AIR NEW ZEALAND

INTERIM FINANCIAL REPORT

2019

A STAR ALLIANCE MEMBER

Letter from the Chairman and Chief Executive Officer

Demonstrating resilience

Solid financial performance in a challenging environment.

Air New Zealand has today announced earnings before taxation for the first six months of the 2019 financial year of $211 million. Whilst this represents a 35 percent decrease compared with the prior period result of $323 million, it is a solid performance given the external challenges that have impacted the airline in the past six months.

Although operating revenue performed strongly, increasing 7.1 percent to $2.9 billion, this growth was more than offset by operational cost headwinds. Fuel prices increased by 28 percent, or $131 million, as macroeconomic volatility impacted the commodity markets, including jet fuel prices which represent the airline's second largest cost.

Additionally, our network saw further disruption in the first half of the 2019 financial year as a result of not being able to operate an optimal network schedule while we await the return of the remaining Rolls-Royce Trent 1000 engines which operate on our Boeing 787-9 fleet.

While the Trent 1000 engine issues are not within our direct control, how we choose to respond certainly is. In this context, we could not be prouder of the way our people have gone above and beyond to mitigate the impact of the network disruption on our customers. This shows how crucial our culture is to the organisation. When you have people who are engaged and focused on delivering the best possible customer experience no matter what challenges arise, that is what drives customer loyalty and a sustainable business.

Operating revenue growth of:

7.1 percent

Cash on hand of:

$1.2 billion

Net profit after taxation of:

$152 million

Interim dividend declared of:

11.0 cents per share

Maintaining the interim dividend

The Board is pleased to declare a fully imputed interim dividend of 11.0 cents per share, consistent with the prior period. This dividend reflects the Board's commitment to its distribution policy that looks through short-term earnings volatility to provide a consistent and sustainable ordinary dividend.

The airline continues to maintain a stable investment grade credit rating from Moody's of Baa2. Gearing was 56.4 percent, an increase from 52.4 percent at the end of the 2018 financial year, reflecting the investment in new aircraft as the current fleet programme nears its completion. Going forward we expect gearing levels to return to our previously communicated target range. Operating cash flow remained strong at $475 million, in-line with last year, and cash on hand was $1.2 billion.

New routes and fleet update

Turning to new and exciting changes for our network, we recently launched direct services to Taipei and Chicago which have exceeded our expectations. Both destinations are well suited to stimulate additional tourism traffic to New Zealand, as well as driving strong interest from Kiwi travelers. We are also excited to now be offering three daily services to Singapore, in conjunction with our alliance partner Singapore Airlines.

Left to right

Tony Carter; Chairman
Christopher Luxon; Chief Executive Officer

Contents

Domestically, we will be trialling a new jet service between Auckland and Invercargill beginning in August. This new service is another example of our commitment to supercharge New Zealand's success in the regions. The direct service will enable the Southland region to attract more visitors as well as improve connectivity for business travelers.

In addition to this, we have recently announced some incredible new fares on our Domestic network, making domestic travel more affordable than ever. Our customers will now be able to fly domestically for as low as $39 each way. We believe this will stimulate domestic tourism and encourage both New Zealanders and visitors alike to see as much of this beautiful country as they can.

Our expected aircraft capital expenditures through to 2022 will be approximately $1.2 billion, with a key component of that investment being the Airbus A320/321 NEO aircraft. We recently received the first four units of the larger Airbus A321 NEO, which are operating on the Tasman and Pacific Islands routes and we will be receiving further units across the remainder of the financial year.

Looking ahead

As we look ahead to the remainder of the year, we are starting to see a slower rate of demand growth from previous years. This will result in revenue growth and profit that is lower than we had originally anticipated, despite the fact that jet fuel prices have decreased from the higher levels we experienced in the first half of the financial year.

Air New Zealand is known for being nimble and able to quickly adjust our business to reflect the changing macro environment. It is one of the key competitive advantages that sets us apart from other airlines.

Accordingly, we are undertaking a review of our network, fleet and cost base to ensure continued strong profitability and financial resilience in the future. This review will be comprehensive and is about ensuring that we are well set up to execute in this new, lower growth environment.

Outlook

Air New Zealand issued a revised outlook for the 2019 financial year on 30 January, prompted by slower revenue growth expectations in the second half of the year. The airline reaffirms that outlook statement for the financial year ending 30 June 2019.

Based upon current market conditions and assuming an average jet fuel price of US$75 per barrel for the second half of the financial year, 2019 earnings before taxation is expected to be in the range of $340 million to $400 million.

Tony Carter
Chairman

Christopher Luxon
Chief Executive Officer

28 February 2019

Operating revenue of:

$2.9 billion

Earnings before taxation of:

$211 million

Operating cash flow of:

$475 million

Financial Commentary

Strong revenue performance in the period was more than offset by increased operational costs, in particular fuel costs, which were impacted by a 28 percent increase in fuel price. Despite the challenging operational environment, the Group delivered earnings before taxation for the first six months of the 2019 financial year of $211 million.

Revenue

Operating revenue for the period increased 7.1 percent to $2.9 billion, an increase of $195 million. Excluding the impact of foreign exchange, operating revenue increased 5.6 percent.

Passenger revenue increased by 6.5 percent to $2.5 billion, reflecting higher capacity across the network as well as unit revenue growth. Excluding the impact of foreign exchange, passenger revenue was up 5.1 percent.

Capacity (Available Seat Kilometres, ASK) increased 4.3 percent this period, driven by network wide growth. Demand (Revenue Passenger Kilometres, RPK) grew ahead of capacity at 5.3 percent, resulting in an increased load factor of 83.4 percent for the period.

Passenger Revenue per Available Seat Kilometre (RASK) improved 2.1 percent as a result of pricing dynamics and increased demand, particularly on Domestic routes. Excluding the impact of foreign exchange, RASK improved 0.8 percent.

International long-haul capacity grew 2.7 percent due to additional frequency to Houston, and the commencement of new services to Chicago and Taipei at the end of the 2018 calendar year. Demand on international long-haul routes increased 4.0 percent, with load factor increasing 1.1 percentage points to 84.1 percent. International long-haul RASK increased by 3.1 percent reflecting positive pricing dynamics, improved demand and strong performance on the new routes. Excluding the impact of foreign exchange, RASK increased 0.6 percent.

Short-haul capacity grew 6.2 percent, driven by increased frequency to Honolulu and Denpasar as well as additional capacity on the Tasman following the end of the alliance with Virgin Australia. Increased frequency on domestic main trunk routes such as Auckland to Queenstown and Dunedin also contributed to the growth. Demand growth of 6.9 percent was slightly ahead of capacity, with load factors improving by 0.5 percentage points to 82.5 percent. Short-haul RASK grew 0.6 percent, or 0.1 percent excluding the impact of foreign exchange, driven largely by Domestic and Tasman demand, partially offset by capacity growth in the Pacific Islands.

Cargo revenue was $213 million, an increase of $16 million or 8.1 percent. Excluding the impact of foreign exchange, cargo revenue was up 5.1 percent. This growth reflects improved volumes of 3.8 percent and a 1.3 percent increase in yield.

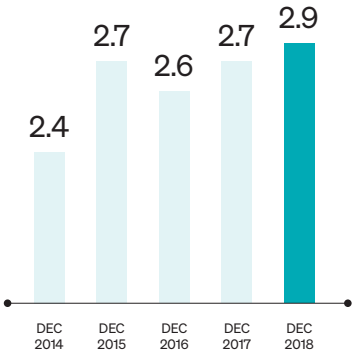
Contract services and other revenue was $217 million, an increase of 14 percent, due to higher third party maintenance as well as additional ancillary revenue.

Expenses

Operating expenditure increased by $287 million or 14 percent compared to the prior period largely due to higher fuel prices. Excluding the additional $131 million related to increased fuel prices, the impact of unfavourable foreign exchange movements and third party maintenance costs, operating expenditure increased 6.4 percent on a 4.3 percent increase in capacity.

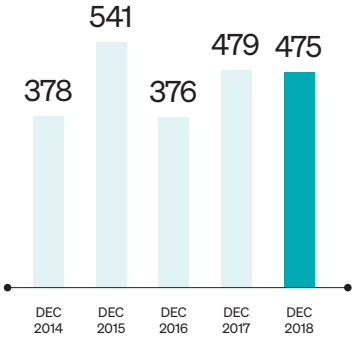
Operating revenue

($ billions)



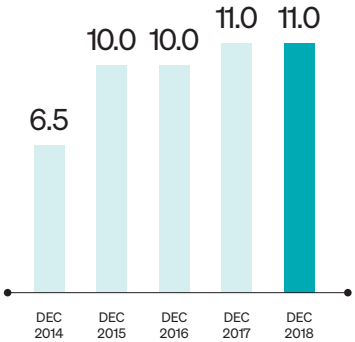
Operating cash flow

($ millions)



Interim dividends declared

(cents per share)



Costs per ASK (CASK) increased 9.5 percent, including fuel price increases, foreign exchange and increased costs related to third party maintenance contracts. Excluding those items, CASK grew 1.6 percent, as non-fuel price increases and the costs associated with providing greater operational resilience were only marginally offset by economies of scale and efficiencies.

Labour costs were $672 million, up $37 million or 5.8 percent. Excluding the impact of foreign exchange, labour costs increased 5.7 percent. The higher cost was driven by rate and activity increases as well as crew inefficiencies due to the Boeing 787-9 engine issues. These increases were partially offset by reduced incentive payments.

Fuel costs were $649 million, increasing by $179 million or 38 percent. The largest driver of this increase was underlying fuel prices which were $146 million higher, however this was partially offset by increased hedging benefits of $15 million. This resulted in a net price related increase of $131 million or 28 percent. In addition to this, a weaker New Zealand Dollar resulted in a $40 million unfavourable movement from foreign exchange. Volume growth resulted in additional costs of $8 million or 1.7 percent, reflecting capacity growth offset by new aircraft efficiencies.

Aircraft operations, passenger services and maintenance costs were $698 million, an increase of $83 million or 13 percent. This was driven by additional capacity, price increases and costs associated with providing greater operational resilience.

Our first Airbus A321 NEO – ZK-NNA – is the first of 20 new Airbus NEO aircraft (14 A321 NEOs and six A320 NEOs) to join our fleet.

In addition, higher jet fleet maintenance, growth in the fleet and increased third party maintenance activity drove higher maintenance costs.

Sales and marketing and other expenses increased by $26 million or 8.6 percent, due to promotional activity for the new international routes of Taipei and Chicago, additional digital spend and higher commission activity.

Ownership costs increased by $24 million or 6.1 percent, reflecting an increase in aircraft depreciation due to delivery of new aircraft, offset by lower funding costs.

The impact of foreign exchange rate changes on the revenue and cost base in the period resulted in an unfavourable foreign exchange movement of $18 million. After taking into account a $38 million favourable movement in hedging, overall foreign exchange had a net $20 million positive impact on the Group result for the period.

Share of Earnings of Associates

Share of earnings of associates has increased by $4 million to $19 million for the period, reflecting further growth in engine volumes from the Christchurch Engine Centre.

Cash and Financial Position

Cash on hand at 31 December 2018 was $1.2 billion, a decrease of $126 million from 30 June 2018, as strong operating cash flow in the period was offset by investment in aircraft and dividend payments.

The new Airbus A321 NEO has 214 seats – 46 more than our current international A320 fleet.

Operating cash flows of $475 million remained in-line with the prior period, reflecting lower earnings offset by strong working capital cash flow and the timing of tax payments.

Net gearing, including capitalised aircraft operating leases, increased 4.0 percentage points to 56.4 percent, largely due to continued investment in our fleet as we near the end of the fleet replacement programme.

A fully imputed interim ordinary dividend of 11.0 cents per share has been declared, which is in-line with the prior period and reflects the Board's commitment to provide a consistent and sustainable ordinary dividend.

Dividend Record date:

15 March 2019

Dividend Payment date:

27 March 2019

Change in Profitability

The key changes in profitability, after isolating the impact of foreign exchange movements, are set out in the table below*:

December 2017 earnings before taxation	**$323m**	
Passenger capacity	$91m	- Capacity increased by 4.3 percent from growth across the network including increased frequency on Honolulu and Houston as well as the launch of new routes to Chicago and Taipei, and Domestic and Tasman growth
Passenger RASK	$29m	- Revenue per Available Seat Kilometre (RASK) improved 0.8 percent excluding FX driven by strong demand on the Domestic routes. Loads increased by 0.9 percentage points to 83.4 percent - Long-haul RASK increased by 0.6 percent excluding FX and loads increased 1.1 percentage points to 84.1 percent - Short-haul RASK was consistent with the prior year improving by 0.1 percent excluding FX and loads improved 0.5 percentage points
Cargo revenue	$10m	- Higher cargo revenue due to increased volumes of 3.8 percent and yields of 1.3 percent
Contract services and other revenue	$23m	- Increase in third party maintenance and ancillary revenue
Labour	-$36m	- Increased activity arising from capacity growth, general rate increases and crew inefficiencies offset by reduced incentive payments
Fuel	-$139m	- The average fuel price increased 28 percent compared to the prior year (net of hedging benefits) resulting in $131 million of additional costs. Volume growth increased fuel costs by 1.7 percent due to additional capacity offset by fleet efficiencies arising from delivery of new aircraft
Maintenance	-$27m	- Increase in jet fleet maintenance, growth in fleet and third party maintenance work
Aircraft operations and passenger services	-$45m	- Increased activity combined with higher prices
Sales and marketing and other expenses	-$22m	- Increased marketing spend on launch of new routes, higher commission volumes due to increased activity and greater digital investment
Depreciation, lease and funding costs	-$20m	- Increase in depreciation reflecting new aircraft deliveries offset by lower funding costs
Net impact of foreign exchange movements	$20m	- Favourable impact of currency movements on revenue and foreign exchange hedging gains offset by unfavourable impact on costs
Share of earnings of associates	$4m	- Improved earnings from Christchurch Engine Centre driven by growth in engine volumes
December 2018 earnings before taxation	**$211m**	

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

Statement of Financial Performance (unaudited)

For the six months to 31 December 2018

	NOTES	6 MONTHS TO 31 DEC 2018 $M	6 MONTHS TO 31 DEC 2017 $M
Operating Revenue			
Passenger revenue		**2,497**	2,345
Cargo		**213**	197
Contract services		**92**	83
Other revenue		**125**	107
	3	**2,927**	2,732
Operating Expenditure			
Labour		**(672)**	(635)
Fuel		**(649)**	(470)
Maintenance		**(193)**	(159)
Aircraft operations		**(345)**	(312)
Passenger services		**(160)**	(144)
Sales and marketing		**(178)**	(167)
Foreign exchange gains/(losses)		**29**	(9)
Other expenses		**(150)**	(135)
		(2,318)	(2,031)
Operating Earnings (excluding items below)		**609**	701
Depreciation and amortisation		**(278)**	(258)
Rental and lease expenses		**(122)**	(116)
Earnings Before Finance Costs, Associates and Taxation		**209**	327
Finance income		**22**	18
Finance costs		**(39)**	(37)
Share of earnings of associates (net of taxation)	2(a)	**19**	15
Earnings Before Taxation		**211**	323
Taxation expense		**(59)**	(91)
Net Profit Attributable to Shareholders of Parent Company		**152**	232
Per Share Information:			
Basic earnings per share (cents)		**13.5**	20.7
Diluted earnings per share (cents)		**13.4**	20.4
Interim dividend declared per share (cents)		**11.0**	11.0
Net tangible assets per share (cents)		**169**	175

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Statement of Comprehensive Income (unaudited)

For the six months to 31 December 2018

	6 MONTHS TO 31 DEC 2018 $M	6 MONTHS TO 31 DEC 2017 $M
Net Profit for the Period	**152**	232
Other Comprehensive Income:		
Items that will not be reclassified to profit or loss:		
Actuarial losses on defined benefit plans	**(6)**	-
Taxation on above reserve movements	**2**	-
Total items that will not be reclassified to profit or loss	**(4)**	-
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	**(69)**	72
Transfers to net profit from cash flow hedge reserve	**(72)**	(23)
Changes in cost of hedging reserve	**(28)**	10
Taxation on above reserve movements	**48**	(15)
Total items that may be reclassified subsequently to profit or loss	**(121)**	44
Total Other Comprehensive Income for the Period, Net of Taxation	**(125)**	44
Total Comprehensive Income for the Period, Attributable to Shareholders of the Parent Company	**27**	276

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Statement of Changes in Equity (unaudited)

For the six months to 31 December 2018

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2018		**2,226**	**66**	**(13)**	**(103)**	**2,176**
Net profit for the period		**-**	**-**	**-**	**152**	**152**
Other comprehensive income for the period		**-**	**(122)**	**1**	**(4)**	**(125)**
Total Comprehensive Income for the Period		**-**	**(122)**	**1**	**148**	**27**
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)		**6**	**-**	**-**	**-**	**6**
Equity settlements of long-term incentive obligations	2(d)	**(14)**	**-**	**-**	**-**	**(14)**
Dividends on Ordinary Shares	7	**-**	**-**	**-**	**(124)**	**(124)**
Total Transactions with Owners		**(8)**	**-**	**-**	**(124)**	**(132)**
Balance as at 31 December 2018	2(e)	**2,218**	**(56)**	**(12)**	**(79)**	**2,071**

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2017		2,238	9	(16)	(245)	1,986
Net profit for the period		-	-	-	232	232
Other comprehensive income for the period		-	43	1	-	44
Total Comprehensive Income for the Period		-	43	1	232	276
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)		2	-	-	-	2
Equity settlements of long-term incentive obligations	2(d)	(17)	-	-	-	(17)
Dividends on Ordinary Shares	7	-	-	-	(124)	(124)
Total Transactions with Owners		(15)	-	-	(124)	(139)
Balance as at 31 December 2017		2,223	52	(15)	(137)	2,123

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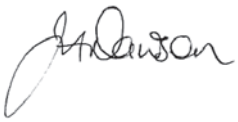
Statement of Financial Position (unaudited)

As at 31 December 2018

	NOTES	31 DEC 2018 $M	30 JUN 2018 $M
Current Assets			
Bank and short term deposits		**1,217**	1,343
Trade and other receivables		**560**	576
Inventories		**84**	75
Derivative financial assets		**69**	187
Income taxation		**-**	4
Other assets		**50**	68
Total Current Assets		**1,980**	2,253
Non-Current Assets			
Trade and other receivables		**66**	77
Property, plant and equipment		**5,242**	5,035
Intangible assets		**173**	170
Investments in other entities	2(a)	**131**	118
Derivative financial assets		**-**	2
Other assets	2(b)	**276**	191
Total Non-Current Assets		**5,888**	5,593
Total Assets		**7,868**	7,846
Current Liabilities			
Trade and other payables		**576**	562
Revenue in advance		**1,285**	1,322
Interest-bearing liabilities	2(c)	**374**	431
Derivative financial liabilities		**102**	1
Provisions		**140**	117
Income taxation		**25**	-
Other liabilities		**211**	263
Total Current Liabilities		**2,713**	2,696
Non-Current Liabilities			
Revenue in advance		**199**	185
Interest-bearing liabilities	2(c)	**2,421**	2,303
Provisions		**158**	151
Other liabilities		**37**	27
Deferred taxation		**269**	308
Total Non-Current Liabilities		**3,084**	2,974
Total Liabilities		**5,797**	5,670
Net Assets		**2,071**	2,176
Equity			
Share capital	2(d)	**2,218**	2,226
Reserves	2(e)	**(147)**	(50)
Total Equity		**2,071**	2,176

Tony Carter, CHAIRMAN



Jan Dawson, DEPUTY CHAIRMAN

For and on behalf of the Board, 28 February 2019.

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Statement of Cash Flows (unaudited)

For the six months to 31 December 2018

	NOTES	6 MONTHS TO 31 DEC 2018 $M	6 MONTHS TO 31 DEC 2017 $M
Cash Flows from Operating Activities			
Receipts from customers		**2,951**	2,660
Payments to suppliers and employees		**(2,451)**	(2,116)
Income tax paid		**(10)**	(52)
Interest paid		**(36)**	(32)
Interest received		**21**	19
Net Cash Flow from Operating Activities		**475**	479
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		**5**	20
Distribution from associates		**7**	7
Acquisition of property, plant and equipment and intangibles		**(493)**	(513)
Interest-bearing asset payments		**(77)**	(12)
Net Cash Flow from Investing Activities		**(558)**	(498)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		**263**	307
Equity settlements of long-term incentive obligations	2(d)	**(14)**	(17)
Interest-bearing liabilities payments		**(218)**	(175)
Rollover of foreign exchange contracts*		**56**	5
Dividends on Ordinary Shares	7	**(130)**	(130)
Net Cash Flow from Financing Activities		**(43)**	(10)
Decrease in Cash and Cash Equivalents		**(126)**	(29)
Cash and cash equivalents at the beginning of the period		**1,343**	1,369
Cash and Cash Equivalents at the End of the Period		**1,217**	1,340
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net profit attributable to shareholders		**152**	232
Plus/(less) non-cash items:			
Depreciation and amortisation		**278**	258
Share of earnings of associates	2(a)	**(19)**	(15)
Movements on fuel derivatives		**3**	14
Other non-cash items		**10**	5
		424	494
Net working capital movements:			
Assets		**32**	(105)
Revenue in advance		**(23)**	31
Liabilities		**42**	59
		51	(15)
Net Cash Flow from Operating Activities		**475**	479

*Relates to gains/losses on rollover of foreign exchange contracts that hedge exposures in other financial periods.

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2018

1. Financial Statements

The parent company, Air New Zealand Limited, is a profit-oriented entity, domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Air New Zealand prepares its condensed Group interim financial statements ("financial statements") in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities.

These financial statements have not been audited. The financial statements comply with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting and have been the subject of review by the auditor, pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board.

The financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2018.

Significant accounting policies

The accounting policies and computation methods used in the preparation of the financial statements are consistent with those used as at 30 June 2018 and 31 December 2017, except as noted below. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

NZ IFRS 15 – Revenue from Contracts with Customers, which is effective for annual reporting periods commencing on or after 1 January 2018, was adopted with effect from 1 July 2018. This standard has an objective of a single revenue recognition model that applies to revenue from contracts with customers in all industries. The standard has been applied on a fully retrospective basis resulting in a restatement of the 31 December 2017 and 30 June 2018 results as if NZ IFRS 15 had applied during those periods. The impact for the six months to 31 December 2018 is set out below. There was no net impact on earnings as a result of these changes.

- The timing of recognition of the consideration for certain ancillary services has changed to align with the principal performance obligations associated with the services provided. The related revenue has been reclassified from 'Other revenue' to 'Passenger revenue'. The amount reclassified for the six months to 31 December 2018 was $15 million (31 December 2017: $15 million).
- The cost of procuring third party products or services to fulfil Airpoints redemptions has also been reclassified from 'Sales and marketing' to offset against the related redemption revenue reported within 'Passenger revenue', as the Group is acting as agent. In the six months to 31 December 2018, the amount reclassified was $8 million (31 December 2017: $7 million).
- Freight interline and trucking revenue is now presented on a gross basis rather than net of related costs where the Group is acting as a principal. 'Cargo' revenue and 'Aircraft operations' have been grossed up by $13 million (31 December 2017: $10 million).

The Group previously adopted NZ IFRS 9 (2013) – Hedge Accounting with effect from 1 July 2014. NZ IFRS 9 (2014) – Financial Instruments, which is effective for annual reporting periods commencing on or after 1 January 2018, was adopted with effect from 1 July 2018. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. This standard had no impact on the financial statements.

NZ IFRS 16 – Leases becomes effective for annual reporting periods commencing on or after 1 January 2019 and has not yet been adopted. This standard will significantly change the accounting treatment of leases by lessees. The current dual accounting model for lessees which distinguishes between on balance sheet finance leases and off balance sheet operating leases, will no longer apply. Instead, there will be a single, on balance sheet accounting model for all leases which is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

This standard will have a significant impact on the financial statements, for which the key changes are set out below:

- recognition of a right-of-use asset and lease liability for operating leases on the Statement of Financial Position;
- recognition of depreciation and interest expense instead of operating lease rental expense in the Statement of Financial Performance;
- classification of the principal portion of lease payments as 'Financing activities' within the Statement of Cash Flows with the interest portion continuing to be presented within 'Operating activities'; and
- additional foreign exchange exposure in respect of the retranslation of the additional United States Dollar (USD) denominated aircraft operating lease liabilities recognised in the Statement of Financial Position.

In accordance with the transition provisions of NZ IFRS 16, comparatives will not be restated, with the cumulative effect being recognised in opening retained earnings at the date of initial application of 1 July 2019. Right-of-use assets will be measured at 1 July 2019 at an amount equal to the lease liability. Lease payments in respect of leases for which the lease term ends within 12 months of the date of initial application, will be recognised as an expense over the lease term.

The implementation project for NZ IFRS 16 is well advanced. The impact of the changes on the financial statements is not yet able to be reliably quantified due to variables such as foreign exchange and interest rates, which will not be known until 1 July 2019 and decision points within lease portfolios which will be resolved over the period leading up to adoption. Changes in assumptions to any one of these variables could be significant.

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2018

2. General Disclosures

Group composition

(a) The Group has a 49% interest in the Christchurch Engine Centre ("CEC") which is recognised as an investment in associate and a 51% interest in ANZGT Field Services LLC which is recognised as an investment in joint ventures. The Group's share of equity accounted earnings from the CEC was $19 million (31 December 2017: $15 million).

Interest-bearing assets

(b) Non-current "Other assets" include interest-bearing assets of $258 million (30 June 2018: $182 million). Interest-bearing assets are measured at amortised cost, using the effective interest method, less any impairment. The fair value of interest-bearing assets as at 31 December 2018 was $236 million (30 June 2018: $182 million) and are subject to fixed and floating interest rates. Fixed interest rates in the six months to 31 December 2018 were 3.1%.

Interest-bearing liabilities

(c) Interest-bearing liabilities of $2,795 million (30 June 2018: $2,734 million) are recognised initially at fair value and subsequently measured at amortised cost. The fair value of interest-bearing liabilities as at 31 December 2018 is $2,831 million (30 June 2018: $2,709 million). All secured borrowings are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0 percent in the six months to 31 December 2018 (six months to 31 December 2017: 1.0 percent). Finance lease liabilities are secured over aircraft or aircraft related assets and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.7% to 3.1% in the six months to 31 December 2018 (six months to 31 December 2017: 0.7% to 3.4%). Unsecured bonds have a fixed interest rate of 4.25%.

Share capital

(d) During the six months ended 31 December 2018 the Group funded the purchase on-market of 4,463,819 shares for $14 million (31 December 2017: 4,932,709 shares for $17 million). The shares were used to settle obligations under long-term incentive plans. The total cost of the purchase including transaction costs has been deducted from Share Capital.

Hedge reserves

(e) As at 31 December 2018, $32 million of losses (30 June 2018: $70 million of gains) were held in the cash flow hedge reserve and $24 million of losses (30 June 2018: $4 million of losses) were held in the costs of hedging reserve. These reserves are combined within the Statement of Changes in Equity as "Hedge reserves".

3. Segmental Information

Air New Zealand operates predominantly in one segment, its primary business being the transportation of passengers and cargo on an integrated network of scheduled airline services to, from and within New Zealand. Resource allocation decisions across the network are made to optimise the consolidated Group's financial result.

Geographical

An analysis of revenue by geographical region of original sale is provided below.

	6 MONTHS TO 31 DEC 2018 $M	6 MONTHS TO 31 DEC 2017 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**1,787**	1,675
Australia and Pacific Islands	**364**	353
United Kingdom and Europe	**136**	131
Asia	**251**	232
America	**389**	341
Total Operating Revenue	**2,927**	2,732

The principal non-current asset of the Group is the aircraft fleet which is registered in New Zealand and employed across the worldwide network. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

Condensed Notes to the Financial Statements (unaudited)

As at 31 December 2018

4. Capital Commitments

	31 DEC 2018 $M	30 JUN 2018 $M
Aircraft and engines	**1,214**	1,526
Other assets	**29**	4
	1,243	1,530

Commitments as at reporting date include ten Airbus A321 NEOs and four Airbus A320 NEOs (delivery from 2019 to 2024 financial years) and eight ATR72-600s (delivery from 2019 to 2021 financial years).

5. Operating Lease Commitments

	31 DEC 2018 $M	30 JUN 2018 $M
Aircraft Leases Payable*		
Not later than 1 year**	**205**	194
Later than 1 year and not later than 5 years	**456**	489
Later than 5 years	**189**	224
	850	907
Property Leases Payable		
Not later than 1 year	**49**	50
Later than 1 year and not later than 5 years	**143**	144
Later than 5 years	**91**	100
	283	294

*Includes lease commitments for three Airbus A320/321 NEO aircraft due to be delivered in the 2019 and 2020 financial years and one Boeing 787-9 aircraft due to be delivered in the 2020 financial year.

**Aircraft leases payable less than 1 year includes $11 million of commitments for short-term leases which provide cover for Boeing 787-9 engine issues (30 June 2018: $18 million).

Subject to negotiation, certain aircraft operating leases give the Group the right to renew the lease.

6. Contingent Liabilities

All significant legal disputes involving probable loss that can be reliably estimated have been provided for in the financial statements. There are no contingent liabilities for which it is practicable to estimate the financial effect.

Outstanding letters of credit and performance bonds total $33 million (30 June 2018: $32 million).

The Group has a partnership agreement with Pratt and Whitney in which it holds a 49% interest in the CEC. By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $187 million (30 June 2018: $158 million).

7. Dividends

On 28 February 2019, the Board of Directors declared an interim dividend of 11.0 cents per Ordinary Share payable on 27 March 2019 to registered shareholders at 15 March 2019. The total dividend payable will be $124 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the December 2018 interim financial statements.

A interim dividend in respect of the 2018 financial year of 11.0 cents per Ordinary Share was paid on 16 March 2018. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2018 financial year of 11.0 cents per Ordinary Share was paid on 19 September 2018 (2017 financial year: 11.0 cents per Ordinary Share was paid on 18 September 2017). Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

The dividend reinvestment plan is currently suspended.

Independent Review Report

Deloitte.

To the shareholders of Air New Zealand Limited

We have reviewed the condensed Group interim financial statements of Air New Zealand Limited ("the Company") and its subsidiaries ("the Group") on pages 7 to 14, which comprise the Statement of Financial Position as at 31 December 2018, and the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended on that date, and condensed notes to the interim financial statements.

This report is made solely to Air New Zealand Limited's shareholders, as a body. Our review has been undertaken so that we might state to Air New Zealand Limited's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Air New Zealand Limited's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible on behalf of the Group for the preparation and fair presentation of the condensed Group interim financial statements, in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed Group interim financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible for the publication of the condensed Group interim financial statements, whether in printed or electronic form.

Our Responsibilities

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Deloitte Limited, to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the condensed Group interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed Group interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting. As the auditor of Air New Zealand Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed Group interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the condensed Group interim financial statements.

In addition to this review and the audit of the Group annual financial statements, we have carried out engagements in the areas of other assurance and non-assurance services which are compatible with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board. In addition to these engagements, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These engagements and trading activities have not impaired our independence as auditor of the Group. Other than this review, the audit of the Group annual financial statement and these engagements and trading activities, we have no relationship with, or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Group interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the six months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Peter Gulliver, Partner
for Deloitte Limited
On behalf of the Auditor-General

28 February 2019
Auckland, New Zealand

Shareholder Enquiries

Shareholder Communication

Air New Zealand's investor website **www.airnzinvestor.co.nz** provides shareholders with information on monthly operating statistics, financial results, stock exchange releases, corporate governance, annual meetings, investor presentations, important dates and contact details. Shareholders can also view webcasts of key events from this site.

Shareholders who would like to receive electronic news updates can register online at **www.airnzinvestor.co.nz** or email Investor Relations directly on **investor@airnz.co.nz**.

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A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

Air New Zealand – ATW Eco Airline of the Year

Air New Zealand has been crowned **ATW Eco Airline of the Year** for 2019 and winner of the **Passenger Experience Achievement** award in recognition of our innovative Economy Skycouch™ at the recent Air Transport World Airline Industry Awards.

airnewzealand.co.nz