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CAMERON & COMPANY
Investment Bankers

memo

To:	Kirsty Flannagan
From:	Murdo Beattie
Date:	**16 December 2002**
Subject:	**Domestic Profitability**

- Domestic profitability ($m) was as follows:
  - 1997
  - 1998
  - 1999
  - 2000
  - 2001
  - 2002

Ansett NZ had a number of key disadvantages other than feed. The primary disadvantage was their lack of network spread which allowed Air New Zealand to "encircle" their network both domestically and internationally.

The other significant disadvantage for Ansett NZ was unit costs arising from the use of BA146 aircraft – see annex to this letter.

Annex 1

Ansett was less effective competing against Air New Zealand than Qantas is today primarily because of their smaller network scope than Air New Zealand's and their cost disadvantage from operating BA146s versus Air New Zealand's Boeing 737s and their emphasis on service and amenities rather than core operations. Additionally, the deep pockets of Qantas could sustain a loss making operation longer than could Ansett New Zealand. The points below highlight some of the differences between Ansett New Zealand and Qantas's operation in New Zealand today.

Trunk Fleet and Network

- By the mid-late 90's Ansett New Zealand operated a fleet of 10x 90 seat Bae146 aircraft in New Zealand across the main-trunk sectors (AKL-WLG-CHC) as well as ROT-CHC, CHC-DUD, CHC-ZQN and DUD-WLG. (Note: this reduced to 8 aircraft under QF New Zealand)
- On the key AKL-WLG route they duplicated Air New Zealand's schedule (15-16 flights per day) and by the mid-1990's were operating with over 50% market share.
- Over the AKL-CHC route they suffered from a lack of international feed and operated 11 services to NZ's14.
- Ansett traded very well on the "Whisper-jet" theme of their aircraft and were always considered to have yields close to NZ through the early-mid 1990's. However, with only 90 seats compared to 113 for the NZ 737-200 (122 for the 737-300) they were always at a capacity disadvantage.
- The 146 was always considered to be operating at a cost disadvantage when compared to the Air New Zealand 737 aircraft. As such they needed to drive a higher revenue per ASK than Air New Zealand to achieve profitability.
- Some main-trunk services operated under a code-share arrangement with MH and CX. No code-share existed with QF.

Provincial Fleet and Network

- Ansett initially operated a fleet of 4x 40 seat Dash 8-100 over ROT-WLG, CHC-IVC, AKL-PMR and HLZ-WLG. This expanded to 6 aircraft and moved into CHC-PMR, CHC-WLG and CHC-DUD leading up until the collapse in FY01.
- In addition Ansett used Rex Aviation to operate a fleet of Embraer Bandierante aircraft over the BHE-WLG, NSN-WLG and PMR-WLG markets.
- Markets not served by Ansett were KAT, KKE, WRE, TRG, WHK, TUO, NPE, NPL, GIS, WAG, WSZ, HKK and TIU.

- AN provincial markets were modelled to have lost a substantial sum of money. As a result further expansion was restricted by the parent's being unwilling to incur further losses. This meant AN was never able to offer a competitive schedule offering in many markets.

Frequent Flyer Programs and Loyalty

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International Sales Focus

- Air New Zealand has always had an extensive off-shore selling presence. By comparison Ansett offices off-shore were limited in their ability to sell domestic NZL product by the lack of international services to/from NZL.
- QF off-shore offices made no attempt to sell Ansett NZL services as this would have been difficult given the competition in the Australian market.
- As a result NZ gained the lion-share of international traffic inbound and outbound traffic. Whatever AN gained was based solely on price