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ISI Analytics

India Industry Research

TOURISM INDUSTRY

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Tourism

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1 USD = 45.030 INR

1 INR = 0.02221 USD

1. Industry Profile

Tourism

India: the next Asian tiger

1.1 World and South Asia Perspective

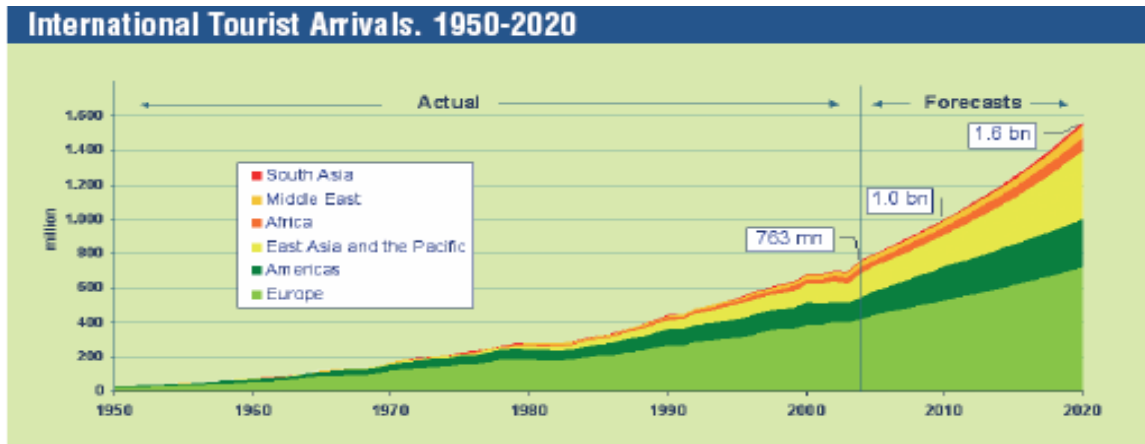


Chart 1

Source: WTO

Worldwide demand in 2006, expected to post USD 6.4bn of economic activity is forecasted to grow to USD 12.1bn by 2016. In 2006, the Travel & Tourism Industry is expected to contribute 3.6% to world GDP. The broader Travel & Tourism Economy would contribute 10.3% to world GDP 2006. Travel & Tourism is human resource intensive, creating quality jobs across the employment spectrum.

In 2006, the Travel & Tourism Economy will generate one in 11.5 jobs. The Travel & Tourism Economy accounts for 8.7% of global employment. Today there are 76.7 million Travel & Tourism Industry jobs and 234.3 million jobs in the Travel & Tourism Economy, and these will rise to 89.5 million Travel & Tourism Industry jobs and 279.3 million Travel & Tourism Economy jobs by 2016. Travel & Tourism is a catalyst for construction and manufacturing. In 2006, the public and private sectors combined are

expected to spend US\$1,010.7bn on new Travel & Tourism capital investment worldwide - 9.3% of total investment - rising to US\$2,059.8 bn, or 9.6% of the total, in 2016.

South Asia as a region is expected to contribute 1.1% of world market share or USD 72.3 bn of economic activity in 2006. The South Asia Travel & Tourism Economy (direct and indirect impact) in 2006 is expected to account for 5.5 % of GDP and 30.9 mn jobs (5.2 % of total employment). The South Asia Travel & Tourism is expected to grow 8.2 % in 2006 and by 7.4 % per annum, in real terms, between 2007 and 2016. The South Asia Travel & Tourism Industry is expected to generate 13.3 million jobs in 2006 (2.2% of total employment), while the broader Travel & Tourism Economy will account for 30,891,000 jobs (5.2% of total employment).

International Tourist Arrivals (Mn)	2001	2002	2003	2004	2005*
World	680	700	690	763	808
Europe	383.8	394	396.6	416.4	441.6
Northern Europe	42.3	43.8	44.5	48.4	52.9
Western Europe	135.8	138	136.1	138.7	142.7
Central/ Eastern Europe	61.9	64.7	68.3	78.4	88
Southern / Mediterranean Europe	143.7	147.6	147.7	150.9	158
Asia and the Pacific	120.7	131.1	119.3	152.5	156.7
North - East Asia	65.9	74.1	67.6	87.6	87.6
South -East Asia	40	42	36.2	47.3	50.6
Oceania	9.1	9.1	9	10.2	10.5
South Asia	5.8	5.8	6.4	7.5	8
Americas	122.1	116.6	113.1	125.8	133.6
North America	86.4	83.3	77.4	85.8	90.1
Caribbean	16.8	16	17	18.2	18.9
Central America	4.4	4.7	4.9	5.8	6.5
South America	14.5	12.6	13.7	16	18.1
Africa	28.9	29.5	30.8	33.2	36.8
North Africa	10.7	10.4	11.1	12.8	14.3
Sub -Saharan Africa	18.2	19.1	19.7	20.4	22.4
Middle East	25	29.2	30	35.4	39.7
* Provisional					

Sources: World Tourism; CEIC

Table 1

1.2 India Tourism

"India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend and the great grandmother of tradition. Our most valuable and most instructive materials in the history of man are treasured up in India."

Tourist arrivals remain healthy

Tourism has emerged as the third largest net earner of foreign exchange for the country recording earnings of US \$ 5731 million in 2005, a growth of 20.2% over 2004, according to a release from the Union Ministry of Tourism. In 1951, international tourist arrivals stood at around 17 thousand only while the same has now gone up to 3.91 million in 2005. Tourism in India has registered significant growth in recent years. The upward trend is expected to remain firm in the coming years. It is also one of the sectors that provide huge employment opportunities.

The Indian Travel & Tourism economy is ranked number

- 22 in Absolute Size worldwide
- 156 in Relative Contribution to national economies
- 3 in Long -term (10 year) growth, 174 countries estimated by WTTC/OEF)

With a historical backdrop of 5,000 years, India is one big package of cultures and legends that never fails to captivate the imagination of the visitors. These include history tourism, adventure tourism, medical tourism (ayurveda and other forms of Indian medication), spiritual tourism, beach tourism etc. India has been a late starter in tourism. Understandably, immediately after independence the focus was on key areas like agriculture, industry, irrigation, infrastructure and the social sector. Tourism started receiving attention in the last decade. The World travel and Tourism Council (WTTC) has identified India as one of the countries slated to become the foremost growth centers in the world in the coming decade. While the growth in tourism has been impressive, India's share in total global tourism arrivals and earning is quite insignificant. India's Travel & Tourism Economy (direct and indirect impact) in 2006

is expected to account for 5.3 % of GDP and 24.3Mn jobs (5.4 % of total employment). India's Travel & Tourism is expected to grow 8.4 % in 2006 and by 8 % per annum, in real terms, between 2007 and 2016. Travel & Tourism in India in 2006 is expected to generate USD 53544.5 million of economic activity (Total Demand).

For the third successive year, India witnessed a growth in foreign tourist arrivals. International tourist arrivals rose 13.2 percent in 2005 to 3.9 million, the highest ever, and the government expects arrivals in 2006 to grow by 15 percent. The growth rate of 13.2% in 2005 was achieved over and above a growth of about 26.8% in prior year; whilst the global expected growth during 2005 is estimated to be 5-6%. India's tourist industry is booming due to a rush of foreign tourists and increased travel by Indians to domestic and overseas destinations. The visitors are pouring in from all over the world: Europe, Africa, Southeast Asia and Australia. The boom has come even as global tourism has dropped, due to the September 11 terrorist attacks in the United States, the outbreak of Severe Acute Respiratory Syndrome in East Asia, and the Iraq war. Tourism professionals cite several reasons for the buoyancy in the Indian industry. The recent surge in the Indian economy has raised middle class incomes, prompting more people to spend money on vacations abroad or at home. At the same time, India's emergence as a global information technology hub and an aggressive advertising campaign by the government are credited with changing India's image from that of a land of snake-charmers, and sparking new interest among overseas travelers. Tourism in India is also benefiting from the stronger economies of India's two major source markets, the United Kingdom and the United States.

In the last few years, the Government has also made some financial reforms to facilitate the development in the tourism sector. Tourism infrastructure and development

received a significant shot in the arm with a 44% budget increase in 2004, and in just one year, the Inland Air Travel Tax (IA TT) and Foreign Travel Tax (FTT) have been abolished and the sales tax on Aviation Turbine Fuel (ATF) reduced. In a significant 'open-skies' announcement, Indian private airlines can now fly to the ASEAN countries and the neighboring SAARC capitals. The Centre has also accepted the industry's demand that all airports – not just a handful – can receive charter flights. In the interim budget, tour operators on the domestic front are now required to pay service tax on only 10 per cent of their earnings.

Some of the important initiatives taken by the government to improve the flow of foreign tourist into the country and thereby increase the country share in world tourism includes launching of cruise tourism by an international shipping firm, direct contacts with consumers through the electronic and print media and the launching of the "Incredible India" campaign called "Colours of India". Domestic tourists are also fueling the industry's revival. Many of them escape from the summer heat on the plains to resorts in the Himalayan Mountains. One of the major beneficiaries being Kashmir, where a cease-fire between India and Pakistan has reduced violence, if not completely, at least enough to help revive the state's sagging tourism industry.

An important highlight in the inbound tourist during 2005 was an increase of 20.2% witnessed in the foreign exchange earnings in dollar terms. The estimated foreign exchange earnings during 2005 touched the level of USD 5731 Mn against USD 4769 Mn in 2004.- a growth of USD 960Mn in a single year. In absolute rupee terms, the increase in foreign exchange was to the tune of Rs. 3570 crores. Another salient point of India tourism during 2005 was the average tourist foreign exchange earning per tourist in India was about USD 1462 against the estimated world average of USD844 as can be seen from the table below:

ESTIMATED FOREIGN EXCHANGE EARNINGS PER TOURIST IN SELECTED COUNTRIES OF THE WORLD AND IN INDIA'S NEIGHBORHOOD IN 2005

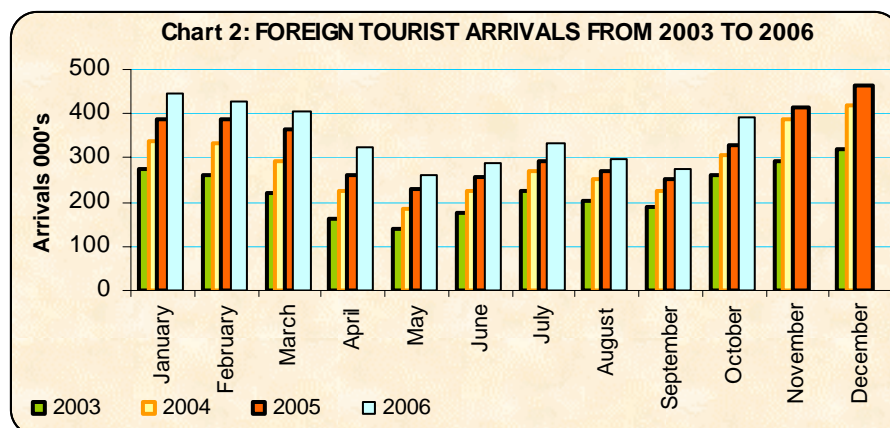
COUNTRY	Average per tourist estimated foreign exchange earnings (in USD)
WORLD	844
France	556
Spain	862
USA	1653
Italy	970
China	626
INDIA'S NEIGHBOURHOOD	
Sri Lanka	984
Hong Kong	685
Malaysia	520
Thailand	763
Singapore	892
Indonesia	863
INDIA	1462

Source: World Tourism Organization

Table 2

The foreign tourist arrivals have surged nearly 15% to about 3,061,446 tourists in the period between January- September 2006. The peak season was between January and May, which accounted for 61% of the total tourist arrivals. Improved access and convenience of travel especially by air have aided growth in the segment. FY 2007 promises to be equally promising. Foreign tourist arrivals galloped 24.7% to 3,25,349 tourists in April 2006 over April 2005 and by 14.7% to 262,860 tourists in May 2006. The spending per foreign tourist arrival also increased by 5% to US\$ 1,456 in FY 2006 over FY 2005. The Union Ministry of Tourism has set a target of 10 million foreign tourist arrivals in a few years.

With the Indian economy slated to grow at 8% over the next few years. The government has started to gear up to make 'India Everywhere' its campaign to hype the India growth story, as was done at the Davos Summit in Switzerland in 2005. It is stepping up on infrastructure development initiatives like the golden quadrilateral, expressways linking non-metros, up-gradating of metro and non-metro airports through public-private participation (PPP), opening up the civil aviation sector, and attracting FDI in several sectors. All these are positive signals for the growth of the hotel sector. This will open up opportunities for large domestic and mid-sized players as well as international majors.



Source: Ministry of Tourism

2. Market Trends and Outlook

2.1 Time of Visit

Table 3: Total Tourist Visit

Time of Visit	2003	2004	2005
(a) Visit during the whole year	37,26,270	41,54,353	46,66,286
* Increase/decrease (No of Tourists)	2,89,884	4,28,083	5,11,933
* Increase/decrease (In percentage)	8.40%	11.49%	12.32%
(b) Visit during January-June	16,41,337	18,10,873	21,37,462
* Increase/decrease (No of Tourists)	54,831	1,69,536	3,26,589
* Increase/decrease (In percentage)	3.46%	10.33%	18.03%
(c) Visit during July-December	20,84,933	23,43,480	25,28,824
* Increase/decrease (No of Tourists)	2,35,053	2,58,547	1,85,344
* Increase/decrease (In percentage)	12.71%	12.40%	7.91%
(d) Visit during October-March	19,90,882	24,09,842	26,96,830
* Increase/decrease (No of Tourists)	1,80,134	4,18,960	2,86,988
* Increase/decrease (In percentage)	9.95%	21.04%	11.91%
(e) Visit during April-September	17,35,388	17,44,511	19,69,456
* Increase/decrease (No of Tourists)	1,09,750	9,123	2,24,945
* Increase/decrease (In percentage)	6.75%	0.53	12.89%

Source: Ministry of Tourism

Table 4 Foreign Tourist Visit

Time of Visit	2003	2004	2005
(a) Visit during the whole year.	25,020	28,817	33,310
* Increase/decrease (No of Tourists)	1986	3,797	4,493
* Increase/decrease (In percentage)	8.60%	15.18%	15.60%
(b) Visit during January-June	13,008	14,184	16,584
* Increase/decrease (No of Tourists)	431	1,176	2,400
* Increase/decrease (In percentage)	3.43%	9.04%	16.92%
(c) Visit during July-December	12,012	14,633	16,726
* Increase/decrease (No of Tourists)	1,555	2,621	2,093
* Increase/decrease (In percentage)	14.87%	21.82%	14.30%
(d) Visit during October-March	18,188	21,495	23,465
* Increase/decrease (No of Tourists)	1,557	3,307	1,970
* Increase/decrease (In percentage)	9.36%	18.18%	9.16%
(e) Visit during April-September	6,832	7,322	9,845
* Increase/decrease (No of Tourists)	429	490	2,523
* Increase/decrease (In percentage)	6.70%	7.17%	34.46%

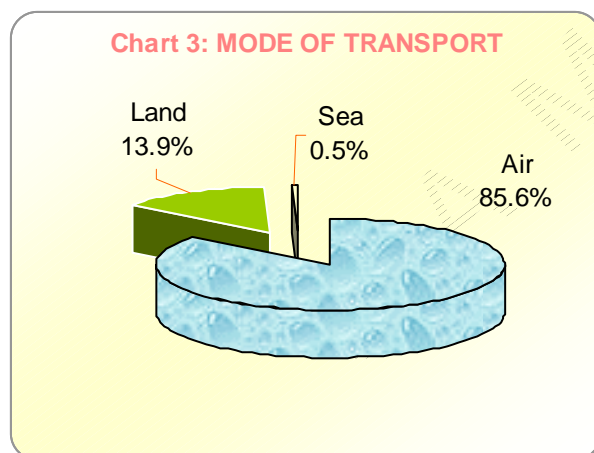
Source: Ministry of Tourism

Table 5 Domestic Tourist Visit

Time of Visit	2003	2004	2005
(a) Visit during the whole year	37,01,250	41,25,536	46,32,976
* Increase/decrease (No of Tourists)	2,87,898	4,24,286	5,07,440
* Increase/decrease (In percentage)	8.40%	11.46%	12.30%
(b) Visit during January-June	16,28,329	17,96,689	21,20,878
* Increase/decrease (No of Tourists)	54,400	1,68,360	3,24,189
* Increase/decrease (In percentage)	3.46%	10.34%	18.04%
(c) Visit during July-December	20,72,921	23,28,847	25,12,098
* Increase/decrease (No of Tourists)	2,33,498	2,55,926	1,83,251
* Increase/decrease (In percentage)	12.69%	12.35%	7.87%
(d) Visit during October-March	19,72,694	23,88,347	26,73,365
* Increase/decrease (No of Tourists)	1,78,577	4,15,653	2,85,018
* Increase/decrease (In percentage)	9.95%	21.07%	11.93%
(e) Visit during April-September	17,28,556	17,37,189	19,59,611
* Increase/decrease (No of Tourists)	1,09,321	8,633	2,22,422
* Increase/decrease (In percentage)	6.25%	0.50%	12.80%

Source: Ministry of Tourism

2.2 Mode of Transport



Air continues to be the predominant mode of travel for tourist coming to India during 2004-2005. In 2004 this mode of transport constituted 51.9 % of the total traffic. Top 5 airports in the country handle 70% of the passenger traffic out of which Delhi and Mumbai together alone account for 50% traffic. Passenger traffic has growth at an average of 9% over the last 10 years. It is estimated that the domestic passenger segment is likely to grow at 12% per annum.

Anticipated growth for international passenger segment is 7%. Arrivals by sea were negligible 1.2% in 2004 and the share of arrivals through land routes was the second most common means of entry mainly from Bangladesh and Pakistan accounted for 46.8% in 2004.

Total Passengers traffic at all Indian Airports taken together, touched to 59 million during 2004-05 as against 49 million handled during 2003-04 has registered record growth of 21.5 percent.. An increase in Passengers traffic is due to spate of discount in airfare, liberal bilateral aviation agreement between India and Other Countries, increasing disposable incomes and softened dollar.

International Passengers have registered a growth of 16.7 percent at all Airports taken together during the period under review.

Domestic Passengers handled at all Airports registered a growth of 24.0 per cent during 2004-05 over 2003-04.

2.3 Port of Entry

Airports	Total Passenger Traffic Trends		
	2004-05 (In numbers)	2003-04 (In numbers)	% Change Y on Y
Mumbai	15,665,777	13,284,445	17.9
Delhi	12,782,979	10,394,164	23.0
Chennai	5,633,926	4,555,821	23.7
Bangalore	4,113,383	3,181,248	29.3
Kolkata	3,494,564	3,090,853	13.1

Table 6

Delhi continued to be a major port of entry during 2004 with an increase of 23 per cent followed by Mumbai with 17.9 per cent. The arrivals at Chennai, Bangalore and Kolkata airports constitute 5.63 Mn, 4.1Mn and 3.49Mn respectively. Sea cruise passenger market continue to grow with the introduction of various government initiatives such as streamlining systems and procedures facilitate seamless travel by tourists. The Government also relaxed Cabotage law (this does not permit foreign flag vessels to carry coastal cargo in India) for cruise ships for five years (from December 2003) and provided a rebate of up to 50 per cent on vessel-related charges such as berth hire and pilotage. Apart from the projecting Mumbai, Mormugao, New Mangalore, Kochi, Tuticorin and Chennai ports for the cruise circuit. Indians are generally not inclined towards long sailings, and a four- to five-night package is considered the ideal length, unlike abroad where a cruise lasts at least seven nights.

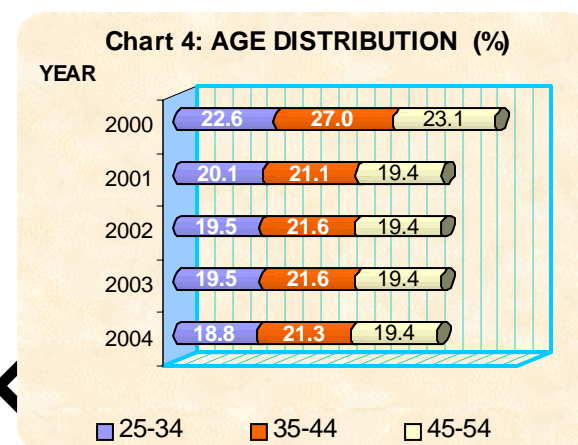
2.4 Age and Gender Distribution

Tourist in the age group of 35-44 years continues to dominate tourist arrivals for the past few years. Approximately 21.3 are in this age group, 19.4 per cent in the age group of 45-54 and 18.8 per cent in the age group 25-34. Women constitute 32.1 per cent of India's total international arrivals in

2003 but this trend is showing a positive trend in the last few years.

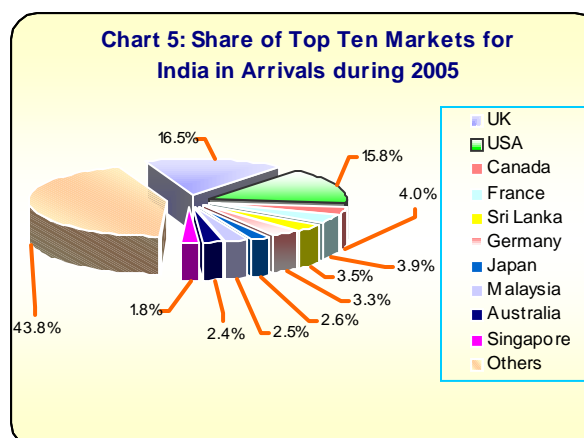
AGE Group	2004	2003	Growth
25-34	18.8	19.5	-0.7
35-44	21.3	21.6	-0.3
45-54	19.4	19.4	0

Table 7

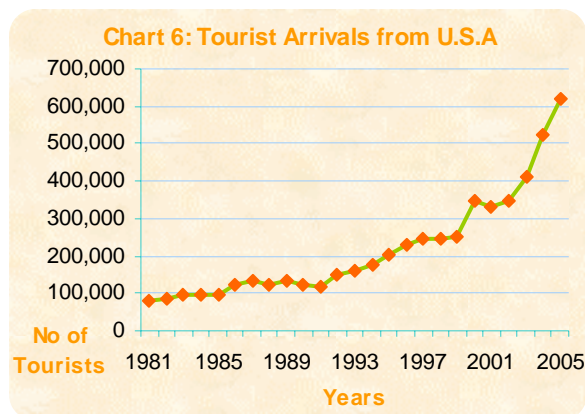


2.5 Trends Tourist Arrivals – Market Performance and Share

India's tourism industry is thriving. According to market researchers, in 2006, the total in-bound tourist was 1.28Mn while the same was 1.14Mn in 2005. Tourism yields substantial foreign exchange for India. The resulting foreign exchange earning was as high as 12% of an amount of USD 1,780 Mn.

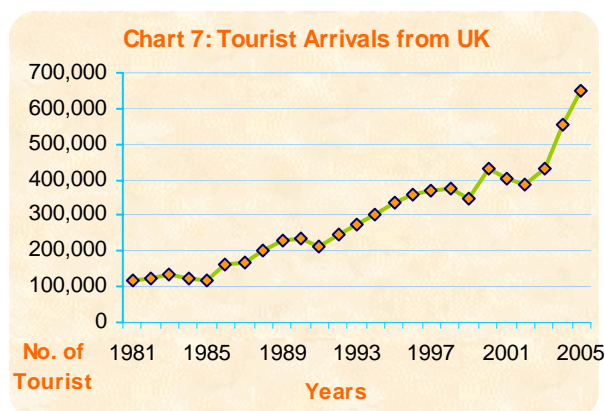


1. United States of America



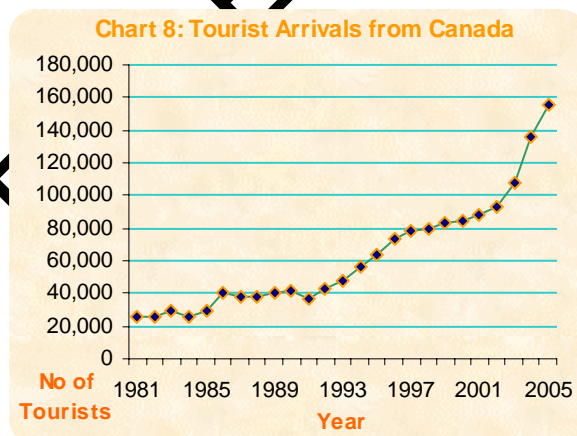
United States of America has become the largest tourist market for India pushing down the UK that has been the leader from 1973. During 2004, tourist arrivals from the US stood at 5.20 lakh, which accounted for 15.5% of the 33.67lakh foreign arrivals in the country. The increasing number of arrivals from the US is significant for the tourist industry considering the higher spending power of the Americans, whether it is on accommodation, food or shopping, among others. On an average, the US traveler spends at least two weeks in the country. The primary mode of arrival of the American tourist continues to be air. As far as port of disembarkation is concerned Mumbai airport continue to be the main airport of entry followed by Delhi, Chennai and Kolkata.

2. United Kingdom



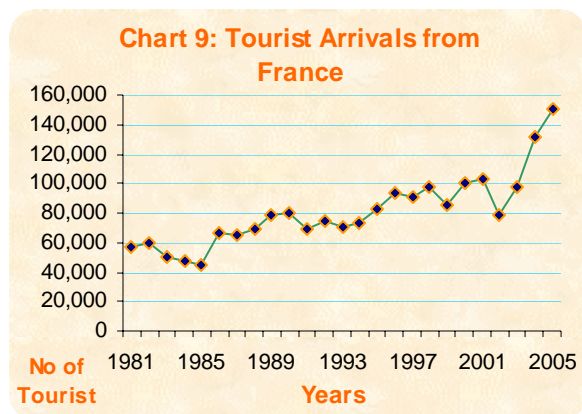
United Kingdom is presently the second largest market for India though it occupied the top position till 2005. The arrivals grew from 116,684 in 1981 to 647,000 in 2005 at an average compound rate of was above 6 per cent per annum from 1981 to 2005. As per previous years U.K. nationals came by air and a minority through the land route. The maximum number of arrivals was recorded during the winter months of Jan to March and October to December. In 2003, 93.7 per cent of the U.K nationals visited India for the purpose "tourism & others", 5.8 per cent came for business.

3. Canada



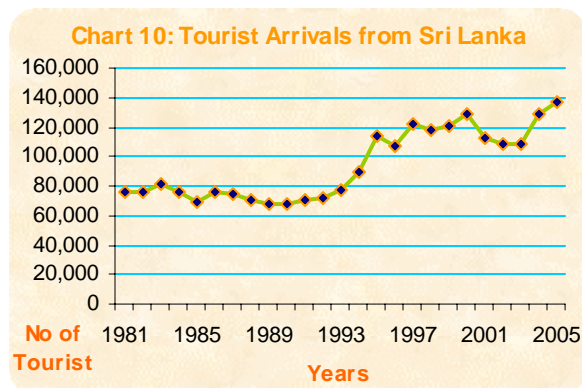
Canada occupies the third position among the tourist generating countries for India and constituted about 3.9 percent of the tourist arrivals in 2005. Arrivals from Canada grew 6 folds over a period of 24 year from 25,358 in 1981 to 152,689 in 2005. The above graph shows the yearly trends in the tourist arrival from this country. Most Canadian tourist continues to visit India by air and a small number of by land. This trend is expected to continue with the liberalization of chartered flights and India emerging as a safe, all round, year round destination. As far as port of disembarkation is concerned, maximum number, disembark at Delhi airport followed by Mumbai, Chennai and Kolkata.

4. France



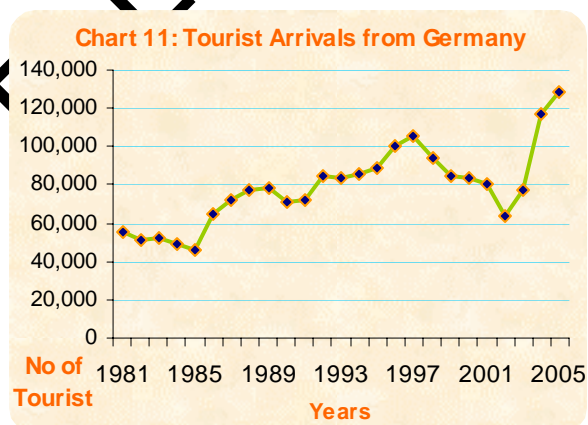
France maintained its 4th position among the tourist generating countries for India constitutes about 3.8 percent of the foreign tourist arrivals in India during 2005. The arrivals grew from 57,272 in 1981 to 151,000 in 2005. In 2005, more than 98 per cent of the French tourist used air route to visit India followed by land and sea route. So far as port of disembarkation is concern Delhi airport continues to be the primary point of entry for French tourist. Followed by Chennai, Mumbai and Kolkata. The periods October to December and January to March were the most popular period of visit for the French tourist. The Age Group 45-54 years accounted for largest group followed by age group 35-44 and groups 25-34 & 55-64 in par. In 2004, 97.4 per cent of French nationals visited India for "Tourism & Other" purposes, and 2.2 per cent came for business.

5. Sri Lanka



Lanka occupied the 5th position among the tourist generating countries for India and constituted 3.5 percent of the tourist arrival during 2005. Arrivals from Sri Lanka, which were 75,842 in 1981, grew up to 137,000 in 2005. The main states visited were Tamil Nadu and Karnataka. The peak period of Sri Lankan tourist visiting India was the third quarter from July to September, followed by the fourth quarter October to December. The main mode of entry into India is by air via Chennai airport followed by Delhi, Mumbai and Kolkata. The dominant age group was 35-44 years followed by 45-54 years and 25-34 years. Above 96 per cent of Sri Lankan nationals visited India for "tourism and other" purpose and rest for business.

6. Germany

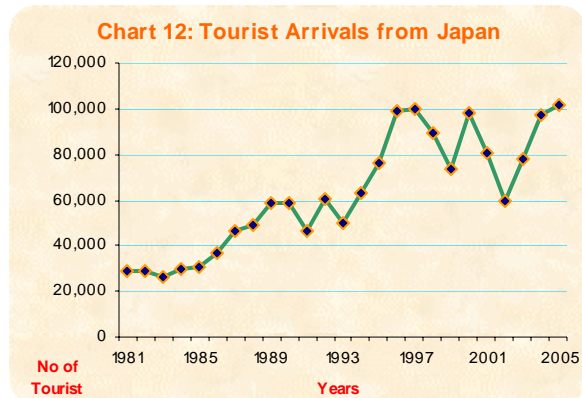


Germany occupies the sixth position among the tourist generating countries for India in 2005 and constituted about 3.3 percent of foreign tourist arrivals in India. There was a slight drop in arrivals by 0.1 per cent in prior year. The arrivals grew from 55,471 in 1981 to 129,000 in 2005. The most preferred mode of transport for travel to India by the German tourist continue to be air and it accounted for more than 95 per cent of the arrivals, while more than 2 per cent used sea routes. So far the most tourist disembark in Delhi airport followed by Mumbai, Chennai and Kolkata. The main age group to dominate the arrivals from this country continues to be 35-44 followed by the age groups 45-54 years. Most German tourist

visited India for “tourism & other” while the rest of the arrivals were on business visit.

The maximum number of Germans visited the country during the period October to December and followed by Jan to March.

7. Japan

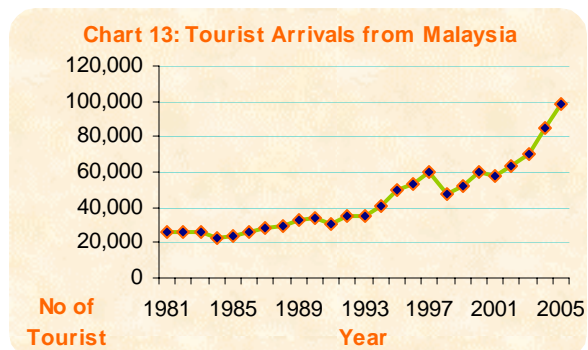


Japan is one of the most important tourist markets of India in the East and it constituted about 2.6 per cent of the foreign tourist in 2005. It grew from 29,032 to 102,000 in 2005. There was a 5.3 per cent increase year on year.

During the year more than 95 per cent of the tourist from Japan came to India by air and 3 per cent by land route. Delhi airport was the main port of disembarkation followed by Mumbai, Chennai and Kolkata.

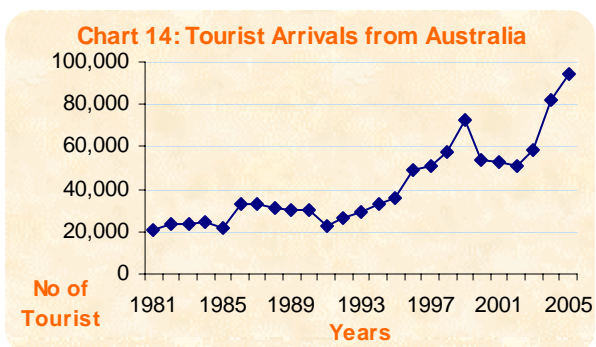
The dominant age group of these tourists was 25-34 years followed by the age group 35-44 years. Most tourists arrived during the period of January to March followed by period October to December. In 2004, 93.8 per cent of Japanese nationals visited India for “tourism & other”, and 5.1 per cent visited for business.

8. Malaysia



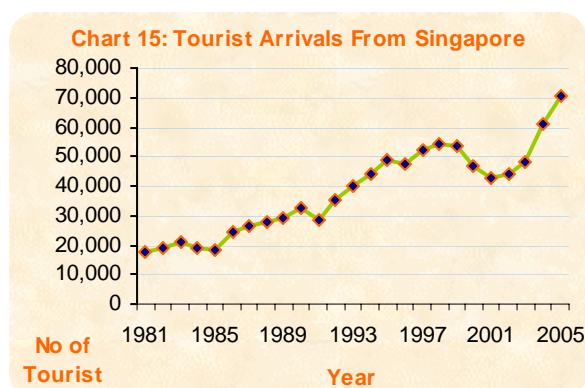
Malaysian tourist accounted for 2.5 per cent of the total tourist traffic to India in 2004. The tourist traffic from Malaysia, which during 1981 was merely 26,458 increased to 98,000 in 2005. The graph shows the yearly trend in the tourist arrivals from this country since 1981. Chennai airport is the main disembarkation point for Malaysian tourist to India followed by Delhi, Mumbai and Kolkata. The Malaysian tourists within the age group of 35-44 years were the dominant group followed by the age group 45-64 years. A majority of the tourist arrivals were on devotional and spiritual visits followed by visiting relatives. Malaysian tourists generally visited India during the months of October to March.

9. Australia



During 2005, Australia occupied the 9th position among the top ten tourist generating markets for India. The tourist traffic from Australia during 1981 was 20,940, which increased to 96,000 in 2005. The contribution of Australian tourist to the total traffic to India was about 2.4 per cent in 2005. The air was predominant mode of transport for Australian transport constituting more than 98 per cent of the total arrivals, and 1.5 per cent came by land routes. Delhi is the main disembarkation point followed by Mumbai, Chennai and Kolkata. The age group 45-54 year followed the dominant age groups 35-44 years. Most Australian tourist visited India during the months of October to March.

10. Singapore



Singapore occupied the tenth position among the tourist generating countries for India in 2005 improving over the Eleventh position in 2004 and constituted about 1.8 per cent of the foreign tourist arrivals in India during 2005. The predominant mode of transport was air via Chennai airport followed by Delhi, Mumbai and Kolkata. The age group, which dominated the arrivals, was 35-44 followed by the age group 45-64. The peak period which Singaporeans visited India was between October to December followed by January to March this represented the periods when school vacations and festival holidays occur. Most Singaporeans visited India for "Tourism & other" purposes and the rest for business purposes.

2.6 Seasonality Patterns

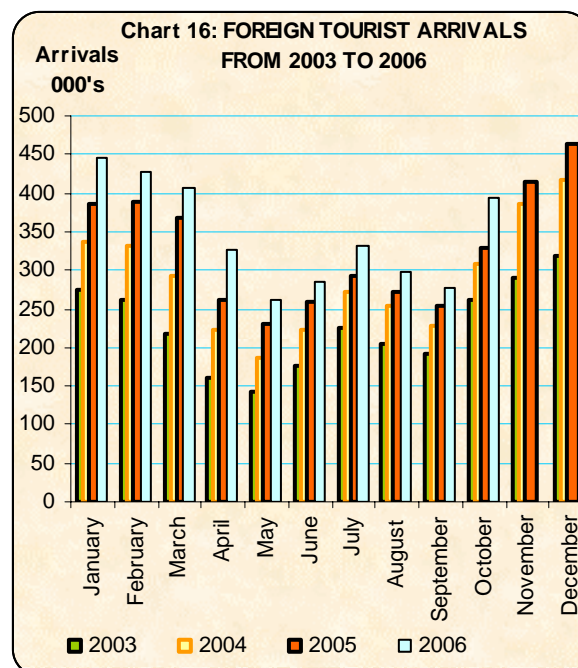
Tourist arrivals for the first eight months hovered around 2.78 Million marks.

The table below shows the figures of foreign tourists arrivals in India for the months of January to August 2006 with comparative figures for the last two years.

Month	Foreign Tourist Arrival (Nos.)			% Change	
	2004	2005	2006 *	2005 /04	2006/05
Jan	337,345	386,260	444,753	14.5	15.1
Feb	331,697	339,081	428,325	17.3	10.1
March	293,185	360,068	407,446	25.2	11.0
April	223,884	260,825	325,249	16.5	24.7
May	185,502	229,172	262,860	23.5	14.7
June	223,122	258,822	286,257	16.0	16.6
July	272,456	292,345	331,227	7.3	13.3
Aug	253,301	270,779	299,211	6.9	10.5
Total	2,120,492	2,454,352	2,785,328	15.7	13.5

* Provisional

Table 8



The peak and lean months of arrivals of tourists for different nationalities are given below:

	Nationality	Lean Month	Peak Months
1	UK	May	February
2	USA	April	December
3	Canada	May	December
4	France	May	July
5	Sri Lanka	June	August
6	Germany	June	November
7	Japan	May	February
8	Malaysia	July	November
9	Australia	May	December
10	Singapore	April	December

Table 9

Source: Bureau of Immigration

2.7 The Indian Aviation Industry

“Taking advantage of the “open sky policy” companies engaged in textiles, travel trade, liquor, and garments are diversifying into the civil aviation sector and launching low-cost airlines. India’s fledgling market which has leapt from 600 flights and 28,000 seats in September 2004 to more than 12,000 flights and more than 1.1 million seats in just two years.”

2.7.1 Introduction

Air India was set up by J.R.D. Tata, who ran it successfully until it was nationalized in 1953. In the 1960s the “Maharaja”, as the national flag-carrier was affectionately known, was flying to 32 destinations (it now flies to 46 destinations) and making profits. For many years in India air travel was perceived to be an elitist activity. Until less than a decade ago, all aspects of aviation were firmly controlled by the Government. In the early fifties, all airlines operating in the country were merged into either Indian Airlines or Air India and, by virtue of the Air Corporations Act, 1953 this monopoly was perpetuated for the next forty years. The Directorate General of Civil Aviation controlled every aspect of flying including granting flying licenses, pilots, certifying aircrafts for flight and issuing all rules and

procedures governing Indian airports and airspace. Finally, the Airports Authority of India was entrusted with the responsibility of managing all national and international airports and administering every aspect of air transport operation through the Air traffic Control.

With the opening up of the Indian economy in the early Nineties, aviation saw some important changes. Most importantly, the Air Corporation Act was repealed to end the monopoly of the public sector and private airlines were reintroduced. Domestic liberalization took off in 1986, with the launch of scheduled services by new start-up carriers from 1992. A number of foreign investors took an interest. Modiluft closed after failing to meet financial obligations to lessors and its technical partner, Lufthansa. In 1996-1998, Tata and SIA tried to launch a domestic carrier, but the civil aviation minister had publicly stated his opposition on numerous occasions (Airline Business 1998).

The Indian government introduced the open sky policy for domestic players in 1991 and partial open sky policy for international players only in November 2004. Increasing liberalization and deregulation has led to an increase in the number of players. The industry comprises three types of players full cost carriers, low cost carriers (LCC) and many start-up airlines that are making/ planning an entry.

Present Indian Scenario

It is a phase of rapid growth in the industry due to huge build-up of capacity in the LCC space, with capacity growing at approximately 45% annually. This has induced a phase of intense price competition with the incumbent full service carriers (Jet, Indian, Air Sahara) discounting up to 60-70% for certain routes to match the new entrants ticket prices. This, coupled with costs pressures (a key cost element, ATF price, went up approximately 35% in recent months, while staff costs are also rising on

the back of shortage of trained personnel), is exerting bottom-line pressure.

The growth in supply is overshadowed by the extremely strong demand growth, led primarily by the conversion of train/bus passengers to air travel, as well as by the fact that low fares have allowed passengers to fly more frequently. There has, therefore, been an increase in both the width and depth of consumption. However, the regulatory environment, infrastructure and tax policy have not kept pace with the industry's growth.

Enactment of the open sky policy between India and Saarc countries, increase in bilateral entitlements with the EU and the US, and aggressive promotion of India as an attractive tourism spot helped India attract 3.2 million tourists in 2004-05. This market is growing at 15% per annum and India is expected to attract 6 million tourists by 2010. Also, increasing per capita income has led to an increase in disposable incomes, leading to greater spend on leisure and holiday and business travel has risen sharply with increasing MNC presence. Smaller cities are also well connected now. Passenger traffic has increased and over 21 million seats have been sold, resulting in a growth of over 50%. The Indian travel market is expected to triple to \$51 billion by 2011 from \$16.3 billion in 2005-06.

2.7.2 Regulatory Overview

India's civil aviation sector is undergoing a rapid transformation these years. In 1990, the Indian government launched a programme of economic liberalization of air transport services, which resulted, *inter alia*, in (i) the announcement of a cargo "open skies" policy for international flights; (ii) the permission of non-state owned airlines to enter the Indian market; and (iii) gradual liberalization of bilateral air services agreements with third countries.

The Indian government increasingly recognizes that the aviation sector can be a catalyst of general economic development and in 2003 therefore set up a Committee, led by former cabinet secretary Naresh Chandra, to draw up a Road Map as a basis for a new national policy for civil aviation. It appears that the current Indian government continues to employ key recommendations of the Committee of developing a more open and competitive aviation market in India.

The report of the Naresh Chandra Committee declared that an integrated approach to civil aviation is required, one which is based on the following "four fundamental pillars":

- The introduction of a level playing field for all operators;
- Increasing private participation and competition by reducing barriers to entry;
- Adherence to stringent safety standards as well as sound regulatory oversight of the air transport market;
- Transparent institutional mechanisms which provide for socially desirable but uneconomical services.

The Committee's investigation led to the identification of several overall conclusions including the following:

- As an immediate priority it looked for a more liberal fiscal regime, which would include a reduction of fuel taxes. The government is yet to adopt its recommendations in this respect.
- The committee deemed that airport charges were too high and should be lowered and that the supply of aviation fuel should be liberalized to allow additional suppliers at airports.
- The Committees' advocacy of the elimination of route dispersal rules seems

to have been taken up by the government in June 2004 thereby changing the old system of mandatory route mix of all operators of routes between major cities and “thin” marginal routes to a new system with a levy on private operators allowing funding of uneconomical routes (public service obligations).

- Similarly, the suggestion that foreign equity investment (except from foreign airlines) should be permitted for up to 49% of airlines has been acted upon.

At the end of 2004, the Indian government decided to allow privately owned carriers fulfilling certain criteria (i.e. having a fleet of at least 20 aircrafts and more than five years of operating experience) to operate on international routes. Two carriers (Jet Airways and Air Sahara) already qualify for this and have recently been granted rights from the Indian government to fly to international destinations. The number of airlines providing services on the domestic market is rapidly increasing. There are currently seven scheduled registered airlines in India: (1) the state-owned Air India; (2) Indian Airlines; (3) Alliance Air (subsidiary of Indian Airlines); (4) Air Sahara; (5) Jet Airways (privately owned); (6) Air Deccan (privately owned low-cost carrier); and (7) Blue Dart Cargo (specialized cargo carrier).

In 2005 alone, an additional five carriers are expected to enter the Indian market (SpiceJet; Kingfisher Airlines; Air India Express; Indus Airways and Go Air).

2.7.3 Key Players in Indian Aviation Industry

Airlines on International Routes

Air India is the national flag carrier airline of India with a network of passenger and cargo services worldwide. It is one of the two state-owned airlines in the country, the other being Indian Airlines. Air India has 44 world-wide destinations. The airline has been profitable in most years since its inception. In the

financial year ending March 31, 2006, Air India has made a net profit of Rs.97 million; earned a revenue of Rs.87,480 million - representing a growth of almost 15 per cent over the previous year.

Air Sahara is a privately owned airline operating scheduled services connecting all metropolitan centres in India. The airline was established on 20 September 1991 and began operations on 3 December 1993 with two Boeing 737-200 aircraft as Sahara Airlines. The uncertainty over the airline's fare has caused its share of the domestic Indian air transport market, from approximately 11% in January 2006 to a reported 8.5% in April. Sahara Airlines was rebranded as Air Sahara on 2 October 2000.

Air India is India's state owned primarily domestic airline, under the federal Union Ministry of Civil Aviation. The Company was formerly known as Indian Airlines. On December 7, 2005 the company was rebranded as Indian as a part of a program to revamp the company image in preparation for an IPO. Indian Civil Aviation Minister, Praful Patel, announced Government of India's plan to merge Air India and Indian into one giant airline consisting of 130-140 aircraft. This could take place anytime from the end of 2006 to the middle of 2007. If these airlines merge then they will be in direct competition with other air giants like British Airways, Air France, Air Canada, Lufthansa, KLM, JAL, American Airlines, and QANTAS.

Jet Airways a “regular” airline which offers normal economy and business class seats. Jet Airways, along with Air Sahara, is the only airline which survived the dismal period of 1990s when many private airlines in India were forced to close down. Jet Airways is an airline based in India serving domestic and international routes. The airline operates over 300 flights to 43 destinations across the. It currently controls about 32% of India's aviation market.

Airlines on Domestic Routes

SpiceJet is a low-cost airline. Their marketing theme "offering low 'everyday spicey fares' and great guest services to price conscious travelers". Their aim is to compete with the Indian Railways passengers travelling in AC coaches.

Air Deccan is an airline based in Bangalore, India. It was India's first low-cost carrier, and as of May 2006, connects 55 cities within India. Air Deccan has grown rapidly since it first started air operations in 2003, and despite its almost disastrous maiden inaugural flight (which caught fire), it continued to grow. The growing Indian economy and the increasing number of middle-class people in India has greatly helped its growth.

GoAir The People's Airline, a low cost carrier promoted by The Wadia Group is a domestic budget airline based in Mumbai, India established in June 2004. It's a relatively small player as compared to other low cost airlines.

Kingfisher Airlines is an airline based in Bangalore, India. Services started on 9 May 2005, following the lease of 4 Airbus A320 aircraft. It initially operates only on domestic routes. The airline promises to suit the needs of air travellers and to provide reasonable air fares. Kingfisher are pushing for an amendment of the present Indian government rule which requires an airline to fly a minimum of five years on domestic routes before it can start flying overseas.

IndiGo Airlines is a new and a private domestic airline based in India. IndiGo placed an order for 100 Airbus A320 aircraft during the 2005 Paris Air Show. The total order was worth US \$6 billion; one of the highest by any domestic carrier during the show. The new low-fare carrier has started operations from August 4, 2006.

Waiting for Entry:

Among the new low-cost carriers waiting to take wing in 2006 are Omega air, Magic Air, East West, Indus, Premier Star Air and MDLR Airlines

2.7.4 Global Scenario

At the macro-economic level Asia Pacific growth is impressive. India and China are growing between 8 and 10% each year. China is now the world's 4th largest economy. Excluding Japan, Asian economic growth was 7% doubles the world average of 3.5%. Global airline traffic is expected to rise steadily until 2008 in line with an anticipated good performance by the world economy, according to the United Nations' (UN) aviation agency. The UN International Civil Aviation Organization found in its medium-term forecast that airline traffic would grow 6.1 per cent in 2006, 5.8 per cent in 2007, and 5.6 per cent in 2008. And strong economic growth will continue. But growth means nothing if the bottom line is red. Globally airlines lost US\$6 billion in 2005. US carriers lost US\$10 billion. European carriers made about US\$1.3 billion. Asian carriers led profitability with US\$1.5 billion. Even within Asia it is a mixed picture. Some carriers are among the most profitable. Others however are struggling. In the region operating margins averaged less than 2%, still the best performance in the world. Most are below the 7 to 8% needed to cover the cost of capital and give investors an acceptable return.

2.7.5 Impact of Rising Fuel Prices on the Industry

The high price of fuel is killing the profitability. In two years the industry fuel bill more than doubled to nearly US\$100 billion—23% of operating costs. And there is no relief in sight. So what are airlines to do? Improve efficiency is the answer. Progress to date has been dramatic. The break-even

price of fuel rose from US\$22 per barrel in 2003 to nearly US\$50 in 2005. Unfortunately, fuel prices are above that. Airlines will not return to profitability until 2007 when we expect a break-even fuel price of US\$55. Even then the projected profit is only US\$6 billion. Asia will remain profitable in 2006 posting US\$2 billion in profit. But do not start opening the Champagne. That is still less than a 2% net margin.

2.7.6 Global Impact of LCCs

Low cost carrier competition is new to this region. Asian network carriers are better prepared than many of their US or European counterparts. Their operating costs are 6 US cents per ATK on route lengths of 1500km. But the competition will also be tough. Air Asia's costs are the lowest in the world—2.5 US cents per ATK. Labour costs in Asia are the lowest in world—19% of operating cost. This is a significant advantage against US and European carriers with an average cost of above 30%. If we compare Asian network carriers to their low cost rivals, the story changes. Average labour costs can be up to 7 times lower at low-cost startups. There is no finish line in the race to reduce costs and improve efficiency. Some analysts are of the view that Countries in the Asia-Pacific region, which entered the industry much later, have emerged as important players in the past decade. In comparison, the Indian civil aviation industry which is much older still

operates from a small base even though its domestic market potential and skilled man power should have given it intrinsic advantages to emerge as a globally important player in the civil aviation industry by now.

Path Forward for India

The escalating fuel bill would eventually translate into costlier air tickets for the Indian travelers, who have for the first time sampled air travels at fares that match first –class railway tickets.

Even as some airlines hiked fares by ten per cent and others toyed with the idea to offset their ballooning fuel bill, the government dealt them another blow by withdrawing the withholding tax exemption on aircraft lease agreements. In the absence of this tax exemption, aircraft-leasing cost is expected to shoot up between 20 to 67 per cent - a move that could deter new entrants and existing players from leasing more aircraft. Although poor airport infrastructure remains a concern, we need to maintain a positive outlook on the sector as the government allows private participation and FDIs in construction and maintenance of air-traffic infrastructure. For now, as more and more Indians take to the skies, the country is set to emerge as the fastest growing aviation market.

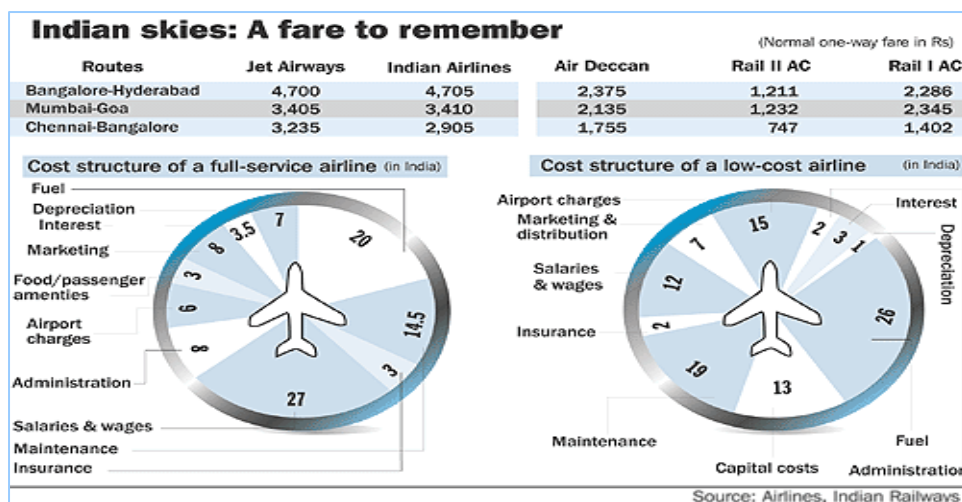


Chart 17


Airlines	Flight Strength	Type of Aircraft	Current		Future
			In Service	Stored	On - Order
Air Decca	35	A320-200, ATR 42/72-Turbo Jets	27	1	1
Air India Express	4	B737-800	4	0	8
Go Air	7	A320-200	7	0	0
Kingfisher	21	A320, A350 A300 (Super Jumbo)	21	0	1
Indigo	5	A320-200	5	0	1
Paramount Airways	4	Embraer ERJ-170	4	0	0
Spice Jet	9	B 737-800	9	0	1

A- Airbus B- Boing

Table 10

2.7.7 India's Budget Airlines : Snapshot

2.7.7.1 Air Deccan

Table 11		
		
Air Deccan		
IATA DN	ICAO DKN	Callsign DECCAN
Founded	2003	
Hubs	Bangalore International Airport	
Focus cities / secondary hubs	Chennai International Airport	
Fleet size	35	
Destinations	59	
Parent company	Air India Charters Ltd.	
Headquarters	Bangalore	
Key people	Capt GR Gopinath	
Website: http://www.airdeccan.net		

Air Deccan is India's first low-cost airline. It is a part of Deccan Aviation Private Limited, India's largest private heli-charter company. Air Deccan was established in 2003 and started operations in August that year with regular scheduled flights from Bangalore to Mangalore and Hubli. Captain G R Gopinath,

is the Managing Director of Air Deccan and is one of the founders of Air Deccan. The other founder is Captain KJ Samuel. Air Deccan is India's first airline to follow a No-Frills, Low Cost Scheduled Passenger Airline business model. The Company operates from seven bases located in the largest urban centers in India: Mumbai, Delhi, Chennai, Bangalore, Kolkata, Hyderabad and Trivandrum.

Air Deccan has grown rapidly since it first started air operations in 2003. It has revolutionized air travel in India and has brought air travel within the reach of common man. Air Deccan was the first airline in India to link second rung cities like Hubli, Madurai and Visakhapatnam to metros like Bangalore and Chennai. The airline went public in May 2006. The proceeds from the IPO will be used to set up a training centre in Bangalore and a maintenance facility in Chennai.

Presently, Air Deccan covers 57 destinations in India, which is more than any other airline in India. The Air Deccan fleet consists of 31 aircrafts. These include 13 Airbus A320-200, 5 ATR 42-320, 9 ATR 42-500, and 5 ATR 72-212A. Air Deccan has massive expansion plans. The company has acquired 30 Airbus A320s, which are to be deployed starting in 2007.

Financial Results For 15 Months Period Ended 30th June


(Rs in lakhs)

		Twelve Months Ended 31.03.2006 (Unaudited)	Quarter Ended 30.06.2006 (Unaudited)	Fifteen Months Period ended 30.06.2006 (Audited)	Year ended 31.03.2005 (Audited)
1	Net Income from Operations	83840	39799	123639	30589
2	Other Income	8325	3216	11541	1439
3	Total Expenditure				
	a) Employees Remuneration & Benefits	12011	5051	17062	3176
	b) Aircraft Fuel Expenses	40286	22259	62545	9298
	c) Other Direct Operating Expenses (incl. aircraft lease rentals)	49460	22457	71918	16582
	d) Selling, General & Administrative Expenses	8176	2736	10912	3157
4	Interest and Finance Charges	2327	868	3195	1021
5	Depreciation and Amortization	2554	674	3228	878
6	Profit/(Loss) before Tax (1+2-3-4-5)	-22649	-11031	-33680	-2085
7	Provision for Taxation				
	Current Tax includes Wealth Tax	0	0	0	0
	Deferred Tax	0	0	0	-137
	Fringe Benefit Tax	380	-3	375	0
8	Net Profit/(Loss) (6-7)	-23029	-11026	-34055	-1953
9	Paid up Equity Share Capital [Face value of Rs 10/- each]	7364	9818	9818	1620
10	Reserves excluding Revaluation Reserves	-9087	12595	12595	-254
11	Basic EPS (in Rupees)	-54.69	-13.58	-68.24	-8.38
	Diluted EPS (in Rupees)	-54.69	-13.58	-68.24	-8.38

Source: Company Report

Table 12

2.7.7.2 SpiceJet Airlines

Table 13 		
SpiceJet		
IATA SG	ICAO SEJ	Callsign SPICEJET
Founded		May 2005
Hubs		Chatrapati Shivaji International Airport. Indira Gandhi International Airport
Focus cities / secondary hubs		N/A
Fleet size		9
Destinations		13
Parent company		SpiceJet
Headquarters		New Delhi
Key people		Siddharth Sharma, Ajay Singh, the Kansagra family and Sanjay Malhotra
Website: http://www.spicejet.com		

SpiceJet is a low-cost airline based in New Delhi, India. Spice Jet's mission is to become India's preferred low cost airline, delivering the lowest air fares with the highest consumer value, to price sensitive consumers. Its vision is to ensure that flying is no longer confined to CEOs and business travelers, but is affordable for everyone.

SpiceJet airlines is promoted by Ajay Singh, the Kansagra family and Sanjay Malhotra. Spice Jet airways began its operations in May 2005. It was earlier known as Royal Airways, a reincarnation of Modiluft. SpiceJet has chosen a single aircraft type fleet which allows for greater efficiency in maintenance, and supports the low-cost structure. It has a fleet of 6 Boeing 737-800 in single class configuration with 189 seats.

SpiceJet's new generation fleet of aircraft is backed by cutting edge technology and infrastructure to ensure the highest standards in operating efficiency. It has maintenance support and state of the art technology from world leaders like KLM, Star Navigation, Russel Adams and Tech Log. Spice Jet currently flies to 11 destinations. These include: Ahmedabad, Bangalore, Chennai, Delhi, Goa, Hyderabad, Jammu, Kolkata, Mumbai, Pune, and Srinagar.

2.7.7.3 Kingfisher Airline

Kingfisher Airlines		
IATA IT	ICAO KFR	Callsign KINGFISHER
Founded	2004	
Hubs	Bangalore International Airport	
Focus cities / secondary hubs	N/A	
Fleet size	18	
Destinations	17	
Parent company	Ub Group	
Headquarters	New Delhi	
Key people	Dr. Vijay Mallya, CMD	
Website:	http://www.flykingfisher.com	

Kingfisher Airline is a private airline based in Bangalore, India. Vijay Mallya of United Beverages Group owns the airline. Kingfisher Airlines started its operations on May 9, 2005 with a fleet of 4 Airbus A320 aircrafts. The airline currently operates on domestic routes. The destinations covered by Kingfisher Airlines are Bangalore, Mumbai, Delhi, Goa, Chennai, Hyderabad, Ahmedabad, Cochin, Guwahati, Kolkata, Pune, Agartala, Dibrugarh, Mangalore and Jaipur.

In a short span of time Kingfisher Airline has carved a niche for itself. The airline offers several unique services to its customers. These include: personal valet at the airport to

assist in baggage handling and boarding, exclusive lounges with private space, accompanied with refreshments and music at the airport, audio and video on-demand, with extra-wide personalized screens in the aircraft, sleeperette seats with extendable footrests, and three-course gourmet cuisine.

Kingfisher Airlines currently operates with a brand new fleet of 8 Airbus A320 aircraft, 3 Airbus A319-100 aircraft and 4 ATR-72 aircraft. It was the first airline in India to operate with all new aircrafts. Kingfisher Airlines is also the first Indian airline to order the Airbus A380. It placed orders for 5 A380s, 5 A350-800 aircrafts and 5 Airbus A330-200 aircrafts in a deal valued at over \$3 billion on June 15, 2005. Delivery of the A330s is due to start in late 2007, followed by the A380s in 2010 and the A350s in 2012.

2.7.7.4 GoAir Airlines

GoAir Airlines		
IATA GB	ICAO GOW	Callsign GOAIR
Founded	2004	
Hubs	Chhatrapati Shivaji International Airport	
Focus cities / secondary hubs	Chennai International Airport	
Fleet size	4	
Destinations	12	
Parent company	Wadia Group	
Headquarters	Mumbai India	
Key people	Jehangir (Jeh) Wadia	
Website:	http://www.goair.in	


GoAir Airlines is a low-cost budget airline based in Mumbai, India. The airline is promoted by Wadia Group, which has been synonymous with leading Indian companies, through its brands Britannia and Bombay Dyeing. Go Air Airlines has been showcased as "The People's Airline" and is the brainchild

of Jeh Wadia, who is the Managing Director of GoAir Airways.

GoAir Airlines Director, is looking at 'commoditising air travel' by offering airline seats at marginally higher train prices to all cities in India. The airlines theme line is "Experience The Difference" and its objective is to offer its passengers a quality consistent, quality assured and time efficient product through affordable fares. GoAir's business model has been created on the 'punctuality, affordability and convenience' model.

GoAir's route network spans prominent business and leisure destinations, across India. Currently it covers 13 destinations. These are Ahmedabad, Bangalore, Chennai, Cochin, Coimbatore, Delhi, Goa, Hyderabad, Jaipur, Jammu, Mumbai, Pune, and Srinagar. Go Air operates with state-of-the-art Airbus A320 aircraft fleet.

2.7.7.5 Paramount Airways

Table 16		
		
Paramount Airways		
IATA 17	ICAO PMW	Callsign PARAWAY
Founded		2005
Hubs		Chennai International Airport
Focus cities / secondary hubs		N/A
Fleet size		3
Destinations		6
Parent company		Paramount Airways
Headquarters		Coimbatore, India
Key people		Mr. Thiagarajan
Website: http://www.paramountairways.com		

Paramount Airways is a low-cost private airline operating in India. Paramount Airways was launched on October 19, 2005 by the Paramount Group, a leading Indian textile manufacturer based in Madurai. The headquarters of Paramount Airways is in


Coimbatore.

Paramount Airways is unlike any other low-cost Indian airline. It provides exceptional value for money, unparalleled comfort and convenience to the passengers. Paramount Airways offers several value added facilities such as valets to assist in boarding the plane, gourmet meals, and a range of in-flight services and entertainment.

Paramount Airways has number of firsts to its credit. It is the first airline in India to launch the New Generation Embraer 170/190 Family Series Aircrafts. It is the first to offer full business class services but at prices that are equivalent to the economy class fares of other carriers. Paramount Airways is also the premium service schedule airline offering first time direct services to a number of commercial Hubs in India, connecting them to primary metros across the country.

Paramount Airways presently operates only in South India connecting Bangalore, Chennai, Cochin, Coimbatore, Hyderabad and Madurai.

2.7.7.6 IndiGo Airlines

Table 17		
IndiGo Airlines		
<u>IATA</u> 6E	<u>ICAO</u> IGO	<u>Callsign</u> IFLY
Founded		2005
Hubs		Chatrapati Shivaji International Airport, Indra Gandhi International Airprt
Focus cities / secondary hubs		Pune
Fleet size		3
Destinations		11
Parent company		Inyterglobe Enterprises
Headquarters		New Delhi
Key people		Rahul Bhatia, Bruce Ashby
Website: http://www.goindigo.in		

IndiGo is the latest entrant to the domestic civil aviation space in India. The low cost carrier took off its inaugural flight from Delhi to Imphal on August 4, 2006. IndiGo is targeting those people who are cost conscious and are looking for affordability, punctuality and hassle-free processing.

IndiGo presently has a fleet of four aircrafts and plans to expand its fleet and network in a phased manner. By the end of 2006, IndiGo is aiming at six aircrafts and 12 cities and has plans to expand its fleet to 15 by the end of 2007. IndiGo proposes to serve around 30 Indian cities with a fleet of 40 Airbus A-320s by 2010. IndiGo would have fleet of only one type of aircraft, the A-320 that has a capacity of 180 passengers.

Some of the sectors on which IndiGo is concentrating are Delhi - Imphal, Delhi - Pune - Bangalore, Delhi - Kolkata - Guwahati, Delhi - Hyderabad, Delhi - Mumbai, and Delhi - Nagpur.

2.7.7.7 Jagson Airline

Jagson Airways		
IATA NA	ICAO NA	Callsign TBA
Founded	2005	
Hubs	Chatrapati Shivaji International Airport, Indra Gandhi International Airprt	
Focus cities / secondary hubs	Pune	
Fleet size	3	
Destinations	8	
Parent company	NA	
Headquarters	New Delhi	
Key people	Rahul Bhatia, Bruce Ashby	
Website:	http://www.goindigo.in	

Jagson Airline is a private low-cost budget airline based in Delhi, India. In 1991 when the aviation sector was opened for the private sector, Jagson Airlines, was the first private airline to avail of this opportunity. It commenced its operations in 1992.

Jagson Airline presently flies to select destinations in Himachal Pradesh, Uttaranchal and Rajasthan. It also operates a helicopter service between Srinagar, Baltal and Amarnath. Jagson Airlines has decided to expand its operations and would cover Delhi, Patna, Bangalore, Mumbai, Kolkata, Guwahati, Jaipur, Dibrugarh and Goa in initial phase. In the second phase, services would be expanded to Lucknow, Kochi and Hyderabad. For its initial operations Jagson Airlines has taken six Airbus aircrafts on dry-lease. The destinations currently covered by Jagson Airline are:

- Delhi
- Jaipur
- Udaipur
- Dharamshala
- Jaisalmer
- Kullu
- Shimla

2.7.7.8 Air-India Express

Air India Express		
IATA IX	ICAO AXB	Callsign EXPRESS INDIA
Founded	2005	
Hubs	Trivandrum International Airport Cochin International Airport	
Focus cities / secondary hubs	Indira Gandhi International Airport Kozhikode International Airport Mumbai International Airport Chennai International Airport	
Fleet size	7	
Destinations	11	
Parent company	Air India Charters Ltd.	
Headquarters	Mumbai	
Key people		
Website:	http://www.airindiaexpress.in/airindiaexpress/home.asp	

Air-India Express is a low-cost airline subsidiary of Air India. Air-India Express promises to offer trips to the Gulf from India at 25% lower fares than Air India, will operate on a zero-commission basis. Operations are expected to continue with three aircraft.

With flying becoming more and more popular in India, a large group of customers are demanding low cost international flights like the new low-cost domestic private airlines. To help meet this need and expand the airline, Air India spun off Air India Express as its low-cost avatar. Currently operating in Gulf & Middle Eastern routes and some Southeast Asian routes, the sister airline has plans for expansion into Europe and America with the arrival of new aircraft.

The airline was established in May 2004 and started operations on April 28, 2005 from Thiruvananthapuram. Their first Boeing 737 had been delivered in February 2005. Services are from the State of Kerala, Mangalore, New Delhi and Mumbai to Gulf destinations and from Chennai to South East Asia.

Initial plans for the airline fleet included delivery of 18 Boeing 737-830 winglet-equipped aircraft over two years. Delivery of the first aircraft for Air-India Express took place on 22 February 2005 when a new production Boeing 737-86Q (leased from Boullioun Aviation Services) was handed over. Operations are expected to start with three aircraft and the other two Boeing 737-8BKs are being leased from CIT Leasing.

2.8 Summary of Key Challenges

- **Standards of international airports:** Visitors are generally not impressed by the standard of India's international airports. Most of the facilities are outdated and in need of a total facelift to accommodate more charters, bigger aircraft and handle the increased number of passengers passing through.

- **Expensive domestic flights:** Domestic flights are still too expensive, while the government must be complimented on the reduction on ATF taxes, high cost domestic aviation makes it cheaper for Indian travelers to visit other countries rather than their own.
- **High level of bureaucracy:** The other end of the scale, India's lack of decent convention facilities means it is still missing out on the profitable MICE sector. Singapore, Malaysia, Hong Kong, Jakarta and Dubai are considered attractive options, bringing in high profile tourists among the delegates, but India is not yet on the conference map. While building more hotels would provide an answer and there is still a great deal of land that could be developed, the high cost of land coupled with complex laws and large amounts of bureaucracy acts as a deterrent.
- **Legalization of gambling:** Areas that are still left wide open by the government for the development are the legalization of the gambling (which is the main source of income in some tourist destinations in tourist places).
- **Demand and supply mismatch:** The demand and supply mismatch in the availability of rooms discourages the tourist to change their plans. As very few countries share the same demand and supply mismatch which the Indian hoteliers face where the average tourist stay is 10 to 12 days.
- **Cruise tourism:** Cruise tourism is also another area, which needs attention from the government. In the last six years the cruise tourism alone has generated US\$100 million to the Indian government. But still not enough cruise terminals are set to facilitate the tourist or not proper information regarding the packages is made available to the tourists.

2.9 Foreign Exchange Earning From Tourism

The Foreign Exchange earnings from tourism

Year	Foreign Exchange Earnings (Rs. In Million)	Percentage Change	Foreign Exchange Earnings (USD in Million)	Percentage Change
1991	4318	-	1861	-
1992	5951	37.8	2126	14.2
1993	6611	11.1	2124	-0.1
1994	7129	7.8	2272	7.0
1995	8430	18.2	2583	13.7
1996	10046	19.2	2832	9.6
1997	10511	4.6	2889	2.0
1998	12150	15.6	2948	2.0
1999	12951	6.6	3009	2.1
2000	14238	9.9	3168	5.3
2001	14344	0.7	3042	-4.0
2002	14195	1.0	2923	-3.9
2003	16429	15.7	3533	20.9
2004	21603	31.5	4769	35.0
2005*	25172	16.5	5731	20.2

* Provisional

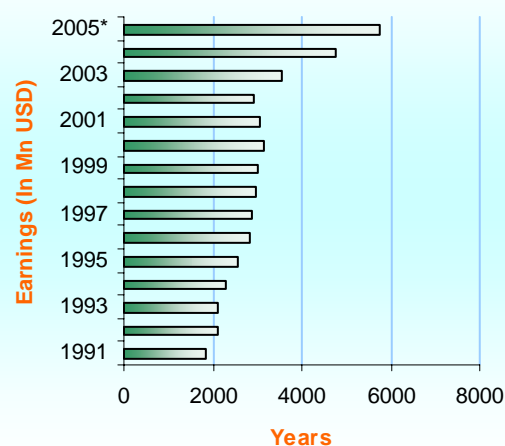
Source: Reserve Bank of India

Table 20

Chart 18: Foreign Exchange Earnings Through Tourism (in Rs Crores)



Chart 19: Foreign Exchange Earnings Through Tourism (In Mn USD)



2.10 Share of India in the World Tourism Receipts

The share of India in the World Tourism receipts fluctuates from 0.62% to 0.69% over the last ten years. However the share of

India increased 0.77% in 2004. Worldwide, international tourism receipts are estimated at USD 680 billion in 2005. Following table indicates the receipts & share of India 1995 to 2005.

Year	World Travel Receipts (USD Bn)	Travel Receipts In India (USD Mn)	Percentage Share of India
1995	405.3	2583	0.64
1996	436.3	2832	0.65
1997	439.7	2889	0.66
1998	442.6	2948	0.67
1999	457.2	3009	0.66
2000	477.0	3168	0.66
2001	463.6	3042	0.66
2002	474.2	2923	0.62
2003	525.0	3533	0.69
2004	622.0	4769	0.77
2005	680.0	5731	0.84

Sources: CEIC ; Reserve Bank of India; WTO

Table 21

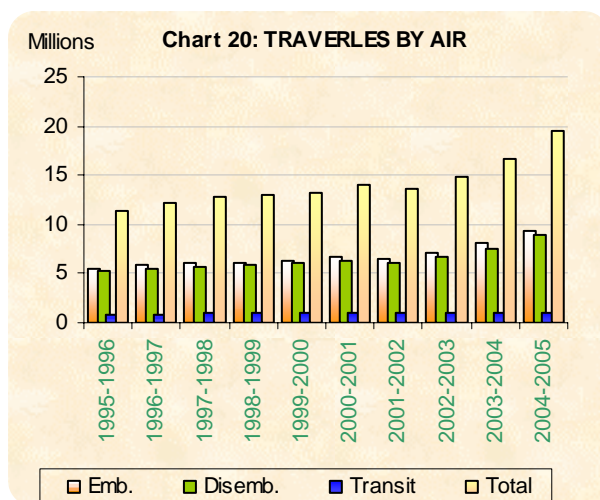
2.11 Outbound Tourism

The total count of departures by Indian national for other countries has seen a boom in the recent years. Several reasons account for the positive trend. First, the upward trend observed in the growth rate of Indian economy has raised middle class incomes, prompting more people to spend money on vacations abroad or at home. Secondly, the government's Open Skies policy, permission

for domestic airlines to commence international flights, start up of various low-cost carriers, and fleet expansion by domestic players has created a huge incentive for domestic travelers to explore distant countries. The booming aviation industry is bringing an ever-increasing number of passengers to India and pulling Indians out of their homes and into hotels.

Year	International				Domestic			Grand
	Emb.	Disemb.	Transit	Total	Emb.	Disemb.	Total	Total
1995-1996	5,438,634	5,186,739	824,383	11,449,756	12,807,563	12,756,435	25,563,998	37,013,754
1996-1997	5,806,238	5,537,318	880,104	12,223,660	12,162,330	12,113,778	24,276,108	36,499,768
1997-1998	6,132,472	5,716,411	933,886	12,782,769	11,978,485	11,870,348	23,848,833	36,631,602
1998-1999	6,079,450	5,856,366	980,972	12,916,788	12,150,844	11,921,787	24,072,631	36,989,419
1999-2000	6,238,717	6,013,477	1,040,833	13,293,027	12,933,399	12,808,122	25,741,521	39,034,548
2000-2001	6,651,211	6,349,833	1,008,008	14,009,052	14,049,936	13,967,632	28,017,568	42,026,620
2001-2002	6,529,015	6,174,005	921,692	13,624,712	13,172,617	13,186,010	26,358,627	39,983,339
2002-2003	7,143,401	6,727,748	954,650	14,825,799	14,520,395	14,377,130	28,897,525	43,723,324
2003-2004	8,102,987	7,601,199	937,263	16,641,449	16,096,877	16,041,285	32,138,162	48,779,611
2004-2005	9,377,325	8,948,180	1,098,952	19,424,457	20,026,661	19,832,682	39,859,343	59,283,800

Table 22



2.12 Domestic Tourism Statistics

The travel bug that's bitten Indians as seen from the Table below, there has been a continues increase in the domestic tourist visits, with the year 2004 witnessing a growth of 18.5 per cent over 2003, against a growth of 14.6 per cent in the year 2003 over 2002. The domestic tourism sector grew sharply on the back of a buoyant economy, sustained tourism growth and the fact that there were no major natural disasters that could have impacted growth. The Indian economy has raised middle class incomes; prompting more people to spend money on vacations at home. Improved access and convenience of travel, especially by air, have also aided growth in the segment.

Domestic Tourist Visit		
Years	Number of Domestic Tourist Visits	% Change Y-on -Y
1999	190,671,014	-
2000	220,106,941	+15.1
2001	234,200,935	+6.4
2002	269,598,028	+15.1
2003	309,038,335	+14.6
2004	366,221,248	+18.5

Source: Bureau of Immigration

Table 23

The top five states that were most commonly visited by domestic tourist was Uttar Pradesh and Andhra Pradesh accounted for 48.4 percent of the total domestic tourism followed by Tamil Nadu (11.5 per cent), Karnataka (7.4 per cent) and Rajasthan (4.4 per cent) in 2004.

2.13 Hotel And Room Supply

ARR expected to rise further

The year 2005 has been one of record numbers for the hospitality industry. Whether occupancies, average room rates (ARR's) or stock performance, the industry could not have asked for a better run. The 14% expected growth in inbound travel to India also loses its sheen when compared with the impressive 25% growth in outbound travel from India in the same period. The year 2005 has been one of record numbers for the hospitality industry. Whether occupancies, average room rates (ARRs) or stock performance, the industry could not have asked for a better run. As the peak tourism period is between October and March every year. However, occupancy for all months was higher in 2004-2005 compared to the last five years.

The hospitality industry grew sharply on the back of a buoyant economy, sustained tourism growth and the fact that there were no major natural disasters that could have impacted growth. Improved access and convenience of travel, especially by air, have also aided growth in the segment.

With growing business, domestic and international leisure travel, room demand is going to rise further. Foreign tourist arrivals galloped 24.7% to 325,349 tourists in April 2006 over April 2005, and by 14.7% to 262,860 tourists in May 2006. Moreover, the spending per foreign tourist arrival also increased by 5% to US\$1,456 in FY2006 over FY 2005. The hospitality industry, during the period of Jan-Mar 2006 witnessed 16% surge in the foreign exchange over the

same period, last year, mainly backed by robust growth in the Average Room Rate (ARR) and Occupancy Rate (OR) in all major cities. Robust growth in ARR and OR in cities like Goa and Jaipur witness higher inflow of foreign leisure travelers during the tourist season, Mumbai, Delhi, Bangalore and Hyderabad continue to buoy with rise in business travel and increasing MICE activities. Bangalore, the costliest city in the country and third most expensive city in the world is expected to see a 17-20% rise in ARR at Rs 10,700 to Rs 12,000 with the occupancy level of about 80-82% during the quarter ended December 2005. Similarly, Goa is expected to report ARR between Rs 4,250 to Rs 4,500 with an occupancy level of about 58-60% during the same period.

In 2004, there were 1,892 hotels in India, an increase of compared to 1722 hotels in 2003, whilst the number of lettable rooms increased by 6.59 per cent from 91,720 rooms to 97,770 in 2004. The highlights of the year's performance include the sharp growth in occupancies and ARR in second-tier cities such as Indore, Jaipur, and Agra, the flood of investment in the sector by both hoteliers and new entrants; and interest in the budget hotel segment.

Second-tier cities lead in occupancies, ARR: Despite the increase in the number of hotel rooms in the country, the demand-supply mismatch remains quite large. This is evident from the increase in ARR by 24 per cent over the previous year. Coupled with a rise in occupancies, the overall Rev PAR (revenue per available room) grew by 29 per cent at Rs 4,167.

According to a recent report by CRISInfac, for the 11 months to November 2005, Hyderabad, with an occupancy rate of 85 per cent, led in terms of the growth in average occupancy. It was followed by Kolkata (with occupancy of 73 per cent), Jaipur (62 per cent), and Agra (56 per cent).

ARRs in Pune posted the sharpest growth in the country at 45 per cent, followed by Bangalore (40 per cent), Hyderabad (33 per cent), and Delhi (32 per cent).

The record numbers in the second-tier cities due to the spread of the IT and Outsourcing boom in these cities.

Hyderabad topped the list in the overall growth in Rev PAR at 45 per cent followed by Agra (43 per cent), Jaipur (40 per cent), and Delhi and Kolkata (37 per cent).

Despite the frenzied increase in upgrading hotel services to cater to various categories of travelers and so on, the size of the Indian hotel industry is small compared to the Manhattan area in New York has as many rooms as in the entire country. Besides, only a quarter of these rooms are in the branded segment. HVS International, a global hospitality consultancy firm, expects another 100,000 to 125,000 hotel rooms to be added in the next five to seven years, with ARR rising by 20-25% over the next two or three years. According to its preliminary estimates, there are about 55,000-60,000 rooms presently under construction. Bearing in mind the growth prospects, domestic hotel players have already started ramping up their existing capacities. Hotel Leela is adding to its existing inventory in Bangalore

Year	Hotel Supply	Change	Room Supply	Change	Room Occupancy Rate (%)
2000	1420	125	77,193	5079	48.6
2001	1541	121	82,181	4988	50.4
2002	1570	29	85,481	3300	55.4
2003	1722	152	91,720	6239	60.7
2004	1892	170	97,770	6050	65.1

Source : Department of Tourism of India

Table 24

and Mumbai. Hyderabad-based Taj GVK Hotels & Resorts is increasing its capacities in Hyderabad. Royal Orchid Hotels, which offloaded its equity beginning 2006, is making over all three of its hotels at a capex of Rs 29.68 crore. Bharat Hotels is adding a new block to its properties in Bangalore and renovating its property in New Delhi. Viceroy Hotels, which has tied with JW Marriott, is refurbishing its existing hotel at Bangalore.

To accommodate tourist influx, the number of hotels has spurted from 1,713 in 2000 to 1,881 in 2005. Rooms have increased from 91,294 to 105,070 in the same period, according to the Federation of Hotel and Restaurant Association of India (FHRAI). The foreign exchange earnings grew by 18% to US\$ 5,931.10 million in FY 2006 over the previous year. With the rising demand, the average room rentals (ARRs) in eight major cities, too, have soared from Rs 3499 in FY 2002 to Rs 5859 (estimated) in FY 2006 — a rise of 67%. Occupancies improved from 57.8% to 75.1%. Hotels in Bangalore, the ITES hub, have the distinction of charging the highest ARR of Rs 11100 — triple of what it was in FY 2002. At 82%, Hyderabad reported the highest occupancy in FY 2006. The biggest gainer in occupancy over the

last four years was New Delhi from 53.30% in FY 2002 to 80% in FY 2006. Along with expanding existing capacities, industry players are also adding new properties to tap the growing demand-supply gap.

Food & Beverage revenue represented 28.3 per cent of total revenue across all hotels, a decrease of 4.6 per cent from 2004. The all India Average of Rooms department expense as a proportion of Rooms revenue declined further from 17.8 per cent in 2003-2004 to 14.7 per cent in 2004-2005. Similarly, the all India average Food & Beverage department expense as a percentage of Food & Beverage revenue declined from 53.9 per cent in 2003-2004 to 53.9 per cent in 2004-2005. Minor operated department expense as a percentage of Minor Operated department revenue registered an increase From 53.7 per cent in 2003-2004 to 14.7 per cent in 2004-2005.

Star category-wise occupancies ranged from 46.3 per cent to 72.1 per cent. Average rates showed a much greater spread, from Rs 5,499 for five star deluxe hotels to Rs 643 for one-star hotels, an increase of Rs 1,052 and Rs 140, respectively from 2004.

AVERAGE OCCUPANCIES & RATES FOR CITIES IN INDIA 2002-2005

City	Average Occupancy (%)			Average Rate (Rs)		
	2002-2003	2003-2004	2004-2005	2002-2003	2003-2004	2004-2005
All India	54.80%	59.70%	63.60%	2,004	2,689	3,413
Agra	42.20%	51.00%	62.70%	1,232	2,201	1,895
Aurangabad	34.10%	63.00%	61.10%	1,733	2,998	1,784
Bangalore	72.40%	78.00%	79.80%	2,149	4,109	6,762
Bhopal	62.30%	59.60%	71.20%	1,145	1,677	1,785
Chennai	63.90%	61.60%	73.30%	2,048	2,061	2,384
Cochin	57.60%	69.00%	64.80%	1,089	1,368	1,062
Coimbatore	ID	64.50%	67.50%	ID	1,407	1,401
Darjeeling	ID	62.60%	66.30%	ID	1,902	1,570
Goa	60.20%	65.30%	60.10%	1,982	2,147	2,704
Hyderabad	71.00%	72.80%	75.20%	2,049	2,406	2,729
Indore	64.70%	61.40%	60.00%	782	521	661
Jaipur	56.90%	62.60%	71.50%	1,289	1,628	1,791
Jodhpur	37.40%	45.90%	56.20%	1,561	1,226	3,346

Table 25

AVERAGE OCCUPANCIES & RATES FOR CITIES IN INDIA 2002-2005 (cont')

	Average Occupancy (%)			Average Rate (Rs)		
Kolkata	63.60%	64.60%	67.10%	1,342	2,520	2,210
Kullu-Manali	ID	34.50%	47.00%	ID	1,964	2,668
Lucknow	56.60%	66.30%	66.70%	129	1,642	1,867
Mount Abu	38.10%	51.80%	47.10%	922	1,084	1,255
Mumbai	62.60%	66.30%	74.90%	1,822	3,063	4,307
Mussorie	ID	70.00%	61.00%	ID	2,685	2,997
Mysore	51.10%	34.80%	ID	1,120	878	ID
Nagpur	57.20%	51.30%	46.10%	1,032	985	931
New Delhi	58.30%	69.10%	76.60%	2,918	4,247	5,498
Pune	59.90%	62.10%	77.20%	1,141	1,820	1,295
Shimla	46.70%	45.00%	53.80%	1,022	2,080	1,679
Thiruvananthapuram	60.30%	51.10%	47.50%	983	1,302	1,805
Udagamandalam (Ooty)	ID	48.80%	44.40%	ID	1,609	1,861
Udaipur	46.60%	45.70%	54.50%	1,644	2,473	3,800
Vadodra	46.40%	62.50%	62.60%	1,110	458	467
Visakhapatnam	ID	70.10%	80.60%	ID	1,293	1,531

ID = Insufficient Data

Source: Fhrai Survey 2005

Table 25 (cont')

Though there is a huge room capacity addition lined up by many companies and which are under various stages of construction, the demand supply mismatch is expected to continue at least for the next two years.

2.14 Travel Agents, Tour Operators and Tourist Transport Operators

In order to encourage quality standards and Services, the Ministry of Tourism approve travel agents, tour operators, tourist operators and adventure tour operators in the country to strict guidelines.

Travel Trade (Number)	2004	2003	2002	2001	2000
Travel Agencies	223	186	182	306	306
Tour Operators	308	340	346	404	404
Tourist Transport Operators	175	154	135	283	283
Adventure Tour Operators	13	13	11	5	5

Source: Dept. of Tourism

Table 26

3. Leading Players

3.1 Major Players

3.1.1 East India Hotels Ltd.

East India Hotels Ltd. was incorporated on 26th May, 1949 in Calcutta and was promoted by Rai Bahadur M.S. Oberoi and Oberoi Hotels (India) Ltd. The Company was built in collaboration with Intercontinental Hotels Corporation, a wholly owned subsidiary of Pan American World Airways. In 1966 the company entered into a collaboration agreement with Sheraton International Inc., Boston. In 1968 the Associated Hotels of India Ltd., and Hotels Pvt. Ltd., were amalgamated with the Company. In 1988 the company entered into a joint venture agreement with Accor of France for construction and development of medium priced hotels. In 1996 the name of the company was changed to EIH Ltd. from East India Hotels Ltd. In 2004 the company entered into a strategic alliance with Hilton International. At present the company owns the second largest chain of hotels in India. It has 31 hotels and resorts in addition to two luxury cruises under its various group companies located in India and abroad. EIH has announced 12 new projects (company owned and/or company managed) to be undertaken in India and abroad including management of luxury hotels in Dubai. The company has also undertaken building of a luxury train in a joint venture with the Government of Rajasthan and Indian Railways. Apart from the hotels, the company is building a luxury Nile cruiser in Egypt. The vessel would commence operation in 2007. The cruise would have 30 cabins with four therapy suites.

East India Hotels Ltd.(EIH) is India's third largest player in hospitality industry with market share of 11%. EIH operates hotel under The 'Oberoi' and 'Trident' brands. Oberoi properties are luxury hotels in the

premium segment, addressing the needs of foreign and domestic business. Trident hotels are high quality medium priced hotels, accorded 3,4 and 5 star ratings. EIH also operates hotels at various international destinations like Egypt, Indonesia and Mauritius. A tie-up with Hilton international, continuous increase in tourist inflow coupled with increased room demand and increased ARR's & occupancy rates have been key triggers for performance. EIH, with over 2,900 rooms spread across 20 locations. EIH have entered into a strategic alliance with Hilton International Co. for co-branding hotels in India under the Trident Hilton brand, which brings together the global brand equity and extensive worldwide marketing resources of the Hilton Group. To support the ongoing demand expansion is on the cards. Hoteliers are expanding their capacity. Due to the tremendous shortfall of rooms in India it is expected that the hotel companies to expand their present capacity to take advantage of the ongoing demand. Not only the Indian companies but also foreign brands are launching their hospitality arms for opening premium hotels. Many international brands are putting lot of money, giving Indian players a real good competition. However, the next two years will see the demand going up sharply, even as the supply stagnates. The company is planning to get the hotel at Bandra-Kurla complex to be completed in the next couple of years. This hotel will have approximately 450 rooms for which the company has already acquired land and soft architect & building work upto plinth has already been completed. The total cost of this project is estimated to be Rs 650 crore, of which Rs 310 crore has been spent. EIH recently sold land at Gurgaon for Rs 1.1bn from it. This sale of land would help to repay debt and reduce gearing. EIH has shifted its strategy from owning & managing property to managing property. The company intends to leverage its expertise in managing the hotels

to avoid higher risks and costs associated with owning the property. They are the three sixty, an all day dining restaurant and Travertino- an Italian fine dining restaurant. Also the company has opened a new restaurant- 'Tiffin' at The Oberoi, Mumbai and 'The Polo Club' at The Oberoi, Bangalore. The government of India has ranked Travel and Tourism as an economic

priority having recognized and acknowledged the significance of the industry for the country's economy. The Tourism Department's 'Incredible India' campaign has been widely acclaimed. The growth in tourist arrivals is encouraging and higher paying tourists are visiting the country. Foreign tourist arrivals into India are expected to grow at a 10% CAGR for the next 5-6 years.

Financial Years' Snapshot

Income Statement

Period to (Rs in mn)	FY02 (12)	FY03 (12)	FY04 (12)
Net Sales	3,747	3,823	4,450
Operating expenses	(3,311)	(3,537)	(3,860)
Operating profit	436	286	590
Other income	526	530	595
PBIDT	962	816	1,185
Interest	(186)	(119)	(348)
Depreciation	(288)	(346)	(389)
Amortization	(1)	(7)	(34)
Profit before tax (PBT)	487	275	415
Tax	(131)	(120)	(133)
Profit after tax (PAT)	356	155	282

Balance Sheet

Period (Rs mn)	FY02 (12)	FY03 (12)	FY04 (12)
Sources of Funds			
Share Capital	1,524	1,524	1,224
Reserves	8,869	8,721	8,645
Net Worth	10,393	10,245	9,869
Loan Funds	4,648	6,018	7,435
Def Tax (liability)	0	1,102	1,185
Total	15,041	17,365	18,489
Uses of Funds			
Gross Block	11,922	13,961	14,270
Accd Depreciation	(2,253)	(2,564)	(2,940)
Net Block	9,669	11,396	11,330
Capital WIP	2,741	1,808	2,069
Total Fixed Assets	12,410	13,205	13,399
Investments	2,801	2,850	3,399
Total Current Assets	2,300	2,643	2,998
Total Current Liabilities	(1,521)	(1,433)	(1,584)
Net Working Capital	779	1,210	1,414
Miscellaneous Expd.	29	101	277
Def Tax (assets)	(979)	0	0
Total	15,041	17,365	18,489

Table 27

Cash Flow Statement		
Period to (Rs mn)	FY03	FY04
Net profit before tax and extraordinary items	275	415
Depreciation	346	389
Interest expense	188	348
Interest income	(69)	(73)
Dividend income	(1)	(1)
Operating profit before working capital changes	738	1,078
Add: changes in working capital		
(Inc)/Dec in sundry debtors	(24)	(86)
(Inc)/Dec in Interest Accrued	(1)	2
(Inc)/Dec in inventories	(25)	(0)
(Inc)/Dec in other current assets	(126)	(351)
Inc/(Dec) in sundry creditors	29	97
Inc/(Dec) in other current liabilities	(17)	54
Net change in working capital	(264)	(284)
Cash from operating activities	474	793
Less: Income tax	(120)	(133)
Inc/(Dec) in Def Tax liability	1,102	83
(Inc)/Dec in Def Tax asset	(979)	0
Cash flow before extraordinary item	478	743
Misc expenses	(72)	(176)
Net cash from operating activities	406	567
Cash flows from investing activities		
(Inc)/Dec in fixed assets	(1,141)	(583)
(Inc)/Dec in Investments	(49)	(549)
Interest received	69	73
Dividends received	1	1
Net cash from investing activities	(1,119)	(1,058)
Cash flows from financing activities		
Inc/(Dec) in debt	1,370	1,417
Inc/(Dec) in equity/premium	0	(300)
Direct add/(red) to reserves	(34)	(92)
Interest expense	(188)	(348)
Dividends	(268)	(266)
Net cash used in financing activities	880	411
Net increase in cash and cash equivalents	167	(80)
Cash at start of the year	357	524
Cash at end of the year	524	444

Table 28

Ratios			
Period	FY02 (12)	FY03 (12)	FY04 (12)
Per share ratios			
EPS (Rs)	6.8	3.0	5.4
Div per share	6.0	3.0	3.0
Book value per share	198.4	195.5	188.4
Valuation ratios			
P/E	33.0	75.9	41.7
P/BV	1.1	1.1	1.2
EV/sales	4.3	4.5	4.2
EV/ PBIT	23.8	37.2	24.6
EV/PBIDT	16.7	21.1	15.8
Profitability ratios			
OPM (%)	25.7	21.3	26.6
PAT %	9.5	4.0	6.3
ROCE	6.4	5.0	6.8
RONW	3.4	1.5	2.9
Liquidity ratios			
Current ratio	1.5	1.8	1.9
Debtors days	35.8	37.4	39.2
Inventory days	28.3	30.1	25.9
Creditors days	48.7	50.5	51.3
Leverage ratios			
Debt / Total equity	0.54	0.76	0.91
Component ratios			
Raw material	9.9	10.5	9.8
Staff cost	29.1	30.5	28.0
Upkeep and services cost	20.4	22.3	21.5
Other expenditure	29.0	29.3	27.5
Payout ratios			
Dividend Payout Ratio	91.0	114.7	66.5
Dividend (Rs in mn)	314	157	157
Total dividend (inc div tax) (in mn)	415	268	266
No. of equity shares (in mn)	52.4	52.4	52.4
CMP (Rs)	224	224	224
Market capitalization (Rs in mn)	11,736	11,736	11,736
Enterprise value (Rs in mn)	16,027	17,230	18,727

Table 29

3.1.2 Thomas Cook India Ltd

Thomas Cook (TCIL) began its Indian operations in 1881, with its first office in Mumbai. Subsequently, it expanded to the cities of Kolkata, Bangalore, Delhi and Chennai, under the aegis of Thomas Cook Overseas Limited. The current company, Thomas Cook (India) Limited (TCIL) came into existence with effect from November 1, 1978. TCIL made its public issue in February 1983. TCIL activities include Corporate Travel, Leisure Holidays, Foreign Exchange and Travel related Insurance.

The major shareholder of the company are TCIM Ltd (60%), Dubai Financial LLC (8.12%); State Bank of India (8.29%). The company is represented in 19 cities across 67 location in India with over 1,100 employees. Thomas Cook is quoted in BSE and NSE Stock Exchanges.

Thomas Cook (India) Ltd. has been a recipient of a number of highly prestigious awards, including :

2004 – 2005

1.	Best Travel Agency Award, 2005 by The Pacific Asia Travel Writers Association (PATWA)
2.	PATA Gold Award, 2005 by Pacific Asia Travel Association (PATA) for marketing in the category of Industry Tour Operator / Travel Agent.
3.	Best Website Award by the Association of Business Communications of India (ABCI), where the company won the first prize for its website – www.thomascook.co.in – (3 years in a row).
4.	Best Technology Award, 2005 by Galileo Express Travel & Tourism Award for Best Technology Programmes.
5.	Excellence in Financial Reporting in Service Sector by The Institute of Chartered Accountants of India.
6.	Top CFO, Mr. Robin Banerjee, Executive Director – Finance by Business Today Magazine, listed amongst the top 13 of India's Best CFO's.
7.	Galileo India Express Travel and Tourism Awards Best Technology Programmes (2004-05).
8.	Best Travel Agency for Tourism Related Services by PATWA (Pacific Area Travel Writers Association) ITB Berlin Germany- March 2005.
9.	Malaysia Airlines Gold Award presented to Thomas Cook (I) Ltd. for Outstanding Sales Achievement 2004-05.
10.	Qantas High Flyer Award 2004-05 to Thomas Cook (I) Ltd.

Table 30

Financial Years' Snapshot

Thomas Cook (India) Limited

	2005 Rupees	2004 Rupees	2003 Rupees	2002 Rupees
Total Income	1305338	1312946	1089549	1008567
Total Expenditure	890175	884120	755498	706983
Profit Before Taxation	415163	428826	334051	301584
Profit Available for Appropriation	283612	287180	216267	193236
(After tax & Adjustments For Prior Year (if any))				
Retained Earnings				
Retained Earnings For the Year	221254	225345	154572	145111
Dividend Paid/Payable	54688	54688	54688	48125
Dividend Tax	7670	7147	7007	—
Dividend Percentage	37.5	37.5	37.5	33
Earnings Per Share (Rs.) Before Exceptional Charge	18.4	18.8	14.8	13.3
After Exceptional Charge				
Fixed Assets	536967	526369	472869	445920
Investments	190903	35806	78704	30236
Net Current Assets #	905567	1015028	664038	824225
Misc. Expenditure	—	—	—	1959
Total Application of Funds	1633457	1577203	1215611	1302340
Share Capital	145833	145833	145833	145833
Reserves	1487624	1281370	1068525	913952
Shareholders' Funds	1633457	1427203	1214358	1059785
Loan Funds	—	150000	1253	242555
Total Source of Funds	1633457	1577203	1215611	1302340

† Profit before tax and exceptional charge for period ended 31st October, 2001 of Rs.27716

* On the increased capital base

Net of Deferred Tax Liability

Table 31

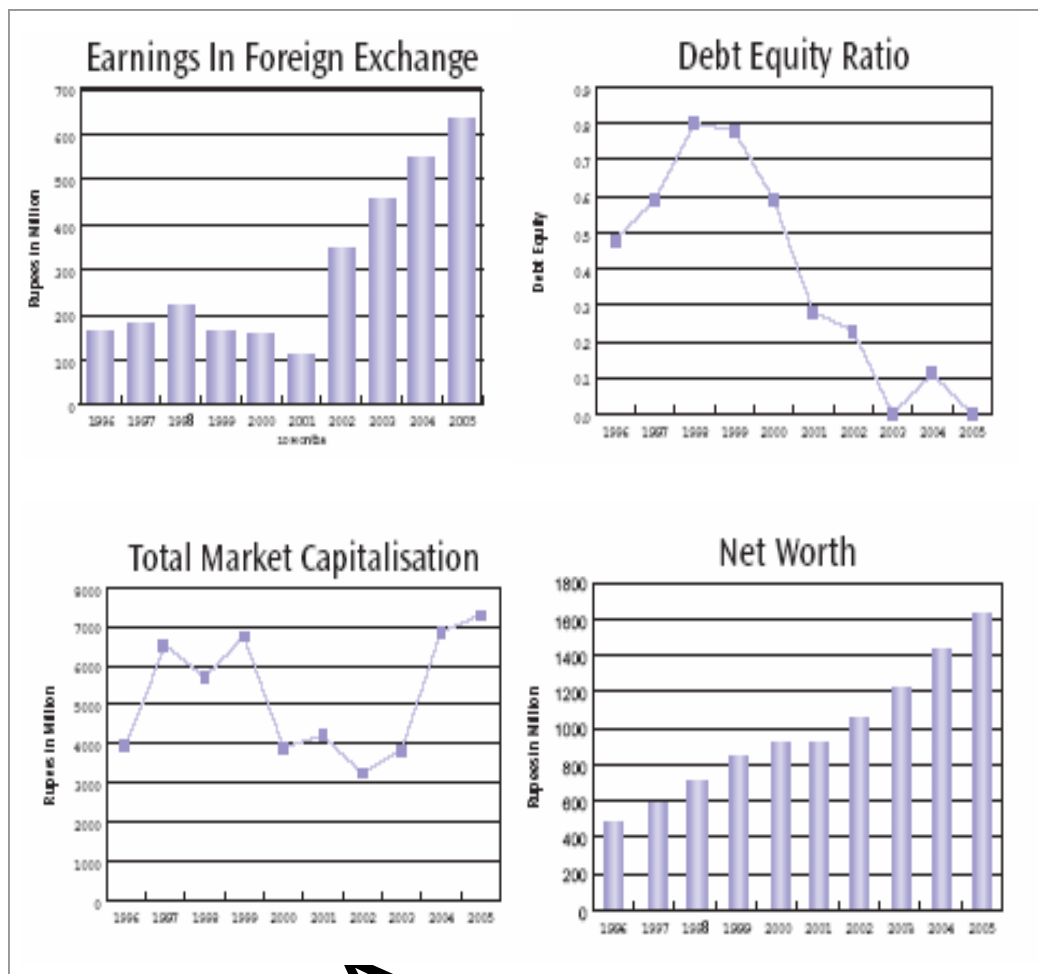


Chart 21

3.1.3 Jet Airways (India) Ltd

Jet Airways, which commenced operations on May 5, 1993, has within a short span of 13 years established its position as a market leader. The airline has had the distinction of being repeatedly adjudged India's 'Best Domestic Airline' and has won several national and international awards. Jet Airways' current fleet consists of 44 B737 New and Next-Generation aircraft, 3 Airbus 340-300E, 1 Airbus A 330-200 and eight modern turbo-prop ATR72-500 aircraft.

The average age of the fleet is 5.2 years making it the operator of the youngest aircraft fleet in Asia. Jet Airways flies to 49 destinations - 44 destinations within India and 5 international destinations. Mumbai (Primary Hub and Maintenance Base), Delhi, Kolkata, Chennai, Pune and Bangalore are our Secondary Hubs. Jet Airways' shares are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

Company P&L

	INR Million	INR Million	
	Apr 05-Mar 06	Apr 04-Mar 05	Variance %
INCOME			
Operating Revenues	56,937	43,380	31.3%
Non Operating Revenues	4,417	822	437.7%
Total Revenues	61,355	44,202	38.8%
<i>In USD Million</i>	<i>1,375.2</i>	<i>1,010.4</i>	
EXPENDITURE			
Employees Remuneration & Benefits	5,672	3,747	51.3%
Aircraft Fuel Expenses	16,789	10,517	59.6%
Selling & Distribution Expenses	7,740	5,591	38.5%
Other Operating Expenses	13,111	9,433	39.0%
Aircraft Lease Rentals	4,340	1,986	118.6%
Depreciation	4,064	4,570	-11.1%
Interest	2,416	2,537	-4.8%
Total Expenditure	54,132	38,381	41.0%
<i>In USD Million</i>	<i>1,213.3</i>	<i>877.4</i>	
PROFIT BEFORE TAXATION	7,223	5,821	24.1%
<i>In USD Million</i>	<i>161.9</i>	<i>133.1</i>	
<i>In USD Million (excl Profit on sale of aircraft)</i>	<i>101.2</i>	<i>133.1</i>	
Provision for taxation	2,702	1,901	42.1%
PROFIT AFTER TAXATION	4,520	3,920	15.3%
<i>In USD Million</i>	<i>101.3</i>	<i>89.6</i>	
EBITDAR	13,625	14,092	-3.3%
<i>In USD Million</i>	<i>305.4</i>	<i>322.1</i>	

Summary balance sheet

	INR Million	INR Million
	As on 31-Mar-06	As on 31-Mar-05
I SOURCES OF FUNDS		
Shareholders' Funds	23,650	20,102
Subordinated Debt	-	3,341
Loan Funds	48,956	26,307
Deferred Tax Liability	3,207	1,949
TOTAL SOURCES OF FUNDS	75,812	51,699
<i>In USD Million</i>	<i>1,699.3</i>	<i>1,181.8</i>
II. APPLICATION OF FUNDS		
Net Fixed Assets	47,882	26,406
Investments	1,872	15,957
Current Assets, Loans & Advances	40,775	20,444
Less: Current Liabilities & Provisions	14,717	11,109
Net Current Assets	26,058	9,335
TOTAL APPLICATION OF FUNDS	75,812	51,699
<i>In USD Million</i>	<i>1,699.3</i>	<i>1,181.8</i>

Company operating parameters

Operating Parameters	Apr 05-Mar 06	Apr 04-Mar 05	Variance	Variance (%)
Number of Departures	104,833	96,417	8,416	8.7%
ASKMs Million	13,300	9,808	3,492	35.6%
RPKM Million	9,576	6,992	2,585	37.0%
Passenger Load Factor %	72.0%	71.3%	0.7 pts	
Revenue Passengers (Million)	9.56	8.14	1.41	17.4%
Average Gross revenue per passenger in INR	5,394	4,904	490	10.0%
Average fleet size during period	49.5	41.3	8.2	19.9%
Average Head Count				
Gross	8,285	7,082	1,203	17.0%
Aircraft Utilisation	10.2	10.2	0.0	0.5%

Table 32

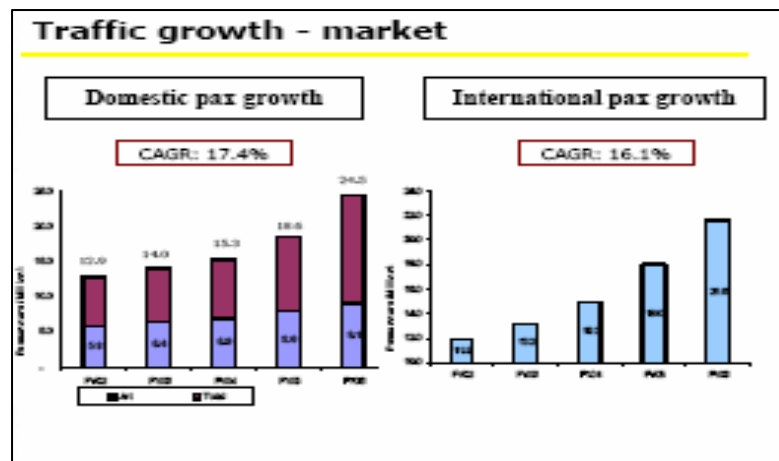


Chart 22

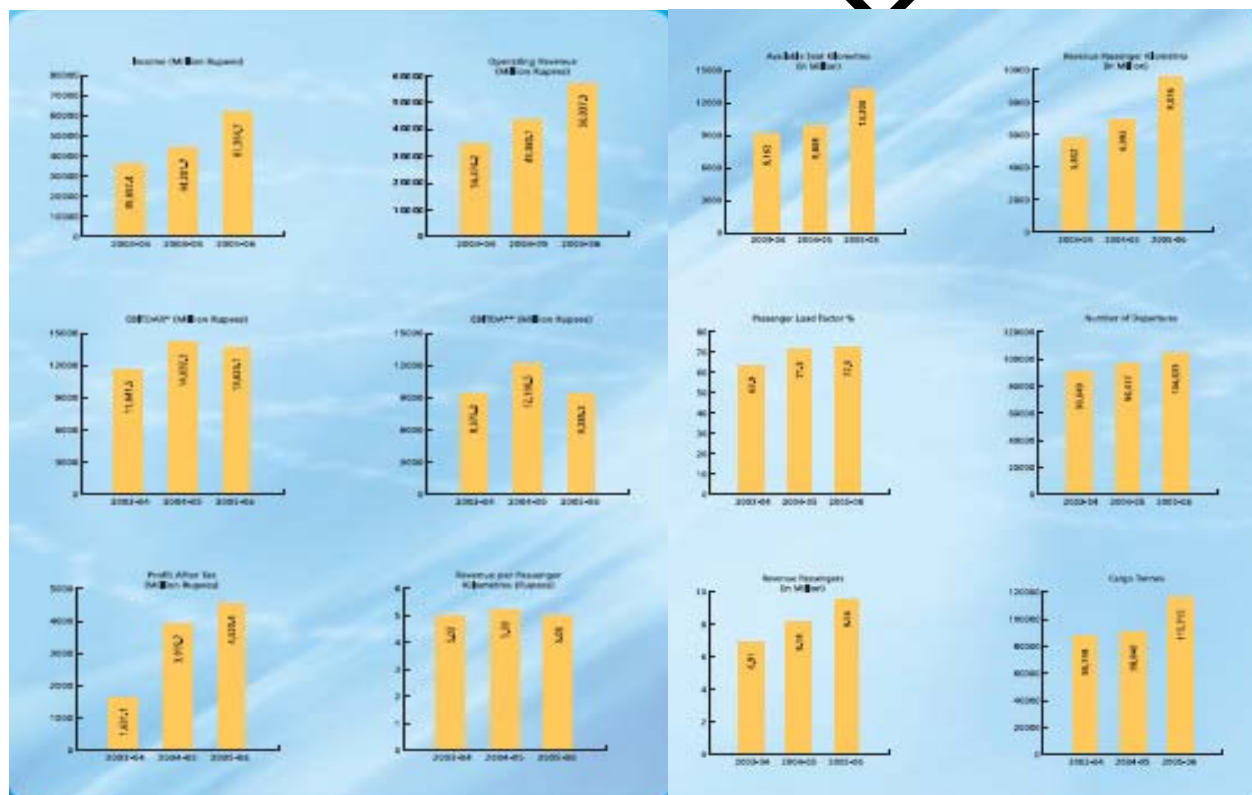


Chart 23

The research report is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change without notice. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report.



CHINA PRC

M&A IN AUTOMOTIVE INDUSTRY

SAMPLE

DECEMBER 2006

*THE REPORT COVERS THE PERIOD **JANUARY 2005 – DECEMBER 2006***

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M&A Activity Surges on China Automotive Market

In recent years, the Chinese automotive sector has seen an increasing number of mergers and acquisitions of different types. These deals were driven partly by investors' confidence in the booming Chinese automobile industry and partly by Chinese companies' restructuring campaign aimed to cope with challenges brought along by WTO commitment. Behind these cases, there are some common characteristics as well as foreseeable trends. The study is based on 45 major M&A cases in Chinese automotive sector which took place during the last two years.

Background Information

There were 6,322 automotive companies operating in China as of end-Nov 2006. The sector's total output value in the first three quarters of 2006 was USD 143bn. The number of whole-automobile manufacturers has been growing steadily, increasing from 126 in 2001 to 145 by the end of 2005. However, most of these companies are small businesses.

Three Chinese auto makers, First Automobile Works (FAW), Shanghai Automotive Industry Corporation (SAIC), and Dongfeng Motor Corporation (DFM) (thereafter referred to as Top Three) kept their dominance on the local market. In Jan-Oct 2006, their total sales volume reached 2,683,414 automobiles, accounting for 46.54% of the market.

Major Deals Review

Deals above the value of USD 100mn are listed below, in deal value order:

- 1) SHSE-listed Shanghai Automotive bought assets from its parent company SAIC for an estimated **USD 2.5bn**.
- 2) Korea Ssang Yong Motor sold 48.92% of its shares to SAIC for **USD 500mn** in a public tender offer.
- 3) Beiqi Foton Motor and Commins China Investment signed an agreement to launch a 50:50 joint venture, Beijing Foton Commins Motor Company Ltd. The total investment and registered capital are **USD 316mn** and USD 126mn respectively.
- 4) Tianjin Faw Xiali Automobile bought Tianjin Automobile Industrial and Sales Company from Tianjin Automobile Industrial Group. The target entity, owing USD 378mn debt to the buyer, sold its entire equity in exchange for cancellation of **USD 157mn** debt.
- 5) Mineral water and tile producer Hainan Jinpan announced plans to acquire from Hainan Motor a 50% stake in Faw Haima Motor and 100% in Shanghai Haima Motor Research. Jinpan plans to pay **USD 125mn** by cash and new shares issuance to the buyer.
- 6) Chongqing Changan Automobile and Jiangling Motor Group formed a 50:50 joint venture with total assets of USD 12.1mn. Then each invested another USD 54mn in the new company. The overall investment reached **USD 120.1mn**.

Characteristics of M&A deals

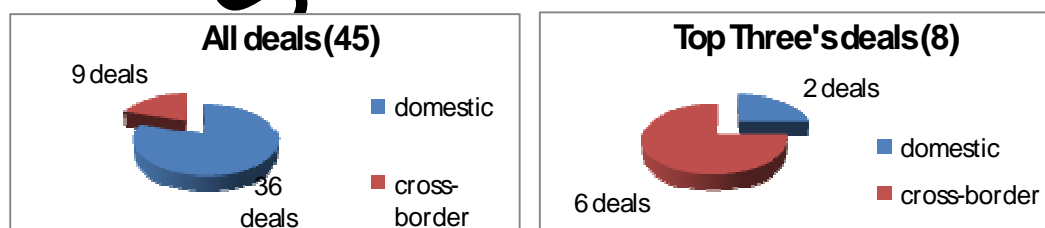
1) Top Three's deals were large and involved foreign capital

Considering China's top three automakers' significant market share and influence, we single out their deals for analysis. Deals related to them are summarized below.

Buyer	Seller	Target company	Deal Type	Deal Value
Shanghai Automotive		SAIC	Capital increase	USD 2.25bn
SAIC		Korea Ssang Yong Motor	Acquisition	USD 500mn
Tianjin Faw Xiali Automobile	Tianjin Automobile Industrial Group	Tianjin Automobile Industrial and Sales Company	Acquisition	USD 175mn
Bharat Forge (Indian)	FAW	FAW Bharat Forge	Joint venture	USD 50mn (estimated)
Dongfeng Nissan		Zhengzhou Nissan	Restructuring	USD 42.5mn
SAIC-GM-Wuling		Qingdao Yizhong Automobile	Acquisition	Undisclosed
SAIC, Iveco		SAIC Iveco Commercial Vehicle Investing Corporation	Joint venture	Undisclosed
SAIC GM Wuling	Qingdao Government	Qingdao ETSONG	Acquisition (privatization)	Undisclosed

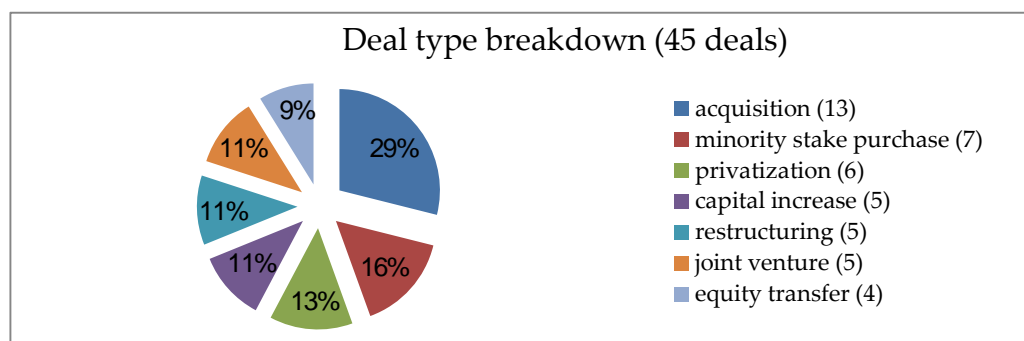
As can be seen from the table, Top Three's deals are all large. These automakers executed a total of 8 deals, in which 5 were worth over USD 40mn. The other 3 deals' values were undisclosed. Among the 6 M&A deals beyond the value of USD 100mn, 3 were related to them.

Another thing that can be seen from the table is that foreign capital is closely involved in deals of the Top Three. Among all the 45 cases studied, foreign capital can only be seen in 9 deals (20%). However, among Top Three's 8 deals, foreign capital involved in 6 (75%).



Although small and private auto makers are active on the market, most of their deals are low in value and not attractive for foreign investors. Meanwhile, the Top Three and their foreign partners were strengthening their cooperation via M&A deals. As shown in the table, two major approaches are launching joint ventures and acquiring local Chinese companies.

2) Breakdown shows deal type diversity, M&A vigor



While the Top Three were strengthening their cooperation with foreign partners and acquiring local or even large foreign companies, other auto makers are taking a variety of approaches to increase their competitiveness in the market. The graph indicates that state-owned enterprises, foreign capital, and Chinese private companies are all involved in M&A deals by different means.

Apart from the most commonly seen acquisition and minority stake purchase, which took up almost half of the total number of deals, State-owned enterprises (SOE) were privatized in 6 deals and transferred its equity to another SOE in 4 deals. These were mainly driven by central and local governments and exhibit different features. Some deals were to achieve the financial indices set by governments, and some were the result of cooperation and competition between governments of different regions.

There were five deals involving capital increase with total value above USD 2.4bn, showing the market was attractive to investors. In another five deals, companies restructured themselves to optimize internal resources or to meet growing market demand. Besides, five major joint ventures were set up during that period with total investment exceeding USD 300mn, as listed below:

Joint venture	Country of origin	Deal value)
Beijing Foton Commins Motor Company Ltd.	China, America	USD 126mn
FAW Bharat Forge (Changchun) Company Limited	China, India	Around USD 50mn
China North Industries Finance Co.	China	USD 62.8mn
Jiangling Holdings Co., Ltd	China, America	USD 12.1mn
SAIC Iveco Commercial Vehicle Investing Corporation	China, Italy	Above USD 50mn

Trends of M&A in automotive industry

1) Joint ventures will further restructuring

The study discovered not only the rapid development of joint ventures, but also the frequent change of shareholding structure in these companies. In 13 deals above USD 50mn, 9 were either about setting up joint ventures or were deals launched by them. Some of the established joint ventures are listed below:

Top Three	Joint Ventures	Shareholding Structure
FAW	FAW Volkswagen	FAW 60%, Volkswagen 30%, Audi 10%
	FAW Toyota	FAW 50%, Toyota 50%
	FAW Mazda	FAW 75%, Mazda 25%
SAIC	SAIC Volkswagen	SAIC 50%, Volkswagen 50%
	SAIC Iveco	SAIC 50%, Iveco 50%
	SAIC GM	SAIC 50%, General Motors 50%
DFM	Dongfeng Peugeot Citroen	Dongfeng 31%, SPA Peugeot Citroen 26.875%, China Development Bank 19.5%, China Oriental Asset Management Company 19.5%, Societe Generale SA 2.5%, Paris Bank 0.625%
	Dongfeng Nissan	Dongfeng 50%, Nissan 50%
	Dongfeng Yueda Kia	Dongfeng 25%, Yueda Investment 25%, Kia 50%

In the coming years, more joint ventures will be restructured in M&A deals, driven by three factors:

First, due to the strict regulations in the past, in most joint ventures foreign and domestic share distribution is 50:50. However, in recent years, as some restrictions on foreign capital are gradually being lifted, foreign investors may increase their stake in joint ventures.

Second, Chinese auto makers are seeking self-owned brand and intellectual property. The government is also encouraging them to play a more important role. For instance, a regulation enacted in February stipulates that automobiles made in China must have its brand written on the exterior in Chinese characters. As a result, most Chinese auto makers are planning to launch independent brands to compete with their foreign partners, thus the joint venture relationship might be hampered.

Third, the internal conflicts between joint ventures will lead to more M&A deals. For instance, Japanese Mazda had two joint ventures in China, Hainan Mazda and FAW Mazda. After launching the New Mazda 3 in FAW Mazda, Mazda and its Chinese partner in Hainan Mazda decided to terminate their cooperation.

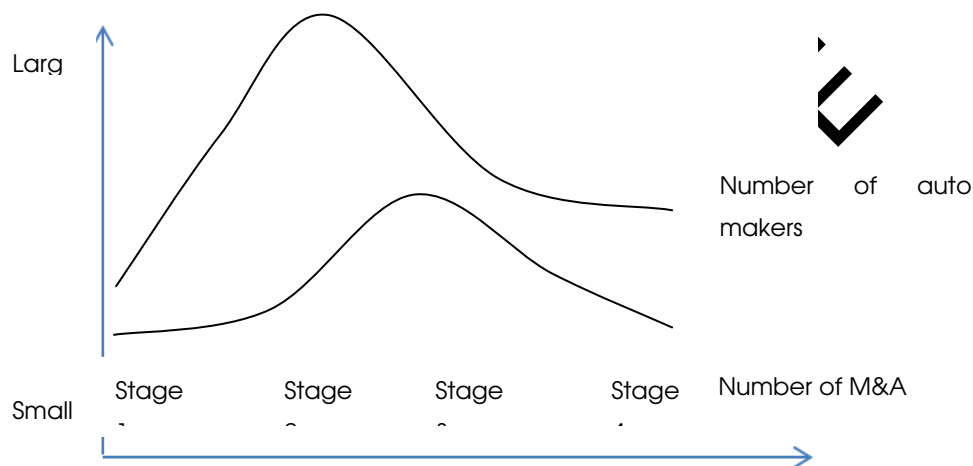
In the case of SAIC Volkswagen, each party has another partner. SAIC is cooperating with GM, while Volkswagen has a joint venture with FAW. Both of them intend to start competing with their partners. As the market develops, this complicated relationship will stimulate both parties in joint ventures to break up with existing partners and seek new ones.

The three factors may bring about significant changes to joint ventures. It can be expected that the top three Chinese auto makers, while turning themselves into investment companies rather than pure auto makers, might launch self-owned brands or companies or seek new partners. In fact, some may even acquire foreign companies abroad. Meanwhile, foreign players will seek to increase their shares in joint ventures or acquire local entities, in order to gain huge profit from the booming market. The cooperation and competition will continue to co-exist and develop.

2) M&A deals and number of auto makers both to increase in the short run

In 2001, the number of Chinese whole auto makers reached 126, more than the total number of that in the US, Japan and Europe. After a number of M&A deals occurred, the number unexpectedly increased to 145 at the end of 2005. In coming years, while more M&A deals will be seen, the number of producers is also likely to increase.

However, in the long run, major players will finally dominate the market, as small ones will gradually be eliminated. This is the trend, as shown in the chart below. At the early stage of an emerging market, high profit attracts many new investors, thus M&A deals are rarely seen. Later, M&A deals increase, and some weak players are acquired by strong ones. However, new investors are still coming into the market. At the third stage, more M&A deals decrease the number of auto makers, as small players are squeezed out of the market. Finally, at the fourth stage, the market is dominated by a few major companies. M&A deals are not frequently seen, but some significant mergers between large companies may take place.



The Chinese market is obviously at stage two, in which the number of M&A deals and the number of companies are both increasing.

In the short run, more M&A deals will take place in the market. According to the WTO agreement, the automobile import tax is gradually being lowered. As a result, Chinese producers, including the Top Three, are facing severe challenges from their foreign rivals, whose production costs are much lower thanks to economies of scale. M&A is a shortcut for Chinese players to cope with the threat. Moreover, as more domestic automakers are going abroad, purchasing foreign manufacturers will help them acquire brand, technology and sales networks in the target countries.

However, while more M&A deals are eliminating weak players, more new automobile companies will be set up by powerful enterprises from other sectors, after the government lifted some restrictions on private capital. For instance, mineral water and tile producer Hainan Jinpan announced plans to acquire 50% in Faw Haima Motor and 100% in Shanghai Haima Motor Research. The deal value ranks the fifth in our research. In another deal, household appliance manufacturer Midea acquired Hunan Sanxiang Bus Group Co., Ltd to enter the automobile market. More of these cases will be

seen, as the market continues to show strong growth momentum. However, the trend will not last long. According to statistics, in 2005, the over-production rate in the automobile sector reached 29%. The government has therefore adopted regulations to raise the entry barriers. It also gave preferential policies to large automakers like the Top Three in order to strengthen their competitiveness. The market is expected to enter the third stage a few years from now.

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SAMPLE

POLISH RETAIL SECTOR REPORT

SAMPLE

JULY, 2005

THE REPORT COVERS THE PERIOD FEBRUARY – JUNE 2005

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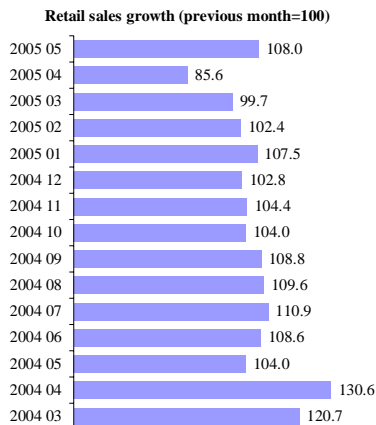


HIGHLIGHTS

- * GUS: Retail sales go up by 8% y/y in May
- * WOK declines to 87.75pts in June
- * GfK Polonia observes slowdown in traditional retail expansion
- * DTZ and King Sturge: Demand for retail space to remain strong
- * New car sales reach 106,265 in Jan-May
- * Wal-Mart to enter Poland soon
- * Zabka postpones its IPO for the turn of 2005/2006
- * Ruch gears for market floatation in August
- * Clothing distributors to expand abroad
- * Dixons to launch two hypermarkets in Warsaw in 2005
- * PKN Orlen's market share falls down to 27%

OVERVIEW

Rate cut to generate higher sales



Source: GUS

In line with analysts' forecasts retail sales rose by 0.2% m/m in May and went up 8.0% in annual terms, announced the Central Statistical Office (GUS). We recall that in April, retail sales declined by 14.4% y/y after decreasing 0.3% y/y in March. Better retail results are now fuelled by recovering new car sales. According to Samar, the company monitoring this market, car sales grew 8.2% in May from April (though they were down 19.6% in annual terms). GUS data confirms this tendency as in monthly terms May saw the largest growth in the sales of motor vehicles, motorcycles and spare parts (5.8% m/m). In annual terms the steepest growth was noted in the sales of pharmaceuticals and cosmetics (25.6% y/y), furniture and household appliances (16.3% y/y), and fuels (15.1% y/y). Analysts claim that the retail sales figures show that consumer demand is improving. **Following the recent interest rate cut, the purchasing power of Poles should increase in the coming months leading to higher sales.** The study conducted by the Polish consulting and market research company, PMR shows that Poland's non-food retail sales will expand by over PLN 7bn in 2005 to some PLN 247bn.

Retail sales growth Jan-May 2005 / Jan-May 2004 (current prices, %)

Total	-16.2%				
furniture, electrical household appliances, radio and TV goods	-11.9%				
textiles, clothing, footwear				13.7%	
pharmaceuticals, cosmetics				26.6%	
food and tobacco			8.0%		
other non-specialized stores			2.5%		
non-specialized stores with food dominating			9.8%		
fuel/gas/coal			14.1%		
cars, motorcycles and parts	-17.9%				

Source: GUS

WOK drops by 1.16pts m/m to 87.75pts in June

In June, the Consumer Optimism Indicator (WOK) went down by 1.16pts m/m to 87.75pts (on a scale of 0-200), reported the market and public opinion research agency Ipsos. However the "tendency to buy" indicator rose by close to 1pts m/m to 95.28pts. The survey was conducted between Jun 9 and Jun 14 among a randomly chosen group of 1,015 Poles aged 15 years or more.

Draft curbing development of large-area retail stores unlikely to be passed during current parliamentary session

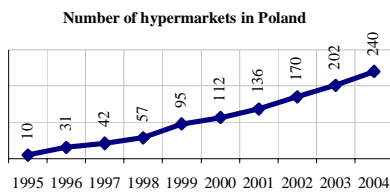
The draft on large-area retail stores proposed in 2004 by two political parties, namely Law and Justice (PiS) and Samoobrona, is not likely to be passed during this parliamentary tenure. Its aim is to curb the expansion of foreign hyper- and supermarkets. The current government did not support the controversial draft, arguing that it would lead to restriction of economic freedom. PiS representatives claim that the draft might become a government proposal should their party win the parliamentary elections due on Sept 25, 2005. The Polish Organization of Commerce and Distribution, representing the interests of Western retail networks, says that a group of independent experts should prepare a comprehensive set of regulations.



GfK Polonia: Total number of retail outlets goes down in 2004



Source: GfK Polonia (ZycieWarszawy Mar 11, 2005)



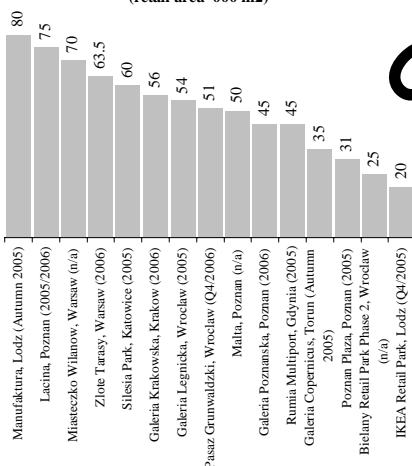
Source: GfK Polonia (ZycieWarszawy Mar 11, 2005)



Source: Handel, GfK (PulsBiznesu Jun 7, 2005)

King Sturge: Warsaw retail market is likely to reach saturation

Shopping centers major schemes in the pipeline 2005-2006
(retail area '000 m2)



Source: PMR Press Release Jun 24, 2005

DTZ: Demand for retail space to remain strong

According to the results of the survey conducted by market research agency GfK Polonia **at the end of 2004, the total number of FMCG points of sale (POS) declined in comparison with 2003.** Currently there are about 139,000 POS selling food products and drugs: among them there are 117,800 grocery stores and 21,000 drugstores. Analysing the retail market trends, GfK notices that the number of chains stores went up to 2,500. Comparing the number of new store openings in 2003 and 2004, the highest growth has been marked in the supermarket sector: 30 new supermarkets were opened in 2004, while only two in 2003. Last year the number of hypermarkets rose by 18% (to 240), and this market segment seems to show signs to saturation, observe GfK analysts. Retailers are shifting back to smaller, supermarket-sized outlets (2,000-3,000sqm). The share of model distribution channels (supermarkets, hypermarkets, and discount outlets) in the overall sales of fast moving consumer goods came to 42% last year, although in large cities the trend in reversing. The dynamic growth of discount stores observed in 2002 and 2003 slowed down. In 2004, 80 new discount stores were opened, while in the previous years it was about 100 new discount markets annually. According to GfK Polonia data, there are about 115,000 traditional grocery stores operating on the Polish market and 21,000 drugstores (including pharmacies). The slight 1% y/y decline concerns mainly small traditional grocery stores that are still in great number (over 61,000) and specialist stores, the number of which has been steadily decreasing for many years. Retail chains (hypermarkets, supermarkets, and discount stores) sell, on average, about 41-42% FMCG articles of the total retail of FMCG (excluding alternative channels). Every year the traditional retail stores lose a few percentage points shares in retail sales. Regardless of the consolidation of the retail market and the growing share of modern network-retail channels, Polish market is still dispersed. Relatively large share of traditional FMCG POS as well as the market position of the largest chains of stores proves the case. Top 10 chains of stores in Poland hold about 25% share in retail of FMCG. Poland's top ten retail chains are responsible for approximately 24% of the overall turnover in the sector. In Germany the figure tops 87%, in Hungary - 83% and in Slovakia - 39%. This, according to experts, means that further consolidation in the sector is inevitable.

According to the report Warsaw Property Commercial Market 2005 prepared by a real estate consulting agency King Sturge, **Warsaw retail space market is likely to reach saturation within the coming months.** Meanwhile, Jones Lang LaSalle estimates that by 2006 the amount of modern retail space in Warsaw will increase by a fifth. The most significant events on Warsaw's retail market in 2005 include: the launching of Promenada phase II, expansion of Galeria Mokotow by 4,000sqm and completion of the retail & office section of the Rondo 1 project. In the coming two years, however, the capital city will witness the opening of ING's Zlote Tarasy (65,000sqm) near the central station, large investments surrounding the landmark Palace of Culture, and rebuilding of palaces on the Pilsudskiego square. On the outskirts of the city IKEA and Spanish Neinver are expanding their shopping centers Targowek and Ursus. Thus, developers are focusing on large and medium regional cities such as Krakow, Poznan, Wroclaw and Trojmiasto. In 2005 the following shopping centers are to be opened: Silesia City Center (Katowice), Manufaktura (Lodz), Bus Station, Centrum Plaza and King Cross Marcelin (Poznan), Rumia Multiport and Wzgorze Gdynia (Trojmiasto). 2006 is to be a breakthrough year for Wroclaw as Galeria Legnicka, Pasaz Grunwaldzki, and Galeria Europa are to be launched. Analysts claim that after the launch of Arkady Wroclaw, the market may witness oversupply of retail space. King Sturge also points out that supermarket operators are deciding against building very large stores in favor of smaller outlets in the city centre. The demand from Polish and international retail chains is to remain very strong as new players already announced their intentions of conquering the market (Humanic, BHS, Next), predicts King Sturge.

The same opinion was expressed by the research company DTZ in the report Retail Market Update. **Demand for modern retail space in shopping centres and high street locations is to remain high due to further expansion Polish and international retail chains following encouraging economic forecasts and improving retail statistics,** reads the report. By the end of 2005 a total retail space of some 486,000sqm is to be launched in



Poland.

ACNielsen: number of hypermarkets goes up by 80% between 2000-2004

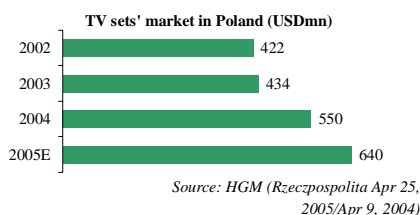
According to the ACNielsen report, **the number of hypermarkets in Poland rose by 80% between 2000 and 2004**. The survey showed that Poles spend less money in hypermarkets compared to other central Europeans, since they prefer traditional food stores to hypermarkets. Some 16% of the Poles prefer traditional shops, against 13% in Hungary, 11% in the Czech Republic and 7% in Slovakia.

SECTOR NEWS

Samar: 106,265 new cars sold in Jan-May

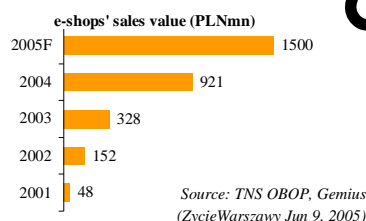
May's passenger car sales in Poland saw a slight improvement against April, with a total 20,929 vehicles sold (some 20% less than in the corresponding period of 2004). A vast selection of special offers from dealers boosted monthly sales by 8%. In the whole of 2004 dealers sold 316,013 cars, some 11% less than in 2003. In the first five months of 2005 the figure came to 106,265 vehicles and was 37% lower than in the corresponding period in the last year. At the same time, private importers brought some 355,000 used cars from the EU to Poland. Skoda scored the highest number of sales, with cars made by the Volkswagen-owned group totalling 12,555 between January and May. Japan's Toyota was a close second, with 12,305 vehicles sold in the same period, followed by Fiat (10,802), Opel (9,494) and Ford (8,384). Since Poland's EU accession Asian carmakers have enjoyed lower imports duties, which reflect in the rising sales of KIA, Hyundai, and Chevrolet (formerly known as Daewoo).

Poles urge to buy more household appliances make retailers to boost their chains



In 2004 Poles bought small household appliances worth PLN 820mn, an increase of 3% over 2003, claims a research company HGM. **This year's sales are expected to grow by 5%**. The most popular categories in 2004 included vacuum cleaners (PLN 350mn), electric kettles (PLN 150mn), and multi-functional mixers (PLN 135.5mn). Meanwhile, a total of 1.4mn TV sets were sold in Poland in 2004, up by 10% in annual terms. The most popular TV sets were those with a 29-inch screen. Sales of this kind of TV sets made up 30% of the total TV sets sales in 2004, compared to 25% in 2003. The demand for TV sets made in the newest technologies is rising and the traditional TV sets, which still dominate the market, are expected to be replaced by LCD and plasma TV sets by 2008. Polish market of TV sets is expected to rise to USD 640mn or 1.5mn TV sets in 2005. Such good predictions encouraged domestic and foreign retail players to boost their presence on the Polish market.

Internet users buy books, music cds and computer accessories



According to a market research company ARC Rynek Opinia, **some 50% of Polish internet users shop online at least once in two months**. Regular shoppers represent some 14% of respondents. The most popular items bought online are books, music CDs, computer parts and accessories. According to ARC representatives, Poles most often turn to Internet shopping because of low prices and possibility of buying specialised products not available in traditional shops. Apart from stores, Poles are getting more and more attracted to internet auctions, where the turnover reached PLN 1bn in 2004. The most popular auction site is Allegro (PLN 830mn). The second is Swistak.pl, however the launch of eBay in April may contribute to the market shake-up. There are some 10mn Internet users in Poland.

IMS Health: sales of pharmaceuticals go up by 9.3% y/y in the first five months of 2005

In the first five months of this year Poland's pharmaceutical market increased by 9.3% to PLN 6.21bn (VAT excluded) in comparison with the corresponding period of the previous year, claims IMS Health. The company confirmed its earlier forecasts of a 5.9% increase in Poles' total expenditure on drugs in 2005. After more than four months of 2005 pharmacy drug sales (57% of which are made up of refundable drugs) totalled PLN 7.323bn (up 9.3% y/y, the difference between market value and drug sales is due to sales margins and refunds value) while hospitals spent PLN 745mn (up 15% y/y). The main reason behind the increase in sales of pharmaceuticals was the long winter, which led to a high demand for remedies for colds and antibiotics.

PMR: Clothing retail sales to reach PLN 22bn in 2005

According to the PMR report, the clothing distribution market has growth potential in 2005 due to the rise of Poles' disposable income. Moreover, the largest group of consumers – young people – is characterised by spending more on clothes than the average



customer. **This year clothing retail sales are to reach PLN 22bn (including footwear sales of PLN 5.5-6bn), twice as much as in 1995.** Analysts from PMR claim that increase in the importance of such distribution channels in the clothing retail sector as hypermarkets, discount shops and clothing specialists is a certainty with the corresponding loss of market share by independent retailers and bazaar traders. Consumer preference will continue its shift towards exclusive brands, while producers will concentrate on marketing rather than manufacturing due both to heightened brand awareness and competition from cheap Asian imports.

COMPANY NEWS

Wal-Mart to enter Poland

According to *The Financial Times*, the world's largest retail chain Wal-Mart considers entering the Polish market in the nearest future. Wal-Mart, which is well-known for its price cutting policy, would most likely take over an existing retail chain of hypermarkets or one of the discount store chains, such as Zabka, Biedronka or Lewiatan, which would give it a few hundred stores. In any case, customers may expect a marketing battle between Wal-Mart and the current players for a market worth PLN 50bn.

Biedronka plans to launch 275 new stores; does not exclude WSE debut

Biedronka, a chain of discount stores owned by the Portuguese-based Jeronimo Martins Dystrubucja (JMD), plans to open 275 stores within the next three years. At present the chain comprises 740 outlets. Investment in new stores and in the modernization of existing ones will amount to EUR 60-80mn annually. The company is considering various ways of raising capital, and Pedro Silva, JMD's CEO, says that one of the options being considered is a stock debut.

JMD taken to court by former employees

Meanwhile, **a hundred former employees of Biedronka are taking their employer to court demanding some PLN 1mn compensation for "a loss of dignity"** which consisted in working without proper medical supervision, performing heavy physical tasks and working overtime without extra pay. Earlier JMD was taken to court by a former employee Bozena Lopacka for unpaid overtime. A lower court awarded Lopacka PLN 35,000 for 2,600 hours of unpaid work, though an appeals court in January ordered that the amount be recalculated given the precedent it would set for other pending claims by current and former JMD employees.

Eurocash debuts on WSE

The shares of a Polish company running a network of discount cash&carry warehouses as well as over 1800 "abc" franchise shops Eurocash debuted on the Warsaw Stock Exchange (WSE) at a price of PLN 3.17. Eurocash offered 127,742,000 shares in an initial public offering (IPO). A total of 48,541,960 shares were offered to institutional investors and 8,941,940 shares to individual investors. The "abc" chain is the largest chain in Poland, followed by PSH Lewiatan (1,609 shops) and Zabka (1,206 shops). Eurocash plans to launch another 17 cash&carry outlets over the coming two years. In Q1/2005 the company net profit amounted to PLN 2.4mn on PLN 397.5mn sales revenue.

Zabka postpones its IPO

A Polish grocery chain operator Zabka SA postponed its IPO from October 2005 to the turn of 2005/2006. Analysts estimated the value of the offer at PLN 100mn. Zabka intends to use the proceeds from IPO for the further expansion. The chain operator currently runs 1,500 groceries across the country and plans to boost their number to 7,500 over the next 20 years. In 2004 the company generated a PLN 5.8mn net profit on PLN 1.09bn sales revenue. Zabka posted a net loss of PLN 4.8mn and PLN 237mn revenues in Q1. Nevertheless, the company sticks to its earlier forecasts of doubling the net profit for the full 2005 compared to 2004.

Eldorado's net profit goes down to PLN 1.7mn in Q1

WSE-listed supermarket chain operator Eldorado SA reported a net profit of PLN 1.7mn in Q1 down from PLN 3.5mn in the same quarter of 2004. At the same time, the company increased its sales revenue to PLN 304.1mn from PLN 253.8mn in Q1/2004. Eldorado is planning to achieve consolidated sales revenue this year of PLN 1.51bn by enlarging its supermarket chain of Stokrotka and grocery chain Groszek. In 2004, investment outlays reached PLN 58.4mn.

Tesco to open 20 new outlets in 2005

British hypermarket chain Tesco wants to launch 10-14 new hypermarkets and six



smaller supermarkets to its 48 stores in Poland (17 under the Tesco name and 31 trading under the brand name of Savia). It is part of the company's CEE expansion plan, which provides for the opening of over 40 outlets in the region. The largest of the new Tesco stores scheduled for opening in 2005 will range from 5,000 to 12,000 sqm, although most of the new outlets will be below 2,000sqm. In 2004 Tesco opened nine hypermarkets and boosted its turnover by 10% (to PLN 4.6bn). Apart from retail outlets, Tesco also operates four petrol stations nationwide, all of which were opened in 2004. In line with its policy of expansion, the company intends to increase this number to 8-13 this year. Since its entry to Poland in 1995 the British retailer has invested more than PLN 1bn in the country, although precise figures are not available.

Carrefour to become market leader

Carrefour Polska, the French retail chain including Carrefour, Champion and Globi supermarkets, targets to become a leader in the Polish hypermarket segment, said Alain Souillard, the CEO of Carrefour Polska. The retail giant has already invested PLN 3.6bn in Poland, and it will earmark EUR 100mn annually for opening new stores in the country from 2005 to 2008. The number of its hypermarkets is to increase between 40 and 50 by 2008. The company also mulls to purchase local sector companies after a takeover of 12 largest Hypernova hypermarkets previously owned by the Dutch shopping chain Ahold. Currently, Carrefour has 30 hypermarkets in Poland, and is the second largest chain after Tesco. In 2004 the French company increased its turnover in Poland by 5.5% y/y to PLN 3.8bn, and wants to boost it by 35% y/y in 2005.

Ahold to focus on Albert and Hypernova

Meanwhile, **Ahold is to focus on the further development of Albert supermarkets and Hypernova compact hypermarkets. In 2005 the retail giant wants to add 10 new Alberts to its 170 outlets and 4 Hypernovas to its 13 stores.** Ahold also announced that it has appointed a new general director for Ahold Poland. Kef van Helbergen, who had previously worked as hypermarket director in Ahold Polska, has replaced Zdzislaw Potempa, Ahold Polska's former CEO, who became franchise director at Ahold Central Europe.

Alma Market opens supermarket in Warsaw

Polish retail chain operator listed on WSE, **Alma Market opened its supermarket in Warsaw, and plans to launch two more this year - in Krakow and Debica.** Currently, Alma Market runs one supermarket in Krakow and one in Tarnow. It will invest some PLN 108mn in the chain expansion. The company forecasts to post PLN 7mn net profit for 2005 on PLN 430mn revenue. Alma increased its revenues by PLN 24mn to PLN 80.2mn in Q1 and net profit from PLN 1mn to PLN 1.4mn.

ITM Entreprises to expand its Intermarche and Bricomarche chains

French supermarket network operator **ITM Entreprises plans to open 18 food supermarkets Intermarche and 14 do-it-yourself (DIY) supermarkets Bricomarche in 2005.** Last year the company opened 12 Intermarche supermarkets, and currently the whole network comprises over 100 supermarkets. ITM Entreprises opened 11 Bricomarche supermarkets in Poland in 2004 and currently runs 29 such stores. In 2004 sales of Intermarche went up by 15% y/y to PLN 1.5bn, while the ones of Bricomarche reached PLN 190mn. ITM Entreprises also runs a network of 10 petrol stations in the country.

Polish meat processing companies to expand retail networks

Polish meat processing companies are also planning expansion of their own retail networks in order to be independent from large retail chains, to improve their liquidity and to promote more efficiently their brands. Polish meat processing company ZM Biernacki plans to expand its food supermarket network under Dino brand and to open between 70 and 100 outlets over the next several years. ZM Biernacki currently operates 69 Dino supermarkets across the country. Farmutil, which currently operates 500 meat and meat product stores, targets to have 800 such outlets by the end of 2006. PPM Polesie runs 70 own meat stores and outlets operating under its banner and sells 60% of its overall output through them. The company considers possibilities of opening supermarkets, which will offer meat products and other food products in the future.

Ruch likely to be floated in August

Ruch, the country's largest press distributor, is to submit its prospectus to the Securities and Stock Exchanges Commission (KPWiG) in the first half of August. The



IPO value is to reach PLN 120mn. The final floatation date is subject to "market conditions." The proceeds are to be earmarked for implementing an integrated computer system, extending and upgrading the sales network as well as modernising the press distribution network. The total value of investment is to reach PLN 340mn between 2005 and 2007. Ruch is pushing for the IPO, in the face of strengthening competition from retail chains, which sell press along with fast moving consumer goods. Currently Ruch controls exactly 50% of Poland's press retail market and aims to raise this figure by three percentage points by 2008. In 2004 Ruch posted revenues of PLN 3.72bn (up from 3.63bn in 2003) and posted net profit of PLN 25m (compared to PLN 10m in the preceding year).

Kolporter to increase its market share to 40% in 2005

Meanwhile, Ruch's main competitors Kolporter and Hachette Distribution Services are moving away from a simple newsstand concept towards development of more universal convenience stores and coffee shops. **Kolporter wants to raise its market share by some 2ppts to over 40% in 2005.** The company plans to focus on the development of multimedia outlet and convenience store chains. The new venture will not replace Kolporter's existing newsstand network called *Saloniki Prasowe*, set to reach 1,000 outlets by year-end. Kolporter is testing also a new convenience store concept *Markeciki Spozywcze* on its first three outlets (80-200sqm in size, with a range of 2,000 items, snack bar, and expanded press section). At present, Kolporter runs a network of 952 outlets and some 7,000 news stands. In 2004 Kolporter Holding recorded sales of PLN 2.14bn, and a net profit of PLN 19mn, both of which the company wants to increase by 20% this year.

KAN expands its network in Russia and Ukraine; considers IPO

Polish clothing distributor KAN, owner of Tatum brand clothing stores chain, signed an agreement with Swedish furniture retailer Ikea on distributing its clothes in Ikea's outlets to be opened in Russia and Ukraine. Ikea will construct its commercial centres, including stores, cinema theatres and restaurants in Moscow, Saint Petersburg, Kazan, Nizhni Nowgorod, Jekaterinburg and Kiev over the next two years. Currently, sales of the company's stores in Moscow make up 24% of its overall sales. Tatum runs 34 stores in Poland and abroad, and seeks to boost their number to 60 by 2006. In 2004 Kan generated a PLN 6mn net profit on PLN 119mn sales revenue. This year the company expects a PLN 10mn net profit and PLN 130mn revenue. In order to raise proceeds for further expansion, Kan mulls over initial public offering in 2006.

According to the PMR report, the clothing distribution market has the strongest growth potential in 2005 due to Poles' higher disposable income. Moreover, the largest group of consumers – young people – is characterised by spending more on clothes than the average customer. This year clothing retail sales are to reach PLN 22bn (including footwear sales of PLN 5.5-6bn), twice as much as in 1995.

LPP opens CroppTown stores in Estonia

A Polish clothing designer and retailer LPP SA opened two CroppTown stores in Estonia. The third outlet is to be launched in Tallinn. As a result, the CroppTown chain will consist of 52 stores with all but the 3 Estonian shops located in Poland. LPP plans to increase the number of its Cropp brand outlets to 70 by the end of 2005. The retailer also wants to invest around PLN 62mn this year and of a similar amount in 2006. Its representatives also repeated forecasts presented in February, according to which consolidated sales revenue will amount to around PLN 750mn this year and PLN 1bn in 2006. Consolidated net profit in 2005 is to come to PLN 60mn. In Q1/2005, LPP posted consolidated sales revenue of PLN 144.9mn, net profit of PLN 2.3mn. A total 60.6% of the sales revenue for Q1 was generated in Reserved outlets and 15.1% from Cropp outlets. Some 12% of the sales revenue for the first three months of 2005 came from sales abroad. In the whole of 2004, the group posted a consolidated net profit of PLN 42.80mn on a turnover of PLN 546.65mn.

W.Kruk abandons plans for sale of Deni Cler

WSE-listed luxury clothing and jewellery distributor W.Kruk will not sell its women's wear unit Deni Cler. In 2004 Deni Cler generated over PLN 600,000 net profit after posting PLN 3.5mn net loss in 2003. W.Kruk posted consolidated loss of PLN 1.6mn in Q1 down from PLN 2.74mn in the comparable period in the previous year. The distributor wants to increase its consolidated net profit to some PLN 5mn in 2005 through boosting the profitability of its existing stores and opening three new stores this year.



Currently, W.Kruk runs 22 Deni Cler outlets and 34 jewellery stores across Poland.

Vistula to expand abroad and introduce new brands

Polish manufacturer and distributor of men's clothing Vistula seeks to expand its retail network in include stores in Latvia and the Czech Republic, as well as new apparel brands, namely Italy's Murphy & Nye sailwear brand. Vistula aims to launch seven Murphy & Nye stores by 2008 at the cost of PLN 1.35mn, which according to plans will generate some PLN 17mn worth of turnover. The Polish company is currently negotiating a franchise deal regarding a foreign jeanswear brand. Currently Vistula has 51 outlets across Poland and plans to launch another 15 over the coming two years in Poland and abroad. Last year Vistula generated a turnover of over PLN 121mn and net profit of PLN 21mn, although its net result was artificially boosted as a result of restructuring. In 2005 the respective figures are set to top PLN 133mn and PLN 16mn.

Inditex to take over 51% stake in Zara

Spanish fashion retailer Inditex concluded a preliminary agreement to acquire a 51% stake in the Zara chain in Poland from its franchisee NFI Empik Media & Fashion (EMF), and raise its stake in the company to more than 80% by 2008. Inditex will directly operate the seven Polish Zara outlets. The company plans to open four new stores in 2005. Last year the company recorded PLN 103mn revenues. EMF focuses mainly on its own brands (kids goods stores Smyk, department stores Galeria Centrum and multimedia outlets Empik) although some new franchise shops (Wallis, Esprit, River Island) will also be added to the existing chain. The company is negotiating two new franchise deals, yet the expansion of new chains will not begin earlier than next year. In 2004 EMF turned over in excess of PLN 1.1bn and its net profits neared PLN 31mn.

CCC doubles its net profit to PLN 5.4mn in Q1

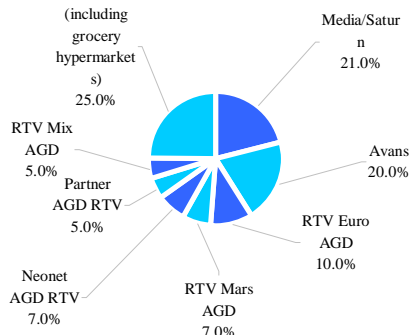
Following domestic and foreign expansion in Q1, CCC doubled its net profit to PLN 5.4mn, and its sales revenue to PLN 125mn. It opened 11 own stores and 4 franchise stores between January and March. The company wants to increase the number of its shops in Poland to 113. It has 79 own outlets, 52 partner and 141 franchise stores. CCC, which debuted on the WSE in December 2004, maintains its earlier forecasts for PLN 325mn revenue and PLN 43.6mn net profit for 2005. The company claims to control 2.2% of the domestic shoe production market and 5% of the shoe retail market.

Gino Rossi to set up 100 new stores in Poland

The Polish-Italian high-profile shoe producer and retailer **Gino Rossi wants to open 100 new stores in Poland.** Currently the company runs more than 60 shops, some of which operate on a franchising basis. At the same time, it wants to continue international expansion started two years ago. So far it has opened five outlets in Lithuania, two in Germany (Berlin) and one in each of the following: the Czech Republic (Prague), Slovakia, Hungary, Canada (Toronto) and Russia. In order to gain proceeds for expansion, the company still considers IPO worth PLN 50mn. In 2004 Gino Rossi generated sales of PLN 78mn and a net profit of PLN 1.6mn.

Dixons to start operations in Poland with two hypermarkets

Consumer electronics retail market share in Poland 2004 (%), total value=PLN 9.5bn)



Source: PMR Press Release Jun 24, 2005

British electronic appliances retail chain Dixons is to open two electronics hypermarkets in Warsaw 2005, the *Gazeta Wyborcza* daily reported. Dixons already runs five hypermarkets in the Czech Republic and four in Hungary. Dixons main competitors in Poland will be Media Markt, RTV Euro AGD, Saturn, Mars, Neonet and Mix Electronics. All those players will fight for the market primacy as the market is far from saturation. Media Markt and Saturn, owned by German retailer Metro and local RTV Euro AGD, are major players in the cities with more than 200,000 inhabitants and control 40% of the domestic consumer electronics and home appliance market. Neonet, Mars, Avans and Mix-Electronics, with a combined market share of 45%, are focusing on expanding their business in the small towns. Due to a fierce competition, some of the players might be ousted from the market. This was the case of one of the Polish chains namely Mega Avans, which was declared bankrupt and is now in settlement proceedings. The amount due to its suppliers reached PLN 17.85mn. According to a local research company GfK Polonia, Polish consumer electronics and home appliances market is worth some PLN 8.7bn, and is expected to rise at a pace of 8% annually within the next two-three years. The EIU forecasts for electronic&domestic appliances sector are very promising due to rising purchasing power of the Polish population. Sales of television sets are to grow from 842,000 to 928,000 units between 2005 and 2009. In the same period sales of washing machines will go up from 837,000 to 1,032,000 units and refrigerators –



from 1,299,000 to 1,525,000 pieces. PMR predicts further consolidation as there are currently more than 1,000 independent distributors who face increasing competition.

Neonet postpones IPO due to low demand

The owner of the network of electrical equipment and household appliance shops Neonet decided to postpone its IPO due to unsatisfactory demand for the company's shares after book-building. However, the company is not resigning from entering the stock exchange. At the end of May, Neonet operated 400 stores, a mixture of its own establishments and some run on a franchise. Over the next two years the retailer plans to boost its market share from the current 8% to 15%. It also wants to launch stores abroad: in the Czech Republic, Latvia, Estonia and Lithuania. Neonet planned to raise PLN 65mn from the IPO that would have been earmarked for expanding of its sales network (PLN 14mn), infrastructure investments (PLN 8mn), acquisitions of local retailers (PLN 20mn), brand name's development (PLN 2mn), IT system development (PLN 1mn) as well as capital increase (PLN 20mn). In 2004, Neonet posted a net profit of PLN 9.43mn and PLN 11.44mn operating profit on PLN 409.29mn revenue. The comparable figures for 2003 were PLN 1.37mn net profit and PLN 4.94mn operating profit on PLN 260.89mn revenue. The company posted a loss of PLN 995,000 and an operating loss of PLN 377,000, on revenue of PLN 98.67mn in Q1.

MCI purchases 63.64% of Hoopla.pl for 350,000

The WSE-listed venture capital fund MCI Management purchased a 63.64% stake in the Polish online electronics and household appliance store Hoopla.pl for PLN 350,000. Over the coming two years MCI is to spend PLN 1.2mn on expanding the store's product range and boosting its sales via targeted marketing efforts. As a result of the investment MCI's stake in Hoopla.pl will come to 85% by the end of 2007. Initially the company is to provide Hoopla.pl with PLN 0.8mn. Hoopla.pl is a relatively new player (it was launched at end-2004) on the market of online distributors of household appliances, consumer electronics and computers, but its turnover has been growing at the monthly rate of 15% since its start. Sales are to top PLN 3mn this year and increase rapidly to reach PLN 60m by 2009 (which according to estimates will correspond to an estimated 22% market share).

Jysk to construct warehouse in Radomsko

Danish bedding and furniture retailer and wholesaler Jysk Holding is to open a furniture warehouse in Radomsko in the Lodzkie voievodship by the end of 2006. It will be used as the company's distribution centre for the whole region of central and eastern Europe. Meanwhile, Jysk wants to establish more outlets in the Polish cities of more than 40,000 inhabitants. It currently has 43 stores in Poland.

Carre Blanc to extend its network by 40 outlets

French distributor of linen and towels Carre Blanc is planning to open 40 stores in the Polish cities of more than 150,000 inhabitants. Currently the company has nine outlets: six in Warsaw, one in Bialystok, Poznan and Krakow. Contrary to Carre Blanc, Polish-owned Frotex closed down its distribution network. In the 1990s the company had around 20 stores. By 2002 they had all been shut down and Frotex chose to distribute its products through sixty wholesalers.

Inter Ikea Centre Polska to focus on retail parks in Warsaw, Gdansk, and Katowice

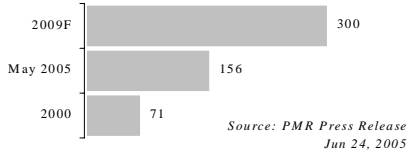
The Polish development branch of Swedish retail giant IKEA, Inter IKEA Centre Polska, is to construct 100,000sqm retail complex (Park Handlowy Targowek) next to its furniture warehouse in Warsaw's eastern Targowek district. The whole project is set to cost PLN 300mn and its phase one (some 40,000sqm) should be completed in the spring of 2006. Similar projects are to be carried out in Gdansk (Park Handlowy Matarnia, 72,000sqm worth PLN 180mn), Katowice (Park Handlowy Rawa, 16,000 sqm, PLN 40mn) and Wroclaw (expansion of Park Handlowy Bielany, 11,000sqm). So far IKEA has invested more than USD 800mn in Poland.

PSB to issue bonds to finance its chain expansion

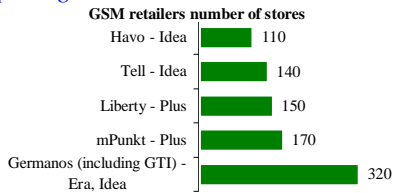
Polish building materials wholesalers group Polskie Sklady Budowlane SA (PSB) plans to open 60 retail outlets under the PSB Mrowka brand in the coming years. The new stores are to be located in small towns and thus, will not be direct competitors of large hypermarkets such as Obi, Leroy-Merlin, Castorama and Praktiker. Currently, PSB owns 10 stores in Poland. The company plans to raise funds for the retail network expansion through issuing bonds with a combined value of PLN 60mn on the CeTO market. PSB also considers its debut on the Warsaw Stock Exchange (WSE) in 2007. PSB controls 15%



Number of DIY/building materials retail outlets in Poland



Germanos to boost its market share by opening 35-40 stores

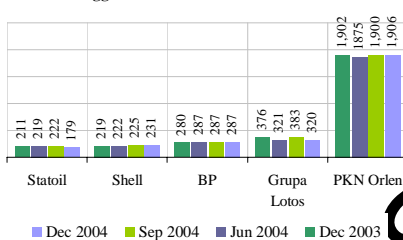


Tell to raise PLN 20mn through IPO set for H2/2005

Mazeikiu Nafta to build petrol stations in Poland

PKN Orlen to implement new strategy to prevent decline in market share

Biggest fuel station nets in Poland



BP to invest PLN 231mn in petrol stations

of the domestic market. According to consulting and market research company PMR, 2005 DIY sales will exceed the 2004 level of PLN 6-6.5bn in 2005.

Greek distributor of telecommunications goods and services Germanos is to open between 35 and 40 new stores in Poland in 2005. Currently Germanos owns 321 outlets where it distributes products for IDEA and Era network, operated by Polska Telefonia Cyfrowa (PTC). In 2004 the company posted a EUR 3.3mn operating profit on sales of EUR 56.8mn. Such robust results were due to the takeover of the two Polish competitors GTI and Genimpex. Germanos wants to boost its share in the Polish telecommunications goods and services market from 14% to 20% by 2006. The company's main competitors in Poland are mPunkt with 170 stores, Liberty - 150 stores, Tell - 140 stores, and Havo - 110 stores. There are many smaller dealers with less than 100 stores.

Subscriptions for shares in Tell, a distributor of the products and services of the mobile telephony operator PTK Centertel, are to take place between Sep 12 and Sep 20. Tell plans to raise PLN 20mn from the offer so as to expand its store network and reach a 10% market share. The company owns 140 stores across the country and wants to boost their number to between 250 and 300 by the end of 2006. It expects to make a debut on the Warsaw Stock Exchange (WSE) in September 2005, but has not yet set an IPO date. Tell, 36.66%-owned by BBI Capital, posted PLN 1.1mn net profit in 2004 on sales of PLN 98.7mn.

Lithuania's Mazeikiu Nafta, in which 53.7% is controlled by Russia's Yukos, makes plans for expansion of its petrol stations network to the other Baltic states and Poland. If this turns out to be the case, the first stations will start functioning still this year, according to Wlodzimierz Olbrych, president of Mozejki Nafta Trading House, the company's representative in Poland. The company is the owner of over 30 Ventus stations in Lithuania. The number of its stations in Poland might be at least 100.

Poland's largest downstream oil concern PKN Orlen is counting on being able to stem and reverse the falling trend of the company's share in the retail fuel market by implementing its plan in H2, said PKN's Vice-President Wojciech Heydel, responsible for retail trade. Heydel admitted that after Q1, PKN's share in the retail market fell to around 27%. According to Heydel, the first effects should be seen with the opening of 30 new self-service stations under a new brand name in the so-called economy sector, at the beginning of Q4. The plan envisages that there will be 1,000 Orlen petrol stations and 900 under the new name. The oil major will spend PLN 480mn on this investment in 2005. The firm will also improve its position by carrying out market acquisitions.

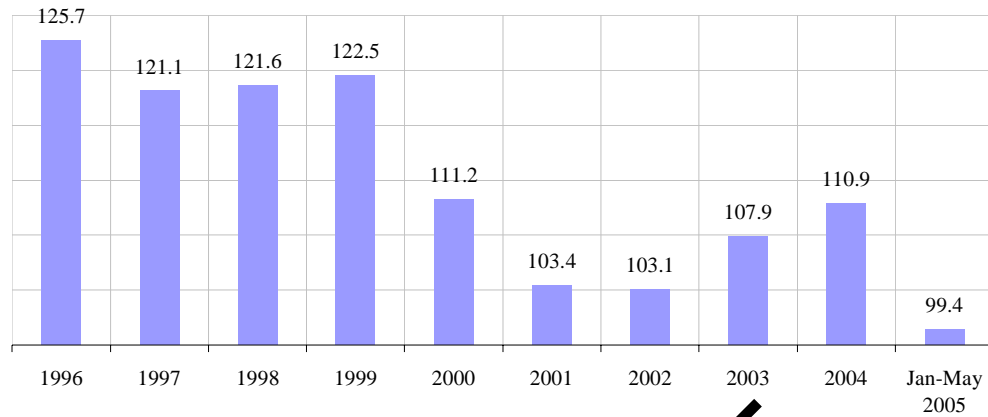
BP is to invest some PLN 231mn in expansion of its network of gas stations over the next four years. Around 70% of the new stations would be franchised, while the remaining would be managed by BP itself. The concern estimates the cost of launching its own station at USD 2mn, while a franchised venue at USD 0.1mn. Currently, BP has 293 stations in Poland, of which 71 operate as franchise. BP has already invested in Poland more than USD 800mn. The British concern is aiming for a further 15 new stations by the end of the year in order to boost its market share estimated at 11%.

Aneta Witczak, Jacek Frączyk



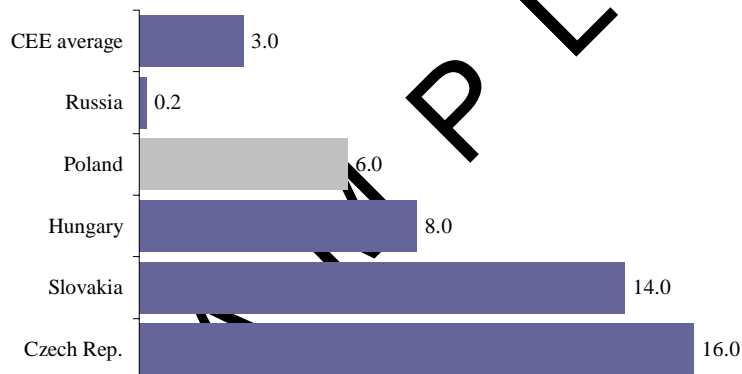
APPENDIX

Retail sales value growth (current prices, corresponding period of previous year=100)



Source: GUS

Number of hypermarkets per 1mn inhabitants in 2004 in selected countries



Source: CEEretail.com (Rzeczpospolita Jan 24, 2005)

Shopping centre space due to come on stream in Europe 2005-2006

	due to come in '000 m2	due to come in m2 per '000 inhabitants	current area (in million m2)
Poland	1597	41.3	3.95
Russia	1222	8.0	1.78
Germany	842	10.2	11.26
Spain	809	20.1	8.21
UK	753	12.0	13.66
Italy	500	8.0	7.44
Portugal	473	45.0	1.74
Netherlands	441	27.0	5.27
Czech Rep.	308	30.1	1.10
France	282	4.0	12.86
Austria	268	32.0	-
France	233	58.6	-

Source: Cushman & Wakefield Healey & Baker (Gazeta Wyborcza Feb 15, 2005, Puls Biznesu Feb 15, 2005)



Biggest foreign retailers in Poland (sales in PLN mn)

		2005F	2004	2003	2002
Metro AG (Germany)	-	n/a	n/a	11,551	10,505
- Makro Cash and Carry	wholesale/retail trade	n/a	n/a	n/a	6,965
- Real	hypermarkets	n/a	n/a	n/a	2,600
- Praktiker	DIY stores	n/a	n/a	590	400
- Media Markt	HI-FI and white goods supermarkets	n/a	n/a	n/a	540
Carrefour (France)	-	5,130	3,800	3,600	3,500
- Carrefour	hypermarkets	n/a	n/a	n/a	2,400
- Champion	supermarkets	n/a	n/a	n/a	1,100
Tesco (UK)	-	n/a	4,600	4,220	2,972
- Tesco	hypermarkets	n/a	n/a	n/a	2,691
- Savia	supermarkets	n/a	n/a	n/a	281
Auchan (France)	-	n/a	4,300	3,900	3,484
- Auchan	hypermarkets	n/a	3,900	n/a	3,090
- Leroy Merlin	DIY stores	n/a	n/a	n/a	n/a
- Elea	supermarkets	n/a	n/a	n/a	394
Jeronimo Martins (Portugal)	-	n/a	n/a	4,233	4,927
- Biedronka	discount shops	n/a	4,000	4,062	3,541
- Jumbo	hypermarkets	n/a	n/a	n/a	221
Geant (France)	-	n/a	4,000	n/a	3,257
- Geant	hypermarkets	n/a	n/a	n/a	2,500
- Leader Price	discount shops	n/a	n/a	n/a	750
E. Leclerc	-	n/a	1,698	1,602	1,532
Rewe (Germany)	-	n/a	n/a	n/a	2,324
- Selgros	wholesale trade	n/a	n/a	n/a	1,686
- Minimal	supermarkets	n/a	n/a	n/a	638
Ahold (Netherlands)	-	n/a	n/a	n/a	2,500
- Hypernova	hypermarkets	n/a	n/a	n/a	1,250
- Albert	supermarkets	n/a	n/a	n/a	1,250
Tengelmann (Germany)	-	n/a	n/a	n/a	2,130
- Plus Discount	discount shops	n/a	n/a	1,240	1,105
- OBI	DIY stores	n/a	n/a	n/a	945
Musketers Group	-	n/a	n/a	n/a	1,165
- Intermarche	supermarkets	n/a	n/a	n/a	n/a
- Bricomarche	DIY stores	n/a	n/a	n/a	n/a
Milo	wholesale trade	n/a	n/a	n/a	2,003
Kaufland	hypermarkets	n/a	n/a	n/a	366
Piotr i Pawel	supermarkets	n/a	n/a	534	n/a
Eurocash	-	1,890	1,608	1,375	n/a
- Eurocash	wholesale trade	n/a	n/a	n/a	1,165
- abc	local groceries	n/a	n/a	2,140	n/a
Eldorado	groceries&wholesale trade	n/a	1,130	892	667
- Groszek	groceries	n/a	520	400	n/a
Avans Group	electrical household appliances stores	n/a	n/a	2,000	n/a
Mars	electrical household appliances stores	n/a	n/a	570	n/a
Neonet	electrical household appliances stores	581	409	261	173
Apofarm	pharmacies	n/a	n/a	2,450	n/a
Lewiatan	groceries	n/a	n/a	2,888	n/a
Sieć 34	groceries	n/a	n/a	2,182	n/a



PSB	building materials wholesalers	n/a	n/a	2,400	n/a
Lewiatan Detal Holding	groceries	n/a	n/a	629	n/a
SBS	groceries	n/a	600	420	n/a
Delikatesy Centrum DC	groceries	750	597	444	n/a
Chata Polska	groceries	n/a	375	330	n/a

Source: PulsBiznesu Jun 20, 2005/Apr 5, 2005, Rzeczpospolita Jan 19, 2005, Handel (Rzeczpospolita Dec 29, 2004, Newsweek Jul 4, 2004, Gazeta Jul 18, 2003), GfK Polonia (Polityka Dec 13, 2003)

Biggest foreign retailers in Poland (number of stores)

		2005F	2004	2003	2002
Metro AG (Germany)	-	n/a	n/a	n/a	77
- Makro Cash and Carry	wholesale/retail trade	n/a	n/a	n/a	20
- Real	hypermarkets	n/a	27	27	25
- Praktiker	DIY stores	n/a	n/a	16	16
- Media Markt	HI-FI and white goods supermarkets	n/a	24	20	16
Jeronimo Martins (Portugal)	-	n/a	n/a	n/a	643
- Biedronka	discount shops	n/a	725	672	638
- Jumbo	hypermarkets	n/a	n/a	n/a	5
Carrefour (France)	-	n/a	n/a	n/a	68
- Carrefour	hypermarkets	n/a	30	15	13
- Champion and Globi	supermarkets	n/a	n/a	n/a	55
Geant (France)	-	221	180	156	121
- Geant	hypermarkets	19	18	17	15
- Leader Price	discount shops	202	162	139	106
Auchan (France)	-	n/a	n/a	n/a	n/a
- Auchan	hypermarkets	n/a	16	18	15
- Leroy Merlin	DIY stores	17	14	12	n/a
- Elea	supermarkets	n/a	n/a	n/a	11
Rewe (Germany)	-	n/a	n/a	n/a	35
- Selgros	wholesale trade	n/a	n/a	n/a	8
- Minimal	supermarkets	n/a	n/a	n/a	27
Ahold (Netherlands)	-	n/a	n/a	n/a	184
- Hypernova	hypermarkets	n/a	12	25	24
- Albert	supermarkets	n/a	170	n/a	160
Tesco (UK)	-	98	78	73	n/a
- Tesco	hypermarkets	61	47	38	n/a
- Savia	supermarkets	37	31	35	n/a
Hit (Germany)	-	n/a	n/a	-	-
- HIT	hypermarkets	n/a	n/a	-	-
Tengelmann (Germany)	-	n/a	n/a	n/a	159
- Plus Discount	discount shops	n/a	n/a	150	137
- OBI	DIY stores	n/a	25	n/a	22
Musketers Group	-	n/a	155	109	n/a
- Intermarche	supermarkets	n/a	121	91	n/a
- Bricomarche	DIY stores	n/a	34	18	n/a
E. Leclerc	-	n/a	15	12	9
- E. Leclerc	hypermarkets	n/a	11	10	9
- E. Leclerc	supermarkets	n/a	4	2	n/a
Milo	wholesale trade	n/a	n/a	n/a	16
Kaufland	hypermarkets	n/a	n/a	36	n/a
Piotr i Pawel	supermarkets	n/a	25	23	n/a
Eurocash	n/a	n/a	n/a	n/a	80



- Eurocash	wholesale trade	n/a	n/a	n/a	n/a
- abc	local groceries	n/a	n/a	1,836	n/a
Eldorado	groceries&wholesale trade	n/a	n/a	248	n/a
- Groszek	groceries	460	364	284	n/a
Castorama	supermarkets	n/a	26	n/a	n/a
Avans Group	electrical household appliances stores	n/a	600	600	n/a
Mars	electrical household appliances stores	n/a	350	n/a	n/a
Neonet	electrical household appliances stores	404	354	295	n/a
RTV Euro AGD	electrical household appliances stores	n/a	103	n/a	n/a
Apofarm	pharmacies	n/a	n/a	4,000	n/a
Lewiatan	groceries	n/a	n/a	1,600	n/a
Sieć 34	groceries	n/a	n/a	900	n/a
PSB	building materials wholesalers	n/a	369	349	415
Lewiatan Detal Holding	groceries	n/a	n/a	330	n/a
SBS	groceries	n/a	n/a	44	n/a
Delikatesy Centrum DC	groceries	203	203	203	n/a
Chata Polska	groceries	197	162	143	n/a

Source: PulsBiznesu Jun 20, 2005, Rzeczpospolita Mar 15, 2005/Jan 19, 2005, Handel Rzeczpospolita Dec 29, 2004, GazetaWyborcza Jul 18, 2003/Jun 26, 2002), ZycieWarszawy Oct 5, 2004, Parkiet Oct 5, 2004/Sep 24, 2004, Głos Polonia (PulsBiznesu Sep 13, 2004, Polityka Dec 13, 2003), PulsBiznesu Jan 7, 2004

Biggest commercial centres in Poland 2004

		area ('000 m2)	number of stores	launch date
Arkadia	Warszawa	110	180	2004
Centrum Bielany	Wroclaw	75	65	1999/2004
Wola Park	Warszawa	73	148	2002
Promenada	Warszawa	66	220	1999/2005
Galeria Mokotow	Warszawa	59	251	2000
Galeria Kazimierz	Krakow	36.2	160	2005
Marcelin	Poznan	36	130	2005
Poznan Plaza	Poznan	30	180	2005
Galeria Dominikanska	Wroclaw	30	90	2001
3 Stawy	Katowice	23.5	81	1999
Manhattan	Gdansk	23	120	2004

Source: DTZ Consulting & Research (Parkiet Jun 30, 2005)

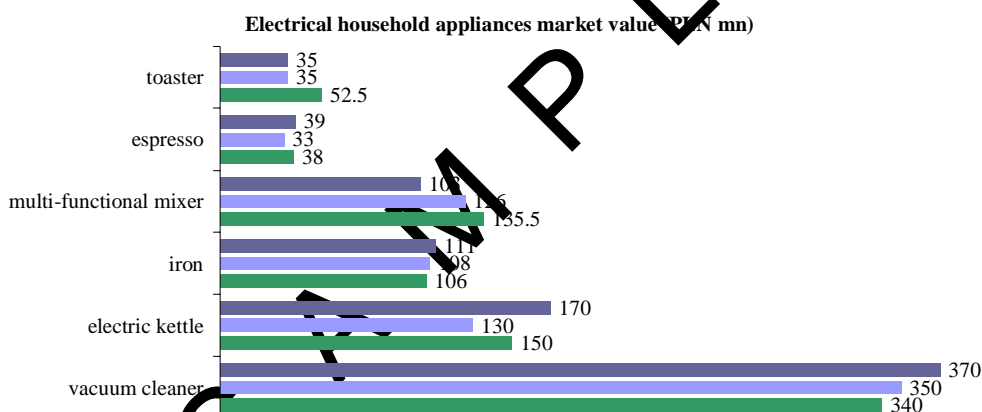
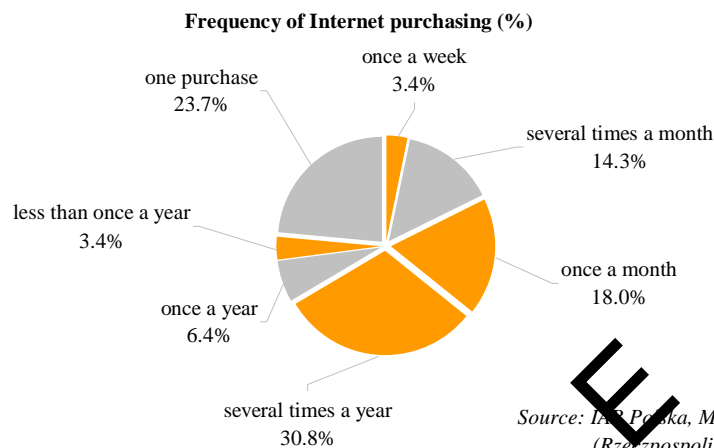
Factory outlets in Europe (space in square meters)

	existing	planned	total
Denmark	0	12,000	12,000
Czech Rep.	22,400	0	22,400
Hungary	29,000	0	29,000
Ireland	17,790	20,000	37,790
Netherlands	25,600	14,000	39,600
Sweden	41,722	0	41,722
Austria	20,000	23,000	43,000
Belgium	34,500	10,000	44,500
Germany	37,200	10,000	47,200
Switzerland	41,700	15,000	56,700
Poland	18,000	84,000	102,000
Portugal	126,700	0	126,700



Spain	165,535	14,743	180,278
Italy	207,500	55,000	262,500
France	281,340	188,600	469,940
UK	556,396	19,850	576,246

Source: Cushman&Wakefield Healey&Baker
(Rzeczpospolita Jun 13, 2005)



Financial results of top companies from the Retail Trade sector

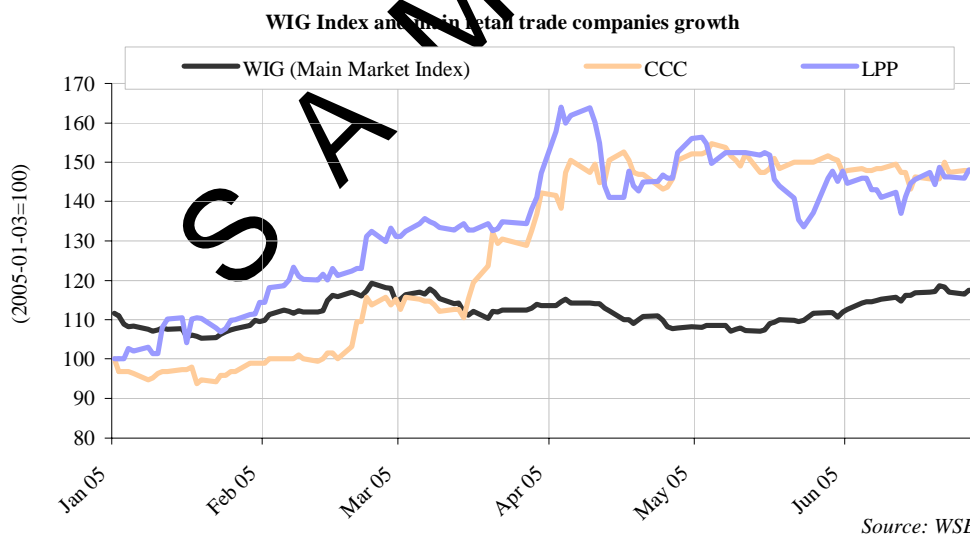
			Sales (PLN mn)	
Name			2004	Change/2003 (%)
1	Metro AG Group (cons.)	hyper-/supermarket chain	12,400.0	7.4
2	JERONIMO MARTINS Dystrybucja Sp. z o.o.	supermarket chain	4,730.0	11.7
3	BP Polska Sp. z o.o.	petrol stations	4,620.0	9.2
4	TESCO POLSKA Sp. z o.o.	hypermarket chain	4,616.0	18.4
5	Auchan Polska Sp. z o.o.	super- and hypermarkets chain	4,290.0	26.9
6	RUCH S.A. Warszawa	kiosks	3,848.0	6.0
7	Carrefour Polska Sp. z o.o.	hyper-/supermarket chain	3,800.0	5.6
8	GÉANT POLSKA Sp. z o.o.	hypermarket chain	3,678.5	11.5
9	Ahold Polska sp. z o.o., Kraków	supermarket chain	3,120.0	15.6
10	real,- Sp. z o.o.	hypermarket chain	2,780.0	2.8
11	STATOIL Polska Sp. z o.o.	petrol stations	2,346.7	13.1



12	SELGROS Sp. z o.o.	hypermarket chain	2,217.2	12.8
13	KOLPORTER S.A. (cons.)	kiosks	2,135.6	15.9
14	AVANS Polska Sp. z o.o.	electrical appliance stores	1,911.8	819.4
15	E. Leclerc Polska	hypermarket chain	1,698.0	6.0
Sector (medium and big companies)			116,885.6	13.4

			Net Result (PLNmn)	
			2004	Change/2003 (%)
Name				
1	SELGROS Sp. z o.o.	hypermarket chain	99.3	525.8
2	RUCH S.A. Warszawa	kiosks	24.8	161.1
3	KOLPORTER S.A. (cons.)	kiosks	19.4	73.2
4	real,- Sp. z o.o.	hypermarket chain	7.0	n/a
5	BP Polska Sp. z o.o.	petrol stations	5.0	107.4
6	JERONIMO MARTINS Dystrybucja Sp. z o.o.	supermarket chain	n/a	n/a
7	Auchan Polska Sp. z o.o.	super- and hypermarkets chain	n/a	n/a
8	TESCO POLSKA Sp. z o.o.	hypermarket chain	n/a	n/a
9	GÉANT POLSKA Sp. z o.o.	hypermarket chain	n/a	n/a
10	E. Leclerc Polska	hypermarket chain	n/a	n/a
11	Carrefour Polska Sp. z o.o.	hyper-/supermarket chain	n/a	n/a
12	Ahold Polska sp. z o.o., Kraków	supermarket chain	n/a	n/a
13	Metro AG Group (cons.)	hypermarket chain	n/a	n/a
14	STATOIL Polska Sp. z o.o.	petrol stations	n/a	n/a
15	AVANS Polska Sp. z o.o.	electrical appliance stores	n/a	n/a
Sector (medium and big companies)			1,762.6	4,060.9

Sources: GUS, companies, IS Corporate DB, GazetaBankowa/Parkiet/Polityka/Rzeczpospolita rankings, Monitor B





The copper industry is formed by those companies involved in the extraction, production, exploration and processing of the metallic mineral Copper.

This metal is used mainly for conduction of electricity, machining processes, anti-corrosive processes and electronic micro-processing component, among other uses.

The current growth in the Molybdenum industry should also be highlighted when considering the copper industry, as this metal is produced as a by-product of copper mining.

This element is principally used for super alloys and to increase resistance of metals to changes in temperature and pressure conditions, as well as other uses.

The market share of each company is calculated as the percentage of exports made in relation to the simple of the five most important mining companies in the sector, which in turn is defined by the level of exports made during the 1995-2004 period.

The five mining companies forming the Copper industry simple are (in order of their share of exports): Codelco, Escondida, Collahuasi, Los Pelambres and Sur Andes. These five companies account for more than 80% of the total domestic exports made in the last 10 years.

Below is the FODA analysis of the Copper industry.

Strengths	Weaknesses
Low production costs	Exploitation of non-renewable resources
Record growth in copper exports	Limited deposits
High current profitability	Exploration costs
	Volatility in prices of resources
	Absence of capital financing and private debt
Opportunities	Threats
Rising copper prices	Falling copper prices
New deposits	Increase in production costs
Development of new processing technology	Copper substitutes
New markets and greater copper exports	Environmental impact
Growth of the molybdenum market	



PRINCIPAL PRODUCTS

As can be seen in the following table, copper and concentrates account for 66% of the total exports made by the copper industry. Refined copper and alloys exports follow this at 21%.

Molybdenum exports account for 7.6% of the total, exceeding unrefined copper in terms of the importance of production of metallic minerals.

In order to make the comparison, exports of metallic minerals between January and October 2005 were used.

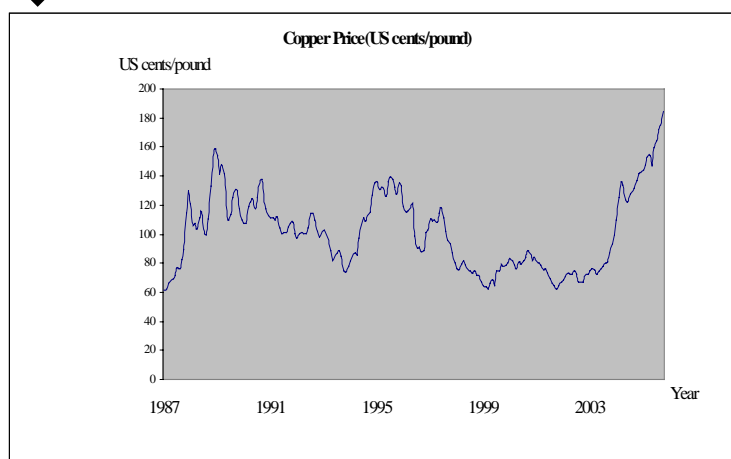
Thousand MT	Codelco	Escondida	Los Pelambres	Sur Andes	Collahuasi	Total	%
Copper and Concentrates	56626702.29	2104917300	789056954.6	140034891.4	713648913.8	3804284762	65.7%
Molybdenum	108138397		329408624.3			437547021	7.6%
Unrefined Copper	29363298.73			301300494.5		330663793	5.7%
Refined Copper and Alloys	466588188.6	420187480.5		128679815.9	170104928.2	1185560413	20.5%
Others	31139443.37			272511.47		31411954.8	0.5%
						5789467944	

Source: DICOM

COPPER MARKET

As can be observed in the following graph, the trend in copper prices over the last 2-3 years has been upward, climbing from around 70 cents per pound to more than 2 dollars per pound this year.

This is due to the high consumption in Asian nations, such as China, South Korea and Japan thanks to the growth in their respective economies, as well as free trade agreements with various countries which are stimulating copper exports.



It should be noted that the price of copper per pound depends on the negotiating power of each company with direct buyers and the quality of copper sold. This is why the trend shown is lower than the price of copper considered as 'refined' according to international quality standards defined by the commodity market.



In this table can be seen the marked increase of more than 60% in prices between 2000 and the present, considering prices for only the first few months of the year.

It should be mentioned that at present the price per pound of copper is above two dollars, which would be a greater percentage increase since 2000.

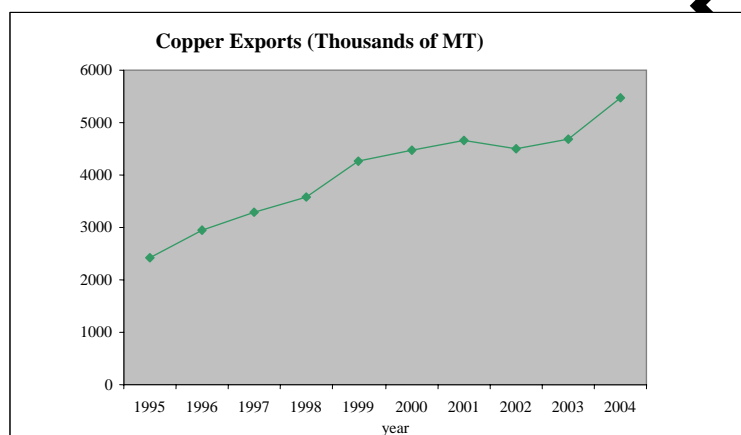
Although there was a 14% drop in copper prices between 2000 and 2002, this was entirely recovered in the 2003–2005 period, with growth of more than 65%.

The level of copper exports increased between 1995 and 2004 with a clear upward trend in prices in this period, apart from 2001–2003, when the upward movement decelerated.

This change in the level of exports is directly affected by the trend in copper prices, as in this period copper prices went down.

Year	Price (cents/pound)
2000	82.3
2001	71.6
2002	70.7
2003	80.7
2004	130
2005	133.4
2000 to 2005	62.2%
2003 to 2005	65.3%
2000 to 2002	-14%
2002 to 2003	14%

Source: Central Bank



Source: DICOM

As expected, the level of exports grew in the period between 2003 and 2005 due to the rise in copper prices because of greater world demand, especially in the Asian market.

This is reflected in the following table, showing an increase in volume when the price rises and a decrease in volume when the price falls, with a relationship of less than 1:1.

In the period when prices fell 14% between 2000 and 2002, the copper export volume

grew just 1%, which indicates a relationship of less than 1:1.

On the other hand, in the 2002–2003 period, when prices rose 14%, the copper export volume grew just 4.1%, but higher than the 1% in the previous period, confirming the price-volume behavioral rule.

For the whole period between 2000 and 2004, the export volume grew 22.6%, lower than the 65% growth in price in the same period.

This constant growth in copper volume and price has been due to two main reasons: the increase in the number of private companies in the

Volume	Growth
2003–2004	17%
2002–2003	4.1%
2001–2002	-3.2%
2000–2001	3.9%
1995–2004	127.5%
2000–2004	22.6%

Source: ISI Emerging Markets



domestic industry, which generally has a positive impact on production compared to a previously smaller industry; and the growth in world copper consumption, especially in the Asian market.

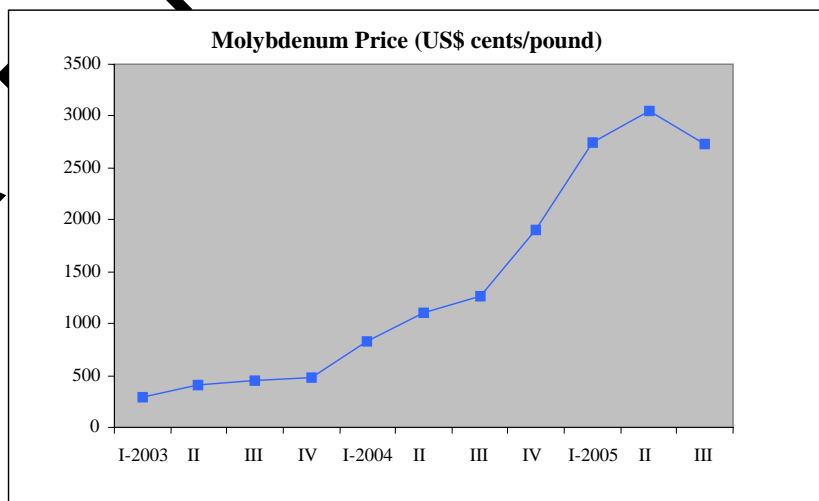
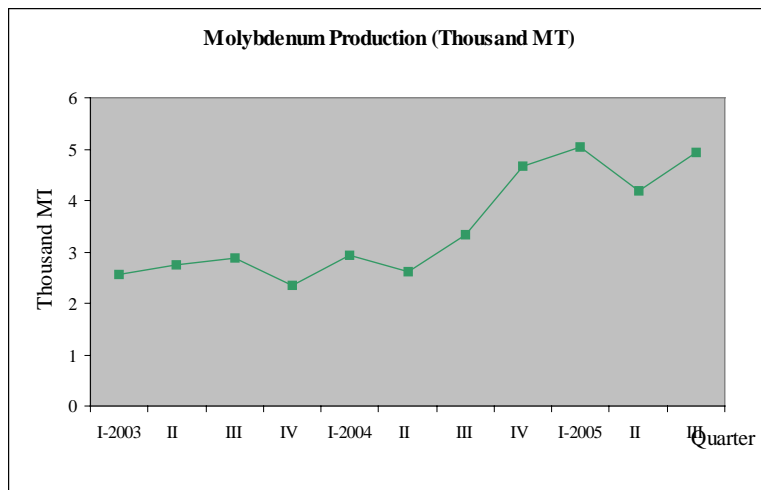
MOLYBDENUM MARKET

Due to the growing importance of molybdenum, because of greater world demand for industrial super alloy processes and metal resistance, it is important to analyze the trend in production and prices of this copper by-product.

As observed in the following graph, the trend in molybdenum production in recent years has been upward, but at different rates of growth, due mainly to the response of the production market and the immaturity of this product in domestic metallic mineral production.

The graph below shows that the price trend has been upward, but at an almost explosive rate, mainly because Molybdenum production did not satisfy total world demand in 2003-2005. The product was relatively scarce, influencing the upward price trend.

Analyzing the percentage growth in molybdenum export volumes and prices, it can be seen that prices have risen by almost 600% since 2003, with lower growth in production at 79%.



Although there has been a drop in the **Source: DICOM**

price per pound of molybdenum in the latter quarters of 2005, due mainly to the consistent increase in production, closing the gap between supply and demand, nothing indicates that this downward trend will be maintained over time, due to the recovery in the US market, the stability of the European market and growth in Asian consumption.

	Volume	Price
2003-2004	28.5%	234.7%
2004-2005E	39.7%	108,8%
2003-2005E	79.4%	598.9%

Source: ISI Emerging Markets

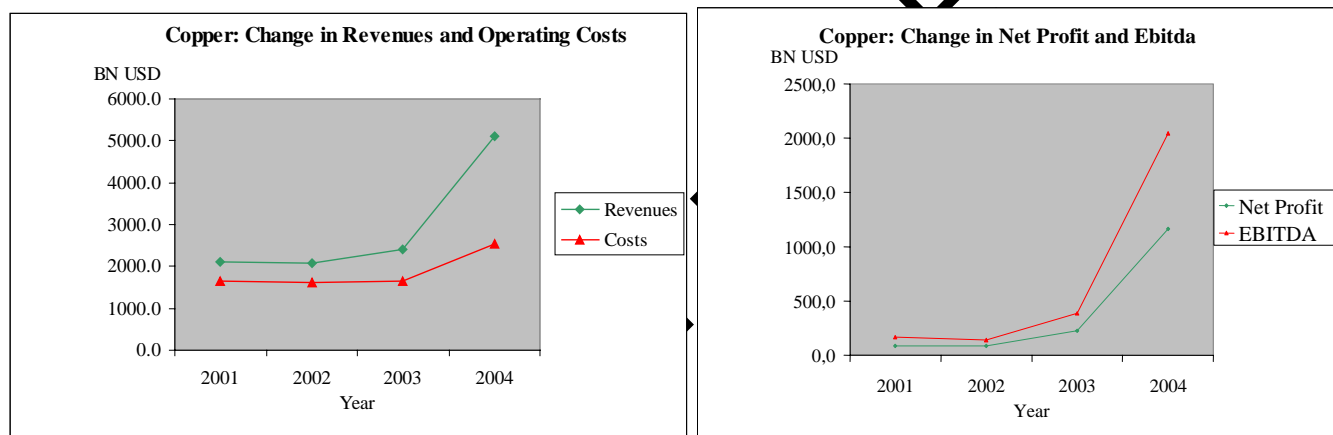


FINANCIAL RESULTS

As expected, the trend in net profits in the copper industry has been upward due to greater production and higher prices in recent years, which has allowed growth of more than 300% in net profits since 2003-2004.

As taxes and amortization are not accounted for, EBITDA is slightly higher than net profit, except in the last two years, when taxation increased due to greater transfer of profits from Codelco, Chile's biggest copper producer, as it is a state-owned company and because of its tax policy. As a result, the gap between net profit and EBITDA is greater than in years prior to 2003.

It should also be pointed out that as from June 2005, private companies producing copper in Chile have had to make royalty payments, so the difference between net profit and EBITDA in the coming periods should be greater.



Source: DICOM

Regarding changes in revenues and operating costs, a sort of economy of scale can be observed in production, due to the lower rate of growth in costs than in revenues, thanks to growth in production in the last two years.

As can be seen, the growth in revenues in the 2003-2004 period more than doubled the growth in operating costs, with increases of 112% and 53%, respectively. This has been observed year after year, except for the 2001-2002 period when revenues fell 2.2% and costs declined 2.7%.

	Profit	EBITDA	Revenues	Costs
2003-2004	339.8%	355.9%	111.5%	53.3%
2002-2003	151.9%	157.0%	16.4%	2.8%
2001-2002	-8.2%	-15.8%	-2.2%	-2.7%

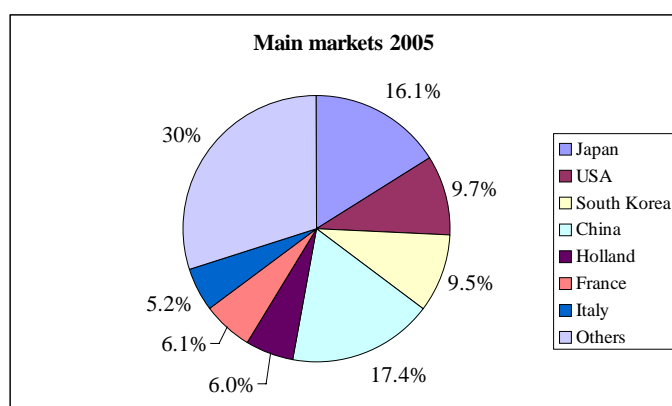
Source: ISI Emerging Markets



MAIN MARKETS

Among the most important markets for the domestic copper industry in 2005 are China and Japan, with more than 15% of total exports, while the United States accounts for close to 10%. These are the three main markets.

The Asian markets share of exports has been growing in recent years and this is expected to continue because of the growing importance of these economies, especially China.



Country	Export Share
Japan	16.1%
USA	9.7%
South Korea	9.5%
China	17.4%
Holland	6.0%
France	6.1%
Italy	5.2%
Others	30%

Source: ISI Emerging Markets

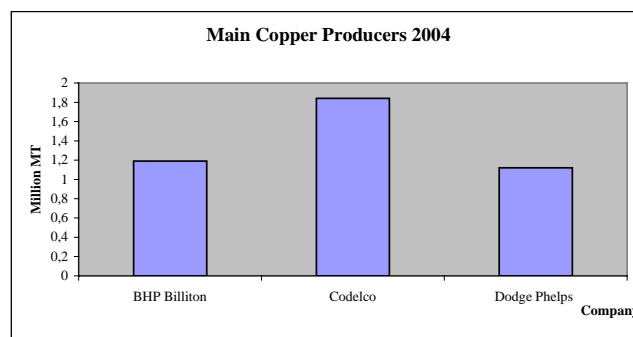
MAIN PRODUCERS

As of 2004, Codelco is the biggest domestic exporter, with a total of more than 1.8 million metric tons of copper. It is followed by BHP Billiton and Dodge Phelps with production figures above 1 million metric tons.

By groups of mines, Codelco is ranked first, with 35% of domestic exports, followed by Escondida with 18% and Collahuasi with 8%.

It must be underlined that just five mining groups account for more than 80% of domestic copper exports, which could imply serious barriers to entrance of other firms or monopolies in copper production.

As observed in the graph showing exports by the three main domestic producers, Codelco and Escondida exports have been rising, except for in the 2002-2003 period, while Collahuasi exports have been practically constant, except for a recent drop.



Source: ISI Emerging Markets



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Codelco exports have risen by a large amount in recent years, mainly because of the opening of a big part of the Asian market to its products.

There are two large molybdenum producers who account for nearly all exports of the product in 2005: Codelco with 25% and Los Pelambres with 75%, which justifies the great growth in the profits of these two companies accompanying copper exports, especially for Los Pelambres.

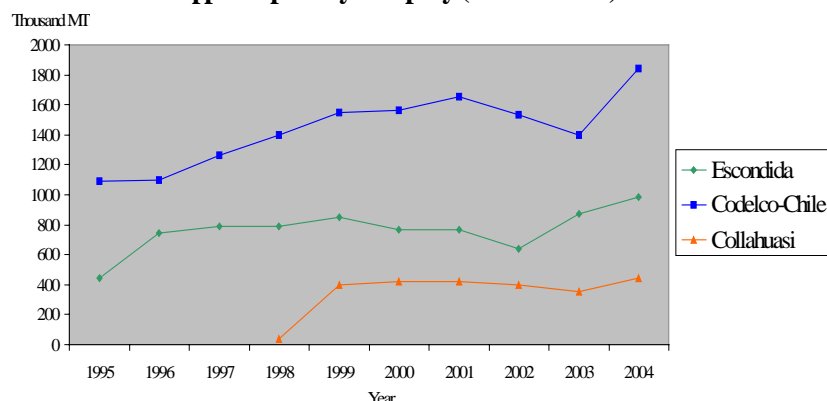
OWNERSHIP OF COMPANIES

The ownership of the domestic mining companies includes the state-owned Codelco. All of the other companies have private investors and a low stock market presence, which indicates that economic groups own the majority of the companies.

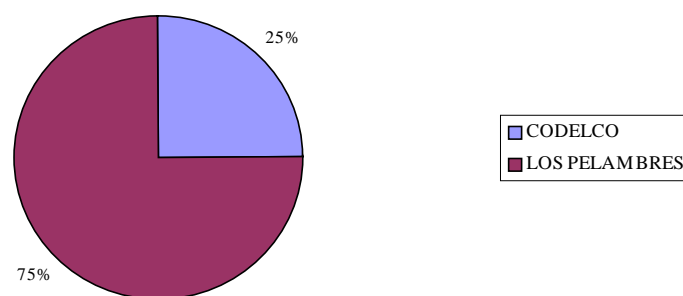
Among the most important corporations owning significant shares in the domestic copper industry are Anglo American PLC, BHP Billiton and Dodge Phelps.

Canadian, Japanese, U.S. and British companies are those that have the largest stakes in the domestic copper industry.

Copper Exports by Company (Thousand MT)



Main Molybdenum Exporters 2005



Company	Owners
Codelco	State-owned
Escondida	57.5% BHP Billiton, 30% Rio Tinto PLC, 10% Jeco and IFC 2,5%
Los Pelambres	60% Antofagasta PLC, 40% Japanese conglomerate
Collahuasi	44% Falconbridge, 44% Anglo American PLC and 12% Mitsui
Sur Andes	100% Anglo American PLC

Source: ISI Emerging Markets



FINANCIAL RATIOS

	Code	Industry 2004	Industry 2003	Variation
Profitability				
Return on Equity	ROE	0.54	0.39	37.2%
Return on Assets	ROA	0.24	0.15	59.9%
Net Margin	NM	0.36	0.27	33.1%
Du Pont	Du-Pont	0.35	0.24	47.2%
Gross Margin	GM	0.73	1.40	-47.9%
Liquidity				
Current Ratio	CR	2.00	1.45	38.1%
Acid Test	AT	1.62	1.08	50.3%
Working Capital BN USD	WC	622550.22	367128.04	69.6%
Immediate Liquidity	IL	0.50	0.13	276.4%
Average Collection Period	ACP	49.69	46.93	5.9%
Activity				
Stock Rotation	SR	74.37	58.79	26.5%
Total Asset Rotation	TAR	0.68	0.59	14.3%
Fixed Asset Rotation	FAR	1.07	0.87	22.4%
Sales and Depreciation	SADE	0.81	1.00	-18.5%
Current Asset Rotation	FR	1.15	1.43	-19.5%
Solvency				
Debt to Equity	DE	2.41	1.29	86.9%
Total Debt to Assets		0.58	0.61	-4.7%
Financial Expense Coverage	FEC	24.17	16.93	42.7%
Long-term Debt to Equity		1.27	1.23	3.5%

Source: ISI Emerging Markets

As shown, most of the financial ratios improve between 2004 and 2003, except in the gross margin figure, which can be attributed to the greater taxation for Codelco.

The solvency and liquidity indicators are seen to strengthen, especially in immediate liquidity with growth of 276%. In addition, profitability figures mostly show growth, except in gross margin as mentioned, which dropped by around 50%.

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Copper Inventories on Metal Exchanges

	2005 Q2	2005 Q3	Quarterly Variation		Year-on-year variation	
	Thou MT.	Thou MT.	Thou MT.	%	Thou MT.	%
BML	29	83	+54	+186%	-11	-12%
Comex	14	7	-7	-50%	-38	-84%
Shanghai	29	29	0	0%	+9	+45%
Total	72	119	47	+65%	-40	-25%

Source: Cochilco.

Note: Inventories at end of each period.*in the case of Shanghai (SHFE) refers to last Thursday.

Annual consumption of refined copper

	2004	2005(e)		2006 (e)		
	Consumption Thousand MT	% Var.	Consumptn Thou MT	% Var.	Consumption Thousand MT	% Var.
China	3,407	10.0	3,745	9.9	4,116	9.9
United States	2,415	5.2	2,420	1.4	2,485	1.4
Japan	1,279	6.4	1,250	-2.3	1,265	1.2
Germany	1,110	9.7	1,131	1.0	1,132	1.0
South Korea	933	3.0	910	-2.5	915	0.5
Italy	715	7.5	722	1.0	729	1.0
Taiwan	690	11.3	700	1.4	703	0.4
Main Countries	10,549	7.7	10,898	3.3	11,345	4.1
Rest of World	6,169	7.9	6,437	4.3	6,593	2.4
World Total	16,718	7.8	17,335	3.7	17,938	3.5

Source: GIEC and Cochilco Database.

Note: (e) estimated.

Mining Exports 2005 (Million US\$ FOB)

Period	Copper	Iron	Nitrate and Iodine	Metallic Silver	Molybdenum oxide and ferromolybde- num	Lithium Carbonates	Sea salt and table salt	Other mining products	Total
January	1165.1	21.5	30.0	9.9	220.2	5.6	5.9	19.9	14781
February	993.7	15.4	13.9	8.9	191.5	4.0	2.8	2.0	1232.3
March	1621.3	21.9	23.9	8.6	304.7	9.6	2.6	1.0	1993.7
April	1341.6	19.3	33.6	11.7	300.3	8.1	3.9	13.5	1732.0
May	1202.8	37.5	21.3	7.9	273.3	8.4	2.0	6.8	1560.0
June	1528.0	17.0	31.2	9.6	360.5	7.5	5.7	0.9	1960.4
July	1334.2	35.4	24.5	8.8	353.4	6.7	3.2	13.1	1779.3
August	1527.6	3.7	37.4	9.8	255.6	4.8	7.1	12.8	1858.8
September	1537.8	25.6	32.5	8.0	218.6	9.8	3.4	18.5	1854.2
October	1511.4	36.3	22.6	7.7	270.7	5.2	3.4	1.0	1858.3
November	1782.0	16.8	32.6	11.1	273.6	7.2	4.6	26.0	2153.9

Source: Central Bank



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GDP by class of economic activity (Millions of pesos as of 1996 – Central Bank)

Year	Quarter	Sector Total	Copper Mining	Other Mining Activities
1996	Total	2,089,442	1,745,018	344,424
1996	I	481,740	388,383	93,357
1996	II	512,718	430,799	81,919
1996	III	536,509	454,857	81,652
1996	IV	558,475	470,979	87,496
1997	Total	2,325,065	1,951,054	374,011
1997	I	547,407	460,098	87,309
1997	II	596,020	499,863	96,157
1997	III	574,551	484,154	90,398
1997	IV	607,087	506,939	100,147
1998	Total	2,517,712	2,111,631	406,081
1998	I	593,396	501,360	92,036
1998	II	644,513	544,899	99,614
1998	III	626,545	521,422	105,123
1998	IV	653,258	543,949	109,309
1999	Total	2,784,348	2,410,646	373,702
1999	I	684,586	596,426	88,160
1999	II	701,559	606,690	94,869
1999	III	686,683	595,823	90,860
1999	IV	711,520	611,706	99,814
2000	Total	2,873,613	2,505,058	368,554
2000	I	699,470	606,249	93,221
2000	II	701,185	611,303	89,882
2000	III	711,844	624,130	87,714
2000	IV	761,151	663,377	97,775
2001	Total	3,036,605	2,649,496	387,108
2001	I	736,040	643,275	92,765
2001	II	735,147	663,538	91,609
2001	III	759,786	673,989	85,797
2001	IV	785,632	668,694	116,938
2002	Total	2,908,345	2,525,519	382,826
2002	I	716,750	618,644	98,106
2002	II	717,837	626,571	91,266
2002	III	694,317	611,112	83,205
2002	IV	779,441	669,192	110,249
2003	Total	3,052,879	2,679,056	373,823
2003	I	735,710	639,592	96,118
2003	II	753,540	667,250	86,290
2003	III	753,878	671,971	81,906
2003	IV	809,751	700,243	109,508
2004	Total	3,263,162	2,894,953	368,210
2004	I	733,791	644,903	88,888
2004	II	802,472	714,955	87,517
2004	III	825,115	743,877	81,238
2004	IV	901,784	791,217	110,567
2005	Total			
2005	I	772,213	678,642	93,571
2005	II	787,973	696,757	91,216
2005	III	795,650	795,650	88,432



Calendar for start-up of main projects

Year of Start-up	COMPANY	PROJECT	INVESTMENT (Million US\$)	CONTRIBUTION TO PRODUCTION
2005	BHP BILLITON	Escondida Norte	384.0	Copper sulfide ores (83 KTPD) to keep production of concentrates at 1.1 mill tons
	CODELCO Norte	Extension Chuquicamata refinery	180.0	Increase of 172 Kton/year of cathodes to reach total capacity of 855 Kton/year
	CODELCO Norte	Extension Norte Mina Sur	313.2	Change of technology to heap leaching contributing up to 75 Kton/year of pure copper
	CODELCO Salvador	Oxides Salvador	19.5	Oxidized copper ore to keep production at 25 kton/year of SxEw cathodes
	PHELPS DODGE	Reopening Ojos del Salado	7.2	Reactivation of operation to produce 20 Kton/year of concentrates
	PHELPS DODGE	Candelaria Norte	32.0	Underground mining of ore to contribute 25-50 Kton/year of copper content
2006	ANGLO AMERICAN	Extension Chagres	60.0	Operational improvements and extension by 30 Kton/year of Cu in anodes
	BHP BILLITON	Escondida Leaching of Sulfides	870.0	Leaching of low purity sulfides to produce 180 Kton/year of SxEw cathodes
	CODELCO Teniente	Extension Beneficiation Capacity to 130 KTPD	584.9	Increase production by 100-145 Kton/year of copper in concentrates
	LIPESED	Mantos de la Luna	42.0	24 Kton/year of SxEw Cathodes
2007	BHP BILLITON	Spence	990.0	200 Kton/year of SxEw Cathodes
2008	ANGLO AMERICAN	Expansion El Soldado	80.0	Extends lifespan of mine, maintaining production
	ANTOFAGASTA MIN.	Extension Los Pelambres	957.6	New tailings dump, increase production by 130 Kton/year of Cu in conc. and extension of lifespan
	CODELCO Salvador	San Antonio	121.0	30 Kton/year of SxEw Cathodes
	CODELCO Andina	Andina Expansion to 90 KTPD	258.7	Increase in mining due to lower purity and increase in production by 20 Kton/year of Cu in concentrates
2009	ANTOFAGASTA MIN.	Esperanza	600.0	150 Kton/year of Cu in concentrates
	AUR RESOURCES	Andacollo Sulfides	321.0	75 Kton/year of Cu in concentrates
	CODELCO	Extension FURE Chuquicamarta	370.0	New fusion capacity of 2,000 Kton/year of concentrates
	CODELCO	Extension MINCO to 230 KTPD	881.3	Increase of concentration capacity to 230 KTPD, greater development of A.Hales mine(50 Kton/year of Cu content)
	CODELCO	Gaby	770.0	150 Kton/year SxEw Cathodes
	PLACER DOME	Cerro Casale	1,650.0	125 Kton/year of Cu in concentrates, plus 975 Koz/year of gold

Source: Cochilco



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Estimates of copper production period 2002-2007E (thousand metric tons)

Mine	2002	2003	2004	Company	2005E	2006E
Codelco	1,520	1,563	1,733	Anglo American Chile	460	444
Escondida	758	995	1,195	Antofagasta Minerals	488	483
Collahuasi	434	395	481	Aur Resources	96	96
Los Pelambres	336	338	363	BHP Billiton	1,379	1,376
Sur Andes	250	278	301	Codelco Chile	1,792	1,780
El Abra	225	226	218	Doña Ines de Collahuasi	510	500
Candelaria	200	213	200	Falconbridge	58	58
Mantos Blancos	154	147	155	Phelps Dodge	431	398
Zaldivar	148	151	148	Placer Dome	136	136
Cerro Colorado	128	132	120	Others	204	221
El Tesoro	84	92	98			
Quebrada Blanca	74	80	76			
Others	270	294	325			
Total	4,581	4,904	5,413		5,554	5,492

Source: Cochilco and Santander Investment.

Results of companies in sector up to third quarter 2005

Company	Financial Results			Balance			
	Profit (Loss) In Period	Total Revenues	Operating Profits (Loss)	Total Assets	Total Equity	Available	Total Liabilities
Escondida	894,271,795	1,552,350,176	1,112,352,469	2,619,797,720	1,322,652,845	502,211	1,297,144,876
Codelco	628,863,178	3,760,976,239	1,980,560,106	5,455,232,269	1,542,333,290	2,812,698	3,912,898,979
CAP S.A.	79,165,133	4,174,330	4,371,721	589,350,989	335,102,670	3,573,158	254,248,319
Minera Valparaíso S.A.	66,248,575	5,260,705	125,807	978,926,445	977,712,749	3,936	1,213,696
Molymet	48,959,996	776,625,343	38,429,446	396,792,043	143,020,534	2,487,769	253,771,510
SQM	45,883,757	71,981,255	14,397,415	771,259,255	524,254,626	393,196	247,004,629
Cia Minera del Pacifico S.A.	37,752,599	89,441,680	13,523,177	196,215,718	162,365,440	216,972	33,850,278
Pucobre	21,171,175	56,597,940	30,263,360	66,877,650	42,444,486	52,920	24,433,164
Pampa Calichera	8,569,120	208,897	-616,040	147,397,120	123,107,878	20,993	24,289,242
Soprocot, Calerías e Industrias S.A.	156,077	5,855,408	457,943	11,315,192	7,440,914	38,159	3,874,278
Portada S.A.	31,992	175,823	130,124	4,039,769	4,026,222	12,115	13,547
Schwager S.A.	-859,172	1,236,553	-675,538	5,719,676	3,808,766	123,089	1,910,910
Carville	-1,607,985	835,062	-1,663,325	1,693,931	-4,822,121	93,409	6,516,052
Enacar	-3,480,020	4,306,257	-1,919,313	8,652,007	-5,737,251	162,019	14,389,258

Source: ISI Emerging Markets database, based on information provided by the SVS.

(*) Observed dollar exchange rate for 03/10/2005 used to convert dollars to pesos (\$529.20).



Physical export shipments by destination country (2000 - 2004) (Thousands of MT of pure Copper)

Destination Country	2000	2001	2002	2003	2004
TOTAL	4,468.8	4,649.5	4,502.5	4,687.5	5,485.6
Europe	1,248.9	1,408.8	1,410.5	1,379.5	1,579.9
Federal German Republic	237.8	243.1	191.4	255.3	270.0
Austria	-	-	0.2	-	-
Belgium	21.5	25.5	25.2	18.9	39.4
Bulgaria	46.5	26.3	28.1	47.5	68.8
Spain	92.1	58.2	106.2	94.6	135.7
Finland	35.7	22.0	29.0	27.7	32.6
France	226.1	301.1	283.6	289.5	354.2
Greece	24.0	25.1	36.8	45.1	40.4
Holland	57.0	83.7	93.3	113.7	167.7
Italy	345.6	424.9	421.4	388.5	362.0
Norway	-	-	0.6	0.1	-
Poland	-	-	-	-	2.9
United Kingdom	116.2	142.1	121.4	58.7	57.3
Romania	-	-	-	-	2.7
Sweden	38.6	41.0	41.8	35.9	31.7
Switzerland	4.7	11.6	8.5	4.0	14.5
Others	3.1	4.2	-	-	0.0
Americas	965.8	1,226.6	929.1	743.2	925.4
Argentina	33.4	29.2	4.9	12.0	17.2
Brazil	271.8	273.8	291.1	231.3	292.6
Canada	105.5	129.6	93.1	151.2	211.9
Colombia	3.1	3.3	0.7	0.2	1.9
United States	340.0	566.0	479.6	218.3	274.4
Honduras	-	-	0.1	-	-
Mexico	185.7	181.0	129.4	121.1	113.8
Panama	-	-	1.8	6.5	4.4
Peru	26.3	41.7	28.4	2.6	8.6
Venezuela	-	-	-	-	0.4
Others	-	1.5	-	-	0.2
Asia	2,206.4	1,981.8	2,126.5	2,524.1	2,963.9
Saudi Arabia	53.7	-	22.3	-	-
North Korea	1.0	-	-	2.3	-
South Korea	368.5	299.4	388.4	471.8	521.2
Peoples Republic of China	523.5	572.0	597.2	843.2	999.7
United Arab Emirates	-	4.6	45.6	2.8	-
Philippines	47.6	34.4	25.4	34.9	22.5
Hong Kong	12.8	6.9	5.7	22.6	18.8
India	67.1	89.7	136.1	145.0	173.1
Indonesia	8.4	5.6	3.6	2.2	20.4
Iran	57.1	38.2	20.3	29.9	30.9
Japan	785.9	736.6	599.2	666.5	793.6
Malaysia	16.7	6.6	3.7	7.7	23.4
Oman	7.8	-	-	-	2.3
Singapore	1.7	0.4	6.2	7.4	0.1
Taiwan	216.4	142.7	220.4	222.4	266.8
Thailand	1.2	1.1	0.9	5.2	30.3
Turkey	37.0	43.6	51.5	60.2	53.7
Vietnam	-	-	-	-	6.7
Others	-	-	-	-	0.4
Others	47.7	32.3	36.1	40.7	16.4
Namibia	7.7	7.5	-	-	-
South Africa	-	6.6	3.8	14.9	3.8
Australia	4.3	-	-	10.0	0.0
New Zealand	0.1	-	-	-	-
Other	22.6	9.9	30.3	15.8	12.6
Not assignable (1)	13.0	8.3	2.0	-	-

Source: Comisión Chilena del Cobre. Export shipments to final consumers and treatment plants (1) Copper content in shipments of gold concentrate (Cia. Minera El Indio)



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Chilean Copper Production (Thousand tons of pure copper)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
State-owned mining														
Chuquicamata Division	641.4	628.2	616.7	606.2	610.2	632.3	650.2	650.2	630.1	630.1	641.9	596.8	601.1	691.8
El Teniente Division	278.8	314.2	304.7	308.9	322.8	344.7	343.2	338.6	346.3	355.7	355.6	334.3	339.4	435.6
Andina Division	114.2	128.9	133.9	136.4	145.8	154.4	145.5	164	249.3	258	253.3	218.7	235.8	239.9
Salvador Division	91.1	85.0	84.1	82.6	85.9	89.9	88.3	88.1	91.7	80.5	81.2	72.8	80.1	74.9
RadomiroTomic			4	161.9	190.1	191.4	4	161.9	190.1	191.4	260.3	297.1	306.1	291
Total	1125.5	1156.3	1139.4	1134.1	1164.7	1221.3	1231.2	1402.8	1507.5	1515.7	1592.3	1519.7	1562.5	1733.2
Privately-owned Independent Mining	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Escondida	298.4	336.1	388.8	483.6	466.9	841.4	932.7	867.6	958.5	916.6	794.1	758	994.7	1195.1
Andina Sur (ex-Disputada)	107.2	131.9	181.4	187.7	198.5	200.7	202.4	215.9	248.4	253.8	251.6	249.8	277.9	300.6
El Abra						51	194.1	198.7	220.1	197.2	217.6	225.2	226.6	218
Candelaria				30.9	150.3	136.8	155.7	215	226.9	203.9	220.6	199.1	212.7	200
Mantos Blancos	78.5	69.4	74.9	30.9	150.3	136.8	155.7	215	226.9	203.9	220.6	199.1	147.1	155
Zaldívar				77.5	76	122.4	132.9	138.1	151.6	155.3	156.9	153.4	150.5	147.6
Quebrada Blanca					22.4	77.5	96.2	135	150.4	147.7	140.4	147.8	80.1	76.3
Michilla				6.9	46.4	67.7	66.8	71.1	73.1	68.6	74.6	73.8	52.7	50
Cerro Colorado				26.8	56.4	63	62.7	62.1	60.6	52.2	49.6	51.8	131.5	119.5
El Indio	26.6	24.8	28.4	21.3	36.4	59.3	60.3	75	100.2	119.2	133.9	128.3		
Los Pelambres				31.5	34.6	34.7	32.1	27.8	15.2	13.9	11.4	2.3	337.8	362.6
Collahuasi									12.3	308.8	373.8	335.5	394.7	481
Lomas Bayas								48.1	434.6	436	452.7	433.5	60.4	62
El Tesoro								19.3	44.6	51.3	56.3	59.3	92.4	97.8
Total Independent	510.7	562.2	673.5	866.2	1087.9	1654.5	1935.9	2073.7	2696.5	2924.5	2976.5	2902.1	3159.1	3465.5
Other Independent	28.7	65.8	88.4	101	109.5	111.7	127.5	127.3	116.3	72.4	75.6	77.6	60.7	94.5
Enami	149.4	148.4	154.1	118.6	126.5	128.3	97.4	83.1	70.9	89.4	94.6	81.2	121.9	119.3
Total Private	688.8	776.4	916	1085.8	1323.9	1894.5	2160.8	2284.1	2883.7	3086.3	3146.7	3060.9	3341.7	3679.3
Total Country	1814.3	1932.7	2055.4	2219.9	2488.6	3115.8	3392	3686.9	4391.2	4602	4739	4580.6	4904.2	5412.5

Source: National Geological and Mining Service



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Industry Watch:

Copper Mining

No. 3 - December 2005

Sector Highlights during present year:

Jan 4, 2005: Official transfer of Ventanas foundry and refinery from Enami to Codelco, in the presence of President Ricardo Lagos and Mining Minister Alfonso Dulanto.

Jan 12, 2005: BHP Billiton starts construction of its new Spence copper project, which involves investment of US\$990 million with production capacity of 200,000 tons Cathodes per year.

April 29, 2005: 100-year anniversary of Codelco's "El Teniente" division.

June 14, 2005: XI International Exposition for Latin American Mining, Exponer 2005 takes place in Antofagasta, with presence of SONAMI.

May 28, 2005: President Lagos ratifies Royalty II law, which establishes a tax on mining companies allowing the government to collect around US\$150 million annually. This money will go to a Fund for Technological Innovation.

May 31, 2005: China Minmetals, the largest state operator and consumer of metals in the Asian country, signs an agreement with Codelco, the biggest copper producer in the world. The deal includes payments from the Chinese firm in return for assured copper supplies in the long-term for the state-owned firm.

August 31, 2005: SONAMI holds traditional "Annual Mining Dinner". It also announces National Mining Society 2005 awards.

Sept 2005: Codelco announced US\$550mn investments to extend the lifespan of its El Salvador division by 15-20 more years, reported the company. Although last July, Juan Villarzú, Executive President of the firm, announced the closure of the mines main business lines, with the results of new studies and surveys, the executive said that the "El Salvador division is not closing, it is in productive reconversion."

Nov 2005: Empresa Nacional de Minería (Enami) inaugurated the first purchase power in Calama, Region II, thanks to an agreement reached with mining company Cerro Dominador (linked to the Callejas group).

Dec 2005: The National Mining Society (Sonami) signs an agreement with Empresa Nacional de Minería (Enami) ending differences on price support that affected mining producers in Copiapó and Tierra Amarilla in Region III.

Dec 2005: Codelco signs an agreement with Japanese firm NTT to incorporate leading edge technology in mining processes.

Dec 2005: Codelco contract workers start strike to obtain \$500,000 bonus for higher copper prices.



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SAMPLE

ISLAMIC BOND MARKET REPORT

SAMPLE

AUGUST, 2006

THE REPORT COVERS THE PERIOD JANUARY-JUNE 2006

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HIGHLIGHTS

- * Islamic bond market for H1 2006 USD 13.4bn
- * Market grows more than 3800% in just five and a half years
- * Dubai Islamic Bank and Barclay's Capital top international bonds market
- * CIMB tops Malaysian Islamic bond managers league with 8 issues
- * USD 3.5bn issue for PCFC largest Sukuk issue to date
- * US enters Sukuk market for first time
- * SABIC issues 20-year Sukuk, longest dated Islamic bond in history
- * Malaysian bond market still very vibrant
- * Islamic bond market to continue its robust growth
- * Dubai Islamic Bank reportedly prepared to sell up to USD 11bn Sukuk

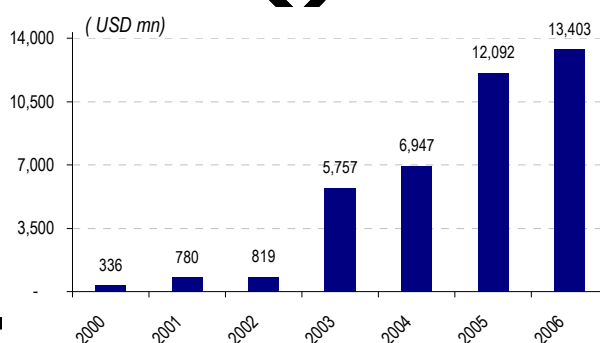
OVERVIEW

Islamic bond market for H1 2006 USD 13.4bn

The total Islamic bond market (international and domestic issuances) continues its robust growth amid strong demand from investors and innovation of new financial instruments that complies with Islamic rules. **The market size for the first half of this year was USD 13.4bn**, according to data compiled by Islamic Finance Information Service (IFIS). USD 336mn of the Islamic bonds had been issued in 2000 and the market grew by 3885% in just five and a half years. Compared to the first half of 2005, the Islamic bond issues increased by 108% in January-June of this year.

Worldwide international and domestic market grows more than 3800% in just five and a half years

Islamic Bond Market Size



Source: IFIS

Dubai Islamic Bank and Barclay's Capital top international Islamic bonds market

For the international bond markets, **Dubai Islamic Bank and Barclay's Capital topped the Book Runners' league table**, each handling USD 1.75bn of Islamic bond sales. HSBC Amanah and Citigroup ranked third and fourth in the list with USD 800mn and USD 600mn issues, followed by Deutsche Bank, which lead-managed USD 460mn bond issue.

CIMB tops Malaysian Islamic bond managers league with 8 issues

Commerce International Merchant Bankers Berhad (CIMB) topped the Malaysian Islamic bond managers league with 8 issues amounting to USD 4.3bn. The amount corresponds to some one third of all issues in the first half of this year. AmMerchant Bank Berhad managed three bond issues amounting to USD 1.05bn. Each of the remaining 25 managers handled bond issues amounting less than USD 1bn.

Top Islamic Bond Bookrunners

Manager	Amount (USD mn)	Number of Issues
Dubai Islamic Bank	1,750.0	1

Barclays Capital	1,750.0	1
HSBC Amanah	800	1
Citigroup	600	1
Deutsche Bank	460	1

Source: IFIS

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HIGHLIGHTS

USD 3.5bn issue for PCFC largest Sukuk issue to date

The USD 3.5bn Sukuk issue for Ports, Customs & Free Zone Corporation (PCFC) is the world's largest Sukuk issue to date. It is also the first Sukuk to be convertible into equity upon an IPO and the first to be listed in The Dubai International Financial Exchange. The lead-managers were Dubai Islamic Bank and Barclays Capital. The issue was three times oversubscribed due to overwhelming investor demand and it was increased to USD 3.5bn from the initially set USD 2.8bn. The bond offers investors 30% of the shares of government-owned PCFC's companies if they go public in the next three years.

Second largest deal Rantau Abang Capital's USD 2.6bn equivalent Ringgit issue

The second largest deal was Rantau Abang Capital's USD 2.6bn equivalent Ringgit issue from Malaysia. It was solely lead managed by Commerce International Merchant Bankers Berhad (CIMB).

First sovereign issue of year by Pakistan state

The first sovereign issue of the year was for the Pakistan State Government. Citigroup was the lead book runner in the USD 600mn Sukuk issue for The Water and Power Development Authority (WAPDA).

US enters Sukuk market for first time

The US entered the Sukuk market for the first time with East Cameron Gas Company's USD 165.7mn issue. The Sukuk was also the first Islamic bond using hydrocarbon reserves as an asset class. Merrill Lynch was the lead book runner while Berne Securities acted as co-arranger and Lead Manager. Proceeds from the sale will be used to finance exploration activity and to buy back a 50% stake in royalty rights that were sold to fund earlier investments.

Government of Brunei issues its first and second Sukuk in couple of months

Government of Brunei issued its first and second Sukuk in a couple of months. The first issue of USD 96.5mn was launched in April and the structuring adviser was HSBC Amanah. The second issue of USD 96.54mn was in May. Brunei is the first country to develop its capital market in a Shariah compliant manner without first having established a conventional capital market.

SABIC issues 20-year Sukuk, longest dated Islamic bond in history

Saudi Basic Industries Corporation (SABIC) is the world's 10th largest petrochemicals company and is the first company to take advantage of the recent changes in the Saudi Capital Markets Law. It issued Saudi Arabia's first Islamic bond, a 20-year issue of up to USD 800mn. Although the Sukuk expires in 2026, making it the longest dated Islamic bond in history, investors can redeem the bond at face value from SABIC in five years. The Sukuk will be the first, issued by a private Saudi firm and is seen as a key step towards developing the country's largely equities-based financial markets. The bond will be listed on the Saudi bourse.

SABIC itself issues Sukuk certificates

According to HSBC, **this is the first Sukuk where the issuance is not by an SPV, but by SABIC itself.** There is an SPV involved, but it is on the periphery. It is a Saudi based company that acts as a custodian, and holds the Sukuk assets on behalf of the Sukuk holders, but the Sukuk certificates are issued by SABIC itself. It is also the first to be approved by a Shariah Committee of a Saudi bank - the Sabb Amanah Shariah Supervisory Committee. HSBC Saudi Arabia acted as the sole lead manager and bookrunner for the Sukuk.

Sabic deal achieves number of firsts

The transaction achieved a number of firsts:

- The largest-ever corporate Sukuk issuance in the region
- The first public Sukuk/bond in Saudi Arabia, and the first to be admitted to CMA's

Official List.

- The first capital market transaction to be approved under a book building format in Saudi Arabia
- The first publicly tradable Sukuk/bond in KSA, and the first to be cleared/settled through Tadawul
- The first Sukuk to be approved by a Shariah committee of a Saudi Arabian bank for public offer in KSA

More Sukuk with longer maturities

Apart from SABIC's 20 year sukuk, **the issues for USA's East Cameron and Saudi Arabia's Kingdom Instalment Company (KIC) had long maturities of 13 years and 14 years** respectively. In the KIC issue Unicorn Investment Bank (UIB) acted as the lead manager, Shari'ah advisor and joint bookrunner while Standard Bank acted as joint bookrunner.

Bukhathir Investments issue market's first Investment Agency Sukuk

The USD 50mn Sukuk issue for United Arab Emirates' Bukhathir Investments was the market's first Investment Agency Sukuk. Emirates Islamic Bank (EIB) and Liquidity Management Centre were the lead arrangers. The Sharia'a-compliant Sukuk Al-Wakala Bel-Istithmar is an innovative structure offering investors the opportunity to be a part of an investment agency that will be managed by Bukhathir Investments Limited.

IFC structures USD 200mn Sukuk for Tabreed

Islamic Finance Consultants (IFC) helped structure a USD 200mn Sukuk for The National Central Cooling Company (Tabreed). CIMB, HSBC and Dresdner Kleinwort were the lead bookrunners for the transaction, which was one of the first rated corporate sukuk out of Middle East. The book-building process covered many countries across the Middle East, Europe and Asia and the issue was oversubscribed by around 50%.

Saudi Arabia – increase in Islamic finance activities

Saudi Arabia's Capital Markets Authority is currently working on regulations, which would allow for sukuk to be issued in the Kingdom. These regulations would come under a comprehensive capital market regulatory and legal framework. With these changes in place, the investment climate will change and encourage the participation of a wider investor base and provide investors with diverse investment opportunities. Standard & Poor's and Fitch attach a sovereign rating of A to the country while Moody's rates Saudi Arabia at A3.

Malaysian bond market still very vibrant

The Malaysian bond market is still very vibrant. Rantoul Abang Capital Berhad. topped the bond issuers league with a single issue of USD 2.6bn equivalent in the USD 7.6bn Malaysian bond market. It is followed by Bank Pembangunan Malaysia's USD 921mn issue and Rantau Abang Capital Berhad's USD 789mn issue. All three issues were lead managed by CIMB, which tops the lead manager's table. CIMB handled nine issues totalling USD 4.2bn.

Top Islamic Bond Issuers

Issuer/Borrower	Country	Amount (USD mn)
Sovereign		
The Water and Power Development Authority (WAPDA)	Pakistan	600.0
Government of Brunei (Sukuk Holding Properties Inc)	Brunei	96.5
Government of Brunei	Brunei	96.5
Government of Bahrain	Bahrain	40.0
Government of Bahrain	Bahrain	26.6
Corporate		
Dubai Ports Authority and DPI Terminals	UAE	3,500.0
Rantau Abang Capital Bhd	Malaysia	2,631.6

Bank Pembangunan Malaysia	Malaysia	921.1
Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	800.0
Rantau Abang Capital Berhad	Malaysia	789.5
Putrajaya Holdings Sdn Bhd	Malaysia	578.9
Aabar Petroleum Investment Company PJSC	Kuwait	460.0
Malayan Banking Berhad	Malaysia	394.7
Putrajaya Holdings Sdn Bhd	Malaysia	394.7
The National Central Cooling Company ('Tabreed')	UAE	200.0
Putrajaya Holdings Sdn Bhd	Malaysia	192.9
East Cameron Gas Company	US	165.7
Gas Malaysia	Malaysia	131.6

Source: IFIS

www.securities.com/ifis

OUTLOOK

Islamic bond market to continue its robust growth

Apparently, **Islamic bond market will continue its robust growth in the remainder of the year.** A total of 18.7bn issues have been announced so far, on top of USD 15.5bn bond issues completed in Jan-Jul of this year. The head of the Dubai Financial Services Authority (DFSA) said that USD 9bn Islamic bonds are likely to be floated in the Gulf region through the rest of the year.

DIB reportedly prepared to sell up to USD 11bn Sukuk

Dubai Islamic Bank (DIB) is reportedly prepared to sell up to USD 11bn Sukuk this year. Reportedly, Dubai Civil Aviation (DCA) also plans to issue a Sukuk up to USD 1.6bn, to finance the first phase of Jabel Ali International passenger and cargo airport.

PT PLN to issue USD 800-1,000mn sukuk

Indonesian State Government electricity company **Perusahaan Listrik Negara (PLN) plans to issue USD 800 – 1,000mn Sukuk** for the development of the state's power plants.

Putrajaya Holding's USD 579mn issue announced

Putrajaya Holding's USD 579mn issue has already been announced. RHB Sakura Merchant, CIMB and Alliance Merchant Bank will be the lead managers.

Khazanah Nasional plans to raise USD 500mn via Islamic bond exchangeable into shares

Khazanah Nasional is looking to raise at least USD 500mn via Islamic bond issue. Bankers say that it will be the world's first Islamic bond exchangeable into shares, and aims to apply a new Islamic structure that would be acceptable in a variety of nations. HBSBC Amanah, Noriba and CIMB are the lead managers.

Announced Islamic Bonds

Issuer/Borrower	Country	Proposed Amount (USD mn)
International Market		
Dubai Islamic Bank	UAE	11000
Dubai Civil Aviation (DCA)	UAE	1,640
Amlak Finance	UAE	500
Islamic Development Bank	Saudi Arabia	500
Islamic Development Bank	Saudi Arabia	271
Qatar Real Estate Investment Company (QREIC)	Qatar	270
Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	267
Albaraka Banking Group	Bahrain	200

National Leasing, Qatar	Qatar	200
The Investment Dar Company K.S.C	Kuwait	150
Domestic Market		
PLUS Expressway	Malaysia	1,710
Perusahaan Listrik Negara (PLN)	Indonesia	800
Putrajaya Holdings Sdn Bhd	Malaysia	579
Khazanah Nasional Bhd	Malaysia	500
Syarikat Bekalan Air Selangor Sdn Bhd (Syabas)	Malaysia	474
Senai Desaru Expressway Sdn Bhd	Malaysia	263
Perusahaan Listrik Negara (PLN)	Indonesia	266
Boustead Holding Bhd	Malaysia	199

Source: IFIS

www.securities.com/ifis

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