Air New Zealand Investor Day
25th November 2011

Airpoints
David Mackrell (Deputy CFO)
Simon Pomeroy (Head of Loyalty)
Strategic Objectives

• Drive Customer loyalty to Air New Zealand
  – Grow and engage membership

• Ensure Airpoints always relevant
  – Increase Airpoints earning
  – Increase redemption opportunities

• Leverage the value of membership base
Loyalty Drivers

- Connection to the brand
- Feeling of value and worth
Growing Membership

- Membership growth more than 10% p.a. to over 1 million
- Membership drive on customers that fly with us
- Regular earning means Airpoints almost always relevant
- Premium tiers 3.5% of the base but earn 20% of the points
- 80% of Airpoints held by lower tier members
Member Engagement

• Introduced fortnightly communication targeted at entry membership not just premium tiers

• Communications readership grown by 25%

• “Earn to fly” message has broader appeal than “fly to earn”
Ensure Airpoints Always Relevant

- Loyalty comes from the loyalty program always being relevant to the transaction either earning or redeeming.
- If customers have a lot of opportunities to earn and redeem their points, Air New Zealand will always be at the top of the preference list.
- Stimulates travel as well as rewards travel behaviour “earn to fly” and “fly to earn”
Increase Earning Potential

1. Earn flying:
   – on more than 80% of flights across the network

2. Earn on everyday spend:
   – more than half the Airpoints are earned from non flying
   – Credit Card spend expanded to four direct earn credit card partners each with a broad range of cards
   – at Fly buys retailers on everyday spend

3. Purchase Airpoints Dollars to top up or as a gift
Increased Redemption Opportunities

More than 4% of Passenger Revenue is from Airpoints Redemptions

• Redeem:
  - on any seat, any time
  - on other travel related products e.g. Hotels, Rental cars
  - at the Airpoints gift store
  - combine balances amongst your family

• Don’t have enough Points?
  - Purchase Airpoints Dollars to “Top Up” your Airpoints balance
  - Purchase Airpoints Dollars as gift

• With “Top Up” ability Airpoints is now relevant for every ticket purchase
OneSmart Airpoints Card

The Ultimate Travel Companion
OneSmart Features

- Take foreign currency easily and securely overseas and spend like a local
- Easy access to cash overseas with no ATM fees
- Debit card that earns Airpoints on everyday spend
- Easily and securely send money to others – online or via mobile
- “Top up” Airpoints account to buy flights
- Speed through check-in with ePass embedded
- Fast transactions with contactless PayPass technology
OneSmart
Travel Companion

- Load money onto the card online
- Move money online into up to four of eight foreign currency wallets
- Exchange money online with no commission and competitive exchange rates
- Instant access to cash at ATMs with no ATM fee
- Globally accepted payment card
OneSmart
Getting Started

• New Airpoints card to all NZ resident Airpoints members
• Members activate optional OneSmart features online
• Simple and transparent fee structure

Partners
  – Card issuer - BNZ
  – Prepaid platform provider - Rev Worldwide
  – Payments scheme - Mastercard
Questions?

It’s who we are.
Funding Strategy

• Access the most effective and appropriate sources of financing having consideration for:
  - Operational flexibility
  - Residual value risk
  - Diversified funding sources
  - Tax risk
  - Matching funding term to asset life
  - Currency risk

• In practice often depends on availability at the time
Funding Summary

• Airline funding predominately secured against aircraft through a mix of:
  – Debt secured over Aircraft
  – Finance Lease of Aircraft
  – Operating Leases of Aircraft

• We recently diversified funding sources with the issue of a retail bond

• Funding is generally in either US$ or NZ$ although we are about to do a JPY finance lease
Aviation Market

- Aircraft are expensive and mobile assets
- Due to their size and relatively unique nature there is a specialist global Aviation Financing market previously dominated by European banks
- Many financing structures available
- Rates are competitive and below domestic commercial rates
Types of Aircraft Financing

- **Commercial debt** – commercial bank loan secured against the aircraft
- **Finance Lease** - a lease where legal title is held by lessor however title is transferable to lessee after full pay-out. Accounted for as owned
- **Export Credit** - OECD sanctioned export credit agency support of financing – e.g. US Ex-Im Bank for Boeing aircraft, EGCD support for Rolls-Royce engines
- **Operating lease** - Legal and accounting ownership retained by lessor. Lessee has no residual interest in the value of the aircraft
Buy vs. Lease?

- Fleet availability
- Expected operating timeline (% of asset life)
- Residual Value risk appetite
- Cost of funding (lease cost vs alternatives)

**Nature of Market**
- Plentiful supply of narrowbody lease options with transition cost between operators relatively low
- Limited widebody leasing market with transition costs between operators generally very high
Air NZ Funding Mix

Aircraft Funding Sources
(by value)

Total Fleet
- Operating Leased: 16%
- Owned: 31%
- Finance Leased: 39%
- Debt Financed: 14%

Widebody
- Operating Leased: 12%
- Owned: 41%
- Finance Leased: 12%
- Debt Financed: 35%

Narrowbody
- Operating Leased: 5%
- Owned: 81%
- Finance Leased: 6%
- Debt Financed: 8%

Turbo Props
- Operating Leased: 32%
- Owned: 22%
- Finance Leased: 46%
- Debt Financed: 32%

KEY
- Operating Leased
- Owned
- Finance Leased
- Debt Financed
Accounting Implications

- On balance sheet or off balance sheet is not a factor in the choice of funding
- We include off balance sheet funding in gearing calculation using 7 x operating lease annual rentals as a proxy for value
Currency Risk Management

- Economic - US$ asset and predominantly US$ debt
- Hedge foreign currency debt to protect reported earnings
  - As much as possible debt is hedged against foreign currency assets or future foreign currency inflows rather than using derivatives
- IFRS Standard on Leasing – likely for FY16
  - Issue foreign currency volatility with debt in US$ and right of use asset in NZ$. 
Value of Credit Rating

- One of a handful of Investment Grade Airlines
- Allows us a greater choice of funding sources at competitive rates
Changing Market

- Debt availability for aviation shrinking
- Increasing margins
- Pool of lenders and lessors, products – changing particularly since GFC;
  - Regional changes – e.g. contraction of French banks’ participation
  - Changing Export Credit Agency rules - politics
  - Increasing importance of the off-shore capital markets as a source
- Appetite for Sale and Lease Backs (SLBs) from leasing companies in respect of B787s given their absence of orders
Questions?

It’s who we are.
Air New Zealand Investor Day
25th November 2011

Business Update
Rob Fyfe (CEO)
Rob McDonald (CFO)

It’s who we are.
Agenda

- Domestic
- Tasman / Pacific Islands
- Virgin Alliance
- Long Haul
- Airpoints Programme
- Financial Management
- Hedging Strategy
- Fleet Management
- Trading Environment
Domestic

- High performing domestic network
- Very competitive product position
- Very competitive fares
- Superior frequency
- Superior network footprint
- Strong corporate reputation
- Delivering strong home market advantage to support international network
Domestic

• It has been an unusual year with one off events;
  – Christchurch earthquake, Ash cloud, rescheduled school holidays, RWC and the election
• One year since the exit of Pacific Blue in domestic NZ
• Adding capacity as demand improves
• Fleet replacement programme continues with introduction of A320’s
• Continuing to look for new route opportunities
• Firm order of seven ATR72-600 and options for a further five for regional NZ
  – First delivery October 2012
Sustainable profitability with good momentum

Seats to Suit successfully implemented a year ago
  – Trialling on Auckland / Perth

Online sales in Australia continue to grow

Trans-Tasman alliance with Virgin Australia has been live for four months
Virgin Alliance
Key Objectives

- Creation of number one Australasian network
- Improve financial performance of trans-Tasman routes for both airlines to sustain and encourage capacity growth
- Provide seamless experience
- Sales without preference for either carrier
- Network growth (new city pairs)
- Far deeper schedule offering for customers
Virgin Alliance Performance

- Connections in Australia have more than doubled since the Alliance began (8th July)*
- Effective co-ordination of sales and marketing activities
- Market share premium growth on the Tasman
- Supports Virgin Australia’s corporate aspirations in Australia
  - Better network and increased frequency
  - Tasman business class capabilities are now available for Virgin Australia customers on Air New Zealand

* This reflects connecting journeys booked through Air NZ’s distribution channels for travel after 26 July until the 30th October 2011.
• Change of schedule to reduce wingtip flying
• Complete check-in between domestic ports
• Streamline disrupt management
• Virgin Australia to improve service specifications
• Pacific Blue rebranded to Virgin Australia
Long Haul

- Long haul review well under way
- Fourth B777-300ER arrived this month and fifth one arrives in January 2012
- Adjusting capacity to match demand
  - Direct services between Christchurch and Japan recommenced at the start of November
  - Japan traffic slowly recovering
- B787-9 delays
Airpoints Programme

In the last year ....

- Significant membership growth
- Increased focus on “Earn to fly” versus “fly to earn”
- Increased engagement
- Expanded direct earn credit card partners
- Launched new relationship with Fly Buys
- Launch of Airpoints card with OneSmart features
Financial Management

- Cash balance remains strong at just under $1 billion
- June 2011 gearing 46.7%, a 0.6 percentage point improvement
- Successful Bond Issue
- Continued good access to aviation funding
- After January deliveries, there are no new Jet aircraft for 18 months
Hedging Update

- Fuel and FX hedging aligned; “same speed of adjustment”
  - 12 month declining wedge
  - Target 80% hedged for next six months
- Fuel hedge to be a mix of WTI and Brent priced crude
- “Unruly markets” minimum
Current Fuel Hedge Position*

- Currently unruly market minimum
- Current position has FY12 first half 89% hedged

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<th>Volume bbls</th>
<th>Ceiling USD</th>
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<td>WTI collars</td>
<td>3.3m</td>
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- The second half of FY12 is 32% hedged

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<tr>
<td>WTI collars</td>
<td>1.1m</td>
<td>$104.26</td>
<td>$94.29</td>
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* Fuel hedge position as at 18 November 2011
Currency Composition

Currency Composition Guide

NZD (m)

USD Fuel
USD other
AUD
GBP
JPY
EUR
CNY
CAD
Currency Hedging

- 2012 US dollar operating cash flow exposure is approximately 84% hedged at an average NZ$/US$ rate of 0.75
- US$61m of future capital commitments are hedged at NZ$/US$ rate of 0.73 (spot)
Trading Environment

- Challenging operating conditions
  - Forward bookings impacted by economic uncertainty in a number of Air New Zealand markets
  - Persistent high fuel prices
  - Japan recovery slow
- Overall, still expect some improvement in the result over the previous year but the extent of the improvement will be impacted by external economic conditions
Questions?
Air New Zealand
Investor Day
25th November 2011

Alliances
John Whittaker (GM Alliances and Government Relations)
Objectives

• Help establish a common understanding of interline, code-share and alliance models
• How these concepts deliver value to airlines
Why Pursue Partnerships?

Customer Benefit

Network

Distribution

Loyalty
Alliance Building Blocks

- Interline and Prorate Agreement
- Code Share
- Global Alliances
- Joint Venture
- Equity

Increasing commitment
Interline Agreement

- Simplest form of a partnership with another airline
- Carriers to sell on each other
- Passenger gets boarding passes and bag through check from first check-in
- Revenue sharing between airlines is collectively agreed and based on industry formula

Itinerary involving carrier A & B sold on carrier A’s ticket

Origin | Carrier A | Transit | Carrier B | Dest’n

Carrier B bills Carrier A for carriage between the transit and destination
Air New Zealand’s Global Reach via Interline

NZ has 76 interline agreements
Alliance Building Blocks

- Equity
- Joint Venture
- Global Alliances
- Code Share
- Interline and Prorate Agreement

Increasing commitment
Code Share

• Involves placing one carrier’s code (marketing carrier) onto another carrier’s flight (operating carrier)

• Originally to get prominent position on GDS displays
  – Priority display to “own airline” code for an itinerary involving a connection
Code Share Benefits

- Easier for travel agents to ticket airline fares
- Some airline web booking engines can only book own code flights
- Signals relationship depth to customers
- Access to new markets without committing capital
- Improved aircraft utilisation
Two Basic Forms of Code Shares

Free Sell Code Share

Seat Block or "Air Share"

Branding Logos of Participating Airlines:
- United Airlines
- Lufthansa
- Swiss
- Air Canada
- Virgin Atlantic
- Air France
- American Airlines
- JAL
- Air Tahiti Nui
- Air New Zealand
- Air China
- Singapore Airlines
- Etihad Airways
- Thai Airways
- Air Vanuatu
- Air Caribbean
- Air Canada
- Air Seychelles
- Air Seychelles
- Air Seychelles
- Air Seychelles
- Air Seychelles
Alliance Building Blocks

- Equity
- Joint Venture
- Global Alliances
- Code Share
- Interline and Prorate Agreement

Increasing commitment
Global Alliances

- Harmonise benefits over a wide range of carriers
- Simple communication to customers
- Cost savings through standardisation and scale
- Three main global alliances:
  - Star Alliance
  - One World
  - Sky Team
Alliance Building Blocks

- **Equity**
- **Joint Venture**
- **Global Alliances**
- **Code Share**
- **Interline and Prorate Agreement**

Increasing commitment
JV’s– Purpose Designed

- Most common joint venture is Total Revenue JV
- Joint Venture’s are negotiated to suit specific circumstances
- Several general models are emerging
- Air New Zealand has experience in each
Authorisation is Key Hurdle

- Regulatory approval looks at potential benefits and detriments

**Seeking**
- Price
- Capacity
- Scheduling
- Commissions

**Benefits**
- Connections
- Frequency
- Distribution
- Cost savings
- Stimulation

**Detriments**
- Loss of Competition
Making it Work

Design
• Sales without preference
• Customer metal neutrality
• Alignment of partner interests

Implementation
• IT Systems
• Customer proposition
• Sales and revenue management
Share total market revenue with upside/downside revenue risk but without exposure to the costs of the other partner(s)

- All revenue earned on venture routes goes into pool
- Revenue pool split by actual ASKs flown
- Adjusted by going in revenue quality (relative RASK)
- Can be capped upside or downside
Joint Ventures Today

Trans Atlantic

USA

Japan

Intra Europe

EUROPE

AUSTRALIA - UK

TASMAN

Australasia

For personal use only
Alliance Building Blocks

- Equity
- Joint Venture
- Global Alliances
- Code Share
- Interline and Prorate Agreement

Increasing commitment
Equity

- Minority interest is less direct than a Joint Venture
- Aligns to other carrier’s entire business performance
- Is enduring – as opposed to time limited authorisation
- Provides defensive protection against others
- Involves legal and labour impediments

Acquisitions
- Lufthansa
- SWISS
- brussels airlines
- Austrian
- American Midland International

Shareholding
- Air New Zealand
- Virgin
- Virgin Blue

Merger
- United
- British Airways
- Delta
- Continental Airlines
- Iberia
- Virgin
- Air France
- KLM
- LAN

Merger (pending)
- Tam
Summary

• Airline consolidation is increasing
  – Intra-border M & A
  – Trans-border immunised alliances
• Alliances allow scale and scope
• Specific form designed to suit situation
• Improves long-term performance
• Air NZ is experienced and participating
Questions?

It’s who we are.
Long Haul Update
Christopher Luxon (Group General Manager International)
Where we are...

The Foundation

- Award winning customer experience and service
- Respected brand
- Superior and innovative product
- Star Alliance membership

But financial underperformance...
Challenge = Opportunity

Natural Disasters

New Type of Competition

Global Economy

Fuel

CRISIS

A time of danger;

机

A time of opportunity;
Sustainable, Profitable Growth Pillars

Target of $110m profit improvement by FY15

- Lean, productive cost base
- Align product to what customers value
- Simplified, flexible, more efficient fleet
- Drive ancillary revenue
- Market sales execution
- Develop strong alliances to support and strengthen core business
- Grow Pacific Rim business
- For personal use only
Focus on points of difference in in-flight product and service

### Customer Service and Brand Characteristics

<table>
<thead>
<tr>
<th>Relative to Competition</th>
<th>Business Premier</th>
<th>Premium Economy</th>
<th>Economy</th>
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<tbody>
<tr>
<td>World Class</td>
<td>• Superior Sleep • Own Space</td>
<td>• Space &amp; Separation • Food &amp; Beverage</td>
<td>• Value • Choice</td>
</tr>
<tr>
<td>Competitive</td>
<td>• Status/Recognition • Carry On Luggage • Food &amp; Beverage • IFE • Work Space • Amenities</td>
<td>• Seat Comfort • Seat Selection • IFE • Amenities</td>
<td>• Seat Comfort • Food &amp; Beverage • IFE • Amenities</td>
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</table>
Product Alignment

Deployment of B787-9

• Expect to launch into North Asia/Japan
• Configuration to match leisure nature of those markets
  – Seats
  – IFE
  – Food
Drive Ancillary Revenue

- Improve ancillary revenue via direct and indirect channels

“Airfares account on average for 35% of trip expenditure”
Alliances to Support and Strengthen Core Business

- Alliances formed with strong home market carriers in each key inbound market to create distribution access
- Maximise feed onto respective networks
- Offer our outbound customers better connectivity and frequency
- Good progress with Virgin Australia/Atlantic alliances and Star partners… more to come
Grow Pacific Rim Business

- Deepen and grow China network
- Recover and grow Japan
- Explore new markets in South America, Asia and North America
Market Sales Execution

- Resources aligned to the growth channels in each market
- Build online revenue to a larger share
- Optimise channel profitability
Fleet Efficiency

Today
- B747-400
- B767-300
- B777-200/300

Tomorrow
- B777-200/300
- B787-9

- Growth options in 789s, and opportunity to replace all B772s with incremental B789s
- Common crewing
- High fuel efficiency
- Flexibility
Lean, Productive Cost Base

Continuous Improvement Programme

- Overhead Review
- Supply Chain Savings
- Optimised Specifications
Summary

• Must respond to financial underperformance and economic realities
• No silver bullets
• Preparing to meet new competition head on
• Key areas:
  – Product alignment
  – Network positioning
  – Lean cost base
Questions?

It’s who we are.