



2017 INTERIM

# FINANCIAL RESULTS

23 February 2017

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Chief Executive Officer

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# Forward looking statements

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**BUSINESS  
REVIEW**

**Christopher Luxon**  
Chief Executive Officer

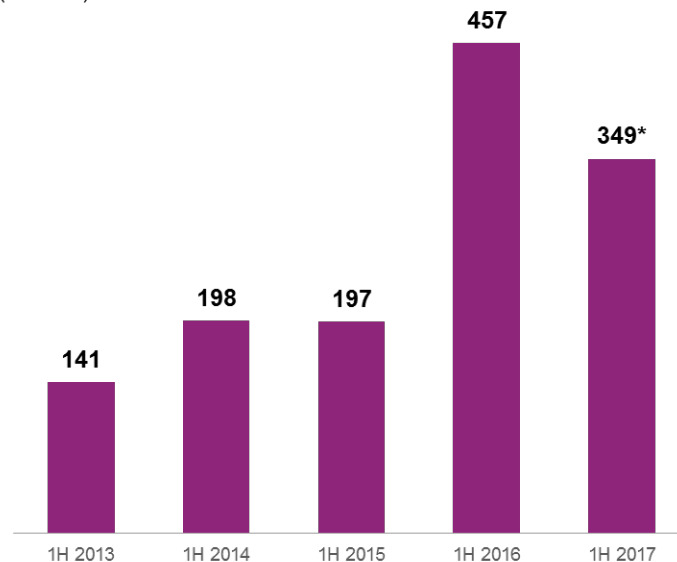
# The second best interim result in our history during a period of intense competition



INTERIM RESULTS 2017

- Operating revenue **\$2.6 billion**
- Earnings before taxation **\$349 million\***
- Net profit after taxation **\$256 million**
- Operating cash flow **\$376 million**

**Earnings before taxation**  
(\$ million)



\* Includes other significant items related to a gain of \$22 million from the divestment of the remaining interest in Virgin Australia.





# Key drivers of the result

INTERIM RESULTS 2017

## Revenue

- Passenger revenue excluding FX **down 3.1%**; reported down 4.0%
  - Demand slightly lagging capacity growth – RPKs and ASKs **up 5.5% and 7.1%**, respectively
  - RASK excluding FX **down 9.3%**; reported down 10.4%
- Cargo revenue excluding FX **down 4.3%**; reported down 8.6%

## Cost

- CASK excluding FX **improved 8.5%**, reported improved 6.7%
  - CASK (excluding fuel price and FX) **improved 3.6%**
    - Efficiencies contributed **\$113 million** to profitability
  - Cost of fuel **declined 18%**
    - Fuel decline includes the benefit of hedging gains over the prior period and a 5% decrease in average MOPS price (from US\$60/bbl to US\$57/bbl)
    - Lower fuel cost more than offset increased consumption

# Revenue challenged by industry capacity, but encouraging signs emerging



INTERIM RESULTS 2017

| Sector                              | Year-on-year (YoY)<br>2H 2017 RASK outlook | Commentary  |
|-------------------------------------|--|---|
| <b>Domestic</b>                     | Better than YoY 1H RASK                    | <ul style="list-style-type: none"> <li>• Fluctuations month to month based upon timing of events (Chinese New Year and Easter)</li> <li>• Forward bookings reflect increased year on year demand for events including concerts, Masters Games and Lions Rugby Tour</li> </ul> |
| <b>Tasman &amp; Pacific Islands</b> | Similar level to YoY 1H RASK               | <ul style="list-style-type: none"> <li>• Fifth freedom and other carrier growth resulting in excess capacity</li> <li>• Partially offset by strong initial response to “Better Way to Fly” campaign focused on Australasia to North and South America via Auckland</li> </ul> |
| <b>International Long-Haul</b>      | Better than YoY 1H RASK                    | <ul style="list-style-type: none"> <li>• Downward capacity adjustments by United Airlines and two Chinese carriers as traditional low season commences</li> <li>• Stabilisation of North American pricing expected, supported by robust demand</li> </ul>                     |

# Tailwinds and headwinds looking to the second half of 2017



INTERIM RESULTS 2017

|         | Tailwinds  | Headwinds  |
|---------|--|--|
| Revenue | <ul style="list-style-type: none"><li>• Continued strong growth in inbound and outbound tourism</li><li>• Low season capacity management from several international carriers</li><li>• Supportive economic conditions in New Zealand</li><li>• Domestic events driving additional demand</li></ul> | <ul style="list-style-type: none"><li>• First full year of new international competition in North America and Asia</li><li>• Industry capacity growth on the Tasman</li><li>• Softer demand from Japan following Kaikoura earthquake</li></ul> |
| Cost    | <ul style="list-style-type: none"><li>• Additional efficiencies from aircraft received in first half of the year</li><li>• Retirement of last two B767 in March</li><li>• Continuation of productivity gains</li></ul>   | <ul style="list-style-type: none"><li>• Fuel price</li></ul>   |

**Negative RASK (but improving) and fuel headwind drive 2H performance**

**FINANCIAL  
REVIEW**

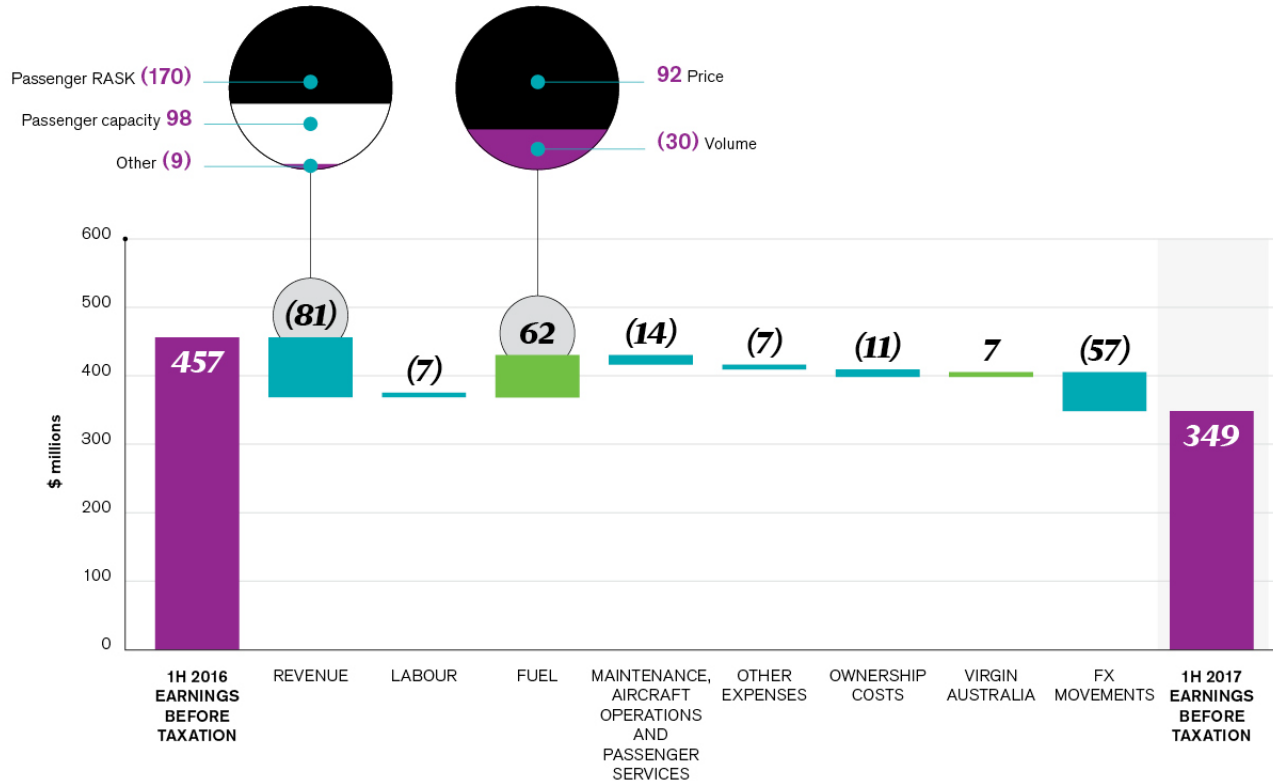
**Rob McDonald**  
Chief Financial Officer





# Changes in profitability

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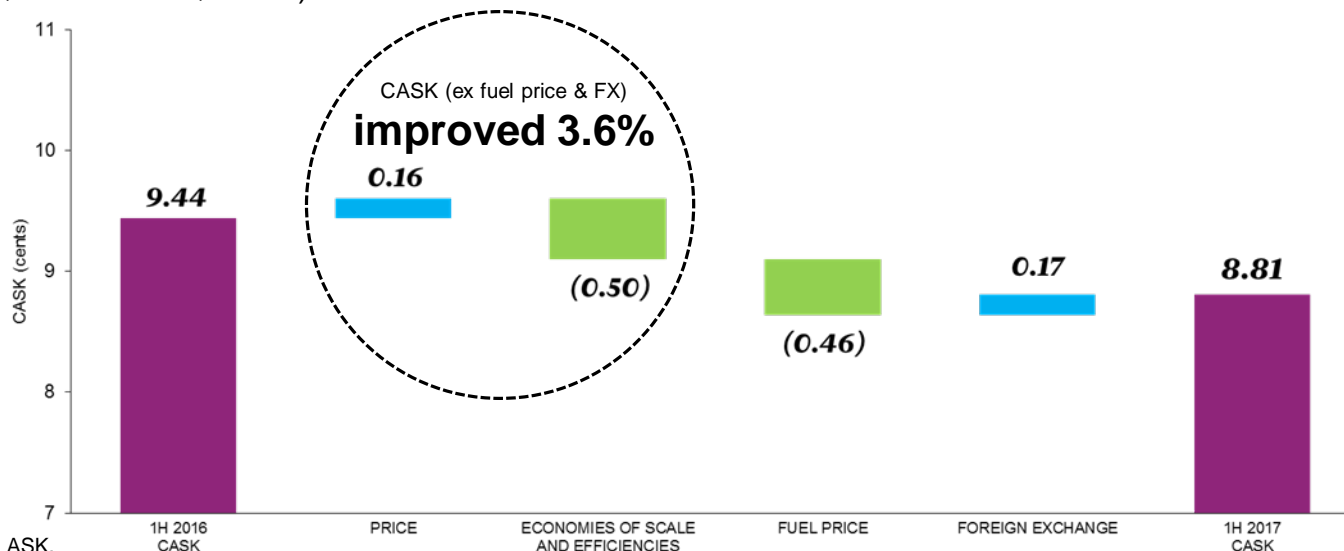




# CASK\* improvement

INTERIM RESULTS 2017

- CASK excluding FX improved 8.5%; reported improved 6.7%
- \$113 million of efficiencies from growth, fleet simplification, productivity and other cost saving initiatives more than offset inflation
- Fuel cost decreased 18%
  - Includes the benefit of hedging gains over prior period and a 5% decrease in average MOPS price (from US\$60/bbl to US\$57/bbl)



\* Operating expenditure per ASK.



# Domestic

INTERIM RESULTS 2017

- Completed roll-out of re-designed network schedule, resulting in:
  - Less complexity
  - Greater choice for business travel
  - Improved intra-regional and regional New Zealand-to-international connections

|   | Dec 2016 | Dec 2015 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 5,207    | 4,932    | 5.6%      |
| Available seat kilometres (ASKs, millions)    | 3,319    | 3,093    | 7.3%      |
| Revenue passenger kilometres (RPKs, millions) | 2,649    | 2,465    | 7.5%      |
| Load factor                                   | 79.8%    | 79.7%    | 0.1 pt    |
| Passenger revenue per ASKs (RASK, cents)      | 20.7     | 21.9     | (5.3%)**  |
| Yield (cents per RPK)                         | 25.9     | 27.5     | (5.5%)**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Domestic RASK decreased by 5.7% and yield decreased by 5.9%, inclusive of foreign exchange impact.



# Tasman & Pacific Islands

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- Sector impacted from industry capacity growth directly on the Tasman as well as increase in direct services to New Zealand from Chinese and Gulf carriers
- Strong demand for Pacific Island routes from New Zealand outbound travellers
- Launch of Australian brand campaign, “Better Way to Fly”

|   | Dec 2016 | Dec 2015 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 1,853    | 1,859    | (0.3%)    |
| Available seat kilometres (ASKs, millions)    | 6,265    | 6,024    | 4.0%      |
| Revenue passenger kilometres (RPKs, millions) | 5,104    | 5,046    | 1.2%      |
| Load factor                                   | 81.5%    | 83.8%    | (2.3 pts) |
| Passenger revenue per ASKs (RASK, cents)      | 9.4      | 10.3     | (7.7%)**  |
| Yield (cents per RPK)                         | 11.5     | 12.2     | (5.2%)**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Tasman & Pacific Islands RASK decreased by 8.6% and yield decreased by 6.0%, inclusive of foreign exchange impact.



# International

INTERIM RESULTS 2017

- Anniversary of Houston and Buenos Aires; strong performance for both routes
- Seasonal routes of Ho Chi Minh City (June – October) and Osaka (November – April)
- Announced commencement into Haneda airport in Tokyo beginning in July 2017

|   | Dec 2016 | Dec 2015 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 1,026    | 966      | 6.1%      |
| Available seat kilometres (ASKs, millions)    | 11,825   | 10,868   | 8.8%      |
| Revenue passenger kilometres (RPKs, millions) | 10,037   | 9,353    | 7.3%      |
| Load factor                                   | 84.9%    | 86.1%    | (1.2 pts) |
| Passenger revenue per ASKs (RASK, cents)      | 8.0      | 9.3      | (13.2%)** |
| Yield (cents per RPK)                         | 9.4      | 10.8     | (12.0%)** |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported International RASK decreased by 14.3% and yield decreased by 13.3%, inclusive of foreign exchange impact.

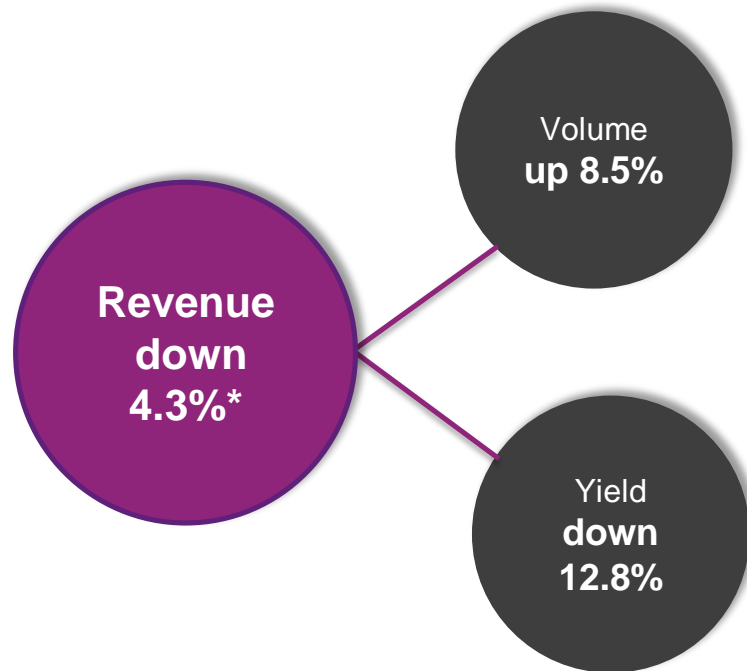




# Cargo

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- Revenue decline driven by
  - Competition from new carriers in U.S. and Asia
  - Los Angeles International airport runway issues
- Partially offset by strong volume growth related to new Houston and Buenos Aires routes and larger aircraft on the Tasman



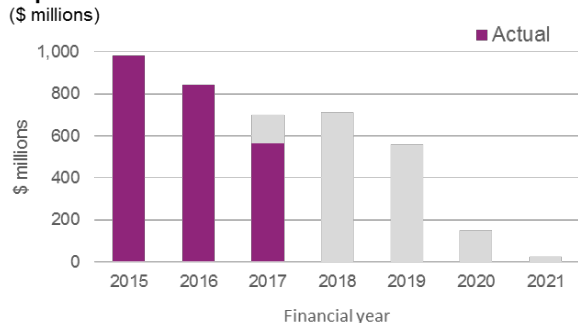
\* Reported cargo revenue decreased 8.6%, inclusive of foreign exchange impact.



# Aircraft update

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## Actual and forecast aircraft capital expenditure\*



- Expected investment of ~\$1.6 billion in aircraft and associated assets over the next 4.5 years
- Assumes NZD/USD = 0.725
- Includes progress payments on aircraft
- Entered into operating lease agreement with Air Lease Corporation for one Boeing 787-9 aircraft

## Aircraft delivery schedule (as at 31 December 2016)

|                           |                        | Number in existing fleet | Number on order | Delivery Dates (financial year) |      |      |      |      |
|---------------------------|------------------------|--------------------------|-----------------|---------------------------------|------|------|------|------|
|                           |                        |                          |                 | 2H 2017                         | 2018 | 2019 | 2020 | 2021 |
| Owned fleet on order      | Boeing 787-9           | 9                        | 3               | -                               | 2    | 1    | -    | -    |
|                           | Airbus A320/A321 NEOs* | -                        | 8               | -                               | 3    | 5    | -    | -    |
|                           | ATR72-500/600          | 26                       | 14              | -                               | 4    | 5    | 5    | -    |
| Operating leased aircraft | Boeing 787-9           | -                        | 1               | -                               | -    | 1    | -    | -    |
|                           | Airbus A320/A321 NEOs  | -                        | 5               | -                               | 3    | 2    | -    | -    |

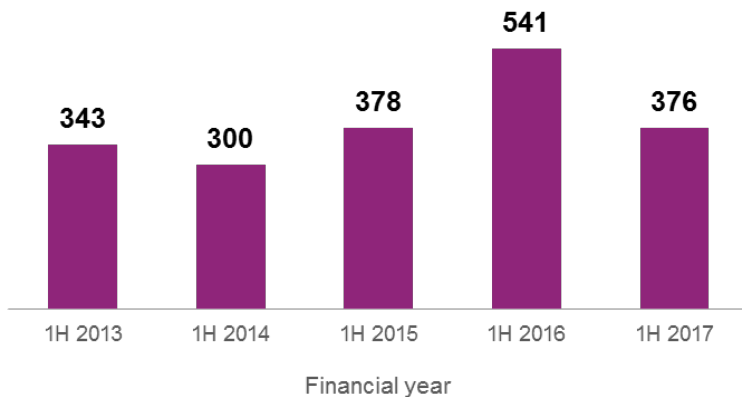
\* Excludes orders of up to five A320/A321 NEOs with purchase substitution rights.



# Operating cash flow and liquidity remain robust

INTERIM RESULTS 2017

Operating cash flow  
(\$ million)



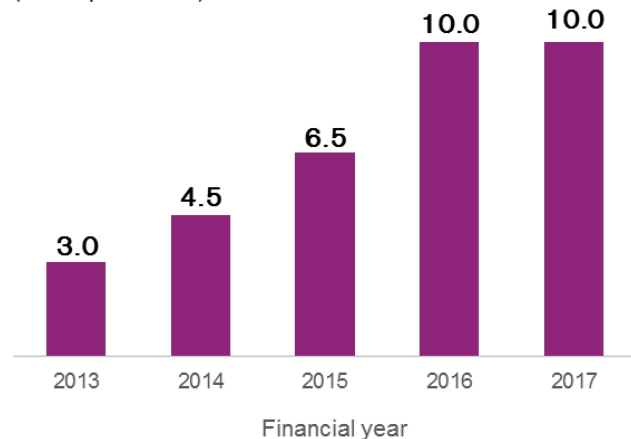
- Operating cash flow **\$376 million**
  - One-time outflow of \$58 million related to a restructured engine maintenance agreement
- Net cash on hand of **\$1.3 billion** includes:
  - \$182 million inflow from the sale of remaining investment in Virgin Australia and repayment of shareholder loan
  - \$412 million outflow from final and special dividends

# Continued capital discipline underpinning balance sheet strength



INTERIM RESULTS 2017

Interim dividends declared  
(cents per share)



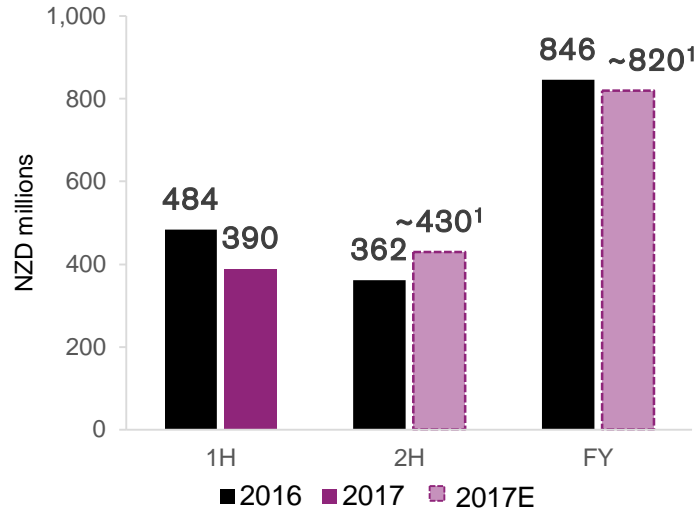
- Gearing was **55.9%**, increasing 7.3 percentage points from June 2016
  - Near-term gearing expected to remain around the high end of target range (45% to 55%) as the fleet programme nears completion
- Stable outlook **Baa2** rating from Moody's
- New \$50 million retail bond, maturing October 2022
  - \$150 million retail bond matured in November 2016
- Fully imputed interim dividend of 10.0 cents per share



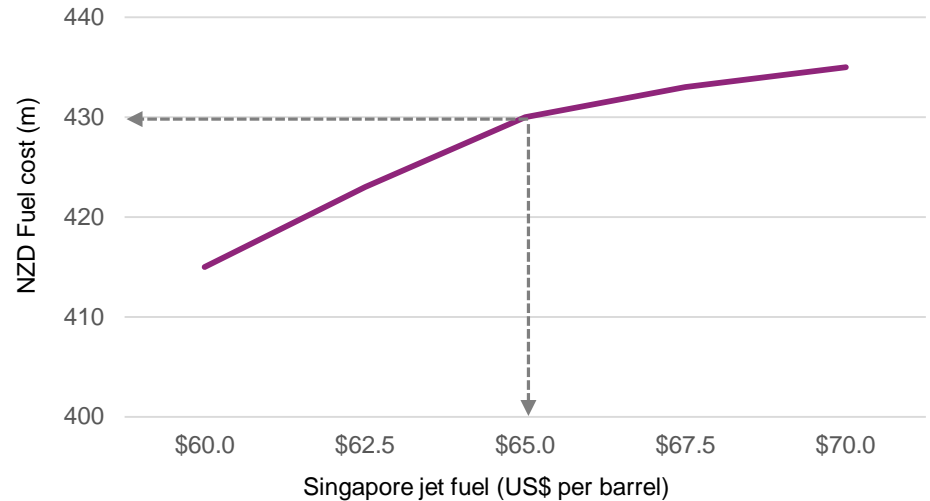
# Fuel cost outlook and sensitivities

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## 2017 Fuel cost outlook



## 2H 2017 Fuel cost sensitivity (inclusive of hedging)



<sup>1</sup> Assumes average jet fuel price of US\$65 per barrel for the second half of the 2017 financial year and a NZD/USD rate of 0.72.



**OUTLOOK**

**Christopher Luxon**  
Chief Executive Officer



# Full year capacity growth

INTERIM RESULTS 2017

| Sector                   | 2H 2017 capacity | Full year capacity |
|--------------------------|------------------|--------------------|
| Domestic                 | ~+11%            | ~+9%               |
| Tasman & Pacific Islands | ~+6%             | ~+5%               |
| International Long-haul  | ~+3%             | ~+6%               |
| <b>Group</b>             | <b>~+5%</b>      | <b>~+6%</b>        |



# 2017 outlook

INTERIM RESULTS 2017

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Based on the current market environment and expectations for the average jet fuel price in the second half of the year of US\$ 65/bbl<sup>1</sup>, we are targeting 2017 earnings before taxation **to be in the range of \$475 to \$525 million<sup>2</sup>**

<sup>1</sup> Refers to Singapore jet fuel.

<sup>2</sup> Outlook for earnings before taxation includes the \$22 million gain related to the divestment of the remaining interest in Virgin Australia and Air New Zealand's share of earnings in associates.



*Thank you*

**SUPPLEMENTARY  
SLIDES**





# Hedging

INTERIM RESULTS 2017

| Fuel hedging*                                 |                             |                             |
|---|-----------------------------|-----------------------------|
|   | 2H 2017<br>(Jan – Jun 2017) | 1H 2018<br>(Jul – Dec 2017) |
| <b>Brent collars</b>                          |                             |                             |
| Volume  | 3,415,000                   | 2,157,500                   |
| Ceiling Price (USD)                           | 52.50                       | 56.54                       |
| Floor price (USD)                             | 36.62                       | 43.05                       |
| Estimated fuel consumption                    | 4,203,498                   | 4,500,000                   |
| <b>Hedged volume as a percentage of total</b> | <b>81%</b>                  | <b>48%</b>                  |

| U.S. dollar hedging   |                             |                 |
|-----------------------|-----------------------------|-----------------|
|                       | 2H 2017<br>(Jan – Jun 2017) | 2018            |
| Hedged value          | US\$367 million             | US\$360 million |
| Hedged rate (NZD/USD) | 0.70                        | 0.72            |

\* Fuel hedging as at 14 February 2017.



# Financial overview

INTERIM RESULTS 2017

|                               | Dec 2016<br>\$M | Dec 2015<br>\$M | Movement<br>\$M | Movement<br>% |
|-------------------------------|-----------------|-----------------|-----------------|---------------|
| Operating revenue             | 2,584           | 2,698           | (114)           | (4.2%)        |
| Earnings before taxation      | 349             | 457             | (108)           | (24%)         |
| Net profit after taxation     | 256             | 338             | (82)            | (24%)         |
| Operating cash flow           | 376             | 541             | (165)           | (30%)         |
| Net cash position*            | 1,288           | 1,594           | (306)           | (19%)         |
| Gearing*                      | 55.9%           | 48.6%           | n/a             | (7.3 pts)     |
| Ordinary dividends declared** | 10.0            | 10.0            | -               | -             |

\* Comparative is for 30 June 2016.

\*\* Dividends are fully imputed.



# Group performance metrics

INTERIM RESULTS 2017

|   | Dec 2016 | Dec 2015 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 8,086    | 7,757    | 4.2%      |
| Available seat kilometres (ASKs, millions)    | 21,409   | 19,985   | 7.1%      |
| Revenue passenger kilometres (RPKs, millions) | 17,790   | 16,864   | 5.5%      |
| Load factor                                   | 83.1%    | 84.4%    | (1.3 pts) |
| Passenger revenue per ASKs (RASK, cents)      | 10.3     | 11.5     | (9.3%)**  |
| Yield (cents per RPK)                         | 12.5     | 13.7     | (8.1%)**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Group RASK decreased by 10.4% and yield decreased by 9.0%, inclusive of foreign exchange impact.



# Projected aircraft in service

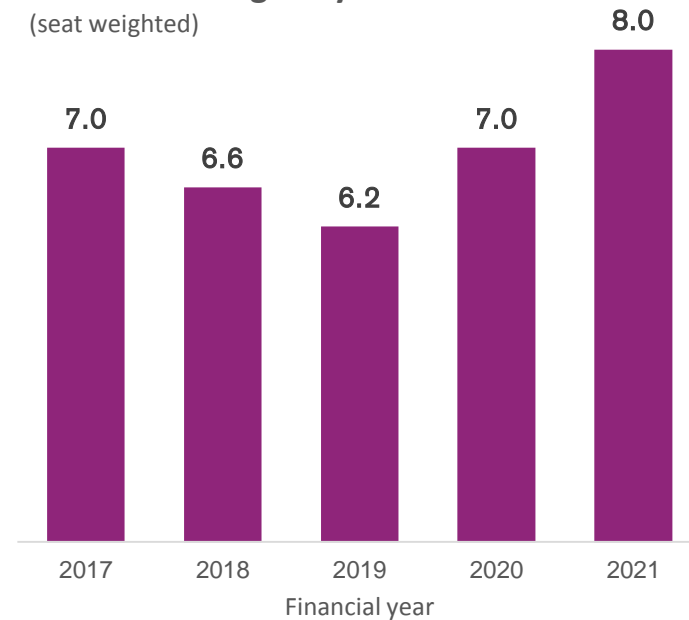
INTERIM RESULTS 2017

- Boeing 767-300ERs exiting by March 2017
- Beech 1900Ds exited service in August 2016

|                      | 2017       | 2018       | 2019       | 2020       | 2021       |
|----------------------|------------|------------|------------|------------|------------|
| Boeing 777-300ER     | 7          | 7          | 7          | 7          | 7          |
| Boeing 777-200ER     | 8          | 8          | 8          | 8          | 8          |
| Boeing 787-9         | 9          | 11         | 13         | 13         | 13         |
| Airbus A320          | 30         | 25         | 18         | 17         | 17         |
| Airbus A320/A321 NEO | -          | 6          | 13         | 13         | 13         |
| ATR72-600            | 15         | 19         | 24         | 29         | 29         |
| ATR72-500            | 11         | 7          | 4          | -          | -          |
| Bombardier Q300      | 23         | 23         | 23         | 23         | 23         |
| <b>Total Fleet</b>   | <b>103</b> | <b>106</b> | <b>110</b> | <b>110</b> | <b>110</b> |

## Aircraft fleet age in years

(seat weighted)





# Glossary of terms

INTERIM RESULTS 2017

## Available Seat Kilometres (ASKs)

Number of seats operated multiplied by the distance flown (capacity)

## Cost/ASK (CASK)

Operating expenses divided by the total ASK for the period

## Gearing

Net Debt / (Net Debt + Equity); Net Debt includes capitalised operating leases

## Net Debt

Interest-bearing liabilities and bank overdrafts, less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities, interest-bearing deposits and non-interest bearing deposits, plus net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven

## Passenger Load Factor

RPKs as a percentage of ASKs

## Passenger Revenue/ASK (RASK)

Passenger revenue for the period divided by the total ASK for the period

## Revenue Passenger Kilometres (RPKs)

Number of revenue passengers carried multiplied by the distance flown (demand)

## Yield

Passenger revenue for the period divided by revenue passenger kilometres

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK, and Yield. Amounts used within the calculations are derived from the condensed Group interim financial statements where possible. The interim financial statements are subject to review by the Group's external auditors. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.