Air New Zealand *interim*

Results Presentation 2012

2012
ATW AIRLINE
OF THE YEAR

Overview

- 2012 interim results
- External environment
- Strategy to achieve improved financial performance
- Conclusion
- Supplementary information

1H12 Financial Results

	December 2011	December 2010	Dollar movement	Percentage movement
Operating revenue	$2,291m	$2,236m	$55m	2.5%
Normalised earnings*	$33m	$112m	($79m)	(70.5%)
Net profit after tax	$38m	$98m	($60m)	(61.2%)
Operating cash flow	$146m	$210m	($64m)	(30.5%)
Net cash position^	$912m^	$860m^	$52m^	6.0%^
Gearing^	49.0%^	46.7%^	-	(2.3 pts) ^
Interim dividend	2.0 cps	3.0 cps		

* Normalised Earnings before taxation after excluding the net impact of derivatives that hedge exposures in other financial periods. Refer to appendix slide 26 for a reconciliation to IFRS earnings.

^ Comparative is for 30 June 2011

Group Operating Statistics

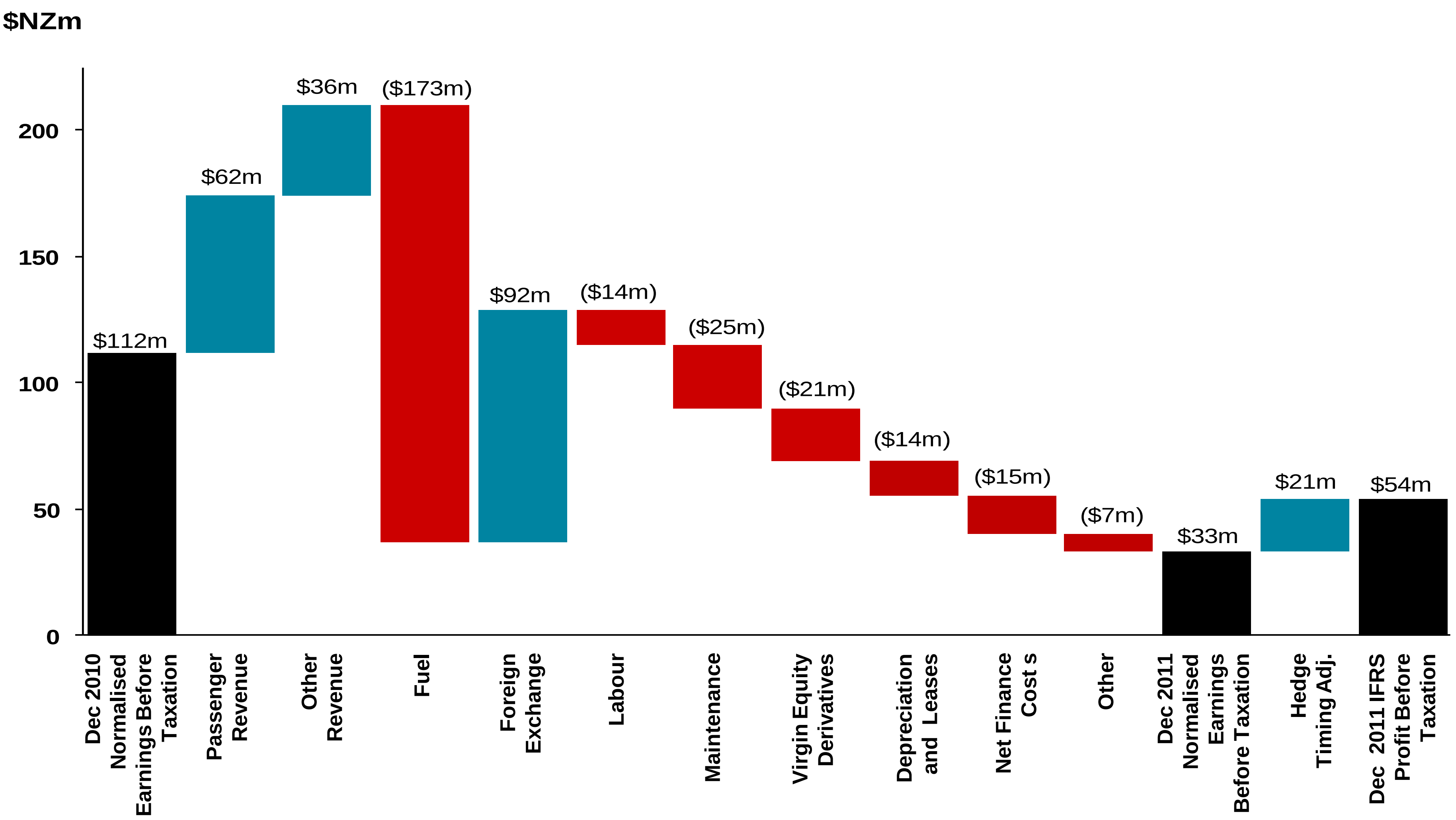
	December 2011	December 2010	Movement*
Passengers carried	6.75m	6.80m	(0.6%)
Available seat kilometres (ASKs)	16,641m	16,804m	(1.0%)
Revenue passenger kilometres (RPKs)	13,785m	14,149m	(2.6%)
Load factor	82.8%	84.2%	(1.4pts)
Yield (cents per RPK)	13.5	13.0	4.4%

* Calculations based on numbers before rounding

Key Drivers of Result

- Solid performance on domestic network
- Improved market share on Tasman through Seats to Suit and Virgin Australia alliance
- International Long Haul Network has been challenging in Europe and Japan
- Continued escalation in fuel costs eroded earnings

Changes in Profitability



Normalised Earnings before taxation after excluding the net impact of derivatives that hedge exposures in other financial periods. Refer to appendix slide 26 for a reconciliation to IFRS earnings.

External Environment

- Continued escalated fuel prices combined with weakness in the global economy makes it challenging to recover increased costs through fare initiatives
- Continued weakness in European and Japanese travel markets
- Industry likely to suffer from over capacity

Air New Zealand must continue to remain profitable despite these factors and be prepared for the next uncontrollable event.

Solid Foundation

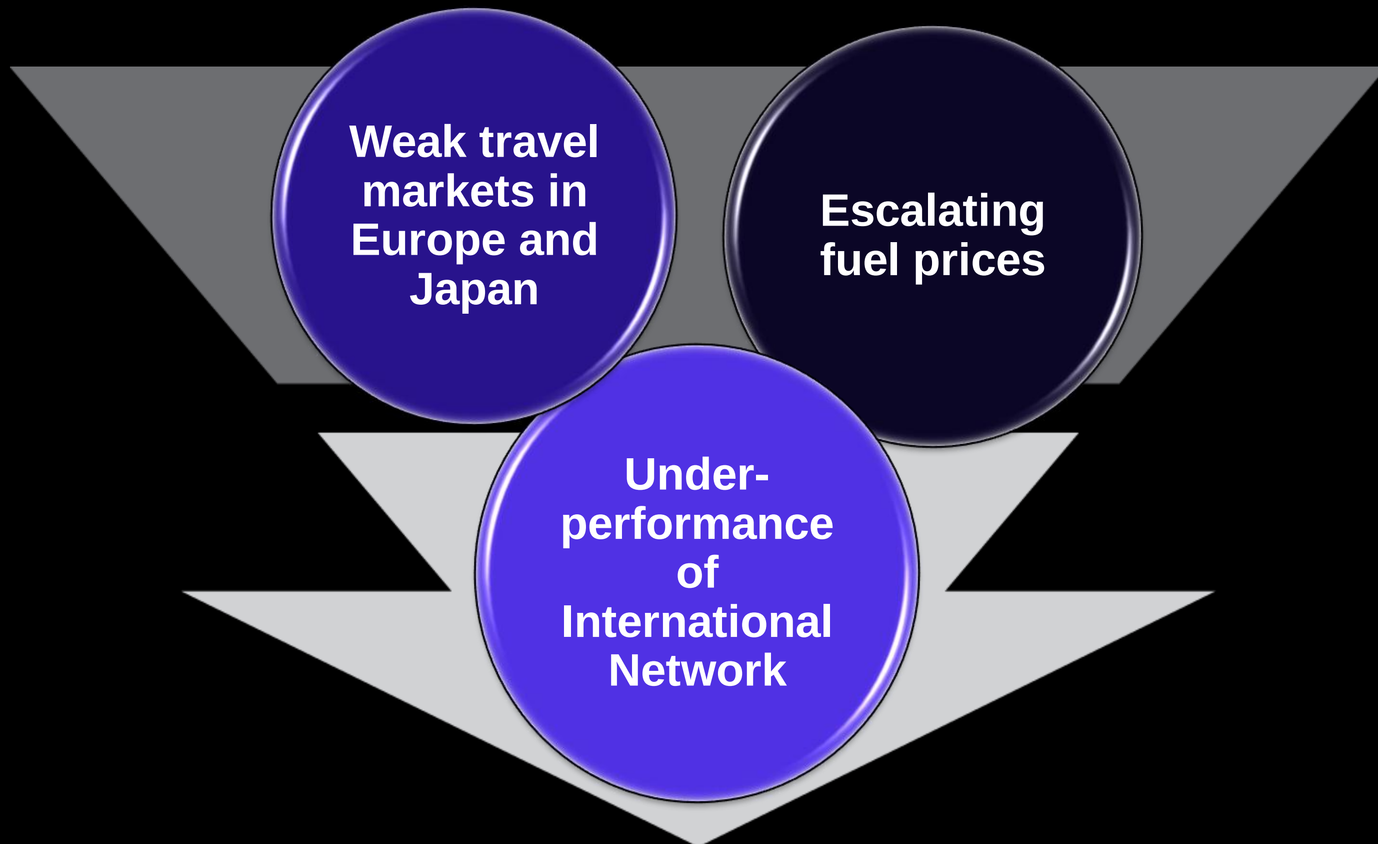
Strong Domestic Network

Profitable Tasman and Pacific Island Network

People

Powerful engine producing innovation, ‘can do’ attitude and award winning customer service

Profit Erosion Demands Change to Improve Financial Performance



ERODED PROFITS

The Right Markets with the Right Capacity, using the Right Aircraft with the Right Product and supported by the Right Partnerships

The Right Markets

- End of line carrier with the majority of our customers inbound leisure travellers therefore are reliant on ongoing attractiveness of NZ as a tourist destination
- The key is converting the high level of awareness and interest in NZ into actual travel from our traditional markets and growing markets where we need to build further presence

Customer Conversion				
Total Population in Country	60m	308m	34m	1.4bn
Active Considerers of NZ	4.9m	22.3m	3.8m	16.9m
Actual Visitors to NZ pa	230k	186k	49k	137k
Conversion Ratio pa	5%	2%	1.3%	0.8%

Source: TNS Conversa for TNZ

The Right Capacity

- Matching capacity to demand
- Seasonally adjusting current routes and redirecting to potential new markets
- Ability to improve utilisation of network and current wide body fleet
- Two more B747s exiting fleet, leaving two remaining aircraft until the B787s arrive

The Right Aircraft

- Now have five B777-300ERs in the fleet using 23% less fuel than B747s
- Ability to flex fleet size in medium term
- Operating more efficient aircraft but still hindered by the delay of B787
- We have now reached an agreement with Boeing regarding the new terms and delivery dates
  - First B787-9 aircraft will arrive in 2nd quarter of 2014 calendar year
  - We have confirmed two additional B787-9s, taking total firm order to 10 aircraft
  - We are satisfied with the result and strongly believe it is the right aircraft for Air New Zealand and worth the wait.

The Right Product

- Product features people value and price perceptions of long haul and short haul travellers vary and valued differently by different customers
- Therefore need a product and service that is valued by customers, at a price they are prepared to pay
- Retain attractiveness to full service customers
- Be competitive with low cost carriers
- B787 is an important step in positioning ourselves with the right product
- Get a greater share of travel wallet through ancillary revenue opportunities

The Right Partnerships

- Consolidation is increasing through partnerships like the trans-Tasman alliance we have with Virgin Australia
- Key is finding the right alliance partners that complement the Air New Zealand experience and network
- New relationship with ANA, a Star Alliance carrier
- Star Alliance is a core function of our current global network and continues to add partners

Addressing Escalating Fuel Costs

- The price of jet fuel has doubled over the last 3 years
- Escalating fuel costs are compounded by the nature of long haul travel
- Necessary to adapt business to perform in a high fuel price environment
- To address this we triggered a cost review prior to Christmas to examine every part of the business and highlight opportunities for efficiency and productivity gains. Outcomes of the first part of this review will be implemented over the next month
- Refocused and intensified our commitment to continually transform the way we do business across all networks. A key part of this transformation will be within the International Long Haul Network as we return it to profitability

Profit Improvement of $195m+ by FY15

	TOTAL	BY
Overhead Costs	$60m	FY13
Ancillary Revenue	$40m	FY14
Network	$60m	FY14
Fleet	$35m	FY15
Supply Chain and Labour Efficiency	Project underway to identify further opportunities	
TOTAL	$195m+	

The profit improvement of $195m+ by FY15 includes the $110m profit improvement for the International Long Haul Network, as communicated at the November 2011 Investor day

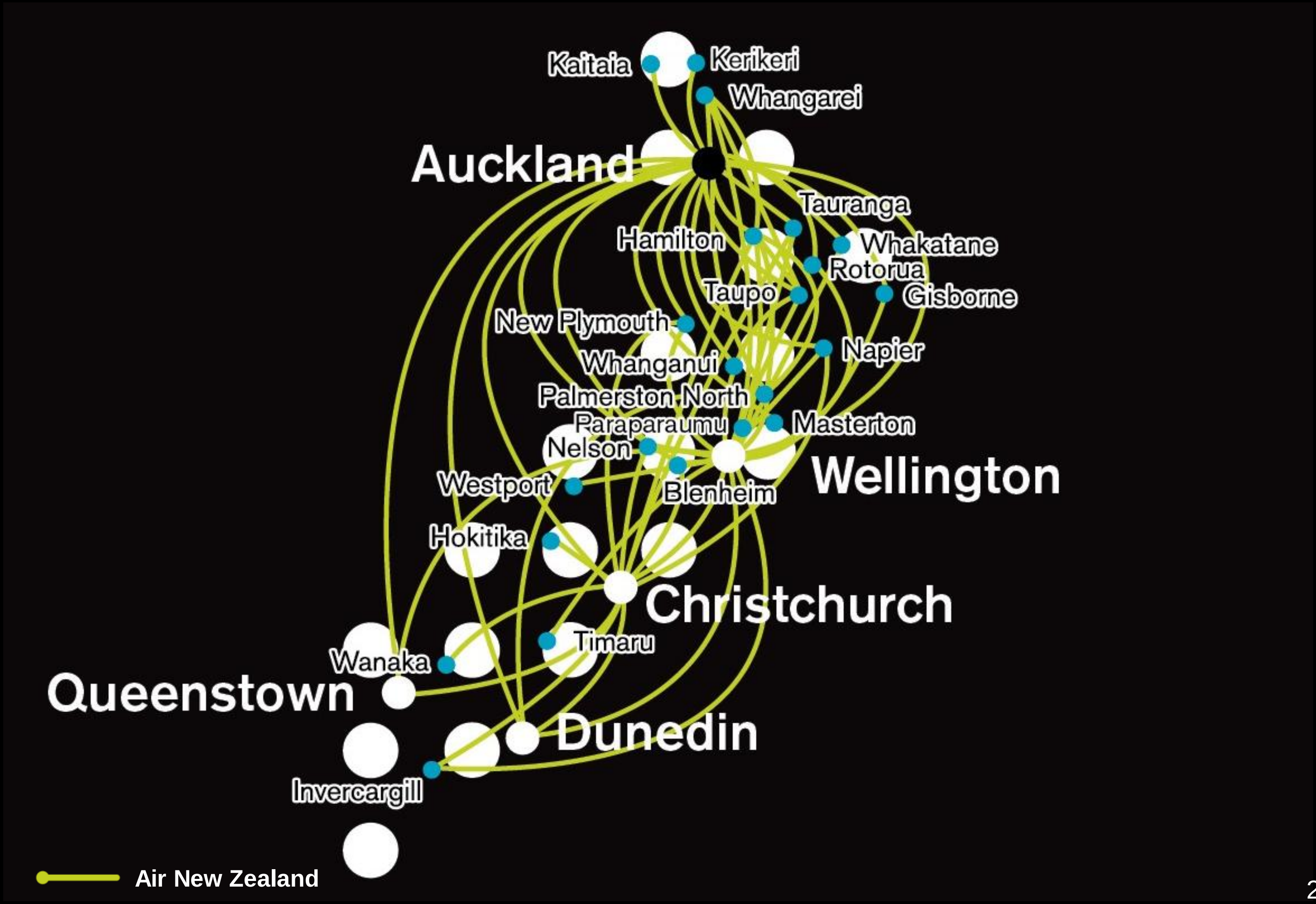
Conclusion

- Disappointing result in tough global environment
- Continuously assessing new revenue generating opportunities
- Realistic about current challenges but have a strategy to address and improve profitability
- The trading environment remains uncertain and fuel prices have remained escalated
- Given the 2012 financial year performance to date and the global economic environment, achieving last year’s result will be a challenge

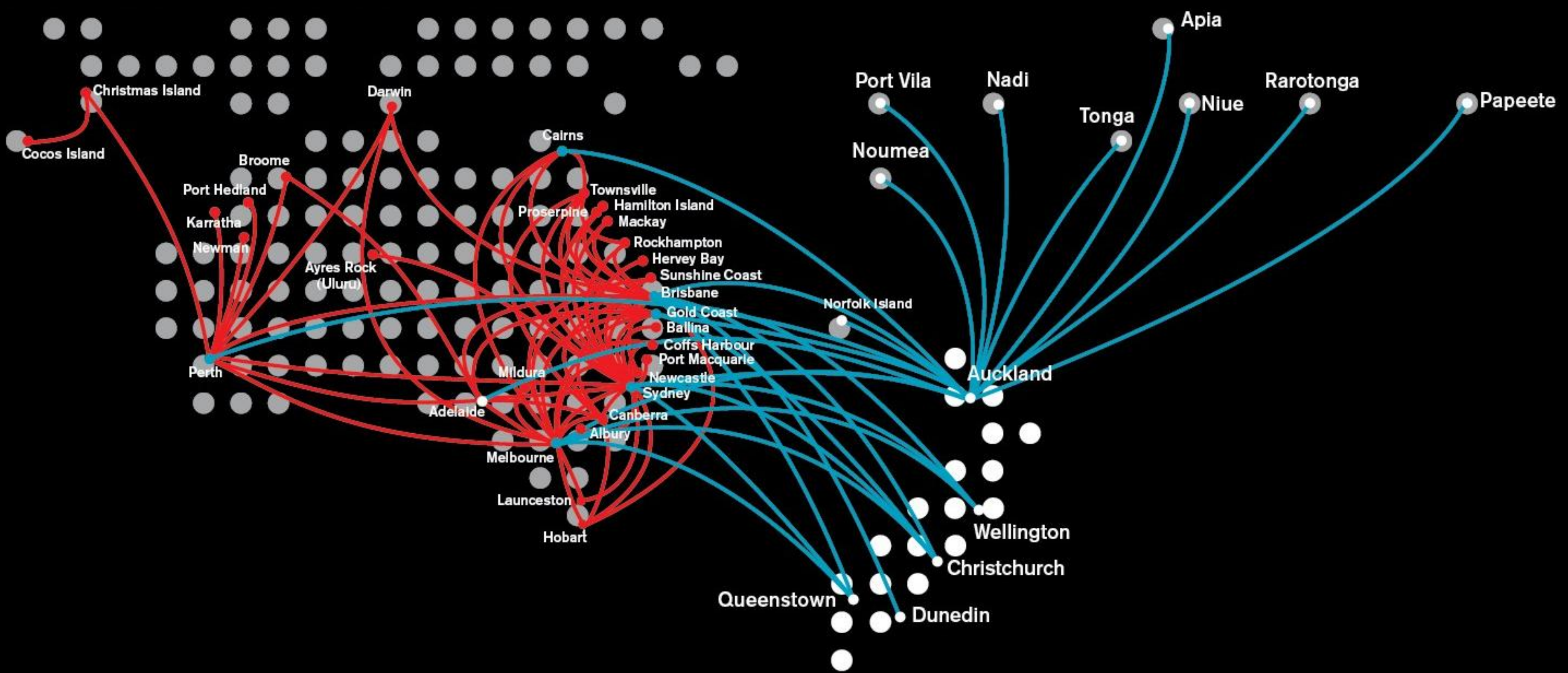
Supplementary Information

- Network maps
- Cost efficiency
- Current fuel hedge position
- Currency hedging
- Normalised earnings
- Network performance
- Current operating fleet
- Aircraft capital commitments

New Zealand Network



Tasman and Pacific Island Network



Air New Zealand and Virgin Australia alliance

Virgin Australia

International Network

Air New Zealand

Star Alliance and key codeshare partners

Cost Efficiency

	December 2011 (cents)	December 2010 (cents)
Cost per ASK (CASK)	11.72	10.91
Exclude:		
Fuel	(3.80)	(3.16)
FX hedges	(0.25)	(0.43)
Equity derivatives	(0.02)	0.11
CASK (excl. Fuel, FX hedges & equity derivatives)	7.65	7.43

Current Fuel Hedge Position*

- The second half of FY12 is 55% hedged

	Volume bbls	Ceiling USD	Floor USD
WTI collars	1,965,000	$105.97	$87.18

- The first half of FY13 is 5% hedged

	Volume bbls	Ceiling USD	Floor USD
WTI collars	170,000	$106.40	$82.26

* Fuel hedge position as at 15 February 2012

Currency Hedging

- The second half of FY12 US dollar operating cash flow exposure is approximately 91% hedged at an average NZ$/US$ rate of 0.7595

- The FY13 operating cash flow exposure is 50% hedged at an average NZ$/US$ rate of 0.7857

Normalised Earnings*

	December 2011	December 2010
Earnings before Taxation (per NZ IFRS)	$54m	$115m
Reverse net (gains) / losses on derivatives that hedge exposures in other financial periods:		
Fuel derivatives	($27m)	($2m)
Foreign exchange derivatives	$6m	($1m)
Normalised Earnings* before Taxation	$33m	$112m

* Normalised Earnings represents Earnings stated in compliance with New Zealand IFRS after excluding net gains and loses on derivatives that hedge exposures in other financial periods. Normalised Earnings is a non-IFRS financial performance measure that aligns the timing of recognition of derivative gains or losses with the underlying hedged transaction. The measure is subject to review by the Group's external auditors.

Network Performance

	Domestic New Zealand			Tasman /Pacific Island			International Long Haul			Group		
	Interim 2012	Interim 2011	Move-ment*	Interim 2012	Interim 2011	Move-ment*	Interim 2012	Interim 2011	Move-ment*	Interim 2012	Interim 2011	Move-ment*
Pax ('000s)	4,351	4,391	(0.9%)	1,595	1,531	4.2%	808	876	(7.7%)	6,754	6,798	(0.6%)
ASKs (m)	2,545	2,507	1.5%	4,835	4,623	4.6%	9,261	9,674	(4.3%)	16,641	16,804	(1.0%)
RPKs (m)	2,062	2,058	0.2%	4,095	3,909	4.8%	7,627	8,182	(6.8%)	13,785	14,149	(2.6%)
Load factor	81.0%	82.1%	(1.1 pt)	84.7%	84.6%	0.1 pt	82.4%	84.6%	(2.2pts)	82.8%	84.2%	(1.4pts)

Key

Pax: Passengers carried
ASKs: Available Seat Kilometres
RPKs: Revenue Seat Kilometres
Yield: Cents per RPK
*Calculations based on numbers before rounding

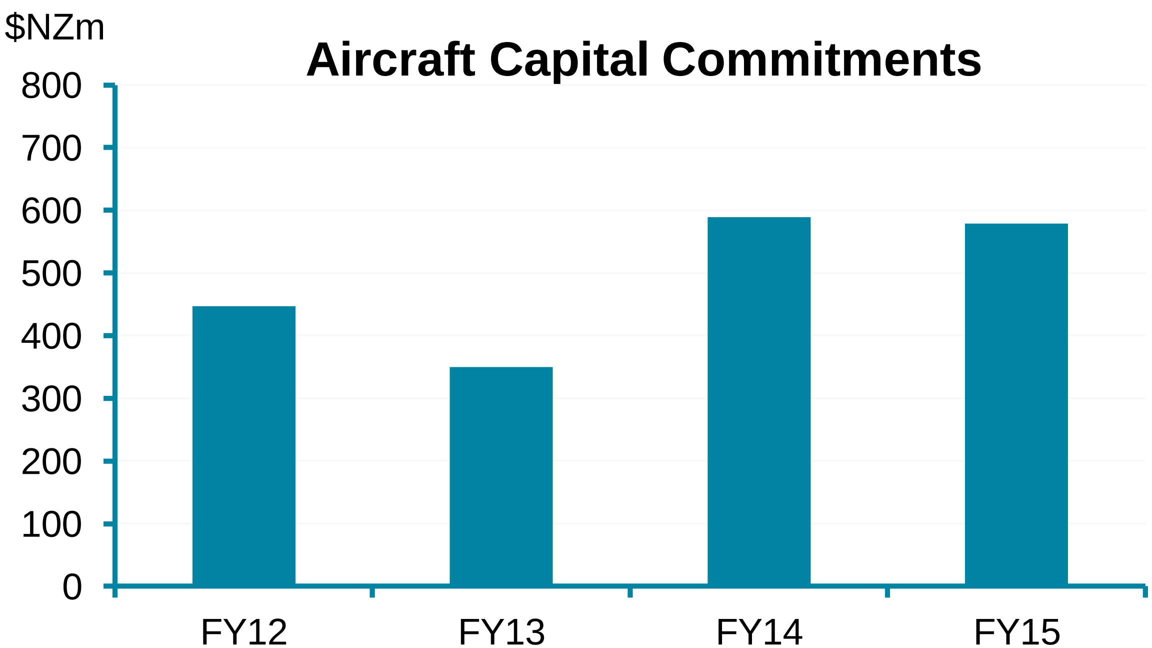
	Yield (cents per RPK)		
	Interim 2012	Interim 2011	Move ment*
Short Haul	17.7	17.4	1.9%
Long Haul	10.2	9.7	4.3%
Group	13.5	13.0	4.4%

Current Operating Fleet

Aircraft Type	June 2011	2011 Movement	December 2011	2012 Movement	February 2012
Boeing 747-400	5	(1)	4	(1)*	3
Boeing 777-300ER	3	1	4	1	5
Boeing 777-200ER	8	-	8	-	8
Boeing 767-300ER	5	-	5	-	5
Airbus A320-200	14	2	16	-	16
Boeing 737-300	15	(1)	14	-	14
ATR 72-500	11	-	11	-	11
Bombardier Q300	23	-	23	-	23
Beech 1900D	18	-	18	-	18
Total operating fleet	**102**	**1**	**103**	**-**	**103**

* One B747 in end of lease maintenance so non-operating

Aircraft Capital Commitments



1. Includes progress payments on aircraft.
2. Assumes NZD/USD = 0.83
3. Excludes capitalised maintenance of approximately $50m per annum and non aircraft capital commitments.

Aircraft delivery schedule	FY12	FY13	FY14	FY15
Airbus A320	1*	1	3	4
Boeing 787-9	-	-	1	2
ATR 72-600	-	3	1	2

* FY12 A320 delivery subject to operating lease