



AIR NEW ZEALAND

2nd February 2008



Pictured: Air New Zealand Boeing 777-200ER
Source: The Boeing Company

Case prepared by Mr. Sunny Gu, under the supervision of Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition, and references a fictional consulting situation with no direct input from the case company. All data in this case has been obtained from publicly available sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Portions Copyright © 2008 The University of Auckland Business School. All rights reserved.

Warren Wallstreet

From: Warren Wallstreet
Sent: Saturday, 2 February 2008 7:52
To: * Air New Zealand Project Teams
CC: David Dollar; Benjamin Graham; John Jobs; Peter Partner
Subject: Air New Zealand Strategy Presentation

Good morning all,

Our final client is waiting.

Air New Zealand is ranked 42nd (by revenue) in the airline industry – a very tough industry. Richard Branson once said that to become a millionaire, “you start out by being a billionaire and then you start an airline”. Globally, airlines are struggling with profit margins of around 1%-3%.

Air New Zealand is no stranger to this. In 2000, Ansett Airlines (a larger Australian airline) became a wholly owned subsidiary of Air New Zealand, but the harsh financial conditions at the time brought Ansett and consequently Air New Zealand to its knees. In late 2001, the New Zealand government announced a rescue package which made it an 80% owner, and Ansett was no more.

Fast forward to 2008, two CEOs later, and all of that seems like it is a distant memory. If I had told you in 2001 that Air New Zealand would be rated the 2nd best long-haul airline in the world, you would probably laugh at me. But it’s true. Air New Zealand has demonstrated a significant change in mindset, and has become an airline with “no sacred cows” (Ed Sims, GGM International Airline). Take a look at the following, titled “a clear strategy to build sustainable difference” from the 2007 Interim Result presentation:

2003 – 2007	2007 – 2010	2010 +
<ul style="list-style-type: none">• Business Transformation (simplify processes)• Define service model• Invest in new aircraft and product	<ul style="list-style-type: none">• Grow/align network• Brand Personality• Deliver new service model in the air and on the ground• Environmental Programme• Move from Business Transformation to Continuous Improvement	<ul style="list-style-type: none">• 787 era... new markets and amazing customer experiences• Invest in new aircraft and product

CEO Rob Fyfe, CFO Rob McDonald, and the board would like a presentation of no more than ten minutes to hear what you believe the key issues facing Air New Zealand are, and what strategies you propose they employ to take Air New Zealand into their next stage of growth. This will be followed by a ten minute question and answer session. Information gathered by our research team, including a basic glossary, is attached to this email.

Regards,

Warren Wallstreet,
President
SYG Consulting Group

AIRLINE INDUSTRY GLOSSARY OF TERMS

Available Seat Kilometres (ASKs):

The number of seats made available for sale multiplied by the distance flown.

Available Tonne Kilometres (ATKs):

The number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown.

Cargo Load Factor:

RTKs as a percentage of ATKs.

Freight Tonne Kilometres (FTKs):

The number of revenue tonnes of freight multiplied by the distance flown.

Overall Revenue Load Factor:

RTKs as a percentage of ASKs.

Passenger Load Factor:

RPKs as a percentage of ASKs.

Revenue Passenger Kilometres (RPKs):

The number of revenue passengers carried multiplied by the distance flown.

Revenue Tonne Kilometres (RTKs):

The revenue load (passengers and cargo) multiplied by the distance flown.

Yield:

Passenger Revenue per RPK.

AIRLINE INDUSTRY EXPENDITURE CLASSIFICATIONS

Labour

All salaries, wages and employee benefits.

Fuel

Fuel and oil.

Maintenance and Overhaul

Materials, services and overheads.

Aircraft and Traffic Servicing

Airport dues, aircraft ground handling, line servicing and loading.

Passenger Services

Passenger ground handling, meals, inflight services & cabin crew trip expenses.

Sales & Marketing

Commissions, advertising, promotions and marketing.

Other Expenses

Tech crew trip expenses, safety, training, accounting, insurance, employee relations, property rental, foreign exchange gains/losses.

Aircraft Operating Lease

Aircraft operating lease rentals.



AIR NEW ZEALAND

2007 FULL YEAR RESULTS PRESENTATION INVESTOR ROADSHOW SEPTEMBER 2007 PRESENTATION

2007 ANNUAL REPORT: FINANCIAL RESULTS



Note: NZD\$1 = USD\$0.77 = AUD\$0.88 as at December 2007

The following has been obtained from the Air New Zealand website.

AIR NEW ZEALAND ANNUAL RESULTS

2007



AIR NEW ZEALAND

Financial overview



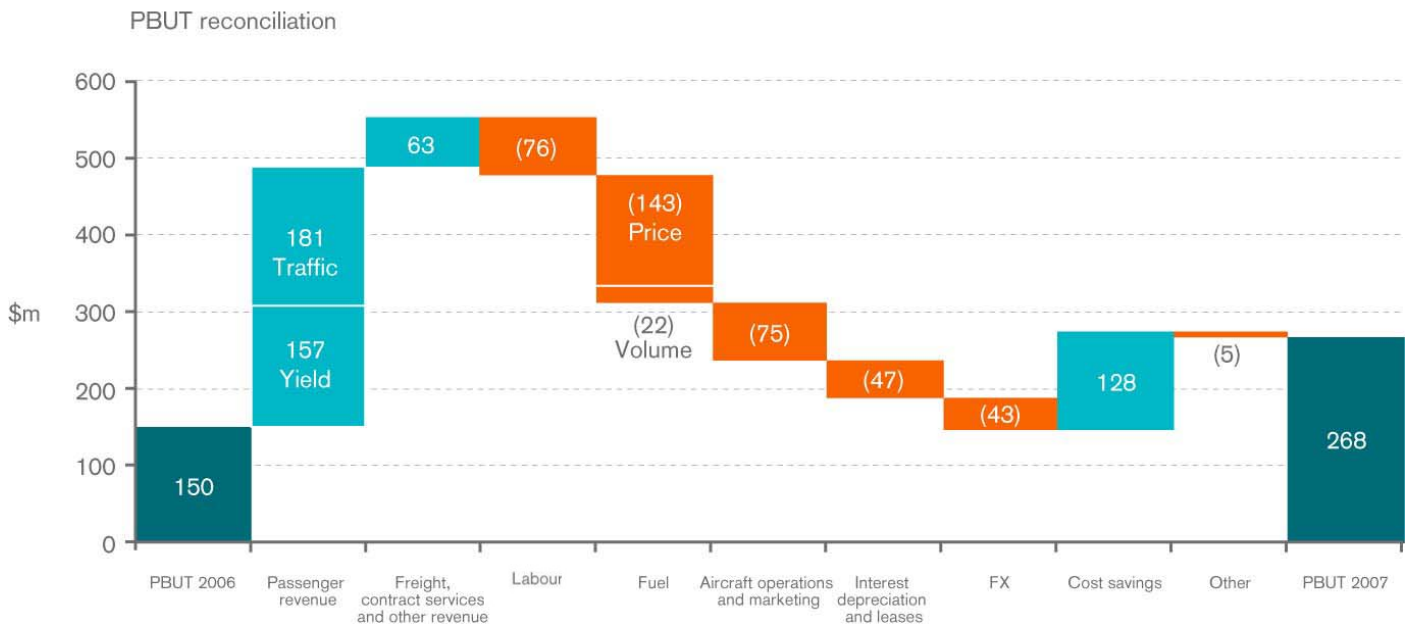
	June 2007	June 2006	Dollar movement	Percentage movement
Operating revenue	\$4,297m	\$3,805m	\$492m	13%
PBUT	\$268m	\$150m	\$118m	79%
NPAT	\$214m	\$96m	\$118m	123%
Adjusted operating cash flow*	\$584m	\$342m	\$242m	71%
Net cash	\$1,057m	\$1,150m	\$(93)m	(8)%
Gearing**	47.3%	51.9%		4.6 pts
Annual dividend (excluding special dividend)	8 cps	5 cps	3 cps	60%
Special dividend	10 cps	–	10 cps	n/a

* Operating cash flow excluding the impact of the rollover of short-dated foreign exchange contracts

** Convertible notes treated as equity in the 2006 year



Key influences on profitability



Strategic imperatives



- No.1 in chosen markets
- Optimised portfolio of capacity and routes
- Strong relationships and alliances to maximise reach
- Business simplification
- Sustainable margins consistently in the top quartile of the airline industry



Focus for the coming year



ANNUAL RESULTS
2007

AIR NEW ZEALAND



Refreshing the short-haul experience



- The Freedom Air brand to be discontinued, replaced by a revised schedule of full service Air NZ services
- Two additional Boeing 737-300 aircraft and the completion of the Q300 investment programme
- Focus will move to improving our products for high value customers - while maintaining “everyday low fares”
- Dual zone aircraft, with greater seat pitch and service for our regular / flexible fare customers
- The airport experience must improve to support the ongoing growth in air travel



ANNUAL RESULTS
2007

AIR NEW ZEALAND



Progressing the long-haul



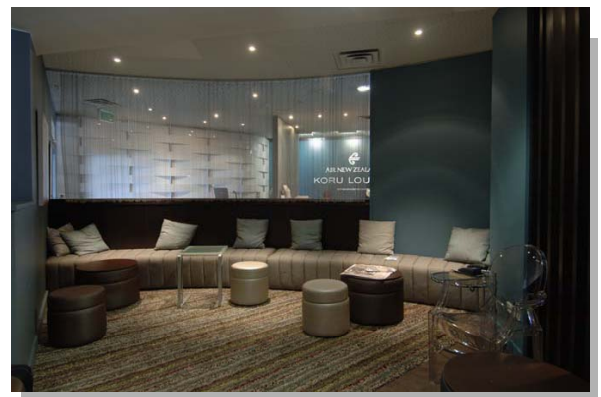
- The long-haul network experienced strong growth in 2007, with 7.4% growth in passengers carried
- Results of the Business Premier and Pacific Premium Economy products pleasing
- Work has begun on the next generation of long-haul product, to be delivered with the 787-9 and 777-300ER from 2010



Growing the customer relationship



- Our frequent flyer programme will undergo some changes, with further segmentation of status
- We will look to grow the value of our loyalty programme by broadening its reach
- Further developments online as we put the customer back in full command of their travel arrangements



Protecting our environment



- Over the past decade, our fleet has reduced fuel burn per passenger kilometre by 9.1%
- Our aircraft choice reflect our environmental consciousness – with concentration on fuel efficient twin engine long haul aircraft
- Air NZ actively seeks to assist in developing aviation biofuels and we continue to assess possibilities in this area
- Customers will be given more environmental choices, and will have the opportunity to purchase carbon credits
- We will continue to explore involvement in practical environmental initiatives



Retaining flexibility



- 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
- Our strong cash position also allows us to take advantage of opportunities to reduce our cost base when they arise



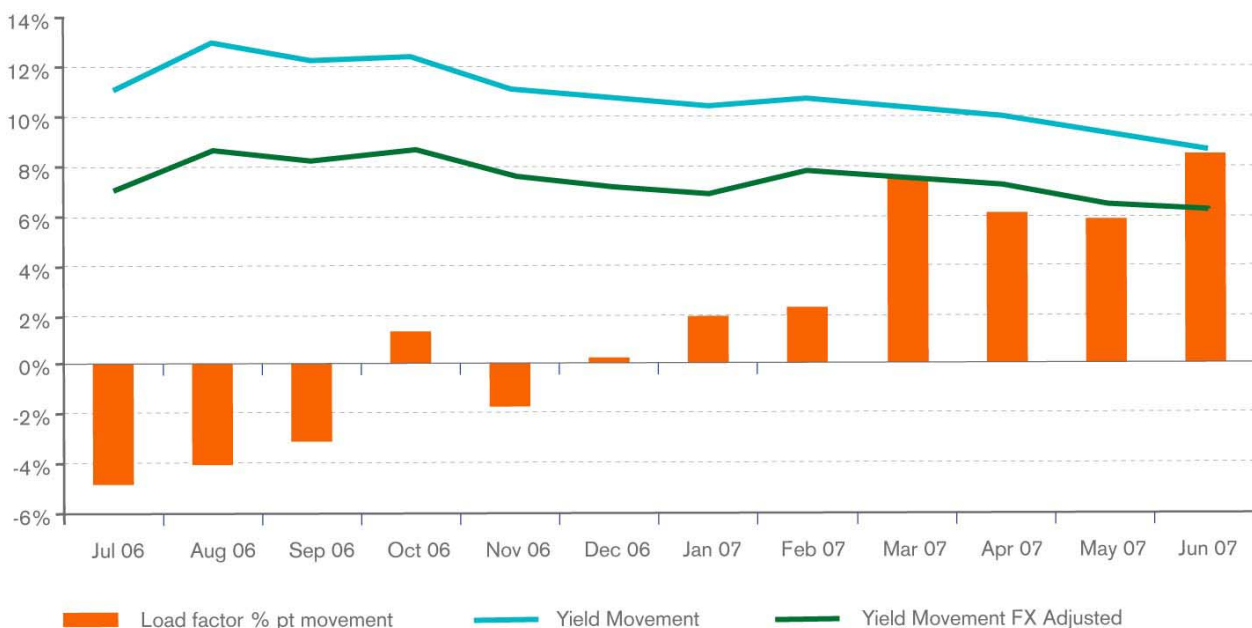
Outlook

- Fuel prices have increased 16% during 2007 and will continue to apply pressure in 2008
- Fuel hedges currently lock-in 62% of our fuel requirement for 2008 at US\$70.50 (crude)
- Forward bookings through to the high season are strong
- Expect to better 2007 PBUT in 2008 assuming operating environment does not materially change



Group operating performance

Year-on-Year Load Factor & Year-to-Date Yield Movements



Key operating statistics



	June 2007	June 2006	Movement*
Passengers carried	12.5m	11.9m	↑ 4.9%
Available seat kilometres (ASKs)	35,113m	34,055m	↑ 3.1%
Load factor	76.5%	75.0%	↑ 1.5 pts
Yield (cents per RPK)	13.0	12.1	↑ 7.7%

* Calculations based on numbers before rounding

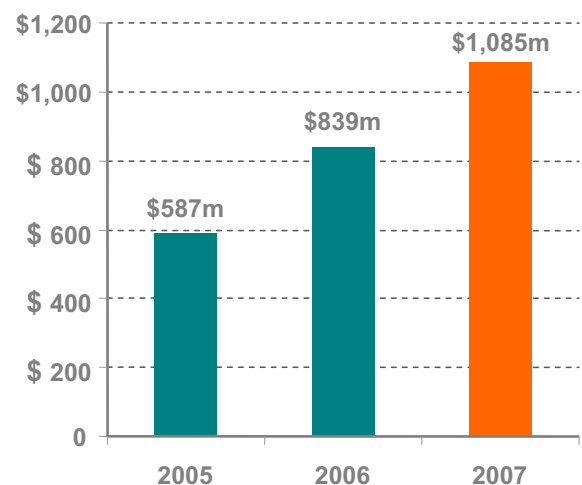


Continuous improvement



- Business transformation initiatives provided further productivity, efficiency and cost benefits of \$128 million in 2007
- \$324 million of annualised BT benefits have been delivered, against a target of \$245 million
- Online sales continue to grow, surpassing the \$1 billion mark in the 2007 year

Online sales



New aircraft at a glance



	Boeing 787-9	Boeing 767-300ER	Boeing 777-300ER	Boeing 747-400
Passengers	270	234	365	379
Range (km)	13,000	9,640	12,050	11,850
Maximum cruise speed (km/h)	915	870	905	920
CO² emissions (kgs per 1000 ASKs)	73	90	82	101



Fleet plan



Operating aircraft	June 2006	2007 movement	June 2007	2008 movement	June 2008
747-400	8	-	8	-	8
777-200ER	5	3	8	-	8
767-300ER	7	(1)	6	(1)	5
A320-200	12	-	12	-	12
737-300	14	-	14	2	16
ATR72	11	-	11	-	11
Saab 340A	13	(10)	3	(3)	-
Q300	8	8	16	4	20
Beech 1900D	16	1	17	-	17
Total operating fleet	94	1	95	2	97





2007 FINANCIAL RESULTS

FIVE YEAR STATISTICAL REVIEW

HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE FOR THE YEAR TO 30 JUNE

	2007	2006	2005	2004	2003
	\$M	\$M	\$M	\$M	\$M
Operating Revenue	3,497	3,088	2,911	2,792	2,871
Passenger revenue	396	359	297	296	296
Cargo	264	237	263	290	307
Contract services	140	121	125	130	143
Other revenue	4,297	3,805	3,616	3,498	3,617
Operating Expenditure					
Labour	(866)	(863)	(843)	(805)	(731)
Fuel	(1,108)	(949)	(626)	(482)	(516)
Maintenance and overhaul	(230)	(218)	(229)	(258)	(270)
Aircraft operations	(388)	(352)	(372)	(363)	(378)
Passenger services	(223)	(222)	(236)	(229)	(233)
Sales and marketing	(322)	(311)	(338)	(357)	(388)
Other expenses	(280)	(201)	(273)	(295)	(356)
	(3,437)	(3,116)	(2,919)	(2,799)	(2,882)
Earnings Before Interest, Taxation, Depreciation, Amortisation and Rental Expenses	860	889	697	699	735
Depreciation and amortisation	(279)	(261)	(250)	(236)	(237)
Rental and lease expenses	(298)	(280)	(285)	(228)	(265)
Earnings Before Interest and Taxation	283	148	212	235	233
Net interest	(15)	2	23	8	(13)
Operating Surplus Before Taxation and Unusual Items	268	150	235	243	220
Unusual items	(24)	(44)	(3)	(3)	4
Operating Surplus Before Taxation	244	106	232	240	224
Taxation expense	(30)	(10)	(52)	(74)	(58)
Net Surplus Attributable to Shareholders of Parent Company	214	96	180	166	166

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year.

FIVE YEAR STATISTICAL REVIEW (CONTINUED)

FINANCIAL RATIOS

	2007	2006	2005	2004	2003
Profitability					
EBIT/Revenue ¹	% 6.6	3.9	5.9	6.7	6.5
EBITDA/Revenue ¹	% 20.0	18.1	19.3	20.0	20.3
Return on Total Gross Assets ²	% 18.7	16.6	20.3	22.3	23.3
Return on Assets ³	% 5.7	3.1	5.2	6.1	6.3
Return on Equity ⁴	% 12.2	6.0	11.7	13.7	16.1
Basic Earnings Per Ordinary Share ⁵	cps 20.9	9.6	21.4	24.4	25.5
Fixed Cover ⁷	times 2.7	2.5	3.3	3.2	2.7
Passenger Revenue/RPK	c 13.0	12.1	11.4	11.7	12.4
Liquidity					
Operating Cash Flow Per Share ⁶	cps 32.4	47.2	55.6	55.1	62.3
Balance Sheet					
Net gearing (excl. net capitalised aircraft operating leases) ⁸	% 10.6	5.8	(20.2)	(11.6)	15.8
Net gearing (incl. net capitalised aircraft operating leases) ⁹	% 47.3	51.9	42.3	48.8	59.1
Debt to Equity Ratio ¹⁰	% 182.8	200.2	165.5	214.4	288.6
Net Tangible Assets Per Share ¹¹	\$ 1.66	1.59	1.54	1.42	1.23
Working Capital Ratio ¹¹	% 56.9	52.1	57.2	58.8	54.7
Shareholder Value					
Closing Share Price 30 June ⁸	\$ 2.64	1.18	1.45	2.00	2.70
Weighted Average Number of Ordinary Shares ⁸	m 1,022	1,001	786	591	584
Total Number of Ordinary Shares ⁸	m 1,052	1,003	1,000	600	584
Total Number of Convertible Preference Shares	m —	—	—	1,280	1,280
Market Capitalisation – Ordinary Shares	\$m 2,776	1,183	1,450	1,199	1,577
Total Market Capitalisation ¹²	\$m 2,776	1,183	1,450	1,711	2,268
Total Shareholder Return	% 123.7	(18.6)	(27.5)	(25.9)	(15.6)

1. Excludes Unusual Items
2. EBITDA/Total Gross Assets
3. EBIT/Total Assets
4. Net Income/Closing Shareholders' Equity
5. Per-share measures based upon Ordinary Shares and Convertible Preference Shares
6. Comparatives have been adjusted for the share consolidation on 23 August 2004, by dividing or multiplying by the consolidation ratio of five as appropriate.
7. EBITDA/(Rental and Lease Expenses and Net Interest)
8. Net Debt (excluding net capitalised aircraft operating leases)/Net Debt plus Equity (Convertible notes treated as Equity)
9. Net Debt (including net capitalised aircraft operating leases)/Net Debt plus Equity (Convertible notes treated as Equity)
10. Total Liabilities/Shareholders' Equity
11. Current Assets/(Current Assets plus Current Liabilities)
12. Includes Ordinary Shares and Convertible Preference Shares. Convertible Preference Shares were divided by the consolidation ratio.

HISTORICAL SUMMARY OF FINANCIAL POSITION

AS AT 30 JUNE

	2007	2006	2005	2004	2003
	\$M	\$M	\$M	\$M	\$M
Current Assets	1,058	1,150	1,071	1,022	773
Bank and short term deposits	753	571	561	578	598
Other current assets	1,811	1,721	1,632	1,600	1,371
Total Current Assets	2,869	2,669	2,012	2,062	2,199
Non-Current Assets	245	395	448	156	130
Property, plant and equipment	3,133	3,064	2,460	2,218	2,329
Other non-current assets	4,944	4,785	4,092	3,818	3,700
Total Assets	116	345	84	99	102
Net debt ¹	1,255	1,236	1,136	1,021	1,035
Other current liabilities	1,371	1,581	1,220	1,120	1,137
Total Current Liabilities	1,269	1,113	809	885	981
Net debt ¹	556	497	522	598	550
Other non-current liabilities	1,825	1,610	1,331	1,483	1,531
Total Non-Current Liabilities	3,196	3,191	2,551	2,603	2,668
Total Liabilities	1,748	1,594	1,541	1,215	1,032
Total Equity	1,748	1,594	1,541	1,215	1,032

1. Net debt is comprised of bank overdraft, borrowings, finance lease liabilities and convertible notes.

HISTORICAL SUMMARY OF CASH FLOWS

FOR THE YEAR TO 30 JUNE

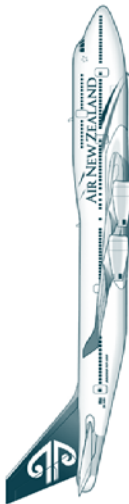
	2007	2006	2005	2004	2003
	\$M	\$M	\$M	\$M	\$M
Cash flow from operating activities	331	473	437	467	523
Cash flow from investing activities	(510)	(772)	(532)	(171)	(217)
Cash flow from financing activities	86	379	145	(42)	(135)
(Decrease)/Increase in Cash Holding	(93)	80	50	254	171
Total Cash Held	1,057	1,150	1,070	1,020	766

OPERATING FLEET STATISTICS

AS AT 30 JUNE 2007

Boeing 747-400

Number: 8
Average Age: 13.2 years
Maximum Passengers: 379
Cruising Speed: 920 km/hr
Average Range: 11,850 km
Av. Daily Utilisation: 10.32hrs



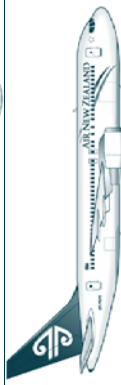
Boeing 777-200ER

Number: 8
Average Age: 1.2 years
Maximum Passengers: 313
Cruising Speed: 910 km/hr
Average Range: 11,950km
Av. Daily Utilisation: 14.75hrs



Boeing 767-300ER

Number: 6
Average Age: 10.9 years
Maximum Passengers: 234
Cruising Speed: 870 km/hr
Average Range: 9,640 km
Av. Daily Utilisation: 11.24hrs



Airbus A320-200

Number: 12
Average Age: 2.9 years
Maximum Passengers: 152
Cruising Speed: 850 km/hr
Average Range: 4,900 km
Av. Daily Utilisation: 10.97hrs



Boeing 737-300

Number: 14
Average Age: 9.5 years
Maximum Passengers: 136
Cruising Speed: 790 km/hr
Average Range: 3,520 km
Av. Daily Utilisation: 6.74hrs



ATR 72-500

Number: 11
Average Age: 6.5 years
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Range: 850 km
Av. Daily Utilisation: 8.03hrs



Bombardier CRJ-900

Number: 16
Average Age: 1.0 years
Maximum Passengers: 90
Cruising Speed: 520 km/hr
Average Range: 740 km
Av. Daily Utilisation: 7.33hrs



Seab 340A

Number: 3
Average Age: 19.3 years
Maximum Passengers: 33
Cruising Speed: 468 km/hr
Average Range: 468 km
Av. Daily Utilisation: 5.88hrs



Beech 1900D

Number: 17
Average Age: 5.4 years
Maximum Passengers: 19
Cruising Speed: 510 km/hr
Average Range: 530 km
Av. Daily Utilisation: 6.43hrs



KEY OPERATING STATISTICS

FOR THE YEAR TO 30 JUNE

2003

2004

2005

2006

2007

Passengers Carried (000)

New Zealand **7,736** 7,356 7,180 6,732 5,821

International

Australia and Pacific Islands **2,895** 2,908 2,888 2,588 2,375

Asia and Europe **734** 591 647 640 648

North America and Europe **1,015** 1,037 1,025 979 965

Total **4,744** 4,536 4,510 4,177 3,988

Total Group **12,480** 11,892 11,690 10,909 9,809

Available Seat Kilometres (m)

New Zealand **4,639** 4,455 4,281 4,045 3,609

International

Australia and Pacific Islands **9,949** 10,185 9,845 8,537 7,888

Asia and Europe **8,565** 6,856 7,388 7,454 7,605

North America and Europe **11,960** 12,559 12,168 11,948 11,605

Total **30,474** 29,600 29,411 27,939 27,088

Total Group **35,113** 34,055 33,692 31,984 30,677

Revenue Passenger Kilometres (m)

New Zealand **3,493** 3,345 3,264 3,053 2,621

International

Australia and Pacific Islands **7,487** 7,219 7,037 6,286 5,886

Asia and Europe **6,422** 5,049 5,468 5,356 5,400

North America and Europe **9,472** 9,938 9,799 9,242 9,253

Total **23,381** 22,206 22,304 20,884 20,539

Total Group **26,874** 25,551 25,568 23,937 23,160

Passenger Load Factor (%)

New Zealand **75.3** 75.1 76.2 75.5 72.6

International

Australia and Pacific Islands **75.3** 70.9 71.5 73.6 74.9

Asia and Europe **75.0** 73.6 73.9 71.9 71.0

North America and Europe **79.2** 79.1 80.5 77.4 79.7

Total **76.7** 75.0 75.8 74.7 75.9

Total Group **76.5** 75.0 75.9 74.8 75.5

Available Tonne Kilometres (m)

Total **1,490** 1,484 1,274 1,281 1,257

Revenue Tonne Kilometres (m)

Total **808** 783 799 762 824

Cargo Load Factor (%)

Total **54.3** 52.7 62.7 59.5 65.6

Group Employee Numbers

Total **10,713** 10,233 10,829 10,394 10,165

New Zealand, Australia and Pacific Islands represent shorthaul operations. Asia, North America and Europe represent longhaul operations.

Air New Zealand
Segment Information (NZ\$b)
For year ended 30 June 2007



	Group (2007)	Group (2006)
Within New Zealand	1117	975
Australia and Pacific Islands	1015	932
Asia and Europe	655	491
North America and Europe	1106	1049
Total flight revenue	3893	3447
Contract services and other revenue	404	358
Total operating revenue	4297	3805

Note: Air New Zealand's operations are scheduled airline services within, to or from New Zealand.

Air New Zealand
Premium/Non-Premium Information (Long-Haul) (NZ\$m, approx)
Actual and forecast as at May 2007

	2003	2004	2005	2006	2007F	2008F
Premium	300	300	300	350	450	600
Non-premium	850	750	750	800	850	850

Air New Zealand
Capital Expenditure (NZ\$)
Actual and forecast as at 30 June 2007

	2006	2007	2008F	2009F
Capital Expenditure	764	556	190	300

Air New Zealand
Fuel Hedge Position
As at 17 October 2007

	Units	FY08 1st Half	FY08 2nd Half	FY09 1st Half
WTI Collars				
Volume	Barrels	3,220,000	2,265,000	325,000
Ceiling Price	USD	69.33	73.46	75.66
Floor Price	USD	60.55	62.23	63.18
Singapore Jet Collars				
Volume	Barrels	275,000	245,000	
Ceiling Price	USD	85.00	93.16	
Floor Price	USD	75.94	82.34	
Total Hedged	Barrels	3,495,000	2,510,000	325,000
Estimated Fuel Consumption	Barrels	4,130,657	4,181,754	4,187,349
Hedge Ratio	%	85%	60%	8%

Note: 42 US gallons in a barrel.

Note: Fuel price is quoted in USD cost per barrel of Singapore Jet and West Texas Intermediate (WTI)



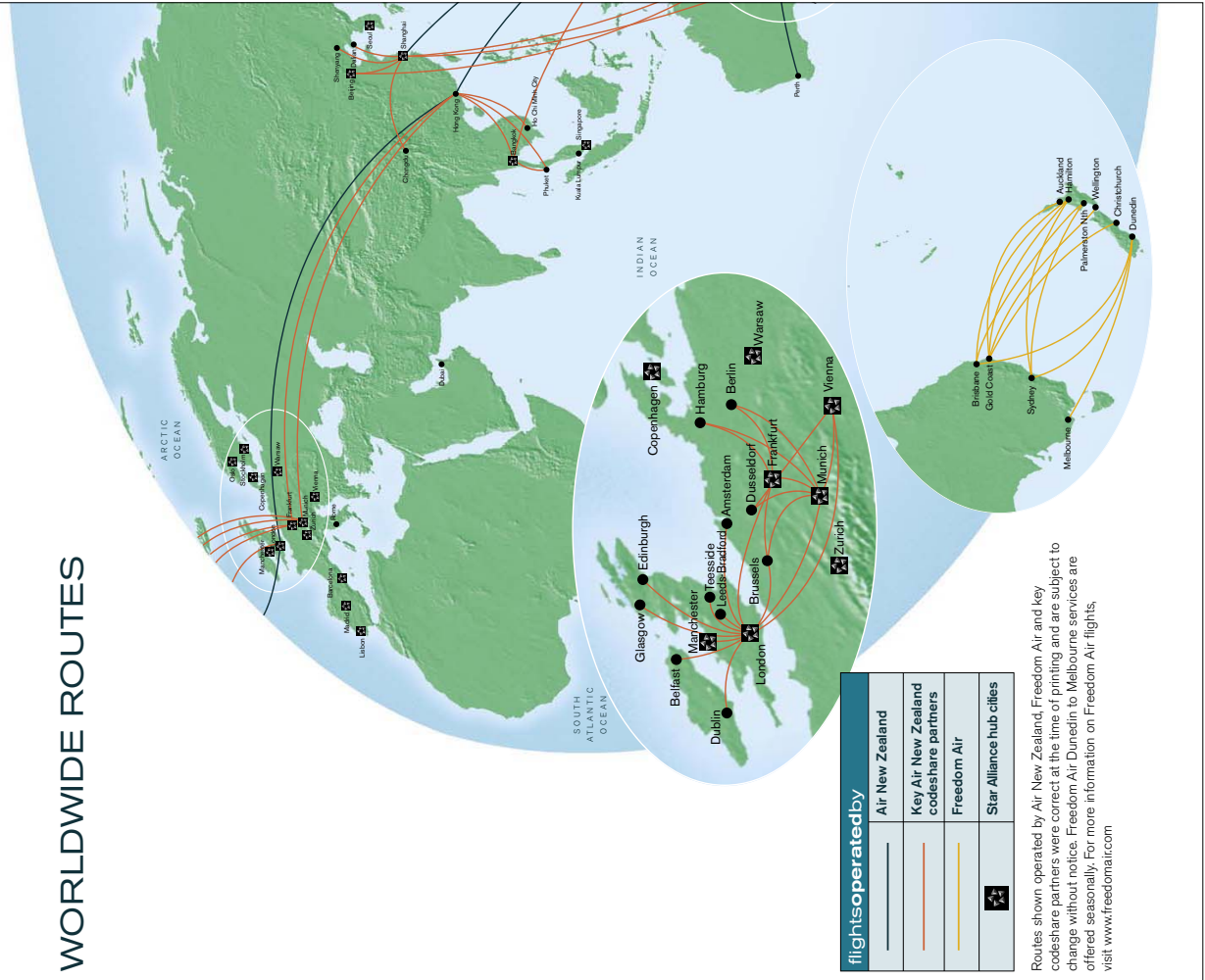
AIR NEW ZEALAND

CURRENT ROUTE NETWORK



The following has been obtained from Air New Zealand.

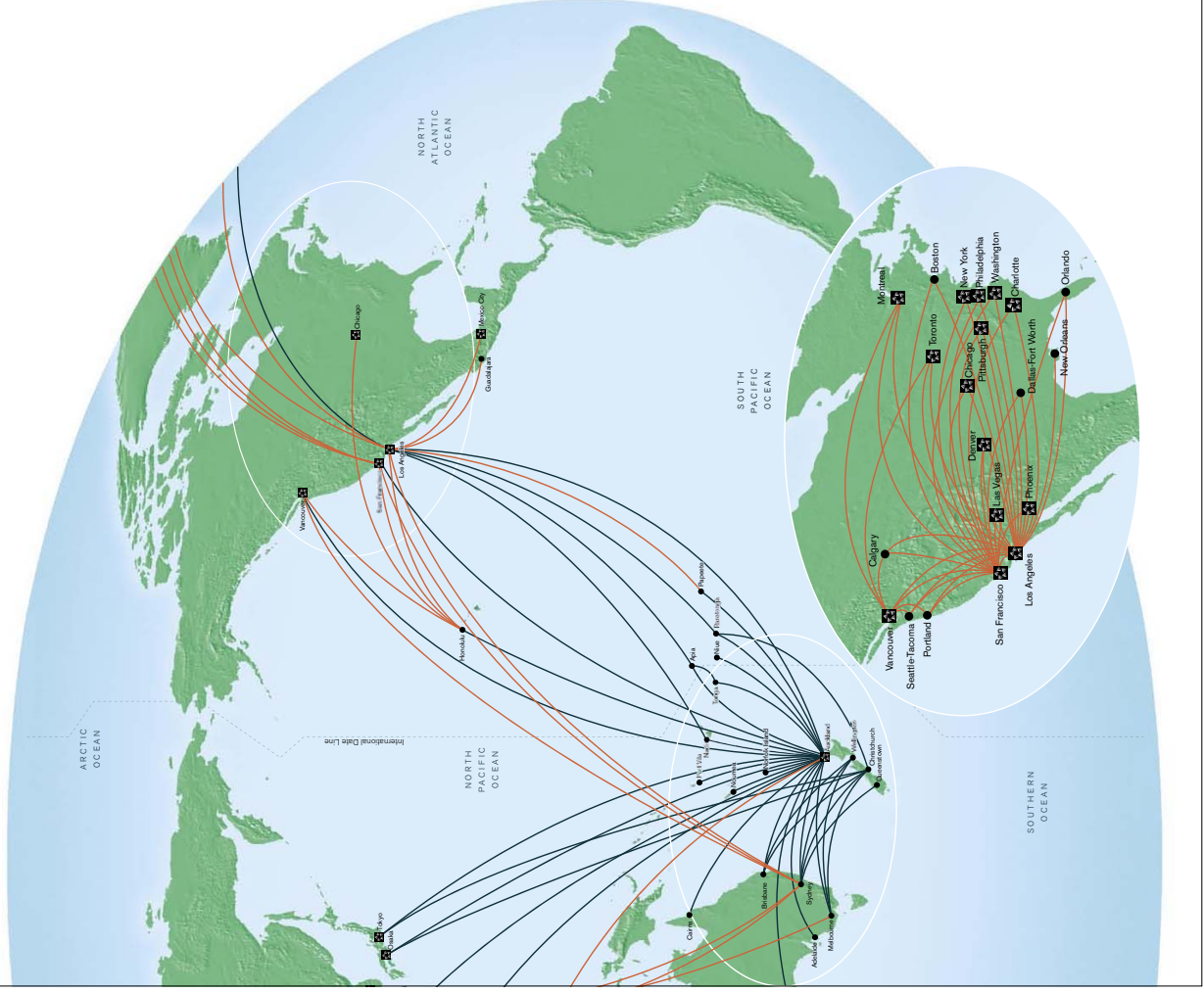
WORLDWIDE ROUTES



flights operated by

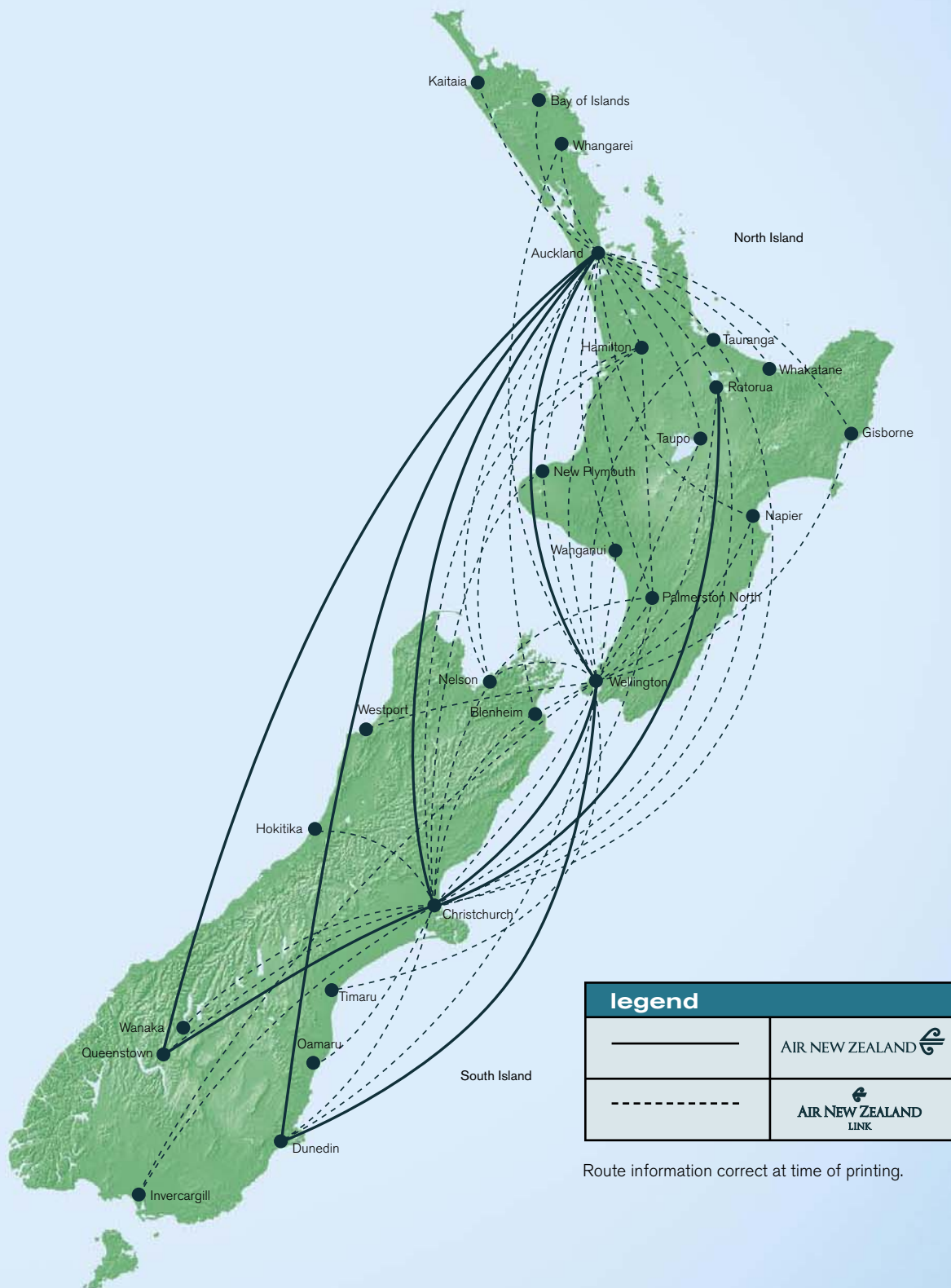
	Air New Zealand
	Key Air New Zealand codeshare partners
	Freedom Air
	Star Alliance hub cities

Routes shown operated by Air New Zealand, Freedom Air and key codeshare partners were correct at the time of printing and are subject to change without notice. Freedom Air Dunein to Melbourne services are offered seasonally. For more information on Freedom Air flights, visit www.freedomair.com



NEW ZEALAND

Air New Zealand routes across the country





AIR NEW ZEALAND

SELECTED PRESS ARTICLES



MEGA-RICH JOIN QUEUE FOR AIR NZ'S SKILLS

Roeland Van den BERGH

12 January 2008

Dominion Post

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Air New Zealand's has ambitious plans to earn big money from niches like cabin design, pilot training and biofuel. Roeland van den Bergh talks to chief executive Rob Fyfe.

AIR NEW ZEALAND engineers are quietly working on top-secret aircraft at the Woodbourne air base as part of a new strategy for the airline to boost revenue.

Unmarked Boeing 737 aircraft are flown direct from their United States factory to the air base near Blenheim as little more than shells.

Two months later they emerge from the hangar at Air New Zealand's engineering subsidiary Safe Air, fitted out with luxurious private jet interiors for their super-wealthy owners.

Each fit-out of the Boeing business jets, based on the 737-800 passenger plane, costs up to US\$20 million (NZ\$26 million), including lounge, dining and meeting areas, a double bedroom with ensuite and seating for up to 12 people.

That is above the US\$30 million purchase cost of the aircraft, which is designed to fly much further than the airline version.

Air New Zealand chief executive Rob Fyfe says the business jets are part of a strategy for Air New Zealand to develop and sell intellectual property gained in the normal course of its business, and also to take advantage of a global industry skills shortage.

[TRUNCATED]

Another opportunity has been opened up by the acute worldwide shortage of skilled staff, which has resulted in airlines competing vigorously for people.

The International Air Transport Association estimates that 17,000 pilots a year will need to be trained to fly the thousands of aircraft on order worldwide and cope with a retirement bubble.

Mr Fyfe wants to take advantage of the skills shortage by developing an international training infrastructure in New Zealand for pilots as well as specialist engineers and management staff, possibly in joint ventures with other training providers, over the next 10 years.

"We have great success with attracting Asian students down here. Why couldn't you learn to be a pilot in New Zealand or train to be an engineer and go and work somewhere else in the world? The aviation industry as a whole has huge opportunities for New Zealand."

[TRUNCATED]

Air New Zealand has also joined with plane-maker Boeing and engine-maker Rolls-Royce in the race to find a viable biofuel to power aircraft and reduce the dependence on oil, which some tip will rise to a crippling US\$150 a barrel.

An Air New Zealand Boeing 747-400 will make a test flight early next year with one of its four engines powered by a biofuel mixed with standard jet fuel. No passengers will be carried on the flight.

Mr Fyfe says he is confident that Air New Zealand will be using a blended biofuel on commercial flights within his tenure as chief executive.

[TRUNCATED]

NZ'S NATIONAL FLAG CARRIER FACES EUROPEAN PROBE ON PRICE-FIXING

383 words

28 December 2007

New Zealand Press Association

English

(c) 2007 New Zealand Press Association

Wellington, Dec 28 NZPA - European regulators have included Air New Zealand in an investigation of suspected price rigging of freight services, widening a probe that has also targeted other flag carriers such as Qantas, and Singapore Airlines.

The probe is looking into whether there were violations of European Union competition law in connection with surcharges and air-cargo rates.

The Auckland-based carrier has been given two months to respond to a "statement of objections" from the European Commission that New Zealand Ltd's cargo unit violated competition rules.

The letter stems from alleged agreements among airlines relating to air-cargo rates and surcharges, Air New Zealand told the NZX in a brief note.

The European Union inquiry is focused on claims of criminal behaviour by the freight arms of airlines.

European Commission spokesman Jonathan Todd has called notes sent to airlines "official charge sheets."

Air New Zealand is 76 percent owned by the Government after it was bailed out of near-bankruptcy by a billion-dollar cash injection in 1991.

Australia's flag-carrier, Qantas, was fined \$A70 million (\$NZ80.5 million) over similar issues in the United States last month.

Now Qantas, Singapore Airlines, Cathay Pacific, Air Canada and have confirmed they were sent "please explain" notes by the EU on December 20, and at least another 21 airlines are also being probed.

According to EU rules, companies can be fined 10 percent of annual sales for antitrust violations.

Air New Zealand said it was reviewing the document and won't comment further before responding by March 31, 2008. The commission has not made findings of infringement against the NZ airline, and the company has not made any estimate of likely financial impact.

The news broke about 4.20pm yesterday, and the company's shares were still up 2c at \$2 at the close of trading on the NZX.

British Airways Plc, Japan Airlines Corp., Air France-KLM Group, SAS Group, and Cargolux Airlines International SA are also under scrutiny.

The European authorities have previously made price-fixing charges against British Airways, Lufthansa, SAS and other airlines, the Financial Times reported.

Japan Airlines and All Nippon Airways confirmed last Saturday they had also been charged.

AIRNZ TO FLY DIRECT TO BEIJING FOR OLYMPICS

435 words

14 December 2007

New Zealand Press Association

English

(c) 2007 New Zealand Press Association

By Kevin Kane of NZPA

Beijing, Dec 14 NZPA - Air New Zealand is tapping the burgeoning Chinese tourist market, and strong interest by New Zealanders in the Olympic Games in Beijing next year, to provide a platform for a new twice weekly direct Auckland-Beijing service.

Air New Zealand chief executive Rob Fyfe announced the new service in Beijing today, and told NZPA the direct service would operate from July 18.

The service, subject to all necessary Chinese regulatory and operating approvals, would operate out of Auckland on Wednesday and Friday and out of Beijing on Thursday and Saturday using the airline's new Boeing 777-200ER aircraft.

Mr Fyfe said the new service would build on the success of the airline's Auckland-Shanghai service, launched in November 2006. "Chinese visitor numbers to New Zealand continue to boom, increasing approximately 14 percent year-on-year, and its rapidly developing economy offers significant potential for both Air New Zealand and the broader New Zealand tourism industry."

The new service was part of the airline's push to expand its presence in mainland China, and was expected to generate a high level of interest, he said.

To provide sufficient capacity for the Beijing flights, the airline will cut its Auckland Shanghai service to three times a week until November 2008.

Mr Fyfe said from November next year the airline planned to operate five services a week to Shanghai, plus the two Beijing flights.

Improved fuel efficiency from its new planes and a more fuel efficient route to China allowed the airline to offer the service.

Group general manager international airline Ed Sims said the new service would allow Air New Zealand to increase its footprint in China by tapping into the vast number of customers transiting through Beijing Capital International Airport, which handled around 1300 flights a day. "Our direct Shanghai service was primarily aimed to serve its 17 million citizens. By offering a direct service to Beijing, we expect to gain a greater number of customers looking to travel to New Zealand from other parts of China, and from Europe. It will also provide Kiwis with an easy and convenient way to travel deeper into China," he said.

Mr Fyfe expected strong demand from New Zealanders as it coincided with the Beijing Olympics which run from August 8-24.

Mr Fyfe said the new service was expected to be value accretive, and did not involve significant expenditure as the company was using its assets more efficiently and taking advantage of any spare capacity.

Air NZ soars above rising fuel costs

694 words

14 December 2007

National Business Review

English

(c) 2007 The National Business Review

Air New Zealand is on track to exceed last year's decade-best performance despite soaring fuel prices.

The carrier reported a 123% increase in after-tax profit on revenues up 13% to \$4.3 billion for the 12 months to June 30. Demand has risen as the airline enjoyed growing passenger numbers and higher load factors.

But fuel remains the major issue for Air New Zealand and the world airline industry.

Chief executive Rob Fyfe said jet fuel had increased from \$US85 to \$US115 a barrel in the past four months, bringing huge incremental costs to a carrier that currently uses eight million barrels a year.

"It's a challenge," Mr Fyfe said. "We have hedging programmes and they buy time. But the problem doesn't go away – it only delays the impact.

"Our business model is very competitive in global terms. No one is immune from fuel prices but over the past two years we have been able to react faster and adapt more quickly than our larger competitors.

"We have cut costs by \$20 million a year in reduced fuel burn by the way we operate our fleet with descent profiles, flap settings and re-routing flights – the Auckland-Shanghai and Hong Kong-London routes were changed to cut about 30 minutes' flight time.

"And there have been some fare increases on long-haul where fuel is a much more significant part of the cost – 55% of Auckland-Los Angeles cost is fuel compared with 20% on Auckland-Wellington, so fares have drifted up a little."

Mr Fyfe said the company continued to deliver savings after ending Singapore, Nagoya and Taipei services, and distribution costs were falling with a shift in sales from travel agents and telephones to online bookings.

"We are having a period of strong demand, with total passenger numbers up 6.2% in October and load factors more than 4% higher at 77%," he said. "Long-haul passenger numbers increased 28% during the month and that's very significant.

"All this is enabling us to track upwards."

Mr Fyfe said Air New Zealand now operated eight 313-seat Boeing 777-200s and had firm orders and three options for 330-seat 777-300s scheduled for delivery in 2010, which is when the first of eight 787-900s, for which it is the launch customer, is due.

He said capacity in available seat-kilometres had increased 18.5% as a result of new services in the past 12 months to Vancouver, Shanghai, Adelaide and through Hong Kong to London which makes the carrier the industry's only round-the-world airline.

"Our goal has been to open one new destination a year and we have a number in our sights, although we are watching fuel prices before committing ourselves," Mr Fyfe said.

"There are candidates across Asia and North America, and the more fuel-efficient and longer-range 787 opens possibilities for at least six new destinations, such as Denver, Chicago and Dallas – and Beijing and Mumbai start to come into range."

Mr Fyfe said Pacific Blue's launch on to New Zealand domestic routes would mean extremely intense competition in the next 12 months, bringing an extra 35% capacity to a market expected to grow at about 5%.

"Inevitably, there will be some form of aggressive pricing activity. That's good for customers but that level of capacity is not sustainable.

"As the collapse of Ansett showed, Australia could not sustain three carriers, and it will be a bit of a stretch in

New Zealand with a market a quarter its size – there will be a war of attrition and it will not be Air New Zealand that falls out.”

Mr Fyfe said the year’s personal highlight had been the performance of Air New Zealand staff.

“They have really come to life and I have never had so many customer compliments. There have been some really neat stories of our people going that extra mile.”

Rob Fyfe: ‘There will be a war of attrition [in the New Zealand market] and it will not be Air New Zealand that falls out’

GOVERNMENT DECISION ON AIRPORTS A WIN FOR CONSUMERS

Media Release - NZPA

393 words

21 November 2007

22:07

Mediacom

English

(c) 2007 New Zealand Press Association

The cost of travel is set to fall following the Governments decision today to change the way it regulates airports.

Air New Zealand Chief Financial Officer Rob McDonald has applauded the Governments decision to introduce meaningful regulation that will provide controls over the charges imposed by Auckland, Wellington and Christchurch International airports under the Commerce Act, saying it will materially benefit customers.

It has been accepted by the Government that the current regime is both unsatisfactory and lacks credibility and robustness. We are not getting outcomes that would occur in a competitive market, says Mr McDonald.

Auckland and Wellington airports have long treated their customers as cash cows, generating outrageous levels of profit at the expense of consumers.

Customers travelling through Auckland International Airport Ltd are being stung the hardest recent analysis by PwC reveals that AIAL alone is generating more than \$90m in excessive revenue annually. A new regulatory regime will in the future hopefully provide the scope to allow the excess revenues of the past to stay in the pockets of the travelling public. The regulatory arbitrage that has been relentlessly exploited is now closed.

As a result of todays decision Air New Zealand is calling on AIAL and WIAL to immediately withdraw all of their recently imposed pricing increases, on the basis that they clearly do not conform to a number of the Commerce Commissions well-established principles.

Air New Zealand has worked hard over the past three to four years to reduce costs with the objective of delivering everyday low fares to the travelling public. Unfortunately airfares have been higher than necessary as airports have kept raising their prices in direct conflict to Air New Zealands objective of lowering fares.

Mr McDonald says Air New Zealand is committed to directly passing on lower airport charges to consumers, which would result in lower airfares, in turn helping stimulate demand for travel.

Mr McDonald says the Governments decision to tighten regulation and monitor the way airports are setting charges vindicates the strong position held by Air New Zealand and other airlines that airports have been overcharging consumers.

Mr McDonald says the airline is looking forward to working with the Commerce Commission and government officials to develop a set of rules that provide fair and efficient pricing for all consumers.

PACIFIC BLUE REACHES FOR SKY

BERGH Roeland VAN DEN

13 November 2007

Dominion Post

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PACIFIC BLUE blazed its way on to domestic aviation routes yesterday, promising sustained competition for Air New Zealand and Qantas.

The budget offshoot of Australia's Virgin Blue had sold 150,000 discounted domestic tickets since August, when it launched plans to extend its existing trans-Tasman network on to domestic routes.

Virgin Blue chief executive Brett Godfrey said ticket sales profits were less than expected, but sales volumes were higher. "I'm happy with that, but I would also at some stage like to see some non- discounted tickets at good levels."

Pacific Blue's arrival immediately lowered the cheapest standard main trunk fares by \$20, to between \$59 and \$79 one-way.

However, special launch fares have ranged between \$9 and \$39 one-way as the airline tried to carve out market share quickly. It promised to sell all seats for less than \$99 for the first six months.

Mr Godfrey said it would take time for travellers to realise that it was a "real airline". He forecast it would be quite a player in New Zealand within two years.

The Christchurch airline is running two 180-seat Boeing 737-300s on 10 return flights between Auckland, Wellington and Christchurch, against Air New Zealand and Qantas.

Air New Zealand dominates the main trunk with 14 737-300s and smaller turbo-prop aircraft, making 56 return trips daily.

Mr Godfrey said Pacific Blue would provide a one-off boost to the number of people travelling between the main centres by up to 25 per cent in the first year. He then expected growth to settle back to the longer term average growth rate of 5 per cent to 7 per cent.

Pacific Blue would add a third 737-800 about March.

As a "challenger brand", Virgin Blue was attracted to markets constrained by lacklustre competition and monopolistic or duopolistic behaviour. "New Zealand is a prime example of this," he said.

But Air New Zealand deputy chief executive Norm Thompson said that was exactly the environment in which Virgin Blue operated in Australia, where it shared the market with Qantas. Fares were much higher in Australia than on comparable New Zealand routes, making Virgin Blue one of the most profitable airlines in the world, he said.

Lower domestic airfares would increase the market, but at the expense of revenue growth.

The Centre for Asia Pacific Aviation in Sydney suggested New Zealand would benefit from more low-cost carriers in the next two or three years, including long-haul budget airlines.

BLUE ON BLUE

* No more than \$99 fares for six months

* 150,000 tickets pre-sold

* Two 737-300 180-seat planes running 10 flights a day

* A third plane next year

Queues to go at Air NZ domestic counter

by David Stone

8 October 2007

New Zealand Herald

(c) 2007 The New Zealand Herald

Regular customers will be able to dispense with baggage check-in next year

Air New Zealand intends to do away with check-in counters and queuing at domestic airports, but says staff will still be on hand for passengers needing help.

Some of the changes planned were foreshadowed by Air NZ's chief executive, Rob Fyfe, earlier this year, and were shown in a video to shareholders at their annual meeting last week.

Speaking after the meeting, Fyfe said the major airport changes, together with the dual zoning of seats in the airline's domestic B737-300s, would be introduced around August next year, but other changes could be tested as early as April.

The first steps have already been taken with the increasing proportion of passengers either checking in online, indicating their seat preference and printing out their electronic tickets and boarding passes, or obtaining their boarding passes at airport kiosks.

Baggage still needs to be checked in but Fyfe said that next year this would no longer be necessary for many passengers.

Air NZ will issue its regular customers with radio frequency identification (RFID) tags that can stay attached to their bags. RFID baggage can be placed directly on a conveyor belt, the tag enabling the system to identify the passenger, match name with the flight and destination booked, and direct the bag to the appropriate baggage channel.

Baggage check-in will remain available, but passengers with RFID baggage will then be able to proceed directly to the departure gate.

As boarding passes already have bar codes, all passengers will be able to board their aircraft by waving their passes in front of a screen.

The 60 to 70 seats with extended space, intended mainly for frequent flyers and business travellers, will be located in the front rows of the B737s, with the smaller pitch seats to the rear.

Fyfe said Air NZ was looking to expand its valet car parking system for frequent flyers and business customers. With the high price of airport parking, the airline was exploring whether it could provide a more competitively priced service.

For customers travelling less often but paying a top-end fare, Air NZ is considering providing them with free valet parking and access to lounges, which are to be extended. Other changes have already been introduced, with low "Grabaseat" fares extended to all routes, not just those flown by Qantas and Pacific Blue.

In an attempt to make the experience of air travel more enjoyable Air NZ is planning to use the video screens to update news, and provide coverage of destinations.

A "happy hour" is also being considered, with free food and drinks, and the airline is exploring how it might "upgrade its coffee to a cafe standard". Theme flights will be introduced on domestic routes. Three - Flight of the Fairies, MTV and Fashion Week - have been successfully flown across the Tasman.

Fyfe said Air NZ had spent a lot of time taking cost out of the domestic services and was now looking at adding "flavour and character".

One of the challenges, he said, would be to make sure the airport companies and especially the security agency "can work with us and don't become the bottleneck".

The Sydney Morning Herald

Business

Air NZ to scrap cheapies

Mathew Murphy

267 words

7 September 2007

The Sydney Morning Herald

First

37

English

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AS QANTAS and Singapore Airlines send their low-cost carriers into war in the Australian domestic market, Air New Zealand has scrapped its budget service across the Tasman.

Freedom Air, Air New Zealand's low-cost subsidiary, will cease its trans-Tasman services from March 30, with its parent company saying customers wanted better services and not just cheap fares.

Air New Zealand said it would replace Freedom Air's flights with Air NZ services to provide "more consistent and higher quality travel service".

The Tasman accounts for about 20 per cent of Air NZ's business and is the busiest route out of Australia.

Air NZ's general manager of short-haul services, Norm Thompson, said the carrier would spend the next 18 months upgrading its services, including updating in-flight entertainment, increasing space in economy and improving food and beverage menus.

Mr Thompson said the cost of flying had been brought down significantly and there was little need for a separate budget carrier.

"As part of our review we surveyed our frequent trans-Tasman customers and the overwhelming preference was for us to focus on upgrading and enhancing our services," he said.

"The reality is that the price of airfares has fallen dramatically over the past 10 years and today there is little difference between Freedom and Air New Zealand fares."

Freedom Air flies from key New Zealand centres to the Gold Coast, Sydney, Brisbane and Melbourne. The service was established in 1995 to compete against short-lived discount carrier Kiwi International Airlines.



AIR NEW ZEALAND

INTERNATIONAL AIR TRANSPORT ASSOCIATION: ECONOMIC BRIEFINGS



IATA ECONOMIC BRIEFING

PASSENGER AND FREIGHT FORECASTS

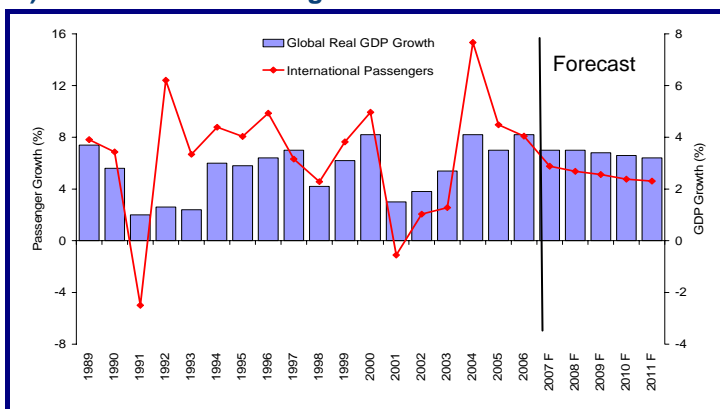
2007 TO 2011

OCTOBER 2007

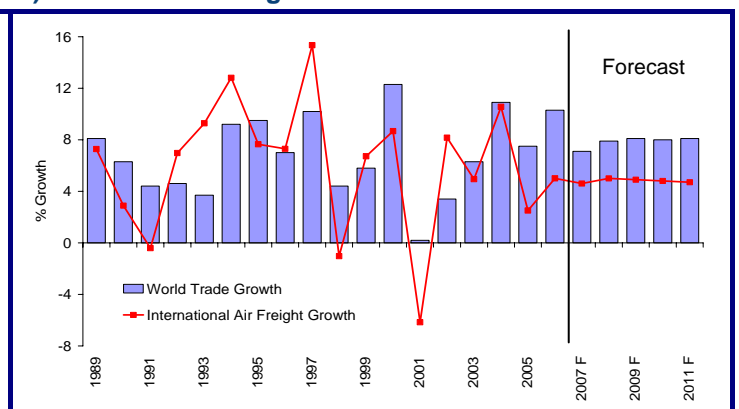
KEY POINTS

- IATA's latest forecast, based upon a comprehensive survey of the airline industry, shows that passenger and freight demand growth will continue to provide a positive boost to airline revenues over the five years to 2011. However, the profile of growth will differ. Compared to 2006 growth levels, international passenger growth is expected to slow slightly, domestic passenger growth to improve slightly and international freight growth to remain at a similar level.
- International passenger volume growth has passed its peak level for the current cycle, but will remain strong. International air passenger numbers are expected to grow at an average annual growth rate (AAGR) of **5.1%** between 2007 and 2011, lower than the average rate of 7.4% seen between 2002 and 2006. Demand growth will be weakened by slightly slower global economic growth, but will also be boosted by the liberalisation of markets and the emergence of new routes and services. Domestic passenger growth is expected to pick-up slightly, led by strong growth in the Chinese and Indian domestic markets. Domestic passenger numbers are forecast to grow at an AAGR of **5.3%** between 2007 and 2011, higher than the average rate of 4.4% seen between 2002 and 2006.
- On the freight side, international air freight traffic is forecast to increase at an AAGR of **4.8%**, lower than the average growth of 6.2% seen between 2002 and 2006, but similar to its 2006 growth level of 5.0%. Freight demand is driven by economic growth, globalisation and trade, but also faces increased competition from other modes such as shipping. The most dynamic freight markets are those associated with economies that are both fast-growing and rapidly integrating into the global economy.
- Airlines are in a better financial position than they were five years ago. But the challenges of the last five years have left the industry with little or no financial safety-net. The next five years offer significant demand growth opportunities for airlines, but competition for that growth will be strong as new capacity increases at an increased rate. Further cost efficiencies, rational capacity management and greater operational flexibility are necessary to translate the improvements already achieved into a stable and profitable industry over the next five years.
- The airline industry, and these forecasts, remain exposed to several risks, ranging from temporary negative impacts (e.g. security scares) to high fuel prices and slower than expected growth in the global economy. These risks, several of which are beyond the industry's direct control, mean that further volatility cannot be discounted. However, the fundamental factors driving growth for both passengers and freight remain reasonably positive.

i) International Passenger Growth and Global GDP



ii) International Freight Growth and Global Trade



Source: IMF, IATA, AF-KLM Cargo

OUTLOOK BY REGION

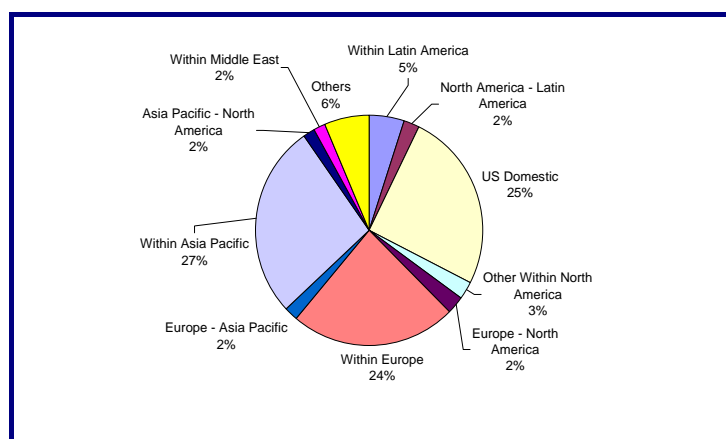
- Regional differences in passenger growth rates will largely reflect differences in regional economic growth and the structure of each regional market. The Middle East, developing economies in Asia and, to a lesser extent, Africa will be boosted by strong GDP growth, along with significant new capacity and new routes. European growth will be close to the average, though Eastern Europe will see a more rapid expansion. Relatively low Latin American growth reflects lower demand growth on key markets to North America and within the region itself. North America is expected to be the slowest growing region, reflecting both mature markets and cyclically slower growth in the US economy.
- The pattern of forecast growth in freight traffic closely follows expected growth in regional economies and trade flows. Routes linked with Asia Pacific, and China and India in particular, are forecast to show particular strength. Middle Eastern air freight is also expected to show strong growth, as the region's carriers take advantage of the current strong purchasing power for the region provided by high oil prices to increase capacity on existing and new routes.

	Average Annual Growth Rate (AAGR) 2007 to 2011	
	Passenger Numbers	Freight Tonnes
TOTAL DOMESTIC	5.3%	-
TOTAL INTERNATIONAL	5.1%	4.8%
Africa	5.6%	4.6%
Asia Pacific	5.9%	5.4%
Europe	5.0%	4.3%
Latin America/Caribbean	4.4%	4.2%
Middle East	6.8%	5.0%
North America	4.2%	3.9%

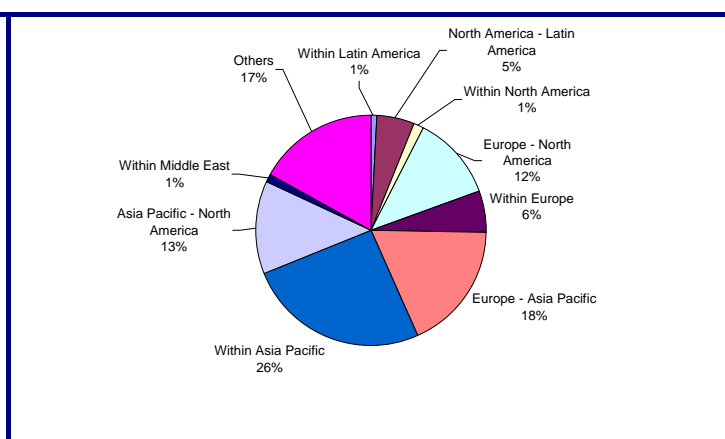
GLOBAL AIR TRAFFIC SHARES IN 2011

- Strong growth in Asia Pacific will see its share of global passenger traffic increase from 23% in 2006 to 27% of the global total of 2.75 billion passengers in 2011. This is equivalent to a 279 million increase in annual passengers within the Asia Pacific region over the five years. It will have a higher share of the global market than the US domestic market, though will still be slightly smaller than the North American market as a whole.
- International air freight volumes will continue to be dominated by Asia Pacific. Freight within Asia Pacific, between Asia Pacific and North America and between Asia Pacific and Europe will account for 57% of the 36 million tonnes of international air freight tonnes in 2011, up from 55% in 2006. However, the majority of this growth is expected to be on the outbound leg from Asia Pacific.

i) Global Air Passenger Shares in 2011



ii) International Air Freight Shares in 2011



KEY DEMAND DRIVERS AND KEY RISKS

- The global economy has and should continue to provide a boost for air passenger and freight demand. Strong growth in developing economies, particularly China and India, will continue to boost the global economy while high energy prices continue to support strong growth in the former Soviet Union and the Middle East. The US economy has slowed, while recent recoveries in Europe and Japan show signs of weaker momentum, but the central case scenario is still for steady and positive global economic growth over the forecast period.
- Over the next five years, developing economies will make a greater contribution towards air traffic growth. The increase in disposable incomes for a large population within China and India will boost the demand for air travel. However, because incomes are growing from relatively low levels, air traffic growth may initially be focused on domestic and short-haul travel with long-haul travel developing over the medium to long-term.
- Liberalisation, greater choice and lower fares will also be key factors influencing an increase in passenger demand over the forecast period. Liberalisation can provide substantial benefits for passengers, businesses and the wider economy. Further liberalisation of operational and ownership restrictions is not an easy process, but it can be a very beneficial one. It can protect and enhance consumer benefits, in terms of greater choice and lower fares, while also allowing airlines to allocate capital more efficiently.
- Record new aircraft orders were placed by the airline industry in 2005 and 2006. The large numbers of new orders represent strong confidence in the future prospects of the global airline industry. However, they also increase the risk of excess capacity in some areas or routes, as the new capacity is delivered over the next few years. Airlines will need to continue to match planned capacity increases to achievable rather than optimistic demand growth projections, helping to support profit as well as volume growth.
- On the freight side, imbalances in global trade patterns feed through into imbalances in demand for air freight with, for example, significantly higher demand on the outbound leg from Asia than on the return leg. Airlines are having to seek new cargo types or to have multiple stops on the return leg in order to improve return load factors.
- Longer-term uncertainties also exist on the supply side, largely relating to airport congestion and increased security requirements. Expansion of traffic could be constrained by congestion at some large airports. At the same time, increased airline and airport security requirements could impact on demand if they translate into higher costs for passengers and longer door-to-door delivery times for freight.
- The industry is aware of the need to deliver future growth in an environmentally responsible way. Airlines have made significant progress in reducing their environmental impact but, as a growing industry, the impact on the environment remains a serious issue. They are determined to be part of the solution. On current plans, airline fuel efficiency is expected to improve by at least a further 25% by 2020. There is a clear vision towards a zero emissions future.
- Even under the forecast growth scenario, the average return on capital invested in the airline industry will still be below its cost of capital, i.e. the competitive and sustainable level of return for investors. Liberalisation, efficiency and greater sharing of risk and reward in the wider aviation industry are required to ensure that long-term investment – and the substantial benefits for customers and the wider economy this brings – is attracted in a sustainable manner.

IATA Economics
October 2007

E-Mail: economics@iata.org

IATA ECONOMIC BRIEFING

JUNE 2007

AIRLINE PROFITABILITY - 2006

- Global airline profitability improved significantly in 2006 as airlines benefited from a strong revenue growth, further cost efficiencies and careful capacity management. Industry-wide operating profit is estimated to have increased from \$4.3 billion in 2005 to \$13.0 billion in 2006 (a 2.9% operating profit margin). A \$36 billion increase in industry revenues more than offset the additional \$21 billion in fuel costs faced by airlines in 2006 due to high fuel prices.
- Operating profitability improved across a range of individual airlines. A sample of 92 leading airlines – who account for 88% of global passenger traffic and the vast majority of global freight volumes – shows that:
 - Fifteen airlines made operating profits of more than US\$ 500 million (compared to 8 in 2005), with five earning over US\$1 billion (3 in 2005). Eighteen airlines made operating losses (20 in 2005), with five losing more than US\$100 million (9 in 2005).
 - US airlines saw the strongest improvement in operating profitability. Twelve US airlines made operating profits of more than \$100 million (5 in 2005), while only four US airlines made operating losses (9 in 2005). Elsewhere, a depreciation in the US dollar provided a slight boost to the US\$ value of several non-US airlines' profits. Nevertheless, local currency profits also increased at several European and Asia-Pacific network airlines, who remain among the highest profit generators.
 - Sixteen airlines enjoyed an operating profit margin (profit as a percentage of revenues) of over 10%. Several no-frills operators are among those with the highest margins, with Ryanair having the highest margin. But some saw relatively low margins while numerous other no-frills airlines, not included in this sample, are loss-making.
 - High profit margins can be obtained across a range of business models, not just no-frills operations. Large network airlines, smaller network airlines, regional feeder airlines and cargo airlines all appear among the top 30 airlines. Each major geographical region has at least one airline with a profit margin of more than 10%.
- There is a slight positive correlation between the size of an airline and the level of profit (see Chart 1). However, several exceptions ensure that the correlation of size with absolute profits is not a rule. There is no correlation at all between size and profit margins (see Chart 2). The divergence of operating profit margins demonstrates the influence of a wide range of strategic, cost and management factors on profits, but no clear link with size.
- Future consolidation in the industry can help to improve efficiency and profitability, but the lack of correlation between size and profitability shows it will not do it through scale alone. The strategic focus of such consolidation needs to be on identifying ways to boost margins rather than just on capturing revenue and traffic market share.

Chart 1: Revenues and Operating Profit

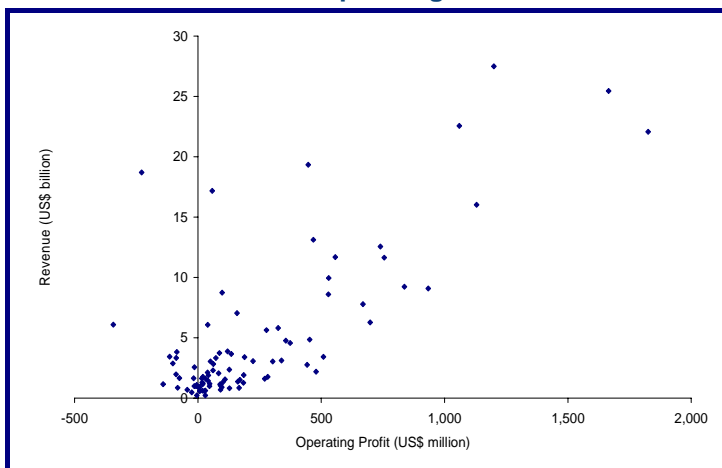
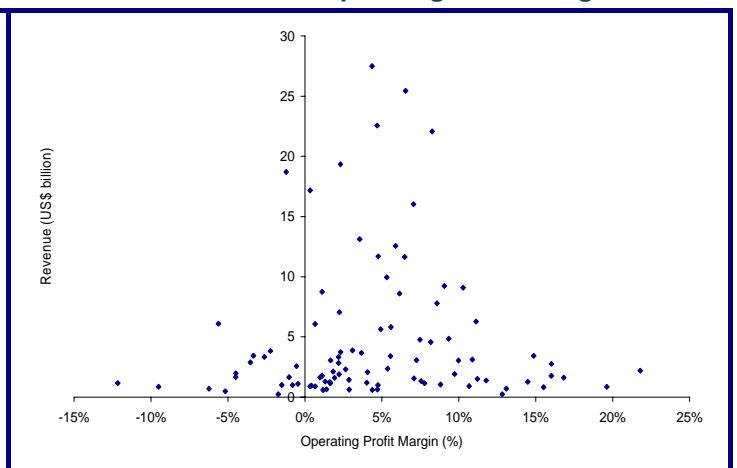


Chart 2: Revenues and Operating Profit Margin



OPERATING PROFITS BY AIRLINE

Table 1: Top 30 Airlines by Operating Profitability (2006 unless otherwise stated)*

By Total Operating Profit			By Operating Profit Margin		
Rank	Airline	US\$ m	Rank	Airline	%
1	FedEx (Year to May 2006)	1,825	1	Ryanair (Year to Mar 07)	21.1
2	Air France-KLM (Year to Mar 07)	1,591	2	COPA Airlines	19.6
3	British Airways (Year to Mar 07)	1,130	3	Hainan Airlines	16.8
4	Lufthansa Group	1,083	4	Aeroflot	16.0
5	American Airlines	1,060	5	Gol Linhas Aereas	16.0
6	Emirates (Year to Mar 07)	960	6	Pinnacle Airlines	15.5
7	Southwest	934	7	TAM Linhas Aereas	14.9
8	Singapore Airlines (Year to Mar 07)	837	8	Shanghai Airlines	14.5
9	All Nippon Airlines (Year to Mar 07)	787	9	Kenya Airways (Year to Mar 06)	13.1
10	Northwest Airlines	740	10	Air Asia (Year to Jun 06)	12.8
11	Cathay Pacific	659	11	Jet Airways (Year to Mar 06)	11.8
12	Ryanair (Year to Mar 07)	605	12	Emirates (Year to Mar 07)	11.3
13	US Airways (incl. America West)	557	13	Westjet	11.2
14	Qantas (Year to Jun 06)	530	14	Skywest Airlines	10.9
15	Korean Airlines	529	15	Southwest Airlines	10.3
16	TAM Linhas Aereas	509	16	Lan Airlines	10.0
17	Continental Airlines	468	17	American Eagle	9.7
18	Thai Airways (Year to Sep 06)	453	18	Thai Airways (Year to Sep 06)	9.3
19	United Airlines	447	19	Singapore Airlines (Year to Mar 07)	9.1
20	Aeroflot	443	20	Virgin Blue (Year to Jun 06)	8.8
21	UPS Airlines	374	21	Cathay Pacific	8.6
22	China Eastern	356	22	FedEx (Year to May 06)	8.3
23	Skywest Airlines	339	23	UPS Airlines	8.2
24	Air China	325	24	Philippine Airlines (Year to Mar 06)	8.2
25	Lan Airlines	303	25	Avianca	7.8
26	Gol Linhas Aereas	283	26	Mesa Airlines	7.6
27	SAS	278	27	China Eastern	7.5
28	Hainan Airlines	271	28	Easyjet (Year to Sep 06)	7.3
29	Easyjet (Year to Sep 06)	223	29	Cargolux	7.1
30	Swiss	189	30	British Airways (Year to Mar 07)	7.1

Source: Ascend Financial Database, IATA

* Note: The figures are taken from published accounts and refer to operating profits. There will be slight differences in accounting policies across different countries. In addition, in some cases (e.g. Lufthansa Group) the Earnings Before Interest and Taxes (EBIT) will be significantly higher than operating profit, largely reflecting income from investments in subsidiary and associate companies.

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