



Investor Presentation

London Investor Roadshow
20 October 2016

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.



Highlights



Air New Zealand at a glance



76

Years in operation

Pacific Rim

Focused network driven by alliance partnerships

30

International destinations

21

Domestic destinations

15 million

Passengers carried annually

11,500

Air New Zealand employees based globally

11

Consecutive years of dividend payments

Baa2

Investment grade credit rating from Moody's

#1

Corporate reputation in New Zealand

#6

Corporate reputation in Australia

Exchanges and ownership structure

AIR

NXZ stock ticker

AIZ

ASX stock ticker

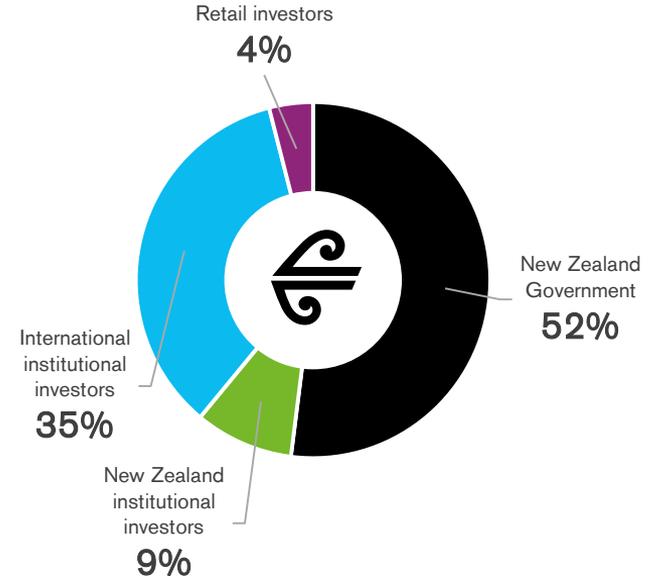
- Dual-listed on the NZX and ASX stock exchanges
- Strong trading liquidity: ~2.1 million average daily trading volume
- Member of the NZX50 index – includes the 50 largest and most liquid companies of the NZX

-
- New Zealand Government holds 52%
 - No direct Board representation
 - Seven independent Directors



Share register

(as at 30 June 2016)



2016 network and key financial metrics

\$5.2b

operating revenue

\$806m*

earnings before taxation

\$1.1b

operating cash flow

22%*

Pre-tax ROIC

* Before other significant items of \$143 million. See appendix for reconciliation to IFRS earnings.



2016 ASK growth
+12%

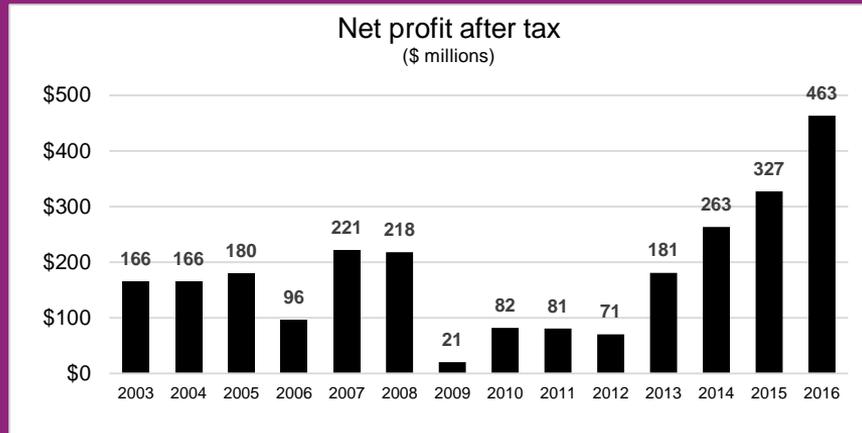
Driven by new international routes & fleet up-gauge

Focused on the **Pacific Rim**

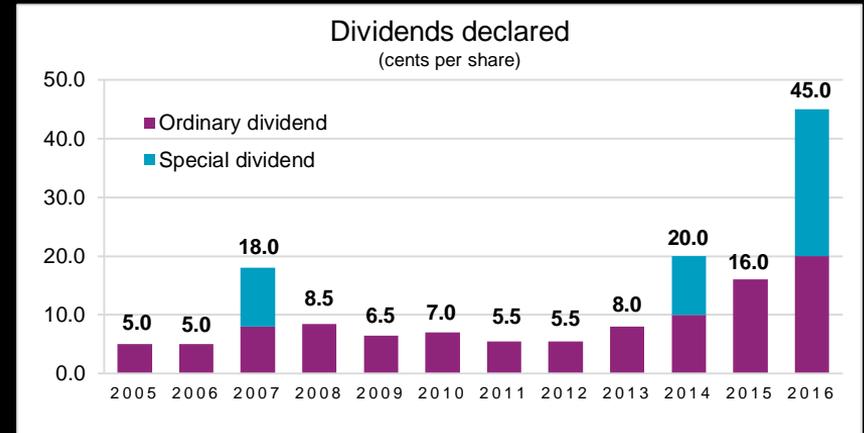
Profitability and dividends through the cycle



13 consecutive years of positive earnings...



...and 11 years of consecutive dividends



Market environment



Demand drivers remain robust



Tourism to New Zealand growing double-digits

- ✓ Largest inbound markets are Australia, China and the U.S.
- ✓ International visitors +11%* to 3.3 million
- ✓ Visitor expenditure +18%*



Domestic tourism and travel demand strong

- ✓ Stable economic conditions and consumer sentiment
- ✓ Increased regional travel throughout New Zealand by overseas and domestic visitors alike



New Zealand economy remains healthy

- ✓ Average GDP growth of 2.5% in 2015**
- ✓ Tourism and robust construction activity supporting GDP growth
- ✓ Historic high net migration levels

* NZ Statistics, based on year ending 30 June 2016.

** NZ Statistics.

Market environment



Strong inbound tourism growth

Current view of stable fuel prices

Increased competitive landscape

Competitive advantages



A simple and proven strategy for success



1. Our alliance-driven Pacific Rim network



2. Our brand and Kiwi service culture



3. Our domestic network



4. Our Airpoints™ members



5. Our simplified fleet & competitive cost structure

1. Our alliance-driven Pacific Rim network

Strong JV partnerships de-risk international growth



Strong partnerships across
the **Pacific Rim**

Why revenue share alliances?

- ✓ Partners have “skin in the game” to sell the route
- ✓ Strength of sales & distribution in local markets
- ✓ Access to frequent flyer databases



2. Our brand and Kiwi service culture

Experiencing record high customer satisfaction, brand health & employee engagement

Record

Customer satisfaction

69%

Employee engagement

#1

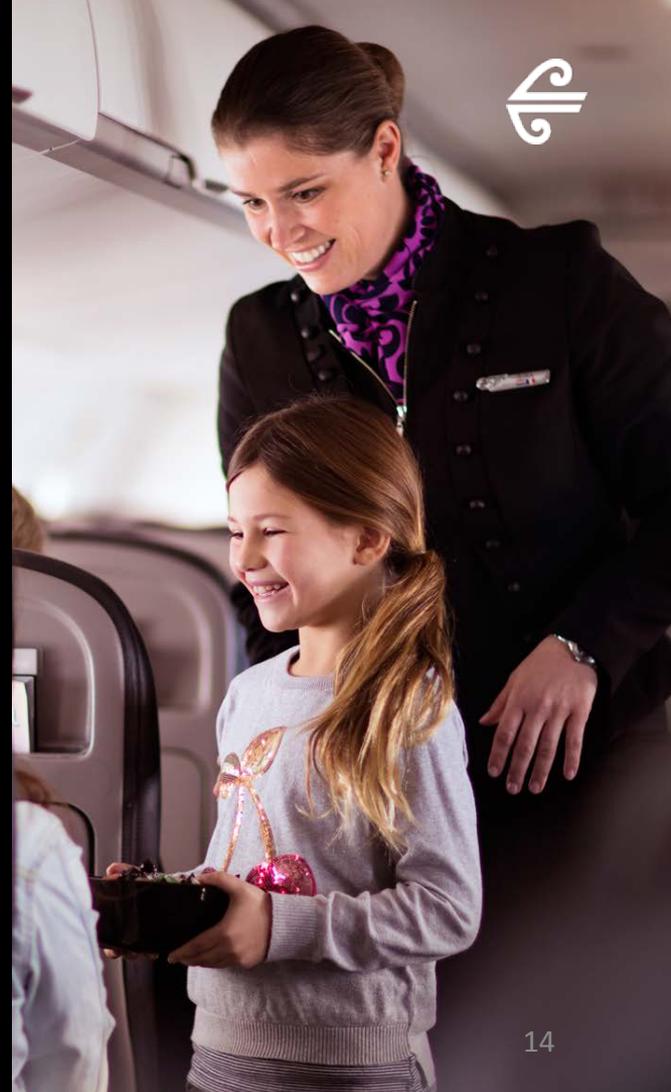
Corporate reputation
in New Zealand

#6

Corporate reputation in
Australia



Brand Health in
Great Shape



3. Our domestic network

Strong market share to leverage growth from inbound tourism



- Unmatched network offering to 21 main centres and regions across New Zealand
- Domestic dispersal of inbound international tourism through Auckland
- Network strength, product and lounges to drive further stimulation



4. Our Airpoints™ members

Our platform for loyalty and customer relationship data



Since launching in 1989, the Airpoints™ programme now has over 2.2 million members



Members are based in more than 160 different countries



More than 50 New Zealand retail, banking, and travel businesses are now part of the programme



In 2016, members have enjoyed more than 840,000 flights paid for by Airpoints Dollars™



Our Airpoints™ Mall houses more than 140 international and domestic retailers where members can earn Airpoints Dollars™ for their online purchases



We've launched programmes such as Airpoints™ for Business, which reward businesses when their employees fly with us and Airpoints™ for Schools, a community initiative allowing members to donate Airpoints™ to school fundraising projects

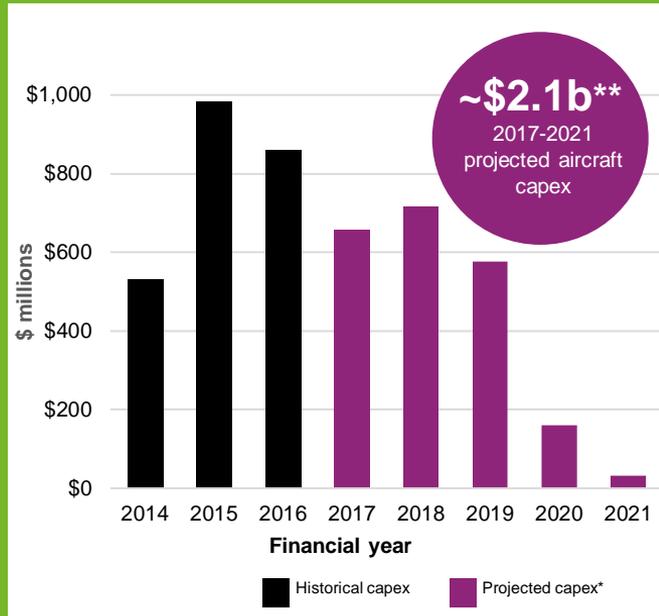




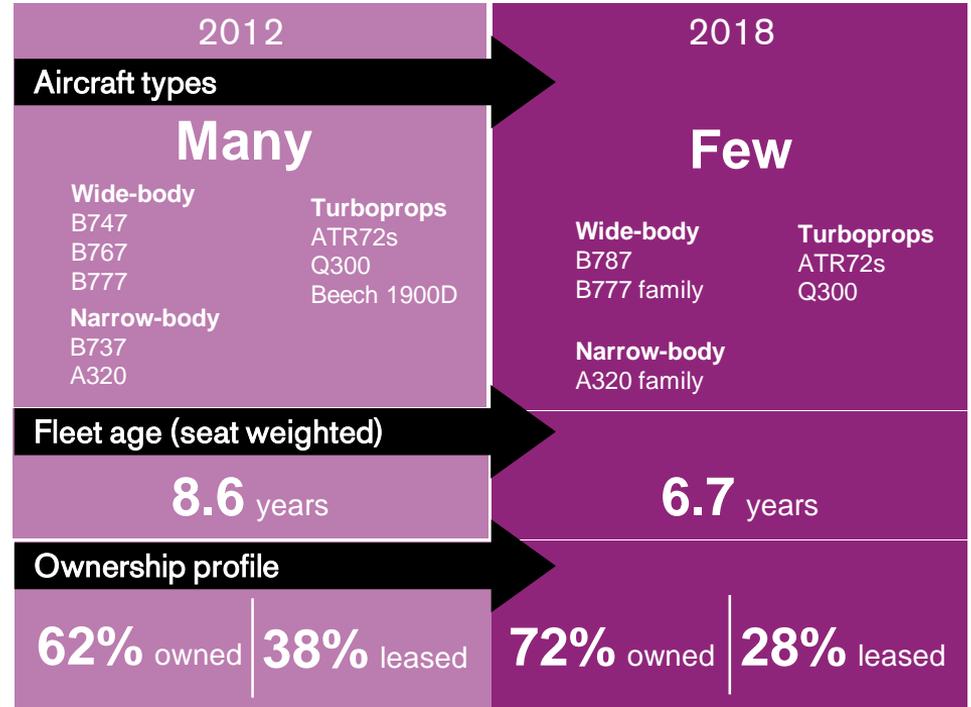
5. Our simplified fleet

More than halfway through significant capex programme

Historical & projected aircraft capex*



Impact of fleet programme



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

** Projected aircraft expenditure based on US dollar exchange rate of 0.715.



5. Our competitive cost structure

Simplified and modern fleet driving improved variable cost efficiencies

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)

Efficiencies

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

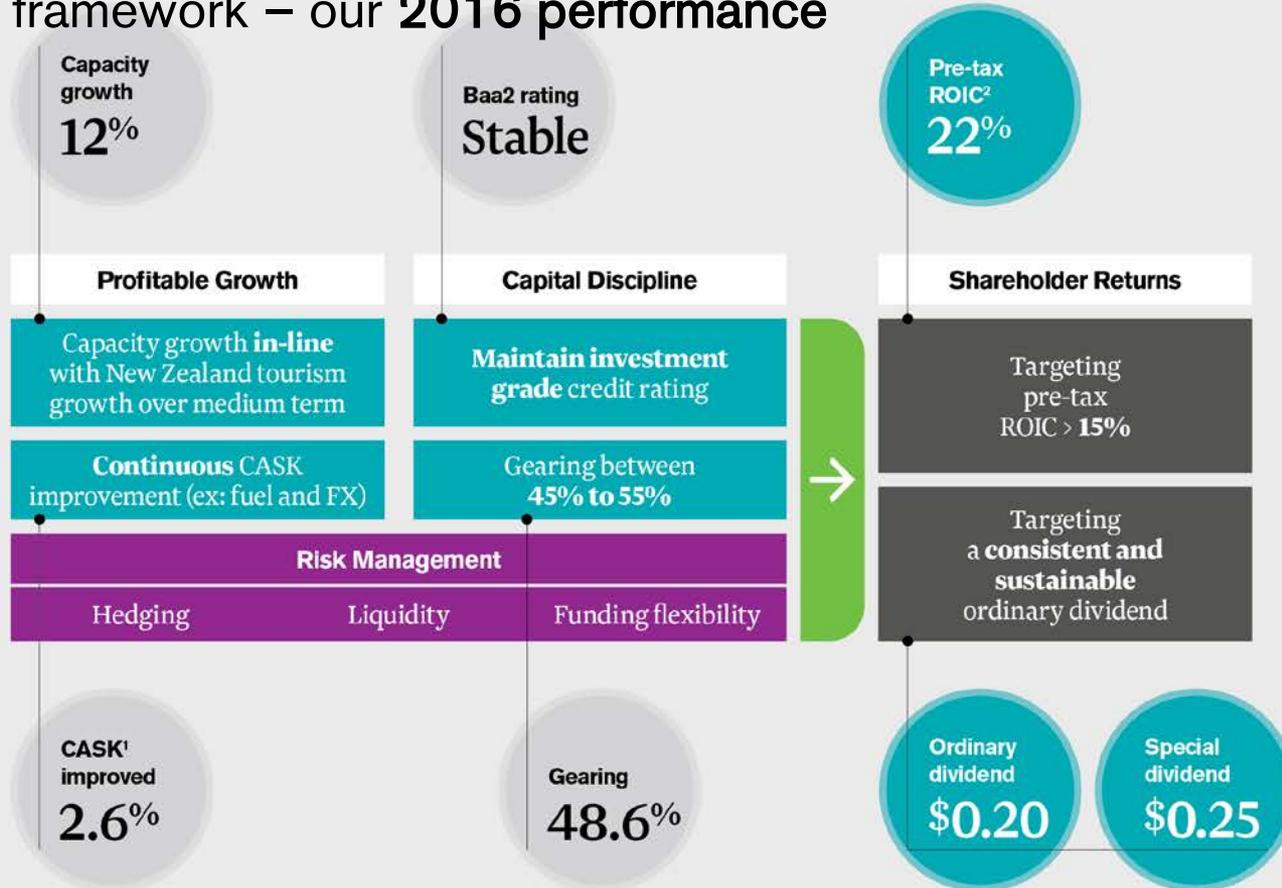
* When compared to the Beech 1900D, the ATR72-600 aircraft has 49 more seats and approximately 40% improvement in variable operating costs per seat.

Financial priorities





Financial framework – our 2016 performance



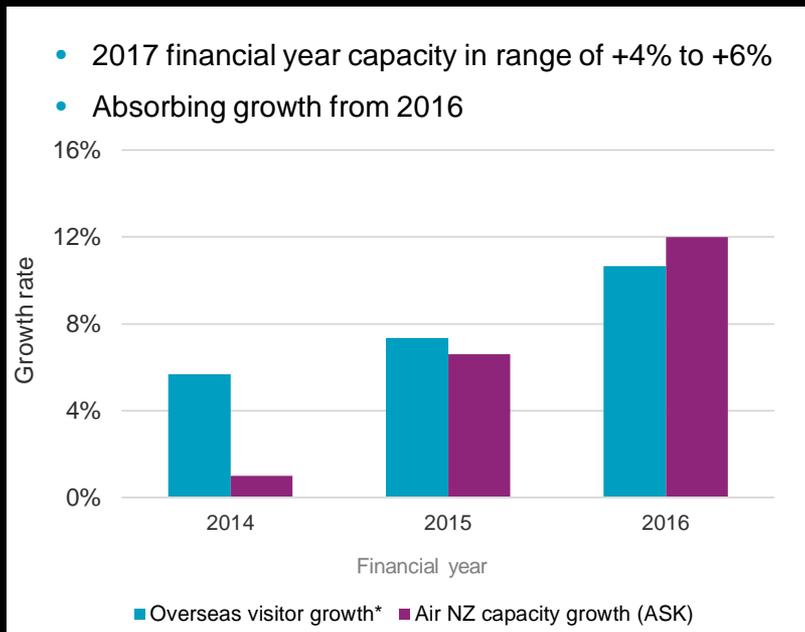
¹ Excluding fuel price movement, foreign exchange and divestments.

² Excluding other significant items. Refer to the appendix.

Profitable growth driven by disciplined capacity management and continuous CASK improvement

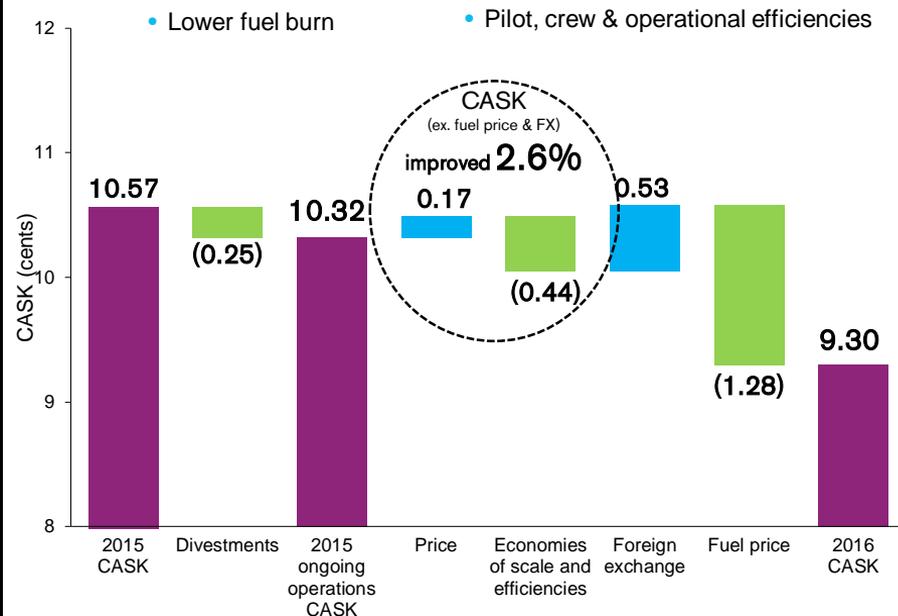


Capacity aligned with tourism growth



Efficiencies driving CASK** improvement

Investment in fuel efficient and simplified aircraft resulting in:



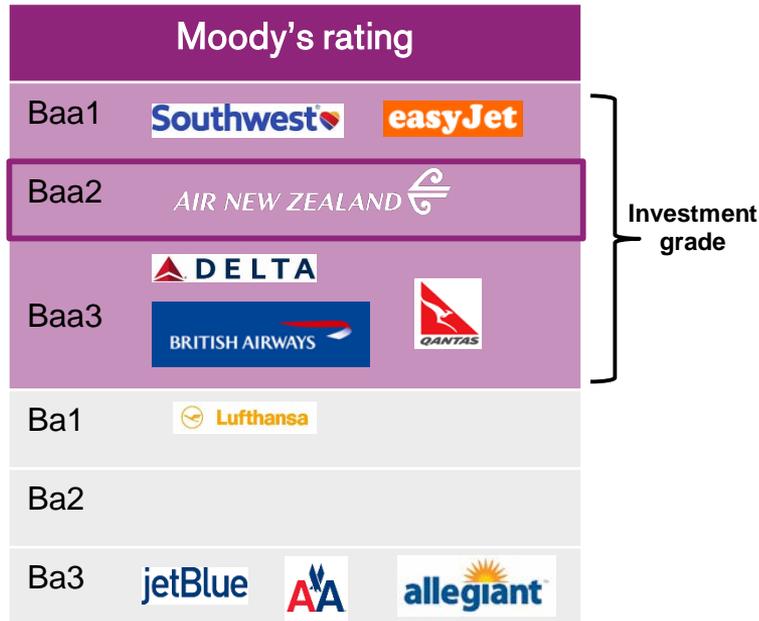
* NZ Statistics, based on year ending 30 June 2016.

** Operating expenditure per ASK.

Capital discipline focusing on balance sheet strength

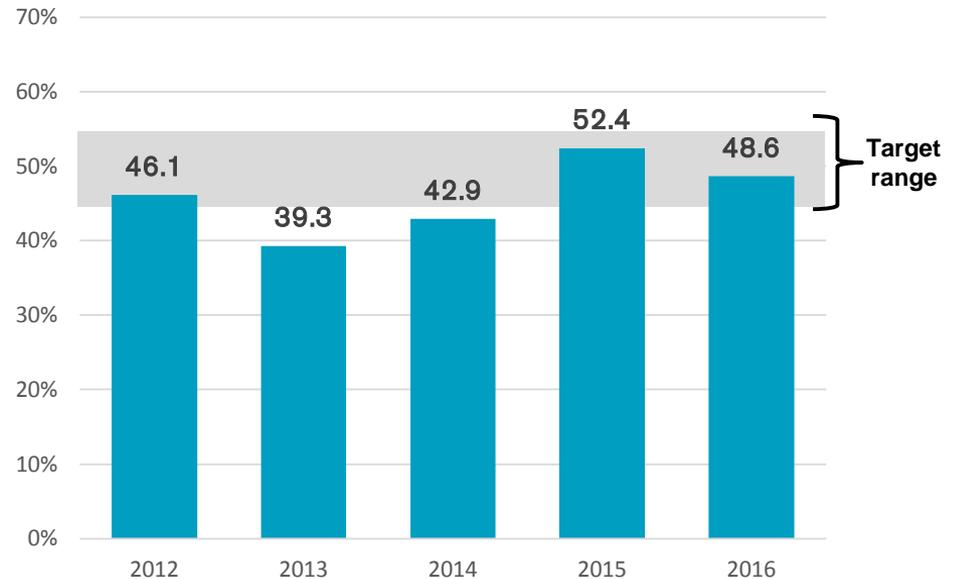


Stable investment grade rating



Source: The Airline Analyst as at 27 September 2016.

Gearing targeted between 45% - 55%



Note: Gearing includes capitalised aircraft operating leases. For definition please refer to glossary of key terms within the appendix.

Effective risk management underpins our financial framework



Hedging

Fuel

- Quarterly disclosure of hedging profile published on investor centre website
- Maximum tenor of 12 months
- Primarily utilise collar structure
- 2017 hedge levels: **68% hedged***
 - 1H 2017 is 80% hedged
 - 2H 2017 is 55% hedged

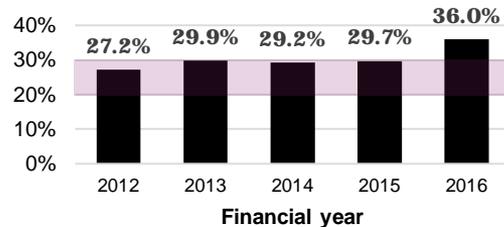
Foreign Exchange

- Management of foreign currency balance sheet items
- Hedging cover on operating exposures denominated in non-NZD currencies
- 2017 hedges for ~**\$US\$575 million** at NZD/USD rate of **0.675**

Liquidity

- Target liquidity ratio of **20% to 30%**
- Historically have managed towards high end of target
- Level at end of 2016 financial year included proceeds from the sale of Virgin Australia shareholding

Liquidity ratio



Funding flexibility

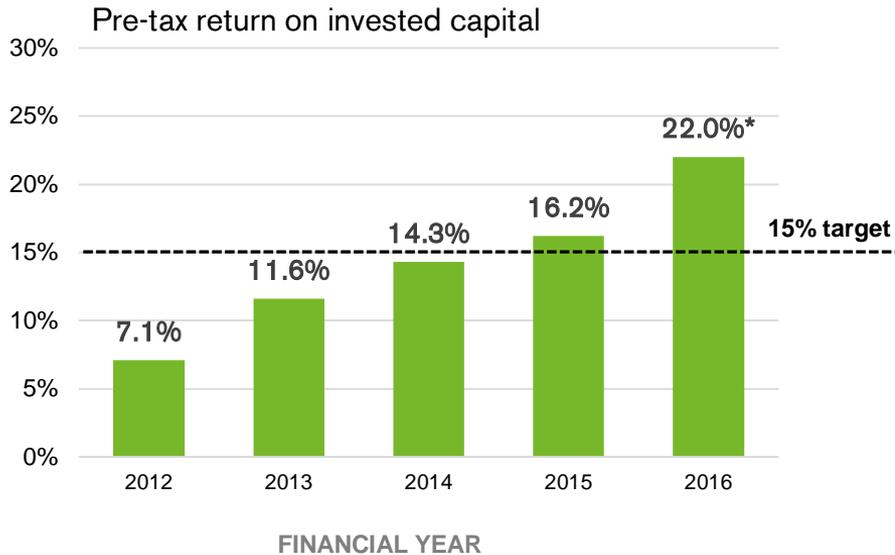
- Well positioned to access financial markets
- Diversified pool of funding available
 - Commercial debt
 - Cash
 - Operating leases
 - Finance leases
 - Unsecured retail bond
 - Capital markets

* Fuel hedging as at 17 August 2016. Fuel hedge disclosures can be accessed via Air New Zealand's Investor Centre website.

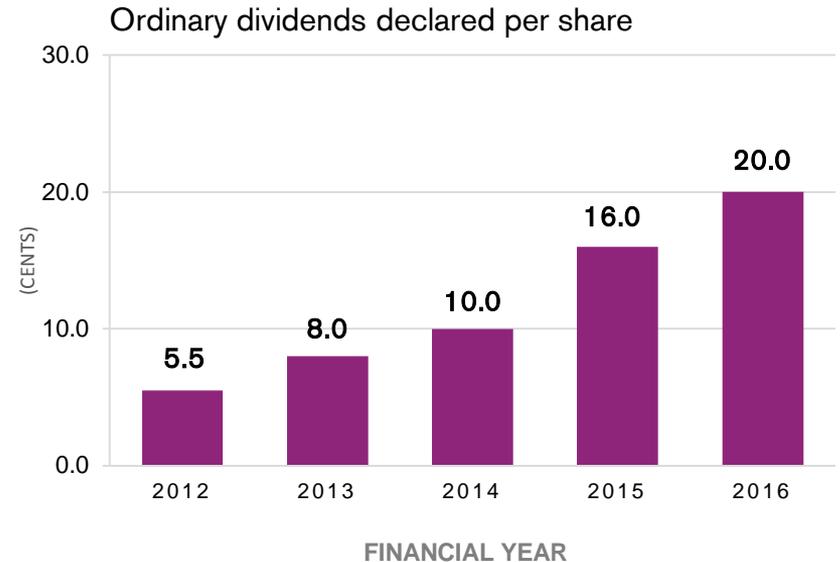
Disciplined financial framework focused on long-term shareholder return



Targeting pre-tax ROIC > 15% through the cycle



Targeting consistent and sustainable ordinary dividends



* Pre-tax ROIC prior to other significant items of \$143 million. Refer to the appendix for a reconciliation.



Appendix



Earnings before other significant items and taxation

	June 2016 \$M	June 2015 \$M	Movement %
Earnings before taxation (per NZ IFRS)	663	474	40%
Add back other significant items:			
Virgin Australia partial divestment	86	-	-
Settlement of legal claim	57	-	-
Earnings before other significant items and taxation	806	474	70%

Earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size and nature warrant separate disclosure to assist with understanding the financial performance of the Group. Earnings before other significant items and taxation is reported within the Group's audited annual financial statements. Further details of other significant items is contained within Note 3 of the 2016 Group financial statements.

With effect from 30 March 2016, the Group ceased equity accounting the investment in Virgin Australia and recognised the investment at fair value with changes in fair value being recognised in the profit and loss. The Group disposed of a 19.98% stake in Virgin Australia in June 2016.

In May 2016 the Group agreed to settle a long-standing cargo class action legal claim.



Pre-tax ROIC calculation

	June 2016 \$M	June 2015 \$M	Reference in 2016 Annual Financial Results
Earnings before other significant items and taxation	806	474	Statement of Financial Performance (page 2)
Add back: Net finance costs	47	52	Statement of Financial Performance (page 2)
Add back: Implied interest in operating leases ¹	64	53	Note 21 – Operating Leases (page 27) (refer to Aircraft value within “Rental and lease expenses” recognised in earnings)
EBIT² adjusted for operating lease interest	917	579	
Net debt (including off balance sheet items)	1,990	2,159	Historical Summary of Debt (page 46)
Equity	2,108	1,965	Statement of Financial Position (page 5)
Total capital employed	4,098	4,124	
Average capital employed³	4,111	3,701	
Pre-tax Return on Invested Capital²	22%	16%	

¹ Represents the implied interest included in the aircraft operating lease expense within the Statement of Financial Performance; one-third of aircraft operating lease expense is assumed to be interest expense.

² Excluding other significant items.

³ Calculation of 2015 Average Capital Employed includes 2014 Total capital employed of \$3,278 million.



Operating fleet ownership and lease structure

(as at 30 June 2016)

	Owned	Operating Lease	Total
Boeing 777-300ER	4	3	7
Boeing 777-200ER	4	4	8
Boeing 787-9 Dreamliner	6	-	6
Boeing 767-300ER	4	-	4
Airbus A320	14	15	29
ATR72-600	13	-	13
ATR72-500	11	-	11
Bombardier Q300	23	-	23
Beech 1900D*	3	-	3
Total fleet	82	22	104

* The Beech 1900D fleet exited service on 26 August 2016.



Projected aircraft in service

(as at 30 June 2016)

	2016	2017	2018	2019	2020	2021
Boeing 777-300ER	7	7	7	7	7	7
Boeing 777-200ER	8	8	8	8	8	8
Boeing 787-9	6	9	11	12	12	12
Boeing 767-300ER	4	-	-	-	-	-
Airbus A320	29	30	25	18	17	17
Airbus A320/A321 NEO	-	-	6	13	13	13
ATR72-600	13	15	19	24	29	29
ATR72-500	11	11	8	3	-	-
Bombardier Q300	23	23	23	23	23	23
Beech 1900D	3	-	-	-	-	-
Total Fleet	104	103	107	108	109	109



Key operating statistics

(For the year to 30 June)

	2016	2015	2014	2013	2012
Passengers Carried (000)					
Domestic	9,725	9,246	8,920	8,694	8,500
International					
Australia and Pacific Islands	3,507	3,388	3,277	3,181	3,073
Asia *	791	642	517	596	652
America and Europe	1,138	1,021	1,005	940	897
Total international	5,436	5,051	4,799	4,717	4,622
Total Group	15,161	14,297	13,719	13,411	13,122
Available Seat Kilometres (m)					
Domestic	6,065	5,592	5,385	5,108	4,969
International					
Australia and Pacific Islands	11,438	10,888	10,622	10,277	9,694
Asia *	8,349	7,022	5,656	6,780	7,495
America and Europe	13,832	12,099	11,733	11,002	10,460
Total international	33,619	30,009	28,011	28,059	27,649
Total Group	39,684	35,601	33,396	33,167	32,618
Revenue Passenger Kilometres (m)					
Domestic	4,887	4,561	4,370	4,218	4,050
International					
Australia and Pacific Islands	9,532	9,184	8,858	8,580	8,164
Asia *	7,070	5,784	4,630	5,418	5,979
America and Europe	11,734	10,405	10,220	9,517	8,820
Total international	28,336	25,373	23,708	23,515	22,963
Total Group	33,223	29,934	28,078	27,733	27,013
Passenger Load Factor (%)					
Domestic	80.6	81.6	81.1	82.6	81.5
International					
Australia and Pacific Islands	83.3	84.4	83.4	83.5	84.2
Asia *	84.7	82.4	81.9	79.9	79.8
America and Europe	84.8	86.0	87.1	86.5	84.3
Total international	84.3	84.6	84.7	83.8	83.1
Total Group	83.7	84.1	84.1	83.6	82.8

* Asia included Hong Kong – London flying up until March 2013.



Key financial metrics – five year statistical review

(As at and for the year to 30 June)

		2016	2015	2014	2013	2012
Profitability and Capital Management						
EBIT ¹ /Operating Revenue	%	15.9	11.1	8.4	6.7	3.5
EBITDRA ² /Operating Revenue	%	29.5	23.6	21.6	19.4	15.9
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	13.5	13.7	13.7	13.6	13.5
Passenger Revenue per Available Seat Kilometre (RASK)	cents	11.3	11.6	11.5	11.4	11.1
Cost per Available Seat Kilometre (CASK) ³	cents	9.3	10.6	10.9	11.2	11.6
Return on Invested Capital Pre-tax (ROIC) ⁴	%	18.8	16.2	14.3	11.6	7.1
Liquidity ratio ⁵	%	36.0	29.7	29.2	29.9	27.2
Gearing (incl. net capitalised aircraft operating leases) ⁶	%	48.6	52.4	42.9	39.3	46.1
Shareholder Value						
Basic Earnings per Share ⁷	cps	41.3	29.2	23.9	16.5	6.5
Operating Cash Flow per Share ⁷	cps	95.6	98.1	65.5	67.9	42.9
Ordinary Dividends Declared per Share ⁷	cps	20.0	16.0	10.0	8.0	5.5
Special Dividends Declared per Share ⁷	cps	25.0	-	10.0	-	-
Net Tangible Assets per Share ⁷	\$	1.76	1.66	1.60	1.57	1.48
Closing Share Price 30 June	\$	2.10	2.55	2.08	1.49	0.86
Weighted Average Number of Ordinary Shares	m	1,122	1,118	1,101	1,096	1,096
Total Number of Ordinary Shares	m	1,123	1,122	1,114	1,104	1,100
Total Market Capitalisation	\$m	2,352	2,861	2,318	1,639	946
Total Shareholder Returns ⁸	%	20.0	25.6	24.0	11.6	(16.1)

1 Earnings before interest and taxation (EBIT) excluding share of earnings of associates (net of taxation) and other significant items.

2 EBITDRA excludes share of earnings of associates (net of taxation) and other significant items.

3 Operating expenditure per ASK.

4 (EBIT plus interest component of aircraft operating leases)/average capital employed (Net Debt plus Equity) over the period.

5 (Bank and short-term deposits, interest-bearing deposits, non-interest bearing deposits and bank overdraft)/Operating Revenue.

6 Net Debt (including capitalised aircraft operating leases)/(Net Debt plus Equity).

7 Per-share measures based upon Ordinary Shares.

8 Return over five years including the change in share price and dividends received (assuming dividends are reinvested in shares on payment date).



Five year summary of Financial Performance

(For the year to 30 June)

	2016	2015	2014	2013	2012
	\$M	\$M	\$M	\$M	\$M
Operating Revenue					
Passenger revenue	4,481	4,113	3,851	3,765	3,634
Cargo	349	317	287	301	298
Contract services	172	258	277	310	316
Other revenue	229	237	237	239	235
	5,231	4,925	4,652	4,615	4,483
Operating Expenditure					
Labour	(1,225)	(1,193)	(1,151)	(1,068)	(1,050)
Fuel	(846)	(1,089)	(1,120)	(1,204)	(1,219)
Maintenance	(350)	(320)	(285)	(302)	(303)
Aircraft operations	(531)	(466)	(424)	(419)	(390)
Passenger services	(246)	(220)	(212)	(222)	(233)
Sales and marketing	(348)	(303)	(280)	(274)	(270)
Foreign exchange gains/(losses)	112	79	45	7	(68)
Other expenses	(255)	(252)	(222)	(236)	(235)
	(3,689)	(3,764)	(3,649)	(3,718)	(3,768)
Operating Earnings (excluding items below)	1,542	1,161	1,003	897	715
Depreciation and amortisation	(465)	(402)	(436)	(411)	(348)
Rental and lease expenses	(244)	(211)	(174)	(177)	(209)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	833	548	393	309	158
Finance income	53	56	44	37	31
Finance costs	(100)	(108)	(90)	(91)	(95)
Share of earnings of associates (net of taxation)	20	(22)	11	-	-
Earnings Before Other Significant Items and Taxation	806	474	358	255	94
Other significant items	(143)	-	-	-	-
Earnings Before Taxation	663	474	358	255	94
Taxation expense	(200)	(147)	(95)	(74)	(23)
Net Profit Attributable to Shareholders of Parent Company	463	327	263	181	71



Five year summary of Financial Position & Cash Flows

(As at and for the year to 30 June)

	2016	2015	2014	2013	2012
	\$M	\$M	\$M	\$M	\$M
Summary of Financial Position					
Current Assets					
Bank and short-term deposits	1,594	1,321	1,234	1,150	1,029
Other current assets	745	661	593	693	658
Total Current Assets	2,339	1,982	1,827	1,843	1,687
Non-Current Assets					
Property, plant and equipment	4,485	4,061	3,279	2,933	3,090
Other non-current assets	427	732	744	820	668
Total Non-Current Assets	4,912	4,793	4,023	3,753	3,758
Total Assets	7,251	6,775	5,850	5,596	5,445
Current Liabilities					
Debt*	464	253	190	159	157
Other current liabilities	2,007	1,875	1,682	1,555	1,544
Total Current Liabilities	2,471	2,128	1,872	1,714	1,701
Non-Current Liabilities					
Debt*	2,103	2,069	1,543	1,470	1,537
Other non-current liabilities	569	613	563	611	544
Total Non-Current Liabilities	2,672	2,682	2,106	2,081	2,081
Total Liabilities	5,143	4,810	3,978	3,795	3,782
Net Assets	2,108	1,965	1,872	1,801	1,663
Total Equity	2,108	1,965	1,872	1,801	1,663
Summary of Cash Flows					
Cash flow from operating activities	1,074	1,100	730	750	472
Cash flow from investing activities	(797)	(1,066)	(727)	(480)	(654)
Cash flow from financing activities	(4)	53	81	(147)	349
Increase in cash holding	273	87	84	123	167
Total cash and cash equivalents	1,594	1,321	1,234	1,150	1,027

* Debt is comprised of bank overdraft, secured borrowings, bonds and finance lease liabilities.



Glossary of key terms

Available seat kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
EBIT	Earnings before interest and taxation
EBITDRA	Earnings before interest, taxation, depreciation, rentals and amortisation
Gearing	Net Debt / (Net Debt + Equity); Net debt includes net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven
Liquidity	Total Cash (comprising Bank and short-term deposits, interest-bearing 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	Interest-bearing liabilities and bank overdrafts less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities, interest-bearing deposits and non-interest bearing deposits, plus net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven
Other Significant Items	Other significant items are items of revenue or expenditure which due to their size and nature warrant separate disclosure to assist with the understanding of the financial performance of the Group.
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), 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)
Yield	Passenger revenue for the period divided by revenue passenger kilometres

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK, ROIC and Yield. Amounts used within the calculations are derived from the audited Group financial statements and Five Year Statistical Review contained in the 2016 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.

Investor relations

Resources

Investor website: www.airnewzealand.co.nz/investor-centre

Monthly traffic updates: www.airnewzealand.co.nz/monthly-operating-data

Quarterly fuel hedging disclosure: www.airnewzealand.co.nz/fuel-hedging-announcements

Corporate governance: www.airnewzealand.co.nz/corporate-governance

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

Contact information

Email: investor@airnz.co.nz

Share registrar: enquiries@linkmarketservices.com



AIR NEW ZEALAND 

A STAR ALLIANCE MEMBER 