AIR NEW ZEALAND

2014 INTERIM SHAREHOLDER REVIEW

A STAR ALLIANCE MEMBER

OUR CHAIRMAN

The momentum continues

For the first six months of the 2014 financial year Air New Zealand's normalised earnings[1] before taxation were $180 million, an increase of 29% on the previous corresponding period. Statutory earnings before taxation were $197 million, with net profit after taxation of $140 million, an increase of 40%.

We are continuing to demonstrate earnings momentum while making significant investments in fleet and further improving our customer experience.

Ours is one of the most challenging sectors, and in recent years Air New Zealand has been recognised as an industry leader. As a Board we are always seeking ways to continually improve and refine the way the airline operates.

Chief Executive Officer Christopher Luxon has now been in the job for over a year, having executed a well planned transition and seamless restructure early on in his tenure.

Christopher has brought a renewed focus on sales and marketing excellence from his previous background as a global executive in the fast moving and competitive world of consumer goods.

Investors have endorsed the airline's improving performance, with the share price increasing by more than 10 percent in the six months to 31 December 2013. As a result, we have outperformed the NZX50 as well as the Asia Pacific regional airline index.

The success of the Government's sale of 20 percent of Air New Zealand shares as part of the mixed ownership programme is further evidence of investor confidence, with the transaction being completed at no discount to the trading price.

I would like to acknowledge the outstanding leadership of my predecessor John Palmer. We wish him well following his retirement from the Board on 31 March 2014.

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Cover image – Chris Lewis Photography

[1]Refer to the Financial Commentary on page 8 for details of Normalised Earnings.

The appointment of Jonathan Mason to the Board was recently announced. Jonathan is a valuable addition to the Board, having most recently served as Chief Financial Officer of Fonterra Group, and has held a number of global leadership roles.

With further improved earnings and a level of confidence around the medium term economic outlook, the Board has declared a fully imputed interim dividend of 4.5 cents per share, an increase of 50% over the previous corresponding period.

The company has a robust balance sheet with strong liquidity. Gearing, at 43.9 percent, remains below our target range as we move into a period of higher capital expenditure. Our investment grade credit rating continues to be the envy of many other airlines around the world.

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.

Tony Carter
Chairman

TONY CARTER CHAIRMAN.

OUR CEO

Normalised earnings before taxation

up

29%

Yield

of

13.6 cents per RPK

Load factor

increased to

84.3%

We are now entering an exciting new phase of Air New Zealand's journey.

As we continue through yet another financial year of strong earnings growth, we are demonstrating that we can deliver increasing returns to shareholders, combined with the world class customer experience for which our airline is famous.

This 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.

The economic outlook in many of our key revenue markets is positive, and New Zealand is expected to be a top performing economy among developed nations in the coming years.

Unit cost

improved by

3%

Net cash position

of

$1.1b

Gearing

of

43.9%

CHRISTOPHER LUXON CHIEF EXECUTIVE OFFICER.

We are well placed to take advantage of this, with significant fleet additions soon to arrive. We expect to deliver capacity growth of around 8 percent in the 2015 financial year as new Boeing 787-9s and 777-300s begin entering our fleet from the middle of this year.

Additionally, new Airbus A320 and ATR72-600 aircraft will be growing capacity in our Domestic network over the next year.

Going forward, the realisation of an improved cost base will have a material benefit to our business. In recent years we have worked hard on cost control in an environment where we have not grown. In fact, our capacity flown has reduced overall as we have realigned our international long haul network.

With new fleet additions and the growth that comes with that, our scale grows. Our cost base continues to be a key strategic focus, allowing us to price our fares competitively.

Through our alliance partnerships we are able to offer more connections, frequencies and destinations than ever before. Alongside our 27 Star Alliance partner airlines we also have deep individual alliance relationships with Virgin Australia and Cathay Pacific.

We recently unveiled a proposed new alliance with Singapore Airlines, which subject to regulatory approval would see the return of Air New Zealand onto the Singapore route and enable our customers to access codeshare travel on Singapore Airlines' extensive global network.

Forming the right alliances with the right partners allows us to deliver on our strategy of profitable growth as a Pacific Rim airline.

We continue to be optimistic about the future of Virgin Australia, with our ownership increasing to 24.5 percent following our participation in their recent capital raising. While trading conditions have been challenging, we feel that it is an airline well positioned to capitalise on opportunities in the growing domestic Australian market.

At the heart of Air New Zealand's ability to deliver ongoing sustainable profits are our people.

At all levels of the organisation we have employees with strong experience from within Air New Zealand as well as those with sales, marketing, operations, engineering, customer experience, human resources, strategy and procurement experience gained globally and in other industries.

Our team of 11,000 Air New Zealanders collectively delivers more than 13 million customer journeys annually – this is no mean feat.

The experience an Air New Zealand customer has is unique and will only get better as we start to deliver a series of innovations and product enhancements in the near future.

Our new aircraft will be significantly more efficient than those they replace and having fewer aircraft types will allow us to drive unnecessary complexity out of our operations.

Over the past six months we have started rolling out self check-in kiosks across our international long haul network, introduced the new Air New Zealand mobile app and online check-in, as well as refreshing our loyalty programme to be refocused on rewarding our most valuable customers.

A number of our lounges are being upgraded, with a highlight being the recent opening of the new Star Alliance lounge at Los Angeles. We are moving to a more consistent product specification across our wide body fleet, including the refurbishment of our Boeing 777-200s.

International visitor arrivals in the year ended December 2013 were up nearly 6 percent on the previous year and Tourism New Zealand research indicates that preference for travel to New Zealand has increased in all of our major markets.

This new chapter in the Air New Zealand story will be one our customers, staff, shareholders and nation can be extremely proud of.

Christopher Luxon
Chief Executive Officer

As we look at the remainder of 2014 and beyond we are confident that we can further increase our share of the 2.7 million visitors to our country. The combined marketing efforts of Air New Zealand and Tourism New Zealand in key markets are powerful and compelling.

FINANCIAL COMMENTARY

Air New Zealand's normalised earnings[1] before taxation for the first six months of the 2014 financial year were $180 million, an increase of 29 percent over the previous corresponding period. Statutory earnings before taxation were $197 million, while net profit after taxation was $140 million, up 40 percent. The result demonstrates continued earnings growth underpinned by a strong operating performance.

Dividend Payment	4.5 cents per share
Dividend Record Date	14 March 2014
Dividend Payment Date	21 March 2014

REVENUE

Operating revenue was $2.3 billion, a decrease of $38 million or 1.6 percent on the previous corresponding period. This was driven by a $49 million decrease from foreign exchange movements. Excluding the negative impact of foreign exchange, operating revenue was up $11 million or 0.5 percent on a 1.3 percent reduction in capacity.

Passenger revenue excluding the impact of foreign exchange increased by $45 million, or 2.4 percent to $1.93 billion due to improved load factors, up 1.1 percentage points to 84.3 percent, and stronger local currency yields. Foreign exchange had a $43 million negative impact on passenger revenue during the period, due to the New Zealand dollar being stronger against the airline's major trading currencies.

International long haul yields were up 0.8 percent on a 4.9 percent decrease in capacity, which was primarily driven by withdrawals from the Hong Kong-London and Auckland-Osaka routes. Excluding the impact of foreign exchange, yields were up 3.7 percent. Demand was down 2.5 percent and load factor increased 2.2 percentage points to 86.0 percent due to network realignment.

Tasman and Pacific Island routes saw both capacity and demand increases of 2.4 percent, with capacity growth being driven partly by the up-gauge to B777-200 aircraft on the Auckland-Perth and Auckland-Honolulu routes. Load factor was flat at 83.3 percent for the period, while yield declined 2.7 percent due to the relative strength of the New Zealand dollar against the Australian dollar.

Capacity on the Domestic network increased by 4.1 percent, driven by the introduction of new A320 aircraft replacing the smaller B737-300, and additional ATR72-600 aircraft entering service. Load factor decreased by 0.1 of a percentage point to 81.0 percent. Yield reduced by 0.6 percent during the period, due to pricing reductions to stimulate demand, which increased by 4.0 percent.

Cargo revenue for the first six months of the 2014 financial year was $148 million, a decrease of $16 million or 10 percent on the previous corresponding period. Excluding the impact of foreign exchange, Cargo revenue was down by $13 million or 8 percent. This result was driven by a 3 percent reduction in volume (revenue tonne kilometres) as a result of withdrawing from the Hong Kong-London route, as well as a yield decline of 5 percent.

Contract Services revenue was $132 million, down 11 percent from $149 million in the previous corresponding period. The reduction was due to less third party engineering activity undertaken. Other revenue was $118 million, down $7 million or 5.6 percent.

EXPENSES

Operating expenditure decreased by $92 million for the period, a 4.8 percent improvement which includes reduced costs due to foreign exchange movements and a net gain on non-hedge accounted and ineffective derivatives that hedge exposures in other financial periods. Excluding the above factors, operating expenditure improved 1.6 percent on a Group wide capacity decrease of 1.3 percent and flat demand.

Labour costs were $566 million compared to $530 million in the previous corresponding period, an increase of $36 million or 6.8 percent. This was due to a combination of rate increases, redundancy costs incurred in the current period of $14 million relating to cabin crew and wide body maintenance, as well as pilot and cabin crew training costs of $10 million as the Group transitions to operating new fleet types. Headcount remained unchanged.

Fuel costs improved by $61 million due to lower prices and improving fleet efficiencies, combined with reduced activity. Excluding net gains and losses on derivatives that hedge exposures in other periods, fuel costs were down $46 million. The average US dollar into plane cost excluding hedge timing was 5 percent lower than the previous corresponding period.

Air New Zealand's fuel hedging programme resulted in gains totalling $10 million, compared to losses of $12 million in the previous corresponding period.

Aircraft maintenance and overhaul costs were $135 million for the period, a decrease of $12 million or 8.2 percent. This was primarily due to reduced materials costs on third party maintenance work.

Aircraft operations costs were $216 million, a decrease of $1 million or 0.5 percent compared with a decrease in available seat kilometres of 1.3 percent. Increased landing charges and air navigation costs were offset by savings in Cargo ground handling costs and foreign exchange.

Passenger services expenses were $109 million, compared to $117 million in the previous corresponding period. This was driven by reduced ground handling costs resulting from a change in supplier, and savings from ongoing business transformation initiatives.

Other expenses reduced by $16 million during the period, reflecting a continued focus on cost improvements, combined with the prior period including the Commerce Commission settlement.

Fleet replacement programmes resulted in increased depreciation and reduced lease costs as owned aircraft replaced operating leased aircraft. The residual values of exiting fleets were reassessed, resulting in increased depreciation expenses.

Net finance costs were down $6 million on the previous corresponding period, with interest revenue higher due to increased cash holdings and improved rates, combined with lower average debt costs.

FOREIGN EXCHANGE IMPACT

The impact of a stronger New Zealand dollar relative to Air New Zealand's major trading currencies resulted in a negative foreign exchange movement of $30 million on both revenue and cost base, offset by a positive movement from the hedging programme.

Overall, currency movements had a $1 million favourable impact on the Group result.

CASH AND FINANCIAL POSITION

Net cash at the end of the period was $1.13 billion, $22 million lower than at 30 June 2013, due to ongoing investment in new aircraft and further investment in Virgin Australia.

The Group had strong operating cashflows of $300 million for the period, including an increase of $68 million of tax paid.

Net gearing, including capitalised operating leases, was 43.9 percent.

[1]Normalised Earnings

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 condensed Group interim financial statements and is subject to review by the Group's external auditors.

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*:

DECEMBER 2012 NORMALISED EARNINGS BEFORE TAXATION	**$139m**	
Passenger yield	**$15m**	• Growth in higher yielding international markets offset by lower yields in short haul to stimulate demand • Long haul yields improved by 0.8 percent (3.7 percent FX adjusted) • Short haul yields deteriorated 1.3 percent (improved 0.4 percent FX adjusted)
Passenger traffic	**$30m**	• Passenger load factor for the Group improved 1.1 percentage points to 84.3 percent • Capacity decreased by 1.3 percent, following withdrawals from Hong Kong-London and Auckland-Osaka routes offset by short haul growth • Passenger demand was comparable, driven by strong demand in Domestic (up 4.0 percent) and Tasman Pacific (up 2.4 percent) offset by a reduction in long haul following network realignment (down 2.5 percent)
Cargo, contract services and other revenue	**-$34m**	• Decrease in third party engineering work and cargo. Cargo volumes fell 3 percent driven by removal of Hong Kong-London route and yields reduced by 5 percent due to competitive market conditions
Labour	**-$38m**	• Rate increases, redundancy costs ($14 million) and additional pilot and cabin crew training costs to transition to new fleet types ($10 million)
Fuel	**$43m**	• The average US$ into plane cost decreased 5 percent compared to last year. Consumption reduced due to improving fleet efficiencies and a decrease in capacity of 1.3 percent
Maintenance	**$11m**	• Reduction in third party engineering work (offsetting reduced revenue)
Aircraft operations	**-$3m**	• Landing and navigation price increases offset by savings in Cargo ground handling costs
Passenger services	**$4m**	• Cost savings initiatives from ground handling and product alignment
Sales and marketing	**-$3m**	• Additional investment in offshore markets and brand
Depreciation, lease and funding costs	**-$1m**	• Depreciation costs increased reflecting new aircraft (including the impact of investment in A320 domestic and ATR72-600 aircraft) and the reassessment of residual values on exiting fleets offset by lease savings and a reduction in funding costs
Net impact of foreign exchange movements	**$1m**	• The impact of currency movements on revenue and costs, including higher foreign exchange hedging gains
Other	**$16m**	• Gains on Virgin Australia derivative, prior period Commerce Commission settlement and legal costs combined with continued cost focus
DECEMBER 2013 NORMALISED EARNINGS BEFORE TAXATION	**$180m**	
	$17m	• Net impact of derivatives that hedge exposures in other financial periods
DECEMBER 2013 STATUTORY EARNINGS BEFORE TAXATION	**$197m**	

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

FINANCIAL SUMMARY

FINANCIAL PERFORMANCE (unaudited)

	6 MONTHS TO 31 DEC 2013 $M	6 MONTHS TO 31 DEC 2012 $M	12 MONTHS TO 30 JUN 2013 $M
Operating Revenue			
Passenger revenue	**1,932**	1,930	3,765
Cargo	**148**	164	301
Contract services and other revenue	**250**	274	549
Operating Expenditure	**2,330**	2,368	4,615
Labour	**(566)**	(530)	(1,068)
Fuel	**(572)**	(633)	(1,204)
Maintenance	**(135)**	(147)	(302)
Aircraft operations	**(216)**	(217)	(419)
Passenger services	**(109)**	(117)	(222)
Sales and marketing	**(142)**	(143)	(274)
Foreign exchange gains	**32**	3	7
Other expenses	**(104)**	(120)	(236)
	(1,812)	(1,904)	(3,718)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation	**518**	464	897
Depreciation and amortisation	**(211)**	(203)	(411)
Rental and lease expenses	**(87)**	(91)	(177)
Earnings Before Finance Costs and Taxation	**220**	170	309
Net finance costs	**(23)**	(29)	(54)
Profit Before Taxation	**197**	141	255
Taxation expense	**(57)**	(41)	(74)
Net Profit Attributable to Shareholders of Parent Company	**140**	100	181
Interim and final dividend declared per share (cents)	**4.5**	3.0	8.0
Net tangible assets per share (cents)	**156**	151	157
Supplementary Information			
Earnings before Taxation (per NZ IFRS above)	**197**	141	255
Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods:			
Fuel derivatives	**(17)**	(2)	(2)
Foreign exchange derivatives	**-**	-	2
Normalised Earnings before Taxation	**180**	139	255
Normalised Earnings after Taxation	**128**	99	181

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.

CASH FLOWS (unaudited)

	6 MONTHS TO 31 DEC 2013 $M	6 MONTHS TO 31 DEC 2012 $M	12 MONTHS TO 30 JUN 2013 $M
Cash inflows from operating activities	**2,336**	2,373	4,689
Cash outflows from operating activities	**(2,047)**	(2,036)	(3,950)
	289	337	739
Rollover of foreign exchange contracts relating to operating activities	**11**	6	11
Net cash flow from operating activities	**300**	343	750
Net cash flow from investing activities	**(317)**	(194)	(480)
Net cash flow from financing activities	**(5)**	(101)	(147)
(Decrease)/increase in cash and cash equivalents	**(22)**	48	123
Cash and cash equivalents at the beginning of the period	**1,150**	1,027	1,027
Cash and Cash Equivalents at the End of the Period	**1,128**	1,075	1,150

FINANCIAL SUMMARY CONT'D

FINANCIAL POSITION (unaudited)

AS AT	31 DEC 2013 $M	31 DEC 2012 $M	30 JUN 2013 $M
Bank and short term deposits	**1,128**	1,075	1,150
Trade and other receivables	**351**	346	350
Inventories	**182**	172	155
Derivative financial assets	**56**	15	98
Other assets	**43**	40	90
Total Current Assets	**1,760**	1,648	1,843
Trade and other receivables	**52**	48	49
Property, plant and equipment	**2,947**	3,007	2,933
Intangible assets	**76**	64	69
Investment in quoted equity instruments	**355**	264	261
Investments in other entities	**51**	61	47
Other assets	**337**	327	394
Total Non-Current Assets	**3,818**	3,771	3,753
Total Assets	**5,578**	5,419	5,596
Trade and other payables	**400**	403	382
Revenue in advance	**883**	853	918
Interest-bearing liabilities	**179**	158	159
Derivative financial liabilities	**27**	27	13
Provisions	**29**	27	15
Income taxation	**34**	9	27
Other liabilities	**176**	189	200
Total Current Liabilities	**1,728**	1,666	1,714
Revenue in advance	**148**	140	140
Interest-bearing liabilities	**1,445**	1,452	1,470
Provisions	**151**	105	145
Other liabilities	**21**	23	21
Deferred taxation	**277**	305	305
Total Non-Current Liabilities	**2,042**	2,025	2,081
Total Liabilities	**3,770**	3,691	3,795
Net Assets	**1,808**	1,728	1,801
Issued capital	**2,280**	2,275	2,277
Reserves	**(472)**	(547)	(476)
Total Equity	**1,808**	1,728	1,801

The summary financial information has been derived from and should be read in conjunction with, the Air New Zealand condensed Group interim financial statements (the 'Interim Financial Statements'). The Interim Financial Statements, dated 27 February 2014, are available at: www.airnzinvestor.com. The summary financial information cannot be expected to provide as complete an understanding as provided by the Interim Financial Statements.

The accounting policies used in these financial statements are consistent with those used as at 30 June 2013 with the exception of NZ IFRS 10, NZ IFRS 11, NZ IFRS 12, NZ IFRS 13, NZ IAS 19 (2011), NZ IAS 28 (2011) and the amendments to NZ IAS 34 which were adopted with effect from 1 July 2013. The impact of the adoptions is disclosed within Note 9 of the Interim Financial Statements.

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Interim Financial Statements

The Interim 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.

ELECTRONIC SHAREHOLDER COMMUNICATION

If you would like 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).

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