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Brighter Skies: Challenges and Opportunities for Asia Pacific Aviation

Andrew Herdman, Director General
ASSOCIATION OF ASIA PACIFIC AIRLINES

Routes 2005
Opportunities for Growth in Asia Pacific
25 September 2005

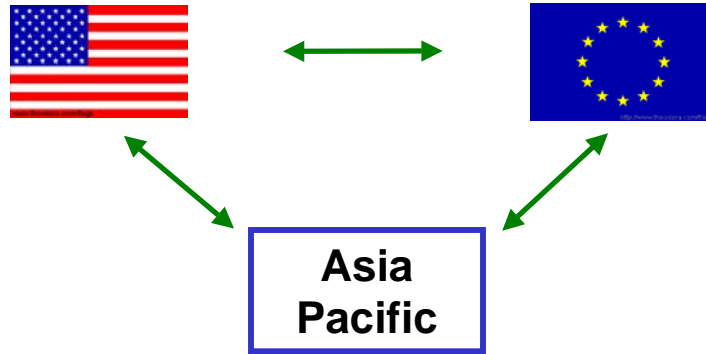
Presentation outline

- **Asia Pacific aviation**
- **Combined strength**
- **Management challenges**
- **Competition and new entrants**
- **Investing in products and service quality**
- **Future outlook**

AAPA Association of Asia Pacific Airlines

- Regional trade association representing 17 major international airlines based in Asia Pacific
- Committed to promoting sustainable growth of the aviation industry serving both passenger and freight needs
- Work with member airlines, governments, regulators and industry partners on issues of common concern
- Permanent secretariat headquartered in Kuala Lumpur, Malaysia
- Representation in Washington and Brussels

Global regulatory influences



Wider impact of US and EU regulations:
need for better global harmonization

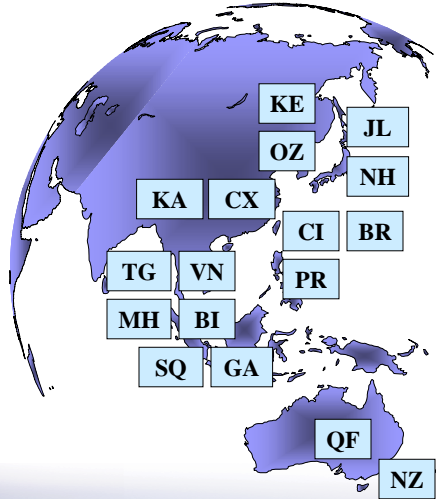
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AAPA's combined strength



- 17 airlines
- US\$ 65 billion revenue
- US\$ 4 billion profit
- 255 million passengers
- 10 million tonnes of cargo
- 190,000 employees
- 1,300 aircraft

Global Market Share :

- ~ 19% of global pax traffic
- ~ 33% of global cargo traffic

Data: 2004

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Mainland China's aviation market

120 million passengers

Domestic 100 million

&

International 20 million

AAPA carriers are key players in serving the rapidly growing Chinese market

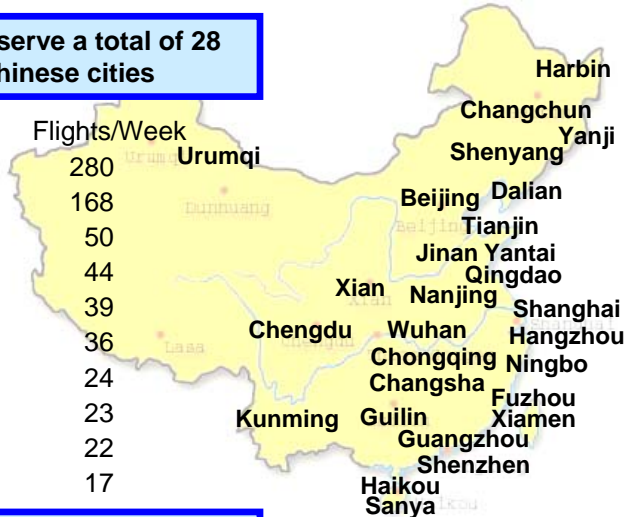
Source: CAAC

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AAPA: Mainland China services

AAPA members serve a total of 28 Mainland Chinese cities

	Flights/Week
1. Shanghai	280
2. Beijing	168
3. Xiamen	50
4. Guangzhou	44
5. Qingdao	39
6. Hangzhou	36
7. Kunming	24
8. Dalian	23
9. Chengdu	22
10. Tianjin	17



Over 800 flights per week

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Growth market: India

AAPA members serve a total of 9 Indian cities

	Flights/Week
1. Mumbai	41
2. Delhi	34
3. Chennai	18
4. Kolkata	12
5. Bangalore	11
6. Hyderabad	7
7. Ahmadabad	6
8. Kochi	5
9. Amritsar	3

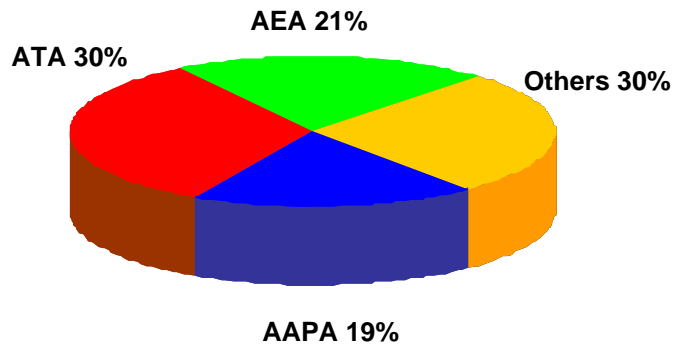


Over 130 flights per week

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AAPA global passenger traffic share

Scheduled Systemwide
Revenue Passenger Kilometres 2004

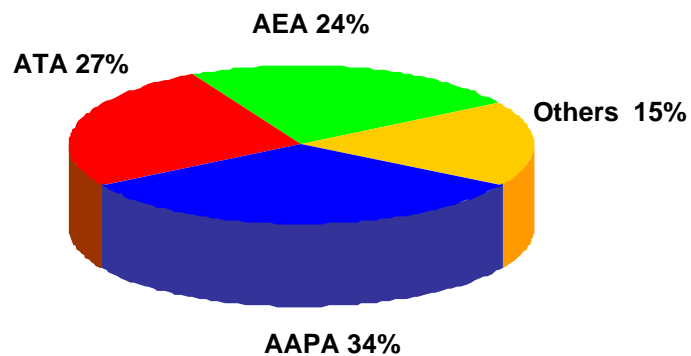


Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines

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AAPA global freight traffic share

Scheduled Systemwide
Freight Tonne Kilometres 2004



Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines

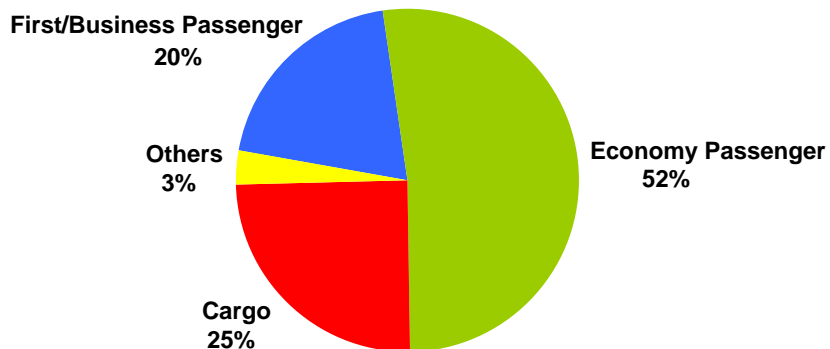
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Airline management: past lessons

- Benefits of diverse revenue mix
- Passenger demand
 - Business
 - Leisure
- Network strength
 - Short haul
 - Long haul
- Cargo demand
- Critical importance of cost management

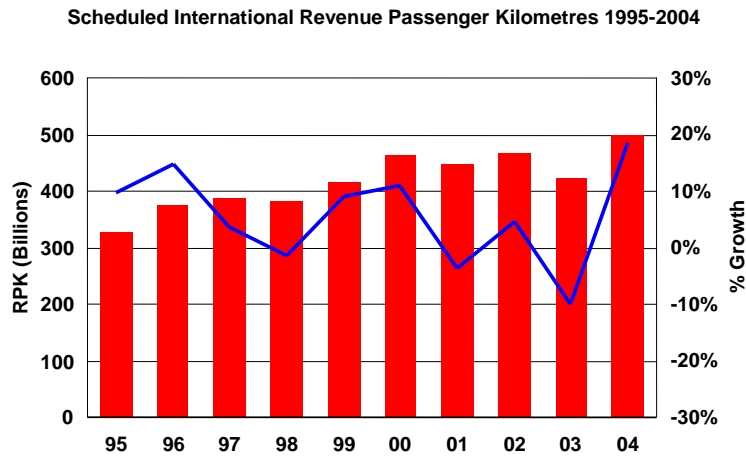
AAPA: international revenue mix

AAPA Operating Revenue FY2004
International Operations



Source: AAPA FY2004 = April 2003 to March 2004

AAPA's international passenger traffic 1995-2004



Strong recovery in passenger demand

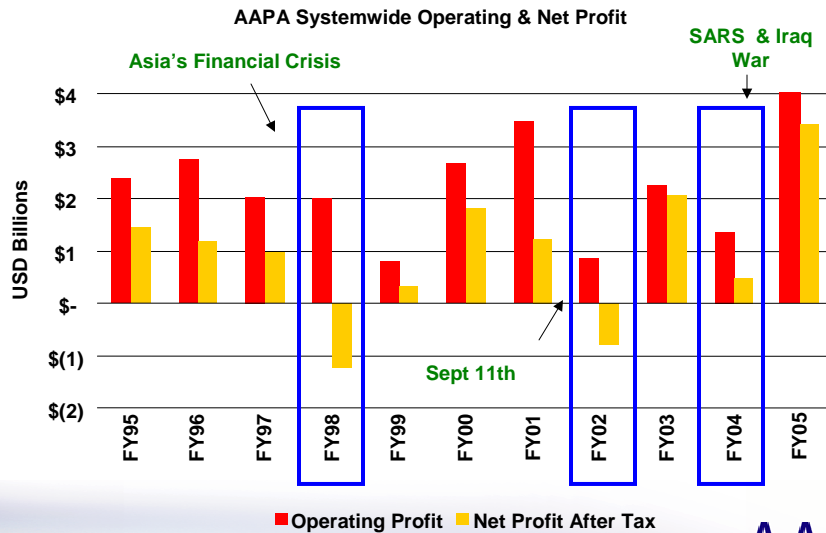
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Summary: lessons from 2004

- Good global economic growth
- Strong recovery in passenger demand
- Continued growth in cargo demand
- High oil prices
- Keen competition
- Cost management more critical than ever

AAPA's profitability trends: strong FY2004/5



Source: AAPA (FY 2004: April 2003 to March 2004)

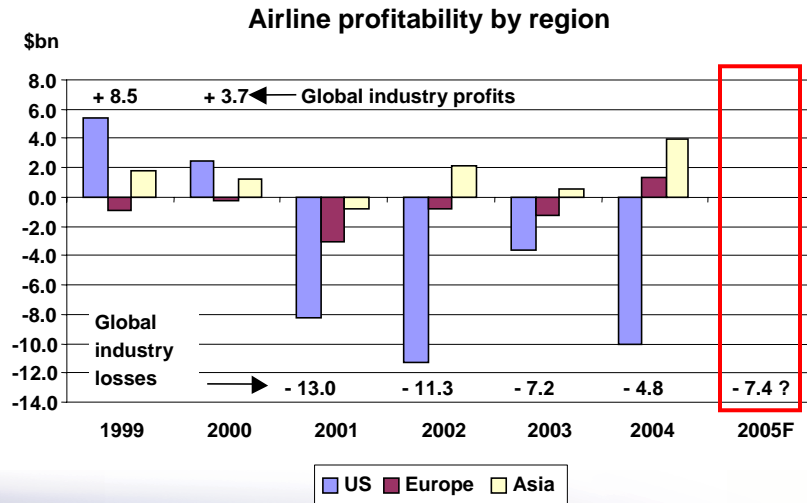
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Airline profitability Some global comparisons

- How does airline performance vary in different regions of the world?
- What are the contributory factors which could explain some observed variations?

Airline profitability: mixed picture

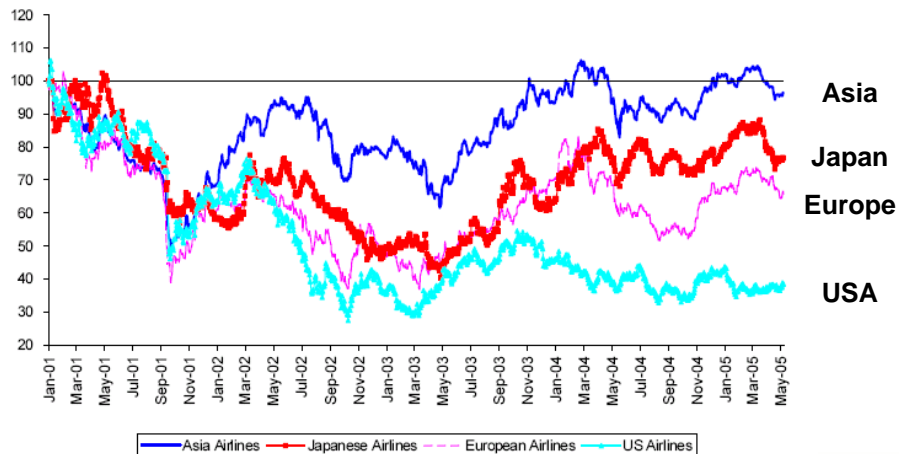


Source: IATA

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Airline valuations 2001-2005

Figure 22: Global Airlines Performance Index (2001 to date)



Source: Bloomberg, CSFB estimates

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Airlines: market capitalisation

Region	Carriers	Market capitalisation US\$ billion	Revenues US\$ billion
USA	<i>ATA (9)</i>	5	85
	<i>Southwest</i>	11	7
	<i>JetBlue</i>	2	1
Europe	<i>AEA (10)</i>	24	69
	<i>easyJet</i>	2	2
	<i>Ryanair</i>	6	2
Asia Pacific	<i>AAPA (12)</i>	42	65
	<i>Virgin Blue</i>	2	1
	<i>AirAsia</i>	1	0.1

Source: Airclaims, Bloomberg, company data and AAPA estimates

Data: December 2004

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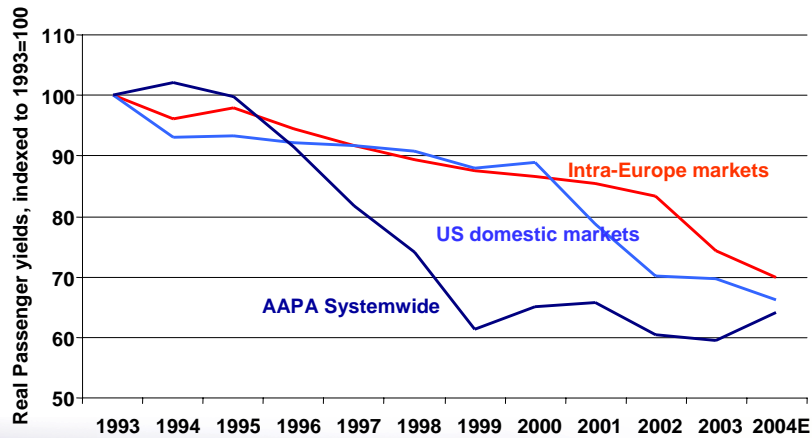
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Competition

- Highly competitive markets
- Impact of new entrants
- Regional variations

Airfares do not keep pace with inflation

Real Passenger Yields have fallen by a third in the past decade



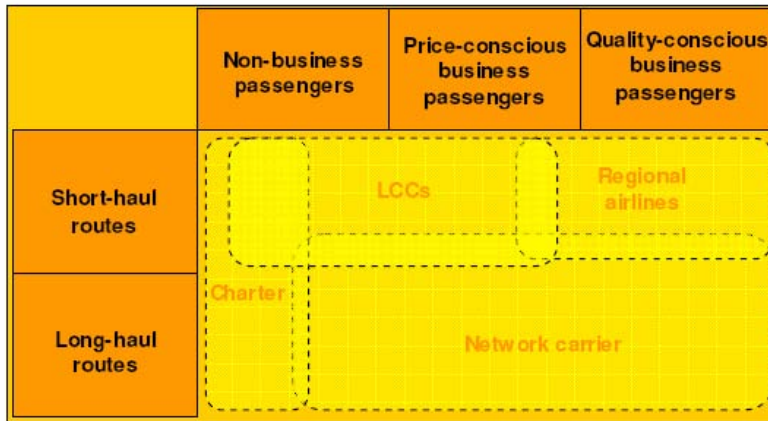
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The changing marketplace

- Premium and long-haul markets
- Short-haul markets
- Competing business models
 - Network carriers
 - Charter carriers
 - Regional airlines
 - LCC's

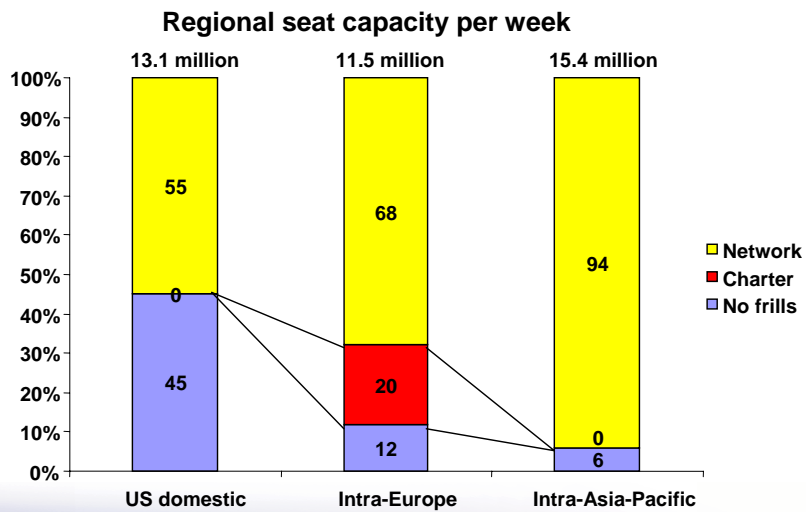
Market segmentation



Source: Mercer Management Consultants 2003

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Impact of new entrants



Source: McKinsey & Co, BACK; IATA Data: Summer 2004





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Proliferation of new entrants

20+ new entrants
30+ short-haul regional destinations

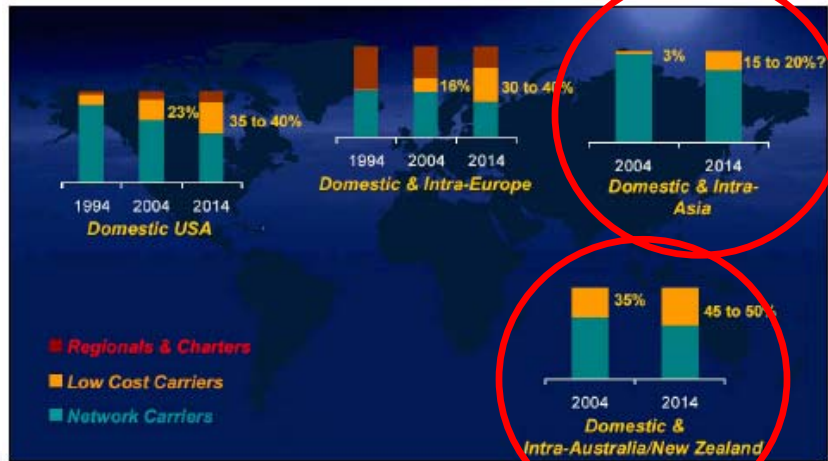
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Proliferation of new entrants: leaders

- 
 - 40+ routes to 20+ destinations
 - 50 B737s
- 
 - 50+ routes to 30+ destinations
 - 28 B737s and 60 A320s on order
- 
 - 25 MD80/90s and 6 B737s
 - Ordered 30 B737-900ERs
- 
 - 12 DC-9s and 3 B757s
 - Upgrading to 12 A319s and 2 leased A320s

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Optimism: LCC market share projections



Source: Morgan Stanley, Airbus

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Short-haul segment

Key success factors:

- Safety and Reliability
- Cost competitiveness
- Point-to-point services
- Low but inflexible fares
- Yield management focused on up-selling
- Minimal service

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Challenges for new entrants

- Established airlines and new entrants competing directly in overlapping market segments
- Face keen competition on established routes
- Marginal costs no longer provide a clear edge
 - Higher aircraft leasing costs
 - No surplus of skilled labour
 - Existing carriers already efficient in terms of aircraft utilisation
- Liberalisation and relaxation of ownership rules encourage new entrants, but could eventually lead to industry consolidation

Established Asia carriers are well placed to compete and continue to grow

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Price-competitive fares

Average yields: US cents/RPK

easyJet	8.1
Virgin Blue	8.0
Southwest	7.4
Ryanair	6.8
JetBlue	5.2
AAPA *	4.8
AirAsia	3.7

* AAPA systemwide economy class yields

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Future outlook

- Current concerns over high oil prices and slowing global economy
- Longer term, good prospects for continued growth
- Asia Pacific should still lead, boosted by dynamic growth of China
- Progressive liberalisation will widen competition but also open up new global opportunities

International traffic by region Jan-Jul 2005

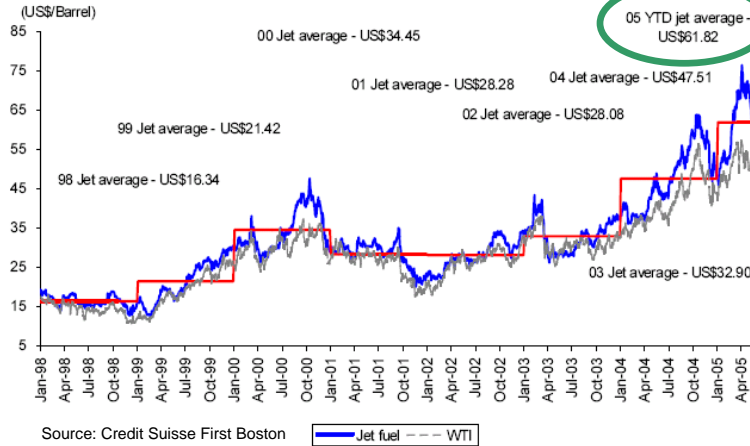
% Growth	IATA	AAPA	AEA	ATA
PAX	-	+ 7%	+ 5%	+ 12%
RPK	+ 9%	+ 7%	+ 6%	+ 11%
ASK	+ 7%	+ 6%	+ 5%	+ 11%
PLF	75%	73%	76%	80%
FTK	+ 4%	+ 3%	+ 2%	-

Passenger traffic buoyant, modest cargo growth

Source: IATA, AAPA, AEA, ATA

Sky high fuel costs

Figure 16: Jet Fuel prices



AAPA 2004 fuel costs ~ US\$12 bn
or ~20% of total operating costs
Further sharp increase in 2005

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Future growth – next 20 years

Annual growth % by region	Passenger			Freight		
	Boeing 20-Year Forecast	Airbus 20-Year Forecast	IATA AAGR 2004-08	Boeing 20-Year Forecast	Airbus 20-Year Forecast	IATA AAGR 2004-08
World	5.2	5.3	6.0	6.2	5.9	6.0
Asia-North America	6.1	6.3	5.9	7.2	6.1	4.6
Asia-Europe	6.0	5.9	7.1	6.7	6.3	7.0
Intra-Asia	6.1	6.9	8.3	8.5	6.4	6.1
Domestic China	8.1	8.7	-	10.6	10.1	-

The challenge, as always, is turning growth into profitability

Airbus and Boeing 20-year forecast = 2004-2023
Source: Airbus, Boeing, IATA forecasts

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