A STAR ALLIANCE MEMBER

AIR NEW ZEALAND

ANNUAL
FINANCIAL RESULTS

2016

Directors' Statement

The directors of Air New Zealand Limited are pleased to present to shareholders the Annual Report* and financial statements for Air New Zealand and its controlled entities (together the "Group") for the year to 30 June 2016.

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 30 June 2016 and the results of the Group's operations and cash flows for the year ended on that date.

The directors consider the financial statements of the Group have been prepared using accounting policies which have been consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept in accordance with the requirements of the Financial Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

This Annual Report is signed on behalf of the Board by:

Tony Carter
Chairman

26 August 2016

Jan Dawson
Deputy Chairman

Contents

*This document, in conjunction with the Air New Zealand Annual Shareholder Review 2016, constitutes the 2016 Annual Report to shareholders of Air New Zealand Limited.

Statement of Financial Performance

For the year to 30 June 2016

	NOTES	2016 $M	2015 $M
Operating Revenue			
Passenger revenue		4,481	4,113
Cargo		349	317
Contract services		172	258
Other revenue		229	237
	1	5,231	4,925
Operating Expenditure			
Labour		(1,225)	(1,193)
Fuel		(846)	(1,089)
Maintenance		(350)	(320)
Aircraft operations		(531)	(466)
Passenger services		(246)	(220)
Sales and marketing		(348)	(303)
Foreign exchange gains		112	79
Other expenses		(255)	(252)
	2	(3,689)	(3,764)
Operating Earnings (excluding items below)		1,542	1,161
Depreciation and amortisation		(465)	(402)
Rental and lease expenses	21	(244)	(211)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation		833	548
Finance income		53	56
Finance costs		(100)	(108)
Share of earnings of associates (net of taxation)	13	20	(22)
Earnings Before Other Significant Items and Taxation		806	474
Other significant items	3	(143)	-
Earnings Before Taxation		663	474
Taxation expense	4	(200)	(147)
Net Profit Attributable to Shareholders of Parent Company		463	327
Per Share Information:			
Basic earnings per share (cents)	5	41.3	29.2
Diluted earnings per share (cents)	5	40.8	29.1
Interim and final dividends declared per share (cents)	18	20.0	16.0
Special dividend declared per share (cents)	18	25.0	-
Net tangible assets per share (cents)		176	166

The accompanying accounting policies and notes form part of these financial statements.

Statement of Comprehensive Income

For the year to 30 June 2016

	NOTE	2016 $M	2015 $M
Net Profit for the Year		463	327
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)/gains on defined benefit plans		(11)	3
Taxation on above reserve movements	4	3	-
Total items that will not be reclassified to profit or loss		(8)	(2)
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		(52)	23
Transfers to net profit from cash flow hedge reserve		(62)	41
Transfers to asset carrying value from cash flow hedge reserve		-	(26)
Net translation (loss)/gain on investment in foreign operations		(13)	19
Transfer of translation loss on investment to net profit upon disposal of subsidiaries		-	5
Changes in cost of hedging reserve		(4)	(2)
Taxation on above reserve movements		33	(5)
Share of equity accounted associates' reserves (net of taxation)		(26)	(50)
Cessation of equity accounting		70	-
Total items that may be reclassified subsequently to profit or loss		(54)	5
Total Other Comprehensive Income for the Year, Net of Taxation		(62)	3
Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company		401	330

The accompanying accounting policies and notes form part of these financial statements.

Statement of Changes in Equity

For the year to 30 June 2016

	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 year		-	-	-	-	463	463
Other comprehensive income for the year		-	(83)	-	29	(8)	(62)
Total Comprehensive Income for the Year		**-**	**(83)**	**-**	**29**	**455**	**401**
Transactions with Owners:							
Equity-settled share-based payments	19	5	-	-	-	-	5
Equity settlements of long-term incentive obligations	19	(39)	-	-	-	-	(39)
Dividends on Ordinary Shares	18	-	-	-	-	(219)	(219)
Share of equity accounted associates' reserves (net of taxation)		-	-	-	-	(1)	(1)
Cessation of equity accounting		-	-	-	-	(4)	(4)
Total Transactions with Owners		**(34)**	**-**	**-**	**-**	**(224)**	**(258)**
Balance as at 30 June 2016		**2,252**	**(9)**	**-**	**(15)**	**(120)**	**2,108**

	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 year		-	-	-	-	327	327
Other comprehensive income for the year		-	26	(5)	(21)	3	3
Reclassification upon acquisition of associate		-	-	70	-	(70)	-
Total Comprehensive Income for the Year		**-**	**26**	**65**	**(21)**	**260**	**330**
Transactions with Owners:							
Equity-settled share-based payments	19	4	-	-	-	-	4
Dividends on Ordinary Shares	18	-	-	-	-	(246)	(246)
Share of equity accounted associates' reserves (net of taxation)		-	-	-	-	5	5
Total Transactions with Owners		**4**	**-**	**-**	**-**	**(241)**	**(237)**
Balance as at 30 June 2015		**2,286**	**74**	**-**	**(44)**	**(351)**	**1,965**

The accompanying accounting policies and notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2016

	NOTES	2016 $M	2015 $M
Current Assets			
Bank and short-term deposits	6	1,594	1,321
Trade and other receivables	7	373	369
Inventories	8	103	120
Derivative financial assets	24	70	103
Investment in quoted equity instruments	9	22	-
Other assets	10	177	69
Total Current Assets		2,339	1,982
Non-Current Assets			
Trade and other receivables	7	61	51
Property, plant and equipment	11	4,485	4,061
Intangible assets	12	127	102
Investments in other entities	13	79	425
Derivative financial assets	24	-	3
Other assets	10	160	151
Total Non-Current Assets		4,912	4,793
Total Assets		7,251	6,775
Current Liabilities			
Trade and other payables		453	448
Revenue in advance	14	1,111	1,055
Interest-bearing liabilities	15	464	253
Derivative financial liabilities	24	65	40
Provisions	16	87	54
Income taxation		54	20
Other liabilities	17	237	258
Total Current Liabilities		2,471	2,128
Non-Current Liabilities			
Revenue in advance	14	161	150
Interest-bearing liabilities	15	2,103	2,069
Derivative financial liabilities	24	4	1
Provisions	16	216	217
Other liabilities	17	24	17
Deferred taxation	4	164	228
Total Non-Current Liabilities		2,672	2,682
Total Liabilities		5,143	4,810
Net Assets		2,108	1,965
Equity			
Share capital	19	2,252	2,286
Reserves	20	(144)	(321)
Total Equity		2,108	1,965

Tony Carter
Chairman

Jan Dawson
Deputy Chairman

For and on behalf of the Board, 26 August 2016

Statement of Cash Flows

For the year to 30 June 2016

	NOTES	2016 $M	2015 $M
Cash Flows from Operating Activities			
Receipts from customers		5,290	4,994
Payments to suppliers and employees		(3,969)	(3,698)
Income tax paid		(185)	(170)
Interest paid		(96)	(98)
Interest received		56	55
		1,096	1,083
Rollover of foreign exchange contracts*		(22)	17
Net Cash Flow from Operating Activities	6	1,074	1,100
Cash Flows from Investing Activities			
Disposal of property, plant and equipment, intangibles and assets held for resale		57	46
Disposal of investments in quoted equity instruments	9	281	-
Disposal of subsidiaries		-	44
Acquisition of property, plant and equipment and intangibles		(998)	(1,118)
Distribution from associates	26	10	4
Rollover of foreign exchange contracts*		-	(26)
Interest-bearing assets		(147)	(16)
Net Cash Flow from Investing Activities		(797)	(1,066)
Cash Flows from Financing Activities			
Interest-bearing liabilities drawdowns		564	576
Equity settlements of long-term incentive obligations	19	(39)	-
Interest-bearing liabilities payments		(344)	(327)
Rollover of foreign exchange contracts*		45	62
Dividends on Ordinary Shares	18	(230)	(258)
Net Cash Flow from Financing Activities		(4)	53
Increase in Cash and Cash Equivalents		273	87
Cash and cash equivalents at the beginning of the year		1,321	1,234
Cash and Cash Equivalents at the End of the Year	6	1,594	1,321

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

 The accompanying accounting policies and notes form part of these financial statements.

Statement of Accounting Policies

For the year to 30 June 2016

Reporting entity

The financial statements presented are those of the consolidated Air New Zealand Group (the Group), including Air New Zealand Limited and its subsidiaries, joint ventures and associates.

Air New Zealand's primary business is the transportation of passengers and cargo on scheduled airline services.

Statutory base

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. Air New Zealand Limited is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Basis of preparation

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 financial statements were approved by the Board of Directors on 26 August 2016.

Basis of measurement
The financial statements have been prepared on the historical cost basis, with the exception of certain items as identified in specific accounting policies and are presented in New Zealand Dollars which is the Group's functional currency.

Use of accounting estimates and judgements
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. Estimates and associated assumptions are based on historical experience and other factors, as appropriate to the particular circumstances. The Group reviews the estimates and assumptions on an ongoing basis.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the specific accounting policy or note as shown below:

Area of estimate or judgement	Note	
Revenue in advance	Note 1	Revenue recognition and segmental information
Aircraft lease return provisions	Note 16	Provisions
Estimated impairment of non-financial assets	'Impairment' accounting policy	
	Note 11	Property, plant and equipment
Residual values and useful lives of aircraft related assets	Note 11	Property, plant and equipment
Taxation	Note 4	Taxation
Contingent liabilities	Note 23	Contingent liabilities

Significant estimates are designated by an e symbol in the notes to the financial statements.

Significant accounting policies

Accounting policies are disclosed within each of the applicable notes to the financial statements and are designated by a symbol.

The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all periods presented, except as detailed below.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current period.

Air New Zealand has elected to early adopt all NZ IFRSs and Interpretations that had been issued by the New Zealand Accounting Standards Board, except as noted below. With the exception of the early adoption of IFRS 9 (2010) - Financial Instruments and IFRS 9 (2013) - Hedge Accounting for which the impact was disclosed in the 2015 Annual Financial Results, the early adoption did not have a material impact on the financial statements.

NZ IFRS 9 (2014) - Financial Instruments has not been adopted early. It includes a framework for classification and measurement of financial instruments and a single, forward-looking impairment model. This Standard, which becomes effective for annual periods commencing on or after 1 January 2018, is not expected to have a significant impact on the financial statements.

NZ IFRS 15 - Revenue from Contracts with Customers has not been adopted early. This standard has an objective of a single revenue recognition model that applies to revenue from contracts with customers in all industries. This standard, which becomes effective for annual periods commencing on or after 1 January 2018, is not expected to have a significant impact on the financial statements.

NZ IFRS 16 - Leases has not been adopted early. This standard will fundamentally change the accounting treatment of leases by lessees. The current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off balance sheet operating leases, will no longer apply. Instead, there will be a single, on balance sheet accounting model for all leases which is similar to current finance lease accounting. Lessor accounting remains similar to current practice. This standard, which becomes effective for annual periods commencing on or after 1 January 2019, is expected to have a significant impact on the financial statements. The impact has not yet been quantified.

Statement of Accounting Policies

For the year to 30 June 2016

Disclosure Initiative (Amendments to IAS 7) has not been adopted early. This amendment requires new disclosures of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. This amendment, which becomes effective for annual periods commencing on or after 1 January 2017, will have no impact on the financial statements other than additional disclosures.

The significant accounting policies which are pervasive throughout the financial statements are set out below. Other significant accounting policies which are specific to certain transactions or balances are set out within the particular note to which they relate.

Basis of consolidation

The consolidated financial statements include those of Air New Zealand Limited and its subsidiaries, accounted for using the acquisition method, and the results of its associates and joint ventures, accounted for using the equity method.

All material intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group, joint ventures and its associates are eliminated to the extent of the Group's interest in the joint ventures and associates.

Where a business combination is achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in the Statement of Financial Performance.

Foreign currency translation

Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions and balances
Foreign currency transactions are converted into the relevant functional currency using exchange rates approximating those ruling at transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated at the rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange gains or losses are recognised in the Statement of Financial Performance, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Group companies
The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;

(b) income and expenses for each Statement of Financial Performance are translated at exchange rates approximating those ruling at transaction date; and

(c) all resulting exchange differences are recognised as a separate component of equity and in Other Comprehensive Income (within Foreign Currency Translation Reserve).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Impairment

Non-financial assets are reviewed at each reporting date to determine whether there are any indicators that the carrying amount may not be recoverable. If any such indicators exist, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Financial assets carried at amortised cost are assessed each reporting date for impairment. If there is objective evidence of impairment, the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where appropriate, is recognised in the Statement of Financial Performance.

Notes to the Financial Statements

For the year to 30 June 2016

1. Revenue Recognition and Segmental Information

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable. Specific accounting policies are as follows:

Passenger and cargo revenue
Passenger and cargo sales revenue is recognised in revenue in advance at the fair value of the consideration received. Amounts are transferred to revenue in the Statement of Financial Performance when the actual carriage is performed. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

The Group operates various code share and alliance arrangements. Revenue under these arrangements is recognised when the Group performs the carriage or otherwise fulfils all relevant contractual commitments.

Loyalty programmes
The fair value of revenues associated with the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction is deferred to revenue in advance, net of estimated expiry (non-redeemed Airpoints Dollars), until such time as the Airpoints member has redeemed their points. The fair value of consideration received in respect of sales of Airpoints Dollars to third parties is deferred to revenue in advance, net of estimated expiry, until such time as the Airpoints member has redeemed their points. The estimate of expiry is based upon historical experience and is recognised in net passenger revenue at the time of the initial sales transaction.

Contract services revenue
Where contract related services are performed over a contractually agreed period, and the amount of revenue, related costs and stage of completion of the contract can be reliably measured, revenue is recognised by reference to the stage of completion of the contract at balance date. Other contract related revenue is recognised as services are performed.

Other revenue
Other revenue includes lounge revenue, Koru membership subscriptions, commissions and fees and is recognised at the time the service is provided. Dividend revenue is recognised when the right to receive payment is established.

Finance income
Interest revenue from investments and fixed deposits is recognised as it accrues, using the effective interest method where appropriate.

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.

	2016 $M	2015 $M
Analysis of revenue by geographical region of original sale		
New Zealand	2,981	2,917
Australia and Pacific Islands	619	639
United Kingdom and Europe	330	286
Asia	470	381
America	831	702
Total operating revenue	5,231	4,925

The principal non-current assets of the Group are 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.

2. Expenses

Additional information in respect of expenses included within the Statement of Financial Performance is as follows:

	2016 $M	2015 $M
Superannuation expense	47	46
Audit and review of financial statements*	1	1

*Other fees were paid for tax compliance work of $20k (30 June 2015: $17k), Greenhouse Gas inventory review and sustainability reporting of $40k, resources provided for IT controls review of $23k, employee speak-up line service of $42k (30 June 2015: $25k), student fee protection audit of $5k (30 June 2015: $4k) and other HR consultancy services of $85k (30 June 2015: business roadmapping services of $190k).

Notes to the Financial Statements (continued)

For the year to 30 June 2016

3. Other Significant Items

Other significant items are items of revenue or expenditure which due to their size and nature warrant separate disclosure to assist with the understanding of the financial performance of the Group.

Upon loss of significant influence over an associated company, the Group measures the retained interest at fair value. At the date of cessation of equity accounting, the difference between the carrying amount of the equity accounted investment and the fair value of the investment, together with amounts previously recognised in equity reserves are recognised as a gain or loss on cessation of equity accounting in the Statement of Financial Performance.

	2016 $M	2015 $M
Virgin Australia partial divestment:		
- Fair value movement on sold interest (including disposal costs)	(63)	-
- Fair value movement on 2.5% retained interest	(21)	-
- Loss on cessation of equity accounting of associate	(2)	-
	(86)	-
Settlement of legal claim (including associated legal costs)	(57)	-
	(143)	-

With effect from 30 March 2016, the Company announced that it was exploring options with respect to its shareholding in Virgin Australia, including a possible sale, and the Group's representative on the Virgin Australia Board of Directors resigned. The Group no longer had the ability to exercise significant influence over Virgin Australia due to the change in composition of other shareholdings, lack of representation on the Board and as a result of the commencement of a sales process, and ceased to apply the equity method of accounting to the investment from that date. From 30 March 2016 the investment was classified as an Investment in quoted equity instruments and was stated at fair value with changes in fair value being recognised through profit or loss. In June 2016, the Company sold the majority of its shareholding (of 810,613,877 shares for A$0.33 per share) with a residual interest of 2.5% (or 102,889,331 shares valued at A$0.205) being held at 30 June 2016 (refer Note 9).

On 7 May 2016 the Group agreed to settle a class action compensation claim in the United States made in respect of allegations of anti-competitive conduct against many airlines for pricing in the air cargo business. Air New Zealand does not admit to being part of the alleged conspiracy. The settlement was reached due to the deemed unacceptable risk on the Group's financial position arising from the calculation of potential damages awarded under the United States class action system which trebles damages for anti-competitive liabilities. The negotiated settlement amount was for US$35 million. In 2011 the Group successfully defended its position with the United States Department of Justice and was released from the criminal investigation with no prosecutions having been commenced.

4. Taxation

Current and deferred taxation are calculated on the basis of tax rates enacted or substantively enacted at reporting date, and are recognised in the income statement except when the tax relates to items charged or credited to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

Deferred income taxation is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets and unused tax losses are only recognised to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences and losses.

Judgements are required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of current and deferred tax assets and liabilities recognised in the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Financial Performance.

Notes to the Financial Statements (continued)

For the year to and as at 30 June 2016

4. Taxation (continued)

	2016 $M	2015 $M
Current taxation expense		
Current year	(234)	(158)
Adjustment for prior periods	(1)	(1)
	(235)	(159)
Deferred taxation expense		
Origination of temporary differences	35	12
Total taxation expense recognised in earnings	(200)	(147)
Reconciliation of effective tax rate		
Earnings before taxation	663	474
Taxation at 28%	(185)	(133)
Adjustments		
Non-deductible expenses	(3)	(3)
Virgin Australia	(24)	(8)
Non-taxable income	4	1
Equity settlements of long-term incentive obligations	11	-
Under provided in prior periods	(3)	(4)
Taxation expense	(200)	(147)

The Group has $344 million of imputation credits as at 30 June 2016 (30 June 2015: $200 million).

Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	NON-AIRCRAFT ASSETS $M	AIRCRAFT RELATED $M	PROVISIONS AND ACCRUALS $M	FINANCIAL INSTRUMENTS $M	PENSION OBLIGATIONS $M	TOTAL $M
As at 1 July 2014	15	302	(98)	12	(2)	229
Amounts recognised in Other Comprehensive Income	-	-	-	9	-	9
Reclassified to Income Taxation	-	-	-	2	-	2
Amounts recognised in earnings	(1)	(3)	(8)	-	-	(12)
As at 30 June 2015	14	299	(106)	23	(2)	228
Amounts recognised in Other Comprehensive Income	-	-	-	(26)	(3)	(29)
Amounts recognised in earnings	(1)	(14)	(20)	-	-	(35)
As at 30 June 2016	13	285	(126)	(3)	(5)	164

Deferred tax assets and liabilities are offset on the face of the Statement of Financial Position where they relate to entities within the same taxation authority.

There are no unused tax losses available to carry forward against future taxable profits (30 June 2015: Nil).

Notes to the Financial Statements (continued)

For the year to and as at 30 June 2016

5. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the company by the weighted average number of ordinary shares on issue during the year, excluding shares held as treasury stock. Diluted earnings per share assumes conversion of all dilutive potential ordinary shares in determining the denominator.

	2016 $M	2015 $M
Earnings for the purpose of basic and diluted earnings per share:		
Net Profit Attributable to Shareholders of the Parent Company	463	327
Weighted average number of shares (in millions of shares)		
Weighted average number of Ordinary Shares for basic earnings per share	1,122	1,118
Effect of dilutive ordinary shares:		
- Share options and performance rights	14	6
Weighted average number of Ordinary Shares for diluted earnings per share	1,136	1,124
Basic earnings per share	41.3	29.2
Diluted earnings per share	40.8	29.1

6. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, current accounts in banks net of overdrafts and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are included in the Statement of Cash Flows net of Goods and Services Tax.

Cash and cash equivalents, as stated in the Statement of Cash Flows, are reconciled to the Bank and short-term deposits balance in the Statement of Financial Position as follows:

	2016 $M	2015 $M
Cash balances	20	22
Other short-term deposits and short-term bills	1,574	1,299
Total cash and cash equivalents	1,594	1,321
Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:		
Net profit attributable to shareholders	463	327
Plus/(less) non-cash items:		
Depreciation and amortisation	465	402
Gain on disposal of property, plant and equipment, intangibles and assets held for resale	(5)	(2)
Loss on cessation of equity accounting of associate	2	-
Loss on disposal of subsidiaries	-	4
Impairment on property, plant and equipment, intangibles and assets held for resale	1	17
Share of earnings of associates	(20)	22
Changes in fair value of investments in quoted equity instruments	79	-
Movements on fuel derivatives	-	20
Foreign exchange (gains)/losses	(9)	16
Other non-cash items	13	8
	989	814
Net working capital movements:		
Assets	12	(38)
Revenue in advance	67	136
Deferred foreign exchange (gains)/losses	(22)	17
Liabilities	28	171
	85	286
Net cash flow from operating activities	1,074	1,100

Notes to the Financial Statements (continued)

As at 30 June 2016

7. Trade and Other Receivables

Trade and other receivables are recognised at cost less any provision for impairment. Bad debts are written-off when they are considered to have become uncollectable.

	2016 $M	2015 $M
Current		
Trade and other receivables	300	298
Prepayments	73	71
	373	369
Non-current		
Other receivables	2	3
Prepayments	59	48
	61	51

8. Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

	2016 $M	2015 $M
Engineering expendables	86	107
Consumable stores	17	13
	103	120
Held at cost	84	88
Held initially at cost	75	82
Less provision for inventory obsolescence	(56)	(50)
Held at net realisable value	19	32
	103	120

9. Investment in Quoted Equity Instruments

Investments in quoted equity instruments are stated at fair value. Changes in the fair value of the investment in quoted equity instruments, including any related foreign exchange component, are recognised through profit or loss unless an irrevocable election has been made at inception to recognise these through other comprehensive income.

	2016 $M	2015 $M
Investment in Virgin Australia Holdings Limited:		
Current		
Balance at the beginning of the year	-	-
Transfer from investments in associates	382	-
Fair value changes recognised in profit or loss	(79)	-
Disposals	(281)	-
Balance at the end of the year	22	-

Further details of the Group's investment in Virgin Australia are contained within Note 3.

The investment has been classified as a current asset as it is the Group's intention to dispose of the investment within the next 12 months.

On 4 August 2016 the Group participated in a Virgin Australia 1 for 1 pro-rata rights issue and acquired an additional 102,889,330 shares for A$0.21 per share. Following the rights issue the Group's interest in Virgin Australia was retained at 2.5%.

Notes to the Financial Statements (continued)

As at 30 June 2016

10. Other Assets

Amounts owing from joint ventures and associates
Amounts owing from related parties are recognised at cost less any provision for impairment.

Contract work in progress
Contract work in progress is stated at cost plus the profit recognised to date, using the percentage of completion method, less any amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of direct production overhead expenses incurred.

Interest-bearing assets
Interest-bearing assets are measured at amortised cost using the effective interest method, less any impairment.

Assets held for resale
Non-current assets are classified as held for resale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The sale must be highly probable and the asset available for immediate sale in its present condition. Non-current assets held for resale are measured at the lower of the asset's previous carrying amount and its fair value less costs to sell.

Defined pension assets
Air New Zealand's net obligation in respect of defined benefit pension plans is calculated by an independent actuary, by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan's assets. The discount rate reflects the yield on government bonds that have maturity dates approximating the terms of Air New Zealand's obligations.

When the calculation results in an asset, the value of the asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions from the plan.

	2016 $M	2015 $M
Current		
Amounts owing from associates	1	24
Contract work in progress	16	19
Interest-bearing assets	137	-
Assets held for resale	18	12
Defined pension assets	3	12
Other assets	2	2
	177	69
Non-current		
Interest-bearing assets	151	141
Assets held for resale	1	2
Other assets	8	8
	160	151

Current interest-bearing assets reflect an unsecured loan facility provided to Virgin Australia Holdings Limited. The loan was fully repaid on 4 August 2016.

The Group is disposing of five Beech aircraft which are expected to be sold within 12 months. With the current fleet replenishment programme, spares are also being marketed for sale and it is expected that proceeds will be received over the next three years. The carrying value of the assets held for resale reflects the lower of their previous carrying value at the date of transfer or external market assessments of the fair value, less costs to sell.

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. A net asset of $3 million (30 June 2015: $12 million) was recognised in respect of the New Zealand plan, which is now closed to new members. A net liability was recognised in respect of the overseas plan of $1 million (30 June 2015: $1 million), which is included within Note 17 Other Liabilities. The plans provide a benefit on retirement or resignation based upon the employee's length of membership and final average salary. Each year an actuarial calculation is undertaken using the Projected Unit Credit Method to calculate the present value of the defined benefit obligation and the related current service cost. The current service cost recognised through earnings was $2 million (30 June 2015: $2 million).

Non-current Interest-bearing assets include registered transferable certificates of deposit (RTDs) that have been provided as security over credit card obligations incurred by Air New Zealand. The RTD's bear a three month fixed interest rate and mature in December 2018. These are subject to potential offsetting under master netting arrangements.

Notes to the Financial Statements (continued)

As at 30 June 2016

11. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item and in bringing the asset to the location and working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for separately. A portion of the cost of an acquired aircraft is attributed to its service potential (reflecting the maintenance condition of its engines) and is depreciated over the shorter of the period to the next major inspection event, overhaul, or the remaining life of the asset. The cost of major engine overhauls for aircraft owned by the Group is capitalised and depreciated over the period to the next expected inspection or overhaul.

Capital work in progress includes the cost of materials, services, labour and direct production overheads.

Finance leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Upon initial recognition, assets held under finance leases are measured at amounts equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. A corresponding liability is also established. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Manufacturing credits

Where the Group receives credits and other contributions from manufacturers in connection with the acquisition of certain aircraft and engines, these are either recorded as a reduction to the cost of the related aircraft and engines, or offset against the associated operating expense, according to the reason for which they were received.

Depreciation

Depreciation is calculated to write down the cost of assets on a straight line basis to an estimated residual value over their economic lives as follows:

Airframes	18 years
Engines	6 – 15 years
Engine overhauls	period to next overhaul
Aircraft specific plant and equipment (including simulators and spares)	10 – 25 years
Buildings	50 – 100 years
Non-aircraft specific leasehold improvements, plant, equipment, furniture and vehicles	2 – 10 years

	AIRFRAMES, ENGINES AND SIMULATORS $M	SPARES $M	PLANT AND EQUIPMENT $M	LAND AND BUILDINGS $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
2016						
Carrying value as at 1 July 2015	3,556	99	107	192	107	4,061
Additions	758	15	7	7	158	945
Disposals	(29)	(6)	-	(1)	-	(36)
Depreciation	(373)	(10)	(28)	(26)	-	(437)
Impairment	-	-	-	(1)	-	(1)
Transfers	121	-	43	40	(204)	-
Transfer to assets held for resale	(20)	(1)	-	-	-	(21)
Foreign exchange differences (refer note 24)	(26)	-	-	-	-	(26)
Carrying value as at 30 June 2016	3,987	97	129	211	61	4,485
Represented by:						
Cost	5,789	200	404	409	61	6,863
Accumulated depreciation	(1,802)	(103)	(275)	(180)	-	(2,360)
Provision for impairment	-	-	-	(18)	-	(18)
Carrying value as at 30 June 2016	**3,987**	**97**	**129**	**211**	**61**	**4,485**

Notes to the Financial Statements (continued)

As at 30 June 2016

11. Property, Plant and Equipment (continued)

	AIRFRAMES, ENGINES AND SIMULATORS $M	SPARES $M	PLANT AND EQUIPMENT $M	LAND AND BUILDINGS $M	CAPITAL WORK IN PROGRESS $M	TOTAL $M
2015						
Cost	4,481	236	382	371	76	5,546
Accumulated depreciation	(1,698)	(135)	(270)	(159)	-	(2,262)
Provision for impairment	(5)	-	-	-	-	(5)
Carrying value as at 1 July 2014	2,778	101	112	212	76	3,279
Additions	867	24	6	-	179	1,076
Disposals	(30)	(4)	-	-	-	(34)
Disposal of subsidiaries	(8)	-	(11)	(3)	(1)	(23)
Depreciation	(309)	(15)	(26)	(27)	-	(377)
Impairment	-	-	-	(17)	-	(17)
Transfers	91	-	26	30	(147)	-
Transfer to assets held for resale	(9)	(7)	-	(3)	-	(19)
Foreign exchange differences (refer note 24)	176	-	-	-	-	176
Carrying value as at 30 June 2015	3,556	99	107	192	107	4,061
Represented by:						
Cost	5,268	219	367	370	107	6,331
Accumulated depreciation	(1,712)	(120)	(260)	(161)	-	(2,253)
Provision for impairment	-	-	-	(17)	-	(17)
Carrying value as at 30 June 2015	**3,556**	**99**	**107**	**192**	**107**	**4,061**

	2016 $M	2015 $M
Airframes, engines and simulators comprise:		
Finance leased airframes and engines	1,797	1,982
Owned airframes, engines and simulators	1,770	1,049
Progress payments	420	525
	3,987	**3,556**
Land and buildings comprise:		
Leasehold properties	193	175
Freehold properties	18	17
	211	**192**

Certain aircraft and aircraft related assets with a carrying value of $2,906 million as at 30 June 2016 (30 June 2015: $2,600 million) are pledged as security over secured borrowings and finance lease obligations.

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Impairment
During the year ended 30 June 2016 the land and building assets of the Air New Zealand Gas Turbines (ANZGT) business were assessed for impairment based on a value in use discounted cash flow valuation. ANZGT provides overhaul services to aero derivative engines that are applied to energy production and marine industries. Over recent years a down turn in the market has resulted in a decline in activity and profitability of the business. Cash flow projections were sourced from the 2017 financial year plan and extrapolated into the future using a 2% growth rate. Key assumptions include exchange rates, customer demand, market supply and terminal values. These assumptions have been based on historical data and current market information. The cash flow projections are particularly sensitive to fluctuations in exchange rates and economic demand. The cash flow projections are discounted using a 9% discount rate. The result of this impairment test was an impairment loss of $1 million (30 June 2015: $17 million) which has been recognised within 'Other expenses' in the Statement of Financial Performance.

Residual Values
Estimates and judgements are applied by management to determine the expected useful life of aircraft related assets. The useful lives are determined based on the expected service potential of the asset and lease term. The residual value, at the expected date of disposal, is estimated by reference to external projected values and is influenced by external changes to economic conditions, demand, competition and new technology. Residual values are denominated in United States dollars and are therefore sensitive to exchange fluctuations as well as movements in projected values. Residual values and useful lives are reviewed each year to ensure they remain appropriate. During the year ended 30 June 2016 the residual values of the aircraft were reassessed and depreciation expense was reduced by $11 million (30 June 2015: reduced by $10 million).

Notes to the Financial Statements (continued)

As at 30 June 2016

12. Intangible Assets

Computer software acquired, which is not an integral part of a related hardware item, is recognised as an intangible asset. The costs incurred internally in developing computer software are also recognised as intangible assets where the Group has a legal right to use the software and the ability to obtain future economic benefits from that software. Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These assets have a finite life and are amortised on a straight-line basis over their estimated useful lives of three to six years.

	INTERNALLY DEVELOPED SOFTWARE $M	EXTERNALLY PURCHASED SOFTWARE $M	CAPITAL WORK IN PROGRESS $M	OTHER $M	TOTAL $M
2016					
Carrying value as at 1 July 2015	80	4	17	1	102
Additions	-	-	53	-	53
Amortisation	(26)	(2)	-	-	(28)
Transfers	40	3	(43)	-	-
Carrying value as at 30 June 2016	94	5	27	1	127
Represented by:					
Cost	273	158	27	1	459
Accumulated depreciation	(179)	(153)	-	-	(332)
Carrying value as at 30 June 2016	**94**	**5**	**27**	**1**	**127**
2015					
Cost	205	165	7	3	380
Accumulated depreciation	(133)	(159)	-	(1)	(293)
Provision for impairment	-	-	-	(1)	(1)
Carrying value as at 1 July 2014	72	6	7	1	86
Additions	-	-	42	-	42
Disposal of subsidiaries	(1)	-	-	-	(1)
Amortisation	(22)	(3)	-	-	(25)
Transfers	31	1	(32)	-	-
Carrying value as at 30 June 2015	80	4	17	1	102
Represented by:					
Cost	234	157	17	1	409
Accumulated depreciation	(154)	(153)	-	-	(307)
Carrying value as at 30 June 2015	**80**	**4**	**17**	**1**	**102**

Notes to the Financial Statements (continued)

As at 30 June 2016

13. Investment in Other Entities

Investments in associates and joint ventures are accounted for using the equity method and are measured in the Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets, less dividends. Goodwill relating to associates and joint ventures is included in the carrying amount of the investment.

If the carrying amount of the equity accounted investment exceeds its recoverable amount, it is written down to the latter. When the Group's share of accumulated losses in an associate or joint venture equals or exceeds its carrying value, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

	2016 $M	2015 $M
Investments in associates	76	422
Investments in joint ventures	2	2
Investments in other entities	1	1
	79	**425**

Subsidiaries

Significant subsidiaries comprise:

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION
Air Nelson Limited	Aviation	New Zealand
Air New Zealand Aircraft Holdings Limited	Aircraft leasing and financing	New Zealand
Air New Zealand Associated Companies Limited	Investment	New Zealand
Air New Zealand Regional Maintenance Limited	Engineering services	New Zealand
Eagle Airways Limited	Aviation	New Zealand
Mount Cook Airline Limited	Aviation	New Zealand
TEAL Insurance Limited	Captive insurer	New Zealand

All subsidiary entities above have a balance date of 30 June and are 100 percent owned.

Associates and Joint Ventures

Significant associates and joint ventures comprise:

NAME	RELATIONSHIP	% OWNED	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	BALANCE DATE
Christchurch Engine Centre (CEC)	Associate	49	Engineering services	New Zealand	31 December
ANZGT Field Services LLC	Joint Venture	51	Engineering services	United States	30 June
11Ants Analytics Group Limited	Joint Venture	50	Data analytics	New Zealand	31 March

Prior to 30 March 2016 the Group recognised its interest in Virgin Australia Holdings Limited as an investment in an associate. The shareholding as at 30 March 2016 was 25.9 percent (30 June 2015: 25.9 percent). The company was incorporated in Australia with the principal activity of Aviation. Further details are provided in Note 3.

On 22 January 2016, the Group disposed of its 50 percent joint venture interest in Pacific Leisure Group Limited. No gain or loss was recognised on disposal.

Notes to the Financial Statements (continued)

As at 30 June 2016

13. Investment in Other Entities (continued)

Summary financial information of associates

	CEC 2016 $M	TOTAL 2016 $M	VIRGIN AUSTRALIA 2015 $M	CEC 2015 $M	TOTAL 2015 $M
Assets and liabilities of associates* are as follows:					
Current assets	181	181	1,778	156	1,934
Non-current assets	43	43	4,720	47	4,767
Current liabilities	(44)	(44)	(2,598)	(51)	(2,649)
Non-current liabilities	(24)	(24)	(2,880)	(25)	(2,905)
Net assets	156	156	1,020	127	1,147
Less non-controlling interest	-	-	63	-	63
Net identifiable assets	156	156	1,083	127	1,210
Group share of net identifiable assets	76	76	281	62	343
Goodwill	-	-	79	-	79
Carrying value of investment in associates	**76**	**76**	**360**	**62**	**422**
Investments at quoted market price	N/A	N/A	440	N/A	N/A

	VIRGIN AUSTRALIA 9 MONTHS TO MARCH 2016 $M	CEC 2016 $M	TOTAL 2016 $M	VIRGIN AUSTRALIA 2015 $M	CEC 2015 $M	TOTAL 2015 $M
Results of associates*						
Revenue	4,191	496	4,687	5,098	387	5,485
Earnings after taxation	15	46	61	(93)	15	(78)
Other comprehensive losses (net of taxation)	(104)	-	(104)	(199)	-	(199)
Total comprehensive income	(89)	46	(43)	(292)	15	(277)
Non-controlling interest	25	-	25	18	-	18
Group share of net earnings after taxation	(3)	23	20	(29)	7	(22)
Group share of total comprehensive income	**(29)**	**23**	**(6)**	**(79)**	**7**	**(72)**

*Inclusive of fair value adjustments identified at the date of obtaining significant influence, less amortisation.

Notes to the Financial Statements (continued)
As at 30 June 2016

14. Revenue in Advance

Transportation sales in advance includes consideration received in respect of passenger and cargo sales for which the actual carriage has not yet been performed.

Loyalty programme revenue in advance includes revenues associated with both the award of Airpoints Dollars to Airpoints members as part of the initial sales transaction and with sales of Airpoints Dollars to third parties, net of estimated expiry (non-redeemed Airpoints Dollars), in respect of which the Airpoints member has not yet redeemed their points.

Other revenue in advance includes membership subscriptions and contract related services revenue which relate to future periods.

	2016 $M	2015 $M
Current		
Transportation sales in advance	972	924
Loyalty programme	121	110
Other	18	21
	1,111	1,055
Non-current		
Loyalty programme	157	145
Other	4	5
	161	150

15. Interest-Bearing Liabilities

Borrowings, bonds and finance lease obligations are initially recognised at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost using the effective interest rate method, where appropriate. Borrowings, bonds and finance lease obligations are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than 12 months after the balance date.

	2016 $M	2015 $M
Current		
Secured borrowings	89	46
Unsecured bonds	150	-
Finance lease liabilities	225	207
	464	253
Non-current		
Secured borrowings	841	466
Unsecured bonds	-	150
Finance lease liabilities	1,262	1,453
	2,103	2,069
Interest rates basis:		
Fixed rate	803	830
Floating rate	1,764	1,492
At amortised cost	2,567	2,322
At fair value	2,594	2,314

The fair value of interest-bearing liabilities for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at reporting date.

All secured borrowings are secured over aircraft or aircraft related assets and are subject to floating interest rates.

The unsecured, unsubordinated fixed rate bonds have a maturity date of 15 November 2016 and an interest rate of 6.90% payable semi-annually.

Notes to the Financial Statements (continued)

As at 30 June 2016

15. Interest-Bearing Liabilities (continued)

Finance lease liabilities

Payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

	2016 $M	2015 $M
Repayable as follows:		
Not later than 1 year	244	238
Later than 1 year and not later than 5 years	797	866
Later than 5 years	578	719
	1,619	1,823
Less future finance costs	(132)	(163)
Present value of future rentals	1,487	1,660
Repayable as follows:		
Not later than 1 year	225	207
Later than 1 year and not later than 5 years	721	777
Later than 5 years	541	676
	1,487	1,660

Finance lease liabilities are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates ranged from 0.7 percent to 3.4 percent (30 June 2015: 0.7 percent to 3.4 percent). Purchase options are available on expiry or, if applicable under the lease agreement, on early termination of the finance leases.

Notes to the Financial Statements (continued)

As at 30 June 2016

16. Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the provision can be reliably measured.

	AIRCRAFT LEASE RETURN COSTS $M	RESTRUCTURING $M	OTHER $M	TOTAL $M
Balance as at 1 July 2015	253	13	5	271
Amount provided	84	9	1	91
Amount utilised and released	(34)	(18)	(2)	(51)
Foreign exchange differences	(8)	-	-	(8)
Balance as at 30 June 2016	295	4	4	303
Represented by:				
Current	80	4	3	87
Non-current	215	-	1	216
Balance as at 30 June 2016	295	4	4	303

Nature and purpose of provisions

Aircraft lease return costs

Where a commitment exists to maintain aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is calculated taking into account a number of variables and assumptions including the number of future hours or cycles expected to be operated, the expected cost of maintenance and the lifespan of limited life parts. It is based on historical experience, manufacturers' advice and, where appropriate, contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls by making appropriate charges to the Statement of Financial Performance, calculated by reference to the number of hours or cycles operated during the year. The provision is expected to be utilised at the next inspection or overhaul.

Restructuring

Restructuring provisions are recognised when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Costs relating to ongoing activities are not provided for.

Other

Other provisions include insurance, warranty and an onerous contract provision. Insurance and onerous contract provisions are expected to be utilised within 12 months. Insurance provisions are based on historical claim experience. Warranty provisions represent an estimate of potential liability for future rectification work in respect of past engineering services performed.

17. Other Liabilities

Liabilities in respect of employee entitlements are recognised in exchange for services rendered during the accounting period, but which have not yet been compensated as at reporting date. These include annual leave, long service leave, retirement leave and accrued compensation.

	2016 $M	2015 $M
Current		
Employee entitlements	229	232
Amounts owing to associates	1	18
Other liabilities (including defined benefit liabilities)	7	8
	237	258
Non-current		
Employee entitlements	13	12
Other liabilities	11	5
	24	17

Notes to the Financial Statements (continued)

As at 30 June 2016

18. Distributions to Owners

	2016 $M	2015 $M
Distributions recognised		
Final dividend on Ordinary Shares	107	61
Special dividend on Ordinary Shares	-	112
Interim dividend on Ordinary Shares	112	73
	219	246

	2016 $M	2015 $M
Distributions paid		
Final dividend on Ordinary Shares	112	64
Special dividend on Ordinary Shares	-	117
Interim dividend on Ordinary Shares	118	77
	230	258

On 25 August 2016, the Board of Directors declared a final dividend for the 2016 financial year of 10.0 cents per Ordinary Share, and a special dividend of 25.0 cents per Ordinary Share, payable on 19 September 2016 to registered shareholders at 9 September 2016. The total dividends payable will be $393 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. These dividends have not been recognised in the June 2016 financial statements.

An interim dividend of 10.0 cents per Ordinary Share was paid on 18 March 2016. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

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.

19. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, rights or options are shown in equity as a deduction, net of taxation, from the proceeds.

When shares are acquired by a member of the Group, the amount of consideration paid is recognised directly in equity. Acquired shares are classified as treasury stock and presented as a deduction from share capital. When treasury stock is subsequently sold or reissued pursuant to equity compensation plans, the cost of treasury stock is reversed and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs, is recognised within share capital.

Where the Group funds the on-market purchase of shares to settle obligations under long-term incentive plans the total cost of the purchase (including transaction costs) is deducted from Share Capital.

Share Capital comprises:

	2016 $M	2015 $M
Authorised, issued and fully paid in capital	2,243	2,276
Equity-settled share-based payments	9	10
	2,252	2,286

	2016 $M	2015 $M
Balance at the beginning of the year	2,286	2,282
Equity settlements of long-term incentive obligations*	(39)	-
Equity-settled share-based payments	5	4
Balance at the end of the year	2,252	2,286

* During the year ended 30 June 2016 the Group funded the purchase on-market of 13,181,727 shares (30 June 2015: Nil). The shares were used to settle obligations under employee share-based compensation plans.

Number of Ordinary Shares authorised, fully paid and on issue	2016	2015
Balance at the beginning of the year	1,121,849,949	1,114,424,283
Exercise of share options	994,278	7,425,666
Balance at the end of the year**	1,122,844,227	1,121,849,949

** Includes treasury stock of 34,183 shares (30 June 2015: 34,183 shares).

Notes to the Financial Statements (continued)

As at 30 June 2016

19. Share Capital (continued)

Kiwi Share

One fully paid special rights convertible share (the Kiwi Share) is held by the Crown. While the Kiwi Share does not carry any general Voting Rights, the consent of the Crown as holder is required for certain prescribed actions of the Company as specified in the Constitution.

Non New Zealand nationals are restricted from holding or having an interest in 10 percent or more of voting shares unless the prior written consent of the Kiwi Shareholder is obtained. In addition, any person that owns or operates an airline business is restricted from holding any shares in the Company without the Kiwi Shareholder's prior written consent.

Voting rights

On a show of hands or by a vote of voices, each holder of Ordinary Shares has one vote. On a poll, each holder of Ordinary Shares has one vote for each fully paid share.

All Ordinary Shares carry equal rights to dividends and equal distribution rights on wind up.

Application of treasury stock method

Share repurchase

During the year ended 30 June 2015, the Group utilised treasury stock of 2,481,280 Ordinary Shares acquired under a buy-back programme to fulfil obligations under employee share-based compensation plans. No treasury stock was utilised in the 2016 financial year. Total treasury stock held as at 30 June 2016 is 34,090 shares (30 June 2015: 34,090 shares).

Staff Share Scheme

Unallocated shares of the Air New Zealand Staff Share Schemes are accounted for under the Treasury Stock method, and deducted from Ordinary Share capital on consolidation. The number of unallocated shares as at 30 June 2016 was 93 (30 June 2015: 93).

Equity-Settled Share-Based Payments

The fair value (at grant date) of share rights and options granted to employees is recognised as an expense, within the Statement of Financial Performance, over the vesting period of the rights and options, with a corresponding entry to 'Share Capital'. The amount recognised as an expense is adjusted at each reporting date to reflect the extent to which the vesting period has expired and management's best estimate of the number of rights and share options that will ultimately vest.

Share rights and options over ordinary shares

Share rights have been offered to a number of senior executives on attainment of predetermined performance objectives. Prior to the 2015 financial year, share options were granted to a number of senior executives on attainment of predetermined performance objectives. The Group undertakes a stock settled share appreciation rights scheme whereby shares are issued equating to the delta between the market price and the exercise price.

The total expense recognised in the year ended 30 June 2016 in respect of equity-settled share-based payment transactions was $5 million (30 June 2015: $4 million).

Notes to the Financial Statements (continued)

As at 30 June 2016

19. Share Capital (continued)

	PERFORMANCE SHARE RIGHTS 2016	LONG-TERM INCENTIVE PLAN 2016	CEO RESTRICTED SHARE RIGHTS 2016	CFO OPTION PLAN 2016	PERFORMANCE SHARE RIGHTS 2015	LONG-TERM INCENTIVE PLAN 2015	CEO OPTION PLAN* 2015	CFO OPTION PLAN 2015
Number outstanding								
Outstanding at beginning of the year	5,036,722	48,067,702	-	2,399,138	-	64,051,345	7,938,765	2,399,138
Granted during year	4,728,581	-	292,398	-	5,036,722	-	-	-
Exercised during year	-	(28,326,556)	-	(1,142,857)	-	(15,983,643)	(7,938,765)	-
Forfeited during year	(495,407)	-	-	-	-	-	-	-
Outstanding at the end of the year**	9,269,896	19,741,146	292,398	1,256,281	5,036,722	48,067,702	-	2,399,138
Exercisable as at end of the year	-	3,267,187	-	-	-	9,033,205	-	1,142,857
Weighted average exercise price:								
- exercisable as at the end of the year ($)	-	1.49	-	-	-	1.57	-	1.34
- exercised during the year ($)	-	1.51	-	1.34	-	1.51	1.18	-
Weighted average:								
- Share price at the date of exercise ($)	-	2.90	-	2.86	-	2.49	2.19	-
- Remaining period to contractual maturity (years)	2.2	2.0	1.5	2.2	2.7	2.4	-	2.3
Fair value of options and rights granted in year ($M)	5.4	-	0.6	-	5.2	-	-	-
Unamortised grant date fair value ($M)	5.8	0.2	0.4	-	3.8	1.7	-	0.1

* The CEO Option Plan was part of the former Chief Executive Officer's total remuneration.

** The People Remuneration and Diversity Committee of the Board will adjust share-based arrangement terms, if necessary, to ensure that the impact of share issues, share offers or share structure changes is value neutral as between participants and shareholders.

Key inputs and assumptions

The general principles underlying the Black Scholes pricing model have been used to value these rights and options using a Monte Carlo simulation approach, with the exception of the 2016 CEO Restricted Share Rights Plan for which a simplified approach was applied given the exercise price was fixed at issue date. The key inputs for rights and options granted in the relevant year were as follows:

	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EXPECTED VOLATILITY OF SHARE PRICE (%)	EXPECTED VOLATILITY OF PERFORMANCE BENCHMARK INDEX (%)	CORRELATION OF VOLATILITY INDICES	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)
Performance share rights							
2016	239	28	13	0.40	3.5	2.53	7.1
2015	205	26	14	0.34	3.5	4.00	5.3

Notes to the Financial Statements (continued)

As at 30 June 2016

19. Share Capital (continued)

Options	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EXPECTED VOLATILITY OF SHARE PRICE (%)	EXPECTED VOLATILITY OF PERFORMANCE BENCHMARK INDEX (%)	CORRELATION OF VOLATILITY INDICES	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)	DISCOUNT TO REFLECT NEGOTIABILITY RESTRICTIONS (%)
Long-Term Incentive Plan[1]								
2014	139	27	15	0.25	5.0	4.40	5.8	25
2013(1)	112	30	15	0.20	5.0	3.10	4.9	25
2013(2)	146	30	15	0.25	4.8	3.30	3.8	25
2012	111	35	17	0.45	5.0	4.09	5.0	25
CFO Option Plan[2]								
2013 Tranche 1	112	30	15	0.20	4.0	2.90	4.9	20
2013 Tranche 2	112	30	20	0.20	6.0	3.30	4.9	25

[1] Volatility and correlation estimates were derived using historical data over past 3-5 years; Risk free rate was based on the 5 year zero coupon bond yield.

[2] Volatility and correlation estimates were derived using historical data over past 2-4 years; Risk free rate was based on 4-6 year zero coupon bond yields.

CEO Restricted Share Rights Plan	WEIGHTED AVERAGE SHARE PRICE (CENTS)	EQUITY BETA	MARKET RISK PREMIUM (%)	CONTRACTUAL LIFE (YEARS)	RISK FREE RATE (%)	EXPECTED DIVIDEND YIELD (%)	COST OF EQUITY (%)
2016	2.39	1.25	7.50	2.3	2.50	6.3	11.1

Performance share rights

Performance share rights for a specified value are granted at no cost to the holder. For each performance share right that vests, one share will be issued. The number granted is determined by an independent valuation of the fair value at the date of issue. Vesting of performance share rights is subject to the holder remaining an employee and vesting conditions relating to the Air New Zealand share price being achieved. If vesting is not achieved on the third anniversary of the issue date, 50 percent of performance rights will lapse. For the remaining 50%, there will be a further 6 month opportunity for the performance rights to vest. If they have not vested at the end of this period they will lapse.

In order to vest the Air New Zealand share price adjusted for distributions made over the period must outperform a comparison index over a period of three years (or up to a maximum of three and a half years) after the issue date. The index is made up of 50:50 of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends).

Options

The exercise price has been modelled as a stochastic variable, using the volatility, correlation, dividend yield and risk free rate assumptions provided.

The volatility and correlation estimates were derived from measuring these parameters using historical data. The risk free rate was based on the zero coupon bond yield implied from short to medium term yields for government bonds.

The expected life used in calculating the value of options was determined by analysis of the attrition rates and early exercise behaviour of staff in long-term incentive programmes in similar large corporates.

Long-Term Incentive Plan (LTIP)

The options may be exercised at any time between three and five years after the date of issue (subject to compliance with insider trading restrictions and the rules of the scheme), but may lapse if the participants leave the Group in certain specified circumstances. The 2013(2) options were able to be exercised at any time between 21 September 2015 and 21 September 2017 (subject to compliance with insider trading restrictions and the rules of the scheme).

The exercise price will be set three years after issue, and will be based on Air New Zealand's share price at the issue date increased or decreased by the percentage movement in a specified index over the three years, and decreased by any distributions made over the same period. The specified index comprises the total shareholder return for the NZSX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

CFO Option Plan

The first tranche of options was exercisable at any time between two to four years after the date of issue for the CFO Option Plan and the second tranche between four to six years after the date of issue for the CFO Option Plan (subject to compliance with insider trading restrictions and the rules of the scheme), but may lapse if the participant leaves the Group in certain specified circumstances.

The exercise price was set for the first tranche two years after issue, and the second tranche will be set four years after issue, and is based on Air New Zealand's share price at the issue date increased or decreased by the percentage movement in a specified index over the vesting period, and decreased by any distributions made over the same period. The specified index comprises the total shareholder return for the NZSX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

CEO Restricted Share Rights Plan

Restricted share rights for a specified value are granted at no cost to the holder. For each restricted share right that vests, one share will be issued. The number granted is determined by an independent valuation of the fair value at the date of issue. Vesting of restricted share rights is subject to the holder remaining an employee. The restricted share rights vest on 31 December 2017 and if they have not vested on this date they will lapse.

Notes to the Financial Statements (continued)
For the year to and as at 30 June 2016

20. Reserves

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

	AIR NEW ZEALAND RESERVES 2016 $M	AIR NEW ZEALAND RESERVES 2015 $M	SHARE OF ASSOCIATES' RESERVES* 2015 $M	TOTAL RESERVES 2015 $M
Cash flow hedge reserve	(2)	80	-	80
Costs of hedging reserve	(7)	(4)	(2)	(6)
Hedge reserves	(9)	76	(2)	74
Foreign currency translation reserve	(15)	4	(48)	(44)
General reserves	(120)	(356)	5	(351)
Total Reserves	**(144)**	**(276)**	**(45)**	**(321)**

* The Group ceased equity accounting the investment in Virgin Australia on 30 March 2016. Refer to Note 3 for further details.

The nature and purpose of reserves is set out below:

HEDGE RESERVES

Cash flow hedge reserve
The cash flow hedge reserve contains the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Costs of hedging reserve
The costs of hedging reserve contains the cumulative net change in the fair value of time value on fuel options of which are excluded from hedge designations of fuel price risk.

Foreign currency translation reserve
The foreign currency translation reserve contains foreign exchange differences arising on consolidation of foreign operations together with the translation of foreign currency borrowings designated as a hedge of net investments in those foreign operations.

General reserves
General reserves include the retained deficit net of dividends recognised, remeasurements in respect of the net defined benefit assets and liabilities and the Group's share of equity accounted associates' reserves.

21. Operating Leases

Leases under which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received) are recognised as an expense in the Statement of Financial Performance on a straight-line basis over the term of the lease.

	2016 $M	2015 $M
Rental and lease expenses recognised in earnings		
Aircraft	192	159
Property	52	52
	244	211
Future operating lease commitments		
Aircraft leases payable*		
Not later than 1 year	184	189
Later than 1 year and not later than 5 years	409	430
Later than 5 years	163	51
	756	670
Property leases payable		
Not later than 1 year	40	38
Later than 1 year and not later than 5 years	112	113
Later than 5 years	75	76
	227	227

* Includes lease commitments for five A320/321 NEO aircraft due to be delivered from 2017 to 2018 calendar years.

Subject to negotiation, certain aircraft operating leases give the Group the right to renew the lease.

Notes to the Financial Statements (continued)

As at 30 June 2016

22. Capital Commitments

Commitments shown are for those asset purchases authorised and contracted for as at reporting date but not provided for in the financial statements, converted at the year end exchange rate.

	2016 $M	2015 $M
Aircraft and engines	2,210	2,545
Other property, plant and equipment and intangible assets	12	18
	2,222	2,563

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

23. Contingent Liabilities

Contingent liabilities are subject to uncertainty or cannot be reliably measured and are not provided for. Disclosures as to the nature of any contingent liabilities are set out below. Judgements and estimates are applied to determine the probability that an outflow of resources will be required to settle an obligation. These are made based on a review of the facts and circumstances surrounding the event and advice from both internal and external parties.

	2016 $M	2015 $M
Letters of credit and performance bonds	33	58

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 a class action in the United States in which it is alleged 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 finding in favour of the ACCC. Application has been made to the High Court of Australia for leave to appeal the latest decision.

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.

The Group has a partnership agreement with Pratt and Whitney in relation to the Christchurch Engine Centre (CEC) (Note 13). By the nature of the agreement, joint and several liability exists between the two parties. Total liabilities of the CEC are $68 million (30 June 2015: $76 million).

24. Financial Risk Management

Air New Zealand is subject to credit, foreign currency, interest rate and fuel price risks. These risks are managed with various financial instruments, using a set of policies approved by the Board of Directors. Compliance with these policies is reviewed and reported monthly to the Board and is included as part of the internal audit programme. Group policy is not to enter, issue or hold financial instruments for speculative purposes.

CREDIT RISK

Credit risk is the potential loss from a transaction in the event of default by a counterparty during the term of the transaction or on settlement of the transaction. Air New Zealand incurs credit risk in respect of trade receivable transactions and other financial instruments in the normal course of business. The maximum exposure to credit risk is represented by the carrying value of financial assets.

Air New Zealand places cash, short-term deposits and derivative financial instruments with good credit quality counterparties, having a minimum Standard and Poors' credit rating of A- or minimum Moodys' credit rating of A3. Limits are placed on the exposure to any one financial institution.

Credit evaluations are performed on all customers requiring direct credit. Air New Zealand is not exposed to any concentrations of credit risk within receivables, other assets and derivatives. Air New Zealand does not require collateral or other security to support financial instruments with credit risk. A significant proportion of receivables are settled through the International Air Transport Association (IATA) clearing mechanism which undertakes its own credit review of members. Over 93% of trade and other receivables are current, with less than 1% falling due after more than 90 days.

Notes to the Financial Statements (continued)
As at 30 June 2016

24. Financial Risk Management (continued)

MARKET RISK

Foreign Currency Risk
Foreign currency risk is the risk of loss to Air New Zealand arising from adverse fluctuations in exchange rates.

Air New Zealand has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities, foreign currency borrowings and foreign currency capital commitments, purchases and sales. The documented risk management approach (as approved by the Board of Directors) is to manage both forecast foreign currency operating revenues and expenditure and foreign currency denominated balance sheet items. Hedges of foreign currency capital transactions are only undertaken if there is a large volume of forecast capital transactions over a short period of time.

Air New Zealand enters into foreign exchange contracts to manage the economic exposure arising due to fluctuations in foreign exchange rates affecting both highly probable forecast operating cash flows and foreign currency denominated liabilities. Any exposure to gains or losses on these contracts is offset by a related loss or gain on the item being hedged.

Forecast operating transactions
Foreign currency operating cash inflows are primarily denominated in Australian Dollars, European Community Euro, Japanese Yen, Chinese Renminbi, United Kingdom Pounds and United States Dollars. Foreign currency operating cash outflows are primarily denominated in United States Dollars. The Group's treasury risk management policy is to hedge between 60% and 90% of forecast net operating cash flows for the first 6 months, with progressive reductions in percentages hedged over the next 6 to 12 months. Forward points are excluded from the hedge designation in respect of operating revenue and expenditure transactions and are marked to market through earnings. The underlying forecast revenue and expenditure transactions in respect of foreign currency cash flow hedges in place at reporting date, are expected to occur over the next 12 months.

Japanese Yen denominated finance lease obligations and Euro denominated borrowings are designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast Japanese Yen and Euro revenues, respectively.

Balance sheet exposures
Certain United States Dollar denominated borrowings are designated as the hedging instrument in fair value hedges of underlying United States Dollar aircraft values. A further proportion of United States denominated borrowings remains unhedged to provide an offset to foreign currency movements within depreciation expense, resulting from revisions made to aircraft residual values during the year.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising on the net assets of certain Group foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Where changes in the fair value of a derivative provide an offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. Foreign currency translation gains or losses on lease return provisions and the remaining non-hedge accounted United States Dollar and Euro denominated interest-bearing liabilities are recognised in the Statement of Financial Performance within 'Foreign exchange gains'. Marked to market gains or losses on non-hedge accounted foreign currency derivatives provide an offset to these foreign exchange movements, and are also recognised within 'Foreign exchange gains'.

With the exception of foreign currency denominated working capital balances, which together are immaterial to foreign currency fluctuations, Air New Zealand's exposure to foreign exchange risk arising on items recognised in the Statement of Financial Position at reporting date is summarised over the following page. This risk is translation risk before hedging activities, which is then managed through a number of different hedging strategies in which the items identified below may be designated either as the hedged item or the hedging instrument depending on the most efficient and cost effective strategy.

Derivative financial instruments are excluded from this table as they are specifically used to manage risk and do not create an initial exposure. The impact of derivative financial instruments in terms of managing identified risks is detailed over the following pages.

Forecast foreign currency revenue and expenditure transactions occur in the future and are not included in the following table. The effect of foreign currency risk arising on forecast transactions and how this is managed is detailed over the following pages.

Notes to the Financial Statements (continued)
As at 30 June 2016

24. Financial Risk Management (continued)

Foreign currency exposure of items recognised at reporting date, before hedging

	NZD $M	USD $M	AUD $M	EUR $M	JPY $M	TOTAL $M
As at 30 June 2016						
Investment in quoted equity instruments	-	-	22	-	-	22
Investments in other entities	2	77	-	-	-	79
Interest-bearing assets	116	-	172	-	-	288
Interest-bearing liabilities	(434)	(1,373)	-	(184)	(576)	(2,567)
Provisions	(22)	(281)	-	-	-	(303)
	(338)	(1,577)	194	(184)	(576)	(2,481)
As at 30 June 2015						
Investments in other entities	2	63	360	-	-	425
Interest-bearing assets	105	-	36	-	-	141
Interest-bearing liabilities	(514)	(1,558)	-	-	(250)	(2,322)
Provisions	(29)	(242)	-	-	-	(271)
	(436)	(1,737)	396	-	(250)	(2,027)

Hedging foreign currency risk

Derivative financial instruments
Derivative financial instruments, other than those designated as hedging instruments in a qualifying cash flow hedge, are classified as held for trading. Subsequent to initial recognition, derivative financial instruments in this category are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Financial Performance.

Hedge accounted financial instruments
Where financial instruments qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship, as follows:

Cash flow hedges
Changes in the fair value of hedging instruments designated as cash flow hedges are recognised within Other Comprehensive Income and accumulated within equity to the extent that the hedges are deemed effective in accordance with NZ IFRS 9 - Financial Instruments. To the extent that the hedges are ineffective for accounting, changes in fair value are recognised in the Statement of Financial Performance.

If a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The cumulative gain or loss previously recognised in the cash flow hedge reserve remains there until the forecast transaction occurs. If the underlying hedged transaction is no longer expected to occur, the cumulative, unrealised gain or loss recognised in the cash flow hedge reserve with respect to the hedging instrument is recognised immediately in the Statement of Financial Performance.

Where the hedge relationship continues throughout its designated term, the amount recognised in the cash flow hedge reserve is transferred to the Statement of Financial Performance in the same period that the hedged item is recorded in the Statement of Financial Performance, or, when the hedged item is a non-financial asset, the amount recognised in the cash flow hedge reserve is transferred to the carrying amount of the asset when it is recognised.

Fair value hedges
Changes in the fair value of hedging instruments designated as fair value hedges are recognised in the Statement of Financial Performance. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged. The resulting gain or loss is also recognised in the Statement of Financial Performance with an adjustment to the carrying amount of the hedged item.

Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the Statement of Financial Performance.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

Impact of hedging foreign currency risk

The impact of the foreign currency hedging strategies (both hedge accounted and non-hedge accounted) on the financial statements during the year is set out below, by type of hedge.

CASH FLOW HEDGES OF FOREIGN CURRENCY RISK

Forecast operating revenue and expenditure transactions are not recognised in the financial statements until the transactions occur. The amounts designated as the hedged item in qualifying cash flow hedges mirror the amounts designated as hedging instruments as set out below. All hedges are of spot foreign exchange risk.

The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast operating revenue and expenditure transactions. All derivatives mature within 12 months (30 June 2015: 12 months).

	2016 NZ$M	2015 NZ$M
Hedging instruments used		
Derivative financial instruments		
NZD	(584)	(276)
USD	928	885
AUD	(156)	(165)
EUR	(39)	(46)
JPY	(43)	(182)
GBP	(61)	(85)
Other	(69)	(80)
Hedge accounted foreign currency derivatives	(24)	51

The following interest-bearing liabilities were recognised within 'Interest-bearing liabilities' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges of highly probable forecast JPY and EUR operating revenue and highly probable forecast USD Sales of non financial assets expected to occur in the time periods shown.

	< 1 YEAR NZ$M	1-2 YEARS NZ$M	2-5 YEARS NZ$M	5+ YEARS NZ$M	TOTAL NZ$M
Interest-bearing liabilities					
As at 30 June 2016					
EUR	(6)	(6)	(17)	(30)	(59)
JPY	(48)	(49)	(134)	(345)	(576)
As at 30 June 2015					
USD	(3)	-	-	-	(3)
JPY	(15)	(15)	(47)	(173)	(250)

Notes to the Financial Statements (continued)
As at 30 June 2016

24. Financial Risk Management (continued)

The effective portion of changes in the fair value of foreign currency hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to either earnings or the asset carrying value, as appropriate, when the underlying hedged item occurs.

	2016 $M	2015 $M
Recognised in Statement of Changes in Equity		
Hedge reserves		
Balance at the beginning of the year	94	50
Change in fair value*	(57)	174
Transfers to foreign exchange gains	(114)	(89)
Transfers to asset carrying value	-	(26)
Taxation on reserve movements	47	(15)
Balance at the end of the year	(30)	94
Represented by:		
Forecast operating revenue/expense	(40)	131
Tax effect	10	(37)
Balance at the end of the year	(30)	94

* The change in fair value of the hedging instrument is that used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on cash flow hedges of foreign currency transactions during the year (30 June 2015: Nil). Forward points excluded from the hedge designation of $14 million were recognised in 'Finance costs' during the year (30 June 2015: $24 million).

The weighted average contract rates of hedge accounted foreign currency derivatives outstanding as at reporting date are set out below:

	2016	2015
USD	0.6658	0.7896
AUD	0.9139	0.9396
EUR	0.6025	0.6562
JPY	76.41	89.68
GBP	0.4572	0.4997

NET INVESTMENT HEDGE

Investments designated in a net investment hedge are included within 'Investments in other entities' on the Statement of Financial Position. The hedging instrument is included within 'Interest-bearing liabilities'.

	2016 NZ$M	2015 NZ$M
Hedged amount of United States Dollar investment	62	55
Hedged by: United States Dollar interest-bearing liabilities	(62)	(55)

The effective portion of changes in fair value of both the hedged item and the hedging instrument are recognised in the foreign currency translation reserve, as set out below.

	2016 NZ$M	2015 NZ$M
Foreign currency translation reserve		
Balance at the beginning of the year	4	(23)
Translation (losses)/gains on hedged investment**	(2)	12
Translation gains/(losses) on hedging instrument**	2	(12)
Translation (losses)/gains on unhedged investments	(13)	19
Transfers upon disposal of subsidiaries to 'Other expenses'	-	5
Cessation of equity accounting	(6)	-
Taxation on reserve movements	-	3
Balance at the end of the year	(15)	4

** Translation gains/losses are those used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on net investment hedges during the year (30 June 2015: Nil).

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

FAIR VALUE HEDGES

Underlying currency movements on aircraft designated in a fair value hedge are included within 'Property, plant and equipment' on the Statement of Financial Position. The hedging instrument is included within 'Interest-bearing liabilities'.

	2016 NZ$M	2015 NZ$M
Underlying United States Dollar aircraft fair values	814	944
Hedged by: United States Dollar interest-bearing liabilities	(814)	(944)
The effective portion of changes in the fair value of both the hedged item and the hedging instrument are offset within 'Foreign exchange gains' within the Statement of Financial Performance, as set out below:		
Changes in fair value*** on hedged item	(26)	176
Changes in fair value*** on hedging instrument	26	(176)
	-	-

*** The change in fair value is that used for the purpose of assessing hedge effectiveness. No ineffectiveness arose on fair value hedges during the year (30 June 2015: Nil).

HEDGED, BUT NOT HEDGE ACCOUNTED

Where changes in the fair value of a derivative provide an offset to the underlying hedged item as it impacts earnings, hedge accounting is not applied. The following items recognised within the line item shown in the Statement of Financial Position are denominated in a foreign currency and give rise to foreign exchange risk.

		2016 NZ$M	2015 NZ$M
Interest-bearing liabilities	USD	(497)	(556)
Interest-bearing liabilities	EUR	(125)	-
Provisions	USD	(281)	(242)
Interest-bearing assets	AUD	172	36

The following foreign currency derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date.

	2016 NZ$M	2015 NZ$M
Hedging instruments		
Derivative financial instruments		
NZD	(681)	(662)
USD	696	724
AUD	(172)	(37)
EUR	128	2
Other	1	9
Not hedge accounted foreign currency derivatives	(28)	36

The changes in fair value of hedged items and hedging instruments during the year offset within 'Foreign exchange gains' within the Statement of Financial Performance, as set out below:

	2016 NZ$M	2015 NZ$M
Foreign currency gains/(losses) on:		
Interest-bearing liabilities	22	(120)
Provisions	8	(46)
Interest-bearing assets	(8)	(2)
Derivative financial instruments	(25)	165
	(3)	(3)

Forward points on non-hedge accounted foreign currency derivatives of $21 million were recognised in 'Finance costs' during the year (30 June 2015: $23 million).

Sensitivity analysis

The sensitivity analyses which follow are hypothetical and should not be considered predictive of future performance. They only include financial instruments (derivative and non-derivative) and do not include the future forecast hedged transactions or the underlying fair value of hedged non-financial assets. As the sensitivities are only on financial instruments, the sensitivities ignore the offsetting impact on future forecast transactions which many of the derivatives are hedging and the offsetting impact on underlying United States Dollar non-financial asset values, which are hedged by debt instruments. Changes in fair value can generally not be extrapolated because the relationship of change in assumption to change in fair value may not be linear. In addition, for the purposes of the below analyses, the effect of a variation in a particular assumption is calculated independently of any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. Furthermore, sensitivities to specific events or circumstances will be counteracted as far as possible through strategic management actions. The estimated fair values as disclosed should not be considered indicative of future earnings on these contracts.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

Foreign currency sensitivity on financial instruments

The following table demonstrates the sensitivity of financial instruments at reporting date to a reasonably possible appreciation/depreciation in the United States Dollar against the New Zealand Dollar. Other currencies are evaluated by converting first to United States Dollars and then applying the above change against the New Zealand Dollar. All other variables are held constant. This analysis does not include future forecast hedged operating or capital transactions.

Appreciation/depreciation (US cents):	2016 NZ$M +5c	2016 NZ$M -5c	2015 NZ$M +5c	2015 NZ$M -5c
Impact on profit before taxation:				
USD	59	(68)	69	(80)
AUD	(2)	2	-	-

The above would be offset in earnings through either the fair value hedge mechanism or through the impact of foreign currency on depreciation.

Impact on equity:				
USD	(66)	76	(59)	68
AUD	10	(12)	(13)	15
EUR	6	(7)	3	(4)
JPY	41	(47)	29	(34)
GBP	4	(5)	6	(7)
Other	5	(5)	5	(6)

The above would be deferred within equity and then offset by the foreign currency impact of the hedged item when it occurs.

	2016	2015
Significant foreign exchange rates used at balance date for one New Zealand Dollar are:		
USD	0.7110	0.6850
AUD	0.9550	0.8920
EUR	0.6400	0.6100
JPY	73.20	83.90
GBP	0.5290	0.4350

FUEL PRICE RISK

Fuel price risk is the risk of loss to Air New Zealand arising from adverse fluctuations in fuel prices.

Air New Zealand enters into fuel swap and option agreements to reduce the impact of price changes on fuel costs in accordance with the policy approved by the Board of Directors. Uplift in the first three months is hedged between 50% and 80% with the volume falling to 20% in the twelfth month.

The price risk of jet fuel purchases includes a crude oil price risk component, despite crude oil not being specified in any contractual arrangement. Based on an evaluation of the market structure and refining process, this risk component is separately identifiable and reliably measurable even though it is not contractually specified. The relationship of the crude oil component to jet fuel as a whole varies in line with the published crude oil and jet fuel price indices. Crude oil hedging instruments are designated as a hedge of the price risk in the crude oil component of highly probable jet fuel purchases. There is a 1:1 hedging ratio of the hedging instrument to the crude oil component identified as the hedged item.

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'.

Ineffectiveness is only expected to arise where the index of the hedging instrument differs to that of the underlying hedged item.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

Impact of hedging fuel price risk

Weighted average strike prices of fuel derivatives	**2016** **Brent** USD	**2015** **Brent** USD	**2015** **WTI** USD
Weighted average collar ceiling	47	70	83
Weighted average collar floor	31	57	76
Swap strike price	N/A	N/A	95
Barrels hedged (millions of barrels)	5.4	1.9	0.6

CASH FLOW HEDGES OF FUEL PRICE RISK

Forecast fuel purchase transactions are not recognised in the financial statements until the transactions occur. The number of barrels hedged is set out in the previous table. All fuel derivative contracts mature within 12 months of reporting date.

Fuel derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges.

Statement of financial position	**2016** $M	**2015** $M
Derivative financial assets/(liabilities)	58	(22)

The effective portion of changes in the fair value of fuel hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to earnings, when the underlying hedged item occurs.

Hedge reserves		
Balance at the beginning of the year	(18)	(2)
Change in fair value*	12	(151)
Transfers to fuel	50	130
Changes in cost of hedging reserve	(4)	(2)
Taxation on reserve movements	(15)	7
Balance at the end of the year	25	(18)

* The change in fair value recognised in the cash flow hedge reserve excludes ineffectiveness which is recognised through earnings.
No ineffectiveness arose on cash flow hedges of fuel price risk during the year (30 June 2015: Nil)

Fuel price sensitivity on financial instruments

The sensitivity of the fair value of these derivatives as at reporting date to a reasonably possible change in the price per barrel of crude oil is shown below. This analysis assumes that all other variables remain constant and the respective impacts on profit before taxation and equity are dictated by the proportion of effective/ineffective hedges. In practice, these elements would vary independently. This analysis does not include the future forecast hedged fuel transactions.

Price movement per barrel:	**2016** $M **+USD 20**	**2016** $M **-USD 20**	**2015** $M **+USD 20**	**2015** $M **-USD 20**
Impact on cash flow hedge reserve (within equity)	119	(70)	54	(40)

The above would be deferred within equity and then offset by the fuel price impact of the hedged item when it occurs.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

INTEREST RATE RISK

Interest rate risk is the risk of loss to Air New Zealand arising from adverse fluctuations in interest rates.

Air New Zealand has exposure to interest rate risk as a result of the long-term borrowing activities which are used to fund ongoing activities. It is the Group's policy to ensure the interest rate exposure is maintained to minimise the impact of changes in interest rates on its net floating rate long-term borrowings. The Group's policy is to fix between 70% to 100% of its exposure to interest rates, including fixed interest operating leases, in the next 12 months. Interest rate swaps are used to achieve an appropriate mix of fixed and floating rate exposure if the volume of fixed rate loans or fixed rate operating leases is insufficient.

Impact of hedging interest rate risk

	2016	2015
Interest rate derivatives		
Volume (USD M)	150	150
Weighted average contract rate (%)	1.7	1.7
Weighted average contract maturities (years)	3.4	4.4

CASH FLOW HEDGES OF INTEREST RATE RISK

The impact of changes in floating interest rates is recognised in the financial statements when the transactions occur. The volume of the floating rate interest-bearing liabilities hedged, together with contract rates and maturities are set out above.

Interest rate derivatives were recognised within 'Derivative financial instruments' on the Statement of Financial Position as at reporting date and were designated as the hedging instrument in qualifying cash flow hedges.

	2016 $M	2015 $M
Statement of financial position		
Derivative financial (liabilities)/assets	(5)	-

The effective portion of changes in the fair value of interest rate hedging instruments which were deferred to the cash flow hedge reserve (within hedge reserves) during the year are set out below, together with transfers to earnings, when the underlying hedged item occurred.

	2016 $M	2015 $M
Hedge reserves		
Balance at the beginning of the year	-	-
Change in fair value*	(7)	-
Transfers to finance costs	2	-
Taxation on reserve movements	1	-
Balance at the end of the year	(4)	-

*The change in fair value recognised in the cash flow hedge reserve is the effective portion. No ineffectiveness arose on cash flow hedges of interest rates during the year (30 June 2015: Nil).

Interest rate sensitivity on financial instruments

Earnings are sensitive to changes in interest rates on the floating rate element of borrowings and finance lease obligations and the fair value of interest rate swaps. Their sensitivity to a reasonably possible change in interest rates with all other variables held constant, is set out below. This analysis assumes that the amount and mix of fixed and floating rate debt, including finance lease obligations, remains unchanged from that in place at reporting date, and that the change in interest rates is effective from the beginning of the year. In reality, the fixed/floating rate mix will fluctuate over the year and interest rates will change continually.

Interest rate change:	2016 $M +50 bp*	2016 $M -50 bp*	2015 $M +50 bp*	2015 $M -50 bp*
Impact on profit before taxation	(8)	8	(7)	7
Impact on cash flow hedge reserve (within equity)	(1)	1	(1)	1

**bp = basis points*

The impact on equity as shown above would be offset by the hedged floating interest rate exposure as it occurs.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. Air New Zealand manages the risk by targeting a minimum liquidity level, ensuring long-term commitments are managed with respect to forecast available cash inflow and managing maturity profiles. Air New Zealand holds significant cash reserves to enable it to meet its liabilities as they fall due and to sustain operations in the event of unanticipated external factors or events.

The following table sets out the contractual, undiscounted cash flows for non-derivative financial liabilities and derivative financial instruments:

	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
As at 30 June 2016						
Trade and other payables	453	453	453	-	-	-
Secured borrowings	930	1,003	101	105	235	562
Unsecured bonds	150	155	155	-	-	-
Finance lease obligations	1,487	1,619	244	209	588	578
Amounts owing to associates	1	1	1	-	-	-
Total non-derivative financial liabilities	3,021	3,231	954	314	823	1,140
Foreign exchange derivatives						
– Inflow		2,030	2,030	-	-	-
– Outflow		(2,087)	(2,087)	-	-	-
	(52)	(57)	(57)	-	-	-
Fuel derivatives	58	47	47	-	-	-
Interest rate derivatives	(5)	(5)	(1)	(2)	(2)	-
Total derivative financial instruments	1	(15)	(11)	(2)	(2)	-

	STATEMENT OF FINANCIAL POSITION $M	CONTRACTUAL CASH FLOWS $M	< 1 YEAR $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
As at 30 June 2015						
Trade and other payables	448	448	448	-	-	-
Secured borrowings	512	562	54	51	147	310
Unsecured bonds	150	166	10	156	-	-
Finance lease obligations	1,660	1,823	238	251	615	719
Amounts owing to associates	18	18	18	-	-	-
Total non-derivative financial liabilities	2,788	3,017	768	458	762	1,029
Foreign exchange derivatives						
– Inflow		2,090	2,090	-	-	-
– Outflow		(2,013)	(2,013)	-	-	-
	87	77	77	-	-	-
Fuel derivatives	(22)	(26)	(26)	-	-	-
Interest rate derivatives	-	-	(2)	(1)	3	-
Total derivative financial instruments	65	51	49	(1)	3	-

FAIR VALUE ESTIMATION

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All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy as described below. All financial instruments are either carried at fair value or amounts approximating fair value, with the exception of interest-bearing liabilities, for which the fair value is disclosed in Note 15 Interest-bearing liabilities. This equates to “Level 2” of the fair value hierarchy defined within NZ IFRS 13 - Fair Value Measurement. The fair value of the investment in quoted equity instrument (Note 9) is determined by reference to quoted market prices in an active market (“Level 1” of the fair value hierarchy). The fair value of derivative financial instruments is based on published market prices for similar assets or liabilities or market observable inputs to valuation at balance date (“Level 2” of the fair value hierarchy). The fair value of foreign currency forward contracts is determined using forward exchange rates at reporting date. The fair value of fuel swap and option agreements is determined using forward fuel prices at reporting date. The fair value of interest rate swaps is determined using forward interest rates as at reporting date.

Notes to the Financial Statements (continued)

As at 30 June 2016

24. Financial Risk Management (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the company's ability to continue as a going concern and to continue to generate shareholder value and benefits for other stakeholders, and to provide an acceptable return for shareholders by removing complexity, reducing costs and pricing our services commensurately with the level of risk. The Group is not subject to any externally imposed capital requirements.

The Group's capital structure is managed in the light of economic conditions, future capital expenditure profiles and the risk characteristics of the underlying assets. The Group's capital structure may be modified by adjusting the amount of dividends paid to shareholders, initiating dividend reinvestment opportunities, returning capital to shareholders, issuing new shares or selling assets to reduce debt. The capital management policies and guidelines are regularly reviewed by the Board of Directors.

The Group monitors capital on the basis of gearing ratios. These ratios are calculated as net debt including capitalised operating leases over net debt plus equity. Net debt is calculated as total borrowings, bonds and finance lease obligations (including net open derivatives on these instruments) less cash and cash equivalents, non interest-bearing assets and interest-bearing assets. Capital comprises all components of equity. These ratios and their calculation are disclosed in the Five Year Statistical Review.

25. Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Amounts subject to potential offset

For financial instruments subject to enforceable master netting arrangements, each agreement allows the parties to elect net settlement of the relevant financial assets and liabilities. In the absence of such election, settlement occurs on a gross basis, however each party will have the option to settle on a net basis in the event of default of the other party.

The following table shows the gross amounts of financial assets and financial liabilities which are subject to enforceable master netting arrangements and similar agreements, as recognised in the Statement of Financial Position. It also shows the potential net amounts if offset were to occur.

	STATEMENT OF FINANCIAL POSITION 2016 $M	AMOUNTS NOT OFFSET 2016 $M	NET AMOUNTS IF OFFSET 2016 $M	STATEMENT OF FINANCIAL POSITION 2015 $M	AMOUNTS NOT OFFSET 2015 $M	NET AMOUNTS IF OFFSET 2015 $M
Financial assets						
Bank and short-term deposits	1,594	(59)	1,535	1,321	(23)	1,298
Derivative financial assets	70	(10)	60	106	(18)	88
Financial liabilities						
Derivative financial liabilities	(69)	69	-	(41)	41	-

Letters of credit and performance bonds are also subject to master netting arrangements. The amounts are disclosed in Note 23 Contingent Liabilities.

Notes to the Financial Statements (continued)

For the year to and as at 30 June 2016

26. Related Parties

Crown

The Crown, the major shareholder of the Company, owns 52 percent of the issued capital of the Company (30 June 2015: 52 percent). The balance is owned by the public.

Air New Zealand enters into numerous transactions with Government Departments, Crown Agencies and State Owned Enterprises on an arm's length basis. All transactions are entered into in the normal course of business.

Key management personnel

Compensation of key management personnel (including directors) was as follows:

	2016 $M	2015 $M
Short-term employee costs	14	13
Directors' fees	1	1
Share-based payments	2	2
	17	16

Certain key management personnel (including directors) have relevant interests in a number of companies (including non-executive directorships) to which Air New Zealand provides aircraft related services in the normal course of business, on standard commercial terms.

Staff share purchase schemes and Executive share option and performance right plans

Shares held by the Staff Share Purchase scheme and Executive share option and performance right plans are detailed in Note 19.

Bank set-off arrangements

The Group has a set-off arrangement on certain Bank of New Zealand balances, allowing the offset of overdraft amounts against in-fund amounts. The following entities are included in the set-off arrangement:

Air Nelson Limited

Air New Zealand Limited

Air New Zealand Regional Maintenance Limited

Eagle Airways Limited

Mount Cook Airlines Limited

Associated companies

Transactions between the Group and associated companies are conducted on normal terms and conditions.

Between 4 July 2015 and 30 March 2016 the Group recognised Virgin Australia Holdings Limited as an associate investment (refer Note 3). During the period Air New Zealand provided aircraft maintenance services and contract work, catering and ground handling services, and engine sharing with Virgin Australia. The Group has a revenue share trans-Tasman alliance with Virgin Australia (including interline arrangements) which includes providing customer access to Air New Zealand lounges and loyalty programmes. The disclosures below, as they relate to transactions with Virgin Australia, are for the period ending 30 March 2016.

The Christchurch Engine Centre (CEC) provides maintenance services to the Group on certain V2500 engines. The Group receives revenue for contract and administration services performed for the CEC.

	2016 $M	2015 $M
During the year, there have been transactions between Air New Zealand and its associated companies as follows:		
Operating revenue*	46	62
Operating expenditure	(18)	(24)
Balances outstanding at the end of the year are unsecured and on normal trading terms:		
Amounts owing from associates	1	24
Amounts owing to associates	1	18

* Excludes passenger revenue from interline arrangements.

The CEC paid a distribution to the Group of $5 million on 21 January 2016. On 23 March 2015 the CEC declared a distribution to the Group of $5 million which was paid on 22 July 2015.

Other related party disclosures

Other balances and transactions with related parties are not considered material to Air New Zealand and are entered into in the normal course of business on standard commercial terms. There have been no related party debts forgiven during the year.

Independent Auditor's Report

Deloitte.

TO THE SHAREHOLDERS OF AIR NEW ZEALAND LIMITED

Report on the Audit of the Group Financial Statements

Auditor General

The Auditor-General is the auditor of Air New Zealand Limited and its subsidiaries. The Auditor-General has appointed me, Andrew Dick, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Group, consisting of Air New Zealand Limited and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

Opinion

We have audited the Group financial statements, which comprise the Statement of Financial Position as at 30 June 2016, and the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 2 to 39, present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRSs') and International Financial Reporting Standards ('IFRS').

Basis for Opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements of the Group section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditor-General's Statement on Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners ('AG PES 1 (Revised)') which incorporates Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit we have carried out assignments in the areas of taxation, review of the interim financial statements and other assurance and non-assurance services, which are compatible with those independence requirements. 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 audit and these assignments and trading activities, we have no relationship with, or interests in the Group.

Audit Materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the quantitative materiality for the Group financial statements as a whole to be $30m. This was determined with reference to a number of factors and taking into account the cyclical nature of the airline industry. $30m represents 5% of profit before tax, 1% of total equity and 1% of operating revenue.

Key Audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements for the current period. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group's revenue primarily consists of passenger revenue which totalled $4,481 million in the year to 30 June 2016 as outlined in note 1. Passenger revenue is complex due to the various fare rules that may apply to a transaction, and as tickets are typically sold prior to the day of flight. The Group requires complex IT systems and processes to correctly record these sales as transportation sales in advance and then as revenue when flights occur. We have included revenue recognition as a key audit matter due to the significance of revenue to the financial statements and the substantial dependence on complex IT systems.	We have evaluated the systems, processes and controls in place over passenger revenue in advance and also assessed key account reconciliation processes. We have tested the IT environment in which passenger sales occur and interfaces with other relevant systems. We also assessed the quality of information produced by these systems and tested the accuracy and completeness of reports generated by these systems and used to recognise or defer passenger revenue. We performed an analysis of passenger revenue and passenger revenue in advance and created expectations of revenue based on our knowledge of the Group, the industry and key performance measures, including airline capacity and revenue per available seat kilometre. We have compared this to the Group's revenue and obtained appropriate explanations for significant differences. We are satisfied revenue has been appropriately recognised.
Aircraft lease return costs	
Certain aircraft under operating leases are required to be returned to the lessor at the expiry of the lease term in a specified condition. The Group estimates the cost of returning the aircraft to the specified condition and has made provision for this in the current period of $295 million as explained further in note 16. This is a key audit matter due to the size of the balance and the level of judgement required by the Group in determining the estimate. The provision is calculated taking into account a number of variables and assumptions including the number of future hours or cycles expected to be operated, the expected cost of maintenance and the lifespan of life-limited parts. It also takes into account forecast inflation and foreign exchange rates. It is based on the Group's historical experience, manufacturers' advice and contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls required under the lease conditions.	We have evaluated the appropriateness of the provision by performing the following: • We assessed the terms and conditions of new or updated lease agreements to understand the return conditions and ensuring that the calculation had been updated for changes in operating leases. • We assessed the key assumptions and challenged the Group as to their reasonableness by reviewing internal and external source documentation such as operating cycle history, supplier costs for various components, consumables and labour, maintenance plans and market data such as forecast inflation and exchange rates. • We challenged changes in assumptions from prior periods and reviewed the history of provisions made against actual costs incurred on the return of aircraft under lease agreements and when an overhaul occurs. • We tested the arithmetical accuracy of the calculation and evaluated the sensitivity of the calculation to the various variables and assumptions. We found the assumptions and resulting estimates to be reasonable.
Aircraft-residual values and useful lives	
Group aircraft and related assets total $3,987 million at 30 June 2016 as outlined in note 11. The useful lives and residual values of aircraft may be influenced by external changes to economic conditions, demand, competition and new technology. The Group considers these changes when reassessing the useful lives and residual values of aircraft to determine the appropriate depreciation rates. Residual values are denominated in US$ and are sensitive to exchange rate fluctuations as well as projected values. This is a key audit matter due to the level of judgement required by the Group in determining fleet lives and residual values which impacts carrying values and the depreciation charge.	We challenged the Group's assumptions underpinning the calculation of residual values by comparison to external information such as third party sales prices, industry data and period end exchange rates. We also assessed the historical accuracy of assumptions around residual values when aircraft are disposed of. We evaluated the controls in place over the calculation of depreciation, in particular around the initial input of, or changes to, residual values and useful life information. We then used analytical procedures to test the depreciation calculation. We consider the Group's assessment of the residual values and useful lives of aircraft for use in calculating depreciation to be reasonable.

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Other Information

The directors are responsible for all other information. The other information includes the Annual Shareholder Review and the information included with the Group financial statements and audit report in the Annual Financial Results. Our opinion on the Group financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements of the Group

The directors are responsible on behalf of the Group for the preparation and fair presentation of the Group financial statements in accordance with NZ IFRSs and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

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

In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements of the Group

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our responsibility arises from section 15 of the Public Audit Act 2001. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Group financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group financial statements, including the disclosures, and whether the Group financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

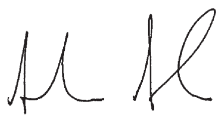
We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the Group financial statements.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Andrew Dick.



Andrew Dick
DELOITTE
On behalf of the Auditor-General
Auckland, New Zealand
26 August 2016

Historical Summary of Financial Performance

For the year to 30 June

	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Operating Revenue					
Passenger revenue	4,481	4,113	3,851	3,765	3,634
Cargo	349	317	287	301	298
Contract services	172	258	277	310	316
Other revenue	229	237	237	239	235
	5,231	4,925	4,652	4,615	4,483
Operating Expenditure					
Labour	(1,225)	(1,193)	(1,151)	(1,068)	(1,050)
Fuel	(846)	(1,089)	(1,120)	(1,204)	(1,219)
Maintenance	(350)	(320)	(285)	(302)	(303)
Aircraft operations	(531)	(466)	(424)	(419)	(390)
Passenger services	(246)	(220)	(212)	(222)	(233)
Sales and marketing	(348)	(303)	(280)	(274)	(270)
Foreign exchange gains/(losses)	112	79	45	7	(68)
Other expenses	(255)	(252)	(222)	(236)	(235)
	(3,689)	(3,764)	(3,649)	(3,718)	(3,768)
Operating Earnings (excluding items below)	1,542	1,161	1,003	897	715
Depreciation and amortisation	(465)	(402)	(436)	(411)	(348)
Rental and lease expenses	(244)	(211)	(174)	(177)	(209)
Earnings Before Finance Costs, Associates, Other Significant Items and Taxation	833	548	393	309	158
Finance income	53	56	44	37	31
Finance costs	(100)	(108)	(90)	(91)	(95)
Share of earnings of associates (net of taxation)	20	(22)	11	-	-
Earnings Before Other Significant Items and Taxation	806	474	358	255	94
Other significant items	(143)	-	-	-	-
Earnings Before Taxation	663	474	358	255	94
Taxation expense	(200)	(147)	(95)	(74)	(23)
Net Profit Attributable to Shareholders of Parent Company	463	327	263	181	71

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted 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 on 1 July 2014. Comparatives have been restated for the 2014 financial year only in respect of the adopted standards and the amounts for the 2012 to 2013 financial years are as previously published.

Historical Summary of Financial Position

As at 30 June

	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Current Assets					
Bank and short-term deposits	1,594	1,321	1,234	1,150	1,029
Other current assets	745	661	593	693	658
Total Current Assets	2,339	1,982	1,827	1,843	1,687
Non-Current Assets					
Property, plant and equipment	4,485	4,061	3,279	2,933	3,090
Other non-current assets	427	732	744	820	668
Total Non-Current Assets	4,912	4,793	4,023	3,753	3,758
Total Assets	7,251	6,775	5,850	5,596	5,445
Current Liabilities					
Debt[1]	464	253	190	159	157
Other current liabilities	2,007	1,875	1,682	1,555	1,544
Total Current Liabilities	2,471	2,128	1,872	1,714	1,701
Non-Current liabilities					
Debt[1]	2,103	2,069	1,543	1,470	1,537
Other non-current liabilities	569	613	563	611	544
Total Non-Current Liabilities	2,672	2,682	2,106	2,081	2,081
Total Liabilities	5,143	4,810	3,978	3,795	3,782
Net Assets	2,108	1,965	1,872	1,801	1,663
Total Equity	2,108	1,965	1,872	1,801	1,663

1. Debt is comprised of bank overdraft, secured borrowings, bonds and finance lease liabilities.

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted 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 on 1 July 2014. Comparatives have been restated for the 2014 financial year only in respect of the adopted standards and the amounts for the 2012 to 2013 financial years are as previously published.

Historical Summary of Cash Flows

For the year to 30 June

	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Cash flow from operating activities	1,074	1,100	730	750	472
Cash flow from investing activities	(797)	(1,066)	(727)	(480)	(654)
Cash flow from financing activities	(4)	53	81	(147)	349
Increase in cash holding	273	87	84	123	167
Total cash and cash equivalents	1,594	1,321	1,234	1,150	1,027

Key Financial Metrics

Five Year Statistical Review

		2016	2015	2014	2013	2012
Profitability and Capital Management						
EBIT[1]/Operating Revenue	%	15.9	11.1	8.4	6.7	3.5
EBITDRA[2]/Operating Revenue	%	29.5	23.6	21.6	19.4	15.9
Passenger Revenue per Revenue Passenger Kilometre (Yield)	cents	13.5	13.7	13.7	13.6	13.5
Passenger Revenue per Available Seat Kilometre (RASK)	cents	11.3	11.6	11.5	11.4	11.1
Cost per Available Seat Kilometre (CASK)[3]	cents	9.3	10.6	10.9	11.2	11.6
Return on Invested Capital Pre-tax (ROIC)[4]	%	18.8	16.2	14.3	11.6	7.1
Liquidity ratio[5]	%	36.0	29.7	29.2	29.9	27.2
Gearing (incl. net capitalised aircraft operating leases)[6]	%	48.6	52.4	42.9	39.3	46.1
Shareholder Value						
Basic Earnings per Share[7]	cps	41.3	29.2	23.9	16.5	6.5
Operating Cash Flow per Share[7]	cps	95.6	98.1	65.5	67.9	42.9
Ordinary Dividends Declared per Share[7]	cps	20.0	16.0	10.0	8.0	5.5
Special Dividends Declared per Share[7]	cps	25.0	-	10.0	-	-
Net Tangible Assets per Share[7]	$	1.76	1.66	1.60	1.57	1.48
Closing Share Price 30 June	$	2.10	2.55	2.08	1.49	0.86
Weighted Average Number of Ordinary Shares	m	1,122	1,118	1,101	1,096	1,096
Total Number of Ordinary Shares	m	1,123	1,122	1,114	1,104	1,100
Total Market Capitalisation	$m	2,352	2,861	2,318	1,639	946
Total Shareholder Returns[8]	%	20.0	25.6	24.0	11.6	(16.1)

1. Earnings before interest and taxation (EBIT) excluding share of earnings of associates (net of taxation) and other significant items
2. EBITDRA excluding share of earnings of associates (net of taxation) and other significant items
3. Operating expenditure per ASK
4. (EBIT plus interest component of aircraft leases)/average capital employed (Net Debt plus Equity) over the period
5. (Bank and short-term deposits, interest-bearing deposits, non interest-bearing deposits and bank overdraft)/Operating Revenue
6. Net Debt (including capitalised operating leases)/(Net Debt plus Equity)
7. Per-share measures based upon Ordinary Shares
8. Return over five years including the change in share price and dividends received (assuming dividends are reinvested in shares on payment date)

Certain comparatives within the five year statistical review have been reclassified for comparative purposes, to ensure consistency with the current year. The Group adopted 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 on 1 July 2014. Comparatives have been restated for the 2014 financial year only in respect of the adopted standards and the amounts for the 2012 to 2013 financial years are as previously published.

Historical Summary of Debt

As at 30 June

	2016 $M	2015 $M	2014 $M	2013 $M	2012 $M
Debt					
Secured borrowings	930	512	213	84	97
Unsecured bonds	150	150	150	150	150
Finance lease liabilities	1,487	1,660	1,370	1,395	1,445
Bank overdraft and short-term borrowings	-	-	-	-	2
	2,567	2,322	1,733	1,629	1,694
Bank and short-term deposits	1,594	1,321	1,234	1,150	1,029
Net open derivatives held in relation to interest-bearing liabilities[1]	(17)	24	(10)	28	4
Non interest-bearing deposit (included within Other assets)	-	-	-	44	13
Interest-bearing deposits (included within Other assets)	288	141	125	184	180
Net Debt	702	836	384	223	468
Net aircraft operating lease commitments[2]	1,288	1,323	1,022	945	973
Net Debt (including off Balance Sheet)	1,990	2,159	1,406	1,168	1,441

1. Unrealised gains/losses on open debt derivatives
2. Net aircraft operating lease commitments for the next twelve months, multiplied by a factor of seven

Key Operating Statistics
For the year to 30 June

	2016	2015	2014	2013	2012
Passengers Carried (000)					
Domestic	9,725	9,246	8,920	8,694	8,500
International					
Australia and Pacific Islands	3,507	3,388	3,277	3,181	3,073
Asia*	791	642	517	596	652
America and Europe	1,138	1,021	1,005	940	897
Total	5,436	5,051	4,799	4,717	4,622
Total Group	15,161	14,297	13,719	13,411	13,122
Available Seat Kilometres (M)					
Domestic	6,065	5,592	5,385	5,108	4,969
International					
Australia and Pacific Islands	11,438	10,888	10,622	10,277	9,694
Asia*	8,349	7,022	5,656	6,780	7,495
America and Europe	13,832	12,099	11,733	11,002	10,460
Total	33,619	30,009	28,011	28,059	27,649
Total Group	39,684	35,601	33,396	33,167	32,618
Revenue Passenger Kilometres (M)					
Domestic	4,887	4,561	4,370	4,218	4,050
International					
Australia and Pacific Islands	9,532	9,184	8,858	8,580	8,164
Asia*	7,070	5,784	4,630	5,418	5,979
America and Europe	11,734	10,405	10,220	9,517	8,820
Total	28,336	25,373	23,708	23,515	22,963
Total Group	33,223	29,934	28,078	27,733	27,013
Passenger Load Factor (%)					
Domestic	80.6	81.6	81.1	82.6	81.5
International					
Australia and Pacific Islands	83.3	84.4	83.4	83.5	84.2
Asia*	84.7	82.4	81.9	79.9	79.8
America and Europe	84.8	86.0	87.1	86.5	84.3
Total	84.3	84.6	84.7	83.8	83.1
Total Group	83.7	84.1	84.1	83.6	82.8
GROUP EMPLOYEE NUMBERS (Full Time Equivalents)	10,527	10,196	10,546	10,336	10,453

*Asia included Hong Kong-London flying up until March 2013.

New Zealand, Australia and Pacific Islands represent short haul operations. Asia, America and Europe represent long haul operations. Certain comparatives within the key operating statistics have been reclassified for comparative purposes, to ensure consistency with the current year.

Corporate Governance

This section of the Annual Report provides an overview of Air New Zealand's main corporate governance policies, practices and processes adopted and followed by the Board of Air New Zealand. This Corporate Governance Statement was approved by the Board on 25 August 2016. More information is available to view at www.airnzinvestor.com, including policies referred to in this section.

Ethical standards

Air New Zealand expects its directors and employees to act legally, ethically and with integrity in a manner consistent with Air New Zealand's policies, guiding principles and values. The following measures have been put in place to assist with achieving this expectation:

- **Code of Conduct**
  This guide has been developed by the Group summarising the basic principles of legal and ethical conduct expected of everyone at Air New Zealand. The Code of Conduct can be found at: http://www.airnewzealand.co.nz/corporate-governance-policies.
- **Open Communication and Just Culture**
  The Group has a policy on Open Communication and Just Culture to encourage open and honest communication by staff about any current or potential problem, complaint, suggestion, concern or question.
- **Avoiding Conflicts of Interest**
  To maintain integrity in decision making each director must advise the Board of any potential conflict of interest. If a conflict of interest exists the director concerned will have no involvement in the decision making process relating to that matter.
- **Continuous Disclosure and Trading in Securities**
  Directors and employees of Air New Zealand are subject to limitations on their ability to buy or sell Air New Zealand shares in accordance with Air New Zealand's Securities Trading Policy, the NZSX and ASX Listing Rules and the Financial Markets Conduct Act 2013. This policy has been updated to reflect recent legislative changes. Air New Zealand has a policy on Continuous Disclosure requirements available at: http://www.airnewzealand.co.nz/corporate-governance-policies.
- **Gifts, Entertainment and Inducements**
  Air New Zealand has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits offered or given to staff by third parties.
- **Donations**
  The Air New Zealand Group has made donations totalling $58,944 in the financial year to 30 June 2016, including donations primarily to the Air New Zealand Environmental Trust. No donations were made to any political party. It is Air New Zealand's policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.
- **Interests Register**
  In accordance with the Financial Markets Conduct Act 2013, Air New Zealand maintains an interests register in which relevant transactions and matters involving the directors and senior managers are recorded.

Board composition

Air New Zealand's Constitution provides that the Board may have between five and eight directors plus a Managing Director, if one has been appointed. At least three directors must be ordinarily resident in New Zealand and a majority of the Board (including the Managing Director and the Chairman) must be New Zealand citizens. Air New Zealand currently has seven Non-Executive Directors (including the Chairman), six of whom are ordinarily resident in New Zealand.

Board role and responsibilities

The Board has responsibility for taking appropriate steps to protect and enhance the value of the assets of Air New Zealand in the best interests of its shareholders. The Board has adopted a formal Board Charter detailing its authority, responsibilities, membership and operation which is published on Air New Zealand's website.

Management Delegation
The business and affairs of Air New Zealand are managed under the direction of the Board. The Board is responsible for guiding the corporate strategy and direction of Air New Zealand and has overall responsibility for decision making. The Board delegates to the Chief Executive Officer responsibility for implementing the Board's strategy and for managing the operations of Air New Zealand. The Chief Executive Officer has Board approved levels of authority and the Chief Executive Officer in turn, sub-delegates authority to the Chief Financial Officer, the Executive management team and senior management. These delegated authorisation levels are subject to Board approval, internal and external audit.

Chairman
Mr Tony Carter has been an independent non-executive director since 1 December 2010 and Chairman of Air New Zealand since 27 September 2013. Ms Jan Dawson was appointed Deputy Chairman on 27 September 2013. The chairman's role includes ensuring the Board is well informed and effective, acting as the link between the Board and the Chief Executive Officer and ensuring effective communication with shareholders.

Director Independence
The Board's standards for determining the independence of a director including the requirements of the NZSX Listing Rules and the ASX Recommendations are set out in full in the Board's Charter at http://www.airnewzealand.co.nz/board. All directors, including the Chairman, are independent directors under those criteria. Directors are required to inform the Board of all relevant information which may affect their independence and at least annually, to reconfirm their independence.

Corporate Governance (continued)

Company Secretary
Under the Board Charter, the General Counsel and Company Secretary will be secretary to the Board and accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Board committees

The Board has delegated certain of its responsibilities to the Health, Safety and Security Committee, the Audit Committee, the People Remuneration and Diversity Committee and the Funding Committee.

Health, Safety and Security Committee
The purpose of the Health, Safety and Security Committee is to ensure that at all times, the Company has effective systems and processes in operation to ensure and assure the best practicable operational and occupational health, safety and security of its staff, contractors and customers associated with and potentially affected by its business undertakings.

- The Chairman of the Health, Safety and Security Committee is an independent non-executive director. Information on the current independent Non-Executive Directors and the Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.
- The Health, Safety and Security Committee ensures and assures that, at all times, Air New Zealand has workable and effective systems and processes in place to provide the best practicable health, safety and security of those associated with and potentially impacted by its business undertakings.

Audit Committee
- The Chairman of the Audit Committee is an independent non-executive director who is not the Chairman of the Board. The Committee currently has four independent Non-Executive Directors. The Audit Committee assists the Board in discharging its responsibilities in relation to the financial reporting, compliance and risk management practices of Air New Zealand. The Audit Committee is responsible for oversight of risk management and formally reviews the key risks facing the entity and the risk management framework every six months with the last review completed in May 2016.
- The Audit Committee liaises with the Auditor General on the appointment and re-appointment of the external auditors, to ensure the independence of the external auditor is maintained, and to approve the performance of any non-audit services in accordance with the Audit Independence Policy. Further details including the Audit Charter and members of the Audit Committee are available at: http://www.airnewzealand.co.nz/board-committees.
- The Company's Head of Internal Audit reports functionally to the Audit Committee and administratively to the General Manager Governance, Risk and Compliance. The internal auditors' responsibilities are defined by the Audit Committee as part of their oversight role. Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Air New Zealand.

People Remuneration and Diversity Committee
- The Chairman of the People Remuneration and Diversity Committee is an independent non-executive director. Information on the current Non-Executive Directors and the Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.
- The People Remuneration and Diversity Committee monitors issues related to management structure, diversity and remuneration of the Chief Executive Officer and other Senior Executives*.

Funding Committee
- The Funding Committee was established in November 2015 to review and advise the Board in relation to an annual debt plan and to deal on an ad hoc basis with delegated administrative approvals of transactions within the scope of the debt plan. The Committee consists of three members who meet as required in person or by electronic communication to ensure efficient processing of authorised transactions. No Committee fees are paid in respect of this Committee. The Committee Charter can be found at: http://www.airnewzealand.co.nz/board-committees.

Board and Committee meetings held 1 July 2015 – 30 June 2016.

	Board		Audit Committee		People Remuneration and Diversity Committee		Health, Safety and Security Committee	
	Meetings Held[1]	Attended	Meetings Held[1]	Attended	Meetings Held[1]	Attended	Meetings Held[1]	Attended
Tony Carter	15	15	5	5	7	7	4	4
Jan Dawson	15	14	5	5	7	7		
Paul Bingham	15	14					4	4
Roger France[2]	15	3						
Rob Jager	15	13					4	4
Linda Jenkinson	15	15						
Jonathan Mason	15	15	5	5	7	7		
Therese Walsh[3]	15	3	5	1				

1. These columns indicate the number of meetings held during the period 1 July 2015 – 30 June 2016.
2. Resigned as a director on 8 October 2015.
3. Appointed 1 May 2016.

*Definitions: **Executive Team:** Chief Executive Officer and direct reports. The members of the Executive Team are defined as Officers of the Company.
Senior Leadership Team (SLT): Direct reports to Executive Team and other selected senior managers.
Senior Executives: Executive Team and Senior Leadership Team.

Corporate Governance (continued)

Reporting and disclosure

Air New Zealand has written policies and procedures in place to keep investors and staff informed of all material information about Air New Zealand and to ensure compliance with disclosure requirements under legislation and stock exchange listing rules. Board and Committee charters and policies of public relevance are published on Air New Zealand's web site at www.airnzinvestor.com.

The Board receives assurances from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with International Financial Reporting Standards (IFRS) and NZ IFRS is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Remuneration and performance evaluation

Executives
Each Senior Executive receives a letter formalising their appointment and that letter outlines the key terms and conditions of their appointment. Air New Zealand's performance management system applies to the Senior Executive group. The focus is on establishing goals, measures and targets linked directly to the business plan and to the leadership behaviours needed to achieve business success. Air New Zealand's remuneration policies and practices are linked directly to the performance and development processes so that Senior Executives' achievement of Air New Zealand's goals is appropriately recognised and rewarded. The last performance evaluation for Senior Executives was undertaken during June 2016 (in respect of the 2016 financial year).

Non-Executive Directors
Air New Zealand's independent Non-Executive Directors do not participate in any executive remuneration scheme or employee share schemes; nor do they receive options, bonus payments or any incentive-based remuneration. Directors are entitled to be reimbursed by Air New Zealand for reasonable travelling, accommodation and other expenses they may incur whilst travelling to or from meetings of the directors or committees. Further details on remuneration of independent Non-Executive Directors are available on page 57.

Board Evaluation
The Board has included in its Charter a requirement to conduct an annual performance review of the Board as a whole after the financial year end. Individual director views and the views of some members of the Executive Team are sought on Board process, efficiency, and effectiveness, and are discussed by the Board as a whole. In conjunction with this process, those directors retiring annually by rotation who are standing for re-election have their performance evaluated by their fellow directors in a process co-ordinated by the Chairman, (or by the Deputy Chairman to review the Chairman) with individual feedback to each director as their evaluation is completed. This Performance evaluation process has been applied in respect of the 2016 financial year.

Appointment, Induction and Training
Each independent Non-Executive Director receives a letter formalising their appointment. That letter outlines the key terms and conditions of their appointment and is required to be countersigned confirming agreement. All appropriate checks are completed prior to appointment of new directors.

When appointing new directors, the Board aims to ensure that an appropriate balance of skills, experience and diversity is represented on the Board. The Board introduces new directors to Senior Executives and the business through specifically tailored induction programmes. The programme includes one-on-one meetings with members of the Executive Team together with visits to key operational business areas. All directors are regularly updated on current industry and company issues by presentations and briefings from Senior Executives. The Board expects all directors to undertake continuous education so that they can effectively perform their duties and progress on this forms part of the Board evaluation process.

The Non-Executive Directors' qualifications, skills and experience are summarised in the table below.

	Tony Carter	Jan Dawson	Paul Bingham	Rob Jager	Linda Jenkinson	Jonathan Mason	Therese Walsh
Qualifications	BE (HONS), ME, M.PHIL	BCOM, FCA	BCOM	BE (HONS), MBA	MBA, BBS	MBA, MA, BA	BCA, FCA
Executive Leadership	●	●		●	●	●	●
Financial	●	●		●	●	●	●
Tourism			●		●		●
Engineering/Safety	●		●	●			
Digital/Technology			●		●		
Governance	●	●	●	●	●	●	●
International Business	●	●	●	●	●	●	●
Regional Profile			●	●	●		●
Customer Experience	●		●		●		●

Corporate Governance (continued)

Diversity and inclusion

Air New Zealand continues to make strong progress delivering to diversity and inclusion objectives. Our focus continues on gender representation, in particular, to increase the number of females in leadership positions. We are also increasing focus on our cultural diversity to ensure our employee population is reflective of our diverse customer base. Furthermore, as an international airline we believe an open and inclusive culture will deliver superior business results in existing markets and enable success in new markets.

As such, there are four strategic areas as we continue to progress on our diversity and inclusion objectives.

1. Creating an inclusive and collaborative culture;
2. Growing inclusive leadership capability;
3. Building a diverse workforce; and
4. Growing diverse talent pools.

Creating an Inclusive and Collaborative Culture
We have continued to increase cultural awareness through celebration of cultural events including, Diwali, Chinese New Year, Pasifika festival, Auckland Pride Parade, Matariki and Maori Language week.

In order to effectively monitor our progress in achieving a collaborative culture we ensure that we are collecting and reporting on up to date data. We capture diversity data through the following:

- At the recruitment stage through our employee information system where employees can also add additional diversity related information.
- In our employee engagement survey where we have included additional diversity questions.
- In our talent management system where employees can identify the networks they are part of.

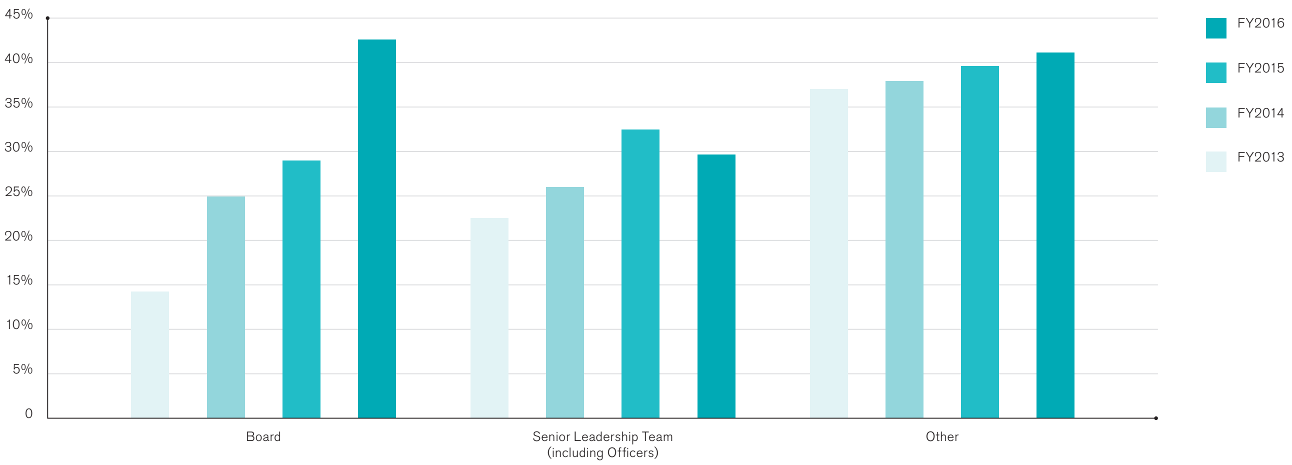
In the 2017 financial year we will seek to establish some key metrics and a diversity dashboard to better understand our opportunities and areas of priority for future diversity and inclusion initiatives.

Growing Inclusive Leadership Capability
In 2015 we introduced an unconscious bias module into our Recruitment Excellence module. We also provided unconscious bias training to our senior leaders and incorporated unconscious bias elements into our foundational leadership programme. In addition, we introduced an unconscious bias assessment tool. As we look to build inclusive leadership capability across the organisation we will continue to review the effectiveness of our unconscious bias training.

We offer personalised coaching on Te Reo and cultural protocols for Executive members and senior leaders and in August 2016, we are offering cultural fluency training for key leaders. This is a joint Department of Conservation/Air New Zealand participation on Te Papa Atawhai, a three day Wananga.

Building a Diverse Workforce
We are maintaining a strong focus on gender diversity across all of our business units. As illustrated in the graph below, we have seen an increase in female representation year on year from 2013 across many levels of the organisation. Our key area of focus continues to be women in senior leadership roles, with a target to achieve 40% women on the Senior Leadership Team (SLT) by 2020 and milestone targets were set to achieve 30% constitution by 2016. As of 30 June 2016, the SLT is at the target level of 30% female.

Workforce Gender Representation (% female)



In the 2015 financial year we launched our internal Women in Leadership programme, a professional development programme for our talent population, aimed at building a solid pipeline of women ready to move into senior leadership roles. We are also partnering with external organisations to sponsor places on development programmes for women. Specifically, AMP's: Women in Leadership Pathway programme, The Leadership Academy: Perspectives on Women in Leadership and Global Women: Breakthrough Leaders programme

Our women's network continues to thrive. We offer regular networking events, newsletters, access to resources and a comprehensive calendar of other events aimed at connecting women across the airline, providing education and development opportunities as well as sharing information, ideas and inspiration. We have also partnered with Professionelle to provide mentoring to our women who are in the early stages of their career to develop our emerging female leaders.

Corporate Governance (continued)

Finally, we are going to implement software which removes gender or cultural bias in an applicant's curriculum vitae as part of the recruitment process, removing factors which could result in bias, such as ethnic names.

In addition to a continued focus on gender we have increased our focus on cultural diversity, particularly in support of the markets we operate in and to embrace our unique cultural heritage and ensure we reflect the diversity of New Zealand within our employee population. We have a wide range of active employee networks including: Young Professionals, Maori and Pacific Island (Manu) and Pride networks. The overarching purpose for all of our networks is:

- To promote a sense of community and belonging across different employee groups.
- Increase visibility and awareness of our diverse workforce.
- Advancement of knowledge and capability.
- Connect with other corporate networks and the communities we serve, to share knowledge and learn from each other, contributing to the development of wider New Zealand.

As we continue to increase our focus on cultural diversity we will look to introduce the following in the 2017 financial year:

- Grow Maori cultural fluency across relevant roles and business units
- Celebrations and initiatives supporting Maori language and culture; including Maori language and culture champions and Te Kete Tikanga Maori mobile app.

Growing Diverse Talent Pools

Although we continue to apply a gender focus to our internal talent identification process to ensure we have a diverse pipeline of senior leaders, additional focus on cultural diversity and leaders from minority populations is planned for the 2017 financial year. Key initiatives include:

- Principal sponsor of Champions for Change: 'Tupu Toa – Maori and Pasifika Corporate Pathways Programme' an internship programme to promote and encourage young Maori and Pasifika into corporate careers.
- Introduction of targets for Maori and Pasifika into leadership positions across the business.
- Identification of emerging talent from minority populations. We will partner with external organisations to provide targeted and specific development programmes for emerging leaders from minority populations.
- Greater focus on building Asian talent pipelines, this includes identifying talent, offering appropriate and specific development opportunities and tracking the progress of these initiatives.

The full Air New Zealand Diversity and Inclusion Policy can be found at: http://www.airnewzealand.co.nz/corporate-governance-policies.

Differences in corporate governance practice to NZX code and ASX recommendations

Under the NZSX and ASX Listing Rules, Air New Zealand is required to disclose in this Annual Report the extent to which its corporate governance practices materially differ from the principles set out in the NZX Code and the ASX Recommendations. A summary of Air New Zealand's corporate governance practices has been provided in the prior pages. Any divergence from the NZX Code and the ASX Recommendations is explained in the table below.

ASX Corporate Governance Principles and Recommendations	NZX Corporate Governance Best Practice Code	Reason for not following
2.1 The board should establish a nomination committee.	**2.2** Unless constrained by size, an Issuer should establish a nomination committee as recommended in paragraph 3.10. **3.11 – 3.12** Composition, charter and review of nomination committee.	The Board believes that a nomination committee is not required for Air New Zealand, as its whole Board should be (and is) involved in the selection and appointment process of any new Board members.

Directors' Profiles

The following directors held office as at 30 June 2016.

Antony (Tony) Carter BE (HONS), ME, M.PHIL

Chairman
Independent Non-Executive Director – Appointed 1 December 2010
Committees – Audit
People, Remuneration and Diversity
Health, Safety and Security

Mr Carter is Chairman of Fisher & Paykel Healthcare Limited, a director of Fletcher Building Limited and ANZ Bank New Zealand Limited and Independent Chairman of Blues LLP.

He attended the University of Canterbury where he studied chemical engineering, graduating with a Bachelor in Engineering with honours and a Masters in Engineering in 1980. He then went on to study at Loughborough University of Technology in the United Kingdom and graduated in 1982 with a Master of Philosophy degree.

Mr Carter worked for his family company, Carter Group Limited, in Christchurch until 1986 when he purchased a Mitre 10 hardware store, also eventually serving as a director of Mitre 10 New Zealand Limited and becoming Chairman of Mitre 10 New Zealand Limited in 1993.

In 1994 Mr Carter was appointed General Manager and Chief Executive designate of Foodstuffs (South Island) Limited. In 1995 he was appointed Chief Executive of Foodstuffs (South Island) Limited and in 2001 was appointed Managing Director of Foodstuffs (Auckland) Limited and Managing Director of Foodstuffs (New Zealand) Limited, until he retired in December 2010. The Foodstuffs Group is New Zealand's largest retail organisation.

Janice (Jan) Dawson CNZM, BCOM, FCA

Deputy Chairman
Independent Non-Executive Director – Appointed 1 April 2011
Committees – Audit (Chair)
People, Remuneration and Diversity

Ms Dawson is Chairman of Westpac New Zealand Limited and a director of AIG Insurance New Zealand Limited, Beca Group Limited, and Meridian Energy Limited. Ms Dawson is a member of the University of Auckland Council, the Capital Investment Committee of the National Health Board and a Trustee of the New Zealand Maritime Museum.

Ms Dawson was a partner of KPMG for 30 years, specialising in audit and risk advisory, and the Chair and Chief Executive of KPMG New Zealand from 2006 until 2011.

Ms Dawson holds a Bachelor of Commerce from the University of Auckland. She is a Fellow of the New Zealand Institute of Chartered Accountants, a Fellow of the Institute of Directors in New Zealand, a Paul Harris Fellow and a North Shore Business Hall of Fame Laureate (2010). Ms Dawson was named Chartered Accountant of the Year in 2011 by the New Zealand Institute of Chartered Accountants.

Paul Bingham BCOM

Independent Non-Executive Director – Appointed 1 July 2008
Committees – Health, Safety and Security

Mr Bingham is Director and Chief Operating Officer of Shuttlerock Limited, a software platform which partners with businesses to bring customer content into their digital channels. He is also Chair of Black Cat Group 2007 Limited, a tourism cruise operation based at Banks Peninsula, near Christchurch and a Director of Ngai Tahu Tourism Limited.

His tourism background includes senior marketing roles at Tourism Holdings Limited and Air New Zealand Limited, and he is a previous director of Tourism New Zealand and Chair of Christchurch & Canterbury Tourism. Mr Bingham was a winner of the PATA Young Professional award.

Across a 23 year career he has worked in the UK, USA, Singapore and New Zealand.

Directors' Profiles (continued)

Robert (Rob) Jager BE (HONS), MBA

Independent Non-Executive Director – Appointed 1 April 2013
Committees – Health, Safety and Security (Chair)

Mr Jager is Chairman of the Shell Companies in New Zealand and General Manager, Shell Todd Oil Services. He chaired the Workplace Health and Safety Review Taskforce in New Zealand which has been instrumental in encouraging fundamental changes to New Zealand's approach to workplace health and safety. Mr Jager chairs the Petroleum Exploration and Production Association NZ as well as the Business Leaders Health and Safety Forum. Mr Jager is a Director for National Science Challenge – Sustainable Seas – Project.

Mr Jager joined Shell in New Zealand in 1978 as an engineering cadet. He completed his Bachelor of Engineering degree in 1983 with 1st Class Honours and later gained an MBA with Distinction. Mr Jager has nearly 40 years experience in the oil and gas industry, working for Shell in a variety of engineering, project, operational, business, management, and governance roles in New Zealand and overseas.

A crucial part of his roles for Shell and Shell Todd Oil Services is full accountability for all aspects of personal and process safety. Mr Jager provides visible leadership in these critical areas.

Linda Jenkinson MBA, BBS

Independent Non-Executive Director – Appointed 1 June 2014

Ms Jenkinson is the Chair and Co-Founder of John Paul Inc., a United Kingdom based global concierge services and digital solutions company that services some of the world's leading customer facing businesses.

Ms Jenkinson is currently director and secretary of Massey University US Foundation.

Ms Jenkinson holds a Master of Business Administration from The Wharton School, University of Pennsylvania and a Bachelor of Business Studies from Massey University.

In 2016, Ms Jenkinson was named a World Class New Zealander by Kea and was named as one of the most influential women in the Bay Area for 2014 by the San Francisco Business Times. In 2014 Ms Jenkinson was a recipient of Massey University's Sir Geoffrey Peren Award, which recognises a graduate who has reached the highest level of achievement or who has been of significant service to the University, community or nation.

Jonathan Mason BA, MA, MBA

Independent Non-Executive Director – Appointed 1 March 2014
Committees – Audit
People, Remuneration and Diversity (Chair)

Mr Mason has more than 30 years experience in the financial sector, with an emphasis on emerging markets.

Prior to joining Air New Zealand's Board in March 2014, he was Fonterra Co-operative Group's Chief Financial Officer.

He joined Fonterra in 2009 from US-based chemicals company Cabot Corporation where he was Executive Vice-President and Chief Financial Officer. Prior to this he was employed as the Chief Financial Officer at forest products company Carter Holt Harvey Limited and also served in senior financial management positions at US based International Paper Company.

Mr Mason has had governance experience for organisations in both New Zealand and the US. His current directorships include Vector Limited, Westpac New Zealand Limited and Zespri Group Limited. Mr. Mason also serves as an Adjunct Professor of Management at the University of Auckland, specialising in international finance.

Dame Therese Walsh DNZM, BCA, FCA

Independent Non-Executive Director – Appointed 1 May 2016
Committees – Audit

Dame Walsh is an Independent director and is currently Deputy Chairman of Television New Zealand Limited, a Director of NZX Limited, and ASB Bank Limited, a Trustee of Wellington Regional Stadium and a Victoria University Council Member. She also sits on a number of Government panels including chairing MFAT's International Advisory and Selection Panel.

Previously she was the Head of New Zealand for the ICC Cricket World Cup 2015, and the Chief Operating Officer for Rugby New Zealand 2011 Limited. She has also been a Director of NZ Cricket and Save the Children NZ, Chief Financial Officer at the New Zealand Rugby Union and part of the team that worked on the winning bid to host RWC 2011. Prior to this she was an auditor with KPMG.

Dame Walsh is a Fellow of the New Zealand Institute of Chartered Accountants and a commerce graduate from Victoria University. In 2013, she was named the inaugural supreme winner of the Women of Influence Awards and was awarded a Sir Peter Blake Trust Leadership Award in 2014. She became a Dame Companion of the New Zealand Order of Merit in June 2015.

The following director ceased to hold office during the accounting period to 30 June 2016.

Roger France, BCOM, FCA,

Appointed 1 October 2001, resigned 8 October 2015.

Directors' Governance Interests

The following are particulars of general disclosures of interest by Directors of Air New Zealand Limited holding office at 30 June 2016, pursuant to section 140(2) of the Companies Act 1993. Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

Tony Carter

ANZ Bank New Zealand Limited	Director
Blues LLP	Chairman
Fisher & Paykel Healthcare Corporation Limited	Chairman
Fletcher Building Limited	Director
Foodstuffs Auckland Protection Trust	Trustee
Maurice Carter Charitable Trust	Trustee

Jan Dawson

AIG Insurance New Zealand Limited	Director
Beca Group Limited	Director
Jan Dawson Limited	Director
Meridian Energy Limited	Director
National Health Board Capital Investment Committee	Member
New Zealand Maritime Museum	Trustee
University of Auckland Council	Member
Westpac New Zealand Limited	Chairman

Paul Bingham

Akaroa Harbour Cruises Limited	Director
Black Cat Group 2007 Limited	Chairman
Destination Christchurch & Canterbury NZ Trust	Trustee
Dolphin Experience Limited	Director
Lyttelton Harbour Cruises Limited	Director
Ngai Tahu Tourism Limited	Director – appointed 1 October 2015
Pajo Trust	Trustee
Shuttlerock Limited	Director
Shuttlerock Pty Limited (Australia)	Director

Rob Jager

Maui Development Limited	Chairman
Petroleum Exploration & Production Associate New Zealand (PEPANZ)	Chairman
Shell Energy Asia Limited	Chairman
Shell Exploration NZ Limited	Chairman
Shell Investments NZ Limited	Chairman
Shell New Zealand (2011) Limited	Chairman
Sustainable Seas National Science Challenge	Director

Directors' Governance Interests (continued)

Linda Jenkinson

John Paul Inc.	Chair – appointed 15 December 2015
LesConcierges Inc.	Chair – resigned 15 December 2015
Massey University US Foundation	Director
TheGrid	Director – resigned 20 June 2016

Jonathan Mason

Beloit College (USA) Board of Trustees	Trustee
Compac Holdings Limited	Chairman
New Zealand Asset Management	Director
University of Auckland Endowment Fund	Trustee
Vector Limited	Director
Westpac New Zealand Limited	Director
Zespri Group Limited	Director

Dame Therese Walsh

ASB Bank Limited	Director
DPMC Strategic Risk and Resilience Panel	Member
Fonterra – Governance Review Independent Panel	Member – resigned 10 June 2016
MBIE Major Events Investment Panel	Member
MFAT International Advisory and Selection Panel	Chair
New Zealand Rugby Union	Chair, Diversity Committee
NZX Limited	Director
Television New Zealand Limited	Deputy Chair
Victoria University	Councillor
Wellington Homeless Women's Trust	Ambassador
Wellington Regional Stadium Trust	Trustee

Indemnities and Insurance

Pursuant to section 162 of the Companies Act 1993 and the Constitution, Air New Zealand has entered into deeds of access, insurance and indemnity with the directors of the Group to indemnify them to the maximum extent permitted by law, against all liabilities which they may incur in the performance of their duties as directors of any company within the Group. Insurance cover extends to directors and officers for the expenses of defending legal proceedings and the cost of damages incurred. Specifically excluded are proven criminal liability and fines and penalties other than those pecuniary penalties which are legally insurable. In accordance with commercial practice, the insurance contract prohibits further disclosure of the terms of the policy. All directors who voted in favour of authorising the insurance certified that in their opinion, the cost of the insurance is fair to the Company.

Directors' Interests in Air New Zealand Securities

The relevant interests of directors in Air New Zealand's securities at the date of this Annual Report are summarised in the table below:

	Transactions during the year ended 30 June 2016					
	Shares/ Bonds sold	Shares / Bonds purchased	Date of Transaction	Cost	Non-beneficial Interest	Beneficial Interest At 30 June 16
Tony Carter		20,000 Shares 50,000 Shares	20 Jun 2016 1 Sep 2015	$42,600 $126,000		177,189[1] Shares 30,000[1] Bonds
Jan Dawson						20,000[2] Shares 50,000[2] Bonds
Paul Bingham						5,000 Shares 50,000 Bonds
Rob Jager						24,500 Shares
Linda Jenkinson						-
Jonathan Mason						29,000[3] Shares
Dame Therese Walsh						25,000 Shares

1. In custody by First NZ Capital for Loughborough Investments Limited.
2. The shares and bonds are owned by the Kinross Trust.
3. The shares are owned by the Trumbull Trust.

Directors' Remuneration

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chairman and Deputy Chairman and in respect of work carried out by individual directors on various Board Committees to reflect the additional responsibilities of these positions. The total of fees to be paid to directors is subject to shareholder approval. Air New Zealand meets directors' reasonable travel and other costs associated with Air New Zealand business.

Directors received the following fees and remuneration from Air New Zealand Limited in the year to 30 June 2016[1]:

	Director's Fees	Committee Fees	Total Fees	Value of Travel Entitlement[2]
Tony Carter[3] (Chairman)	267,000	-	267,000	58,570
Jan Dawson (Deputy Chairman)	103,500	60,000	163,500	26,401
Paul Bingham	90,000	18,750	108,750	45,397
Roger France[4]	24,212	5,380	29,592	34,881
Rob Jager	90,000	37,500	127,500	36,448
Linda Jenkinson	90,000	10,000	100,000	22,803
Jonathan Mason	90,000	35,000	125,000	45,166
Dame Therese Walsh[5]	15,000	3,333	18,333	-
Total	**769,712**	**169,963**	**939,675**	**269,666**

1. No employee of the Group received or retains any remuneration or other benefits as a director of any subsidiary company.
2. Includes value of travel benefits for related parties and benefits accrued in prior years availed in current year.
3. GST exclusive.
4. Resigned 8 October 2015.
5. Appointed 1 May 2016.

Subsidiary and Joint Venture Companies

The following people were directors of Air New Zealand's subsidiary and joint venture companies in the financial year to 30 June 2016. No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

New Zealand Companies	Directors
11ANTS Analytics Group Limited[1]	HJR/DWM/PJG/EHO
ADP (New Zealand) Limited	JHB/RG/BJW
Air Nelson Limited	DWM/JGM/BP
Air New Zealand Aircraft Holdings Limited	JHB/RSM/DWM
Air New Zealand Associated Companies Limited	JHB/RSM
Air New Zealand Associated Companies (Australia) Limited	JHB/RSM
Air New Zealand Express Limited	JHB/RSM
Air New Zealand Regional Maintenance Limited	BP/CET/AFM
Air New Zealand Travel Business Limited	JHB/RSM
ANNZES Engines Christchurch Limited	JHB/RSM
Ansett Australia & Air New Zealand Engineering Services Limited	JHB/RSM
C.I. Air Services Limited	JHB/TT
Eagle Air Maintenance Limited	DWM/JGM/BP
Eagle Airways Limited	DWM/JGM/BP
Mount Cook Airline Limited	DWM/JGM/BP/SW
Pacific Leisure Group Limited (sold 22 January 2016)	JGM[2]/AJB/DBF/DWM[2]
TEAL Insurance Limited	JHB/RSM/HJBR
The London Shoppe Limited	JHB

Australian Companies	Directors
Air New Zealand (Australia) Pty Limited	JHB/LMG

Non-Australian Companies	Directors
ANZGT Field Services LLC (USA)[1]	RI/TNH/AFM

Directors					
AJB	Andrew J Burns	EHO	Eng Hock Ong	RI	Richard Ison
AFM	Adam F McMillan	HJBR	Hannah J B Ringland	RG	Roger Gray
BP	Bruce Parton	HJR	Hamish J Rumbold	RSM	Robert S McDonald
BJW	Brian J Wilson	JGM	Jeffrey G McDowall	SW	Sarah Williamson
CET	Craig E Tolley	JHB	John H Blair	TNH	Trevor N Hughes
DBF	Desmond B Fielding	LMG	Leanne M Geraghty	TT	Tamari'i Tutangata
DWM	David W Mackrell	PJG	Peter J Gleason		

1. This company is a joint venture.
2. Resigned during the year.

Employee Remuneration

	Remuneration paid in FY16 including base for FY16, and incentive payments including performance rights issued under the LTI scheme that relate to FY15 performance and paid in FY16	
	New Zealand management	Aircrew, engineering, overseas and others
100,000-110,000	125	342
110,000-120,000	121	330
120,000-130,000	130	271
130,000-140,000	113	201
140,000-150,000	66	215
150,000-160,000	47	189
160,000-170,000	38	119
170,000-180,000	36	134
180,000-190,000	46	106
190,000-200,000	31	59
200,000-210,000	32	49
210,000-220,000	22	44
220,000-230,000	24	19
230,000-240,000	15	23
240,000-250,000	11	29
250,000-260,000	13	39
260,000-270,000	10	77
270,000-280,000	6	58
280,000-290,000	4	37
290,000-300,000	4	16
300,000-310,000	3	28
310,000-320,000	1	20
320,000-330,000	3	16
330,000-340,000	5	16
340,000-350,000	3	16
350,000-360,000	2	14
360,000-370,000	3	14
370,000-380,000	2	20
380,000-390,000	3	24
390,000-400,000	1	17
400,000-410,000	1	11
410,000-420,000	4	8
420,000-430,000	6	11
430,000-440,000	3	6
440,000-450,000	1	6
450,000-460,000	1	8
460,000-470,000	2	1
470,000-480,000	2	3
480,000-490,000	1	5
490,000-500,000	0	1
500,000-510,000	0	1
510,000-520,000	1	1
520,000-530,000	0	2
530,000-540,000	0	3
560,000-570,000	0	1
590,000-600,000	0	1
600,000-610,000	1	0
610,000-620,000	1	0
630,000-640,000	1	0
640,000-650,000	2	0
650,000-660,000	1	0
670,000-680,000	1	0
680,000-690,000	1	0
700,000-710,000	0	1
710,000-720,000	1	0
740,000-750,000	1	0
750,000-760,000	1	0
830,000-840,000	1	0
890,000-900,000	1	0
900,000-910,000	1	0
910,000-920,000	1	0
940,000-950,000	0	1
1,040,000-1,050,000	1	0
1,280,000-1,290,000	1	0
1,320,000-1,330,000	1	0
1,410,000-1,420,000	1	0
1,670,000-1,680,000	1	0
1,890,000-1,900,000	1	0
2,210,000-2,220,000	1	0
4,660,000-4,670,000	1	0
Grand Total	**965**	**2,613**

Employee Remuneration (continued)

Remuneration philosophy

In order to attract and retain talented individuals, Air New Zealand's performance and reward strategy is aligned with both the recruitment philosophy – to source talented people, and our capability development agenda – to develop future leaders and provide succession pipelines into key roles. The key objectives of the strategy are attracting high performing individuals, providing rich developmental opportunities and recognising achievement through targeted performance and reward initiatives.

Air New Zealand's remuneration strategy is underpinned by a pay for performance philosophy and accordingly positions fixed remuneration for competent performance below the market median for all Individual Employee Agreements including the Chief Executive Officer (CEO), and uses annual performance incentives to create opportunities for everyone to achieve market competitive remuneration levels and in the case of superior performance, total remuneration in excess of market.

The overall remuneration strategy is designed to provide remuneration based on performance against agreed stretch targets, align actions with shareholder interests and balance competitiveness with affordability. The CEO and Executive remuneration packages are made up of three components:

- Fixed base salary;
- Annual performance incentive; and
- Long-term incentive.

Air New Zealand's People Remuneration and Diversity Committee is kept appraised of relevant market information and best practice, obtaining advice from external advisors when necessary. Remuneration levels are reviewed annually for market competitiveness and alignment with strategic and performance priorities.

The People Remuneration and Diversity Committee approved PricewaterhouseCoopers (PwC) to provide remuneration benchmark data for the CEO and other Executive roles during the 2016 financial year. PwC benchmarked a selection of the Executive positions against a New Zealand/Australian peer group compiled from PwC's database. The peer group consisted of twelve New Zealand and eleven Australian organisations. The analysis showed Air New Zealand Executive remuneration bands remain aligned with market pay levels.

Fixed remuneration

Air New Zealand's philosophy is to set fixed remuneration at 90 percent of the market median for executives who are fully competent in their role.

Annual performance incentive

The annual performance incentive component is delivered through the Air New Zealand Short Term Incentive Scheme (STI). The measures used in determining the quantum of the STI are set annually. Targets relate to both Company financial performance and individual targets. For the CEO the STI weighting is based 60% on Company financial performance and 40% on individual performance against specific targets. For all other employees the weighting is 50% Company financial performance and 50% individual performance. Participation in the plan is by annual invitation at the discretion of the company.

Company Component

At the beginning of each financial year the Board confirms a financial target for the Company for incentive payments which is set 10% above the average Earnings before Taxation (adjusted prior to 2016 to exclude net movements on derivatives that hedge exposures in other financial periods) achieved by the Company over the previous five year period.

The Company must achieve greater than 50% of the financial target before any company component is paid out. The maximum company component is 200%, achieved when the Company reaches and exceeds 150% of the financial target.

Significant one off adjustments to profit as agreed by the Board are removed from the calculation to guard against windfall payments.

Individual Component

The main factors for the assessment of individual performance for the 2016 financial year were:

- Financial performance falling within an Executive's specific responsibilities;
- Business performance;
- Strategy development and delivery; and
- People, culture and leadership performance.

Payments for the individual component are made according to an overall performance rating taking into account the employee's performance across the range of individual measures and demonstration of Air New Zealand's leadership behaviours.

Performance Rating	Individual STI Percentage
Unsatisfactory	0%
Developing	60%
Achieving	100%
High	130%
Outstanding	200%

Long-term incentive

Air New Zealand's long-term incentive plan arrangements are designed to align the interests of the CEO and Executives with those of our shareholders and to incentivise participants in the plan to enhance long-term shareholder value. In the 2016 financial year the plan available to Executives was the Air New Zealand Long-Term Incentive Performance Rights Plan (LTIP). Participation in any year is by annual invitation at the discretion of the Board.

Employee Remuneration (continued)

There are two main elements to the LTIP:

Performance Rights

LTIP participants are eligible to receive a grant of performance rights. Any grant of performance rights is at the discretion of the People Remuneration and Diversity Committee (PRDC) of the Board of Directors but, in the normal course of events, is expected to equate to a value of 55% of fixed remuneration for the CEO, and between 40% and 20% of fixed remuneration for Executives depending on their seniority. The number of performance rights to be allocated will be determined by an independent valuation of the performance rights carried out each year at the time of issue.

In three years' time, if the Air New Zealand share price has outperformed the performance hurdle, a proportion of the performance rights will convert to shares. The performance hurdle comprises an index made up in equal proportions of the NZSX All Gross Index and the Bloomberg World Airline Total Return Index in equal proportions.

The proportion of performance rights that convert to shares will depend on the extent to which the Air New Zealand share price has outperformed the index. In particular:

Performance against index	Percent of Rights Vesting
<100%	nil
100%	50%
101% – 119%	Addition 2.5% vesting per 1% increment, up to
120%	100% (maximum)

If vesting is not achieved on the third anniversary of the issue date, 50 percent of performance rights will lapse. For the remaining 50 percent, there will be a further 6 month opportunity for the performance rights to vest.

Unless Air New Zealand's share price outperforms the index as outlined above, no value will accrue to the participating Executive.

Mandatory Shareholding

Participants are required to commit to investing a specified amount to purchase shares in the Company, The amount is set at 55% of fixed remuneration for the CEO, and between 40% and 20% of fixed remuneration for other participants depending on their seniority.

Until participants have attained this target, any shares issued to them from vested performance rights must be retained as part of the mandatory shareholding. This holding must be maintained while continuing to participate in the LTIP.

CEO Remuneration

Fixed Remuneration

Over the course of the 2016 financial year, the CEO, Christopher Luxon, earned fixed remuneration of $1,470,000 (2015 financial year: $1,400,000).

Annual Performance Incentive

The annual value of the STI scheme for the CEO is set at 55% of fixed remuneration if all performance targets are achieved. If a performance rating of unsatisfactory is achieved, no STI is payable. Up to 110% of fixed remuneration is payable for outstanding performance.

For the 2016 financial year, the CEO earned a total STI payment to the value of $1,617,000 (2015 financial year: $1,540,000). This payment will be made in the 2017 financial year.

Long-Term Incentive

The CEO has access to two long-term incentives schemes:

- The Air New Zealand Long-Term Incentive Performance Rights Plan (LTIP) as outlined above; and
- The Air New Zealand CEO Restricted Share Rights Plan (CRSRP).

Long-Term Incentive Performance Rights Plan
The CEO was granted 706,731 performance rights under the LTIP in the 2016 financial year valued independently at $1.144 each, for a total value of $808,500 (2015 financial year: 749,027 performance rights with a total value of $770,000).

Restricted Share Rights Plan
The CRSRP is a restricted share rights scheme and has a six year time horizon. It was established as a further incentive to retain the services of the current CEO for an extended period.

The CEO option scheme commenced in the 2016 financial year and the issue of rights will cease in the 2021 financial year. Each year, at the absolute discretion of the Board, and on condition of the CEO achieving the performance hurdles set for the previous financial year, restricted share rights can be issued to the CEO based on 50% of the CEO's fixed remuneration.

Share rights issued under this scheme are not earned nor do they vest unless the CEO remains employed by Air New Zealand at vesting milestones across the period from 2017 to 2021. If this condition is met a proportion of the rights will immediately vest to the CEO on this date.

Under the CRSRP the CEO received a grant of 292,398 restricted share rights in the 2016 financial year at a face value of $2.394 each, for a total value of $700,000.

Mandatory Shareholding
The CEO owns or has a beneficial interest in 1,676,307 shares of which 618,504 are held as part of the mandatory shareholding (2015 financial year: 522,440 shares). This holding must be maintained to enable the CEO to exercise any options or performance rights issued under the LTIP.

Employee Remuneration (continued)

Superannuation

The CEO is a member of Air New Zealand's group superannuation scheme, KoruSaver. As a member of the scheme the CEO is eligible to contribute and receive a matching Company contribution up to 4% of gross taxable earnings (including STI). For the 2016 financial year the Company contribution was $120,400 (2015 financial year: $114,280).

Summary

The remuneration paid to the CEO is summarised below:

Remuneration Element	2015 Financial Year	2016 Financial Year
Base Salary	$1,400,000	$1,470,000
Short-Term Incentive	$1,540,000	$1,617,000
Long-Term Incentive*	Performance rights valued at $770,000	Performance rights valued at $808,500 Restricted share rights valued at $700,000
Superannuation	$114,280	$120,400

*Long-Term Incentives remain at risk.

Shareholder Statistics

Top Twenty Shareholders – 5 August 2016

	Number of Ordinary Shares	% of Ordinary Shares
Her Majesty the Queen in Right of New Zealand acting by and through her Minister of Finance	582,854,593	51.91
JPMORGAN Chase Bank	76,610,888	6.82
HSBC Nominees (New Zealand) Limited	69,297,797	6.17
National Nominees New Zealand Limited	67,317,625	6.00
Citibank Nominees (New Zealand) Limited	54,394,017	4.84
HSBC Nominees (New Zealand) Limited	40,832,831	3.64
Accident Compensation Corporation	22,457,749	2.00
HSBC Custody Nominees (Australia) Limited	6,385,132	0.57
Citicorp Nominees Pty Limited (Australia)	6,193,184	0.55
Premier Nominees Limited	6,157,591	0.55
TEA Custodians Limited	5,439,315	0.48
Cogent Nominees Limited	4,770,375	0.42
Guardian Nominees No 2 Limited	4,698,535	0.42
BNP Paribas Nominees NZ Limited	4,697,395	0.42
Custodial Services Limited	3,986,215	0.36
BNP Paribas Nominees NZ Limited	3,969,518	0.35
FNZ Custodians Limited	3,911,461	0.35
New Zealand Depository Nominee Limited	3,233,829	0.29
Forsyth Barr Custodians Limited	2,901,620	0.26
New Zealand Superannuation Fund Nominees Limited	2,653,816	0.24
	972,763,486	**86.64**

Shareholder Statistics (continued)

Substantial product holders

The following information is provided in compliance with Section 293 of the Financial Markets Conduct Act 2013 and is stated as at 30 June 2016. The total number of listed ordinary shares of Air New Zealand Limited at that date was 1,122,844,227.

Substantial Product Holder	Quoted voting products in the company in which a relevant interest is held
Her Majesty the Queen in Right of New Zealand	588,887,282* ordinary shares

In 1989, the Crown issued a Notice that arises through its holding of special rights Convertible Share, the "Kiwi Share" and the power of the Kiwi Shareholder under the Constitution. Full details of the rights pertaining to these shares are set out in the Company's Constitution. The Kiwi Share does not confer any right on its holder to vote at a shareholders' meeting unless the Kiwi Share has been converted into an Ordinary Share by its holder. The Kiwi Share is not listed on any stock exchange.

***Relevant interests held as follows:**
Her Majesty the Queen in Right of New Zealand acting by and through her Minister of Finance (582,854,593 ordinary shares) and New Zealand Superannuation Fund (6,032,689 ordinary shares) being property of Her Majesty the Queen in Right of New Zealand and managed by the Guardians of New Zealand Superannuation.

Shareholder Statistics – 5 August 2016

Ranges Capital	Investor	% Investor	Shares	% Issued
1 to 1000	14,932	55.36	6,243,969	0.56
1,001 to 5,000	7,923	29.37	19,724,246	1.76
5,001 to 10,000	2,047	7.59	15,743,027	1.40
10,001 to 100,000	1,924	7.13	49,483,178	4.41
100,001 and Over	149	0.55	1,031,649,807	91.87
Total	**26,975**	**100.00**	**1,122,844,227**	**100.00**

Current on-market share buybacks

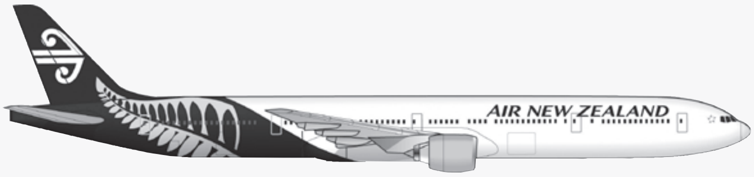
There is no current share buyback in the market.

Non-marketable parcels of shares

As at 5 August 2016:

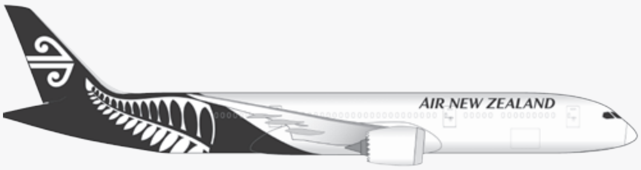
ASX Market: 451 holders have shares worth less than AU$500 which is an unmarketable parcel
NZX Market: 1,701 holders have less than 100 AIR Shares which is an minimum parcel in accordance with the Appendix 2 of the NZX Listing Rules.

Operating Fleet Statistics (as at 30 June 2016)



Boeing 777-300ER
Number: 7
Average Age: 4.2 years
Maximum Passengers: 332
Cruising Speed: 910 km/hr
Average Daily Utilisation: 14:34

Boeing 777-200ER
Number: 8
Average Age: 10.2 years
Maximum Passengers: 312
Cruising Speed: 910 km/hr
Average Daily Utilisation: 11:52

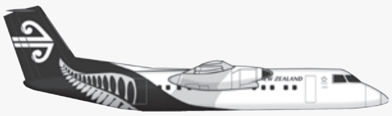


Boeing 787-9 Dreamliner
Number: 6
Average Age: 1.3 years
Maximum Passengers: 302
Cruising Speed: 910 km/hr
Average Daily Utilisation: 14:09

Boeing 767-300ER
Number: 4
Average Age: 21.2 years
Maximum Passengers: 230
Cruising Speed: 870 km/hr
Average Daily Utilisation: 9:34

Airbus A320-200
Number: 29
Average Age: 6.8 years
Maximum Passengers: 168 short-haul
171 domestic
Cruising Speed: 850 km/hr
Average Daily Utilisation: 9:02 short-haul
7:49 domestic

ATR 72-500 / 72-600
Number: 72-500: 11
72-600: 13
Average Age: 72-500: 15.5 years
72-600: 1.5 years.
Maximum Passengers: 68
Cruising Speed: 518 km/hr
Average Daily Utilisation: 6:56



Bombardier Q300
Number: 23
Average Age: 9.4 years
Maximum Passengers: 50
Cruising Speed: 520 km/hr
Average Daily Utilisation: 6:52

Beech 1900D
Number: 3
Average Age: 14.2 years
Maximum Passengers: 19
Cruising Speed: 510 km/hr
Average Daily Utilisation: 3:57

General Information

Stock exchange listings

Air New Zealand's Ordinary Shares are listed on:

	NZX Main Board	ASX
Ticker:	AIR	AIZ
Date of full listing:	24 October 1989	1 July 2002

Place of Incorporation

New Zealand

In New Zealand, the Company's Ordinary Shares are listed with a "non-standard" (NS) designation. This is due to particular provisions of the Company's Constitution, including the rights attaching to the Kiwi Share[1] held by the Crown and requirements regulating ownership and transfer of Ordinary Shares.

Neither NZX nor ASX has taken any disciplinary action against the Company during the financial year ended 30 June 2016.

New Zealand Exchange

General:

An ongoing waiver granted to all companies dual listed on the NZX and the ASX from Listing Rules 11.1.1 and 11.1.4 to enable dual listed issuers to comply with the ASX Listing Rules relating to the restrictions on transfer of restricted (vendor) securities during an escrow period.

The following waivers from the NZX Main Board Listing Rules were granted to the Company or relied upon by the Company during the financial year ended 30 June 2016:

1. A waiver from NZSX Listing Rule 8.1.7(b) to enable the issue of Long-Term Incentive Scheme Options to be adjusted following a capital restructure such as a rights issue, in accordance with an approach suggested by PricewaterhouseCoopers.

   The decision by NZXR of 3 December 2007 noted that an independent expert's opinion had confirmed that the approach suggested by PricewaterhouseCoopers would create economic neutrality for the option holders and all other Air New Zealand shareholders.
2. A waiver from NZSX Listing Rule 8.1.7 to allow Air New Zealand to amend the terms of the Long-Term Incentive Plan and Chief Executive Officer Option Incentive Plan to provide that instead of purchasing / issuing a share for each option exercised, Air New Zealand would only purchase / issue a number of shares with a value (based on current market prices) equal to the delta between the aggregate of the market share price and the exercise price of the options exercised.

   The decision by NZXMS of 31 August 2012 noted that the amendment will not affect the economic position of either the participant or Air New Zealand and will reduce the dilutionary effect on shareholders of the exercise of options.
3. A waiver from NZSX Listing Rule 8.1.3 to allow Air New Zealand to issue options under the Executive Officer Option Incentive Plan to the Chief Executive Officer of Air New Zealand with an exercise price which may be less than 90% of the Average Market Price of Air New Zealand's ordinary shares at the date of issue of the shares.

   The decision by NZXR of 31 October 2007 noted that Air New Zealand did not expect the percentage of shares to be issued under the Plan to be more than 1.1% of total shares on issue and that dilution of voting rights would be negligible.

1. In 1989, the Crown issued a Notice that arises through its holding of special rights Convertible Share, the "Kiwi Share" and the power of the Kiwi Shareholder under the Constitution. Full details of the rights pertaining to these shares are set out in the Company's Constitution. The Kiwi Share does not confer any right on its holder to vote at a shareholder's meeting unless the Kiwi Share has been converted into an Ordinary Share by its holder. The Kiwi Share is not listed on any stock exchange.

General Information (continued)

Australian Stock Exchange

When Air New Zealand fully listed on the ASX in July 2002, it undertook to include the following information in its Annual Report.

Limitations on the Acquisition of Securities

Constitution

The limitations on the acquisition of securities imposed by the Company's Constitution are summarised below (capitalised terms are defined either in the Constitution or the Takeovers Code[1]):

1. Under clause 3.3 of the Constitution any person that owns or operates an airline business and any of its Associated Persons may not hold or have an Interest in any Equity Security unless the prior written consent of the Kiwi Shareholder has been obtained.
2. Under clause 3.4 of the Constitution any non-New Zealand National must obtain the prior written consent of the Kiwi Shareholder to hold or have an interest in 10 percent or more of the total Voting Rights in the Company.
3. The Board must decline to register a transfer of Equity Securities if it is aware that the Equity Securities have been transferred in contravention of the provisions referred to in (1) or (2) above.
4. The Board has other powers to decline to register a transfer of Shares, including in cases where the Board is of the opinion that the Shares would become, or be capable of being treated as, Affected Equity Securities.
5. Section 10 of the Company's Constitution confers powers on the Board (and the Kiwi Shareholder) to treat Equity Securities as Affected Equity Securities in certain circumstances. In general terms those powers arise if the Board considers that it is necessary to treat any Equity Securities as Affected Equity Securities to protect the Company's international airline operating rights. Where Equity Securities are treated as Affected Equity Securities the Voting Rights attaching to them may be suspended and the registered holder may be required to dispose of them.

The Takeovers Code

The powers of the Board outlined above in relation to limiting acquisitions of its securities are in addition to the requirements of the New Zealand Takeovers Code. The Takeovers Code contains the following rules regulating acquisitions of substantial holdings.

The Takeovers Code creates a general rule under which the acquisition of more than 20 percent of the voting rights in the Company or the increase of an existing holding of 20 percent or more of the voting rights in the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the voting rights in the Company.

Corporations Act 2001 (Australia)

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers).

1. The Takeovers Code approved by the Takeovers Code Approval Order 2000 (SR2000/210).

Shareholder Directory

New Zealand

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Australia

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NSW 1235, Australia
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Fax: (61 2) 9287 0303

Investor Relations

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New Zealand
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(64 9) 336 2607 (Overseas)
Fax: (64 9) 336 2664
Email: investor@airnz.co.nz
Web site: www.airnzinvestor.com

Annual Meeting

Date: 30 September 2016
Time: 2.00 pm
Venue: Air Force Museum of New Zealand,
45 Harvard Avenue, Wigram
Christchurch

Current Credit Rating

Moody's rate Air New Zealand Baa2

Auditor

Deloitte (on behalf of the Auditor-General)
Deloitte Centre
80 Queen Street, Auckland Central
PO Box 115033, Shortland Street
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Registered Office

New Zealand

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ABN 70 000 312 685

Board of Directors

Tony Carter – Chairman
Jan Dawson – Deputy Chairman
Paul Bingham
Rob Jager
Linda Jenkinson
Jonathan Mason
Dame Therese Walsh

Chief Executive Officer

Christopher Luxon

Chief Financial Officer

Rob McDonald

General Counsel and Company Secretary

John Blair