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Brighter Skies: Challenges and Opportunities for Asia Pacific Aviation

Andrew Herdman, Director General
ASSOCIATION OF ASIA PACIFIC AIRLINES

International Travel Catering Association
ITCA Asia Pacific Conference
Bangkok, Thailand
15 September 2005

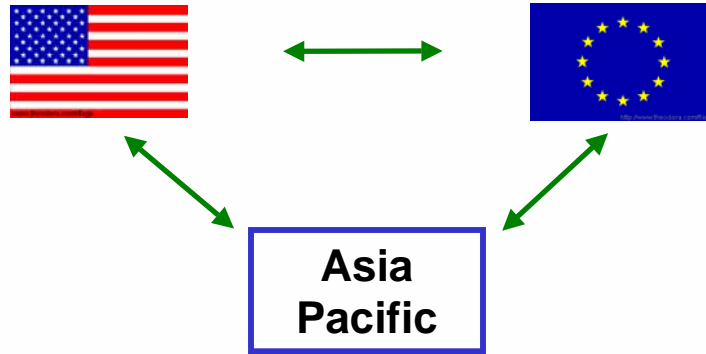
Presentation outline

- **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

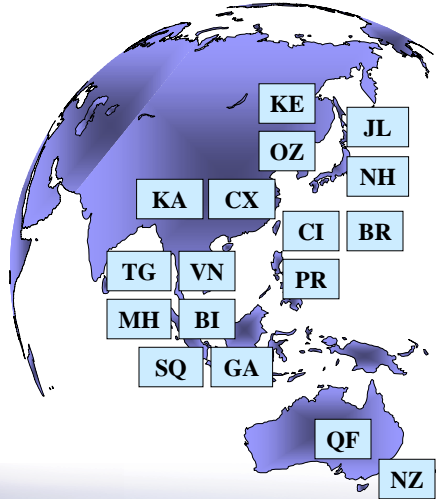
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AAPA's combined strength



- 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

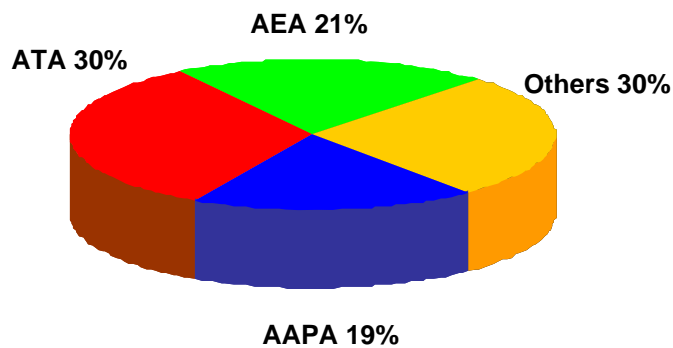


Over 800 flights per week

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AAPA global passenger traffic share

**Scheduled Systemwide
Revenue Passenger Kilometres 2004**

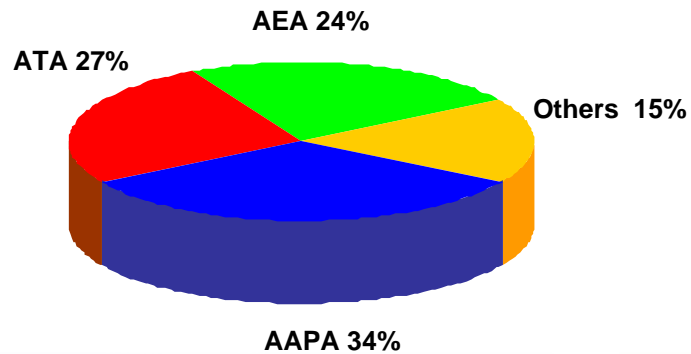


Source: IATA AAPA: Association of Asia Pacific Airlines, ATA: Air Transport Association of America, AEA: Association of European Airlines

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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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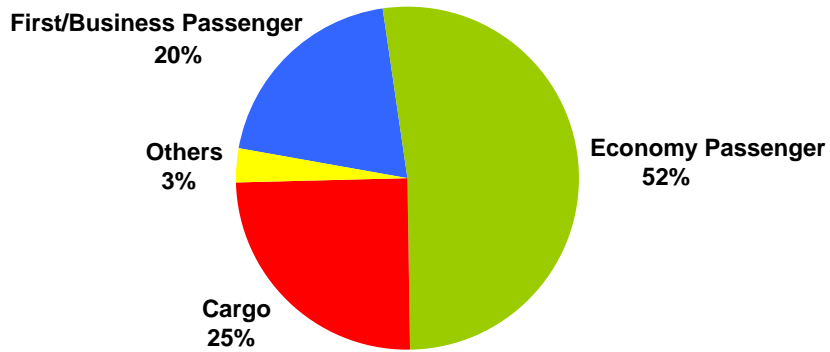
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Airline management: past lessons

- **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

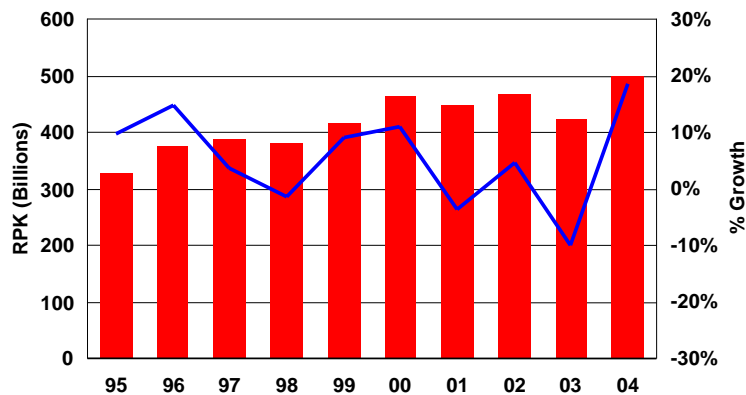


Source: AAPA FY2004 = April 2003 to March 2004

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AAPA's international passenger traffic 1995-2004

Scheduled International Revenue Passenger Kilometres 1995-2004



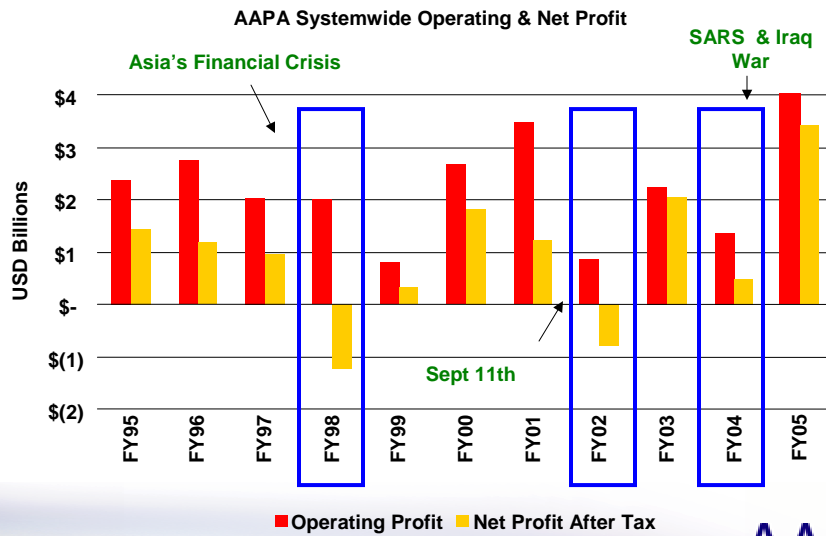
Strong recovery in passenger demand

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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

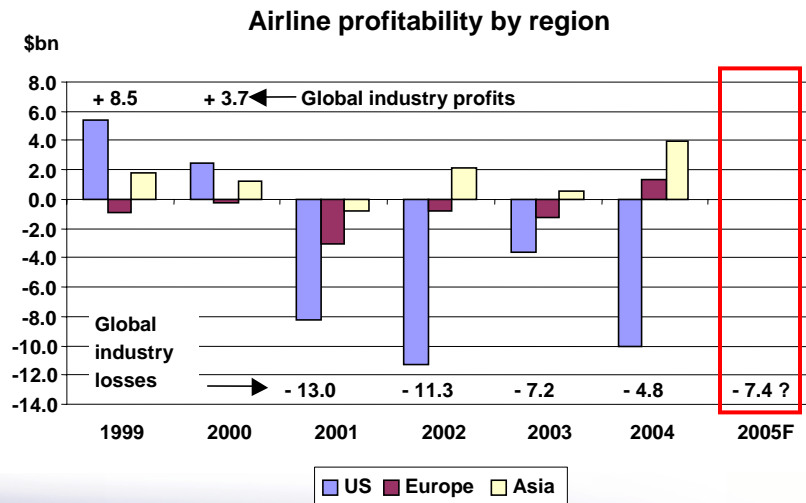


Source: AAPA (FY 2004: April 2003 to March 2004)

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?

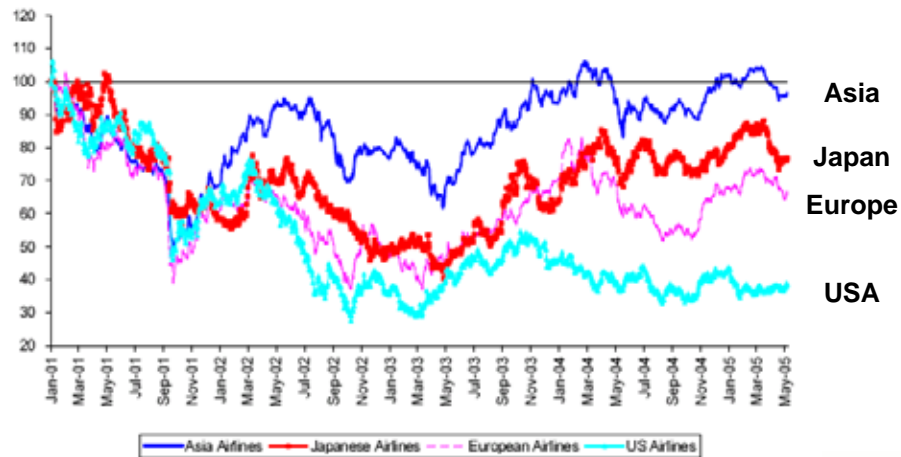
Airline profitability: mixed picture



Source: IATA

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	ATA (9)	5	85
	Southwest	11	7
	JetBlue	2	1
Europe	AEA (10)	24	69
	easyJet	2	2
	Ryanair	6	2
Asia Pacific	AAPA (12)	42	65
	Virgin Blue	2	1
	AirAsia	1	0.1

Source: Airclaims, Bloomberg, company data and AAPA estimates

Data: December 2004

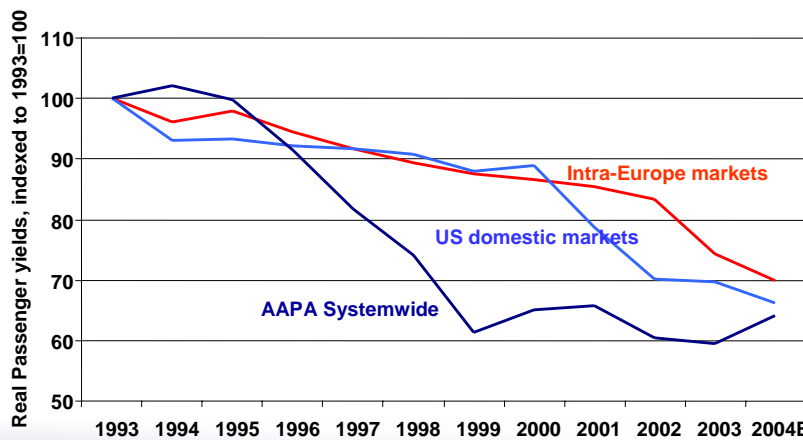
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Competition

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

Airfares do not keep pace with inflation

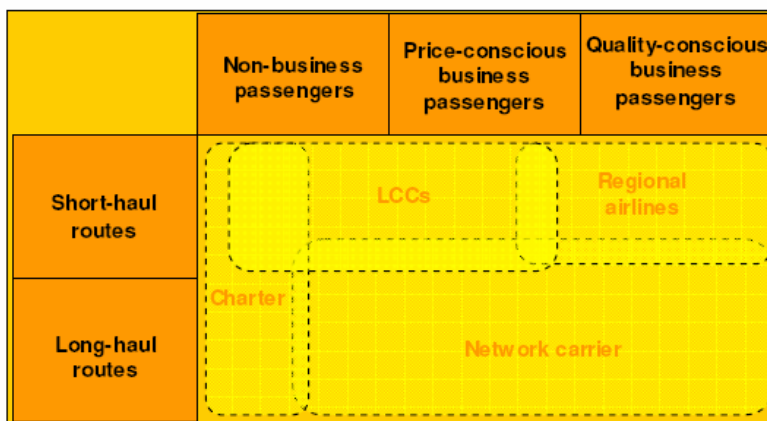
Real Passenger Yields have fallen by a third in the past decade



The changing marketplace

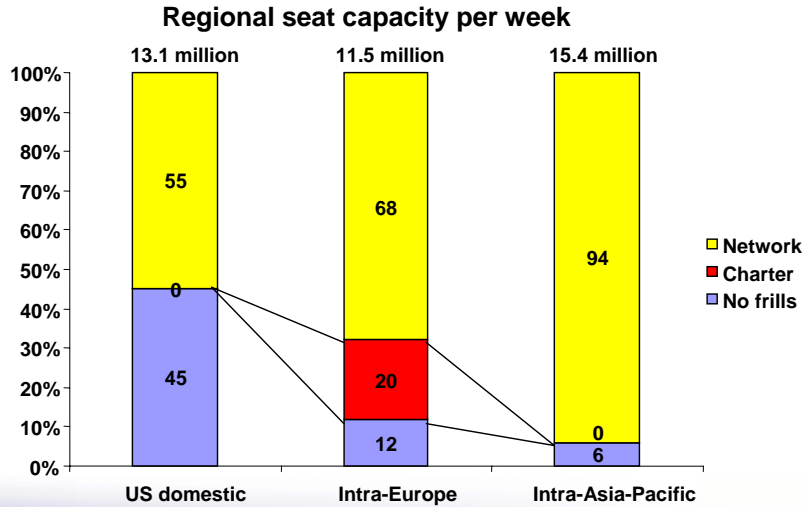
- Premium and long-haul markets
- Short-haul markets
- Competing business models
 - Network carriers
 - Charter carriers
 - Regional airlines
 - LCC's

Market segmentation



Source: Mercer Management Consultants 2003

Impact of new entrants



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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



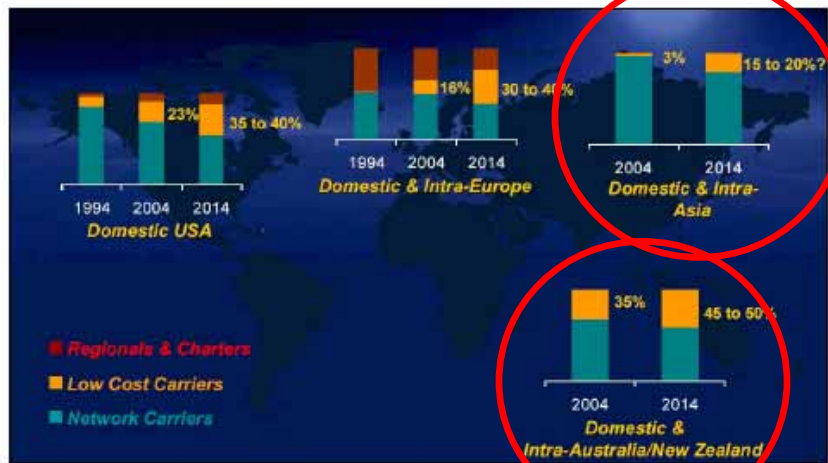
- 25 MD80/90s and 6 B737s
- Ordered 30 B737-900ERs



- 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



Premium and long haul segment

Key success factors:

- Safety and Reliability
- Cost competitiveness
- Network strength
 - Nonstop flights
 - Hub connections
 - Interlining
- Service leadership
 - Comfort
 - Refreshments
 - Entertainment
 - Recognition
- Flexible value for money fares
- Yield management focused on discounting



Network strength: premium long-haul traffic

- Pioneering new ultra long-haul routes
- Flight times over 15 hours

e.g. SIN – LAX SIN – NYC BKK – NYC



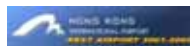
Source: Flight International

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Network strength: powerful Asian hubs

BANGKOK
International Airport

- 38 million passengers and 1 million tonnes of cargo



- 37 million passengers and 3 million tonnes of cargo

NAA
NARITA AIRPORT

- 31 million passengers and 2 million tonnes of cargo



- 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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AAPA: Service Leadership



1.  CATHAY PACIFIC

2.  QANTAS

4.  SINGAPORE AIRLINES

6.  Malaysia AIRLINES

7.  THAI

Global brand recognition

Asia Pacific carriers set the benchmark in service delivery

Continue to invest and innovate

Source: Skytrax World Airline Awards 2005

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Investing in products and services

- Inflight comfort
 - Seating
 - Cabin ambience
 - Inflight entertainment
 - Food and beverages



Airline – Supplier Relationships

- Critical importance of aligning objectives
- Both parties need to work closely together to deliver value to our customers
- Continuous efforts to reduce costs and improve operational effectiveness
- Willingness to develop fresh ideas and innovative service concepts
- Inflight catering is a logistical as well as a culinary challenge

As we are reminded when things do not go according to plan ...

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When trust breaks down, everyone suffers

BA to sack caterers it blames for chaos

BY SYLVIA PROFFER
BRITISH AIRWAYS is set to sack Gate Gourmet, the caterer whose dismissal of staff still employed by Heathrow airport last week, as its exclusive supplier of in-flight food.
The annual contract with Gate Gourmet, which is worth £220m per annum, runs out next year. It is understood that nobody is sure if it will be renewed.
It has been blamed for one of Britain's worst air disasters at airports around at about 1,000 of its staff walked out in a sacking Gate Gourmet

The loss of the contract, one of its biggest, will be a blow to Gate Gourmet, which has been losing £20m a year at its operations at Heathrow. It comes amid a bitter war of words between Sir Paul Ebbington, the chief executive of BA, and David Siegel, the chairman of Gate Gourmet, over who was to blame for the disruption.
Siegel told The Sunday Telegraph

just three years BA employees have taken illegal industrial action. They did it against their pay. It might be convenient to blame Gate Gourmet, I guess if it wasn't us, they would find some other excuse."
According to Siegel, Gate Gourmet, which is owned by Trans Pacific Group (TPG), the US private equity house founded by David Bonderman, has been struggling

that allow staff to be paid a holiday's pay for half a day's work.
"If they work eight hours, they get paid for at least 15," Siegel said. "You get paid for eight hours but some or four and then for the next four you get time and a half."
Ebbington said: "The bottom line is that there is a dispute between Gate Gourmet and the TPG board because Gate Gourmet has not

Working practices 'frozen in 1970s'

Continued from Page 3

Talks between Gate Gourmet and its workaholic, over-owned by the TPG, to introduce new practices had begun earlier this year.

Eventually a union proposal which would have led to staff hours and new pay and working conditions to face with

Disrupt brought to temporary workers to help cope with a spike in demand during the busy summer period. The company then dismissed staff employees, leading to the sympathy action by BA workers.

Siegel said Gate Gourmet's non-union working practices stemmed from its parent ownership under BA. The British flag carrier said he

Siegel added that just before TPG bought Gate Gourmet in 2012, BA took advantage of a change in local laws in its contract and struck a nasty wage agreement supply deal. As a result, when TPG eventually took control of Gate Gourmet it inherited a humiliating contract with BA.

"The fact that we are in quite a sticky to-on the one hand BA

also to dispute with unions in the US, had acted too aggressively last week. Some reports suggested the company had dismissed people by telephone and also misled people on redundancy and such issues.
"We did communicate by email to employees in some cases," he said, "but only after it had become an overly heated."



Gate Gourmet's chairman David Siegel

The caterers may be rubbish, but BA is to blame

A report that says the air caterer Gate Gourmet has been dismissed by British Airways (BA) is a blow to the company, which has been losing £20m a year at its operations at Heathrow. It comes amid a bitter war of words between Sir Paul Ebbington, the chief executive of BA, and David Siegel, the chairman of Gate Gourmet, over who was to blame for the disruption.
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Robert Pistor

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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-Jun 2005

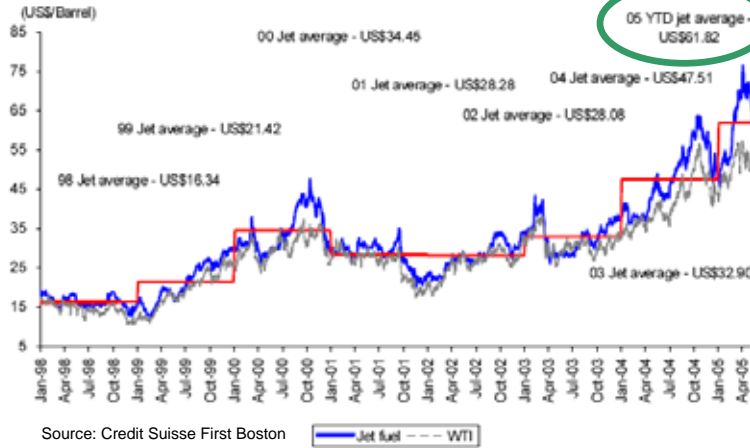
% Growth	IATA	AAPA	AEA	ATA
PAX	-	+ 7%	+ 5%	+ 12%
RPK	+ 9%	+ 6%	+ 6%	+ 12%
ASK	+ 7%	+ 6%	+ 5%	+ 11%
PLF	74%	72%	75%	79%
FTK	+ 3%	+ 4%	+ 3%	-

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	Airbus	IATA	Boeing	Airbus	IATA
	20-Year Forecast	20-Year Forecast	AAGR 2004-08	20-Year Forecast	20-Year Forecast	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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Andrew Herdman, Director General
ASSOCIATION OF ASIA PACIFIC AIRLINES
herdman@aapa.org.my
www.aapairlines.org