2008

INTERIM FINANCIAL RESULTS

AIR NEW ZEALAND

This document, in conjunction with the Air New Zealand Shareholder Interim Review 2008, constitutes the 2008 Interim Report to shareholders of Air New Zealand Limited.

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE (UNAUDITED)

FOR THE SIX MONTHS TO 31 DECEMBER 2007

	NOTES	6 MONTHS TO 31 DEC 2007 $M	6 MONTHS TO 31 DEC 2006 $M	12 MONTHS TO 30 JUN 2007 $M
Operating Revenue				
Passenger revenue		**1,900**	1,706	3,479
Cargo and mail		**213**	217	396
Contract services		**142**	131	264
Other revenue		**77**	73	140
	2	**2,332**	2,127	4,279
Operating Expenditure				
Labour		**(480)**	(436)	(883)
Fuel	3	**(560)**	(618)	(1,109)
Maintenance		**(121)**	(107)	(214)
Aircraft operations		**(205)**	(191)	(388)
Passenger services		**(124)**	(116)	(223)
Sales and marketing		**(163)**	(143)	(295)
Other expenses	3	**(188)**	(104)	(257)
		(1,841)	(1,715)	(3,369)
Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation		**491**	412	910
Depreciation and amortisation		**(166)**	(170)	(322)
Rental and lease expenses		**(137)**	(155)	(298)
Earnings Before Finance Costs and Taxation		**188**	87	290
Finance costs*	3	**(16)**	(13)	(24)
Earnings Before Taxation and Unusual Items**		**172**	74	266
Unusual items***		**–**	14	3
Profit Before Taxation		**172**	88	269
Taxation expense		**(57)**	(15)	(48)
Net Profit Attributable to Shareholders of Parent Company		**115**	73	221
Per Share Information:				
Basic earnings per share (cents)		**10.9**	7.3	21.6
Diluted earnings per share (cents)		**10.9**	7.1	21.1
Dividend per share (cents):				
Interim and final dividend (declared)		**5.0**	3.0	8.0
Special dividend		**–**	10.0	10.0
Net tangible assets per share (cents)		**143**	130	132

* Finance costs includes interest expense of $63 million and interest revenue of $47 million (31 December 2006: interest expense of $55 million and interest revenue of $42 million; 30 June 2007: interest expense of $108 million and interest revenue of $84 million).

** Normalised earnings before taxation and unusual items for the six months to 31 December 2007 are $159 million (31 December 2006: $98 million; 30 June 2007: $259 million), after excluding net gains on non-hedge accounted and ineffective derivatives of $13 million that hedge exposures in other financial periods (31 December 2006: net losses of $24 million; 30 June 2007: net gains of $7 million).

*** Unusual items for the prior year comprise business reorganisation costs (31 December 2006: $5 million; 30 June 2007: $24 million) and foreign exchange gains arising upon transition to NZ IFRS (31 December 2006: $19 million; 30 June 2007: $27 million).

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Institute of Chartered Accountants of New Zealand Review Engagement Standards RS-1. The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF MOVEMENTS IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS TO 31 DECEMBER 2007

	6 MONTHS TO 31 DEC 2007 $M	6 MONTHS TO 31 DEC 2006 $M	12 MONTHS TO 30 JUN 2007 $M
Changes in fair value of cash flow hedges	**40**	(215)	(213)
Transfers to net profit from cash flow hedge reserve	**29**	(38)	(87)
Transfers to asset carrying value from cash flow hedge reserve	**4**	(17)	(15)
Net loss on hedge of net investment in foreign operation	**–**	(8)	(12)
Share-based payments	**1**	1	1
Taxation on reserve movements	**(24)**	89	104
Income and Expense Recognised Directly in Equity	**50**	(188)	(222)
Net profit for the period	**115**	73	221
Total Recognised Income and Expenses for the Period	**165**	(115)	(1)
Shares issued	**6**	4	105
Dividend on Ordinary Shares	**(53)**	(25)	(162)
Movement in Equity for the Period	**118**	(136)	(58)
Equity at the Beginning of the Period	**1,388**	1,446	1,446
Equity at the End of the Period	**1,506**	1,310	1,388

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CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2007

	31 DEC 2007 $M	31 DEC 2006 $M	30 JUN 2007 $M
Current Assets			
Bank and short term deposits	**1,223**	1,045	1,058
Trade and other receivables	**461**	450	448
Inventories	**119**	118	119
Derivative financial assets	**101**	13	35
Income taxation	**29**	28	37
Other assets	**39**	35	33
Total Current Assets	**1,972**	1,689	1,730
Non-Current Assets			
Trade and other receivables	**14**	17	15
Property, plant and equipment	**2,584**	2,466	2,636
Intangible assets	**43**	46	47
Investments	**46**	50	47
Derivative financial assets	**2**	–	1
Other assets	**222**	252	190
Total Non-Current Assets	**2,911**	2,831	2,936
Total Assets	**4,883**	4,520	4,666
Current Liabilities			
Bank overdraft and short term borrowings	**1**	–	1
Trade and other payables	**458**	429	392
Revenue in advance	**763**	664	748
Borrowings	**66**	68	66
Finance lease liabilities	**52**	39	49
Derivative financial liabilities	**85**	174	139
Provisions	**42**	39	55
Other liabilities	**116**	108	126
Total Current Liabilities	**1,583**	1,521	1,576
Non-Current Liabilities			
Trade and other payables	**22**	30	26
Revenue in advance	**123**	108	102
Convertible notes	**–**	98	–
Borrowings	**406**	516	440
Finance lease liabilities	**832**	647	829
Derivative financial liabilities	**12**	2	6
Provisions	**96**	97	91
Other liabilities	**26**	28	27
Deferred taxation	**277**	163	181
Total Non-Current Liabilities	**1,794**	1,689	1,702
Total Liabilities	**3,377**	3,210	3,278
Net Assets	**1,506**	1,310	1,388
Equity			
Issued capital	**2,222**	2,114	2,215
Cash flow hedge reserve	**(30)**	(49)	(79)
Other reserves	**(686)**	(755)	(748)
Total Equity	**1,506**	1,310	1,388

John Palmer, CHAIRMAN

Roger France, DIRECTOR

For and on behalf of the Board, 29 February 2008

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CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS TO 31 DECEMBER 2007

	6 MONTHS TO 31 DEC 2007 $M	6 MONTHS TO 31 DEC 2006 $M	12 MONTHS TO 30 JUN 2007 $M
Cash Flows from Operating Activities			
Receipts from customers	**2,359**	2,151	4,370
Interest received	**46**	41	84
Payments to suppliers and employees	**(2,062)**	(1,901)	(3,715)
Income tax refunded/(paid)	**23**	(14)	(19)
Interest paid	**(46)**	(50)	(94)
	320	227	626
Rollover of foreign exchange contracts relating to operating activities*	**67**	(64)	(171)
Net Cash Flow from Operating Activities	**387**	163	455
Cash Flows from Investing Activities			
Disposal of property, plant and equipment and intangibles	**8**	59	64
Acquisition of property, plant and equipment and intangibles	**(141)**	(310)	(598)
Rollover of foreign exchange contracts relating to investing activities*	**(2)**	(18)	(20)
Secured deposit	**(5)**	(5)	(15)
Acquisition of investments	**–**	(3)	(3)
Net Cash Flow from Investing Activities	**(140)**	(277)	(572)
Cash Flows from Financing Activities			
Shares issued	**1**	1	2
Borrowing and finance lease liability drawdowns	**28**	255	493
Borrowing and finance lease liability payments	**(58)**	(200)	(249)
Rollover of foreign exchange contracts relating to financing activities*	**(4)**	(25)	(62)
Dividend on Ordinary Shares	**(49)**	(22)	(160)
Net Cash Flow from Financing Activities	**(82)**	9	24
Increase/(Decrease) in Cash and Cash Equivalents	**165**	(105)	(93)
Cash and cash equivalents at beginning of period	**1,057**	1,150	1,150
Cash and Cash Equivalents at End of Period	**1,222**	1,045	1,057
Reconciliation of Net Profit Attributable to Shareholders to Operating Cash Flows:			
Net profit attributable to shareholders	**115**	73	221
Plus/(less) non-cash items:			
Depreciation and amortisation	**166**	170	322
Gain on disposal of property, plant and equipment and intangibles	**(1)**	(2)	(4)
Share of loss/(profit) of associates	**2**	–	(1)
Foreign exchange losses/(gains)	**2**	(38)	(49)
Other non-cash items	**3**	57	10
	287	260	499
Net working capital movements:			
Assets	**(21)**	(24)	(4)
Revenue in advance	**36**	30	87
Deferred foreign exchange losses/(gains)	**67**	(64)	(171)
Liabilities	**18**	(39)	44
	100	(97)	(44)
Net Cash Flow from Operating Activities	**387**	163	455

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

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to the Institute of Chartered Accountants of New Zealand Review Engagement Standards RS-1. The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. STATEMENT OF ACCOUNTING POLICIES

Entities reporting

The financial statements presented are those of Air New Zealand Limited (the Company) and its subsidiaries and associates (the Group).

Air New Zealand's primary business is the transportation of passengers and cargo on scheduled airline services.

Statutory base

Air New Zealand Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993.

Basis of preparation

Air New Zealand prepares its annual financial statements in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities. The Group and Company adopted NZ IFRS on 1 July 2007.

These are the Group's first interim financial statements, prepared in accordance with International Accounting Standard ("IAS") 34 and NZ IAS 34 – Interim Financial Reporting. NZ IFRS 1: First-time adoption of NZ IFRS has been applied. NZ IFRS 1 requires the Group's opening balance sheet to be prepared in accordance with the accounting policies used in preparation of the annual financial statements for the year ending 30 June 2008. An explanation of how the transition to NZ IFRS has affected reported equity as at 1 July 2006 (transition date), 31 December 2006 and 30 June 2007 and earnings for the six months to 31 December 2006 and year to 30 June 2007 is provided in note 9.

These interim financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2007. These interim financial statements have not been audited but have been subject to review by the auditors, pursuant to the Institute of Chartered Accountants of New Zealand Review Engagement Standards RS-1.

The financial statements were approved by the Board of Directors on 29 February 2008.

Basis of measurement

The financial statements have been prepared on the historical cost basis, with the exception of certain items as identified in specific accounting policies below and are presented in New Zealand Dollars which is the Company's functional currency.

Use of accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates and associated assumptions are based on historical experience and other factors, as appropriate to the particular circumstances. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under the applicable accounting policies below.

Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated. Comparative information has been reclassified to achieve consistency in disclosure with the current period.

Air New Zealand has elected to early adopt NZ IFRIC 13: Customer Loyalty Programmes (refer to the specific accounting policy on loyalty programmes below) and NZ IFRS 8: Operating segments (refer note 2).

Basis of consolidation

The consolidated financial statements include those of the Company and its subsidiaries, accounted for using the purchase method, and the results of its associates, accounted for using the equity method.

Subsidiaries are entities that are controlled either directly or indirectly, by the Company. Associates are those entities in which the Company, either directly or indirectly, holds a significant but not a controlling interest.

All material intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Investments in subsidiaries and associates are recognised in the Company's financial statements at their cost of acquisition less any provision for impairment.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

CONTINUED

Foreign currency translation

Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions and balances
Foreign currency transactions are converted into the relevant functional currency using exchange rates approximating those ruling at transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains or losses are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;

(ii) income and expenses for each Statement of Financial Performance are translated at exchange rates approximating those ruling at transaction date; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity.

As at 1 July 2006 (transition date), cumulative translation differences for all foreign operations, previously recognised within the foreign currency translation reserve (a component of equity) have been transferred to revenue reserves within equity in accordance with the exemption available under NZ IFRS 1: First-time adoption of NZ IFRS.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Revenue recognition

Airline revenue
Passenger and cargo sales revenue is recognised in revenue in advance at the fair value of the consideration received. Amounts are transferred to revenue in the Statement of Financial Performance when the actual carriage is performed. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

The Group operates various codeshare and alliance arrangements. Revenue under these arrangements is recognised when the Group performs the carriage or otherwise fulfils all relevant contractual commitments.

Contract revenue
Where contract related services are performed over a contractually agreed period, and the amount of revenue, related costs and stage of completion of the contract can be reliably measured, revenue is recognised by reference to the stage of completion of the contract at balance date. Other contract related revenue is recognised on completion of the contract.

Other revenue
Other revenue is recognised at the time the service is provided.

Loyalty programmes
The fair value of revenues associated with the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction, is deferred, net of estimated expiry (non-redeemed Airpoints Dollars), until the Airpoints member has redeemed their points. The fair value of consideration received in respect of sales of Airpoints Dollars to third parties is deferred, net of estimated expiry, until such time as the Airpoints member has redeemed their points.

The estimate of expiry is based upon historical experience and is recognised in net passenger revenue at the time of the initial sales transaction.

Deferred Airpoints revenue is recorded within revenue in advance in the Statement of Financial Position.

Investment revenue
Dividend revenue is recognised when the right to receive payment is established.

Interest revenue from investments and fixed deposits is recognised as it accrues, using the effective interest method where appropriate.

Cash flows

Cash flows are included in the Statement of Cash Flows net of Goods and Services Tax.

Borrowing costs

Borrowing costs directly attributable to the acquisition of qualifying assets, such as aircraft, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets which necessarily take a substantial period of time to get ready for their intended use.

All other borrowing costs are recognised in the Statement of Financial Performance in the period in which they are incurred.

Lease payments

Finance leases
Payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases
Leases under which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received) are recognised as an expense in the Statement of Financial Performance on a straight-line basis over the term of the lease.

Maintenance costs

The cost of major airframe inspections and engine overhauls for owned aircraft is capitalised and depreciated over the period to the next expected inspection or overhaul.

Where the Group has a commitment to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is based on the present value of the estimated future costs of major airframe inspections and engine overhauls by making appropriate charges to the Statement of Financial Performance, calculated by reference to the number of hours or cycles operated during the year.

All other maintenance costs are expensed as incurred.

Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to foreign exchange, fuel price and interest rate risks arising from operational, financing and investment activities.

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised:

- either immediately in the Statement of Financial Performance; or
- where derivatives qualify for hedge accounting in accordance with NZ IAS 39: Financial Instruments: Recognition and Measurement, recognition of any resultant gain or loss depends on the nature of the hedging relationship, as detailed below.

Cash flow hedges
Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedges are deemed effective in accordance with NZ IAS 39: Financial Instruments: Recognition and Measurement. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the Statement of Financial Performance.

If a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to the Statement of Financial Performance in the same period that the hedged item is recorded in the Statement of Financial Performance.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Statement of Financial Performance.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
CONTINUED

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market are estimated using valuation techniques consistent with accepted market practice, and based on conditions existing at balance date.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item and in bringing the asset to the location and working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Certain items of property, plant and equipment, which had been revalued to fair value on or prior to 1 July 2006 (transition date) are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for separately.

A portion of the cost of an acquired aircraft is attributed to its service potential (reflecting the maintenance condition of its engines and airframe) and is depreciated over the shorter of the period to the next major inspection event, overhaul, or the remaining life of the asset.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Upon initial recognition, assets held under finance leases are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. A corresponding liability is also established.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Manufacturers' credits

The Group receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are recorded as a reduction to the cost of the related aircraft and engines. When the aircraft are held under operating leases, the credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

Depreciation

Depreciation of the aircraft fleet is calculated to write down the cost of these assets on a straight line basis to an estimated residual value over their economic lives. The aircraft and related engines, simulators and spares are being depreciated on a straight line basis as follows:

Airframe	10 – 22 years
Engines	5 – 15 years
Airframe inspections	period to next similar inspection
Engine overhauls	period to next overhaul

The residual values of aircraft are reviewed annually by reference to Avitas projected values.

Non-aircraft assets are depreciated on a straight line basis using the following estimated economic lives:

Buildings	50 – 100 years
Aircraft specific plant and equipment	10 – 20 years
Non-aircraft specific leasehold improvements, plant, equipment, furniture and vehicles	3 – 10 years

Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the Statement of Financial Performance.

Intangible assets

Goodwill

Goodwill represents the cost of an acquisition over and above the fair value of the Group's share of the net identifiable assets acquired. Goodwill arising on acquisition of a subsidiary is included in intangible assets. Goodwill arising on acquisition of an associate is included in the carrying value of the investment in that associate. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software and licences

Computer software acquired, which is not an integral part of a related hardware item, is recognised as an intangible asset. The costs incurred internally in developing computer software are also recognised as intangible assets where the Group has a legal right to use the software and the ability to obtain future economic benefits from that software. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

These assets are amortised on a straight-line basis over their estimated useful lives of three to five years.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment

Non-financial assets are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable. If any such indicators exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Aircraft are operated by the airline as a single network and are assessed for impairment as one cash-generating unit, inclusive of related infrastructural assets. Estimated net cash flows used in determining recoverable amounts are based on the directors' current assessment of the Group's future trading prospects and the assets' ultimate net sale proceeds and have been discounted to their net present value.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The sale must be highly probable and the asset available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and its fair value less costs to sell.

Work in progress

Contract work in progress is stated at cost plus the profit recognised to date, using the percentage of completion method, less any amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of direct production overhead expenses incurred.

Capital work in progress includes the cost of materials, services, labour and direct production overheads.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Trade receivables

Trade receivables are recognised at cost less any provision for impairment. A provision for impairment is established when collection is considered to be doubtful.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, current accounts in banks net of overdrafts and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of taxation, from the proceeds.

Where a member of the Group purchases the Company's share capital, the consideration paid is deducted from equity under the treasury stock method, until they are reissued or otherwise disposed of.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
CONTINUED

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest rate method, where appropriate.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date.

Taxation

The income taxation expense for the period is the taxation payable on the current period's taxable income at tax rates enacted or substantively enacted at reporting date. This is adjusted by changes in deferred taxation assets and liabilities. Income taxation expense is recognised in the Statement of Financial Performance except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred income taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and unused tax losses are only recognised to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences and losses.

Employee benefits

Pension obligations

Payments to defined contribution retirement plans are charged as an expense as they fall due. Payments made to multi-employer retirement benefit schemes are treated in the same way as payments to defined contribution schemes where sufficient information is not available to use defined benefit accounting.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by an independent actuary, as being the present value of the future obligations to the members less the fair value of the plan's assets. When the calculation results in a benefit to the Group, the value of the asset recognised cannot exceed in aggregate the value of any unrecognised net actuarial losses and past service cost, and the present value of any future refunds from the plan or reductions in future contributions to the plan.

All cumulative actuarial gains and losses were recognised as at 1 July 2006 (transition date) in accordance with the available exemption under NZ IFRS 1: First-time adoption of NZ IFRS. Any actuarial gains or losses since 1 July 2006 are amortised under the corridor method over the members' expected average remaining working lives.

Share based compensation

All equity options are disclosed in the notes to the financial statements. The fair value (at grant date) of options granted to employees is recognised as an expense, within the Statement of Financial Performance, over the vesting period of the options, with a corresponding entry to issued capital. The amount recognised as an expense is adjusted at each reporting date to reflect the extent to which the vesting period has expired and management's best estimate of the number of share options that will ultimately vest.

In accordance with the exemption available under NZ IFRS 1: First-time adoption of NZ IFRS, the Group has applied the requirements of NZ IFRS 2: Share-based payment only to those options granted after 7 November 2002 that had not vested before 1 July 2006 (transition date).

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the provision can be reliably measured.

2. SEGMENTAL INFORMATION

The Air New Zealand Group operates predominantly in one segment, its primary business being the transportation of passengers and cargo on scheduled airline services within, to or from New Zealand. The principal assets of the Group are located in New Zealand.

An analysis of flight revenue by route area is provided below.

	6 MONTHS TO 31 DEC 2007 $M	6 MONTHS TO 31 DEC 2006 $M	12 MONTHS TO 30 JUN 2007 $M
Analysis of Revenue by Route Area			
Domestic	**576**	551	1,110
Australia and Pacific Islands	**550**	523	1,016
Asia and Europe	**402**	279	650
North America and Europe	**585**	570	1,099
Total Flight Revenue	**2,113**	1,923	3,875
Contract services and other revenue	**219**	204	404
Total Operating Revenue	**2,332**	2,127	4,279

3. DERIVATIVE FINANCIAL INSTRUMENTS

The Group is subject to credit, foreign currency, interest rate and fuel price risks. The Group manages these risks using various financial instruments, applying a set of policies approved by the Board of directors. Group policy is not to enter, issue or hold derivative financial instruments for speculative trading purposes.

Derivatives are required to be recognised on balance sheet at their fair market value, with subsequent changes in fair value being recognised through earnings. Changes in the fair value of those derivatives which have been successfully designated as part of a cash flow hedge relationship are recognised through the cash flow hedge reserve within equity, to the extent that they are effective. Any accounting ineffectiveness is recognised through earnings.

NZ IAS 39: Financial Instruments: Recognition and Measurement requires hedge effectiveness to be determined for accounting purposes within strict parameters. Each derivative transaction used to hedge identified risks must be documented and proven to be effective in offsetting changes in the value of the underlying risk within a range of 80% – 125%. This measure of effectiveness may result in economically appropriate hedging transactions being deemed ineffective for accounting purposes. In particular, the use of crude oil derivatives as a proxy for jet fuel, and the high volatility of fuel markets may cause cash flow hedges in respect of fuel derivatives to fail the hedge effectiveness test.

Risk management practices will continue to be determined on an economic basis, rather than being designed to achieve a particular accounting outcome. Consequently, it is expected that this will result in some transactions failing the accounting hedge effectiveness criteria from time to time and ineffectiveness being recorded through earnings in periods other than when the hedged item occurs, causing some volatility through earnings.

Where changes in the fair value of a derivative provide a natural offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. Both the changes in value of the hedged item and the hedging instrument are recognised through the same line within the Statement of Financial Performance. Furthermore, some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges in respect of fuel derivatives only include the intrinsic value of the fuel options with all other components of the option value (mainly time value) being marked to market through earnings. Similarly, forward points are excluded from the hedge designation in respect of foreign currency derivatives which hedge account forecast foreign currency operating revenue and expenditure transactions. These components are not hedge accounted and, accordingly, marked to market through earnings.

Foreign currency derivatives

Non hedge accounted derivatives

Foreign currency translation gains or losses on lease return provisions (from 1 July 2007) and United States Dollar denominated borrowings and finance lease liabilities are recognised in the Statement of Financial Performance within “Other expenses”. Marked to market gains or losses on non hedge accounted foreign currency derivatives provide a natural offset to these foreign exchange movements, and are also recognised within “Other expenses”. Derivatives were put in place to manage the exposure on the lease return provision with effect from 1 July 2007.

During the period to 31 December 2007, a loss of $4 million was recognised in respect of the above non hedge accounted foreign currency derivatives (31 December 2006: $116 million loss; 30 June 2007: $183 million loss), which was offset by exchange movements on the underlying exposure.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

CONTINUED

3. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedge accounted derivatives

The Group hedge accounts the foreign currency risk arising on forecast foreign currency operating revenue, operating expense and capital expenditure transactions.

Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. In the period ended 31 December 2007, gains of $8 million were recognised in “Other expenses” (31 December 2006: $3 million loss; 30 June 2007: $2 million loss).

Accounting ineffectiveness arising in the period to 31 December 2007 on these cash flow hedges was a loss of $7 million (31 December 2006: $7 million loss; 30 June 2007: $7 million loss).

Fuel derivatives

The Group uses crude oil derivatives to hedge price risk in jet fuel. The intrinsic value component of these fuel derivatives is designated as a cash flow hedge. All other components are marked to market through earnings, as are any short-dated outright derivatives. In the period to 31 December 2007, gains of $15 million were recognised within “Fuel” (31 December 2006: $51 million loss; 30 June 2007: $39 million loss). Hedge accounting was not applied to fuel derivatives in the period to 31 December 2006.

Accounting ineffectiveness arising in the period to 31 December 2007 of $15 million (gain) was recognised within “Fuel” (31 December 2006: $nil; 30 June 2007: $8 million gain).

Interest rate derivatives

Interest rate derivatives are not hedge accounted. Changes in the fair value of these derivatives are recognised each period within “Interest paid” (within “Finance costs”). In the period to 31 December 2007 a loss of $3 million was recognised (31 December 2006: $6 million loss; 30 June 2007: $9 million loss) in respect of non hedge accounted interest rate derivatives.

4. OPERATING LEASE COMMITMENTS

	31 DEC 2007 $M	31 DEC 2006 $M	30 JUN 2007 $M
Aircraft Leases Payable			
Not later than 1 year	**233**	213	226
Between 1 and 2 years	**199**	191	215
Between 2 and 5 years	**249**	399	301
Over 5 years	**21**	22	13
	702	825	755
Property Leases Payable			
Not later than 1 year	**25**	34	25
Between 1 and 2 years	**22**	24	21
Between 2 and 5 years	**52**	51	48
Over 5 years	**90**	83	71
	189	192	165

5. CAPITAL COMMITMENTS

	31 DEC 2007 $M	31 DEC 2006 $M	30 JUN 2007 $M
Aircraft	**2,288**	1,853	2,322
Non-aircraft	**25**	26	22
	2,313	1,879	2,344

Subsequent to 30 June 2007, the Group confirmed the purchase of an additional two Bombadier Q300 aircraft, by converting existing purchase rights into firm orders.

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.

Air New Zealand has been named in four class actions. One, in Australia, claims travel agents commission on fuel surcharges and two (one in Australia and the other 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 including the United States and the European Union. A formal Statement of Objections has been issued by the European Commission to 25 airlines including Air New Zealand. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the Company would have potential liability for pecuniary penalties and to third party damages under the laws of the relevant jurisdictions. The fourth class action alleges (in the United States) that Air New Zealand together with 11 other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended. No other significant contingent liability claims are outstanding at balance date.

Outstanding letters of credit and performance bonds total $19 million (31 December 2006: $19 million; 30 June 2007: $18 million).

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 $38 million (31 December 2006: $41 million; 30 June 2007: $36 million).

7. DIVIDENDS

On 28 February 2008, the Board of directors declared an interim dividend of 5.0 cents per Ordinary Share payable on 28 March 2008 to registered shareholders at 14 March 2008. The total dividends payable will be $53 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the December 2007 interim financial statements.

A final dividend in respect of the 2007 financial year of 5.0 cents per Ordinary Share was paid on 27 September 2007. Imputation credits were attached and supplementary dividends paid to non-resident shareholders. Under the dividend reinvestment plan, dividends payable of $5 million were settled by the issue of 2,296,165 Ordinary Shares, at $2.1529 per Ordinary Share.

A dividend reinvestment plan (the Plan) has been established which offers eligible shareholders the opportunity to increase their investment in the Company by applying dividends received on some or all of their existing Ordinary Shares to the acquisition of additional Ordinary Shares. All shareholders with registered addresses in New Zealand and Australia are entitled to participate in the Plan. The subscription price of Ordinary Shares issued under the Plan will be at a discount of 1.5 percent of the volume weighted average sale price of the Ordinary Shares on the NZSX and ASX over the first five trading days on which the Shares trade ex-entitlement on the NZSX. For participation in the Plan to be effective in relation to the interim dividend which is proposed to be paid on 28 March 2008, a properly completed participation form must already be held, or will need to be received, by Computershare prior to 5.00 pm (NZ time) on 14 March 2008.

8. GENERAL DISCLOSURES

Total operating revenue (including interest revenue) is $2,379 million (31 December 2006: $2,169 million; 30 June 2007: $4,363 million).

Non-cash movements in financing balances include foreign currency gains on translation of $1 million (31 December 2006: gains of $145 million; 30 June 2007: gains of $220 million).

The Group holds a 49% interest in Christchurch Engine Centre (CEC) whose principal activity is engineering services. CEC is incorporated in New Zealand.

9. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

These are Air New Zealand Group's first financial statements prepared in accordance with International Accounting Standard 34 and NZ IAS 34 – Interim Financial Reporting. The accounting policies in Note 1 have been applied to all accounting periods presented in this set of financial statements.

Note 24 of Air New Zealand Group's 2007 Annual Report included an explanation of how the transition from previous GAAP to NZ IFRS had affected the financial position and financial performance of the Group as at 1 July 2006 (transition date) and for the year to 30 June 2007.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

CONTINUED

9. EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

Reconciliation of previous GAAP to NZ IFRS.

	12 MONTHS TO 30 JUN 2007 EARNINGS $M	AS AT 30 JUN 2007 ASSETS $M	AS AT 30 JUN 2007 LIABILITIES $M	AS AT 30 JUN 2007 EQUITY* $M	AS AT 1 JUL 2006 ASSETS $M	AS AT 1 JUL 2006 LIABILITIES $M	AS AT 1 JUL 2006 EQUITY* $M
As Reported under NZ GAAP	**214**	**4,944**	**3,196**	**1,748**	**4,785**	**3,191**	**1,594**
Deemed cost exemption	33	(154)	–	(154)	(187)	–	(187)
Jet aircraft residual value hedge	133	18	–	18	(102)	–	(102)
Financial instruments	(118)	(86)	145	(231)	165	(37)	202
Maintenance	(35)	(59)	131	(190)	(24)	131	(155)
Customer loyalty programmes	9	–	50	(50)	–	59	(59)
Defined benefit plans	4	3	(1)	4	1	1	–
Share based payments	(1)	–	–	–	–	–	–
Taxation	(18)	–	(243)	243	–	(153)	153
Restated under NZ IFRS**	**221**	**4,666**	**3,278**	**1,388**	**4,638**	**3,192**	**1,446**

All adjustments are shown before taxation.

* The IFRS adjustments in these columns are stated on a cumulative basis including the transitional adjustments as at 1 July 2006 and the movements for the twelve months to 30 June 2007.

** Certain reclassifications have been made in relation to the financial instruments between asset and liability accounts since the issue of the 30 June 2007 Annual Report. The net impact on equity was unchanged. Estimates have been revised in relation to the maintenance provision resulting in an increase in liabilities and a reduction in equity (30 June 2006: $1 million; 30 June 2007: $4 million).

	6 MONTHS TO 31 DEC 2006 EARNINGS $M	AS AT 31 DEC 2006 ASSETS $M	AS AT 31 DEC 2006 LIABILITIES $M	AS AT 31 DEC 2006 EQUITY* $M
As Reported under NZ GAAP	**74**	**4,761**	**3,117**	**1,644**
Deemed cost exemption	19	(168)	–	(168)
Jet aircraft residual value hedge	88	(22)	–	(22)
Financial instruments	(109)	(2)	175	(177)
Maintenance	(18)	(50)	122	(172)
Customer loyalty programmes	5	–	54	(54)
Defined benefit plans	–	1	1	–
Share based payments	(1)	–	–	–
Taxation	15	–	(259)	259
Restated under NZ IFRS	**73**	**4,520**	**3,210**	**1,310**

All adjustments are shown before taxation.

* The IFRS adjustments in these columns are stated on a cumulative basis including the transitional adjustments as at 1 July 2006 and the movements for the six months to 31 December 2006.

Statement of Cash Flows

Engine and airframe maintenance which was expensed under previous NZ GAAP, and capitalised under NZ IFRS, has been reclassified from "Payments to suppliers and employees" to "Acquisition of property plant and equipment and intangibles" (31 December 2006: $18 million; 30 June 2007: $42 million).

The detailed documentation requirements introduced on conversion to NZ IFRS has facilitated further segregation of the line "Rollover of foreign exchange contracts" between operating, investing and financing activities. Prior year comparatives have been restated accordingly.

REVIEW REPORT OF THE AUDITOR-GENERAL

Deloitte.

TO THE READERS OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF AIR NEW ZEALAND LIMITED GROUP

We have reviewed the condensed consolidated interim financial statements on pages 1 to 14. The condensed consolidated interim financial statements provide information about the past financial performance of Air New Zealand Limited and its subsidiaries ("the Group") and its financial position as at 31 December 2007. This information is stated in accordance with the accounting policies set out on pages 5 to 10.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of the condensed consolidated interim financial statements which present fairly the financial position of the Group as at 31 December 2007 and the results of operations and cash flows for the six months ended on that date.

Independent Accountant's 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 Andrew Burgess of Deloitte to carry out the annual audit of the Group.

We are responsible for reviewing the condensed consolidated interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the condensed consolidated interim financial statements do not present fairly the matters to which they relate.

Basis of Opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the condensed consolidated interim financial statements of the Group for the six months ended 31 December 2007 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have performed other engagements in the areas of taxation, audit and other assurance services. None of these engagements impact, in any way, on our independence. In addition to these engagements, principals and employees of our firm deal with the Group on arm's length terms within the ordinary course of trading activities of the Group. Other than these engagements and arm's length transactions, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Group.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements on pages 1 to 14 do not present fairly the financial position of the Group as at 31 December 2007 and the results of its operations and cash flows for the six months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting, IAS 34: Interim Financial Reporting, NZ IFRS 1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards and IFRS 1: First-time Adoption of International Financial Reporting Standards.

Our review was completed on 29 February 2008 and our review opinion is expressed as at that date.

A Burgess
Deloitte

On behalf of the Auditor-General
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Air New Zealand Limited for the six months ended 31 December 2007 included on Air New Zealand's website. The entity's governing body is responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim 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 reviewed unaudited condensed consolidated interim financial statements and related review report dated 29 February 2008 to confirm the information included in the reviewed unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of 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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