

A STAR ALLIANCE MEMBER 

AIR NEW ZEALAND 

INTERIM FINANCIAL RESULTS

2019

28 FEBRUARY 2019

NZX: **AIR** | ASX: **AIZ** | US OTC: **ANZFY**



Forward-looking statements

This presentation contains forward-looking statements. Forward-looking statements often include words such as “anticipate”, “expect”, “intend”, “plan”, “believe”, “continue” or similar words in connection with discussions of future operating or financial performance.

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Business update

Christopher Luxon

Chief Executive Officer

AIR NEW ZEALAND 



A STAR ALLIANCE MEMBER 

An agile culture, focused on quickly adjusting to changing market dynamics

- Strong interim result despite significantly higher fuel prices and the financial impact of schedule disruptions related to B787-9 engine maintenance
- While revenue growth was robust in 1H, weaker than expected forward bookings outlook in 2H suggest a shift in demand dynamics
- Looking ahead, expect growth but at a slower level, as indicated in revised 2019 earnings outlook¹
 - Most visible in forward bookings for domestic leisure and inbound tourism traffic
 - Closely monitoring other channels and markets
- Comprehensive review of network, fleet and cost base progressing well, with update expected by the end of next month
 - Focus on return to earnings growth and ROIC improvement in the lower revenue growth environment

¹ As disclosed on 30 January 2019.

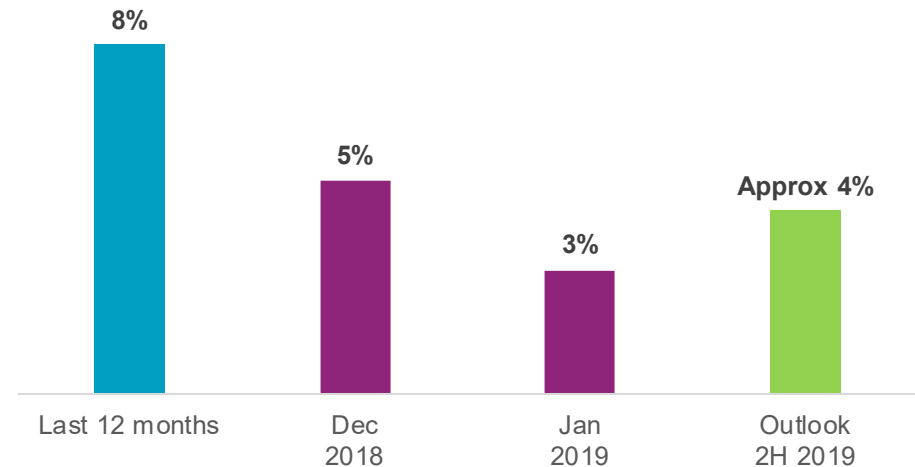




Domestic revenue still growing but at a slower rate, following 12 months of high single-digit growth

- In the past 12 months, Domestic revenue growth has been very strong
- This high rate of growth began to taper off in December and January, along with softer forward booking trends
- Growth still forecast across the remainder of the financial year, albeit at a slower rate
- Position in our core domestic market remains unmatched
 - Market share position has improved in the past year
 - World class regional network, flying to 20 destinations across the country
 - Remain focused on stimulating profitable demand

Domestic revenue growth
(year on year)



Utilising a variety of levers to respond to slower revenue growth environment



Reduced
capacity growth



Transform
Domestic pricing



Market
development

Maintaining our strategic focus and competitive advantage on the Pacific Rim



Leveraging our competitive advantages to connect New Zealanders with each other and the world

- Grow our home market with unmatched network and service offerings
- Explore profitable growth opportunities
- Increasing connection opportunities via Auckland
- Leveraging strength from alliance partnerships



Financial review

Jeff McDowall
Chief Financial Officer

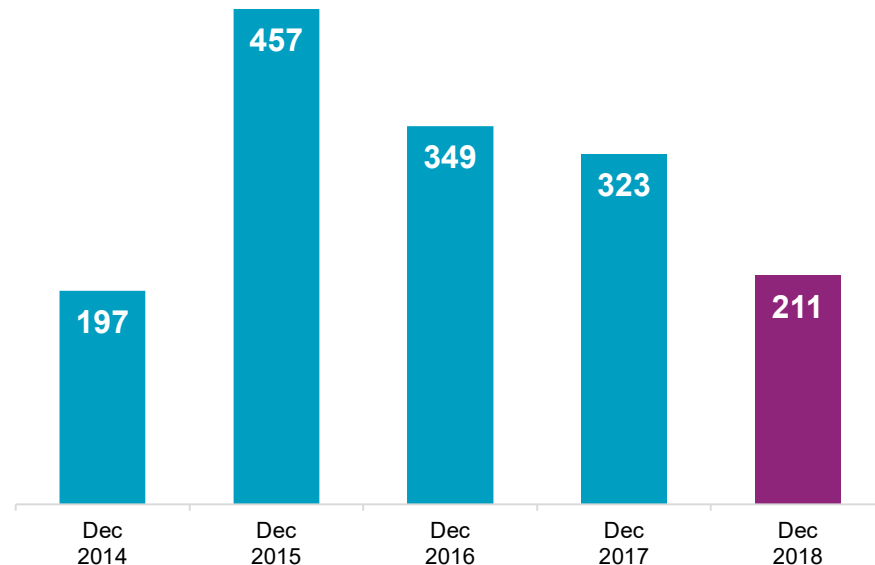


Financial highlights of 1H 2019

- Operating revenue **\$2.9 billion, up 7.1%**
- Earnings before taxation **\$211 million, down 35%**
- Net profit after taxation **\$152 million, down 34%**
- Operating cash flow **\$475 million, down 0.8%**



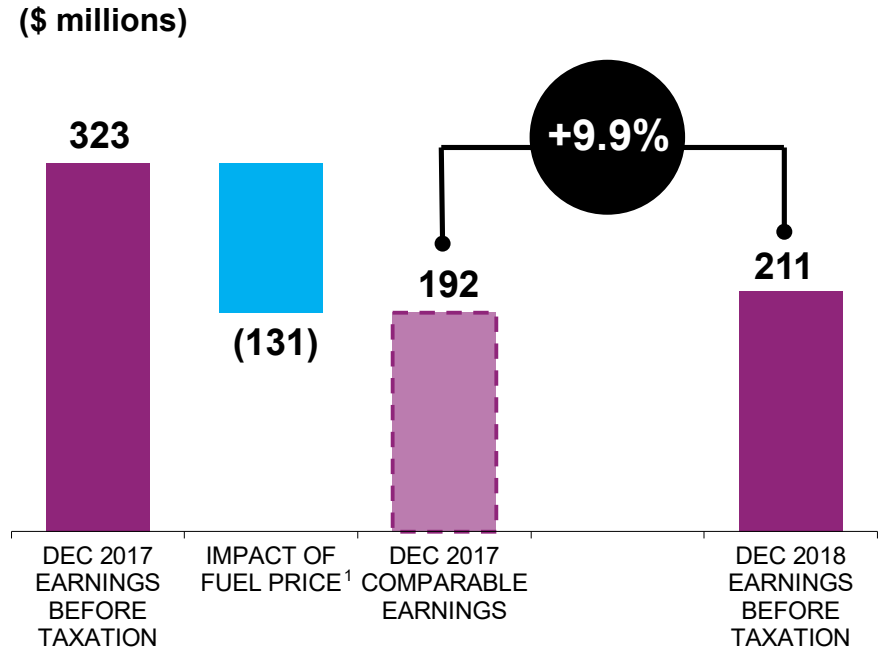
Earnings before taxation
(\$ millions)





Robust earnings growth after adjusting for fuel price headwind of \$131 million

- Underlying performance relatively strong, driven by revenue growth
- Net fuel price increased 28% for the period
 - Driven by an average jet fuel price of US\$87 per barrel compared to US\$67 per barrel in the prior period
 - Partially offset by increased hedging gains of \$15 million
- This resulted in a net fuel price headwind of \$131 million for the six month period alone – compared to a headwind of \$135 million for the full 2018 financial year.



¹ \$131 million impact related to fuel price increase; details on fuel cost movement provided in supplementary slides.

Benefits of strong revenue growth in 1H 2019 more than offset by challenging cost environment



Revenue

- Passenger revenue excluding FX **up 5.1%**; reported up 6.5%
 - Strong demand **up 5.3%** on capacity growth of **4.3%**
 - RASK excluding FX **up 0.8%**; reported up 2.1%
- Cargo revenue excluding FX **up 5.1%**; reported up 8.1%

Cost

- CASK¹ **increased slightly, up 1.6%**
 - Reported CASK including impact of fuel price up 9.5%
 - Non-fuel price increases partially offset economies of scale and efficiencies
- Reported fuel cost up \$179 million, 38%² driven by:
 - Average fuel price increase (net of hedging benefits) of **\$131 million, up 28%**
 - Weaker NZD adversely impacted fuel cost by \$40 million
 - Additional volume reflects capacity growth, offset by new aircraft efficiencies

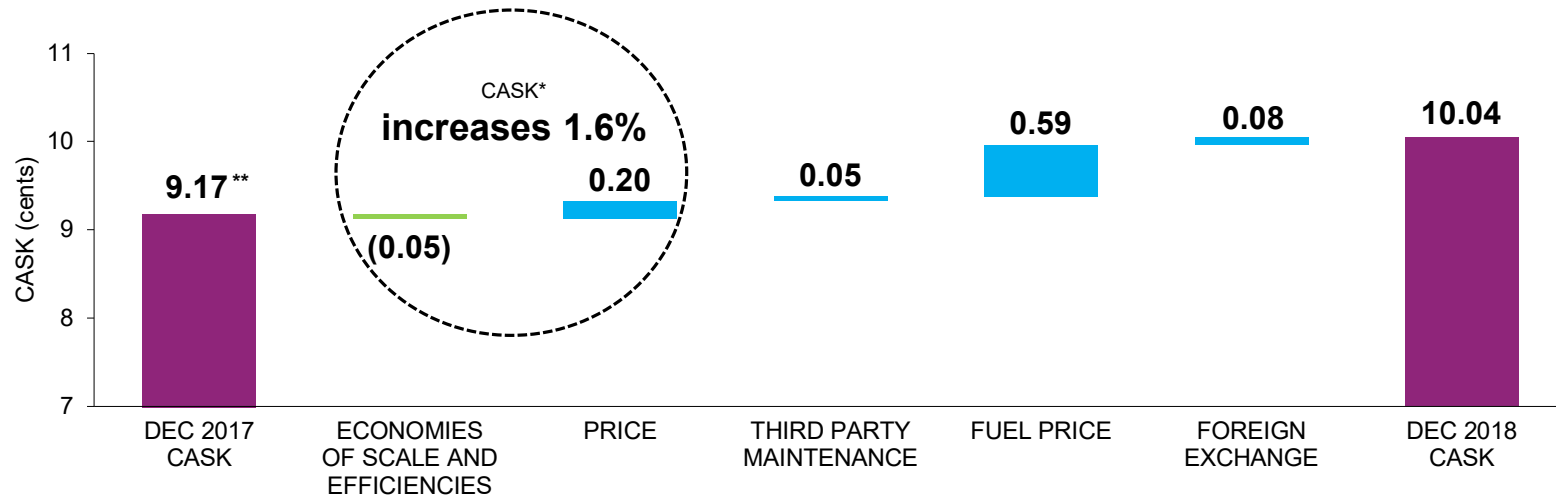
¹ Excluding fuel price movement, FX and third party maintenance.

² Fuel cost movement details provided in supplementary slides.



CASK* performance impacted by increased operational costs

- CASK* up **1.6%**, as non-fuel price increases and the costs associated with providing greater operational resilience more than offset economies of scale and efficiencies
 - Reported CASK increased 9.5%, driven by fuel price increase of 28%



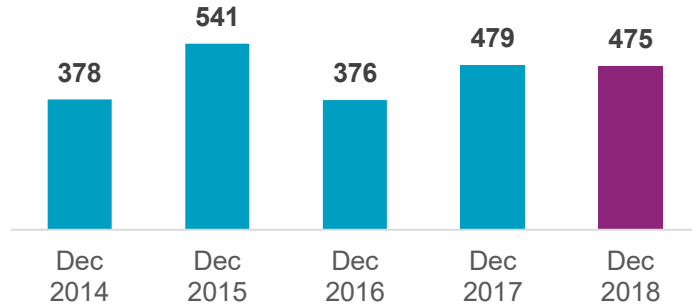
* Excluding fuel price movement, FX and third party maintenance.

** December 2017 comparative restated to reflect the adoption of NZ IFRS 15.

Robust operating cash flow and financial resilience in a challenging environment

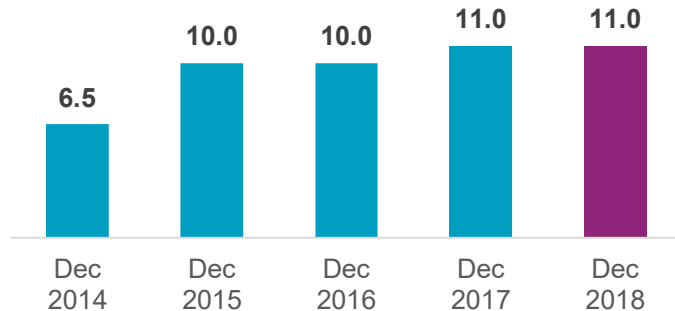


Operating cash flow (\$ millions)



- Strong operating cash flow of \$475 million, in-line with prior period
 - Strength in working capital cash flow and timing of tax payments offset by reduced earnings
- Stable outlook **Baa2** rating from Moody's
- Gearing of 56.4%, an increase of 4.0 percentage points from June 2018, driven by continued investment in fleet
 - Going forward we expect to return to target range of 45% to 55%
- Fully imputed interim dividend of **11.0** cents per share, consistent with the prior period
 - Looking through short-term earnings volatility to provide shareholders with a consistent and sustainable dividend

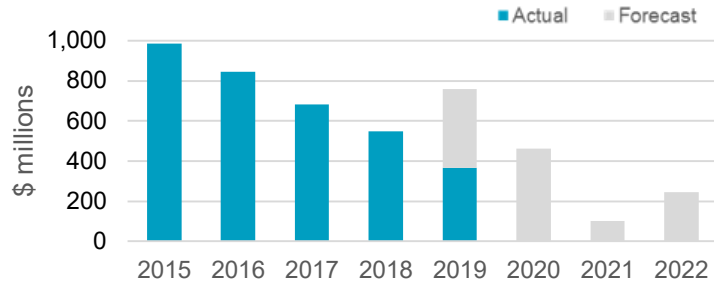
Interim dividend declared (cents per share)





Current fleet programme will wind down after 18 months

Actual and forecast aircraft capital expenditure*



- Forecast investment of **\$1.2 billion** in aircraft and associated assets through to 2022
- Assumes NZD/USD = 0.67
- No assumptions on B777-200 replacement capital expenditure are included in current forecast
 - Announcement expected in Q4 of current financial year

Aircraft delivery schedule (as at 31 December 2018)

		Number in existing fleet	Number on order	Delivery Dates (financial year)			
				2H 2019	2020	2021	2022
Owned fleet on order	Airbus A320/A321 NEOs	1	12**	5	4	-	3
	ATR72-600	21	8	2	6	-	-
Operating leased aircraft	Boeing 787-9	1	1	-	1	-	-
	Airbus A320/A321 NEOs	2	3	2	1	-	-

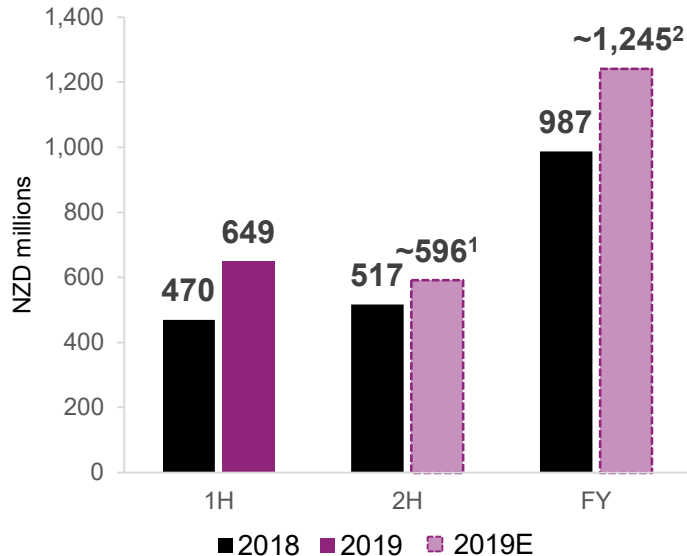
* Includes progress payments on aircraft.

** Does not reflect two additional A321 NEO aircraft on order for expected delivery in FY2024.

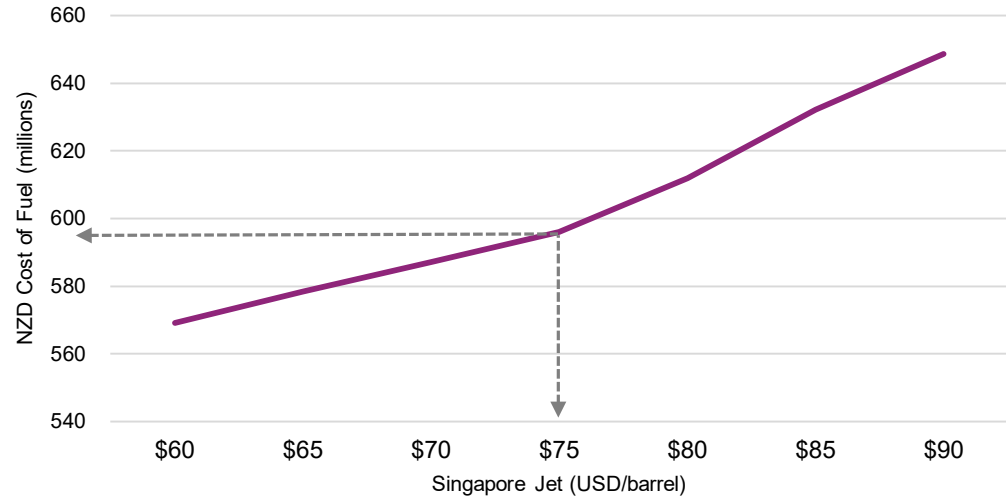


Fuel cost outlook and sensitivities for the remainder of FY2019

2019 Fuel cost outlook



2H 2019 Fuel cost¹ sensitivity (inclusive of hedging)



¹ Assumes an average jet fuel price of US\$75 per barrel for the second half of the 2019 financial year and a NZD/USD rate of 0.67.

² Assumes an average jet fuel price of US\$81 per barrel for the full 2019 financial year.

Outlook

Christopher Luxon

Chief Executive Officer



Moderated capacity growth in 2H to better reflect slower rate of revenue growth



Sector	1H 2019 capacity	2H 2019 capacity	2H Commentary	Full year capacity	Previous full year capacity plan ¹
Domestic	+2.9%	~+3%	<ul style="list-style-type: none"> Trunk growth in 2H reflects increased services into Dunedin and Queenstown Regional growth driven by additional services to Palmerston North and Tauranga, as well as growth in regional routes to/from Christchurch 	~+3%	+3% to +5%
Tasman & Pacific Islands ²	+7.9%	~+4%	<ul style="list-style-type: none"> Arrival of A321 NEO aircraft Additional Tasman frequency driving growth following the end of the Virgin Australia alliance Rationalising Pacific Islands capacity growth on the Honolulu, Denpasar and Apia routes 	~+6%	+7% to +9%
International Long-haul	+2.7%	~+4%	<ul style="list-style-type: none"> Driven by new Taipei and Chicago routes Second bank of flying on Auckland – Singapore route from the end of March 2019 Offset by reduced flying to San Francisco and LA 	~+4%	+3% to +5%
Group	+4.3%	~+4%		~+4%	+4% to +6%

¹ As disclosed at the 2018 Annual Results on 23 August 2018.

² Pacific Islands includes Bali and Honolulu.



2019 outlook provided on 30 January reaffirmed

Air New Zealand issued a revised outlook for the 2019 financial year on 30 January, prompted by slower revenue growth expectations in the second half of the year. The airline reaffirms that outlook statement for the financial year ending 30 June 2019.

Based upon current market conditions and assuming an average jet fuel price of US\$75 per barrel for the second half of the financial year, **2019 earnings before taxation is expected to be in the range of \$340 million to \$400 million.**

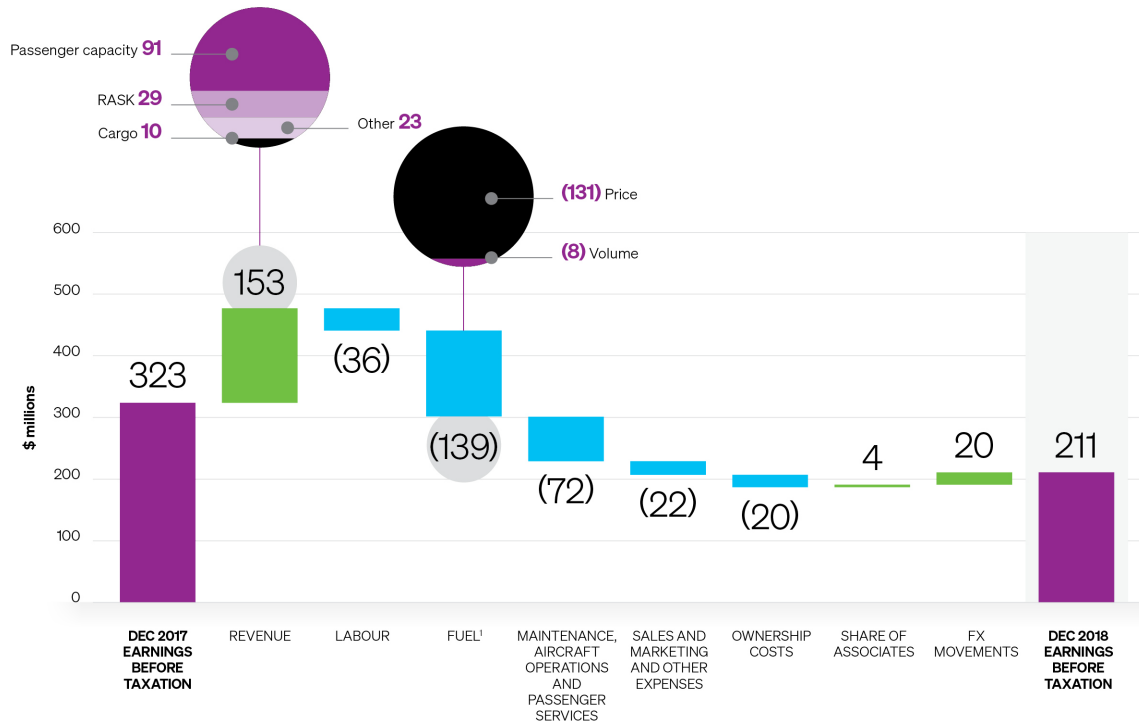


Thank you

Supplementary slides



Changes in profitability waterfall



Additional commentary

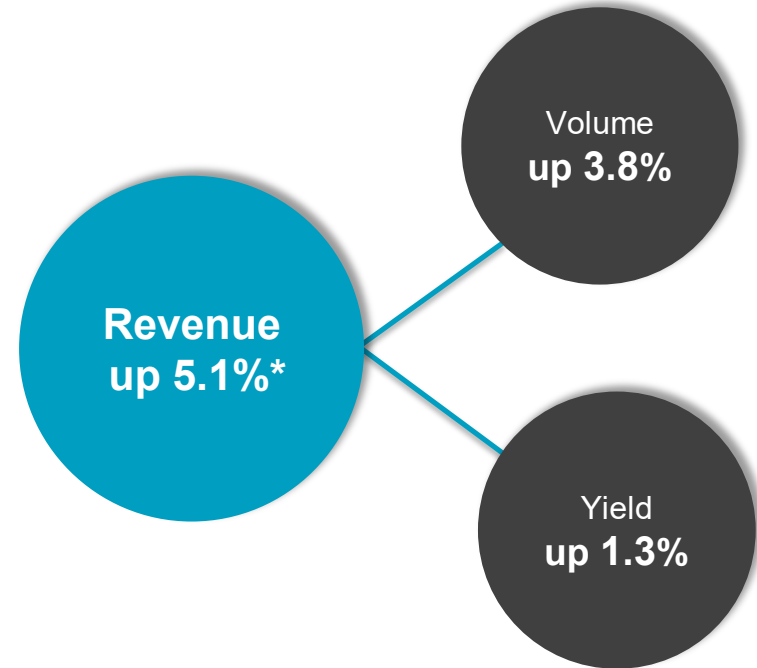
- Labour costs increased faster than capacity, driven by activity and rate increases as well as crew inefficiencies due to the B787-9 engine issues, partially offset by reduced incentive payments
- Maintenance, aircraft operations and passenger services costs reflect 4.3% capacity growth, pricing increases and third party maintenance activity
- Sales and marketing increase related to launching new Chicago and Taipei routes and higher commissions
- Ownership costs increased due to new aircraft offset by lower funding costs

¹ Excludes FX of \$40 million. For further details refer to Fuel Cost Movement slide 23.

Solid performance from the cargo business with higher volumes and yield



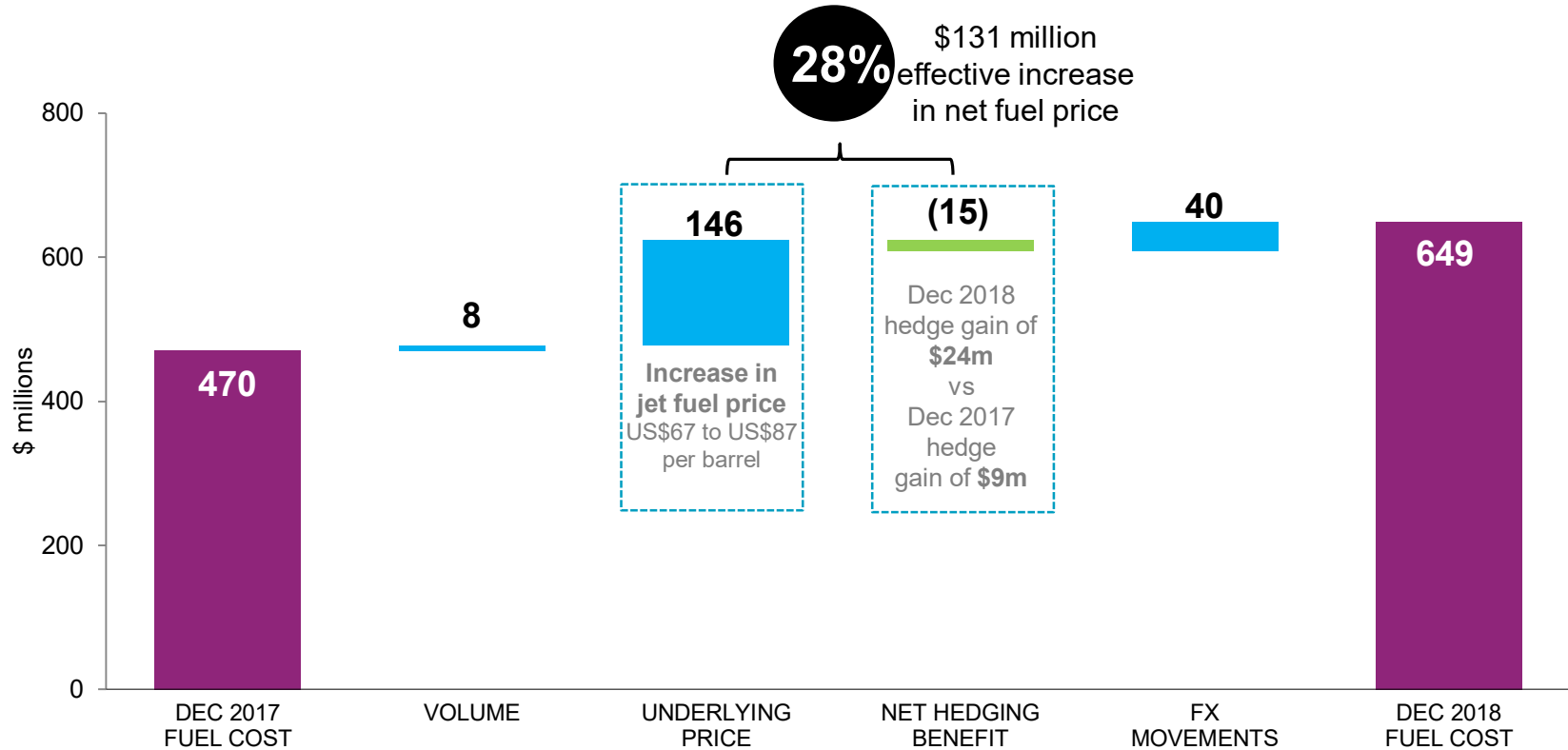
- Strong volume growth related to:
 - Increased capacity across North America and the Pacific Islands
 - Continued strength from high density cargo loads from Japan to the United States
 - Stronger loads in Europe and Japan
 - Offset by lower uplift across the Tasman
- Yield improvements driven by:
 - Higher value product mix



* Reported Cargo revenue increased 8.1%, inclusive of foreign exchange impact.



Fuel cost movement in the period





Hedging update

Fuel hedging

- 80% of estimated volumes hedged in 2H 2019¹
- 51% of 1H 2020¹ estimated volumes currently hedged
- Jet-Brent Crack Spreads entered into in 1H 2019¹ to manage volatility of the spread between Singapore Jet and Brent Crude prices

Foreign exchange hedging

- 2H 2019¹ hedges for US\$501 million at a NZD/USD rate of 0.69
- 2020¹ hedges for US\$448 million at a NZD/USD rate of 0.68

¹ Refers to Air New Zealand's financial year rather than a calendar year.



Financial overview

	Dec 2018 \$M	Dec 2017 \$M	Movement \$M	Movement %
Operating revenue	2,927	2,732	195	7.1%
Earnings before taxation	211	323	(112)	(35%)
Net profit after taxation	152	232	(80)	(34%)
Operating cash flow	475	479	(4)	(1%)
Cash position*	1,217	1,343	(126)	(9%)
Gearing*	56.4%	52.4%		(4.0 pts)
Ordinary dividends declared**	11.0 cps	11.0 cps		-

* Comparative is for 30 June 2018.

** Dividends are fully imputed.



Group performance metrics

	Dec 2018	Dec 2017	Movement*
Passengers carried ('000s)	8,895	8,530	4.3%
Available seat kilometres (ASKs, millions)	23,084	22,138	4.3%
Revenue passenger kilometres (RPKs, millions)	19,244	18,274	5.3%
Load factor	83.4%	82.5%	0.9 pts
Passenger revenue per ASKs as reported (RASK, cents)	10.8	10.6	2.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.7	10.6	0.8%

* Calculation based on numbers before rounding.



Domestic

	Dec 2018	Dec 2017	Movement*
Passengers carried ('000s)	5,755	5,564	3.4%
Available seat kilometres (ASKs, millions)	3,591	3,491	2.9%
Revenue passenger kilometres (RPKs, millions)	2,970	2,851	4.2%
Load factor	82.7%	81.7%	1.0 pts
Passenger revenue per ASKs as reported (RASK, cents)	22.5	21.6	4.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	22.4	21.6	3.7%

* Calculation based on numbers before rounding.



Tasman & Pacific Islands¹

	Dec 2018	Dec 2017	Movement*
Passengers carried ('000s)	2,074	1,938	7.0%
Available seat kilometres (ASKs, millions)	7,072	6,553	7.9%
Revenue passenger kilometres (RPKs, millions)	5,832	5,385	8.3%
Load factor	82.5%	82.2%	0.3 pts
Passenger revenue per ASKs as reported (RASK, cents)	9.9	10.0	(1.4%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.8	10.0	(2.0%)

¹ Pacific Islands including Bali and Hawaii.

* Calculation based on numbers before rounding.



International

	Dec 2018	Dec 2017	Movement*
Passengers carried ('000s)	1,066	1,028	3.7%
Available seat kilometres (ASKs, millions)	12,421	12,094	2.7%
Revenue passenger kilometres (RPKs, millions)	10,442	10,038	4.0%
Load factor	84.1%	83.0%	1.1 pts
Passenger revenue per ASKs as reported (RASK, cents)	8.0	7.7	3.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.8	7.7	0.6%

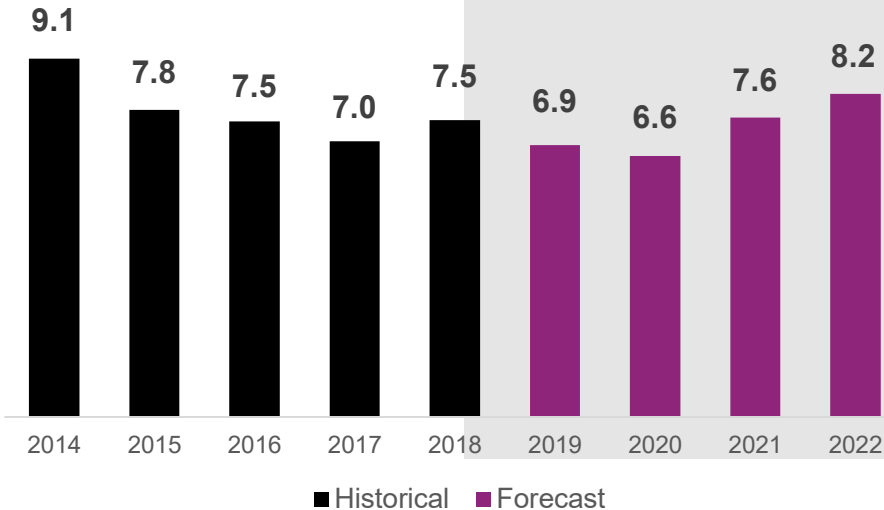
* Calculation based on numbers before rounding.



Projected aircraft in service and fleet age

Aircraft fleet age in years

(seat weighted)



	2019	2020	2021	2022
Boeing 777-300ER *	7	7	7	7
Boeing 777-200ER *	8	8	8	8
Boeing 787-9	13	14	14	14
Airbus A320	25	19	19	16
Airbus A320/A321 NEO	10	15	15	18
ATR72-600	23	29	29	29
ATR72-500	6	-	-	-
Bombardier Q300	23	23	23	23
Total Fleet	115	115	115	115

* Excludes short-term leases which provide cover for the Boeing 787-9 engine issues.



Glossary of key terms

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
Net Debt	Interest-bearing liabilities, less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities and interest-bearing assets, plus net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven (excluding short-term leases which provide cover for Boeing 787-9 engine issues)
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.

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AIR NEW ZEALAND 

The main logo features the text "AIR NEW ZEALAND" in a bold, italicized, sans-serif font. To the right of the text is a large, white, stylized logo consisting of a vertical line with a curved top and a horizontal base, similar to the smaller logo in the top right corner.

A STAR ALLIANCE MEMBER 

The text "A STAR ALLIANCE MEMBER" is in a clean, sans-serif font. To the right of the text is the Star Alliance logo, which is a stylized star composed of five triangles pointing towards the center.