AIR NEW ZEALAND

2020 ANNUAL FINANCIAL RESULTS

NZX: **AIR** | ASX: **AIZ** | US OTC: **ANZFY**

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.

The Company, its directors, employees and/or shareholders shall have no liability whatsoever to any person for any loss arising from this presentation or any information supplied in connection with it. The Company is under no obligation to update this presentation or the information contained in it after it has been released.

Nothing in this presentation constitutes financial, legal, tax or other advice.

Changes in accounting treatment

Throughout this presentation and all related commentary, prior period comparative figures have been restated, where applicable, to reflect the retrospective disestablishment of fair value aircraft hedges following clarifications on the treatment of these hedges by the International Financial Reporting Interpretations Committee during the 2020 reporting period.

The Group's adoption of the new leasing standard (NZ IFRS 16) effective 1 July 2019, has also impacted the way in which the Group presents lease costs and other associated balances in the income statement, balance sheet and statement of cash flows. Prior year comparatives have not been restated, in accordance with the transition provisions of the new standard.

For further information, please refer to Note 27 of the Group's 2020 Annual Financial Statements.

Agenda

Business update

Financial results

Outlook

Q&A

AIR NEW ZEALAND

BUSINESS UPDATE

Greg Foran

Chief Executive Officer

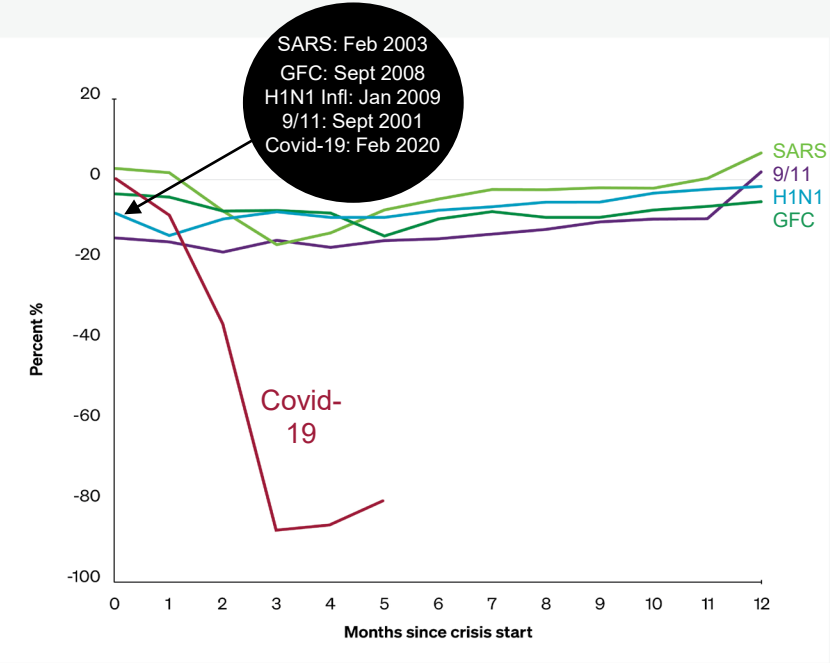
2020 Overview

- Reporting a **loss before other significant items and taxation** of **$87 million,** compared to a profit of $387 million last year
  - Solid start to H2 2020
  - Flights into Shanghai and Seoul suspended in Feb 2020, NZ borders subsequently closed to all foreign nationals in early Mar 2020
  - On 23 Mar 2020, New Zealand moves into seven week period of lockdown – all non-essential travel strictly prohibited
  - Air New Zealand capacity declines more than 95% in April
- Including the impact of **other significant items of $541 million**, **statutory losses before taxation** were **$628 million**[1]
- Short-term liquidity **of $1.1 billion as at 25 August 2020** – includes the $900 million standby loan facility with the Government[2]
- Timing of reopening of global borders is uncertain
  - Strong levels of Domestic demand observed June through August, operating ~70% of pre-Covid capacity
  - **Cargo flights continue to exceed expectations**, on a revenue basis now equates to **~30%** of our previous long-haul business
  - Currently not anticipating a return of passenger demand to 2019 levels **until 2023 or beyond**
- The airline **continues to assess its capital structure** and the longer term options available

[1] Aircraft impairments account for $338 million of the other significant items charge. For further detail, please refer to slide 18.
[2] The $900 million facility has not yet been drawn upon as at 27 August 2020.

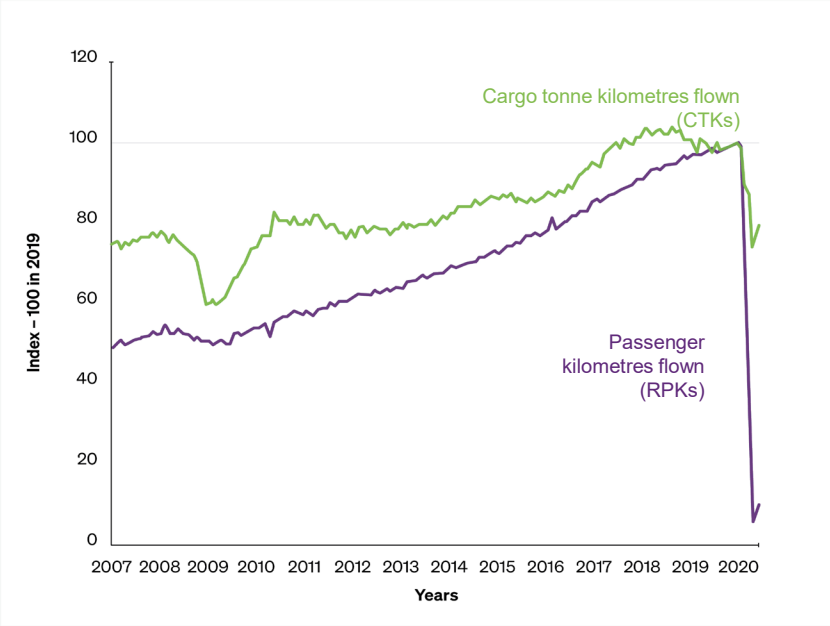
Global demand for air travel has suffered an unparalleled decline following the outbreak of Covid-19

Global ASK (YoY monthly change rate, %)



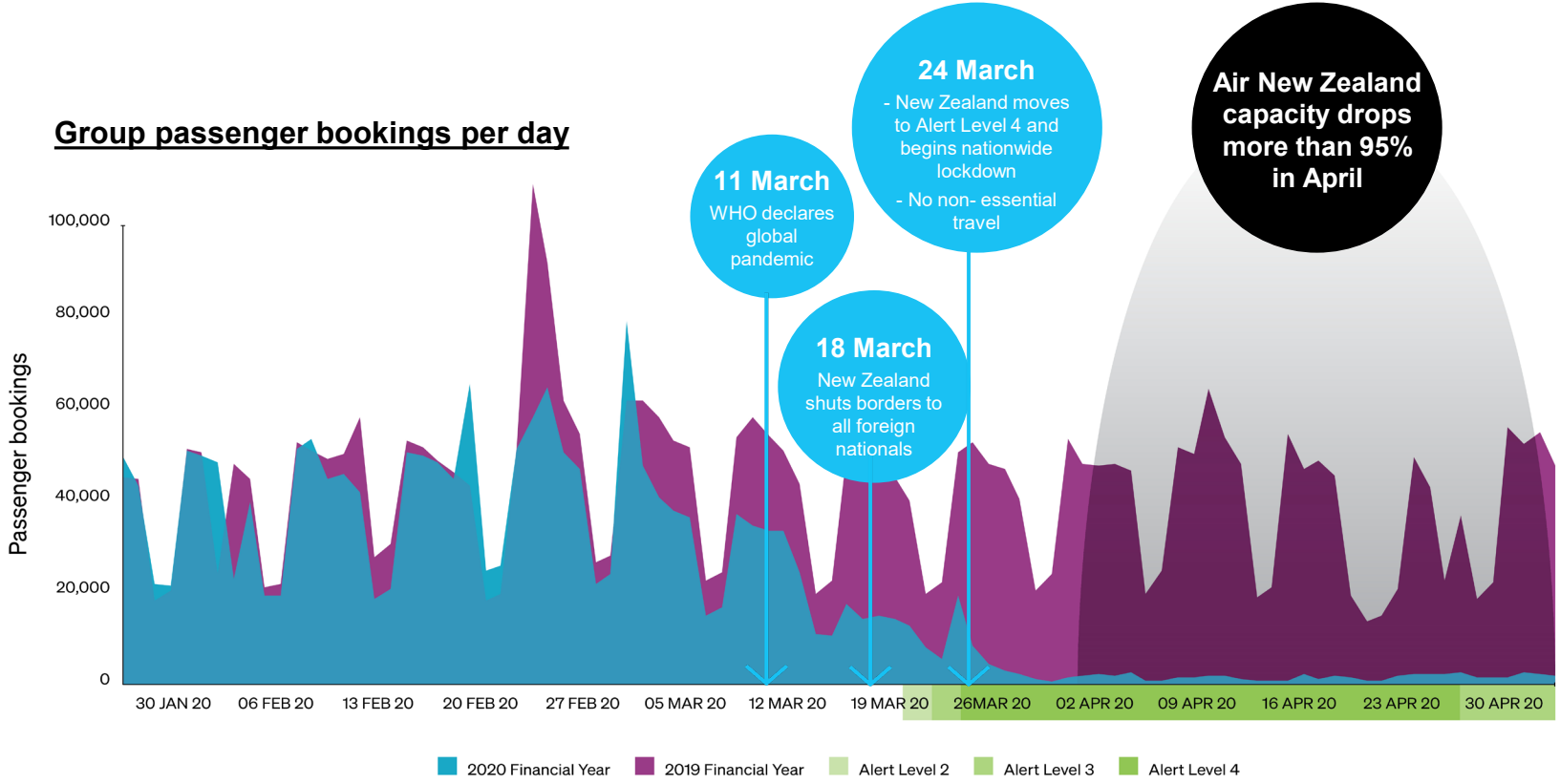
Sources: Financial crisis: IATA, IMF, TradingEconomics.com, Statista.com; DIIO, 2001-2020 data

Passenger kilometres and Cargo tonne kilometres flown



Source: IATA/Tourism Economics, Air Passenger Forecasts, April 2020.

New Zealand's elimination strategy led to a precipitous reduction in demand for air travel

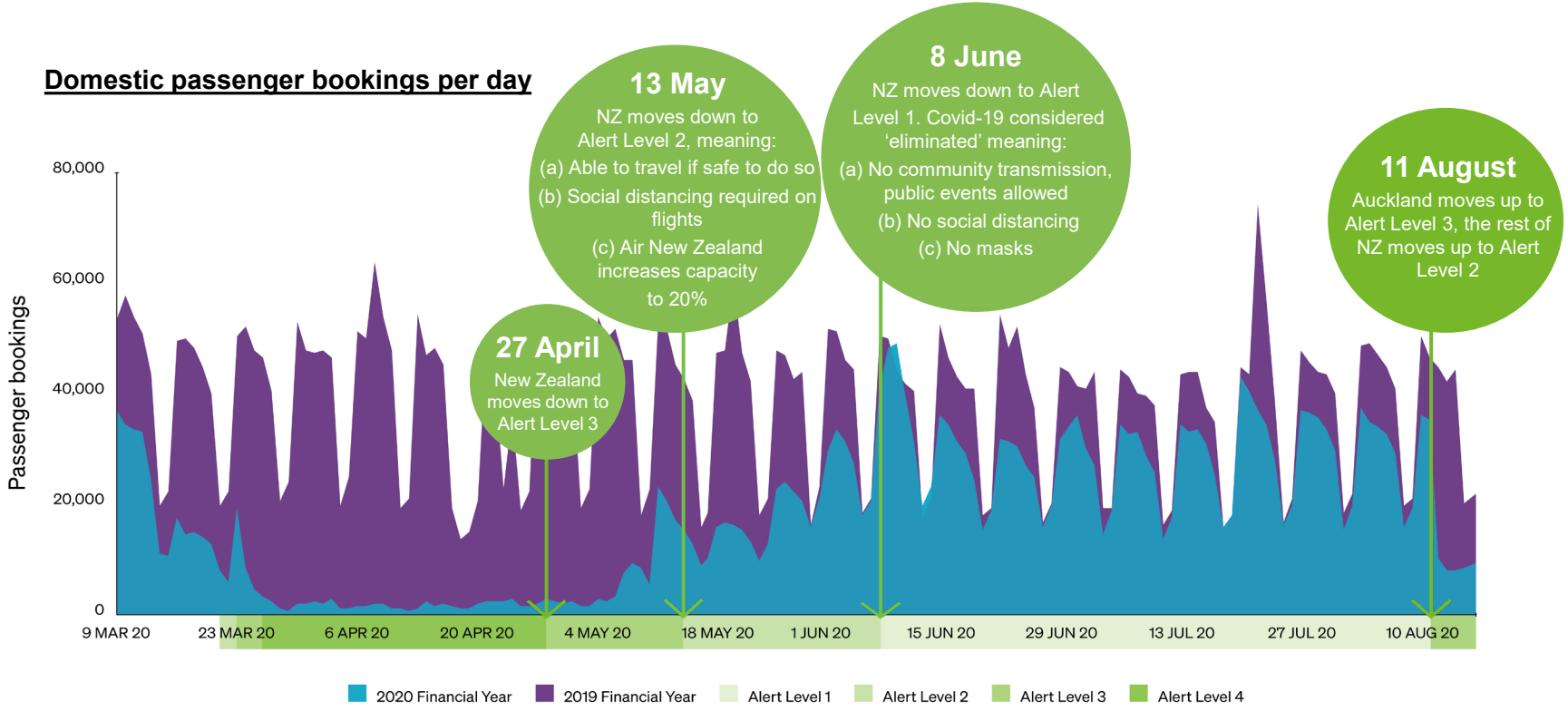


Air New Zealand adjusted its business quickly and is positioned to emerge strongly from this crisis…

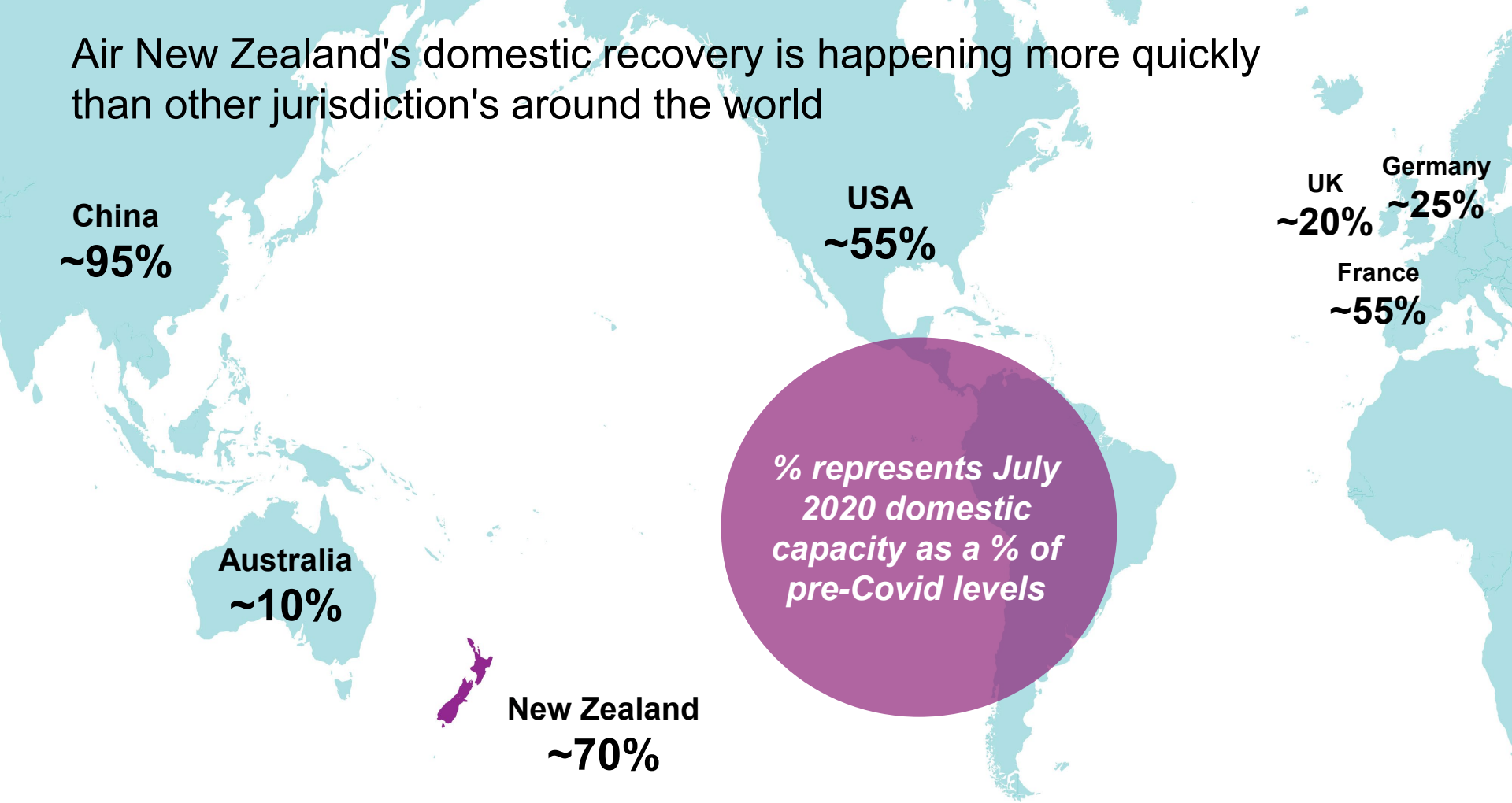
- Air New Zealand entered 2H20 in a strong position, with a **resilient balance** sheet, cash **of ~$1 billion** and nearing the **end of its fleet replacement programme**
- **Quick and decisive action** was taken to adjust the business in response to the steep decline in demand that followed the widespread outbreak of Covid-19 in Q3 2020
  - **Swiftly negotiated a $900 million, standby loan facility** with the New Zealand Government
  - Made **significant reductions to the cost base**, including:
    1. Reducing employee numbers by ~4,000 to reflect lower levels of anticipated demand to 2023
    2. Deferral or cancellation of ~$700 million in expected capital expenditure[1]
    3. Cancellation of non-essential spend, reduction in lease costs, modification of supplier terms
- We have a clear **strategy**, setting us up strongly for the future
- These actions have **structurally reduced the cost base**, ensuring Air New Zealand is competitively **positioned to succeed** and take a pivotal role in New Zealand's economic recovery

[1] These deferrals/savings are through to December 2022.

…and saw higher than expected levels of Domestic demand following New Zealand's move to Alert Level 1 in June



Air New Zealand's domestic recovery is happening more quickly than other jurisdiction's around the world



Cargo has also contributed strongly in 2H20, driven by heavy charter volumes and flights under the International Airfreight Capacity scheme

- Overall cargo increased 13%* in 2020, excluding FX, due to:
  - More than 250 charters, to support the movement of pandemic response equipment and personal protective equipment
  - Cargo flights supported by the Government's International Airfreight Capacity scheme:
    - More than 50 flights operated per week largely to Asia, Australia and North America
    - Vital service to keep NZ export community connected to the global market
    - Scheme recently extended to November 2020
  - Delivering a positive cash contribution

* Reported Cargo revenue increased 15%, inclusive of foreign exchange impact.

However the most important determinant of long-term recovery is the reopening of global borders




- In a typical year, international travel represents two-thirds of Air New Zealand's revenue
  - Under Alert Level 1, observed strong domestic leisure rebound, suggesting Kiwis are substituting international holiday destinations for domestic locations
  - However in the long-term, our business is structured to be a Pacific Rim carrier, offering services to key international destinations
- Uncertainty surrounding the **timing of international borders reopening**
  - Timing is reliant on decisions by various individual governments and authorities – all borders will not open simultaneously

Therefore our priorities are very clear across the short, medium and long-term

- Maintain **operational integrity and wellbeing of staff**
- Maintain strong **connection with customers**
- **Overhaul cost base**, reduce pace of cash burn
- Encourage Kiwis to explore NZ, **rebuild the Domestic engine**
- Support recovery of the economy via **cargo**

- Build back a **network of profitable flying**
- **Preserve and protect** competitive advantages
- Leverage strong domestic brand presence and customer loyalty to **stimulate travel on Tasman and Pacific Islands** routes

- Return **sustainable level of earnings** through the cycle
- **Smaller more efficient airline**, focussed on optimal network
- Right sized **cost base**
- **Expand and leverage loyalty** programme
- **Ancillary revenue opportunities**

AIR NEW ZEALAND

FINANCIAL RESULTS

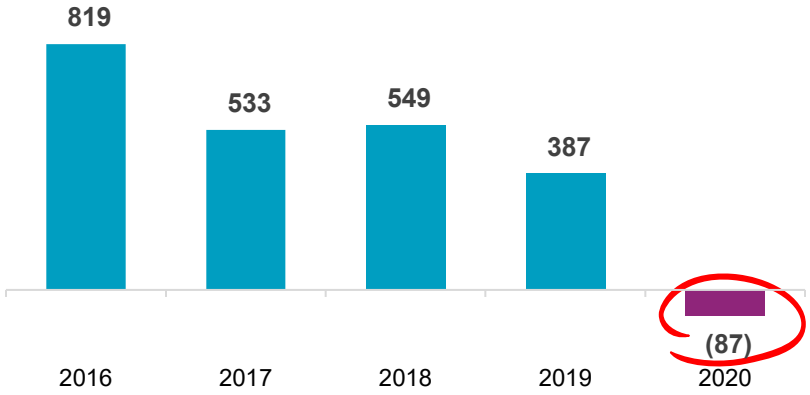
Jeff McDowall

Chief Financial Officer

2020 financial summary

- Operating revenue **$4.8 billion**, down 16%
- Loss before other significant items and taxation[1] **($87) million**
- Loss before taxation **($628) million**
- Net loss after taxation **($454) million**
- Short-term cash of **$438 million**[2]

Earnings before other significant items and taxation
($ millions)

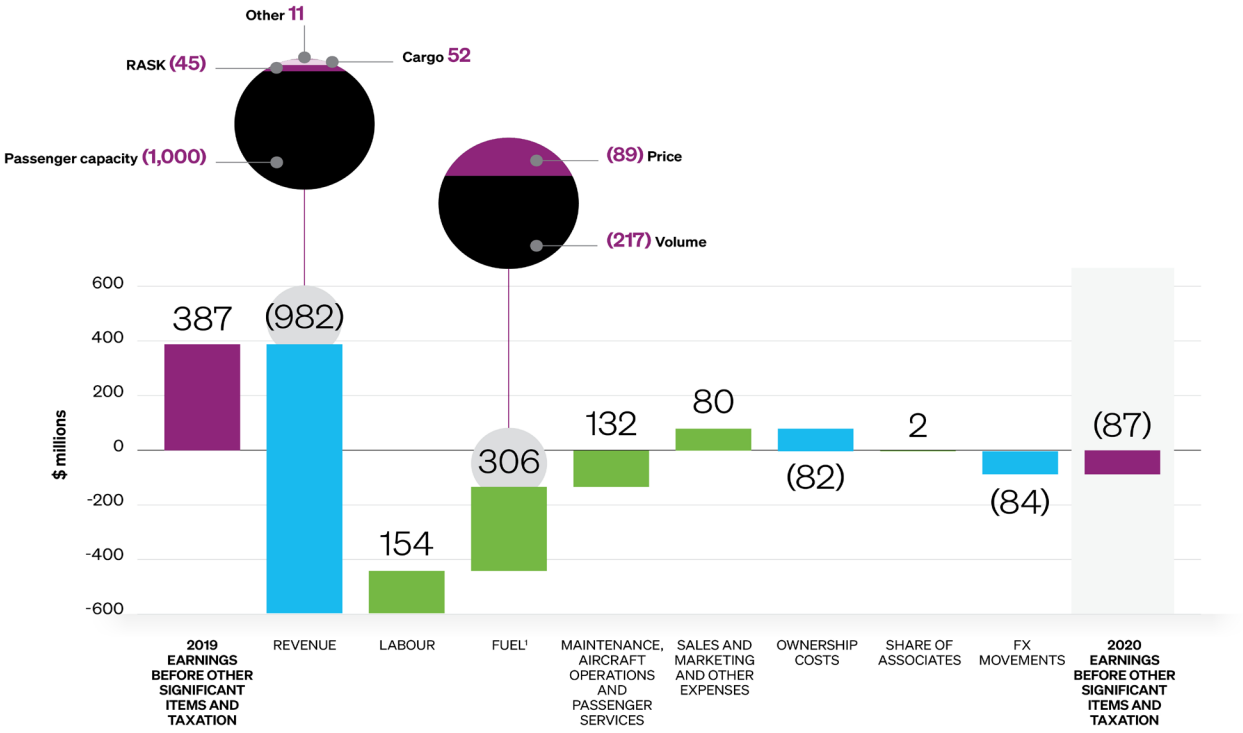


Earnings performance pre-Covid was tracking in line with the earnings guidance provided at the Interim 2020 results. The substantial adverse impact began in March 2020

1H20 vs 2H20 ($ millions)

[1] Refer to slide 18 for further details on Other Significant Items of $541 million.
[2] As at 30 June 2020, not including funds from the $900 million Government standby loan facility. Please refer to slide 19 for details on liquidity as at 25 August 2020.

Profitability waterfall



[1] For further details on fuel cost movement, refer to slide 33.

Additional commentary

- Labour cost decrease of 11.4%, driven by reduced network activity, headcount reduction due to Covid-19 and the removal of incentive payments. Payments received under the Government wage subsidy also reduced labour costs
- Maintenance, aircraft operations and passenger services costs decreases reflect Covid-19 capacity reductions, and the resulting decline in variable operating costs, partially offset by increased maintenance activity for third parties and end of lease activity
- Ownership costs increased due to new aircraft deliveries, engine overhauls and digital investment, as well as lower interest income.

Other significant items of $541 million were recognised in 2020[1]

Other Significant Items impact for the 2020 Financial Year		
De-designation of hedges	($105 million)	Partial non-cash
Aircraft impairment charge	($338 million)	Non-cash
Reorganisation costs	($140 million)	Partial non-cash
Gain on sale from landing slots	$21 million	Cash
Disestablishment of fair value hedges	($46 million)	Non-cash
FX gains on uncovered foreign currency debt	$67 million	Non-cash
Total Other Significant Items	**($541 million)**	

Non-cash
$453 million

Cash
$88 million[2]

[1] Please refer to slide 37 for more information.
[2] Refers to cash paid in the 2020 financial year.

Air New Zealand has structurally reset the cost base, reducing cash burn and protecting liquidity

Cash flow management

- Permanent reduction in staffing of ~ 30%, more than 4,000 employees
- Cancellation of 2020 interim dividend
- Reduction in CEO, Executive and Board remuneration
- Suspension of all short-term incentives
- ~50% reduction in operating costs[1]
- Lease reductions across fleet, property and other areas for 2021 financial year
- Extension of terms with major suppliers

Capital management

- Deferral/cancellation of ~$700 million in capex[2], including reduced hangar, digital and infrastructure spend
- Suspension of dividends
- Grounding of the 777 widebody fleet until at least the end of 2020, saving significant maintenance and operational costs
- Deferral of delivery of 5 A321 NEOs into 2022 and 2023 financial period, and 1 ATR72-600 into 2021

Other initiatives

- Negotiated $900 million standby loan facility with the NZ Government
- Increased cargo flying, won competitive tender to restart the NZ export market
- Government wage subsidy of ~$115 million[3]
- Made use of tax relief and other legislative changes to increase short-term liquidity by $80 million

~$1.1 billion in short-term liquidity

(as at 25 Aug 2020)

Government standby loan facility

Cash on hand

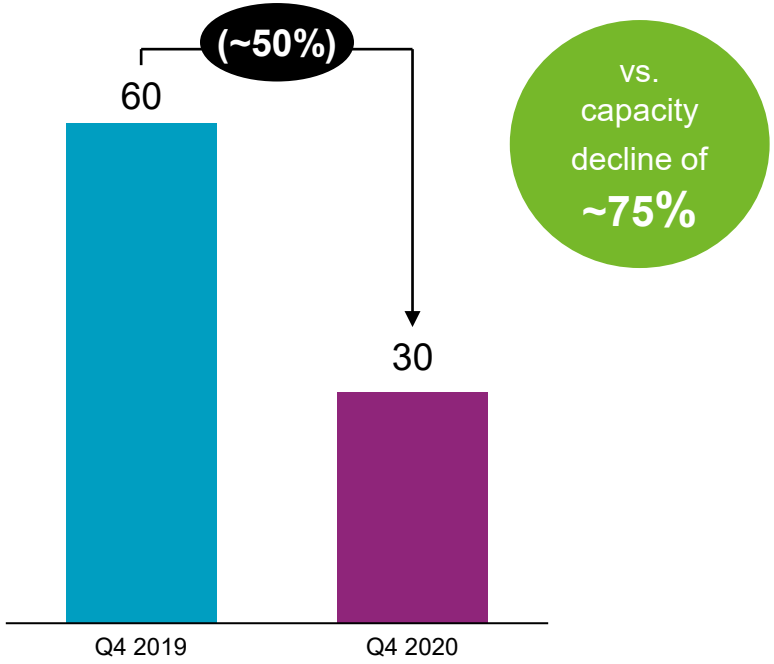
[1] This excludes redundancy costs.

[2] These deferrals/savings are through to Dec 2022.

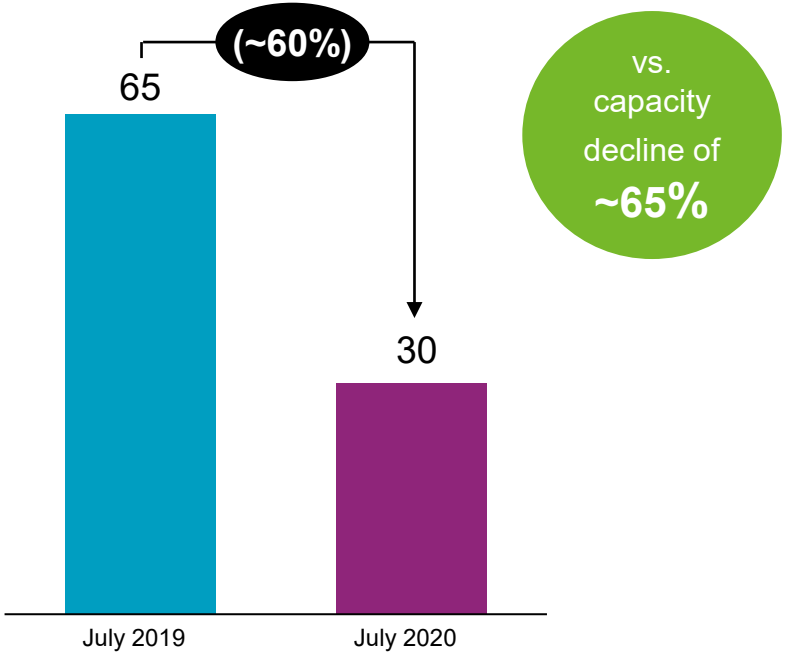
[3] Approximately $75 million relates to the period ended 30 June 2020. A further ~$40 million was received under Tranche 2 of the subsidy scheme in July 2020.

Reduction in operating costs reflect substantial capacity declines and benefit of early management actions

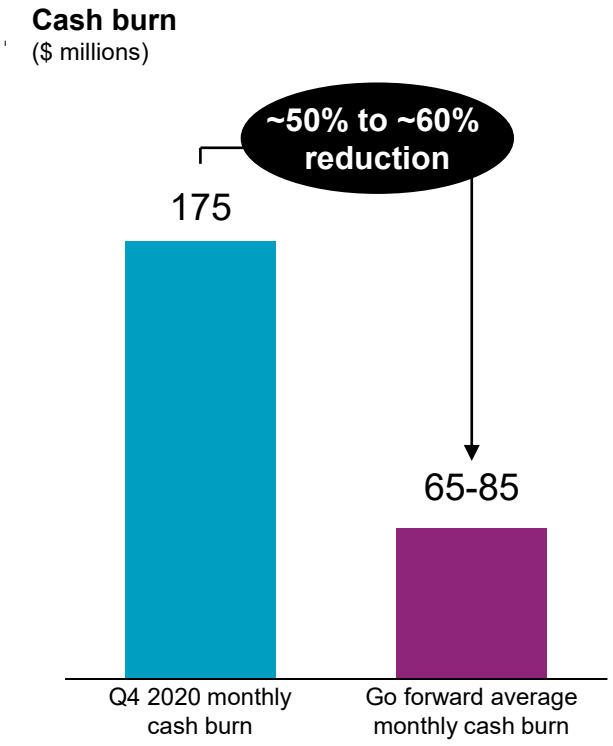
Q4 average weekly operating costs (ex fuel)
($ millions)



July weekly operating costs (ex fuel)
($ millions)



Significant reduction in cash burn[1]



Estimated cash burn assumes:

- Revenue benefit from operating Domestic network at ~70% pre-Covid levels with no social distancing, as well as additional cargo flying
- International travel restrictions remain in place
- Cost reduction actions already taken by Management
- Reduced level of refunds, redundancy payments and hedge losses
- Continued focus on working capital

Risks to cash burn estimates include:

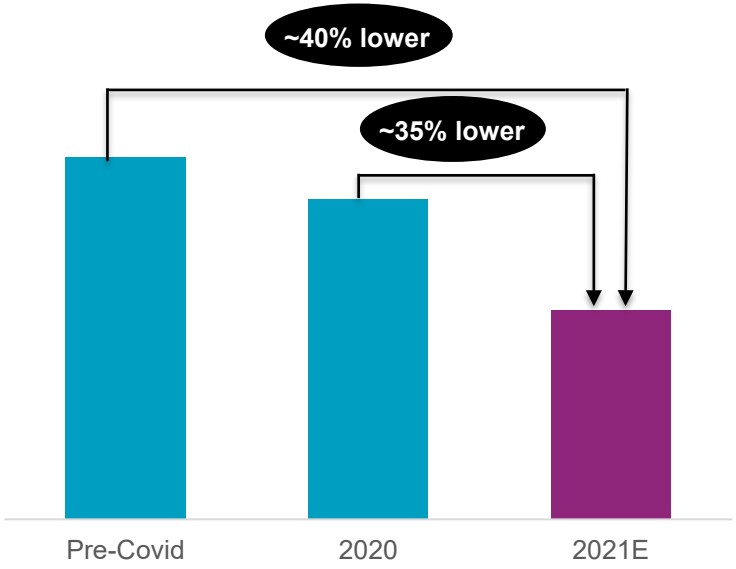
- Prolonged flying restrictions or social distancing requirements on Domestic flights
- Discontinuation of government support for international cargo

[1] Cash burn is inclusive of estimated redundancy and refund payments, interest on the Government standby loan facility and principal amortisation of loan. It also includes hedge gains/losses.

Labour costs

- **Phase 1** commenced in April 2020 - focus on driving **structural labour savings** given current views on profile of demand recovery
  - Largely complete, more than ~4,000 staff exiting either through redundancy, voluntary exit or furlough mechanisms
- **Phase 2** commenced in June 2020 - **targeted labour cost reduction** of ~$150 million, recognising that in the near-term, the airline will be substantially smaller as borders remain closed;
  - Incremental and temporary labour savings required
  - Redundancy is viewed as the last option, after exhausting additional solutions such as reduced hours, furloughs for example

Labour costs
($ millions)



Liquidity and gearing position

$ millions	30 Jun 2020	31 Dec 2019
Gross debt	(3,701)	(3,660)
Cash, restricted deposits and net open derivatives	735	1,271
Net debt	(2,966)	(2,389)
Gross debt/EBITDA	4.4	3.0
Net debt/EBITDA	3.6	2.0
Gearing	69.2%	54.3%
Total liquidity	1,338	1,003
Liquidity (% of 2019 revenue)	23.1%	17.3%
Moody's rating	Baa2 (investment grade)	Baa2 (investment grade)

Capital structure and dividend

Capital structure	Dividend
• The Board continues to assess the airline's capital structure and funding needs with the goal of ensuring long-term financial resilience	• Due to financial pressures as the airline manages the impact of Covid-19, the Board has determined that it will not declare a final dividend for the 2020 financial year
• The New Zealand Government has recently reaffirmed its commitment to maintaining its majority shareholding in Air New Zealand, and the Board is engaging constructively with the Crown in its capital structure and funding discussions	• First time since 2005 that the airline has not paid a dividend, reflecting the significant impact that Covid-19 has had on the airline's operations and balance sheet

Hedging update

- The significant reduction in network capacity from March 2020 onwards led to a decline in fuel consumption and foreign currency revenues, driving an over-hedged position
- The airline managed this by closing out certain hedges that covered Q4 2020 and the first nine months of the 2021 financial year
  - Cash costs to close were **~$65 million**
- In addition, the de-designation of hedges resulted in a **$105 million charge** reflected within other significant items
- The Board has granted temporary exemption to certain aspects of the airline's treasury policy with regard to required hedging levels whilst Covid-19 drives uncertainty of future capacity

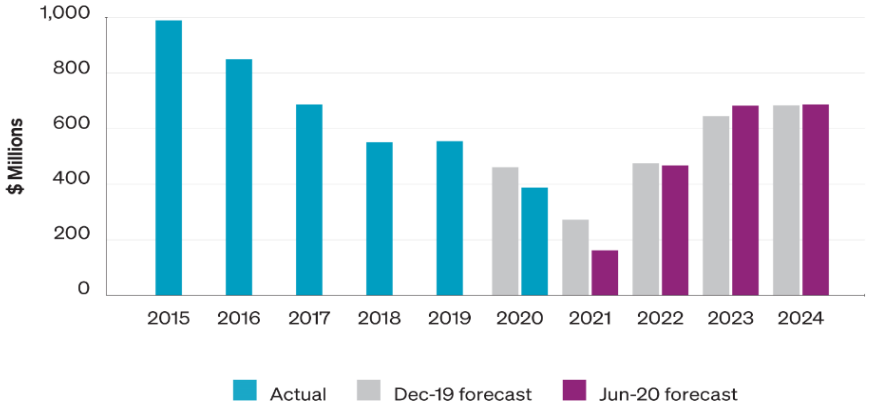
Fuel hedge position
(as at 19 August 2020)

Period	Hedged volume (in barrels)	Net compensation from hedging[1]
1H 2021	1,725,000	(~$35 million)
2H 2021	870,000	(~$1 million)

[1] Net compensation from fuel hedges represents the unrealised gains and losses on fuel hedges.

Fleet investment update

Actual and forecast aircraft capital expenditure*



- Forecasted investment of **$2.0 billion** in aircraft and associated assets through **to 2024**
  - Forecast capex **spend reduced by $200m for 2020 – 2022 period**, reflecting management actions
- Timing of forecast expenditure has shifted with the delay in the arrival of 5 domestic NEOs and 1 ATR**

Aircraft delivery schedule (as at 30 June 2020)

		Number in existing fleet	Number on order	Delivery Dates (financial year)			
				2021	2022	2023	2024
Owned fleet on order	Boeing 787	-	3***	-	-	1	2
	Airbus A320/A321 NEOs	11	9	-	3	3	3
	ATR72-600	27	2	2	-	-	-

* Includes progress payments on aircraft.
** Includes deferral of five A321 NEO aircraft. One from 2021 to 2022, two from 2022 to 2023, one delayed within 2023 and one from 2023 to 2024. The ATR is deferred from 2020 to 2021
*** Does not reflect five Boeing 787 on order for expected delivery from 2025.

AIR NEW ZEALAND

OUTLOOK

—

Greg Foran
Chief Executive Officer

Our priorities for 2021

- The aviation sector has been deeply impacted by global travel restrictions imposed to combat Covid-19
- Although significant uncertainty remains, we are currently expecting in the short-term to be a largely Domestic airline with cargo and some flying to the Tasman and Pacific Islands
- Have flexibility to scale operations up should conditions recover more quickly
  - Continue to chase opportunities in the cargo space to keep New Zealand connected to the world
- The performance of our domestic business in June and July was highly encouraging, and we remain focused on driving domestic tourism, and rebuilding the domestic corporate business
- Pre-Covid, our international long-haul business represented ~40% of total revenue.
  - We expect there to be some substitution effect, however unlikely to match the volume of revenue lost from reduced international passenger revenue
- We will continue to refine our refreshed strategy, exploring some exciting prospects within loyalty, digital and sustainability

2021 Outlook

Given the uncertainty surrounding travel restrictions and the level of demand as these restrictions lift, Air New Zealand is currently not able to provide specific 2021 earnings guidance. However, each of the scenarios we are currently modelling suggest we will make a loss in 2021.

AIR NEW ZEALAND

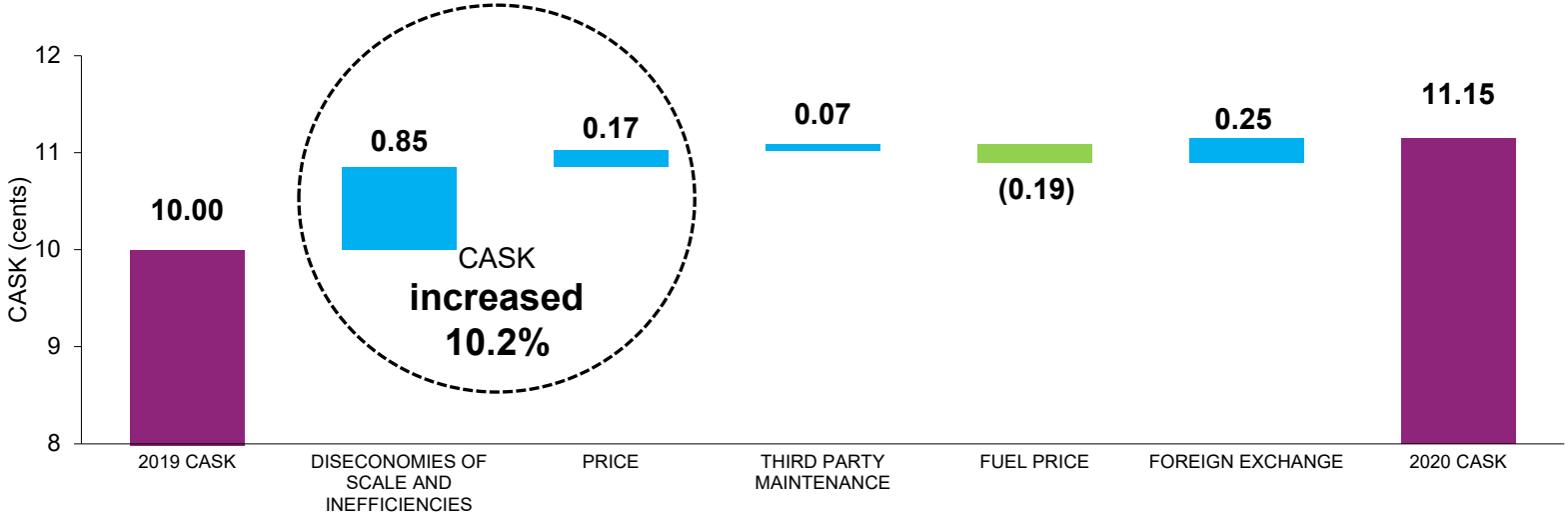
THANK YOU

AIR NEW ZEALAND

SUPPLEMENTARY INFORMATION

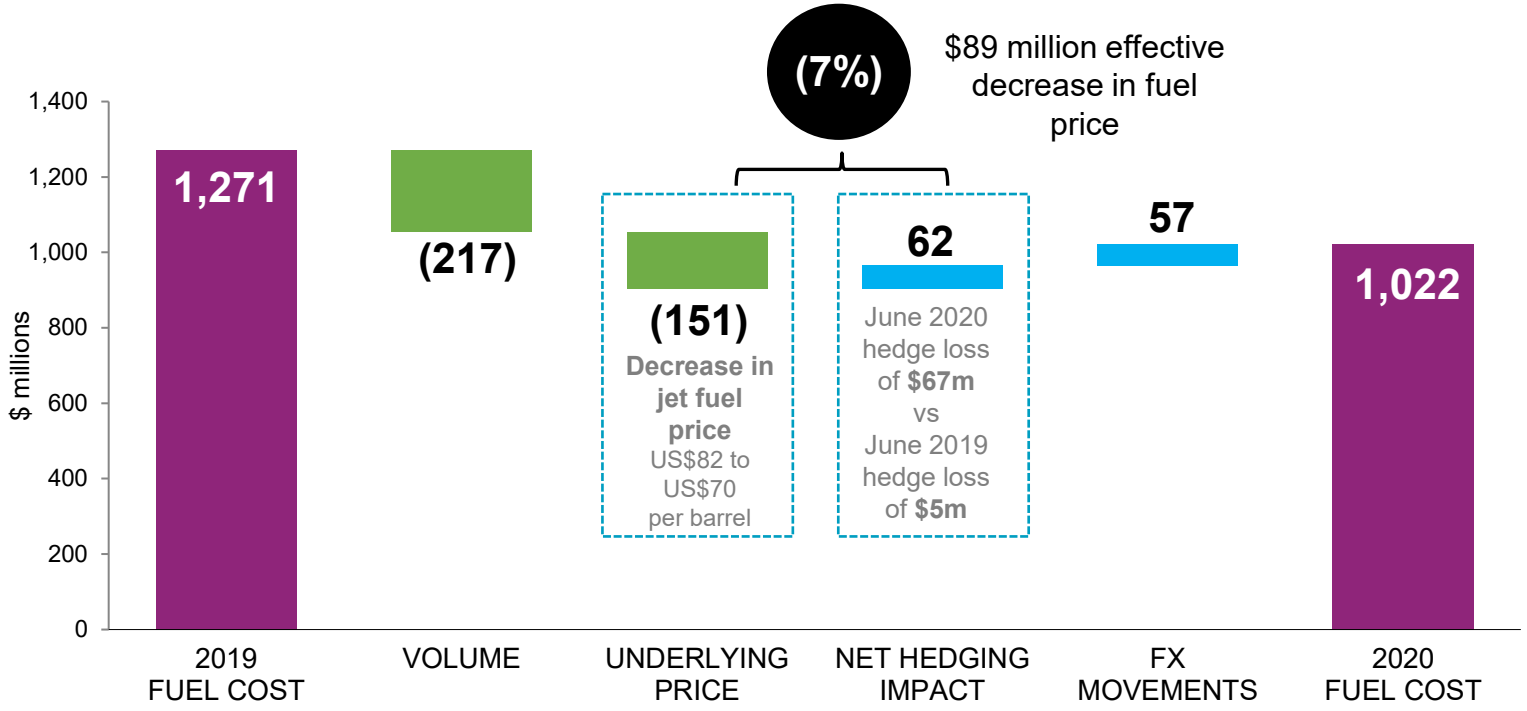
CASK movement

- CASK* **increased 10.2%**
  - Reported CASK increased 11.5%, mainly driven by diseconomies of scale and inefficiencies associated with Covid-19 schedule changes



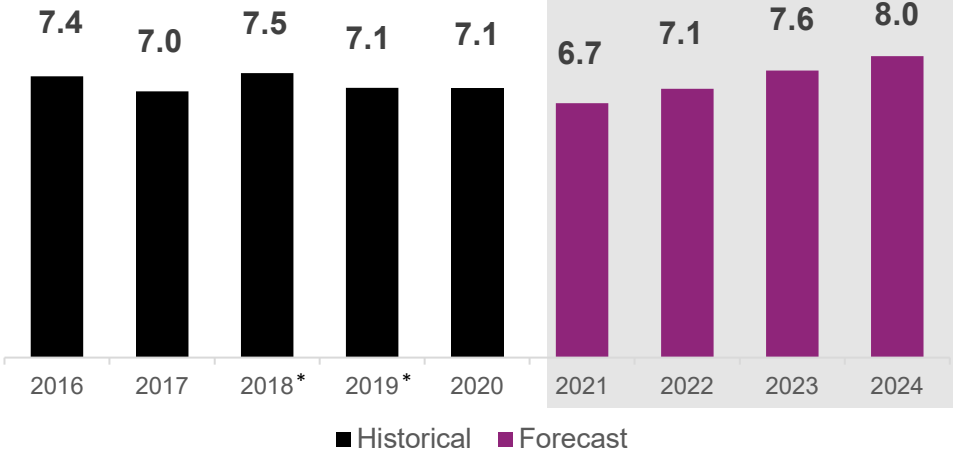
* Excluding fuel price movement, foreign exchange and third party maintenance.

Fuel cost movement



Projected aircraft in service and fleet age

Aircraft fleet age in years
(seat weighted)[1]



	2020	2021	2022	2023	2024
Boeing 777-300ER	7	7	7	7	7
Boeing 777-200ER	8	-	-	-	-
Boeing 787-9/787-10	14	14	14	15	17
Airbus A320	22	20	17	15	13
Airbus A320/A321 NEO	11	11	14	17	20
ATR72-600	27	29	29	29	29
Bombardier Q300	23	23	23	23	23
Total Fleet	**112**	**104**	**104**	**106**	**109**

* Excludes short-term leases which provide cover for the global Rolls-Royce engine issues.
[1] Excludes the Boeing 777-200 fleet, which has been grounded for an indefinite period.

Impact of new lease accounting standard (NZ IFRS 16)

Income statement impact

	Jun 2019 $M		Jun 2020 $M	Notes	
Rental and lease expense	245	Depreciation expense	227	Net movement of $19 million comprised of:	
		Interest expense	29	NZ IFRS 16 methodology changes	10
		Other expenses	8	Underlying changes to lease portfolio	9
Total income statement	**245**	**Total income statement**	**264**		**19**

Statement of cash flows impact

	Jun 2019 $M		Jun 2020 $M	Notes
Cash flows from operating activities	244	Cash flows from operating activities	29	Principal repayments have also been reclassified from operating to financing activities
		Cash flows from financing activities	203	

Note: For details on the transitional impact of NZ IFRS 16 on the balance sheet, refer to Note 27 of the Group's Annual Financial Statements.

Reconciliation of gearing movements

	Reported 30 Jun 2019	Fair value hedge adjustment	Adjusted 30 Jun 2019	Impact of NZ IFRS 16	Restated 1 Jul 2019	Reported 30 Jun 2020
Net Debt ($M)	2,517*	-	2,517*	(384)	2,133	**2,966**
Equity ($M)	2,089	(97)	1,992	-	1,992	**1,318**
Gearing (%)	54.6*		55.8*		51.7	**69.2**

Impact of bringing operating leases on balance sheet:

$862m	Operating lease liabilities
$(1,246m)	Aircraft lease commitments for the next twelve months multiplied by a factor of seven

* Includes capitalised off-balance sheet aircraft lease commitments at 30 June 2019.

[1] Refer to Note 27 in the Group's 2020 Annual Financial Statements for details of the fair value hedge adjustment and impact of NZ IFRS 16.

Earnings before other significant items and taxation[1]

	Jun 2020 $M	June 2019 $M
(Losses)/Earnings before taxation (per NZ IFRS)	**(628)**	**382**
Add back other significant items:		
De-designation of hedges	105	-
Aircraft impairment charge	338	-
Reorganisation costs	140	-
Gain on sale of airport slots	(21)	-
Disestablishment of fair value aircraft hedges	46	5
FX gains on uncovered foreign currency debt	(67)	-
(Losses)/Earnings before other significant items and taxation	**(87)**	**387**

[1] 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 or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Earnings before other significant items and taxation is reported within the Group's audited annual financial statements. Further details are contained within Note 3 of the Group's annual financial statements

Financial overview

	Jun 2020 $M	Jun 2019 $M	Movement $M	Movement %
Operating revenue	4,836	5,785	(949)	(16.4%)
Earnings before other significant items and taxation	(87)	387	(474)	(122.5%)
Earnings before taxation	(628)	382	(1,010)	(264.4%)
Net (loss)/profit after taxation	(454)	276	(730)	(264.5%)
Operating cash flow	230	986	(756)	(76.7%)
Cash position	438	1,055	(617)	(58.5%)
Gearing*	69.2%	51.7%	-	(17.5pts)
Ordinary dividends declared**	-	22.0 cps	(22.0 cps)	(100%)

* Comparative information is at 1 July 2019, the Group's transition date for NZ IFRS 16.
** Dividends are fully imputed.

Group performance metrics

	Jun 2020	Jun 2019	Movement*
Passengers carried ('000s)	13,525	17,738	(23.8%)
Available seat kilometres (ASKs, millions)	36,335	46,029	(21.1%)
Revenue passenger kilometres (RPKs, millions)	29,568	38,573	(23.3%)
Load factor	81.4%	83.8%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	10.8	10.8	0.7%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.8	10.8	0.0%

* Calculation based on numbers before rounding.

Domestic

	Jun 2020	Jun 2019	Movement*
Passengers carried ('000s)	8,821	11,513	(23.4%)
Available seat kilometres (ASKs, millions)	5,619	7,104	(20.9%)
Revenue passenger kilometres (RPKs, millions)	4,552	5,957	(23.6%)
Load factor	81.0%	83.9%	(2.9pts)
Passenger revenue per ASKs as reported (RASK, cents)	23.6	22.5	5.1%
Passenger revenue per ASKs, excluding FX (RASK, cents)	23.5	22.5	4.8%

* Calculation based on numbers before rounding.

Tasman & Pacific Islands[1]

	Jun 2020	Jun 2019	Movement*
Passengers carried ('000s)	3,002	4,044	(25.8%)
Available seat kilometres (ASKs, millions)	10,367	13,640	(24.0%)
Revenue passenger kilometres (RPKs, millions)	8,265	11,195	(26.2%)
Load factor	79.7%	82.1%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	9.4	9.6	(2.2%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.5	9.6	(1.9%)

1 Pacific Islands including Bali and Hawaii.
* Calculation based on numbers before rounding.

International

	Jun 2020	Jun 2019	Movement*
Passengers carried ('000s)	1,702	2,181	(22.0%)
Available seat kilometres (ASKs, millions)	20,349	25,285	(19.5%)
Revenue passenger kilometres (RPKs, millions)	16,751	21,421	(21.8%)
Load factor	82.3%	84.7%	(2.4pts)
Passenger revenue per ASKs as reported (RASK, cents)	8.1	8.1	(0.7%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.9	8.1	(2.2%)

* Calculation based on numbers before rounding.

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
Gearing	Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating lease commitments at 30 June 2019
Earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating earnings (before depreciation and amortisation, rental and lease expenses, net finance costs, associate earnings, other significant items and taxation) plus finance income and cash dividends received from associates less foreign exchange gains
Gross Debt	Interest-bearing liabilities and lease liabilities
Net Debt	Interest-bearing liabilities, lease liabilities less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities and lease liabilities, and interest-bearing assets, plus, for the prior period, net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven (excluding short-term leases, which provide cover for Boeing 787-9 engine issues)
Cash, restricted deposits and net open derivatives	Bank and short-term deposits, interest-bearing assets and net open derivatives held in relation to interest-bearing liabilities and lease liabilities
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
Revenue Passenger Kilometres (RPKs)	Number of revenue passengers carried multiplied by the distance flown (demand)

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, Gross Debt, EBITDA and RASK. Amounts used within the calculations are derived from the audited Group financial statements and Five Year Statistical Review contained in the 2020 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.

Find more information about Air New Zealand

Resources

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

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

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™