

# Briefing Paper

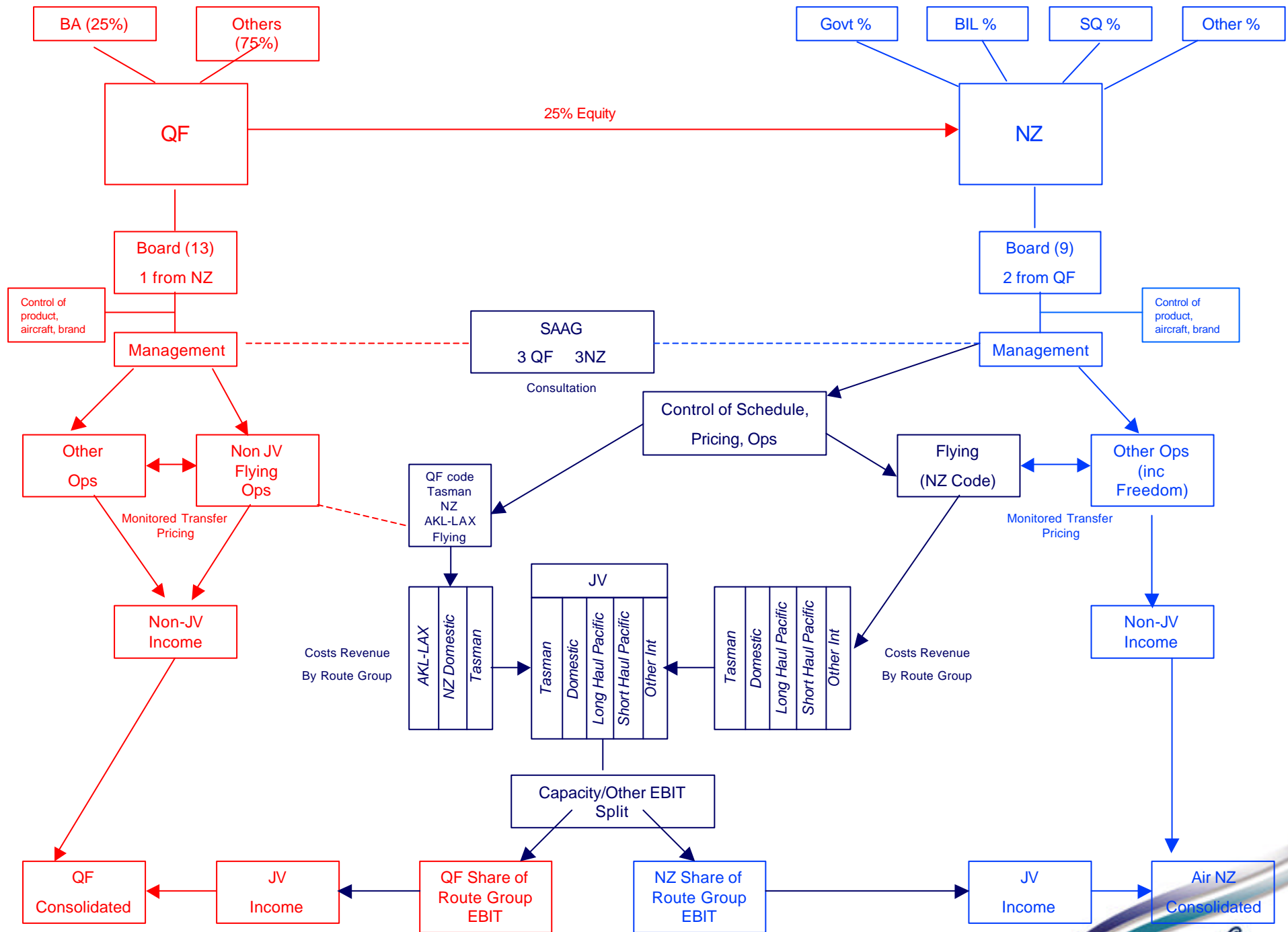
5 July 2002



# Outline

- Proposed Structure
- Where We Are At Commercially
- Logic Of The Transaction
- Preliminary Benefits
- Analysis Overview



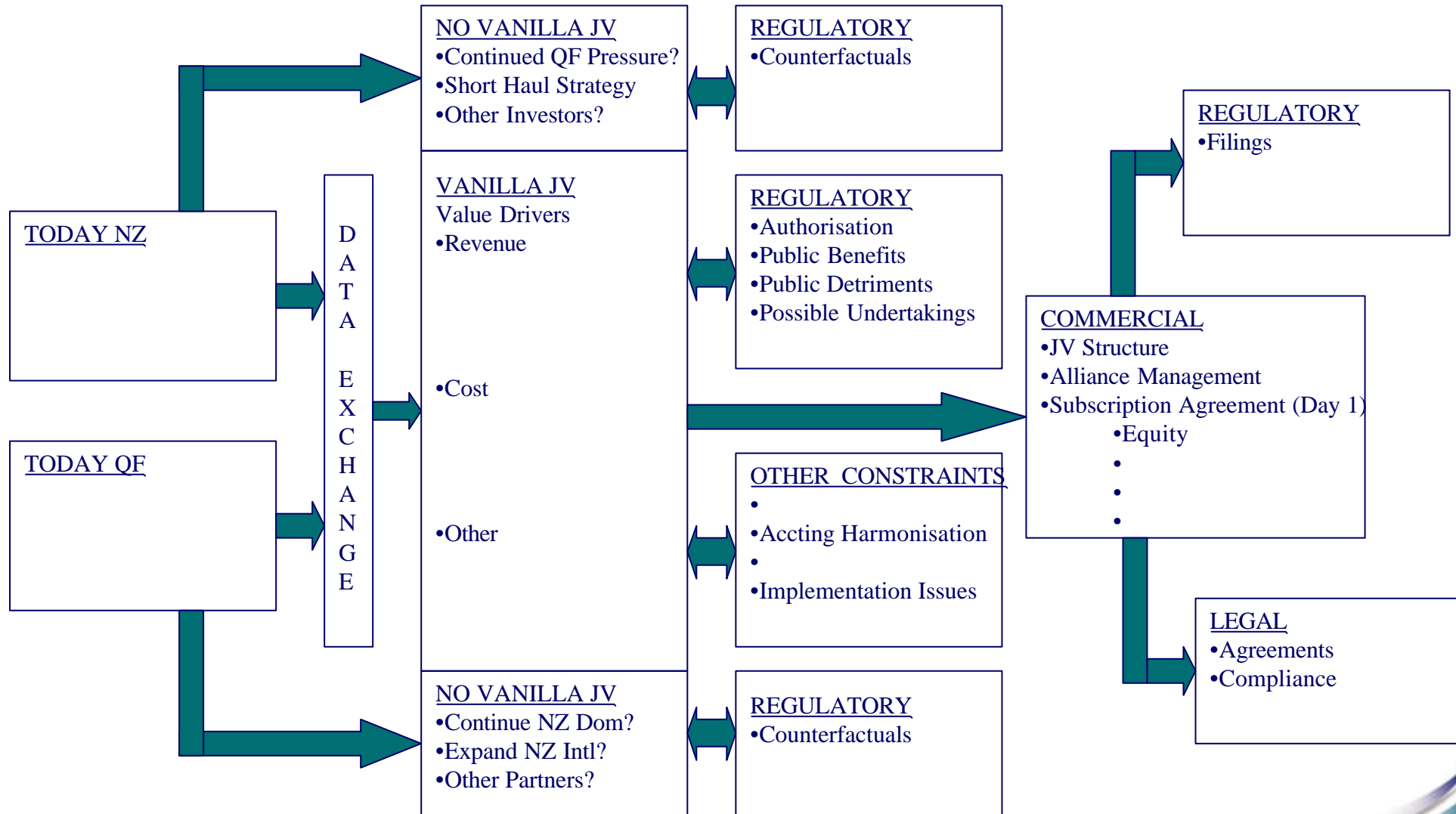


# Where We Are At Commercially



DEVELOP

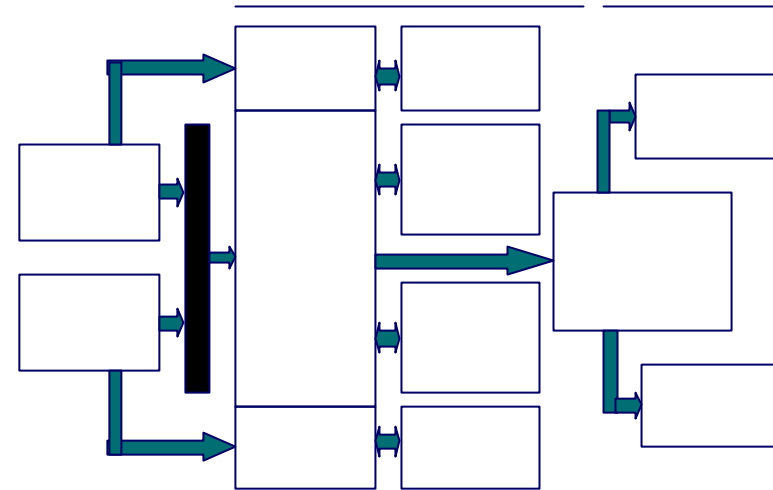
IMPLEMENT



# Where We Are At Commercially

## → Data Exchange

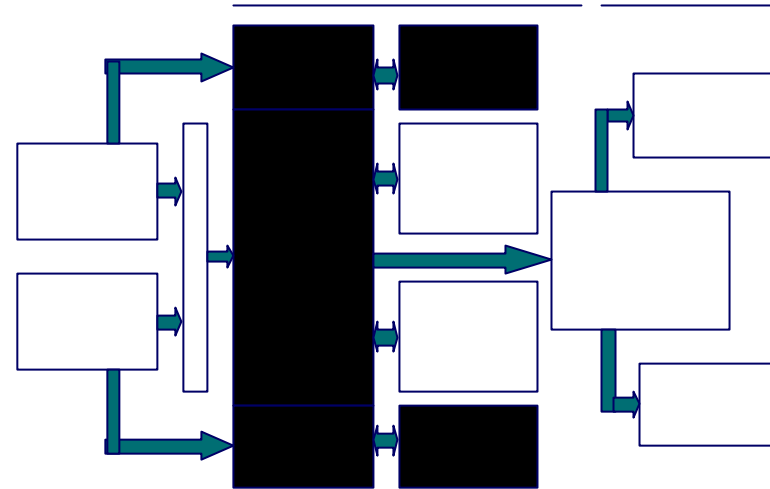
- Company to Company
  - Financial Modelling
  - Economic Modelling
  - Due Diligence
- Companies to NECG
- Companies to GRA



# Where We Are At Commercially

## → Counterfactuals and Factuals

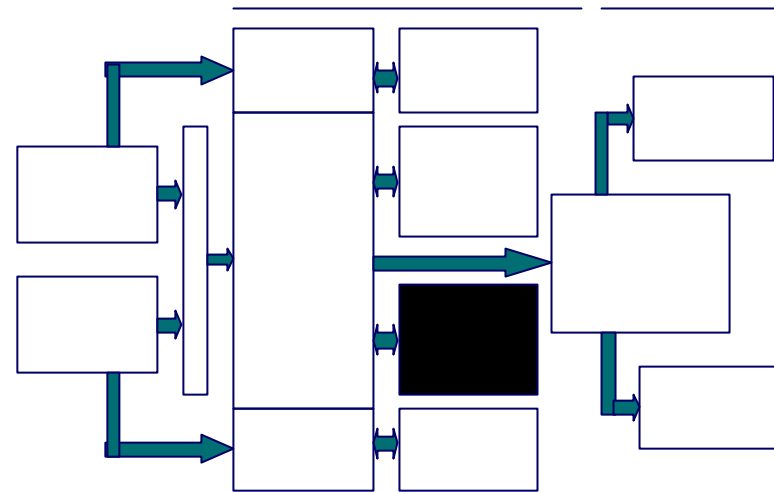
- Commercial Logic
- Preliminary Values



# Where We Are At Commercially

## → Other Constraints

- 
- Accounting Harmonisation
  - FFP
  - Aircraft Charges
- 
- Implementation Issues
  - IT





# Where We Are At Commercially

## → Commercial

### ➤ JV Structure

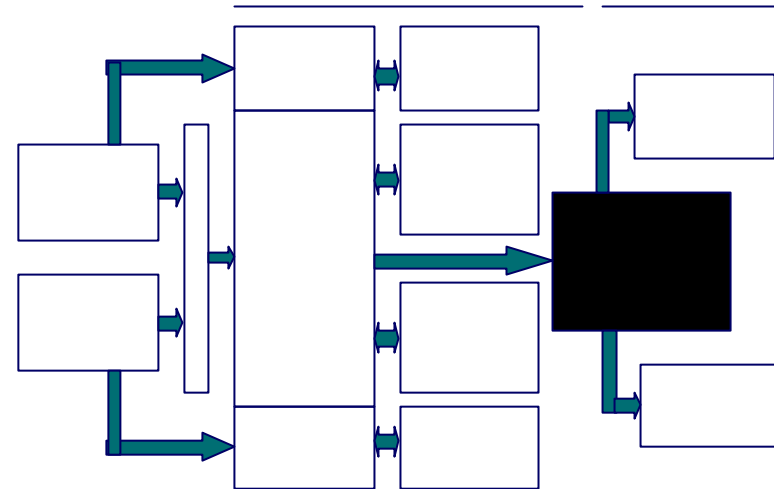
- Going In Value Debate
  - » Annualisation of Jan - Mar Quarter
- Share of Improvements

### ➤ Alliance Management

- SAAG Document Agreed
- Code of Conduct Agreed

### ➤ Subscription Agreement

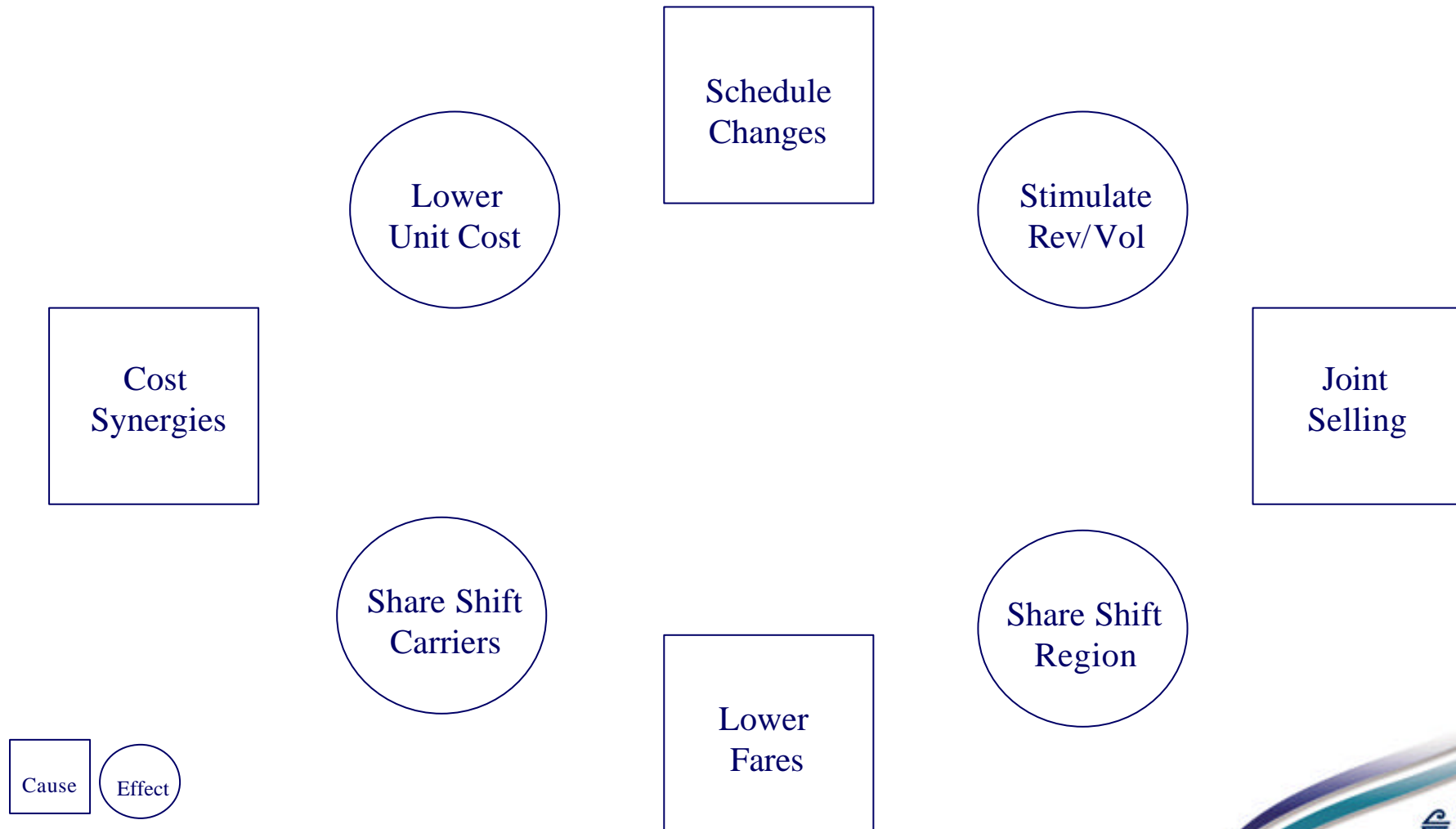
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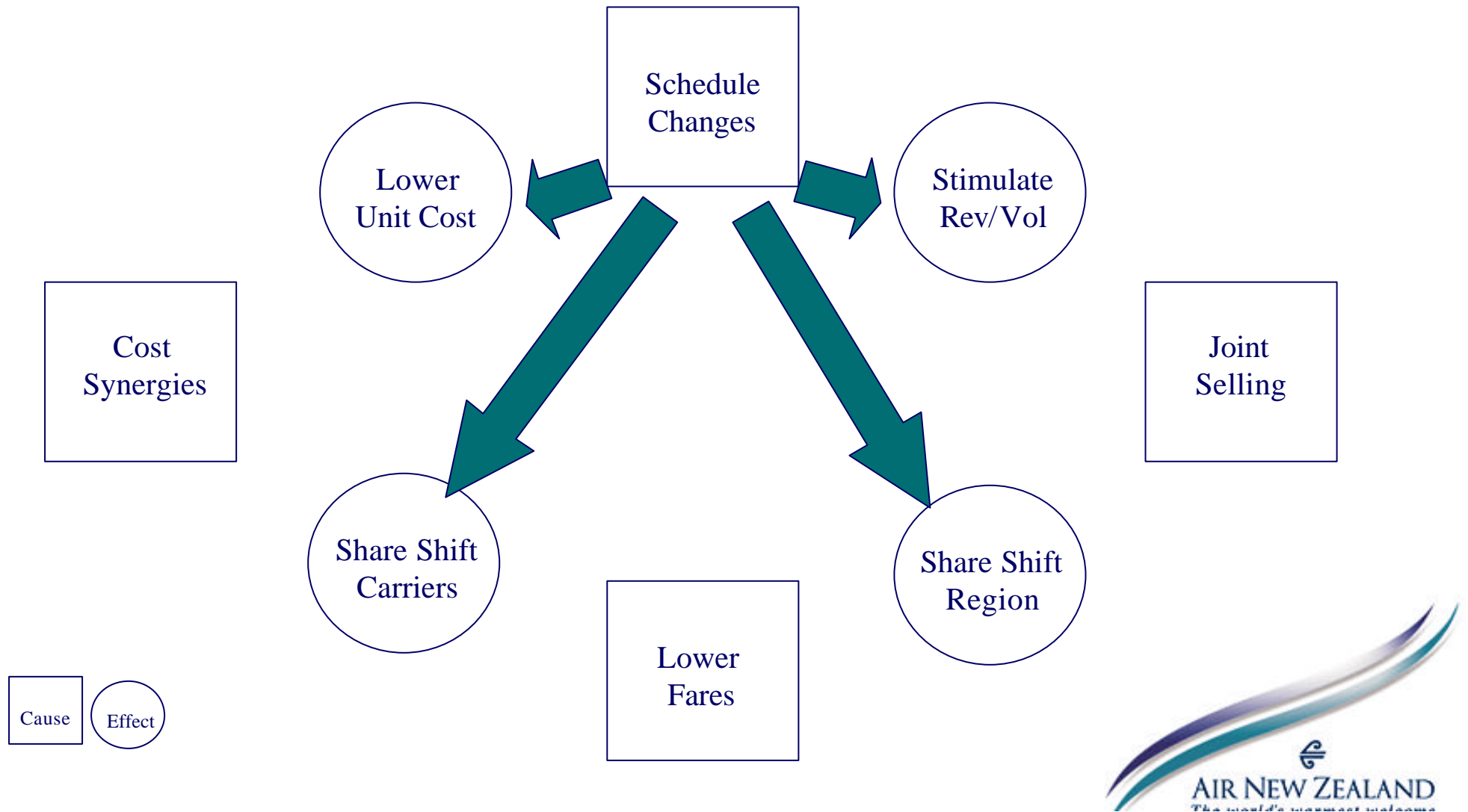
# Logic Of The Transaction



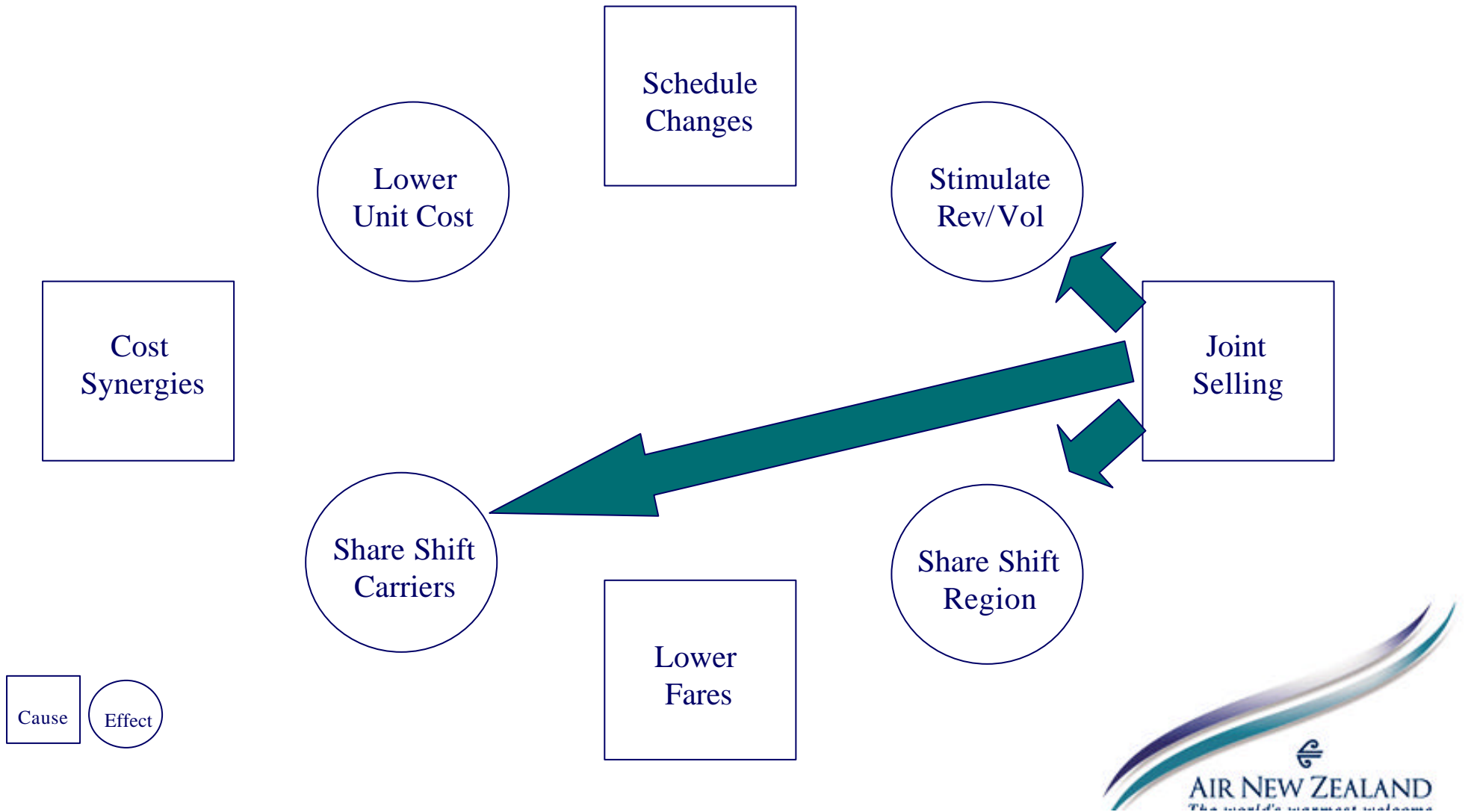
# Commercial Logic



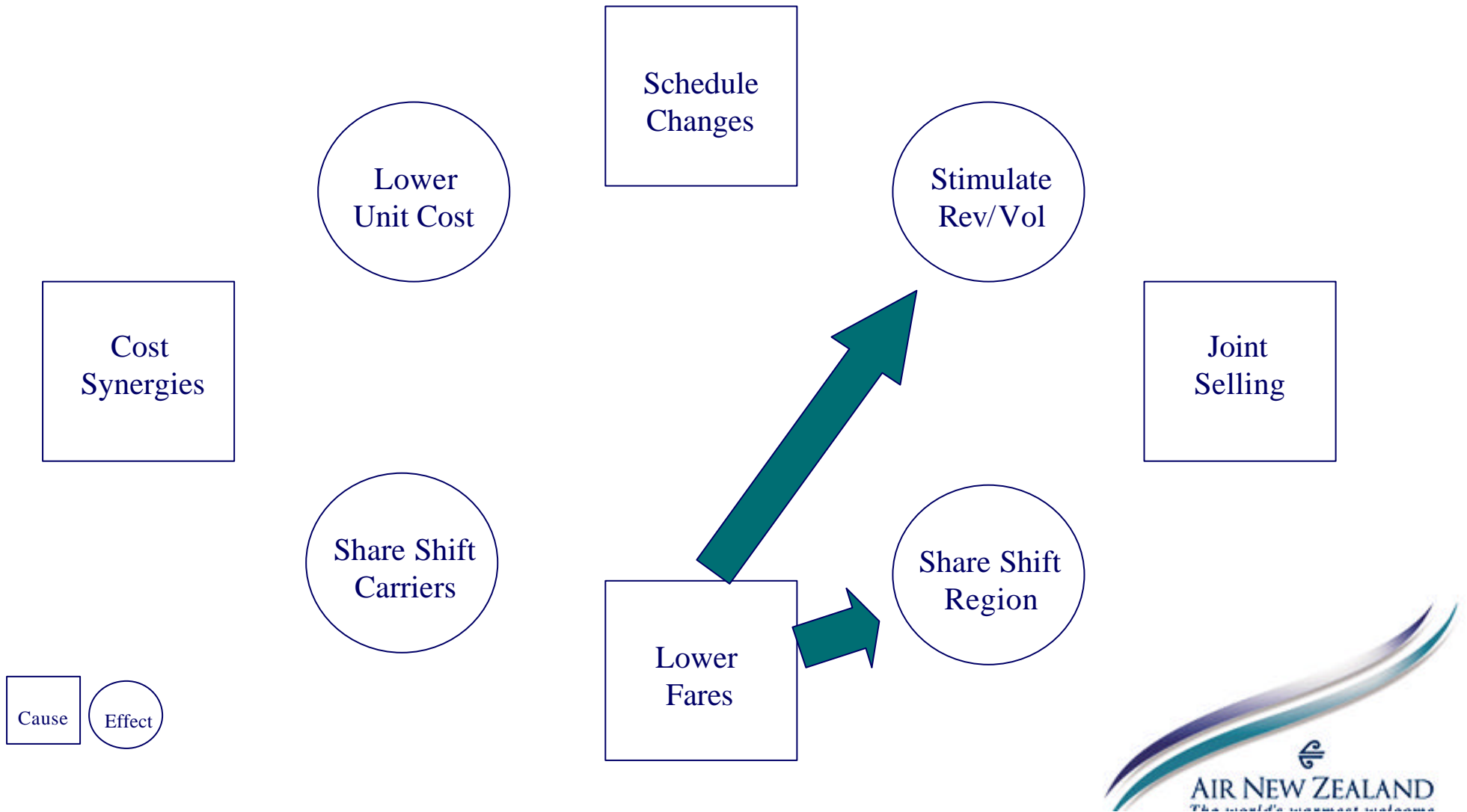
# Commercial Logic



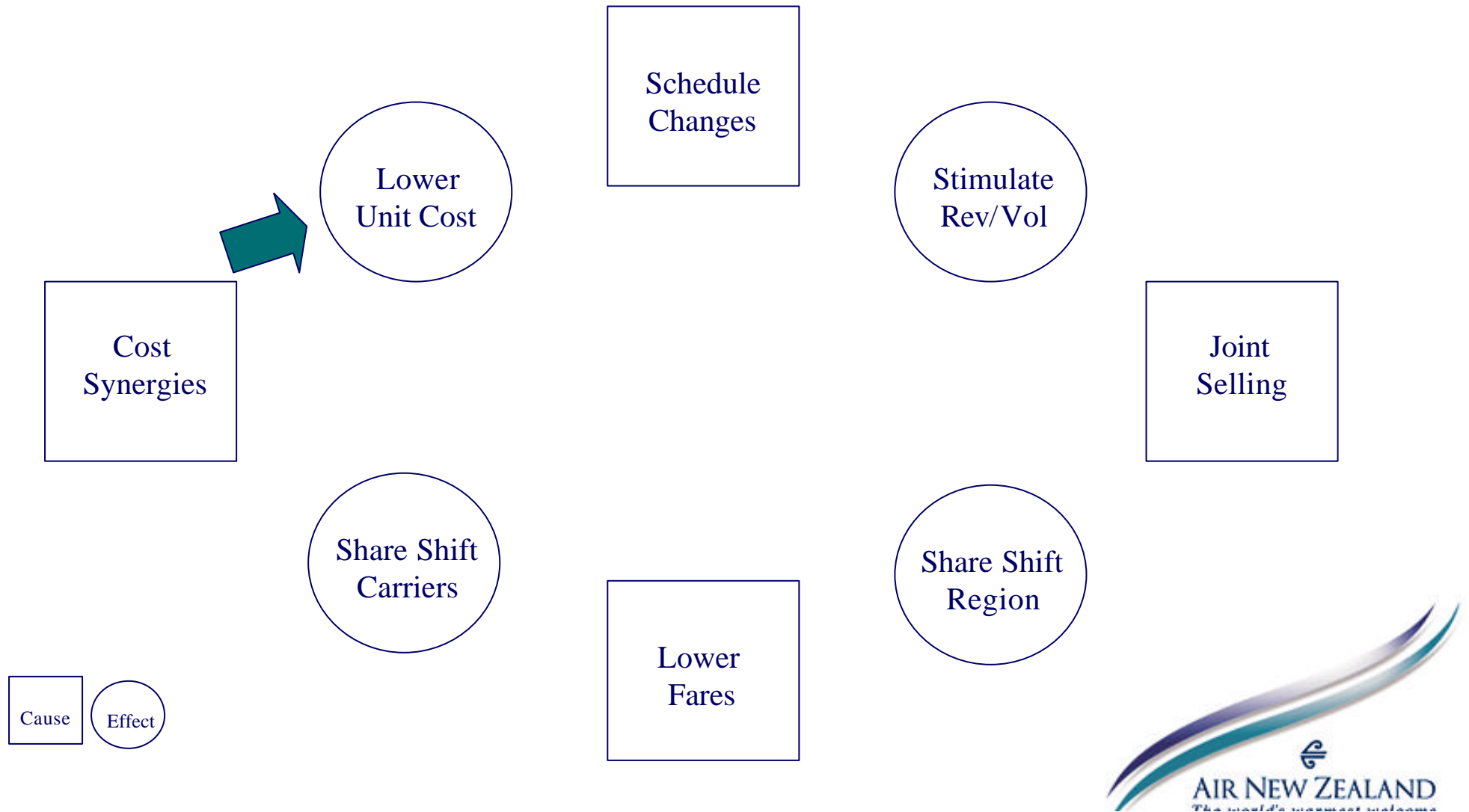
# Commercial Logic



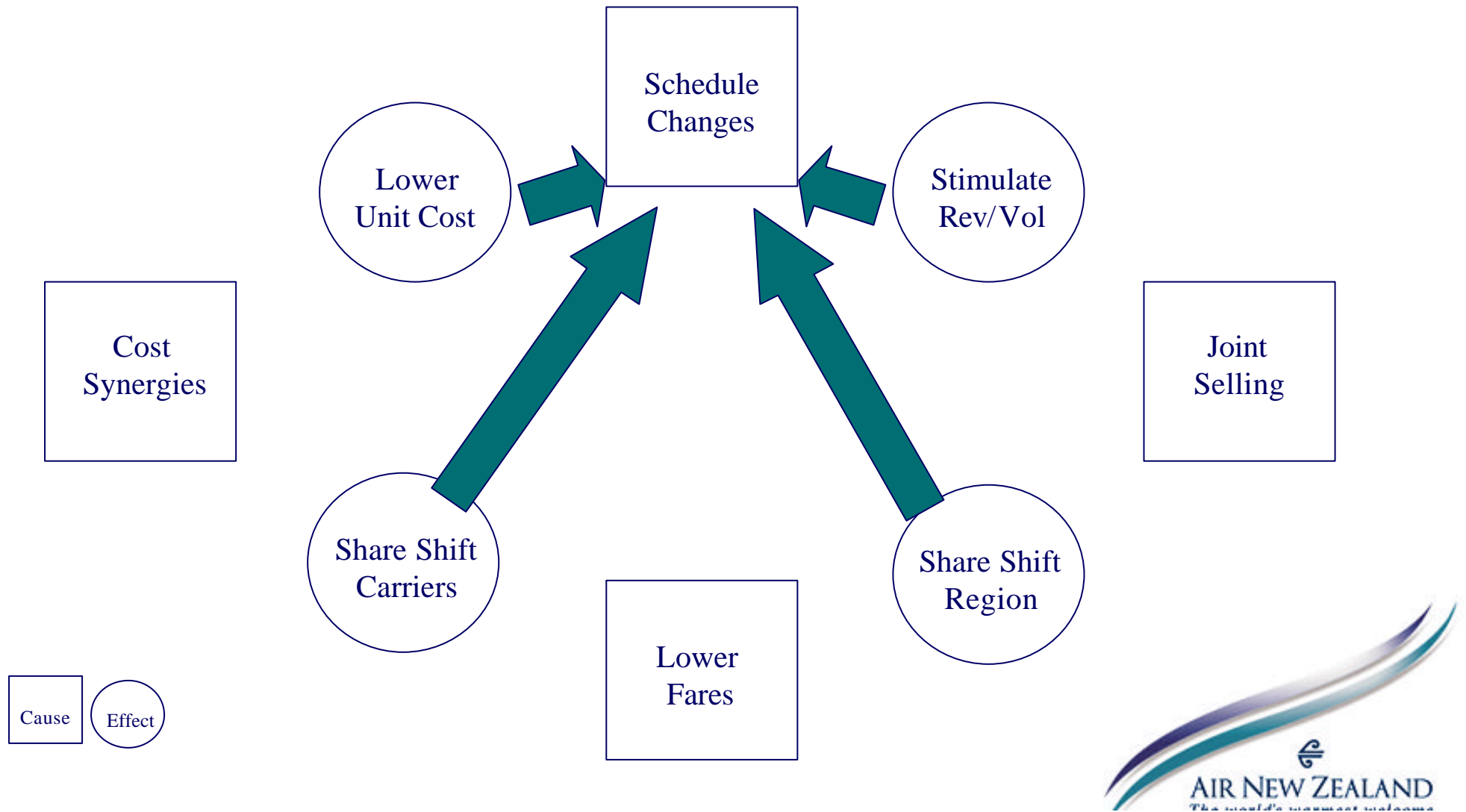
# Commercial Logic



# Commercial Logic

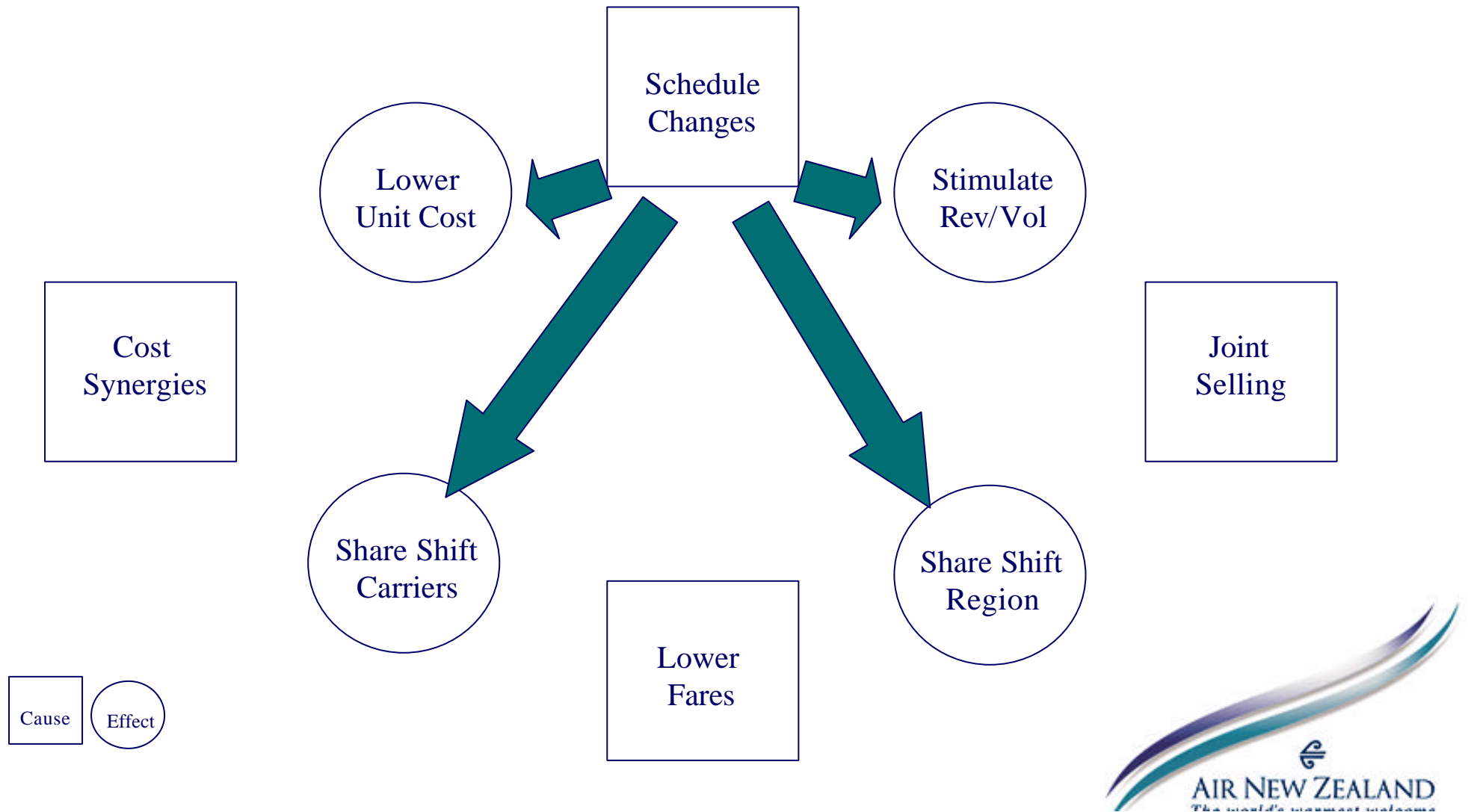


# Commercial Logic

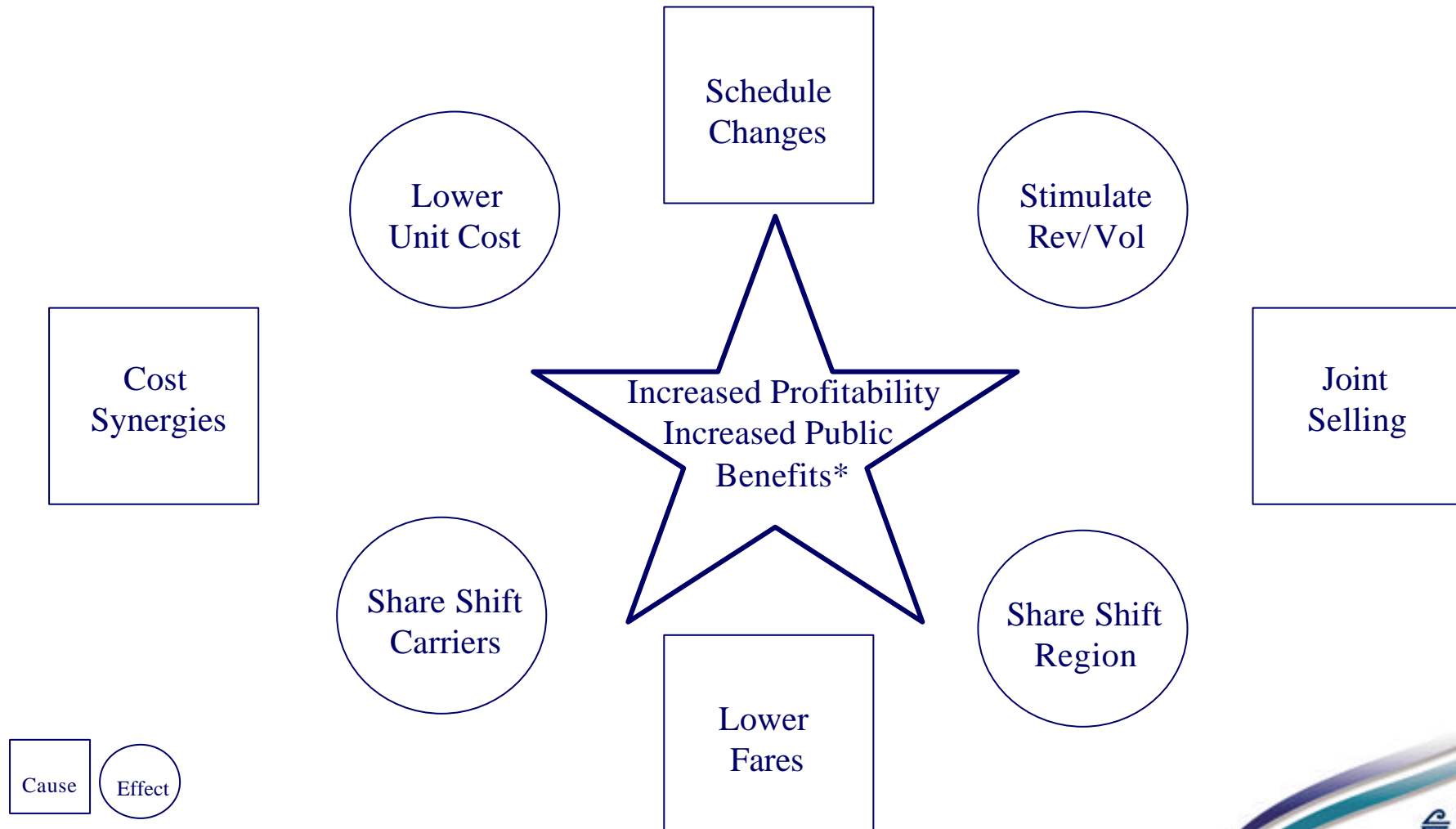




# Commercial Logic



# Commercial Logic



\* Excluding other public benefits such as VBA entry, multiple products, etc.

# Commercial Logic

CAUSES	AIRLINE EFFECTS				CONSUMER EFFECTS			
	Stimulate Revenue	Stimulate Volume	Share Shift From Other Regions	Share Shift From Other Carriers	Lower Unit Cost	More Trips	Lower Fares	Better Service
Schedule Change: Frequency and Timings	Green	Green	Green	Green	Green	Green	Yellow	Green
- New Nonstops	Green	Green	Green	Green	Green	Green	Yellow	Green
- Schedule Spread	Green	Green	Green	Green	Green	Green	Yellow	Green
- Increased Connections	Green	Green	Green	Green	Green	Green	Yellow	Green
- Increased Daily Services	Green	Green	Green	Green	Green	Green	Yellow	Green
Schedule Change: Aircraft Type	Yellow	Green	Green	Green	Green	Green	Yellow	Green
Schedule Change: Increased Capacity	Yellow	Green	Green	Green	Green	Green	Yellow	Green
Synergy Cost Savings	Yellow	Green	Green	Green	Green	Green	Yellow	Green
- Infrastructure/Overhead/etc.	Yellow	Green	Green	Green	Green	Green	Yellow	Green
- Despeced Product	Yellow	Green	Green	Green	Green	Green	Yellow	Green
- Increased Aircraft Utilisation	Yellow	Green	Green	Green	Green	Green	Yellow	Green
Joint Selling	Green	Green	Green	Green	Green	Green	Yellow	Green
- Better Marketing	Green	Green	Green	Green	Green	Green	Yellow	Green
- Reduced Spill	Green	Green	Green	Green	Green	Green	Yellow	Green
Lower Fares	Green	Green	Green	Red	Green	Green	Yellow	Green

LEGEND

Green	Positive
Yellow	Neutral
Red	Negative



# Benefit Modelling

Modelling the proposed JV is done at a sector level to incorporate these steps



# Assumptions

- Schedule departure spread
  - Share shift
  - Market Growth
  - Connectivity
  - Optimum Spread Levelling
- QSI Market growth factor
- Compound Annual market growth
- Joint Selling Benefit
- Daily service yield increase
- Load Factor Range
  - Elasticity
- Spill 'K' factor
- QF average fare premium

NUMBERS  
REMOVED  
FOR  
COMMERCIAL  
SENSITIVITY

# Current Situation (Base)

The current situation with is both inefficient and doesn't provide the optimal service to consumers

	✓	✗
<b>Capacity</b>		Inefficient
<b>Schedules</b>		Inflexible
<b>C/ASK</b>		Overlapping
<b>R/ASK</b>		Unserved Markets
<b>Profitability</b>	Medium	High
<b>Service</b>		Medium
		Poor
		Sub-optimal

# JV Improvements

More efficient capacity and schedules improves profitability of both carriers and the service to the consumer

	✓	✗
<b>Capacity</b>	Efficient	
	Flexible	
<b>Schedules</b>	Improved Spread	
	New Markets	
<b>C/ASK</b>	Low	
<b>R/ASK</b>	Medium	Medium
<b>Profitability</b>	High	
<b>Service</b>	Optimal	
<b>Synergies</b>	Aircraft Utilisation	

# New Markets

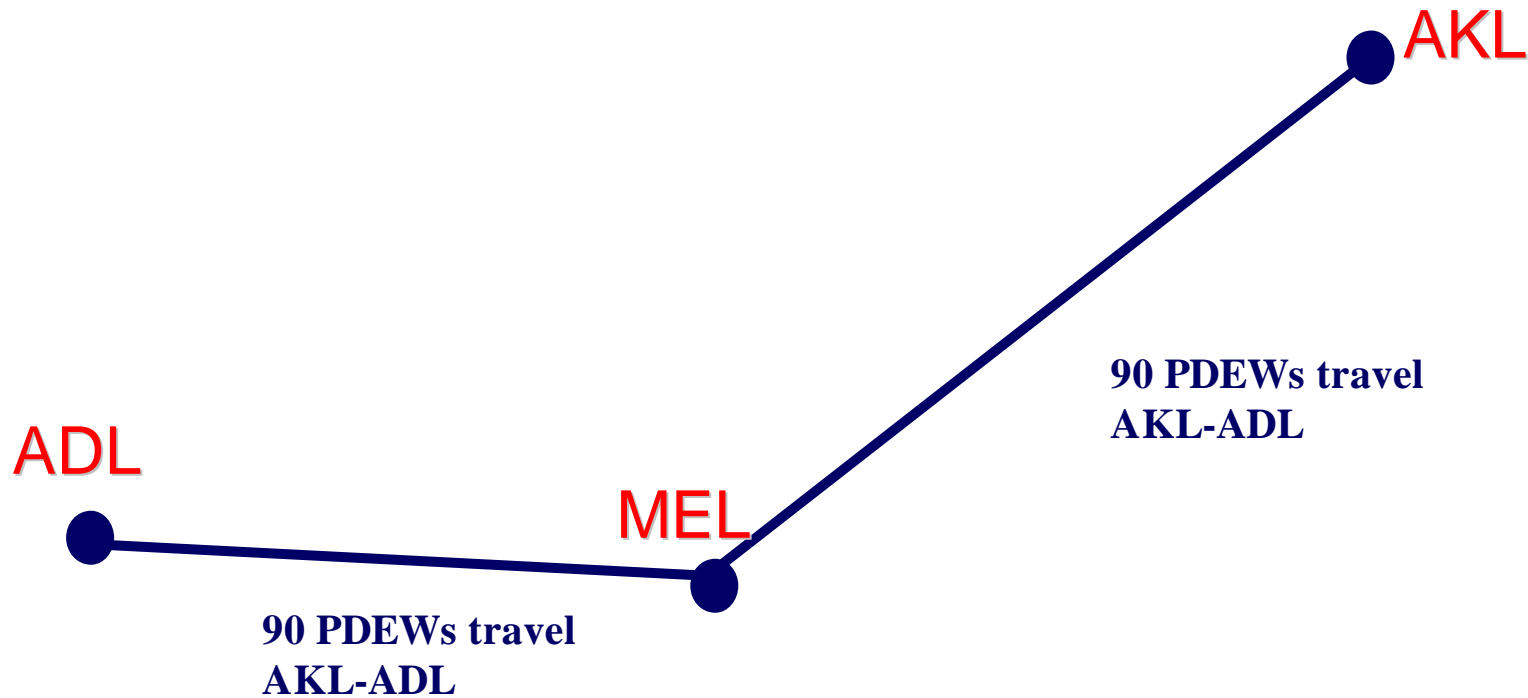




# Capacity Efficiency

Currently 90 PDEWs travel AKL-ADL

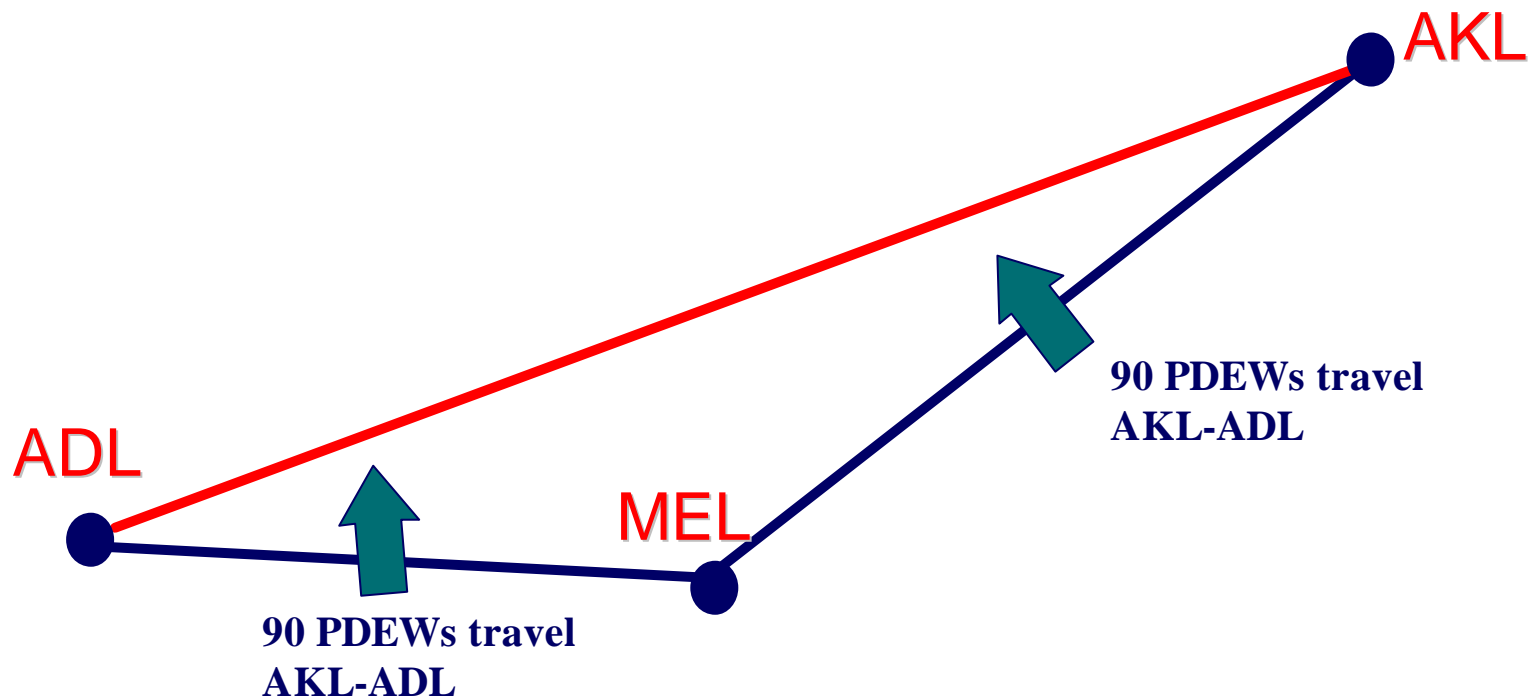
These pax travel on both NZ & QF making a direct service by either carrier unsustainable. With no direct service the easiest connection is via MEL



# Capacity Efficiency

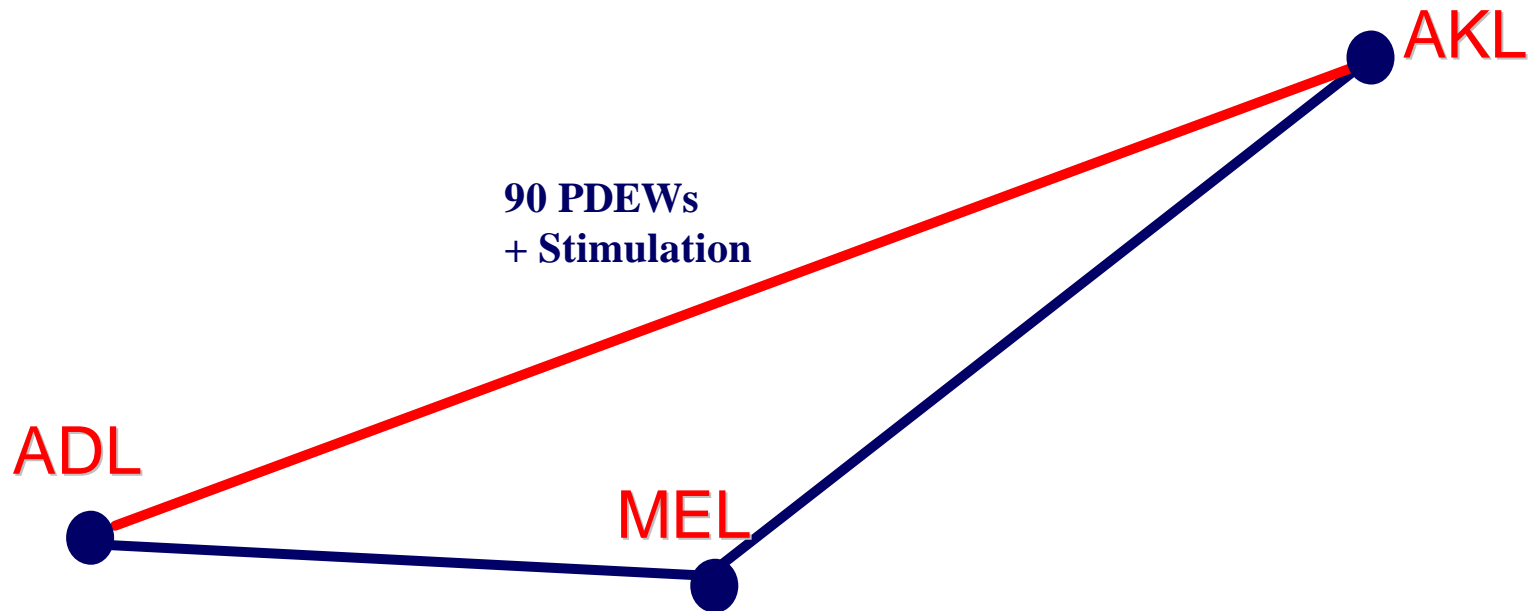
A JV allows the operation of a direct service

This removes 90 pax from AKL-MEL & MEL-ADL flights



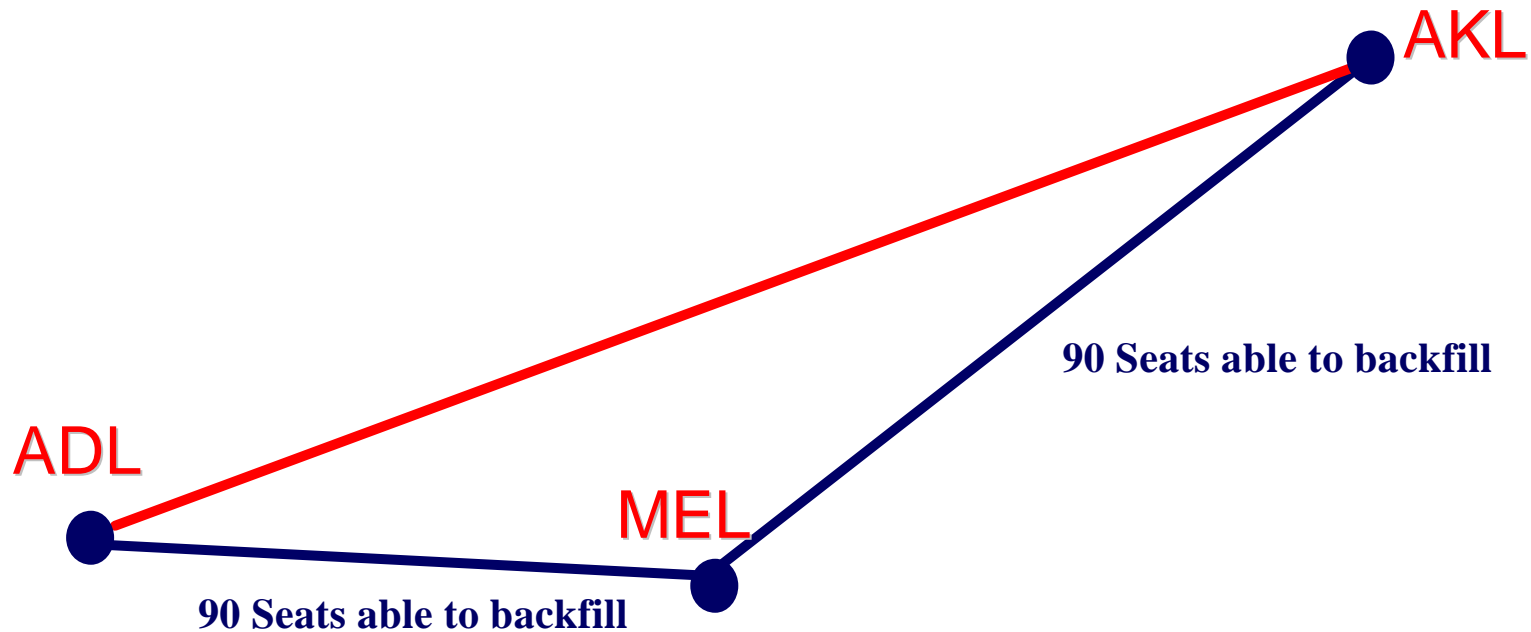
# Capacity Efficiency

Adding a direct service stimulates traffic between the two cities - this improves revenue on the service



# Capacity Efficiency

The carriers can now backfill seats on the AKL-MEL and MEL-ADL sectors  
Spill is reduced, and overall network revenue increased



# Overlapping Schedules



# MEL/AKL Schedule : 22 - 28 July 2002

The current AKL-MEL schedule has both carriers departing at similar times twice per day. This can be increased to 4 unique times per day

**AKLMEL**

Flight		Dep	Arr	DOW	Aircraft
Airline	No				
QF	34	625	820	1234567	767
NZ	121	630	830	1234567	767
NZ	125	1530	1730	1234567	767
QF	134	1615	1810	1234567	767

**MELAKL**

Flight		Dep	Arr	DOW	Aircraft
Airline	No				
NZ	122	930	1500	1234567	767
QF	33	935	1500	1234567	767
NZ	126	1830	2355	1234567	767
QF	39	1925	0050*1	1234567	767

**AKLMEL**

Flight		Dep	Arr	DOW	Aircraft
Airline	No				
QF	34	625	820	1234567	767
NZ	121	0900	1100	1234567	767
QF	134	1615	1810	1234567	767
NZ	125	1800	2000	1234567	767

**MELAKL**

Flight		Dep	Arr	DOW	Aircraft
Airline	No				
QF	33	0935	1500	1234567	767
NZ	122	1200	1700	1234567	767
QF	39	1925	0050*1	1234567	767
NZ	126	0000	0500	1234567	767



# Increased Connectivity

Increasing the unique timings on the AKL-MEL sector increases connectivity

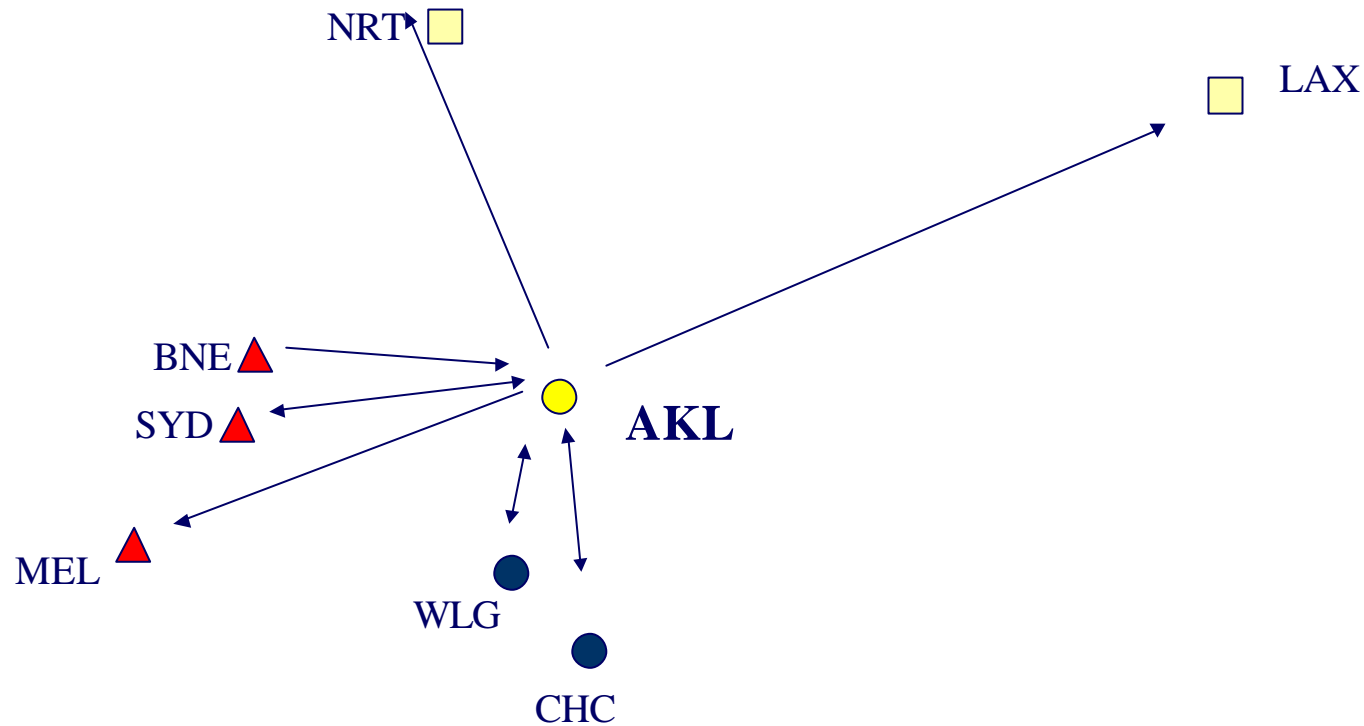
Airline	Flight No	Dep	Arr	DOW	Aircraft
QF	34	625	820	1234567	767
NZ	121	0900	1100	1234567	767
QF	134	1615	1810	1234567	767
NZ	125	1800	2000	1234567	767

## Connections in MEL

ADL	PER	HBA	LST	DPO	BWT	ABX	MGB	TOTAL
1	1	1	1	1			1	6
1	1	1	1	1	1	1	1	8
1	1*	1		1	1			5
	1*	1						2

# Limited Connectivity

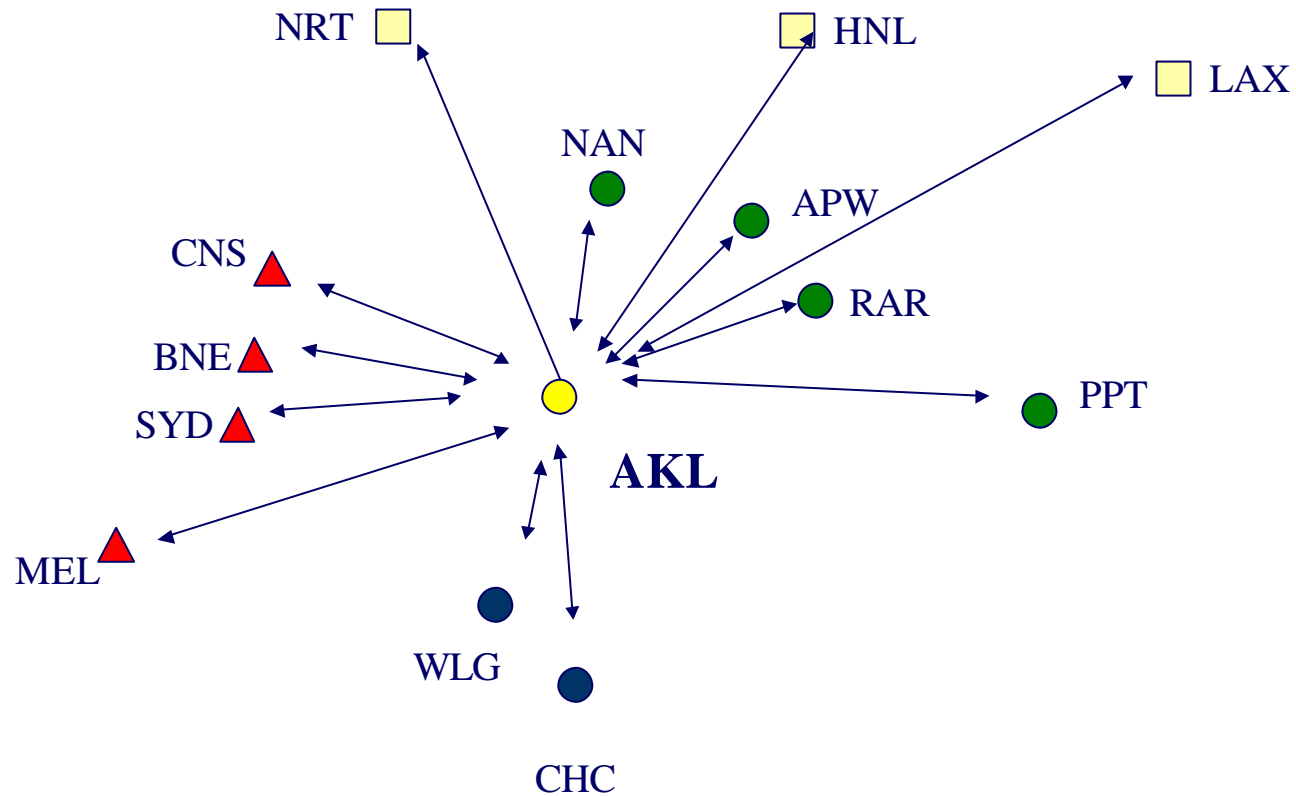
A base network connects traffic from key cities





# increased Connectivity

Increasing connections results in stimulated revenue and share shift



# Share Shift

An 'S' curve principle applies to capacity and frequency share - resulting in a revenue premium

**Current Situation**

Airline	A	B	C	Market
Market Share	34%	33%	33%	100%
Profit Margin	15%	10%	5%	10%

**B & C Combine**

Airline	A	Combined	Market
Market Share	34%	66%	100%
Profit Margin	15%	7.5%	10%

**B & C Change Schedules**

Airline	A	Combined	Market
Market Share	30%	70%	100%
Profit Margin	10%	10%	10%



# Cost Reduction



# Unit Cost

Upgauging to larger aircraft reduces the cost per seat

## Network Unit Cost Variance

	Full Cost	ASKs	Full Unit Cost
Base			
Factual			
Variance			

## Tasman Unit Cost Variance

	Cost (NZ\$Million)	ASKs (Billion)	Unit Cost
Base			
Factual			
Variance			



# JV Network Impact

Modelling the proposed JV produces the following benefits - totalling \$ m

GRAPH REMOVED FOR COMMERCIAL SENSITIVITY



# Network & Tasman JV Benefits

The benefit on the Tasman is \$ m

GRAPH REMOVED FOR COMMERCIAL SENSITIVITY



# Total Network JV Benefits

TABLE REMOVED FOR COMMERCIAL SENSITIVITY



# Tasman JV Benefits

TABLE REMOVED FOR COMMERCIAL SENSITIVITY





# Company Benefits

## → Revenue Stimulation

- More efficient use of capacity
- Increased Market Share results in revenue and share premium
- Joint Selling stimulates revenue and encourages share shift
- Improved city presence results in market share shift
- Beyond revenue from improved connectivity
- Revenue stimulated by serving new markets
- Reduced Spill

## → Cost Savings

- Lower unit cost
- Fleet flexibility (improved utilisation and deployment)



# Public Benefits

- Lower Fares
- Better Service
  - More direct flights (new markets)
  - Increased frequency (choice of departure times)
  - Improved connectivity
  - Increased daily services
  - Reduced spill (greater chance of preferred departure day / time)
  - Improved interlining
- Larger aircraft preferred



# Analysis Overview

