

A STAR ALLIANCE MEMBER



AIR NEW ZEALAND 



# Investor Day 2019

27 May 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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# Today's speakers



**Christopher Luxon**

Chief Executive Officer



**Nick Judd**

Chief Strategy, Networks & Alliances Officer



**Cam Wallace**

Chief Revenue Officer



**Carrie Hurihanganui**

Chief Ground Operations Officer



**Jeff McDowall**

Chief Financial Officer



# Agenda

1:40pm – 3:00pm

3:00pm –  
3:15pm

Q&A  
session 1

3:15pm –  
3:25pm

Break

3:25pm – 4:10pm

4:10pm –  
4:30pm

Q&A  
session 2

4:30pm –  
5:30pm

Refreshments



**Christopher Luxon**  
Chief Executive Officer



**Nick Judd**  
Chief Strategy,  
Networks &  
Alliances Officer



**Cam Wallace**  
Chief Revenue Officer



**Carrie Hurihanganui**  
Chief Ground  
Operations Officer



**Jeff McDowall**  
Chief Financial  
Officer



# Business update

**Christopher Luxon**  
Chief Executive Officer



# Key messages you should take away from today

- We are resilient and adaptable, with the ability to respond quickly to changing macro conditions
- We have initiatives in place to drive sustainable cost improvement, earnings growth and improved ROIC in the lower demand environment
- We are committed to continued investment to support exceptional culture, to delivering a superior customer experience and to making strong commercial returns
- We are targeting strong free cash flow generation over the next three years

# Who we are

## Operational

79

years in operation

32

international destinations<sup>1</sup>

20

domestic destinations

## Pacific Rim

Focused network driven by alliance relationships

~12,500

Air New Zealand employees based globally

## Community

#1

corporate reputation in New Zealand for 5 consecutive years

#1

corporate reputation in Australia for 3 consecutive years

#1

New Zealand's most attractive employer

## Winner

2019 Eco-Airline of the year

## Financial

Baa2

investment grade credit rating from Moody's

13%

Annualised shareholder return over the past 10 years

16

Years of consecutive profitability<sup>2</sup>

14

years of consecutive dividend distributions

8%

Average dividend yield over the past 10 years

<sup>1</sup> Includes Seoul route which commences late November 2019.

<sup>2</sup> 2019 full year outlook as disclosed in the Business Review update on 28 March 2019.

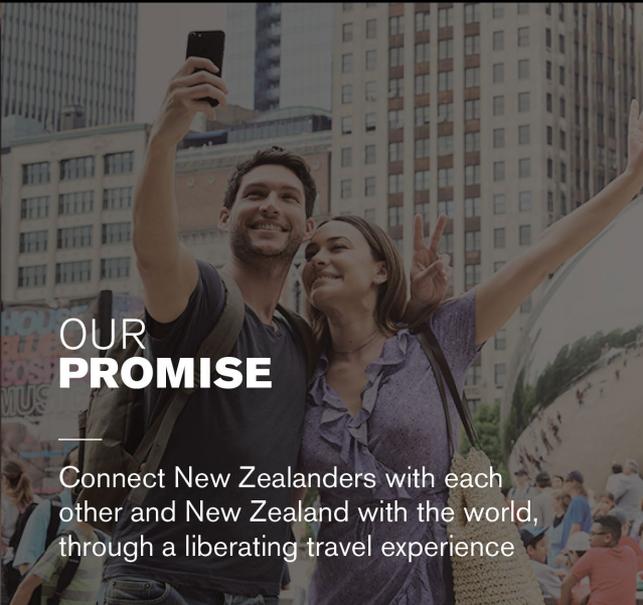
Our GoBeyond mission continues to guide our priorities for sustainable success

# GOBEYOND



## OUR PURPOSE

Supercharge New Zealand's success socially, economically and environmentally



## OUR PROMISE

Connect New Zealanders with each other and New Zealand with the world, through a liberating travel experience



## OUR OBJECTIVE

Create a world class organisation by delivering cultural, customer and commercial excellence

We are constantly striving for a successful balance between our customers, our culture and our commercial performance



# Despite network disruptions this year, our key customer metrics remain high, reflecting ongoing investment



World class  
customer satisfaction

## Record level

Overall customer satisfaction  
(stable year on year)



Top-ranked for trust,  
leadership & responsibility

## #1

Corporate Reputation in  
New Zealand and Australia  
(no change from 2018 rankings)



One of New Zealand's most  
loved & trusted brands

## 6pt ↑

Net promoter score  
(improvement from 2016)



# The power of our brand is embedded in our ~12,500 people and our continued investment in them



## Learning & Development

Continuous learning

Investment in mobility tools



## Diversity & Inclusion

Indigenous Growth  
Development Programme

New parental leave policy



## Future of Work

Reskilling

Automation



# We have the right business model and competitive advantages to sustain long-term commercial success...



## Our brand and Kiwi service culture

- ✓ Record level of customer satisfaction
- ✓ #1 Corporate Reputation in New Zealand and Australia
- ✓ New Zealand's Most Attractive Employer

## Customer loyalty, driven by strength of our domestic network and Airpoints™ programme

- ✓ 82% Domestic passenger market share
- ✓ Unmatched network and customer offering
- ✓ 3.2 million Airpoints™ members and growing

## Our alliance-driven Pacific Rim network

- ✓ Over 30 international destinations, focused on the Pacific Rim
- ✓ Deep revenue share partnerships de-risk international growth

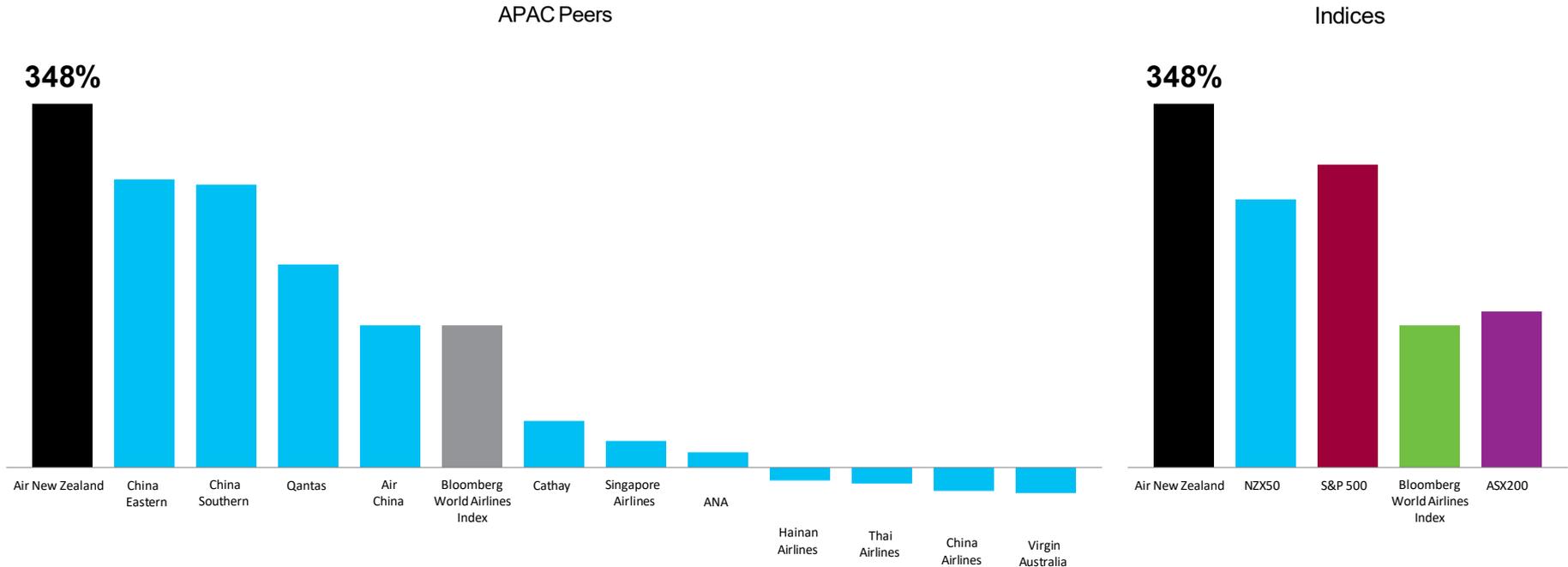
## Our simplified and fuel efficient fleet, with the ideal cost structure for the New Zealand market

- ✓ Young and modern fleet driving strong cost efficiencies
- ✓ Targeting flat-to-improving CASK performance

# ...as demonstrated by our shareholder return performance over the past 10 years



## 10 year total shareholder return



Source: Bloomberg, period ended as at 10 May 2019.

# We have faced some challenges this year which have impacted our financial and operational performance...

Rolls-Royce global engine issues impacted network and operating costs



Impacted ~2,500 flights, ~150 cancellations\*

Significant network disruption, driving additional costs to ensure operational resiliency for our customers

Moderation in demand growth to 3% to 5%



Mid-year saw softening of demand growth in domestic leisure segment from high single digits to ~4%, along with slowing inbound tourism growth

\* Network impacts for 2019 financial year through 20 May 2019.

# ...however, we are reaffirming our 2019 outlook from January, despite higher fuel prices

## Prior outlook\*

Based on the current market environment and expectations for the average jet fuel price in the second half of the year of **US\$75/bbl<sup>1</sup>**, we are targeting 2019 earnings before taxation to be in the range of **\$340 to \$400 million.**

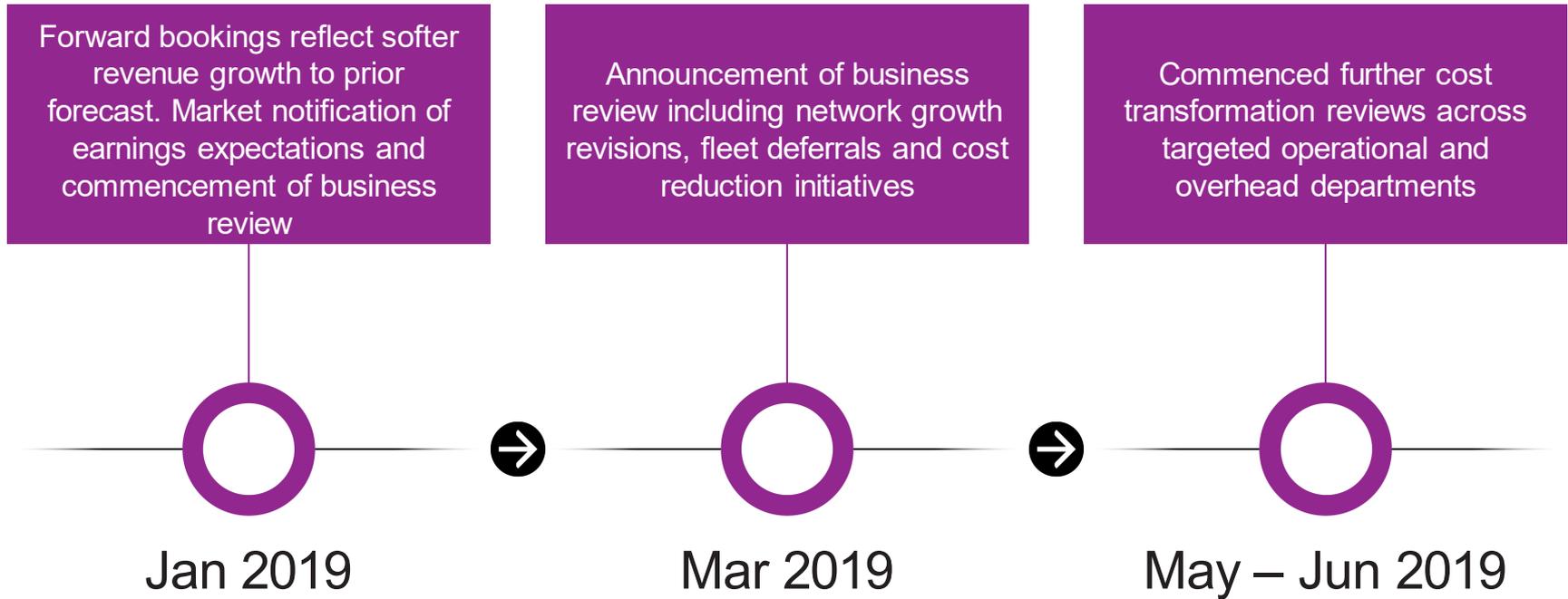
## Updating our 2019 outlook

Based on the current market environment and reflecting an additional ~\$25 million headwind from increased jet fuel prices (assuming an average price for the second half of the year of **US\$78/bbl<sup>1</sup>**), we are targeting 2019 earnings before taxation **to exceed \$340 million.**

\* Prior outlook as disclosed most recently at the Company's Business Review update on 28 March 2019.

<sup>1</sup> Prior outlook assumed an average Singapore jet fuel price for the full year of US\$81/bbl; Current outlook now assumes an average Singapore jet fuel price of US\$83/bbl for the 2019 financial year.

# We responded quickly to signs of a slowing growth environment...



# ...and took immediate and decisive action to adjust our business

## Network

- Revised medium term growth to 3% to 5% (from 5% to 7%)
- Focused on optimising network to maximise and diversify revenue
- Stimulate new demand
- A moderate rate of growth expected on existing routes

## Fleet

- Adjust aircraft deliveries to reflect slower growth environment
- Fleet deferrals of ~\$750 million
- Smoother capex profile in 2020-2022 period

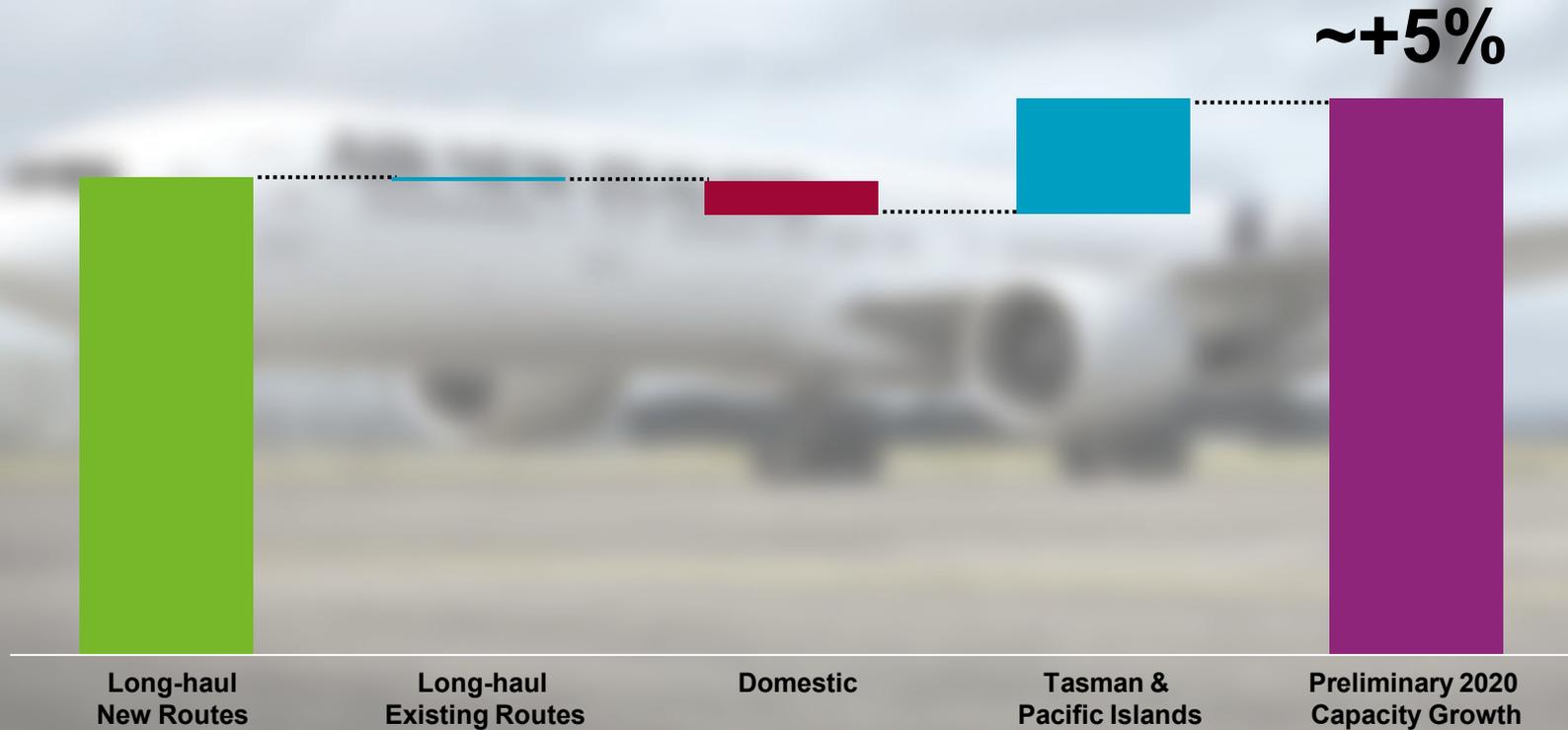
## Cost

- Launch of a two-year cost reduction programme
- Expecting to achieve an additional ~\$60 million in annualised savings over this period
- Focused on both operational and overhead costs

## Customer

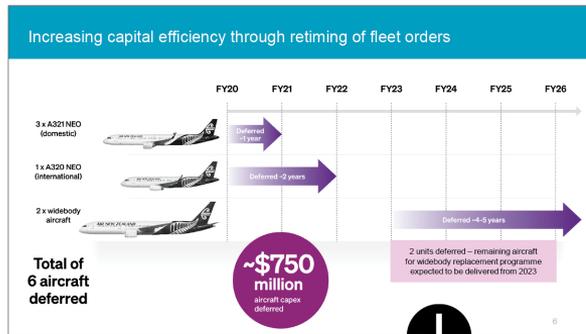
- Progressive roll-out of enhanced seats across multiple cabins
- New in-flight soft products including free Wi-Fi onboard enabled international flights
- Upgraded lounge facilities across the network

# Focused network strategy is demonstrated by our preliminary 2020 capacity plan



# Recent fleet deferral decisions support the 3% to 5% growth target...

Communicated  
as at 28 March:



Revised aircraft  
delivery schedule:

|                           |                       | Number in existing fleet <sup>1</sup> | Number on order <sup>1</sup> | Delivery Dates (financial year) |      |      |      |
|---------------------------|-----------------------|---------------------------------------|------------------------------|---------------------------------|------|------|------|
|                           |                       |                                       |                              | 2H 2019                         | 2020 | 2021 | 2022 |
| Owned fleet on order      | Airbus A320/A321 NEOs | 4                                     | 9 <sup>2</sup>               | 1                               | 1    | 3    | 4    |
|                           | ATR72-600             | 22                                    | 7                            | 1                               | 5    | 1    | -    |
| Operating leased aircraft | Boeing 787-9          | 1                                     | 1                            | -                               | 1    | -    | -    |
|                           | Airbus A320/A321 NEOs | 4                                     | 1                            | -                               | 1    | -    | -    |

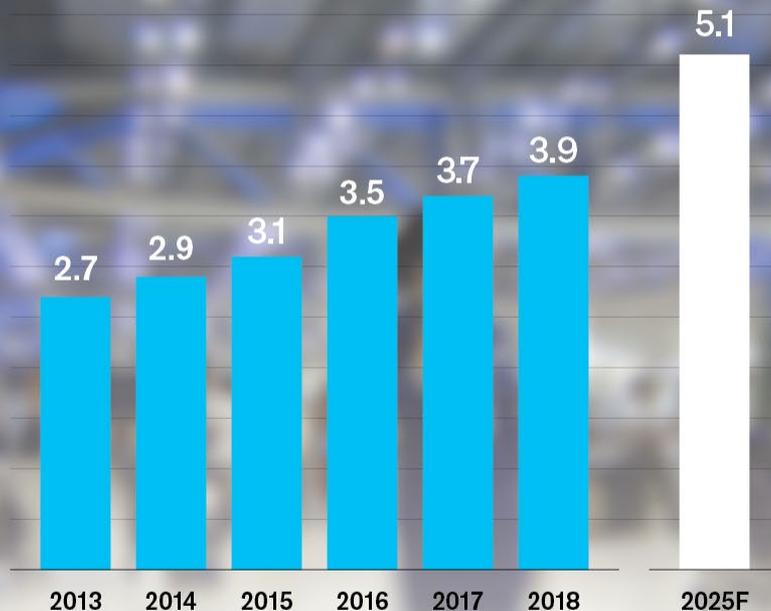
<sup>1</sup> Delivery schedule as at 26 May 2019.

<sup>2</sup> Does not reflect two additional A321 NEO aircraft on order for expected delivery in 2024.



...as do updated external forecasts reflecting a moderation of tourism growth rates...

Millions of visitors\*



**~4%**  
forecast annual  
visitor growth rate,  
down from ~5%  
last year

\* Stats New Zealand and Ministry of Business, Innovation and Employment.

The forecast annual growth rate of 4% represents the forecast CAGR for international visitor arrivals to New Zealand in the period 2018 to 2025.



...however, we continue to maintain fleet flexibility that we can leverage should the demand environment change

## Ability to **flex down** our fleet\*

**5** early termination options

**FY20**

one 777-300ER

**FY21**

two 777-300ERs\*\*  
two A320 domestics

**41** unencumbered aircraft by 2020

**Wide-body**

four 777-200ERs

**Narrow-body**

12 A320/A321s

**Turbo-prop**

23 Q300s  
two ATR72-600s

## Ability to **expand** the fleet

- Purchase growth units
- Incremental operating leases
- Use purchase rights and options for growth units

\* Does not include the widebody replacement programme aircraft or one for one replacement aircraft.

\*\* One of these options is only available if unexercised in 2020.

# Cost reduction programme targeting \$60 million in annualised savings by the end of 2021

The cost reduction programme is focused on three key pillars:

1

Removal of inefficiencies associated with the Rolls-Royce engine issues

*Savings expected to be achieved in 2020 & 2021*

2

~5% reduction in overheads through reprioritisation, process efficiencies and automation

*Savings expected to be achieved across 2020 & 2021*

3

A targeted review of the operations cost base

*Savings expected to be achieved across 2020 & 2021*

# We will continue to invest in the customer experience...

Customer app



Lounges



Wi-Fi



Aircraft interiors



# ...as demonstrated today with our commitment to purchase 8 787-10 Dreamliners from 2023

## Partnership with Boeing and GE provides many advantages



Superior operating economics when compared to 777-200



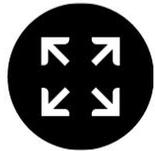
Able to perform a similar mission set to the current 777-200 fleet



Highly fuel-efficient, saving ~190,000 tonnes of carbon per annum



~95% commonality of parts with 787-9 offers significant efficiencies



Order flexibility for 787 aircraft type, size and timing



Engine supplier diversity



Selected airframe: Boeing 787-10



Selected engine: GEnx-1B

# What you will hear today

We have attractive opportunities to achieve medium-term network growth of 3% to 5%



We have numerous initiatives to drive strong revenue performance



We have multiple levers to drive continued operational efficiencies and productivity in the future



We are committed to disciplined capital deployment, with a focus on strong shareholder returns

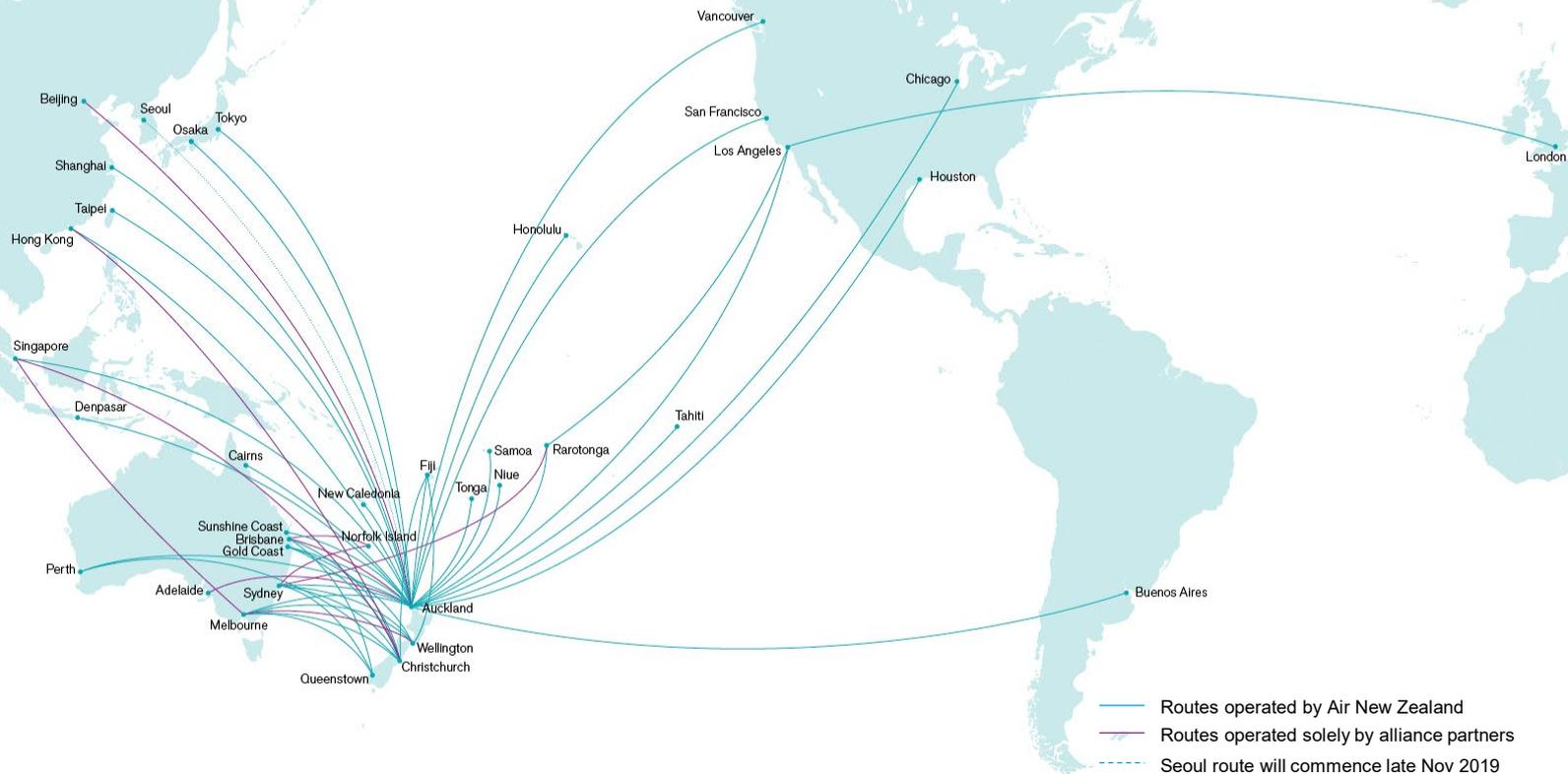




# Network opportunities

**Nick Judd**  
Chief Strategy, Networks & Alliances Officer

# We have a strong and diversified network with further opportunities for profitable growth



# Competitors are finding the New Zealand market difficult

In the past 24 months, competitive capacity growth into New Zealand has substantially slowed

At the same time, jet fuel prices have increased by

**~35%**

Asia

- Hong Kong Airlines exit from AKL-HKG in May 2019
- Exit of AirAsia X from AKL-OOL
- China airlines exit AKL-SYD and CHC-MEL/SYD

North America

Air Canada introducing seasonal service YVR-AKL from Dec 2019

Pacific Islands

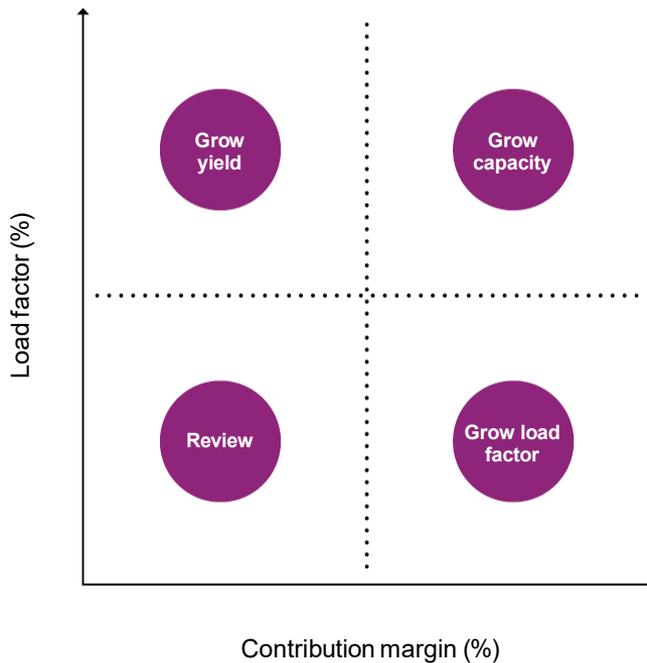
Emirates reduced services to Bali by ~15% less than six months after moving to daily services

Tasman

Virgin Australia reduced AKL-SYD, CHC-SYD and BNE-WEL capacity

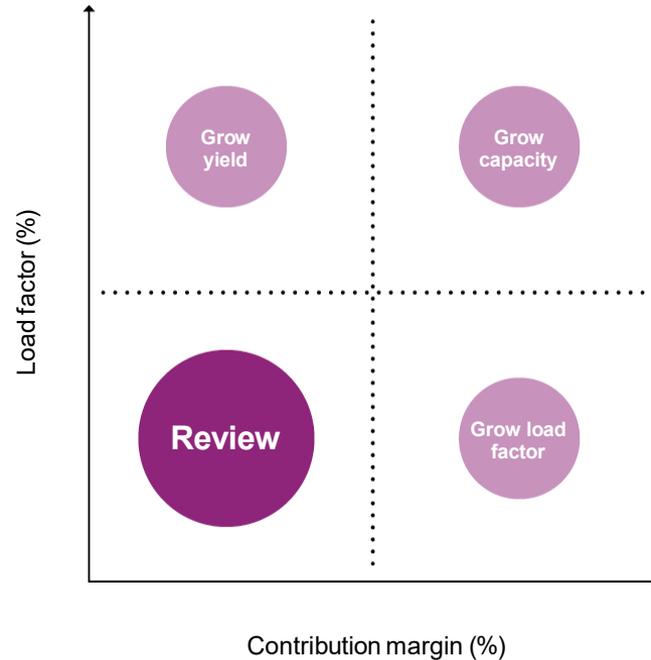
# Continuously focused on route performance and ensuring that our fleet is utilised in the best way possible

- All routes evaluated against their strategic objectives and profitability targets on a quarterly basis



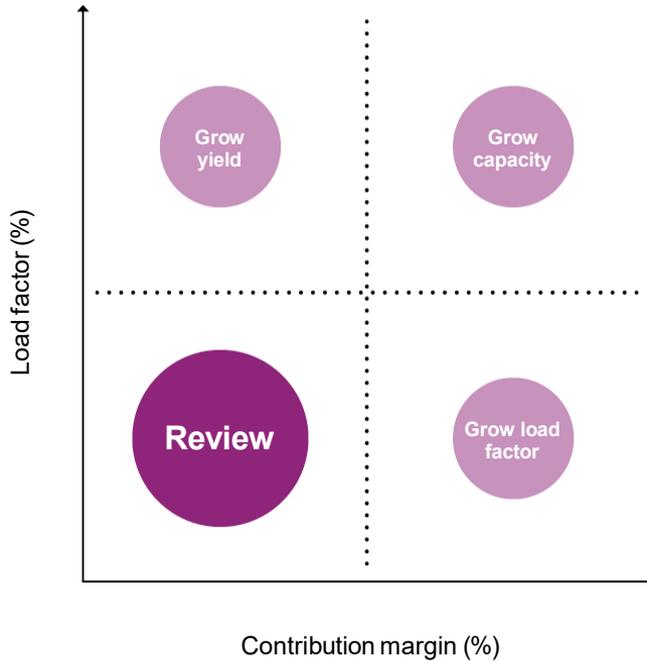
# Continuously focused on route performance and ensuring that our fleet is utilised in the best way possible

- All routes evaluated against their strategic objectives and profitability targets on a quarterly basis
  - Action plans created for routes in the 'review' quadrant
  - Decisive action taken where necessary



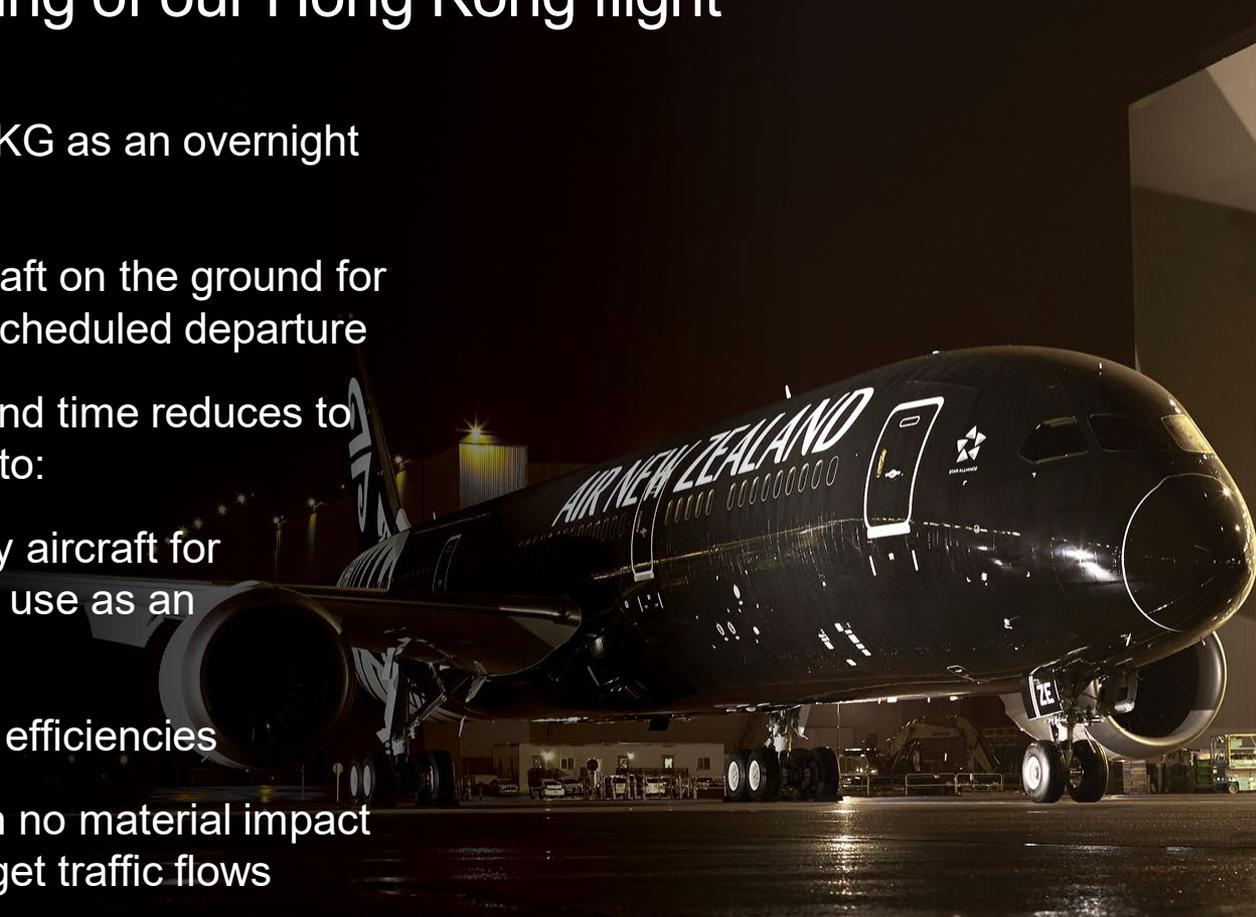
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- All routes evaluated against their strategic objectives and profitability targets on a quarterly basis
  - Action plans created for routes in the 'review' quadrant
  - Decisive action taken where necessary
- Routes need to stand on their own merit and make sense relative to other routes in the network



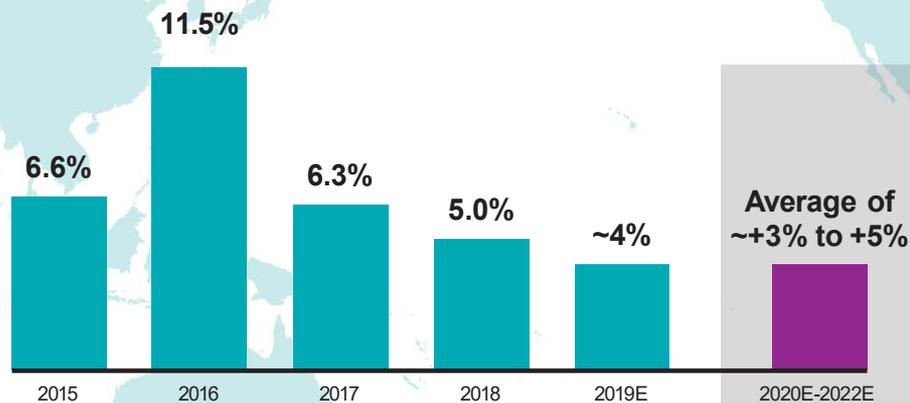
# Case Study: Re-timing of our Hong Kong flight

- Previously operated AKL-HKG as an overnight flight
- This left one widebody aircraft on the ground for ~11 hours before the next scheduled departure
- By re-timing this flight, ground time reduces to ~2 hours which enables us to:
  - Free up one widebody aircraft for additional flying or for use as an operational spare
  - Achieve greater crew efficiencies
  - Serve local traffic with no material impact on connectivity or target traffic flows



# Moderate network growth over the medium-term will be driven by three principles

Group capacity growth (Historical and current targets)



1

Attractive new markets

2

Upgrade aircraft

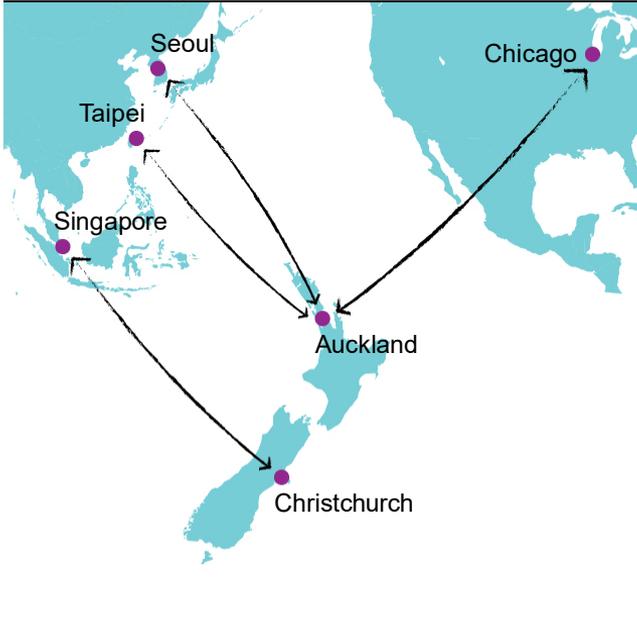
3

Maintain or constrain existing routes

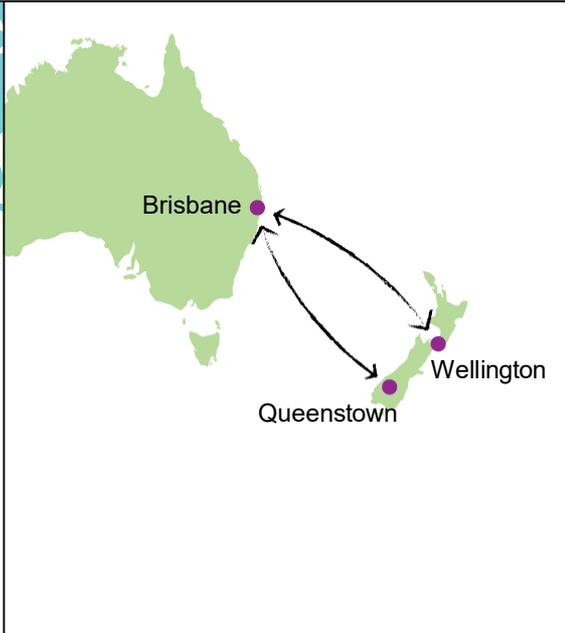
# Growth will be focused on stimulating demand from new markets

- 1 Attractive new markets
- 2 Upgrade aircraft
- 3 Greater flexibility

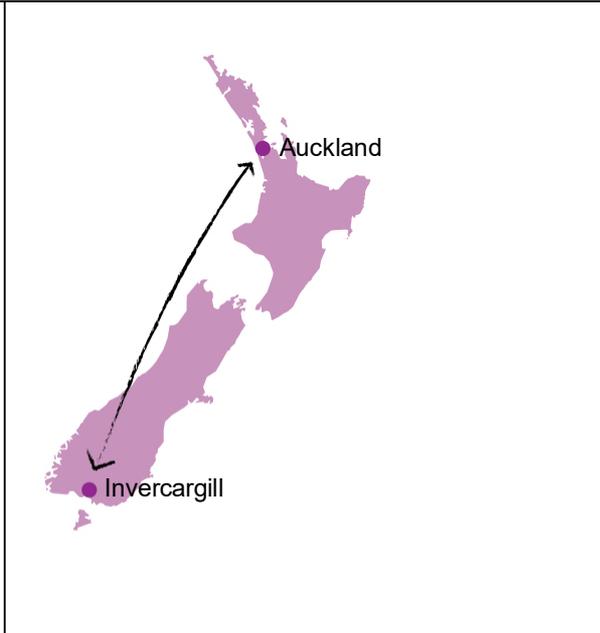
## Long-haul



## Tasman



## Domestic



# Case study: Diversifying demand in Asia by expanding into Seoul

1 Attractive new markets

2 Upgrade aircraft

3 Maintain or constrain existing routes

## Why Seoul?

- ✓ Inbound leisure demand is strong, with Seoul being New Zealand's third largest Asian market
- ✓ Currently ~40,000 Koreans living in New Zealand
- ✓ Demand is highly concentrated, with Seoul representing ~90% of travel demand
- ✓ Attractive yields
- ✓ Approximately 50% of travellers arrive on a one stop ticket, with most choosing to book online
- ✓ Existing sales presence, Star Alliance partner (Asiana Airlines) and trade relationships in-market



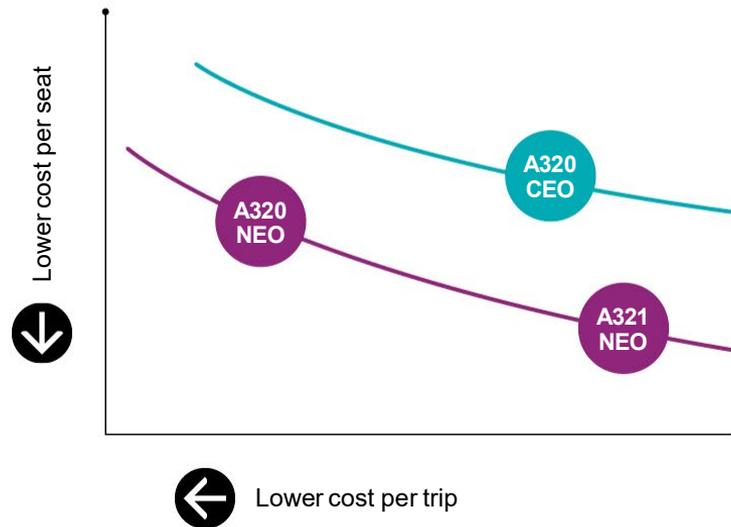
# NEO aircraft driving cost effective growth on Tasman and Pacific Islands markets

1 Attractive new markets

2 **Upgauged aircraft**

3 Maintain or constrain existing routes

## Realising cost efficiencies with upgauged aircraft



# Targeting positive RASK on existing routes with stable or slightly declining capacity

1 Attractive new markets

2 Upgrade aircraft

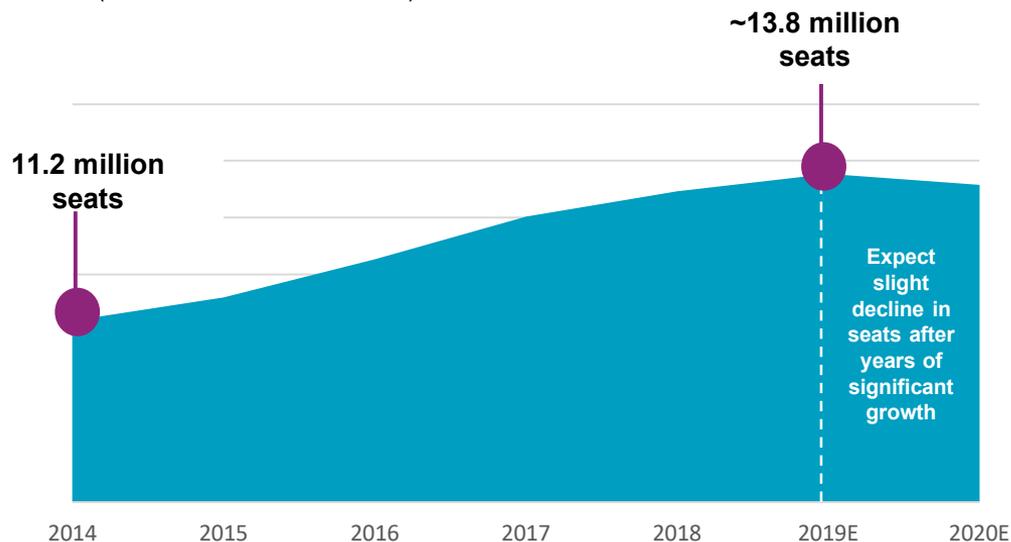
3 Maintain or constrain existing routes

## Domestic example

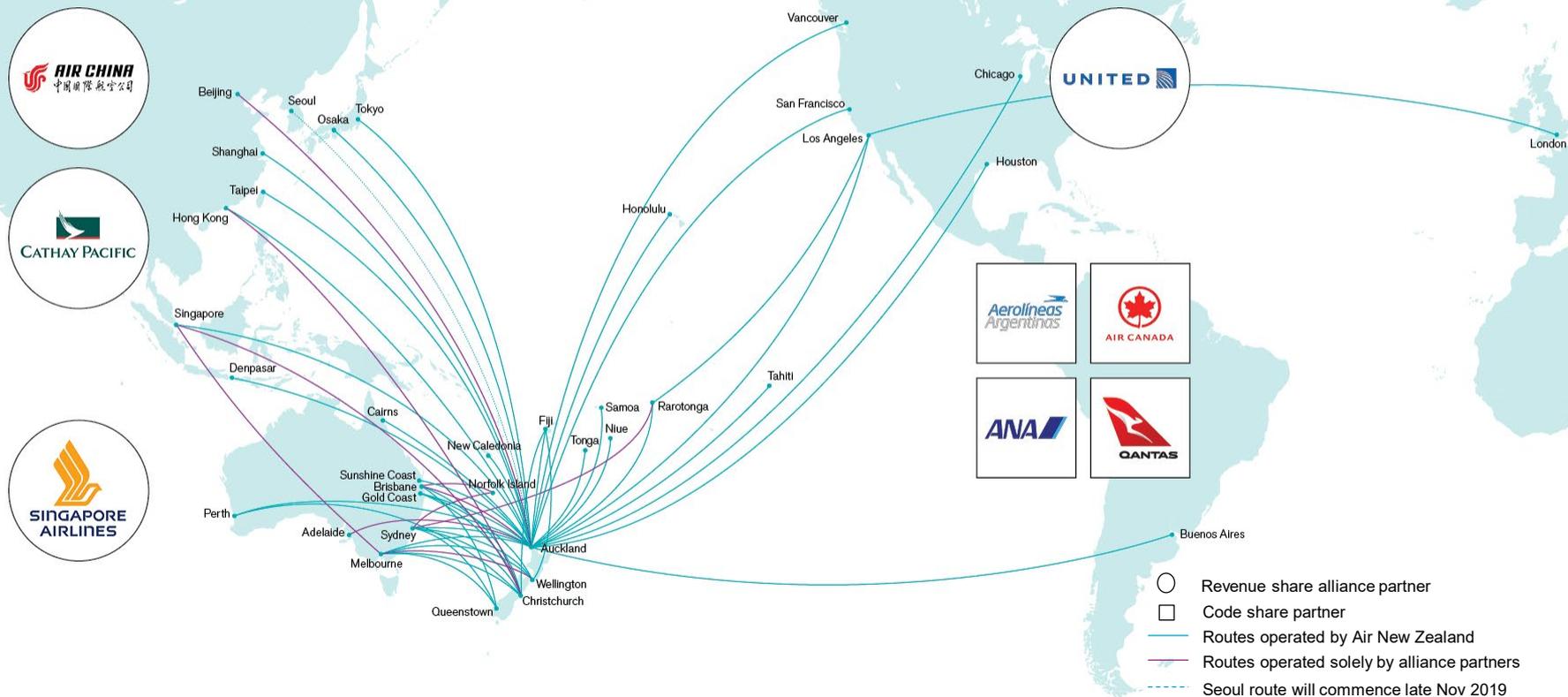
- Over 20% seat growth over the past 5 years
- Expect slight decline in domestic seats for 2020 reflecting lower capacity
- Achieved by targeted frequency reductions in select markets

## Domestic network seats

(Actuals & indicative forecast)

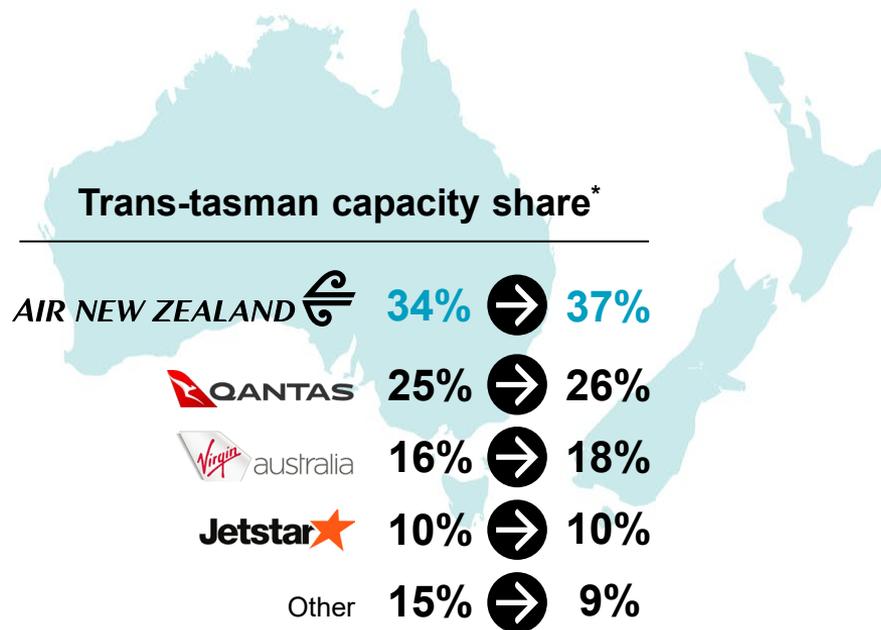


# Our strong position is further supported by revenue share alliances and deep code share partnerships



# Tasman performance following end of Virgin Australia alliance has met our expectations

- Large volumes of additional capacity have been added on the Tasman by several competitors
- We have made rational capacity decisions and continue to focus on RASK performance
- Our market share has improved since termination of the alliance

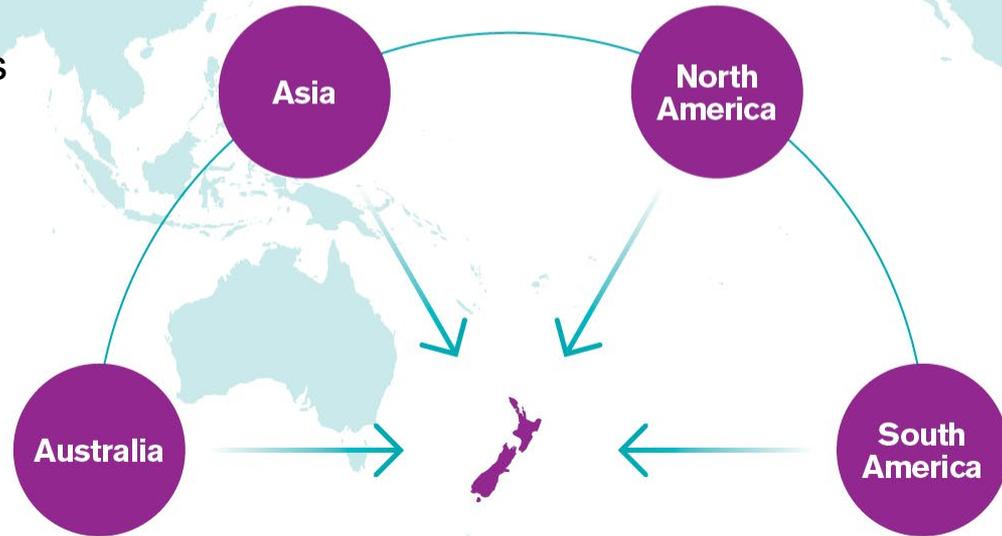


\* Left-hand side represents capacity share data for the 12 months prior to the dissolution of the Virgin Australia alliance. Right-hand side represents actual and scheduled capacity for the 12 months to November 2019.

# Our future network plans

## What you can expect

- Overall 2021 and 2022 capacity growth expected to be lower than 2020
- Aspiration to grow new markets into daily services
- Continuous optimisation of existing network as needed
  - Including fleet type and scheduling
  - Relentless focus on enhancing route profitability





# Delivering profitable revenue growth

**Cam Wallace**  
Chief Revenue Officer

# Focused on key opportunities to drive profitable revenue growth

Maintain strength in our home market

Drive effective market development activities  
to support new routes

Leverage customer segmentation data

Invest further in the premium customer  
experience

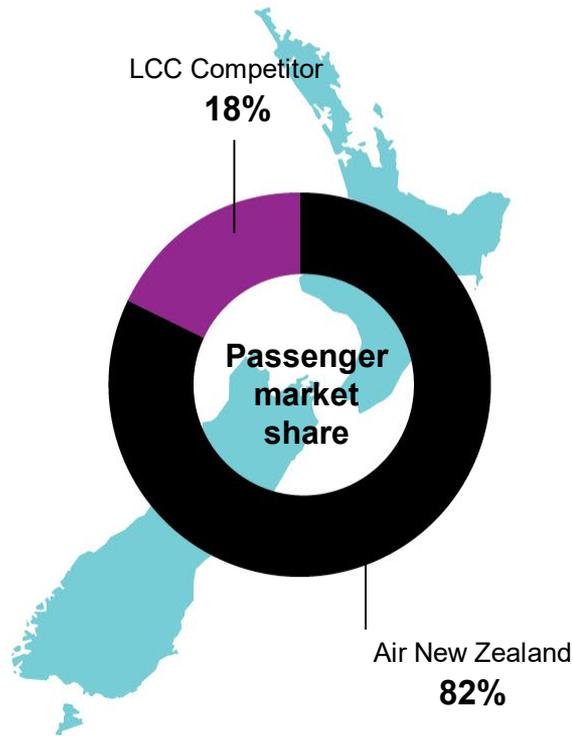
Increase value from loyalty and ancillary

Innovate revenue management



# We have the highest domestic market share of any APAC airline

Maintain strength in our home market



## Leveraging our domestic competitive advantages:

- New Zealand's most iconic and trusted brand
- Unmatched network offering against sole LCC competitor
  - Over 400 flights daily to 20 domestic destinations
  - 33 A320/A321 narrow-body aircraft<sup>1</sup>
  - 52 turbo-prop aircraft<sup>1</sup>
  - 15 domestic lounges
- Single class cabins drive cost discipline, with customers valuing ground product and flexibility
- 100% of domestic flight emissions are offset
- Working with Tier 3 domestic carriers

<sup>1</sup> In-service fleet as at 30 April 2019.

# Domestic traffic is driven by three different and distinct customer segments and dynamics

Maintain strength in our home market



Strong relationships and contracts with Corporate, SME and Government clients

Senior sales personnel based in key regions, connecting with influencers in local communities



Stimulation of new international markets (e.g. Seoul, Chicago, Taipei) expected to have positive result for domestic travel

Leveraging partnerships with alliance JVs and key codeshare airlines



Fare restructure implemented in late February performing in-line with expectations

Lower fare classes have been stimulated, skewed primarily to regional ports

# Organisational sales structure and multi-product approach is valued by our business customers

Maintain strength in our home market



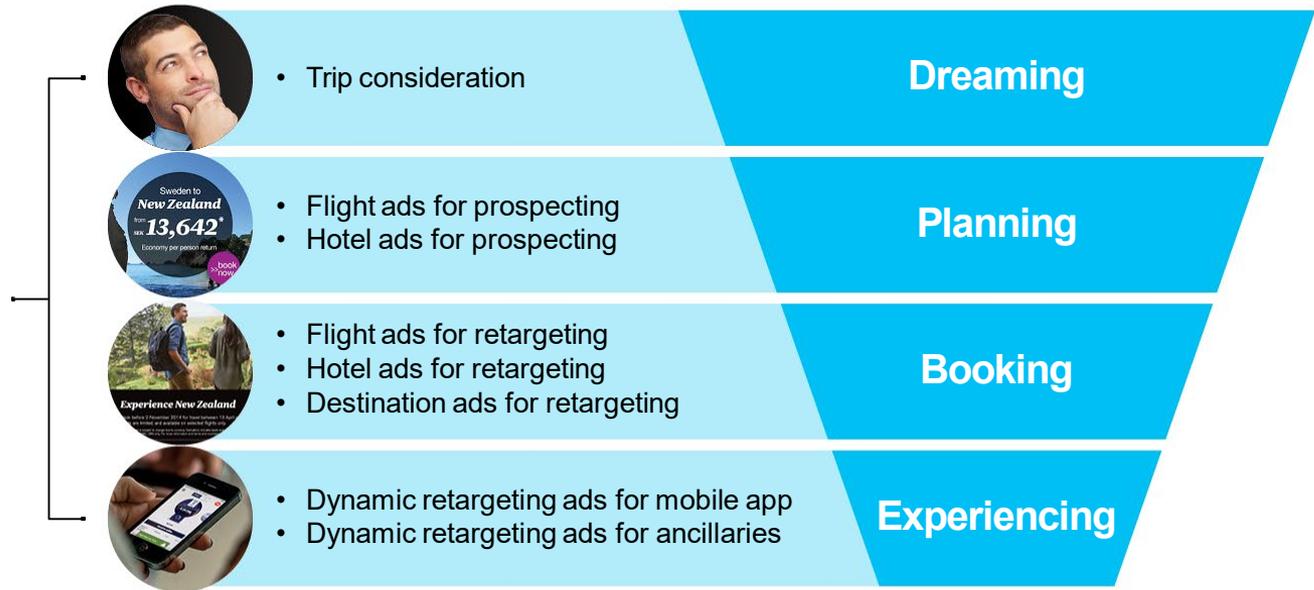
\* Larger SME's are account managed.

# We understand how to attract inbound leisure customers better than our competition

Drive effective market development activities to support new routes

While competitor airlines are more focused on long-haul routes that support business traffic...

...we actively engage with customers across every phase of travel consideration



# Case study: Stimulating interest in New Zealand and Air New Zealand prior to Chicago route launch

Drive effective market development activities to support new routes

**Focus:** present the Air New Zealand brand and New Zealand destination that will get consumers motivated to experience and share amongst their friends and followers

**Solution:** provide a fully immersive pop-up experience

**Target audience:** consumers, travel agents, media



# Understanding our customers better allows us to make investment decisions with better returns

Leverage customer segmentation data

## Customer segmentation profiles

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# Innovators in customer segmentation with “Seats to Suit” focused on short-haul markets...

Leverage customer segmentation data

## Domestic Seats to Suit

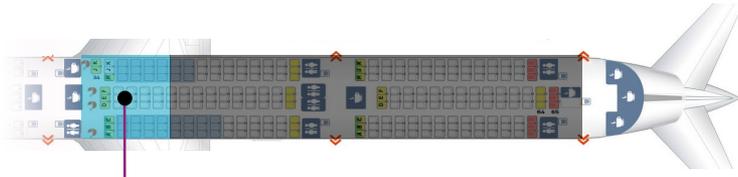


## International Short-haul Seats to Suit



...and we will be looking to roll out a new long-haul economy product, offering additional comfort

Leverage customer segmentation data



### New long-haul product will offer:

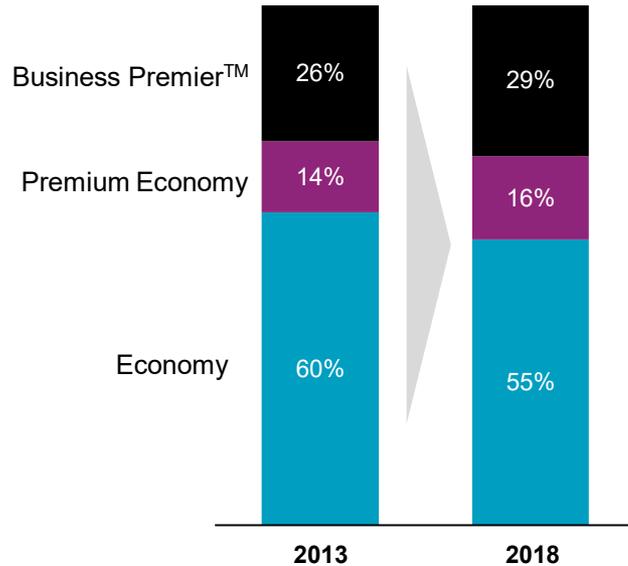
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- More leg room
- Front of Economy cabin
- Additional Airpoints™ earned
- Differentiated seat set-up and soft product

# Premium cabins have grown in popularity across our long-haul network

Invest further in the premium customer experience

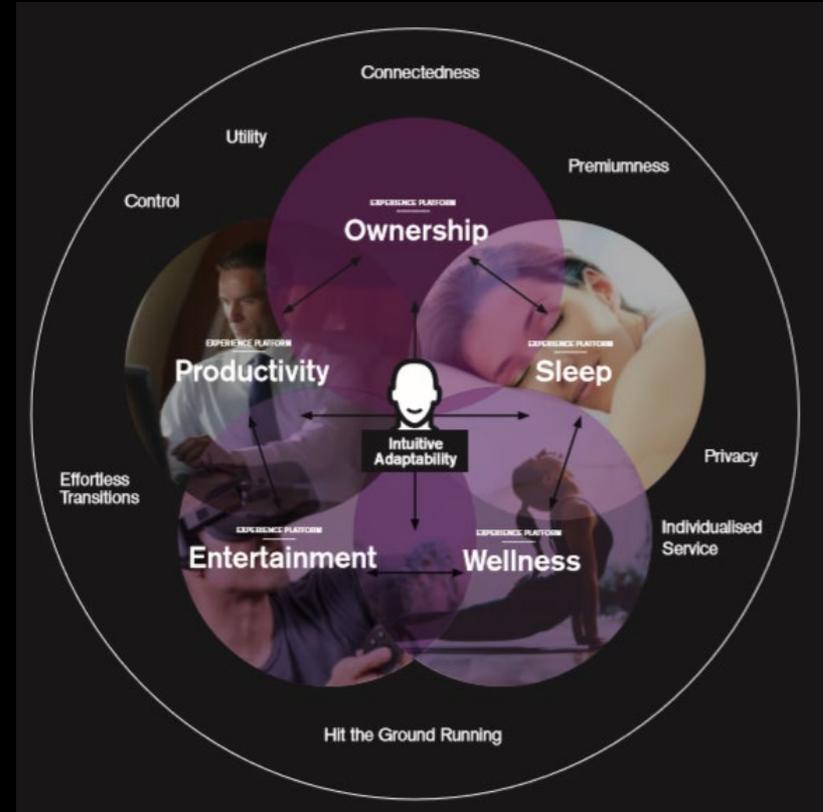
Revenue as a proportion of International long-haul revenue



# Maximising experiences of premium travel that customers will value is key to future cabin planning

Invest further in the premium customer experience

- Continuous innovation in cabin experience
- Applicable across various markets
- Consideration of interplay between hard and soft product
- Focus on personalisation elements



# Our unique Airpoints™ loyalty programme is simple, transparent and strongly valued by New Zealanders

Increase value from loyalty and ancillary

## Simple loyalty currency with no restrictions



- 1 Airpoints Dollar™ = \$1
- No blackout periods

## Most aspirational loyalty programme in New Zealand



- At least one person per New Zealand household is an Airpoints™ member\*

## A loyalty programme that is truly valued by members



- Low expiry rate indicates engaged membership
- 920K flights purchased in 2018 using Airpoints Dollars™

\*As at 30 April 2019. Calculation based on Stats NZ household data.

# Our partner relationships help drive a loyalty ecosystem that adds further value

Increase value from loyalty and ancillary

65+ ground partners



Food



Fuel



Financial Services



Utilities

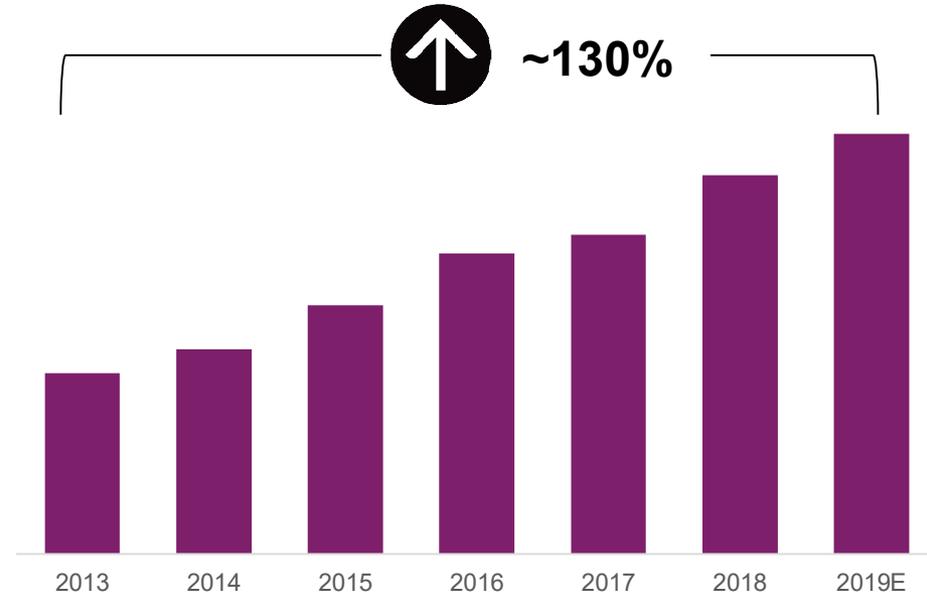


Real Estate



Shopping

Airpoints Dollars™ issuance from our financial partners



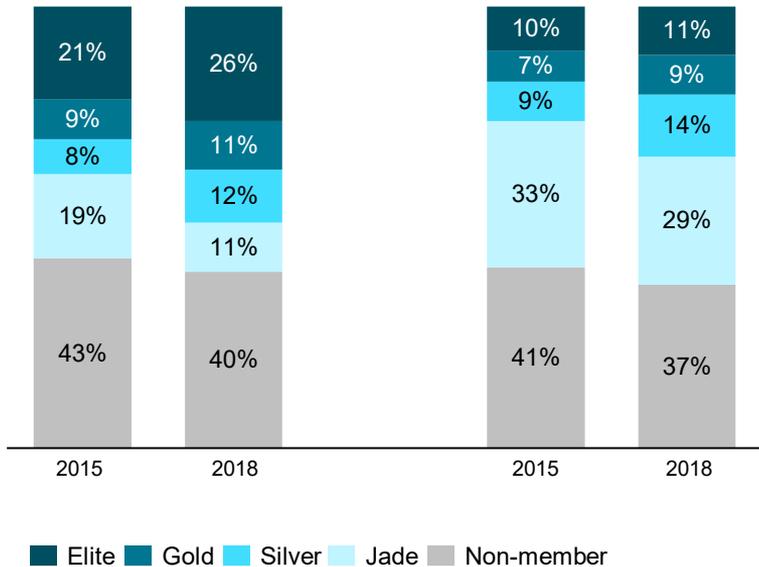
# Clear linkage between our high value loyalty members and increased premium cabin bookings

Increase value from loyalty and ancillary

## Long-haul premium cabin revenue bookings

### Business Premier

### Premium Economy

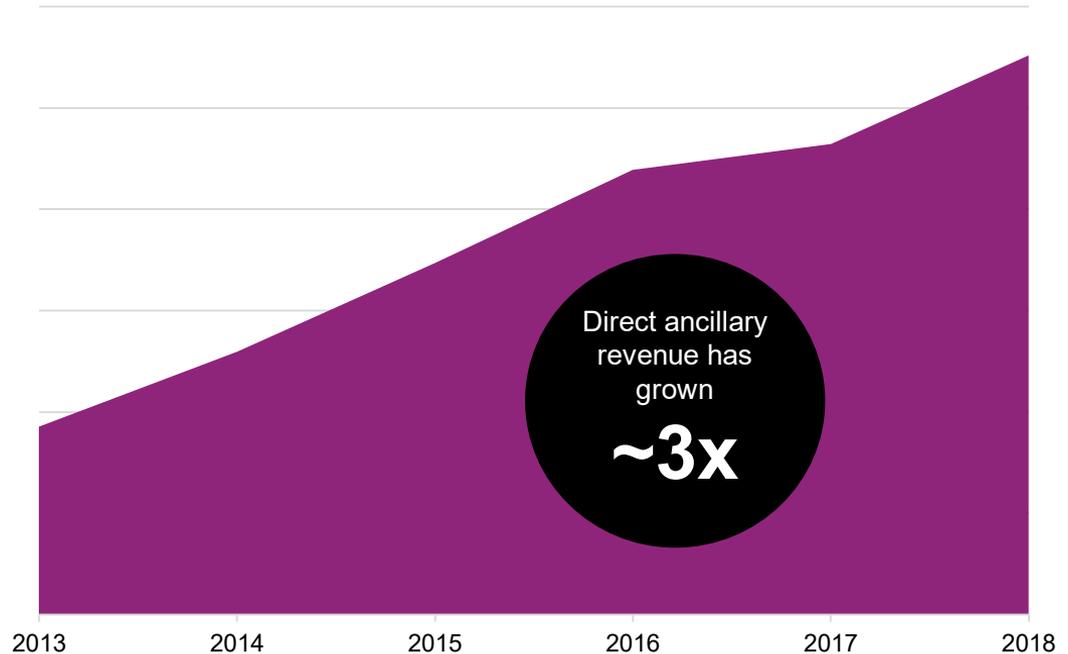


# Focused on driving continued high growth in ancillary product demand

Increase value from loyalty and ancillary

## What is included in our definition of Direct Ancillary?

- Seat Select
- OneUp™
- SkyCouch™
- Unaccompanied Minor
- Excess Baggage



# We are in the early stages of applying machine learning to further optimise revenue management

## Several weaknesses with traditional revenue management systems

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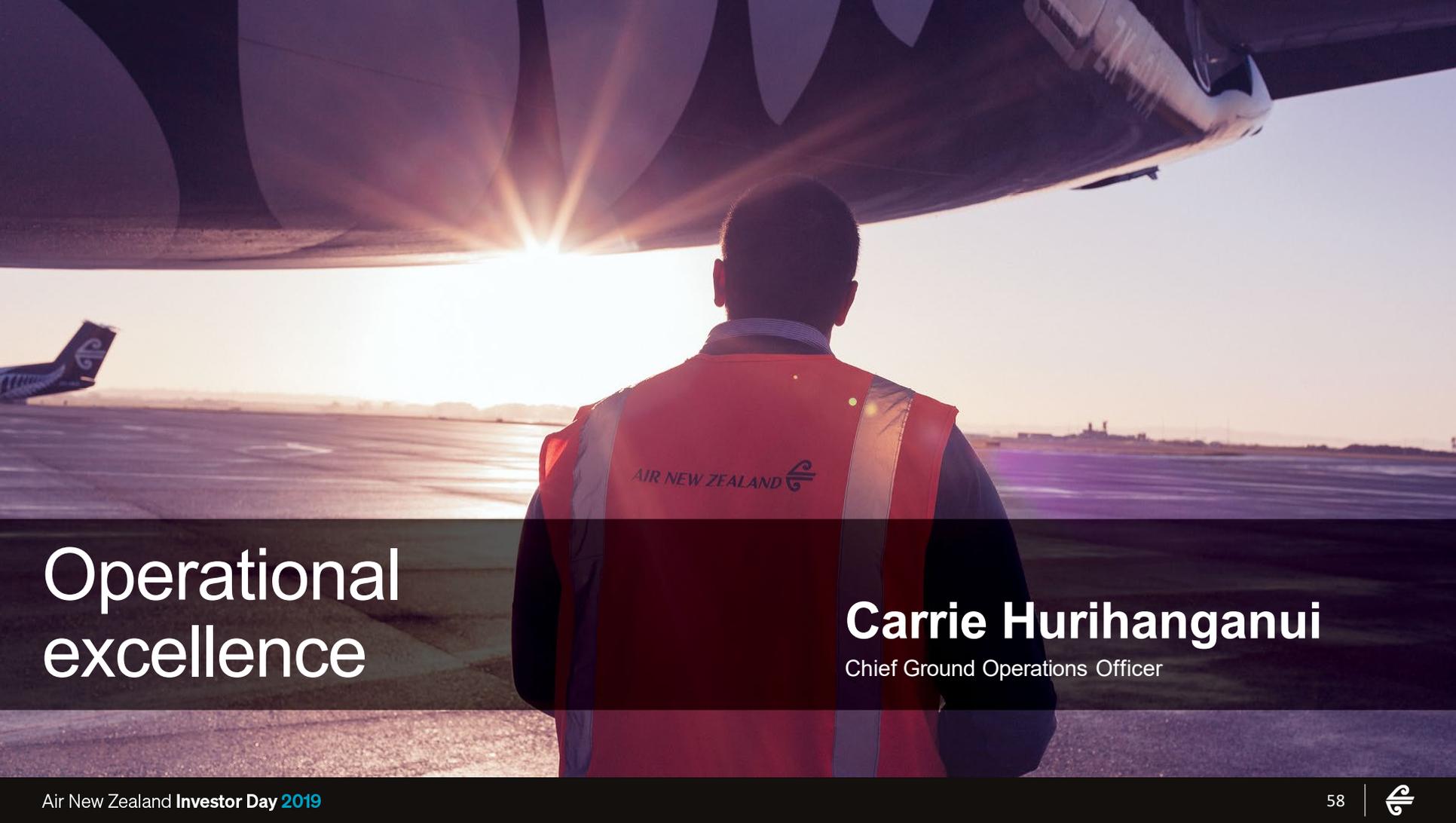
- Reliance on historical booking data to predict future demand
- Inventory re-optimisation does not occur in real-time
- Seat inventory is optimised independently of ancillary products



## When used with existing systems, machine learning can improve our results

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- ✓ Improve the demand forecast by considering significant metadata
- ✓ Inventory settings re-optimised in near real-time; enables rapid response to demand changes
- ✓ Ability to manage the complete customer offer, including ancillary recommendations



# Operational excellence

**Carrie Hurihanganui**

Chief Ground Operations Officer

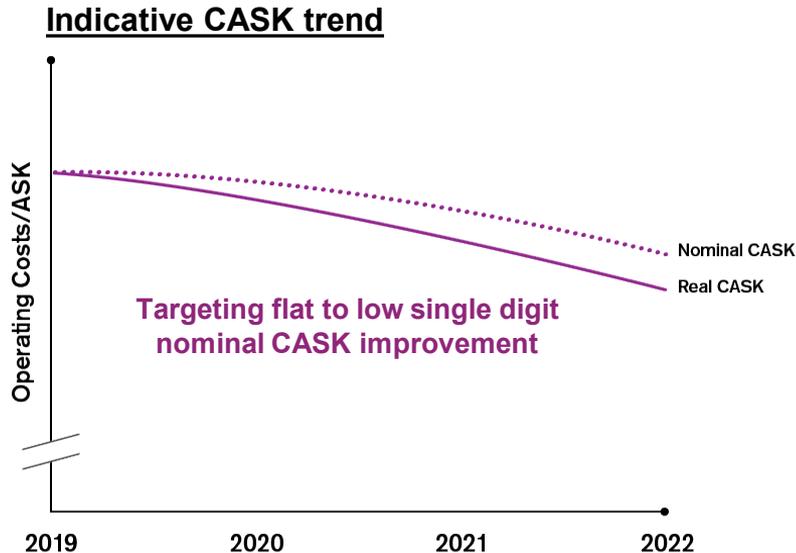


# Our approach to cost control has helped drive strong CASK performance in recent years



\* Prior year CASK adjusted to the average fuel, foreign exchange and third party maintenance rates for the period ending on 30 June 2018.

# Looking ahead we are targeting flat to improving CASK performance over the next three years



## CASK improvement drivers

- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

# Cross-functional initiatives in place to improve efficiencies across the business

1 Efficiencies

2 Economies of scale

3 Productivity



Strategic supply chain



Next generation engines  
(A320/1NEOs)



Fuel burn optimisation



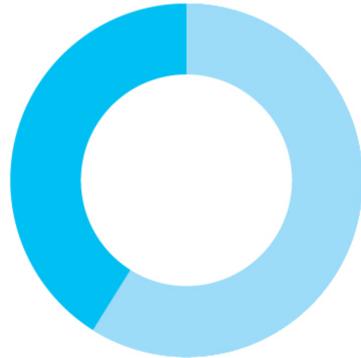
# Our supply chain is multi-tiered and complex, with the ability to generate further efficiencies

- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

~\$1.3 billion

in annual addressable spend<sup>1</sup>

~4,200 suppliers across all facets of our operation



41%  
New Zealand based

59%  
Global based



<sup>1</sup> Spend excluding labour, fuel, aircraft, air navigation, landing and government agency charges.



# Strategic supply chain partnerships can help mitigate risk, step change the way we do business and add value

1 Efficiencies

2 Economies of scale

3 Productivity

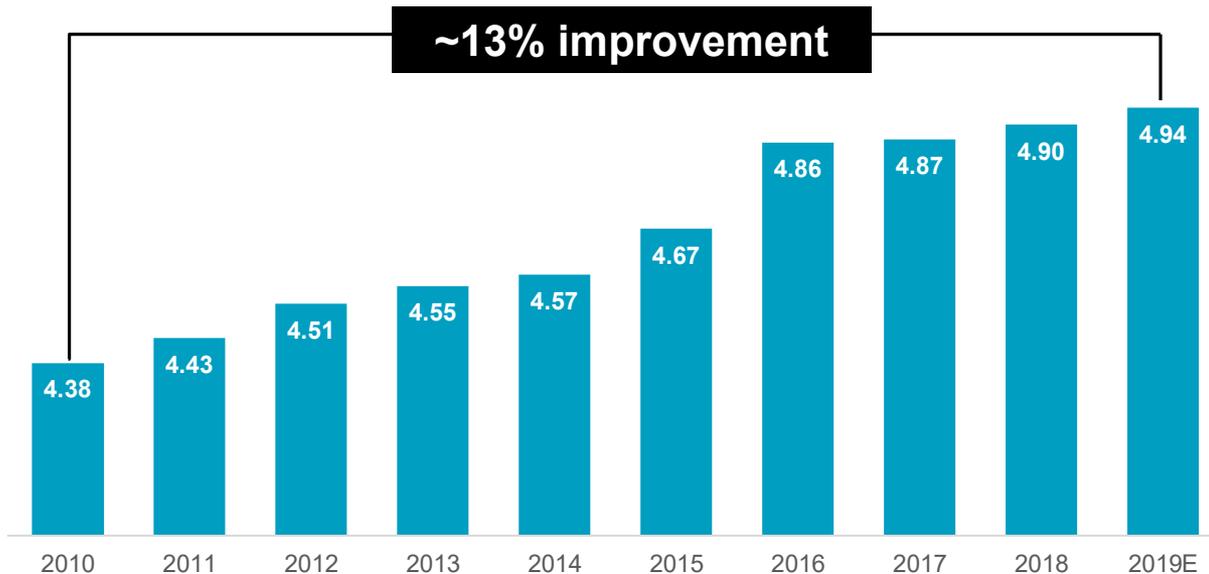
- ✓ Creation of Supply Chain Centre of Excellence
- ✓ Alignment of the value chain activities across the organisation
- ✓ Increasing trend of suppliers helping to drive innovation
- ✓ Using our vendor relationships to drive sustainability and traceability from source



# Fuel efficiencies should continue to improve as a result of investment in modern fleet and optimisation tools

- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

Fuel efficiency - ASKs/barrel



## Future fuel efficiency driven by:

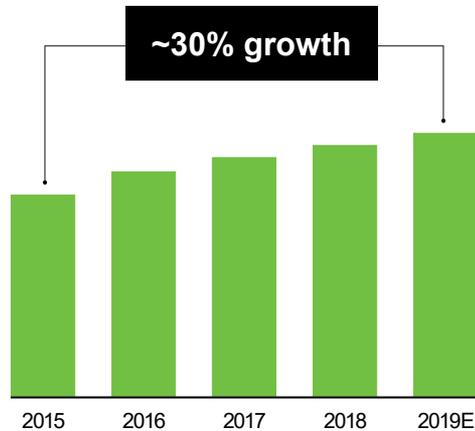
- Additional NEO aircraft
- System advances to optimise flight planning
- Weight reduction initiatives
- Increased ground power usage

# Continued economies of scale expected from long-haul flying and overhead reductions

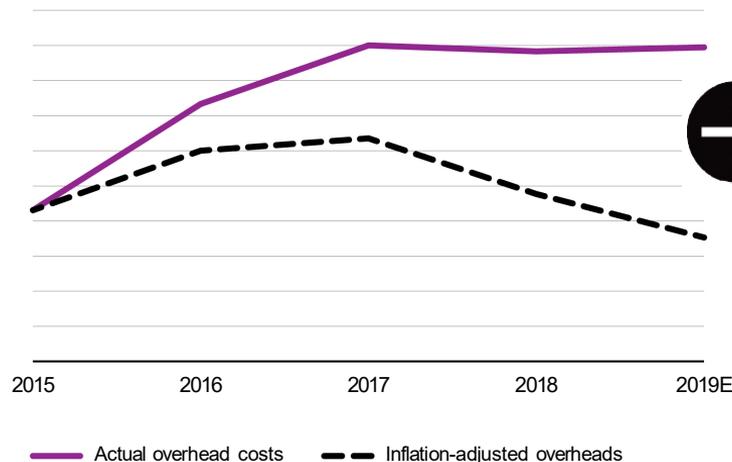
- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

## Balancing network growth while maintaining control on overhead costs

Network capacity (ASKs)



Actual overhead costs vs. inflation-adjusted overhead costs



Resulting in a  
**~25% reduction**  
in overhead costs/ASK

# Working on several key initiatives to improve productivity

1 Efficiencies

2 Economies of scale

3 Productivity



Mobility tools



Automation



Organisational structure



# Example: Digitising service

Moving from situations that require manual processes and human intervention...



- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

Disrupt

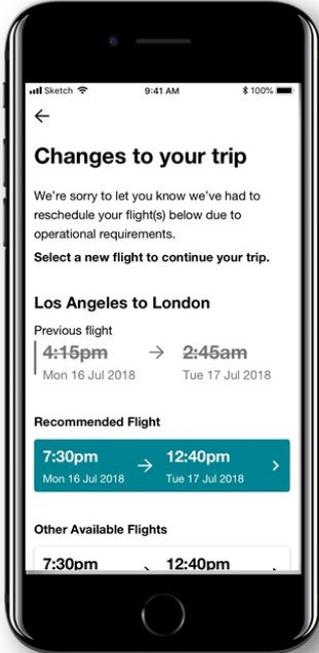
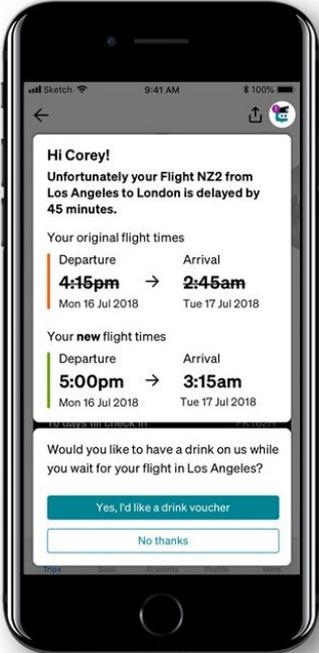


# Example: Digitising service

- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

Future state

...to empowering our customers to resolve issues with personalised channels



# Example: Phased mobility strategy for operations

- 1 Efficiencies
- 2 Economies of scale
- 3 Productivity

*Empowering our people to better serve our customers using digital tools and data*



Developing mobile front-end digital platforms to operational areas and providing real-time flight and passenger information



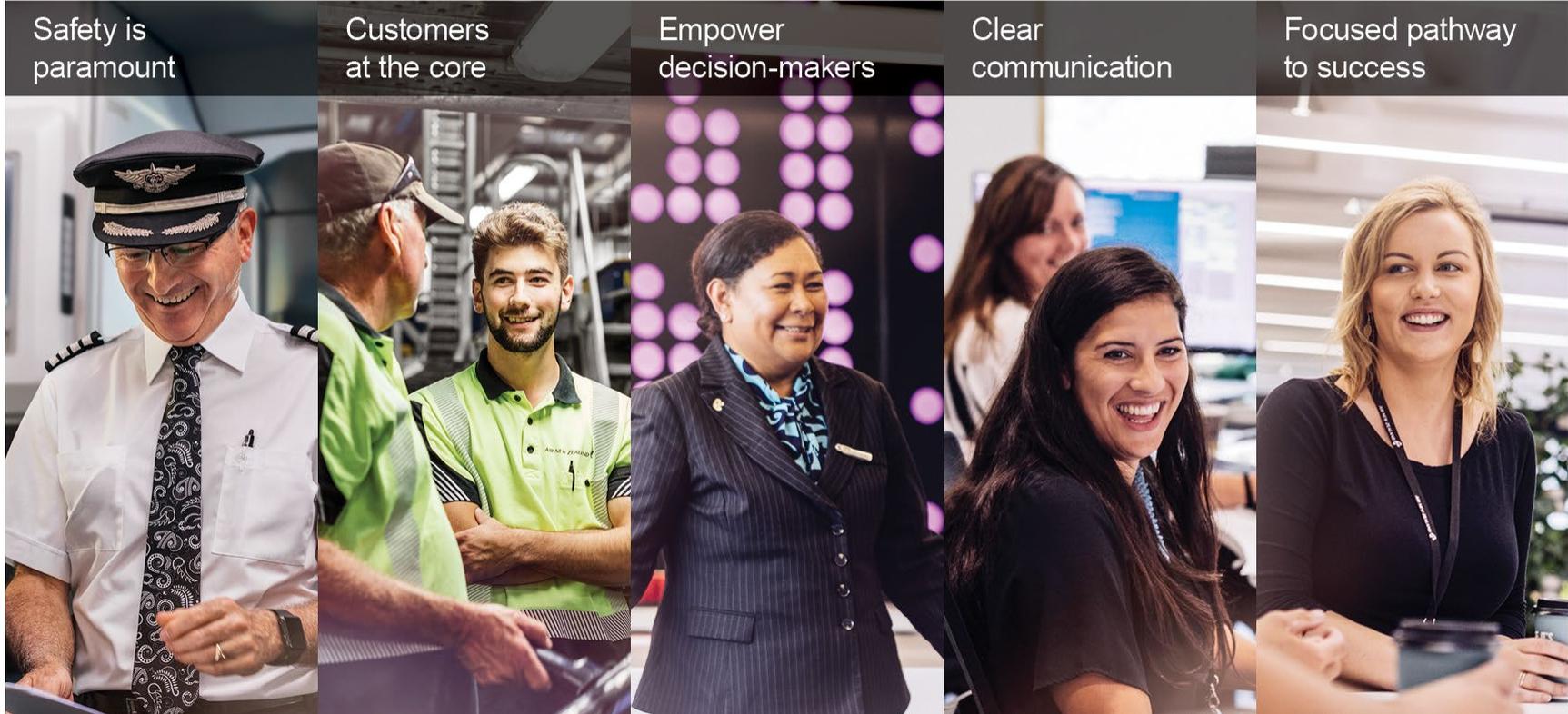
Mobility tools rolled out to wider Airports workforce to provide consistency across all channels, helping to deliver world-class customer and employee experience



Front-end digital solution allows operational staff to meet customer needs seamlessly (e.g. wearables, mobile printing)



# Culture is critical to delivering sustainable cost improvement

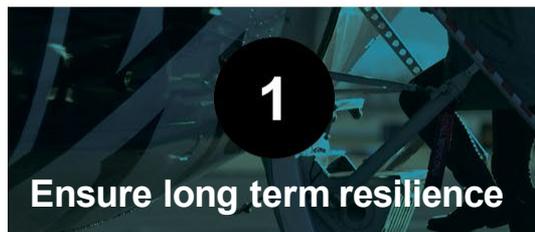




# Financial priorities

**Jeff McDowall**  
Chief Financial Officer

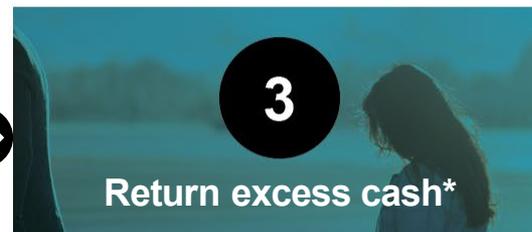
# We have a capital management framework that is focused on financial resilience and sustainable shareholder value



- Stable investment grade rating
- Diverse and attractive sources of funding
- Ensuring the right level of liquidity
- Hedging our financial risks



- Disciplined spending on capex to support growth
  - Aircraft ownership decisions
  - Non-aircraft investment
- Pre-tax ROIC target of 15%

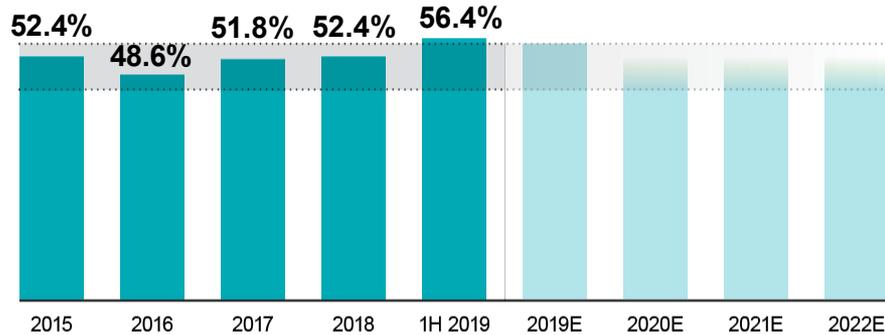


- Commitment to consistently pay a sustainable ordinary dividend
- Excess cash to be returned to shareholders via:
  - Share buy back
  - Special dividend

\* Subject to maintaining financial resilience targets

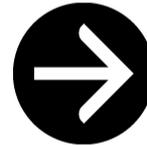
# Our strong and resilient balance sheet provides the foundation for a stable investment grade credit rating...

## Target gearing range of 45% to 55%

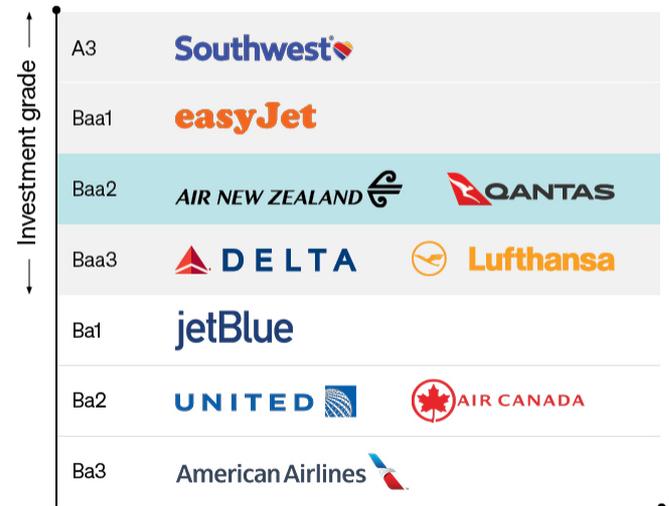


**Adjusted gross debt  
to EBITDA**

**2.0x to 3.3x**  
*target range*



## Investment grade credit rating\*

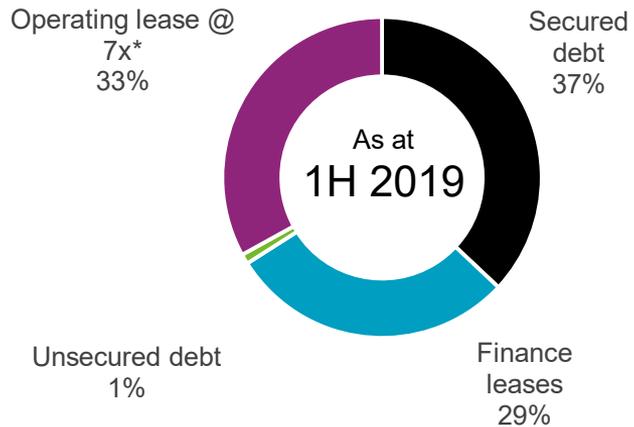


\* Bloomberg data as at 1 May 2019.

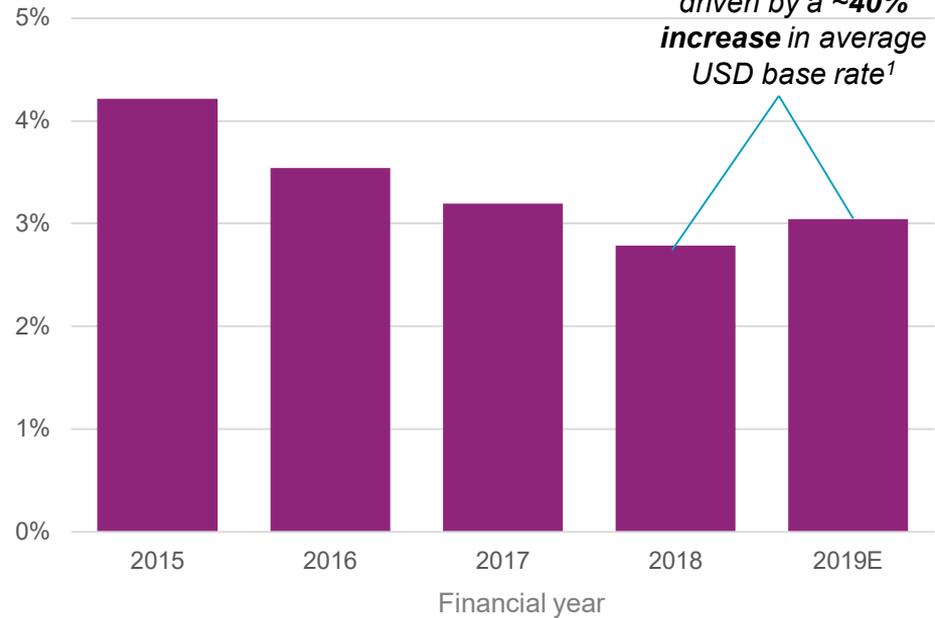


# ...and we have a diverse and flexible debt portfolio with very attractive funding costs

## Debt funding profile



## Average cost of on balance sheet debt



\* Aircraft operating lease commitments for the next 12 months multiplied by a factor of 7. Excluding short-term leases which provide cover for the 787-9 engine issues.

<sup>1</sup> Bloomberg data as at 16 May 2019; USD 6M LIBOR rate year on year movement between 2018 and May 2019.

# Looking to the near term we expect cash levels will remain at the upper end of our liquidity range

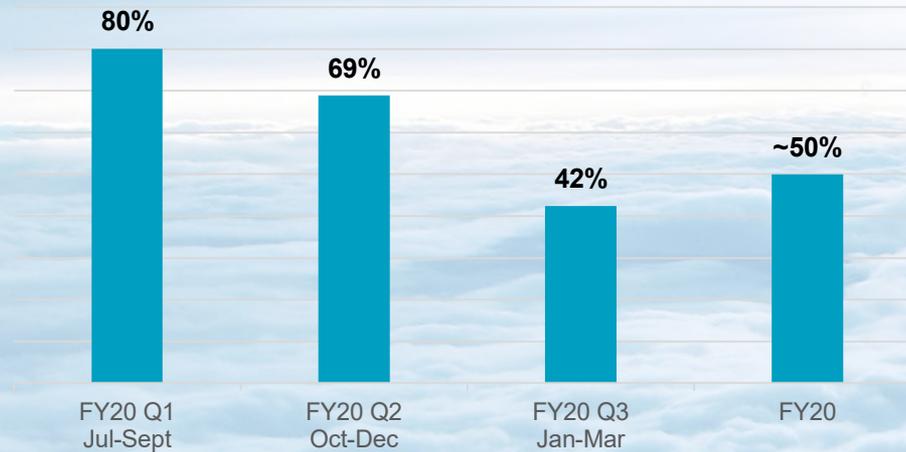
- As communicated last year, we have updated our liquidity range to target **\$700 million to \$1 billion** cash
  - Now transitioning to this target range
  - Primary mechanism by which we are moving towards this target has been via aircraft purchases
  - Balancing the level of cash purchases of fleet with the current attractive financing rates
  - No impact to gearing or net debt levels
  - Our fleet financing model provides us with greater flexibility from a liquidity perspective



# We continue to mitigate some volatility in jet fuel pricing with our hedge portfolio

## Fuel hedge position\*

(hedged volume as a proportion of estimated consumption)



- Our hedging policy continues to focus on providing our business with time to adjust
- In 2019 we also added Singapore Jet Collars and Jet-Brent crack spreads into our hedging portfolio
- Currently 2020 is ~50% hedged

\* Per fuel hedge position at 17 May 2019.

# We see a substantial reduction in aircraft capex from 2020 to 2022 compared to recent years

## Aircraft capex outlook\*



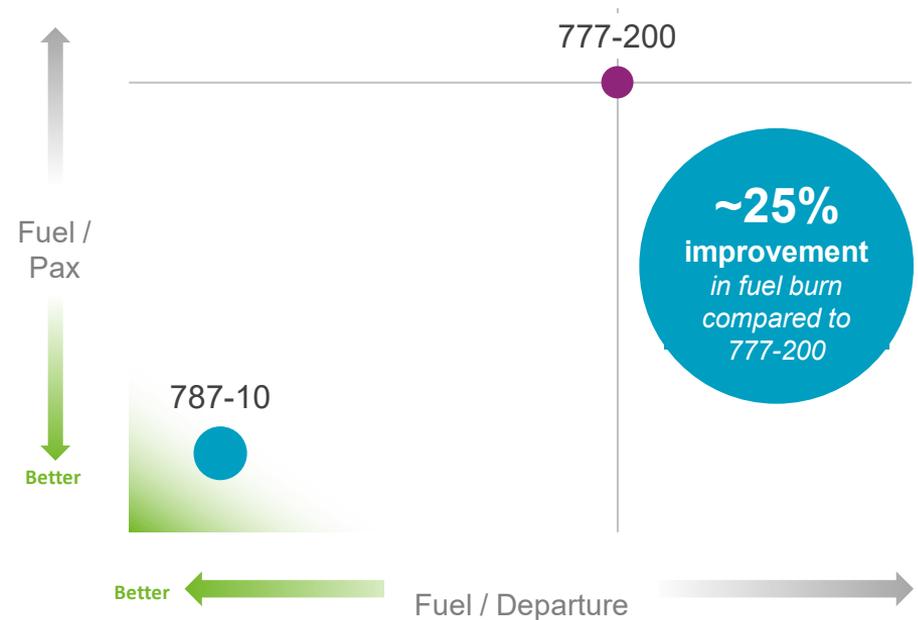
\* Per 28 March 2019 disclosure to NZX and ASX; assumes NZD/USD = 0.67, includes progress payments on aircraft. Does not include widebody replacement aircraft.

\*\* Based on estimate of 2019 aircraft capital expenditure.

# Our selection of the 787-10 aircraft to replace our existing 777-200 fleet will have strong economic benefits...

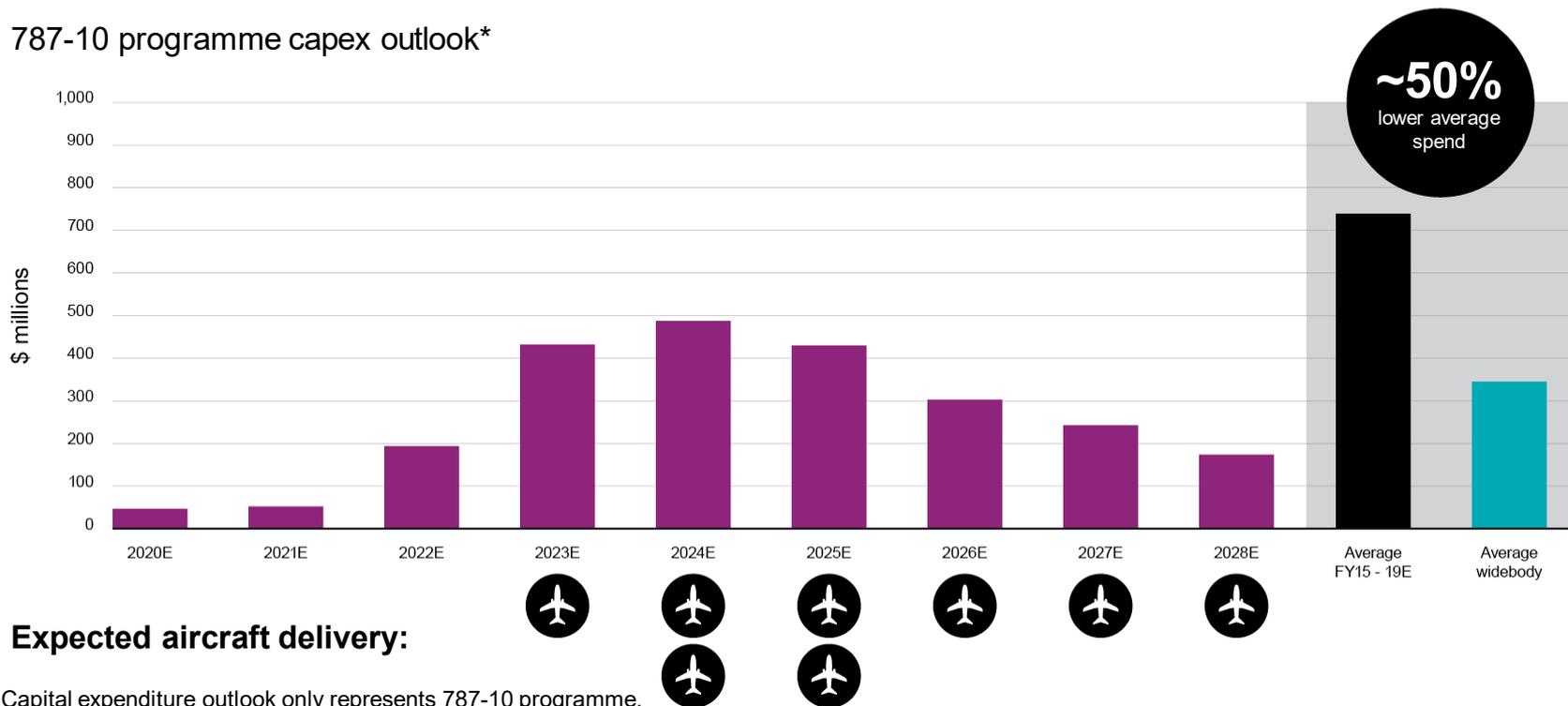
- Eight 787-10 aircraft, powered by GE engines
- Options to purchase additional aircraft and substitution rights provide flexibility
- Highly fuel-efficient aircraft - has the potential to save 190,000 tonnes of carbon each year
- Lower fuel burn drives substantial improvement in operating economics and emissions compared to 777-200

## Fuel burn comparison: 787-10 vs 777-200



# ...and the phasing of this aircraft programme will result in lower annual aircraft capex levels

## 787-10 programme capex outlook\*



## Expected aircraft delivery:

\* Capital expenditure outlook only represents 787-10 programme.

# We measure success using ROIC as one of our key metrics

How we discuss success with our people and external stakeholders



Excellent return

~15%

Return that exceeds our pre-tax cost of capital

~10%



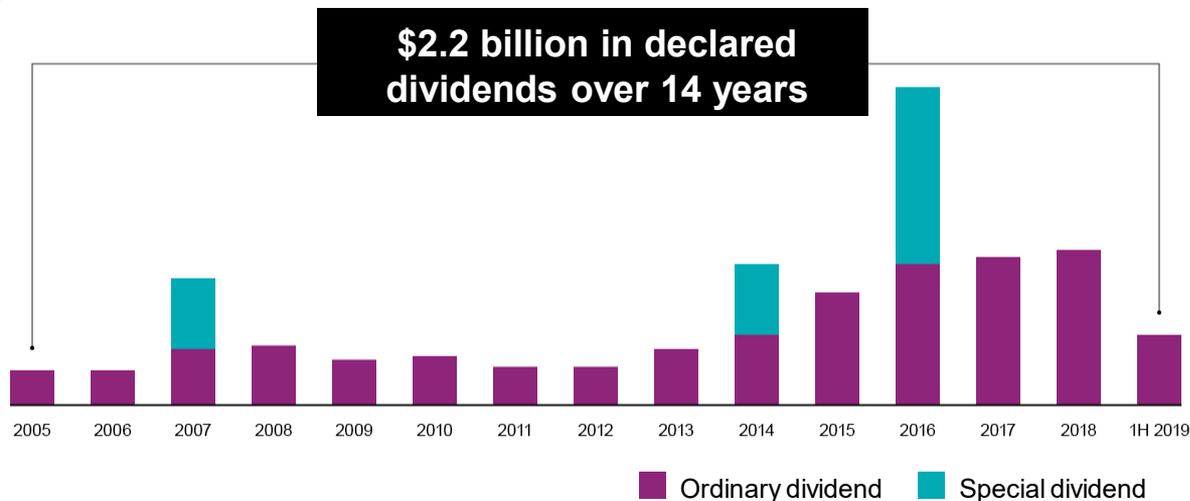
Sub-optimal return

# We remain committed to consistently paying a sustainable level of ordinary dividend...

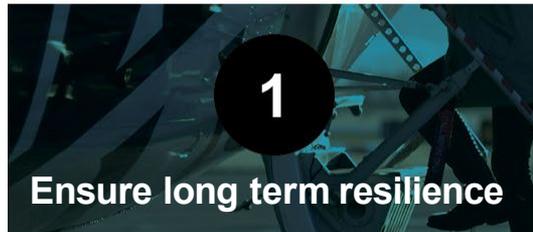
## What do we mean by “consistently pay” and “sustainable”?

**Consistently pay** The Board seeks to distribute part of the profits in the form of an ordinary dividend each year to shareholders

**Sustainable** The amount of the ordinary dividend in a given period, with the Board’s intent that the ordinary dividend represents the medium-term financial outlook for earnings, gearing and capex



# ...while keeping financial resilience and shareholder returns at the forefront of our minds



- Stable investment grade rating
- Diverse and attractive sources of funding
- Ensuring the right level of liquidity
- Hedging our financial risks



- Disciplined spending on capex to support growth
  - Aircraft ownership decisions
  - Non-aircraft investment
- Pre-tax ROIC target of 15%



- Commitment to consistently pay a sustainable ordinary dividend
- Excess cash to be returned to shareholders via:
  - Share buy back
  - Special dividend

\* Subject to maintaining financial resilience targets

# Key messages you should take away from today

- We are resilient and adaptable, with the ability to respond quickly to changing macro conditions
- We have a clear strategy in place to drive sustainable cost improvement, earnings growth and improved ROIC in the lower demand environment
- We are committed to continued investment in our exceptional culture, to delivering a superior customer experience and to making strong commercial returns
- We are targeting strong free cash flow generation over the next three years

# We have the right business model and competitive advantages to sustain long-term commercial success



Our brand  
and Kiwi  
service culture



Customer  
loyalty, driven  
by strength  
of our domestic  
network and  
Airpoints™  
programme



Our alliance-  
driven Pacific  
Rim network



Our simplified  
and fuel efficient  
fleet, with the  
ideal cost  
structure for the  
New Zealand  
market



*Thank you*



# Questions



# Appendix

# Speaker biographies



**Christopher Luxon** Chief Executive Officer

Christopher has been Chief Executive Officer since 2013 and under his leadership the airline has delivered record profits, all time high customer satisfaction scores and achieved its highest levels of staff engagement. Prior to joining Air New Zealand, Christopher was President and Chief Executive Officer at Unilever Canada. This was one of several senior leadership roles he held during an 18-year career at the multinational that saw him work in roles in Europe, North America and Asia/Pacific.

Christopher also serves as Chairman of New Zealand Prime Minister Jacinda Ardern's Business Advisory Council.



**Nick Judd** Chief Strategy, Networks & Alliances Officer

Nick was appointed as the Chief Strategy, Networks and Alliances Officer in October 2017 and leads Air New Zealand's Joint Venture Alliance partnerships, the Star Alliance relationship and the Sustainability and Transformation portfolios. Nick has worked across a number of functions and regions in the business holding senior roles in Loyalty, Sales and Commercial areas across Australia, China, America and New Zealand. Prior to joining Air New Zealand in 2003, Nick spent time in the United Kingdom and Canada in finance roles within the banking and media industries.



**Cam Wallace** Chief Revenue Officer

Cam was appointed as Chief Revenue Officer in January 2014 and is responsible for generating Air New Zealand's passenger and cargo revenue, currently a portfolio with a turnover of over \$5 billion. His responsibilities include revenue management, global pricing, online sales, Grabaseat™, retail marketing, corporate, distribution, government sales and contact centres. Cam joined Air New Zealand in 2001 and has held a number of senior positions in the airline.



**Carrie Hurihanganui** Chief Ground Operations Officer

Carrie was appointed as Chief Ground Operations Officer in 2018. Carrie is responsible for our Airports, Engineering & Maintenance and Business Performance team and has deep strategic and operational experience through her 18 years at Air New Zealand in numerous senior roles, including General Manager Eagle Air, General Manager Offshore Airports, General Manager Customer Experience and Group General Manager Regional Airlines & Airline Operations.



**Jeff McDowall** Chief Financial Officer

Jeff joined Air New Zealand in 2000 and was appointed Chief Financial Officer in January 2018. Prior to this position he held a range of senior commercial and finance roles within Air New Zealand including Group General Manager Corporate Finance and Group General Manager Commercial. Prior to joining Air New Zealand, Jeff spent six years as a management consultant in New Zealand, Singapore and the United States.

# Glossary of key terms

|  |   |
|--|---|
| <b>Available Seat Kilometres (ASKs)</b>          | Number of seats operated multiplied by the distance flown (capacity)  |
| <b>Cost/ASK (CASK)</b>                           | Operating expenses divided by the total ASK for the period  |
| <b>Gearing</b>                                   | Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating leases   |
| <b>Net Debt</b>                                  | 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) |
| <b>Dividend yield</b>                            | Dividend expressed as a percentage of the share price at a specific point in time or over a specific period   |
| <b>Passenger Revenue/ASK (RASK)</b>              | Passenger revenue for the period divided by the total ASK for the period  |
| <b>Pre-Tax Return on Invested Capital (ROIC)</b> | Earnings Before Interest and Taxation (EBIT), and aircraft lease expense divided by three, all divided by the average Capital Employed (being Net Debt plus Equity) over the period   |
| <b>Total Shareholder Return (TSR)</b>            | The movement in share price, and assuming that all dividends are reinvested in shares on the ex-dividend date throughout the period   |

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK, ROIC and TSR. Amounts used within the calculations are derived where possible from the audited 2018 Group financial statements and the Five Year Statistical Review contained in the 2018 Annual Financial Results. 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.



# Where to find more information about Air New Zealand

## Resources

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**Investor website:** [www.airnewzealand.co.nz/investor-centre](http://www.airnewzealand.co.nz/investor-centre)

**Monthly traffic updates:** [www.airnewzealand.co.nz/monthly-operating-data](http://www.airnewzealand.co.nz/monthly-operating-data)

**Quarterly fuel hedging disclosure:** [www.airnewzealand.co.nz/fuel-hedging-announcements](http://www.airnewzealand.co.nz/fuel-hedging-announcements)

**Corporate governance:** [www.airnewzealand.co.nz/corporate-governance](http://www.airnewzealand.co.nz/corporate-governance)

**Sustainability:** <https://www.airnewzealand.co.nz/sustainability>

## Contact information

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**Share registrar:** [enquiries@linkmarketservices.com](mailto:enquiries@linkmarketservices.com)



*AIR NEW ZEALAND* 

A STAR ALLIANCE MEMBER 