UP FOR THE CHALLENGE
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FINANCIAL HIGHLIGHTS

OPERATING REVENUE UP BY $205 MILLION OR 9.6% ON THE SIX MONTHS TO DECEMBER 2006

NORMALISED EARNINGS BEFORE TAXATION AND UNUSUAL ITEMS UP 62% ON THE SIX MONTHS TO DECEMBER 2006

GROUP LOAD FACTOR REACHED 79.4%  UP 5.3 PERCENTAGE POINTS FROM DECEMBER 2006

GROUP-WIDE AVAILABLE SEAT KILOMETRES INCREASED BY 4.4% ON THE SIX MONTHS TO DECEMBER 2006

SHARE REGISTRAR
COMPUTERSHARE INVESTOR SERVICES LIMITED
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
New Zealand
Phone: (64 9) 488 8700
Fax: (64 9) 488 8787
Email: enquiry@computershare.co.nz

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED
Level 3, 60 Carrington Street
GPO Box 7045, Sydney, NSW 1115
Phone: 1800 501 366 (Australia)
(61 2) 8234 5000 (Overseas)
Fax: (61 2) 8234 5050

INVESTOR RELATIONS OFFICE
Private Bag 92007, Auckland 1020, New Zealand
Phone: 0800 22 22 18 (New Zealand)
(64 9) 336 3487 (Overseas)
Fax: (64 9) 336 2954
Email: investor@airnz.co.nz
Website: www.airnzinvestor.com

FULL INTERIM FINANCIAL REPORT
The full Interim Financial Report is available by visiting our website www.airnzinvestor.com
OR
You may elect to have a copy sent to you by contacting Investor Relations.
Competition stimulates innovation, encourages efficiency and drives down prices. According to theory no system of resource allocation is more efficient than pure competition. Competition causes companies to develop new products, services and technologies. This gives consumers a greater selection of better products at a lower cost.

The first half of the financial year has brought with it some interesting challenges for Air New Zealand including an unprecedented rise in fuel prices, increased competition in the domestic market and the announcement of large scale global aircraft orders. Just as an athlete’s performance relies on training and preparation, this also applies in the world of business. Air New Zealand has spent the last five years in preparation developing best in class products, competitive fare structures and a low cost base across the business.

Competition gives us the determination to lift our game and produce our best results. Air New Zealand is a small dynamic airline that prides itself in its unique people and ability to bring a fresh approach to aviation. We are positioning ourselves to be prepared for any challenge that may come our way.

WE KNEW THAT WE WERE DOING WELL FROM THE IMPRESSIVE PASSENGER LOAD FACTORS AND HIGH LEVELS OF PASSENGER SATISFACTION, BUT NOW IT IS OFFICIAL.

Air Transport World Passenger Service Award 2008
Conde Nast (US) – Best Business Class 2007
World Traveller – Best Australasian Business Class Airline 2007
Conde Nast (UK) – Second best long-haul carrier 2007
Star Alliance latest Quarterly Survey – Top business class in the Star Alliance

Our goal is to redefine long-haul travel. Air New Zealand’s premium product broke new ground when it was introduced in 2005. We plan to change the game again in 2010 with a world-leading product that is both inspirational and uniquely Kiwi.
**2 > CONCIERGE**

**AIR NEW ZEALAND CONTINUES TO REVOLUTIONISE ITS LONG-HAUL CUSTOMERS’ TRAVEL EXPERIENCE WITH THE INTRODUCTION OF AN IN-FLIGHT INTERNATIONAL AIRLINE CONCIERGE SERVICE – A FIRST IN THE AVIATION INDUSTRY.**

Up to 90 concierge staff will be dedicated to making every customer journey before, during and after an Air New Zealand service a special event.

The concierge service will provide a significant point of difference over international competitors. Their duties may include escorting passengers to and from the aircraft, recommending “must-do” Kiwi activities to tourists, assisting customers with onward bookings, supporting customers affected by a weather disruption, advising passengers on managing their Airpoints, or talking through the finer points of customers’ in-flight wine selections.

The new service will be launched from May 2008 and is a natural complement to the airline’s award-winning long-haul product and service.

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**3 > DOMESTIC EXPERIENCE UPGRADE**

2008 signifies the year for continuous improvement and in the coming months Air New Zealand will be introducing a wide range of enhancements as we continue to develop our customers’ domestic experience. Web and mobile phone innovations and other new offers are being designed to make things simpler for the traveller. We are creating new check-in and bag drop processes to reduce customers’ time at the airport and our regular travellers will benefit from significant changes to our Airpoints frequent flyer programme.

Every aspect of our domestic customer experience has been reviewed including booking and check-in processes, the in-flight experience, our loyalty and recognition programmes, frequent flyer benefits and our lounge and valet offering.

Innovation is critical to the airline’s success and key to remaining a step ahead of competitors. From May this year our 737 fleet undertakes a reconfiguration programme which will see half of the aircraft fitted with a premium zone with significantly more leg room. Frequent flyers and those buying full economy fares can look forward to more space to spread out.

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**4 > DREAMLINER**

Air New Zealand’s decision to purchase four Boeing 777-300 Extended Range (ER) aircraft and eight 787-9s will mean we have one of the youngest, most technologically advanced, fuel efficient and environmentally friendly long-haul fleets in the world. This sets a high benchmark for all our competitors both in terms of operational efficiency and world-class products and service. Deliveries commence in 2010.

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**5 > PREMIUM ECONOMY**

**AIR NEW ZEALAND CONTINUES TO LEAD THE WAY IN THE DEVELOPMENT OF PREMIUM ECONOMY IN AUSTRALASIA.**

Since the launch of Pacific Premium Economy in mid-2005, high levels of customer demand has meant we have increased the number of Pacific Premium Economy seats on our B747 fleet a second time.

Enhancements to the premium service since launch include pre-take-off drinks, printed menus, meals designed by Air New Zealand’s Consultant Chefs, Business Premier snacks, hot towels, amenity kits, lip balm, slippers (on selected flights) and noise-cancelling headsets.

The second expansion has increased the total number of Premium Economy seats on Boeing 747-400 flights to 39, up from 23 seats at launch.
Chairman, John Palmer, shares his thoughts on the half year result, the challenges facing the global aviation industry and the importance of differentiating ourselves through our unique identity.

Operationally we have had a good first half with high loadings despite increasing competition. In the six months to 31 December 2007, we increased our normalised earnings before taxation and unusual items by 62 percent, to $159 million, on the comparable period last year. Operating revenues are up 9.6 percent and group-wide load factors increased by 5.3 percentage points to 79.4 percent. We have continued to question all aspects of our airline business and have been prepared to make changes where we see the market moving.

The Board has declared a fully imputed interim dividend of 5.0 cents per share, up 67% on last year’s interim dividend. In respect of ordinary dividends or other distributions, the Board reviews the financial position, trading environment and imputation credit availability each reporting period. It will again do so at the financial year end.

Fuel prices continue to provide our business with a significant challenge. Fuel is our largest operational expense and although we have a hedging programme in place designed to protect the business from short-term volatility in the market, continued high fuel costs remain a concern. With no easing of oil prices predicted in the near future, our investment in more fuel-efficient aircraft and the decisions we make on where to fly them are increasingly important.

Air New Zealand is one of New Zealand’s largest employers, currently employing almost 11,000 staff. Our performance relies on the engagement of our workforce and our ability to innovate. The labour market remains tight with wage pressure in all sectors. To make sure we recruit and retain the best people it is important that we continue to offer an inspiring work place with competitive benefits.

Aviation remains a highly competitive industry. The entry of new competition into the New Zealand domestic market has meant that capacity has run ahead of growth in demand on the main trunk routes. While our business is well positioned to meet this challenge, it is still vitally important to ensure that Air New Zealand continues with its programme of product innovations to ensure that the airline remains at the forefront of the domestic market. We have more changes planned for the next six months that will improve our competitive position and our customer experiences.

Our core business is flying to, from and within New Zealand and no other airline has the same ability to harness our enormous strengths as a people and a country. We have already seen the benefits to our business of embracing the open and down-to-earth nature of New Zealanders. Making our unique culture an integral part of the product offering is a vital part of our strategy and we will continue to incorporate this in all aspects of our business.

Our international airline boasts a modern fleet with unique interiors and award winning service. Our business class service has recently been rated the top of the Star Alliance for the first time and strong load factors in the premium cabins are further evidence we are performing very well. We are constantly looking ahead and are in the process of designing more unique features for our next product upgrade.

Tourism is one of New Zealand’s largest industries and relies on airlines to offer a desirable experience for the long flights to and from New Zealand. In November 2007, we began our first direct service to Canada with our Auckland to Vancouver flight and also have announced our intention to start flying to Beijing in July 2008. With the launch of these...
flights we have undertaken an extensive marketing campaign showcasing the best of New Zealand in these new markets.

PROPELLING FORWARD

Really good foundations have been created through our highly successful period of business transformation over the past few years. Our next challenge is to take full advantage of this platform by finding ways to improve productivity and customer satisfaction and increase returns to shareholders.

Our management team led by Rob Fyfe has a proven track record of delivering results by constantly and quickly adapting our business strategy in rapidly changing markets. We now aim to further leverage this position to take advantage of the new opportunities in areas such as aircraft interior design, technical training and engineering.

To stay ahead in the aviation industry an airline cannot sit still. Despite substantial fuel cost increases we have produced a solid result and have proven our ability to do well against competition. As these twin challenges of fuel cost and competition continue to put pressure on the business and across the industry, we are prepared to make the bold decisions necessary to maximise long-term profitability.

JOHN PALMER
CHAIRMAN
I am very proud of what New Zealanders have achieved and confident in the ability of our organisation and our people to compete against a broad range of rivals – from regional budget airlines to global mega carriers.

Rob Fyfe, CEO
The first half of the 2008 financial year represents a period of excellent progress for Air New Zealand. We have been able to adapt to survive and thrive against a variety of new competitive threats and challenging market conditions.

In the process we have asked a lot of our Air New Zealanders. Our people have been instrumental in delivering the required results quickly and efficiently. They have kept open minds and adapted to take a more flexible approach to their work. This is true across all aspects of our business, from our executive team to frontline customer-facing employees. We have introduced far more flexible rostering and scheduling across our business, enabling us to better align our resources to reflect demand patterns. We have given our people greater latitude to use their initiative in meeting our customers’ needs and we have invested heavily in training and communication programmes to help all our people better understand their role in the context of our broader goals and objectives.

A far greater proportion of our executive team’s time is now spent out and about in the business working alongside our frontline staff to gain a better understanding of the challenges and opportunities within the business. Regular performance feedback has been crucial in giving effect to the new approach, making sure that detailed feedback reaches the people who can make the biggest difference. Almost no corner of the business has been left untouched as we have reassessed when we work, how we work and who we work with.

In 2005, Air Transport World (ATW), a leading industry magazine, recognised Air New Zealand with the Phoenix Award. The Phoenix Award celebrates “airlines that have achieved a commercial rebirth through a life-changing transformation”.

Since this we have continued to build on this success. The outstanding contribution of all Air New Zealanders, has seen Air New Zealand win the Passenger Service Award at this year’s ATW airline industry awards. The ATW Awards are coveted by airlines, with the Passenger Service Award one of the most valued, recognising an airline that has been “innovative and consistently superior in providing outstanding quality passenger service at a fair price”.

Commit to the Best
LOOKING AT THE RANGE OF SCENARIOS THAT COULD EMERGE OVER THE NEXT 12-18 MONTHS, I AM CONFIDENT THAT WE ARE WELL POSITIONED TO ADDRESS THE CHALLENGES AND CAPITALISE ON THE OPPORTUNITIES.

UNIQUELY NEW ZEALAND AND PROUD

Air New Zealand employs a great diversity of people from a variety of cultures. What brings us all together is a shared sense of pride in what New Zealand offers the world and visitors to our shores. Visitors are drawn not only for the innate natural beauty of the landscape, but by the reputation of New Zealanders as friendly, open, warm and generous people.

The way in which our people communicate this sense of pride and excitement to our passengers is what distinguishes us as an airline. Ultimately our people determine whether our customers have a truly inspiring journey or leave our flights disappointed. The role of the managers and leaders is to select, coach and inspire our staff, removing the barriers that stand in the way of them performing at their very best.

The challenge is to continue building on this renewed sense of purpose, pride and self belief to ensure that Air New Zealand remains the airline of choice for all people travelling to, from and within New Zealand. At Air New Zealand we believe no other airline can play the role we do in conveying the essence of what it is to be a New Zealander.

FORWARD FOCUS

The airline business is constantly evolving and while our strategic direction remains as valid today as when it was formulated in 2003, we are constantly adapting our tactics and initiatives, to take advantage of emerging opportunities, changing competitive dynamics and changing economic conditions. Over recent years we have placed significant strategic importance on becoming a fast and nimble company, able to adapt and grasp opportunities faster than our competitors. In such a dynamic industry, the ability to move at pace represents a key advantage and an important source of shareholder value.

We have continued to make some very significant changes to our long-haul network to ensure our aircraft are flying on the routes that offer the greatest growth and profit potential for Air New Zealand. We have continued to rationalise our poorer performing routes, having recently announced the withdrawal of our services between Nadi and Los Angeles. We have replaced this with a revised code-share relationship with Air Pacific, thereby improving profitability and better meeting our customers’ needs.

In the last six months we have started operating a new direct service between Auckland and Vancouver and announced a new direct service between Auckland and Beijing which is due to commence in July 2008. As a result of these continual changes the international airline is growing at a faster rate than at any stage in the past decade.

Domestically we have worked hard to establish a lean cost base and highly competitive fares structure. The changes that have occurred at New Zealand airports, the significant investment that has been made in new turbo-prop aircraft and the scheduled introduction of additional Boeing 737’s in the domestic jet operation have enhanced the domestic network and frequency of service we offer our customers. Consideration is now being given to introducing jet services in some provincial centres, as we continue to expand our offering.

We are also working on significant changes to our short-haul travel experience designed to remove up to 40 percent of the normal "travel" time by introducing technologies such as reusable bag tags and boarding passes sent electronically to passengers’ mobile phones. Innovation is critical to our success and key to remaining a step ahead of competitors.

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WE ARE WORKING ON SIGNIFICANT CHANGES TO OUR SHORT-HAUL TRAVEL EXPERIENCE DESIGNED TO REMOVE UP TO 40 PERCENT OF THE NORMAL “TRAVEL” TIME BY INTRODUCING TECHNOLOGIES SUCH AS REUSABLE BAG TAGS AND BOARDING PASSES SENT ELECTRONICALLY TO PASSENGERS’ MOBILE PHONES.

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AIR NEW ZEALAND LAUNCHED ITS DIRECT SERVICE FROM AUCKLAND TO VANCOUVER ON 2ND NOVEMBER 2007. THE SERVICE HAS PROVEN VERY POPULAR AND INITIALLY OPERATES THREE TIMES A WEEK YEAR ROUND. BETWEEN NOVEMBER AND MARCH IS THE PEAK TRAVEL SEASON AS CANADIANS ESCAPE A WHITE WINTER AND KIWI SKI FANATICS TAKE ADVANTAGE OF SOME OF THE BEST SLOPES, SCENERY AND NIGHTLIFE IN THE WORLD.

Canada has always been a popular destination for New Zealanders. In turn, Canadians love New Zealand and come here in significant numbers every year. This new service has significantly grown tourism numbers between the two countries.

Vancouver is a vibrant, cosmopolitan city that provides a convenient gateway to popular destinations like Whistler, Calgary and the Canadian Rockies. For Australian customers, the new service provides a convenient one-stop offering from all eastern seaboard ports that Air New Zealand serves and eliminates the challenges of a US transit-stop as is currently the case with all other carriers. It has become the quickest way to Vancouver from both Melbourne and Adelaide.

> QUEEN CHARLOTTE ISLANDS

The Queen Charlotte Islands, in Northern British Columbia, Canada, is an archipelago of more than 150 islands. Long known as Haida Gwaii, or Gwaii Haanas, the islands have gained a reputation for outstanding natural beauty and the remarkable Haida people, an indigenous people to whom art, culture, legends, mythology and community plays an important role in their lives.

> VANCOUVER CANADA

POPULATION: 600,000
PROVINCE: BRITISH COLUMBIA
AV. TEMP JANUARY: 3° C
AV. TEMP JULY: 18° C

AIR NEW ZEALAND FLIGHTS TO VANCOUVER
RETURN FLIGHTS PER WEEK – 3
AVERAGE FLIGHT DURATION – 13 hrs 15 mins
AIRPORT – YVR Vancouver International Airport
BEST NIGHT OUT

A night out at the Stanley Theatre, home of the Art’s Club Theatre Company, followed by club hopping on Granville Street. Stop into the Crush Champagne lounge (1180 Granville Street) to listen to some of Vancouver’s leading DJs.

BEST DAY TRIP

BOWEN ISLAND

Located 20 km northwest of Vancouver in the entrance to Howe Sound. It is a short, relaxing, 20-minute ferry ride from Horseshoe Bay in West Vancouver. Since the early 1900s Bowen has been a favorite destination for Vancouverites looking for a quiet retreat or a place to get together with friends. Have lunch at Doc Morgan’s Inn followed by a stroll in Crippen Park or jump in a kayak and paddle around the sounds for the more adventurous.

BEST PLACE TO STAY

THE FAIRMONT WATERFRONT

Surrounded by the coastal mountains and blessed with a spectacular harbour, lush city parks and undeniable charm, the Fairmont Waterfront has a stunning view wherever there’s a window. The hotel is located beside an enclosed walkway to the Vancouver Convention and Exhibition Center, and the Cruise Ship Terminal, and is within walking distance from Stanley Park and Gastown.

BEST PLACE TO HIT THE SNOW

WHISTLER

Whistler is located 120 km north of Vancouver and boasts the largest lift-serviced high-alpine terrain in North America. Canada’s first ski resort has frequently been ranked the #1 ski resort in North America and has all services including 115 hotels, condos, bed & breakfasts, offering more than 5,002 rooms; 93 restaurants, bars and lounges; and 207 retail shops. Side by side are two unbelievable mountains – Whistler and Blackcomb – representing over 8000 acres of skiable terrain rising a mile above the valley of Whistler. In an average season the slopes are blessed with around 10 metres of snow fall making for a long season that typically runs from November to early June.

STAFF RECOMMENDATIONS:
I want to share a story that makes me proud to be an Air New Zealander and is an example of our cabin crew performing at their best.

During a flight from Narita to Christchurch one of our passengers suffered an anaphylactic reaction to aspirin which caused his heart to stop beating. Our well trained staff, led by Flight Service manager Ruth Nicholson, performed CPR and brought the passenger back to life. While the plane diverted, crew continued the recovery process despite the challenges of the confined space and broken glass from a trolley overturned by the passenger during his reaction.

Crew members visited the passenger the next day and he has now happily made a full recovery.

Stories like this are daily events within the domestic team, especially when customers are in distress and allow us to bring to life what it is to be an Air New Zealander.

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A story that demonstrates this is when one of our ground staff, Catherine Lee, noticed a young mother with a sick child at the airport clearly distressed. Catherine was at the end of her shift and was in a hurry to get home to her son, but seeing the distraught pair offered to take them to the local doctor on her way home. Having dropped them off, she went home to see her own son and later returned to the clinic to pick up the mother and child and take them back to the airport. I suspect that the mother and child will always fly with us after such a caring act of kindness.

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BEYOND THE CALL OF DUTY

Air travel, while fun, can often be stressful and tiring. This means Air New Zealanders really have a chance to make a difference and let their kiwi personality shine through, this is when I feel huge pride to be an Air New Zealander.

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PERFORMING UNDER PRESSURE

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ED SIMS
GROUP GENERAL MANAGER
INTERNATIONAL AIRLINE
7 YEARS AS AN AIR NEW ZEALANDER

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BRUCE PARTON
GROUP GENERAL MANAGER
SHORT-HAUL AIRLINE
12 YEARS AS AN AIR NEW ZEALANDER

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At Air New Zealand we expect a lot from our people and our people expect a lot from us. After all, our people make us what we are. Below, our management share stories that illustrate to them what it is to be an Air New Zealander.

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ED SIMS
Group General Manager
International Airlines
7 years as an Air New Zealander

PEOPLE ARE OUR COMPETITIVE ADVANTAGE

During my time at Air New Zealand it has never ceased to amaze me what a fantastic team we have working for us.

An example that demonstrates the spirit of Air New Zealand is the way our staff dealt with the major weather disruptions that closed both airports and roads at the beginning of the Queenstown Winter Festival in June last year.

While some festival-goers had already beaten the bad weather, many of the entertainers had not arrived. Several hundred customers were stuck, frustrated and short-tempered, and the festival organisers were getting nervous.

The Air New Zealand Holidays team stepped up to the challenge and worked around the clock helping frustrated customers and working closely with event organisers. The team went out of their way to make customer delays as painless as possible while keeping everyone fully updated on changes affecting them.

NORM THOMPSON
Deputy CEO
40 Years as an Air New Zealander

AIR NEW ZEALAND INTERIM REVIEW 2018
TOURISM IS ONE OF OUR LARGEST INDUSTRIES, AND CONTINUES TO GROW IN IMPORTANCE.

NEW ZEALAND PROVIDES A UNIQUE DESTINATION BASED ON OUR DIVERSE ENVIRONMENT AND ‘CLEAN GREEN’ IMAGE. OUR ATTRACTIVENESS AS A TOURIST DESTINATION CAN ONLY LAST AS LONG AS OUR REPUTATION AS ONE OF THE MOST ENVIRONMENTALLY FRIENDLY NATIONS STAYS INTACT.

As a small airline we aim to punch above our weight when it comes to environmental issues. In order to compete with airlines on a global basis we are distinguishing ourselves as cleaner and greener. As a relatively small and dynamic company we are able to rapidly respond to global trends by making changes to our business which reflect current best practice. Below are updates on some of the major initiatives underway at Air New Zealand – the Emissions Trading Scheme, bio-fuels and a fuel efficient fleet. However, there are many other ways that we are making a difference on a daily basis.

Across the business we have investigated ways to be cleaner and greener. Air New Zealand House was built with this in mind and has high energy efficiency and environmentally friendly waste disposal. We continue to drive environmental initiatives across the business and are constantly looking at innovative ways to be cleaner and greener. Proactive waste management has seen us recycling more than ever. The Green Team is an example of how our staff are getting behind the cause. Almost 2,000 Air New Zealanders have now joined the Green Team to help make environmental changes in their own lives, in their communities and at work. The Green Team has champions across the business helping to get staff involved in environmental activities such as power saving and waste management. Air New Zealand supports these initiatives and believes that encouraging our people to become more environmentally aware enhances the Company’s overall ability to make environmental changes.

**EMISSIONS TRADING SCHEME**

The New Zealand government proposes to introduce mandatory greenhouse gas emissions trading progressively across all sectors of the economy from this year through to 2013.

The transport sector, including Air New Zealand’s domestic operations, is to be one of the earliest sectors brought into the scheme and will be covered from 1 January 2009.

The Emissions Trading Scheme will have a significant impact on us – we are the largest user of transport fuel in this country. The cost of this is uncertain as it relies on a market price of carbon but we estimate it will start at around $15 million per year, assuming a $30 per tonne cost of carbon.

Despite this cost, we support the broad intent of the Emissions Trading Scheme. Climate change is a key issue to be addressed. We will continue to work with government to design a scheme that is as robust and sensible as possible for New Zealand.

**BIO-FUEL**

In September last year Air New Zealand announced a bio-fuel trial scheduled for late 2008/early 2009 in conjunction with Boeing and Rolls Royce.

The trial will involve a Boeing 747 with one engine running on a specially developed bio-fuel/kerosene mix and the other three engines running regular fuel.

We are keen to encourage research into alternative fuels and want to work hand-in-hand with industry partners and the New Zealand Government on promoting this type of activity.

The sheer quantity of fuel needed to run an aircraft also means any potential bio-fuel needs to be generated on a sustainable basis. To make sure that this will be a sustainable energy source second generation bio-fuels are being developed that can be extracted from non-food crops and plenty of other logistical work continues behind the scenes.

Air New Zealand takes its environmental responsibility very seriously and believes the future viability of our business and New Zealand’s tourism industry will be influenced by the successful introduction of alternative aviation fuels.

**FUEL EFFICIENT FLEET**

Fleet choice is a way that we can significantly reduce the environmental impact of our operations. We currently have one of the youngest fleets in the Asia Pacific region and aim to keep it that way.

On the domestic front our extensive use of turbo prop aircraft adds to our fuel efficiency. We are also working with STAR Alliance carriers, aircraft and engine manufacturers to define future aircraft which will set new standards for fuel efficiency and emissions.

Internationally the future introduction of the Boeing 787-9 and Boeing 777-300ERs will mean that Air New Zealand will continue to have one of the youngest, most technologically advanced and fuel efficient fleets in the world over the coming years.

Independent of the introduction of new aircraft, in the past 18 months Air New Zealand has implemented other fuel savings initiatives. Savings from efficiencies in aircraft weight and operations have reduced our annual CO₂ emissions by 80,000 tonnes.
THE FIRST HALF YEAR PERFORMANCE REFLECTS THE CONSIDERABLE PROGRESS THAT HAS BEEN MADE BY THE COMPANY IN IMPROVING THE PROFITABILITY OF THE BUSINESS. A ROBUST DEMAND ENVIRONMENT COMBINED WITH NETWORK CHANGES AND A RELENTLESS FOCUS ON IMPROVING THE AIRLINE’S PRODUCT AND SERVICE OFFERING HAVE LARGELY CONTRIBUTED TO THE RECORD LEVEL OF REVENUE ACHIEVED IN THE FIRST HALF OF THE FINANCIAL YEAR. FUEL HEDGING BENEFITS AND A RELATIVELY WEAK US DOLLAR HAVE HELPED TO CONTAIN WHAT WOULD OTHERWISE HAVE BEEN LARGE INCREASES IN FUEL COSTS.

Normalised earnings before taxation and unusual items\(^1\) was $159 million, an improvement of 62 percent on the previous corresponding period, while net profit after tax was $115 million, up 58 percent.

The 2008 interim financial statements are our first set of accounts compiled under New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). To comply with NZ IFRS, some accounting policies and classifications have been changed affecting both earnings and total equity. All comparatives have been restated on a NZ IFRS compliant basis.

The changes that have the most material impact on the financial results are the way we account for fixed assets, including aircraft maintenance, our loyalty programme and financial instruments, such as fuel and foreign exchange hedging.

While the impact of NZ IFRS on certain aspects of the accounts over the period is described briefly below, more details are contained in the full interim financial statements available on our website.

**RECORD REVENUE**

Operating revenue was $2,332 million for the first half, up $205 million or 9.6 percent on the same period last year. The increase was due to higher load factors, up 5.3 percentage points to 79.4 percent, combined with improved local currency yields and additional capacity. Offsetting the higher revenue was the impact of the stronger New Zealand currency, which resulted in lower revenue upon translation into New Zealand dollars. Excluding the impact of foreign exchange movements, operating revenue was 13.9 percent higher than the same period last year on a 4.4 percent increase in capacity.

The long-haul airline commenced an Auckland to Vancouver service in early November 2007 which continues to perform ahead of expectations. The Company also announced its intention to introduce an Auckland to Beijing service in July 2008 ahead of the Olympic Games. Long-haul capacity increased by 9.1 percent on the same period last year with load factors increasing by 5.7 percentage points to 80.8 percent. Local currency yields improved but this was largely offset by adverse currency movements.

The Tasman and Pacific Island markets continue to perform at an acceptable level as a result of sustained demand translating to improved loads on lower capacity. While domestic passenger revenues increased by 4.5 percent for the half year Air New Zealand added 6.2% capacity to the market. As a consequence, load factors dropped slightly to 73.7 percent and local currency yields were down 0.5 percent on the comparable period last year.

Other revenue increased $11 million with cargo volumes 7 percent higher than the previous corresponding period, reflecting the introduction of additional capacity, combined with increased external engineering work. However, these increases were offset by unfavourable foreign currency movements.

**HIGHER INPUT PRICES**

The business has been reasonably well insulated from increases in the price of jet fuel over the first half of the 2008 financial year. The increase in consumption associated with additional capacity, together with an 8 percent increase in price year on year, gave rise to an $81 million increase in the cost of fuel after taking into account current year fuel hedging benefits. Prior to the inclusion of hedging benefits relating to the current year, fuel prices increased 13 percent period on period. This increase was offset by the relative strength of the New Zealand dollar, which when combined with timing differences in the way hedging gains/losses relating to fuel in other financial periods are recorded within earnings under NZ IFRS, resulted in a lower reported fuel cost. At current prices, fuel costs in the second half of the 2008 financial year will be substantially higher as the benefits of the Company’s fuel hedging programme are reduced.

We continue to seek to improve efficiency in many areas. Much of the increase in labour costs over the first half of the year relates to increases in activity associated with new air services and the Company’s success in securing engineering contracts including Hawaiian, Air Pacific, Virgin Blue and the Royal Australian Air Force. However, we are not immune to tight labour markets in New Zealand and global aviation markets. Excluding activity-related increases, labour costs increased by 3.8 percent over the corresponding period last year.

Aircraft operations, passenger services and sales and marketing costs have increased broadly in line with capacity and revenue growth. These lines also include costs relating to new services and product offerings delivered in the current period.

The increase in “Other Expenses” largely reflects the impact of realised foreign exchange losses of $63 million and a further $14 million in unfavourable timing differences related to the way hedging gains/losses relating to currency exposures in other financial periods are recorded within earnings under NZ IFRS.

**FINANCIAL POSITION**

The Company’s financial position has continued to strengthen over the first half of the year. Gearing as at 31 December 2007 has improved to 48.6 percent from 52.1 percent at June 2007, reflecting strong cash flows and improved equity.

Closing net cash was $1,222 million, which is $165 million higher than the position at 30 June 2007. Earnings before Finance Costs, Depreciation, Amortisation and Taxation for the six months of $354 million combined with changes in working capital resulted in net operating cash flows of $387 million. Cash generated from operating activities before the rollover of foreign exchange contracts was $520 million, an increase of $93 million over the previous corresponding period.

**INTERIM DIVIDEND INCREASED**

The Board has declared a fully imputed interim dividend of 5.0 cents per share, up 67% on last year’s interim dividend. In respect of ordinary dividends or other distributions the Board reviews the financial position, trading environment and imputation credit availability each reporting period. It will again do so at the financial year end. The dividend record date is 14 March 2008.

**IN CONCLUSION**

While the results from the first half are pleasing and place the Company on a sound financial footing, current external conditions continue to place fresh challenges in front of the business. A continuation of high fuel prices, increased domestic competition, tight labour markets, higher airport charges and other cost pressures will test the business in the second half of the 2008 financial year.

Much progress has been made over the last few years to ensure that the airline is better placed than ever to adapt to constantly changing market conditions and our people are looking forward to tackling, head on, the many challenges that are likely to face the business this year.

ROB MCDONALD, CFO

\(^1\) Normalised earnings before taxation and unusual items excludes net gains/losses on non-hedge accounted and ineffective derivatives that hedge exposures in other financial periods.
## Change in Profitability

### 2007 Interim Normalised Earnings Before Taxation and Unusuals

<table>
<thead>
<tr>
<th>Description</th>
<th>Change</th>
<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger yield</td>
<td>$+71m</td>
<td>Short-haul yields improved by 1.6 percent</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-haul yields improved by 1.8 percent</td>
<td></td>
</tr>
<tr>
<td>Passenger traffic</td>
<td>$+186m</td>
<td>Overall passenger load factor for the group was 79.4 percent, up 5.3 percentage points compared to the previous comparable period</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capacity increased 4.4 percent reflecting new routes, including the launch of the direct service from Auckland to Vancouver and the full six month impact of routes introduced during the first half of the 2007 financial year</td>
<td></td>
</tr>
<tr>
<td>Freight, contract services and other revenue</td>
<td>$+38m</td>
<td>Additional freight volumes and an increase in engineering throughput for external customers were the main drivers</td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>$-47m</td>
<td>Increase in activity associated with new air services and engineering contracts</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost pressures relating to tight labour market</td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>$-81m</td>
<td>The average into plane cost for the current period was US$96 per barrel, up 8 percent compared to US$88 per barrel last year. On an unhedged basis the increase would have been 13 percent</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fuel consumption rose by 5 percent to 4.5 million barrels for the six month period</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>$-28m</td>
<td>The rise in maintenance relates to capacity increases and also the increase in third party contract work</td>
<td></td>
</tr>
<tr>
<td>Aircraft operations and passenger services</td>
<td>$-31m</td>
<td>Additional operating costs were largely attributable to our new and expanded product offerings and services, including Hong Kong-London, Shanghai and Vancouver services</td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>$-24m</td>
<td>Increase in line with revenue growth</td>
<td></td>
</tr>
<tr>
<td>Net impact of foreign exchange movements</td>
<td>$-14m</td>
<td>Currency movements during the period had a $14 million unfavourable impact on earnings</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$-9m</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2008 Interim Normalised Earnings Before Taxation and Unusuals

<table>
<thead>
<tr>
<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge timing adjustment</td>
<td>$+13m</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2008 Interim Earnings Before Taxation and Unusuals

<table>
<thead>
<tr>
<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$+159m</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Financial Performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td>$1,900</td>
<td>$1,706</td>
<td>$3,479</td>
</tr>
<tr>
<td>Passenger revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cargo and mail</td>
<td>213</td>
<td>217</td>
<td>396</td>
</tr>
<tr>
<td>Contract services and other revenue</td>
<td>219</td>
<td>204</td>
<td>404</td>
</tr>
<tr>
<td><strong>Operating Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>(480)</td>
<td>(436)</td>
<td>(883)</td>
</tr>
<tr>
<td>Fuel</td>
<td>(560)</td>
<td>(618)</td>
<td>(1,109)</td>
</tr>
<tr>
<td>Maintenance</td>
<td>(121)</td>
<td>(107)</td>
<td>(214)</td>
</tr>
<tr>
<td>Aircraft operations</td>
<td>(205)</td>
<td>(191)</td>
<td>(388)</td>
</tr>
<tr>
<td>Passenger services</td>
<td>(124)</td>
<td>(116)</td>
<td>(223)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(163)</td>
<td>(143)</td>
<td>(296)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(188)</td>
<td>(104)</td>
<td>(257)</td>
</tr>
<tr>
<td><strong>Earnings Before Finance Costs, Depreciation, Amortisation, Rental Expenses and Taxation</strong></td>
<td>491</td>
<td>412</td>
<td>910</td>
</tr>
<tr>
<td><strong>Earnings Before Finance Costs and Taxation</strong></td>
<td>188</td>
<td>87</td>
<td>290</td>
</tr>
<tr>
<td><strong>Earnings Before Taxation and Unusual Items</strong></td>
<td>172</td>
<td>74</td>
<td>266</td>
</tr>
<tr>
<td>Unusual items</td>
<td>–</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td><strong>Profit Before Taxation</strong></td>
<td>172</td>
<td>88</td>
<td>269</td>
</tr>
<tr>
<td>Taxation expense</td>
<td>(57)</td>
<td>(15)</td>
<td>(48)</td>
</tr>
<tr>
<td><strong>Net Profit Attributable to Shareholders of Parent Company</strong></td>
<td>115</td>
<td>73</td>
<td>221</td>
</tr>
<tr>
<td>Interim and final dividend declared per share (cents)</td>
<td>5.0</td>
<td>3.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Special dividend per share (cents)</td>
<td>–</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Net tangible assets per share (cents)</td>
<td>143</td>
<td>130</td>
<td>132</td>
</tr>
</tbody>
</table>

* 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).

### Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cash inflows from operating activities</td>
<td>2,428</td>
<td>2,192</td>
<td>4,454</td>
</tr>
<tr>
<td>Cash outflows from operating activities</td>
<td>(2,108)</td>
<td>(1,965)</td>
<td>(3,828)</td>
</tr>
<tr>
<td>Rollover of foreign exchange contracts relating to operating activities</td>
<td>320</td>
<td>227</td>
<td>626</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>387</td>
<td>163</td>
<td>455</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(140)</td>
<td>(277)</td>
<td>(572)</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>(82)</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Increase/(decrease) in cash and cash equivalents</td>
<td>165</td>
<td>(105)</td>
<td>(93)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>1,057</td>
<td>1,150</td>
<td>1,150</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents at End of Period</strong></td>
<td>1,222</td>
<td>1,045</td>
<td>1,057</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td><strong>Bank and short-term deposits</strong></td>
<td>$1,223</td>
<td>$1,045</td>
<td>$1,058</td>
</tr>
<tr>
<td><strong>Trade and other receivables</strong></td>
<td>$461</td>
<td>$450</td>
<td>$448</td>
</tr>
<tr>
<td><strong>Inventories</strong></td>
<td>$119</td>
<td>$118</td>
<td>$119</td>
</tr>
<tr>
<td><strong>Derivative financial assets</strong></td>
<td>$101</td>
<td>$13</td>
<td>$35</td>
</tr>
<tr>
<td><strong>Income taxation</strong></td>
<td>$29</td>
<td>$28</td>
<td>$37</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>$39</td>
<td>$35</td>
<td>$33</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$1,972</td>
<td>$1,689</td>
<td>$1,730</td>
</tr>
<tr>
<td><strong>Trade and other receivables</strong></td>
<td>$14</td>
<td>$17</td>
<td>$15</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td>$2,584</td>
<td>$2,466</td>
<td>$2,636</td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td>$43</td>
<td>$46</td>
<td>$47</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>$46</td>
<td>$50</td>
<td>$47</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>$2</td>
<td>$–</td>
<td>$1</td>
</tr>
<tr>
<td><strong>Derivative financial assets</strong></td>
<td>$222</td>
<td>$252</td>
<td>$190</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>$2,911</td>
<td>$2,831</td>
<td>$2,936</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$4,883</td>
<td>$4,520</td>
<td>$4,666</td>
</tr>
<tr>
<td><strong>Bank overdraft and short-term borrowings</strong></td>
<td>$1</td>
<td>$–</td>
<td>$1</td>
</tr>
<tr>
<td><strong>Trade and other payables</strong></td>
<td>$458</td>
<td>$429</td>
<td>$392</td>
</tr>
<tr>
<td><strong>Revenue in advance</strong></td>
<td>$763</td>
<td>$664</td>
<td>$748</td>
</tr>
<tr>
<td><strong>Convertible notes</strong></td>
<td>$118</td>
<td>$107</td>
<td>$115</td>
</tr>
<tr>
<td><strong>Derivative financial liabilities</strong></td>
<td>$85</td>
<td>$174</td>
<td>$139</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td>$42</td>
<td>$39</td>
<td>$55</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td>$116</td>
<td>$108</td>
<td>$126</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>$1,583</td>
<td>$1,521</td>
<td>$1,576</td>
</tr>
<tr>
<td><strong>Trade and other payables</strong></td>
<td>$22</td>
<td>$30</td>
<td>$26</td>
</tr>
<tr>
<td><strong>Revenue in advance</strong></td>
<td>$123</td>
<td>$108</td>
<td>$102</td>
</tr>
<tr>
<td><strong>Convertible notes</strong></td>
<td>$–</td>
<td>$98</td>
<td>$–</td>
</tr>
<tr>
<td><strong>Borrowings and finance lease liabilities</strong></td>
<td>$1,238</td>
<td>$1,163</td>
<td>$1,269</td>
</tr>
<tr>
<td><strong>Derivative financial liabilities</strong></td>
<td>$12</td>
<td>$2</td>
<td>$6</td>
</tr>
<tr>
<td><strong>Provisions</strong></td>
<td>$96</td>
<td>$97</td>
<td>$91</td>
</tr>
<tr>
<td><strong>Deferred taxation</strong></td>
<td>$26</td>
<td>$28</td>
<td>$27</td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td>$277</td>
<td>$163</td>
<td>$181</td>
</tr>
<tr>
<td><strong>Total Non-Current Liabilities</strong></td>
<td>$1,794</td>
<td>$1,689</td>
<td>$1,702</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$3,377</td>
<td>$3,210</td>
<td>$3,278</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>$1,506</td>
<td>$1,310</td>
<td>$1,388</td>
</tr>
<tr>
<td><strong>Issued capital</strong></td>
<td>$2,222</td>
<td>$2,114</td>
<td>$2,215</td>
</tr>
<tr>
<td><strong>Cash flow hedge reserve</strong></td>
<td>$30</td>
<td>$49</td>
<td>$79</td>
</tr>
<tr>
<td><strong>Other reserves</strong></td>
<td>$886</td>
<td>$755</td>
<td>$748</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>$1,506</td>
<td>$1,310</td>
<td>$1,388</td>
</tr>
</tbody>
</table>

The summary financial information has been derived from the Air New Zealand Group unaudited interim financial statements (the ‘Full Interim Financial Statements’). The Full Interim Financial Statements, dated 29 February 2008, are available at: www.airnzinvestor.com. The summary financial information cannot be expected to provide as complete an understanding as provided by the Full Interim Financial Statements. The Group adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) on 1 July 2007. The accounting policies used in these financial statements are attached in note 1 of the Full Interim Financial Statements.
OPERATING REVENUE UP BY $205 MILLION OR 

9.6% ON THE SIX MONTHS TO DECEMBER 2006

NORMALISED EARNINGS BEFORE TAXATION AND UNUSUAL ITEMS UP 

62% ON THE SIX MONTHS TO DECEMBER 2006

GROUP LOAD FACTOR REACHED 

79.4% UP 5.3 PERCENTAGE POINTS FROM DECEMBER 2006

GROUP-WIDE AVAILABLE SEAT KILOMETRES INCREASED BY 

4.4% ON THE SIX MONTHS TO DECEMBER 2006

SHARE REGISTRAR

COMPUTERSHARE INVESTOR SERVICES LIMITED

Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
New Zealand

Phone: (64 9) 488 8700
Fax: (64 9) 488 8787
Email: enquiry@computershare.co.nz

COMPUTERSHARE INVESTOR SERVICES PTY LIMITED

Level 3, 60 Carrington Street
GPO Box 7045, Sydney, NSW 1115

Phone: 1800 501 366 (Australia)
(61 2) 8234 5000 (Overseas)
Fax: (61 2) 8234 5050

INVESTOR RELATIONS OFFICE

Private Bag 92007, Auckland 1020, New Zealand

Phone: 0800 22 22 18 (New Zealand)
(64 9) 336 3487 (Overseas)
Fax: (64 9) 336 2964
Email: investor@airnz.co.nz
Website: www.airnzinvestor.com

FULL INTERIM FINANCIAL REPORT

The full Interim Financial Report is available by visiting our website www.airnzinvestor.com

OR
You may elect to have a copy sent to you by contacting Investor Relations.
THERE ARE 10,975 GOOD REASONS WE’VE BEEN JUDGED BEST PASSENGER SERVICE IN THE WORLD

AIR NEW ZEALAND
WINNER OF THE WORLD PASSENGER SERVICE AWARD.