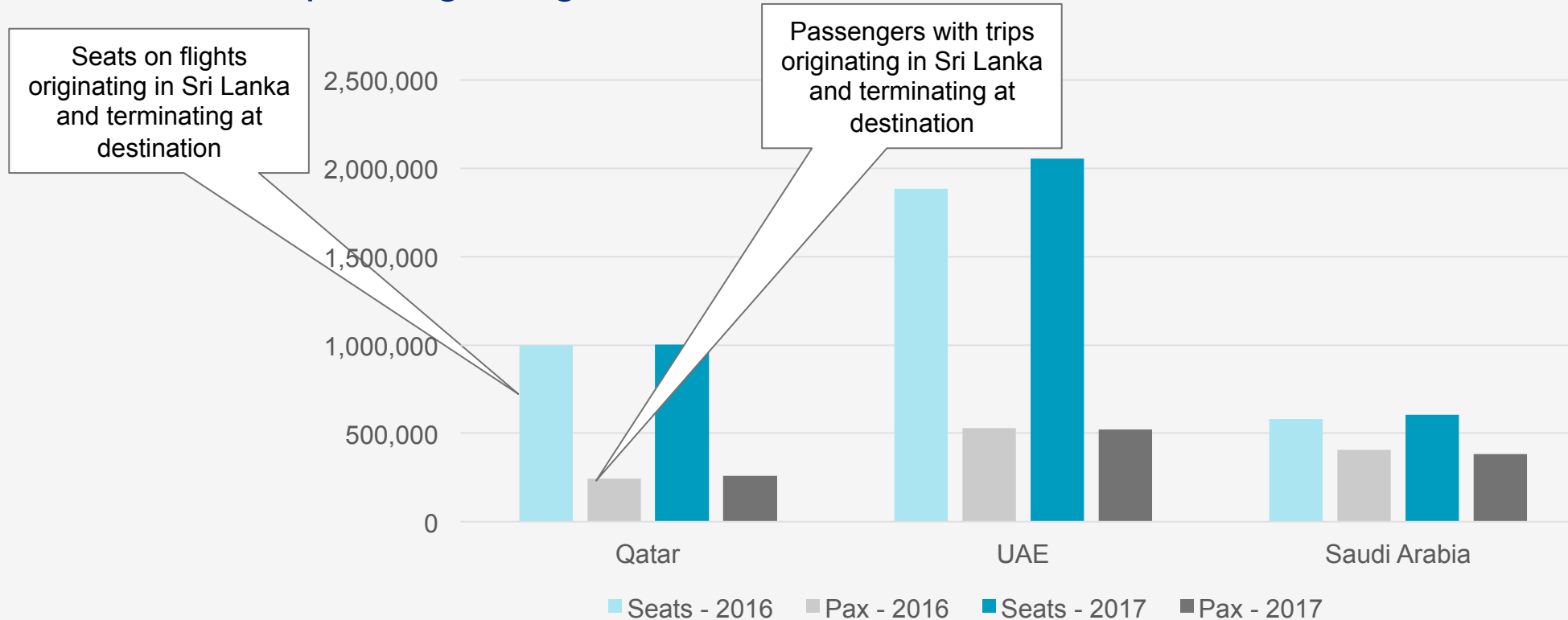


... much of which was driven by ME carriers



Seats vs Passenger Growth

- Seats and traffic for 12 months ending May
- From Sri Lanka to destination country
- For all airlines operating in a given market



Sri Lanka – Middle East capacity

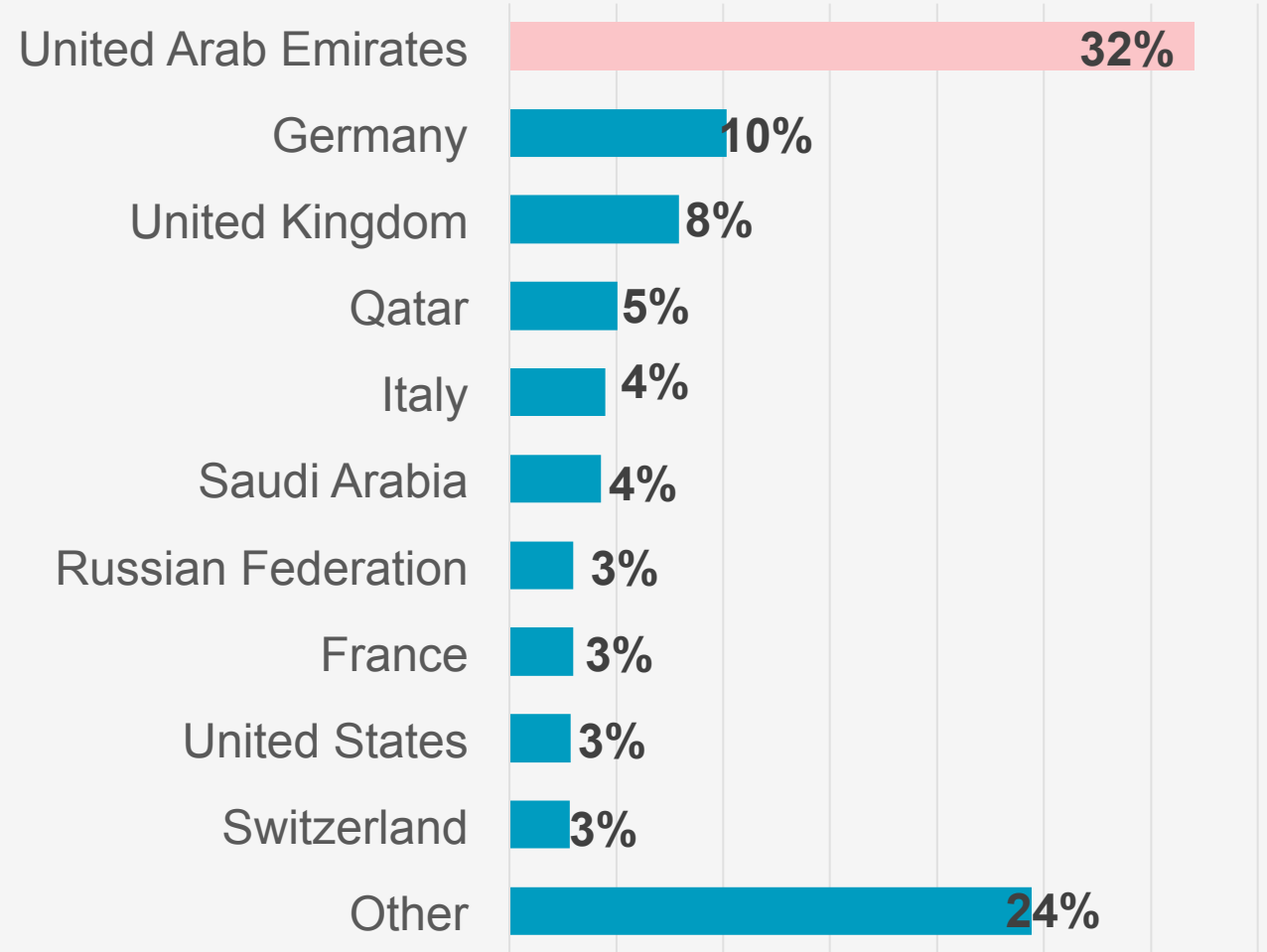
Flights per week (per way)



Where did all these passengers go?

- Estimated true destination for passengers on Sri Lanka – UAE flights
- 12 months ending May 2017
- For all airlines in the market

68% of passengers traveled between a city-pair other than the route's main city-pair





INTERESTING STATISTICS

44%

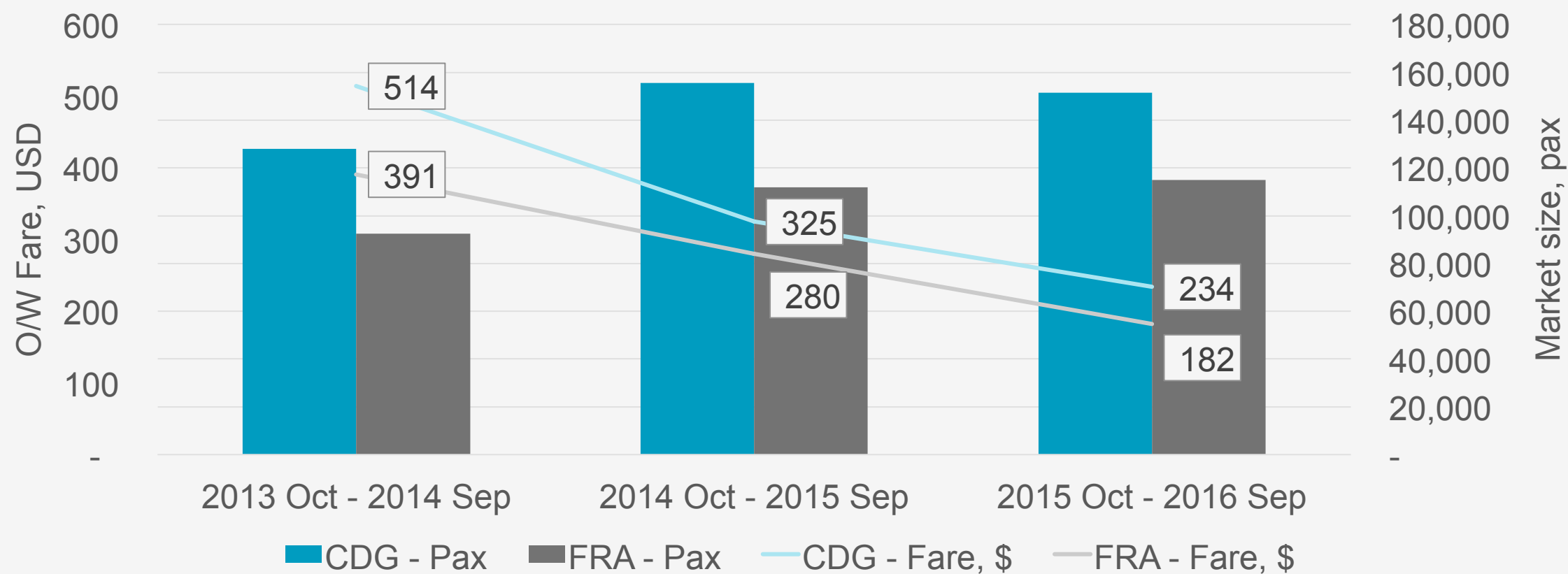
of Sydney - Singapore
passengers travel between
the main city-pair

4%

of Sydney - Doha
passengers travel between
the main city-pair

The impact was felt elsewhere...

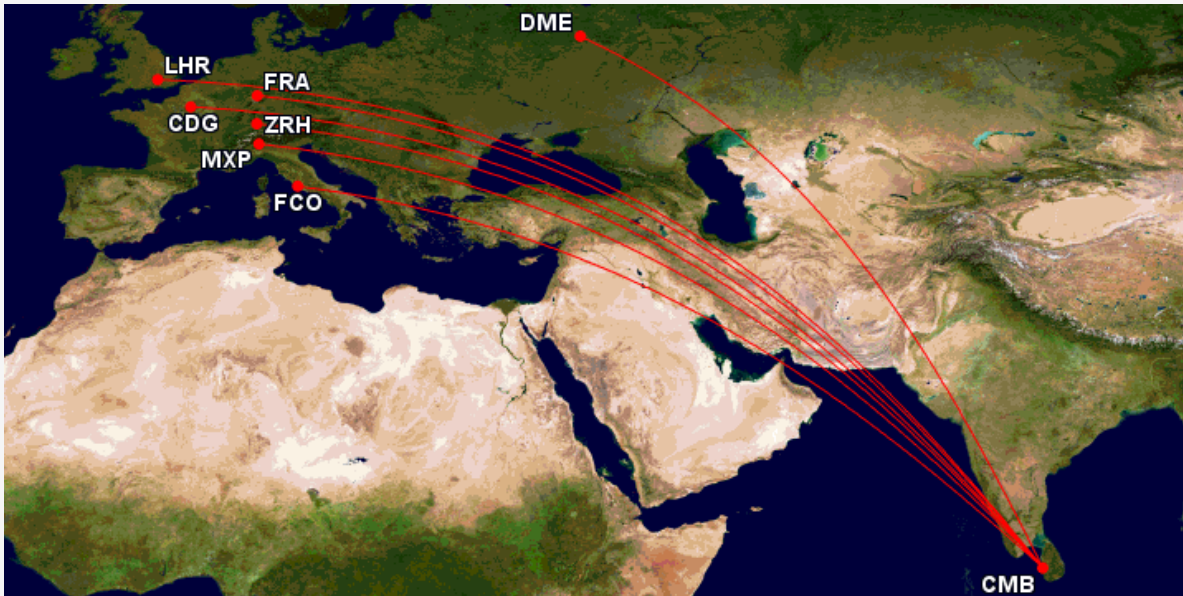
Sri Lanka – Paris/ Frankfurt average market fares



The only rational response left ...

SriLankan Europe network

June 2012



Origin	Tourist Arrivals During Month
U.K	6,076
Germany	3,054
France	2,267
Russia	780
Switzerland	641
Italy	621

The only rational response left ...

SriLankan Europe network

June 2017

Origin	Tourist Arrivals During Month
U.K	10,424
Germany	7,024
France	3,365
Russia	1,029
Switzerland	1,381
Italy	1,252



However, it is not the same for every market ...

Origin	Destination	Share of Pax on Primary O&D Pair
Colombo, CMB	Singapore, SIN	54%
	Bangkok, BKK	60%
	Kuala Lumpur, KUL	44%
	Delhi, DEL	78%
	Mumbai, BOM	71%
	Jeddah, JED	65%

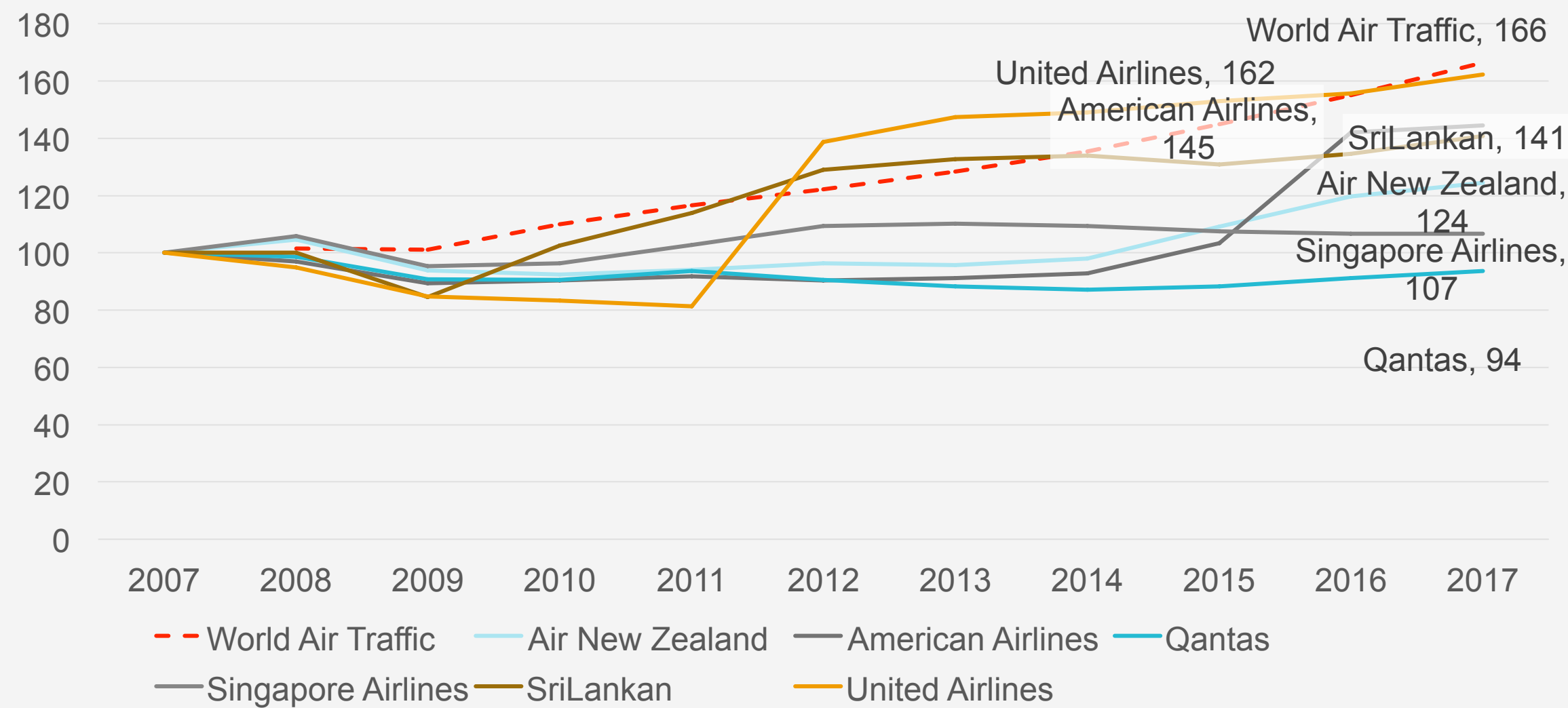
Origin	Destination	Share of Pax on Primary O&D Pair
Melbourne, MEL	Singapore, SIN	47%
Perth, PER	Johannesburg, JNB	74%
Sydney, SYD	Bangkok, BKK	57%
Sydney, SYD	Taipei, TPE	82%
Sydney, SYD	Tokyo, TYO	94%
Auckland, AKL	Beijing, PEK	77%

Overcapacity is real – and a serious problem

	2015	2016	2017 F
Worldwide Average Return Fare (2015, \$)	407	363	351
Passengers, billion	3.568	3.773	3.959

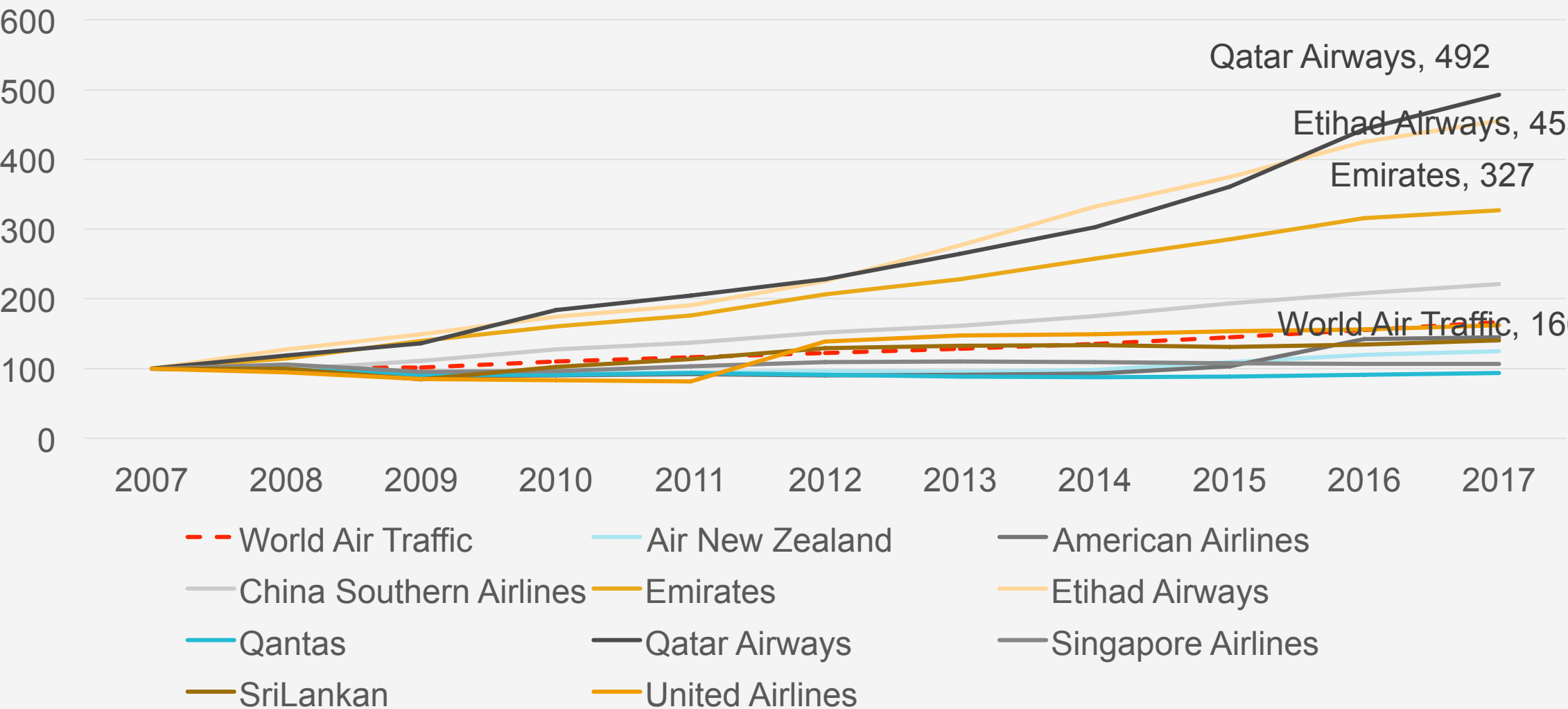
Who has driven this growth?

Leading airline ASK growth, indexed to 100 in 2007



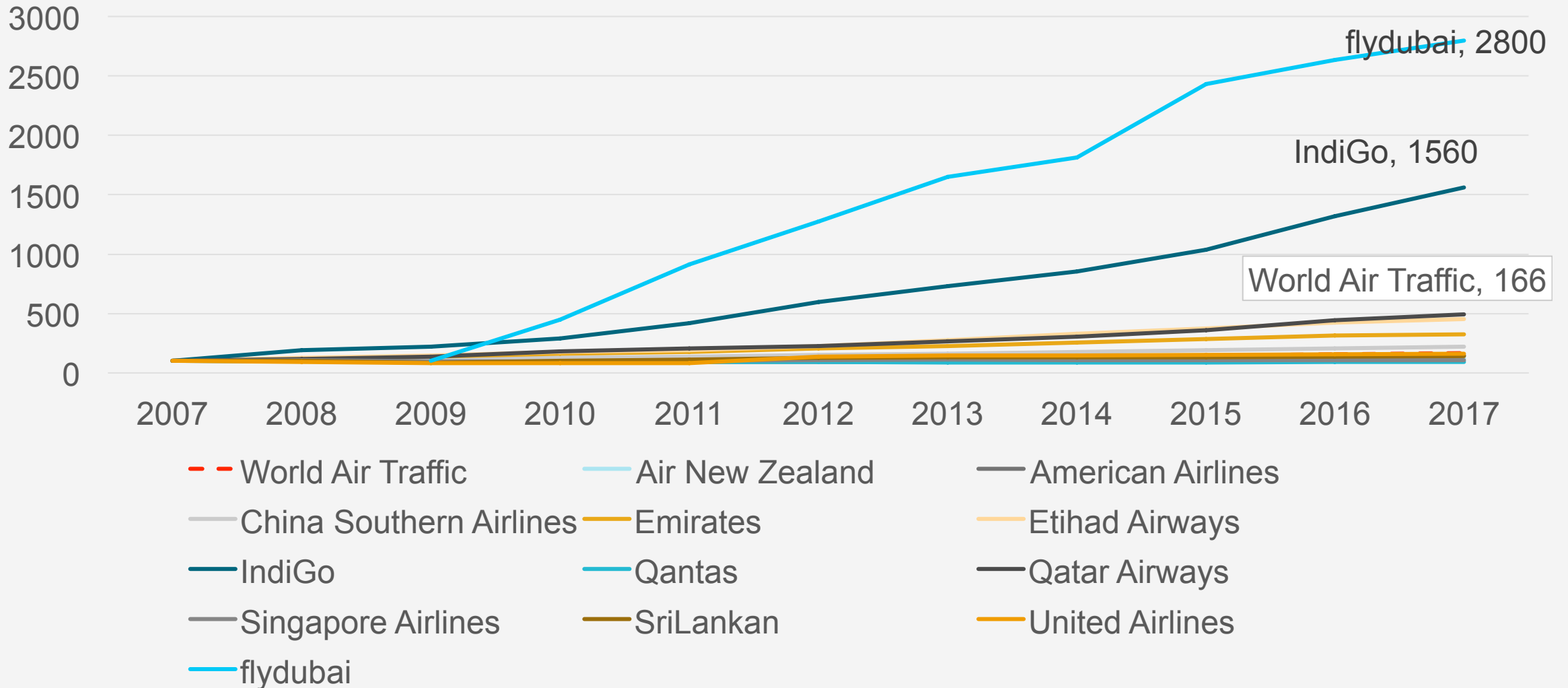
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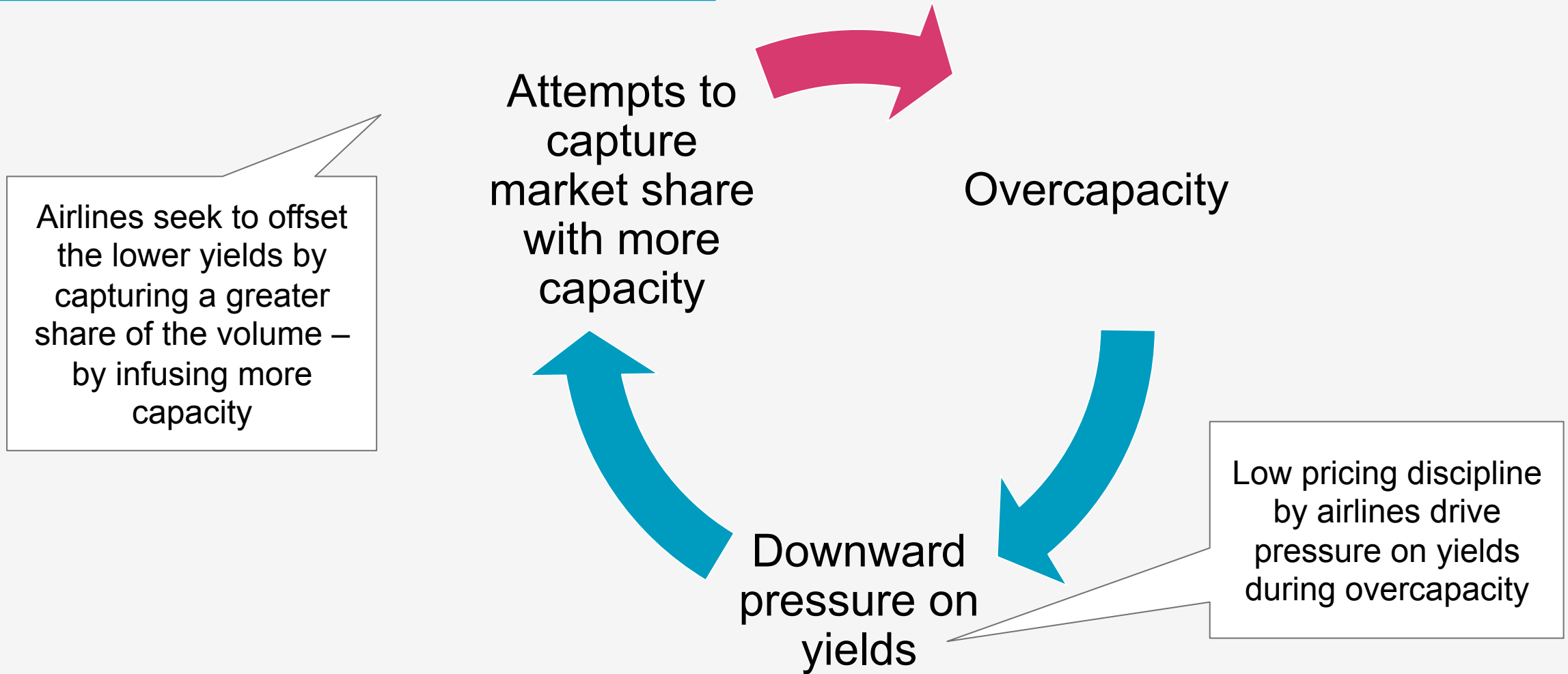
Leading airline ASK growth, indexed to 100 in 2007



Yet, there is no sign of a slowdown ...

Country	Current Airline Fleet in Service	Fleet On Order	Population, Millions
China	3,091	617	1,379
Australia	662	157	24
Japan	652	220	127
India	509	910	1,324
U.A.E	508	471	9
Qatar	189	213	3
New Zealand	149	36	5

The Vicious Cycle of Overcapacity



Why we never get out of this cycle ...

- Historically, airlines have been a capacity driven business model – rather than demand driven
- If others add capacity and you don't – you lose market share AND revenue
- Must add capacity to safeguard revenue
- Must add capacity to grow revenue
- Irrespective of how good your service is, someone will always add capacity
- And you are forced to respond ...

- **WINNERS** – Passengers
- **LOSERS** – Aviation Investors

- Solution – Capacity discipline