

The logo for the Association of Asia Pacific Airlines (AOPA) features the letters 'AOPA' in a large, bold, blue sans-serif font. A thin horizontal line is positioned directly beneath the letters.

ASSOCIATION OF ASIA PACIFIC AIRLINES

Asia Pacific Aviation

Opportunities and Challenges

Andrew Herdman, Director General
3rd Annual Asia Pacific & Middle East Aviation Outlook Summit
Singapore, 9-10 November 2006

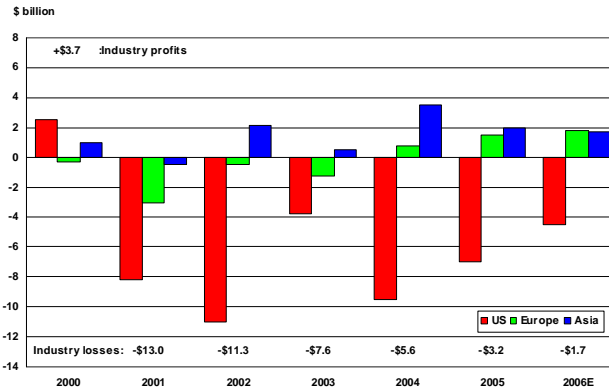
The top section of the page features a background image of a sunset or sunrise over a layer of clouds. The sky transitions from a pale yellow near the horizon to a soft blue at the top. The AOPA logo is overlaid on the right side of this image.

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Contents

- Asia Pacific airline industry
 - AAPA carriers
 - Chinese carriers
 - Low-cost carriers
- Regulatory Framework
 - US, EU perspectives
 - Asia Pacific perspectives
- Market outlook
 - Economic and tourism trends
 - Traffic outlook

The global airline industry



US losses slowly reducing

Source: IATA

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Asia Pacific Aviation

AAPA carriers

AAPA combined strength



17 airlines
US\$ 74 billion operating revenue
US\$ 1.6 billion operating profit
283 million passengers
 150 million domestic
 133 million international
10 million tonnes of cargo
1,370 aircraft

AAPA global market share:
18% global passenger traffic
33% global cargo traffic

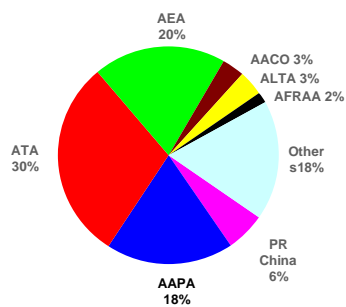
Data: 2005

Source: AAPA

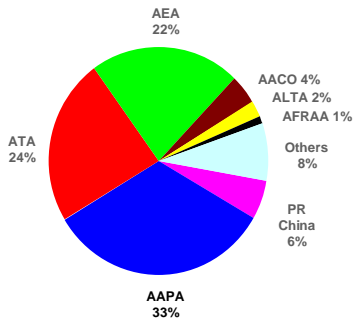


AAPA global traffic share

Revenue Passenger Kilometres
Scheduled Systemwide



Freight Tonne Kilometres
Scheduled Systemwide



Data: 2005

Source: ICAO, IATA, AAPA and various



AAPA financial results for FY2006



FY2006	US\$ billion	% Chg
Passenger revenue	50.6	+ 8%
Cargo revenue	13.1	+ 11%
Other revenue	10.0	+ 5%
Total op. revenue	73.7	+ 8%
Total op. expenses	72.1	+ 12%
Operating Profit	1.6	- 59%
Net Income	1.1	- 69%
Operating margin	2.2%	-
Net margin	1.5%	-

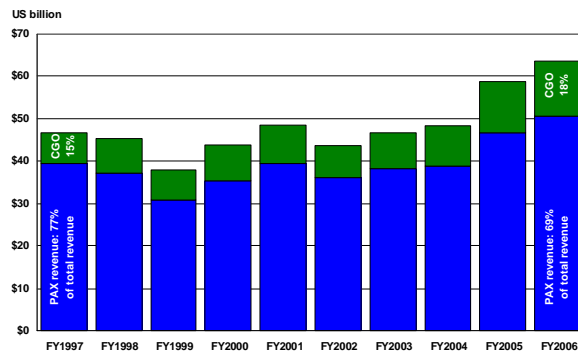
Falling margins as yields fail to keep pace with rising fuel costs

FY2006 = April 2005 to March 2006

Source: AAPA

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AAPA revenue trends



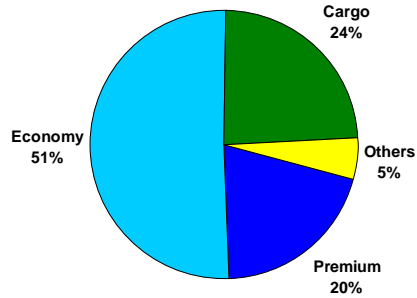
Robust revenue growth in FY2006

FY1997-2004 exclude KA and NZ, FY2005-2006 exclude KA

Source: AAPA

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AAPA revenue composition: international operations



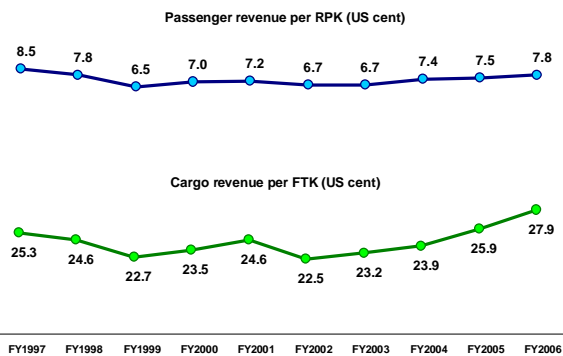
Diverse revenue mix

FY1997-2004 exclude KA and NZ, FY2005-2006 exclude KA

Source: AAPA

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AAPA yield trends

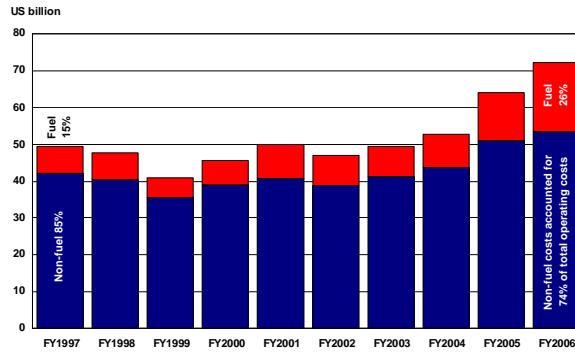


Yields rising but not keeping pace with fuel costs

Source: AAPA

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AAPA cost trends



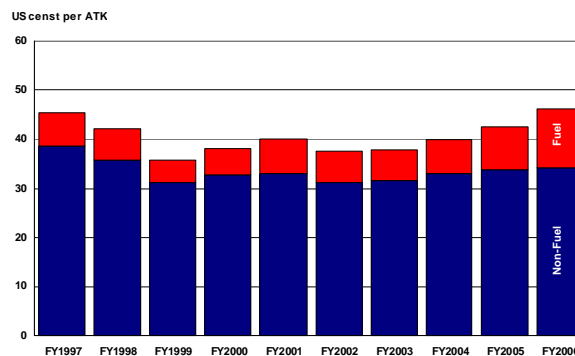
Fuel now accounts for 26% of total costs

FY1997-2004 exclude KA and NZ, FY2005-2006 exclude KA

Source: AAPA

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AAPA unit cost trends



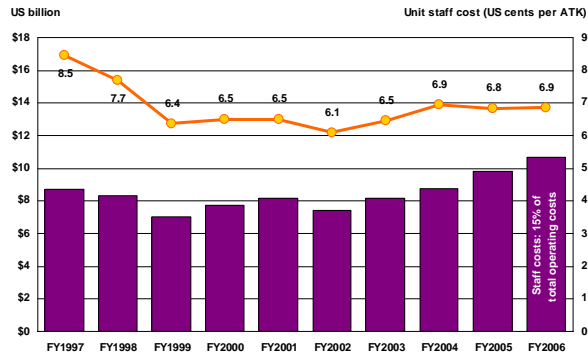
Non-fuel costs well contained

FY1997-2004 exclude KA and NZ, FY2005-2006 exclude KA

Source: AAPA

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AAPA staff cost trends



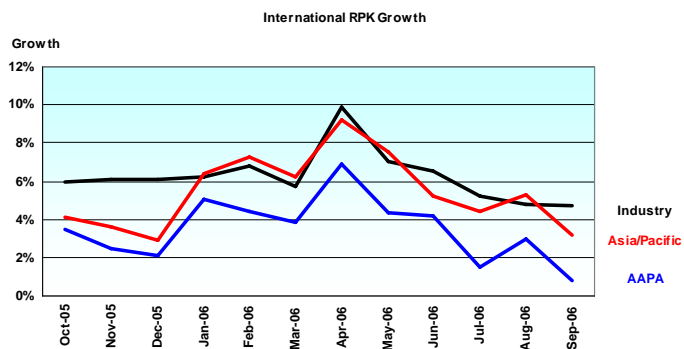
Rising staff costs offset by productivity gains

FY1997-2004 exclude KA and NZ, FY2005-2006 exclude KA

Source: AAPA

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International passenger growth trends

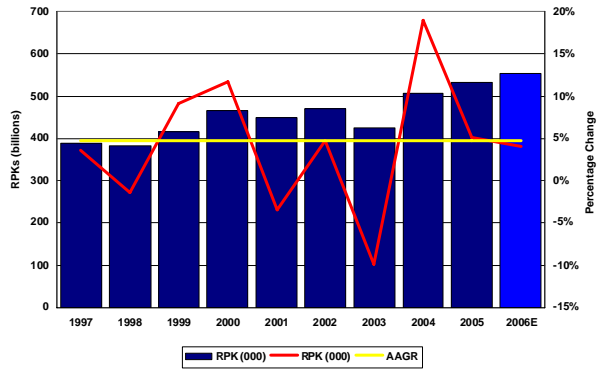


Passenger growth slowing

Source: IATA, AAPA

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AAPA international passenger traffic trends

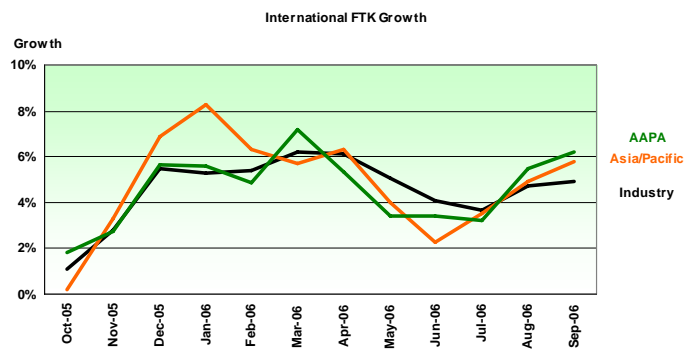


RPKs to grow by +4% this year, slightly below trend

Source: AAPA MIS (excludes NZ)

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International cargo growth trends

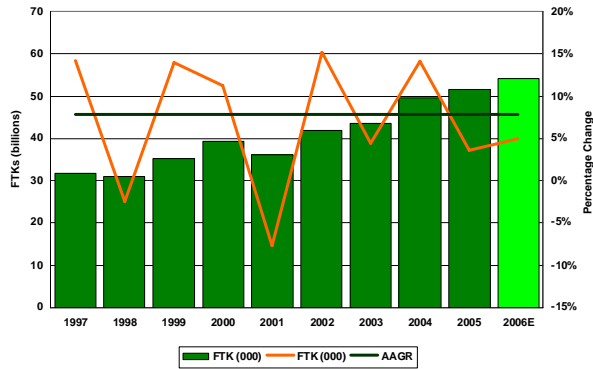


Steady but unspectacular growth

Source: IATA, AAPA

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AAPA international cargo traffic trends



Freight growth of +5% expected this year, well below recent trend

Source: AAPA MIS (excludes NZ)

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Asia Pacific Aviation

Mainland Chinese carriers
Low-cost carriers

Chinese carriers

Profitability	2005	Jan-Sep 2006
 AIR CHINA 中国国际航空公司	US\$ 300 m	US\$ 426 m
 中国东方航空股份有限公司 CHINA EASTERN AIRLINES CORPORATION LIMITED	- US\$ 58 m	- US\$ 123 m
 中国南方航空 CHINA SOUTHERN	- US\$ 230 m	US\$ 58 m

Chinese airlines profitability improving

Source: ATI 
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Quoted Asia Pacific LCCs

	Revenue	Profit	
	9-mth to Jun06	US\$ 1.1 b	US\$ 65 m
	18-mth to Sep05	US\$ 2.0 b	US\$ 130 m
	FY2006*	US\$ 236 m	US\$ 35 m
	FY 2005	US\$ 184 m	US\$ 31 m

* FY2006 = July 2005 to June 2006

Source: ATI 
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Asia Pacific aviation – combined overview



AAPA + non-member airlines

US\$ 110 billion operating revenue

US\$ 2 billion operating profit

510 million passengers

340 million domestic

170 million international

13 million tonnes of cargo

3,270 aircraft

Global market share:

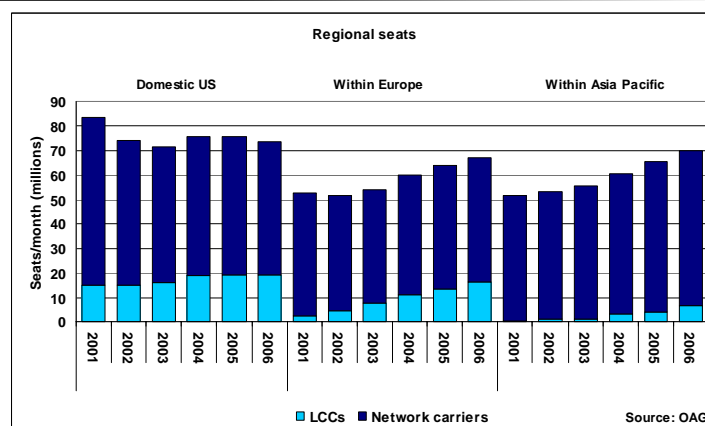
28% global passenger traffic

41% global cargo traffic

Data: 2005 estimates for combined AAPA + non-AAPA airlines GMT+5 to GMT+12

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Impact of low-cost carriers by region



Asia Pacific LCC penetration still only 9%
but growing

Source: OAG **AAPA**
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LCC evolution: signs of convergence

No-frills
 Ticketless
 Free-seating
 Single-class
 Internet booking
 Point-to-point
 Short-haul
 Single fleet type
 Secondary airports



Some-frills
 Ticketless
 Assigned seats
 Mixed-class
 Internet booking
 Point-to-point
 Medium-haul
 Mixed fleet type
 Primary airports
 Lounges
 Frequent Flyers



With-frills
 Ticketless
 Assigned seats
 Mixed-class
 Internet booking
 Interlining
 Long-haul
 Mixed fleet type
 Primary airports
 Lounges
 Frequent Flyers
 Alliance
 Code-shares
 Cargo

Domestic, regional



Global

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LCC evolution: longer haul operations?

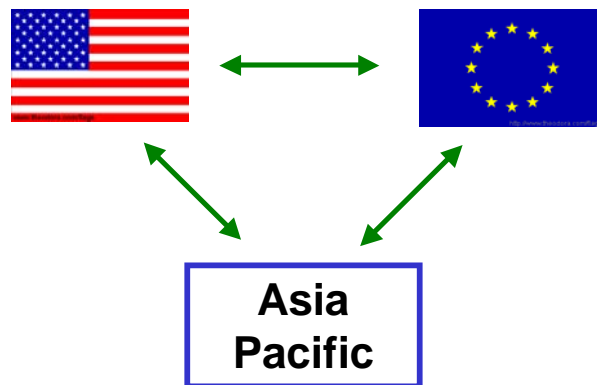


Still unclear if the business model offers similar advantages

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Regulatory framework

Global regulatory influences



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

US and EU: regulatory perspectives

- US mainly driven by domestic political concerns
 - Safety, led by FAA
 - Security, led by DHS/TSA
 - Open (your) Skies
- EU also mainly driven by 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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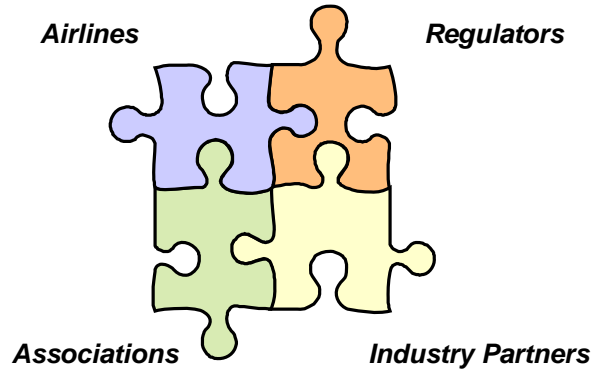
Asia Pacific: regulatory perspectives

- Highly diverse region: multiple governments and regulators
- Need for co-operation on multilateral basis engaging various stakeholders
- Strengthen collaboration to enhance airline safety and security, reliability, economy and efficiency
- Harmonisation is more about sharing best practices before legislating, not about resolving differences after unilaterally imposed regulations

**Positive bias towards consensus, but sometimes
slows the process**

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Working together



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Aviation: aeropolitical regulations

- Still governed by an outdated bilateral framework
- National ownership and control restrictions
- Holds back consolidation
- Progressive liberalisation, but protectionist sentiments often still evident
- Affects all airlines, both established carriers and new entrants

Need to ensure that the evolution of the regulatory framework keeps pace with industry needs

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Market outlook

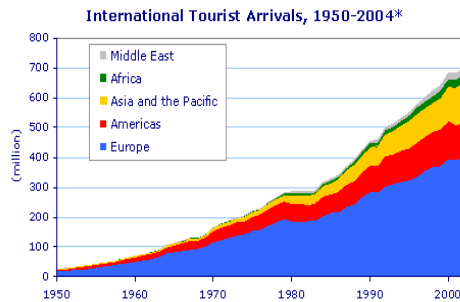
Economic trends

- Growth in Asia this year remains robust, especially in China and India
- Japan's recovery boosts imports from Asia
- Inflation in the region well contained, despite higher oil prices
- Investors positive on regional fundamentals
- Outlook for exports positive, but expected to moderate in 2007 in line with the slowdown in the US

**IMF forecast global growth of +4.9%
and Asia +7.1% in 2007**

Source: IMF

Tourism trends



- Worldwide arrivals +5.5% to over 800 million
- Annual growth rate +6.5%
 - Asia Pacific +13%

Global tourism to grow 4-5% in 2006
Asia Pacific +9%

Source: UNWTO

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Traffic outlook: 2005-2009

	AAGR 2005-09	
	Passenger	Freight
North Atlantic	5.3%	4.6%
Trans Pacific	5.8%	6.0%
Within Europe	5.1%	4.1%
Within Asia Pacific	6.8%	8.5%
Europe to Asia Pacific	5.9%	5.7%
Europe to Africa	5.7%	4.5%
Middle East to Europe	6.6%	5.1%
Middle East to Asia Pacific	6.7%	8.8%
North America to Latin America	4.6%	3.7%
Within Latin America	4.2%	5.0%
All International Routes	5.6%	6.3%

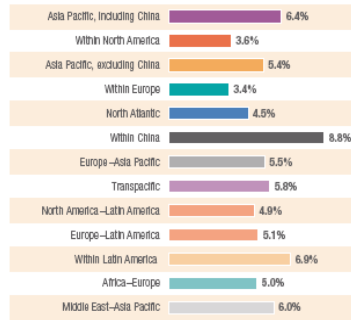
Intra Asia Pacific growth expected to remain strong

Source: IATA

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Long-term forecast: 2005-2025

ANNUAL GROWTH RATE, 2005-2025



WITHIN OR BETWEEN REGIONS >>

Forecast growth remains strong for Asia Pacific, boosted by China

Source: Boeing

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Thank You

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