



CHAMPIONS TROPHY
Case Competition

AIR NEW ZEALAND 

Case Study: Air New Zealand

Thursday 2 February

Case prepared by Gauri Prabhakar under the supervision of Neeharika Chowdhary and Sunny Gu. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publically available sources and Air New Zealand. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

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From: Barry B Benson
Sent: Friday 2 February 2017, 8.03am
To: Harry Amber
CC: Daniel Damm, Leo Wonan Oskar, George Glass
Subject: Air New Zealand Presentation

Good morning all,

Our client, Air New Zealand, was recently crowned the best airline in the world. Through its acute focus on customer needs, constant assurance of quality-driven services, and unique integration of Kiwi culture, Air New Zealand has fulfilled its vision of going beyond what is usually expected of an airline and achieved more than NZ\$460m in profit.

This is an extraordinary achievement, not the least because airlines the world over struggle to consistently be profitable and find points of difference. Chief Financial Officer Rob McDonald credits Air New Zealand's success to its people, noting particularly its strong emphasis on relentlessly improving the customer experience. As a result, passenger load factor has increased to 84.4% (the global average for 2016 was 79%), international visitor arrivals into New Zealand are up by 11%, and overall international capacity has grown by 16%.

Air New Zealand has planned to invest more than \$2.3b into new aircraft over the next three and a half years due to replacement of older aircraft and the development of their international and domestic network. Additionally, inbound tourism is expected to increase in the next decade – particularly from Asia and the Americas – and Air New Zealand is wondering how best to grow in this environment. However, while the airline's momentum is expected to continue into 2017, competition will hinder Air New Zealand's meteoric performance. The significant drop in the price of fuel over the past five years from \$105 per barrel in 2014 to \$55 in 2016 means the already competitive airline environment will intensify.

Rob McDonald has asked us to provide strategic recommendations on how Air New Zealand can maintain its growth in a manner that benefits both the company and New Zealand as a whole while:

- (a) Reacting to the competitive landscape
- (b) Continuing to provide services that best meet its customers' needs

You will have ten minutes to present, followed by a ten-minute question and answer session. Attached are documents prepared by our research team to assist you.

Kind regards,

Barry B Benson

Overview



The industry

The global airline industry continues to grow rapidly. Measured by revenue, the industry has almost doubled in the past decade, from US\$465b in 2006 to more than US\$700b in 2016. Air travel is a critical driver of economic growth by facilitating the flow of goods, people, capital, technology and ideas. There are now over 16,600 city-pairs across the world and the rate of new origin and destination combinations has been increased by almost 15% since 2006.

Demand

Global

The Asia-Pacific region will be the major contributor to the growth in air travel, as two-thirds of the growth in the next 20 years will be to or from countries in that region. Intrinsic strength, progressive trade agreements among the region's countries, and recovering global demand are helping most economies in the region maintain healthy growth. Led by China and India, the region's economies will grow 4.5% per year over the next 20 years, outpacing the world's average growth rate. The region's share of world GDP will expand from 28% today to 36% by 2032.

During the next 20 years, nearly half of the world's air traffic growth will be driven by travel to, from, or within the Asia Pacific region. Total traffic for the region will grow 6.3% per year. Fuelled by national economic growth and the increasing accessibility of air transport services, traffic within the region will grow faster than traffic to and from other regions. Domestic and international travel within the region will grow 6.5% per year.

New Zealand

Air transport is a vital link for international trade and plays a critical role in facilitating tourism. Lower transport costs and improving connectivity have boosted trade flows by globalising supply chains and especially so, in the case of New Zealand. Tourism is now the number one industry in New Zealand and contributes 17.4% of the country's total export earnings, employs 7% of the country's workforce and makes a total contribution to the national GDP of \$18.5 billion (\$10.6 billion direct contribution and \$7.9 billion indirect value-add of industries supporting tourism). In general, tourists travelling by air in 2017 are forecast to spend more than NZD\$681b.

Higher arrivals from Australia, China and the United States drove total international arrival growth over the last year. Australian arrivals grew at 7% and made up 42% of all arrivals in the year ended March 2016, while Chinese arrivals grew at 28% and made up 12% of all arrivals. The growth is expected to continue, with arrivals forecast to reach 4.5 million by 2022 (from 3.1 million in 2015). Once again, the main contributors to this growth are expected to be China, Australia and the United States.

While Australia, China and United States are projected to remain the three largest source markets, all markets are growing, including the United Kingdom, Japan and newer developing markets in Asia and South America. These forecasts are purely demand-based. They assume there are no constraints in the supply of tourism infrastructure, such as air capacity, accommodation or other factors. Therefore, inadequate investment in infrastructure will make a significant impact on realised demand growth.

For 2015, the largest tourist destination for international visitors was Auckland. Approximately 1.5 million tourists visited Auckland during their stay in New Zealand. This is followed by Queenstown (820,000), Christchurch (770,000), Rotorua (690,000) and Wellington (610,000). Other significant international tourism centres include Dunedin, Taupo, Franz Josef Glacier, Wanaka and Te Anau. These numbers are based on overnight visits only.

Supply

Business model

Airlines compete across a range of distances:

- Short haul (1-3 hours)
- Medium haul (4-7 hours)
- Long haul (8-11 hours)
- Ultra-long haul (11+ hours)

There are three business models in the airline industry:

Full service carriers, or network carriers, are airlines that focus on the customer experience and include a range of service elements cross the customer journey. These carriers tend to have major hub operations for domestic, regional and international services; large complex fleets, and airline alliances. Hub operations feed customers onto their routes from a range of countries allowing them to increase network reach and to offer convenient one-stop connections around the globe.

Low cost carriers (LCCs) are airlines that focus on having the lowest cost base possible per passenger (and therefore the lowest prices) by having smaller seats to fit more passengers, stripping out customer experience elements from their products and charging customers extra for additional services. Typical cost-saving practices include:

- Operating at secondary airports to reduce all airport charges
- Increasing plane utilisation by focusing on routes where it is easy for the aircraft to make many return trips in a single day
- Relying on direct online sales to avoid paying commissions
- Offering a single-class product to keep maintenance cost-effective and simple

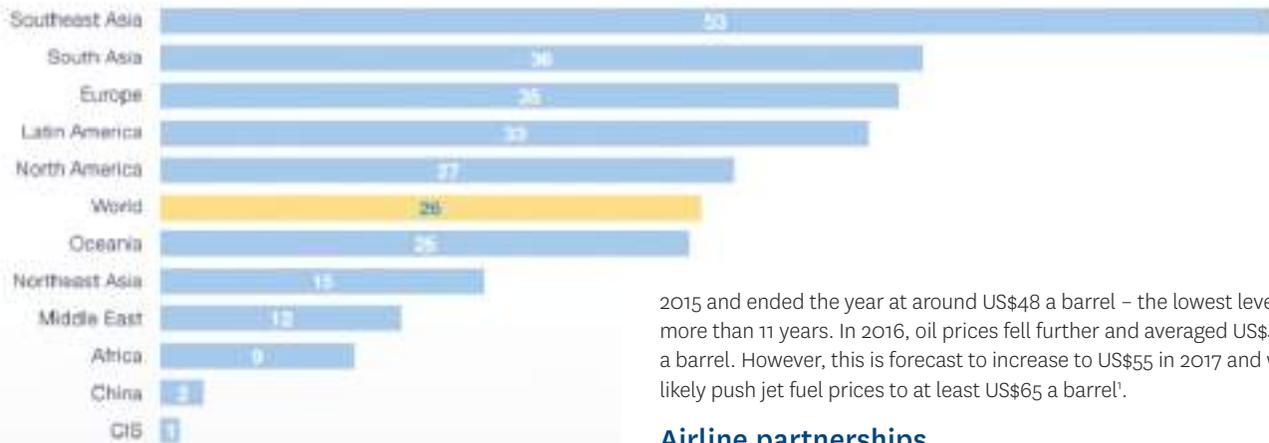
Such tactics have allowed LCCs to reduce their unit cost by 20% to 40% with full service carriers and subsequently the price of their fares.

Low cost carriers have been the fastest growing business model on short haul routes around the world as they have tapped into city pairs with large and dense passenger traffic bases by offering cheap prices that significantly undercut full service carriers.

Some airlines, like Norwegian, Air Asia X and Scoot, are testing this model on long haul flights but it remains to be seen whether they can sustainably operate these routes in the long run.

LCCs provide a large share of capacity

2013 LCC market share (%) measured in annual seats (by airline domicile)



Consequently, full service carriers have come under pressure on short haul markets where low cost carriers are in operation. The full service business model currently dominates on long haul routes.

Hybrid carriers are airlines that blend both the full service and LCC business model. They do this by enabling customers to choose the fares that best suit them. Some customers want the lowest prices so hybrid carriers offer seat-only fares where all additional elements have to be purchased (eg. baggage, food, entertainment). Other customers want the full service so hybrid carriers also offer fully inclusive fares. It is not uncommon for two passengers sitting next to each other on a flight to have a very different experience. Hybrid carriers emerged in response by full service carriers to low cost carriers. The category is evolving to now include low cost carriers who want to tap into higher value customer segments.

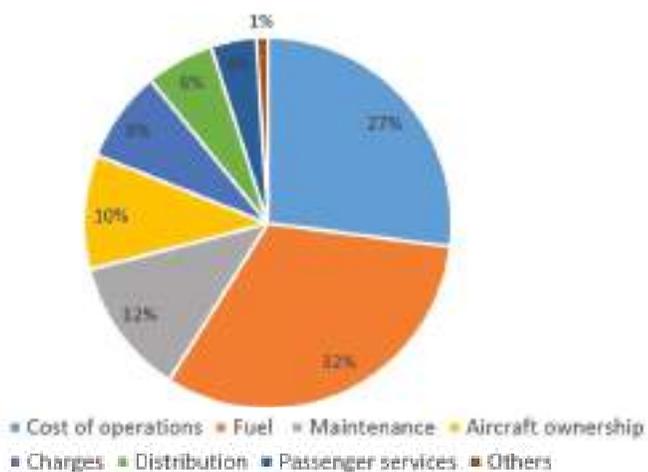
Fuel

Since fuel is such a significant cost for airlines, there is intense effort to improve fuel efficiency by replacing fleet with new aircraft, better operations, and persuading governments to remove the airspace and airport inefficiencies that waste around 5% of fuel burn each year.

To protect themselves from volatile fuel costs, airlines commonly practice fuel hedging. This is when an airline buys or sells the expected future price of oil with the intention of protecting the company against rising prices.

The sharp decline in jet fuel prices that occurred in late 2014 continued into 2015, such that the average price of a barrel of jet fuel in 2015 was 42% lower than in 2014. Jet fuel prices fell further in the final months of

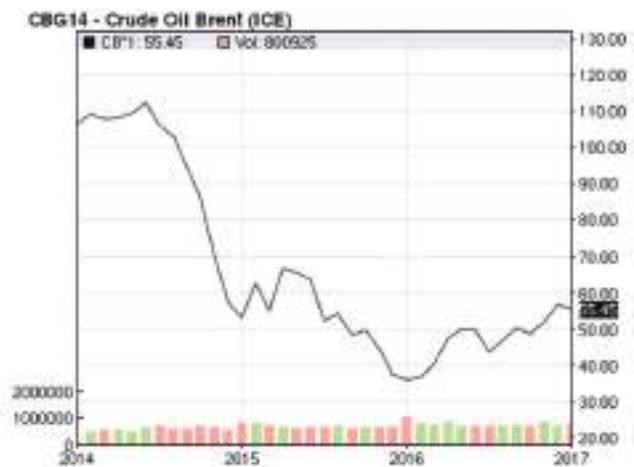
Total airline operating costs (IATA 2012)



2015 and ended the year at around US\$48 a barrel – the lowest level in more than 11 years. In 2016, oil prices fell further and averaged US\$44.6 a barrel. However, this is forecast to increase to US\$55 in 2017 and will likely push jet fuel prices to at least US\$65 a barrel¹.

Airline partnerships

End of day Commodity Futures Price Quotes for Crude Oil Brent



Airline partnerships, either full alliances or other co-operative arrangements, have become powerful tools for expanding networks, enhancing revenue and reducing costs. Code sharing is a common partnering tactic, and code-sharing routes have grown nearly 8% annually during the past decade. The three major alliances (Star Alliance, SkyTeam and oneworld) now provide more than 60% of global capacity. Many airlines have also entered joint ventures, some with antitrust immunity that allows them to operate more closely on applicable routes.

Airlines are also taking equity stakes in other airlines as a growth strategy. Partial acquisitions, full mergers, and cobranded subsidiaries are typical examples. These strategies are effective for opening new markets, obtaining new traffic, and rationalising costs. Airline mergers have catalysed industry consolidation and enabled participants to remain competitive. Creating subsidiaries has allowed airlines to expand their brands to foreign countries and to stay within foreign-ownership regulation limits. All of these tactics have contributed to the profitable growth of the industry.

Freedoms of the air

The airline industry has undergone significant liberalisation but restrictions still exist that prevent carriers from operating as completely global companies. The freedoms of the air determine the airspaces that carriers can enter and land in. See Appendix A for more information.

¹ Link: http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11763785

The company

Twenty years shy of celebrating its centennial anniversary, New Zealand's national airline has steadily climbed to the top of an industry that Richard Branson famously quipped made a millionaire out of a billionaire. The New Zealand government's investment in Air New Zealand in 2002 (having originally sold the company in 1989) marked an important turning point for the company, especially after its tumultuous dealings with Ansett Airlines in the previous half-decade.

The company's competitive advantage is of operating a network that provides air passenger services and cargo transport services (where space is available) to, from and within New Zealand. Air New Zealand's strategic focus lies within the Pacific Rim, where the airline's network extends from New Zealand into Australia, Asia and the Americas. Though its focus is heavily in this area, Air New Zealand also operates its own connection to London. With over 3,400 flights each week, the airline connects New Zealand to the rest of the world and provides services to more than 15 million passengers a year through its network of global alliance partners.

The company is listed on the New Zealand Stock Exchange (NZX) as AIR and the Australian Securities Exchange (ASX) as AIZ, with the New Zealand government owning 52% of shares.

Air New Zealand network

Air New Zealand focuses on three route groups:

- Domestic routes within New Zealand
- Trans-Tasman and Pacific Island routes to Australia and the Pacific Islands
- Long haul routes across the Pacific Rim

Domestic network

With over 400 flights every day to 21 New Zealand destinations, Air New Zealand operates one of the most comprehensive domestic and regional networks in the world. Air NZ's domestic routes are all short haul routes with flight times of less than two hours. The domestic network stretches across the main centres of Auckland, Wellington, Christchurch and Dunedin and is operated by a fleet of 16 Airbus A320s. Similarly, a fleet of 50 turboprops including ATRs, Q300s and Beech 1900Ds were responsible for covering the country's regional centres. In August 2016, the company exited the last of its 19-seater Beech 1900Ds, now replaced with larger 50-seater Q300s and 68-seater ATRs. Capacity growth for 2017 is expected to be in the range of +4% to +6%. [Appendix B].

Trans-Tasman and Pacific Islands network

Similarly, Air New Zealand operates an expansive network to Australia and the Pacific Islands. Air New Zealand's Trans-Tasman and Pacific Islands routes are medium haul routes with flight times between three and eight hours. Operating a fleet of Airbus A320s and Boeing wide body aircraft, the airline offers 43 flights every day to and from eight destinations in Australia and 15 flights every day to and from ten destinations throughout the Pacific Islands [Appendix C].

Long haul network

Because New Zealand is strategically placed at the centre of the Pacific Rim, the airline operates a strong network within this region. Air New Zealand provides direct connections to 11 international long haul destinations, supplemented by revenue share partnerships with other airlines. Air New Zealand's long haul routes are a mix of long haul (eg. Auckland to Singapore flight time of 10½ hours) and ultra-long haul routes (eg. Auckland to Houston flight time of 13½ hours). International flights are mainly operated by a fleet of Boeing 777-200s, Boeing 777-300s, Boeing 787-9s, and Boeing 767-300ERs [Appendix D].

The Pacific Rim continues to be a core source of global traffic growth, hence Air New Zealand's entry into secondary cities such as Buenos Aires in Argentina and Houston in the United States. Further, North American growth continues to feed trans-Tasman flows, underpinned by a strong relationship with Tourism Australia. In turn, Australian traffic helps to feed North and South American growth via Auckland. However, Asia remains the airline's most efficient long-haul growth opportunity, with a future focus on growing passenger flows from Asia to South America via Auckland.

Codeshare partners

To provide services to these destinations, Air New Zealand holds important relationships that include interline and revenue share alliances. At a global level, Air New Zealand's Star Alliance membership and partnerships with other revenue share and codeshare Alliance partners allows them to offer connections across 31 major carriers, with world-wide status and privileges offered to their customers to nearly 1,400 destinations.

Revenue share alliances are a key part of the airline's Pacific Rim strategy and in 2016, Air New Zealand expanded its portfolio to five strategic partnerships that now comprise Air China, Cathay Pacific, Singapore Airlines, United Airlines and Virgin Australia.

In July 2016, Air New Zealand commenced a revenue share alliance with their longstanding Star Alliance partner United Airlines, with United flying on the San Francisco – Auckland route. This complemented Air New Zealand's own service on the same route and covered all the mainland US to Auckland routes as well. Its partnership with United and its extensive network and connectivity was a key enabler of Air New Zealand's Houston service, launched in December 2015 using a Boeing 777-200 aircraft. The Auckland – Houston service has proven to be highly popular for travellers looking to access the US Midwest, Northeast and Southern states, resulting in an increased frequency of daily services during the summer season.

Air New Zealand maintains a range of other codeshare and interline relationships with other carriers into specific markets, in particular Aerolineas Argentina, Air Canada, ANA, and Lufthansa.

Operating fleet

Air New Zealand has a modern and highly efficient fleet configured for its network and customers. The airline continues to simplify the fleet for greater operational efficiency and operate aircraft which are highly fuel efficient, with increased capacity and the best configuration for customers and cargo.

| | | | |
|--|--|--|--|
| <p>seat</p> <p>Perfect for travelling light – take 1 carry-on bag (7kg)</p> | <p>seat+bag</p> <p>Take more than carry-on – get 1 checked bag (23kg)</p> | <p>flexitime</p> <p>Change to an earlier or later flight on day of travel</p> | <p>flexiplus</p> <p>When you may need to change the day of travel</p> |
| \$59 | \$69 | \$89 | \$109 |

In June 2014, Air New Zealand announced the purchase of 13 new Airbus A320/A321NEO aircraft to refresh its international narrow body (single aisle) fleet and additional A320s to grow its domestic operation.

The first six A320/A321 NEO aircraft will enter the fleet in the 2018 financial year. Air New Zealand currently has nine Boeing 787-9 Dreamliner aircraft in its fleet (as at 31 October 2016), servicing long haul destinations to Asia, Hawaii, Perth and Buenos Aires. A further three aircraft are on order to be delivered in late 2017 and the latter half of 2018 calendar years and will take the total number of Dreamliners in the fleet to 12 [Appendices E-I].

Important partners – Auckland Airport

Auckland Airport plays an increasingly important role in facilitating traffic both into and out of New Zealand. As the largest and busiest airport in New Zealand, Auckland Airport is one of New Zealand’s most significant infrastructural assets. Along with Christchurch International Airport, it is the only airport in the country capable of handling Boeing 747 and Airbus A380 aircraft.

Customers and products

Air New Zealand focuses on a range of customers and has created a range of produce choices for customers when flying domestically and on the Tasman. On long haul routes, the airline focuses on being a premium carrier that offers a unique New Zealand experience as soon as customers step on board.

Domestic products

A choice of fares is available on each of Air New Zealand’s 21 domestic destinations so customers only pay for what they need most.

Trans-Tasman and Pacific Island products

Air New Zealand’s Seats to Suit is an innovative product that allows the airline to match low-cost carriers whilst enabling a more premium experience for those customers who want a full service experience. Versions of this model have been adopted by a range of full service carriers on short haul routes.

Long haul products

For long haul flights, the airline has three main cabin classes: Economy, Premium Economy and Business Premier.

Business Premier creates the ultimate inflight comfort, food and entertainment experience: on board, customers relax in an armchair that converts to a fully lie-flat bed while meals are designed by Consultant Chef Peter Gordon (Head Chef of the award-winning restaurant The Sugar Club) and accompanied by premium New Zealand wines.

Air New Zealand has a dedicated premium economy cabin fitted with enhanced leather armchairs that maximise personal space by 30% compared to standard economy seats. Premium Economy customers are also treated to award-winning food and beverage on board.

Air New Zealand has also brought innovation to the economy cabin with the creation of the Skycouch. The Skycouch is an innovative economy seat design that locks the footrest into a flat position. Across three seats, this creates a flatbed style space for couples and families in economy class. There are typically 10-12 rows available as Skycouch rows [Appendix J].

Airpoints

Airpoints is Air New Zealand’s loyalty programme, where customers (open to everyone, with free membership) can earn Airpoints Dollars which they can then spend on partnered flights, hotels, and rental cars. Airpoints helps customers earn Status Points in Air New Zealand’s frequent flyer programme, which upgrades membership tiers to Silver, Gold or Elite and opens an array of travel benefits [Appendix K].

Since launching in 1989, the Airpoints programme now has over 2.2 million members. More than 50 New Zealand retail, banking and travel businesses are now part of the programme and in 2016, members enjoyed more than 840,000 flights paid for by Airpoints Dollars. Air New Zealand has also launched programmes such as Airpoints™ for Business, which reward businesses when their employees fly with us, and Airpoints™ for Schools, a community initiative allowing members to donate Airpoints™ to school fundraising projects.

Air New Zealand app

The Air New Zealand app is a free personal travel companion for managing customers’ travel plans. Benefits include booking flights, ordering barista-made coffee at participating lounges, and notifications of any changes to flight times or boarding gates.

A key question for Air New Zealand is how it can continue to innovate and provide the best, personalized services to its customers.

| | | | | |
|--|--|--|--|---|
| <p>seat</p> <p>Perfect for travelling light – take 1 carry-on bag (7kg)</p> | <p>seat+bag</p> <p>Take more than carry-on – get 1 checked bag (23kg)</p> | <p>the works</p> <p>Enjoy a meal, gate-to-gate movies and Seat Select</p> | <p>workdeluxe</p> <p>Includes neighbour free guarantee and 2 checked bags</p> | <p>premium economy</p> <p>Enjoy extra leg room, leather seats, premium menu and more</p> |
| \$236 | \$256 | \$276 | Not available on this flight | \$486 |



Marketing

In order to convey the message of Air New Zealand and build its brand, the airline had to find a way to connect more people to New Zealand through an experience that was a powerful representation of the nation. As such, the biggest step for the company was to develop a consistent brand by advertising not only their airline, but the country from which they originated.

Brand

Over the past half-decade, all of Air New Zealand's brand association measures have increased: it now has the best reputation of any company in New Zealand; it was voted first in the Star Alliance customer satisfaction survey; it took out the Roy Morgan Australia Customer Satisfaction Award; and it has had a ten percent increase in customer recommendations.

The dissemination of the Air New Zealand brand has, in large part, been facilitated by advertising through the digital medium thereby providing worldwide exposure in a cost effective and efficient manner. This is especially the case for the airline's viral safety videos. By acknowledging that advertising in the digital age required marketers to generate ideas that created "buzz" amongst the general public, Air New Zealand inserted itself into everyday conversation with its quirky, creative videos that captured the audience's attention [See Appendix L].

Competition

Air New Zealand is facing an increased competitive environment, primarily due to the historic low prices of fuel. Overall capacity into New Zealand by all airlines has increased by 18% since 2015.

While more or less constant for several years, air capacity to New Zealand has seen continuous growth since 2013, driven by generally stable and favourable macroeconomic conditions in tourist source markets. A key development was the acceleration of growth by inbound Chinese tourists.

Growth accelerated in FY16 with 9% seat capacity growth. Four airlines launched services to New Zealand (Air Asia X, Air China, American Airlines and Philippine Airlines).

Capacity growth is accelerating in FY17 with 22 out of 23 international airlines into New Zealand increasing their seat capacity. Furthermore, an additional five airlines (United Airlines, Hong Kong Airlines, Qatar Airways, Tianjin Airlines and Hainan Airlines) launched services to New Zealand. In total, seat capacity to New Zealand grew an unprecedented 14% year-on-year.

As a result of these increases and despite its own strong growth, Air New Zealand has lost capacity share. It now faces competition on the majority of its short and long haul network, including increasing competition on Tasman, Pacific Islands and Asian routes. Additionally, American Airlines' launch of Auckland to Los Angeles services in June 2016 meant that Air New Zealand is now no longer the sole direct operator from New Zealand to the United States [See Appendix M].

Trans-Tasman

With its alliance partner, Virgin Australia, Air New Zealand competes with Qantas and Emirates and other low cost carriers. There is increasing competition in the trans-Tasman market between Air New Zealand and foreign carriers such as Philippines Airlines, China Airlines, and Air Asia X due to the estimated 8.8% growth in air capacity between Australia and New Zealand. For example, Air Asia started flying from Auckland to Kuala Lumpur via Australia's Gold Coast in March 2016 with an introductory fare of \$99 between Auckland and the Gold Coast. The cheapest Air New Zealand flight on the same route for March 2016 was \$242.

Long haul

On long haul routes, Air New Zealand competes with a number of competitors such as Emirates, China Southern and American Airlines. Air New Zealand also competes with China Eastern Airlines on the Auckland to Shanghai route. There is significantly variability in the pricing and product of these competitors.

The biggest question for Air New Zealand now is how it can compete in this environment.



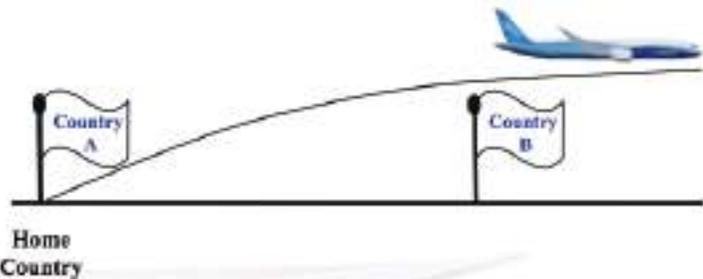
1) Note NZ/All airlines operating between Australia and New Zealand (for example Philippine Airlines operating between Auckland (New Zealand) and Cairns (Australia))
Source: IATA

Appendices

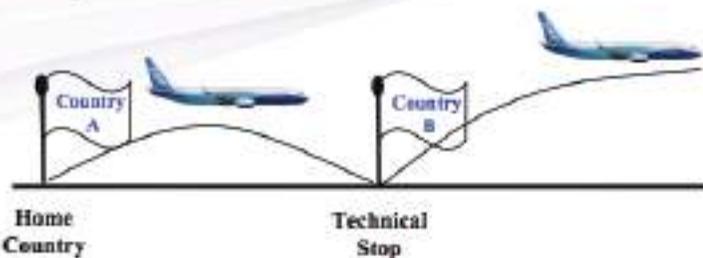


Appendix A: Freedoms of the air

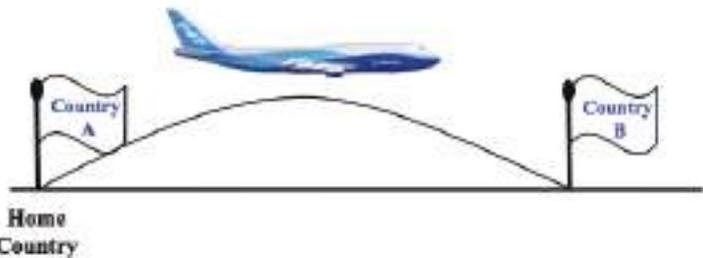
First Freedom The negotiated right for an airline from country (A) to overfly another country's (B) airspace.



Second Freedom The right for a commercial aircraft from country (A) to land and refuel (commonly referred to as a technical stop) in another country (B).



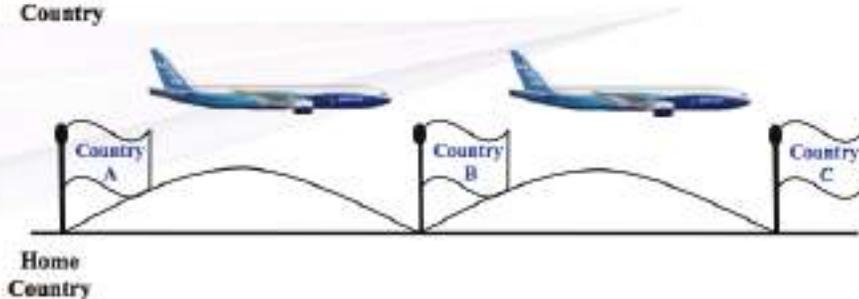
Third Freedom The right for an airline to deliver revenue passengers from the airline's home country (A) to another country (B).



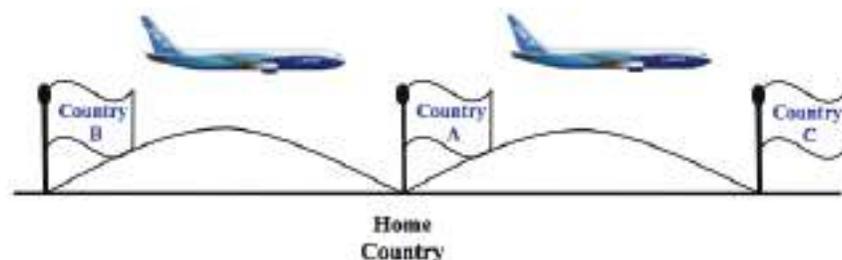
Fourth Freedom The right for an airline to carry revenue passengers from another country (B) to the airline's home country (A).



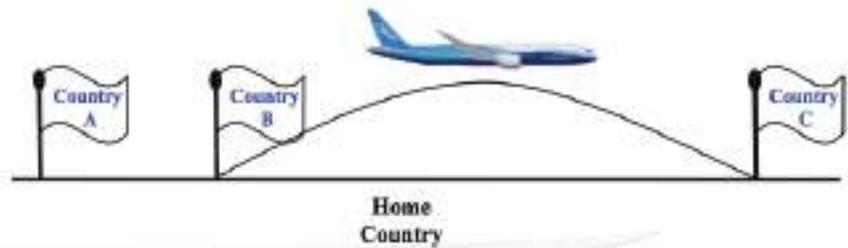
Fifth Freedom (Sometimes referred to as beyond rights) The right for an airline to take passengers from its home country (A), deposit them at the destination (B) and then pick up and carry passengers on to other international destinations (C).



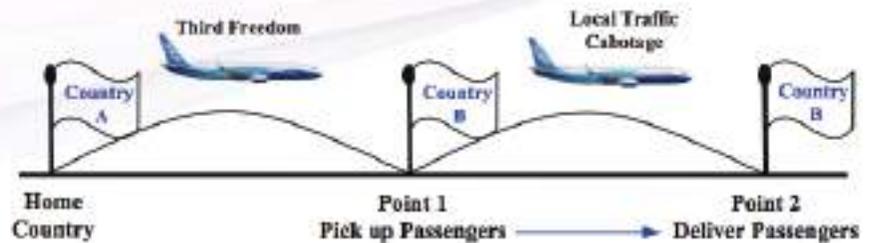
Sixth Freedom (Combination of Third & Fourth Freedoms) The right for an airline to carry passengers or cargo between two foreign countries (B and C), provided the aircraft touches down in the airline's home country (A).



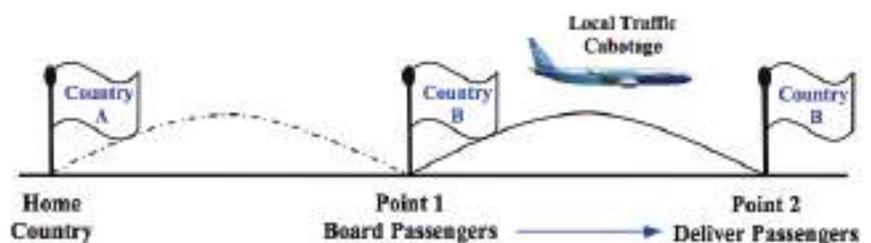
Seventh Freedom The right for an airline to carry on flights that originate in a foreign country (B), bypass its home country (A), and deposit the passengers at another international destination (C).



Eighth Freedom The right for an airline to carry passengers from one point in the territory of a country (B) to another point within the same country on a flight that originates in the airline's home country (A). This freedom is also known as **cabotage**, and is extremely rare outside of Europe.



Ninth Freedom The right for an airline from a particular country (A) to originate a flight in a foreign country (B) and carry passengers from one point to another within the foreign country. Also known as **stand alone cabotage**. It differs from the aviation definition of true cabotage, in that it does not directly relate to one's own country.



Appendix B: Domestic routes



Domestic demand

| DOMESTIC | JUNE 2015 | JUNE 2014 | JUNE 2013 | JUNE 2012 | JUNE 2011 |
|--|-----------|-----------|-----------|-----------|-----------|
| Passengers carried ('000s) | 9,246 | 8,920 | 8,694 | 8,500 | 8,530 |
| Available Seat Kilometres (ASK, millions) | 5,592 | 5,385 | 5,108 | 4,969 | 4,904 |
| Revenue Passenger Kilometres (RPK, millions) | 4,561 | 4,370 | 4,218 | 4,050 | 4,021 |
| Load Factor | 81.6% | 81.1% | 82.6% | 81.5% | 82.0% |
| Yield (cents per RPK) | 28.6 | 27.9 | 27.2 | 28.7 | 28.1 |

Appendix C: Trans-Tasman routes



Trans-Tasman demand

| TASMAN AND PACIFIC ISLANDS | JUNE 2015 | JUNE 2014 | JUNE 2013 | JUNE 2012 | JUNE 2011 |
|--|-----------|-----------|-----------|-----------|-----------|
| Passengers carried ('000s) | 3,388 | 3,277 | 3,181 | 3,073 | 2,965 |
| Available Seat Kilometres (ASK, millions) | 10,688 | 10,622 | 10,277 | 9,694 | 9,345 |
| Revenue Passenger Kilometres (RPK, millions) | 9,184 | 8,858 | 8,580 | 8,164 | 7,799 |
| Load Factor | 84.4% | 83.4% | 83.5% | 84.2% | 83.5% |
| Yield (cents per RPK) | 11.9 | 11.7 | 12.0 | 11.8 | 11.6 |

Appendix D: Long haul routes



Long haul demand

| INTERNATIONAL LONGHAUL | JUNE 2016 | JUNE 2014 | JUNE 2013 | JUNE 2012 | JUNE 2011 |
|--|-----------|-----------|-----------|-----------|-----------|
| Passengers carried ('000s) | 1,663 | 1,522 | 1,536 | 1,549 | 1,608 |
| Available Seat Kilometres (ASK, millions) | 19,121 | 17,389 | 17,782 | 17,955 | 18,104 |
| Revenue Passenger Kilometres (RPK, millions) | 16,189 | 14,850 | 14,935 | 14,799 | 15,176 |
| Load Factor | 84.7% | 85.4% | 84.0% | 82.4% | 83.9% |
| Yield (cents per RPK) | 10.6 | 10.7 | 10.6 | 10.2 | 9.8 |

Appendix E: Operating fleet



Boeing 777-300ER

Number: 7
 Average Age: 4.2 years
 Maximum Passengers: 332
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 14:34



Boeing 777-200ER

Number: 8
 Average Age: 10.2 years
 Maximum Passengers: 312
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 11:52



Boeing 787-9 Dreamliner

Number: 6
 Average Age: 1.3 years
 Maximum Passengers: 302
 Cruising Speed: 910 km/hr
 Average Daily Utilisation: 14:09



Boeing 767-300ER (Due to exit by March 2017)

Number: 4
 Average Age: 21.2 years
 Maximum Passengers: 230
 Cruising Speed: 870 km/hr
 Average Daily Utilisation: 9:34



Airbus A320-200

Number: 29
 Average Age: 6.8 years
 Maximum Passengers: 168 short-haul
 171 domestic
 Cruising Speed: 850 km/hr
 Average Daily Utilisation: 8:02 short-haul
 7:49 domestic



ATR 72-500 / 72-600

Number: 72-500: 11
 72-600: 13
 Average Age: 72-500: 15.5 years
 72-600: 1.5 years
 Maximum Passengers: 68
 Cruising Speed: 518 km/hr
 Average Daily Utilisation: 6:56



Bombardier Q300

Number: 23
 Average Age: 9.4 years
 Maximum Passengers: 50
 Cruising Speed: 620 km/hr
 Average Daily Utilisation: 6:52



Boeing 787-9 Dreamliner

Number: 6
Average Age: 1.3 years
Maximum Passengers: 302
Cruising Speed: 910 km/hr
Average Daily Utilisation: 14:09



Boeing 767-300ER (Due to exit by March 2017)

Number: 4
Average Age: 21.2 years
Maximum Passengers: 230
Cruising Speed: 870 km/hr
Average Daily Utilisation: 9:34



Airbus A320-200

Number: 29
Average Age: 6.8 years
Maximum Passengers: 168 short-haul
171 domestic
Cruising Speed: 850 km/hr
Average Daily Utilisation: 9:02 short-haul
7:49 domestic



ATR 72-600 / 72-600

Number: 72-600: 11
72-600: 13
Average Age: 72-600: 15.5 years
72-600: 1.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 6:56



Bombardier Q300

Number: 23
Average Age: 9.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 6:52



Beech 1900D (Exited aircraft from fleet 28 August 2016)

Number: 3
Average Age: 14.2 years
Maximum Passengers: 19
Cruising Speed: 510 km/hr
Average Daily Utilisation: 3:57

Appendix E.1: Interior of Business Class (long haul)



Appendix E.2: Interior of A320 (economy)



Appendix F: Aircraft delivery schedule

| AIRCRAFT DELIVERY SCHEDULE (as at 30 June 2016) | Number in existing fleet | Number on order | Delivery Dates (Financial Year) | | | | |
|--|--------------------------------|--------------------|---------------------------------|------|------|------|------|
| | | | 2017 | 2018 | 2019 | 2020 | 2021 |
| Owned fleet on order | | | | | | | |
| Boeing 787-9 | 6 | 6 | 3 | 2 | 1 | - | - |
| Airbus A320 | 29 | 1 | 1 | - | - | - | - |
| Airbus A320/A321 NEOs** | - | 8 | - | 3 | 5 | - | - |
| ATR72-600 | 13 | 16 | 2 | 4 | 5 | 5 | - |
| Operating leased aircraft | | | | | | | |
| Airbus A320/A321 NEOs | - | 5 | - | 3 | 2 | - | - |

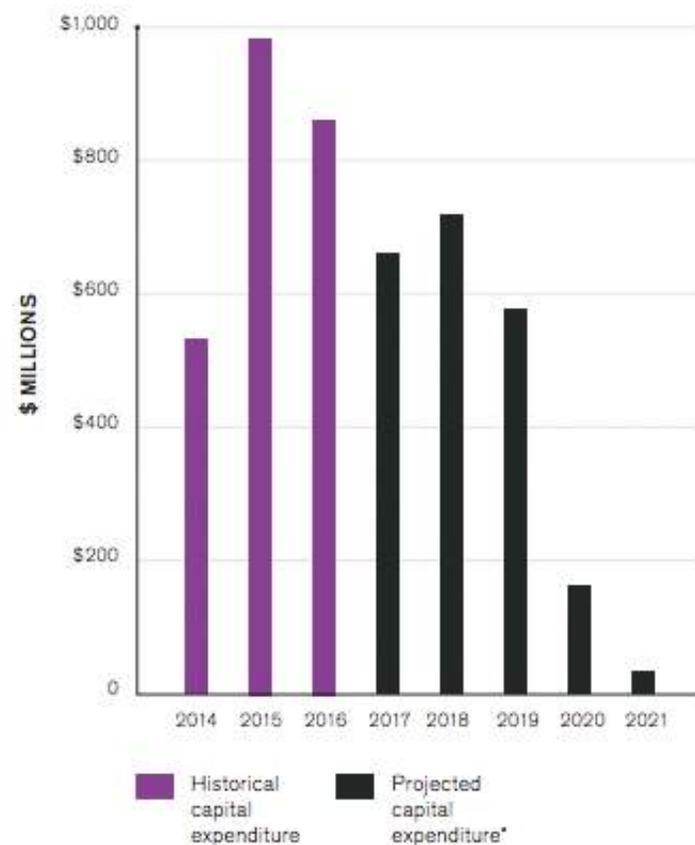
* Projected aircraft expenditure based on US dollar exchange rate of 0.715.

** Excluding orders of up to five A320/A321 NEOs with purchase substitution rights.

Air New Zealand

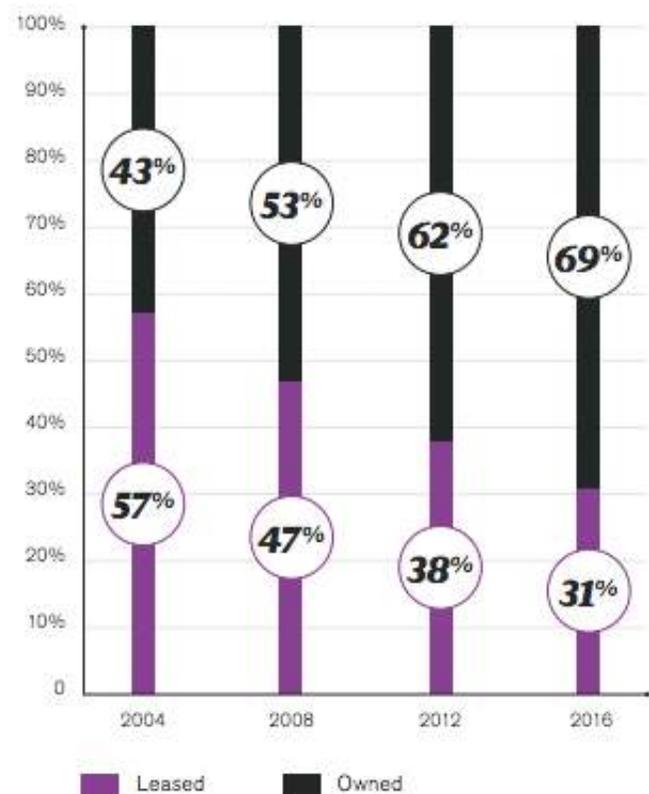
Appendix G: Aircraft expenditure

Historical and projected aircraft capital expenditure*



Historic trend of fleet ownership

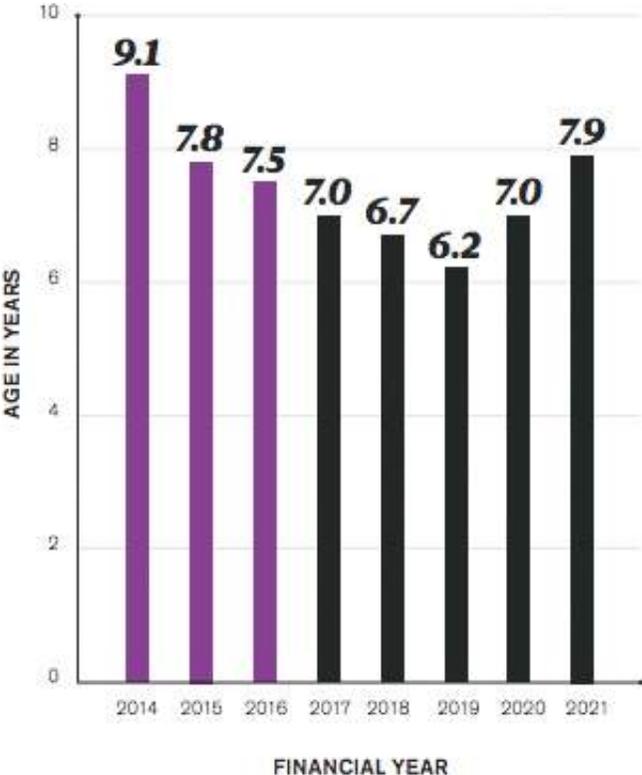
– seat weighted



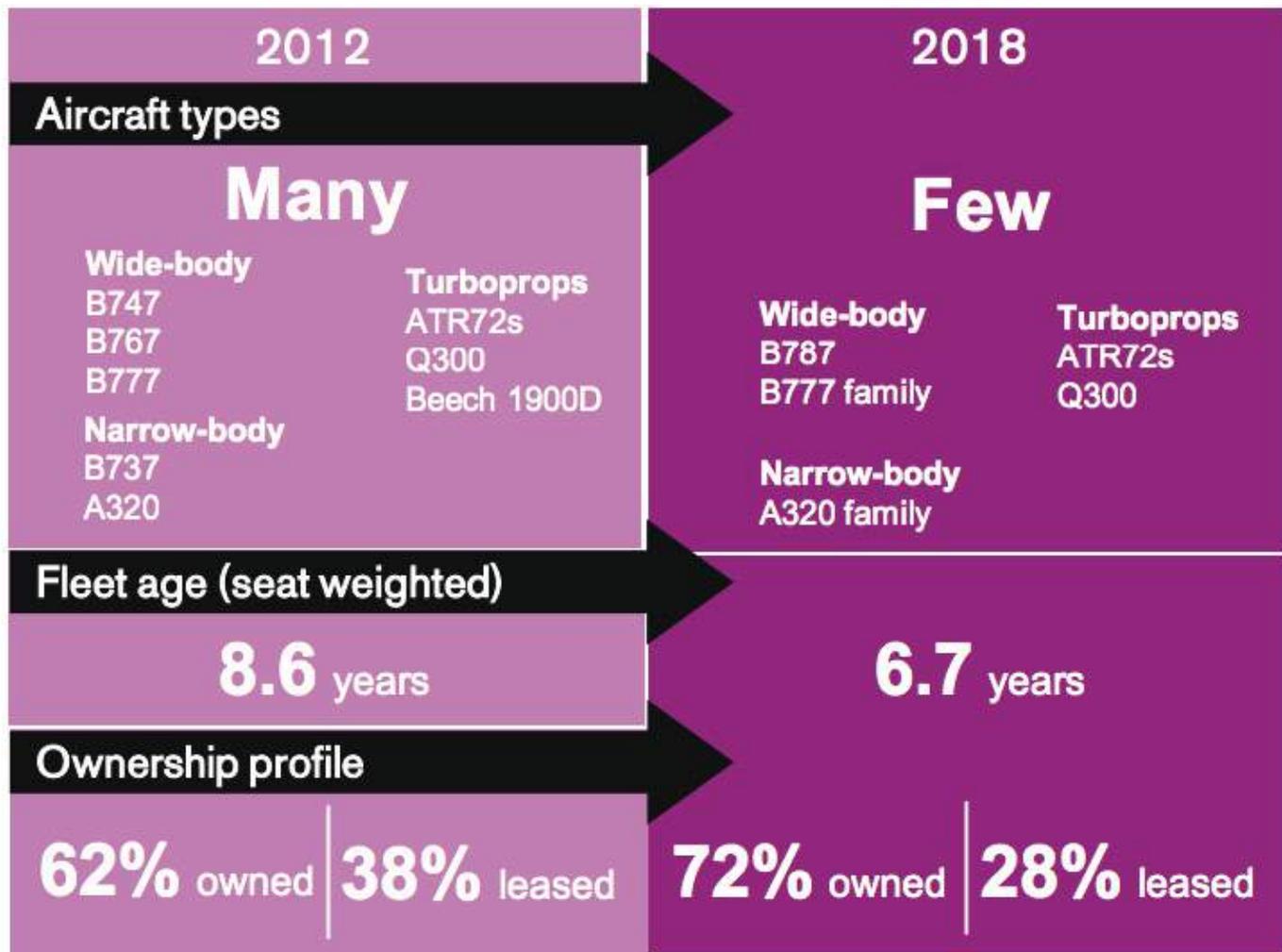
Appendix H: Average fleet age

Historical and projected seat weighted average fleet age

– as at 30 June 2016



Appendix I: Impact of fleet simplification



Appendix J.1: Domestic lounge (Auckland)



Appendix J.2: International lounge (Melbourne)



Appendix J.3: Skycouch



Appendix K: Silver, Gold, Elite airpoints benefits

Silver

Silver tier benefits include one upgrade per membership year, two single use passes for Air New Zealand's premium Koru lounge per year, and access to special Business Class award fares.

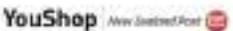
Gold

Gold tier benefits include full Koru and Star Alliance access for member and one guest during the membership year, two Recognition upgrades, and additional domestic and international baggage allowances.

Elite

Elite tier benefits include lounge privileges for up to five guests, recognition upgrades between cabin classes, and priority check-in, boarding, and baggage claim over Gold and Silver members.

Appendix K.1: Airpoints partners



Appendix M: Competition and capacity



1) Not NZ/All airlines operating between Australia and New Zealand (for example Philippine Airlines operating between Auckland (New Zealand) and Cairns (Australia))
Source: DfO

| Airline | FY16 to FY17 Capacity Change | Method of Capacity Change |
|----------------------------|------------------------------|---|
| EK Emirates | 277,217 | Use of larger A380 aircraft instead of Boeing 777 on Auckland to Dubai and Christchurch to Sydney services (service continues to Dubai) |
| QF Qantas | 212,036 | Various Tasman route capacity additions, including launch of Christchurch to Brisbane/Melbourne and Wellington to Brisbane services |
| D7 Air Asia X | 193,833 | Launch of daily Auckland to Gold Coast services from March 2016 (service continues to Kuala Lumpur) |
| AA American Airlines | 152,776 | Launch of daily Auckland to Los Angeles services from July 2014 (service continues to New York / JFK) |
| UA United Airlines | 130,679 | Launch of daily Auckland to San Francisco services from July 2016 |
| HK Hong Kong Airlines | 146,313 | Launch of daily Auckland to Hong Kong services from November 2016, increasing to 10 flights per week in peak |
| VA Virgin Australia | 140,272 | Various Tasman route capacity additions |
| SQ Singapore Airlines | 83,144 | Launch of four times weekly Wellington to Canberra services from September 2016 (service continues to Singapore) |
| CZ China Southern Airlines | 81,646 | Increase of three times weekly Christchurch to Guangzhou services to daily |
| QR Qatar Airways | 75,108 | Launch of daily Auckland to Doha services from March 2017 |
| CA Air China | 62,683 | Launch of daily Auckland to Beijing services from December 2016 |
| MU China Eastern Airlines | 59,752 | Increase of Auckland to Shanghai services from three weekly to daily in low season |
| LA LATAM Airlines | 35,955 | Use of larger Boeing 787-9 aircraft instead of Boeing 787-3 on Santiago de Chile to Auckland services (service continues to Sydney) |
| GS Tianjin Airlines | 34,258 | Launch of three times weekly Auckland to Chongqing services in January 2017 (service continues to Tianjin) |
| HU Hainan Airlines | 32,390 | Launch of three times weekly Auckland to Shenzhen services in December 2016 |
| FJ Fiji Airways | 32,160 | Launch of twice weekly Wellington to Nadi services |
| PR Philippine Airlines | 27,880 | Launch of three times weekly Auckland to Cairns services from December 2016 (service continues to Manila) |
| TG Thai Airlines | 20,448 | Increase of Auckland to Bangkok services from four to five times weekly |
| NF Air Niugini | 17,462 | Increase of Auckland to Port Vila services from two to three times weekly |
| CI China Airlines | 15,925 | Continuation of Christchurch to Melbourne services in low season (service continues to Taipei) |
| CX Cathay Pacific Airways | 12,995 | Use of larger Airbus A320 instead of Airbus A340 on Auckland to Hong Kong services |
| KE Korean Airlines | 8,189 | Use of larger Boeing 747-8 instead of Boeing 747-400 on Auckland to Seoul services |
| IQ Jetstar | -28,420 | Various Tasman route capacity reductions |



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Case Competition



BUSINESS SCHOOL