

2016
INTERIM
FINANCIAL
REPORT



25 February 2016

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Chief Executive Officer

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Chief Financial Officer

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.

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.

**BUSINESS
REVIEW AND
STRATEGIC
UPDATE**

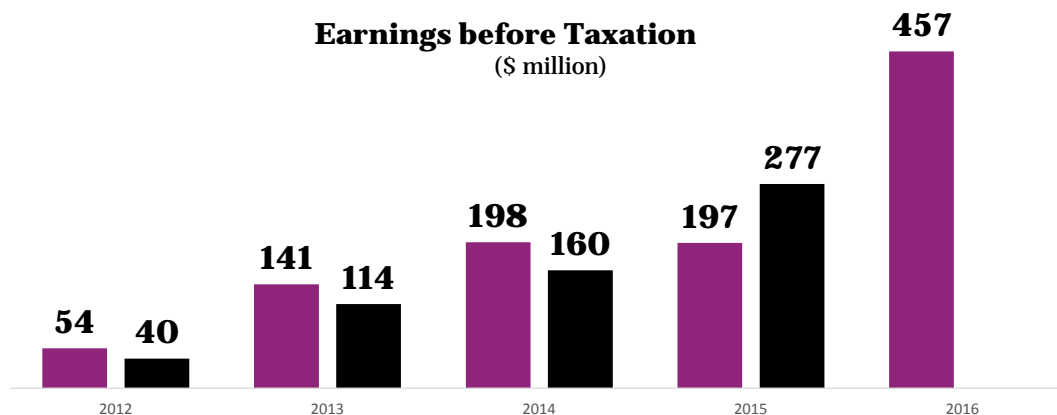


Christopher Luxon
Chief Executive Officer

Interim Highlights



- Operating revenue **\$2.7 billion, (up 12%)**
- Earnings before taxation **\$457 million, (up 132%)**
- Net profit after taxation **\$338 million, (up 154%)**
- Operating cash flow **\$541 million, (up 43%)**



Key drivers in our result



- Demand exceeded record capacity growth – **ASKs and RPKs up 16% and 17%, respectively**
- Passenger revenue **up 16%**, supplemented by robust cargo revenue, **up 21%**
- Lower fuel price more than offset increased fuel volume
- Economies of scale and business simplification drove incremental profitability of **\$106 million**

Capacity
up 16%

Demand
up 17%

Yield
down 1.1%*

Passenger
revenue
up 16%*

Cargo
revenue
up 21%*

Fuel price
down 44%

* Excluding the impact of foreign exchange, yield decreased 4.6%, passenger revenue increased 12% and cargo revenue increased 11%.

External dynamics support continued demand growth



	Tailwinds	Headwinds
International Long-haul	<ul style="list-style-type: none">• Growth in overseas tourism (+10%*)• Strong USD makes New Zealand a relatively cheaper destination	<ul style="list-style-type: none">• Increased long-haul competition driven by:<ul style="list-style-type: none">– Strong tourism– Low fuel price
Short-haul	<ul style="list-style-type: none">• Stable outlook for New Zealand economic growth• Increase in short-haul leisure travel• Domestic dispersal of inbound tourism	<ul style="list-style-type: none">• Increased competition on Trans-Tasman and Domestic routes

Well positioned to respond to changing environment and grow the network profitably

Significant progress on strategic priorities



OUR STRATEGIC PRIORITIES

1H16 highlights

Realign our business for growth	MARKETS	Grow and develop markets Grow contribution from alliance partners	✓ Houston, Buenos Aires routes commenced ✓ Initiation of revenue share alliance with Air China
	EFFICIENCY	Grow, simplify and modernise our fleet Simplify our business to drive down cost	✓ Three Boeing 787-9 aircraft delivered ✓ Ordered 15 ATR72-600 aircraft for regional services
	CUSTOMER	Grow a consistent and personalised customer experience	✓ More than 2 million Airpoints members ✓ Auckland and Sydney lounges completed
	PEOPLE	Grow high performance culture and capability	✓ Completed negotiation of 17 collective agreements
	TECHNOLOGY	Unleash digital transformation	✓ New Chief Digital Officer onboard

2014

Identifying

2015

Initiating

2016

Executing



Strategic priority: **markets**



Grow & develop markets and contribution from partners

1H 2016 Progress

- International long-haul capacity growth in 1H 2016 of 24%
- Successfully launched new international routes to Houston and Buenos Aires
- Partnership with Air China commenced in early December
 - Leveraging sales & distribution network to continue strong growth prospects in China

Looking forward...

- 2H 2016 total capacity growth ~7%
- Increased utilisation from Domestic network changes
 - Queenstown night flights commence
 - Schedule changes for better connectivity
- Launch of Ho Chi Minh City seasonal service commencing June 2016

Strategic priority: **efficiency**



Grow and simplify the fleet

1H 2016 Progress

- Investment in modern, fuel efficient aircraft
 - Delivery of 3 B787-9s and 2 Domestic A320s
 - 13 A321XLR NEOs on order for Tasman & Pacific Island routes
 - Ordered 15 ATR 72-600s (11 replacement and 4 growth aircraft); took delivery of first one in December 2015)
- Completed exit of Boeing 737-300

Looking forward...

- World-class modern fleet provides significant cost advantages
 - Fuel efficient fleet supports growth profile of long-haul flights
 - Operational efficiencies including decrease from 5 pilot groups in 2013 to 3 pilot groups by FY2017 on the jet fleet
- Efficiencies combined with strong growth expected to achieve continued unit cost improvements

Strategic priority: customer



Grow a consistent and personalised customer experience

1H 2016 Progress

- Recognised as “Airline of the Year” for the third consecutive year by airlineratings.com
- Airpoints loyalty programme membership surpassed 2 million, up 17%*
- Completed flagship lounge upgrades in Auckland and Sydney
- Refurbishment of Boeing 777-200s completed in December 2015

Looking forward...

- Lounge upgrades in Brisbane, Hamilton, Invercargill and Wellington regional
- Continued development of loyalty partnerships



* Compared with December 2014.

Strategic priority: people



Grow high performance culture and capability

1H 2016 Progress

- Continued to attract top-tier talent
- Staff turnover remained at low levels (< 5%)
- High Performance Engagement between management, employees and their unions continued to drive results
 - Successfully negotiated 17 collective agreements

Looking forward...

- Jodie King appointed new Chief People Officer
- Continue to build upon relationships with employee representatives

Strategic priority: digital



Unleash digital transformation

1H 2016 Progress

- Appointment of Avi Golan as Chief Digital Officer
- Completed reorganisation of digital team
- Launched Airband™ for unaccompanied minor travel
- Launched biometric baggage check



Looking forward...

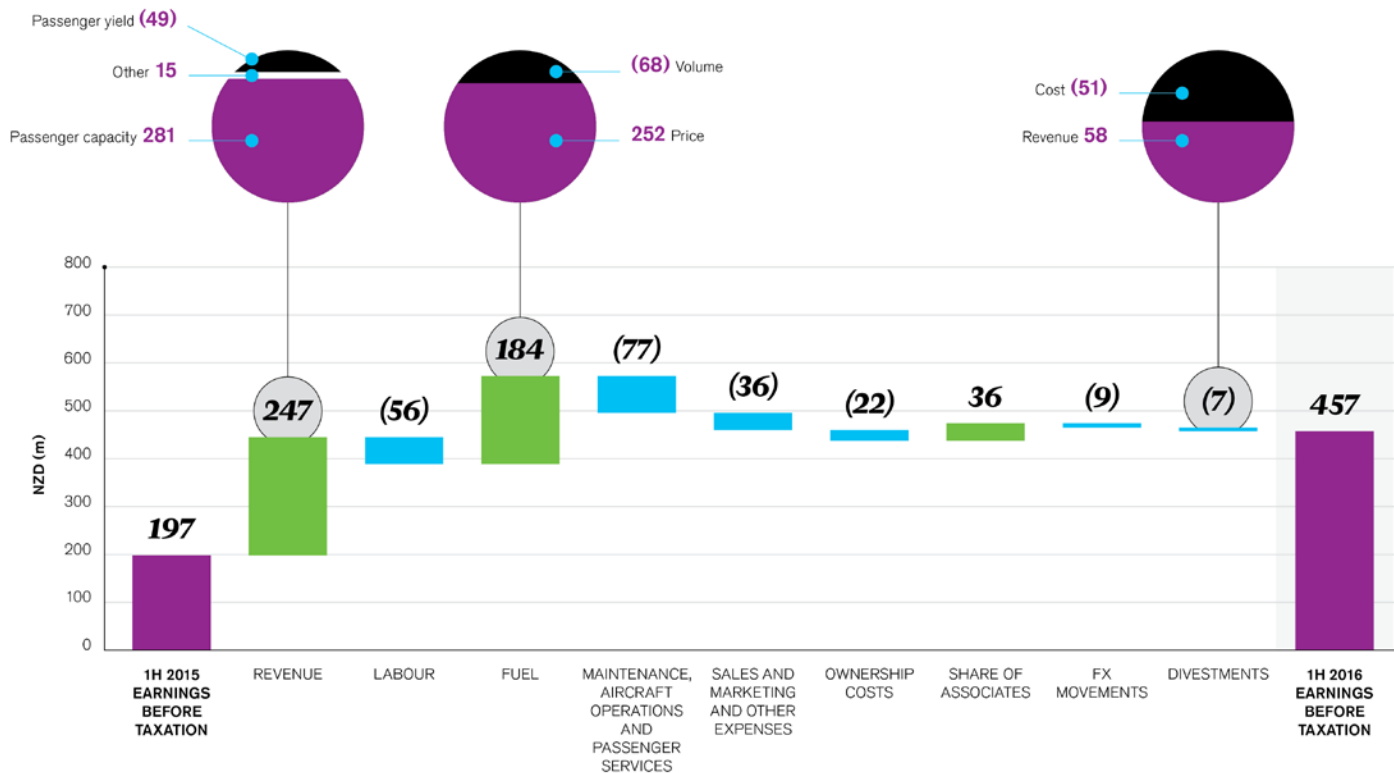
- Core focus of Digital team will be using technology to benefit our customers
- Reduce the pain points from the customer journey and enhance the experience
- Improve productivity of Air New Zealanders to allow more time to focus on customers

FINANCIAL REVIEW



Rob McDonald
Chief Financial Officer

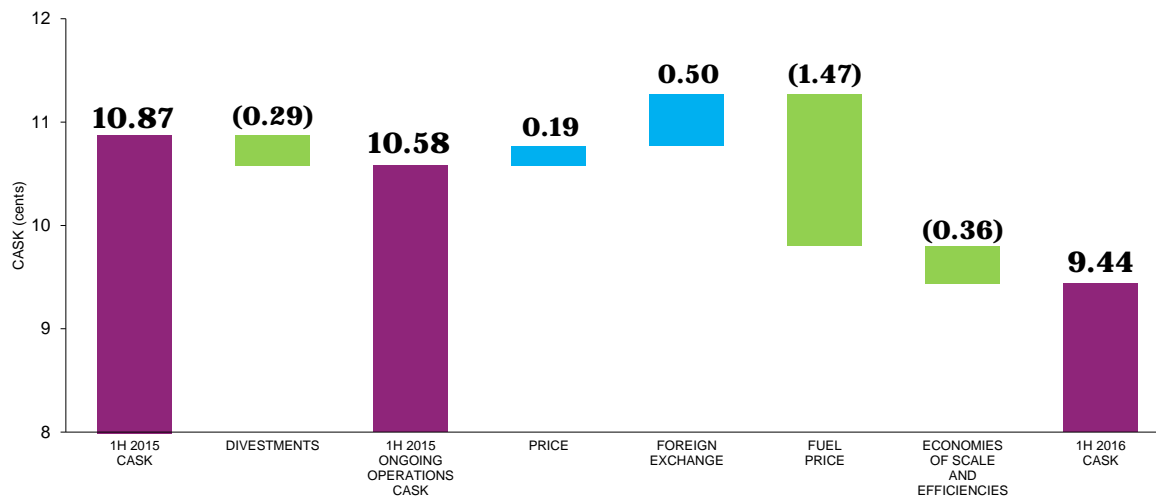
Changes in profitability



Reduction in CASK* delivers \$227m of value

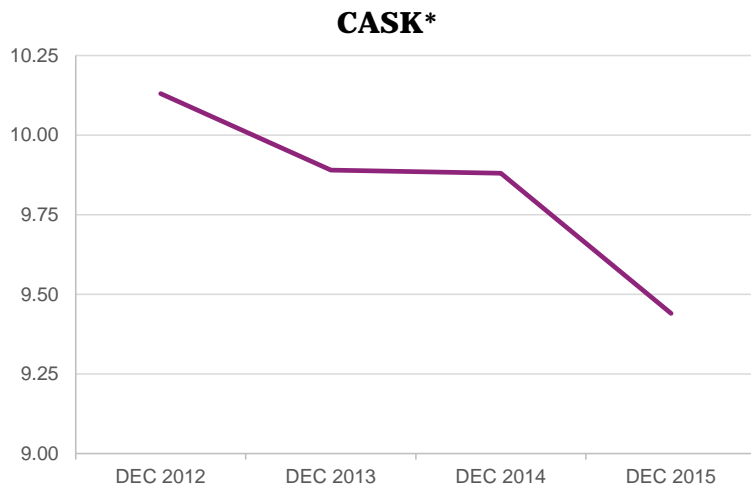


- CASK related to ongoing operations improved 11%
- Average MOPS price decreased 44% from the prior period (from US\$107/bbl to US\$60/bbl)
- Efficiencies from growth, fleet simplification and other cost saving initiatives drove \$106 million of incremental profitability



* Operating expenditure per ASK.

CASK improvement



- Improvements to cost structure driven by fleet simplification benefits
- Over 3 years, CASK* improved 7% (excluding the benefit of fuel price movements) as a result of economies of scale and efficiencies

* 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.

Domestic



- Capacity growth of **11%**
- Strong performance with demand closely tracking capacity
- Comprehensive domestic & regional network with over 400 flights daily serving 22 destinations across New Zealand
- On time performance (OTP) was world class at **91.1%** for domestic jet and **86.2%** for regional turboprop aircraft for the 6 months to December 2015

	Dec 2015	Dec 2014	Movement*
Passengers carried ('000s)	4,932	4,562	8.1%
Available seat kilometres (ASKs, millions)	3,093	2,778	11.3%
Revenue passenger kilometres (RPKs, millions)	2,465	2,241	10.0%
Load factor	79.7%	80.7%	(1.0 pts)
Yield (cents per RPK)	27.5	28.7	(3.9%)**

* Calculation based on numbers before rounding.

** Excluding the impact of foreign exchange, Domestic yield decreased by 4.5%.

Tasman & Pacific Islands



- Capacity growth of **7%**
- Increased frequency of wide-body aircraft
- Introduction of Premium Economy on select routes commenced in October with solid demand
- International short-haul on time performance (OTP) **87.1%** for the 6 months to December 2015

	Dec 2015	Dec 2014	Movement*
Passengers carried ('000s)	1,859	1,718	8.2%
Available seat kilometres (ASKs, millions)	6,024	5,624	7.1%
Revenue passenger kilometres (RPKs, millions)	5,046	4,681	7.8%
Load factor	83.8%	83.2%	0.6 pts
Yield (cents per RPK)	12.2	11.9	2.7%**

* Calculation based on numbers before rounding.

** Excluding the impact of foreign exchange, Tasman & Pacific Islands yield increased by 1.6%.

International



- Capacity growth of **24%**
- Commenced new routes to Buenos Aires and Houston in December 2015
- Announced new Ho Chi Minh City seasonal service beginning June 2016
- International long-haul on time performance (OTP) **78.8%** for the 6 months to December 2015

	Dec 2015	Dec 2014	Movement*
Passengers carried ('000s)	966	764	26.4%
Available seat kilometres (ASKs, millions)	10,868	8,758	24.1%
Revenue passenger kilometres (RPKs, millions)	9,353	7,477	25.1%
Load factor	86.1%	85.4%	0.7 pts
Yield (cents per RPK)	10.8	10.6	2.0%**

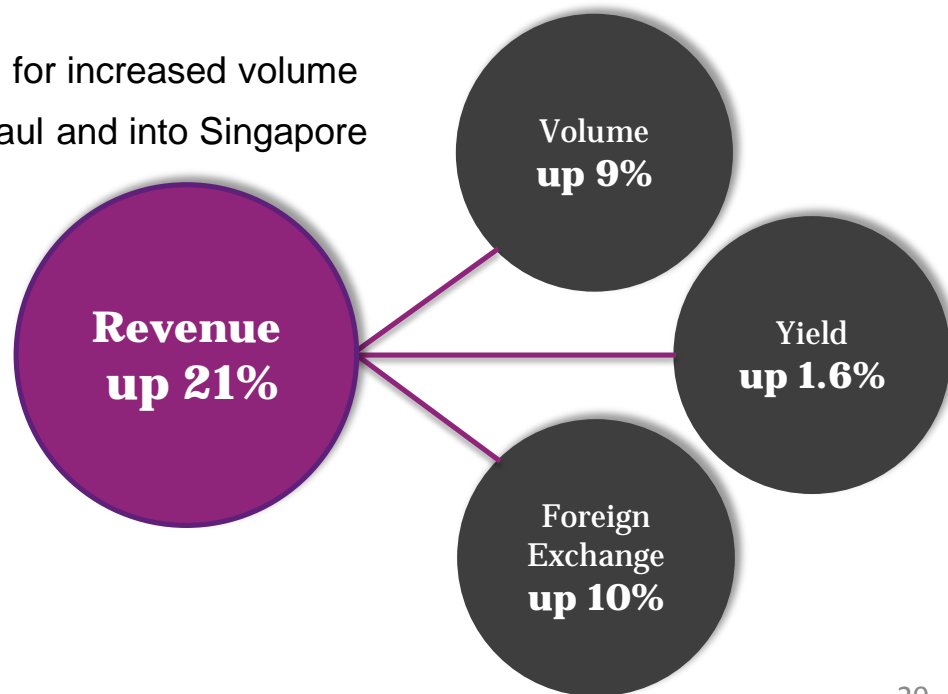
* Calculation based on numbers before rounding.

** Excluding the impact of foreign exchange, International yield decreased by 5.2%.

Cargo



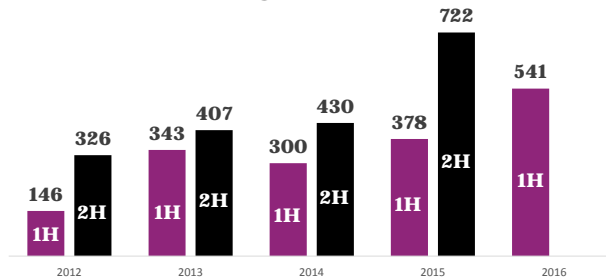
- Robust revenue growth driven by strong volumes and improved yields
- Capacity increases and new routes allowed for increased volume
- Growth particularly strong on Pacific long-haul and into Singapore



Strong operating cash flow and balance sheet provide flexibility

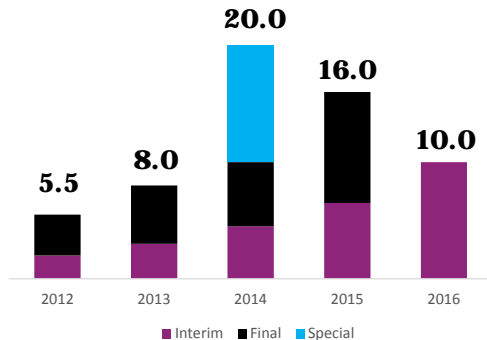


Operating cash flow (\$m)



Dividends (declared)

(cents per share)

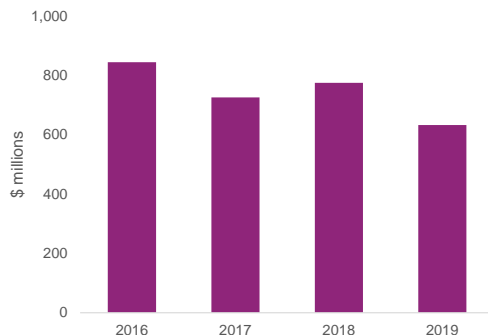


- Net cash on hand of **\$1.4 billion, up 6%** from 30 June 2015
- Operating cash flow **\$541 million, up 43%** over prior period
- Gearing moved to **53.8%**, up slightly from **52.4%** at June 2015 due to additional debt and dividends offset by earnings
- Fully imputed interim dividend of **10.0** cents per share, an increase of **54%** on the prior year
- Stable outlook **Baa2** rating from Moody's

Aircraft capital expenditure



Aircraft capital expenditure



- Expected investment of **~\$2.3 billion** in aircraft and associated assets over the next 3.5 years
- Assumes NZD/USD = 0.65
- Includes progress payments on aircraft

Fleet on order

Aircraft	Number in existing fleet	Number on order	Delivery Dates (Financial Year)			
			2H 2016	2017	2018	2019
Boeing 787-9	6	6	-	3	2	1
Airbus A320	28	2	1	1	-	-
Airbus A320/A321 NEOs*	-	13	-	-	3	6
ATR72-600	10	19	3	2	4	5

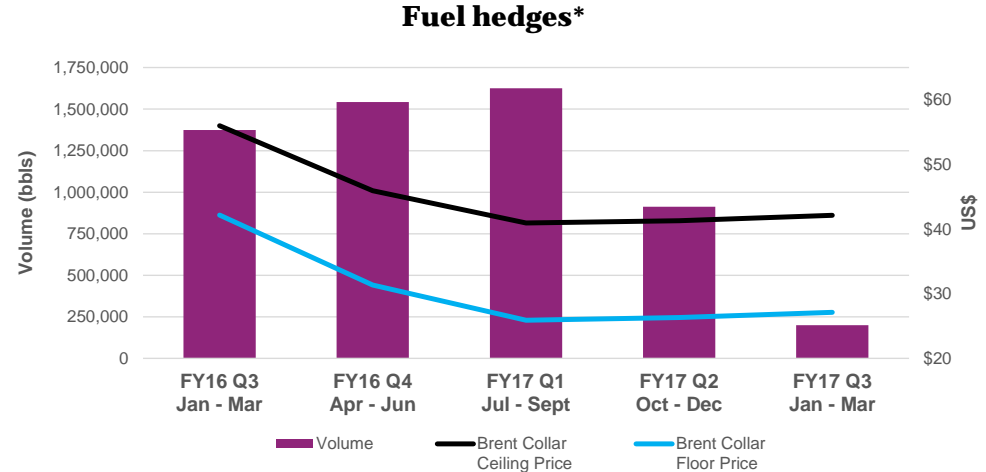
* Excludes orders of up to five A320/A321 NEOs with purchase substitution rights.

Hedging



Fuel hedging*

- Average decline of jet fuel price per barrel of 44% during the period
 - 1H 2016 MOPS price of US\$60 compared to US\$107 in 1H 2015
 - Participated in 82% of available fuel decline in 1H 2016
- 2H 2016 is 71% hedged
- 1H 2017 is 56% hedged



U.S. dollar hedging

- 2H 2016 hedges for US\$325 million at a NZD/USD rate of 0.73
- 2017 hedges for US\$295 million at a NZD/USD rate of 0.66

* Fuel hedging as at 16 February 2016.

OUTLOOK



Christopher Luxon
Chief Executive Officer

Outlook



-
- External factors that can influence outlook for second half of the year include fuel prices, foreign currency rates and competition
 - Based upon current market conditions and assuming current fuel prices and foreign exchange rates, we are targeting **earnings before taxation for the full year 2016 to exceed \$800 million**
 - This outlook excludes equity earnings from our Virgin Australia shareholding

Capacity Outlook



2H 2016	2017 (preliminary)
~+ 7% total capacity	+ 8% to 10% total capacity
<i>Short-haul: ~+5%</i> <i>Long-haul: ~+9%</i>	<i>Short-haul: ~+6 to 8%</i> <i>Long-haul: ~+8 to 10%</i>



Thank you

SUPPLEMENTARY SLIDES



Financial overview



	Dec 2015	Dec 2014	Movement	Movement
	£M	£M	£M	%
Operating revenue	2,698	2,403	295	12%
Earnings before taxation	457	197	260	132%
Net profit after taxation	338	133	205	154%
Operating cash flow	541	378	163	43%
Net cash position*	1,400	1,321	79	6%
Gearing*	53.8%	52.4%	n/a	(1.4 pts)
Interim ordinary dividend**	10.0 cps	6.5 cps	3.5 cps	54%

* Comparative is for 30 June 2015.

** Dividends are fully imputed.

Group performance metrics



	Dec 2015	Dec 2014	Movement*
Passengers carried ('000s)	7,757	7,044	10.1%
Available seat kilometres (ASKs, millions)	19,985	17,160	16.5%
Revenue passenger kilometres (RPKs, millions)	16,864	14,399	17.1%
Load factor	84.4%	83.9%	0.5 pts
Yield (cents per RPK)	13.7	13.8	(1.1%)**

* Calculation based on numbers before rounding.

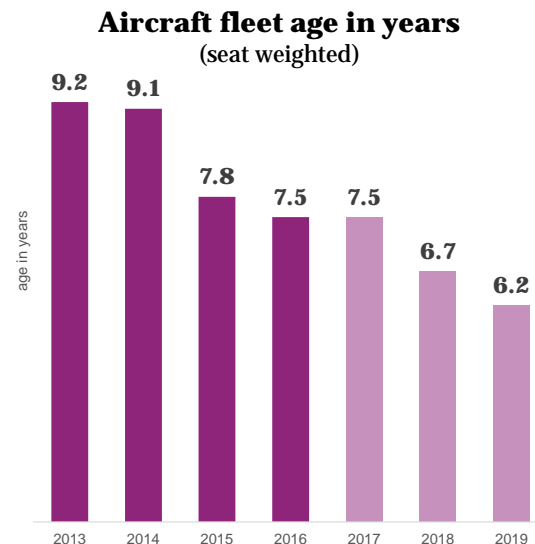
** Excluding the impact of foreign exchange, yield decreased by 4.6%.

Projected aircraft in service



- 5 ATR 72-600 aircraft expected to be delivered in the next 6 to 9 months
- Beech 1900Ds exiting by September 2016; Boeing 767-300ERs exiting by calendar 2017

	2016	2017	2018	2019
Boeing 777-300ER	7	7	7	7
Boeing 777-200ER	8	8	8	8
Boeing 787-9	6	9	11	12
Boeing 767-300ER	4	2	-	-
Airbus A320	29	30	25	18
Airbus A320/A321 NEO	-	-	6	13
ATR72-600	13	15	19	24
ATR72-500	11	11	8	3
Bombardier Q300	23	23	23	23
Beech 1900D	3	-	-	-
Total Fleet	104	105	107	108



Fuel hedging*



		Volume (bbls)	Ceiling (USD)	Floor (USD)
2H 2016	Brent collars	2,917,500	50.68	36.46
1H 2017	Brent collars	2,537,500	41.07	26.05
2H 2017	Brent collars	200,000	42.13	27.13

* Fuel hedging as at 16 February 2016.

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