AIR NEW ZEALAND

Media Release

Media release
27 February 2020

Air New Zealand reports interim profit[1] of $198 million and maintains interim dividend

Air New Zealand has today announced earnings before other significant items and taxation of $198 million for the six-month period ended 31 December 2019, compared to $217 million in the prior period, reflecting the slower demand growth environment, weakness in the global cargo market and the ongoing unrest in Hong Kong. Earnings before taxation were $139 million and net profit after taxation was $101 million.

Operating revenue growth of 3 percent was driven by solid demand across the airline's Domestic and Pacific Islands networks, as well as recently launched services into Asia and North America. This helped to mitigate weaker cargo demand, increased competition on the Tasman and the impact of disruptions in Hong Kong.

Operating costs increased 3.5 percent in the period, impacted by significant price increases in domestic air navigation and landing charges, as well as a weaker New Zealand dollar. Maintenance costs for third party contracts also increased, however this was more than offset by the related revenues. Fuel costs increased 1.1 percent, as an improvement in the underlying fuel price was offset by foreign exchange and fuel volumes resulting from growth in the International network.

Ownership costs increased by 7.1 percent, driven by the arrival of new, efficient aircraft including the airline's 14th Boeing 787-9 Dreamliner in a premium-heavy configuration.

Chairman Dame Therese Walsh says she is proud that management continues to execute the strategy that was first communicated to the market in March 2019, whilst quickly adapting the business to the evolving situation surrounding the Covid-19 outbreak.

"Our capacity discipline on existing routes, stimulation of leisure traffic with the domestic fare restructure and entrance into attractive new international markets has driven good revenue performance in the first half. Alongside our focus on profitable top-line growth, we are on track to deliver the long-term sustainable cost savings target from our business review initiatives.

"While the Covid-19 situation is dynamic, we have taken immediate steps to mitigate the impact of softer demand and I am confident that we have the ability to manage the expected short-term impacts effectively," she says.

The Board has declared a fully imputed interim dividend of 11.0 cents per share, in-line with the prior period. The dividend will be paid on 25 March, to shareholders on record as at 13 March.

Chief Executive Officer Greg Foran acknowledged the Air New Zealand team and thanked them for their contribution to the interim financial result.

"As I travel around the various parts of the business, it is clear that what makes Air New Zealand stand out from its global competitors is the enthusiasm and dedication of our people. Their focus on providing our customers with the best service will continue to be a key differentiator as we look to set the airline up for future success."

1 Represents earnings before other significant items and taxation. Other significant items of $59 million comprise of $46 million related to the disestablishment of fair value aircraft hedges and reorganisation costs of $13 million.

During his first 100 days, Mr Foran will undertake a diagnostic of the airline's opportunities and risks. This will provide the basis for determining potential changes to the future strategic direction of the airline.

"Air New Zealand holds a special place in the hearts of New Zealanders and we take that responsibility very seriously. As such, the diagnostic of the airline will look at how we can drive long-term sustainable outcomes for our customers, our staff, the broader community and our shareholders," says Mr Foran.

Impact from the Covid-19 outbreak

As disclosed in its market announcement on 24 February, Air New Zealand has taken immediate steps to mitigate the impact of demand weakness on some parts of the airline's network following the recent Covid-19 outbreak.

In addition to the temporary suspension of services into Shanghai and Seoul, the airline announced that it would make further capacity reductions on other markets that are showing signs of weakness following the outbreak. This includes services into Hong Kong and Japan, albeit to a lesser extent.

The reduction in services to Asia will result in approximately 17 percent less capacity across the February to June period than the airline had initially planned.

"By proactively reducing these services we are better able to manage the cost implications of making late changes to our network and can redirect our most efficient aircraft, the Boeing 787 Dreamliner, to other parts of the network," says Mr Foran.

The airline has also noted signs of weaker demand on the Tasman, as well parts of the Domestic network, such as Queenstown and Christchurch which are primarily leisure-based destinations that are popular with international visitors. As such, earlier this week the airline announced targeted capacity reductions on certain Tasman and Domestic services to ensure the appropriate level of capacity in this changing demand environment.

The airline will be increasing its market development investment to help drive additional demand, specifically across its Domestic and Tasman markets.

Mr Foran says that the recent challenges presented by the Covid-19 outbreak show the resiliency of the airline and its ability to respond quickly to changing market conditions.

"Air New Zealanders from across the business have been working around the clock to manage the impact of the Covid-19 outbreak on our operations. Our business is resilient, and we have demonstrated the ability time and again to respond quickly to changing market conditions. We have a highly capable and experienced senior leadership team who have dealt with challenges such as this before and I am confident that we will effectively navigate our way through this," says Mr Foran.

Outlook

While the situation is uncertain, based on current assumptions of lower demand as well as the benefit of the announced capacity reductions and lower jet fuel prices, the airline currently expects a net negative impact to earnings in the range of $35 million to $75 million as a result of Covid-19.

At the midpoint of the estimated range above, which is approximately $55 million, the airline is targeting earnings before other significant items and taxation to be in a range of approximately $300 million to $350 million[2].

The airline will provide an update to this guidance should the current assumptions materially change.

[2] Assuming jet fuel prices remain at US$65 per barrel for the remainder of the year and excludes the impact of the NZ IFRS 16.

Interim Financial Highlights

- Operating revenue of **$3.0 billion**
- Earnings before other significant items and taxation[3] of **$198 million**
- Earnings before taxation of **$139 million**
- Net profit after taxation of **$101 million**
- Reported operating cash flow of **$534 million** (or $423 million excluding the impact of the new leasing standard, NZ IFRS 16)
- Fully imputed interim dividend of **11.0 cents per share**, consistent with prior period

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Ends
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3. Earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Earnings before other significant items and taxation is reported within the Group's condensed interim financial statements which was subject to review by the external auditors. Further details are contained within Note 3 of the Group's condensed interim financial statements

INTERIM FINANCIAL RESULTS 2020

AIR NEW ZEALAND

80 YEARS YOUNG

1940-2020

NZX: **AIR** | ASX: **AIZ** | US OTC: **ANZFY**

A STAR ALLIANCE MEMBER

Forward-looking statements

This presentation contains forward-looking statements. Forward-looking statements often include words such as “anticipate”, “expect”, “intend”, “plan”, “believe”, “continue” or similar words in connection with discussions of future operating or financial performance.

The forward-looking statements are based on management's and directors’ current expectations and assumptions regarding Air New Zealand’s businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Air New Zealand’s actual results may vary materially from those expressed or implied in its forward-looking statements.

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Nothing in this presentation constitutes financial, legal, tax or other advice.

Changes in accounting treatment

Throughout this presentation and all related commentary, prior period comparative figures have been restated, where applicable, to reflect the retrospective disestablishment of fair value aircraft hedges following clarifications on the treatment of these hedges by the International Financial Reporting Interpretations Committee during the 2020 interim reporting period.

The Group's adoption of the new leasing standard (NZ IFRS 16) effective 1 July 2019, has also impacted the way in which the Group presents lease costs and other associated balances in the income statement, balance sheet and statement of cash flows. Prior year comparatives have not been restated, in accordance with the transition provisions of the new standard.

For further information, please refer to Note 8 of the Group's 2020 Interim Financial Statements.

AIR NEW ZEALAND

INTRODUCTION

AIR NEW ZEALAND

BUSINESS UPDATE

1H 2020 result reflects delivery of our strategy amidst a mixed economic environment

- Changes in network strategy outlined last March are performing well
  - Solid revenue performance in 1H, driven by growth into new markets and strong demand in the Domestic and Pacific Islands markets
  - Overall revenue performance impacted by further decline in the global cargo market
- Underlying unit cost improvement in 1H reflects successful implementation of business transformation activities
  - Remaining cost initiatives on track to be delivered in the next 18 months
  - Overall cost performance impacted by maintenance costs, increased domestic air navigation and landing charges, a weaker New Zealand dollar, and higher ownership costs
  - Fuel costs in-line with expectations
- Well placed to navigate short-term demand impact of the recent Covid-19 outbreak

Our network responses to the lower demand growth environment helped drive improved revenue outcomes in the first half

Previously communicated drivers of network growth:

1. **Attractive new markets**
2. **Upgauge aircraft**
3. **Moderate growth on existing routes**

- ✓ Good performance from recently launched growth markets across Asia and the US
- ✓ A321 NEO's on the Tasman and Pacific Islands network provide ~30% more seats, at the same fuel cost per trip
- ✓ Strong demand across the Domestic and Pacific Islands networks

Our cost reduction initiatives previously outlined in March last year remain on track

Cost programme targets

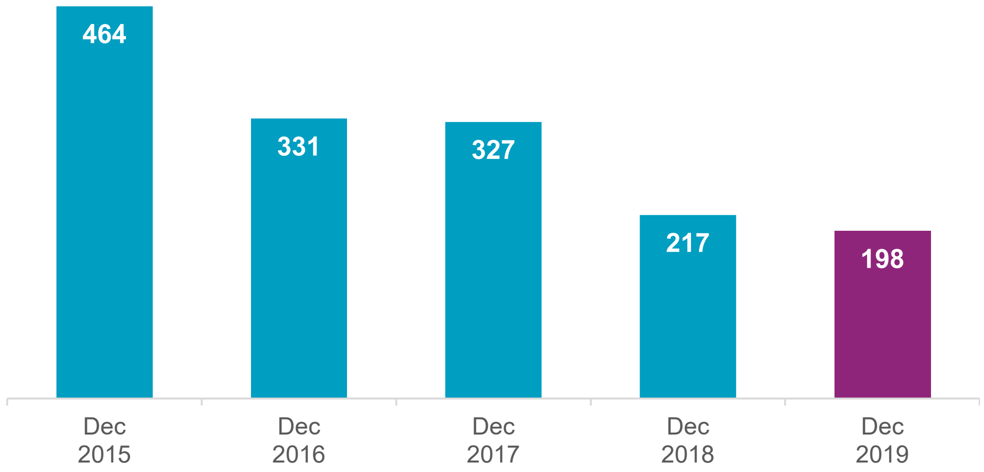
Cost programme targets	What we said in March 2019		On track to achieve or exceed?		
	Amount	Timing[1]	Amount	Timing	
1 Removal of inefficiencies associated with the Rolls-Royce engine issues	~$20 million	All 2020	✓	✓	On track to deliver planned savings despite additional TEN maintenance backlog
2 ~5% reduction in overheads through reprioritisation, process efficiencies and automation	~$20 million	Split evenly 2020 and 2021	✓	✓	On track
3 A targeted review of the operations cost base	~$20 million	Split evenly 2020 and 2021	✓	✗	On track to achieve target, with timing skewed to 2021

[1] Refers to Air New Zealand's financial year.

1H 2020 financial highlights

- Operating revenue **$3.0 billion**, up 3.0%
- Earnings before other significant items and taxation **$198 million**, down 8.8%
- Earnings before taxation **$139 million**
- Net profit after taxation **$101 million**, down 33%
- Reported operating cash flow of **$534 million**

Earnings before other significant items and taxation
($ million)



[1] Refer to slide 31 for further details on other significant items.

AIR NEW ZEALAND

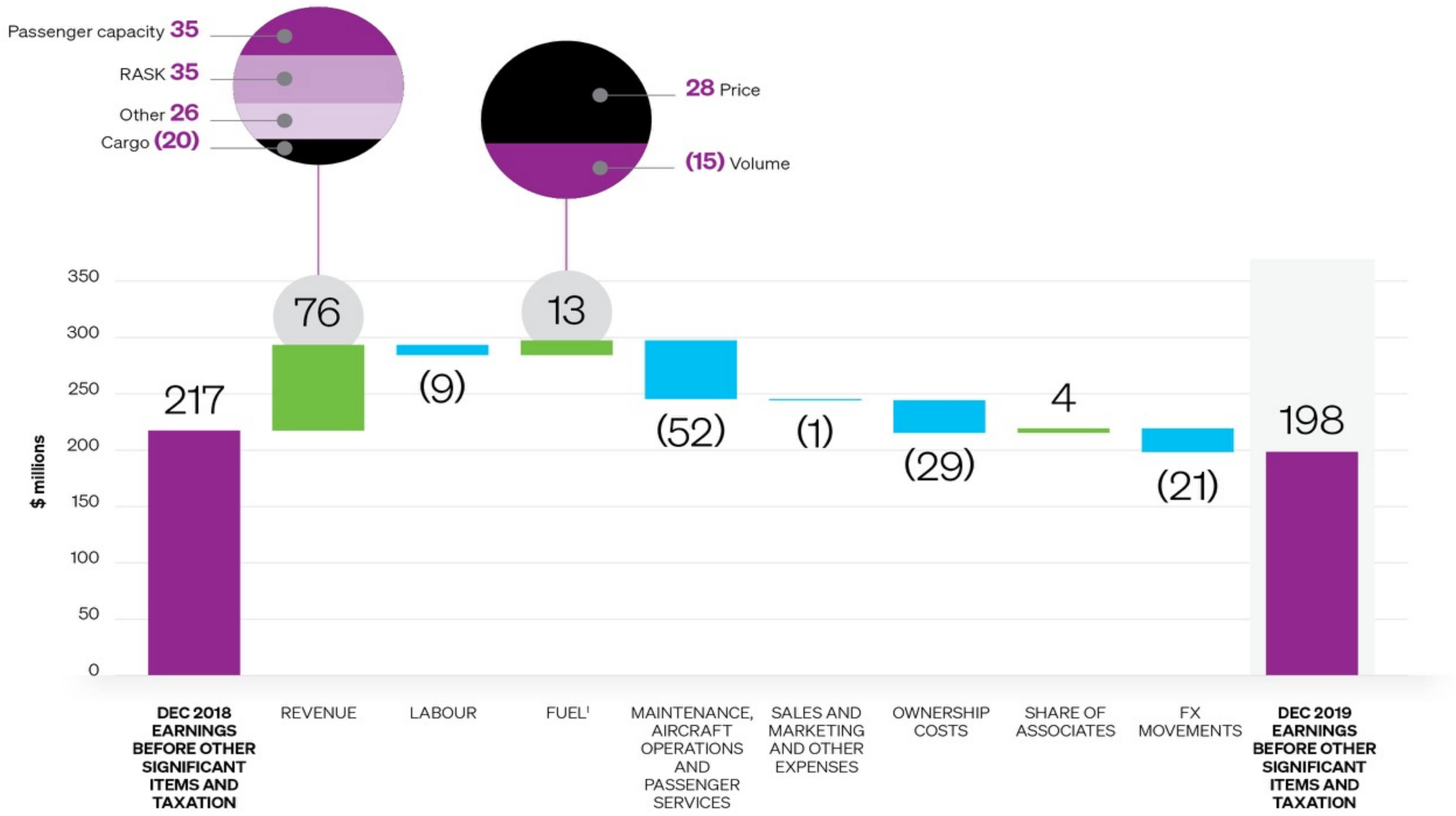
FINANCIAL REVIEW

Solid revenue growth and CASK* improvement offset by a weaker New Zealand dollar

Revenue	• Passenger revenue excluding FX **up 2.8%**; reported up 3.2% – Strong demand **up 4.0%** on capacity growth of **2.8%** – RASK excluding FX **down 0.1%**; reported up 0.3% • Cargo revenue excluding FX **down 9.4%**; reported down 8.5%
Cost	• CASK* **improvement of 0.5%** – Reported CASK including fuel, FX and maintenance for third parties up 0.7% – Economies of scale and efficiencies of **$59 million** more than offset the impact of non-fuel price changes • Reported fuel cost **increased $7 million**, 1.1% driven by: – Average fuel price decrease (net of hedging) of **$28 million**, **down 4.3%**[1] – Weaker New Zealand dollar adversely impacted fuel cost by **$20 million** – Increased volumes from capacity growth drove **$15 million** of additional cost

* Excluding fuel price movement, FX and maintenance for third parties.
[1] Fuel cost movement details provided in supplementary slides.

Changes in profitability



[1] For further details refer to Fuel Cost Movement slide 26.

Additional commentary

- Labour cost increase of 1.3%, below capacity growth of 2.8% and driven by reduced incentive payments as well as impact of cost initiatives outlined in business review
- Maintenance, aircraft operations and passenger services costs reflect 2.8% capacity growth and additional maintenance activity for third parties, as well as an increase in domestic air navigation and landing charges
- Ownership cost increase driven by new aircraft deliveries

1H 2020 Passenger revenue performance by market

Asia

- Robust revenue growth driven by new services, as well Rugby World Cup demand in Japan
- Softness in Hong Kong remains due to ongoing unrest

North America

- Additional market capacity
- Weaker New Zealand dollar impacted demand from New Zealand to the US

Europe

- Performance in-line with expectations

Pacific Islands[1]

- Strong RASK growth due to capacity rationalisation
- Some softness in Samoa following the measles outbreak

South America

- Steady performance across peak season, however economic environment continues to be challenging

Tasman

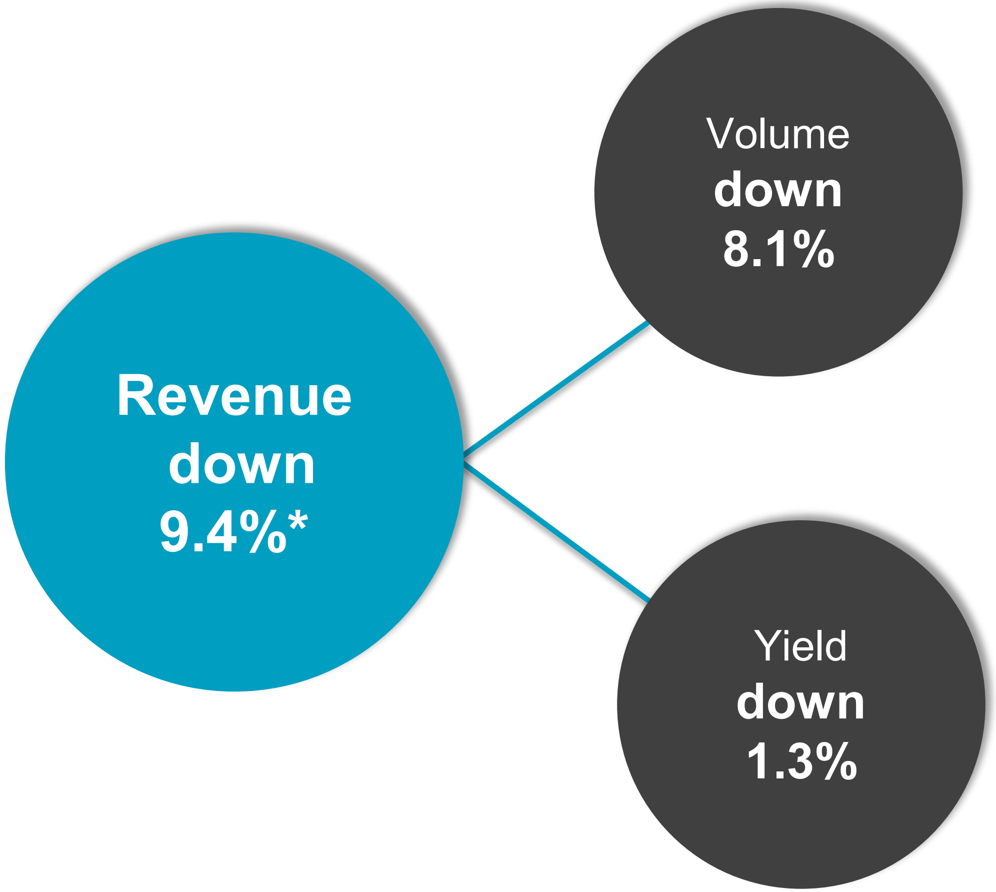
- Market capacity remains high although some signs of rationalisation towards the end of 1H 2020

- Strong demand has driven improved RASK
- Domestic fare restructure has stimulated additional leisure demand
- Robust Corporate sector demand

[1] Pacific Islands includes Bali and Honolulu.

Challenges in the global cargo market impacted 1H 2020 performance

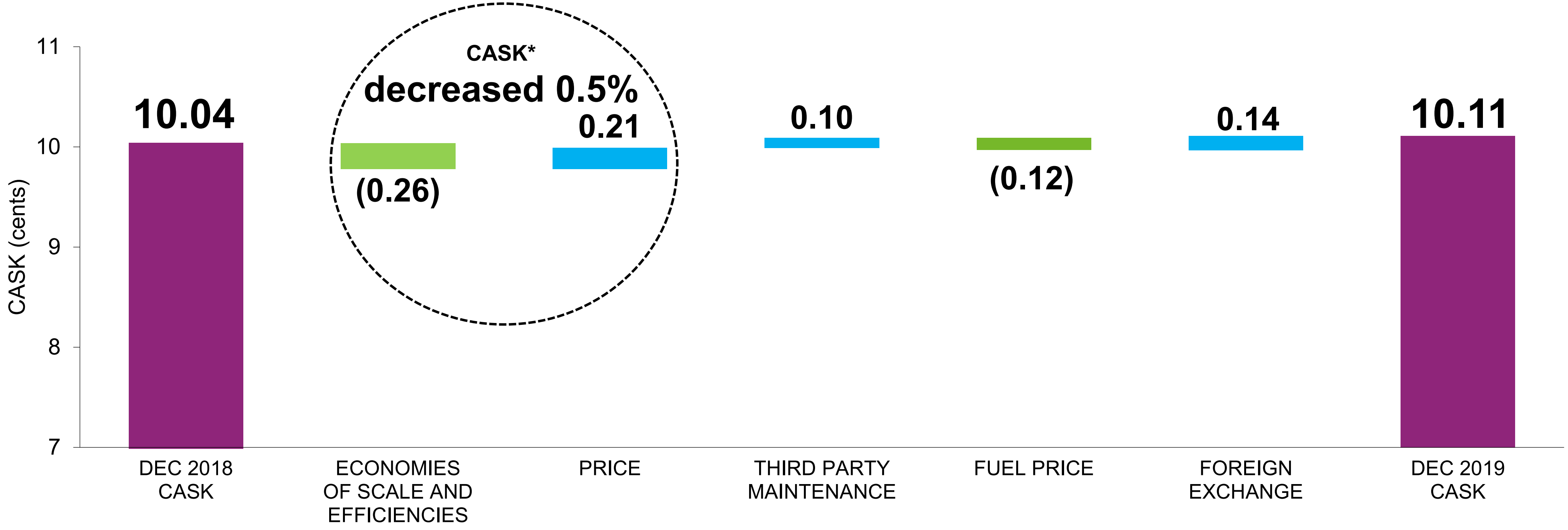
- Overall cargo decline of 9.4%*, excluding FX, driven by:
  - Load factor declines, particularly in North America and Asia, partly due to declining flow of goods between the US and China
  - Moderation of capacity on some parts of the network, partially offset by cargo capacity into new routes
  - Continued intense pricing competition on the Tasman as market remains over supplied



* Reported Cargo revenue decreased 8.5%, inclusive of foreign exchange impact.

Strong focus on cost initiatives drove an underlying improvement in 1H 2020 CASK*

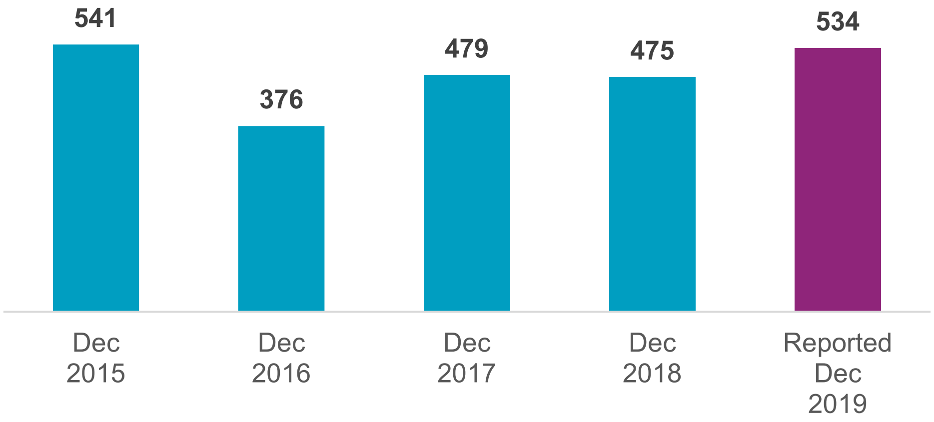
- CASK* **improvement of 0.5%**
  - Reported CASK increased 0.7%, primarily due to increased costs associated with maintenance for third parties, which is offset by a corresponding increase in operating revenue
  - $59 million in efficiencies and economies of scale



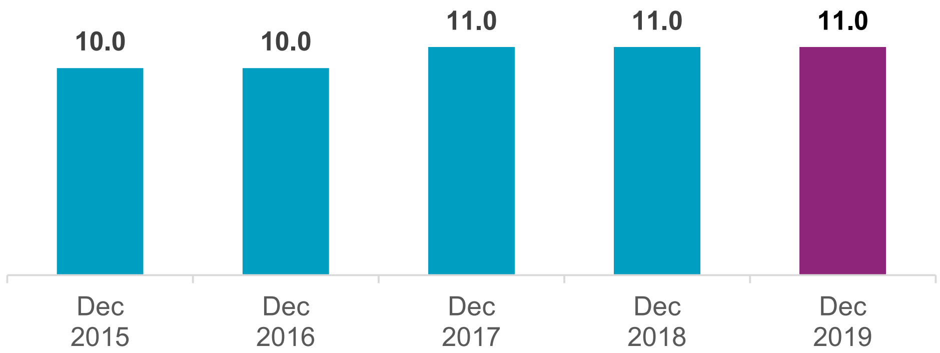
* Excluding fuel price movement, FX and maintenance for third parties.

Robust operating cash flow and financial resilience in a challenging environment

Operating cash flow
($ millions)



Interim dividend declared
(cents per share)

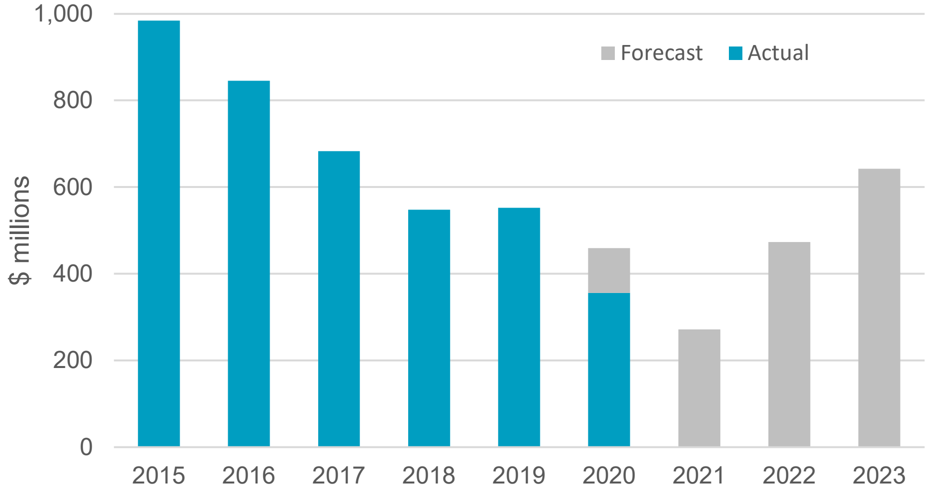


- On a comparable basis[1], operating cash flow has declined 11% to $423 million
  - Includes one-off cash outflow of ~$55 million related to the pre-purchase of certain engine parts
  - Reported operating cash flow of $534 million
- Cash on hand of $1.0 billion, down 4.9% from June 2019
- Stable outlook **Baa2** rating from Moody's
- Gearing of 54.3%[2], an increase of 2.6 percentage points from 1 July 2019, driven by continued investment in fleet
- Fully imputed interim dividend of 11.0 cents per share, consistent with the prior period

[1] Operating cash flow on comparable basis excludes reclassifications arising under the new leasing standard, NZ IFRS 16.
[2] Refer to slide 30 for further information on gearing movements. The net debt calculation has changed this year following the Group's adoption of NZ IFRS 16 from 1 July 2019.

Fleet investment update

Actual and forecast aircraft capital expenditure*



- Forecast investment of **$1.5 billion** in aircraft and associated assets through to 2023, including the first Boeing 787-10 aircraft
- Assumes NZD/USD = 0.65
- Timing of forecast expenditure has shifted with the delay in the arrival of 4 domestic NEOs**

Aircraft delivery schedule (as at 31 December 2019)

		Number in existing fleet	Number on order	Delivery Dates (financial year)			
				2H 2020	2021	2022	2023
Owned fleet on order	Boeing 787-10	-	1***	-	-	-	1
	Airbus A320/A321 NEOs	6	7***	-	1	4	2
	ATR72-600	27	2	1	1	-	-
Leased aircraft****	Airbus A320/A321 NEOs	5	-	-	-	-	-

* Includes progress payments on aircraft.
** Two aircraft have been delayed from 2021 to 2022, and two from 2022 to 2023.
*** Does not reflect seven Boeing 787-10 and two A321 NEO aircraft on order for expected delivery from 2024.
**** Leased aircraft will be returned to the lessor at the end of the lease term.

AIR NEW ZEALAND

JEFF McDOWALL
Chief Financial Officer

OUTLOOK

We are adjusting our business to reflect demand softness across a number of markets following the outbreak of Covid-19

	Asia	Tasman/Pacific Islands*	Domestic
Demand environment	- Softer inbound demand across Asia to New Zealand - Outbound demand to Asia destinations has reduced substantially - Cargo impact from reduced demand and capacity reductions	- Weaker demand on Tasman routes following China travel restrictions - Pacific Islands demand remain solid	- Domestic network impacted from Covid-19 related cancellations (inbound travel with intra-New Zealand itineraries)
Air New Zealand actions	- Total Asia capacity decline of ~17% from Feb to Jun - Temporary suspension of Shanghai services from Jan through to late Mar - Temporarily suspending Seoul services from Mar to Jun - Additional capacity adjustments across Asia, primarily focused on Hong Kong	- 3% targeted capacity reductions, focused on services to Sydney, Melbourne and Brisbane across Mar to May - Reallocated efficient Boeing 787-9 aircraft from lower demand Asia routes to Honolulu and Bali - Increasing market development activities to stimulate demand	- Overall domestic capacity reductions of ~2% from Mar to Apr - Reductions focused on leisure destinations of Christchurch and Queenstown which have seen greatest impact - Increasing market development activities to stimulate demand

*Pacific Islands includes Bali and Honolulu.

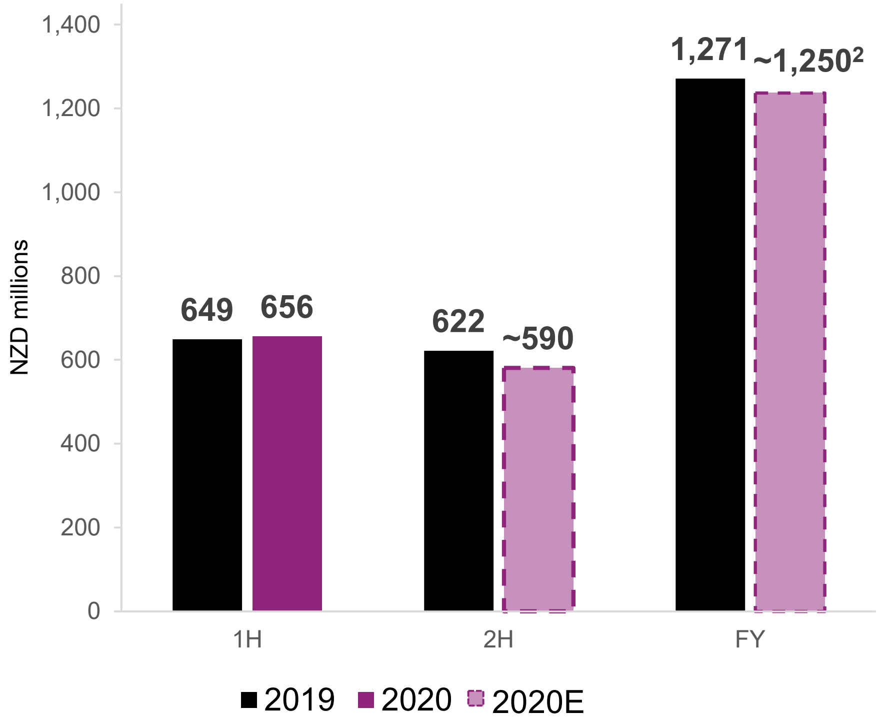
Revised capacity outlook reflects actions taken to mitigate impact of slower demand from Covid-19

Sector	1H 2020 capacity	2H 2020 capacity	Full year 2020 capacity	*Previous 2020 capacity plan[1]*
Domestic	(2.4%)	(1%) - flat	(1%) - (2%)	*(2%) - (3%)*
Tasman & Pacific Islands[2]	+0.3%	+0.5% - 1%	flat - +1%	*+2% - 3%*
International Long-haul	+5.8%	+2% - 3%	+3% - 4%	*+7% - 8%*
Group	+2.8%	+1% - 2%	+1.5 - 2.5%	*+4% - 5%*

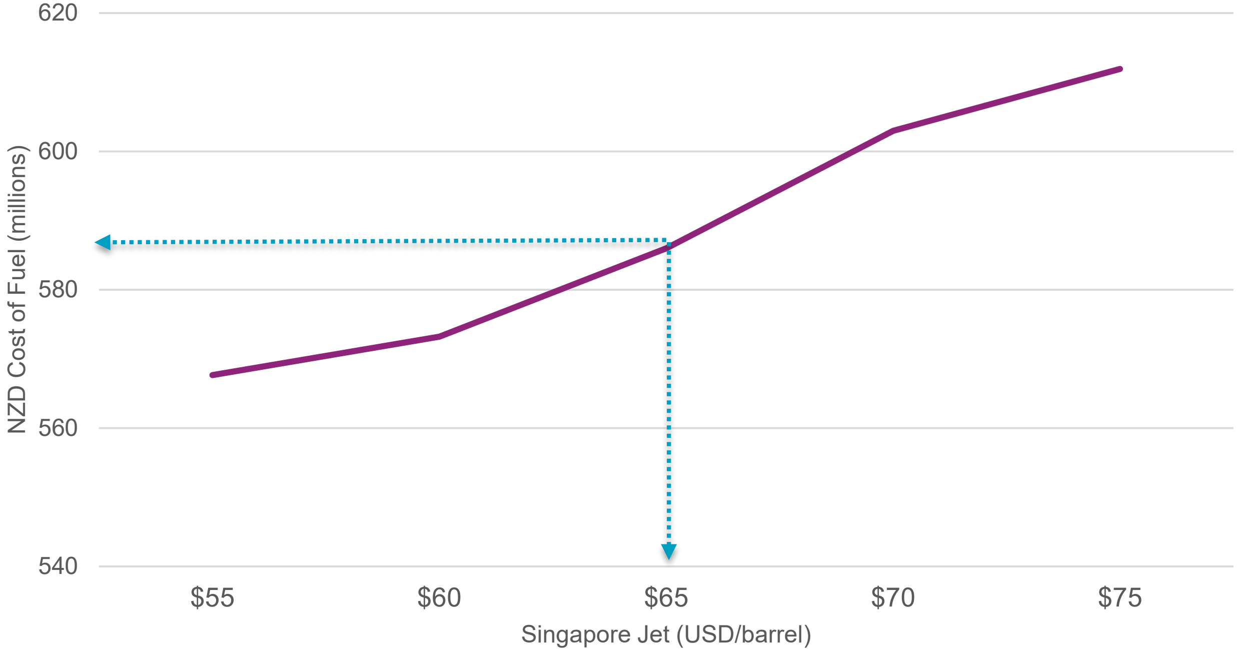
[1] Prior to the outbreak of Covid-19.
[2] Pacific Islands includes Bali and Honolulu.

Fuel cost outlook and sensitivities for the remainder of 2020

2020 Fuel cost outlook



2H 2020 Fuel Cost[1] sensitivity (inclusive of hedging)



[1] Assumes an average jet fuel price of US$65 per barrel for the second half of the 2020 financial year and a NZD/USD rate of 0.65.
[2] Assumes an average jet fuel price of US$72 per barrel for the full 2020 financial year.

2020 Outlook

While the situation is uncertain, based on our current assumptions of lower demand as well as the benefit of the announced capacity reductions and lower jet fuel prices, the airline currently expects a net negative impact to earnings in the range of $35 million to $75 million as a result of Covid-19.

At the midpoint of the estimated range above, which is approximately $55 million, the airline is **targeting earnings before other significant items and taxation to be in a range of approximately $300 million to $350 million**[1].

The airline will provide an update to this guidance should the current assumptions materially change.

[1] Assuming jet fuel prices remain at US$65 per barrel for the remainder of the year and excludes the impact of NZ IFRS 16.

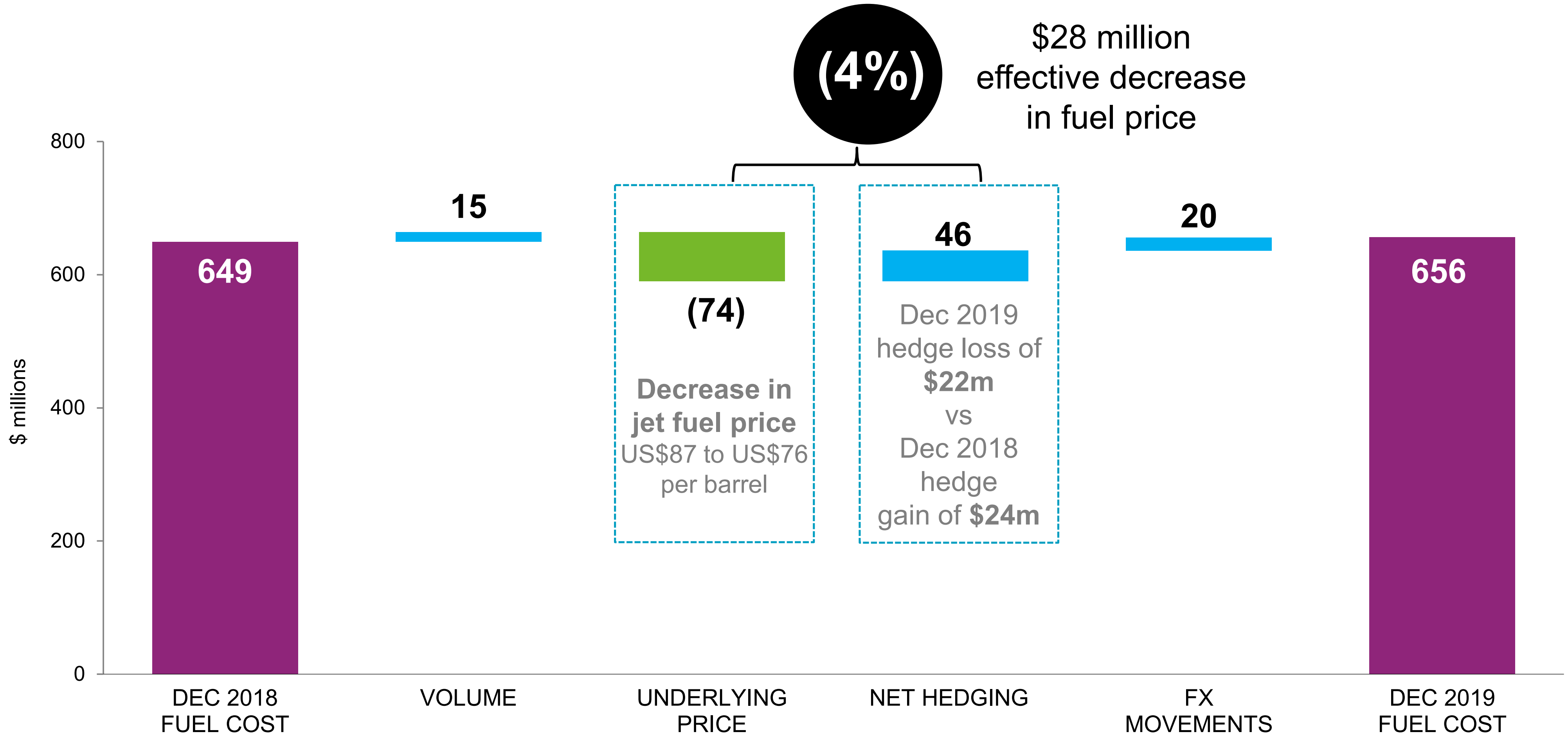
AIR NEW ZEALAND

CLOSING REMARKS

Thank you

Supplementary slides

Fuel cost movement



Hedging update

Fuel hedging*

- 91% of estimated volumes hedged in 2H 2020
- 56% of 1H 2021 estimated volumes currently hedged

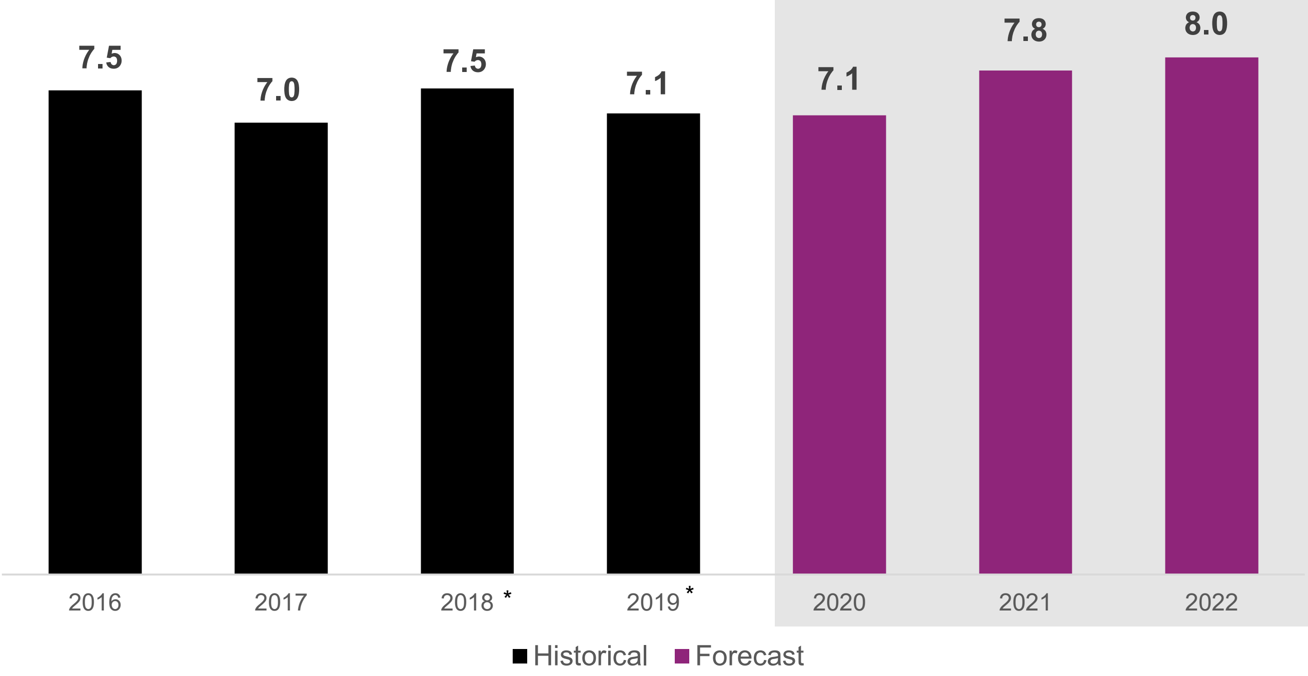
Foreign exchange hedging

- 2H 2020 US dollar is 88% hedged at a rate of 0.6617
- 1H 2021 US dollar is 50% hedged at a rate of 0.6472

* Based on fuel hedging disclosure as at 21 February 2020.

Projected aircraft in service and fleet age

Aircraft fleet age in years
(seat weighted)



	2020	2021	2022
Boeing 777-300ER	7	7	7
Boeing 777-200ER	8	8	7
Boeing 787-9	14	14	14
Airbus A320	22	20	16
Airbus A320/A321 NEO	11	12	16
ATR72-600	28	29	29
Bombardier Q300	23	23	23
Total Fleet	**113**	**113**	**112**

* Excludes short-term leases which provide cover for the global Rolls-Royce engine issues.

Impact of new lease accounting standard (NZ IFRS 16)

Income statement impact

	Dec 2018 $M		Dec 2019 $M	Notes	
Rental and lease expense	122	Depreciation expense	111	Net movement of $6 million comprised of:	
		Interest expense	14	NZ IFRS 16 methodology changes	3
		Other expenses	3	Underlying changes to lease portfolio	3
Total income statement	**122**	**Total income statement**	**128**		**6**

Statement of cash flows impact

	Dec 2018 $M		Dec 2019 $M	Notes
Cash flows from operating activities	111	Cash flows from financing activities	111	This represents the reclassification of the principal portion of operating lease payments

Note: For details on the transitional impact of NZ IFRS 16 on the balance sheet, refer to Note 8 of the Group's Interim Financial Statements.

Reconciliation of gearing movements

	Reported 30 Jun 2019	Fair value hedge adjustment	Adjusted 30 Jun 2019	Impact of NZ IFRS 16	Restated 1 Jul 2019	Reported 31 Dec 2019
Net Debt ($M)	2,517*	-	2,517*	(384)	2,133	**2,389**
Equity ($M)	2,089	(97)	1,992		1,992	**2,014**
Gearing (%)	54.6*		55.8*		51.7	**54.3**

Impact of bringing operating leases on balance sheet:

$862m	Operating lease liabilities
$(1,246m)	Aircraft lease commitments for the next twelve months multiplied by a factor of seven

* Includes capitalised off-balance sheet aircraft lease commitments at 30 June 2019.

[1] Refer to Note 8 in the Group's 2020 Interim Financial Statements for details of the fair value hedge adjustment and impact of NZ IFRS 16.

Earnings before other significant items and taxation

	Dec 2019 $M	Dec 2018 $M	Full year estimate $M
Earnings before taxation (per NZ IFRS)	**139**	**211**	
Add back other significant items:			
Disestablishment of fair value aircraft hedges[1]	46	6	46
Reorganisation costs[2]	13	-	20 - 25
Gain on sale of airport slots[3]	-	-	(21)
Earnings before other significant items and taxation	**198**	**217**	

Earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Earnings before other significant items and taxation is reported within the Group's condensed interim financial statements which was subject to review by the external auditors. Further details are contained within Note 3 of the Group's condensed interim financial statements.

[1] The International Financial Reporting Interpretations Committee ("IFRIC") published a new interpretation on the principals of NZ IFRS 9. The interpretation no longer permits fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. The retrospective application of the interpretation resulted in the disestablishment of these hedges.

[2] Reorganisation costs relate to the withdrawal of services on the London-Los Angeles route and a two-year cost reduction programme.

[3] A gain on sale related to the sale of northern winter Heathrow landing slots (arising from the exit of the London-Los Angeles route) is expected to be recognised in June 2020.

Financial overview

	Dec 2019 $M	Dec 2018 $M	Movement $M	Movement %
Operating revenue	3,015	2,927	88	3.0%
Earnings before other significant items and taxation	198	217	(19)	(8.8%)
Earnings before taxation	139	211	(72)	(34.1%)
Net profit after taxation	101	150	(49)	(32.7%)
Operating cash flow	534	475	59	12.4%
Cash position*	1,003	1,055	(52)	(4.9%)
Gearing**	54.3%	51.7%	-	2.6 pts
Ordinary dividends declared***	11.0 cps	11.0 cps	-	-

* Comparative is for 30 June 2019.
** Comparative information is at 1 July 2019, the Group's transition date for NZ IFRS 16.
*** Dividends are fully imputed.

Group performance metrics

	Dec 2019	Dec 2018	Movement*
Passengers carried (‘000s)	9,040	8,895	1.6%
Available seat kilometres (ASKs, millions)	23,741	23,084	2.8%
Revenue passenger kilometres (RPKs, millions)	20,021	19,244	4.0%
Load factor	84.3%	83.4%	0.9pts
Passenger revenue per ASKs as reported (RASK, cents)	10.8	10.8	0.3%
Passenger revenue per ASKs, excluding FX (RASK, cents)	10.8	10.8	(0.1%)

* Calculation based on numbers before rounding.

Domestic

	Dec 2019	Dec 2018	Movement*
Passengers carried (‘000s)	5,787	5,755	0.6%
Available seat kilometres (ASKs, millions)	3,506	3,591	(2.4%)
Revenue passenger kilometres (RPKs, millions)	2,973	2,970	0.1%
Load factor	84.8%	82.7%	2.1pts
Passenger revenue per ASKs as reported (RASK, cents)	24.3	22.5	7.7%
Passenger revenue per ASKs, excluding FX (RASK, cents)	24.2	22.5	7.6%

* Calculation based on numbers before rounding.

Tasman & Pacific Islands[1]

	Dec 2019	Dec 2018	Movement*
Passengers carried ('000s)	2,111	2,074	1.8%
Available seat kilometres (ASKs, millions)	7,093	7,072	0.3%
Revenue passenger kilometres (RPKs, millions)	5,852	5,832	0.3%
Load factor	82.5%	82.5%	-
Passenger revenue per ASKs as reported (RASK, cents)	9.7	9.9	(1.9%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	9.7	9.9	(1.5%)

1 Pacific Islands including Bali and Hawaii.
* Calculation based on numbers before rounding.

International

	Dec 2019	Dec 2018	Movement*
Passengers carried (‘000s)	1,142	1,066	7.2%
Available seat kilometres (ASKs, millions)	13,142	12,421	5.8%
Revenue passenger kilometres (RPKs, millions)	11,196	10,442	7.2%
Load factor	85.2%	84.1%	1.1pts
Passenger revenue per ASKs as reported (RASK, cents)	7.9	8.0	(0.9%)
Passenger revenue per ASKs, excluding FX (RASK, cents)	7.8	8.0	(1.9%)

* Calculation based on numbers before rounding.

Glossary of key terms

Available Seat Kilometres (ASKs)	Number of seats operated multiplied by the distance flown (capacity)
Cost/ASK (CASK)	Operating expenses divided by the total ASK for the period
Gearing	Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating lease commitments at 30 June 2019
Net Debt	Interest-bearing liabilities, lease liabilities less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities and lease liabilities, and interest-bearing assets, plus, for the prior period, net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven (excluding short-term leases, which provide cover for Boeing 787-9 engine issues)
Passenger Load Factor	RPKs as a percentage of ASKs
Passenger Revenue/ASK (RASK)	Passenger revenue for the period divided by the total ASK for the period
Revenue Passenger Kilometres (RPKs)	Number of revenue passengers carried multiplied by the distance flown (demand)
Yield (referring to Cargo)	Cargo revenue for the period divided by freight tonne kilometres

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK and Yield. Amounts used within the calculations are derived from the condensed Group interim financial statements where possible. The interim financial statements are subject to review by the Group’s external auditors. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.

Find more information about Air New Zealand

Resources

Investor website: www.airnewzealand.co.nz/investor-centre

Monthly traffic updates: www.airnewzealand.co.nz/monthly-operating-data

Quarterly fuel hedging disclosure: www.airnewzealand.co.nz/fuel-hedging-announcements

Corporate governance: www.airnewzealand.co.nz/corporate-governance

Sustainability: https://www.airnewzealand.co.nz/sustainability

Contact information

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Share registrar: enquiries@linkmarketservices.com

AIR NEW ZEALAND

A STAR ALLIANCE MEMBER

INTERIM FINANCIAL REPORT 2020

AIR NEW ZEALAND

A STAR ALLIANCE MEMBER

80 YEARS YOUNG

1940-2020

Letter from the Chairman

Kia ora koutou katoa.

As we celebrate the 80th anniversary of Air New Zealand this year, I am reminded of the tremendous history of this airline and of the milestones that we have achieved. From an operation that started with three flying boats, we now operate more than 110 aircraft to over 40 destinations, connecting New Zealanders to the world and the world to New Zealand.

In the last 10 years alone, Air New Zealand has substantially expanded its network, modernised and simplified its fleet and innovated the customer experience both at the airport and on-board our flights. We have also put sustainability at the heart of our business strategy and have partnered with regional and iwi stakeholders to ensure that the regions remain core to the narrative for New Zealand's ongoing success.

While it is milestones like this that lead us to reflect on where we have come from, it is crucial that we focus on where we are headed. 2020 is shaping up to be an exciting year for the airline, with direct flights to New York commencing in October providing the first ever non-stop link between Australasia and the east coast of the United States. We will also unveil our vision for the aircraft cabin of the future, which is the outcome of three years of product testing with our customers. We know that our world-class product and service offering is one of our key competitive advantages and these exciting new developments will further solidify that advantage.

Our new Chief Executive Officer Greg Foran has now officially taken the helm and has been spending time getting to know our business and our people. Greg has a very hands-on approach and is an extremely accomplished executive, who has proven in some of the toughest commercial environments in the world that he has the ability to understand and deliver on customer needs, empower staff to provide outstanding customer service and produce excellent commercial results. The Board and I are proud to have someone of Greg's calibre leading the airline into its 80th year and beyond.

On behalf of the Board, I would like to take the opportunity to thank Jeff McDowall for his excellent stewardship of the role of Acting Chief Executive Officer, as well as the rest of the Executive team who have been unwavering in their dedication to executing our strategic goals.

In a period where we have seen further external challenges impact our business, I want to acknowledge and thank all Air New Zealanders for their hard work and dedication. Whether it be working to secure leased aircraft to limit customer disruption from the ongoing engine maintenance backlog or regularly checking in on a nervous flyer during a flight, I feel proud every day of our Air New Zealand whānau.

Above – *Dame Therese Walsh; Chairman*

Speaking of external challenges, our team have spent a great deal of time in recent weeks assessing the expected impact of Covid-19 on the airline. While the situation is dynamic and continues to evolve, we have taken immediate steps to mitigate the impact of softer demand. This includes reducing capacity to a number of destinations within Asia, as well as some Domestic and Tasman ports where we are seeing the indirect effect of this reduced demand. We have the flexibility to scale these adjustments up or down as the need requires and I am confident that we have the ability to manage the expected short-term impacts of Covid-19 effectively.

Financial Results

Air New Zealand has delivered a solid result for the first six months of the financial year, with earnings before other significant items and taxation[1] of $198 million. This represents a decline of 8.8 percent compared to the prior period, reflecting the slower demand growth environment as well as weakness in the global cargo markets, increased competition on the Tasman, and the impact of ongoing unrest in Hong Kong.

The business is making good progress to mitigate the impact of this slower demand growth environment. Last year we highlighted a number of tactical responses to address the external challenges facing the airline, such as moderating growth on our mature routes to drive stronger unit revenue and margin, restructuring our domestic fare framework to stimulate leisure traffic, and delivering sustainable cost savings via our business review initiatives.

These actions have enabled us to deliver increased operating revenue of $3.0 billion, up 3.0 percent on last year, and achieve underlying unit cost savings of 0.5 percent despite significant price increases in domestic air navigation and landing charges.

Our financial position remains robust with gearing at 54.3 percent. Air New Zealand also continues to maintain a stable investment grade credit rating of Baa2 from Moody's. For this interim period the Board is pleased to declare a fully imputed interim dividend of 11.0 cents per share.

Outlook

While the outlook for the remainder of the year is uncertain, based on our current assumptions of lower demand as well as the benefit of the announced capacity reductions and lower jet fuel prices, the airline currently expects a net negative impact to earnings in the range of $35 million to $75 million as a result of Covid-19.

At the midpoint of the estimated range above, which is approximately $55 million, the airline is targeting earnings before other significant items and taxation to be in a range of approximately $300 million to $350 million[2].

The airline will provide an update to this guidance should the current assumptions materially change.

Ngā mihi

Dame Therese Walsh
Chairman

27 February 2020

[1] Refer to the financial commentary section on page 5. Earnings before taxation were $139 million.

[2] Assuming jet fuel prices remain at US$65 per barrel for the remainder of the year and excludes the impact of NZ IFRS 16.

Governance changes

Earlier this year, we welcomed Laurissa Cooney to the Board as an independent non-executive director. Laurissa has a strong understanding of the regional tourism industry, as well as deep connections to iwi and regional stakeholders across New Zealand. She has excellent commercial skills as well as a passion for leadership, and we are very excited for the new perspective she brings to the Board.

At the end of March we will farewell Sir John Key. Sir John has made an invaluable contribution to the Board and has been instrumental to the delivery of our overall strategy during that time. I would like to thank him for his dedication and I wish him all the very best for the future. Whilst Sir John's replacement is yet to be announced, I am confident that we continue to have the right mix of experience at the Board and Executive level to lead the airline into the future.

Contents

Letter from the Chief Executive Officer

Above – *Greg Foran; Chief Executive Officer*

Since joining Air New Zealand earlier this month, I have taken the opportunity to spend as much time as possible out in the business, getting to know our people, our customers and our operations. It has been a terrific experience and has enabled me to get a feel for the unique culture of the airline and to soak up the insights and vast knowledge of the team around me.

It is clear to me that we run a fantastic airline, playing to our core strengths in domestic New Zealand and across the Pacific Rim. Over time we have built key competitive advantages, such as a domestic network that is unmatched, an international network that leverages deep alliance partnerships, and we operate a modern and fuel-efficient fleet. Most importantly, we have a team of enthusiastic, dedicated and extremely capable employees who come to work every day focused on delivering an exceptional customer experience.

As I have interacted with different teams across the airline, the genuine desire Air New Zealanders have to go above and beyond for the customer has been quite astounding to me. I think it speaks volumes about the value our organisation has placed on getting the culture right. To all Air New Zealanders, I thank each and every one of you for everything that you do. You are the very core of our airline and the key to its ongoing success.

The 2020 interim result and outlook for the full year reflect a number of flow-on effects from the slowing demand growth environment, weakness in the global cargo market and the ongoing unrest in Hong Kong. The full impact of the recent Covid-19 outbreak remains uncertain but will undoubtedly have an impact on our financial performance for the second half of the year. This uncertainty should not detract from the fact that we are a strong, resilient airline, with an incredibly powerful core domestic business, in an industry that is at the forefront of innovation, technology and customer service.

My focus over the coming months will be to work through a directed diagnostic of the airline's strategic opportunities and risks, and, together with my Executive team, set a course for the future of Air New Zealand. While we still have further work and analysis to do, it is clear that we need to remain vigilant at this part of the economic cycle and continuously deliver the high-quality standard of service our customers expect from us, while improving our financial performance.

I recognise that I have inherited an enormous legacy and that Air New Zealand is a company that is dear to the heart of New Zealanders. I could not be more excited to be back home in New Zealand after 25 years, taking the lessons I have learnt in my career and using them to shape the future of this iconic company.

My overarching vision is to make Air New Zealand a company that all companies, not just other airlines, aspire to be like – whether it be from a financial or operational perspective, or in terms of the culture, the customer experience, product innovation or passion for sustainability.

I look forward to sharing more with you in the coming months.

Ka kite anō au i a koutou mauriora.

Greg Foran
Chief Executive Officer

27 February 2020

Financial Commentary

Our network responses to the lower demand growth environment have resulted in a solid revenue performance, with strong demand on the Domestic and Pacific Islands networks, as well as newer services into Asia and North America.

This has been offset by increased domestic air navigation and landing charges, additional ownership costs and a weaker New Zealand dollar. Underlying unit cost improvements contributed $59 million to profitability, driven by strong economies of scale and efficiencies as the airline implements its business review initiatives.

Despite the challenging demand environment, the Group delivered earnings before other significant items and taxation[1] of $198 million for the first six months of the 2020 financial year. Earnings before taxation were $139 million.

Revenue

Operating revenue for the period increased 3.0 percent to $3.0 billion, an increase of $88 million. Excluding the impact of foreign exchange, operating revenue increased 2.6 percent. Passenger revenue increased by 3.2 percent to $2.6 billion, reflecting higher capacity across the long-haul network as well as Domestic unit revenue growth. Excluding the impact of foreign exchange, passenger revenue was up 2.8 percent.

Capacity (Available Seat Kilometres, ASK) increased 2.8 percent this period, driven by the commencement of new routes on the long-haul network. Demand (Revenue Passenger Kilometres, RPK) grew ahead of capacity at 4.0 percent, resulting in an increased load factor of 84.3 percent for the period.

Overall Passenger Revenue per Available Seat Kilometre (RASK) improved modestly at 0.3 percent, as increased demand on the Domestic and Pacific Islands routes was largely offset by competitive pressures on the Tasman and the impact of lower demand to Hong Kong following ongoing unrest in the region. Excluding the impact of foreign exchange, RASK declined 0.1 percent.

International long-haul capacity grew 5.8 percent due to the annualisation of Chicago and Taipei services and additional services to Singapore from Auckland and Christchurch. Demand on international long-haul routes increased 7.2 percent, with load factor increasing 1.1 percentage points to 85.2 percent.

International long-haul RASK declined by 0.9 percent reflecting the impact of increased capacity from new routes, as well as increased market capacity for San Francisco services compared to the prior period. Excluding the impact of foreign exchange, RASK declined 1.9 percent.

Short-haul capacity declined 0.6 percent, as the rationalisation of capacity across the Domestic and Pacific Islands networks was partially offset by growth on the Tasman, including increased frequency to the Queensland region and the wrap-around of new services to Brisbane. Demand growth of 0.3 percent was slightly ahead of capacity, with load factors improving by 0.8 percentage points to 83.3 percent.

Short-haul RASK grew 2.6 percent, or 2.7 percent excluding the impact of foreign exchange, largely due to increased demand on the Domestic and Pacific Islands networks, partially offset by capacity growth in the Tasman.

Cargo revenue was $195 million, representing a decline of $18 million or 8.5 percent. Excluding the impact of foreign exchange, cargo revenue declined 9.4 percent, reflecting a downturn in the global cargo market following the ongoing tensions between the United States and China. Overall, cargo volumes declined 8.1 percent and yields declined 1.3 percent.

Contract services and other revenue was $244 million, an increase of 12 percent, due to higher revenue from maintenance contracts for third parties.

Expenses

Operating expenditure increased by $82 million or 3.5 percent compared to the prior period. This was primarily due to higher maintenance costs for third party contracts, significant increases in domestic air navigation and landing charges, unfavourable foreign exchange movements, and increased ownership costs from the arrival of new fleet. Fuel volumes also increased this year as a result of growth on the long-haul network.

Costs per ASK (CASK) increased 0.7 percent primarily as a result of unfavourable foreign exchange movements and increased maintenance for third party contracts, partially offset by fuel price declines. Excluding those items, CASK improved 0.5 percent, as non-fuel price increases were more than offset by economies of scale and efficiencies.

Labour costs were $681 million, up $9 million or 1.3 percent, as rate and activity increases were only partially offset by reduced incentive payments and productivity initiatives across wider support areas that followed from the airline's business review initiatives. Foreign exchange had no impact on these costs during the period.

Fuel costs were $656 million, increasing by $7 million or 1.1 percent. The largest driver of this increase was unfavourable foreign exchange from a weaker New Zealand dollar, which resulted in an additional cost of $20 million. Volume growth resulted in an increase of $15 million or 2.3 percent, reflecting capacity growth partially offset by the benefit of new aircraft efficiencies. The average price of fuel for the period declined $28 million or 4.3 percent, as a 13 percent decline

[1] Earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the underlying financial performance of the Group. Earnings before other significant items and taxation is reported within the condensed Group interim financial statements which was subject to review by the external auditors. Further details are contained within Note 3 of the condensed Group interim financial statements.

in underlying fuel prices was partially offset by hedging losses.

Aircraft operations, passenger services and maintenance costs were $753 million, an increase of $55 million or 7.9 percent. This was a result of capacity growth and increases in domestic air navigation and landing charges. In addition, growth in the fleet and increased maintenance activity for third party contracts drove higher maintenance costs.

Sales, marketing and other expenses increased by $5 million or 1.5 percent, due to additional digital and property spend, partially offset by lower marketing costs relative to the prior period.

Ownership costs increased by $29 million or 7.1 percent, reflecting an increase in aircraft depreciation due to delivery of new aircraft, which was partly 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 movement of $15 million. After taking into account a $6 million unfavourable movement in hedging, overall foreign exchange had a net $21 million adverse impact on the Group result for the six-month period.

Share of Earnings of Associates

Share of earnings of associates has increased by $4 million to $23 million for the period, reflecting further growth in engine volumes through the Christchurch Engine Centre.

Other Significant Items

Other significant items of $59 million were recognised during the period. These relate to reorganisation costs and the impact of retrospectively disestablishing fair value aircraft hedges.

Reorganisation costs of $13 million were incurred relating to business review initiatives, as well as costs associated with withdrawal from the Los Angeles to London service, which was announced in October 2019.

Following clarifications issued by the International Financial Reporting Interpretations Committee during the 2020 financial period, the Group's fair value US dollar aircraft hedges were disestablished, which resulted in a non-cash adverse impact of $46 million.

Cash and Financial Position

Cash on hand at 31 December 2019 was $1.0 billion, a decrease of $52 million from 30 June 2019, as operating cash flow in the period was offset by investment in aircraft and dividend payments.

Operating cash flows of $534 million increased $59 million, primarily driven by the impact of the new accounting standard on leases, NZ IFRS 16. Adjusting for reclassifications arising under NZ IFRS 16, operating cash flow declined $52 million due to the timing of tax payments, advanced purchases of inventory and lower earnings.

Net gearing for the period ending 31 December 2019 increased 2.6 percentage points to 54.3 percent compared to 1 July 2019[1], largely due to continued investment in our fleet.

A fully imputed interim ordinary dividend of 11.0 cents per share has been declared, which is in-line with the prior period.

Dividend record date:

13 March 2020

Dividend payment date:

25 March 2020

[1] Gearing has been restated on a comparable basis following the Group's adoption of NZ IFRS 16, the new lease accounting standard, which is effective from 1 July 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 2018 earnings before taxation	**$211m**	
Passenger capacity	$35m	- Capacity increased by 2.8 percent from growth arising from the annualisation of new routes to Chicago and Taipei, increased frequency on Singapore and growth on the Tasman offset by rationalisation of capacity on Domestic and Pacific Islands routes
Passenger RASK	$35m	- Revenue per Available Seat Kilometre (RASK) is comparable with the previous period. Loads increased by 0.9 percentage points to 84.3 percent - Long-haul RASK declined by 1.9 percent excluding FX and loads increased 1.1 percentage points to 85.2 percent - Short-haul RASK improved by 2.7 percent excluding FX and loads improved 0.8 percentage points to 83.3 percent
Cargo revenue	-$20m	- Cargo revenue declined due to a reduction in volumes of 8.1 percent and yield of 1.3 percent
Contract services and other revenue	$26m	- Increase in maintenance work for third parties
Labour	-$9m	- Increased activity arising from capacity growth and general rate increases offset by reduced incentive payments and lower support area costs due to business transformation initiatives
Fuel	$13m	- The average fuel price declined 4 percent compared to the prior year (net of hedging) resulting in a reduction in costs of $28 million. Consumption increased by 2.3 percent due to an increase in capacity offset by fleet efficiencies arising from delivery of new aircraft
Maintenance	-$31m	- Increase in maintenance work for third parties and growth in fleet
Aircraft operations and passenger services	-$21m	- Increased activity combined with price increases in domestic air navigation and landing charges
Sales and marketing and other expenses	-$1m	- Additional digital and property costs offset by lower promotional activity for new route launches
Depreciation and funding costs	-$29m	- Increase in depreciation reflecting new aircraft deliveries offset by lower funding costs
Net impact of foreign exchange movements	-$21m	- Net unfavourable impact of currency movements on revenue and costs and lower foreign exchange hedging gains
Share of earnings of associates	$4m	- Improved earnings from Christchurch Engine Centre driven by growth in engine volumes
Other significant items	-$53m	- Fair value losses on uncovered debt following retrospective disestablishment of the fair value aircraft hedge and current period reorganisation costs
December 2019 earnings before taxation	**$139m**	

*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 2019

	NOTES	6 MONTHS TO 31 DEC 2019 $M	6 MONTHS TO 31 DEC 2018 $M
Operating Revenue			
Passenger revenue		**2,576**	2,497
Cargo		**195**	213
Contract services		**117**	92
Other revenue		**127**	125
	4	**3,015**	2,927
Operating Expenditure			
Labour		**(681)**	(672)
Fuel		**(656)**	(649)
Maintenance		**(224)**	(193)
Aircraft operations		**(358)**	(345)
Passenger services		**(171)**	(160)
Sales and marketing		**(174)**	(178)
Foreign exchange gains		**23**	29
Other expenses		**(159)**	(150)
		(2,400)	(2,318)
Operating Earnings (excluding items below)		**615**	609
Depreciation and amortisation		**(412)**	(272)
Rental and lease expenses		**-**	(122)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation		**203**	215
Finance income		**20**	22
Finance costs		**(48)**	(39)
Share of earnings of associates (net of taxation)	2(a)	**23**	19
Earnings Before Other Significant Items and Taxation		**198**	217
Other significant items	3	**(59)**	(6)
Earnings Before Taxation		**139**	211
Taxation expense		**(38)**	(61)
Net Profit Attributable to Shareholders of Parent Company		**101**	150
Per Share Information:			
Basic earnings per share (cents)		**9.0**	13.5
Diluted earnings per share (cents)		**9.0**	13.4
Interim dividend declared per share (cents)		**11.0**	11.0
Net tangible assets per share (cents)		**163**	160

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 2019

	6 MONTHS TO 31 DEC 2019 $M	6 MONTHS TO 31 DEC 2018 $M
Net Profit for the Period	**101**	150
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	**91**	(69)
Transfers to net profit from cash flow hedge reserve	**(16)**	(72)
Changes in cost of hedging reserve	**4**	(28)
Taxation on above reserve movements	**(22)**	48
Total items that may be reclassified subsequently to profit or loss	**57**	(121)
Total Other Comprehensive Income for the Period, Net of Taxation	**57**	(125)
Total Comprehensive Income for the Period, Attributable to Shareholders of the Parent Company	**158**	25

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.

Statement of Changes in Equity (unaudited)

For the six months to 31 December 2019

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2019		**2,219**	**(31)**	**(12)**	**(87)**	**2,089**
Application of IFRIC interpretation	8	**-**	**-**	**-**	**(97)**	**(97)**
Restated Balance as at 1 July 2019		**2,219**	**(31)**	**(12)**	**(184)**	**1,992**
Net profit for the period		**-**	**-**	**-**	**101**	**101**
Other comprehensive income for the period		**-**	**57**	**-**	**-**	**57**
Total Comprehensive Income for the Period		**-**	**57**	**-**	**101**	**158**
Transactions with Owners:						
Equity-settled share-based payments (net of taxation)		**2**	**-**	**-**	**-**	**2**
Equity settlements of long-term incentive obligations	2(d)	**(15)**	**-**	**-**	**-**	**(15)**
Dividends on Ordinary Shares	7	**-**	**-**	**-**	**(123)**	**(123)**
Total Transactions with Owners		**(13)**	**-**	**-**	**(123)**	**(136)**
Balance as at 31 December 2019	2(e)	**2,206**	**26**	**(12)**	**(206)**	**2,014**

	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
Application of IFRIC interpretation	8	-	-	-	(103)	(103)
Restated Balance as at 1 July 2018		2,226	66	(13)	(206)	2,073
Net profit for the period		-	-	-	150	150
Other comprehensive income for the period		-	(122)	1	(4)	(125)
Total Comprehensive Income for the Period		-	(122)	1	146	25
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		2,218	(56)	(12)	(184)	1,966

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.

Statement of Financial Position (unaudited)

As at 31 December 2019

	NOTES	31 DEC 2019 $M	30 JUN 2019 $M
Current Assets			
Bank and short term deposits		**1,003**	1,055
Trade and other receivables		**447**	564
Inventories		**140**	81
Derivative financial assets		**61**	48
Income taxation		**16**	-
Other assets		**101**	56
Total Current Assets		**1,768**	1,804
Non-Current Assets			
Trade and other receivables		**97**	64
Property, plant and equipment	8	**3,838**	5,133
Right of use assets	8	**2,459**	-
Intangible assets		**188**	186
Investments in other entities	2(a)	**156**	149
Other assets	2(b)	**343**	285
Total Non-Current Assets		**7,081**	5,817
Total Assets		**8,849**	7,621
Current Liabilities			
Trade and other payables		**609**	585
Revenue in advance		**1,388**	1,372
Interest-bearing liabilities	2(c), 8	**151**	307
Lease liabilities	8	**357**	-
Derivative financial liabilities		**79**	32
Provisions		**80**	105
Income taxation		**-**	25
Other liabilities		**263**	240
Total Current Liabilities		**2,927**	2,666
Non-Current Liabilities			
Revenue in advance		**222**	200
Interest-bearing liabilities	2(c), 8	**1,322**	2,290
Lease liabilities	8	**1,829**	-
Provisions		**182**	165
Other liabilities		**31**	42
Deferred taxation		**322**	266
Total Non-Current Liabilities		**3,908**	2,963
Total Liabilities		**6,835**	5,629
Net Assets		**2,014**	1,992
Equity			
Share capital	2(d)	**2,206**	2,219
Reserves	2(e)	**(192)**	(227)
Total Equity		**2,014**	1,992

T M Walsh

JH Dawson

Dame Therese Walsh, CHAIRMAN
For and on behalf of the Board, 27 February 2020

Jan Dawson, DEPUTY CHAIRMAN

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.

Statement of Cash Flows (unaudited)

For the six months to 31 December 2019

	NOTES	6 MONTHS TO 31 DEC 2019 $M	6 MONTHS TO 31 DEC 2018 $M
Cash Flows from Operating Activities			
Receipts from customers		**3,072**	2,951
Payments to suppliers and employees		**(2,474)**	(2,451)
Income tax paid		**(39)**	(10)
Interest paid		**(46)**	(36)
Interest received		**21**	21
Net Cash Flow from Operating Activities		**534**	475
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		**7**	5
Proceeds from sale of slots	3	**42**	-
Distribution from associates		**17**	7
Acquisition of property, plant and equipment and intangibles		**(485)**	(493)
Interest-bearing asset payments		**(58)**	(77)
Investment in associate		**(1)**	-
Net Cash Flow from Investing Activities		**(478)**	(558)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		**46**	263
Lease liabilities drawdowns		**193**	-
Equity settlements of long-term incentive obligations	2(d)	**(15)**	(14)
Interest-bearing liabilities payments		**(75)**	(218)
Lease liabilities payments		**(181)**	-
Rollover of foreign exchange contracts*		**54**	56
Dividends on Ordinary Shares	7	**(130)**	(130)
Net Cash Flow from Financing Activities		**(108)**	(43)
Decrease in Cash and Cash Equivalents		**(52)**	(126)
Cash and cash equivalents at the beginning of the period		**1,055**	1,343
Cash and Cash Equivalents at the End of the Period		**1,003**	1,217
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net profit attributable to shareholders		**101**	150
Plus/(less) non-cash items:			
Depreciation and amortisation		**412**	272
Loss on disposal of property, plant and equipment		**2**	-
Impairment reversal on property, plant and equipment		**(3)**	-
Foreign exchange losses on debt, no longer offset by foreign exchange gains on the hedged item	3	**46**	6
Share of earnings of associates	2(a)	**(23)**	(19)
Movements on fuel derivatives		**(2)**	3
Other non-cash items		**3**	10
		536	422
Net working capital movements:			
Assets		**(43)**	32
Revenue in advance		**38**	(23)
Liabilities		**3**	44
		(2)	53
Net Cash Flow from Operating Activities		**534**	475

*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 2019

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") as it applies to the interim period. 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 2019.

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 2019 and 31 December 2018, except as noted below.

The Group adopted the requirements of NZ IFRS 16 - Leases with effect from 1 July 2019. This standard has significantly changed the accounting treatment of leases by lessees. The previous dual accounting model for lessees which distinguished between on-balance sheet finance leases and off-balance sheet operating leases, no longer applies. Instead, there is now a single, on-balance sheet accounting model for all leases. Lessor accounting remains similar to previous practice. Further details of the impact of the standard, including transitional adjustments arising on adoption, are included in Note 8.

In September 2019, the International Financial Reporting Interpretations Committee ("IFRIC") published an agenda decision in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The new interpretation by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. The interpretation has been applied retrospectively and comparative information within the financial statements restated accordingly. Further details are set out in Notes 3 and 8.

2. General Disclosures

Group composition

(a) The Group has a 49% interest in the Christchurch Engine Centre ("CEC") and a 21% interest in Drylandcarbon One Partnership LLC which are recognised as investment in associates 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 $23 million (31 December 2018: $19 million).

Interest-bearing assets

(b) Non-current "Other assets" include interest-bearing assets of $321 million (30 June 2019: $264 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 2019 was $362 million (30 June 2019: $287 million) and are subject to fixed and floating interest rates. Fixed interest rates in the six months to 31 December 2019 ranged from 3.1% to 3.6% (six months to 31 December 2018: 3.1%).

Interest-bearing liabilities

(c) Interest-bearing liabilities includes secured borrowings of $1,423 million and unsecured bonds of $50 million (30 June 2019: secured borrowings of $1,459 million, unsecured bonds of $50 million and finance leases of $1,088 million) which are recognised initially at fair value and subsequently measured at amortised cost. The fair value of secured borrowings and bonds as at 31 December 2019 is $1,480 million (30 June 2019: $1,549 million). Borrowings are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0% in the six months to 31 December 2019 (six months to 31 December 2018: 1.0%). Bonds have a fixed interest rate of 4.25%.

Share capital

(d) During the six months ended 31 December 2019 the Group funded the purchase on-market of 5,456,593 shares for $15 million (31 December 2018: 4,463,819 shares for $14 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 2019, $33 million of gains (30 June 2019: $21 million of losses) were held in the cash flow hedge reserve and $7 million of losses (30 June 2019: $10 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".

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2019

3. Other Significant Items

Other significant items are items of revenue or expenditure which due to their size or nature warrant separate disclosure to assist with the understanding of the underlying financial performance of the Group.

	6 MONTHS TO 31 DEC 2019 $M	6 MONTHS TO 31 DEC 2018 $M
Foreign exchange losses on debt, no longer offset by foreign exchange gains on the hedged item	**(46)**	(6)
Reorganisation costs	**(13)**	-
	(59)	(6)

In September 2019, the International Financial Reporting Interpretations Committee ("IFRIC") published an agenda decision in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The interpretation issued by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values which were previously undertaken by the Group. The interpretation has been applied retrospectively in the interim financial statements. The impact on the comparative period is set out in Note 8.

As a result of the reversal of the fair value hedges, $46 million of foreign currency losses arising on translation of the previously designated debt, was no longer offset by foreign currency gains arising on the hedged item. The debt was subsequently re-designated in new hedge relationships in accordance with the Group's financial risk management policies.

In March 2019, Air New Zealand announced a two-year cost reduction programme. Reorganisation costs, comprising of redundancy and other related costs, have been recognised in relation to the programme. In addition, following the announcement of the withdrawal of services on the London-Los Angeles route effective from October 2020, a provision for redundancy costs was recognised in respect of the London based cabin crew, ground staff and sales staff.

In October 2019 Air New Zealand announced its withdrawal from the London-Los Angeles route with effect from October 2020. Proceeds for the sale of the London Heathrow slots were received in December 2019. The gain on sale is expected to be recognised at the time the slot swaps are formally registered in June 2020 and November 2020. A gain on sale of $21 million is expected to be classified as an Other Significant Item in the second half of the financial year and will be reflected in the 2020 annual financial statements. A further gain on sale of $21 million is expected to be recognised for the year ended 30 June 2021.

4. 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 2019 $M	6 MONTHS TO 31 DEC 2018 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**1,870**	1,787
Australia and Pacific Islands	**347**	364
United Kingdom and Europe	**136**	136
Asia	**270**	251
Americas	**392**	389
Total Operating Revenue	**3,015**	2,927

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 and for the six months to 31 December 2019

5. Commitments

	31 DEC 2019 $M	30 JUN 2019 $M
Capital commitments		
Aircraft and engines	**2,861**	1,056
Other assets	**36**	52
	2,897	1,108
Lease commitments		
Aircraft	**31**	767
Property	**-**	291
	31	1,058

Following approval being obtained at the Annual Shareholder Meeting on 25 September 2019, agreements were entered into to acquire eight Boeing 787-10 aircraft (powered by GE Aviation's Genx-1B engines) and two spare engines.

Capital commitments as at reporting date include eight Boeing 787-10 aircraft (planned delivery from 2023 to 2028 financial years), seven Airbus A321 NEOs and two Airbus A320 NEOs (delivery from 2021 to 2024 financial years) and two ATR72-600s (delivery from 2020 to 2021 financial years) and spare engines (delivery from 2021 to 2026 financial years).

On 1 July 2019, the Group adopted the requirements of NZ IFRS 16 - Leases. Effective from this date, lease liabilities were recognised on-balance sheet (refer Note 8 for further details). Where lease arrangements have not yet commenced, commitments are disclosed above.

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 2019: $31 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 $126 million (30 June 2019: $155 million).

7. Dividends

On 26 February 2020, the Board of Directors declared an interim dividend of 11.0 cents per Ordinary Share payable on 25 March 2020 to registered shareholders at 13 March 2020. 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 2019 interim financial statements.

An interim dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 27 March 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2019 (2018 financial year: 11.0 cents per Ordinary Share was paid on 19 September 2018). Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

8. Impact of New Accounting Standards and Interpretations

NZ IFRS 16 - Leases

The Group adopted the requirements of NZ IFRS 16 - Leases with effect from 1 July 2019. This standard has significantly changed the accounting treatment of leases by lessees. The previous dual accounting model for lessees which distinguished between on-balance sheet finance leases and off-balance sheet operating leases, no longer applies. Instead, there is now a single, on-balance sheet accounting model for all leases. Lessor accounting remains similar to previous practice.

This standard has had 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, adjusted for any unamortised payments in advance or incentives at that date, 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';

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2019

8. Impact of New Accounting Standards and Interpretations (continued)

- 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. This is managed as part of the Group's Financial Risk Management Policy; and
- reclassification of finance lease assets and liabilities from 'Property, plant and equipment' and 'Interest-bearing liabilities' to 'Right of use assets' and 'Lease liabilities', respectively, within the Statement of Financial Position.

In accordance with the transition provisions of NZ IFRS 16, comparatives have not been restated, with the cumulative effect having been recognised in opening retained earnings at the date of initial application of 1 July 2019. Right of use assets were measured at 1 July 2019 at an amount equal to the lease liability. As permitted by NZ IFRS 16, initial direct costs have been excluded from the measurement of the right of use asset at the date of initial application and lease terms, where the lease contains options to extend or terminate the lease, have been redetermined with the benefit of hindsight. 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 impact of the changes on the affected line items in the Statement of Financial Position as at 1 July 2019 is set out below:

Statement of Financial Position as at 1 July 2019	Impact of Changes in Accounting Policies			
	PRIOR TO APPLICATION OF NZ IFRS 16* $M	NZ IFRS 16 ADJUSTMENTS $M	FINANCE LEASE RECLASSIFICATION $M	AFTER APPLICATION OF NZ IFRS 16 $M
Current Assets				
Trade and other receivables	564	(25)	-	539
Total Current Assets	1,804	(25)	-	1,779
Non-Current Assets				
Trade and other receivables	64	(4)	-	60
Property, plant and equipment	5,133	-	(1,298)	3,835
Right of use assets	-	876	1,298	2,174
Total Non-Current Assets	5,817	872	-	6,689
Total Assets	7,621	847	-	8,468
Current Liabilities				
Interest-bearing liabilities	307	-	(161)	146
Lease liabilities	-	193	161	354
Other liabilities	240	(3)	-	237
Total Current Liabilities	2,666	190	-	2,856
Non-Current Liabilities				
Interest-bearing liabilities	2,290	-	(927)	1,363
Lease liabilities	-	669	927	1,596
Other liabilities	42	(12)	-	30
Total Non-Current Liabilities	2,963	657	-	3,620
Total Liabilities	5,629	847	-	6,476
Net Assets	1,992	-	-	1,992

* Including the impact of the IFRIC interpretation adjustment (refer following page).

The following table provides a reconciliation of the operating lease commitments disclosed as at 30 June 2019 to the total lease liabilities recognised on the Statement of Financial Position in accordance with NZ IFRS 16 as at 1 July 2019:

	NOTE	30 JUN 2019 $M
Operating lease commitments as at 30 June 2019		1,058
Leases not yet commenced	(a)	(182)
Effect of discounting	(b)	(141)
Redetermination of lease term	(c)	141
Short-term leases	(d)	(14)
Total additional lease liabilities expected on adoption of NZ IFRS 16		862
Finance lease obligations as at 30 June 2019		1,088
Total lease liabilities as at 1 July 2019		1,950

8. Impact of New Accounting Standards and Interpretations (continued)

(a) Leases not yet commenced: Operating lease commitments disclosed as at 30 June 2019 included amounts relating to leases entered into by the Group that had not yet commenced as at 30 June 2019. In accordance with NZ IFRS 16, assets and liabilities are not recognised on the Statement of Financial Position until the date of commencement of the leases. Leases which have not yet commenced continue to be disclosed as a commitment under NZ IFRS 16.

(b) Effect of discounting: The amount of the lease liability recognised under NZ IFRS 16 is on a discounted basis whereas operating lease commitments under NZ IAS 17 were on an undiscounted basis. The discount rates used on transition are appropriate for each lease, based on factors such as the lease term and lease currency. The weighted average discount rate used on transition was around 3%.

(c) Redetermination of lease term: Certain property leases, for which there is no readily identifiable alternative property available, include an additional renewal period where one is available under the lease contract.

(d) Short-term leases: Certain leases with a term of less than 12 months (including those providing cover for Boeing 787-9 engine issues) have not been recognised as assets or liabilities as at 1 July 2019. Operating lease commitments disclosed as at 30 June 2019 included such leases.

Leasing activities

The Group leases mainly aircraft, spare engines, airport lounges, offices and hangars, other office buildings and storage space. Aircraft leases are typically for 12 to 14 years with a series of early termination options. Property leases are typically 3 to 5 years, with a number of renewal options, together with a small number of longer term strategic leases. Extension and termination options are used to maximise operational flexibility.

Determination of lease term

The lease term is the non-cancellable period of a lease, together with periods covered by an option to extend or terminate the lease if the lessee is reasonably certain to exercise/not to exercise that option. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise/not exercise an option. Such assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and is within the control of the Group.

NZ IFRIC 23 - Uncertainty over Income Tax Treatments

The Group adopted the requirements of NZ IFRIC 23 - Uncertainty over Income Tax Treatments with effect from 1 July 2019. It clarifies how to apply the recognition and measurement requirements in NZ IAS 12 - Taxation when there is uncertainty over income tax treatments. This Interpretation has not had any impact on the financial statements.

IFRIC Interpretation

In September 2019, the International Financial Reporting Interpretations Committee ("IFRIC") published an agenda decision in respect of a "Fair Value Hedge of Foreign Currency Risk on Non-Financial Assets". The new interpretation by IFRIC of the principles of IFRS 9 - Financial Instruments no longer permits certain fair value hedges of underlying United States Dollar aircraft values previously undertaken by the Group. The interpretation has now been applied retrospectively. The impact of the change on the prior year comparatives is set out below:

- As a result of retrospectively applying the IFRIC agenda decision, cumulative foreign exchange gains recognised within aircraft assets were reversed. The impact in the six months to 31 December 2018 was $6 million, offset by $6 million of depreciation expense on the accumulated position.
- The above adjustments resulted in $6 million of foreign exchange losses, which arose upon retranslation of previously designated debt in the six months to 31 December 2018, now having no offsetting hedged item. Given that Group policy requires such items to be hedged, this has been reclassified to 'Other significant items'.

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2019

8. Impact of New Accounting Standards and Interpretations (continued)

Statement of Financial Performance	6 MONTHS TO 31 DEC 2018 AS PREVIOUSLY REPORTED $M	6 MONTHS TO 31 DEC 2018 ADJUSTMENTS $M	6 MONTHS TO 31 DEC 2018 RECLASSIFICATION $M	6 MONTHS TO 31 DEC 2018 AS RESTATED $M
Foreign exchange gains	29	(6)	6	29
Operating Earnings (excluding items below)	**609**	**(6)**	**6**	**609**
Depreciation and amortisation	(278)	6	-	(272)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	**209**	**-**	**6**	**215**
Other significant items	-	-	(6)	(6)
Earnings Before Taxation	**211**	**-**	**-**	**211**
Taxation expense	(59)	(2)	-	(61)
Net Profit Attributable to Shareholders of Parent Company	**152**	**(2)**	-	**150**

Statement of Financial Position	30 JUN 2019 AS PREVIOUSLY REPORTED $M	30 JUN 2019 ADJUSTMENTS[1] $M	30 JUN 2019 AS RESTATED $M
Property, plant and equipment	5,268	(135)	5,133
Total Non-Current Assets	5,952	(135)	5,817
Total Assets	**7,756**	**(135)**	**7,621**
Deferred taxation	304	(38)	266
Total Non-Current Liabilities	3,001	(38)	2,963
Net Assets	**2,089**	**(97)**	**1,992**
Reserves	(130)	(97)	(227)
Total Equity	**2,089**	**(97)**	**1,992**

[1] As at 30 June 2019, the retrospective application of IFRIC's agenda decision resulted in a decrease of $135 million in aircraft assets, representing accumulated foreign exchange losses recognised up to the date of the change, offset by a decrease of $38 million in deferred taxation. An amount of $103 million was recognised through opening retained earnings as at 1 July 2018 offset by a $6 million gain in the year to 30 June 2019 ($13 million reversal of depreciation expense offset by $5 million foreign exchange movement net of $2 million taxation expense).

Statement of Changes in Equity	General Reserves			Total Equity		
	AS PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	AS RESTATED $M	AS PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	AS RESTATED $M
Balance as at 1 July 2018	(103)	(103)	(206)	2,176	(103)	2,073
Net profit for the period	152	(2)	150	152	(2)	150
Total Comprehensive Income for the Period	**148**	**(2)**	**146**	**27**	**(2)**	**25**
Balance as at 31 December 2018	**(79)**	**(105)**	**(184)**	**2,071**	**(105)**	**1,966**
Balance as at 30 June 2019	**(87)**	**(97)**	**(184)**	**2,089**	**(97)**	**1,992**

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 8 to 18, which comprise the Statement of Financial Position as at 31 December 2019, 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 other 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 statements 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 2019 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

27 February 2020
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**.

Share Registrar

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A STAR ALLIANCE MEMBER
AIR NEW ZEALAND
One million domestic fares* under $50... and counting
Supporting Kiwis to get out and explore their backyard.
80 YEARS YOUNG
1940-2020
*Domestic fares sold from February 2019

NEW ZEALAND'S EXCHANGE

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Results for announcement to the market		
Name of issuer	Air New Zealand	
Reporting Period	6 months to 31 December 2019	
Previous Reporting Period	6 months to 31 December 2018	
Currency	New Zealand Dollars	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	3,035,000	2.9%
Total Revenue	3,035,000	2.9%
Net profit from continuing operations	101,000	(32.7%)
Total net profit	101,000	(32.7%)
Interim Dividend (NZ$)		
Amount per Quoted Equity Security	0.11000000	
Imputed amount per sec Quoted Equity Security	0.04277778	
Record Date	13-Mar-20	
Dividend Payment Date	25-Mar-20	
NZ$ Amount	**Reporting Period**	**Prior Comparative Period**
Net tangible assets per Quoted Equity Security	1.63	1.60
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to media release. The interim dividend was declared on 26 February 2020.	
Authority for this announcement		
Name of person authorised to make this announcement	Jennifer Page, General Counsel and Company Secretary	
Contact person for this announcement	Leila Peters, GM Investor Relations and Financial Planning	
Contact phone number	+64 9 336 2607	
Contact email address	investor@airnz.co.nz	
Date of release through MAP	27 February 2020	

Unaudited interim financial statements accompany this announcement.

Air New Zealand Limited
Preliminary Half Year Results
27 February 2020

CONTENTS

PRELIMINARY HALF YEAR REPORT ANNOUNCEMENT

AIR NEW ZEALAND LIMITED

Half Year Ended 31 December 2019 (referred to in this report as the "current half year")

1 Information prescribed by NZX

Refer to Results for announcement to the market.

2 The following information, which may be presented in whatever way the Issuer considers is the most clear and helpful to users, e.g., combined with the body of the announcement, combined with notes to the financial statements, or set out separately.

(a) A Statement of Financial Performance

Refer to the Interim Financial Statements.

(b) A Statement of Financial Position

Refer to the Interim Financial Statements.

(c) A Statement of Cash Flows

Refer to the Interim Financial Statements.

(d) Details of individual and total dividends or distributions and dividend or distribution payments, which:
(i) have been declared, and
(ii) relate to the period (in the case of ordinary dividends or ordinary dividends and special dividends declared at the same time) or were declared within the period (in the case of special dividends).

On 26 February 2020, the Board of Directors declared an interim dividend of 11.0 cents per Ordinary Share payable on 25 March 2020 to registered shareholders at 13 March 2020. 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 2019 interim financial statements.

A interim dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 27 March 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

A final dividend in respect of the 2019 financial year of 11.0 cents per Ordinary Share was paid on 18 September 2019. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

	$NZ'm*	NZ Cents Per Share
Distributions recognised		
Final dividend for 2019 financial year on Ordinary Shares	123	11.0
Distributions paid		
Final dividend for 2019 financial year on Ordinary Shares	130	11.0

* The difference between distributions recognised and paid relates to supplementary dividends.

(e) A Statement of Movements in Equity

Refer to the Interim Financial Statements.

(f) Net tangible assets per security with the comparative figure for the previous corresponding period

(NZ Cents Per Share)	Current period	Prior comparable period
Ordinary Shares	163	160

(g) Commentary on the results

		Measurement	Current period	Prior comparable period
(i)	Basic earnings per share	NZ cents per share	9.0	13.5
	Diluted earnings per share	NZ cents per share	9.0	13.4
(ii)	Returns to shareholders (see also section (d) above)			
	Final dividend on Ordinary Shares	$NZ'm	123	124

(iii) Significant features of operating performance:
Refer to the media release.

(iv) Discussion of trends in performance:
Refer to the media release.

(v) The Issuer's dividend policy
Refer to Air New Zealand website - https://www.airnewzealand.co.nz/dividend-history

(vi) Any other factors which have or are likely to affect the results, including those where the effect could not be quantified:
Refer to the media release.

(h) Audit of financial statements

The annoucement is based on unaudited interim financial statements. The interim financial statements have been the subject of review by the external auditor, pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board.

Basis of preparation

This report is compiled 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.

Accounting policies
Refer to Note 1 of the Interim Financial Statements.

Changes in accounting policies
Refer to Note 1 and Note 8 of the Interim Financial Statements.

Audit Review Report
A copy of the review report is attached at the back of the Interim Financial Statements.

Additional information
Not applicable.

This half year report was approved by the Board of Directors on 27 February 2020.

Dame Therese Walsh

Chairman

NZX
NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

Distribution Notice

Section 1: Issuer information				
Name of issuer	Air New Zealand Limited			
Financial product name/description	Ordinary Shares			
NZX ticker code	AIR.NZ			
ISIN (If unknown, check on NZX website)	NZAIRE0001S2			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year		Quarterly	
	Half Year	X	Special	
	DRP applies			
Record date	13/03/2020			
Ex-Date (one business day before the Record Date)	12/03/2020			
Payment date (and allotment date for DRP)	25/03/2020			
Total monies associated with the distribution[1]	$123,509,115			
Source of distribution (for example, retained earnings)	Operating Free Cash Flow			
Currency	New Zealand			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.15277778			
Gross taxable amount [3]	$0.15277778			
Total cash distribution[4]	$0.11000000			
Excluded amount (applicable to listed PIEs)	N/A – Not a listed PIE			
Supplementary distribution amount	$0.01941176			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	Fully imputed			
	~~Partial imputation~~			
	~~No imputation~~			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form
[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).
[3] "Gross taxable amount" is the gross distribution minus any excluded income.
[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.
[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

If fully or partially imputed, please state imputation rate as % applied[6]	28%	
Imputation tax credits per financial product	$0.04277778	
Resident Withholding Tax per financial product	$0.00763889	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	N/A	
Start date and end date for determining market price for DRP	N/A	N/A
Date strike price to be announced (if not available at this time)	N/A	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	N/A	
DRP strike price per financial product	N/A	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	N/A	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Jennifer Page, General Counsel and Company Secretary	
Contact person for this announcement	Jennifer Page	
Contact phone number	+64 279090691	
Contact email address	Jennifer.Page@airnz.co.nz	
Date of release through MAP	27/02/2020	

[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.