

Trends in Asia & Global Aviation **Growth, competition & risk management**

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ASSOCIATION OF ASIA PACIFIC AIRLINES

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Presentation Outline

- **Introduction to AAPA**
- **Lessons from 2004**
- **Future Growth**
- **Industry challenges**
 - **Competition**
 - **Risk Management**



Role of AAPA

- **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**

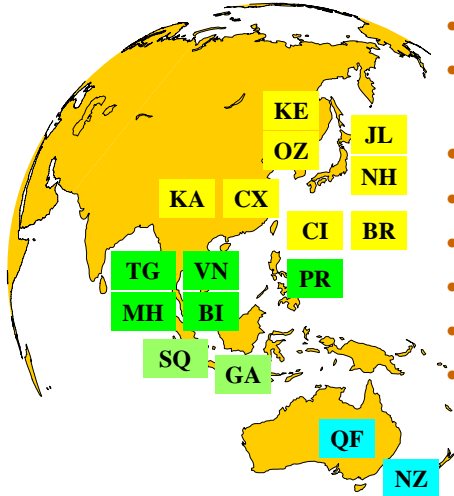


AAPA Association of Asia Pacific Airlines





AAPA Combined Strength

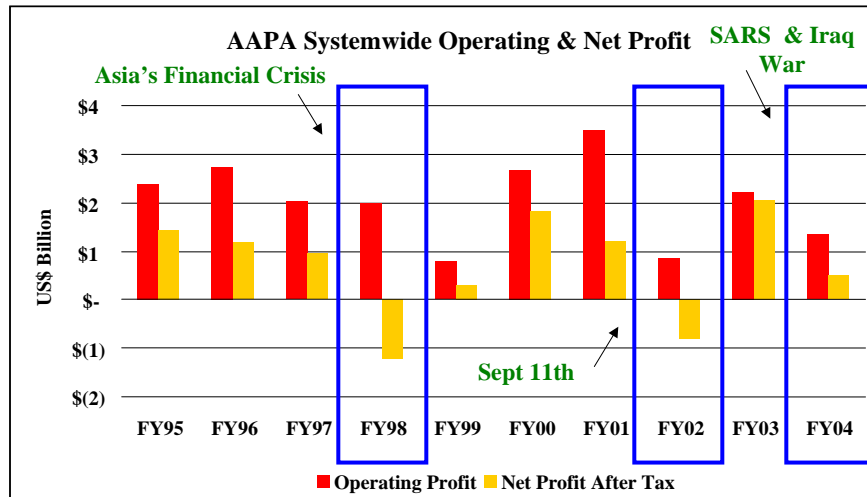


- 17 airlines
- US\$ 65 billion operating revenue
- ~ US\$ 3 billion profit
- 255 million passengers
- 10 million tonnes of cargo
- 190,000 employees
- 1,273 aircraft
- **Global Market Share**
 - ~21% of global passenger traffic
 - ~34% of global cargo traffic

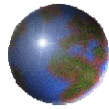
Data: 2004 Preliminary Estimates



AAPA: Profitability Trends

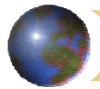


Source: AAPA Annual Statistical Reports (FY04 = April 2003 to March 2004)

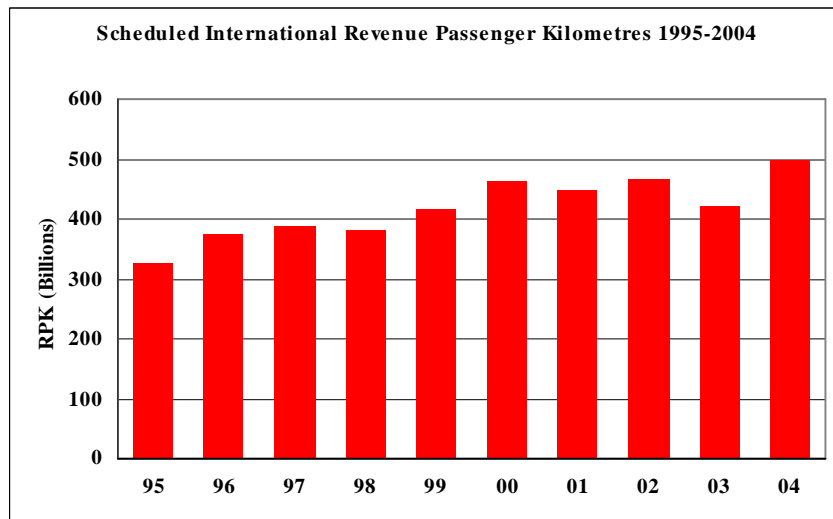


Lessons from 2004

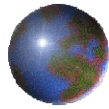
- Good global economic growth
- Strong recovery in passenger demand



AAPA Int'l Passenger Traffic 1995 – 2004



Source: Association of Asia Pacific Airlines

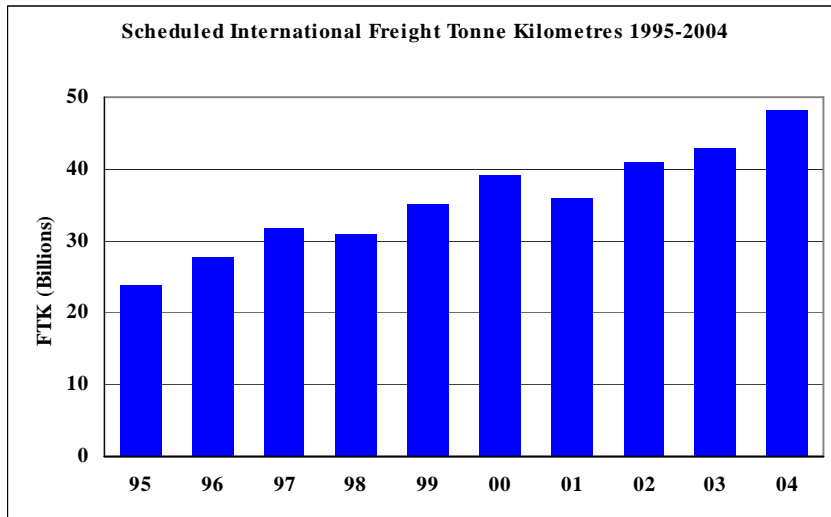


Lessons from 2004

- Good global economic growth
- Strong recovery in passenger demand
- Continued growth in cargo demand



AAPA Int'l Freight Traffic 1995 – 2004



Source: Association of Asia Pacific Airlines

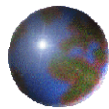


AAPA International Traffic 2004

	2004	% Growth
Passengers Carried (mn.)	117	+22.5%
Revenue Passenger Kilometres (bn.)	500	+18.6%
Available Seat Kilometres (bn.)	682	+12.8%
Passenger Load Factor (%)	73.3%	+3.6 Pts
Freight Tonne Kilometres (bil.)	48	+12.9%
Avail. Freight Tonne-Kilometres (bil.)	72	+12.4%
Freight Load Factor (%)	67.2%	+0.3 Pts

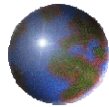
Source: Association of Asia Pacific Airlines

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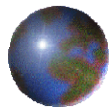
Lessons from 2004

- Good global economic growth
- Strong recovery in passenger demand
- Continued growth in cargo demand
- High oil prices



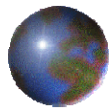
Lessons from 2004

- Good global economic growth
- Strong recovery in passenger demand
- Continued growth in cargo demand
- High oil prices
- **Keen competition**



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**

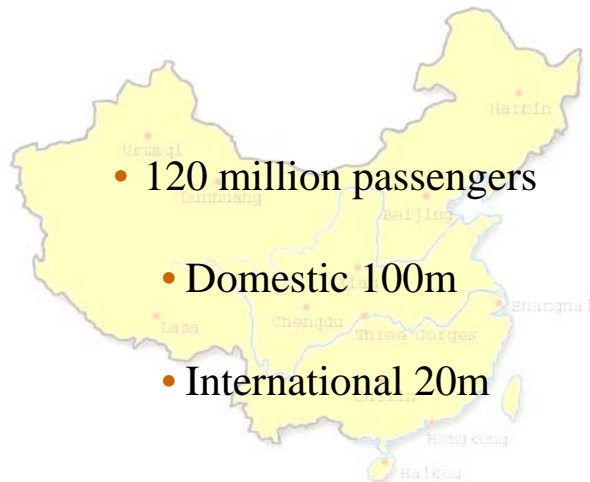


Future growth: 2005 & beyond

**Slowing global economy but Asia still leads,
boosted by continuing rapid development of China**



Mainland China Aviation Market

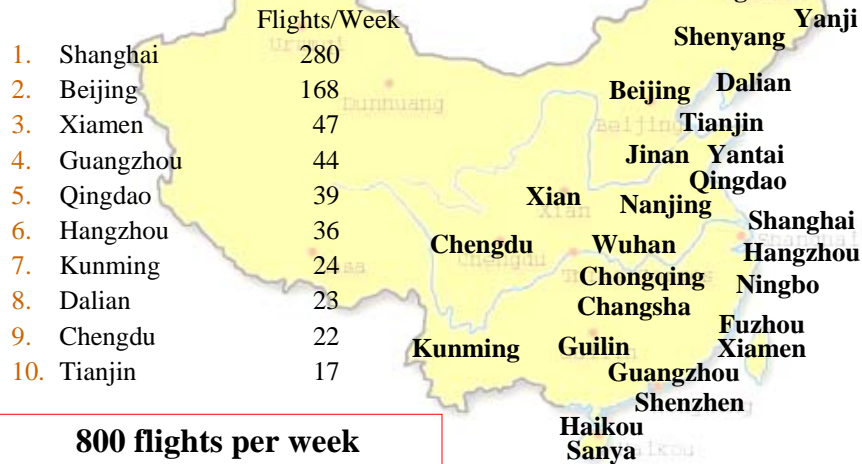


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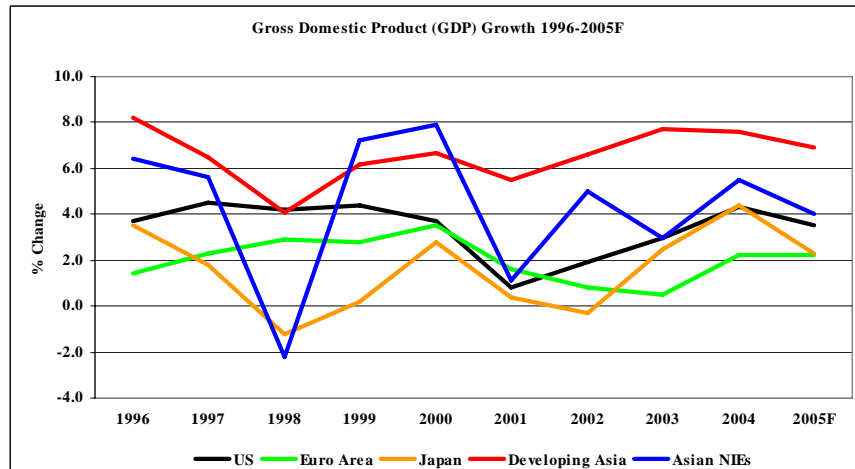


AAPA: Mainland China Destinations

AAPA members serve a total of 27 mainland Chinese cities



GDP Growth 1996 – 2005F

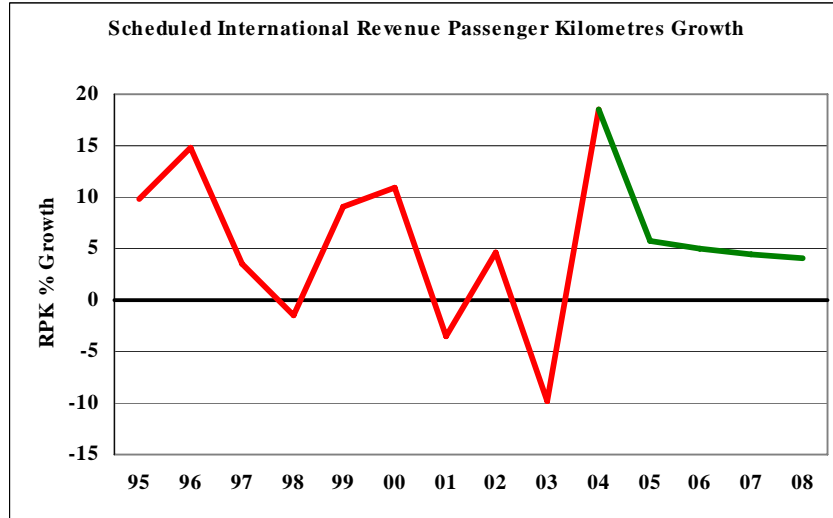


Slower global economic growth forecast but Asia still leads

Source: IMF World Economic Outlook



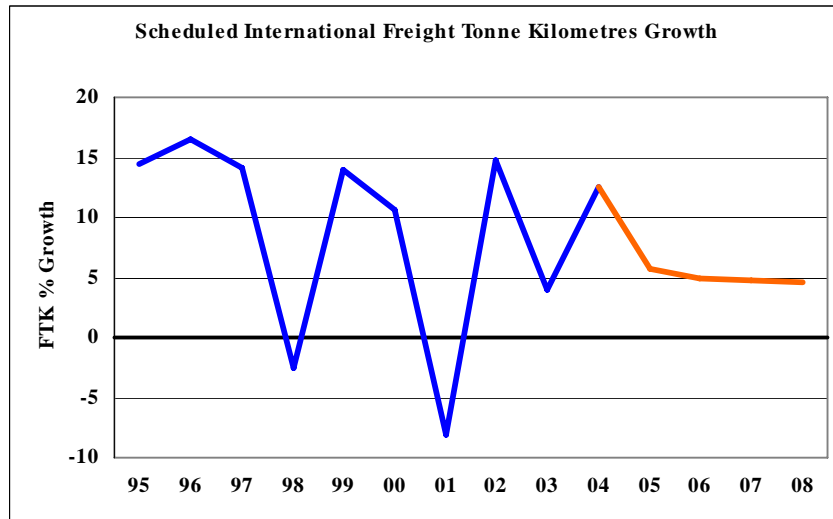
Passenger Traffic Growth 1995 – 2008F



Source: Association of Asia Pacific Airlines & IATA Passenger Forecast 2004-2008



Freight Traffic Growth 1995 – 2008F



Source: Association of Asia Pacific Airlines & IATA Freight Forecast 2004-2008

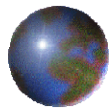


AAPA Fleet Development

- 1,273 aircraft
- 71% of the fleet is widebody
 - Operating 32% of world's widebody passenger fleet
 - Operating 30% of world's B747F fleet
- 46% of all new widebody orders for 2004
- 359 aircraft on order for delivery over the next 5 years
- Major customers for new types including A380 & B787

Source: AAPA Statistical Report 2004: Aircraft Fleet 2004 & Airclaims World Fleet May 2004

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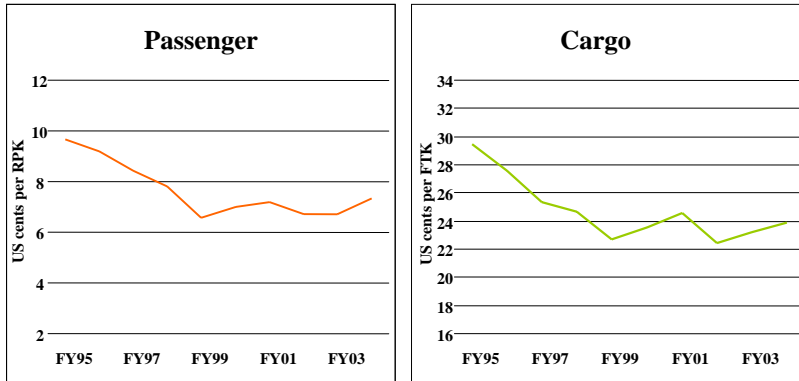


Industry Challenges: Competition



Yields reflect keen competition

AAPA Systemwide Yields

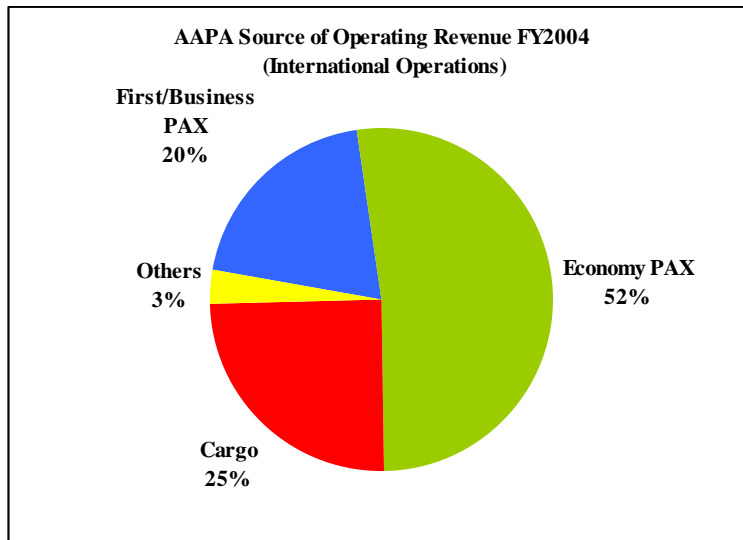


Emphasises need for constant focus on managing unit costs

Source: AAPA Annual Statistical Reports (Fiscal Year 2004: April 2003 to March 2004)



AAPA: Int'l Revenue Mix



Source: AAPA Annual Statistical Reports (Fiscal Year 2004: April 2003 to March 2004)



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

Jet★

**pacific
blue**

Valuair

Jet★**Asia**

Jet Philippines
JALY-PHILIPPINES
JALY-PHILIPPINES

Lion Airlines



Proliferation of new entrants in Asia

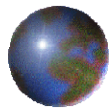
- Some already well established e.g.
 - Virgin Blue (50 B737s)
 - AirAsia (24 B737s)
- 20 + new carriers
- Serving more than 20 short-haul regional destinations
- Market penetration remains low
- Face intense competition on established routes
- Easy access to capital, but profitability remains elusive



Market overlap and convergence

- The myth of pioneering new markets
- Established airlines and new entrants are competing directly in overlapping market segments
- All airlines use yield management, but some only advertise their low prices
- Experience from more mature markets elsewhere in the world confirms a trend towards hybridisation of business models
- Ownership and control rules being relaxed but still restrictive and will postpone eventual consolidation
- Established Asian carriers are well placed to compete and continue to grow

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Industry Challenges: Risk Management



Risk Management

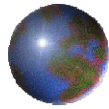
- Aviation industry characterised by volatility of business cycles and high operational leverage
- Susceptibility to unexpected demand shocks
- Increasing regulatory and reputational risks
 - environmental sustainability issues
- Managing uncertainty: need for resilience and flexibility
- Insurance has an important role to play, but many risks are retained, some because they are simply uninsurable



Airline Risk Management Challenges



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Thank You



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