

Presentation to Investors

Qantas/Air New Zealand
Strategic Alliance

25 November 2002



Overview

- ▶ Establishment of a Strategic Alliance between Qantas and Air New Zealand
- ▶ Involves:
 - Qantas taking an equity investment in Air New Zealand of up to 22.5 percent
 - Pricing and schedule coordination
 - Reciprocal Board representation



Overview

- ▶ Subject to Air New Zealand shareholder and regulatory approval
- ▶ Investment will be:
 - Funded from proceeds of equity raising undertaken in August 2002
 - EPS accretive from 2003/04 onwards

Rationale

▲ Alliance will:

- Enable both Qantas and Air New Zealand to make better use of resources and capabilities, creating significant synergies and growth opportunities
- Allow both airlines to compete more effectively in an increasingly demanding global aviation market

Scope of Alliance

- ▶ Joint airline operations (JAO) covers:
 - All of Air New Zealand network
 - All Qantas flying to, from and within New Zealand
- ▶ Air New Zealand will not operate services within or beyond Australia (except SYD-LAX)

Scope of Alliance

- ▶ Qantas will not operate services within or beyond New Zealand, except through the JAO
- ▶ Once authorised, Air New Zealand and Qantas will coordinate all aspects of pricing and scheduling of the JAO

Benefits of Alliance

- ▶ EPS accretive from 2003/04 onwards
- ▶ Full scope of benefits will take up to three years to be realised:
 - Resolution of alliance memberships
 - Implementation of JAO systems and schedules
- ▶ Combined pre-tax synergies of between NZ\$330 and NZ\$450 million per annum expected by year three



Benefits of Alliance

- ▶ Combined benefits derived by Qantas and Air New Zealand will be adjusted equitably in accordance with an agreed mechanism, with reference to:
 - Contribution net of EBITDAR and standardised aircraft charge
 - Capacity deployed by each carrier on the JAO network
 - Benefits brought by each party to the JAO



Benefits of Alliance

- ▶ Additional 22.5 percent share of Air New Zealand profit accrues to Qantas through shareholding

Benefits of Alliance

- ▶ Reciprocal codeshare across the JAO networks
- ▶ Air New Zealand codeshare on non-JAO connecting Qantas sectors
- ▶ Joint scheduling, pricing and inventory management and coordinated sales activities on JAO networks
- ▶ Reciprocal Frequent Flyer programs and lounge access



Benefits of Alliance

- ▶ Increased feed from Air New Zealand to Qantas non-JAO services - Singapore, Los Angeles and Australian domestic ports
- ▶ Operational cost savings, primarily from cost of sale reductions and mix/usage of aircraft types
- ▶ Access to Express and Freedom low-cost products
- ▶ Qantas Holidays actively selling Air New Zealand services



Benefits of Alliance

- ▶ Over time, cooperation also expected in the areas of:
 - Engineering and maintenance activities
 - Joint lounges and co-location of offices
 - Alignment of corporate office functions

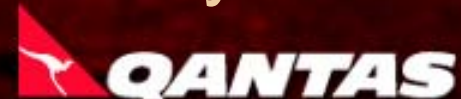
Investment in Air New Zealand

- ▲ **STEP ONE:** Subscription for Convertible Notes equal to 4.99 percent equity interest in Air New Zealand
 - Issued at 10 percent discount to VWAP for 20 day period up to and including 20 November 2002, equal to NZ\$0.445 per share
 - Requires New Zealand Minister of Transport approval, as Kiwi Shareholder
 - Approval expected by end of 2002



Investment in Air New Zealand

- ▲ **STEP TWO:** Conversion of Notes and concurrent issue of shares bringing cumulative interest in Air New Zealand to 15 percent
 - Additional shares issued at same price as Notes
 - Occurs following regulatory and shareholder approval
 - Regulatory approval expected by end of July 2003



Investment in Air New Zealand

- ▶ **STEP THREE:** Issue of shares to take total investment to 22.5 percent
- ▶ To occur either:
 - At same time as 15 percent stake taken. Shares would be issued at same price as Notes
 - Three years after 15 percent stake taken. Shares would be issued at 15 percent discount to prevailing market price



Investment in Air New Zealand

- Optional top-up rights to maintain 22.5 percent shareholding

Board Representation

- ▶ Qantas entitled to nominate two directors to Air New Zealand Board:
 - One nomination under Strategic Alliance Agreement
 - Further nomination when equity holding above 10 percent to maintain proportionate representation

Board Representation

- ▶ Air New Zealand entitled to nominate one director to Qantas Board
 - Under Strategic Alliance Agreement
- ▶ Air New Zealand Board quorum and committees to include Qantas director
- ▶ Qantas director required to sign any written resolution of Air New Zealand Board

Administration of JAO networks

- ▶ Commercial aspects of JAO networks to be managed by Air New Zealand
- ▶ Management role effective upon reciprocal codesharing on the JAO networks
- ▶ Air New Zealand to coordinate management until this is effected
- ▶ Qantas to second staff to assist Air New Zealand's management

Administration of JAO networks

- ▲ Air New Zealand management supported by Strategic Alliance Advisory Group (SAAG)
 - Qantas and Air New Zealand each nominate three members
 - Reviews and endorses business plans and budgets of JAO networks
 - Monitors JAO networks' performance and capture of organisational opportunities

Administration of JAO networks

- ▶ Matters not resolved by SAAG enter defined escalation process
- ▶ Initial term of five years from resolution of alliance memberships

Accounting for Investment

- ▶ The Convertible Notes will be accounted for as an investment in Air New Zealand
- ▶ Following regulatory and shareholder approval and consequent increase in investment to 15 or 22.5 percent, the entire investment will be equity accounted

Accounting for Investment

- ▶ Qantas share of Air New Zealand net profit will be taken to account each period, adjusted for accounting policy differences and goodwill amortisation
- ▶ Goodwill will be amortised over a period of up to 20 years

Conclusion

- ▲ A strategic alliance with Air New Zealand represents a unique opportunity for Qantas and Air New Zealand to achieve more together, both operationally and financially, than could be achieved independent of each other

Presentation to Investors

Qantas/Air New Zealand Strategic Alliance

25 November 2002



Appendice



Regulatory Approvals Required

- ▶ Kiwi Shareholder (Minister of Transport) approval required for Qantas to acquire any shares in Air New Zealand and for amendments to the Air New Zealand Constitution
- ▶ Approval expected by end of 2002

Regulatory Approvals Required

- ▶ Application to the Australian Competition and Consumer Commission (ACCC) and the New Zealand Commerce Commission (NZCC) to authorise:
 - Equity subscription
 - Strategic Alliance (price and schedule coordination)
- ▶ Final determination expected by end of July 2003

Regulatory Approvals Required

- ▶ Expect undertakings will be negotiated to:
 - Facilitate entry of new competitors
 - Protect consumers
 - Lock in benefits to stakeholders

Regulatory Approvals Required

- ▶ Shareholder approval (including Government/Treasurer approval) for:
 - Acquisition of more than 10 percent of Air New Zealand (under NZSE Listing Rules)
 - Acquisition of more than 20 percent of Air New Zealand (under Takeovers Code)
 - Amendments to Air New Zealand Constitution
 - Entry into and performance of Strategic Alliance and related documents
 - Appointment of Qantas nominated director to Air New Zealand Board
- ▶ Approval expected by end of August 2003

Regulatory Approvals Required

- ▶ Authorisations also required by UK/EC, US, Japan and Fiji authorities
- ▶ Various waivers and rulings required by ASX and NZSE, Australian and New Zealand Takeovers Panels and Foreign Investment Review Board (Air New Zealand only) and taxation authorities