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Challenges and Opportunities for Asia's Established Carriers

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ASSOCIATION OF ASIA PACIFIC AIRLINES**

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Presentation outline

- **Introduction to AAPA**
- **The changing marketplace**
- **Established carriers: opportunities and challenges**
- **Evolving industry structure**

Introduction to AAPA

- **Roles**
- **Membership**
- **Global strength**

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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AIR NEW ZEALAND


SINGAPORE AIRLINES

 Philippine Airlines

 CATHAY PACIFIC

 JAL

 KOREAN AIR

 Asiana Airlines



 THAI

 QANTAS

DRAGONAIR
港龍航空

 Vietnam Airlines

 EVA AIR
長榮航空


Garuda Indonesia

CHINA AIRLINES

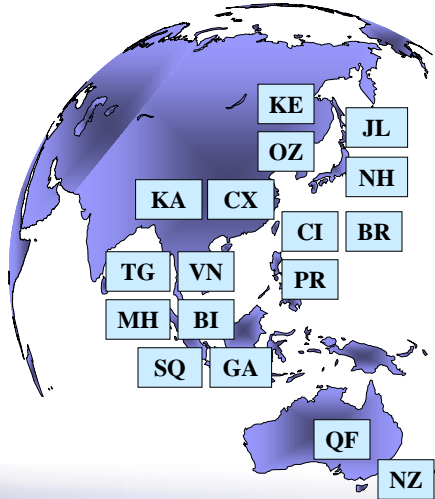

 Malaysia

ANA
A STAR ALLIANCE MEMBER


ROYAL BRUNEI
Giving the world Brunei's best

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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

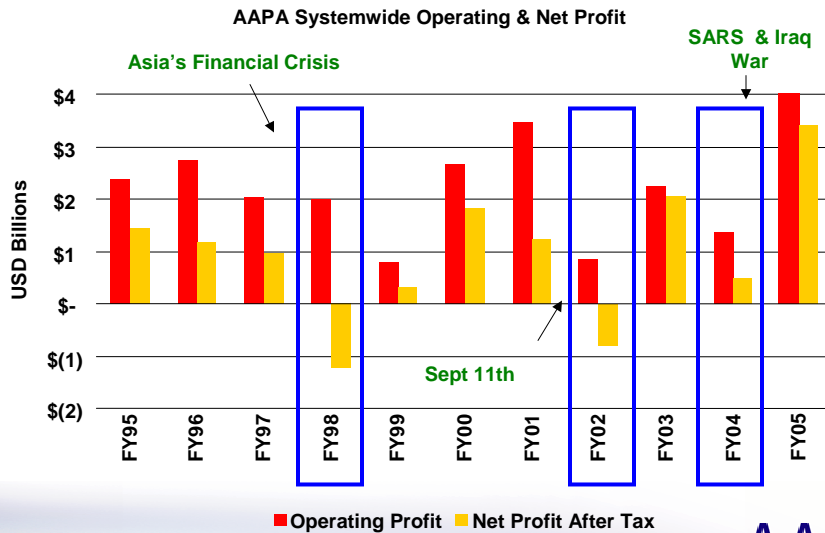
Global Market Share :

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

Data: 2004

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AAPA's profitability trends: strong FY2004/5

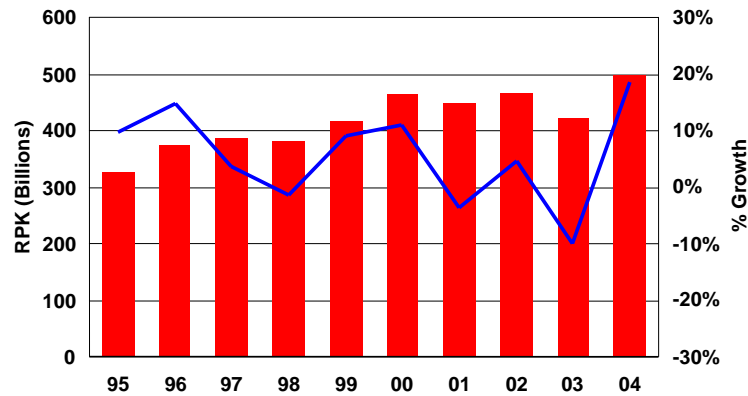


Source: AAPA (FY 2004: April 2003 to March 2004)

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AAPA's international passenger traffic 1995-2004

Scheduled International Revenue Passenger Kilometres 1995-2004



Strong recovery in passenger demand

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International traffic by region Jan-Jun 2005

% Growth	IATA	AAPA	AEA	ATA
PAX	-	+ 8%	+ 5%	+ 12%
RPK	+ 9%	+ 7%	+ 6%	+ 12%
ASK	+ 7%	+ 6%	+ 5%	+ 11%
PLF	74%	73%	75%	79%
FTK	+ 3%	+ 3%	+ 3%	-

Passenger traffic buoyant, modest cargo growth

Source: IATA, AAPA, AEA, ATA

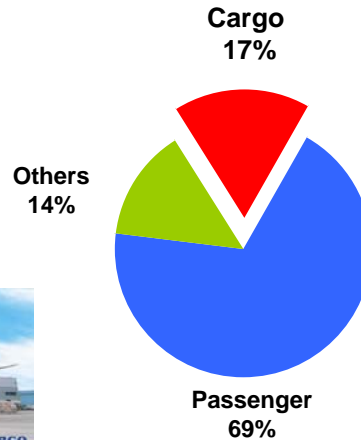
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Cargo operations: key revenue contributor

- AAPA ~ 33% of global cargo traffic
- US\$ 11 billion revenue
- Belly space complemented by 112 freighters



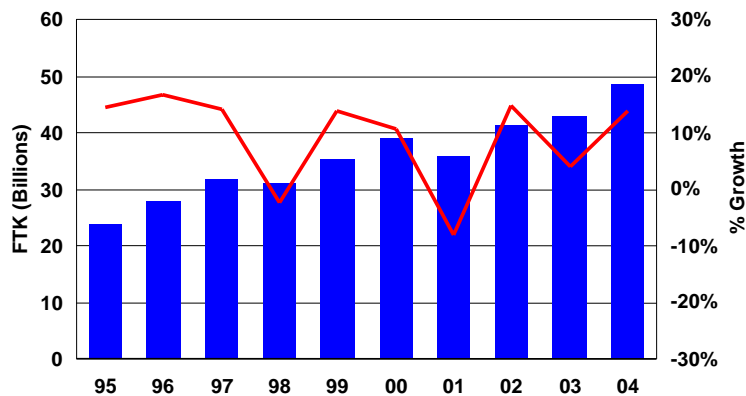
Source: AAPA, IATA



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AAPA's international freight traffic 1995-2004

Scheduled International Freight Tonne Kilometres 1995-2004



Continued growth in cargo demand

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The changing marketplace

- Premium and long-haul markets
- Short-haul markets

Premium and long-haul segment

Key success factors:

- Network strength
 - Interlining
- Strong hubs
- Nonstop flights
- Service leadership
 - Comfort
 - Entertainment
 - FFPs
- Flexible fares
- Value for money
- Yield management
- Cost competitiveness

Strong Asian hubs

BANGKOK
International Airport

- 38 million passengers and 1 million tonnes of cargo

HONG KONG
INTERNATIONAL AIRPORT
BEST AIRPORT 2001-2005

- 37 million passengers and 3 million tonnes of cargo

NAA
NARITA AIRPORT

- 31 million passengers and 2 million tonnes of cargo

CHANGI
AIRPORT SINGAPORE

- 30 million passengers and 2 million tonnes of cargo

incheon
International Airport

- 24 million passengers and 2 million tonnes of cargo

Source: ACI Worldwide Airport Traffic Statistics 2004

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Premium long-haul traffic

- Pioneering new ultra long-haul routes

e.g. SIN – LAX, SIN – NYC, BKK – NYC



Source: Flight International

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Service leadership



1.  CATHAY PACIFIC
2.  QANTAS
4.  SINGAPORE AIRLINES
6.  Malaysia AIRLINES
7.  THAI

Global brand recognitions

Asia Pacific carriers set the benchmark in service delivery

Continue to invest and innovate

Source: Skytrax's World Airline Awards 2005 (www.airlinequality.com)

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Short-haul segment

Key success factors:

- Point-to-point
- Frequency
- Low but inflexible fares
- Yield management
- No frills
- Ancillary charges
- Cost competitiveness





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Proliferation of new entrants

20+ new entrants
20+ short-haul regional destinations

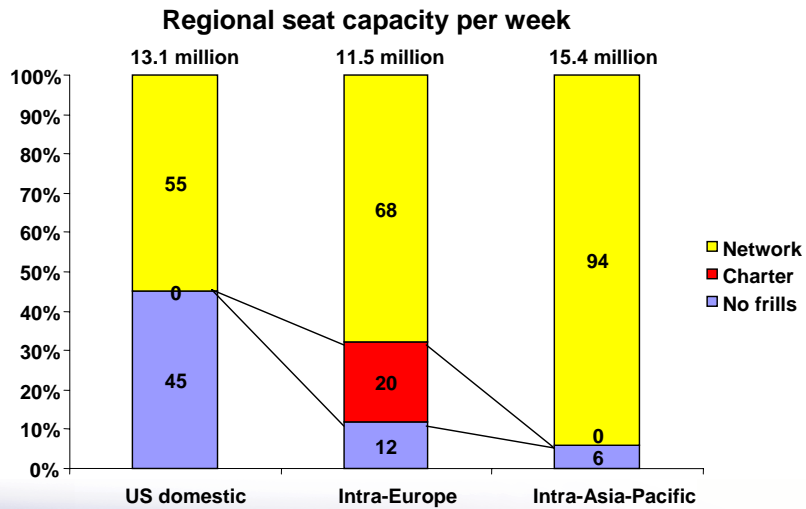
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Proliferation of new entrants: leaders

- 
 - 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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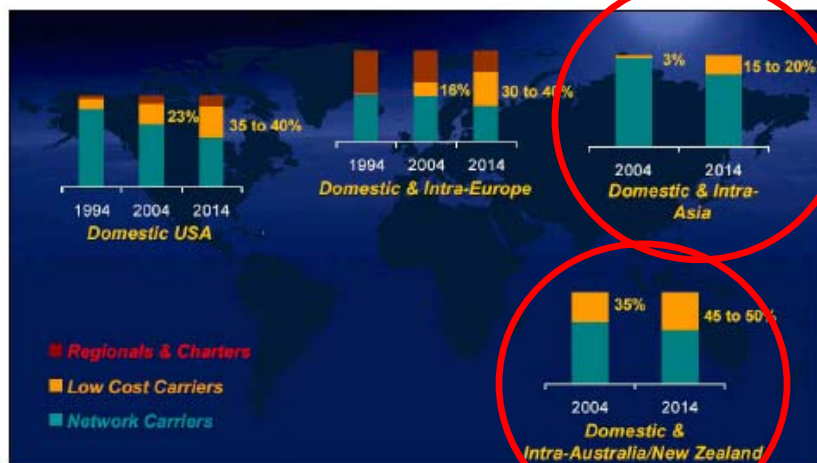
Impact of new entrants



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

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Optimism: LCC market share projections



Source: Morgan Stanley, Airbus

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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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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

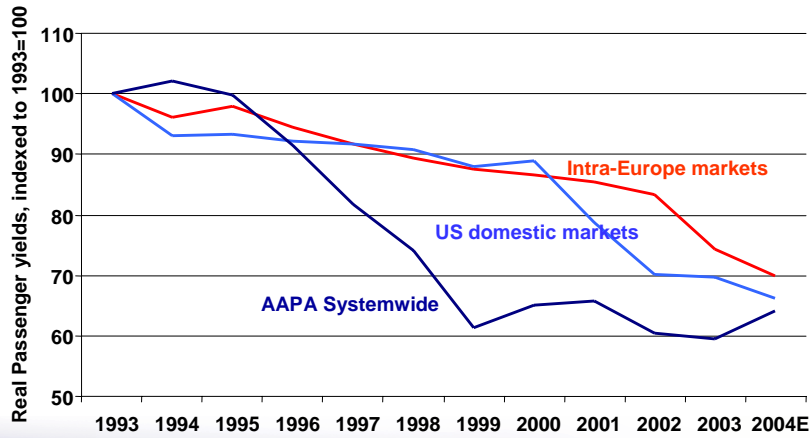
Source: Airclaims, Bloomberg, company data and AAPA estimates

Data: December 2004

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Airfares do not keep pace with inflation

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



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AAPA carriers: 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 Economy class yields

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Established carriers: opportunities and challenges

- **Revenue opportunities:**
 - Growing Chinese and Indian markets
- **Challenges:**
 - Maintaining cost competitiveness
 - High fuel costs
 - Slowing global economy

Growth market: Mainland China

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

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

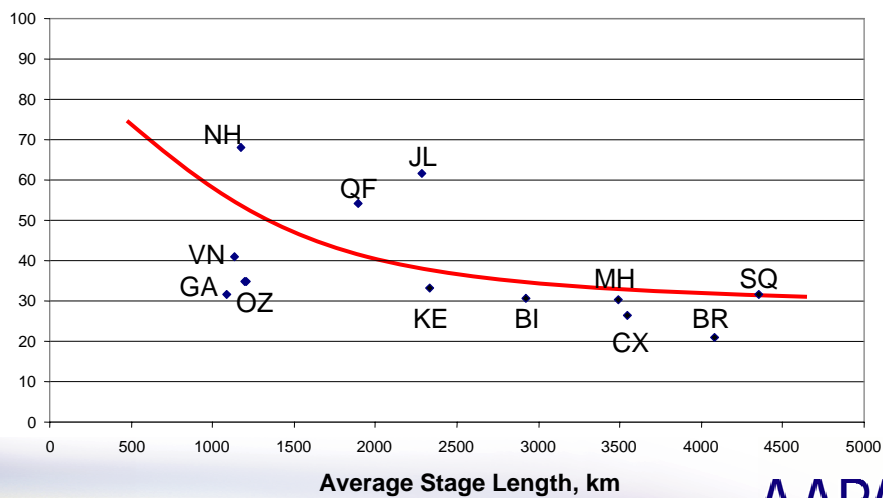


Over 130 flights per week

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Keeping costs down: operating costs per ATK

US Cents/ATK

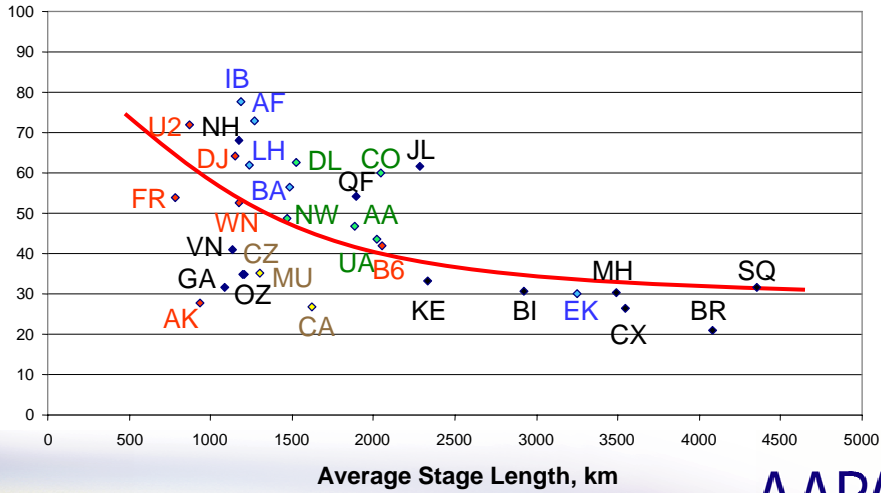


Source: Company reports, IATA, AAPA estimates

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Keeping costs down: operating costs per ATK

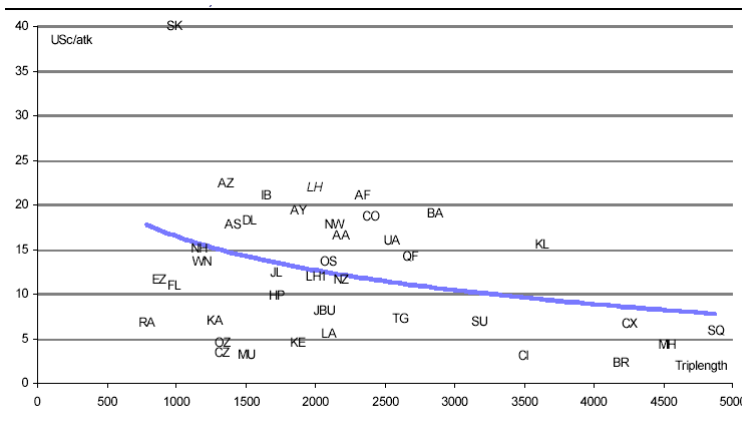
US Cents/ATK



Source: Company reports, IATA, AAPA estimates

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Keeping costs down: relative labour costs



Source: UBS estimates

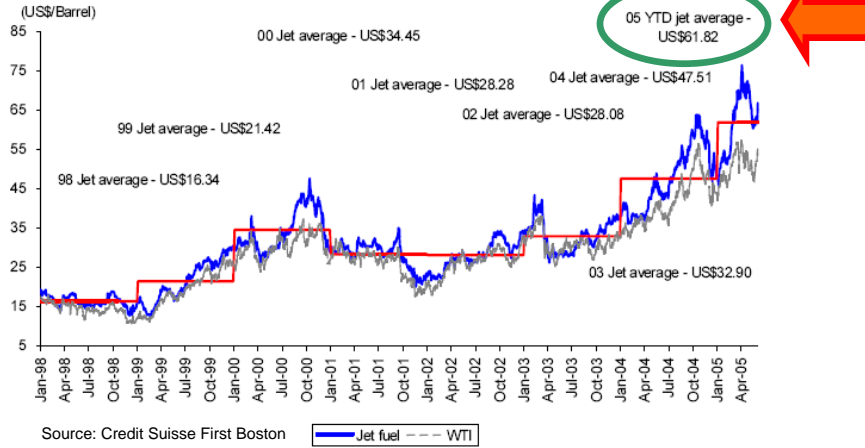
Asia Pacific carriers benefit from competitive labour costs and higher productivity

Source: IATA, UBS

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Rising 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

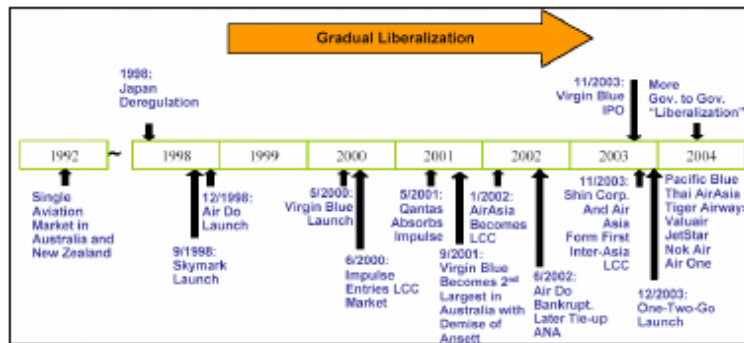
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Evolving industry structure

- Progressive liberalisation
- Ownership/control constraints persist
- Convergence and consolidation?

Progressive liberalisation



Source: Morgan Stanley, Boeing

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Progressive liberalisation

- Global trend but at a measured pace
- Marked opening up of China and India
- ASEAN: towards full liberalisation in 2008
- North Asia: bilateral agreements
- Liberalisation and relaxation of ownership rules encourage new entrants, but could eventually pave the way to industry consolidation

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Convergence

- In more mature markets, some signs of convergence:
 - New entrants adding frills, at additional charge
 - Established carriers streamlining products / services / fare structures
 - Emergence of hybrid airlines?

Moving towards a low cost industry

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