

Asia-Pacific Aviation

Asian sector outlook
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...elligent, honorable, honest, loves a lively
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Summary

We expect 2005 to have more good news than bad news

- Incumbent momentum is strong
- LCCs – position and impact
- Investor preferences
- A380 – position and impact
- Bilaterals
- Marriages

Incumbent momentum

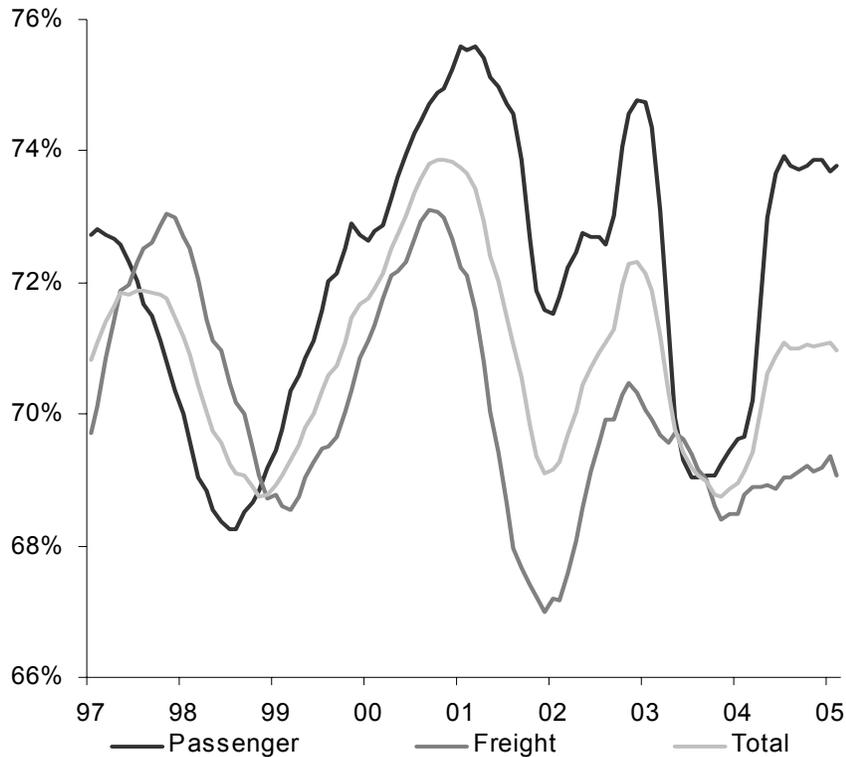
Revenue environment has never been so strong

- All majors have finished 2004 on a strong note
- Passenger traffic not impacted by fuel surcharges
- Freight volumes look set for a 4th straight year of growth

Operating Performance

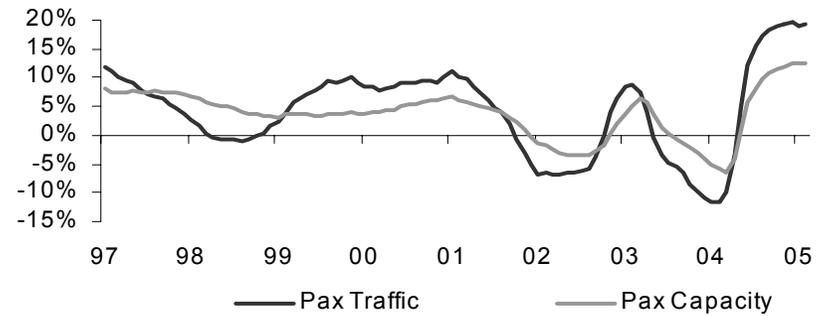
Industry poised for a strong 2005

12MMA Load Factors



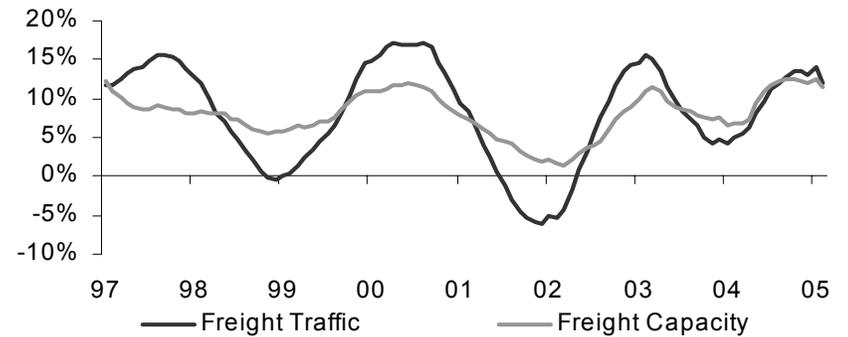
Source: AAPA

12MMA Passenger traffic & capacity growth



Source: AAPA

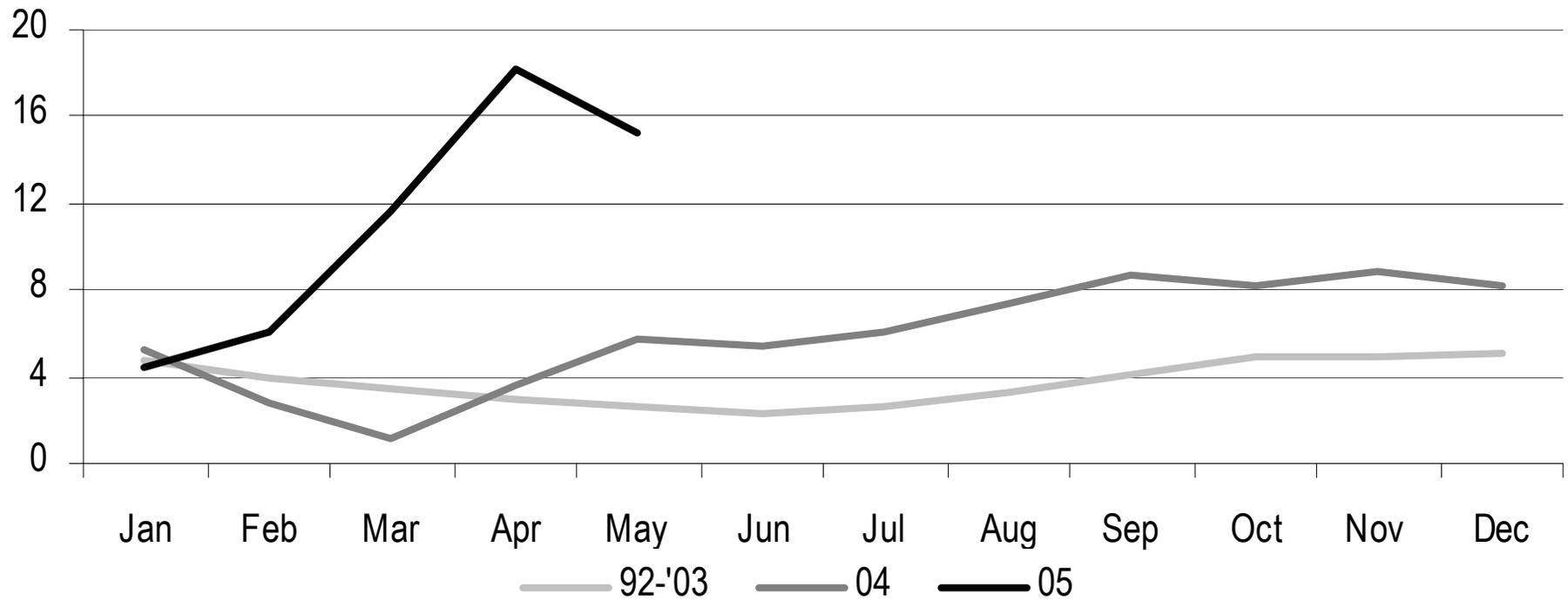
12MMA Cargo traffic & capacity growth



Source: AAPA

Fuel premium

Jet fuel premium over crude (US\$/bbl)



Source: Datastream

LCC position & impact

LCCs are easing their way into the region

- Barriers to entry continue to recede
- LCCs are emerging in abundance
- India is likely to be the major LCC growth market in 2005
- We expect to hear of more entrants, but also failures in 2005
- AirAsia is the standout success to date

LCC acceptance

LCCs are gaining greater acceptance, but not universally

Warm	Lukewarm	No interest
Thailand	China	Korea
Malaysia	HK	Taiwan
Indonesia	Singapore	
India	Philippines	
Australia/NZ	Japan	

LCCs -- not guaranteed a seat at the table

Incumbents and politics can determine survivors

- Asia has the basics to support LCCs in the longer term

- Incumbents have
 - Strong financials
 - Aircargo
 - Premium class revenue

- 50% of Governments in Asia own or control their flag carriers

LCCs – a longer term opportunity

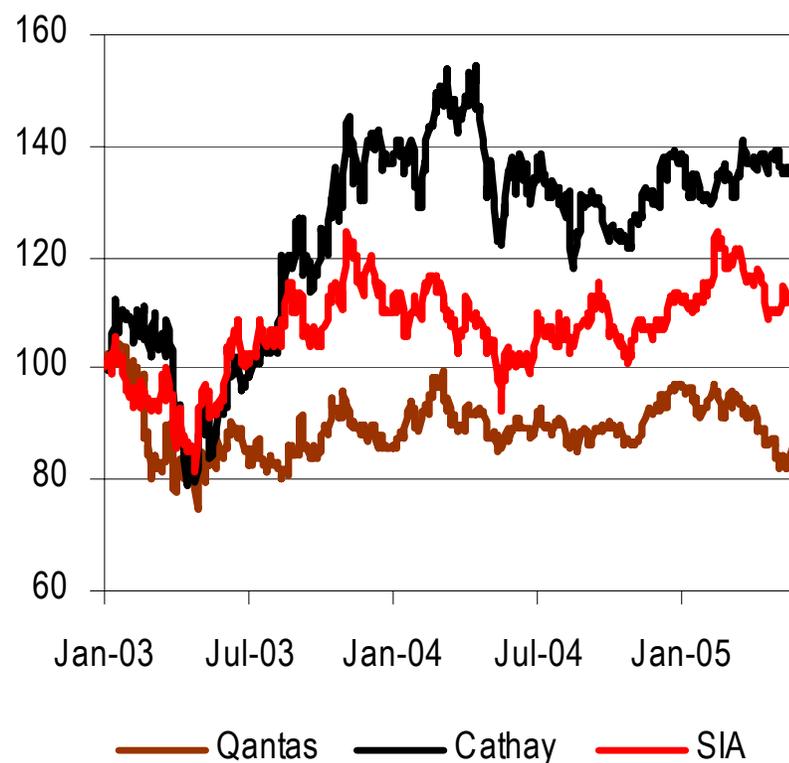
It will take time to create niches

- Transit traffic gave rise to 5th freedom traffic
- 5th freedom capacity in the region is around 7%
- Some of this capacity from non-Asian carriers has been rationalised
- But Asian carriers still operate some odd, legacy routes
- We are unsure of the benefits of this capacity to the industry
- New technology aircraft, there seems little effort to streamline capacities

Investor preferences & shifting corporate structures

Investors shying away from some Asian restructuring plays

- Markets like the potential restructuring in HK and, one day, cross-Straits flights
- Elsewhere, we are seeing a lot of corporate initiated restructuring
- These players want to lead, not follow change in the industry
- Uncertainties abound – something that investors dislike



Source: Datastream

A380 – position & impact

The A380 will potentially change the game for long haul travel

- Divided allegiances
- LHR hub status provides an interesting case study
- Aircraft offers a marketing advantage
- A380 reaches critical mass in 2007/08; Emirates in 2008/09
- The real cost advantage of the A380?

Bilaterals

There is an irreversible shift towards liberalisation

- The predominance of bilaterals signed in the region allows for liberalisation
- China has been highly proactive in this area
- Finally, India is beginning to follow
- Overall, Asian markets are divided on liberalisation

Marriages

Potential appears to be focused around the HK/China market

- Air China & Dragonair
- Cathay Pacific & Air China
- Cathay Pacific & Dragonair

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