Carbon emissions are an inevitable consequence of air transportation and will continue to remain so, despite technological advancements, for the foreseeable future. However, as a small, geographically isolated country, air transport is vital in providing economic links to international markets. We’re all incredibly proud of New Zealand's unique natural beauty and enhancing New Zealand’s international “100% Pure” brand. Each year we spend millions internationally promoting and selling New Zealand as a destination alongside Tourism New Zealand.

New Zealand is regarded as a clean, green environmentally conscious wilderness playground populated by genuinely warm and caring people. What a great foundation on which to develop our tourist offering in an increasingly environmentally conscious world.

As New Zealand’s national carrier, we are absolutely committed to playing our part in ensuring that our environmental impact is minimised. We must continue to bring tourists to New Zealand, and remain committed to minimising the environmental impact we have in the process.

Fleet choice is one way in which we are looking to reduce the environmental impact of our operations. We currently have one of the youngest fleets in the Asia Pacific region thanks to a $2 billion investment programme over the past four years. The extensive use of turbo-prop aircraft domestically and the future introduction of the Boeing 787-9 and Boeing 777-300ERs internationally means that Air New Zealand will continue to have one of the youngest, most technologically advanced and fuel efficient fleets in the world over coming years.

TRAVELLING LIGHTER
A GREENER FUTURE FOR NEW ZEALAND TOURISM
The introduction of new aircraft together with a raft of other operational initiatives means this year we saved $12 million in jet fuel consumption. Additional initiatives will see us look to reduce carbon emissions by 58,000 tonnes this year.

From the work we’ve been doing, we know that our carbon footprint is diminishing. In 2006, we emitted around 3.6 million tonnes of CO₂. Of this amount, 92 percent came from jet fuel; the rest predominately came from electricity supplied to our offices and engineering bases.

Over the past decade, our fleet has reduced fuel burn per passenger kilometre by 9.1%. This translates directly to a reduction in CO₂ emissions per passenger kilometre.

Buy-in from our people is key to the success of our environmental strategy and, as we’d expect, our employees are enthusiastic about these new initiatives. We established an internal Green Team to raise this awareness further and encourage our people to develop their own ideas to reduce impacts on the environment. The fact that over 800 Air New Zealanders had joined the Green Team within a week of its launch demonstrates the commitment our people have to the environment.

STARTING AT HOME

Our domestic jet fleet is a good example of how some of the policies and practices adopted by Air New Zealand are helping to reduce our impact on the environment.

Everyday, our fleet of 14 Boeing 737-300s carry over ten thousand people between six cities in New Zealand. Our services provide business people with vital quick links between Auckland, Wellington, Christchurch and Dunedin, and are also a key part of tourism infrastructure, connecting Rotorua and Queenstown to key international airports.

As part of a fleet-wide initiative, the 737-300 fleet management team undertook a major fuel saving drive during 2007. Through the efforts of our pilots, crew, engineering and operational planning teams, the domestic jet fleet managed to reduce fuel consumption per operating hour by 3.7 per cent.

That’s a total saving of almost 1.3 million gallons of fuel over the course of a year – fuel which would produce 12,200 tonnes of carbon emissions and at current prices would cost the airline $3.5 million.

The approach is simple – we took a hard look at the excess weight we were carrying, and removed everything not needed on board to operate the aircraft safely and comfortably.

Our pilots took the lead in refining their fuel uplift procedures and we now only carry the right amount of fuel for each flight – including a safety margin – another way of reducing weight.

We also reduced the amount we operate the auxiliary power generator while an aircraft is on the ground. Instead, we plug our planes into a ground based electricity supply when they’re waiting at the gate.

DID YOU KNOW…?

In a long-haul flight, today’s modern aircraft consume, on average, 3.5 litres of fuel per 100 passenger kilometres – less than a small car. The next generation of aircraft will target fuel efficiency rates below 3.0 litres per 100 passenger kilometres.

Over the past year our pilots and flight operations people have worked tirelessly to identify opportunities for reducing fuel burn and emissions. These opportunities range from reduced use of aircraft Auxiliary Power Units while aircraft are parked on the ground to enhancing aircraft descent profiles and approach procedures.

But our changes aren’t just in the air. The new Air New Zealand House is symbolic of our commitment to responsible energy use with its high energy efficiency and the move to a largely paperless office. Proactive waste management means we are sending more and more materials for recycling that would previously have been sent to landfill.

These changes amount to the best of both worlds for us as a business: they streamline our environmental profile and, at the same time, enable us to save money on the bottom line. As you know, escalating fuel costs have been a major expense for us over the last three years.
The airline industry continues to be one of the most dynamic sectors of the economy. Record fuel prices, the impact of significant security costs and processes, volatile exchange rates, increasing environmental awareness and new game changing aircraft, technologies and interiors are continuously impacting the market.

As an airline operating from a remote geography and flying relatively long, thin routes, Air New Zealand must anticipate changes and adapt to these changes at a far quicker rate than many of our competitors in order to stay ahead and earn the ongoing support of our customers – because earn it we must!

This past year has been one of enormous change – changes that have led to significantly improved results.

But while these changes have enabled us to get back in the game, there is still much to be done before we are delivering the experiences to our customers, the work environment to our staff, and the returns to our shareholders that are truly and consistently world class.

**FAR-REACHING CHANGES**

Air New Zealand has made significant progress over the last five years. We’ve reaffirmed where this business needs to be, and we’ve worked hard to position ourselves to achieve this.

Customers have seen their long-haul flight experience transformed, and have enjoyed cheaper fares and great bargains domestically. Air New Zealanders have adapted. We now think more innovatively, work smarter and act faster. This is a source of our competitive advantage.

As a result, we now have a highly competitive offering for our customers on both international and domestic routes. We have improved the competitiveness of our engineering business, and the airport environment. Our fleet, including forward competitiveness of our engineering business, and domestic routes. We have improved the offering for our customers on both international and domestic routes. We have improved the competitiveness of our engineering business, and the airport environment. Our fleet, including forward.

It’s tempting to forget how far-reaching and how effective the measures that have been taken over the last five years have proven. But to put the progress made in context, the business has been able to maintain and improve its profitability in an environment in which jet fuel prices have added more than $600 million per annum to the cost base since 2004.

**A GOOD RESULT**

The key feature of the 2007 result has been the Group’s ability to increase revenue through improved load factors and yields across all our routes while maintaining strict management of controllable costs. Our investment in new product, our ability to adapt the network to changing market conditions, our success in streamlining conditions of work and our appetite for embracing new technology have all contributed to an improved financial performance that, in turn, has improved the balance sheet notwithstanding the recently completed capital investment programme.

With improved results come higher dividends. The Board has approved a final dividend of five cents per share.

We’re mindful of the volatility of this business, but to the extent conditions remain favourable it is the Board’s intention that the current dividend level is maintained. A special dividend was paid in February 2007 and, while no further special payments are currently planned, we continue to review the Group’s financial position and the trading environment at each reporting period.

**BROADENING OUR FOUNDATIONS**

We have established a track record of setting demanding goals and achieving them. In 2007 we looked hard at the longer term outlook for the airline, and as a result we’ve been making some critical decisions that will influence the size and shape of the airline well into the next decade.

Most significantly, our fleet replacement strategy announced during the year means that we will shift to a Boeing 777 and 787 long-haul fleet by 2013. The decision to invest in long range fuel efficient twin engine aircraft technology means our long-haul network will be flexible and primed for growth into the next decade. We’ll be able to carry more customers further, in greater comfort, using relatively less fuel in the process.

Aligned with this, but also a fundamental challenge in its own right, is the environment. Through fleet purchases and our own initiatives, we intend to reduce our emissions relative to the number of passengers we carry and place Air New Zealand in a market leading position in this regard – a status that will in turn fundamentally support the New Zealand value proposition as a destination. We expect to be a world leading airline in environmental performance improvement and we are making sure our actions support our words. CEO, Rob Fyfe talks more about this in his report.

**CLEAR INTENTIONS**

We’re making progress, and everyone involved should be buoyed by where we are heading. The change process is not one that can stop. The business environment will continue to evolve, and we must too. The Board is of the view that we need to be seeing improved returns for the substantial investments we have made. While we have some of the hard work behind us, the industry remains tough and necessitates a proactive business approach. We’ll stay focused. We’ll continue to work hard. And I’m confident, as a result, you’ll continue to see the rewards for the commitment you’ve shown us.

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**CLEAR APPROACH**

While Air New Zealand can’t control the weather, we can invest in the latest onboard navigation technology to minimise weather disruptions for our customers. New technology enables our pilots to fly extremely precise approaches into airports surrounded by difficult terrain or in inclement weather allowing services to continue operating on a number of days when disruption would otherwise have occurred in the past. This is a great example of our on-going commitment to investing in exciting new technology that benefits our customers.

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> **FULL YEAR NET PROFIT AFTER TAX OF $214 MILLION**
> The balance sheet is healthy, with net gearing (including net capitalised aircraft operating leases) of 47 percent – well inside Board guidelines.
> Cash holdings are $1.1 billion.
> Final dividend for the year ended 30 June 2007 of five cents per share with full imputation credits attached. Full year dividends total 18 cents per share (including the special dividend).
It’s pleasing to end this financial year with strong forward momentum across the business. We have worked hard over the past few years to improve our products and service, restructure our route network and invest in new aircraft. We’re now well placed to compete and benefit from relatively buoyant demand in key markets.
In December 2006 we launched a $1 reserve charity auction to raise money for three charities – Make-a-Wish New Zealand, StarJam and Starship Foundation. Everything from Round the World tickets to getting your lawns mowed by our CEO Rob Fyfe went under the hammer. The auction raised over $264,000 for our three charities – and we'll be looking to better that in 2008!!
INVESTING FOR VALUE
Increasing revenue has been an area that has received much focus in 2007. Air New Zealanders have worked hard to ensure that the Group’s investment in new aircraft and new products is rewarded. Market share is up on almost all our routes, and our loads and yields have increased as many people choose to take advantage of the comforts and the distinctly Kiwi experience that Air New Zealand offers.

At the same time, we have continued to pursue productivity improvements and adapted our business model to ensure that Air New Zealand remains internationally competitive. The Business Transformation programme instigated in 2004 has delivered $324 million of annualised benefits, against our $245 million target, which has helped to offset the potentially crippling rise in fuel costs.

Our success will continue to be derived from our ability to quickly adapt to changes in the market. It is essential that we position ourselves at the forefront of in-flight, airport and online innovation if we expect to maintain and continue to strengthen our competitive position.

THE DREAM RINGS TRUE
Boeing’s new 787 “Dreamliner” is now a reality and heralds the arrival of the next generation of fuel efficient mid-sized wide-body aircraft which will deliver a significant competitive advantage over other aircraft types. We have opted to be the first airline in the world to receive the Boeing 787-9 which has greater capacity and longer range than the Boeing 787-8 scheduled to enter airline service next year. We currently have firm orders for eight Boeing 787-9s and options to acquire a further eight.
More recently, we announced the purchase of four Boeing 777-300ER aircraft and the acquisition of options for three more as a replacement for the Boeing 747-400.

To ensure that we remain at the cutting edge of delivering a unique and inspirational product for long-haul travel, we are working closely with US based IDEO, one of the world’s most innovative design organisations, on the design for Boeing 787-9 and 777 fleet interiors.

When we have taken delivery of all the aircraft we have on order, Air New Zealand will have one of the youngest, most technologically advanced, fuel efficient and environmentally friendly long-haul fleets in the world and set a high benchmark both in terms of operational efficiency and world-class products and service.

The commitment we made to the future of the airline when the aircraft market was at the bottom of the cycle three years ago and the selection of the Boeing 787-9 and 777-300ER to meet our future wide-body needs has really paid off. The Group is well positioned to realise its growth expectations.

We want to be a leader in the airline industry in minimising aviation’s carbon footprint, and we will be working with everyone from the aircraft manufacturers to “grass roots” tourist operators to identify carbon reduction and offset opportunities. For example, we are in the early stages of developing an alternative fuel initiative with Boeing.

The acquisition of the successful newspaper recycling programme on our jets that has cut waste by 11%. Our new head office has been purpose designed and built to be as green as possible. The Boeing 787-9 promises to be 20% more fuel efficient than its predecessor in our fleet, the Boeing 767 – ushering in a new age of environmentally friendly air travel. The Boeing 777-300ER will be 16% more fuel efficient than the Boeing 747-400.

We are determined to support the 100% Pure positioning that Tourism New Zealand has worked so hard to establish globally. The challenge for us, and for other members of the tourism sector, will be to demonstrate our commitment much more overtly, and to back up our actions with tangible results that credibly substantiate that claim.

CONTAINING COSTS MEANS GENERATING CHOICES

Airfares have been reducing in real terms for many years, despite airlines having to cope with skyrocketing fuel prices, airport charges, rising wages and other costs. As a result, we’re under ongoing pressure to improve our productivity.

Fuel prices continue to sit at record levels, and for other members of the tourism sector, will demonstrate our commitment much more overtly, and to back up our actions with tangible results that credibly substantiate that claim.

Many of the changes that have taken place over the last few years have been about meeting customer preferences in a way that is responsive to their needs. We’ve worked hard to identify what customers value, and therefore what they wish to see included in their airfare, and those things they didn’t value and therefore could be removed to the greater benefit of all. We took meals off our domestic services because they didn’t represent good value for our customers’ money, but lifted the standard of our food offering in our Koru lounges where it was considered very important. We have introduced automated and online check-in because people wanted faster processing. All of these things have directly enabled short-haul prices to remain competitive, stimulating the market to grow far faster than historic trends.

These changes have been a lot asked of our people. In fact, they have experienced probably the greatest period of sustained change ever faced by Air New Zealand. It’s a huge tribute to their commitment and professionalism that the quality of our service and safety has been steadfast despite the very real personal pressures that Air New Zealanders have been under. I want to take this opportunity to applaud their commitment and performance.

The reality is that we operate in a highly competitive environment, where traditional work practices have to be challenged if we are to have an internationally competitive, sustainable business in the long term. For some parts of our business, that has meant testing their performance against international benchmarks. For others, it has meant putting in place cost structures capable of attracting offshore work to supplement the airline’s own volumes because that’s the only way to ensure the long term viability of those operations. These challenges are never easy to overcome and they make for media headlines – however we have no option but to examine every part of what we do to ensure that we can continue to adapt the business, remain competitive, deliver customers what they desire and reward shareholders for their commitment to Air New Zealand.

WE MUST BE AS NEW ZEALAND AS ONLY WE CAN BE

What’s emerged is an airline that has a much greater ability to change and adapt than ever before. What we need to do now is to support our people to deliver a world class, distinctly New Zealand style of service of which every New Zealander can be proud.

As the most New Zealand of airlines, part of our role is to live and breathe the characteristics we cherish as a nation: the ability to be yourself; our “can do” innovative spirit and creativity; and our willingness to adapt at speed to an ever changing competitive landscape. As Air New Zealanders, we need to celebrate the heritage of New Zealand, and ensure that everyone who comes into contact with us feels that they have been treated in that distinctly New Zealand way. Investing in training and development, and encouraging our people to take up skills opportunities, is part of that commitment. This year, we set aside six training days per person across the company and invested $25 million to ensure we have the abilities needed to compete to our potential.

As I said at the start, we’ve made good progress over the last 12 months. Net profit after tax was $214 million, up 123% on last year. EBITDAR* at $860 million also improved significantly despite continuing high fuel costs.

Excluding the impact of short-dated foreign exchange contracts, operating cash flow increased to $584 million.

It has also been a year of challenges, but the overall result is pleasing. I am extremely proud of Air New Zealanders for getting us to this position, but there remains a lot left to do. We have a unique airline, and providing we remember and celebrate that, and do everything we can to capitalise on our strengths, I’m confident we’ll continue to build value for customers, Air New Zealanders and investors alike.

* EBITDAR – Earnings before interest, taxation, depreciation, amortisation and rent expenses.
New Zealand’s diversity of sights and experiences is a vital part of its attractiveness, and one of the things about this country that visitors find so refreshing and surprising. In a country that is world renowned for its spectacular landscapes, they quickly discover adventure, culture, world-class wine country, a myriad of outdoor options, exclusive lodges, fishing, great food and much more.

The challenge for the tourism sector and for major promoters of New Zealand like Air New Zealand is to communicate that variety in a way that is sufficiently compelling to draw people from across the world to this country of ours.

It’s often said that those coming here are attracted by the promise of natural beauty, but that their most vivid memories centre on the people they interact with while they are here. Inevitably, that includes Air New Zealand as we help them travel to, from and within New Zealand.

That’s one reason we encourage all Air New Zealanders to be themselves, and to provide our customers with a uniquely Kiwi experience. It’s also why we’ve developed a uniquely Kiwi onboard product with everything from New Zealand wine to New Zealand leather on our Business Premier seats.

As one of New Zealand’s biggest export earners, it’s critical that we capitalise on what comes naturally to us as New Zealanders to give tourists the best of times, without exploiting it to the point where its distinctiveness, and therefore value, is lost.

Air New Zealand continues to advocate for the tourism industry to work more closely together as a team to formulate a cohesive and competitive strategy to which we can all contribute, each playing our part within an agreed national framework. Our concern otherwise, is that we risk being overtaken by countries that are geographically closer to the markets we target and now lay claim to ideas or activities that we once considered unique to us.

As more and more countries wake up to the advantages of a powerful destination brand, it’s critical that we continue to remind ourselves of how much we have to offer, and that the best way to succeed is for companies, government and local authorities to work together to market what must remain an unforgettable experience for those embarking on the New Zealand adventure.
Critical to our ability to compete as an airline is our ability to introduce, develop and maintain a fleet that is in sync with the needs of our travellers. With the aviation industry continuing to evolve rapidly, and new product choices making their presence felt, particularly in long-haul, it’s vital that Air New Zealand remains a step ahead of the competition.

The arrival of the Boeing 777-200 Extended Range wide-body jets and Q300 regional turbo-props over the last two years and the recent launch of the new Boeing 787 Dreamliner have lifted the game in terms of the options available.

We see the new Boeing 777-300ER and next generation Boeing 787 aircraft as essential to our ability to achieve new levels of international competitiveness. As the launch customer for the new Boeing 787-9 aircraft, the first of which is due to enter service here in 2010, we’ll be able to offer longer flights in more comfort and at much greater levels of fuel efficiency than ever before. We have already placed firm orders for eight Boeing 787-9 aircraft and have options to purchase eight more. At a time when airlines looking to order these aircraft face waiting lists of up to seven years, Air New Zealand is extremely well placed in the market.

The Boeing 787-9 Dreamliner (dubbed “Greenliner” by some industry observers) is also the first ever aircraft to offer longer range, with less capacity at a lower cost per seat. It is a genuine game changer and the ideal aircraft for Air New Zealand’s international network of “long-thin” routes. With a range of up to 13,000 kilometres and a 270 seat capacity, we will, for the first time, be able to achieve direct reach to cities in the Indian sub-Continent, South America and central North America.

Right now, we have a Dreamliner project team working on both the configuration and interior design concepts for our Boeing 787-9s. We are confident that the new interiors we launch on the Boeing 787-9 in 2010 will herald a new era in passenger comfort and entertainment.

Air New Zealand’s premium product broke new ground when it was introduced in 2005 and we plan to change the game again in 2010 with a world-leading product that is both inspirational and uniquely Kiwi.
A NEW SHAPE IN THE SKIES

In August, we announced an order for four Boeing 777-300ER aircraft, due for delivery alongside the Boeing 787-9 in 2011 and 2012.

The Boeing 777 will progressively replace our fleet of eight Boeing 747-400s, which have been the backbone of our long-haul fleet for the best part of two decades.

Like the Boeing 787-9, the 777-300ER is a member of the new generation of fuel efficient, twin engine, long-haul aircraft. The aircraft can accommodate up to 50 more passengers than the Boeing 777-200ER, eight of which have been inducted into the Air New Zealand fleet over the last two years.

Powered by two GE-90 engines – the world’s most powerful commercial aircraft engine – the Boeing 777-300ER operates with 16% more fuel efficiency than the Boeing 747-400.
There’s nothing like watching your own baby grow a strong and vital identity of its own. Just four years ago, we generated around $150 million in online sales from sites that used a third-party booking engine. Today, we have our own state-of-the-art booking engine, designed and built by our own people which is all about putting customers back in control of their travel arrangements where possible.

In early June 2007, Air New Zealand recorded $1 billion in online sales for the first time in a single financial year, reflecting improvements in the functionality of the technology. Instead of only being able to book simple domestic flights and limited international flights, our customers can now access the full Air New Zealand network including code-share options, multi-city bookings and holiday packages whilst enjoying a raft of special features and information. Air New Zealand Holidays was also launched during the year and is now able to provide customers with quick, convenient and secure ways to book much, if not all, of their travel.

And the innovations have kept coming.

In April 2007, we successfully launched a new online check-in service that allows domestic passengers to select their seats and print out their own boarding passes. That same month, we sold our 100,000th seat on the “Grab-a-Seat” section of the company’s website. We have been delighted with the response of the travelling public to the “Grab-a-Seat” initiative which offers “opportunistic” travellers a daily array of super low cost fares to a variety of New Zealand destinations within certain windows of travel.

Visitors to the online booking website have increased from just 15,000 visits a day four years ago to 100,000 visitors on average today and “Online” is now the largest distribution channel for our own fares.

Having said all this, travel agents are still a very important part of our distribution network. For this reason, it has been very pleasing to see the growth achieved from these partners during the year as the agents have successfully adapted to the new operating environment.

We have also continued to invest significantly in our regional fleet and facilities this year. In a country as geographically diverse as New Zealand it is vital that we connect regional communities through continued investment in modern, efficient equipment and services. The introduction of the new Q300 regional turbo-prop fleet has been a runaway success increasing the frequency, efficiency and coverage that we can now offer around New Zealand.

Today, our regional network includes Mount Cook Airlines, Air Nelson and Eagle Air. Together, these three Air New Zealand subsidiaries fly to 26 airports within New Zealand, directly connecting 47 city and town pairs. The current schedule sees us flying 2,907 flights per week, an average of 415 per day, with 56,875 seats available for take-up every week.

Our regional network fulfills two vital functions. It enables convenient and timely point-to-point flying throughout the regions, which accounts for 64% of domestic traffic. But it’s also about connectivity. In fact, 36% of our regional flights are simply about connecting people to other regional services, domestic jet services or international services.
ENGINEERING SUCCESS

In 2006, Air New Zealand’s engineering operation underwent significant change. At the time we set a target of lowering net operating costs by $100 million over four years.

Part of this cost saving involved sourcing maintenance work from other airlines to fill the excess capacity in our engineering workshops. Our engineering services have proven to be in high demand by some of the world’s most recognisable airlines who have requested our assistance with servicing, refitting and designing interiors for their jets.

In July, we announced that Air New Zealand Technical Operations had secured a contract with Hawaiian Airlines to perform heavy maintenance on their fleet of Boeing 767 aircraft. The contract represents up to $45 million in revenue over the next five years.

It’s a credit to our engineers to be selected by Hawaiian Airlines. It demonstrates again the high level of talent we have in our engineering business, and the reputation for quality work that they have generated around the world.

PILOT CLIMBS EVEREST

Air New Zealanders have been making their mark on the world in more ways than one over the past year.

Boeing 767 First Officer Mike Allsop fulfilled a life-long dream to follow in the footsteps of Sir Edmund Hillary and climb Mt Everest.

Mike, who has climbed many of New Zealand’s highest peaks, prepared for over four years for the climb – including six months of specific physical training. Mike showed a tremendous can do attitude when he set out with his team to make the final assault on the summit of Mt Everest. At 8:30am on May 24th, Mike stood alone on the summit taking in the view from the top of the world.

We salute Mike’s outstanding achievement and uniquely Kiwi spirit.

STARJAM

Air New Zealand is a passionate supporter of StarJam, the New Zealand charity helping young New Zealanders with disabilities reach their true potential through performance.

In May, the StarJam group and Dave Dobbyn launched their original single Queen of Hearts at Air New Zealand House in Auckland – in fact they got such a huge round of applause that they performed it twice!

This enormously talented group of young Kiwis wrote the music and lyrics, produced the backing music and performed the song. We’re extremely proud to support such a gifted and committed group of young Kiwis.
Air New Zealand's flights to Adelaide commenced just last year on 26 March 2006, initially with three flights per week. In November of that year, just a few months after starting, the schedule was increased to five times a week to keep pace with demand. In February 2008, this will increase to a daily service.

Adelaide is 3,268 km from Auckland, and the route is operated by our Airbus A320 aircraft. The flight itself takes around 4 hours, 55 minutes from Auckland, and 4 hours, 15 minutes in the reverse direction.

Adelaide is a wonderful city with its shopping, incredible wineries and inspiring culture. It's precisely the sort of place New Zealanders love to travel to for all the conveniences of a big city without the frustrations.

We see great potential to continue growing the relationship between our airline and South Australia Tourism. Right now, we are flying over 3,000 passengers per month between New Zealand and Adelaide and over 75% of seats are full. By working even more closely with the Australian team, we see opportunities not only to lift volumes but also to encourage more Australians to make the journey the other way and experience more of New Zealand.

Another advantage of the increased schedule is that Air New Zealand is able to attract a larger share of the long-haul market to and from South Australia, as more travellers choose to connect to flights to North America through Auckland rather than Sydney or Melbourne.

We know we've got to keep looking to introduce New Zealanders to places that excite and interest them, but that are still relatively close to home.
We’ve recognised “New Zealandness” as a competitive advantage and we must continue to foster it if we are to compete meaningfully against airlines that are much larger than ourselves. In fact, the Air New Zealand travel experience is built around the personalised care and attention that comes with travelling on a smaller airline.

At home, Air New Zealand is part of the fabric of New Zealand life. We employ 10,713 people who every day make it possible for over 34,000 New Zealanders and visitors to go about their business and enjoy their time off. Internationally though, there is a very real risk that we could lose what makes us special by attempting to “internationalise” our offering.

The concept of “Air New Zealanders” is pivotal to countering that globalising trend. It recognises that everyone who works for Air New Zealand, regardless of where they come from or even where they are based, shares a unique Kiwi attitude built around passion and energy for the country, a “can do” attitude and hands-on know-how.

There is always a potential tension between celebrating your identity as a national carrier and remaining international in your appeal. Most airlines have tended more towards the latter, and as a result have lost much of their defining character and distinctiveness. Our strategy errs far more towards the former, which is why we invest in helping all our people to share the special traits that make New Zealanders who they are.

To help bring this about, Air New Zealand this year brought 45 overseas staff to New Zealand for training in an unmistakeably New Zealand way of working. This included Air New Zealanders from Hong Kong and Shanghai, who came here for several months as part of their induction programme.

Our network will continue to expand out across the world, and as it does so, it’s critical we remain the most New Zealand of airlines. Our Air New Zealandness is about binding our people together with an ethos that transcends race, religion, nationality or even where you work. It’s about an attitude and a way of relating to people that every travelling New Zealander, everyone who’s travelled here, and everyone coming here, will recognise, value and remember.

Like any service industry, we compete for preference not just on our products, but also on the experiences we provide. People are a critical part of our service delivery at every step of the journey.
FINANCIAL COMMENTARY

The past year has seen a significant improvement in profitability. Improved yields and strong demand have been the key drivers of revenue growth, partially offset by continuing fuel price rises.

Air New Zealand has seen earnings before interest and tax rise by 91% to $283 million in the year to 30 June 2007, a result which reflects a busy year for all parts of our business.

FINANCIAL OVERVIEW

Passenger revenue was up by $409 million or 13% to $3.5 billion in 2007. Yields were particularly pleasing, increasing by 7.7% from 2006. Yields for our short-haul airlines were up 7.5% and long-haul by 8.8%.

Load factor improved by 1.5 percentage points to 76.5% against a backdrop of a 3.1% increase in capacity across the Group. Our new services from Auckland to Shanghai and to London via Hong Kong have performed to expectation, as have Tasman services following the rationalisation of schedules during the year.

Net freight revenue was up $37 million to $396 million, an increase of 10% on 2006. Freight loads on our new Shanghai and Hong Kong long-haul routes have been particularly strong. So much so that we expect Greater China to be our largest long-haul freight market within a year.

Contract services and other revenue was up by $46 million to $404 million and includes additional charter activities and work performed by our engineering operations for other airlines. The completion of the Boeing 747-400 refit programme has meant more external work could be accepted in 2007. Subsequent to year end, we agreed a contract to service Boeing 767 aircraft for Hawaiian Airlines, securing up to $45 million of revenue over the next five years.

During the year we continued with our cost savings programme, which delivered a further $128 million of savings. This contributed to an improvement in productivity with operating expenditure (excluding the impact of foreign exchange and fuel price rises) increasing by 2% against a capacity uplift of 3.1%.

CASH POSITION

Cash generated from operating activities, prior to the impact of the rollover of short dated foreign exchange contracts, was $584 million, an increase of $242 million on last year. The net operating cash flow includes a $253 million negative cash impact associated with the rollover of short-dated foreign exchange contracts used to hedge US currency exposures in other financial periods, bringing net cash from operating activities to $331 million.

Capital expenditure was $556 million for the year, most of which related to Boeing 777-200ER and Q300 aircraft.

Debt drawdowns totalled $493 million, and were offset by repayments of $249 million, $140 million of which we chose to repay early.

FINANCIAL POSITION

Closing cash was $1.1 billion, down slightly from 2006. Cash remained invested in New Zealand based deposit accounts, and achieved an average effective interest rate of 7.67% during 2007.

Total assets increased by $159 million during 2007, the largest influence being the impact of fleet acquisitions offset by current year depreciation, the sale of an Airbus A320 and the retirement of the SAAB 340A fleet.

Total liabilities were consistent with the prior year at $3.2 billion. Convertible notes of $98 million were converted to ordinary shares during the year. Net debt remains low at $1.6 billion, with net gearing improving 4.6 percentage points to 47.3% at 30 June 2007 (treating convertible notes as equity for the 2006 year). Calculation of the net gearing ratio takes into account the Group’s net operating aircraft lease commitments.

Shareholder funds as at 30 June 2007 were $1.7 billion, an increase of $154 million.

FLEET

During 2007 we successfully completed the introduction of the Boeing 777-200ER and took delivery of a further eight Q300 aircraft. These aircraft acquisitions were funded via cash, commercial debt and leasing arrangements.

Air New Zealand has orders for eight Boeing 787-9 aircraft and four Boeing 777-300ER aircraft. These aircraft will begin arriving in 2010 and once introduced Air New Zealand will operate one of the youngest and most efficient long-haul aircraft fleets in the world.

DIVIDENDS

During the year, the company declared both an interim dividend of three cents per share and a special dividend of 10 cents per share. Combined with the final dividend of five cents per share, total dividends declared for the year are well in excess of the prior year.

During the year we continued with our cost savings programme, which delivered a further $128 million of savings. This contributed to an improvement in productivity with operating expenditure (excluding the impact of foreign exchange and fuel price rises) increasing by 2% against a capacity uplift of 3.1%.
## Change in Profitability

The key changes in profitability are broken down in the table below:

<table>
<thead>
<tr>
<th>2006 Profit Before Unusuals and Tax</th>
<th>$150m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Passenger yield improvement</strong></td>
<td>+$157m</td>
</tr>
<tr>
<td>- Passenger yield increased by 7.7%</td>
<td></td>
</tr>
<tr>
<td>- Short-haul yields improved by 7.5%</td>
<td></td>
</tr>
<tr>
<td>- Long-haul yields improved by 8.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Passenger traffic improvement</strong></td>
<td>+$181m</td>
</tr>
<tr>
<td>- Overall passenger load factor for the group was 76.5%, up 1.5 percentage points on 2006</td>
<td></td>
</tr>
<tr>
<td>- Capacity was added to the network mostly through the development of a number of routes, combined with the impact of larger replacement aircraft in the fleet</td>
<td></td>
</tr>
<tr>
<td><strong>Increase in freight, contract services and other revenue</strong></td>
<td>+$63m</td>
</tr>
<tr>
<td>- Particularly strong freight load factor was achieved on Shanghai and Hong Kong routes</td>
<td></td>
</tr>
<tr>
<td>- Additional charter operations and an increase in engineering throughput for external customers were the main drivers of higher contract services revenue</td>
<td></td>
</tr>
<tr>
<td><strong>Labour cost increases</strong></td>
<td>-$76m</td>
</tr>
<tr>
<td>- Rate changes were the largest individual driver of increased labour costs</td>
<td></td>
</tr>
<tr>
<td>- Costs relating to increased capacity and new routes were also significant contributors</td>
<td></td>
</tr>
<tr>
<td><strong>Fuel increases</strong></td>
<td>-$165m</td>
</tr>
<tr>
<td>- Fuel consumption rose just under 1% to 8.4 million barrels in 2007. Concurrently, capacity across the group increased by 3.1%</td>
<td></td>
</tr>
<tr>
<td>- The price of jet fuel averaged US$89 per barrel this year compared to US$77 per barrel last year, driving $143 million of the total rise in fuel cost</td>
<td></td>
</tr>
<tr>
<td>- We have hedged 62% of our estimated fuel needs for 2008 at US$70.50 per barrel (crude)</td>
<td></td>
</tr>
<tr>
<td><strong>Aircraft operations and passenger services costs</strong></td>
<td>-$40m</td>
</tr>
<tr>
<td>- Our Asia schedules expanded during the year, including Shanghai and London via Hong Kong. These were a key driver of higher aircraft operating and passenger service costs</td>
<td></td>
</tr>
<tr>
<td><strong>Sales and marketing costs</strong></td>
<td>-$35m</td>
</tr>
<tr>
<td>- Increased marketing spend was directly invested in new route development during the year</td>
<td></td>
</tr>
<tr>
<td>- Increased revenue drove higher commission costs</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation, lease and interest costs</strong></td>
<td>-$47m</td>
</tr>
<tr>
<td>- Recent fleet upgrades have given rise to a net increase in both depreciation and lease costs by $29 million</td>
<td></td>
</tr>
<tr>
<td>- Interest costs were up primarily due to higher levels of borrowing to fund fleet investment</td>
<td></td>
</tr>
<tr>
<td><strong>Net impact of foreign exchange movements</strong></td>
<td>-$43m</td>
</tr>
<tr>
<td>- Currency movements during the period resulted in a $43 million negative impact on profitability</td>
<td></td>
</tr>
<tr>
<td><strong>Cost savings</strong></td>
<td>+$128m</td>
</tr>
<tr>
<td>- Additional cost saving initiatives provided a net benefit to profitability of $128 million</td>
<td></td>
</tr>
<tr>
<td>The key initiatives during the year were:</td>
<td></td>
</tr>
<tr>
<td>- Labour productivity initiatives</td>
<td></td>
</tr>
<tr>
<td>- Fuel conservation measures</td>
<td></td>
</tr>
<tr>
<td>- Sales and marketing channel savings</td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>-$5m</td>
</tr>
<tr>
<td>2007 Profit Before Unusuals and Tax</td>
<td>$268m</td>
</tr>
</tbody>
</table>
### STATEMENT OF FINANCIAL PERFORMANCE

**FOR THE YEAR TO 30 JUNE**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger revenue</td>
<td>3,497</td>
<td>3,088</td>
</tr>
<tr>
<td>Cargo</td>
<td>396</td>
<td>359</td>
</tr>
<tr>
<td>Contract services</td>
<td>264</td>
<td>237</td>
</tr>
<tr>
<td>Other revenue</td>
<td>140</td>
<td>121</td>
</tr>
<tr>
<td>Total</td>
<td>4,297</td>
<td>3,805</td>
</tr>
</tbody>
</table>

| **Operating Expenditure**      |       |       |
| Labour                         | (886) | (863) |
| Fuel                           | (1,108)| (949)|
| Maintenance and overhaul       | (230) | (218) |
| Aircraft operations            | (388) | (352) |
| Passenger services             | (223) | (222) |
| Sales and marketing            | (322) | (311) |
| Other expenses                 | (280) | (201) |
| Total                          | (3,437)| (3,116)|

| **Earnings before Interest, Taxation, Depreciation** |       |       |
| Amortisation and Rental Expenses | 860   | 689   |
| Depreciation and amortisation   | (279) | (261) |
| Rental and lease expenses       | (298) | (290) |
| Total                          | 268   | 150   |

| **Earnings Before Interest and Taxation** |       |       |
| Net interest                    | 283   | 148   |
| Net interest                    | (15)  | 2     |
| Total                          | 268   | 150   |

| **Operating Surplus Before Taxation and Unusual Items** |       |       |
| Unusual items *                | (24)  | (44)  |
| Total                          | 244   | 106   |

| **Operating Surplus Before Taxation** |       |       |
| Taxation expense                | (30)  | (10)  |
| Total                          | 214   | 96    |

| **Net Surplus Attributable to Shareholders of Parent Company** |       |
| Per Share Information:                                    |       |
| Basic earnings per share (cents)                          | 20.9  | 9.6   |
| Diluted earnings per share (cents)                        | 20.5  | 9.4   |
| Dividend per share (cents):                               | 8.0   | 5.0   |
| Interim and final dividend (declared)                     | 10.0  | –     |
| Net tangible assets per share (cents)                     | 166   | 159   |

* Unusual items for the year ended 30 June 2007 comprise business reorganisation costs ($30 million, and business reorganisation costs of $14 million). 

### STATEMENT OF MOVEMENTS IN EQUITY

**FOR THE YEAR TO 30 JUNE**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net surplus attributable to shareholders</td>
<td>214</td>
<td>96</td>
</tr>
<tr>
<td>Translation (loss)/gain in foreign currency translation reserve</td>
<td>(3)</td>
<td>4</td>
</tr>
<tr>
<td>Total Recognised Revenues and Expenses</td>
<td>211</td>
<td>100</td>
</tr>
<tr>
<td>Shares issued</td>
<td>105</td>
<td>3</td>
</tr>
<tr>
<td>Dividend on Ordinary Shares</td>
<td>(162)</td>
<td>(50)</td>
</tr>
<tr>
<td>Total Recognised Revenues and Expenses</td>
<td>211</td>
<td>100</td>
</tr>
</tbody>
</table>

| ** Movements in Equity for the Year** |       |       |
| Equity at the Beginning of the Year                | 1,594 | 1,541 |
| Equity at the End of the Year                      | 1,748 | 1,594 |

The Summary Financial Statements have been extracted from Audited Financial Statements (refer note 1).
### STATEMENT OF FINANCIAL POSITION

**AS AT 30 JUNE**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank and short term deposits</td>
<td>1,058</td>
<td>1,150</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>568</td>
<td>429</td>
</tr>
<tr>
<td>General stores</td>
<td>119</td>
<td>121</td>
</tr>
<tr>
<td>Income taxation</td>
<td>37</td>
<td>–</td>
</tr>
<tr>
<td>Other assets</td>
<td>29</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>1,811</td>
<td>1,721</td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,888</td>
<td>2,669</td>
</tr>
<tr>
<td>Investments</td>
<td>47</td>
<td>54</td>
</tr>
<tr>
<td>Other assets</td>
<td>184</td>
<td>325</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>3,133</td>
<td>3,064</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4,944</td>
<td>4,785</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank overdraft and short term borrowings</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>400</td>
<td>494</td>
</tr>
<tr>
<td>Transportation sales in advance</td>
<td>628</td>
<td>526</td>
</tr>
<tr>
<td>Borrowings</td>
<td>66</td>
<td>315</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>Provisions</td>
<td>103</td>
<td>102</td>
</tr>
<tr>
<td>Income taxation</td>
<td>–</td>
<td>14</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>124</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>1,371</td>
<td>1,581</td>
</tr>
<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Convertible notes</td>
<td>–</td>
<td>98</td>
</tr>
<tr>
<td>Borrowings</td>
<td>440</td>
<td>537</td>
</tr>
<tr>
<td>Finance lease liabilities</td>
<td>829</td>
<td>478</td>
</tr>
<tr>
<td>Provisions</td>
<td>79</td>
<td>94</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>424</td>
<td>364</td>
</tr>
<tr>
<td><strong>Total Non-Current Liabilities</strong></td>
<td>1,825</td>
<td>1,610</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>3,196</td>
<td>3,191</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>1,748</td>
<td>1,594</td>
</tr>
</tbody>
</table>

| **Equity**              |        |        |
| Issued capital          | 2,213  | 2,108  |
| Asset revaluation reserve | 9     | 9     |
| Revenue reserves        | (474)  | (523)  |
| **Total Equity**        | 1,748  | 1,594  |

John Palmer, **CHAIRMAN** 

Roger France, **DIRECTOR** 

For and on behalf of the Board, 28 August 2007 

The Summary Financial Statements have been extracted from Audited Financial Statements (refer note 1).
## Statement of Cash Flows

**For the Year to 30 June**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>4,370</td>
<td>3,856</td>
</tr>
<tr>
<td>Interest received</td>
<td>84</td>
<td>69</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(3,757)</td>
<td>(3,443)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(19)</td>
<td>(61)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(94)</td>
<td>(79)</td>
</tr>
<tr>
<td></td>
<td>584</td>
<td>342</td>
</tr>
<tr>
<td>Rollover of foreign exchange contracts*</td>
<td>(253)</td>
<td>131</td>
</tr>
<tr>
<td><strong>Net Cash Flow from Operating Activities</strong></td>
<td>331</td>
<td>473</td>
</tr>
<tr>
<td><strong>Cash Flows from Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of property, plant and equipment</td>
<td>64</td>
<td>10</td>
</tr>
<tr>
<td>Finance lease receipts</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(556)</td>
<td>(764)</td>
</tr>
<tr>
<td>Secured deposit</td>
<td>(15)</td>
<td>(15)</td>
</tr>
<tr>
<td>Acquisition of investments</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Net Cash Flow from Investing Activities</strong></td>
<td>(510)</td>
<td>(772)</td>
</tr>
<tr>
<td><strong>Cash Flows from Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Borrowings and finance lease liability drawdowns</td>
<td>493</td>
<td>589</td>
</tr>
<tr>
<td>Borrowings and finance lease liability payments</td>
<td>(249)</td>
<td>(163)</td>
</tr>
<tr>
<td>Dividend on Ordinary Shares</td>
<td>(160)</td>
<td>(48)</td>
</tr>
<tr>
<td><strong>Net Cash Flow from Financing Activities</strong></td>
<td>86</td>
<td>379</td>
</tr>
<tr>
<td><strong>Net Movement in Cash Holding</strong></td>
<td>(93)</td>
<td>80</td>
</tr>
<tr>
<td>Cash balance at beginning of year</td>
<td>1,150</td>
<td>1,070</td>
</tr>
<tr>
<td><strong>Cash Balance at End of Year</strong></td>
<td>1,057</td>
<td>1,150</td>
</tr>
</tbody>
</table>

### Reconciliation of Net Surplus Attributable to Shareholders to Operating Net Cash Flows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net surplus attributable to shareholders</strong></td>
<td>214</td>
<td>96</td>
</tr>
<tr>
<td>Plus/(less) non-cash items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>279</td>
<td>261</td>
</tr>
<tr>
<td>(Gain)/loss on disposal of property, plant and equipment</td>
<td>(5)</td>
<td>2</td>
</tr>
<tr>
<td>Share of surplus of associates</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Foreign exchange (gains)/losses</td>
<td>(89)</td>
<td>57</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>399</td>
<td>422</td>
</tr>
<tr>
<td><strong>Net working capital movements</strong></td>
<td>(68)</td>
<td>51</td>
</tr>
<tr>
<td><strong>Net Cash Flows from Operating Activities</strong></td>
<td>331</td>
<td>473</td>
</tr>
</tbody>
</table>

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

The Summary Financial Statements have been extracted from Audited Financial Statements (refer note 1).
1. FINANCIAL STATEMENTS

The Summary Financial Statements have been extracted from the audited Air New Zealand consolidated financial statements (the ‘Full Financial Statements’). The Full Financial Statements (and unqualified audit report), dated 28 August 2007, are available at: www.airnzinvestor.com. The Summary Financial Statements presented cannot be expected to provide as complete an understanding as provided by the Full Financial Statements. An unqualified audit opinion was issued on the Full Financial Statements. The Summary Financial Statements have been examined by the Group’s auditor for consistency with the Full Financial Statements and their unqualified audit report on the Summary Financial Statements has been attached.

The Full Financial Statements of Air New Zealand Limited and its controlled entities have been prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies used in these financial statements are consistent with those used as at 30 June 2006.

2. OPERATING LEASE COMMITMENTS

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$M</td>
<td>$M</td>
</tr>
<tr>
<td>Aircraft leases payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than 1 year</td>
<td>226</td>
<td>284</td>
</tr>
<tr>
<td>Between 1 and 2 years</td>
<td>215</td>
<td>220</td>
</tr>
<tr>
<td>Between 2 and 5 years</td>
<td>301</td>
<td>547</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>13</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>755</td>
<td>1,099</td>
</tr>
</tbody>
</table>

| Property leases payable |       |       |
| Not later than 1 year   | 25    | 37    |
| Between 1 and 2 years   | 21    | 22    |
| Between 2 and 5 years   | 48    | 43    |
| Over 5 years            | 71    | 63    |
|                      | 165   | 165   |

3. CAPITAL COMMITMENTS

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$M</td>
<td>$M</td>
</tr>
<tr>
<td>Aircraft</td>
<td>2,322</td>
<td>1,302</td>
</tr>
<tr>
<td>Non-aircraft</td>
<td>22</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>2,344</td>
<td>1,345</td>
</tr>
</tbody>
</table>

On 3 August 2007, Air New Zealand confirmed the purchase of four Boeing 777-300ER aircraft, by converting existing purchase rights into firm orders. Air New Zealand has also converted an additional three purchase rights into options. The Boeing 777-300ER aircraft subject to firm orders will be introduced over the period from November 2010 to November 2011. The table includes the firm commitments in relation to these aircraft.

4. 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 effects.

Air New Zealand has been named in three class actions. One, in Australia, claims travel agents commission on fuel surcharges and two (one in Australia and one in the United States) make allegations against more than 30 airlines, of anti-competitive conduct in relation to pricing in the air cargo business. The allegations made in relation to the air cargo business are also the subject of investigations by regulators in a number of jurisdictions. In the event that a court determined that Air New Zealand had breached relevant laws, Air New Zealand would have potential liability for pecuniary penalties and to third parties for damages under the laws of the relevant jurisdictions. No other significant contingent liability claims are outstanding at balance date.

The Group has outstanding letters of credit and performance bonds totalling $18 million (30 June 2006: $19 million). Under certain operating lease arrangements the Group has an obligation to return aircraft to specified operational conditions prior to redelivery.

The Group has a partnership agreement with the Christchurch Engine Centre (CEC) in which it holds a 49 percent interest. By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $36 million (30 June 2006: $65 million).

5. FINAL DIVIDEND

On 28 August 2007, the Board of directors declared a final dividend for the 2007 financial year of 5.0 cents per Ordinary Share, payable on 27 September 2007 to registered shareholders at 14 September 2007. The total dividend payable will be $53 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. This dividend has not been recognised in the June 2007 financial statements.
AUDIT REPORT

TO THE READERS OF THE SUMMARY FINANCIAL STATEMENTS OF AIR NEW ZEALAND LIMITED GROUP
FOR THE YEAR ENDED 30 JUNE 2007

We have audited the summary financial statements as set out on pages 20 to 23.

Unqualified Opinion
In our opinion, the information reported in the summary financial statements complies with FRS-39: Summary Financial Reports and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report dated 28 August 2007.

Basis of Opinion
The audit was conducted in accordance with the Auditor-General’s Auditing Standards, which include New Zealand Auditing Standards.

In addition to the audit, we have carried out assignments in the areas of taxation and other assurance services. In addition, we deal with Air New Zealand Limited and Group (the Group) on arm’s length terms within the ordinary course of the Group’s trading activities. Other than the audit, the assignments and arm’s length transactions, we have no relationship with or interests in the Group.

Responsibilities of the Board of Directors and the Auditor
The Board of Directors is responsible for preparing the summary financial statements and we are responsible for expressing an opinion on those statements.

A Burgess
DELOITTE
On behalf of the Auditor-General
Auckland, New Zealand
28 August 2007

Matters Relating to the Electronic Presentation of the Audited Summary Financial Statements

This audit report relates to the summary financial statements of Air New Zealand Limited Group for the year ended 30 June 2007 included on Air New Zealand Limited’s website. Air New Zealand Limited’s Board of Directors is responsible for the maintenance and integrity of Air New Zealand Limited’s website. We have not been engaged to report on the integrity of Air New Zealand Limited’s website. We accept no responsibility for any changes that may have occurred to the summary financial statements since they were initially presented on the website.

The audit report refers only to the summary financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/ from these summary financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited summary financial statements and related audit report dated 28 August 2007 to confirm the information included in the audited summary financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of summary financial statements may differ from legislation in other jurisdictions.
SHAREHOLDER ENQUIRIES

Shareholder Communication
Air New Zealand’s investor website
www.airnzinvestor.com 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.com or email Investor Relations directly on investor@airnz.co.nz.

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