


AIR NEW ZEALAND 

***Air New Zealand
Bond Offer***

13 October 2016

A STAR ALLIANCE MEMBER 

Notice and Disclaimer



The offer of the Bonds by Air New Zealand is made in reliance upon the exclusion in clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 (“FMCA”). The offer of Bonds is an offer of debt securities that have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as Air New Zealand’s NZ\$150,000,000 unsecured, unsubordinated, fixed rate, interest bearing bonds maturing on 15 November 2016 which are currently quoted on the NZX Debt Market under the ticker code AIR010 (**AIR010 Bonds**).

The Bonds are of the same class as the AIR010 Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

Air New Zealand is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited (**NZX**) for the purpose of that information being made available to participants in the market and that information can be found by visiting www.nzx.com/companies/AIR/announcements.

The AIR010 Bonds (which have a fixed interest rate of 6.90% per annum) are the only debt securities of Air New Zealand that are currently quoted and in the same class as the Bonds. Investors should look to the market price of the AIR010 Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

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Air New Zealand intends to offer the Bonds to the public in New Zealand. No action has been or will be taken by Air New Zealand which would permit a public offering of Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). No person may purchase, offer, sell, distribute or deliver any Bonds, or have in its possession, or distribute to any person, any offering material (including this presentation) or any documents in connection therewith, in any jurisdiction other than in compliance with all applicable laws and regulations.

Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market (“NZDX”) and all the requirements of NZX relating thereto that can be complied with on or before the date of the Terms Sheet have been duly complied with. However, NZX accepts no responsibility for any statement in the Terms Sheet. NZX is a licenced market and the NZDX is a licenced market under the FMCA.

Defined terms used throughout this presentation have the meaning given to them in the Terms Sheet.

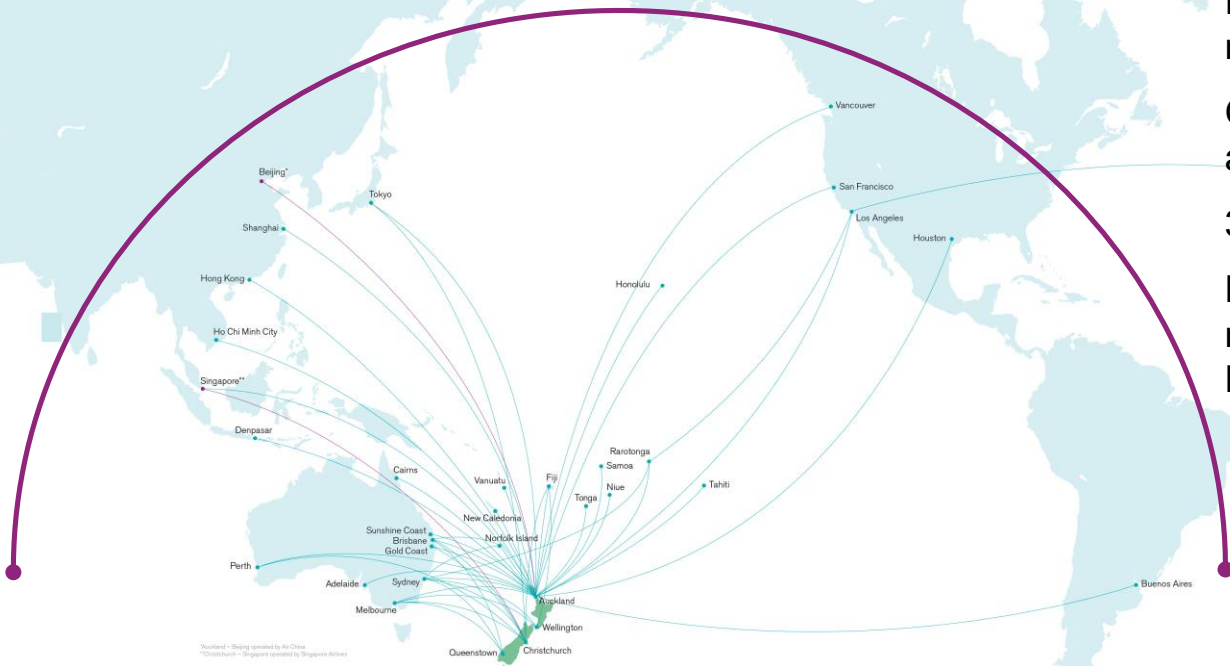
Agenda



- Air New Zealand overview
- 2016 Financial Year in review
- Bond Issue Summary Terms, Offer Process and Key Dates
- Appendices
 - Five year summary

**Air New Zealand
overview**

The Air New Zealand network



*Auckland - Beijing operated by Air China
**Auckland - Singapore operated by Singapore Airlines

Focused on the Pacific Rim

Diversified profitability across a network focused on the Pacific Rim

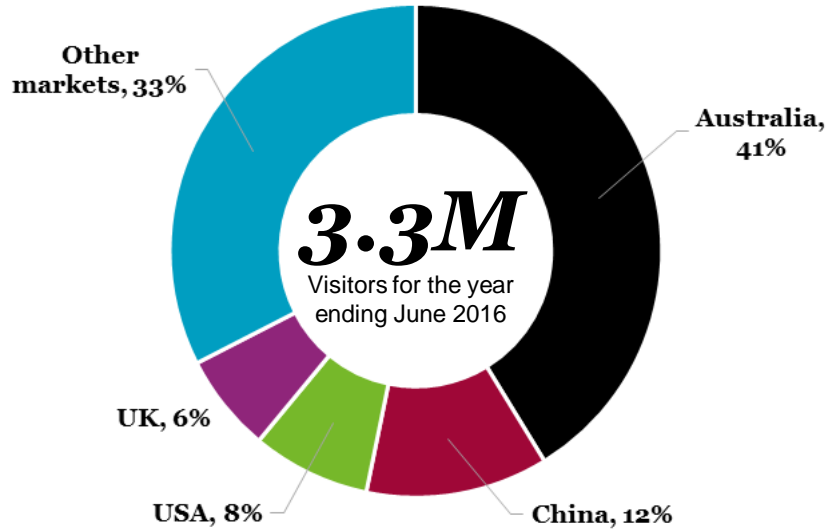
Growth underpinned by strong alliance partnerships in key markets

30 international destinations

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

Overseas tourism into New Zealand continues to grow



International visitor arrivals to New Zealand:



11%

For year ending June 2016

New Zealand's tourism industry:

- Contributes 17.4% of total exports
- Employs 7% of the workforce
- Contributes \$18.5 billion to the economy

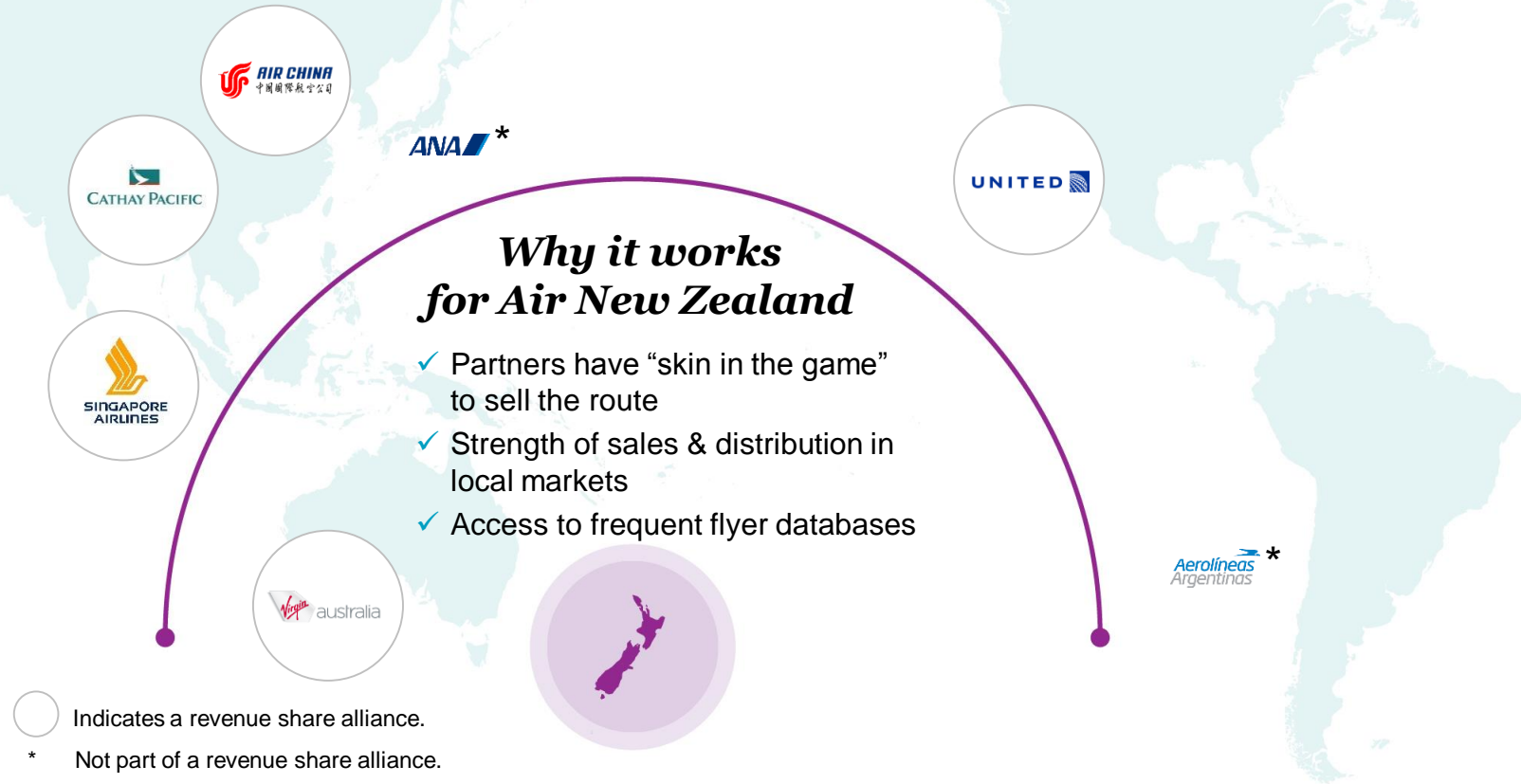
Inbound tourism expected to continue to fuel domestic growth



- 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 21 main centres and regions across New Zealand
- Stable outlook for New Zealand economic growth driving increased domestic travel



Our international growth is supported by strong alliance partnerships



2016 Financial Year in review

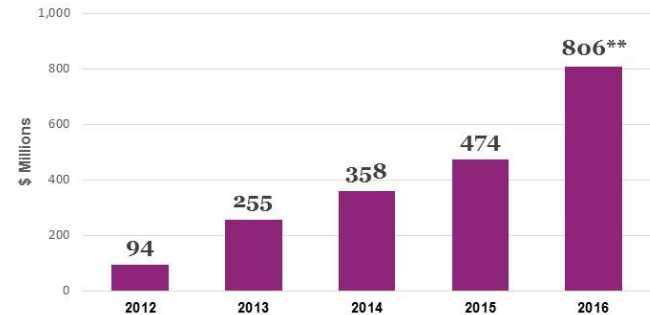
All of the data provided in this section is derived from publicly available information in relation to Air New Zealand Limited and its subsidiaries (including the Annual Report of Air New Zealand Limited for the year ended 30 June 2016), unless otherwise indicated.

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 Taxation



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

** Prior to other significant items of \$143 million.

Key drivers of the result



Revenue

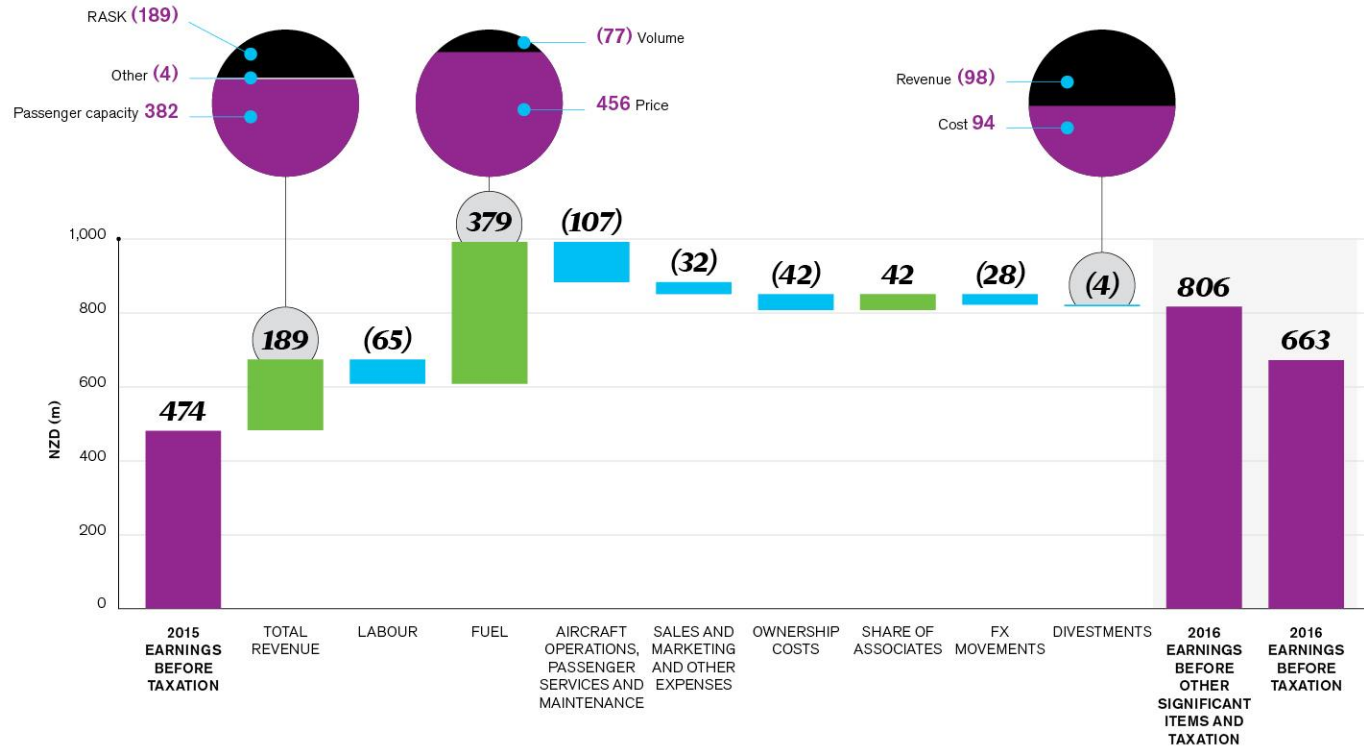
- Passenger revenue **up 8.9%***
 - Capacity and demand strong – ASKs and RPKs **up 12% and 11%**, respectively
 - RASK **declined 2.3%***
- Cargo revenue, **up 10%***

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

* Excluding the impact of foreign exchange, passenger revenue increased 4.7%, RASK declined 6.1% and cargo revenue increased 3.5%.

Changes in profitability

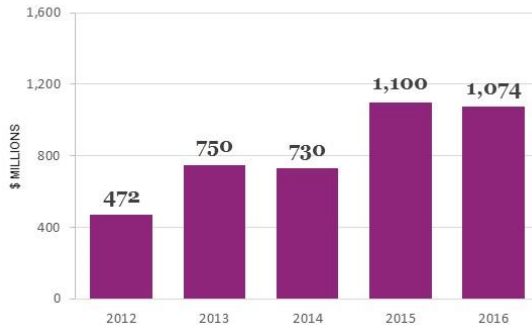


Strong operating cash flow and liquidity provide flexibility

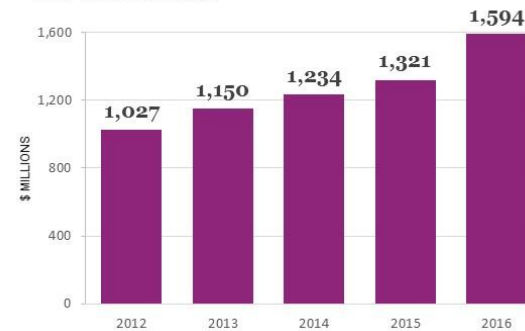


- Operating cash flow **\$1.1 billion, down 2.4%** over prior period
 - Strong operating cash flow per share of \$0.96
- Net cash on hand of **\$1.6 billion, up 21%** from June 2015

Operating cash flow



Net cash on hand



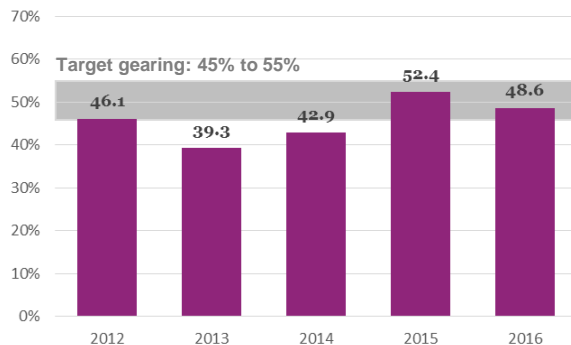
Balance sheet remains strong



- Gearing was **48.6%** as at June 2016, 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

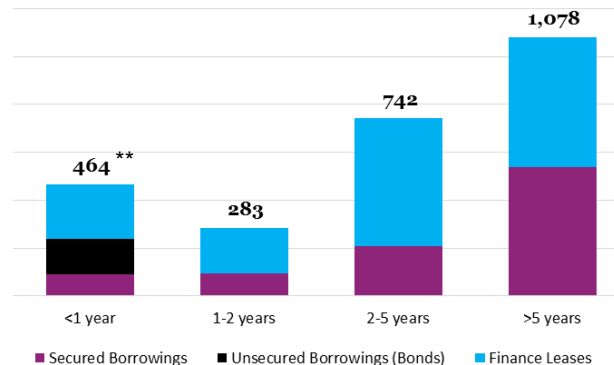
Gearing (%)

(including capitalised aircraft operating leases)



Borrowings maturity profile (\$m)

as at 30 June 2016



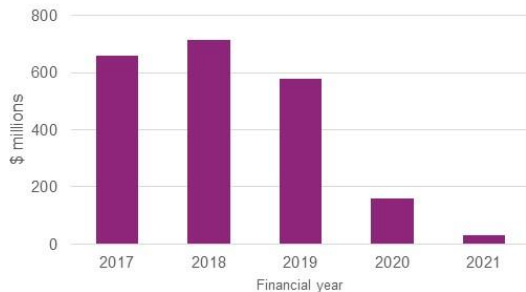
** \$464m <1year includes \$150m bond repayable in November 2016

* A rating is not a recommendation by any rating organisation to buy, sell or hold the Bonds. The above Issuer Rating is current as at the date of the Terms Sheet and may be subject to suspension, revision or withdrawal at any time by Moody's. There will be no specific issue rating for the Bonds.

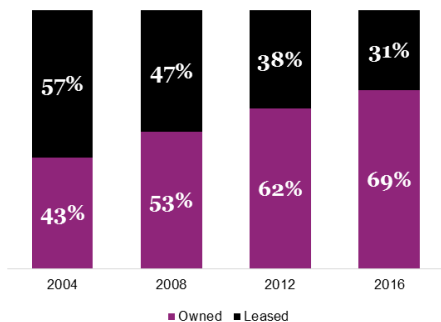
Aircraft update



Forecast aircraft capital expenditure*
(\$ millions)



Fleet ownership – seat weighted



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

- 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
- 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

Note: Air New Zealand Aircraft Holdings Limited, a subsidiary of Air New Zealand, is the registered owner or lessee of the majority of the aircraft operated by Air New Zealand. Air New Zealand guarantees the obligations of Air New Zealand Aircraft Holdings Limited in relation to loans and finance and operating lease arrangements relating to such aircraft. Any claims against Air New Zealand under these guarantees will rank equally with the Bonds in the event of a liquidation of Air New Zealand. Refer to 'Air New Zealand guarantees its Subsidiaries' in the Terms Sheet for further information.

Modern aircraft 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)

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.

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



	Tailwinds	Headwinds
Revenue	<ul style="list-style-type: none"> • Double-digit growth* in New Zealand tourism <ul style="list-style-type: none"> – Resulting in strong domestic tourism • Stable economic conditions in New Zealand 	<ul style="list-style-type: none"> • Increased competition pressuring RASK • Limitations of New Zealand tourism infrastructure
Cost	<ul style="list-style-type: none"> • Fuel price outlook continues to be favourable 	

Our unique capabilities enable us to compete strongly against increased competition



Our alliance network



Our brand and kiwi service culture



Our domestic network



Our Airpoints™ members



Our simplified fleet & competitive cost structure

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

2017 capacity and outlook



Sector	Competition	Air New Zealand 2017 capacity	
Domestic	Expect similar competitive environment to 2016	+7% to 9%	<ul style="list-style-type: none"> 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%	<ul style="list-style-type: none"> Up-gauge related to B787 replacement of B767
International long-haul	Expect competitive pressure to increase in 2017 <ul style="list-style-type: none"> Full year impact of direct competition on AKL – LAX New services from Chinese and Middle Eastern carriers 	+4% to 6%	<ul style="list-style-type: none"> Annualisation of Houston & Buenos Aires Increased Asian capacity during peak Commencement of Osaka seasonal service

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.

**Bond Issue Summary
Terms, Offer Process
and Key Dates**

Summary Terms



Issuer	Air New Zealand Limited
Description	Unsecured, unsubordinated, fixed rate, interest bearing debt obligations
Offer Amount	NZ\$75,000,000
Use of Proceeds	General business purposes including partial repayment of the AIR010 Bonds
Tenor	6 years
Closing Date / Rate Set Date	Thursday, 20 October 2016
Issue Date / Allotment Date	Friday, 28 October 2016
Maturity Date	Friday, 28 October 2022
Interest Frequency	Semi-annually in arrear on 28 April and 28 October
Brokerage	0.50% brokerage fee plus 0.25% firm fee
Minimum Application Amount	NZ\$5,000 and multiples of NZ\$1,000 thereafter
Joint Lead Managers	Bank of New Zealand and Deutsche Craigs Limited
Supervisor	The New Zealand Guardian Trust Company Limited
Listing and Quotation	Air New Zealand will take any necessary steps to ensure that the Bonds are, immediately after the issue, quoted.

The Terms Sheet sets out the key terms of the offer of the Bonds. You should not decide to purchase the Bonds until you have read the Terms Sheet. The Bonds will constitute unsecured, unsubordinated fixed rate debt obligations of Air New Zealand and rank equally and without preference among themselves. The Bonds also rank at least equally with all other unsecured and unsubordinated indebtedness of Air New Zealand, except indebtedness preferred by law. None of the Subsidiaries or Affiliates of Air New Zealand nor any other person guarantees the obligations of Air New Zealand in respect of the Bonds. The minimum holding of the Bonds is NZ\$5,000 (or, in the case of amounts held by NZX registered brokers and registered banks, NZ\$1,000) and in multiples of NZ\$1,000 thereafter.

Offer Process



- How to apply
 - Primary market participants, institutional investors and any other approved parties are invited to participate in the bookbuild process
 - All of the Bonds are reserved for clients of the Joint Lead Managers, institutional investors and other Primary Market Participants invited to participate in the bookbuild
 - There will be no public pool for the offer
 - Retail investors should contact a Joint Lead Manager, their financial adviser or any Primary Market Participant for details on how they may acquire Bonds. You can find a Primary Market Participant by visiting www.nzx.com/investing/find_a_participant
- Application Information
 - Minimum application of NZ\$5,000 (and multiples of NZ\$1,000 thereafter)
- Fees paid by Air New Zealand
 - Brokerage of 0.50% plus 0.25% on firm allocations

Key Dates



Opening Date	Thursday, 13 October 2016
Roadshow	Thursday, 13 October 2016 and Friday, 14 October 2016
Bookbuild Date	Thursday, 20 October 2016
Closing Date	Thursday, 20 October 2016
Rate Set Date	Thursday, 20 October 2016
Issue Date / Allotment Date	Friday, 28 October 2016
Expect Date of Initial Quotation and Trading on the NZX Debt Market	Monday, 31 October 2016
First Interest Payment Date	Friday, 28 April 2017
Maturity Date	Friday, 28 October 2022
Record Date	10 calendar days before the relevant Interest Payment Date or Maturity Date (whether or not such date is a Business Day)



Questions?



Thank you

Appendix



- Five year summary

Five year 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
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		33,684	35,601	33,396	33,167
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
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

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

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 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)/credit	(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

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	733	744	820	668
Total Non-Current Assets	4,912	4,794	4,023	3,753	3,758
Total Assets	7,251	6,776	5,850	5,596	5,445
Current Liabilities					
Net 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					
Net 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	1,966	1,966	1,872	1,801	1,663
Total Equity	2,108	1,966	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	(794)	(1,066)	(727)	(480)	(654)
Cash flow from financing activities	(4)	53	81	(147)	349
Increase/(decrease) in cash holding	273	87	84	123	167
Total cash and cash equivalents	1,594	1,321	1,234	1,150	1,027

Five year summary of Financial Ratios

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 /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 Return 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 excluding share of earnings of associates (net of taxation) and other significant items

3. Operating expenditure per ASK

4. (EBIT plus interest component of aircraft 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)

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