Asia Pacific Aviation: Brighter Skies

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ASSOCIATION OF ASIA PACIFIC AIRLINES

The Airline Industry's Financial Crisis
Eurocontrol Headquarters, Brussels
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Presentation outline

- Introduction to AAPA
- Past lessons
- Some global comparisons
- Our competitive edge
- 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

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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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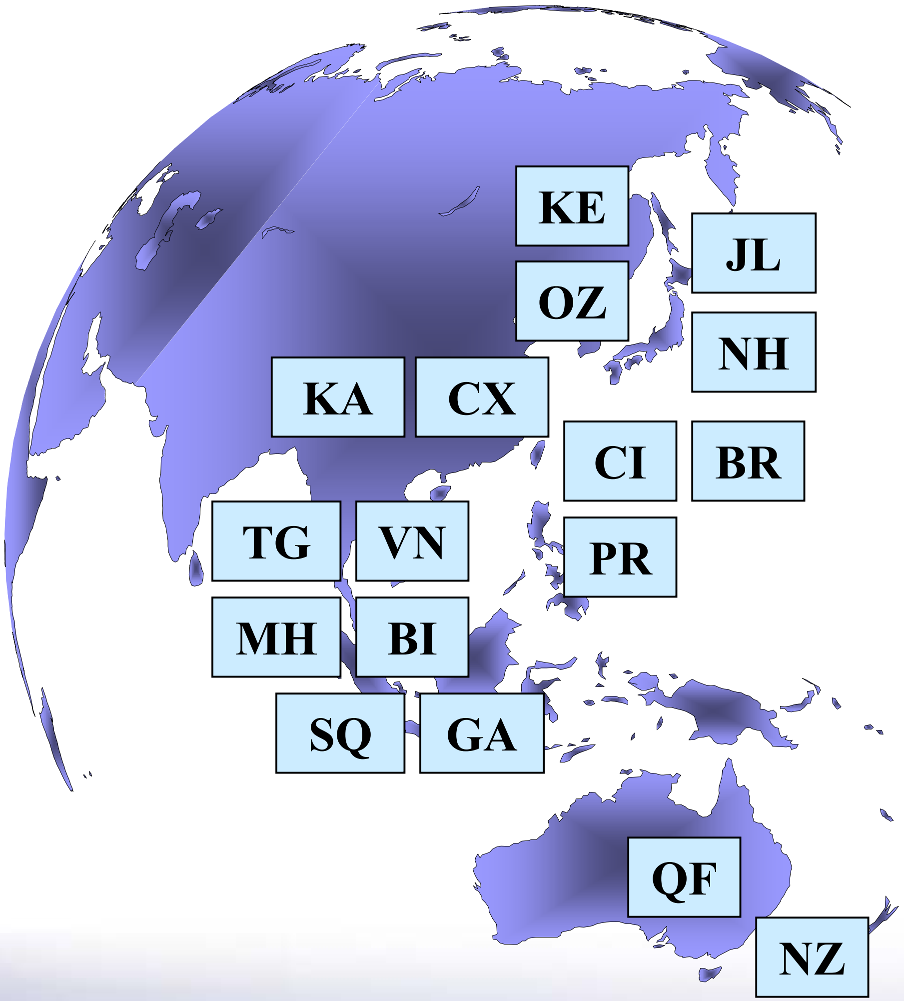
AAPA combined strength



- 17 airlines
- US$ 66 billion revenue
- US$ 4 billion profit
- 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**

Source: 2004 estimates

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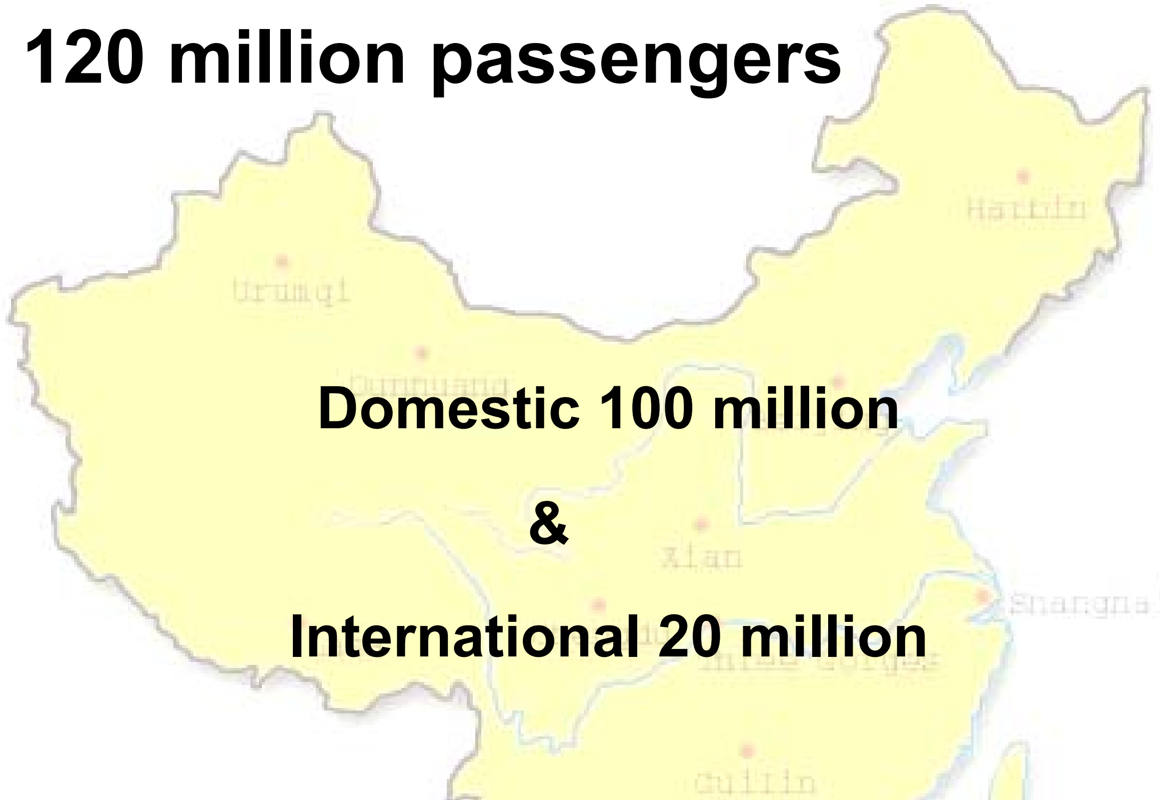
Mainland China aviation market



120 million passengers

Domestic 100 million

&

International 20 million

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

Source: CAAC 2004

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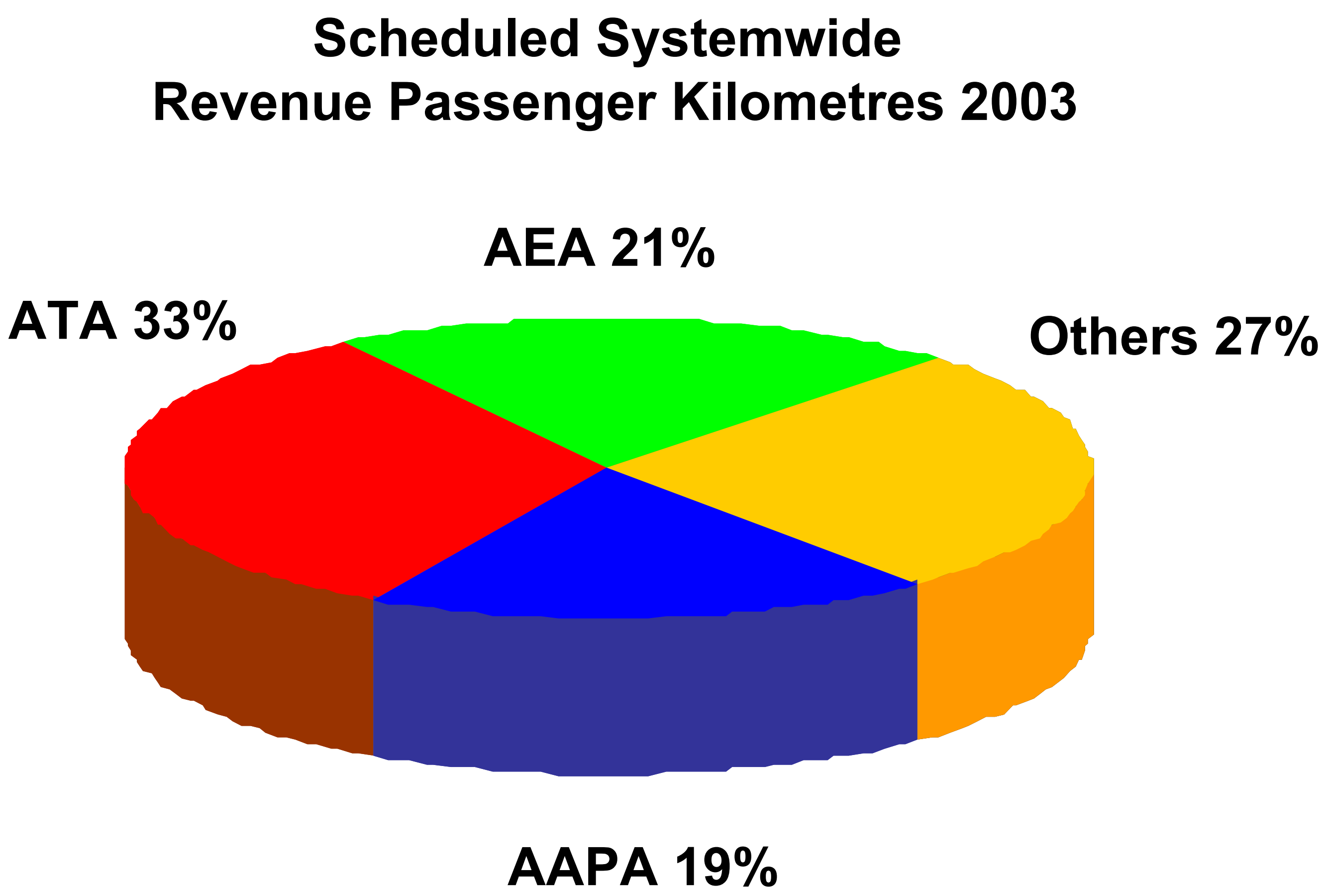
AAPA: Mainland China destinations

AAPA members serve a total of 28 Mainland Chinese cities

		Flights/Week
1.	Shanghai	280
2.	Beijing	168
3.	Xiamen	47
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

AAPA global passenger traffic share



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

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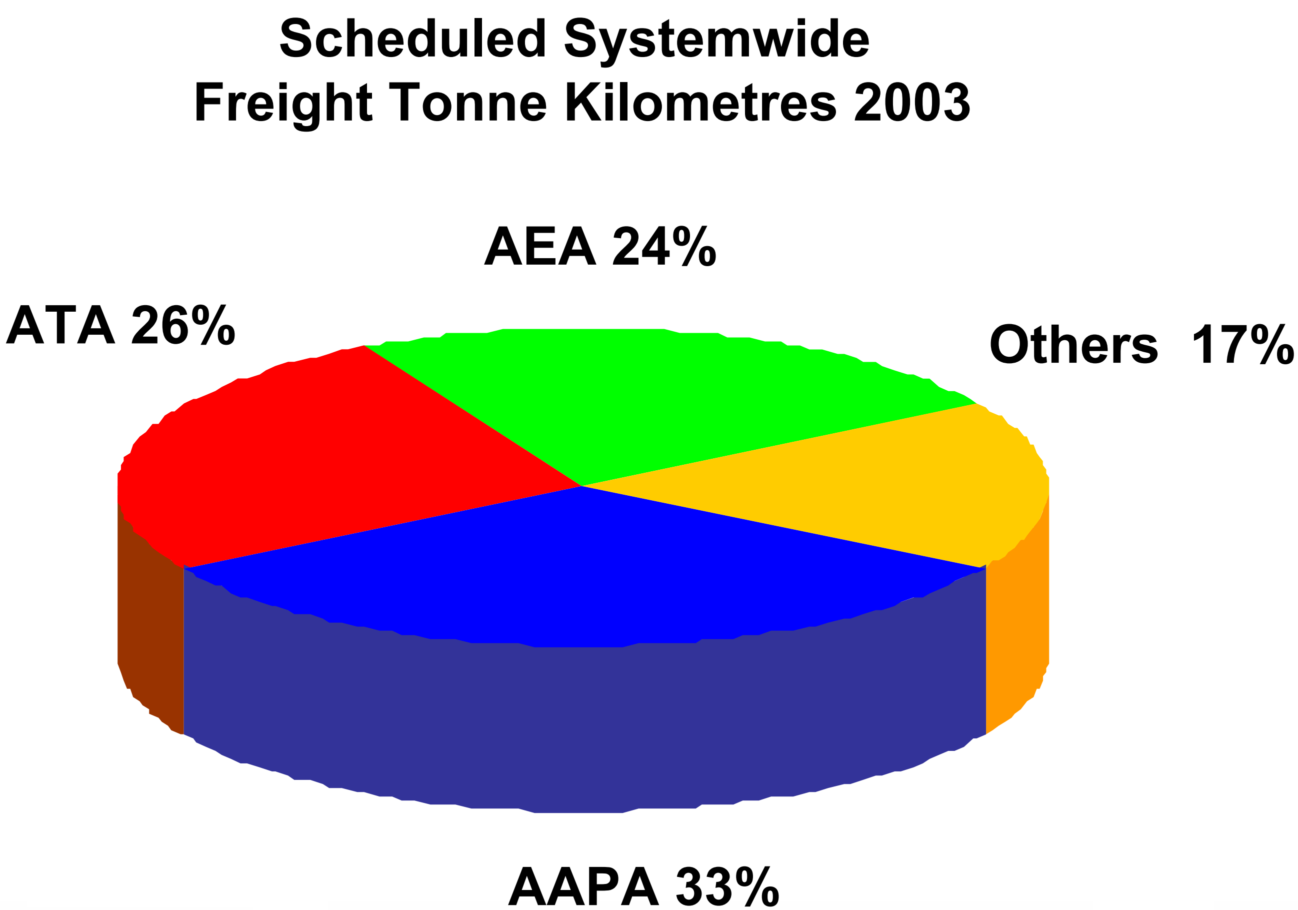
AAPA global freight traffic share



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

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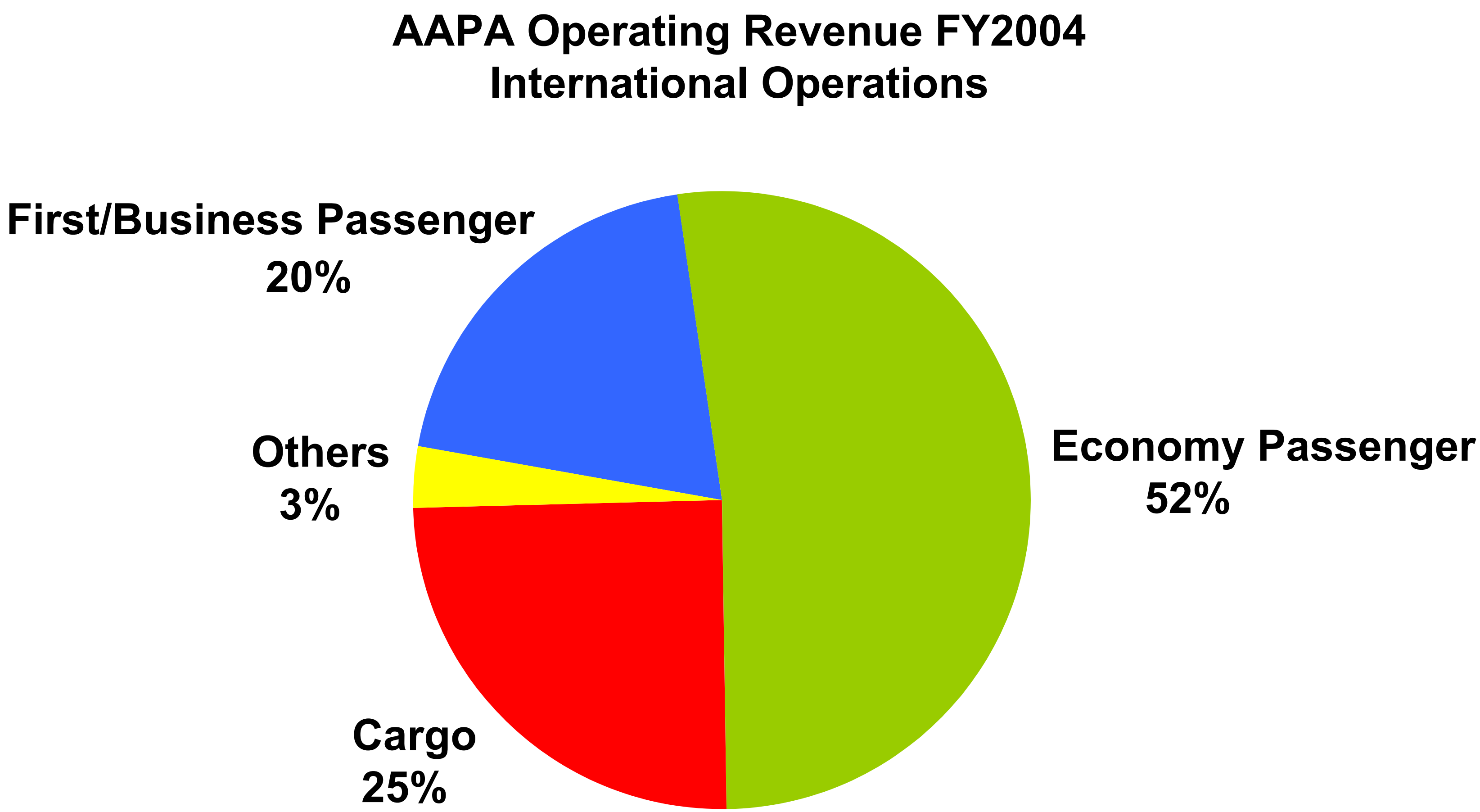
AAPA: Int'l revenue mix



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

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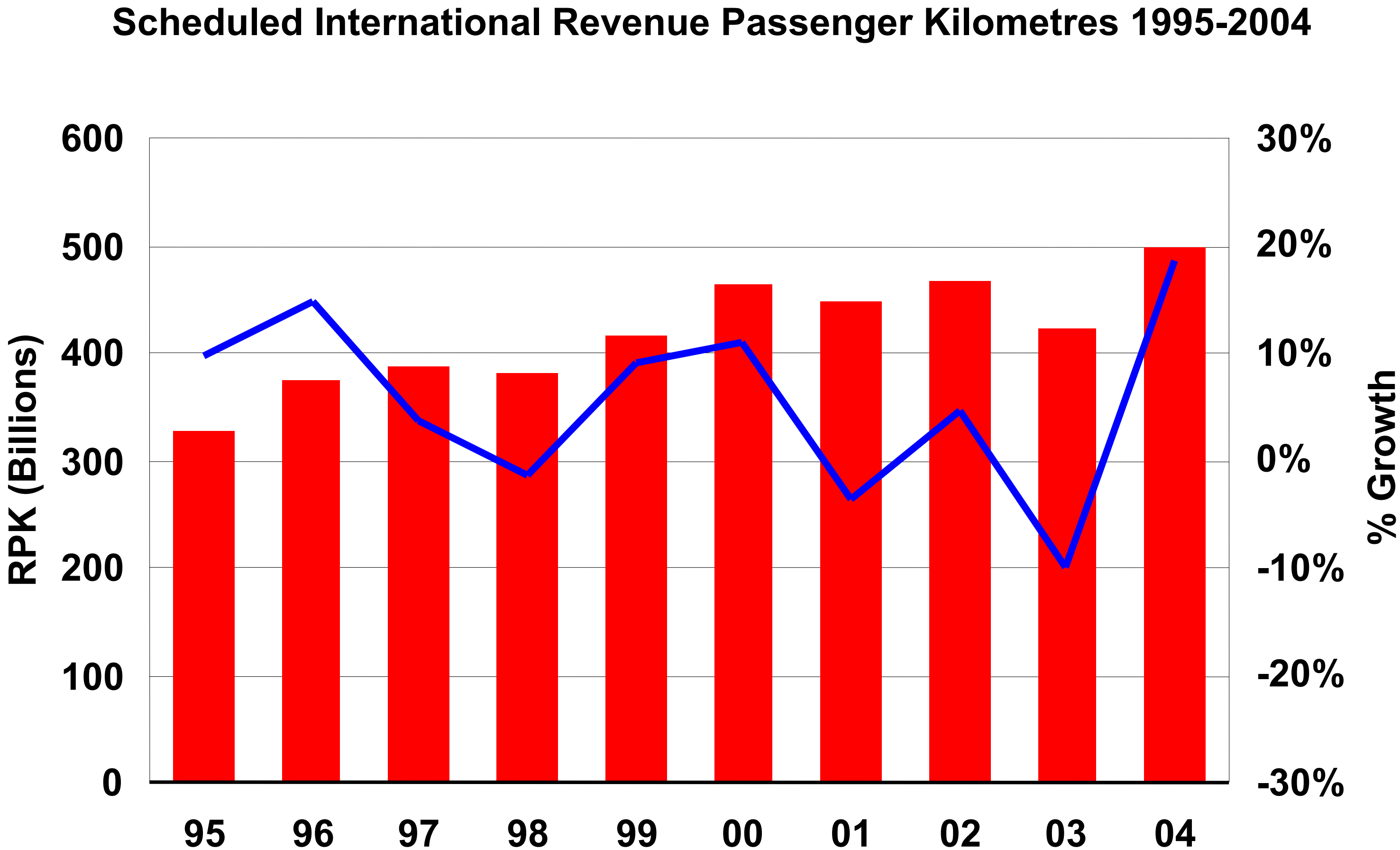
AAPA int'l passenger traffic 1995-2004



Strong recovery in passenger demand

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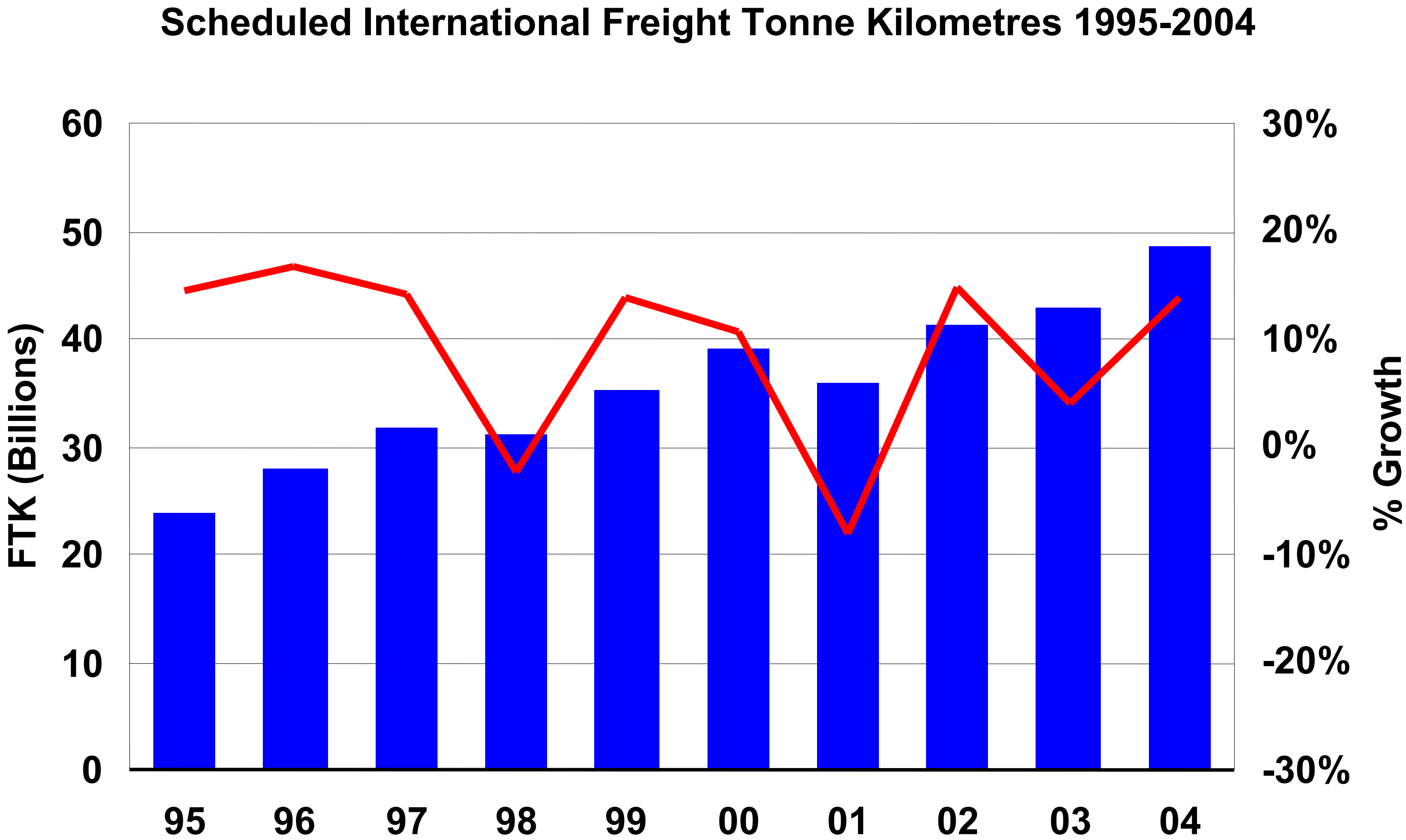
AAPA int’l freight traffic 1995-2004



Continued growth in cargo demand

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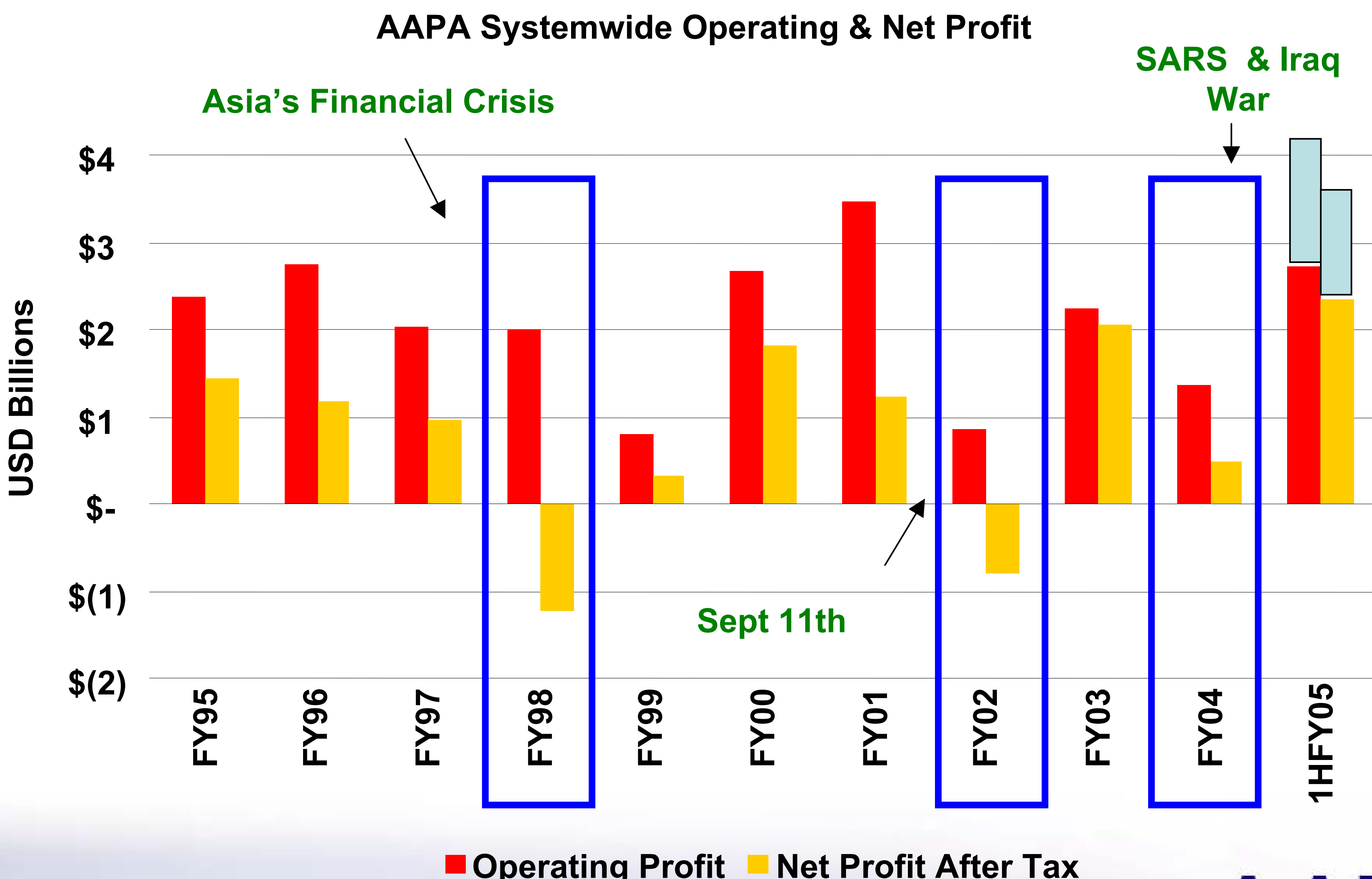
Lessons from 2004

- 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: Profitability trends



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

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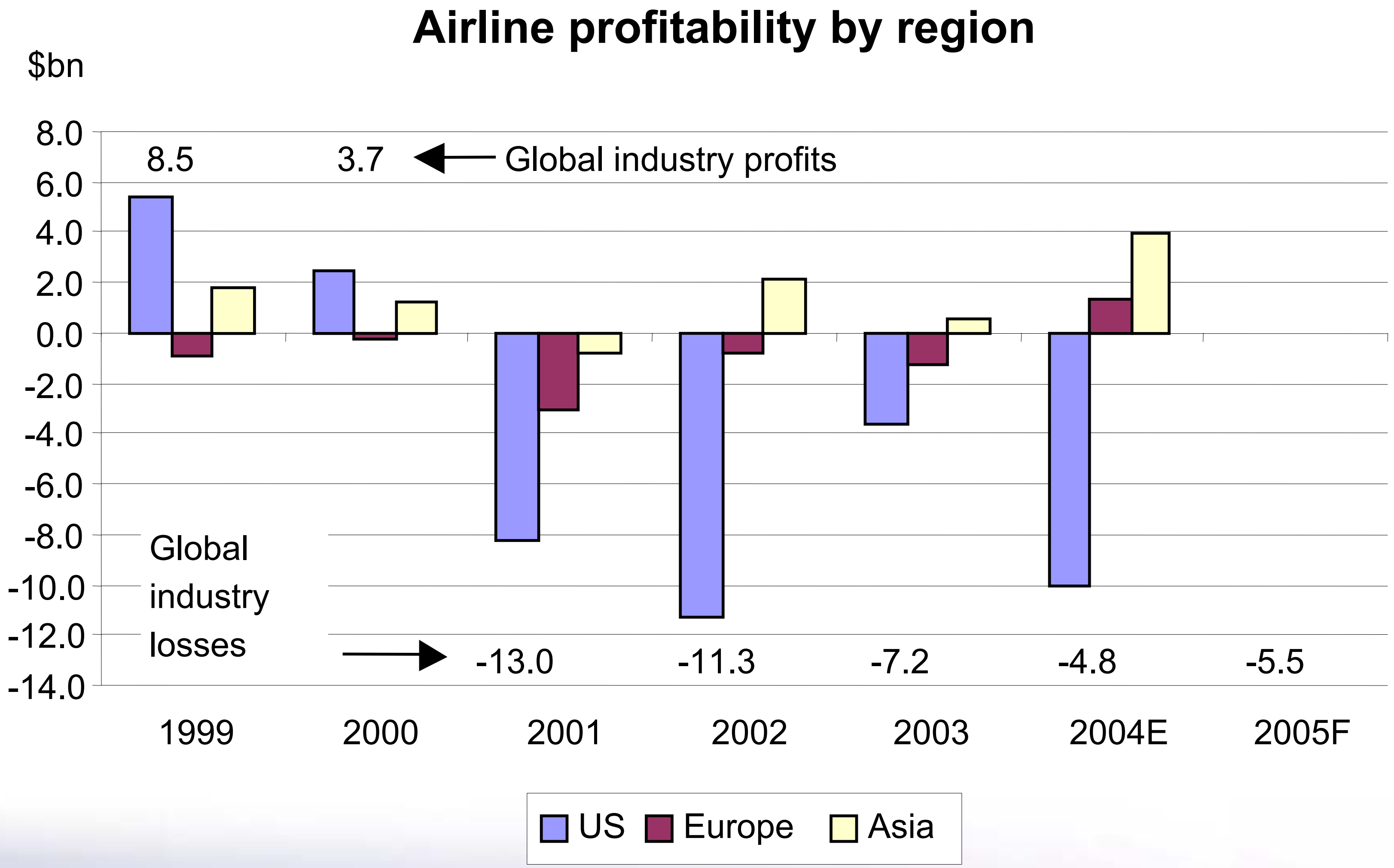
Some global comparisons

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

Airline Profitability: mixed picture



Source: IATA, AAPA

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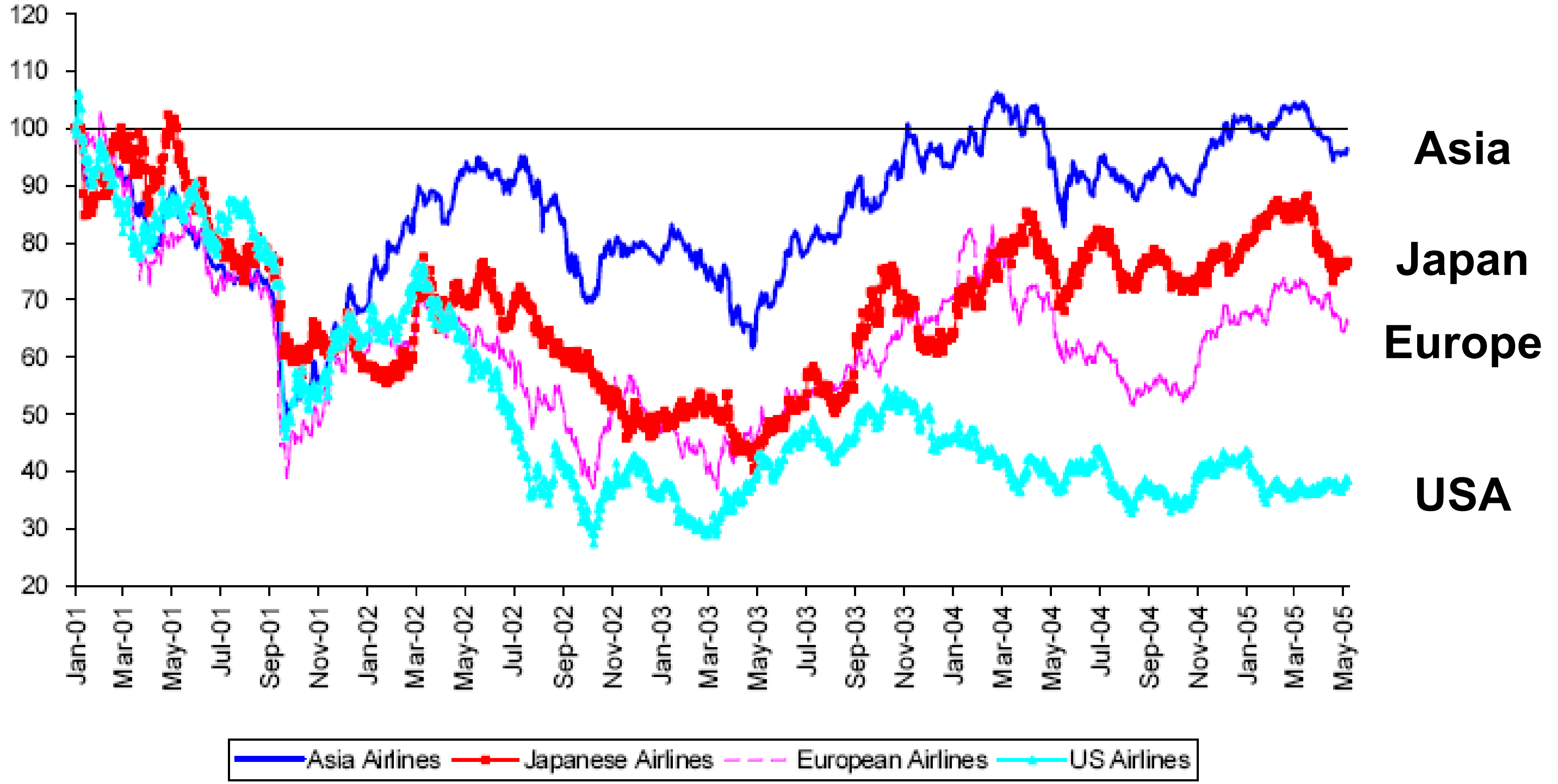
Airline valuations 2001-2005

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	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*

Data: December 2004

Source: Airclaims, Bloomberg, company data and AAPA estimates

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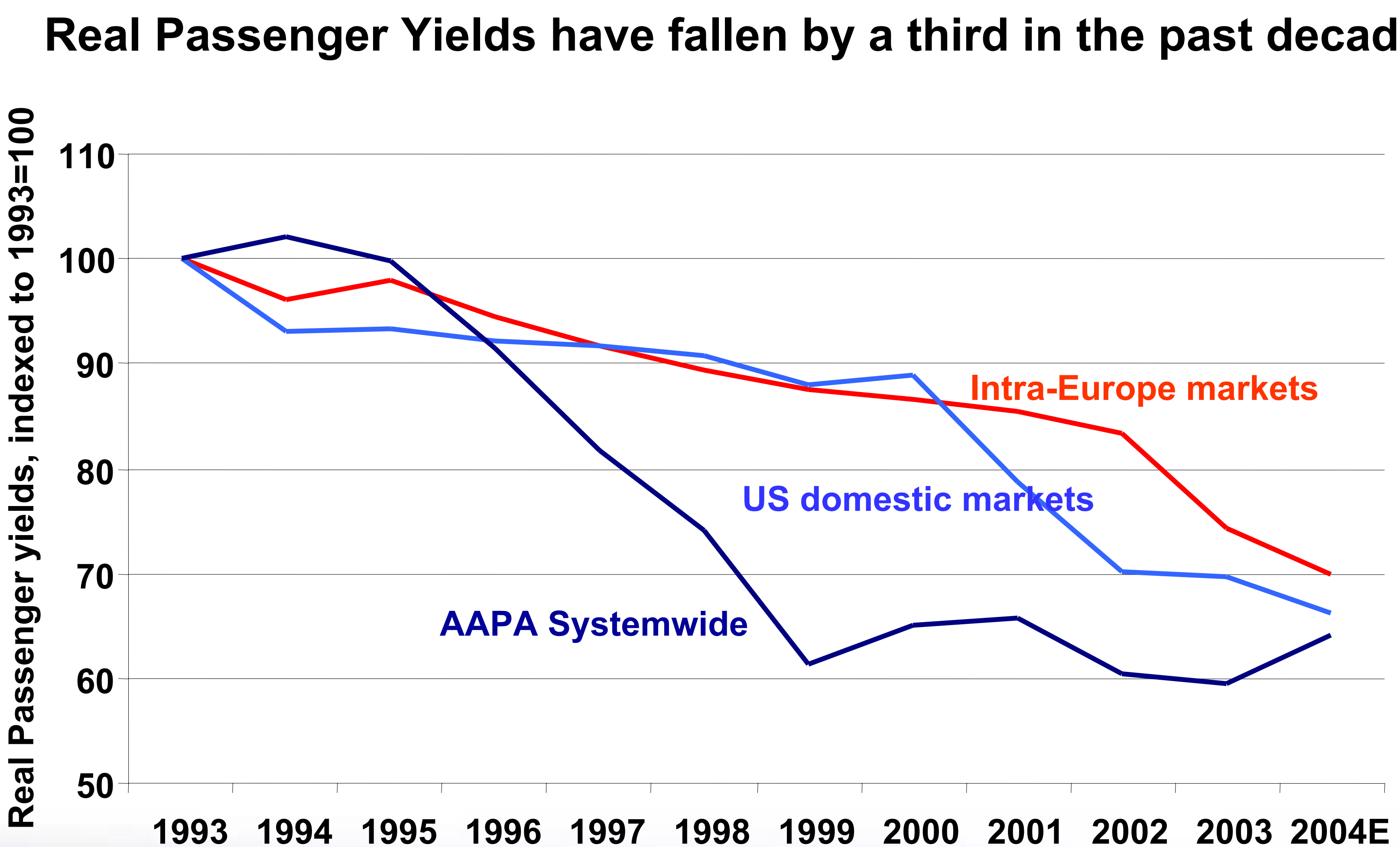
Competition

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

Airfares do not keep pace with inflation



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Airline performance metrics comparison

FY2003/04	AAPA	AEA	ATA
Average Fare US$ *	$179	$203	$119
Passenger Stage Length (km)	2,437	2,048	1,633
Average Passenger Yield (US cents/RPK)	7.3 ¢	9.9 ¢	7.3 ¢
Unit Revenue (US cents /ATK)	40.8	49.0	40.4
Unit Cost (US cents /ATK)	39.8	50.1	41.1

- Note the variations in average stage length
- Higher yields and costs in Europe partly reflect currency effects

* Include excess baggage revenue

Source: AAPA, AEA and ATA

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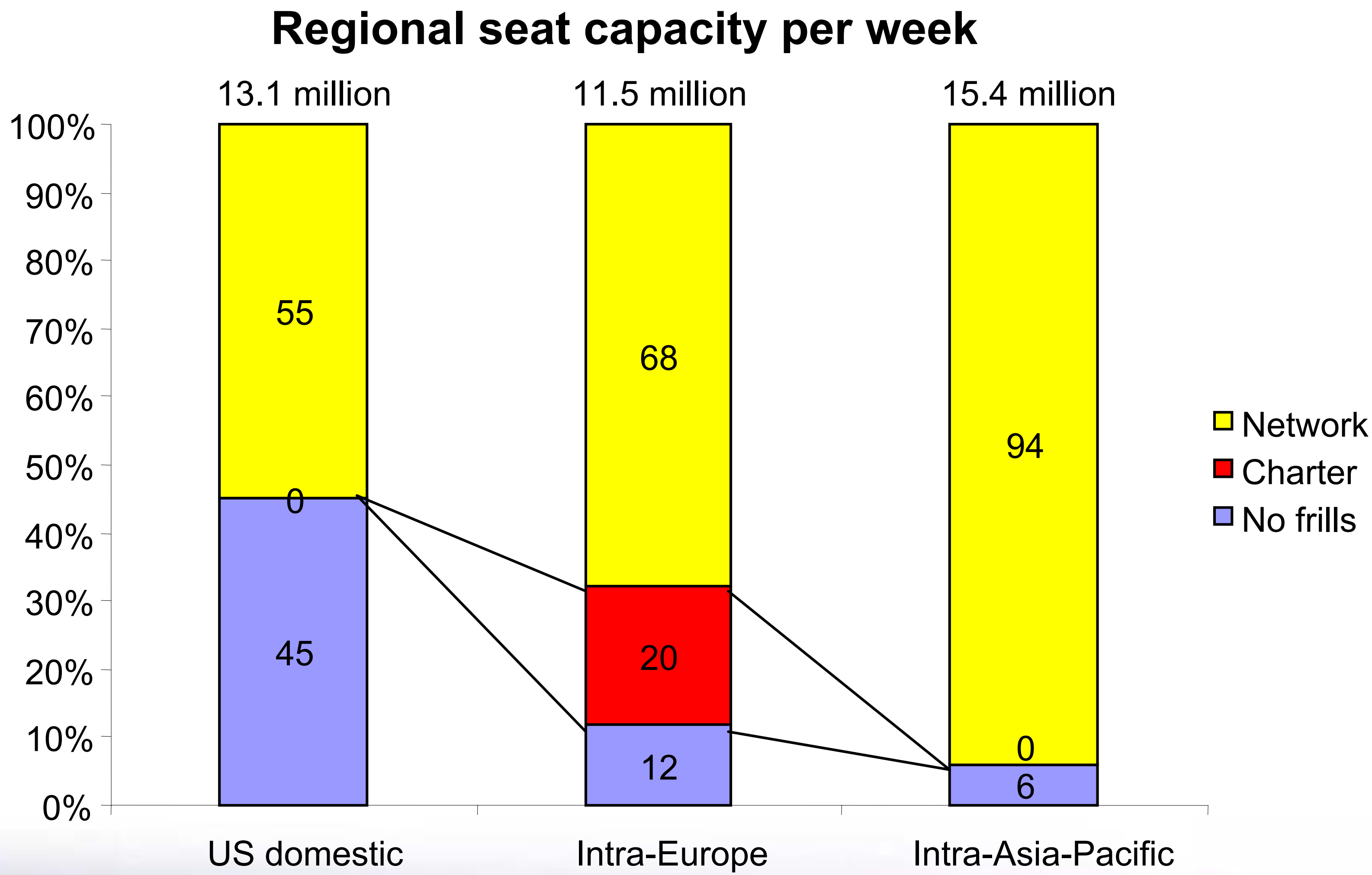
Impact of new entrants



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

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Proliferation of new entrants in Asia

AirAsia

Virgin blue

AWAIR

CEBU PACIFIC

nok

SNA Skynet Asia Airways

FREEDOM AIR INTERNATIONAL

One-Two-GO

tiger airways.com

Jetstar

pacific blue

Valuair

JetstarAsia

SKYMARK AIRLINES

Lion Airlines

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Proliferation of new entrants in Asia

- Some already well established e.g.
  - Virgin Blue (36 B767s)
  - AirAsia (28 B737s, ordered 60 A320s)
  - Lion Air (25 MD80/90s, 6 B737s)
  - Cebu Pacific (12 DC-9s)
- 20+ new carriers
- Serving more than 20 short-haul regional destinations
- Market penetration remains low
- Easy access to capital, but profitability remains elusive for many

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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 such an edge
  - Higher aircraft leasing costs
  - No surplus of skilled labour
  - Existing carriers already efficient in terms of aircraft utilisation
- Limited opportunities for regulatory arbitrage
- Liberalisation and relaxation of ownership rules encourage new entrants, but could eventually lead to industry consolidation

Established Asia Pacific 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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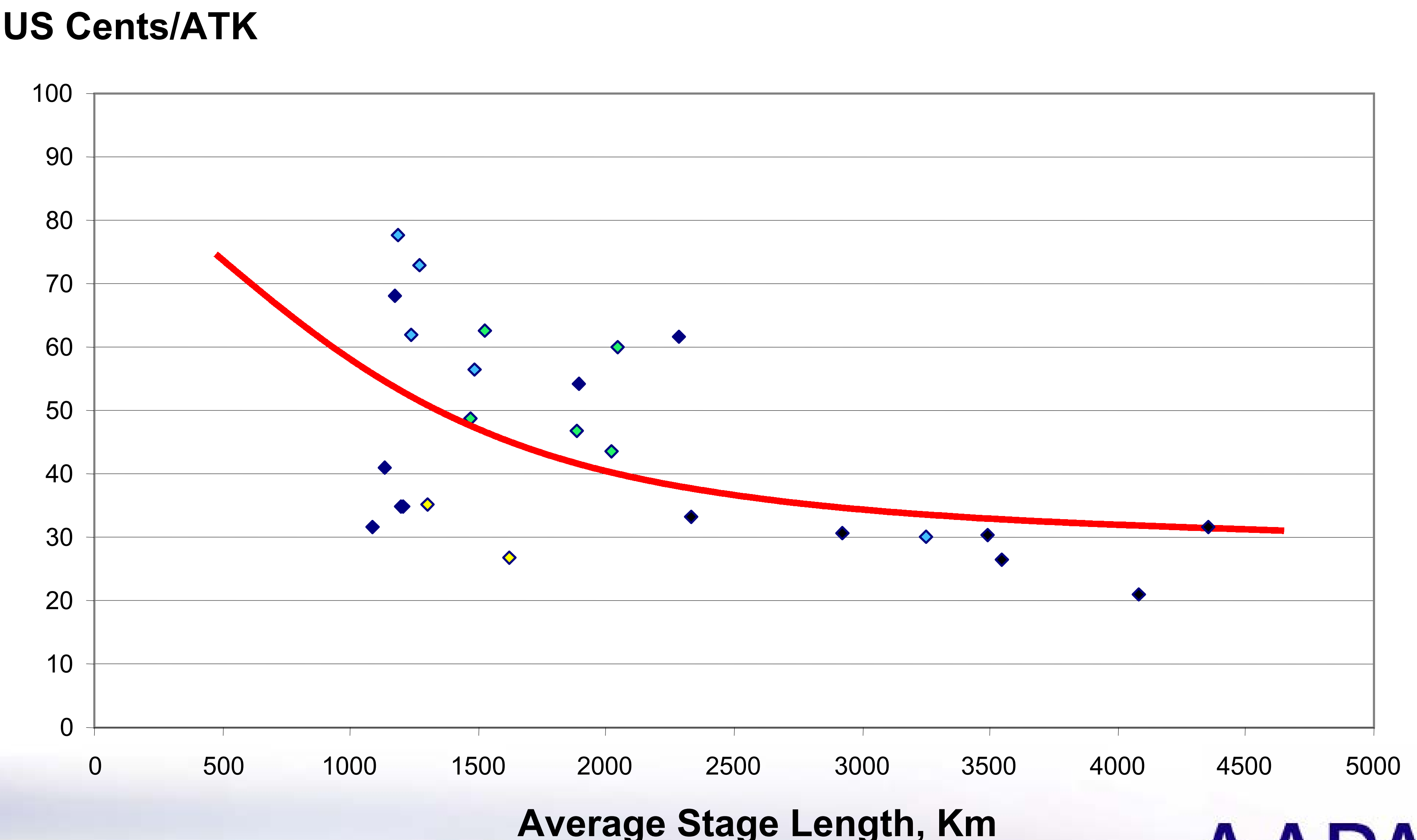
Operating costs per ATK



Source: Company reports, IATA, AAPA estimates

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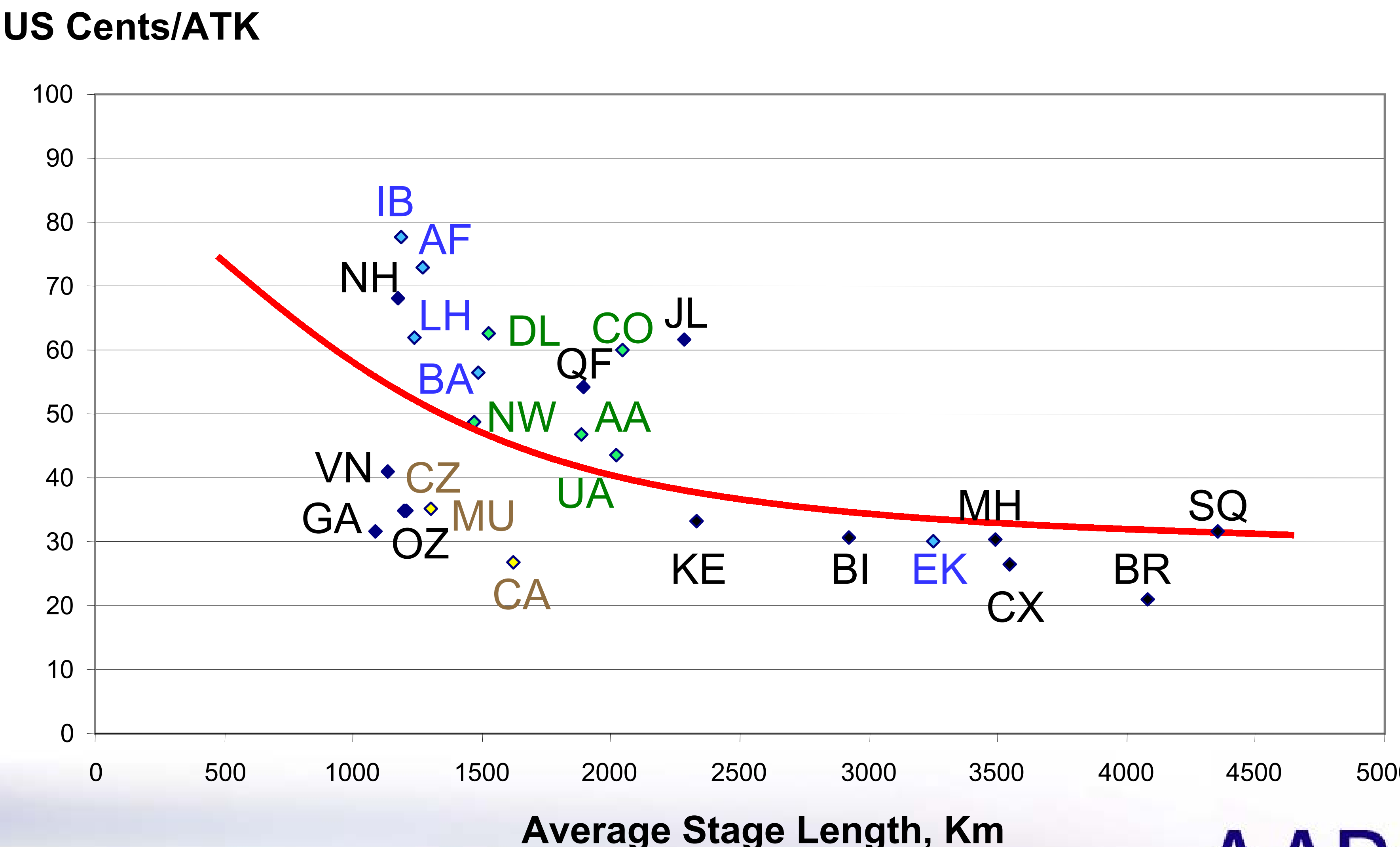
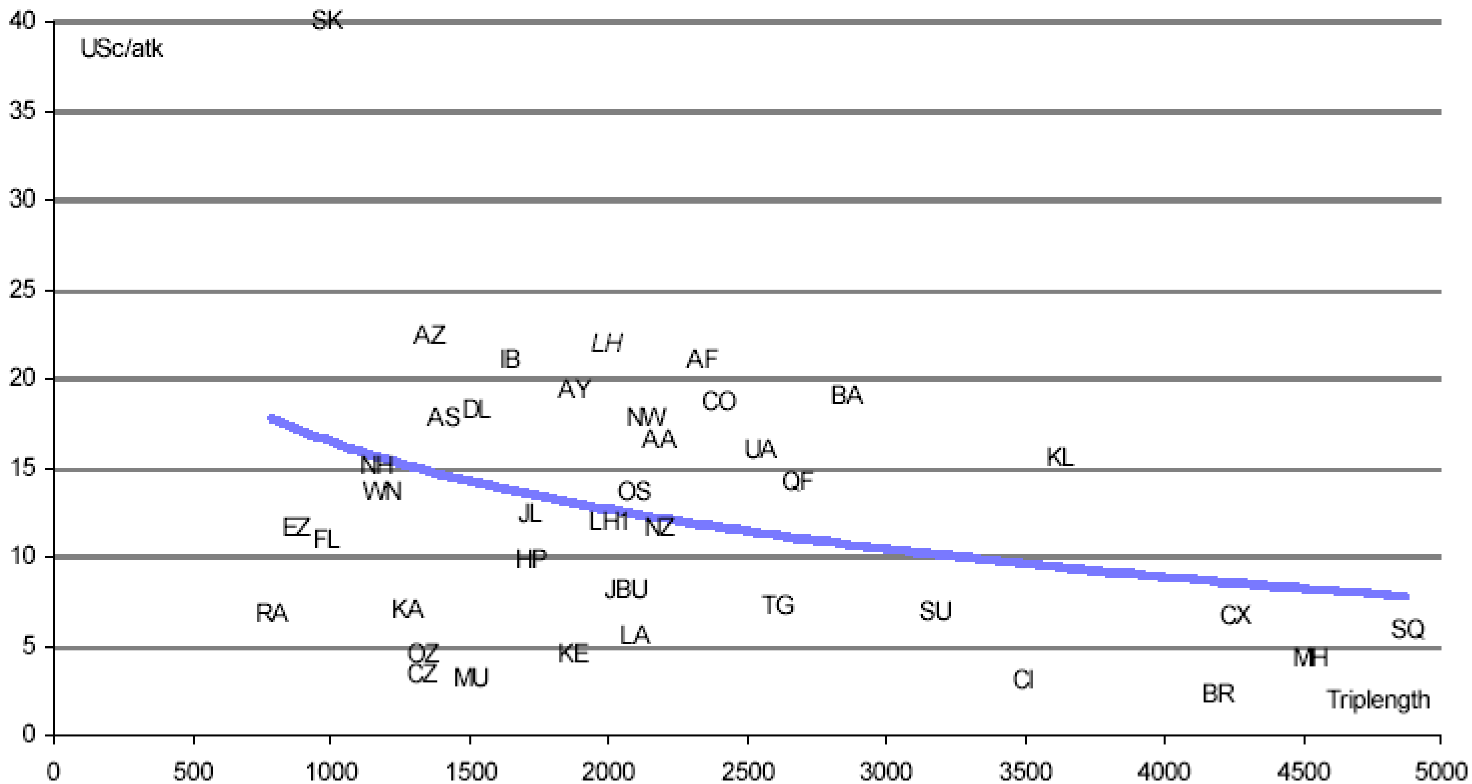
Operating costs per ATK



Source: Company reports, IATA, AAPA estimates

Airlines: relative labour costs



Source: UBS estimates

Asia Pacific carriers benefit from competitive labour costs and higher productivity

Source: IATA, UBS

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Future outlook: 2005

- Slowing global economy
- Asia Pacific should still lead, boosted by dynamic growth of China
- Persistently high oil prices may dampen demand
- Keen competition and more new entrants

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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Global industry structure

- Aviation is a mass transport business, and a key element of the modern global economy
- Yet overburdened by excessive regulations, taxes & charges
- Outdated bilateral regulatory framework
- Ongoing aeropolitical liberalisation but even amongst those preaching liberalisation, protectionist instincts too often prevail
- Ownership and control restrictions hold back consolidation and competition
- Structural inefficiencies persist, notably uncompetitive labour costs
- Other forms of protectionism and favoured treatment continue to distort the market

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A Brighter Future

- Genuine liberalisation
- Reducing complexity
- Greater harmonisation
- Moving towards a low cost industry
- Globalisation : industry consolidation

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But never forget: this is a great industry !

- 100 years ago the Wright brothers made their first flight
- 50 years ago: 9 million passengers
- Today: 1,800 million people flew safely last year

- Fares per seat mile are cheaper than driving a car

- Modern jet aircraft are as fuel efficient as compact cars

- Air cargo delivers 35% of global trade by value

Aviation has delivered incalculable benefits to society

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