INTERIM

FINANCIAL REPORT 2015

AIR NEW ZEALAND

CELEBRATING THE JOURNEY TOGETHER

75 YEARS

A STAR ALLIANCE MEMBER

AIR NEW ZEALAND
CELEBRATING THE JOURNEY TOGETHER
75 YEARS

Christopher Luxon
CHIEF EXECUTIVE OFFICER

Tony Carter
CHAIRMAN

Contents

Air New Zealand's normalised earnings[1] before taxation for the first six months of the 2015 financial year were $216 million, an increase of 20 percent on the previous corresponding period – a strong result.

Statutory earnings before taxation were $197 million, while statutory net profit after taxation was $133 million, down 6 percent.

The result was driven by strong revenue growth, underpinned by increased capacity and improved yields across the network. Operating cash flow of $378 million was up 26 percent on the previous corresponding period.

This is a very strong result, and as the company continues to deliver sustained earnings momentum and strong liquidity, the Board has declared a fully imputed interim dividend of 6.5 cents per share, an increase of 44% over the previous corresponding period.

The Board is comfortable with the strength of the company's balance sheet and our investment grade credit rating ensures we are well positioned to access funding as required.

2015 is shaping up to be a big year for the airline. We recently recommenced flights on the Auckland-Singapore route as part of our alliance with Singapore Airlines. This is a key part of our Pacific Rim growth strategy, providing our customers with not only a convenient direct service, but great connectivity into South East Asia and markets beyond.

We have also announced plans for our first ever scheduled services to South America, flying direct to Buenos Aires, Argentina from December this year. Tickets go on sale soon, and this will become our 28th international destination, opening up exciting new possibilities for customers travelling between South America, New Zealand, Australia and Asia.

We are continuing to make significant investments in innovation and improving the customer experience, with more than $40 million being spent to upgrade airport lounges, and roll out new self check kiosks and mobile technology.

[1] Refer to the Interim Financial Statements on page 7 for details of normalised earnings.

This year we are marking the 75th anniversary since the founding of Tasman Empire Airways Limited, as Air New Zealand was previously known.

Our fleet modernisation is well underway, with new Boeing 787-9, Airbus A320 and ATR72-600 aircraft arriving, and we have recently exercised options for further orders of both the 787-9 and ATR. The refurbishment programme on our existing Boeing 777-200s is tracking well, and we are getting great feedback from our customers on the new interiors and inflight entertainment systems. Over the next six years we will be investing $3 billion in new aircraft.

In November we announced the outcome of a review to deliver more sustainable air services throughout regional New Zealand. This will result in the retirement of our 19 seat Beech 1900D fleet by August 2016 along with a small number of routes being discontinued, while other routes will be upgauged to 50 seat Bombardier Q300 and 68 seat ATR72 aircraft. We are confident that these changes will position our regional network for long term success.

We recently reintroduced Night Rider, which offers travel on the last flight of the day on selected routes around New Zealand for as low as $29 one way, and our ever popular Grabaseat continues to offer up great value fares to our customers.

Our 25.92 percent shareholding in Virgin Australia remains a key pillar of our Australasian strategy, and it has been pleasing to see that company delivering better results as market conditions improve in domestic Australia.

This year we are marking the 75th anniversary since the founding of Tasman Empire Airways Limited, as Air New Zealand was previously known, and we are running an exhibition celebrating this milestone at the national museum Te Papa in Wellington. Capturing 75 years of stories, challenges and triumphs is not easy, but our team have done an outstanding job and the exhibition is well worth a visit.

We are a small airline and we will continue to punch above our weight as we strive to become a truly great company. To us this means delivering on three major goals at once – superior commercial results, continuing to enhance the customer experience, and further developing our people and culture. These three goals are equally important, and the Board and Executive are focused on continuing to deliver on all of these.

In November we stated that should the then current level of jet fuel price persist, there would be a significant additional improvement in earnings in the second half of the financial year.

Fuel prices are lower than in November and the sales momentum has been maintained, further strengthening the company's outlook for the current year and beyond.

Tony Carter
Chairman

Christopher Luxon
Chief Executive Officer

25 February 2015

Financial Commentary

Air New Zealand's normalised earnings[1] before taxation for the first six months of the 2015 financial year were $216 million, an increase of 20 percent on the previous corresponding period. This result includes equity accounted losses of $14 million from the company's shareholding in Virgin Australia. Statutory earnings before taxation were $197 million, while statutory net profit after taxation was $133 million.

The result was driven by strong revenue growth, underpinned by increased capacity and improved yields across the network. Operating cash flow was again strong at $378 million, an increase of 26 percent on the previous corresponding period.

Revenue

Operating revenue was $2.4 billion, an increase of 3.4 percent on the previous corresponding period. Excluding the negative impact of foreign exchange movements, operating revenue increased by 5.2 percent, with a 1.7 percent increase in capacity (available seat kilometres).

Passenger revenue was $2.0 billion, an increase of 3.2 percent over the previous corresponding period. This result reflects stronger yields across the network combined with the increased capacity. These gains were partially offset by a decrease in load factors, down 0.4 percentage points to 83.9 percent. Foreign exchange had a $37 million negative impact due to the New Zealand dollar being stronger against the airline's major trading currencies.

Yields on international long haul routes increased on a capacity increase of 1.2 percent, and were up 2.8 percent excluding the impact of foreign exchange. Demand (revenue passenger kilometres) on international long haul routes increased 0.5 percent, while load factor was down slightly at 85.4 percent.

Tasman and Pacific Islands saw capacity increase by 1.7 percent, with demand also up 1.7 percent. Load factor was flat at 83.2 percent. Yield on Tasman and Pacific Islands increased by 0.9 percent, or 3.4 percent excluding the impact of foreign exchange.

Domestic capacity grew by 3.2 percent during the period, as larger A320 aircraft replaced the retiring B737-300s and additional ATR72-600 turboprops joined the fleet. Demand was up 2.8 percent, while load factor was down slightly at 80.7 percent. Yield on Domestic routes grew by 3.9 percent, or 4.3 percent excluding the impact of foreign exchange.

Cargo revenue was $155 million, an increase of 4.7 percent over the previous corresponding period. Excluding the impact of foreign exchange, Cargo revenue was up 6.8 percent, driven by a 7.6 percent increase in volume (revenue tonne kilometres), partially offset by a yield decline of 0.8 percent.

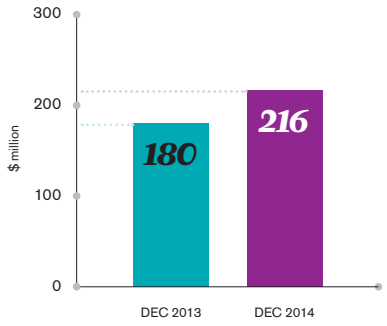
Contract Services revenue was $139 million, a 5.3 percent increase over the previous corresponding period. This improvement was driven by increases in third party engineering activity and contract handling services for other airlines.

Expenses

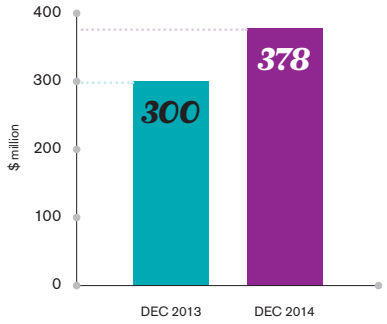
Operating expenditure was up 3.0 percent compared to the previous corresponding period. Excluding foreign exchange related movements and the net loss on non-hedge accounted and ineffective derivatives, operating expenditure was up 0.9 percent on a 1.7 percent increase in capacity.

Labour costs were $582 million for the period, an increase 2.8 percent. This was due to a combination of increased activity and rate increases, partially offset by increased productivity and reduced transition costs.

Normalised earnings before taxation



Operating cash flow



Operating revenue

$2.4 billion, ↑ 5.2%*

Capacity (ASKs)

↑ 1.7%

Group yield

↑ 3.8%*

[1] Refer to the Interim Financial Statements on page 7 for details of normalised earnings.

Dividend Record date **13 March 2015**
Dividend Payment date **20 March 2015**

Headcount (FTE) increased by 80 during the period to 10,526 full time equivalent employees.

Fuel costs decreased by $2 million during the period, with the accounting impact of non-hedge accounted derivatives that hedge exposures in other financial periods increasing fuel costs by $35 million.

Excluding this impact fuel costs decreased $37 million, driven by a combination of fuel price decreases and the favourable impact of foreign exchange, partially offset by increased volumes. The average US dollar into plane cost excluding hedge timing was 4 percent lower than the previous corresponding period. Air New Zealand's fuel hedging programme resulted in losses totalling $26 million compared to gains of $10 million in the previous corresponding period.

Aircraft maintenance and overhaul costs were $144 million, up 6.7 percent for the period. This was due to an increase in third party engineering work, while maintenance on the Air New Zealand fleet was comparable to the previous corresponding period.

Aircraft operations costs were $224 million for the period, an increase of 3.7 percent on a 1.7 percent increase in capacity. This was driven by increased capacity along with higher landing charges and air navigation price increases.

Passenger services expenses were $108 million, a decrease of 0.9 percent on the prior period, due to lower ground handling charges and foreign exchange benefits.

Sales and marketing costs decreased by 1.4 percent during the period, primarily due to the impact of foreign exchange rate changes.

Fleet replacement programmes resulted in increased lease costs as newer leased aircraft entered the fleet, offset by decreased depreciation as older owned aircraft exited the fleet.

Net finance costs increased by $4 million on the previous corresponding period due to increased debt relating to new aircraft.

Equity earnings in the current period reflect a $14 million loss from Virgin Australia and a $3 million profit from the Christchurch Engine Centre, a joint venture with Pratt & Whitney Canada. This is the first period in which the company has been required to equity account earnings from its shareholding in Virgin Australia.

Foreign exchange impact

The impact of a stronger New Zealand dollar relative to Air New Zealand's major trading currencies resulted in a negative foreign exchange movement of $16 million. This combined with a reduction in gains from the hedging programme resulted in currency movements of $36 million negatively impacting on the Group result.

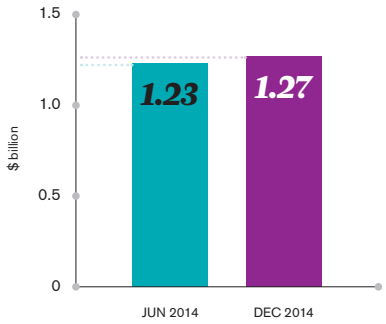
Cash and financial position

Net cash at 31 December 2014 was $1.27 billion, an increase of $31 million in the six months.

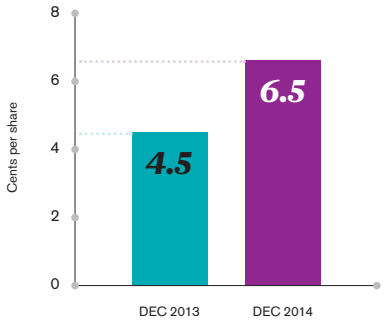
The Group had strong operating cash flows of $378 million, which was an increase of $78 million, despite the increased operating earnings leading to higher tax payments of $35 million.

Net gearing, including capitalised operating leases, deteriorated 8.7 percentage points to 51.6 percent. This was due to increased debt on new aircraft, the weaker New Zealand dollar increasing US dollar denominated debt and capitalised operating lease balances, and the impact of shareholder distributions.

Net cash position



Interim dividend



Group load factor

83.9%

Cargo revenue

$155 million,

↑ 6.8%*

Unit cost improves to

10.76
cents per ASK

* Prior to the impact of foreign exchange.

Change in Profitability

The key changes in profitability, after isolating the impact of foreign exchange movements and derivatives that hedge exposures in other financial periods, are set out in the table below*:

December 2013 normalised earnings before taxation	**$180m**	
Passenger yield	$78m	- Strong yield growth of 1.9 percent across the network (3.8 percent FX adjusted) - Long haul yields improved by 0.3 percent (2.8 percent FX adjusted) - Short haul yields improved 2.7 percent (improved 4.1 percent FX adjusted)
Passenger traffic	$20m	- Capacity increased by 1.7 percent from growth across the network with the introduction of new and additional aircraft - Passenger demand increased 1.2 percent, driven by strong demand in Domestic (up 2.8 percent), Tasman and Pacific Islands (up 1.7 percent) and long haul (up 0.5 percent) - Passenger load factor for the Group of 83.9 percent
Cargo, contract services and other revenue	$22m	- Increase in third party engineering work and cargo. Cargo volumes increased by 8 percent across all markets offset by yield declining by 1 percent
Labour	-$16m	- Activity and rate increases offset by improved productivity and reduced transition costs
Fuel	$22m	- The average US$ into plane cost decreased 4 percent compared to last year. Consumption increased due to an increase in capacity of 1.7 percent offset by improving fleet efficiencies
Maintenance	-$12m	- Higher third party customer engineering work
Aircraft operations	-$9m	- Landing and air navigation activity and price increases
Depreciation, lease and funding costs	-$11m	- Delivery of additional operating leased aircraft and the cost of increased funding offset by a reduction in depreciation costs reflecting disposal of exiting fleets
Share of equity accounted associate earnings	-$17m	- Share of losses in Virgin Australia which was recognised as an associate from 4 July 2014 and reduced earnings from other associates
Net impact of foreign exchange movements	-$36m	- The impact of currency movements on revenue and costs, including lower foreign exchange hedging gains
Other	-$5m	- Gain on Virgin equity derivative in the prior year
December 2014 normalised earnings before taxation	**$216m**	
	-$19m	- Net impact of derivatives that hedge exposures in other financial periods
December 2014 earnings before taxation	**$197m**	

* The numbers referred to in the Financial Commentary on the previous page have not isolated the impact of foreign exchange.

Statement of Financial Performance (unaudited)

For the six months to 31 December 2014

	NOTES	6 MONTHS TO 31 DEC 2014 $M	6 MONTHS TO 31 DEC 2013 $M
Operating Revenue			
Passenger revenue		**1,993**	1,932
Cargo		**155**	148
Contract services		**139**	132
Other revenue		**116**	112
	3	**2,403**	2,324
Operating Expenditure			
Labour		**(582)**	(566)
Fuel		**(569)**	(571)
Maintenance		**(144)**	(135)
Aircraft operations		**(224)**	(216)
Passenger services		**(108)**	(109)
Sales and marketing		**(140)**	(142)
Foreign exchange gains		**10**	32
Other expenses		**(109)**	(104)
		(1,866)	(1,811)
Operating Earnings (excluding items below)		**537**	513
Depreciation and amortisation		**(203)**	(211)
Rental and lease expenses		**(99)**	(87)
Earnings Before Finance Costs, Associates and Taxation		**235**	215
Finance income		**26**	21
Finance costs		**(53)**	(44)
Earnings Before Associates and Taxation		**208**	192
Share of earnings of associates (net of taxation)	2(a)	**(11)**	6
Earnings Before Taxation		**197**	198
Taxation expense		**(64)**	(57)
Net Profit Attributable to Shareholders of Parent Company		**133**	141
Per Share Information:			
Basic earnings per share (cents)		**11.9**	12.9
Diluted earnings per share (cents)		**11.9**	12.8
Interim dividend declared per share (cents)		**6.5**	4.5
Net tangible assets per share (cents)		**152**	156

	NOTE	6 MONTHS TO 31 DEC 2014 $M	6 MONTHS TO 31 DEC 2013 $M
Supplementary Information			
Earnings before Taxation (per NZ IFRS above)*		**197**	198
Reverse net (gains)/losses on derivatives that hedge exposures in other financial periods:			
Fuel derivatives		**17**	(18)
Foreign exchange derivatives		**2**	-
Normalised Earnings before Taxation*	2(f)	**216**	180
Normalised Earnings after Taxation*		**147**	128

*Earnings include the Group's share of equity losses from the investment in Virgin Australia Holdings Limited of $14 million.

Normalised Earnings represents Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding net gains and losses on derivatives that hedge exposures in other financial periods. Normalised Earnings is a non-IFRS financial performance measure that matches derivative gains or losses with the underlying hedged transaction, and represents the underlying performance of the business for the relevant period.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'), issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Statement of Comprehensive Income (unaudited)

For the six months to 31 December 2014

	6 MONTHS TO 31 DEC 2014 $M	6 MONTHS TO 31 DEC 2013 $M
Net Profit for the Period	**133**	141
Other Comprehensive Income:		
Items that will not be reclassified to profit or loss:		
Changes in fair value of investment in quoted equity instruments	**(5)**	(60)
Actuarial gains on defined benefit plans	**-**	12
Taxation on above reserve movements	**-**	(3)
Total items that will not be reclassified to profit or loss	**(5)**	(51)
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	**(11)**	31
Transfers to net profit ("Fuel") from cash flow hedge reserve	**38**	(10)
Transfers to net profit ("Foreign exchange gains") from cash flow hedge reserve	**(19)**	(31)
Transfers to asset carrying value from cash flow hedge reserve	**(5)**	(27)
Net translation loss on investment in foreign operations	**(7)**	(4)
Changes in cost of hedging reserve	**(6)**	(1)
Taxation on above reserve movements	**-**	11
Share of equity accounted associates (net of taxation)	**(58)**	-
Total items that may be reclassified subsequently to profit or loss	**(68)**	(31)
Total Other Comprehensive Income for the Period, Net of Taxation	**(73)**	(82)
Total Comprehensive Income for the Period, Attributable to Shareholders of the Parent Company	**60**	59

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Statement of Changes in Equity (unaudited)

For the six months to 31 December 2014

	NOTES	ISSUED CAPITAL $M	HEDGE RESERVES $M	INVESTMENT REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	RETAINED DEFICIT $M	TOTAL EQUITY $M
Balance as at 1 July 2014		**2,282**	**51**	**(65)**	**(23)**	**(373)**	**1,872**
Adoption of new accounting standards	4	**-**	**(3)**	**-**	**-**	**3**	**-**
Restated Balance as at 1 July 2014		**2,282**	**48**	**(65)**	**(23)**	**(370)**	**1,872**
Net profit for the period		**-**	**-**	**-**	**-**	**133**	**133**
Other comprehensive income for the period		**-**	**(28)**	**(5)**	**(40)**	**-**	**(73)**
Reclassification upon acquisition of associate	2(a)	**-**	**-**	**70**	**-**	**(70)**	**-**
Total Comprehensive Income for the Period		**-**	**(28)**	**65**	**(40)**	**63**	**60**
Transactions with Owners:							
Equity-settled share-based payments		**2**	**-**	**-**	**-**	**-**	**2**
Dividends on Ordinary Shares	8	**-**	**-**	**-**	**-**	**(173)**	**(173)**
Share of equity accounted associates reserves (net of taxation)		**-**	**-**	**-**	**-**	**25**	**25**
Total Transactions with Owners		**2**	**-**	**-**	**-**	**(148)**	**(146)**
Balance as at 31 December 2014		**2,284**	**20**	**-**	**(63)**	**(455)**	**1,786**

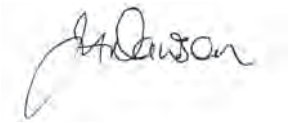
	NOTE	ISSUED CAPITAL $M	HEDGE RESERVES $M	INVESTMENT REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	RETAINED DEFICIT $M	TOTAL EQUITY $M
Balance as at 1 July 2013		2,277	123	(47)	(17)	(535)	1,801
Adoption of new accounting standards	4	-	(2)	-	-	2	-
Restated Balance as at 1 July 2013		2,277	121	(47)	(17)	(533)	1,801
Net profit for the period		-	-	-	-	141	141
Other comprehensive income for the period		-	(27)	(60)	(4)	9	(82)
Total Comprehensive Income for the Period		-	(27)	(60)	(4)	150	59
Transactions with Owners:							
Shares issued		1	-	-	-	-	1
Equity-settled share-based payments		2	-	-	-	-	2
Dividends on Ordinary Shares		-	-	-	-	(55)	(55)
Total Transactions with Owners		3	-	-	-	(55)	(52)
Balance as at 31 December 2013		2,280	94	(107)	(21)	(438)	1,808

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Statement of Financial Position (unaudited)

As at 31 December 2014

	NOTES	31 DEC 2014 $M	30 JUN 2014 $M
Current Assets			
Bank and short term deposits		**1,265**	1,234
Trade and other receivables		**345**	349
Inventories		**149**	169
Derivative financial assets	4	**110**	30
Assets held for resale	2(c)	**54**	4
Other assets		**47**	41
Total Current Assets		**1,970**	1,827
Non-Current Assets			
Trade and other receivables		**52**	55
Property, plant and equipment		**3,264**	2,994
Intangible assets		**78**	79
Investment in quoted equity instruments	2(a)	**-**	422
Investments in other entities	2(a)	**418**	48
Derivative financial assets	4	**3**	-
Assets held for resale		**2**	2
Other assets		**485**	423
Total Non-Current Assets		**4,302**	4,023
Total Assets		**6,272**	5,850
Current Liabilities			
Trade and other payables		**406**	398
Revenue in advance		**953**	930
Interest-bearing liabilities		**204**	190
Derivative financial liabilities	4	**136**	57
Provisions		**32**	31
Liabilities held for resale	2(c)	**13**	-
Income taxation		**-**	52
Other liabilities		**195**	214
Total Current Liabilities		**1,939**	1,872
Non-Current Liabilities			
Revenue in advance		**157**	148
Interest-bearing liabilities		**1,949**	1,543
Derivative financial liabilities	4	**1**	1
Provisions		**189**	165
Other liabilities		**20**	20
Deferred taxation		**231**	229
Total Non-Current Liabilities		**2,547**	2,106
Total Liabilities		**4,486**	3,978
Net Assets		**1,786**	1,872
Equity			
Issued capital		**2,284**	2,282
Hedge reserves	4	**20**	48
Other reserves		**(518)**	(458)
Total Equity		**1,786**	1,872



Tony Carter, CHAIRMAN

Jan Dawson, DEPUTY CHAIRMAN

For and on behalf of the Board, 25 February 2015.

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Statement of Cash Flows (unaudited)

For the six months to 31 December 2014

	NOTES	6 MONTHS TO 31 DEC 2014 $M	6 MONTHS TO 31 DEC 2013 $M
Cash Flows from Operating Activities			
Receipts from customers		**2,418**	2,317
Interest received		**24**	19
Payments to suppliers and employees		**(1,920)**	(1,935)
Income tax paid		**(103)**	(68)
Interest paid		**(42)**	(44)
		377	289
Rollover of foreign exchange contracts*		**1**	11
Net Cash Flow from Operating Activities		**378**	300
Cash Flows from Investing Activities			
Disposal of property, plant and equipment and intangibles		**26**	15
Disposal of investment in subsidiary	2(b)	**7**	-
Acquisition of property, plant and equipment and intangibles		**(522)**	(252)
Acquisition of quoted equity instruments		**-**	(112)
Distribution from associates		**4**	-
Rollover of foreign exchange contracts*		**(5)**	(27)
Interest-bearing assets		**1**	59
Net Cash Flow from Investing Activities		**(489)**	(317)
Cash Flows from Financing Activities			
Shares issued		**-**	1
Interest-bearing liabilities drawdowns		**417**	125
Interest-bearing liabilities payments		**(120)**	(76)
Rollover of foreign exchange contracts*		**26**	1
Dividend on Ordinary Shares	8	**(181)**	(56)
Net Cash Flow from Financing Activities		**142**	(5)
Increase/(Decrease) in Cash and Cash Equivalents		**31**	(22)
Cash and cash equivalents at the beginning of the period		**1,234**	1,150
Cash and Cash Equivalents at the End of the Period		**1,265**	1,128
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net profit attributable to shareholders		**133**	141
Plus/(less) non-cash items:			
Depreciation and amortisation		**203**	211
Share of earnings of associates	2(a)	**11**	(6)
Unrealised losses/(gains) on fuel derivatives	4	**17**	(18)
Foreign exchange losses/(gains)		**4**	(3)
Other non-cash items		**4**	-
		372	325
Net working capital movements:			
Assets		**(21)**	(15)
Revenue in advance		**41**	(27)
Deferred foreign exchange losses		**1**	11
Liabilities		**(15)**	6
		6	(25)
Net Cash Flow from Operating Activities		**378**	300

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

These financial statements have not been audited. They have been the subject of review by the auditors pursuant to NZ SRE 2410, issued by the External Reporting Board. The accompanying notes form part of these financial statements.

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2014

1. FINANCIAL STATEMENTS

Air New Zealand Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2014.

The accounting policies and computation methods used in the preparation of the interim financial statements are consistent with those used as at 30 June 2014 and 31 December 2013 with the exception of the Group adopting NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013) - Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39. These standards and amendments, which are effective for periods commencing on or after 1 January 2017, were adopted with effect from 1 July 2014. The impact of this change is explained in Note 4 Derivative Financial Instruments.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period. Share of earnings from associates of $6 million for the period to 31 December 2013 was reclassified in the Statement of Financial Performance from "Other revenue" to "Share of earnings of associates (net of taxation)".

These interim financial statements have not been audited. The interim financial statements comply with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting and have been the subject of review by the auditors, pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'), issued by the External Reporting Board.

2. GENERAL DISCLOSURES

Group composition

(a) On 4 July 2014, the Chief Executive Officer of Air New Zealand was appointed to the Board of Directors of Virgin Australia Holdings Limited (Virgin Australia) which demonstrated, from an accounting perspective, that the Group was able to exercise significant influence going forward. Accordingly, the investment is treated as an associate for the period ended 31 December 2014 and the equity method of accounting applied. At the date of gaining significant influence, in the Statement of Financial Position, the carrying value of Virgin Australia was transferred from "Investment in quoted equity instruments" to "Investments in other entities" and in the Statement of Changes in Equity, revaluation losses accumulated in the Investment Revaluation Reserve of $70 million was transferred to "Retained Deficit".

The Group's investment in associates relates to a 25.92% interest in Virgin Australia Holdings Limited (Virgin Australia) and a 49% interest in Christchurch Engine Centre (CEC). The Group recognised a share of equity accounted losses of $14 million for Virgin Australia and earnings of $3 million for CEC (31 December 2013: earnings of $6 million for CEC). The investment in joint ventures relates to a 50% interest in Pacific Leisure Group Limited and 51% interest in ANZGT Field Services LLC.

(b) On 29 September 2014 the Group disposed of its interest in a wholly owned subsidiary, Altitude Aerospace Interiors Limited. The net assets of the company as at disposal date were $6 million. A gain on sale of $1 million was recognised upon disposal.

(c) On 23 December 2014 the Group entered into a conditional sale and purchase agreement to dispose of its interest in TAE Pty Limited (and its wholly owned subsidiaries). The TAE Group was recognised as a disposal group as at balance date with assets of $50 million recognised within Assets held for resale and liabilities of $13 million recognised as Liabilities held for resale in the Statement of Financial Position. The sale is expected to be completed in March 2015.

On-market share buyback programme

(d) On 30 September 2014, the Group announced that it was renewing the on-market share buyback programme, effective from 6 October 2014 for which the intention is to purchase up to 3% or $66 million of shares on issue (whichever is lower) over the 12 month period to 29 September 2015. No shares were acquired during the six months to 31 December 2014 (31 December 2013: Nil).

During the six months to 31 December 2014, the Group utilised treasury stock of 2,481,280 Ordinary Shares for $3 million to fulfil obligations under employee share-based compensation plans (31 December 2013: Nil).

Fair value of interest-bearing liabilities

(e) Interest-bearing liabilities are recognised initially at fair value and subsequently measured at amortised cost. The fair value of interest-bearing liabilities as at 31 December 2014 is $2,139 million (30 June 2014: $1,671 million). All borrowings are secured over aircraft or aircraft related assets and are subject to floating interest rates. Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.7% to 4.1% in the six months to 31 December 2014 (six months to 31 December 2013: 0.8% to 4.1%). Unsecured bonds have an interest rate of 6.9% payable semi-annually.

Normalised earnings

(f) Normalised earnings, disclosed as supplementary information at the foot of the Statement of Financial Performance, shows earnings after excluding movements on derivatives that hedge exposures in other financial periods. The adjustments match derivative gains or losses with the underlying hedged transaction. Such movements include amounts required to be recognised as ineffective for accounting purposes. The amounts recognised in the Statement of Financial Performance in relation to (gains)/losses on derivatives which hedge exposures in other financial periods are $17 million of losses for fuel derivatives (31 December 2013: gains of $18 million) and $2 million of losses on foreign exchange derivatives (31 December 2013: Nil).

3. SEGMENTAL INFORMATION

Air New Zealand operates predominantly in one segment, its primary business being the transportation of passengers and cargo on an integrated network of scheduled airline services to, from and within New Zealand. Resource allocation decisions across the network are made to optimise the consolidated Group's financial result.

Geographical

An analysis of operating revenue by geographical region of original sale is provided below.

	6 MONTHS TO 31 DEC 2014 $M	6 MONTHS TO 31 DEC 2013 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**1,477**	1,391
Australia and Pacific Islands	**336**	359
United Kingdom and Europe	**130**	128
Asia	**167**	159
North America	**293**	287
Total Operating Revenue	**2,403**	2,324

The principal non-current asset of the Group is the aircraft fleet which is registered in New Zealand and employed across the worldwide network. Accordingly, there is no reasonable basis for allocating the assets to geographical segments.

4. DERIVATIVE FINANCIAL INSTRUMENTS

NZ IFRS 9 (2010) - Financial Instruments and NZ IFRS 9 (2013): Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39 were adopted with effect from 1 July 2014. They add requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and financial liabilities to NZ IFRS 9 (2009) and replace the hedge accounting requirements of NZ IAS 39. The hedge accounting requirements in NZ IFRS 9 align hedge accounting more closely with risk management and establish a more principle-based approach than under NZ IAS 39. In order to qualify for hedge accounting, certain criteria must be met, including an analysis of the sources of hedge ineffectiveness for accounting purposes.

NZ IFRS 9 permits hedge accounting of risk components of both non-financial and financial items, provided they are separately identifiable and reliably measurable. Crude oil derivatives, which were previously designated as a proxy for jet fuel derivatives, are now designated in qualifying cash flow hedges of the crude oil component of highly probable future jet fuel purchases. This change has been applied prospectively with effect from 1 July 2014 and better aligns the accounting of such derivatives with the Group's risk management strategy, resulting in a more logical outcome. Accounting ineffectiveness may still arise where the price index of the designated hedging instrument is different to the crude oil benchmark in the geographical location of the hedged fuel uplift.

Accounting ineffectiveness for the six months to 31 December 2014 was nil (31 December 2013: $19 million). Of the amounts recognised in the prior year, $17 million relates to underlying hedged transactions which occurred in the six months to 31 December 2014.

Hedge Reserves includes the Cash Flow Hedge Reserve of $33 million (31 December 2013: $97 million; 30 June 2014: $51 million) and the Costs of Hedging Reserve of $(13) million (31 December 2013 and 30 June 2014: $(3) million).

Costs of hedging

Some components of hedge accounted derivatives are excluded from the designated risk. Cash flow hedges in respect of fuel derivatives include only the intrinsic value of fuel options. Time value on fuel options is excluded from the hedge designation and is marked to market through Other Comprehensive Income, and accumulated within a separate component of equity (the 'Costs of Hedging Reserve' within Hedge Reserves), until such time as the related hedge accounted cash flows affect profit or loss. At this stage the cumulative amount is reclassified to profit or loss within 'Fuel'.

Similarly, forward points (the differential in interest rates between currencies) are excluded from the hedge designation in respect of foreign currency derivatives which hedge account forecast foreign currency operating revenue and expenditure transactions. The change in the fair value of these forward points is recognised in Other Comprehensive Income and accumulated in the 'Costs of Hedging Reserve' within Hedge Reserves. The forward element that exists at inception is amortised from this reserve to profit or loss on a straight line basis within 'Finance costs'.

Previously under NZ IAS 39, the above excluded elements were marked to market through the Statement of Financial Performance. The impact of this change has been applied retrospectively with $2 million losses having been reclassified from earnings to Other Comprehensive Income as at 1 July 2013 and a further $1 million loss in the six months ended 31 December 2013.

In the six months to 31 December 2014, the total cost of hedging was $30 million (31 December 2013: $24 million).

Condensed Notes to the Financial Statements (continued) (unaudited)

As at and for the six months to 31 December 2014

5. CAPITAL COMMITMENTS

	31 DEC 2014 $M	30 JUN 2014 $M
Aircraft and engines	**2,624**	2,409
Other assets	**12**	9
	2,636	2,418

Commitments shown are for those asset purchases committed and contracted for and are converted at the period end exchange rate.

Significant movements (excluding progress payments and foreign exchange movements) in capital commitments since 30 June 2014 include the delivery of two Boeing 787-9 aircraft, one Trent 1000 engine, one A320 domestic aircraft and one ATR72-600 aircraft.

In July 2014 the Group signed an agreement to exercise three ATR72-600 options and convert one purchase right to a firm order. The aircraft are scheduled for delivery between February 2016 and July 2016.

On 30 November 2014 the Group committed to acquire two additional Boeing 787-9 aircraft by converting existing options to firm orders. The aircraft will be delivered in November 2017 and September 2018.

6. OPERATING LEASE COMMITMENTS

	31 DEC 2014 $M	30 JUN 2014 $M
Aircraft Leases Payable		
Not later than 1 year	**165**	146
Later than 1 year and not later than 5 years	**432**	433
Later than 5 years	**53**	58
	650	637
Property Leases Payable		
Not later than 1 year	**33**	35
Later than 1 year and not later than 5 years	**99**	105
Later than 5 years	**62**	65
	194	205

7. CONTINGENT LIABILITIES

All significant legal disputes involving probable loss that can be reliably estimated have been provided for in the financial statements. There are no contingent liabilities for which it is practicable to estimate the financial effect.

Air New Zealand is defending two class actions in the United States. One makes allegations of anti-competitive conduct against many airlines in relation to pricing in the air cargo business. Following settlements, five airlines including Air New Zealand continue to defend the claim. A similar, previously reported class action filed in Australia was discontinued against Air New Zealand in June 2014 resulting in legal costs of over $3 million being recovered.

A second class action in the United States, alleges that Air New Zealand together with other airlines acted anti-competitively in respect of fares and surcharges on trans-Pacific routes.

Allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). Following a defended hearing, the Federal Court released its decision in October 2014, finding in favour of Air New Zealand. The ACCC has appealed the decision. The appeal will be defended and cross appeals have been filed on selected aspects of the decision.

In the event that a Court determined that Air New Zealand had breached competition laws, the Company would have potential liability for damages or (in Australia) pecuniary penalties. No other significant contingent liability claims are outstanding at balance date.

Outstanding letters of credit and performance bonds total $54 million (30 June 2014: $52 million).

The Group has a partnership agreement with Pratt and Whitney in which it holds a 49% interest in the Christchurch Engine Centre (CEC). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $70 million (30 June 2014: $82 million).

8. DIVIDENDS

On 24 February 2015, the Board of Directors declared an interim dividend of 6.5 cents per Ordinary Share, payable on 20 March 2015 to registered shareholders at 13 March 2015. The total dividend payable will be $73 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the December 2014 interim financial statements.

A final dividend in respect of the 2014 financial year of 5.5 cents per Ordinary Share and a special dividend of 10.0 cents per Ordinary Share was paid on 22 September 2014. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

The dividend reinvestment plan is currently suspended.

Review Report

Deloitte.

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED

We have reviewed the condensed Group interim financial statements of Air New Zealand Limited ("the Company") and its subsidiaries ("the Group") which comprise the Statement of Financial Position as at 31 December 2014, and the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information on pages 7 to 14.

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation and fair presentation of the condensed Group interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors determine is necessary to enable the preparation and fair presentation of the condensed Group interim financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is also responsible for the publication of the condensed Group interim financial statements, whether in printed or electronic form.

Independent Reviewer's Responsibilities

The Auditor-General is the auditor of the Group pursuant to section 5(1)(f) of the Public Audit Act 2001. Pursuant to section 32 of the Public Audit Act 2001, the Auditor-General has appointed Andrew Dick of Deloitte to carry out the annual audit of the Group.

Our responsibility is to express a conclusion on the condensed Group interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed Group interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. As the auditor of Air New Zealand Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed Group interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the condensed Group interim financial statements.

We did not evaluate the security and controls over the electronic publication of the condensed Group interim financial statements.

In addition to this review and the audit of the Group annual financial statements, we have performed other engagements in the areas of taxation and other assurance and non assurance services which are compatible with the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board. In addition, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These services and trading activities have not impaired our independence as auditor of the Company or Group. We have no other relationships with, or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed Group interim financial statements do not present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting.

Andrew Dick, Deloitte

On behalf of the Auditor-General
25 February 2015
Auckland, New Zealand

Matters Relating to the Electronic Presentation of the Unaudited Condensed Group Interim Financial Statements

This review report relates to the unaudited condensed Group interim financial statements of Air New Zealand Limited for the six months ended 31 December 2014 included on Air New Zealand Limited's website. The Board of Directors is responsible for the maintenance and integrity of Air New Zealand Limited's website. We have not been engaged to report on the integrity of Air New Zealand Limited's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed Group interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed Group interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed Group interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed Group interim financial statements and related review report dated 25 February 2015 to confirm the information included in the unaudited condensed Group interim financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of the unaudited condensed Group interim financial statements may differ from legislation in other jurisdictions.

Shareholder Enquiries

Shareholder Communication

Air New Zealand's investor website **www.airnzinvestor.co.nz** provides shareholders with information on monthly operating statistics, financial results, stock exchange releases, corporate governance, annual meetings, investor presentations, important dates and contact details. Shareholders can also view webcasts of key events from this site.

Shareholders who would like to receive electronic news updates can register online at **www.airnzinvestor.co.nz** or email Investor Relations directly on **investor@airnz.co.nz**.

Share Registrar

Link Market Services Limited
Level 7, Zurich House
21 Queen Street, Auckland 1010, New Zealand
PO Box 91976, Auckland 1142
New Zealand

Phone: (64 9) 375 5998 (New Zealand)
(61) 1300 554 474 (Australia)
Fax: (64 9) 375 5990
Email: enquiries@linkmarketservices.com

Investor Relations

Private Bag 92007, Auckland 1142
New Zealand

Phone: (64 9) 336 2287
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Website: www.airnzinvestor.com

A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

Travel effortlessly with the Air New Zealand mobile app

Coffee Ordering

Gate Notifications

e-Boarding Pass

Traffic Updates

Weather Updates

Mobile Check in

The Air NZ mobile app

Effortless Travel.
Download it today.