

Analyst Day November 2007



Rob Fyfe
CEO

AIR NEW ZEALAND

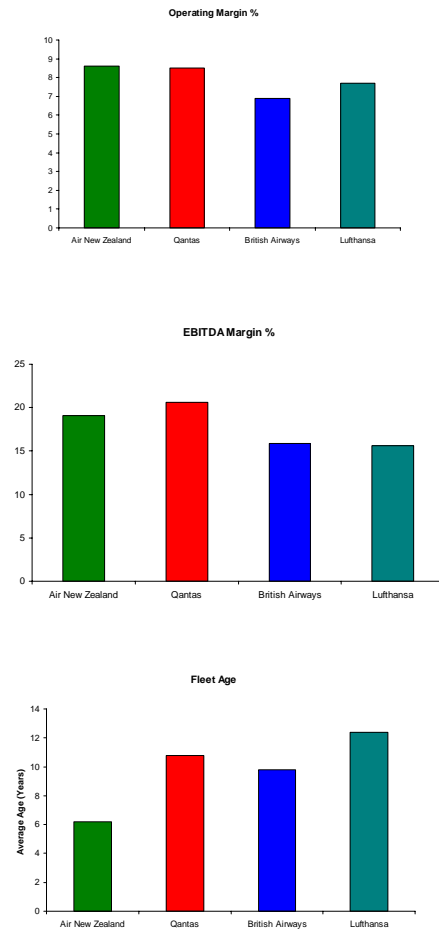
Air New Zealand – our ethos



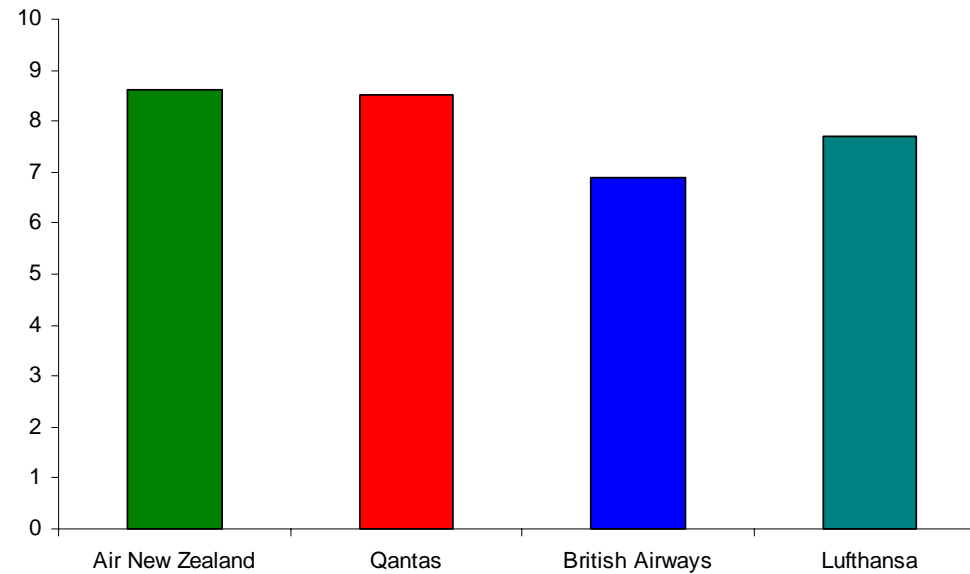
- Who are we?
- What do we do?
- How do we do it?



Benchmarking – operating margin



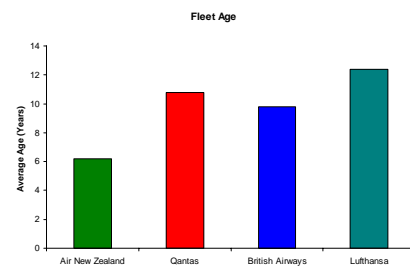
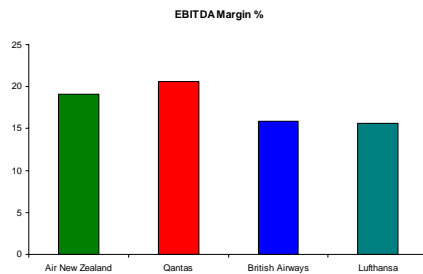
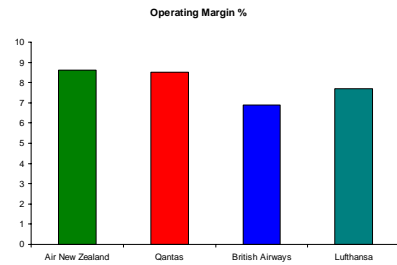
Operating margin* %



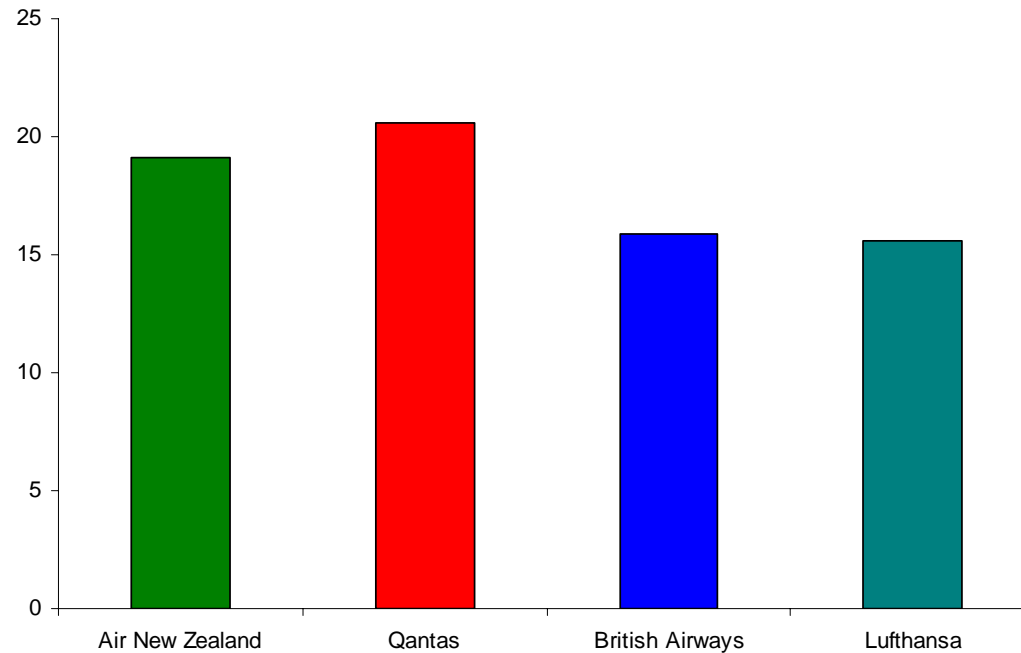
* Adjusted to exclude estimated interest component of aircraft rentals



Benchmarking - EBITDRA



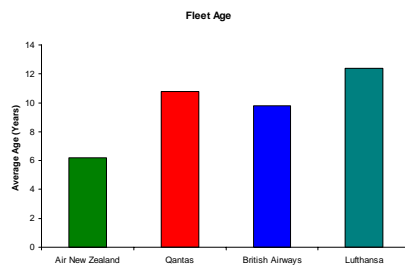
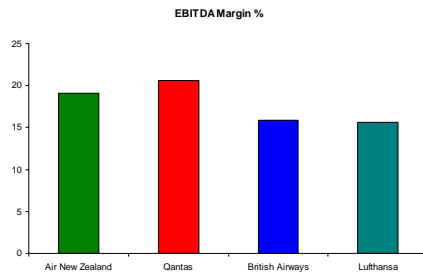
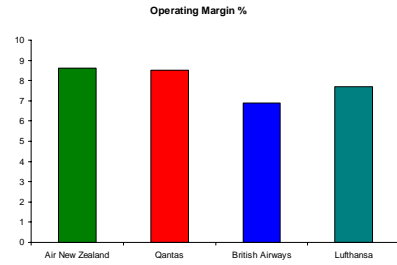
EBITDRA* margin %



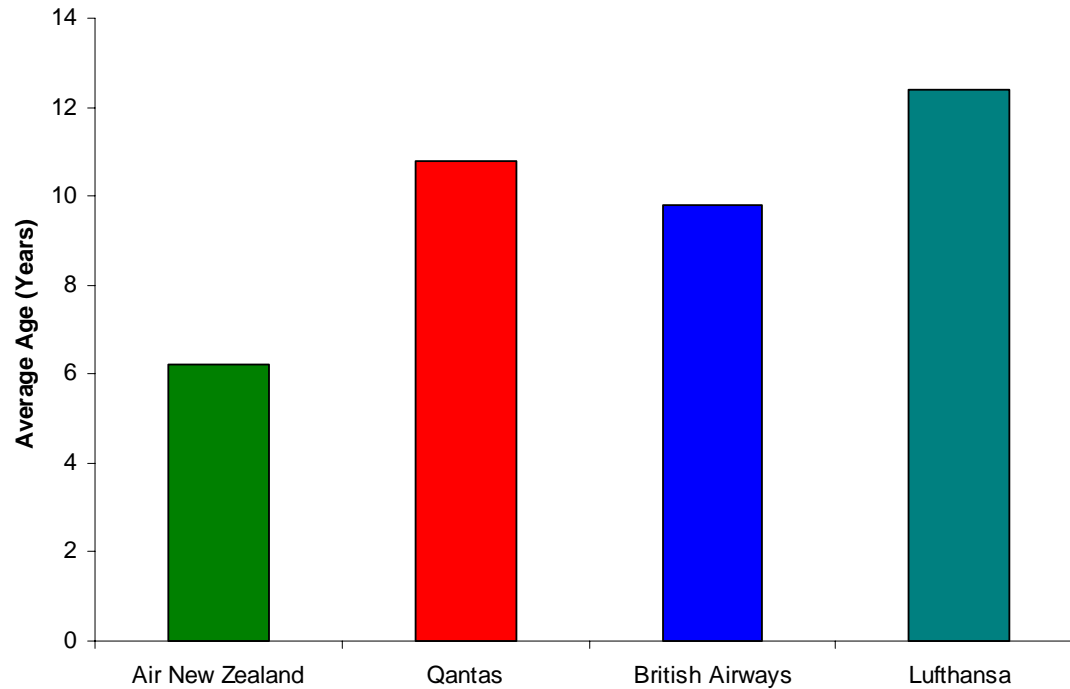
*"R" adjusted to exclude non-aircraft related rentals



Benchmarking – fleet age



Fleet age



Operating environment



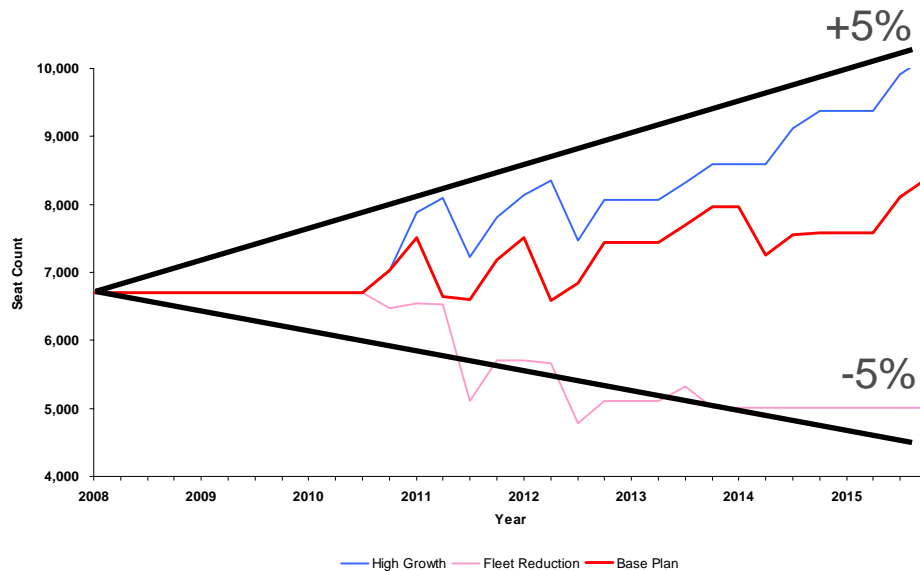
- Highly volatile
- Strong economic growth – but for how long?
- Record fuel prices
- Increased domestic competition
- Pressure in global markets for skilled employees – engineers and pilots
- Large amount of global capacity on order



Flexibility – one example



Air NZ widebody seat count



- Flexibility is the key to allowing an airline to balance capacity with demand
- Air New Zealand now has a favourable profile of aircraft purchase options and lease maturities
- We will have the flexibility to either increase or decrease capacity to meet future demand



A sustainable future



- Protecting and growing the customer relationship
- Protecting our environment
- Growing our network
- Remaining fast and flexible



FY08 Outlook



- Fuel hedges currently lock-in approximately 70% of our fuel requirement for FY 2008
- Still expect to better 2007 PBUT in 2008 – even in the current challenging operating environment



Update: International Operations

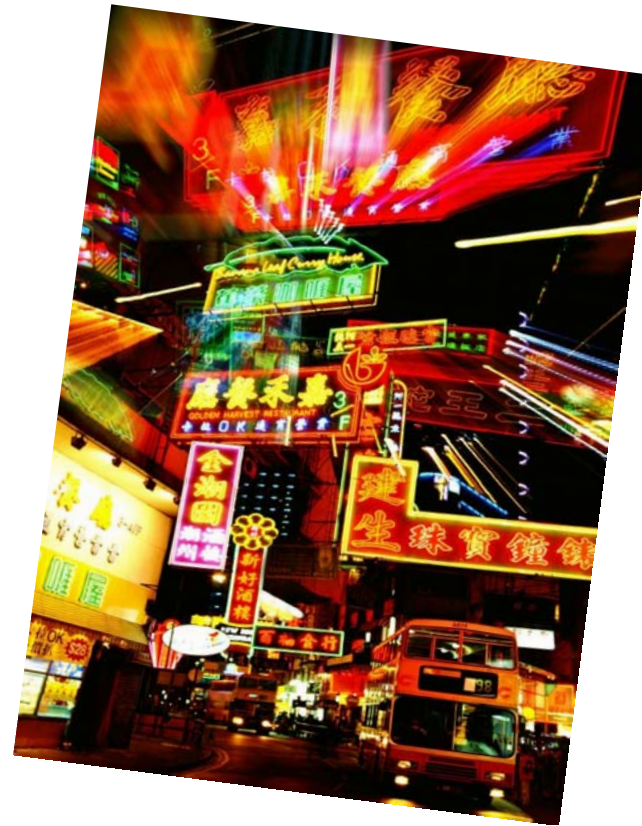


Ed Sims
GGM International Airline

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Highlights

- Leading player on all Air NZ routes ex Auckland
- Vancouver launch
- Increase frequency into China
- International Grabaseat
- Premium Economy



Network – Depth over breadth

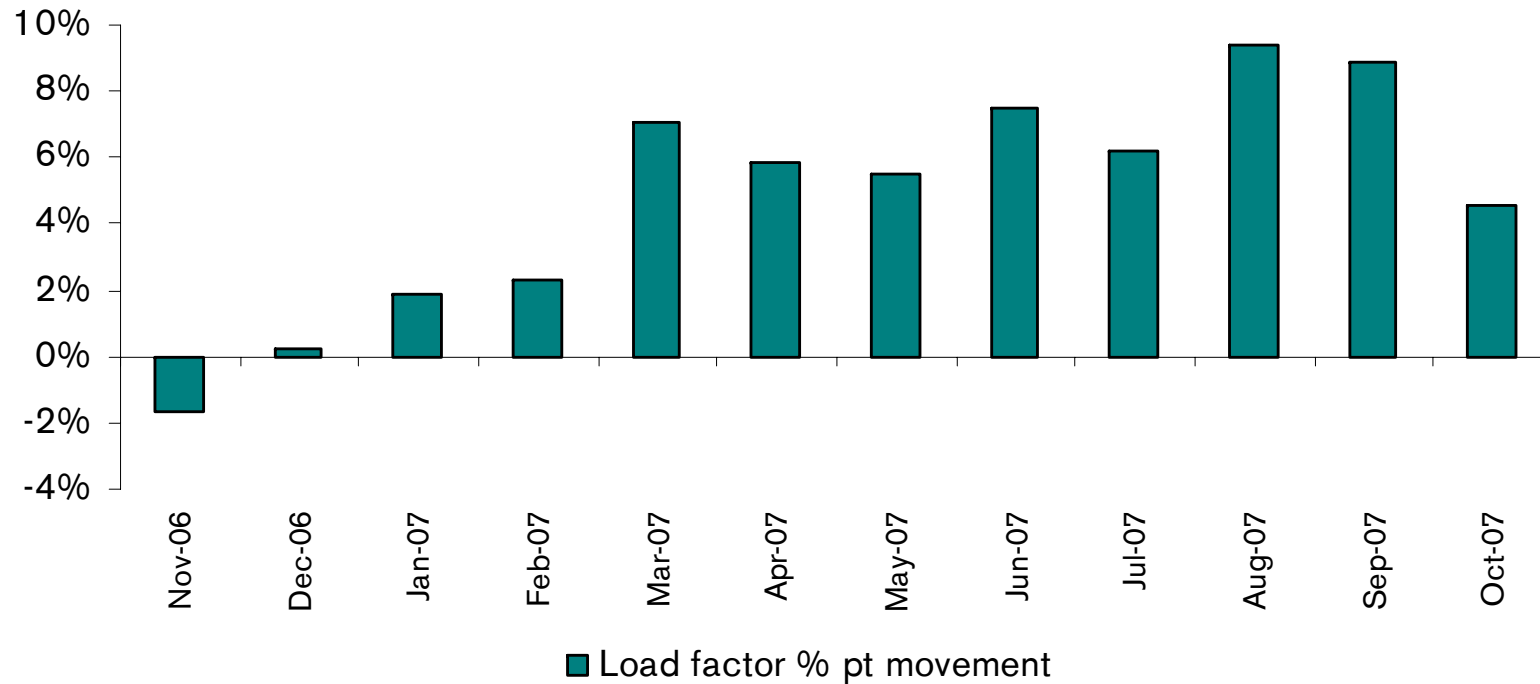
- New routes selling strongly
- No dead wood in route structure
- Overall passenger growth well ahead of tourism growth
- Flexible scheduling to take tactical opportunities
- Balanced network focussing on UK/US/JPN/ASI



VANCOUVER
INAUGURAL
AIR NEW ZEALAND 



Year-on-year load factor



Fleet – Eco friendly and fit for the route



- Good flexibility to change gauges
- Boeing 777-300/787 new generation of inflight product
- Great maintenance record
- Limited exposure on potential delays to Boeing 787-9
- Phased withdrawal of 767-300 and 747-400



Product – World class and differentiated



- PPE/lie flat bed
- Load factors in Premium class up from 66% in 2006 to 80% MAT Oct 07
- Heavy loads across Asia and Northern Hemisphere
- Doubled IFE content, improved food/amenity spec
- Awards - Conde Nast US/UK, Cellar in Sky, and World Traveller



Opportunities...



- Renewed investment in ground product
- Network review within existing fleet
- New product concepts for 787/777-300
- Star Alliance
- Cargo growth opportunities
- Cabin crew service levels



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Update: Short Haul Airline



Bruce Parton
GGM Short Haul Airline

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Background



- Short Haul airline comprises three businesses
 - Regional Turbo Prop (Mt Cook – ATR72, Air Nelson – Q300, Eagle Air – Beech 1900D)
 - Domestic Jet (Boeing 737)
 - Tasman/Pacific Islands (A320)
- Strong market position
 - Large regional air services network
 - 80%+ market share domestically
 - Improved Trans Tasman business
 - Competitive cost base

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Recent performance



- Financial performance continues to improve
- Short haul passenger load factors up 5.8 percentage points YTD
- Regional turboprop capacity up 12% year-on-year with the new Q300s
- Domestic Jet loads have largely kept pace with increased capacity
- Domestic Jet yields are up 3% year-on-year although competitive landscape will differ in 2nd half of FY08
- Significant turnaround on Tasman - loads and yields up on reduced capacity

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Network



- Recently introduced regional turbo prop routes
IVC-WLG
TRG-CHC
NPL-CHC
WAG-WLG
- Integration of Freedom Air
last flight in March 2008
PMR international discontinued
Seasonal capacity adjustments on AKL-SYD,
WLG-SYD and WLG-MEL
- Paraparaumu under consideration in short to
medium term



Fleet



Regional Turbo Prop Growth

- 19 of 23 new Q300s now delivered
- Review of 70 seat to 90 seat regional aircraft requirement underway

Domestic Jet Growth

- Two leased B737-300s
 - 1st aircraft arrives in Mar 2007
 - 2nd aircraft arrives in Apr 2007

Tasman/Pacific Islands

- 1 subleased A320 to be redelivered to Air NZ in November 2008
- Wide body capacity provides additional flexibility



Improving the airport experience



“The focus is to improve the higher value product offering while maintaining everyday low fares”



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AIR NEW ZEALAND FLIGHT BOOKINGS

1. SEARCH > 2. CREATE ITINERARY > 3. TRAVELLER DETAILS > 4. PURCHASE TICKETS > 5. BOOKING CONFIRMATION > 6. CHECK-IN ONLINE

Check-in online and seat request [help with this page](#)

This service will save you time at the airport. Please follow these three easy steps:

- check your allocated seats and request a change if you wish
- print your boarding pass and bring it with you to the airport.

PASSENGER DETAILS

Adult - Mr Bruce Parton

SEAT REQUEST

The following seats have been pre-allocated for you. You may request a seat change by selecting [View/Change Seats](#).

Seat Summary

DEPARTS	ARRIVES	FLIGHT INFO	SEATS
8:30am Fri 27 Jul Auckland	9:30am Fri 27 Jul Wellington	NZ0415	9A* View/Change Seats

* Please note: we will do our best to ensure you receive these seat(s), which will be shown on your boarding pass. However, on occasion this may not be possible. **Seats cannot be guaranteed.**

'I'm automatically checked in'

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'I can pick how I want my boarding pass (mobile, email or smart card) and my boarding pass gets sent to me'



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'As a regular traveller it's great to be able to go straight to the gate with my boarding pass, and if I've got bags to check, I can simply drop and run'



Summary



- Air NZ will vigorously defend its short haul “home” market
- Well placed to compete:
 - broad revenue base
 - significant network advantages
 - fleet flexibility
 - competitive cost base
 - experienced management team
 - innovative culture
 - no complacency
- The business is up for any challenge



Financial Update



Rob McDonald - CFO

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Table of Contents



- Hedging
- Capital Expenditure & Fleet
- IFRS
- Carbon Emissions
- Other Developments



Currency hedging – operating



- Objective – to protect operating margin from the impact of volatile FX in the short term
- Buys time for the business to implement changes
- Policy requires management to hedge up to 24 months net operating cash flows on a rolling basis



Currency hedging – operating



- Rest of FY08 USD exposure is 90% hedged
- Average NZD/USD hedge rate for rest of 2008 is @ 0.6825
- FY09 USD exposure is 55% hedged
- Average NZD/USD hedge rate for 2009 is @ 0.7315



Currency hedging – debt



- Operating leases included in debt
- Long Haul's diversified portfolio is less sensitive to FX volatility
- Short Haul business substantially has NZD and AUD revenues but significant USD costs
- Debt attributed to the short haul business is hedged into NZD
- All on balance sheet USD denominated debt has been hedged



Currency hedging – capital commitments



- Hedged USD640m of future capex commitments @ spot rate of 0.7440
- Relevant issues
 - swap costs
 - liquidity impact



Fuel hedging



- World oil demand correlated to global economic conditions
- Implies an element of natural hedge over the long term
- Objective is to protect operating margin from adverse movements in fuel prices in the short term
- Hedging profile is a declining wedge
- Estimated annual uplift for FY08 is 8.9m barrels (incl. the freighter)
- FY07 hedged jet fuel price (excluding into-plane costs) was USD78.64/bbl



Fuel hedging



- Rest of FY08 approximately 70% hedged*
- Predominantly WTI collars but some crack and product hedges
- September quarter FY09 is hedged around 30%
- If recent price levels persist in the long term it presents a renewed challenge

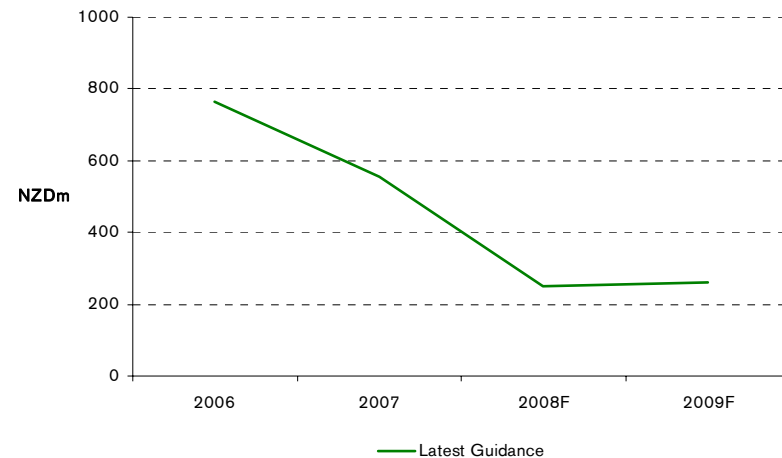
*Refer to quarterly hedging disclosure statement dated 17 October 2007 for detail



Capital expenditure & fleet



- No wide body jet deliveries until November 2010 (FY11)
- A320 and B767 IFE capitalised in FY09
- The two B737-300 narrow body jets joining the fleet in FY09 are leased
- Two more Q300s in FY08 (5 for FY08 in total) and two in FY09
- Non-aircraft related capex running at \$75m - \$80m per annum



Note: The \$250m figure in FY08 excludes maintenance costs of approx. \$40m that will now be capitalised under IFRS



IFRS – key changes



- IFRS impact described in note 24 to the financial statements
- Aircraft maintenance

Owned aircraft

- engines a separate component
- engine overhaul costs capitalised and depreciated
- major airframe inspections capitalised and depreciated

Leased aircraft

- provision made for estimated future lease return costs



IFRS – key changes



- Reverse Jet Aircraft Residual Value Hedge
 - aircraft restated to NZD from inception
 - USD debt now hedged with derivatives
- Certain aircraft and buildings restated to current value
 - 737, 767, 747 and certain buildings
- Depreciation
 - reduced by restating certain assets to current value
 - includes expense previously maintenance cost



IFRS – key changes



- Financial Instruments
 - all financial instruments recognised on balance sheet
 - strict effectiveness criteria in order to hedge account
 - some hedging may fail accounting effectiveness test
- Loyalty Programme
 - provide for Airpoints dollars at value to customer i.e. \$1



Carbon emissions



- International aviation is covered by ICAO not Kyoto
- NZ ETS covers domestic only
- Air NZ would have to offset approx. 500,000 tonnes of carbon annually
- Air NZ likely to assume point of obligation approach
- Air NZ ETS set to commence on 1 Jan 2009 on liquid fuels
- Concerns expressed to Government on market volatility
- Need some price safety valve mechanisms
- Voluntary offset programme is also being launched first half 2008



Airport regulation



- Acceptance that current regime is unsatisfactory and lacks credibility/robustness
- Pillars of current regime discredited
- AIAL, WIAL, CIAL to be regulated companies under new form of information disclosure regulatory control
- Commerce Act to replace Airport Authorities Act in pricing AIAL, WIAL CIAL
- Removal of right to set prices “as they see fit”
- Input methodologies to be developed by NZCC
- Legislative priority sought for 2008
- Further studies to be undertaken by MED and MOT

