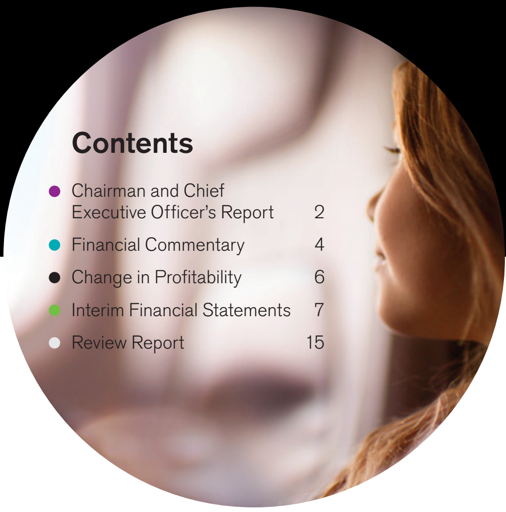
AIR NEW ZEALAND

2016 **INTERIM** FINANCIAL REPORT

A STAR ALLIANCE MEMBER

A stellar performance



Contents

Right to left:

Tony Carter Chairman
Christopher Luxon Chief Executive Officer

For the first six months of the 2016 financial year, Air New Zealand's earnings before taxation were $457 million, an improvement of $260 million on the previous corresponding period.

Net profit after taxation was $338 million, an increase of 154 percent.

Operating cash flow was $541 million, a very strong increase on the comparative six months.

The momentum in earnings growth was driven by very strong operating revenues, complemented by the benefit of lower fuel prices. Revenue growth during the period was driven by 17 percent increase in demand which outpaced capacity growth across the network of 16 percent. As anticipated, based on the significant capacity additions, overall yields declined slightly by 1.1 percent while overall load factors increased to 84.4 percent.

In addition to the significant drop in fuel prices, the economies of scale and efficiencies achieved through growth and our fleet investments continue to deliver lower costs, and this remains a fundamental component of our strategy as we look forward.

Based on the strength of the interim period earnings and confidence around the near and medium term outlook, the Board has declared a fully imputed interim dividend of 10.0 cents per share, an increase of 54 percent over the previous corresponding period.

Looking beyond the financial results, 2016 is a year of significant growth for Air New Zealand. In December 2015 we commenced flying to Buenos Aires and Houston from Auckland. Both routes are important extensions of our

Pacific Rim expansion strategy and have generated significant enthusiasm among inbound and outbound passengers.

Turning to Asia, the growth prospects in this region remain strong and we are excited about the new opportunities ahead. Our new revenue sharing joint venture with Air China to Beijing commenced in December, and is helping to drive new demand for our Auckland to Shanghai route and open up connections to other Chinese cities. While we remain mindful of the potential economic volatility in the region, China is New Zealand's second largest and fastest growing inbound market, and continues to be important to our international strategy.

We were also pleased to announce this period a new long-haul seasonal service to Ho Chi Minh City, utilising our existing Boeing 767-300 aircraft. As always, we will continue to assess opportunities to expand or strengthen routes with an eye to long-term network profitability.

Core to our strategy of profitable growth is our plan to prudently expand and simplify our fleet. In the first six months of financial year 2016, we took delivery of three Boeing 787-9 aircraft which are being utilised on the Asian and Tasman routes. For our Tasman and Pacific Island network we have 13 Airbus A320/321 NEO family aircraft on order with the first delivery expected in 2017. We also announced a plan to purchase a further 15 ATR72-600 aircraft to replace our ATR72-500 aircraft, and provide four growth aircraft, to service the regional market. Over the next three and a half years we plan to invest approximately $2.3 billion in new aircraft.

Looking forward to the remainder of the year and beyond, we recognise that in this period of lower fuel prices, the operating environment will become more competitive. However, the first priority for our team continues to be our customers, and ensuring their safety and enjoyment while travelling with us.

For the third consecutive year, Air New Zealand received the distinction of Airline of the Year from world leading airline safety and product rating review website AirlineRatings.com. This award is a testament to the consistent efforts of 11,000 Air New Zealanders to create a uniquely Kiwi experience for the 14 million customer journeys we provide annually. Despite our relatively small size, Air New Zealand is consistently held in high regard by travellers as well as the aviation industry and we take great pride in those votes of confidence.

Finally, we would like to thank Roger France, who retired from the Board in October 2015 after having served as a Director since 2001. Roger played an instrumental role in the success of Air New Zealand, and the company has been fortunate to have had the benefit of his expertise and leadership over the past 14 years.

Based upon current market conditions and assuming current fuel prices and foreign exchange rates, we are targeting earnings before taxation for the full year 2016 to exceed $800 million. This outlook excludes equity earnings from the Virgin Australia shareholding.

Tony Carter
Chairman

Christopher Luxon
Chief Executive Officer

25 February 2016

Financial Commentary

Air New Zealand's earnings before taxation for the first six months of the 2016 financial year was $457 million, an increase of 132 percent on the previous corresponding period. Net profit after taxation was $338 million, an increase of 154 percent.

This interim result was driven primarily by strong revenue growth combined with a significant decline in fuel price. Operating cash flow was strong at $541 million, an increase of 43 percent on the previous corresponding period.

Revenue

Operating revenue increased by $295 million to $2.7 billion, an increase of 12 percent. Excluding the positive impact of foreign exchange movements and divestment of subsidiaries, operating revenue increased by 10 percent.

Passenger revenue was $2.3 billion, an increase of 16 percent over the previous corresponding period. This result reflected additional capacity (Available Seat Kilometres, ASK) of 16 percent, supported by strong demand (Revenue Passenger Kilometres, RPK) growth of 17 percent with load factors increasing 0.5 percentage points to 84.4 percent. These gains were slightly offset by a 1.1 percent decline in yield. Foreign exchange had an $83 million positive impact on passenger revenue due to the New Zealand dollar being weaker against the airline's major revenue currencies.

Yields on the international long-haul network increased by 2.0 percent, but decreased 5.2 percent excluding the impact of foreign exchange. Capacity increased 24 percent, due to the recommencement of the Auckland-Singapore route in January 2015, increased capacity on North American routes and the commencement of new services to Houston and Buenos Aires in December 2015. Demand increased 25 percent, and load factors increased marginally by 0.7 percentage points to 86.1 percent.

Tasman and Pacific Islands' capacity increased by 7.1 percent with increased wide-body services on the Tasman to Sydney, Melbourne and Brisbane, additional frequency to Perth and increased capacity to Fiji, Samoa, Rarotonga and Tonga in the Pacific. Demand grew by 7.8 percent, surpassing capacity growth and increasing load factor by 0.6 percentage points to 83.8 percent. Yield on the Tasman and Pacific Islands' network increased by 2.7 percent, or 1.6 percent excluding the impact of foreign exchange.

Domestic capacity grew by 11 percent during the period, due to the arrival of replacement and additional Airbus A320 aircraft providing additional capacity to Auckland, Christchurch, Wellington and Queenstown. New ATR72-600 turboprops also joined the fleet, providing additional capacity to the regional domestic network. Demand was up 10 percent, while load factors decreased marginally by 1.0 percentage points to 79.7 percent. Yield declined 3.9 percent in the period, or 4.5 percent excluding the impact of foreign exchange.

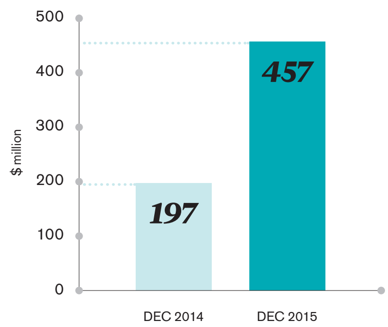
Cargo revenue was $187 million, an increase of $32 million or 21 percent on the prior period. Excluding the impact of foreign exchange, cargo revenue increased $17 million or 11 percent. This was driven by a 9 percent increase in volume and 1.6 percent increase in yield.

Contract Services revenue decreased $54 million or 39 percent to $85 million primarily due to the divestment of subsidiaries in 2015. Other revenue increased slightly by 1.7 percent on the previous period to $118 million. Excluding the impact of divestments and foreign exchange, contract services revenue and other revenue decreased $2 million.

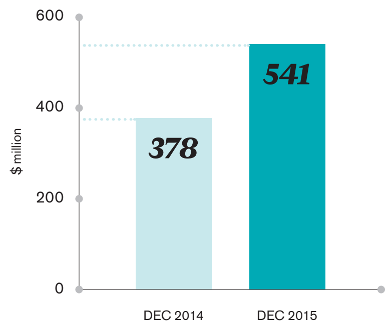
Expenses

Operating expenditure increased by $21 million, to $1.9 billion, a 1.1 percent increase on the prior period. Foreign exchange had an $86 million adverse

Earnings before taxation



Operating cash flow



impact on operating expenses. Excluding foreign exchange related movements and divestments, operating expenditure decreased 0.8 percent on a 16 percent increase in capacity. Costs per ASK, on an ongoing operational basis, decreased 11 percent on the prior period to 9.44 cents per ASK. The impact of lower fuel prices compared to the prior period resulted in a decrease of 1.47 cents per ASK. Improved economies of scale and efficiencies across the business contributed an additional decrease of 0.36 cents per ASK, or $106 million of incremental profitability.

Labour costs were $619 million for the period, an increase of $37 million or 6.4 percent. This reflects increased capacity,

Operating revenue

$2.7 billion

↑ **12%**

Capacity (ASKs)

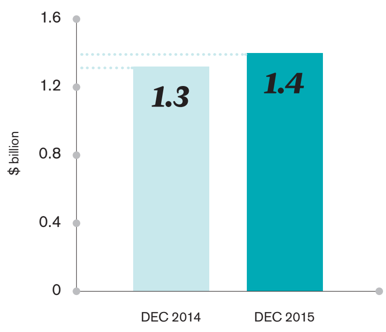
↑ **16%**

Demand (RPKs)

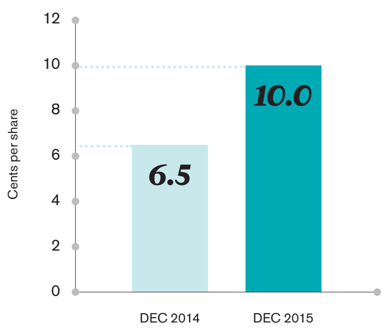
↑ **17%**

Dividend Record date **11 March 2016**
Dividend Payment date **18 March 2016**

Net cash position



Interim dividend (declared)



general rate increases and an increase in provisions for incentive payments. This was partially offset by improved operational efficiencies across the business and the divestment of subsidiaries which were disposed in the 2015 financial year.

Headcount decreased from December 2014 by 295 full time equivalent (FTE) to 10,231 FTE as at 31 December 2015 as a result of divestments. Excluding these divestments FTE increased 1.8 percent compared to the prior period.

The decrease in fuel costs was a significant contributor to the increase in profitability for the six months to December 2015. Fuel costs were $484 million for the period, a decrease of $85 million or 15 percent.

This decrease was driven by fuel price savings of $252 million, partially offset by the negative impact of foreign exchange and increased volumes of 12 percent, reflecting the efficiencies of the simplified, fuel efficient fleet. The average US dollar fuel price was 44 percent lower than the previous corresponding period.

Aircraft maintenance costs were $168 million for the period, an increase of $24 million or 17 percent. This reflected the increased fleet size, combined with additional A320 and wide-body airframe and engine costs and an adverse impact due to foreign exchange, offset by reduced costs due to the divestment of subsidiaries in the prior year.

Aircraft operation costs were $267 million for the period, an increase of $43 million or 19 percent. This reflected capacity increases across the network, combined with increased landing and air navigation charges and an adverse impact due to foreign exchange.

Passenger service expenses were $126 million in the period, an increase of $18 million or 17 percent. This reflected passenger growth and an increase in lounge costs, combined with an adverse impact of foreign exchange. Excluding the impact of foreign exchange, passenger service expenses increased 9.3 percent.

Sales and marketing costs were $179 million for the period, an increase of $39 million or 28 percent. This was the result of marketing and development of new routes, increased spend on the brand and loyalty programme, combined with an unfavourable impact of foreign exchange.

Other expenses were $123 million in the period, an increase of $14 million or 13 percent. This increase was primarily due to higher Information Technology costs and foreign exchange.

Depreciation, operating leases and funding costs were $379 million in the period. Excluding the impact of foreign exchange, these costs increased $22 million or 6.7 percent. This increase was driven primarily by the delivery of new aircraft.

Foreign Exchange Impact

The impact of foreign exchange rate changes resulted in a net negative foreign exchange movement of $78 million on the revenue and cost bases, due to the weakening of the New Zealand dollar against all currencies. After taking into account the hedging gains, overall currency movements had a $9 million negative impact on the Group result compared to the prior period.

Share of Earnings of Associates

Air New Zealand's investment in Virgin Australia of 25.9% and its share of Virgin Australia's earnings is recognised through equity accounting, and contributed $15 million in the period ending December 2015, compared with a loss of $14 million in the prior period. Air New Zealand's share of Christchurch Engine Centre's earnings increased to $10 million for the period ending December 2015, compared to $3 million in the prior period.

Cash and Financial Position

Net cash at 31 December 2015 was $1.4 billion, an increase of $79 million from 30 June 2015.

The Group had strong operating cash flows of $541 million which was an increase of $163 million or 43 percent compared to the prior period. This strong cash flow allowed increased investment in aircraft.

Net gearing, including capitalised operating leases, increased 1.4 percentage points to 53.8 percent as at 31 December 2015. This was due to increased debt on new aircraft and shareholder distributions offset by strong earnings during the period.

Passenger revenue

$2.3 billion

↑ ***16%***

Unit cost improves to

9.44

cents per ASK

Cargo revenue

$187 million

↑ ***21%***

Change in Profitability

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

December 2014 earnings before taxation	**$197m**	
Passenger yield	-$49m	- Overall yield reduction during a period of strong growth. Yield declined 1.1 percent (4.6 percent FX adjusted) as capacity grew - Long-haul yields increased 2.0 percent (reduced by 5.2 percent FX adjusted) - Short-haul yields slightly lower by 0.5 percent (1.3 percent FX adjusted)
Passenger traffic	$281m	- Passenger load factor for the Group increased to 84.4 percent - Capacity increased by 16 percent from growth across the network due to the annualised impact of the re-introduction of the Singapore sector, increased North and South America flying, replacement of Domestic B733 services with A320's and new ATR72-600 turboprop services - Passenger demand increased 17 percent, driven by 25 percent growth in International, 8 percent on the Tasman and Pacific Islands and 10 percent Domestically
Cargo revenue, contract services and other revenue	$15m	- A 9 percent increase in cargo volumes and a 1.6 percent increase in yield reflecting capacity growth
Labour	-$56m	- Increased activity (net of improved productivity) arising from capacity growth, general rate increases and an increase in provisions for incentive payments
Fuel	$184m	- The average US$ fuel price decreased 44 percent compared to last year. Consumption increased by 12 percent due to an increase in capacity offset by improved fleet efficiencies
Maintenance	-$33m	- Fleet growth combined with additional A320 and widebody airframe and engine maintenance
Aircraft operations and passenger services	-$44m	- Landing and air navigation increases due to introduction of new routes, increase in capacity and pricing increases
Sales and marketing	-$28m	- Market development for new routes and the additional investment in brand and loyalty
Depreciation, lease and funding costs	-$22m	- Increase in depreciation and operating lease costs due to delivery of new aircraft
Share of earnings from associates	$36m	- Higher earnings from Virgin Australia ($29 million) and Christchurch Engine Centre ($7 million)
Other expenses	-$8m	- Increased Information Technology costs due to additional activity
Net impact of foreign exchange movements	-$9m	- The net impact of currency movements on revenue and costs, including higher foreign exchange hedging gains
Divestment of subsidiaries	-$7m	- Disposal of Altitude Aerospace, TAE Group and Safe Air Group in the 2015 financial year
December 2015 earnings before taxation	**$457m**	

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

Statement of Financial Performance (unaudited)

For the six months to 31 December 2015

	NOTES	6 MONTHS TO 31 DEC 2015 $M	6 MONTHS TO 31 DEC 2014 $M
Operating Revenue			
Passenger revenue		**2,308**	1,993
Cargo		**187**	155
Contract services		**85**	139
Other revenue		**118**	116
	3	**2,698**	2,403
Operating Expenditure			
Labour		**(619)**	(582)
Fuel		**(484)**	(569)
Maintenance		**(168)**	(144)
Aircraft operations		**(267)**	(224)
Passenger services		**(126)**	(108)
Sales and marketing		**(179)**	(140)
Foreign exchange gains		**79**	10
Other expenses		**(123)**	(109)
		(1,887)	(1,866)
Operating Earnings (excluding items below)		**811**	537
Depreciation and amortisation		**(229)**	(203)
Rental and lease expenses		**(123)**	(99)
Earnings Before Finance Costs, Associates and Taxation		**459**	235
Finance income		**27**	26
Finance costs		**(54)**	(53)
Earnings Before Associates and Taxation		**432**	208
Share of earnings of associates (net of taxation)	2(a)	**25**	(11)
Earnings Before Taxation		**457**	197
Taxation expense		**(119)**	(64)
Net Profit Attributable to Shareholders of Parent Company		**338**	133
Per Share Information:			
Basic earnings per share (cents)		**30.1**	11.9
Diluted earnings per share (cents)		**29.6**	11.9
Interim dividend declared per share (cents)		**10.0**	6.5
Net tangible assets per share (cents)		**175**	152

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, 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 2015

	6 MONTHS TO 31 DEC 2015 $M	6 MONTHS TO 31 DEC 2014 $M
Net Profit for the Period	**338**	133
Other Comprehensive Income:		
Items that will not be reclassified to profit or loss:		
Changes in fair value of investment in quoted equity instruments	**-**	(5)
Actuarial losses on defined benefit plans	**(6)**	-
Taxation on above reserve movements	**2**	-
Total items that will not be reclassified to profit or loss	**(4)**	(5)
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	**(16)**	(11)
Transfers to net profit from cash flow hedge reserve	**(40)**	19
Transfers to asset carrying value from cash flow hedge reserve	**-**	(5)
Net translation loss on investment in foreign operations	**(18)**	(7)
Changes in cost of hedging reserve	**(6)**	(6)
Taxation on above reserve movements	**18**	-
Share of equity accounted associates reserves (net of taxation)	**(38)**	(58)
Total items that may be reclassified subsequently to profit or loss	**(100)**	(68)
Total Other Comprehensive Income for the Period, Net of Taxation	**(104)**	(73)
Total Comprehensive Income for the Period, Attributable to Shareholders of the Parent Company	**234**	60

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 2015

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	INVESTMENT REVALUATION RESERVE $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(b)	(21)	-	-	-	-	(21)
Dividends on Ordinary Shares	8	-	-	-	-	(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**

	NOTES	SHARE CAPITAL $M	HEDGE RESERVES $M	INVESTMENT REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	GENERAL RESERVES $M	TOTAL EQUITY $M
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		-	-	-	-	(173)	(173)
Share of equity accounted associates' reserves (net of taxation)	2(a)	-	-	-	-	5	5
Total Transactions with Owners		2	-	-	-	(168)	(166)
Balance as at 31 December 2014		2,284	20	-	(63)	(475)	1,766

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 2015

	NOTES	31 DEC 2015 $M	30 JUN 2015 $M
Current Assets			
Bank and short term deposits		**1,400**	1,321
Trade and other receivables		**396**	369
Inventories		**108**	120
Derivative financial assets		**18**	103
Other assets		**51**	69
Total Current Assets		**1,973**	1,982
Non-Current Assets			
Trade and other receivables		**48**	51
Property, plant and equipment		**4,507**	4,061
Intangible assets		**112**	102
Investments in other entities	2(a)	**387**	425
Derivative financial assets		**2**	3
Other assets		**154**	151
Total Non-Current Assets		**5,210**	4,793
Total Assets		**7,183**	6,775
Current Liabilities			
Trade and other payables		**443**	448
Revenue in advance		**1,072**	1,055
Interest-bearing liabilities		**467**	253
Derivative financial liabilities		**72**	40
Provisions		**84**	54
Income taxation		**44**	20
Other liabilities		**210**	258
Total Current Liabilities		**2,392**	2,128
Non-Current Liabilities			
Revenue in advance		**166**	150
Interest-bearing liabilities		**2,141**	2,069
Derivative financial liabilities		**-**	1
Provisions		**203**	217
Other liabilities		**18**	17
Deferred taxation		**192**	228
Total Non-Current Liabilities		**2,720**	2,682
Total Liabilities		**5,112**	4,810
Net Assets		**2,071**	1,965
Equity			
Share capital	2(b)	**2,267**	2,286
Reserves	4	**(196)**	(321)
Total Equity		**2,071**	1,965

Tony Carter, CHAIRMAN
For and on behalf of the Board, 25 February 2016.

Jan Dawson, DEPUTY CHAIRMAN

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 2015

	NOTES	6 MONTHS TO 31 DEC 2015 $M	6 MONTHS TO 31 DEC 2014 $M
Cash Flows from Operating Activities			
Receipts from customers		**2,719**	2,418
Interest received		**29**	24
Payments to suppliers and employees		**(2,045)**	(1,920)
Income tax paid		**(107)**	(103)
Interest paid		**(50)**	(42)
		546	377
Rollover of foreign exchange contracts*		**(5)**	1
Net Cash Flow from Operating Activities		**541**	378
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		**26**	26
Disposal of subsidiaries		**-**	7
Acquisition of property, plant and equipment and intangibles		**(695)**	(522)
Distribution from associates		**5**	4
Rollover of foreign exchange contracts*		**-**	(5)
Interest-bearing assets		**(4)**	1
Net Cash Flow from Investing Activities		**(668)**	(489)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		**442**	417
Equity settlements of long term incentive obligations	2(b)	**(21)**	-
Interest-bearing liabilities payments		**(171)**	(120)
Rollover of foreign exchange contracts*		**68**	26
Dividend on Ordinary Shares	8	**(112)**	(181)
Net Cash Flow from Financing Activities		**206**	142
Increase in Cash and Cash Equivalents		**79**	31
Cash and cash equivalents at the beginning of the period		**1,321**	1,234
Cash and Cash Equivalents at the End of the Period		**1,400**	1,265
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:			
Net profit attributable to shareholders		**338**	133
Plus/(less) non-cash items:			
Depreciation and amortisation		**229**	203
Gain on disposal of property, plant and equipment, intangibles and assets held for resale		**(8)**	-
Share of earnings of associates	2(a)	**(25)**	11
Movements on fuel derivatives		**-**	17
Foreign exchange (gains)/losses		**(3)**	4
Other non-cash items		**2**	4
		533	372
Net working capital movements:			
Assets		**2**	(21)
Revenue in advance		**33**	41
Deferred foreign exchange (gains)/losses		**(5)**	1
Liabilities		**(22)**	(15)
		8	6
Net Cash Flow from Operating Activities		**541**	378

*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 2015

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 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 condensed Group interim financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2015.

The accounting policies and computation methods used in the preparation of the interim financial statements are consistent with those used as at 30 June 2015 and 31 December 2014. Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

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, issued by the External Reporting Board.

2. GENERAL DISCLOSURES

Group composition

(a) The Group's investment in associates relates to a 25.9% 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 profits of $15 million for Virgin Australia and $10 million for CEC (31 December 2014: losses of $14 million for Virgin Australia and profits of $3 million for CEC). The investment in joint ventures relates to a 50% interest in Pacific Leisure Group Limited, 50% interest in 11Ants Analytics Group Limited and 51% interest in ANZGT Field Services LLC. The Group disposed of its interest in Pacific Leisure Group Limited on 22 January 2016.

On 4 July 2014, the Chief Executive Officer of Air New Zealand was appointed to the Board of Directors of Virgin Australia which demonstrated, from an accounting perspective, that the Group was able to exercise significant influence going forward. Accordingly, the investment was treated as an associate for the period ended 31 December 2014 and the equity method of accounting applied. As at 31 December 2014 the Group had undertaken a provisional purchase price allocation exercise for which the provisional estimates were finalised in the second half of the year. Comparative numbers for the six months to 31 December 2014 have been updated to reflect this, specifically the Group's equity accounted share of associates' reserves in the Statement of Changes in Equity.

Share Capital

(b) During the six months ended 31 December 2015 the Group funded the purchase on-market of 7,397,852 shares for $21 million (31 December 2014: nil). The shares were used to settle obligations under employee share-based compensation plans. The total cost of the purchase including transaction costs has been deducted from Share Capital. During the six months to 31 December 2014, the Group utilised treasury stock acquired under a buy-back programme of 2,481,280 Ordinary Shares for $3 million to fulfil obligations under employee share-based compensation plans.

Fair value of 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 2015 is $2,604 million (30 June 2015: $2,314 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 2015 (six months to 31 December 2014: 0.7% to 4.1%). Unsecured bonds have a coupon rate of 6.9% payable semi-annually.

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

As at and for the six months to 31 December 2015

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 2015 $M	6 MONTHS TO 31 DEC 2014 $M
Analysis of revenue by geographical region of original sale		
New Zealand	**1,587**	1,477
Australia and Pacific Islands	**324**	336
United Kingdom and Europe	**161**	130
Asia	**246**	167
America	**380**	293
Total Operating Revenue	**2,698**	2,403

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. RESERVES

The Group's reserves, together with their equity accounted share of associates' reserves as at the reporting date are set out below:

	AIR NEW ZEALAND RESERVES 31 DEC 2015 $M	SHARE OF ASSOCIATES' RESERVES 31 DEC 2015 $M	TOTAL RESERVES 31 DEC 2015 $M	AIR NEW ZEALAND RESERVES 30 JUN 2015 $M	SHARE OF ASSOCIATES' RESERVES 30 JUN 2015 $M	TOTAL RESERVES 30 JUN 2015 $M
Cash flow hedge reserve	40	(17)	23	80	-	80
Costs of hedging reserve	(8)	(9)	(17)	(4)	(2)	(6)
Hedge reserves	32	(26)	6	76	(2)	74
Foreign currency translation reserve	(14)	(62)	(76)	4	(48)	(44)
General reserves	(129)	3	(126)	(356)	5	(351)
	(111)	(85)	(196)	(276)	(45)	(321)

5. CAPITAL COMMITMENTS

	31 DEC 2015 $M	30 JUN 2015 $M
Aircraft and engines	**2,467**	2,545
Other assets	**8**	18
	2,475	2,563

Commitments as at reporting date include six Boeing 787-9 aircraft (delivery from 2016 to 2018 calendar years), two Airbus A320s (delivery in 2016 calendar year), three Airbus A321 NEOs and ten Airbus A320 NEOs (delivery from 2017 to 2019 calendar years) and nineteen ATR72-600s (delivery from 2016 to 2020 calendar years).

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

As at and for the six months to 31 December 2015

6. OPERATING LEASE COMMITMENTS

	31 DEC 2015 $M	30 JUN 2015 $M
Aircraft Leases Payable		
Not later than 1 year	**190**	189
Later than 1 year and not later than 5 years	**349**	430
Later than 5 years	**43**	51
	582	670
Property Leases Payable		
Not later than 1 year	**41**	38
Later than 1 year and not later than 5 years	**116**	113
Later than 5 years	**79**	76
	236	227

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, two airlines including Air New Zealand continue to defend the claim.

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 appealed the decision and the appeal was heard in August 2015. The decision is awaited.

In the event that a Court determined that Air New Zealand had breached competition laws, the Group 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 $31 million (30 June 2015: $58 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 $94 million (30 June 2015: $76 million).

8. DIVIDENDS

On 24 February 2016, the Board of Directors declared an interim dividend of 10.0 cents per Ordinary Share, payable on 18 March 2016 to registered shareholders at 11 March 2016. 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 2015 interim financial statements.

A final dividend in respect of the 2015 financial year of 9.5 cents per Ordinary Share was paid on 21 September 2015. 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 2015, 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 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.

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 assignments in the areas of taxation, other assurance services, the Employee Speak Up Line, Sustainability Reporting and Consulting 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 services have not impaired our independence as auditor of the Group. Other than 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 2015 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.

Andrew Dick, Deloitte

On behalf of the Auditor-General
25 February 2016
Auckland, New Zealand

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 11, Deloitte House
80 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: 0800 22 22 18 (New Zealand)
(64 9) 336 2607 (Overseas)

Fax: (64 9) 336 2664

Email: investor@airnz.co.nz

Website: www.airnzinvestor.com


Department of Conservation
Te Papa Atawhai
AIR NEW ZEALAND
Helping to protect our oldest species for our youngest Kiwis
wheretonext.nz