Leading the Evolution
John Palmer and Rob Fyfe explain how we are enhancing our competitive position.

Airline of the Year
Some of our frequent flyers give their thoughts on Air New Zealand.

Taking Tourism to New Heights
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Queenstown's Fair Dinkum Mate
Why Queenstown's such a hotspot for our Australian friends.

Standing out from the Crowd
With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

Financial Commentary

Financial Summary
Excludes overhead, sales and distribution, and marketing costs incurred in New Zealand.

Contents

It's Pure Kiwi Ingenuity

AWARDED ATW AIRLINE OF THE YEAR
2010

AND OUR LATEST SEAT DESIGNS ARE SURE TO SWEET you OFF YOUR FEET.

Kiwis have always been comfortable to lead the way in the world.

Air New Zealand has joined forces with new Zealand travel and tourism organisations to get the tourism message heard in the highly competitive source markets.

One thing that sets Air New Zealand apart from many other international airlines is that a high proportion of business tourism is one of New Zealand's export industries, generating $9.3 billion in foreign exchange earnings per annum and employing one in ten New Zealanders.

Given New Zealand's small population base, growth in international tourism to New Zealand is vital to the future success of Air New Zealand. That's why Air New Zealand invests Air New Zealand to the world. While this is a significant investment, international source markets for New Zealand tourism can be expensive and challenging.

By working in partnership with Tourism New Zealand and strong destination message, our combined resources can be more effective at converting increased interest in New Zealand into actual growth in visitor arrivals.

In Europe, Air New Zealand again partnered with Tourism New Zealand to promote New Zealand in digital outdoor and online advertising in Paris, Munich, Frankfurt, Hamburg and Zurich and an online campaign in the Netherlands.

In China, Air New Zealand and Tourism New Zealand ran a joint advertising promoting New Zealand as a honeymoon destination.

In the US market the reality TV show 'The Bachelor' featured its final two episodes in Queenstown and the Bay of Islands in New Zealand. The Bachelor, Jason Mesnick, and his girlfriend Molly Malaney were invited by Air New Zealand and Tourism New Zealand to come back to New Zealand as special guests on Air New Zealand's matchmaker flight. On this visit, Jason and Molly became engaged with the story appearing in media across the United States. Following this successful initiative, Air New Zealand and Tourism New Zealand have announced a joint project to promote the long term growth in North America tourism to New Zealand. This project has already kicked off with...

Content

Financial Summary

Financial Commentary

12-13
STANDING OUT FROM THE CROWD

With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

10
QUEENSTOWN'S FAIR DINKUM MATE

Why Queenstown's such a hotspot for our Australian friends.

06
TAKING TOURISM TO NEW HEIGHTS

How we have joined forces to make New Zealand's voice louder.

08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

Leading the Evolution
John Palmer and Rob Fyfe explain how we are enhancing our competitive position.

Airline of the Year
Some of our frequent flyers give their thoughts on Air New Zealand.

Taking Tourism to New Heights
How we have joined forces to make New Zealand's voice louder.

Queenstown's Fair Dinkum Mate
Why Queenstown's such a hotspot for our Australian friends.

Standing out from the Crowd
With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

Financial Commentary

Financial Summary

12-13
10
6
8
0
06
08
10
14
16

Index

Content

Financial Summary

Financial Commentary

12-13
STANDING OUT FROM THE CROWD

With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

10
QUEENSTOWN'S FAIR DINKUM MATE

Why Queenstown's such a hotspot for our Australian friends.

06
TAKING TOURISM TO NEW HEIGHTS

How we have joined forces to make New Zealand's voice louder.

08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

Leading the Evolution
John Palmer and Rob Fyfe explain how we are enhancing our competitive position.

Airline of the Year
Some of our frequent flyers give their thoughts on Air New Zealand.

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Queenstown's Fair Dinkum Mate
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Standing out from the Crowd
With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

Financial Commentary

Financial Summary

12-13
STANDING OUT FROM THE CROWD

With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

10
QUEENSTOWN'S FAIR DINKUM MATE

Why Queenstown's such a hotspot for our Australian friends.

06
TAKING TOURISM TO NEW HEIGHTS

How we have joined forces to make New Zealand's voice louder.

08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

Leading the Evolution
John Palmer and Rob Fyfe explain how we are enhancing our competitive position.

Airline of the Year
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Taking Tourism to New Heights
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Queenstown's Fair Dinkum Mate
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Standing out from the Crowd
With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

Financial Commentary

Financial Summary

12-13
STANDING OUT FROM THE CROWD

With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

10
QUEENSTOWN'S FAIR DINKUM MATE

Why Queenstown's such a hotspot for our Australian friends.

06
TAKING TOURISM TO NEW HEIGHTS

How we have joined forces to make New Zealand's voice louder.

08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

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Financial Commentary

Financial Summary

12-13
STANDING OUT FROM THE CROWD

With new uniforms and expanded Airpoints™ partners it's hard to just blend in.

10
QUEENSTOWN'S FAIR DINKUM MATE

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06
TAKING TOURISM TO NEW HEIGHTS

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08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

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Airline of the Year
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Financial Commentary

Financial Summary

12-13
STANDING OUT FROM THE CROWD

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10
QUEENSTOWN'S FAIR DINKUM MATE

Why Queenstown's such a hotspot for our Australian friends.

06
TAKING TOURISM TO NEW HEIGHTS

How we have joined forces to make New Zealand's voice louder.

08

10
Q
14
16
INTE

D
N
LA
ZE
WE
N
AI

W
E
VI
RE
R
OLDE
H
S

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Financial Summary

12-13
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10
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How we have joined forces to make New Zealand's voice louder.
We continually asked ourselves these questions.

**WHY?**

**INSIGHT & DISCOVERY**

**DECEMBER 07**
Air New Zealand builds the first full-sized mockup of a 787 outside of Boeing. The mock-up allowed prototyping, testing of seats and service in a very realistic environment.

**JUNE/JULY 07**
IDEO Insights phase: To get a true understanding of what really goes on when travelling long haul aboard a long-haul aircraft, the team undertakes a three-month insight programme. Long haul travellers around the world are interviewed along with key stakeholders, crew and design thought leaders.

**SEPTEMBER 07**
Ideation (idea generation) workshop. A two-day workshop is held at the IDEO offices in Palo Alto, California to come up with as many ideas as possible. A diverse skilled group spent two days generating, discussing and prototyping ideas which are captured on hundreds of Post-It notes.

**JUNE 04**
Air New Zealand orders new long haul aircraft.

**MARCH 08**
Three-day seat bootcamp. Four Kiwi industrial design companies along with Air New Zealand’s Altitude Aerospace Interiors and core Air New Zealand teams are invited to further explore existing concepts and ideas. They are tasked with developing two concepts for individuals, ten for couples and ten for families/group travelling together.

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**OCTOBER 09**
Interior patterns and decor are selected after all three seat prototypes are dressed and evaluated in their final design and materials.

**NOVEMBER 09**
Food and beverage direction finalised across the three cabins.

**JANUARY 09**
The economy (Skyouch ™) seat is tested at Hangar 9 in a number of two-hour simulated flights using both actors and customers. Real crew are used and testers go through boarding, a safety briefing, PA announcements, meals, sleeping with real aircraft noise playing in the background. The results of the testing are used to validate the key target customers of the seat and help with design refinements.

**MAY 08**
Five seat concepts are set up in the mock-up at Hangar 9 and multiple simulated flights excluding boarding, food and drinks, sleeping and real engine noise are used to test the seats. Actors are used and a mimicking of different customer types in evaluating the different concepts.

**MAY 09**
Colour and decor development.

**AUGUST 08**
Concept drawings of the Premium Economy seat are developed and prototypes built for testing.

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Colour and decor development.
Although the last half of the 2009 year was very challenging for the airline industry, Air New Zealand has continued to significantly enhance its competitive position. Overall the underlying performance of the business improved. For the six months to 31 December 2009 we reported normalised earnings before taxation of $96 million, up $70 million on the same period last year. The Board has declared a fully imputed interim dividend of three cents per share.

We are incredibly proud that Air New Zealand has been named Air Transport World’s Airline of the Year for 2010. It topped off a year that saw us win more than 30 awards for our products, service, people and ingenuity. For Air New Zealand to be recognised as the number one airline in a competition that rates us against the world’s biggest airlines is one of the greatest accolades that has ever been bestowed on the national carrier.

The ATW judges spent a significant amount of time evaluating our business, learning about our new long haul product, and experiencing first hand the world class service we provide, from our engineering workshops through to our check-in facilities and on to our aircraft. Amongst many things, they were impressed by our financial and operational performance, high levels of customer satisfaction, award winning domestic airport changes, our environmental leadership, and of course the people of Air New Zealand.

Reflecting on this, we have certainly come a long way since receiving the ATW Phoenix Award in 2005, an award that recognised a commercial rebirth through......
THE ACCOLADE OF BEST AIRLINE IN THE WORLD WAS NOT WON SOLELY FOR INNOVATION. OPERATIONALLY THE SAME LEVEL OF MOTIVATION AND ENTHUSIASM HAS BEEN APPLIED AT THE FRONT LINE.

a life-changing transformation*. At the time, judges commented that, ‘Air New Zealand survived a near-death experience in 2001 to remake itself into a profitable and innovative competitor across different markets’. Since then we’ve also gone on to win the ATW Passenger Service Award in 2008 before being named the Airline of the Year for 2010.

LEADING THE EVOLUTION

We have set out to create a culture that enables staff to have the confidence to think outside the square, and to proactively and creatively pursue solutions. The investment that we have made in our people has meant that we have a highly engaged and motivated workforce who are empowered to deliver not only world-class but world-leading solutions across the business.

Our busy delivery schedule of Boeing 777-300ERs and Airbus A350s has given us the perfect opportunity to showcase our talent.

We aim to be a little different – it is part of our core strategy. Unveiled in January, our unique Kiwi designed and ground-breaking premium economy Spaceseats® and enhanced comforts for those wanting the ultimate in luxurious Business Premier travel, we will redefine the long haul travel experience and set a benchmark for competitors to follow when we take delivery of our first Boeing 777-300ER in November this year. We plan to have our entire fleet of Boeing 777-300ERs and Boeing 777-200ERs fitted out by the end of 2019.

In conjunction with the delivery of our new aircraft, interiors and uniforms we have an unprecedented amount of activity going on behind the scenes to make sure we stay ahead of the competition.

We have a team exploring the best solution for the challenging Trans Tasman market. Behind the scenes this team has been developing improvements that will make us both more competitive and profitable on the Trans Tasman and Pacific Islands routes. We have undertaken extensive research on both sides of the Tasman; understanding our customers’ needs and expectations is pivotal. Our improvements are close to implementation and will ensure Air New Zealand can compete effectively against both budget and full-service airlines in these highly competitive markets.

FRONTLINE FOCUS

We cannot control foreign exchange rates or fuel prices so we remained focused on the underlying performance of the business. This is where we have the greatest scope to make improvements. The accolade of best airline in the world was not won solely because of our approach to innovation. The same level of innovation, along with motivation and enthusiasm has been applied at the front line with great effect.

We take a fresh approach to customer service that allows Air New Zealanders and customers to have a natural and relaxed relationship. Our unique customer service is one of the reasons that we have been voted the top airline in the Star Alliance customer satisfaction survey in both Business and Economy cabins.

Over the six months to 31 December our on time performance continued to improve with 87.6 percent of flights departing on time. We continue to adhere to a stringent 10 minute domestic standard that our customers require, particularly for flights less than an hour in duration.

While the nature of the airline business means that we cannot reduce costs directly in proportion to capacity reductions, we have become more efficient than ever. All operating costs were reduced in the first half of the 2010 financial year from the comparable period. We have also reduced our full time employee numbers by 5 percent on an 8 percent capacity reduction.

DOMESTIC ON TIME PERFORMANCE

IATA is predicting that the global airline industry will take at least three years to recover the level of growth it has lost as a result of the Global Financial Crisis. Yields are predicted to remain flat in the 2010 calendar year and only begin to increase in 2011. More airlines are predicted to join the 34 carriers that have gone out of business since 2008.

We are seeing a slow but steady improvement with traffic volume improvements, resulting in increased load factors. Despite the uncertain road to recovery we will continue to position ourselves as an airline industry leader and look for ways we can differentiate our business to give us a competitive edge.

John Palmer, CHAIRMAN
Rob Fyfe, CEO

RIDF FYFE, CEO, AND SARAH LUMER, OLYMPIC CYCLIST, DEVOUR SOME TASTY PIZZA AT THE UNVEILING OF THE NEW LONG HAUL PRODUCT.
BEST AIRLINE IN THE WORLD, FROM THE INSIDE OUT.

TRELISE COOPER – FASHION DESIGNER
On my last flight with Air New Zealand I was sitting across the aisle from an American businessman. He’d never flown Air New Zealand before and he was saying how amazing it was. I agreed with him and he said, “Are you part of the airline or something”? I said, “No I’m just a passionate New Zealander that loves Air New Zealand – just like everyone in New Zealand.”

DAN CARTER – RUGBY PLAYER
It doesn’t matter if you’re a CEO or a staff member everyone is treated the same. Every time you fly that is what you feel – you feel like you are part of the family and long may that continue. To be named ‘Airline of the Year’ is an awesome achievement and thoroughly deserved.

JOHN KEY – PRIME MINISTER
This award is a great honour, but then again no great surprise to those of us who continually experience the service that our national airline delivers. Like so many New Zealanders I am immensely proud of Air New Zealand. It is the people who make a real difference, as evidenced by the total selflessness and caring attitude adopted by the company and its staff during the Samoan tsunami. This honour is well deserved.

SIR STEPHEN TINDALL – BUSINESS ICON
When I get on a flight in London, I feel like I have already arrived home. It’s just a wonderful feeling. The difference between you and everyone else is just amazing. The service you give us and the friendliness – every part of the experience is just fantastic. I really enjoy every time I fly on Air New Zealand. I am a very proud Kiwi and I am very proud to be part of a country that has such a wonderful airline. Congratulations on the award.

SARAH ULMER – OLYMPIAN
Early one Sunday morning I flew out of Timaru airport and I left this beautifully wrapped gift I’d been given somewhere in the domestic terminal. I was away three weeks and when I arrived back at my home in Cambridge my gift was there. Someone from Air New Zealand had given it to a friend of his who happened to live close by and they dropped it around to my place. Cheers Air New Zealand.

WE’RE ALL PART OF THE AIR NEW ZEALAND FAMILY AND WE ARE ALL VERY PROUD TO HAVE THE BEST AIRLINE IN THE WORLD.
In the US market the reality TV show ‘The Bachelor’ featured its final two episodes in Queenstown and the Bay of Islands in New Zealand. The Bachelor, Jason Mesnick, and his girlfriend Molly Malaney were invited by Air New Zealand and Tourism New Zealand to come back to New Zealand as special guests on Air New Zealand’s matchmaker flight. On this visit, Jason and Molly became engaged with the story appearing in media across the United States. Following this successful initiative, Air New Zealand and Tourism New Zealand have announced a joint project to promote the long term growth in North America tourism to New Zealand. This project has already kicked off with part of the television show ‘America’s Next Top Model’ filmed in New Zealand.

Tourism New Zealand’s ‘Whats On’ campaign. The increased marketing investment in Australia and the added-value offers by Air New Zealand contributed to the increase in tourism from Australia.

In Europe, Air New Zealand again partnered with Tourism New Zealand to promote New Zealand in digital outdoor and online advertising in Paris, Munich, Frankfurt, Hamburg and Zurich, and an online campaign in the Netherlands.

Japan is a valuable tourism market for New Zealand. Air New Zealand is working with Tourism New Zealand to try and turn around the decline in visitors from this market by repositioning how New Zealand is perceived. In February, Air New Zealand joined with Tourism New Zealand and other trade partners in a major promotional campaign showcasing new experiences such as kayaking and swimming with the dolphins to Japanese travellers.

In China, Air New Zealand is working with the tourism industry on the introduction of new products to meet the needs of this growing market. In addition to increasing the range of independent travel tour options available, Air New Zealand and Tourism New Zealand undertook joint advertising to promote New Zealand as a honeymoon destination.

One thing that sets Air New Zealand apart from many other international airlines is that a high proportion of our passengers are travelling for leisure, rather than business. Tourism is one of New Zealand’s largest export industries, generating $9.3 billion in foreign exchange earnings per annum and employing one in ten New Zealanders.

Given New Zealand’s small population base, growth in international tourism to New Zealand is vital for the future success of Air New Zealand. That’s why Air New Zealand invests over $100 million annually in marketing New Zealand and Air New Zealand to the world. While this is a significant investment, getting our message heard in the large and highly competitive source markets for New Zealand tourism can be expensive and challenging.

By working in partnership with Tourism New Zealand and regional tourism organisations we will present potential visitors with a compelling Air New Zealand travel offer alongside a strong destination message. Our combined resources can be more effective at converting increased interest in New Zealand into actual growth in visitor arrivals.

Like many industries, tourism has been impacted by the global financial crisis. Tourism arrivals to New Zealand recorded zero growth in 2009. If it was not for the 11 percent growth in visitor arrivals from Australia, countering the dampening tourism demand from long haul markets, New Zealand tourism could have fared much worse. In August, Air New Zealand launched a second burst of its highly successful ‘Big Shout’ campaign, alongside, and in support of, the increased marketing investment in Australia and the added-value offers by Air New Zealand contributed to the increase in tourism from Australia.

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GROWTH IN INTERNATIONAL TOURISM IS VITAL TO THE FUTURE SUCCESS OF AIR NEW ZEALAND.
As a result of Queenstown’s ever increasing popularity, Air New Zealand will increase Trans Tasman capacity between Australia and Queenstown by a further 30 percent this coming ski season. This will take the total number of direct services to 13 per week. The capacity increase amounts to an additional 10,000 available seats into and out of the hotspot this year.

The mountainous terrain that makes Queenstown such a popular destination also makes its airport one of New Zealand’s most operationally challenging, with pilots requiring special training to be able to fly into the destination. With many travellers crossing the Tasman for an extended weekend’s skiing, flight delays or diversions can easily ruin a long anticipated trip.

As Queenstown’s most frequent flyer, Air New Zealand has invested in the best technology possible to make sure our customers get to their destination. Required Navigation Performance (RNP) was introduced on six of Air New Zealand’s 737s two years ago. The initiative was so successful that it has been extended to the airline’s A320 aircraft, making it the first airline in the world to have an entire A320 fleet RNP enabled. RNP allows pilots to fly to lower altitudes with a more precise and efficient route into the airport, helping reduce the impact of bad weather on our services. As a result of this investment, last ski season not a single one of our 140 Trans Tasman flights was diverted or cancelled due to poor weather conditions.

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QUEENSTOWN WAS NEW ZEALAND’S FASTEST-GROWING DESTINATION FOR AUSTRALIAN VISITORS IN 2009.

As the adventure capital of the Southern Hemisphere, this resort town is surrounded by some of the most spectacular alpine scenery in the world and has a whole raft of adrenaline pumping, heart-stopping activities on offer. Activities include rafting or jet boating through gorges, bungy jumping, helicopter tours and sensational skiing.

The town is also well known for its cafés, bars and restaurants that have a true international buzz. For those wanting to take it easy during the day, there is great shopping, scenic lake trips, sightseeing flights to stunning Milford Sound, world-class golf courses and much more that gives visitors the ultimate mix of action and relaxation. This combination has proved very alluring to our friends across the Tasman with 34,000 Australian visitors flying into Queenstown last year. This was a 22 percent increase on the previous year, with Australian visitor numbers more than doubling over the past five years.

QUEENSTOWN: IT’S FAIR DINKUM MATE!

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As the adventure capital of the Southern Hemisphere, this resort town is surrounded by some of the most spectacular alpine scenery in the world and has a whole raft of adrenaline pumping, heart-stopping activities on offer. Activities include rafting or jet boating through gorges, bungy jumping, helicopter tours and sensational skiing.

The town is also well known for its cafés, bars and restaurants that have a true international buzz. For those wanting to take it easy during the day, there is great shopping, scenic lake trips, sightseeing flights to stunning Milford Sound, world-class golf courses and much more that gives visitors the ultimate mix of action and relaxation. This combination has proved very alluring to our friends across the Tasman with 34,000 Australian visitors flying into Queenstown last year. This was a 22 percent increase on the previous year, with Australian visitor numbers more than doubling over the past five years.

As a result of Queenstown’s ever increasing popularity, Air New Zealand will increase Trans Tasman capacity between Australia and Queenstown by a further 30 percent this coming ski season. This will take the total number of direct services to 13 per week. The capacity increase amounts to an additional 10,000 available seats into and out of the hotspot this year.

The mountainous terrain that makes Queenstown such a popular destination also makes its airport one of New Zealand’s most operationally challenging, with pilots requiring special training to be able to fly into the destination. With many travellers crossing the Tasman for an extended weekend’s skiing, flight delays or diversions can easily ruin a long anticipated trip.

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Air New Zealand is introducing a new uniform in early 2011 to coincide with our revolutionary long haul interiors that begin rolling out at the end of this year. Trelise Cooper, one of New Zealand’s leading fashion designers, will assist in the design of the uniform. Trelise has been working with dozens of Air New Zealanders to further understand the style and functionality needs of seven different work groups scattered across many different parts of the world.

We have been working closely with Trelise to ensure the uniform colour palette works in harmony with the recently unveiled aircraft interiors. Colour highlights of twilight pink for cabin crew, godzone green for ground staff and sky blue for ground and inflight managers will be underpinned by black formal items such as suits and coats. Uniforms for inflight concierges, pilots and several other work groups are currently being developed.

The uniform is contemporary, based on New Zealand themes with a cohesive visual uniformity while still allowing individual choice by addressing body type and personality preference. For women, this will include a variety of jacket, skirt and trouser options as well as dresses, blouses and shirts. The uniform for females has a greater expression of femininity based on their feedback, and overall the uniform will be more tailored, reflective of Air New Zealand’s status as a premium carrier.

The collection has varying levels of formality, especially for cabin crew, one that provides a more formal look when travelling through airports and welcoming customers onboard, changing to a more casual and friendly style once in the air.

Trelise was chosen for her outstanding design concepts following an extensive review of more than 25 New Zealand designers. She joins a prestigious line-up of designers who have produced the national carrier’s uniform including Christian Dior, Nina Ricci, Isabel Harris, Barbara Lee and Zambesi.

The design for the uniform will be finalised this year after further staff feedback, followed by fabric selection and testing, wearer trials and production of an expected 90,000 garments to create a uniform that will be worn by more than 5,000 staff.

“We want people to feel like this is ‘my wardrobe’ rather than ‘my uniform’...” TRELISE COOPER

STANDING OUT FROM THE CROWD

IN THE AIR, members earn Airpoints Dollars and Status Points on Air New Zealand and many Star Alliance flights.

ON THE GROUND, members have the ability to earn Airpoints Dollars with our hotel and rental car offerings and now a wider choice of Financial Card Partners than ever to suit their individual needs.

We have been working to expand our financial partners giving our members greater ability to earn Airpoints Dollars. New partners include Kiwibank and the ANZ National Group. BNZ continues to be a valued partner through the GlobalPlus card, with an enhanced product offering including the ability to earn Status Points from spending on the GlobalPlus Gold, Platinum and Business credit cards.

Kiwibank launched the Go Fly MasterCard Airpoints Dollars card at the beginning of November 2009. This card introduced an exclusive product to Kiwibank – the Airpoints Family. This allows Kiwibank Go Fly MasterCard Airpoints members to create their Airpoints Family and share Airpoints Dollars, with members of their family. Kiwibank also has a Go Fly Thursday product which increases exclusive grabaseat deals available to Kiwibank Go Fly MasterCard cardholders.

ANZ launched a new Airpoints card in February 2010. The ANZ Airpoints Visa and ANZ Platinum Airpoints Visa will earn Airpoints Dollars that will not expire. ANZ Platinum Airpoints Visa cardholders will, like GlobalPlus Gold, GlobalPlus Platinum and Kiwibank Platinum cardholders, enjoy the ability to earn Status Points on their credit card spend. Further products are expected to be announced with ANZ National Group during 2010.

The focus is to ensure we continue to appeal to our customers within their everyday shopping behaviours and to ensure the programme remains the best way for members to accumulate Airpoints Dollars for great value rewards. The launch of new financial partners follows on from a series of new customer-led initiatives last year, which earned Air New Zealand the Global Loyalty Innovation Award by Airline Business. These included the launch of myairnz.co.nz and the new ePass that allows members to speed through domestic airports. We also introduced Space + seating for Gold Elite and Gold Airpoints and Koru members.
AIR NEW ZEALAND

AIR NEW ZEALAND'S NORMALISED EARNINGS BEFORE TAXATION FOR THE FIRST HALF OF THE 2010 FINANCIAL YEAR WERE $96 MILLION, UP $70 MILLION ON THE SAME PERIOD LAST YEAR, THROUGH PROACTIVE MANAGEMENT. CAPACITY WAS REDUCED BY 8 PERCENT IN RESPONSE TO THE WEAKER PASSENGER AND CARGO DEMAND, LOWER FUEL PRICES AND OPERATING COSTS OFFSET THE REDUCED REVENUE.

REVENUE

Operating revenue for the six months fell by $365 million, down 15 percent on the same period last year to $2.1 billion. Excluding the impact of foreign exchange rates, operating revenue was down 16 percent.

Passenger revenue fell by $260 million, primarily due to a 9.7 percent decrease in yield combined with a 4.9 percent reduction in demand, as measured in revenue passenger kilometres.

In the long haul, yield declined by 12.5 percent with a 7.3 percent decrease in demand. In response to this demand decline, capacity was reduced by 8.7 percent, which resulted in the passenger load factor increasing by 1.2 percentage points, to 83.3 percent.

Competition remained intense on Trans Tasman routes as competitors held capacity levels despite a soft demand environment. As a result yields continued to be weak. Air New Zealand reduced capacity by 10.5 percent, which resulted in the passenger load factor increasing by 1.2 percentage points, to 83.3 percent.

In domestic and regional operations demand was up 4.8 percent driven by reduced fare levels in the market. With capacity relatively unchanged load factors improved by 3.8 percentage points.

Cargo revenue was $127 million for the six months. In March 2009 Air New Zealand withdrew its dedicated freighter service to reduce exposure to the weak cargo market. Excluding the $83 million revenue contribution from the freighter in the prior corresponding period, cargo revenue reduced by 15 percent in the six month to December 2009.

Contract services revenue, including engineering, contract handling and training revenue, increased by $15 million or 10 percent on the previous period. This increase is attributable to increased external engineering revenue, primarily from Marine and Industrial Gas Turbines, and reflects the additional revenue from acquired Australian engineering businesses.

FOREIGN EXCHANGE IMPACT

The overall strengthening of the New Zealand dollar resulted in a net foreign exchange benefit of $35 million on the translation of foreign income and costs. This impact, combined with a reduction in foreign exchange hedging gains of $100 million, resulted in a reduction in earnings of $65 million compared to December 2008.

EXPENSES

Operating expenditure improved by 11 percent on the comparable period after excluding the impact of fuel and foreign exchange.

Labour cost decreased by 16 million or 3 percent compared with the same period in the 2009 financial year. Full time employees have reduced by 5 percent since December 2008. Savings from these reductions have been partially offset by rate increases.

The average US dollar in-plane cost of fuel, excluding hedging related to other periods, decreased by 35 percent on the same period last year. Fuel usage reduced by 175,000 barrels or 16 percent through an 8 percent reduction in capacity, fuel saving initiatives and the cessation of the freighter service.

The overall maintenance expense reduced by $7 million with lower fleet maintenance costs from reduced operations partially offset by increased third party activity, which generated additional contract services revenue.

Aircraft operations and passenger services cost decreased reflecting the 8 percent capacity reduction and the cessation of the cargo freighter service.

Sales and marketing expenses reduced by 20 percent compared with the six months to December 2008 to $129 million. This was primarily due to reduced commissions as a result of lower revenue. Other expenses were down 5 percent to $115 million for the six months reflecting the continued focus on cost savings.

The depreciation and amortisation cost increased by 9 percent to $140 million. This was primarily driven by the changes to the residual values of assets due to the strengthening of the New Zealand dollar against the US dollar as a result of additional investment in aircraft improvements. Rent, and lease expenses reduced by $17 million, predominantly as a result of the cessation of the freighter lease.

Net finance costs, excluding gains and losses from derivatives that hedge exposure in other financial periods, were $12 million, down $33 million reflecting reduced net debt levels combined with lower hedging costs as US dollar hedges became less expensive with the strengthening New Zealand dollar, and increased investment in aircraft improvements.

The overall strengthening of the New Zealand dollar resulted in a net foreign exchange benefit of $35 million on the translation of foreign income and costs. This impact, combined with a reduction in foreign exchange hedging gains of $100 million, resulted in a reduction in earnings of $65 million compared to December 2008.

CASH POSITION

Net cash generated from operating activities, prior to the impact of the rollover of foreign exchange contracts, was $165 million, an increase of $50 million on the comparable period last financial year.

A total of $227 million was invested in fixed assets during the period, including progress payments for Boeing 777-300ER and Airbus A320 aircraft. Five ATR 72-500 aircraft were purchased during the period and investments were made in aircraft improvements.

The net cash outflow from financing activities was $168 million. Cash outflows of $175 million related to the rollover of foreign exchange debt hedge contracts. Debt repayments of $103 million and dividend payments of $34 million were made during the period.

FINANCIAL POSITION

Closing net cash was $1.71 billion at December 2009. The balance has reduced from $1.86 billion at June 2009 due to progress payments for aircraft deliveries commencing in November 2010, debt repayments and cash outflows resulting from the rollover of debt hedges. Net gearing, including capitalised operating leases, was marginally higher at 46.0 percent compared to 45.0 percent at June 2009.

DIVIDEND RECORD DATE > 15 March 2010

DRP PRICE SET DATE > 24 March 2010

DIVIDEND PAYMENT DATE > 26 March 2010

FOREIGN EXCHANGE IMPACT

The overall strengthening of the New Zealand dollar resulted in a net foreign exchange benefit of $35 million on the translation of foreign income and costs. This impact, combined with a reduction in foreign exchange hedging gains of $100 million, resulted in a reduction in earnings of $65 million compared to December 2008.

THE KEY CHANGES IN PROFITABILITY ARE BROKEN DOWN IN THE TABLE BELOW:

<table>
<thead>
<tr>
<th>Date</th>
<th>Normalised Earnings Before Taxation</th>
<th>Change</th>
<th>Dividend Payment Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2008</td>
<td>$26m</td>
<td>$29m</td>
<td>$26m</td>
</tr>
<tr>
<td>Passenger</td>
<td>$26m</td>
<td>-$25m</td>
<td>$26m</td>
</tr>
<tr>
<td>Traffic</td>
<td>$26m</td>
<td>-$40m</td>
<td>$26m</td>
</tr>
<tr>
<td>Freight</td>
<td>$26m</td>
<td>-$2m</td>
<td>$26m</td>
</tr>
<tr>
<td>Aircraft</td>
<td>$26m</td>
<td>+$29m</td>
<td>$26m</td>
</tr>
<tr>
<td>Sales and</td>
<td>$26m</td>
<td>-$20m</td>
<td>$26m</td>
</tr>
<tr>
<td>Marketing</td>
<td>$26m</td>
<td>-$14m</td>
<td>$26m</td>
</tr>
<tr>
<td>Depreciation and Lease Costs</td>
<td>$26m</td>
<td>-$20m</td>
<td>$26m</td>
</tr>
<tr>
<td>Net Finance Costs</td>
<td>$26m</td>
<td>+$20m</td>
<td>$26m</td>
</tr>
<tr>
<td>Net Impact of Foreign Exchange Movements</td>
<td>$26m</td>
<td>-$36m</td>
<td>$26m</td>
</tr>
<tr>
<td>Other</td>
<td>$26m</td>
<td>-$11m</td>
<td>$26m</td>
</tr>
<tr>
<td>Dec 2009</td>
<td>$96m</td>
<td>-$12m</td>
<td>$96m</td>
</tr>
<tr>
<td>Earnings</td>
<td>$84m</td>
<td></td>
<td>$84m</td>
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</tbody>
</table>
AIR NEW ZEALAND GROUP
FINANCIAL SUMMARY

FINANCIAL PERFORMANCE (Unaudited)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>1,679</td>
<td>1,948</td>
<td>3,734</td>
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<tr>
<td>Cargo</td>
<td>127</td>
<td>232</td>
<td>374</td>
</tr>
<tr>
<td>Contract services and other revenue</td>
<td>248</td>
<td>239</td>
<td>501</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,054</td>
<td>2,419</td>
<td>4,698</td>
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Operating Expenditure

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Labour</td>
<td>(492)</td>
<td>(658)</td>
<td>(1,319)</td>
</tr>
<tr>
<td>Fuel</td>
<td>(458)</td>
<td>(948)</td>
<td>(1,687)</td>
</tr>
<tr>
<td>Maintenance</td>
<td>(169)</td>
<td>(176)</td>
<td>(397)</td>
</tr>
<tr>
<td>Aircraft operations</td>
<td>(190)</td>
<td>(217)</td>
<td>(433)</td>
</tr>
<tr>
<td>Passenger services</td>
<td>(124)</td>
<td>(141)</td>
<td>(275)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(129)</td>
<td>(162)</td>
<td>(295)</td>
</tr>
<tr>
<td>Foreign exchange gains</td>
<td>9</td>
<td>214</td>
<td>366</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(119)</td>
<td>(125)</td>
<td>(261)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(1,872)</td>
<td>(2,083)</td>
<td>(3,031)</td>
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</table>

Cash outflows from operating activities

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Earnings Before Finance Costs, Depreciation, Amortisation,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental Expenses and Taxation</td>
<td>382</td>
<td>356</td>
<td>688</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(149)</td>
<td>(138)</td>
<td>(276)</td>
</tr>
<tr>
<td>Rental and lease expenses</td>
<td>(140)</td>
<td>(157)</td>
<td>(324)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>133</td>
<td>147</td>
<td>310</td>
</tr>
<tr>
<td>Earnings Before Finance Costs and Taxation</td>
<td>93</td>
<td>81</td>
<td>78</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(9)</td>
<td>(47)</td>
<td>(71)</td>
</tr>
<tr>
<td>Profit Before Taxation</td>
<td>(28)</td>
<td>10</td>
<td>14</td>
</tr>
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</table>

Net Profit Attributable to Shareholders of Parent Company

<table>
<thead>
<tr>
<th></th>
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<th>$M</th>
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</thead>
<tbody>
<tr>
<td>Interim and final dividend declared per share (cents)</td>
<td>3.0</td>
<td>3.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Net tangible assets per share (cents)</td>
<td>138</td>
<td>154</td>
<td>147</td>
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</table>

Supplementary Information

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Earnings before Taxation (per NZ IFRS above)</td>
<td>84</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel derivatives</td>
<td>1</td>
<td>101</td>
<td>130</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>11</td>
<td>(88)</td>
<td>9</td>
</tr>
<tr>
<td>Interest rate derivatives</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Normalised Earnings before Taxation</td>
<td>96</td>
<td>26</td>
<td>145</td>
</tr>
<tr>
<td>Normalised Earnings after Taxation</td>
<td>64</td>
<td>52</td>
<td>118</td>
</tr>
</tbody>
</table>

Normalised Earnings represents Earnings stated in compliance with NZ IFRS after excluding net gains and losses on derivatives that hedge exposures in other financial periods.

CASH FLOWS (Unaudited)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cash inflows from operating activities</td>
<td>2,083</td>
<td>2,451</td>
<td>4,704</td>
</tr>
<tr>
<td>Cash outflows from operating activities</td>
<td>(1,918)</td>
<td>(2,338)</td>
<td>(4,349)</td>
</tr>
<tr>
<td>Refiner of foreign exchange contracts relating to operating activities</td>
<td>165</td>
<td>113</td>
<td>355</td>
</tr>
<tr>
<td>Net cash flow from operating activities</td>
<td>84</td>
<td>151</td>
<td>498</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(254)</td>
<td>(127)</td>
<td>(216)</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>(308)</td>
<td>104</td>
<td>14</td>
</tr>
<tr>
<td>Decrease/(Increase) in cash and cash equivalents</td>
<td>(470)</td>
<td>128</td>
<td>284</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>1,573</td>
<td>1,289</td>
<td>1,289</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at the End of the Period</td>
<td>1,095</td>
<td>1,417</td>
<td>1,573</td>
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</tbody>
</table>

FINANCIAL POSITION (Unaudited)

<table>
<thead>
<tr>
<th></th>
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<th>$M</th>
<th>$M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank and short term deposits</td>
<td>1,095</td>
<td>1,417</td>
<td>1,573</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>345</td>
<td>520</td>
<td>362</td>
</tr>
<tr>
<td>Inventories</td>
<td>148</td>
<td>145</td>
<td>143</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>52</td>
<td>676</td>
<td>143</td>
</tr>
<tr>
<td>Income taxation</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Other assets</td>
<td>55</td>
<td>121</td>
<td>47</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,702</td>
<td>2,873</td>
<td>2,775</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>157</td>
<td>38</td>
<td>34</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>2,328</td>
<td>2,065</td>
<td>2,337</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>41</td>
<td>41</td>
<td>39</td>
</tr>
<tr>
<td>Investments</td>
<td>61</td>
<td>65</td>
<td>62</td>
</tr>
<tr>
<td>Derivative financial assets</td>
<td>2</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>593</td>
<td>541</td>
<td>596</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>2,864</td>
<td>2,781</td>
<td>2,770</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4,566</td>
<td>5,660</td>
<td>5,045</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>366</td>
<td>478</td>
<td>374</td>
</tr>
<tr>
<td>Revenue in advance</td>
<td>715</td>
<td>789</td>
<td>721</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>182</td>
<td>359</td>
<td>172</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>187</td>
<td>380</td>
<td>282</td>
</tr>
<tr>
<td>Provisions</td>
<td>41</td>
<td>37</td>
<td>34</td>
</tr>
<tr>
<td>Income taxation</td>
<td>68</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>137</td>
<td>142</td>
<td>176</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>1,628</td>
<td>2,183</td>
<td>1,759</td>
</tr>
<tr>
<td>Revenue in advance</td>
<td>113</td>
<td>111</td>
<td>114</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>919</td>
<td>1,209</td>
<td>1,107</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>6</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Provisions</td>
<td>149</td>
<td>186</td>
<td>164</td>
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<tr>
<td>Other liabilities</td>
<td>31</td>
<td>41</td>
<td>38</td>
</tr>
<tr>
<td>Derivative financial liabilities</td>
<td>199</td>
<td>230</td>
<td>293</td>
</tr>
<tr>
<td><strong>Total Non-Current Liabilities</strong></td>
<td>1,417</td>
<td>1,796</td>
<td>1,681</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>3,045</td>
<td>3,952</td>
<td>3,440</td>
</tr>
<tr>
<td>Net Assets</td>
<td>1,521</td>
<td>1,708</td>
<td>1,605</td>
</tr>
<tr>
<td>Issued capital</td>
<td>2,347</td>
<td>2,332</td>
<td>2,297</td>
</tr>
<tr>
<td>Reserves</td>
<td>(726)</td>
<td>(654)</td>
<td>(625)</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>1,678</td>
<td>1,878</td>
<td>1,620</td>
</tr>
</tbody>
</table>

The summary financial information has been derived from, and should be read in conjunction with, the Air New Zealand Group interim financial statements (the 'Full Interim Financial Statements'). The Full Interim Financial Statements, dated 26 February 2010, 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 accounting policies used in these financial statements are consistent with those used as at 30 June 2009.

AIR NEW ZEALAND INTERIM SHAREHOLDER REVIEW 2010

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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.
KIWIS HAVE ALWAYS BEEN COMFORTABLE TO LEAD THE WAY IN THE WORLD.

AND OUR LATEST SEAT DESIGNS ARE SURE TO 'SLEEP YOU OFF YOUR FEET.'