A PLATFORM FOR GROWTH

Air New Zealand’s normalised earnings before taxation for the 2014 financial year were $332 million – an increase of 30 percent on the previous year. Statutory earnings before taxation were $357 million, an increase of 40 percent, while statutory profit after taxation was $262 million. Operating cash flow was again strong at $730 million.

This represents the third consecutive year of earnings growth, and is a result that we can all be proud of. Our employees, our customers and importantly, our shareholders can be confident that Air New Zealand continues to be a world leading airline both in terms of customer experience and financial performance.

We have made significant progress on our key strategic initiatives. With new aircraft offering better operating economics, an optimised network with the right alliance partners, disciplined cost management and a daily focus on improving the customer experience, we are well positioned to continue growing.

The company’s balance sheet is in excellent shape with gearing below our target range at 42.9% and strong liquidity at $1.23 billion. Our continuing fleet renewal programme means that capital expenditure will be elevated in the coming years. But with strong operating cash flows and favourable access to financial markets, together with our investment grade credit rating, liquidity is expected to remain robust.

The performance has been reflected in the share price increasing by 40 percent over the 12 months, seeing us outperform the NZX50 as well as the Asia Pacific regional and World airline indices.

With improved earnings and confidence in the medium term outlook, the Board has declared a fully imputed final dividend of 5.5 cents per share. This brings the total ordinary dividends declared for the year to 10 cents per share, an increase of 25% on last year.

In addition, the Board has declared a fully imputed special dividend of 10 cents per share following a review of the company’s capital structure and consideration of the current and expected medium term liquidity and gearing.

In June we welcomed Linda Jenkinson to the Board. Linda is a world class Kiwi entrepreneur who has started several successful businesses, and is now best known as Chair of Les Concierges, the San Francisco based global travel company that she co-founded. We look forward to Linda’s valuable contribution to the Board.

Dr Jim Fox will retire from the Board on 31 August, and I would like to acknowledge his significant contribution since being appointed in 2006. Jim’s successful business career and strong commercial instincts have enabled him to provide unique perspectives during his time with us. Thank you Jim.

The coming year will see us significantly grow capacity as new aircraft arrive. As we continue to deliver on our strategic priorities, and based on our current expectations of market demand and fuel prices, we expect to improve on the 2014 result in the coming year. This outlook excludes equity earnings from the Virgin Australia shareholding.

Tony Carter
Chairman

1. 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 annual financial statements and is subject to review by the Group’s external auditors.
I am pleased to be able to report another strong result for Air New Zealand.
This is testament to the efforts of our team of Air New Zealanders at all levels of the organisation, who are demonstrating their passion and commitment to ensuring that the airline is performing better than ever before. I would also like to thank our customers and our shareholders, without whose support this result would not have been possible.

Under our Go Beyond plan, which was unveiled almost two years ago, we identified the four pillars to drive Air New Zealand’s future success: customers at the core, execute the plan, be fighting fit and have a winning team. I believe that it is important to constantly remind ourselves of what we’re working towards, and planning how to get there.

Our success is underpinned by hard work and tough decisions undertaken in recent years. We have strong foundations in place and we are ready to keep driving forward and further improve our performance.

Our operating revenue, capacity and yield all grew while unit costs remained stable.
A successful Air New Zealand is good for everyone.

It is a virtuous circle. As we grow our revenue and control costs, we generate strong financial results. This leads to sustainable returns to shareholders and investment back in the business, creating a stronger Air New Zealand.

The year finished on a very exciting note as we took delivery of our first Boeing 787-9 Dreamliner aircraft, the first of its type in the world. This aircraft is without question a gamechanger. We are able to offer our customers an improved inflight experience while benefiting from 20% less fuel consumption than comparable aircraft. On the following pages we highlight what these improvements will mean for the airline and our customers.

The effort required to bring a new innovative aircraft such as this into service is significant, with the planning and preparation having started a decade ago. We have met with Mayors, Chambers of Commerce, Airport Management and local business leaders. Through this I have gained a much better understanding of what we are doing well, as well as what we can be improving on. We are demonstrating our commitment to the regions with four new ATR72-600 aircraft added to the fleet.

On the jet routes, our new Airbus A320 aircraft continue to replace the older Boeing 737-300s. The A320s bring improvements to the customer experience and offer improved operating economics.

We recently announced our new Domestic pricing structure, with four options tailored to what customers value and offering increased flexibility. This was developed following focused feedback sessions with customers, and it is pleasing to see the positive reviews. Our Tasman routes continue to perform well. While the lower Australian dollar has impacted revenue, we continue to see areas of growth and opportunity. Together with our alliance partner Virgin Australia we offer a deep network schedule and our Seats to Suit product ensures that we are well placed to serve all segments of this important market – from the early morning business traveller to leisure travellers flying during the day, we have a product that is in demand.

We have an exciting year ahead.

Christopher Luxon
Chief Executive Officer
Boeing 787-9 Dreamliner

IT’S A GAMECHANGER

Next generation carbon fibre composite construction enables improved weight savings and aerodynamics

10 aircraft to join the fleet by late 2017

3 international routes confirmed: Auckland – Perth, Auckland – Shanghai, Auckland – Tokyo

20% improvement in fuel efficiency compared to similar sized aircraft

30% Larger windows reveal extraordinary views and bathe the cabin in natural light

Cabin altitude is the equivalent of 6,000ft instead of 8,000ft and features higher humidity for a more refreshing and comfortable flight experience

302 Total seats on board the aircraft

14 Rows of Economy Skycouch™ seats

18 Business Premier seats

21 Premium Economy seats
As new aircraft are delivered, we expect to grow capacity by six percent in the coming financial year and to average approximately five percent over the next five years. We are adding capacity into all of our key markets.

Domestically we are growing through the introduction of new Airbus A320s replacing Boeing 737-300s, and in regional New Zealand we have moved up to ATR72-600 aircraft on a number of routes.

On the Tasman and Pacific Islands network we are upgauging to larger aircraft on key routes and continuing our popular seasonal services to Bali and the Sunshine Coast. We have also expanded our network with the introduction of Christchurch-Perth services.

In our International long haul network we have increased capacity into Tokyo, Shanghai and our North American routes. The recently approved alliance with Singapore Airlines will see our Pacific Rim focus come to life as we establish a major foothold in South East Asia. The relationship with Singapore Airlines provides us with an outstanding network throughout that region and into India, South Africa and Europe.

Similar deep partnerships we have with Virgin Australia and Cathay Pacific allow us to leverage the combined strength of our sales and distribution capability, while improving the customer proposition. The structure of these revenue share alliances creates a network that has strength and sustainability and we will continue to identify strong local partners as we explore new markets. In contrast, we have exited markets where no clear competitive advantage exists.

As our Boeing 787-9 and upgraded Boeing 777-300ER aircraft begin flying, we will bring a superior product into our long haul international network. This will help to ensure that our five percent compounding capacity growth delivers strong yield and revenue growth and the famous Air New Zealand experience.

We are getting better at understanding our customer segments, having invested heavily in developing a sophisticated customer insights function.

As a result, we are able to develop sales and brand campaigns which are more targeted, improving the overall effectiveness of our activity. We are also working more cohesively with our NZ Inc partners – from tourism organisations to travel agencies. We are far more coordinated in promoting Destination New Zealand for the benefit of everyone.
WE'RE SUPPORTING BRAND NEW ZEALAND

We recognise that the airline has a pivotal role to play in supercharging New Zealand’s success – environmentally, socially and economically.

With an aim to become one of the world’s most environmentally sustainable airlines we have worked hard to implement a wide range of initiatives across the business to achieve this.

This year we have welcomed the first of our new fuel efficient Boeing 787-9 aircraft to our fleet while continuing to heavily invest in new aircraft including orders for 13 new Airbus A320 NEOs and A321 NEOs (new engine option).

Alongside the fleet investments there are numerous other initiatives underway to make our airline more efficient and lower our environmental footprint. These range from reducing weight on board aircraft to the adoption of continuous descent flight paths, greater use of ground power while at airport gates and installing New Zealand’s largest single solar array at our Auckland Technical Operations base.

We remain committed to reducing waste across the business wherever possible, we currently recycle onboard our domestic jet services and we are looking to extend this to include our regional fleet. In the second half of the financial year we also celebrated the diversion of 50 percent of ground waste from landfills – our highest rate ever.

To further cement our commitment to sustainable development we have established an external advisory group to help steer and inform our sustainability strategy. This approach has been used by some of the world’s leading businesses in sustainability strategy and has proven effective in establishing and delivering initiatives that create transformative change beyond standard practice.

Our partnerships continue to go from strength to strength. In the 2014 financial year we extended our agreement with the Department of Conservation (DOC) out to 2017 and added a commitment to support research monitoring programmes in New Zealand’s marine reserves. Air New Zealand has continued to support biodiversity projects along the Great Walks and has played a part in transporting more than 900 endangered native animals around the country. As a result of our marketing support, DOC have seen a 19 percent increase in visitor numbers to the Great Walks.

Through our partnership with Antarctica New Zealand we have supported science research projects on the ice. We have also helped raise awareness of the significance of Antarctica and the importance of the work that New Zealand scientists are doing there.

This year we have welcomed the first of our new fuel efficient Boeing 787-9 aircraft to our fleet while continuing to heavily invest in new aircraft including orders for 13 new Airbus A320 NEOs and A321 NEOs (new engine option).
Enhancing the customer experience and listening to the voice of the millions of people who fly with Air New Zealand each year is a cornerstone of the airline’s ongoing success.

As an airline we are committed to being customer-centric and enhancing the customer experience is a key priority.

In the past 12 months we have heavily invested in driving the customer experience to new heights.

In July we became the first airline in the region to allow customers travelling on international and domestic jet services to use their portable electronic devices gate-to-gate. Pending regulatory approval we will look to expand this popular offering to our regional turboprop fleets in the not too distant future.

We have introduced a new mobile app which allows customers to check in online, as well as receive real time updates on flight status.

The redesign of the international check-in area at Auckland International Airport has been another milestone with kiosks expanded to include check-in for all international flights as well as the introduction of Chinese and Japanese language solutions.

We are continuing our lounge upgrade programme, with the new Los Angeles Star Alliance lounge due to open to our customers in the coming months. We are also refurbishing a number of our existing lounges throughout the network.

We have also upgraded our inflight entertainment systems and improved the quality of our food and beverage offerings.

Moving forward our customer experience will remain a core pillar of our growth strategy as we continue to significantly invest in the onboard and ground experience, and in the very latest technologies and innovations to engage with our customers, like ever before.
Air New Zealand's normalised earnings before taxation for the 2014 financial year were $332 million, an increase of 30 percent on the previous year. Statutory earnings before taxation were $357 million, an increase of 40 percent, while statutory net profit after taxation was $262 million.

**FINANCIAL COMMENTARY**

Auckland-Honolulu routes. Demand grew by 3.3 percent due to up-gauges to larger Boeing 777-200ER aircraft on the Auckland-Perth and Auckland-Hongkong routes such as Hong Kong-London and Singapore. Capacity increased by 3.4 percent due to up-gauges to larger Boeing 777-300ER aircraft on the Auckland-Perth and Auckland-Hongkong routes. The result was driven by yield declines of 5.8 percent offset by a 2.3 percent growth in revenue tonnes kilometre.

**REVENUE**

Operating revenue increased by $48 million to $4.7 billion. Excluding the negative impact of foreign exchange movements, operating revenue increased by $148 million or 3.2 percent on the previous year.

Passenger revenue increased by $86 million or 2.3 percent compared to the previous year. This result was mostly due to stronger yields, increased capacity (available seat kilometres) of 0.7 percent and an improvement in load factors, up 0.5 percentage points compared to the previous year.

The New Zealand dollar’s strength against major trading currencies during the period reduced passenger revenue by $86 million. Excluding the impact of foreign exchange, passenger revenue increased by 4.5 percent or $172 million.

Yields on international long haul routes increased by 0.5 percent on a capacity reduction of 2.2 percent, reflecting yields from poorer performing routes such as Hong Kong-London and Auckland-Osaka. Demand (passenger kilometres) on international long haul routes increased 6.5 percent, while the load factor increased by 1.4 percentage points to 85.4 percent.

Passenger and freight revenue increased by 0.9 percent on a capacity reduction of 2.2 percent. Yield growth was 8.3 percent on a 2.0 percent increase in capacity. Unit costs remained stable after excluding fuel costs, foreign exchange derivatives and transitional labour costs.

Labour costs were $11.6 billion, an increase of $83 million or 0.7 percent. This was due to a combination of rate increases, redundancy costs incurred during the year of $105 million related to cabin crew and wide body heavy maintenance, as well as pilot and cabin crew transition costs of $20 million as the Group introduces new fleet types.

Headcount increased by 210 during the year to 10,546 full time equivalent employees.

Fuel costs decreased by $83 million for the period, driven by a combination of lower fuel prices and favourable hedging gains, partially offset by increased volumes as activity increased 0.7 percent. The average US$ into plane cost decreased 4.5 percent compared to last year. Consumption increased due to an increase in capacity of 0.7% offset by improved fleet efficiencies.

**FOREIGN EXCHANGE IMPACT**

The impact of a stronger New Zealand dollar relative to Air New Zealand’s major trading currencies resulted in a net negative foreign exchange movement of $57 million on the revenue and cost bases, offset by a positive movement from the hedging programme. Overall, currency movements had a $21 million negative impact on the Group result.

**CASH AND FINANCIAL POSITION**

Net cash at year end was $1.23 billion, an increase of $84 million on the previous year. The Group had strong operating cash flows of $730 million, which was an increase of $71 million, excluding increased tax payments for the year.

Net gearing, including capitalised operating leases, increased 3.6 percentage points to 42.0 percent.

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**CHANGE IN PROFITABILITY**

The key changes in profitability, after isolating the impact of foreign exchange movements and derivatives that hedge exposures in other financial periods, are set out in the table below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2013 normalised earnings before taxation</td>
<td>$258m</td>
</tr>
<tr>
<td>Passenger yield</td>
<td>$106m</td>
</tr>
<tr>
<td>Passenger traffic</td>
<td>$656m</td>
</tr>
<tr>
<td>Cargo, contract services and other revenue</td>
<td>$24m</td>
</tr>
<tr>
<td>Labour</td>
<td>$886m</td>
</tr>
<tr>
<td>Fuel</td>
<td>$535m</td>
</tr>
<tr>
<td>Maintenance</td>
<td>$15m</td>
</tr>
<tr>
<td>Aircraft operations</td>
<td>$14m</td>
</tr>
<tr>
<td>Depreciation, lease and funding costs</td>
<td>$19m</td>
</tr>
<tr>
<td>Net impact of foreign exchange movements</td>
<td>$2m</td>
</tr>
<tr>
<td>Other</td>
<td>$3m</td>
</tr>
<tr>
<td>June 2014 normalised earnings before taxation</td>
<td>$332m</td>
</tr>
<tr>
<td>June 2014 earnings before taxation</td>
<td>$357m</td>
</tr>
</tbody>
</table>

* The numbers referred to in the Financial Commentary on the previous page have not isolated the impact of foreign exchange.
### FINANCIAL SUMMARY

#### FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th></th>
<th>12 MONTHS TO 30 JUNE 2014 $’m</th>
<th>12 MONTHS TO 30 JUNE 2013 $’m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>3,651</td>
<td>3,765</td>
</tr>
<tr>
<td>Passenger revenue</td>
<td>287</td>
<td>301</td>
</tr>
<tr>
<td>Cargo</td>
<td>525</td>
<td>549</td>
</tr>
<tr>
<td>Contract services and other revenue</td>
<td>4,663</td>
<td>4,615</td>
</tr>
<tr>
<td>Labour</td>
<td>(1,151)</td>
<td>(1,068)</td>
</tr>
<tr>
<td>Fuel</td>
<td>(1,292)</td>
<td>(1,204)</td>
</tr>
<tr>
<td>Maintenance</td>
<td>(286)</td>
<td>(302)</td>
</tr>
<tr>
<td>Aircraft operations</td>
<td>(424)</td>
<td>(419)</td>
</tr>
<tr>
<td>Passenger services</td>
<td>(46)</td>
<td>(222)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(280)</td>
<td>(274)</td>
</tr>
<tr>
<td>Foreign exchange gains</td>
<td>46</td>
<td>7</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(222)</td>
<td>(226)</td>
</tr>
<tr>
<td><strong>Total Earnings Before Finance Costs, Depreciation, Amortisation, and Rental Expenses and Taxation</strong></td>
<td>(3,650)</td>
<td>(3,718)</td>
</tr>
</tbody>
</table>

Additional notes:
- Derivative gains or losses with the underlying hedged transaction, and represents the underlying performance of the business for the relevant period.
- Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods.

#### FINANCIAL SUMMARY (CONTINUED)

#### FINANCIAL POSITION

<table>
<thead>
<tr>
<th></th>
<th>30 JUNE 2014 $’m</th>
<th>30 JUNE 2013 $’m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank and short term deposits</td>
<td>1,234</td>
<td>1,150</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>340</td>
<td>350</td>
</tr>
<tr>
<td>Inventories</td>
<td>169</td>
<td>155</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>30</td>
<td>98</td>
</tr>
<tr>
<td>Other assets</td>
<td>45</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>1,827</td>
<td>1,843</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>55</td>
<td>49</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,939</td>
<td>2,063</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>79</td>
<td>69</td>
</tr>
<tr>
<td>Investment in quoted equity instruments</td>
<td>422</td>
<td>261</td>
</tr>
<tr>
<td>Investments in other entities</td>
<td>46</td>
<td>47</td>
</tr>
<tr>
<td>Other assets</td>
<td>425</td>
<td>394</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>4,023</td>
<td>3,753</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>5,850</td>
<td>5,596</td>
</tr>
</tbody>
</table>

#### SHARE REGISTRAR

**LINK MARKET SERVICES LIMITED**
- **Level 7, Zurich House**
- **21 Queen Street, Auckland 1010, New Zealand**
- **PO Box 9079, Auckland 1142, New Zealand**

**ELECTRONIC SHAREHOLDER COMMUNICATION**

If you wish to receive all investor communications electronically, including interim and annual shareholder reviews, please visit the Link Market Services website www.linkmarketservices.com or contact them directly (details to the left).

**ANNUAL FINANCIAL STATEMENTS**

The Annual Financial Statements are available by visiting our website www.airnzinvestor.com or you may elect to have a copy sent to you by contacting Investor Relations.

**INVESTOR RELATIONS OFFICE**

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- **Phone:** (64 9) 336 2287 (Overseas)
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- **Email:** investor@airnz.co.nz
- **Website:** www.airnzinvestor.com

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New domestic seats
four simple options every time you book

Now available
Our new domestic seats refers to our four new domestic booking options. Visit our website for details.