

AIR NEW ZEALAND 

2014
**INTERIM
FINANCIAL
RESULTS**



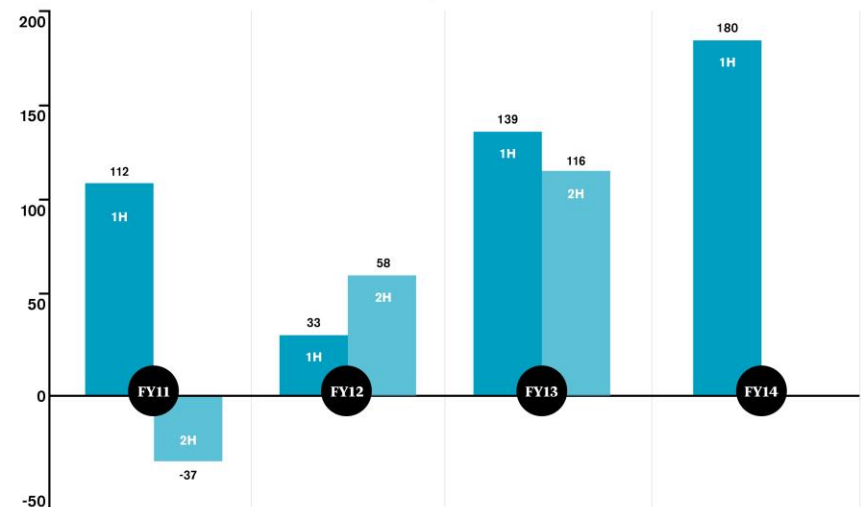
A STAR ALLIANCE MEMBER 

OVERVIEW



- > Normalised earnings* before taxation of **\$180 million**, up 29%
- > Statutory earnings before taxation of **\$197 million**, \$140 million after tax
- > Operating revenue of **\$2.3 billion**
- > Strong operating cash flow of **\$300 million**
- > Continued earnings growth

Normalised Earnings before Taxation (\$M)



* Normalised earnings represents Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding net gains and losses on derivatives that hedge exposures in other financial periods. Refer to the supplementary slides for a reconciliation to IFRS earnings.

RESULT HIGHLIGHTS



- > Passenger revenue up 2.4%* to **\$1.9 billion**
- > Growth in local currency yield and load factors
- > Long haul network now realigned and performing well
- > Strong financial result despite significant transitional labour costs

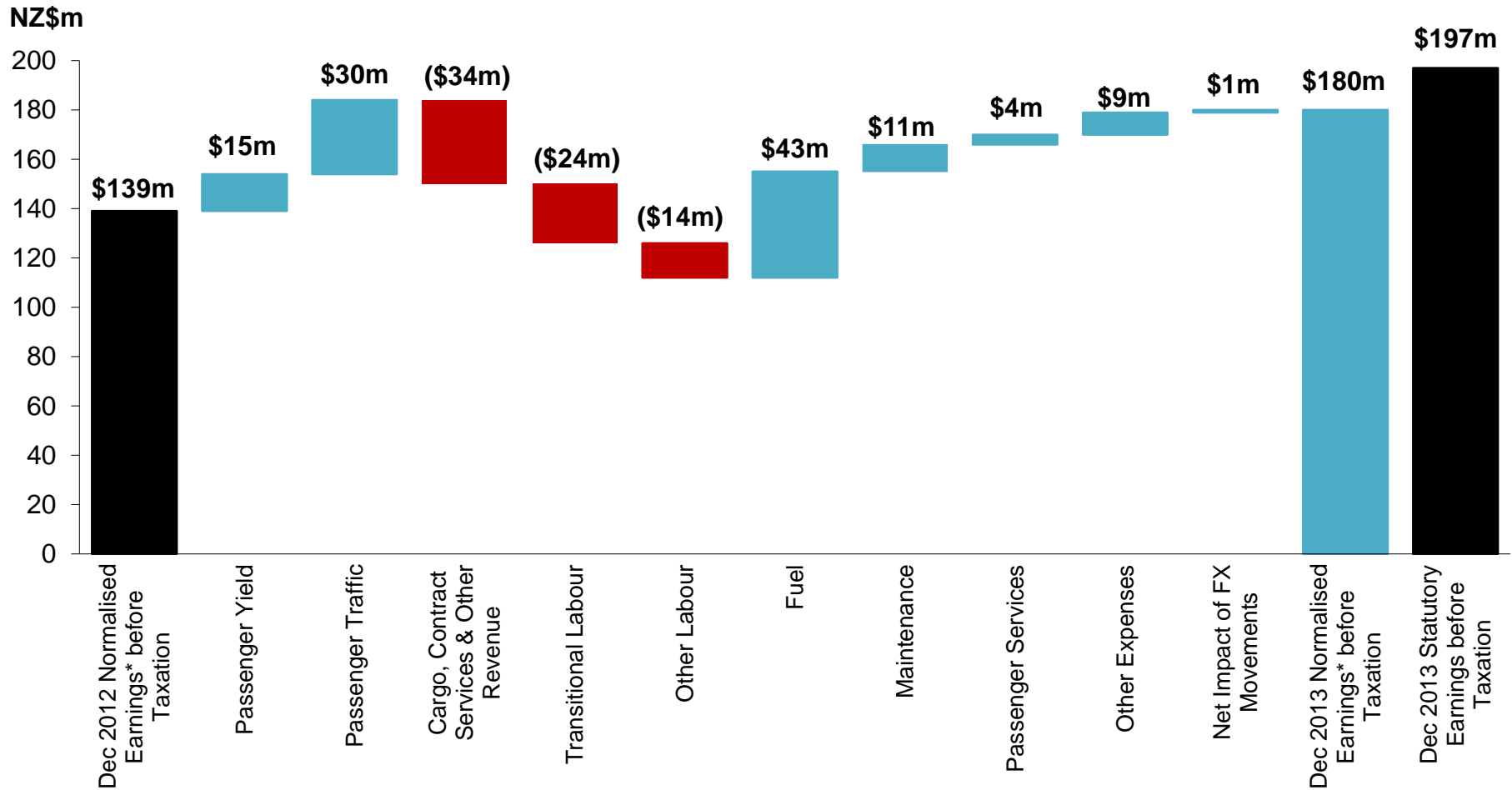


	Dec 2013	Dec 2012	movement**
Passengers carried ('000s)	6,927	6,792	2.0%
Available seat kilometres (ASKs)	16,878m	17,092m	(1.3%)
Revenue passenger kilometres (RPKs)	14,226m	14,228m	0.0%
Load factor	84.3%	83.2%	1.1 pts
Yield (cents per RPK)	13.6	13.6	0.2%

* Excluding impact of foreign exchange

** Calculations based on numbers before rounding

CHANGES IN PROFITABILITY



*Normalised earnings before taxation represents Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding net gains and losses on derivatives that hedge exposures in other financial periods. Refer to the supplementary slides for a reconciliation to IFRS earnings.

DOMESTIC



- > New A320s delivering lower cost base as older B737s exit
- > New ATR72-600s providing additional turboprop capacity
- > Competitive fares stimulating demand
- > Positive economic outlook

	Dec 2013	Dec 2012	movement*
Passengers carried ('000s)	4,465	4,350	2.7%
Available seat kilometres (ASKs)	2,692m	2,586m	4.1%
Revenue passenger kilometres (RPKs)	2,180m	2,097m	4.0%
Load factor	81.0%	81.1%	(0.1 pts)
Yield (cents per RPK)	27.6	27.8	(0.6%)

* Calculations based on numbers before rounding

TASMAN & PACIFIC ISLANDS



- > Achieving higher load factors than competitors
- > Virgin Australia alliance expands network reach and maintains strong market position
- > Weaker Australian dollar impacting yields

	Dec 2013	Dec 2012	movement*
Passengers carried ('000s)	1,698	1,658	2.4%
Available seat kilometres (ASKs)	5,527m	5,400m	2.4%
Revenue passenger kilometres (RPKs)	4,604m	4,496m	2.4%
Load factor	83.3%	83.3%	0.0 pts
Yield (cents per RPK)	11.8	12.2	(2.7%)

* Calculations based on numbers before rounding

INTERNATIONAL



- > Network realignment has driven improved profitability
- > Capacity increases in growing and high performing markets
- > Exits from poor performing Auckland-Osaka and Hong Kong-London routes
- > Pacific Rim growth focus

	Dec 2013	Dec 2012	movement*
Passengers carried ('000s)	764	785	(2.7%)
Available seat kilometres (ASKs)	8,659m	9,106m	(4.9%)
Revenue passenger kilometres (RPKs)	7,442m	7,635m	(2.5%)
Load factor	86.0%	83.8%	2.2 pts
Yield (cents per RPK)	10.6	10.5	0.8%

* Calculations based on numbers before rounding

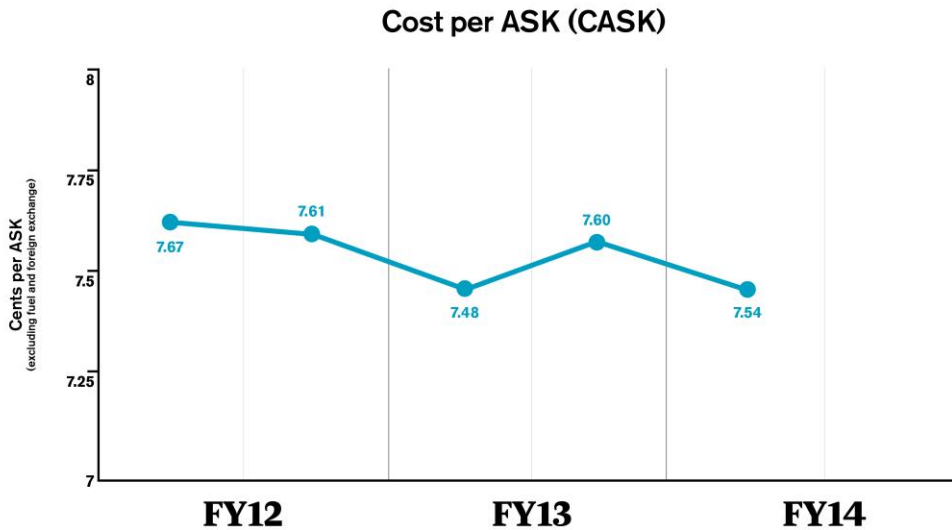
CARGO



- > Global Cargo market continues to be challenging
- > Volume down 3% due to withdrawal of Hong Kong-London route
- > Yield decline of 5% due to competitive market environment



CONTINUOUS COST IMPROVEMENT



- > Current year includes \$24 million of transitional labour costs (0.14 cents per ASK)
- > Fleet modernisation, fleet simplification and scale economies from growth will continue reducing our cost base in the future

	Dec 2013 (cents)	Dec 2012 (cents)
Cost per ASK*	10.84	11.17
<i>Exclude:</i>		
Fuel	(3.49)	(3.72)
Foreign exchange gains	0.19	0.03
CASK (excl. fuel and foreign exchange gains)	7.54	7.48

* Includes normalised earnings adjustment

FINANCIAL MANAGEMENT

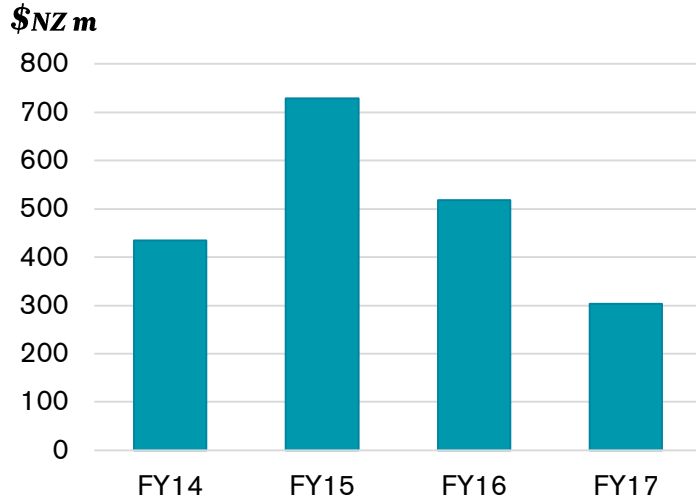


- > Net cash on hand **\$1.13 billion**
- > Gearing at **43.9%**
- > Fully imputed interim dividend of **4.5 cents per share**, an increase of **50%**
- > Average fleet age of **9.3 years***
- > Moody's investment grade rating of **Baa3**, outlook stable

* Seat weighted basis



AIRCRAFT CAPITAL EXPENDITURE



- > Investment of \$1.8 billion in aircraft over the next 3.5 years
- > Includes progress payments on aircraft
- > Assumes USD/NZD = 0.8300
- > Excludes capitalised maintenance of approximately \$50m and non-aircraft capital commitments

Aircraft deliveries	FY14	FY15	FY16	FY17	FY18
Boeing 787-9	-	3	3	2	2
Airbus A320	4	3	2	-	-
ATR72-600	1	3	1	-	-
Boeing 777-300ER*	1	1	-	-	-

* Subject to operating lease arrangements



airpoints™

- > Now at **1.5 million** members, **up 15%** year on year
- > Recent refresh and rebrand announced, changes effective 31 March 2014
- > Airpoints Dollars to be earned on every regularly available fare*
- > Incentives realigned to reward most valuable customers

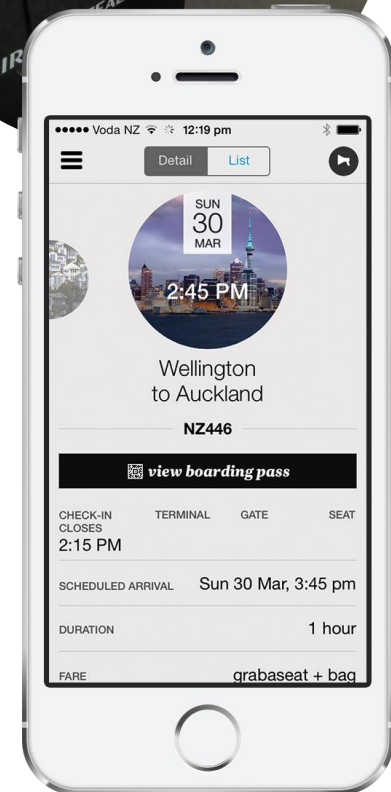
* Excludes last minute grabaseat greenlight fares and tickets purchased using Airpoints Dollars



CUSTOMER EXPERIENCE



- > Online check-in now available
- > International long haul self check-in kiosks
- > New mobile app launched
- > Mobile sales channel now exceeding \$1 million per week
- > Lounge upgrades underway



ALLIANCES



- > Virgin Australia alliance reauthorised until 31 October 2018
- > Cathay Pacific alliance enabling improved Hong Kong route performance
- > Star Alliance offers **1,328 destinations** through our 27 partner airlines

NEW ALLIANCE WITH SINGAPORE AIRLINES



- > Air New Zealand to re-commence flying to Singapore
- > Revenue sharing alliance with Singapore Airlines
- > Codeshare on Singapore Airlines and SilkAir networks
- > Comprehensive network into
 - ✓ South East Asia
 - ✓ UK / Europe
 - ✓ South Africa
 - ✓ India
- > Enhanced customer experience
- > Accelerates Air New Zealand's strategy of Pacific Rim growth
- > Subject to regulatory approval

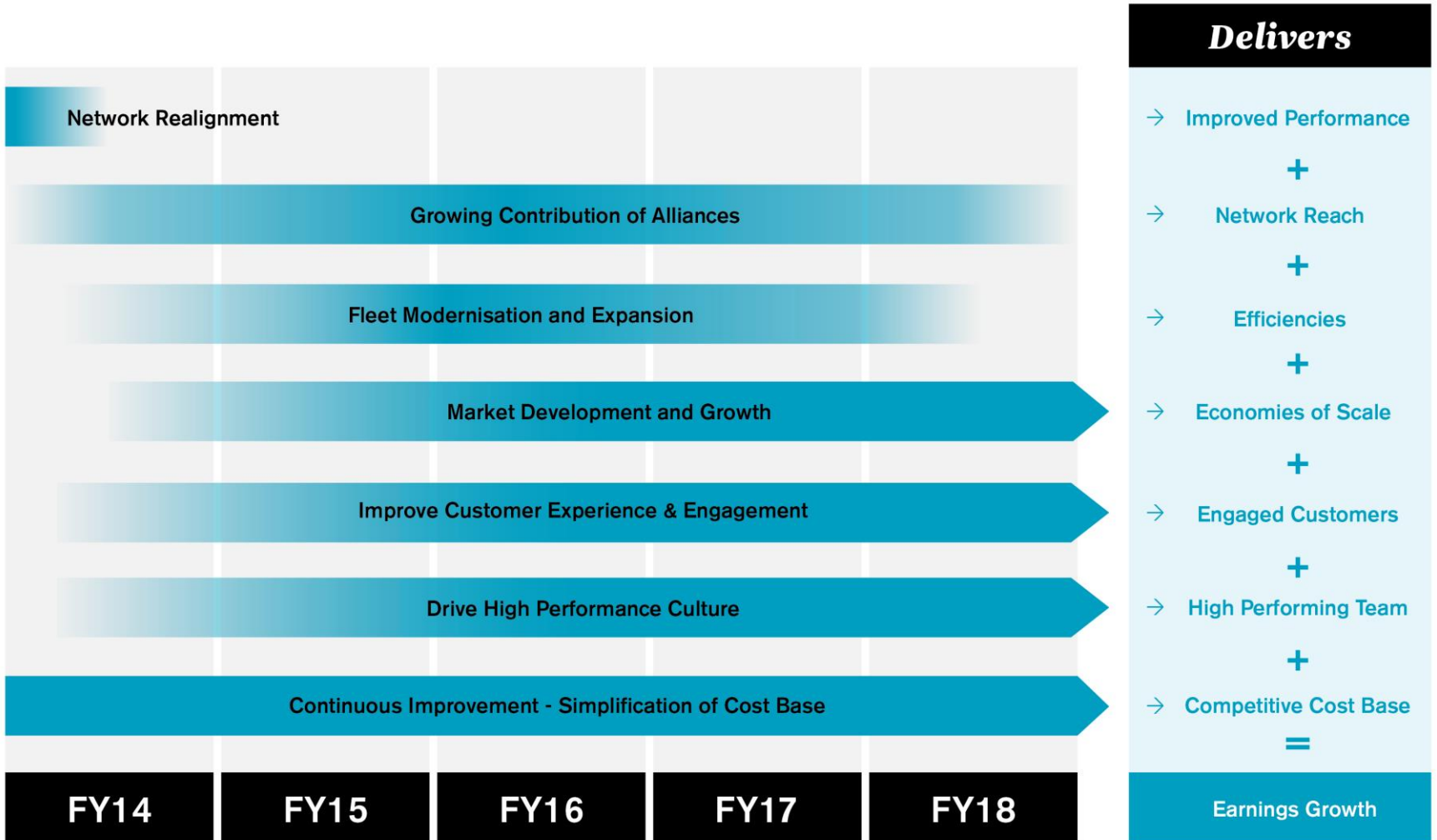


INVESTMENT IN VIRGIN AUSTRALIA



- > Equity investment increased to **24.5%**
- > Recent capital raising consolidates Virgin's balance sheet
- > Well positioned to capitalise on long term growth in domestic Australia market
- > Board seat to be taken up

STRATEGIC PRIORITIES



OUTLOOK



With stable fuel prices and a traditional seasonal earnings pattern of a stronger first half, we expect normalised earnings before taxation to exceed **\$300 million** for the full year

SUPPLEMENTARY SLIDES



FINANCIAL OVERVIEW



	Dec 2013	Dec 2012	Dollar movement	Percentage movement
Operating revenue	\$2,330m	\$2,368m	(\$38m)	(2%)
Normalised earnings * before taxation	\$180m	\$139m	\$41m	29%
Statutory earnings before taxation	\$197m	\$141m	\$56m	40%
Statutory net profit after taxation	\$140m	\$100m	\$40m	40%
Operating cash flow	\$300m	\$343m	(\$43m)	(13%)
Net cash position**	\$1,128m	\$1,150m	(\$22m)	(2%)
Gearing **	43.9%	39.3%	n/a	(4.6 pts)
Interim dividend ^	4.5 cps	3.0 cps	1.5 cps	50%

* Normalised earnings represents Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding net gains and losses on derivatives that hedge exposures in other financial periods. Refer to the supplementary slides for a reconciliation to IFRS earnings.

** Comparative is for 30 June 2013

^ Fully imputed

JET FLEET (PROJECTED)



<i>Jets in service</i>	FY14	FY15	FY16	FY17	FY18
Boeing 777-300	5	7	7	7	7
Boeing 777-200	8	8	8	8	8
Boeing 787-9	-	3	6	8	10
Boeing 767-300	5	5	2	-	-
Boeing 747-400	2	-	-	-	-
Airbus A320	22	25	27	27	27
Boeing 737-300	7	2	-	-	-

FOREIGN EXCHANGE HEDGING



- > The second half of FY14 US dollar operating cash flow exposure is approximately **90% hedged** at an average NZD/USD rate of **0.8245**.
- > The FY15 operating cash flow exposure is **53% hedged** at an average NZD/USD rate of **0.8295**.



FUEL HEDGING*



> The second half of FY14 is **72% hedged**

> The first half of FY15 is **33% hedged**

		Volume (bbls)	Ceiling (USD)	Floor (USD)
FY14 H2	Brent swaps	37,500	105.02	
	WTI swaps	37,500	95.80	
	Brent collars	2,317,500	104.60	96.88
	WTI collars	200,000	98.22	89.31
FY15 H1	Brent swaps	175,000	104.44	
	WTI swaps	187,500	95.80	
	Brent collars	725,000	106.68	99.06
	WTI collars	150,000	95.71	86.58

* Fuel hedge position as at 18 February 2014

NORMALISED EARNINGS



	Dec 2013	Dec 2012
Earnings before taxation (per NZ IFRS)	\$197m	\$141m
<i>Reverse net (gains) / losses on derivatives that hedge exposures in other financial periods:</i>		
Fuel derivatives	(\$17m)	(\$2m)
Normalised earnings* before taxation	\$180m	\$139m

*Normalised earnings represents Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding net gains and losses on derivatives that hedge exposures in other financial periods. Normalised earnings is a non-IFRS financial performance measure that matches derivative gains or losses with the underlying hedged transaction, and represents the underlying performance of the business for the relevant period. Normalised earnings is reported within the Group's condensed interim financial statements and is subject to review by the Group's external auditors.