

# Media Release

Media release  
23 August 2017

## **Air New Zealand announces second highest profit in company history, increases dividend and awards staff bonus**

Air New Zealand has today announced earnings before taxation for the 2017 financial year of \$527 million, compared to \$663 million in the prior year - the second highest result in the airline's history. Net profit after taxation was \$382 million.

Chairman Tony Carter praised the strong result, acknowledging the airline's staff for their continued focus on driving profitable network growth during a period of significant new competition.

A 2017 final fully imputed dividend of 11.0 cents per share has been declared, an increase of ten percent on the prior year, bringing the full year declared ordinary dividends to 21.0 cents per share.

"Based on the airline's strong financial position, future capital commitments and improving trading environment, the Board felt it appropriate to increase the dividend," says Mr Carter. The final dividend will be paid on 18 September 2017 to investors on record at the close of business on 8 September 2017.

In recognition of the result, the Board has awarded a Company Performance Bonus of up to \$1,700 to be paid next week to approximately 8,500 Air New Zealanders who do not have other incentive programmes as part of their employment agreement.

Chief Executive Officer Christopher Luxon says 2017 has been an exciting and productive year and credits the airline's staff for their outstanding contribution.

"This year Air New Zealand faced an unprecedented increase in the level of competition from some of the world's largest airlines and effectively rose to the challenge. The impressive way our team responded to the new competition while at the same time achieving commercial, customer and cultural excellence, helped to deliver our second highest profit ever," says Mr Luxon.

The airline's loyalty programme, Airpoints™, continues to grow at an impressive rate, with more than 2.5 million members, up 16 percent on the prior year. Australia is the largest offshore market for Airpoints™ members, and has grown by more than 17 percent in the past 12 months.

In 2018, Air New Zealand will continue growing its comprehensive domestic network. The airline sees opportunity coming from inbound tourism as well as strong domestic tourism. Following the rollout of last year's Northland marketing campaign, *A Summer of Safety*, a key element of Air New Zealand's growth strategy will involve continued support to regional stakeholders in developing attractive tourism propositions.

Internationally, the airline's strategy to enter key markets with the help of revenue-sharing alliance partners and strong market development plans has helped drive successful expansion. In the coming year, Air New Zealand's offshore growth will focus on the Japan market with the addition of Haneda, as well as increasing services during peak season across routes in the Pacific Islands, North and South America.

Mr Luxon says that recent announcements regarding competitor capacity rationalisation support the airline's view of a stronger revenue environment in the coming year.

### **Outlook**

Looking forward to the year ahead, the airline is optimistic about the overall market dynamics. Based upon current market conditions and assuming an average jet fuel price of US\$60 per barrel (which represents the average over the past two months), the airline is aiming to improve upon 2017 earnings.

# Media Release

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23 August 2017

**Air New Zealand announces second highest profit in company history, increases dividend and awards staff bonus**

## 2017 highlights

- Earnings before taxation of **\$527 million**
- Net profit after taxation of **\$382 million**
- Operating revenue of **\$5.1 billion**
- **16 million passengers** carried during the year
- Capacity increased **6.3%**
- Operating cash flow of **\$904 million**
- Pre-tax return on invested capital of **15.3%**
- Total annual shareholder return of **88.6%**
- Fully imputed final dividend of **11.0 cents per share**, a 10% increase on the prior year, bringing the 2017 full year fully imputed ordinary dividends to **21.0 cents per share**
- Expected aircraft capital expenditure of **\$1.5 billion** over the next 4 years
- Company Performance Bonus of up to **\$1,700** paid to all permanent employees who do not participate in a Short Term Incentive programme
- **Top rated corporate reputation** in both New Zealand and Australia
- **Record customer satisfaction levels**, with increases in all major areas
- Awarded **New Zealand's Most Attractive Employer** for 2017

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**Ends**

*Issued by Air New Zealand Public Affairs ph +64 21 747 320*

**Name of Listed Issuer:**

**AIR NEW ZEALAND LIMITED**

**Results for announcement to the market**

Reporting Period 12 months to 30 June 2017  
Previous Reporting Period 12 months to 30 June 2016

|  | Amount \$NZ'm | Percentage change |
|--|---------------|-------------------|
| Revenue from ordinary activities (including finance income)                | 5,152         | (2%)              |
| Profit from ordinary activities after tax attributable to security holders | 382           | (17%)             |
| Net profit attributable to security holders                                | 382           | (17%)             |

| Dividends<br>(NZ cents) | Amount per<br>security | Imputed amount<br>per security |
|-------------------------|------------------------|--------------------------------|
| Interim dividend        | 10.0                   | 3.89                           |
| Final dividend*         | 11.0                   | 4.28                           |

\* The final dividend was declared on 22 August 2017

| Details of final dividend       |           |
|---------------------------------|-----------|
| Record Date for Final Dividend  | 8-Sep-17  |
| Payment Date for Final Dividend | 18-Sep-17 |

Comments:

**Air New Zealand Limited**  
**Preliminary Full Year Results**  
**23 August 2017**

**CONTENTS**

NZX Appendix 1, pursuant to NZX Listing Rule 10.3.2

NZX Appendix 7



**PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT**  
**AIR NEW ZEALAND LIMITED**  
**Full Year Ended 30 June 2017 (referred to in this report as the "current full year")**

**1.1 Details of the reporting period and the previous reporting period**

The reporting period is for the year ended 30 June 2017 with the comparative period being for the year ended 30 June 2016.

**1.2 Information prescribed by NZX**

Refer to Results for announcement to the market.

**1.3 The following information, which may be presented in whatever way the Issuer considers is the most clear and helpful to users e.g. combined with notes to the financial statements or set out separately.**

**(a) A Statement of Financial Performance**

Refer to the Financial Statements.

**(b) A Statement of Financial Position**

Refer to the Financial Statements.

**(c) A Statement of Cash Flows**

Refer to the Financial Statements.

**(d) Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividends or distributions.**

On 22 August 2017, the Board of Directors declared a final dividend for the 2017 financial year of 11.0 cents per Ordinary Share, payable on 18 September 2017 to registered shareholders at 8 September 2017. The total dividend payable will be \$124 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the June 2017 financial statements.

An interim dividend of 10.0 cents per Ordinary Share was paid on 17 March 2017. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

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

|   | \$NZ'm* | NZ Cents Per Share |
|---|---------|--------------------|
| <b>Distributions recognised</b>                             |         |                    |
| Final dividend for 2016 financial year on Ordinary Shares   | 112     | 10.0               |
| Special dividend for 2016 financial year on Ordinary Shares | 281     | 25.0               |
| Interim dividend for 2017 financial year on Ordinary Shares | 112     | 10.0               |
| <b>Distributions paid</b>                                   |         |                    |
| Final dividend for 2016 financial year on Ordinary Shares   | 118     | 10.0               |
| Special dividend for 2016 financial year on Ordinary Shares | 294     | 25.0               |
| Interim dividend for 2017 financial year on Ordinary Shares | 118     | 10.0               |

\*The difference between distributions recognised and paid relates to supplementary dividends.

**(e) Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.**

The dividend reinvestment plan is currently suspended.

**(f) A Statement of Movements in Equity**

Refer to the Financial Statements.

**PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT****AIR NEW ZEALAND LIMITED****Full Year Ended 30 June 2017 (referred to in this report as the "current full year")****(g) Net tangible assets per security with the comparative figure for the previous corresponding period**

| (NZ Cents Per Share) | Current Year | Previous Year |
|----------------------|--------------|---------------|
| Ordinary Shares      | 164          | 176           |

**(h) Details of entities over which control has been gained or lost during the period****Parts (i) to (iii)****Entities over which control has been lost**

| Entity Name                | Date of voluntary de-registration |
|----------------------------|-----------------------------------|
| C.I. Air Services Limited* | 23-Nov-16                         |
| The London Shoppe Limited* | 23-Nov-16                         |

\*The companies were non-trading entities.

**(i) Details of associates and joint ventures:****Parts (i) to (iii)**

| Name                                | % Held Current Year | % Held Previous Year | Contribution to Net Profit Current Year<br>\$NZ'm | Contribution to Net Profit Previous Year<br>\$NZ'm |
|-------------------------------------|---------------------|----------------------|---|--|
| <b>Associate</b>                    |                     |                      |   |  |
| Christchurch Engine Centre (CEC)*   | 49%                 | 49%                  | 26  | 23   |
| Virgin Australia Holdings Limited** | N/A                 | N/A                  | -   | (3)  |

\* CEC is operated in partnership with Pratt and Whitney.

\*\* On 30 March 2016, the Company ceased equity accounting its shareholding in Virgin Australia and recognised a loss of \$2 million within the profit and loss (which has been excluded from the table above).

| Name                           | % Held Current Year | % Held Previous Year |
|--------------------------------|---------------------|----------------------|
| <b>Joint Venture</b>           |                     |                      |
| ANZGT Field Services LLC       | 51%                 | 51%                  |
| 11Ants Analytics Group Limited | 50%                 | 50%                  |

**(j) Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position**

|                              | Measurement | Current Year | Previous Year | % Change   |
|------------------------------|-------------|--------------|---------------|------------|
| Passengers Carried           | 000         | 15,952       | 15,161        | 5.2%       |
| Revenue Passenger Kilometres | m           | 34,814       | 33,223        | 4.8%       |
| Available Seat Kilometres    | m           | 42,169       | 39,684        | 6.3%       |
| Passenger Load Factor        | %           | 82.6         | 83.7          | (1.1%) pts |

## PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT

### AIR NEW ZEALAND LIMITED

Full Year Ended 30 June 2017 (referred to in this report as the "current full year")

#### (k) Commentary on the results

|   | Measurement        | Current Year | Previous Year |
|---|--------------------|--------------|---------------|
| (i) Basic earnings per share                              | NZ cents per share | 34.0         | 41.3          |
| Diluted earnings per share                                | NZ cents per share | 33.5         | 40.8          |
| (ii) Returns to shareholders (see also section (d) above) |                    |              |               |
| Final dividend on Ordinary Shares*                        | \$NZ'm             | 112          | 107           |
| Special dividend on Ordinary Shares*                      | \$NZ'm             | 281          | -             |
| Interim dividend on Ordinary Shares                       | \$NZ'm             | 112          | 112           |

\* Reflects the final dividends for the 2015 and 2016 financial years and the special dividend for the 2016 financial year. Details on the final dividend for the 2017 financial year is provided in the first paragraph of section (d) above.

#### (iii) Significant features of operating performance:

Refer to the media release.

#### (iv) Segmental results:

##### Industry segment

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

##### Geographical segment

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

|  | Current Year<br>\$NZ'm | Previous Year<br>\$NZ'm |
|--|------------------------|-------------------------|
| <b>Analysis of revenue by geographical region of original sale</b> |                        |                         |
| New Zealand  | 3,041                  | 2,981                   |
| Australia and Pacific Islands                                      | 621                    | 619                     |
| United Kingdom and Europe  | 278                    | 330                     |
| Asia   | 440                    | 470                     |
| America  | 729                    | 831                     |
| <b>Total operating revenue</b>                                     | <b>5,109</b>           | <b>5,231</b>            |

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.

#### (v) Discussion of trends in performance:

Refer to the media release.

#### (vi) Any other factors which have or are likely to affect the results, including those where the effect could not be quantified:

Refer to the media release.

#### (l) Audit of financial statements

This report is based on accounts which have been audited. The audit opinion has been attached to the back of the financial statements and contains no qualifications.

#### (m) Major changes in trends in the business subsequent to the end of the financial year

Refer to the media release.

## **PRELIMINARY FULL YEAR REPORT ANNOUNCEMENT**

### **AIR NEW ZEALAND LIMITED**

**Full Year Ended 30 June 2017 (referred to in this report as the "current full year")**

**(n) Unrealised gains resulting from the revaluation of assets of the parent, any subsidiaries or any associated company**

Nil

#### **3.1 Basis of preparation**

This report is compiled 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.

#### **3.2 Accounting policies**

Refer to the Statement of Accounting Policies and Notes in the financial statements.

#### **3.3 Changes in accounting policies**

There have not been any accounting policy changes during the year.

#### **3.4 Audit Report**

A copy of the audit report is attached at the back of the financial statements.

#### **3.5 Additional information**

Not applicable.

This full year report was approved by the Board of Directors on 23 August 2017.

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**Tony Carter**

**Chairman**

# Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.  
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one  
(Please provide any other relevant  
details on additional pages)

Full name of Issuer **Air New Zealand Limited**

Name of officer authorised to make this notice **Karen Clayton** Authority for event, e.g. Directors' resolution **Directors' Resolution**

Contact phone number **64 21 046 8469** Contact fax number **64 9 336 2667** Date **22 / 08 / 2017**

**Nature of event**  
Tick as appropriate

|  |  |                                  |  |  |   |  |
|--|--|----------------------------------|--|--|---|--|
| Bonus Issue <input type="checkbox"/>                   | If ticked, state whether: <input type="checkbox"/> | Taxable <input type="checkbox"/> | / Non Taxable <input type="checkbox"/>       | Conversion <input type="checkbox"/>                        | Interest <input type="checkbox"/>             | Rights Issue Renounceable <input type="checkbox"/> |
| Rights Issue non-renounceable <input type="checkbox"/> | Capital change <input type="checkbox"/>            | Call <input type="checkbox"/>    | Dividend <input checked="" type="checkbox"/> | If ticked, state whether: Interim <input type="checkbox"/> | Full Year <input checked="" type="checkbox"/> | Special <input type="checkbox"/>                   |
|  |  |                                  |  |  |   | DRP Applies <input type="checkbox"/>               |

**EXISTING securities affected by this** *If more than one security is affected by the event, use a separate form.*

Description of the class of securities **Ordinary Shares** ISIN **NZAIRE0001S2**  
*If unknown, contact NZX*

**Details of securities issued pursuant to this event** *If more than one class of security is to be issued, use a separate form for each class.*

Description of the class of securities  ISIN   
*If unknown, contact NZX*

Number of Securities to be issued following event  Minimum Entitlement  Ratio, e.g. ① for ②  for

Conversion, Maturity, Call Payable or Exercise Date  Enter N/A if not applicable

Treatment of Fractions

Strike price per security for any issue in lieu or date Strike Price available.  Tick if *pari passu* ☐ OR provide an explanation of the ranking

**Monies Associated with Event** *Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.*

*In dollars and cents*

|  |  |
|--|--|
| Amount per security (does not include any excluded income) <b>\$0.110</b>          | Source of Payment <input type="text"/>                     |
| Excluded income per security (only applicable to listed PIEs) <input type="text"/> |  |
| Currency <b>NZ Dollars</b>   | Supplementary dividend details - NZSX Listing Rule 7.12.7  |
| Total monies <b>\$123.5 million</b>  | Amount per security in dollars and cents <b>\$0.019412</b> |
|  | Date Payable <b>18 September 2017</b>                      |

**Taxation** *Amount per Security in Dollars and cents to six decimal places*

In the case of a taxable bonus issue state strike price **N/A**

|  |  |
|--|--|
| Resident Withholding Tax <b>\$0.007639</b>   | Imputation Credit (Give details) <b>\$0.042778</b> |
| Foreign Withholding Tax <input type="text"/> | FDP Credits (Give details) <input type="text"/>    |

**Timing** (Refer Appendix 8 in the NZSX Listing Rules)

**Record Date 5pm** *For calculation of entitlements -* **8 September 2017**

**Application Date** *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date.* **18 September 2017**

**Notice Date** *Entitlement letters, call notices, conversion notices mailed* **N/A**

**Allotment Date** *For the issue of new securities. Must be within 5 business days of application closing date.* **N/A**

## OFFICE USE ONLY

Ex Date:  
Commence Quoting Rights  
Cease Quoting Rights 5pm:  
Commence Quoting New Securities:  
Cease Quoting Old Security 5pm:

Security Code:  
Security Code:



A STAR ALLIANCE MEMBER



20  
YEARS



AIR NEW ZEALAND 

# Annual Results 2017

23 August 2017





## Forward looking statements

This presentation contains forward-looking statements. Forward-looking statements often include words such as “anticipate”, “expect”, “intend”, “plan”, “believe”, “continue” or similar words in connection with discussions of future operating or financial performance.

The forward-looking statements are based on management's and directors' current expectations and assumptions regarding Air New Zealand's businesses and performance, the economy and other future conditions, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. Air New Zealand's actual results may vary materially from those expressed or implied in its forward-looking statements.

The Company, its directors, employees and/or shareholders shall have no liability whatsoever to any person for any loss arising from this presentation or any information supplied in connection with it. The Company is under no obligation to update this presentation or the information contained in it after it has been released.

Nothing in this presentation constitutes financial, legal, tax or other advice.

**BUSINESS  
REVIEW**

**Christopher Luxon**  
Chief Executive Officer



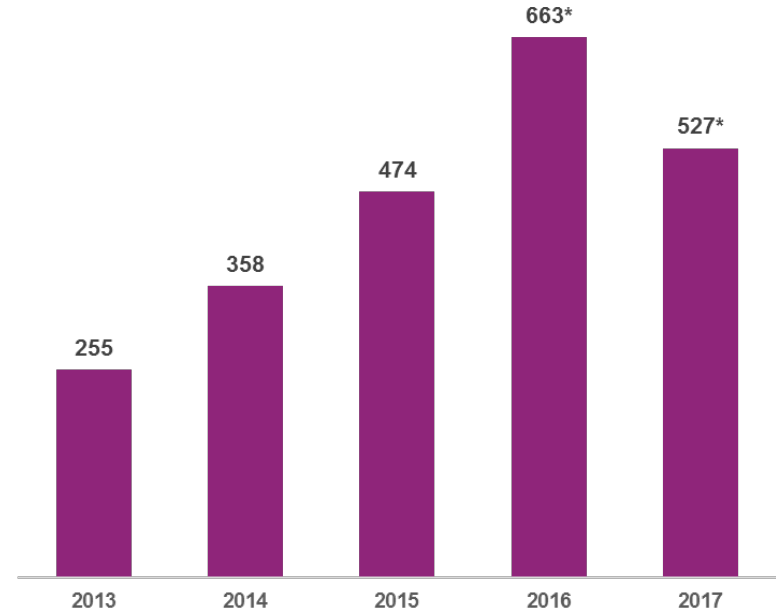


# The second best result in our history

2017 ANNUAL RESULT

- Operating revenue **\$5.1 billion**
- Earnings before taxation **\$527 million\***
- Net profit after taxation **\$382 million**
- Operating cash flow **\$904 million**
- Return on invested capital (pre-tax) **15.3%**

Earnings before taxation  
(\$ millions)



\* Includes other significant items. Refer to supplementary slides.

# Strong efficiencies partially offset revenue declines from new competition



2017 ANNUAL RESULT

## Revenue

- Passenger revenue excluding FX **down 0.5%**; reported down 2.3%
  - Demand slightly lagging capacity growth – RPKs and ASKs **up 4.8% and 6.3%**, respectively
  - RASK excluding FX **down 6.4%**; reported down 8.1%
- Cargo revenue excluding FX **down 0.6%**; reported down 4.0%

## Cost

- CASK excluding FX **improved 2.3%**, reported improved 1.9%
- Efficiencies contributed **\$158 million** to profitability
- Fuel cost<sup>1</sup> (excluding FX) up 4.6%, below capacity growth of 6.3%
  - Average fuel price decreased 1.5%, offset by increased capacity

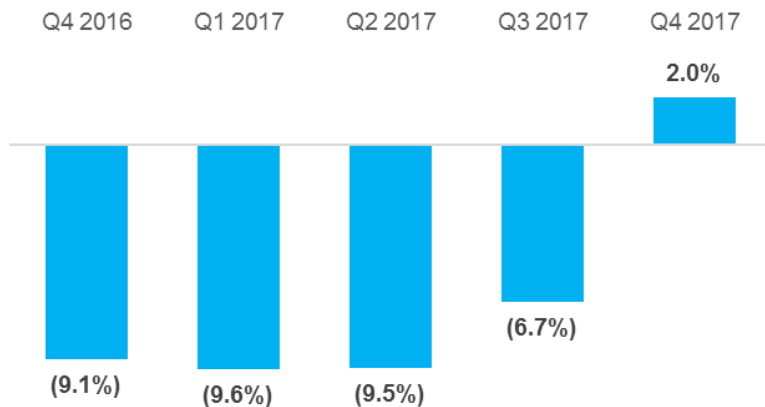
<sup>1</sup> Fuel cost movement details provided in supplementary slides.

# RASK movement saw marked improvement in the second half of the year



2017 ANNUAL RESULT

## Group RASK<sup>1</sup> (excluding FX)



| Sector                       | 2017 RASK performance versus February 2017 expectations |   |
|------------------------------|---|---|
| Domestic                     | Exceeded expectations                                   | + |
| Tasman                       | Exceeded expectations                                   | + |
| Pacific Islands <sup>2</sup> | Exceeded expectations                                   | + |
| Asia                         | Continued competitive pressure                          | ~ |
| Americas/Europe              | Exceeded expectations                                   | + |

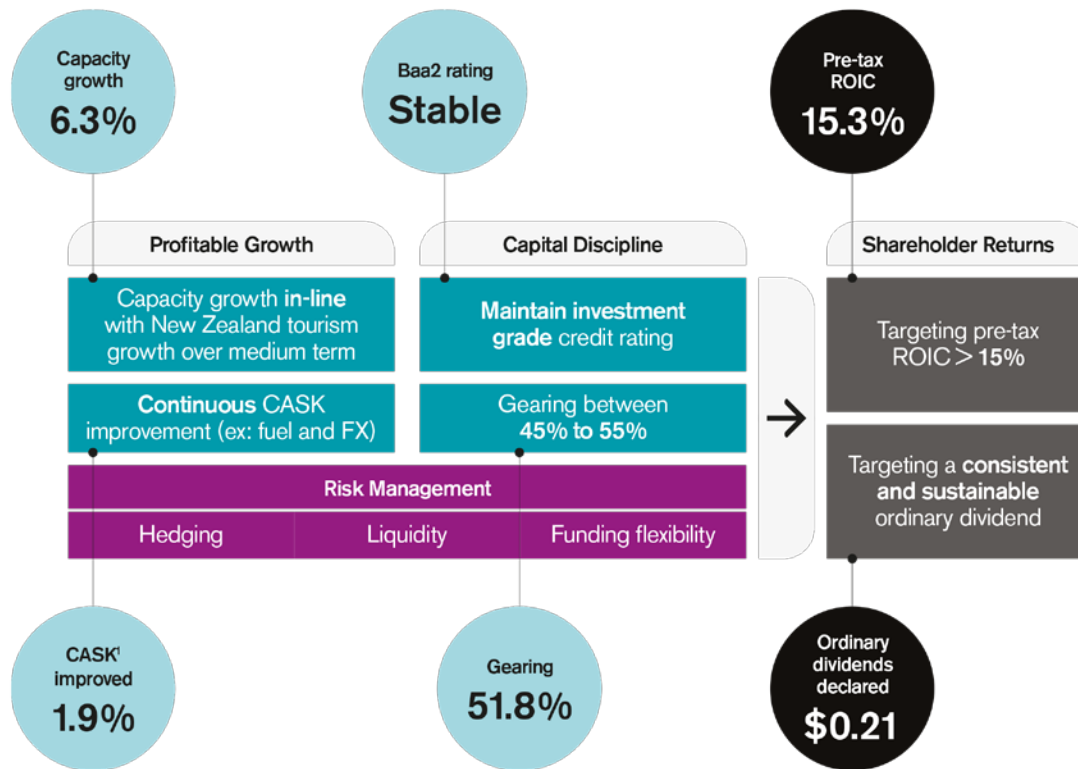
<sup>1</sup> Year-on-year movement in RASK.

<sup>2</sup> Pacific Islands includes Bali and Honolulu.

# High level of performance has translated to strong shareholder returns



2017 ANNUAL RESULT



<sup>1</sup> Excluding fuel price movement and FX.

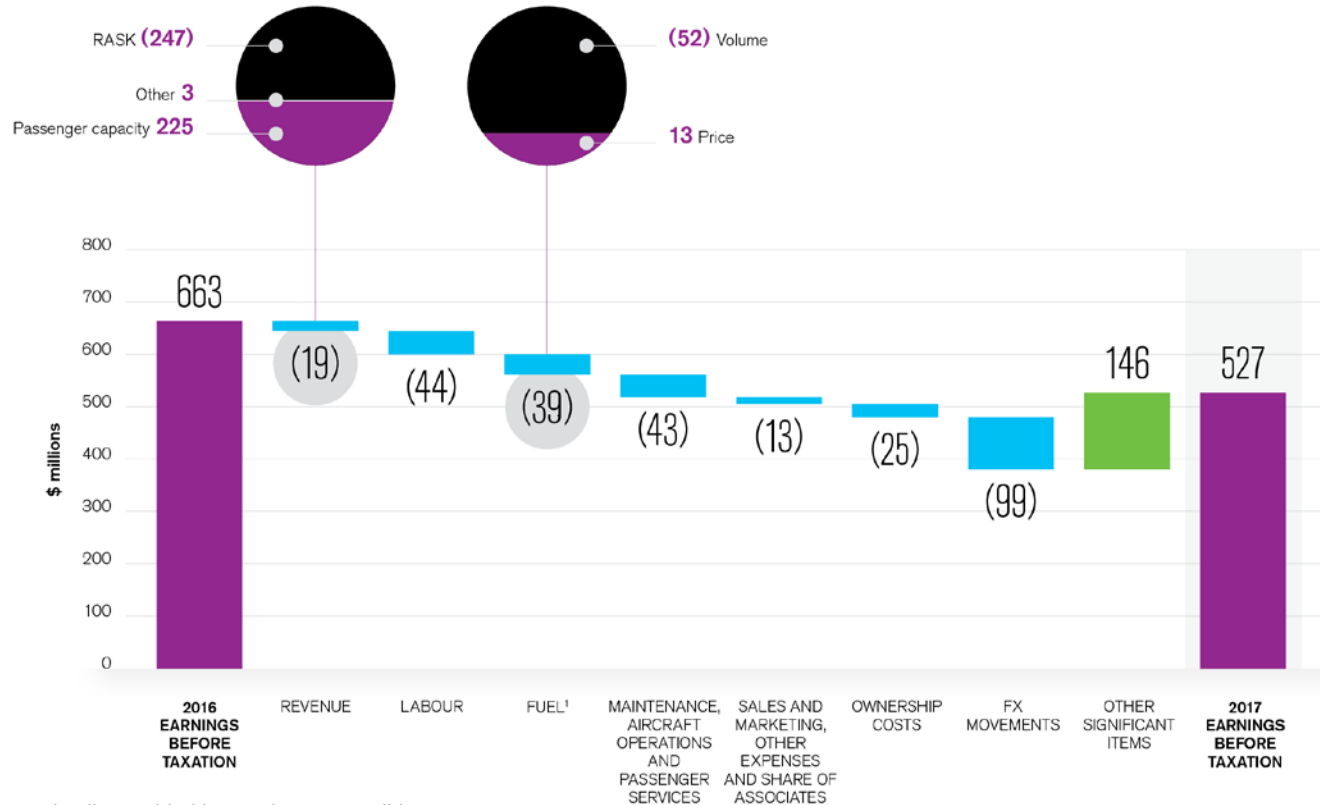
# FINANCIAL REVIEW

**Rob McDonald**  
Chief Financial Officer



# Changes in profitability

2017 ANNUAL RESULT



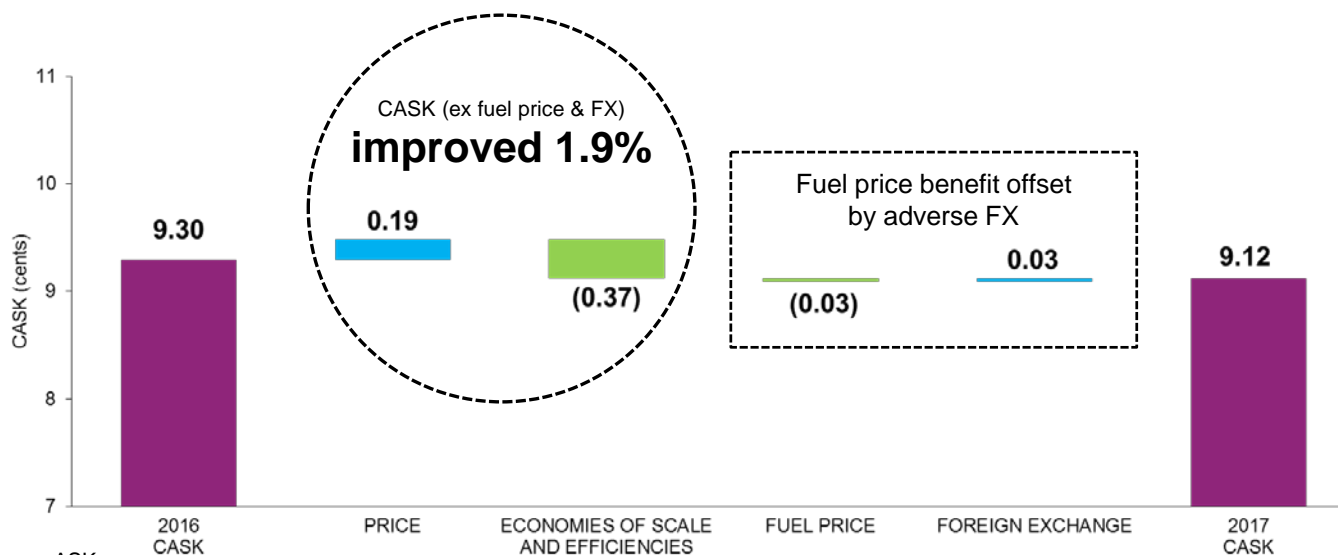
<sup>1</sup> Fuel cost movement details provided in supplementary slides.

# CASK\* improvement driven by factors within our control



2017 ANNUAL RESULT

- CASK excluding FX **improved 2.3%**; reported improved 1.9%
- \$158 million of efficiencies from growth, fleet simplification, productivity, scale and other cost saving initiatives more than offset inflation
- Fuel price improvement of 1.5% offset by adverse impact of FX movement



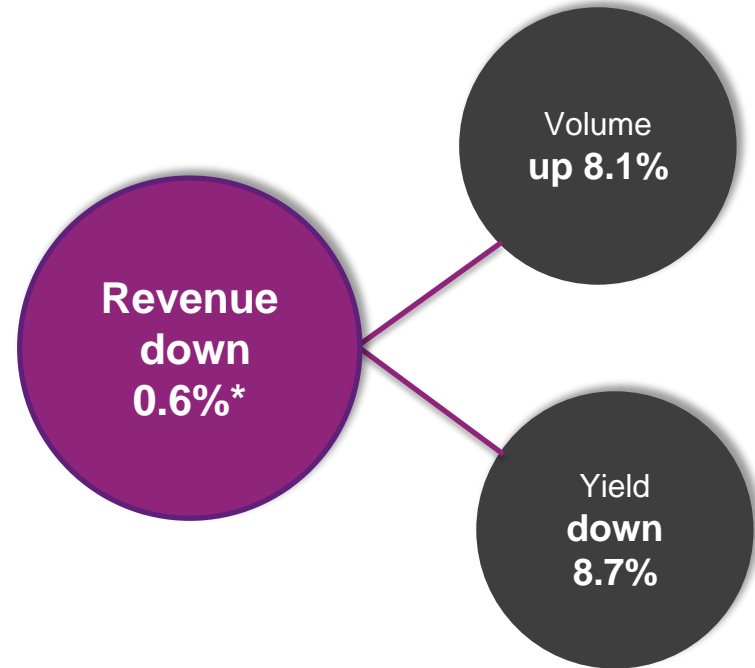
\* Operating expenditure per ASK.

# Cargo business still strong, but impacted by similar competitive pressures



2017 ANNUAL RESULT

- Strong volume growth in the period related to
  - New Houston and Buenos Aires routes
  - Aircraft up-gauge and additional frequency on the Tasman and Pacific Islands
- Yield pressure driven by
  - Competition from new carriers in U.S. and increased capacity from existing Asia carriers
  - Los Angeles International airport runway issues and reduced frequency



\* Reported cargo revenue decreased 4.0%, inclusive of foreign exchange impact.

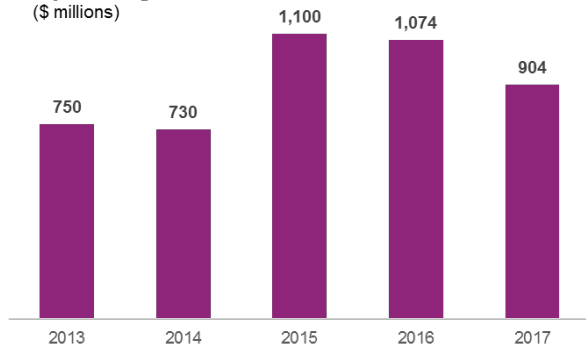


# Operating cash flow and liquidity profile reflect strength of the business

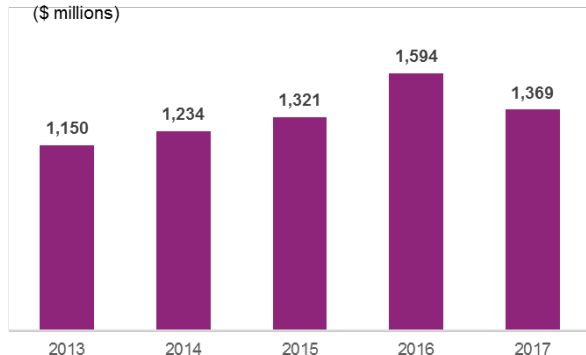


2017 ANNUAL RESULT

**Operating cash flow**  
(\$ millions)



**Cash on hand**  
(\$ millions)



- Operating cash flow **\$904 million**
- Cash on hand of **\$1.4 billion** includes:
  - \$45 million net inflow from the sale of remaining investment in Virgin Australia and loan repayment from Virgin Australia of \$137 million in August 2016
  - \$530 million outflow from interim, final and special dividends

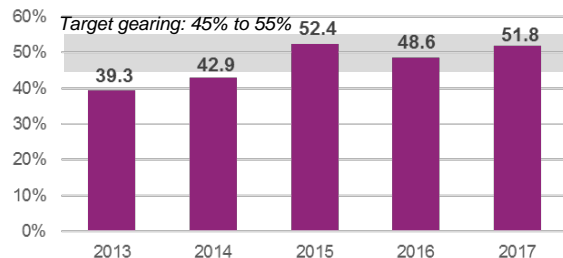
# Continued focus on capital discipline as fleet programme nears completion



2017 ANNUAL RESULT

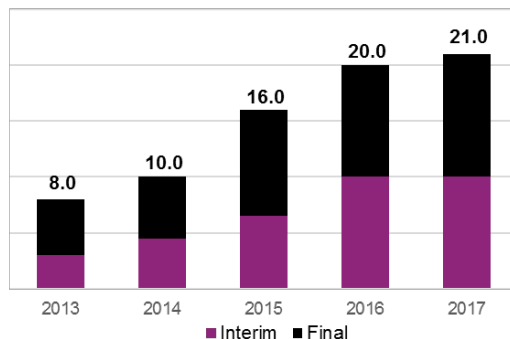
## Gearing (%)

(including capitalised aircraft operating leases)



## Ordinary dividends declared

(cents per share)



- Gearing was **51.8%**, increasing 3.2 percentage points from June 2016
- Stable outlook **Baa2** rating from Moody's
- Fully imputed final dividend of 11.0 cents per share, a 10% increase from prior year
  - Bringing the full year fully imputed ordinary dividends to 21.0 cents per share

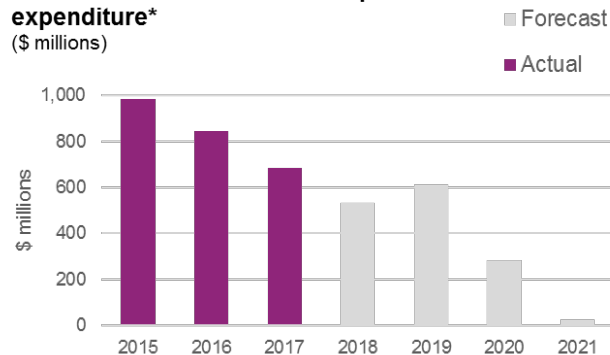
# Majority of remaining aircraft capital expenditure expected over the next two years



2017 ANNUAL RESULT

## Actual and forecast aircraft capital expenditure\*

(\$ millions)



- Expected investment of ~\$1.5 billion in aircraft and associated assets over the next 4 years
- Assumes NZD/USD = 0.725
- Includes progress payments on aircraft

## Aircraft delivery schedule (as at 30 June 2017)

|                           |                        | Number in existing fleet | Number on order | Delivery Dates (financial year) |      |      |      |
|---------------------------|------------------------|--------------------------|-----------------|---------------------------------|------|------|------|
|                           |                        |                          |                 | 2018                            | 2019 | 2020 | 2021 |
| Owned fleet on order      | Boeing 787-9           | 9                        | 3               | 2                               | 1    | -    | -    |
|                           | Airbus A320/A321 NEOs* | -                        | 8               | -                               | 6    | 2    | -    |
|                           | ATR72-500/600          | 26                       | 14              | 4                               | 4    | 6    | -    |
| Operating leased aircraft | Boeing 787-9           | -                        | 1               | -                               | 1    | -    | -    |
|                           | Airbus A320/A321 NEOs  | -                        | 5               | -                               | 4    | 1    | -    |

\* Excludes orders of up to five A320/A321 NEOs with purchase substitution rights.



# Increased level of fuel hedging to lock in lower pricing

2017 ANNUAL RESULT

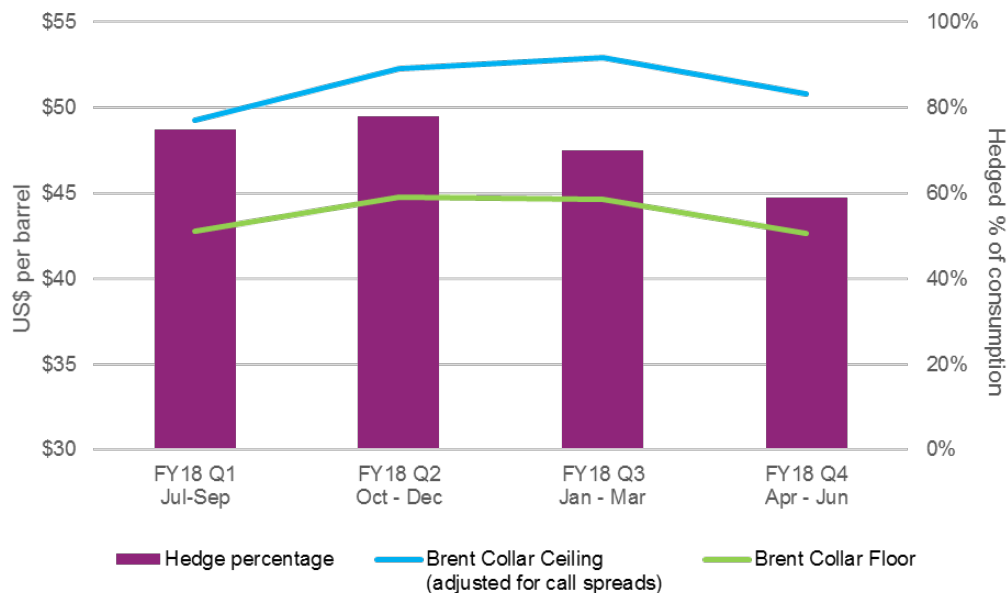
## Fuel hedging

- 2018 fuel outlook includes a higher proportion of fuel hedges
- Higher level of protection in place for 2018
  - Protection against adverse spikes in fuel
  - Allows for pricing participation should oil prices fall
- 2018 hedges cover **71%\*** of consumption
  - 1H 2018 is 77%\* of consumption
  - 2H 2018 is 65%\* of consumption

## Foreign exchange hedging

- US dollar is **~80%** hedged for 2018 at **0.718**

### Fuel hedges\*



\* Fuel hedging as at 15 August 2017.

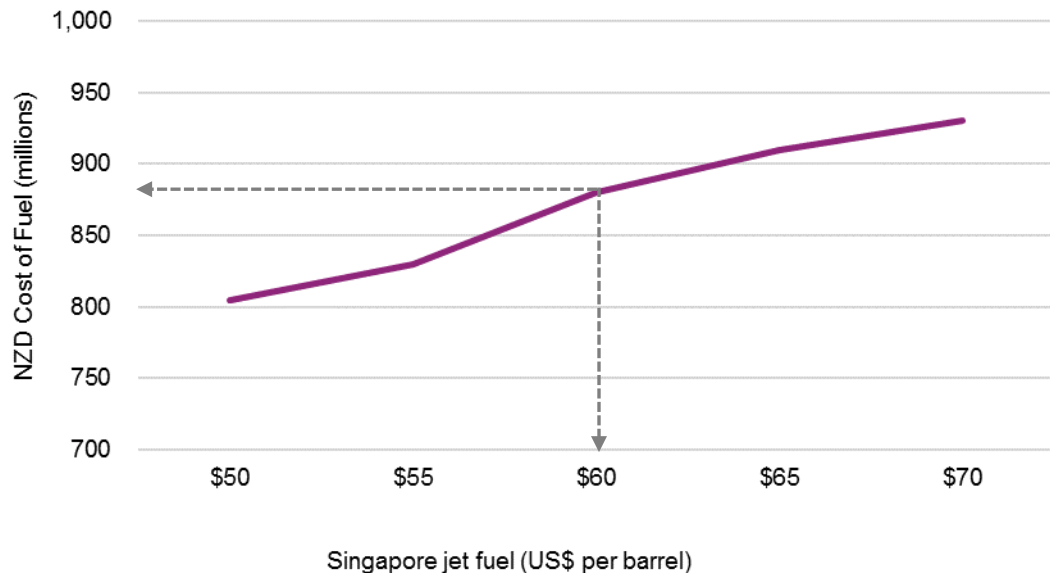


# Fuel cost outlook and sensitivity

2017 ANNUAL RESULT

- Assuming average jet fuel price of US\$60 per barrel for 2018, fuel cost would be **~\$880 million**
- Currency changes to fuel cost will have minimal impact to overall earnings, as NZD/USD movements are offset by FX hedging

## 2018 Fuel Cost\* sensitivity (inclusive of hedging)



\* Assumes a NZD/USD rate of 0.725.

# OUTLOOK

**Christopher Luxon**  
Chief Executive Officer

# Positive short-haul market dynamics provide opportunities for targeted growth in 2018



2017 ANNUAL RESULT

## TRANS-TASMAN

- Improving revenue dynamics starting to emerge
- Recent rationalisation of competitive capacity on Sydney
- ✈ Improved aircraft economics as B767s replaced with B787 Dreamliner and B777-200
- ✈ “Better Way to Fly” campaign continues to gain traction to grow North and South America via Auckland

## PACIFIC ISLANDS

- Strong underlying demand, driven by outbound New Zealand leisure traffic
- Stabilisation of competitor capacity
- ✈ Growth on both Bali and Honolulu routes driven by increased utilisation of cost effective B787 Dreamliner aircraft

## DOMESTIC

- Underlying demand remains strong driven by tourism and positive economic climate
- ✈ Targeting capacity growth in-line with demand
- ✈ Jet route growth driven by additional services into Queenstown, Christchurch and Dunedin
- ✈ Additional frequencies added to regional routes, notably Napier and Nelson

# Capacity rationalisation and improving demand driving long-haul strategic growth



2017 ANNUAL RESULT

## JAPAN

- Improving demand dynamics following Kaikoura earthquake in November 2016
- ☞ Full year impact of new Haneda service to complement Narita and boost connectivity from within Japan

## NORTH AMERICA

- Strong, underlying demand continues
  - Competitor capacity reduced during off-peak season
  - Alliance partner United Airlines seasonalising capacity over Northern Summer
- ☞ Launching B787-9 Code 2 with increased premium configuration to Houston
- ☞ Additional frequency during peak and extending season to Vancouver
- ☞ New market development campaign launching Q1

## SOUTH AMERICA

- ☞ Additional frequencies over peak and shoulder months
- ☞ Leveraging Australian traffic via Auckland

## ASIA (ex: Japan)

- Challenging competitive environment in Shanghai and Hong Kong continues as Chinese carrier capacity laps
  - Singapore remains a popular gateway serving South East Asia, Europe and India for both outbound and inbound traffic
- ☞ Maintaining stable capacity and focused on premium customer offering to independent leisure travellers

- Denotes observation on market conditions.
- ☞ Denotes Air New Zealand actions.





## 2018 capacity plan reflects improved market dynamics

2017 ANNUAL RESULT

| Sector                                | Capacity growth | Commentary   |
|---------------------------------------|-----------------|--|
| Domestic                              | 4% to 6%        | <ul style="list-style-type: none"><li>• Jet route growth driven by longer sector flying to Queenstown, Christchurch and Dunedin</li><li>• Increased frequency to Napier and Nelson</li></ul>   |
| Tasman & Pacific Islands <sup>1</sup> | 8% to 10%       | <ul style="list-style-type: none"><li>• Growth through up-gauge and increased frequency</li><li>• Trans-Tasman ~5% growth, Pacific Islands ~15% to 20% growth (Bali and Honolulu account for over two-thirds of Pacific Islands growth)</li><li>• Increased B787-9 flying focused on connecting Australia to the Americas via Auckland</li></ul> |
| International long-haul               | 3% to 5%        | <ul style="list-style-type: none"><li>• Haneda services to Tokyo commenced July 2017 (accounts for two-thirds of long-haul growth)</li><li>• Optimisation of existing routes by increased flying during peak to Houston, Vancouver and South America</li></ul>   |
| Group                                 | 4% to 6%        |  |

<sup>1</sup> Pacific Islands includes Bali and Honolulu.



## 2018 outlook

2017 ANNUAL RESULT

- 2017 earnings provides a sustainable platform for future performance
- Looking forward to the year ahead, we are optimistic about the overall market dynamics
- Based upon the current market conditions and assuming an average jet fuel price of US\$60 per barrel (which represents the average over the past two months), the airline is aiming to improve upon 2017 earnings



***Thank you***

**SUPPLEMENTARY  
SLIDES**



# Earnings before other significant items and taxation

2017 ANNUAL RESULT

|   | Jun 2017<br>\$M | Jun 2016<br>\$M | Movement<br>% |
|---|-----------------|-----------------|---------------|
| <b>Earnings before other significant items and taxation</b> | <b>524</b>      | <b>806</b>      | <b>(35)%</b>  |
| Virgin Australia divestments                                | 22              | (86)            |               |
| Legal proceedings and settlements                           | (11)            | (57)            |               |
| Impairment of aircraft held for resale                      | (8)             | -               |               |
| <b>Earnings before taxation (per NZ IFRS)</b>               | <b>527</b>      | <b>663</b>      | <b>(21)%</b>  |

Earnings before other significant items and taxation represent Earnings stated in compliance with NZ IFRS (Statutory Earnings) after excluding items which due to their size or nature warrant separate disclosure to assist with understanding the financial performance of the Group. Earnings before other significant items and taxation is reported within the Group's audited annual financial statements. Further details of other significant items is contained within Note 3 of the Group financial statements.

With effect from 30 March 2016, the Group ceased equity accounting the investment in Virgin Australia and recognised the investment at fair value with changes in fair value being recognised in the profit and loss. The Group disposed of a 20% stake in Virgin Australia in the prior year and the remaining 2.5% by October 2016.

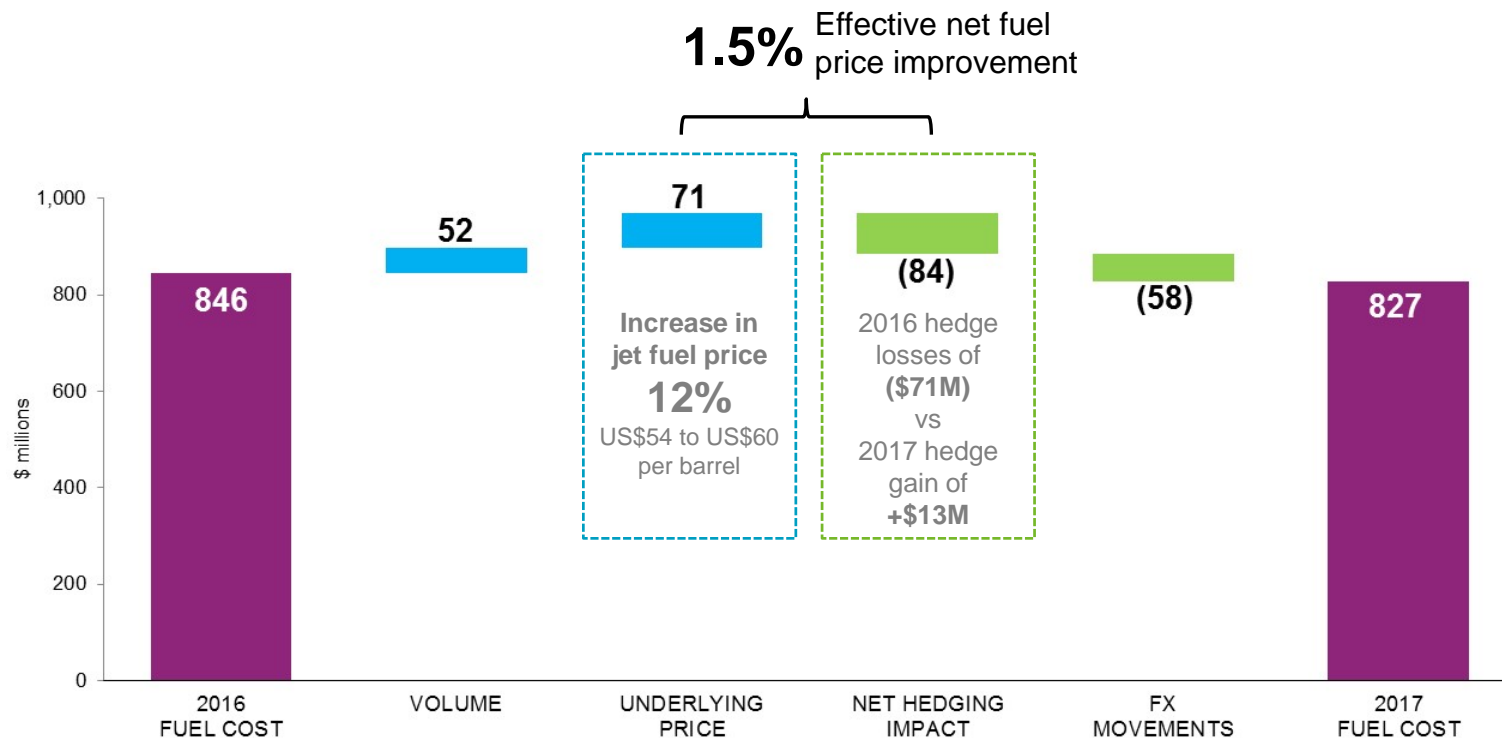
During the year ended 30 June 2017 an allowance of A\$10 million was made for court penalties and cost related to an Australian Competition and Consumer Commission cargo legal proceedings. The current and prior year also includes legal settlements (and associated costs) related to class action compensation claims in the United States (30 June 2017: \$1 million relating to fares and surcharges on trans-Pacific routes; 30 June 2016: \$57 million relating to the air cargo business).

An impairment loss was recognised for six Beech aircraft which are held for resale following the fleet's exit from service in August 2016. These aircraft were being actively marketed for sale at 30 June 2017.



# Movement in 2017 fuel cost

2017 ANNUAL RESULT





# Financial overview

2017 ANNUAL RESULT

|                              | Jun 2017<br>\$M | Jun 2016<br>\$M | Movement<br>\$M | Movement<br>% |
|------------------------------|-----------------|-----------------|-----------------|---------------|
| Operating revenue            | 5,109           | 5,231           | (122)           | (2.3)%        |
| Earnings before taxation     | 527             | 663             | (136)           | (21)%         |
| Net profit after taxation    | 382             | 463             | (81)            | (17)%         |
| Operating cash flow          | 904             | 1,074           | (170)           | (16)%         |
| Cash position                | 1,369           | 1,594           | (225)           | (14)%         |
| Gearing                      | 51.8%           | 48.6%           |                 | (3.2)pts      |
| Ordinary dividends declared* | 21.0 cps        | 20.0 cps        |                 | 5.0%          |

\* Dividends are fully imputed.



# Group performance metrics

2017 ANNUAL RESULT

|   | Jun 2017 | Jun 2016 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 15,952   | 15,161   | 5.2%      |
| Available seat kilometres (ASKs, millions)    | 42,169   | 39,684   | 6.3%      |
| Revenue passenger kilometres (RPKs, millions) | 34,814   | 33,223   | 4.8%      |
| Load factor                                   | 82.6%    | 83.7%    | (1.1)pts  |
| Passenger revenue per ASKs (RASK, cents)      | 10.6     | 11.3     | (6.4)%**  |
| Yield (cents per RPK)                         | 12.8     | 13.5     | (5.0)%**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Group RASK decreased by 8.1% and yield decreased by 6.8%, inclusive of foreign exchange impact.





# Domestic

2017 ANNUAL RESULT

|   | Jun 2017 | Jun 2016 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 10,379   | 9,725    | 6.7%      |
| Available seat kilometres (ASKs, millions)    | 6,597    | 6,065    | 8.8%      |
| Revenue passenger kilometres (RPKs, millions) | 5,311    | 4,887    | 8.7%      |
| Load factor                                   | 80.5%    | 80.6%    | (0.1)pts  |
| Passenger revenue per ASKs (RASK, cents)      | 21.3     | 21.8     | (2.3)%**  |
| Yield (cents per RPK)                         | 26.5     | 27.1     | (2.2)%**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Domestic RASK decreased by 2.9% and yield decreased by 2.8%, inclusive of foreign exchange impact.



# Tasman & Pacific Islands<sup>1</sup>

2017 ANNUAL RESULT

|   | Jun 2017 | Jun 2016 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 3,561    | 3,507    | 1.6%      |
| Available seat kilometres (ASKs, millions)    | 12,039   | 11,438   | 5.3%      |
| Revenue passenger kilometres (RPKs, millions) | 9,784    | 9,532    | 2.6%      |
| Load factor                                   | 81.3%    | 83.3%    | (2.0)pts  |
| Passenger revenue per ASKs (RASK, cents)      | 9.3      | 9.9      | (5.8)%**  |
| Yield (cents per RPK)                         | 11.5     | 11.9     | (3.4)%**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported Tasman & Pacific Islands RASK decreased by 7.1% and yield decreased by 4.8%, inclusive of foreign exchange impact.

<sup>1</sup> Pacific Islands including Bali and Hawaii.



# International

2017 ANNUAL RESULT

|   | Jun 2017 | Jun 2016 | Movement* |
|---|----------|----------|-----------|
| Passengers carried ('000s)                    | 2,012    | 1,929    | 4.3%      |
| Available seat kilometres (ASKs, millions)    | 23,533   | 22,181   | 6.1%      |
| Revenue passenger kilometres (RPKs, millions) | 19,719   | 18,804   | 4.9%      |
| Load factor                                   | 83.8%    | 84.8%    | (1.0)pts  |
| Passenger revenue per ASKs (RASK, cents)      | 8.2      | 9.1      | (10.2)%** |
| Yield (cents per RPK)                         | 9.8      | 10.8     | (9.1)%**  |

\* Calculation based on numbers before rounding and excluding the impact of foreign exchange.

\*\* Reported International RASK decreased by 12.9% and yield decreased by 11.9%, inclusive of foreign exchange impact.



# Projected aircraft in service

2017 ANNUAL RESULT

- Boeing 767-300ERs exited service in March 2017
- Beech 1900Ds exited service in August 2016

|                      | 2017*      | 2018       | 2019       | 2020       | 2021       |
|----------------------|------------|------------|------------|------------|------------|
| Boeing 777-300ER     | 7          | 7          | 7          | 7          | 7          |
| Boeing 777-200ER     | 8          | 8          | 8          | 8          | 8          |
| Boeing 787-9         | 9          | 11         | 13         | 13         | 13         |
| Airbus A320          | 30         | 30         | 22         | 20         | 20         |
| Airbus A320/A321 NEO | -          | -          | 10         | 13         | 13         |
| ATR72-600            | 15         | 19         | 23         | 29         | 29         |
| ATR72-500            | 11         | 8          | 5          | -          | -          |
| Bombardier Q300      | 23         | 23         | 23         | 23         | 23         |
| <b>Total Fleet</b>   | <b>103</b> | <b>106</b> | <b>111</b> | <b>113</b> | <b>113</b> |

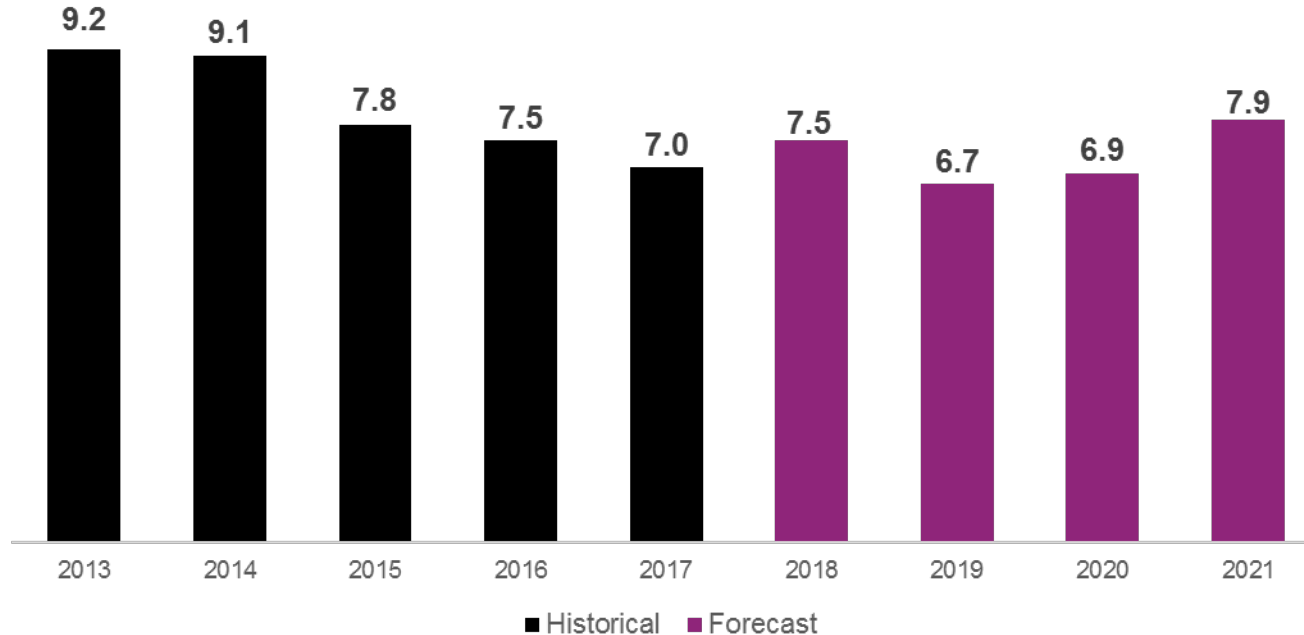
\* Actual aircraft in service.



# Historical and projected fleet age

2017 ANNUAL RESULT

**Aircraft fleet age in years**  
(seat weighted)





# Pre-tax ROIC calculation

2017 ANNUAL RESULT

|   | June 2017<br>\$M | June 2016<br>\$M | Reference in 2017 Annual<br>Financial Results  |
|---|------------------|------------------|--|
| Earnings before taxation                                    | 527              | 663              | Statement of Financial Performance (page 2)  |
| Add back: Net finance costs                                 | 44               | 47               | Statement of Financial Performance (page 2)  |
| Add back: Implied interest in operating leases <sup>1</sup> | 59               | 64               | Note 21 – Operating Leases (page 27) (refer to aircraft value within Rental and lease expenses recognised in earnings) |
| <b>EBIT adjusted for operating lease interest</b>           | <b>630</b>       | <b>774</b>       |  |
| Net debt (including off balance sheet items)                | 2,133            | 1,990            | Historical Summary of Debt (page 46)   |
| Equity  | 1,986            | 2,108            | Statement of Financial Position (page 5)   |
| Total capital employed                                      | 4,119            | 4,098            |  |
| <b>Average capital employed<sup>2</sup></b>                 | <b>4,109</b>     | <b>4,111</b>     |  |
| <b>Pre-Tax Return on Invested Capital</b>                   | <b>15.3%</b>     | <b>18.8%</b>     |  |

<sup>1</sup> Represents the implied interest included in the aircraft operating lease expense within the Statement of Financial Performance; one-third of aircraft operating lease expense is assumed to be interest expense.

<sup>2</sup> Calculation of 2016 Average Capital Employed includes 2015 Total capital employed of \$4,124 million.



# Glossary of terms

2017 ANNUAL RESULT

|  |   |
|--|---|
| <b>Available Seat Kilometres (ASKs)</b>          | Number of seats operated multiplied by the distance flown (capacity)  |
| <b>Cost/ASK (CASK)</b>                           | Operating expenses divided by the total ASK for the period  |
| <b>Gearing</b>                                   | Net Debt / (Net Debt + Equity); Net Debt includes capitalised aircraft operating leases   |
| <b>Net Debt</b>                                  | Interest-bearing liabilities, less bank and short-term deposits, net open derivatives held in relation to interest-bearing liabilities, interest-bearing assets and non-interest bearing assets, plus net aircraft operating lease commitments for the next twelve months multiplied by a factor of seven |
| <b>Passenger Load Factor</b>                     | RPKs as a percentage of ASKs  |
| <b>Passenger Revenue/ASK (RASK)</b>              | Passenger revenue for the period divided by the total ASK for the period  |
| <b>Pre-Tax Return on Invested Capital (ROIC)</b> | Earnings before Interest and Taxation (EBIT), and aircraft lease expense divided by three, all divided by the average Capital Employed (being Net Debt plus Equity) over the period   |
| <b>Revenue Passenger Kilometres (RPKs)</b>       | Number of revenue passengers carried multiplied by the distance flown (demand)  |
| <b>Yield</b>                                     | Passenger revenue for the period divided by revenue passenger kilometres  |

The following non-GAAP measures are not audited: CASK, Gearing, Net Debt, RASK, ROIC and Yield. Amounts used within the calculations are derived from the audited Group financial statements and Five Year Statistical Review contained in the 2017 Annual Financial Results. The non-GAAP measures are used by management and the Board of Directors to assess the underlying financial performance of the Group in order to make decisions around the allocation of resources.

***AIR NEW ZEALAND*** 

A STAR ALLIANCE MEMBER 





# Annual Shareholder Review

2017







## Contents

# Kia ora.

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## At a glance

# 77

years in operation

# 16m

passengers  
carried annually

# 30

international  
destinations

# 14

years of consecutive  
profitability

# No.1

corporate reputation  
in New Zealand  
and Australia

# Pacific Rim

focused network driven  
by alliance relationships

# 11,800

Air New Zealand  
employees

# 21

domestic destinations

# 12

years of consecutive  
dividend distributions

# Baa2

investment grade credit  
rating from Moody's





## 2017 highlights

### No.1 employer

top rated in New Zealand

### Over 2.5m

Airpoints™ members; up 16% from 2016

### Supreme award winner

NZI Sustainable Business Network Awards

### 894,000

flights paid for by Airpoints Dollars™ during the year

### Airline of the Year

awarded by AirlineRatings.com for the 4th consecutive year

### 39%

of women in senior leadership positions; up from 16% in 2012

### Supreme award winner

Maori Language Awards, for promoting increased usage of Te Reo

### Record level

of brand health

### FTSE4Good

constituent<sup>1</sup>

### 15% improvement

2017 total recordable injuries



### 6.3% growth

in network capacity (ASKs)

### \$5.1b

operating revenue

### 7.0 years

fleet age on seat-weighted basis, improved from 7.5 years in 2016

### \$527m

earnings before taxation

### \$904m

operating cash flow

### 6 new aircraft

added to fleet during the year; consisting of 3 B787-9s, 1 A320 and 2 ATR72-600s

### 21.0 cents

full year declared dividend per share

### 15.3%

pre-tax return on invested capital

### 5 lounges

upgraded as part of ~\$120 million, multi-year lounge upgrade programme

### 88.6%

2017 total shareholder return



FTSE4Good

<sup>1</sup>Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure performance of companies demonstrating strong environmental, social and governance (ESG) practices.





## Letter from the Chairman

A resilient  
and agile  
airline.

Air New Zealand delivered its second highest financial result as an unprecedented increase in competition entered the New Zealand market.

Earnings before taxation were **\$527 million**.

Net profit after taxation was **\$382 million**.

Operating cash flow was **\$904 million**.

### Another strong financial performance

Earnings before taxation for the 2017 financial year were \$527 million. This strong result compares to a record \$663 million in the prior year, and represents Air New Zealand's second highest level of financial earnings in the history of the airline. A significant increase in industry capacity was the main driver of the reduction, as a number of new international competitors entered the New Zealand market. However, towards the end of the year, conditions stabilised and we saw positive revenue momentum emerge.

A strong focus on cost improvement across the organisation and the ability to leverage economies of scale from our simplified fleet helped partially offset the impact of increased competition and the adverse impact of foreign exchange.

### Robust financial position

Our financial position remains strong. Gearing was 51.8 percent, an increase from 48.6 percent at the end of the 2016 financial year, reflecting the purchase of new aircraft and the payment of a 2016 special dividend. Cash flow from operations was \$904 million and cash on hand was \$1.4 billion.

### Company performance bonus

Our people are critical to the long-term success of the airline and this year we continued to invest in tools to help drive performance, lift engagement and improve capability. As recognition for the superior commercial results achieved this year, the Board has again chosen to award a Company Performance Bonus to Air New Zealand employees who do not participate in an incentive programme.

### A proven growth strategy

Over the past five years, the airline has successfully executed a strategy focused on expanding the network profitably. Today we have a network that is 30 percent larger and geographically more diversified than we had five years ago. Internationally, our strategy to enter key markets with the help of revenue-sharing alliance partners and strong market development plans has driven our successful expansion. Domestically, our strategy has been to stimulate profitable demand by growing the jet and regional routes with larger and more cost-effective aircraft. To support that growth, we have and will continue to collaborate with regional stakeholders throughout the country to help supercharge New Zealand's economic success.

### Fleet update and future network growth

A simplified and efficient fleet continues to be a cornerstone of our strategic priorities, and has helped drive the profitable network growth we have achieved over the past few years. Our fleet age is now young at seven years, and reflects our exit from the remaining Boeing 767 and Beech 1900D aircraft during the year, as well as delivery of three new Boeing 787-9 Dreamliners, one A320 and two ATR72-600s. Over the next four years we plan to invest \$1.5 billion in new aircraft, with most of the capital expenditure occurring by the end of 2019.

In June, we announced our first A320XLR NEO aircraft would be delayed until the 2019 financial year. Despite the delay, our growth plans for 2018 include increasing network capacity four to six percent.

### Dividend

The Board is pleased to declare a fully imputed final dividend of 11.0 cents per share, a 10 percent increase from the prior year. This delivers a total ordinary dividend for the 2017 financial year of 21.0 cents per share.

### Changes to the Board of Directors

In September 2017, we will welcome Sir John Key to the Board. Sir John brings extensive international commercial experience, outstanding leadership skills, a global perspective and a keen understanding of the tourism sector from his years as Tourism Minister as well as Prime Minister of New Zealand.

We also say goodbye and thank you to Paul Bingham, who will be retiring at the Annual Shareholders' Meeting on 28 September 2017. Paul joined the Board in 2008, and the airline has benefited immensely from his expertise and commitment over the past nine years.

### Outlook

Looking forward to the year ahead, we are optimistic about the overall market dynamics. Based upon current market conditions and assuming an average jet fuel price of US\$60 per barrel (which represents the average over the past two months), the airline is aiming to improve upon 2017 earnings.

**Tony Carter**  
Chairman

23 August 2017

**\$1.4b**  
cash position

**51.8%**  
gearing

**11 cents**  
per share final  
ordinary dividend

**21 cents**  
per share total  
ordinary dividend





## Q&A with our Chief Executive Officer

# Discussing key questions on Air New Zealand's performance and the priorities for the future.



### Q. How are you feeling about the airline's performance in 2017?

A. I am really pleased with the trajectory that the airline has realised from a growth and earnings perspective over the past five years. 2017 marked our second highest result ever, despite a challenging competitive environment that surpassed any in recent memory. As we said last year, 2016 was going to be exceptional in terms of earnings for two key reasons: 1) we had the benefit of \$112 million in foreign exchange hedging gains which we knew would not be repeated in 2017; and 2) more importantly, we still had a less intensive competitive environment in certain markets as the impact of lower fuel prices had not yet materialised into new capacity. However, while 2017's earnings

were expected to decline from 2016 levels, our team worked extremely hard to mitigate the competitive headwind we faced, specifically with a disciplined focus on our costs and leveraging efficiencies from our fleet and our operations.

As a result, we were able to demonstrate our agility and ability to effectively compete with some of the largest airlines in the world. Today, Air New Zealand is sitting in a strong position, thanks to:

- A resilient core domestic business
- A Pacific Rim focused international network
- A team focused on driving sustainable cost improvements
- Investment-grade financial strength

In the beginning of 2017, the volatility from new capacity in the market required us to set a wide range for our initial full year guidance. As the second half of the year progressed, we saw the market dynamics improve beyond our expectations, which resulted in a subsequent upgrade to our earnings guidance that we ultimately delivered at the end of the year. As I look ahead to the coming year, this positive momentum continues in many of our key markets, and you can expect the airline to seize the opportunity and drive strong value for our customers, our people and our shareholders.

### Q. This is the third consecutive year that Air New Zealand has given a Company Performance Bonus. Can you elaborate on the thinking behind this bonus?

A. It is a very simple concept – we recognise that our people are at the core of our success and when the airline does well, everyone across the organisation should do well. We have an extremely engaged and motivated team, all of whom are driven to provide our customers with a world-class travel experience. That is why the Board of Directors instituted in 2014 the concept of a Company Performance Bonus. This bonus is decided at the discretion of the Board and is considered only when the airline achieves superior results. I am very proud that the performance of Air New Zealand for the past three years has resulted in a bonus for our people – this year, an award of up to \$1,700 will be paid to approximately 8,500 Air New Zealanders who do not have incentive programmes as part of their employment agreement.

### Q. How do you think New Zealand has been handling the strong tourism growth?

A. I am really encouraged that our Government announced in May 2017 the \$100 million investment in local mixed-use infrastructure, along with a \$76 million investment in the Department of Conservation. That commitment is a good start to sustaining the tourism growth for the medium-term. Air New Zealand looks forward to working in partnership with regional councils, the Department of Conservation and industry

participants to ensure this commitment is the beginning of a step change in the tourism experience in Aotearoa.

The opportunity for the tourism industry now is to think through how we can attract more premium tourists with higher-value experiences. We are lucky enough to live in a country that has what the rest of world wants: stunning and varied landscapes, wide open spaces and friendly people, just to name a few. As an industry, we need to work harder to harness those resources and create richer visitor experiences that drive increased value for our economy.

### Q. Where are you looking to fly next?

A. In 2018, we will be focussing on opportunities to further strengthen and build scale in our existing markets across our Pacific Rim network. This includes growing recently introduced routes such as Buenos Aires where we'll increase to five weekly services over the upcoming peak, and Houston where we're working towards increasing frequency to daily year-round. We're building on our Tokyo operations having commenced services to Haneda recently, complementing our daily Narita service. In response to good demand, you will also see some additional frequencies on our Hawaii, Bali and Vancouver routes.

In terms of new destinations, I can't reveal too much at this stage. But I can say we have a strong growth mindset and are considering new destinations in the Pacific Rim.

### Q. What is your view on people safety at Air New Zealand today?

A. Our prime health and safety focus has been on identifying and eliminating critical risks, those things which could seriously harm people. For example, within our top 10 critical risks include things such as falling from height and the movement of aircraft. Customers will notice some of the investments we have made to mitigate these risks with our new boarding ramps for our regional aircraft and improved walkways and guidance systems to keep customers safe while they are on the tarmac.

Similar investments across all risk areas have reduced the number of incidents and near misses and have also resulted in a 15% reduction in our Total Recordable Rate (TRR), the number of injuries per hours worked. The majority of these injuries are from manual handling or slips, trips and falls.

Sustainable workplace safety comes from leadership and employee commitment. In 2017 we have invested in employee representative education and in a new safety observation application which allows employees to simply check safety in their workplace and provides us with a large database of observations. We have also been trialing wellness programmes with our crew which focus on overall health and well-being as a preventative tool.

We still have a way to go on our People Safety journey, but I am proud of the progress we have made this year.





Q. Can you give us an update on some of the digital innovations that Air New Zealand is working on to make the travel experience more seamless?

A. We operate in an increasingly digital world and our customers expect us to provide a fast, personalised experience. It's therefore important we embrace digital technology and continue to evolve and keep pace with this rapidly changing environment.

Some of the innovations we've been working on in the past year include upgraded features on our mobile app, such as the ability for our customers to scan and save passport information and receive a reminder when it's time to renew it. We have also introduced an artificial intelligence-backed chatbot named Oscar, who is helping our customers with common queries on our website.

This year, our team is working hard towards the exciting launch of our very first inflight Wi-Fi trial aircraft, which will be a significant step towards our goal to expand and simplify the end-to-end customer experience. We'll be installing inflight Wi-Fi on our international routes, with the Boeing 777-300 being the first fleet to receive the technology. We will then progressively rollout Wi-Fi on all other international routes.

Q. How is Air New Zealand working with regional New Zealand to help supercharge their success?

A. Growing regional New Zealand has been core to our strategy and I believe we have the best regional network of any airline in the world. We fly to 21 ports across New Zealand and we have invested significantly in the last few years in making sure we have the right aircraft, terminals and lounges to maximise the growth opportunities and secure future sustainability that we see within New Zealand.

In 2018, an important part of our growth will be further expansion in the regions – in fact, over the coming summer months, we will be adding more than 60,000 extra seats to our regional schedule compared to last year.

However, our support of regional New Zealand definitely goes beyond that. As part of our sustainability framework and commitment to supercharging New Zealand, we are committed to working closely with key regional stakeholders, collaborating and helping them to develop attractive tourism propositions. For example, we have developed a regional brand guidebook, that provides each region with an opportunity to present the unique and compelling attributes of their respective locations. For the past three years, we have hosted an annual Mayoral forum, where we bring together the heads of local government and discuss and prioritise key issues. This year, you will have seen our Summer of Safety video highlighting the Northland region. This was a joint initiative partly funded by local tourism operators and the Far North District Council to help drive awareness and conversion of tourism traffic into the region. These are just a few of the many activities that Air New Zealand is involved in from a regional perspective.

Q. How does Air New Zealand go about building a diverse workforce?

A. Air New Zealand continues to make strong progress in delivering on an ambitious set of diversity and inclusion objectives. Our strategic focus areas include building an empowered and diverse workforce and growing diverse talent pools.

One example of how we make these focus areas a reality, is by setting targets and relentlessly tracking our progress. I am proud of how we have delivered greater gender representation. At the end of our 2012 financial year, just 16% of the Senior Leadership Team were female. We are currently sitting at 39%, against a target of 40% by 2020, which is in line with the proportion of all women employed in the airline.

As a partner to Champions for Change, we have also committed to reporting on ethnicity and gender yearly, which will give us valuable insight into how we are tracking relevant to the other 43 partner organisations. This is encouraging and illustrates how we can tackle diversity and inclusion not only for Air New Zealand but New Zealand as well.

Q. Can you talk about some of the programmes Air New Zealand is involved in to promote the Māori culture in New Zealand?

A. As the national airline of New Zealand, we recognise that Māori culture is an especially important part of New Zealand identity. We are committed to further weaving Māori culture into the fabric of our business, and we have made a lot of progress with regard to internal and external initiatives.

Internally, we have provided executive coaching and intensive residential, marae-based workshops for members of the Senior Leadership Team to develop greater Māori cultural fluency. To further support our people, we launched a Māori language and culture app "Te Kete Tikanga Māori" and established our employee Māori ambassadors to promote Māori culture and language, among all Air New Zealanders. We've also worked with prominent Māori scholar Dr Chellie Spiller, to integrate concepts of traditional Wayfinding Leadership into our middle management training.

Externally, we support the programme Champions for Change TupuToa, a Māori and Pasifika Corporate Pathways internship initiative, to promote and encourage young Māori and Pasifika employees into corporate careers.

Beyond sponsorship, Air New Zealand has been working closely with Māori organisations and Iwi, most recently signing a letter of intent with Ngāti Porou, agreeing to support projects on biodiversity, knowledge sharing, tourism development and procurement opportunities. One such initiative that our customers might have noticed is the introduction of bi-lingual answers to our in-flight quiz on domestic routes!

Q. Can you explain to me what the new Airpoints™ retail coalition is, and how does it benefit Air New Zealand customers?

A. Last October, we launched what we call our retail loyalty coalition. For our Airpoints™ members, this means they can now earn Airpoints Dollars™ at more than 60 different businesses around the country and also when shopping online at more than 140 New Zealand and international retailers.

So everything from filling up the car with petrol at Z, doing your weekly shop at New World, through to insuring your house with Tower, powering your house with Mercury or selling your house with Bayleys, can now earn you Airpoints Dollars.

With now more than 2.5 million members, I am incredibly proud that Airpoints Dollars are viewed as the most valuable loyalty currency in New Zealand. To put that into context, in the past year, our members have enjoyed more than one million products paid for by Airpoints Dollars, including 894,000 flights, 60,000 redemptions from our Airpoints Store on everything from wine to Mitre 10 vouchers, thousands of rental cars and hotel night bookings, Koru memberships and more.

**Christopher Luxon**  
Chief Executive Officer  
23 August 2017



Meet the newest member of our Executive Team

**John Whittaker**  
Chief Air Operations & People Safety Officer

**In 2017, we welcomed John Whittaker to Air New Zealand's Executive Team.**

**Executive role**

John joined Air New Zealand in 1985 and has held many senior leadership positions over his 30-year history with the airline before being appointed as Chief Air Operations & People Safety Officer in October 2016.

In his current role, John leads the 3,300 people in Air New Zealand's Jet Pilot, Cabin Crew and Health & Safety teams. Our crew are the proud face of the airline and his mission is to lead a team where everyone gives their best effort to create a safe and thriving airline where people enjoy working.

John's current initiatives focus on innovation within our cabin service and leveraging upcoming inflight connectivity to improve operational performance and customer service. There is also a real focus on making Air New Zealand a better place to work by improving the tools and systems utilised by our crew, allowing them to focus their attention on safely flying our aircraft and the needs of our customers. Continued areas of focus include fuel efficiency and reducing our carbon footprint, as well as the long-term health and wellbeing of Air New Zealand's workforce, which benefits not only our workplace, but the home life of our people.

**A continually changing career at Air New Zealand**

John has enjoyed a career at Air New Zealand that has spanned both operational and functional roles, including managing the domestic and regional airlines, international operations for pilots and airports, loyalty and alliances, and most recently Group General Manager for Airports. He feels incredibly lucky to have had a career with a huge variety of roles and international experience in a dynamic industry while working for New Zealand's most respected company. *"Where else could you do that?"*





## A Better Way to Fly

# Our newest frequent flyer.



Launched in October 2016, Air New Zealand's campaign to convince Australians to fly Air New Zealand as a one-stop hub to North or South America has been a success, thanks to a cheeky goose named Dave.

### Growing connection opportunities via Auckland

A strategic focus for the airline in the past year has involved growing connection opportunities between Australia and the Americas through Air New Zealand's Auckland hub. Traveling long-haul via Auckland not only reduces the number of stops for many Australian customers, it also allows them to enjoy a consistent inflight product from their departure point through to arrival at their destination, the ability to transit without transferring terminals and for some, use of Air New Zealand's flagship international lounge in Auckland.

To support stronger growth of the airline's long-haul departures originating from Australia, Air New Zealand backed up its marketing campaign with people on the ground. The airline reorganised the Australian sales team, moving from a country-wide approach to a state-by-state approach, and focusing on building greater awareness of Air New Zealand's value proposition with key trade partners.

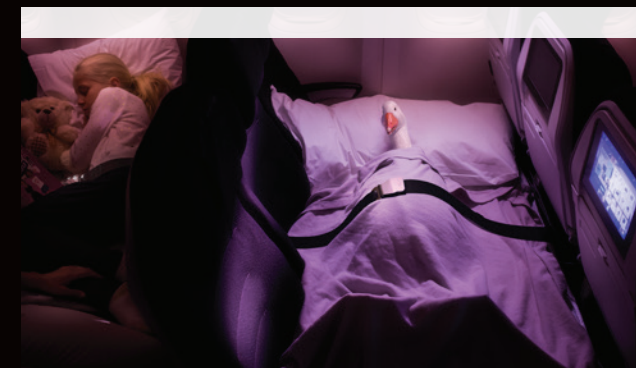
### Increasing Australian awareness of Air New Zealand

With this opportunity in mind, the airline kicked off a marketing campaign across Australia last October designed to change Australian travellers' perceptions of Air New Zealand's long-haul capabilities, world-class in-flight product and ultimately, capture a greater share of the Australian long-haul market.

The A Better Way to Fly campaign stars a migratory bird called Dave the Goose, voiced by Australian actor Bryan Brown, who has learned the benefits of flying long-haul with Air New Zealand rather than sticking with the flock.

Through Dave, the airline is taking the opportunity to educate Australian travellers why Air New Zealand is a better option to fly to North or South America using Auckland as a one stop hub.

Dave has proven to be a very popular character – the content has been viewed more than eight million times online. Additionally, since the launch of



A Better Way to Fly, Air New Zealand has significantly increased its brand awareness in Australia, and was even voted the No.1 corporate reputation in Australia – the first time ever for a Kiwi company!

Given the success of the campaign, Air New Zealand will let Dave's journey continue into other offshore markets where the airline flies. He'll also be joined by a new character. Watch this space!

[betterwaytofly.com.au](http://betterwaytofly.com.au)





# Financial Commentary

Air New Zealand's earnings before taxation for the 2017 financial year were **\$527 million**, a decrease of 21 percent on the prior year.

Net profit after taxation was **\$382 million**.

**Dividend  
Record date:**  
8 September  
2017

**Dividend  
Payment date:**  
18 September  
2017

Increased industry capacity resulted in a challenging competitive environment in the year, driving the decline in earnings. The benefit of efficiencies and economies of scale partially offset the adverse impact from increased competition and foreign exchange.

## Revenue

Operating revenue decreased by \$122 million to \$5.1 billion, a decrease of 2.3 percent on the prior year. Excluding the impact of foreign exchange, operating revenue decreased 0.4 percent.

Passenger revenue decreased by \$105 million to \$4.4 billion, a 2.3 percent decline. Excluding the impact of foreign exchange, passenger revenue decreased by 0.5 percent. Capacity (Available Seat

Kilometres, ASK) growth of 6.3 percent reflected the annualisation of new international services and up-gauging to larger aircraft and growth in the domestic network. Demand (Revenue Passenger Kilometres, RPK) lagged slightly behind capacity growth at 4.8 percent, resulting in a decreased load factor of 82.6 percent. Passenger Revenue per Available Seat Kilometre (RASK) for the Group declined 8.1 percent, due to competitive pressures. Excluding the adverse impact of foreign exchange, RASK declined 6.4 percent.

International long-haul capacity increased 6.1 percent due to the annualisation of new international routes to Houston and Buenos Aires, as well as the commencement of a seasonal route to Osaka. Demand on international long-haul routes increased 4.9 percent, with load factor declining 1.0 percentage point to 83.8 percent. International long-haul RASK decreased by 12.9 percent reflecting the increased competitive environment. Excluding the adverse impact of foreign exchange, RASK declined by 10.2 percent.

Short-haul capacity grew 6.5 percent, driven by increased frequency on New Zealand domestic main trunk routes including Auckland to Queenstown and larger aircraft and increased frequency on a number of Tasman, Pacific Island and domestic regional routes. Demand grew by 4.7 percent, with load factor declining 1.4 percentage points to

81.0 percent. Short-haul RASK declined 4.2 percent, and excluding the adverse impact of foreign exchange, declined 3.3 percent.

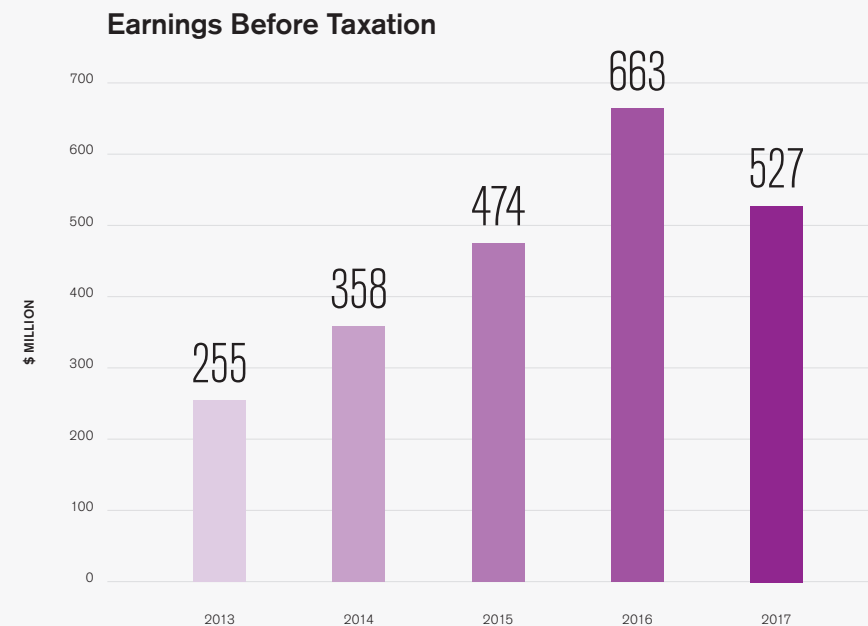
Cargo revenue was \$335 million, a decrease of \$14 million or 4.0 percent. Excluding the adverse impact of foreign exchange, cargo revenue decreased 0.6 percent. Volume growth on new routes was more than offset by yield pressure from competition from North American and Asian carriers.

Contract services and other revenue was \$398 million, a decrease of \$3 million or 0.7 percent on the prior year. Excluding the adverse impact of foreign exchange, contract services and other revenue increased 1.2 percent, reflecting higher ancillary revenue offset by a reduction in third-party maintenance revenue.

## Expenses

Operating expenditure increased by \$155 million on the prior year. Foreign exchange (including net hedging impact) had a \$13 million adverse impact on operating expenses. Excluding foreign exchange related movements, operating expenditure increased by 3.8 percent on a 6.3 percent increase in capacity.

Costs per ASK improved 1.9 percent on the prior period to 9.12 cents per ASK. Excluding the impact of foreign exchange, Costs per ASK improved 2.3 percent. The main contributor of the improved unit operating costs were efficiencies achieved throughout the cost base. Economies of scale and efficiencies contributed \$158 million in savings.



Labour costs were \$1.3 billion for the period, an increase of \$36 million or 2.9 percent. Excluding the impact of foreign exchange, labour costs increased 3.6 percent on a 6.3 percent increase in capacity. Rate and activity increases were partially offset by productivity improvements and lower incentive provisions. Headcount increased by 363 full time equivalent (FTE) between June 2016 and June 2017 to 10,890 FTE employees, a 3.4 percent increase.

Fuel costs were \$827 million, improving by \$19 million, or 2.2 percent. The net fuel price reduction of \$13 million benefited from hedging movements compared to the prior year, offsetting the underlying increase in the jet fuel price. However, the improvement in fuel price was more than offset by a \$52 million increase from volume consumption (6.1 percent). Excluding the positive impact of foreign exchange, fuel costs increased \$39 million (4.6 percent).

Aircraft operations, passenger services and maintenance costs were \$1.1 billion, an increase of \$16 million or 1.4 percent on the prior year. Increased capacity, passenger numbers and price increases drove increased aircraft operations and passenger services expenses, offset by lower maintenance expenditure.

Sales and marketing and other expenses increased by \$4 million or 0.7 percent, due to increased loyalty programme activity and higher agency commissions. Foreign exchange had a \$15 million favourable impact compared to the prior year.

Depreciation, rental and lease expense and funding costs increased by \$11 million or 1.5 percent. Excluding the impact of foreign exchange, costs increased by 3.3 percent, reflecting an increase in aircraft depreciation due to delivery of new aircraft and lounge refurbishments.

## Foreign Exchange Impact

The impact of foreign exchange rate changes on the revenue and cost base in the current financial year resulted in a favourable foreign exchange movement of \$19 million due to the strengthening of the New Zealand dollar against most major currencies. In the prior year, the Group realised a hedging gain of \$112 million, while current year hedging resulted in a modest loss of \$6 million. After taking into account the unfavourable impact of hedging movements of \$118 million, overall foreign exchange had a \$99 million negative impact on the result compared to the prior year.

## Share of Earnings of Associates

The share of equity earnings of associates for the year was comprised of \$26 million of earnings from the Christchurch Engine Centre, an increase of \$3 million from the prior period. In the prior year, losses of \$3 million were recognised during the nine-month period in which the interest in Virgin Australia was recognised as an associate investment.

## Other Significant Items

Other significant items of \$3 million were recognised during the year related to \$22 million of gains on the divestment of Virgin Australia offset by \$11 million of legal proceedings and settlements and \$8 million of impairments on Beech 1900D aircraft following the fleet's exit from service. In the prior year, \$86 million of losses was recognised in relation to the Virgin Australia investment and \$57 million of costs in respect of a cargo legal settlement.

## Cash and Financial Position

Cash on hand at 30 June 2017 was \$1.4 billion, a decrease of \$225 million from 30 June 2016, with the operating cash flow being offset with the payment of dividends and capital investment in aircraft. The Group's operating cash flows were \$904 million, a decrease of 16 percent from the prior year, reflecting the decline in earnings and the impact from a one-off prepayment for engine maintenance of \$58 million.

Net gearing, including capitalised aircraft operating leases, increased 3.2 percentage points to 51.8 percent. The increase was due to the purchase of new aircraft and payment of the 2016 special dividend during the year.

A 2017 fully imputed final ordinary dividend has been declared of 11.0 cents per share, an increase of 10 percent from the prior year, and brings the full year 2017 ordinary dividends declared to 21.0 cents per share.





# Change in Profitability

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

|  |         |   |
|--|---------|---|
| June 2016 earnings before taxation         | \$663m  |   |
| Passenger capacity                         | \$225m  | - Capacity increased by 6.3 percent from growth across the network due to the annualisation impact of new international routes, increased widebody services across the Tasman and Pacific Islands and additional domestic A320's and ATR72-600's  |
| Passenger RASK                             | -\$247m | <div>- Revenue per Available Seat Kilometre (RASK) declined 6.4 percent excluding FX during a period of significant market capacity growth. Yield declined 5.0 percent excluding FX as loads declined by 1.1 percentage points to 82.6 percent</div> <div>- Long-haul RASK declined by 10.2 percent excluding FX. Yields declined 9.1 percent excluding FX while loads declined reflecting capacity growth</div> <div>- Short-haul RASK declined by 3.3 percent excluding FX. Yields declined by 1.6 percent excluding FX combined with lower loads</div> |
| Cargo, contract services and other revenue | \$3m    | - Increase in ancillary revenue offset by a reduction in third party maintenance  |
| Labour                                     | -\$44m  | - Increased activity (net of improved productivity) arising from capacity growth and general rate increases offset by lower incentive provisions  |
| Fuel                                       | -\$39m  | - The average effective fuel price decreased 1.5 percent compared to the prior year. Consumption increased by 6.1 percent due to an increase in capacity  |
| Maintenance                                | \$17m   | - Reduced engine maintenance provisioning and reductions arising from the exit of Beech 1900D and B763 aircraft   |
| Aircraft operations and passenger services | -\$60m  | - Increased activity and price increases  |
| Sales and marketing                        | -\$14m  | - Higher agency commissions and increased loyalty programme activity  |
| Other expenses                             | -\$5m   | - Increased digital costs due to additional activity and prior year gain on sale of property  |
| Depreciation, lease and funding costs      | -\$25m  | - Increase in depreciation reflecting delivery of new aircraft and lounge refurbishments  |
| Net impact of foreign exchange movements   | -\$99m  | - Decrease in foreign exchange hedging benefits offset by the net favourable impact of currency movements on revenue and costs  |
| Share of earnings from associates          | \$6m    | - Improved earnings from Christchurch Engine Centre (\$3 million) and losses recognised in the prior year from Virgin Australia (\$3 million)   |
| Other significant items                    | \$146m  | - Impact of Virgin Australia divestment, reduced legal proceedings and settlements offset by the impairment of Beech 1900D aircraft   |
| June 2017 earnings before taxation         | \$527m  |   |

# Financial Summary

| Financial Performance  |                     |                     |
|--|---------------------|---------------------|
| FOR THE YEAR ENDED   | 30 JUNE 2017<br>\$M | 30 JUNE 2016<br>\$M |
| <b>Operating Revenue</b>   |                     |                     |
| Passenger revenue  | 4,376               | 4,481               |
| Cargo  | 335                 | 349                 |
| Contract services and other revenue  | 398                 | 401                 |
|  | 5,109               | 5,231               |
| <b>Operating Expenditure</b>   |                     |                     |
| Labour   | (1,261)             | (1,225)             |
| Fuel   | (827)               | (846)               |
| Maintenance  | (321)               | (350)               |
| Aircraft operations  | (556)               | (531)               |
| Passenger services   | (266)               | (246)               |
| Sales and marketing  | (352)               | (348)               |
| Foreign exchange (losses)/gains  | (6)                 | 112                 |
| Other expenses   | (255)               | (255)               |
|  | (3,844)             | (3,689)             |
| <b>Operating Earnings (excluding items below)</b>                                      | 1,265               | 1,542               |
| Depreciation and amortisation  | (493)               | (465)               |
| Rental and lease expenses  | (230)               | (244)               |
| <b>Earnings Before Finance Costs, Associates, Other Significant Items and Taxation</b> | 542                 | 833                 |
| Net finance costs  | (44)                | (47)                |
| Share of earnings of associates (net of taxation)                                      | 26                  | 20                  |
| <b>Earnings Before Other Significant Items and Taxation</b>                            | 524                 | 806                 |
| Other significant items  | 3                   | (143)               |
| <b>Earnings Before Taxation</b>  | 527                 | 663                 |
| Taxation expense   | (145)               | (200)               |
| <b>Net Profit Attributable to Shareholders of Parent Company</b>                       | 382                 | 463                 |
| Interim and final dividends declared per share (cents)                                 | 21.0                | 20.0                |
| Special dividend declared per share (cents)  | -                   | 25.0                |
| Net tangible assets per share (cents)  | 164                 | 176                 |

| Cash Flows  |                     |                     |
|---|---------------------|---------------------|
| FOR THE YEAR ENDED                                      | 30 JUNE 2017<br>\$M | 30 JUNE 2016<br>\$M |
| Cash inflows from operating activities                  | 5,227               | 5,346               |
| Cash outflows from operating activities                 | (4,323)             | (4,272)             |
| Net cash flow from operating activities                 | 904                 | 1,074               |
| Net cash flow from investing activities                 | (616)               | (797)               |
| Net cash flow from financing activities                 | (513)               | (4)                 |
| (Decrease)/Increase in cash and cash equivalents        | (225)               | 273                 |
| Cash and cash equivalents at the beginning of the year  | 1,594               | 1,321               |
| <b>Cash and Cash Equivalents at the End of the Year</b> | 1,369               | 1,594               |

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



# Financial Summary (continued)

## Financial Position

| AS AT                                   | 30 JUNE 2017<br>\$M | 30 JUNE 2016<br>\$M |
|---|---------------------|---------------------|
| Bank and short-term deposits            | 1,369               | 1,594               |
| Trade and other receivables             | 386                 | 373                 |
| Inventories                             | 86                  | 103                 |
| Derivative financial assets             | 19                  | 70                  |
| Investment in quoted equity instruments | -                   | 22                  |
| Other assets                            | 27                  | 177                 |
| <b>Total Current Assets</b>             | <b>1,887</b>        | <b>2,339</b>        |
| Trade and other receivables             | 120                 | 61                  |
| Property, plant and equipment           | 4,745               | 4,485               |
| Intangible assets                       | 149                 | 127                 |
| Investments in other entities           | 95                  | 79                  |
| Other assets                            | 175                 | 160                 |
| <b>Total Non-Current Assets</b>         | <b>5,284</b>        | <b>4,912</b>        |
| <b>Total Assets</b>                     | <b>7,171</b>        | <b>7,251</b>        |
| Trade and other payables                | 462                 | 453                 |
| Revenue in advance                      | 1,177               | 1,111               |
| Interest-bearing liabilities            | 317                 | 464                 |
| Derivative financial liabilities        | 65                  | 65                  |
| Provisions                              | 87                  | 87                  |
| Income taxation                         | 36                  | 54                  |
| Other liabilities                       | 261                 | 237                 |
| <b>Total Current Liabilities</b>        | <b>2,405</b>        | <b>2,471</b>        |
| Revenue in advance                      | 184                 | 161                 |
| Interest-bearing liabilities            | 2,197               | 2,103               |
| Derivative financial liabilities        | -                   | 4                   |
| Provisions                              | 183                 | 216                 |
| Other liabilities                       | 23                  | 24                  |
| Deferred taxation                       | 193                 | 164                 |
| <b>Total Non-Current Liabilities</b>    | <b>2,780</b>        | <b>2,672</b>        |
| <b>Total Liabilities</b>                | <b>5,185</b>        | <b>5,143</b>        |
| <b>Net Assets</b>                       | <b>1,986</b>        | <b>2,108</b>        |
| Share capital                           | 2,238               | 2,252               |
| Reserves                                | (252)               | (144)               |
| <b>Total Equity</b>                     | <b>1,986</b>        | <b>2,108</b>        |

The summary financial information has been derived from, and should be read in conjunction with, the Air New Zealand Group Annual Financial Statements (the 'Annual Financial Statements'). The Annual Financial Statements, dated 23 August 2017, are available at: [airnzinvestor.com](http://airnzinvestor.com). The summary financial information cannot be expected to provide as complete an understanding as provided by the Annual Financial Statements. The accounting policies used in these financial statements are attached in the notes to the Annual Financial Statements.

## Share Registrar

### LINK MARKET SERVICES LIMITED

Level 11, Deloitte Centre  
80 Queen Street, Auckland 1010, New Zealand  
PO Box 91976, Auckland 1142, New Zealand

**Email:** [enquiries@linkmarketservices.com](mailto:enquiries@linkmarketservices.com)

**Website:** [linkmarketservices.com](http://linkmarketservices.com)

**New Zealand Phone:** (64 9) 375 5998

**New Zealand Fax:** (64 9) 375 5990

**Australia Phone:** (61) 1300 554 474

## Annual Financial Statements

The Annual Financial Statements are available by visiting our website [airnzinvestor.com](http://airnzinvestor.com) OR you may elect to have a copy sent to you by contacting Investor Relations.

### ELECTRONIC SHAREHOLDER COMMUNICATION

If you would like to receive all investor communications electronically, including interim and annual shareholder reviews, please visit the Link Market Services website [linkmarketservices.com](http://linkmarketservices.com) or contact them directly (details to the left).

## Investor Relations Office

Private Bag 92007, Auckland 1142, New Zealand

**Phone:** 0800 22 22 18 (New Zealand)

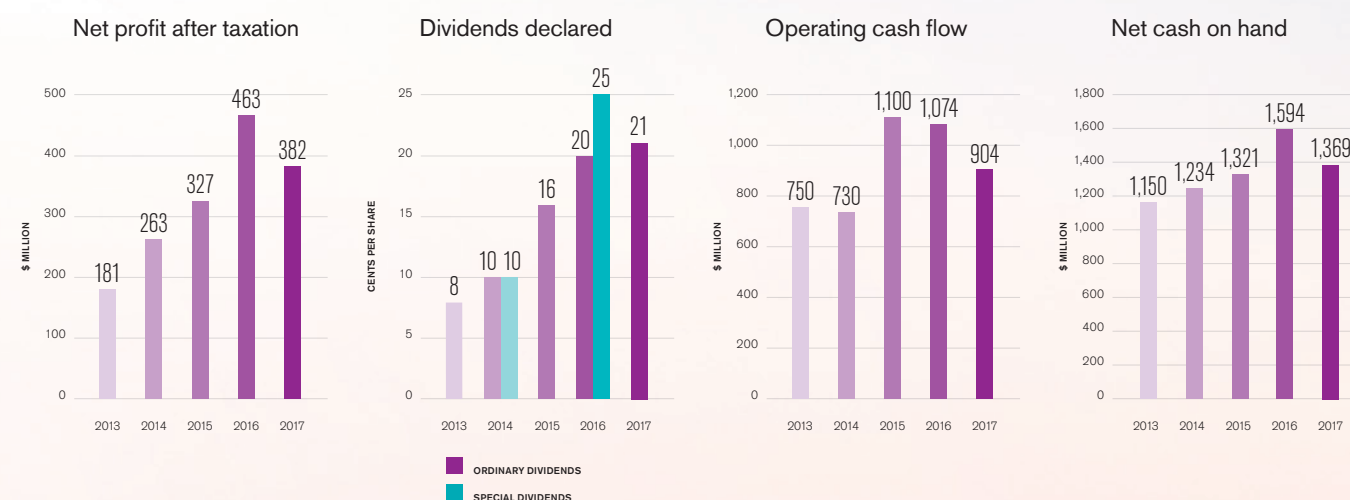
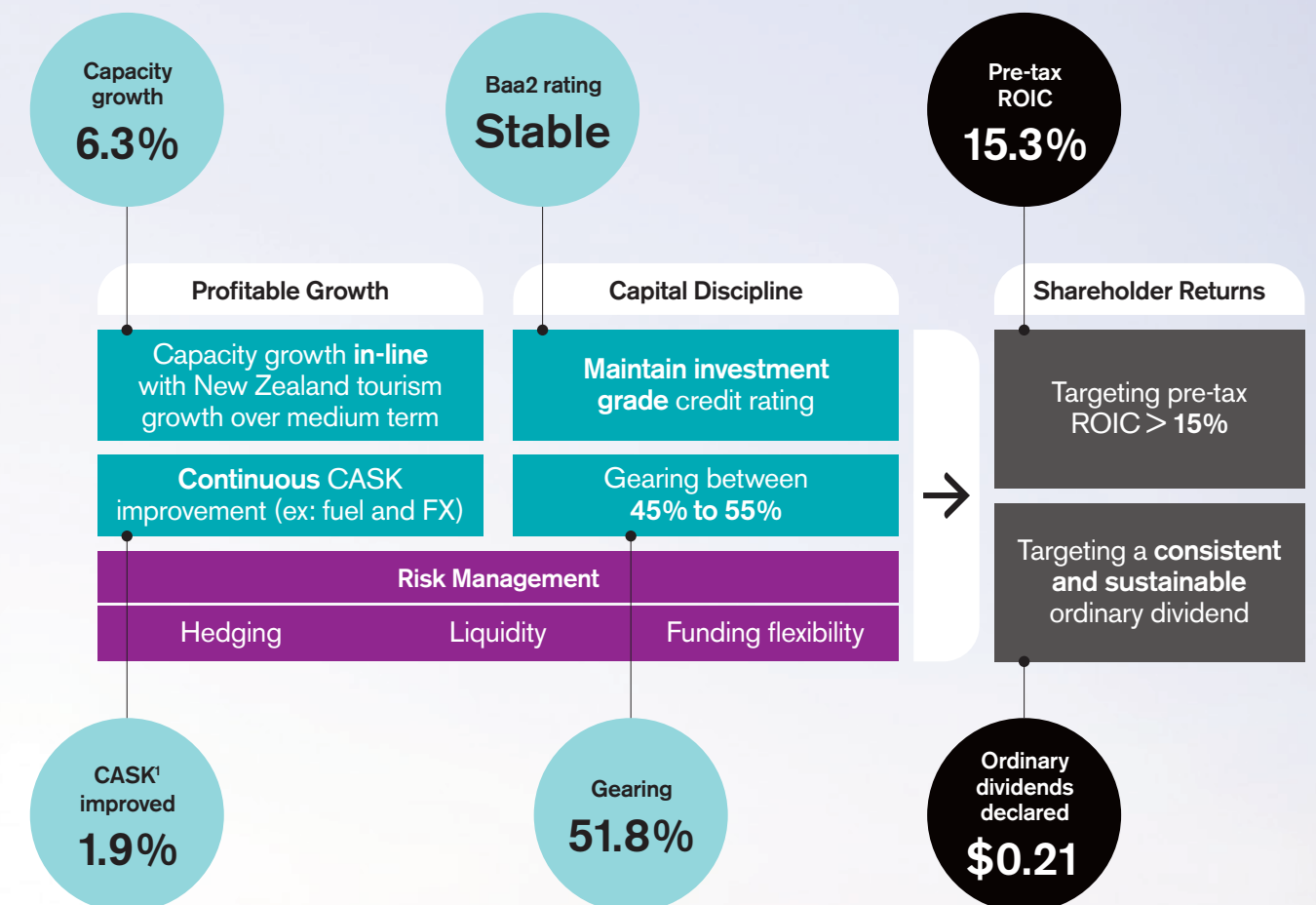
**Phone:** (64 9) 336 2607 (Overseas)

**Fax:** (64 9) 336 2664

**Email:** [investor@airnz.co.nz](mailto:investor@airnz.co.nz)

**Website:** [airnzinvestor.com](http://airnzinvestor.com)

# Financial Framework – our 2017 performance



<sup>1</sup>Excluding fuel price movement and FX.

AIR NEW ZEALAND 

# ***Where to next?***







# Annual Financial Results

2017







# 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 2017.

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 2017 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

23 August 2017

**Jan Dawson**  
Deputy Chairman

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## STATEMENT OF FINANCIAL PERFORMANCE

For the year to 30 June 2017

|  | NOTES | 2017<br>\$M | 2016<br>\$M |
|--|-------|-------------|-------------|
| <b>Operating Revenue</b>   |       |             |             |
| Passenger revenue  |       | 4,376       | 4,481       |
| Cargo  |       | 335         | 349         |
| Contract services  |       | 164         | 172         |
| Other revenue  |       | 234         | 229         |
|  | 1     | 5,109       | 5,231       |
| <b>Operating Expenditure</b>   |       |             |             |
| Labour   |       | (1,261)     | (1,225)     |
| Fuel   |       | (827)       | (846)       |
| Maintenance  |       | (321)       | (350)       |
| Aircraft operations  |       | (556)       | (531)       |
| Passenger services   |       | (266)       | (246)       |
| Sales and marketing  |       | (352)       | (348)       |
| Foreign exchange (losses)/gains  |       | (6)         | 112         |
| Other expenses   |       | (255)       | (255)       |
|  | 2     | (3,844)     | (3,689)     |
| <b>Operating Earnings (excluding items below)</b>                                      |       | 1,265       | 1,542       |
| Depreciation and amortisation  |       | (493)       | (465)       |
| Rental and lease expenses  | 21    | (230)       | (244)       |
| <b>Earnings Before Finance Costs, Associates, Other Significant Items and Taxation</b> |       | 542         | 833         |
| Finance income   |       | 43          | 53          |
| Finance costs  |       | (87)        | (100)       |
| Share of earnings of associates (net of taxation)                                      | 13    | 26          | 20          |
| <b>Earnings Before Other Significant Items and Taxation</b>                            |       | 524         | 806         |
| Other significant items  | 3     | 3           | (143)       |
| <b>Earnings Before Taxation</b>  |       | 527         | 663         |
| Taxation expense   | 4     | (145)       | (200)       |
| <b>Net Profit Attributable to Shareholders of Parent Company</b>                       |       | 382         | 463         |
| <b>Per Share Information:</b>  |       |             |             |
| Basic earnings per share (cents)   | 5     | 34.0        | 41.3        |
| Diluted earnings per share (cents)   | 5     | 33.5        | 40.8        |
| Interim and final dividends declared per share (cents)                                 | 18    | 21.0        | 20.0        |
| Special dividend declared per share (cents)  | 18    | -           | 25.0        |
| Net tangible assets per share (cents)  |       | 164         | 176         |



# STATEMENT OF COMPREHENSIVE INCOME

For the year to 30 June 2017

|  | NOTE | 2017<br>\$M | 2016<br>\$M |
|--|------|-------------|-------------|
| <b>Net Profit for the Year</b>   |      | 382         | 463         |
| <b>Other Comprehensive Income:</b>   |      |             |             |
| <b>Items that will not be reclassified to profit or loss:</b>                                      |      |             |             |
| Actuarial losses on defined benefit plans  |      | (3)         | (11)        |
| Taxation on above reserve movements  | 4    | 1           | 3           |
| <b>Total items that will not be reclassified to profit or loss</b>                                 |      | (2)         | (8)         |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                              |      |             |             |
| Changes in fair value of cash flow hedges  |      | 65          | (52)        |
| Transfers to net profit from cash flow hedge reserve   |      | (32)        | (62)        |
| Net translation loss on investment in foreign operations   |      | -           | (13)        |
| Changes in cost of hedging reserve   |      | (8)         | (4)         |
| Taxation on above reserve movements  |      | (8)         | 33          |
| Share of equity accounted associates' reserves (net of taxation)                                   |      | -           | (26)        |
| Cessation of equity accounting   |      | -           | 70          |
| <b>Total items that may be reclassified subsequently to profit or loss</b>                         |      | 17          | (54)        |
| <b>Total Other Comprehensive Income for the Year, Net of Taxation</b>                              |      | 15          | (62)        |
| <b>Total Comprehensive Income for the Year, Attributable to Shareholders of the Parent Company</b> |      | 397         | 401         |



## STATEMENT OF CHANGES IN EQUITY

For the year to 30 June 2017

|   | NOTES | SHARE<br>CAPITAL<br>\$M | HEDGE<br>RESERVES<br>\$M | FOREIGN<br>CURRENCY<br>TRANSLATION<br>RESERVE<br>\$M | GENERAL<br>RESERVES<br>\$M | TOTAL<br>EQUITY<br>\$M |
|---|-------|-------------------------|--------------------------|--|----------------------------|------------------------|
| <b>Balance as at 1 July 2016</b>                      |       | <b>2,252</b>            | <b>(9)</b>               | <b>(15)</b>  | <b>(120)</b>               | <b>2,108</b>           |
| Net profit for the year                               |       | -                       | -                        | -  | 382                        | 382                    |
| Other comprehensive income for the year               |       | -                       | 18                       | (1)  | (2)                        | 15                     |
| <b>Total Comprehensive Income for the Year</b>        |       | <b>-</b>                | <b>18</b>                | <b>(1)</b>   | <b>380</b>                 | <b>397</b>             |
| <b>Transactions with Owners:</b>                      |       |                         |                          |  |                            |                        |
| Equity-settled share-based payments                   | 19    | 5                       | -                        | -  | -                          | 5                      |
| Equity settlements of long-term incentive obligations | 19    | (19)                    | -                        | -  | -                          | (19)                   |
| Dividends on Ordinary Shares                          | 18    | -                       | -                        | -  | (505)                      | (505)                  |
| <b>Total Transactions with Owners</b>                 |       | <b>(14)</b>             | <b>-</b>                 | <b>-</b>   | <b>(505)</b>               | <b>(519)</b>           |
| <b>Balance as at 30 June 2017</b>                     |       | <b>2,238</b>            | <b>9</b>                 | <b>(16)</b>  | <b>(245)</b>               | <b>1,986</b>           |

|  | NOTES | SHARE<br>CAPITAL<br>\$M | HEDGE<br>RESERVES<br>\$M | FOREIGN<br>CURRENCY<br>TRANSLATION<br>RESERVE<br>\$M | GENERAL<br>RESERVES<br>\$M | TOTAL<br>EQUITY<br>\$M |
|--|-------|-------------------------|--------------------------|--|----------------------------|------------------------|
| <b>Balance as at 1 July 2015</b>                                 |       | <b>2,286</b>            | <b>74</b>                | <b>(44)</b>  | <b>(351)</b>               | <b>1,965</b>           |
| Net profit for the year  |       | -                       | -                        | -  | 463                        | 463                    |
| Other comprehensive income for the year                          |       | -                       | (83)                     | 29   | (8)                        | (62)                   |
| <b>Total Comprehensive Income for the Year</b>                   |       | <b>-</b>                | <b>(83)</b>              | <b>29</b>  | <b>455</b>                 | <b>401</b>             |
| <b>Transactions with Owners:</b>                                 |       |                         |                          |  |                            |                        |
| 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)                    |
| <b>Total Transactions with Owners</b>                            |       | <b>(34)</b>             | <b>-</b>                 | <b>-</b>   | <b>(224)</b>               | <b>(258)</b>           |
| <b>Balance as at 30 June 2016</b>                                |       | <b>2,252</b>            | <b>(9)</b>               | <b>(15)</b>  | <b>(120)</b>               | <b>2,108</b>           |



# STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

|   | NOTES | 2017<br>\$M  | 2016<br>\$M  |
|---|-------|--------------|--------------|
| <b>Current Assets</b>                   |       |              |              |
| Bank and short-term deposits            | 6     | 1,369        | 1,594        |
| Trade and other receivables             | 7     | 386          | 373          |
| Inventories                             | 8     | 86           | 103          |
| Derivative financial assets             | 24    | 19           | 70           |
| Investment in quoted equity instruments | 9     | -            | 22           |
| Other assets                            | 10    | 27           | 177          |
| <b>Total Current Assets</b>             |       | <b>1,887</b> | <b>2,339</b> |
| <b>Non-Current Assets</b>               |       |              |              |
| Trade and other receivables             | 7     | 120          | 61           |
| Property, plant and equipment           | 11    | 4,745        | 4,485        |
| Intangible assets                       | 12    | 149          | 127          |
| Investments in other entities           | 13    | 95           | 79           |
| Other assets                            | 10    | 175          | 160          |
| <b>Total Non-Current Assets</b>         |       | <b>5,284</b> | <b>4,912</b> |
| <b>Total Assets</b>                     |       | <b>7,171</b> | <b>7,251</b> |
| <b>Current Liabilities</b>              |       |              |              |
| Trade and other payables                |       | 462          | 453          |
| Revenue in advance                      | 14    | 1,177        | 1,111        |
| Interest-bearing liabilities            | 15    | 317          | 464          |
| Derivative financial liabilities        | 24    | 65           | 65           |
| Provisions                              | 16    | 87           | 87           |
| Income taxation                         |       | 36           | 54           |
| Other liabilities                       | 17    | 261          | 237          |
| <b>Total Current Liabilities</b>        |       | <b>2,405</b> | <b>2,471</b> |
| <b>Non-Current Liabilities</b>          |       |              |              |
| Revenue in advance                      | 14    | 184          | 161          |
| Interest-bearing liabilities            | 15    | 2,197        | 2,103        |
| Derivative financial liabilities        | 24    | -            | 4            |
| Provisions                              | 16    | 183          | 216          |
| Other liabilities                       | 17    | 23           | 24           |
| Deferred taxation                       | 4     | 193          | 164          |
| <b>Total Non-Current Liabilities</b>    |       | <b>2,780</b> | <b>2,672</b> |
| <b>Total Liabilities</b>                |       | <b>5,185</b> | <b>5,143</b> |
| <b>Net Assets</b>                       |       | <b>1,986</b> | <b>2,108</b> |
| <b>Equity</b>                           |       |              |              |
| Share capital                           | 19    | 2,238        | 2,252        |
| Reserves                                | 20    | (252)        | (144)        |
| <b>Total Equity</b>                     |       | <b>1,986</b> | <b>2,108</b> |

**Tony Carter**  
Chairman

For and on behalf of the Board, 23 August 2017

**Jan Dawson**  
Deputy Chairman

# STATEMENT OF CASH FLOWS

For the year to 30 June 2017

|   | NOTES | 2017<br>\$M | 2016<br>\$M |
|---|-------|-------------|-------------|
| <b>Cash Flows from Operating Activities</b>                                       |       |             |             |
| Receipts from customers   |       | 5,183       | 5,290       |
| Payments to suppliers and employees   |       | (4,130)     | (3,969)     |
| Income tax paid   |       | (116)       | (185)       |
| Interest paid   |       | (77)        | (96)        |
| Interest received   |       | 40          | 56          |
|   |       | 900         | 1,096       |
| Rollover of foreign exchange contracts*   |       | 4           | (22)        |
| <b>Net Cash Flow from Operating Activities</b>                                    | 6     | 904         | 1,074       |
| <b>Cash Flows from Investing Activities</b>                                       |       |             |             |
| Disposal of property, plant and equipment, intangibles and assets held for resale |       | 60          | 57          |
| Disposal of investments in quoted equity instruments                              | 9     | 68          | 281         |
| Interest-bearing asset receipts   | 10    | 137         | -           |
| Distribution from associates  | 26    | 8           | 10          |
| Acquisition of property, plant and equipment and intangibles                      |       | (853)       | (998)       |
| Acquisition of quoted equity instruments  | 9     | (23)        | -           |
| Interest-bearing asset payments   |       | (13)        | (147)       |
| <b>Net Cash Flow from Investing Activities</b>                                    |       | (616)       | (797)       |
| <b>Cash Flows from Financing Activities</b>                                       |       |             |             |
| Interest-bearing liabilities drawdowns  |       | 512         | 564         |
| Rollover of foreign exchange contracts*   |       | 9           | 45          |
| Equity settlements of long-term incentive obligations                             | 19    | (19)        | (39)        |
| Interest-bearing liabilities payments   |       | (485)       | (344)       |
| Dividends on Ordinary Shares  | 18    | (530)       | (230)       |
| <b>Net Cash Flow from Financing Activities</b>                                    |       | (513)       | (4)         |
| <b>(Decrease)/Increase in Cash and Cash Equivalents</b>                           |       | (225)       | 273         |
| Cash and cash equivalents at the beginning of the year                            |       | 1,594       | 1,321       |
| <b>Cash and Cash Equivalents at the End of the Year</b>                           | 6     | 1,369       | 1,594       |

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



# STATEMENT OF ACCOUNTING POLICIES

For the year to 30 June 2017

## 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 23 August 2017.

## 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  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, will have no 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 an impact on the financial statements other than reclassifications and additional disclosures.

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, will have a significant impact on the financial statements. The impact has not yet been quantified.

# STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year to 30 June 2017

NZ IFRS 17 - Insurance Contracts has not been adopted early. It provides consistent principles for all aspects of accounting for insurance contracts. This standard, which becomes effective for annual periods commencing on or after 1 January 2021, will not have a significant impact on the financial statements.

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 2017

## 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.

|  | 2017<br>\$M  | 2016<br>\$M  |
|--|--------------|--------------|
| <b>Analysis of revenue by geographical region of original sale</b> |              |              |
| New Zealand  | 3,041        | 2,981        |
| Australia and Pacific Islands                                      | 621          | 619          |
| United Kingdom and Europe  | 278          | 330          |
| Asia   | 440          | 470          |
| America  | 729          | 831          |
| <b>Total operating revenue</b>                                     | <b>5,109</b> | <b>5,231</b> |

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:

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| Superannuation expense                    | 47          | 47          |
| Audit and review of financial statements* | 1           | 1           |

\*Other fees were paid for tax compliance work undertaken for the Corporate Taxpayers Group of \$13k (30 June 2016: \$20k), Greenhouse Gas inventory review of \$21k (30 June 2016: \$22k), sustainability reporting of \$20k (30 June 2016: \$18k), employee speak-up line service of \$20k (30 June 2016: \$42k), student fee protection audit of \$5k (30 June 2016: \$5k) and US Passenger Facility Charge Audit of \$77k (30 June 2016: resources provided for IT controls review of \$23k and other HR consultancy services of \$85k).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to 30 June 2017

## 3. Other Significant Items



Other significant items are items of revenue or expenditure which due to their size or 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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| Fair value movement on divestment of associate (including disposal costs) | 22          | (84)        |
| Loss on cessation of equity accounting of associate                       | -           | (2)         |
| Legal proceedings and settlements (including associated costs)            | (11)        | (57)        |
| Impairment of assets held for resale                                      | (8)         | -           |
|   | 3           | (143)       |

From 30 March 2016, the investment in Virgin Australia 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. As at 30 June 2016, the Company had sold the majority of its shareholding with a residual 2.5% interest being held. In August 2016, the Group subscribed to a one for one rights issue, and subsequently sold all remaining shares. The fair value movement (net of disposal costs) of these shares from 30 June 2016 to the date of disposal was \$22 million. Further detail is provided in Note 9.

During the year ended 30 June 2017 an allowance of A\$10 million was made for court penalties and costs related to an Australian Competition and Consumer Commission cargo legal proceedings. The current and prior year also includes legal settlements (and associated costs) related to class action compensation claims in the United States (30 June 2017: \$1 million relating to fares and surcharges on trans-Pacific routes; 30 June 2016: \$57 million relating to the air cargo business). Further detail is provided in Note 23.

An impairment loss of \$8 million was recognised during the year ended 30 June 2017 for six Beech 1900D aircraft which were held for resale. The Beech 1900D fleet of eighteen aircraft exited service by August 2016 following a strategic review of regional airline operations. During the period the aircraft have been actively marketed for sale. The impairment expense reflects a revision to the market value based on current market conditions.

## 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 2017

## 4. Taxation (continued)

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Current taxation expense</b>                       |             |             |
| Current year  | (121)       | (234)       |
| Adjustment for prior periods                          | -           | (1)         |
|   | (121)       | (235)       |
| <b>Deferred taxation expense</b>                      |             |             |
| Origination of temporary differences                  | (24)        | 35          |
| <b>Total taxation expense recognised in earnings</b>  | (145)       | (200)       |
| <b>Reconciliation of effective tax rate</b>           |             |             |
| Earnings before taxation                              | 527         | 663         |
| Taxation at 28%                                       | (148)       | (185)       |
| <b>Adjustments</b>                                    |             |             |
| Non-deductible expenses                               | (6)         | (3)         |
| Virgin Australia                                      | 6           | (24)        |
| Non-taxable income                                    | 1           | 4           |
| Equity settlements of long-term incentive obligations | 5           | 11          |
| Under provided in prior periods                       | -           | (3)         |
| Foreign tax paid                                      | (3)         | -           |
| <b>Taxation expense</b>                               | (145)       | (200)       |

The Group has \$265 million of imputation credits as at 30 June 2017 (30 June 2016: \$344 million).

### Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

|  | NON-AIRCRAFT<br>ASSETS<br>\$M | AIRCRAFT<br>RELATED<br>\$M | PROVISIONS<br>AND<br>ACCRUALS<br>\$M | FINANCIAL<br>INSTRUMENTS<br>\$M | PENSION<br>OBLIGATIONS<br>\$M | TOTAL<br>\$M |
|--|-------------------------------|----------------------------|--------------------------------------|---------------------------------|-------------------------------|--------------|
| As at 1 July 2015                                | 14                            | 299                        | (106)                                | 23                              | (2)                           | 228          |
| Amounts recognised in Other Comprehensive Income | -                             | -                          | -                                    | (26)                            | (3)                           | (29)         |
| Amounts recognised in earnings                   | (1)                           | (14)                       | (20)                                 | -                               | -                             | (35)         |
| <b>As at 30 June 2016</b>                        | 13                            | 285                        | (126)                                | (3)                             | (5)                           | 164          |
| Amounts recognised in Other Comprehensive Income | -                             | -                          | -                                    | 6                               | (1)                           | 5            |
| Amounts recognised in earnings                   | 2                             | 17                         | 5                                    | -                               | -                             | 24           |
| <b>As at 30 June 2017</b>                        | 15                            | 302                        | (121)                                | 3                               | (6)                           | 193          |

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 2016: Nil).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2017

## 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.

|  | 2017<br>\$M  | 2016<br>\$M  |
|--|--------------|--------------|
| <b>Earnings for the purpose of basic and diluted earnings per share:</b>         |              |              |
| Net Profit Attributable to Shareholders of the Parent Company                    | 382          | 463          |
| <b>Weighted average number of shares (in millions of shares)</b>                 |              |              |
| Weighted average number of Ordinary Shares for basic earnings per share          | 1,123        | 1,122        |
| Effect of dilutive ordinary shares:  |              |              |
| - Share options and performance rights   | 17           | 14           |
| <b>Weighted average number of Ordinary Shares for diluted earnings per share</b> | <b>1,140</b> | <b>1,136</b> |
| Basic earnings per share   | 34.0         | 41.3         |
| Diluted earnings per share   | 33.5         | 40.8         |

## 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:

|   | 2017<br>\$M  | 2016<br>\$M  |
|---|--------------|--------------|
| Cash balances   | 33           | 20           |
| Other short-term deposits and short-term bills  | 1,336        | 1,574        |
| <b>Total cash and cash equivalents</b>  | <b>1,369</b> | <b>1,594</b> |
| <b>Reconciliation of Net Profit Attributable to Shareholders to Net Cash Flows from Operating Activities:</b> |              |              |
| <b>Net profit attributable to shareholders</b>  | <b>382</b>   | <b>463</b>   |
| <b>Plus/(less) non-cash items:</b>  |              |              |
| Depreciation and amortisation   | 493          | 465          |
| Gain on disposal of property, plant and equipment, intangibles and assets held for resale                     | (3)          | (5)          |
| Loss on cessation of equity accounting of associate   | -            | 2            |
| Impairment on property, plant and equipment, intangibles and assets held for resale                           | 8            | 1            |
| Share of earnings of associates   | (26)         | (20)         |
| Changes in fair value of investments in quoted equity instruments   | (23)         | 79           |
| Foreign exchange gains  | (5)          | (9)          |
| Other non-cash items  | 12           | 13           |
|   | <b>838</b>   | <b>989</b>   |
| <b>Net working capital movements:</b>   |              |              |
| Assets  | (57)         | 12           |
| Revenue in advance  | 89           | 67           |
| Deferred foreign exchange losses/(gains)  | 4            | (22)         |
| Liabilities   | 30           | 28           |
|   | <b>66</b>    | <b>85</b>    |
| <b>Net cash flow from operating activities</b>  | <b>904</b>   | <b>1,074</b> |



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|                                     | 2017<br>\$M | 2016<br>\$M |
|-------------------------------------|-------------|-------------|
| <b>Current</b>                      |             |             |
| <b>Trade and other receivables:</b> |             |             |
| Trade and other receivables         | 295         | 300         |
| Prepayments                         | 91          | 73          |
|                                     | 386         | 373         |
| <b>Non-current</b>                  |             |             |
| Other receivables                   | 2           | 2           |
| Prepayments                         | 118         | 59          |
|                                     | 120         | 61          |

## 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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| Engineering expendables                   | 70          | 86          |
| Consumable stores                         | 16          | 17          |
|   | 86          | 103         |
| Held at cost                              | 68          | 84          |
| Held initially at cost                    | 74          | 75          |
| Less provision for inventory obsolescence | (56)        | (56)        |
| Held at net realisable value              | 18          | 19          |
|   | 86          | 103         |

## 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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Investment in Virgin Australia Holdings Limited:</b> |             |             |
| <b>Current</b>  |             |             |
| Balance at the beginning of the year                    | 22          | -           |
| Transfer from investments in associates                 | -           | 382         |
| Acquisitions  | 23          | -           |
| Fair value changes recognised in profit or loss         | 23          | (79)        |
| Disposals   | (68)        | (281)       |
| <b>Balance at the end of the year</b>                   | -           | 22          |

On 4 August 2016 the Group participated in a Virgin Australia one for one pro-rata rights issue and acquired an additional 102,889,330 shares for A\$0.21 per share. Since 30 June 2016, all remaining shares have been sold (205,778,660 shares at a weighted average price of A\$0.32 per share).

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|                               | 2017<br>\$M | 2016<br>\$M |
|-------------------------------|-------------|-------------|
| <b>Current</b>                |             |             |
| Amounts owing from associates | 1           | 1           |
| Contract work in progress     | 10          | 16          |
| Interest-bearing assets       | -           | 137         |
| Assets held for resale        | 11          | 18          |
| Other assets                  | 5           | 5           |
|                               | 27          | 177         |
| <b>Non-current</b>            |             |             |
| Interest-bearing assets       | 164         | 151         |
| Assets held for resale        | 1           | 1           |
| Other assets                  | 10          | 8           |
|                               | 175         | 160         |

In the prior year the Group provided an unsecured loan facility to Virgin Australia Holdings Limited. The loan was recognised as a current Interest-bearing asset. The facility was fully repaid on 4 August 2016.

The Group is marketing for sale six Beech 1900D aircraft which are expected to be disposed by the end of the 2017 calendar year. Spares related to exited fleets are 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.

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 RTDs 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 2017

## 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,<br>ENGINES AND<br>SIMULATORS<br>\$M | SPARES<br>\$M | PLANT AND<br>EQUIPMENT<br>\$M | LAND AND<br>BUILDINGS<br>\$M | CAPITAL WORK<br>IN PROGRESS<br>\$M | TOTAL<br>\$M |
|--|--|---------------|-------------------------------|------------------------------|------------------------------------|--------------|
| <b>2017</b>                                  |  |               |                               |                              |                                    |              |
| Carrying value as at 1 July 2016             | 3,987  | 97            | 129                           | 211                          | 61                                 | 4,485        |
| Additions                                    | 578  | 13            | 3                             | 4                            | 201                                | 799          |
| Disposals                                    | (30)   | (17)          | (1)                           | -                            | -                                  | (48)         |
| Depreciation                                 | (390)  | (9)           | (31)                          | (31)                         | -                                  | (461)        |
| Transfers                                    | 128  | -             | 32                            | 35                           | (195)                              | -            |
| Transfer to assets held for resale           | (9)  | (1)           | -                             | -                            | -                                  | (10)         |
| Foreign exchange differences (refer note 24) | (20)   | -             | -                             | -                            | -                                  | (20)         |
| Carrying value as at 30 June 2017            | 4,244  | 83            | 132                           | 219                          | 67                                 | 4,745        |
| <b>Represented by:</b>                       |  |               |                               |                              |                                    |              |
| Cost   | 6,076  | 166           | 420                           | 442                          | 67                                 | 7,171        |
| Accumulated depreciation                     | (1,832)  | (83)          | (288)                         | (205)                        | -                                  | (2,408)      |
| Provision for impairment                     | -  | -             | -                             | (18)                         | -                                  | (18)         |
| <b>Carrying value as at 30 June 2017</b>     | <b>4,244</b>                                   | <b>83</b>     | <b>132</b>                    | <b>219</b>                   | <b>67</b>                          | <b>4,745</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 11. Property, Plant and Equipment (continued)

|  | AIRFRAMES,<br>ENGINES AND<br>SIMULATORS<br>\$M | SPARES<br>\$M | PLANT AND<br>EQUIPMENT<br>\$M | LAND AND<br>BUILDINGS<br>\$M | CAPITAL WORK<br>IN PROGRESS<br>\$M | TOTAL<br>\$M        |
|--|--|---------------|-------------------------------|------------------------------|------------------------------------|---------------------|
| <b>2016</b>                                  |  |               |                               |                              |                                    |                     |
| 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 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               |
| <b>Represented by:</b>                       |  |               |                               |                              |                                    |                     |
| Cost   | 5,789  | 200           | 404                           | 409                          | 61                                 | 6,863               |
| Accumulated depreciation                     | (1,802)  | (103)         | (275)                         | (180)                        | -                                  | (2,360)             |
| Provision for impairment                     | -  | -             | -                             | (18)                         | -                                  | (18)                |
| <b>Carrying value as at 30 June 2016</b>     | <b>3,987</b>                                   | <b>97</b>     | <b>129</b>                    | <b>211</b>                   | <b>61</b>                          | <b>4,485</b>        |
|  |  |               |                               |                              | <b>2017<br/>\$M</b>                | <b>2016<br/>\$M</b> |
| Airframes, engines and simulators comprise:  |  |               |                               |                              |                                    |                     |
| Finance leased airframes and engines         |  |               |                               |                              | 1,614                              | 1,797               |
| Owned airframes, engines and simulators      |  |               |                               |                              | 2,300                              | 1,770               |
| Progress payments                            |  |               |                               |                              | 330                                | 420                 |
|  |  |               |                               |                              | <b>4,244</b>                       | <b>3,987</b>        |
| Land and buildings comprise:                 |  |               |                               |                              |                                    |                     |
| Leasehold properties                         |  |               |                               |                              | 204                                | 193                 |
| Freehold properties                          |  |               |                               |                              | 15                                 | 18                  |
|  |  |               |                               |                              | <b>219</b>                         | <b>211</b>          |

Certain aircraft and aircraft related assets with a carrying value of \$3,213 million as at 30 June 2017 (30 June 2016: \$2,906 million) are pledged as security over secured borrowings and finance lease obligations.

**Impairment**

Air New Zealand Gas Turbines (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. In the 2015 financial year an impairment provision of \$17 million was recognised against the land and building assets of the business. A further \$1 million of impairment was recognised in the 2016 financial year and was reported within 'Other expenses' in the Statement of Financial Performance. During the year ended 30 June 2017 the assets were assessed for impairment based on a value in use discounted cash flow valuation. Cash flow projections were sourced from the 2018 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 impaired carrying value was found to be appropriate as at 30 June 2017.

**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 are 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 2017 the residual values of the aircraft were reassessed and depreciation expense was increased by \$4 million (30 June 2016: reduced by \$11 million).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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<br>DEVELOPED<br>SOFTWARE<br>\$M | EXTERNALLY<br>PURCHASED<br>SOFTWARE<br>\$M | CAPITAL<br>WORK IN<br>PROGRESS<br>\$M | OTHER<br>\$M | TOTAL<br>\$M |
|--|--|--|---------------------------------------|--------------|--------------|
| <b>2017</b>                              |  |  |                                       |              |              |
| Carrying value as at 1 July 2016         | 94   | 5  | 27                                    | 1            | 127          |
| Additions                                | -  | -  | 54                                    | -            | 54           |
| Amortisation                             | (30)                                       | (2)  | -                                     | -            | (32)         |
| Transfers                                | 55   | 1  | (56)                                  | -            | -            |
| Carrying value as at 30 June 2017        | 119  | 4  | 25                                    | 1            | 149          |
| <b>Represented by:</b>                   |  |  |                                       |              |              |
| Cost                                     | 326  | 158  | 25                                    | 1            | 510          |
| Accumulated depreciation                 | (207)                                      | (154)                                      | -                                     | -            | (361)        |
| <b>Carrying value as at 30 June 2017</b> | <b>119</b>                                 | <b>4</b>                                   | <b>25</b>                             | <b>1</b>     | <b>149</b>   |
| <b>2016</b>                              |  |  |                                       |              |              |
| Cost                                     | 234  | 157  | 17                                    | 1            | 409          |
| Accumulated depreciation                 | (154)                                      | (153)                                      | -                                     | -            | (307)        |
| 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          |
| <b>Represented by:</b>                   |  |  |                                       |              |              |
| Cost                                     | 273  | 158  | 27                                    | 1            | 459          |
| Accumulated depreciation                 | (179)                                      | (153)                                      | -                                     | -            | (332)        |
| <b>Carrying value as at 30 June 2016</b> | <b>94</b>                                  | <b>5</b>                                   | <b>27</b>                             | <b>1</b>     | <b>127</b>   |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|                               | 2017<br>\$M | 2016<br>\$M |
|-------------------------------|-------------|-------------|
| Investments in associates     | 92          | 76          |
| Investments in joint ventures | 2           | 2           |
| Investments in other entities | 1           | 1           |
|                               | <b>95</b>   | <b>79</b>   |

### 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              |
| 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     |



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2017

## 13. Investment in Other Entities (continued)

### Summary financial information of associates

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Assets and liabilities of associates are as follows:</b> |             |             |
| Current assets  | 268         | 181         |
| Non-current assets  | 40          | 43          |
| Current liabilities   | (97)        | (44)        |
| Non-current liabilities                                     | (24)        | (24)        |
| <b>Net identifiable assets</b>                              | <b>187</b>  | <b>156</b>  |
| Group share of net identifiable assets                      | 92          | 76          |
| <b>Carrying value of investment in associates</b>           | <b>92</b>   | <b>76</b>   |

|   | CEC<br>2017<br>\$M | TOTAL<br>2017<br>\$M | VIRGIN<br>AUSTRALIA<br>9 MONTHS TO<br>MARCH 2016**<br>\$M | CEC<br>2016<br>\$M | TOTAL<br>2016<br>\$M |
|---|--------------------|----------------------|---|--------------------|----------------------|
| <b>Results of associates*</b>                     |                    |                      |   |                    |                      |
| Revenue   | 687                | 687                  | 4,191   | 496                | 4,687                |
| Earnings after taxation                           | 54                 | 54                   | 15  | 46                 | 61                   |
| Other comprehensive losses (net of taxation)      | -                  | -                    | (104)   | -                  | (104)                |
| <b>Total comprehensive income</b>                 | <b>54</b>          | <b>54</b>            | <b>(89)</b>   | <b>46</b>          | <b>(43)</b>          |
| Non-controlling interest                          | -                  | -                    | 25  | -                  | 25                   |
| <b>Group share of net earnings after taxation</b> | <b>26</b>          | <b>26</b>            | <b>(3)</b>  | <b>23</b>          | <b>20</b>            |
| <b>Group share of total comprehensive income</b>  | <b>26</b>          | <b>26</b>            | <b>(29)</b>   | <b>23</b>          | <b>(6)</b>           |

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

\*\*Prior to 30 March 2016 the Group recognised its interest in Virgin Australia Holdings Limited as an investment in an associate. The company was incorporated in Australia with the principal activity of Aviation. The shareholding as at 30 March 2016 was 25.9 percent. On this date the Group considered it no longer had the ability to exercise significant influence over Virgin Australia and ceased to apply the equity method of accounting to the investment.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|                                 | 2017<br>\$M | 2016<br>\$M |
|---------------------------------|-------------|-------------|
| <b>Current</b>                  |             |             |
| Transportation sales in advance | 1,021       | 972         |
| Loyalty programme               | 136         | 121         |
| Other                           | 20          | 18          |
|                                 | 1,177       | 1,111       |
| <b>Non-current</b>              |             |             |
| Loyalty programme               | 180         | 157         |
| Other                           | 4           | 4           |
|                                 | 184         | 161         |

## 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.

|                              | 2017<br>\$M | 2016<br>\$M |
|------------------------------|-------------|-------------|
| <b>Current</b>               |             |             |
| Secured borrowings           | 132         | 89          |
| Unsecured bonds              | -           | 150         |
| Finance lease liabilities    | 185         | 225         |
|                              | 317         | 464         |
| <b>Non-current</b>           |             |             |
| Secured borrowings           | 1,111       | 841         |
| Unsecured bonds              | 50          | -           |
| Finance lease liabilities    | 1,036       | 1,262       |
|                              | 2,197       | 2,103       |
| <b>Interest rates basis:</b> |             |             |
| Fixed rate                   | 720         | 952         |
| Floating rate                | 1,794       | 1,615       |
| <b>At amortised cost</b>     | 2,514       | 2,567       |
| <b>At fair value</b>         | 2,458       | 2,594       |

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.

Secured borrowings are secured over aircraft and are subject to both fixed and floating interest rates. Fixed interest rates were 1.0 percent (30 June 2016: 1.0 percent).

On 28 October 2016 Air New Zealand issued \$50 million of unsecured, unsubordinated fixed rate bonds. The bonds have a maturity date of 28 October 2022 and an interest rate of 4.25% payable semi-annually. Unsecured bonds of \$150 million with an interest rate of 6.9% matured on 15 November 2016.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|  | 2017<br>\$M  | 2016<br>\$M  |
|--|--------------|--------------|
| Repayable as follows:                        |              |              |
| Not later than 1 year                        | 206          | 244          |
| Later than 1 year and not later than 5 years | 711          | 797          |
| Later than 5 years                           | 411          | 578          |
|  | 1,328        | 1,619        |
| Less future finance costs                    | (107)        | (132)        |
| <b>Present value of future rentals</b>       | <b>1,221</b> | <b>1,487</b> |
| Repayable as follows:                        |              |              |
| Not later than 1 year                        | 185          | 225          |
| Later than 1 year and not later than 5 years | 650          | 721          |
| Later than 5 years                           | 386          | 541          |
|  | 1,221        | 1,487        |

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 2016: 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.

## 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<br>LEASE<br>RETURN COSTS<br>\$M | RESTRUCTURING<br>\$M | OTHER<br>\$M | TOTAL<br>\$M |
|-----------------------------------|--|----------------------|--------------|--------------|
| Balance as at 1 July 2016         | 295                                      | 4                    | 4            | 303          |
| Amount provided                   | 89                                       | 5                    | -            | 94           |
| Amount utilised and released      | (113)                                    | (7)                  | (2)          | (122)        |
| Foreign exchange differences      | (5)                                      | -                    | -            | (5)          |
| <b>Balance as at 30 June 2017</b> | <b>266</b>                               | <b>2</b>             | <b>2</b>     | <b>270</b>   |
| Represented by:                   |  |                      |              |              |
| Current                           | 83                                       | 2                    | 2            | 87           |
| Non-current                       | 183                                      | -                    | -            | 183          |
| <b>Balance as at 30 June 2017</b> | <b>266</b>                               | <b>2</b>             | <b>2</b>     | <b>270</b>   |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 16. Provisions (continued)

### 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 upon 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



#### Employee entitlements

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.

#### Defined pension

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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Current</b>  |             |             |
| Employee entitlements                                     | 234         | 229         |
| Amounts owing to associates                               | 23          | 1           |
| Other liabilities (including defined benefit liabilities) | 4           | 7           |
|   | 261         | 237         |
| <b>Non-current</b>  |             |             |
| Employee entitlements                                     | 14          | 13          |
| Other liabilities   | 9           | 11          |
|   | 23          | 24          |

The Group operates two defined benefit plans for qualifying employees in New Zealand and overseas. A net liability was recognised in respect of the overseas plan of \$1 million (30 June 2016: \$1 million). A net liability of nil (30 June 2016: net asset of \$3 million included within Other Assets) was recognised in respect of the New Zealand plan, which is now closed to new members. 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 2016: \$2 million).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 18. Distributions to Owners

|                                     | 2017<br>\$M | 2016<br>\$M |
|-------------------------------------|-------------|-------------|
| <b>Distributions recognised</b>     |             |             |
| Final dividend on Ordinary Shares   | 112         | 107         |
| Special dividend on Ordinary Shares | 281         | -           |
| Interim dividend on Ordinary Shares | 112         | 112         |
|                                     | 505         | 219         |
| <b>Distributions paid</b>           |             |             |
| Final dividend on Ordinary Shares   | 118         | 112         |
| Special dividend on Ordinary Shares | 294         | -           |
| Interim dividend on Ordinary Shares | 118         | 118         |
|                                     | 530         | 230         |

On 22 August 2017, the Board of Directors declared a final dividend for the 2017 financial year of 11.0 cents per Ordinary Share, payable on 18 September 2017 to registered shareholders at 8 September 2017. The total dividend payable will be \$124 million. Imputation credits will be attached and supplementary dividends paid to non-resident shareholders. The dividend has not been recognised in the June 2017 financial statements.

An interim dividend of 10.0 cents per Ordinary Share was paid on 17 March 2017. Imputation credits were attached and supplementary dividends paid to non-resident shareholders.

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

The dividend reinvestment plan is currently suspended.

## 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.

|  | 2017<br>\$M | 2016<br>\$M |
|--|-------------|-------------|
| <b>Share capital comprises:</b>                        |             |             |
| Authorised, issued and fully paid in capital           | 2,228       | 2,243       |
| Equity-settled share-based payments                    | 10          | 9           |
|  | 2,238       | 2,252       |
| Balance at the beginning of the year                   | 2,252       | 2,286       |
| Equity settlements of long-term incentive obligations* | (19)        | (39)        |
| Equity-settled share-based payments                    | 5           | 5           |
| Balance at the end of the year                         | 2,238       | 2,252       |

\* During the year ended 30 June 2017 the Group funded the purchase on-market of 8,297,311 shares (30 June 2016: 13,181,727). The shares were used to settle obligations under employee share-based compensation plans.

|  | 2017          | 2016          |
|--|---------------|---------------|
| <b>Number of Ordinary Shares authorised, fully paid and on issue</b> |               |               |
| Balance at the beginning of the year                                 | 1,122,844,227 | 1,121,849,949 |
| Exercise of share options  | -             | 994,278       |
| <b>Balance at the end of the year**</b>                              | 1,122,844,227 | 1,122,844,227 |

\*\* Includes treasury stock of 34,183 shares (30 June 2016: 34,183 shares).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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

The Group utilises treasury stock acquired under a buy-back programme to fulfil obligations under employee share-based compensation plans. No treasury stock was utilised in the 2017 financial year (30 June 2016: Nil). Total treasury stock held as at 30 June 2017 is 34,090 shares (30 June 2016: 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 2017 was 93 (30 June 2016: 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

Performance share rights have been offered to a number of senior executives on attainment of predetermined performance objectives, and restricted share rights have been offered to the CEO subject to remaining in employment over the vesting period. Prior to the 2015 financial year, share options were granted to a number of senior executives on attainment of predetermined performance objectives.

The total expense recognised in the year ended 30 June 2017 in respect of equity-settled share-based payment transactions was \$5 million (30 June 2016: \$5 million).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 19. Share Capital (continued)

|  | PERFORMANCE<br>SHARE<br>RIGHTS<br>2017 | LONG-TERM<br>INCENTIVE<br>PLAN<br>2017 | CEO<br>RESTRICTED<br>SHARE RIGHTS<br>2017 | CFO<br>OPTION<br>PLAN<br>2017 | PERFORMANCE<br>SHARE<br>RIGHTS<br>2016 | LONG-TERM<br>INCENTIVE<br>PLAN<br>2016 | CEO<br>RESTRICTED<br>SHARE RIGHTS<br>2016 | CFO<br>OPTION<br>PLAN<br>2016 |
|--|--|--|---|-------------------------------|--|--|---|-------------------------------|
| <b>Number outstanding</b>                          |  |  |   |                               |  |  |   |                               |
| Outstanding at beginning of the year               | 9,269,896                              | 19,741,146                             | 292,398                                   | 1,256,281                     | 5,036,722                              | 48,067,702                             | -   | 2,399,138                     |
| Granted during year                                | 5,961,948                              | -                                      | 367,317                                   | -                             | 4,728,581                              | -                                      | 292,398                                   | -                             |
| Exercised during year                              | -                                      | (18,840,382)                           | -   | (1,256,281)                   | -                                      | (28,326,556)                           | -   | (1,142,857)                   |
| Forfeited during year                              | (1,423,986)                            | -                                      | -   | -                             | (495,407)                              | -                                      | -   | -                             |
| <b>Outstanding at the end of the year*</b>         | <b>13,807,858</b>                      | <b>900,764</b>                         | <b>659,715</b>                            | <b>-</b>                      | <b>9,269,896</b>                       | <b>19,741,146</b>                      | <b>292,398</b>                            | <b>1,256,281</b>              |
| Exercisable as at end of the year                  | -                                      | 900,764                                | -   | -                             | -                                      | 3,267,187                              | -   | -                             |
| Weighted average exercise price:                   |  |  |   |                               |  |  |   |                               |
| - exercisable as at the end of the year (\$)       | -                                      | 1.23                                   | -   | -                             | -                                      | 1.49                                   | -   | -                             |
| - exercised during the year (\$)                   | -                                      | 1.28                                   | -   | 1.18                          | -                                      | 1.51                                   | -   | 1.34                          |
| Weighted average:                                  |  |  |   |                               |  |  |   |                               |
| - Share price at the date of exercise (\$)         | -                                      | 2.18                                   | -   | 2.13                          | -                                      | 2.90                                   | -   | 2.86                          |
| - Remaining period to contractual maturity (years) | 1.8                                    | 1.2                                    | 0.9                                       | -                             | 2.2                                    | 2.0                                    | 1.5                                       | 2.2                           |
| Fair value of rights granted in year (\$M)         | 5.4                                    | -                                      | 0.6                                       | -                             | 5.4                                    | -                                      | 0.6                                       | -                             |
| Unamortised grant date fair value (\$M)            | 5.8                                    | -                                      | 0.5                                       | -                             | 5.8                                    | 0.2                                    | 0.4                                       | -                             |

\* 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 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:

| Performance share rights | WEIGHTED<br>AVERAGE<br>SHARE PRICE<br>(CENTS) | EXPECTED<br>VOLATILITY OF<br>SHARE PRICE<br>(%) | EXPECTED<br>VOLATILITY OF<br>PERFORMANCE<br>BENCHMARK<br>INDEX<br>(%) | CORRELATION<br>OF VOLATILITY<br>INDICES | CONTRACTUAL<br>LIFE<br>(YEARS) | RISK FREE<br>RATE<br>(%) | EXPECTED<br>DIVIDEND<br>YIELD<br>(%) |
|--------------------------|---|---|---|---|--------------------------------|--------------------------|--------------------------------------|
| 2017                     | 200   | 30  | 15  | 0.53                                    | 3.5                            | 1.95                     | 9.0                                  |
| 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 2017

## 19. Share Capital (continued)

| Options                                     | WEIGHTED<br>AVERAGE<br>SHARE PRICE<br>(CENTS) | EXPECTED<br>VOLATILITY OF<br>SHARE PRICE<br>(%) | EXPECTED<br>VOLATILITY OF<br>PERFORMANCE<br>BENCHMARK<br>INDEX<br>(%) | CORRELATION<br>OF VOLATILITY<br>INDICES | CONTRACTUAL<br>LIFE<br>(YEARS) | RISK FREE<br>RATE<br>(%) | EXPECTED<br>DIVIDEND<br>YIELD<br>(%) | DISCOUNT<br>TO REFLECT<br>NEGOTIABILITY<br>RESTRICTIONS<br>(%) |
|---|---|---|---|---|--------------------------------|--------------------------|--------------------------------------|--|
| <b>Long-Term Incentive Plan<sup>1</sup></b> |   |   |   |   |                                |                          |                                      |  |
| 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   |
| <b>CFO Option Plan<sup>2</sup></b>          |   |   |   |   |                                |                          |                                      |  |
| 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   |

<sup>1</sup> 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.

<sup>2</sup> 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<br>Rights Plan | WEIGHTED<br>AVERAGE<br>SHARE PRICE<br>(CENTS) | EQUITY BETA | MARKET RISK<br>PREMIUM<br>(%) | CONTRACTUAL<br>LIFE<br>(YEARS) | RISK FREE<br>RATE<br>(%) | EXPECTED<br>DIVIDEND<br>YIELD<br>(%) | COST OF<br>EQUITY<br>(%) |
|-------------------------------------|---|-------------|-------------------------------|--------------------------------|--------------------------|--------------------------------------|--------------------------|
| 2017 Tranche 1                      | 194   | 1.30        | 7.50                          | 2.3                            | 1.90                     | 6.7                                  | 11.1                     |
| 2017 Tranche 2                      | 194   | 1.30        | 7.50                          | 1.3                            | 1.90                     | 7.2                                  | 11.1                     |
| 2016                                | 239   | 1.25        | 7.50                          | 2.3                            | 2.50                     | 6.3                                  | 11.1                     |

**Performance share rights**

The Group has undertaken a stock settled share rights scheme. For each share right that vests, one share will be issued. 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 percent, 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 NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends).

**Options**

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 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). 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 was set three years after issue, and was 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 comprised the total shareholder return for the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

**CFO Option Plan**

The Group undertook a stock settled share appreciation rights scheme whereby shares are issued equating to the delta between the market price and the exercise price. 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). All options under the plan have been exercised.

The exercise price was set for the first tranche two years after issue, and the second tranche set four years after issue, and was 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 comprised the total shareholder return for the NZX All Gross Index and the Bloomberg World Airline Total Return Index (adjusted for dividends) in 50:50 proportions.

**CEO Restricted Share Rights Plan**

The Group has undertaken a stock settled share rights scheme. 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 between 31 December 2017 and 31 December 2018 and if they have not vested on a specified date they will lapse.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year to and as at 30 June 2017

## 20. Reserves

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

|                                      | 2017<br>\$M  | 2016<br>\$M  |
|--------------------------------------|--------------|--------------|
| Cash flow hedge reserve              | 22           | (2)          |
| Costs of hedging reserve             | (13)         | (7)          |
| Hedge reserves                       | 9            | (9)          |
| Foreign currency translation reserve | (16)         | (15)         |
| General reserves                     | (245)        | (120)        |
| <b>Total Reserves</b>                | <b>(252)</b> | <b>(144)</b> |

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 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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Rental and lease expenses recognised in earnings</b> |             |             |
| Aircraft  | 178         | 192         |
| Property  | 52          | 52          |
|   | 230         | 244         |
| <b>Future operating lease commitments</b>               |             |             |
| <b>Aircraft leases payable*</b>                         |             |             |
| Not later than 1 year                                   | 160         | 184         |
| Later than 1 year and not later than 5 years            | 433         | 409         |
| Later than 5 years                                      | 192         | 163         |
|   | 785         | 756         |
| <b>Property leases payable</b>                          |             |             |
| Not later than 1 year                                   | 43          | 40          |
| Later than 1 year and not later than 5 years            | 109         | 112         |
| Later than 5 years                                      | 70          | 75          |
|   | 222         | 227         |

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

\*Includes lease commitments for five A320/321 NEO aircraft due to be delivered from 2018 to 2019 calendar years and one Boeing 787-9 aircraft due to be delivered in the 2018 calendar year. In August 2017, leases were extended on two Boeing 777-200 aircraft which have been included above.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| Aircraft and engines                                      | 1,637       | 2,210       |
| Other property, plant and equipment and intangible assets | 10          | 12          |
|   | 1,647       | 2,222       |

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

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| Letters of credit and performance bonds | 32          | 33          |

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

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

Allegations of anti-competitive conduct in the air cargo business in Hong Kong and Singapore were the subject of proceedings by the Australian Competition and Consumer Commission (ACCC). Following two appeals of an initial judgment finding in favour of Air New Zealand, the High Court released its judgment on 14 June 2017 finding in favour of the ACCC. The level of penalty will be referred to the Federal Court for determination. An allowance for the estimated level of the penalty and costs has been made in the financial statements for the year ended 30 June 2017.

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 \$121 million (30 June 2016: \$68 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 Moody's 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 92% 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 2017

## 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 Dollar 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 (losses)/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 (losses)/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 below. 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 below. 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 2017

## 24. Financial Risk Management (continued)

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

|   | NZD<br>\$M | USD<br>\$M | AUD<br>\$M | EUR<br>\$M | JPY<br>\$M | TOTAL<br>\$M |
|---|------------|------------|------------|------------|------------|--------------|
| <b>As at 30 June 2017</b>               |            |            |            |            |            |              |
| Investments in other entities           | 2          | 93         | -          | -          | -          | 95           |
| Interest-bearing assets                 | 130        | -          | 34         | -          | -          | 164          |
| Interest-bearing liabilities            | (248)      | (1,625)    | -          | (167)      | (474)      | (2,514)      |
| Provisions                              | (55)       | (215)      | -          | -          | -          | (270)        |
|   | (171)      | (1,747)    | 34         | (167)      | (474)      | (2,525)      |
| <b>As at 30 June 2016</b>               |            |            |            |            |            |              |
| 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)      |

## 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 2017

## 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 2016: 12 months).

|   | 2017<br>NZ\$M | 2016<br>NZ\$M |
|---|---------------|---------------|
| <b>Hedging instruments used</b>                     |               |               |
| Derivative financial instruments                    |               |               |
| NZD   | (399)         | (584)         |
| USD   | 847           | 928           |
| AUD   | (193)         | (156)         |
| EUR   | (44)          | (39)          |
| JPY   | (49)          | (43)          |
| CNH   | (43)          | -             |
| GBP   | (64)          | (61)          |
| Other   | (73)          | (69)          |
| <b>Hedge accounted foreign currency derivatives</b> | (18)          | (24)          |

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 expected to occur in the time periods shown.

|                                     | < 1 YEAR<br>NZ\$M | 1-2 YEARS<br>NZ\$M | 2-5 YEARS<br>NZ\$M | 5+ YEARS<br>NZ\$M | TOTAL<br>NZ\$M |
|-------------------------------------|-------------------|--------------------|--------------------|-------------------|----------------|
| <b>Interest-bearing liabilities</b> |                   |                    |                    |                   |                |
| <b>As at 30 June 2017</b>           |                   |                    |                    |                   |                |
| EUR                                 | (6)               | (6)                | (18)               | (24)              | (54)           |
| JPY                                 | (43)              | (41)               | (133)              | (257)             | (474)          |
| <b>As at 30 June 2016</b>           |                   |                    |                    |                   |                |
| EUR                                 | (6)               | (6)                | (17)               | (30)              | (59)           |
| JPY                                 | (48)              | (49)               | (134)              | (345)             | (576)          |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

**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.

|   | 2017<br>\$M | 2016<br>\$M |
|---|-------------|-------------|
| <b>Recognised in Statement of Changes in Equity</b> |             |             |
| <b>Hedge reserves</b>                               |             |             |
| Balance at the beginning of the year                | (30)        | 94          |
| Change in fair value*                               | 57          | (57)        |
| Transfers to foreign exchange losses/(gains)        | 9           | (114)       |
| Taxation on reserve movements                       | (19)        | 47          |
| Balance at the end of the year                      | 17          | (30)        |
| Represented by:                                     |             |             |
| Forecast operating revenue/expense                  | 26          | (40)        |
| Tax effect  | (9)         | 10          |
| Balance at the end of the year                      | 17          | (30)        |

\*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 2016: Nil). Forward points excluded from the hedge designation of \$6 million were recognised in 'Finance costs' during the year (30 June 2016: \$14 million).

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

|     | 2017   | 2016   |
|-----|--------|--------|
| USD | 0.7163 | 0.6658 |
| AUD | 0.9480 | 0.9139 |
| EUR | 0.6548 | 0.6025 |
| JPY | 78.80  | 76.41  |
| CNH | 4.89   | N/A    |
| GBP | 0.5678 | 0.4572 |

**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'.

|  | 2017<br>NZ\$M | 2016<br>NZ\$M |
|--|---------------|---------------|
| Hedged amount of United States Dollar investment             | 77            | 62            |
| Hedged by: United States Dollar interest-bearing liabilities | (77)          | (62)          |

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.

|   |      |      |
|---|------|------|
| <b>Foreign currency translation reserve</b> |      |      |
| Balance at the beginning of the year        | (15) | 4    |
| Translation losses on hedged investment**   | (2)  | (2)  |
| Translation gains on hedging instrument**   | 2    | 2    |
| Translation losses on unhedged investments  | -    | (13) |
| Cessation of equity accounting              | -    | (6)  |
| Taxation on reserve movements               | (1)  | -    |
| Balance at the end of the year              | (16) | (15) |

\*\* 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 2016: Nil).



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

As at 30 June 2017

## 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'.

|  | 2017<br>NZ\$M | 2016<br>NZ\$M |
|--|---------------|---------------|
| Underlying United States Dollar aircraft fair values   | 732           | 814           |
| Hedged by: United States Dollar interest-bearing liabilities   | (732)         | (814)         |
| The effective portion of changes in the fair value of both the hedged item and the hedging instrument are offset within 'Foreign exchange (losses)/gains' within the Statement of Financial Performance, as set out below: |               |               |
| Changes in fair value*** on hedged item  | (20)          | (26)          |
| Changes in fair value*** on hedging instrument   | 20            | 26            |
|  | -             | -             |

\*\*\* 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 2016: 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.

|                              |     | 2017<br>NZ\$M | 2016<br>NZ\$M |
|------------------------------|-----|---------------|---------------|
| Interest-bearing liabilities | USD | (816)         | (497)         |
| Interest-bearing liabilities | EUR | (113)         | (125)         |
| Provisions                   | USD | (215)         | (281)         |
| Interest-bearing assets      | AUD | 34            | 172           |

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

|   |  |             |             |
|---|--|-------------|-------------|
| <b>Hedging instruments</b>                              |  |             |             |
| Derivative financial instruments                        |  |             |             |
| NZD   |  | (1,136)     | (681)       |
| USD   |  | 997         | 696         |
| AUD   |  | (24)        | (172)       |
| EUR   |  | 115         | 128         |
| Other   |  | 6           | 1           |
| <b>Not hedge accounted foreign currency derivatives</b> |  | <b>(42)</b> | <b>(28)</b> |

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

|                                     |      |      |
|-------------------------------------|------|------|
| Foreign currency gains/(losses) on: |      |      |
| Interest-bearing liabilities        | 8    | 22   |
| Provisions                          | 5    | 8    |
| Interest-bearing assets             | -    | (8)  |
| Derivative financial instruments    | (13) | (25) |
|                                     | -    | (3)  |

Forward points on non-hedge accounted foreign currency derivatives of \$17 million were recognised in 'Finance costs' during the year (30 June 2016: \$21 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 2017

## 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): | 2017<br>NZ\$M<br>+5c | 2017<br>NZ\$M<br>-5c | 2016<br>NZ\$M<br>+5c | 2016<br>NZ\$M<br>-5c |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Impact on profit before taxation:     |                      |                      |                      |                      |
| USD                                   | 49                   | (56)                 | 59                   | (68)                 |
| AUD                                   | (1)                  | 1                    | (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               | (57) | 65   | (66) | 76   |
| AUD               | 12   | (14) | 10   | (12) |
| EUR               | 6    | (7)  | 6    | (7)  |
| JPY               | 34   | (39) | 41   | (47) |
| CNH               | 3    | (3)  | -    | -    |
| GBP               | 4    | (5)  | 4    | (5)  |
| Other             | 5    | (5)  | 5    | (5)  |

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

|  | 2017   | 2016   |
|--|--------|--------|
| <b>Significant foreign exchange rates used at balance date for one New Zealand Dollar are:</b> |        |        |
| USD  | 0.7300 | 0.7110 |
| AUD  | 0.9510 | 0.9550 |
| CNY  | 4.96   | 4.72   |
| EUR  | 0.6380 | 0.6400 |
| JPY  | 81.80  | 73.20  |
| GBP  | 0.5620 | 0.5290 |

### 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 four months is hedged between 50% and 80% with the maximum 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 2017

## 24. Financial Risk Management (continued)

### Impact of hedging fuel price risk

|   | 2017<br>Brent<br>USD | 2016<br>Brent<br>USD |
|---|----------------------|----------------------|
| <b>Weighted average strike prices of fuel derivatives</b>   |                      |                      |
| Weighted average collar ceiling (adjusted for call spreads) | 51                   | 47                   |
| Weighted average collar floor (adjusted for call spreads)   | 44                   | 31                   |
| Swap strike price   | 49                   | N/A                  |
| Barrels hedged (millions of barrels)                        | 6.6                  | 5.4                  |

### 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.

|  | 2017<br>\$M | 2016<br>\$M |
|--|-------------|-------------|
| <b>Statement of financial position</b> |             |             |
| Derivative financial assets            | 14          | 58          |

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.

|                                       |            |           |
|---------------------------------------|------------|-----------|
| <b>Hedge reserves</b>                 |            |           |
| Balance at the beginning of the year  | 25         | (18)      |
| Change in fair value*                 | 4          | 12        |
| Transfers to fuel                     | (42)       | 50        |
| Changes in cost of hedging reserve    | (8)        | (4)       |
| Taxation on reserve movements         | 13         | (15)      |
| <b>Balance at the end of the year</b> | <b>(8)</b> | <b>25</b> |

\* 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 2016: 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.

|   | 2017<br>\$M<br>+USD 20 | 2017<br>\$M<br>-USD 20 | 2016<br>\$M<br>+USD 20 | 2016<br>\$M<br>-USD 20 |
|---|------------------------|------------------------|------------------------|------------------------|
| <b>Price movement per barrel:</b>                 |                        |                        |                        |                        |
| Impact on cash flow hedge reserve (within equity) | 147                    | (136)                  | 119                    | (70)                   |

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 2017

## 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

|  | 2017 | 2016 |
|--|------|------|
| <b>Interest rate derivatives</b>             |      |      |
| Volume (USD M)                               | 150  | 150  |
| Weighted average contract rate (%)           | 1.7  | 1.7  |
| Weighted average contract maturities (years) | 2.4  | 3.4  |

## 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.

|  | 2017<br>\$M | 2016<br>\$M |
|--|-------------|-------------|
| <b>Statement of financial position</b> |             |             |
| Derivative financial liabilities       | -           | (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.

|                                      |     |     |
|--------------------------------------|-----|-----|
| <b>Hedge reserves</b>                |     |     |
| Balance at the beginning of the year | (4) | -   |
| Change in fair value*                | 4   | (7) |
| Transfers to finance costs           | 1   | 2   |
| Taxation on reserve movements        | (1) | 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 2016: 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:                             | 2017<br>\$M<br>+50 bp* | 2017<br>\$M<br>-50 bp* | 2016<br>\$M<br>+50 bp* | 2016<br>\$M<br>-50 bp* |
|---|------------------------|------------------------|------------------------|------------------------|
| Impact on profit before taxation                  | (9)                    | 9                      | (8)                    | 8                      |
| 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 2017

## 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<br>OF FINANCIAL<br>POSITION<br>\$M | CONTRACTUAL<br>CASH FLOWS<br>\$M | < 1 YEAR<br>\$M | 1-2 YEARS<br>\$M | 2-5 YEARS<br>\$M | 5+ YEARS<br>\$M |
|---|--|----------------------------------|-----------------|------------------|------------------|-----------------|
| <b>As at 30 June 2017</b>                         |  |                                  |                 |                  |                  |                 |
| Trade and other payables                          | 462  | 462                              | 462             | -                | -                | -               |
| Secured borrowings                                | 1,243  | 1,362                            | 154             | 144              | 384              | 680             |
| Unsecured bonds                                   | 50   | 62                               | 2               | 2                | 6                | 52              |
| Finance lease obligations                         | 1,221  | 1,328                            | 206             | 268              | 443              | 411             |
| Amounts owing to associates                       | 23   | 23                               | 23              | -                | -                | -               |
| <b>Total non-derivative financial liabilities</b> | <b>2,999</b>                                 | <b>3,237</b>                     | <b>847</b>      | <b>414</b>       | <b>833</b>       | <b>1,143</b>    |
| Foreign exchange derivatives                      |  |                                  |                 |                  |                  |                 |
| – Inflow  |  | 2,103                            | 2,103           | -                | -                | -               |
| – Outflow   |  | (2,165)                          | (2,165)         | -                | -                | -               |
|   | (60)   | (62)                             | (62)            | -                | -                | -               |
| Fuel derivatives                                  | 14   | 5                                | 5               | -                | -                | -               |
| <b>Total derivative financial instruments</b>     | <b>(46)</b>                                  | <b>(57)</b>                      | <b>(57)</b>     | <b>-</b>         | <b>-</b>         | <b>-</b>        |

|   | STATEMENT<br>OF FINANCIAL<br>POSITION<br>\$M | CONTRACTUAL<br>CASH FLOWS<br>\$M | < 1 YEAR<br>\$M | 1-2 YEARS<br>\$M | 2-5 YEARS<br>\$M | 5+ YEARS<br>\$M |
|---|--|----------------------------------|-----------------|------------------|------------------|-----------------|
| <b>As at 30 June 2016</b>                         |  |                                  |                 |                  |                  |                 |
| 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               | -                | -                | -               |
| <b>Total non-derivative financial liabilities</b> | <b>3,021</b>                                 | <b>3,231</b>                     | <b>954</b>      | <b>314</b>       | <b>823</b>       | <b>1,140</b>    |
| 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)              | -               |
| <b>Total derivative financial instruments</b>     | <b>1</b>                                     | <b>(15)</b>                      | <b>(11)</b>     | <b>(2)</b>       | <b>(2)</b>       | <b>-</b>        |

### FAIR VALUE ESTIMATION



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 instruments (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 2017

## 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 aircraft 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<br>OF FINANCIAL<br>POSITION<br>2017<br>\$M | AMOUNTS<br>NOT OFFSET<br>2017<br>\$M | NET<br>AMOUNTS<br>IF OFFSET<br>2017<br>\$M | STATEMENT<br>OF FINANCIAL<br>POSITION<br>2016<br>\$M | AMOUNTS<br>NOT OFFSET<br>2016<br>\$M | NET<br>AMOUNTS<br>IF OFFSET<br>2016<br>\$M |
|----------------------------------|--|--------------------------------------|--|--|--------------------------------------|--|
| <b>Financial assets</b>          |  |                                      |  |  |                                      |  |
| Bank and short-term deposits     | 1,369  | (41)                                 | 1,328                                      | 1,594  | (59)                                 | 1,535                                      |
| Derivative financial assets      | 19   | (6)                                  | 13   | 70   | (10)                                 | 60   |
| <b>Financial liabilities</b>     |  |                                      |  |  |                                      |  |
| Derivative financial liabilities | (65)   | 47                                   | (18)                                       | (69)   | 69                                   | -  |

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 2017

## 26. Related Parties

### Crown

The Crown, the major shareholder of the Company, owns 52 percent of the issued capital of the Company (30 June 2016: 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. In February 2017, following a tender process, the Group reached an agreement to supply air travel services to New Zealand government agencies as part of a panel of airline carriers. The contract was awarded initially for a period of four years.

### Key management personnel

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

|                           | 2017<br>\$M | 2016<br>\$M |
|---------------------------|-------------|-------------|
| Short-term employee costs | 16          | 14          |
| Directors' fees           | 1           | 1           |
| Share-based payments      | 3           | 2           |
|                           | 20          | 17          |

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 rights 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
- 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. 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 comparative 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.

|  | 2017<br>\$M | 2016<br>\$M |
|--|-------------|-------------|
| During the year, there have been transactions between Air New Zealand and its associated companies as follows: |             |             |
| Operating revenue*   | 3           | 46          |
| Operating expenditure  | (57)        | (18)        |
| Balances outstanding at the end of the year are unsecured and on normal trading terms:                         |             |             |
| Amounts owing from associates  | 1           | 1           |
| Amounts owing to associates  | 23          | 1           |

\* Excludes passenger revenue from interline arrangements.

During the year CEC paid total distributions to the Group of \$8 million (30 June 2016: \$5 million). A distribution of \$5 million was also declared on 23 March 2015 which was received 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.

## 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 Group). The Auditor-General has appointed me, Peter Gulliver, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

**Opinion**

We have audited the consolidated financial statements of the Group on pages 2 to 39, that comprise the Statement of Financial Position as at 30 June 2017, the Statement of Financial Performance, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 23 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements, we comment on other information, and we explain our independence.

**Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the audit of the consolidated financial statements* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

**Audit materiality**

We consider materiality primarily in terms of the magnitude of misstatement in the consolidated 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.

We determined materiality for the consolidated financial statements as a whole to be \$30 million which was determined with reference to a number of factors and taking into account the cyclical nature of the airline industry. \$30 million represents 6% of profit before tax, 2% 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 consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**Deloitte.**

## Key audit matter

## How our audit addressed the key audit matter and the results of our work

### Revenue recognition

The Group's revenue primarily consists of passenger revenue which totalled \$4,376 million in the year to 30 June 2017.

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. Complex IT systems and processes are required 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 consolidated financial statements and the substantial dependence on complex IT systems.

In performing our procedures we:

- evaluated the systems, processes and controls in place over passenger revenue in advance and key account reconciliation processes;
- tested the IT environment in which passenger sales occur and interfaces with other relevant systems;
- 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; and
- 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 \$266 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 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.

In performing our procedures 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 contractual terms;
- 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 exchange rates;
- 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; and
- tested the arithmetical accuracy of the calculation and evaluated the sensitivity of the calculation to changes in the key 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 \$4,244 million at 30 June 2017 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.

In performing our procedures we:

- challenged the Group's assumptions underpinning the calculation of residual values by making a comparison to external information such as third party sales prices, industry data and period end exchange rates;
- updated our assessment of the historical accuracy of assumptions around residual values when aircraft are disposed of;
- 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; and
- undertook 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.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**Deloitte.**

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## **Responsibilities of the Board of Directors for the consolidated financial statements**

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors is responsible on behalf of the Group for such internal control as it determines is necessary to enable it to prepare consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the *Financial Markets Conduct Act 2013*.

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## **Responsibilities of the auditor for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of shareholders taken on the basis of these consolidated financial statements.

We did not evaluate the security and controls over the electronic publication of the consolidated 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. Also:

- We identify and assess the risks of material misstatement of the consolidated 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.
- We 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of 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 consolidated 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.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**Deloitte.**

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## **Responsibilities of the auditor for the audit of the consolidated financial statements (continued)**

We communicate with the Board of 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 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 Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of 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.

Our responsibility arises from section 15 of the *Public Audit Act 2001*.

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## **Other information**

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## **Independence**

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards which incorporate the independence requirements of 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 engagements in the areas of review of the interim financial statements and other assurance and non-assurance services, which are compatible with those independence requirements. In addition to these engagements, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These engagements and trading activities have not impaired our independence as auditor of the Group. Other than the audit and these engagements and trading activities, we have no relationship with, or interests in the Group.



**Peter Gulliver**  
for Deloitte Limited

On behalf of the Auditor-General  
Auckland, New Zealand



# HISTORICAL SUMMARY OF FINANCIAL PERFORMANCE

Five Year Statistical Review

For the year to 30 June

|  | 2017<br>\$M | 2016<br>\$M | 2015<br>\$M | 2014<br>\$M | 2013<br>\$M |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Operating Revenue</b>   |             |             |             |             |             |
| Passenger revenue  | 4,376       | 4,481       | 4,113       | 3,851       | 3,765       |
| Cargo  | 335         | 349         | 317         | 287         | 301         |
| Contract services  | 164         | 172         | 258         | 277         | 310         |
| Other revenue  | 234         | 229         | 237         | 237         | 239         |
|  | 5,109       | 5,231       | 4,925       | 4,652       | 4,615       |
| <b>Operating Expenditure</b>   |             |             |             |             |             |
| Labour   | (1,261)     | (1,225)     | (1,193)     | (1,151)     | (1,068)     |
| Fuel   | (827)       | (846)       | (1,089)     | (1,120)     | (1,204)     |
| Maintenance  | (321)       | (350)       | (320)       | (285)       | (302)       |
| Aircraft operations  | (556)       | (531)       | (466)       | (424)       | (419)       |
| Passenger services   | (266)       | (246)       | (220)       | (212)       | (222)       |
| Sales and marketing  | (352)       | (348)       | (303)       | (280)       | (274)       |
| Foreign exchange (losses)/gains  | (6)         | 112         | 79          | 45          | 7           |
| Other expenses   | (255)       | (255)       | (252)       | (222)       | (236)       |
|  | (3,844)     | (3,689)     | (3,764)     | (3,649)     | (3,718)     |
| <b>Operating Earnings (excluding items below)</b>                                      | 1,265       | 1,542       | 1,161       | 1,003       | 897         |
| Depreciation and amortisation  | (493)       | (465)       | (402)       | (436)       | (411)       |
| Rental and lease expenses  | (230)       | (244)       | (211)       | (174)       | (177)       |
| <b>Earnings Before Finance Costs, Associates, Other Significant Items and Taxation</b> | 542         | 833         | 548         | 393         | 309         |
| Finance income   | 43          | 53          | 56          | 44          | 37          |
| Finance costs  | (87)        | (100)       | (108)       | (90)        | (91)        |
| Share of earnings of associates (net of taxation)                                      | 26          | 20          | (22)        | 11          | -           |
| <b>Earnings Before Other Significant Items and Taxation</b>                            | 524         | 806         | 474         | 358         | 255         |
| Other significant items  | 3           | (143)       | -           | -           | -           |
| <b>Earnings Before Taxation</b>  | 527         | 663         | 474         | 358         | 255         |
| Taxation expense   | (145)       | (200)       | (147)       | (95)        | (74)        |
| <b>Net Profit Attributable to Shareholders of Parent Company</b>                       | 382         | 463         | 327         | 263         | 181         |

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 2013 financial year are as previously published.



# HISTORICAL SUMMARY OF FINANCIAL POSITION

Five Year Statistical Review

As at 30 June

|                                      | 2017<br>\$M | 2016<br>\$M | 2015<br>\$M | 2014<br>\$M | 2013<br>\$M |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Current Assets</b>                |             |             |             |             |             |
| Bank and short-term deposits         | 1,369       | 1,594       | 1,321       | 1,234       | 1,150       |
| Other current assets                 | 518         | 745         | 661         | 593         | 693         |
| <b>Total Current Assets</b>          | 1,887       | 2,339       | 1,982       | 1,827       | 1,843       |
| <b>Non-Current Assets</b>            |             |             |             |             |             |
| Property, plant and equipment        | 4,745       | 4,485       | 4,061       | 3,279       | 2,933       |
| Other non-current assets             | 539         | 427         | 732         | 744         | 820         |
| <b>Total Non-Current Assets</b>      | 5,284       | 4,912       | 4,793       | 4,023       | 3,753       |
| <b>Total Assets</b>                  | 7,171       | 7,251       | 6,775       | 5,850       | 5,596       |
| <b>Current Liabilities</b>           |             |             |             |             |             |
| Debt <sup>1</sup>                    | 317         | 464         | 253         | 190         | 159         |
| Other current liabilities            | 2,088       | 2,007       | 1,875       | 1,682       | 1,555       |
| <b>Total Current Liabilities</b>     | 2,405       | 2,471       | 2,128       | 1,872       | 1,714       |
| <b>Non-Current Liabilities</b>       |             |             |             |             |             |
| Debt <sup>1</sup>                    | 2,197       | 2,103       | 2,069       | 1,543       | 1,470       |
| Other non-current liabilities        | 583         | 569         | 613         | 563         | 611         |
| <b>Total Non-Current Liabilities</b> | 2,780       | 2,672       | 2,682       | 2,106       | 2,081       |
| <b>Total Liabilities</b>             | 5,185       | 5,143       | 4,810       | 3,978       | 3,795       |
| <b>Net Assets</b>                    | 1,986       | 2,108       | 1,965       | 1,872       | 1,801       |
| <b>Total Equity</b>                  | 1,986       | 2,108       | 1,965       | 1,872       | 1,801       |

1. Debt is comprised of 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 2013 financial year are as previously published.

# HISTORICAL SUMMARY OF CASH FLOWS

Five Year Statistical Review

For the year to 30 June

|  | 2017<br>\$M | 2016<br>\$M | 2015<br>\$M | 2014<br>\$M | 2013<br>\$M |
|--|-------------|-------------|-------------|-------------|-------------|
| Cash flow from operating activities    | 904         | 1,074       | 1,100       | 730         | 750         |
| Cash flow from investing activities    | (616)       | (797)       | (1,066)     | (727)       | (480)       |
| Cash flow from financing activities    | (513)       | (4)         | 53          | 81          | (147)       |
| <b>Increase in cash holding</b>        | (225)       | 273         | 87          | 84          | 123         |
| <b>Total cash and cash equivalents</b> | 1,369       | 1,594       | 1,321       | 1,234       | 1,150       |

# KEY FINANCIAL METRICS

## Five Year Statistical Review

|  |       | 2017  | 2016  | 2015  | 2014  | 2013  |
|--|-------|-------|-------|-------|-------|-------|
| <b>Profitability and Capital Management</b>                            |       |       |       |       |       |       |
| EBIT <sup>1</sup> /Operating Revenue                                   | %     | 10.6  | 15.9  | 11.1  | 8.4   | 6.7   |
| EBITDRA <sup>2</sup> /Operating Revenue                                | %     | 24.8  | 29.5  | 23.6  | 21.6  | 19.4  |
| Passenger Revenue per Revenue Passenger Kilometre (Yield)              | cents | 12.6  | 13.5  | 13.7  | 13.7  | 13.6  |
| Passenger Revenue per Available Seat Kilometre (RASK)                  | cents | 10.4  | 11.3  | 11.6  | 11.5  | 11.4  |
| Cost per Available Seat Kilometre (CASK) <sup>3</sup>                  | cents | 9.1   | 9.3   | 10.6  | 10.9  | 11.2  |
| Return on Invested Capital Pre-tax (ROIC) <sup>4</sup>                 | %     | 15.3  | 18.8  | 15.6  | 14.3  | 11.6  |
| Liquidity ratio <sup>5</sup>   | %     | 30.0  | 36.0  | 29.7  | 29.2  | 29.9  |
| Gearing (incl. net capitalised aircraft operating leases) <sup>6</sup> | %     | 51.8  | 48.6  | 52.4  | 42.9  | 39.3  |
| <b>Shareholder Value</b>   |       |       |       |       |       |       |
| Basic Earnings per Share <sup>7</sup>                                  | cps   | 34.0  | 41.3  | 29.2  | 23.9  | 16.5  |
| Operating Cash Flow per Share <sup>7</sup>                             | cps   | 80.5  | 95.6  | 98.1  | 65.5  | 67.9  |
| Ordinary Dividends Declared per Share <sup>7</sup>                     | cps   | 21.0  | 20.0  | 16.0  | 10.0  | 8.0   |
| Special Dividends Declared per Share <sup>7</sup>                      | cps   | -     | 25.0  | -     | 10.0  | -     |
| Net Tangible Assets per Share <sup>7</sup>                             | \$    | 1.64  | 1.76  | 1.66  | 1.60  | 1.57  |
| Closing Share Price 30 June  | \$    | 3.26  | 2.10  | 2.55  | 2.08  | 1.49  |
| Weighted Average Number of Ordinary Shares                             | m     | 1,123 | 1,122 | 1,118 | 1,101 | 1,096 |
| Total Number of Ordinary Shares  | m     | 1,123 | 1,123 | 1,122 | 1,114 | 1,104 |
| Total Market Capitalisation  | \$m   | 3,660 | 2,352 | 2,861 | 2,318 | 1,639 |
| Total Shareholder Returns <sup>8</sup>                                 | %     | 41.5  | 20.0  | 25.6  | 24.0  | 11.6  |

1. Earnings before interest and taxation (EBIT) excluding share of earnings of associates (net of taxation) and other significant items

2. EBITDRA excludes share of earnings of associates (net of taxation) and other significant items

3. Operating expenditure per ASK

4. (EBIT plus interest component of aircraft operating leases)/average capital employed (Net Debt plus Equity) over the period

5. (Bank and short-term deposits, interest-bearing assets and non interest-bearing assets)/Operating Revenue

6. Net Debt (including capitalised aircraft 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 ex dividend 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 2013 financial year are as previously published.

# HISTORICAL SUMMARY OF DEBT

## Five Year Statistical Review

As at 30 June

|  | 2017<br>\$M | 2016<br>\$M | 2015<br>\$M | 2014<br>\$M | 2013<br>\$M |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Debt</b>  |             |             |             |             |             |
| Secured borrowings   | 1,243       | 930         | 512         | 213         | 84          |
| Unsecured bonds  | 50          | 150         | 150         | 150         | 150         |
| Finance lease liabilities  | 1,221       | 1,487       | 1,660       | 1,370       | 1,395       |
|  | 2,514       | 2,567       | 2,322       | 1,733       | 1,629       |
| Bank and short-term deposits   | 1,369       | 1,594       | 1,321       | 1,234       | 1,150       |
| Net open derivatives held in relation to interest-bearing liabilities <sup>1</sup> | (32)        | (17)        | 24          | (10)        | 28          |
| Non interest-bearing assets (included within Other assets)                         | -           | -           | -           | -           | 44          |
| Interest-bearing assets (included within Other assets)                             | 164         | 288         | 141         | 125         | 184         |
| <b>Net Debt</b>  | 1,013       | 702         | 836         | 384         | 223         |
| Net aircraft operating lease commitments <sup>2</sup>                              | 1,120       | 1,288       | 1,323       | 1,022       | 945         |
| <b>Net Debt (including off Balance Sheet)</b>                                      | 2,133       | 1,990       | 2,159       | 1,406       | 1,168       |

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

Five Year Statistical Review

For the year to 30 June

|   | 2017   | 2016   | 2015   | 2014   | 2013   |
|---|--------|--------|--------|--------|--------|
| <b>Passengers Carried (000)</b>                       |        |        |        |        |        |
| Domestic  | 10,379 | 9,725  | 9,246  | 8,920  | 8,694  |
| International   |        |        |        |        |        |
| Australia and Pacific Islands                         | 3,561  | 3,507  | 3,388  | 3,277  | 3,181  |
| Asia*   | 814    | 791    | 642    | 517    | 596    |
| America and Europe                                    | 1,198  | 1,138  | 1,021  | 1,005  | 940    |
| Total   | 5,573  | 5,436  | 5,051  | 4,799  | 4,717  |
| Total Group   | 15,952 | 15,161 | 14,297 | 13,719 | 13,411 |
| <b>Available Seat Kilometres (M)</b>                  |        |        |        |        |        |
| Domestic  | 6,597  | 6,065  | 5,592  | 5,385  | 5,108  |
| International   |        |        |        |        |        |
| Australia and Pacific Islands                         | 12,039 | 11,438 | 10,888 | 10,622 | 10,277 |
| Asia*   | 8,918  | 8,349  | 7,022  | 5,656  | 6,780  |
| America and Europe                                    | 14,615 | 13,832 | 12,099 | 11,733 | 11,002 |
| Total   | 35,572 | 33,619 | 30,009 | 28,011 | 28,059 |
| Total Group   | 42,169 | 39,684 | 35,601 | 33,396 | 33,167 |
| <b>Revenue Passenger Kilometres (M)</b>               |        |        |        |        |        |
| Domestic  | 5,311  | 4,887  | 4,561  | 4,370  | 4,218  |
| International   |        |        |        |        |        |
| Australia and Pacific Islands                         | 9,784  | 9,532  | 9,184  | 8,858  | 8,580  |
| Asia*   | 7,270  | 7,070  | 5,784  | 4,630  | 5,418  |
| America and Europe                                    | 12,449 | 11,734 | 10,405 | 10,220 | 9,517  |
| Total   | 29,503 | 28,336 | 25,373 | 23,708 | 23,515 |
| Total Group   | 34,814 | 33,223 | 29,934 | 28,078 | 27,733 |
| <b>Passenger Load Factor (%)</b>                      |        |        |        |        |        |
| Domestic  | 80.5   | 80.6   | 81.6   | 81.1   | 82.6   |
| International   |        |        |        |        |        |
| Australia and Pacific Islands                         | 81.3   | 83.3   | 84.4   | 83.4   | 83.5   |
| Asia*   | 81.5   | 84.7   | 82.4   | 81.9   | 79.9   |
| America and Europe                                    | 85.2   | 84.8   | 86.0   | 87.1   | 86.5   |
| Total   | 83.8   | 84.3   | 84.6   | 84.7   | 83.8   |
| Total Group   | 82.6   | 83.7   | 84.1   | 84.1   | 83.6   |
| <b>GROUP EMPLOYEE NUMBERS (Full Time Equivalents)</b> | 10,890 | 10,527 | 10,196 | 10,546 | 10,336 |

\*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 STATEMENT

The Board of Air New Zealand considers strong corporate governance to be a critical component of the overall performance of the company, and a contributor to superior performance and achieving best outcomes for its shareholders, customers, employees and the wider community. Accordingly, policies and processes are in place to establish, shape and maintain appropriate governance standards and behaviours throughout the company, consistent with this philosophy.

The Board has had regard to a number of corporate governance statements, including the Financial Market Authority's Corporate Governance Handbook, the Institute of Directors' Code of Practice, and the New Zealand Corporate Governance Forum's Guidelines. While Air New Zealand no longer has a requirement to report against the ASX's Corporate Governance Principles and Recommendations, these continue to inform the Board's approach to governance. The NZX Listing Rules require the company to report against the NZX Corporate Governance Best Practice Code.

Air New Zealand recognises and supports the recently released NZX Corporate Governance Code ("the new Code"), which will replace the current Best Practice Code from October 2017. Whereas the company is not formally adopting the new Code for the 2017 reporting year, this Corporate Governance Statement follows the structure of the new Code and addresses its Recommendations. The Board considers its governance practices to be consistent with the new Code's Principles.

This Corporate Governance Statement was approved by the Board on 22 August 2017 and is current as at that date.

## Code of Ethical Behaviour

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*"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."*

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Air New Zealand is committed to the highest standards of social and environmental responsibility and ethical conduct. This is good for our customers, our shareholders, our wider community and our Company. The Board acknowledges it as a whole, and each director individually, has a role to play in guiding and modelling the high ethical standards that we want to pervade the whole organisation. It is recognised that codification of ethical principles, whether in a Code of Conduct, policies or elsewhere, is only a baseline, and tools like the brand values and leadership behaviours help to create an ingrained ethical culture.

### Code of Conduct

Air New Zealand has published a Code of Conduct, as a statement of our guiding principles of ethical and legal conduct. The Code of Conduct applies to everyone working at or for Air New Zealand – directors, executives, employees, contractors and agents.

The Code of Conduct forms part of the induction process for all new employees, and is available online. Employees must provide acknowledgement that they have read and understood the content. On an annual basis, employees are required to re-confirm their understanding of the Code of Conduct through an online course.

The Code of Conduct is high-level in nature, and provides clear guidance, supported by practical examples, across a range of ethical and legal matters, including:

- Health, safety and well-being
- People, diversity and inclusion
- Airline security and business disruption management
- Gifts and entertainment
- External communications
- Use of business resources
- Personal information and privacy
- Sustainability and sponsorship
- Conflicts of interest
- Inducements and bribes
- Continuous disclosure
- Insider trading

Mechanisms are provided for the safe reporting of breaches of the Code or other policies or laws, and the consequences of non-compliance are made explicit.

### Related Documents

The Code of Conduct is supplemented by a number of other documents, including the Board Charter and specific policies on key matters. As a whole these documents address all the matters specified in the NZX Corporate Governance Best Practice Code and the new NZX Corporate Governance Code.

In addition to the high-level guidance in the Code of Conduct, specific policies provide a further layer of management, particularly in more technical areas. For example, Air New Zealand has a Securities Trading Policy, which identifies behaviours that are illegal, unacceptable or risky in relation to dealings in Air New Zealand's securities by directors, employees or their associated persons. Without taking away ultimate responsibility of the individuals for their trading activities, the policy provides a framework that reduces the potential for insider trading. Training is provided to staff on the policy, and no policy breaches have been identified during the 2017 reporting period. The policy was refreshed in May 2017.

The ethical approach adopted within the Group is complemented by a Supplier Code of Conduct introduced in 2015, outlining the minimum standards and expectations applicable to all suppliers of goods and services to Air New Zealand. The Supplier Code addresses labour and human rights, health and safety, environmental sustainability, ethical business, security, information security, risk management and commercial sustainability.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Air New Zealand makes these documents, and other significant governance documents tabulated below, available on its website.

| Constitution/Charters  | Policies   |
|--|--|
| <ul style="list-style-type: none"> <li>• Constitution</li> <li>• Board Charter</li> <li>• Audit Committee Charter</li> <li>• Funding Committee Charter</li> <li>• Health Safety and Security Committee Charter</li> <li>• People Remuneration and Diversity Committee Charter</li> </ul> | <ul style="list-style-type: none"> <li>• Anti-bribery and corruption policy</li> <li>• Audit independence policy</li> <li>• Continuous disclosure policy</li> <li>• Distribution policy</li> <li>• Equality, diversity and inclusion policy</li> <li>• Group compliance policy</li> <li>• Risk management policy</li> <li>• Securities trading policy</li> </ul> |
| Codes of Conduct   | Other Documents  |
| <ul style="list-style-type: none"> <li>• Employee Code of Conduct</li> <li>• Supplier Code of Conduct</li> </ul>   | <ul style="list-style-type: none"> <li>• Sustainability Report</li> <li>• Palm oil position statement</li> <li>• Slavery and human trafficking statement</li> </ul>  |

## Board Composition and Performance

*"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."*

### Responsibilities of the Board

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 the company and 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

Tony Carter has been Chairman of Air New Zealand since 27 September 2013. 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.

The Board Charter makes explicit that the Chairman and the Chief Executive Officer roles are separate.

### Director Independence

The Board's standards for determining the independence of a director including the requirements of the NZX Listing Rules are set out in full in the Board's Charter. 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 the Board reconfirms the independence status of its members annually.

### Company Secretary

Under the Board Charter, the General Counsel and Company Secretary is 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 Structure, Skills and Composition

The role of the Board in the governance of Air New Zealand requires its members to bring a range of skills and experience to the table, to be able to challenge, support, monitor, mentor, guide and inspire management, and to ensure Air New Zealand is and continues to be a business that its owners, customers, employees and the wider public, can be proud of.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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),<br>ME, MPhil | BCom, FCA  | BCom         | BE (Hons),<br>MBA | MBA, BBS        | MBA, MA, BA    | BCA, FCA      |
| Executive Leadership   | •                       | •          |              | •                 | •               | •              | •             |
| Financial              | •                       | •          |              | •                 | •               | •              | •             |
| Tourism                |                         |            | •            |                   | •               |                | •             |
| Engineering/Safety     | •                       |            | •            | •                 |                 |                |               |
| Digital/Technology     |                         |            | •            |                   | •               |                |               |
| Governance             | •                       | •          | •            | •                 | •               | •              | •             |
| International Business | •                       | •          | •            | •                 | •               | •              | •             |
| Regional Profile       |                         |            | •            | •                 | •               |                | •             |
| Customer Experience    | •                       |            | •            |                   | •               |                | •             |

Details of each director's experience, independence, and interests are published on the Air New Zealand website.

## Diversity and Inclusion

The Board recognises and values diversity in personal and professional attributes in its own composition, as well as throughout the Group. At its simplest, diversity helps challenge limited ways of thinking and introduces fresh perspectives. It is also important in helping the business unlock and access potential in the workforce and, as an international airline, to better understand its customers and consequently achieve better outcomes for them and the business.

Air New Zealand continues to make strong progress in delivering its diversity and inclusion objectives. Our focus continues to be on gender representation and growing the cultural capability and fluency of leaders. We are also increasing focus on our cultural diversity to ensure our employee population is reflective of our diverse customer base.

Our four strategic focus areas to progress on our diversity and inclusion agenda will continue to be:

- Creating an inclusive and collaborative culture;
- Growing inclusive leadership capability;
- Building a diverse workforce; and
- Growing diverse talent pools.

### Creating an Inclusive and Collaborative Culture

At Air New Zealand we have a wide range of ethnicities and generations in our workforce and our employee networks play a pivotal role in creating an inclusive culture. We support five employee networks: Women's Network, Young Professionals, Māori and Pacific Islands (Manu) and Pride (LGBTQI) networks, with the Asian employee network launching in September.

Network activity in the 2017 financial year included celebrating Diwali, Chinese New Year, the Pasifika festival, Auckland Pride Parade, International Women's Day, Matariki and Māori Language week as well as sending delegates to the One Young World summit and providing a mentor matching service for young females.

The overarching purpose of our employee networks is:

- To promote a sense of community and belonging across different employee groups;
- Increase visibility and awareness of our diverse workforce;
- Advance knowledge and capability; and
- 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.

### Growing Inclusive Leadership Capability

In the 2017 financial year we focused on making inclusivity and cultural fluency a key part of all our leadership touchpoints through the following initiatives:

- Designing our new middle manager development programme to include a Māori/Polynesian leadership philosophy as the base approach for the programme;
- Offering personalised coaching on Te Reo and cultural protocols for senior leaders;

Definitions:

**Executive Team:** The Chief Executive Officer and direct reports. The members of the Executive Team are defined as Officers of the Company.

**Senior Leadership Team (SLT):** Executive Team, direct reports to the Executive Team and other selected senior managers.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

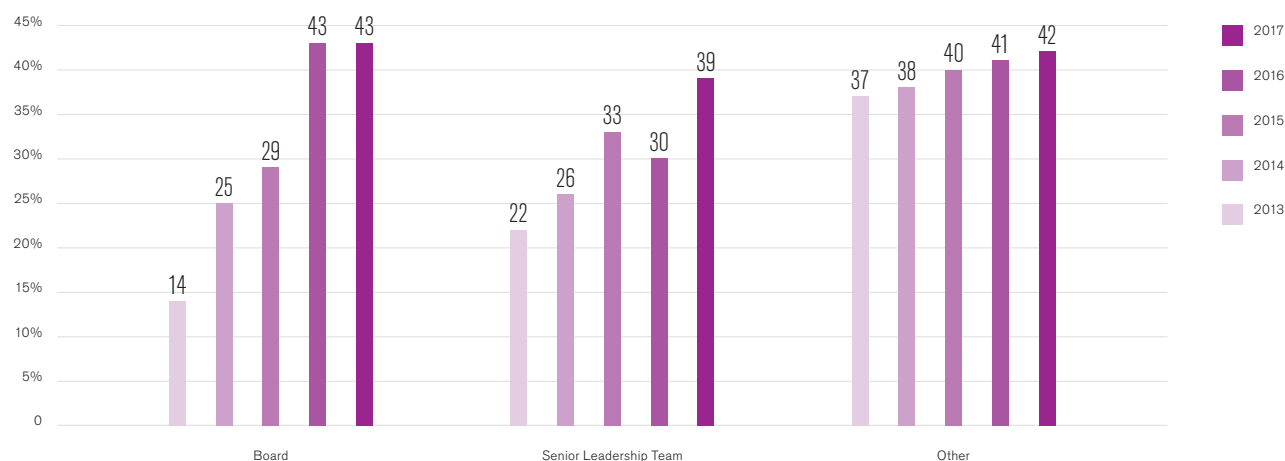
- Running a deep immersion residential Māori fluency wananga for key leaders in partnership with Department of Conservation/Air New Zealand at Te Papa Atawhai;
- Setting the expectation that cultural fluency in our brand and the Koru is a core capability for all Air New Zealanders through our induction programme; and
- Launching the Te Kete Tikanga Māori mobile app which is accessible to all Air New Zealanders.

In addition to a gender and ethnicity focus, we have also sought to role model inclusivity in our day to day practices and specifically in our flexible working approaches through the communication, management support, and infrastructure support of flexible working.

## Building a Diverse Workforce

Building a diverse workforce is an area where we have made significant gains in the 2017 financial year having maintained a strong focus on gender diversity across all 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% by 2016. As of 30 June 2017, the SLT female representation is 39%, well above the target.

### Workforce Gender Representation (% female)



| AS AT 30 JUNE                               | 2013        | 2014        | 2015        | 2016        | 2017        |
|---|-------------|-------------|-------------|-------------|-------------|
| No. of Board (female:male)                  | 1:6         | 2:6         | 2:5         | 3:4         | 3:4         |
| No. of Executive Team (female:male)         | 1:7         | 1:7         | 1:7         | 1:8         | 1:9         |
| No. of Senior Leadership Team (female:male) | 15:52       | 18:51       | 26:54       | 24:57       | 34:53       |
| No. of Other (female:male)                  | 4,075:6,912 | 4,299:6,979 | 4,433:6,742 | 4,656:6,635 | 4,879:6,810 |

A major driver in the success of the percentage of women on the SLT is the launch of our Women in Leadership (WIL) programme in the 2015 financial year and our existing talent and development programmes. WIL is a professional development programme for our talent population, aimed at building a solid pipeline of women ready to move into senior leadership roles. Since 1 January 2016, ten females have been promoted into SLT roles, and a further six have moved into a new bigger role within the SLT.

We also continue to work with AMP's Women in Leadership Pathway programme, the prestigious International Women's Forum Fellows programme and the Global Women Breakthrough Leaders programme.

## Growing Diverse Talent Pools

Although we continue to apply a gender focus to our internal talent identification process, as we progress into the 2018 financial year we will also have a longer term ethnicity focus on SLT representation, including Māori participation on SLT. To ensure we have a diverse pipeline of senior leaders and achieve our representation targets we need to have a well-developed pipeline of talent to draw from. Key initiatives to achieve this include:

- Identification of SLT roles where having Māori representation would be of significant benefit;
- Principal sponsorship of Champions for Change: "Tupu Toa – Māori and Pasifika Corporate Pathways Programme" (an internship programme to promote and encourage young Māori and Pasifika into corporate careers);
- Identification and development of emerging talent from minority populations;
- Partnership with external organisations to provide targeted and specific development programmes for emerging leaders from minority populations; and
- 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 Diversity Policy was refreshed in June 2017. The revised policy more clearly defines roles and responsibilities, and explicitly confirms the requirement for the People Remuneration and Diversity Committee to set, monitor and review measurable objectives to achieve diversity.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Board Evaluation

The Board Charter provides for regular performance reviews of the Board as a whole and its Committees. 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 2017 financial year.

## Director Appointments and Induction

The Board as a whole considers the requirement for additional or replacement directors, subject to the Constitutional limitation of the number of directors. In so doing, it has regard to the skills, experience and diversity on the Board, and the skills that are necessary or desirable for the Board to fulfil its governance role and contribute to the long-term strategic direction of the company. The Board may engage consultants to assist in the identification, recruitment and appointment of suitable candidates.

When appointing new directors, the Board ensures that the Constitutional requirements in respect of Directors will continue to be satisfied. There must be between five and eight Directors, at least three of whom are resident in New Zealand. The majority of Directors must be New Zealand citizens and, for a Board of seven members as is currently the case, at least two must be independent.

The Constitution provides that all Non-Executive Directors are elected by Shareholders. Directors may be appointed by the Board to fill vacancies, but they are then subject to re-election at the next annual Shareholder meeting. In addition to Directors retiring by rotation, and eligible for re-election, nominations may be made by Shareholders.

Each 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.

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.

## Director Development

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.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Board Committees

*“The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.”*

The Board has established committees where these can assist in the efficient performance of the Board's functions, and the achievement of appropriate governance outcomes. All committees operate under written Charters, which define the role, authority and operations of the committee. Committee Charters are available on the Air New Zealand website.

Current standing committees are outlined below.

| Committee                                  | Composition and Roles   | Members   |
|--|---|---|
| Audit                                      | 3-7 non-executive directors, the majority of which are independent.<br>A majority of the members will be financially literate and at least one member shall have an accounting or financial background. The Chair may not be the Chairman of the Board.<br>Advises and assists the Board in discharging its responsibilities with respect to financial reporting, compliance and risk management practices of Air New Zealand | Jan Dawson (Chair)<br>Tony Carter<br>Jonathan Mason<br>Dame Therese Walsh |
| People Remuneration and Diversity (“PRDC”) | 2-7 directors. The Chairman is an independent non-executive director.<br>Monitors issues related to management structure, diversity and remuneration of the Chief Executive Officer and other senior executives.<br>The Committee also makes recommendations to the Board on remuneration of non-executive directors.   | Jonathan Mason (Chair)<br>Tony Carter<br>Jan Dawson                       |
| Health, Safety and Security (“HSSC”)       | At least 3 non-executive directors. The Chairman is an independent non-executive director.<br>Ensures 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.                        | Rob Jager (Chair)<br>Tony Carter<br>Paul Bingham<br>Linda Jenkinson       |
| Funding                                    | 3-4 directors.<br>Reviews and advises the Board in relation to an annual debt plan and deals on an ad hoc basis with delegated administrative approvals of transactions within the scope of the debt plan.  | Tony Carter<br>Jonathan Mason<br>Rob Jager                                |

Attendance at meetings of employees or other persons is at the invitation and discretion of the respective Committee, through its Chair.

As noted above, the Board as a whole considers the requirement for additional or replacement directors, and has not established a nomination committee or similar for this purpose.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The table below reports attendance of members at Board and Board Committee meetings during the 2017 reporting period.

## Board/Committee Meetings 1 July 2016 – 30 June 2017

|                              | Board                 |          | Audit Committee       |          | People Remuneration and Diversity Committee |          | Health, Safety and Security Committee |          |
|------------------------------|-----------------------|----------|-----------------------|----------|---|----------|---------------------------------------|----------|
|                              | Meetings <sup>1</sup> | Attended | Meetings <sup>1</sup> | Attended | Meetings <sup>1</sup>                       | Attended | Meetings <sup>1</sup>                 | Attended |
| Tony Carter                  | 12                    | 12       | 4                     | 4        | 6   | 6        | 4                                     | 4        |
| Jan Dawson                   | 12                    | 12       | 4                     | 4        | 6   | 6        |                                       |          |
| Paul Bingham                 | 12                    | 12       |                       |          |   |          | 4                                     | 4        |
| Rob Jager                    | 12                    | 12       |                       |          |   |          | 4                                     | 4        |
| Linda Jenkinson <sup>2</sup> | 12                    | 12       |                       |          |   |          | 1                                     | 1        |
| Jonathan Mason               | 12                    | 12       | 4                     | 4        | 6   | 6        |                                       |          |
| Dame Therese Walsh           | 12                    | 11       | 4                     | 4        |   |          |                                       |          |

1. The number of meetings for which the Director was a member.

2. Linda Jenkinson was appointed to the Health Safety and Security Committee on 1 April 2017.

The Funding Committee generally satisfies its responsibilities through electronic communication and written resolution, to ensure efficient processing of funding and related transactions. No physical meetings of this Committee were held in the year, and no additional fees are paid in respect of this Committee.

## Reporting and Disclosure

*“The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.”*

The Board is committed to timely, accurate and meaningful reporting of financial and non-financial information.

As a listed company there is an imperative to ensure the market is informed, and the listed securities are being fairly valued by the market. In addition to statutory disclosures, the company provides ongoing updates of its operations, as well as presentations to the investment community. This material is made publicly available through releases to the NZX and ASX, in accordance with the Listing Rules.

Initiatives are pursued to inform all stakeholders of the company's performance against broader objectives, including responsibilities to our communities, people, environment and economy. The company's Sustainability Report reports on activities and achievements in these areas.

Air New Zealand has a Continuous Disclosure Policy, available on the Air New Zealand website. The purpose of this policy is to:

- Ensure that Air New Zealand complies with its continuous disclosure obligations;
- Ensure timely, accurate and complete information is provided to all shareholders and market participants; and
- Outline mandatory requirements and responsibilities in relation to the identification, reporting, review and disclosure of Material Information relevant to Air New Zealand.

This policy establishes a Disclosure Committee to facilitate the provision of timely and appropriate market disclosure.

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

In addition to the published Financial Statements, Air New Zealand's Sustainability Report provides information and insight into the company's approach and performance on a number of non-financial matters, including social, environmental and economic measures.

## Remuneration

*“The remuneration of directors and executives should be transparent, fair and reasonable.”*

In accordance with the Constitution, shareholder approval is sought for any increase in the pool available to pay directors' fees. Approval was last sought in 2015, when the pool limit was set at \$1,100,000 per annum.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Where the pool permits, the Board may amend the actual fees paid to reflect market conditions or other relevant factors.

The Board has determined the following allocation of the pool.

|   | Position              | Fees (Per Annum) |                  |
|---|-----------------------|------------------|------------------|
|   |                       | To 30 June 2017  | From 1 July 2017 |
| Board of Directors                          | Chairman <sup>1</sup> | \$270,000        | \$270,000        |
|   | Deputy Chairman       | \$108,500        | \$111,000        |
|   | Member                | \$95,000         | \$97,500         |
| Audit Committee                             | Chair                 | \$40,000         | \$40,000         |
|   | Member                | \$20,000         | \$20,000         |
| Health Safety and Security Committee        | Chair                 | \$40,000         | \$40,000         |
|   | Member                | \$20,000         | \$20,000         |
| People Remuneration and Diversity Committee | Chair                 | \$20,000         | \$20,000         |
|   | Member                | \$10,000         | \$10,000         |

1. The Chairman receives no additional committee fees.

The Board approved an increase in base director fees for the Deputy Chairman and directors of \$2,500 per annum, with effect from 1 July 2017. This is accommodated within the shareholder-approved pool for director remuneration.

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 and from meetings of the directors or committees.

Remuneration of directors in the reporting period is tabulated below.

|                              | Board Fees       | Audit Committee     | HSSC                | PRDC                | Other Remuneration | Total Fees         | Value of Travel Entitlement <sup>1</sup> |
|------------------------------|------------------|---------------------|---------------------|---------------------|--------------------|--------------------|--|
| Tony Carter (Chairman)       | \$270,000        | -<br>(2)            | -<br>(2)            | -<br>(2)            | -                  | \$270,000          | \$8,420                                  |
| Jan Dawson (Deputy Chairman) | \$108,500        | \$40,000<br>(Chair) | -                   | \$10,000            | \$7,500<br>(3)     | \$166,000          | \$37,570                                 |
| Paul Bingham                 | \$95,000         | -                   | \$20,000            | -                   | -                  | \$115,000          | \$96,868                                 |
| Rob Jager                    | \$95,000         | -                   | \$40,000<br>(Chair) | -                   | -                  | \$135,000          | \$40,259                                 |
| Linda Jenkinson              | \$95,000         | -                   | \$5,000             | -                   | \$5,833<br>(4)     | \$105,833          | \$100,296                                |
| Jonathan Mason               | \$95,000         | \$20,000            | -                   | \$20,000<br>(Chair) | -                  | \$135,000          | \$50,829                                 |
| Dame Therese Walsh           | \$95,000         | \$20,000            | -                   | -                   | -                  | \$115,000          | \$42,705                                 |
| <b>Total</b>                 | <b>\$853,500</b> | <b>\$80,000</b>     | <b>\$65,000</b>     | <b>\$30,000</b>     | <b>\$13,333</b>    | <b>\$1,041,833</b> | <b>\$376,947</b>                         |

Amounts stated as GST exclusive where applicable.

1. Includes value of travel benefits for related parties and benefits accrued in prior years utilised in current year.
2. No committee fees are paid to the Chairman.
3. Fees for service as a Trustee of the Air New Zealand Superannuation Scheme for part of the year.
4. An overseas director travel allowance was payable for part of the year.

In addition to the Director remuneration provisions above, Air New Zealand's employee remuneration policy, including the components of remuneration, is reflected in the philosophies and principles discussed in the remuneration report.

The remuneration of the Chief Executive Officer is disclosed in the remuneration report.

# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

## Risk Management

*“Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.”*

The Board is aware that risk is a normal part of business and, while not risk averse, it recognises the need to manage risk proactively. The Board ensures it as a whole, and each director individually, receives appropriate information on critical risks and the manner in which these are managed or mitigated. This process includes site visits to observe treatment of operational and safety risks, as well as presentations on risk management practices and identification of liability issues to ensure relevant risks receive the right focus.

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. The Committee reports to the Board at each meeting, and matters of particular risk can be escalated in that manner.

The Board has the Group Risk Profile as a standing agenda item at each meeting.

The Health, Safety and Security Committee has a particular responsibility to monitor health and safety risks, and as necessary report these up to the full Board. During 2017 a wider set of safety metrics are being introduced which will be reported in the Sustainability Report.

## Auditors

*“The Board should ensure the quality and independence of the external audit process.”*

### External Audit

As a Public Entity, Air New Zealand is subject to the Public Audit Act 2001. The Auditor-General is the auditor, but may appoint an independent auditor to conduct the audit process. Deloitte has been appointed in this respect.

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.

Air New Zealand requires the external auditor to rotate its lead audit partner at least every five years, with suitable succession planning to ensure consistency.

On a regular basis the Audit Committee meets with the external auditor to discuss any matters that either party believes should be discussed confidentially. The Chair of the Audit Committee will call a meeting of that Committee if so requested by the external auditor.

The appointed external auditor, Deloitte, has historically attended the Annual Shareholders' Meeting, and the lead audit partner is available to answer relevant questions from shareholders at that meeting.

### Internal Audit

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. 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, and the Head of Internal Audit has unfettered access to the Audit Committee or its Chair.

## Shareholder Rights and Relations

*“The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.”*

The Board recognises the rights of shareholders and is committed to engaging with them positively on significant matters.

Air New Zealand's shareholder relations programme is designed to ensure effective, two-way communication between shareholders and Air New Zealand. Relevant information is provided to the investment community as quickly and efficiently as possible as part of Air New Zealand's compliance with continuous disclosure. In addition to providing disclosures to the market, Air New Zealand engages with shareholders in a number of ways, including:

- **Investor Centre Website**

Air New Zealand maintains a dedicated investor website ([airnewzealand.co.nz/investor](http://airnewzealand.co.nz/investor)). This website contains financial information, current and historical annual reports and investor presentations, dividend history, notices of shareholder meetings, frequently asked questions and other relevant information pertaining to Air New Zealand. The website is freely accessible to the public.



# CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- **Electronic Communications**

Air New Zealand provides an Investor Relations email address whereby shareholders are welcome to communicate electronically with Air New Zealand on any matters relating to their investment or other dealings with the company. All shareholder-related enquiries are provided with a response within a reasonable timeframe.

- **Hybrid Annual Shareholder Meetings**

Beginning in 2016, Air New Zealand has offered shareholders the ability to attend the Annual Shareholders' Meeting in either a physical or digital capacity. For shareholders who are unable to travel, the online option of participating in the Annual Shareholders' Meeting allows all shareholders the ability to engage with the Board of Directors and Executive. In 2016, Air New Zealand had more than 100 online participants who asked 15 questions using the virtual tool. Resolutions at shareholder meetings are usually by way of a poll, where each shareholder has one vote per share. Air New Zealand encourages shareholders to ask questions in advance of the meeting, to encourage further engagement with the company and provide management with a view of the concerns of the company's shareholders.

- **Investor Day Briefings**

On a periodic basis, Air New Zealand holds investor briefings to provide an update on the company's strategy and financial framework, as well as provide shareholders with an in-depth discussion on a particular topic. Beginning in 2017, Air New Zealand also webcasted the Investor Day presentations held on 1 June 2017 to provide all shareholders and prospective investors the opportunity to view the event.

- **Webcasting Interim and Annual Results Presentations**

Air New Zealand webcasts its earnings announcements on a semi-annual basis over its website to provide investors with timely information pertaining to the business, strategy and financial performance.

In accordance with the Companies Act, Constitution and Listing Rules, Air New Zealand refers any significant matters to shareholders for approval at a shareholder meeting.

Air New Zealand posts any Notices of Shareholder Meetings on its website as soon as these are available. The general practice is to make these available not less than four weeks prior to the shareholder meeting.

## Differences in Practice to NZX Code

Under the NZX 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 Corporate Governance Best Practice Code. A summary of Air New Zealand's corporate governance practices has been provided in the Corporate Governance Statement above. As described, a nominations committee has not been established. The whole Board is (and should be) involved in the selection and appointment process for new Board members; a position contemplated in the new Code. In this respect Air New Zealand's practice diverges from paragraphs 2.2 and 3.11-3.12 of the NZX Corporate Governance Best Practice Code.

The Board has not established protocols setting out procedures to be followed in the event of a takeover offer. This is because the Board considers receipt of a takeover offer to be an extremely unlikely event in light of the Crown's majority shareholding in the company and the other shareholding restrictions that apply to Air New Zealand. In addition, Air New Zealand would have adequate time to implement such protocols and procedures, and communicate those to shareholders, should circumstances change. Accordingly, and having regard to the supporting commentary in the NZX Corporate Governance Code, the Board considers that it is reasonable and appropriate for Air New Zealand not to follow Recommendation 3.6 of the new Code at this time. Notwithstanding this, the Board agrees with the principles behind this recommendation, being good communication with shareholders and independent directors leading matters that require appropriate independence.

## DIRECTORS' PROFILES

The following directors held office as at 30 June 2017:

### **Antony (Tony) Carter** BE (Hons), ME, MPhil

#### **Chairman**

**Independent Non-Executive Director** – Appointed 1 December 2010

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

Ms Dawson is Chairman of Westpac New Zealand Limited and a director of AIG Insurance New Zealand Limited, Beca Group Limited, Fulbright New Zealand, Meridian Energy Limited and World Sailing. Ms Dawson is Pro-Chancellor and 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

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 24 year career he has worked in the UK, USA, Singapore and New Zealand.

### **Robert (Rob) Jager** BE (Hons), MBA

**Independent Non-Executive Director** – Appointed 1 April 2013

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 and is a member of the Business Leaders Health and Safety Forum steering committee. 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, senior leadership 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.

In June 2017 Mr Jager was recognised by Safeguard with a Lifetime Achievement award for his role in nearly every significant health and safety initiative in New Zealand over the last decade.



## DIRECTORS' PROFILES (CONTINUED)

### **Linda Jenkinson** MBA, BBS

**Independent Non-Executive Director** – Appointed 1 June 2014

Ms Jenkinson was the 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 and a Trustee of the Massey University Foundation in New Zealand. Ms Jenkinson is also a Director of Guild Group Holdings Ltd.

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

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

Dame Therese is currently 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.

Previously she was the Head of New Zealand for ICC Cricket World Cup 2015 Limited, 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 Therese 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.

## Changes to Board Membership

There were no changes to the Board during the year. The Board has advised that the Rt Hon Sir John Key will be appointed to the Board on 1 September 2017, as an Independent, Non-Executive Director. Mr Bingham will be retiring from the Board at the 2017 Annual Shareholders' Meeting on 28 September 2017.



# INTERESTS REGISTER

No disclosures were made of interests in transactions under s140(1) of the Companies Act 1993.

Directors have made general disclosures of interests in accordance with s140(2) of the Companies Act. Current interests, and those which ceased during the year, are tabulated below. New disclosures advised since 1 July 2016 are italicised.

|                 |   |  |
|-----------------|---|--|
| Tony Carter     | ANZ Bank New Zealand Limited<br>Blues LLP<br><i>Capital Training Limited</i><br>Fisher & Paykel Healthcare Corporation Limited<br>Fletcher Building Limited<br>Foodstuffs Auckland Protection Trust<br>Maurice Carter Charitable Trust  | Director<br>Chairman<br><i>Advisory Board Member</i><br>Chairman<br>Director<br>Trustee<br>Trustee   |
| Jan Dawson      | AIG Insurance New Zealand Limited<br>Beca Group Limited<br><i>Fulbright New Zealand</i><br>Jan Dawson Limited<br>Meridian Energy Limited<br>National Health Board Capital Investment Committee<br>New Zealand Maritime Museum<br>University of Auckland Council<br>Westpac New Zealand Limited<br><i>World Sailing</i>  | Director<br>Director<br><i>Director</i><br>Director<br>Director<br>Member<br>Trustee<br>Pro Chancellor<br>Chairman<br><i>Director</i>  |
| Paul Bingham    | Akaroa Harbour Cruises Limited<br>Black Cat Group 2007 Limited<br>Destination Christchurch & Canterbury NZ Trust – ceased 12 January 2017<br>Dolphin Experience Limited<br>Lyttelton Harbour Cruises Limited<br>Ngai Tahu Tourism Limited<br>Pajo Trust<br>Shuttlerock Limited<br>Shuttlerock Pty Limited (Australia)   | Director<br>Chairman<br>Trustee<br>Director<br>Director<br>Director<br>Director<br>Trustee<br>Director<br>Director   |
| Rob Jager       | Maui Development Limited<br>Petroleum Exploration & Production Associate New Zealand (PEPANZ)<br>Shell Energy Asia Limited<br>Shell Exploration NZ Limited<br>Shell Investments NZ Limited<br>Shell New Zealand (2011) Limited<br>Sustainable Seas National Science Challenge   | Chairman<br>Chairman<br>Chairman<br>Chairman<br>Chairman<br>Chairman<br>Director   |
| Linda Jenkinson | <i>Guild Group Holdings Limited</i><br><i>Guild Insurance Limited</i><br><i>Guild Superannuation Services Limited</i><br><i>Guild Trustee Services Limited</i><br>John Paul Inc<br><i>Les Concierges (Australia)</i><br><i>Les Concierges (Canada)</i><br><i>Les Concierges (US)</i><br><i>Massey University Foundation</i><br>Massey University US Foundation<br><i>Te Auaha Limited</i> | <i>Director</i><br><i>Director</i><br><i>Director</i><br><i>Director</i><br>Officer<br><i>Director</i><br><i>Director</i><br><i>Chair and Director</i><br>Trustee<br>Director and Secretary<br><i>Director</i> |
| Jonathan Mason  | Beloit College (USA) Board of Trustees<br>Compac Holdings Limited – ceased 1 June 2017<br>New Zealand Assets Management Limited<br>University of Auckland Endowment Fund<br>Vector Limited<br>Westpac New Zealand Limited<br>Zespri Group Limited   | Trustee<br>Chairman<br>Director<br>Trustee<br>Director<br>Director<br>Director   |



## INTERESTS REGISTER (CONTINUED)

|                    |  |                               |
|--------------------|--|-------------------------------|
| Dame Therese Walsh | <i>Antarctica NZ</i>   | <i>Director</i>               |
|                    | ASB Bank Limited   | Director                      |
|                    | DPMC Strategic Risk and Resilience Panel   | Member                        |
|                    | <i>Freeview Television Limited</i>   | <i>Director</i>               |
|                    | MBIE Major Events Investment Panel   | Member                        |
|                    | MFAT International Advisory and Selection Panel – resignation advised 16 February 2017 | Chairman                      |
|                    | New Zealand Rugby Union – resignation advised 16 February 2017                         | Chairman, Diversity Committee |
|                    | <i>NZOOM Limited</i>   | <i>Director</i>               |
|                    | NZX Limited  | Director                      |
|                    | <i>On Being Bold Limited</i>   | <i>Director</i>               |
|                    | Television New Zealand Limited   | Chairman <sup>1</sup>         |
|                    | <i>Therese Walsh Consulting Limited</i>  | <i>Director</i>               |
|                    | <i>TVNZ International Limited</i>  | <i>Director</i>               |
|                    | <i>TVNZ Investments Limited</i>  | <i>Director</i>               |
|                    | Victoria University  | Councillor                    |
|                    | Wellington Homeless Women's Trust  | Ambassador                    |
|                    | Wellington Regional Stadium Trust  | Trustee                       |

1. Deputy Chair to 28 April 2017

There have been no interest register entries in respect of use of company information by directors.

## DIRECTORS' INTERESTS IN AIR NEW ZEALAND SECURITIES

Directors had relevant interests in shares as at 30 June 2017 as below:

|                    | Interest                | Shares               |
|--------------------|-------------------------|----------------------|
| Tony Carter        | Beneficial <sup>1</sup> | 207,189 <sup>2</sup> |
| Jan Dawson         | Beneficial              | 20,000               |
| Paul Bingham       | Beneficial              | 5,000                |
| Rob Jager          | Beneficial              | 24,500               |
| Linda Jenkinson    | Beneficial              | 22,000               |
| Jonathan Mason     | Beneficial              | 29,000               |
| Dame Therese Walsh | Beneficial              | 45,000               |

1. Held by Loughborough Investments Limited, an associated person of Tony Carter.

2. Tony Carter also has a beneficial interest (through Loughborough Investments Limited) in 30,000 Bonds.

During the year, directors advised the following dealings that they (or associated persons) had in shares of the company:

|                    | Transaction           | Date           | Number              | Consideration |
|--------------------|-----------------------|----------------|---------------------|---------------|
| Tony Carter        | Purchase <sup>1</sup> | 6 October 2016 | 30,000              | \$53,376      |
| Linda Jenkinson    | Purchase              | 28 March 2017  | 22,000              | \$50,460      |
| Dame Therese Walsh | Purchase              | 7 July 2016    | 25,000 <sup>2</sup> | \$54,664      |
|                    | Purchase              | 1 May 2017     | 20,000              | \$51,000      |

1. Held by Loughborough Investments Limited, an associated person of Tony Carter.

2. These shares were reported as held at 30 June 2016 in the 2016 Annual Report. They were not acquired until 7 July 2016.

## EMPLOYEE REMUNERATION

|                       | Remuneration paid in FY17 including base for FY17, and incentive payments including performance rights issued under the LTI scheme that relate to FY16 performance and paid in FY17 |   |
|-----------------------|---|---|
|                       | New Zealand management  | Aircrew, engineering, overseas and others |
| 100,000 - 110,000     | 170   | 467                                       |
| 110,000 - 120,000     | 137   | 315                                       |
| 120,000 - 130,000     | 132   | 307                                       |
| 130,000 - 140,000     | 130   | 229                                       |
| 140,000 - 150,000     | 75  | 210                                       |
| 150,000 - 160,000     | 58  | 211                                       |
| 160,000 - 170,000     | 39  | 116                                       |
| 170,000 - 180,000     | 43  | 106                                       |
| 180,000 - 190,000     | 49  | 85  |
| 190,000 - 200,000     | 34  | 62  |
| 200,000 - 210,000     | 31  | 80  |
| 210,000 - 220,000     | 29  | 47  |
| 220,000 - 230,000     | 28  | 20  |
| 230,000 - 240,000     | 21  | 28  |
| 240,000 - 250,000     | 7   | 33  |
| 250,000 - 260,000     | 9   | 72  |
| 260,000 - 270,000     | 8   | 42  |
| 270,000 - 280,000     | 7   | 35  |
| 280,000 - 290,000     | 6   | 37  |
| 290,000 - 300,000     | 5   | 30  |
| 300,000 - 310,000     | 8   | 17  |
| 310,000 - 320,000     | 3   | 17  |
| 320,000 - 330,000     | 2   | 26  |
| 330,000 - 340,000     | 2   | 7   |
| 340,000 - 350,000     | 4   | 10  |
| 350,000 - 360,000     | 2   | 12  |
| 360,000 - 370,000     | -   | 16  |
| 370,000 - 380,000     | 5   | 8   |
| 380,000 - 390,000     | 2   | 22  |
| 390,000 - 400,000     | 2   | 33  |
| 400,000 - 410,000     | 1   | 28  |
| 410,000 - 420,000     | -   | 7   |
| 420,000 - 430,000     | 3   | 9   |
| 430,000 - 440,000     | 9   | 4   |
| 440,000 - 450,000     | 2   | 5   |
| 450,000 - 460,000     | 1   | 6   |
| 460,000 - 470,000     | 1   | 4   |
| 470,000 - 480,000     | -   | 3   |
| 480,000 - 490,000     | -   | 5   |
| 490,000 - 500,000     | -   | 1   |
| 500,000 - 510,000     | -   | 4   |
| 510,000 - 520,000     | 1   | -   |
| 520,000 - 530,000     | 1   | 2   |
| 530,000 - 540,000     | 1   | 2   |
| 540,000 - 550,000     | 1   | 3   |
| 550,000 - 560,000     | -   | 1   |
| 560,000 - 570,000     | 1   | -   |
| 570,000 - 580,000     | -   | 1   |
| 580,000 - 590,000     | 2   | -   |
| 600,000 - 610,000     | -   | 1   |
| 630,000 - 640,000     | 1   | -   |
| 640,000 - 650,000     | 1   | -   |
| 670,000 - 680,000     | 1   | -   |
| 680,000 - 690,000     | 1   | -   |
| 710,000 - 720,000     | 1   | -   |
| 720,000 - 730,000     | 1   | -   |
| 730,000 - 740,000     | 1   | -   |
| 750,000 - 760,000     | 1   | -   |
| 760,000 - 770,000     | 1   | -   |
| 800,000 - 810,000     | 1   | -   |
| 820,000 - 830,000     | -   | 1   |
| 870,000 - 880,000     | 1   | -   |
| 880,000 - 890,000     | 1   | -   |
| 910,000 - 920,000     | -   | 1   |
| 960,000 - 970,000     | 1   | -   |
| 1,020,000 - 1,030,000 | 1   | -   |
| 1,100,000 - 1,110,000 | 1   | -   |
| 1,130,000 - 1,140,000 | 1   | -   |
| 1,270,000 - 1,280,000 | 1   | -   |
| 1,450,000 - 1,460,000 | 1   | -   |
| 1,470,000 - 1,480,000 | 1   | -   |
| 1,730,000 - 1,740,000 | 1   | -   |
| 1,940,000 - 1,950,000 | 1   | -   |
| 2,260,000 - 2,270,000 | 1   | -   |
| 2,460,000 - 2,470,000 | 1   | -   |
| 4,820,000 - 4,830,000 | 1   | -   |
| <b>Total</b>          | <b>1,096</b>  | <b>2,788</b>                              |



# 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 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 remuneration;
- Annual performance incentive; and
- Long-term incentive.

Air New Zealand's People Remuneration and Diversity Committee is kept apprised 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 commissioned EY to provide remuneration benchmark data for the CEO and other Executive roles during the 2017 financial year. EY benchmarked a selection of the Executive positions against New Zealand/Australian comparator groups with the primary comparator group comprising companies within 50% and 200% of Air New Zealand's revenue for functional roles and an industry comparator group comprising companies within the Industrial or Materials GICS Sector for operational positions. The analysis showed Air New Zealand Executive remuneration broadly remains 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.

The Board has discretion to eliminate significant positive or negative one-off adjustments to profit.

### Individual Component

The main factors for the assessment of individual performance for the 2017 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%                      |

## EMPLOYEE REMUNERATION (CONTINUED)

### 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 2017 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. 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 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 of an index made up in equal proportions of the NZX 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 to what extent 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 |
| 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 a value of 55% of fixed remuneration for the CEO, and between 40% and 20% of fixed remuneration for Executives 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 2017 financial year, the CEO, Christopher Luxon, earned fixed remuneration of \$1,510,000 (2016 financial year: \$1,470,000).

#### 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 2017 financial year, the CEO earned a total STI payment to the value of \$1,464,969 (2016 financial year: \$1,617,000). This payment will be made in the 2018 financial year.

#### Long-Term Incentive

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

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

#### Long-Term Incentive Performance Rights Plan

The CEO was granted 922,778 performance rights under the LTIP in the 2017 financial year valued independently at \$0.90 each, for a total value of \$830,500 (2016 financial year: 706,731 performance rights with a total value of \$808,500).



## EMPLOYEE REMUNERATION (CONTINUED)

### *CEO 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 CRSRP 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 367,317 restricted share rights in the 2017 financial year at a face value of \$2.001 each, for a total value of \$735,000 (2016 financial year: 292,398 restricted share rights with a total value of \$700,000).

### *Mandatory Shareholding*

The CEO owns or has a beneficial interest in 2,872,078 shares (2016 financial year: 1,676,307 shares) of which 415,043 are held as part of the mandatory shareholding (2016 financial year: 618,504 shares). This holding must be maintained to enable the CEO to exercise any options or performance rights issued under the LTIP.

### **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 2017 financial year the Company contribution was \$125,080 (2016 financial year: \$120,400).

### **Summary**

The remuneration paid to the CEO is summarised below:

| Remuneration Element | 2016 Financial Year   | 2017 Financial Year   |
|----------------------|---|---|
| Base Salary          | \$1,470,000   | \$1,510,000   |
| Short-Term Incentive | \$1,617,000   | \$1,464,969   |
| Long-Term Incentive* | Performance rights valued at \$808,500<br>Restricted share rights valued at \$700,000 | Performance rights valued at \$830,500<br>Restricted share rights valued at \$735,000 |
| Superannuation       | \$120,400   | \$125,080   |

\*Long-Term Incentives remain at risk.

## 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.

## 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 2017. Those who resigned during the year are signified by (R). These companies are New Zealand incorporated companies except where otherwise indicated. No director of any subsidiary received beneficially any director's fees or other benefits except as an employee.

|   |  |  |  |
|---|--|--|--|
| <b>11ANTS Analytics Group Limited</b><br>(Joint Venture)        | Marc Allsop<br>Jeffrey McDowall<br>Hamish Rumbold<br>Paul Smitton<br>Eng Hock Ong (R)<br>Peter Gleason (R)<br>David Mackrell (R) | <b>Ansett Australia &amp; Air New Zealand Engineering Services Limited</b>                     | Karen Clayton<br>Rob McDonald<br>John Blair (R)  |
| <b>ADP (New Zealand) Limited</b>                                | Karen Clayton<br>Sarah Williamson<br>Brian Wilson<br>John Blair (R)<br>Roger Gray (R)  | <b>C.I. Air Services Limited</b><br>(de-registered 23 Nov 2016)                                | John Blair (R)<br>Tamari'i Tutangata (R)   |
| <b>Air Nelson Limited</b>                                       | Glen Bond<br>Carrie Hurihanganui<br>Jeffrey McDowall<br>Bruce Parton<br>David Mackrell (R)                                       | <b>Eagle Air Maintenance Limited</b><br>(amalgamated with Eagle Airways Limited on 1 Mar 2017) | Glen Bond (R)<br>Karen Clayton (R)<br>Jeffrey McDowall (R)<br>David Mackrell (R)<br>Bruce Parton (R)               |
| <b>Air New Zealand Aircraft Holdings Limited</b>                | Karen Clayton<br>Rob McDonald<br>Jeffrey McDowall<br>John Blair (R)<br>David Mackrell (R)  | <b>Eagle Airways Limited</b>   | Glen Bond<br>Karen Clayton<br>Jeffrey McDowall<br>David Mackrell (R)<br>Bruce Parton (R)                           |
| <b>Air New Zealand Associated Companies Limited</b>             | Karen Clayton<br>Rob McDonald<br>Jeffrey McDowall<br>John Blair (R)  | <b>Mount Cook Airline Limited</b>  | Glen Bond<br>Carrie Hurihanganui<br>Jeffrey McDowall<br>Bruce Parton<br>David Mackrell (R)<br>Sarah Williamson (R) |
| <b>Air New Zealand Associated Companies (Australia) Limited</b> | Karen Clayton<br>Rob McDonald<br>John Blair (R)  | <b>TEAL Insurance Limited</b>  | Rob McDonald<br>Michelle Redington<br>Hannah Ringland<br>John Blair (R)  |
| <b>Air New Zealand Express Limited</b>                          | Karen Clayton<br>Rob McDonald<br>John Blair (R)  | <b>The London Shoppe Limited</b><br>(de-registered 23 Nov 2016)                                | John Blair (R)   |
| <b>Air New Zealand Regional Maintenance Limited</b>             | Adam McMillan<br>Bruce Parton<br>Craig Tolley  | <b>Air New Zealand (Australia) Pty Limited</b><br>(incorporated in Australia)                  | Karen Clayton<br>Kathryn Robertson<br>John Blair (R)<br>Leanne Geraghty (R)  |
| <b>Air New Zealand Travel Business Limited</b>                  | Karen Clayton<br>Rob McDonald<br>John Blair (R)  | <b>ANZGT Field Services LLC</b><br>(Joint Venture, incorporated in Del., USA)                  | Greg Bobrow<br>Trevor Hughes<br>Adam McMillan<br>Todd Witwer   |
| <b>ANNZES Engines Christchurch Limited</b>                      | Karen Clayton<br>Rob McDonald<br>John Blair (R)  |  |  |



## OTHER DISCLOSURES

### Donations

The Air New Zealand Group has made donations totalling \$23,127 in the financial year to 30 June 2017, 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.

### 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 2017. 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:

As reported in its most recent Substantial Security Holder notice dated 6 July 2015, held by 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.



# SECURITIES STATISTICS

## Top Twenty Shareholders – as at 7 August 2017

|   | 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                |
| HSBC Nominees (New Zealand) Limited   | 111,672,290               | 9.95                 |
| HSBC Nominees (New Zealand) Limited   | 92,638,477                | 8.25                 |
| Citibank Nominees (NZ) Ltd  | 64,233,977                | 5.72                 |
| JPMORGAN Chase Bank   | 59,000,715                | 5.25                 |
| Accident Compensation Corporation   | 18,027,864                | 1.61                 |
| Citicorp Nominees Pty Limited   | 11,236,614                | 1.00                 |
| National Nominees New Zealand Limited   | 8,277,953                 | 0.74                 |
| BNP Paribas Nominees NZ Limited   | 5,668,186                 | 0.50                 |
| Guardian Nominees No 2 Ltd  | 4,648,765                 | 0.41                 |
| HSBC Custody Nominees (Australia) Limited   | 4,643,641                 | 0.41                 |
| New Zealand Superannuation Fund Nominees Limited  | 4,140,332                 | 0.37                 |
| Premier Nominees Limited  | 4,092,749                 | 0.36                 |
| Cogent Nominees Limited   | 3,944,005                 | 0.35                 |
| Tea Custodians Limited  | 3,927,412                 | 0.35                 |
| New Zealand Depository Nominee Limited  | 3,776,615                 | 0.34                 |
| BNP Paribas Nominees NZ Limited   | 3,432,210                 | 0.31                 |
| Christopher Luxon   | 2,872,078                 | 0.26                 |
| Custodial Services Limited  | 2,537,594                 | 0.23                 |
| J P Morgan Nominees Australia Limited   | 2,300,667                 | 0.20                 |
| <b>Total</b>  | <b>993,926,737</b>        | <b>88.52</b>         |

## Shareholder Statistics – as at 7 August 2017

| Size of Holding   | Investors     | % Investors   | Shares               | % Issued      |
|-------------------|---------------|---------------|----------------------|---------------|
| 1 to 1000         | 14,912        | 55.91         | 6,171,817            | 0.55          |
| 1,001 to 5,000    | 7,829         | 29.36         | 19,520,384           | 1.74          |
| 5,001 to 10,000   | 2,029         | 7.61          | 15,413,091           | 1.37          |
| 10,001 to 100,000 | 1,767         | 6.63          | 44,326,906           | 3.95          |
| 100,001 and Over  | 131           | 0.49          | 1,037,412,029        | 92.39         |
| <b>Total</b>      | <b>26,668</b> | <b>100.00</b> | <b>1,122,844,227</b> | <b>100.00</b> |

## Bondholder Statistics – as at 7 August 2017

| Size of Holding   | Holders    | % Holders     | Bonds             | % Issued      |
|-------------------|------------|---------------|-------------------|---------------|
| 1 to 1000         | -          | -             | -                 | -             |
| 1,001 to 5,000    | 45         | 7.15          | 224,000           | 0.45          |
| 5,001 to 10,000   | 147        | 23.37         | 1,440,000         | 2.88          |
| 10,001 to 100,000 | 407        | 64.71         | 13,446,000        | 26.89         |
| 100,001 and Over  | 30         | 4.77          | 34,890,000        | 69.78         |
| <b>Total</b>      | <b>629</b> | <b>100.00</b> | <b>50,000,000</b> | <b>100.00</b> |

## Current on-market share buybacks

There is no current share buyback in the market.

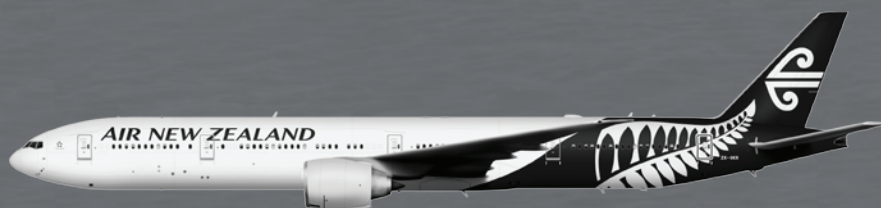


# OPERATING FLEET STATISTICS

As at 30 June 2017

## Boeing 777-300ER

Number: 7  
Average Age: 5.2 years  
Maximum Passengers: 332\*  
Cruising Speed: 910 km/hr  
Average Daily Utilisation: 14:20



## Boeing 777-200ER

Number: 8  
Average Age: 11.2 years  
Maximum Passengers: 312  
Cruising Speed: 910 km/hr  
Average Daily Utilisation: 12:37



## Boeing 787-9 Dreamliner

Number: 9  
Average Age: 1.8 years  
Maximum Passengers: 302  
Cruising Speed: 910 km/hr  
Average Daily Utilisation: 13:29



## Airbus A320-200

Number: 30  
Average Age: 12.9 years short haul, or  
3.4 years domestic  
Maximum Passengers: 168 short haul, or  
171 domestic  
Cruising Speed: 850 km/hr  
Average Daily Utilisation: 9:02 short haul, or  
8:30 domestic



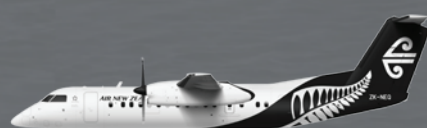
## ATR 72-500 / ATR 72-600

Number: 26  
Average Age: 16.5 years ATR 72-500, or  
2.3 years ATR 72-600  
Maximum Passengers: 68  
Cruising Speed: 518 km/hr  
Average Daily Utilisation: 6:41 ATR 72-500, or  
6:51 ATR 72-600



## Bombardier Q300

Number: 23  
Average Age: 10.4 years  
Maximum Passengers: 50  
Cruising Speed: 520 km/hr  
Average Daily Utilisation: 6:24



\* As at 30 June 2017, three aircraft had been reconfigured to 342 seats with the remaining aircraft to be reconfigured by the end of 2017.

# GENERAL INFORMATION

## Stock exchange listings

Air New Zealand's Ordinary Shares have been listed on the NZX Main Board (ticker code AIR) since 24 October 1989. It also has bonds listed on the NZX Debt Market (ticker code AIR020).

Air New Zealand's Ordinary Shares are listed on ASX (ticker code AIZ). Air New Zealand had a full listing on ASX from 1 July 2002 and this changed to a Foreign Exempt Listing from 17 March 2017. The Foreign Exempt Listing means that Air New Zealand will be expected to comply primarily with the Listing Rules of the NZX Main Board (being the rules of its home exchange) and is exempt from complying with most of ASX's Listing Rules.

Neither NZX nor ASX has taken any disciplinary action against the Company during the financial year ended 30 June 2017. In particular there was no exercise of powers by NZX under NZX Listing Rule 5.4.2, (relating to powers to cancel, suspend or censure an issuer) with respect to Air New Zealand during the reporting period.

Effective as at 20 July 2017, Air New Zealand launched a sponsored Level 1 American Depositary Receipt (ADR) programme. Air New Zealand's American Depositary Shares, each representing five Ordinary Air New Zealand shares and evidenced by ADRs, are traded over-the-counter in the United States (ticker code ANZLY).

## 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<sup>1</sup> held by the Crown and requirements regulating ownership and transfer of Ordinary Shares.

## New Zealand Exchange

### Waivers:

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 2017:

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

### Compliance with Listing Rules:

For the purposes of ASX Listing Rule 1.15.3, Air New Zealand Limited confirms the company continues to comply with the NZX Listing Rules.

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<sup>2</sup>):

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).

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

# SHAREHOLDER DIRECTORY

## New Zealand

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80 Queen Street, Auckland 1010  
PO Box 91976, Auckland 1142  
New Zealand

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## Australia

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NSW 1235, Australia

Investor Enquiries:  
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## Investor Relations

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(64 9) 336 2607 (Overseas)  
Fax: (64 9) 336 2664  
Email: investor@airnz.co.nz  
Website: airnzinvestor.com

## Annual Meeting

Date: 28 September 2017  
Time: 2:00 pm  
Venue: ASB Waterfront Theatre  
138 Halsey Street  
Auckland

## Current Credit Rating

Moody's rate Air New Zealand Baa2

## Auditor

Deloitte Limited (on behalf of the Auditor-General)  
Deloitte Centre  
80 Queen Street, Auckland Central  
PO Box 115033, Shortland Street  
Auckland 1140, New Zealand

## 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

Karen Clayton



