



MANILA — Flag carrier Philippine Airlines PAL.L (PAL.PS) said on Thursday it needs to upgrade its fleet to expand operations and spin-off its ground handling, catering, and call centre services to remain competitive in the booming Asian markets.

"We need to refleet," said Jaime Bautista, president of Asia's oldest airline.

"This will provide us the avenue for bringing down unit costs and improve our ability to price more competitively," Bautista told stockholders in an annual meeting.

He did not give specific aircraft purchase plans.

PAL's rival, budget carrier Cebu Air Inc (CEB.PS), has aggressively expanded its domestic and overseas routes and is looking to more than double its fleet over the next 10 years as it seeks further growth.

Cebu Air, which operates Cebu Pacific, announced in June its purchase of 37 planes from Airbus, a unit of France's EADS (EAD.PA), for \$3.8 billion to support expansion plans.

"To stay competitive, our fleet of 747s, Airbus 340-300s and A330-300s, and A320-200s need to be replaced with newer technology and more fuel efficient aircraft over the next few years as they reached the end of their economic lives," Bautista said.

PAL's current fleet comprise two Boeing 777-300ERs, five Boeing 747-400s, four Airbus A340-300s, eight Airbus A330-300s, 13 Airbus A320-200s, and four Airbus 319-100s.

In November 2009, PAL took delivery of the country's first Boeing 777 aircraft (BA.N).

"(The refueling) will allow us to expand our presence in our current markets through increased frequencies and introduce new destinations especially in the booming Asian region," Bautista said.

PAL incurred a net loss of 383.8 million pesos in the first quarter ending June, reversing net profit of 1.4 billion pesos in the same period last year on higher fuel costs.

The airline also said it sent separation letters to 2,600 workers affected by its decision to outsource airline catering, ground handling and reservations services, part of a survival plan it launched early last year after incurring losses in 2008 and 2009.

*(Reporting by Erik dela Cruz; Editing by Rosemarie Francisco)*