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Asia Pacific Aviation

Brighter Skies

Andrew Herdman, Director General
ASSOCIATION OF ASIA PACIFIC AIRLINES

2nd Annual Asia Pacific & Middle East
Aviation Outlook Summit 2006
Kuala Lumpur, 5-6 December 2005

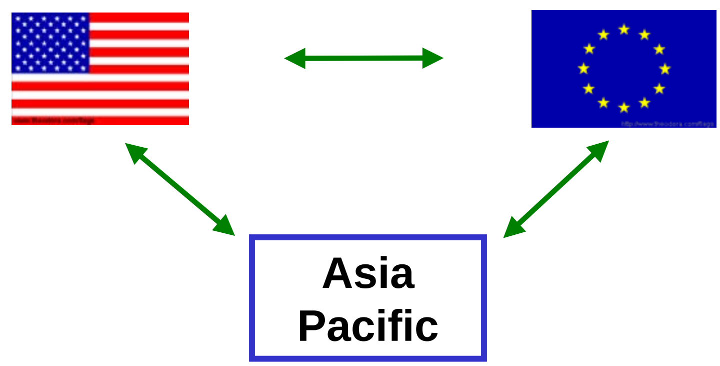
Presentation outline

- AAPA overview
- Combined strength
- Recent performance
- Some global comparisons
- Competition
- Fuel cost impact
- Middle East
- 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 influence



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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The global economy

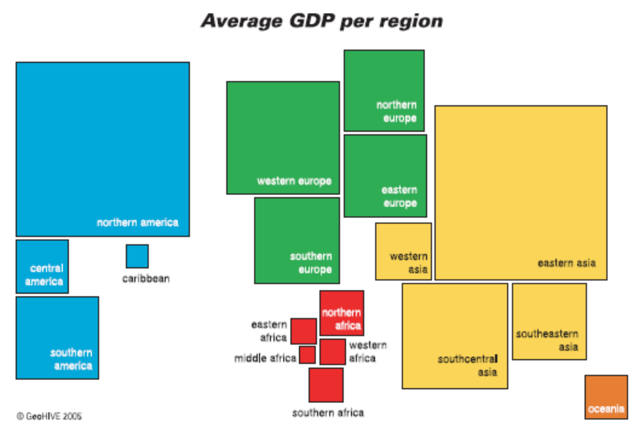

Figure 3.

Source: Geohive

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AAPA Association of Asia Pacific Airlines

Air New Zealand
Singapore Airlines
Philippine Airlines
Cathay Pacific
JAL
Korean Air
Asiana Airlines
Dragonair 港龍航空
Thai
Qantas
Vietnam Airlines
EVA Air 長榮航空
Garuda Indonesia
China Airlines
Malaysia Airlines
ANA A STAR ALLIANCE MEMBER
Royal Brunei Giving the world Asia's best

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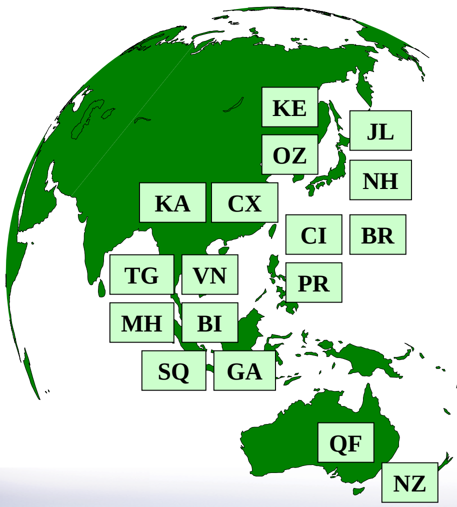
AAPA Combined Strength



- 17 airlines
- US$ 66 billion revenue
- US$ 4 billion profit
- 263 million passengers
- 10 million tonnes of cargo
- 198,000 employees
- 1,300 aircraft

Global Market Share:
~ 18% of global pax traffic
~ 33% of global cargo traffic

Data: 2004

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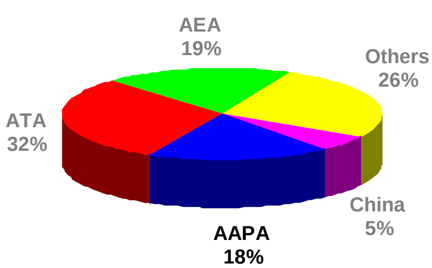
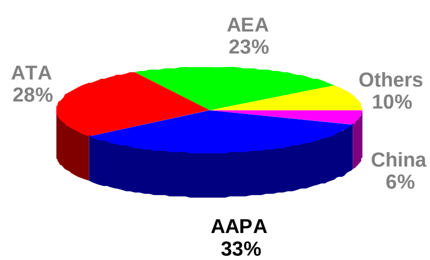
AAPA global passenger and freight traffic share

Scheduled Systemwide Revenue Passenger Kilometres 2004



Scheduled Systemwide Freight Tonne Kilometres 2004



Note: AAPA, ICAO, IATA and ATW

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Mainland China aviation market

120 million passengers

Domestic 100 million

&

International 20 million

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

Data: 2004

Source: CAAC

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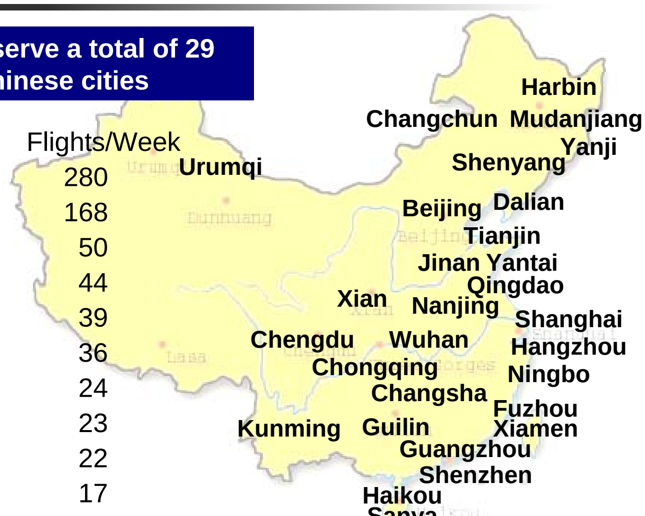
AAPA Mainland China services

AAPA members serve a total of 29 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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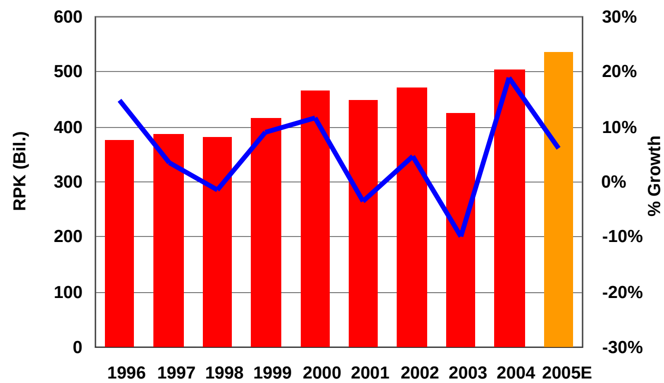
AAPA international passenger traffic

Scheduled International RPKs 1996-2005E



Sustained growth in 2005

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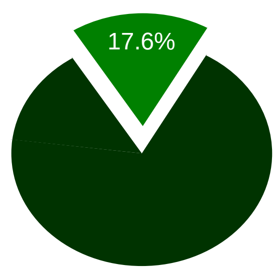
Cargo: key revenue contributor

- AAPA ~ 33% of global cargo traffic
- US$ 11.5 billion revenue
- Belly space complemented by 112 freighters

Cargo revenue contribution



Note: AAPA (FY2005: April 2004 to March 2005)

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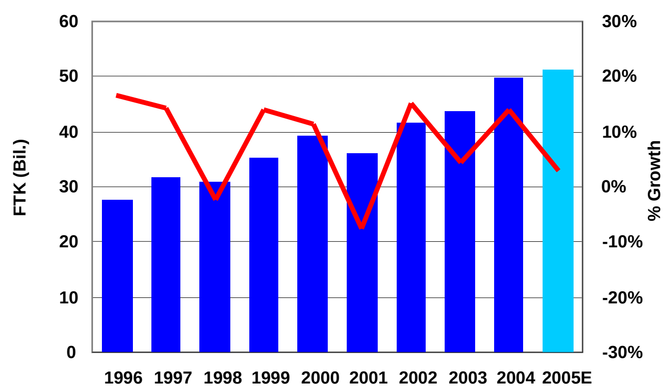
AAPA international freight traffic

Scheduled International FTKs 1996-2005E



Cargo growth moderating in 2005

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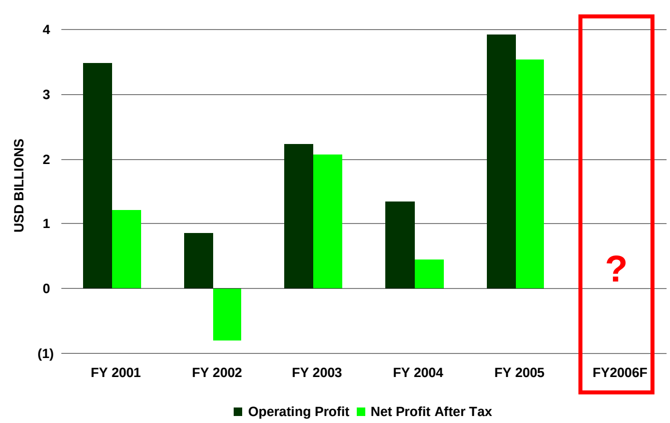
AAPA profitability trends

AAPA Systemwide Operating & Net Profit



Cumulative net profit of US$5 billion for AAPA members from FY2002 to FY2005

Source: AAPA (FY2005: April 2004 to March 2005)

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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?

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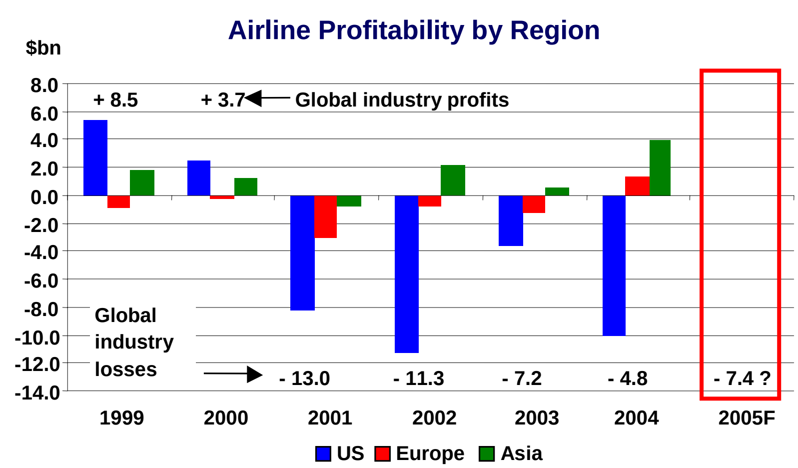
Airline profitability: mixed picture



Industry losses totalled more than US$36 billion from 2001 to 2004

Source: IATA

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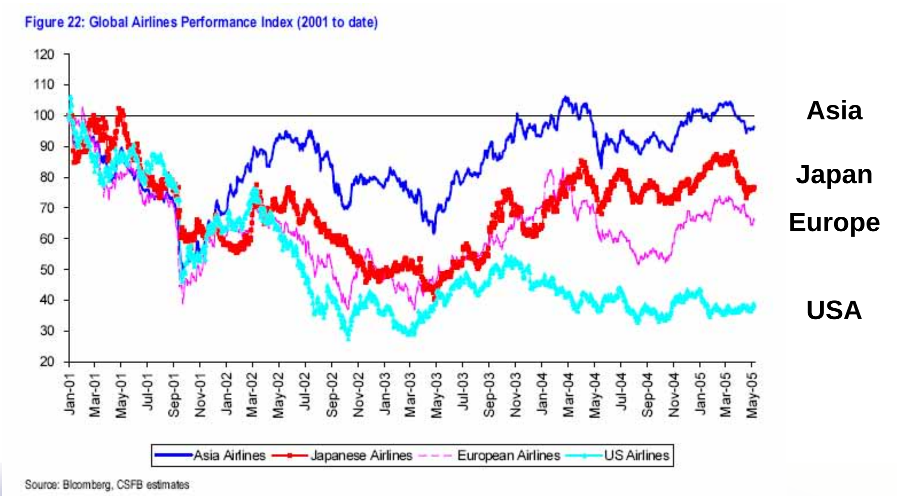
Airline valuations 2001-2005



Airlines: market capitalisation

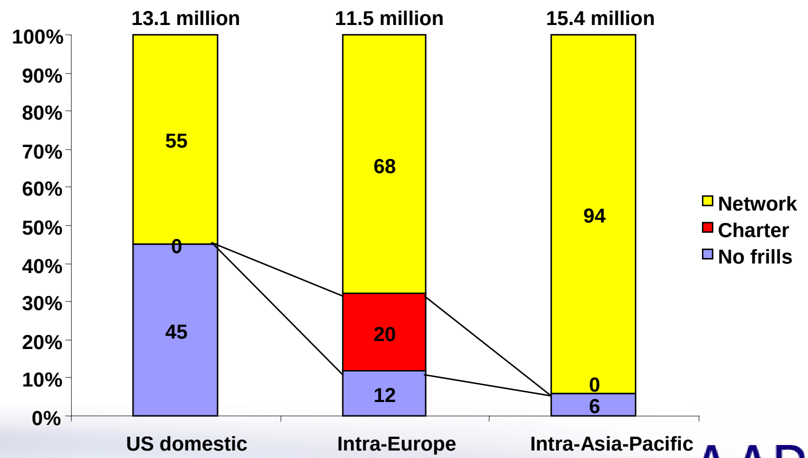
Region	Carriers	Market capitalisation US$ billion	Revenues US$ billion
USA	ATA (9)	6.8	88.0
	Southwest	*12.9*	*7.4*
	JetBlue	*1.9*	*1.7*
Europe	AEA (10)	23.4	72.4
	easyJet	*2.2*	*2.0*
	Ryanair	*6.3*	*2.0*
Asia Pacific	AAPA (12)	39.0	72.4
	Virgin Blue	*1.2*	*1.5*
	AirAsia	*1.0*	*0.2*

Data: June 2005

Source: Airclaims, Bloomberg, company data and AAPA estimates

Impact of new entrants

Regional seat capacity per week



Data: Summer 2004

Source: McKinsey & co., BACK, IATA

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Proliferation of new entrants: leaders

Virgin blue
- 40+ routes to 20+ destinations
- 50 B737s

Jet★
- 22 B717s and A320s
- Upgrading to all A320 fleet

AirAsia
- 50+ routes to 30+ destinations
- 28 B737s
- Ordered 60 A320s

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

CEBU PACIFIC
- 12 DC-9s and 3 B757s
- Upgrading to 12 A319s and 2 leased A320s

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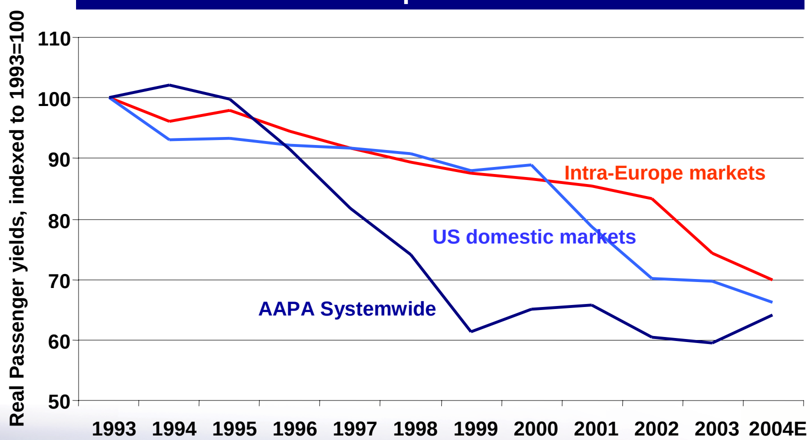
Airfares do not keep pace with inflation

Real passenger yields have fallen by a third in the past decade



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Price-competitive fares

Average yields: US cents/RPK

easyJet	8.6
Virgin Blue	8.2
Southwest	7.3
Ryanair	7.0
AAPA Y*	**5.3**
JetBlue	5.2
AirAsia	3.6

Data: 2005

* AAPA Y systemwide economy class yields

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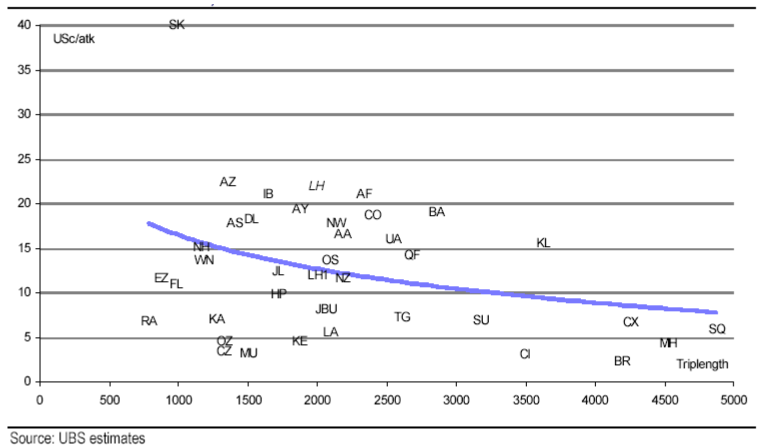
Relative labour costs



Asia Pacific carriers benefit from competitive labour costs and higher productivity

Source: IATA, UBS

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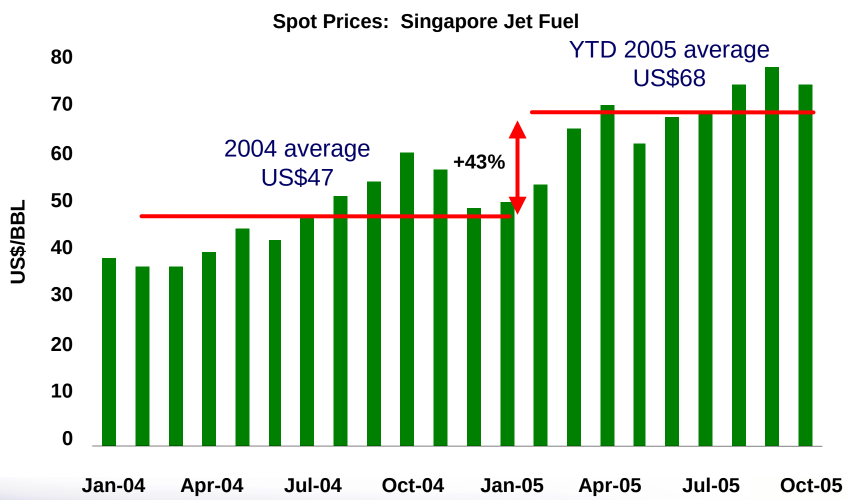
Impact of high fuel costs



Source: International Energy Agency (IEA)

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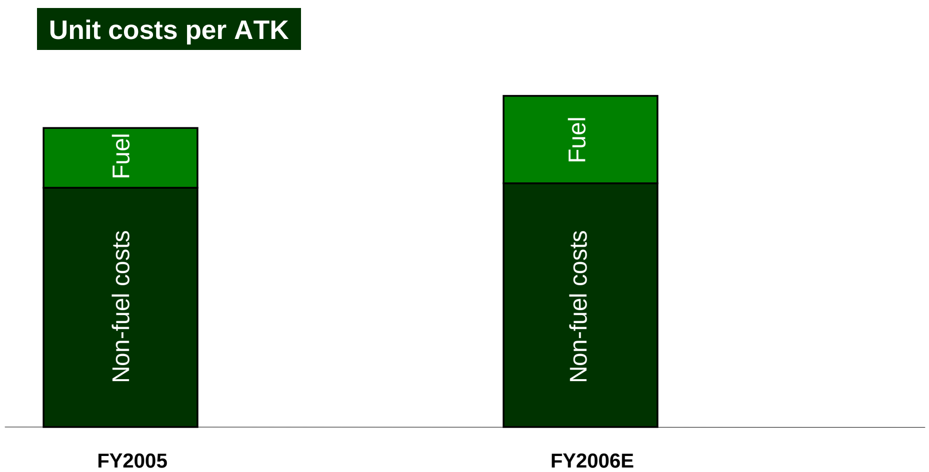
Fuel costs increased from US$12 bn to US$18 bn



Note: AAPA estimates

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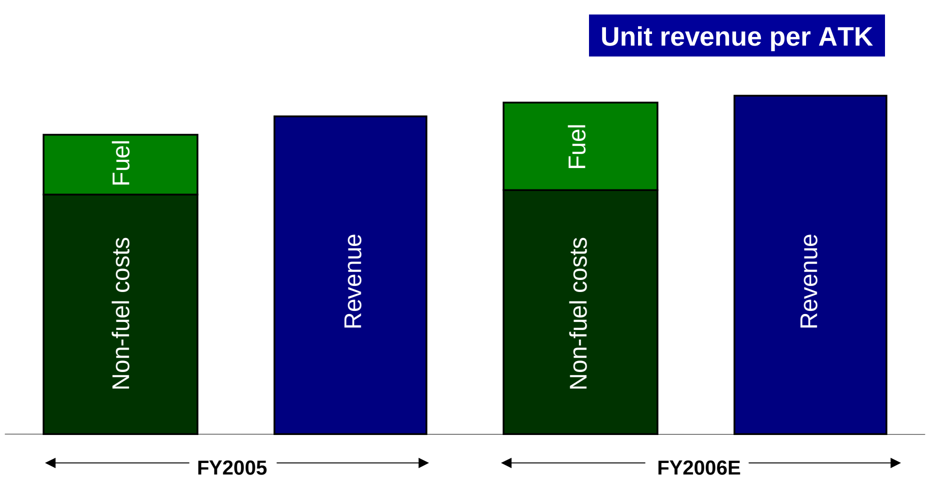
Profitability under pressure



Note: AAPA estimates

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Future outlook

- Traffic growth by region
- Global economy
- Outlook 2006-2009
- Long term prospects

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Traffic growth by region YTD 2005

	Jan-Oct 2005 vs. Jan-Oct 2004				
	RPK growth	ASK growth	PLF	FTK growth	ATK growth
Latin America	13.1%	10.8%	72.7%	-2.3%	7.1%
Middle East	12.6%	11.6%	73.6%	14.1%	11.6%
Africa	10.6%	8.7%	69.1%	7.8%	10.9%
North America	9.5%	8.7%	79.9%	-0.4%	6.3%
Asia Pacific	7.0%	6.2%	72.9%	3.5%	6.9%
Europe	6.3%	4.6%	76.9%	1.1%	4.6%
Industry	7.9%	6.7%	75.4%	2.6%	6.5%

Source: IATA

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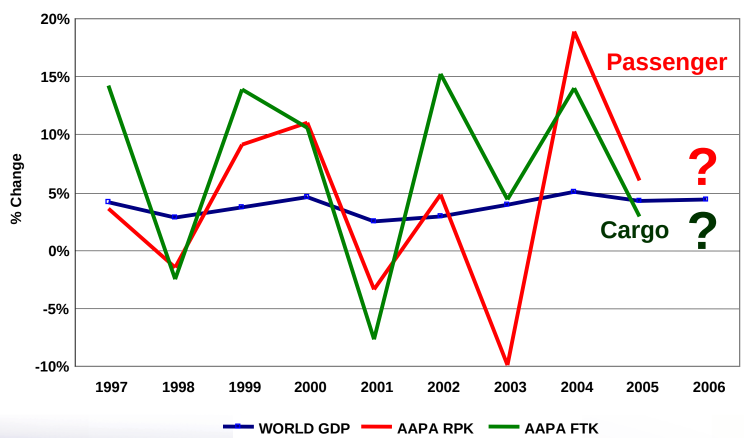
Future outlook

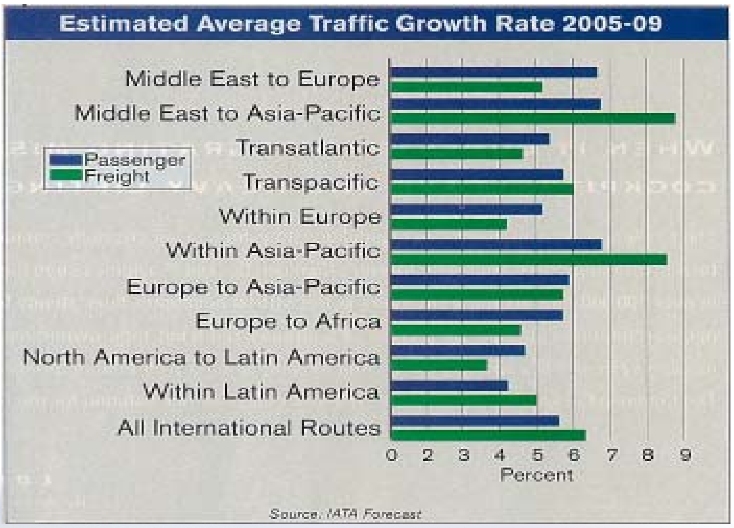
- Some caution about 2006
  - Slowing global economic growth
  - Oil prices expected to remain volatile
  - Asia Pacific should still lead, boosted by dynamic growth of China
- Competitive challenges will remain intense
- However, long term prospects remain bright

AAPA traffic and world GDP growth



Source: IMF

Traffic forecasts: 2005-2009



Source: IATA, Aviation Week

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AAPA Fleet Development

- ~ 1,300 aircraft
- 72% of AAPA fleet is widebody
  - Operating 37% of the world's B777 fleet
  - Operating 36% of the world's B747 fleet
  - Operating 26% of the world's A330/A340 fleet
- 47 new aircraft deliveries expected in 2006
- 239 more aircraft for delivery from 2007
  - Includes 135 new generation A380 and B787

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Middle East carriers: fleet expansion

	Current fleet	Orders
Emirates	82	• 18 A340s • 43 A380s • 46 B777s
QATAR AIRWAYS القطرية	42	• 15 A330s • 2 A340s • 2 A380s
الاتحاد ETIHAD AIRWAYS	12	• 17 A330s • 8 A340s • 4 A380s • 5 B777s
	136	160

*** Estimate**

Source: Airbus, Boeing, Airclaims, Aviation Week, company websites

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Sustainable long-term growth

Annual growth %	Passenger			Freight		
by region	Boeing	Airbus	IATA	Boeing	Airbus	IATA
	20-Year Forecast	20-Year Forecast	AAGR 2005-09	20-Year Forecast	20-Year Forecast	AAGR 2005-09
World	4.8	5.3	5.6	6.2	5.9	6.3
Asia-North America	6.0	6.3	5.8	7.2	6.1	6.0
Asia-Europe	5.4	5.9	5.9	6.7	6.3	5.7
Intra-Asia	5.1	6.9	6.8	8.5	6.4	8.5
Domestic China	8.8	8.7	-	10.6	10.1	-

The challenge, as always, is turning growth into profitability

20-year forecast: Airbus = 2004-2023 and Boeing = 2005-2024

Source: Airbus, Boeing, IATA forecasts

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Future growth: aviation infrastructure

- Contribution of aviation to economic development is widely recognised, especially in Asia-Pacific
- Readiness to invest in development of infrastructure to match growth in demand
- Nevertheless, need to ensure that capital is wisely invested
- Greater focus on operating efficiency and cost-effectiveness
  - Airports
  - Air Traffic Control
- Corresponding challenges in manpower development and training

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Asia Pacific Aviation: Brighter Skies

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

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