





Asia Pacific Aviation: Pressing Ahead



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Presentation outline

- Introduction
- AAPA overview
- Asia Pacific aviation
- Current performance
- Lessons and challenges
- Regulatory issues
- Future outlook

Aviation: what a great industry!

- 100 years ago: first flight
- 50 years ago: 9 million passengers
- Today: over 2,200 million passengers

- Outstanding safety record
- Affordability has led to an era of mass mobility

- Wider social and economic benefits
- Indirectly generates 29 million jobs, including 10 million in Asia Pacific
- Carries 35% of global trade by value



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Source: ATAG

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 |
|  | | |

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AAPA combined strength



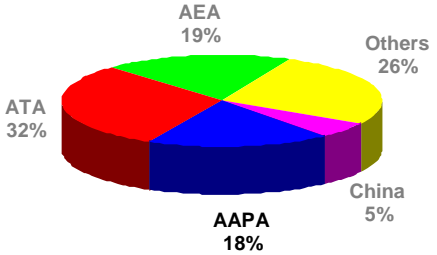
- 17 airlines
- US\$ 73 billion revenue
- US\$ 2 billion profit
- 271 million passengers
 - Domestic 143 million
 - International 128 million
- 10 million tonnes of cargo
- 198,000 employees
- 1,300 aircraft
- Global market share
 - 18% global pax traffic
 - 33% global cargo traffic

Data: 2005 estimates for combined AAPA



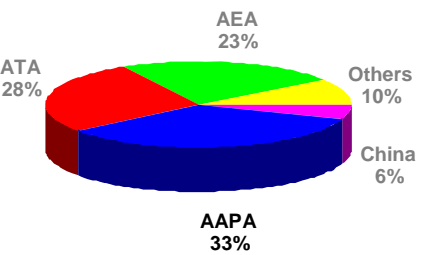
AAPA global passenger and freight traffic share

Scheduled Systemwide
Revenue Passenger Kilometres



Region	Share (%)
ATA	32%
AEA	19%
Others	26%
AAPA	18%
China	5%


Scheduled Systemwide
Freight Tonne Kilometres



Region	Share (%)
ATA	28%
AEA	23%
Others	10%
AAPA	33%
China	6%

Data: 2004

Note: AAPA, ICAO, IATA and ATW



Mainland China carriers

Air China
 China Eastern
 China Southern
 & others

- 138 million passengers
 - Domestic: 115 million
 - International: 23 million
- 3 million tonnes of cargo



AAPA members also offer 800 weekly flights to 29 Chinese cities



Data: 2005

Source: CAAC and OAG

Indian carriers

24 million passengers
 → Domestic 19 million
 → International 5 million



AAPA members also operate over 130 weekly flights to 10 Indian cities



Data: 2005

Source: DGCA and OAG

* Estimate

New entrants: Asian leaders



40+ routes to 20+ destinations
50 B737s



12 DC-9s and 3 B757s
Upgrading to A319s and A320s



22 B717s and A320s
Upgrading to all A320 fleet



13+ routes to 12+ destinations
4 A320, ordered 8 more A320s



60+ routes to 40+ destinations
36 B737s
Ordered 60 A320s



20+ routes to 18+ destinations
19 B737s, ordered 30 A320s



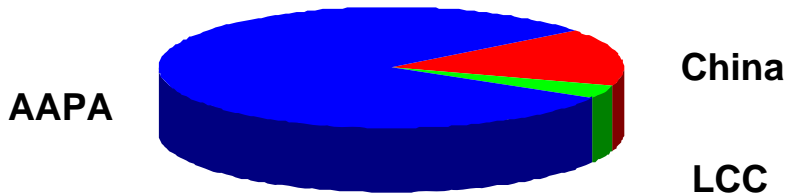
25 MD80/90s and 6 B737s
Ordered 30 B737-900ERs

*Even after achieving meaningful scale ...
profitability remains elusive for many*



Asia Pacific Aviation

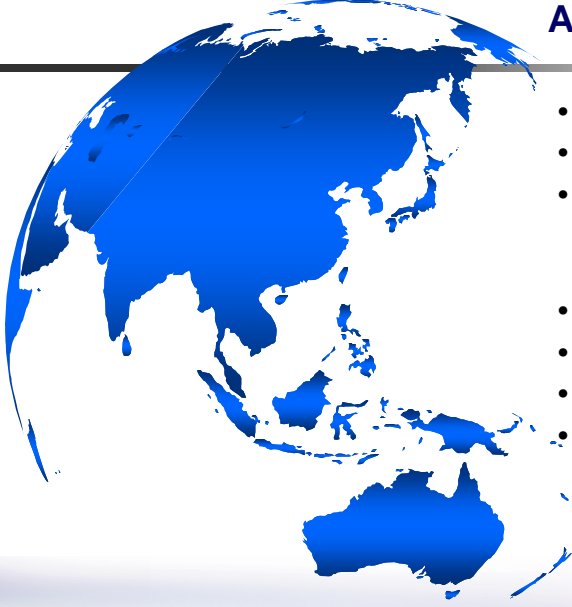
Revenue shares of Asia Pacific based airlines



Total revenues ~ US\$ 90 billion

Data: 2005 estimates







Asia Pacific Aviation

- US\$ 90 billion revenue
- US\$ 2 billion net profit
- 420 million passengers
 - Domestic: 260 million
 - International: 160 million
- 13 million tonnes of cargo
- 300,000 employees
- 2,700 aircraft
- Global market share
 - 24% global pax traffic
 - 39% global cargo traffic

Data: 2005 estimates for combined AAPA + non-AAPA airlines



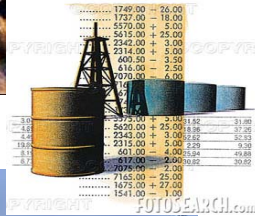
Current performance

- **Lessons from 2005**
- **Management challenges**

Highlights of 2005



→ Robust traffic



→ High fuel prices



→ Record aircraft orders

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International traffic in 2005

Passenger growth

- World +7.6%
- Asia Pacific +6.3%
 - Slower growth after earlier resilience

Cargo growth

- World +3.2%
- Asia Pacific +4.2%
 - Moderated significantly, but still above industry average growth



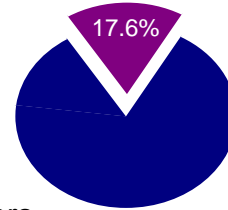
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Source: IATA

Cargo: key revenue contributor

- AAPA cargo revenues ~ US\$12 bn
- Benefits of revenue diversification
- Belly space complemented by 112 freighters
- AAPA carries ~ 33% of global air cargo traffic

Cargo revenue contribution

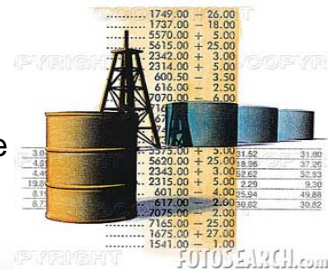


Source: IATA and AAPA

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High fuel prices in 2005

- Average crude oil price : US\$54
- +42% from 2004
- Average jet fuel price: US\$68
- +43% from 2004
- Oil prices remain volatile and above US\$60 this year



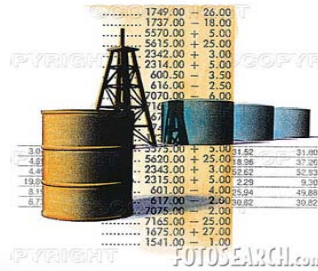
Source: IEA

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High fuel prices

AAPA fuel bills and % of total costs

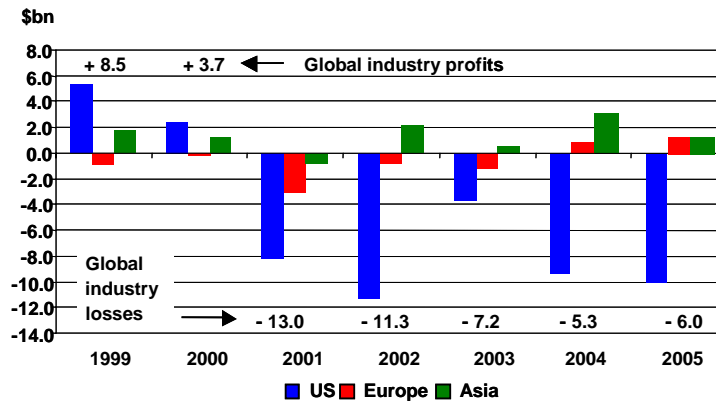
2003	US\$ 9 bn	~ 17%
2004	US\$ 12 bn	~ 20%
2005	~ US\$ 18 bn	~ 28%



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Airline profitability: mixed picture

Airline Profitability by Region



Industry losses top US\$42 billion since 2001

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Source: IATA

Record aircraft orders in 2005

→ Worldwide, over 2,000 new aircraft orders

Driven by ...

→ Renewed confidence in future growth

→ Economics of high fuel prices

→ Low interest rates

→ More than 900 from Asia Pacific

→ Two-thirds narrow body jets

→ 600 from China and India

→ In reality, global market demand growth remains ~ 850 aircraft p.a.



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Source: Airbus and Boeing

AAPA Fleet expansion

→ Current fleet ~ 1,300 aircraft

→ 72% of AAPA fleet is widebody

→ Operating more than a third of the world's B777 and B747 fleets

→ 47 new aircraft deliveries in 2006

→ More than 290 aircraft for delivery from 2007

→ Including 180 new generation A380 & B787



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Source: Airbus and Boeing

Lessons and current challenges

Summary

- Traffic growth remains positive
- Competitive pressures remain intense
- Challenges in passing on the impact of high fuel prices to consumers
- Optimism about the future reflected in firmer lease rates, and record level of orders for new aircraft
- Labour cost inflation, especially skilled pilots and mechanics
- Infrastructure quality and capacity issues

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Regulatory Issues

- **Geopolitical imbalances**
- **Regulatory crossfire**
- **Need for better global harmonisation**

Aviation: a key driver of the global economy

Yet burdened by:



- Excessive regulations, taxes and charges
- Outdated bilateral regulatory framework
- National ownership and control restrictions
- Prone to protectionist thinking

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The global economy

Average GDP per region

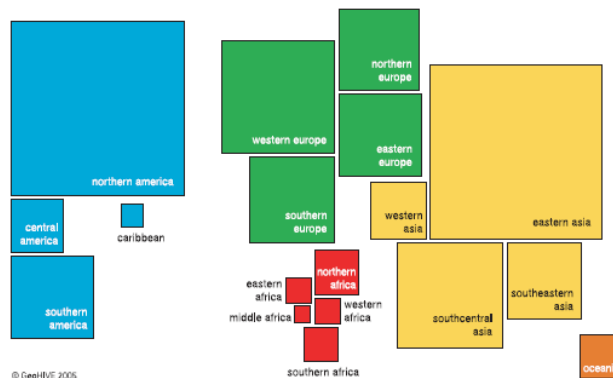
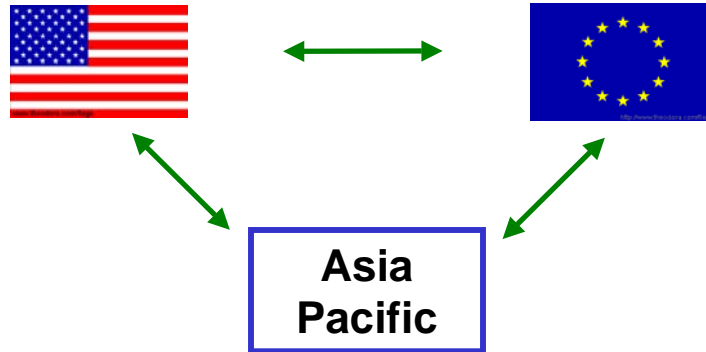


Figure 3.

Source: Geohive

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Global regulatory influences



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

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U.S. and EU: regulatory perspectives

- US mainly driven by US domestic political concerns
 - Safety, led by FAA
 - Security, led by DHS/TSA
 - Open (your) Skies
- EU mainly driven by EU domestic political concerns
 - Safety: EASA, Eurocontrol
 - Consumer rights
 - Environment
 - EC assuming lead role in aero-political process
- Insensitivity about extra-territorial impacts: unilateral actions
- Where international issues are taken into account, the focus tends to be on US-EU differences
- Insufficient recognition of Asia-Pacific role and views

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Future market outlook

- **Prospects for 2006**
- **Opportunities for long term growth and development**
- **Maintaining global competitiveness will be essential to future success**

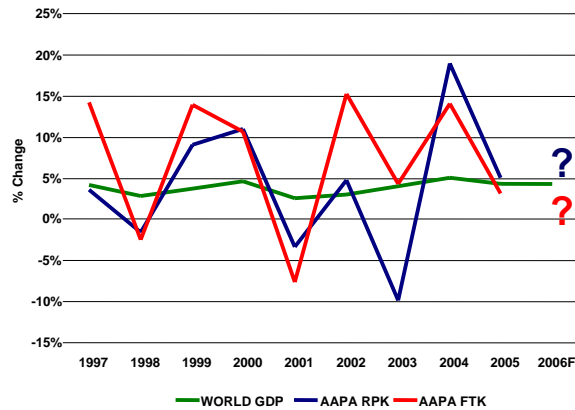


Future outlook

- Prospects for 2006
 - Stable macro-economic outlook
 - Despite burden of high oil prices
 - Asia Pacific travel demand boosted by dynamic growth of China
- Competitive challenges to remain intense
- But long term prospects remain bright

AAPA traffic and world GDP growth

Forecasting volatility ...



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Asia Pacific Aviation: Pressing ahead

- At the heart of Asia Pacific's economic development
- Quality service reputation allied to good cost management
- Room for competing business models
- Able to compete against the world's best
- Well placed to take advantage of new global opportunities



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