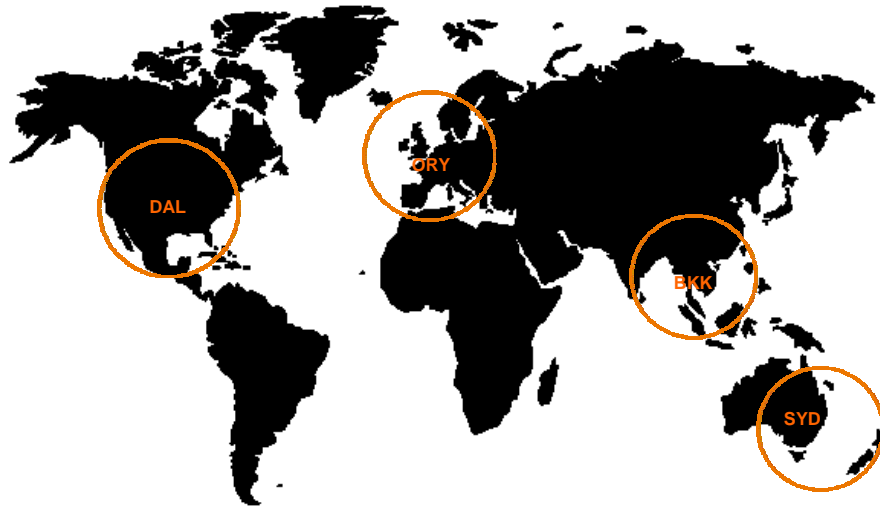


Long Haul Carriers in the modern low cost world



Nathan Agnew
GM Strategic Development

Short haul vs long haul



2 ○ = Three hour flight reach

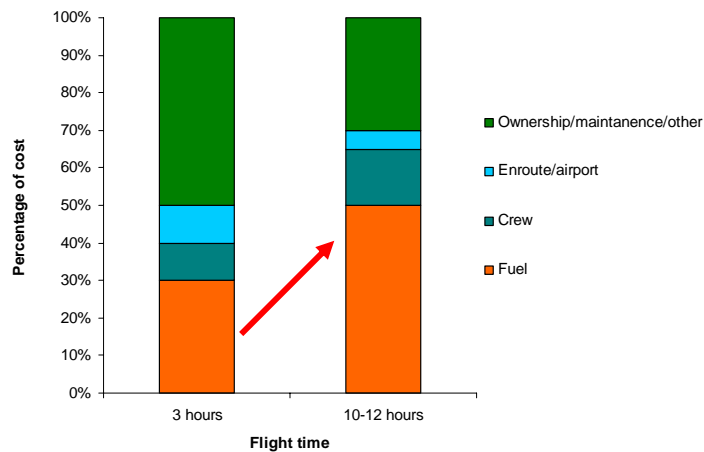
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LONG HAUL DEFINED

- Long haul low cost and international low cost not the same
- Proliferation of low cost airlines in Continental Europe, Asia and US
- Sector lengths generally less than five hours and often shorter
- In Australasian context, many major international markets are eight to fourteen hour plus sectors
- Operating economics of these long haul sectors very different to international short haul

Direct operating cost



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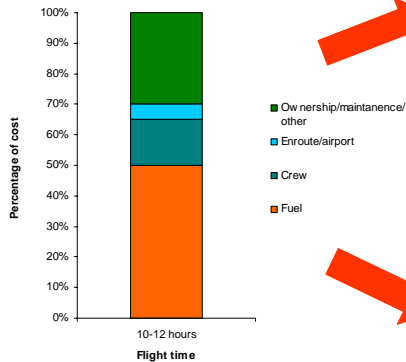


A TYPICAL FLIGHT AKL TO LAX...

- 130 tonnes of fuel consumed (approx 1,022 barrels)
- At USD100bbl, fuel cost is approx. USD100,000+
- For every tonne of fuel that is used in the final stages of the flight, 0.5 tonnes of fuel will be burnt to carry it there
- Fuel now represents approximately 50% of the total trip cost

Other considerations

Operating cost



Low cost carrier

- 777-300ER
- All economy seats
- Cost per seat advantage of circa 30% assuming similar labour rates/productivity
- Economy Yield

Air New Zealand

- 777-300ER
- 340 seats
- Mix of premium and economy yield
- Business yield multiples of economy

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OTHER CONSIDERATIONS

Fuel aside, it is difficult to drive big cost savings out of long haul because:

- limited opportunities for increasing asset utilisation
- limited airport competition due to natural monopoly status at many international airports
- air navigation charges unavoidable
- skill shortages keeping pressure on labour costs
- shortage of “lift” is driving high lease prices and asset values

Trends



Macro trends

- High fuel prices
- Non fuel cost base well managed
- Long haul travel showing strong growth - driven by growing economies
- Average wide-body aircraft size decreasing – move to large twins
 - Increased frequency
 - New city points
 - Reduced cyclic risk

So what might we see?

- Destination substitution to shorter haul international
- Low cost long haul operators doing it tough absent a credible business class proposition
- International “low cost” models developing successfully but with focus on much short haul sectors
- Increasing market segmentation with traditional carriers focusing on high yield traffic

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The Air New Zealand response



- Match supply to demand
 - Economics of airlines highly leveraged to supply/demand balance
 - Maintain fleet growth flexibility
 - Maintain network flexibility
- Move to all Boeing 777 / 787 fleet
 - Highly fuel efficient
 - Smaller aircraft, greater flexibility, opens new markets
- Focus on premium/comfort driven segments
 - Award winning on board product and service in cabins
 - Increasing mix of premium cabins
- Continued focus on cost base

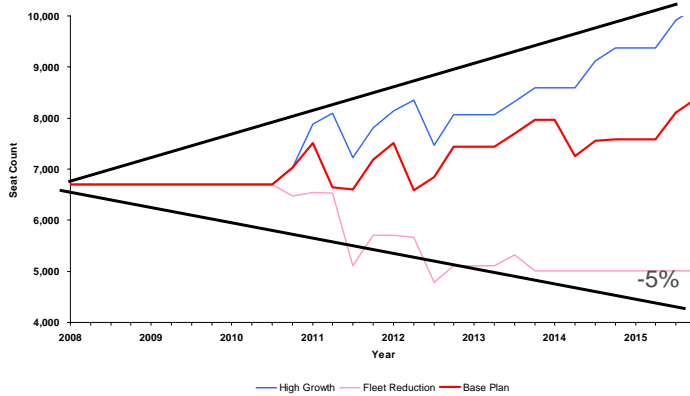
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Fleet and network flexibility

Air NZ widebody seat count



Exits

- Singapore
- Christchurch / LAX
- Nagoya
- Taipei
- Pacific Islands

Entries

- HKG / LHR
- Vancouver
- San Francisco

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FLEET FLEXIBILITY

- The ability to match supply with demand at the price points necessary to be profitable becomes key
- Increasing volatility in input costs makes this a harder but an even more important task
- Harder to achieve in a long haul environment
 - capacity comes in bigger increments
 - longer investment lead times
 - resource intensive (operationally complex)
 - typically much longer booking profiles