

AIR NEW ZEALAND 

Investor Day 2016

3 May 2016

A STAR ALLIANCE MEMBER 



Forward looking statements

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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.

The forward-looking statements are based on management’s and directors’ current expectations and assumptions regarding Air New Zealand’s businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Air New Zealand’s actual results may vary materially from those expressed or implied in its forward-looking statements.



Agenda

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Welcome

Leila Peters, Head of Investor Relations

Driving returns through disciplined growth

Christopher Luxon, Chief Executive Officer

Network growth opportunities

Stephen Jones, Chief Strategy, Networks & Alliances Officer

Morning tea break

Financial priorities

Rob McDonald, Chief Financial Officer

Q&A

Discussion with the Chairman

Tony Carter, Chairman of the Board

Meeting concludes

Christopher Luxon
Chief Executive Officer

*Driving returns
through disciplined
growth*



Key messages

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We are well-positioned to
compete and win
in a dynamic marketplace

We have built the best platform to
capture and leverage profitable growth

Significant opportunity ahead to
continue generating sustainable
shareholder returns





Our strategy has been successful

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CUSTOMERS AT THE CORE

- Live our brand always
- Focus on what our customers value
- Grow new revenue streams

EXECUTE THE PLAN

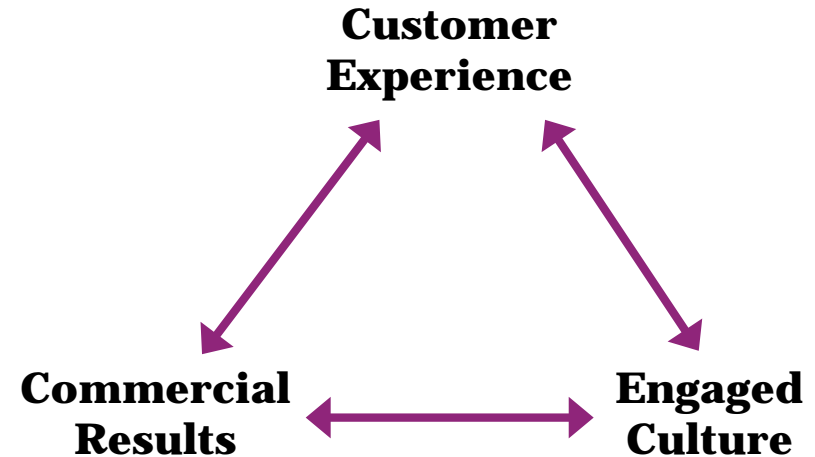
- Play in the right markets
- Work with the right partners
- Grow through the right channels

FIGHTING FIT

- Maintain operational integrity & safety always
- Deliver a seamless journey every time
- Simplify our business to drive out cost and complexity

A WINNING TEAM

- Drive a high performance culture
- Attract, retain and develop great people
- Leverage the power of one
Air New Zealand working together



Our business is built upon a strong foundation of what really matters



Performance driven by good planning, sharper execution and a supportive environment

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Strategy-driven

Customer focus

Overall Customer Satisfaction on MyVoice

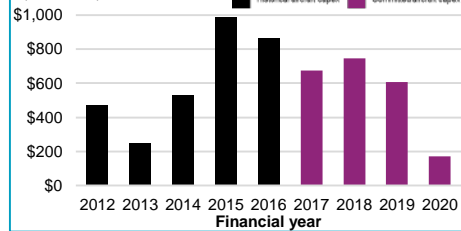


Pacific Rim alliances



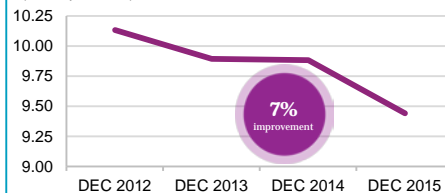
Investment in our network

Historical & committed aircraft capex (\$ millions)



Driving efficiencies

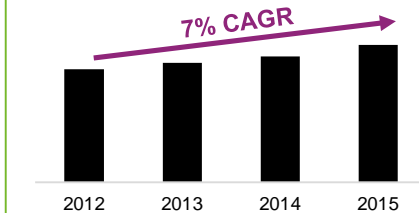
Operational improvements in CASK* (cents per ASK)



* Prior year CASK adjusted to the average fuel and foreign exchange rates for the six month period ending in December 2015 and excluding divested operations.

Strong tourism demand

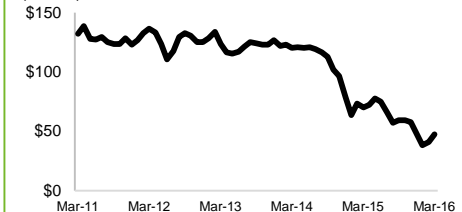
Overseas visitors to New Zealand*



* Source: Statistics New Zealand

Jet fuel price decline

5 year pricing for Singapore Jet Fuel (\$USD)





We see further opportunity for growth, but recognise the environment will be different

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Key factors support sustainable profitability through the cycle...

- ✓ Continued inbound tourism strength
- ✓ Fuel price outlook continues to be favourable
- ✓ Leveraging alliance partnerships
- ✓ Scale efficiencies from fleet programme
- ✓ Corporate brand and employee engagement has never been stronger

...with some near-term challenges ahead

2017 Impact

Increased competition

Unknown

Benefit of FX hedges in 2016 not expected in 2017

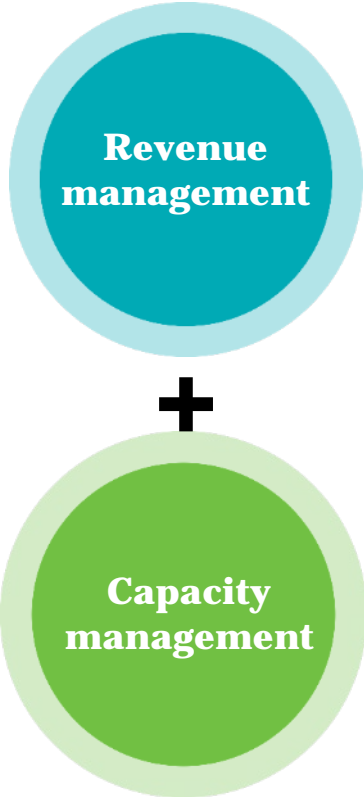
~\$120M

Expect 2017 earnings will be solid, while not at the level of 2016



Flexibility to address the current competitive environment while executing the long-term strategy

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Short-term dynamics

(*< 18 months*)

- Increased capacity driving significant growth of seats across the network
- Expect headwind to overall yield as market adjusts to new capacity
- Revenue mix impact related to stimulation of leisure travel
 - But revenue maximisation and profitable growth will continue to drive our strategy
- Short-haul schedule depth allows for continuous capacity management based on demand levels
- Reallocation of North America capacity
 - Houston outpacing expectations
 - Shifting some capacity from LAX to Houston
 - United relationship provides SFO optionality
- Alliance partnerships in Asia provide optionality to adjust capacity
- Flexibility on timing of fleet exits

Medium-term

Strong underlying demand expected to drive **supply and demand equalisation**, with a return to stable yields



A look ahead...driving returns through disciplined growth

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1 Demand growth

Disciplined network growth from new and existing markets supported by alliance partnerships



2 Scale economies

Invest in a simplified and fuel efficient fleet that can competitively leverage network growth



3 Value growth

Leverage our data and our brand to provide products and services that our customers value

The right platform to leverage growth opportunities profitably



The Pacific Rim will continue to support tourism growth to New Zealand

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We have built up our network and are well positioned to capture tourism growth

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- Diversified profitability across the network
- Growth underpinned by strong alliance partnerships in key markets
- Leveraging our geography to maximise traffic **through and into** New Zealand
 - Tourism growth driving inbound international growth
 - Grow and leverage network efficiencies in Asia
 - Australian traffic in key cities feeding North & South American growth



Inbound tourism will continue to fuel domestic growth

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- Domestic dispersal of inbound international tourism through Auckland
- Strong domestic market share to leverage growth from inbound tourists
- Network strength, product and lounges to drive further stimulation
- Full network offering to 22 main centres and regions across New Zealand
- Stable outlook for New Zealand economic growth driving increased domestic travel

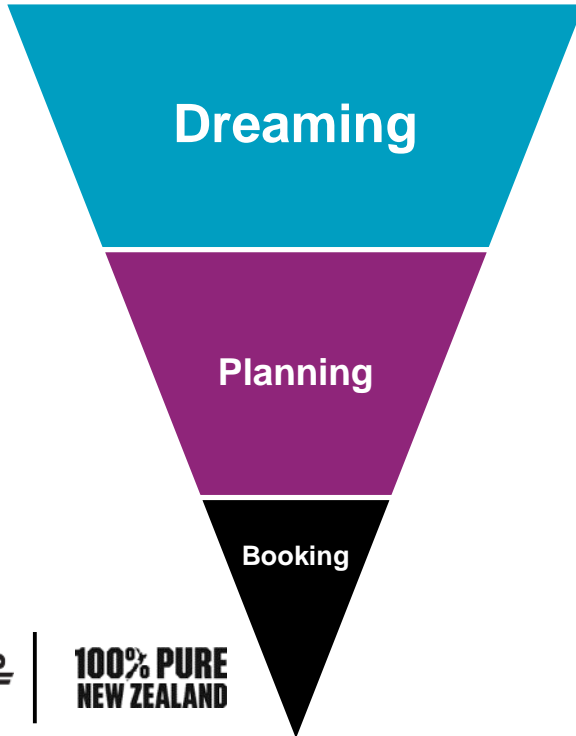




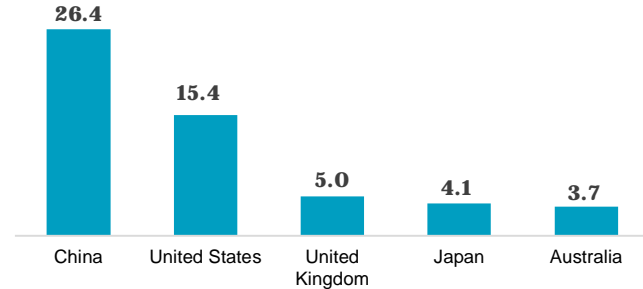
We play an instrumental role in converting the potential tourism pool into actual visitors

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Thought process for holiday travel

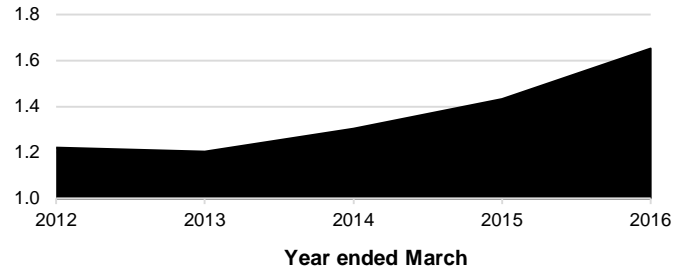


Estimated size of New Zealand “active considerer” target market* (in millions)



* Tourism New Zealand.

Holiday Visitors to New Zealand** (in millions)



** Statistics New Zealand.

Market development example: Shanghai

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	2012	Today	
Positioning	<ul style="list-style-type: none"> Primarily low value group travel 	<ul style="list-style-type: none"> Wealthier independent travellers “Romance” and “family” marketing platforms Visit multiple cities throughout NZ 	
Partners	<ul style="list-style-type: none"> No partnership for local sales efforts 	<ul style="list-style-type: none"> The right travel agents and trade partners Air China alliance 	
Product	<p>Boeing 767</p>	<p>Boeing 787</p>	
Competition	<ul style="list-style-type: none"> No direct route competition 	<ul style="list-style-type: none"> China Eastern competes directly on Auckland to Shanghai route since September 2015 	

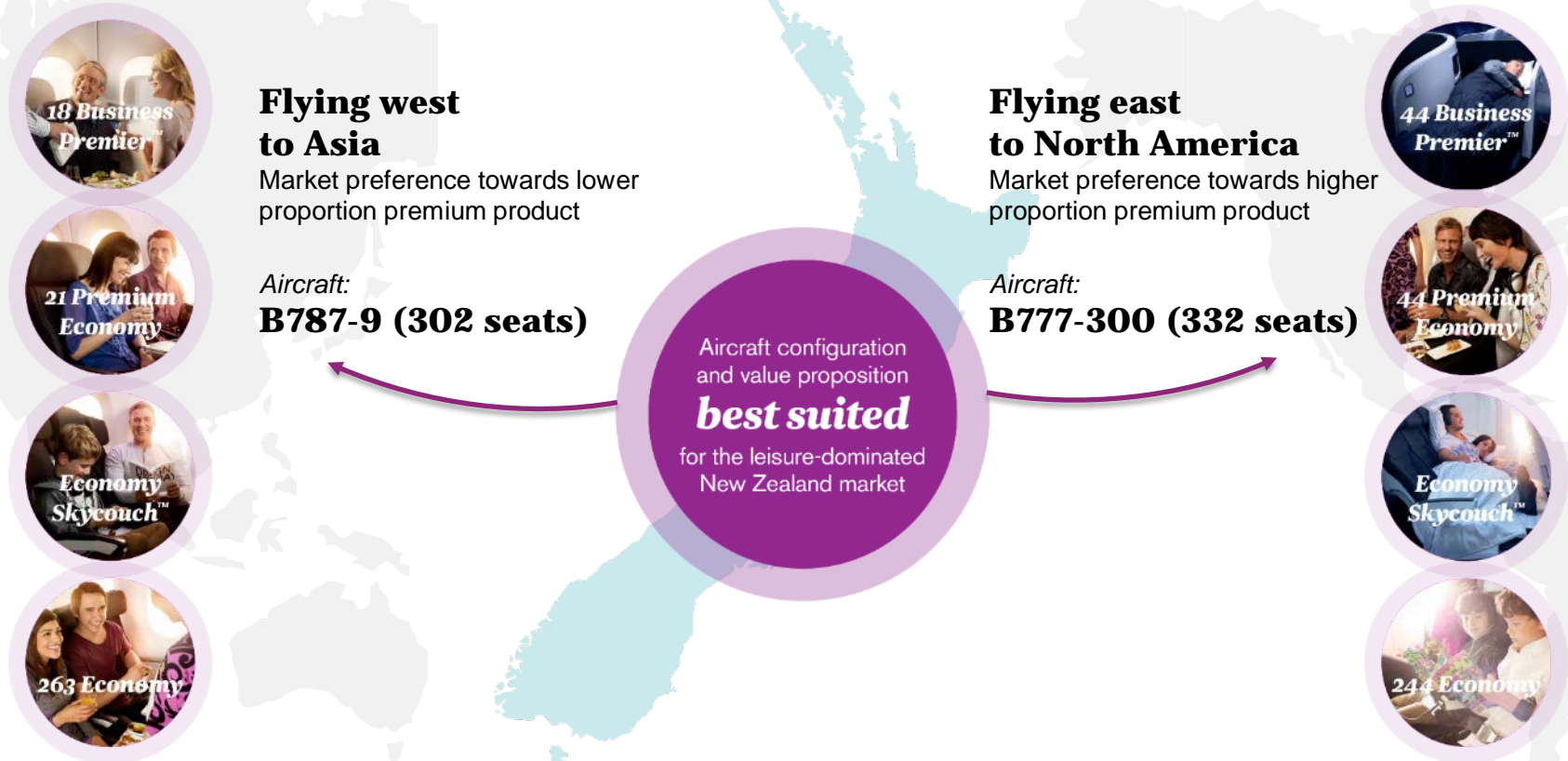
2015 vs 2014 market growth → Chinese visitors +34% and total spend +63%*

* Comparison based on December 2015 versus December 2014; Statistics New Zealand.



It starts with having the best fleet for the New Zealand market

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Consistency throughout the customer experience journey is vital to our success

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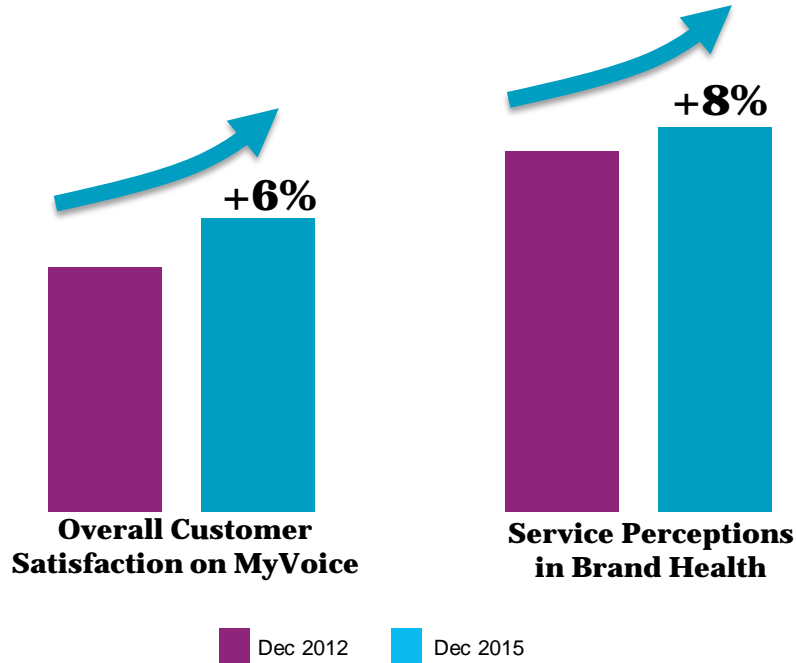
Sample customer experience dashboard

- Significant data analysis on all aspects related to customer experience
- Tool for determining return on investment and payback on customer experience investments
- Evolution of future customer experience analytics focused on providing real-time insights



And our customer experience scores and corporate reputation have never been better

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Most reputable
Company in New Zealand 2016

No. 6 in Australia
Corporate reputation 2016

Corporate reputation

Long-haul:
2015: #1
2012: #5

Short-haul:
2015: #3
2012: #5

Star Alliance rating

Top 4

Of the 13 airlines we compete with in 2015

IATA survey



Our end goal is to utilise data to increase personalisation and commercialisation of the customer journey

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Airpoints™ is our platform for customer relationship data

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70%

of Air New Zealand sales occurring domestically are with an Airpoints™ member

Value to shareholders & stakeholders



Focused on capturing loyalty → Own the customer



Increasing loyalty → Own the customer data



Profit from the Loyalty effect → Leverage our customer data



Our people deliver our value proposition to every customer, every day

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Our philosophy



Our results

- **Top quartile** of companies in Asia Pacific for employee engagement*
- Inducted into the Randstad Hall of Fame as “**New Zealand’s Most Attractive Employer**” (2014-2016)



* As demonstrated by our 2015 employee engagement survey through Aon Hewitt.



Continued execution of strategy with more opportunity ahead

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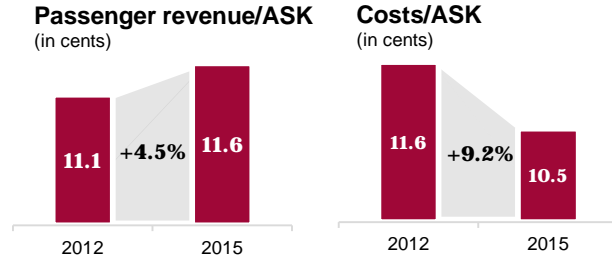
Continued execution of strategy with more opportunity ahead

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Grow revenue & control costs

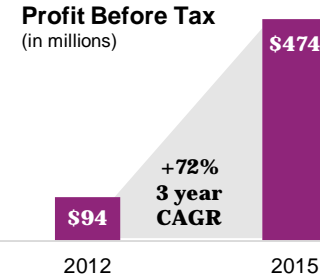
Grow revenue

Control costs



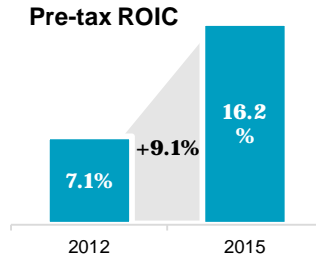
Grow profit

Grow profit



Invest in our business

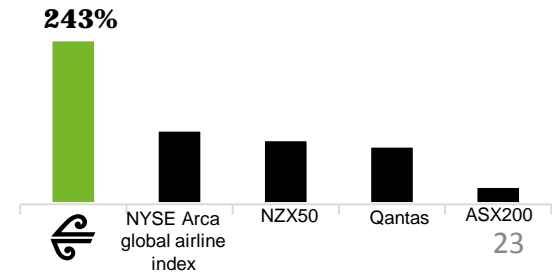
Invest in our business



Sustainable returns to shareholders

Sustainable returns to shareholders

5 year total shareholder return (as at March 2011 to March 2016)




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Stephen Jones

Chief Strategy, Networks
& Alliances Officer

ZK-⁰UB

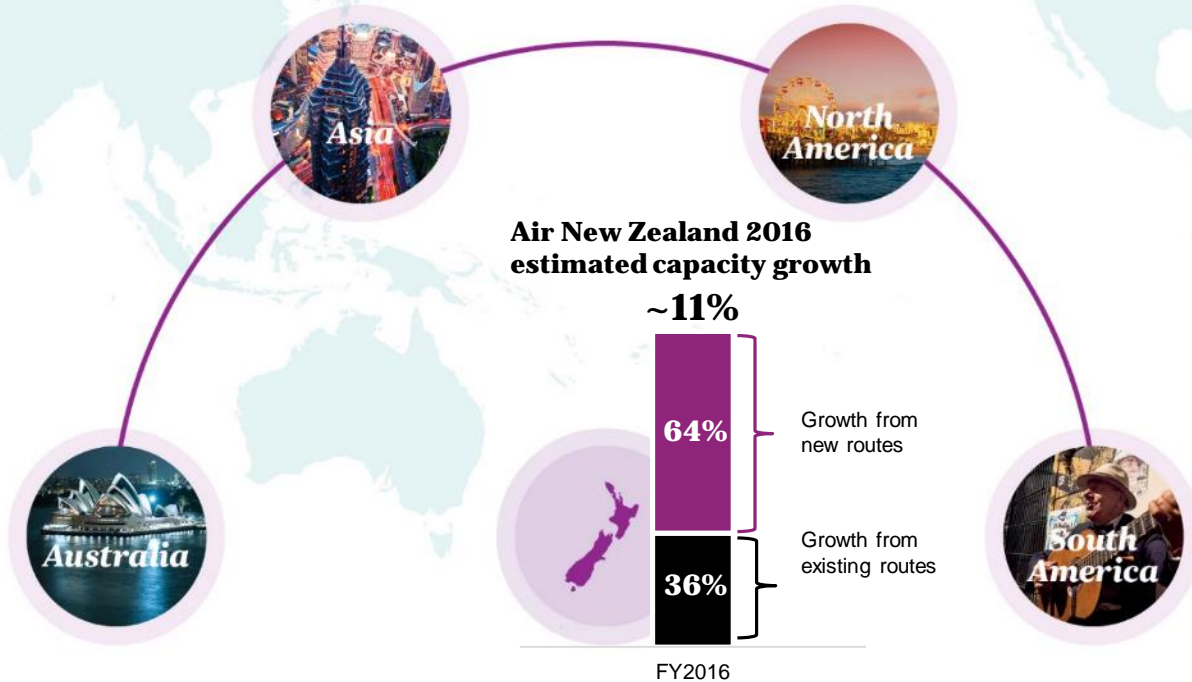
Network growth opportunities

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The Pacific Rim continues to be a core source of global traffic growth

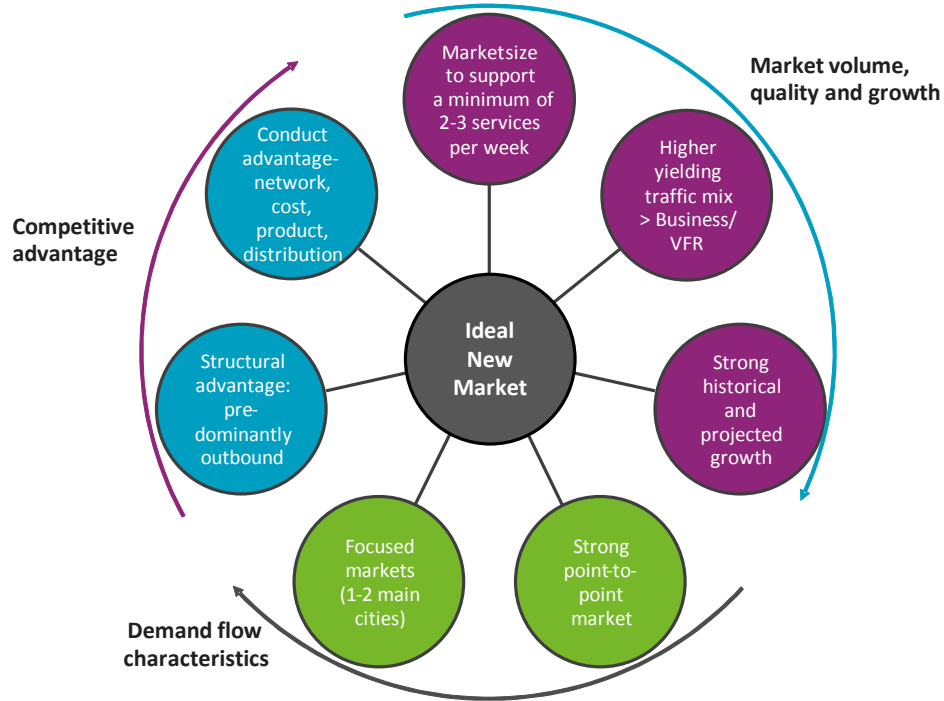
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We are highly methodical in evaluating new route opportunities

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Sample application of framework: Buenos Aires

- Sizeable local market of ~43 million in Argentina / 14 million in Buenos Aires area
- Balanced inbound/outbound mix of traffic
- Focused mainly on Buenos Aires and surrounding areas with sufficient demand
- Air New Zealand is the sole direct operator between New Zealand and Argentina
- Buenos Aires not a competitor hub; not overflying major cities



Our international growth has been de-risked by strong alliance partnerships

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The fundamentals of a revenue share alliance

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- 1 Revenues from all routes that are under alliance are pooled together
- 2 A simple revenue share model might calculate Air New Zealand's share of revenue as shown below:
- 3 Additional adjustments as negotiated for each revenue share alliance
- 4 Revenue share is compared to actual revenue earned by each carrier
- 5 A transfer payment is made to equalise

$$\text{Total alliance revenue} \times \frac{\text{AIR's flown ASKs}}{\text{Total alliance ASKs}} = \text{AIR's share of revenue}$$

Enduring success of an alliance partnership requires balance



The newest revenue share alliance partner: United

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What's the benefit for us?

- Leveraging United's extensive sales and distribution channels
- Access to United's substantial frequent flyers
- Secures connectivity into domestic USA and beyond

What's the benefit for United?

- Leveraging Air New Zealand's sales capabilities in New Zealand
- More convenient flight choices for customers flying between U.S. and New Zealand
- Revenue from connecting traffic





Focusing our medium-term capacity growth on increasing depth

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New markets



**Announced
6 new
markets in
12 months**



Depth of existing markets

Rationale:

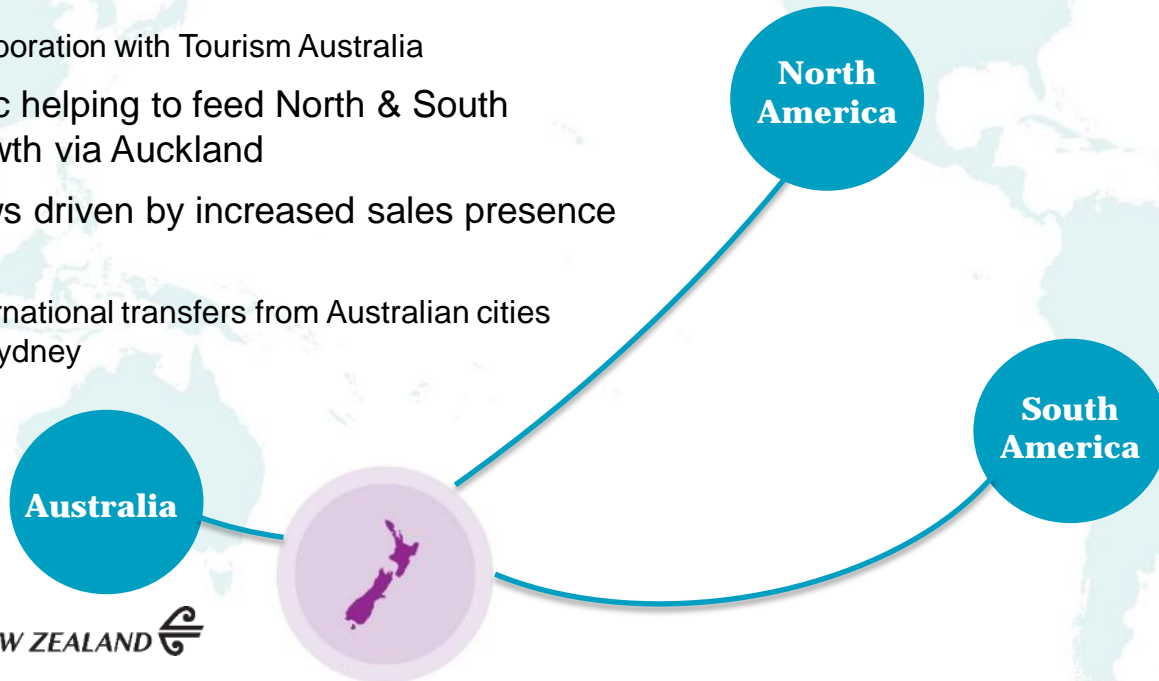
- Increased frequency can strengthen competitive position
- Fixed launch costs associated with new markets not applicable
- Potential for increased utilisation depending on the market
- Known markets



Americas: Leveraging Auckland's geographic advantage

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- North American growth will continue to feed trans-Tasman flows
 - Strong collaboration with Tourism Australia
- Australia traffic helping to feed North & South American growth via Auckland
- Outbound flows driven by increased sales presence in Australia
 - Ease of international transfers from Australian cities other than Sydney



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Asia: Most efficient long-haul growth opportunity

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Asia

Today



Daily service to Asia requires **two** aircraft

Future



Double-daily service to Asia would require **three** aircraft

- Ability to grow Asia efficiently with day-night schedule rotations that increase frequency
- Scale growth expected to result in improved utilisation of fleet and unit costs
- Longer term aspiration to grow passenger flows from Asia to South America via Auckland

South America





A network strategy firmly aligned with long term value creation

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- Fundamental re-shaping of Air New Zealand's network strategy largely complete
- Network firmly in sustainable growth phase
- Alliance partnerships underpin the growth opportunity

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Rob McDonald
Chief Financial Officer

Financial priorities

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Focused financial priorities over the medium-term

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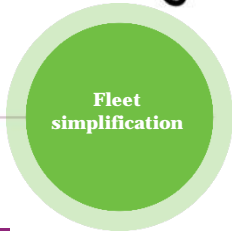




Virgin Australia investment

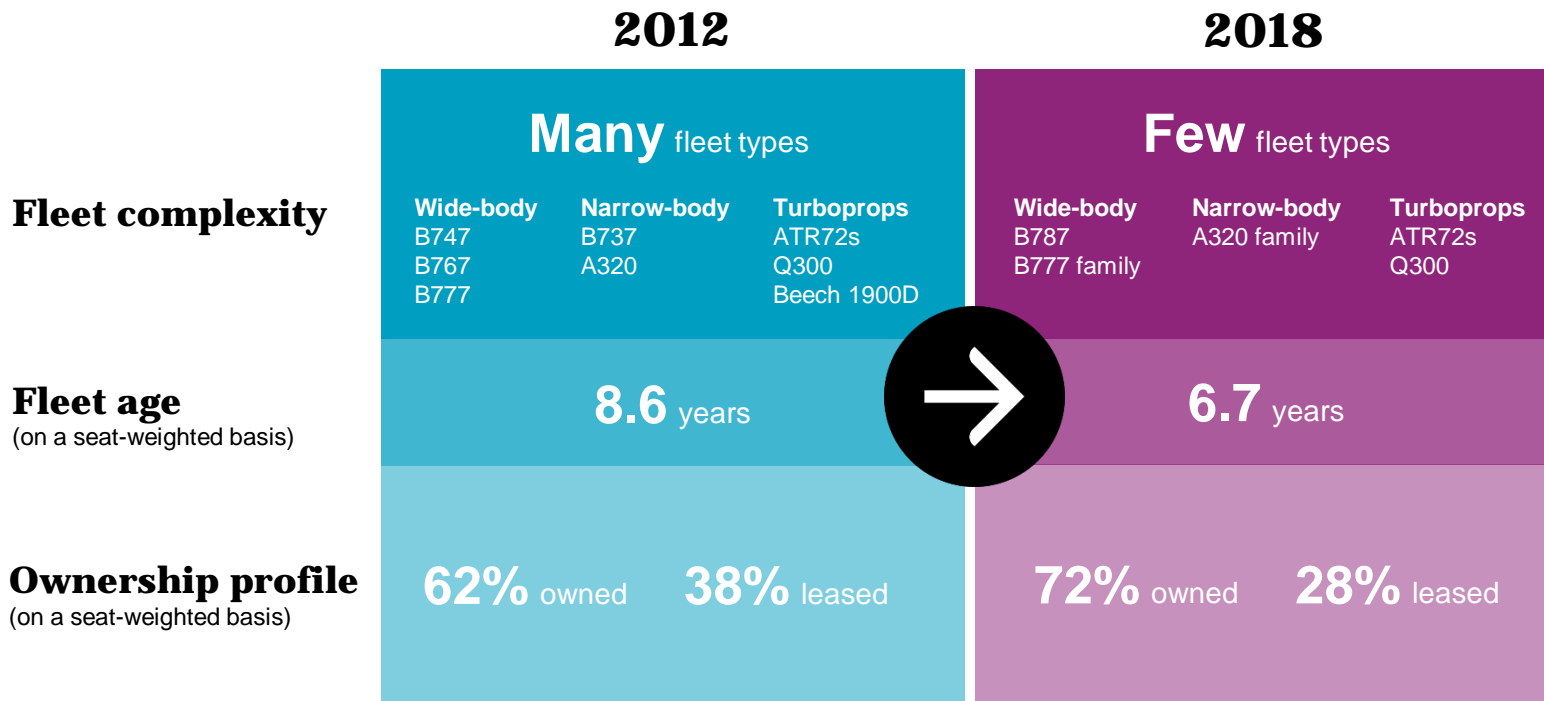
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- Announced review of Virgin Australia investment including possible sale of all or part of our shareholding
- Equity accounting for Virgin Australia investment ceased on 30 March 2016
 - Differential between market value of the investment and the carrying value and associated reserves recorded in the profit and loss
- From 30 March 2016, our investment in Virgin Australia will be recognised as an **investment in quoted equity instruments**
 - Fair value movements will be recorded in the profit and loss



The ideal fleet to deliver profitable network growth

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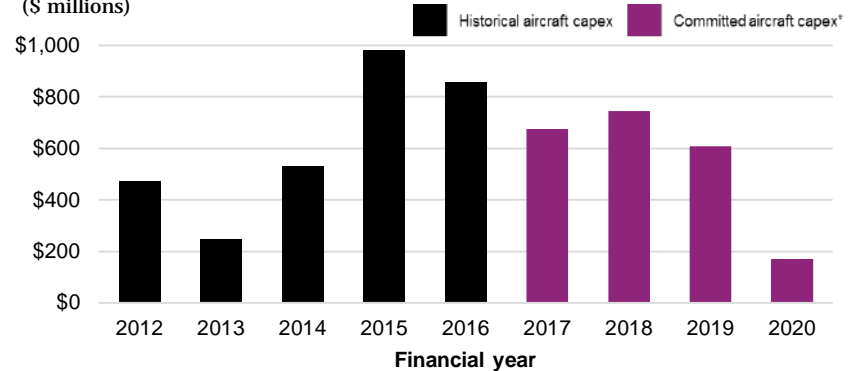
Halfway through significant capex programme

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- Committed investment of ~\$2.2 billion in aircraft from 2017 to 2020
- Declining fleet age driven by deliveries of 787s, A320 family and ATRs
- Low average fleet age of 6.7 in 2018 relative to global average of 9.9 years**

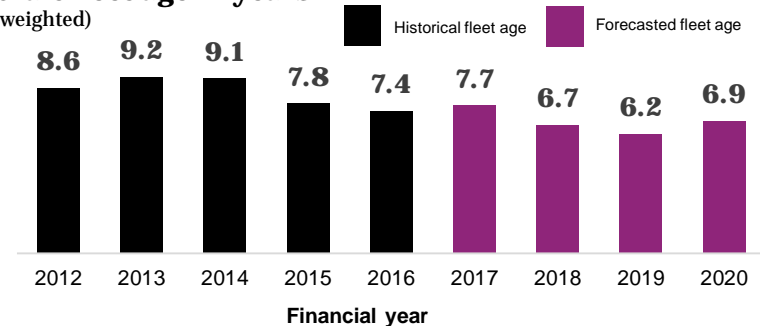
Historical & committed aircraft capex

(\$ millions)



Aircraft fleet age in years

(seat weighted)



** Source: IATA.

* Committed aircraft expenditure based on US dollar exchange rate of 0.68.



Modern aircraft driving improved variable cost efficiencies

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Wide-body



B787-9

vs B767-300ER

↑ **31%**
Additional seats

↓ **~20%**
Variable
Operating cost
(per seat)

Narrow-body



A321 neo

vs A320 ceo

↑ **23%**
Additional seats

↓ **~16%**
Variable
Operating cost
(per seat)

Turbo-prop



ATR72-600

vs Bombardier Q300

↑ **36%***
Additional seats

↓ **~13%***
Variable
Operating cost
(per seat)

Scale economies

Substantially lower
operating costs and
increased seat density
resulting in
reduced unit costs

* When compared to the Beech 1900D, the ATR72-600 aircraft has 49 more seats and approximately 40% improvement in variable operating costs per seat.



Benefits from fleet programme are being realised

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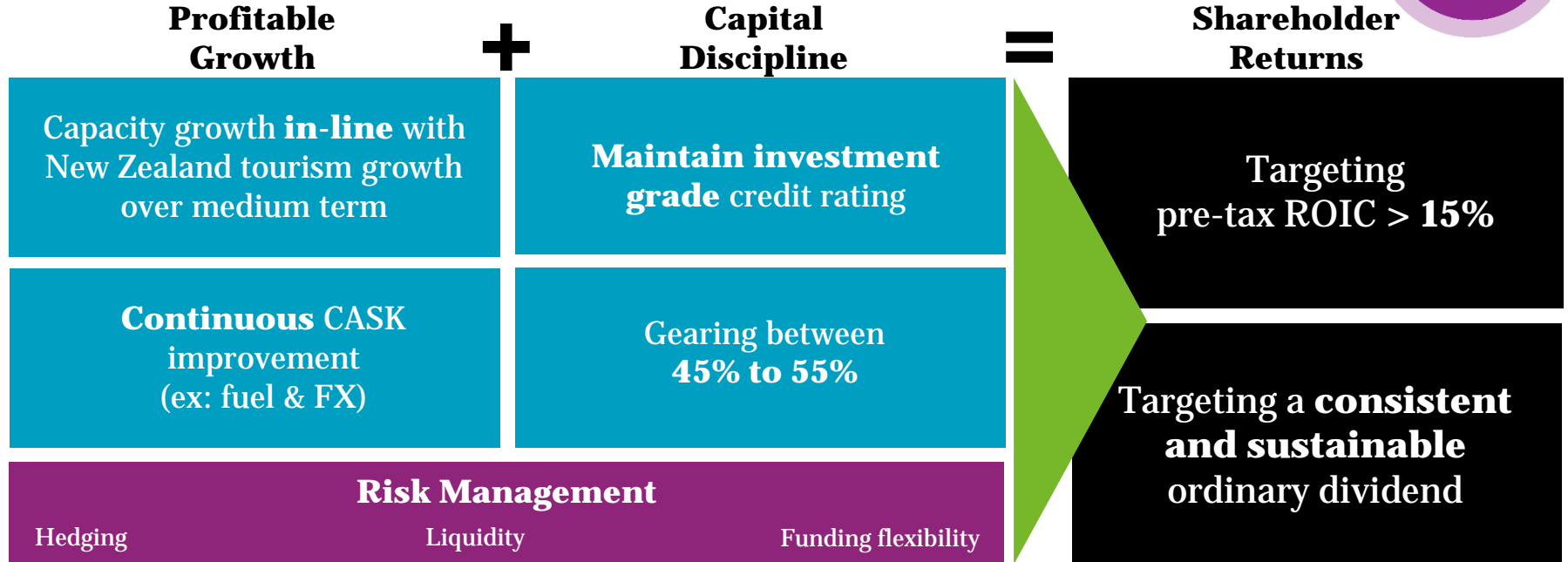


Sound financial framework focused on delivering shareholder value

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Financial framework

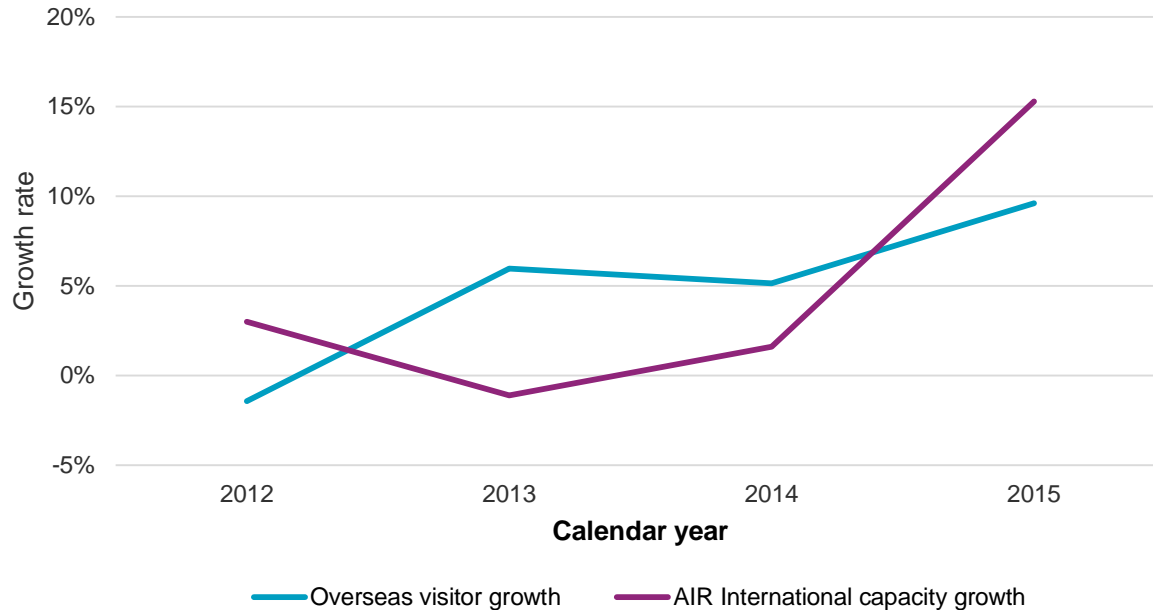




Capacity growth to track New Zealand tourism growth over the medium term

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New Zealand overseas visitor growth vs Air New Zealand international ASK growth



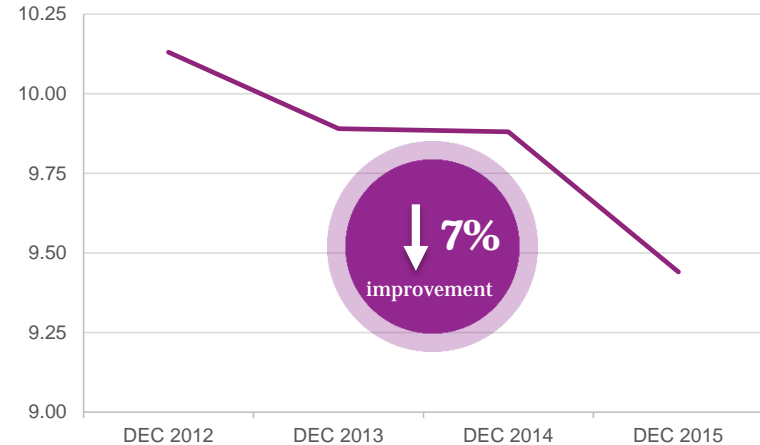


Further improvements to CASK driven by fleet programme and operational efficiencies

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- Underlying unit cost improvements expected as fleet replacement continues
 - Excluding benefit from fuel price and foreign exchange
- Efficiencies from simplified and fuel efficient fleet
 - Lower fuel burn
 - Simplified pilot and crew groups
 - Maintenance

Operational improvements in CASK*
(cents per ASK)



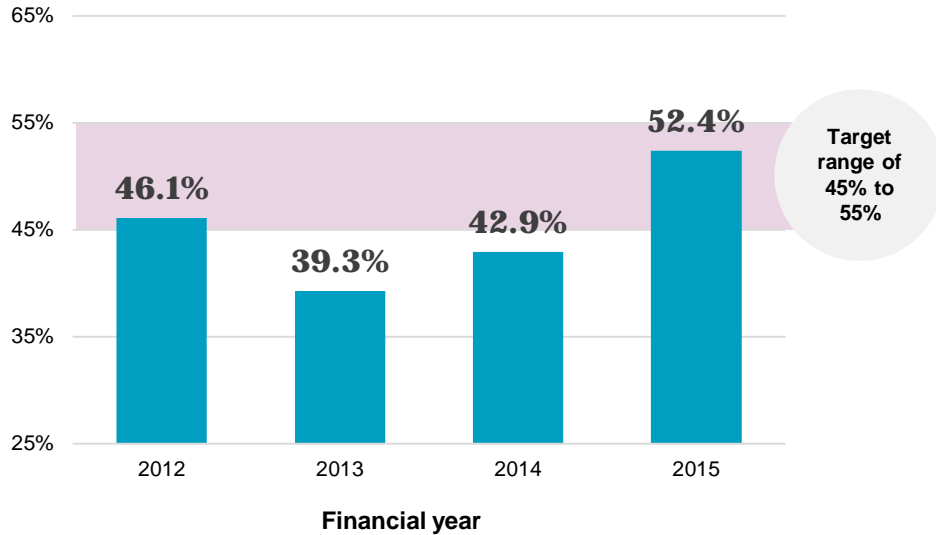
* Prior year CASK adjusted to the average fuel and foreign exchange rates for the six month period ending in December 2015 and excluding divested operations.



Maintaining a strong and flexible balance sheet

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Historical gearing



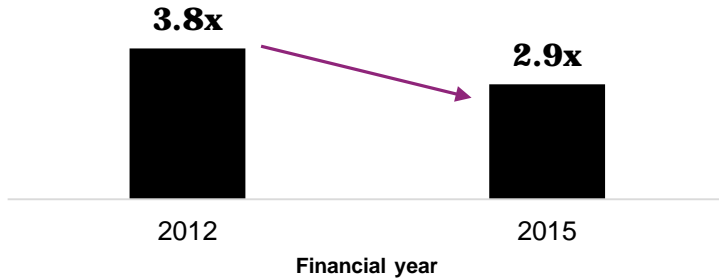
- Rise of gearing reflects fleet investment and impact of US dollar appreciation



Stable investment grade rating provides financial flexibility

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Gross debt / EBITDRA*



- Investment grade credit rating of Baa2 with stable outlook
- Benign debt profile
 - \$150 million unsecured bond payment due in November 2016

Credit rating	
	Moody's
Baa1	
Baa2	
Baa3	
Ba1	
Ba2	
Ba3	

} Investment grade

Source: Bloomberg as at 22 April 2016.

* Gross debt defined as interest-bearing liabilities plus bank overdraft plus operating lease expense multiplied by five (in accordance with Moody's calculation); EBITDRA excludes associate earnings.



Effectively managing financial risks to support our strategic plan

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Hedging

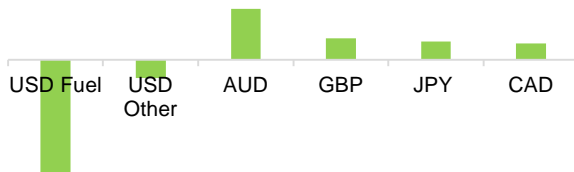
Fuel

- Maximum tenor of 12 months
- Primarily utilise collar structure
- Currently hedged near policy maximums

Foreign Exchange

- Management of US dollar-denominated balance sheet items
- Hedging cover on operating exposures denominated in non-NZD currencies

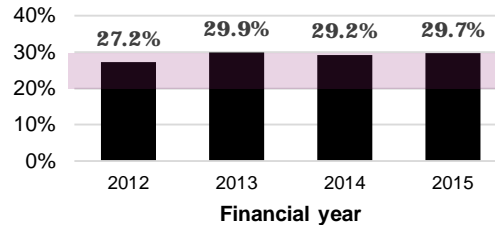
2016 Net exposures – top 5 currencies



Liquidity

- Target liquidity ratio of 20% to 30%
- Historically have managed towards high end of target

Liquidity ratio



Funding flexibility

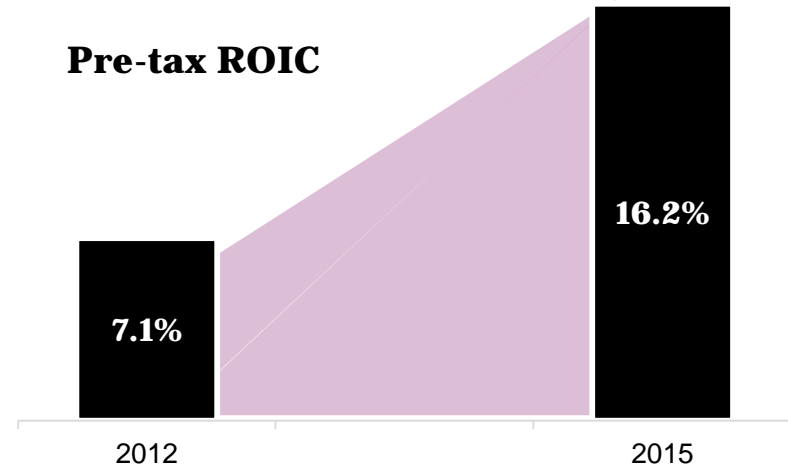
- Well positioned to access financial markets
- Diversified pool of funding available
 - Commercial debt
 - Cash
 - Operating leases
 - Finance leases
 - Unsecured retail bond
 - Capital markets



Attractive return on invested capital

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- Disciplined approach to growth opportunities
- Focus on driving cost efficiencies
- Contribution of lower fuel

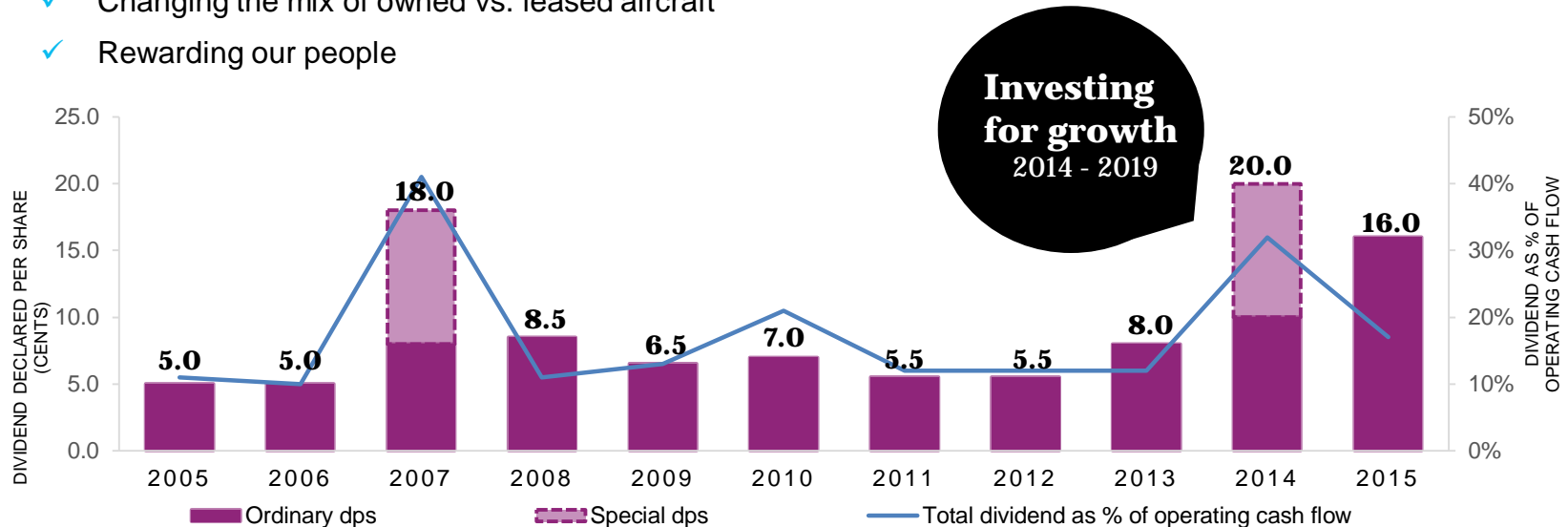




History of distributing dividends through the cycle

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- Consistently returned capital to shareholders, while at the same time:
 - ✓ Investing for growth
 - ✓ Changing the mix of owned vs. leased aircraft
 - ✓ Rewarding our people
- Ability to attach imputation credits for **up to ~\$750 million** of cash dividends



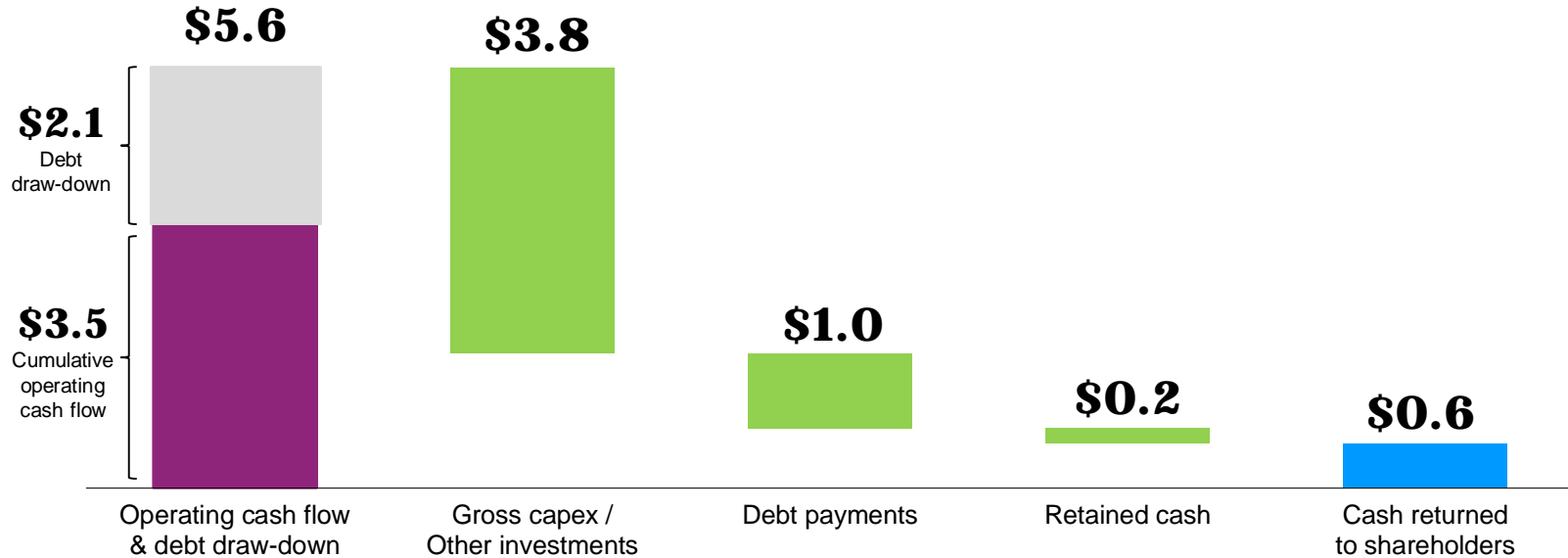


Disciplined capital allocation leading to sustainable long-term returns for our shareholders

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Sources & uses of cash 2011-2015

(\$ billions)





Key messages

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We are well-positioned to compete and win in a dynamic marketplace

We have built the best platform to capture and leverage profitable growth

Significant opportunity ahead to continue generating sustainable shareholder returns

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Appendix

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Glossary of terms

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Available seat kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
EBIT	Earnings before interest and taxation
EBITDRA	Earnings before interest, taxation, depreciation, rentals and amortisation
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
Gearing	Net Debt / (Net Debt + Equity); Debt includes capitalised operating leases
Gross 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 secured deposits and non-interest bearing deposits
Liquidity	Total Cash (comprising Bank and short-term deposits, interest-bearing secured deposits, non-interest bearing deposits and bank overdraft) as at the end of the financial year divided by Total Operating Revenue for that financial year
Net Debt	Gross Debt, 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
Pre-Tax Return on Invested Capital (ROIC)	Earnings Before Interest and Taxation (EBIT) excluding associate earnings, and aircraft lease expense divided by three, all divided by the average Capital Employed (being Net Debt plus Equity) over the period
Revenue passenger kilometres (RPKs)	Number of revenue passengers carried multiplied by the distance flown (demand)
Total Shareholder Return (TSR)	The movement in share price, and assuming that all dividends are reinvested in shares on the ex-dividend date throughout the period

Thank you