AIR NEW ZEALAND

2016 ANNUAL RESULTS

26 August 2016

Christopher Luxon
Chief Executive Officer

Rob McDonald
Chief Financial Officer

A STAR ALLIANCE MEMBER

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.

AIR NEW ZEALAND

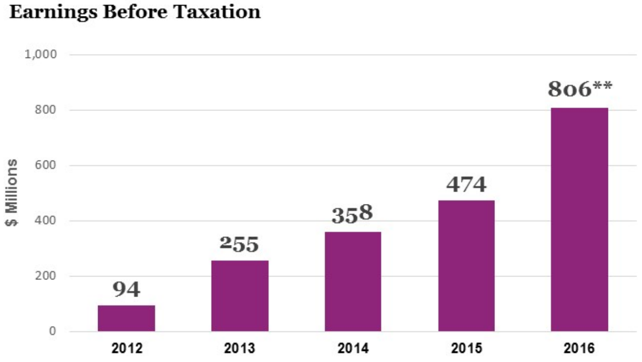
SUMMARY RESULTS AND STRATEGIC UPDATE

Christopher Luxon
Chief Executive Officer

A STAR ALLIANCE MEMBER

The year in review

- Operating revenue **$5.2 billion, (up 8.2%)***
- Earnings before taxation **$806** million, (up 70%)**
- Net profit after taxation **$463 million, (up 42%)**
- Operating cash flow **$1.1 billion (down 2.4%)**
- Return on invested capital (pre-tax) **22%****



Earnings before other significant items and taxation **$806m** → Other significant items **($143m)** → Earnings before taxation **$663m** → Taxation **($200m)** → Net profit after taxation **$463m**

* Excluding divestments (Altitude, Safe Air, TAE and Holiday Stores).

** Prior to other significant items of $143 million. Refer to supplementary slides for a reconciliation to IFRS earnings.

Key drivers of the result

Revenue	• Passenger revenue **up 8.9%*** – Capacity and demand strong – ASKs and RPKs **up 12% and 11%**, respectively – RASK **declined 2.3%*** • Cargo revenue, **up 10%***
Cost	• CASK (excluding divestments) **improved 10%** – Fuel price **declined 40%** ▪ Significant price decrease more than offset increased fuel volume – Efficiencies contributed **$222 million** to profitability

Note: Passenger revenue per available seat kilometre (RASK) assesses passenger unit revenue. Refer to supplementary slides for definition.
* Excluding the impact of foreign exchange, passenger revenue increased 4.7%, RASK declined 6.1% and cargo revenue increased 3.5%.

The second half of 2016 saw the emergence of increasing competitive headwinds

	Tailwinds	Headwinds
Revenue	• Double-digit growth* in New Zealand tourism – Resulting in strong domestic tourism • Stable economic conditions in New Zealand	• Increased competition pressuring RASK • Tourism capacity management
Cost	• Fuel price outlook continues to be favourable	• Stronger effective US dollar rate

Increased competition will continue to drive RASK pressure in 2017

* Source: NZ Statistics, increase of 11% based on 12 months ending June 2016.

We have unique capabilities that enable us to compete strongly

Our alliance driven network

Our brand and Kiwi service culture

Our domestic network

Our Airpoints™ members

Our simplified fleet & competitive cost structure

A proven record of adapting our business to perform well in various trading conditions

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

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CUSTOMERS AT THE CORE

Put customers at the heart of everything we do

EXPAND THE TRAVEL EXPERIENCE

Pursue opportunities to reinforce our core business

EXECUTE THE PLAN

Grow our business by developing our Pacific Rim markets

FIGHTING FIT

Be efficient and agile as we grow

WINNING TEAM

Embed a high performance, high engagement culture

2017 initiatives aligned to address competition while supporting our medium-term priorities

	CUSTOMERS AT THE CORE	EXPAND THE TRAVEL EXPERIENCE	EXECUTE THE PLAN	FIGHTING FIT	WINNING TEAM
	Put customers at the heart of everything we do	*Pursue opportunities to reinforce our core business*	*Grow our business by developing our Pacific Rim markets*	*Be efficient and agile as we grow*	*Embed a high performance, high engagement culture*
2016 Achievements	✓ Customer satisfaction levels at all-time high ✓ 6 lounge upgrades completed to date ✓ Refurbished B777-200 interiors	✓ Airpoints™ membership exceeds 2 million ✓ Chief Digital Officer appointed and new Digital function created	✓ New revenue share alliance partnerships with Air China and United Airlines ✓ New markets: Houston, Buenos Aires, Beijing and Ho Chi Minh City	✓ Exited B737 and Beech 1900D from domestic fleet ✓ Meaningful CASK improvement	✓ Embedded High Performance Engagement (HPE) approach with union partners ✓ Negotiated 22 collective agreements ✓ Continued improvement in employee engagement
2017 Key initiatives	• Refurbishment of B777-300 interiors • Upgrade ~7 lounges • Reimagine our web and mobile products	• Expand loyalty coalition partnerships • Personalising customer experience with data • Increase ancillary revenue products	• Focus on strengthening our existing markets • Expand Australian sales	• 3 additional B787-9s joining fleet • Exit of B767 fleet • Continued benefit from scale economies and efficiencies	• Top quartile employee engagement • Continue deepening HPE agenda with union partners • Safety as a shared value

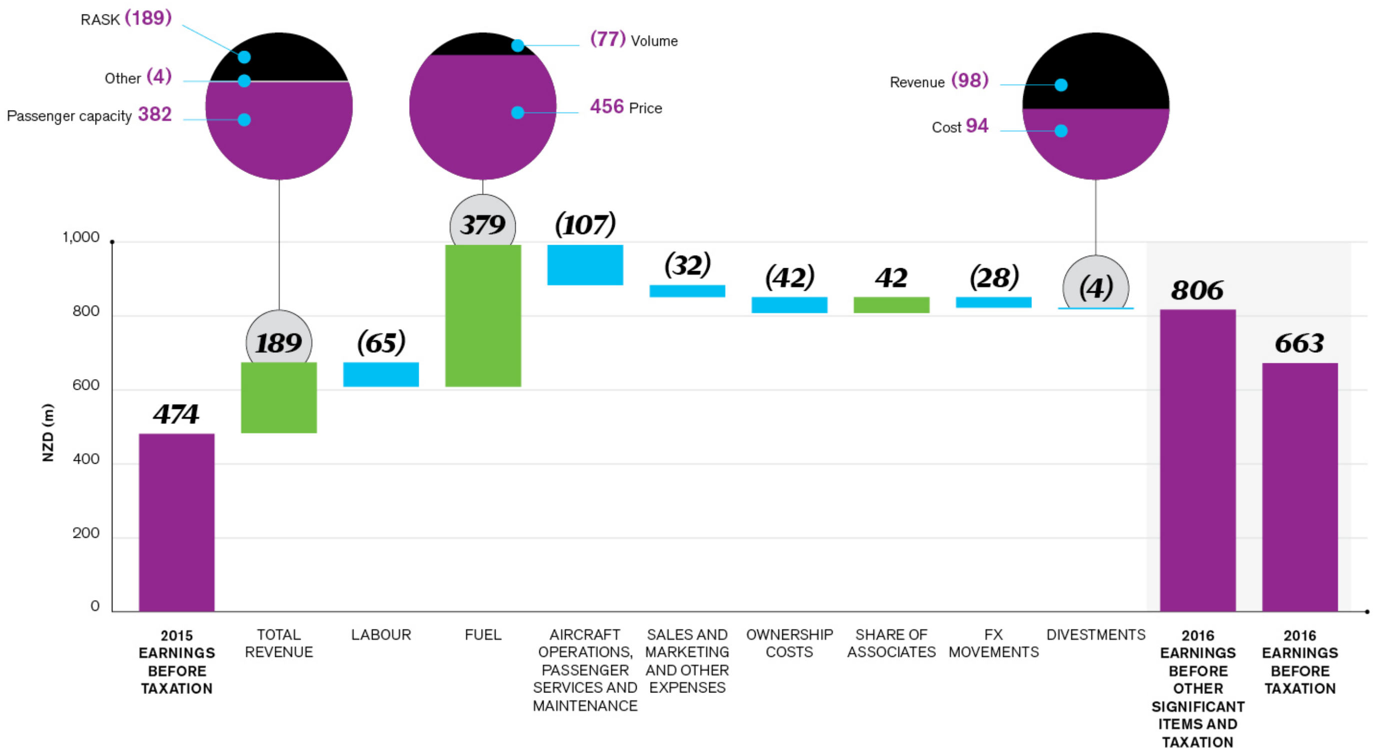
AIR NEW ZEALAND

FINANCIAL REVIEW

Rob McDonald
Chief Financial Officer

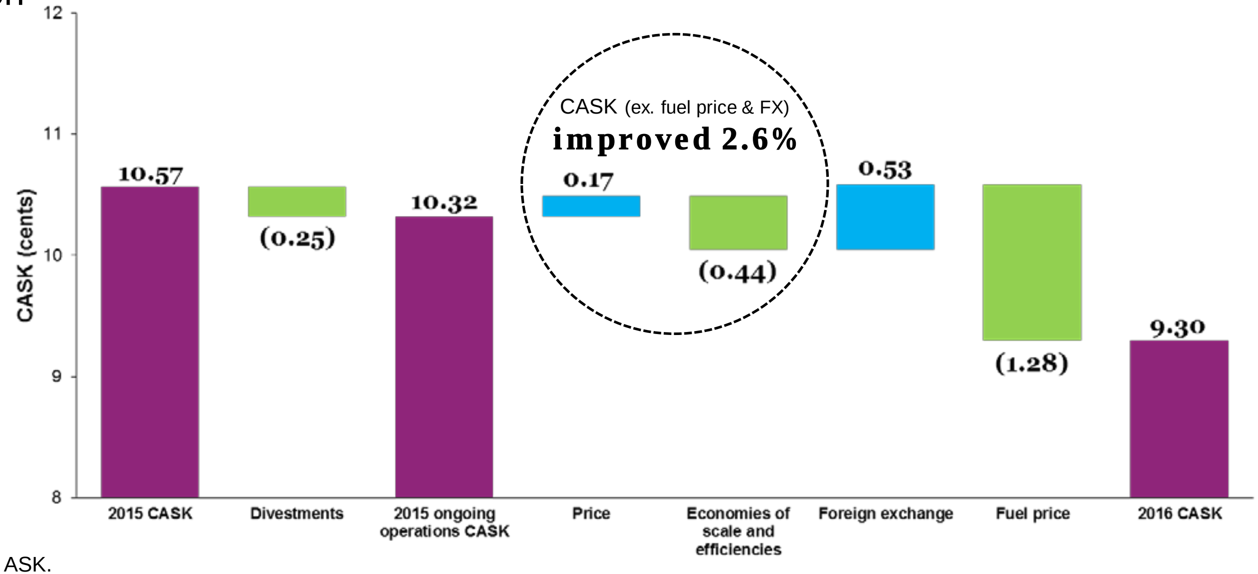
A STAR ALLIANCE MEMBER

Changes in profitability



Reduction in CASK* delivers $406m of value

- CASK related to ongoing operations improved 10%
- Average MOPS price decreased 40% from the prior period (from US$90/bbl to US$54/bbl)
- Efficiencies from growth, fleet simplification and other cost saving initiatives resulted in savings of $222 million



* Operating expenditure per ASK.

Domestic

- Capacity growth of **8.5%** driven by increases in both domestic jet and regional turboprop network including the arrival of 3 more A320 aircraft and 7 ATR aircraft replacing Beech 1900Ds.
- Capacity increases related to new Domestic schedule and increased activity on the Auckland to Christchurch and Queenstown routes.
- Investments in turboprop fleet increased seats for regional routes with increased intra-regional connections.
- On time performance was **90.5%** for domestic jet and **85.3%** for regional turboprop aircraft.

	June 2016	June 2015	Movement*
Passengers carried ('000s)	9,725	9,246	5.2%
Available seat kilometres (ASKs, millions)	6,065	5,592	8.5%
Revenue passenger kilometres (RPKs, millions)	4,887	4,561	7.2%
Load factor	80.6%	81.6%	(1.0 pts)
Passenger Revenue per ASKs (RASK, cents)	21.8	23.4	(6.5%)**
Yield (cents per RPK)	27.1	28.6	(5.4%)**

* Calculation based on numbers before rounding.
** Excluding the impact of foreign exchange, Domestic RASK decreased by 7.4% and yield decreased by 6.3%.

Tasman & Pacific Islands

- Capacity growth of **5.1%** resulting from:
  - Increased wide-body flying to Sydney, Melbourne and Brisbane and increased frequency to Perth.
  - Deployment of Boeing 787-9 on Honolulu service in May 2016.
- Tasman and Pacific Islands on time performance **86.7%**.

	June 2016	June 2015	Movement*
Passengers carried (‘000s)	3,507	3,388	3.5%
Available seat kilometres (ASKs, millions)	11,438	10,888	5.1%
Revenue passenger kilometres (RPKs, millions)	9,532	9,184	3.8%
Load factor	83.3%	84.4%	(1.1 pts)
Passenger Revenue per ASKs (RASK, cents)	9.9	10.0	(1.1%)**
Yield (cents per RPK)	11.9	11.9	0.1%**

* Calculation based on numbers before rounding.

** Excluding the impact of foreign exchange, Tasman & Pacific Islands RASK decreased 2.6% and yield decreased 1.4%.

International

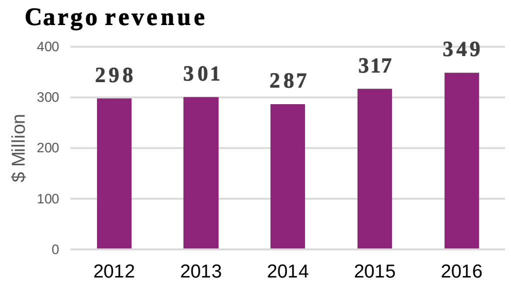
- Capacity growth of **16%**.
- Strong performance with demand tracking capacity growth – new routes to Houston, Buenos Aires and to Asia with a full years' service to Singapore and additional capacity to Japan.
- Commenced seasonal Ho Chi Minh City seasonal service in June 2016.
- International long-haul on time performance **80.3%**.

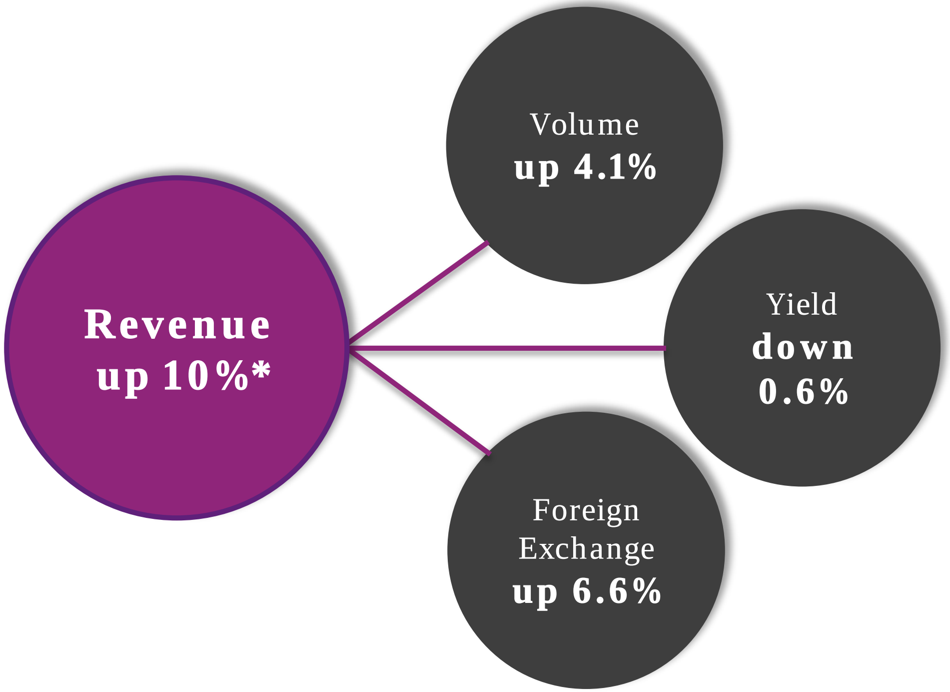
	June 2016	June 2015	Movement*
Passengers carried ('000s)	1,929	1,663	16.0%
Available seat kilometres (ASKs, millions)	22,181	19,121	16.0%
Revenue passenger kilometres (RPKs, millions)	18,804	16,189	16.2%
Load factor	84.8%	84.7%	0.1 pts
Passenger Revenue per ASKs (RASK, cents)	9.1	9.0	1.6%**
Yield (cents per RPK)	10.8	10.6	1.5%**

* Calculation based on numbers before rounding.
** Excluding the impact of foreign exchange, International RASK decreased by 5.7% and yield decreased by 5.8%.

Cargo

- Revenue growth driven by foreign exchange and increased volume with nominal decline in yield.
- Volume growth resulted from capacity increases from fleet up-gauge and commencement of new routes.





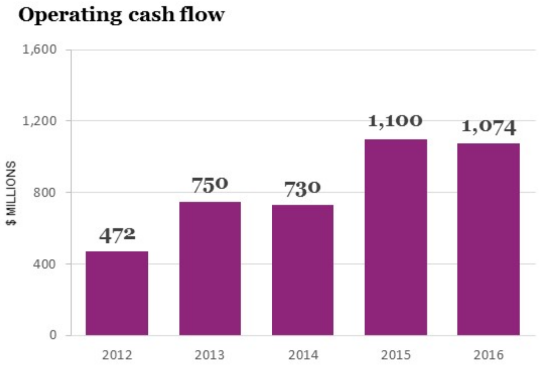
* Excluding the impact of foreign exchange cargo revenue increased 3.5%.

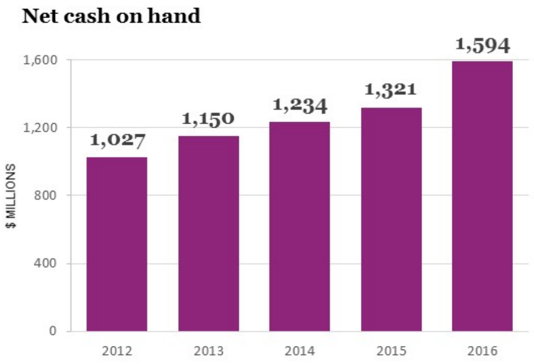
Virgin Australia

- Sale of 19.98% of Virgin Australia to Nanshan Group in June 2016
- Shareholding of 2.5% as at June 2016
- Exit from shareholding in order to focus on Air New Zealand's growth opportunities

Strong operating cash flow and liquidity provide flexibility

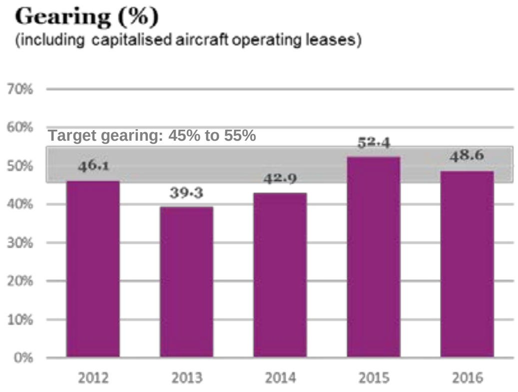
- Operating cash flow **$1.1 billion, down 2.4%** over prior period
  - Strong operating cash flow per share of $0.96
- Net cash on hand of **$1.6 billion, up 21%** from June 2015

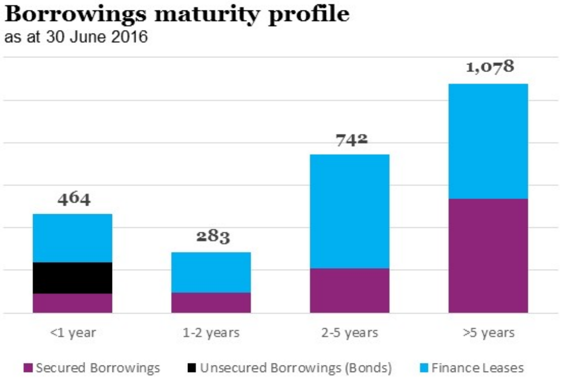




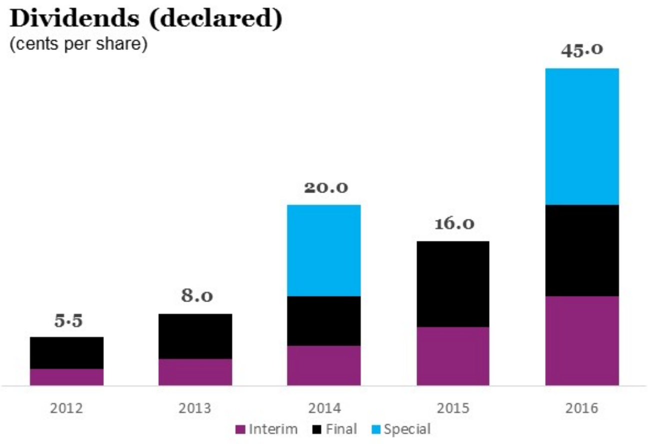
Balance sheet remains strong

- Gearing was **48.6%,** improving 3.8 percentage points from June 2015 due to strong operating profit
- Stable outlook **Baa2** rating from Moody's
- $150 million retail bond maturing in November 2016



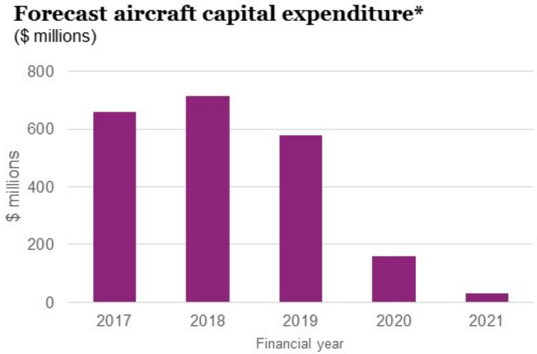


Dividends



- Fully imputed final dividend of 10.0 cents per share.
- Total ordinary dividends for the year of 20.0 cents per share, an increase of 25% on the prior year.
- Fully imputed special dividend of 25.0 cents per share.
  - Following the sale of Virgin Australia shareholding and review of capital structure, gearing and liquidity

Aircraft update



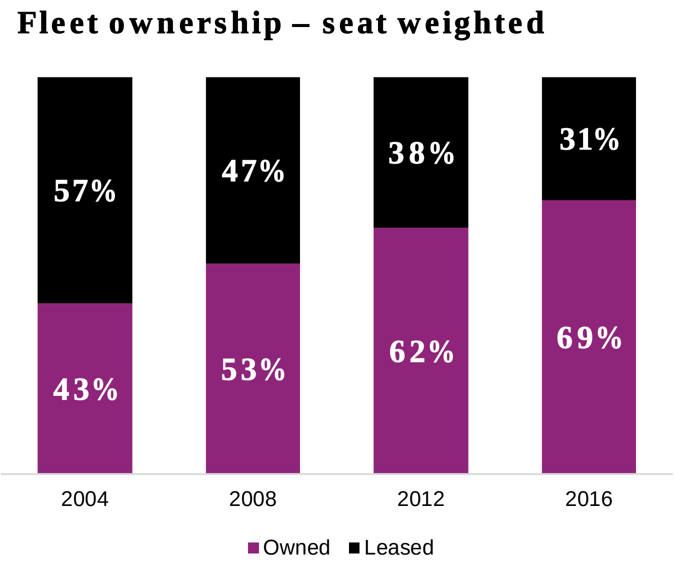
- Expected investment of ~**$2.1 billion** in aircraft and associated assets over the next 5 years
- Assumes NZD/USD = 0.715
- Includes progress payments on aircraft

Aircraft delivery schedule (as at 30 June 2016)

		Number in existing fleet	Number on order	Delivery Dates (financial year) 2017	2018	2019	2020	2021
Owned fleet on order	Boeing 787-9	6	6	3	2	1	-	-
	Airbus A320	29	1	1	-	-	-	-
	Airbus A320/A321 NEOs*	-	8	-	3	5	-	-
	ATR72-600	13	16	2	4	5	5	-
Operating leased aircraft	Airbus A320/A321 NEOs	-	5	-	3	2	-	-

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

Fleet ownership profile



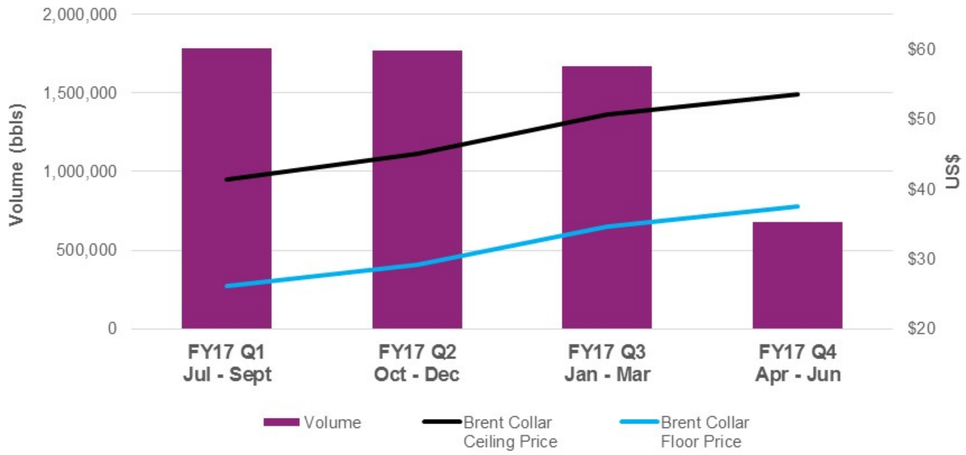
- Shift towards increased proportion of owned fleet
  - Economic benefit over the lifetime of the aircraft
  - Increased flexibility with capacity planning
- Balance sheet remains strong during period of increased fleet ownership

Hedging

Fuel hedging*

- Average decline of jet fuel price per barrel of 40% during the period
  - 2016 MOPS price of US$54 compared to US$90 in 2015
  - Participated in 87% of available fuel decline in 2016
- 2017 is 68% hedged
  - 1H 2017 is 80% hedged
  - 2H 2017 is 55% hedged

Fuel hedges*

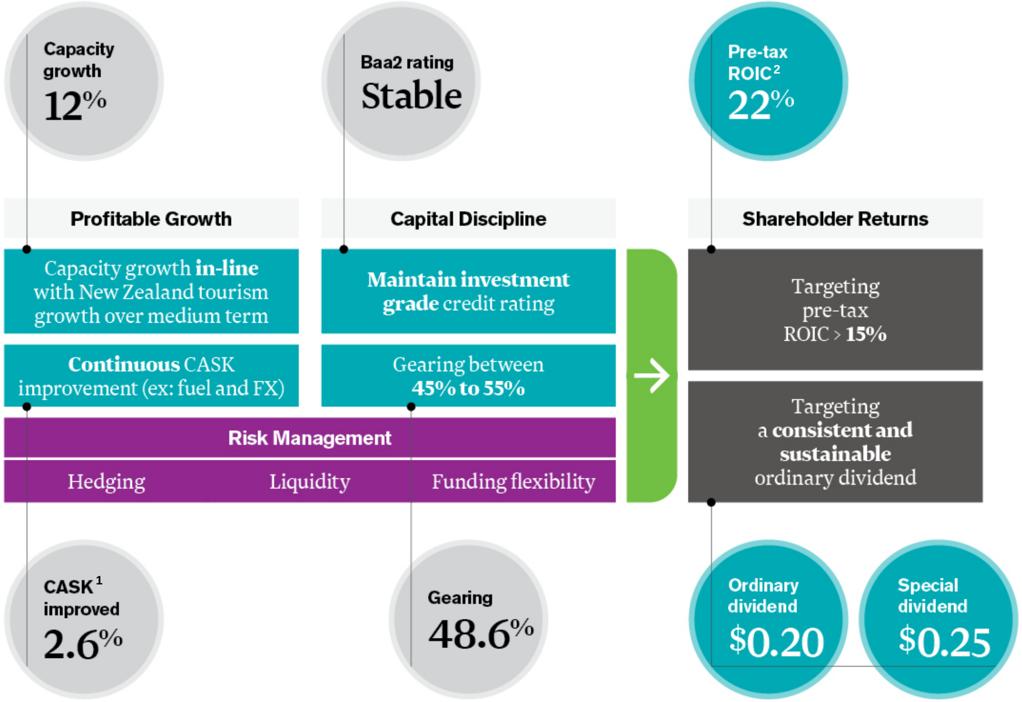


U.S. dollar hedging

- 2017 hedges for ~US$575 million at a NZD/USD rate of 0.675

* Fuel hedging as at 17 August 2016.

Our financial framework provides the foundation for sustainable success



[1] Excluding fuel price movement, FX and divestments.
[2] Excluding other significant items. Refer to supplementary slides for definition.

AIR NEW ZEALAND

OUTLOOK

Christopher Luxon
Chief Executive Officer

A STAR ALLIANCE MEMBER

Group capacity expected to grow 4% to 6%

Sector	Competition	Air New Zealand 2017 capacity	
Domestic	Expect similar competitive environment to 2016	**+7% to 9%**	• Continued up-gauge for regional routes and increased frequency on select trunk routes • Queenstown night flights
Tasman & Pacific Islands	Expect competitive pressure to persist in 2017	**+3% to 5%**	• Up-gauge related to B787 replacement of B767
International long-haul	Expect competitive pressure to increase in 2017 • Full year impact of direct competition on AKL – LAX • New services from Chinese and Middle Eastern carriers	**+4% to 6%**	• Annualisation of Houston & Buenos Aires • Increased Asian capacity during peak • Commencement of Osaka seasonal service

2017 outlook

- Given the uncertain impact of competition and based upon current market conditions, 2017 earnings before taxation are expected to be in the range of **$400 million to $600 million**
  - Assumes jet fuel at US$55 per barrel for the remainder of the year

Thank you

AIR NEW ZEALAND

SUPPLEMENTARY SLIDES

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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 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.

Virgin Australia

Key dates of divestment and impact to profit		June 2016* $M
30 March 2016	Cessation of equity accounting of associate - transition to fair value	(2)
21 June 2016	Realised loss on sale of 19.98% to Nanshan Group	(63)
30 June 2016	Unrealised loss on Air New Zealand's retained 2.5% shareholding of Virgin Australia	(21)
Impact of Virgin Australia partial divestment		**(86)**

* Excludes the impact of the equity accounted losses of $3 million to 30 March 2016 (30 June 2015: $29 million loss).

Note: Subsequent to the close of the 2016 financial year, on 4 August 2016 Air New Zealand received $137 million related to Virgin Australia's shareholder loan repayment. Additionally, Air New Zealand participated in A$21 million rights offering for Virgin Australia, maintaining the 2.5% shareholding.

Financial overview

	June 2016 $M	June 2015 $M	Movement $M	Movement %
Operating revenue	5,231	4,925	306	6.2%
Earnings before other significant items and taxation	806	474	332	70%
Net profit after taxation	463	327	136	42%
Operating cash flow	1,074	1,100	(26)	(2.4%)
Net cash position	1,594	1,321	273	21%
Gearing	48.6%	52.4%	n/a	3.8 pts
Ordinary dividends declared*	20.0 cps	16.0 cps	4.0 cps	25%
Special dividends declared*	25.0 cps	-	25.0 cps	n/a

* Dividends are fully imputed.

Group performance metrics

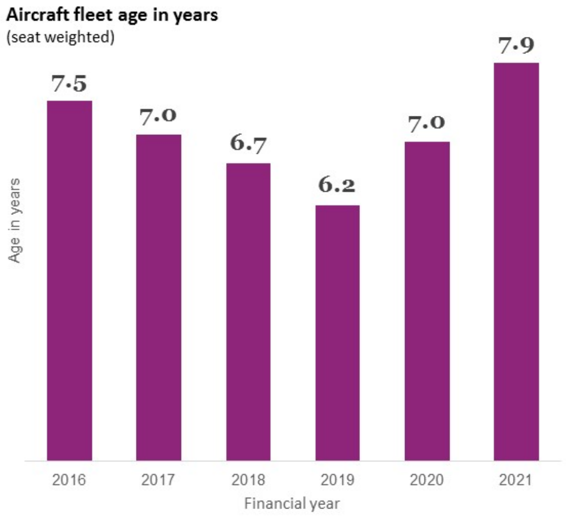
	June 2016	June 2015	Movement*
Passengers carried (‘000s)	15,161	14,297	6.0%
Available seat kilometres (ASKs, millions)	39,684	35,601	12%
Revenue passenger kilometres (RPKs, millions)	33,223	29,934	11%
Load factor	83.7%	84.1%	(0.4 pts)
Passenger Revenue per ASKs (RASK, cents)	11.3	11.6	(2.3%)**
Yield (cents per RPK)	13.5	13.7	(1.8%)**

* Calculation based on numbers before rounding.
** Excluding the impact of foreign exchange, Group RASK decreased by 6.1% and yield decreased by 5.7%.

Projected aircraft in service

- Boeing 767-300ERs exiting by 2H 2017
- Final Beech 1900D aircraft will exit by August 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**



Fuel hedging*

		Volume (bbls)	Ceiling (USD)	Floor (USD)
1H 2017	Brent collars	3,555,000	43.19	27.64
2H 2017	Brent collars	2,347,500	51.48	35.41
FY2017	Brent collars	5,902,500	46.48	30.73

* Fuel hedging as at 17 August 2016.

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)*
EBIT[2] 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 employed[3]	**4,111**	**3,701**	
Pre-tax Return on Invested Capital[2]	**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.

Glossary of terms

Available seat kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
Gearing	Net Debt / (Net Debt + Equity); Net Debt includes capitalised operating leases
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
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.

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