


AIR NEW ZEALAND 

2018

INTERIM FINANCIAL RESULTS

22 February 2018



A STAR ALLIANCE MEMBER 



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**BUSINESS
REVIEW**

Christopher Luxon
Chief Executive Officer

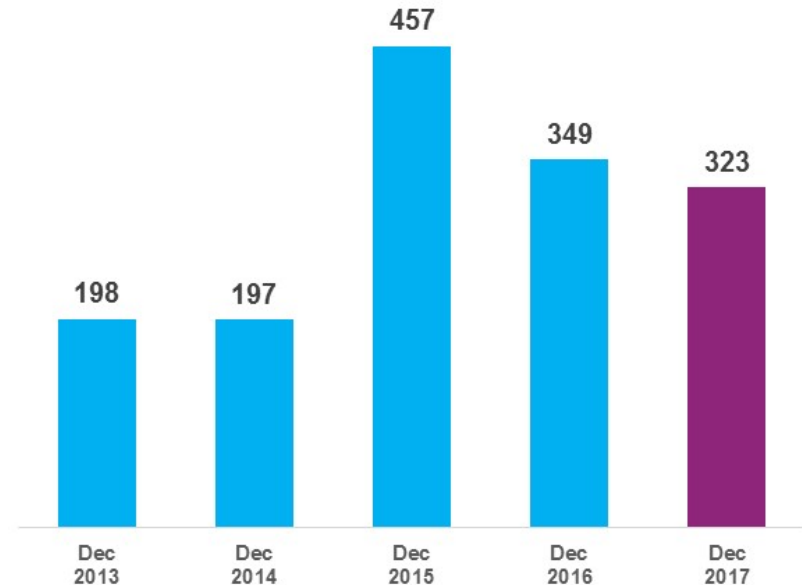


Continuing to demonstrate strength and resilience

2018 INTERIM RESULT

- Operating revenue **\$2.7 billion, up 5.6%**
- Earnings before taxation **\$323 million, down 7.4%**
- Net profit after taxation **\$232 million, down 9.4%**
- Operating cash flow **\$479 million, up 27%**

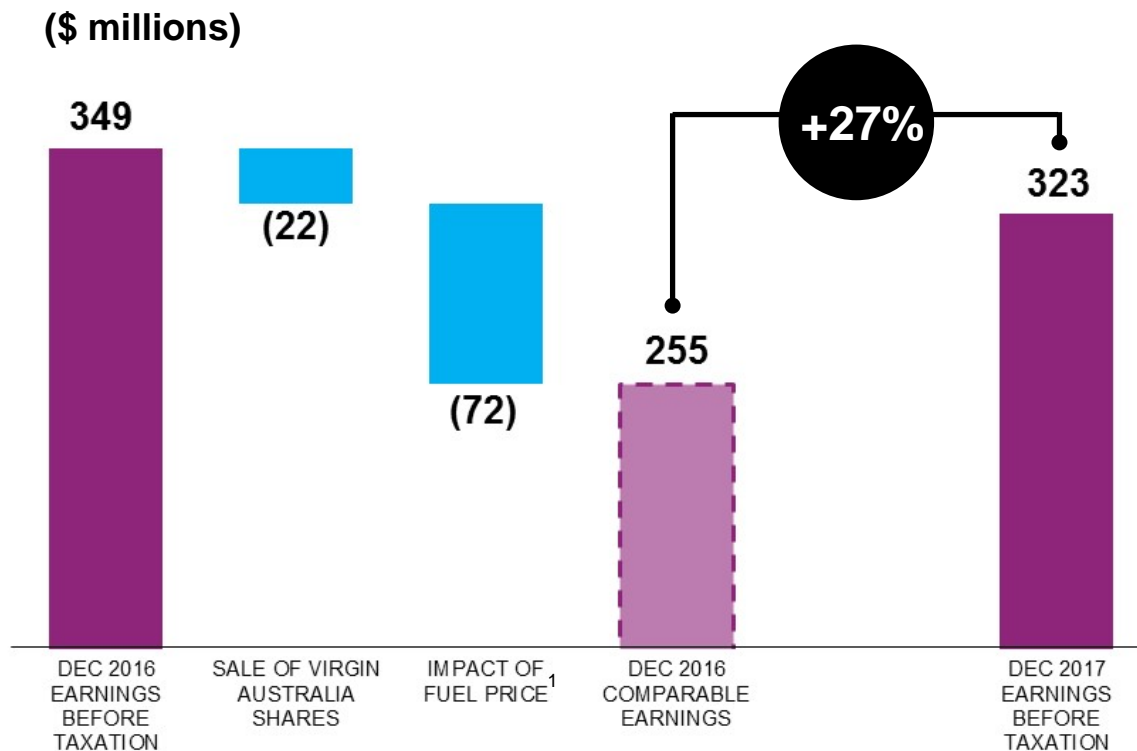
Earnings before taxation
(\$ millions)



A high quality result after adjusting for prior period gain and impact of fuel price



2018 INTERIM RESULT



¹ \$72 million impact related to fuel price increase of 18 percent; details on fuel cost movement provided in supplementary slides.

Strong revenue growth drove performance, supported by stable unit costs (excluding fuel price)



2018 INTERIM RESULT

Revenue

- Passenger revenue excluding FX **up 6.0%**; reported up 5.5%
 - Strong demand **up 2.7%** on capacity growth of **3.4%**
 - RASK excluding FX **up 2.5%**; reported up 2.0%
- Cargo revenue excluding FX **up 10.7%**; reported up 10.5%

Cost

- CASK¹ (excluding fuel price) **flat**
 - CASK including impact of fuel price **up 4.0%**
- Efficiencies **offset** the impact of inflationary costs
- Fuel cost¹ **up 21%**²
 - Driven by average fuel price increase of 18% and additional volume reflecting capacity growth

¹ Foreign exchange had a minor impact on CASK and fuel cost in the period.

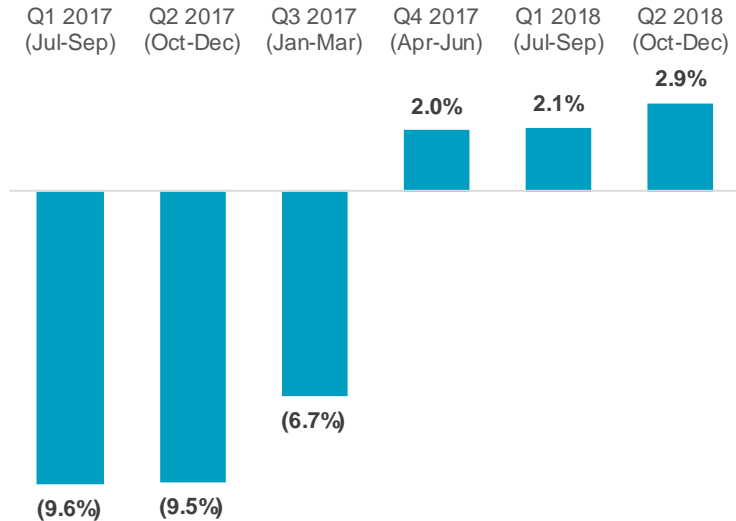
² Fuel cost movement details provided in supplementary slides.



RASK improvement across most markets in 1H

2018 INTERIM RESULT

Momentum in Group RASK¹ (excl. FX)



Sector	1H 2018 RASK performance versus prior period
Domestic (Jet & Regional)	↑
Tasman	↑
Pacific Islands ²	↑
Asia	↓
Americas/Europe	↔

¹ Year-on-year movement in RASK.

² Pacific Islands includes Bali and Honolulu.

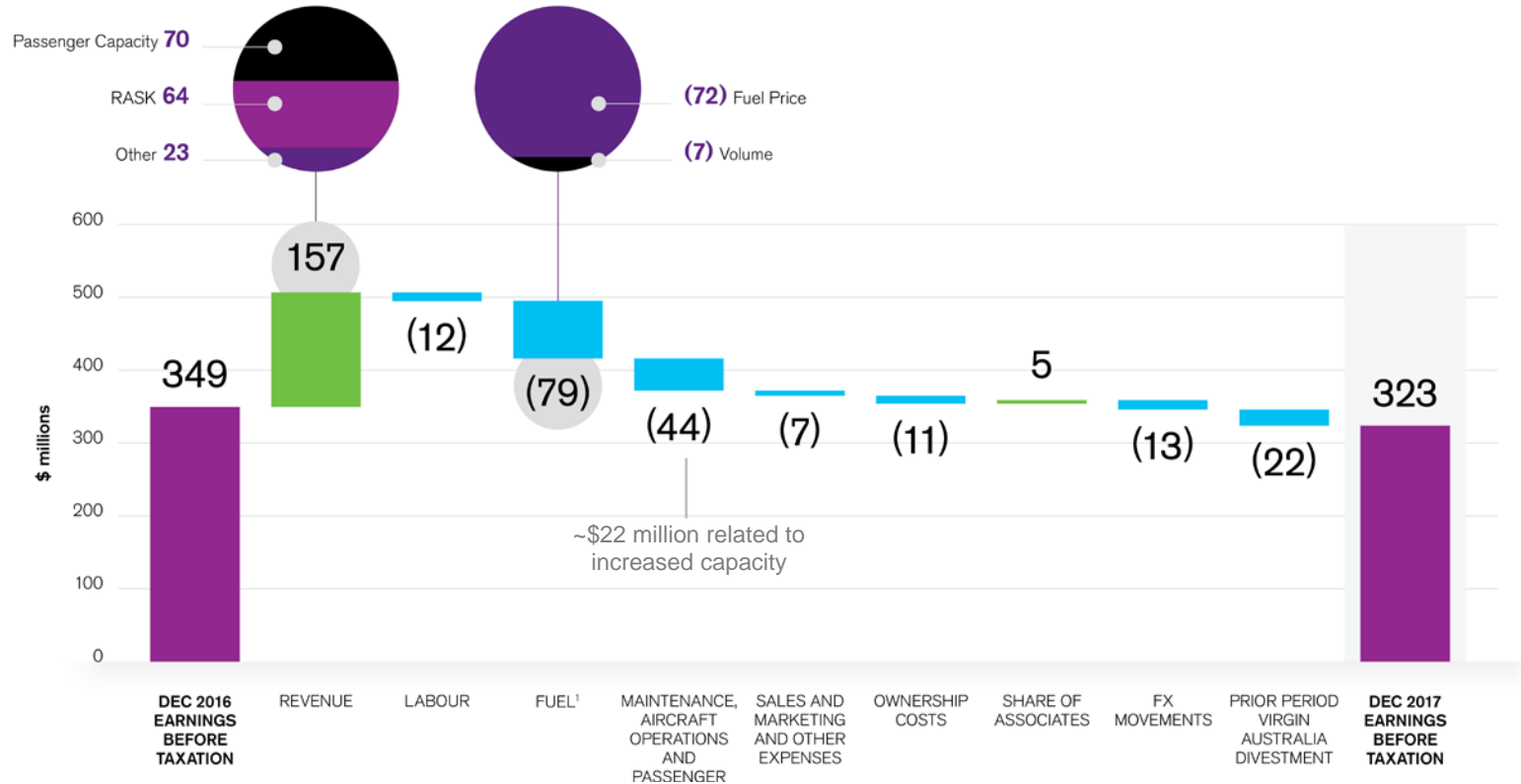
**FINANCIAL
REVIEW**

Jeff McDowall
Chief Financial Officer



Changes in profitability

2018 INTERIM RESULT



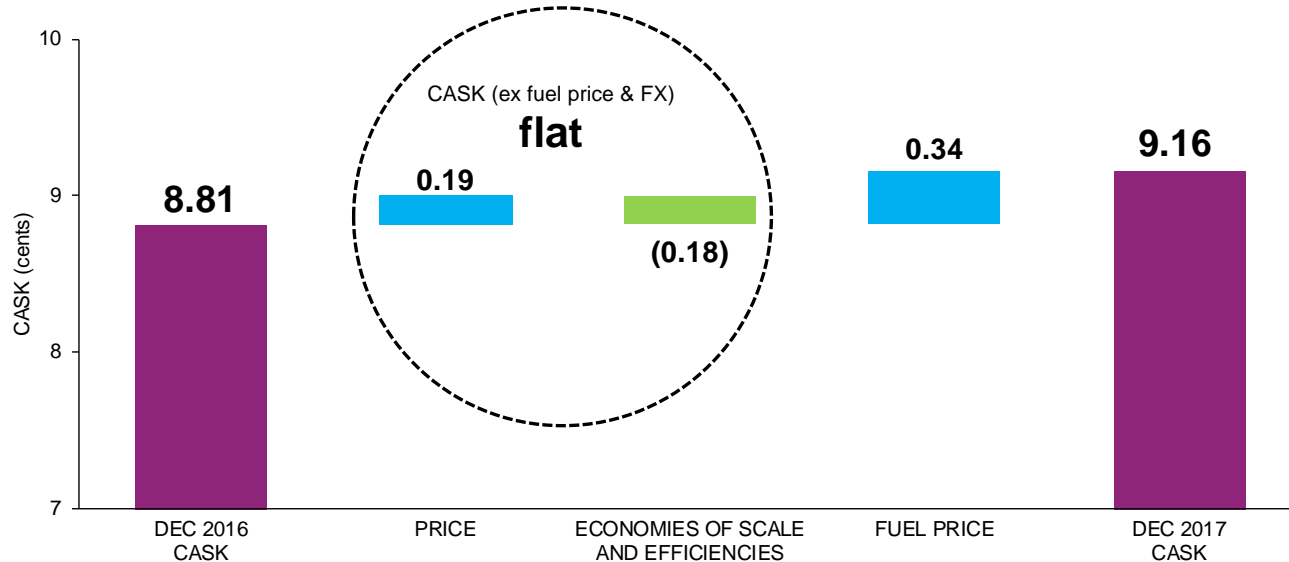
¹ Fuel cost movement details provided in supplementary slides.

CASK* excluding fuel price remained flat, as efficiencies offset price increases



2018 INTERIM RESULT

- CASK increased 4.0%, driven by fuel price increases of 18%
 - CASK (excluding fuel price) was flat
- \$33 million of efficiencies from cost saving initiatives and economies of scale offset inflation
- FX movement had no net impact on CASK



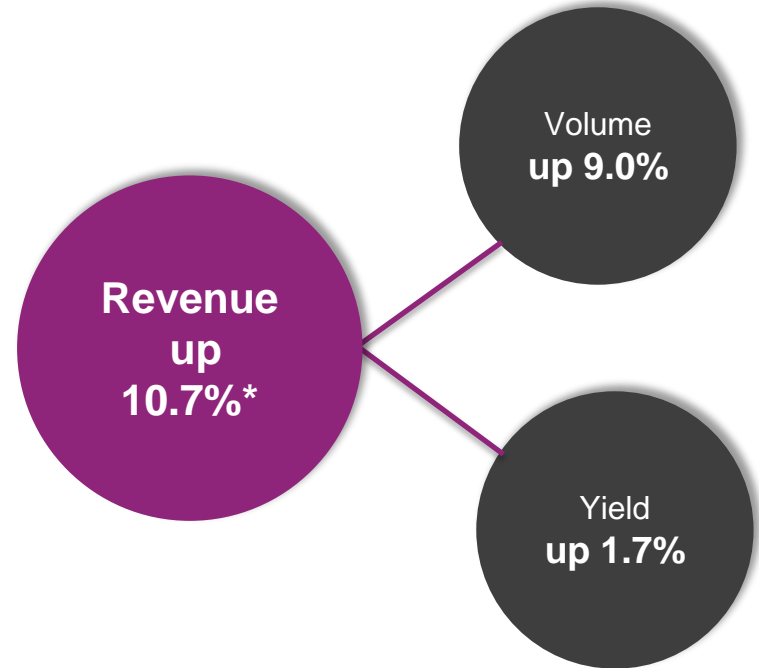
* Operating expenditure per ASK.



Cargo momentum also robust

2018 INTERIM RESULT

- Strong volume growth in the period related to:
 - Improved loads on Tasman and Pacific Islands routes
 - Increased capacity on Haneda Airport (Tokyo)
 - Improved cargo capability out of Los Angeles
- Yield improvements driven by:
 - Higher value product mix



* Reported Cargo revenue increased 10.5%, inclusive of foreign exchange impact.

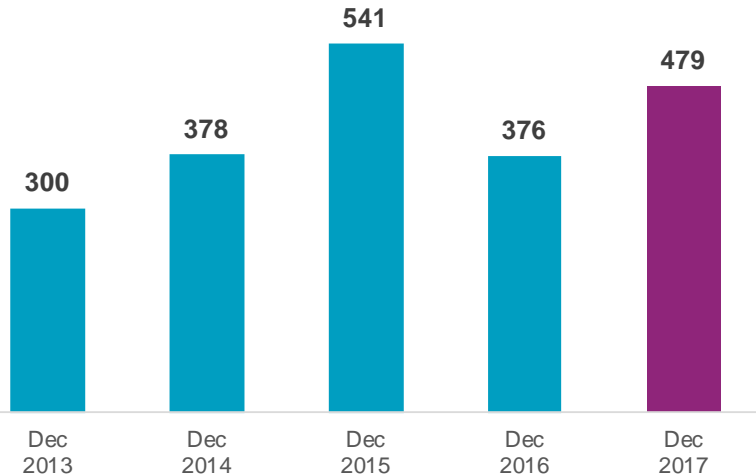


Strong growth in operating cash flows

2018 INTERIM RESULT

Operating cash flow

(\$ millions)



- Operating cash flow **\$479 million, up 27%**, reflecting:
 - Increase in cash operating earnings
 - Strong working capital cash flow as the business grows
 - Lower provisional taxes paid due to transitional impact of legislative tax changes for engine maintenance
- Cash on hand of \$1.3 billion, **down 2.1%** from June 2017

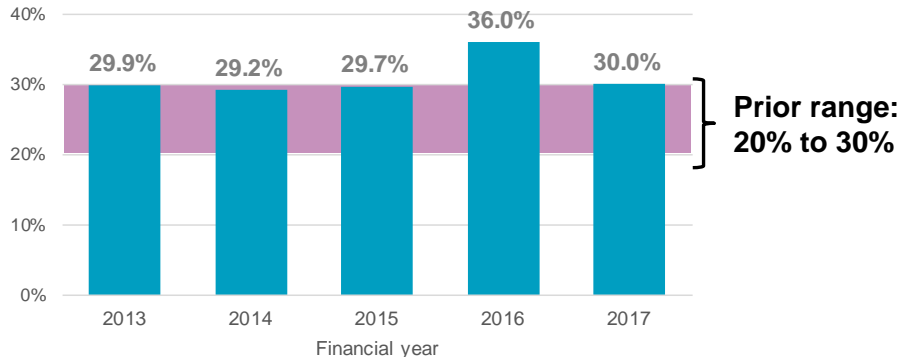


Targeting liquidity of \$700m to \$1b going forward

2018 INTERIM RESULT

- Target cash level re-examined
 - Previously managed liquidity within \$1.0 to \$1.5 billion target
 - Equated to a ratio of 20% to 30%; the reported ratio included ~\$150 million of restricted cash
 - Divestment in Virgin Australia shareholding requires smaller cash requirement
- New liquidity range of **\$700 million to \$1 billion**
 - Transition to cash target will occur over time
 - Primary mechanism to achieve cash target will be purchasing aircraft
 - No expected impact to gearing, as net debt level would remain
 - Liquidity ratio going forward will exclude restricted cash. The new liquidity ratio will equate to 14% to 20%

Historical liquidity ratio



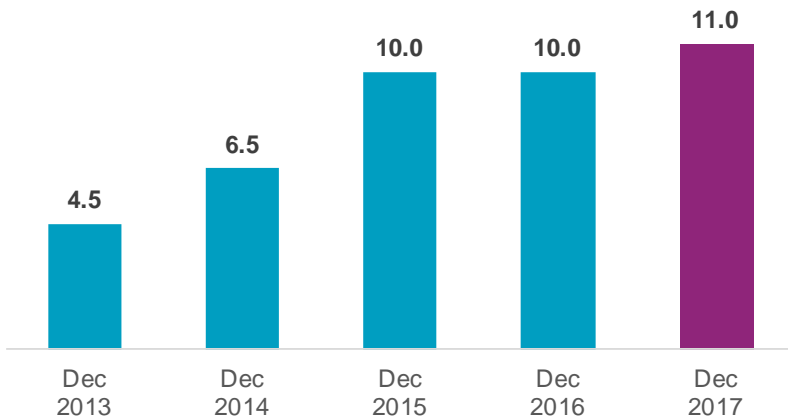


Interim dividend increased 10%

2018 INTERIM RESULT

Interim dividend declared

(cents per share)



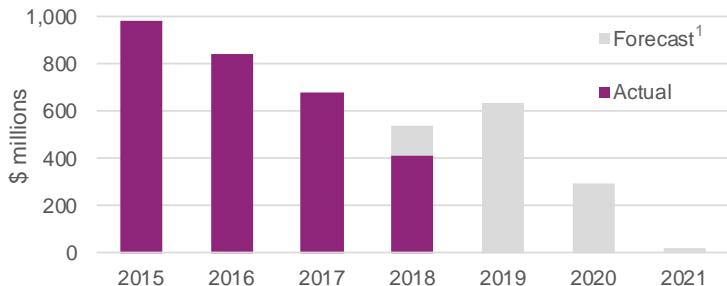
- Gearing was 52.4%, increasing 0.6 percentage points from June 2017, driven by continued investment in fleet
 - Target gearing range is 45% to 55%
- Stable outlook **Baa2** rating from Moody's
- Fully imputed interim dividend of 11.0 cents per share, a 10% increase from prior period



Fleet update

2018 INTERIM RESULT

Actual and forecast aircraft capital expenditure²



Aircraft delivery schedule (as at 31 December 2017)

		Number in existing fleet	Number on order	Delivery Dates (financial year)			
				2H 2018	2019	2020	2021
Owned fleet on order	Boeing 787-9	11	1	-	1	-	-
	Airbus A320/A321 NEOs ¹	-	8	-	6	2	-
	ATR72-500/600	26	12	2	4	6	-
Operating leased aircraft	Boeing 787-9 ³	-	2	-	1	1	-
	Airbus A320/A321 NEOs	-	5	-	4	1	-

- Forecast investment of ~\$1.1 billion¹ in aircraft and associated assets over the next 3.5 years
- Assumes NZD/USD = 0.72
- Targeting replacement of B777-200 fleet from 2022; aircraft selection is in progress
 - No assumptions on B777-200 replacement capital expenditure are included in forecast
- In final stages of confirming a new operating lease agreement for one Boeing 787-9 aircraft, bringing total forecast fleet to 14 by end of 2020 financial year

¹ Excludes orders of up to five A320/A321 NEOs with purchase substitution rights.

² Includes progress payments on aircraft.

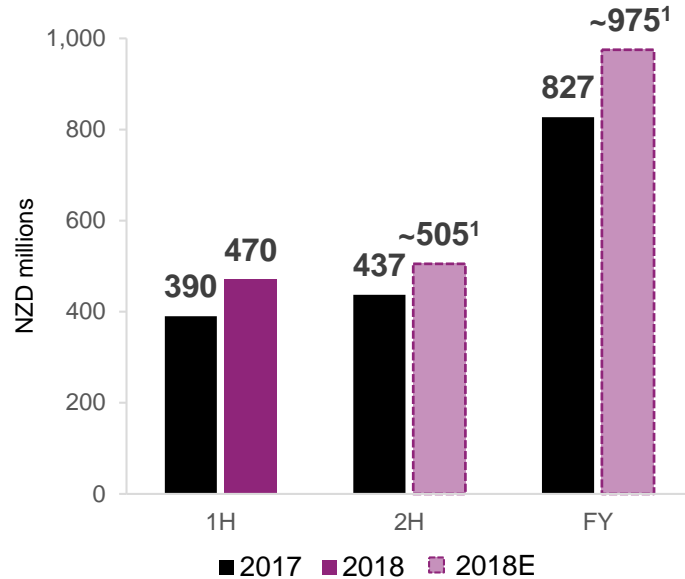
³ In final stages of confirming lease for delivery in 2020 financial year.



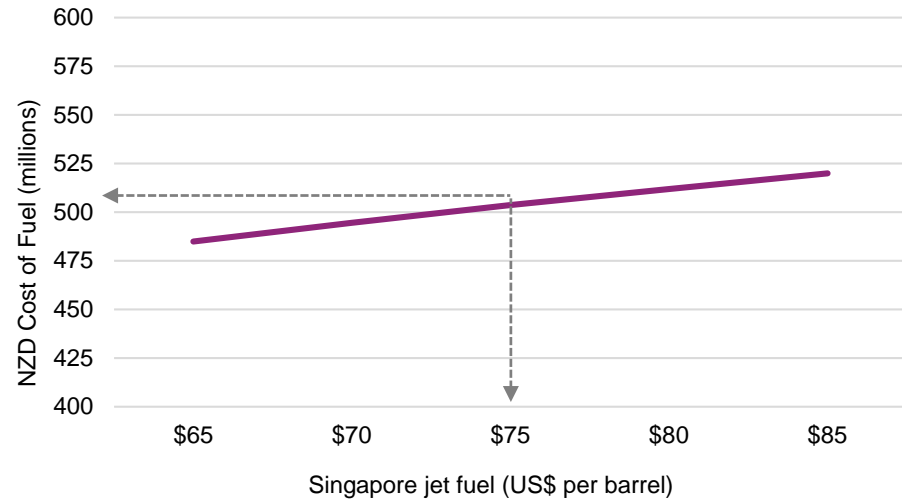
Fuel cost outlook and sensitivities for 2H 2018

2018 INTERIM RESULT

2018 Fuel cost outlook



2H 2018 Fuel cost sensitivity (inclusive of hedging)



¹ Assumes average jet fuel price of US\$75 per barrel for the second half of the 2018 financial year and a NZD/USD rate of 0.72.

OUTLOOK

Christopher Luxon
Chief Executive Officer

Continued strength in short-haul markets driving targeted growth opportunities in 2H 2018



2018 INTERIM RESULT

TRANS-TASMAN

- Positive market dynamics following competitor exit from AKL-SYD
- Additional competitor capacity reductions in Melbourne and Brisbane in 2H expected to drive continued strength
- ✎ Targeted capacity growth in 2H
- ✎ Wide-body flying on key routes driving increased premium seats

PACIFIC ISLANDS

- Strong outbound New Zealand leisure traffic expected to continue
- Competitor capacity changes create varying dynamics
- ✎ Ramp up of capacity in 2H driven by better utilisation of B787 Dreamliner aircraft during seasonal low period
- ✎ Increased wide-body flying on Samoa and Fiji

DOMESTIC

- Underlying demand remains strong driven by tourism and positive economic climate
- Regional pullback from competitor over peak season
- ✎ Trunk growth in 2H driven by additional services into Queenstown, Dunedin and Christchurch
- ✎ Regional routes growing slightly ahead of trunk, notably Napier and Nelson

• Denotes observation on market conditions.

✎ Denotes Air New Zealand actions.

Focused on strengthening and diversifying international long-haul demand



2018 INTERIM RESULT

JAPAN

- Improving demand as Kaikoura earthquake in Nov 2016 lags
- ✎ Full year impact of new Haneda service to complement Narita and boost connectivity from within Japan

NORTH AMERICA

- Competitor capacity reduced during off-peak season
- ✎ Newly configured B787-9 with increased premium seats launched on Houston in Dec 2017
- ✎ Additional frequency during peak and extending season to Vancouver in 2H

ASIA (ex: Japan)

- Singapore popular gateway serving South East Asia, Europe and India for both outbound and inbound traffic
- Chinese carrier capacity lapping, with capacity adjustments in low season.
- ✎ Growing Singapore with 3rd daily service commencing Oct 2018 with alliance partner Singapore Airlines
- ✎ Commencing new Taipei direct service in Nov 2018, aligned with Pacific Rim strategy

SOUTH AMERICA

- ✎ Additional frequencies over peak and shoulder months
- ✎ Leveraging Australian traffic via Auckland

- Denotes observation on market conditions.
- New route.
- ✎ Denotes Air New Zealand actions.

Targeted capacity growth ramps up in 2H, driven by improved asset utilisation



2018 INTERIM RESULT

Sector	1H 2018 capacity	2H 2018 capacity	2H Commentary	Full year capacity
Domestic	+5.2%	~+6%	<ul style="list-style-type: none"> Trunk growth in 2H driven by additional services into Queenstown, Dunedin and Christchurch Regional routes growing slightly ahead of trunk, notably Napier and Nelson 	~+6%
Tasman & Pacific Islands	+4.6%	~+14%	<ul style="list-style-type: none"> Growth through up-gauge and increased fleet utilisation Trans-Tasman ~7%, driven by competitive capacity changes Pacific Islands ~30% driven by longer sector flying and selected up-gauge 	~+9%
International Long-haul	+2.3%	~+5%	<ul style="list-style-type: none"> Driven by Haneda flying in off-peak Increased peak season flying for Vancouver and Buenos Aires 	~+4%
Group	+3.4%	~+8%		~+5%



Reaffirming 2018 outlook despite jet fuel increase

2018 INTERIM RESULT

Looking to the remainder of the year,
we are optimistic about the overall market dynamics.

Based upon the current market conditions and
despite the increased price of jet fuel, the Company is still
expecting 2018 earnings before taxation to exceed the prior year.



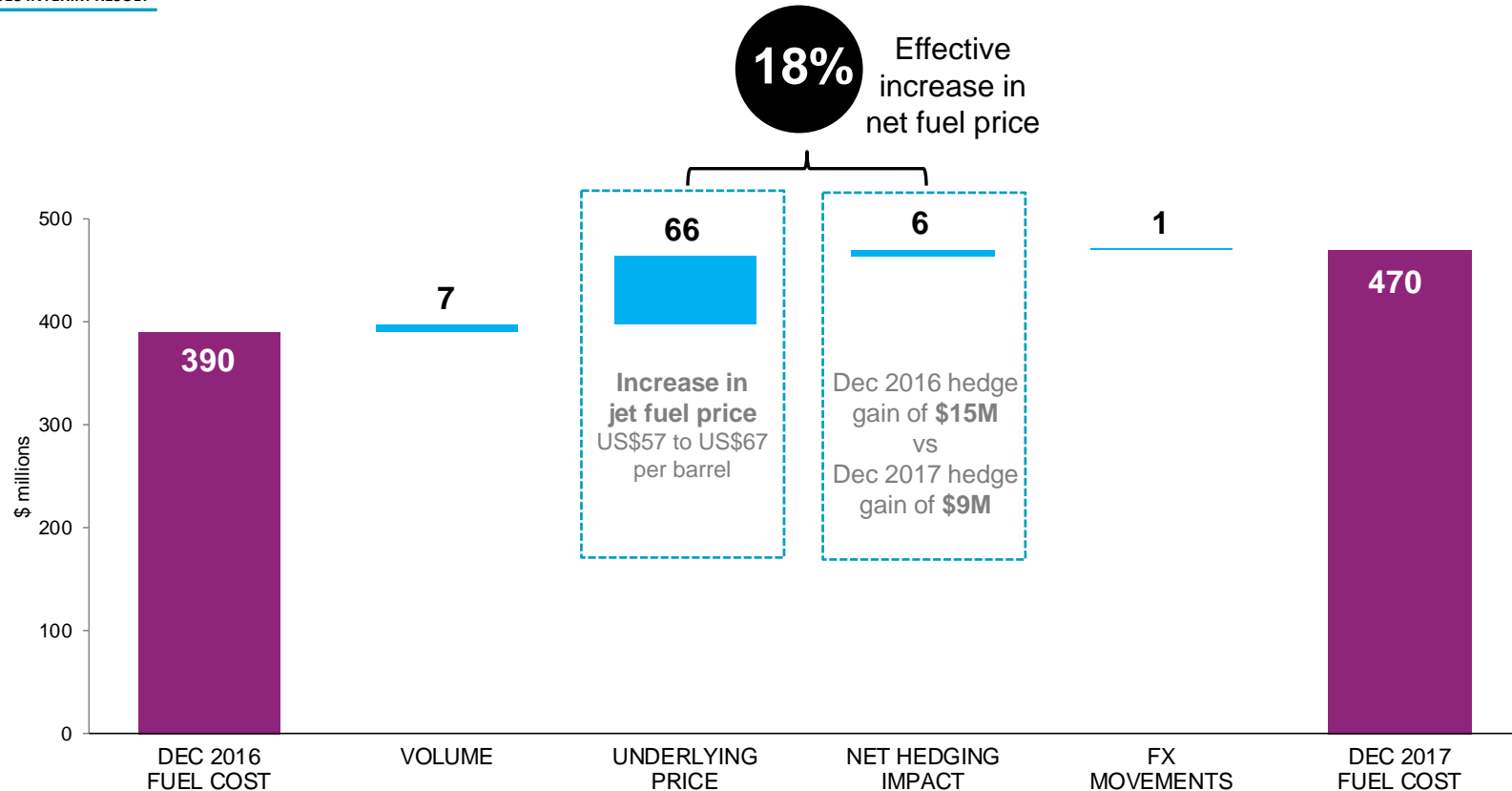
Thank you

**SUPPLEMENTARY
SLIDES**



Fuel cost movement in the period

2018 INTERIM RESULT





Hedging update

2018 INTERIM RESULT

Fuel hedging

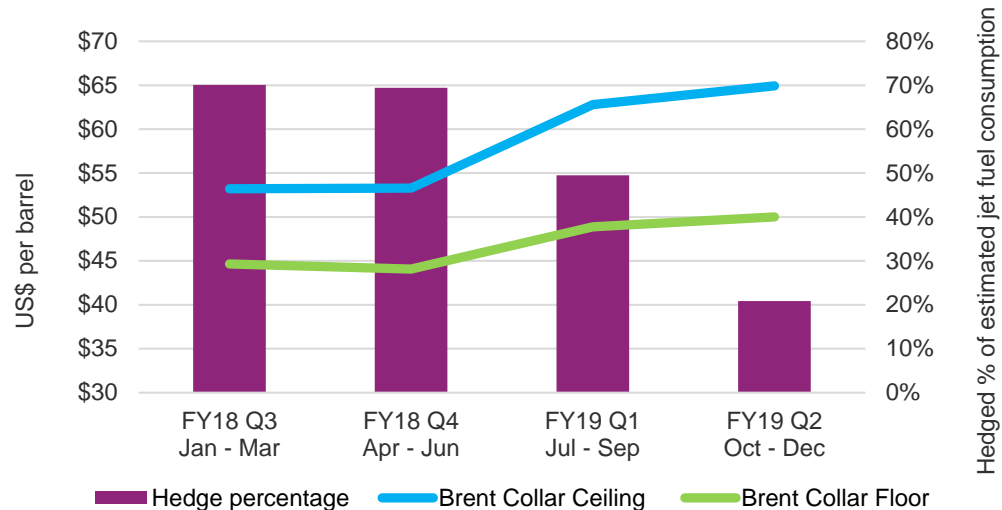
- 70% of estimated volumes hedged in 2H 2018
 - Protection against adverse spikes in fuel
 - Allows for pricing participation should oil prices fall
- 35% of 1H 2019 estimated volumes currently hedged
 - Reflects backwardation of Brent forward curve

Foreign exchange hedging

- 2H 2018 hedges for US\$447 million at a NZD/USD rate of 0.716
- 2019 hedges for US\$372 million at a NZD/USD rate of 0.716

Fuel hedge position

(as at 14 February 2018)





Financial overview

2018 INTERIM RESULT

	Dec 2017 \$M	Dec 2016 \$M	Movement \$M	Movement %
Operating revenue	2,729	2,584	145	5.6%
Earnings before taxation	323	349	(26)	(7%)
Net profit after taxation	232	256	(24)	(9%)
Operating cash flow	479	376	103	27%
Cash position*	1,340	1,369	(29)	(2%)
Gearing*	52.4%	51.8%		(0.6 pts)
Ordinary dividends declared**	11.0 cps	10.0 cps		10.0%

* Comparative is for 30 June 2017.

** Dividends are fully imputed.



Group performance metrics

2018 INTERIM RESULT

	Dec 2017	Dec 2016	Movement*
Passengers carried ('000s)	8,530	8,086	5.5%
Available seat kilometres (ASKs, millions)	22,138	21,409	3.4%
Revenue passenger kilometres (RPKs, millions)	18,274	17,790	2.7%
Load factor	82.5%	83.1%	(0.6 pts)
Passenger revenue per ASKs as reported (RASK, cents)	10.6	10.3	2.0%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.6	10.3	2.5%

* Calculation based on numbers before rounding.



Domestic

2018 INTERIM RESULT

	Dec 2017	Dec 2016	Movement*
Passengers carried ('000s)	5,564	5,207	6.9%
Available seat kilometres (ASKs, millions)	3,491	3,319	5.2%
Revenue passenger kilometres (RPKs, millions)	2,851	2,649	7.6%
Load factor	81.7%	79.8%	1.9 pts
Passenger revenue per ASKs as reported (RASK, cents)	21.6	20.7	4.4%
Passenger revenue per ASKs, excluding FX (RASK, cents)	21.6	20.7	4.4%

* Calculation based on numbers before rounding.



Tasman & Pacific Islands¹

2018 INTERIM RESULT

	Dec 2017	Dec 2016	Movement*
Passengers carried ('000s)	1,938	1,853	4.6%
Available seat kilometres (ASKs, millions)	6,553	6,265	4.6%
Revenue passenger kilometres (RPKs, millions)	5,385	5,104	5.5%
Load factor	82.2%	81.5%	0.7 pts
Passenger revenue per ASKs as reported (RASK, cents)	10.0	9.4	6.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.9	9.4	5.9%

* Calculation based on numbers before rounding.

¹ Pacific Islands including Bali and Hawaii.



International

2018 INTERIM RESULT

	Dec 2017	Dec 2016	Movement*
Passengers carried ('000s)	1,028	1,026	0.2%
Available seat kilometres (ASKs, millions)	12,094	11,825	2.3%
Revenue passenger kilometres (RPKs, millions)	10,038	10,037	0.0%
Load factor	83.0%	84.9%	(1.9 pts)
Passenger revenue per ASKs as reported (RASK, cents)	7.7	8.0	(3.3%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.8	8.0	(2.0%)

* Calculation based on numbers before rounding.

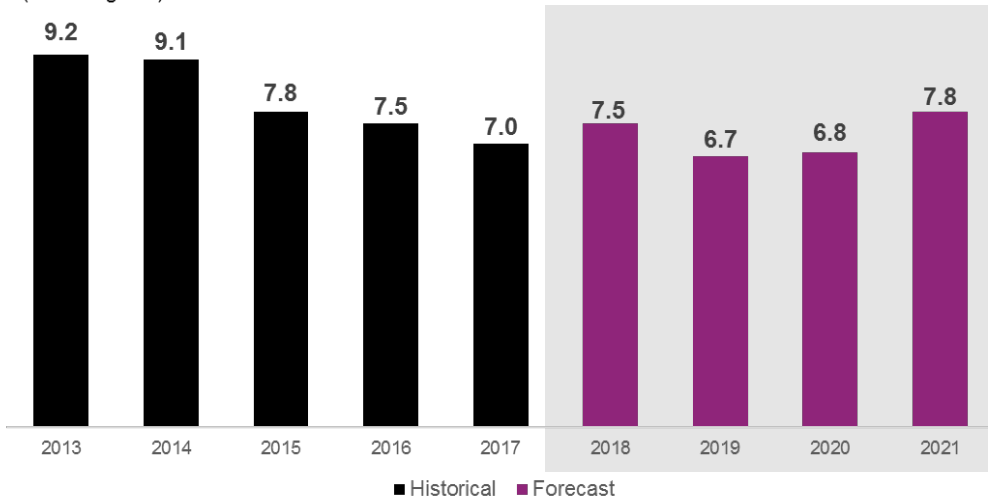


Projected aircraft in service and fleet age

2018 INTERIM RESULT

Aircraft fleet age in years

(seat weighted)



	2018	2019	2020	2021
Boeing 777-300ER	7	7	7	7
Boeing 777-200ER	8	8	8	8
Boeing 787-9*	11	13	14	14
Airbus A320	30	22	20	20
Airbus A320/A321 NEO	-	10	13	13
ATR72-600	19	23	29	29
ATR72-500	8	5	-	-
Bombardier Q300	23	23	23	23
Total Fleet	106	111	114	114

* Currently finalising lease agreement for delivery of a Boeing 787-9 aircraft in the 2020 financial year.



Glossary of terms

2018 INTERIM RESULT

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 aircraft operating leases
Liquidity Ratio	Total cash (comprising Bank and short-term deposits, interest-bearing assets and non-interest bearing assets as at the end of the financial period divided by total operating revenue for that financial period
Net Debt	Interest-bearing liabilities, less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities, interest-bearing assets and non-interest bearing assets, 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 (referring to Cargo)	Cargo revenue for the period divided by freight tonne 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. 32

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