A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

INTERIM

FINANCIAL REPORT 2017

Chairman and Chief Executive Officer's Report

Contents:

For the first six months of the 2017 financial year, Air New Zealand's earnings before taxation were $349 million.

Net profit after taxation was $256 million. Operating cash flow was $376 million.

Left to right: **Christopher Luxon** Chief Executive Officer, **Tony Carter** Chairman

"Our second highest interim result in the history of the airline."

Earnings before taxation in the first six months of the 2017 financial year was $349 million, which included a $22 million gain related to other significant items[1]. The result compares to $457 million in the prior period. Passenger revenue was the main driver of the decline, as a significant level of new competitors entered the New Zealand market in the period. Helping to mitigate the revenue pressure was a strong focus on cost improvement across the organisation. Lower fuel prices were a benefit to operating costs in the period, but were partially offset by the adverse impact of foreign exchange.

The last six months saw unprecedented levels of international carriers adding new services to New Zealand. As expected, the change in the competitive landscape in a relatively short period of time has impacted our airline's profitability when compared to the prior year. We responded swiftly, by adjusting our capacity plans and accelerating the exit of older aircraft, together with increased productivity and efficiencies from our fleet. The strategic initiatives driving us over the past few years – diversifying our network, simplifying our fleet, investing in our customers and employees – have given us the tools to compete effectively against the competition.

Our financial position remains robust. Gearing was 55.9 percent, an expected increase from 48.6 percent at the end of the 2016 financial year, reflecting the timing of the purchase of new aircraft and the payment of a 2016 special dividend in the period. Cash flow from operations was strong at $376 million and net cash on hand was $1.3 billion.

The Board has declared a fully imputed interim dividend of 10.0 cents per share, which is consistent with the prior period. In respect of the dividend, the Board considers the airline's financial strength, capital commitments and trading environment in determining the appropriate level of distribution.

A key priority for our business is developing our international markets and positioning Air New Zealand to compete effectively against some of the largest airlines in the world. Our sales teams are talented at developing deep relationships with our corporate and trade partners. We also use our own unique style of marketing to raise the profile of Air New Zealand in some of the larger markets we operate in – with great effect.

One recent example of our approach to brand awareness and market development was the launch of our Australia long-haul campaign – *"a Better Way to Fly."* The campaign, which stars Dave the Goose, aims to capture a greater share of the Australian long-haul traffic to both North and South America via our Auckland hub. While still in the early days, feedback from customers in Australia has been very positive, and we see a big opportunity in further leveraging our strong reputation in Australia to convince customers that Air New Zealand is the better way to fly long-haul.

We continue to develop a simplified and modern fleet. In the first six months of the year, we welcomed three additional Boeing 787-9 Dreamliners, bringing the total to nine with a further four still to arrive, as well as additional A320 and ATR aircraft. The last of the Beech 1900D aircraft exited service in August, and we are preparing to retire the remaining two Boeing 767 aircraft in March 2017.

The customer feedback to our new fleet has also been very positive. To that end, we have commenced with refurbishing the interiors of our Boeing 777-300 aircraft, as part of our commitment to providing our customers with a consistent, world-class product they can depend upon regardless of their destination. Looking forward, we forecast aircraft-related capital expenditures of approximately $1.6 billion through to 2021, with the majority being spent in the 2018 and 2019 financial years.

Finally, successfully navigating the competition and coming up with innovative solutions to engage our customers is fully reliant on the engagement of our people and our ability to recruit, develop and keep them inspired. Our connection to our communities is strengthened by the commitment of our people to the success of both our airline and New Zealand. Investing in our people continues to be a key pillar of our strategy.

Outlook

As we look to the end of the financial year, we expect the revenue environment will improve from the first half of the year. However, higher jet fuel prices will be a headwind.

Based on the current market environment and our expectations for the average jet fuel price in the second half of the year of US$65 per barrel, we are targeting 2017 earnings before taxation to be in the range of $475 to $525 million[2].

Tony Carter
Chairman

Christopher Luxon
Chief Executive Officer

23 February 2017

Earnings before taxation
$349m[2]

Operating cash flow
$376m

Net cash position of
$1.3b

Interim dividend declared of
10.0 cps

[1] Other significant items relate to the divestment of the remaining interest in Virgin Australia.
[2] Includes the $22 million gain related to the divestment of the remaining interest in Virgin Australia, as well as the share of earnings in associates.

Financial Commentary

Air New Zealand's earnings before taxation for the first six months of the 2017 financial year were $349 million, a decrease of 24 percent on the prior period. The result included a $22 million gain related to other significant items. Net profit after taxation was $256 million.

This interim result saw a decline in Passenger Revenue per Available Seat Kilometre (RASK) due to a challenging competitive environment, which was offset by increased capacity. The benefit of lower fuel cost in the period was partially offset by unfavourable foreign exchange.

Revenue

Operating revenue decreased by $114 million to $2.6 billion, a decrease of 4.2 percent on the prior period. Excluding the impact of foreign exchange, operating revenue decreased 3.0 percent.

Passenger revenue decreased by $93 million to $2.2 billion, a 4.0 percent decline compared with the prior period. Excluding the impact of foreign exchange, passenger revenue decreased by 3.1 percent. Capacity (Available Seat Kilometres, ASK) growth of 7.1 percent reflected the annualisation of new international services and up-gauging to larger aircraft, including growth in the domestic network.

Demand (Revenue Passenger Kilometres, RPK) lagged slightly behind capacity growth at 5.5 percent, resulting in a decreased load factor of 83.1 percent. RASK for the Group declined 10.4 percent, due to the commencement of new competition. Excluding the adverse impact of foreign exchange, RASK declined 9.3 percent.

International long-haul capacity increased 8.8 percent due to the full six month impact of new international routes to Houston and Buenos Aires, as well as the commencement of seasonal international routes to Ho Chi Minh City and Osaka. Demand (RPK) on international long-haul routes increased 7.3 percent, with load factor down by 1.2 percentage points to 84.9 percent. International long-haul RASK decreased by 14.3 percent reflecting the increased competitive environment. Excluding the adverse impact of foreign exchange, RASK declined by 13.2 percent.

Short-haul capacity grew 5.1 percent during the period, driven by increased frequency on New Zealand domestic main trunk routes including Auckland to Queenstown and larger aircraft on a number of Tasman, Pacific Island and regional routes. Demand grew by 3.2 percent, with load factor decreasing 1.5 percentage points to 80.9 percent. Short-haul RASK declined 6.3 percent, and excluding the adverse impact of foreign exchange, declined 5.9 percent.

Cargo revenue was $171 million, a decrease of $16 million or 8.6 percent. Excluding the adverse impact of foreign exchange, cargo revenue decreased 4.3 percent. Volume growth on new routes was more than offset by yield pressure from North American and Asian carriers.

Contract services and other revenue was $198 million in the period, a decrease of $5 million or 2.5 percent on the prior period, reflecting lower external engineering revenue. Excluding the adverse impact of foreign exchange, contract services and other revenue declined 0.5 percent.

Expenses

Operating expenditure improved by $1 million on the prior period. Foreign exchange had a $33 million adverse impact on operating expenses. Excluding foreign exchange related movements, operating expenditure improved 1.8 percent on a 7.1 percent increase in capacity.

Costs per ASK improved 6.7 percent on the prior period to 8.81 cents per ASK. Excluding the impact of FX, Costs per ASK improved 8.5 percent. The largest contributor to improved operating costs were efficiencies achieved throughout the cost base. Economies of scale and efficiencies contributed $113 million in savings.

Labour costs were $623 million for the period, an increase of $4 million or 0.6 percent. Excluding the impact of foreign exchange, labour costs increased 1.1 percent on a 7.1 percent increase in

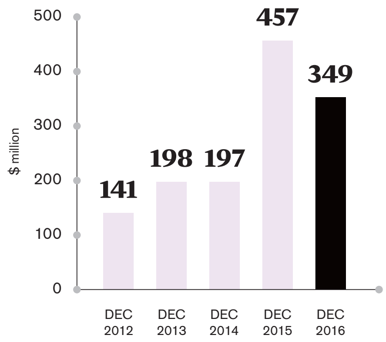
Dividend Record date
10 March 2017

Dividend Payment date
17 March 2017

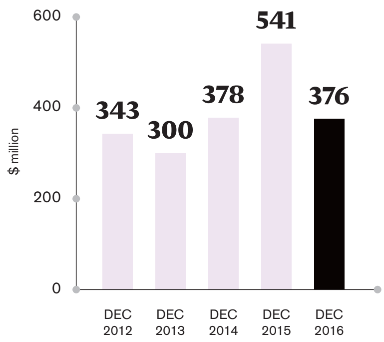
Operating revenue

$2.6b

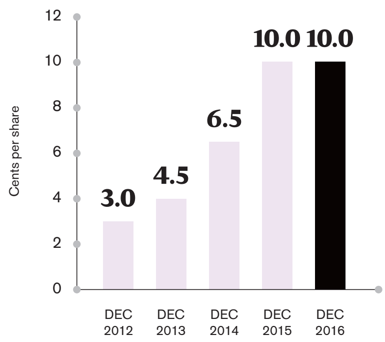
Earnings before taxation



Operating cash flow



Interim dividend (declared)



capacity. Rate increases were partially offset by productivity improvements and lower incentive provisions. Headcount increased by 533 full time equivalent (FTE) between December 2015 and December 2016 to 10,867 FTE employees, a 5.2 percent increase.

Fuel costs contributed to the improvement in operating expenditure in the period, declining by $94 million to $390 million, or 19.4 percent. Excluding the impact of foreign exchange, fuel costs improved by $62 million. The cost of fuel was 18 percent lower than the prior period, resulting in a $92 million benefit, which was partially offset by $30 million related to increased volume. Continued fleet efficiencies resulted in fuel consumption being below the capacity growth. The stronger NZ dollar also resulted in the cost of fuel being lower in NZ dollar terms by $32 million.

Aircraft operations, passenger services and maintenance costs were $558 million, a decrease of $3 million or 0.5 percent on the prior period. Increased capacity, passenger numbers and price increases drove increased aircraft operations and passenger services expenses, offset by lower maintenance expenditure.

Other expenses increased by $5 million or 4.1 percent, due to lower gains on fixed asset disposals and higher digital costs. Foreign exchange had a $2 million favourable impact compared to the prior period.

Depreciation, rental and lease expense and funding costs increased by $2 million or 0.5 percent, reflecting an increase in aircraft depreciation due to delivery of new aircraft, offset by lower rental and lease expenses due to the stronger NZ dollar and lower net finance costs due to lower average borrowing rates.

Foreign Exchange Impact

The impact of foreign exchange rate changes on the revenue and costs base resulted in a net positive foreign exchange movement of $36 million due to the strengthening of the New Zealand dollar against most major currencies. After taking into account hedging movements, overall foreign exchange had a $57 million negative impact on the Group result compared to the prior period.

Share of Earnings of Associates

In March 2016, Air New Zealand ceased to apply equity accounting to its investment in Virgin Australia. In the prior period, the share of earnings from Virgin Australia was $15 million. The share of equity earnings of associates for the six months to December 2016 was comprised solely of earnings of $10 million from Christchurch Engine Centre, which was consistent with the prior period.

Other Significant Items

The remaining 2.6% shareholding in Virgin Australia held at 30 June 2016 was sold by October 2016 through a series of off-market transactions. The divestment resulted in a favourable impact on earnings of $22 million.

Cash and Financial Position

Net cash at 31 December 2016 was $1.3 billion, a decrease of $306 million from 30 June 2016, with the operating cash flow being offset with the payment of dividends and capital investment in aircraft during the period.

The Group's operating cash flows was strong at $376 million, which included the impact from a one-off prepayment for engine maintenance of $58 million.

Net gearing, including capitalised operating leases, increased 7.3 percentage points to 55.9 percent as at 31 December 2016 from 48.6 percent as at 30 June 2016. This was due to the timing of the purchase of new aircraft and payment of the 2016 special dividend during the period.

Capacity (ASKs)

7.1%

Unit cost improves to

8.81

cents per ASK

Change in Profitability

The key changes in profitability, after isolating the impact of foreign exchange movements, are set out in the table below*:

December 2015 earnings before taxation	**$457m**	
Passenger capacity	$98m	- Capacity increased by 7.1 percent from growth across the network due to the annualisation impact of new international routes, increased widebody services across the Tasman and Pacific Islands and additional domestic A320's and ATR72-600's
Passenger RASK	-$170m	- Overall Revenue per Available Seat Kilometre (RASK) reduced during a period of significant market capacity growth. RASK declined 9.3 percent excluding FX (10.4 percent including FX). Yield declined 8.1 percent excluding FX as loads declined by 1.3 percentage points to 83.1 percent - Long-haul RASK declined by 13.2 percent excluding FX (14.3 percent including FX). Yields declined 12.0 percent excluding FX while loads declined reflecting capacity growth - Short-haul RASK declined by 5.9 percent excluding FX (6.3 percent including FX). Yields declined by 4.2 percent excluding FX combined with lower loads
Cargo, contract services and other revenue	-$9m	- Reduction in cargo revenue due to lower yields arising from increased competition offset by improved cargo volumes and lower external engineering revenue
Labour	-$7m	- Increased activity (net of improved productivity) arising from capacity growth and general rate increases offset by lower incentive provisions
Fuel	$62m	- The average cost of fuel decreased 18 percent compared to the prior year. Consumption increased by 6.3 percent due to an increase in capacity offset by fleet efficiencies
Maintenance	$12m	- Reduced maintenance following exit of Beech 1900D and B763 aircraft
Aircraft operations and passenger services	-$26m	- Increased activity and pricing increases offset by productivity improvements
Other expenses	-$7m	- Lower gains on sale of fixed assets and increased digital costs due to additional activity
Depreciation, lease and funding costs	-$11m	- Increase in depreciation reflecting the delivery of new aircraft offset by reduced funding costs
Net impact of foreign exchange movements	-$57m	- Movement in foreign exchange hedging offset by the net impact of currency movements on revenue and costs
Virgin Australia	$7m	- Gain on sale of the remaining interest in Virgin Australia ($22 million) offset by the prior period share of associate earnings ($15 million)
December 2016 earnings before taxation	**$349m**	

* 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 2016

	NOTES	6 MONTHS TO 31 DEC 2016 $M	6 MONTHS TO 31 DEC 2015 $M
Operating Revenue			
Passenger revenue		**2,215**	2,308
Cargo		**171**	187
Contract services		**80**	85
Other revenue		**118**	118
	3	**2,584**	2,698
Operating Expenditure			
Labour		**(623)**	(619)
Fuel		**(390)**	(484)
Maintenance		**(147)**	(168)
Aircraft operations		**(278)**	(267)
Passenger services		**(133)**	(126)
Sales and marketing		**(173)**	(179)
Foreign exchange (losses)/gains		**(14)**	79
Other expenses		**(128)**	(123)
		(1,886)	(1,887)
Operating Earnings (excluding items below)		**698**	811
Depreciation and amortisation		**(242)**	(229)
Rental and lease expenses		**(118)**	(123)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation		**338**	459
Finance income		**25**	27
Finance costs		**(46)**	(54)
Share of earnings of associates (net of taxation)	2(a)	**10**	25
Earnings Before Other Significant Items and Taxation		**327**	457
Other significant items	2(b)	**22**	-
Earnings Before Taxation		**349**	457
Taxation expense		**(93)**	(119)
Net Profit Attributable to Shareholders of Parent Company		**256**	338
Per Share Information:			
Basic earnings per share (cents)		**22.8**	30.1
Diluted earnings per share (cents)		**22.6**	29.6
Interim dividend declared per share (cents)		**10.0**	10.0
Net tangible assets per share (cents)		**169**	175

These condensed financial statements have not been audited. They have been the subject of review by the auditor pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity, 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 2016

	6 MONTHS TO 31 DEC 2016 $M	6 MONTHS TO 31 DEC 2015 $M
Net Profit for the Period	**256**	338
Other Comprehensive Income:		
Items that will not be reclassified to profit or loss:		
Actuarial losses on defined benefit plans	**(2)**	(6)
Taxation on above reserve movements	**-**	2
Total items that will not be reclassified to profit or loss	**(2)**	(4)
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	**114**	(16)
Transfers to net profit from cash flow hedge reserve	**(14)**	(40)
Net translation gain/(loss) on investment in foreign operations	**1**	(18)
Changes in cost of hedging reserve	**1**	(6)
Taxation on above reserve movements	**(28)**	18
Share of equity accounted associates' reserves (net of taxation)	**-**	(38)
Total items that may be reclassified subsequently to profit or loss	**74**	(100)
Total Other Comprehensive Income for the Period, Net of Taxation	**72**	(104)
Total Comprehensive Income for the Period, Attributable to Shareholders of the Parent Company	**328**	234

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Statement of Changes in Equity (unaudited)

For the six months to 31 December 2016

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2016		**2,252**	**(9)**	**(15)**	**(120)**	**2,108**
Net profit for the period		**-**	**-**	**-**	**256**	**256**
Other comprehensive income for the period		**-**	**73**	**1**	**(2)**	**72**
Total Comprehensive Income for the Period		**-**	**73**	**1**	**254**	**328**
Transactions with Owners:						
Equity-settled share-based payments		**2**	**-**	**-**	**-**	**2**
Equity settlements of long-term incentive obligations	2(d)	**(9)**	**-**	**-**	**-**	**(9)**
Dividends on Ordinary Shares	7	**-**	**-**	**-**	**(393)**	**(393)**
Total Transactions with Owners		**(7)**	**-**	**-**	**(393)**	**(400)**
Balance as at 31 December 2016	2(e)	**2,245**	**64**	**(14)**	**(259)**	**2,036**

	NOTE	SHARE CAPITAL $M	HEDGE RESERVES $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
Balance as at 1 July 2015		2,286	74	(44)	(351)	1,965
Net profit for the period		-	-	-	338	338
Other comprehensive income for the period		-	(68)	(32)	(4)	(104)
Total Comprehensive Income for the Period		-	(68)	(32)	334	234
Transactions with Owners:						
Equity-settled share-based payments		2	-	-	-	2
Equity settlements of long-term incentive obligations	2(d)	(21)	-	-	-	(21)
Dividends on Ordinary Shares		-	-	-	(107)	(107)
Share of equity accounted associates' reserves (net of taxation)		-	-	-	(2)	(2)
Total Transactions with Owners		(19)	-	-	(109)	(128)
Balance as at 31 December 2015		2,267	6	(76)	(126)	2,071

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Statement of Financial Position (unaudited)

As at 31 December 2016

	NOTES	31 DEC 2016 $M	30 JUN 2016 $M
Current Assets			
Bank and short term deposits		**1,288**	1,594
Trade and other receivables		**375**	373
Inventories		**92**	103
Derivative financial assets		**115**	70
Investment in quoted equity instruments	2(a)	**-**	22
Other assets		**42**	177
Total Current Assets		**1,912**	2,339
Non-Current Assets			
Trade and other receivables		**130**	61
Property, plant and equipment		**4,859**	4,485
Intangible assets		**134**	127
Investments in other entities	2(a)	**83**	79
Other assets		**173**	160
Total Non-Current Assets		**5,379**	4,912
Total Assets		**7,291**	7,251
Current Liabilities			
Trade and other payables		**470**	453
Revenue in advance		**1,081**	1,111
Interest-bearing liabilities	2(c)	**361**	464
Derivative financial liabilities		**4**	65
Provisions		**87**	87
Income taxation		**10**	54
Other liabilities		**216**	237
Total Current Liabilities		**2,229**	2,471
Non-Current Liabilities			
Revenue in advance		**186**	161
Interest-bearing liabilities	2(c)	**2,412**	2,103
Derivative financial liabilities		**-**	4
Provisions		**183**	216
Other liabilities		**24**	24
Deferred taxation		**221**	164
Total Non-Current Liabilities		**3,026**	2,672
Total Liabilities		**5,255**	5,143
Net Assets		**2,036**	2,108
Equity			
Share capital	2(d)	**2,245**	2,252
Reserves	2(e)	**(209)**	(144)
Total Equity		**2,036**	2,108

Tony Carter, CHAIRMAN
For and on behalf of the Board, 23 February 2017.

Jan Dawson, DEPUTY CHAIRMAN

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Statement of Cash Flows (unaudited)

For the six months to 31 December 2016

	NOTES	6 MONTHS TO 31 DEC 2016 $M	6 MONTHS TO 31 DEC 2015 $M
Cash Flows from Operating Activities			
Receipts from customers		**2,568**	2,719
Payments to suppliers and employees		**(2,090)**	(2,045)
Income tax paid		**(88)**	(107)
Interest paid		**(39)**	(50)
Interest received		**26**	29
		377	546
Rollover of foreign exchange contracts*		**(1)**	(5)
Net Cash Flow from Operating Activities		**376**	541
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		**31**	26
Disposal of investments in quoted equity instruments	2(b)	**68**	-
Interest-bearing asset receipts		**137**	-
Distribution from associates		**4**	5
Acquisition of property, plant and equipment and intangibles		**(639)**	(695)
Acquisition of quoted equity instruments	2(b)	**(23)**	-
Interest-bearing asset payments		**(13)**	(4)
Net Cash Flow from Investing Activities		**(435)**	(668)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		**512**	442
Equity settlements of long-term incentive obligations	2(d)	**(9)**	(21)
Interest-bearing liabilities payments		**(303)**	(171)
Rollover of foreign exchange contracts*		**(35)**	68
Dividends on Ordinary Shares	7	**(412)**	(112)
Net Cash Flow from Financing Activities		**(247)**	206
(Decrease)/Increase in Cash and Cash Equivalents		**(306)**	79
Cash and cash equivalents at the beginning of the period		**1,594**	1,321
Cash and Cash Equivalents at the End of the Period		**1,288**	1,400
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net profit attributable to shareholders		**256**	338
Plus/(less) non-cash items:			
Depreciation and amortisation		**242**	229
Gain on disposal of property, plant and equipment, intangibles and assets held for resale		**-**	(8)
Share of earnings of associates	2(a)	**(10)**	(25)
Changes in fair value of investments in quoted equity instruments	2(b)	**(22)**	-
Foreign exchange gains		**-**	(3)
Other non-cash items		**4**	2
		470	533
Net working capital movements:			
Assets		**(57)**	2
Revenue in advance		**(5)**	33
Deferred foreign exchange gains		**(1)**	(5)
Liabilities		**(31)**	(22)
		(94)	8
Net Cash Flow from Operating Activities		**376**	541

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

These condensed financial statements have not been audited. They have been the subject of review by the auditor 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 2016

1. Financial Statements

The parent company, Air New Zealand Limited, is a profit-oriented entity, 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.

Air New Zealand prepares its condensed Group interim financial statements ("financial statements") in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). NZ GAAP consists of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards as appropriate to profit-oriented entities. These financial statements comply with NZ IFRS and International Financial Reporting Standards ("IFRS").

The financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2016.

The accounting policies and computation methods used in the preparation of the financial statements are consistent with those used as at 30 June 2016 and 31 December 2015. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

These financial statements have not been audited. The 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 auditor, pursuant to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity, issued by the External Reporting Board.

2. General Disclosures

Group composition

(a) The Group's investment in associates relates to a 49% interest in Christchurch Engine Centre ("CEC"). The Group recognised a share of equity accounted earnings of $10 million for CEC (31 December 2015: earnings of $10 million for CEC and earnings of $15 million for Virgin Australia Holdings Limited ("Virgin Australia")). On 30 March 2016, the Group ceased to apply the equity method of accounting to the investment in Virgin Australia and the investment was classified as an Investment in quoted equity instruments (refer below for further details). The investment in joint ventures relates to a 50% interest in 11Ants Analytics Group Limited and 51% interest in ANZGT Field Services LLC.

Other significant items

(b) From 30 March 2016, the investment in Virgin Australia was stated at fair value with changes in fair value being recognised through earnings. In August 2016, the Group subscribed to a one for one rights issue (a further 102,889,330 shares at A$0.21 per share). Since 30 June 2016, all remaining shares have been sold (205,778,660 shares at a weighted average price of A$0.32 per share). The fair value movement of these shares from 30 June 2016 was $22 million.

Interest-bearing liabilities

(c) 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 2016 is $2,725 million (30 June 2016: $2,594 million). All secured borrowings are secured over aircraft or aircraft related assets and are subject to floating interest rates. Finance lease liabilities are secured over aircraft or aircraft related assets and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.7% to 3.4% in the six months to 31 December 2016 (six months to 31 December 2015: 0.7% to 3.4%).

On 28 October 2016 Air New Zealand issued $50 million of unsecured, unsubordinated fixed rate bonds, included within "Interest-bearing liabilities" in the Statement of Financial Position. The bonds have a maturity date of 28 October 2022 and an interest rate of 4.25% payable semi-annually. Unsecured bonds of $150 million with an interest rate of 6.9% matured on 15 November 2016.

Share capital

(d) During the six months ended 31 December 2016 the Group funded the purchase on-market of 4,433,313 shares for $9 million (31 December 2015: 7,397,852 shares for $21 million). The shares were used to settle obligations under long-term incentive plans. The total cost of the purchase including transaction costs has been deducted from Share Capital.

Hedge reserves

(e) As at 31 December 2016, $70 million of gains (30 June 2016: $2 million of losses) were held in the cash flow hedge reserve and $6 million of losses (30 June 2016: $7 million of losses) were held in the costs of hedging reserve. These reserves are combined within the Statement of Movements in Equity as "Hedge reserves".

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2016

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.

	6 MONTHS TO 31 DEC 2016 $M	6 MONTHS TO 31 DEC 2015 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**1,582**	1,587
Australia and Pacific Islands	**315**	324
United Kingdom and Europe	**135**	161
Asia	**224**	246
America	**328**	380
Total Operating Revenue	**2,584**	2,698

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. Capital Commitments

	31 DEC 2016 $M	30 JUN 2016 $M
Aircraft and engines	**1,797**	2,210
Other assets	**14**	12
	1,811	2,222

Commitments as at reporting date include three Boeing 787-9 aircraft (delivery from 2017 to 2018 calendar years), four Airbus A321 NEOs and nine Airbus A320 NEOs (delivery from 2017 to 2021 calendar years) and fourteen ATR72-600s (delivery from 2017 to 2020 calendar years).

5. Operating Lease Commitments

	31 DEC 2016 $M	30 JUN 2016 $M
Aircraft Leases Payable*		
Not later than 1 year	**184**	184
Later than 1 year and not later than 5 years	**458**	409
Later than 5 years	**228**	163
	870	756
Property Leases Payable		
Not later than 1 year	**42**	40
Later than 1 year and not later than 5 years	**112**	112
Later than 5 years	**76**	75
	230	227

*Includes lease commitments for five A320/321 NEO aircraft due to be delivered from 2017 to 2018 calendar years and one Boeing 787-9 aircraft, for which a lease agreement was signed in February 2017, due to be delivered in the 2018 calendar year.

Condensed Notes to the Financial Statements (unaudited)

As at and for the six months to 31 December 2016

6. Contingent Liabilities

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

In January 2017 the Group agreed to settle a class action compensation claim in the United States made in respect of allegations that Air New Zealand along with other airlines acted anti-competitively in respect of fares and surcharges on trans-Pacific routes. Air New Zealand does not admit to being part of any anti-competitive activity. The settlement amount of US$400k plus costs was fully provided for within the financial statements.

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 appealed the decision and the appeal was heard in August 2015 finding in favour of the ACCC. The High Court of Australia has granted leave to appeal the latest decision and the appeal will be heard in early March 2017.

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

Outstanding letters of credit and performance bonds total $33 million (30 June 2016: $33 million).

The Group has a partnership agreement with Pratt and Whitney in which it holds a 49% interest in the CEC. By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $111 million (30 June 2016: $68 million).

7. Dividends

On 22 February 2017, the Board of Directors declared an interim dividend of 10.0 cents per Ordinary Share payable on 17 March 2017 to registered shareholders at 10 March 2017. The total dividend payable will be $112 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the December 2016 interim financial statements.

A final dividend in respect of the 2016 financial year of 10.0 cents per Ordinary Share, and a special dividend of 25.0 cents per Ordinary Share was paid on 19 September 2016. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

The dividend reinvestment plan is currently suspended.

Independent 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") on pages 7 to 14, which comprise the Statement of Financial Position as at 31 December 2016, 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 condensed notes to the interim financial statements.

This report is made solely to Air New Zealand Limited's shareholders, as a body. Our review has been undertaken so that we might state to Air New Zealand Limited'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 Air New Zealand Limited's shareholders as a body, for our engagement, for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible on behalf of the Group 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 directors determine is necessary to enable the preparation of condensed Group interim financial statements that are free from material misstatement, whether due to fraud or error.

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

Our 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 me, Peter Gulliver, using the staff and resources of Deloitte Limited, 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 carried out assignments 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 to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group. Other than the review and these assignments and trading activities, we have no relationship 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 2016 and its financial performance and its 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.

Peter Gulliver, Partner
for Deloitte Limited
On behalf of the Auditor-General

23 February 2017
Auckland, New Zealand

General Information – New Zealand Exchange Waiver

Air New Zealand and the Crown (acting through the Ministry of Business, Innovation and Employment) have agreed terms under which Air New Zealand will provide government agencies with discounted fares. This agreement is likely to be a "Material Transaction" under the rule 9.2.2(e) of the NZX Listing Rules. Given the Crown is a 51.91% shareholder of Air New Zealand, Air New Zealand sought (and was provided with) a waiver to enter into the transaction without the requirement to obtain shareholder approval. This waiver was granted subject to two independent directors of the board certifying that: (i) the agreement has been negotiated on arm's length commercial terms; (ii) entry into the agreement is in the best interests of all shareholders (other than the Crown); and (iii) the Crown, as the majority shareholder in Air New Zealand, has not influenced the board of directors of Air New Zealand, to enter into the agreement. Two independent directors must confirm those same matters listed above, in any extension or renewal of the agreement.

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**.

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