Media Release

Media release
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Air New Zealand announces second largest interim result and maintains strong dividend

Interim highlights

- Earnings before taxation of **$349 million**, includes a $22 million benefit from other significant items[1]
- Net profit after taxation of **$256 million**
- Operating revenue of **$2.6 billion**
- **8.1 million passengers** carried during the period
- Capacity increased **7.1%**
- Operating cash flow of **$376 million**
- Strong cash position of **$1.3 billion**
- Three additional Boeing 787-9s delivered during the period, bringing the total in the fleet to nine
- Board approves fully imputed interim dividend of **10.0 cents per share,** consistent with the prior period dividend

Air New Zealand has today announced earnings before taxation for the first six months of the 2017 financial year of $349 million, compared to $457 million in the prior year - the second highest result for an interim period in the airline's history. The result included a $22 million gain related to other significant items[1]. Net profit after taxation was $256 million.

Chairman Tony Carter described the interim profit as an impressive result in the face of unprecedented competitive capacity into the New Zealand market.

The Board has declared a fully imputed interim dividend of 10.0 cents per share, which is consistent with the prior period.

"Based on the strength of the result, and the airline's financial position, future capital commitments and trading environment, the Board felt it appropriate to maintain the level of the interim dividend," says Mr Carter. The interim dividend will be paid on 17 March 2017 to investors on record as of the close of business on 10 March 2017.

Chief Executive Officer Christopher Luxon says that the swift response from the Air New Zealand team, focused on strong cost discipline and leveraging efficiencies within the operations, helped to ease some of the revenue pressure from new competitors and was a major driver of the strong result. Lower fuel prices were a benefit to operating costs in the period, but the positive fuel impact was partially offset by adverse changes in foreign exchange.

[1] Other significant items relate to the divestment of the remaining interest in Virgin Australia.

"Our team responded to the challenge and I want to extend my thanks to our people for their agility and dedication to the changing competitive environment. We modified our capacity plans, accelerated the exit of older aircraft and made sure we were managing our costs well. All these actions and our investments of recent years really made the difference as we adjusted to a different competitive environment in New Zealand," says Mr Luxon.

The airline's strategy of diversifying its network across the Pacific Rim and throughout New Zealand has proven successful, with strong performances from both the Houston and Buenos Aires routes in their first year of operation. The airline has also worked to increase awareness of its long-haul capabilities in the Australian market, with the launch of a "Better Way to Fly" campaign starring Dave the Goose.

Mr Luxon acknowledges the key role of the airline's alliance partnerships in providing support and stability during this period of heightened competition. "The strength of our revenue share alliances with leading airlines across the Pacific Rim, as well as strategic codeshare relationships have allowed us to build market positions that are more resilient and profitable," Mr Luxon says. Together with its partners, the airline brings approximately 45 percent of inbound visitors to New Zealand.

The domestic network is benefiting from increased tourism to New Zealand, continued strength in the economy and the roll out of the airline's new schedule on the jet and regional routes which is supported by a modern and efficient fleet.

The airline continues to make significant investments to sustain long-term value for its customers, employees and shareholders. Upgrading the customer experience continued in the period, with Queenstown, Nadi and Wellington Regional all unveiling new look lounges in the past six months as part of a multi-year programme, with the airline spending in excess of $100 million.

Air New Zealand forecasts its total future aircraft capital expenditures through to 2021 will be approximately $1.6 billion. In the period, Air New Zealand received three additional Boeing 787-9 Dreamliners, bringing the total to nine. The airline also completed the exit from service of its Beech 1900D aircraft and will exit the last Boeing 767 in March 2017. To support future capacity growth, the company will lease one additional Boeing 787-9 Dreamliner aircraft to join the fleet in the 2019 financial year.

Outlook

Commenting on the outlook Chairman Tony Carter says, "As we look to the second half of the financial year, we expect that the revenue environment will improve from the first half of the year. However, higher jet fuel prices will be a headwind."

Based on the current market environment and expectations for the average jet fuel price in the second half of the year of US$65 per barrel, the airline is targeting 2017 earnings before taxation to be in the range of $475 to $525 million[2].

Ends
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[2] Outlook for earnings before taxation includes the $22 million gain related to the divestment of the remaining interest in Virgin Australia and the airline's share of earnings in associates.